

Magellan Financial Group Limited
ABN 59 108 437 592

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16 September 2014

ASX Limited
ASX Market Announcements Office
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

**MAGELLAN FINANCIAL GROUP LIMITED ('MFG')
NOTICE OF ANNUAL GENERAL MEETING**

Pursuant to ASX Listing Rule 3.17 please find attached a copy of the following documents which have been mailed to shareholders today:

1. Notice of Annual General Meeting to be held at the Brisbane Room, Hotel Sofitel Sydney Wentworth, 61-101 Phillip Street, Sydney on Friday 17 October 2014 at 10:30am;
2. Copy of Proxy Form; and
3. Copy of Annual Report (for those shareholders who have elected to receive a hard copy).



Geoffrey Stirton
Company Secretary

Notice of 2014 Annual General Meeting

Notice is hereby given that the Annual General Meeting ('AGM') of Magellan Financial Group Limited ('Company') will be held in the Brisbane Room, Hotel Sofitel Sydney Wentworth, 61-101 Phillip Street, Sydney, New South Wales on Friday, 17 October 2014, at 10:30am (AEDT).

BUSINESS:

1. Financial Statements and Reports

To receive and consider the Financial Statements, Directors' Report and Auditor's Report of the Company for the year ended 30 June 2014.

2. Remuneration Report

To consider and if thought fit to pass the following resolution as an **ordinary resolution**:

"To adopt the Remuneration Report of the Company for the year ended 30 June 2014."

3. Re-Election of Directors

To consider and if thought fit to pass the following resolutions as **ordinary resolutions**:

- a) *"That Brett Peter Cairns, a Director retiring by rotation in accordance with Article 47(b)(i) of the Company's Constitution and ASX Listing Rule 14.5, and being eligible, is re-elected as a director of Magellan Financial Group Limited."*
- b) *"That Robert Darius Fraser, a Director appointed by the Board on 23 April 2014, retiring in accordance with Article 47(d) of the Company's Constitution and ASX Listing Rule 14.4, and being eligible, is re-elected as a director of Magellan Financial Group Limited."*
- c) *"That Karen Phin, a Director appointed by the Board on 23 April 2014, retiring in accordance with Article 47(d) of the Company's Constitution and ASX Listing Rule 14.4, and being eligible, is re-elected as a director of Magellan Financial Group Limited."*

4. Resolutions Relating to the Company's Share Purchase Plan

(a) Issue of Plan Shares to Non-executive Directors Robert Fraser and Karen Phin

To consider and if thought fit to pass the following resolution as an **ordinary resolution**:

"That subject to and conditional on the approval of Items 3(b), 3(c), 4(b) and 4(c), for the purpose of ASX Listing Rule 10.14, the issue of shares in the Company to a maximum total value of \$1,333,333 to each of Robert Fraser and Karen Phin respectively under the Share Purchase Plan on the terms set out in the Explanatory Notes be approved."

(b) – Approval of financial assistance to Non-executive Directors Robert Fraser and Karen Phin

To consider and if thought fit to pass the following resolution as a **special resolution**:

"That subject to and conditional on the approval of Items 3(b), 3(c), 4(a) and 4(c), in accordance with Section 260B of the Corporations Act 2001 (Cth), the provision of financial assistance by the Company to each of Robert Fraser and Karen Phin in the form of a maximum \$1,000,000 full recourse interest free loan to each Non-executive Director respectively representing 75% of the value of the Plan Shares issued on the terms set out in the Explanatory Notes, be approved."

(c) – Approval of Related Party Benefits

To consider and if thought fit to pass the following resolution as an **ordinary resolution**:

"That subject to and conditional on the approval of Items 3(b), 3(c), 4(a) and 4(b), for the purpose of Section 208 of the Corporations Act 2001 (Cth), the provision of financial benefits by the Company under the Share Purchase Plan to the Non-executive Director Participants on the terms set out in the Explanatory Notes be approved."

5. Questions & Comments

Shareholders will be given a reasonable opportunity to ask questions about or comment on the Company's activities and the audit of the Company.

GENERAL INFORMATION

Voting Entitlements

The Company has determined in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that for the purposes of the AGM (including voting), shares will be taken to be held by those persons recorded in the Company's register as at 7:00p.m (AEDT) on Wednesday, 15 October 2014.

Proxies

A shareholder entitled to attend and vote at the AGM is entitled to appoint not more than two proxies, who need not be members of the Company. Where more than one proxy is appointed, each proxy should be appointed to represent a specified percentage or specified number of the shareholder's voting rights. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half the votes. Fractions of votes will be disregarded.

A Proxy Form accompanies this Notice of AGM. To be valid, online proxy voting or the completed Proxy Form must be submitted at least 48 hours before the time for holding the meeting (i.e. by no later than 10:30am (AEDT) on Wednesday, 15 October 2014) using one of the following methods:

- **Vote Online** at:
www.votingonline.com.au/mfgagm2014
- **Deliver** the Proxy Form to the office of the Company's Share Registry, Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney NSW 2000;
- **Mail** the Proxy Form to Boardroom Pty Limited, GPO Box 3993, Sydney, NSW 2001 Australia; or
- **Fax** the Proxy Form to +61 2 9290 9655.

Further directions for the proper completion of the Proxy Form are set out in the Proxy Form.

Voting by Attorney

A shareholder entitled to attend and vote at the AGM may appoint an attorney to vote at the AGM. Attorneys should bring an original or certified copy of the Power of Attorney to the AGM.

Corporations

A corporation that is a shareholder or a proxy may elect to appoint a representative in accordance with the *Corporations Act 2001* (Cth), in which case the Company will require written proof of the representative's appointment, which must be lodged with or presented to the Company before the commencement of the AGM.

Registration

If you are attending the AGM in person, please bring the personalised Proxy Form enclosed with this Notice of AGM with you to facilitate registration. If you do not bring the Proxy Form with you, you will still be able to attend the AGM, but at registration, our representatives will need to verify your identity. Registration will be available from 10:00am (AEDT) on the day of the AGM.

By order of the Board



Geoffrey Stirton
Company Secretary
16 September 2014

ENCLOSURES

Enclosed with this Notice of AGM are:

- Your personalised Proxy Form; and
- the Company's 2014 Annual Report (only for those shareholders that previously elected to receive a printed copy of the Annual Report).

Shareholders that did not elect to receive a printed copy of the Annual Report can access the Annual Report from our website at: www.magellangroup.com.au

EXPLANATORY NOTES

These Explanatory Notes have been included to provide information about the items of business to be considered at the Company's AGM to be held on Friday, 17 October 2014 at 10:30am (AEDT).

1. Financial Statements and Reports

As required by section 317 of the *Corporations Act 2001 (Cth)*, the Company's Financial Statements, Directors' Report and Auditor's Report will be presented for consideration. No resolution is required for this item, but shareholders will be given the opportunity to ask questions and to make comments on all aspects of these reports.

2. Remuneration Report

A resolution for the adoption of the Remuneration Report must be considered and voted on in accordance with section 250R(2) of the *Corporations Act 2001 (Cth)*.

The Remuneration Report forms part of the Directors' Report of the Company's Annual Report. The Remuneration Report details the Company's policy on the remuneration of its Directors. The vote on the adoption of the Remuneration Report resolution is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

The Board recommends that shareholders vote in favour of the adoption of the Remuneration Report.

Subject to the Voting exclusion statement below, the Chairman of the Meeting intends to vote all undirected proxies in favour of the adoption of the Remuneration Report.

Voting exclusion statement

The Company will disregard any votes cast on Item 2 by, or on behalf of:

- a member of the key management personnel (KMP), as disclosed in the Remuneration Report; and
- their closely related parties,

unless the vote is cast:

- by a person as proxy for a person entitled to vote in accordance with a direction on the Proxy Form; or
- by the Chairman of the Meeting as proxy for a person entitled to vote and the Chairman has received express authority to vote undirected proxies as the Chairman sees fit.

3. Re-Election of Directors

(a) Re-Election of Brett Cairns

Dr Brett Cairns retires in accordance with Article 47(b)(i) of the Company's Constitution and, being eligible, offers himself for re-election as an independent Non-executive Director. Dr Cairns was originally appointed to the Board in October 2006 and was re-elected as a Director at the Company's Annual General Meeting in October 2012. Dr Cairns is Chairman of the Board, a member of the Audit and Risk Committee and Chairman of the Remuneration and Nominations Committee.

Dr Cairns was formerly co-head of the Capital Markets Group within Structured Finance at Babcock & Brown, which he joined in 2002. Dr Cairns 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, Dr Cairns spent 3 years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group. Brett has a BE (Hon 1), PHD and MBA all from The University of Sydney.

(b) Re-Election of Robert Fraser

Mr Robert Fraser retires in accordance with Article 47(d) of the Company's Constitution and, being eligible, offers himself for re-election as an independent Non-executive Director. Mr Fraser was appointed to the Board on 23 April 2014. Mr Fraser is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nominations Committee.

Mr Fraser is a company director and corporate adviser with over 25 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. Mr Fraser 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. Mr Fraser has been a Non-executive Director of a number of public companies and currently serves on the Boards of ARB Corporation Limited, F.F.I. Holdings Limited and Gowing Bros Limited.

(c) Re-Election of Karen Phin

Ms Karen Phin retires in accordance with Article 47(d) of the Company's Constitution and, being eligible, offers herself for re-election as an independent Non-executive Director. Ms Phin was appointed to the Board on 23 April 2014. Ms Phin is a member of the Audit and Risk Committee and the Remuneration and Nominations Committee.

Ms Phin has over 18 years' capital markets experience advising a range of top Australian companies on their capital management and funding strategies. Until recently, Ms Phin was Managing Director and Head of Capital Management Advisory at Citi 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 Citi, Ms Phin spent 12 months at ASIC as a Senior Specialist in the Corporations group. Ms Phin is currently on the Finance Committee of the Royal Australasian College of Physicians and is a member of the ASX

Tribunal. Ms Phin has a Bachelor of Arts/Law (Honours) from the University of Sydney.

The Board (other than the relevant Director in relation to their own re-election) recommends the re-election of Dr Cairns, Mr Fraser and Ms Phin.

The Chairman of the Meeting intends to vote undirected proxies in favour of the re-election of Dr Cairns, Mr Fraser and Ms Phin.

4. Resolutions Relating to the Company's Share Purchase Plan

Items 4(a), 4(b) and 4(c) relate to the issue of shares in the Company ('Plan Shares') under the Company's Share Purchase Plan ('Plan') to Non-executive Directors Mr Fraser and Ms Phin on a once only basis as provided for in the Plan.

The Plan was approved by shareholders on 22 March 2007 and was established to encourage Employees and Non-executive Directors to share in the ownership of the Company, in order to promote the long term success of the Company.

A copy of the Plan Rules will be available for inspection free of charge during business hours at the Company's Registered Office at Level 7, 1 Castlereagh Street, Sydney, in the period prior to the meeting.

Under the Plan Rules, the Non-executive Director Participants are each required to pay an amount equal to 25% of the issue price of the Plan Shares at the time of issue. The remaining 75% of the issue price is funded by way of a full recourse interest free loan from the Company.

The terms of the loan requires each Non-executive Director Participant to repay their full recourse interest free loan by no later than the fifth anniversary of the date of issue of their Plan Shares.

Dividends will be payable on the Plan Shares equally with all other issued ordinary shares in the Company and will be applied to repay the loan until the loan has been fully repaid.

4(a) – Issue of Plan Shares to Non-executive Directors Robert Fraser and Karen Phin

The Company intends to grant MFG shares under the Plan to two of its Non-executive Directors, Mr Fraser and Ms Phin or to a legal entity that is controlled by each respectively, the obligations of such entity to be guaranteed by the Non-executive Director who controls the entity, pursuant to the Plan Rules (collectively 'Director Participants') on a once only basis.

ASX Listing Rule 10.14 prevents directors or their associates from acquiring shares under an employee incentive scheme unless the acquisition is approved by shareholders.

The information below is provided in accordance with ASX Listing Rule 10.15.

- i. The Plan Shares may be issued directly to Mr Fraser and Ms Phin or to entities that are respectively controlled by Mr Fraser and Ms Phin.
- ii. A maximum of \$1,333,333 of Plan Shares will be offered to each of Mr Fraser and Ms Phin, which based on the closing market price on 19 August 2014 of \$13.00 would amount to a maximum of 102,564 shares in the Company being issued to each of Mr Fraser and Ms Phin.

- iii. The issue price for the Plan Shares to be issued to each Non-executive Director Participant will be the fair market value of the Plan Shares (as defined in Division 83A of the Income Tax Assessment Act 1997) at the issue date. This will be calculated using the volume weighted average price of traded shares in the Company in the 5 business days prior to the offer date. The Plan Shares will be issued by no later than 12 months from the date of the meeting.
- iv. Since the shareholder approval on 22 March 2007 to issue Plan Shares to a Director (or their associate), on 10 September 2007 Brett Cairns was issued 1,000,000 Plan Shares at an acquisition price of \$1.66 per share and Paul Lewis was issued 1,000,000 Plan Shares at an acquisition price of \$1.66 per share on a once only basis.
- v. The Non-executive Directors entitled to participate in the Plan are Dr Cairns, Mr Fraser, Mr Lewis and Ms Phin although this offer is only being made to Mr Fraser and Ms Phin as offers have been made previously to Dr Cairns and Mr Lewis.
- vi. The Non-executive Director Participants will be granted full recourse interest free loans for up to 75% of the issue price of Plan Shares issued to them under the Plan (i.e a maximum of \$1,000,000 each).
- vii. Non-executive Director Participants will be required to repay the loan by no later than the fifth anniversary of the date of issue of their Plan Shares. The Share Purchase Plan Rules also require repayment of the loan where they cease to be a Non-executive Director.

The Director recommendation and Voting exclusion statement for this Item appear at the end of this Section 4.

4(b) – Approval of financial assistance to Non-executive Directors Robert Fraser and Karen Phin

This section contains information for Shareholders in connection with the proposed financial assistance by the Company to Non-executive Director Participants in connection with the acquisition by them of Plan Shares under the Plan.

Financial assistance

A company is generally prevented from providing financial assistance to any person in connection with the acquisition of its own shares.

The provision of full recourse interest free loans by the Company to the Non-executive Director Participants under the Plan constitutes financial assistance in connection with the acquisition of Plan Shares.

Section 260A(1) of the *Corporations Act 2001 (Cth)* provides that such assistance may be given, if amongst other things, the assistance is approved by shareholders of the Company in accordance with Section 260B of the *Corporations Act 2001 (Cth)*.

Requirements for shareholder approval

The requirements for shareholder approval under Section 260B of the *Corporations Act 2001 (Cth)* are:

- a) the financial assistance must be approved by shareholders by:
 - i. a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by the person acquiring the shares or by their associates; or
 - ii. a resolution agreed to at a general meeting, by all ordinary shareholders; and

- b) a company calling a general meeting must issue a statement setting out all the information that is known to the company that is material to the decision on how to vote on the resolution, unless it would be unreasonable to require that company to do so because that company has previously disclosed the information to its members.

The Company considers that these Explanatory Notes contain all material information known to it that could reasonably be required by the members in deciding how to vote on the proposed Resolution other than information that would be unreasonable to require the Company to disclose because the Company has previously disclosed the information to shareholders.

Notice to ASIC and ASX

Copies of the Notice of Meeting and these Explanatory Notes were lodged with ASIC, in accordance with section 260B(5) of the *Corporations Act 2001 (Cth)* and with ASX in accordance with Listing Rule 15.1.4 before being sent to shareholders.

The Director recommendation and Voting exclusion statement for this Resolution appear at the end of this Item 4.

4(c) – Approval of Related Party Benefits

Chapter 2E of the *Corporations Act 2001 (Cth)* regulates the provision of financial benefits to related parties by a public company. Section 208 of the *Corporations Act 2001 (Cth)* permits a public company to give a financial benefit to a related party of that public company if shareholders of the public company have approved the giving of that financial benefit to the related party.

The right of the Non-executive Directors to participate in the Share Purchase Plan and the provision of financial assistance which constitutes a full recourse interest free loan to such Non-executive Director Participants under the Plan are considered to be the provision by the Company of a financial benefit to a related party.

The following information is provided to satisfy section 219 of the *Corporations Act 2001 (Cth)*.

- i. Mr Fraser is currently paid Directors fees of \$95,000pa and holds directly and through his associates 501,358 shares in the Company.
- ii. Ms Phin is currently paid Directors fees of \$80,000pa and holds directly and through her associates 16,192 shares in the Company.
- iii. If the maximum number of Plan Shares were issued under Item 4(a) to each of the Directors this would collectively represent approximately 0.13% of shares on issue at the closing market price on 19 August 2014 of \$13.00 and accordingly the dilutive effect on existing shareholders is nominal.
- iv. The nature of the proposed financial benefit to be given to each Non-executive Director Participant is the provision of financial assistance to acquire Plan Shares. The maximum value of the full recourse interest free loan to each Non-executive Director Participant is \$1,000,000.
- v. The Plan Shares will be issued at a price calculated using the volume weighted average price of traded shares in the Company in the 5 business days prior to the offer date.
- vi. The Company's Directors, other than Mr Fraser and Ms Phin, consider that the provision of the financial assistance maintains the close alignment of Mr Fraser

and Ms Phin's interests with the long term interests of the Company's shareholders.

- vii. \$1,333,333 of Plan Shares will be offered to each of Mr Fraser and Ms Phin which based on the closing market price on 19 August 2014 of \$13.00 would amount to a maximum of 102,564 shares in the Company being issued to each of Mr Fraser and Ms Phin. The financial impact of the issue of the maximum number of Plan Shares and the provision of the maximum full recourse interest free loans to the two Non-executive Director Participants on the Group's Consolidated Profit or Loss may be summarised as follows:

Year ending 30 June:	2015 \$'000s	2016 \$'000s	2017 \$'000s	2018 \$'000s	2019 \$'000s	2020 \$'000s	Total \$'000s
Interest income	30	48	47	46	44	16	231
Employee benefits expense	(29)	(46)	(46)	(46)	(46)	(18)	(231)
Net credit (debit) in Consolidated Statement of Profit or Loss	1	2	1	0	(2)	(2)	0

The table above shows the estimated cost of providing the benefit over the 5 year maximum term of the loan for the two Non-executive Director Participants on the Employee benefits expense line.

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. 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.

- viii. The Company's Directors (other than Mr Fraser and Ms Phin) consider that the disadvantages of shareholders approving this Item 4(c) are that:
- a. the loans that are provided to Mr Fraser and Ms Phin are interest free; and
 - b. that whilst an equitable mortgage or charge is taken over the Plan Shares, the Company may be exposed to credit risk in respect of the Non-executive Director Participant in circumstances where the market value of the Plan Shares is less than the loan balance outstanding.
- ix. The Company's Directors (other than Mr Fraser and Ms Phin) consider that the benefits of approving Item 4(c) outweigh the disadvantages of Item 4(c).

Notice to ASIC and ASX

Copies of the Notice of Meeting and these Explanatory Notes were lodged with ASIC in accordance with section 218(1) of the *Corporations Act 2001 (Cth)* and with ASX in accordance with Listing Rule 15.1.4 before being sent to shareholders.

Director recommendation

The Board (other than Mr Fraser and Ms Phin) recommends that shareholders vote in favour of each of Items 4(a), 4(b) and 4(c).

In relation to Item 4(c) the reasons for the Board's recommendations are set out in the Explanatory Notes above in respect of this resolution.

Subject to the Voting exclusion statement below, the Chairman of the Meeting intends to vote undirected proxies in favour of Items 4(a), 4(b) and 4(c).

Voting exclusion statement

The Company will disregard any votes cast on Items 4(a), 4(b) and 4(c) by:

- Mr Fraser and Ms Phin; and
- their associates,

unless the vote is cast:

- by a person as proxy for a person entitled to vote in accordance with a direction on the Proxy Form; or

- by the Chairman of the Meeting as proxy for a person entitled to vote and the Chairman has received express authority to vote undirected proxies as the Chairman sees fit.

5. Questions and Comments

In addition to any questions asked or comments made in relation to the specific items of business, the Chairman will give shareholders a reasonable opportunity to ask questions about or comment on the activities of the Company. The Chairman will also give shareholders a reasonable opportunity to ask the Auditor questions relevant to the conduct of the audit and the preparation and content of the Independent Audit Report.

2014 Annual General Meeting – Friday, 17 October 2014

AGM QUESTIONNAIRE

Your questions regarding any matter relating to Magellan Financial Group Limited (the “**Company**”) that may be relevant to the 2014 Annual General Meeting (“**AGM**”) are important to us.

We invite you to use this form to submit any questions you may have on:

- the activities of the Company;
- the accounting policies adopted by the Company in relation to the preparation of the financial statements;
- the conduct of the audit;
- the preparation of the Independent Audit Report; and/or
- the independence of the Auditor in relation to the conduct of the audit.

You may respond to this form by faxing it to +61 2 8114 1800. Alternatively, you can email your questions to info@magellangroup.com.au. All questions must be received by 5:00pm (AEDT) on Tuesday, 14 October 2014.

We will attempt to respond to as many of the more frequently asked questions as possible in the addresses by the Chairman and the Chief Executive Officer at the AGM. The Chairman will also permit the Auditor to answer any written questions submitted to the Auditor.

Shareholder Name:

Address:

Shareholder Reference Number (SRN) or Holder Identification Number (HIN):

I or **X**

My question is for the: ☐ **Chairman** ☐ **Chief Executive Officer** ☐ **Auditor**

Question(s):

All Correspondence to:

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

Level 7, 207 Kent Street,
Sydney NSW 2000 Australia

📠 **By Fax:** +61 2 9290 9655

💻 **Online:** www.boardroomlimited.com.au

☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 10:30am (AEDT) on Wednesday 15 October 2014.**

🖨 TO VOTE ONLINE

- STEP 1: VISIT** www.votingonline.com.au/mfgagm2014
- STEP 2: Enter your holding/investment type:**
- STEP 3: Enter your Reference Number:**
- STEP 4: Enter your VAC:**

PLEASE NOTE: For security reasons it is important you keep the above information confidential.

📱 BY SMARTPHONE



Scan QR Code using smartphone
QR Reader App

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the Company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy Forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **10:30am (AEDT) on Wednesday 15 October 2014.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

💻 **Online** www.votingonline.com.au/mfgagm2014

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

👤 **In Person** Level 7, 207 Kent Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

☐

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes.
Please note you cannot change ownership of your securities using this form.

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Magellan Financial Group Limited** (Company) and entitled to attend and vote hereby appoint:

☐

the **Chair of the Meeting** (mark box)

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the Annual General Meeting of the Company to be held at the **Brisbane Room, Hotel Sofitel Sydney Wentworth, 61-101 Phillip Street, Sydney, NSW 2000 on Friday 17 October 2014 at 10:30am (AEDT)** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

If I/we have appointed the Chair of the Meeting as my/our proxy or the Chair of the Meeting becomes my/our proxy by default and I/we have not directed my/our proxy how to vote in respect of Item 2, I/we expressly authorise the Chair of the Meeting to exercise my/our proxy in respect of Item 2 even though Item 2 is connected with the remuneration of a member of key management personnel of the Company.

Subject to the voting exclusion statement in the Explanatory Notes attached to the Notice of Meeting in respect of Items 2, 4(a), 4(b) and 4(c), the Chair of the Meeting will vote all undirected proxies in favour of all Items of business. If you wish to appoint the Chair of the Meeting as your proxy with a direction to vote against, or to abstain from voting on an item, you must provide a direction by marking the 'Against' or 'Abstain' box opposite that resolution.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
2.	To Adopt the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.(a)	To re-elect Dr Brett Cairns as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.(b)	To re-elect Mr Robert Fraser as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.(c)	To re-elect Ms Karen Phin as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.(a)	To Approve the Issue of Plan Shares to Non-Executive Directors Mr Robert Fraser and Ms Karen Phin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.(b)	To Approve Financial Assistance to Non-Executive Directors Mr Robert Fraser and Ms Karen Phin (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.(c)	To Approve Related Party Benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STEP 3 SIGNATURE OF SHAREHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2014

2014



[ANNUAL REPORT]

FOR THE YEAR ENDED – 30 JUNE 2014

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MAGELLAN FINANCIAL GROUP LIMITED

CHAIRMAN'S REPORT

Dear Shareholders

At Magellan Financial Group ("Magellan") our long term vision is to create a world class funds management business. We are at the early stages of this journey.

Over the past year we are pleased to report that we have made strong progress. Our financial results continue to be excellent and we have further deepened and broadened our client relationships, and added to our team's skills. The Chief Executive Officer's annual letter, and the financial statements that follow, provide important information in relation to our business and should be read carefully.

We are also very pleased about the continuing positive development of our culture. At Magellan we strive to act rationally and fairly, whilst being realistic and pragmatic. We understand it is inevitable that we will make mistakes, and indeed making mistakes is a necessary part of learning. Further, we recognise that thinking in risk adjusted terms requires judgement and thereby inherently involves taking risks. The objective of course is to survive and flourish over time, and as Yogi Berra beautifully puts it, not to make the "wrong mistake"!

Our business and our investment processes led by Hamish Douglass are focussed on medium-term outperformance and continue to evolve and improve. The combination of accumulating knowledge, and an expanding group of highly talented people, are important foundations for our firm. We will continue to invest in our people and processes.

We look to treat each of our main constituents – clients (and their advisors), employees and shareholders – fairly. We understand that to provide excellent long-term results for our shareholders, we must develop a motivated world class team to provide excellent overall service and results for our clients. We look to act internally and externally in a partnership oriented way. For example, our distribution efforts centre on relationships, and we encourage all our team members to be and act like owners.

We will continue to broaden and deepen Magellan's business over time. We are mindful of balancing the needs and opportunities of our current core activities with those of our eventual new initiatives. Magellan will inevitably evolve, but in a measured way.

This year has also seen several changes to the Board, with Naomi Milgrom AO, and Chris Mackay stepping down. We are delighted that two high calibre directors, Karen Phin and Robert Fraser, have joined our Board and we are already benefitting from their perspectives. We thank Naomi for her very valuable input over the past seven years, and also Chris for his continuing insights and on-going contribution as our Special Advisor.

While we are pleased and proud of our growth and the outcomes we have achieved for our clients over the past seven years, we recognise that much still needs to be done. Our whole team is excited by the challenges and opportunities that lie ahead.

We look forward to seeing you at the Annual General Meeting as our journey continues.



Dr Brett Cairns
Chairman

MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

Dear Shareholders,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("the Group") for the year ended 30 June 2014.

OVERVIEW OF RESULTS

The Group had a successful year which was characterised by continued strong growth in funds under management (which increased from \$14.7 billion to \$23.5 billion for the 12 months to 30 June 2014) and the strong growth both in earnings and interim and final dividends.

For the year ended 30 June 2014:

- the Group's net operating profit after tax increased by 25% to \$82.9 million (\$66.6 million in 2013). The year ended 30 June 2013 included a realised after tax gain on the in-specie distribution of the Group's holding in Magellan Flagship Fund Limited (MFF) of approximately \$18.1 million. Excluding the gain on the in-specie distribution, the Group's net operating profit after tax was \$48.5 million in 2013, representing a year on year increase of 71%.
- fully diluted earnings per share increased by 22% to 48.9 cents (40.0 cents in 2013). Excluding the gain on the in-specie distribution, the Group's fully diluted earnings per share was 29.2 cents in 2013, representing a year on year increase of 67%.

The Directors have declared a final fully franked dividend of 21.8 cents per ordinary share in respect of the 2014 financial year (16.5 cents per ordinary share final dividend in 2013). A fully franked interim dividend of 16.5 cents per share was paid in March 2014 (5.0 cents per ordinary share interim dividend in April 2013). The Directors have confirmed the policy of paying a dividend of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business, with the calculation to include any crystallised performance fees. Performance fees fluctuate materially from period to period. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations. The Directors have also reviewed the timetable for payment of dividends and consider it is in the interest of shareholders to pay dividends promptly following the release of the financial results. This year the final dividend will be paid on 1 September 2014, which is earlier than the payment date for last year's final dividend of 11 October 2013.

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

	30 June 2014 \$'000	30 June 2013¹ \$'000	Change %
Revenue	148,109	120,906	22%
Expenses	37,630	25,904	45%
Profit before tax expense	110,479	95,002	16%
Tax expense	(27,540)	(28,402)	(3%)
Profit after tax expense	82,939	66,600	25%

Key Statistics

Earnings per share (cents per share)	53.3	43.6	22%
Diluted earnings per share (cents per share) ²	48.9	40.0	22%
Diluted earnings per share (cents per share) excluding gain on in-specie distribution ²	48.9	29.2	67%
Dividend (interim and final)(cents per share, fully franked) ³	38.3	21.5	78%
Effective tax rate	24.9%	29.9%	

¹ Includes gain on the in-specie distribution as a result of the disposal of the Group's investment in MFF in February 2013

² Fully diluted earnings per share

³ Excludes the in-specie distribution representing 9.16 cents per share in the year ended 30 June 2013

MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

As at 30 June 2014, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents and other financial assets) of approximately \$208.4 million (30 June 2013: \$153.0 million) and shareholders' funds of approximately \$206.6 million (30 June 2013: \$153.0 million); and
- the Group's NTA per share (diluted for MFG 2016 Options and the conversion of the Class B Shares) was approximately \$1.24 (30 June 2013: \$1.02).

Over the 2014 financial year, there have been a few changes to the Group's Board of Directors. On 30 September 2013, Chris Mackay stepped down as Executive Chairman of the Group and Dr. Brett Cairns was appointed as Non-Executive Chairman. Mr Mackay has been appointed as Special Adviser to both the Group's Board and Chief Executive Officer. In April 2014, Ms Naomi Milgrom AO retired from the Group's Board and Ms Karen Phin and Mr Robert Fraser were appointed as Non-Executive directors.

Funds Management Business

For the year ended 30 June 2014, despite the significant reduction in performance fees, the Group's funds management business generated revenues of approximately \$139.1 million (\$86.8 million for 2013) and had expenses of approximately \$36.6 million (\$25.2 million for 2013), which resulted in a profit before tax of \$102.5 million (\$61.6 million for 2013).

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

	30 June 2014 \$'000	30 June 2013 \$'000	Change %
Revenue			
Management fees	132,567	56,007	137%
Performance fees	2,117	28,449	(93%)
Service fees	3,918	-	n/a
Consulting fees	-	1,200	n/a
Interest & other income	533	1,130	(53%)
	<u>139,135</u>	<u>86,786</u>	60%
Expenses			
Employee expense	23,599	17,427	35%
US marketing and consulting fees ⁴	3,127	1,598	96%
Other expense	9,890	6,182	60%
	<u>36,616</u>	<u>25,207</u>	45%
Profit before tax expense	<u>102,519</u>	<u>61,579</u>	66%

Key Statistics

Average funds under management (A\$ million)	19,104	9,351	104%
Average number of employees	64	51	25%
Employee expenses / total expenses	64.4%	69.1%	
Cost / income	26.3%	29.0%	
Cost / income, excl. performance fees	26.7%	43.2%	
Net assets (\$'000)	34,931	40,609	(14%)

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

MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

Management fee revenues increased as a result of higher average funds under management over the period due to strong net inflows and investment performance.

Employee expense increased by 35% over the previous corresponding period to \$23.6 million in the year ended 30 June 2014. This increase was due to a 25% increase in the average number of employees and an increase in remuneration levels. At 30 June 2014 there were 69 employees across the Investment, Distribution, and Business Support and Control teams, a net increase of 11 during the year.

Our new hires included three analysts added to the Investment team, two Distribution professionals and six in our Business Support and Control team (including a dedicated Company Secretary, a Head of Investor Relations and senior personnel in the Finance and Compliance teams). We are extremely pleased with the quality of the people we have hired and the development of the teams.

Overall the funds management business showed solid improvement in the cost to income ratio (excluding performance fees), reducing from 43.2% in the 2013 financial year to 26.7% in 2014.

During the 2015 financial year, we are planning to further increase the size of the Investment team to develop additional capability and to provide flexibility for extensions of our investment products in the years ahead. We are also planning to make a number of hires in our Distribution and Business Support and Control teams. We expect that total employee expenses for the 2015 financial year will increase in the range of 30-35%, relative to 2014, due to the increase in the average number of employees and increased remuneration levels.

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

Employee Summary

	30 June 2014	30 June 2013	30 June 2012
Investment			
- Professional	24	22	14
- Administration	2	2	2
	26	24	16
Distribution			
- Professional	15	14	12
- Administration	3	1	1
	18	15	13
Business Support & Control			
- Professional	22	17	13
- Administration	3	2	2
	25	19	15
Total	69	58	44
Average number of employees	64	51	38

MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

At 31 July 2014, the Group had funds under management of approximately \$24.8 billion, split between global equities (83%) and infrastructure equities (17%). This compares with funds under management of \$23.5 billion at 30 June 2014 and \$14.7 billion at 30 June 2013. The increase in funds under management was driven by net inflows of \$7.1 billion and investment performance of \$1.7 billion for the year ended 30 June 2014.

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

Funds Under Management (FUM)

A\$ million	31 July 2014	30 June 2014	30 June 2013	30 June 2012
Retail	6,629	6,693	4,542	1,750
Institutional				
- Australia/New Zealand	3,006	2,889	2,424	1,924
- North America	4,915	4,690	2,891	306
- Rest of World	10,233	9,241	4,838	26
	18,154	16,820	10,153	2,256
Total FUM	24,783	23,513	14,695	4,006
Percentage				
Retail	27%	28%	31%	44%
Institutional				
- Australia/ New Zealand	12%	12%	16%	48%
- North America	20%	20%	20%	7%
- Rest of World	41%	40%	33%	1%
	73%	72%	69%	56%
Total FUM	100%	100%	100%	100%
FUM subject to Performance Fees (%)	35%	37%	39%	53%
Institutional FUM (%)				
- Active	82%	81%	80%	35%
- Enhanced Beta	18%	19%	20%	65%
Breakdown of FUM (A\$ million)				
- Global Equities	20,529	19,443	12,088	2,357
- Infrastructure Equities	4,254	4,070	2,607	1,649
Average Base Management fee (bps) excluding Performance Fees ⁽⁵⁾		65	66	71

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 and infrastructure strategies is approximately US\$50 billion. This is split approximately US\$40 billion for our global equities strategies and US\$10 billion for our infrastructure strategies. We carefully take into account the investment universe, the market capitalisation established for the strategy and liquidity requirements in ascertaining the theoretical capacity of each of our strategies. This theoretical capacity is not static and should be approximately indexed to changes in the values of world equity markets over time. For example if world equity markets increased by 7% per annum over the next five years our theoretical capacity should increase to approximately US\$70 billion while maintaining the same investment opportunity set.

⁽⁵⁾ Calculated using Management Fees (excluding Performance Fees) for the prior twelve month period divided by the average of month end FUM over the same period

MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

As mentioned previously we intend to increase the size of our Investment team in 2015 and this may lead to the development of new but related global equity products in the future. These would be incremental to the theoretical capacity of the Group's existing products.

We further note that at 31 July 2014, the Group was managing around A\$24.8 billion (equating to approximately US\$23.0 billion) and 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 2014, the Group had total retail funds under management of \$6.7 billion. We experienced total net retail inflows of \$2.1 billion for the 12 months to 30 June 2014, compared with \$1.8 billion for the previous financial year. The Group experienced average monthly retail net inflows of approximately \$177 million over the 12 months to 30 June 2014, compared with \$149 million over the previous corresponding period.

The Magellan Global Fund and the Magellan Infrastructure Fund continue to enhance their reputations with research houses and major financial planning groups in Australia and New Zealand. We have an outstanding team of business development managers, led by Frank Casarotti, with offices in Sydney, Melbourne, Brisbane and Auckland. Both these funds have established strong performance records.

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

Investment Performance for the period to 30 June 2014 ⁽⁶⁾	1 Year	3 Years p.a.	5 Years p.a.	Since Inception p.a.
Magellan Global Fund	11.7%	22.7%	16.6%	9.7%
MSCI World NTR Index (\$A)	20.3%	16.6%	11.5%	1.9%
MSCI World Minimum Volatility NTR Index (\$A)	11.9%	15.9%	10.3%	2.9%
S&P 500 TR Index (\$A)	20.8%	21.6%	15.2%	4.6%
Dow Jones Industrials Index TR (\$A)	12.1%	18.4%	14.2%	4.5%
Magellan Infrastructure Fund	22.0%	15.6%	18.7%	6.8%
UBS Dev Infra & Utilities NTR Index Hedged (\$A)	24.6%	14.4%	13.8%	5.0%
Magellan High Conviction Strategy	16.2%	-	-	30.6%

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

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

We believe the results to date have been good with the investment performances near the top of their peer groups when measured over 3 and 5 years. Given our medium term focus, however, it is not unreasonable to expect some periods when the funds will lag their benchmarks. Further, given our strategic focus on quality/low volatility investments, it can also reasonably be expected that returns may underperform broader based benchmarks in strongly rising markets due to the cap on volatility. Over the cycle, however, we believe the strategy will produce an appropriate risk adjusted outperformance 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.

⁽⁶⁾ 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.

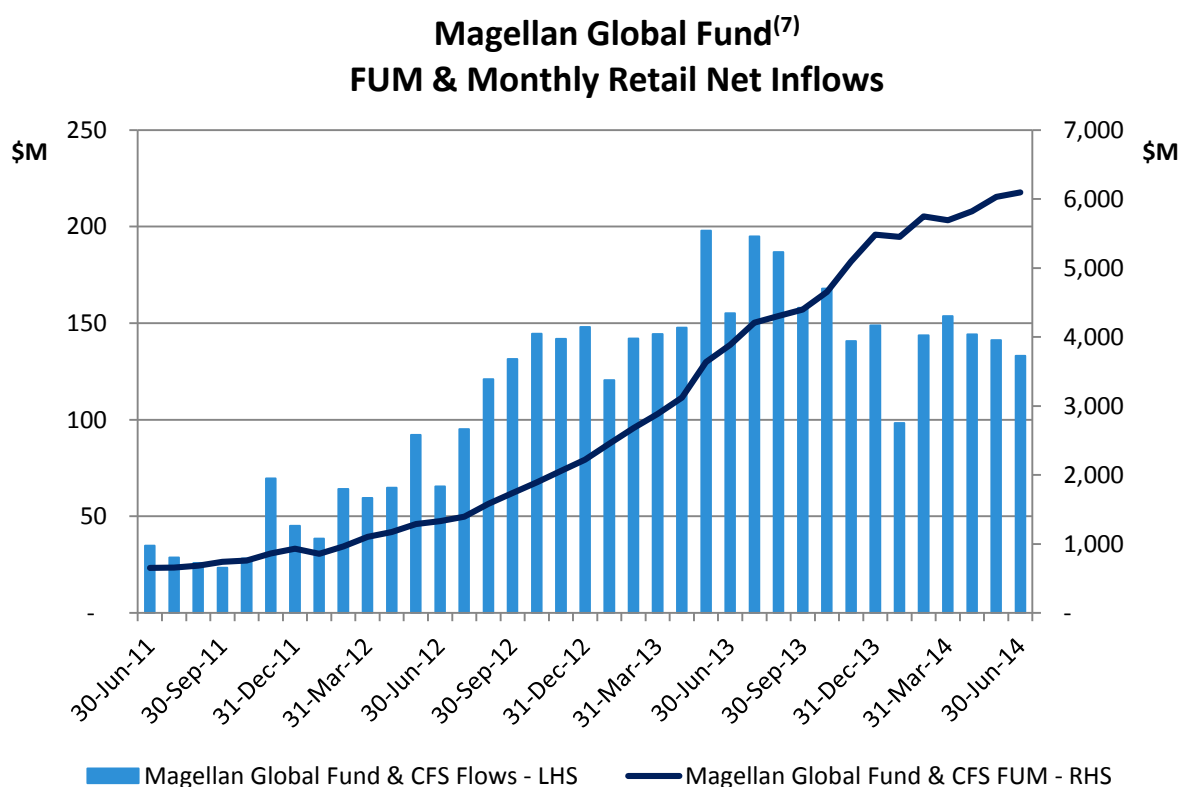
MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

The table above also highlights that even when viewed over a single year, the varying nature of what appears to be somewhat similar indices can produce vastly different outcomes. For example, the past year has seen the Magellan Global Fund produce returns broadly in line with the Dow Jones Industrials and the MSCI World Minimum Volatility NTR indices, which themselves have underperformed the more broadly constructed MSCI World NTR and S&P 500 TR indices. We also note that the Magellan Global Fund's yearly performance is in line with its stated objective of an average return of 9%, net of fees, across the investment cycle. Lastly, the Fund has exhibited an historical tracking error, relative to the MSCI World NTR index, of approximately 7.9%, which is broadly in line with the outcome for this particular year.

We are delighted that the Group continues to build adviser support. This has been based on a relationship approach and a clear understanding of the strategy that underpins the funds. We estimate the total number of advisers using the Magellan Global Fund/Colonial First State Magellan Global Fund Option ("MGF") has increased from approximately 5,600 to approximately 7,500 over the past year. The Group has also made substantial progress over the past 3-6 months in penetrating the bank/AMP aligned advice markets and we expect to gain traction in these channels over the coming year.

The retail component of the MGF had funds under management of approximately \$6.1 billion as at 30 June 2014. MGF experienced total retail net inflows of \$1.8 billion and average monthly retail net inflows of approximately \$154 million over the 12 months to 30 June 2014. This compares to MGF's total net inflows of \$1.7 billion and the average monthly retail net inflows of \$140 million over the 12 months to 30 June 2013. The following chart sets out the monthly retail net inflows into MGF over the past 3 years:



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

On 1 July 2013 the Group launched three new funds for Australian and New Zealand investors. Complementing our existing funds, we launched the Magellan Global Fund (Hedged), a currency hedged offering of our Global Equity Strategy, and the Magellan Infrastructure Fund (Unhedged). We also launched a new investment product, the Magellan High Conviction Fund. This fund is a highly concentrated global equity strategy (8-12 stocks) and is managed by myself,

⁽⁷⁾ FUM & Flows includes Colonial First State Magellan Global Option from April 2011 – retail only

MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

as Lead Portfolio Manager. We have been pleased with investor and adviser interest in the Magellan High Conviction Fund, with funds under management of \$129 million at 30 June 2014.

The Group remains optimistic that there continues to be significant potential to attract new inflows into global equities from Australian retail investors. As stated above we have made substantial progress in penetrating the bank/AMP aligned advice markets over the past 3-6 months and expect to gain traction in these channels over the coming year. We are also actively working on an ASX listed version of the Magellan Global Fund which, if successful, should be attractive to self directed, self managed superannuation investors.

Institutional Funds Under Management

At 30 June 2014, the Group had total institutional funds under management of \$16.8 billion from more than 80 clients⁽⁸⁾. We experienced institutional net inflows of \$5.0 billion for the 12 months to 30 June 2014. This included average monthly net inflows from existing global equity institutional flow accounts⁽⁹⁾ of approximately \$162 million over the 12 months to 30 June 2014, compared with \$48 million in 2013.

In order to manage the capacity of our global equities strategies we have advised the Group's institutional clients that we intend to close our existing Global Equity Strategy to new separate accounts (minimum investment size US\$200 million) on 31 October 2014 and also intend to close the UCITS and US pooled vehicles to new investors on 31 December 2014. From these dates we will be opening a sister global equity strategy, Magellan Global Plus, to institutional investors. The Magellan Global Fund and Colonial First State Magellan Global Fund Option will both remain open to Australian and New Zealand advisers and retail investors. Magellan Global Plus applies a very similar strategy to our existing Global Equity Strategy, but it invests in companies with a minimum market capitalisation of US\$25 billion, as opposed to the Global Equity Strategy whose minimum is US\$10 billion. We have had positive discussions with prospective investors in relation to the Magellan Global Plus Strategy. Our stated capacity of US\$50 billion across the Group's global equities and infrastructure strategies includes both the Global Equity and Global Plus strategies. The pipeline of prospective institutional investors considering our Global Equity and Global Plus strategies is solid.

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

We particularly value our relationship with Frontier Partners and the depth of client relationships and the prospective client pipeline. For the 12 months to 30 June 2014, we experienced institutional net inflows of \$1.0 billion from clients in the United States, bringing the total funds under management to approximately \$4.0 billion (\$2.5 billion at 30 June 2013).

We have identified Canada as a priority market moving forward. At 30 June 2014, we had \$706 million in funds under management from Canadian clients and we are building a pipeline of prospective clients.

Our UK business continues to go from strength to strength. At 30 June 2014, the Group had total funds under management of approximately \$7.9 billion from clients in the UK (\$4.8 billion at 30 June 2013). For the 12 months to 30 June 2014, we experienced net inflows of \$2.5 billion. Our important relationship with St. James's Place continues to grow. At 30 June 2014, this account has grown to \$4.8 billion from \$3.7 billion at 30 June 2013. We have continued to see good inflows into the UK infrastructure fund that replicates the Magellan Core Infrastructure (Enhanced Beta) Strategy. This fund has grown to \$2.2 billion at 30 June 2014 from \$1.0 billion at 30 June 2013.

We continue to make steady progress in the Asia-Pacific region. At 30 June 2014, the Group had total funds under management of approximately \$2.9 billion from Australian institutional investors. We remain focused on specific target markets in our region, primarily Australia and Singapore.

In August 2013, MFG Global Fund (a UCITS fund offered to institutional clients in our target markets, outside Australia and the United States) was approved by the Central Bank of Ireland. We are pleased with the client interest in this fund and at 30 June 2014 had funds under management of approximately \$1.2 billion.

⁽⁸⁾ The number of clients include separately managed accounts and institutional investors in local and offshore vehicles

⁽⁹⁾ Includes St. James's Place, Frontegra MFG Global Equity Fund - US Mutual Fund, MFG Global Fund (UCITS) and three other undisclosed accounts.

MAGELLAN FINANCIAL GROUP LIMITED

CHIEF EXECUTIVE OFFICER'S ANNUAL LETTER

Investments in Magellan's Funds and Principal Investments

At 30 June 2014 the Group had total net Principal Investments of \$119.7 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately \$85.5 million at 30 June 2013.

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

Over time we aim to earn satisfactory returns for shareholders through the sensible deployment of the Group's capital, while maintaining capital strength to underpin the business. The Board has established a pre-tax 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 13.1%, 23.3% and 18.7% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's investment in MFF, which was disposed of by way of in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 8.5% per annum over the period 1 July 2007 to 30 June 2014. 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 at 30 June 2014:

MFG Group's Principal Investments

A\$ million	30 June 2014	30 June 2013
Cash	0.3	0.4
Magellan Unlisted Funds ^(A)	115.5	73.1
Listed shares	10.1	21.6
Listed subordinated bank notes	-	4.3
Other ^(B)	3.5	2.8
Total	129.4	102.2
Deferred tax liability ^(C)	(9.7)	(7.9)
Payables – outstanding settlements	-	(8.8)
Net Principal Investments	119.7	85.5

Net Principal Investments per share (cents)^(D)	70.9	52.6
------------------------------------------------------------------	-------------	-------------

^(A) Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Infrastructure Fund, Magellan Global Fund (Hedged), Magellan Infrastructure Fund (Unhedged), Magellan High Conviction Fund and the Frontegra MFG Funds.

^(B) Other comprises distributions receivable and unlisted funds and shares.

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

^(D) Based on the aggregate of 158,842,157 ordinary shares on issue at 30 June 2014 and 10,119,516 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert into at 30 June 2014. At 30 June 2013, it is based on 152,782,876 ordinary shares and 9,732,697 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2013.

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

Managing Director and Chief Executive Officer

14 August 2014

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

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 2014.

1. Operations and Activities

1.1 Company Overview

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

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

1.2 Principal Activity

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

1.3 Dividends and Distributions

During the year, dividends amounting to \$50,921,000 were paid representing 33.0 cents per share (June 2013: \$26,196,000 comprising \$12,219,000 representing 8.0 cents per share and an in-specie distribution of \$13,977,000 representing 9.16 cents per share (refer to note 4(iii) in the financial statements for further details)).

Since the end of the year, the Directors have declared a final fully franked dividend of 21.8 cents per ordinary share in respect of the year ended 30 June 2014 (June 2013: 16.5 cents per share), which represents approximately \$34,628,000.

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

1.4 Review of Operations

Financial Results for the year

The Group's net profit after tax for the year ended 30 June 2014 was \$82,939,000 compared with net profit after tax of \$66,600,000 for the prior year. Total operating expenses of \$37,630,000 compared with total operating expenses of \$25,904,000 for the previous corresponding year.

The Group is in a strong financial position with an extremely strong balance sheet and at 30 June 2014 reported:

- investment assets (including cash and fixed and variable rate debt investments) of \$208,431,000 (June 2013: \$152,972,000) and shareholders' funds of \$206,587,000 (June 2013: \$153,039,000) ; and
- NTA per share of \$1.24 (June 2013:\$1.02) diluted for MFG 2016 Options and the conversion of the Class B Shares.

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

1.5 Likely Developments and Expected Result of Operations

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

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 14 August 2014, the Directors declared a franked final dividend of 21.8 cents per ordinary share in respect of the year ended 30 June 2014.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods.

1.8 Environmental Regulation

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

1.9 Unissued Shares

MFG 2016 Options

As at the date of this report, there were 1,898,524 unexercised MFG 2016 Options to take up one new ordinary share each in the Company at an exercise price of \$2.6411 per share (1,898,524 unexercised MFG 2016 Options at 30 June 2014). The options expire on 30 June 2016. Refer to note 11(d)(ii) for further details on the MFG 2016 Options, including the terms and conditions applying to their exercise.

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

MFG Class B Shares

As at the date of this report, Mr Douglass held 10,200,000 MFG Class B Shares which have no entitlement to dividends and convert into the Company's ordinary shares on 21 November 2016 in accordance with a conversion formula (June 2013: 10,200,000 MFG Class B Shares). Refer to note 11(d)(iii) for further details. The service conditions attached to the conversion of the MFG Class B shares into MFG ordinary shares were satisfied on 1 July 2012.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

2. Directors and Officers

2.1 Directors

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

Name	Directorship	Appointed	Resigned
Brett Cairns	Chairman - Non-executive Director	22 Jan 2007	-
Hamish Douglass	Chief Executive Officer and Managing Director	21 Nov 2006	-
Robert Fraser	Non-executive Director	23 Apr 2014	-
Paul Lewis	Non-executive Director	20 Dec 2006	-
Karen Phin	Non-executive Director	23 Apr 2014	-
Chris Mackay	Chairman and Executive Director	21 Nov 2006	30 Sep 2013
Naomi Milgrom AO	Non-executive Director	20 Dec 2006	23 Apr 2014

On 30 September 2013, Dr Brett Cairns replaced Mr Chris Mackay who stepped down as Executive Chairman on the same day. Mr Mackay was appointed a Special Advisor to both the Board and CEO and in that role provides ongoing counsel to the Group. For further details refer to note 15(c)(i).

2.2 Secretaries

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

Name	Appointed	Resigned
Geoffrey Stirton	20 Mar 2014	-
Nerida Campbell	20 Nov 2006	20 Mar 2014
Leo Quintana	29 Feb 2008	20 Mar 2014

There are no other officers of the Company.

2.3 Information on Directors and Officers

Brett Cairns

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

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.

Hamish Douglass

Managing Director and Chief Executive Officer

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

2.3 Information on Directors and Officers (continued)

Paul Lewis

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

Paul was Managing Partner and Chief Executive – Asia, based in Hong Kong from 1992 – 2004, for PA Consulting Group, 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 2010 was a member of British Telecom's Global Advisory Board. Paul is currently Chair of NAB's Private Wealth Advisory Council, Chairman of PSP International, Chairman of Growth Mantra, Deputy Chairman of the Australian British Chamber of Commerce, and a board member of IPScope Limited and Cure Cancer Australia Foundation.

Robert Fraser

Non-executive Director, Chairman of Audit and Risk Committee and member of Remuneration and Nominations Committee (appointed 23 April 2014)

Robert is a company director and corporate adviser with over 25 years of investment banking experience, specialising in mergers and takeovers, corporate and financial analysis, capital management and equity capital markets. He is presently the Managing Director of TC Corporate Pty Limited, the corporate advisory division of Taylor Collison Limited stockbrokers of which he is a Director and principal. Robert has a Bachelor of Economics and Bachelor of Laws (Hons) degrees from the University of Sydney and is also qualified as a licensed business broker and licensed real estate agent. Robert currently serves on the Boards of ARB Corporation Limited, F.F.I. Holdings Limited and Gowing Bros Limited and in the past three years has been a director of Symex Holdings Limited (January 2011 to February 2012).

Karen Phin

Non-executive Director and member of the Audit and Risk Committee and Remuneration and Nominations Committee (appointed 23 April 2014)

Karen has over 18 years' capital markets experience advising a range of top Australian companies on their capital management and funding strategies. Until recently, Karen was Managing Director and Head of Capital Management Advisory at Citi 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 Citi, Karen spent 12 months at ASIC as a Senior Specialist in the Corporations group. Karen is currently on the Finance Committee of the Royal Australasian College of Physicians and is a member of the ASX Tribunal. Karen has a Bachelor of Arts/Law (Honours) from the University of Sydney.

Geoffrey Stirton

Company Secretary (appointed 20 March 2014)

Geoffrey Stirton joined the Company in March 2014. Geoffrey was most recently Group Company Secretary at The Trust Company and has also held Group Secretary roles at Investa Property Group and MLC Limited. He has over 20 years experience in financial services in various company secretarial, finance and management roles. Geoffrey holds a Bachelor of Commerce degree from the University of NSW, is a Chartered Accountant, a Fellow of the Governance Institute of Australia and a Fellow of the Australian Institute of Company Directors.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

2.4 Directors' Meetings

The number of Board meetings, including meetings of Board Committees, held during the year ended 30 June 2014 and the number of those meetings attended by each Director is set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee ^(A)	
	Held while a Director	Attended	Held while a member	Attended	Held while a member	Attended
B Cairns	5	5	5	5	2	2
H Douglass ^(B)	5	5	5	5	-	-
P Lewis	5	5	5	5	2	2
R Fraser ^(C)	1	1	1	1	1	1
K Phin ^(C)	1	1	1	1	1	1
C Mackay ^(D)	2	1	-	-	-	-
N Milgrom ^(E)	4	3	-	-	1	1

^(A) Remuneration and Nominations Committee was formed on 20 February 2014.

^(B) Mr Douglass resigned as a member of the Audit & Risk Committee on 5 June 2014. Mr Douglass otherwise attended all other meetings as a guest.

^(C) Mr Fraser and Ms Phin were appointed on 23 April 2014

^(D) Mr Mackay resigned on 30 September 2013

^(E) Ms Milgrom AO resigned on 23 April 2014

2.5 Directors' Interests

On 1 October 2013, Mr Mackay entered into a consultancy agreement with Magellan Asset Management Limited (a wholly owned entity of MFG) after being appointed Special Advisor to both the Board and CEO of Magellan Financial Group Limited. Under this agreement Mr Mackay is paid consultancy fees of \$250,000 per annum. Refer to section 3.5 of the Remuneration Report for further details. Apart from the above, no other Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related entity other than as disclosed in this report.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Group for the year ended 30 June 2014. It details the remuneration arrangements for Key Management Personnel (KMP) of the Group who are defined as those persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Group, directly or indirectly.

In the 2014 financial year, the KMP for the Group included the Non-executive Directors, Executive Director and the Group's senior executives with authority for the planning, directing and controlling of the activities of the Group, as set out below:

Name	Position	Term as KMP
Independent Non-Executive Directors		
Brett Cairns ^(A)	Chairman	Full Year
Paul Lewis	Director	Full Year
Robert Fraser	Director	23 Apr 2014 - 30 Jun 2014
Karen Phin	Director	23 Apr 2014 - 30 Jun 2014
Former Directors		
Chris Mackay	Executive Director	1 Jul 2013 - 30 Sep 2013
Naomi Milgrom AO	Non-executive Director	1 Jul 2013 - 23 Apr 2014
Executive Director		
Hamish Douglass	Managing Director & CEO	Full Year
Group Executives		
Nerida Campbell	Chief Operating Officer	Full Year
Frank Casarotti	Head of Distribution	Full Year
Gerald Stack	Head of Research	Full Year

^(A) Dr Cairns replaced Mr Mackay as Chairman on 30 September 2013.

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

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

3.1 Remuneration of Non-executive Directors

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

The Non-executive Directors are eligible to participate in the Company's Share Purchase Plan (SPP) which is described in section 3.2 of the Remuneration Report. Remuneration of two of the Non-executive Directors' includes share based payment amounts that represent the non-cash expense to the Group of providing interest free loans under the SPP.

The Company has reimbursed or borne expenses incurred by the Non-executive directors in the discharge of their duties of \$1,989 (June 2013: \$13,344).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Directors and Other Key Management Personnel

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

Executive Directors

The Executive Directors' remuneration is determined by the Board, which may utilise the services of external advisors. In respect of the year ended 30 June 2014 it comprised fixed compensation and in respect of Mr Douglass only, a variable compensation amount in the form of a short term incentive payment.

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

The amount of fixed compensation was not dependent on the satisfaction of a performance condition, or the performance of the Group, the Company's share price, or dividends paid by the Company. The amount of variable compensation paid to Mr Douglass in respect of the year ended 30 June 2014 was determined with reference to Mr Douglass' achievement of agreed criteria and performance metrics. Mr Mackay resigned on 30 September 2013 and was not entitled to receive a short term or long term incentive in respect of the year ended 30 June 2014.

Details of the employment agreements of the Executive Directors are described later in this report.

Group Executives (Other Key Management Personnel)

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

Other KMP's fixed compensation is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed compensation is reviewed annually to ensure that it is competitive and reasonable, however there are no guaranteed increases to the fixed compensation amount. Other KMP fixed compensation has increased by 23% (June 2013: 30%) reflecting partly the increased responsibilities of Other KMP in line with the Group's continued growth, and partly an alignment closer to market rates. Other KMP fixed compensation for 2015 has not been increased.

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

The Chief Executive Officer determines the amount of variable compensation to be paid to Other KMP, taking into consideration the individual's performance and contribution during the year. The cash bonuses of Other KMP, excluding Mr Stack, are discretionary and may be in the range of 0 - 100% of fixed compensation. Mr Stack's cash bonus is determined as 10% of net revenues earned by the Group in respect to the investment strategies for which he is portfolio manager, less an internal allocation of costs. The variable component of the Other KMP is not dependent on the satisfaction of performance conditions (except as noted for Mr Stack), the Company's share price, or dividends paid by the Company.

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.2 Remuneration of Executive Director and Other Key Management Personnel (continued)

Share Purchase Plan (SPP)

The Group has in place a SPP that provides financial assistance to Non-executive Directors and employees ('Participants'), by way of an interest free fully recourse loan, to invest in shares in the Company. The issue price of shares under the SPP is the weighted average sale price of the shares on the ASX over the five trading days immediately preceding the day the offer is made.

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

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

The Directors believe that the KMP and employee participation in the SPP closely aligns their interests with the interests of the shareholders of the Group.

Further details of the SPP are provided in note 12 to the financial statements.

Directors' fees

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

Retirement benefits for Directors

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.3 Details of Remuneration

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

		Short Term Benefits		Post-employment Benefits	Long-term Benefits	Other Benefits	Total
		Salary	Cash Bonus ^(A)	Superannuation	Other ^(B)	(C)	
		\$	\$	\$	\$	\$	\$
Independent Non-Executive Directors							
Brett Cairns	2014	122,426	-	11,324	-	14,331	148,081
	2013	18,349	-	1,651	-	14,331	34,331
Paul Lewis	2014	83,750	-	-	-	14,331	98,081
	2013	20,000	-	-	-	14,331	34,331
Robert Fraser ^(D)	2014	16,499	-	1,526	-	-	18,025
	2013	-	-	-	-	-	-
Karen Phin ^(D)	2014	13,894	-	1,285	-	-	15,179
	2013	-	-	-	-	-	-
Naomi Milgrom AO ^(E)	2014	15,256	-	1,411	-	-	16,667
	2013	9,174	-	826	-	-	10,000
Executive Directors							
H Douglass ^(H)	2014	1,232,225	1,225,000	17,775	130,103	100,000	2,705,103
	2013	383,530	725,000	16,470	34,101	100,000	1,259,101
C Mackay ^{(B)(F)}	2014	433,056	-	4,444	-	125,000	562,500
	2013	583,530	100,000	16,470	51,884	-	751,884
Other KMP - Group Executives							
N Campbell	2014	407,225	350,000	17,775	54,207	18,340	847,547
	2013	333,530	325,000	16,470	38,839	18,290	732,129
F Casarotti ^(G)	2014	407,225	350,000	17,775	49,581	-	824,581
	2013	333,530	325,000	16,470	35,049	167,580	877,629
G Stack	2014	407,225	921,469	17,775	50,732	38,228	1,435,429
	2013	333,530	524,207	16,470	35,993	34,651	944,851
Total KMP	2014	3,138,781	2,846,469	91,090	284,623	310,230	6,671,193
	2013	2,015,173	1,999,207	84,827	195,866	349,183	4,644,256

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

^(B) Includes long service entitlements accrued during the year. Upon Mr Mackay's resignation as MFG Chairman and from MAM on 30 September 2013, Mr Mackay was no longer eligible for the long service leave. As a result, the long service leave entitlement that had accrued to Mr Mackay at 30 September 2013 was forfeited.

^(C) Share based payments represent the expense of providing interest free loans to Participants in the Share Purchase Plan (see section 3.2 of the Remuneration Report in the Directors' Report). These are non cash items. Refer note 16(b).

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

^(E) Ms Milgrom resigned on 23 April 2014. Ms Milgrom's remuneration for the year ended 30 June 2014 is shown for the period 1 July 2013 to 23 April 2014.

^(F) Mr Mackay resigned on 30 September 2013. Mr Mackay's remuneration for the year ended 30 June 2014 is shown as a pro-rata for the period 1 July 2013 to 30 September 2014. A payment was made to Mr Mackay upon his resignation as Chairman of MFG and an employee of MAM on 30 September 2013, acknowledging his compliance, up to that time, with the investment restrictions in his employment agreement with MAM, as a discretionary payment determined by the MFG Board. Mr Mackay was not entitled to receive a short-term or long-term incentive in respect of the year 30 June 2013. Mr Mackay's 2013 cash bonus of \$100,000 comprises the deferred component of a bonus awarded in respect to the year ended 30 June 2012.

^(G) Mr Casarotti disposed of 150,000 MFG shares held under the SPP and fully discharged the loan made to him by MFG under the SPP during the year ended 30 June 2013.

^(H) Includes \$100,000 accrued in the current year in relation to the investment restriction contract with Mr Douglass (June 2013: \$100,000). For further details refer to note 18(b)(i).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.3 Details of Remuneration (continued)

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

		Short Term Benefit - Cash Bonus			
		Cash Bonus (A)	Conditional Deferred Cash Bonus paid (B)	Total	Conditional Deferred Cash Bonus payable (C)
		\$	\$	\$	\$
Executive Directors					
H Douglass	2014	650,000	575,000	1,225,000	600,000
	2013	625,000	100,000	725,000	575,000
Other KMP - Group Executives					
N Campbell	2014	200,000	150,000	350,000	150,000
	2013	200,000	125,000	325,000	150,000
F Casarotti	2014	200,000	150,000	350,000	150,000
	2013	200,000	125,000	325,000	150,000
G Stack	2014	603,616	317,853	921,469	532,500
	2013	387,400	136,807	524,207	317,853
Total KMP	2014				1,432,500
	2013				1,192,853

^(A) The bonus earned in respect of the current year which is paid in cash (payable in the following September).

^(B) The conditional deferred cash bonus for the year ended 30 June 2013 has been paid in twelve equal instalments in the year ended 30 June 2014. The conditional deferred cash bonus of the 30 June 2012 bonus was paid in twelve equal instalments during the year ended 30 June 2013.

^(C) The conditional deferred cash bonus for the year ended 30 June 2014 is payable in twelve equal instalments in the year ending 30 June 2015. Entitlement to the short term incentive amounts is dependent on the KMP being employed by the Group at the time of the payment. The conditional deferred cash bonus for the year ended 30 June 2013 was paid in twelve equal instalments during the year ended 30 June 2014. Refer to note 1(r) for the accounting policy on the conditional deferred cash bonus component of the annual bonus.

The total conditional deferred cash bonus payable for the Group for the year ended 30 June 2014 is \$3,516,000 (June 2013: \$2,750,000), which includes the conditional deferred cash bonus payable for KMP of \$1,432,500 (June 2013: \$1,192,853) in the above table.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.4 Service Agreements

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

The following table outlines the Non-executive Directors fees for the Board and Committees of both Magellan Financial Group and Magellan Asset Management Limited for the year ended 30 June 2014:

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

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

Brett Cairns

Non-executive Director, Chairman of Board and Remuneration & Nominations Committee, and member of the Audit and Risk Committee

- Commenced on 22 January 2007
- Term of appointment is 3 years following which the Director seeks re-election by shareholders of the Company

Paul Lewis

Non-executive Director, member of the Remuneration & Nominations and Audit and Risk Committees (Chairman of Audit and Risk Committee up to 22 April 2014)

- Commenced on 20 December 2006
- Term of appointment is 3 years following which the Director seeks re-election by shareholders of the Company

Robert Fraser

Non-executive Director, Chairman of Audit and Risk Committee (from 23 April 2014) and member of Remuneration & Nominations Committee

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

Karen Phin

Non-executive Director, member of Remuneration & Nominations Committee and Audit and Risk Committees

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

Naomi Milgrom AO

Non-executive Director

- Commenced on 20 December 2006 and resigned 23 April 2014

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.5 Employment Agreements

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

Hamish Douglass, Managing Director and CEO

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

Under the terms of the contract, which applied for the year to 30 June 2014, Mr Douglass:

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

STI Payment Criteria	Performance Metrics	Weighting	Percentage Paid/Performance Measures
Investment Performance of the Global Equity Strategy	Ranking of Magellan Global Fund in Peer Group (rolling 3 years as at 30 June each year)	33.3%	The percentage paid is in the range of 0% to 100% dependent on the ranking quartile band achieved. Mr Douglass received 100% of this component in 2014.
	Absolute Performance (Gross Return) of Magellan Global Fund (rolling 3 years as at 30 June each year)	33.3%	The percentage paid is in the range of 0% to 100% dependent on the absolute performance achieved exceeding pre-determined levels. Mr Douglass received 100% of this component in 2014.
	Relative gross investment performance of Magellan Global Fund against its Benchmark Index (rolling 3 years as at 30 June each year)	33.3%	The percentage paid is in the range of 0% to 100% dependent on pre-determined relative performance differences above the Benchmark Index. Mr Douglass received 100% of this component in 2014.

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Hamish Douglass, Managing Director and CEO

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

The previous investment restrictions along with the terms applying to the payment of \$500,000 to the Director in consideration for compliance with the investment restrictions are unchanged, except the period of restraint from soliciting employees and clients has been increased to 12 months after termination of employment.

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

In the prior year, different terms of contract existed and these are described below. In the year ended 30 June 2013, the Director:

- received fixed compensation structured as a total employment cost package of \$400,000 per annum, inclusive of superannuation, received as a combination of cash, non-cash benefits and superannuation contributions
- received variable compensation of a total amount of \$1,200,000 comprising the maximum annual short term incentive amount of \$800,000 being 200% of his fixed compensation, and an additional discretionary amount of \$400,000 approved by the MFG Board as MFG's diluted earnings per share for the year ended 30 June 2013 had exceeded 20 cents per share
- The Director's annual short term incentive amount was based on the following three key criteria and relative weight distributions:

Key Criteria	Weighting
MFG Group performance and profitability	50%
Investment Performance of the Global Equity Strategy	40%
Other Criteria as determined by the MFG Board in its absolute discretion	10%

Specific pre-determined performance metrics for the above were set by the MFG Board.

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

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Hamish Douglass, Managing Director and CEO

In consideration for complying with this investment restriction MAM shall pay the Director an amount of \$500,000 on or before 15 July 2017 and:

- may terminate the contract at any time by giving not less than 3 months written notice to the Investment Manager and the Investment Manager may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.
- may have his contract terminated by the Investment Manager at any time without notice if serious misconduct has occurred.
- is restrained from soliciting employees and clients of the Investment Manager for a period of 3 months after termination of employment.

Chris Mackay, Chairman and Executive Director (up to 30 September 2013)

During the year, Mr Mackay was employed under a contract with MAM, which had effect from 1 March 2008 and which continued until terminated on 1 October 2013, when Mr Mackay resigned from MAM.

Under the terms of the contract, which applied for the period 1 July 2013 to 30 September 2013, Mr Mackay:

- received a fixed compensation structured as a total employment cost package of \$1,250,000 per annum (inclusive of superannuation) effective from 1 July 2013, received as a combination of cash, non-cash benefits and superannuation contributions;
- had no entitlement to receive short term or long term incentive payments;
- received a discretionary payment of \$125,000 determined by the MFG Board on his resignation as Chairman of MFG and an employee of MAM on 30 September 2013 in acknowledgement of his, and his associates', compliance for the period up to and including 30 September 2013, with restrictions placed on the investment in any outside business engaged in funds management, other than an investment in MFG, the Magellan Flagship Fund Limited, MAM and related entities, and any managed investment scheme in which MAM acted as trustee or responsible entity. The investment restrictions ceased when the employment contract was terminated on 1 October 2013.

During the year ended 30 June 2014, Mr Mackay entered into a consultancy agreement with MAM after being appointed Special Advisor to both the Board and CEO of MFG. Under this agreement, which was effective from 1 October 2013, Mr Mackay is entitled to consultancy fees of \$250,000 per annum, payable quarterly in advance. The agreement is to continue indefinitely until terminated.

Other Key Management Personnel – Group Executives

Other KMP have rolling employment contracts with MAM and these may be terminated by providing three months written notice. On termination, the Other KMP are required to repay any loan amounts outstanding in respect to shares acquired under the Company's Share Purchase Plan in accordance with the SPP terms and conditions. There are no provisions for any termination payments other than for unpaid remuneration and accrued annual leave to be paid to Other KMP.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.6 Options and Shareholdings

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

	Opening balance 1 July 2012	Additions/ (disposals)	Exercised options	Opening balance 1 July 2013	Additions/ (disposals)	Exercised options	Closing balance ^(E) 30 June 2014
Independent Non-Executive Directors							
Brett Cairns							
- Ordinary shares	1,095,481	-	-	1,095,481	(100,000)	11,467	1,006,948
- MFG 2016 Options ^(A)	11,467	-	-	11,467	-	(11,467)	-
Paul Lewis							
- Ordinary shares	2,000,747	-	-	2,000,747	(60,138)	5,790	1,946,399
- MFG 2016 Options ^(A)	5,790	-	-	5,790	-	(5,790)	-
Robert Fraser							
- Ordinary shares ^(C)	-	-	-	501,358	-	-	501,358
- MFG 2016 Options	-	-	-	-	-	-	-
Karen Phin							
- Ordinary shares ^(C)	-	-	-	16,192	-	-	16,192
- MFG 2016 Options	-	-	-	-	-	-	-
Naomi Milgrom AO^{(A)(E)}							
- Ordinary shares	6,182,360	-	-	6,182,360	(654,509)	-	5,527,851
- MFG 2016 Options ^(A)	16,532	-	-	16,532	-	-	16,532
Executive Directors							
Hamish Douglass							
- Ordinary shares	10,519,917	-	-	10,519,917	-	297,792	10,817,709
- Class B shares ^(B)	10,200,000	-	-	10,200,000	-	-	10,200,000
- MFG 2016 Options ^(A)	297,792	-	-	297,792	-	(297,792)	-
Chris Mackay							
- Ordinary shares	18,077,777	-	-	18,077,777	-	-	18,077,777
- MFG 2016 Options ^{(A)(E)}	2,644,354	-	-	2,644,354	-	-	2,644,354
Other KMP - Group Senior Executives							
Nerida Campbell							
- Ordinary shares	660,019	-	-	660,019	-	39,600	699,619
- MFG 2016 Options ^(A)	39,600	-	-	39,600	-	(39,600)	-
Frank Casarotti							
- Ordinary shares ^(D)	806,927	(150,000)	-	656,927	-	-	656,927
- MFG 2016 Options ^(A)	-	-	-	-	-	-	-
Gerald Stack							
- Ordinary shares	390,963	-	-	390,963	20,000	-	410,963
- MFG 2016 Options ^(A)	-	-	-	-	-	-	-

(A) Refer to note 11(d)(ii) for the key terms and conditions of the MFG 2016 Options.

(B) There were no additions or disposals of Class B shares during the year (June 2013: nil). Refer to note 11(d)(iii) for the key terms and conditions of the MFG Class B Shares.

(C) The ordinary shares were not issued in connection with Mr Fraser's or Ms Phin's appointment as Director on 23 April 2014 and the above balances are shown for the period since their appointment as a director of the Company.

(D) Mr Casarotti disposed of 150,000 MFG shares held under the SPP and fully discharged the loan made to him by MFG under the SPP during the year ended 30 June 2013.

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.7 Unitholdings in Magellan Unlisted Funds

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

	Opening balance 1 July 2012	Additions/ (disposals) (A)	Opening balance 1 July 2013	Additions/ (disposals) (A)	Closing balance ^(C) 30 June 2014
Magellan Global Fund					
Directors					
Paul Lewis	337,975	6,086	344,061	7,376	351,437
Hamish Douglass ^(B)	845,164	15,221	860,385	345,927	1,206,312
Chris Mackay ^(C)	423,273	7,624	430,897	-	430,897
Other KMP - Group Senior Executives					
Nerida Campbell	20,697	373	21,070	32,712	53,782
Gerald Stack	52,914	953	53,867	1,155	55,022
Frank Casarotti ^(B)	-	-	-	-	-
Magellan Infrastructure Fund					
Directors					
Paul Lewis	36,983	1,422	38,405	1,219	39,624
Other KMP - Group Senior Executives					
Gerald Stack	67,268	2,586	69,854	2,217	72,071
Magellan High Conviction Fund					
Directors					
Hamish Douglass	-	-	-	1,482,751	1,482,751

(A) Includes the reinvestment of 30 June 2012 and 30 June 2013 distributions in the years ended 30 June 2013 and 30 June 2014 respectively.

(B) In addition to the above holdings, Mr Douglass and Mr Casarotti selected the Magellan Global Fund product via their superannuation funds and currently have holdings of 403,233 and 169,824 units at a value of \$445,814 and \$291,146 respectively as at 30 June 2014 (June 2013: 385,356 and 155,739 units at a value of \$387,206 and \$239,837 respectively).

(C) Mr Mackay resigned as director on 30 September 2013 and the transactions and balances above relate to the period 1 July 2013 to 30 September 2013.

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

3. 2014 Remuneration Report (Audited) (continued)

3.8 Loans to KMP

Magellan Financial Group Limited has made full recourse interest free loans to Non-executive Directors and KMP in connection with shares acquired under the Company's Share Purchase Plan (SPP). The terms and conditions of the loans, including repayment terms, are disclosed in section 3.2 of the Remuneration Report.

			SPP Shares acquired during year	Opening Loan Balance	Loans made	Loans (repaid)	Closing Loan Balance	
			Number	\$	\$	\$	Face value \$	Carrying value \$
Directors								
Brett Cairns	2014	-		1,135,000	-	(410,500)	724,500	613,727
	2013	-		1,215,000	-	(80,000)	1,135,000	970,354
Paul Lewis	2014	-		1,135,000	-	(370,250)	764,750	647,823
	2013	-		1,215,000	-	(80,000)	1,135,000	970,354
Other KMP - Group Executives								
N Campbell	2014	-		181,831	-	(101,000)	80,831	90,887
	2013	-		223,238	-	(41,407)	181,831	166,705
F Casarotti	2014	-		-	-	-	-	-
	2013	-		720,327	-	(720,327)	-	-
G Stack	2014	20,000		319,972	150,300	(184,132)	286,140	273,857
	2013	-		385,901	-	(65,929)	319,972	250,051

3.9 Link between performance and remuneration paid by the Group

	2014	2013	2012	2011	2010
Total revenue (\$'000)	148,109	120,906	35,846	18,314	12,578
Total expenses (\$'000)	37,630	25,904	16,693	10,244	7,161
Net operating profit (\$'000)	82,939	66,600	13,660	5,792	3,719
Basic earnings per share (cents per share)	53.3	43.6	9.0	3.9	2.6
Diluted earnings per share (cents per share)	48.9	40.0	8.5	3.7	2.5
Dividends paid (cents per share) ^(C)	33.0	8.0	3.0	-	-
Closing share price (ASX code: MFG)	\$ 10.93	\$ 9.64	\$ 2.15	\$ 1.32	\$ 1.13
Total KMP remuneration:					
- fixed compensation (\$) ^(A)	3,514,494	2,295,866	818,750	805,000	767,700
- variable compensation (\$) ^(B)	3,156,699	2,348,390	590,197	9,443	198,434
	6,671,193	4,644,256	1,408,947	814,443	966,134

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

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

(C) Excluding in-specie distribution of 9.16 cents per share

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2014

4. Other

4.1 Indemnification and Insurance of Directors and Officers

The Company 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 19 to the financial report.

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

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

4.4 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

4.5 Rounding of Amounts

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

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



Brett Cairns

Chairman

Sydney

14 August 2014

MAGELLAN FINANCIAL GROUP LIMITED

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young
680 George Street
Sydney NSW 2000 Australia
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Auditor's Independence Declaration to the Directors of Magellan Financial Group Limited

In relation to our audit of the financial report of Magellan Financial Group Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Graeme McKenzie
Partner
14 August 2014

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 30 June 2014

		Consolidated	
		30 June	30 June
		2014	2013
	Note	\$'000	\$'000
Revenue			
Management fees	6(a)	132,567	56,007
Performance fees	6(c)	2,117	28,449
Service fees	6(b)	3,918	-
Consulting fees		-	1,200
Interest income		2,003	2,965
Dividend and distribution income		3,995	2,308
Net changes in fair value of held for trading financial assets		-	3,698
Net gain/(loss) on sale of available-for-sale financial assets	6(e)	4,221	24,805
Net foreign exchange gain/(loss)		(725)	1,459
Other		13	15
Total revenue		148,109	120,906
Expenses			
Employee expenses		23,870	17,509
Fund administration and operational costs		4,149	1,861
US marketing/consulting fee expense		3,127	1,598
Marketing expense		1,741	1,122
Travel and entertainment expense		893	908
Occupancy expense		724	587
Legal and professional fees		480	467
Auditor's remuneration	19	485	262
Depreciation expense	9(a)	116	104
Other		2,045	1,486
Total expenses		37,630	25,904
Operating profit before income tax expense		110,479	95,002
Income tax expense	5(a)	(27,540)	(28,402)
Net operating profit for the year		82,939	66,600
Basic earnings per share (cents per share)	3	53.3 cents	43.6 cents
Diluted earnings per share (cents per share)	3	48.9 cents	40.0 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 2014

		Consolidated	
	Note	30 June 2014 \$'000	30 June 2013 \$'000
Net operating profit for the year		82,939	66,600
Other comprehensive income			
<i>Items that may be reclassified to profit and loss in future years</i>			
Net changes in the fair value of available-for-sale financial assets	8(c)	10,076	31,093
Net (gain)/loss on sale of available-for-sale financial assets recycled through profit or loss	6(e)	(4,221)	(24,805)
Income tax benefit/(expense) on the above item	5(a)	(1,759)	(1,852)
Other comprehensive income for the year, net of tax		4,096	4,436
Total comprehensive income for the year		87,035	71,036

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 2014

	Note	Consolidated 30 June 2014 \$'000	30 June 2013 \$'000
Assets			
Current assets			
Cash and cash equivalents	16(c)	82,868	38,096
Financial assets	8(a)	302	14,685
Receivables	7	23,431	35,181
Loans - share purchase plan	12	1,783	1,489
Prepayments		252	326
Total current assets		108,636	89,777
Non-current assets			
Financial assets	8(b)	125,558	100,488
Loans - share purchase plan	12	2,271	2,835
Property, plant and equipment	9	386	341
Total non-current assets		128,215	103,664
Total assets		236,851	193,441
Liabilities			
Current liabilities			
Payables	10	11,471	17,331
Income tax payable		10,538	16,839
Total current liabilities		22,009	34,170
Non-current liabilities			
Deferred tax liabilities	5(c)	7,460	5,721
Provisions	10	795	511
Total non-current liabilities		8,255	6,232
Total liabilities		30,264	40,402
Net assets		206,587	153,039
Equity			
Contributed equity	11	93,812	76,378
Available for sale reserve		25,516	21,420
Retained profits		87,259	55,241
Total attributable to members of the Group		206,587	153,039
Total equity		206,587	153,039

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 2014

	Note	Attributable to Equity Holders of the Consolidated Entity			Total
		Contributed Equity	Retained Profits	Available for Sale Reserve	
2014		\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2013		76,378	55,241	21,420	153,039
Net profit for the year		-	82,939	-	82,939
Other comprehensive income		-	-	4,096	4,096
Total comprehensive income for the year		-	82,939	4,096	87,035
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under employee share purchase plan (SPP)	11(a)	1,682	-	-	1,682
- on exercise of MFG 2016 Options	11(a)	15,511	-	-	15,511
- transaction costs arising on share issue	11(a)	(31)	-	-	(31)
Dividends paid	4	-	(50,921)	-	(50,921)
SPP expense for the year	11(a)	272	-	-	272
Total transactions with equity holders in their capacity as equity owners		17,434	(50,921)	-	(33,487)
Equity - 30 June 2014		93,812	87,259	25,516	206,587
Equity - 1 July 2012		115,395	14,837	16,984	147,216
Net profit for the year		-	66,600	-	66,600
Other comprehensive income		-	-	4,436	4,436
Total comprehensive income for the year		-	66,600	4,436	71,036
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under employee share purchase plan (SPP)	11(a)	765	-	-	765
- on exercise of MFG 2016 Options	11(a)	292	-	-	292
Dividends paid	4	-	(12,219)	-	(12,219)
In-specie distribution	4,11(a)	(40,772)	(13,977)	-	(54,749)
SPP expense for the year	11(a)	698	-	-	698
Total transactions with equity holders in their capacity as equity owners		(39,017)	(26,196)	-	(65,213)
Equity - 30 June 2013		76,378	55,241	21,420	153,039

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2014

		Consolidated	
	Note	30 June 2014 \$'000	30 June 2013 \$'000
Cash flows from operating activities			
Management, service and consulting fees received		128,664	49,616
Performance fees received		23,792	10,999
Interest received		1,618	1,947
Proceeds from sale of held for trading financial assets		-	23
Dividends and distributions received		362	952
Tax paid		(33,801)	(11,583)
Payments to suppliers and employees (inclusive of GST)		(33,801)	(20,701)
Net cash inflows/(outflows) from operating activities	16(a)	86,834	31,253
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		6,432	11,312
Payments for available-for-sale financial assets		(28,835)	(14,541)
Net matured term deposits classified as loans and receivables		14,352	15,754
Net cash flows from foreign exchange transactions		(713)	(11)
Payments for property, plant and equipment	9(a)	(217)	(173)
Net cash inflows/(outflows) from investing activities		(8,981)	12,341
Cash flows from financing activities			
Proceeds from issue from securities		15,978	501
Proceeds from repayment of SPP loans		1,872	3,698
Dividends paid	4	(50,921)	(12,219)
Net cash inflows/(outflows) from financing activities		(33,071)	(8,020)
Net increase / (decrease) in cash and cash equivalents		44,782	35,574
Effects of exchange rate movements on cash and cash equivalents		(10)	1,470
Cash and cash equivalents at the beginning of the year		38,096	1,052
Cash and cash equivalents at the end of the year	16(c)	82,868	38,096

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies

This financial report is for Magellan Financial Group Limited (the “Company”) and its controlled entities (the “Group”) for the year ended 30 June 2014. The report was authorised for issue in accordance with a resolution of the Directors on 14 August 2014.

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

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 2013.

(i) New and amended standards and interpretations

In the current year, the Group and Company adopted the following new and amended Australian Accounting Standards and interpretations as of 1 July 2013:

- **AASB 10: Consolidated Financial Statement (AASB 10), AASB 11: Joint Arrangements (AASB 11), AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (AASB 127), AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards**

AASB 10 (issued August 2011) replaced the guidance on control and consolidation in AASB 127 and in Interpretation 112 *Consolidation – Special Purpose Entities*. The Group reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 and AASB 11 than under AASB 127 and AASB 131. No differences were identified and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10 or AASB 11. Refer to note 1(b) for the revised accounting policy on the principles of consolidation.

AASB 12 requires disclosures relating to the Group’s interests in subsidiaries, joint arrangements, associates and structured entities. It requires information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests. As the Group does not have any joint arrangements, associates, investments in structured entities or non-controlling interests that are material to the Group, the adoption of AASB 12 has not resulted in any significant change in disclosures, which have been included in note 14.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

(i) *New and amended standards and interpretations (continued)*

- **AASB 13: Fair Value Measurement (AASB 13) and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13**

AASB 13 provides guidance for determining the fair value of assets and liabilities. It does not change when the Group is required to use fair value, but, rather, provides guidance on how to determine fair value when fair value is required. It has also expanded the disclosure requirements for all assets and liabilities carried at fair value. The Group reviewed its policies for measuring fair values of assets and liabilities and the adoption of AASB 13 has not resulted in any change in the fair value measurements of the assets and liabilities of the Group, however additional disclosures have been included in note 17(h).

- **AASB 119 Employee Benefits (Revised 2011) (AASB 119) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119**

AASB 119 Employee Benefits revised the definition of short-term and long-term employee benefits and requires all employee benefits to be calculated and classified based on when the employee benefit is expected to be taken rather than when it vests. Discounting is to be applied to all long-term benefits. The adoption of AASB 119 did not result in a material impact on the Group's financial performance or financial position.

None of the other new standards or interpretations adopted from 1 July 2013 affected any of the amounts or the 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 2014 reporting period have not been adopted by the Group or Company in the preparation of this financial report.

The assessment of the impact of the new standards and interpretations which may have a material impact on the Group are set out below:

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

AASB 9 contains new requirements for classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 Financial Instruments: Recognition and Measurement. Under the new requirements the four current categories of financial assets discussed at note 1(j) will be replaced with two measurement categories: fair value and amortised cost. Financial assets will only be able to be measured at amortised cost where very specific conditions are met. At 30 June 2014, the Group continues to evaluate the disclosure requirements of this standard but does not anticipate it will have a material financial impact as the carrying values of its investments approximate fair value. However the adoption of the standard is expected to result in a change in the presentation of fair value movements within the Consolidated Statement of Profit or Loss and the Consolidated Statement of Other Comprehensive Income and also impact the type of information disclosed in the notes to the financial statements.

- **IFRS 15: Revenue from Contracts with Customers (effective 1 July 2017) (IFRS 15)**

IFRS 15 supercedes the revenue recognition guidance in AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. The core principle in IFRS 15 requires revenue recognition to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled to receive. IFRS 15 has not yet been issued as an Australian Accounting Standard but this is expected to occur shortly. At 30 June 2014, the Group continues to evaluate the impacts of IFRS 15 however additional information disclosed in the notes to the financial statements is expected to be required.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation

The consolidated financial report of the Group comprises the assets and liabilities of all controlled entities and the results of all controlled entities for the year. The Company and its controlled entities are collectively referred to in this financial report as the 'Group' or the 'consolidated entity'.

i) Controlled entities

Controlled entities are entities over which the Group has 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 14 for all controlled entities.

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 is determined to have significant influence and that is neither a subsidiary nor a joint venture. The Group generally deems it has significant influence if it has greater than a 20% share in the entity. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements.

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

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

iii) 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(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. Where unlisted equity instruments are issued in a business combination, the fair value of the instruments will be determined by the Directors using an appropriate valuation methodology. Acquisition costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held-for-sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the Group's share of the net fair value of the identifiable net assets of the controlled entity, the difference is recognised as a gain in profit or loss, but only after a reassessment of the identification and measurement of the net assets acquired. Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Company's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(d) Segment Reporting

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

(e) Foreign Currency Translation

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

(f) Revenue Recognition

Management fees

Management fees arise from providing:

- investment management services as investment manager and sub-advisor to the funds and external wholesale client mandates set out at note 2; and
- Trustee and Responsible Entity services where the Company acts as Trustee and Responsible Entity to the funds as set out in note 2.

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 2.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(f) Revenue Recognition (continued)

Service fees

Service fees arise from providing investment research and administrative services to Magellan Flagship Fund Limited (MFF).

Service fee revenue is calculated at 1.25% per annum (excluding GST, payable quarterly in arrears) of the market value of all assets less total indebtedness of MFF divided by the weighted average number of MFF shares on issue during the quarter and multiplied by the lesser of (i) the number of shares on issue at 30 June 2013 or (ii) the weighted average number of shares on issue during the relevant quarter. The service 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. Service fee revenue is recognised in the Statement of Profit or Loss as it is earned and calculated in accordance with the Services Agreement.

Performance fees

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

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

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

Consulting fees

Consulting fee income is recognised when the Group is entitled to it, which is determined by the terms and conditions of the contractual arrangement.

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 or loss on sale

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

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

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

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

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

Tax Consolidation - Australia

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

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

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(h) Income Tax (continued)

Offshore Banking Unit

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

(i) Goods and Services Tax (GST)

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

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

(j) Financial Assets and Liabilities

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

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

Derecognition of Financial Assets and Financial Liabilities

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

(k) Cash and Cash Equivalents

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(l) Receivables

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

(m) Derivatives

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

(n) Financial Assets

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

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

i) Available-for-Sale Financial Assets

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

ii) Purchases and Sales of Financial Assets (continued)

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

iii) Loans and Receivables

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

iv) Held-for-Trading Financial Assets

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

(o) Impairment of Assets

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

(p) Property, Plant and Equipment

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

Depreciation and amortisation

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

Furniture, fittings and leasehold improvements	- over three to five years
Computer equipment	- over three to five years

The assets' residual values and useful lives are reviewed at each balance 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 balance 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 balance 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(q) Payables (continued)

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 balance date but not paid at balance 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 balance date are recognised in respect of employees' services up to balance date and included as current liabilities in the Consolidated Statement of Financial Position. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Employee benefit on-costs are included in accrued employee entitlements in the Consolidated Statement of Financial Position and employee expenses in the Consolidated Statement of Profit or Loss when the employee entitlements to which they relate are recognised.

Bonus plan

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

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

Long service leave

Liabilities for long service leave are recognised when employees reach a qualifying period of continuous service and are measured at the amount expected to be settled within 12 months from balance date. Any amount which is expected to be payable after 12 months from balance 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 market yields at balance date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(s) Share Purchase Plan

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

Details of the loans outstanding at balance date, and of the changes in carrying value of the loans and employee benefits expense recognised in profit or loss are provided in note 12.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. Summary of Significant Accounting Policies (continued)

(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.

(u) Contributed Equity

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

(v) Earnings Per Share

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

(w) Rounding of Amounts

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

(x) Parent Entity Financial Information

The financial information for the parent entity, MFG, (disclosed in note 13) 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.

(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 areas where assumptions and estimates are significant to the Group and Company's financial statements is the valuation of unlisted investments. The valuation techniques used, which involves estimates, are discussed in detail at note 17(h). Apart from the above and as the Company's cash and cash equivalents are provided by strongly rated financial institutions, none of the other assets or liabilities are subject to significant judgement or complexity due to the timing of when revenues or expenses are accrued and recognised.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

2. Segment Information

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

Funds Management

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

- Trustee, Responsible Entity and Investment Manager for the following managed investment schemes offered primarily to Australian and New Zealand investors:
 - Magellan Global Fund
 - Magellan Global Fund (Hedged)
 - Magellan Infrastructure Fund
 - Magellan Infrastructure Fund (Unhedged); and
 - Magellan High Conviction Fund (collectively, the Unlisted Funds);
- Trustee and Investment Manager for the Magellan Core Infrastructure Fund (MCIF), which is an unregistered managed investment scheme offered to Australian wholesale investors;
- Investment Manager for the MFG Global Fund, a fund authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities (UCITS)) and offered to global institutional clients;
- Sub-adviser to the Frontegra MFG Global Equity Fund and the Frontegra MFG Core Infrastructure Fund, which are offered to wholesale investors in the United States;
- Investment Manager for the Magellan Flagship Fund Limited (MFF) until 30 September 2013 and investment research and administrative services provider to MFF from 1 October 2013 (refer to note 6(b) for further details); and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

Principal Investments

The principal investment portfolio is comprised of the Company's investments in the Unlisted Funds, the Frontegra MFG Funds and in a select portfolio comprising Australian and international listed companies, cash, and other investments, and net deferred tax assets/liabilities arising from changes in fair value of these investments.

Corporate

This includes interest income on the Company's Share Purchase Plan (SPP) loans and cash and term deposits, corporate costs, cash (including term deposits), all current tax liabilities and deferred tax assets/liabilities excluding those arising from changes in the fair value of financial assets.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

2. Segment Information (continued)

(a) Segment financial results

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

	Funds Management	Principal Investments	Corporate	Consolidated
June 2014	\$'000	\$'000	\$'000	\$'000
Revenue				
Management fees	132,567	-	-	132,567
Performance fees	2,117	-	-	2,117
Service fees	3,918	-	-	3,918
Interest income	541	56	1,406	2,003
Dividend and distribution income	-	3,995	-	3,995
Net gain/(loss) on sale of available-for-sale financial assets	-	4,221	-	4,221
Net foreign exchange gain/(loss)	(10)	(715)	-	(725)
Other	2	-	11	13
Total revenue	139,135	7,557	1,417	148,109
Expenses				
Employee benefits expense	23,356	-	242	23,598
Employee benefits expense - SPP	243	-	29	272
Other expenses	13,017	62	681	13,760
	36,616	62	952	37,630
Operating profit before income tax expense	102,519	7,495	465	110,479
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	10,076	-	10,076
Net (gain)/loss on sale of available-for-sale financial assets recycled through profit or loss	-	(4,221)	-	(4,221)
Other comprehensive income for the year, before tax	-	5,855	-	5,855
Total comprehensive income for the year, before tax	102,519	13,350	465	116,334
June 2013				
Revenue				
Management fees	56,007	-	-	56,007
Performance fees	28,449	-	-	28,449
Consulting fees	1,200	-	-	1,200
Interest income	447	7	2,511	2,965
Dividend and distribution income	-	2,308	-	2,308
Net changes in fair value of financial assets	-	3,698	-	3,698
Net gain/(loss) on sale of available-for-sale financial assets	-	24,805	-	24,805
Net foreign exchange gain/(loss)	683	776	-	1,459
Other	-	15	-	15
Total revenue	86,786	31,609	2,511	120,906
Expenses				
Employee benefits expense	16,758	-	53	16,811
Employee benefits expense - SPP	669	-	29	698
Other expenses	7,780	-	615	8,395
	25,207	-	697	25,904
Operating profit before income tax expense	61,579	31,609	1,814	95,002
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	31,093	-	31,093
Net (gain)/loss on sale of available-for-sale financial assets recycled through profit or loss	-	(24,805)	-	(24,805)
Other comprehensive income for the year, before tax	-	6,288	-	6,288
Total comprehensive income for the year, before tax	61,579	37,897	1,814	101,290

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

2. Segment Information (continued)

(b) Segment Assets and Liabilities

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

	Funds Management (A)	Principal Investments	Corporate	Eliminations (B)	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2014					
Cash and cash equivalents	26,293	281	56,294	-	82,868
Financial assets - term deposits	302	-	-	-	302
Financial assets - investments	-	125,558	-	-	125,558
Receivables and other assets	20,515	3,532	22	-	24,069
Loans - SPP	-	-	4,054	-	4,054
Total assets	47,110	129,371	60,370	-	236,851
Payables & provisions	12,179	6	81	-	12,266
Tax liabilities	-	9,745	8,253	-	17,998
Total liabilities	12,179	9,751	8,334	-	30,264
Net assets	34,931	119,620	52,036	-	206,587

30 June 2013

Cash and cash equivalents	9,096	376	28,624	-	38,096
Financial assets - term deposits	5,966	-	8,719	-	14,685
Financial assets - investments	-	100,488	-	-	100,488
Receivables and other assets	34,475	1,328	1,195	(1,150)	35,848
Loans - SPP	-	-	4,324	-	4,324
Total assets	49,537	102,192	42,862	(1,150)	193,441
Payables & provisions	8,928	8,806	1,258	(1,150)	17,842
Tax liabilities	-	7,921	14,639	-	22,560
Total liabilities	8,928	16,727	15,897	(1,150)	40,402
Net assets	40,609	85,465	26,965	-	153,039

The Group's net investment into its funds management business activities is:

	30 June 2014 \$'000	30 June 2013 \$'000
Capital invested in controlled entity	12,500	12,500
Subordinated loan to controlled entity ^(C)	-	1,150
Total net investment	12,500	13,650

(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 2013: \$10,000,000).

(B) Eliminations include adjustments and eliminations for inter-segment transactions and netting of items on the Consolidated Statement of Financial Position.

(C) On 2 August 2013, the subordinated loan was repaid following receipt of consent by ASIC. Refer to note 15(d)(iii).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

3. Earnings per Share (EPS)

	Consolidated	
	30 June 2014	30 June 2013
Basic earnings per share		
Net profit attributable to shareholders (\$'000)	82,939	66,600
Weighted average number of shares for basic EPS ('000)	155,675	152,624
Basic earnings per share (cents)	53.3	43.6
Diluted earnings per share		
Net profit attributable to shareholders (\$'000)	82,939	66,600
Weighted average number of shares for diluted EPS ('000)	169,772	166,409
Diluted earnings per share (cents)	48.9	40.0
Reconciliation of earnings used in calculating earnings per share		
Net profit after income tax expense used in the calculation of basic and diluted earnings per share (\$'000)	82,939	66,600
Weighted average number of securities		
The reconciliation of the weighted average number of shares on a fully diluted basis used to calculate diluted EPS is below:		
Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	155,675	152,624
Add adjustments:		
- equivalent number of unexercised MFG 2016 Options ^(A)	3,861	3,943
- equivalent number of Class B shares ^(B)	10,236	9,842
Weighted average number of shares used in calculating diluted EPS ('000)	169,772	166,409

(A) During the year ended 30 June 2014, the MFG share price was above the MFG 2016 Options exercise price. The MFG 2016 Options are considered to be potential ordinary shares for the purposes of the diluted earnings per share calculation and have been included in the determination of diluted earnings per share to the extent they are dilutive.

(B) The Class B shares (refer to note 11(d)(iii)) are considered to be potential ordinary shares for the purposes of the diluted earnings per share calculation and have been included in the determination of diluted earnings per share to the extent they are dilutive. The equivalent number of Class B shares for the purposes of calculating the diluted earnings per share has been determined as the weighted average number of ordinary shares into which the Class B shares would convert applying a conversion factor of 0.0637028, and assuming the 1,898,524 MFG 2016 Options had been exercised at 1 July 2014.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

4. Dividends

	Notes	30 June 2014 \$'000	30 June 2013 \$'000
(i) Declared and paid during the year			
Fully franked interim dividend - 16.5 cents per ordinary share: paid 10 March 2014		25,712	-
Fully franked final dividend - 16.5 cents per ordinary share: paid 11 October 2013		25,209	-
Fully franked interim dividend - 5.0 cents per ordinary share: paid 10 April 2013		-	7,635
Fully franked final dividend - 3.0 cents per ordinary share: paid 19 October 2012		-	4,584
Total dividends paid during the year		50,921	12,219
In-specie distribution			
Fully franked dividend component of in-specie distribution - 9.16 cents per ordinary share: paid 19 February 2013	4(iii)	-	13,977
Total dividends and in-specie distributions		50,921	26,196

(ii) Dividend declared

On 14 August 2014, the Directors declared a fully franked final dividend of 21.8 cents per share in respect of the year ended 30 June 2014 (June 2013: 16.5 cents per share). The amount of the declared dividend expected to be paid on 1 September 2014, but not recognised as a liability, is approximately \$34,628,000.

(iii) In-specie distribution

On 14 December 2012, the Company announced an in-specie distribution to MFG shareholders which involved distributing MFG's holdings of shares and options in Magellan Flagship Fund Limited (MFF). This distribution, which was approved by shareholders at an extraordinary general meeting on 5 February 2013, involved distributing 50,109,307 MFF shares and 16,627,507 MFF options and represented approximately 3.29 MFF shares and 1.09 MFF options for every 10 MFG ordinary shares held by shareholders on the record date of 13 February 2013. The distribution was completed on 19 February 2013. The capital reduction amount was approximately \$54,749,000 equating to \$0.3589 per MFG ordinary share, which was determined using the average of the volume weighted average price (VWAP) for MFF shares of \$1.0176 and MFF options of \$0.2210 for the five trading days immediately preceding the distribution date. The in-specie distribution of the MFF shares and MFF options to MFG shareholders resulted in a realised gain of approximately \$25,778,000 before income tax.

(iv) Imputation credits

The balance of the imputation credit account at the end of the year adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax is as follows:

Imputation credits at balance date	14,624	2,640
Imputation credits that will arise from payment of income tax payable	7,288	16,938
Total imputation credits available for subsequent reporting periods based on a tax rate of 24.9% (June 2013 – 30%)	21,912	19,578

The payment of the dividend declared by the directors on 14 August 2014 will reduce the franking account balance shown above by approximately \$14,840,000.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

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:

	Notes	30 June 2014 \$'000	30 June 2013 \$'000
Operating profit before income tax expense		110,479	95,002
Prima facie income tax expense at 30%		(33,144)	(28,501)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
- effect of concessional tax rate on offshore banking unit (OBU)	5(d)	5,524	-
- over/(under) provision of prior year tax		64	(73)
- imputed interest and expense relating to share purchase plan		35	135
- tax effect of franked dividends/distributions received		-	15
- non-assessable income and non-deductible expenses		(19)	22
Income tax expense reported in the Consolidated Statement of Profit or Loss		(27,540)	(28,402)
- changes in fair value of available-for-sale financial assets		(3,023)	(9,352)
- sale of available-for-sale financial assets recycled through profit or loss		1,264	7,500
Income tax expense reported in the Consolidated Statement of Other Comprehensive Income		(1,759)	(1,852)
(b) Components of income tax expense			
Income tax attributable to net profit from ordinary activities comprises:			
Current income tax benefit/(expense)		(27,604)	(29,447)
Deferred income tax benefit/(expense)		-	1,118
Over/(under) provision of prior year income tax		64	(73)
Income tax expense reported in the Consolidated Statement of Profit or Loss		(27,540)	(28,402)
(c) Net deferred tax asset/(liability)			
(i) Deferred tax liability balances comprise temporary differences attributable to:			
Amounts recognised in Consolidated Statement of Profit or Loss:			
- changes in the fair value of financial assets		(9,745)	(7,921)
- accruals		2,285	2,200
Total net deferred tax liabilities		(7,460)	(5,721)
(ii) Reconciliation of deferred tax liability is as follows:			
Opening balance		(5,721)	200
Movement in temporary differences during the year:			
- net capital losses carried forward		-	(1,286)
- changes in the fair value of financial assets		(1,818)	(5,792)
- other		79	1,157
Closing balance - net deferred tax liabilities		(7,460)	(5,721)

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

5. Income Tax (continued)

(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 2014, the Company's effective tax rate was 24.9% (June 2013: 30%), which is below the Australian company tax rate of 30% primarily as a result of the income, net of costs, of the OBU attracting a concessional tax rate of 10%. The income tax expense of the OBU recognised in the Consolidated Statement of Profit or Loss is as follows:

	30 June 2014 ^(A) \$'000
Operating profit before income tax expense	110,479
Prima facie income tax expense at 30%	(33,144)
less: effect of concessional tax rate of OBU comprising:	
- effect of concessional tax rate of 10% on OBU net profit	5,980
- effect of lower tax rates on deferred tax assets/liabilities at 31 July 2013 on declaration of OBU	(456)
less: over/(under) provision of prior year tax	64
less: imputed interest and expense relating to share purchase plan	35
less: non-assessable income and non-deductible expenses	(19)
Income tax expense recognised in Consolidated Statement of Profit or Loss	(27,540)
Group's effective tax rate	24.9%

^(A) no prior year comparatives have been included as MAM was declared an OBU in the current financial year.

e) Tax consolidation

During the year, income tax liabilities of \$25,441,000 (June 2013: \$19,900,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$34,103,000 (June 2013: \$12,716,000) were made to MFG from the other entities in the tax consolidated group under the tax funding agreement during the year. At 30 June 2014, \$503,000 remains receivable from other entities in the tax consolidated group. Refer to notes 1(h) and 15(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:

		30 June 2014 \$'000	30 June 2013 \$'000
	Note		
Magellan Global Fund		63,408	29,902
Magellan Global Fund Hedged		136	-
Magellan High Conviction Fund		1,511	-
Magellan Infrastructure Fund		4,819	2,812
Magellan Infrastructure Fund Unhedged		353	-
Magellan Core Infrastructure Fund		1,045	936
Magellan Flagship Fund	6(b)	1,431	4,656
MFG Global Fund		3,644	-
Frontegra MFG Funds		3,251	752
Other mandates		52,969	16,949
Total management fees during the year		132,567	56,007

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

6. Revenue (continued)

(b) Service fees

From 1 October 2013, MAM provided investment research and administrative services to Magellan Flagship Fund (MFF), a listed investment company, and earned service fees of \$3,918,000 for the year ended 30 June 2014. Refer to note 1(f) for further details. MAM acted as the Investment Manager for MFF for the period 1 July 2013 to 30 September 2013. The management fees earned for this period are included in note 6(a).

(c) Performance fees

During the year ended 30 June 2014, performance fees were also earned on the following funds and mandates as the market index and relative hurdles were met:

	30 June 2014 \$'000	30 June 2013 \$'000
Note		
Magellan Global Fund	26	16,613
Magellan High Conviction Fund	1,070	-
Magellan Infrastructure Fund	286	706
Other funds and mandates	735	11,130
Total performance fees during the year	2,117	28,449

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

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

Australia	94,233	71,678
United States	15,126	7,438
United Kingdom & Ireland	25,154	5,191
Canada	3,404	149
Asia	685	-
Total management, service and performance fees	138,602	84,456

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

Net gain/(loss) from:

- in-specie distribution of listed shares - MFF	4(iii)	-	22,080
- disposal of listed subordinated bank notes	8(b)	91	-
- disposal of units in unlisted investments		3,799	381
- disposal of other listed investments		331	2,344
Total net gain/(loss) on sale of available-for-sale financial assets		4,221	24,805

7. Receivables

Fees receivable	19,827	33,856
Distributions receivable - Unlisted Funds	3,466	1,286
Other	138	39
Total receivables	23,431	35,181

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

8. Financial Assets

(a) Current

	30 June 2014 \$'000	30 June 2013 \$'000
Financial assets classified as loans and receivables		
Term deposits ^(A)	302	14,685
Total current financial assets	302	14,685

(b) Non-current

Available-for-sale financial assets

Investments in listed shares

(by domicile of primary stock exchange)

- United States	7,463	18,575
- Switzerland	727	733
- France	764	436
- Netherlands	140	131
- United Kingdom	668	1,660
- Germany	324	-

Investments in listed subordinated bank notes

- Australia ^(B)	-	4,262
Total listed investments	10,086	25,797

Investments in unlisted funds

- Magellan Global Fund	78,697	58,230
- Magellan Global Fund (Hedged) ^(C)	565	500
- Magellan Infrastructure Fund	2,360	1,970
- Magellan Infrastructure Fund (Unhedged) ^(C)	1,810	1,498
- Magellan High Conviction Fund ^(C)	19,436	200
- Frontegra MFG Global Equity Fund	8,383	7,459
- Frontegra MFG Core Infrastructure Fund	3,881	3,259
- Other	165	1,400

Investments in unlisted shares

- Other	175	175
Total unlisted investments	115,472	74,691
Total non-current financial assets	125,558	100,488

(A) includes a term deposit of \$297,000 (June 2013: \$297,000) held with an Australian bank which is pledged against a bank guarantee in respect of the Group's future lease obligations. In the event that the Group does not meet its lease payments, the bank has the right to apply the Group's deposit in settlement of the amount paid by the bank under the guarantee. Refer to note 18 for detail on the Group's leases.

(B) the listed subordinated bank notes were fully disposed during the year. Refer to note 6(e) for the net gain/(loss) on sale of this investment.

(C) Magellan Global Fund (Hedged)(MFGH), Magellan Infrastructure Fund (Unhedged) (MIFU) and Magellan High Conviction Fund (MHCF) (the Funds) were launched on 28 June 2013 and seeded by the Company. On 1 July 2013, the Funds were open to external investors and the net fund inflows from external investors have decreased the Group's investment from 100% at 30 June 2013 to 1.5% in MGFH, 2.5% in MIFU and 15.4% in MHCF at 30 June 2014. As a result, the Group has classified these investments as available-for-sale financial assets at 30 June 2014. Refer to further details at note 14.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

8. Financial Assets (continued)

(c) Reconciliations

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

	30 June 2014 \$'000	30 June 2013 \$'000
Current		
Balance at 1 July	14,685	30,565
Disposals	-	(3,698)
Cash placed on term deposit	7,260	14,685
Matured term deposits	(21,643)	(30,565)
Net changes in fair values of investments ^(A)	-	3,698
Balance at 30 June	302	14,685
Non-current		
Balance at 1 July	100,488	107,595
Acquisitions - in-specie transfer ^(B)	12,515	24,343
Acquisitions - other	27,380	-
Disposals - in-specie transfer ^(B)	(12,515)	(62,543)
Disposals - other	(12,386)	-
Net changes in fair values of investments	10,076	31,093
Balance at 30 June	125,558	100,488

(A) On 17 October 2012, the Company received 16,627,507 listed options in Magellan Flagship Fund for nil consideration. The options were classified as held for trading, and fully disposed of during the year ended 30 June 2013 as part of an in-specie distribution to the Company's shareholders.

(B) At 30 June 2013, the Group and Company held an investment in MHCF of \$200,000. On 1 July 2013, the Company seeded a further investment in MHCF by way of an in-specie transfer of a portion of its investment in listed shares and associated dividend receivables, and cash into MHCF totalling \$12,515,000. This is disclosed above as acquisitions and also disposals – in-specie transfer.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

9. Property, Plant and Equipment

	30 June 2014			30 June 2013		
	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost	215	970	1,185	118	929	1,047
less: accumulated depreciation and impairment losses	115	684	799	113	593	706
Total property, plant & equipment	100	286	386	5	336	341

(a) Reconciliation

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

Carrying amount at beginning of year	5	336	341	5	267	272
Additions	97	120	217	1	172	173
Disposals	-	(56)	(56)	-	-	-
Depreciation expense	(2)	(114)	(116)	(1)	(103)	(104)
Carrying amount at end of year	100	286	386	5	336	341

Property, plant and equipment is held by MAM.

10. Payables and Provisions

	30 June 2014 \$'000	30 June 2013 \$'000
Trade payable and accruals	1,219	1,060
Settlements payable - shares purchased	-	8,816
Accrued employee entitlements	6,995	5,303
US marketing/consulting costs payable	837	1,217
GST payable	2,395	918
Fringe benefits tax payable	25	17
Total payables	11,471	17,331
Employee entitlements - long service leave	595	411
Provision for investment restriction contract	200	100
Total provisions	795	511

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

11. Contributed Equity

	30 June 2014 \$'000	30 June 2013 \$'000
Ordinary shares	93,812	76,378
MFG 2016 options	-	-
Class B shares	-	-
Total contributed equity	93,812	76,378

	30 June 2014 Number of shares '000	30 June 2013 Number of shares '000	30 June 2014 \$'000	30 June 2013 \$'000
(a) Ordinary Shares				
Opening balance	152,783	152,558	76,378	115,395
Shares issued on exercise of MFG 2016 Options	5,873	111	15,511	292
Shares issued under SPP	186	114	1,682	765
SPP expense for year	-	-	272	698
less: capital component of in-specie distribution	-	-	-	40,772
less: transaction costs arising on share issue	-	-	31	-
Total ordinary shares	158,842	152,783	93,812	76,378
(b) MFG 2016 Options				
Opening balance	7,771	7,882	-	-
Shares issued from exercise of options	(5,873)	(111)	-	-
Total listed options - MFG 2016 Options	1,898	7,771	-	-
(c) Class B Shares				
Opening balance	10,200	10,200	-	-
Closing balance - Class B Shares	10,200	10,200	-	-

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

11. Contributed Equity (continued)

(d) Terms and Conditions

(i) Ordinary shares

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

(ii) MFG 2016 Options

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

The in-specie distribution on 19 February 2013 (refer to note 4(iii) for further details) had the effect of reducing the exercise price of the MFG 2016 Options by \$0.3589 per MFG Option. The adjusted exercise price of each Option at 30 June 2014 is \$2.6411 (June 2013: \$2.6411).

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

(iii) Class B shares

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

Mr Douglass holds 10,200,000 Class B Shares which at 30 June 2014 were entitled to convert into 10,119,516 ordinary shares of the Company on 21 November 2016.

Based on the Company's ordinary shares on issue and assuming all Options were fully exercised as at 30 June 2014, the 10,200,000 Class B Shares would be entitled to convert to 10,239,631 ordinary shares being equal to 0.0637028 times 160,740,681 securities which would have been on issue at 30 June 2014 (comprising 158,842,157 ordinary shares on issue and 1,898,524 Options). The Class B shares have no entitlement to receive dividends and until the Class B Shares are converted into ordinary shares they confer no rights to participate in any bonus issue or subscribe for new securities in the Company unless the Directors determine otherwise in accordance with the Terms of Issue of the Class B Shares.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

12. Share Purchase Plan (SPP)

The Group has put in place a Share Purchase Plan (the 'Plan' or 'SPP') for its employees and Non-executive Directors ('Participants'). The Plan provides assistance to Participants to invest in shares in the Company in order to more closely align the interests of Participants with the interests of the shareholders of the Group. At 30 June 2014, 3,303,658 ordinary shares were held by the Participants under the SPP (June 2013: 4,767,558).

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

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

and, in each case:

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

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

Participants are required to apply an amount equal to 25% of their after tax annual cash bonus each year to repay the loan until the loan has been fully repaid. The maximum term of the loan for employee Participants is 10 years. Any outstanding balance at the end of 10 years must be repaid by the employee. Although employees are not entitled to repay their loan early, the Board may from time to time permit an early repayment under certain circumstances.

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

12. 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 Share Purchase Plan Rules (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 owing outstanding under the loan after the application of the proceeds of sale.

The carrying value of loans outstanding at balance date was:

	30 June 2014 \$ '000	30 June 2013 \$ '000
Current: due within 1 year	1,783	1,489
Non-current: due later than 1 year and within 10 years	2,271	2,835
	4,054	4,324

During the year ended 30 June 2014, 160,138 ordinary shares under the SPP were disposed of by Participants (June 2013: 284,893 ordinary shares under the SPP were disposed of by Participants) and from these disposals, proceeds of \$145,500 (June 2013: \$1,708,000) were applied directly to repay Participants loans. Total SPP loan cash repayments during the year were \$1,872,000 (June 2013: \$3,698,000).

Shares are issued to Participants at an issue price equal to the fair market value of the shares at offer date calculated using the volume weighted average price of traded shares in the five business days prior to the offer date.

<u>Offer date</u>	<u>5-day weighted average share price</u>
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

The value of shares securing the loans to Participants at balance date applying the Company's 30 June 2014 closing market price of \$10.93 was \$36,109,000 (June 2013: \$46,000,000). No amounts are past due or considered impaired as the SPP provides that any shortfall between the loan amount and the value of the shares is recoverable from the Participants.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

12. Share Purchase Plan (SPP) (continued)

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

	30 June 2014	30 June 2013
September 2007 tranche		
Face value of loans	\$1,600,000	\$2,600,000
Estimated weighted average duration of loans	1.4 years	2.3 years
Imputed interest rate	7.0%	7.0%
October 2008 tranche		
Face value of loans	\$4,500	\$100,000
Estimated weighted average duration of loans	2.0 years	1.2 years
Imputed interest rate	5.0%	5.0%
September 2009 tranche		
Face value of loans	\$34,000	\$500,000
Estimated weighted average duration of loans	1.6 years	1.1 years
Imputed interest rate	5.3%	5.3%
November 2010 tranche		
Face value of loans	\$600,000	\$700,000
Estimated weighted average duration of loans	1.1 years	1.9 years
Imputed interest rate	5.5%	5.5%
September 2011 tranche		
Face value of loans	\$300,000	\$300,000
Estimated weighted average duration of loans	1.5 years	2.5 years
Imputed interest rate	4.0%	4.0%
March 2013 tranche		
Face value of loans	\$500,000	\$600,000
Estimated weighted average duration of loans	2.4 years	3.5 years
Imputed interest rate	3.4%	3.4%
October 2013 tranche		
Face value of loans	\$1,400,000	-
Estimated weighted average duration of loans	4.0 years	-
Imputed interest rate	3.4%	-

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

	30 June 2014 \$ '000	30 June 2013 \$ '000
Interest income	388	1,148
Employee benefits expense	(272)	(698)
Net credit in Consolidated Statement of Profit or Loss	116	450

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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

13. 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.

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

(a) Summary financial information

	30 June 2014 \$'000	30 June 2013 \$'000
Statement of Financial Position		
Assets		
Current assets	53,214	49,192
Non-current assets	140,368	115,862
Total Assets	193,582	165,054
Liabilities		
Current liabilities	10,634	25,752
Non-current liabilities	9,742	7,910
Total Liabilities	20,376	33,662
Net Assets	173,206	131,392
Equity		
Contributed equity	94,187	76,753
Available for sale reserve	24,604	20,510
Retained profits	54,415	34,129
Total Equity	173,206	131,392
Statement of Profit or Loss and Other Comprehensive Income		
Net profit for the year after income tax expense	71,207	54,085
Other comprehensive income, net of income tax expense	4,096	4,436
Total comprehensive income for the year	75,303	58,521

(b) Guarantees entered into by the Parent Entity

The parent entity has issued a letter of comfort to a client of its controlled entity, MAM, whereby it undertakes to provide support and assistance as required to ensure MAM complies with the financial conditions of its Australian Financial Services Licence.

(c) Contingencies and Commitments of the Parent Entity

At 30 June 2014, the parent entity has no contingent assets, contingent liabilities or commitments.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

14. Interests in Subsidiaries and Other Entities

The Group's subsidiaries at reporting date are set out below. They have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation is also the principal place of business.

Name of entity	Country of incorporation	Ownership interest held by Group	
		2014	2013
Magellan Asset Management Limited	Australia	100%	100%
Magellan Capital Partners Pty Limited	Australia	100%	100%

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

Change in the Group's ownership interest in a subsidiary

Magellan High Conviction Fund (MHCF), Magellan Global Fund (Hedged) (MFGH) and Magellan Infrastructure Fund (Unhedged) (MIFU) (the Funds) were launched on 28 June 2013 and seeded by the Company. On 1 July 2013, the Funds were open to external investors. As a result, the net FUM inflows from external investors have reduced the Group's investment from 100% at 30 June 2013 to 1.5% in MGFH, 2.5% in MIFU and 15.4% in MHCF at 30 June 2014. Accordingly, the Group has classified these investments in the Funds as financial assets at 30 June 2014 (refer to note 8(b)).

Name of entity	Country of incorporation	Ownership interest held by Group	
		2014	2013
Magellan High Conviction Fund	Australia	15.4%	100%
Magellan Global Fund (Hedged)	Australia	1.5%	100%
Magellan Infrastructure Fund (Unhedged)	Australia	2.5%	100%

15. Related Party Transactions

(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 14.

(c) Key Management Personnel

(i) Directors

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

Name	Directorship	Appointed	Resigned
Brett Cairns	Chairman - Non-executive Director	22 Jan 2007	-
Hamish Douglass	Chief Executive Officer and Managing Director	21 Nov 2006	-
Robert Fraser	Non-executive Director	23 Apr 2014	-
Paul Lewis	Non-executive Director	20 Dec 2006	-
Karen Phin	Non-executive Director	23 Apr 2014	-
Chris Mackay	Chairman and Executive Director	21 Nov 2006	30 Sep 2013
Naomi Milgrom AO	Non-executive Director	20 Dec 2006	23 Apr 2014

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

15. Related Party Transactions (continued)

(c) Key Management Personnel (continued)

(i) Directors (continued)

On 30 September 2013, Dr Brett Cairns replaced Mr Chris Mackay, as Chairman of MFG, who stepped down as Executive Director on the same day, as Chairman. Mr Mackay was appointed a Special Advisor to both the Board and CEO and in that role provides ongoing counsel to the Group. As a result, Mr Mackay entered into a consultancy agreement with MAM after being appointed Special Advisor. Under this agreement, which was effective from 1 October 2013, Mr Mackay is entitled to consultancy fees of \$250,000 per annum, payable quarterly in advance. The agreement is to continue indefinitely until terminated.

(ii) Other Key Management Personnel (KMP)

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

Nerida Campbell	Chief Operating Officer
Gerald Stack	Head of Research
Frank Casarotti	Head of Distribution

(iii) Remuneration of KMP

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

	30 June 2014 \$	30 June 2013 \$
Short term benefits		
- Salary	3,138,781	2,015,173
- Cash Bonus	2,846,469	1,999,207
Post-employment benefits	91,090	84,827
Long-term benefits	284,623	195,866
Other benefits	310,230	349,183
Total remuneration paid to KMP	6,671,193	4,644,256

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 related parties:

		30 June 2014 \$'000	30 June 2013 \$'000
	Note		
Dividends received from MAM	(i)	65,211	31,274
Amounts receivable/(payable) under the tax funding agreement from controlled entities	(ii)	503	9,165
Amounts received/(paid) from/by MAM pursuant to tax funding agreement	(ii)	34,103	12,716
Subordinated loan to MAM	(iii)	-	1,150

(i) Dividends amounting to \$65,211,000 representing \$5.217 per share were paid by MAM to MFG during the year ended 30 June 2014 (June 2013: \$2.502 per share representing \$31,274,000).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

15. Related Party Transactions (continued)

(d) Transactions with other related parties (continued)

(ii) During the year, MAM's income tax liabilities of \$25,441,000 (June 2013: \$19,900,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$34,103,000 (June 2013: \$12,716,000) were received by MFG and Magellan Capital Partners Pty Limited from MAM under the tax funding agreement during the year and \$503,000 was receivable by MFG from MAM in respect of amounts arising from the transfer of MAM's tax liability to the Company (June 2013: \$9,165,000). Refer to note 1(h) for further details on the tax consolidated Group.

(iii) The Company provided an interest-free subordinated loan of \$1,150,000 to its wholly owned subsidiary, MAM, on 29 November 2006. Under the terms of MAM's Australian Financial Services Licence (AFSL), the loan cannot be repaid without the prior consent of the Australian Securities & Investments Commission (ASIC). At 30 June 2013, ASIC consented to the repayment of the subordinated loan and MAM has since repaid the loan in full to the Company on 2 August 2013.

16. Statement of Cash Flows Reconciliation

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

	30 June 2014 \$'000	30 June 2013 \$'000
Note		
Net operating profit after income tax expense	82,939	66,600
Adjusted for:		
Net loss/(gain) on disposal of held for trading financial assets	-	(3,675)
Net loss/(gain) on disposal of available-for-sale financial assets	(4,221)	(24,805)
Net change in carrying value of held to maturity assets	(2,139)	-
Dividends and distributions reinvested	(1,431)	(831)
Depreciation	116	104
Income tax paid	(33,801)	(11,583)
Net foreign exchange (gain)/loss	725	(1,459)
Imputed interest on loans under the SPP	(388)	(1,148)
Employee expense on loans under SPP	287	698
(Increase)/decrease in receivables	13,883	(25,416)
(Increase)/decrease in prepayments	74	(162)
Increase/(decrease) in net deferred tax liabilities	1,761	(4,248)
Increase/(decrease) in payables	28,939	24,463
Increase/(decrease) in income tax payable	90	12,715
Net cash inflows from operating activities	86,834	31,253

(b) Non-cash financing and investing activities

In-specie distribution	4(iii)	-	13,977
Issue of ordinary shares under SPP		1,028	765
Imputed interest on loans under SPP		(388)	(1,148)
Share based payments under SPP		272	698
Acquisition of additional units in Magellan Unlisted Funds through distribution reinvestment		1,431	-

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

16. Statement of Cash Flows Reconciliation (continued)

(c) Reconciliation of cash

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

	30 June 2014 \$'000	30 June 2013 \$'000
Cash at bank	82,868	38,096

Term deposits with maturity dates greater than 90 days from inception date are included in financial assets (refer note 8(a)).

17. Capital and Financial Risk Management

(a) Capital Management

The Group's approach to capital management remained unchanged during the year, which was to ensure that it continues as a going concern, it has sufficient cash flow to meet its operating requirements, it is able to support the payment of dividends to shareholders in accordance with the Group's dividend policy, and it retains the flexibility to retain capital if required for future business expansion. The Group's capital consists entirely of shareholder equity. The Group has no external net borrowings at 30 June 2014 (June 2013: nil).

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

A controlled entity of the Company, Magellan Asset Management Limited (MAM), is subject to regulatory financial requirements by virtue of holding an Australian Financial Services Licence (AFSL). These regulatory requirements, which are determined by the Australian Securities & Investments Commission (ASIC), were amended for Responsible Entities of Registered Managed Investment Schemes from November 2013. During the year ended 30 June 2014, 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 and performance fees earned.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

17. Capital and Financial Risk Management (continued)

(b) Financial Risk Management (continued)

The Group's investment assets comprise strategic investments in:

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

The investment portfolios of the Magellan Unlisted funds and the Frontegra 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 of the Product Disclosure Statement (PDS) of the Magellan Unlisted funds, and the prospectuses of the Frontegra 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. On February 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 2014, the Group had an obligation to settle trade creditors and other payables of \$11,471,000 (June 2013: \$17,331,000) within 30 days. In addition, the Group also has an obligation to pay the fully franked final dividend of 21.8 cents per share in respect of the year ended 30 June 2014 amounting to approximately \$34,628,000 on 1 September 2014 (refer to note 4(ii)). The Group had cash (including term deposits maturing within 30 days) of \$82,868,000 (June 2013: \$38,096,000) and a further \$23,431,000 (June 2013: \$35,181,000) of receivables to cover these liabilities.

At 30 June 2014, the Group reported current assets of \$108,636,000 and current liabilities of \$22,009,000 resulting in a net current asset surplus of \$86,627,000. After taking into account the final dividend for the year ended 30 June 2014 totalling \$34,628,000, this would result in a net current asset surplus of \$51,999,000. Accordingly the Group has sufficient liquid funds and current assets to meet its current liabilities.

Maturities of financial liabilities

At 30 June 2014, the Group's financial liabilities comprise trade creditors and payables which mature in 1 year or less (June 2013: 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 Unlisted Funds, the Frontegra 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 AUD) and +33% and -21%

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

17. Capital and Financial Risk Management (continued)

(d) Price Risk (continued)

(in USD). 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 balance date would have had the following impact on net operating profit and equity:

	30 June 2014 \$'000	30 June 2013 \$'000
Impact on available for sale reserve, net of tax	4,715	3,517
Total impact on net operating profit and equity	4,715	3,517

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 balance date would have an equal and opposite effect to the changes disclosed above.
- (iii) the Group recognises impairment losses on available-for-sale investments in accordance with the accounting policy disclosed in note 1(n)i). For the purposes for the sensitivity disclosed above, it has been assumed that a 5% change in market prices would have no impact on the assessment of whether individual assets are impaired.

Impact arising on entitlements to management, service and performance fees

Management and service 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 1(f). Management fees and service fees will be impacted by movements in the underlying prices in local currency, exchange rate movements, or a combination of both. Each incremental increase of 5% in the average value of funds under management of the Group, and the market value of MFF's portfolio less borrowings, during the years ended 30 June 2014 and 30 June 2013 would have increased the base management fees recognised in net operating profit and equity as follows:

	30 June 2014 \$'000	30 June 2013 \$'000
Impact on net operating profit and equity for the year	4,978	1,959
Total impact on net operating profit and equity for the year	4,978	1,959

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.

MAGELLAN FINANCIAL GROUP LIMITED

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for the year ended 30 June 2014

17. Capital and Financial Risk Management (continued)

(d) Price Risk (continued)

Performance fees

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

	30 June 2014 \$'000	30 June 2013 \$'000
Based on performance relative to a market index	-	5,702
Based on performance relative to a return hurdle	1,801	4,569
Based on performance relative to both a market index and a return hurdle	316	18,178
Total performance fees	2,117	28,449

(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 8);
- cash balances and term deposits (refer note 16(c) and note 8(a)); 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 10).

At 30 June 2014, 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:

	Increase/(decrease) in net profit 30 June		Increase/(decrease) in equity 30 June	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Assets denominated in:				
US dollars	(383)	(876)	(1,346)	(1,864)
Euro	-	(7)	(84)	(36)
Canadian dollars	(63)	(1)	-	(47)
British pounds	(94)	-	(46)	-
Swiss francs	-	-	(50)	(106)

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

MAGELLAN FINANCIAL GROUP LIMITED

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for the year ended 30 June 2014

17. Capital and Financial Risk Management (continued)

(e) Currency Risk (continued)

The Group also has indirect exposure to foreign currency via its investments in unlisted funds. The Magellan Unlisted Funds are denominated in Australian dollars and the Frontegra 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, service 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 2014, approximately 94% of the Group's management, service and performance fees were indirectly exposed to movements in the Australian dollar relative to other currencies (June 2013: 93%).

(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 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 balance 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:

	30 June 2014 \$'000	30 June 2013 \$'000
Impact on net operating profit and equity	312	184

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

(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 balance 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 2014, the Group held cash and term deposits with Australian and international banks. The credit quality of Australian banks counterparties at 30 June 2014 was rated by Standard & Poor's as being AA-, and by Moody's as being Aa2 (AA- and Aa2 respectively at 30 June 2013). The credit quality of the international bank counterparty at 30 June 2014 was rated by Moody's as Baa2 (Baa2 at 30 June 2013).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

17. Capital and Financial Risk Management (continued)

(g) Credit Risk (continued)

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 2014, the provision for doubtful debts was nil (June 2013: nil).

At 30 June 2014, the Group also had credit exposure to the Participants with loans under the SPP. At 30 June 2014, the outstanding balance on the loans totalled \$4,054,000 (June 2013: \$4,324,000). MFG ordinary shares of 3,303,658 were valued at \$36,109,000 (June 2013: 4,767,558 MFG ordinary shares valued at \$46,000,000) 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 12.

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 and Magellan Core Infrastructure Fund.

The credit quality of NT's senior debt is rated, as at 30 June 2014 by Standard and Poor's as AA- and by Moody's as Aa3 (AA- and Aa3 respectively at 30 June 2013).

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 2014 and 30 June 2013, 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 2014, all of the Group's receivables are due within 0 to 30 days (June 2013: 0 to 30 days). No amounts are impaired or past due at 30 June 2014 or 30 June 2013.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

17. Capital and Financial Risk Management (continued)

(h) Fair Value Measurements

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

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

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

		30 June 2014 \$'000	30 June 2013 \$'000
	Note		
Assets measured at fair value			
Available-for-sale financial assets			
- Level 1: listed shares and subordinated bank notes		10,086	25,797
- Level 2: unlisted funds – Magellan and Frontegra MFG	(i)	115,132	73,116
- Level 3: unlisted funds - other	(ii)	165	1,400
- Level 3: unlisted shares - other	(iii)	175	175
Total financial assets		125,558	100,488

(i) Unlisted Funds – Magellan and Frontegra MFG

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

(ii) Unlisted Funds – Other

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

(iii) Unlisted shares - Other

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

17. 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 year 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:

	30 June 2014 \$'000	30 June 2013 \$'000
Level 3		
Opening balance - 1 July	1,575	2,005
Return of capital	(2,264)	(146)
Net change in fair value	1,029	(284)
Closing Balance - 30 June	340	1,575

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

18. Contingent Assets, Contingent Liabilities and Commitments

(a) Lease Commitments

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

	30 June 2014 \$'000	30 June 2013 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	669	676
Later than one year but no later than five years	1,172	1,787
Total commitments	1,841	2,463

(b) Contingent Assets and Contingent Liabilities

The Group has contingent liabilities of \$300,000 (June 2013: \$924,000) comprising:

- (i) \$300,000 in relation to the investment restriction contract with Mr Hamish Douglass on 1 July 2012. Assuming the conditions of the contract are complied with, which requires Mr Douglass to remain in employment until 1 July 2017, the Group is required to pay Mr Douglass \$500,000 on or before 15 July 2017 (refer to further details of the contract in section 3.5 in the 2014 Remuneration Report in the Directors' Report). At 30 June 2014, \$200,000 has been provided for in the Group's Consolidated Statement of Financial Position (June 2013: \$100,000) and as a result, the Group has a contingent liability of \$300,000 (June 2013: \$400,000); and
- (i) there were no uncalled capital amounts on the investment in the unlisted fund held by the Group for the year ended 30 June 2014 (June 2013: \$524,000).

The Group has no material contingent assets as at 30 June 2014 (June 2013: nil).

(c) Guarantees

For information about guarantees given by entities in the Group, including the Company, refer to note 13(b).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

19. Auditor's Remuneration

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

	30 June 2014 \$	30 June 2013 \$
(a) Ernst & Young Australia		
Audit services		
Statutory audit and review of the financial reports:		
- the Company	104,200	108,361
- the Unlisted Funds	84,000	27,000
Other assurance services:		
- Regulatory required audits	30,000	16,000
- Other	37,000	20,000
	<u>255,200</u>	<u>171,361</u>
Non-audit services		
Taxation services	130,325	90,664
Total remuneration of Ernst & Young Australia	<u>385,525</u>	<u>262,025</u>
 (b) Related practices of Ernst & Young Australia		
Audit services		
Statutory audit of the financial reports:		
- MFG Investment Fund Plc - MFG Global Fund	36,142	-
	<u>36,142</u>	<u>-</u>
Non-audit services		
Taxation services	63,240	-
Total remuneration of related firms of Ernst & Young Australia	<u>99,382</u>	<u>-</u>
Total auditor's remuneration	<u>484,907</u>	<u>262,025</u>

20. Events Subsequent to Reporting Date

On 14 August 2014, the Directors declared a franked interim dividend of 21.8 cents per share in respect of the year ended 30 June 2014 (refer to note 4(ii) for further details).

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' DECLARATION

In the Director's opinion,

- a) the financial statements and notes set out on pages 31 to 75 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 2014 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 (IFRS) 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 ending 30 June 2014.

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



Dr Brett Cairns
Chairman

Sydney, 14 August 2014

INDEPENDENT AUDITOR'S REPORT



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

Report on the financial report

We have audited the accompanying financial report of Magellan Financial Group Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT



Page 2

Independence

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

Opinion

In our opinion:

- a. the financial report of Magellan Financial Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 17 to 28 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2014 complies with section 300A of the Corporations Act 2001.

Ernst & Young

Graeme McKenzie
Partner
Sydney

14 August 2014

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE INFORMATION

Directors

Brett Cairns - Chairman
Hamish Douglass – Managing Director and CEO
Paul Lewis
Robert Fraser
Karin Phin

Company Secretary

Geoffrey Stirton

Registered Office

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

Auditors & Tax Advisors

Ernst & Young
680 George Street
Sydney NSW 2000

Share Registrar

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Securities Exchange Listing

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

Website

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

Corporate Governance Statement

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

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION AS AT 12 AUGUST 2014

Distribution of Shareholders

Analysis of the numbers of shareholders by size of holding at 12 August 2014 is presented below:

Holding	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue
1-1,000	2,968	1,697,399	1.07
1,001-5,000	3,518	8,797,978	5.54
5,001-10,000	726	5,469,055	3.44
10,001-100,000	795	22,193,695	13.97
100,001 and over	112	120,684,030	75.98
Total	8,119	158,842,157	100.00
Number of holders with less than a marketable parcel of Ordinary Shares	103	1,175	0.00

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 12 August 2014 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
Magellan Equities Pty Limited	17,953,167	11.54
HSBC Custody Nominees (Australia) Limited	12,338,728	7.93
Citicorp Nominees Pty Limited	11,730,299	7.54
JP Morgan Nominees Australia Limited	10,112,242	6.50
Midas Touch Investments Pty Ltd	10,059,300	6.47
National Nominees Limited	7,265,161	4.67
UBS Wealth Management Australia Nominees Pty Ltd	6,049,822	3.89
Nota Bene Investments Pty Ltd	5,351,497	3.44
Emmanuel Capital Pty Ltd	2,900,000	1.86
BNP Paribas Nominees Pty Ltd (DRP)	2,434,561	1.57
Mr Christopher John Mackay	2,232,022	1.44
Netwealth Investments Limited	1,788,389	1.15
Mr David Doyle	1,500,000	0.96
Aljamat Pty Ltd	1,310,000	0.84
PAJ Lewis Superannuation Fund Pty Ltd	996,399	0.64
Jash Pty Limited	969,742	0.62
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	750,000	0.48
Darian Investments Pty Limited	724,006	0.47
Vahedin Pty Limited	721,655	0.46
Mr Frank Casarotti	656,927	0.42
Total shares held by the twenty largest shareholders	97,843,917	62.89
Total ordinary shares on issue	158,842,157	

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION AS AT 8 AUGUST 2014

Substantial Shareholders

The substantial shareholders in the Company's Register of Substantial Shareholders at 8 August 2014 are listed below:

Shareholder	Number of Ordinary Shares	Percentage of Shares on issue
Hamish Douglass, Midas Touch Investments Pty Ltd and associates ^{(A)(B)}	10,817,709	6.81
Chris Mackay and associates ^(C)	20,722,131	13.05

^(A) Includes shares acquired after substantial shareholder notice lodged on 16 June 2009 – 9,408,448 shares.

^(B) Mr Douglass holds 10,200,000 Class B Shares which at 30 June 2014 were entitled to convert into 10,119,516 ordinary shares of the Company on 21 November 2016 (refer to note 11(d)(iii) for further details).

^(C) Includes options exercised after substantial shareholder notice lodged on 17 October 2013 – 19,671,947 shares

Voting Rights

Subject to the Company Constitution:

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

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

Stock Exchange Listing

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

