Macquarie Group Limited
ABN 94 122 169 279

No.1 Martin Place
Sydney NSW 2000
GPO Box 4294
Sydney NSW 1164
AUSTRALIA

Telephone (61 2) 8232 3333
Facsimile (61 2) 8232 7780
Internet http://www.macquarie.com.au

MACQUARIE

ASX/Media Release

MACQUARIE GROUP ANNOUNCES $A479M HALF YEAR PROFIT

Key points

- **Half year net profit after tax $A479m, up 79% on 2nd half FY09 (2H09), down 21% on the prior corresponding period (pcp)**
- **Operating income, before write-downs, impairments, equity accounted gains/(losses) and one-off items up 9% to $A3.5b on 2H09, down 11% on pcp**
- **Net impact of write-downs, impairments, equity accounted gains/(losses) and one-off items of ($A414m)**
- **Operating income, after write-downs, impairments, equity accounted gains/(losses) and one-off items up 21% to $A3.1b on 2H09, up 5% on pcp**
- **Employment expenses of $A1.5b, with compensation ratio rising to 45.2% from 41.4% in 2H09 and 40.1% in the pcp**
- **Continuing to move away from short-term wholesale issued paper, down from $A18.9b at 30 Sep 08 to $A4.5b at 30 Sep 09**
- **Capital of $A11.5b, $A4.5b in excess of Group's minimum regulatory capital requirement**
- **Annualised return on equity 10%, up from 6% for 2H09, down from 14% for pcp**
- **EPS $A1.50, up 60% on 2H09, down 31% on pcp**
- **Interim dividend $A0.86 per share unfranked**
- **All groups remain active and, with the exception of Real Estate Banking division, profitable**
- **Continued capital deployment for strategic acquisitions, business development and global expansion**

SYDNEY, 30 October 2009 – Macquarie Group Limited (ASX:MQG, ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders for the half year to 30 September 2009 of $A479 million, an increase of 79% on the prior half and a decrease of 21% on the prior corresponding first half period.

Macquarie Group Managing Director and Chief Executive Officer, Nicholas Moore, said: “Our first half result reflects improved market conditions and the diversification and global reach of our businesses. However, the result was impacted by a number of one-off items and equity accounted gains and losses resulting in a net charge of $A414m.”

“Each of our operating groups, with the exception of the Real Estate Banking division, remained profitable during the period.

“We foreshadowed that we would seek to expand our businesses through continued organic growth and acquisitions. We have made a number of strategic acquisitions and selective hires during this period. Initiatives included the acquisition of US funds manager Delaware Investments, US financial services sector specialist advisory firm Fox-Pitt Kelton Cochran Caronia Waller (FPK) and most recently (post balance date) the Canadian independent investment dealer Blackmont Capital.

“While we have deployed funding during the period, we have continued to maintain conservative and appropriate levels of capital and liquidity, which has had an impact on our earnings,” Mr Moore said.

The Group declared a first half dividend of $A0.86 per share unfranked, down from the $A1.45 (80% franked) per ordinary share dividend paid in the first half of the 2009 financial year and up from the $0.40 (60% franked) per share final 2009 dividend. The record date is 13 November 2009 and the dividend payment date is 16 December 2009.

This represents a payout ratio of 60 per cent, consistent with the dividend policy of maintaining an annual payout ratio in the range of 50 to 60 per cent of net earnings attributable to ordinary shareholders. The future rate of franking remains subject to the composition of income, although it is likely that distributions will be unfranked for the foreseeable future.

Acquisitions

Macquarie announced a number of strategic acquisitions during and after the period which brought new people, new teams and greater breadth to some of Macquarie’s existing key businesses:

- Delaware Investments: US based diversified asset management firm with over $US125b in assets under management (at 30 June 2009), providing investment management services to retail and institutional investors (approx 580 employees). This acquisition is due to close in early 2010

- Tristone Capital: Independent energy advisory firm providing fully integrated corporate finance, acquisitions and divestitures, equity capital markets, as well as sales, trading and research services (approx 170 employees)
- Fox-Pitt Kelton Cochran Caronia Waller: Financial services sector focussed on equities sales and trading, research, advisory and capital markets team (approx 260 employees). Completion is expected to occur at the end of 2009
- Blackmont Capital: Leading Canadian independent investment dealer (approx 450 employees including a network of more than 130 financial advisors) with $C7.6b in assets under administration. Blackmont offers a full range of investment services to retail clients. Completion is expected to occur in early 2010.

Reported assets under management (AUM) decreased by $A27b to $A216b mainly due to the strengthening of the Australian dollar since March. The pro-forma impact on AUM, taking into account the Delaware Investments acquisition and the MAp internalisation – both of which are anticipated to be finalised post balance date – resulted in a significant increase in AUM to approximately $A345b.[1]

Most operating groups continued selective hiring of individuals and teams with extensive industry experience. Hiring took place in newer businesses including credit trading in New York, equities in North America and Europe, and energy markets, fixed income and foreign exchange in the US and Europe.

These acquisitions and selective hires will continue to strengthen Macquarie's global presence and provide leverage for future growth.

Strong funding and balance sheet position

Macquarie Group has a long-term policy of holding a level of capital which efficiently supports our business. The capital base is grown ahead of our business requirements. Capital at 30 September 2009 was $A11.5b which was $A4.5b in excess of the Group's minimum regulatory capital requirement.

A $A1.2b equity raising was announced in May 2009 which included both an institutional placement and a retail Share Purchase Plan. This initiative further bolstered Macquarie's strong capital position.

[1] Delaware AUM included in total AUM figure is based on 30 June balance converted to AUD at 30 September 2009 exchange rate.

Mr Moore said: "Macquarie remained very well funded at 30 September 2009. We have continued to move away from short-term wholesale issued paper which was $A4.5b at September 2009, down from $A18.9b at September 2008."

Retail deposits increased from $A13.4b at 31 March 2009 to $A13.9b at 30 September 2009.

During the period, Macquarie issued $US1.5b of non-government guaranteed debt and was the first Australian financial institution to publicly issue unguaranteed term debt in the US market post the significant disruption to global financial markets in September 2008. Macquarie Bank Limited completed a tender offer for the Macquarie Income Preferred Securities securing approximately £158m out of a total of £200m.

Key drivers of the result

Macquarie Group Chief Financial Officer, Greg Ward, said: "During the half year, Macquarie's operating groups and divisions took advantage of opportunities arising from generally improving market conditions.

"The completion rate for mergers and acquisitions (M&A) and advisory was significantly lower than the prior corresponding period though in some sectors there was an improvement on the prior half. Activity in most regions for equity capital markets (ECM) was higher than both the prior half and the prior corresponding period. Trading conditions for cash equities improved during the period; market volumes in key markets were generally higher than the prior half, however, remained below the prior corresponding period (pcp).

"Metal prices recovered during the period, in particular the price of gold. Foreign exchange and energy market volumes were lower than pcp. Increased volatility in agricultural commodity markets resulted in an increase in hedging activity which was positive for Fixed Income, Currencies and Commodities.

"More recently, we have seen a reasonable level of confidence return to global markets which has resulted in improved equity and debt markets. The environment for funds management has improved, with increased liquidity in both the wholesale and retail markets," Mr Ward said.

There were one-off gains realised from some initiatives undertaken by the listed funds, including the internalisation of the management of Macquarie Airports and Macquarie Leisure Trust and the takeover by Canada Pension Plan Investment Board of Macquarie Communications Infrastructure

Group. One-off gains were also realised from the tender offer of Macquarie Income Preferred Securities and the buy-back of subordinated debt.

As foreshadowed at the full year results, the compensation ratio is returning to more normalised levels, rising to 45.2% from 41.4% in the prior half and 40.1% in the pcp. There was an increase in the effective tax rate to 7.0%, although this remains below historic levels due primarily to impairment charges.

Staff numbers were approximately 12,700 at 30 September, broadly in line with 31 March 2009 numbers and not including the staff from the recently announced acquisitions of Delaware, FPK and Blackmont.

Overall, earnings per share (EPS) for the half year was $A1.50, up 60% on the prior half year but down 31% on the previous corresponding period. Annualised return on equity was 10% for the half year, up from 6% for 2H09 but down from 14% for the previous first half.

Update on proposed changes to remuneration arrangements

Macquarie announced proposed changes to its remuneration arrangements on 31 March 2009. A copy of that announcement is attached as Appendix A.

Those proposed changes were deferred in June due to foreshadowed Legislative changes.

While Australian legislation is not yet finalised, Macquarie believes sufficient clarity now exists to progress its proposals and seek shareholder approval.

The proposals announced on 31 March will apply for 2009 except for the following two features where changes to the tax legislation have prevented Macquarie from proceeding:

- Options will not be granted to Executive Committee members. Instead, it is proposed that they be replaced by the issue of performance share units with performance hurdles;
- Under the revised transitional arrangements for pre-2009 retained profit share, Executive Directors will be given the choice of staying with the existing scheme or participating in the equity scheme announced on 31 March 2009, wholly or in part, with their retained profit share invested in equity vesting to them on a straight line basis over seven years (for Executive Committee) or five years (other Executive Directors). Given that Executive Directors may choose their participation level in the new scheme for pre-2009 retained profit share, the value applied to the grant of Macquarie shares is likely to be less than the $A500m estimate advised on 31 March 2009.

The equity participation is proposed to be provided via issue of new shares, on-market share purchases or a combination of both at the discretion of the Board and to be determined at the time having regard to all factors including prevailing market conditions. As publicly announced in the media release and the analyst briefing for the FY09 results on 1 May (Appendix B), the shares will be priced at the VWAP from 4 May 2009 to 29 July 2009. That price is $A36.36 as compared to the May 2009 Institutional Placement price of A$27.00 and the subsequent Share Purchase Plan price of $A26.60.

For the 2010 year, these proposed changes to Executive Directors' remuneration arrangements will apply to all members of the Executive Committee, members of the Operations Review Committee, and others who have a significant management or risk responsibility in the organisation. For other Executive Directors, 40% of their profit share will be retained, vesting from three to five years (previously 50% retained for three to seven years).

These changes are broadly consistent with global remuneration and regulatory trends.

Shareholder approval for the proposed changes is expected to be sought at a Special General Meeting currently planned for December 2009. The proposals will be detailed in the notice of meeting.

Outlook

Mr Moore said that while market conditions are improving, volatility means that short-term forecasting remains difficult.

"We currently expect the profit for the second half of 2010 to be broadly in line with the first half but this remains subject to market conditions and significant swing factors and excludes the impact of one-off items," he said.

Mr Moore noted that the first half benefitted from buoyant activity in certain areas including Australian ECM and credit businesses which may not continue as strongly in the second half.

Swing factors include the completion rate of transactions, asset realisations and asset prices. One-off items include factors such as the periodic review for potential impairment charges.

Mr Moore noted previously that FY10 trading was likely to be characterised by fewer one off items, a higher compensation ratio and increased effective tax rate consistent with historic levels, lower earnings on capital reflecting lower global interest rates and higher cost of funding.

For the balance sheet, FY10 is likely to be characterised by a decrease in cash balances as funds are deployed across the businesses, maintenance of equity investments at or below existing levels, and lower investment levels in listed funds.

“While there have been some improving trends in a number of major markets, overall we continue to maintain a cautious stance with a conservative approach to funding and capital. Our strong balance sheet, strong team and market conditions provide opportunities for medium term growth, building upon the strength, diversification and global reach of our businesses; ongoing organic growth initiatives and incremental acquisitions; and effective risk management,” Mr Moore said.

Half year result overview

Total operating income from ordinary activities for the period increased 21% on the prior half year and 5% on pcp to $A3.1b. Operating income before write-downs, impairments, equity accounted gains and losses and one-off items increased 9% on the prior half to $A3.5b but was down 11% on pcp.

Performance of operating groups during the half year:

- Macquarie Securities Group contributed $A319m, a decrease of 28% on pcp and a significant increase on the prior half due to improved trading conditions. The contribution from the Cash division was 35% up on pcp, with the Australian business retaining its No. 1 market share position (combining institutional and retail). ECM fees were well up on the prior half given the significant increase in the number of capital raisings particularly in the Australian market.

- Macquarie Capital contributed $A331m, a 9% increase on pcp and a significant increase on the prior half. Despite difficult market conditions, Macquarie Capital Advisers advised on 182 deals valued at $A57b. Equity under management declined six per cent from $53b at 31 March 2009 to $A50b at 30 September 2009. Assets under management decreased 18% from $160b at 31 March 2009 to $A131b at 30 September 2009, primarily as a result of the stronger Australian dollar and the sale of assets. Macquarie Capital Funds continues to focus on growing unlisted funds under management in both existing and new regions and sectors. Funds and strategic alliances have been established in new regions including India, Russia and China. Listed funds continue to progress strategic initiatives designed to maximise security holder value.

- Macquarie Funds Group contributed $A38m, a 9% increase on pcp and a significant increase on the prior half. The result was driven by increased fee income and performance of seed capital positions. Operating leverage obtained through a lower fixed cost base also contributed to the result. Since 31 March 2009, excluding Delaware investments, total AUM increased by 17% to $A58b, a result of inflows and mandates into cash and fixed interest as well as rising asset values.

- Fixed Income, Currencies and Commodities (previously Treasury and Commodities Group) contributed $A368m, an increase of 29% on pcp and an increase of 64% on the prior half with all operating divisions profitable. FICC's first half was heavily influenced by an overall improvement in market conditions. Metals and Energy Capital, Debt Markets, Emerging Markets and the US-based Credit Trading Division all reported strong results.

- Corporate and Asset Finance (CAF) contributed $A127m, a 135% increase on pcp and significantly up on the prior half, due to the acquisition and origination of loans and leases at high margins with quality credit counter-parties. At 30 Sep 2009, CAF managed a lease and loan portfolio of $A11.3b, an increase of 33% from 31 March 2009. The growth was largely driven by reduced competition as domestic and international financiers scaled-back or exited the market.

- The Real Estate Banking division reported a loss of $56m for the half year, 60% lower than the loss in the pcp and 75% lower than the loss in the prior half. Base and performance fee income from specific transactions was more than offset by losses realised on the sale of investments and the recognition of asset impairment losses. Assets under management decreased by 28% from $A14.8b at 31 March 2009 to $A10.7b at 30 September 2009. This decrease was largely due to asset devaluations in specific fund portfolios, asset dispositions and foreign exchange movements.

- The Banking and Financial Services Group contributed $A137m, a significant increase on pcp, which included the loss on the sale of the Italian mortgages business and an 83% increase on the prior half. The result was achieved due to improved market conditions, general business growth and increasing client numbers. Retail deposits grew from $A13.4b at 31 March 2009 to $A13.9b at 30 September 2009

Contacts:

Investor Relations

Stuart Green
+612 8232 8845

Media

Paula Hannaford
+612 8232 4102

Appendix A: Macquarie Group proposes changes to remuneration subject to shareholder approval

31 March 2009

The Board of Directors of Macquarie Group Limited (Macquarie) today announced changes to the Group's remuneration arrangements consistent with global remuneration and regulatory trends.

The proposed changes will be subject to approval by shareholders at the July 2009 AGM and will primarily apply to more than 300 of its most senior employees, the Executive Directors (EDs), including the Chief Executive Officer (CEO) and members of the Executive Committee. If approved by shareholders, the changes will apply to remuneration for the current year ended 31 March, 2009 as well as future years.

While the proposed changes reflect recent remuneration trends, they remain consistent with Macquarie's longstanding approach where staff profit share is linked to profitability and is individually assessed with regard to a variety of factors including contribution to profit, use of capital, funding and risk.

The proposals expand on modifications to remuneration announced in February 2008, which included an increase in the portion of performance-based profit share deferred and allocated as equity for the CEO and other members of the Group's Executive Committee. They further enhance staff and shareholder alignment. The key features of the changes are:

- **Profit share paid out in cash will be reduced and the percentage of retained profit share will be increased.**
  - For the CEO, as announced last year, the cash component of profit share will fall from 70% to 45%. 55% of profit share will be retained. Accordingly, approximately 60% of overall compensation (including options) will be retained.
  - For members of the Executive Committee (other than the CEO), the cash component of profit share will fall from 60% to 50%. 50% of profit share will be retained. Accordingly, approximately 55% of overall compensation (including options) will be retained.
  - For other EDs, the cash component of profit share will fall from 80% to 50%. The remaining 50% will be retained in the form of fully paid ordinary Macquarie shares and Macquarie-managed fund equity. EDs will not receive future option grants. Accordingly, on average the amount of retained overall compensation will increase from 38% to 50%.
- **The vesting and payout schedule for retained profit share has been changed.**
  - Currently for the CEO 35% of retained profit share vests after three years and 20% vests between five and ten years. In future all retained profit share will vest from three to seven years.
  - Currently for Executive Committee 20% of retained profit share vests after three years and 20% vests between five and ten years. In future all retained profit share will vest from three to seven years.
  - Currently for EDs, 20% of profit share vests between five and ten years. In future, the retained 50% of profit share will vest from three to seven years.
    Under the new proposal the vesting and payout periods will be aligned.
- **For EDs, retained profit share will be fully invested in a combination of fully paid ordinary Macquarie shares and Macquarie-managed fund equity.**
  - to reflect an individual executive's responsibilities.
  - to strengthen shareholder alignment for Macquarie and the Funds.
- **A departing ED's unvested retained profit share will only be paid out in the case of genuine retirement and will be subject to forfeiture provisions. The current six month period after which a departing ED's retained profit share is paid out will lengthen.**
  - Profit share from all but the last two years will be paid out after six months.
  - Profit share from two years ago will be paid out after one year.

  - Profit share from one year ago will be paid out after two years.

  - The payment of the last two years of a departing ED's unvested retained profit share will be subject to forfeiture if it is found that the individual has acted in a way that damages Macquarie Group, including but not limited to acts that lead to a material financial restatement, a significant financial loss or any significant reputational harm to the Group or its businesses.

- **There will be a transitional arrangement that will align the old and new schemes. The required retained balances for the new scheme will be calculated. Any surplus in retained funds will be invested in fully paid ordinary Macquarie shares and will vest in approximately one year's time.**

- **For all staff other than EDs, any retained profit share will be delivered in future in fully paid ordinary Macquarie shares. No changes are proposed to the vesting or retention arrangements for these staff.**

- **Overall, new options granted will be substantially reduced.**

If approved by shareholders, it is currently estimated that approximately $500 million of primarily prior years' and some current year retained profit share will be applied to the grant of fully paid ordinary Macquarie shares in 2009. The Macquarie equity participation is proposed to be provided via issue of new shares, on-market share purchases or a combination of both at the discretion of the Board and to be determined at the time having regard to all factors including prevailing market conditions.

Equity participation satisfied through the issue of new shares will result in a corresponding increase in capital. Equity participation satisfied through shares purchased on market would result in an initial reduction of capital. There is no impact on the 2009 full year result as a consequence of the proposal. If the proposal is approved by shareholders, the impact of the new arrangements will be brought to account over the vesting period in accordance with International Financial Reporting Standards. The net impact on the profit and loss over time is nil.

Further details of the proposed new arrangements will be provided in Macquarie's 2009 Annual Report and the Notice of Meeting for the 2009 AGM.

Appendix B: Extract from 1 May 2009 full year results ASX release

Update on changes to remuneration arrangements

On 31 March, the Board of Directors of Macquarie announced changes to the Group's remuneration arrangements consistent with global remuneration and regulatory trends.

The proposed changes will be subject to approval by shareholders at the July 2009 AGM.
As part of the proposed changes, it was estimated that approximately $A500m of prior years' retained profit share would be applied to the grant of fully paid ordinary Macquarie shares in 2009.

The Macquarie equity participation was proposed to be provided via issue of new shares, on-market share purchases or a combination of both at the discretion of the Board.

The Board of Directors of Macquarie has now resolved that the approximately $A500m of Macquarie equity will be provided through the issue of new shares.

The shares are proposed to be priced at the volume weighted average price (VWAP) of Macquarie shares for the period from 4 May to the AGM on 29 July 2009.