



MAGELLAN
FINANCIAL GROUP

Annual Report

for the year ended 30 June 2016

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

Five year summary⁽¹⁾

		30 June 2016	30 June 2015	30 June 2014	30 June 2013	30 June 2012
Group Results						
Total Revenue	\$'000	333,805	284,912	148,109	120,906	35,846
Total Expenses	\$'000	74,104	54,603	37,630	25,904	16,693
Net Profit Before Tax ⁽²⁾	\$'000	259,701	230,309	110,479	95,002	19,153
Net Profit After Tax ⁽²⁾	\$'000	198,357	174,295	82,939	66,600	13,660
Effective Tax Rate	%	23.6	24.3	24.9	29.9	28.7
Funds Under Management⁽³⁾						
Average Funds Under Management	\$m	39,437	30,966	19,923	9,351	3,381
Total Funds Under Management	\$m	40,495	36,381	23,513	14,695	4,006
Funds Under Management comprises:						
- Retail	\$m	12,041	9,809	6,693	4,542	1,750
- Institutional	\$m					
- Australia/NZ	\$m	4,415	3,871	2,889	2,424	1,924
- North America	\$m	9,145	8,462	4,690	2,891	306
- Rest of World	\$m	14,894	14,239	9,241	4,838	26
Average Base Management Fee (per annum) ⁽⁴⁾	bps	66	66	67	66	71
Funds Management Business						
Total Revenue	\$'000	315,268	255,889	139,135	86,786	32,660
Total Expenses	\$'000	71,483	52,589	36,616	25,207	16,361
Net Profit Before Tax	\$'000	243,785	203,300	102,519	60,773	16,299
Employee Expenses/ Total Expenses	%	58.8	59.4	64.4	69.1	69.5
Cost to Income Ratio (expense/revenue)	%	22.7	20.6	26.3	29.3	50.1
Cost to Income Ratio (excluding performance fees)	%	26.8	24.8	26.7	43.8	69.3
Assets						
Total Assets - MFG Group	\$'000	392,379	346,678	236,851	193,441	155,805
Net Assets - MFG Group	\$'000	355,369	303,443	206,587	153,039	147,216
Net Tangible Asset per share	\$	2.07	1.78	1.24	1.02	0.91
Shareholder Value						
Basic Earnings Per Share ⁽²⁾	cents	123.5	109.2	53.3	43.6	9.0
Diluted Earnings Per Share ⁽²⁾	cents	115.5	101.8	48.9	40.0	8.5
Dividends Per Share (Interim and Final) ⁽²⁾	cents	89.3	74.9	38.3	21.5	4.5
Other Information						
Number of Employees		101	91	69	58	44
Average Number of Employees		96	80	64	51	38

(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 Statement of Profit or Loss and Statement of Financial Position 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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Chairman's Report for the year ended 30 June 2016

Dear Shareholders

Such is the passage of time – ten years in fact. This annual report marks the tenth for the Magellan Financial Group and covers another successful year of client focus and overall business development.

In short, our fully diluted earnings per share for the financial year have risen by 13.5% to \$1.155 and our fully franked dividends per share for the year totalled \$0.893, representing an increase of 19%. At 30 June 2016 we employed 101 very talented people, up from 91 at the same time last year. Our funds under management at 30 June 2016 stood at \$40.5 billion, an 11% increase over the prior year.

As in previous years, this report contains a detailed letter from our Chief Executive Officer, Hamish Douglass, together with the group's financial statements, both of which we would encourage you to read carefully.

Somehow the last ten years simultaneously feels like a long time and no time at all. When we look back we do so with a great sense of pride as the firm that was started in a serviced office has now grown into a meaningful investment management firm serving a global array of retail and institutional clients and partners.

That sense of pride stems from the collective efforts of all at Magellan who have contributed over the years, from the early few at foundation to the most recent joiners, and the fact we have a common purpose in mind - to build a firm that we all believe in.

We greatly value our culture and every individual's contribution.

Above all we value the respect and trust our clients and partners have shown us. We are very conscious that this trust must always be deserved, as undeserved trust cannot be sustained. Trust founded on a flimsy or false foundation will always eventually crumble.

Although much has changed over the last ten years, many things remain the same. We are unwavering in our want to act rationally and fairly. We remain committed to reducing bureaucratic folly and always looking to simplify. We fully recognise that we will inevitably get some things wrong and that it is important to use these times to learn. We believe in the adage that a mistake is only an error, but it becomes a mistake when you fail to correct it.

When we look back we also notice that an important element in our development has been to ask ourselves honestly: what are we solving for? Be it in our business processes, investment processes or in our product development, we have come to understand the power of truly trying to solve the problem and the significant value that a diversity of thought brings to that process.

Being in any business is inherently tricky. Market dynamics, competition, business cycles, government interaction and a myriad of other factors all combine to produce a complex system. Furthermore, within this system, the participants adapt to change as they interact and the emergent behaviour can sometimes be difficult to understand let alone predict.

In our opinion, the best way for our business to navigate these waters is to remain focused on our clients and their advisors. It is in our shareholders' interests that our clients are our top priority. We remain committed to being clear about what we are aiming to achieve for our clients and equally committed to doing what we say we will do.

We firmly believe our journey has only just begun and we are all looking forward to the next ten years, but what will they bring? We obviously cannot know with any degree of certainty. We nevertheless think deeply about what might happen and the things we could do as we grow. We are a believer that opportunity comes to the prepared mind.

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However, in reality, as John Lennon so beautifully put it, "life is what happens to you while you're busy making other plans", and as the last ten years have shown us, that is indeed the most exciting part.

Our Annual General Meeting will be held on Thursday 13 October 2016 and as usual we welcome any and all discussion. We hope to see you there.

A handwritten signature in blue ink, appearing to be 'Brett Cairns', with a stylized flourish at the end.

Brett Cairns
Executive Chairman

11 August 2016

MAGELLAN FINANCIAL GROUP LIMITED

Chief Executive Officer's Annual Letter for the year ended 30 June 2016

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 2016.

OVERVIEW OF RESULTS

The Group had a successful year which was characterised by continued strong growth in funds under management (which increased by 11% from \$36.4 billion to \$40.5 billion for the 12 months to 30 June 2016) and strong growth both in earnings and dividends.

For the year ended 30 June 2016:

- Average funds under management increased by 27% to \$39.4 billion (\$31.0 billion in 2015);
- the Group's net operating profit after tax increased by 14% to \$198.4 million (\$174.3 million in 2015);
- fully diluted earnings per share increased by 13% to 115.5 cents (101.8 cents in 2015); and
- dividends increased by 19% to 89.3 cents fully franked (74.9 cents in 2015)

The Directors have declared a final fully franked dividend of 38.0 cents per ordinary share in respect of the 2016 financial year (37.8 cents in 2015). A fully franked interim dividend of 51.3 cents per share was paid in March 2016 (37.1 cents in March 2015). The final dividend will be paid on 26 August 2016. 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.

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

	30 June 2016 \$'000	30 June 2015 \$'000	Change %
Management, performance and services fees	314,643	254,281	24%
Other revenue	19,162	30,631	-37%
Revenue	333,805	284,912	17%
Expenses	(74,104)	(54,603)	36%
Profit before tax expense	259,701	230,309	13%
Tax expense	(61,344)	(56,014)	10%
Profit after tax expense	198,357	174,295	14%
Effective tax rate	23.6%	24.3%	
Key Statistics			
Earnings per share (cents per share)	123.5	109.2	13%
Diluted earnings per share (cents per share)	115.5	101.8	13%
Dividends (interim and final) (cents per share, fully franked)	89.3	74.9	19%

For the year ended 30 June 2016, the Group's Other Revenue was \$19.2 million (\$30.6 million in 2015). The Other Revenue includes interest income, dividend and distribution income, net gains on sale of financial assets and net foreign exchange gains. The Group's Other Revenue in 2016 primarily comprised distributions from the Group's holdings in Magellan funds of \$11.9 million and an accounting gain for the period for which the Magellan Global Equities Fund was treated as an associate of \$4.0 million. In 2015 the Group's Other Revenue included distributions from the Group's holdings in Magellan funds of \$13.8 million and gains of \$10.4 million from the sale of holdings in the Group's funds to seed the \$50 million investment in the 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.

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As at 30 June 2016, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents, financial assets and investment in associate) of \$328.3 million (30 June 2015: \$283.6 million) and shareholders' funds of \$355.4 million (30 June 2015: \$303.4 million); and
- the Group's NTA per share diluted for the conversion of the Class B Shares was \$2.07 (30 June 2015: \$1.78 also diluted for MFG 2016 Options).

Funds Management Business

For the year ended 30 June 2016, the Group's funds management business generated revenues of \$315.3 million (\$255.9 million for 2015) and had expenses of \$71.5 million (\$52.6 million for 2015), which resulted in a profit before tax of \$243.8 million (\$203.3 million for 2015). Revenue included performance fees of \$48.0 million (\$43.4 million for 2015). Performance fees fluctuate significantly from period to period.

The highlights for our funds management business include:

- deepening penetration of the Global Equities and Global Listed Infrastructure strategies with retail Australian investors, advisers and brokers. As at 30 June 2016, total retail funds under management was \$12.0 billion (\$9.8 billion at 30 June 2015) and retail inflows over the 12 months were \$2.3 billion (\$1.4 billion for the 12 months to 30 June 2015):
 - The retail component of the Global Equities strategy¹ received \$2.0 billion of net retail inflows over the period (\$1.3 billion to 30 June 2015), bringing total retail funds under management for the strategy to approximately \$10.9 billion (\$9.1 billion at 30 June 2015). Retail net inflows continue to benefit from the strong support of the ASX quoted versions of our Global Equities strategy, Magellan Global Equities Fund/Magellan Global Equities Fund (Currency Hedged), and the new arrangements with AMP and BT/Westpac who have funds on their respective platforms replicating the Magellan Global Fund;
 - The retail component of the Global Listed Infrastructure strategy² received \$365 million of net retail inflows over the period (\$197 million to 30 June 2015) bringing total retail funds under management for the strategy to approximately \$1.15 billion (\$0.7 billion at 30 June 2015). Retail net inflows reflect the outstanding investment performance of the Global Listed Infrastructure strategy. In May 2016, Colonial First State launched a replica version of the Magellan Infrastructure Fund on its platform.
- continued solid support from institutional clients with \$1.8 billion of net institutional inflows over the period (\$3.8 billion to 30 June 2015). Total institutional funds under management was \$28.4 billion from more than 110 clients³ (\$26.6 billion from more than 100 clients at 30 June 2015).

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

	30 June 2016 \$'000	30 June 2015 \$'000	Change %
Revenue			
Management fees	258,392	203,478	27%
Performance fees	48,014	43,413	11%
Services fees	8,237	7,854	5%
Interest and other income	625	1,144	-45%
	315,268	255,889	23%
Expenses			
Employee expense	42,014	31,213	35%
US marketing and consulting fees ⁽⁴⁾	7,168	5,490	31%
Fund administration and operational costs	7,068	5,948	19%
Information technology expense	3,606	2,299	57%
Foreign and withholding taxes	2,055	13	nm
Occupancy expense	1,278	852	50%
Other expense	8,294	6,774	22%
	71,483	52,589	36%
Profit before tax expense	243,785	203,300	20%
Key Statistics			
Average funds under management (\$ million)	39,437	30,966	27%
Average AUD/USD exchange rate ⁽⁵⁾	0.7284	0.8368	
Average number of employees	96	80	20%
Employee expenses / total expenses	58.8%	59.4%	
Cost / income	22.7%	20.6%	
Cost / income, excl. performance fees	26.7%	24.8%	

(1) The retail component of the Global Equities strategy includes Magellan Global Fund (retail portion), Magellan High Conviction Fund, Magellan Global Fund (Hedged) (retail portion), Magellan Global Equities Fund (quoted fund), Magellan Global Equities Fund (Currency Hedged) (quoted fund) & retail separately managed accounts for the Global Equity strategy.

(2) The retail component of the Global Listed Infrastructure strategy includes Magellan Infrastructure Fund (retail portion), Magellan Infrastructure Fund (Unhedged) (retail portion) and retail separately managed accounts for the Global Listed Infrastructure strategy.

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

(4) Pursuant to the agreement, Frontier Partners is entitled to receive 25% of net management fees from Frontier MFG Funds and 20% of management fees from all institutional mandate clients in the US and agreed institutional mandate clients in Canada.

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

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Revenues increased by 23% to \$315.3 million driven by a 24% increase in total management and performance fee revenues as a result of a 27% increase in average funds under management over the period due to strong net inflows and investment performance. Average funds under management benefited from the lower average Australian dollar over the period. Overall the funds management business operated efficiently with a cost to income ratio (excluding performance fees) of 26.7% in 2016 compared with 24.8% in 2015.

Expenses increased by 36% to \$71.5 million. The increase in expenses included:

- a 35% increase in employee expense over the prior corresponding period to \$42.0 million. This is in line with the guidance provided with the interim results in February. The increase was due to the cost of new employees hired during the year, the full year cost of hires made in 2014/15 and increased remuneration;
- a 31% increase in US marketing fees to \$7.2 million due to higher management and performance fees from US clients;
- a 19% increase in fund administration and operational costs to \$7.1 million, which compares with a 27% increase in average funds under management over the period;
- a 57% increase in IT costs to \$3.6 million primarily related to the implementation of new IT projects;
- an increase in occupancy costs of 50% to \$1.3 million. The Group relocated its Sydney head office in June 2016 and incurred one-off pre-tax costs of approximately \$0.5 million. We are budgeting for occupancy costs of approximately \$3.2 million in 2016/17; and
- an expense of \$2.1 million for US state taxes and withholding taxes. This includes a provision of \$1.3 million for prior years taxes that have not been provided for previously.

We have continued to make investments in people and capability. During the period, we made 10 net hires which included hiring:

- A Chief Risk Officer;
- A Chief Operating Officer for North America;
- A senior Portfolio Manager in our Infrastructure Team;
- Senior key account managers in New South Wales and North America; and
- An infrastructure investment specialist focussed on institutional clients.

In the 2016/17 financial year we are planning to invest further in people and capability. Whilst we have largely completed the build out of the Investment team we are planning to make additional hires in many areas of the business including in Distribution (both in Australia and the United States), Compliance, Trading, Finance, Operations and Administration. We are also planning to establish a public policy institute based in Australia and we plan to hire a team of 3 people in 2016/17 (including an Executive Director to head the institute).

We expect Group employee expenses to increase by approximately 15-18% in the 2016/17 financial year which reflects the annualised cost of employees hired in 2015/16, remuneration increases and planned hires.

The following table sets out total employee numbers:

	30 June 2016	30 June 2015	30 June 2014
Investment			
- Portfolio Managers/Analysts	33	29	22
- Dealers	3	3	2
	36	32	24
Governance & Advisory	4	4	1
Distribution⁽⁶⁾	30	21	15
Risk, Compliance & Company Secretarial	4	5	3
Business Support & Control⁽⁶⁾	20	23	18
Administration	7	6	8
Total	101	91	69
Average number of employees	96	80	64

(6) Partly reflects divisional transfer of the Performance & Reporting team from Business Support & Control to Distribution in 2H16

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Funds Under Management (FUM)

At 30 June 2016, the Group had funds under management of \$40.5 billion, split between global equities (83%) and infrastructure equities (17%). This compares with funds under management of \$36.4 billion at 30 June 2015. The increase in funds under management was driven by net inflows of \$4.1 billion, investment performance of \$0.8 billion less cash distributions (net of reinvestment) of approximately \$0.8 billion.

The following table sets out the composition of funds under management:

\$million	30 June 2016	30 June 2015	30 June 2014
Retail	12,041	9,809	6,693
Institutional			
- Australia/New Zealand	4,415	3,871	2,889
- North America	9,145	8,462	4,690
- Rest of World	14,894	14,239	9,241
	28,454	26,572	16,820
Total FUM	40,495	36,381	23,513
Percentage			
Retail	30%	27%	28%
Institutional			
- Australia/New Zealand	11%	11%	12%
- North America	23%	23%	20%
- Rest of World	37%	39%	40%
	70%	73%	72%
Total FUM	100%	100%	100%
FUM subject to Performance Fees (%)	38%	37%	37%
Institutional FUM (%)			
- Active	85%	85%	81%
- Enhanced Beta	15%	15%	19%
Breakdown of FUM (A\$ million)			
- Global Equities	33,723	31,015	19,443
- Global Listed Infrastructure	6,772	5,366	4,070
Average Base Management fee (bps) per annum excluding Performance Fees ⁽⁷⁾	66	66	67

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 Global Listed Infrastructure 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.

We have been actively working on three new related global equity products that we intend to seed then launch progressively over the next 12 to 18 months. These products will be primarily targeted towards international institutional investors. It will take time for each of these products to build investment track records and it is unlikely that any of these products will attract meaningful funds under management for at least 3 to 5 years. Any success with these new products would be incremental to the theoretical capacity of the Group's existing products.

At 30 June 2016, the Group was managing \$40.5 billion (equating to approximately US\$30.2 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.

Retail Funds Under Management

At 30 June 2016, the Group had total retail funds under management of \$12.0 billion. We experienced total net retail inflows of \$2.3 billion for the 12 months to 30 June 2016, compared with \$1.4 billion for the previous financial year. The Group experienced average monthly retail net inflows of approximately \$195 million over the 12 months to 30 June 2016, compared with \$120 million over the previous corresponding period.

(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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The increase in retail net inflows over the past 12 months is largely attributable to:

- strong support from our new arrangements with AMP and BT/Westpac in addition to our longstanding relationship with Colonial First State (operated by Commonwealth Bank). As at 30 June 2016 funds under management in our replica versions of the Magellan Global Fund available at Colonial First State, AMP and BT/Westpac was \$2.0 billion (\$1.5 billion at 30 June 2015). The Magellan Global Equity strategy was represented in over 120 model portfolios across the AMP Group, BT/Westpac and the Commonwealth Bank at 30 June 2016;
- our ASX quoted funds, the Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged) combined had strong net inflows of \$385 million over the 12 months to 30 June 2016 and average monthly net inflows of approximately \$32 million. The combined funds under management from these two funds was \$623 million as at 31 July 2016 and the combined number of unitholders was over 12,000; and
- an increase in retail inflows into our Global Listed Infrastructure strategy. The total net retail inflows into our Infrastructure strategy were \$365 million over the 12 months to 30 June 2016 (\$197 million to 30 June 2015).

We believe we are developing a robust retail business in Australia and New Zealand focused on global equities and global infrastructure 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⁾;
- 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;
- an ASX quoted version and unlisted version of the Magellan Global Fund. The funds are available as currency hedged and currency unhedged;
- an ASX quoted version of the Magellan Infrastructure Fund, the Magellan Infrastructure Fund (Currency Hedged), which was seeded on 19 July 2016 and commenced trading on 22 July 2016;
- 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;
- a replica version of the Magellan Infrastructure Fund and a currency hedged version of the Magellan Global Fund launched at Colonial First State in May 2016;
- developed strong relationships with each of the key research firms and have strong ratings from Zenith, Lonsec and Morningstar for both our Global Equity and Global Listed Infrastructure strategies; and
- a highly experienced Australian and New Zealand relationship focussed Distribution team with 11 account managers and offices in Sydney, Melbourne, Brisbane, Perth and Auckland.

The following table sets out the investment performances of the Magellan Global Fund, the Magellan Infrastructure Fund and the Magellan High Conviction strategy since their inception:

Investment Performance for the period to 30 June 2016 ⁽⁹⁾	1 Year	3 Years	5 Years	Since Inception ⁽¹⁰⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	-0.1	13.1	19.0	10.6
MSCI World NTR Index (\$A)	0.4	14.6	14.7	4.0
Magellan Infrastructure Fund	17.8	17.3	15.4	8.6
Global Listed Infrastructure Benchmark (\$A) ⁽¹¹⁾	5.2	12.1	11.1	5.3
Magellan High Conviction Strategy	-1.3	14.8	-	20.9

Extremely pleasing is the performance of our Global Listed Infrastructure strategy. The Magellan Infrastructure Fund has outperformed its benchmark by 12.6% in the 12 months to 30 June 2016 and continued outperformance over 3 and 5 years.

The Global Equity strategy performed in line with the market over the past 12 months and its longer term performance remains materially above its benchmark and above our objective of 9% per annum net of fees over the full investment cycle.

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

(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 Listed 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).

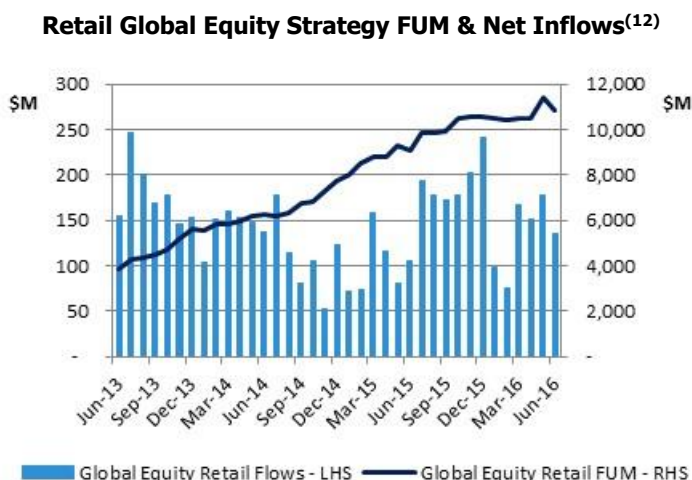
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Given our medium to long term focus, however, it is not unreasonable to expect some periods when the funds will not outperform or will lag their benchmarks. Further, given our focus on high-quality/low volatility investments in our Global Equity strategy and our tight definition of what constitutes infrastructure, it can also reasonably be expected that returns may underperform broader based benchmarks in strongly rising markets due to the cap on volatility and our definition of infrastructure. Over the cycle, however, we believe the strategies 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.

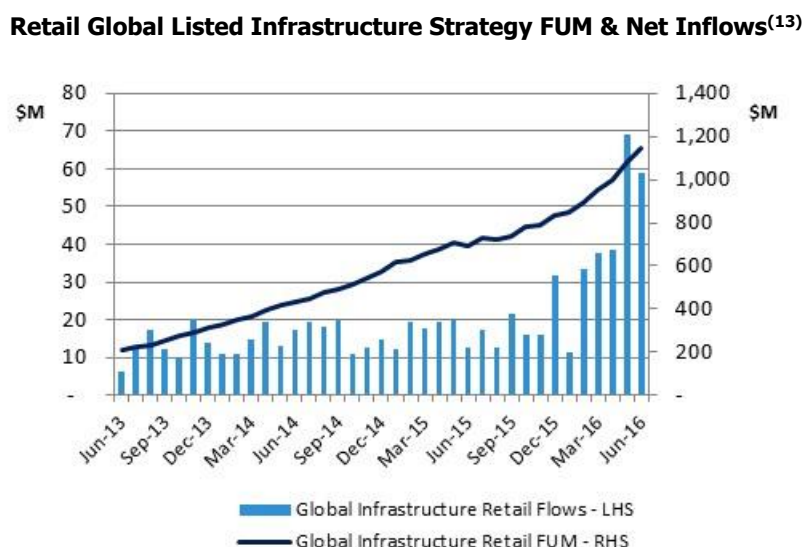
The retail component of the Global Equity strategy⁽¹²⁾ had funds under management of approximately \$10.9 billion at 30 June 2016. The retail Global Equity strategy experienced total retail net inflows of \$2.0 billion and average monthly retail net inflows of approximately \$164 million over the 12 months to 30 June 2016. This compares with the retail Global Equity strategy's total net inflows of \$1.3 billion and the average monthly retail net inflows of \$104 million over the 12 months to 30 June 2015.

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



The retail component of the Global Listed Infrastructure strategy⁽¹³⁾ had funds under management of approximately \$1.15 billion at 30 June 2016. The retail Global Listed Infrastructure strategy experienced total retail net inflows of \$365 million and average monthly retail net inflows of approximately \$30 million over the 12 months to 30 June 2016. This compares with the retail Global Listed Infrastructure strategy's total net inflows of \$197 million and the average monthly retail net inflows of \$16 million over the 12 months to 30 June 2015.

The following chart sets out the monthly retail net inflows into the Global Listed Infrastructure strategy over the past three years:



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

(13) The retail component of the Global Listed Infrastructure strategy includes Magellan Infrastructure Fund (retail portion), Magellan Infrastructure Fund (Unhedged) (retail portion) and retail separately managed accounts for the Global Listed Infrastructure strategy.

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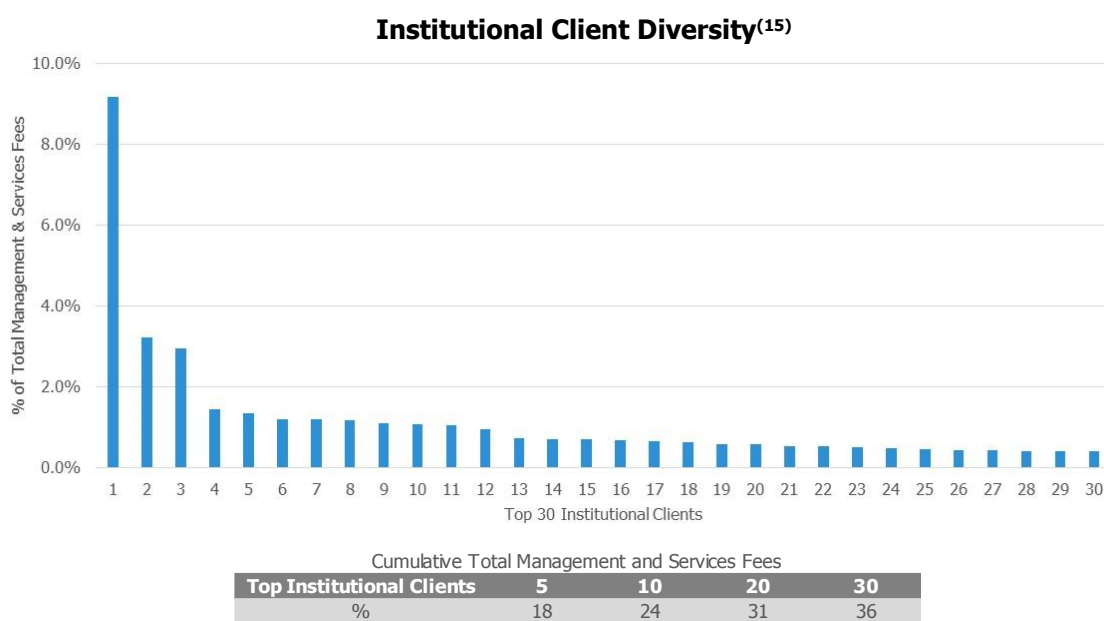
Retail inflows have generally been seasonal (January and June tend to be the weakest months) and can be lumpy, due to events such as winning a new dealer group that transitions funds to the Group.

Institutional Funds Under Management

At 30 June 2016, the Group had total institutional funds under management of \$28.4 billion from more than 110 clients⁽¹⁴⁾. We experienced institutional net inflows of \$1.8 billion for the 12 months to 30 June 2016, which compares with net inflows of \$3.8 billion for the 12 months to 30 June 2015.

We are pleased with the quality and depth of our pipeline of potential new business and we are confident that we will see solid institutional interest in our global equities and global listed infrastructure capabilities over time.

The following table and chart sets out 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.



The development of the Group's institutional funds management business is progressing well, particularly in North America, United Kingdom (UK) and Asia-Pacific.

For the 12 months to 30 June 2016, we experienced institutional net inflows of \$0.5 billion from clients in the North America, bringing the total funds under management to approximately \$9.1 billion (\$8.4 billion at 30 June 2015).

Our UK business remains strong. At 30 June 2016, the Group had total funds under management of approximately \$11.7 billion from clients in the UK (\$11.7 billion at 30 June 2015). At 30 June 2016 our important relationship with St. James's Place has total funds under management of \$6.0 billion (\$6.1 billion at 30 June 2015). The UK infrastructure fund that replicates our Core Infrastructure (Enhanced Beta) strategy has funds under management of approximately \$3.1 billion at 30 June 2016 (\$2.9 billion at 30 June 2015).

We are also making good progress in the Asia-Pacific region. At 30 June 2016, the Group had total funds under management of approximately \$5.6 billion from institutional investors in the Asia-Pacific region (\$4.5 billion at 30 June 2015). We remain focused on specific target markets in our region, primarily Australia and Singapore.

⁽¹⁴⁾ The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

⁽¹⁵⁾ Management & Services fees for the 12 months to 30 June 2016 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

MAGELLAN FINANCIAL GROUP LIMITED

Investments in Magellan's Funds and Principal Investments

At 30 June 2016, the Group had total net Principal Investments of \$208.2 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately \$189.4 million at 30 June 2015.

The Group's Principal Investments include investments in Magellan Unlisted Funds, the ASX quoted Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged), 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 net profit after tax 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 1.0%, 13.9% and 20.5% 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 14.6% per annum over the period 1 July 2007 to 30 June 2016. 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 2016:

MFG Group's Principal Investments

\$million	30 June 2016	30 June 2015
Cash	2.3	2.1
Magellan Unlisted Funds ⁽¹⁶⁾	131.3	127.6
Listed shares/funds ⁽¹⁷⁾	74.7	61.8
Other ⁽¹⁸⁾	11.2	12.4
Total	219.5	203.9
Deferred tax liability ⁽¹⁹⁾	(11.3)	(14.5)
Net Principal Investments	208.2	189.4
Net Principal Investments per share (cents)⁽²⁰⁾	121.1	111.0

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 2016

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

(17) Listed shares/funds include MGF Plus Portfolio, Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged) excluding receivables/payables (refer to footnote 18)

(18) Other comprises receivable/payables and unlisted funds and shares.

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

(20) Based on the aggregate of 161,581,205 ordinary shares on issue at 30 June 2016 (including exercised MFG 2016 options) and 10,293,175 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert at 30 June 2016 (30 June 2015, it is based on 160,276,422 ordinary shares and 10,210,057 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2015).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

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 2016.

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 (until 24 June 2016) respectively. The Company also has on issue unlisted Class B shares.

The Company's principal place of business is Level 36, 19 Martin Place, Sydney, New South Wales, 2000 (previously Level 7, 1 Castlereagh Street, Sydney, New South Wales, 2000 until 27 June 2016).

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 \$143,002,000 were paid representing 89.1 cents per share (June 2015: \$93,920,000 representing 58.9 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 38.0 cents per share in respect of the year ended 30 June 2016 (June 2015: 37.8 cents per share), which represents approximately \$61,401,000.

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 2016 was \$198,357,000 compared with net profit after tax of \$174,295,000 for the prior year. Total operating expenses of \$74,104,000 compared with total operating expenses of \$54,603,000 for the previous corresponding year.

The Group is in a strong financial position with an extremely strong balance sheet and at 30 June 2016 reported:

- investment assets (including cash and cash equivalents, financial assets and investment in associate) of \$328,302,000 (June 2015: \$283,626,000) and shareholders' funds of \$355,369,000 (June 2015: \$303,443,000); and
- NTA per share of \$2.07 (June 2015: \$1.78) diluted for the conversion of the Class B Shares and for the prior year ended 30 June 2015 diluted for MFG 2016 Options.

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 2016

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 19 July 2016, the Group seeded Magellan Infrastructure Fund (Currency Hedged) (MICH) (ASX ticker code: MICH) with \$10,000,000 of its own capital. MICH is an ASX quoted version of the unlisted Magellan Infrastructure Fund and will invest in a portfolio of between 20 and 40 currency hedged investment grade infrastructure securities. MICH commenced trading on the ASX on 22 July 2016.

On 3 August 2016, the Group reported on the ASX its funds under management were \$41.5 billion as at 29 July 2016.

Other than the above and the final dividend in respect of the year ended 30 June 2016 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 no unexercised MFG 2016 Options (Options) (1,050,023 unexercised MFG 2016 Options at 30 June 2015). The 10,683 Options that had not been exercised by 30 June 2016 expired on that date. Refer to note 14(d)(ii) for further details.

Refer to section 3.6 in the Remuneration Report for the Options exercised and held by the Directors and Key Management Personnel of the Group during the year. 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 2015: 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 2016

2. Directors and Officers

2.1 Directors

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

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	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
Hamish McLennan	Non-Executive Director	1 Mar 2016
Karen Phin	Non-Executive Director	23 Apr 2014

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 former 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 the Remuneration and Nominations Committee

Robert is a company director and corporate adviser with over 27 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 (since February 2004), F.F.I. Holdings Limited (since October 2011) and Gowing Bros Limited (since April 2012).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

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.

Hamish McLennan

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

Hamish McLennan has over 30 years' experience in the media industry. He is currently Chairman of REA Group Limited, a global online real estate advertising company. He was previously Executive Vice President, Office of the Chairman, News Corporation, and Global Chairman & CEO of Young & Rubicam (Y&R) in New York, part of WPP, the world's largest communications services group. Mr McLennan joined Young & Rubicam in 2002 as Chairman and CEO of Y&R Brands Australia/New Zealand, one of the largest marketing services groups in Australasia, and led the firm's global business operations from 2006 to 2011. He was also previously Executive Chairman and Chief Executive Officer (March 2014 to July 2015) and Chief Executive Officer and Managing Director (February 2013 to March 2014) of Australian media company Ten Network Holdings Limited. He has previously served on the Boards of Directors for the United Negro College Fund (UNCF) and the US Ad Council.

Karen Phin

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

Karen has over 20 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 a member of the Takeovers Panel and the ASX Tribunal. Karen has a Bachelor of Arts/Law (Honours) from the University of Sydney and is a graduate of the AICD.

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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

2.4 Directors' Meetings

The number of meetings of the Board and Board Committees, held during the year ended 30 June 2016 and the number of those meetings attended by each Director are 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	7	7	-	-	-	-
H Douglass	7	7	-	-	-	-
P Lewis	7	7	10	10	4	4
R Fraser	7	7	10	10	4	4
H McLennan	2	2	1	1	1	1
K Phin	7	7	10	10	4	4

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 2016

3. 2016 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Group for the year ended 30 June 2016.

The report details the remuneration arrangements for the Non-Executive Directors and Key Management Personnel (KMP) of the Group. KMP 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 2016 financial year, the KMP for the Group included 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
Non-Executive Directors		
Robert Fraser	Director	Full Year
Paul Lewis	Director	Full Year
Hamish McLennan	Director	1 Mar 2016 - 30 Jun 2016
Karen Phin	Director	Full Year
Executive Directors		
Brett Cairns	Executive Chairman	Full Year
Hamish Douglass	CEO & Chief Investment Officer	Full Year
Group Executives		
Nerida Campbell	Chief Operating Officer	Full Year
Frank Casarotti	General Manager - Distribution	Full Year
Gerald Stack	Head of Investments	Full Year
Kirsten Morton	Chief Financial Officer	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 in the Group. Importantly, incentives motivate each employee to achieve agreed business objectives which align to long term business outcomes.

The key drivers of the Group's remuneration philosophy and principles are:

- Promoting staff behaviour that is in the best interest of clients;
- Attracting and retaining outstanding staff;
- Building a culture that rewards performance, maintaining the Group's reputation and mitigating risk; and
- Encouraging staff to think like long term owners of the Group.

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

- A fixed remuneration amount (inclusive of superannuation);
- A variable incentive which is determined annually. Variable incentives are discretionary (except where noted below) and may be in the range of 0 to 100% of the fixed remuneration amount or higher in exceptional circumstances. The variable incentive 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 Group's Share Purchase Plan (SPP), to encourage long term ownership in the Group.

Variable remuneration

- With the exception of the CEO and the portfolio managers of the Group's Global Listed Infrastructure strategies (Infrastructure Portfolio Managers), the variable incentive amount is determined by reference to an employee's individual performance and contribution, and the overall performance of the Group. Variable remuneration is not determined on a formulaic basis but is part of an overall performance appraisal process.
- The Board believes incentives should be aimed at areas where employees have direct influence over the outcome and that are in the best interests of the business and its clients.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

Remuneration Philosophy and Principles (continued)

Variable remuneration (continued)

- The Board does not believe it is appropriate to use measures such as earnings per share or the share price performance of the Group in determining these employees' annual variable remuneration. 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 variable incentive is capped at 100% of his fixed remuneration and is dependent upon the performance of the investment strategies, measured over three years, for which he has primary responsibility. The Board believes that setting the basis of the CEO's variable incentive 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 a variable remuneration arrangement that is directly tied to the net revenues, less certain allocated costs, of the Group's Global Listed Infrastructure business. The Board considers that this arrangement appropriately rewards and aligns these employees' interests with those of the Group's clients and shareholders.

Share Purchase Plan

- The Group does not operate a specific long term incentive plan, however the Group offers participation in the SPP as a means to align employees with shareholders, encourage employees to think and act like business owners and to create value over the longer term.
 - The Group does not offer share grants to employees as the Board does not believe that grants create alignment with shareholders through true ownership, as employees are not required to pay for shares through these instruments.
 - The Group does not grant share options to Directors or employees given the asymmetric payoff structure of options which creates a lack of alignment between employees and shareholders.
- The Group's SPP is a subscription for shares by SPP participants at the prevailing market price. The Group provides financial assistance to the SPP participants to acquire the Group's shares via a full recourse, interest-free loan, and thus the SPP participant bears the full risks and benefits of being a shareholder. Refer to section 3.2 for further information about the SPP.
- 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 SPP provides participants with the opportunity to acquire a meaningful ownership in the Group and, unlike many option and performance share plans, participants are required to pay for the shares over time. The interest-free component of the full recourse loan provides real value to SPP participants and is expensed by the Group through the Group's Consolidated Statement of Profit or Loss.

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.

Non-Executive Director Fees

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.

On that basis, remuneration comprises modest Directors' fees (inclusive of superannuation) and 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 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 \$1,301 (June 2015: \$1,429).

Non-Executive Director SPP Participation

The Non-Executive Directors are eligible to participate in the Group's 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 Group provides participating Non-Executive Directors with a full recourse, interest-free loan to finance the purchase of the Group's shares at the prevailing market price on issue date. An equitable mortgage is held over the shares acquired under the SPP. All dividends associated with the shares are swept to repay the loan and the equitable mortgage is not discharged until the loan is fully repaid.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.1 Remuneration of Non-Executive Directors (continued)

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. The Board does not put in place any minimum share ownership thresholds however the SPP structure delivers a shareholding often many multiples of the value of their Director's fees. Importantly, Directors are fully invested in the Group at the beginning of their tenure rather than waiting many years to accumulate a meaningful ownership position.

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 Group, as short term share price movements may impact the provision of that financing. The Board believes that the Group 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 Board believes that providing full recourse financial assistance to Non-Executive Directors under the SPP does not hinder their independence from management 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.

As the financing provided to Non-Executive Directors is full recourse, participating Non-Executive Directors are liable to repay the loan irrespective of the performance of the Group's shares. Furthermore, the Group's shareholders must approve the provision of financing to the Non-Executive Directors by way of a vote.

Retirement benefits for Non-Executive Directors

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

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 2016 it comprised fixed compensation and, in respect of Mr Douglass only, a variable compensation amount.

On 26 November 2015, Mr Douglass entered into an amended employment contract with the Group. As a result, some of the terms of Mr Douglass' employment contract have changed. A summary of the changes to Mr Douglass' remuneration is provided in section 3.5.

Fixed remuneration

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

Fixed remuneration for both Mr Douglass and Dr Cairns was unchanged from the previous year.

Variable remuneration

Mr Douglass is entitled to receive a variable incentive amount up to but not exceeding 100% of fixed remuneration each financial year. The amount of variable incentive awarded to Mr Douglass in respect of the year ended 30 June 2016 was determined with reference to the achievement by Mr Douglass of agreed criteria and performance metrics relating to the performance of the investment strategies under his control over the three year period to 30 June 2016. The performance metrics and relative weightings of these which are used to determine Mr Douglass' variable remuneration are outlined in section 3.5. For the year ended 30 June 2016, Mr Douglass was awarded variable remuneration of 35% of his fixed remuneration (excluding long service leave) (100% awarded for the year ended 30 June 2015). Mr Douglass' variable incentive for 2016 will be paid in 36 equal monthly instalments if he remains employed by the Group. In prior years, Mr Douglass' variable incentive was paid partly as a current year cash bonus and partly as a deferred cash bonus over 12 months. Mr Douglass has agreed not to receive any of his variable incentive up front and to instead defer payment over the subsequent three financial years which is consistent with the medium term focus of Mr Douglass' variable remuneration arrangements. In circumstances of death or incapacity, the payment of any unpaid monthly instalments as at the termination date will be accelerated. Further information is provided in section 3.5.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Directors and Other KMP (continued)

Executive Directors (continued)

Mr Douglass' variable incentive is purely determined in relation to the performance of the investment strategies under his control. Importantly, the three year performance period emphasises the Group's medium to long term focus for its investment strategies. This client focussed structure of Mr Douglass' variable incentive is considered to be very important and, when combined with Mr Douglass' substantial shareholding in the Group, is considered to provide an appropriately incentivised overall remuneration outcome.

Mr Douglass is not entitled to participate in the Group's SPP as the Board considers him to be sufficiently aligned with shareholders through his ownership of 11.1 million shares and 10.2 million Class B shares.

Dr Cairns is not entitled to receive any variable incentive.

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.

Fixed remuneration

Other KMP fixed remuneration is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed remuneration is reviewed annually to ensure that it is competitive and reasonable, however there are no guaranteed increases to the fixed remuneration amount. Other KMP fixed remuneration increased approximately 5% from the previous year reflecting movements in market salaries (year to 30 June 2015: unchanged from the prior year). The Board considers this increase in fixed remuneration to be modest in the context of the growth in profitability of the Group. A summary of the link between performance and remuneration paid by the Group is provided in section 3.9.

Variable remuneration

The Board considers that indicators for the determination of annual variable compensation such as movements in the Group's share price or earnings per share, may encourage behaviour that is not in the best long term interests of clients and subsequently the Group and its shareholders. The Board's primary objective is that Other KMP are motivated to build long term client relationships and provide support for the generation of investment returns for investors in the funds managed by the Group which will ultimately deliver 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 CEO determines the amount of variable incentive 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 remuneration (higher in exceptional circumstances) and comprises a cash bonus amount and a conditional deferred cash bonus payable in 36 equal monthly instalments over the course of the next three financial years. The deferred cash bonus was historically paid in 12 equal monthly instalments and has been extended to 36 equal monthly instalments for Other KMP. Entitlement to the deferred cash bonus is dependent on Other KMP being employed by the Group at the time of payment.

Ms Campbell's variable incentive 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. For the year ended 30 June 2016, Ms Campbell was awarded variable remuneration of 100% of fixed remuneration (excluding long service leave) (awarded 100% for the year ended 30 June 2015). Key business outcomes that Ms Campbell delivered during the year included:

- Overseeing the Group's IT infrastructure and business continuity planning;
- Overseeing the selection of new head office premises and relocation of the Group's head office;
- Establishing a legal and operating structure for Magellan's US business; and
- Overseeing the Group's UCITS investment company based in Ireland.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Directors and Other KMP (continued)

Group Executives (Other KMP) (continued)

Mr Casarotti's variable incentive 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 of the Group's brand in the Australian and offshore markets. For the year ended 30 June 2016, Mr Casarotti was awarded variable remuneration of 100% of fixed remuneration (excluding long service leave) (awarded 90% for the year ended 30 June 2015). Key business outcomes that Mr Casarotti delivered during the year included:

- Overseeing the Distribution Team which achieved total net retail inflows of \$2.3 billion and \$1.8 billion of net institutional inflows;
- Promoting and maintaining the client focussed culture within the Group's Distribution Team;
- Deepening the Group's relationships with Colonial First State/Commonwealth Bank, BT/Westpac and AMP;
- Overseeing the strategy to develop and deepen relationships with stockbrokers as key target supporters of the Group's ASX quoted funds; and
- Overseeing the development of the Group's client servicing and distribution presence in North America.

Mr Stack's variable compensation is determined as approximately 9% of net revenues earned by the Group in respect of the investment strategies for which he is a portfolio manager, less internal allocation of costs. For the year ended 30 June 2016, Mr Stack was awarded variable remuneration of 535% of fixed remuneration (excluding long service leave) (awarded 412% for the year ended 30 June 2015).

Ms Morton's variable incentive is determined with reference to the Group's finance function. For the year ended 30 June 2016, Ms Morton was awarded variable remuneration of 100% of fixed remuneration (excluding long service leave). Key achievements that Ms Morton delivered during the year included:

- Leading the Group's Finance Team;
- Overseeing the Group's taxation framework, including negotiating with US tax authorities on withholding taxes;
- Implementing a new cloud based expense management system;
- Promoting and maintaining a culture of excellence within the Finance Team; and
- Integrating the new US legal structure into the Group's financial reporting.

SPP Participation

Other KMP are eligible to participate in the Group's SPP which is described later in this report. Other KMP remuneration includes the non-cash expense to the Group of providing interest-free loans under the SPP.

Details of the remuneration paid to Other KMP is provided in section 3.3. Details of the employment agreements of Other KMP are described in section 3.5 of this report.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Directors and Other KMP (continued)

Summary of variable remuneration outcomes

The below table provides a summary of variable remuneration outcomes for Executive Directors and Group Executives for the years ended 30 June 2016 and 30 June 2015. The table outlines the portion of variable remuneration awarded for each financial year that is paid in cash and the portion that is deferred over subsequent financial years. This differs to the Total Cash Bonus outlined in the statutory accounting table provided in section 3.3(a) which represents an executives' cash bonus received throughout the financial year. This is comprised of the 2016 cash bonus and deferred cash bonus from prior financial years that was paid throughout the 2016 financial year.

		Variable incentive outcomes			Fixed remuneration (incl. superannuation)	Total variable remuneration awarded as % of fixed remuneration
		Cash Bonus ^(A)	Conditional Deferred Cash Bonus ^(B)	Total variable remuneration awarded		
		\$	\$	\$		
Executive Directors^(C)						
H Douglass	2016	-	442,456	442,456	1,250,000	35%
	2015	650,000	600,000	1,250,000	1,250,000	100%
Group Executives (Other KMP)						
N Campbell	2016	272,439	173,811	446,250	446,250	100%
	2015	237,500	187,500	425,000	425,000	100%
F Casarotti	2016	272,439	173,811	446,250	446,250	100%
	2015	216,250	166,250	382,500	425,000	90%
G Stack	2016	1,337,893	1,047,525	2,385,418	446,250	535%
	2015	949,088	803,616	1,752,704	425,000	412%
K Morton ^(D)	2016	227,750	137,250	365,000	365,000	100%
Total KMP	2016	2,110,521	1,974,853	4,085,374	2,953,750	
	2015	2,052,838	1,757,366	3,810,204	2,525,000	

(A) Cash Bonus represents the portion of Group Executives' awarded variable remuneration that is paid in cash after the release of the Group's Annual Report.

(B) Conditional Deferred Cash Bonus for the year ended 30 June 2016 represents the portion of Group Executives' awarded variable remuneration for 2016 that is deferred and is paid in cash in 36 equal monthly instalments in future financial years, subject to continued employment with the Group. Conditional Deferred Cash Bonus for the year ended 30 June 2015 represents the portion of Group Executives' awarded variable remuneration for 2015 that was deferred and paid in cash in 12 equal monthly instalments over the course of the year ended 30 June 2016.

(C) Dr Cairns is not entitled to any variable incentive.

(D) Ms Morton has been determined as a KMP in the year ended 30 June 2016.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Directors and Other KMP (continued)

Share Purchase Plan (SPP)

The Board believes promoting broad based ownership of the Group is an effective way of aligning the conduct and performance of employees and Non-Executive Directors with the interests of shareholders and to encourage them to think and act like owners of the business. To promote meaningful ownership by individuals, the Group has in place a SPP whereby employees and Non-Executive Directors are invited to subscribe for shares in the Group. The number of shares offered to any one participant is agreed by the Board following a recommendation by the CEO. Participants are generally required to make an upfront contribution of 25% of the value of the shares purchased with the remaining subscription funded via an interest-free, full recourse loan provided by the Group.

Participants enter into an equitable mortgage agreement with the Group over the loan in respect of the shares and the shares cannot be sold until the loan is repaid. The loan term is five years for Non-Executive Directors and 10 years for employees.

The loan is compulsorily repaid by participants via the following means:

- dividends associated with the shares are withheld and swept to repay the loan; and
- in respect of Group employees, 25% of an employee's after tax bonus payment is retained and swept to repay the loan.

As the loan is full recourse, to the extent the share price falls below the SPP Offer issue price, participants are still required to pay the full loan balance.

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 Group's shares as at 30 June in each year since inception of the Group 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	2 September 2015	\$18.88
30 June 2016	\$22.25	6 September 2016	

The non-cash expense to the Group of providing interest-free loans under the SPP forms part of the total remuneration of the employee participants and in the case of the Non-Executive Directors also forms part of the Remuneration Cap set out in clause 50(a) of the Constitution.

The SPP provides an effective long term incentive to the employees who participate in the Plan as participants are fully exposed to future movements in the Group's share price. As the SPP is not a grant of shares, no performance hurdles apply to (1) the invitation to participate; (2) the issue of shares; or (3) the release of shares for sale by the participant under the SPP. The Board has not set a policy for minimum shareholding requirements for executives and Non-Executive Directors as the SPP provides meaningful alignment for shareholders. Further details of the SPP are set out in note 15 to the financial statements.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.3 Details of Remuneration

(a) The total amount paid or payable to Non-Executive Directors and 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)	^(D)
		\$	\$	\$	\$	\$	\$
Non-Executive Directors							
Brett Cairns ^(E)	2016	-	-	-	-	-	-
	2015	73,059	-	6,941	-	14,331	94,331
Robert Fraser	2016	86,758	-	8,242	-	20,796	115,796
	2015	86,758	-	8,242	-	13,864	108,864
Paul Lewis	2016	80,000	-	-	-	-	80,000
	2015	80,000	-	-	-	28,663	108,663
Hamish McLennan ^(F)	2016	24,353	-	2,314	-	-	26,667
Karen Phin	2016	73,059	-	6,941	-	17,157	97,157
	2015	73,059	-	6,941	-	11,438	91,438
Executive Directors							
H Douglass ^(G)	2016	1,230,692	600,000	19,308	20,504	100,000	1,970,504
	2015	1,231,217	1,250,000	18,783	20,416	100,000	2,620,416
Brett Cairns ^(E)	2016	1,230,692	-	19,308	-	-	1,250,000
	2015	615,609	-	9,391	-	14,332	639,332
Group Executives (Other KMP)							
N Campbell	2016	426,942	459,939	19,308	10,237	3,293	919,719
	2015	406,217	387,500	18,783	6,635	13,174	832,309
F Casarotti ^(H)	2016	411,342	438,689	19,308	10,002	-	879,341
	2015	406,217	366,250	18,783	6,647	-	797,897
G Stack	2016	426,942	2,141,509	19,308	10,061	10,184	2,608,004
	2015	406,217	1,481,588	18,783	6,644	25,032	1,938,264
K Morton ^(I)	2016	345,692	352,750	19,308	-	3,503	721,253
Total KMP	2016	4,336,472	3,992,887	133,345	50,804	154,933	8,668,441
	2015	3,378,353	3,485,338	106,647	40,342	220,834	7,231,514

^(A) The total cash bonus amount includes the current year cash bonus and deferred components of the prior year bonus which have been paid in cash 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) No termination benefits, non-monetary benefits or other short term benefits not otherwise disclosed above were paid during the years ended 30 June 2016 and 30 June 2015.

^(E) 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.

^(F) Mr McLennan was appointed on 1 March 2016 and remuneration for the year ended 30 June 2016 is shown for the period 1 March 2016 to 30 June 2016.

^(G) Other benefits include \$100,000 accrued in the current year in relation to the investment restriction contract with Mr Douglass (June 2015: \$100,000). For further details refer section 3.5

^(H) Mr Casarotti's salary was adjusted downward from \$426,942 due to him taking unpaid leave during the year ended 30 June 2016.

^(I) Ms Morton has been determined as a KMP in the year ended 30 June 2016.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 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	2016	-	600,000	600,000	442,456
	2015	650,000	600,000	1,250,000	600,000
B Cairns ^(E)	2016	-	-	-	-
	2015	-	-	-	-
Group Executives (Other KMP)					
N Campbell	2016	272,439	187,500	459,939	173,811
	2015	237,500	150,000	387,500	187,500
F Casarotti	2016	272,439	166,250	438,689	173,811
	2015	216,250	150,000	366,250	166,250
G Stack	2016	1,337,893	803,616	2,141,509	1,047,525
	2015	949,088	532,500	1,481,588	803,616
K Morton ^(F)	2016	227,750	125,000	352,750	137,250
Total KMP	2016	2,110,521	1,882,366	3,992,887	1,974,853
	2015	2,052,838	1,432,500	3,485,338	1,757,366

(A) The bonus earned in respect of the current year that 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 2015 has been paid in 12 equal instalments in the year ended 30 June 2016. 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.

(C) The total cash bonus amount includes the current year cash bonus and deferred components of the prior year bonus which have been paid in cash over the course of the current year and reflected in section 3.3(a).

(D) The conditional deferred cash bonus for the year ended 30 June 2016 is payable in 36 equal monthly instalments. Entitlement to the deferred cash bonus 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 2015 was paid in 12 equal instalments during the year ended 30 June 2016. 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 any variable incentive.

(F) Ms Morton has been determined as a KMP in the year ended 30 June 2016.

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 2016 is \$6,938,188 and payable over the years ended 30 June 2017, 30 June 2018 and 30 June 2019 (June 2015: \$5,045,000 and payable over the year ended 30 June 2016).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.4 Service Agreements

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

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 2016:

	Position	Fees (\$) (A)
Board (Group)	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 Group, 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 Group.

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 Group.

Karen Phin

Non-Executive Director, Member of Audit & Risk Committee and 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 Group.

Hamish McLennan

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

- Commenced on 1 March 2016
- Term of appointment is 3 years unless the Director is not re-elected by shareholders of the Group.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 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 Group.

Hamish Douglass, CEO and Chief Investment Officer

The Executive 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 2016, Mr Douglass:

- received fixed compensation structured as a total employment cost package of \$1,250,000 per annum, inclusive of statutory superannuation contributions, which was received as a combination of cash, non-cash benefits and superannuation contributions. Fixed compensation was subject to review for the period commencing 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 variable incentive amount of up to but not exceeding 100% of his fixed compensation for that financial year. The amount of the variable 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 Executive Director, determined the underlying quantitative measures for each of the performance metrics that apply, which were subject to review for the period commencing 1 July 2016.

Variable Remuneration Criteria	Performance Metrics	Weighting	Percentage Paid/Performance Measures						
Investment Performance of the Global Equity Strategy	Ranking of the Global Equity Strategy in Peer Group ^(A) (rolling 3 years as at 30 June each year)	33.3%	<p>The percentage paid is in the range of 0% to 100% dependent on the ranking quartile band achieved as per the below table:</p> <table border="1"> <tr> <td>100%</td> <td>1st Quartile</td> </tr> <tr> <td>50% to 100% (sliding scale)</td> <td>Bottom of 2nd Quartile to top of 2nd Quartile</td> </tr> <tr> <td>0%</td> <td>3rd and 4th Quartile (bottom 50%)</td> </tr> </table> <p>Mr Douglass received 50% of this component in 2016, based on a 2nd Quartile ranking</p>	100%	1 st Quartile	50% to 100% (sliding scale)	Bottom of 2 nd Quartile to top of 2 nd Quartile	0%	3 rd and 4 th Quartile (bottom 50%)
	100%	1 st Quartile							
50% to 100% (sliding scale)	Bottom of 2 nd Quartile to top of 2 nd Quartile								
0%	3 rd and 4 th Quartile (bottom 50%)								
Absolute Performance (Gross Return) of the Global Equity Strategy (measured in USD) (rolling 3 years as at 30 June each year)	33.3%	<p>The percentage paid is in the range of 0% to 100% dependent on the absolute performance achieved as per the below table:</p> <table border="1"> <tr> <td>100%</td> <td>12% p.a. or greater</td> </tr> <tr> <td>50% to 100% (sliding scale)</td> <td>8% p.a. to 12% p.a.</td> </tr> <tr> <td>0%</td> <td>Less than 8% p.a.</td> </tr> </table> <p>Mr Douglass received 0% of this component in 2016, based on absolute performance of 7.26% p.a.</p>	100%	12% p.a. or greater	50% to 100% (sliding scale)	8% p.a. to 12% p.a.	0%	Less than 8% p.a.	
100%	12% p.a. or greater								
50% to 100% (sliding scale)	8% p.a. to 12% p.a.								
0%	Less than 8% p.a.								

^(A) Ranking to be determined by reference to Magellan Global Fund's quartile positioning in Global Equity sector for the 3 year total return as set out in the Morningstar Australian Institutional Sector Survey as at June of each year (or if that survey ceases to be published, an equivalent replacement survey).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

	Relative gross investment performance of the Global Equity Strategy against its Benchmark Index ^(B) (rolling 3 years as at 30 June each year)	33.3%	<p>The percentage paid is in the range of 0% to 100% dependent on pre-determined relative performance differences above the Benchmark Index as per the below table:</p> <table border="1" data-bbox="893 539 1388 808"> <tr> <td data-bbox="893 539 1141 629">100%</td> <td data-bbox="1141 539 1388 629">Achieves Benchmark Index + 2.5% p.a. or greater</td> </tr> <tr> <td data-bbox="893 629 1141 719">50% to 100% (sliding scale)</td> <td data-bbox="1141 629 1388 719">Achieves Benchmark Index to Benchmark Index + 2.5% p.a.</td> </tr> <tr> <td data-bbox="893 719 1141 808">0%</td> <td data-bbox="1141 719 1388 808">Achieves less than Benchmark Index p.a.</td> </tr> </table> <p>Mr Douglass received 56.2% of this component in 2016, based on relative gross investment performance of 7.26% p.a. against Benchmark Index of 6.95% p.a.</p>	100%	Achieves Benchmark Index + 2.5% p.a. or greater	50% to 100% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.	0%	Achieves less than Benchmark Index p.a.
100%	Achieves Benchmark Index + 2.5% p.a. or greater								
50% to 100% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.								
0%	Achieves less than Benchmark Index p.a.								

^(B) The Benchmark Index is the MSCI World Net Total Return (in USD), a free-float adjusted market capitalisation weighted index designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The returns are calculated using published index data on a daily basis. Daily returns are compounded to calculate the monthly and longer term returns.

In respect of the year ended 30 June 2016, Mr Douglass will receive a total variable incentive of \$442,456 (June 2015: \$1,250,000) payable in 36 equal monthly instalments. Mr Douglass' entitlement to variable incentive amounts is dependent on him being employed by the Group at the time of the payment and, where relevant, is also subject to the termination arrangements described in "Termination arrangements".

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.

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 2016

3. 2016 Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Changes to Mr Douglass' remuneration from 1 July 2016

Mr Douglass' employment agreement required a review of fixed remuneration from 1 July 2016. The Board completed a review of the employment agreement in November 2015, the details of which are discussed below.

Commencing 1 July 2016, Mr Douglass' annual fixed remuneration in respect of any financial year will change to be an amount equal to 1.5% of the average annual operating profit before income tax expense for the Funds Management operating segment (as per the segment note in the audited annual financial statements for the Group) for the three immediately preceding financial years, subject to any adjustments agreed between the Board and Mr Douglass. The structure of the variable incentive for Mr Douglass remains unchanged and continues to be focused on the medium term performance (preceding three years) of the Global Equity strategy under the direct control of Mr Douglass. Mr Douglass can earn variable compensation up to 100% of his annual fixed remuneration. The payment of the variable incentive will be deferred over the subsequent three financial years (paid in 36 equal monthly instalments) and is dependent on Mr Douglass being employed by the Group at the time of the payment and, where relevant, is also subject to the termination arrangements described in "Termination arrangements". Unlike for other employees, Mr Douglass has agreed not to receive any of his variable incentive upfront which is consistent with the medium term focus of Mr Douglass' variable remuneration arrangements.

The Board believes that this arrangement is appropriate given Mr Douglass' role as co-founder, CEO and CIO of the Group, and Lead Portfolio Manager of the Group's Global Equity strategy. When viewed in aggregate, the Board believes that Mr Douglass' remuneration structure focuses Mr Douglass on delivering superior outcomes for both clients and shareholders over the medium term.

The revised annual fixed remuneration arrangement was reached via a mutual agreement between the Board and Mr Douglass. Basing the fixed annual remuneration on the three year historical profitability of the funds management business incentivises Mr Douglass to make business decisions that are in the medium to long term interest of the Group and not on actions to simply maximise short term profitability. In addition, the arrangement meets an objective to remove the need to re-negotiate remuneration arrangements regularly and the potential distraction that this may entail. Whilst the Board appreciates that Mr Douglass' fixed annual remuneration could rise materially in absolute terms over the longer term, if the profitability of the Group grows materially, it believes the arrangement is properly aligned and proportionate with the interests of shareholders.

The variable incentive remains driven directly by the medium term performance of the Group's Global Equity strategy. This is an important mechanism to ensure that Mr Douglass is focused on delivering outstanding investment returns for clients over a medium to long term period. Achieving superior investment returns for clients over the medium to long term will ultimately be in shareholders' interests.

In addition to Mr Douglass' remuneration structure which focuses him on delivering positive medium to long term outcomes for both clients and shareholders, Mr Douglass' substantial shareholding in the Group and personal investments in the Group's investment strategies also create strong alignment with clients and shareholders.

For the 2017 financial year, Mr Douglass' fixed remuneration is calculated as \$2,748,023 (inclusive of superannuation), compared with fixed remuneration for the 2016 financial year of \$1,250,000 (inclusive of superannuation).

Termination arrangements

Termination arrangements within Mr Douglass' employment contract are as follows:

Termination with cause: The Board may immediately terminate Mr Douglass' employment agreement with cause. Under these circumstances, Mr Douglass will be paid the statutory requirements of any accrued fixed remuneration (eg accrued base salary and superannuation) and accrued leave entitlements (eg annual and long service leave) at the termination date, after set-off of any loss suffered by the Group from the acts of Mr Douglass which led to his termination.

Termination without cause: Either the Board or Mr Douglass can terminate Mr Douglass' employment contract at any time by providing not less than 12 months written notice. Under these circumstances, Mr Douglass will be paid the statutory requirements of any accrued fixed remuneration (eg accrued base salary and superannuation), accrued leave entitlements (eg annual and long service leave) at the termination date and any other amounts approved by the Board in its absolute discretion subject to all applicable laws and regulations.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Termination arrangements (continued)

Termination due to death or incapacity: In addition to the statutory requirements of any accrued fixed remuneration (eg accrued base salary and superannuation) and accrued leave entitlements (eg annual and long service leave) at the termination date, Mr Douglass will be paid:

- any outstanding variable remuneration attributable to any previous financial year;
- a pro-rata variable remuneration component for the period from 1 July of that year to the termination date; and
- an amount equal to 200% of Mr Douglass' fixed remuneration, subject to Mr Douglass (and his associates) maintaining a minimum shareholding in the Group (inclusive of Class B shares) of 20 million shares throughout the period from execution of the revised employment contract in November 2015 to termination, and subject to a maximum amount of \$10 million.

If the event of termination due to death or incapacity were to occur in financial year 2017, the amount equal to 200% of Mr Douglass' fixed remuneration would be \$5,496,046. This payment would be additional to the other payments referenced above.

As required under the Corporations Act 2001, the Group will be seeking shareholder approval at its 2016 annual general meeting for the payment, in the event of a termination of Mr Douglass' employment due to the death or incapacity of Mr Douglass, of an amount in excess of 100% of the average of Mr Douglass' fixed remuneration for the three financial years preceding termination.

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 variable 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 Cairns' 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 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 2016, Dr Cairns received remuneration of \$1,250,000.

Group Executives (Other KMP)

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 (for Ms Morton, this is not less than one month) 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 (for Ms Morton, this is not less than one month). On termination, the Other KMP are required to repay any loan amounts outstanding in respect of shares acquired under the Group'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 from 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 2016

3. 2016 Remuneration Report (Audited) (continued)

3.6 Shareholdings

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

	Opening balance 1 July 2014	Net Additions/ (disposals)	Opening balance 1 July 2015	Net Additions/ (disposals)	Closing balance 30 June 2016
Non-Executive Directors					
Robert Fraser					
- Ordinary shares	501,358	97,751	599,109	-	599,109
Paul Lewis					
- Ordinary shares	1,946,399	(96,399)	1,850,000	(50,000)	1,800,000
Hamish McLennan					
- Ordinary shares ^(A)	-	-	36,300	-	36,300
Karen Phin					
- Ordinary shares	16,192	73,120	89,312	-	89,312
Executive Directors					
Hamish Douglass					
- Ordinary shares	10,817,709	269,291	11,087,000	-	11,087,000
- Class B shares ^(B)	10,200,000	-	10,200,000	-	10,200,000
Brett Cairns					
- Ordinary shares	1,006,948	-	1,006,948	17,575	1,024,523
Group Executives (Other KMP)					
Nerida Campbell					
- Ordinary shares	699,619	(251,019)	448,600	-	448,600
Frank Casarotti					
- Ordinary shares	656,927	-	656,927	(156,927)	500,000
Gerald Stack					
- Ordinary shares	410,963	20,156	431,119	26,483	457,602
Kirsten Morton^(C)					
- Ordinary shares	-	-	18,896	-	18,896

^(A) Mr McLennan was appointed as a Director on 1 March 2016 and the opening balance as at 1 July 2015 represents the number of ordinary shares held by him and his associates as at the date of his appointment.

^(B) There were no additions or disposals of Class B shares during the year (June 2015: nil). Refer to note 14(d)(iii) for the key terms and conditions of the MFG Class B Shares.

^(C) The opening balance at 1 July 2015 represents the shareholding from the date Ms Morton was a KMP.

The Board does not grant options to Non-Executive Directors, KMP or employees of the Group under its remuneration policy.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.7 Unitholdings in Magellan Funds

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

	Opening balance 1 July 2014	Additions/ (disposals) (A)	Opening balance 1 July 2015	Additions/ (disposals) (A)	Closing balance 30 June 2016
Magellan Global Fund					
Directors					
Paul Lewis	351,437	12,856	364,293	105,203	469,496
Hamish Douglass ^(B)	1,206,312	44,128	1,250,440	162,261	1,412,701
Group Executives (Other KMP)					
Nerida Campbell	53,782	1,967	55,749	7,234	62,983
Gerald Stack	55,022	2,012	57,034	7,399	64,433
Frank Casarotti ^(B)	-	-	-	-	-
Magellan Infrastructure Fund					
Directors					
Paul Lewis	39,624	1,088	40,712	1,134	41,846
Group Executives (Other KMP)					
Gerald Stack	72,071	1,979	74,050	2,062	76,112
Magellan High Conviction Fund					
Directors					
Hamish Douglass	1,482,751	36,971	1,519,722	72,354	1,592,076
Magellan Global Equities Fund					
Directors					
Brett Cairns	-	40,000	40,000	111	40,111
Hamish Douglass	-	75,000	75,000	500,418	575,418
Magellan Global Equities Fund (Currency Hedged)					
Directors					
Brett Cairns	-	-	-	10,000	10,000
Hamish Douglass	-	-	-	500,000	500,000

^(A) Includes the reinvestment of 30 June 2014 and 30 June 2015 distributions in the years ended 30 June 2015 and 30 June 2016 respectively.

^(B) In addition to the above holdings, Mr Douglass and Mr Casarotti selected a Magellan Global Fund product via their superannuation funds and currently have holdings of 428,891 units in the Magellan Global Select fund and 242,961 units in the Magellan Wholesale Global Share fund at a value of \$596,116 and \$526,885 respectively as at 30 June 2016 (June 2015: 417,532 and 236,792 units at a value of \$580,745 and \$513,270 respectively).

Unless specified above, no other Non-Executive Directors or KMP held units in Magellan Funds.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.8 Loans to KMP

The Group has made full recourse interest-free loans to Non-Executive Directors and Other KMP in connection with shares acquired under the Group's SPP. As at 30 June 2016, four KMP held a loan (June 2015: four). The terms and conditions of the loans, including repayment terms, are disclosed in section 3.2 of the Remuneration Report. There are no other related party transactions with the KMPs other than those disclosed.

		SPP Shares acquired during year	Opening Loan Balance	Loans made	Loans (repaid)	Closing Loan Balance	
		Number	\$	\$	\$	Face value	Carrying value
			\$	\$	\$	\$	\$
Directors							
Brett Cairns ^(A)	2016	-	-	-	-	-	-
	2015	-	724,500	-	(724,500)	-	-
Robert Fraser	2016	-	963,727	-	(87,096)	876,631	807,018
	2015	97,751	-	999,993	(36,266)	963,727	868,325
Paul Lewis ^(A)	2016	-	-	-	-	-	-
	2015	-	764,750	-	(764,750)	-	-
Karen Phin	2016	-	795,078	-	(71,885)	723,193	665,792
	2015	80,645	-	824,997	(29,919)	795,078	716,371
Group Executives (Other KMP)							
N Campbell ^(B)	2016	-	11,156	-	(11,156)	-	-
	2015	-	80,831	-	(69,675)	11,156	11,007
G Stack	2016	26,483	338,669	374,999	(170,373)	543,295	525,809
	2015	20,156	286,140	199,998	(147,469)	338,669	327,830
K Morton ^(C)	2016	-	242,984	-	(39,149)	203,835	188,929

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

^(B) The loan of Ms Campbell was repaid in full during the year ended 30 June 2016.

^(C) The opening balance at 1 July 2015 represents the loan balance from the date Ms Morton was a KMP.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2016

3. 2016 Remuneration Report (Audited) (continued)

3.9 Link Between Performance and Remuneration Paid by the Group

	2016	2015	2014	2013	2012
Total revenue (\$'000)	333,805	284,912	148,109	120,906	35,846
Total expenses (\$'000)	74,104	54,603	37,630	25,904	16,693
Net operating profit (\$'000)	198,357	174,295	82,939	66,600	13,660
Basic earnings per share (cents per share)	123.5	109.2	53.3	43.6	9.0
Diluted earnings per share (cents per share)	115.5	101.8	48.9	40.0	8.5
Dividends paid (cents per share) ^(C)	89.3	74.9	33.0	8.0	3.0
Closing share price (ASX code: MFG)	\$ 22.25	\$ 17.40	\$ 10.93	\$ 9.64	\$ 2.15
Total KMP remuneration:					
- fixed compensation (\$) ^(A)	4,520,621	3,525,342	3,370,513	2,295,866	818,750
- variable compensation (\$) ^(B)	4,147,820	3,706,172	3,156,699	2,348,390	590,197
	8,668,441	7,231,514	6,527,212	4,644,256	1,408,947
% growth in net operating profit	14%	110%	25%	388%	136%
% growth in diluted earnings per share	13%	108%	22%	371%	130%
% growth in total KMP remuneration	20%	11%	41%	230%	30%
Total KMP remuneration as % of net operating profit	4%	4%	8%	7%	10%

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

^(B) Variable compensation comprises cash bonuses and share based payments outlined in Table 3.3(a) and a discretionary payment to the former Chairman 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 2016

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 and 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 and 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 36.

4.5 Rounding of Amounts

The Company is of a kind referred to in the *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, 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 2016

MAGELLAN FINANCIAL GROUP LIMITED

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young
200 George Street
Sydney NSW 2000 Australia
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Auditor's independence declaration to the Directors of Magellan Financial Group Limited

As lead auditor for the audit of Magellan Financial Group Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Magellan Financial Group and the entities it controlled during the financial year.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva'.

Rita Da Silva
Partner
11 August 2016

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the year ended 30 June 2016

	Note	Consolidated Entity	
		30 June 2016 \$'000	30 June 2015 \$'000
Revenue			
Management fees	6(a)	258,392	203,014
Performance fees	6(b)	48,014	43,413
Services fees	6(c)	8,237	7,854
Interest income		2,089	2,548
Dividend and distribution income		11,881	13,788
Net gain on sale of available-for-sale financial assets	6(f)	1,055	11,578
Net gain on deemed disposal of available-for-sale financial assets attributable to MGE	12(a)	-	1,484
Net foreign exchange gain		165	1,232
Group's share of profit for the period MGE was an associate	13(a)	3,961	-
Other		11	1
Total revenue		333,805	284,912
Expenses			
Employee expenses		42,065	31,311
Non-Executive Director fees		284	338
US marketing/consulting fee expense		7,168	5,490
Fund administration and operational costs		7,151	5,974
Information technology expense		3,606	2,299
Marketing expense		2,811	2,402
Legal and professional fees		1,734	1,330
Occupancy expense		1,278	852
Travel and entertainment expense		1,120	1,474
Auditor's remuneration	21	769	639
Depreciation and amortisation expense	8(a)	280	317
Foreign and withholding taxes		2,055	13
Loss on disposal of property, plant and equipment		14	21
External unitholders' share of MGE's net profit while MGE was a controlled fund	12(a)	-	506
Group's share of net loss for the period MGE was an associate	13(a)	-	104
Net loss on deemed disposal of interest in associate - MGE, transferred from the Consolidated Statement of Other Comprehensive Income	13(a)	1,296	-
Other		2,473	1,533
Total expenses		74,104	54,603
Operating profit before income tax expense		259,701	230,309
Income tax expense	5(a)	(61,344)	(56,014)
Net operating profit for the year		198,357	174,295
Basic earnings per share (cents per share)	3	123.5 cents	109.2 cents
Diluted earnings per share (cents per share)	3	115.5 cents	101.8 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 2016

	Note	Consolidated Entity	
		30 June 2016 \$'000	30 June 2015 \$'000
Net operating profit for the year		198,357	174,295
Other comprehensive income			
<i>Items that may or have been reclassified to profit or loss in future years, net of tax</i>			
Net changes in the fair value of available-for-sale financial assets		(14,725)	24,165
Net (gain)/loss on sale of available-for-sale financial assets	6(f)	(1,055)	(11,578)
Net changes in the fair value of available-for-sale financial assets attributable to MGE while MGE was a controlled fund	12 (a)	-	5,476
External unitholders' share of movement in available-for-sale reserve while MGE was a controlled fund	12 (a)	-	(3,992)
Net (gain)/loss on deemed disposal of controlling interest in MGE	12 (a)	-	(1,484)
Net loss on deemed disposal of interest in associate - MGE	13(a)	1,296	-
Share of revaluation of available-for-sale financial asset of associate	13(a)	-	(1,296)
Income tax benefit/(expense) on the above items	5(a)	3,511	(4,475)
Exchange differences on translation of foreign operation		(52)	-
Other comprehensive income for the year, net of tax		(11,025)	6,816
Total comprehensive income for the year		187,332	181,111

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 2016

		Consolidated Entity	
		30 June	30 June
		2016	2015
		\$'000	\$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents	18(c)	120,362	93,934
Financial assets	11	1,719	349
Receivables	7	53,747	54,850
Loans - share purchase plan	15	1,531	1,396
Prepayments		403	354
Total current assets		177,762	150,883
Non-current assets			
Financial assets	11	206,221	139,498
Investment in associate	13	-	49,845
Loans - share purchase plan	15	7,482	5,849
Property, plant and equipment	8	914	603
Total non-current assets		214,617	195,795
Total assets		392,379	346,678
Liabilities			
Current liabilities			
Payables	9	21,161	14,332
Provisions	10	218	-
Income tax payable		7,032	16,471
Total current liabilities		28,411	30,803
Non-current liabilities			
Deferred tax liabilities	5(c)	7,257	11,347
Provisions	10	1,342	1,085
Total non-current liabilities		8,599	12,432
Total liabilities		37,010	43,235
Net assets		355,369	303,443
Equity			
Contributed equity	14	111,073	103,477
Available for sale reserve		21,359	32,332
Foreign currency translation reserve		(52)	-
Retained profits		222,989	167,634
Total attributable to members of the Group		355,369	303,443
Total equity		355,369	303,443

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 2016

		Attributable to Equity Holders of the Consolidated Entity				
		Contributed Equity	Foreign currency translation reserve	Retained Profits	Available for Sale Reserve	Total
2016	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2015		103,477	-	167,634	32,332	303,443
Net profit for the year		-	-	198,357	-	198,357
Other comprehensive income		-	(52)	-	(10,973)	(11,025)
Total comprehensive income for the year		-	(52)	198,357	(10,973)	187,332
Transactions with owners in their capacity as owners:						
Issue of securities:						
- under share purchase plan (SPP)	14(a)	4,631	-	-	-	4,631
- on exercise of MFG 2016 Options	14(a)	2,745	-	-	-	2,745
- transaction costs arising on share issue	14(a)	(10)	-	-	-	(10)
Dividends paid	4	-	-	(143,002)	-	(143,002)
SPP expense for the year	14(a)	230	-	-	-	230
Total transactions with equity holders in their capacity as equity owners		7,596	-	(143,002)	-	(135,406)
Equity - 30 June 2016		111,073	(52)	222,989	21,359	355,369
2015						
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

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 2016

		Consolidated Entity	
		30 June	30 June
		2016	2015
		\$'000	\$'000
	Note		
Cash flows from operating activities			
Management, services and consulting fees received		260,342	198,142
Performance fees received		56,121	33,349
Interest received		1,674	2,123
Dividends and distributions received		366	4,069
Tax paid		(71,198)	(50,440)
Payments to suppliers and employees (inclusive of GST)		(65,770)	(49,955)
Other revenue received		10	11
Net cash inflows/(outflows) from operating activities	18(a)	181,545	137,299
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		3,516	23,235
Purchase of available-for-sale financial assets		(18,607)	(62,360)
Net matured term deposits classified as loans and receivables		(1,370)	(49)
Net cash outflow on deconsolidation of controlled fund		-	(27)
Net cash flows from foreign exchange transactions		70	241
Payments for property, plant and equipment	8(a)	(694)	(557)
Net cash inflows/(outflows) from investing activities		(17,085)	(39,517)
Cash flows from financing activities			
Proceeds from issue of securities		2,685	3,631
Proceeds from repayment of SPP loans		1,264	861
Dividends paid	4	(142,028)	(91,875)
Net cash inflows/(outflows) from financing activities		(138,079)	(87,383)
Net increase / (decrease) in cash and cash equivalents			
Effects of exchange rate movements on cash and cash equivalents		47	667
Cash and cash equivalents at the beginning of the year		93,934	82,868
Cash and cash equivalents at the end of the year	18(c)	120,362	93,934

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 2016

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 2016. The report was authorised for issue in accordance with a resolution of the Directors on 11 August 2016.

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 2015. 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 2016 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 is 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 2016, 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 2016

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 2016, 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.

• **AASB 16: Leases (effective 1 July 2019) (AASB 16)**

AASB 16 supercedes the lease accounting guidance in AASB 117 *Leases* and related interpretations. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.

AASB 16 will provide a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

At 30 June 2016, the Group continues to evaluate the recognition and disclosure requirements of this standard, the financial and disclosure impacts of which are yet to be determined with the choice of transition yet to be decided. Further information will be provided in coming financial periods as these requirements are clarified.

(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2016 (collectively referred to in this financial report as the "Group"). 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation (continued)

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.

Controlled entities are fully consolidated from the date control commenced and deconsolidated from the date that control ceased. Refer to note 12 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation (continued)

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.

(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 and Chief Investment Officer, Mr Hamish Douglass.

(e) Foreign Currency Translation

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency.

i) Transaction and balances

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.

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in Other Comprehensive Income and accumulated in a separate reserve within equity. On disposal of a foreign operation, the component of Other Comprehensive Income relating to that particular foreign operation is recognised in profit or loss.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(f) Revenue Recognition (continued)

Services Fees

Services fee revenue is recognised in the Consolidated 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, services 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 of Available for Sale Assets

The gain or loss on disposal of AFS 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.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(h) Income Tax (continued)

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

MFG and its wholly owned Australian controlled entities formed a tax consolidated group for the purpose of 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.

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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(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).

(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 and quoted funds	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)

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(n) Financial Assets (continued)

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 the 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.

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. 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.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(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.

(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 and an expense are 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 12-36 equal instalments (depending on the employee) 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(r) Employee Expenses and Entitlements (continued)

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)).

(u) Contributed Equity

The Group's ordinary shares, MFG 2016 Options and MFG 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(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 Consolidated 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 involve 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 2016

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 entities Magellan Asset Management Limited (MAM) and MFG Services LLC (MFGS). For further details on these entities refer to note 13.

The funds management activities undertaken by MAM, comprises 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 Magellan Funds);
- Responsible Entity and Investment Manager for Magellan Global Equities Fund (MGE) and Magellan Global Equities Fund (Currency Hedged) (MHG) which are registered managed investment schemes quoted on the Australian Securities Exchange (ASX) under the AQUA rules, and offered primarily to Australian investors (collectively, the ASX Quoted Funds);
- 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 Magellan Flagship Fund Limited (MFF), and investment research provider to a mandate; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

MFGS acts as a service company providing MAM with services of investment analysts and distribution personnel based in the United States of America. MFGS employs US based personnel and is the lessee of US premises.

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 and included within the Corporate segment. Non-Executive Director fees relating to the MAM Board are included in the Funds Management segment.

Principal Investments

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

Corporate

The corporate segment 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.

No operating segments have been aggregated to form the above reportable operating segments and inter-segment revenues and expenses (where applicable) have been eliminated on consolidation.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

2. Segment Information (continued)

(a) Segment financial results

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

	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
30 June 2016	\$'000	\$'000	\$'000	\$'000
Revenue				
Management fees	258,392	-	-	258,392
Performance fees	48,014	-	-	48,014
Services fees	8,237	-	-	8,237
Interest income	516	43	1,530	2,089
Dividend and distribution income	-	11,881	-	11,881
Net gain/(loss) on sale of available-for-sale financial assets	-	1,055	-	1,055
Net foreign exchange gain/(loss)	109	56	-	165
Group's share of MGE's net profit while MGE was an associate	-	3,961	-	3,961
Other	-	-	11	11
Total revenue	315,268	16,996	1,541	333,805
Expenses				
Employee expense	41,822	-	13	41,835
Employee expense - SPP	192	-	38	230
Non-Executive Director fees	167	-	117	284
Other expenses	29,302	83	1,074	30,459
Net loss on deemed disposal of interest in associate - MGE, transferred from the Consolidated Statement of Other Comprehensive Income	-	1,296	-	1,296
Total expenses	71,483	1,379	1,242	74,104
Operating profit before income tax expense	243,785	15,617	299	259,701
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	(14,725)	-	(14,725)
Net (gain)/loss on sale of available-for-sale financial assets	-	(1,055)	-	(1,055)
Net loss on deemed disposal on interest in associate - MGE	-	1,296	-	1,296
Exchange differences on translation of foreign operations	(52)	-	-	(52)
Other comprehensive income for the year, before tax	(52)	(14,484)	-	(14,536)
Total comprehensive income for the year, before tax	243,733	1,133	299	245,165

(A) Includes adjustments for intra-segment transactions, elimination of \$5,316,000 income and \$5,316,000 expense under the transfer pricing agreement within the Funds Management segment. Refer to note 12 for further details.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

2. Segment Information (continued)

(a) Segment financial results (continued)

30 June 2015	Funds Management	Principal Investments	Corporate	Eliminations (B)	Consolidated Entity
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Management fees	203,478	-	-	(464)	203,014
Performance fees	43,413	-	-	-	43,413
Services 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 expense	30,918	-	15	-	30,933
Employee 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
Total expenses	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

(B) Includes adjustments for inter-segment transactions, removal of the effects of the loss of control of Magellan Global Equities Fund (refer to note 12) 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 2016

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	Consolidated Entity
	\$'000	\$'000	\$'000	\$'000
30 June 2016				
Cash and cash equivalents	33,224	2,265	84,873	120,362
Financial assets	1,719	206,221	-	207,940
Receivables and other assets	42,984	10,957	1,123	55,064
Loans - SPP	-	-	9,013	9,013
Total assets	77,927	219,443	95,009	392,379
Payables and provisions	22,607	7	107	22,721
Tax liabilities	-	11,268	3,021	14,289
Total liabilities	22,607	11,275	3,128	37,010
Net assets	55,320	208,168	91,881	355,369
30 June 2015				
Cash and cash equivalents	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 and 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

(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 2015: \$20,000,000).

The Group's net investment in the funds management business activities was \$13,204,000 (June 2015: \$12,500,000), with \$12,500,000 capital invested in Magellan Asset Management Limited and \$704,000 capital invested in MFG Services LLC. Both entities are controlled by MFG. Refer to note 12 for further details).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

3. Earnings Per Share (EPS)

	Consolidated Entity	
	30 June 2016	30 June 2015
Basic earnings per share		
Net profit attributable to shareholders (\$'000)	198,357	174,295
Weighted average number of shares for basic EPS ('000)	160,635	159,639
Basic EPS (cents)	123.5	109.2
Diluted earnings per share		
Net profit attributable to shareholders (\$'000)	198,357	174,295
Weighted average number of shares for diluted EPS ('000)	171,716	171,175
Diluted EPS (cents)	115.5	101.8
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)	198,357	174,295

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 securities		
Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	160,635	159,639
Add adjustments:		
- equivalent number of unexercised MFG 2016 Options ^(A)	791	1,270
- equivalent number of Class B Shares ^(B)	10,290	10,266
Weighted average number of shares used in calculating diluted EPS ('000)	171,716	171,175

(A) The MFG 2016 Options expired by 30 June 2016. In the current and prior year ended 30 June 2015, the MFG share price was above the MFG 2016 Options exercise price. During the current and prior year ended 30 June 2015, 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

4. Dividends

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
30 June 2016		
Fully franked interim dividend for the year ended 30 June 2016: - 51.3 cents per ordinary share: paid 4 March 2016	82,418	-
Fully franked final dividend for the year ended 30 June 2015: - 37.8 cents per ordinary share: paid 26 August 2015	60,584	-
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
Total dividends declared and paid during the year	143,002	93,920

(i) Dividend declared

On 11 August 2016, the Directors declared a fully franked final dividend of 38.0 cents per share in respect of the year ended 30 June 2016 (June 2015: 37.8 cents per share). The amount of the declared dividend expected to be paid on 26 August 2016, but not recognised as a liability, is approximately \$61,401,000.

(ii) Imputation credits

The imputation credit account at 30 June is as follows:

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
Imputation credits		
Imputation credits at reporting date	35,099	24,869
Imputation credits that will arise from payment of income tax payable	4,925	5,424
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2015: 30%)	40,024	30,293

The payment of the final dividend declared by the directors on 11 August 2016 will reduce the franking account balance shown above by approximately \$26,316,000.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

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 2016 \$'000	30 June 2015 \$'000
Operating profit before income tax expense		259,701	230,309
Prima facie income tax expense at 30%		(77,910)	(69,093)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
- effect of concessional tax rate on offshore banking unit (OBU)	5(d)	15,467	11,815
- over/(under) provision of prior year tax		136	93
- imputed interest and expense relating to share purchase plan		36	14
- tax effect of franked dividends/distributions received		(44)	(14)
- differences in overseas tax rates		(33)	-
- non-assessable income and non-deductible expenses		1,004	1,171
Income tax expense reported in the Consolidated Statement of Profit or Loss		(61,344)	(56,014)
- changes in fair value of available-for-sale financial assets		3,194	(7,948)
- sale of available-for-sale financial assets recycled through profit or loss		317	3,473
Income tax expense/(benefit) reported in the Consolidated Statement of Other Comprehensive Income		3,511	(4,475)

(b) Components of income tax expense

Income tax attributable to net profit from ordinary activities comprises:

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
The major components of income tax expense are:		
Current income tax benefit/(expense)	(61,447)	(56,107)
Differences in overseas tax rates	(33)	-
Over/(under) provision of prior year income tax	136	93
Income tax expense reported in the Consolidated Statement of Profit or Loss	(61,344)	(56,014)

(c) Net deferred tax asset/(liability)

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

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
Amounts recognised in Consolidated Statement of Profit or Loss:		
- changes in the fair value of financial assets	(11,268)	(14,543)
- accruals	4,011	3,196
Total net deferred tax liabilities	(7,257)	(11,347)

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

5. Income Tax (continued)

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

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

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
Opening balance	(11,347)	(7,460)
Movement in temporary differences during the year:		
- changes in the fair value of financial assets	4,090	(3,887)
Closing balance - net deferred tax liabilities	(7,257)	(11,347)

(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 2016, the Company's effective tax rate was 23.6% (June 2015: 24.3%), 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 2016 \$'000	30 June 2015 \$'000
Operating profit before income tax expense	259,701	230,309
Prima facie income tax expense at 30%	(77,910)	(69,093)
less: effect of concessional tax rate of:		
- 10% on OBU net profit	15,467	11,815
less: over/(under) provision of prior year tax	136	93
less: imputed interest and expense relating to share purchase plan	36	14
less: tax effect of franked dividends/distributions received	(44)	(14)
less: differences in overseas tax rates	(33)	-
less: non-assessable income and non-deductible expenses	1,004	1,171
Income tax expense recognised in Consolidated Statement of Profit or Loss	(61,344)	(56,014)
Group's effective tax rate	23.6%	24.3%

(e) Tax consolidation

During the year, income tax liabilities of \$57,679,000 (June 2015: \$49,488,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$61,116,000 (June 2015: \$44,292,000) were made to MFG from the other entities in the tax consolidated group under the tax funding agreement during the year. At 30 June 2016, \$3,945,000 (June 2015: \$6,577,000) 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 2016

6. Revenue

(a) Management fees

The management fees received/receivable during the year were:

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
Magellan Global Fund	103,957	88,986
Magellan Global Fund (Hedged)	3,226	883
Magellan Infrastructure Fund	8,219	6,433
Magellan Infrastructure Fund (Unhedged)	3,135	1,497
Magellan High Conviction Fund	4,104	3,017
Magellan Global Equities Fund	5,470	223
Magellan Global Equities Fund (Hedged)	262	-
Magellan Core Infrastructure Fund	921	1,144
MFG Global Fund	13,326	10,045
Frontier MFG Funds	9,663	7,176
Other mandates	106,109	83,610
Total management fees during the year	258,392	203,014

(b) Performance fees

During the year ended 30 June 2016, performance fees were earned on the following funds and mandates as the total shareholder return, market index and/or relative hurdles were met:

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
Magellan Global Fund	23,397	27,554
Magellan Global Fund (Hedged)	8	54
Magellan Infrastructure Fund	3,587	2,276
Magellan Infrastructure Fund (Unhedged)	1,695	294
Magellan High Conviction Fund	16	3,702
Magellan Global Equities Fund	794	-
Magellan Flagship Fund	2,000	2,000
Other funds and mandates	16,517	7,533
Total performance fees during the year	48,014	43,413

(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 MFF. Services fees earned from MFF for the year ended 30 June 2016 were \$7,525,000 (30 June 2015: \$7,354,000).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

6. Revenue (continued)

(c) Services fees (continued)

Additionally, in the year ended 30 June 2016, MAM provided research services to an institutional mandate and earned service fees of \$712,000 (30 June 2015: \$500,000) under a fixed fee arrangement. In the prior year, 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 (2016: nil).

(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	30 June
	2016	2015
	\$'000	\$'000
Australia	207,675	173,193
United States	55,367	29,794
United Kingdom & Ireland	39,773	44,784
Canada	5,695	4,693
Asia	6,133	1,817
Total management, services and performance fees	314,643	254,281

(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	30 June
	2016	2015
	\$'000	\$'000
Management and services fees		
- Retail	151,898	120,970
- Institutional	114,731	89,898
Performance fees		
- Retail	36,483	36,535
- Institutional	11,531	6,878
Total management, services and performance fees	314,643	254,281
Total Retail	188,381	157,505
Total Institutional	126,262	96,776
Total management, services and performance fees	314,643	254,281

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

	Consolidated Entity	
	30 June	30 June
	2016	2015
	\$'000	\$'000
Net gain/(loss) from:		
- disposal of units in unlisted investments	(84)	10,420
- disposal of listed investments	1,139	1,158
Total net gain on sale of available-for-sale financial assets	1,055	11,578

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

7. Receivables

	Consolidated Entity	
	30 June	30 June
	2016	2015
	\$'000	\$'000
Fees receivable	40,752	42,571
Distributions receivable from Funds	10,957	12,150
Other	2,038	129
Total receivables	53,747	54,850

8. Property, Plant and Equipment

	Consolidated Entity					
	30 June 2016			30 June 2015		
	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost	236	1,361	1,597	469	867	1,336
less: accumulated depreciation and impairment losses	145	538	683	284	449	733
Total property, plant & equipment	91	823	914	185	418	603

(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 2016			30 June 2015		
	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	185	418	603	100	286	386
Additions	55	639	694	254	303	557
Disposals	(90)	(13)	(103)	-	(23)	(23)
Depreciation expense	(59)	(221)	(280)	(169)	(148)	(317)
Carrying amount at end of year	91	823	914	185	418	603

Property, plant and equipment is held by Magellan Asset Management Limited and MFG Services LLC.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

9. Payables

	Consolidated Entity	
	30 June	30 June
	2016	2015
	\$'000	\$'000
Trade payables and accruals	5,146	2,413
Accrued employee entitlements	12,873	9,294
US marketing/consulting costs payable	1,703	1,630
GST payable	1,426	934
Fringe benefits tax payable	13	61
Total payables	21,161	14,332

10. Provisions

	Note	Consolidated Entity	
		30 June	30 June
		2016	2015
		\$'000	\$'000
Current			
Surplus lease provision		218	-
Total current provisions		218	-
Non-Current			
Employee entitlements - long service leave		942	696
Provision for investment restriction contract	20(b)	400	300
Provision for make-good		-	89
Total non-current provisions		1,342	1,085

(a) Reconciliation

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

	Note	Consolidated Entity	
		30 June	30 June
		2016	2015
		\$'000	\$'000
Current			
Carrying amount at beginning of year		-	-
Additional provision charged to the Consolidated Statement of Profit or Loss		218	-
Carrying amount at end of year		218	-
Non-Current			
Carrying amount at beginning of year		89	-
Additional provision charged to leasehold improvements		27	89
Discharge of make good lease provision		(116)	-
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. The Group does not have an obligation to make good premises for the current year. In the prior year a provision was recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs were capitalised as part of the cost of the leasehold improvements and amortised over the term of the lease.

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for the year ended 30 June 2016

11. Financial Assets

	Consolidated Entity	
	30 June	30 June
	2016	2015
	\$'000	\$'000
Current		
(i) Financial assets classified as loans and receivables		
Term deposits ^(A)	1,719	349
Total current financial assets	1,719	349
Non-Current		
(ii) Available-for-sale financial assets		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	9,471	8,996
- United Kingdom	764	1,116
- Australia	300	387
- France	437	378
- Switzerland	634	323
- Netherlands	-	220
- Germany	-	164
Investments in ASX Quoted funds		
- Magellan Global Equities Fund ^(B)	49,273	-
- Magellan Global Equities Fund (Currency Hedged) ^(C)	13,800	-
Total listed/quoted investments	74,679	11,584
Investments in unlisted funds		
- Magellan Global Fund	84,210	81,208
- Magellan Global Fund (Hedged)	620	625
- Magellan Infrastructure Fund	2,932	2,605
- Magellan Infrastructure Fund (Unhedged)	2,472	2,124
- Magellan High Conviction Fund	23,440	24,478
- Magellan Wholesale Plus Global Fund	5,531	5,535
- Frontier MFG Core Infrastructure Fund	5,615	4,552
- Frontier MFG Global Plus Fund	6,466	6,447
- Other	81	165
Investments in unlisted shares		
- Other	175	175
Total unlisted investments	131,542	127,914
Total non-current financial assets	206,221	139,498

(A) Comprises term deposits of \$1,719,000 (June 2015: \$349,000) 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.

(B) The fund was registered on 24 December 2014 and commenced trading on the ASX on 5 March 2015. In the financial year ended 30 June 2015, MFG was assessed to have significant influence over the operations of the fund with a 24.3% ownership interest. As a result, MFG's investment in the fund was accounted for as an investment in associate at 30 June 2015. On 12 August 2015, the Group no longer had significant influence over MGE at which point the investment ceased being accounted for as an associate and was classified as an available-for-sale financial asset. Refer to notes 12(a) and 13 for further details.

(C) MFG seeded the fund on 4 August 2015 with a \$15,000,000 investment. This fund commenced trading on the ASX on 10 August 2015. The investment is accounted for as an available-for-sale financial asset. Refer to notes 12(b) and 13 for further details.

(D) At 30 June 2016 the Group held the following investments: Magellan Global Fund 1.2% (2015: 1.2%), Magellan Global Fund (Hedged) 0.2% (2015: 0.5%), Magellan Infrastructure Fund 0.3% (2015: 0.3%), Magellan Infrastructure Fund (Unhedged) 0.6% (2015: 1.1%), Magellan High Conviction Fund 9.1% (2015: 10.3%), Magellan Wholesale Plus Global Fund 4.2% (2015: 23.2%), Frontier MFG Core Infrastructure Fund 2.0% (2015: 2.2%), Frontier MFG Global Plus Fund 14.9% (2015: 52.9%).

MAGELLAN FINANCIAL GROUP LIMITED

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for the year ended 30 June 2016

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 2016 \$'000	30 June 2015 \$'000
Current		
Opening balance at 1 July	349	302
Cash placed on term deposit	1,584	47
Matured term deposits	(214)	-
Closing balance	1,719	349
Non-current		
Opening balance at 1 July	139,498	125,558
Acquisitions ^(A)	84,885	19,389
Disposals	(2,382)	(29,564)
Net changes in fair values of investments	(15,780)	24,115
Closing balance	206,221	139,498

(A) The 30 June 2016 balance includes a reclassification to financial assets of the holding in MGE at Fair Value (\$54,106,000) from an investment in associate upon loss of significant influence on 12 August 2015. Refer to note 13(a) for further details.

12. Interests in Controlled Entities

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

Name of entity	Country of incorporation	Ownership	
		30 June 2016	30 June 2015
Magellan Asset Management Limited	Australia	100%	100%
Magellan Capital Partners Pty Limited	Australia	100%	100%
MFG Services LLC	United States of America	100%	-
Magellan Global Equities Fund ^(A)		-	-

(A) MGE was controlled up to 31 May 2015.

Magellan Asset Management Limited ("MAM") and Magellan Capital Partners Pty Limited have share capital consisting solely of ordinary shares that are held directly by Magellan Financial Group Limited ("MFG"), and the proportion of ownership interests held equals the voting right held by MFG. The country of incorporation is also the principal place of business.

MFG Services LLC ("MFGS"), a Delaware limited liability company, was formed on 3 August 2015. MFGS is a service company operating in the United States of America and provides MAM with investment research and distribution services. MFGS has share capital consisting solely of one common interest that is held directly by MFG, and its proportion of ownership of MFGS equals the voting right held by MFG.

Transactions between MFGS and MAM are subject to transfer pricing arrangements. Transfer pricing is determined on a cost plus basis.

The Group incorporates the assets, liabilities and results of all controlled entities in accordance with the accounting policy described in note 1(b) i).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

12. Interests in Controlled Entities (continued)

(a) Loss of control of Magellan Global Equities Fund

Magellan Global Equities Fund (MGE) ceased to be a controlled entity of the Group in the financial year ended 30 June 2015.

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, being the date that MFG ceased to control MGE. 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 had 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 2016

12. Interests in Controlled Entities (continued)

During consolidation

During the year ended 30 June 2015, for the period 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 was accounted for in accordance with note 1(b) iv) and 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 as at 31 May 2015, the investment in MGE was accounted for as an associate. Refer to note 12 for further details.

(b) Interests in other entities

The Group's investments in other entities are set out in note 11.

During the half year ended 31 December 2015, Magellan Global Equities Fund (Currency Hedged) was seeded by the Group with \$15,000,000 on 4 August 2015. This fund commenced trading on the ASX on 10 August 2015. The Group has classified this investment as an available-for-sale financial asset. Refer to note 11 for details of this investment as at 30 June 2016.

MAGELLAN FINANCIAL GROUP LIMITED

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13. Investment in Associate

At 30 June 2016, the Group had no investments in associates. In the prior year, the Group had a 24.3% interest in Magellan Global Equities Fund ("MGE") at 30 June 2015 which was accounted for as an associate at that date in the consolidated financial statements as set out below:

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

(A) 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 (2016: not applicable). At 30 June 2015, the Group was 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. On 12 August 2015 the Group was assessed as no longer holding significant influence over MGE at which point the investment ceased being accounted for as an associate and was classified as an available-for-sale financial asset.

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

The Group's investment in MGE was classified as an associate until 12 August 2015. On 12 August 2015, the Group no longer had significant influence over MGE at which point the investment ceased being accounted for as an associate and was classified as an available-for-sale financial asset. At 30 June 2016, the Group had an 8.9% interest in MGE (refer to note 11 for further details).

During the period of 1 July 2015 to 12 August 2015, when MGE was classified as an associate, the Group recognised a gain of \$3,961,000 in the Consolidated Statement of Profit or Loss representing the Group's share of the associate's net profit for that period. Due to the deemed disposal of the interest in MGE as an associate on 12 August 2015, the Group transferred a loss of \$1,296,000 to the Consolidated Statement of Profit or Loss from the Consolidated Statement of Other Comprehensive Income relating to the prior financial year. This loss of significant influence has been accounted for in accordance with note 1 (b) iv).

(a) Reconciliation

The reconciliation of the movement in the carrying value of the Group's associate, MGE, is set out below:

	30 June 2016	30 June 2015
	\$'000	\$'000
Opening balance ^(A)	49,845	51,545
Add: share of profit/(loss) for the year	3,961	(104)
Add: share of unrealised gains/(losses) on available-for-sale financial assets of associate in the Consolidated Statement of Comprehensive Income	-	(1,296)
Add: dividend received	300	-
Less: dividend receivable	-	(300)
Less: classification as an Available-for-Sale Financial Asset on loss of significant influence ^(B)	(54,106)	-
Closing balance - 30 June	-	49,845

(A) In the current financial year the opening balance was as at 1 July 2015. In the financial year ended 30 June 2015 the opening balance was the cost of the Company's investment on the date control was lost on 1 June 2015.

(B) On 12 August 2015, the Group no longer had significant influence over MGE at which point the investment ceased being accounted for as an associate and was classified as an available-for-sale financial asset. Refer to note 11 for further details. The fair value of the investment as at 12 August 2015 was \$54,106,000.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

13. Investment in Associate (continued)

(b) Summarised financial information - Magellan Global Equities Fund

As the Group had no investments in associates as at 30 June 2016, the table below includes summarised financial information of MGE in relation to the year ended 30 June 2015:

	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) For the financial year ended 30 June 2015, MGE declared a distribution of 1.5 cents per unit on 26 June 2015. The 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 was 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 (2016: not applicable).

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

14. Contributed Equity

		Consolidated Entity	
		30 June	30 June
		2016	2015
		\$'000	\$'000
	Note		
Ordinary Shares	(a)	111,073	103,477
MFG 2016 Options	(b)	-	-
MFG Class B Shares	(c)	-	-
Total contributed equity		111,073	103,477

Consolidated Entity				
	30 June	30 June	30 June	30 June
	2016	2015	2016	2015
	Number of	Number of	\$'000	\$'000
	shares	shares		
	'000	'000		
(a) Ordinary Shares				
Opening balance	160,276	158,842	103,477	93,812
Shares issued on exercise of MFG 2016 Options ^(A)	648	848	2,745	2,241
Shares issued under SPP	265	586	4,631	7,063
SPP expense for year	-	-	230	378
less: transaction costs arising on share issue	-	-	(10)	(17)
Closing balance - Ordinary Shares	161,189	160,276	111,073	103,477
(b) MFG 2016 Options				
Opening balance	1,050	1,898	-	-
Shares issued on exercise of MFG 2016 Options ^(A)	(1,039)	(848)	-	-
Expiry of MFG 2016 Options - 30 June 2016	(11)	-	-	-
Closing balance - MFG 2016 Options	-	1,050	-	-
(c) MFG Class B Shares				
Opening balance	10,200	10,200	-	-
Closing balance - MFG Class B Shares	10,200	10,200	-	-

(A) 1,039,340 MFG 2016 Options were exercised during the year with 647,987 ordinary shares issued by 30 June 2016 and 391,353 shares relating to MFG 2016 Options exercised by 30 June 2016 and issued on 4 July 2016.

(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

The MFG 2016 Options ('Options') expired on 30 June 2016 and 10,683 Options expired unexercised. Prior to this date the Options were able to 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 commenced on the date that is two business days after the release of the results for the half year to 31 December 2015 and ended 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 Options by \$0.3589 per Option. The adjusted exercise price of each Option at 30 June 2016 is \$2.6411 (June 2015: \$2.6411).

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14. Contributed Equity (continued)

(d) Terms and Conditions (continued)

(ii) MFG 2016 Options (continued)

Options were not entitled to dividends or distributions. Ordinary shares issued on exercise of the Options ranked equally with all other ordinary shares from the date of issue. An ordinary share issued on exercise of an Option was only entitled to receive a dividend or distribution where the Option was exercised and the ordinary share was issued on or before the record date for that distribution. Ordinary shares issued pursuant to the exercise of an Option were not 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 could only participate in new issues of the Company if the holder exercised that option and became the holder of ordinary shares on or prior to the record date for the new issue of ordinary shares.

(iii) MFG Class B Shares

The MFG 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 MFG 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 MFG Class B Shares will occur on 21 November 2016. The maximum number of ordinary shares that will be issued on conversion of all MFG 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 MFG Class B Shares which at 30 June 2016 are entitled to convert into 10,290,344 ordinary shares of the Company on 21 November 2016.

Based on the Company's ordinary shares on issue (including shares issued from Options being exercised prior to 30 June 2016), the 10,200,000 MFG Class B Shares would be entitled to convert to 10,293,175 ordinary shares being equal to 0.0637028 times 161,581,205 securities at 30 June 2016 (comprising 161,189,852 ordinary shares on issue and 391,353 ordinary shares issued on 4 July 2016 relating to the final tranche of MFG 2016 Options exercised). The MFG Class B shares have no entitlement to receive dividends and until the MFG 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 MFG Class B Shares.

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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 align more closely the interests of Participants with the interests of the shareholders of the Group. At 30 June 2016, 978,251 ordinary shares were held by the Participants under the SPP (June 2015: 1,237,221).

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 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 is 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).

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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 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 2016 \$'000	30 June 2015 \$'000
Current		
SPP loans due within 1 year	1,531	1,396
Non-current		
SPP loans due later than 1 year and within 10 years	7,482	5,849
Total SPP loans	9,013	7,245

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 shares traded 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	Share Issue 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
14 September 2015	\$18.88

The value of shares securing the loans to Participants at reporting date applying the Company's 30 June 2016 closing market price of \$22.25 was \$21,766,000 (June 2015: \$21,528,000). 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

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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 2016	30 June 2015
September 2009 tranche		
Face value of loans (\$)	-	600
Estimated weighted average duration of loans	-	0.3 years
Imputed interest rate	-	5.3%
November 2010 tranche		
Face value of loans (\$)	-	35,000
Estimated weighted average duration of loans	-	0.3 years
Imputed interest rate	-	5.5%
September 2011 tranche		
Face value of loans (\$)	-	78,000
Estimated weighted average duration of loans	-	0.3 years
Imputed interest rate	-	4.0%
March 2013 tranche		
Face value of loans (\$)	90,000	402,000
Estimated weighted average duration of loans	0.1 years	0.8 years
Imputed interest rate	3.4%	3.4%
October 2013 tranche		
Face value of loans (\$)	638,000	1,086,000
Estimated weighted average duration of loans	0.9 years	2.1 years
Imputed interest rate	3.4%	3.4%
September 2014 tranche		
Face value of loans (\$)	2,526,000	3,332,000
Estimated weighted average duration of loans	2.2 years	3.6 years
Imputed interest rate	3.0%	3.0%
November 2014 tranche		
Face value of loans (\$)	2,123,000	2,311,000
Estimated weighted average duration of loans	3.0 years	4.1 years
Imputed interest rate	2.8%	2.8%
September 2015 tranche		
Face value of loans (\$)	3,636,000	-
Estimated weighted average duration of loans	4.0 years	-
Imputed interest rate	2.2%	-

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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 2016 \$'000	30 June 2015 \$'000
Interest income	350	424
Employee benefits expense	(230)	(378)
Net SPP income/(expense) in the Consolidated Statement of Profit or Loss	120	46

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 2016 \$'000	30 June 2015 \$'000
Statement of Financial Position		
Assets		
Current assets	94,651	75,046
Non-current assets	226,907	208,047
Total Assets	321,558	283,093
Liabilities		
Current liabilities	6,948	16,554
Non-current liabilities	11,235	14,514
Total Liabilities	18,183	31,068
Net Assets	303,375	252,025
Equity		
Contributed equity	111,448	103,852
Available for sale reserve	24,252	32,916
Retained profits	167,675	115,257
Total Equity	303,375	252,025
Statement of Profit or Loss and Other Comprehensive Income		
Net profit for the year after income tax expense	195,420	154,763
Other comprehensive income, net of income tax expense	(8,664)	8,312
Total comprehensive income for the year	186,756	163,075

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

16. Parent Entity Information (continued)

(b) Guarantees entered into by MFG

During the year a guarantee was provided by MFG to the landlord of MFGS' New York office premises guaranteeing the payment and performance of MFGS' obligations under the lease (\$1,873,000 of lease commitments as at 30 June 2016).

Other than noted above as at 30 June 2016, the Group has no other guarantees.

(c) Contingencies and Commitments of MFG

At 30 June 2016, 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 12.

(c) Key Management Personnel

(i) Directors

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

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	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
Hamish McLennan	Non-Executive Director	1 Mar 2016
Karen Phin	Non-Executive Director	23 Apr 2014

(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:

Nerida Campbell	Chief Operating Officer
Gerald Stack	Head of Investments
Frank Casarotti	Head of Distribution
Kirsten Morton	Chief Financial Officer

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

17. Related Party Disclosures (continued)

(c) Key Management Personnel (continued)

(iii) Remuneration of KMP

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

	Consolidated Entity	
	30 June 2016 \$	30 June 2015 ^(A) \$
Short term benefits		
- Salary	4,336,472	3,378,353
- Cash Bonus	3,992,887	3,485,338
Post-employment benefits	133,345	106,647
Long-term benefits	50,804	40,342
Other benefits	154,933	220,834
Total remuneration paid to KMP	8,668,441	7,231,514

^(A) Ms Kirsten Morton was not a KMP for the year ended 30 June 2015.

Refer to section 3.3 of the Remuneration Report on page 24 for further details.

(d) Transactions with Other Related Parties

The following transactions occurred with other related parties:

		30 June 2016 \$'000	30 June 2015 \$'000
Dividends received from controlled entities	(i)	186,000	136,462
Amounts receivable by MFG under the tax funding agreement from MAM	(ii)	3,945	6,577
Amounts received by MFG pursuant to tax funding agreement from MAM	(ii)	61,116	44,292
Net amounts received/(paid) by MFG to/from MAM for expense reimbursements		59	116
Distribution receivable by MFG from associate, MGE	(iii)	-	300

(i) Dividends of \$186,000,000 representing \$14.88 per share were paid by MAM to MFG during the year ended 30 June 2016 (June 2015: \$136,420,000 representing \$10.91 per share). In addition, during the prior financial year ended 30 June 2015, a dividend of \$42,000 was paid by Magellan Capital Partners Pty Limited to MFG (30 June 2016: nil).

(i) During the financial year, MAM's income tax liabilities of \$57,679,000 (June 2015: \$49,488,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$61,116,000 (June 2015: \$44,292,000) were received by MFG from MAM under the tax funding agreement during the year and \$3,945,000 was receivable by MFG from MAM in respect of amounts arising from the transfer of MAM's tax liability to the Company (June 2015: \$6,577,000). Refer to note 1(h) for further details on the tax consolidated group.

(iii) During the prior year ended 30 June 2015, 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 as at 30 June 2015, a distribution of \$300,000 was receivable by MFG for the year ended 30 June 2015 (received during the year ended 30 June 2016).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

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
	2016	2015
	\$'000	\$'000
Net operating profit after income tax expense	198,357	174,295
Adjusted for:		
Net (gain)/loss on disposal of available-for-sale financial assets	(1,055)	(11,578)
Net (gain)/loss on deemed disposal of available-for-sale financial assets attributable to MGE	1,296	(1,484)
Loss on disposal of property, plant and equipment	-	21
Dividends and distributions reinvested	(12,353)	(388)
Depreciation	294	317
External unitholders' share of MGE net profit while MGE was a controlled fund	-	506
Group's share of net (gain)/loss for the period MGE was an associate	(3,961)	104
Issued Capital Costs	(14)	-
Net foreign exchange (gain)/loss	(165)	(1,232)
Imputed interest on loans under the SPP	(350)	(424)
Employee expense on loans under SPP	230	378
(Increase)/decrease in receivables	2,147	(31,515)
(Increase)/decrease in prepayments	(51)	(101)
Increase/(decrease) in net deferred tax liabilities	(4,090)	(905)
Increase/(decrease) in payables	(7,926)	3,280
Increase/(decrease) in income tax payable	9,214	6,025
Effects of exchange rates on cash and cash equivalents	(28)	-
Net cash inflows from operating activities	181,545	137,299

(b) Non-cash financing and investing activities

	Consolidated Entity	
	30 June	30 June
	2016	2015
	\$'000	\$'000
Issue of ordinary shares under SPP	4,038	5,673
Imputed interest on loans under SPP	(350)	(424)
Share based payments under SPP	230	378
Acquisition of additional units in Magellan Unlisted Funds and Frontier MFG Funds through distribution reinvestment	12,353	388
Dividend entitlement of SPP holders applied directly against SPP loan balance	975	2,045

(c) Reconciliation of cash

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

Cash and cash equivalents	120,362	93,934
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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 2016

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 the Group 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 2016 (June 2015: 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"). During the year ended 30 June 2016, 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 2016, the Group had an obligation to settle trade creditors and other payables of \$21,161,000 (June 2015: \$14,332,000) within 30 days. In addition, the Group also has an obligation to pay the fully franked final dividend of 38.0 cents per share in respect of the year ended 30 June 2016 amounting to approximately \$61,401,000 on 26 August 2016 (refer to note 4(i)).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

19. Capital and Financial Risk Management (continued)

(c) Liquidity risk (continued)

The Group had cash (including term deposits maturing within 30 days) of \$120,362,000 (June 2015: \$93,934,000) and a further \$53,747,000 (June 2015: \$54,850,000) of receivables to cover these liabilities.

At 30 June 2016, the Group reported current assets of \$177,762,000 and current liabilities of \$28,411,000 resulting in a net current asset surplus of \$149,351,000. After taking into account the final dividend for the year ended 30 June 2016 totalling \$61,401,000, this would result in a net current asset surplus of \$87,950,000. Accordingly the Group has sufficient liquid funds and current assets to meet its current liabilities.

Maturities of financial liabilities

At 30 June 2016, the Group's financial liabilities comprise trade creditors and payables which mature in 1 year or less (June 2015: 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 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 -30% (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 2016 \$'000	30 June 2015 \$'000
Impact on available-for-sale reserve, net of tax	7,878	7,180
Total impact on net operating profit and equity	7,878	7,180

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 of 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 2016

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 services 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 2016 and 30 June 2015 would have increased the base management fees recognised in net operating profit and equity as follows:

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
Impact on net operating profit and equity for the year	10,185	7,918
Total impact on net operating profit and equity for the year	10,185	7,918

Assumptions and explanatory notes

- (i) 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.
- (ii) 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 research and administrative 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 2016 \$'000	30 June 2015 \$'000
Based on performance relative to a market index	6,627	2,822
Based on performance relative to a return hurdle	207	5,692
Based on performance relative to both a market index and a return hurdle	39,180	32,899
Based on total shareholder return	2,000	2,000
Total performance fees	48,014	43,413

(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 2016

19. Capital and Financial Risk Management (continued)

(e) Currency risk (continued)

At 30 June 2016, 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Assets denominated in:				
US dollars	(463)	(595)	(1,437)	(1,112)
Euro	21	36	(30)	(52)
Canadian dollars	(64)	(64)	-	-
British pounds	(367)	(244)	(53)	(77)
Swiss francs	-	-	(44)	(22)

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 2016, approximately 92% of the Group's management, service and performance fees were indirectly exposed to movements in the Australian dollar relative to other currencies (June 2015: 92%).

(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	30 June
	2016	2015
	\$'000	\$'000
Impact on net operating profit and equity	466	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 2016

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 2016, the Group held cash and term deposits with Australian and international banks. The credit quality of Australian banks counterparties at 30 June 2016 was rated by Standard & Poor's as being AA-, and by Moody's as being Aa2 (AA- and Aa2 respectively at 30 June 2015). The credit quality of the international bank counterparty at 30 June 2016 was rated by Moody's as Baa2 (Baa2 at 30 June 2015).

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 2016, the provision for doubtful debts was nil (June 2015: nil).

At 30 June 2016, the Group also had credit exposure to the Participants with loans under the SPP. At 30 June 2016, the outstanding balance on the loans totalled \$9,013,000 (June 2015: \$7,245,000). MFG ordinary shares of 978,251 were valued at \$21,766,000 (June 2015: 1,237,221 MFG ordinary shares valued at \$21,528,000) 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, Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged). The credit quality of NT's senior debt is rated, as at 30 June 2016 by Standard and Poor's as A+ and by Moody's as A2 (A+ and A2 respectively at 30 June 2015). 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 2016 and 30 June 2015, 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 2016, all of the Group's receivables are due within 0 to 30 days (June 2015: 0 to 30 days). No amounts are impaired or past due at 30 June 2016 or 30 June 2015.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

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:

		Consolidated Entity	
		30 June	30 June
		2016	2015
Note		\$'000	\$'000
Assets measured at fair value			
Available-for-sale financial assets			
- Level 1: listed shares and ASX quoted units		74,679	11,584
- Level 2: unlisted funds – Magellan and Frontier MFG Funds	(i)	131,286	127,574
- Level 3: unlisted funds - other	(ii)	81	165
- Level 3: unlisted shares - other	(iii)	175	175
Total financial assets		206,221	139,498

(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 2016

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 2016 and 30 June 2015, 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 2016 \$'000	30 June 2015 \$'000
Opening balance - 1 July	340	340
Net change in fair value	(84)	-
Closing Balance - 30 June	256	340

The fair values 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 Australia (Sydney, Melbourne, Brisbane and Perth), the United States (New York and Newport Beach) and New Zealand (Auckland) and for office equipment.

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

	Consolidated Entity	
	30 June 2016 \$'000	30 June 2015 \$'000
Within one year	3,309	814
Later than one year but no later than five years	11,611	764
More than five years	15,292	-
Total commitments	30,212	1,578

During the period the Group entered into a 10 year lease for its headquarters in Sydney and a 7 year lease for premises in New York which are reflected in the commitments disclosed above.

(b) Contingent assets and contingent liabilities

The Group has a contingent liability of \$100,000 (June 2015: \$200,000) 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 2016, \$400,000 has been provided for in the Group's Consolidated Statement of Financial Position (June 2015: \$300,000) and as a result, the Group has a contingent liability of \$100,000 (June 2015: \$200,000).

The Group has no material contingent assets as at 30 June 2016 (June 2015: 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 2016

21. Auditor's Remuneration

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

	Consolidated Entity	
	30 June 2016	30 June 2015
	\$	\$
(a) Ernst & Young Australia		
Audit services		
Statutory audit and review of the financial reports:		
- the Company	99,500	95,500
- the Magellan Funds ^(A)	180,000	128,500
Other assurance services:		
- Regulatory required audits	45,000	40,000
- Other	49,000	63,500
	373,500	327,500
Non-audit services		
Taxation services	281,840	168,925
Total remuneration of Ernst & Young Australia	655,340	496,425
(b) Related practices of Ernst & Young Australia		
Audit services		
Statutory audit of the financial reports:		
- MFG Investment Fund Plc - MFG Global Fund	36,703	72,278
	36,703	72,278
Non-audit services		
Taxation services	76,591	70,186
Total remuneration of related firms of Ernst & Young Australia	113,294	142,464
Total auditor's remuneration	768,634	638,889

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

22. Events Subsequent to Reporting Date

On 19 July 2016, the Group seeded Magellan Infrastructure Fund (Currency Hedged) ("MICH") (ASX ticker code: MICH) with \$10,000,000 of its own capital. MICH is an ASX quoted currency hedged version of the unlisted Magellan Infrastructure Fund and will invest in a portfolio of between 20 and 40 currency hedged investment grade infrastructure securities. MICH commenced trading on the ASX on 22 July 2016.

On 3 August 2016, the Group reported on the ASX its funds under management were \$41.5 billion as at 29 July 2016.

Other than the above matters and the final dividend in respect of the year ended 30 June 2016 (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 38 to 88 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 2016 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 ended 30 June 2016.

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



Brett Cairns
Executive Chairman

11 August 2016



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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 2016, 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 2016 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 35 of the directors' report for the year ended 30 June 2016. 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 2016, 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 2016

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE SUSTAINABILITY AND RESPONSIBILITY REPORT

Magellan is committed to acting responsibly and ethically in all areas of its business. The Group seeks to engender a culture of building trust with all that do business with us.

Responsible Investment

Magellan is committed to responsible investment and became a signatory to the United Nations Principles of Responsible investment ("UNPRI") in March 2012. The UNPRI is the globally recognised accord for responsible investing. Environmental, Social and Governance ("ESG") issues are considered to be a natural component of Magellan's investment process, as gaining a robust understanding of these issues is a key part to assessing the outlook for future cash flow generation and risks facing investors. Magellan maintains an ESG Policy, which outlines how ESG issues are incorporated into Magellan's investment analysis framework and investment process.

Magellan considers proxy voting rights as an important power, which if exercised diligently can enhance client returns. Magellan believes these should be managed with the same care as any other asset managed on behalf of its clients. Magellan maintains a Proxy Voting Policy set of Corporate Governance Principles which outline its approach to proxy voting and engagement with portfolio companies. These policies and all proxy voting records are available to Magellan's clients, however, given Magellan's concentrated portfolios, proxy voting records are not made publicly available.

As a long term investor, Magellan is committed to engaging with portfolio companies on ESG matters. During the year ended 30 June 2016 Magellan engaged with many portfolio companies on a number of material topics and has been successful in effecting positive changes on a number of occasions.

Environment

Magellan understands the importance of mitigating its impact on the environment and is committed to environmental sustainability. Given the nature of Magellan's business and as a services firm of 101 employees, with approximately 80% of employees based in the head office in Sydney, Magellan has a relatively small environmental footprint. There are three main areas where Magellan's environmental footprint lies – premises, energy and travel. Magellan aims to ensure that where possible, business operations are conducted in the most environmentally sustainable way possible. For example, Magellan has recently relocated its head office to a 4.5 star NABERS¹ rated office building and energy efficiency was one of the criteria in the selection of its new head office premises. Magellan also continues to build awareness amongst its employees and focus on areas where it can make an impact including recycling.

Magellan has also recently become a signatory to the Carbon Disclosure Project's ("CDP") climate change program. CDP holds the largest global collection of self-reported climate change, water and forest-risk data in an effort to transform the way the world does business to prevent dangerous climate change and protect natural resources.

GHG emissions by Scope (metric tonnes CO₂e)

	Calendar Year 2015
Scope 1	0
Scope 2	97
Total GHG emissions	97
Total per employee	1.05
Total per \$ million of revenue	0.3

As outlined in the table above, Magellan's GHG emissions are relatively small, particularly on a per employee and per revenue basis., Magellan's Scope 1 & 2 emissions intensity for 2015 of 0.3 tonnes CO₂e per million dollars of revenue puts Magellan among the lowest emissions intensity companies globally.

(1) NABERS is a national rating system that measures the environmental performance of Australian buildings, tenancies and homes. NABERS is managed nationally by the NSW Office of Environment and Heritage, on behalf of Commonwealth, state and territory governments.

MAGELLAN FINANCIAL GROUP LIMITED

Within Magellan’s funds management business, as discussed in the section titled “Responsible Investment”, Magellan considers Environmental issues as a natural component of its investment process, particularly where such issues may impact the future cash flows of the companies in which it is invested. Magellan aims to engage with portfolio companies where it considers a material potential environmental issue has arisen.

People

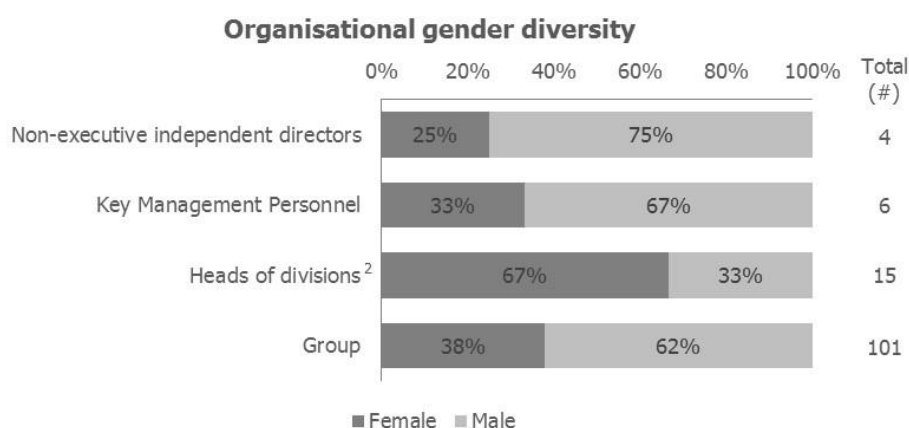
As a funds management company, Magellan’s people are integral to the success of the company. Magellan takes an active involvement in staff wellbeing, staff engagement, motivation and career development.

Magellan implements a number of initiatives to promote staff engagement and retention. Middle and senior management seek regular feedback from employees and Magellan also undertakes annual performance reviews with all employees to discuss performance against a set of internal performance objectives, to identify development areas as well as any training requirements.

Magellan strongly believes that staff engagement and satisfaction goes well beyond direct financial compensation. Magellan’s annual leave policy encourages staff to take their full statutory requirement over each annual period by providing an additional week of leave if they do so. The aim is to ensure that staff maintain an appropriate work life balance. Magellan also enables flexible work arrangements to assist employees to balance their work, personal and family responsibilities.

Magellan promotes staff ownership of the Company and encourages staff to think like owners as a way of engaging and retaining staff. Magellan believes the Company’s Share Purchase Plan (SPP), described in section 3.2 in the Director’s Report, is a transparent and essential program which improves staff retention and aligns the long-term interests of the staff with shareholders through a sense of ownership. As at 30 June 2016 approximately 75% of employees had an individual shareholding in the Company.

Magellan is committed to workplace diversity and recognises the value of attracting and retaining employees with different backgrounds, knowledge, experience and abilities. Magellan maintains a Diversity Policy that outlines the Group’s commitment to diversity in the workplace and provides a framework to achieve the Group’s diversity goals for the business. The Group’s policy is to recruit and manage on the basis of competence and performance regardless of age, race, gender, nationality, beliefs, sexuality, physical ability or cultural background. In the 2016 financial year, the Board reviewed the measurable objectives it has set to achieve improvement in the diversity of employees. These objectives for female representation are 33% for independent directors, 40% for senior management (classified by Magellan as Key Management Personnel) and 40% for the overall Group. As outlined in Magellan’s gender diversity statistics in the chart below, Magellan has good gender diversity with almost two thirds of Heads of Division² roles held by women.



As Magellan’s staff numbers have increased sizeably over the past few years, the Company’s retention remains high. At Magellan, culture is very important and the Company will continue to monitor retention rates.

(2) Heads of division refers to employees who are responsible for a division or function within the organization. This statistic includes KMP, excluding the Executive Chairman and CEO.

MAGELLAN FINANCIAL GROUP LIMITED

Community

Magellan believes an active contribution to community is important and actively seeks to give back throughout the year. Magellan does not generally make corporate donations as the Group prefers to focus on delivering satisfactory returns inclusive of regular dividend payments and allowing shareholders to determine which charities to donate to. Instead, Magellan prefers to focus its efforts on employee participation for fund raising initiatives.

Magellan's efforts over the past financial year include:

- Supporter of Rotary Club fund-raising initiative Bobbin Head Cycle Classic
- Employee participation in JPMorgan Corporate Challenge
- Employee participation in UN Women's International Women's Day breakfast
- Ovarian Cancer Research Foundation's White Shirt Day

Magellan is also a participating fund manager in the Future Generation Global Investment Company. The Future Generation Global Investment Company is an ASX listed investment company that invests in global fund managers. Participating fund managers manage the capital entirely pro-bono in order for 1.0% of net assets each year can be donated to Australian non-profits committed to young Australians affected by mental health issues. Magellan is a foundation member and received an initial allocation of ~10% of the assets under management at time of IPO.

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE INFORMATION

Directors

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

Company Secretary

Geoffrey Stirton

Registered Office

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Auditors & Tax Advisors

Ernst & Young
200 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

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 4 AUGUST 2016

Distribution of Shareholders

Analysis of the numbers of shareholders by size of holding at 4 August 2016 is presented below:

Holding	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue %
1-1,000	7,010	3,369,443	2.09
1,001-5,000	4,652	10,809,483	6.69
5,001-10,000	729	5,302,364	3.28
10,001-100,000	788	21,270,667	13.16
100,001 and over	94	120,829,248	74.78
Total	13,273	161,581,205	100.00
Number of holders with less than a marketable parcel of Ordinary Shares	3,695	856,947	

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 4 August 2016 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
HSBC Custody Nominees (Australia) Limited	20,351,591	12.60
Magellan Equities Pty Limited	16,888,949	10.45
JP Morgan Nominees Australia Limited	16,276,133	10.07
Citicorp Nominees Pty Limited	11,488,630	7.11
Midas Touch Investments Pty Ltd	10,296,300	6.37
National Nominees Limited	7,418,985	4.59
BNP Paribas Noms Pty Ltd	2,995,420	1.85
Nota Bene Investments Pty Ltd	2,851,497	1.76
Pershing Australia Nominees Pty Ltd	2,023,154	1.25
Emmanuel Capital Pty Ltd	2,000,000	1.24
Mr David Doyle	1,500,000	0.93
BNP Paribas Nominees Pty Ltd	1,397,036	0.86
Mr Christopher John Mackay	1,390,385	0.86
Aljamat Pty Ltd	1,310,000	0.81
Jash Pty Limited	1,130,331	0.70
PAJ Lewis Pty Ltd	925,000	0.57
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	914,167	0.57
PAJ Lewis Superannuation Fund Pty Ltd	875,000	0.54
Citicorp Nominees Pty Limited	642,159	0.40
Mr Matthew David Webb	517,788	0.32
Total shares held by the twenty largest shareholders	103,192,525	63.85
Total ordinary shares on issue	161,581,205	

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION

AS AT 4 AUGUST 2016

Substantial Shareholders

The substantial shareholders in the Company's Register of Substantial Shareholders at 4 August 2016 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	6.86
Chris Mackay and associates ^(C)	18,615,610	11.52

^(A) Date of last Appendix 3Y notice lodged on 2 August 2016

^(B) Mr Douglass holds 10,200,000 Class B Shares which at 30 June 2016 were entitled to convert into 10,293,175 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 1 December 2015

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.