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ASX Limited  
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Exchange Centre  
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SYDNEY NSW 2000

**INTERIM REPORT AND FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

Magellan Financial Group Limited (**MFG**) hereby lodges:

1. Appendix 4D Statement for the half year ended 31 December 2014; and
2. Interim Report for the half year ended 31 December 2014, incorporating the Chief Executive Officer's Interim Letter and interim financial statements.

Yours sincerely,

**Geoffrey Stirton**  
**Company Secretary**

**Magellan Financial Group Limited**  
**Appendix 4D**  
**Half Year Report Ended 31 December 2014**

**Details of Reporting Periods:**

Current: 1 July 2014 to 31 December 2014  
 Comparative: 1 July 2013 to 31 December 2013

<b>Results for announcement to the market:</b>	<b>Change from the corresponding period \$'000</b>	<b>31 Dec 2014 \$'000</b>
<b>Total revenue</b> ("revenue from ordinary activities")	Up by \$61,342 or 91% to	\$128,485
<b>Net operating profit</b> ("profit from ordinary activities after tax attributable to members")	Up by \$41,352 or 115% to	\$77,408
<b>Total comprehensive income</b> ("net profit for the period attributable to members")	Up by \$48,075 or 107% to	\$92,849

**Commentary on results**

Refer to the attached Interim Report and Financial Statements including the Chief Executive Officer's Annual Letter. Additional Appendix 4D disclosure requirements can be found in the notes to these financial statements.

**Interim Dividend:**

	<b>Amount per security</b>	<b>Franked amount per security at 30% tax</b>
<b>Interim Dividend (to be paid 9 March 2015)</b>	37.1 cents	37.1 cents
<b>Previous comparative period</b>	16.5 cents	16.5 cents

**Interim dividend dates:**

Ex-dividend Date 25 February 2015  
 Record Date 27 February 2015  
 Payment Date 9 March 2015

The dividend reinvestment plan will not operate in respect of the interim dividend.

**Net tangible assets per share:**

31/12/2014 \$1.62 (diluted for the conversion of the MFG 2016 Options and MFG Class B shares)  
 30/06/2014 \$1.24 (diluted for the conversion of the MFG 2016 Options and MFG Class B shares)

**Earnings per share**

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Basic earnings per share	48.6 cents	23.4 cents
Diluted earnings per share <sup>(A)</sup>	45.3 cents	21.3 cents

<sup>(A)</sup> In the half years ended 31 December 2014 and 31 December 2013, both the Class B Shares and 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.

**Financial Report**

This report is based on the 31 December 2014 Interim Report (which includes the consolidated financial statements) and has been reviewed by Ernst & Young.



# Interim Financial Report

for the half year ended 31 December 2014

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Magellan Financial Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

# MAGELLAN FINANCIAL GROUP

## Chairman's Report for the half year ended 31 December 2014

Dear Shareholder

We are pleased to report further strong progress in the development of our business over the past six months. Our financial results continue to be excellent. We have strengthened and broadened our relationships with our clients and their advisors, while at the same time expanded the skills and experience of our team. Hamish Douglass, our Chief Executive Officer, has written a detailed letter, which follows. We encourage you to read this and the financial statements that accompany it as they contain important information about our business.

Importantly, we have further gained the trust of our clients and their advisors and this has translated into growth in our funds under management. Our longer term investment strategy prizes capital preservation and aims to deliver outperformance over time. While we are not focussed on short term results we are nevertheless pleased to have delivered our clients satisfactory outperformance over the current period, particularly in what are unusual and not straightforward market conditions.

We continue to invest in the business for the long term. We are delighted with the constant enhancement of our team's skills and experience, both through learning and with the addition of new team members. We believe there is significant opportunity ahead for Magellan which we intend to develop in a measured and scalable way.

Ultimately for the business and its owners, however, it is delivering results for our clients that matters most. In practice clients must rank first, not shareholders. It is perhaps understandable that many shareholders or their advocates focus on metrics such as Total Shareholder Return ("TSR") as a measure that determines all, and you can often hear well-meaning and articulate discussions on the lack of TSR focus at many an annual general meeting.

However, a number of problems can arise when TSR becomes the dominant consideration, and indeed this has been a topic of considerable research. At the heart of the debate is the simple question: what is the purpose of a firm? Those that believe the number of times the phrase "total shareholder return" appears in an annual report is indicative of the firm's potential and worth are presumably firmly aligned with Milton Friedman when he wrote "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase profits ..."

The central problem with having a dominant TSR focus is that it can easily lead to behaviour that subordinates the interests of the main player in the firm's activities – the customer. At Magellan we are focused on delivery for our clients – solid long term investment performance in line with our stated objectives and excellent overall service.

We believe that if we look after our clients our total shareholder return will be more than satisfactory over the long term. It is important, therefore, that our thinking and the various incentive structures inherent in our business do not get distorted over time to subordinate the interests of our clients. We are in Peter Drucker's camp when in 1973 he suggested "the only valid purpose of a firm is to create a customer." If we focus on creating relationships highly valued by our customers, our returns as owners will surely follow.

Our client focus does not mean we are not also focused on TSR. We believe it is vital that a culture of ownership permeates Magellan, from the Board and right across our entire team. We will continue to be diligent in our approach to capital management, cost efficiencies and investments. We will also maintain a focus on risk controls and ensure the scalability of our business over the longer term. We will act as rational owners.

Lastly, I would like to thank the Board and all of Magellan for inviting me to take on an expanded role as Executive Chairman. It is a great honour to be Chairman at Magellan and even more so with the added responsibility of helping Hamish and his team to develop the business further. We have made several changes at the Board to ensure continued good governance. Robert Fraser has become Senior Independent Director and Paul Lewis has assumed the Chair of the Remuneration and Nomination committee, and we thank them both for their on-going support.

We look forward to reporting to you again in our annual report.



**Brett Cairns**  
Executive Chairman

# MAGELLAN FINANCIAL GROUP

## Chief Executive Officer's Interim Letter for the half year ended 31 December 2014

Dear Shareholder,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("the Group") for the half year ended 31 December 2014.

### OVERVIEW OF RESULTS

The Group had a successful first half year which was characterised by continued strong growth in funds under management (which increased from \$23.5 billion to \$31.6 billion for the six months to 31 December 2014) and strong growth both in earnings and interim dividend.

For the half year ended 31 December 2014:

- the Group's net operating profit after tax increased by 115% to \$77.4 million (\$36.1 million for the six months to 31 December 2013); and
- fully diluted earnings per share increased by 113% to 45.3 cents (21.3 cents per share for the six months to 31 December 2013).

The Directors have declared a fully franked interim dividend of 37.1 cents per ordinary share in respect of the half year ended 31 December 2014 (16.5 cents per share for the half year ended 31 December 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 interim dividend will be paid on 9 March 2015.

The following table summarises the Group's profitability over the past two half year periods:

	31 Dec 2014 \$'000	31 Dec 2013 \$'000	Change %
Revenue	128,485	67,143	91%
Expenses	25,228	18,703	35%
<b>Profit before tax expense</b>	<b>103,257</b>	<b>48,440</b>	113%
Tax expense	(25,849)	(12,384)	109%
<b>Profit after tax expense</b>	<b>77,408</b>	<b>36,056</b>	115%
Effective tax rate	25.0%	25.6%	
<b>Key Statistics</b>			
Earnings per share (cents per share)	48.6	23.4	108%
Diluted earnings per share (cents per share)	45.3	21.3	113%
<b>Interim dividend (cents per share, fully franked)</b>	<b>37.1</b>	<b>16.5</b>	125%

As at 31 December 2014, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents and other financial assets) of approximately \$248.1 million (30 June 2014: \$208.4 million) and shareholders' funds of approximately \$273.0 million (30 June 2014: \$206.6 million); and
- the Group's NTA per share diluted for MFG 2016 Options and the conversion of the Class B Shares was approximately \$1.62 (30 June 2014: \$1.24).

# MAGELLAN FINANCIAL GROUP

## Funds Management Business

For the half year ended 31 December 2014, the Group's funds management business generated revenues of approximately \$126.3 million (\$63.2 million for the six months to 31 December 2013) and had expenses of approximately \$24.6 million (\$18.3 million for the six months to 31 December 2013), which resulted in a profit before tax of \$101.7 million (\$44.8 million for the six months to 31 December 2013).

The following table summarises the profitability of the funds management business over the past two first half year periods:

	2014 \$'000	2013 \$'000	%
<b>Revenue</b>			
Management fees	89,636	59,457	51%
Performance fees	32,630	1,894	1623%
Services fees	3,425	1,372	150%
Interest and other income	576	464	24%
	<u>126,267</u>	<u>63,187</u>	<u>100%</u>
<b>Expenses</b>			
Employee expense	14,726	11,810	25%
US marketing and consulting fees <sup>(1)</sup>	2,269	1,533	48%
Other expense	7,555	4,999	51%
	<u>24,550</u>	<u>18,342</u>	<u>34%</u>
<b>Profit before tax expense</b>	<u>101,717</u>	<u>44,845</u>	<u>127%</u>
<b>Key Statistics</b>			
Average funds under management (A\$ million)	27,569	18,033	53%
Average AUD/USD exchange rate <sup>(2)</sup>	0.8903	0.9214	
Average number of employees	75	57	32%
Employee expenses / total expenses	60.0%	64.4%	
Cost / income	19.4%	29.0%	
Cost / income, excl. performance fees	26.2%	29.9%	
	<b>31 Dec 2014</b>	<b>30 Jun 2014</b>	<b>Change %</b>
Net assets (\$'000)	74,330	34,931	113%

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

Employee expense increased by 25% over the previous corresponding period to \$14.8 million. This increase was due to an increase in the average number of employees for the half year ended 31 December 2014 and an increase in remuneration levels. We expect that total employee expenses for the 2015 financial year will increase by approximately 35%, relative to 2014, due to the increase in the average number of employees and increased remuneration levels.

We welcome Dr Brett Cairns in his new appointment as our Executive Chairman, taking primary responsibility for company secretarial, risk and compliance, investor relations and corporate development, in addition to his overall Board responsibilities. We announced important changes to our Investment team in early December 2014, including the promotion of Dom Giuliano to Deputy Chief Investment Officer and the separation of Gerald Stack's previous role into two roles - Head of Investments and Head of Research. Mr Stack assumed the role of Head of Investments and Nikki Thomas was promoted to the role of Head of Research. We have made 13 new hires since 30 June 2014, with 7 analysts joining the Investment team, including Greg Dring in the role of Head of our Franchises team; and 3 new Distribution and 2 new Business Support and Control professionals. We have also hired an analyst to the Governance and Advisory team led by Craig Wright.

Overall the funds management business showed solid improvement in the cost to income ratio (excluding performance fees), which reduced from 29.9% for the six months to 31 December 2013 to 26.2% for the six months to 31 December 2014.

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

(2) Based on daily average of London 4pm exchange rates over the six month period.

# MAGELLAN FINANCIAL GROUP

During the remainder of the 2015 financial year, we are planning to increase further 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.

The following table sets out total employee numbers:

	31 Dec 2014	30 Jun 2014	31 Dec 2013	30 Jun 2013
<b>Investment</b>				
- Portfolio Managers/Analyst	29	22	21	20
- Dealers	2	2	2	2
	31	24	23	22
<b>Governance &amp; Advisory<sup>(3)</sup></b>	3	1	-	-
<b>Distribution</b>	18	15	14	14
<b>Risk, Compliance &amp; Company Secretarial<sup>(4)</sup></b>	3	3	2	1
<b>Business Support &amp; Control</b>	20	18	17	16
<b>Administration</b>	5	8	6	5
<b>Total</b>	<b>80</b>	<b>69</b>	<b>62</b>	<b>58</b>
Average number of employees	75	64	57	51

At 31 December 2014, the Group had funds under management of approximately \$31.6 billion, split between global equities (85%) and infrastructure equities (15%). This compares with funds under management of \$23.5 billion at 30 June 2014. The increase in funds under management was driven by net inflows of \$3.7 billion and investment performance of \$4.4 billion for the half year ended 31 December 2014.

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

## Funds Under Management (FUM)

\$A million	31 Jan 2015	31 Dec 2014	30 Jun 2014	30 Jun 2013
Retail	8,649	8,354	6,693	4,542
Institutional				
- Australia/New Zealand	3,728	3,652	2,889	2,424
- North America	7,692	6,777	4,690	2,891
- Rest of World	13,155	12,842	9,241	4,838
	24,575	23,271	16,820	10,153
<b>Total FUM</b>	<b>33,224</b>	<b>31,625</b>	<b>23,513</b>	<b>14,695</b>
<b>Percentage</b>				
Retail	26%	26%	28%	31%
Institutional				
- Australia/New Zealand	11%	12%	12%	16%
- North America	23%	21%	20%	20%
- Rest of World	40%	41%	40%	33%
	74%	74%	72%	69%
<b>Total FUM</b>	100%	100%	100%	100%
FUM subject to Performance Fees (%)	36%	37%	37%	39%
Institutional FUM (%)				
- Active	84%	84%	81%	80%
- Enhanced Beta	16%	16%	19%	20%
Breakdown of FUM (A\$ million)				
- Global Equities	28,203	26,809	19,443	12,088
- Infrastructure Equities	5,021	4,816	4,070	2,607
Average Base Management fee (bps) per annum excluding Performance Fees <sup>(5)</sup>	66	67	65	66

(3) Includes Brett Cairns, Executive Chairman, effective 1 January 2015 and Craig Wright, Head of Governance & Advisory, previously reported in Business Support & Control.

(4) Previously included in Business Support & Control.

(5) Calculated using management and service fees (excluding performance fees) for the relevant period divided by the average of month end FUM over the same period, annualised.

# MAGELLAN FINANCIAL GROUP

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

As we have indicated previously, we consider that the theoretical capacity of our global equities and infrastructure 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.

As mentioned previously we are increasing 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.

At 31 December 2014, the Group was managing around A\$31.6 billion (equating to approximately US\$25.9 billion). It should be noted that the above capacity numbers are purely theoretical and should in no way be taken as a forecast or indication as to the level of funds under management the Group may have in the future.

## Retail Funds Under Management

At 31 December 2014, the Group had total retail funds under management of \$8.4 billion. We experienced total net retail inflows of \$0.7 billion for the six months to 31 December 2014, compared with \$1.2 billion for the half year to 31 December 2013. The Group experienced average monthly retail net inflows of approximately \$123 million over the six months to 31 December 2014, compared with \$198 million over the previous corresponding six month period.

The Group remains optimistic that there is significant potential to attract additional net inflows into global equities from Australian retail investors. We have made substantial progress in penetrating the bank/AMP aligned advice markets. During the past six months we entered into new arrangements with AMP and BT/Westpac and have launched new funds on their respective platforms that replicate the Magellan Global Fund which are similar to the Colonial First State Magellan Global Fund Option (CFS) on the Colonial First State Platform (operated by Commonwealth Bank). We regard these as milestone relationships and we are optimistic that we can gain traction in these channels in the years ahead. At 31 December 2014, the Colonial First State Magellan Global Fund Option had funds under management of \$1.1 billion.

We continue to make progress on creating an ASX quoted version of the Magellan Global Fund and hope to be in a position to proceed with this important product in the near future.

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 31 December 2014 <sup>(6)</sup>	1 Year	3 Years	5 Years	Since Inception <sup>(7)</sup>
		p.a	p.a	p.a
<b>Magellan Global Fund</b>	<b>14.5%</b>	<b>26.3%</b>	<b>17.8%</b>	<b>11.5%</b>
MSCI World NTR Index (\$A)	14.7%	24.5%	12.3%	3.5%
MSCI World Minimum Volatility NTR Index (\$A)	21.7%	21.4%	13.5%	5.3%
S&P 500 TR Index (\$A)	24.3%	29.8%	17.7%	7.1%
Dow Jones Industrials Index TR (\$A)	20.3%	25.4%	16.4%	7.2%
<b>Magellan Infrastructure Fund</b>	<b>22.4%</b>	<b>18.4%</b>	<b>15.6%</b>	<b>7.6%</b>
UBS Dev Infra & Utilities NTR Index Hedged (\$A)	22.9%	16.7%	11.9%	5.5%
<b>Magellan High Conviction Strategy</b>	<b>19.8%</b>	<b>-</b>	<b>-</b>	<b>34.7%</b>

(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).

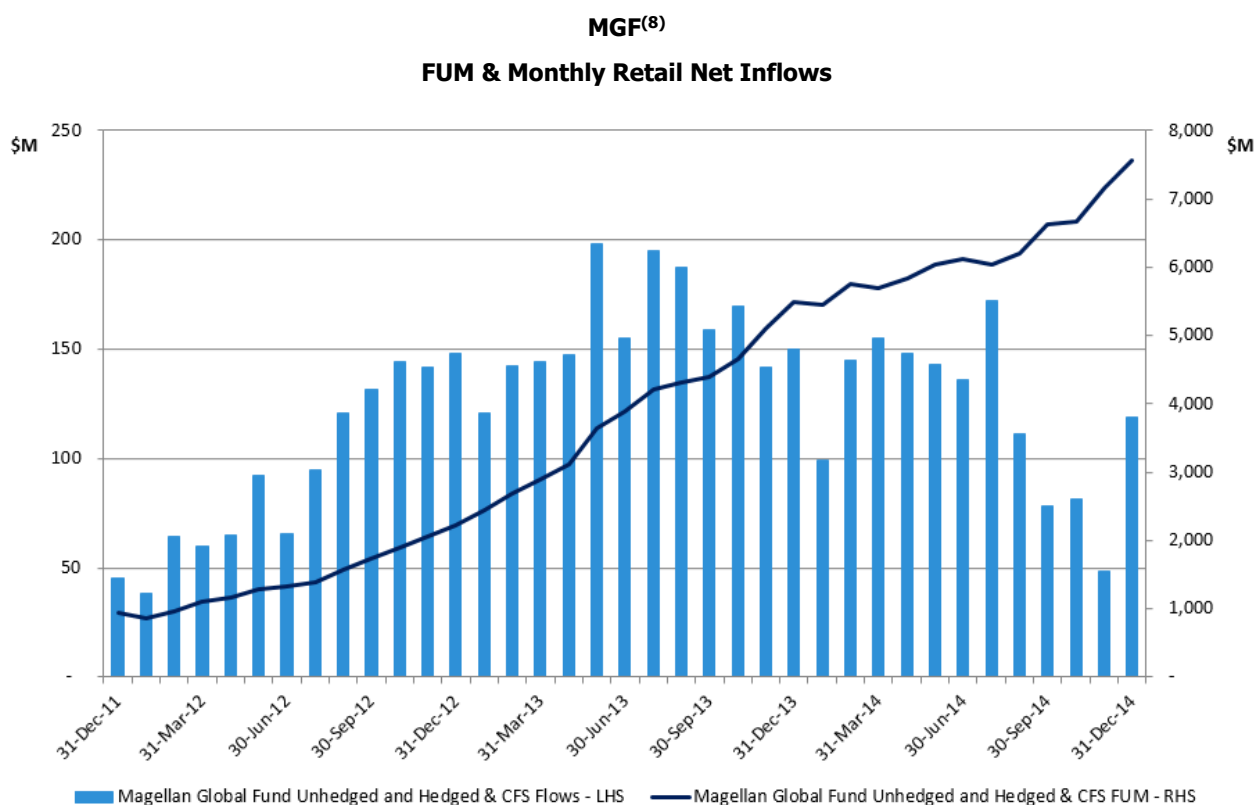
Annualised performance is denoted with "p.a" for the relevant period.

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

# MAGELLAN FINANCIAL GROUP

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/CFS/Magellan Global Fund (Hedged) ("MGF") has increased from approximately 7,500 to approximately 8,600 over the past six months.

The retail component of the MGF had funds under management of approximately \$7.6 billion as at 31 December 2014. MGF experienced total retail net inflows of \$610 million and average monthly retail net inflows of approximately \$102 million over the six months to 31 December 2014. This compares with MGF's total net inflows of \$1.0 billion and the average monthly retail net inflows of \$167 million over the six months to 31 December 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, as Chief Investment Officer. We have been pleased with investor and adviser interest in the Magellan High Conviction Fund, with funds under management of \$207 million at 31 December 2014.

(8) FUM & Flows includes Colonial First State Magellan Global Option from April 2011 – retail only and Magellan Global Fund (Hedged).

# MAGELLAN FINANCIAL GROUP

## Institutional Funds Under Management

At 31 December 2014, the Group had total institutional funds under management of \$23.3 billion from more than 90 clients<sup>(9)</sup>. We experienced institutional net inflows of \$2.9 billion for the six months to 31 December 2014. This included average monthly net inflows from existing global equity institutional flow accounts<sup>(10)</sup> of approximately \$92 million over the six months to 31 December 2014, compared with \$141 million for the six months to 31 December 2013.

As we have advised previously we closed our existing Global Equity Strategy to new separate accounts (minimum investment size US\$200 million) on 31 October 2014 and also closed our US pooled vehicles to new investors on 31 December 2014. We have opened a sister global equity strategy, Magellan Global Plus, to institutional separate account investors and will shortly be launching a new US pooled vehicle that replicates the Magellan Global Plus strategy. 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. We have also decided to keep the existing MFG Global Fund (an Irish UCITS fund offered to institutional clients in our target markets, outside Australia and the United States) ("UCITS") open for the time being. Magellan Global Plus Strategy 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 and at 31 December 2014 the Global Plus Strategy has total funds under management of \$3.4 billion.

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 six months to 31 December 2014, we experienced institutional net inflows of \$1.0 billion from clients in the United States, bringing the total funds under management to approximately \$5.9 billion (\$4.0 billion at 30 June 2014).

Our UK business continues to go from strength to strength. At 31 December 2014, the Group had total funds under management of approximately \$11.4 billion from clients in the UK (\$7.9 billion at 30 June 2014). For the six months to 31 December 2014, we experienced net inflows of \$1.1 billion. Our important relationship with St. James's Place continues to grow. At 31 December 2014, this account has grown to \$5.7 billion from \$4.8 billion at 30 June 2014. We have continued to see good inflows into the UK infrastructure fund that replicates our Magellan Core Infrastructure (Enhanced Beta) Strategy. This fund has grown to \$2.6 billion at 31 December 2014 from \$2.2 billion at 30 June 2014.

We are also making continue to make steady progress in the Asia-Pacific region. At 31 December 2014, the Group had total funds under management of approximately \$3.7 billion from Australian and New Zealand institutional investors. We remain focused on specific target markets in our region, primarily Australia and Singapore.

In August 2013, the UCITS was approved by the Central Bank of Ireland. We are pleased with the client interest in this fund and as at 31 December 2014 had funds under management of approximately \$1.8 billion (\$1.2 billion at 30 June 2014).

<sup>(9)</sup> The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

<sup>(10)</sup> Includes St. James's Place, Frontier MFG Global Equity Fund – US Mutual Fund, MFG Global Fund (UCITS) and 6 other undisclosed accounts for the six month period ended 31 December 2014 and St. James's Place, Frontier MFG Global Equity Fund – US Mutual Fund, MFG Global Fund (UCITS) and 3 other undisclosed accounts for the six month period ended 31 December 2013.

# MAGELLAN FINANCIAL GROUP

## Investments in Magellan's Funds and Principal Investments

At 31 December 2014, the Group had total net Principal Investments of \$132.4 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately \$119.7 million at 30 June 2014.

The Group's Principal Investments include investments in Magellan Unlisted 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 16.2%, 28.2% 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 10.4% per annum over the period 1 July 2007 to 31 December 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 31 December 2014 and 30 June 2014:

### MFG Group's Principal Investments

\$A million	31 Dec 2014	30 Jun 2014
Cash	1.4	0.3
Magellan Unlisted Funds <sup>(11)</sup>	136.2	115.2
Listed shares	11.0	10.1
Other <sup>(12)</sup>	0.5	3.7
<b>Total</b>	<b>149.1</b>	<b>129.3</b>
Deferred tax liability <sup>(13)</sup>	(16.6)	(9.7)
Payables - outstanding settlements	-	-
<b>Net Principal Investments</b>	<b>132.5</b>	<b>119.6</b>
<b>Net Principal Investments per share (cents)<sup>(14)</sup></b>	<b>77.8</b>	<b>70.9</b>

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

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

Yours faithfully,



**Hamish M Douglass**

CEO and Chief Investment Officer

19 February 2015

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

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

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

(14) Based on the aggregate of 159,818,691 ordinary shares on issue at 31 December 2014 and 10,180,898 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert into at 31 December 2014 (30 June 2014, it is based on 158,842,157 ordinary shares and 10,119,516 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2014).

# MAGELLAN FINANCIAL GROUP

## DIRECTORS' REPORT

for the half year ended 31 December 2014

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") present their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the half year ended 31 December 2014.

### 1.1 Directors

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

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

<sup>(A)</sup> On 1 January 2015, Dr Brett Cairns became Executive Chairman. Dr Cairns' fixed base salary is \$1,250,000 per annum (inclusive of superannuation), which is subject to review annually, with the first review being on 1 July 2016. Dr Cairns is not entitled to receive any short term or long term incentive. Prior to 1 January 2015, Dr Cairns was a Non-executive Director and held the role of Chairman of the Company.

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

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

### 1.2 Review of Operations

The Group's net operating profit after tax for the half year ended 31 December 2014 was \$77,408,000 (31 December 2013: \$36,056,000).

The Group is in a strong financial position and at 31 December 2014 reported:

- investment assets (cash and cash equivalents and other financial assets) of approximately \$248,143,000 (30 June 2014: \$208,431,000) and shareholders' funds of approximately \$273,019,000 (30 June 2014: \$206,587,000); and
- NTA per share diluted for the MFG 2016 Options and the conversion of the Class B shares of \$1.62 (\$1.24 at 30 June 2014).

Please refer to the Chief Executive Officer's Interim Letter for further information on the Group's operations, including details on the Group's strategy and future outlook.

### 1.3 Dividends

The Directors have declared a fully franked interim dividend of 37.1 cents per ordinary share in respect of the half year ended 31 December 2014 (31 December 2013: 16.5 cents per share). The amount of the dividend expected to be paid on 9 March 2015, but not recognised as a liability as at 31 December 2014, is approximately \$59,292,000 (31 December 2013: \$25,712,000).

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 Significant Changes in the State of Affairs

No significant changes in the state of affairs of the Group occurred during the half year ended 31 December 2014, other than those matters stated in this report.

# MAGELLAN FINANCIAL GROUP

## DIRECTORS' REPORT

for the half year ended 31 December 2014

### **1.5 Events Subsequent to the End of the Reporting Date**

On 19 February 2015, the Directors declared a fully franked interim dividend of 37.1 cents per share in respect of the half year ended 31 December 2014.

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.

### **1.6 Rounding of Amounts**

The Group is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 (as amended) and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### **1.7 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 12.

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



**Brett Cairns**

Executive Chairman

Sydney

19 February 2015

## 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 review of the financial report of Magellan Financial Group Limited for the half-year ended 31 December 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

Rita Da Silva  
Partner  
Sydney  
19 February 2015

# MAGELLAN FINANCIAL GROUP

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the half year ended 31 December 2014

		Consolidated Entity	
	Note	31 Dec 2014 \$'000	31 Dec 2013 \$'000
<b>Revenue</b>			
Management fees	6(a)	89,636	59,457
Performance fees	6(b)	32,630	1,894
Services fees	6(c)	3,425	1,372
Interest income		1,316	1,029
Dividend and distribution income		700	414
Net gain/(loss) on sale of available-for-sale financial assets		424	3,533
Net foreign exchange gain/(loss)		354	(556)
<b>Total revenue</b>		<b>128,485</b>	<b>67,143</b>
<b>Expenses</b>			
Employee expense		14,682	11,915
Non-executive director fees		207	101
Fund administration and operational costs		3,000	1,994
Travel and entertainment expense		614	391
Marketing expense		1,422	1,110
US marketing/consulting fee expense		2,269	1,533
Occupancy expense		411	416
Auditor's remuneration		212	110
Depreciation and amortisation expense		80	62
Legal and professional fees		670	248
Net loss on disposal of assets		7	-
Other		1,654	823
<b>Total expenses</b>		<b>25,228</b>	<b>18,703</b>
<b>Profit before income tax expense</b>		<b>103,257</b>	<b>48,440</b>
Income tax expense	5	(25,849)	(12,384)
<b>Net profit for the half year</b>		<b>77,408</b>	<b>36,056</b>
Basic earnings per share (cents)	3	48.6 cents	23.4 cents
Diluted earnings per share (cents)	3	45.3 cents	21.3 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

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME for the half year ended 31 December 2014

	Consolidated Entity	
	31 Dec 2014 \$'000	31 Dec 2013 \$'000
<b>Net operating profit for the half year</b>	<b>77,408</b>	<b>36,056</b>
<b>Other comprehensive income</b>		
<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	22,532	15,992
Net (gain)/loss on sale of available-for-sale financial assets recycled through profit or loss	(424)	(3,533)
Income tax benefit/(expense) on the above items	(6,667)	(3,741)
<b>Other comprehensive income for the half year, net of tax</b>	<b>15,441</b>	<b>8,718</b>
<b>Total comprehensive income for the half year</b>	<b>92,849</b>	<b>44,774</b>

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

# MAGELLAN FINANCIAL GROUP

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

		Consolidated Entity	
	Note	31 Dec 2014 \$'000	30 Jun 2014 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		100,551	82,868
Financial assets	7	349	302
Receivables		58,195	23,431
Loans - share purchase plan		2,583	1,783
Prepayments		548	252
<b>Total current assets</b>		<b>162,226</b>	<b>108,636</b>
<b>Non-current assets</b>			
Financial assets	7	147,592	125,558
Loans - share purchase plan		6,168	2,271
Property, plant and equipment		559	386
<b>Total non-current assets</b>		<b>154,319</b>	<b>128,215</b>
<b>Total assets</b>		<b>316,545</b>	<b>236,851</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables		9,760	11,471
Income tax payable		18,372	10,538
<b>Total current liabilities</b>		<b>28,132</b>	<b>22,009</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		14,470	7,460
Provisions		924	795
<b>Total non-current liabilities</b>		<b>15,394</b>	<b>8,255</b>
<b>Total liabilities</b>		<b>43,526</b>	<b>30,264</b>
<b>Net assets</b>		<b>273,019</b>	<b>206,587</b>
<b>Equity</b>			
Contributed equity	9	102,023	93,812
Available-for-sale reserve		40,957	25,516
Retained profits		130,039	87,259
<b>Total attributable to members of the Group</b>		<b>273,019</b>	<b>206,587</b>
<b>Total equity</b>		<b>273,019</b>	<b>206,587</b>

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

# MAGELLAN FINANCIAL GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2014

		Consolidated Entity			
		Attributable to Equity Holders of the Group			
	Note	Contributed Equity \$'000	Available- for-sale \$'000	Retained Profits \$'000	Total \$'000
<b>2014</b>					
<b>Total equity - 1 July 2014</b>		<b>93,812</b>	<b>25,516</b>	<b>87,259</b>	<b>206,587</b>
Net profit for the half year		-	-	77,408	77,408
Other comprehensive income		-	15,441	-	15,441
<b>Total comprehensive income for the half year</b>		<b>-</b>	<b>15,441</b>	<b>77,408</b>	<b>92,849</b>
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under employee share purchase plan (SPP)	9(a)	7,063	-	-	7,063
- on exercise of MFG 2016 Options	9(a)	1,032	-	-	1,032
- transaction costs arising on share issue	9(a)	(24)	-	-	(24)
Dividends paid	4(a)	-	-	(34,628)	(34,628)
SPP expense for the half year	9(a)	140	-	-	140
<b>Total transactions with equity holders in their capacity as equity owners</b>		<b>8,211</b>	<b>-</b>	<b>(34,628)</b>	<b>(26,417)</b>
<b>Total equity - 31 December 2014</b>		<b>102,023</b>	<b>40,957</b>	<b>130,039</b>	<b>273,019</b>
	Note	Contributed Equity \$'000	Available- for-sale \$'000	Retained Profits \$'000	Total \$'000
<b>2013</b>					
<b>Total equity - 1 July 2013</b>		<b>76,378</b>	<b>21,420</b>	<b>55,241</b>	<b>153,039</b>
Net profit for the half year		-	-	36,056	36,056
Other comprehensive income		-	8,718	-	8,718
<b>Total comprehensive income for the half year</b>		<b>-</b>	<b>8,718</b>	<b>36,056</b>	<b>44,774</b>
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under employee share purchase plan (SPP)		1,682	-	-	1,682
- on exercise of MFG 2016 Options		7,527	-	-	7,527
Dividends paid	4(a)	-	-	(25,209)	(25,209)
SPP expense for the half year		141	-	-	141
<b>Total transactions with equity holders in their capacity as equity owners</b>		<b>9,350</b>	<b>-</b>	<b>(25,209)</b>	<b>(15,859)</b>
<b>Total equity - 31 December 2013</b>		<b>85,728</b>	<b>30,138</b>	<b>66,088</b>	<b>181,954</b>

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

# MAGELLAN FINANCIAL GROUP

## CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 31 December 2014

		Consolidated Entity	
	Note	31 Dec 2014 \$'000	31 Dec 2013 \$'000
<b>Cash flows from operating activities</b>			
Management and services fees received		86,074	60,240
Performance fees received		1,460	16,377
Interest received		1,087	834
Dividends and distributions received		3,698	268
Other revenue received		11	123
Tax paid		(17,533)	(19,556)
Payments to suppliers and employees (inclusive of GST)		(27,057)	(19,233)
<b>Net cash inflows/(outflows) from operating activities</b>		<b>47,740</b>	<b>39,053</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of available-for-sale financial assets		3,022	4,020
Purchases of available-for-sale financial assets		(2,103)	(29,061)
Net matured term deposits classified as loans and receivables		(49)	(915)
Net cash flows from foreign exchange transactions		75	(722)
Payments for property, plant and equipment		(257)	(25)
<b>Net cash inflows/(outflows) from investing activities</b>		<b>688</b>	<b>(26,703)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of securities		2,422	7,993
Proceeds from repayment of SPP loan		1,182	1,172
Dividends paid	4(a)	(34,628)	(25,209)
<b>Net cash inflows/(outflows) from financing activities</b>		<b>(31,024)</b>	<b>(16,044)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>17,404</b>	<b>(3,694)</b>
Effects of exchange rate movements on cash and cash equivalents		279	156
Cash and cash equivalents at the beginning of the half year		82,868	38,096
<b>Cash and cash equivalents at the end of the half year</b>		<b>100,551</b>	<b>34,558</b>

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

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 1. Summary of Significant Accounting Policies

This condensed interim financial report is for Magellan Financial Group Limited (the "Company") and its controlled entities (the "Group") for the six months ended 31 December 2014.

The Company is a for-profit entity limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded.

#### a) Basis of preparation

The condensed interim report for the six months ended 31 December 2014 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 19 February 2015. The Directors have the power to amend and reissue the financial report.

This condensed interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2014 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2014 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

#### b) Changes in accounting policy, accounting standards and interpretations

##### i) New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing 1 July 2014 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

##### ii) Accounting standards and interpretations issued but not yet effective

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2014 interim reporting period have not been adopted by the Group in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations which may have a material impact on the Group is set out below:

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

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

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

At 31 December 2014, the Group continues to evaluate the recognition and disclosure requirements of this standard but does not anticipate it will have a material financial impact as the carrying values of its investments approximate fair value and the Group does not apply hedge accounting. The adoption of the standard is however expected to result in a change in the presentation of fair value movements within the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income and may also impact the type of information disclosed in the notes to the financial statements.

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 1. Summary of Significant Accounting Policies (continued)

#### b) Changes in accounting policy, accounting standards and interpretations (continued)

##### ii) Accounting standards and interpretations issued but not yet effective (continued)

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

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

As AASB 15 was only recently issued, on 23 December 2014, a preliminary assessment of its impact on the Group has been performed at the date of this report. At 31 December 2014, the assessment has involved reviewing the Group's current contracts and arrangements to determine which arrangements qualify as a contract under AASB 15 and also whether the Group's existing revenue recognition policies will be materially affected by AASB 15. Based on the assessment completed to date, the Group does not anticipate there will be any material change to the timing or manner of recognition for management, services or performance fees as these fees are currently recognised as revenue only when they are highly probable. In addition, the revenue recognition of dividend and distribution income and interest income remains unaffected as these types of revenues are excluded from AASB 15. However the recognition basis relating to the US marketing/consulting fee expense may change. AASB 15 also requires significantly more disclosures than AASB 118 and a preliminary review has identified that some of the Group's voluntary revenue disclosures meet the requirement however additional disclosures are likely. The Group continues to assess the extent of information required to meet these disclosures so as to understand the extent of impact on the Group's systems, processes and controls.

#### c) 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.

#### d) 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 interim 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 estimates.

The main areas where a higher degree of judgement or complexity arises or areas where assumptions and estimates are significant to the Group's financial statements are:

- those set out in note 1(y) of the Group's financial statements for the year ended 30 June 2014; and
- Income tax expense and related balances - Offshore Banking Unit: Magellan Asset Management Limited is an Offshore Banking Unit (OBU) which is subject to a concessional tax rate of 10% on certain income and expenses. For further details on the OBU refer to note 1(h) in the Group's financial statements for the year ended 30 June 2014.

In the Group's interim financial statements, the income tax expense and related balances have been estimated using the Group's composition of assessable offshore banking (OB) income over adjusted total assessable income for the half year ended 31 December 2014. However, this composition may change and therefore only the Group's actual assessable offshore banking (OB) income over adjusted total assessable income for the full financial year ended 30 June can be used to determine the Group's effective income tax rate. Any change in the composition of assessable income will result in either a higher or lower general OB deduction for the full financial year ending 30 June 2015 and therefore change the Group's reported effective tax rate at 31 December 2014 (refer note 5).

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 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 Frontier MFG Global Equity Fund and the Frontier MFG Core Infrastructure Fund, which are offered to wholesale investors in the United States (collectively, the Frontier MFG Funds);
- Investment Manager for Magellan Flagship Fund Limited (MFF) until 30 September 2013 and investment research and administrative services provider to MFF from 1 October 2013; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the Funds Management business are based on the relevant tax rate (refer to note 5) and included within the Corporate segment.

#### Principal Investments

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

#### Corporate

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

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 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:

	Consolidated Entity			
	Funds Management \$'000	Principal Investments \$'000	Corporate \$'000	Total \$'000
<b>December 2014</b>				
<b>Revenue</b>				
Management fees	89,636	-	-	89,636
Performance fees	32,630	-	-	32,630
Services fees	3,425	-	-	3,425
Interest income	297	4	1,015	1,316
Dividend and distribution income	-	700	-	700
Net gain/(loss) on sale of available-for-sale financial assets	-	424	-	424
Net foreign exchange gain/(loss)	279	75	-	354
<b>Total revenue</b>	<b>126,267</b>	<b>1,203</b>	<b>1,015</b>	<b>128,485</b>
<b>Expenses</b>				
Employee expense	14,533	-	10	14,543
Employee expense - SPP	118	-	22	140
Non-executive director fees	75	-	132	207
Other expenses	9,824	37	477	10,338
<b>Total expenses</b>	<b>24,550</b>	<b>37</b>	<b>641</b>	<b>25,228</b>
<b>Net profit before income tax expense</b>	<b>101,717</b>	<b>1,166</b>	<b>374</b>	<b>103,257</b>
<b>Other comprehensive income</b>				
Net changes in the fair value of available-for-sale financial assets	-	22,532	-	22,532
Net gain/(loss) on sale of available-for-sale financial assets recycled through profit or loss	-	(424)	-	(424)
<b>Other comprehensive income for the half year, before tax</b>	<b>-</b>	<b>22,108</b>	<b>-</b>	<b>22,108</b>
<b>Total comprehensive income for the half year, before tax</b>	<b>101,717</b>	<b>23,274</b>	<b>374</b>	<b>125,365</b>
	<b>Funds Management \$'000</b>	<b>Principal Investments \$'000</b>	<b>Corporate \$'000</b>	<b>Total \$'000</b>
<b>December 2013</b>				
<b>Revenue</b>				
Management fees	59,457	-	0	59,457
Performance fees	1,894	-	0	1,894
Services fees	1,372	-	0	1,372
Interest income	298	56	675	1,029
Dividend and distribution income	-	414	-	414
Net gain/(loss) on sale of available-for-sale financial assets	-	3,533	-	3,533
Net foreign exchange gain/(loss)	166	(722)	-	(556)
<b>Total revenue</b>	<b>63,187</b>	<b>3,281</b>	<b>675</b>	<b>67,143</b>
<b>Expenses</b>				
Employee expense	11,683	-	92	11,775
Employee expense - SPP	127	-	13	140
Non-executive director fees	54	-	47	101
Other expenses	6,478	23	186	6,687
<b>Total expenses</b>	<b>18,342</b>	<b>23</b>	<b>338</b>	<b>18,703</b>
<b>Net profit before income tax expense</b>	<b>44,845</b>	<b>3,258</b>	<b>337</b>	<b>48,440</b>
<b>Other comprehensive income</b>				
Net changes in the fair value of available-for-sale financial assets	-	15,992	-	15,992
Net gain/(loss) on sale of available-for-sale financial assets recycled through profit or loss	-	(3,533)	-	(3,533)
<b>Other comprehensive income for the half year, before tax</b>	<b>-</b>	<b>12,459</b>	<b>-</b>	<b>12,459</b>
<b>Total comprehensive income for the half year, before tax</b>	<b>44,845</b>	<b>15,717</b>	<b>337</b>	<b>60,899</b>

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 2. Segment Information (continued)

#### (b) Segment assets and liabilities

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

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Total
	\$'000	\$'000	\$'000	\$'000
<b>December 2014</b>				
<b>Assets</b>				
Cash and cash equivalents	24,503	1,392	74,656	100,551
Financial assets - term deposits	349	-	-	349
Financial assets - investments	-	147,592	-	147,592
Receivable and other assets	59,096	75	131	59,302
Loans - SPP	-	-	8,751	8,751
<b>Total assets</b>	<b>83,948</b>	<b>149,059</b>	<b>83,538</b>	<b>316,545</b>
<b>Liabilities</b>				
Payables & provisions	9,618	7	1,059	10,684
Tax liabilities	-	16,572	16,270	32,842
<b>Total liabilities</b>	<b>9,618</b>	<b>16,579</b>	<b>17,329</b>	<b>43,526</b>
<b>Net assets</b>	<b>74,330</b>	<b>132,480</b>	<b>66,209</b>	<b>273,019</b>
<b>June 2014</b>				
<b>Assets</b>				
Cash and cash equivalents	26,293	281	56,294	82,868
Financial assets - term deposits	302	-	-	302
Financial assets - investments	-	125,558	-	125,558
Receivable and other assets	20,515	3,532	22	24,069
Loans - SPP	-	-	4,054	4,054
<b>Total assets</b>	<b>47,110</b>	<b>129,371</b>	<b>60,370</b>	<b>236,851</b>
<b>Liabilities</b>				
Payables & provisions	12,179	6	81	12,266
Tax liabilities	-	9,745	8,253	17,998
<b>Total liabilities</b>	<b>12,179</b>	<b>9,751</b>	<b>8,334</b>	<b>30,264</b>
<b>Net assets</b>	<b>34,931</b>	<b>119,620</b>	<b>52,036</b>	<b>206,587</b>

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

The Group's net investment into its Funds Management business activities at 31 December 2014:

	Consolidated Entity	
	31 Dec 2014 \$'000	30 Jun 2014 \$'000
Capital invested in controlled entity	12,500	12,500
<b>Total net investment</b>	<b>12,500</b>	<b>12,500</b>

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 3. Earnings per Share (EPS)

	Consolidated Entity	
	31 Dec 2014	31 Dec 2013
<b>Basic earnings per share</b>		
Net profit attributable to shareholders (\$'000)	77,408	36,056
Weighted average number of shares for basic EPS ('000)	159,131	154,136
<b>Basic earnings per share (cents)</b>	<b>48.6</b>	<b>23.4</b>
<b>Diluted earnings per share</b>		
Net profit attributable to shareholders (\$'000)	77,408	36,056
Weighted average number of shares for diluted EPS ('000)	170,762	169,286
<b>Diluted earnings per share (cents)</b>	<b>45.3</b>	<b>21.3</b>
<b>Reconciliation of earnings used in calculating EPS</b>		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	77,408	36,056
<b>Weighted average number of securities</b>		
The reconciliation of the weighted average number of shares on a fully diluted basis used to calculate diluted EPS is below:		
Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	159,131	154,136
Add adjustments:		
- equivalent number of unexercised MFG 2016 Options ('000) <sup>(A)</sup>	1,375	4,918
- equivalent number of Class B shares ('000) <sup>(B)</sup>	10,256	10,232
Weighted average number of shares used in calculating diluted EPS ('000)	<b>170,762</b>	<b>169,286</b>

<sup>(A)</sup> For the half years ended 31 December 2014 and 31 December 2013, 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 EPS calculation and have been included in the determination of diluted EPS to the extent they are dilutive.

<sup>(B)</sup> The Class B Shares are considered to be potential ordinary shares for the purposes of the diluted EPS calculation and have been included in the determination of diluted EPS to the extent they are dilutive. The equivalent number of Class B Shares for the purposes of calculating the diluted EPS has been determined as the weighted average number of ordinary shares that the Class B Shares would convert to, applying a conversion factor of 0.0637028, and assuming the 1,507,754 MFG 2016 Options had been exercised at 1 January 2015.

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 4. Dividends

	Consolidated Entity	
	31 Dec 2014 \$'000	31 Dec 2013 \$'000
<b>(a) Declared and paid during the half year</b>		
Fully franked final dividend for the year ended 30 June 2014: - 21.8 cents per ordinary share paid 1 September 2014	34,628	-
Fully franked final dividend for the year ended 30 June 2013: - 16.5 cents per ordinary share paid 11 October 2013	-	25,209
<b>Total dividends declared and paid during the half year</b>	<b>34,628</b>	<b>25,209</b>

#### (b) Dividend proposed

On 19 February 2015, the Directors declared a fully franked interim dividend of 37.1 cents per share in respect of the half year ended 31 December 2014 (31 December 2013: 16.5 cents per share). The amount of the declared dividend expected to be paid on 9 March 2015, but not recognised as a liability, is approximately \$59,292,000 (31 December 2013: \$25,712,000).

#### (c) Imputation credits

The balance of the imputation credit account at 31 December 2014 adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax is as follows:

	Consolidated Entity	
	31 Dec 2014 \$'000	30 Jun 2014 \$'000
Imputation credits at reporting date	17,397	14,624
Imputation credits that will arise from payment of income tax payable	14,393	7,288
<b>Total imputation credits available for subsequent reporting periods based on the Australian corporate tax rate of 30% (June 2014 - 30%)</b>	<b>31,790</b>	<b>21,912</b>

The payment of the interim dividend declared by the Directors on 19 February 2015 will reduce the imputation credit account balance shown above by approximately \$25,411,000.

### 5. Income Tax

The Group's estimated effective tax rate was 25.0% for the half year ended 31 December 2014 (December 2013: 25.6%). This is below the Australian company tax rate of 30% primarily as a result of the qualifying offshore banking (OB) income, net of costs, of Magellan Asset Management Limited (MAM) attracting a concessional tax rate of 10% given its OBU status. For the six months to 31 December 2014, the effect of the concessional tax rate of 10% was \$5,100,000 which was the primary reason the Group's income tax expense for the half year ended 31 December 2014 being reduced to \$25,849,000.

The effective tax rate for the full financial year ending 30 June 2015 may change as it depends upon the composition of qualifying OB income of the OBU. Refer to note 1(d) for further detail on the factors that may affect the Group's effective tax rate.

There is considerable uncertainty as to whether the reduction in the corporate tax rate from 30% to 28.5% from 1 July 2015, announced by the Federal Government in the 2014/2015 Federal Budget, will proceed. If this were to proceed, the impact on the Group from 1 July 2015 would be as follows:

- net deferred tax liabilities of \$14,470,000 would reduce and be measured using the relevant tax rate for the Group giving consideration to the OBU status and corporate tax rate of 28.5%; and
- total imputation credits available in subsequent financial years will be measured at 28.5% from 1 July 2015.

A reduction in the corporate tax rate to 28.5% would only impact the Group's measurement of its current tax liability in the year in which the new rate becomes effective, being the year commencing 1 July 2015.

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 6. Revenue

#### (a) Management fees

The management fees received/receivable during the half year were:

		Consolidated Entity	
	Note	31 Dec 2014 \$'000	31 Dec 2013 \$'000
Magellan Global Fund		40,039	28,740
Magellan Global Fund (Hedged)		259	22
Magellan High Conviction Fund		1,255	609
Magellan Infrastructure Fund		3,063	2,195
Magellan Infrastructure Fund (Unhedged)		580	71
Magellan Core Infrastructure Fund		692	513
MFG Global Fund		4,170	675
Frontier MFG Funds		2,944	1,163
Magellan Flagship Fund	6(c)	-	1,431
Other mandates		36,634	24,038
<b>Total management fees for the half year</b>		<b>89,636</b>	<b>59,457</b>

#### (b) Performance fees

During the half year ended 31 December 2014, performance fees were also earned on the following funds and mandates as the market index and relative hurdles were met:

		Consolidated Entity	
		31 Dec 2014 \$'000	31 Dec 2013 \$'000
Magellan Global Fund		25,161	-
Magellan Global Fund (Hedged)		54	-
Magellan High Conviction Fund		2,878	1,070
Magellan Infrastructure Fund		1,324	286
Magellan Infrastructure Fund (Unhedged)		46	39
Other funds and mandates		3,167	499
<b>Total performance fees for the half year</b>		<b>32,630</b>	<b>1,894</b>

#### (c) Services fees

Services fees provided by MAM during the half year ended 31 December 2014 included the provision of investment research and administrative services to Magellan Flagship Fund (MFF), a listed investment company. Services fees earned from MFF in the half year ended 31 December 2014 were \$3,273,000. In the prior corresponding half year ended 31 December 2013, MAM ceased as Investment Manager of MFF on 30 September 2013 and provided MFF with investment research and administrative services from 1 October 2013. As a result, services fees of \$1,372,000 were earned from 1 October 2013 to 31 December 2013 and management fees of \$1,431,000 for the period for the period 1 July 2013 to 30 September 2013 were included in management fees in the Consolidated Statement of Profit or Loss, and disclosed in note 6(a).

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 6. Revenue (continued)

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

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

	Consolidated Entity	
	31 Dec 2014 \$'000	31 Dec 2013 \$'000
Australia	90,387	43,241
United States of America	12,216	7,433
United Kingdom & Ireland	20,472	10,206
Canada	2,023	1,604
Asia	593	239
<b>Total management, performance and service fees</b>	<b>125,691</b>	<b>62,723</b>

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

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

	Consolidated Entity	
	31 Dec 2014 \$'000	31 Dec 2013 \$'000
<b>Management and services fees</b>		
- Retail	51,628	35,854
- Institutional	41,433	24,976
<b>Performance fees</b>		
- Retail	28,904	1,761
- Institutional	3,726	133
<b>Total management, services and performance fees</b>	<b>125,691</b>	<b>62,724</b>
Total Retail	80,532	37,615
Total Institutional	45,159	25,109
<b>Total management, services and performance fees</b>	<b>125,691</b>	<b>62,724</b>

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 7. Financial Assets

	Consolidated Entity	
	31 Dec 2014 \$'000	30 Jun 2014 \$'000
<b>(a) Current</b>		
<b>Financial assets classified as loans and receivables</b>		
Term deposits <sup>(A)</sup>	349	302
<b>Total current financial assets</b>	<b>349</b>	<b>302</b>
<b>(b) Non-current</b>		
<b>Available-for-sale financial assets</b>		
<b>Investments in listed shares (by domicile of primary stock exchange)</b>		
- United States	7,801	7,463
- Switzerland	888	727
- France	564	764
- Netherlands	435	140
- United Kingdom	738	668
- Germany	577	324
<b>Total listed investments</b>	<b>11,003</b>	<b>10,086</b>
<b>Investments in unlisted funds</b>		
- Magellan Global Fund	92,967	78,697
- Magellan Global Fund (Hedged)	606	565
- Magellan High Conviction Fund	23,605	19,436
- Magellan Infrastructure Fund	2,547	2,360
- Magellan Infrastructure Fund (Unhedged)	2,058	1,810
- Frontier MFG Global Equity Fund	9,932	8,383
- Frontier MFG Core Infrastructure Fund	4,534	3,881
- Other	165	165
<b>Investments in unlisted shares</b>		
- Other	175	175
<b>Total unlisted investments</b>	<b>136,589</b>	<b>115,472</b>
<b>Total non-current financial assets</b>	<b>147,592</b>	<b>125,558</b>

- (A) Comprises term deposits of \$349,000 (June 2014: \$302,000) which are held with an Australian bank and pledged against bank guarantees in respect of the Group's future lease obligations. In the event that the Group does not meet its lease payments, the bank has the right to apply the deposits in settlement of the amount paid by the bank under the guarantees.

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 7. Financial Assets (continued)

#### (c) Reconciliation

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

	Consolidated Entity	
	31 Dec 2014 \$'000	30 Jun 2014 \$'000
<b>Current</b>		
Opening balance at 1 July	302	14,685
Disposals	-	-
Cash placed on term deposit	47	7,260
Matured term deposits	-	(21,643)
Net changes in fair value of investments	-	-
<b>Closing balance</b>	<b>349</b>	<b>302</b>
<b>Non-current</b>		
Opening balance at 1 July	125,558	100,488
Acquisitions - in-specie transfer <sup>(A)</sup>	-	12,515
Acquisitions - other	2,395	27,380
Disposals - in-specie transfer <sup>(A)</sup>	-	(12,515)
Disposals - other	(2,665)	(12,386)
Net changes in fair value of investments	22,304	10,076
<b>Closing balance</b>	<b>147,592</b>	<b>125,558</b>

(A) At 30 June 2013, the Group held an investment in MHCF of \$200,000. On 1 July 2013, the Group 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.

### 8. Fair Value Measurements

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

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

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

	Note	Consolidated Entity	
		31 Dec 2014 \$'000	30 Jun 2014 \$'000
<b>Assets measured at fair value</b>			
Available-for-sale financial assets			
- Level 1: listed shares		11,003	10,086
- Level 2: unlisted funds - Magellan and Frontier MFG Funds	(i)	136,249	115,132
- Level 3: unlisted funds - other	(ii)	165	165
- Level 3: unlisted shares - other	(iii)	175	175
<b>Total financial assets</b>		<b>147,592</b>	<b>125,558</b>

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 8. Fair Value Measurements (continued)

#### (i) Unlisted funds – Magellan and Frontier MFG Funds

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

#### (ii) Unlisted funds – Other

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

#### (iii) Unlisted shares - Other

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

There were no transfers between any of the three levels in the hierarchy during the half year ended 31 December 2014 and full year ended 30 June 2014, and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of each reporting period.

The reconciliation of the fair value movements within level 3 is shown below:

	Consolidated Entity	
	31 Dec 2014 \$'000	30 Jun 2014 \$'000
Opening balance - 1 July	340	1,575
Return of capital	-	(2,264)
Net changes in fair value	-	1,029
<b>Closing balance</b>	<b>340</b>	<b>340</b>

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

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 9. Contributed Equity

		Consolidated Entity	
	Note	31 Dec 2014 \$'000	30 Jun 2014 \$'000
Ordinary shares	(a)	102,023	93,812
MFG 2016 options	(b)	-	-
Class B shares	(c)	-	-
<b>Total contributed equity</b>		<b>102,023</b>	<b>93,812</b>

		Consolidated Entity			
		31 Dec 2014 Number of shares '000	30 Jun 2014 Number of shares '000	31 Dec 2014 \$'000	30 Jun 2014 \$'000
<b>(a) Ordinary Shares</b>					
Opening balance		158,842	152,783	93,812	76,378
Shares issued on exercise of MFG 2016 Options		391	5,873	1,032	15,511
Shares issued under SPP		586	186	7,063	1,682
SPP expense for year		-	-	140	272
less: transaction costs arising on share issue		-	-	(24)	(31)
<b>Closing balance - Ordinary shares</b>		<b>159,819</b>	<b>158,842</b>	<b>102,023</b>	<b>93,812</b>
<b>(b) MFG 2016 Options</b>					
Opening balance		1,898	7,771	-	-
Shares issued on exercise of options		(391)	(5,873)	-	-
<b>Closing balance - MFG 2016 Options</b>		<b>1,507</b>	<b>1,898</b>	<b>-</b>	<b>-</b>
<b>(c) Class B Shares</b>					
Opening balance		10,200	10,200	-	-
<b>Closing balance - MFG 2016 Options</b>		<b>10,200</b>	<b>10,200</b>	<b>-</b>	<b>-</b>

#### (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 to the Company's shareholders on 19 February 2013 had the effect of reducing the exercise price of the MFG 2016 Options by \$0.3589 per MFG Option. Accordingly, the adjusted exercise price of each option at 31 December 2014 is \$2.6411 (June 2014: \$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.

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### 9. Contributed Equity (continued)

#### (d) Terms and conditions

##### (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 the first business day after 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, 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 31 December 2014 were entitled to convert into 10,180,898 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 31 December 2014, the 10,200,000 Class B Shares would be entitled to convert to 10,276,946 ordinary shares being equal to 0.0637028 times 161,326,445 securities at 31 December 2014 (comprising 159,818,691 ordinary shares on issue and 1,507,754 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.

### 10. Contingent Assets, Contingent Liabilities and Commitments

#### (a) Commitments

##### Operating lease commitments

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

	Consolidated Entity	
	31 Dec 2014 \$'000	30 Jun 2014 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	787	669
Later than one year but no later than five years	1,164	1,172
<b>Total commitments</b>	<b>1,951</b>	<b>1,841</b>

##### Capital commitments

At 31 December 2014, the Group has commitments of \$29,000 (June 2014: nil) relating to fit-out works in its leased office premises.

#### (b) Contingent assets and contingent liabilities

As at 31 December 2014, the Group has contingent liabilities of \$250,000 (June 2014: \$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. At 31 December 2014, \$250,000 has been provided for in the Group's Consolidated Statement of Financial Position (June 2014: \$200,000) and as a result, the Group has a contingent liability of \$250,000 (June 2014: \$300,000).

The Group has no material contingent assets as at 31 December 2014 (June 2014: nil).

# MAGELLAN FINANCIAL GROUP

## NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2014

### **10. Contingent Assets, Contingent Liabilities and Commitments (continued)**

#### **(c) Guarantees**

The Company provided a letter of comfort to a client of its controlled entity, MAM, whereby the Company undertakes to provide support and assistance as required to ensure MAM complies with the financial conditions of its Australian Financial Services Licence. Given MAM has continued to report a strong net asset position along with positive operating cash flows in recent financial years, the letter of comfort was no longer required and was therefore revoked in September 2014. At 31 December 2014, the Group has no guarantees.

### **11. Events Subsequent to Reporting Date**

On 19 February 2015, the Directors declared a fully franked interim dividend of 37.1 cents per share in respect of the half year ended 31 December 2014 (refer to note 4(b) 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

## DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 13 to 32 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 31 December 2014 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving declarations from the Chief Executive Officer and Chief Financial Officer which mirror section 295A of the *Corporations Act 2001* and are recommended by the ASX Corporate Governance Principles and Recommendations.

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



**Brett Cairns**  
Executive Chairman

Sydney, 19 February 2015



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### Report on the Half-Year Financial Report

To the members of Magellan Financial Group Limited

We have reviewed the accompanying half-year financial report of Magellan Financial Group Limited, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magellan Financial Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

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

## INDEPENDENT REVIEW REPORT



### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magellan Financial Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Ernst & Young

A stylized, handwritten signature of Rita Da Silva in black ink.

Rita Da Silva  
Partner  
Sydney  
19 February 2015

# MAGELLAN FINANCIAL GROUP

## CORPORATE INFORMATION

### **Directors**

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

### **Company Secretary**

Geoffrey Stirton

### **Registered Office**

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

### **Auditors & Taxation 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](mailto: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>