

**CHAIRMAN'S ADDRESS**

**MACQUARIE GROUP LIMITED AGM**

**30 JULY 2010**

**SHERATON ON THE PARK, SYDNEY**

**CHECK AGAINST DELIVERY**

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Good morning ladies and gentlemen and welcome to Macquarie Group's 2010 Annual General Meeting.

I'm Kevin McCann and I will be chairing today's meeting.

As you will be aware, we issued a statement earlier this week in relation to Chairman David Clarke and his participation in today's meeting.

We are delighted that David could join us today but in view of his programmed radiotherapy treatment, it has been decided that I chair today's meeting.

The Company Secretary has confirmed that a quorum is present, so I formally declare the meeting open.

As well as those shareholders present, the holders of 230 million shares, or approximately 66 per cent of the Group's ordinary share capital, are represented by proxies.

Before we get underway, I would like to introduce our Directors and some of our senior executives.

On my right is your Chief Executive Officer Nicholas Moore.

Seated next to him is the Group's Chief Financial Officer Greg Ward, then Non-Executive Directors Catherine Livingstone, Peter Warne, Michael Hawker and John Niland.

On my left is our Company Secretary, Dennis Leong.

Next to him is Chairman David Clarke, followed by Non-Executive Directors Helen Nugent and Peter Kirby.

There are three major components of this morning's meeting.

First, I will present a broad overview of the market conditions during the past financial year and briefly discuss Macquarie's performance in that environment.

I will then hand over to Nicholas to discuss in greater detail our results for the full year to 31 March 2010.

Nicholas will also provide some brief comments on our first quarter performance and give an update on the outlook for the remainder of the year.

Once we have completed the presentations, we will move to consider the formal resolutions set out in the Notice of Meeting.

Please be advised that recording devices, photographic equipment and mobile phones may not be used during the meeting.

At the end of the meeting, you are invited to join us for refreshments in the foyer.

### **Global financial market conditions**

At last year's Annual General Meeting, we reflected on 12 months of extreme financial shocks which had impacted all major financial markets and much of the global economy.

While there was a general improvement in market conditions and overall sentiment in the year to March 2010, in recent months the disruption we have seen stemming from Europe, and concerns over the recovery of the US economy, has resulted in increased uncertainty across most financial markets.

### **Overall improvement in market conditions**

However, to put these market conditions into some context, let us look at some of the broader global trends we have been experiencing, as illustrated in the following series of charts.

The first chart shows the leading indicator for manufacturing activity in the major economies and it is this expansion that is expected to drive stronger growth in the US in particular.

As financial market sentiment improved over the past year, there were strong inflows into long-term stock funds, as indicated by the blue bars in the chart on the right.

### **Overall improvement in market conditions (continued)**

In this next slide, the first chart shows consumer confidence, which has bounced strongly from its lows of last year.

The sharp recovery in consumer sentiment in Australia can be attributed to stronger labour market conditions here relative to other developed economies.

We also saw a sharp acceleration in consensus expectations for economic growth in the US and the Asia Pacific, as illustrated in the chart on the right.

### **Confidence returned in FY10**

The final chart shows US credit spreads and you can see the sharp spike that occurred in risk premiums last year which resulted in limited access to finance for many businesses.

Since then, credit spreads have returned to more normal levels, showing that credit is more readily available and being extended more confidently than it was a year ago.

However, spreads are not back to levels reached prior to the financial market disruption, which reflects ongoing caution over issues such as sovereign debt levels in certain European countries.

While there is little doubt that the Chinese economy will continue to grow in the medium term, some have questioned its strength in the short term and the impact this may have on Australia.

In summary, while short-term uncertainty remains, there are indications of economic recovery in the medium-term.

### **Our financial performance reflects improved FY10 market conditions**

Macquarie performed positively in the stronger market conditions experienced over the year to March 2010.

As we reported in April, our operating income for the year to 31 March 2010 was \$A6.6 billion, an increase of 20 per cent on the previous year.

Profit after tax was \$A1.05 billion, which was an increase of 21 per cent on the previous year, with all operating groups and divisions reporting improved results on the prior year.

Earnings per share increased by 3 per cent to \$A3.20, while dividends were broadly in line with the previous year at \$A1.86 per share, unfranked, representing a payout ratio of 60 per cent.

## **Dividends**

On the subject of dividends, the Board announced earlier this year that it had removed the 2.5 per cent discount for the Dividend Reinvestment Plan, effective for the payment of the final dividend on 2 July 2010. Shareholders were also advised that the DRP scheme rules were amended to allow shares to be sourced on-market in future.

## **Macquarie share price continues to track global financials**

During the year the Macquarie Group share price continued to broadly track the performance of global financials. Both the Macquarie share price and the MSCI World Diversified Financials index remain below the levels reached prior to the financial market disruption in August 2007, in line with the overall market. However, the Macquarie Group share price has made a reasonable recovery from the lows of April 2009, and has outperformed the MSCI Index over the past two years.

## **Macquarie model – focus over the medium term**

Let me now turn to the Macquarie model which has a number of guiding principles that have enabled us to perform well throughout various market cycles.

There are six core components of the Macquarie model, which focus on performance over the medium term.

Macquarie is, first and foremost, **a client-driven business** and our primary function is to provide products and services to our clients around the world.

The trading activities we undertake are on behalf of our clients and we engage in minimal proprietary trading.

Our approach to both remuneration and investment in the business seeks to **align the interests of shareholders, investors and staff**, and our revised remuneration arrangements further strengthen this alignment.

We maintain a **conservative approach to risk management**, demonstrated both by the maintenance of strong capital and funding profiles and the way in which we make everyday business decisions.

All decision-making processes at Macquarie require a thorough risk analysis, undertaken by the business and overseen by the Risk Management Group.

Our culture of risk management is embedded across all of our operating groups and divisions and receives the close attention of the Chief Executive Officer, the Executive Committee and the Board.

With this strong risk management framework in place, we can give our operating groups the freedom to source and pursue business opportunities around the world.

This has driven the **incremental growth and evolution** that defines Macquarie's performance.

A significant portion of our profit today comes from businesses that did not exist five years ago, built from areas of real expertise by the staff who are closest to the markets and clients we serve.

This has also given our business great **diversity**, both in terms of the activities we undertake and the global reach of our operations across 70 locations, and highlights our **ability to adapt to change**, realising opportunities as they arise.

### **Board matters**

Turning now to Board matters, we were pleased to recently announce the appointment of Michael Hawker to the Board of Macquarie as an Independent Non-Executive Director.

Michael comes to us with extensive experience in the financial services industry, having held senior management roles with Citibank, Westpac and as Chief Executive Officer of Insurance Australia Group.

As a Director of the UK's largest insurance services provider, Aviva, he also brings global experience of the industry to the Board and we welcome the contribution he is already making.

You will be asked to vote on Michael's election as a Voting Director during the formal business of the meeting, along with the re-election of Directors David Clarke, Catherine Livingstone and Peter Warne.

### **Macquarie Group Foundation**

I will conclude with some comments on the contribution of the Macquarie Group Foundation. As an organisation with a broad view of the world, we pride ourselves on the work of the Foundation, as well as the efforts of Macquarie staff, in many communities around the world.

We are particularly pleased to celebrate the Macquarie Group Foundation's 25<sup>th</sup> anniversary this year and acknowledge its record as one of Australia's largest community benefactors.

Over the past 25 years, the Foundation and Macquarie staff have contributed \$A120 million to more than 1,000 community organisations around the world.

In addition, Macquarie staff have devoted significant time as volunteers, fundraisers and pro bono advisers to community groups.

As you came in this morning, you will have seen images on the screen depicting some of our community activities.

You will also have received a copy of the Foundation's latest annual review, outlining our record of community engagement over the past 25 years.

That concludes my opening remarks. I will now hand over to Nicholas to discuss Macquarie's results in more detail and to update you on our recent performance.

Thank you.