MACQUARIE GROUP LIMITED

APPENDIX 4E PRELIMINARY FINAL REPORT
FINANCIAL YEAR ENDED 31 MARCH 2012

MACQUARIE

ACN 122 169 279

Macquarie Group Limited

Appendix 4E Preliminary final report for the financial year ended 31 March 2012

1 Details of the reporting period and the prior corresponding period

Current period: 1 April 2011 to 31 March 2012

Prior corresponding period: 1 April 2010 to 31 March 2011

2 Results for announcement to the market

	Key information	2012 $m	2011 $m	Change %
2.1	Net operating income	**6,963**	7,665	(9)
2.2	Profit after income tax	**762**	989	(23)
2.3	Profit attributable to ordinary equity holders of Macquarie Group Limited	**730**	956	(24)

2.4	Dividends per ordinary share	Amount per security	Franked amount per security
	Interim dividend	**65 cents**	**Nil**
	Final dividend (resolved, not yet provided for at 31 March 2012)[1]	**75 cents**	**Nil**

[1] The entire dividend will be Conduit Foreign Income.

2.5 Record date for determining entitlements to the dividends

The record date for the final dividend is 11 May 2012.

2.6 Commentary

Review of operations and financial result

Profit attributable to ordinary equity holders of $A730 million for the year ended 31 March 2012 decreased 24 per cent from $956 million in the prior year. Challenging global market conditions, in particular during the first half of the year, resulted in lower operating income compared with the prior year. The impact was partially offset through lower operating expenses resulting from factors including a number of cost initiatives undertaken during the period and lower staff profit share expense.

The second half of the year saw improved market conditions for our Fixed Income, Currencies and Commodities business, which made a strong contribution during the half and was a key driver in the 39 per cent increase in profit attributable to ordinary equity holders to $425 million in the half-year to 31 March 2012 from $305 million in the prior period.

Net operating income of $6,963 million for the year ended 31 March 2012 decreased 9 per cent from $7,665 million in the prior year. The main drivers of this change were:

- a 14 per cent decrease in fee and commission income to $3,364 million for the year ended 31 March 2012 from $3,891 million in the prior year with weak investor confidence and increased market volatility adversely impacting fee income from mergers, acquisition, advisory and underwriting transactions as well as a decrease in brokerage and commissions income, particularly in cash equities as a result of weaker levels of activity;
- a 25 per cent decrease in net trading income to $1,035 million for the year ended 31 March 2012 from $1,389 million in the prior year largely driven by continued weak product demand for retail and structured products on derivatives revenues. In the first half of the year extreme volatility in credit and financial markets, compounded by concerns over global growth, resulted in a decrease in trading income from interest rate products. The second half saw improved market conditions across the markets in which Fixed Income, Currencies and Commodities operates, which resulted in a significant increase in trading income in the half-year ended 31 March 2012 compared to the first half of the year;
- a 21 per cent increase in other net operating income and charges to $1,123 million for the year ended 31 March 2012 from $931 million in the prior year. The increase was due to receipt of a special distribution[1] from Sydney Airport (formerly MAp Group) of $295 million ($0.80 per unit) in December 2011;
- growth in net operating lease income which was largely attributable to the acquisition of 44 aircraft assets and associated leases from International Lease Finance Corporation, the full year impact of the acquisition of the remaining 62.5 per cent of Macquarie AirFinance, an aircraft leasing business with 91 aircraft assets and associated leases, in November 2010, and the acquisition of OnStream UK, a utility metering services business, in October 2011; and
- partially offsetting these were increased impairment charges and lower income from the sale of equity investments.

[1] The special distribution received in December 2011 from Sydney Airport (formerly MAp Group) refers to the cash received as part of its restructure following asset sales.

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2.6 Commentary (continued)

Total operating expenses of $5,914 million for the year ended 31 March 2012 decreased 8 per cent from $6,394 million in the prior year. The decrease was in part driven by the impact of cost management initiatives and business rationalisation activities that are primarily responsible for a 9 per cent reduction in headcount from 15,556 at 31 March 2011 to 14,202 at 31 March 2012. Operating expenses were also favourably impacted by the stronger Australian Dollar compared to the prior year.

The impact of the stronger Australian Dollar, reduced headcount and lower staff profit share expense due to lower earnings, were partially offset by increased costs associated with targeted growth in certain businesses and the costs of scaling back or exiting certain businesses. Overall this resulted in an 8 per cent decrease in employment expenses to $3,560 million for the year ended 31 March 2012 from $3,890 million in the prior year. The compensation ratio of 47.9 per cent for the year ended 31 March 2012 increased from 47.1 per cent in the prior year largely due to the reduction in operating income.

Income tax expense for the year ended 31 March 2012 of $287 million increased 2 per cent from $282 million in the prior year. The effective tax rate for the year ended 31 March 2012 was 28 per cent, up from 23 per cent in the prior year, largely due to changes in the mix and location of income.

Earnings per share

Earnings per share was 210.1 cents per share for the year ended 31 March 2012, a decrease of 26% from 282.5 cents per share in the prior year. The decrease was driven by the decrease in the profit attributable to ordinary equity holders.

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 decreased to $23 billion at 31 March 2012 from $26 billion at 31 March 2011. Cash and liquid asset holdings represent approximately 27 per cent of the Consolidated Entity's net funded assets.

As an Australian Prudential Regulation Authority (APRA) authorised and regulated NOHC, 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 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 regulatory capital requirements throughout the year. At 31 March 2012, the Macquarie Banking Group had a Tier 1 Capital Ratio of 13.8% and a Total Capital Ratio of 16.6%. The Consolidated Entity remains well capitalised with $4.3 billion of eligible capital in excess of the minimum regulatory capital requirements.

2.7 Events subsequent to balance sheet date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2012 not otherwise disclosed in this report. Refer to the 31 March 2012 result announcement for further details.

3 Consolidated income statement

Refer to the 2012 Financial Report.

4 Consolidated statement of financial position

Refer to the 2012 Financial Report.

5 Consolidated statement of cash flows

Refer to the 2012 Financial Report.

6 Consolidated statement of changes in equity

Refer to the 2012 Financial Report.

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7 Dividend details

	2012 $m	2011 $m
Ordinary share capital		
2012 interim dividend:		
65 cents (2011: 86 cents) per share – paid 14 December 2011 (2011: 15 December 2010)[1]	**224**	296
2011 final dividend:		
100 cents (2010: 100 cents) per share – paid 4 July 2011 (2010: 2 July 2010)[2]	**346**	344
Dividends provided for[3]	**2**	3

[1] The interim dividend paid by the Consolidated Entity includes $nil (2011: $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 2012 Financial Report, note 31 – Contributed equity.

[2] The final dividend paid by the Consolidated Entity includes $1 million (2011: $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 2012 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 final dividend paid during the financial year ended 31 March 2012 was unfranked (31 March 2011: unfranked). 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 2012. 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 resolved.

Since the end of the financial year, the Directors have resolved to pay a final dividend for the financial year ended 31 March 2012 of $0.75 per fully paid ordinary Macquarie Group Limited share on issue on 11 May 2012. The estimated amount of the dividend is $263 million in aggregate (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares). The dividend will be unfranked and is proposed to be paid on 2 July 2012. The entire dividend will be Conduit Foreign Income.

Macquarie Income Securities

Distributions paid during the financial year ended 31 March 2012 (net of distributions previously provided for) were $21 million (2011: $20 million). Distributions provided for at 31 March 2012 are $5 million (2011: $6 million) which were paid on 16 April 2012.

Macquarie Income Preferred Securities

Distributions paid during the financial year ended 31 March 2012 (net of distributions previously provided for) were $2 million (2011: $2 million). Distributions provided for at 31 March 2012 are $2 million (2011: $2 million) which were paid on 16 April 2012.

The Macquarie Income Preferred Securities and Macquarie Income Securities represent the non-controlling interests of a subsidiary. Accordingly, the distributions paid/provided for 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 allocated under the DRP will be acquired on market and rank pari-passu with other ordinary shares already on issue. The allocation 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 trading system over the five business days commencing on the fourth 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 2 July 2012 must be received by the registry by 5:00 pm on the record date (11 May 2012) to be effective for that dividend.

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9 Net tangible assets per ordinary share

Security	2012 $	2011 $
Ordinary shares	**28.12**	28.91

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 2012 was $28.12 (2011: 28.91).

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
Utility Metering Services Limited	24 October 2011

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

Name of entities where control was lost in the financial year

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

11 Investments in associates and joint ventures

Name	Ownership interest (%)
Material interests in associates and joint ventures are as follows:	
Classified as associates and joint ventures using the equity method	
BrisConnections Unit Trusts	**46**
Macquarie Goodman Japan Limited	**50**
MGPA Limited	**56**
Miclyn Express Offshore Limited	**33**
Redford Australian Investment Trust	**29**
Southern Cross Media Group	**25**
Classified as associates held for sale	
Retirement Villages Group	**10**
American Manufactured Communities REIT Inc	**53**

The Consolidated Entity recognised profits of associates and joint ventures using the equity accounting method of $108 million in the financial year ended 31 March 2012 (2011: $179 million).

12 Other significant information

On 27 April 2012 Macquarie announced that the Board has resolved to purchase shares on market to satisfy the MEREP (Macquarie Group Employee Retained Equity Plan) requirements of approximately $A275 million. In addition, shares for the 2H12 DRP are to be acquired on market.

Once the acquisition of the MEREP and DRP shares has been completed, the Group will buy back up to $A500 million of Macquarie Group Limited shares, subject to market conditions and the Macquarie Group share price. All of these share acquisitions have received the appropriate regulatory approval. Once the above capital management actions have been completed, and subject to market conditions and the Macquarie share price, it remains Macquarie's intention, subject to regulatory approval, to continue the buyback for a total of up to 10 per cent[2] of MGL ordinary shares.

For more detailed information on the Consolidated Entity's financial performance, financial position and segment results, refer to the 31 March 2012 Management Discussion and Analysis.

[2] Inclusive of the initial buyback.

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13 Foreign entities, applicable accounting standards used

Not applicable.

14 Commentary on results for the financial year

Refer to the 31 March 2012 Management Discussion and Analysis.

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 review dispute or qualification

The Financial report has been subject to review, and is not subject to dispute or qualifications.