

# MACQUARIE GROUP LIMITED

## Interim Update

### Half year ended 30 September 2014

## Chairman and Managing Director's report

### Result overview

Macquarie Group (Macquarie) recorded a net profit after tax attributable to ordinary shareholders of \$A678 million for the half year to 30 September 2014, up 35 per cent on the prior corresponding period<sup>1</sup> and down 11 per cent on the prior half<sup>2</sup>. The net profit increase for the half year to 30 September 2014 compared to the prior corresponding period was stronger than previously expected given the timing of transactions.

Macquarie's annuity-style businesses – Macquarie Funds Group (MFG), Corporate and Asset Finance Group (CAF) and Banking and Financial Services Group (BFS) – continued to perform well, with a combined net profit contribution<sup>3</sup> up on the prior corresponding period and the prior half. MFG benefited from strong annuity base fee income and a significant increase in performance fees, while CAF's higher profit contribution was largely driven by increased income earned from early repayments, the sale of loan assets and a gain on disposal of operating lease assets. BFS experienced continued volume growth across its mortgage business and Wrap platform, as well as business lending and deposits.

Macquarie's capital markets facing businesses – Macquarie Securities Group (MSG), Macquarie Capital and Fixed Income, Currencies and Commodities (FICC) – delivered a combined net profit contribution up on the prior corresponding period but down on the prior half, which benefited from strong results in the Energy Markets business. MSG's net profit contribution was down on the prior corresponding period, due mainly to technology costs associated with additional regulatory compliance requirements and the exit of the Structured Products business. Macquarie Capital benefited from the continued global improvement in mergers and acquisitions (M&A) and equity capital markets (ECM) activity. FICC improved returns across its commodities and credit, interest rates and foreign exchange platforms, while equity impairments were significantly down on the prior corresponding period.

Net operating income of \$A4.3 billion was up 17 per cent on the prior corresponding period and down three per cent on the prior half, while operating expenses of \$A3.2 billion were up 11 per cent on the prior corresponding period and in line with the prior half.

The effective tax rate of 38.9 per cent was broadly in line with the full year ended 31 March 2014.

<sup>1</sup> Prior corresponding period refers to the six months to 30 September 2013.

<sup>2</sup> Prior half refers to the six months to 31 March 2014.

The key features of the result are outlined in the table below.

	30 September 2014	Change on pcp	Change on prior half
Net profit	\$A678m	35%	-11%
Operating income	\$A4.3b	17%	-3%
Operating expenses	\$A3.2b	11%	1%
Effective tax rate	38.9%	Up from 38.0%	Down from 40.5%
Earnings per share	\$A2.13	42%	-9%
Return on equity (annualised)	12.5%	Up from 8.7%	Down from 13.5%
Dividend per share	\$1.30	Up from \$A1.00	Down from \$A1.60 <sup>4</sup>
Assets under management	\$A425b	11%	In line

### Operating group performance

**Macquarie Funds Group** (MFG) delivered a net profit contribution of \$A785 million for the half year to 30 September 2014, up 57 per cent on the prior corresponding period. MFG generated strong annuity base fee income and a significant increase in performance fees, earned predominantly from Macquarie European Infrastructure Fund 1, Macquarie Infrastructure Company and Macquarie Atlas Roads. Assets under management of \$A423 billion remained broadly in line with 31 March 2014, with investments and positive valuation movements in Macquarie Infrastructure and Real Assets (MIRA) as well as favourable foreign exchange and market movements in Macquarie Investment Management (MIM) offsetting the impact of the formation of the Jackson Square Partners joint venture, the management buyout of the MIM Private Markets business and other asset disposals. MIRA raised \$A4.1 billion in new equity commitments and invested \$A3.4 billion of equity across the world. MIM launched multiple new funds and continued its strong investment performance. Macquarie Specialised Investment Solutions continued to grow its infrastructure debt management business and raised approximately \$A600 million for Australian capital protected investments and specialist funds.

<sup>3</sup> Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

<sup>4</sup> In addition, eligible shareholders benefited from the Sydney Airport distribution in January 2014 which comprised a special dividend of \$A1.16 (40 per cent franked) and a return of capital of \$A2.57 per share.