



MAGELLAN
FINANCIAL GROUP

Annual Report

for the year ended 30 June 2015

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

Five year summary⁽¹⁾

		30 June 2015	30 June 2014	30 June 2013	30 June 2012	30 June 2011
Group Results						
Total Revenue	\$'000	284,912	148,109	120,906	35,846	18,314
Total Expenses	\$'000	54,603	37,630	25,904	16,693	10,244
Net Profit Before Tax ⁽²⁾	\$'000	230,309	110,479	95,002	19,153	8,070
Net Profit After Tax ⁽²⁾	\$'000	174,295	82,939	66,600	13,660	5,792
Effective Tax Rate	%	24.3	24.9	29.9	28.7	28.2
Funds Under Management⁽³⁾						
Average Funds Under Management	\$m	30,966	19,923	9,351	3,381	1,952
Total Funds Under Management	\$m	36,381	23,513	14,695	4,006	2,756
Funds Under Management comprises:						
- Retail	\$m	9,809	6,693	4,542	1,750	1,082
- Institutional	\$m					
- Australia/NZ	\$m	3,871	2,889	2,424	1,924	1,674
- North America	\$m	8,462	4,690	2,891	306	-
- Rest of World	\$m	14,239	9,241	4,838	26	-
Average Base Management Fee (per annum) ⁽⁴⁾	bps	66	67	66	71	61
Funds Management Business						
Total Revenue	\$'000	255,889	139,135	86,786	32,660	15,208
Total Expenses	\$'000	52,589	36,616	25,207	16,361	9,817
Net Profit Before Tax	\$'000	203,300	102,519	60,773	16,299	5,391
Employee Expenses/ Total Expenses	%	59.4	64.4	69.1	69.5	71.0
Cost to Income Ratio (expense/revenue)	%	20.6	26.3	29.3	50.1	64.6
Cost to Income Ratio (excluding performance fees)	%	24.8	26.7	43.8	69.3	69.9
Assets						
Total Assets - MFG Group	\$'000	346,678	236,851	193,441	155,805	129,266
Net Assets - MFG Group	\$'000	303,443	206,587	153,039	147,216	125,835
Net Tangible Asset per share	\$	1.78	1.24	1.02	0.91	0.78
Shareholder Value						
Basic Earnings Per Share ⁽²⁾	cents	109.2	53.3	43.6	9.0	3.9
Diluted Earnings Per Share ⁽²⁾	cents	101.8	48.9	40.0	8.5	3.7
Dividends Per Share (Interim and Final) ⁽²⁾	cents	74.9	38.3	21.5	4.5	1.5
Other Information						
Number of Employees		91	69	58	44	31
Average Number of Employees		80	64	51	38	28

(1) Where accounting classifications have changed, or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported. The above income statement and balance sheet extracts are derived from the published financial statements.

(2) Excludes gain on the in-specie distribution in February 2013.

(3) As reported in the Group's funds under management (FUM) announcements published on the Australian Securities Exchange.

(4) Calculated using management fees (excluding services and performance fees) for the relevant year divided by the average of month end FUM over the same year.

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MAGELLAN FINANCIAL GROUP LIMITED

Chairman's Report for the year ended 30 June 2015

Dear Shareholders

We are pleased to present the Annual Report for Magellan Financial Group Limited ("Magellan") for the year ended 30 June 2015. This report contains a detailed letter from our Chief Executive Officer, Hamish Douglass, together with Magellan's financial statements, both of which we encourage you to read carefully.

Hamish's letter and the financial statements show we continue to make excellent progress. Our financial results remain very satisfactory, with strong increases over the past year in fully diluted earnings per share (up 108%) and dividends per share (up 96%), whilst our business development continues apace. At 30 June 2015, we employed 91 very talented people, up from 69 at the same time last year and 58 the year before.

At the end of the day our long term success will be the result of getting a relatively few important things right - provided we do not make too many mistakes along the way. Magellan's culture has been a key part of the success we have enjoyed to date and we believe that maintaining and developing our culture is one of the most important things we need to ensure we do get right.

Maintaining an evolving culture which binds together all stakeholders to ensure the best collective outcome is never an easy task, and this becomes more challenging with increasing size and especially with rapid growth. It is very important, therefore, that we continue to express both internally and externally what we stand for and what we expect.

Magellan is still a relatively young firm and as such almost all of our team have worked at other firms for reasonable periods of their careers. This is important because, as a result, we have all seen behaviour over this time which we admire and, unfortunately, behaviour which we loathe.

Magellan's foundation is based on an ethos of embracing the admirable and shunning the loathsome.

We have spoken before about our commitment to a culture which maintains our core principles of acting rationally and fairly while being realistic and pragmatic. There are no doubt a number of other adjectives we could use to express the sentiment of our culture, but at the heart of our cultural ambition is what Charlie Munger has often referred to over the years as "a seamless web of deserved trust."

We want all who interact with Magellan to trust us, and for this trust to be genuinely well deserved. Deserving this trust can only come from a culture that embraces admirable behaviour, and at Magellan this is very important.

We want our clients and their advisors to trust that we will manage their money with care and diligence and that our investment processes are aimed at delivering our stated objectives – to achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss.

We want our shareholders to trust that we will act as unselfish co-owners of the business and therefore have their long-term interests at heart. We expect that, over time, a like-minded shareholder base will understand that the customer must rank first and that we will avoid incentive structures that promote short-term outcomes at the expense of long-term, sustainable, client focussed business decisions.

We want all of our team to trust each other, in the knowledge we will always act rationally and fairly. We expect that all our team understands that treating each other with respect is central to our behaviour and that inevitable mistakes are to be learned from, but that in our pursuit of excellence, incompetence cannot be tolerated.

Furthermore, we expect our team to understand that as we grow our past successes do not underwrite our future success, and that any confirmation bias in our thinking leading to hubris can only result in poor outcomes.

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Striving to achieve a seamless web of deserved trust may sound like a less than tangible objective when considering an overall business, but in our observation when achieved it can result in a lollapalooza. We can point to a number of companies where this is evident and here at Magellan we believe we have experienced our own small example.

On 2 March 2015 we seeded Magellan Global Equities Fund. This is an actively managed open-ended fund, not unlike our Global Fund, but with a key difference – it is quoted on the ASX (code: MGE). Very recently, we have followed this up with a currency hedged fund, companion version of MGE, also quoted on the ASX under the code MHG.

MGE and MHG provide investors access to live market pricing and the ability to buy and sell units in the secondary market in the same way, and with the same ease, as any ASX listed security. For some, these are valuable attributes which are unavailable in the unlisted funds universe, and the lack of these attributes is often a significant barrier for many a would-be investor contemplating managed funds. Also importantly, MGE and MHG allow investors, and particularly their advisors, to utilize existing brokerage accounts, thereby eliminating the lengthy application and redemption processes required for unlisted funds - a significant efficiency.

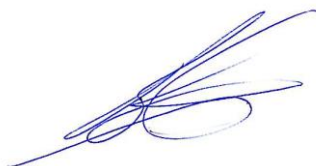
For these and a number of other reasons, exchange quoted, actively managed, open-ended funds continue to be a prized objective of many fund managers around the world, but with little success until now. There are still a number of structural reasons for this lack of success in some jurisdictions, but we believe MGE and MHG are very important steps in the development of this space which we have been working on for some time.

MGE and MHG open our funds to a broader audience, be they self-directed superannuation investors or those using the wider services of the broking community. We are very pleased that they have been warmly received and to date MGE has attracted over 4,600 unit holders. Our objective was to help solve our clients' problems by providing an ASX quoted solution. As simple as this sounds, in practice it involved a great deal of thought and the involvement of a number of participants.

The development of MGE and MHG could not have occurred without a high degree of trust. This trust spanned the Magellan board, who having ultimate responsibility had to trust in the soundness of the new product development; the regulators, who had to trust Magellan as they acted pragmatically in thinking about appropriate regulations; management, who had to trust the firm's support during their creation; and our clients, who are using both MGE and MHG and trust they are robust solutions which are ultimately useful.

Attempting something like MGE and MHG would not have been possible in a culture that does not engender deserved trust. This is a very important part of what makes up Magellan and something we all will nurture as we continue to grow.

Our Annual General Meeting is on Friday 16 October 2015 and we welcome any and all discussion. We hope to see you there.



Brett Cairns
Executive Chairman

11 August 2015

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Chief Executive Officer's Annual Letter for the year ended 30 June 2015

Dear Shareholder,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("the Group") for the year ended 30 June 2015.

OVERVIEW OF RESULTS

The Group had a successful year which was characterised by continued strong growth in funds under management (which increased by 55% from \$23.5 billion to \$36.4 billion for the 12 months to 30 June 2015) and strong growth both in earnings and dividends.

For the year ended 30 June 2015:

- average funds under management increased by 55% to \$31.0 billion (\$19.9 billion in 2014);
- the Group's net operating profit after tax increased by 110% to \$174.3 million (\$82.9 million in 2014);
- fully diluted earnings per share increased by 108% to 101.8 cents (48.9 cents in 2014); and
- dividends (interim and final) increased by 96% to 74.9 cents fully franked (38.3 cents in 2014).

The Directors have declared a final fully franked dividend of 37.8 cents per ordinary share in respect of the 2015 financial year (21.8 cents per ordinary share final dividend in 2014). A fully franked interim dividend of 37.1 cents per share was paid in March 2015 (16.5 cents per ordinary share interim dividend in March 2014). The Directors have confirmed the policy of paying a dividend of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business, with the calculation to include any crystallised performance fees. Performance fees fluctuate materially from period to period. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations. This year the final dividend will be paid on 26 August 2015.

The following table summarises the Group's profitability over the past two financial years:

	30 June 2015 \$'000	30 June 2014 \$'000	Change %
Management, performance and services fees	254,281	138,602	83%
Other revenue	30,631	9,507	222%
Revenue	284,912	148,109	92%
Expenses	(54,603)	(37,630)	45%
Profit before tax expense	230,309	110,479	108%
Tax expense	(56,014)	(27,540)	103%
Profit after tax expense	174,295	82,939	110%
Effective tax rate	24.3%	24.9%	
Key Statistics			
Earnings per share (cents per share)	109.2	53.3	105%
Diluted earnings per share (cents per share)	101.8	48.9	108%
Dividends (interim and final)(cents per share, fully franked)	74.9	38.3	96%

For the year ended 30 June 2015, the Group's Other Revenue increased by 222% to \$30.6 million (\$9.5 million in 2014). The Other Revenue includes interest income, dividend and distribution income, net gains on sale of financial assets and net foreign exchange gains. The significant increase in Other Revenue in 2015 was primarily due to the significant increase in the distribution paid on the Group's holding in the Magellan Global Fund (24.3397 cents per unit in 2015 versus 5.9876 cents per unit in 2014) and gains from the sale of holdings in the Group's funds⁽¹⁾ to seed the \$50 million investment in the new Australian Securities Exchange (ASX) quoted Magellan Global Equities Fund. Investors should note that the Group's Other Revenue may fluctuate significantly from year to year and will primarily depend upon the level of distributions paid and any gains or losses on sales of the Group's underlying investments in its funds.

(1) Sales were made from the Magellan Global Fund and Frontier MFG Global Fund

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As at 30 June 2015, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents, financial assets and investment in associate) of \$283.3 million (30 June 2014: \$208.4 million) and shareholders' funds of \$303.4 million (30 June 2014: \$206.6 million); and
- the Group's NTA per share diluted for MFG 2016 Options and the conversion of the Class B Shares was \$1.78 (30 June 2014: \$1.24).

Funds Management Business

For the year ended 30 June 2015, the Group's funds management business generated revenues of \$255.9 million (\$139.1 million for 2014) and had expenses of \$52.6 million (\$36.6 million for 2014), which resulted in a profit before tax of \$203.3 million (\$102.5 million for 2014). Revenue included performance fees of \$43.4 million in 2015 compared with \$2.1 million in 2014. Performance fees fluctuate significantly from period to period.

The highlights for our funds management business for the year include:

- solid performance of the Magellan Global Fund which returned 29.5%, after fees, over the 12 months to 30 June 2015, outperforming the MSCI World Net Total Return Index (AUD) by 4.9%;
- solid performance of the Magellan Infrastructure Fund which returned 12.3%, after fees, over the 12 months to 30 June 2015, outperforming the Global Infrastructure Benchmark⁽²⁾ by 4.8%;
- the launch of the ASX quoted version of our Global Equities strategy, Magellan Global Equities Fund. As at 30 June 2015 the Magellan Global Equities Fund had funds under management of \$205 million. On 4 August 2015 we seeded a currency hedged version on the ASX, Magellan Global Equities Fund (Currency Hedged); and
- entering into new arrangements with AMP and BT/Westpac who have launched new funds on their respective platforms replicating the Magellan Global Fund, similar to the Colonial First State Magellan Global Fund Option (CFS) on the Colonial First State Platform (operated by Commonwealth Bank).

The following table summarises the profitability of the funds management business over the past two financial years:

	30 June 2015 \$'000	30 June 2014 \$'000	Change (3) %
Revenue			
Management fees	203,478	132,567	53%
Performance fees	43,413	2,117	nm
Services fees	7,854	3,918	100%
Interest and other income	1,144	533	115%
	<u>255,889</u>	<u>139,135</u>	84%
Expenses			
Employee expense	31,213	23,599	32%
US marketing and consulting fees ⁽⁴⁾	5,490	3,127	76%
Other expense	15,886	9,890	61%
	<u>52,589</u>	<u>36,616</u>	44%
Profit before tax expense	<u>203,300</u>	<u>102,519</u>	98%
Key Statistics			
Average funds under management (A\$ million)	30,966	19,923	55%
Average AUD/USD exchange rate ⁽⁵⁾	0.8368	0.9182	
Average number of employees	80	64	25%
Employee expenses / total expenses	59.4%	64.4%	
Cost / income	20.6%	26.3%	
Cost / income, excl. performance fees	24.8%	26.7%	
Net assets (\$'000)	58,035	34,931	66%

(2) The Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).

(3) nm means not meaningful.

(4) Pursuant to the agreement, Frontier Partners Inc, is entitled to receive 25% of net management fees from Frontier MFG Funds and 20% of management and performance fees from institutional mandate clients in North America.

(5) Based on daily average of London 4pm exchange rates of the 12 month period.

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Management and performance fee revenues increased as a result of higher average funds under management over the period due to strong net inflows and investment performance. Investment performance and funds under management benefited from the lower Australian dollar over the period. Overall the funds management business operated efficiently with a cost to income ratio (excluding performance fees) of 24.8% in 2015 compared with 26.7% in 2014.

Employee expense increased by 32% over the previous corresponding period to \$30.9 million. The majority (25%) of the increase was due to the costs of new employees hired during current period and the full year cost of hires made in the previous period. At 30 June 2015 the Company had 91 employees (June 2014: 69).

We have continued to make a significant investment in people and capability. We made 22 net hires since 30 June 2014, with seven analysts joining the Investment team, six new Distribution professionals, five new Business Support and Control professionals, and two analysts joining the Governance and Advisory team. In 2015 key hires included:

- a new Head of Healthcare and a new Head of Franchises in our Investment team;
- a new Senior Marketing Manager, new Senior Key Account Managers in Queensland and New South Wales, and a Head of North American Distribution in our Distribution team; and
- a Chief Legal Counsel to lead our Legal team, and a Head of Tax.

In the 2015/16 financial year, we are planning to invest further in people and capability. We will make a number of hires in the Investment team to develop additional capability, deepen our research expertise and to provide flexibility for extensions of our investment products in the years ahead. We are also planning to make a number of hires in our Distribution and Business Support and Control teams, including the further build out of our US based Distribution team.

In the 2015/16 financial year, we expect total employee expense will increase by approximately 30 to 35% due to the full year cost impact of professionals hired in 2014/15, increased remuneration levels and our hiring plans for 2015/16.

We welcome Dr Brett Cairns in his new appointment as our Executive Chairman, taking primary responsibility for company secretarial, risk and compliance, investor relations and corporate development, in addition to his overall Board responsibilities. We announced important changes to our Investment team in early December 2014, including the promotion of Dom Giuliano to Deputy Chief Investment Officer and the separation of Gerald Stack's previous role into two roles - Head of Investments and Head of Research. Mr Stack assumed the role of Head of Investments and Nikki Thomas was promoted to the role of Head of Research.

The following table sets out total employee numbers over the past three financial years.

	30 June 2015	30 June 2014	30 June 2013
Investment			
- Portfolio Managers/Analyst	29	22	20
- Traders	3	2	2
	32	24	22
Governance & Advisory⁽⁶⁾	4	1	-
Distribution	21	15	14
Risk, Compliance & Company Secretarial	5	3	1
Business Support & Control	23	18	16
Administration	6	8	5
Total	91	69	58
Average number of employees	80	64	51

At 30 June 2015, the Group had funds under management of \$36.4 billion, split between global equities (85%) and infrastructure equities (15%). The increase in funds under management was driven by net inflows of \$5.3 billion and investment performance of \$7.7 billion (incorporating net cash distribution outflow) for the year ended 30 June 2015.

(6) Includes Brett Cairns, Executive Chairman, effective 1 January 2015.

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The following table sets out the composition of funds under management for the past three years:

Funds Under Management (FUM)

\$million	30 June 2015	30 June 2014	30 June 2013
Retail	9,809	6,693	4,542
Institutional			
- Australia/New Zealand	3,871	2,889	2,424
- North America	8,462	4,690	2,891
- Rest of World	14,239	9,241	4,838
	26,572	16,820	10,153
Total FUM	36,381	23,513	14,695
Percentage			
Retail	27%	28%	31%
Institutional			
- Australia/New Zealand	11%	12%	16%
- North America	23%	20%	20%
- Rest of World	39%	40%	33%
	73%	72%	69%
Total FUM	100%	100%	100%
FUM subject to Performance Fees (%)	37%	37%	39%
Institutional FUM (%)			
- Active	85%	81%	80%
- Enhanced Beta	15%	19%	20%
Breakdown of FUM (A\$ million)			
- Global Equities	31,015	19,443	12,088
- Infrastructure Equities	5,366	4,070	2,607
Average Base Management fee (bps) per annum excluding Performance Fees ⁽⁷⁾	66	67	66

It should be noted that our retail business has higher fees than our institutional business and our infrastructure enhanced beta product has lower fees than other institutional mandates.

As we have indicated previously, we consider that the theoretical capacity of our Global Equities and Infrastructure Equities strategies is approximately US\$50 billion in total. We carefully take into account the investment universe, the market capitalisation established for the strategy and liquidity requirements in ascertaining the theoretical capacity of each of our strategies. This theoretical capacity is not static and should be approximately indexed to changes in the values of world equity markets over time. Broadly this theoretical capacity should be indexed for world market movements from 1 July 2013, subject to the impact of price movements on our investment universe.

As mentioned previously, we are increasing the size of our Investment team; this may lead to the development of new related global equity products in the future. These would be incremental to the theoretical capacity of the Group's existing products.

At 30 June 2015, the Group was managing A\$36.4 billion (equating to approximately US\$28.0 billion). It should be noted that the above capacity numbers are purely theoretical and should in no way be taken as a forecast or indication as to the level of funds under management the Group may have in the future.

(7) Calculated using management fees (excluding services and performance fees) for the relevant period divided by the average of month end FUM over the same period.

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Retail Funds Under Management

At 30 June 2015, the Group had total retail funds under management of \$9.8 billion. We experienced total net retail inflows of \$1.4 billion for the 12 months to 30 June 2015, compared with \$2.1 billion for the previous financial year. The Group experienced average monthly retail net inflows of approximately \$120 million over the 12 months to 30 June 2015, compared with \$177 million over the previous corresponding period.

We believe we are developing a robust retail business in Australia and New Zealand primarily focused on global equities that should benefit from the secular trends of compulsory superannuation over the years ahead:

- we have relationships with over 500 independent financial advice firms⁽⁸⁾;
- we have strong relationships and extensive representation with 4 of the top 6 major institutionally aligned advice firms (Commonwealth Bank, BT/Westpac, AMP and IOOF). Collectively, these firms have approximately 6,800 aligned advisers;
- we have an ASX quoted version and unlisted version of the Magellan Global Fund. The funds are available as currency hedged and currency unhedged;
- we have separate versions of the Magellan Global Fund available at Commonwealth Bank, BT/Westpac and AMP. Each of these funds will have strong model portfolio representation across these groups;
- we have developed strong relationships with each of the key research firms and have strong ratings from Zenith, Lonsec and Morningstar; and
- we have a highly experienced Australian and New Zealand relationship focussed Distribution team with 11 account managers and offices in Sydney, Melbourne, Brisbane and Auckland.

The Group remains optimistic that there is significant potential to attract additional net inflows into global equities from Australian retail investors:

- we seeded the ASX quoted version of the Global Equity strategy, Magellan Global Equities Fund, on 2 March 2015. Since inception to 31 July 2015, the Magellan Global Equities Fund has experienced average monthly net inflows of approximately \$38 million;
- we seeded an ASX quoted currency hedged version of our Global Equity strategy, Magellan Global Equities Fund (Currency Hedged) on 4 August 2015 and commenced trading on the ASX on 10 August 2015;
- we have made substantial progress in penetrating the bank/AMP aligned advice markets. During the past 12 months we entered into new arrangements with AMP and BT/Westpac and have launched new funds on their respective platforms that replicate the Magellan Global Fund which are similar to the Colonial First State Magellan Global Fund Option (CFS) on the Colonial First State Platform (operated by Commonwealth Bank). We regard these as milestone relationships and we are optimistic that we can gain traction in these channels in the years ahead;
- we have recently been advised that the Magellan Global Equity strategy has been included in multiple model portfolios across the AMP Group and BT/Westpac and increased our representation in model portfolios across the Commonwealth Bank. As at 1 August 2015 we are represented in over 120 model portfolios across these key groups. This compares with 53 model portfolios across these groups at 30 June 2014. As at 30 June 2015, our total retail funds under management across AMP Group, BT/Westpac and Commonwealth Bank aligned advice networks was \$1.7 billion; and
- the Group continues to build adviser support. This has been based on a relationship approach and a clear understanding of the strategy that underpins the funds. We estimate the total number of advisers using the Magellan Global Fund/CFS/Magellan Global Fund (Hedged) and Magellan Global Equities Fund has increased from approximately 7,500 to approximately 9,500 over the past 12 months.

⁽⁸⁾ Includes Dealer Groups that have more than \$200,000 funds under management with the Group.

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The following table sets out the investment performances of the Magellan Global Fund and the Magellan Infrastructure Fund since their inception, and the Magellan High Conviction Strategy since it was seeded on 1 January 2013, followed by its official launch on 1 July 2013.

Investment Performance for the period to 30 June 2015 ⁽⁹⁾	1 Year	3 Years	5 Years	Since Inception ⁽¹⁰⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	29.5	26.4	19.6	12.0
MSCI World NTR Index (\$A)	24.6	25.8	15.3	4.5
MSCI World Minimum Volatility NTR Index (\$A)	30.6	22.7	14.9	6.0
S&P 500 TR Index (\$A)	24.3	29.8	17.7	7.1
Dow Jones Industrials Index TR (\$A)	20.3	25.4	16.4	7.2
Magellan Infrastructure Fund	12.3	17.3	18.4	7.5
Global Infrastructure Benchmark (\$A) ⁽¹¹⁾	7.5	15.3	13.5	5.3
Magellan High Conviction Strategy	31.9	-	-	31.2

We invest our clients' money with the purpose of preserving capital and an expectation of returns that outperform our stated benchmarks over the medium to long term.

To achieve these objectives the Group has developed a Global Equity strategy that focuses on high-quality/low volatility and we have clearly communicated the nature of this approach to our clients.

We are pleased with the results to date with Fund investment performance near the top of their peer groups when measured over 3 and 5 years. Given our medium to long term focus, however, it is not unreasonable to expect some periods when the Funds will lag their benchmarks. Further, given our strategic focus on high-quality/low volatility investments, it can also reasonably be expected that returns may underperform broader based benchmarks in strongly rising markets due to the cap on volatility. Over the cycle, however, we believe the strategy will produce an appropriate risk adjusted performance while maintaining our focus on capital preservation, particularly in adverse market conditions.

These are key tenets of the Group's approach that we believe are well understood by the adviser community and our clients.

The retail component of the Global Equity strategy⁽¹²⁾ had funds under management of approximately \$9.1 billion at 30 June 2015. The retail Global Equity strategy experienced total retail net inflows of \$1.3 billion and average monthly retail net inflows of approximately \$105 million over the 12 months to 30 June 2015. This compares with the retail Global Equity strategy's total net inflows of \$1.9 billion and the average monthly retail net inflows of \$162 million over the 12 months to 30 June 2014.

(9) Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Annualised performance is denoted with "p.a." for the relevant period.

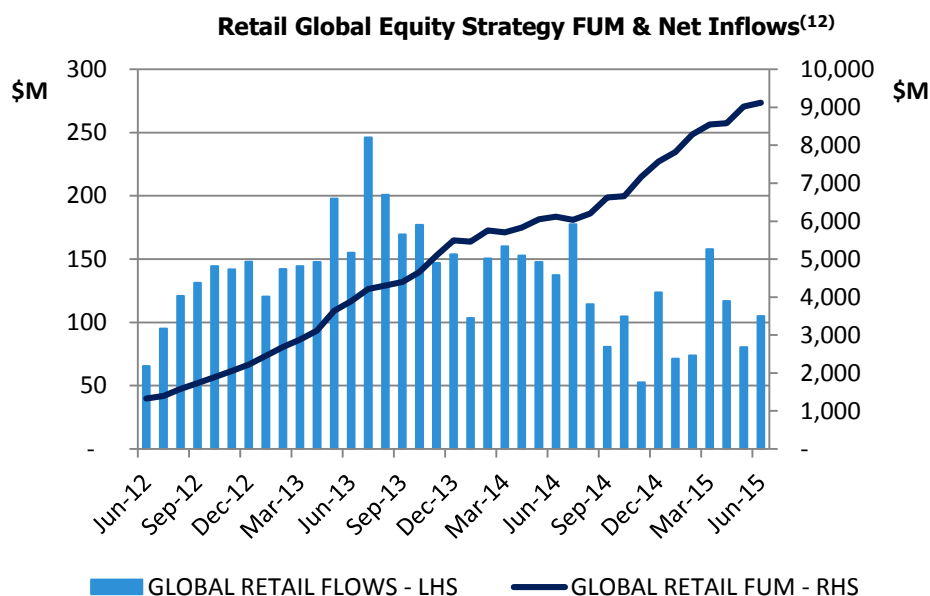
(10) Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007 and the inception date for Magellan High Conviction Strategy is 1 January 2013.

(11) The Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure and Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).

(12) The retail component of the Global Equity strategy includes Magellan Global Fund (retail portion), Magellan Global Fund (Hedged) (retail portion), Magellan Global Equities Fund (quoted fund) and retail separately managed accounts for the Global strategy.

MAGELLAN FINANCIAL GROUP LIMITED

The following chart sets out the monthly retail net inflows into the Global Equity strategy over the past 3 years:



Retail inflows have generally been seasonal (January, June and July tend to be the weakest months) and can be lumpy, due to events such as winning a new dealer group that transitions funds to the Group. We have been pleased with investor and adviser interest in the Magellan High Conviction Fund, with funds under management of \$249 million at 30 June 2015.

Institutional Funds Under Management

At 30 June 2015, the Group had total institutional funds under management of \$26.6 billion from more than 100 clients⁽¹³⁾. We experienced institutional net inflows of \$3.8 billion for the 12 months to 30 June 2015, which compares with net inflows of \$5.0 billion for the 12 months to 30 June 2014. We experienced net institutional inflows of \$2.9 billion for the six months to 31 December 2014 and \$0.9 billion for the 6 months to 30 June 2015. The slow-down in institutional net inflows in the second half of the year is likely to be attributable to the fact that we closed our Global Equity strategy to new institutional separate account investors on 31 October 2014 (although some investors completed their funding after this date) and closed our US Global Equity pooled vehicle on 31 December 2014. We are pleased with the pipeline and client and consultant interest in the Global Plus strategy which has been opened for institutional investors. We note that institutional business is lumpy and it is often difficult to predict the timing of winning new business.

Magellan reports net institutional flows on a monthly basis as part of its monthly FUM update. This is calculated as the sum of the institutional inflows by client (gross inflow) less sum of institutional outflows by client (gross outflow) for each month. Over the past two years to 30 June 2015 Magellan has experienced average monthly gross outflows representing 0.5%⁽¹⁴⁾ (within a range of 0.1% to 1.6%) of monthly total institutional funds under management. Institutional outflows experienced by Magellan occur regularly and historically have generally resulted from minor portfolio re-balancing by clients. Inflows are lumpy by nature and in months where we have no new institutional clients, modest net outflows may result. We note that we reported small institutional net outflows in the months of April and June 2015. Over the past seven years we have lost one institutional separate account across the business which supports the fact that the vast majority of institutional outflows relate to client re-balancing.

	2 Year Total (\$ million)	2 Year Monthly Average (\$ million)	2 Year Monthly Average (%)
Gross inflow	11,449	477	2.8
Gross outflow	(2,625)	(109)	0.5
Net flow	8,824	368	2.3

⁽¹²⁾ The retail component of the Global Equity strategy includes Magellan Global Fund (retail portion), Magellan Global Fund (Hedged) (retail portion), Magellan Global Equities Fund (quoted fund) and retail separately managed accounts for the Global Equity strategy.

⁽¹³⁾ The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

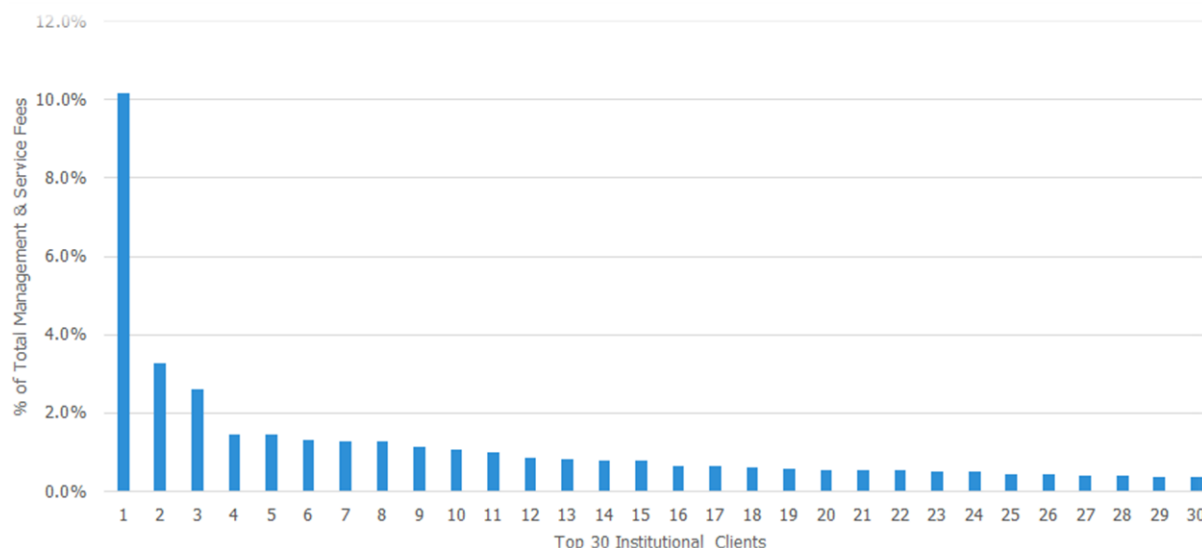
⁽¹⁴⁾ This is the average of the monthly gross outflow relative to closing funds under management percentages.

MAGELLAN FINANCIAL GROUP LIMITED

Our net institutional inflows included average monthly net inflows from existing Global Equity institutional flow accounts⁽¹⁵⁾ of approximately \$38 million over the 12 months to 30 June 2015, compared with \$162 million for the 12 months to 30 June 2014. The slow-down in average monthly net inflows from existing Global Equity institutional flows accounts is largely attributable to lower flows from St. James's Place partly due to a change in their internal model portfolios, and the closing of the US Global Equity pooled vehicle on 31 December 2014.

The following table sets the percentage of management and services fee revenue generated by the top 30 institutional clients. The table highlights that our business is highly diversified by client with only three clients representing more than 2% of total management and services fee revenue.

Institutional Client Diversity⁽¹⁶⁾



Cumulative Total Management and Services Fees				
Top Institutional Clients	5	10	20	30
%	19%	25%	32%	37%

As we have advised previously, we closed our existing Global Equity strategy to new separate accounts (minimum investment size US\$200 million) on 31 October 2014 and also closed US Global Equity pooled vehicles to new investors on 31 December 2014. We have opened a sister global equity strategy, Global Plus, to institutional separate account investors and have launched a new US pooled vehicle that replicates the Global Plus strategy. The Global Plus strategy applies a similar strategy to our existing Global Equity strategy, but it invests in companies with a minimum market capitalisation of US\$25 billion, as opposed to the Global Equity strategy whose minimum is US\$10 billion. The Magellan Global Fund and Magellan Global Equities Fund will remain open to Australian and New Zealand advisers and retail investors. We have also decided to keep the existing MFG Global Fund (an Irish UCITS fund offered to institutional clients in our target markets, outside Australia and the United States) ("UCITS") open for the time being. We are pleased with client interest in the MFG Global Fund (UCITS) with funds under management of approximately \$2.0 billion at 30 June 2015 (\$1.2 billion at 30 June 2014).

We are pleased with the development of the Group's institutional funds management business, particularly in the United States and United Kingdom (UK).

For the 12 months to 30 June 2015, we experienced institutional net inflows of \$1.8 billion from clients in the United States, bringing the total funds under management to approximately \$7.3 billion (\$4.0 billion at 30 June 2014).

Our UK business continues to go from strength to strength. At 30 June 2015, the Group had total funds under management of approximately \$11.7 billion from clients in the UK (\$7.9 billion at 30 June 2014). For the 12 months to 30 June 2015, we experienced net inflows of \$1.1 billion. At 30 June 2015 our important relationship with St. James's Place has grown to \$6.1 billion from \$4.8 billion at 30 June 2014. We have continued to see good inflows into the UK infrastructure fund that replicates our Core Infrastructure (Enhanced Beta) strategy. This fund has grown to \$2.9 billion at 30 June 2015 from \$2.2 billion at 30 June 2014.

(15) Includes St. James's Place, Frontier MFG Global Equity Fund and Frontier MFG Global Plus Fund (US Mutual Funds), MFG Global Fund (UCITS) and 6 other undisclosed accounts for the 12 month period ended 30 June 2015.

(16) Management & Services fees for the 12 months to 30 June 2015 and excludes Performance fees for separately managed accounts and institutional investors in local and offshore vehicles.

MAGELLAN FINANCIAL GROUP LIMITED

We are also making steady progress in the Asia-Pacific region. At 30 June 2015, the Group had total funds under management of approximately \$3.9 billion from Australian and New Zealand institutional investors (\$2.9 billion at 30 June 2014). We remain focused on specific target markets in our region, primarily Australia and Singapore.

Investments in Magellan's Funds and Principal Investments

At 30 June 2015, the Group had total net Principal Investments of \$189.4 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately \$119.7 million at 30 June 2014. The increased value of total net Principal Investments reflects the seeding of the Magellan Global Equities Fund and strong market performance of the underlying fund investments.

The Group's Principal Investments include investments in Magellan Unlisted Funds, the ASX quoted Magellan Global Equities Fund, listed shares, a number of small unlisted investments and surplus cash after allowing for the Group's working capital requirements. We intend to allocate any surplus cash generated by the Group, after allowing for dividends of 75% to 80% of the earnings from the Funds Management business, to Principal Investments.

Over time we aim to earn satisfactory returns for shareholders through the sensible deployment of the Group's capital, while maintaining capital strength to underpin the business. The Board has established a pre-tax return hurdle of 10% per annum over the business cycle for the Principal Investments. We intend for the Group to maintain a very strong balance sheet including a high level of liquidity to ensure our business will withstand almost any market condition or unforeseen event.

The Group's Principal Investments portfolio has returned pre-tax 29.3%, 26.5% and 20.9% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's investment in Magellan Flagship Fund, which was disposed of by way of in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 10.2% per annum over the period 1 July 2007 to 30 June 2015. The inception date of 1 July 2007 has been chosen to reflect the first purchase date of the investments in the Magellan Global Fund and Magellan Infrastructure Fund.

The following table sets out a summary of the Group's Principal Investments as at 30 June 2015:

MFG Group's Principal Investments

\$million	30 Jun 2015	30 Jun 2014
Cash	2.1	0.3
Magellan Unlisted Funds ⁽¹⁷⁾	127.6	115.2
Magellan Global Equities Fund ⁽¹⁸⁾	50.2	-
Listed shares	11.6	10.1
Other ⁽¹⁹⁾	12.4	3.8
Total	203.9	129.4
Deferred tax liability ⁽²⁰⁾	(14.5)	(9.7)
Net Principal Investments	189.4	119.7
Net Principal Investments per share (cents)⁽²¹⁾	111.0	70.9

I would like to thank all my colleagues at Magellan for the outstanding job they have done over the years. It is a privilege to work with such an incredibly focussed and talented team of people.

Thank you for your ongoing interest and support of Magellan Financial Group Limited.

Yours faithfully,



Hamish M Douglass

CEO and Chief Investment Officer

11 August 2015

(17) Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Infrastructure Fund, Magellan Global Fund (Hedged), Magellan Infrastructure Fund (Unhedged), Magellan High Conviction Fund and the Frontier MFG Funds.

(18) Based on closing price on ASX at 30 June 2015.

(19) Other comprises distributions receivable and unlisted funds and shares.

(20) Deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward.

(21) Based on the aggregate of 160,276,422 ordinary shares on issue at 30 June 2015 and 10,210,057 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert at 30 June 2015 (30 June 2014, it is based on 158,842,157 ordinary shares and 10,119,516 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2014)

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

The Directors of Magellan Financial Group Limited (the "Company" and "MFG") submit their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the year ended 30 June 2015.

1. Operations and Activities

1.1 Company Overview

The Company is a listed public company and incorporated in Australia. The Group's main operating company is Magellan Asset Management Limited (MAM). The shares and options of the Company are publicly traded on the Australian Securities Exchange under ASX Codes: MFG and MFGOC respectively. The Company also has on issue unlisted Class B shares.

The Company's principal place of business is Level 7, 1 Castlereagh Street, Sydney, New South Wales, 2000.

1.2 Principal Activity

The principal activity of the Group is funds management with the objective of offering international investment funds to high net worth and retail investors in Australia and New Zealand, and institutional investors globally.

1.3 Dividends

During the year, dividends amounting to \$93,920,000 were paid representing 58.9 cents per share (June 2014: \$50,921,000 representing 33.0 cents per share). Refer to note 4 in the financial statements for further details.

Since the end of the year, the Directors have declared a fully franked final dividend of 37.8 cents per share in respect of the year ended 30 June 2015 (June 2014: 21.8 cents per share), which represents approximately \$60,584,000.

The Directors have affirmed the policy of paying a dividend of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business, with the NPAT calculation to include any crystallised performance fees, which may fluctuate materially from period to period. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations.

1.4 Review of Financial Results and Operations

The Group's net profit after tax for the year ended 30 June 2015 was \$174,295,000 compared with net profit after tax of \$82,939,000 for the prior year. Total operating expenses of \$54,603,000 compared with total operating expenses of \$37,630,000 for the previous corresponding year.

The Group is in a strong financial position with an extremely strong balance sheet and at 30 June 2015 reported:

- investment assets (including cash and cash equivalents, financial assets and investment in associate) of \$283,277,000 (June 2014: \$208,431,000) and shareholders' funds of \$303,443,000 (June 2014: \$206,587,000); and
- NTA per share of \$1.78 (June 2014:\$1.24) diluted for MFG 2016 Options and the conversion of the Class B Shares.

Refer to the Chief Executive Officer's Annual Letter on page 5 for further information, including details on the Group's strategy and future outlook.

1.5 Likely Developments and Expected Result of Operations

The Group will continue to pursue its financial objectives which are to increase the profitability of the Group over time by increasing the value and performance of funds under management and seeking to grow the value of the Group's investment portfolio. Additional comments on expected results of operations of the Group are included in this report under the review of operations at section 1.4 and refer to the Chief Executive Officer's Annual Letter for further information.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

1.6 Significant changes in the State of Affairs

There were no significant changes in the state of affairs of the Group that occurred during the year not otherwise disclosed in this report or the financial statements.

1.7 Events Subsequent to the end of the Financial Year

On 4 August 2015, the Group seeded Magellan Global Equities Fund (Currency Hedged) ("MHG") (ASX ticker code: MHG) with \$15,000,000 of its own capital. MHG is a currency hedged version of the ASX quoted Magellan Global Equities Fund (ASX ticker code: MGE) and will invest in a portfolio of between 20 and 40 high quality global equity stocks. It has the ability to manage equity market risk by holding up to 20% of its net assets in cash and currency exposure is substantially hedged. MHG commenced trading on the ASX on 10 August 2015.

On 7 August 2015, the Group reported on the ASX its funds under management were \$38.6 billion as at 31 July 2015.

Other than the above and the final dividend in respect of the year ended 30 June 2015 discussed at section 1.3, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods.

1.8 Environmental Regulation

The Group is not subject to any particular or significant environmental regulation under Commonwealth, State or Territory legislation.

1.9 Unissued Shares

MFG 2016 Options

As at the date of this report, there were 1,050,023 unexercised MFG 2016 Options to take up one new ordinary share each in the Company at an exercise price of \$2.6411 per share (1,050,023 unexercised MFG 2016 Options at 30 June 2015). The options expire on 30 June 2016. Refer to note 14(d)(ii) for further details on the MFG 2016 Options, including the terms and conditions applying to their exercise.

Refer to section 3.6 in the Remuneration Report for the MFG 2016 Options exercised and held by the Directors and Key Management Personnel of the Group. The MFG 2016 Options are not entitled to dividends or distributions and ordinary shares issued on exercise of the options rank equally with all other ordinary shares from the date the ordinary shares are issued.

MFG Class B Shares

As at the date of this report, Mr Douglass held 10,200,000 MFG Class B Shares which have no entitlement to dividends and convert into the Company's ordinary shares on 21 November 2016 in accordance with a conversion formula (June 2014: 10,200,000 MFG Class B Shares). Refer to note 14(d)(iii) for further details. The service conditions attached to the conversion of the MFG Class B shares into MFG ordinary shares were satisfied on 1 July 2012.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

2. Directors and Officers

2.1 Directors

The following persons were Directors of the Company during the year and up to the date of this report:

Name	Directorship	Appointed
Brett Cairns	Executive Chairman ^(A)	22 Jan 2007
Hamish Douglass	CEO and Chief Investment Officer	21 Nov 2006
Robert Fraser	Non-Executive Director and Senior Independent Director	23 Apr 2014
Paul Lewis	Non-Executive Director	20 Dec 2006
Karen Phin	Non-Executive Director	23 Apr 2014

(A) On 1 January 2015, Dr Brett Cairns was appointed Executive Chairman. Prior to 1 January 2015, Dr Cairns was a Non-Executive Director and held the role of Chairman of the Company.

2.2 Secretaries

Mr Geoffrey Stirton was the Company Secretary of the Company during the year and up to the date of this report. There are no other officers of the Company.

2.3 Information on Directors and Officers

Brett Cairns

Executive Chairman

Brett was formerly co-head of the Capital Markets Group within Structured Finance at Babcock & Brown, which he joined in 2002. Brett was a former Managing Director and Head of Debt Capital Markets for Merrill Lynch in Australia where he worked from 1994 to 2002. Prior to joining Merrill Lynch, Brett spent 3 years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group. Brett has a BE (Hons), Master of Business Administration and a Doctorate of Philosophy from the University of Sydney.

Hamish Douglass

CEO and Chief Investment Officer

Hamish is the co-founder of the Company. He is a former member of the Australian Government's Foreign Investment Review Board (FIRB), a member of the Australian Government's Financial Literacy Board, former Acting President of the Australian Government's Takeovers Panel and former Co-Head of Global Banking at Deutsche Bank, Australasia. He was a Director of Magellan Flagship Fund Limited from September 2006 until 6 February 2013. Hamish holds a BCom from the University of NSW.

Robert Fraser

Non-Executive Director – Senior Independent Director, Chairman of Audit and Risk Committee and member of Remuneration and Nominations Committee

Robert is a company director and corporate adviser with over 26 years of investment banking experience, specialising in mergers and takeovers, corporate and financial analysis, capital management and equity capital markets. He is presently the Managing Director of TC Corporate Pty Limited, the corporate advisory division of Taylor Collison Limited stockbrokers of which he is a Director and principal. Robert has a Bachelor of Economics and Bachelor of Laws (Hons) degrees from the University of Sydney and is also qualified as a licensed business broker and licensed real estate agent. Robert currently serves on the Boards of ARB Corporation Limited, F.F.I. Holdings Limited and Gowing Bros Limited.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

2.3 Information on Directors and Officers (continued)

Paul Lewis

Non-Executive Director, Chairman of Remuneration and Nominations Committee and member of the Audit and Risk Committee

Paul was Managing Partner and Chief Executive – Asia for PA Consulting Group, based in Hong Kong from 1992 – 2004, at the conclusion of which PA had offices in Hong Kong, Beijing, Tokyo, Bangalore, Singapore, Kuala Lumpur and Jakarta. Paul led major assignments in financial services – retail banking, life insurance and stock exchanges, energy, manufacturing, telecommunications, rail, air, container shipping and government. Paul also served on senior advisory panels with ministerial representation in Hong Kong, Malaysia and Indonesia, and from 2003 to 2009 was a member of British Telecom's Global Advisory Board. Paul is currently an adviser to NAB Private Wealth, a member of NAB Business Advisory Council, Chairman of Growth Mantra, Deputy National Chairman of the Australian British Chamber of Commerce, and a board member of Optal Limited, IPScape Limited, Ipro Solutions Pty Limited and Cure Cancer Australia Foundation. Paul is a Fellow of the Australian Institute of Company Directors.

Karen Phin

Non-Executive Director and member of the Audit and Risk Committee and Remuneration and Nominations Committee

Karen has over 19 years' capital markets experience advising a range of top Australian companies on their capital management and funding strategies. Until 2014, Karen was Managing Director and Head of Capital Management Advisory at Citigroup in Australia and New Zealand. From 1996 – 2009, she worked at UBS where she was also a Managing Director and established and led the Capital Management Group. Prior to joining Citigroup, Karen spent 12 months at ASIC as a Senior Specialist in the Corporations group. Karen is currently on the Finance Committee of the Royal Australasian College of Physicians and is a member of the Takeovers Panel and the ASX Tribunal. Karen has a Bachelor of Arts/Law (Honours) from the University of Sydney.

Geoffrey Stirton

Company Secretary

Geoffrey has over 20 years experience in financial services in various company secretarial, finance and management roles and has held Group Company Secretary roles at The Trust Company, Investa Property Group and MLC Limited. Geoffrey holds a Bachelor of Commerce degree from the University of NSW, is a Chartered Accountant, a Fellow of the Governance Institute of Australia and a Fellow of the Australian Institute of Company Directors.

2.4 Directors' Meetings

The number of the meetings of the Board and Board Committees, held during the year ended 30 June 2015 and the number of those meetings attended by each Director is set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	Held while a Director	Attended	Held while a member	Attended	Held while a member	Attended
B Cairns ^(A)	7	7	5	5	2	2
H Douglass	7	7	-	-	-	-
P Lewis	7	7	8	8	4	4
R Fraser ^(B)	7	7	8	8	4	3
K Phin ^(B)	7	7	8	8	4	3

^(A) Following the appointment to Executive Chairman on 1 January 2015, Dr Cairns resigned as the Chairman of the Remuneration & Nominations Committee and a member of the Audit & Risk Committee on the same day.

^(B) Mr Fraser and Ms Phin did not attend the Remuneration & Nominations Committee meeting at which their loan and issuance of shares under the Share Purchase Plan were discussed.

2.5 Directors' Interests

No Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related entity other than as disclosed in this report.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Group for the year ended 30 June 2015. It details the remuneration arrangements for Key Management Personnel (KMP) of the Group who are defined as those persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Group, directly or indirectly.

In the 2015 financial year, the KMP for the Group included the Independent Non-Executive Directors, the Executive Chairman, the Chief Executive Officer (CEO) and Chief Investment Officer, and the Group's senior executives as set out below.

Name	Position	Term as KMP
Independent Non-Executive Directors		
Brett Cairns	Chairman	1 Jul 2014 - 31 Dec 2014
Paul Lewis	Director	Full Year
Robert Fraser	Director	Full Year
Karen Phin	Director	Full Year
Executive Directors		
Brett Cairns	Executive Chairman	1 Jan 2015 - 30 Jun 2015
Hamish Douglass	CEO & Chief Investment Officer	Full Year
Group Executives		
Nerida Campbell	Chief Operating Officer	Full Year
Frank Casarotti	Head of Distribution	Full Year
Gerald Stack	Head of Investments	Full Year

The Remuneration Report has been prepared and audited against the disclosure requirements of the Corporations Act 2001.

Remuneration Philosophy and Principles

The Group's remuneration philosophy is centred on fair compensation for performance and contribution that achieves business outcomes. It aims to balance short term and long term incentives appropriately, including encouraging broad based employee ownership. Importantly, incentives motivate each employee to achieve agreed objectives which align to long term business outcomes.

Broadly the Group's remuneration arrangements for employees comprise the following components:

- A fixed compensation amount;
- A variable short term incentive (STI) which is discretionary (except where noted below) and may be in the range of 0-100% of the fixed compensation amount or higher in exceptional circumstances. The variable STI is paid partly as a current year cash bonus and partly as a conditional deferred cash bonus amount; and
- An offer of voluntary participation in the Company's Share Purchase Plan (SPP), to encourage long term ownership in the Company.

Short Term Incentives

- With the exception of the CEO and the portfolio managers of the Group's Infrastructure investment strategies (Infrastructure Portfolio Managers), the variable STI is determined by reference to an employee's individual performance and contribution, and the overall performance of the Group. The STI is not determined on a formulaic basis but is part of an overall performance appraisal process. The Board does not believe it is appropriate to use measures such as earnings per share or the share price performance of the Company in determining these employees' STI. Such arrangements could misalign the interests of the employee with those of the Group's clients and ultimately be detrimental to the long-term interests of shareholders.
- The CEO's STI is capped at 100% of his fixed compensation and is dependent upon the performance of the investment strategies, measured over 3 years, for which he has primary responsibility. The Board believes that setting the basis of the CEO's STI with reference to investment performance provides an important alignment with the Group's clients, and is in the best long term interest of shareholders.
- The Infrastructure Portfolio Managers have an STI arrangement that is directly tied to the net revenues, less certain allocated costs, of the Group's infrastructure business. The Board considers that this arrangement appropriately rewards and aligns these employees' interests with those of the Company's shareholders.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

Remuneration Philosophy and Principles (continued)

Long Term Incentives:

- The Group does not issue share options to Directors or employees as it does not believe that options appropriately align Directors and employee interests with those of shareholders. The Board believes promoting meaningful broad based ownership should start at Board level and therefore the Group also offers participation in the SPP to Non-Executive Directors.
- The Company's SPP is not a granting of shares, but is a subscription for shares by Non-Executive Directors and employees (SPP Participants) at the prevailing market price. The Company provides financial assistance to the SPP Participants to acquire the Company's shares via a full recourse interest free loan. The SPP Participant bears the full risks and benefits of a shareholder. Refer to section 3.2 for further information about the SPP.
- The Board believes that Non-Executive Director fees should be modest and that when combined with a meaningful ownership stake, Non-Executive Directors' interests are better aligned with the shareholders when considering important strategic issues such as executive compensation, acquisitions, dividend policy, and capital management. Such alignment will make it more likely that the impact of decisions are viewed on a per share value basis rather than purely in relation to company size.
- The Board believes that providing full recourse financial assistance to Non-Executive Directors under the SPP does not hinder their independence and that establishing a meaningful ownership stake that is a multiple of a Non-Executive Director's annual fees promotes independent thought and engagement that will be in the long-term interests of the Group's shareholders.
- The CEO is not eligible to participate in the SPP.

3.1 Remuneration of Non-Executive Directors

The Board reviews and determines the remuneration of the Non-Executive Directors and may utilise the services of external advisors. The Board's remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified personnel in order to achieve the Group's objectives. The remuneration of the Non-Executive Directors is not linked to the performance or earnings of the Group.

The Non-Executive Directors are eligible to participate in the Company's Share Purchase Plan (SPP) which is described in section 3.2. Promoting a true ownership culture across the Group is an important objective and offering SPP participation to Non-Executive Directors is considered a key element in this pursuit. The Company provides participating Non-Executive Directors with a full recourse interest free loan to finance the purchase of the Company's shares at the prevailing market price on issue date. An equitable mortgage is held over the shares acquired under the SPP until the loan is fully discharged. Details of the SPP can be found in note 15 of the financial statements.

Offering the SPP to Non-Executive Directors is an important part of the Group's remuneration structure as it provides a way for Non-Executive Directors to have a meaningful, non-option like, ownership stake, often many multiples of the value of their Director's fees.

Financing is often required by Directors seeking to establish a meaningful ownership in a company, particularly if that stake is a multiple of their director fees. In the Board's opinion it would be counterproductive to a true long-term ownership position if that source of financing was external to the Company, as short term share price movements may impact the provision of that financing. The Board believes that the Company is in the best position to absorb any such short term share price movements, allowing the Non-Executive Directors to focus on the long-term best interests of all the Group's shareholders.

The financing provided to Non-Executive Directors is full recourse and as such participating Non-Executive Directors are liable to repay the loan irrespective of the performance of the Company's shares. Furthermore, the Group's shareholders must approve the provision of financing to the Non-Executive Directors by way of a vote. The Board firmly believes this financing arrangement does not hinder the independence of its Non-Executive Directors.

Remuneration of the Non-Executive Directors comprises modest Directors' fees (salary and superannuation) and share based payment amounts that represent the non-cash expense to the Group of providing the full recourse interest free loans under the SPP. These payments form part of the Non-Executive Director Remuneration Cap set out in clause 50(a) of the Company's Constitution, which currently stands at \$500,000.

The Group has reimbursed or borne expenses incurred by the Non-Executive Directors in the discharge of their duties of \$1,429 (June 2014: \$1,989).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Directors and Other KMP

The Board's remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified personnel in order to achieve the Group's objectives.

Executive Directors

The Executive Directors' remuneration is determined by the Board, which may utilise the services of external advisors. In respect of the year ended 30 June 2015 it comprised fixed compensation and in respect of Mr Douglass only, a variable compensation amount in the form of a short term incentive payment.

Fixed compensation is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions.

Mr Douglass' fixed compensation was unchanged from the previous year. Dr Cairns' fixed compensation was determined by the Board when he was appointed Executive Chairman on 1 January 2015 to be commensurate with, and reflect, his expanded responsibilities.

The amount of variable compensation paid to Mr Douglass in respect of the year ended 30 June 2015 was determined with reference to Mr Douglass' achievement of agreed criteria and performance metrics. For the year ended 30 June 2015, Mr Douglass was awarded variable compensation of 100% of his fixed compensation (excluding long service leave) for the year ended 30 June 2015 (awarded for the year ended 30 June 2014: 100%). Mr Douglass' variable compensation for 2015 comprises a cash bonus amount and a conditional deferred cash bonus payable in 12 equal instalments over the course of the year ending 30 June 2016 if he remains employed by the Group.

Mr Douglass' variable compensation is purely determined in relation to the performance of the investment strategies under his control. The client focussed structure of Mr Douglass' variable compensation is considered very important and when combined with Mr Douglass' substantial shareholding in the Company is considered to provide an appropriately incentivised overall remuneration outcome.

Dr Cairns is not entitled to receive any amount of variable compensation.

Details of the remuneration paid to the Executive Directors is detailed in section 3.3. Details of the employment agreements of the Executive Directors are described in section 3.5.

Group Executives (Other KMP)

Other KMP remuneration comprises fixed and variable remuneration that takes into account the individual's experience, abilities, achievements, and contribution to the Group.

Other KMP fixed compensation is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed compensation is reviewed annually to ensure that it is competitive and reasonable, however there are no guaranteed increases to the fixed compensation amount. Other KMP fixed compensation was unchanged from the previous year (June 2014: increased 23%). Other KMP fixed compensation for 2016 has been increased by 5% reflecting movements in market rates.

The Board considers that a focus on indicators for the determination of short term variable compensation, such as movements in the Company's share price or earnings per share, may encourage performance that is not in the best long term interests of the Group and its shareholders. The Board's primary objective is that Other KMP are motivated to build investment returns for investors in the funds managed by the Group and to build shareholder wealth over the long term. The Board believes that the participation in the Group's SPP by Other KMP closely aligns their interests with the long term interests of shareholders.

The Chief Executive Officer determines the amount of variable compensation to be paid to Other KMP, taking into consideration the individual's performance and contribution during the year. The variable compensation of Other KMP, (excluding Mr Stack), is discretionary and may be in the range of 0 to 100% of fixed compensation. Ms Campbell's variable compensation is determined with reference to the achievement of various business management outcomes, including cost management and control, and the delivery of key business strategic and operational projects. Mr Casarotti's variable compensation is determined with reference to the success of the Group in achieving objectives with regard to the building of distribution relationships, support of clients and investors, and the building the Group's brand in the Australian and offshore markets.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Directors and Other KMP (continued)

Group Executives (Other KMP) (continued)

Mr Stack's variable compensation is determined as up to 10% of net revenues earned by the Group in respect of the investment strategies for which he is portfolio manager, less an internal allocation of costs. For the year ended 30 June 2015, Ms Campbell, Mr Casarotti, and Mr Stack were awarded variable compensation as a percentage of their fixed compensation (excluding long service leave) of 100%, 90%, and 412% respectively (awarded for the year ended 30 June 2014: 82%, 82%, and 267% respectively). The Other KMP variable compensation for 2015 comprises a cash bonus amount and a conditional deferred cash bonus payable in 12 equal instalments over the course of the year ending 30 June 2016 if the Other KMP remain employed by the Group. Details of the remuneration paid to Other KMP is detailed in section 3.3.

The variable component of the Other KMP is not dependent on the satisfaction of performance conditions (except as noted for Mr Stack), the Company's share price, earnings per share or dividends paid by the Company.

Other KMP are eligible to participate in the Group's SPP which is described later in this report. Other KMP remuneration includes share based payment amounts that represent the non-cash expense to the Group of providing interest free loans under the SPP. Details of the employment agreements of Other KMP are described in section 3.5 of this report.

Share Purchase Plan (SPP)

The Group has in place a SPP that provides financial assistance to Non-Executive Directors and employee SPP Participants, by way of an interest free full recourse loan as part of an offer to subscribe for shares in the Company (Offer). The SPP does not involve a grant of shares. The issue price of shares under the SPP is the weighted average sale price of the shares on the ASX over the five trading days immediately preceding the day the offer is made.

Details of the closing price of the Company's shares as at 30 June in each year since inception of the Company are provided below together with the issue price of shares under the SPP:

	MFG share closing price	SPP Offer date	SPP Offer issue price of MFG shares
30 June 2007	\$2.20	10 September 2007	\$1.66
30 June 2008	\$0.53	20 October 2008	\$0.52
30 June 2009	\$0.55	8 September 2009	\$0.78
30 June 2010	\$1.13	10 November 2010	\$1.35
		2 March 2011	\$1.75
30 June 2011	\$1.32	30 September 2011	\$1.20
30 June 2012	\$2.15	12 March 2013	\$7.33
30 June 2013	\$9.64	29 October 2013	\$10.02
30 June 2014	\$10.93	22 September 2014	\$13.23
		13 November 2014	\$13.64
30 June 2015	\$17.40		

The Directors believe that meaningful KMP and employee participation in the SPP closely aligns their interests with the interests of the shareholders of the Group and the long term performance of the Group. The share based payment amounts that represent the non-cash expense to the Group of providing interest free loans under the SPP form part of the total remuneration of the employee participants and in the case of the Non-Executive Directors also form part of the Remuneration Cap set out in clause 50(a) of the Company's Constitution.

The SPP provides an effective long term incentive to the employees who participate and no performance hurdles apply to the invitation to participate in, or the issue of shares under, the Plan. Further details of the SPP are set out in note 15 to the financial statements.

Directors' fees

The Non-Executive and Executive Directors' base remuneration is reviewed annually and set out in section 3.3 of the Remuneration Report.

Retirement benefits for Directors

No retirement benefits (other than superannuation) are provided to Directors.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.3 Details of Remuneration

(a) The total amount paid or payable to KMP of the Group is detailed below:

		Short Term Benefits		Post-employment Benefits	Long-term Benefits	Other Benefits	Total	
		Salary	Total Cash Bonus ^(A)	Superannuation	Other ^(B)	^(C)	^(H)	
		\$	\$	\$	\$	\$	\$	
Independent Non-Executive Directors								
Brett Cairns ^(D)	2015	73,059	-	6,941	-	14,331	94,331	
	2014	122,426	-	11,324	-	14,331	148,081	
Paul Lewis	2015	80,000	-	-	-	28,663	108,663	
	2014	83,750	-	-	-	14,331	98,081	
Robert Fraser ^(E)	2015	86,758	-	8,242	-	13,864	108,864	
	2014	16,499	-	1,526	-	-	18,025	
Karen Phin ^(E)	2015	73,059	-	6,941	-	11,438	91,438	
	2014	13,894	-	1,285	-	-	15,179	
Executive Directors								
H Douglass ^(F)	2015	1,231,217	1,250,000	18,783	20,416	100,000	2,620,416	
	2014	1,232,225	1,225,000	17,775	96,002	100,000	2,671,002	
Brett Cairns ^(D)	2015	615,609	-	9,391	-	14,332	639,332	
	2014	-	-	-	-	-	-	
Other KMP - Group Executives								
N Campbell	2015	406,217	387,500	18,783	6,635	13,174	832,309	
	2014	407,225	350,000	17,775	15,369	18,340	808,709	
F Casarotti	2015	406,217	366,250	18,783	6,647	-	797,897	
	2014	407,225	350,000	17,775	14,531	-	789,531	
G Stack	2015	406,217	1,481,588	18,783	6,644	25,032	1,938,264	
	2014	407,225	921,469	17,775	14,740	38,228	1,399,437	
Former Directors and Executives								
Chris Mackay ^(G)	2015	-	-	-	-	-	-	
	2014	433,056	-	4,444	-	125,000	562,500	
Naomi Milgrom AO ^(G)	2015	-	-	-	-	-	-	
	2014	15,256	-	1,411	-	-	16,667	
Total KMP		2015	3,378,353	3,485,338	106,647	40,342	220,834	7,231,514
		2014	3,138,781	2,846,469	91,090	140,642	310,230	6,527,212

^(A) The total cash bonus amount includes the current year cash bonus and deferred components of the prior year bonus which have been paid over the course of the current year (refer to further details at section 3.3(b)).

^(B) Includes long service entitlements accrued during the year.

^(C) Other benefits represent the expense of providing interest free loans to Participants in the Share Purchase Plan (refer to further details at section 3.2). These are non-cash items.

^(D) Dr Cairns was a Non-Executive Director until his appointment as Executive Chairman on 1 January 2015. For the year ended 30 June 2015, Dr Cairns' remuneration includes the period 1 July 2014 to 31 December 2014 whilst he served as a Non-Executive Director and for the period 1 January 2015 to 30 June 2015 whilst fulfilling his role as Executive Chairman.

^(E) Mr Fraser and Ms Phin were appointed on 23 April 2014 and remuneration for the year ended 30 June 2014 is shown for the period 23 April 2014 to 30 June 2014.

^(F) Other benefits include \$100,000 accrued in the current year in relation to the investment restriction contract with Mr Douglass (June 2014: \$100,000). For further details refer to note 20(b).

^(G) Ms Milgrom AO and Mr Mackay resigned on 23 April 2014 and 30 September 2013 respectively. Ms Milgrom's remuneration for the year ended 30 June 2014 is shown for the period 1 July 2013 to 23 April 2014. Mr Mackay's remuneration for the year ended 30 June 2014 is shown for the period 1 July 2013 to 30 September 2013.

^(H) No termination benefits, non-monetary benefits or other short term benefits not otherwise disclosed above were paid during the years ended 30 June 2015 and 30 June 2014.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.3 Details of Remuneration (continued)

(b) The components of the total cash bonus paid or conditionally payable to KMP of the Group are below:

		Short Term Benefit - Cash Bonus			
		Cash Bonus (A)	Conditional Deferred Cash Bonus paid (B)	Total Cash Bonus (C)	Conditional Deferred Cash Bonus (D)
		\$	\$	\$	\$
Executive Directors					
H Douglass	2015	650,000	600,000	1,250,000	600,000
	2014	650,000	575,000	1,225,000	600,000
B Cairns ^(E)	2015	-	-	-	-
	2014	-	-	-	-
Other KMP - Group Executives					
N Campbell	2015	237,500	150,000	387,500	187,500
	2014	200,000	150,000	350,000	150,000
F Casarotti	2015	216,250	150,000	366,250	166,250
	2014	200,000	150,000	350,000	150,000
G Stack	2015	949,088	532,500	1,481,588	803,616
	2014	603,616	317,853	921,469	532,500
Total KMP	2015	2,052,838	1,432,500	3,485,338	1,757,366
	2014	1,653,616	1,192,853	2,846,469	1,432,500

(A) The bonus earned in respect of the current year which is paid in cash after the release of the Group's Annual Report.

(B) The conditional deferred cash bonus for the year ended 30 June 2014 has been paid in 12 equal instalments in the year ended 30 June 2015. The conditional deferred cash bonus for the year ended 30 June 2013 was paid in 12 equal instalments during the year ended 30 June 2014.

(C) The cash bonus paid in the current year and reflected in section 3.3(a).

(D) The conditional deferred cash bonus for the year ended 30 June 2015 is payable in 12 equal instalments in the year ending 30 June 2016. Entitlement to the short term incentive amounts is dependent on the KMP being employed by the Group at the time of the payment. The conditional deferred cash bonus for the year ended 30 June 2014 was paid in 12 equal instalments during the year ended 30 June 2015. Refer to note 1(r) for the accounting policy on the conditional deferred cash bonus component of the annual bonus.

(E) Dr Cairns is not entitled to a short term or long term bonus incentive and was a Non-Executive Director in the year ended 30 June 2014.

The conditional deferred cash bonus payable by the Group to the Executive Directors, Other KMP and employees in respect of the year ended 30 June 2015 is \$5,045,000 and payable over the year ended 30 June 2016 (June 2014: \$3,516,000 and payable over the year ended 30 June 2015).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.4 Service Agreements

Remuneration and other terms of employment for the Independent Non-Executive Directors are formalised in service agreements with the Company.

The following table outlines the Non-Executive Directors fees for the Board and Committees of both the Group and Magellan Asset Management Limited for the year ended 30 June 2015:

	Position	Fees (\$) (A)
Board (Group)	Chairman	150,000
	Non-Executive Director	70,000
Audit & Risk Committee	Chairman	25,000
	Member	10,000
Remuneration & Nominations Committee	Chairman	-
	Member	-

(A) Fees are inclusive of base fees and superannuation.

Brett Cairns

Dr Brett Cairns became Executive Chairman on 1 January 2015. Prior to 1 January 2015, Dr Cairns was a Non-Executive Director and held the role of Chairman of the Company, Chairman of the Remuneration & Nominations Committee and Member of the Audit & Risk Committee. Refer to further details at section 3.5 of this report.

As a result of Dr Cairns' appointment to Executive Chairman he resigned as a Member of the Audit & Risk Committee and Chairman and Member of the Remuneration & Nominations Committee. Simultaneously the following changes were made:

- Mr Fraser was appointed Senior Independent Director; and
- Mr Lewis was appointed Chairman of the Remuneration & Nominations Committee.

Robert Fraser

Non-Executive Director – Senior Independent Director, Chairman of Audit & Risk Committee and Member of Remuneration & Nominations Committee

- Commenced on 23 April 2014
- Term of appointment is 3 years unless the Director is not re-elected by shareholders of the Company.

Paul Lewis

Non-Executive Director, Chairman of Remuneration & Nominations Committee (from 1 January 2015) and Member of Audit & Risk Committee

- Commenced on 20 December 2006
- Term of appointment is 3 years unless the Director is not re-elected by shareholders of the Company.

Karen Phin

Non-Executive Director, Member of Remuneration & Nominations Committee and Audit & Risk Committee

- Commenced on 23 April 2014
- Term of appointment is 3 years unless the Director is not re-elected by shareholders of the Company.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.5 Employment Agreements

The Executive Directors and Other KMP are engaged under employment agreements with Magellan Asset Management Limited (MAM), a controlled entity of the Company.

Hamish Douglass, CEO and Chief Investment Officer

The Director is employed under a contract with MAM, with effect from 1 March 2008 and which will continue indefinitely until terminated.

Under the terms of the contract, which applied for the year to 30 June 2015, Mr Douglass:

- received fixed compensation structured as a total employment cost package of \$1,250,000 per annum, inclusive of statutory superannuation contributions, received as a combination of cash, non-cash benefits and superannuation contributions. Fixed compensation is subject to review on 1 July 2016; and
- is eligible to receive in respect of each of the three (3) financial years to 30 June 2014, 30 June 2015 and 30 June 2016, variable compensation being a maximum short term incentive amount of up to but not exceeding 100% of his fixed compensation for that financial year. The amount of the short term incentive received is wholly based on the investment performance of the Group's Global Equity strategy applying the following performance metrics and relative weighting set out in the table below. The Board, in consultation with the Director, determined the underlying quantitative measures for each of the performance metrics that apply, which are subject to review at 1 July 2016.

STI Payment Criteria	Performance Metrics	Weighting	Percentage Paid/Performance Measures
Investment Performance of the Global Equity Strategy	Ranking of Magellan Global Fund in Peer Group (rolling 3 years as at 30 June each year)	33.3%	The percentage paid is in the range of 0% to 100% dependent on the ranking quartile band achieved. Mr Douglass received 100% of this component in 2015.
	Absolute Performance (Gross Return) of Magellan Global Fund (rolling 3 years as at 30 June each year)	33.3%	The percentage paid is in the range of 0% to 100% dependent on the absolute performance achieved exceeding pre-determined levels. Mr Douglass received 100% of this component in 2015.
	Relative gross investment performance of Magellan Global Fund against its Benchmark Index (rolling 3 years as at 30 June each year)	33.3%	The percentage paid is in the range of 0% to 100% dependent on pre-determined relative performance differences above the Benchmark Index. Mr Douglass received 100% of this component in 2015.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Hamish Douglass, CEO and Chief Investment Officer (continued)

In respect of the year ended 30 June 2015, Mr Douglass will receive a total short term incentive of \$1,250,000 payable as a cash bonus of \$650,000 after the release of the Group's Annual Report (June 2014: \$650,000) and a deferred cash bonus of \$600,000 payable over the course of the year ending 30 June 2016 (June 2014: \$575,000) – refer note 3.3(b). Mr Douglass' entitlement to short term incentive amounts is dependent on him being employed by the Group at the time of the payment.

Should Mr Douglass' employment cease by reason of the retirement, death, total and permanent disability, ill health or redundancy, the Board may at its sole discretion allow a short term incentive amount to be paid in whole or in part.

Mr Douglass has undertaken to MAM that for the period up to and including 1 July 2017, neither he nor his associates will, within Australia and New Zealand, invest in a business which in the reasonable opinion of MAM is primarily engaged in the business of funds management, other than an investment in MFG, Magellan Flagship Fund Limited, MAM and related entities, and any managed investment scheme in which MAM acts as trustee or responsible entity. These restrictions will cease to apply prior to 1 July 2017 if a third party acquires control of MAM or MFG, or if the employment contract is terminated for any reason. The restrictions do not apply in respect of any investment in:

- (a) shares in a company;
- (b) interests in a managed investment scheme; or
- (c) other interests in an entity,

which represent less than 10% of the issued shares in that company, interests in that managed investment scheme or other interests in that other entity respectively.

In consideration for complying with this investment restriction MAM shall pay Mr Douglass an amount of \$500,000 on or before 15 July 2017. If Mr Douglass ceases employment before 15 July 2017, MAM is not required to make the payment in part or in whole;

- may terminate the contract at any time by giving not less than 12 months written notice to MAM;
- may have his contract terminated by MAM by it providing 12 months written notice or providing payment in lieu of that notice;
- may have his contract terminated by MAM at any time without notice if serious misconduct has occurred; and
- is restrained from soliciting employees and clients of MAM or a related company for a period of 12 months after termination of employment.

In the event of termination of Mr Douglass' contract, his termination payment would comprise any accrued fixed compensation, including superannuation, after set-off of any loss suffered by MAM from the acts of Mr Douglass which led to his termination; and any amounts of accrued annual and long service leave.

Mr Douglass' contract does not specify a shareholding ownership requirement, however as one of the founders of the business Mr Douglass and his associates hold 11,087,000 ordinary shares in addition to 10,200,000 Class B shares, details of which are set out at section 3.6 in this report.

MFG Class B shares have no entitlement to receive a dividend and convert into MFG ordinary shares on the first business day after 21 November 2016 in accordance with a conversion formula. The service conditions attached to the conversion of the MFG Class B shares to MFG ordinary shares were satisfied on 1 July 2012.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Dr Brett Cairns, Executive Chairman

The Executive Chairman is employed under a contract with MAM, with effect from 1 January 2015 and which will continue indefinitely until terminated.

Under the terms of the contract, Dr Cairns is entitled to a fixed base salary of \$1,250,000 per annum (inclusive of superannuation). Dr Cairns is not entitled to receive short term or long term incentive payments. The contract is subject to review annually, from 1 July 2016.

MAM may terminate the contract at any time by giving not less than three months written notice or providing payment in lieu of that notice, or at any time without notice if serious misconduct has occurred. Dr Cairns may terminate the contract at any time by giving three months written notice.

In the event of termination of Dr Cairn's contract, his termination payment would comprise any accrued fixed compensation, including superannuation, after set-off of any loss suffered by the Group from the acts of Dr Cairns which led to his termination; and any amounts of accrued annual and long service leave.

Under the contract, Dr Cairns is restrained from competing with MAM or soliciting employees and clients of MAM or any related company of MAM for a period of six months after termination of employment.

For the year ended 30 June 2015, Dr Cairns received remuneration of \$639,332 under this contract for the period 1 January 2015 to 30 June 2015. For the period 1 July 2014 to 31 December 2014, Dr Cairns received remuneration of \$94,331 for providing services as a Non-Executive Director (refer to further details at section 3.3(a)).

Other KMP - Group Executives

Other KMP have rolling employment contracts with MAM. MAM may terminate the contract at any time by giving not less than three months written notice or providing payment in lieu of that notice, or at any time without notice if serious misconduct has occurred. Other KMP may terminate the contract at any time by giving three months written notice. On termination, the Other KMP are required to repay any loan amounts outstanding in respect of shares acquired under the Company's SPP in accordance with the SPP terms and conditions.

In the event of the termination of an Other KMP contract, their termination payment would comprise any accrued fixed compensation, including superannuation, after set-off of any loss suffered by MAM the acts of that Other KMP which led to their termination; and any amounts of accrued annual and long service leave.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.6 Options and Shareholdings

The number of ordinary shares, Class B shares and MFG 2016 Options held during the year by each KMP, including their personally-related parties, is set out below:

	Opening balance 1 July 2013	Net Additions/ (disposals)	Exercised options	Opening balance 1 July 2014	Net Additions/ (disposals)	Exercised options	Closing balance 30 June 2015
Independent Non-Executive Directors							
Paul Lewis							
- Ordinary shares	2,000,747	(60,138)	5,790	1,946,399	(96,399)	-	1,850,000
- MFG 2016 Options ^(A)	5,790	-	(5,790)	-	-	-	-
Robert Fraser							
- Ordinary shares ^(B)	501,358	-	-	501,358	97,751	-	599,109
Karen Phin							
- Ordinary shares ^(B)	16,192	-	-	16,192	73,120	-	89,312
Executive Directors							
Hamish Douglass							
- Ordinary shares	10,519,917	-	297,792	10,817,709	269,291	-	11,087,000
- Class B shares ^(C)	10,200,000	-	-	10,200,000	-	-	10,200,000
- MFG 2016 Options ^(A)	297,792	-	(297,792)	-	-	-	-
Brett Cairns							
- Ordinary shares	1,095,481	(100,000)	11,467	1,006,948	-	-	1,006,948
- MFG 2016 Options ^(A)	11,467	-	(11,467)	-	-	-	-
Other KMP - Group Executives							
Nerida Campbell							
- Ordinary shares	660,019	-	39,600	699,619	(251,019)	-	448,600
- MFG 2016 Options ^(A)	39,600	-	(39,600)	-	-	-	-
Frank Casarotti							
- Ordinary shares	656,927	-	-	656,927	-	-	656,927
Gerald Stack							
- Ordinary shares	390,963	20,000	-	410,963	20,156	-	431,119
Former Directors and Executives							
Chris Mackay^(D)							
- Ordinary shares	18,077,777	-	-	18,077,777	-	-	18,077,777
- MFG 2016 Options	2,644,354	-	-	2,644,354	-	-	2,644,354
Naomi Milgrom AO^(D)							
- Ordinary shares	6,182,360	(654,509)	-	5,527,851	-	-	5,527,851
- MFG 2016 Options	16,532	-	-	16,532	-	-	16,532

^(A) Refer to note 14(d)(ii) for the key terms and conditions of the MFG 2016 Options.

^(B) Mr Fraser and Ms Phin were appointed as a Director on 23 April 2014 and the opening balance as at 1 July 2013 represents the number of ordinary shares held by them as at the date of their appointment.

^(C) There were no additions or disposals of Class B shares during the year (June 2014: nil). Refer to note 14(d)(iii) for the key terms and conditions of the MFG Class B Shares.

^(D) Mr Mackay and Ms Milgrom AO resigned as a Director on 30 September 2013 and 23 April 2014 respectively. The above balances are shown for the period that they were a Director of the Company.

The Board does not grant options to KMP or employees of the Group under its remuneration policy.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.7 Unitholdings in Magellan Funds

The number of units held during the year by each KMP, including their personally-related parties, in funds managed by the Group, is set out below:

	Opening balance 1 July 2013	Additions/ (disposals) (A)	Opening balance 1 July 2014	Additions/ (disposals) (A)	Closing balance 30 June 2015
Magellan Global Fund					
Directors					
Paul Lewis	344,061	7,376	351,437	12,856	364,293
Hamish Douglass ^(B)	860,385	345,927	1,206,312	44,128	1,250,440
Other KMP - Group Senior Executives					
Nerida Campbell	21,070	32,712	53,782	1,967	55,749
Gerald Stack	53,867	1,155	55,022	2,012	57,034
Frank Casarotti ^(B)	-	-	-	-	-
Magellan Infrastructure Fund					
Directors					
Paul Lewis	38,405	1,219	39,624	1,088	40,712
Other KMP - Group Senior Executives					
Gerald Stack	69,854	2,217	72,071	1,979	74,050
Magellan High Conviction Fund					
Directors					
Hamish Douglass	-	1,482,751	1,482,751	36,971	1,519,722
Magellan Global Equities Fund					
Directors					
Brett Cairns	-	-	-	40,000	40,000
Hamish Douglass	-	-	-	75,000	75,000

^(A) Includes the reinvestment of 30 June 2013 and 30 June 2014 distributions in the years ended 30 June 2014 and 30 June 2015 respectively.

^(B) In addition to the above holdings, Mr Douglass and Mr Casarotti selected the Magellan Global Fund product via their superannuation funds and currently have holdings of 417,532 and 236,792 units at a value of \$580,745 and \$329,354 respectively as at 30 June 2015 (June 2014: 403,233 and 169,824 units at a value of \$445,814 and \$291,146 respectively).

Unless specified above, no other KMP held units in Magellan Funds.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited) (continued)

3.8 Loans to KMP

The Company has made full recourse interest free loans to Non-Executive Directors and Other KMP in connection with shares acquired under the Company's Share Purchase Plan (SPP). As at 30 June 2015, 4 KMP held a loan (June 2014: 6). The terms and conditions of the loans, including repayment terms, are disclosed in section 3.2 of the Remuneration Report.

		SPP Shares acquired during year	Opening Loan Balance	Loans made	Loans (repaid)	Closing Loan Balance	
		Number	\$	\$	\$	Face value	Carrying value
						\$	\$
Directors							
Brett Cairns ^(A)	2015	-	724,500	-	(724,500)	-	-
	2014	-	1,135,000	-	(410,500)	724,500	613,727
Paul Lewis ^(A)	2015	-	764,750	-	(764,750)	-	-
	2014	-	1,135,000	-	(370,250)	764,750	647,823
Robert Fraser ^(B)	2015	97,751	-	999,993	(36,266)	963,727	868,325
	2014	-	-	-	-	-	-
Karen Phin ^(B)	2015	80,645	-	824,997	(29,919)	795,078	716,371
	2014	-	-	-	-	-	-
Other KMP - Group Executives							
N Campbell	2015	-	80,831	-	(69,675)	11,156	11,007
	2014	-	181,831	-	(101,000)	80,831	75,467
G Stack	2015	20,156	286,140	199,998	(147,469)	338,669	327,830
	2014	20,000	319,972	150,300	(184,132)	286,140	273,857

^(A) The loans of Dr Cairns and Mr Lewis were repaid in full during the year ended 30 June 2015.

^(B) Pursuant to the approval of the issuance of shares and interest free loan under the SPP on 17 October 2014, a loan of \$999,993 and \$824,997 was provided to Mr Fraser and Ms Phin respectively on 13 November 2014.

3.9 Link Between Performance and Remuneration Paid by the Group

	2015	2014	2013	2012	2011
Total revenue (\$'000)	284,912	148,109	120,906	35,846	18,314
Total expenses (\$'000)	54,603	37,630	25,904	16,693	10,244
Net operating profit (\$'000)	174,295	82,939	66,600	13,660	5,792
Basic earnings per share (cents per share)	109.2	53.3	43.6	9.0	3.9
Diluted earnings per share (cents per share)	101.8	48.9	40.0	8.5	3.7
Dividends paid (cents per share) ^(C)	74.9	33.0	8.0	3.0	-
Closing share price (ASX code: MFG) (\$)	17.40	10.93	9.64	2.15	1.32
Total KMP remuneration:					
- fixed compensation (\$) ^(A)	3,525,342	3,370,513	2,295,866	818,750	805,000
- variable compensation (\$) ^(B)	3,706,172	3,156,699	2,348,390	590,197	277,632
	7,231,514	6,527,212	4,644,256	1,408,947	1,082,632
% growth in Net operating profit	110%	25%	388%	136%	56%
% growth in Diluted earnings per share	108%	22%	371%	130%	48%
% growth in Total KMP remuneration	11%	41%	230%	30%	12%
Total KMP remuneration as % of net operating profit	4%	8%	7%	10%	19%

^(A) Fixed compensation comprises salary, superannuation and accrued long service leave.

^(B) Variable compensation comprises cash bonuses, share based payments and a discretionary payment to Mr Mackay in 2014.

^(C) Excluding in-specie distribution of 9.16 cents per share for the year ended 30 June 2013. Dividends paid have been fully franked.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

4. Other

4.1 Indemnification and Insurance of Directors and Officers

The Group insures the Directors and Officers of the Group in office to the extent permitted by law for losses, liabilities, costs and charges in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Group, other than conduct involving a wilful breach of duty in relation to the Group.

During the year, the Group paid insurance premiums to insure the Directors and Officers of the Company. The terms of the contract prohibit the disclosure of the premiums paid.

4.2 Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001*.

4.3 Non-audit Services

During the year, Ernst & Young, the Group's auditor, has performed other services in addition to its statutory duties. Details of the amounts paid or payable to the auditor are set out in note 21 to the financial report.

The Directors, in accordance with advice received from the Audit & Risk Committee, are satisfied that the provision of those non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied, considering the nature and quantum of the non-audit services that the provision of non-audit services by the Auditor, as set out below, did not compromise the Auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit & Risk Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

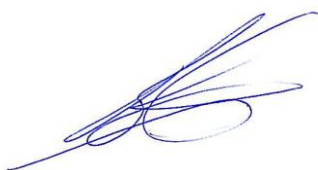
4.4 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

4.5 Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Class Order, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of the Directors.



Brett Cairns
Executive Chairman

Sydney
11 August 2015

MAGELLAN FINANCIAL GROUP LIMITED

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Auditor's Independence Declaration to the Directors of Magellan Financial Group Limited

In relation to our audit of the financial report of Magellan Financial Group Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature of 'Rita Da Silva' in black ink.

Rita Da Silva
Partner
11 August 2015

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the year ended 30 June 2015

		Consolidated Entity	
		30 June	30 June
		2015	2014
		\$'000	\$'000
	Note		
Revenue			
Management fees	6(a)	203,014	132,567
Performance fees	6(b)	43,413	2,117
Services fees	6(c)	7,854	3,918
Interest income		2,548	2,003
Dividend and distribution income		13,788	3,995
Net gain on sale of available-for-sale financial assets	6(f)	11,578	4,221
Net gain on deemed disposal of available-for-sale financial assets attributable to MGE	13	1,484	-
Net foreign exchange gain/(loss)		1,232	(725)
Other		1	13
Total revenue		284,912	148,109
Expenses			
Employee expenses		31,311	23,639
Non-Executive Director fees		338	231
Fund administration and operational costs		5,948	4,149
US marketing/consulting fee expense		5,490	3,127
Marketing expense		2,402	1,741
Information technology expense		2,299	1,085
Travel and entertainment expense		1,474	893
Legal and professional fees		1,330	480
Occupancy expense		852	724
Auditor's remuneration	21	639	485
Depreciation and amortisation expense	8(a)	317	116
Loss on disposal of property, plant and equipment		21	-
External unitholders' share of MGE's net profit while MGE was a controlled fund	13	506	-
Group's share of net loss for the period MGE was an associate	12(a)	104	-
Other		1,572	960
Total expenses		54,603	37,630
Operating profit before income tax expense		230,309	110,479
Income tax expense	5(a)	(56,014)	(27,540)
Net operating profit for the year		174,295	82,939
Basic earnings per share (cents per share)	3	109.2 cents	53.3 cents
Diluted earnings per share (cents per share)	3	101.8 cents	48.9 cents

The Consolidated Statement of Profit or Loss is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME for the year ended 30 June 2015

	Note	Consolidated Entity	
		30 June 2015 \$'000	30 June 2014 \$'000
Net operating profit for the year		174,295	82,939
Other comprehensive income			
<i>Items that may be reclassified to profit or loss in future years, net of tax</i>			
Net changes in the fair value of available-for-sale financial assets		24,165	10,076
Net (gain)/loss on sale of available-for-sale financial assets	6(f)	(11,578)	(4,221)
Net changes in the fair value of available-for-sale financial assets attributable to MGE while MGE was a controlled fund	13	5,476	-
External unitholders share of movement in available-for-sale reserve while MGE was a controlled fund	13	(3,992)	-
Net (gain)/loss on deemed disposal of controlling interest in MGE	13	(1,484)	-
Share of revaluation of available-for-sale financial asset of associate	12(a)	(1,296)	-
Income tax benefit/(expense) on the above items	5(a)	(4,475)	(1,759)
Other comprehensive income for the year, net of tax		6,816	4,096
Total comprehensive income for the year		181,111	87,035

The Consolidated Statement of Other Comprehensive Income is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2015

		Consolidated Entity	
		30 June	30 June
		2015	2014
		\$'000	\$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents	18(c)	93,934	82,868
Financial assets	11	349	302
Receivables	7	54,850	23,431
Loans - share purchase plan	15	1,396	1,783
Prepayments		354	252
Total current assets		150,883	108,636
Non-current assets			
Financial assets	11	139,498	125,558
Investment in associate	12	49,845	-
Loans - share purchase plan	15	5,849	2,271
Property, plant and equipment	8	603	386
Total non-current assets		195,795	128,215
Total assets		346,678	236,851
Liabilities			
Current liabilities			
Payables	9	14,332	11,471
Income tax payable		16,471	10,538
Total current liabilities		30,803	22,009
Non-current liabilities			
Deferred tax liabilities	5(c)	11,347	7,460
Provisions	10	1,085	795
Total non-current liabilities		12,432	8,255
Total liabilities		43,235	30,264
Net assets		303,443	206,587
Equity			
Contributed equity	14	103,477	93,812
Available for sale reserve		32,332	25,516
Retained profits		167,634	87,259
Total attributable to members of the Group		303,443	206,587
Total equity		303,443	206,587

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2015

		Attributable to Equity Holders of the Consolidated Entity			
		Contributed Equity	Retained Profits	Available for Sale Reserve	Total
2015	Note	\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2014		93,812	87,259	25,516	206,587
Net profit for the year		-	174,295	-	174,295
Other comprehensive income		-	-	6,816	6,816
Total comprehensive income for the year		-	174,295	6,816	181,111
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under share purchase plan (SPP)	14(a)	7,063	-	-	7,063
- on exercise of MFG 2016 Options	14(a)	2,241	-	-	2,241
- transaction costs arising on share issue	14(a)	(17)	-	-	(17)
Dividends paid	4	-	(93,920)	-	(93,920)
SPP expense for the year	14(a)	378	-	-	378
Total transactions with equity holders in their capacity as equity owners		9,665	(93,920)	-	(84,255)
Equity - 30 June 2015		103,477	167,634	32,332	303,443
2014					
Equity - 1 July 2013		76,378	55,241	21,420	153,039
Net profit for the year		-	82,939	-	82,939
Other comprehensive income		-	-	4,096	4,096
Total comprehensive income for the year		-	82,939	4,096	87,035
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under share purchase plan (SPP)	14(a)	1,682	-	-	1,682
- on exercise of MFG 2016 Options	14(a)	15,511	-	-	15,511
- transaction costs arising on share issue	14(a)	(31)	-	-	(31)
Dividends paid	4	-	(50,921)	-	(50,921)
SPP expense for the year	14(a)	272	-	-	272
Total transactions with equity holders in their capacity as equity owners		17,434	(50,921)	-	(33,487)
Equity - 30 June 2014		93,812	87,259	25,516	206,587

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 30 June 2015

		Consolidated Entity	
		30 June	30 June
		2015	2014
		\$'000	\$'000
	Note		
Cash flows from operating activities			
Management, service and consulting fees received		198,142	128,664
Performance fees received		33,349	23,792
Interest received		2,123	1,618
Dividends and distributions received		4,069	362
Tax paid		(50,440)	(33,801)
Payments to suppliers and employees (inclusive of GST)		(49,955)	(33,801)
Other revenue received		11	-
Net cash inflows/(outflows) from operating activities	18(a)	137,299	86,834
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		23,235	6,432
Purchase of available-for-sale financial assets		(62,360)	(28,835)
Net matured term deposits classified as loans and receivables		(49)	14,352
Net cash outflow on deconsolidation of controlled fund		(27)	-
Net cash flows from foreign exchange transactions		241	(713)
Payments for property, plant and equipment	8(a)	(557)	(217)
Net cash inflows/(outflows) from investing activities		(39,517)	(8,981)
Cash flows from financing activities			
Proceeds from issue from securities		3,631	15,978
Proceeds from repayment of SPP loans		861	1,872
Dividends paid	4	(91,875)	(50,921)
Net cash inflows/(outflows) from financing activities		(87,383)	(33,071)
Net increase / (decrease) in cash and cash equivalents			
Effects of exchange rate movements on cash and cash equivalents		667	(10)
Cash and cash equivalents at the beginning of the year		82,868	38,096
Cash and cash equivalents at the end of the year	18(c)	93,934	82,868

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies

This financial report is for Magellan Financial Group Limited (the "Company" or "MFG") and its controlled entities (the "Group") for the year ended 30 June 2015. The report was authorised for issue in accordance with a resolution of the Directors on 11 August 2015.

The principal accounting policies adopted in the preparation of this financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

The financial report is a general purpose financial report which is presented in Australian dollars and has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and other mandatory professional reporting requirements. The Company is a for-profit entity for the purpose of preparing this financial report.

Compliance with IFRS

The financial report complies with Australian Accounting Standards (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Historical Cost Convention

This financial report has been prepared on a going concern basis and under the historical cost convention except for assets and liabilities which are measured at fair value.

Changes in Accounting Policy, Accounting Standards and Interpretations

(i) New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period except for the adoption of the new standards and amendments which became mandatory for the first time this reporting period commencing 1 July 2014. The adoption of these standards and amendments did not result in any adjustments to the amounts or disclosures in the current or prior year.

(ii) Accounting Standards and Interpretations Issued But Not Yet Effective

The Australian and International Accounting Standards issued but not yet mandatory for the 30 June 2015 reporting period have not been adopted by the Group or Company in the preparation of this financial report. The assessment of the impact of the new standards and interpretations which may have a material impact on the Group are set out below:

- **AASB 9: Financial Instruments (AASB 9), AASB 2012-6: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective 1 July 2018)**

AASB 9 contains new requirements for classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met.

AASB 9 was revised in December 2014 to include new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. It also introduced a new expected-loss impairment model that requires credit losses to be recognised when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

At 30 June 2015, the Group continues to evaluate the recognition and disclosure requirements of this standard but does not anticipate it will have a material financial impact as the carrying values of its investments approximate fair value and the Group does not apply hedge accounting. The adoption of this standard is however expected to result in a change in the presentation of fair value movements within the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income and may also impact the type of information disclosed in the notes to the financial statements.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

(ii) Accounting Standards and Interpretations Issued But Not Yet Effective (continued)

• AASB 15: Revenue from Contracts with Customers (effective 1 July 2017) (AASB 15)

AASB 15 supercedes the revenue recognition guidance in AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates. The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers. AASB 15 has also introduced specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract (eg sales commissions) and those costs associated with fulfilling a contract.

At 30 June 2015, the Group does not anticipate there will be any material change to the timing or manner of recognition for management, services or performance fees as these fees are currently recognised as revenue only when they are highly probable and the revenue recognition for interest income is unaffected as it is excluded from AASB 15. However the recognition basis relating to the US marketing/consulting fee expense may change as it may be required to be capitalised and amortised over the life of the relevant investment management agreements. Capitalisation is only permitted when the costs are expected to be recovered. As a result, the Group continues to analyse the treatment of the marketing/consulting fee expense and the extent of information required to meet the additional disclosures required under AASB 15, so as to understand the extent of impact on the Group's systems, processes and controls.

(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2015 (collectively referred to in this financial report as the 'Group' or the 'consolidated entity'). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee where existing rights give it the current ability to direct the relevant activities of the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements or control. Consolidation of a controlled entity ceases when the Group loses control of the controlled entity.

Assets and liabilities, income and expenses of a controlled entity acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the controlled entity.

i) Controlled Entities

Controlled entities are entities over which the Group has power to control, which is when the Group is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When the Group has less than a majority of the voting or similar rights of an entity, the Group also considers the following when assessing whether it has the power of control over the entity: contractual arrangements with the other voting holders of the entity, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation (continued)

i) Controlled Entities (continued)

Controlled entities are fully consolidated from the date control commenced and deconsolidated from the date that control ceased. Refer to note 13 for all controlled entities. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a controlled entity acquired or disposed of during the year are included in the consolidated financial statements from the date the group obtains control and until the date the group ceases to control the controlled entity. Any change in the ownership interest of a controlled entity, without a loss of control is accounted for as an equity transaction.

All inter-entity balances and transactions between entities in the Group, including unrealised profits or losses, have been eliminated in full on consolidation. Accounting policies of the controlled entities have been changed where necessary to ensure consistency with those policies adopted by the Group.

ii) Associates

An associate is an entity over which the Group exercises significant influence but not control over its financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. When necessary, adjustments are made to the financial statements of controlled entities to bring their accounting policies and reporting dates into line with the Group's accounting policies.

Under the equity method, the investment in an associate is carried in the Consolidated Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the associate. Where an associate was previously a controlled entity of the Group, the deemed cost for the purpose of applying the equity method is the fair value on the date that the Group ceased to have a controlling interest. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of an associate's post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in reserves, including its available for sale reserve, is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions received or receivable from an associate are recognised in the Company's Statement of Profit or Loss and Statement of Other Comprehensive Income as income, while in the consolidated financial statements they reduce the carrying value of the investment.

iii) Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements under AASB 12 *Disclosure of Interests in Other Entities* (AASB 12). The Group has assessed whether the funds in which it invests (as set out in note 11) and is appointed Investment Manager or Sub-Adviser, should be classified as structured entities. The Group has considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the Investment Manager or redeem holdings. The Group has concluded that the funds in which it invests are not structured entities under AASB 12.

iv) Changes in Ownership Interests

When the Group ceases to have control, joint control or significant interest, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities, which means that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Business Combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where listed equity instruments are issued in a business combination, the fair value of the instruments is the published closing market bid price as at the date of the exchange. Acquisition costs arising on the issue of equity instruments are recognised directly in equity.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(d) Segment Reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which the Group earns revenues and incurs expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker in order to make decisions about the allocation of resources to the segment and assess its performance, and for which discrete financial information is available. The chief operating decision maker has been determined as the Chief Executive Officer, Mr Hamish Douglass.

(e) Foreign Currency Translation

The functional and presentation currency of the Company and its controlled entities as determined in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates* is the Australian dollar. Transactions denominated in foreign currencies are translated into Australian dollars at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the Reuters London 4pm exchange rates at reporting date. The fair values of financial assets are determined using the Reuters London 4pm exchange rates at reporting date. Foreign currency exchange differences relating to financial assets are included in net changes in fair value in the Consolidated Statement of Profit or Loss. All other foreign currency exchange differences are presented separately in the Consolidated Statement of Profit or Loss as net gains/losses on foreign exchange.

(f) Revenue Recognition

Management Fees

Management fees arise from providing:

- investment management services as investment manager and sub-advisor to the funds and external wholesale client mandates set out at note 6; and
- Trustee and Responsible Entity services where the Group acts as Trustee and Responsible Entity to the funds as set out in note 6.

Management fee revenue, which is based on a percentage of the fund's or mandate's portfolio value, is recognised in the Consolidated Statement of Profit or Loss as it is earned and calculated in accordance with the Investment Management Agreements, mandates and Constitutions of the funds as set out in note 6.

Services Fees

Services fee revenue is recognised in the Statement of Profit or Loss as it is earned and calculated in accordance with the Services Agreement.

Performance Fees

The Group may earn performance fees from its retail funds, some institutional mandates and Magellan Flagship Fund Limited (MFF). Where a performance fee is applicable to an institutional client mandate, the base management fee will generally be lower than earned from mandates where no performance fee applies. The Group's entitlement to performance fees for any given performance period is dependent on the portfolio outperforming certain hurdles, which may be index relative hurdles, absolute return hurdles or a combination of both. Performance fees are generally subject to either a high water mark arrangement or a deficit clause, which ensures that fees are not earned more than once on the same performance. The Group's entitlement to performance fees from MFF is dependent on MFF's total shareholder return exceeding 10% per annum, compounded annually, over prescribed performance periods.

Performance fees are recognised in the Consolidated Statement of Profit or Loss only when the Group's entitlement to the fee becomes certain, which is at the end of the relevant performance period. Performance periods for the Group's performance fee arrangements range from three months to four years.

Refer to note 6 for further details on the management, service and performance fees.

Interest Income

Interest income is recognised on an accruals basis using the effective interest rate method.

Dividend and Distribution Income

Dividend and distribution income is recognised when it is declared.

Net Gain/Loss on Sale

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income in the year of disposal.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(g) Expenses

Expenses are recognised in the Consolidated Statement of Profit or Loss on an accruals basis. Directors' fees (including superannuation) and related employment taxes are included as an expense in the Consolidated Statement of Profit or Loss as incurred. Information regarding the Directors' remuneration is included in section 3.3 of the Remuneration Report.

(h) Income Tax

The income tax expense/benefit is the tax payable/receivable on the current year's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Taxable profit differs from net profit as reported in the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income as items of income or expense are taxable or deductible in years other than the current year and in addition some items are never taxable or deductible.

Deferred tax assets and liabilities are recognised for all deductible temporary differences and unused tax losses carried forward to the extent that it is probable that future taxable amounts will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

Current tax and deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting date.

Tax Consolidation - Australia

Magellan Financial Group Limited (MFG) and its wholly owned Australian controlled entities formed a tax consolidated group for the purpose the tax consolidation legislation, on 1 July 2007. MFG is the head entity of the tax consolidated group.

Under the tax consolidation legislation, the head entity and each controlled entity continues to account for its own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. In addition, MFG also recognised the current tax assets or liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

On forming the tax consolidation group, each entity in the tax consolidated group entered into a tax sharing agreement, which limits the joint and several liability of the wholly owned entities in the case of a default of the head entity, MFG. The Company has also entered into a tax funding agreement under which the wholly owned entities fully compensate MFG for any current tax payable assumed and are compensated by MFG for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to MFG under the tax consolidation legislation. The funding amount is determined by reference to the amounts recognised in the financial report. Assets and liabilities arising under the tax funding agreement with the tax consolidated entities are recognised as related party receivables or payables and these amounts are due upon demand from MFG or the relevant entity.

MFG may also require payment of interim funding amounts to assist with its obligations to pay tax instalments and the funding amounts are also recognised as related party receivables or payables. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(h) Income Tax (continued)

Offshore Banking Unit

Magellan Asset Management Limited, a controlled entity of MFG, and a member of MFG's tax consolidation group, was declared an Offshore Banking Unit (OBU) on 31 July 2013. Under current Australian tax legislation, assessable offshore banking (OB) income derived from the Group's OB funds management and advisory activities provided to clients outside of Australia and New Zealand, net of costs, is subject to a concessional tax rate of 10%. Revenues earned from non-resident clients that are invested in the Group's Global Equities strategy meet the current definition of assessable OB income. The amount of assessable OB income, net of costs, in a financial year that will be subject to the 10% concessional tax rate is determined with reference to the current legislation's definitions of assessable OB income, exclusive OB deductions and general OB deductions. For further details refer to note 5(d).

(i) Goods and Services Tax (GST)

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST, except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of that purchase or as an expense. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the Consolidated Statement of Financial Position as a receivable or payable.

Cash Flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from financing activities which are recoverable from, or payable to the taxation authority, is presented as operating cash flows.

(j) Financial Assets and Liabilities

The Group classifies its financial assets into one of the four following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories. Financial liabilities are classified as financial liabilities at amortised cost. Classification of financial assets and liabilities depends on the purpose for which the assets and liabilities were acquired. The Group's classifications are set out below:

Financial asset/liability	Classification	Valuation basis	
Cash	Fair value through profit or loss	Fair value	Refer to note 1(k)
Receivables	Loans and receivables	Amortised cost	Refer to note 1(l)
Financial assets	Loans and receivables	Amortised cost	Refer to note 1(n)
	Available-for-sale	Fair value	Refer to note 1(n)
	Held for trading	Fair value	Refer to note 1(n)
Payables	Financial liability at amortised cost	Amortised cost	Refer to note 1(q)

Derecognition of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are derecognised when the Group no longer controls the contractual rights that comprise the financial instrument which is normally the case when the instrument is sold.

(k) Cash and Cash Equivalents

Cash includes cash at bank and deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Term deposits with a term of 90 days or less from the date of inception are classified as cash equivalents. For term deposits with a term of greater than 90 days refer also to note 1(n) iii).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(l) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for uncollectible amounts. This is the original invoice amount rendered for management, administration and performance fees, less a provision for any uncollected debt. Collectability of receivables is reviewed regularly and bad debts are written off when identified. A specific provision for doubtful debts is made where there is objective evidence that the Group will not be able to collect the original receivable amount. Financial difficulties of the debtor or default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared with the present value of estimated future cash flows, discounted at the original effective interest rate.

(m) Derivatives

Derivatives are categorised as held-for-trading financial assets and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

(n) Financial Assets

The Company's financial assets comprise and are classified as follows:

Type of Financial asset	Classification	Valuation basis	
Listed shares	Available-for-sale	Fair value	Refer to note 1(n) i)
Subordinated bank notes	Available-for-sale	Fair value	Refer to note 1(n) i)
Unlisted funds	Available-for-sale	Fair value	Refer to note 1(n) i)
Unlisted shares	Available-for-sale	Fair value	Refer to note 1(n) i)
Term deposits	Loans and receivables	Amortised cost	Refer to note 1(n) iii)

i) Available-for-Sale Financial Assets

Available-for-sale financial assets are assets that are not classified in any other financial asset category. These assets are carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in the available for sale reserve in the Consolidated Statement of the Financial Position and included in Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income until the asset is disposed or impaired. When available-for-sale financial assets are sold or impaired, cumulative gains recognised in the available for sale reserve are recognised in the Consolidated Statement of Profit or Loss. Cumulative losses are recognised in the available for sale reserve to the extent that they reverse previously recorded gains, and when previously recorded gains have been reversed in full, any impairment loss below original cost (when significant and prolonged) is recognised in the Consolidated Statement of Profit or Loss.

In assessing whether an available-for-sale asset is impaired, the Board considers a number of quantitative and qualitative factors, including the current market price of the asset, research performed internally by experienced equity analysts, and, where appropriate, external research that provides guidance on the long-term underlying value of the asset. Available-for-sale financial assets are classified as non-current assets unless management intends to dispose of the assets within 12 months of reporting date.

ii) Purchases and Sales of Financial Assets

All purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Purchases or sales of financial assets are purchases or sales under contracts that require delivery of the assets or settlement within the period generally established by regulation or convention in the market place.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Group's main income generating activity.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(n) Financial Assets (continued)

iii) Loans and Receivables

Term deposits with a term greater than 90 days from the date of inception are classified as loans and receivables. The deposits are initially recognised at fair value and then carried at amortised cost using the effective interest rate method. They are classified as current assets where the term to maturity from reporting date is less than 12 months and as non-current assets where the term to maturity is greater than 12 months. Changes in the fair value of investments are recognised in the Consolidated Statement of Profit or Loss. When investments are disposed the net gain or loss on sale is recognised in the Consolidated Statement of Profit or Loss at the date of sale.

iv) Held-for-Trading Financial Assets

Held-for-Trading Financial Assets are short-term trading securities which are carried at fair value. Changes in fair value are recognised in the Consolidated Statement of Profit or Loss.

(o) Impairment of Assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indicator or objective evidence of impairment exists, an estimate of the asset's recoverable amount is made. An impairment loss is recognised in the Consolidated Statement of Profit or Loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(p) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to its acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset.

Depreciation and Amortisation

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvements	- over the life of the relevant lease
Furniture and fittings	- over three to five years
Computer equipment	- over three to five years

The assets' residual values and useful lives are reviewed at each reporting date. An asset's carrying amount is written down to recoverable amount where an indicator of impairment or objective evidence exists. An impairment loss is recognised in the Consolidated Statement of Profit or Loss where the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Consolidated Statement of Profit or Loss.

(q) Payables

Payables comprise trade creditors and accrued expenses owing by the Group at reporting date which are unpaid. Trade creditors represent liabilities for goods and services received by the Group prior to the end of the year that remain unpaid at reporting date. They are unsecured and usually paid within 30 days of recognition. Payables are recognised at amortised cost at the point where the Group becomes obliged to make payments in respect of the purchase of these goods and services.

A dividend payable to shareholders of the Group is recognised for the amount of any dividend declared, determined or publicly recommended by the Directors on or before reporting date but not paid at reporting date.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(r) Employee Expenses and Entitlements

Wages, Salaries and Annual Leave

Liabilities for wages and salaries (including non-monetary benefits) and annual leave are recognised in payables within accrued employee entitlements and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled within 12 months from reporting date are recognised in respect of employees' services up to reporting date and included as current liabilities in the Consolidated Statement of Financial Position. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Employee benefit on-costs are included in accrued employee entitlements in the Consolidated Statement of Financial Position and employee expenses in the Consolidated Statement of Profit or Loss when the employee entitlements to which they relate are recognised.

Bonus Plan

A liability is and an expense is recognised for the bonus plan where the Group is contractually obliged or where there is past practice that has created a constructive obligation to pay the relevant bonuses.

The cash bonus is paid within three months of reporting date. The conditional deferred cash bonus is paid in twelve equal instalments in the following financial year and payment of the deferred cash bonus is conditional on an eligible employee being employed at the time of payment. The deferred cash bonus for each month is expensed in the Consolidated Statement of Profit or Loss as incurred.

Long Service Leave

Liabilities for long service leave are recognised when employees reach a qualifying period of continuous service and are measured at the amount expected to be settled within 12 months from reporting date. Any amount which is expected to be payable after 12 months from reporting date is classified as a non-current liability and measured as the present value of expected future payments. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service and discounted using corporate bond rates at reporting date, with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(s) Share Purchase Plan

The Company has in place a Share Purchase Plan (SPP) for employees and Non-Executive Directors ('Participants') to purchase shares in the Company (see Directors Report – Remuneration Report – Share Purchase Plan). The Company provides financial assistance to Participants, by way of an interest free loan. Loans to Participants are initially recognised at fair value, which is determined by discounting loans to their net present value using the risk-free interest rate at the time the loan is granted and an estimated repayment schedule. Following initial recognition, they are carried at amortised cost using the effective interest rate method, adjusted for changes in the projected repayment schedule. Changes in the carrying value of these are recognised in 'interest income' in profit or loss. The cost of providing the benefit to Participants is recognised as an employee benefits expense in profit or loss on a straight line basis over the expected life of the loan, in accordance with AASB 2 *Share Based Payments*.

Details of the loans outstanding at reporting date, and of the changes in carrying value of the loans and employee benefits expense recognised in profit or loss are provided in note 15.

(t) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Net rental payments for operating leases are recognised as an expense in the Consolidated Statement of Profit or Loss on a straight-line basis over the period of the lease.

A make-good provision is recognised at the point in time when changes are made to the Company's leased premises. The provision is the present value of an estimate of the cost to restore the premises back to the condition at the inception of the lease. A corresponding asset is recognised in leasehold improvements within property, plant and equipment and depreciated over the remaining life of the relevant lease (refer to note 1(p)).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(u) Contributed Equity

The Group's ordinary shares, MFG 2016 Options and Class B Shares are classified as equity and recognised at the value of consideration received by the Group. Incremental costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax.

(v) Earnings Per Share

Basic earnings per share is calculated as net profit/(loss) after income tax expense for the year divided by the weighted average number of ordinary shares on issue. Diluted earnings per share is calculated by adjusting the basic earnings per share to take into account the effect of any costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Refer to note 3 for further details.

(w) Rounding of Amounts

The Group is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, or in certain cases, the nearest dollar.

(x) Parent Entity Financial Information

The financial information for the parent entity, MFG, (disclosed in note 16) has been prepared on the same basis as the Group's consolidated financial statements, except for investments in subsidiaries which are accounted for at cost in the financial statements of MFG. Dividends received from associates are recognised in the Statement of Profit or Loss, rather than being deducted from the carrying amount of the investment.

(y) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The Directors base their judgements and estimates on historical experience and various other factors they believe to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from those estimates.

The main area where a higher degree of judgement or complexity arises or where assumptions and estimates are significant to the financial statements is the valuation of unlisted investments. The valuation techniques used, which involves estimates, are discussed in detail at note 19(h). Apart from the above and as the Company's cash and cash equivalents are provided by strongly rated financial institutions, none of the other assets or liabilities are subject to significant judgement or complexity due to the timing of when revenues or expenses are accrued and recognised.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2. Segment Information

The Group's business activities are organised into the following reportable operating segments for internal management purposes:

Funds Management

The funds management activities of the Group, which are undertaken by the controlled entity, Magellan Asset Management Limited (MAM), comprise acting as:

- Trustee, Responsible Entity and Investment Manager for the following managed investment schemes offered primarily to Australian and New Zealand investors:
 - Magellan Global Fund
 - Magellan Global Fund (Hedged)
 - Magellan Infrastructure Fund
 - Magellan Infrastructure Fund (Unhedged)
 - Magellan High Conviction Fund (collectively, the Unlisted Funds);
- Responsible Entity and Investment Manager for the Magellan Global Equities Fund (MGE) which is a registered managed investment scheme quoted on the on the Australian Securities Exchange (ASX) under the AQUA rules, and offered primarily to Australian investors;
- Trustee and Investment Manager for the Magellan Core Infrastructure Fund (MCIF), which is an unregistered managed investment scheme offered to Australian wholesale investors;
- Investment Manager for the MFG Global Fund, a fund authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities (UCITS)) and offered to global institutional clients;
- Sub-adviser to the Frontier MFG Global Equity Fund, Frontier MFG Global Plus Fund and the Frontier MFG Core Infrastructure Fund, which are offered to wholesale investors in the United States (collectively, the Frontier MFG Funds);
- Investment research and administrative services provider to MFF, and investment research provider to a mandate; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the Funds Management business are based on the relevant tax rate (refer to note 5) and included within the Corporate segment. Non-Executive Director fees relating to MAM Board are included in this segment.

Principal Investments

The principal investment portfolio is comprised of the Company's investments in ASX quoted and unlisted Magellan Funds, the Frontier MFG Funds, a select portfolio comprising Australian and international listed companies, cash, and other investments, and net deferred tax assets/liabilities arising from changes in fair value of these investments. Investments in ASX quoted and unlisted Magellan Funds may comprise a controlled fund or associate, usually arising where Magellan has initially provided seed capital for the fund.

Corporate

This includes interest income on the Company's Share Purchase Plan (SPP) loans and cash (including term deposits), corporate costs including Non-Executive Director fees relating to the MFG Board and Committees, all current tax liabilities and deferred tax assets/liabilities excluding those arising from changes in the fair value of financial assets which are shown in Principal Investments.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2. Segment Information (continued)

(a) Segment Financial Results

The operating results of the Group's operating segments, excluding income tax expense, are as follows:

30 June 2015	Funds Management \$'000	Principal Investments \$'000	Corporate \$'000	Eliminations (A) \$'000	Consolidated Entity \$'000
Revenue					
Management fees	203,478	-	-	(464)	203,014
Performance fees	43,413	-	-	-	43,413
Service fees	7,854	-	-	-	7,854
Interest income	477	40	2,031	-	2,548
Dividend and distribution income		13,261	827	(300)	13,788
Net gain/(loss) on sale of available-for-sale financial assets	-	11,578	-	-	11,578
Net gain/(loss) on deemed disposal of available-for-sale financial assets attributable to MGE	-	1,484	-	-	1,484
Net foreign exchange gain/(loss)	667	262	303	-	1,232
Other	-	-	1	-	1
Total revenue	255,889	26,625	3,162	(764)	284,912
Expenses					
Employee benefits expense	30,918	-	15	-	30,933
Employee benefits expense - SPP	295	-	83	-	378
Non-Executive Director fees	175	-	163	-	338
Other expenses	21,201	993	614	(464)	22,344
External unitholders' share of MGE's net profit while MGE was a controlled fund	-	-	506	-	506
Group's share of net loss for the period MGE was an associate	-	104	-	-	104
	52,589	1,097	1,381	(464)	54,603
Operating profit before income tax expense	203,300	25,528	1,781	(300)	230,309
Other comprehensive income					
Net changes in fair value of available-for-sale financial assets	-	24,165	-	-	24,165
Net (gain)/loss on sale of available-for-sale financial assets	-	(11,578)	-	-	(11,578)
Net changes in the fair value of available-for-sale financial assets attributable to MGE while MGE was a controlled fund	-	-	5,476	-	5,476
External unitholders share of movement in available-for-sale reserve while MGE was a controlled fund	-	-	(3,992)	-	(3,992)
Net (gain)/loss on deemed disposal of controlling interest in MGE	-	-	(1,484)	-	(1,484)
Share of revaluation of available-for-sale financial asset of associate	-	(1,296)	-	-	(1,296)
Other comprehensive income for the year, before tax	-	11,291	-	-	11,291
Total comprehensive income for the year, before tax	203,300	36,819	1,781	(300)	241,600

(A) Includes adjustments for inter-segment transactions, removal of the effects of the loss of control of Magellan Global Equities Fund (refer to note 13) and netting of items on the Consolidated Statement of Financial Position.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2. Segment Information (continued)

(a) Segment Financial Results (continued)

30 June 2014	Funds Management \$'000	Principal Investments \$'000	Corporate \$'000	Eliminations (A) \$'000	Consolidated Entity \$'000
Revenue					
Management fees	132,567	-	-	-	132,567
Performance fees	2,117	-	-	-	2,117
Service fees	3,918	-	-	-	3,918
Interest income	541	56	1,406	-	2,003
Dividend and distribution income	-	3,995	-	-	3,995
Net gain/(loss) on sale of available-for-sale financial assets	-	4,221	-	-	4,221
Net foreign exchange gain/(loss)	(10)	(715)	-	-	(725)
Other	2	-	11	-	13
Total revenue	139,135	7,557	1,417	-	148,109
Expenses					
Employee benefits expense	23,356	-	242	-	23,598
Employee benefits expense - SPP	243	-	29	-	272
Non-Executive Director fees	140	-	91	-	231
Other expenses	12,877	62	590	-	13,529
	36,616	62	952	-	37,630
Operating profit before income tax expense	102,519	7,495	465	-	110,479
Other comprehensive income					
Net changes in fair value of available-for-sale financial assets	-	10,076	-	-	10,076
Net (gain)/loss on sale of available-for-sale financial assets	-	(4,221)	-	-	(4,221)
Other comprehensive income for the year, before tax	-	5,855	-	-	5,855
Total comprehensive income for the year, before tax	102,519	13,350	465	-	116,334

(A) Includes adjustments for inter-segment transactions and netting of items on the Consolidated Statement of Financial Position.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2. Segment Information (continued)

(b) Segment Assets and Liabilities

The assets and liabilities of the Group's segments are as follows:

	Funds Management (A)	Principal Investments	Corporate	Eliminations	Consolidated Entity
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2015					
Cash and cash equivalents ^(A)	29,424	2,084	62,426	-	93,934
Financial assets	349	139,498	-	-	139,847
Receivables and other assets	43,598	12,151	58	-	55,807
Loans - SPP	-	-	7,245	-	7,245
Investment in associate	-	49,845	-	-	49,845
Total assets	73,371	203,578	69,729	-	346,678
Payables & provisions	15,336	7	74	-	15,417
Tax liabilities	-	14,543	13,275	-	27,818
Total liabilities	15,336	14,550	13,349	-	43,235
Net assets	58,035	189,028	56,380	-	303,443
30 June 2014					
Cash and cash equivalents	26,293	281	56,294	-	82,868
Financial assets - term deposits	302	-	-	-	302
Financial assets - investments	-	125,558	-	-	125,558
Receivables and other assets	20,515	3,532	22	-	24,069
Loans - SPP	-	-	4,054	-	4,054
Total assets	47,110	129,371	60,370	-	236,851
Payables & provisions	12,179	6	81	-	12,266
Tax liabilities	-	9,745	8,253	-	17,998
Total liabilities	12,179	9,751	8,334	-	30,264
Net assets	34,931	119,620	52,036	-	206,587

(A) The Funds Management segment maintains a minimum of \$20,000,000 in liquid assets (including cash and cash equivalents to meet regulatory and operating requirements) (June 2014: \$20,000,000).

The Group's net investment into its funds management business activities is \$12,500,000 capital invested in a controlled entity (June 2014: \$12,500,000).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

3. Earnings Per Share (EPS)

	Consolidated Entity	
	30 June 2015	30 June 2014
Basic earnings per share		
Net profit attributable to shareholders (\$'000)	174,295	82,939
Weighted average number of shares for basic EPS ('000)	159,639	155,675
Basic EPS (cents)	109.2	53.3
Diluted earnings per share		
Net profit attributable to shareholders (\$'000)	174,295	82,939
Weighted average number of shares for diluted EPS ('000)	171,175	169,772
Diluted EPS (cents)	101.8	48.9
Reconciliation of earnings used in calculating earnings per share		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	174,295	82,939

Weighted average number of securities

The reconciliation of the weighted average number of shares on a fully diluted basis used to calculate diluted EPS is below:

Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	159,639	155,675
Add adjustments:		
- equivalent number of unexercised MFG 2016 Options ^(A)	1,270	3,861
- equivalent number of Class B Shares ^(B)	10,266	10,236
Weighted average number of shares used in calculating diluted EPS ('000)	171,175	169,772

(A) During the year ended 30 June 2015, the MFG share price was above the MFG 2016 Options exercise price. The MFG 2016 Options are considered to be potential ordinary shares for the purposes of the diluted earnings per share calculation and have been included in the determination of diluted earnings per share to the extent they are dilutive.

(B) The Class B shares (refer to note 14(d)(iii)) are considered to be potential ordinary shares for the purposes of the diluted earnings per share calculation and have been included in the determination of diluted earnings per share to the extent they are dilutive. The equivalent number of Class B shares for the purposes of calculating the diluted earnings per share has been determined as the weighted average number of ordinary shares into which the Class B shares would convert applying a conversion factor of 0.0637028, and assuming the 1,050,023 MFG 2016 Options had been exercised at 1 July 2015.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

4. Dividends

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
For the year ended 30 June 2015		
Fully franked interim dividend for the year ended 30 June 2015: - 37.1 cents per ordinary share: paid 9 March 2015	59,293	-
Fully franked final dividend for the year ended 30 June 2014: - 21.8 cents per ordinary share: paid 1 September 2014	34,627	-
For the year ended 30 June 2014		
Fully franked interim dividend for the year ended 30 June 2014: - 16.5 cents per ordinary share: paid 10 March 2014	-	25,712
Fully franked final dividend for the year ended 30 June 2013: - 16.5 cents per ordinary share: paid 11 October 2013	-	25,209
Total dividends declared and paid during the year	93,920	50,921

(i) Dividend declared

On 11 August 2015, the Directors declared a fully franked final dividend of 37.8 cents per share in respect of the year ended 30 June 2015 (June 2014: 21.8 cents per share). The amount of the declared dividend expected to be paid on 26 August 2015, but not recognised as a liability, is approximately \$60,584,000.

(ii) Imputation credits

The imputation credit account at 30 June is as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Imputation credits		
Imputation credits at balance date	24,869	14,684
Imputation credits that will arise from payment of income tax payable	5,424	7,288
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2014: 30%)	30,293	21,972

The payment of the final dividend declared by the directors on 11 August 2015 will reduce the franking account balance shown above by approximately \$25,965,000.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2015

5. Income Tax

(a) Reconciliation of income tax expense

The income tax expense for the year can be reconciled to the accounting net profit as follows:

	Note	Consolidated Entity	
		30 June 2015 \$'000	30 June 2014 \$'000
Operating profit before income tax expense		230,309	110,479
Prima facie income tax expense at 30%		(69,093)	(33,144)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
- effect of concessional tax rate on offshore banking unit (OBU)	5(d)	11,815	5,524
- over/(under) provision of prior year tax		93	64
- imputed interest and expense relating to share purchase plan		14	35
- tax effect of franked dividends/distributions received		(14)	-
- non-assessable income and non-deductible expenses		1,171	(19)
Income tax expense reported in the Consolidated Statement of Profit or Loss		(56,014)	(27,540)
- changes in fair value of available-for-sale financial assets		(7,948)	(3,023)
- sale of available-for-sale financial assets recycled through profit or loss		3,473	1,264
Income tax expense reported in the Consolidated Statement of Other Comprehensive Income		(4,475)	(1,759)

(b) Components of income tax expense

Income tax attributable to net profit from ordinary activities comprises:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
The major components of income tax expense are:		
Current income tax benefit/(expense)	(56,107)	(27,604)
Over/(under) provision of prior year income tax	93	64
Income tax expense reported in the Consolidated Statement of Profit or Loss	(56,014)	(27,540)

(c) Net deferred tax asset/(liability)

(i) Deferred tax liability balances comprise temporary differences attributable to:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Amounts recognised in Consolidated Statement of Profit or Loss:		
- changes in the fair value of financial assets	(14,543)	(9,745)
- accruals	3,196	2,285
Total net deferred tax liabilities	(11,347)	(7,460)

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

5. Income Tax (continued)

(c) Net deferred tax asset/(liability) (continued)

(ii) Reconciliation of deferred tax liability is as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Opening balance	(7,460)	(5,721)
Movement in temporary differences during the year:		
- net capital losses carried forward	-	-
- changes in the fair value of financial assets	(3,887)	(1,818)
- other	-	79
Closing balance - net deferred tax liabilities	(11,347)	(7,460)

(d) Offshore Banking Unit

MAM was declared an Offshore Banking Unit (OBU) on 31 July 2013 (refer to note 1(h) for further details). In the year ended 30 June 2015, the Company's effective tax rate was 24.3% (June 2014: 24.9%), which is below the Australian company tax rate of 30% primarily as a result of the income, net of costs, of the OBU attracting a concessional tax rate of 10%. The income tax expense of the OBU recognised in the Consolidated Statement of Profit or Loss is as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Operating profit before income tax expense	230,309	110,479
Prima facie income tax expense at 30%	(69,093)	(33,144)
less: effect of concessional tax rate of OBU comprising:		
- effect of concessional tax rate of 10% on OBU net profit	11,815	5,980
- effect of lower tax rates on deferred tax assets/liabilities at 31 July 2013 on declaration of OBU	-	(456)
less: over/(under) provision of prior year tax	93	64
less: imputed interest and expense relating to share purchase plan	14	35
less: tax effect of franked dividends/distributions received	(14)	0
less: non-assessable income and non-deductible expenses	1,171	(19)
Income tax expense recognised in Consolidated Statement of Profit or Loss	(56,014)	(27,540)
Group's effective tax rate	24.3%	24.9%

e) Tax consolidation

During the year, income tax liabilities of \$49,488,000 (June 2014: \$25,441,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$44,292,000 (June 2014: \$34,103,000) were made to MFG from the other entities in the tax consolidated group under the tax funding agreement during the year. At 30 June 2015, \$6,577,000 (June 2014: \$503,000) remains receivable from other entities in the tax consolidated group. Refer to notes 1(h) and 17(d)(ii) for further details on the tax consolidated group and transactions.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

6. Revenue

(a) Management Fees

The management fees received/receivable during the year were:

	Note	Consolidated Entity	
		30 June	30 June
		2015	2014
		\$'000	\$'000
Magellan Global Fund		88,986	63,408
Magellan Global Fund (Hedged)		883	136
Magellan Infrastructure Fund		6,433	4,819
Magellan Infrastructure Fund (Unhedged)		1,497	353
Magellan High Conviction Fund		3,017	1,511
Magellan Global Equities Fund		223	-
Magellan Core Infrastructure Fund		1,144	1,045
Magellan Flagship Fund	6(c)	-	1,431
MFG Global Fund		10,045	3,644
Frontier MFG Funds		7,176	3,251
Other mandates		83,610	52,969
Total management fees during the year		203,014	132,567

(b) Performance fees

During the year ended 30 June 2015, performance fees were also earned on the following funds and mandates as the total shareholder return, market index and/or relative hurdles were met:

	Consolidated Entity	
	30 June	30 June
	2015	2014
	\$'000	\$'000
Magellan Global Fund	27,554	26
Magellan Global Fund (Hedged)	54	-
Magellan Infrastructure Fund	2,276	286
Magellan Infrastructure Fund (Unhedged)	294	-
Magellan High Conviction Fund	3,702	1,070
Magellan Flagship Fund	2,000	-
Other funds and mandates	7,533	735
Total performance fees during the year	43,413	2,117

(c) Services fees

Services fees arise from providing investment research and administrative services to Magellan Flagship Fund Limited (MFF) and research services under a mandate. Services fee revenue relating to MFF is calculated at 1.25% per annum (excluding GST, payable quarterly in arrears) of the market value of all assets less total indebtedness of MFF divided by the weighted average number of MFF shares on issue during the quarter and multiplied by the lesser of (i) the number of shares on issue at 30 June 2013 or (ii) the weighted average number of shares on issue during the relevant quarter. The services fees are reduced by an amount equivalent to MFF's Managing Director and Portfolio Manager's base remuneration of \$1,000,000 per annum inclusive of superannuation (capped amount) and associated payroll related costs; and travel and incidental expenses up to an amount of \$120,000 per annum. Services provided by MAM included the provision of investment research and administrative services to Magellan Flagship Fund Limited (MFF), a listed investment company. Services fees earned from MFF for the year ended 30 June 2015 were \$7,354,000. In the prior year ended 30 June 2014, MAM ceased as Investment Manager of MFF on 30 September 2013 and provided MFF with investment research and administrative services from 1 October 2013. As a result, services fees of \$3,918,000 were earned from 1 October 2013 to 30 June 2014 and management fees of \$1,431,000 for the period 1 July 2013 to 30 September 2013 were included in management fees in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, and disclosed in note 6(a).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

6. Revenue (continued)

(c) Services fees (continued)

Additionally, in the year ended 30 June 2015, MAM provided research services to an institutional mandate and earned service fees of \$500,000 under a fixed fee arrangement. MAM acted as the Investment Manager for this institutional mandate for the period 1 July 2014 to 13 October 2014 and the management fees earned during that period were \$1,258,000.

(d) Management, services and performance fees by geographic location

The geographical breakdown of the management, services and performance fees is as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Australia	173,193	94,233
United States	29,794	15,126
United Kingdom & Ireland	44,784	25,154
Canada	4,693	3,404
Asia	1,817	685
Total management, services and performance fees	254,281	138,602

(e) Management, services and performance fees by investor type

The breakdown of the management, services and performance fees by type of investor across the global equities and infrastructure strategies is as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Management and services fees		
- Retail	120,970	84,146
- Institutional	89,898	52,339
Performance fees		
- Retail	36,535	2,117
- Institutional	6,878	-
Total management, services and performance fees	254,281	138,602
Total Retail	157,505	86,263
Total Institutional	96,776	52,339
Total management, services and performance fees	254,281	138,602

(f) Net gain/(loss) on sale on available-for-sale financial assets

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Net gain/(loss) from:		
- disposal of units in unlisted investments	10,420	3,799
- disposal of listed investments	1,158	331
- disposal of listed subordinated bank notes	-	91
Total net gain/(loss) on sale of available-for-sale financial assets	11,578	4,221

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

7. Receivables

	Consolidated Entity	
	30 June 2015	30 June 2014
	\$'000	\$'000
Fees receivable	42,571	19,827
Distributions receivable from Funds	12,150	3,466
Other	129	138
Total receivables	54,850	23,431

8. Property, Plant and Equipment

	Consolidated Entity					
	30 June 2015			30 June 2014		
	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost	469	867	1,336	215	970	1,185
less: accumulated depreciation and impairment losses	284	449	733	115	684	799
Total property, plant & equipment	185	418	603	100	286	386

(a) Reconciliation

Reconciliations of the carrying amount for each class of property, plant and equipment at the beginning and end of the financial year are set out below:

	Consolidated Entity					
	30 June 2015			30 June 2014		
	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at beginning of year	100	286	386	5	336	341
Additions	254	303	557	97	120	217
Disposals	-	(23)	(23)	-	(56)	(56)
Depreciation expense	(169)	(148)	(317)	(2)	(114)	(116)
Carrying amount at end of year	185	418	603	100	286	386

Property, plant and equipment is held by MAM.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

9. Payables

	Consolidated Entity	
	30 June	30 June
	2015	2014
	\$'000	\$'000
Trade payable and accruals	2,413	1,219
Accrued employee entitlements	9,294	6,995
US marketing/consulting costs payable	1,630	837
GST payable	934	2,395
Fringe benefits tax payable	61	25
Total payables	14,332	11,471

10. Provisions

	Note	Consolidated Entity	
		30 June	30 June
		2015	2014
		\$'000	\$'000
Employee entitlements - long service leave		696	595
Provision for investment restriction contract	20(b)	300	200
Provision for make-good		89	-
Total provisions		1,085	795

(a) Reconciliation

Reconciliation of the carrying amount of provisions (other than employee provisions) at the beginning and end of the financial year is set out below:

	Consolidated Entity	
	30 June	30 June
	2015	2014
	\$'000	\$'000
Carrying amount at beginning of year	-	-
Additional provision charged to leasehold improvements	89	-
Carrying amount at end of year	89	-

The Group is required to restore its leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of the leasehold improvements and amortised over the term of the lease.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Financial Assets

	Consolidated Entity	
	30 June	30 June
	2015	2014
	\$'000	\$'000
Current		
(i) Financial assets classified as loans and receivables		
Term deposits ^(A)	349	302
Total current financial assets	349	302
Non-Current		
(ii) Available-for-sale financial assets		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	8,996	7,463
- United Kingdom	1,116	668
- Australia	387	-
- France	378	764
- Switzerland	323	727
- Netherlands	220	140
- Germany	164	324
Total listed investments	11,584	10,086
Investments in unlisted funds		
- Magellan Global Fund ^(B)	81,208	78,697
- Magellan Global Fund (Hedged) ^(C)	625	565
- Magellan Infrastructure Fund ^(D)	2,605	2,360
- Magellan Infrastructure Fund (Unhedged) ^(E)	2,124	1,810
- Magellan High Conviction Fund ^(F)	24,478	19,436
- Magellan Wholesale Plus Global Fund ^(G)	5,535	-
- Frontier MFG Core Infrastructure Fund ^(H)	4,552	3,881
- Frontier MFG Global Plus Fund ^(I)	6,447	-
- Frontier MFG Global Equity Fund ^(J)	-	8,383
- Other	165	165
Investments in unlisted shares		
- Other	175	175
Total unlisted investments	127,914	115,472
Total non-current financial assets	139,498	125,558

(A) Includes term deposits totalling \$349,000 (June 2014: \$297,000) which are held with an Australian bank and pledged against bank guarantees in respect of the Group's future lease obligations. In the event that the Group does not meet its lease payments, the bank has the right to apply the deposits in settlement of the amount paid by the bank under the guarantees. Refer to note 20(a) for detail on the Group's leases.

(B) At 30 June 2015, MFG holds an investment in Magellan Global Fund of 1.2% (June 2014: 1.5%).

(C) At 30 June 2015, MFG holds an investment in Magellan Global Fund (Hedged) of 0.5% (June 2014: 1.5%).

(D) At 30 June 2015, MFG holds an investment in Magellan Infrastructure Fund of 0.3% (June 2014: 0.4%).

(E) At 30 June 2015, MFG holds an investment in Magellan Infrastructure Fund (Unhedged) of 1.1% (June 2014: 2.5%).

(F) At 30 June 2015, MFG holds an investment in Magellan High Conviction Fund of 10.3% (June 2014: 15.4%).

(G) On 14 January 2015, MFG seeded a new fund, Magellan Wholesale Plus Global Fund on the BT Panorama Platform, with a \$5,000,000 investment.

(H) At 30 June 2015, MFG holds an investment in Frontier MFG Core Infrastructure Fund of 2.2% (June 2014: 5.6%).

(I) Frontier Partners launched a new Fund, Frontier Global Plus Fund on 23 March 2015. MFG invested USD\$5,000,000 in this Fund, which was funded from the redemption proceeds of Frontier MFG Global Equity Fund (refer note (J) below).

(J) On 23 March 2015, MFG fully redeemed its investment in Frontier MFG Global Equity Fund (June 2014: 1.0%). The net gain/(loss) on redemption of this investment is included in note 6(f).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Financial Assets (continued)

(a) Reconciliations

The movement in the carrying value of the Group's financial assets is as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Current		
Opening balance at 1 July	302	14,685
Cash placed on term deposit	47	7,260
Reclassified term deposits as non-current financial asset	-	-
Matured term deposits	-	(21,643)
Closing balance	349	302
Non-current		
Opening balance at 1 July	125,558	100,488
Acquisitions - in-specie transfer ^(A)	-	12,515
Acquisitions - other	19,389	27,380
Disposals - in-specie transfer ^(A)	-	(12,515)
Disposals - other	(29,564)	(12,386)
Net changes in fair values of investments	24,115	10,076
Closing balance	139,498	125,558

(A) On 1 July 2013, the Company seeded a further investment in the Magellan High Conviction Fund by way of an in-specie transfer of a portion of its investment in listed shares and associated dividend receivables, and cash totalling \$12,515,000. This is disclosed above as acquisitions and also disposals – in-specie transfer.

12. Investment in Associate

At 30 June 2015, the Group had a 24.3% interest in Magellan Global Equities Fund (MGE), which is a fund quoted on the ASX under the AQUA Rules. At 30 June 2015, the Group's interest is accounted for using the equity method in the consolidated financial statements following the Group's loss of control of MGE (refer note 13) (June 2014: not applicable). The investment in associate is equity accounted as set out in note 1(b) ii).

The Group's associate is set out below:

Name of entity	Country of establishment	Principal activities	Ownership interest	Carrying amount
			30 June 2015 (A)	30 June 2015 (A)
Magellan Global Equities Fund ^{(B)(C)}	Australia	Investment management	% 24.3	\$ 49,845
Total investments in associates				49,845

(A) MGE was registered on 24 December 2014, seeded on 2 March 2015 and commenced trading on the ASX on 5 March 2015. MGE's first reporting period covers 24 December 2014 to 30 June 2015 and as a result there are no prior year comparatives.

(B) MGE is quoted on the ASX. The market value of the investment in MGE at 30 June 2015 using the quoted price on the last day of trading of \$2.51 was \$50,200,000 (2014: not applicable). At 30 June 2015, the Group is assessed to have significant influence over the operations of MGE with a 24.3% ownership interest and the Group operates as Investment Manager of MGE and is the largest unitholder in MGE with the rest of the units being widely held. MGE became an associate from 1 June 2015, subsequent to the Group losing control.

(C) The reporting date for MGE is 30 June.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

12. Investment in Associate (continued)

(a) Reconciliation

The reconciliation of the movement in the carrying value of the Group's associate, MGE, during the year ended 30 June 2015 is set out below:

	30 June 2015
	\$'000
Cost - 1 June 2015 ^(A)	51,545
Add: share of profit/(loss) for the period 1 June to 30 June 2015	(104)
Add: share of unrealised gains/(losses) on available-for-sale financial assets of associate in the Consolidated Statement of Comprehensive Income	(1,296)
Less: dividend receivable	(300)
Closing balance - 30 June	49,845

(A) The cost of the Company's investment is the fair value on the date control was lost.

At 30 June 2015, the Group's investment in MGE is \$49,845,000 (June 2014: not applicable). The Group held 20,000,000 units in MGE and the net asset value per unit was \$2.4925 at 30 June 2015.

(b) Summarised financial information - Magellan Global Equities Fund

The table below includes summarised financial information of MGE:

	At 30 June 2015
	\$'000
Assets	206,390
Liabilities ^(A)	1,461
Net assets attributable to unitholders	204,929
	For the period
	1 June to 30 June
	2015
	\$'000
Revenue	816
Expense	(5,617)
Net operating loss	(4,801)

(A) MGE declared a distribution of 1.5 cents per unit on 26 June 2015. Liabilities include distributions provided for but not paid by the associate at 30 June 2015. This is applicable to funds in Australia where unitholders are presently entitled to income at the end of the financial year. Based on the Group's investment of 20,000,000 units, a distribution of \$300,000 is receivable by the Group for the year ended 30 June 2015 (refer to note 17(d)(iii)).

The associate had no contingent liabilities or commitments as at 30 June 2015.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

13. Interests in Controlled Entities

The Group's controlled entities at reporting date are set out below:

Name of entity	Country of incorporation	Ownership interest	
		30 June 2015	30 June 2014
Magellan Asset Management Limited	Australia	100%	100%
Magellan Capital Partners Pty Limited	Australia	100%	100%
Magellan Global Equities Fund ^(A)			

^(A) MGE was controlled up to 31 May 2015. It was classified as an associate at 30 June 2015 (refer note 12).

Magellan Asset Management Limited and Magellan Capital Partners Pty Limited have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation is also the principal place of business. The Group incorporates the assets, liabilities and results of all controlled entities in accordance with the accounting policy described in note 1(b) i).

(a) Loss of control of Magellan Global Equities Fund

Magellan Global Equities Fund (MGE) was registered as a managed investment scheme on 24 December 2014. At 24 December 2014, the Group had a 100% ownership interest in MGE and as a result it was a controlled entity from that date.

On 2 March 2015, the Group seeded MGE with \$50,000,000 and MGE commenced trading on the ASX on 5 March 2015. External investor applications into MGE since this date have diluted the Group's interest. Consequently MGE ceased to be a controlled fund on 31 May 2015.

As at 31 May 2015, MGE's assets and liabilities were as follows:

	At 31 May 2015 \$'000
Assets	
Cash and cash equivalents	29,732
Receivables	6
Investments	161,781
Total assets	191,519
Liabilities	
Payables	1,079
Net assets attributable to unitholders	190,440
Total liabilities	191,519
Net assets of MGE at date of loss of control - 31 May 2015	-

The following items attributable to MGE have been recognised within the Consolidated Statement of Other Comprehensive Income for the year ended 30 June 2015:

- net changes in the fair value of available-for-sale financial assets (unrealised) up to 31 May 2015 of \$5,476,000; and
- \$50,317 relating to realised investment gains which have been included in the net changes in the fair value of available-for-sale financial assets of \$24,165,000.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

13. Interests in Controlled Entities (continued)

During consolidation

Whilst MGE was consolidated from 24 December 2014 to 31 May 2015, the following amounts were recognised in the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income relating to the external unitholders of MGE:

	Consolidated Statement of Profit or Loss	Consolidated Statement of Other Comprehensive Income
	\$'000	\$'000
External unitholders' share of net profit of MGE, which is recognised as a finance cost ^(A) in the Group's results	506	
External unitholders' share of the unrealised gains in MGE, which have been recognised as a finance cost ^(A) in the Group's results		(3,992)

^(A) Treated as a finance cost as a result of the units on issue in MGE being classified as a financial liability in accordance with AASB 132 *Financial Instruments – Presentation*.

At the loss of control

The loss of control has been accounted for in accordance with note 1(b) iv) and has had the following impacts on the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income in the year ended 30 June 2015:

	Consolidated Statement of Profit or Loss	Consolidated Statement of Other Comprehensive Income
	\$'000	\$'000
Net (gain)/loss on deemed disposal of Group's controlling interest in MGE at 31 May 2015, being the date control was lost, - reclassified to the Consolidated Statement of Profit or Loss in accordance with AASB 10 <i>Consolidated Financial Statements</i> ^(A)		(1,484)
Net gain on deemed disposal of available-for-sale financial assets attributable to MGE at 31 May 2015, being the date when control was lost by the Group	1,484	

^(A) This represents the unrealised gains on available-for-sale investments held by MGE that were previously recognised in the Group's available-for-sale reserve and have been reclassified to the Consolidated Statement of Profit and Loss on the loss of control of MGE.

Following the loss of control, the investment in MGE was accounted for as an associate. Refer to note 12 for further details.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

14. Contributed Equity

		Consolidated Entity	
		30 June 2015	30 June 2014
		\$'000	\$'000
	Note		
Ordinary Shares	(a)	103,477	93,812
MFG 2016 Options	(b)	-	-
Class B Shares	(c)	-	-
Total contributed equity		103,477	93,812

Consolidated Entity				
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
	Number of shares '000	Number of shares '000	\$'000	\$'000
(a) Ordinary Shares				
Opening balance	158,842	152,783	93,812	76,378
Shares issued on exercise of MFG 2016 Options	848	5,873	2,241	15,511
Shares issued under SPP	586	186	7,063	1,682
SPP expense for year	-	-	378	272
less: transaction costs arising on share issue	-	-	(17)	(31)
Closing balance - Ordinary Shares	160,276	158,842	103,477	93,812
(b) MFG 2016 Options				
Opening balance	1,898	7,771	-	-
Shares issued from exercise of options	(848)	(5,873)	-	-
Closing balance - MFG 2016 Options	1,050	1,898	-	-
(c) Class B Shares				
Opening balance	10,200	10,200	-	-
Closing balance - Class B Shares	10,200	10,200	-	-

(d) Terms and Conditions

(i) Ordinary Shares

Fully paid ordinary shares entitle the holder to receive dividends declared and proceeds on winding up the Company in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person, or by proxy, at a meeting of the Company.

(ii) MFG 2016 Options

MFG 2016 Options ('Options') expire on 30 June 2016 but can be exercised during any two month period commencing two business days following the announcement of the Group's full and half year results in each year prior to the expiry date, except for the final exercise period which commences on the date that is two business days after the release of the results for the half year to 31 December 2015 and ends on 30 June 2016. Upon exercise of each Option, the option holder is issued one new ordinary share in the Company.

The in-specie distribution on 19 February 2013 had the effect of reducing the exercise price of the MFG 2016 Options by \$0.3589 per MFG Option. The adjusted exercise price of each Option at 30 June 2015 is \$2.6411 (June 2014: \$2.6411).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

14. Contributed Equity (continued)

(d) Terms and Conditions (continued)

(ii) MFG 2016 Options (continued)

Options are not entitled to dividends or distributions. Ordinary shares issued on exercise of the Options rank equally with all other ordinary shares from the date of issue. An ordinary share issued on exercise of an Option is only entitled to receive a dividend or distribution where the Option was exercised and the ordinary share is issued on or before the record date for that distribution. Ordinary shares issued pursuant to the exercise of an Option will not be issued until after the record date for any dividend or distribution payable in respect of the half year period immediately prior to the exercise period during which that option was exercised. The holder of an Option may only participate in new issues of the Company if the holder exercises that option and becomes the holder of ordinary shares on or prior to the record date for the new issue of ordinary shares.

(iii) Class B Shares

The Class B Shares were issued to Mr Hamish Douglass with certain service conditions which were satisfied on 1 July 2012. Incorporating the effect of the in-specie distribution made to the Company's shareholders on 19 February 2013, the Class B Shares will convert into the number of ordinary shares equal to 0.0637028 times the number of ordinary shares of the Company on issue on 21 November 2016 (up to a maximum of 170,000,000 ordinary shares). The conversion of the Class B Shares will occur on 21 November 2016. The maximum number of ordinary shares that will be issued on conversion of all Class B Shares is 10,829,476. Prior to the in-specie distribution on 19 February 2013, the conversion factor was 0.06 times and the maximum number of ordinary shares that would have been issued on conversion was 10,200,000.

Mr Douglass holds 10,200,000 Class B Shares which at 30 June 2015 are entitled to convert into 10,210,057 ordinary shares of the Company on 21 November 2016.

Based on the Company's ordinary shares on issue and assuming all Options were fully exercised as at 30 June 2015, the 10,200,000 Class B Shares would be entitled to convert to 10,276,946 ordinary shares being equal to 0.0637028 times 161,326,445 securities at 30 June 2015 (comprising 160,276,422 ordinary shares on issue and 1,050,023 Options). The Class B shares have no entitlement to receive dividends and until the Class B Shares are converted into ordinary shares they confer no rights to participate in any bonus issue or subscribe for new securities in the Company unless the Directors determine otherwise in accordance with the Terms of Issue of the Class B Shares.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

15. Share Purchase Plan (SPP)

The Group has put in place a Share Purchase Plan (the 'Plan' or 'SPP') for its employees and Non-Executive Directors ('Participants'). The Plan provides assistance to Participants to invest in shares in the Company in order to more closely align the interests of Participants with the interests of the shareholders of the Group. At 30 June 2015, 1,237,221 ordinary shares were held by the Participants under the SPP (June 2014: 3,303,658).

Employees are invited to subscribe for a specified number of fully paid ordinary shares in the Company. Subject to the Listing Rules, the Directors have overall discretion in relation to the Plan and may vary the rules. The Directors have currently determined that the number of Company shares that may be offered is limited to:

- i) shares with a market value equal to a multiple of one times the employee's after-tax bonus for the financial year (ended 30 June) prior to the financial year in which the offer is made; and
- ii) such further number of shares as requested and approved by the Board, subject to:
 - where the total amount of the financial assistance being provided to an employee Participant will exceed \$750,000 or will exceed three times the amount of an employee Participant's annual base salary inclusive of superannuation, the prior approval of the Board is required; and
 - the maximum amount of financial assistance that may be provided by the Company to an individual employee is \$1,000,000.

and, in each case:

- iii) subject to a maximum of \$750,000 worth of shares per employee in each financial year, other than in the case of a new employee where the Board may resolve, in its absolute discretion, to offer initially additional shares to the new employee; and
- iv) the aggregate maximum number of shares issued under each offer under the Plan will not exceed 5% of the total number of shares on issue at the time of the offer provided that the Company may issue additional Company shares in any subsequent offer up to, but not exceeding, the number of shares that it has bought back in the period since the last offer of shares under the Plan.

No performance hurdles attach to the invitation to participate in, or the issue of shares under, the Plan. The Directors can resolve to vary the timing of these invitations. The issue price for the shares is the fair market value of the shares at the offer date. This is calculated using the volume weighted average price of traded shares in the 5 business days prior to the offer date. Participants may be required to make an upfront contribution of up to 25% of the issue price at the time of issue. The remaining amount of the issue price is funded by way of a full recourse interest free loan from the Company.

Participants are required to apply an amount equal to 25% of their after tax annual cash bonus each year to repay the loan until the loan has been fully repaid. The maximum term of the loan for employee Participants is 10 years. The maximum term of the loan for Non-Executive Director Participants is 5 years, except where shareholder approval is given to an extension.

Any outstanding balance at the end of 10 years must be repaid by the employee. Although employees are not entitled to repay their loan early, the Board may from time to time permit an early repayment under certain circumstances.

Loans to Participants under the Plan are secured on the shares issued to that Participant. The shares are not transferable until the loan is fully paid. Once the loan has been fully repaid, the shares issued under the Plan are freely transferable.

Dividends are payable on the shares issued under the Plan on the same basis as all other issued fully paid ordinary shares, and the amount of the dividends are applied to repay the loan until the loan has been fully repaid. The shares issued under the Plan have the same rights to participate in any entitlements or bonus issues and otherwise rank equally with all other issued ordinary shares.

Upon request from the Company, the outstanding loan amount must be repaid in full immediately without further demand or notice upon the earliest of:

- i) any breach by the Participant of the Share Purchase Plan Rules where the breach is not remedied within 7 days of the Company's notice to the Participant to do so; or
- ii) an application being made to a court for an order, or an order being made, that the Participant be made bankrupt (or any similar event in any jurisdiction as determined by the Board in its discretion).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

15. Share Purchase Plan (SPP) (continued)

If a Participant ceases to be an employee whilst a loan to that Participant is outstanding, the Participant must:

- i) repay the total amount owing under the loan within 3 months (or, in the event that a Participant has died, within 6 months), or such longer period determined by the Board in its discretion, of the participant ceasing to be an employee and, upon payment of such amount the holding lock and any security over the shares issued under the Plan will be released and the Participant shall be entitled to retain his or her shares issued under the Plan; or
- ii) require the shares issued under the Plan to be bought back or sold by the Company and must pay to the Company the balance (if any) of the total amount owing outstanding under the loan after the application of the proceeds of sale.

The carrying value of the SPP loans at 30 June was:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Current		
SPP loans due within 1 year	1,396	1,783
Non-current		
SPP loans due later than 1 year and within 10 years	5,849	2,271
Total SPP loans	7,245	4,054

Shares are issued to Participants at an issue price equal to the fair market value of the shares at offer date calculated using the volume weighted average price of traded shares in the five business days prior to the offer date. The table below sets out the prices at which the shares were issued under the Plan.

Offer date	5-day weighted average share price
10 September 2007	\$1.66
20 October 2008	\$0.52
8 September 2009	\$0.78
10 November 2010	\$1.35
2 March 2011	\$1.75
21 September 2011	\$1.20
12 March 2013	\$7.33
29 October 2013	\$10.02
22 September 2014	\$13.23
13 November 2014	\$13.64

The value of shares securing the loans to Participants at reporting date applying the Company's 30 June 2015 closing market price of \$17.40 was \$21,109,000 (June 2014: \$36,109,000). No amounts are past due or considered impaired as the SPP provides that any shortfall between the loan amount and the value of the shares is recoverable from the Participants.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

15. Share Purchase Plan (SPP) (continued)

The following information has been used to determine the carrying value of the loans as at:

	Consolidated Entity	
	30 June 2015	30 June 2014
September 2007 tranche		
Face value of loans	-	1,600,000
Estimated weighted average duration of loans	-	1.4 years
Imputed interest rate	-	7.0%
October 2008 tranche		
Face value of loans	-	4,500
Estimated weighted average duration of loans	-	2.0 years
Imputed interest rate	-	5.0%
September 2009 tranche		
Face value of loans	600	34,000
Estimated weighted average duration of loans	0.3 years	1.6 years
Imputed interest rate	5.3%	5.3%
November 2010 tranche		
Face value of loans	35,000	600,000
Estimated weighted average duration of loans	0.3 years	1.1 years
Imputed interest rate	5.5%	5.5%
September 2011 tranche		
Face value of loans	78,000	300,000
Estimated weighted average duration of loans	0.3 years	1.5 years
Imputed interest rate	4.0%	4.0%
March 2013 tranche		
Face value of loans	402,000	500,000
Estimated weighted average duration of loans	0.8 years	2.4 years
Imputed interest rate	3.4%	3.4%
October 2013 tranche		
Face value of loans	1,086,000	1,400,000
Estimated weighted average duration of loans	2.1 years	4.0 years
Imputed interest rate	3.4%	3.4%
September 2014 tranche		
Face value of loans	3,332,000	-
Estimated weighted average duration of loans	3.6 years	-
Imputed interest rate	3.0%	-
November 2014 tranche		
Face value of loans	2,311,000	-
Estimated weighted average duration of loans	4.1 years	-
Imputed interest rate	2.8%	-

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

15. Share Purchase Plan (SPP) (continued)

Amounts recognised in the Consolidated Statement of Profit or Loss in respect of the SPP loans are:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Interest income	424	388
Employee benefits expense	(378)	(272)
Net SPP expense in Consolidated Statement of Profit or Loss	46	116

Both the change in the carrying value of the loans recorded in interest income and the cost of providing the benefit to Participants recorded in employee benefits expense are non-cash items and therefore are not reflected within the Group's Consolidated Statement of Cash Flows. Over the life of the loans the amounts credited to interest income and the amounts recognised as employee benefits expense will exactly offset each other. Refer to note 1(s) for further details.

16. Parent Entity Information

The accounting policies of the parent entity, Magellan Financial Group Limited, which have been applied in determining the financial information shown below, are the same as those applied in the Group's consolidated financial statements. Refer to note 1 for a summary of the significant accounting policies relating to the Group.

(a) Summary financial information

The individual financial report for the parent entity shows the following aggregate amounts:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Statement of Financial Position		
Assets		
Current assets	75,046	53,214
Non-current assets	208,047	140,368
Total Assets	283,093	193,582
Liabilities		
Current liabilities	16,554	10,634
Non-current liabilities	14,514	9,742
Total Liabilities	31,068	20,376
Net Assets	252,025	173,206
Equity		
Contributed equity	103,852	94,187
Available for sale reserve	32,916	24,604
Retained profits	115,257	54,415
Total Equity	252,025	173,206
Statement of Profit or Loss and Other Comprehensive Income		
Net profit for the year after income tax expense	154,763	71,207
Other comprehensive income, net of income tax expense	8,312	4,096
Total comprehensive income for the year	163,075	75,303

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

16. Parent Entity Information (continued)

(b) Guarantees entered into by MFG

A letter of comfort provided by MFG to a client of its controlled entity, MAM, whereby it undertook to provide support and assistance as required to ensure MAM complied with the financial conditions of its Australian Financial Services Licence was no longer required and was revoked in September 2014. At 30 June 2015, the Group has no guarantees.

(c) Contingencies and Commitments of MFG

At 30 June 2015, MFG has no contingent assets, contingent liabilities or commitments.

17. Related Party Disclosures

(a) Ultimate Parent Entity

Magellan Financial Group Limited is the ultimate parent entity.

(b) Transactions with Related Parties

Interests in controlled entities are set out in note 13.

(c) Key Management Personnel

(i) Directors

The Directors of the Company during the year and up to the date of this report were:

Name	Directorship	Appointed
Brett Cairns	Executive Chairman ^(A)	22 Jan 2007
Hamish Douglass	CEO and Chief Investment Officer	21 Nov 2006
Robert Fraser	Non-Executive Director and Senior Independent Director	23 Apr 2014
Paul Lewis	Non-Executive Director	20 Dec 2006
Karen Phin	Non-Executive Director	23 Apr 2014

(A) On 1 January 2015, Dr Brett Cairns was appointed Executive Chairman. Prior to 1 January 2015, Dr Cairns was a Non-Executive Director and held the role of Chairman of the Company.

(ii) Other Key Management Personnel (KMP)

In addition to the Directors, the following persons also had authority for the strategic direction and management of the Group, directly or indirectly, during the financial year:

Merida Campbell	Chief Operating Officer
Gerald Stack	Head of Investments
Frank Casarotti	Head of Distribution

(iii) Remuneration of KMP

KMP of the Group received the following amounts during the financial year:

	Consolidated Entity	
	30 June 2015	30 June 2014
	\$	\$
Short term benefits		
- Salary	3,378,353	3,138,781
- Cash Bonus	3,485,338	2,846,469
Post-employment benefits	106,647	91,090
Long-term benefits	40,342	140,642
Other benefits	220,834	310,230
Total remuneration paid to KMP	7,231,514	6,527,212

Refer to section 3.3 of the Remuneration Report on page 22 for further details.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

17. Related Party Disclosures (continued)

(d) Transactions with Other Related Parties

The following transactions occurred with related parties:

		30 June 2015 \$'000	30 June 2014 \$'000
	Note		
Dividends received from controlled entities	(i)	136,462	65,911
Amounts receivable by MFG under the tax funding agreement from MAM	(ii)	6,577	503
Amounts received by MFG pursuant to tax funding agreement from MAM	(ii)	44,292	34,103
Net amounts received/(paid) by MFG to/from MAM for expense reimbursements		116	(16)
Distribution receivable by MFG from associate, MGE	(iii)	300	-
Repayment of subordinated loan by MAM to MFG	(iv)	-	-

(i) Dividends of \$136,420,000 representing \$10.91 per share were paid by MAM to MFG during the year ended 30 June 2015 (June 2014: \$65,911,000 representing \$5.27 per share). In addition, a dividend of \$42,000 was paid by Magellan Capital Partners Pty Limited to MFG during the year ended 30 June 2015.

(ii) During the financial year, MAM's income tax liabilities of \$49,488,000 (June 2014: \$25,441,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$44,292,000 (June 2014: \$34,103,000) were received by MFG and Magellan Capital Partners Pty Limited from MAM under the tax funding agreement during the year and \$6,577,000 was receivable by MFG from MAM in respect of amounts arising from the transfer of MAM's tax liability to the Company (June 2014: \$503,000). Refer to note 1(h) for further details on the tax consolidated group.

(iii) MFG's associate, MGE (refer to note 12 for further details) declared a distribution of 1.5 cents per unit on 26 June 2015. Based on MFG's investment of 20,000,000 units, a distribution of \$300,000 is receivable by MFG for the year ended 30 June 2015.

(iv) The subordinated loan of \$1,150,000 was fully repaid by MAM to MFG on 2 August 2013.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

18. Statement of Cash Flows Reconciliation

(a) Reconciliation of Net Operating Profit after Tax to Net Cash Flows from Operating Activities

	Consolidated Entity	
	30 June	30 June
	2015	2014
	\$'000	\$'000
Net operating profit after income tax expense	174,295	82,939
Adjusted for:		
Net (gain)/loss on disposal of available-for-sale financial assets	(11,578)	(4,221)
Net (gain)/loss on deemed disposal of available-for-sale financial assets attributable to MGE	(1,484)	-
Loss on disposal of property, plant and equipment	21	-
Net change in carrying value of held to maturity assets	-	(2,139)
Dividends and distributions reinvested	(388)	(1,431)
Depreciation	317	116
Income tax paid	(50,440)	(33,801)
External unitholders' share of MGE net profit while MGE was a controlled fund	506	-
Group's share of net loss for the period MGE was an associate	104	-
Net foreign exchange (gain)/loss	(1,232)	725
Imputed interest on loans under the SPP	(424)	(388)
Employee expense on loans under SPP	378	287
(Increase)/decrease in receivables	(31,515)	13,883
(Increase)/decrease in prepayments	(101)	74
Increase/(decrease) in net deferred tax liabilities	(905)	1,761
Increase/(decrease) in payables	53,720	28,939
Increase/(decrease) in income tax payable	6,025	90
Net cash inflows from operating activities	137,299	86,834

(b) Non-cash financing and investing activities

	Consolidated Entity	
	30 June	30 June
	2015	2014
	\$'000	\$'000
Issue of ordinary shares under SPP	5,673	1,028
Imputed interest on loans under SPP	(424)	(388)
Share based payments under SPP	378	272
Acquisition of additional units in Magellan Unlisted Funds and Frontier MFG Funds through distribution reinvestment	388	1,431
Dividend entitlement of SPP holders applied directly against SPP loan balance	2,045	-

(c) Reconciliation of cash

Reconciliation of cash at the end of the year (as shown in the Statement of Cashflows) to the related item in the financial report:

Cash and cash equivalents	93,934	82,868
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Term deposits with maturity dates greater than 90 days from inception date are included in financial assets (refer note 11).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. Capital and Financial Risk Management

(a) Capital Management

The Group's approach to capital management remained unchanged during the year, which was to ensure that it continues as a going concern, it has sufficient cash flow to meet its operating requirements, it is able to support the payment of dividends to shareholders in accordance with the Group's dividend policy, and it retains the flexibility to retain capital if required for future business expansion. The Group's capital consists entirely of shareholder equity. The Group has no external net borrowings at 30 June 2015 (June 2014: nil).

The Directors believe that the Group's core business, funds management, is scalable over time and the funds under management should continue to grow without the need to make material additional capital investment into the business.

A controlled entity of the Company, Magellan Asset Management Limited (MAM), is subject to regulatory financial requirements by virtue of holding an Australian Financial Services Licence (AFSL). These regulatory requirements, which are determined by the Australian Securities & Investments Commission (ASIC), were amended for Responsible Entities of Registered Managed Investment Schemes from November 2013. During the year ended 30 June 2015, MAM maintained the required net tangible assets of 10% of the three year average of MAM's revenues and satisfied the liquidity requirements of cash and cash equivalents which is 50% of the required net tangible assets, in accordance with ASIC Regulatory Guide 166. Notwithstanding the liquidity requirements of the AFSL, the Directors of MAM determined on 18 October 2013 that MAM would hold a greater amount of cash and cash equivalents being at least \$20,000,000.

(b) Financial Risk Management

The activities of the Group expose it to various types of risks, both direct and indirect: liquidity risk, price risk, currency risk, interest rate risk and credit risk.

Exposure to risk occurs through the impact of the Group's net profit and total equity arising from:

- changes in the value of the Group's investment portfolios and changes in other financial assets and liabilities; and
- the effect of market foreign exchange rate movements on the Group's funds under management and the consequential impact on the management, services and performance fees earned.

The Group's investment assets comprise strategic investments in:

- unlisted and ASX quoted funds of which MAM, a wholly owned entity of the Group, is the Responsible Entity and Investment Manager (Magellan Funds);
- a direct portfolio of investments; and
- two unlisted institutional mutual funds in the United States of America, being Frontier MFG Funds, of which MAM is the Investment Manager.

The investment portfolios of the Magellan Funds and the Frontier MFG Funds are managed on a daily basis by MAM in accordance with the investment objectives and mandates of those funds. Further details of the risk management objectives and policies of those entities can be found in the annual report or the Product Disclosure Statement (PDS) of the Magellan Funds, and the prospectuses of the Frontier MFG Funds.

(c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities on the due date or will be forced to sell financial assets at a value which is less than they are worth.

The Group manages liquidity risk by maintaining sufficient cash reserves to cover its liabilities. In October 2013, the Board of MFG determined that the Group would maintain a minimum amount of \$20,000,000 in cash and cash equivalents and a minimum amount of liquid assets equal to 0.5% of the Group's funds under management subject to a maximum amount of \$100,000,000.

As at 30 June 2015, the Group had an obligation to settle trade creditors and other payables of \$14,332,000 (June 2014: \$11,471,000) within 30 days. In addition, the Group also has an obligation to pay the fully franked final dividend of 37.8 cents per share in respect of the year ended 30 June 2015 amounting to approximately \$60,584,000 on 26 August 2015 (refer to note 4(i)).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. Capital and Financial Risk Management (continued)

(c) Liquidity Risk (continued)

The Group had cash (including term deposits maturing within 30 days) of \$93,934,000 (June 2014: \$82,868,000) and a further \$54,850,000 (June 2014: \$23,431,000) of receivables to cover these liabilities.

At 30 June 2015, the Group reported current assets of \$150,883,000 and current liabilities of \$30,803,000 resulting in a net current asset surplus of \$120,080,000. After taking into account the final dividend for the year ended 30 June 2015 totalling \$60,584,000, this would result in a net current asset surplus of \$59,496,000. Accordingly the Group has sufficient liquid funds and current assets to meet its current liabilities.

Maturities of financial liabilities

At 30 June 2015, the Group's financial liabilities comprise trade creditors and payables which mature in 1 year or less (June 2014: 1 year or less).

(d) Price Risk

Price risk is the risk that the value of the Group's direct and indirect investments in equities will increase or decrease as a result of changes in market prices, caused by factors specific to the individual stock or the market as a whole. Price risk exposure arises from the Group's investments in listed equities, Magellan Funds, the Frontier MFG funds and Magellan Global Equities Fund, and from the Group's entitlement to investment management and performance fees on funds under management.

All of the Group's investments are carried at fair value with changes arising from available-for-sale investments reflected in other comprehensive income. Over the past 10 years, the annual movement in the MSCI World Net Total Return Index has varied between +31% and -29% (in USD) and +33% and -21% (in AUD). The past performance of markets is not always a reliable guide to future performance, and the Company's investment portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably occur within the portfolio over a 12 month period. The impact of equity price movements, expressed in percentage terms, on the net profit reported by the Company, is reasonably linear.

Impact arising from the Group's own investments

Each incremental increase of 5% in the market prices of the Group's investments held at reporting date would have had the following impact on net operating profit and equity:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Impact on available-for-sale reserve, net of tax	11,887	4,715
Total impact on net operating profit and equity	11,887	4,715

Assumptions and explanatory notes

- (i) the Group holds an investment in an unlisted fund that invests in unlisted equities. The fair value of this fund is determined by a Directors' valuation. The underlying values of the unlisted equities are determined by the fund's investment manager with reference to the projected cash flows of those businesses, which may or may not be correlated with changes in market prices of listed equities. No assessment has been made of the impact of changes in market prices on the fair value of the fund.
- (ii) a decrease of 5% in the market prices of the Group's investments held at reporting date would have an equal and opposite effect to the changes disclosed above.
- (iii) the Group recognises impairment losses on available-for-sale investments in accordance with the accounting policy disclosed in note 1(n)(i). For the purposes for the sensitivity disclosed above, it has been assumed that a 5% change in market prices would have no impact on the assessment of whether individual assets are impaired.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. Capital and Financial Risk Management (continued)

(d) Price Risk (continued)

Impact arising on entitlements to management, services and performance fees

The Group earns management fees on funds under management, which are based on a percentage of the value of the clients' and the funds' portfolios, and service fees from MFF based on an agreed methodology described in note 6(c). Management fees and service fees will be impacted by movements in the underlying prices in local currency, exchange rate movements, or a combination of both. Each incremental increase of 5% in the average value of funds under management of the Group, and the market value of MFF's portfolio less borrowings, during the years ended 30 June 2015 and 30 June 2014 would have increased the base management fees recognised in net operating profit and equity as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Impact on net operating profit and equity for the year	7,918	5,125
Total impact on net operating profit and equity for the year	7,918	5,125

Assumptions and explanatory notes

- a decrease of 5% in the average value of funds under management of the Group and the market value of MFF's portfolio less borrowings would have an equal and opposite effect to the changes disclosed above.
- changes in market prices may impact the inflows to, and outflows from, the Group's funds under management. This impact has not been estimated.

Performance fees

The Group earns performance fees from its funds, from some institutional client mandates and MFF to which it provides investment management services. Where a performance fee is applicable to an institutional client mandate, the base management fee will generally be lower than that earned from mandates where no performance fee applies. The Group's entitlement to performance fees for any given performance period is dependent on the portfolio outperforming certain hurdles, which may be index relative hurdles, absolute return hurdles or a combination of both. Performance fees are generally subject to either a high water mark arrangement or a deficit clause, which ensures that fees are not earned more than once on the same performance. The Group's entitlement to performance fees from MFF is dependent on MFF's total shareholder return exceeding 10% per annum, compounded annually, over prescribed performance periods. These fees also accrue over different calculation periods, ranging from three months to four years. The fees recognised in the Consolidated Statement of Profit or Loss are characterised as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Based on performance relative to a market index	2,822	-
Based on performance relative to a return hurdle	5,692	1,801
Based on performance relative to both a market index and a return hurdle	32,899	316
Based on total shareholder return	2,000	-
Total performance fees	43,413	2,117

(e) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has direct exposure to currency risk on foreign currency denominated:

- investments designated as available-for-sale (refer note 11);
- cash balances and term deposits (refer note 18(c) and note 11); and
- payables and receivables, such as income receivable from foreign investments, outstanding settlements on purchase or sale of foreign investments and management and performance fees invoiced in foreign currency (refer notes 7 and 9).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. Capital and Financial Risk Management (continued)

(e) Currency Risk (continued)

At 30 June 2015, had the Australian dollar strengthened by 10% relative to each currency to which the Group had significant exposure, with all other variables held constant, the impact on the Group's equity and net profit would have been:

	Consolidated Entity			
	Increase/(decrease)			
	in net profit 30 June		in equity 30 June	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Assets denominated in:				
US dollars	(595)	(383)	(1,112)	(1,081)
Euro	36	-	(52)	(84)
Canadian dollars	(64)	(63)	-	-
British pounds	(244)	(85)	(77)	(46)
Swiss francs	-	-	(22)	(50)

A decrease of 10% in the Australian dollar relative to each currency would have an equal and opposite impact to those disclosed above.

The Group also has indirect exposure to foreign currency via its investments in unlisted funds. The Magellan Funds are denominated in Australian dollars and the Frontier MFG Funds are US dollar denominated. The underlying investment portfolios of these funds comprise entities predominantly denominated in foreign currencies, and with extensive operating exposure to global currency fluctuations which will drive portfolio values. Changes in their fair value are therefore influenced by movements in currencies. The sensitivity analysis disclosed above disregards the impact on the foreign currency movement on the underlying portfolios.

The Group's management, services and performance fees are also indirectly exposed to fluctuations in foreign currency where the management, service and performance fees earned from funds under management and MFF are subject to adverse movements in the exchange rate of the Australian dollar relative to foreign currencies. For the year ended 30 June 2015, approximately 95% of the Group's management, service and performance fees were indirectly exposed to movements in the Australian dollar relative to other currencies (June 2014: 94%).

(f) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk relates primarily to cash and cash equivalents and also term deposits. Substantially all of the Group's holdings of cash and cash equivalents are held with major Australian banks. Term deposits are of relatively short duration and their fair value would not be materially affected by changes in interest rates.

Sensitivity analysis

Based on the cash and cash equivalents held by the Group at reporting date, the sensitivity on the Group's net operating profit and equity of a decrease of 50 basis points in floating interest rates, assuming all other variables remain constant is:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
	Impact on net operating profit and equity	357

An increase of 50 basis points in floating rate interest rates would have an equal but opposite effect on net operating profit and equity.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. Capital and Financial Risk Management (continued)

(g) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of financial assets and liabilities when valued at fair value. The maximum exposure to credit risk at reporting date is therefore the carrying amount of financial assets recognised in the Consolidated Statement of Financial Position.

The Group minimises concentrations of credit risk by ensuring cash balances and term deposits are held with and managed by counterparties that are reputable financial intermediaries with acceptable credit ratings determined by a recognised rating agency. In addition, credit limits are reviewed by management with reference to the counterparty's latest credit rating and may be updated throughout the year. During the year ended 30 June 2015, the Group held cash and term deposits with Australian and international banks. The credit quality of Australian banks counterparties at 30 June 2014 was rated by Standard & Poor's as being AA-, and by Moody's as being Aa2 (AA- and Aa2 respectively at 30 June 2014). The credit quality of the international bank counterparty at 30 June 2015 was rated by Moody's as Baa2 (Baa2 at 30 June 2014).

The Company has entered into an International Prime Brokerage Agreement (IPBA) with Merrill Lynch International (MLI), a subsidiary of Bank of America. The services provided by MLI under the IPBA include clearing and settlement of transactions, securities lending and acting as custodian for the Company's assets. Under an addendum to the IPBA, Merrill Lynch International (Australia) Limited may provide financing services to the Company. The IPBA with MLI is in a form that is typical of prime brokerage arrangements. Each of the Company's securities held by MLI may be used by MLI for its own purposes. Securities of the Company utilised by MLI become the property of MLI and the Company has a right against MLI for the return of equivalent securities. In the event of MLI becoming insolvent the Company would rank as an unsecured creditor and the Company may not be able to recover such equivalent securities in full.

Cash which MLI holds or receives on behalf of the Company is not segregated from MLI's own cash and may be used by MLI in the course of its business. In the event of MLI becoming insolvent the Company would rank as an unsecured creditor and may not be able to recover the cash in full.

The Group also manages credit risk by regularly monitoring loans and receivable balances throughout the year. A provision for doubtful debts is made where collection is deemed uncertain. At 30 June 2015, the provision for doubtful debts was nil (June 2014: nil).

At 30 June 2015, the Group also had credit exposure to the Participants with loans under the SPP. At 30 June 2015, the outstanding balance on the loans totalled \$7,245,000 (June 2014: \$4,054,000). MFG ordinary shares of 1,237,221 were valued at \$21,109,000 (June 2014: 3,303,658 MFG ordinary shares valued at \$36,109,000) respectively were held as security for these loans. The loans were made to the Group's employees and certain Non-Executive Directors of the Company on a full recourse basis. Further information is provided in note 15.

The Company in its capacity as Trustee and Responsible Entity of the following registered managed investment schemes has appointed The Northern Trust Company (NT) as custodian of Magellan Global Fund, Magellan Global Fund (Hedged), Magellan Infrastructure Fund, Magellan Infrastructure Fund (Unhedged), Magellan High Conviction Fund, Magellan Core Infrastructure Fund and Magellan Global Equities Fund. The credit quality of NT's senior debt is rated, as at 30 June 2015 by Standard and Poor's as A+ and by Moody's as A2 (AA- and Aa3 respectively at 30 June 2014). In acting as custodian, NT is required to comply with the relevant provisions of the Corporations Act, applicable ASIC regulatory guides and class orders relating to registered managed investment scheme property arrangements with custodians.

At 30 June 2015 and 30 June 2014, the Group's maximum exposure to credit risk is the carrying amount of the financial assets recognised in the Consolidated Statement of Financial Position.

Ageing analysis of receivables

At 30 June 2015, all of the Group's receivables are due within 0 to 30 days (June 2014: 0 to 30 days). No amounts are impaired or past due at 30 June 2015 or 30 June 2014.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. Capital and Financial Risk Management (continued)

(h) Fair Value Measurements

The Group classifies the fair value measurements of financial assets and financial liabilities using the three level fair value hierarchy set out below, to reflect the source of valuation inputs used when determining the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The fair value of these investments is based on the closing bid price for the security as quoted on the relevant exchange.
- Level 2: valuation techniques using market observable inputs either directly or indirectly. The Group invests in unlisted funds which in turn invest in liquid securities quoted on major stock exchanges. The fair value is estimated using the redemption price provided by the unlisted fund.
- Level 3: valuation techniques using non-market observable inputs. The Group invests in unlisted funds which typically invest in unlisted entities, and has an investment in an unlisted company. The fair value is based on a Directors' valuation.

The table below presents the fair value measurement hierarchy of the Group's financial assets and liabilities:

	Note	Consolidated Entity	
		30 June 2015 \$'000	30 June 2014 \$'000
Assets measured at fair value			
Available-for-sale financial assets			
- Level 1: listed shares		11,584	10,086
- Level 2: unlisted funds – Magellan and Frontier MFG Funds	(i)	127,574	115,132
- Level 3: unlisted funds - other	(ii)	165	165
- Level 3: unlisted shares - other	(iii)	175	175
Total financial assets		139,498	125,558

(i) Unlisted Funds – Magellan and Frontier MFG Funds

The fair value of investments in the Magellan Unlisted Funds operated by the Group and the Frontier MFG Funds are determined with reference to the redemption price at reporting date. They are categorised as Level 2 in the fair value hierarchy on the basis that the inputs into the redemption unit price are directly observable from published price quotations.

(ii) Unlisted Funds – Other

Investments in Unlisted Funds – Other comprise an investment in a single private equity fund. As there is no active market for these units, the fair value is a Directors' valuation that is determined with reference to the unit price of the fund. A discount is applied to the fund's redemption unit price, as determined by the fund's investment manager, to reflect the illiquidity of the units. The Directors believe the estimated fair value, based on other unlisted fund's valuation undertaken by that fund's investment manager, and the discount assumptions applied, is reasonable and appropriate.

(iii) Unlisted Shares - Other

Investments in Unlisted Shares – Other comprises a shareholding in an unlisted funds management business. As there is no active market for the shares, the Directors have valued this investment at cost after giving consideration to that company's most current unaudited net asset position.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. Capital and Financial Risk Management (continued)

(h) Fair Value Measurements (continued)

There have been no transfers between any of the three levels in the hierarchy during the years ended 30 June 2015 and 30 June 2014, and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. The reconciliation of the fair value movements within level 3 is shown below:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Opening balance - 1 July	340	1,575
Return of capital	-	(2,264)
Net change in fair value	-	1,029
Closing Balance - 30 June	340	340

The fair value of all other financial assets and liabilities approximate their carrying values in the Consolidated Statement of Financial Position.

20. Contingent Assets, Contingent Liabilities and Commitments

(a) Commitments

Operating lease commitments

The Group has entered into non-cancellable operating leases for its office premises in Sydney, Melbourne, Brisbane and for office equipment.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated Entity	
	30 June 2015 \$'000	30 June 2014 \$'000
Within one year	814	669
Later than one year but no later than five years	764	1,172
Total commitments	1,578	1,841

(b) Contingent assets and contingent liabilities

The Group has a contingent liability of \$200,000 (June 2014: \$300,000) in relation to the investment restriction contract entered into with Mr Hamish Douglass on 1 July 2012. Assuming the conditions of the contract are complied with, which requires Mr Douglass to remain in employment until 1 July 2017, the Group is required to pay Mr Douglass \$500,000 on or before 15 July 2017 (refer to further details of the contract in section 3.5 in the 2015 Remuneration Report in the Directors' Report). At 30 June 2015, \$300,000 has been provided for in the Group's Consolidated Statement of Financial Position (June 2014: \$200,000) and as a result, the Group has a contingent liability of \$200,000 (June 2014: \$300,000).

The Group has no material contingent assets as at 30 June 2015 (June 2014: nil).

(c) Guarantees

For information about guarantees given by entities in the Group, including the Company, refer to note 16(b).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

21. Auditor's Remuneration

Amounts received or due and receivable by the auditor of the Group, Ernst & Young:

	Consolidated Entity	
	30 June 2015 \$	30 June 2014 \$
(a) Ernst & Young Australia		
Audit services		
Statutory audit and review of the financial reports:		
- the Company	95,500	104,200
- the Funds ^(A)	128,500	84,000
Other assurance services:		
- Regulatory required audits	40,000	30,000
- Other	63,500	37,000
	327,500	255,200
Non-audit services		
Taxation services	168,925	130,325
Total remuneration of Ernst & Young Australia	496,425	385,525
(b) Related practices of Ernst & Young Australia		
Audit services		
Statutory audit of the financial reports:		
- MFG Investment Fund Plc - MFG Global Fund	72,278	36,142
	72,278	36,142
Non-audit services		
Taxation services	70,186	63,240
Total remuneration of related firms of Ernst & Young Australia	142,464	99,382
Total auditor's remuneration	638,889	484,907

(A) The Funds comprise Magellan Global Fund, Magellan Global Fund (Hedged), Magellan High Conviction Fund, Magellan Infrastructure Fund, Magellan Infrastructure Fund (Unhedged), Magellan Core Infrastructure Fund and Magellan Global Equities Fund.

22. Events Subsequent to Reporting Date

On 4 August 2015, the Group seeded Magellan Global Equities Fund (Currency Hedged) ("MHG") (ASX ticker code: MHG) with \$15,000,000 of its own capital. MHG is a currency hedged version of the ASX quoted Magellan Global Equities Fund (ASX ticker code: MGE) and will invest in a portfolio of between 20 and 40 high-quality global equity stocks. It has the ability to manage equity market risk by holding up to 20% of its net assets in cash and currency exposure is substantially hedged. MHG commenced trading on the ASX on 10 August 2015.

On 7 August 2015, the Group reported on the ASX its funds under management were \$38.6 billion as at 31 July 2015.

Other than the above matter and the final dividend in respect of the year ended 30 June 2015 (refer to note 4(i)), the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

MAGELLAN FINANCIAL GROUP LIMITED

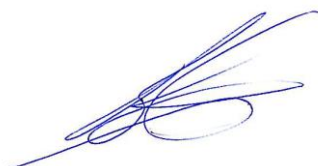
DIRECTORS' DECLARATION

In the Director's opinion,

- b) the financial statements and notes set out on pages 33 to 81 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as disclosed in Note 1 and other mandatory professional reporting requirements, and
- c) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2015.

This declaration is made in accordance with a resolution of the Directors.



Brett Cairns
Executive Chairman

11 August 2015



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Independent auditor's report to the members of Magellan Financial Group Limited

Report on the financial report

We have audited the accompanying financial report of Magellan Financial Group Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

Opinion

In our opinion:

- a. the financial report of Magellan Financial Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1 (a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 18 to 30 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2015 complies with section 300A of the Corporations Act 2001.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Rita Da Silva'.

Rita Da Silva
Partner
Sydney

11 August 2015

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE INFORMATION

Directors

Brett Cairns - Chairman
Hamish Douglass – CEO and Chief Investment Officer
Paul Lewis
Robert Fraser
Karen Phin

Company Secretary

Geoffrey Stirton

Registered Office

Magellan Financial Group Limited
Level 7, 1 Castlereagh Street
Sydney NSW 2000
Telephone: +61 2 8114 1888
Fax: +61 2 8114 1800
Email: info@magellangroup.com.au

Auditors & Tax Advisors

Ernst & Young
680 George Street
Sydney NSW 2000

Share Registrar

Boardroom Pty Limited
Level 12,
Grosvenor Place
225 George Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MFG
ASX code (listed options): MFGOC

Website

<http://www.magellangroup.com.au>

Corporate Governance Statement

The Corporate Governance Statement for MFG can be found at the Corporate Governance tab at <http://www.magellangroup.com.au>

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION

AS AT 7 AUGUST 2015

Distribution of Shareholders

Analysis of the numbers of shareholders by size of holding at 7 August 2015 is presented below:

Holding	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue %
1-1,000	4,781	2,441,083	1.52
1,001-5,000	4,037	9,673,429	6.04
5,001-10,000	735	5,400,964	3.37
10,001-100,000	797	21,552,308	13.45
100,001 and over	102	121,208,638	75.62
Total	10,452	160,276,422	100.00
Number of holders with less than a marketable parcel of Ordinary Shares	120	713	

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 7 August 2015 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
Magellan Equities Pty Limited	16,888,949	10.62
JP Morgan Nominees Australia Limited	13,382,375	8.42
Citicorp Nominees Pty Limited	13,223,279	8.32
HSBC Custody Nominees (Australia) Limited	12,973,514	8.16
Midas Touch Investments Pty Ltd	10,296,300	6.47
National Nominees Limited	10,201,055	6.41
UBS Wealth Management Australia Nominees Pty Ltd	3,608,286	2.27
Nota Bene Investments Pty Ltd	2,851,497	1.79
Mr Brett William Fisher Paton & Mrs Vicki Anne Paton	2,802,613	1.76
BNP Paribas Nominees Pty Ltd (DRP)	2,246,994	1.41
Emmanuel Capital Pty Ltd	2,000,000	1.26
Netwealth Investments Limited	1,595,660	1.00
Mr Christopher John Mackay	1,509,335	0.95
Mr David Doyle	1,500,000	0.94
Aljamat Pty Ltd	1,310,000	0.82
Jash Pty Limited	969,742	0.61
PAJ Lewis Superannuation Fund Pty Ltd	925,000	0.58
PAJ Lewis Pty Ltd	925,000	0.58
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	800,000	0.50
Vahedin Pty Limited	721,655	0.45
Total shares held by the twenty largest shareholders	100,731,254	62.85
Total ordinary shares on issue	160,276,422	

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION

AS AT 7 AUGUST 2015

Substantial Shareholders

The substantial shareholders in the Company's Register of Substantial Shareholders at 7 August 2015 are listed below:

Shareholder	Number of Ordinary Shares	Percentage of Shares on issue %
Hamish Douglass, Midas Touch Investments Pty Ltd and associates ^{(A)(B)}	11,087,000	6.92
Chris Mackay and associates ^(C)	19,671,947	12.27

^(A) Date of last Appendix 3Y notice lodged on 6 August 2015

^(B) Mr Douglass holds 10,200,000 Class B Shares which at 30 June 2015 were entitled to convert into 10,119,516 ordinary shares of the Company on 21 November 2016 (refer to note 14(d)(iii) for further details).

^(C) Date of the last substantial shareholder notice lodged on 17 October 2013

Voting Rights

Subject to the Company Constitution:

- at meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
- on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and
- on a poll, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote for every share held by the shareholder.

In the case of joint holdings, only one joint holder may vote.

Stock Exchange Listing

The Company's ASX code is "MFG" for its ordinary shares and "MFGOC" for the listed MFG 2016 Options.