

Notice of General Meeting

relating to the proposed distribution of Sydney Airport securities
to Macquarie Group shareholders

2.30 pm on Thursday, 12 December 2013

Conference Room, Level 1

1 Shelley Street

Sydney, New South Wales



**This is an important document and
requires your immediate attention**

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Macquarie Group Limited

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AUSTRALIA



1 November 2013

Dear Shareholder

Please find enclosed a Notice of General Meeting of Macquarie Group Limited (Macquarie) which will be held in the Conference Room, Level 1, 1 Shelley Street, Sydney, New South Wales on Thursday, 12 December 2013. The meeting is scheduled to commence at 2.30 pm and will also be webcast live on Macquarie's website at www.macquarie.com.au

The General Meeting is being held to approve a distribution of ASX listed Sydney Airport stapled securities to Macquarie shareholders at the record date. If the distribution is approved, eligible Macquarie ordinary shareholders will receive one fully paid Sydney Airport stapled security for each Macquarie ordinary share held at the record date. This distribution will be implemented through a special dividend and reduction of capital.

Macquarie Group holds approximately 17% of Sydney Airport which it has determined to distribute to shareholders. With a strong balance sheet position and excess regulatory capital, Macquarie considers that an in specie distribution is an equitable way to distribute the value in Sydney Airport to Macquarie shareholders so that they can directly participate in ownership. Eligible Macquarie shareholders can decide whether to maintain an ongoing investment in Sydney Airport based on their individual circumstances.

It is also proposed to consolidate Macquarie shares through the conversion of one Macquarie ordinary share into 0.9438 Macquarie ordinary shares to reflect the size of the reduction of capital (approximately 5.6 per cent of Macquarie's market capitalisation based on current information). This will facilitate greater comparability of share prices and financial metrics of Macquarie before and after the distribution.

The proposed distribution of Sydney Airport stapled securities will only occur if approved by Macquarie shareholders along with a resolution to amend the constitution of Macquarie to facilitate the distribution. The consolidation of Macquarie ordinary shares also requires the approval of Macquarie shareholders.

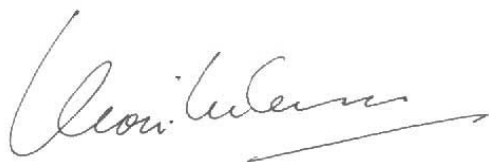
The Board recommends that you vote in favour of each of the resolutions to be considered at the General Meeting.

The proposed resolutions are important and fully supported by your Board. If you are unable to attend the meeting, we urge you to appoint a proxy to attend and vote on your behalf, either online using the share registry's website at www.investorvote.com.au or using the enclosed proxy form.

In order to have the Sydney Airport stapled securities registered in your name you will need to complete and return the enclosed holder election form or complete the election online by 7.00 pm on 6 January 2014 AEDT. If you do not complete your election by then your Sydney Airport stapled securities will be initially registered in the name of a nominee on your behalf. I strongly encourage you to complete and return the election form so that you can directly enjoy the benefit of investment in Sydney Airport.

If you plan to attend the meeting, please bring the enclosed proxy form to facilitate your registration which will commence at 1.30 pm. I look forward to seeing you then.

Yours faithfully



H Kevin McCann AM
Chairman

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Explanatory Memorandum

Key Dates

Last time and date to lodge voting forms (including proxy appointments) for the General Meeting with Macquarie's Share Registry	2.30 pm AEDT on 10 December 2013
Time and date to determine eligibility to vote at the General Meeting	7.00 pm AEDT on 10 December 2013
General Meeting	12 December 2013
Last day for trading Macquarie Shares (ASX Code: MQG) on ASX with an entitlement to the Distribution	13 December 2013
Last day for trading Macquarie Shares on a pre-Consolidation basis	
Macquarie Shares commence trading on ASX without an entitlement to the Distribution of SYD Securities ("ex-Distribution"), and on a Consolidated basis (i.e. with a reduced number of shares) with deferred settlement	16 December 2013
Last date for registration of transfers of Macquarie Shares on a pre-Consolidation basis	20 December 2013 7:00 pm AEDT
Record Date for determining entitlements to SYD Securities (on a pre-Consolidation basis) ("Record Date").	7:00 pm Sydney time 20 December 2013
Holding statements for Consolidated Macquarie Shares despatched	By 31 December 2013
Deferred settlement trading of Macquarie Shares ends	31 December 2013
Normal trading of Macquarie Shares resumes	2 January 2014
Last date ("Election Date") for receipt of:	6 January 2014
1. Holder Election Forms to have SYD Securities registered in your name; and	7.00pm AEDT
2. Sale Facility Election Forms to participate in the Sale Facility.	
Settlement of all deferred settlement trades and first settlement of normal trades in Consolidated Macquarie Shares	7 January 2014
SYD Securities transferred to entitled Macquarie Shareholders	13 January 2014
Holding statements for SYD Securities despatched	By 17 January 2014
Sale Facility Proceeds paid	By 3 March 2014

Please note that all dates and times are indicative only and subject to change. The Directors reserve the right to amend these dates and times in their absolute discretion.

It is important that you complete and return the enclosed Holder Election Form or complete an election online at www.investorvote.com.au/mqgholderelection by the time noted above. If you do not, then your SYD Securities will be initially registered in the name of the Nominee on your behalf.

Unless otherwise stated all \$ amounts refer to Australian Dollars.

You should read this document carefully and in full before deciding how to vote on the Constitution Amendment, the Distribution and the Consolidation. If necessary, please consult your financial, investment, legal, taxation or other professional adviser.

If you have any questions please contact the Macquarie SYD Distribution information line on 1300 389 485 (within Australia)
+61 3 9415 4129 (outside Australia)

Explanatory Memorandum

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1 INTRODUCTION

The Proposal at a Glance

- Eligible Macquarie Shareholders to receive one SYD Security for each Macquarie Share held.
- Macquarie Shareholders holding 500 or fewer Macquarie Shares to be offered the ability to sell those SYD Securities pursuant to the Sale Facility.
- Macquarie Shares to be consolidated on a 0.9438 for one basis to facilitate greater comparability of share prices and financial metrics of Macquarie before and after the Distribution.

Macquarie Group holds approximately 17% of the issued stapled securities of ASX listed Sydney Airport (SYD) as an investment. It is proposed to distribute the majority of these SYD stapled securities (SYD Securities) to Macquarie Shareholders on a one for one basis (Distribution).

With a strong balance sheet position and excess regulatory capital, Macquarie considers that an specie distribution is an equitable way to distribute the value in SYD to Macquarie Shareholders so that they can directly participate in the ownership of SYD. Macquarie Shareholders can decide whether to maintain an ongoing investment in SYD based on their individual circumstances.

A component of the Distribution will be a Capital Return on Macquarie Shares and the balance of the Distribution will be a Special Dividend on Macquarie Shares. *Approval of the Distribution will require the Capital Return Resolution to be passed as an ordinary resolution of Macquarie Shareholders.*

Macquarie will offer Macquarie Shareholders holding 500 or fewer Macquarie Shares (on a pre-Consolidation basis) the opportunity to elect to participate in the Sale Facility which will allow those Shareholders to sell the SYD Securities to which they are entitled for cash while minimising transaction costs. In addition, Macquarie Shareholders who are Ineligible Shareholders will have the SYD Securities to which they would otherwise be entitled, sold pursuant to the Sale Facility. Refer to section 6.2 for further information about the Sale Facility and proceeds from the Sale Facility.

If the Distribution is implemented, Macquarie Shares may trade at a lower price on the ex-Distribution Date than they would have done had the Distribution not been made. This is because an investment in Macquarie will no longer include the investment in SYD which has been distributed to Macquarie Shareholders. In order to facilitate comparability of share prices and financial metrics of Macquarie before and after the Distribution, the Consolidation is proposed whereby Macquarie Shares will be consolidated on a 0.9438 for one basis (with any resulting fraction rounded up on a per registered shareholder basis) to reflect the size of the Capital Return component of the Distribution which represents approximately 5.6 per cent of Macquarie's market capitalisation based on current information.

For example, if you held 100 Macquarie Shares before the Consolidation, you will hold 95 Macquarie Shares after the Consolidation. *Approval of the Consolidation will require an ordinary resolution of Macquarie Shareholders.*

In order for the SYD Securities to be registered in your name on the Distribution Date you will need to complete and return the enclosed Holder Election Form, or complete the election online at www.investorvote.com.au/mqgholderelection, by the Election Date (expected to be 7.00 pm on 6 January 2014 AEDT). If you do not complete and return the Holder Election Form or make an election online by the Election Date the SYD Securities to which you will be entitled will be registered in the name of the Nominee on the Distribution Date. These arrangements do not apply to Ineligible Shareholders or to Eligible Sale Facility Shareholders who elect to participate in the Sale Facility.

You are strongly encouraged to complete and return the Holder Election Form or make an election online by the Election Date.

Making an election will afford you the benefit of a direct investment in SYD including immediate receipt of distributions, direct receipt of SYD correspondence without the inconvenience of having your SYD Securities subject to the Nominee Arrangements. If your SYD Securities are subject to the Nominee Arrangements you will only be able to exercise your voting rights by giving the Nominee instructions as to how to vote and there will be a delay in you receiving payments (including distribution payments) and communications from SYD. That is because those payments and communications will first go to the

Nominee and then the Nominee will pass those payments and communications through to you.

Prior to the Capital Return and Consolidation Resolutions being considered by shareholders, it is proposed to amend 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, which will facilitate the Distribution and provide greater flexibility for the payment of distributions in the future. *Approval of the Constitution Amendment will require a special resolution of Macquarie Shareholders. The Capital Return will only become effective if the Constitution Amendment Resolution is passed. The Consolidation Resolution will only become effective if the other two resolutions are passed.*

The Directors recommend that Macquarie Shareholders vote in favour of each of the resolutions set out in the Notice of General Meeting.

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2 OVERVIEW OF THE PROPOSAL

2.1 Board recommendation

The Board recommends that you vote in favour of the Proposal for the following reasons:

- An in specie distribution is an equitable way to distribute the value in SYD to Macquarie Shareholders so that they can directly participate in the ownership of SYD. Eligible Macquarie Shareholders will be able to decide whether to maintain an ongoing investment in SYD based on their individual circumstances;
- The Distribution facilitates a return of capital. Macquarie will continue to maintain a strong balance sheet position and a level of shareholders' equity for prudent and efficient capital management (see section 3.3 below);
- The Distribution is expected to increase Macquarie's return on shareholders' equity; and
- The share Consolidation reflects the impact of the Capital Return component of the Distribution based on current information (see section 6.3 below) and facilitates comparison of Macquarie's financial metrics before and after the Distribution.

At the meeting of the Board at which the Proposal was approved, the Managing Director and Chief Executive Officer ("CEO"), abstained from voting. The decision of the Non-Executive Directors referred to in section 3.5 affects Executive Key Management Personnel, of which the CEO is one.

2.2 Possible disadvantages

Macquarie has considered the following possible disadvantages associated with the Proposal:

- Macquarie will not receive any future benefits from continuing to hold the investment in SYD proposed to be distributed, including distributions and any capital appreciation;
- Transaction costs will be incurred if the Proposal proceeds, though these are not considered to be material to Macquarie. Macquarie Shareholders may incur brokerage and other transaction costs if they subsequently dispose of the SYD Securities;
- The Distribution is likely to result in a taxable gain for Macquarie;
- The Proposal will reduce Macquarie's shareholders' equity;
- The Distribution may have tax consequences for Macquarie Shareholders (refer to section 5);
- Eligible Macquarie Shareholders will be responsible for making their own investment decisions regarding the SYD Securities they receive under the Distribution whereas currently these decisions are made by Macquarie. As Macquarie has significant expertise in infrastructure assets, it may be that Macquarie is better able to manage an investment in SYD than individual Macquarie Shareholders; and
- There may be some inconvenience for Macquarie Shareholders who hold SYD Securities subject to the Nominee Arrangements because they will only be able to exercise voting rights attached to the SYD Securities by giving the Nominee instructions as to how to vote, and there will be a delay in those Macquarie Shareholders receiving distribution payments and communications from SYD. Macquarie Shareholders can ensure their SYD Securities are not subject to the Nominee Arrangements by completing and returning the Holder Election Form by the due date.

2.3 Risks associated with the Proposal

Macquarie has also identified the following risks associated with the Proposal:

- Although the SYD Securities are quoted on the ASX, there is no guarantee of the liquidity or the price at which SYD Securities will trade. There is also no guarantee that the combined market value of Macquarie Shares and the distributed SYD Securities after the Distribution will be equal to or more than the market value of Macquarie Shares before the Distribution;
- If the Proposal is approved, Macquarie Shareholders may prefer to sell their SYD Securities rather than retain them. Additionally, the Sale Facility will result in a proportion of SYD Securities being sold on market over a period following the Distribution. Macquarie intends to sell certain residual direct holdings of SYD Securities and those SYD Securities received on behalf of MEREK participants that cannot be distributed. Given the significant shareholding of Macquarie in SYD this cumulative selling may have an adverse impact on the price of SYD Securities and the outcome of the Sale Facility;
- There may be delays or unexpected costs in executing the Proposal, or the Proposal may not be

-
- approved; and
- Individual Macquarie Shareholders will be more directly exposed to the risks associated with an investment in SYD than is the case with the indirect exposure to the SYD business through an investment in Macquarie Shares. Certain of the risks associated with an investment in SYD Securities are set out in section 4.5, however this list is not exhaustive. While Macquarie and Macquarie Shareholders are currently exposed to these risks through Macquarie's investment in SYD, those risks are more diversified through Macquarie's other investments when compared to holding a direct investment in SYD.

2.4 Alternatives considered

In developing the Proposal, Macquarie considered the following alternatives to the Proposal:

- Undertaking no transaction and maintaining the investment in SYD; and
- Selling the investment in SYD.

Macquarie has assessed the Distribution and the alternatives in light of Macquarie's regulatory capital position, earnings, key financial metrics and value and fairness to shareholders.

Macquarie has a strong balance sheet and excess regulatory capital. A sale of SYD would provide Macquarie with capital and funding that it does not presently need and this would reduce shareholder returns.

The Board believes the proposed transaction is an equitable way of delivering the value of the SYD investment to Macquarie Shareholders and is in the best interest of Macquarie Shareholders.

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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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3.2 Impact on share price and financial ratios

If the Distribution is implemented, Macquarie Shares may trade at a lower price on the ex-Distribution Date than they would have done had the Distribution not been made. This is because an investment in Macquarie will no longer include the investment in SYD which has been distributed to Macquarie Shareholders.

If the Consolidation is implemented, Macquarie Shares may trade at a higher price than they would have done had the Consolidation not occurred. The conversion ratio reflects that the Capital Return which represents approximately 5.6 per cent of Macquarie's market capitalisation based on the average VWAPs of Macquarie Shares and SYD Securities over the 20 trading days to 30 October 2013. The proposed Consolidation would result in the conversion of one Macquarie Share into 0.9438 Macquarie Shares (with any resultant fraction rounded up) to facilitate greater comparability of share prices and financial metrics of Macquarie before and after the Distribution.

The effect of the proposed Distribution and Consolidation on annualised return on ordinary equity ("RoE") and basic earnings per share ("Basic EPS") are presented below. The historical pro forma financial ratios reflect the financial ratios for the year ended 31 March 2013 and the half-year ended 30 September 2013 as if the Distribution and the Consolidation were completed immediately before the start of each respective period. As a result, the gain on distribution of SYD to shareholders is excluded from this analysis and the actual impact of the Distribution and the Consolidation on the financial ratios will differ from the historical pro forma information as it is not expected that the Distribution and Consolidation take place until 13 January 2014.

The historical pro forma financial ratios have also been prepared assuming Macquarie Group's profit attributable to ordinary equity holders is reduced by the amount of the distributions received from SYD (including any effects of staff compensation and income tax).

	Reported A\$m	Distribution A\$m	Consolidation A\$m	Proforma A\$m
Financial Year to 31 March 2013				
RoE	7.8%	0.8%		8.6%
Basic EPS	\$2.51	(\$0.11)	\$0.14	\$2.54
Half-year to 30 Sep 2013				
RoE	8.7%	1.0%		9.7%
Basic EPS	\$1.50	(\$0.06)	\$0.09	\$1.53

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.

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

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.

3.4 Impact on hybrid and other securities

The Macquarie Group has on issue \$600 million of Macquarie Capital Notes, US\$250 million of Exchangeable Capital Securities, US\$400 million of Preferred Membership Interests, £42.5 million of Macquarie Income Preferred Securities and \$400 million of Macquarie Income Securities.

The Distribution and the Consolidation will not result in any adjustment to the terms of the above hybrid securities.

Macquarie Group has on issue exchangeable shares issued by subsidiaries of Macquarie as consideration for the acquisition of Tristone Capital Global Inc in 2009 and Orion Financial Inc in 2007. As at 30 October 2013, 584,320 exchangeable shares were on issue. The Distribution and the Consolidation will constitute Macquarie special events under the terms of issue of the exchangeable shares and will result in distributions and adjustments equal to the economic equivalent of the Distribution and the Consolidation.

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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4 SYDNEY AIRPORT

Except where otherwise stated or is clear from the context, the information in this section has been sourced from public information released by SYD to ASX. Shareholders should refer to the ASX website at www.asx.com.au to access SYD's periodic and continuous disclosures for further information.

4.1 Overview of SYD

SYD is an ASX listed entity currently comprising two stapled Australian unit trusts, Sydney Airport Trust 1 (SAT1) and Sydney Airport Trust 2 (SAT2). The responsible entity of SAT1 and SAT2 is SAHL.

SYD's principal activity, via its investment in Southern Cross Airports Corporation Holdings Limited ("SCACH"), is the provision of infrastructure at, and the operation of, Sydney (Kingsford Smith) Airport ("Sydney Airport"). This includes both aeronautical and commercial operations. Sydney Airport is Australia's largest international gateway and primary airport.

On 14 August 2013, SYD announced a transaction involving:

- Minority Acquisitions: Moving from 84.8% to 100% ownership of Sydney Airport through acquiring all minority ownership interests in the SYD operating entities. On 23 September 2013, SYD announced that it had successfully completed the Minority Acquisitions;
- ATO Resolution: An in-principle non-binding agreement with the Australian Taxation Office ("ATO") to allow for the settlement of all matters relating to deductibility of distributions paid on certain instruments in the SAT2 group structure. SYD expects to formalise these arrangements in a binding settlement deed with ATO (in conjunction with the completion of the tax rulings relating to the SYD Simplification Proposal outlined below), which involves SYD making a primary tax and interest payment of \$69 million; and
- SYD Simplification Proposal: Simplification of SYD's structure following the Minority Acquisitions. Amongst other things, this will result in:
 - SYD securityholders holding new stapled securities comprised of one SAT1 unit and one Sydney Airport Limited ("SAL") share;
 - Retirement and replacement of the responsible entity of SAT1; and
 - Simplification of the SYD and Sydney Airport structure.

The SYD Simplification Proposal is subject to certain conditions including a securityholder vote which is scheduled to take place on 22 November 2013.

SYD released an explanatory memorandum relating to the SYD Simplification Proposal on 25 October 2013. This document, which can be found on the ASX website (www.asx.com.au), includes the key risks and disadvantages that have been identified and an overview of the ATO Resolution. Subject to the outcome of its securityholder vote and satisfaction of certain other conditions, SYD expects its simplification to be completed on or about 4 December 2013. Further material relating to the SYD Simplification Proposal may be released by SYD on the ASX website.

Macquarie has provided advisory services to SYD for a number of years, and is presently advising on the SYD Simplification Proposal.

4.2 Summary SYD financial information

The following section sets out summary historical financial information concerning SYD on a reported and pro forma basis for the Minority Acquisitions and SYD Simplification Proposal. It is extracted from the explanatory memorandum dated 25 October 2013 prepared by SYD for the SYD Simplification Proposal.

Macquarie Shareholders should note the important information set out in section 4.2(c).

a) Financial performance

The table below sets out the pro forma historical statement of financial performance for SYD based on the historical statement of financial performance for SYD for the half-year ended 30 June 2013 extracted from the reviewed financial statements of SYD, adjusted for certain pro forma transactions and adjustments to reflect the Minority Acquisitions and the SYD Simplification Proposal as if those had been implemented and effective from 1 January 2013 as below.

	SYD reported for the half-year ended 30 Jun 13 \$m	Adjustments Minority Acquisitions \$m	Adjustments SYD Simplification Proposal \$m	SYD proforma for the half-year ended 30 Jun 13 \$m
Revenue	555			555
Other income	(1)			(1)
Total revenue	554			554
Finance costs	242			242
Other expenses	259	(2)	(2)	255
Total operating expenses	501	(2)	(2)	497
Profit/(loss) before income tax expense	53	2	2	57
Income tax expense	(40)			(40)
Profit/(loss) after income tax expense	13	2	2	17
Profit/(loss) attributable to:				
Security holders	24	(9)	2	17
Non-controlling interest	(11)	11		–
	13	2	2	17

The pro forma historical statement of financial performance for SYD has been derived by adjusting the historical statement of financial performance for SYD for the half-year ended 30 June 2013 as follows:

i) Minority Acquisitions adjustments

Transaction costs

Adjustments have been made to reflect the reduction in expenses for transaction costs expensed in the pro forma historical statement of financial performance for SYD during the half-year period to 30 June 2013 of \$1.6 million relating to Minority Acquisitions not able to be capitalised as the transaction had not yet occurred (tax effect not adjusted). Capitalisation of these transaction costs in the value of the investment is permitted under Australian Accounting Standards and is therefore reflected in the pro forma historical statement of financial position for SYD outlined below.

Non-controlling interest

Adjustments have been made to remove the profit / (loss) attributable to non-controlling interests in the half-year period to 30 June 2013.

ii) SYD Simplification Proposal adjustments

Transaction costs

Adjustment has been made to reflect the reduction in expenses for transaction costs expensed in the pro forma historical statement of financial performance for SYD during the half-year period to 30 June 2013 of \$1.6 million relating to the Proposal not able to be capitalised as the transaction had not yet occurred (tax effect not adjusted). Capitalisation of these transaction costs in the value of the investment is permitted under Australian Accounting Standards and is therefore reflected in the pro forma historical statement of financial position for SYD outlined below.

b) Financial position

The table below sets out the consolidated historical statement of financial position of SYD as at 30 June 2013 extracted from the reviewed financial statements of SYD, adjusted for certain pro forma transactions and adjustments to reflect the Minority Acquisitions and SYD Simplification Proposal and as having been completed on that date as outlined below.

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	SYD reported for the half-year ended 30 Jun 13 \$m	Adjustments Minority Acquisitions \$m	Adjustments Simplification Proposal \$m	SYD proforma for the half-year ended 30 Jun 13 \$m
Current assets				
Cash and cash equivalents	416	(61)	(6)	349
Receivables	105			105
Other financial assets	16			16
Other assets	10			10
Total current assets	547	(61)	(6)	480
Non-current assets				
Receivables	37			37
Property, plant and equipment	2,508			2,508
Intangible assets	7,800			7,800
Other assets	14			14
Total non-current assets	10,359			10,359
Total assets	10,906	(61)	(6)	10,839
Current liabilities				
Distribution payable	205			205
Payables	154			154
Interest bearing liabilities	217			217
Deferred income	24			24
Derivative financial instruments	138			138
Provisions	9			9
Current tax liabilities	69			69
Total current liabilities	816			816
Non-current liabilities				
Interest bearing liabilities	6,510			6,510
Derivative financial instruments	29			29
Provisions	1			1
Deferred tax liabilities	1,628		(112)	1,516
Total non-current liabilities	8,168		(112)	8,056
Total liabilities	8,984		(112)	8,872
Net assets	1,922	(61)	106	1,967
Equity				
Contributed equity	3,949	1,230		5,179
Retained profits	320	2	114	436
Reserves	(2,395)	(1,245)	(8)	(3,648)
Total security holders' interests	1,874	(13)	106	1,967
Non-controlling interest in controlled entities	48	(48)		–
Total equity	1,922	(61)	106	1,967

The pro forma historical statement of financial position for SYD has been derived by SYD by adjusting the historical statement of financial position of SYD as at 30 June 2013 as follows:

i) Minority Acquisitions adjustments

Issue of SYD securities

The Minority Acquisitions were undertaken by issuing SYD Securities proportionate to the underlying minority interests in the SYD operating entities being acquired as follows:

- 247.5 million SYD Securities were issued to entities which held an 11.3% interest in the SYD operating entities; and
- 85.6 million SYD Securities were issued under an institutional placement that raised \$308.2 million in respect of the acquisition of interests from entities that held interests in the SYD operating entities and chose to monetise their holdings.

333.1 million SYD Securities were issued in total, representing 15.2% of the post-issue SYD Securities on issue (which is proportionate with the 15.2% interest in the SYD operating entities acquired).

SYD's contributed equity has been credited by \$1,230.1 million to reflect the 333.1 million SYD Securities issued in respect of the Minority Acquisitions based on the ASX existing stapled security price.

Reserves have been adjusted for the issue of SYD Securities net of transaction costs.

Non-controlling interest in controlled entities

SYD already consolidated its 84.8% interest in the SYD operating entities by recognising 100% of the SYD operating entities' assets and liabilities in its consolidated statutory statement of financial position and will continue to account for its investment in the SYD operating entities on this basis following the Minority Acquisitions.

Non-controlling interests in controlled entities have been reduced by \$48.0 million to reflect SYD's move to 100% ownership of the SYD operating entities.

Payment of minority interest distributions

\$17.0 million relating to SYD's second quarter distribution was paid to the minorities as part of the acquisition mechanics.

SYD's cash and cash equivalents and reserves have been reduced for the minority interest payment amounts.

Payment of transaction costs

Transaction costs of \$45.5 million primarily relate to \$41.1 million net stamp duty costs, \$1.9 million in net underwriting costs and \$2.5 million net professional advisory fees (external consultants and advisers including legal, financial and taxation adviser costs, independent expert and ASX-listing costs) associated with the Minority Acquisitions.

SYD's cash and cash equivalents has been adjusted by a credit of \$43.9 million (\$1.6 million had already been paid as at 30 June 2013) and reserves have been reduced by \$45.5 million for SYD's net transaction costs.

ii) SYD Simplification Proposal adjustments

Payment of transaction costs

\$8 million of estimated professional advisory fees (external consultants and advisers including legal, financial and taxation adviser costs and the independent expert) and ASX-listing costs associated with the SYD Simplification Proposal.

SYD's cash and cash equivalents has been adjusted by a credit of \$6.4 million (\$1.6 million had already been paid as at 30 June 2013) and reserves have been adjusted by \$8 million for SYD's net transaction costs.

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Deferred Tax balances

If the SYD Simplification Proposal is implemented, the Sydney Airport Limited tax consolidated group will hold a 100% direct interest in the SCACH tax consolidated group.

As a result SCACH and its wholly-owned subsidiaries will join the Sydney Airport Limited tax consolidated group. Due to the application of the tax consolidation provisions, which includes the making of certain elections and the resetting of the tax bases of certain SCACH tax consolidated group assets and liabilities, it is estimated that there will be a net reduction to the deferred tax balance of approximately \$112 million.

c) Important notice

The pro forma historical financial information for SYD set out in this section 4.2 was prepared by SYD for illustrative purposes only to illustrate the impact of the Minority Acquisitions and the SYD Simplification Proposal in the pro forma historical statement of financial position of SYD as at 30 June 2013 and the pro forma historical statement of financial performance of SYD for the half-year ended 30 June 2013 (in sections 4.2(a) and (b) respectively).

The pro forma historical financial information is not represented as being indicative of SYD's views on SYD's future financial performance or position. The information was presented by SYD to reflect the financial performance of SYD as if the Minority Acquisitions and SYD Simplification Proposal had taken place on 1 January 2013 and financial position of Sydney Airport as if the Minority Acquisitions and SYD Simplification Proposal had taken place on 30 June 2013, after adjusting for the impact of the adjustments set out in sections 4.2(a) and (b). It does not take into account the financial performance, cash flows or other movements in the balance sheet or income statement of SYD for the period from 30 June 2013 to the date of this Explanatory Memorandum. Macquarie Shareholders should note that past results are not a guarantee of future performance.

4.3 Historical SYD Security price

The following chart provides details of the trading history of SYD Securities on ASX from 1 January 2011 to 30 October 2013:



Source: IRESS

SYD has announced that the record date for its next distribution is expected to be 31 December 2013. Macquarie will remain entitled to this distribution under the proposed timetable.

4.4 Further information concerning SYD

As an ASX listed entity SYD is required to comply with the periodic and continuous disclosure obligations of the ASX Listing Rules and the Corporations Act.

Investors in SYD should have regard to the broad range of public information available in relation to SYD through SYD's periodic and continuous disclosures.

Copies of SYD's periodic and continuous disclosures can be accessed on the ASX website at www.asx.com.au.

4.5 Risks associated with an investment in SYD

As with any listed entity, there are certain risks associated with an investment in SYD. The risks associated with an investment in SYD differ from the risks associated with an investment in Macquarie.

Macquarie is currently exposed to these risks given its current investment in SYD and Macquarie Shareholders are therefore currently indirectly exposed to these risks due to their investment in Macquarie. Macquarie is an experienced infrastructure investor with resources dedicated to managing its investments. While Macquarie Shareholders already have an indirect exposure to SYD through their investment in Macquarie, as a result of moving to a direct investment, Eligible Macquarie Shareholders will be responsible for decision making in respect of their investment in SYD.

While this section aims to highlight some of the key risk factors associated with an investment in SYD, it is not exhaustive. Macquarie Shareholders should consider the risks described here (extracted from the SYD explanatory memorandum dated 25 October 2013 referred to above), together with all the other information in this document and other SYD periodic and continuous disclosure announcements, and consult their financial adviser or other professional adviser before determining how to vote on the Proposal.

a) Risks Specific to SYD

There are a number of specific risk factors which will affect the financial performance of SYD, and accordingly returns on an investment in SYD. Some of these factors are discussed below.

Management

SYD's financial performance is impacted upon by the effectiveness of its management and SYD's ability to attract and retain key personnel.

Tax risk

There is a risk that changes in tax law (including income tax, goods and services tax and stamp duty) or changes in the way tax laws are interpreted may impact the historical or future tax liabilities of SYD. SYD is seeking a number of binding rulings in relation to the SYD Simplification Proposal and its proposed settlement with the ATO on certain matters (see 4.1 above). Further information on these rulings is set out in SYD's explanatory memorandum dated 25 October 2013. If these binding rulings are not received, SYD has noted that a degree of uncertainty would continue to exist in relation to SYD's current and future tax position.

Airports Act securityholder risks

Sydney Airport is subject to foreign ownership restrictions under the Airports Act 1996 (Cth). There is a risk that those restrictions may be breached. In order to ensure compliance with ownership restrictions under the Airports Act, divestment provisions in the constitutions of SAT1 and Sydney Airport Limited will be activated:

- if foreign ownership reaches the relevant foreign ownership limits in those constitutions, which could result in Foreign Persons (as defined in the Sydney Airport Limited Constitution) that are New Stapled Securityholders being required to divest some or all of their New Stapled Securities; or
- where other relevant ownership restrictions are breached

Sydney Airport undertakes beneficial interest tracing of its register; however, this is historical information as trades after the date of the tracing report will affect its accuracy.

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SYD advised that its foreign ownership on 11 October 2013 was then 29.67 per cent.

Sydney Airport lease

The viability of the SYD business depends on the ability to maintain the lease over Sydney Airport from the Commonwealth of Australia. The lease expires in 2048, with an option exercisable by SYD to extend it for a further 49 years.

Second Sydney airport

Sydney Airport revenues in the medium to long term could be adversely affected by the development of a second Sydney airport, particularly if SYD's right of first refusal to develop and operate such airport which subsists to 2032 is not exercised by SYD.

Significant indebtedness

As at 30 June 2013, SYD reported that it had a total of \$7.5 billion of committed financing facilities (drawn to \$6.5 billion), of which \$0.2 billion is maturing before 31 December 2013 (undrawn facilities already in place to refinance this) and a further \$0.8 billion is maturing before 31 December 2014. If SYD is unable to refinance maturing indebtedness on commercially favourable terms (or at all) it may need to seek more expensive debt facilities, reduce or delay capital expenditure, reduce or delay distributions to securityholders, sell assets, raise additional equity, or take other protective measures.

Exposure to interest rate and foreign exchange fluctuations

SYD's financial performance may be affected by fluctuations in interest rates and foreign exchange rates, primarily due to increases associated with borrowings on a floating rate and in foreign currencies. As at 30 June 2013, SYD reported that it managed these risks by hedging 100% of foreign exchange risk on foreign currency borrowings and 95% of its interest rate risk on borrowings but there can be no assurance that a hedge counterparty will not default on its obligations.

Governance arrangements

Under the Put Option Deed to be entered into in connection with the proposed SYD governance arrangements as part of the SYD Simplification Proposal, SAL will grant The Trust Company an option to require SAL (or its nominee) to purchase all of the issued shares in the proposed new responsible entity of SAT1 ("New RE"). The independence of New RE under the governance arrangements is an important element in enabling greater certainty for SYD's future tax position. If The Trust Company exercises the option under the Put Option Deed and SAL (or one of its subsidiaries) were to acquire all of the issued shares in New RE:

- The board of New RE may not be regarded as independent of SAL for income tax purposes; and
- The level of permitted foreign ownership in SYD under the Airports Act may also be impacted

Before The Trust Company can exercise the option under the Put Option Deed, it is required to engage with SAL for a period which is expected to allow a replacement responsible entity, or an alternative purchaser of the issued shares in New RE, to be identified. This is intended to avoid any adverse outcome that would arise on the issued shares in New RE being acquired by SAL (or one of its subsidiaries).

b) Risks specific to airports and the infrastructure sector

There are a number of factors which will affect the performance of investments in the airport and infrastructure sector, and accordingly returns on an investment in SYD. Some of these factors are discussed below.

Passenger and aircraft movements

The key driver of airport revenues is the number of passengers, particularly international passengers.

The number of passengers using airports may be affected by a number of factors including general economic conditions, demographic changes, changes in preferences of travellers and overall airline costs (including, for example, fuel costs), and globally significant economic, political, social and natural events (for example, the global financial crisis, acts of terrorism or war, pandemic outbreaks such as Severe Acute Respiratory Syndrome (SARS), bird flu or swine flu, and acts of nature such as volcanic eruptions and earthquakes).

Aeronautical revenue is generated through charges levied for the use of airport infrastructure, with charges typically levied on the basis of total aircraft weight and passenger volumes. Aeronautical revenue is therefore dependent on passenger numbers, aircraft movements, and the investment.

Performance of non-aeronautical revenues

Non-aeronautical revenues include retailing, car parking and property. Retail revenues are driven by passengers and their propensity to spend in the retail outlets provided at the airport. Changes to passenger profiles, economic factors or reduced competitiveness of airport retail offerings may affect levels of expenditure. Car park revenues are driven by the propensity of airport users to park their cars at the airport. Reduced demand from users could result from competition from other modes of transport and lower car park utilisation rates.

Regulatory and government policy

For many airports, a substantial proportion of revenue is generated from regulated activities. There is a risk that operations and airport revenues could be adversely affected by changes to regulations.

Operational risk

The operation of an airport is a complex undertaking and involves many risks including the effect of poor weather, variable aircraft movements, traffic congestion, reliance on technical equipment, airline hub requirements and design limitations. Changes to the importance of these factors could increase operating costs and potentially impact the profitability or viability of airports.

Competition

The market share of an airport may be adversely affected by competing airports developing or increasing their capacity or expanding their catchment area. Development and expansion of surface transport links such as motorways and high-speed rail may also affect airport market share.

Environmental risk

Airports may attract opposition from environmental groups in relation to various environmental issues, who may attempt to limit the activities of an airport, its hours of operation or its impact on surrounding communities through lobbying and political pressure, litigation or direct action. Changes in environmental and planning regulation may also impact airport development.

Actions by airlines and other third parties

Actions by airlines which affect passenger numbers could adversely affect the financial performance of airports, particularly where airlines have a major presence at an airport, such as Qantas and Virgin Australia at Sydney Airport. Decisions on the timing and origin/destination of services, price of airline seats and the aircraft used may impact on traffic levels at airports.

Decisions and activities of third parties such as government agencies (for example, air traffic control, fire fighting services, customs and quarantine) and others (for example, aircraft fuel suppliers and refuellers, ground handlers, security and ground transport management providers) can also affect the financial performance of airports.

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Accidents

Airports are exposed to the risk of accidents, including aircraft crashes, which may result in injury or loss of life, damage to airport infrastructure or the closure of part or all of an airport's facilities and have an impact on ongoing traffic levels.

c) General market risks

SYD Securities are listed on ASX and are subject to price fluctuations, which can decrease the market value of an investment in SYD. General risk factors which may adversely impact the price of SYD Securities include:

- Australian and international economic conditions and outlook, including inflation, interest and exchange rates;
- global equity and capital market conditions;
- changes to Australian government regulations and policies;
- changes to Australian or international fiscal or monetary policy; and
- general operational and business risks.

Liquidity risk

As a listed investment, the market value of SYD Securities may be adversely impacted by the volume of securities being bought or sold at any point in time. Where there are relatively few buyers, the price at which an investor may be able to sell their SYD Securities may be adversely impacted (including the potential for cumulative selling as a result of this Proposal as explained in section 2.3).

Volatility risk

The price of SYD Securities may go up or down even over a short period of time (including as a result of selling that may be associated with this Proposal as mentioned in section 2.3, or other factors relating to the Proposal). Recently, markets have become more volatile. Investing in volatile conditions implies a greater level of risk for investors than an investment in a more stable market.

5 TAX IMPLICATIONS

The following tax summary is a general summary of the Australian income tax and GST implications arising for Macquarie Shareholders as a result of the Consolidation and the Distribution. As this summary is necessarily general in nature, Macquarie Shareholders should consult with their professional tax adviser regarding their particular circumstances.

This tax summary addresses the position of both Macquarie Shareholders who are residents of Australia for income tax purposes (“Resident Macquarie Shareholders”) and Macquarie Shareholders who are not residents of Australia for income tax purposes (“Non-resident Macquarie Shareholders”).

This tax summary does not address the Australian income consequences for Macquarie Shareholders who hold their Macquarie Shares on revenue account, as trading stock, or for Macquarie Shareholders who have elected for the Taxation of Financial Arrangement provisions (Division 230 of the Tax Act) to apply in respect of their Macquarie Shares.

This tax summary also does not address the consequences that arise for Macquarie Shares acquired under a Macquarie employee incentive plan, such as MEREP.

This tax summary does not address any tax consequences of participating in the Consolidation or the Distribution arising under the laws of jurisdictions other than Australia.

This tax summary is based on the provisions of the Tax Act as at the date of this Explanatory Memorandum.

5.1 Class Ruling

Macquarie has requested that the ATO issue a class ruling confirming the Australian income tax consequences of the Consolidation and the Distribution for Macquarie Shareholders.

It is expected that, when issued, the final Class Ruling will confirm the income tax consequences outlined in this summary. However, no assurance can be given that the final Class Ruling will be issued on that basis and there remains a risk that the ATO could rule that the Australian income tax consequences are different.

Consistent with ATO practice, it is expected that the final Class Ruling will be issued after the Distribution. A link to the final Class Ruling will be made available on the Macquarie website when issued.

5.2 Overview of transaction

From an Australian income tax perspective, the Distribution will be treated as Macquarie:

- paying the Special Dividend; and
- making the Capital Return.

The Special Dividend will be 40% franked and the remaining unfranked amount will be covered by a declaration that it is ‘conduit foreign income’ for the purposes of the Tax Act.

The Special Dividend and Capital Return amounts will not be known until the Trading Day before the Distribution Date as they are based on the Closing Price.

5.3 Acquisition of SYD Securities under the Distribution

a) Resident Macquarie Shareholders

i) The Special Dividend

The Special Dividend will be 40% franked and accordingly will have accompanying franking credits.

Resident Macquarie Shareholders who receive the Special Dividend directly:

- must include the amount of the Special Dividend in their assessable income; and
- must also include the amount of the franking credits attached to the Special Dividend in their assessable income and will be entitled to a tax offset equal to the amount of the franking credits (subject to the qualifications outlined below).

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Generally, to be eligible for the franking credit and tax offset, the Macquarie Shares must be held “at risk” for at least 45 days (not including the date of acquisition or the date of disposal). This rule should not apply to an individual whose tax offset entitlement (on all shares and interests in shares held) does not exceed \$5,000 for the income year in which the Special Dividend is paid. Entering into put or call options (or other derivatives) in relation to the Macquarie Shares may affect whether the shares are held sufficiently “at risk” for the purposes of the franking rules, and specific advice should be sought.

A Resident Macquarie Shareholder who is an individual, a complying superannuation entity or a registered charity (in certain circumstances) will generally be entitled to a tax refund to the extent that the franking credits attached to distributions for an income year exceed their tax liability for the income year.

The franked component of the Special Dividend will generally give rise to a franking credit in the franking account of a Resident Macquarie Shareholder that is a company. Certain companies may also be able to convert excess franking credits into carried forward tax losses.

A Resident Macquarie Shareholder that is the beneficiary of a trust or a partner in a partnership should obtain their own advice on the tax treatment of the Special Dividend.

For Resident Macquarie Shareholders who have not previously provided their TFN, TFN exemption or ABN to Macquarie, Macquarie will be required to pay to the ATO an amount equal to 46.5 per cent of the unfranked component of the Special Dividend (“TFN Withholding”). In respect of such Macquarie Shareholders, Macquarie will retain such number of the SYD Securities to which that Macquarie Shareholder is entitled to cover the amount of the TFN Withholding.

ii) The Capital Return

The Capital Return is not a dividend or otherwise ordinary assessable income for Resident Macquarie Shareholders considered in this summary. It is expected that the Class Ruling will confirm that the ATO will not make a determination that any part of the Capital Return is to be treated as a dividend for income tax purposes.

For Resident Macquarie Shareholders who own their Macquarie Shares at the Record Date, capital gains tax (“CGT”) event G1 happens in respect of the Capital Return at the Distribution Date.

Under CGT event G1, the cost base and reduced cost base of each Macquarie Share will be reduced (but not below nil) by the Capital Return and a capital gain will arise to the extent (if any) that the Capital Return exceeds the cost base of a Macquarie Share.

Resident Macquarie Shareholders who dispose of their Macquarie Shares after the Record Date and before the Distribution Date still have a right to receive the Distribution in respect of those shares. CGT event C2 happens for these Resident Macquarie Shareholders when they receive the Distribution. A capital gain will arise to the extent that the Capital Return exceeds the cost base of the right, which will likely be nil (effectively the capital gain should not include the amount of the Special Dividend).

A capital gain made from CGT event G1 or C2 will be a discount capital gain for Resident Macquarie Shareholders that are an individual, trust or complying superannuation fund and acquired the Macquarie Shares at least 12 months before the Distribution Date. The discount factor will vary depending on the tax profile of the Macquarie Shareholder. Specifically, the discount factor for resident individuals and trusts is 1/2 and for complying superannuation funds is 1/3.

b) Non-Resident Macquarie Shareholders

i) The Special Dividend

The Special Dividend will be 40% franked, and the remaining unfranked component will be covered by a declaration that it is ‘conduit foreign income’ for the purposes of the Tax Act. Accordingly, for Non-resident Macquarie Shareholders, the Special Dividend should not be assessable income in Australia nor subject to dividend withholding tax.

Non-resident Macquarie Shareholders who hold their Macquarie Shares at or through a permanent establishment in Australia should obtain advice that is specific to their circumstances.

ii) The Capital Return

A Non-resident Macquarie Shareholder who receives the Distribution disregards any Australian capital gain or loss that is made in relation to the Distribution if their Macquarie Shares are not taxable Australian property.

Macquarie Shares should not be taxable Australian property provided the Non-resident Macquarie Shareholder:

- together with their associates, did not hold 10% or more of the shares in Macquarie at the Distribution Date, or at any time throughout a 12 month period starting 24 months before, and ending on, the Distribution Date;
- is not a former Australian resident that made an election to treat their Macquarie Shares as taxable Australian property when they ceased to be an Australian resident; and
- did not hold their Macquarie Shares at any time in carrying on a business at or through a permanent establishment in Australia.

Other Non-resident Macquarie Shareholders should obtain their own advice as to the Australian income tax consequences arising from the Capital Return.

c) Cost base and date of acquisition of SYD Securities

The first element of the cost base and reduced cost base for each SYD Security will be equal to the market value on the Distribution Date of the SYD Securities received. It is expected the Class Ruling will confirm that the market value for these purposes is their Closing Price.

SYD Securities currently comprise two separate CGT assets, being units in Sydney Airport Trust 1 and units in Sydney Airport Trust 2. The cost base of these separate CGT assets is arrived at by allocating the market value of SYD Securities between each of the respective CGT assets on a reasonable basis. It is expected the Class Ruling will confirm that this allocation can be performed based on their relative net asset values.

For CGT purposes (including eligibility for the CGT discount concession) SYD Securities should be treated as having been acquired on the Distribution Date.

5.4 Consolidation of Macquarie Shares

For Macquarie Shareholders who beneficially own their Macquarie Shares before and after the Consolidation:

- no CGT event will happen solely as a result of the Consolidation – that is, no capital gain or capital loss will arise;
- broadly, the existing cost base and reduced cost base in their Macquarie Shares will be allocated across the consolidated Macquarie Shares; and
- the consolidated Macquarie Shares will have the same date of acquisition for CGT purposes as the original Macquarie Shares to which they relate.

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The following table provides an illustrative example of the income tax consequences which may arise from the Distribution and Consolidation for an individual Resident Macquarie Shareholder⁽¹⁾. For the purposes of this example the Closing Price of SYD Securities is assumed to be \$4.17.

Part A: Taxation of Distribution

Number of Macquarie Shares held at Record Date		100
SYD Securities Closing Price ⁽²⁾	\$	4.17
Total amount of Distribution	\$	417.00
Special Dividend	\$	129.27
Consisting of:		
Franked amount ⁽³⁾	\$	51.71
Franking credits	\$	22.16
Unfranked amount	\$	77.56
Total assessable income	\$	151.43
Gross income tax ⁽⁴⁾	\$	70.41
Franking credits	\$	(22.16)
Tax payable	\$	48.25
Capital Return ⁽⁵⁾	\$	287.73

Part B - Adjustment to cost base for Capital Return and Consolidation

Initial cost base

Purchase date		1-Nov-10
Initial number of Macquarie Shares	A	100
Initial total cost base	B	\$ 3,640.00
Initial cost base per share		\$ 36.40

Capital Return and Consolidation

Capital Return	C	\$ 287.73
Consolidation of shares – (100 shares at 0.9438 consolidation rate) = 95 shares		

Calculation of cost base for consolidated Macquarie Shares

Purchase date		1-Nov-10
Consolidated number of Macquarie Shares	D = A x 0.9438	95
Post Consolidation total cost base (initial cost base less Capital Return)	E = B - C	\$ 3,352.27
Cost base per consolidated Macquarie Share		\$ 35.29

(1) Different tax outcomes may arise based on different facts of each taxpayer

(2) Assumed Closing Price of SYD Securities for purposes of this example

(3) Special Dividend is 40% franked

(4) Assumed marginal tax rate of 46.50%

(5) Assume cost base of Macquarie Shares exceeds Capital Return therefore no capital gains tax but rather reduction in cost base

5.5 Holding SYD Securities

The SYD corporate structure is different to Macquarie and Macquarie Shareholders should consider the tax implications of holding and disposing of SYD Securities and receiving distributions in respect of their SYD Securities.

If the SYD Simplification Proposal (as outlined in section 4.1) is implemented, the component securities that comprise the SYD Securities will change. Macquarie Shareholders should have regard to section 8 of the explanatory memorandum released by SYD on 25 October 2013 which contains information regarding the tax implications of holding SYD Securities following the SYD Simplification Proposal.

5.6 Other Matters

a) Sale Facility

The Australian income tax consequences outlined in section 5.3 and section 5.4 should apply equally to Selling Shareholders and Ineligible Shareholders whose SYD Securities are sold by the Sale Agent under the Sale Facility.

Selling Shareholders and Ineligible Shareholders should be regarded for CGT purposes as having disposed of their SYD Securities for consideration equal to Sale Facility Proceeds.

b) Nominee Arrangement

The Australian income tax consequences outlined in section 5.3, section 5.4 and section 5.5 should apply equally to Macquarie Shareholders whose SYD Securities are registered in the name of the Nominee because they do not complete and return the Holder Election Form by the Election Date.

c) Australian TFN and ABN

Following the Distribution, it is expected Macquarie Shareholders (including those whose SYD Securities are held by the Nominee) will be given the opportunity to quote their TFN, TFN exemption or ABN in respect of their SYD Securities.

SYD Securityholders need not quote a TFN, TFN exemption or ABN in respect of their SYD Securities, however if they do not, then TFN Withholding may be required to be deducted from any distributions in respect of SYD Securities at the highest marginal tax rate plus 1.5% (currently 46.5%).

d) GST

There is no GST payable in respect of the Distribution.

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6 FURTHER DETAILS OF THE PROPOSAL

6.1 Information on the Distribution

The total proposed Distribution per Macquarie Share will be equal to the Closing Price. The proposed Distribution is intended to be implemented as a combination of a Special Dividend and *equal reduction* of Macquarie's ordinary share capital for the purposes of the Corporations Act. The Capital Return is an *equal reduction* because it relates only to ordinary shares and applies to each Macquarie Shareholder in proportion to the number of Macquarie Shares they hold with the terms of the reduction the same for each Macquarie Shareholder.

The payment of the Special Dividend and the Capital Return will be satisfied by the in specie distribution of SYD Securities to Macquarie Shareholders on the basis of one SYD Security for each Macquarie Share. Ineligible Shareholders and Eligible Sale Facility Shareholders who elect to participate in the Sale Facility, will have the SYD Securities to which they would otherwise be entitled transferred to the Sale Agent for sale, pursuant to the Sale Facility and will receive the Sale Facility Proceeds in cash.

The SYD Securities will be registered in the name of the Nominee on the Distribution Date on behalf of Macquarie Shareholders unless the Holder Election Form is completed and returned by the Election Date (see further details below).

The Capital Return Resolution, if passed, will constitute the approval of Macquarie's shareholders under section 256C of the Corporations Act for the proposed equal capital reduction under section 256B of the Corporations Act, by an amount per Macquarie Share equal to 69 per cent of the Closing Price.

For example, assuming a Closing Price of \$4.17 the Capital Return would be \$2.8773 per Macquarie Share and approximately \$978 million in aggregate.

No Macquarie Shares will be cancelled in connection with the equal capital reduction. Accordingly the Capital Return itself will not affect the number of Macquarie Shares held by each Macquarie Shareholder. However, the Consolidation will reduce the number of Macquarie Shares on issue.

Under section 256B of the Corporations Act, Macquarie may only reduce its share capital if the reduction:

- a) is fair and reasonable to Macquarie Shareholders as a whole;
- b) does not materially prejudice Macquarie's ability to pay its creditors; and
- c) is approved by Macquarie Shareholders under section 256C of the Corporations Act.

The Directors are of the view that the proposed Capital Return is fair and reasonable to Macquarie Shareholders as a whole and that the Capital Return will not materially prejudice Macquarie's ability to pay its creditors.

The Board has resolved to pay the Special Dividend subject to the passing of the Capital Return Resolution and the Constitution Amendment Resolution. The amount of the Special Dividend per Macquarie Share will be equal to the difference between the Closing Price and the Capital Return per Macquarie Share, i.e. the Special Dividend will be 31% of the Closing Price. In the example above, if the Closing Price is \$4.17, the Special Dividend per Macquarie Share would be \$1.2927 or approximately \$439 million in aggregate.

Macquarie's Dividend Reinvestment Plan will not operate for the Special Dividend as it is not a cash dividend.

The Capital Return Resolution will be considered by Macquarie Shareholders at the General Meeting after consideration of the Constitution Amendment and is conditional on that amendment being approved. In accordance with section 256C of the Corporations Act, the Capital Return Resolution must be approved by a simple majority of votes cast by or on behalf of Macquarie Shareholders on the resolution, in order to be passed.

For the avoidance of doubt, if the Capital Return Resolution and the Constitution Amendment Resolution are approved by Macquarie Shareholders, the Distribution will be undertaken regardless of whether the Consolidation Resolution is approved by Macquarie Shareholders.

See the notes to the Notice of General Meeting in relation to how to vote on the Capital Return Resolution.

If the Capital Return Resolution is approved by the required majority of Macquarie Shareholders and the condition to its implementation is satisfied, then the Distribution will be implemented and binding upon all Macquarie Shareholders, regardless of how (or if) they vote on the resolution.

In order for the SYD Securities to be registered in the name of Eligible Macquarie Shareholders on the Distribution Date, Macquarie Shareholders will need to complete and return the enclosed Holder Election Form or complete an election online at www.investorcentre.com.au/mqgholderelection by the Election Date. If Macquarie Shareholders do not complete and return the Holder Election Form by the Election Date the SYD Securities to which they will be entitled will be registered in the name of the Nominee on the Distribution Date. These arrangements do not apply to Ineligible Shareholders or to Eligible Sale Facility Shareholders who elect to participate in the Sale Facility.

Macquarie Shareholders are strongly encouraged to complete and return the Holder Election Form by the Election Date so that they can enjoy the benefit of direct investment in SYD, including immediate receipt of distributions, direct receipt of SYD correspondence, such as annual reports and notices of meeting, and without the inconvenience of having their SYD Securities subject to the Nominee Arrangements. If a Macquarie Shareholder's SYD Securities are subject to the Nominee Arrangements, that Macquarie Shareholder will only be able to exercise its rights to vote the SYD Securities by giving the Nominee instructions as to how to vote and there will be a delay in that Macquarie Shareholder receiving payments (including distribution payments) and communications from SYD. That is because those payments and communications will first go to the Nominee and then the Nominee will pass those payments and communications through to the Macquarie Shareholder.

Macquarie Shareholders may request a copy of the Holder Election Form and reply paid envelope be sent to their registered address by contacting Macquarie's Share Registry on 1300 389 485 (within Australia) or +61 39415 4129 (outside Australia).

The Nominee Arrangements have been put in place to ensure that legal title to the SYD securities is only transferred to those persons who agree to become members of SYD. The Nominee will hold SYD Securities transferred to it on behalf of and subject to the instructions of the Macquarie Shareholders entitled to the SYD Securities transferred to it. A Macquarie Shareholder may instruct the Nominee as to how to vote the SYD Securities held on its behalf under the Nominee Arrangements. If a Macquarie Shareholder does not instruct the Nominee how to vote in respect of the SYD Securities held on its behalf, the Nominee will not exercise those votes. The Nominee will distribute distributions it receives on the SYD Securities to the Macquarie Shareholders on whose behalf those SYD Securities are held.

Macquarie Shareholders who receive SYD Securities subject to the Nominee Arrangements may instruct the Nominee at any time to register the SYD Securities to which they are entitled in the name of that Macquarie Shareholder or any person to whom they wish to transfer those SYD Securities.

Macquarie will pay the costs associated with the establishment and operation of the Nominee Arrangements. Macquarie may at any time terminate the Nominee Arrangements and instruct that the Nominee register the SYD Securities held by it in the name of the Macquarie Shareholders then holding SYD Securities through the Nominee Arrangements.

Further details concerning the Nominee Arrangements will be provided to Macquarie Shareholders who hold SYD Securities subject to the Nominee Arrangements, following the Election Date.

6.2 The Sale Facility

Eligible Sale Facility Shareholders may elect to participate in the Sale Facility and sell all (but not some) of the SYD Securities which they are entitled to receive. In addition, Macquarie Shareholders who are Ineligible Shareholders will have the SYD Securities to which they would otherwise be entitled automatically sold under the Sale Facility.

Macquarie Shareholders who are Eligible Sale Facility Shareholders and wish to participate in the Sale Facility should complete and return the Sale Facility Election Form accompanying this Explanatory

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Memorandum using the enclosed reply paid pre-addressed envelope, or by completing an election online at www.investorcentre.com.au/mqgsalefacility, so that it is received by the Macquarie Share Registry by the Election Date. Macquarie Shareholders may request a copy of the Sale Facility Election Form and reply paid envelope be sent to their registered address by contacting Macquarie's Share Registry on 1300 389 485 (within Australia) or +61 39415 4129 (outside Australia). Eligible Macquarie Shareholders who do not elect to participate in the Sale Facility may keep, sell or otherwise deal with the SYD Securities transferred to them. Macquarie may determine that Macquarie Shareholders in a country where it may be unlawful or impractical to operate the Sale Facility will not be eligible to participate in the Sale Facility. To date Macquarie has determined that Macquarie Shareholders whose registered address is in, or who are a citizen or resident of, Japan will not be eligible to participate in the Sale Facility.

SYD Securities that would otherwise have been transferred to Selling Shareholders will be transferred to the Sale Agent to be sold on their behalf under the Sale Facility.

Under the Sale Facility, the Sale Agent will sell the SYD Securities as soon as reasonably practicable after the Distribution Date (and in any event not more than eight weeks after the Election Date or, subject to obtaining any necessary ASIC exemptions or waivers, such longer period of time which Macquarie and the Sale Agent determine ("Sale Period"), for the benefit of each Selling Shareholder.

The Sale Agent will sell those SYD Securities at such price and on such other terms as the Sale Agent determines in good faith and at the risk of the Selling Shareholders.

The amount of money received by each Selling Shareholder (being their Sale Facility Proceeds) will be calculated on an average basis so that all Selling Shareholders will receive the same price for each SYD Security sold on their behalf, subject to rounding down to the nearest whole Australian cent.

Consequently, the amount received by Selling Shareholders for each SYD Security may be more or less than the actual price that is received by the Sale Agent for that particular SYD Security.

As the market price of SYD Securities will be subject to change from time to time, the sale price of those SYD Securities and the Sale Facility Proceeds that will be received by each Selling Shareholder cannot be guaranteed. Macquarie Shareholders will be able to obtain up-to-date information on the market price of SYD Securities on ASX's website at www.asx.com.au.

The Sale Facility Proceeds will be remitted to each Selling Shareholder (free of any brokerage costs or stamp duty) by:

- direct credit to the nominated bank account as noted on the register of Macquarie Shares on the Record Date; or
- where an account has not been provided, by cheque sent by mail to the Selling Shareholder's address as shown on the register of Macquarie Shares as at the Record Date.

The Sale Facility Proceeds will be paid to Selling Shareholders in Australian dollars within 10 business days of the date that all SYD Securities the subject of the Sale Facility are sold.

Macquarie expects to remit the Sale Facility Proceeds to Selling Shareholders by 3 March 2014. Selling Shareholders will not receive any interest on the Sale Facility Proceeds.

At the same time as SYD Securities are sold under the Sale Facility, or prior thereto, Macquarie may also be involved in selling other SYD Securities. For example, additional SYD Securities will be received through MEREP that must be sold and Macquarie may dispose of residual holdings of SYD Securities that do not form part of the Distribution. Additionally, Macquarie may also trade SYD Securities as part of its normal business activities.

6.3 Information on the Consolidation

The Consolidation Resolution, if passed, would constitute the approval of Macquarie Shareholders under section 254H of the Corporations Act to the conversion of all Macquarie Shares into a smaller number of shares on a 0.9438 for one basis (with any resultant fraction rounded up on a per registered shareholder basis). The Consolidation will take effect immediately after the Record Date.

The Consolidation ratio was determined by reference to the amount of the estimated Capital Return as a proportion of the Macquarie Share price. The calculations were performed using the average of the

VWAPs for the 20 trading days up to and including 30 October 2013 ("20 day average VWAP"). The 20 day average VWAP for SYD Securities was \$4.0341, implying a Capital Return of \$2.7835. The 20 day average VWAP for Macquarie Shares was \$49.5259 so that the estimated return of capital is 5.6 per cent of the value of Macquarie Shares. Accordingly, the Consolidation ratio has been set at 0.9438 shares for one.

The actual share prices at the time that Macquarie Shares commence trading on an ex-Distribution and consolidated basis (expected to be 16 December 2013) are likely to vary from the prices used for this calculation but the Consolidation ratio will not change. Similarly, the actual Closing Price (and hence the actual amount of the Capital Return) and the proceeds delivered from the Sale Facility are also likely to differ from these prices.

For the avoidance of doubt, the entitlement to participate in the Distribution will be calculated based on Macquarie's pre-Consolidation ordinary shares on issue.

Where the Directors form the opinion that shareholdings have been split or aggregated to obtain the benefit of rounding, transfers of shares and aggregated parcels of shares may be disregarded for the purpose of rounding.

The Board recommends that the proposed Consolidation be approved.

In accordance with section 254H of the Corporations Act, the Consolidation Resolution must be approved by a simple majority of votes cast by or on behalf of the Macquarie Shareholders on the resolution in order to be passed.

The Consolidation Resolution is conditional on both the Constitution Amendment Resolution and the Capital Return Resolution being approved by Macquarie Shareholders. If either of the Constitution Amendment Resolution or the Capital Return Resolution is not approved by Macquarie Shareholders, the Consolidation Resolution will not be effective.

See the notes to the Notice of General Meeting in relation to how to vote on the Consolidation Resolution.

If the Consolidation Resolution is passed and the conditions to its implementation are satisfied, then the Consolidation will be implemented and binding upon all Macquarie Shareholders, regardless of how (or if) they vote on the resolution.

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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 with the revised articles 15.6 and 15.7, which are set out in full in the Schedule to this Explanatory Memorandum.

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.

See the notes to the Notice of General Meeting in relation to how to vote on the Constitution Amendment Resolution.

If the Constitution Amendment Resolution is passed then the Constitution Amendment will be implemented and binding upon all Macquarie Shareholders, regardless of how (or if) they vote on the resolution.

A copy of the Constitution is available at Macquarie's website at www.macquarie.com.au/mgl/au/about-macquarie-group/profile/corporate-governance or you may telephone +612 8237 7968 for a hard copy to be mailed to you.

6.5 ASIC modifications

ASIC has provided an in-principle exemption from certain requirements that Macquarie may otherwise be required to comply with in order to operate the Sale Facility, including:

- a) Section 601ED of the Corporations Act in relation to the Sale Facility;
- b) Divisions 2 to 5 of Part 7.9 of the Corporations Act in relation to an interest in the Sale Facility; and
- c) The requirement to hold an Australian financial services licence for the provision of the following financial services:
 - i) dealing in an interest in the Sale Facility; and
 - ii) the provision of general advice in relation to an interest in the Sale Facility.

ASIC has also provided an in-principle confirmation that Macquarie does not have to comply with Division 5A of Part 7.9 of the Corporations Act to the extent that Macquarie invites a person to make an offer to sell SYD Securities through the Sale Facility.

6.6 Information for Macquarie Shareholders in jurisdictions outside Australia

Macquarie expects that in addition to Macquarie Shareholders with an Australian registered address, registered and beneficial holders of Macquarie Shares in the following jurisdictions outside Australia will not be considered Ineligible Shareholders (i.e. will be eligible to receive SYD Securities):

- Canada
- China
- Hong Kong
- Japan
- New Zealand
- Norway
- Singapore
- Luxembourg, Germany and the United Kingdom, provided that Macquarie is satisfied that the Distribution will take place in accordance with one of the following:
 - to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
 - to any legal entity that meets two of the following three requirements: (i) balance sheet total of EUR 20,000,000; (ii) net turnover of EUR 40,000,000; (iii) own funds of EUR 2,000,000;
 - to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive (Directive 2003/71/EC as amended)) in any member state of the European Union; or
- in The Netherlands, provided that Macquarie is satisfied that the relevant person is:
 - a legal entity which is authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; or
 - a legal entity that meets two of the following three requirements: (i) own funds of EUR 2,000,000; (ii) balance sheet total of EUR 20,000,000; or (iii) annual net turnover of EUR 40,000,000, as shown in its last annual or consolidated accounts.
- United States, provided that Macquarie is satisfied that the relevant person is:
 - a “qualified institutional buyer” as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (“Securities Act”); or
 - an “accredited investor” within the meaning of Rule 501 under the Securities Act.

6.7 Foreign legal restrictions

This Explanatory Memorandum has been prepared to comply with Australian law and is only being made available to Macquarie Shareholders.

No action has been taken by Macquarie to register the SYD Securities to be transferred pursuant to the Distribution in any jurisdiction outside Australia.

The distribution of this Explanatory Memorandum outside Australia may be restricted by law. This Explanatory Memorandum should not be distributed to anyone other than Macquarie Shareholders, other than by any Macquarie Shareholder in receipt of this Explanatory Memorandum who holds Macquarie Shares on behalf of a beneficial owner and provides the Explanatory Memorandum to such beneficial owner, provided that sending this Explanatory Memorandum to the beneficial owner does not constitute a breach of applicable securities laws.

Failure to comply with such restrictions may find you in violation of applicable securities laws. If you come into possession of this Explanatory Memorandum you should observe the restrictions set out in this section.

This Explanatory Memorandum has been prepared having regard to Australian disclosure requirements. These requirements may be different from those in other jurisdictions.

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Canada

Upon receipt of this Explanatory Memorandum, each Canadian Macquarie Shareholder hereby confirms that it has expressly requested that all documents relating in any way to the transactions contemplated in this Explanatory Memorandum (including for greater certainty any notice or any form of proxy or election) be drawn up in the English language only. *Par la réception de cette note explicative, chaque actionnaire canadien de Macquarie confirme par les présentes qu'il a expressément exigé que tous les documents se rapportant de quelque manière que ce soit aux transactions envisagées dans cette note explicative (incluant, pour plus de certitude, tout avis ou tout formulaire de procuration ou de choix) soient rédigés en anglais seulement.*

The distribution of the SYD Securities in Canada is being made on a private placement basis only and is exempt from the prospectus requirements. Accordingly, any resale of the SYD Securities must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with prospectus and dealer registration requirements or exemptions from the prospectus and dealer registration requirements. Canadian Macquarie Shareholders are advised to seek legal advice prior to any resale of the SYD Securities. SYD is not a "reporting issuer", as such term is defined under applicable Canadian securities laws, in any province or territory of Canada. Canadian Macquarie Shareholders are advised that SYD and Macquarie are not required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the SYD Securities to the public in any province or territory of Canada and have no intent to do so.

China

The information set out in this Explanatory Memorandum does not constitute investment advice on whether individual Chinese resident Macquarie Shareholders are allowed by their jurisdiction to acquire any security or product traded on ASX and does not take into account their specific financial, investment, taxation or other circumstances. Individual Macquarie Shareholders should consult their own advisers before making any decision.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (Directive 2003/71/EC as amended) (each a "relevant member state"), no SYD Securities have been distributed or will be distributed pursuant to the Proposal to the public in that relevant member state prior to the publication of a prospectus in relation to the SYD Securities which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, except that a distribution of SYD Securities may be made to the public in that relevant member state at any time:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which meets two of the following three requirements: (i) balance sheet total of EUR 20,000,000; (ii) net turnover of EUR 40,000,000; (iii) own funds of EUR 2,000,000;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in any member state of the European Union; or
- in any other circumstances which do not require the publication by Macquarie of a prospectus pursuant to Article 3(2) of the Prospectus Directive,

provided that no such offer of SYD Securities shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a relevant member state.

Hong Kong

This Explanatory Memorandum is provided only for the personal and confidential use of its intended recipient. If you are not the intended recipient of this Explanatory Memorandum, you are hereby notified that any review, dissemination, distribution or copying of this Explanatory Memorandum is strictly prohibited.

This Explanatory Memorandum is not a prospectus within the meaning of the Companies Ordinance (Chapter 32, The Laws of Hong Kong) ("CO") nor is it an offer or invitation to the public within the meaning of the CO and the Securities and Futures Ordinance (Chapter 571, The Laws of Hong Kong) ("SFO"), or an advertisement, invitation or document subject to section 103(1) of the SFO.

This Explanatory Memorandum and the contents within have not been authorised by the Hong Kong Securities and Futures Commission and no invitation, advertisement or other document relating to the SYD Securities, whether in Hong Kong or elsewhere, has been or will be issued, which is directed at, or the contents of which are likely to be accessed or read by the public in Hong Kong within the meaning of the CO and the SFO (except if permitted to do so under the laws of Hong Kong).

This Explanatory Memorandum must not be distributed, published or reproduced (in whole or in part), disclosed by or to any other person in Hong Kong or to any person to whom the disclosure of this Explanatory Memorandum would be a breach of the CO or the SFO. You are advised to exercise caution in relation to this Explanatory Memorandum. If you are in any doubt about any of the contents of this Explanatory Memorandum, you should obtain independent professional advice.

Singapore

Nothing in this Explanatory Memorandum constitutes an offer of securities, units in a business trust or derivatives of units in a business trust or units in a collective investment scheme as defined under Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") and accordingly, this Explanatory Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, any offer or transaction in relation to the SYD Securities may only be made and any document in connection with such offer or transaction may only be distributed (a) in circumstances where the SFA does not apply, (b) pursuant to, and in accordance with the conditions of, an applicable exemption under the SFA, or (c) if a prospectus is registered pursuant to the SFA.

United States

Subject to certain exceptions for certain investors that satisfy the definition of "qualified institutional buyer" in Rule 144A under the U.S. Securities Act of 1933 (the "U.S. Securities Act"), or "accredited investor" in Rule 501 under the U.S. Securities Act (each as determined in Macquarie's sole discretion), the SYD Securities will not be distributed to Macquarie Shareholders in the United States. The SYD Securities have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States, and may not be offered or sold in the United States or to persons acting for the account or benefit of persons in the United States, except in a transaction exempt from, or not subject to, registration under the U.S. Securities Act and applicable state securities laws in the United States. Accordingly, except as described above, Macquarie Shareholders in the United States or who are acting for the account or benefit of persons in the United States will be Ineligible Shareholders.

6.8 Provision of Macquarie Shareholder information to SYD and Nominee

Relevant Macquarie Shareholder information will be provided to SYD's Security Registry or to the Nominee, as applicable, to enable registration of the holdings, including holder name, address, email address and number of securities. Other shareholding information will not be provided. In particular, legislation prevents the provision of Macquarie Shareholder TFNs to SYD's Security Registry or to the Nominee.

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GLOSSARY

ABN means Australian Business Number.

AEDT means Australian Eastern Daylight Time.

ASIC means the Australian Securities and Investments Commission.

APRA means the Australian Prudential Regulation Authority.

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

ATO means the Australian Taxation Office.

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.

Capital Return Resolution means the second resolution in the Notice of General Meeting.

Class Ruling means the ATO class ruling in respect of the Australian income tax consequences of the Distribution for Macquarie Shareholders as described in section 5.1

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.

Consolidation Resolution means the third resolution in the Notice of General Meeting.

Constitution means the constitution of Macquarie.

Constitution Amendment means the amendment to the Constitution set out in the Schedule to this Explanatory Memorandum.

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.

Election Date means the last date for receipt of Sale Facility Election Forms to participate in the Sale Facility, expected to be 6 January 2014.

Eligible Macquarie Shareholder means a Macquarie Shareholder on the Record Date other than an Ineligible Shareholder.

Eligible Sale Facility Shareholder means a Macquarie Shareholder who holds 500 or fewer Macquarie Shares on the Record Date, other than a Macquarie Shareholder whose address is in or who is a citizen or resident of or who Macquarie believes may be a citizen or resident of a country in which Macquarie determines it is unlawful or impractical to operate the Sale Facility.

Ex-Distribution Date means the day on which Macquarie Shares commence trading without an entitlement to the Distribution, expected to be 16 December 2013.

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

Explanatory Memorandum means this explanatory statement in respect of the General Meeting.

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

GST has the same meaning as in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

Holder Election Form means the form accompanying this Explanatory Memorandum, or the electronic version of the Holder Election Form that may be accessed online at www.investorvote.com.au/mqgholderelection, that contains instructions from Eligible Macquarie Shareholders to have the SYD Securities to which they are entitled registered in their name.

IFRS means International Financial Reporting Standards.

Ineligible Shareholder means a Macquarie Shareholder on the Record Date whose address is shown on the Macquarie share register, or who is a trustee or custodian for a beneficial owner of Macquarie Shares (in whole or part), whose address is in, or who is a citizen or resident or who Macquarie otherwise believes may be a citizen or resident of a country, outside Australia and its external territories, unless Macquarie is satisfied that the laws of the applicable overseas jurisdiction permit the transfer of SYD Securities to that person pursuant to the Distribution.

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.

Macquarie Share Registry means Computershare Investor Services Pty Limited.

MEREP means Macquarie Group Employee Retained Equity Plan.

MEREP Trustee means the trustee of the MEREP trust.

Nominee means the person appointed to act as Nominee under the Nominee Arrangements.

Nominee Arrangements means the terms on which the Nominee will hold SYD Securities transferred to it on behalf of the Macquarie Shareholders who do not return completed Holder Election Forms by the Election Date.

Notice of General Meeting means the notice of general meeting attached to this Explanatory Memorandum.

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

Record Date means 7:00 pm AEDT on 20 December 2013 or such other date as the Directors specify as the record date for the Distribution.

SAHL means Sydney Airport Holdings Limited (ACN 075 295 760) (AFSL 236 875).

Sale Agent means the broker appointed by Macquarie to sell the SYD Securities under the Sale Facility.

Sale Facility means the sale facility described in section 6.2.

Sale Facility Election Form means the form for participation in the Sale Facility provided to Eligible Sale Facility Shareholders or the electronic version of the Sale Facility Form that may be accessed online at www.investorcentre.com.au/mqgsalefacility.

Sale Facility Proceeds means the amount to be received by each Selling Shareholder pursuant to the Sale Facility as described in section 6.2.

Sale Period means the period during which SYD Securities are sold under the Sale Facility and as described in section 6.2.

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

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

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Selling Shareholder means an Eligible Sale Facility shareholder who lodges a Sale Facility Election Form before the time set out in section 6.2. and each Ineligible Shareholder.

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, if the SYD Simplification Proposal described in section 4.1 is completed, the resulting stapled securities of SYD.

SYD Securityholder means the holders of SYD Securities.

SYD Simplification Proposal means the proposal as described in section 4.1.

Tax Act means collectively the Income Tax Assessment Act 1936 (Cth) and the Income Tax Assessment Act 1997 (Cth).

TFN means Australian Tax File Number.

TFN Withholding means Tax File Number withholding tax as described in section 5.

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

United States means the United States of America, its territories and possessions, any State of the United States and the District of Columbia.

VWAP means volume weighted average sale price of securities sold on ASX on a day excluding any special crossings and similar transactions.

Schedule

Proposed new Articles 15.6 and 15.7 of the Constitution

15.6 Distribution of specific assets

When resolving to pay a dividend or to return capital by a reduction of capital, a buy-back or otherwise, the Voting Directors may:

- a) resolve that the dividend or return of capital be satisfied either wholly or partly by the distribution of specific assets to some or all of the persons entitled to the dividend or return of capital, including without limitation shares, debentures or other securities of the Company or any other body corporate or trust; and*
- b) direct that the dividend or return of capital payable in respect of any particular shares be satisfied wholly or partly by such distribution and that the dividend or return of capital payable in respect of other shares be paid in cash.*

15.7 Ancillary powers regarding distributions

- a) In relation to any decision to pay a dividend or to return capital by a reduction of capital, a buy-back or otherwise, the Voting Directors may:*
 - i) settle any difficulty that arises in making the distribution as they think expedient and, in particular, make cash payments in cases where Members are entitled to fractions of shares, debentures or other securities and decide that amounts or fractions of less than a particular value decided by the Voting Directors may be disregarded in order to adjust the rights of all parties by withholding assets, cash, shares, debentures or other securities where the Company is required to make a payment in respect of the Member to a government or taxing authority in relation to the distribution or issue and decide to make distributions by disregarding transfers of shares or aggregating parcels of shares where they form the opinion that shareholdings have been split or aggregated to obtain the benefit of rounding on fractions of shares;*
 - ii) fix the value for distribution of any specific assets;*
 - iii) pay cash or issue shares, debentures or other securities to any Member in order to adjust the rights of all parties;*
 - iv) vest any of those specific assets, cash, shares, debentures or other securities in a trustee or nominee on trust for the persons entitled to the distribution or capitalised amount on such terms that seem expedient to the Voting Directors; and*
 - v) authorise any person to make, on behalf of the Members or a particular Member entitled to any specific assets, cash, shares, debentures or other securities as a result of the decision, an agreement (including an agreement in writing) with the Company or another person which provides, as appropriate, for the distribution or issue to them of the assets, cash, shares, debentures or other securities and by applying to them their respective proportions of the amount resolved to be distributed.*
- b) Any agreement made under an authority referred to in article 15.7(a)(v) is effective and binds all Members concerned.*
- c) Instead of making a distribution or issue of specific assets, shares, debentures or other securities to a particular Member, the Voting Directors may make a cash payment to that Member or allocate some or all of the assets, shares, debentures or other securities to a trustee to be sold on behalf of, and for the benefit of, or in respect of, that Member, if:*
 - i) the distribution or issue would otherwise be illegal or unlawful;*
 - ii) the distribution or issue would give rise to parcels of securities which do not constitute a marketable parcel;*
 - iii) in the Voting Directors' discretion, the distribution or issue would, for any reason, be impracticable; or*
 - iv) the Member so agrees.*
- d) If the Company distributes to Members (either generally or to specific Members) shares, debentures or securities of the Company or another body corporate or trust (whether as a dividend or return of capital or otherwise and whether or not for value), each of those Members appoints the Company and any officer of the Company nominated in that behalf by the Voting Directors as his or her agent or attorney to do anything needed or desirable to give effect or assist in giving effect to that distribution, including without limitation agreeing to become a member, holder of shares, holder of debentures or holder of securities of the Company or that other body corporate or trust.*

Notice of General Meeting

Notice of General Meeting

A General Meeting of Macquarie Group Limited (ACN 122 169 279) (Macquarie) will be held in the Conference Room, Level 1, 1 Shelley Street, Sydney, New South Wales on Thursday, 12 December 2013, at 2.30 pm. Registration will commence at 1.30 pm.

Items of Business

1 Approval of Constitution Amendment Resolution

To consider and, if thought fit, pass the following as a special resolution:

That the Constitution of Macquarie Group Limited is amended by substituting articles 15.6 and 15.7 in the Schedule to the Explanatory Memorandum dated 1 November 2013 for the existing articles 15.6 and 15.7 of the Constitution, such amendment to take immediate effect.

2 Approval of Capital Return Resolution

To consider and, if thought fit, pass the following as an ordinary resolution:

That subject to and conditional upon the passing of the Constitution Amendment Resolution, for the purposes of Part 2J.1 of the Corporations Act 2001 (Cth), and for all other purposes, approval is given for the share capital of Macquarie to be reduced by an amount per Macquarie Share equal to 69 per cent of the Closing Price, payment of such reduction of capital and the Special Dividend as resolved by the Board to be satisfied by:

- a) Macquarie transferring on the Distribution Date to each registered holder of Macquarie Shares on the Record Date or to the Nominee on their behalf (as described in the Explanatory Memorandum), one SYD Security for every one Macquarie Share held by that holder as at the Record Date; and*
- b) in the case of each Eligible Sale Facility Shareholder who elects to participate in the Sale Facility and each Ineligible Shareholder, Macquarie transferring to the Sale Agent, the SYD Securities that the Macquarie Shareholder is entitled to pursuant to paragraph (a) for sale pursuant to the Sale Facility.*

3 Approval of Consolidation Resolution

To consider and, if thought fit, pass the following as an ordinary resolution:

That subject to and conditional upon the passing of the Constitution Amendment Resolution and the Capital Return Resolution, with effect immediately after the Record Date, the share capital of Macquarie will be consolidated through the conversion of every one Macquarie Share into 0.9438 Macquarie Shares and that any resulting fractions of a share be rounded up to the next whole number of shares on a per registered shareholder basis (and provided that where the Voting Directors form the opinion that shareholdings have been split or aggregated to obtain the benefit of rounding, by disregarding transfers of shares or aggregating parcels of shares for the purpose of rounding).

For further information, please refer to the attached Explanatory Memorandum. Terms having a defined meaning in the glossary to the Explanatory Memorandum have a corresponding meaning in this Notice of General Meeting.

By order of the Board



Dennis Leong
Company Secretary
Sydney
1 November 2013

Notes

1 Proxies

If you cannot attend, you may appoint a proxy to attend and vote for you. If you are entitled to cast two or more votes, you may nominate two persons to vote on your behalf at the meeting. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. Fractions of votes will be disregarded. If no such number or proportion is specified, each proxy may exercise half your votes. For shareholders receiving the Notice of General Meeting by post, a proxy form and a reply paid envelope have been included with this Notice of General Meeting. Proxy voting instructions are provided on the proxy form.

A proxy need not be a shareholder. Votes may be cast 'For' or 'Against' or you may 'Abstain' from voting on a resolution. If you wish to direct a proxy how to vote on any resolution, place a mark (e.g. a cross) in the appropriate box on the proxy form and your votes may only be exercised in that manner. You may split your voting direction by inserting the number of shares or percentage of shares that you wish to vote in the appropriate box. If you place a mark in the 'Abstain' box, your votes will not be counted in computing the required majority on a poll.

2 Online Proxy Facility

You may also submit your proxy appointment online at www.investorvote.com.au

To use this online proxy facility, you will need to enter your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), postcode and Control Number, as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website. If you wish to use this facility, you must submit your proxy appointment through the facility by **no later than 2.30 pm (Sydney time) on Tuesday, 10 December 2013**. A proxy cannot be appointed online if they are appointed under a power of attorney or similar authority. The online proxy facility may not be suitable for some shareholders who wish to split their votes on an item of business or appoint two proxies with different voting directions. Please read the instructions for the online proxy facility carefully before you submit your proxy appointment using this facility. If you are a Nominee and an Intermediary Online subscriber, you can log on to www.intermediaryonline.com

3 Proxy Delivery

Proxies must be received by Macquarie's Share Registry at GPO Box 1282, Melbourne, VIC, 3001 (facsimile number within Australia 1800 783 447 or from outside Australia +61 3 9473 2555) or at Level 4, 60 Carrington Street, Sydney, NSW, 2000 or at Macquarie's registered office in Sydney, by **no later than 2.30 pm (Sydney time) on Tuesday, 10 December 2013**. Any revocations of proxies (including online proxy appointments) must be received at one of these places before the commencement of the meeting, or at the registration desk at 1 Shelley Street for the General Meeting from 1.30 pm on the day of the meeting and no later than the commencement of the meeting.

4 Power of Attorney

If a shareholder has appointed an attorney to attend and vote at the meeting, or if the proxy is signed by an attorney, the power of attorney (or a certified copy of the power of attorney) must be received by Macquarie's Share Registry at the addresses or facsimile number in Note 3 above, or at Macquarie's registered office in Sydney, **by no later than 2.30 pm (Sydney time) on Tuesday, 10 December 2013**, unless the power of attorney has been previously lodged with Macquarie's Share Registry for notation.

Notice of General Meeting

continued

5 Corporate Representatives

If a corporate shareholder wishes to appoint a person to act as its representative at the meeting, that person should be provided with a letter or certificate authorising him or her as the company's representative (executed in accordance with the company's constitution) or with a copy of the resolution appointing the representative, certified by a secretary or director of the company. A form of appointment of corporate representative may be obtained from Macquarie's Share Registry.

6 Shareholders Eligible to Vote

Pursuant to regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the holders of Macquarie Shares for the purposes of the meeting, will be those registered holders of Macquarie Shares at 7.00 pm (Sydney time) on Tuesday, 10 December 2013.

7 Voting at the Meeting

In light of the large number of proxy votes which have been received from shareholders at previous meetings, it is intended that voting on each of the proposed resolutions at this meeting will be conducted by poll, rather than on a show of hands.

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Enquiries

Investors who wish to enquire about the Proposal Described in this booklet may contact the Macquarie SYD Distribution information lines on:

Freecall: 1300 389 485 (within Australia)

Telephone: +61 3 9415 4129 (outside Australia)

Investors who wish to enquire about any other matter relating to their Macquarie Group Limited shareholding are invited to contact the share registry:

Computershare Investor Services Pty Limited

GPO Box 2975

Melbourne VIC 8060 Australia

Telephone: +61 3 9415 4137

Freecall: 1300 554 096

Facsimile: +61 3 9473 2500

Online: www.investorcentre.com/contact

Website: www.computershare.com/au

Other enquiries relating to a Macquarie Group Limited share investment can be directed to:

Investor Relations

Macquarie Group Limited

Level 7, No.1 Martin Place

Sydney NSW 2000 Australia

Telephone: +61 2 8232 5006

Facsimile: +61 2 8232 6346

Email: macquarie.shareholders@macquarie.com

Website: www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations

Website

Macquarie's 2013 Annual Review and 2013 Annual Financial Report, which together comprise the 2013 Annual Report, are available on Macquarie's website at:

www.macquarie.com.au/mqg-annualreport