MACQUARIE GROUP LIMITED

APPENDIX 4E PRELIMINARY FINAL REPORT
FINANCIAL YEAR ENDED 31 MARCH 2011

MACQUARIE

ACN 122 169 279

Macquarie Group Limited

Appendix 4E Preliminary final report for the financial year ended 31 March 2011

1 Details of the reporting period and the previous corresponding period

Current period: 1 April 2010 to 31 March 2011

Previous corresponding period: 1 April 2009 to 31 March 2010

2 Results for announcement to the market

	Key information	2011 $m	2010 $m	Change %
2.1	Net operating income	7,644	6,638	15%
2.2	Profit after income tax	989	1,093	-10%
2.3	Profit attributable to ordinary equity holders of Macquarie Group Limited	956	1,050	-9%

	Dividends per ordinary share	Amount per security	Franked amount per security
2.4	Interim dividend[1]	86 cents	Nil
	Final dividend (resolved, not yet provided at 31 March 2011)[1]	100 cents	Nil

[1] The entire dividend is Conduit Foreign Income.

2.5 Record date for determining entitlements to the dividends

The record date for the final dividend is 13 May 2011.

2.6 Commentary

Review of operations and financial result

Profit attributable to ordinary equity holders of $956 million for the year ended 31 March 2011 decreased nine per cent from $1,050 million in the prior year. Net profit for the second half of the year of $553 million increased 37 per cent from $403 million in the six months to 30 September 2010. Recently acquired businesses, including Sal. Oppenheim, Macquarie Private Wealth Canada and Delaware Investments, contributed to increases in both operating income and operating expenses.

Net operating income of $7,644 million for the year ended 31 March 2011 increased 15 per cent from $6,638 million in the prior year. The main drivers of this increase were:

- an 18 per cent increase in net interest income to $1,275 million for the year ended 31 March 2011 from $1,080 million in the prior year driven by an increase in corporate lending volumes, recent acquisitions of leasing portfolios and improved margins
- equity accounted income from investments in associates and joint ventures of $179 million for the year ended 31 March 2011, up from a net loss of $230 million in the prior year driven by an improvement in the underlying results of investments. In addition, the prior year included equity accounted losses of $82 million relating to fees paid by MAp Group, Southern Cross Media Group and Macquarie Infrastructure Group to terminate management agreements with Macquarie, and
- a 21 per cent increase in other operating income to $931 million for the year ended 31 March 2011 from $768 million in the prior year driven by a 76 per cent increase in net operating lease income from $138 million in the prior year to $243 million for the year ended 31 March 2011 and a significant increase in dividends/distributions received/receivable on investment securities available for sale from $22 million in the prior year to $126 million for the year ended 31 March 2011. In addition, there was a significant reduction in write-downs and impairment charges from an expense of $686 million for the prior year to a net expense of $258 million for the year ended 31 March 2011.

Total operating expenses of $6,373 million for the year ended 31 March 2011 increased 19 per cent from $5,344 million in the prior year. The increase was largely driven by:

- a 25 per cent increase in employment expenses to $3,890 million for the year ended 31 March 2011 from $3,101 million in the prior year, which was due to the full year impact of acquisitions that contributed to a 17 per cent increase in average headcount. The increase in employment expenses resulted in a compensation ratio of 47.3 per cent for the year ended 31 March 2011, up from 42.9 per cent in the prior year, and
- a 22 per cent increase in brokerage and commission expenses to $785 million from $645 million in the prior year mainly due to the full year contribution of Delaware Investments.

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2.6 **Commentary** continued

Review of operations and financial result continued

Income tax expense for the year ended 31 March 2011 of $282 million increased 40 per cent from $201 million in the prior year mainly as a result of reduced levels of write-downs and impairment charges. The effective tax rate of 22.8 per cent for the year ended 31 March 2011 increased from 16.1 per cent in the prior year.

Review of financial position

The Consolidated Entity's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained. Cash and liquid assets increased from $22 billion at 31 March 2010 to $26 billion at 31 March 2011. Cash and liquid asset holdings represent approximately 30 per cent of the Consolidated Entity's net funded assets.

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for the whole Macquarie Group, including the Non-Banking Group. Macquarie and APRA have agreed a capital adequacy framework for MGL, based on Macquarie's Board-approved Economic Capital Adequacy Model (ECAM) and APRA's capital standards for ADIs.

MGL's capital adequacy framework requires it to maintain minimum regulatory capital requirements calculated as the sum of the dollar value of:

– The Banking Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards), and
– The Non-Banking Group capital requirement, calculated using Macquarie's ECAM.

The Consolidated Entity has satisfied its externally imposed capital requirements throughout the year. At 31 March 2011, the Macquarie Banking Group had a Tier 1 Capital Ratio of 10.7 per cent and a Total Capital Ratio of 12.4 per cent. The Consolidated Entity remains well capitalised with $3.0 billion of eligible capital in excess of the minimum regulatory capital requirements.

Events subsequent to balance sheet date

There were no material events subsequent to 31 March 2011 that have not been reflected in the financial statements.

Refer to the March 2011 Result Announcement for further details.

3 **Consolidated income statement**

Refer to the 2011 Financial Report.

4 **Consolidated statement of financial position**

Refer to the 2011 Financial Report.

5 **Consolidated statement of cash flows**

Refer to the 2011 Financial Report.

6 **Consolidated statement of changes in equity**

Refer to the 2011 Financial Report.

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7 Dividend details

	2011 $m	2010 $m
Ordinary share capital		
2011 interim dividend:		
86 cents (2010: 86 cents) per share – paid 15 December 2010 (2010: 16 December 2009)[1]	296	287
2010 final dividend:		
100 cents (2009: 40 cents) per share – paid 2 July 2010 (2009: 3 July 2009)[2]	344	122
Dividends provided for[3]	3	–

[1] Interim dividend paid by the Consolidated Entity includes $1 million (2010: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. as described in the 2011 Financial Report, note 31 – Contributed equity.

[2] Final dividend paid by the Consolidated Entity includes $1 million (2010: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. as described in the 2011 Financial Report, note 31 – Contributed equity.

[3] Dividends provided for by the Consolidated Entity relate to the dividend on the exchangeable shares issued as consideration for the acquisition of Tristone Capital Global Inc. The dividends are payable within 60 days following the second anniversary of the closing date of acquisition.

The final dividend paid during the financial year ended 31 March 2011 was unfranked (2010: 60 per cent franked at the 30 per cent corporate tax rate). The entire unfranked portion of the dividend was Conduit Foreign Income.

There is no provision for the final dividend in respect of the financial year ended 31 March 2011. Provisions for dividends to be paid by the Company are recognised on the balance sheet as a liability and a reduction in retained earnings when the dividend has been declared.

Since the end of the financial year, the Directors have resolved to pay a final dividend for the financial year ended 31 March 2011 of $1.00 per fully paid ordinary Macquarie Group Limited share on issue on 13 May 2011 (estimated to be $347 million). The dividend will be unfranked and is proposed to be paid on 4 July 2011. The entire dividend is Conduit Foreign Income.

Macquarie Income Securities

Distributions paid during the financial year ended 31 March 2011 (net of distributions previously provided for) were $20 million (2010: $16 million). Distributions provided for at 31 March 2011 were $6 million (2010: $5 million) which were paid on 15 April 2011.

Macquarie Income Preferred Securities

Distributions paid during the financial year ended 31 March 2011 (net of distributions previously provided for) were $2 million (2010: $6 million). Distributions provided for at 31 March 2011 were $2 million (2010: $2 million) which were paid on 15 April 2011.

The Macquarie Income Preferred Securities and Macquarie Income Securities represent the non-controlling interests of a subsidiary. Accordingly, the distributions paid/provided in respect of these are recorded as a movement in non-controlling interests.

8 Dividend or distribution reinvestment plan details

The Company's Dividend Reinvestment Plan (DRP) remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. Shares issued under the DRP will rank pari-passu with other ordinary shares already on issue. The issue price will be determined in accordance with the DRP rules as the arithmetic average of the daily volume weighted average market price of all Macquarie Group shares sold through a normal trade on the ASX automated trading system over the five business days commencing on the second business day after the record date. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Election notices for participation in the DRP in relation to the final dividend to be paid on 4 July 2011 must be received by the registry by 5:00 pm on the record date (13 May 2011) to be effective for that dividend.

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9 Net tangible assets per ordinary share

Security	2011 $	2010 $
Ordinary shares	26.16	25.82

Net tangible assets includes intangibles (net of associated deferred tax assets and deferred tax liabilities) within assets and disposal groups held for sale.

Excluding intangible assets within held for sale businesses, the net tangible assets per ordinary share for the financial year ended 31 March 2011 was $26.16 (2010: $25.82).

10 Control gained or lost over entities in the financial year, and those having material effect

Name of entities where control was gained in the financial year	Date control gained
Sal. Oppenheim	7 April 2010
Macquarie AirFinance	1 November 2010

The above businesses did not contribute materially to the Consolidated Entity's profit after income tax.

Name of entities where control was lost in the financial year	Date control lost
Macquarie Asset Leasing Trust	26 November 2010

The above businesses did not contribute materially to the Consolidated Entity's profit after income tax during the period it was controlled.

11 Investments in associates and joint ventures

Material interests in associates and joint ventures are as follows:

Name	Ownership interest (%)
Classified as associates and joint ventures accounted for using the equity method	
BrisConnections Unit Trusts	46
Diversified CMBS Investments Inc	57
Macquarie Goodman Japan Limited	50
MGPA Limited	56
Miclyn Express Offshore Limited	34
Redford Australian Investment Trust	29
Southern Cross Media Group	25
Classified as associates and joint ventures held for sale	
Retirement Villages Group	10
Soria Finance Co	22

The Consolidated Entity recognised profits of associates and joint ventures accounted for using the equity method of $179 million in the financial year ended 31 March 2011 (2010: $230 million losses).

12 Other significant information

For more detailed information on the Consolidated Entity’s financial performance and financial position, refer to the 2011 Management Discussion and Analysis.

13 Foreign entities, applicable accounting standards used

Not applicable.

14 Commentary on results for the financial year

Refer to the 2011 Management Discussion and Analysis.

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15 Statement as to whether the Financial Report has been audited

The Financial Report has been audited. The audit opinion is unqualified.

16 Statement if Financial Report is not audited

Not applicable.

17 Statement if Financial Report is subject to dispute or qualification

The Financial Report is not subject to dispute or qualification.