In 1818 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the ‘Holey Dollar’ (valued at five shillings) and the ‘Dump’ (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie’s creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie Group.
First half result impacted by subdued market conditions

- Profit of $A403 million
- Operating income of $A3.7 billion
- Operating expenses increased reflecting the effect of consolidation of new acquisitions and investment in global platform growth
- Earnings per share of $A1.19
- Interim dividend of $A0.86 per share (unfranked)
- Assets under management of $A317 billion

Strong funding and balance sheet position

- Balance sheet remains solid and conservative
- Term assets covered by term funding and equity
- Total deposits increased to $A31.2 billion from $A17.0 billion, largely driven by conversion of the Macquarie Cash Management Trust to Cash Management Account
- $A2.9 billion of capital in excess of minimum regulatory requirement

Global initiatives and growth

- Continued platform growth across each of the operating groups
- Continued growth in lending and leasing business
- Maintained market share in difficult market conditions
Result overview
Macquarie Group (Macquarie) reported a consolidated after-tax profit for the half-year ended 30 September 2010 of $A403 million, a decrease of 16 per cent on the prior corresponding period and 29 per cent on the prior half. Earnings per share were $A1.19, a decrease of 21 per cent on the prior corresponding period and 30 per cent on the prior half.

Total operating income for the first half was $A3.7 billion, an increase of 18 per cent on the prior corresponding period and 4 per cent on the prior half. International income accounted for 56 per cent of total operating income. Base fee income from Macquarie Funds Group (MFG), now one of the top 40 asset managers globally, increased 40 per cent on the prior corresponding period following the completion of the Delaware Investments acquisition in January 2010. Another notable driver was the continued growth in the Corporate and Asset Finance Group’s (CAF) lease and loan portfolio.

As foreshadowed, there were fewer writedowns, impairments, equity accounted gains and losses and other one-off items for the first half. However, market conditions affected activity across a number of businesses – particularly Fixed Income, Currencies and Commodities (FICC), Macquarie Securities Group (MSG) and Macquarie Capital – in addition, performance continued to be impacted by the cost of excess liquidity on the balance sheet.

Operating expenses increased 23 per cent on the prior corresponding period to $A3.2 billion reflecting the effect of the consolidation of recent acquisitions and Macquarie’s investment in global platform growth. The expense-to-income ratio increased to 86 per cent, compared with 83 per cent in the prior corresponding period.

Assets under management decreased to $A317 billion at 30 September 2010 from $A326 billion at 31 March 2010, primarily reflecting the conversion of the Macquarie Cash Management Trust to the Cash Management Account.

The effective tax rate for the first half was 17 per cent, up from 7 per cent for the prior corresponding period and down from 22 per cent in the prior half.

The annualised return on equity for the first half was 7.1 per cent, down from 9.6 per cent in the prior corresponding period and 10.3 per cent in the prior half.

Operating conditions
As noted, market conditions remained challenging in the first half, affecting activity in FICC, MSG and Macquarie Capital. However, each of the operating groups continued to grow their business platform. More favourable market conditions and benefits from recent initiatives resulted in improved performance for MFG, CAF and the Banking and Financial Services Group (BFS), demonstrating the benefits of Macquarie’s diverse range of businesses. Importantly, Macquarie’s businesses broadly maintained their market share in a challenging environment.

Despite substantially weaker activity in mergers and acquisitions (M&A), equity markets and debt markets, Macquarie Capital maintained its top-two position for M&A deals completed in Australia. It also improved its M&A ranking in the Asian market, as well as its equity capital markets ranking in the Asian (ex-Japan), US and Canadian
markets. During the first half, Macquarie Capital was joint sponsor, joint bookrunner and joint lead manager for the world’s largest-ever initial public offering (IPO), the $US22.1 billion dual listing of Agricultural Bank of China Limited.

Trading conditions for cash equities weakened during the first half, affecting market volumes and investor confidence in key markets. However, Macquarie maintained its top-tier position for the Australian Securities Exchange market share in institutional and retail stockbroking. MSG held the number one market share position for listed warrants in Singapore and Korea, while growing its market share in global equity capital markets.

In the FICC business, metal prices continued to rise, particularly gold, while foreign exchange volumes remained subdued, with lower client term hedging activity resulting from the higher Australian dollar. Activity in energy markets and agricultural commodities was lower for the first half. Despite weaker conditions, FICC remains the Australian Asset-Backed Securities House of the Year for the 11th consecutive year, the number four ranked physical gas marketer in the US and is an increasing participant in the US and European credit markets.

MFG recorded strong gross inflows from institutional and retail investors. Delaware Investments recorded top quartile performance over the three years to 30 September 2010 in 24 of its 40 funds.

**Growth initiatives**

Macquarie continued growth initiatives to achieve greater scale in key markets and products.

The Group’s strong position in Asia-Pacific was demonstrated by its involvement in the dual listing of Agricultural Bank of China Limited. Since the acquisition of the ING cash equities business in 2004, Macquarie has built a full-service investment banking and securities platform in Asia. It is now one of the world’s largest distributors of Asian equities, a top-ranked equity capital adviser in Asia and has managed the largest IPO in Hong Kong in each of the past three years. Today, Macquarie’s Asia-Pacific operations account for 60 per cent of its operating income and the Group is increasingly seen as a global broker with strong Asia-Pacific foundations.

In the US, Macquarie continued to capitalise on recent acquisitions in that market. Delaware Investments has performed particularly well, with assets under management increasing by approximately $US25 billion since acquisition. The Tristone Capital Global and Fox-Pitt Kelton Cochran Caronia Waller acquisitions have boosted MSG’s global market share, while strengthening the pipeline for financial institution and energy transactions. These acquisitions, combined with those of Blackmont Capital, Integrys Energy Services and Constellation Energy’s downstream natural gas trading business, have increased Macquarie’s range of capabilities in the US and its ability to service its clients. The recent growth in the Group’s corporate lending activities has further broadened its client base and business in this key market. During the first half, Macquarie also announced the acquisition of US-based real estate capital markets specialist, Presidio Partners LLC.

Macquarie also continued to develop its European business during the first half following the acquisition of Sal. Oppenheim jr. & Cie. KGaA’s (Sal. Oppenheim) equity derivatives and cash equities businesses. These acquisitions provide a foothold in one of the world’s largest derivatives markets and expand Macquarie’s product offering in Europe, while broadening its European equities and sales coverage. Macquarie is now a top 10 global research provider by number of stocks.
under coverage. The acquisition of Austrian asset manager INNOVEST Kapitalanlage AG announced post balance date further enhances Macquarie’s funds management business in Europe.

Capital
Macquarie has a long-term policy of holding a level of capital which efficiently supports its business and growing the capital base ahead of business requirements. Capital at 30 September 2010 was $A11.6 billion which was $A2.9 billion in excess of the Group’s minimum regulatory capital requirement.

Proposed Basel III changes would result in more conservative risk-weighting of assets, a stricter capital deduction regime and increased minimum capital ratios for financial institutions globally. These proposals are currently under consideration by the Australian Prudential Regulation Authority.

Funding
Macquarie remains very well funded, with diversified funding sources. Its total deposit base continues to grow, representing a stable and reliable source of funding. Total deposits increased to $A31.2 billion at 30 September 2010 from $A17.0 billion at 30 September 2009 due primarily to the conversion of the Macquarie Cash Management Trust to the Cash Management Account. Short-term wholesale issued paper remains a small portion of overall funding, with term assets covered by term funding and equity.

As foreshadowed, surplus cash is being deployed into income-generating assets including investment in CAF’s leasing and lending business and the Group’s overall global platform growth.

Dividend
The Board has resolved to pay an interim dividend of $A0.86 per ordinary share, in line with the prior corresponding period, to be paid on 15 December 2010. The dividend will be unfranked.

The Macquarie model
Macquarie is a global provider of banking, financial, advisory, investment and funds management services to its clients.

Macquarie’s strategy is to focus over the medium term on key fundamentals:
– the provision of services to clients
– the alignment of interests with shareholders, investors and staff
– a conservative approach to risk management
– incremental growth and evolution
– maintaining operations that are diversified by business and geography
– an ability to adapt to change

While the Macquarie model has not significantly changed over the years, the company has continually adapted to variations in the environment in which it operates. During the first half, businesses continued to pursue growth opportunities, entering new markets, developing new and expanded product offerings and making selective acquisitions. It is initiatives like these that drive the continued evolution of the business.

Risk management
Macquarie’s risk management framework is robust and proven. The Group has always sought to clearly understand and identify the consequences of worst-case outcomes to ensure that these can be tolerated. This strong culture of risk management is embedded across all operating groups and divisions.
As Macquarie’s operating groups build on global growth and transaction opportunities, the risk management framework adapts to maintain effective risk oversight. This has included increasing the number of risk management staff globally.

**Our people**

Macquarie’s culture and people remain the foundation for the continued success of the business and the Group’s ability to attract and retain high-quality staff remains a key factor in Macquarie’s long-term growth.

Staff numbers increased to 15,533 at 30 September 2010 from 12,758 in the prior corresponding period, driven primarily by the Delaware Investments, Blackmont Capital and Fox-Pitt Kelton Cochran Caronia Waller acquisitions. Fifty-two per cent of staff are now based outside Australia, with the Americas accounting for 24 per cent of staff, Asia 17 per cent and Europe, Middle East and Africa 11 per cent.

**Board and management**

In June 2010, Catherine Livingstone and Peter Warne joined the Board Corporate Governance Committee, which assumed compliance oversight responsibilities from the Board Audit and Compliance Committee (BACC). The BACC was reconstituted as the Board Audit Committee. Richard Sheppard has joined the Board Risk Committee.

In July 2010, Macquarie announced three new appointments to its Executive Committee and changes to some operating groups, primarily reflecting the increasingly global nature of its businesses. The new Executive Committee appointments were Tim Bishop, US Country Head; Stevan Vrcelj, Head of Global Cash Equities for MSG; and Garry Farrell, Head of CAF.

Macquarie Capital Funds merged with MFG to create Australia’s largest global asset manager and one of the top 40 globally. Shemara Wikramanayake was appointed Global Head of the merged group and John Roberts, Executive Chairman.

Roy Laidlaw was appointed Group Head of Macquarie Capital and MSG and Michael Carapiet, Executive Chairman of both groups.

CAF became an operating group and assumed responsibility for all real estate lending activities.

**Outlook**

As foreshadowed by the Group, uncertain market conditions continue to make short-term forecasting very difficult: Weak market conditions have impacted activity levels in FICC, MSG and Macquarie Capital, and the result for the year to 31 March 2011 is expected to be impacted by the cost of Macquarie’s continued conservative approach to funding and capital.

While market conditions in September and October 2010 have shown some signs of improvement, activity continues to track below normal levels. Subject to market conditions continuing to return to more normal levels, Macquarie currently expects its result for the year to 31 March 2011 to be broadly in line with the prior year.

Macquarie continues to expect that the income statement for the year to 31 March 2011 is likely to be characterised by fewer one-off items, as seen in the first half, a compensation ratio consistent with historic levels and continued higher cost of funding reflecting market conditions and high liquidity levels. The balance sheet for the year to 31 March 2011 is likely to be characterised by excess funding levels, which the Group anticipates will continue to be deployed across the businesses.

In addition, the result for the year to 31 March 2011 may also be subject to government and regulator actions to deal with current economic imbalances.

Over the medium term, Macquarie’s businesses are increasingly well positioned to benefit from future growth. With its deep expertise in major markets, growing global market share, strength in diversity, balance sheet positioned for growth and effective risk management culture, Macquarie will look to achieve continued expansion of its expertise globally across new products and in new markets as it seeks to maintain and strengthen its leading position in key markets.

David S Clarke, AO
Chairman

Nicholas Moore
Managing Director and Chief Executive Officer
Sydney
28 October 2010
Regional activity

**Australia**

Joint financial adviser to Lihir Gold on its $AUD 24.5 billion merger with Newcrest Mining, creating Asia-Pacific's largest gold company.

Mandated by Transfield Services Infrastructure Fund to conduct a capital structure review, resulting in the sale of the 70 MW Mt Millar Wind Farm for $AUD 191 million, an underwritten equity raising of $AUD 110 million and a $AUD 500 million refinancing of the fund's debt facility.

Macquarie Securities Group (MSG) maintained its top-tier position for warrants and cash equities research and sales.

Corporate and Asset Finance Group (CAF) acquired the GMAC auto finance portfolio worth approximately $AUD 1 billion.

CAF funded, originated or acquired $AUD 2.9 billion of corporate debt and finance leasing opportunities.

Macquarie Funds Group (MFG) was awarded Money Management Fixed Interest (Diversified) Fund Manager of the Year.

MFG recorded top quartile performance over the three years to 31 August 2010 in Australian Listed Property (Index), Australian Shares (Long Only), Inflation-Linked Bonds and Australian Cash (Aggressive).

Macquarie DDR Trust successfully recapitalised.

Banking and Financial Services Group (BFS) acquired the remaining 50 per cent stake of outsourced paraplanning provider, Outplan.

Macquarie Pastoral Fund entered into agreements to acquire three properties in Australia bringing the total number of properties held by the fund to 14.

**Asia-Pacific**

Joint sponsor, joint bookrunner and joint lead manager for the $US 22.1 billion dual listing of Agricultural Bank of China Limited on the Hong Kong and Shanghai stock exchanges, the world's largest-ever IPO.

Financial adviser to POSCO, South Korea's biggest steelmaker, on its acquisition of a controlling stake in Daewoo International Corporation for $US 2.8 billion.

Joint adviser to RHC Healthcare, an affiliate of India's Fortis Healthcare, on its $S 3.3 billion ($US 2.5 billion) voluntary conditional general offer for Parkway Holdings Limited, one of Asia's largest ever healthcare M&A deals.

Joint lead manager and joint bookrunner in Sino-Ocean Land's $US 900 million issue of perpetual subordinated convertible securities, the largest international equity-linked issuance ever for a mainland Chinese property developer.

Fixed Income, Currencies and Commodities (FICC) launched an Asian markets business in Singapore providing Asian rates, credit and currency services to pension funds, hedge funds and other institutional investors.

FICC's Energy Markets Division expanded its physical oil trading operations in Singapore with the addition of complementary teams in Houston and London.

MSG maintained its number one position for warrants market share in Singapore and Korea and top-two market share in Hong Kong.

MFG launched a new fund in conjunction with its local Japanese partner Nikko Asset Management. Using this fund, Nikko Asset Management will provide Japanese investors with exposure to Asian infrastructure equities.

A consortium led by Macquarie SBI Infrastructure Fund completed the acquisition of an interest in Viom Networks Limited, an Indian telecom tower company for consideration of INR 14.2 billion.

MFG was recognised as Best Asian Event-Driven Fund Manager for 2010 in the Eureka Asian Hedge Fund Awards.
| Americas | Financial adviser to Cintra Infraestructuras, S.A. and Meridiam Infrastructure Finance S.á.r.l. on the $US2.7 billion Interstate 635 Managed Lanes Project to develop, finance, construct and maintain 13 miles of managed lanes in Dallas County, Texas |
| Co-developer, financial adviser and equity underwriter for the $US2.1 billion Denver FasTracks Eagle P3 project, the first US rail public-private partnership (PPP) involving a 35-year concession to design, build, finance, operate and maintain two greenfield commuter rail lines and associated rolling stock for the Denver metro area |
| FICC’s Credit Trading Division continued to grow its sales capabilities with the addition of a commercial mortgage finance and commercial mortgage-backed securities team in New York |
| FICC completed the purchase and integration of the Integrys wholesale electric marketing and trading portfolio |
| CAF completed a $US500 million Australian automobile leases and loans securitisation, the first Australian-originated automobile securitisation marketed to US investors |
| BFS and MFG jointly launched Equity Plus, a new geared equity investment product for Canadian investors |
| MFG continued with the expansion of its fund derivatives business, with over $US600 million written during the first half |
| MSG achieved record secondary market commissions in Canada |
| MFG ranked as the top global manager of alternative assets on behalf of pension funds and recorded top quartile performance over the three years to 30 September 2010 in 24 of its 40 Delaware Investments branded funds in their respective Lipper categories |
| Integration of Macquarie Private Wealth Canada completed with total client assets now over $C8.4 million |

| Europe, Middle East and Africa | MSG completed the acquisition of Sal. Oppenheim’s cash equities and equity derivatives businesses |
| CAF agreed to acquire the International Lease Finance Corporation aircraft leasing portfolio for $US1.7 billion |
| CAF funded approximately $A1.2 billion of corporate debt and leasing opportunities |
| Adviser to the Ontario Teachers’ Pension Plan on its £400 million acquisition of Camelot, which runs the UK National Lottery |
| Macquarie Atlas Roads, Macquarie European Infrastructure Fund II and Eiffage SA announced the acquisition of a further interest in Autoroutes Paris-Rhin-Rhône from minority shareholders for a consideration of €853.7 million |
| Lead sponsor and sole financial adviser on the €100 million Irish Schools PPP Bundle 2 project which will provide six new schools and subsequently 4,700 pupil places – this is the second Macquarie-sponsored PPP to reach close in Ireland |
| Adviser to Oando Plc, one of Nigeria’s leading energy groups, on its $N21 billion rights issue ($US140 million) on the Nigerian Securities Exchange and on the Johannesburg Stock Exchange |
| FICC expanded its emerging markets sales and trading capabilities to include offerings centred on European emerging markets and clients |
| FICC expanded its credit trading offering into Europe |
| MSG continued to develop its European structured product capability in new markets such as Germany |
| Macquarie Infrastructure and Real Assets was again named Infrastructure Manager of the Year in the Annual Financial News Awards in European Institutional Asset Management |

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2 As per Towers Watson Global Alternatives Report
Since its inception, the Corporate and Asset Finance Group (CAF) has provided Macquarie with a mix of sustainable annuity income streams. In recent years, the group has expanded significantly to become one of Macquarie’s key growth businesses building on specialist expertise developed over 20 years. CAF now services clients across 36 countries, providing asset and corporate finance, leasing and asset management services to more than 240,000 clients globally. Its lease and loan portfolio now stands at $A15.9 billion, an increase of 30 per cent over the past 12 months.

CAF is a client-driven business whose core function is finance and asset management. Since the mid-1990s, it has grown organically and through acquisition, expanding into new asset classes, geographies and client sources. The way in which CAF has grown reflects Macquarie’s ability to adapt to change to deliver incremental growth over the medium term.

Over the last three years, CAF significantly expanded its corporate lending activities in Australia, the US and Europe. In developing this business, it has been able to build on many years of specialist expertise offering bridging and term lending facilities to large corporate clients. As a result, CAF has developed a diversified corporate lending portfolio.

Over the past year, CAF has expanded its presence in the consumer finance sector in Australia, acquiring the $A1 billion Ford Credit Australia portfolio in October 2009 and the $A1 billion GMAC portfolio in April 2010. These consolidate CAF’s position as one of the largest providers of car finance in Australia, financing or managing more than 240,000 contracts. It also builds on Macquarie’s 13 years of experience in developing financial solutions for the motor vehicle leasing sector and extends this expertise to a broader market.

In April 2010, CAF agreed to acquire an aircraft operating lease portfolio consisting of 47 modern aircraft on lease to 35 airlines in 27 countries from International Lease Finance Corporation for $US1.7 billion. This acquisition builds on Macquarie’s existing aircraft leasing business and its substantial experience in asset leasing, further diversifying the client base of its aircraft fleet.

CAF has expanded its business in the Information Technology & Telecommunication (IT&T) sector in North America, acquiring Relational Technology Services, Inc and agreeing to manage the associated lease portfolio of approximately $US500 million. As a result of the acquisition, CAF substantially grew its North American client base, added highly experienced personnel and enhanced its technology financing and services offering, to provide a more comprehensive solution to its entire client base.

CAF has built a solid foundation to pursue its global strategy, with future growth plans focused on expanding existing platforms and capabilities. To that end, CAF recently extended its IT&T business in Malaysia, Hong Kong and Singapore. The business will also continue to extend its strong position in asset management, delivering growth both organically and through strategic acquisitions.
About Macquarie

Macquarie has six operating groups and one division within which individual businesses operate. Businesses specialise in defined product or market sectors and work in close cooperation. Great emphasis is placed on a client’s relationship with Macquarie as a whole. The key services offered by each individual operating group and operating division include:

Macquarie Securities Group
- Institutional cash equities
- Derivatives DeltaOne trading
- Corporate action trading
- Arbitrage trading
- Synthetics
- Global securities finance
  - Capital management, collateral management and securities borrowing and lending

Macquarie Capital
- Corporate finance, including advisory
- Equity and debt capital markets
- Debt structuring and distribution
- Private equity placements
- Principal investments

Macquarie Funds Group
- Investment management across the following asset classes:
  - Equities
  - Fixed income
  - Currencies and commodities
  - Infrastructure securities
  - Funds of funds
- Real asset management in funds of:
  - Infrastructure
  - Real estate
  - Private equity
- Fund and equity-based structured products

Fixed Income, Currencies and Commodities
- Energy markets
- Metals and energy capital
- Credit markets
- Agricultural commodities
- Foreign exchange
- Debt markets
- Emerging and Asian markets
- Futures

Corporate and Asset Finance Group
- Corporate and asset-backed lending
- Real estate lending
- Leasing
- Specialised asset financing
- Asset lifecycle management services
- Equipment trading and remarketing

Banking and Financial Services Group
- Financial advice
- Cash management services
- Wealth management and private banking
- Full-service broking
- Mortgages
- Life insurance
- Business banking
- Investment products
- Administrative and portfolio services

Real Estate Banking Division
- Real estate investment
- Real estate development management
- Real estate asset management
Results
The result from Macquarie Securities Group (MSG) for the half-year to 30 September 2010 was a net profit of $A94 million. This was a 71 per cent decrease on the prior corresponding period and a 64 per cent decrease on the prior half.

The contribution from the Cash Division was 49 per cent down on the prior corresponding period and 34 per cent down on the prior half as ongoing uncertainty continued to impact investor confidence. Total secondary market commissions earned by MSG were up on the prior half with growth in Asia, Canada, Europe and the US. Total equity capital market fees were significantly lower than the prior half and prior corresponding period. The result also reflects ongoing investment in building out the cash equities platform globally. Client rankings show the business is maintaining or improving rankings and MSG is now considered an improving global player.

The Derivatives DeltaOne Trading Division result was down 129 per cent on the prior corresponding period and 149 per cent on the prior half, primarily due to limited retail demand for listed and structured products as well as being impacted by low market volatility. Despite subdued market volumes, the business continues to maintain strong market share in key listed warrants markets with number one market share in Singapore and Korea and number two market share in Hong Kong and Australia.

Activity
During the first half, MSG continued to expand its platform through acquisitions and organic growth.

In April 2010, MSG completed the acquisition of the cash equities and equity derivatives businesses of German private bank Sal. Oppenheim. The acquisition of the cash equities business expands MSG’s European stock coverage to over 400 stocks, 70 per cent of the Euro Stoxx 600, and continues MSG’s growth in research coverage. MSG is now a top 10 global research provider by number of stocks under coverage. The equity derivatives and structured products business, which complements MSG’s existing Asian derivatives operation, also adds a wider set of products to MSG’s growing European business. The acquisition of this business gives MSG access to one of the world’s largest derivative markets and a platform enabling clients to trade in more than 7,500 newly issued listed products. Significant effort has gone into integrating the platform in the first half and product has been issued under the Macquarie Oppenheim brand since 1 August 2010.

Outlook
MSG currently expects its result for the second half to be up on the first half, subject to improving market conditions.

The Cash Division remains well positioned for growth as market conditions normalise and turnover increases. MSG will seek to maintain or improve its client rankings. The business continues to invest in electronic execution across key markets globally to enable continued expansion in its client offering.

Conditions for Derivatives DeltaOne will continue to remain challenging as investor demand remains limited. The business expects to maintain its strong presence in listed warrants and continues to develop capability in new markets such as Germany and India. The division will continue to invest in developing the institutional derivatives and DeltaOne product platform.
Results
The result from Macquarie Capital for the half-year to 30 September 2010 was a net profit of $A85 million. This was a significant increase on the prior corresponding period and a 27 per cent increase on the prior half1.

Macquarie Capital Advisers advised on 219 transactions totalling $A78.9 billion. Market conditions have been subdued for M&A transactions and equity capital markets (ECM) raisings during the first half. However Macquarie Capital maintained its top-two position for M&A deals completed in Australia and improved its ECM ranking in the Asian (ex-Japan), US and Canadian markets.

Activity
During the first half, Macquarie Capital executed the world’s largest-ever IPO as the joint sponsor, joint bookrunner and joint lead manager for the $US22.1 billion dual listing of Agricultural Bank of China Limited. In addition to the major transactions mentioned in the Regional activity section, Macquarie Capital completed the following significant advisory and capital markets roles during the period:

- Adviser to Bupa Australia on the sale of its life insurance and wealth management businesses (MBF Life and ClearView Retirement Solutions) to MMC Contrarian Limited for an equity value of $A195 million
- Adviser to Canada Pension Plan Investment Board on its $C250 million private placement in Laricina Energy Ltd
- Financial adviser to the winning consortia, Acces Recherché CHUM, to design, build, finance and maintain the new Montreal University Hospital Research Centre
- Lead manager to the ZAR619 million ($US87 million) placement by Coal of Africa on the London Stock Exchange, Johannesburg Stock Exchange and Australian Securities Exchange
- Adviser to Macquarie SBI Infrastructure Fund on its acquisition of a stake in Viom Networks Limited, an Indian telecom tower company
- Adviser and lender to TPG Capital and Carlyle Group on the $A2.7 billion acquisition of Healthscope Limited, via scheme of arrangement
- Adviser to Effarie (owned by Macquarie Atlas Roads, Macquarie European Infrastructure Fund, Macquarie European Infrastructure Fund II and French construction company, Eiffage), on the acquisition of a further 13.7 per cent interest in Autoroutes Paris-Rhin-Rhone

1 Comparative figures have been restated for group restructures undertaken during the first half.

Outlook
Macquarie Capital currently expects its result for the second half to be up on the first half, subject to a recovery in deal activity. Macquarie Capital expects advisory and ECM markets globally to improve, albeit conditions are likely to remain challenging. The debt capital markets business is also expected to grow.
Macquarie Funds Group

Results
The result from Macquarie Funds Group (MFG) for the half-year to 30 September 2010 was a net profit of $A335 million. This was a 32 per cent decrease on the prior corresponding period and a 6 per cent increase on the prior half\(^1\). The prior corresponding period included significant gains from listed fund initiatives while the current period benefited from increased base fee income following the acquisition of Delaware Investments.

Assets under management (AUM) increased by 63 per cent on the prior corresponding period and 1 per cent to $A308 billion from 31 March 2010. The significant uplift on the prior corresponding period was primarily driven by the acquisition of Delaware Investments. During the first half, inflows and new mandates in fixed income were largely offset by the appreciation of the Australian dollar against major global currencies.

Activity
In July 2010, Macquarie announced a consolidation of its asset management business, with Macquarie Capital Funds becoming a division of MFG. The consolidation positioned MFG as Australia’s largest asset manager and one of the top 40 globally. The combined group provides clients with access to a full suite of investment products through one platform, including investment management, infrastructure and other real asset management and fund and equity-based structured products.

Following the consolidation, MFG was restructured into three divisions: Macquarie Investment Management, Macquarie Infrastructure and Real Assets (formerly Macquarie Capital Funds) and Macquarie Specialised Investment Solutions.

MFG announced post balance date that it had agreed to acquire a leading Austrian securities asset manager, INNOVEST Kapitalanlage AG (INNOVEST). INNOVEST had a team of over 30 staff and €3.5 billion in AUM at 30 September 2010.

Macquarie Infrastructure and Real Assets continued to focus on investing capital strategically across the globe and experienced increased opportunities during the first half, with $A1.5 billion of capital invested. This included a consortium led by Macquarie SBI Infrastructure Fund acquiring an interest in Viom Networks Limited and Macquarie Atlas Roads, Macquarie European Infrastructure Fund II and Eiffage SA acquiring a further interest in Autoroutes Paris-Rhin-Rhône. The division also continued implementing strategic initiatives to drive value in its listed funds, with the successful recapitalisation of Macquarie DDR Trust.

Despite subdued investor appetite for retail structured product, Macquarie Specialised Investment Solutions received comparatively strong inflows across its full range of retail investments including Australian equities, international funds, thematic, forestry and almonds, generating market leading share in all classes. The Macquarie Lifetime Income Guarantee product was also launched during the first half, providing retirees with a guaranteed minimum income for life over their account-based pension while retaining control over their asset allocation.

Outlook
MFG currently expects its result (excluding the impact of one-off income) for the second half to be in line with the first half, subject to market conditions.

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\(^1\) Comparative figures have been restated for group restructures undertaken during the first half.
**Results**
The result from Fixed Income, Currencies and Commodities (FICC) for the half-year to 30 September 2010 was a net profit of $A167 million. This was a 55 per cent decrease on the prior corresponding period and a 64 per cent decrease on the prior half.

FICC’s result was in line with the subdued trading conditions and client activity in many of its markets globally. However, FICC continued to build a portfolio of commodity, interest rate, currencies and credit-related businesses across the globe. Increased operating expenses in the first half relating to investments in new capabilities in credit sales and trading and emerging markets; extension of these new platforms from the US into Europe; and the establishment of a new Asian rates, currencies and credit business, all contributed to the lower net profit result overall.

The Metals and Energy Capital result was slightly below the prior corresponding period and the prior half with sporadic client term hedging offset by significant income from equity realisations as a result of stronger resource equity markets, particularly in gold.

The contribution from Fixed Income and Currencies was well down on the prior corresponding period and the prior half as global foreign exchange volumes and volatility remained suppressed. The higher Australian dollar affected the level of client term hedging and had a significant impact on revenues.

The contribution from Futures was above the prior corresponding period and significantly above the prior half as market volumes firmed and the division experienced an improvement in the Australian rate environment.

Energy Markets income was down on the prior corresponding period and slightly down on the prior half. Energy revenues in the first half of each year are generally lower than the second half due to lower gas and power demand during the Northern hemisphere summer, while difficult market conditions placed further downward pressure on the current first half result. Expansion of utilities services in Europe and physical oil trading continued during the first half.

While volatility and client activity is returning to Agricultural Commodities as higher prices prompt clients to manage their risk through hedging, client volumes and propensity for term hedging for the first half were subdued with results lower than the prior corresponding period.

**Credit Trading** continued to grow its sales capabilities with the addition of a commercial mortgage finance and commercial mortgage-backed securities team in New York. The result was down on the strong performance achieved in the prior corresponding period due to reduced volumes and difficult market conditions.

**Emerging Markets** is expanding its offering from Latin America to include European emerging markets and has successfully grown its client base and turnover. The division’s result for the first half was well below the prior corresponding period and the prior half due to expenses related to investment in its platform growth in Europe, coupled with difficult trading conditions.

**Activity**
Notable activity in the first half included:
- Establishment of FICC’s Asian hub in Singapore comprising rates, currencies and credit in addition to agricultural over-the-counter, energy over-the-counter and physical oil operations
- Successful hiring of a commercial mortgage finance and commercial mortgage-backed securities team as part of the US Credit Trading Division’s expansion
- Expansion of the credit trading and emerging markets businesses into Europe
- The Macquarie Bank Limited Seoul branch actively trading currencies and fixed income since April 2010
- The US gas business maintained its ranking as the number four physical gas marketer in North America
- Finalisation of the integration of the Integrys wholesale electric marketing and trading portfolio in the Energy Markets Division in the US.

**Outlook**
FICC currently expects its result for the second half to be up on the first half, subject to market conditions improving. FICC will continue to focus on growth across its key markets in core geographic regions and protect the market share of its more mature, domestic businesses.
**Results**

The result from the Corporate and Asset Finance Group (CAF) for the half-year to 30 September 2010 was a net profit of $A233 million. This was an 81 per cent increase on the prior corresponding period and an 85 per cent increase on the prior half.

At 30 September 2010, CAF managed a funded lease and loan portfolio of $A15.9 billion, an increase of 12 per cent from 31 March 2010. This growth was primarily due to the acquisition of new portfolios during the first half and expanded corporate lending activities.

The funded loan portfolio was $A7.0 billion at 30 September 2010, with additional funding commitments acquired of $A3.1 billion. The total of these funded and committed facilities has increased 11 per cent since 31 March 2010. The lending business provides bridging, term lending and asset-backed finance to mid to large corporate clients and also invests in select debt assets trading in secondary debt markets. As a result, CAF has developed a diversified corporate lending portfolio. In addition, all real estate lending activities (formerly part of Real Estate Banking Division) were consolidated within CAF during the first half.

The total leasing portfolio was $A8.9 billion at 30 September 2010, an increase of 26 per cent from 31 March 2010 following the acquisition of the aircraft leasing portfolio from International Lease Finance Corporation (ILFC) and the auto finance portfolio from GMAC, together with increased origination activity.

**Activity**

During the first half, CAF became an operating group of Macquarie and, as noted above, all real estate lending activities were consolidated within CAF. At 30 September 2010, CAF had 844 staff servicing over 240,000 clients in the corporate, government and retail sectors in 36 countries.

CAF acquired the GMAC auto finance portfolio worth approximately $A1 billion on 30 April 2010. This consolidated CAF's position as one of the largest providers of car finance in Australia, financing or managing more than 240,000 contracts. The acquisition also builds on Macquarie's 13 years of developing financial solutions for the motor vehicle leasing sector and extends this expertise to a broader market.

CAF's Macquarie Leasing completed the securitisation of $US500 million Australian automobile leases and loans on 14 July 2010. This was the first Australian-originated automobile securitisation marketed to US investors and was over-subscribed.

On 14 April 2010, CAF agreed to acquire from ILFC an aircraft operating lease portfolio consisting of 47 modern aircraft on lease to 35 airlines in 27 countries for $US1.7 billion. The acquisition builds on Macquarie's existing aircraft leasing expertise, further diversifying the client base of its aircraft fleet.

**Outlook**

CAF currently expects its result for the second half to be up on the first half, subject to market conditions. The group expects continued growth in the lease and loan portfolio under management and will continue to seek opportunities for growth through acquisitions. CAF expects continued growth in the leasing pipeline in some businesses and further opportunities to deploy the Group's balance sheet.

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1 Comparative figures have been restated for group restructures undertaken during the first half.
Results
The result from the Banking and Financial Services Group (BFS) for the half-year to 30 September 2010 was a net profit of $A137 million. This was in line with the prior corresponding period and a 10 per cent increase on the prior half. Profits remained stable despite continuing volatile markets and cautious investor sentiment.

BFS’ cash businesses continued to perform strongly with retail cash deposits increasing to $A26.5 billion at 30 September 2010 from $A15.5 billion at 31 March 2010. During the first half, the Cash Management Account (CMA) increased to more than $A14.6 billion from $A3.6 billion, driven by tailored offerings, competitive interest rates and importantly the transition to the CMA of the Macquarie Cash Management Trust.

Funds under administration (FUA) in Macquarie Wrap dropped by $A683 million to $A21.8 billion at 30 September 2010 from $A22.5 billion at 31 March 2010, as a result of volatile equity markets.

Activity
BFS continues to invest in its domestic businesses to ensure its core services and products are well placed for future growth.

During the first half, BFS successfully converted $A9.6 billion from the Macquarie Cash Management Trust to the on-balance sheet CMA, following overwhelming unitholder approval. Macquarie Adviser Services also drove a number of new initiatives with the resumption of Macquarie’s mortgage origination business in Australia; the introduction of model portfolios on Macquarie Wrap, providing pre-designed investment portfolios for investors; and the acquisition of the remaining 50 per cent stake of outsourced paraplanning business, Outplan. Macquarie Life launched Macquarie Life Active, an integrated product of total and permanent disability, life and trauma insurance covering all major health events. Macquarie Life Inforce risk insurance premiums increased 81 per cent on the prior corresponding period.

Macquarie Relationship Banking’s at call deposit volumes rose $A392 million, or 10 per cent, to $A4.2 billion since 31 March 2010. Average business banking term deposits rose by $A102 million to $A1.1 billion, an increase of 10 per cent over the same period.

Macquarie Private Wealth maintained its number one position as the leading full-service retail stockbroker in Australia in terms of volume and market share.

BFS finalised the integration of Macquarie Private Wealth Canada (formerly Blackmont Capital) in September 2010, with approximately 625 BFS staff now working in North America. The Canadian mortgage business continued to experience record approvals and funded loans with the overall portfolio surpassing $C7.8 billion, an increase of more than 26 per cent since 31 March 2010.

The Macquarie Professional Series’ Arrowstreet Global Equity Hedged Fund was named the Smart Investor winner in the Large Cap World Shares Fund category, while Macquarie Investment Management was named winner of the Fixed Interest (Diversified) category of the 2010 Money Management/Lonsec Fund Manager of the Year Awards.

Outlook
BFS currently expects its result for the second half to be comparable to the first half, subject to market conditions.

BFS will continue to invest in its businesses to maintain its market-leading position in the advice and intermediary markets and look for appropriate acquisition and partnership opportunities which offer differentiated wealth management solutions.
Results
The result from the Real Estate Banking Division (REB) for the half-year to 30 September 2010 was a net loss of $A25 million. This was 57 per cent lower than the loss in the prior corresponding period and 71 per cent lower than the loss in the prior half.

Activity
During the first half, REB’s finance and structured products business of approximately $A1 billion was transferred to the Corporate and Asset Finance Group.

Outlook
REB continues to manage its real estate investments while maintaining its focus on asset realisation over the short term and refinancing of existing developments.

1 Comparative figures have been restated for group restructures undertaken during the first half.
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