MACQUARIE INFRASTRUCTURE AND REAL ASSETS (EUROPE) LIMITED

PILLAR 3 DISCLOSURE
MACQUARIE INFRASTRUCTURE AND REAL ASSETS (EUROPE) LIMITED
31 MARCH 2012

Macquarie Infrastructure and Real Assets (Europe) Limited ("MIRAEL") is a UK incorporated company and is authorised by the FSA as a limited license firm to provide funds management and advisory services. As such, MIRAEL is required to disclose information as set down in Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU 11: Disclosure (Pillar 3)"). The following forms the basis of MIRAEL's compliance with these BIPRU 11 requirements.

The remuneration disclosure for PILLAR 3 is outlined in BIPRU 11.5.18 – 11.5.21. Macquarie's remuneration disclosures will encompass all Remuneration Codes for EMEA and will be published on the Macquarie website.

MIRAEL is a member of the Macquarie Group, a global provider of banking, financial, advisory, investment and funds management services. All risks arising from MIRAEL's activities are managed in accordance with Macquarie's global risk management framework. This framework has been formally adopted by the MIRAEL Board. Further information on Macquarie's Risk Management Framework can be found in Macquarie Group Limited's 2012 Financial Statements at:

http://www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/financial-reports/macquarie-group-limited-mqg

MIRAEL is the vehicle through which the Macquarie Infrastructure Real Assets division of Macquarie Funds Group undertakes its regulated European fund and asset management activities. As at 31 March 2012, MIRAEL had £8.1 billion of assets under management ("AUM").

MIRAEL's principal activity is to undertake investment management and advisory activities. It also manages Macquarie European Infrastructure Fund LP ("MEIF 1"), MEIF 2, MEIF 3 and MEIF 4, each of which owns a portfolio of infrastructure investments. In addition, MIRAEL manages jointly with Renaissance Investment Management (UK) Limited, the Macquarie Renaissance Infrastructure Fund ("MRIF"), a fund mandated to invest in infrastructure projects in Russia and other Commonwealth of Independent States. MIRAEL is also the Manager for various feeder entities.

Aside from undertaking investment management activities, during the financial year MIRAEL also acquired the remaining 50% interest in a Korean funds management joint venture, Macquarie Shinhan Infrastructure Asset Management Limited ("MSIAM"). This position is deducted from capital resources for regulatory reporting purposes. MIRAEL is exempt from preparing consolidated financials and discloses the interest in MSIAM as an investment for accounting purposes.

MIRAEL has a tightly defined scope of operations, namely the provision of funds management and advisory services, and as such runs minimal market and credit risk. MIRAEL's operations do give rise to operational risk which is taken into account when MIRAEL makes its assessment of the appropriate level of capital to hold at Pillar 2, under its Internal Capital Adequacy Assessment Process ("ICAAP").

Capital adequacy

The approach to calculating the capital resources requirements within MIRAEL is made by reference to its categorisation as a limited license firm and in consideration of the business activities of MIRAEL. As such, MIRAEL calculates its capital resources requirements as the higher of:

(1) the base requirement of €50,000

(2) the sum of:

(a) the credit risk capital requirement
(b) the market risk capital requirement
(c) the operational risk capital requirement

(3) the fixed overheads requirement

The requirements calculated under (2) and (3) above are both in excess of the €50,000 base capital requirement stipulated within the FSA's General Prudential Sourcebook (GENPRU 2.1.48) and as at 31 March 2012 the larger of the requirements above was the sum of credit risk, market risk and operational risk requirements.

The firm calculates both market risk and credit risk using the standardised approaches as laid out under the BIPRU rules:

- Credit risk arises on the cash balances MIRAEL holds and unpaid fees arising from funds management and asset advisory contracts. Most of these credit risks are transferred to its ultimate parent Macquarie Group Limited ("MGL") via a parental guarantee arrangement. Where available, the credit ratings assigned to counterparties by one or more eligible rating agencies are used in the calculation of risk weighted capital requirements for credit risk. Rating agencies used by Macquarie are Moody's, Standard & Poor's and Fitch. Currently such ratings are available for exposures arising on MGL (an Australian Corporation) as a result of the parental guarantee arrangement and the third party banks (primarily in UK) with which MIRAEL deposits surplus cash. Any counterparty risk which MIRAEL may have exposure to is managed under the existing credit risk policy. As at 31 March 2012, MIRAEL's credit risk capital requirement amounted to £2.8 million.

- MIRAEL does not take any trading positions in its own right although the firm may from time to time attract a small amount of market risk capital requirement on fee receivables denominated in foreign currencies. As at 31 March 2012, MIRAEL's market risk capital requirement amounted to £1.1 million.

Operational risk is the most significant risk faced by MIRAEL. A full analysis of this and other relevant risks has been undertaken along with an assessment of the capital required to be held behind these risks. This assessment is documented in MIRAEL's ICAAP document.

The firm's capital resources and Pillar 2 capital resources requirement as at 31 March 2012 comprised the following elements:

	31-Mar-12 £'000	31-Mar-11 £'000	31-Mar-10 £'000
Capital resources			
Tier 1			
Ordinary share capital	34,700	12,000	12,000
Audited retained earnings and other reserves	7,238	3,506	0
Audited Current Year Profits	3,850	3,732	3,506
Total Tier 1 capital	45,788	19,238	15,506
Tier 2			
Perpetual subordinated debt	10,500	10,500	10,500
Revaluation Reserve	(194)	(173)	(181)
Total Tier 2 capital	10,306	10,327	10,319
Deductions from Tier 1 & Tier 2 capital: Material holdir	(25,224)	(3,218)	(3,302)
Total capital after deductions	30,870	26,347	22,523
Capital resources requirement			
Credit risk	2,779	1,848	1,584
Market risk	1,127	252	700
Operational risk	7,500	7,500	5,462
Total capital resources requirement	11,406	9,600	7,746
Surplus	**19,464**	**16,747**	**14,777**

MIRAEL undertakes an ICAAP as required by BIPRU 2 to assess the adequacy of its internal capital to support current and future activities of the firm. The ICAAP considers the adequacy of MIRAEL's capital resources to cover Pillar 1 risk (e.g. credit risk, market risk and fixed overhead requirement) as well as other risks not explicitly covered by these Pillar 1 requirements (e.g. business risk and additional operational risks such as fraud). MIRAEL's capital requirement for operational risk (£7.5m) per the ICAAP numbers above includes the fixed overhead requirement under Pillar 1 (£5.5m) and an add-on charge under Pillar 2 (£2.0m) as at 31 March 2012. This assessment is supported by appropriate stress testing and scenario analysis. The ICAAP is reviewed and approved at least annually by the MIRAEL Board.

MIRAEL has held capital resources in excess of both its Pillar 1 and ICAAP capital requirements at all times in the past financial year.

MIRAEL forms part of a UK regulatory consolidation group that also includes a full scope investment firm named Macquarie Capital (Europe) Limited ("MCEL") and two UK incorporated parent holding companies. Capital assessments are required to be performed for this UK group. The group held capital resources in excess of capital requirements at all times in the past financial year.

Credit risk mitigation

MIRAEL transfers most of the credit risks arising as a result of its business activities to MGL via a parental guarantee arrangement. The external credit ratings of MIRAEL's exposures to corporates, institutions and sovereigns have been mapped to credit quality steps to determine the appropriate risk weights according to FSA guidance.

The tables below illustrate the balance sheet exposure values by risk weight, before and after application of credit risk mitigation.

Exposures before and after credit risk mitigation as at 31 March 2012

Risk weight	Exposure pre-credit risk mitigation	Exposure post-credit risk mitigation
	£'000	**£'000**
0%	368	368
20%	4,560	4,560
50%	36	65,767
100%	66,669	938

Exposures before and after credit risk mitigation as at 31 March 2011

Risk weight	Exposure pre-credit risk mitigation	Exposure post-credit risk mitigation
	£'000	**£'000**
0%	2,471	2,471
20%	18,038	18,038
50%	27	38,876
100%	38,901	52