

Directors' Report

for the half-year ended 30 September 2014

continued

Fixed Income, Currencies and Commodities provides a variety of trading, risk management, sales, structuring, financing and market analysis and strategy services.

Fixed Income, Currencies and Commodities delivered a net profit contribution of \$A250 million for the half-year to 30 September 2014, up 23 per cent on the prior corresponding period. The result reflected improved income across the commodities and credit, interest rates and foreign exchange platforms and significantly lower impairments. Subdued mining equity markets and low prices in metals and bulk commodities continued to impact the timing of asset realisations and new project financings. Commodities trading income rose, underpinned by continued growth in the financing and trading of physical commodities, while lower levels of volatility in certain markets impacted client hedging activity. Volatility and volumes improved in foreign exchange markets. The credit environment was mixed, however, debt origination and issuances continued to increase in the UK and Europe.

Business strategies

Macquarie's core business involves leveraging the deep expertise and insight of its people to deliver value to clients in selected areas of financial services.

The business strategy is to focus on the medium term and is built on: providing services to clients; aligning the interests of shareholders, investors and staff; utilising a conservative approach to risk management; continuing to focus on growth and evolution; diversifying by business and geography; and adapting to change. This approach provides flexibility to enter into new business sectors and regions as opportunities emerge and to expand existing businesses in selective areas of expertise.

Macquarie seeks to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating level. However, equity, credit, market, liquidity, compliance and operational risks are centrally managed by the Risk Management Group, whose responsibility is to implement appropriate assessment and management policies in respect of these risks throughout the Group.

Macquarie's business has evolved and changed to adapt to market conditions. Macquarie examines investment opportunities and has undertaken a number of strategic acquisitions in response to changing market conditions and opportunities. Macquarie will continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth and diversification in its existing businesses in the medium term.

Prospects for future financial years

While the impact of future market conditions makes forecasting difficult, the Group continues to expect that the combined net profit contribution from operating groups for the financial year ending 31 March 2015 will be up on the financial year ended 31 March 2014, offsetting the gain relating to the SYD distribution realised in the financial year ended 31 March 2014.

The tax rate for the financial year ending 31 March 2015 is currently expected to be broadly in line with the financial year ended 31 March 2014.

Accordingly, the Group's result for the financial year ending 31 March 2015 is currently expected to be slightly up on the financial year ended 31 March 2014.

The Group's short term outlook remains subject to a range of challenges including market conditions, the impact of foreign exchange, the cost of its continued conservative approach to funding and capital, and potential regulatory changes and tax uncertainties.

Macquarie remains well positioned to deliver superior performance in the medium term due to its deep expertise in major markets, strength in diversity and ability to adapt its portfolio mix to changing market conditions, the ongoing benefits of continued cost initiatives, a strong and conservative balance sheet, and a proven risk management framework and culture.

Events after the reporting period

Except as disclosed in note 21 to the financial statements, there were no material events subsequent to 30 September 2014 that have not been reflected.

Interim dividend

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2014 of \$A1.30 per fully paid ordinary MGL share on issue at 14 November 2014. The dividend will be 40 per cent franked and paid on 16 December 2014.