



MACQUARIE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED 31 MARCH 2008



Cover image: China Railway Construction Corporation

Founded in 1948, China Railway Construction Corporation Limited (CRCC) has built railways, highways, expressways, water conservation and electric power stations, large-scale airports, urban underground projects and industrial and civil buildings.

Operating in China and overseas with assets of more than \$A24 billion, CRCC has approximately 180,000 staff and over 28 subsidiaries.

Macquarie Capital acted as the joint global co-ordinator, joint bookrunner, joint lead manager and joint sponsor for the company's Hong Kong Initial Public Offer (IPO) of shares in March 2008. CRCC raised \$A6.2 billion (\$US5.7 billion) selling shares in Hong Kong and China (Shanghai Stock Exchange). The Hong Kong Public Offer generated more public demand than any other in the history of Hong Kong's capital markets, and the total raised makes it the largest IPO in the Asia-Pacific region in 2008 year to date.

Cover photograph Getty Images

The Holey Dollar

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for the Macquarie Group.



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Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current financial period.

All amounts in this report are in Australian dollars, unless otherwise stated. Movements over 300% are denoted as 'large' in the tables in this report.

Periods prior to the 2005 financial year are reported under previous AGAAP, unless otherwise stated.

During February 2008, the Financial Services Group and Banking and Securitisation Group were integrated to form the Banking and Financial Services Group. For the purposes of this report, these operating groups are reported separately.

Extractions from the Financial Report

The financial information within the income statement in section 1.1 and balance sheet in section 3.1 have been extracted from the Macquarie Group Limited financial report for the year ended 31 March 2008, which has been audited by PricewaterhouseCoopers and their Independent Auditor's Audit Report dated 19 May 2008 was unqualified.

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Financial Highlights

1.1 Result Overview

Income statement

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Net interest income	294	523	(44)	817	728	12
Fee and commission income	2,167	2,478	(13)	4,645	3,540	31
Net trading income	992	843	18	1,835	1,047	75
Asset and equity investment income	29	810	(96)	839	1,755	(52)
Other income	56	56	—	112	111	1
Total operating income	3,538	4,710	(25)	8,248	7,181	15
Employment expenses	(1,757)	(2,420)	(27)	(4,177)	(3,733)	12
Brokerage and commission expenses	(389)	(313)	24	(702)	(421)	67
Other expenses	(560)	(604)	(7)	(1,164)	(1,099)	6
Total operating expenses	(2,706)	(3,337)	(19)	(6,043)	(5,253)	15
Profit before income tax	832	1,373	(39)	2,205	1,928	14
Income tax expense	(44)	(273)	(84)	(317)	(377)	(16)
Profit after income tax	788	1,100	(28)	1,888	1,551	22
Minority interest	(27)	(24)	13	(51)	(57)	(11)
Profit after income tax attributable to equity holders	761	1,076	(29)	1,837	1,494	23
Distributions paid or provided on Macquarie Income Securities	(18)	(16)	13	(34)	(31)	10
Profit after income tax attributable to ordinary equity holders	743	1,060	(30)	1,803	1,463	23

Earnings per share

	Cents per share			Cents per share		
	Mar 08	Sep 07	Movement	Mar 08	Mar 07	Movement
Basic earnings per share	271.3	401.8	(32)	670.6	591.6	13
Diluted earnings per share	267.1	387.5	(31)	653.5	569.8	15

Key ratios

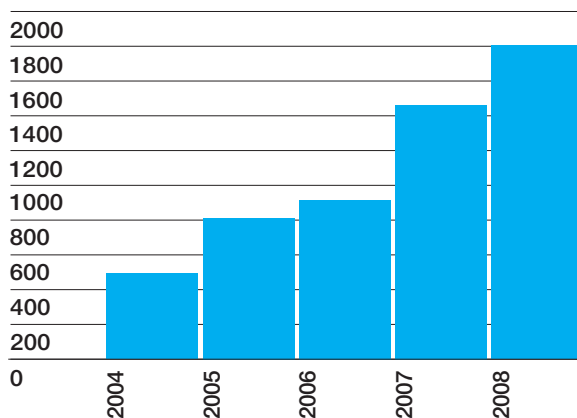
	Mar 08	Sep 07	Mar 08	Mar 07
Expense to income ratio (refer Glossary)	76.5	70.8	73.3	73.2
Return on equity (refer Glossary)	18.1	30.2	23.7	28.1

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Financial Highlights

continued

Profit after income tax attributable to ordinary equity holders
\$ million year ended 31 March



Consolidated net profit after income tax (NPAT) attributable to ordinary equity holders for the year to 31 March 2008 was \$1,803 million, a 23% increase on the prior year. The result was achieved after a \$293 million write-down of holdings in listed real estate investments. Despite the more challenging credit market conditions, this was the 16th consecutive year of record profits. Basic earnings per share were up 13% to 671 cents.

Strong income growth in Macquarie's equity related businesses continued, particularly in Asia, despite the more challenging market conditions in the second half of the financial year. Commodity market volatility was high, resulting in good customer flows. Assets under management at 31 March 2008 were \$232.0 billion, an 18% increase on the prior year.

Return on equity for the year to 31 March 2008 was 23.7%, down from 28.1% in the prior year. A key driver of the decrease was the substantial capital growth. Total equity was up \$2.5 billion since 31 March 2007. In May 2007, Macquarie successfully raised \$750 million in the domestic and international capital markets, and in June 2007 raised a further \$79 million from a share purchase plan for retail investors. Macquarie continued to expand its capital base and continues to ensure it is well funded at all times, particularly in light of the current credit market disruption, and to enable growth in the underlying businesses.

Macquarie's liquidity risk management framework is also important in ensuring funding requirements are met. Higher levels of liquid and trading assets, as well as a diverse range of funding sources assisted the effective management of Macquarie's funding needs throughout the year, despite more challenging credit market conditions.

The restructure of the Macquarie Group to incorporate a Non-Operating Holding Company (NOHC) became effective on 13 November 2007. The restructure was initiated to enable Macquarie to continue to pursue the strategies responsible for its strong growth. Both Macquarie Group Limited and Macquarie Bank Limited are regulated by the Australian Prudential Regulation Authority (APRA). As a result of the restructure, Macquarie has greater flexibility to adapt to future business, market and regulatory changes. Macquarie is positioned to actively pursue new opportunities and expand in Australia and internationally.

Operating income

Total operating income for the year to 31 March 2008 was \$8,248 million, a 15% increase on the prior year. Good corporate finance deal flow combined with favourable equity and commodity business contributions were key drivers of the overall growth in operating income. Income from asset realisations during the year included the IPO of Boart Longyear and the disposal of an investment in Macquarie-IMM Investment Management Co. Limited (Macquarie-IMM). However overall income from asset realisations was down on the prior year, which included the \$302 million profit on sale of a holding in Goodman Group. The increase in assets under management contributed to growth in base fees and record performance fees were also recognised during the year. The write-down of holdings in listed real estate investments reduced income by \$293 million.

Macquarie's offshore growth has continued across the Group with income from international sources up 14% on the prior year to \$4,293 million. International income amounted to 57% of Macquarie's total operating income from its operating groups for the year to 31 March 2008, slightly up on the prior year.

Operating expenses

Operating expenses were up 15% on the prior year to \$6,043 million. Employment costs, the largest contributor to operating expenses, were up 12% on the prior year to \$4,177 million. The increase in employment costs was mainly driven by headcount growth. Headcount increased by 31% on the prior year to approximately 13,000. Performance-related profit share expense was comparable with the prior year largely due to lower return on equity despite a 23% increase in NPAT.

The expense to income ratio for the year to 31 March 2008 was 73.3%, broadly in line with the prior year.

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Financial Highlights

continued

1.2 Segment Analysis

	Mar 08		Full year to		Movement
	\$m	Contribution %	Mar 07	Contribution %	
Macquarie Capital	2,915	63	2,573	58	13
Equity Markets	732	16	417	9	76
Treasury and Commodities	645	14	635	14	2
Real Estate	(81)	(2)	507	11	(116)
Financial Services	187	4	141	3	33
Banking and Securitisation	51	1	143	3	(64)
Funds Management	177	4	59	2	200
Total contribution to profit by operating group	4,626	100	4,475	100	3
Corporate	(2,823)		(3,012)		(6)
Total profit after tax	1,803		1,463		23

Basis of preparation

Macquarie has made a formal election to early adopt AASB 8 'Operating Segments' which requires the 'management approach' to disclosing information about its reportable segments. The financial information will be reported on the same basis as is used internally by the Chief Executive Officer for evaluating operating segment performance and on deciding how to allocate resources to operating segments. Such information will be provided using different measures to that used in preparing the income statement and balance sheet, with reconciliations of certain items to the consolidated income statement and consolidated balance sheet.

For internal reporting and risk management purposes, Macquarie is divided into seven operating groups ("the groups") as listed in the table above. Transfers between segments have been determined on an arm's length basis and eliminate on consolidation.

The Corporate segment includes the Group Treasury division and Head Office and central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, derivative volatility, income tax expense and profits attributable to minority interests.

Macquarie Capital

Macquarie Capital's contribution to profit by operating group for the year to 31 March 2008 was \$2,915 million, a 13% increase on the prior year. Fee and commission income from Macquarie Capital Advisers and Macquarie Capital Securities were key contributors to the overall result and growth on the prior year. Performance fees were earned during the year from DUET Group, Macquarie Infrastructure Company and various unlisted funds.

Macquarie Capital has continued to pursue strategic growth initiatives and has more than 4,000 staff in 52 locations across 25 countries.

Macquarie Capital Advisers (incorporates Macquarie Capital Funds)

Macquarie Capital Advisers' result was slightly higher than the prior year, with over 300 transactions totalling a record \$200 billion. International operations contributed 65% of Macquarie Capital Advisers' net income.

Fluctuating equity market conditions during the year resulted in a reasonable transaction flow across all international regions. In Asia, there was growth in M&A and ECM.

Landmark transactions spanning all major international regions and across a diverse range of industry sectors were completed in the 12 months to 31 March 2008.

Macquarie Capital Funds pursued its global specialist fund strategy with \$11 billion of new capital raisings for the full year¹ and an increase in assets under management of 28% to \$140 billion². Since inception, the funds have achieved a compound annual return of 16%³ for investors.

New funds established during the year include: ADCB Macquarie Infrastructure Fund (Middle East), Asia Resources Fund, Macquarie European Infrastructure Fund III, Macquarie Global Opportunities Partners (private equity), Macquarie Infrastructure Partners II (North America) and Retirement Villages Group.

Macquarie Capital Securities

In Australia, strong equity markets in the first half of the year resulted in good growth in secondary market revenues. ECM revenues were slightly down on the prior year but offset by good corporate broking revenues.

In Asia, there were outstanding gains in secondary market revenues as a result of strong equity market conditions.

The establishment of the US and European domestic equity sales trading and research businesses continues.

Recent highlights included the acquisition of Orion Securities Inc., a Canadian independent dealer focusing on the resources sector. Since the acquisition, the business has achieved record secondary market revenues.

¹ Includes 100% raised by jointly managed funds.

² As at 31 March 2008. Calculated as proportionate enterprise value (proportionate net debt and equity value) as at 31 December 2007 or cost if acquired subsequent to 31 December 2007.

³ Annualised return based on all capital raised, distributions paid and valuations (market capitalisation for listed funds and net asset value for unlisted funds and managed assets) for Macquarie Capital Funds since inception to 31 March 2008 (listed funds as at 31 March 2008, unlisted funds and managed assets as at 31 December 2007). Calculated on an AUD basis, with cash flows converted at fixed exchange rates (based on the date of listing for listed funds, first close date for unlisted funds, and financial close date for managed assets).

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Financial Highlights

continued

Macquarie Capital Products

The division achieved record raisings in its Australian retail products, launched new funds in Germany and Austria and also established listed infrastructure and resources hedge funds.

The joint ventures with MD Sass and Globalis were further developed. Total assets under management grew by 3% from \$8.9 billion at 31 March 2007 to \$9.1 billion at 31 March 2008 (including assets managed by associates).

Macquarie Capital Finance

Macquarie Capital Finance's result was slightly higher than the prior year, with strong contributions from all businesses. The aggregation of lending volumes and assets have increased by 34% from \$5.4 billion at 31 March 2007 to \$7.3 billion at 31 March 2008.

In December 2007, Macquarie Capital Finance completed the acquisition of CIT Systems Leasing. With approximately \$US750 million of leased assets, it is one of the largest independent lessors of technology equipment in North America.

Macquarie Capital Finance sees continuing growth in both the domestic and international equipment finance markets and is well placed to take advantage of the opportunities that difficult debt markets are presenting.

Equity Markets Group

Equity Markets Group's contribution to profit by operating group for the year to 31 March 2008 was \$732 million, a 76% increase on the prior year. Strong growth in trading income due to increased customer flows was the key contributor to the record result, partially offset by increased brokerage and commission expense.

Trading conditions in international equity markets were particularly favourable during the first half of the financial year. However, they became more challenging in the second half as the global debt crisis spread to equity markets.

Equity Products Division

The division offers equity-linked investment, trading and risk management products to clients in Australia, Asia, Europe, the US and Latin America.

The division performed well, benefiting from the market conditions in the first half of the year and maintaining strong market positions in Australia and key Asian markets. Operations in most other international markets made an increased contribution.

The division continued to invest in new product development and the risk management systems necessary to expand the range of products offered to clients.

Fund Products Division

EMG's funds management business manages single strategy hedge funds, funds of hedge funds and structured fund products. The division experienced a record level of inflows into its single strategy funds. Its result was significantly up on the prior year.

Funds under management (excluding funds provided by Macquarie) grew 163% to just over \$3.2 billion at 31 March 2008.

In addition, funds under risk management (funds of external managers over which the division provides hedging or risk management services) grew 7% to approximately \$3.1 billion over the same period.

Global Equity Finance Division

The division's contribution was slightly up on the prior year due to growth in securities borrowing and lending volumes and structured equity finance activities in Australia, Asia and Europe.

Alternative Strategies Division

Established in April 2007, the division is a joint venture with Macquarie Capital Securities. It offers equity derivatives, market-access products and financing to hedge fund clients. The division performed well in its first full year of operation.

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Financial Highlights

continued

Treasury and Commodities Group

Treasury and Commodities Group's contribution to profit by operating group for the year to 31 March 2008 was \$645 million, a slight increase on the prior year which included the profit on the sale of a large US oil and gas interest.

Substantial contributions were made by the Metals and Energy Capital, Foreign Exchange and Agriculture and Investor Products Divisions with good contributions from most other divisions.

Metals and Energy Capital

The division offers price-making, derivative trading and financing in base and precious metals and other selected commodities as well as financing to the oil and gas sector.

The division's contribution was below that of the prior year which included a significant one-off realisation. The division experienced continued growth in the oil and gas financing business and strong trading and project finance results.

Energy Markets Division

The division is an active provider of risk management solutions across the energy sector from production, transportation and refining to storage, utilities and end consumers. Energy Markets has expertise in financing and trading for clients throughout North America, Australia, Asia, Europe and Africa. Global energy products traded include crude, distillates, natural gas, coal, power, and emissions.

Agriculture and Investors Products (AGIP)

AGIP provides risk management, structured financing, commodity-related investor products and selected physical commodity solutions to a broad customer base. AGIP also provides risk management services across agricultural commodities (grains, soy complex, sugar, coffee, cocoa and ethanol) and selected freight routes.

The AGIP result was very substantially up on the prior year as the division benefited from the increasing interest in agricultural commodities and strong market conditions.

Foreign Exchange

The division provides price-making services in all currency pairs and structured term hedging currency solutions for Australian and international clients. The division also provides risk management services across all of these currencies and tailor-made products. It maintains an active internet currency trading platform, servicing the Japanese retail trading market. It supports currency derivatives joint ventures in the United Arab Emirates and New Zealand.

Increased market volatility had a positive effect on foreign exchange volumes with the division's results substantially up on the prior year.

Futures

This division provides a full range of broking and clearing services for Australian and international exchange traded derivatives markets. The division makes extensive use of proprietary technology to provide clients with customised execution and clearing solutions, including direct market access and straight-through processing.

The division's result was well up on the prior year, reflecting continued growth both domestically and offshore.

Debt Markets

The division arranges and places primary market debt for clients and provides secondary market liquidity in government, inflation-linked, corporate, global, mortgage and asset-backed securities. It also provides risk management solutions through structured securities and derivative-based products relating to credit and interest rate risk.

Accordingly, the division only has modest holdings of generally highly-rated debt instruments.

The division returned a solid result despite difficult market conditions. However, the 2008 result was below the prior year.

Treasury

The division is responsible for the management of Macquarie's balance sheet, liquidity and interest rate exposure. These activities are now part of Group-wide services.

Real Estate Group

Real Estate Group's contribution to profit by operating group for the year to 31 March 2008 was a loss of \$81 million. The key contributor to the loss was the \$293 million write-down of holdings in listed real estate investments. The prior year result also included a \$302 million profit on sale of the investment in Goodman Group.

The group's underlying result was supported by strong activity levels across the business. Key events included the profitable disposals of Japanese residential and Korean office portfolios. The sale of Macquarie ProLogis Trust realised significant value for investors and the group. Macquarie MEAG Prime REIT announced a strategic review aimed at enhancing value for unit holders.

There was a continued focus on unlisted equity raisings with over \$5 billion raised, the majority by MGPA. Assets under management¹ increased 37% to \$32.3 billion from \$23.6 billion with new assets acquired in Singapore, Japan, Poland and Germany.

Lending activities in Australia, the US and the UK continued to make a profitable contribution.

The global REIT sector has experienced significant volatility as a result of the credit market disruption. As previously mentioned, a write-down of \$293 million was taken against investments held by Macquarie in Macquarie managed and associated listed real estate investments at 31 March 2008. Notwithstanding this write-down, our REITs have high quality real estate portfolios which are operating soundly.

¹ Assets under management includes assets managed by Macquarie and its associates.

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Financial Highlights

continued

Financial Services Group

Financial Services Group's contribution to profit by operating group for the year to 31 March 2008 was \$187 million, a 33% increase on the prior year.

This increase was due to record broking levels, a significant increase in market share across the business and strong inflows into superannuation and the CMT.

The group continued to develop international initiatives. During the year, it signed a joint venture agreement with Indian wealth management company Religare and launched an Asian private wealth business based in Singapore. It also actively pursued domestic opportunities to expand adviser numbers and grow core service business.

Total assets under administration, advice and/or management grew 15% from \$70.5 billion to \$80.9 billion.

FSG and the Banking and Securitisation Group were integrated in the second half of the year to form the Banking and Financial Services Group (BFS). The merged group will integrate banking and wealth product offerings to provide better client service and opportunities for growth.

Macquarie Adviser Services (MAS)

MAS had a good result for the year increasing both profit and client numbers substantially. The CMT increased 25% from \$14.1 billion to \$17.6 billion. Funds under administration in the Macquarie Wrap at \$22.5 billion were slightly down on the prior year due to negative market movements. The superannuation portfolio increased 20% from \$20.4 billion to \$24.5 billion with significant inflows in June 2007 as clients took advantage of superannuation reforms. The growth of the MAS Futurewise Insurance platform added to the division's performance.

The MAS-owned Coin Financial Planning software business continued to expand its service offering to advisers. It acquired a 50% stake in outsourced paraplanning company Outplan and financial planning practice management company Olicc.

Macquarie Private Wealth (MPW)

MPW maintained its position as the number one full-service retail stockbroker in Australia in terms of volume and market share. The division also acquired 50% of Financial Index, a scalable advice business complementary to our other advice offerings.

MPW's Private Bank Division launched its first Asian private wealth service based in Singapore which will form the hub of MPW's Asian ultra-high-net-worth advice operations.

Macquarie Global Investments (MGI)

MGI was established during the year to focus on the development of products for retail and wholesale investors globally. During the year, the division launched the institutional boutique investment firm Queen Steet Partners. It also took responsibility for FSG's interests in New Zealand fund manager Brook Asset Management, and acquired the 51% of the company not already owned. The Macquarie Pastoral Fund was moved to MGI where commitments from investors increased by more than \$500 million.

Banking and Securitisation Group

Banking and Securitisation Group's contribution to profit by operating group for the year to 31 March 2008 was \$51 million, a 64% decrease on the prior year which included the contribution from the divestment of the Australian and New Zealand childcare business and related property portfolios. Net interest income from increased loan and deposit volumes have been partially offset by a reduction in net interest margins.

The contribution from Banking was up on the prior corresponding period due to strong performances from Relationship Banking (up 23%) and significant growth in deposits which increased 37% on the prior year. The contribution from Investment Lending was up 12% from the prior year with portfolio growth of 25% from \$4.8 billion at 31 March 2007 to \$6.0 billion at 31 March 2008 despite deteriorating market conditions in the second half of 2007.

Difficult credit market conditions and increased cost of funding significantly affected the mortgage businesses. As a result, in March 2008 the group announced the decision to wind back residential mortgage origination services in Australia. The group also ceased new mortgage business in the US. Both businesses will continue to provide service to existing customers, who hold approximately 98,500 loan facilities.

Global mortgage securitisation markets are effectively closed, except in Canada. Our Canadian mortgages business, acquired in July 2006, continues to be supported by local government-backed securitisation through the Canadian Mortgage Bond program. Credit quality in the group's mortgage portfolio remains high across all countries, default rates are low and there is no exposure to sub-prime loans.

Investment in new banking businesses continued with the launch of credit cards in Australia in April 2007 and the establishment of a start-up business in the UK, providing business lending services to the UK insurance broking industry in May 2007.

The Banking and Securitisation Group merged with FSG in February 2008 to form BFS, providing more integrated opportunities for future growth in the retail banking and financial services sector in Australia and internationally.

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Financial Highlights

continued

Funds Management Group

Funds Management Group's contribution to profit by operating group for the year to 31 March 2008 was \$177 million, a 200% increase on the prior year. The profit from the sale of the investment in Macquarie-IMM was the key contributor to the record result. Fee and commission income growth was attributable to strong performance fee revenue from equity funds.

Assets under management fell by 9% to \$57.4 billion during the year largely due to the sale of Macquarie-IMM and some significant redemptions from global property and currency mandates.

Australia

Many of its flagship equities funds continued to perform strongly, particularly the Macquarie Long Short Equitised Fund and the Macquarie High Conviction Fund.

The group increased retail sales and inflows into key products. The Macquarie Master Diversified Fixed Interest Fund, the Macquarie International Infrastructure Securities Fund and the Macquarie Australian Small Companies Fund all experienced strong inflows.

Over the year, the group made significant investments in IT infrastructure, upgrading its core investment administration and accounting infrastructure.

International

During the year, the group sold its 65% interest in the Korean joint venture Macquarie-IMM, which was established in 2000 and provided investment solutions to Korean institutions and distributors. The company had assets under management of over \$14.6 billion (\$US13 billion) at the time of sale.

FMG commenced distributing retail funds in Taiwan during the year. It was appointed investment adviser to funds offered by three of Taiwan's leading investment trust firms.

The group's Alternative Investments Division and Real Estate Securities Division also established a presence in London, joining the global fixed income team which moved to London earlier in 2007.

The Macquarie Clean Technology Fund, managed through FMG's US operation in Carlsbad, California, held its final close in January 2008, concluding a successful fund-raising with over \$228 million (\$US200 million) in commitments.

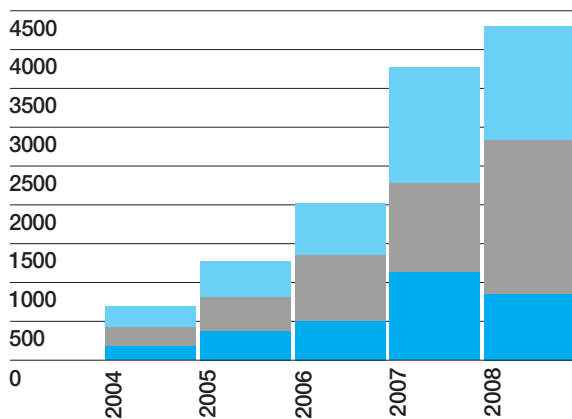
1.3 Contribution by Region

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Americas	163	689	(76)	852	1,128	(24)
Asia Pacific	988	994	(1)	1,982	1,159	71
Europe, Africa and Middle East	685	774	(11)	1,459	1,490	(2)
Total international income	1,836	2,457	(25)	4,293	3,777	14
Australia	1,270	2,001	(37)	3,271	3,069	7
Total income (excluding earnings on capital and other corporate items)	3,106	4,458	(30)	7,564	6,846	10
Earnings on capital and other corporate items	432	252	71	684	335	104
Total operating income	3,538	4,710	(25)	8,248	7,181	15
International income/total income (excluding earnings on capital and other corporate items) (%)	59	55		57	55	

International income by region

\$ million year ended 31 March

Americas ■ Asia Pacific ■ Europe, Africa & Middle East ■



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Financial Highlights

continued

International income for the year to 31 March 2008 was \$4.3 billion and represented 57% of total operating income (excluding earnings on capital and other corporate items) for the year. Overall international income was up 14% on the prior year although the second half (\$1.8 billion) was down 25% on the first half (\$2.5 billion). The growth for the year was driven by the Asia Pacific region which was well up on the prior year.

Income from the Asia Pacific region was \$2.0 billion for the year to 31 March 2008, up 71% on the prior year. The region experienced a very strong first half, up 96% on the prior corresponding period to almost \$1 billion, and this strong performance was repeated in the second half. Macquarie Capital participated in a number of significant transactions, including the sell-down of Taiwan Broadband Communications and the IPO of China Railway Construction Corporation. Funds management fees included fees from Macquarie Korea Infrastructure Fund, Macquarie Korea Opportunities Fund and Macquarie International Infrastructure Fund. Macquarie Capital Securities' Asian institutional cash equities business continued to perform strongly, benefiting from increased equity market turnover volumes in most markets across the region, especially in Hong Kong where market turnover increased 150% on the prior year to 31 March. Equity Markets Group's Asian equity products business performed very well with increased product sales as a result of a larger client base. The equity products business also benefited from an increase in equity markets volatility. Funds Management Group sold its 65% interest in the Korean joint venture fund manager, Macquarie-IMM in September 2007. Real Estate Group successfully disposed of a portfolio of 27 residential and office properties across Japan and Korea, however this was offset by an allocation of \$75 million of the total write-downs of holdings in listed real estate investments.

Income from Europe, Africa and the Middle East was \$1.5 billion, broadly in line with the prior year. Although the region experienced a strong first half (up 55% on the prior corresponding period), market conditions in the second half were less favourable resulting in the second half being down 11% on the first half. Macquarie Capital deal flow remained strong throughout the year with transactions including Peterborough Hospital PFI, Southern Water, Arqiva's acquisition of National Grid Wireless, Macquarie European Infrastructure Fund II (MEIF II) and Macquarie Communications Infrastructure Group's (MCG) acquisition of Airwave O2 Ltd and the sale of two German windfarms. Significant funds management fees were earned due to the European assets of Macquarie Airports, MEIF, MEIF II, Macquarie

Infrastructure Group and MCG. Performance fees were also received from Macquarie Airports Group following the divestment of its interest in Rome and Birmingham airports. Treasury and Commodities Group's Agricultural Commodities and Investor Products division produced strong results in the region as a result of increased commodity markets activity. Equity Markets Group's Global Equity Finance division also performed well, particularly in the first half. The overall result for Europe, Africa and the Middle East was impacted by an allocation of \$13 million of the total write-downs of holdings in listed real estate investments.

Income from the Americas was \$852 million for the year to 31 March 2008. While the Americas commenced the year with a strong first half, up 57% on the prior corresponding period to \$689 million, the second half was down 76% on the first half which resulted in an overall 24% decrease on the prior year. In the second half, the region was significantly impacted by the credit market disruption which led to a slowing of activity and write-downs of holdings in listed real estate investments. Macquarie Capital and Treasury and Commodities Group were the main contributors to income in the region. Significant Macquarie Capital transactions in the Americas included the sell-down of Macquarie New York Parking (Icon Parking) and the acquisition of Spirit Finance Corporation by a Macquarie-led consortium. Giuliani Capital Advisers, a boutique investment banking advisory firm (acquired in April 2007), and Orion Financial Inc. (acquired in November 2007 and now operating as Macquarie Capital Markets Canada Limited) also contributed to income in the Americas. Macquarie Capital benefited from performance fees earned from Macquarie Infrastructure Company. Treasury and Commodities Group performed well in the region with good trading conditions particularly in Metals and Energy Capital and Agricultural Commodities and Investor Products. Real Estate Group benefited from the profit on the sale of Macquarie's interest in Macquarie ProLogis Management Company to ProLogis in July 2007. However overall the Real Estate Group contributed an operating loss in the Americas due to an allocation of \$127 million of the total write-downs of holdings in listed real estate investments.

Australian income was up overall on the prior year. However the second half was down 37% on the first half. The first half was characterised by some large transactions including Boart Longyear and ATM Solutions. Transactions in the second half included Wesfarmers' acquisition of the Coles Group and Retirement Villages Group. The result in the second half was impacted by an allocation of \$78 million of the total write-downs of holdings in listed real estate investments.

2.0 Result Analysis

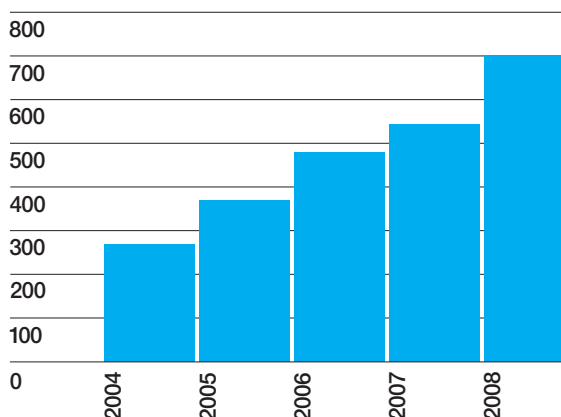
2.1 Net Interest Income

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Interest revenue	3,512	3,186	10	6,698	4,632	45
Interest expense	(3,218)	(2,663)	21	(5,881)	(3,904)	51
Net interest income (as reported)	294	523	(44)	817	728	12
Adjustment for accounting for swaps	(61)	(55)	11	(116)	(184)	(37)
Net interest income	233	468	(50)	701	544	29

Net interest income for the year to 31 March 2008, after adjusting for amounts relating to the accounting for swaps that are classified as trading income for statutory purposes, increased 29% on the prior year to \$701 million. The chart at right illustrates the growth of net interest income over recent periods.

Current accounting standards for derivative financial instruments impact trading income and net interest income due to complex hedge designation and effectiveness rules that must be met for hedge accounting to be applied to Macquarie's derivatives hedging interest rate risk (especially swaps). Under previous AGAAP, internal derivatives were treated as a hedge and the interest on the swaps was included in either interest income or expense depending on whether an external interest bearing asset or liability was being hedged. Under current accounting standards, these internal derivatives are carried at fair value through trading income so that both sides are being eliminated and only external derivatives can form part of a hedge relationship. For most loan portfolios Macquarie has not sought to meet the hedge accounting rules due to their complexity, and for the Macquarie Income Preferred Securities (MIPS) the inability to be a hedged item under current accounting standards.

Net interest income
\$ million year ended 31 March



2.0 Result Analysis continued

Analysis of net interest margins

For the purpose of analysing net interest margins the impact of accounting for swaps used for the hedging of interest rates, which is included in trading income for statutory purposes, has been adjusted against net interest income. This allows for a better analysis of net interest margins. Refer to section 2.3 for details of the impacts of accounting for swaps on trading income.

	Full year to Mar 08			Full year to Mar 07		
	Interest \$m	Average volume \$m	Average spread %	Interest \$m	Average volume \$m	Average spread %
Loan areas (excluding residential mortgages)	595	26,938	2.21	495	19,607	2.52
Mortgages	115	26,997	0.43	116	22,248	0.52
Total net interest margin from interest bearing assets	710	53,935	1.32	611	41,855	1.46
Other net interest income/(expense)	(9)			(67)		
Total net interest income	701			544		

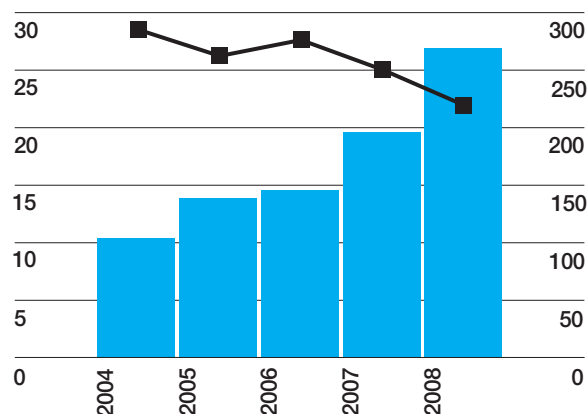
Loan areas

Net interest from loan areas has increased 20% on the prior year to \$595 million, driven by a 37% growth in average loan volumes to \$26.9 billion. Many areas achieved strong growth in average loan volumes, including investment lending (up 42% on the prior year) and relationship banking (up 25% on the prior year). The leasing areas benefited from the acquisition of CIT Systems Leasing in December 2007. CIT Systems Leasing has approximately \$US750 million of leased assets.

This increase in average loan volumes has been offset by a 31 basis point decrease in the overall net interest margin, which was primarily a result of increased competition in the first half followed by the increased cost of funding in the second half. The increase in the cost of funding has been partially offset by increased partial and inertia income (up 29% on the prior year) from the leasing areas and increased Real Estate Structured Finance risk participation fees. For accounting purposes, these items form part of the effective yield on relevant transactions.

The chart at right shows the growth in average volumes for the loan areas and the net interest margin over recent periods.

Comparison of loan areas volumes and spreads
Year ended 31 March
Average volumes (\$ billion) ■ Spread (bps)



Mortgages

Net interest income on mortgage assets of \$115 million was broadly in line with the prior year. Average mortgages loan volumes increased 21% on the prior year to \$27.0 billion. The overall increase was largely due to strong growth in the offshore portfolios, especially in Italy and Canada. The growth in the Canadian portfolio was assisted by the acquisition of Cervus Financial Corp. in Canada (July 2006). During the year, the Australian mortgages portfolio grew 7% from \$22.1 billion at 31 March 2007 to \$23.7 billion at 31 March 2008.

The impact of growth in the mortgages portfolio was offset by a 9 basis point reduction in the net interest margin to 43 basis points mainly due to a reduction in the net interest margin on the Australian portfolio which decreased 14 basis points over the year. This decrease was mainly due to competitive margin pressures in the first half combined with an increase in the cost of funding in the second half.

In March 2008 Macquarie announced that it would commence winding back its Australian residential mortgage origination services for both retail and wholesale customers due to the significant increase in the cost of funding mortgages and current conditions in the global mortgage securitisation market. Mortgage origination in the US business has also ceased.

Other net interest income/(expense)

Other net interest income/(expense) includes earnings on capital, the net interest expense on trading assets and assets held for liquidity management. During the year, average equity increased by \$2.5 billion resulting in higher earnings on capital. Partially offsetting this has been increased interest expense in the second half of the year from maintaining increased liquidity.

2.0

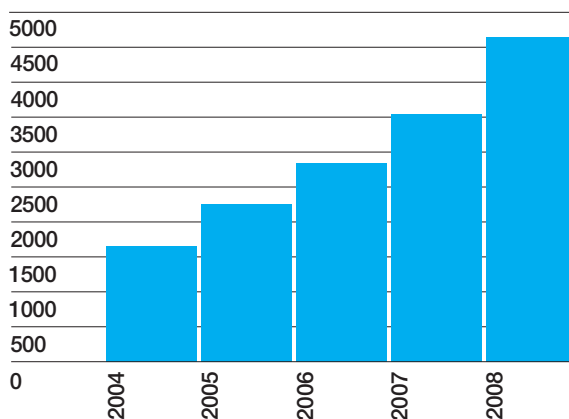
Result Analysis

continued

2.2 Fee and Commission Income

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Funds management	698	646	8	1,344	859	56
Mergers and acquisitions, advisory and underwriting	561	898	(38)	1,459	1,227	19
Brokerage and commissions	637	616	3	1,253	949	32
Financial products	37	106	(65)	143	216	(34)
Wrap and other administration fee income	75	71	6	146	109	34
Banking, lending and securitisation	33	33	—	66	56	18
Other fee and commission income	111	88	26	199	97	105
Income from life insurance business and other unit holder businesses	15	20	(25)	35	27	30
Fee and commission income	2,167	2,478	(13)	4,645	3,540	31

Fee and commission income
\$ million year ended 31 March



Funds management

Funds management fee income comprises base and performance fees. These fees are received from both Macquarie-managed funds and assets managed on behalf of other external parties that are not Macquarie-managed funds. Base fees are ongoing fees generated from managing funds or assets, and performance fees are earned when the funds or assets outperform predetermined benchmarks. Funds management fees are recognised when Macquarie becomes entitled to the fees.

The table below shows the base and performance fees by fund type and fees derived from direct management of assets that are not owned by a Macquarie-managed fund. Refer to section 5.3 for a more detailed breakdown of funds management fees.

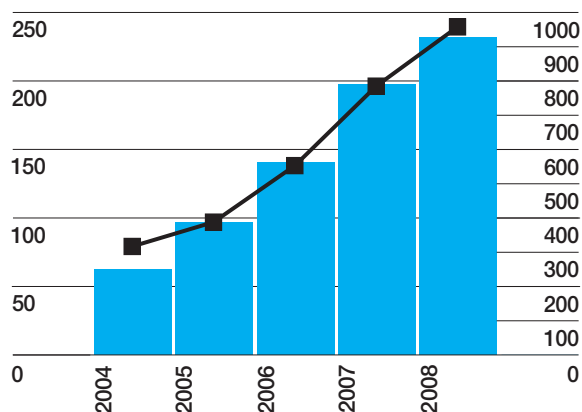
	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Base fees						
Specialist funds	314	311	1	625	523	20
Funds management and financial services	162	160	1	322	262	23
Managed assets	5	6	(17)	11	—	n/a
Total base fees	481	477	1	958	785	22
Performance fees						
Specialist funds	164	140	17	304	50	large
Funds management and financial services	19	7	171	26	13	100
Managed assets	34	22	55	56	11	large
Total performance fees	217	169	28	386	74	large
Total funds management fees	698	646	8	1,344	859	56

Total funds management fee income was \$1,344 million, up 56% on the prior year. Total base fees increased 22% on the prior year to \$958 million, slightly more than the increase in AUM of 18% over the same period. The trend in base fees and AUM growth is depicted in the chart below.

Base fees and AUM growth

Year ended 31 March

AUM (\$ billion) ■ Base fees (\$ million)



Total performance fees increased significantly on the prior year to \$386 million, mainly due to the receipt of performance fees from Macquarie Airports Group following the divestment of its interest in Rome and Birmingham airports. Total performance fees from unlisted specialist funds was \$226 million, up from \$20 million in the prior year. Other notable performance fees from listed specialist funds included fees from Macquarie Infrastructure Company (\$50 million) and DUET Group (\$21 million).

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Result Analysis

continued

Mergers and acquisitions, advisory and underwriting

Mergers and acquisitions, advisory and underwriting fee income was \$1,459 million for the 12 months to 31 March 2008, up 19% on the prior year. Strong equity market conditions during the first half of 2008 resulted in increased deal flow. Significant transactions Macquarie advised on included the IPO of Boart Longyear, Wesfarmer's acquisition of the Coles Group, Challenger's acquisition of UK water company Southern Water and the China Railway Construction IPO, listing in both Shanghai and Hong Kong.

Brokerage and commissions

Brokerage and commissions income increased 32% on the prior year to \$1,253 million. The main driver of the result was increased transaction related fees from retail and institutional broking services. Macquarie Capital Securities' Asia operations benefited from increased market turnover in the region, particularly in Hong Kong. Australian institutional cash equities income also increased on the prior year due to increased ASX market turnover (\$3.4 trillion for the 12 months to 31 March 2008, up from \$2.5 trillion in the prior corresponding period) and assisted by continued strong market share. Brokerage income generated through the Financial Services Group was also a significant contributor during the period, up 24% over the prior year.

Financial products

Income from financial products for the 12 months to 31 March 2008 was \$143 million, down 34% on the prior year due to cross-border leasing and one-off transactions in 2007 that were not repeated. In 2008, income was earned from agribusiness retail products and a range of retail infrastructure related funds including new closed end feeder funds in Europe.

Wrap and other administration fee income

Wrap and other administration fee income was up 34% to \$146 million. Wrap fees are calculated daily and the increase over the prior year reflects the increase in Wrap funds under administration for most of the year, particularly from June 2007 following changes to Australian superannuation law. A downturn in equity indices towards the end of the year led to an overall \$700 million decrease in Wrap funds under administration for the year to \$22.5 billion at 31 March 2008.

Banking, lending and securitisation

Total banking, lending and securitisation income was up 18% to \$66 million. The main contributors were mortgages and relationship banking servicing and administration fees, which grew as a result of a larger loan book. Revenue from the recently acquired CIT Systems Leasing (lessor of IT equipment in North America) also contributed to the result in the second half of the year.

Other fee and commission income

Other fee and commission income more than doubled during 2008 to \$199 million largely due to income from joint ventures and business alliances in Treasury and Commodities Group with Royal Bank of Scotland, Nomura and Kookmin Bank. Also included in this income category is real estate development project management fee and license fee income from the COIN Software business (provider of financial planning software).

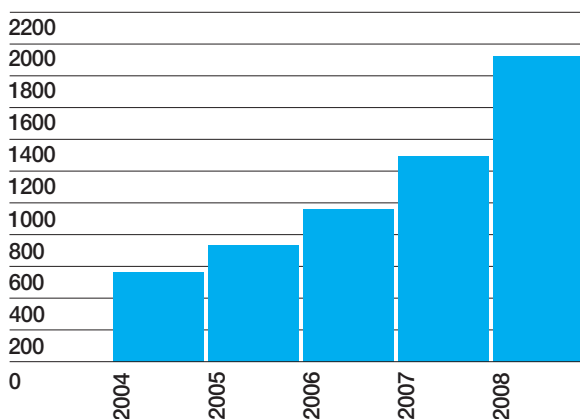
Income from life insurance business and other unit holder businesses

Income from life insurance business and other unit holder business was \$35 million for the 12 months to 31 March 2008, up 30% on 2007. Income in this category includes income from the provision of life insurance (via Macquarie Life) and True Index income. Macquarie True Index delivers clients exact pre-tax index return (before buy/sell spread on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.

2.3 Net Trading Income

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Equity products	574	593	(3)	1,167	765	53
Commodity products	262	132	98	394	295	34
Foreign exchange products	163	95	72	258	120	115
Interest rate products	29	75	(61)	104	112	(7)
Total trading income	1,028	895	15	1,923	1,292	49
Revaluation of economic hedges	25	3	large	28	(61)	(146)
Accounting for swaps	(61)	(55)	11	(116)	(184)	(37)
Net trading income (as reported)	992	843	18	1,835	1,047	75

Total trading income \$ million year ended 31 March



Total trading income for the year to 31 March 2008, before revaluation of economic hedges and accounting for swaps, was up 49% on the prior year to \$1,923 million. Most trading income is generated from client transactions and arbitrage activities, rather than outright proprietary trading.

A complete representation of Macquarie's trading activities is not shown by the composition of trading income set out above as it excludes interest revenue and expense, brokerage and commission revenue and expense, and operating costs of trading activities. To obtain a complete view of the performance of Macquarie's trading activities, reference should be made to the Equity Markets Group and Treasury and Commodities Group's results in section 1.2.

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Result Analysis

continued

Equity products

Equity products trading income for the year to 31 March 2008 was up 53% on the prior year to \$1,167 million. Trading conditions in Australian and international equity markets were favourable during the first half of the financial year, but became more challenging in the second half as the global credit market disruption spread to equity markets. However, market volumes remained high as volatility remained high. In addition, the launch of new structured products and new fund products made significant contributions to the increase on the prior year.

Activity was up on the prior year due to favourable market conditions with high trading volumes across most markets and increased market volatility, particularly in the first half. Successful product launches during the year resulted in an increased contribution to trading income across a number of products. The business maintained a market leading position in listed products. However, trading income from the US and European desks was down on the prior year due to a reduction in transaction volumes.

Trading income from international equity structured transactions was significantly up on the prior year due to strong growth in securities borrowing and lending volumes as well as structured equity finance activities in Australia, Asia and in particular, Europe.

Commodity products

Commodities trading income for the year to 31 March 2008 was up 34% on the prior year to \$394 million.

Strong trading performances were delivered by Treasury and Commodities Group's Agricultural Commodities and Investor Products division and the Metals and Energy Capital division. This was primarily due to increased customer flows as a result of higher volatility across a broad number of commodity markets and greater interest in agricultural commodities, particularly in the second half of the year.

Foreign exchange products

Foreign exchange trading income for the year to 31 March 2008 was up 115% on the prior year to \$258 million.

Volatile currency markets lead to increased customer demand for foreign exchange products and increased volumes transacted through Treasury and Commodities Group's Foreign Exchange division.

Interest rate products

Interest rate products trading income for the year to 31 March 2008 was slightly down on the prior year to \$104 million.

The main contributor to interest rate products trading income was Treasury and Commodities Group's Debt Markets division. The division returned a solid result despite difficult market conditions in the second half of the year.

Accounting for swaps and revaluation of economic hedges

As discussed in section 2.1 in the analysis on net interest income, current Australian Accounting Standards require internal derivatives hedging interest rate risk (especially swaps) to be carried at fair value through trading income so that both sides are being eliminated and only external derivatives can form part of a hedge relationship. This has the effect of distorting the analysis of net interest margins and trading income (especially interest rate products).

For the analysis of trading income presented here the amount relating to the accounting for interest rate swaps, which is included in trading income for statutory purposes, has been identified and reported separately. This amount is incorporated in the analysis of net interest margins in section 2.1.

Under Australian Accounting Standards, all derivatives must be carried at fair value. The revaluations and cash flows on derivatives that do not qualify as a hedge under Australian Accounting Standards are included within trading income. The main impact of this relates to derivatives used to hedge the MIPS hybrid instrument, which do not have an offsetting revaluation of the hedged securities as they are treated as equity for accounting purposes and carried at historic cost.

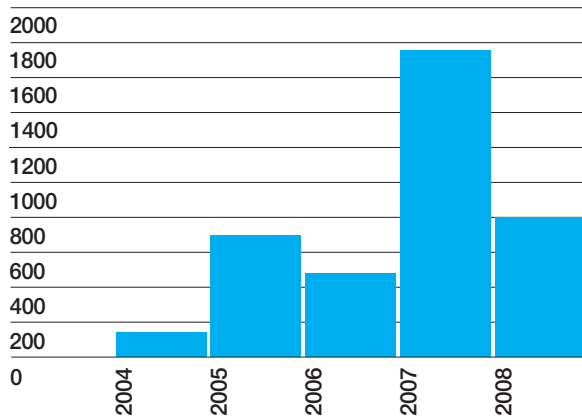
These impacts have been reported separately from other trading related income to remove the distortion created by the accounting treatment from the analysis of Macquarie's trading operations.

Profit and loss volatility on derivatives used to hedge the MIPS hybrid instrument for the year to 31 March 2008 was income of \$18 million compared with an expense of \$47 million in the prior year. The volatility on other economic interest rate hedges was income of \$10 million compared with an expense of \$14 million in the prior year.

2.4 Asset and Equity Investment Income

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Profit on sale of investment securities available for sale	74	49	51	123	160	(23)
Profit on sale of associates and joint ventures	139	421	(67)	560	650	(14)
Gain on deconsolidation of controlled entities and businesses held for sale	76	217	(65)	293	469	(38)
Net income/(loss) from businesses held for sale	(25)	(3)	large	(28)	41	(168)
Share of net profits of associates and joint ventures using the equity method	62	94	(34)	156	242	(36)
Dividends/distributions received/receivable from investment securities	52	39	33	91	84	8
Impairment charge on investment in associates and joint ventures	(300)	—	n/a	(300)	(4)	large
Impairment charge on investment securities available for sale	(86)	(34)	153	(120)	(8)	large
Other asset sales	37	27	37	64	121	(47)
Asset and equity investment income	29	810	(96)	839	1,755	(52)

Asset and equity investment income \$ million year ended 31 March



Profit on sale of investment securities available for sale

Profit on sale of investment securities available for sale was \$123 million for the 12 months to 31 March 2008, down 23% on the prior year, which included a number of significant transactions. The 12 months to 31 March 2008 did not include any individually significant items.

Profit on sale of associates and joint ventures

Although profit on sale of associates and joint ventures decreased 14% on the prior year to \$560 million, the prior year included a \$302 million gain on the sale of Macquarie's interest in Goodman Group. Significant gains on the sale of associates and joint ventures during the 12 months to March 2008 included:

- Boart Longyear Limited
- Connect East Group
- Macquarie New York Parking (Icon Parking)
- Macquarie ProLogis Management
- Moto International Holdings Limited
- Retirement Villages Group
- Taiwan Broadband Communications.

2.0

Result Analysis

continued

Gain on deconsolidation of controlled entities and businesses held for sale

Gain on deconsolidation of controlled entities for the 12 months to 31 March 2008 was \$293 million, and included gains from the sale of Macquarie-IMM, ATM Solutions, Peterborough Hospital PFI and various windfarm businesses.

Net income/(loss) from businesses held for sale

The net loss from businesses held for sale was \$28 million during 2008, from a gain of \$41 million in the prior year.

Share of net profits of associates and joint ventures using the equity method

This category includes equity accounted income from investments in specialist funds where Macquarie is both the fund manager and has an equity investment in the fund, as well as other equity investments where Macquarie has significant influence.

Equity accounted income for 2008 decreased 36% on the prior year to \$156 million partly due to the loss of equity accounted income from Goodman Group and Macquarie ProLogis Management, and the decrease in equity accounted income from listed real estate trusts, including Macquarie Office Trust and Macquarie CountryWide Trust.

Dividends and distributions received/receivable from investment securities

Total dividends and distributions received/receivable from investment securities was \$91 million, representing an increase of 8% on the prior year. The year benefited from a special dividend distribution from the sale of Macquarie ProLogis Trust.

Impairment charge on investment in associates and joint ventures

The impairment charge on investment in associates and joint ventures was \$300 million for the 12 months to 31 March 2008. Included in this category was \$283 million in relation to the write-down of holdings in listed real estate investments.

Impairment charge on investment securities available for sale

The impairment charge on investment securities available for sale was \$120 million for the 12 months to 31 March 2008. Included in this category was a \$10 million write-down of holdings in listed real estate investments and other write-downs relating to asset-backed securities in Macquarie Capital and Treasury and Commodities Group.

Other asset sales

During the year Real Estate Group successfully disposed of a portfolio of 27 residential and office properties across Japan and Korea. Treasury and Commodities Group also recognised a small gain on the sale of an oil and gas interest. The prior year included a significant gain on a large oil and gas interest in the US.

2.5 Other Income

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Impairment charges						
Collective allowance for credit losses	(24)	(13)	85	(37)	(11)	236
Specific provisions for credit losses	(75)	4	large	(71)	(29)	145
Other	155	65	138	220	151	46
Total Other income	56	56	—	112	111	1

Impairment charges

Total net impairment charges for the year to 31 March 2008 were up from \$40 million in the prior year to \$108 million. A summary of the key items are discussed below.

Collective allowance for credit losses

The collective allowance for credit losses is intended to cover the inherent risk of loss that may arise from the non-recovery of amounts receivable or contingent exposures. Macquarie's policy on collective allowance for credit losses is based on an incurred loss model, applied to loan assets and non-trading credit exposures, which recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

The expense for the year of \$37 million was largely due to the growth in loan assets across a range of portfolios.

Specific provisions for credit losses

The specific provision expense for the year to 31 March 2008 was \$71 million. The increase on the prior year was mainly in relation to one commodities counter party. Total specific provisions expense as a percentage of loan assets (excluding securitisation special purpose vehicles and segregated futures funds) was 0.27%.

Other

Included in this category is rental income from operating lease activities, operating income from subsidiaries conducting non-financial services businesses and real estate development income.

Other income for the year to 31 March 2008 was up 46% on the prior year to \$220 million. The result included operating lease income from asset classes that include electronics manufacturing equipment, IT equipment, aviation and water heaters. Macquarie Capital Finance's operating lease revenue doubled to \$108 million partly due to the contribution from CIT Systems Leasing, a US based IT leasing business acquired in December 2007.

2.0

Result Analysis

continued

2.6 Operating Expenses

	Half year to			Full year to		
	Mar 08 \$m	Sep 07 \$m	Movement %	Mar 08 \$m	Mar 07 \$m	Movement %
Compensation expense						
Salary, commissions, superannuation and performance-related profit share	(1,544)	(2,176)	(29)	(3,720)	(3,362)	11
Share based payments	(64)	(62)	3	(126)	(87)	45
Provision for annual leave	(7)	(14)	(50)	(21)	(15)	40
Provision for long service leave	(5)	(6)	(17)	(11)	(8)	38
Total compensation expense	(1,620)	(2,258)	(28)	(3,878)	(3,472)	12
Other employment expenses including on-costs, staff procurement and staff training	(137)	(162)	(15)	(299)	(261)	15
Total employment expenses	(1,757)	(2,420)	(27)	(4,177)	(3,733)	12
Brokerage and commission expenses	(389)	(313)	24	(702)	(421)	67
Occupancy expenses	(143)	(121)	18	(264)	(226)	17
Non-salary technology expenses	(114)	(100)	14	(214)	(163)	31
Professional fees	(129)	(117)	10	(246)	(251)	(2)
Travel and entertainment	(111)	(89)	25	(200)	(154)	30
Advertising and communication	(54)	(39)	38	(93)	(77)	21
Other expenses	(9)	(138)	(93)	(147)	(228)	(36)
Total operating expenses	(2,706)	(3,337)	(19)	(6,043)	(5,253)	15
	%	%		%	%	
Compensation expense/total income	45.8	47.9		47.0	48.3	
Other expenses/total income	30.7	22.9		26.3	24.9	
Total expenses/total income	76.5	70.8		73.3	73.2	

Total operating expenses for the year to 31 March 2008 were \$6,043 million, up 15% on the prior year.

The largest component of operating expenses was Salary, commissions, superannuation and performance related profit share which increased 11% to \$3,720 million. This was mainly due to the increase in staff numbers, up 31% on the prior year, offset by a favourable impact of the strengthening Australian dollar on the employment costs of offshore employees. Performance related profit share was broadly in line with the prior year, despite a 23% increase in NPAT, largely as a result of a lower return on equity. Share based payment expense increased 45% to \$126 million due to the Group's increasing share price over the last few years combined with an increase in the number of options on issue.

Other employment expenses including on-costs, staff procurement and staff training increased 15% on the prior year. The increase can be largely attributed to the growth in headcount since March 2007.

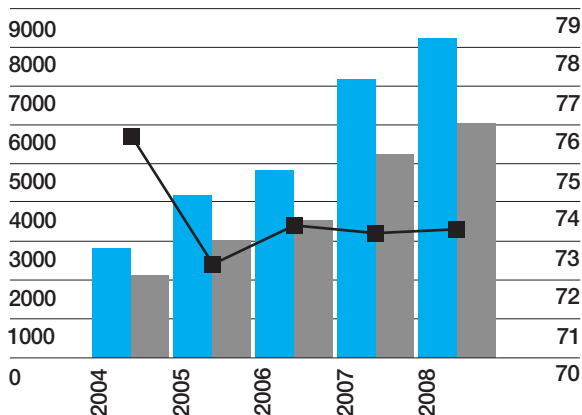
Brokerage and commission expenses are driven by Macquarie's trading activities and brokerage operations. For the year to 31 March 2008, brokerage and commission expenses increased 67% to \$702 million. Increased market turnover in Asian markets due to increased market volatility generated strong growth in the Asian warrants trading desks and was the most significant driver of these expenses for the year. The second half result was up 24% on the first half largely due to the addition of two new trading books in the Equity Markets Group.

Occupancy costs were up 17% on the prior year to \$264 million. This was mainly due to an increase in total leased area as headcount grew. New offices were opened in Sydney, New York, New Delhi and London. A number of new office fit-outs also contributed to increased occupancy costs.

Professional fees were in line with the prior year. Travel and entertainment expenses were up 30% on the prior year to \$200 million, driven by an increase in offshore activity. Other operating expenses in the first half included a number of one-off costs in relation to the Group's restructure, including stamp duty.

The overall expense to income ratio was slightly up on the prior year to 73.3%. The recent history of the expense to income ratio is shown in the chart at right.

Total income and operating expenses
Year ended 31 March
Income ■ Expense ■ Expense/Income ratio (%)
(\$ million)



2.0

Result Analysis

continued

Headcount

Headcount includes both permanent staff (full time, part time and fixed term hires) and contractors (consultants, contractors and secondees). It excludes temporary staff, staff on leave without pay and staff on parental leave. Headcount figures include employees of Macquarie Group controlled entities, except where the entity is acquired with the intention of disposal (i.e. businesses held for sale).

Total headcount increased 31% on the prior year, and at 31 March 2008 was approximately 13,000 staff globally.

A breakdown of headcount by operating group is shown below.

Headcount by group

	As at			Movement %	
	Mar 08	Sep 07	Mar 07	Sep 07	Mar 07
Financial Services	1,798	1,559	1,426	15	26
Banking and Securitisation	1,260	1,130	989	12	27
Equity Markets	719	610	516	18	39
Treasury and Commodities	611	590	570	4	7
Real Estate	605	527	476	15	27
Funds Management	241	196	211	23	14
Total operating groups (excluding Macquarie Capital)	5,234	4,612	4,188	13	25
Macquarie Capital					
Macquarie Capital Advisers (including					
Macquarie Capital Funds)	2,238	1,935	1,694	16	32
Macquarie Capital Securities	973	777	725	25	34
Macquarie Capital Finance	545	348	344	57	58
Macquarie Capital Products	315	261	211	21	49
Total Macquarie Capital	4,071	3,321	2,974	23	37
Total headcount — operating groups	9,305	7,933	7,162	17	30
Total headcount — service areas	3,802	3,133	2,861	21	33
Total headcount	13,107	11,066	10,023	18	31

Equity Markets Group experienced the largest relative increase in headcount, up 39% from March 2007 to over 700 staff. The growth was driven by continued overseas and domestic growth. Macquarie Capital also experienced a large increase in headcount, up 37% to over 4,000 staff assisted by the acquisition of Giuliani Capital Advisers, Orion Financial Inc. and CIT Systems Leasing during the year.

Headcount by region

	As at			Movement %	
	Mar 08	Sep 07	Mar 07	Sep 07	Mar 07
Australia	7,822	6,802	6,522	15	20
International					
Americas	1,778	1,231	890	44	100
Asia Pacific	2,158	1,888	1,672	14	29
Europe, Africa and Middle East	1,349	1,145	939	18	44
Total headcount — International	5,285	4,264	3,501	24	51
Total headcount	13,107	11,066	10,023	18	31
International headcount/total headcount (%)	40	39	35		

International headcount increased 51% on the prior year to over 5,000 staff. International staff now represents 40% of total staff, up from 35% at March 2007.

All regions have experienced strong headcount growth since March 2007. Staff numbers in the Americas doubled in the last 12 months. The growth in the Americas was assisted by the previously discussed acquisition of Giuliani Capital Advisers in April 2007, the integration of Orion Financial Inc. staff in December 2007 and the integration of CIT Systems Leasing staff, together adding over 400 staff across the US and Canada.

2.0 Result Analysis continued

2.7 Income Tax Expense

	Full year to	
	Mar 08 \$m	Mar 07 \$m
Profit before income tax	2,205	1,928
Less Macquarie Income Securities	(34)	(31)
Less Macquarie Income Preferred Securities	(50)	(54)
Less minority interest	(1)	(3)
Profit before income tax attributable to ordinary equity holders	2,120	1,840
Income tax expense	(317)	(377)
	%	%
Effective tax rate	15.0	20.5

The effective tax rate differs from the Australian company income tax rate due to permanent differences arising from the income tax treatment of certain income and expenses, as well as tax rate differentials on some of the income earned offshore, and the non-deductibility of certain expenses, including employee options expense and interest payments made under the Macquarie Income Securities (MIS). A reconciliation of the Australian company income tax rate to Macquarie's effective tax rate is shown below.

Reconciliation

	Full year to	
	Mar 08 %	Mar 07 %
Australian company income tax rate	30.0	30.0
Rate differential on offshore income	(14.3)	(10.6)
Non-deductible distribution paid/provided on MIS	0.5	0.5
Non-deductible options expense	1.7	1.4
Other items	(2.9)	(0.8)
Effective tax rate	15.0	20.5

Macquarie's offshore activities were the main reason the effective tax rate was below the corporate tax rate. The growth in offshore income over the year was driven by increased activity in the Asia Pacific region.

2.8 Earnings Per Share

	Half year to			Full year to		
	Mar 08 cents	Sep 07 cents	Movement %	Mar 08 cents	Mar 07 cents	Movement %
Basic earnings per share	271.3	401.8	(32)	670.6	591.6	13
Diluted earnings per share	267.1	387.5	(31)	653.5	569.8	15

	Half year to		Full year to	
	Mar 08 Number of shares	Sep 07 Number of shares	Mar 08 Number of shares	Mar 07 Number of shares
Weighted average number of shares				
Fully paid ordinary shares	273,914,165	263,798,808	268,854,950	247,313,494
Dilutive Potential Ordinary Shares				
Options	4,257,654	9,756,591	7,023,038	9,441,575
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	278,171,819	273,555,399	275,877,988	256,755,069

Fully paid ordinary shares

The weighted average number of ordinary shares used in the calculation of basic EPS is determined by time-weighting individual movements in the number of fully paid shares on issue as summarised in the table below.

Summary of movements in number of shares

	Half year to Mar 08		Half year to Sep 07		Full year to Mar 08		Full year to Mar 07	
	Total number	Time- weighted number	Total number	Time- weighted number	Total number	Time- weighted number	Total number	Time- weighted number
Opening balance	271,086,657	271,086,657	253,941,205	253,941,205	253,941,205	253,941,205	232,440,369	232,440,369
Shares issued pursuant to								
Capital raising	—	—	8,620,690	6,265,310	8,620,690	7,443,000	10,606,061	9,124,118
Share purchase plan	—	—	912,076	488,434	912,076	700,255	137,947	106,578
Exercise of options	1,794,695	1,131,096	5,466,294	2,059,985	7,260,989	4,328,676	7,536,936	4,019,895
Dividend Reinvestment Plan	1,665,198	564,131	2,146,392	1,043,874	3,811,590	1,877,209	3,198,260	1,617,852
Employee Share Plan	24,290	10,751	—	—	24,290	5,376	21,632	4,682
Exchangeable shares	—	1,121,530	—	—	—	559,229	—	—
Closing balance	274,570,840	273,914,165	271,086,657	263,798,808	274,570,840	268,854,950	253,941,205	247,313,494

The Exchangeable shares were issued by a controlled entity in November 2007 as cash consideration for the acquisition of Orion Financial Inc. and are classified as equity in accordance with AASB 132 'Financial Instruments: Presentation'. They are eligible to be exchanged 1:1 for shares in Macquarie Group Limited (subject to staff trading restrictions) and will pay dividends equal to the Macquarie Group Limited dividends during their legal life. The Exchangeable shares will expire in November 2017 and carry no Macquarie Group Limited voting rights.

2.0

Result Analysis

continued

Potential ordinary shares

Macquarie has an Employee Option Plan (the Plan), which was introduced in December 1995 as a replacement for the now closed partly paid share scheme.

For the purpose of calculating diluted EPS, options issued pursuant to this Plan are classified as either dilutive or non-dilutive (dilutive options are those which have an exercise price less than the average market price for the period). Only dilutive options have an impact on diluted EPS.

The impact of dilutive options on the weighted average number used in this calculation is determined by quantifying the dilutive component of each option and time-weighting this component for the proportion of the period for which the option was on issue. The dilutive component represents the difference between the number of shares that would be issued at the adjusted exercise price and the number of shares that would have been issued at the average market price based on the actual proceeds.

Each dilutive option tranche is therefore split into two notional components:

- a component for which consideration is the full average market price (non-dilutive component – this is excluded in calculating diluted EPS)
- a component for which no consideration is provided (dilutive component).

Only this dilutive component, appropriately time-weighted, is included in the weighted average number of shares used in the calculation of diluted EPS.

As share based payment expense is recognised for this Plan, it is also necessary to adjust the exercise price in calculating dilutive EPS. The adjusted exercise price is calculated by increasing the exercise price by the fair value of services to be provided by the employee over the remaining vesting period.

The average market price in each period is shown below.

	Half year to		Full year to	
	Mar 08	Sep 07	Mar 08	Mar 07
	\$	\$	\$	\$
Average market price for period	67.92	79.66	72.76	70.63

2.9 Dividends

	Full year to			
	Mar 08		Mar 07	
	Cents per share	Franking %	Cents per share	Franking %
Interim ordinary dividend paid	145	100	125	100
Final ordinary dividend proposed	200	100	190	100
Total dividends to ordinary shareholders	345		315	
	\$m		\$m	
Aggregate amount of interim and final ordinary dividends	942		794	
	%		%	
Dividend payout ratio	52.2		54.3	

The final ordinary dividend for the year to 31 March 2008 is \$2.00 per share. This brings the total dividends for the year to \$3.45 per share, an increase of 30 cents per share or 10% over the prior year. The dividend payout ratio as a result is 52.2%. The final ordinary dividend will be franked at 100%.

The aggregate amount of the proposed final dividend expected to be paid on 4 July 2008 out of retained profits at 31 March 2008, but not recognised as a liability at the end of the financial year, is \$549 million.

Macquarie's dividend policy is to target a full year dividend payout ratio between 50% and 60%. In the short term, Macquarie expects dividends to be fully franked. The future rate of franking is subject to the composition of income.

3.0 Balance Sheet Analysis

3.1 Balance Sheet

	As at			Movement	
	Mar 08 \$m	Sep 07 \$m	Mar 07 \$m	Sep 07 %	Mar 07 %
Assets					
Cash and balances with central banks	7	3	3	133	133
Due from banks	10,110	6,887	6,120	47	65
Cash collateral on securities borrowed and reverse repurchase agreements	22,906	22,367	25,909	2	(12)
Trading portfolio assets	15,807	16,693	15,518	(5)	2
Loan assets held at amortised cost	52,407	49,911	45,796	5	14
Other financial assets at fair value through profit or loss	4,131	4,412	2,779	(6)	49
Derivative financial instruments — positive values	21,136	16,991	11,913	24	77
Other assets	10,539	10,103	10,444	4	1
Investment securities available for sale	16,454	12,092	6,060	36	172
Intangible assets	494	101	100	large	large
Life investment contracts and other unit holder assets	5,699	6,363	5,847	(10)	(3)
Interest in associates and joint ventures using the equity method	5,500	4,784	4,071	15	35
Property, plant and equipment	375	277	378	35	(1)
Deferred income tax assets	718	639	457	12	57
Non-current assets and assets of disposal groups classified as held for sale	967	835	994	16	(3)
Total assets	167,250	152,458	136,389	10	23
Liabilities					
Due to banks	10,041	5,016	4,127	100	143
Cash collateral on securities lent and repurchase agreements	13,781	16,945	7,489	(19)	84
Trading portfolio liabilities	11,825	9,875	15,922	20	(26)
Derivative financial instruments — negative values	21,399	15,555	11,069	38	93
Deposits	15,783	12,305	12,403	28	27
Debt issued at amortised cost	57,115	55,304	51,365	3	11
Other financial liabilities at fair value through profit or loss	6,288	5,744	5,552	9	13
Other liabilities	12,210	12,600	11,958	(3)	2
Current tax liabilities	193	222	132	(13)	46
Life investment contracts and other unit holder liabilities	5,689	6,355	5,781	(10)	(2)
Provisions	179	170	153	5	17
Deferred income tax liabilities	121	106	78	14	55
Non-current liabilities and liabilities of disposal groups classified as held for sale	215	272	170	(21)	26
Total liabilities excluding loan capital	154,839	140,469	126,199	10	23
Loan capital					
Subordinated debt at amortised cost	1,704	1,721	1,783	(1)	(4)
Subordinated debt at fair value through profit or loss	646	853	888	(24)	(27)
Total loan capital	2,350	2,574	2,671	(9)	(12)
Total liabilities	157,189	143,043	128,870	10	22
Net assets	10,061	9,415	7,519	7	34

continued on next page

	As at			Movement	
	Mar 08 \$m	Sep 07 \$m	Mar 07 \$m	Sep 07 %	Mar 07 %
Equity					
Contributed equity					
Ordinary share capital	4,534	4,336	3,103	5	46
Treasury shares	(12)	(10)	(7)	20	71
Exchangeable shares	133	—	—	n/a	n/a
Reserves	456	513	380	(11)	20
Retained earnings	3,718	3,373	2,795	10	33
Total capital and reserves attributable to equity holders	8,829	8,212	6,271	8	41
Minority interest					
Macquarie Income Preferred Securities	752	798	841	(6)	(11)
Macquarie Income Securities	391	391	391	—	—
Other minority interests	89	14	16	large	large
Total equity	10,061	9,415	7,519	7	34

During the year to 31 March 2008, Macquarie's total assets increased 23% to \$167.3 billion. Total equity at 31 March 2008 was \$10.1 billion, a 34% increase on the prior year.

The increase in total assets for the year was largely driven by an increase in Investment securities available for sale to \$16.5 billion, a 172% increase on the prior year. The growth in this asset class was due to increased investment in money market instruments used for currency and liquidity management purposes. Since 31 March 2007, the increase in Derivative financial instruments Positive values (up 77% to \$21.1 billion) and Negative values (up 93% to \$21.4 billion), was largely due to the movements in commodity prices and foreign exchange rates.

A reduction in short stock trading during the year decreased Cash collateral on securities borrowed and reverse repurchase agreements from \$25.9 billion at 31 March 2007 to \$22.9 billion at 31 March 2008, while an increase in long stock trading increased Cash collateral on securities lent and reverse repurchase agreements from \$7.5 billion at March 2007 to \$13.8 billion at 31 March 2008.

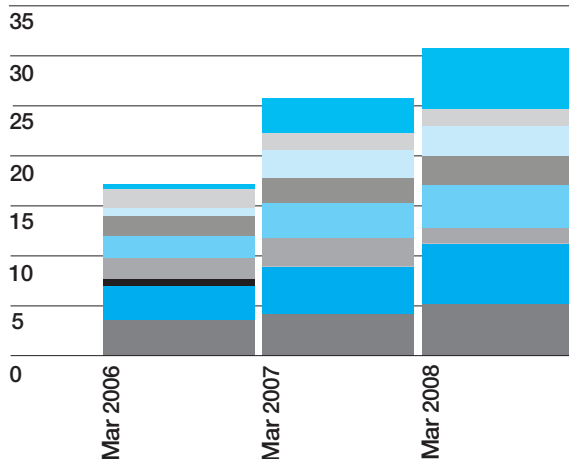
3.0 Balance Sheet Analysis continued

Loan assets (excluding mortgages SPVs) totalled \$30.7 billion at 31 March 2008, up 19% on the prior year. The largest contributors to growth were margin lending, equities lending and mortgages. The increase in loan assets (excluding mortgages SPVs) over the prior year is shown in the chart below.

Loan assets held at amortised cost

\$ billion

■ Mortgages ■ Real Estate ■ Other lending ■ Banking
■ Treasury & Commodities ■ Clearing houses ■ Macquarie Capital Finance: Other ■ Macquarie Capital Finance: Leasing ■ Margin lending and equities lending



Net assets and disposal groups classified as held for sale decreased from \$824 million at 31 March 2007 to \$752 million at 31 March 2008. Disposals during the year included interests in Taiwan Broadband Communications, Macquarie New York Parking (Icon Parking), Boart Longyear and ATM Solutions. Acquisitions during the year included in Miclyn Express Offshore and Hobart Airport.

Profit for the period was a significant contributor to total equity which rose 34% over the year to \$10.1 billion at 31 March 2008. Ordinary share capital increased 46% over the prior year to \$4.5 billion at 31 March 2008, which was largely due to the \$750 million raised in the institutional private placement in May 2007, shares issued under the dividend reinvestment plan and share purchase plan and the exercise of employee share options during the year.

Net tangible assets (NTA) per ordinary share at 31 March 2008 was \$27.99 (31 March 2007: \$22.67; 30 September 2007: \$27.55). Macquarie views disposal groups held for sale as an investment that will be fully recovered, including the associated intangible assets. Including the intangibles (net of associated deferred tax assets and liabilities) within assets and disposal groups held for sale, the NTA per ordinary share would have been \$28.18 (31 March 2007: \$22.86; 30 September 2007: \$27.95).

3.2 Loan Asset Quality

	As at/for the year to		
	Mar 08 \$m	Mar 07 \$m	Movement %
Loan assets			
Loan assets including mortgage securitisation special purpose vehicles	52,407	45,796	14
Less securitisation special purpose vehicles ¹ and segregated futures funds ²	(26,276)	(23,888)	10
Total	26,131	21,908	19
Credit quality of loan assets			
Investment grade ³	15,142	12,311	23
Below investment grade ³	10,692	9,409	14
Other ⁴	297	188	58
Total	26,131	21,908	19
Impaired assets ⁵ with specific provisions for impairment	285	166	72
Less specific provisions	(120)	(78)	54
Net impaired loan assets	165	88	88
Net loan losses	71	29	145
	%	%	
Net impaired loan assets/total loan assets	0.63	0.40	
Net loan losses/total loan assets	0.27	0.13	
	Full year to		
	Mar 08 \$m	Mar 07 \$m	Movement %
Net loan losses (profit or loss impact)			
Provided during the period	85	36	136
Recovery of loans previously provided for	(35)	(13)	169
Loan losses written-off	27	9	200
Recovery of loans previously written-off	(6)	(3)	100
Total net loan losses	71	29	145

¹ Includes mortgage and lease securitisation vehicles. In relation to the mortgage securitisation special purpose vehicles, Macquarie's exposure is largely mitigated by credit insurance. Loan losses in these vehicles are immaterial.

² Macquarie is not at risk for segregated futures funds assets.

³ Macquarie has established a proprietary internal credit rating framework to assess counterparty credit risk. Macquarie Group (MG) ratings are used to estimate the likelihood of the rated entity defaulting on financial obligations. All limits and exposures are allocated a MG rating on a 1-13 scale which broadly correspond with Standard & Poor's credit ratings.

⁴ Other loan asset credit quality includes Default, Past Due and Individually Impaired.

⁵ Impaired assets have been reported in accordance with AASB 139 and include loan assets and impaired items in respect of derivative financial instruments and unrecognised contingent commitments.

The strength of Macquarie's risk management practices and policies is reflected in its asset quality. Net loan losses for the year amounted to \$71 million or 0.27% of loan assets (excluding SPVs and segregated futures funds) as at 31 March 2008.

While global credit markets suffered significant disruptions during the year, which affected the mortgages businesses and reduced volumes in debt markets, Macquarie had no unusual provisions or write-downs across its loan portfolio. Furthermore, credit quality in Macquarie's mortgage portfolio remains high across all countries, default rates are low and there is no exposure to sub-prime loans.

Below investment grade quality loan assets of \$10,692 million are largely secured against the property, business cash flows or underlying asset. There were no unusual provisions or write-downs recognised across these loan assets during the year.

3.0 Balance Sheet Analysis continued

3.3 Equity Investments

Equity investments fall into three broad categories: investment securities available for sale (AVS); investments in associates; and assets and disposal groups held for sale (HFS). The classification is driven by a combination of the level of influence Macquarie has over the investment and management's intention with respect to the holding of the asset in the short term.

AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. These assets are not actively traded and may be sold when the opportunity arises, which includes changes in financial market conditions.

Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as HFS associates, investments in Macquarie-managed funds and other investments that are not held for sale.

HFS assets are those that have a high probability of being sold within 12 months to external parties, including an existing or proposed Macquarie-managed fund.

For the purposes of the analysis below, equity investments are grouped into the following three categories:

- AVS and other associates that are not held for sale and are not investments in a Macquarie-managed fund
- Investments in listed and unlisted Macquarie-managed funds
- HFS investments, including associates and disposal groups.

Total equity investments at 31 March 2008 were \$7.1 billion. The table below shows the balance of equity investments by category and a reconciliation to the balance sheet.

	Cost \$m	Adjustment \$m	Book value \$m
Balance sheet categories			
Investment securities available for sale — equity ¹	814	260 ²	1,074
Interest in associates and joint ventures using the equity method	5,500		5,500
Net assets of disposal groups classified as held for sale	752		752
Total	7,066		7,326
Equity investment analysis categories			
Macquarie-managed funds	3,518		
Other AVS and other associates	2,796		
Held for sale	752		
Total	7,066		

¹ Includes \$21 million of equity accounted reserves that will be released to income upon realisation of the investment.

² Fair value adjustments made since acquisition. These fair value adjustments are taken to the AVS reserve, net of any impairment provisions. The fair value adjustment is recognised in the income statement when the investment is sold.

Available for sale and other associates

AVS investments are initially recognised at cost and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS equity reserve. Fair values of quoted investments in active markets are based on current bid prices. Fair values of unlisted securities or investments in non-active markets are based on valuation techniques. If and when the AVS asset is sold or impaired, the cumulative unrealised gain or loss will be recognised in the income statement.

Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.

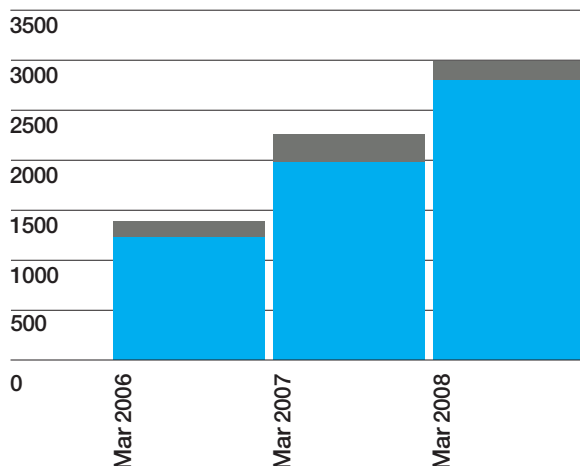
AVS investments and investments in other associates have increased 41% since March 2007. The increase was driven by a number of associate acquisitions during the period.

The chart below shows the level of AVS investments and investments in other associates at cost. The chart also shows an unrealised gain on these investments of approximately \$197 million at 31 March 2008. For AVS investments, the unrealised gain is the amount recognised in the AVS equity reserve. For other associates, the unrealised gain is only calculated for listed investments. Unlisted associate investments are carried at cost and adjusted for equity accounting impacts. For the purposes of this calculation the unlisted associate investments carrying value is equal to its market value producing an unrealised gain of nil. Therefore the \$197 million total unrealised gain is a conservative estimate.

AVS and other associates

\$ million

Cost ■ Unrealised gain ■



Macquarie-managed funds

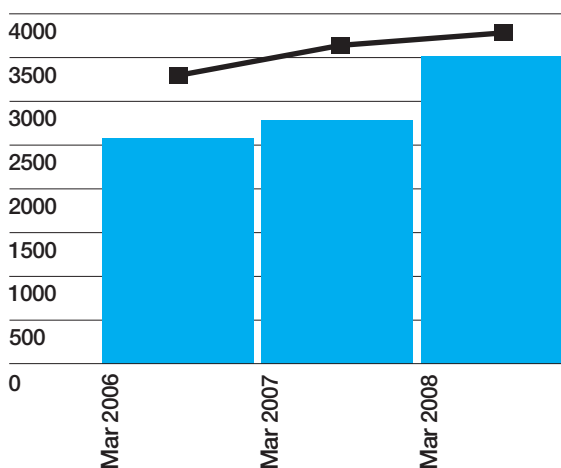
At 31 March 2008, investments in Macquarie-managed funds totalled \$3.5 billion, which was an increase of 26% from March 2007. The increase was in part due to investments made in Retirement Villages Group, Macquarie Infrastructure Group, Macquarie Communications Infrastructure Group and Macquarie Airports.

The total unrealised gain on Macquarie-managed funds at 31 March 2008 was approximately \$260 million.

Macquarie-managed funds

\$ million

Cost ■ Market value¹ ■



¹ Market value is calculated as the carrying value for unlisted investments, plus the market value of listed investments.

3.0 Balance Sheet Analysis continued

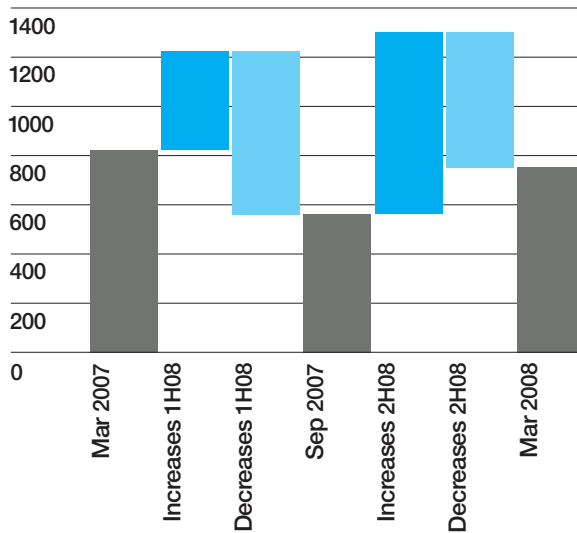
Held for sale

Held for sale assets at 31 March 2008 were \$752 million, a decrease from \$824 million at 31 March 2007. Disposals during the year included interests in Taiwan Broadband Communications, Macquarie New York Parking (Icon Parking), Red Bee Media, Boart Longyear and ATM Solutions. Acquisitions during the year included in Miclyn Express Offshore and Hobart Airport. The chart below shows the movements since March 2007 in the balance of held for sale assets.

Movements in HFS assets

\$ million

Balance at period end ■ Acquisitions/increases ■
Divestments/decreases ■

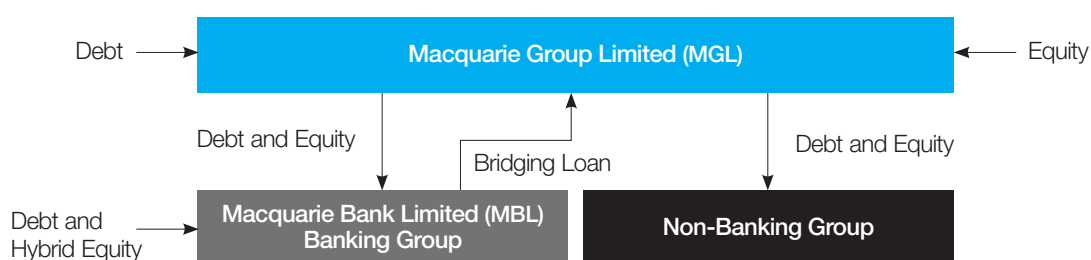


3.4 Group Liquidity

Following the Group's restructure in November 2007, the two primary external funding vehicles are MGL and MBL:

- MGL provides funding principally to the Non-Banking Group and limited funding to some MBL Group subsidiaries
- MBL provides funding to the Banking Group and, as part of the Group restructure, provided a transitional bridging loan to MGL.

The high level funding relationships in the Group are shown below.



Liquidity management

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. The Group's liquidity risk management framework ensures that both MBL and MGL are able to meet their funding requirements as they fall due under a range of market conditions. The primary liquidity objective is to fund in a way that will facilitate growth (and income) in core businesses under a wide range of market conditions.

The Group Asset and Liability Committee (ALCO) assists the Executive Committee with oversight of asset and liability management —including liquidity risk management. The Group's liquidity policies are approved by the Board after endorsement by ALCO and the Executive Committee.

Funding and liquidity management is performed centrally by Group Treasury, with oversight from ALCO. Group Treasury manages liquidity on a daily basis and provides regular reports to ALCO, the Executive Committee and the Board.

Risk Management Group provides independent prudential oversight of liquidity risk management, including the independent validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

MGL and the Non-Banking Group

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The policy requires MGL to meet all of its repayment obligations for the next 12 months with no access to wholesale funding markets.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long term wholesale funding. The funding profile allows MGL to meet all repayment obligations for 12 months without having to access funding markets.

MBL and the Banking Group

The MBL liquidity policy outlines the liquidity requirements for the Banking Group only. The policy requires that core assets and liquidity buffers are funded with deposits and core borrowings. Specified percentages of borrowings must have maturities beyond six and 12 months and a limit is set on the maximum percentage of borrowings maturing within the next three months and in any given month.

The Bank models various liquidity scenarios over a 12 month timeframe displaying various degrees of constrained capital markets access. The objective of this modelling is to determine MBL's capacity for asset growth whilst meeting all repayment obligations over the next 12 months. The modelling includes 12 month liquidity scenarios significantly more drastic than the conditions that have prevailed since August 2007.

3.0 Balance Sheet Analysis continued

Liquid asset holdings

Group Treasury maintains portfolios of highly liquid assets in both MBL and MGL to ensure adequate funding is available under all conditions. These liquid assets are held to cover both known and contingent sources of funding outflows. The assets are predominantly held in the most liquid asset classes such as short dated inter-bank deposits and stock eligible for repurchase with Central Banks.

Group Treasury and Risk Management Group undertake regular reviews of the liquidity characteristics of the Group's balance sheet. This provides an understanding of the liquidity characteristics of assets and liabilities against a backdrop of changing market conditions. The analysis ensures that the balance sheet is able to be appropriately funded and the liquidity ramifications of market moves are clearly understood.

In response to the current funding market disruption, the Group has increased its level of liquid asset holdings to \$18.3 billion as at 31 March 2008 (31 March 2007: \$6 billion). In addition to the liquid asset holdings, MBL has other trading assets, many of which are liquefiable at short notice.

Credit ratings

Credit ratings at 31 March 2008 are detailed below.

	Macquarie Group Limited		Macquarie Bank Limited	
	Short-term	Long-term	Short-term	Long-term
Fitch Ratings	F-1	A	F-1	A+
Moody's Investors Service	P-1	A2	P-1	A1
Standard & Poor's	A-2	A-	A-1	A

Funding requirements

The Group's statutory balance sheet is prepared based on generally accepted accounting principles which do not always translate into actual funding requirements. For example, the statutory balance sheet includes certain accounting gross-ups and non-recourse self funded assets which do not represent a funding requirement of the Group.

The table below has been prepared to reconcile the reported assets of the consolidated Group to its total funding requirement. This Group funding requirement is then split between the Banking and Non-Banking Groups to assist in the analysis of each of the funding vehicles' separate funding requirements.

	Mar 08 \$b
Total assets per Statutory Balance Sheet	167.2
Less accounting gross-ups and non-recourse funded assets	
Self-funded trading assets	(28.9)
Securitised assets and non-recourse warehouses	(25.2)
Non-cash derivative revaluation gross-ups	(18.6)
Life investment contracts and other segregated assets	(8.3)
Broker settlement balances	(5.8)
Other	(7.6)
Total funding requirement	72.8
Banking Group	53.9
Non-Banking Group	18.9
Total funding requirement	72.8

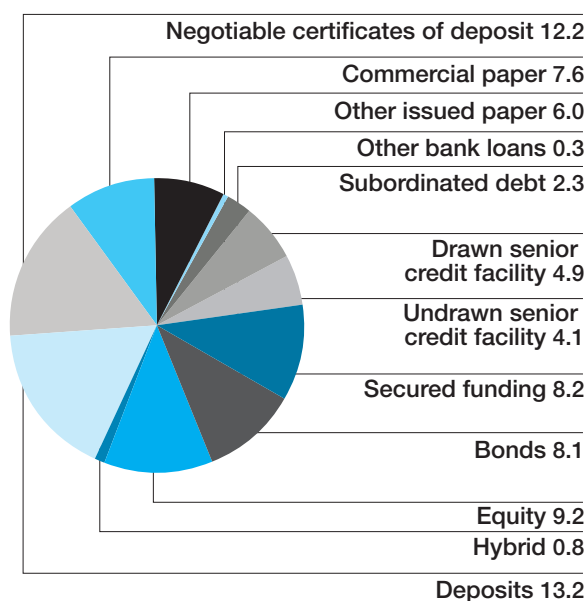
Consolidated Group

The funding profile of the consolidated Group at 31 March 2008 is represented below.

Balance sheet composition \$b

Funding sources	
Issued paper (NCDs, commercial paper and other issued paper)	25.8
Secured funding	8.2
Other bank loans	0.3
Bonds	8.1
Senior credit facility	9.0
Deposits	13.2
Subordinated debt	2.3
Hybrid	0.8
Equity	9.2
Undrawn Senior credit facility	(4.1)
Total funding sources	72.8

Diversity of funding sources \$ billion



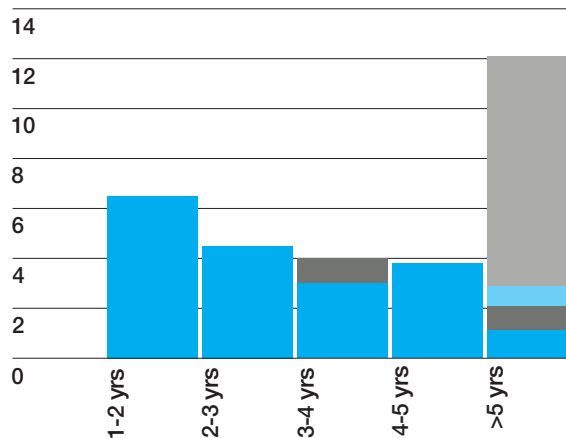
Total = \$76.9 billion¹

Balance sheet composition \$b

Assets	
Cash and liquid assets	20.8
Net trading assets	11.3
Loan assets — less than one year	13.4
Assets held for sale	0.8
Other investment securities	2.6
Loan assets — greater than one year	17.6
Investment in Macquarie managed funds and equity investments	6.3
Total funded assets	72.8

Term funding (drawn and undrawn) maturing beyond one year¹ (including equity) \$ billion

Debt ■ Subordinated debt ■ Hybrids ■ Equity ■



Total = \$30.9 billion¹

¹ Includes undrawn component of the Senior credit facility of \$4.1 billion.

3.0 Balance Sheet Analysis continued

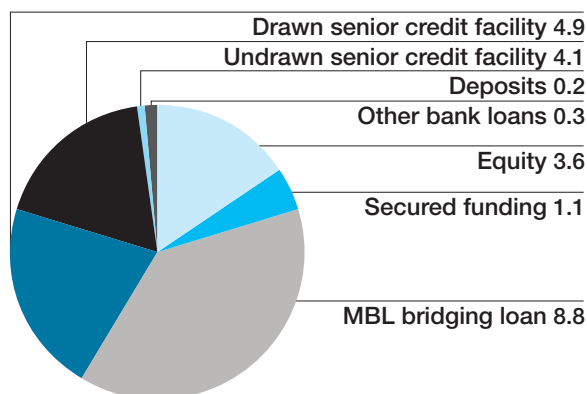
To assist in the analysis of each of the separate funding vehicles' funding requirements, funding profiles for the Banking and Non-Banking Groups are provided below.

Non-Banking Group

The funding profile of the Non-Banking Group at 31 March 2008 is represented below.

Balance sheet composition	\$b
Funding sources	
Secured funding	1.1
Other bank loans	0.3
Deposits	0.2
MBL bridging loan to MGL	8.8
Senior credit facility	9.0
Equity	3.6
Undrawn Senior credit facility	(4.1)
Total funding sources	18.9

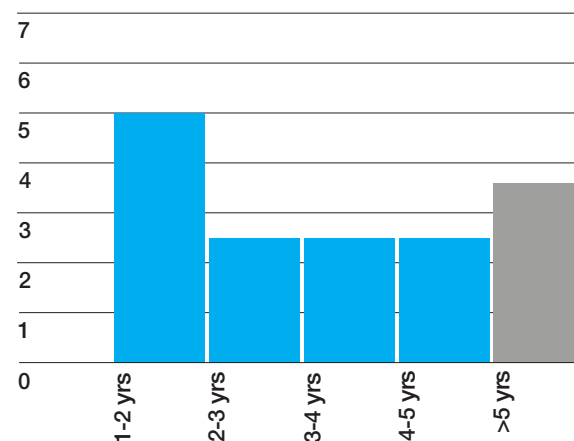
Diversity of funding sources
\$ billion



Total = \$23.0 billion¹

Balance sheet composition	\$b
Assets	
Cash and liquid assets	2.1
Non-Banking Group deposit with MBL	5.8
Net trading assets	0.7
Loan assets — less than one year	1.0
Assets held for sale	0.8
Other investment securities	0.8
Loan assets — greater than one year	3.8
Investment in Macquarie managed funds and equity investments	3.9
Total funded assets	18.9

Term funding maturing beyond one year¹
(including equity)
\$ billion
Debt ■ Equity ■



Total = \$16.1 billion¹

Funding for the Non-Banking Group is principally the refinancing package associated with the restructure, which included:

- \$9 billion Senior credit facility, of which \$4.9 billion was drawn at the balance date; and
- \$10.1 billion transitional bridge facility from MBL of which \$8.8 billion remained outstanding at the balance date. This facility, which is an unsecured amortising two-year committed term loan, is providing transitional funding to MGL whilst MGL establishes its profile in the term funding markets.

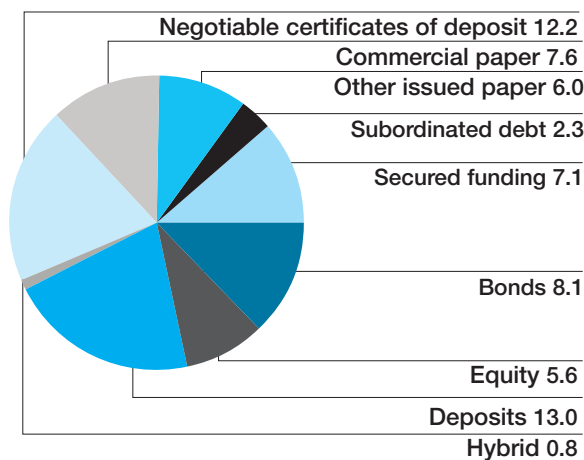
¹ Includes undrawn component of the Senior credit facility of \$4.1 billion.

Banking Group

The funding profile of the Banking Group at 31 March 2008 is represented below.

Balance sheet composition	\$b
Funding sources	
Issued paper (NCDs, commercial paper and other issued paper)	25.8
Secured funding	7.1
Bonding	8.1
Deposits	13.0
Subordinated debt	2.3
Hybrid	0.8
Equity	5.6
Total funding sources¹	62.7

Diversity of funding sources
\$ billion

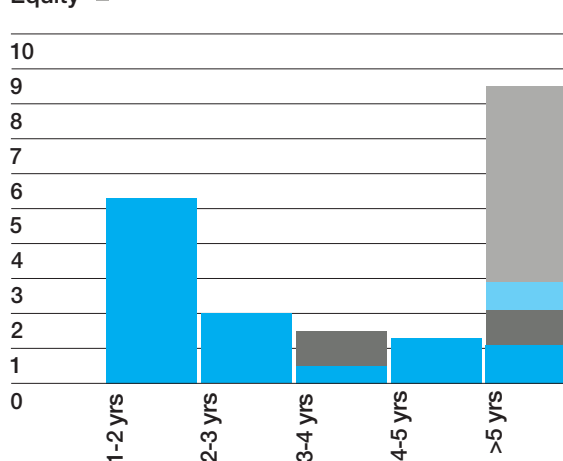


Total = \$62.7 billion

Term funding maturing beyond one year
(including equity)

\$ billion

Debt ■ Subordinated debt ■ Hybrids ■ Equity ■



Total = \$18.6 billion

Balance sheet composition	\$b
Assets	
Cash and liquid assets	18.7
Net trading assets	10.5
Loan assets — less than one year	12.4
Other investment securities	1.9
Loan assets — greater than one year	13.8
MBL Bridging loan to MGL	8.8
Non-Banking Group deposit with MBL	(5.8)
Investment in Macquarie managed funds and equity investments	2.4
Total funded assets	62.7

As demonstrated above, the Banking Group has diversity in its funding sources by source and maturity.

¹ Includes the \$8.8 billion Bridging loan from MBL to the Non-Banking Group.

4.0 Capital Analysis

As an APRA authorised and regulated Non-Operating Holding Company (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 Model 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:

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

Transactions internal to the Macquarie Group are excluded.

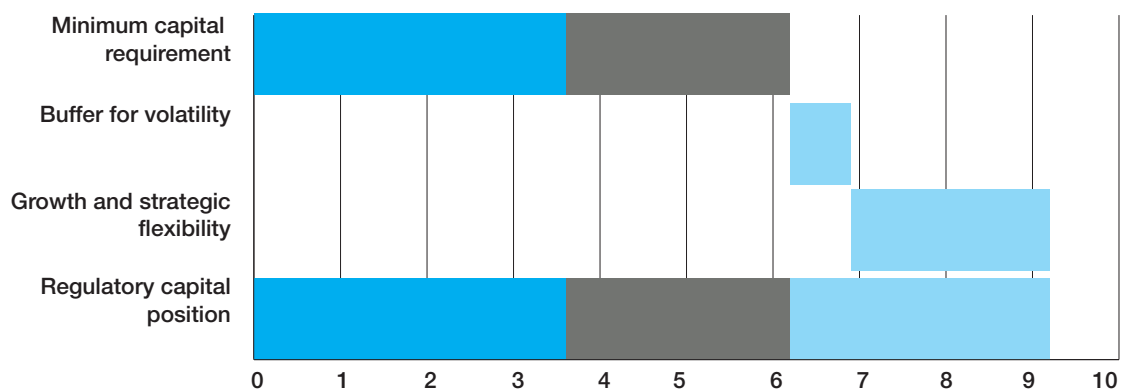
In addition, MGL maintains a buffer against unexpected volatility in various factors that affect its capital position, such as foreign exchange and interest rate movements.

The chart below depicts the regulatory capital position of MGL at 31 March 2008.

Macquarie Group Limited – Regulatory capital position

\$ billion 31 March 2008

Banking Group ■ Non-Banking Group ■



5.0 Funds Management

5.1 Assets Under Management

	As at			Movement	
	Mar 08 \$m	Sep 07 \$m	Mar 07 \$m	Sep 07 %	Mar 07 %
Specialist funds					
Infrastructure	131,222	121,602	100,107	8	31
Real Estate	23,532	18,714	18,297	26	29
Other	17,707	17,406	12,898	2	37
Total specialist funds	172,461	157,722	131,302	9	31
Funds management and financial services					
Retail	20,739	21,601	17,204	(4)	21
Wholesale	38,813	44,752	48,680	(13)	(20)
Total funds management and financial services	59,552	66,353	65,884	(10)	(10)
Total assets under management	232,013	224,075	197,186	4	18

Assets under management (AUM) provides a consistent basis for measuring the scale of Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of Macquarie-managed funds plus other assets managed on behalf of third parties that are not Macquarie-managed funds. This calculation is adjusted to exclude cross-holdings between Macquarie-managed funds, and is further adjusted to reflect Macquarie's proportional ownership interest in the relevant fund manager.

AUM is categorised into five sub-categories across specialist and non-specialist activities:

- Specialist funds which concentrate on one particular sector of investment or asset class, for example infrastructure and real estate.
- Non-specialist funds including traditional managed investments for retail and wholesale clients.

Total AUM increased 18% since March 2007 to \$232.0 billion at March 2008. AUM growth was stronger in the six months to 30 September 2007 due to the completion of a number of large transactions during this period, including the acquisition in the UK of National Grid Wireless by Arqiva (majority owned by Macquarie Communications Infrastructure Group (MCG) and Macquarie European Infrastructure Fund II (MEIF II)) and Airwave O2 Ltd by MCG and MEIF II and the acquisition in the US of Global Towers Partners by a Macquarie Infrastructure Partners (MIP) and MCG led consortium. In addition, during the six months to 31 March 2008, the downward impact on valuations due to the downturn in global credit and equity markets slowed AUM growth.

With 61% of all AUM and 80% of specialist AUM located outside of Australia at March 2008, changes in the exchange rate has a significant impact on the overall value of AUM. Over 2008, the Australian dollar strengthened significantly with the \$US/\$A exchange rate increasing from \$0.8104 at 31 March 2007 to \$0.8855 at 30 September 2007 and \$0.9132 at 31 March 2008¹.

During the 12 months to 31 March 2008, Macquarie-managed funds raised \$22.4 billion in equity. Of the total equity raised during the year, 75% came from international investors, with 85% of the total committed to unlisted funds or syndicates.

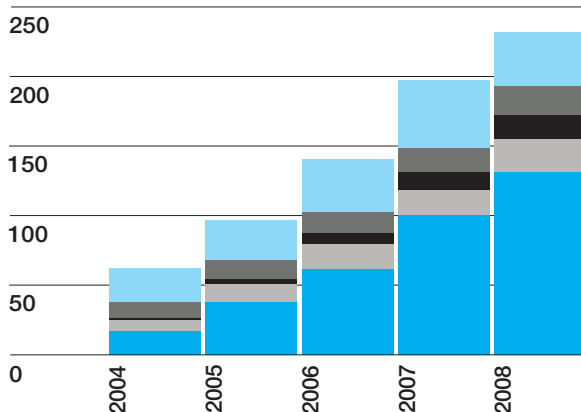
¹ Exchange rates represent the \$US/\$A noon buying rate at the respective dates.

5.0 Funds Management continued

AUM by fund type

\$ billion year ended 31 March

FSG/FMG Wholesale ■ FSG/FMG Retail ■
Other ■ Real Estate ■ Infrastructure ■



Infrastructure funds

Infrastructure AUM at 31 March 2008 totalled \$131.2 billion, representing an increase of 31% on the prior year, largely due to acquisitions by existing funds. Significant acquisitions included:

- Arqiva (majority owned by MEIF II and MCG) — acquisition of National Grid Wireless for £2.5 billion to form the leading provider of broadcast transmission services and independent wireless sites for lease in the UK.
- MEIF II and MCG — joint acquisition of Airwave O2 Ltd in April 2007 for a total of £1.9 billion. Airwave O2 Ltd is the primary provider of secure digital radio communication in the UK.
- MEIF II — acquisition of Techem for €1.4 billion. Techem is a leading provider of sub-metering services in Germany.
- Consortium led by Macquarie Infrastructure Partners (MIP) and MCG — acquisition of Global Towers Partners for \$US1.4 billion in July 2007. Global Towers Partners owns and operates towers and sites for wireless communication services in the US.
- Consortium led by Macquarie International Infrastructure Fund (MIIF) — acquisition of an 81% interest in Hua Nan Expressway for RMB3.7 billion. Hua Nan Expressway is a 31km dual carriage way toll road in the Guangdong province, China.
- Macquarie Korea Infrastructure Fund (MKIF) — in January 2008 purchased an investment in Busan New Port Container Terminal (BNCT), the concessionaire of the Busan New Port Phase 2–3 Project for a total consideration of KRW259.4 billion.

— Macquarie Global Infrastructure Fund III (GIF III) led consortium — in December 2007 acquired 100% of Hobart Airport for \$351 million.

— MIP led consortium — during October 2007 acquired Puget Energy¹ for \$US7.4 billion. Puget Energy is the largest electricity and gas utility in Washington State. During December 2007 another MIP-led consortium acquired Waste Industries¹, a regional non-hazardous solid waste company located in North Carolina.

Disposals by infrastructure funds during the 12 months to 31 March 2008 included Macquarie Airport Group's (MAG) disposal of its 24.1% stake in Birmingham airport (September 2007) and the disposal of an interest in Rome airport by MAP, MAG and Macquarie Global Infrastructure Fund in July 2007.

Real Estate funds

Real Estate AUM at 31 March 2008 increased 29% over the year to \$23.5 billion. The increase was largely due to the purchase of new assets by existing Real Estate funds, particularly in Asia. Acquisitions by MGPA managed funds, the acquisition with Goodman Group of Japanese-listed logistics property specialist (J-REP), the launch of Macquarie Real Estate Equity Funds No. 6 and 7, Macquarie NPS REIT and St Hilliers Enhanced Property Funds contributed to the increase in Real Estate AUM. This was partially offset by the sale of Macquarie ProLogis Trust to ProLogis in July 2007. The impact of tougher credit market conditions during the second half of the year reduced the level of acquisition activity by Real Estate funds and has increased the focus on the sale of mature assets to strengthen the balance sheets of the funds.

The major acquisitions during the year included:

- MGPA managed funds made several acquisitions across Asia and Europe, spanning the office, residential, industrial and retail sectors. The most significant acquisition involved the purchase of two parcels of land at Marina View, Singapore in December 2007 and March 2008 for a combined tender price of \$US1.96 billion.
- Macquarie Office Trust (MOF) — acquired three properties in Tokyo, Japan for ¥8.2 billion and completed acquisitions in Europe (Milan €151.9 million and Frankfurt €49 million). In the US, MOF acquired the remaining interests in Promenade II, Atlanta (\$US122 million), Pasadena Towers, Pasadena and SunTrust Centre, Orlando (combined \$US109.7 million). Acquisitions in Australia included Eastpoint Plaza, Perth for \$56.8 million and 59 Goulbourn Street, Sydney for \$92.5 million.

¹ Subject to regulatory approvals.

- Macquarie CountryWide Trust (MCW) — acquired seven European shopping centres for €351 million in July 2007, and in August 2007, acquired a 60% share of a portfolio of 32 grocery anchored shopping centres around the US for approximately \$US238 million.
- Macquarie Leisure Trust Group (MLE) — acquired Goodlife Health Club chain in September 2007 for \$60 million.
- Macquarie Direct Property Fund — acquired its first direct property investments in Asia, including 72 Anson Road, Singapore (\$S129.5 million), and purchased several properties throughout Australia for approximately \$50 million.
- J-REP — acquired a portfolio of 14 high quality Japan logistics assets for ¥63.5 billion.

During the year, Macquarie NPS REIT was established with South Korea's National Pension Service with assets under management of KRW237 billion.

Other specialist funds

Other specialist AUM at 31 March 2008 was \$17.7 billion, up 37% over the previous 12 months. Growth in the first half of the year was stronger compared to second half, due to the launch of several new funds in the first half, including Macquarie Fusion Funds series 12 release in June 2007, the Macquarie reFleXion 2008 series and Macquarie Pastoral Fund. Whilst loan asset sales as a result of falling market prices impacted the AUM growth of certain Other specialist funds, this was partially offset by the launch of Retirement Villages Group and Macquarie Global Opportunities Partners. Other significant activities during the year included Macquarie Media Group's acquisition of Southern Cross Broadcasting in October 2007.

Funds management and financial services funds

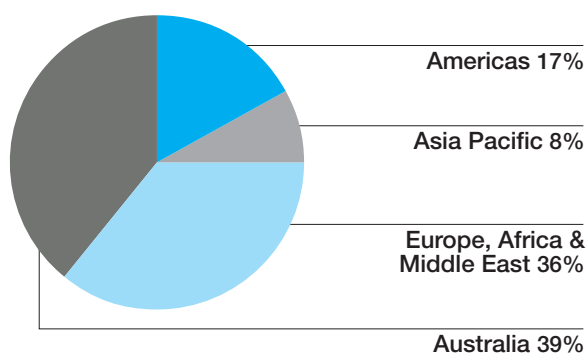
Over the past 12 months, there has been a net decrease in Non-specialist AUM to \$59.6 billion, largely due to the sale of Macquarie's 65% interest in the Korean joint venture fund manager, Macquarie-IMM, to Goldman Sachs Asset Management in September 2007. Non-specialist AUM was also affected by negative market movements impacting the value of assets and outflows in relation to Asian and Global REITs. This was partially offset by the acquisition of the remaining 51% of Brook Asset Management Limited in February 2008 and inflows into the Cash Management Trust (CMT). The CMT closed at \$17.6 billion at March 2008, up 25% from \$14.1 billion at March 2007.

Regional growth

The chart below shows the distribution of AUM into the main geographical regions at 31 March 2008. The chart includes Non-specialist funds which are predominantly located in Australia.

Macquarie manages assets located in over 35 countries. As at 31 March 2008, the percentage total AUM (by value) located offshore was 61%, broadly in line with the prior year.

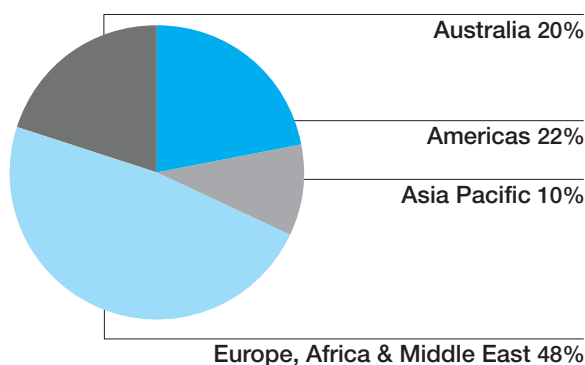
**AUM by region (all funds)
at 31 March 2008**



5.0 Funds Management continued

The chart below excludes the Non-specialist AUM, thereby depicting the geographical spread of Specialist fund assets only (by value) at 31 March 2008. The relative geographical distribution has largely remained unchanged since the prior year.

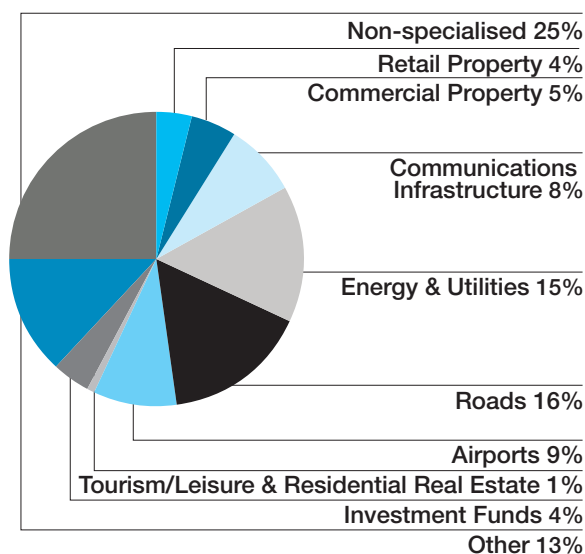
**AUM by region (specialist only)
at 31 March 2008**



Assets under management by industry sector

The chart below demonstrates the diversity of the industry sectors over which Macquarie's AUM are spread at 31 March 2008. The split is comparable to March 2007, with the exception of the Communications Infrastructure and Non-specialist funds sectors. The Communications Infrastructure sector increased from 3% at March 2007 to 8% at March 2008, due to the acquisition of National Grid Wireless by Arjiva (majority owned by MCG and MEIF II), Airwave O2 Ltd by MCG and MEIF II, and Global Tower Partners by a MIP and MCG led consortium. The Non-specialist fund sector decreased from 33% to 25% over the same period, mainly due to the sale of Macquarie-IMM and the overall increase in specialist funds.

**AUM by sector
at 31 March 2008**



Assets under management

The table below shows AUM by fund category for each listed fund and total for all unlisted funds for Real Estate and Non-specialist funds and certain Infrastructure and Other specialist funds that are not disclosed in Equity under management (refer to section 5.2). The earning of base fees is more closely aligned with the AUM measure for these funds.

	Ownership of management company (%)	Listing date	Stock Exchange/ ASX Code	Holding (%) ¹	Assets under management		
					As at		
					Mar 08 \$m	Sep 07 \$m	Mar 07 \$m
Specialist funds							
Infrastructure							
Macquarie/First Trust Global Infrastructure/ Utilities Dividend and Income Fund	100	Mar 04	Listed on NYSE	—	230	301	419
Macquarie Global Infrastructure Total Return Fund	100	Aug 05	Listed on NYSE	—	718	823	865
Total listed Infrastructure					948	1,124	1,284
Total unlisted Infrastructure					1,692	2,712	514
Total Infrastructure (excluding those disclosed in EUM)					2,640	3,836	1,798
Real Estate							
J-REP managed funds ²	26	Jun 06	Listed on TSE	26	433	221	—
Macquarie Central Office Corporate Restructuring REIT	100	Jan 04	Listed on KRX	20	191	213	226
Macquarie CountryWide	100	Nov 95	MCW	10	5,688	5,226	5,064
Macquarie DDR	50	Nov 03	MDT	2	1,276	1,321	1,349
Macquarie Leisure Trust Group	100	Jul 98	MLE	5	832	760	611
Macquarie MEAG Prime REIT	50	Sep 05	Listed on SGX	26	904	695	621
Macquarie Office	100	Nov 93	MOF	7	6,940	6,477	5,705
Macquarie ProLogis ³	—	Jun 02	MPR	—	—	—	1,098
Total listed Real Estate					16,264	14,913	14,674
Total unlisted Real Estate					7,268	3,801	3,623
Total Real Estate					23,532	18,714	18,297
Other							
Macquarie Fortress Australia Notes Trust	67	May 05	MFNHA	1	256	445	624
Macquarie New Zealand Fortress Notes Trust	67	May 05	Listed on NZX	—	33	76	104
Macquarie Private Capital Group	100	Mar 05	MPG	<1	61	63	59
Total listed Other					350	584	787
Total unlisted Other					7,790	8,660	5,016
Total Other (excluding those disclosed in EUM)					8,140	9,244	5,803

continued on next page

¹Holding at 31 March 2008 represents Macquarie's participating interest in the fund, excluding amounts held through True Index funds and their controlled entities.

²J-REP Co. Limited is a listed fund manager on the Tokyo stock exchange. Through a joint venture with Goodman Group, in June 2007 Macquarie acquired an interest in J-REP, and therefore its fund management activities.

³Investment in joint venture fund manager was sold to ProLogis in July 2007.

5.0 Funds Management continued

	Ownership of management company (%)	Listing date	Stock Exchange/ ASX Code	Holding (%) ¹	Assets under management As at		
					Mar 08 \$m	Sep 07 \$m	Mar 07 \$m
Funds management and financial services							
Retail	100	Unlisted			20,739	21,601	17,204
Wholesale							
Macquarie Funds Management	100	Unlisted			37,753	44,092	42,668
Macquarie-IMM Investment Mgt Co. Ltd. ⁴	—	Unlisted			—	—	5,414
Brook Asset Management ⁵	100	Unlisted			1,060	660	598
Total Funds management and financial services					59,552	66,353	65,884

⁴Investment in Macquarie-IMM was sold in September 2007.

⁵In February 2008, Macquarie acquired the remaining 51% of Brook Asset Management.

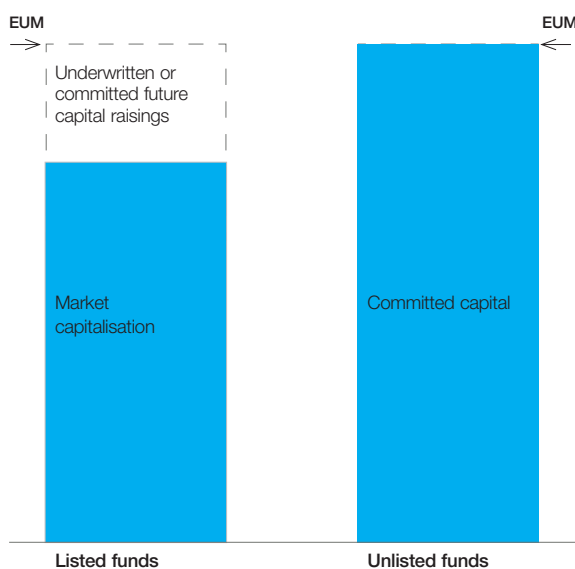
5.2 Equity Under Management

Funds management base fees for Real Estate, Non-specialist funds and certain Infrastructure and Other specialist funds are closely aligned with the AUM measure. However, base fees for most Infrastructure funds and various Other specialist funds are more closely aligned to an Equity under management (EUM) measure used by Macquarie Capital Funds. The EUM calculation differs for listed funds, unlisted funds, hybrid instruments and managed assets as described below.

Type of equity investment	Basis of EUM calculation
Listed funds	Market capitalisation at the measurement date plus underwritten or committed future capital raisings
Unlisted funds	Committed capital from investors at the measurement date less called capital subsequently returned to investors
Hybrid instruments	Face value of TICKETS and of exchangeable bonds
Managed assets ¹	Invested capital at measurement date

¹ Managed assets include:

- third party equity invested in Macquarie Capital Funds managed assets where management fees may be payable to Macquarie; and
- interests in assets held directly by Macquarie and managed by Macquarie Capital Funds, acquired with a view that they may be sold into new or existing Macquarie Capital Funds managed funds.



If the fund is managed through a joint venture with another party, the EUM amount is weighted based on Macquarie's proportionate economic interest in the joint venture management entity. At 31 March 2008, this applied to Macquarie Korea Infrastructure Fund and Diversified Utility and Energy Trusts (DUET), which are weighted at 50% as outlined in the table overleaf, and some other unlisted funds.

Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian dollars at the exchange rate prevailing at the measurement date.

5.0 Funds Management continued

	Ownership of management company (%)	Listing date	Stock Exchange/ ASX Code	Holding (%) ¹	Equity under management As at			
					Mar 08 \$m	Sep 07 \$m	Mar 07 \$m	
Listed funds								
ConnectEast Group	100 ²	Nov 04	CEU	<1	2,002	2,093	1,871	
DUET Group	50	Aug 04	DUE	6	929	1,016	815	
Macquarie Airports	100	Apr 02	MAP	20	5,551	7,476	6,857	
Macquarie Capital Alliance Group	100	Apr 05	MCQ	18	536	1,010	1,026	
Macquarie Communications Infrastructure Group	100	Aug 02	MCG	17	2,204	3,125	2,625	
Macquarie Infrastructure Company	100	Dec 04	Listed on NYSE	7	1,433	1,903	1,825	
Macquarie Infrastructure Group	100	Dec 96	MIG	8	6,683	7,732	9,903	
Macquarie International Infrastructure Fund	100	May 05	Listed on SGX	11	815	1,070	1,158	
Macquarie Korea Infrastructure Fund	50	Mar 06	Listed on KRX & LSE	4	1,201	1,394	1,501	
Macquarie Media Group	100	Nov 05	MMG	22	791	924	929	
Macquarie Power and Infrastructure Income Fund ³	100	Apr 04	Listed on TSE	<1	425	533	306	
Total Macquarie Capital Funds equity under management — Listed funds						22,570	28,276	28,816

continued on next page

¹ Holding at 31 March 2008 represents Macquarie's participating interest in the fund, excluding amounts held through True Index funds and their controlled entities.

² ConnectEast Management Limited (CEML), a wholly-owned subsidiary of Macquarie, is the responsible entity of ConnectEast Investment Trust and ConnectEast Holding Trust ("the trusts") for which it is paid a fee of approximately \$1 million per annum (indexed to CPI). CEML has outsourced the day-to-day management of the ConnectEast Group to ConnectEast Pty Limited, a company wholly-owned by the trusts.

³ Excludes Class B exchangeable units.

	Ownership of management company (%)	Listing date	Stock Exchange/ ASX Code	Holding (%) ¹	Equity under management As at		
					Mar 08 \$m	Sep 07 \$m	Mar 07 \$m
Unlisted funds							
Macquarie European Infrastructure Fund I and II					10,557	9,818	9,131
Macquarie Infrastructure Partners					4,380	4,506	4,946
Macquarie Korea Opportunities Fund					1,348	1,247	1,086
Other unlisted funds					7,672	3,906	3,990
Total Macquarie Capital Funds equity under management — Unlisted funds					23,957	19,477	19,153
Less Macquarie Capital Funds funds' investments in other Macquarie Capital Funds funds					(446)	(564)	(975)
Total Macquarie Capital Funds equity under management — Listed and unlisted funds					46,081	47,189	46,994
Hybrid instruments ⁴					1,848	1,854	925
Macquarie managed assets — Invested capital ⁵					7,112	7,195	7,291
Total Macquarie Capital Funds equity under management					55,041	56,238	55,210

⁴Hybrid instruments include Tradeable Interest-Bearing Convertible to Equity Trust Securities (TICKETS) issued by Macquarie Airports Reset Exchange Securities Trust and Exchangeable Bonds issued by Macquarie Communications Infrastructure Group.

⁵Includes \$0.7 billion of equity invested by Macquarie in assets managed by Macquarie Capital Funds.

5.0 Funds Management continued

5.3 Base and Performance Fees

The table below shows the base and performance fees earned from each listed fund, total for all unlisted funds and fees received for managing assets on behalf of third parties that are not Macquarie-managed funds.

	Half year to		Full year to	
	Mar 08 \$m	Sep 07 \$m	Mar 08 \$m	Mar 07 \$m
Base fees				
Listed funds				
Infrastructure				
ConnectEast Group	0.6	0.5	1.1	1.0
DUET Group	3.2	3.8	7.0	—
Macquarie Airports	32.4	38.3	70.7	62.1
Macquarie Communications Infrastructure Group	19.4	20.7	40.1	27.9
Macquarie/First Trust Global Infrastructure/Utilities Dividend and Income Fund	0.7	1.0	1.7	1.8
Macquarie Global Infrastructure Total Return Fund	3.4	3.7	7.1	7.3
Macquarie Infrastructure Company	11.3	13.6	24.9	21.6
Macquarie Infrastructure Group	34.1	38.6	72.7	85.0
Macquarie International Infrastructure Fund	5.8	7.0	12.8	9.8
Macquarie Power and Infrastructure Income Fund	1.0	0.9	1.9	1.4
Southern Cross FLIERS Trust	—	—	—	0.3
Total Infrastructure	111.9	128.1	240.0	218.2
Real Estate				
Macquarie Central Office Corporate Restructuring REIT	0.8	0.9	1.7	1.7
Macquarie CountryWide	4.9	4.6	9.5	8.2
Macquarie Leisure Trust Group	1.8	1.6	3.4	2.2
Macquarie Office Trust	12.8	9.1	21.9	15.4
Total Real Estate	20.3	16.2	36.5	27.5
Other				
Macquarie Capital Alliance Group	4.4	7.7	12.1	14.2
Macquarie Fortress Australia Notes Trust	—	1.5	1.5	4.5
Macquarie Media Group	6.7	6.9	13.6	14.5
Macquarie New Zealand Fortress Notes Trust	—	0.3	0.3	0.7
Macquarie Private Capital Group	0.6	0.6	1.2	0.6
Total Other	11.7	17.0	28.7	34.5
Total listed funds	143.9	161.3	305.2	280.2
Unlisted funds				
Specialist funds	169.7	150.6	320.3	243.3
Non-specialist funds	162.1	159.6	321.7	261.7
Total unlisted funds	331.8	310.2	642.0	505.0
Managed assets	4.9	5.7	10.6	—
Total base fee income	480.6	477.2	957.8	785.2

continued on next page

	Half year to		Full year to	
	Mar 08 \$m	Sep 07 \$m	Mar 08 \$m	Mar 07 \$m
Performance fees				
Listed funds				
Infrastructure				
DUET Group	—	21.3	21.3	—
Macquarie Communications Infrastructure Group	—	—	—	13.4
Macquarie Infrastructure Company	—	50.1	50.1	1.2
Macquarie International Infrastructure Fund	—	2.4	2.4	—
Macquarie Power and Infrastructure Income Fund	3.9	—	3.9	2.0
Total Infrastructure	3.9	73.8	77.7	16.6
Real Estate				
Macquarie Leisure Trust Group	—	0.3	0.3	4.0
Total Real Estate	—	0.3	0.3	4.0
Other				
Macquarie Media Group	—	—	—	9.1
Total Other	—	—	—	9.1
Total listed funds	3.9	74.1	78.0	29.7
Unlisted funds				
Specialist funds	159.8	65.8	225.6	20.2
Non-specialist funds	19.5	6.8	26.3	13.1
Total unlisted funds	179.3	72.6	251.9	33.3
Managed assets	33.6	22.2	55.8	10.7
Total performance fee income	216.8	168.9	385.7	73.7

6.0 Glossary

ADI	Authorised Deposit-taking Institution
AGAAP	Australian generally accepted accounting principles
ALCO	Asset and Liability Committee
APRA	Australian Prudential Regulation Authority
Assets under management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager
Assets under management (including associates)	Assets under management (including associates) is an extension of the assets under management measure. Instead of reflecting Macquarie's proportional ownership interest in relevant joint venture fund managers (as is done for the assets under management measure), this measure includes all of the assets under management by joint venture fund managers
Assets under management outside Australia	AUM outside of Australia is defined by the location of the assets themselves, as opposed to the domicile of the fund or fund manager
Associates	Entities over which Macquarie has significant influence, but not control
ASX	Australian Securities Exchange
Available for sale (AVS) assets	Investments that Macquarie does not have significant influence nor control over and are intended to be held for an indefinite period of time
BFSG	Banking and Financial Services Group
BSG	Banking and Securitisation Group
CMT	Cash Management Trust
Collective allowance for credit losses	The provision relating to loan losses inherent in a loan portfolio that have not been specifically identified
Contingent liabilities	Defined in AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'
Deferred income tax assets	Defined in AASB 112 'Income Taxes'
Dilutive option	An option which has an exercise price that is less than the average share price for the period. Only dilutive options have an impact on the calculation of diluted earnings per share
Dividend reinvestment plan (DRP)	The plan that provides shareholders with the opportunity to reinvest part or all of their dividends as additional shares in the company, with no transaction costs
Earnings on capital and certain corporate income items	Total operating income includes the income generated by Macquarie's operating groups, income from investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's operating groups. Earnings on capital and certain corporate income items is total operating income less the operating income generated by Macquarie's operating groups
Earnings per share (EPS)	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 'Earnings Per Share'
ECM	Equity capital markets
Effective tax rate	The income tax expense as a percentage of the profit before income tax adjusted for MIS and MIPS distributions paid or provided
EMG	Equity Markets Group

Equities related income	Income that is derived from businesses that depend directly on equity markets, e.g. institutional cash equities, equity capital markets and equity derivatives trading
Equity under management (EUM)	Refer definition in section 5.2
Expense/Income ratio	Total operating expenses expressed as a percentage of total income
Fee and commission income	Fee and commission revenue less fee and commission expenses
FMG	Funds Management Group
FSG	Financial Services Group
Held for sale (HFS) assets	Assets that have a high probability of being sold to external parties, which may be an existing or proposed Macquarie-managed fund
IFRS	International Financial Reporting Standards. These applied to Macquarie for the 2006 financial year. Comparatives for 31 March 2005 have been restated in accordance with IFRS where applicable
Impaired assets	An asset for which the ultimate collectibility of principal and interest is compromised
Interest income	Interest revenue less interest expense
International income	International income provides a consistent basis for determining the size of Macquarie's operations outside of Australia. Operating income is classified as 'international' with reference to the geographic location from which the operating income is generated. This may not be the same geographic location where the operating income is recognised. For example, operating income generated by work performed for clients based overseas but recognised in Australia for statutory reporting purposes would be classified as 'international' income. Income from funds management activities are allocated by reference to the location of the funds' assets
IPO	Initial public offering
LPT	Listed Property Trust
M&A	Mergers and acquisitions
Macquarie Income Preferred Securities (MIPS)	On 22 September 2004, Macquarie Capital Funding L.P., a Macquarie Group entity established to facilitate capital raising, issued £350 million of Tier 1 Capital-Eligible Securities (Macquarie Income Preferred Securities). The securities – guaranteed non-cumulative step-up perpetual preferred securities – will pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at Macquarie's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five-year benchmark sterling gilt rate. The securities may be redeemed on each fifth anniversary thereafter at Macquarie's discretion. The first coupon was paid on 15 April 2005. The issue is reflected in Macquarie's financial statements as an outside equity interest of the economic entity, with distributions being recorded to the outside equity interest
Macquarie Income Securities (MIS)	The Macquarie Income Securities are perpetual and carry no conversion rights. Distributions are paid quarterly, based on a floating rate of BBSW plus 1.7%. Subject to limitations on the amount of hybrids eligible for inclusion as Tier 1 Capital, they qualify as Tier 1 Capital. They are treated as equity in the balance sheet. There are four million \$100 face value MIS on issue

6.0

Glossary

continued

Managed assets	Managed assets include third party equity invested in assets managed by Macquarie Capital Funds where management fees may be payable to Macquarie; and assets held directly by Macquarie acquired with a view that they may be sold into new or existing funds managed by Macquarie Capital Funds. This measure excludes assets of Macquarie-managed funds
MBL	Macquarie Bank Limited
MacCap	Macquarie Capital
MGL	Macquarie Group Limited
Net impaired assets as a percentage of loan assets	Excludes amounts relating to mortgage SPVs. Macquarie's exposure in relation to these entities is largely mitigated by credit insurance
Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for out of the income statement
Net tangible assets (NTA) per ordinary share	(Total equity less Macquarie Income Securities less Minority Interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets of businesses held for sale) divided by the number of ordinary shares on issue at the end of the period
NOHC	Non-Operating Holding Company
Operating expenses	Operating expenses include employment expenses (including staff profit sharing expense), brokerage and commission expenses, occupancy expenses (including premises rental expense), non-salary technology expenses, professional fees, travel and communication expenses, and other sundry expenses. Operating expenses are reported in Macquarie's statutory income statement
Operating income	Operating income includes net interest income (interest income less interest expense), net trading income, fee and commission income, share of net profits of associates and joint ventures, net gains and losses from the sale of investments or the deconsolidation of controlled entities, dividends and distributions received/receivable, other sundry income items, and is net of impairment charges. Operating income is reported in Macquarie's statutory income statement
Other income	Other revenue less other expenses. This captures income that does not fit into one of the other statutory categories, i.e. interest income, fee and commission income or trading income
Partial and inertia income	Represents income from leasing activities that extend beyond the term of the lease, either before the start of the lease term (partial) or after the conclusion of the lease term (inertia). Such income is required to be included in the effective yield of the lease, and hence is treated as interest income

PFI	Private Finance Initiative
PPP	Public Private Partnership
REG	Real Estate Group
REIT	Real Estate Investment Trust
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period
SPV	Special Purpose Vehicle or Securitisation Vehicle
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. They are classified as liabilities in the balance sheet
T&C	Treasury and Commodities Group
Trading income	Income that represents realised or unrealised gains and losses that relate to financial markets products. This income does not necessarily relate to proprietary trading in such products and may arise through the manufacturing of new financial products by bringing together existing financial instruments
UK	United Kingdom
US	United States of America

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8.0 Ten Year History

With the exception of 31 March 2005, the financial information presented below has been based on the accounting standards adopted at each reporting date. The financial information for the periods ended 31 March 2005 and later are based on results reported under Australian Accounting Standards that incorporate International Financial Reporting Standards.

	Year ended 31 March				
	1999	2000	2001	2002	2003
Financial performance (\$ million)					
Total income from ordinary activities	904	1,337	1,649	1,822	2,155
Total expenses from ordinary activities	(686)	(1,036)	(1,324)	(1,467)	(1,695)
Profit from ordinary activities before income tax	218	301	325	355	460
Income tax expense	(53)	(79)	(53)	(76)	(96)
Profit from ordinary activities	165	222	272	279	364
Profit attributable to minority interests	—	—	1	—	(3)
Macquarie Income Securities distributions	—	(12)	(31)	(29)	(28)
Profit from ordinary activities after income tax attributable to ordinary equity holders	165	210	242	250	333
Financial position (\$ million)					
Total assets	9,456	23,389	27,848	30,234	32,462
Total liabilities	(8,805)	(22,154)	(26,510)	(27,817)	(29,877)
Net assets	651	1,235	1,338	2,417	2,585
Total loan assets	4,002	6,518	7,785	9,209	9,839
Impaired loan assets (net of provisions)	44	23	31	49	16
Share information^(a)					
Cash dividends per share (cents per share)					
Interim	30	34	41	41	41
Final	38	52	52	52	52
Special	—	—	—	—	50
Total	68	86	93	93	143
Basic earnings per share (cents per share)	101.3	124.3	138.9	132.8	164.8
Share price at end of period (\$)	19.10	26.40	27.63	33.26	24.70
Ordinary share capital (million shares) ^(b)	161.1	171.2	175.9	198.5	204.5
Market capitalisation at end of period (fully paid ordinary shares) (\$ million)	3,077	4,520	4,860	6,602	5,051
Net tangible assets per ordinary share (\$) ^(c)	4.11	5.80	5.15	7.94	8.23
Ratios					
Return on average ordinary shareholders' funds (%)	26.8	28.1	27.1	18.7	18.0
Dividend payout ratio (%)	67.2	70.0	67.5	73.6	87.4 ^(d)
Expense/income ratio (%)	75.9	77.5	80.3	80.5	78.7
Net impaired assets as % of loan assets (excluding securitisation SPVs and segregated future funds) (%)	1.1	0.3	0.4	0.5	0.2
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.1	0.1	0.1	0.2	0.0
Assets under management (\$ billion)^(e)	22.8	26.3	30.9	41.3	52.3
Staff numbers^(f)	3,119	4,070	4,467	4,726	4,839

^(a) Macquarie's ordinary shares were listed on the Australian Stock Exchange on 29 July 1996.

^(b) Number of fully paid ordinary shares at end of period, excluding options and partly paid shares.

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

^(d) The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the Dividend payout ratio would have been 56.8%.

^(e) The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with the revised methodology.

^(f) Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).

	Year ended 31 March				
	2004	2005	2006	2007	2008
Financial performance (\$ million)					
Total income from ordinary activities	2,823	4,197	4,832	7,181	8,248
Total expenses from ordinary activities	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)
Profit from ordinary activities before income tax	685	1,158	1,287	1,928	2,205
Income tax expense	(161)	(288)	(290)	(377)	(317)
Profit from ordinary activities	524	870	997	1,551	1,888
Profit attributable to minority interests	(3)	(29)	(52)	(57)	(51)
Macquarie Income Securities distributions	(27)	(29)	(29)	(31)	(34)
Profit from ordinary activities after income tax attributable to ordinary equity holders	494	812	916	1,463	1,803
Financial position (\$ million)					
Total assets	43,771	67,980	106,211	136,389	167,250
Total liabilities	(40,938)	(63,555)	(100,874)	(128,870)	(157,189)
Net assets	2,833	4,425	5,337	7,519	10,061
Total loan assets	10,777	28,425	34,999	45,796	52,407
Impaired loan assets (net of provisions)	61	42	85	88	165
Share information^(a)					
Cash dividends per share (cents per share)					
Interim	52	61	90	125	145
Final	70	100	125	190	200
Special	—	40	—	—	—
Total	122	201	215	315	345
Basic earnings per share (cents per share)	233.0	369.6	400.3	591.6	670.6
Share price at end of period (\$)	35.80	48.03	64.68	82.75	52.82
Ordinary share capital (million shares) ^(b)	215.9	223.7	232.4	253.9	274.6
Market capitalisation at end of period (fully paid ordinary shares) (\$ million)	7,729	10,744	15,032	21,010	14,504
Net tangible assets per ordinary share (\$) ^(c)	10.72	13.97	16.63	22.86	28.18
Ratios					
Return on average ordinary shareholders' funds (%)	22.3	29.8	26.0	28.1	23.7
Dividend payout ratio (%)	53.2	53.2	54.4	54.3	52.2
Expense/income ratio	75.7	72.4	73.4	73.2	73.3
Net impaired assets as % of loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.6	0.3	0.5	0.4	0.6
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.3	0.2	0.2	0.1	0.3
Assets under management (\$ billion)^(d)	62.6	96.7	140.3	197.2	232.0
Staff numbers^(f)	5,716	6,556	8,183	10,023	13,107

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