Annual Report

for the year ended 30 June 2017

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

Five year summary[1]

		30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Group Results						
Total Revenue	$'000	338,268	333,805	284,912	148,109	120,906
Total Expenses	$'000	82,141	74,104	54,603	37,630	25,904
Net Profit Before Tax[2]	$'000	256,127	259,701	230,309	110,479	95,002
Net Profit Before Tax and before performance fees[5]	$'000	234,621	212,341	n/a	n/a	n/a
Net Profit After Tax[2]	$'000	196,225	198,357	174,295	82,939	66,600
Effective Tax Rate	%	23.4	23.6	24.3	24.9	29.9
Funds Under Management[3]						
Average Funds Under Management	$m	45,667	39,437	30,966	19,923	9,351
Total Funds Under Management	$m	50,597	40,495	36,381	23,513	14,695
Funds Under Management comprises:						
- Retail	$m	15,159	12,041	9,809	6,693	4,542
- Institutional	$m	35,438	28,454	26,572	16,820	10,153
Average Base Management Fee (per annum)[4]	bps	66	66	66	67	66
Funds Management Business						
Total Revenue	$'000	329,188	315,268	255,889	139,135	86,786
Total Expenses	$'000	80,908	71,483	52,589	36,616	25,207
Net Profit Before Tax	$'000	248,280	243,785	203,300	102,519	60,773
Net Profit Before Tax and before performance fees[5]	$'000	226,774	196,425	n/a	n/a	n/a
Employee Expenses/ Total Expenses	%	58.5	58.8	59.4	64.4	69.1
Cost to Income Ratio (expense/revenue)	%	24.6	22.7	20.6	26.3	29.3
Cost to Income Ratio (excluding performance fees)	%	26.3	26.5	24.8	26.7	43.8
Assets						
Total Assets - MFG Group	$'000	493,981	392,379	346,678	236,851	193,441
Net Assets - MFG Group	$'000	447,611	355,369	303,443	206,587	153,039
Net Tangible Asset per share	$	2.60	2.07	1.78	1.24	1.02
Shareholder Value						
Basic Earnings Per Share[2]	cents	116.9	123.5	109.2	53.3	43.6
Diluted Earnings Per Share[2]	cents	114.1	115.5	101.8	48.9	40.0
Dividends Per Share[2]	cents	85.6	89.3	74.9	38.3	21.5
Other Information						
Number of Employees		108	100	91	69	58
Average Number of Employees		104	96	80	64	51

(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.
(5) Adjusts for the current period performance fee impact on revenue and expenses for the 12 month period.

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MAGELLAN FINANCIAL GROUP LIMITED

Chairman's Report

for the year ended 30 June 2017

Dear Shareholders

We are pleased to present the Annual Report for Magellan Financial Group ("Magellan") for the financial year ended 30 June 2017.

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.

In short, for the financial year, our fully diluted earnings per share were $1.141 and our fully franked dividends per share totalled $0.856. This compares with the equivalent earnings and dividends per share of $1.155 and $0.893 respectively for the last financial year.

It is important to note that these measures contain Performance Fees, and that these fees by their very nature fluctuate significantly, especially over relatively short periods of time. The lumpy nature of these fees does not detract from their value, but it can obscure overall comparative analysis.

For example, over the past two years we have seen the following:

	2017	2016	% change
Funds Management profit before tax ($ million)			
Before Performance Fees	226.8	196.4	15.5%
Net Performance Fee contribution	21.5	47.4	(54.6%)
Total	248.3	243.8	1.8%
Dividends (cents per share)			
Before Performance Fees	78.8	72.9	8.1%
Net Performance Fee contribution	6.8	16.4	(58.5%)
Total	85.6	89.3	(4.1%)
Average FUM ($ billion)	45.67	39.44	15.8%

You will notice that before including Performance Fees our Funds Management profit before tax increased 15.5%, broadly in line with the increase in average funds under management ("FUM"). Growth in dividends before Performance Fees lagged somewhat at 8.1%, mainly due to this year's one-off conversion of previous non-dividend paying Class B shares into dividend paying ordinary shares.

All things being equal, it is FUM that drives the economics of our business and we are pleased to have continued to receive solid support from our clients and their advisors, which resulted in $4.0 billion of net inflows. This, coupled with satisfactory investment returns, led to our average FUM increasing 15.8% over the year to 30 June 2017, and as at 31 July 2017 our FUM stood at $49.6 billion.

It may be FUM that mathematically drives our economics, but it is trust that is at the heart of our business. Those who choose to allow us to manage their, or their client's, money do so because they trust we will do so diligently and, perhaps more importantly, that we will do what we say we will do.

We have remarked before that we must deserve this trust, as if we do not, it will inevitably mean nothing. We aim to build a culture that values this seamless web of deserved trust and have that culture infer all our actions and decisions, be they undertaking portfolio investments, interacting with our clients and their advisors, developing new products, or working amongst our team.

Continually developing our business is also important in this regard and we must always look to improve and grow. This is important because there is a strong natural tendency over time to become stolid, allow bureaucracy to creep in and choke off thinking, and ultimately become set in our ways. Undertaking new initiatives is just as important for our clients and our staff as it is for our shareholders.

One thing we have firmly in our minds, however, is that we cannot trick ourselves into believing the success of any initiative we undertake is a certainty, irrespective of how confident we are, or how much work we put in. Bertrand Russell got it right when he noted that "not to be absolutely certain is one of the essential things in rationality."

We certainly strive to act rationally and as such we accept first and foremost there is a chance we will get things wrong. The irony here is that there is one thing we can be certain about – over time there will be slip-ups. The key from a long-term business perspective is that these slip-ups are not fatal. As Yogi Berra put it, we need to avoid the "wrong mistakes."

How can we do that? Constantly aiming for simplicity is important, as a reduction in complexity almost always is accompanied by a reduction in risk. Focussing on our customers and truly understanding the job they are effectively hiring our products to perform also materially reduces the chances of making a mistake in managing our existing products or developing new products, and the risk of eventually losing relevance over time.

Our development of what are now known as Active ETFs highlights many of these points. The success of this undertaking was far from certain, but we did understand the job required – to provide a simple, efficient and robust solution to allow investors, particularly those that are self -directed, access to our investment strategies via the ASX.

The evidence to date is that it is working. Our three Active ETFs have attracted over $1 billion in FUM and, importantly, some 18,500 unitholders since the initial launch a little over two years ago. We are delighted that our clients and their advisors are utilising our Active ETFs for their efficiency and ease of use. Equally as pleasing is that we also know that a large number of the unitholders are self-directed investors and, significantly, the vast majority had not previously had a relationship with Magellan, be it as a shareholder or investor in any of our unlisted funds.

Whilst we are pleased with this achievement, we recognise there is a very substantial and growing base of self-directed investors with whom we are yet to connect. We also recognise that making this connection will require time and an investment in a number of further initiatives. In this regard, we are very excited and proud to partner with Cricket Australia to sponsor the domestic test series for the next few years.

Overall these initiatives will result in a material increase in our currently modest marketing expenditure. Even though careful consideration has been given to these undertakings, we cannot be certain whether we will reach these self-directed investors in a meaningful way, and whether they will be interested in investing with Magellan. Time will tell.

Finally, in this vein, we announced yesterday our intention to launch the Magellan Global Trust ("MGT"), which is a closed-ended investment vehicle to be listed on the ASX[1]. We believe MGT offers some important and unique long-term benefits to investors, particularly regarding the nature of the on-going relationship between Magellan, in its capacity as investment manager, and MGT.

For instance, Magellan will pay for MGT's establishment and new issue costs, in cash, ensuring investors have their entire investment at work from the outset, rather than suffer the usual leakage associated with such offerings. Similarly, Magellan will pay cash to MGT to reflect the cost of any discount associated with the re-investment plan for cash distributions. This will ensure that those investors who do not wish to participate in the plan are not disadvantaged due to dilution.

At the heart of our approach is the belief that our association with all our funds is one of partnership, and acting like a partner is essential to developing enduring, long-term relationships with all our investors.

In this same regard, we are also extremely pleased to be able to offer all our existing eligible shareholders and investors in our retail strategies a valuable loyalty bonus, via a priority offer, should they wish to invest in MGT. This loyalty bonus will be paid for by Magellan and is worth 6.25% of the priority offer allotted amount[2]. This is a significant undertaking for our firm, and one we believe is very worthwhile.

As we view all those who invest with us – be it as shareholders or in our funds – as partners, we will endeavour to always act accordingly.

Our Annual General Meeting will be held on Thursday 12 October 2017 and as usual we welcome any and all discussion. We hope to see you there.

Brett Cairns
Executive Chairman

10 August 2017

1. The Product Disclosure Statement ("PDS") for the Magellan Global Trust ("MGT") is expected to be lodged with the Australian Securities and Investments Commission ("ASIC"), and will be made available, in mid-August 2017 ahead of the opening of the offer for interests in MGT ("Offer"). Further details about the MGT and the Offer will be provided once the PDS has been lodged with ASIC. Magellan will also make the PDS available through its website at www.magellangroup.com.au at that time. All investments carry risks and the PDS will provide details of the risks that may affect an investment in the MGT. The PDS should be read and considered in deciding whether to participate in the Offer or to continue holding units in the MGT. Magellan may vary the timing and terms of, or withdraw the offer for Units in the MGT at any time.

2. Subject to the vesting and other conditions to be outlined in the Product Disclosure Statement

MAGELLAN FINANCIAL GROUP LIMITED

Chief Executive Officer's Annual Letter

for the year ended 30 June 2017

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 2017.

OVERVIEW OF RESULTS

The Group had a successful year which was characterised by:

- strong growth in average funds under management (which increased by 16% from $39.4 billion to $45.7 billion for the 12 months to 30 June 2017);
- solid growth in management and services fees (which increased 15% to $307.2 million); and
- solid growth in the underlying profitability before tax (excluding performance fees) of the Funds Management business (which increased by 15% to $226.8 million).

The Group reported net profit after tax of $196.2 million for the 2017 financial year ($198.4 million for 2016). The net profit reflects:

- lower performance fees of $21.7 million for the 12 months to 30 June 2017 compared with $48.0 million for the 12 months to 30 June 2016. Excluding performance fees, underlying profitability grew by around 10%. Performance fees fluctuate materially from period to period; and
- lower dividend and distribution income on the Group's holdings in Magellan Funds and other investments of $5.5 million for the 12 months to 30 June 2017 ($11.9 million in 2016). Distributions received from Magellan Funds in part depend upon realised capital gains by the individual funds and can fluctuate materially from period to period.

The Directors have declared total fully franked dividends of 47.2 cents per share in respect of the June 2017 half year (38.0 cents in 2016). The dividend payment comprises a Final Dividend of 41.5 cents per share and a Performance Fee Dividend of 5.7 cents per share. The Directors have determined that separating payments into Interim, Final and yearly Performance Fee Dividends aligns the Interim and Final Dividends with the underlying profitability of the Funds Management business and makes any variance more transparent for shareholders given the lumpy and variable nature of performance fees.

A fully franked Interim Dividend of 38.4 cents per share was paid in March 2017 (51.3 cents in March 2016). The Final Dividend and the Performance Fee Dividend will both be paid on 28 August 2017.

The Directors have confirmed the policy of paying Interim and Final Dividends of 75% to 80% of the underlying net profit after tax of the Group's funds management business. However, the calculation will now exclude any crystallised performance fees. Instead, in addition to the Interim and Final Dividends, the Directors have adopted a new policy of paying an annual Performance Fee Dividend of 0% to 100% of the net crystallised performance fees after tax. Any Performance Fee Dividends will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations. The payment of Performance Fee Dividends will also be subject to capital needs of the Group.

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

	30 June 2017 $'000	30 June 2016 $'000	Change %
Management and services fees	307,179	266,629	15%
Performance fees	21,696	48,014	-55%
Other revenue	9,393	19,162	-51%
Revenue	**338,268**	**333,805**	1%
Expenses	(82,141)	(74,104)	11%
Profit before tax expense	**256,127**	**259,701**	-1%
Tax expense	(59,902)	(61,344)	-2%
Profit after tax expense	**196,225**	**198,357**	-1%
Effective tax rate	23.4%	23.6%	-1%
Key Statistics			
Profit before tax expense and before performance fees ($ millions) (1)	234.6	212.3	10%
Earnings per share (cents per share)	116.9	123.5	-5%
Diluted earnings per share (cents per share)	114.1	115.5	-1%
Dividends			
Interim and Final Dividends (cents per share, fully franked)	79.9	n/a	
Annual Performance Fee Dividend (cents per share, fully franked)	5.7	n/a	
Total Dividends (cents per share, fully franked)	85.6	89.3	-4%

(1) Adjusts for the current period performance fee impact on revenue and expenses for the 12 month period.

As at 30 June 2017, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents, financial assets and investment in associate) of $411.1 million (30 June 2016: $328.3 million) and shareholders' funds of $447.6 million (30 June 2016: $355.4 million); and
- the Group's NTA per share was $2.60 (30 June 2016: $2.07 diluted for the conversion of the Class B Shares).

Funds Management Business

For the year ended 30 June 2017, the Group's funds management business generated profit before tax of $248.3 million ($243.8 million for 2016). Underlying profit before tax and before performance fees(2) grew by 15% to $226.8 million ($196.4 million for 2016).

The highlights for our funds management business include:

- Continued support for our Global Equities and Global Listed Infrastructure strategies with retail Australian investors, advisers and brokers. As at 30 June 2017, total retail funds under management was $15.2 billion ($12.0 billion at 30 June 2016) and retail net inflows over the 12 months were $1.7 billion ($2.3 billion for the 12 months to 30 June 2016);
- Continued support from institutional clients with net institutional inflows of $2.3 billion over the period ($1.8 billion to 30 June 2016). Total institutional funds under management was $35.4 billion from more than 120 clients(3) ($28.5 billion from more than 110 clients at 30 June 2016); and
- Solid investment performance of both our Global Equities and Global Listed Infrastructure strategies.

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

	30 June 2017 $'000	30 June 2016 $'000	Change %
Revenue			
Management fees	300,529	258,392	16%
Performance fees	21,696	48,014	-55%
Services fees	6,650	8,237	-19%
Interest and other income	313	625	-50%
	329,188	315,268	4%
Expenses			
Employee expense	47,312	42,014	13%
US marketing and consulting fees(4)	7,895	7,168	10%
Fund administration and operational costs	8,620	7,068	22%
Information technology expense	3,758	3,606	4%
Marketing expense	3,037	2,811	8%
Occupancy expense	3,155	1,278	147%
Other expense	7,131	7,538	-5%
	80,908	71,483	13%
Profit before tax expense	**248,280**	**243,785**	2%
Profit before tax and before performance fees(2)	**226,774**	**196,425**	15%
Key Statistics			
Average funds under management ($ million)	45,667	39,437	16%
Average AUD/USD exchange rate(5)	0.7538	0.7284	3%
Average number of employees	104	96	8%
Employee expenses / total expenses	58.5%	58.8%	
Cost / income	24.6%	22.7%	
Cost / income, excl. performance fees	26.3%	26.5%	

Revenues for the year ended 30 June 2017 increased by 4% to $329.2 million. This was driven by a 16% increase in total management fee revenues as a result of a 16% increase in average funds under management over the period due to strong net inflows and investment performance. Overall the funds management business operated efficiently with a cost to income ratio (excluding performance fees) of 26.3% in 2017 compared with 26.5% in 2016.

(2) Adjusts for the current period performance fee impact on revenue and expenses for the 12 month period.
(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.

Expenses increased by 13% to $80.9 million. The increase in expenses included:

- a 13% increase in employee expense over the prior corresponding period to $47.3 million. This is slightly above guidance provided with the interim results in February 2017 of 9-12% due to higher payments to the infrastructure team as a result of performance fees crystallised during the 6 months to 30 June and a payment on the retirement of a staff member;
- an increase in US marketing fees to $7.9 million as a result of higher management fees from US clients;
- an increase in occupancy costs to $3.2 million. This is due to the move to new head office premises in Sydney and the increase is in line with guidance previously provided.

We expect Group employee expenses to increase by approximately 5-8% in the 2018 financial year which reflects the annualised cost of employees hired in 2016/17, remuneration increases and planned hires.

On 7 August 2017 the Group announced it had entered into a 3 year agreement with Cricket Australia to become the naming rights sponsor for the Australian domestic Test series. The sponsorship provides an attractive and highly scalable platform to promote the Magellan brand and to build awareness of, and grow the market for, investing in global equities.

We expect the Group's marketing expense to increase materially in the 2018 financial year (to approximately $11.0-$11.5 million) as we invest in our retail business. This increased spend is in line with our strategy to increase our penetration with self-directed investors and includes the rollout of a brand advertising campaign to build awareness of and grow the market for investing in global equities, a sponsorship (and supporting initiatives) with Cricket Australia which provides a highly scalable platform to promote our brand and the development of a new website which will create an improved user experience for our clients.

We are no longer pursuing the establishment of a public policy institute as flagged in last year's results.

The following table sets out total employee numbers(6):

	30 June 2017	30 June 2016
Investment		
- Portfolio Managers/Analysts	33	32
- Dealers	3	3
	36	35
Governance & Advisory	5	4
Distribution	35	30
Risk, Compliance, Legal & Company Secretarial	8	7
Business Support & Control	17	17
Administration	7	7
Total	**108**	**100**
Average number of employees	104	96

(6) Historical figures have been restated to reflect business division transfers (Legal team from Business Support & Control to Risk, Compliance, Legal & Company Secretarial and Performance and Reporting team from Business Support & Control to Distribution).

Funds Under Management (FUM)

At 30 June 2017, the Group had funds under management of $50.6 billion, split between global equities (84%) and infrastructure equities (16%). This compares with funds under management of $40.5 billion at 30 June 2016. The increase in funds under management was driven by net inflows of $4.0 billion, investment performance of approximately $6.7 billion less cash distributions (net of reinvestment) of approximately $0.6 billion.

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

$million	30 June 2017	30 June 2016	30 June 2015
Retail	15,159	12,041	9,809
Institutional			
- Australia/New Zealand	4,939	4,415	3,871
- North America	10,919	9,145	8,462
- UK	16,231	12,382	12,331
- Rest of World	3,349	2,512	1,908
	35,438	28,454	26,572
Total FUM	**50,597**	**40,495**	**36,381**
Percentage			
Retail	30%	30%	27%
Institutional			
- Australia/New Zealand	10%	11%	11%
- North America	21%	23%	23%
- UK	32%	31%	34%
- Rest of World	7%	6%	5%
	70%	70%	73%
Total FUM	100%	100%	100%
FUM subject to Performance Fees (%)	38%	38%	37%
Institutional FUM (%)			
- Active	87%	85%	85%
- Enhanced Beta	13%	15%	15%
Breakdown of FUM (A$ million)			
- Global Equities	42,316	33,723	31,015
- Global Listed Infrastructure	8,281	6,772	5,366
Average Base Management fee (bps) per annum excluding Performance Fees(7)	66	66	66

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

We consider that the theoretical capacity of our Global Equities, Global Listed Infrastructure and Low Carbon strategies is approximately US$85 billion in total.

At 30 June 2017, the Group was managing $50.6 billion (equating to approximately US$38.8 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 2017, the Group had total retail funds under management of $15.2 billion. We experienced total net retail inflows of $1.7 billion for the 12 months to 30 June 2017, compared with $2.3 billion for the previous financial year. The Group experienced average monthly retail net inflows of approximately $147 million over the 12 months to 30 June 2017, compared with $195 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.

MAGELLAN FINANCIAL GROUP LIMITED

We believe we are developing a robust retail business in Australia and New Zealand focused on global equities and global listed 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);
- 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 available at Commonwealth Bank and BT/Westpac;
- 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 12 account managers and offices in Sydney, Melbourne, Brisbane, Adelaide, Perth and Auckland.

On 9 August 2017 we announced the intention to undertake an initial public offering for units in a new ASX-listed investment trust, the Magellan Global Trust ("Trust")[(9)]. The Trust will offer investors the ability to invest in a new global equities strategy managed by Magellan while targeting a cash distribution yield of 4% per annum. We believe that these features and other structural efficiencies that we have built around the Trust will make this an appealing investment proposition.

Further, we are undertaking a priority offering to our shareholders and investors in Magellan's retail strategies to offer these investors an invitation to subscribe for units in the Trust. Magellan will reward these investors with a loyalty bonus in the form of additional units in the Trust equal to 6.25% of the value of their allotment under the priority offer[(10)]. This priority offer will engage with approximately 250,000 to 300,000 individuals who are invested in Magellan and its retail strategies either directly or indirectly and represents an opportunity to build an attractive closed end vehicle of scale.

Magellan is paying for all the costs of the capital raising and the cost of the loyalty bonus. These will result in a material one off expense in the 2018 financial year. Further details of the financial impact resulting from the Magellan Global Trust raising will be disclosed following the completion of the offer. We believe this initiative will strengthen our retail business and provide an attractive additional investment platform for retail investors.

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 2017[(11)]	1 Year	3 Years	5 Years	Since Inception[(12)]
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	**15.4**	**14.3**	**18.4**	**11.0**
MSCI World NTR Index ($A)	14.7	12.8	18.0	5.0
Magellan Infrastructure Fund	**8.6**	**12.9**	**15.6**	**8.6**
Global Listed Infrastructure Benchmark ($A)[(13)]	12.4	8.3	12.6	6.0
Magellan High Conviction Strategy	**20.8**	**16.3**	**-**	**20.9**

(8) Includes Dealer Groups that have more than $200,000 funds under management with the Group.
(9) The Product Disclosure Statement ("PDS") for the Magellan Global Trust ("Trust") is expected to be lodged with the Australian Securities and Investments Commission ("ASIC"), and will be made available, in mid-August 2017 ahead of the opening of the offer for interests in MGT ("Offer"). Further details about the MGT and the Offer will be provided once the PDS has been lodged with ASIC. Magellan will also make the PDS available through its website at www.magellangroup.com.au at that time. All investments carry risks and the PDS will provide details of the risks that may affect an investment in the Trust. The PDS should be read and considered in deciding whether to participate in the Offer or to continue holding units in the Trust. Magellan may vary the timing and terms of, or withdraw the offer for Units in the Magellan Global Trust at any time.
(10) Subject to the vesting and other conditions to be outlined in the Product Disclosure Statement.
(11) 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.
(12) 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.
(13) 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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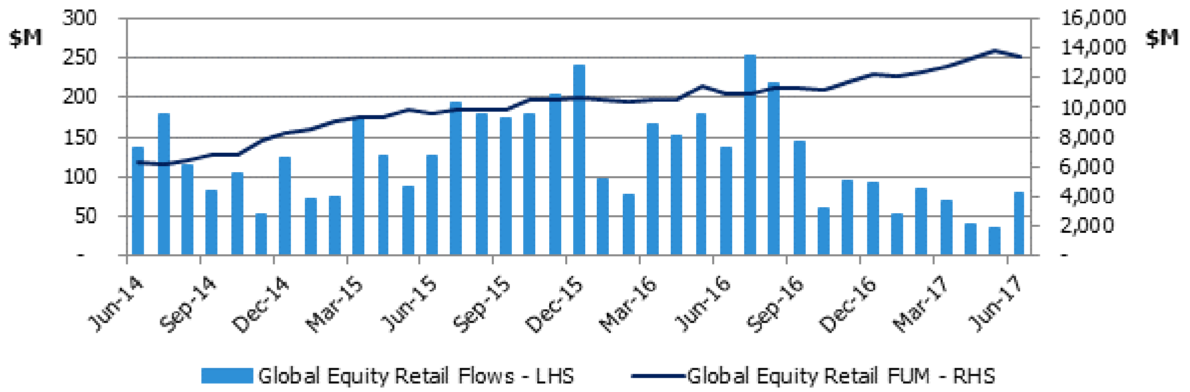
We are pleased with the results to date particularly given the volatility experienced in global stock markets in response to the dramatic fall in US long term bond yields earlier in the year, the backdrop of the Brexit referendum and the outcome of the US election. Given our medium to long term focus, 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(14) had funds under management of approximately $13.4 billion at 30 June 2017. The retail Global Equity strategy experienced total retail net inflows of $1.2 billion and average monthly retail net inflows of approximately $101 million over the 12 months to 30 June 2017. This compares with the retail Global Equity strategy's total net inflows of $2.0 billion and the average monthly retail net inflows of $164 million over the 12 months to 30 June 2016.

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

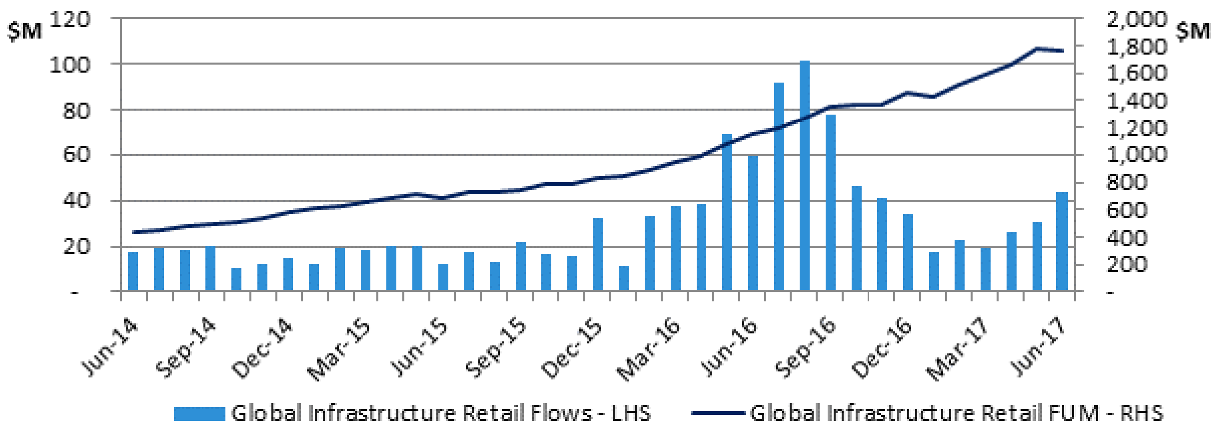
Retail Global Equity Strategy FUM & Net Inflows(14)



The retail component of the Global Listed Infrastructure strategy(15) had funds under management of approximately $1.8 billion at 30 June 2017. The retail Global Listed Infrastructure strategy experienced total retail net inflows of $552 million and average monthly retail net inflows of approximately $46 million over the 12 months to 30 June 2017. This compares with the retail Global Listed Infrastructure strategy's total net inflows of $365 million and the average monthly retail net inflows of $30 million over the 12 months to 30 June 2016.

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

Retail Global Listed Infrastructure Strategy FUM & Net Inflows(15)



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.

(14) 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.
(15) The retail component of the Global Listed Infrastructure strategy includes Magellan Infrastructure Fund (retail portion), Magellan Infrastructure Fund (Unhedged) (retail portion), Magellan Infrastructure Fund (Currency Hedged) (quoted fund) and retail separately managed accounts for the Global Listed Infrastructure strategy.

Institutional Funds Under Management

At 30 June 2017, the Group had total institutional funds under management of $35.4 billion from more than 120 clients(16). We experienced institutional net inflows of $2.3 billion for the 12 months to 30 June 2017, which compares with net inflows of $1.8 billion for the 12 months to 30 June 2016.

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, low carbon and global listed infrastructure capabilities over time. We have recently informed existing and prospective institutional clients that we will be closing our global equities strategies managed by me to new investors no later than 31 December 2017(17).

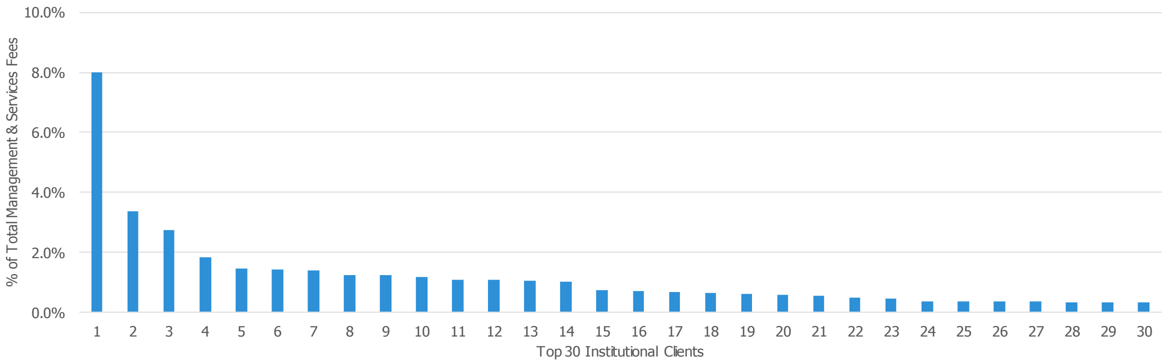
During the year we seeded and launched a new investment strategy that is initially being marketed to wholesale and institutional investors globally. The Low Carbon strategy leverages Magellan's existing investment processes and philosophies and incorporates a proprietary low carbon overlay in portfolio construction which screens out companies based on their carbon emissions intensity and limits the overall carbon emissions of the portfolio through a portfolio carbon emissions intensity cap. It also excludes companies with fossil fuel exposures or interests, for example companies engaged in the extraction, storage and transportation of fossil fuels.

We initially launched a global equities version of this strategy with Magellan's Deputy Chief Investment Officer, Dom Giuliano promoted to Portfolio Manager of this strategy. We have now launched a U.S. mutual fund and Irish UCITS sub-fund for this strategy and are also making it available to separately managed accounts. Although it will take time to develop a track record and generate meaningful client investment we are seeing a good level of preliminary interest in this strategy. We have also seeded two complementary Low Carbon strategies and expect to launch U.S. mutual funds around these in FY18.

During the year we also launched a U.S. mutual fund and Irish UCITS sub-fund for the Select Infrastructure strategy and are building interest in this strategy in these regions.

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.

Institutional Client Diversity(18)



Cumulative Total Management and Services Fees

Top Institutional Clients	5	10	20	30
%	17	24	32	36

The development of the Group's institutional funds management business is progressing well.

At 30 June 2017, the Group managed funds from clients in North America of approximately $10.9 billion ($9.1 billion at 30 June 2016).

Our Australian/NZ business remains strong. As at 30 June 2017 the Group had total funds under management of approximately $4.9 billion from clients in Australia/NZ ($4.4 billion as at 30 June 2016).

We are also making strong progress with clients outside Australia/NZ and North America, managing funds for Rest of World clients of $19.6 billion as at 30 June 2017 ($14.9 billion as at 30 June 2016). We remain focused on specific target markets, primarily the UK and Singapore. Our UK business remains strong. At 30 June 2017, the Group had total funds under management of approximately $16.2 billion from clients in the UK(19) ($12.4 billion at 30 June 2016). The UK infrastructure fund that replicates our Core Infrastructure (Enhanced Beta) strategy has funds under management of approximately $3.3 billion at 30 June 2017 ($3.1 billion at 30 June 2016).

(16) The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.
(17) U.S. mutual fund will remain open with some allocated capacity.
(18) Management & Services fees for the 12 months to 30 June 2017 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.
(19) Including UK clients invested in the Group's MFG Global Fund (Irish UCITS fund offered to institutional clients in our target markets, outside Australia and the United States).

Investments in Magellan's Funds and Principal Investments

At 30 June 2017, the Group had total net Principal Investments of $251.0 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately $208.2 million at 30 June 2016.

The Group's Principal Investments include investments in Magellan Unlisted Funds, the ASX quoted Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure 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 the payment of dividends, 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 16.0%, 14.8% and 19.7% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's investment in Magellan Flagship Fund, which was disposed of by way of in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 10.8% per annum since inception from 1 July 2007. 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 2017:

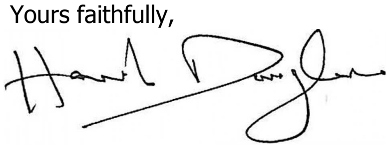
MFG Group's Principal Investments

$million	30 June 2017	30 June 2016
Cash	3.4	2.3
Magellan Unlisted Funds[20]	160.0	131.3
Listed shares/funds[21]	102.9	74.7
Other[22]	5.0	11.2
Total	**271.3**	**219.5**
Deferred tax liability[23]	(20.3)	(11.3)
Net Principal Investments	**251.0**	**208.2**
Net Principal Investments per share (cents)[24]	**145.8**	**121.1**

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

10 August 2017

(20) 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, Magellan Wholesale Plus Global Fund, Magellan Wholesale Plus Infrastructure Fund and the MFG Infrastructure Fund – Service Class

(21) Listed shares/funds include MGF Plus Portfolio, Global Low Carbon Portfolio, Low Carbon (US) Portfolio, International Portfolio, International Low Carbon Portfolio, Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged) and Magellan Infrastructure Fund (Currency Hedged) excluding receivables/payables (refer to footnote 22)

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

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

(24) Based on the aggregate of 172,076,468 ordinary shares on issue at 30 June 2017 (30 June 2016, it is based on 161,581,205 ordinary shares and 10,293,175 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2016).

DIRECTORS' REPORT
for the year ended 30 June 2017

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 2017.

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 of the Company are publicly traded on the Australian Securities Exchange under ASX Code: MFG.

The Company's principal place of business is Level 36, 19 Martin Place, Sydney, New South Wales, 2000.

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

1.3 Dividends
During the year, dividends amounting to $127,478,000 were paid representing 76.4 cents per share (June 2016: $143,002,000 representing 89.1 cents per share). Refer to note 4 in the financial statements for further details.

Since the end of the year, the Directors have declared total fully franked dividends of 47.2 cents per share in respect of the half year ended 30 June 2017 (June 2016: 38.0 cents per share). The dividend payment comprises a Final Dividend of 41.5 cents per share and a Performance Fee Dividend of 5.7 cents per share, which together represents approximately $81,220,000.

The Directors have confirmed the policy of paying Interim and Final Dividends of 75% to 80% of the underlying net profit after tax (NPAT) of the Group's funds management business. However, the calculation will now exclude any crystallised performance fees. Instead, in addition to the Interim and Final Dividends, the Directors have adopted a new policy of paying an annual Performance Fee Dividend of 0% to 100% of net performance fees after tax. Any Performance Fee dividends will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations. The level of payment of performance fee dividends will also be subject to the capital needs of the Group.

1.4 Review of Financial Results and Operations
The Group's net profit after tax for the year ended 30 June 2017 was $196,225,000 compared with net profit after tax of $198,357,000 for the prior year. Total operating expenses of $82,141,000 compared with total operating expenses of $74,104,000 for the previous corresponding year.

The Group is in a strong financial position with an extremely strong balance sheet and at 30 June 2017 reported:

- investment assets (including cash and cash equivalents, financial assets and investment in associate) of $411,131,000 (June 2016: $328,302,000) and shareholders' funds of $447,611,000 (June 2016: $355,369,000); and
- NTA per share of $2.60 ($2.07 at 30 June 2016 diluted for the conversion of Class B Shares).

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

1.5 Likely Developments and Expected Result of Operations
The Group will continue to pursue its financial objectives which are to increase the profitability of the Group over time by increasing the value and performance of funds under management and seeking to grow the value of the Group's investment portfolio. Additional comments on expected results of operations of the Group are included in this report in the Chief Executive Officer's Annual Letter.

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

1.7 Events Subsequent to the end of the Financial Year
On 4 August 2017, the Group reported on the ASX its funds under management were $49.6 billion as at 31 July 2017.

On 7 August 2017, the Group announced it had signed a 3 year agreement with Cricket Australia to become the naming rights sponsor for the Australian domestic Test series. This sponsorship provides a highly scalable platform to promote the Magellan brand and to build awareness of and grow the market for investing in global equities. The commercial terms of the agreement are confidential.

On 9 August 2017 the Group announced its intention to undertake the initial public offering of the Magellan Global Trust ("Trust"), a closed ended investment vehicle to be listed on the ASX. The Trust will offer investors the ability to invest in a new global equities strategy managed by Magellan while targeting a cash distribution yield of 4% per annum.

A product disclosure statement for the Magellan Global Trust ("Trust") is expected to be lodged with the Australian Securities & Investments Commission in August 2017, with the offer period for the initial public offering of the Trust to open in late August. A priority offer is expected to be made to existing Magellan shareholders and investors. Should they wish to invest in the Trust, the Group would reward these investors with a valuable loyalty bonus in the form of additional units in the Trust.

The Group intends to fund the costs of the offer and loyalty bonus units. Subject to the size of the offer this may result in a material one off expense and impact the assets and liabilities of the Group in the financial year ended 30 June 2018. Further details of the financial impact resulting from the Magellan Global Trust raising will be disclosed following the completion of the offer.

Other than the above and the dividends in respect of the half year ended 30 June 2017 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.

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
John Eales	Non-Executive Director	1 Jul 2017
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
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), 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. Hamish is a Director of Victor Chang Cardiac Research Institute. He holds a BCom from the University of NSW.

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

John Eales AM graduated from the University of Queensland in 1991 before taking to the international rugby stage. He debuted for the Wallabies in 1991 and captained the side from 1996 until the end of his Test career in 2001. He participated in two successful World Cup campaigns, captaining the latter in 1999, and led Australia through three Bledisloe Cups, two Tri-Nations and a British & Irish Lions series victory.

After retiring from rugby in 2001, he has served in executive or advisory positions with a number of organisations. John cofounded the Mettle Group in 2003 – a corporate consultancy which was acquired by Chandler Macleod in 2007 – and currently sits on the boards of Flight Centre Travel Group, Fuji Xerox – Document Management Solutions and the Australian Rugby Union. He is a columnist with The Australian newspaper writing on both business and sport, an occasional lecturer at the University of Notre Dame in Sydney, and he has served as a consultant to major Australian companies, including Westpac. John is the author of two books, Learning from Legends Sport and Learning from Legends Business.

He was made a Member of the Order of Australia in 1999 for services to the community and rugby.

2.3 Information on Directors and Officers (continued)

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 28 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) and F.F.I. Holdings Limited (since October 2011). He was previously a Director of Gowing Bros Limited (April 2012 – December 2016).

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 a member of NAB Business Advisory Council, Chairman of Growth Mantra, Deputy National Chairman of the Australian British Chamber of Commerce, Chair of IPScape Limited, and a board member of Optal Limited, Grassroots Pty Ltd, Ipro Solutions Pty Limited and Cure Cancer Australia Foundation. He was also Chair of the NAB Private Advisory Board. 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 (appointed 21 February 2012 and Chairman since 10 April 2012), 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 Ascham School Council of Governors. 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 30 years experience in financial services in various company secretarial, finance and management roles and has held Group Company Secretary roles at The Trust Company, Investa Property Group and MLC Limited. Geoffrey holds a Bachelor of Commerce degree from the University of NSW, is a Chartered Accountant, a Fellow of the Governance Institute of Australia and a Fellow of the Australian Institute of Company Directors.

2.4 Directors' Meetings

The number of meetings of the Board and Board Committees, held during the year ended 30 June 2017 and the number of those meetings attended by each Director are set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended
	while a Director		while a member		while a member	
B Cairns	7	7	-	-	-	-
H Douglass	7	7	-	-	-	-
J Eales	-	-	-	-	-	-
R Fraser	7	7	8	8	3	3
P Lewis	7	7	8	8	3	3
H McLennan	7	7	8	8	3	3
K Phin	7	7	8	8	3	3

2.5 Directors' Interests

During the year ended 30 June 2017, Magellan Asset Management Limited (a wholly owned entity of MFG) paid fees to International Quarterback Pty Limited (IQ) for consulting services. Mr Eales has a non-material shareholding in IQ and was formerly a director of IQ.

On 9 August 2017, Magellan Asset Management Limited appointed Taylor Collison Limited as Lead Arranger and a Joint Lead Manager in respect of the Broker Firm Offer and the General Public Offer for intended initial public offering of the Magellan Global Trust. Mr Fraser is a director of Taylor Collison Limited and has a non-material shareholding in that company. No amounts were paid or payable to Taylor Collison by any entity in the Group in respect of this transaction during the year ended 30 June 2017 and up to the date of this report.

All transactions were conducted on arm's length terms. Apart from the above, 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.

3. 2017 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Group for the year ended 30 June 2017.

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 2017 financial year, the KMP for the Group included the Executive Chairman, the Chief Executive Officer (CEO) and Chief Investment Officer, the Non-Executive Directors 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	Full Year
Karen Phin	Director	Full Year
Executive Directors		
Brett Cairns	Executive Chairman	Full Year
Hamish Douglass	CEO & Chief Investment Officer	Full Year
Group Executives		
Frank Casarotti	General Manager - Distribution	Full Year
Kirsten Morton	Chief Financial Officer	Full Year
Gerald Stack	Head of Investments	Full Year
Marcia Venegas	Head of Risk, Compliance and Legal	Full Year
Craig Wright	Head of Governance & Advisory	Full Year
Former Group Executive		
Nerida Campbell	Chief Operating Officer	Ceased 1 Feb 2017

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

3.1 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 and is subject to some level of deferred payment; and
- An offer of voluntary participation in the Group's Share Purchase Plan (SPP), to encourage long term ownership in the Group.

Variable remuneration

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. If these objectives are met, the interests of shareholders will be satisfied. 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.

3. 2017 Remuneration Report (Audited) (continued)

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.

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 discretionary and 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 an outcome of an overall performance appraisal process. Variable remuneration may be in the range of 0-100% of the fixed remuneration amount or higher in exceptional circumstances.

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 aligning the basis of the CEO's variable incentive to investment performance provides an important calibration 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.

Variable incentives are paid partly as a current year cash bonus and partly as a conditional deferred cash bonus amount over periods up to three years.

Share Purchase Plan (SPP)

The Group does not operate a specific long term incentive plan, however the Group offers voluntary 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 the 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, generally up to 75% of the subscription value, via a full recourse, interest-free loan, and thus the SPP participant bears the full risks and benefits of being a shareholder. The Board believes the Group is best placed to offer stable financing arrangements to establish and support meaningful ownership as it would be counterproductive to a true long term ownership position if short term share price movements were to impact an employee's own financing of this loan. The full recourse loan is compulsorily repaid via dividends paid on associated shares plus 25% of the employees after tax variable incentive. As the loan is full recourse, participants are liable to repay the loan irrespective of the performance of the Group's shares.

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.

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 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 Non-Executive Director's fees. Importantly, this also allows Non-Executive Directors to be fully invested in the Group at the beginning of their tenure rather than waiting many years to accumulate a meaningful ownership position. 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 promotes independent thought and engagement that will be in the long-term interests of the Group's shareholders. The Group's shareholders must approve the provision of financing to the Non-Executive Directors by way of a vote at the Annual General Meeting.

Further details of the SPP are set out in note 15 to the financial statements.

3. 2017 Remuneration Report (Audited) (continued)

3.2 Remuneration of Non-Executive Directors

The Board regularly 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.

Remuneration and other terms of employment for the Non-Executive Directors are formalised in service agreements with the Group. Non-Executive Directors are appointed for a term of three years unless the Non-Executive Director is not re-elected by shareholders of the Company.

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 Directors' fees (inclusive of superannuation) and the non-cash expense to the Group of providing the full recourse, interest-free loans under the SPP described in section 3.1. Together, these 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 intends to seek shareholder approval to raise the cap to $750,000 at the Group's 2017 Annual General Meeting.

The following table outlines the Non-Executive Directors' fees (inclusive of superannuation) for the Board and Committees of both the Group and Magellan Asset Management Limited for the year ended 30 June 2017:

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

The Group has reimbursed or borne expenses incurred by the Non-Executive Directors in the discharge of their duties of $1,286 (June 2016: $1,301).

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

3.3 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.

The below table provides a summary of Executive Directors and Other KMP remuneration structures for the 2017 financial year.

	Fixed remuneration (incl. of superannuation)	Variable remuneration	SPP participation
Brett Cairns	$1,250,000	Not entitled to receive variable incentive payments	Ability to participate in SPP
Hamish Douglass	1.5% of the average annual operating profit before income tax expense of the Funds Management business for the three immediately preceding financial years	Up to 100% of fixed compensation based on the performance of the Group's Global Equity strategy over a three year period	Not entitled to participate in SPP as he owns 21.7 million shares which provide a material alignment with shareholders
Gerald Stack	Market-based base salary	Up to 10% of net revenues earned by the Group in respect of investment strategies for which he is portfolio manager, less an internal allocation of certain costs	Ability to participate in SPP
Other KMP	Market-based base salary	Generally up to 100% of fixed remuneration based on individual performance / contribution and the overall performance of the Group	Ability to participate in SPP

3. 2017 Remuneration Report (Audited) (continued)

Mr Douglass' remuneration structure

The Board considers that Mr Douglass is performing two distinct roles. He is both the Chief Executive Officer and the Chief Investment Officer/Lead Portfolio Manager for the Group's global equity strategies. The Board considers that Mr Douglass' remuneration takes into account both of these roles. At a high level Mr Douglass' annual fixed remuneration can be attributed primarily to his role as Chief Executive Officer and is tied to the medium term profitability of the Group's Funds Management business, and his variable remuneration can be attributed to his role as Chief Investment Officer/Lead Portfolio Manager and is entirely based on the performance of the Group's Global Equity strategy.
The Board recognises that Mr Douglass' remuneration structure is not a typical remuneration arrangement but it believes the structure fairly compensates Mr Douglass for the roles he is performing.

Mr Douglass' remuneration structure focuses him on delivering positive medium to long term outcomes for both clients and shareholders and not on actions simply to maximise short term profitability. In addition, Mr Douglass' substantial shareholding in the Group, along with his personal investments in the Group's investment strategies, also creates strong alignment with clients and shareholders.

Following a review, for the period commencing 1 July 2016, Mr Douglass' annual fixed remuneration was adjusted from a fixed amount of $1,250,000 per annum to an amount equal to 1.5% of the average annual operating profit before income tax expense for the Group's Funds Management business for the three immediately preceding financial years, subject to any adjustments agreed between the Board and Mr Douglass. Mr Douglass' fixed remuneration (inclusive of superannuation) for the year ended 30 June 2017 was $2,748,023.

The below table outlines Mr Douglass' annual fixed remuneration as a percentage of the three year average annual operating profit before tax expense for the Funds Management business over the past five financial years. The Board believes that 1.5% is an appropriate level of compensation having regard to Mr Douglass' historical remuneration and the roles he is performing.

	2017	2016	2015	2014	2013
3 year average annual operating profit before tax for Funds Management business ($'000)[(A)]	183,201	122,466	60,132	27,756	7,987
5-year compound average growth rate	*137%*				
Mr Douglass' fixed remuneration ($'000)	2,748	1,250	1,250	1,250	400
5-year compound average growth rate	*62%*				
Mr Douglass' fixed remuneration as % of 3 year average operating profit for Funds Management business[(A)]	1.5%	1.0%	2.1%	4.5%	5.0%

(A) For the three immediately preceding financial years

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.

On an annual basis, Mr Douglass is eligible to receive variable compensation being a maximum amount of up to but not exceeding 100% of his fixed compensation for that financial year. Mr Douglass' annual variable incentive is determined in relation to the performance of the investment strategies under his control over a three year period. Importantly, the three year performance period emphasises the Group's medium to long term focus for its investment strategies and the needs of clients. Achieving superior investment returns for clients over the medium to long term will ultimately be in shareholders' interests. Mr Douglass does not receive any of his variable incentive up front. Instead payment is deferred over the subsequent three financial years which is consistent with the medium term focus of Mr Douglass' variable remuneration arrangements.

The Board, in consultation with Mr Douglass, determined the performance metrics and underlying quantitative measures that apply which are subject to an annual review ahead of the next financial year. For the year ending 30 June 2017, the metrics are:

3. 2017 Remuneration Report (Audited) (continued)

<table>
<tr><th>Performance Metrics</th><th>Weighting</th><th>Percentage Paid/Performance Measures</th><th>2017 outcome</th></tr>
<tr><td>Ranking of the Global Equity Strategy in Peer Group[A]
(rolling 3 years as at 30 June each year)</td><td>33.3%</td><td>The percentage paid is in the range of 0% to 100% dependent on the ranking quartile band achieved as per the below table:
<table>
<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></td><td>Mr Douglass received 100% of this component in 2017, based on a 1st Quartile ranking</td></tr>
<tr><td>Absolute Performance (Gross Return) of the Global Equity Strategy (measured in USD)
(rolling 3 years as at 30 June each year)</td><td>33.3%</td><td>The percentage paid is in the range of 0% to 100% dependent on the absolute performance achieved as per the below table:
<table>
<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></td><td>Mr Douglass received 55.4% of this component in 2017, based on absolute performance of 8.43% p.a.</td></tr>
<tr><td>Relative gross investment performance of the Global Equity Strategy against its Benchmark Index[B]
(rolling 3 years as at 30 June each year)</td><td>33.3%</td><td>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:
<table>
<tr><td>100%</td><td>Achieves Benchmark Index + 2.5% p.a. or greater</td></tr>
<tr><td>50% to 100% (sliding scale)</td><td>Achieves Benchmark Index to Benchmark Index + 2.5% p.a.</td></tr>
<tr><td>0%</td><td>Achieves less than Benchmark Index p.a.</td></tr>
</table></td><td>Mr Douglass received 100% of this component in 2017, based on relative gross investment performance of 8.43% p.a. against Benchmark Index of 5.24% p.a.</td></tr>
</table>

(A) Ranking 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).

(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 2017, Mr Douglass will receive a total variable incentive of $2,339,021 (June 2016: $442,456) 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" in Section 3.5.

As part of an annual review, the Board, in consultation with Mr Douglass, determined to add an additional performance metric to the three current variable performance metrics for Mr Douglass' 2018 variable remuneration. Therefore, Mr Douglass' 2018 variable incentive will be determined by four performance metrics with equal weight distributions. The additional metric and underlying quantitative measures are outlined below.

<table>
<tr><th>Performance Metric</th><th>Weighting</th><th>Percentage Paid/Performance Measures</th></tr>
<tr><td>Down Market Capture of the Global Equity Strategy (measured in USD) against its Benchmark Index (rolling 3 years as at 30 June each year)</td><td>25%</td><td>The percentage paid is in the range of 0% to 100% dependent on the Down Market Capture achieved as per the table below:
<table>
<tr><td>100%</td><td>Achieves Down Market Capture less than 75%</td></tr>
<tr><td>100% to 50% (sliding scale)</td><td>Achieves Down Market Capture of 75% to less than 100%</td></tr>
<tr><td>0%</td><td>Achieves Down Market Capture greater or equal to 100%</td></tr>
</table></td></tr>
</table>

Down Market Capture measures how the Global Equity Strategy performs relative to the MSCI World Net Total Return Index in every month over a rolling 3 year period where the return on this Index is negative. The Board believes Down Market Capture is an important metric to include as it is in line with one of the key objectives of the Global Equity strategy to minimise the risk of permanent capital loss.

3. 2017 Remuneration Report (Audited) (continued)

Fixed remuneration for 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.

Dr Cairns' fixed remuneration is subject to annual review and was unchanged from the previous year.

Fixed remuneration for Other KMP is reviewed annually to ensure that it is competitive and reasonable, however there are no guaranteed increases to the fixed remuneration amount.

Variable remuneration for Other KMP

When considering variable remuneration, the Board's primary objective is that KMP are motivated to build valuable long term client relationships and generate returns for investors in the funds managed by the Group which will ultimately deliver shareholder wealth over the long term.

The CEO determines the amount of variable incentive to be paid to Other KMP, subject to review and approval by the Remuneration and Nominations Committee, 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. Entitlement to the deferred cash bonus is dependent on Other KMP being employed by the Group at the time of payment.

The Board believes that the CEO's and Chairman's shareholdings and the participation in the Group's SPP by Other KMP closely aligns their interests with the long term interests of shareholders.

Summary of 2017 variable remuneration outcomes

(a) Variable remuneration outcomes for 2017

The tables below outline the variable remuneration outcomes (as a % of fixed remuneration) for KMP for the 2017 financial year and provide an overview of key achievements and business outcomes delivered by Other KMP that were considered when determining their variable remuneration for the year.

KMP	Variable remuneration outcome	Comments
Hamish Douglass	85%	• Based on agreed criteria and performance metrics relating to the performance of the investment strategies under his control over the three year period to 30 June 2017 • The performance metrics and relative weightings of these are outlined in section 3.3
Frank Casarotti	105%[(A)]	• Overseeing the Distribution team which achieved total net retail inflows of $1.7 billion and net institutional inflows of $2.3 billion • Promoting and maintaining a client focussed culture within the Group's Distribution team • Deepening the Group's relationship with key stakeholders in the Bank/AMP aligned channel • Overseeing the development of the Group's self-directed strategy and initiatives
Kirsten Morton	100%	• Leading the Group's Business Support and Control teams, including Finance, Investment Operations and Administration • Streamlining and simplifying the Group's business operational functions in Australia and the US, including embedding business intelligence systems and processes to manage key operational risks
Gerald Stack	673%[(A)]	• Up to 10% of net revenues earned by the Group in respect of investment strategies for which he is portfolio manager, less an internal allocation of certain costs
Marcia Venegas	75%	• Leading the Group's Legal, Risk, Compliance and Company Secretarial teams in support of the Group's strategic goals • Overseeing and enhancing the risk and compliance frameworks in all jurisdictions in which the Group operates • Establishing standards and policies required for new products and ensuring compliance with new regulatory requirements in Australia and the United States • Resolving compliance issues and providing advice to the business to enable the Group to implement its strategic goals within the regulatory requirements
Craig Wright	95%	• Overseeing the project management of strategic initiatives across the Group, including the establishment of the Group's new U.S. mutual funds • Overseeing the Group's IT infrastructure and business continuity planning • Overseeing the Group's UCITS investment company based in Ireland including the establishment of two new sub-funds
Nerida Campbell	-	• Ms Campbell concluded employment with the Group on 1 February 2017 resulting in no variable incentive entitlement in respect of the 2017 financial year

[(A)] Includes a 10-year service bonus payment

3. 2017 Remuneration Report (Audited) (continued)

(b) Split between cash and conditional deferred cash bonus components of 2017 variable remuneration

The below table provides a summary of variable remuneration outcomes for Executive Directors and Other KMP for the years ended 30 June 2017 and 30 June 2016. 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.

		Variable incentive outcomes				
		Cash Bonus (A)	Conditional Deferred Cash Bonus (B)	Total variable remuneration awarded	Fixed remuneration (incl. superannuation)	Total variable remuneration awarded as % of fixed remuneration
		$	$	$	$	%
Executive Directors(C)						
H Douglass	2017	-	2,339,021	**2,339,021**	2,748,023	85%
	2016	-	442,456	**442,456**	1,250,000	35%
Group Executives (Other KMP)						
F Casarotti(D)	2017	340,750	209,250	**550,000**	525,000	105%
	2016	272,439	173,811	**446,250**	446,250	100%
K Morton	2017	247,000	153,000	**400,000**	400,000	100%
	2016	227,750	137,250	**365,000**	365,000	100%
G Stack(D)	2017	1,755,109	1,366,453	**3,121,562**	464,000	673%
	2016	1,337,893	1,047,525	**2,385,418**	446,250	535%
M Venegas(E)	2017	167,250	87,750	**255,000**	340,000	75%
C Wright(E)	2017	198,121	113,004	**311,125**	327,500	95%
Former Group Executive						
N Campbell(F)	2017	-	-	**-**	525,000	-
	2016	272,439	173,811	**446,250**	446,250	100%
Total KMP	**2017**	**2,708,230**	**4,268,478**	**6,976,708**	**5,329,523**	
	2016	**2,110,521**	**1,974,853**	**4,085,374**	**2,953,750**	

(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 represents the portion of Group Executives' awarded variable remuneration for the financial year that is deferred and is paid in cash in 36 equal monthly instalments in future financial years, subject to continued employment with the Group.
(C) Dr Cairns is not entitled to any variable incentive.
(D) Mr Casarotti's and Mr Stack's variable incentive includes a 10-year service bonus payment.
(E) Mr Wright and Ms Venegas have been determined as KMP in the year ended 30 June 2017.
(F) Ms Campbell concluded employment with the Group on 1 February 2017 resulting in no variable incentive entitlement in respect of the 2017 financial year.

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 2017 is $6,918,742 and payable over the years ended 30 June 2018, 30 June 2019 and 30 June 2020 (June 2016: $6,938,188 and payable over the years ended 30 June 2017, 30 June 2018 and 30 June 2019).

Details of the remuneration paid to Executive Directors and Other KMP is provided in section 3.4. Details of the employment agreements of Executive Directors and Other KMP are described in section 3.5 of this report.

3. 2017 Remuneration Report (Audited) (continued)

3.4 Details of Remuneration

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	Termination Payments	Total
		Salary	Cash Bonus (A)	Conditional Deferred Cash Bonus paid (B)	Superannuation	Other (C)	(D)		(E)
		$	$	$	$	$	$		$
Non-Executive Directors									
Robert Fraser	2017	86,758	-	-	8,242	-	20,796	-	115,796
	2016	86,758	-	-	8,242	-	20,796	-	115,796
Paul Lewis	2017	80,000	-	-	-	-	-	-	80,000
	2016	80,000	-	-	-	-	-	-	80,000
Hamish McLennan	2017	73,059	-	-	6,941	-	5,450	-	85,450
	2016	24,353	-	-	2,314	-	-	-	26,667
Karen Phin	2017	73,059	-	-	6,941	-	17,157	-	97,157
	2016	73,059	-	-	6,941	-	17,157	-	97,157
Executive Directors									
Brett Cairns	2017	1,230,384	-	-	19,616	-	-	-	1,250,000
	2016	1,230,692	-	-	19,308	-	-	-	1,250,000
H Douglass(F)	2017	2,728,407	-	147,485	19,616	253,597	100,000	-	3,249,105
	2016	1,230,692	-	600,000	19,308	20,504	100,000	-	1,970,504
Group Executives (Other KMP)									
F Casarotti(G)	2017	465,535	340,750	57,937	19,616	20,589	-	-	904,427
	2016	411,342	272,439	166,250	19,308	10,002	-	-	879,341
K Morton	2017	380,384	247,000	45,750	19,616	-	3,503	-	696,253
	2016	345,692	227,750	125,000	19,308	-	3,503	-	721,253
G Stack(G)	2017	439,256	1,755,109	349,175	19,616	10,160	16,372	-	2,589,688
	2016	426,942	1,337,893	803,616	19,308	10,061	10,184	-	2,608,004
M Venegas(G)(H)	2017	299,687	167,250	25,260	19,616	-	775	-	512,588
C Wright(H)	2017	307,884	198,121	93,487	19,616	-	3,528	-	622,636
Former Group Executive									
N Campbell(I)	2017	294,807	-	33,797	11,442	-	-	432,597	772,643
	2016	426,942	272,439	187,500	19,308	10,237	3,293	-	919,719
Total KMP	**2017**	**6,459,220**	**2,708,230**	**752,891**	**170,878**	**284,346**	**167,581**	**432,597**	**10,975,743**
	2016	**4,336,472**	**2,110,521**	**1,882,366**	**133,345**	**50,804**	**154,933**	**-**	**8,668,441**

(A) The cash bonus amount includes the current year cash bonus.
(B) The conditional deferred cash bonus paid is the deferred components of prior years' bonuses which have been paid in cash over the course of the current year.
(C) Includes long service entitlements accrued during the year.
(D) Other benefits represent the expense of providing interest-free loans to Participants in the Share Purchase Plan (refer to further details at section 3.1). These are non-cash items.
(E) No non-monetary benefits or other short term benefits not otherwise disclosed above were paid during the years ended 30 June 2017 and 30 June 2016.
(F) Other benefits include $100,000 accrued in the current year in relation to the investment restriction contract with Mr Douglass (June 2016: $100,000). For further details refer to note 20(b).
(G) Salary reduced due to taking leave without pay during the year ended 30 June 2017.
(H) Mr Wright and Ms Venegas have been determined as KMP in the year ended 30 June 2017.
(I) Ms Campbell concluded employment with the Group on 1 February 2017. The remuneration table above reflects her expense up to this date. Payments shown under the Termination Payments column above reflect statutory entitlements and other discretionary related amounts.

3. 2017 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
Mr Douglass is employed under a contract with MAM, with effect from 1 March 2008 and which will continue indefinitely until terminated. Mr Douglass' employment agreement required a review of fixed remuneration from 1 July 2016. The terms of the contract are outlined below.

Fixed and variable compensation
Mr Douglass is entitled to fixed and variable compensation as outlined in Section 3.3.

Investment restrictions
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, MFF Capital Investments Limited, MAM and related entities, and any managed investment scheme in which MAM acts as trustee or responsible entity. These restrictions would have ceased to apply prior to 1 July 2017, if a third party acquired control of MAM or MFG, or if the employment contract was 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 paid Mr Douglass an amount of $500,000 on 14 July 2017 as specified in his employment agreement.

Shareholding requirement
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 21,792,277 ordinary shares (2016: 11,087,000 ordinary shares in addition to 10,200,000 Class B Shares).

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

<u>Termination with cause</u>: 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.

<u>Termination without cause</u>: 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.

<u>Termination due to death or incapacity</u>: 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; and
- a pro-rata variable remuneration component for the period from 1 July of that year to the termination date.

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.

3. 2017 Remuneration Report (Audited) (continued)

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 2017, Dr Cairns received remuneration of $1,250,000 (2016: $1,250,000).

Group Executives (Other KMP)
Other KMP have rolling employment contracts with MAM. MAM may terminate the contracts at any time by giving not less than three months written notice (for Ms Morton, Mr Wright and Ms Venegas 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, Mr Wright and Ms Venegas this is not less than one month). On termination, 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.

3. 2017 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 2015	Net Additions/ (disposals)	Closing balance 30 June 2016	Net Additions/ (disposals)	Closing balance 30 June 2017
Non-Executive Directors					
Robert Fraser					
- Ordinary shares	599,109	-	599,109	-	599,109
Paul Lewis					
- Ordinary shares	1,850,000	(50,000)	1,800,000	(75,000)	1,725,000
Hamish McLennan					
- Ordinary shares	36,300	-	36,300	63,948	100,248
Karen Phin					
- Ordinary shares	89,312	-	89,312	-	89,312
Executive Directors					
Brett Cairns					
- Ordinary shares	1,006,948	17,575	1,024,523	-	1,024,523
Hamish Douglass					
- Ordinary shares	11,087,000	-	11,087,000	10,705,277	21,792,277
- Class B Shares(A)	10,200,000	-	10,200,000	(10,200,000)	-
Group Executives (Other KMP)					
Frank Casarotti					
- Ordinary shares	656,927	(156,927)	500,000	-	500,000
Kirsten Morton					
- Ordinary shares	18,896	-	18,896	-	18,896
Gerald Stack					
- Ordinary shares	431,119	26,483	457,602	14,178	471,780
Marcia Venegas(B)					
- Ordinary shares	-	-	-	2,126	2,126
Craig Wright(B)					
- Ordinary shares	-	-	18,896	-	18,896
Former Group Executive					
Nerida Campbell					
- Ordinary shares(C)	448,600	-	448,600	(27,600)	421,000

(A) On 22 November 2016 the MFG Class B Shares converted to 10,305,277 ordinary shares. Refer to note 14(d)(iii) for the key terms and conditions of the MFG Class B Shares.
(B) The opening balance at 1 July 2016 represents the shareholding from the date Mr Wright and Ms Venegas were KMP.
(C) Closing balance reflects balance held at date of cessation of employment.

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

3. 2017 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 2015	Additions/ (disposals) (A)	Closing balance 30 June 2016	Additions/ (disposals) (A)	Closing balance 30 June 2017
Magellan Global Fund					
Directors					
Hamish Douglass(B)	1,250,440	162,261	1,412,701	125,024	1,537,725
Paul Lewis	364,293	105,203	469,496	36,424	505,920
Group Executives (Other KMP)					
Frank Casarotti(B)	-	-	-	-	-
Gerald Stack	57,034	7,399	64,433	5,705	70,138
Former Group Executive					
Nerida Campbell(C)	55,749	7,234	62,983	5,574	68,557
Magellan Infrastructure Fund					
Directors					
Paul Lewis	40,712	1,134	41,846	332,936	374,782
Group Executives (Other KMP)					
Gerald Stack	74,050	2,062	76,112	5,685	81,797
Magellan High Conviction Fund					
Directors					
Hamish Douglass	1,519,722	72,354	1,592,076	127,414	1,719,490
Magellan Global Equities Fund					
Directors					
Brett Cairns	40,000	111	40,111	407	40,518
Hamish Douglass	75,000	500,418	575,418	11,651	587,069
Group Executives (Other KMP)					
Frank Casarotti	-	-	-	200,000	200,000
Gerald Stack	-	-	-	100,000	100,000
Craig Wright(D)	-	-	15,134	(8,000)	7,134
Magellan Global Equities Fund (Currency Hedged)					
Directors					
Brett Cairns	-	10,000	10,000	-	10,000
Hamish Douglass	-	500,000	500,000	10,385	510,385
Magellan Infrastructure Fund (Currency Hedged)					
Group Executives (Other KMP)					
Gerald Stack	-	-	-	210,000	210,000

(A) Includes the reinvestment of 30 June 2015 and 30 June 2016 distributions in the years ended 30 June 2016 and 30 June 2017 respectively.

(B) In addition to the above holdings, Mr Douglass and Mr Casarotti selected the Magellan Global Fund product via their employer superannuation account and currently have holdings of 440,031 and 39,898 units at a value of $696,480 and $63,151 respectively as at 30 June 2017 (June 2016: 428,891 and 242,961 units at a value of $596,116 and $526,885 respectively). Mr Casarotti also reweighted into his SMSF with 24,916 units in a Magellan Global Fund product at a value of $61,588 and 200,000 units in Magellan Global Equities Fund (reflected in the table above) at a value of $554,000 (June 2016: Nil).

(c) Reflects balance held at date of cessation of employment.

(D) The opening balance at 1 July 2016 represents the unitholding from the date Mr Wright was a KMP.

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

3. 2017 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 2017, seven KMP held a loan (June 2016: four). The terms and conditions of the loans, including repayment terms, are disclosed in note 15 of the financial statements. 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	
						Face value[C]	Carrying value[C]
		Number	$	$	$	$	$
Directors							
Robert Fraser	2017	-	876,631	-	(74,682)	801,949	754,904
	2016	-	963,727	-	(87,096)	876,631	807,018
Hamish McLennan	2017	63,948	-	999,987	(24,556)	975,431	898,421
	2016	-	-	-	-	-	-
Karen Phin	2017	-	723,193	-	(61,613)	661,580	622,798
	2016	-	795,078	-	(71,885)	723,193	665,792
Group Executives (Other KMP)							
K Morton	2017	-	203,835	-	(43,475)	160,360	152,488
	2016	-	242,984	-	(39,149)	203,835	188,929
G Stack	2017	14,178	543,295	249,994	(203,918)	589,371	574,927
	2016	26,483	338,669	374,999	(170,373)	543,295	525,809
M Venegas[A]	2017	2,126	-	49,982	(816)	49,166	48,091
C Wright[A]	2017	-	206,704	-	(36,655)	170,049	159,448
Former Group Executive							
N Campbell[B]	2017	-	-	-	-	-	-
	2016	-	11,156	-	(11,156)	-	-

(A) The opening balance at 1 July 2016 represents the loan balance from the date Ms Venegas and Mr Wright were KMP.
(B) The loan of Ms Campbell was repaid in full during the year ended 30 June 2016.
(C) The face value represents the loan balance due to be repaid to the Company. The carrying value represents the loan balance as required by the accounting standards (for further detail, please refer to note 1(s))

3. 2017 Remuneration Report (Audited) (continued)

3.9 Link Between Performance and Remuneration Paid by the Group

	2017	2016	2015	2014	2013
Total revenue ($'000)	338,268	333,805	284,912	148,109	120,906
Total expenses ($'000)	82,141	74,104	54,603	37,630	25,904
Net operating profit ($'000)	196,225	198,357	174,295	82,939	66,600
Basic earnings per share (cents per share)	116.9	123.5	109.2	53.3	43.6
Diluted earnings per share (cents per share)	114.1	115.5	101.8	48.9	40.0
Total Dividends paid (cents per share)[A]	85.6	89.3	74.9	33.0	8.0
Closing share price (ASX code: MFG)[B]	$ 28.84	$ 22.25	$ 17.40	$ 10.93	$ 9.64
Total KMP remuneration:					
- fixed compensation ($)[C]	6,914,444	4,520,621	3,525,342	3,370,513	2,295,866
- variable compensation ($)[D]	4,061,299	4,147,820	3,706,172	3,156,699	2,348,390
	10,975,743	**8,668,441**	**7,231,514**	**6,527,212**	**4,644,256**
Number of KMPs	12	10	9	10	8
% growth in net operating profit	-1%	14%	110%	25%	388%
% growth in diluted earnings per share	-1%	13%	108%	22%	371%
% growth in total KMP remuneration	27%	20%	11%	41%	230%
Total KMP remuneration as % of net operating profit	6%	4%	4%	8%	7%

[A] Excluding in-specie distribution of 9.16 cents per share for the year ended 30 June 2013. Dividends paid have been fully franked.
[B] As at 30 June
[C] Fixed compensation comprises salary, superannuation and accrued long service leave.
[D] Variable compensation comprises cash bonuses and interest-free loans provided under the SPP outlined in Table 3.4 and a discretionary payment to the former Chairman in 2014.

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 33.

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
10 August 2017

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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 2017, 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 Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
10 August 2017

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 30 June 2017

		Consolidated Entity	
	Note	30 June 2017 $'000	30 June 2016 $'000
Revenue			
Management fees	6(a)	300,529	258,392
Performance fees	6(b)	21,696	48,014
Services fees	6(c)	6,650	8,237
Interest income		1,941	2,089
Dividend and distribution income		5,501	11,881
Net gain on sale of available-for-sale financial assets	6(f)	2,259	1,055
Net foreign exchange gain/(loss)		(308)	165
Group's share of profit for the period MGE was an associate	13(a)	-	3,961
Other		-	11
Total revenue		**338,268**	**333,805**
Expenses			
Employee expenses		47,370	42,065
Non-Executive Director fees		338	284
US marketing/consulting fee expense		7,895	7,168
Fund administration and operational costs		8,791	7,151
Information technology expense		3,758	3,606
Marketing expense		3,037	2,811
Legal and professional fees		1,688	1,734
Occupancy expense		3,155	1,278
Travel and entertainment expense		1,712	1,120
Auditor's remuneration	21	611	769
Depreciation and amortisation expense	8(a)	392	280
Foreign and withholding taxes		199	2,055
Loss on disposal of property, plant and equipment		18	14
Net loss on deemed disposal of interest in associate - MGE, transferred from the Consolidated Statement of Other Comprehensive Income	13	-	1,296
Other		3,177	2,473
Total expenses		**82,141**	**74,104**
Net profit before income tax expense		**256,127**	**259,701**
Income tax expense	5(a)	(59,902)	(61,344)
Net profit after income tax for the year		**196,225**	**198,357**
Basic earnings per share (cents per share)	3	116.9 cents	123.5 cents
Diluted earnings per share (cents per share)	3	114.1 cents	115.5 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 2017

		Consolidated Entity	
	Note	30 June 2017 $'000	30 June 2016 $'000
Net profit after income tax for the year		**196,225**	**198,357**
Other comprehensive income			
Items that may or have been reclassified to profit or loss in future years, net of tax			
Net changes in the fair value of available-for-sale financial assets		30,619	(14,725)
Net (gain)/loss on sale of available-for-sale financial assets	6(f)	(2,259)	(1,055)
Net loss on deemed disposal of interest in associate - MGE	13	-	1,296
Income tax (expense)/benefit on the above items	5(a)	(9,011)	3,511
Exchange differences on translation of foreign operation		(31)	(52)
Other comprehensive income for the year, net of tax		**19,318**	**(11,025)**
Total comprehensive income for the year		**215,543**	**187,332**

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 2017

		Consolidated Entity	
	Note	30 June 2017 $'000	30 June 2016 $'000
Assets			
Current assets			
Cash and cash equivalents	18(c)	146,243	120,362
Financial assets	11	1,775	1,719
Receivables	7	71,290	53,747
Loans - share purchase plan	15	1,940	1,531
Prepayments		926	403
Total current assets		**222,174**	**177,762**
Non-current assets			
Financial assets	11	263,113	206,221
Loans - share purchase plan	15	7,817	7,482
Property, plant and equipment	8	877	914
Total non-current assets		**271,807**	**214,617**
Total assets		**493,981**	**392,379**
Liabilities			
Current liabilities			
Payables	9	22,336	21,161
Provisions	10	880	218
Income tax payable		4,863	7,032
Total current liabilities		**28,079**	**28,411**
Non-current liabilities			
Deferred tax liabilities	5(c)	15,651	7,257
Deferred lease incentives		1,831	-
Provisions	10	809	1,342
Total non-current liabilities		**18,291**	**8,599**
Total liabilities		**46,370**	**37,010**
Net assets		**447,611**	**355,369**
Equity			
Contributed equity	14	115,250	111,073
Available for sale reserve		40,708	21,359
Foreign currency translation reserve		(83)	(52)
Retained profits		291,736	222,989
Total attributable to members of the Group		**447,611**	**355,369**
Total equity		**447,611**	**355,369**

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 2017

		Attributable to Equity Holders of the Consolidated Entity				
		Contributed Equity	Foreign currency translation reserve	Retained Profits	Available for Sale Reserve	Total
2017	**Note**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Equity - 1 July 2016		**111,073**	**(52)**	**222,989**	**21,359**	**355,369**
Net profit for the year		-	-	196,225	-	196,225
Other comprehensive income		-	(31)	-	19,349	19,318
Total comprehensive income for the year		-	(31)	196,225	19,349	215,543
Transactions with owners in their capacity as owners:						
Issue of securities:						
- under share purchase plan (SPP)	14(a)	4,004	-	-	-	4,004
- transaction costs arising on share issue	14(a)	(110)	-	-	-	(110)
Dividends paid	4	-	-	(127,478)	-	(127,478)
SPP expense for the year	14(a)	283	-	-		283
Total transactions with equity holders in their capacity as equity owners		4,177	-	(127,478)	-	(123,301)
Equity - 30 June 2017		**115,250**	**(83)**	**291,736**	**40,708**	**447,611**
2016						
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**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	Note	Consolidated Entity 30 June 2017 $'000	Consolidated Entity 30 June 2016 $'000
Cash flows from operating activities			
Management and services fees received		297,851	260,342
Performance fees received		5,750	56,121
Interest received		1,576	1,674
Dividends and distributions received		596	366
Tax paid		(61,609)	(71,198)
Payments to suppliers and employees (inclusive of GST)		(79,473)	(65,770)
Other revenue received		-	10
Net cash inflows/(outflows) from operating activities	18(a)	**164,691**	**181,545**
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		9,350	3,516
Purchase of available-for-sale financial assets		(24,748)	(18,607)
Net matured term deposits classified as loans and receivables		107	(1,370)
Net cash flows from foreign exchange transactions		1	70
Payments for property, plant and equipment	8(a)	(368)	(694)
Net cash inflows/(outflows) from investing activities		**(15,658)**	**(17,085)**
Cash flows from financing activities			
Proceeds from issue of securities		1,978	2,685
Proceeds from repayment of share purchase plan loans		1,899	1,264
Dividends paid	4	(126,708)	(142,028)
Net cash inflows/(outflows) from financing activities		**(122,831)**	**(138,079)**
Net increase / (decrease) in cash and cash equivalents		26,202	26,381
Effects of exchange rate movements on cash and cash equivalents		(321)	47
Cash and cash equivalents at the beginning of the year		120,362	93,934
Cash and cash equivalents at the end of the year	18(c)	**146,243**	**120,362**

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

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 2017. The report was authorised for issue in accordance with a resolution of the Directors on 10 August 2017.

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 2016. 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 2017 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 accounting standards and interpretations which may have a material impact on the Group is set out below:

- **AASB 9: Financial Instruments (AASB 9) (effective 1 July 2018)**

  AASB 9 contains new requirements for the 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. Equity securities are measured at fair value through profit or loss unless an election is made at initial recognition, to present fair value changes in other comprehensive income. This option is irrevocable and applies only to equity instruments which are not held for trading. Gains and losses in other comprehensive income are not recycled on disposal of the securities, however the cumulative gain or loss may be transferred within equity.

  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.

1. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

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

- **AASB 9: Financial Instruments (AASB 9) (effective 1 July 2018) (continued)**
  At 30 June 2017, the Group continues to evaluate the classification, measurement and disclosure requirements of this standard, the financial and disclosure impacts of which are yet to be determined. Further information will be provided in future financial reports as management finalises its assessment. The adoption of the 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 required disclosure in the notes to the financial statements.

- **AASB 15: Revenue from Contracts with Customers (effective 1 July 2018) (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.

  The Group does not anticipate subsequent to adoption of AASB 15 from 1 July 2018 onwards there will be any material change to the timing or manner of recognition for management, services or performance fees. The recognition of interest income, investment gains/losses and foreign exchange gains/losses are unaffected as they are excluded from the scope of AASB 15.

- **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 provides 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 recognises 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 include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

  The Group anticipates the adoption of AASB 16 from 1 July 2019 onwards to result in increased disclosure. The Group expects that whilst there will be a requirement to gross up for the recognition of right of use assets and lease liabilities on the Consolidated Statement of Financial Position on adoption, these amounts are expected to approximately equal each other on initial recognition on 1 July 2019 and the impacts on the Statement of Profit or Loss on prior, current and future financial years are also not expected to be material. The Group expects to apply the modified retrospective approach on transition and reflect any impacts on transition to the new standard on a cumulative basis as an adjustment to the opening balance of retained earnings at 1 July 2019, the adoption date. Comparatives would not be restated. For practical expediency those lease contracts previously accounted for as leases under AASB 117 and Interpretation 4 identified and ongoing as at 1 July 2019 would continue to be accounted for as lease contacts in accordance with the new standard.

1. Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2017 (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.

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 associates to bring their accounting policies and reporting dates into line with the Group's accounting policies.

1. Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation (continued)

ii) Associates (continued)

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 as income, while in the consolidated financial statements they reduce the carrying value of the investment in the Statement of Financial Position.

iii) Structured Entities

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

iv) Changes in Ownership Interests

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

(c) Business Combinations

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

(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 where denominated in a foreign currency are translated to Australian dollars 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.

1. Summary of Significant Accounting Policies (continued)

(e) Foreign Currency Translation (continued)

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.

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 prior to 1 January 2017 MFF Capital Investments 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. Up until 31 December 2016, 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. There is no entitlement to performance fees for MFF from 1 January 2017 onwards.

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.

1. Summary of Significant Accounting Policies (continued)

(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 are recognised for all deductible temporary differences and unused tax credits and 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 reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Tax Consolidation - Australia

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. MFG 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).

1. Summary of Significant Accounting Policies (continued)

(i) Goods and Services Tax (GST)

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

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

(j) Financial Assets and Liabilities

The Group classifies its financial assets into one of the four following categories: financial assets at fair value through profit or loss, loans and receivables 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 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	
Receivables	Loans and receivables	Amortised cost	Refer to note 1(l)
Financial assets	Loans and receivables Available-for-sale Held for trading	Amortised cost Fair value Fair value	Refer to note 1(n) Refer to note 1(n) 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.

1. Summary of Significant Accounting Policies (continued)

(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)
Unlisted funds	Available-for-sale	Fair value	Refer to note 1(n) i)
Unlisted shares	Available-for-sale	Fair value	Refer to note 1(n) i)
Term deposits	Loans and receivables	Amortised cost	Refer to note 1(n) iii)

i) Available-for-Sale Financial Assets

Available-for-sale financial assets are assets that are not classified in any other financial asset category. These assets are carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in the available for sale reserve in the Consolidated Statement of the Financial Position and included in the 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 investing 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.

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.

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 high quality 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.

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.

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.

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 12.

The funds management activities undertaken by MAM, comprises acting as:

- Responsible Entity and Investment Manager for the following managed investment schemes offered primarily to Australian and New Zealand investors (collectively, the Unlisted Magellan Funds):
  - Magellan Global Fund
  - Magellan Global Fund (Hedged)
  - Magellan Infrastructure Fund
  - Magellan Infrastructure Fund (Unhedged)
  - Magellan High Conviction Fund;
- Responsible Entity and Investment Manager for Magellan Global Equities Fund (MGE), Magellan Global Equities Fund (Currency Hedged) (MHG) and Magellan Infrastructure Fund (Currency Hedged) (MICH) 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 and MFG Select Infrastructure Fund, funds 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 advisor for the MFG Low Carbon Global Fund and MFG Infrastructure Fund which are US domiciled open-ended mutual funds;
- Investment research and administrative services provider to MFF Capital Investments 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.

2. Segment Information (continued)

(a) Segment financial results

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

30 June 2017	Funds Management (A) $'000	Principal Investments $'000	Corporate $'000	Consolidated Entity $'000
Revenue				
Management fees	300,529	-	-	300,529
Performance fees	21,696	-	-	21,696
Services fees	6,650	-	-	6,650
Interest income	534	64	1,343	1,941
Dividend and distribution income	-	5,501	-	5,501
Net gain/(loss) on sale of available-for-sale financial assets	-	2,259	-	2,259
Net foreign exchange gain/(loss)	(221)	(87)	-	(308)
Other	-	-	-	-
Total revenue	**329,188**	**7,737**	**1,343**	**338,268**
Expenses				
Employee expense	47,072	-	15	47,087
Employee expense - SPP	240	-	43	283
Non-Executive Director fees	200	-	138	338
Other expenses	33,396	172	865	34,433
Total expenses	**80,908**	**172**	**1,061**	**82,141**
Operating profit before income tax expense	**248,280**	**7,565**	**282**	**256,127**
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	30,619	-	30,619
Net (gain)/loss on sale of available-for-sale financial assets	-	(2,259)	-	(2,259)
Exchange differences on translation of foreign operations	(31)	-	-	(31)
Other comprehensive income for the year, before tax	**(31)**	**28,360**	**-**	**28,329**
Total comprehensive income for the year, before tax	**248,249**	**35,925**	**282**	**284,456**

30 June 2016	Funds Management (A) $'000	Principal Investments $'000	Corporate $'000	Consolidated Entity $'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 $6,301,000 income (June 2016: $5,316,000) and $6,301,000 expense (June 2016: $5,316,000) under the transfer pricing agreement within the Funds Management segment. Refer to note 12 for further details.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

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
30 June 2017	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	34,977	3,367	107,899	146,243
Financial assets	1,775	263,113	-	264,888
Receivables and other assets	68,148	4,838	107	73,093
Loans - SPP	-	-	9,757	9,757
Total assets	**104,900**	**271,318**	**117,763**	**493,981**
Payables and provisions	25,751	-	105	25,856
Tax liabilities	-	20,279	235	20,514
Total liabilities	**25,751**	**20,279**	**340**	**46,370**
Net assets	**79,149**	**251,039**	**117,423**	**447,611**
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**

(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 2016: $20,000,000).

The Group's net investment in the funds management business activities was $13,204,000 (June 2016: $13,204,000), 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.

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3. Earnings Per Share (EPS)

	Consolidated Entity	
	30 June 2017	**30 June 2016**
Basic earnings per share		
Net profit after income tax attributable to shareholders ($'000)	196,225	198,357
Weighted average number of shares for basic EPS ('000)	167,892	160,635
Basic EPS (cents)	**116.9**	**123.5**
Diluted earnings per share		
Net profit attributable to shareholders ($'000)	196,225	198,357
Weighted average number of shares for diluted EPS ('000)	171,954	171,716
Diluted EPS (cents)	**114.1**	**115.5**
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)	196,225	198,357

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)	167,892	160,635
Add adjustments:		
- equivalent number of unexercised MFG 2016 Options[(A)]	-	791
- equivalent number of MFG Class B Shares[(B)]	4,062	10,290
Weighted average number of shares used in calculating diluted EPS ('000)	171,954	171,716

(A) As the MFG 2016 Option period expired on 30 June 2016, there were no unexercised options as at 30 June 2017. In the prior year ended 30 June 2016, the MFG 2016 Options are considered to be potential ordinary shares for the purposes of the diluted earnings per share calculation and were included in the determination of diluted earnings per share to the extent they were dilutive.

(B) The MFG Class B Shares were converted on 22 November 2016 (refer to note 14(d)(iii) for further detail). Up until conversion, the Class B Shares were 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 were 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 MFG Class B Shares would convert applying a conversion factor of 0.0637028. There were no unconverted MFG Class B Shares as at 30 June 2017.

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for the year ended 30 June 2017

4. Dividends

	Consolidated Entity	
	30 June 2017 $'000	30 June 2016 $'000
For the year ended 30 June 2017		
Fully franked interim dividend for the year ended 30 June 2017: - 38.4 cents per ordinary share: paid 2 March 2017	66,077	-
Fully franked final dividend for the year ended 30 June 2016: - 38.0 cents per ordinary share: paid 26 August 2016	61,401	-
For the year ended 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
Total dividends declared and paid during the year	**127,478**	**143,002**

(i) Dividend declared

On 10 August 2017, the Directors declared total fully franked dividends of 47.2 cents per share in respect of the half year ended 30 June 2017 (June 2016: 38.0 cents per share). The dividend payment comprises a Final Dividend of 41.5 cents per share and a Performance Fee Dividend of 5.7 cents per share. The total amount of the declared dividends are expected to be paid on 28 August 2017, but not recognised as a liability, is approximately $81,220,000.

(ii) Imputation credits

The imputation credit account at 30 June is as follows:

	Consolidated Entity	
	30 June 2017 $'000	30 June 2016 $'000
Imputation credits		
Imputation credits at reporting date	41,226	35,099
Imputation credits that will arise from payment of income tax payable	7,591	4,925
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2016: 30%)	**48,817**	**40,024**

The payment of the dividends declared by the directors on 10 August 2017 will reduce the franking account balance shown above by approximately $34,809,000.

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 2017 $'000	Consolidated Entity 30 June 2016 $'000
Net profit before income tax expense		**256,127**	**259,701**
Prima facie income tax expense at 30% (2016: 30%)		(76,838)	(77,910)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
- effect of concessional tax rate on offshore banking unit (OBU)	5(d)	16,259	15,467
- over provision of prior year tax		623	136
- imputed interest and expense relating to share purchase plan		21	36
- tax effect of franked dividends/distributions received		28	(44)
- differences in overseas tax rates		1	(33)
- US state and local taxes (net of tax credits)		(666)	-
- non-assessable income and non-deductible expenses		670	1,004
Income tax expense reported in the Consolidated Statement of Profit or Loss		**(59,902)**	**(61,344)**
- changes in fair value of available-for-sale financial assets		(9,689)	3,194
- sale of available-for-sale financial assets recycled through profit or loss		678	317
Income tax (expense)/benefit reported in the Consolidated Statement of Other Comprehensive Income		**(9,011)**	**3,511**

(b) Components of income tax expense

Income tax attributable to net profit from ordinary activities comprises:

	Consolidated Entity 30 June 2017 $'000	Consolidated Entity 30 June 2016 $'000
The major components of income tax expense are:		
Current income tax expense	(59,860)	(61,447)
Differences in overseas tax rates	1	(33)
US state and local taxes (net of tax credits)	(666)	-
Over/(under) provision of prior year income tax	623	136
Income tax expense reported in the Consolidated Statement of Profit or Loss	**(59,902)**	**(61,344)**

(c) Net deferred tax asset/(liability)

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

	Consolidated Entity 30 June 2017 $'000	Consolidated Entity 30 June 2016 $'000
Amounts recognised in Consolidated Statement of Financial Position:		
- Deferred tax liabilities from changes in the fair value of financial assets	(20,301)	(11,268)
- Deferred tax assets from movements in accruals	4,650	4,011
Total net deferred tax liabilities	**(15,651)**	**(7,257)**

5. Income Tax (continued)

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

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

	Consolidated Entity	
	30 June 2017 $'000	30 June 2016 $'000
Opening balance	(7,257)	(11,347)
Movement in temporary differences during the year:		
- changes in the fair value of financial assets	(9,033)	3,275
- accruals	639	815
Closing balance - net deferred tax liabilities	**(15,651)**	**(7,257)**

(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 2017, the Company's effective tax rate was 23.4% (June 2016: 23.6%), which includes taxes paid net of tax credits in foreign jurisdictions and 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 summarised at Note 5 (a).

(e) Tax consolidation

During the year, income tax liabilities of $58,188,000 (June 2016: $57,679,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling $52,187,000 (June 2016: $61,116,000) were made to MFG from the other entities in the tax consolidated group under the tax sharing and funding agreement during the year. At 30 June 2017, $9,596,000 (June 2016: $3,945,000) 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.

6. Revenue

(a) Management fees

The management fees received/receivable during the year were:

		Consolidated Entity	
		30 June	30 June
		2017	2016
	Note	$'000	$'000
Magellan Global Fund		112,732	103,957
Magellan Global Fund (Hedged)		4,946	3,226
Magellan Infrastructure Fund		10,372	8,219
Magellan Infrastructure Fund (Unhedged)		5,649	3,135
Magellan High Conviction Fund		4,614	4,104
Magellan Global Equities Fund		9,599	5,470
Magellan Global Equities Fund (Currency Hedged)		564	262
Magellan Infrastructure Fund (Currency Hedged)		469	-
Magellan Core Infrastructure Fund		807	921
MFG Global Fund		17,565	13,326
Frontier MFG Funds		10,237	9,663
MFG Infrastructure Fund - service class		161	-
Other mandates		122,814	106,109
Total management fees during the year		**300,529**	**258,392**

(b) Performance fees

During the year ended 30 June 2017, 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	30 June
	2017	2016
	$'000	$'000
Magellan Global Fund	11,144	23,397
Magellan Global Fund (Hedged)	959	8
Magellan Infrastructure Fund	895	3,587
Magellan Infrastructure Fund (Unhedged)	907	1,695
Magellan High Conviction Fund	3,083	16
Magellan Global Equities Fund	1,003	794
Magellan Global Equities Fund (Currency Hedged)	120	-
Magellan Infrastructure Fund (Currency Hedged)	43	-
MFF Capital Investments Limited	2,000	2,000
Other funds and mandates	1,542	16,517
Total performance fees during the year	**21,696**	**48,014**

(c) Services fees

Services fees arise from providing investment research and administrative services to MFF Capital Investments Limited (MFF) and research services under a mandate. Prior to 1 January 2017 services fee revenue relating to MFF was 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. During the year the service agreement between MFF and the Company was renegotiated resulting in a fixed fee of $1,000,000 per quarter effective 1 January 2017.

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for the year ended 30 June 2017

6. Revenue (continued)

(c) Services fees (continued)

Services provided by MAM included the provision of investment research and administrative services to MFF, a listed investment company. Services fees earned from MFF for the year ended 30 June 2017 were $5,954,000 (30 June 2016: $7,525,000).

Additionally, in the year ended 30 June 2017, MAM provided research services to an institutional client and earned service fees of $696,000 (30 June 2016: $712,000) under a fixed fee arrangement.

(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 2017 $'000	**30 June 2016 $'000**
Australia	214,789	207,675
United Kingdom & Ireland	59,060	55,367
United States	43,513	39,773
Canada	5,161	5,695
Asia	6,352	6,133
Total management, services and performance fees	**328,875**	**314,643**

(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 2017 $'000	**30 June 2016 $'000**
Management and services fees		
- Retail	170,634	151,898
- Institutional	136,545	114,731
Performance fees		
- Retail	20,006	36,483
- Institutional	1,690	11,531
Total management, services and performance fees	**328,875**	**314,643**
Total Retail	190,640	188,381
Total Institutional	138,235	126,262
Total management, services and performance fees	**328,875**	**314,643**

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

	Consolidated Entity	
	30 June 2017 $'000	**30 June 2016 $'000**
Net gain/(loss) from:		
- disposal of units in unlisted investments	-	(84)
- disposal of listed investments	2,259	1,139
Total net gain on sale of available-for-sale financial assets	**2,259**	**1,055**

7. Receivables

	Consolidated Entity	
	30 June 2017 $'000	**30 June 2016 $'000**
Fees receivable	66,026	40,752
Distributions receivable from Funds	4,838	10,957
Other	426	2,038
Total receivables	**71,290**	**53,747**

8. Property, Plant and Equipment

	Consolidated Entity					
	30 June 2017			**30 June 2016**		
	Leasehold Improve-ments $'000	**Office Equipment, Fixture & Fittings $'000**	**Total $'000**	**Leasehold Improve-ments $'000**	**Office Equipment, Fixture & Fittings $'000**	**Total $'000**
At cost	303	1,649	1,952	236	1,361	1,597
less: accumulated depreciation	190	885	1,075	145	538	683
Total property, plant & equipment	**113**	**764**	**877**	**91**	**823**	**914**

(a) Reconciliation
Reconciliations of the recoverable 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 2017			**30 June 2016**		
	Leasehold Improve-ments $'000	**Office Equipment, Fixture & Fittings $'000**	**Total $'000**	**Leasehold Improve-ments $'000**	**Office Equipment, Fixture & Fittings $'000**	**Total $'000**
Carrying amount at beginning of year	91	823	914	185	418	603
Additions	73	295	368	55	639	694
Disposals	(6)	(7)	(13)	(90)	(13)	(103)
Depreciation expense	(45)	(347)	(392)	(59)	(221)	(280)
Carrying amount at end of year	**113**	**764**	**877**	**91**	**823**	**914**

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

9. Payables

	Consolidated Entity 30 June 2017 $'000	30 June 2016 $'000
Trade payables and accruals	4,029	5,032
Accrued employee entitlements	14,824	12,987
US marketing/consulting costs payable	2,143	1,703
Taxes payable - GST and Fringe Benefits Tax	1,340	1,439
Total payables	**22,336**	**21,161**

10. Provisions

	Note	Consolidated Entity 30 June 2017 $'000	30 June 2016 $'000
Current			
Employee entitlements - long service leave		380	-
Provision for investment restriction contract		500	-
Surplus Lease Provision		-	218
Total current provisions		**880**	**218**
Non-Current			
Employee entitlements - long service leave		799	942
Provision for investment restriction contract	20(b)	-	400
Provision for make-good		10	-
Total non-current provisions		**809**	**1,342**

(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 2017 $'000	30 June 2016 $'000
Current			
Carrying amount at beginning of year		218	-
Additional provision charged to the Consolidated Statement of Profit or Loss		-	218
Discharge of surplus lease provision		(218)	-
Carrying amount at end of year		**-**	**218**
Non-Current			
Carrying amount at beginning of year		-	89
Additional provision charged to leasehold improvements		10	27
Discharge of make good lease provision		-	(116)
Carrying amount at end of year		**10**	**-**

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

11. Financial Assets

	Consolidated Entity	
	30 June 2017 $'000	30 June 2016 $'000
Current		
(i) Financial assets classified as loans and receivables		
Term deposits[(A)]	1,775	1,719
Total current financial assets	**1,775**	**1,719**
Non-Current		
(ii) Available-for-sale financial assets		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	14,301	9,471
- United Kingdom	728	764
- Australia	76	300
- France	847	437
- Switzerland	1,508	634
- Netherlands	242	-
- Germany	225	-
- Other	474	-
Investments in ASX Quoted funds		
- Magellan Global Equities Fund[(B)]	56,837	49,273
- Magellan Global Equities Fund (Currency Hedged)[(C)]	16,965	13,800
- Magellan Infrastructure Fund (Currency Hedged)[(D)]	10,655	-
Total listed/quoted investments	**102,858**	**74,679**
Investments in unlisted funds[(E)]		
- Magellan Global Fund	103,160	84,210
- Magellan Global Fund (Hedged)	739	620
- Magellan Infrastructure Fund	-	2,932
- Magellan Infrastructure Fund (Unhedged)	-	2,472
- Magellan High Conviction Fund	29,905	23,440
- Magellan Wholesale Plus Global Fund	6,434	5,531
- Magellan Wholesale Plus Infrastructure Fund[(F)]	5,124	-
- Frontier MFG Core Infrastructure Fund	5,799	5,615
- Frontier MFG Global Plus Fund	7,534	6,466
- MFG Infrastructure Fund - service class[(G)]	1,304	-
- Other	81	81
Investments in unlisted shares		
- Other	175	175
Total unlisted investments	**160,255**	**131,542**
Total non-current financial assets	**263,113**	**206,221**

(A) Comprises term deposits of $1,775,000 (June 2016: $1,719,000) which are held with major Australian and US banks 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 banks have the right to apply the deposits in settlement of the amount paid by the banks under the guarantees.

(B) MFG seeded the fund on 2 March 2015 with a $50,000,000 investment. This fund commenced trading on the ASX on 5 March 2015. The investment is accounted for as an available-for-sale asset. Refer to note 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 asset, holding 31.4% of the fund (June 2016: 48.1%).

(D) MFG seeded the fund on 19 July 2016 with a $10,000,000 investment. This fund commenced trading on the ASX on 22 July 2016. The investment is accounted for as an available-for-sale asset. Refer to note 12(a) for further details.

(E) At 30 June 2017 the Group held the following investments: Magellan Global Fund 1.2% (June 2016: 1.2%), Magellan Global Fund (Hedged) 0.2% (June 2016: 0.2%), Magellan Infrastructure Fund nil (June 2016: 0.3%), Magellan Infrastructure Fund (Unhedged) nil (June 2016: 0.6%), Magellan High Conviction Fund 9.1% (June 2016: 9.1%), Magellan Wholesale Plus Global Fund 1.1% (June 2016: 4.2%), Frontier MFG Core Infrastructure Fund 1.8% (June 2016: 2.0%), Frontier MFG Global Plus Fund 1.9% (June 2016: 14.9%).

(F) MFG seeded the fund on 11 April 2017 with a $5,000,000 investment. The fund commenced trading on the same day. The investment is accounted for as an available-for-sale asset. Refer to note 12(a) for further details.

(G) MFG seeded the fund on 18 May 2017 with a $USD 1,000,000 investment. This fund commenced trading on 22 May 2017. The investment is accounted for as an available-for-sale asset. Refer to note 12(a) for further details.

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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 2017 $'000	30 June 2016 $'000
Current		
Opening balance at 1 July	1,719	349
Cash placed on term deposit	1,939	1,584
Matured term deposits	(1,883)	(214)
Closing balance	**1,775**	**1,719**
Non-current		
Opening balance at 1 July	206,221	139,498
Acquisitions[(A)]	35,687	84,885
Disposals	(7,154)	(2,382)
Net changes in fair values of investments	28,359	(15,780)
Closing balance	**263,113**	**206,221**

(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.

12. Interests in Controlled Entities

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

		Ownership	
Name of entity	**Country of incorporation**	**30 June 2017**	**30 June 2016**
Magellan Asset Management Limited	Australia	100%	100%
Magellan Capital Partners Pty Limited	Australia	100%	100%
MFG Services LLC	United States of America	100%	100%

Magellan Asset Management Limited ("MAM") and Magellan Capital Partners Pty Limited have share capital consisting solely of ordinary shares that are held wholly and directly by Magellan Financial Group Limited ("MFG"), which also holds all the voting rights. 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).

12. Interests in Controlled Entities (continued)

(a) Interests in other entities

The Group's investments in other entities are set out in note 11. During the year additional interests were taken in the following entities:

- The Magellan Infrastructure Fund (Currency Hedged) was seeded by the Group with $10,000,000 on 19 July 2016. This fund commenced trading on the ASX on 22 July 2016. At 30 June 2017, the Group had a 12.6% (30 June 2016: nil) interest in the fund.

- The Magellan Wholesale Plus Infrastructure Fund was seeded by the Group with $5,000,000 investment on 11 April 2017. This fund commenced trading on the same day. As at 30 June 2017, the Group had an 88.0% (30 June 2016: nil) interest in the fund.

- The MFG Infrastructure Fund - service class (a US Mutual Fund for which MAM is the investment advisor) was seeded by the Group with $USD 1,000,000 investment on 18 May 2017. This fund commenced trading on 22 May 2017. As at 30 June 2017, the Group had a 100.0% (30 June 2016: nil) interest in the fund.

13. Investment in Associate

At 30 June 2017, the Group had no investments in associates. In the prior year, Magellan Global Equities Fund ("MGE") was accounted for as an associate in the consolidated financial statements of the Group for the period over which the Group had significant influence (namely the period of 1 July 2015 to 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 2017, the Group had a 6.7% interest (30 June 2016: 8.9%) in MGE (refer to note 11 for further details).

In the prior financial year ended 30 June 2016, the Group recognised a gain of $3,961,000 in the Consolidated Statement of Profit or Loss for the period for which MGE was classified as an associate. This represented the Group's share of the associate's net profit for that period. Also in addition the deemed disposal of the interest in MGE as an associate on 12 August 2015 also resulted in the Group transferring 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 financial year ended 30 June 2015. 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 2017 $'000	**30 June 2016 $'000**
Opening balance	-	49,845
Add: share of profit/(loss) for the year	-	3,961
Add: dividend received	-	300
Less: classification as an Available-for-Sale Financial Asset on loss of significant influence[(A)]	-	(54,106)
Closing balance - 30 June	-	-

(A) 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.

14. Contributed Equity

	Note	Consolidated Entity 30 June 2017 $'000	Consolidated Entity 30 June 2016 $'000
Ordinary Shares	(a)	115,250	111,073
MFG 2016 Options	(b)	-	-
MFG Class B Shares	(c)	-	-
Total contributed equity		**115,250**	**111,073**

	30 June 2017 Number of shares '000	30 June 2016 Number of shares '000	30 June 2017 $'000	30 June 2016 $'000
(a) Ordinary Shares				
Opening balance	161,189	160,276	111,073	103,477
Shares issued on exercise of MFG 2016 Options[A]	391	648	-	2,745
Shares issued on conversion of MFG Class B Shares	10,305	-	-	-
Shares issued under SPP	191	265	4,004	4,631
SPP expense for year	-	-	283	230
less: transaction costs arising on share issue	-	-	(110)	(10)
Closing balance - Ordinary Shares	**172,076**	**161,189**	**115,250**	**111,073**
(b) MFG 2016 Options				
Opening balance	-	1,050	-	-
Shares issued on exercise of MFG 2016 Options[A]	-	(1,039)	-	-
Expiry of MFG 2016 Options	-	(11)	-	-
Closing balance - MFG 2016 Options	-	**-**	**-**	**-**
(c) MFG Class B Shares				
Opening balance	10,200	10,200	-	-
MFG Class B Shares converted to MFG ordinary shares	(10,200)	-	-	-
Closing balance - MFG Class B Shares	-	**10,200**	**-**	**-**

(A) 1,039,340 MFG 2016 Options were exercised during the 30 June 2016 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 in the prior year ended 30 June 2016 and 10,683 Options expired unexercised. 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.

14. Contributed Equity (continued)

(d) Terms and Conditions (continued)

(iii) MFG Class B Shares

10,200,000 MFG Class B Shares held by Mr Douglass were converted to 10,305,277 MFG ordinary shares on 22 November 2016. As a consequence, no MFG Class B Shares were on issue as at 30 June 2017 (30 June 2016: 10,200,000).

The MFG Class B Shares were issued to Mr Hamish Douglass with certain service conditions having been 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 converted 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 occurred on the first business day after 21 November 2016, namely 22 November 2016. The maximum number of ordinary shares that could have been issued on conversion of all MFG Class B Shares was 10,829,476. Prior to the in-specie distribution, 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.

Based on the Company's ordinary shares on issue, the 10,200,000 MFG Class B Shares converted to 10,305,277 ordinary shares being equal to 0.0637028 times 161,771,191 securities on 22 November 2016 (comprising 161,771,191 ordinary shares on issue and nil Options). The MFG Class B Shares had no entitlement to receive dividends and until the MFG Class B Shares were converted into ordinary shares they conferred no rights to participate in any bonus issue or subscribe for new securities in the Company unless the Directors determined otherwise in accordance with the Terms of Issue of the MFG Class B Shares.

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 2017, 986,993 ordinary shares were held by the Participants under the SPP (June 2016: 978,251).

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. For the year ended 30 June 2017, the Directors 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.

15. Share Purchase Plan (SPP) (continued)

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 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).

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 2017 $'000	30 June 2016 $'000
Current		
SPP loans due within 1 year	1,940	1,531
Non-current		
SPP loans due later than 1 year and within 10 years	7,817	7,482
Total SPP loans	9,757	9,013

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
16 September 2016	$23.51
18 November 2016	$20.85

The value of shares securing the loans to Participants at reporting date applying the Company’s 30 June 2017 closing market price of $28.84 was $28,465,000 (June 2016: $21,766,000). 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.

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 2017	**30 June 2016**
March 2013 tranche		
Face value of loans ($)	-	90,000
Estimated weighted average duration of loans	-	0.1 years
Imputed interest rate	-	3.4%
October 2013 tranche		
Face value of loans ($)	402,000	638,000
Estimated weighted average duration of loans	0.9 years	0.9 years
Imputed interest rate	3.4%	3.4%
September 2014 tranche		
Face value of loans ($)	1,866,000	2,526,000
Estimated weighted average duration of loans	2.6 years	2.2 years
Imputed interest rate	3.0%	3.0%
November 2014 tranche		
Face value of loans ($)	1,773,000	2,123,000
Estimated weighted average duration of loans	2.6 years	3.0 years
Imputed interest rate	2.8%	2.8%
September 2015 tranche		
Face value of loans ($)	2,768,000	3,636,000
Estimated weighted average duration of loans	2.7 years	4.0 years
Imputed interest rate	2.2%	2.2%
September 2016 tranche		
Face value of loans ($)	2,050,000	-
Estimated weighted average duration of loans	4.1 years	-
Imputed interest rate	1.8%	-
November 2016 tranche		
Face value of loans ($)	898,000	-
Estimated weighted average duration of loans	4.0 years	-
Imputed interest rate	2.1%	-

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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 2017 $'000	**30 June 2016 $'000**
Interest income	354	350
Employee benefits expense	(283)	(230)
Net SPP income/(expense) included in the Consolidated Statement of Profit or Loss	71	120

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:

	Parent Entity	
	30 June 2017 $'000	**30 June 2016 $'000**
Statement of Financial Position		
Assets		
Current assets	119,660	94,651
Non-current assets	284,133	226,907
Total Assets	**403,793**	**321,558**
Liabilities		
Current liabilities	5,093	6,948
Non-current liabilities	20,216	11,235
Total Liabilities	**25,309**	**18,183**
Net Assets	**378,484**	**303,375**
Equity		
Contributed equity	115,625	111,448
Available for sale reserve	43,602	24,252
Retained profits	219,257	167,675
Total Equity	**378,484**	**303,375**
Statement of Profit or Loss and Other Comprehensive Income		
Net profit for the year after income tax expense	179,059	195,420
Other comprehensive income, net of income tax expense	19,349	(8,664)
Total comprehensive income for the year	**198,408**	**186,756**

16. Parent Entity Information (continued)

(b) Guarantees entered into by MFG

A guarantee has been provided by MFG to the landlord of MFGS's New York office premises guaranteeing the payment and performance of MFGS's obligations under the lease, representing $1,707,000 of lease commitments as at 30 June 2017 (30 June 2016: $1,873,000).

The Group has no material contingent assets as at 30 June 2017 (June 2016: nil).

(c) Contingencies and Commitments of MFG

At 30 June 2017, 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

The Directors and senior executives considered Key Management Personnel of the Group during the year and up to the date of this report:

(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
John Eales	Non-Executive Director	1 Jul 2017
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

During the year ended 30 June 2017, Magellan Asset Management Limited (a wholly owned entity of MFG) paid International Quarterback Pty Limited (IQ) for consulting services. Mr Eales has a non-material shareholding in IQ and was formerly a director of IQ.

On 9 August 2017, Magellan Asset Management Limited appointed Taylor Collison Limited as Lead Arranger and a Joint Lead Manager in respect of the Broker Firm Offer and the General Public Offer for the intended initial public offering of the Magellan Global Trust. Mr Fraser is a director of Taylor Collison Limited and also has a non- material shareholding in that company. No amounts were paid or payable to Taylor Collison by any entity in the Group in respect of this transaction during the year ended 30 June 2017 and up to the date of this report.

(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:

Frank Casarotti	General Manager - Distribution
Gerald Stack	Head of Investments
Kirsten Morton	Chief Financial Officer
Marcia Venegas	Head of Risk, Compliance and Legal
Craig Wright	Head of Governance & Advisory
Nerida Campbell	Chief Operating Officer (ceased 1 Feb 2017)

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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 2017 $	30 June 2016[(A)] $
Short term benefits		
- Salary	6,459,220	4,336,472
- Cash Bonus	3,461,121	3,992,887
Post-employment benefits	170,878	133,345
Long-term benefits	284,346	50,804
Termination benefits	432,597	-
Other benefits	167,581	154,933
Total remuneration paid to KMP	**10,975,743**	**8,668,441**

(A) Ms Marcia Venegas and Mr Craig Wright were not KMPs for the year ended 30 June 2016.

Refer to section 3.3 of the Remuneration Report on page 20 for further details.

(d) Transactions with Other Related Parties
The following transactions occurred with other related parties:

	Note	30 June 2017 $'000	30 June 2016 $'000
Dividends received from controlled entities	(i)	173,000	186,000
Amounts receivable by MFG under the tax funding agreement from MAM	(ii)	9,596	3,945
Amounts received by MFG pursuant to tax funding agreement from MAM	(ii)	52,187	61,116
Service fees paid by MAM to MFGS pursuant to transfer pricing agreement		6,247	5,254
Service fees paid by MFGS to MAM pursuant to transfer pricing agreement		80	62
Net amounts received/(paid) by MFG to/from MAM for expense reimbursements		86	59
Net amounts received/(paid) by MFGS to/from MAM for expense reimbursements		213	165

(i) Dividends of $173,000,000 representing $13.84 per share were paid by MAM to MFG during the year ended 30 June 2017 (June 2016: $186,000,000 representing $14.88 per share).

(ii) During the financial year, MAM's income tax liabilities of $58,188,000 (June 2016: $57,679,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling $52,187,000 (June 2016: $61,116,000) were received by MFG from MAM under the tax funding agreement during the year and $9,596,000 was receivable by MFG from MAM in respect of amounts arising from the transfer of MAM's tax liability to the Company (June 2016: $3,945,000). Refer to note 1(h) for further details on the tax consolidated group.

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 2017 $'000	30 June 2016 $'000
Net profit after income tax expense	196,225	198,357
Adjusted for:		
Net (gain)/loss on disposal of available-for-sale financial assets	(2,259)	(1,055)
Net loss on deemed disposal of available-for-sale financial assets attributable to MGE	-	1,296
Loss on disposal of property, plant and equipment	18	14
Dividends and distributions reinvested	(10,898)	(12,353)
Depreciation	392	280
Group's share of net (gain)/loss for the period MGE was an associate	-	(3,961)
Issued capital costs	(156)	(14)
Net foreign exchange (gain)/loss	309	(165)
Imputed interest on loans under the SPP	(354)	(350)
Employee expense on loans under SPP	283	230
(Increase)/decrease in receivables	(20,357)	2,147
(Increase)/decrease in prepayments	(527)	(51)
Increase/(decrease) in net deferred tax liabilities	8,411	(4,090)
Increase/(decrease) in payables	(4,634)	(7,926)
Increase/(decrease) in income tax payable	(1,747)	9,214
Effects of exchange rates on cash and cash equivalents	(15)	(28)
Net cash inflows from operating activities	**164,691**	**181,545**

(b) Non-cash financing and investing activities

	Consolidated Entity	
	30 June 2017 $'000	30 June 2016 $'000
Issue of ordinary shares under SPP	3,352	4,038
Imputed interest on loans under SPP	(354)	(350)
Share based payments under SPP	283	230
Acquisition of additional units in Magellan Unlisted Funds and Frontier MFG Funds through distribution reinvestment	10,898	12,353
Dividend entitlement of SPP holders applied directly against SPP loan balance	770	975

(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	146,243	120,362

Term deposits with maturity dates greater than 90 days from inception date are included in financial assets (refer note 11).

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 borrowings at 30 June 2017 (June 2016: 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 2017, 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 2017, the Group had an obligation to settle trade creditors and other payables of $22,336,000 (June 2016: $21,161,000) within 30 days. In addition, the Group also has an obligation to pay the fully franked dividends of 47.2 cents per share in respect of the half year ended 30 June 2017. The dividend payment comprises a Final Dividend of 41.5 cents per share and a Performance Fee Dividend of 5.7 cents per share, amounting to approximately $81,220,000 to be paid on 28 August 2017 (refer to note 4(i)).

19. Capital and Financial Risk Management (continued)

(c) Liquidity risk (continued)

The Group had cash (including term deposits maturing within 30 days) of $146,243,000 (June 2016: $120,362,000) and a further $71,290,000 (June 2016: $53,747,000) of receivables to cover these liabilities.

At 30 June 2017, the Group reported current assets of $222,174,000 and current liabilities of $28,079,000 resulting in a net current asset surplus of $193,813,000. After taking into account the final dividend for the year ended 30 June 2017 totalling $81,220,000, this would result in a net current asset surplus of $112,593,000. Accordingly the Group has sufficient liquid funds and current assets to meet its current liabilities.

Maturities of financial liabilities

At 30 June 2017, the Group's financial liabilities comprise trade creditors and payables which mature in 1 year or less (June 2016: 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 2017 $'000	30 June 2016 $'000
Impact on available-for-sale reserve, net of tax	10,077	7,878
Total impact on net operating profit and equity	**10,077**	**7,878**

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.

19. Capital and Financial Risk Management (continued)

(d) Price risk (continued)

Impact arising on entitlements to management and services 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 2017 and 30 June 2016 would have increased the base management fees recognised in net operating profit and equity as follows:

	Consolidated Entity	
	30 June 2017 $'000	**30 June 2016 $'000**
Impact on net operating profit and equity for the year	11,765	10,185
Total impact on net operating profit and equity for the year	**11,765**	**10,185**

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 2017 $'000	**30 June 2016 $'000**
Based on performance relative to a market index	1,408	6,627
Based on performance relative to a return hurdle	3,083	207
Based on performance relative to both a market index and a return hurdle	15,205	39,180
Based on total shareholder return	2,000	2,000
Total performance fees	**21,696**	**48,014**

(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).

19. Capital and Financial Risk Management (continued)

(e) Currency risk (continued)

At 30 June 2017, 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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Assets denominated in:				
US dollars	(857)	(463)	(1,943)	(1,437)
Euro	7	21	(105)	(30)
Canadian dollars	-	(64)	(7)	-
British pounds	(449)	(367)	(51)	(53)
Swiss francs	-	-	(311)	(44)

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 2017, 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 2016: 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 2017 $'000	30 June 2016 $'000
Impact on net operating profit and equity	567	466

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

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 2017 was rated by Standard & Poor's as being AA-, and by Moody's as being Aa3 (AA- and Aa2 respectively at 30 June 2016). The credit quality of the international bank counterparty at 30 June 2017 was rated by Moody's as Baa2 (Baa2 at 30 June 2016).

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 2017, the provision for doubtful debts was nil (June 2016: nil).

At 30 June 2017, the Group also had credit exposure to the Participants with loans under the SPP. At 30 June 2017, the outstanding balance on the loans totalled $9,757,000 (June 2016: $9,013,000). MFG ordinary shares of 986,993 were valued at $28,465,000 (June 2016: 978,251 MFG ordinary shares valued at $21,766,000) 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, Magellan Global Equities Fund (Currency Hedged) and Magellan Infrastructure Fund (Currency Hedged). The credit quality of NT's senior debt is rated, as at 30 June 2017 by Standard and Poor's as A+ and by Moody's as A2 (A+ and A2 respectively at 30 June 2016). 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 2017 and 30 June 2016, 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 2017, all of the Group's receivables are due within 0 to 30 days (June 2016: 0 to 30 days). No amounts are impaired or past due at 30 June 2017 or 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	
	Note	30 June 2017 $'000	30 June 2016 $'000
Assets measured at fair value			
Available-for-sale financial assets			
- Level 1: listed shares and ASX quoted units		102,858	74,679
- Level 2: unlisted funds – Magellan and Frontier MFG Funds	(i)	159,999	131,286
- Level 3: unlisted funds - other	(ii)	81	81
- Level 3: unlisted shares - other	(iii)	175	175
Total financial assets		**263,113**	**206,221**

(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.

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 2017 and 30 June 2016, 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 2017 $'000	**30 June 2016 $'000**
Opening balance - 1 July	256	340
Net change in fair value	-	(84)
Closing Balance - 30 June	**256**	**256**

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, Adelaide 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 2017 $'000	**30 June 2016 $'000**
Within one year	2,674	3,309
Later than one year but no later than five years	10,822	11,611
More than five years	13,767	15,292
Total commitments	**27,263**	**30,212**

(b) Contingent assets and contingent liabilities

The Group has no contingent liabilities as at 30 June 2017. For the year ended 30 June 2016 contingent liabilities totalled $100,000 in relation to the investment restriction contract entered into with Mr Hamish Douglass on 1 July 2012. At 30 June 2017, $500,000 has been provided for in the Group's Consolidated Statement of Financial Position (June 2016: $400,000) and as a result, the Group no longer has a contingent liability (June 2016: $100,000 contingent liability). The Group paid Mr Douglass $500,000 on 14 July 2017.

The Group has no material contingent assets as at 30 June 2017 (June 2016: nil).

(c) Guarantees

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

21. Auditor's Remuneration

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

	Consolidated Entity	
	30 June 2017 $	30 June 2016 $
(a) Ernst & Young Australia		
Audit services		
Statutory audit and review of the financial reports:		
- the Company	102,500	99,500
- the Magellan Funds[(A)]	183,200	180,000
Other assurance services:		
- Regulatory required audits	36,000	45,000
- Other	48,500	49,000
	370,200	373,500
Non-audit services		
Taxation services	100,258	281,840
Total remuneration of Ernst & Young Australia	**470,458**	**655,340**
(b) Related practices of Ernst & Young Australia		
Audit services		
Statutory audit of the financial reports:		
- MFG Investment Fund Plc - MFG Global Fund	56,801	36,703
	56,801	36,703
Non-audit services		
Taxation services	83,384	76,591
Total remuneration of related firms of Ernst & Young Australia	**140,185**	**113,294**
Total auditor's remuneration	**610,643**	**768,634**

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2017

22. Events Subsequent to Reporting Date

On 4 August 2017, the Group reported on the ASX its funds under management was $49.6 billion as at 31 July 2017.

On 7 August 2017, the Group announced it had signed a 3 year agreement with Cricket Australia to become the naming rights sponsor for the Australian domestic Test series. This sponsorship provides a highly scalable platform to promote the Magellan brand and to build awareness of and grow the market for investing in global equities. The commercial terms of the agreement are confidential.

On 9 August 2017 the Group announced its intention to undertake the initial public offering of the Magellan Global Trust ("Trust"), a closed ended investment vehicle to be listed on the ASX. The Trust will offer investors the ability to invest in a new global equities strategy managed by Magellan while targeting a cash distribution yield of 4% per annum.

A product disclosure statement for the Magellan Global Trust ("Trust") is expected to be lodged with the Australian Securities & Investments Commission in August 2017, with the offer period for the initial public offering of the Trust to open in late August. A priority offer is expected to be made to existing Magellan shareholders and investors. Should they wish to invest in the Trust, the Group would reward these investors with a valuable loyalty bonus in the form of additional units in the Trust.

The Group intends to fund the costs of the offer and loyalty bonus units. Subject to the size of the offer this may result in a material one off expense and impact the assets and liabilities of the Group in the financial year ended 30 June 2018. Further details of the financial impact resulting from the Magellan Global Trust raising will be disclosed following the completion of the offer.

Other than the above matters and the dividends in respect of the half year ended 30 June 2017 (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.

DIRECTORS' DECLARATION

In the Directors' opinion,

a) the financial statements and notes set out on pages 34 to 81 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2017 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

b) 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 2017.

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

Brett Cairns
Executive Chairman

10 August 2017

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INDEPENDENT AUDITOR'S REPORT

To the Members of Magellan Financial Group Limited

Report on the Audit of the Financial Report Opinion

We have audited the financial report of Magellan Financial Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional* Accountants (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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1. Management and Performance Fee Revenue

Why significant	How our audit addressed the key audit matter
The Group's key revenue stream is management and performance fees earned by Magellan Asset Management Limited (MAM), a consolidated subsidiary, though the Investment Management Agreements in place with third parties and other Magellan funds. For the year ended 30 June 2017, management fees were \$300,529,000 and performance fees were \$21,696,000 which equates to 88.8% and 6.4% of total revenue respectively. Revenue from management and performance fees is earned and calculated in accordance with the Investment Management Agreements, Product Disclosure Statements and Constitutions. Performance fees are dependent on the portfolio outperforming certain hurdles and are only recognised in the Statement of Profit or Loss when the Group's entitlement to the fee is highly probable, which is at the end of the relevant performance period. This recognition criteria is in accordance with Australian Accounting Standard - *AASB 118: Revenue* (AASB 118). The quantum of these revenue streams and the impact that the variability of market based returns can have on the recognition and earning of performance fees results in this being a key area of audit focus. Disclosures relating to these revenue streams are included in Note 6 to the financial report.	As part of our audit response, we assessed and tested the design and operating effectiveness of relevant controls in place in relation to the calculation of management and performance fees. We performed a recalculation of management fees, on a sample basis, to assess whether this was in accordance with contractual arrangements. We assessed the performance fees which were recognised in the year ended 30 June 2017 and checked they met the relevant recognition criteria, including assessing the inputs into the performance fee calculation model and an examination of the methodology applied in accordance with contractual arrangements. We assessed the adequacy of the disclosures in Note 1(f) and Note 6 to the financial report in accordance with AASB 118.

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2. Investment Existence and Valuation

Why significant	How our audit addressed the key audit matter
The Group has a significant investment portfolio consisting of listed equities, ASX quoted funds and unlisted funds. As at 30 June 2017, the value of these non-current financial assets, per Note 11 of the financial report was $263,113,000, which equates to 53% of the total assets held by the Group. The Group's financial assets are classified as 'available for sale' and are measured at fair value in line with Australian Accounting Standards - *AASB 139: Financial Instruments Recognition and Measurement* (AASB 139). Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report, therefore the valuation of the investment portfolio is a key area of focus.	As part of our audit response, we assessed and tested the design and operating effectiveness of the relevant controls in place around the existence and valuation of investments, through the assessment of the assurance reports on internal controls reports prepared under ASAE 3402 *Assurance Reports on Controls at a Service Organisation* by other audit firms of the Group's custodian and administrators. Independent confirmations were received for all investment holdings, including cash accounts, at 30 June 2017. We checked the valuation of all positions in the portfolio held at 30 June 2017. To validate the fair value in accordance with *AASB 139*, we checked the listed securities to independent pricing sources and for unlisted funds, we agreed the investment valuations to statements from external unit registry providers. We evaluated the Group's assessment of available for sale financial assets for any additional impairment in accordance with *AASB 139* and performed an independent assessment of the assumptions and conclusions. We assessed the adequacy of the disclosures in Note 11 and Note 19 to the financial report for compliance with *AASB 139*, *AASB 7: Financial Instruments Disclosures* and *AASB 13: Fair Value Measurement*.

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3. Consolidation and Equity Accounting Considerations

Why significant	How our audit addressed the key audit matter
Consolidation continues to be an area of complexity for the Group with judgments required over "control" and "significant influence" for its investments in ASX quoted and unlisted funds. Investments may be accounted for by consolidation, equity accounting, joint ventures or as investments at fair value. The determination of the appropriate accounting depends upon the ability of the Group to exercise control or significant influence. Judgment is required in determining the appropriate accounting, particularly due to the Group's practice of seeding funds, resulting in the ownership percentage changing over time and being dependent on the rate of external investor take up. The Group's interests in its funds, associates and controlled entities are disclosed in Notes 11, 12 and Note 13 of the financial report.	Our audit procedures focused on evaluating the Group's assessment of control or significant influence for the investments, and the accounting treatment and presentation thereon. This included evaluating the Group's assessment of control, in line with their accounting policy, to confirm which entities are required to be equity accounted, consolidated or accounted for as an investment at fair value. We also performed our own independent assessment of the impact of consolidating or equity accounting interests in funds to determine if this had a material effect on the financial report. We assessed the adequacy of the disclosures in Note 11, Note 12 and Note 13 associated with the Group's interests in funds in line with *AASB 10: Consolidated Financial Statements, AASB 12: Disclosure of Interests in Other Entities* and *AASB 128; Investments in Associates and Joint Ventures* and as applicable based on the assessment of control.

Information Other than the Financial Report and Auditor's Report

The Directors of the Company are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities 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 control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial report represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 31 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner

Sydney
10 August 2017

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's investment process seeks to identify high quality companies which naturally filters out most companies from sectors that typically come with material ESG issues (eg Magellan's investment universe excludes pro-cyclical resources, energy and materials stocks). Magellan maintains an ESG Policy, which outlines how ESG issues are incorporated into Magellan's investment analysis framework and investment process.

In September 2016, Magellan launched the first of a series of Low Carbon strategies that implement a proprietary low carbon overlay. Magellan believes it is highly likely that the world will move further towards addressing climate change risks by reducing carbon emissions. Climate change is therefore an increasingly important issue for global companies and investors, with the potential to affect profoundly business models through government regulation (eg carbon pricing), technology and changes in consumption patterns. These factors directly and indirectly impact the relative cost of companies' products and services, customer demand, and pricing power.

In May 2017, Magellan became a signatory of the UNPRI's Montreal Pledge. Under the Pledge, Magellan commits to measure and publicly disclose the carbon footprint of its actively managed investment portfolios which are outlined in the table below.

	Carbon footprint as at 30 June 2017 (tonnes CO2e per $US million revenue)
Magellan Global Fund	26.6
Magellan High Conviction Fund	25.7
Magellan Infrastructure Fund	366.5
Global Low Carbon strategy	27.7
US Low Carbon strategy	27.9
International Low Carbon strategy	29.0
MSCI World Index	*200.1*

Note: portfolio carbon intensities are calculated using the weighted average carbon intensity method.

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 and 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 2017 Magellan engaged with many portfolio companies on a number of material topics and was 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 108 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's head office is a 4.5 star NABERS[1] rated office building. Magellan also continues to build awareness amongst its employees and focus on areas where it can make an impact including recycling.

Magellan is 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	Calendar Year 2016
Scope 1	0	0
Scope 2	97	123.6
Total GHG emissions	97	123.6
Total per employee	1.05	1.14
Total per A$ million of revenue	0.3	0.4

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 calendar year 2016 of 0.4 tonnes CO2e per A$ million dollars of revenue puts Magellan among the lowest emissions intensity companies globally.

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.

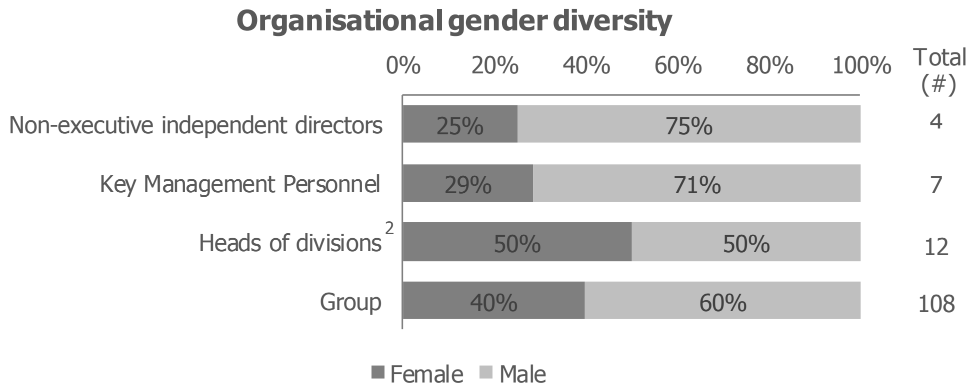
Magellan strongly believes that staff engagement and satisfaction go well beyond direct financial compensation. Magellan's annual leave policy encourages staff to take their full statutory requirement over each annual period by providing an additional week of leave if they do so. The aim is to ensure 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 3.1 in the Directors' 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 2017 approximately 65% 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. The policy can be found on our website: www.magellangroup.com.au.

(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.

In the 2017 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. The current gender representation across the Group is shown below as at 30 June 2017.



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.

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 the charities to which they donate. Instead, Magellan prefers to focus its efforts on employee participation in 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
- Employee participation in volunteer days at Wayside Chapel

Further, in February 2017 Magellan hosted an Investor Gala Dinner in Melbourne which raised over $90,000 for three charities:

- Lighthouse Foundation
- Victor Chang Cardiac Research Institute
- The Reach Foundation

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 equities investment strategies managed by prominent, Australian fund managers. Participating fund managers manage the capital entirely pro-bono so that 1.0% of net assets each year to be donated to Australian non-profits committed to young Australians affected by mental health issues. In the 2017 financial year, this equated to approximately $450,000 in respect of funds managed by Magellan. Magellan is a foundation member and received an initial allocation of ~10% of the assets under management at time of IPO.

(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

CORPORATE INFORMATION

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

Company Secretary
Geoffrey Stirton

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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
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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

SHAREHOLDER INFORMATION
AS AT 3 AUGUST 2017

Distribution of Shareholders
Analysis of the numbers of shareholders by size of holding at 3 August 2017 is presented below:

Holding	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue %
1-1,000	7,432	3,585,407	2.08
1,001-5,000	4,918	11,230,897	6.53
5,001-10,000	691	5,018,149	2.92
10,001-100,000	720	19,609,603	11.40
100,001 and over	83	132,632,412	77.07
Total	**13,844**	**172,076,468**	**100.00**
Number of holders with less than a marketable parcel of Ordinary Shares	3,957	935,430	

Twenty Largest Shareholders
The names of the twenty largest shareholders of the Company as at 3 August 2017 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
HSBC Custody Nominees (Australia) Limited	26,985,794	15.68
Midas Touch Investments Pty Ltd	21,001,577	12.20
JP Morgan Nominees Australia Limited	17,976,167	10.45
Magellan Equities Pty Limited	16,888,949	9.81
Citicorp Nominees Pty Limited	9,480,146	5.51
National Nominees Limited	4,880,162	2.84
Nota Bene Investments Pty Ltd	2,851,497	1.66
BNP Paribas Noms Pty Ltd	2,134,688	1.24
Emmanuel Capital Pty Ltd	1,850,000	1.08
Mr David Doyle	1,500,000	0.87
Mr Christopher John Mackay	1,390,385	0.81
Aljamat Pty Ltd	1,310,000	0.76
Pershing Australia Nominees Pty Ltd	1,291,323	0.75
BNP Paribas Nominees Pty Ltd	1,160,062	0.67
Jash Pty Limited	1,130,331	0.66
HSBC Custody Nominees (Australia) Limited (Comnwlth Super a/c)	948,403	0.55
PAJ Lewis Pty Ltd	900,000	0.52
Citicorp Nominees Pty Limited	848,411	0.49
PAJ Lewis Superannuation Fund Pty Ltd	825,000	0.48
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	780,000	0.45
Total shares held by the twenty largest shareholders	116,132,895	67.48
Total ordinary shares on issue	**172,076,468**	

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION
AS AT 3 AUGUST 2017

Substantial Shareholders
The substantial shareholders in the Company's Register of Substantial Shareholders at 3 August 2017 are listed below:

Shareholder	Number of Ordinary Shares	Percentage of Shares on issue %
Hamish Douglass, Midas Touch Investments Pty Ltd and associates[A]	21,792,277	12.66
Chris Mackay and associates[B]	18,615,610	10.81

[A] Date of last Appendix 3Y notice lodged on 2 August 2017
[B] Date of the last substantial shareholder notice lodged on 1 December 2015

Voting Rights
Subject to the Company Constitution:
a) at meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
b) on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and
c) 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.