

**CHAIRMAN'S ADDRESS**

**MACQUARIE GROUP LIMITED AGM**

**28 JULY 2011**

**HILTON HOTEL, SYDNEY**

**CHECK AGAINST DELIVERY**

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Good morning ladies and gentlemen and welcome to Macquarie Group's 2011 Annual General Meeting.

I'm Kevin McCann and I am the Chairman of Macquarie Group.

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

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 Diane Grady, Peter Kirby, Michael Hawker and Peter Warne.

On my left is our Company Secretary, Dennis Leong.

Next to him are Non-Executive Directors Dr Helen Nugent, Professor John Niland and Catherine Livingstone.

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

First, I will present a broad overview of the market conditions we faced during the past financial year and our performance over that period.

I will then hand over to Nicholas to discuss in greater detail our results for the full year to 31 March 2011.

Nicholas will also cover our first quarter performance and provide 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 conclusion of the meeting, you are invited to join us for refreshments in the foyer.

## **David Clarke**

Before I move to Macquarie's performance over the past financial year, I would like to pay tribute to our former Chairman David Clarke and welcome David's wife, Jane Clarke, who is here today. Thank you, Jane, for joining us. We are very pleased that you could be here.

David died on the 8<sup>th</sup> of April this year. He had a long and courageous battle against cancer for some two years prior to his resignation as Chairman on the 17<sup>th</sup> of March 2011.

At Macquarie, we have been greatly touched by the many kind words we have received since then and we thank everyone for their expressions of support.

David made a remarkable contribution to Macquarie for over 40 years. Under his leadership, Macquarie grew from an organisation of 12 employees based in Sydney to a global enterprise of more than 15,500 staff in 28 countries.

He was recognised as a key figure in the evolution of the financial services industry in Australia.

David played a pivotal role in setting the policies and practices that have driven Macquarie's growth over the past four decades.

In order to deliver outstanding services to clients, he set about recruiting the best quality people and creating an environment which encouraged their ideas and innovation.

He developed a remuneration policy designed to reward staff for their achievements.

At the same time, he recognised the need for a strong risk management framework, with systems able to protect the organisation even in extreme financial and economic circumstances.

The 'freedom within boundaries' approach which continues today has been a key factor in Macquarie's long-standing success.

It has driven the evolution of our business, the increasing diversification of our activities and our ability to adapt to changing market conditions.

As you can see, David contributed a great deal to the Macquarie business and the success it enjoys today.

While his loss is keenly felt, his philosophy is embedded in the Macquarie culture and our over 15,500 staff continue to work under the principles and policies he helped develop. In this, he leaves us all an enduring legacy.

May I also state on a personal note that the Board enjoyed working with David and he presided over a happy and cohesive Board which produced highly productive outcomes. I shall miss his enthusiasm, optimism and the courtesy with which he chaired our meetings and proceedings.

### **Global financial market conditions during the year**

Turning now to global financial markets, at last year's Annual General Meeting, we noted that market conditions and sentiment had generally improved after the extreme financial shocks of 2008 and 2009.

At the same time, there was re-emerging uncertainty due to concerns over the level of European sovereign debt and the strength of the US recovery.

This uncertainty continued into the first half of our 2011 financial year, impacting global market activity and investor sentiment. However, market conditions improved during the second half.

### **Improvement in market conditions during the second half of the year**

This is reflected in the following series of charts, which highlight some of the broader global trends experienced over the year.

The chart on the left shows manufacturing activity in the major economies, a leading indicator for economic growth.

In the case of Europe and the US, slower activity in the first half was offset by improvements in the second half of the year.

While overall activity for the year appeared generally flat, the important thing to note is that anything above the black horizontal line represents an expansion. As you can see, all of the key economies represented in this chart, except Japan, were above that line during the year.

The chart on the right shows the actual economic growth in the Asia-Pacific region and the US over the past two years.

It shows the extent to which growth plateaued during the year following the significant recovery throughout 2009. In addition, it highlights the two speed global economy we are seeing at the moment, with Asia-Pacific growth exceeding that of the US by a considerable margin.

In the next slide, the chart on the left shows inflows into long-term US stock funds. These strengthened in the second half of the year after a period of uncertainty, reflecting the recovery in US equity markets and returning investor confidence.

The chart on the right shows US credit spreads over the past two years.

Despite the uncertainty that occurred during the year, there was not the sharp spike in risk premiums that we have seen in the recent past.

While there was an increase in relation to high yield debt, which lessened towards the end of the year, credit spreads remained relatively stable and credit continued to be extended with confidence.

As you are all aware, market conditions since the 31<sup>st</sup> of March have again weakened and Nicholas Moore will be speaking shortly about the implications of this for Macquarie.

### **Overview of Macquarie's performance for the year**

Macquarie's performance during the year reflected the improved second half conditions.

As we reported in April, our profit for the year to 31 March 2011 was \$A956 million, a decrease of 9 per cent on the previous year. However, second half profit was 37 per cent higher than the first half as market conditions improved.

Operating income rose 15 per cent on the previous year to \$A7.6 billion, 60 per cent of which was derived outside Australia. This reflects the continued growth of Macquarie's global platform and the global specialist expertise we have built across several key areas.

Earnings per share were \$A2.83, a decrease of 12 per cent on the previous year. However, earnings per share rose 37 per cent in the second half compared with the first half.

## **Dividends**

The full year dividend of \$A1.86 per share, unfranked, was in line with the previous year.

While the dividend payout ratio this year was 67 per cent, our dividend policy is unchanged with a target annual dividend payout ratio in the range of 50 to 60 per cent of net earnings.

## **Ten-year performance**

The next slide shows Macquarie's performance versus peers on two key performance measures; Return on Equity and Total Shareholder Return.

Total Shareholder Return, which reflects share price appreciation and dividends, has exceeded that of our peers over the past 10 years.

Our ROE is at historically low levels, reflecting uncertain market conditions as well as our conservative approach to capital and funding.

However, Macquarie's 10-year average ROE of 19.5 per cent is higher than all of its peers and well exceeds the peer average of 10.7 per cent over that period.

### **Macquarie's total shareholder return continues to track global financials**

Looking to the shorter term, we recognise that since the global financial crisis our returns, along with those of our peers, have dropped in what have been exceptionally difficult market conditions.

While our returns are lower than levels historically experienced, we have outperformed the average of our global financial peers by 10 per cent over the past four years.

I can assure you that everyone around the organisation is focussed on improving returns to shareholders.

### **Board matters**

I would like to now touch briefly on board matters.

In addition to my own appointment as Chairman following David Clarke's resignation on the 17<sup>th</sup> of March, we were pleased to announce the appointment of Diane Grady to the Boards of Macquarie Group and Macquarie Bank.

A full-time independent director since 1994, Diane has served on the boards of many leading companies, including Woolworths, Goodman Group, Lend Lease and MLC. She is currently a Director of BlueScope Steel.

Diane's experience as a director of major listed Australian companies with international businesses and her background in strategy, operational issues and remuneration will be of great benefit to Macquarie and we welcome her to the Board.

I would also like to acknowledge the retirement, this month, of Michael Carapiet as Chairman of Macquarie Capital and Macquarie Securities Group.

During his 22 years with Macquarie, Michael played a critical role in the development of the Macquarie Capital business in Australia and internationally.

In particular, he was instrumental to the development of Macquarie's infrastructure advisory and funds business. Michael, we thank you for your dedication over many years.

Michael will continue to be involved in the funds business in a non-executive capacity.

Roy Laidlaw, currently Group Head of Macquarie Capital and Macquarie Securities, has replaced Michael in the role of Executive Chairman of Macquarie Securities and continues as Group Head of Macquarie Capital. Stevan Vrcelj, currently Head of Cash Equities, has been appointed Group Head of Macquarie Securities.

### **Macquarie Group Foundation**

At the beginning of this address, I spoke of David Clarke's contribution to the Macquarie business. It is fitting to conclude my remarks with reference to his enduring philanthropic legacy.

David had a lifelong belief that a company should make a contribution to the society in which it operates, and this has inspired a culture of philanthropy and community engagement on a global basis by Macquarie staff.

In addition to his own substantial involvement with the not-for-profit sector, David was responsible for the formation of the Macquarie Group Foundation and its predecessor, the Hill Samuel Charitable Trust, which he chaired for a combined 33 years.

Since its inception, the Macquarie Group Foundation and Macquarie staff have contributed more than \$A145 million to not-for-profit organisations globally, as well as countless hours of time in volunteering and pro bono support, and we are proud of this record, as David was.

As you came in this morning, you will have seen images on the screen depicting some of our community activities. Copies of the Macquarie Group Foundation's latest annual review are available at the Shareholder Table in the foyer and you are welcome to collect a copy after the meeting.

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.