MAGELLAN
FINANCIAL GROUP LIMITED

2008 ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008

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CHAIRMAN'S LETTER

Dear Investor,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited (Magellan or Group) for the year ended 30 June 2008.

Magellan recorded a full year profit after tax of $6.2 million for the year ended 30 June 2008. The reported profit is not reflective of our underlying results as it included a number of Accounting Adjustments, which increased our profitability and included the write off of the goodwill relating to the internalisation of the Management Services Agreement. I believe you should ignore these adjustments as they do not represent economic earnings as the combined effect of these items was to increase our reported profit after tax by approximately $10.2 million. The details of these adjustments are set out in the Directors' Report, commencing on page 12.

The result also included unrealised mark to market losses of approximately $2.4 million (after tax) on investments held by Magellan and a consolidated unit trust.

We had previously forecast an underlying loss after tax for 2008 of $1.7 million to $1.9 million, which did not include any allowance for mark to market accounting on unrealised investments. On a like for like basis the underlying operating result for the Group for 2008 is a loss after tax of approximately $1.6 million.

The underlying result for 2008 primarily reflects that our underlying revenues this year were less than our expenses. This is consistent with our business plan for this stage of the establishment of Magellan's business. We have hired an outstanding team of professionals and we believe that Magellan has the foundations to build a world class asset management business. Importantly, the core asset management business has been established to be scalable such that we can significantly grow funds under management without the need to materially add to the number of people employed in the business.

For the 2009 financial year we expect that underlying revenues (prior to the effects of mark to market accounting on investments) will exceed expenses. The budgeted total expenses are approximately $10 million, which compare to the total expense in 2008 of approximately $11.6 million. The lower budgeted expense base for 2009 reflects lower expected employment costs, the elimination of the Management Services Agreement and lower occupancy costs.

The underlying revenues for 2009 will be dependent upon the Group's average level of funds under management, the investment performance of the individual funds, interest, dividend and fee income. Reported revenues will also include the effect of mark to market accounting on the Group's trading portfolio and any realised gains or losses on investments.

I often get asked whether Chris and I are happy with Magellan's progress, given that the share price is currently trading below the original issue price.

Overall, yes, we are happy as I expand upon below. However, we do not believe it is helpful to comment on whether the current share price reflects the potential long term intrinsic value of Magellan. We note that any assessment of the long term value is inherently uncertain, particularly given the early stage of the development of Magellan's core asset management business. We are also not prepared to undertake short term focused initiatives to create excitement in order to move the share price.

John Bogle, Founder of The Vanguard Group, wrote in his Little Book of Common Sense Investing that "the stock market is a giant distraction from the business of investing." We share this view and do not intend to get distracted by the share price in the short term in managing the development of the business. However, we do believe that over time the share price will judge whether we have created value for shareholders.

We remain solely focused on developing Magellan's business and take a very cautious approach to investing the Group's capital. While we could potentially enhance and accelerate returns with borrowings, we do not intend to do so. We are inherently conservative and we are focused on building the business for the long term. Warren Buffett has often reminded us: "To finish first you must first finish".

Overall we are happy with the progress of Magellan's business. Essentially, the Group has allocated its capital in three ways:

- Providing capital for the establishment of our wholly owned asset management business, Magellan Asset Management Limited.

  As at 30 June 2008, the Group had invested approximately $8 million in the establishment of the asset management business. This largely covers our upfront investment in infrastructure and people. We believe that over time Magellan is likely to generate a very acceptable return on this investment.

  We believe that there is a substantial opportunity to build a world class Australian based asset management business focused on global equities and infrastructure. The barriers to entry in retail funds management intermediated by financial planners are high. We have made a substantial investment in people and infrastructure in order to position Magellan as a viable and attractive alternative choice for financial planners and their clients. Each of the funds have received positive investment ratings from the major research firms and are available on a number of the major investment platforms.

  As I stated in last year's annual report, success in the funds management industry is not assured and it will certainly not happen overnight. It is likely to take some years to build the Magellan brand and reputation and create an investment track record for the funds that we manage.

  We are comfortable that Magellan is well placed to attract funds under management in 2009 and beyond. The Magellan Global Fund has outperformed the A$ MSCI benchmark by in excess of 10% over the 15 months since inception to 19 September 2008 and has a net asset value of approximately $1.00 cents per unit (after paying and inaugural distribution of 1.93 cents per unit). Additionally, our infrastructure team is in advanced discussions with a number of institutional clients which should lead to some of new mandates in the 2009 financial year.

As at 30 June 2008 Magellan had net funds under management of approximately $336 million.

- Investing in other fund management businesses.

  At the time of establishing Magellan we stated that we were interested in investing in a limited number of fund managers.

  Chris and I have reviewed many proposals over the past 12 months but the vast majority of these proposals did not appear attractive and we decided to pass on these opportunities. We have actively investigated some proposals and we remain very cautious about what we will progress. The opportunities are becoming more attractive and the financial market dislocations increase the opportunities for Magellan.

- Fund and principal investments.

  As at 30 June 2008 Magellan had invested approximately $47 million (at cost) in the three funds we manage and had a principal investment portfolio with a market value of $ 13.8 million. We also held $46.3 million in cash, excluding our consolidated share of the cash in the two unlisted unit trusts we manage.

  We intend to continue to invest in the new funds that are managed by the Group. We also intend to continue to evaluate investment opportunities to invest up to 25% of the Group's shareholder's capital in principal investments.

OUR INVESTMENT OBJECTIVES

At Magellan we have two fundamental investment objectives:

- To minimise the risk of a permanent capital loss for our investors; and
- To achieve superior risk adjusted investment returns.

The concept of minimising the risk of a permanent capital loss is integral to our philosophy of how we manage money. We believe that this central concept is different to many in the funds management industry. For many, risk is effectively measured as the danger of falling short of the benchmark, rather than the risk of losing capital for investors. In my view investors in recent years have become unrealistically obsessed with chasing returns without any real appreciation of the risk of losing their capital.

At Magellan we believe in the "prudent man rule" in managing money for our clients (and ourselves). The "prudent man rule" was developed in the 19th century when a Massachusetts judge suggested trustees should "observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."

In order to achieve our investment objectives, our investment philosophy is to buy a relatively concentrated portfolio of outstanding companies from around the world, and to purchase securities in these businesses when their share prices are attractive compared to our assessment of their underlying intrinsic value. We believe buying a concentrated portfolio of outstanding companies at attractive prices will deliver investors superior risk adjusted returns over a 3 to 5 year time horizon, whilst minimising the risk of permanent capital loss.

In chapter 20 of The Intelligent Investor, Benjamin Graham introduced the concept of "Margin of Safety" which he refers to as the central concept of investment. The concept of "Margin of Safety" is central to our investment philosophy and our desire to minimize the risk of permanent capital loss

INVESTMENT TEMPERAMENT

It is our strong belief that in order to achieve superior long term investment returns investors need to have a detached and unemotional temperament. The past 12 months have been particularly challenging for investors and it has been difficult to see beyond the current turmoil in world financial markets. We believe that it is very important to be able to separate the underlying risks and economics of a business from short term volatility in the stock market.

John Bogle recently wrote in a paper in the Financial Analysts Journal: "Although returns earned in the stock market are volatile and unpredictable, the returns earned by the underlying businesses in the aggregate – which collectively represent the foundation of aggregate market capitalization – are (or have been historically) far less volatile and predictable. Put another way, investors are more volatile than investments ... emotions and perceptions – the tides of hope, greed and fear among the participants in the financial system – govern the short term returns generated by the markets".

We believe the market often provides us with excellent investment opportunities to buy or sell at prices significantly different from our assessment of the intrinsic value of underlying businesses. In chapter 8 of the The Intelligent Investor, Benjamin Graham introduced the concept of "Mr Market". Mr Market is an obliging business partner who every day is prepared to tell you what your interest in a business is worth and is prepared to buy or sell you an additional interest on that basis. Sometimes he quotes you very reasonable prices based on the business prospects and developments as you know them. Often, Mr Market is unpredictable and temperamental and quotes you ridiculously high or low prices.

Additionally Graham wrote: "Basically price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies."

We agree entirely with Messrs Bogle and Graham that for most investors the daily quotation of stock prices are a giant distraction and can lead people to make entirely incorrect investment decisions. As Warren Buffett has stated on numerous occasions "the market is there to serve you not instruct you". We remain entirely focused on analyzing the underlying results and economics of businesses in which we seek to invest and virtually ignore daily share price movements unless we are interested in making purchasing or selling decisions.

In a recent speech (June 2, 2008) to a conference of Financial Planners in Florida, John Bogle said:

"Investing to me, is all about the long-term ownership of businesses, focused on the gradual accretion in intrinsic value that is derived from the ability of our corporations to produce the goods and services that our consumers and savers demand, to compete effectively, to thrive on the entrepreneurship, and to capitalize on change, adding value to our society...

Speculation is just the opposite. It represents the short-term- not long-term – holding of financial instruments, not businesses, focused (usually) on the belief that their prices, as distinct from their intrinsic values, will rise".

At Magellan we are clearly focused on the business of investing and not speculating on short term price movements.

Sir John Templeton who recently died at the age of 95 was perhaps best known for saying: "Bull markets are born on pessimism, grown on scepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."

We are very conscious that many investors have caught "falling swords" by making contrarian investment calls simply on the basis that it must be a good time to buy when others are panicking. We generally take a very cautious stance, and undertake extensive investment analysis, in order to seek to avoid the "falling swords". Our investment returns over time will depend on whether our analysis about the economics and competitive position of a business is correct and not on short term share price movements. Benjamin Graham stated: "You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right."

We fundamentally believe that over time a business' share price should broadly track its underlying intrinsic value. This is what Graham was referring to when he pointed out: "in the short run the market is a voting machine ... (but) in the long term it is a weighing machine"

MARKET COMMENTARY

The global credit crisis is the most serious issue that has arisen in financial markets in the past 20 years. The global credit crisis virtually froze the interbank funding market, the asset backed securitisation market, the auction rate securities market in the US and has resulted in massive write offs by financial institutions around the world.

We have been of the opinion that following the bail out of Bear Stearns in March this year, the risk of a series of events which could occur and trigger an unprecedented meltdown in financial markets has materially reduced. In the week of 15 September 2008 the world witnessed a series of events which shook the foundations of the world's financial markets and which provoked massive Government support efforts.

On Monday 15 September Lehman Brothers went bankrupt and Merrill Lynch announced on emergency sale to Bank of America. On Tuesday 16 September the US Federal Reserve took control of AIG and provided a US$85 billion facility. On Thursday 18 September Lloyds TSB announced a rescue takeover of HBOS and the UK Government waived its merger rules. The world's central banks 'flooded' the overnight funding market by injecting US$180 billion in an attempt to free up the interbank funding market. On Friday 19 September the US Treasury and the UK's Financial Services Authority announced that they had placed a temporary ban on all short selling in certain financial institutions in order to stabilise markets and restore confidence. The US Treasury also announced that it would establish a vehicle to purchase hundreds of billions of dollars of troubled assets from financial institutions to restore stability.

In our view, the actions of the US Federal Reserve and the US Treasury clearly indicate that they (and other central banks around the world) will take whatever action is necessary to prevent an uncontrollable melt-down in financial markets. This does not mean that there will not be serious on going implications resulting from the global credit crisis – there will be. There is likely to be more failures of financial institutions around the world. In our view, institutions that will fail are unlikely to threaten the stability of the financial system, but will cause investors in these institutions to suffer significant losses and the failures will contribute to the current very negative sentiment in financial markets and cause ongoing volatility for investors.

We remain very cautious on the outlook for the world economy and believe that financial markets will remain very volatile over the next 6-12 months. In our view there are two major economic factors which are likely to result in a synchronized global slowdown:

- The effect of deleveraging of the financial system on asset prices and global consumption; and
- The effect of rapidly rising commodity prices on inflation expectations around the world.

Deleveraging of the financial system

The credit crisis has resulted in a significant curtailment in the availability and pricing of credit in the global financial system. Prior to August 2007 there was virtually an unlimited supply of capital to support borrowings around the world. Much of this unlimited supply of capital was dependent on banks, investment banks and non-bank financial institutions being able to package and securitize loans and sell these securities to investors around the world.

Since August 2007 the market for securitized assets has effectively closed which has had a dramatic effect on the availability of credit. A large number of non-bank financial institutions which relied on securitization markets for their funding have either gone out of business or are effectively closed for new business. In addition, many banking institutions which relied on the securitization markets to "distribute" loans which they "originated" have had to curtail their lending activities to those loans which they have sufficient capital to hold on their balance sheets.

In addition, the capacity of banks and investment banks to take additional assets on their balance sheets has been constrained due to the massive write offs they have taken and they have been required to provided funding to many of the structured vehicles they created to hold off balance sheet loans.

In our view the economic consequence of this deleveraging of the financial system will be a global economic slowdown, which is already evident in many countries. Economic activity around the world is very much dependent on the capacity of consumers to buy goods and services. Consumers in developed nations (particularly in countries like Australia, the United States and the UK) have become highly dependent on their capacity to borrow to maintain their rate of expenditure. Their capacity to borrow in recent years has been enhanced by high house prices and the free availability of credit. With falling assets prices (and particularly house prices) in many developed countries and the curtailment of credit will, in our view, directly impact consumers' ability to spend which is highly likely to slow the rate of global economic growth.

The extent and duration of the economic effects of this deleveraging is difficult to predict. We are, however, confident that over time the financial system will recapitalize and investor appetite for traditional style securitized assets will re-emerge which will set the foundations for vibrant credit markets and renewed economic growth.

Increasing inflation expectations

If sustained, the elevated level of inflation in virtually every country around the world (and particularly developing nations), primarily driven by high commodity prices (most notably oil and food) has the potential to force central bankers around the world to take meaningful action to raise interest rates to ensure that inflation does not become embedded via a wage and price spiral.

In a speech to US Congress on 15 July 2008 the Chairman of the US Federal Reserve, Ben Bernanke said:

"Moreover, the currently high level of inflation, if sustained, might lead the public to revise up its expectations for longer term inflation. If that were to occur, and those revised price expectations were to become embedded in the domestic wage- and price – setting process, we could see an unwelcome rise in actual inflation over the longer term. A critical responsibility of monetary policy makers is to prevent that process from taking hold."

The current economic situation of slowing economic growth and rising inflation expectation is a particularly difficult paradigm for central banks.

My best evaluation at this point is that if commodity prices continue to ease over the next 6 months then it is likely that the world economies will slow with a relatively soft landing as central banks will have the capacity to implement policies to stimulate growth. If commodity prices do not ease (and in fact rise) and inflation expectations continue to increase I believe that central bankers will be left with little choice other than to meaningfully increase interest rates which is likely to result in a sharp slow down (read recession) in most developed economies. Under any scenario it is difficult to envisage a scenario over the next 12 months that does not include a synchronised global slowdown.

The good news for investors is that these are exactly the economic times when investments can be purchased at prices that are likely to produce outsized returns over a medium term investment horizon. It is very difficult to predict exactly how economic events will play out over the next 12 months and when markets will bottom, however we are confident that investing in outstanding businesses at times of extreme pessimism will produce highly satisfactory investment returns for patient investors.

I would also make a longer term observation or prediction. I believe it is likely that developed economies over the next decade will grow at a slower rates than they have exhibited over the past 10-15 years and average inflation rates for the developed world will be higher over the next decade than we have experienced over the past decade. If this is correct it presents an interesting paradigm for investors chasing returns they have come to expect. You will see that Magellan's investment approach includes' sizable positions which seek to benefit from the very small number of global leaders who are rapidly growing sales in developing markets whilst concurrently maintaining market leadership in the developed world.

I have also enclosed an article in the September 2008 edition of the ANZ Private Bank IN Private magazine which provides an excellent summary of our philosophy and approach.

Thank you for your ongoing interest in Magellan and we look forward to meeting you either at the Annual General Meeting or over the years ahead.

Yours sincerely,

Hamish Douglass
Chairman
Magellan Financial Group Limited
22 September 2008

QUALITY STREAK

Hamish Douglass, an experienced hand in a newish venture.

After the erratic behaviour of financial markets and the strain of several interest rate increases, investors are understandably wary. Carmel Dwyer talks to Hamish Douglass, Chairman of Magellan Financial Group, on why his strategy of holding stocks in only 25 to 30 quality companies will pay off in the long run.

Speculative investment may be on the nose but, equally, ultra-conservative investing styles have also proven a disappointment – even in a nervous market. The search for a fund manager with sufficiently fresh ideas and acceptable pledges to capital conservation does not easily yield results in this sceptical market, but it's a role that several newer managers claim to fill.

Hamish Douglass might say that the radical-conservative combo exactly describes Magellan Financial. A value investor with a panoramic view and narrow focus, Magellan sails a traditional course with state-of-the-art rigging and disciplined helming. Its masters have impeccable records, but Magellan itself is barely two years old.

Douglass founded Magellan Financial Group with Chris Mackay in 2006. The pair had spoken about their Magellan venture decades ago when both were working at Schroders, but its time didn't arrive until the 21st century. Mackay is better known as a former head of UBS in Australia; Douglass was co-head of Global Banking at Deutsche Bank. Mackay serves on the Treasurer's Financial Sector Advisory Council and Douglass is on the Australian Takeovers Panel.

Starting a new fund management business at the end of 2006 might be grounds for a sympathy bid, but Magellan has started with a number of significant points of difference. The company floated with a $100 million capital raising, giving it a degree of fiscal comfort unusual in a start-up. The concept is for a small, tight team of just 26 who concentrate on three areas of investment: infrastructure, finance and banking, and fast-moving consumer durables. Stock selection takes place globally, but only 25-50 are chosen, with what Douglass describes as an extreme quality overlay.

How far out do you plan for your business and funds investment?

HD: We have set up with such large financial resources that we have no pressure to do things that are short-term orientated. We have a long-term view and we're under no pressure to generate short-term returns for our funds. Our philosophy is very long term.

How did you arrive at your investment strategy and what are the guiding principles?

HD: Chris and I have been very influenced over the last 20 years by Warren Buffett and Charlie Munger. I attended my tenth Berkshire Hathaway annual general meeting this year. We have two objectives: the first and most important is that we want to minimise any permanent capital loss. We want to invest in businesses where we are confident they will be worth more in five and 10 years' time. We believe that if you buy a portfolio of businesses that are very low risk and we describe them as outstanding businesses, and you hold them for the long term, the chance of you losing money for your investors is very, very low.

The second thing is we want to generate satisfactory risk-adjusted returns for our investors. 'Satisfactory' is obviously in the double digits that, over time, compounds people's wealth at a very attractive rate. We do that by buying a relatively concentrated portfolio of businesses that are truly outstanding and buy them when they are fundamentally cheap. Over time, the combination of value and quality will be a low risk with a very satisfactory return.

Time is obviously a critical component of your strategy.

HD: We actually know that it's going to be very volatile in all financial markets around the world for the next three to six months, maybe even for 12 months. But a three- to five-year time frame at the prices we're purchasing these 25-odd securities, and the quality and nature of these businesses, are very low risk.

Value investing is not unique to Magellan, so what's really different?

HD: What's different about us is that we are global. There are not many people operating out of Australia who have a philosophy that's totally global. And we are not just value-based investors. We are value-based with an extreme quality overlay.

We do not buy a lot of things that typical value investors would buy. Deeply out-of-favour cyclical stocks hold no interest for us whatsoever. We want businesses that earn very high returns on their invested capital and have what we call economic moats around their businesses – that is, they have sustainable competitive advantages for the long term that make it very difficult for other businesses to compete with them. And we want to buy them when we are virtually certain their earnings are going to go up continuously.

If I applied those criteria to the Australian market there are probably only 15 companies that would pass the quality test, and the chance of putting a portfolio together when they are fundamentally cheap is very hard to do.

How big is the global list of securities you are choosing from?

HD: About 400 securities. We'd have research and models on 250 of them. Our portfolio currently has 25-30 stocks.

How did you arrive at this view?

HD: To us, understanding value properly means you have to understand the interrelationship between three things: the price/earnings (P/E) multiple; the return on capital and, importantly, on incremental capital; and the growth rate. We think people get fixated on one measure and don't think, what is driving value? Valuations are complex. They're driven by a number of factors working together.

If you ask what is the importance of a high return on capital, I can give you an example.

Both Business A and Business B earn $100 and both have a growth rate of 5%. Business A earns 20% on its equity and Business B earns 10%. Business A can be bought for a P/E of 14 and Business B can be bought for a P/E of 11. Most people would buy Business B.

Yet when you do the math of what they're actually worth, assuming a 10% discount rate, Business A is actually worth 15 times earnings and Business B is worth 10 times earnings.

So, Business A is undervalued and Business B is overvalued on their P/E ratios. The simple reason is that Business A, by definition, has half the amount of capital invested as Business B, and that means it's going to have to replace half the amount of equipment and stock and everything over time and it's going to have to invest half the amount to grow it at 5%.

We value all our investments on discounted cash flow. I say to our analysts, "Are you 90% confident that you are within 90% accuracy in predicting what that number will be in five years?" If they say they're 50% confident, I'll tell them if they don't know within better than 50% what earnings will be in five years, then they can't say what the company is worth today.

What other things come into the stock selection process?

HD: We have what we call three circles of competence. The world's a big place and you can't be experts in everything. We believe you need to have deep expertise in things where you have an analytical edge.

We have a separate infrastructure offering. A lot of infrastructure assets are monopoly in nature, and a monopoly toll road is probably a low-risk investment over time.

Financial services is another area that, if you get in the right space, you can earn very high returns on tangible capital and actually deploy a lot of money back into those businesses at high rates of return.

On a global basis, the credit card industry is fascinating. We have a large position in American Express which, in our view, is one of the world's most outstanding businesses. There's nothing in Australia like it – that earns 36% return on equity and has long-term goals to grow its earnings per share at 12-15%. Where brands like Visa and MasterCard are really just processing companies, American Express is a closed-end system and owns the whole value chain.

We're trying to find five to 10 financial services opportunities globally and that means banks, insurance companies, stock exchanges, ratings agencies – the full spectrum. By going global we can compare, for example, Australian banks with Wells Fargo and Lloyds.

> *We want businesses that earn very high returns on their invested capital and have what we call economic moats around their businesses*

The third circle of competence is the consumer space. We look for the very best consumer franchises in the world, so we look at the major retailers: Woolworths in Australia, Tesco from the UK, Wal-Mart in the US, Wal-Mart de Mexico, Costco and Target, Carrefour in France and Metro in Germany.

We look at fast-moving consumer companies. There are only 10 major ones and they are companies like Nestlé, Procter & Gamble, Kellogg, Colgate, Unilever, PepsiCo and Coke. These are multinational firms with huge economic moats around their businesses, with very high returns on capital. And they are truly global. Nestlé, for instance, is the biggest food company in the world and operates in every country bar one, and that's North Korea. In Nestlé you're buying a company on 14 times earnings with a 50% return on capital.

Within this group we have an accelerating growth theme. For most of these companies the developing world represents about 20-25% of their sales. We have a view that this will become a larger and larger portion of the base and you'll actually see a mild acceleration in their sales growth out to 25 years. At the moment, we can buy these on incredibly cheap P/Es and sit on them for 25 years and have very low risk and an incredibly attractive investment.

Other consumer companies we're looking at are eBay, Google and Amazon; we've covered the pharmaceutical sector and specialty retail. EBay is effectively a retailer – the eighth largest in the world – Google is effectively an advertising company and Amazon is a retailer. ❋

DIRECTORS' REPORT

The Directors of Magellan Financial Group Limited (the "Company") submit their report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the year ended 30 June 2008.

DIRECTORS

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

Name	Directorship	Appointed
Hamish Douglass	Chairman and Executive Director	21 November 2006
Chris Mackay	Deputy Chairman and Executive Director	21 November 2006
Naomi Milgrom	Non-executive Director	20 December 2006
Paul Lewis	Non-executive Director	20 December 2006
Brett Cairns	Non-executive Director	22 January 2007

CORPORATE INFORMATION

The Company is limited by shares and incorporated in Australia. The shares and options of the Company that are publicly traded on the Australian Securities Exchange (ASX) are ASX Code: MFG, MFGOA, MFGOB, and MFGOC. The Company also has on issue unlisted Class B shares.

PRINCIPAL ACTIVITY

The primary business activity of the Group was funds management with the objective to offer international investment funds to Australian and New Zealand investors.

TRADING RESULTS

The Group's net profit after tax for the year ended 30 June 2008 was $6,203,000 (2007: $2,516,000 profit).

The reported full year profit is not reflective of the underlying results as it included:

- a non-cash Accounting Adjustment relating to the potential issue of 2011 Options on exercise of the 2009 Options, which increased the reported profit after tax by approximately $26.6 million;
- a write off of the goodwill relating to the internalisation of the Management Services Agreement, which reduced the reported profit after tax by approximately $18.6 million; and
- a non-cash Accounting Adjustment relating to the minority unitholders investments in Magellan's unlisted funds, which increased the reported profit after tax by approximately $2.2 million.

The result also included unrealised mark to market losses (after tax) of approximately $2.4 million on investments held by the Company and a consolidated unit trust.

Our previously forecast underlying loss after tax for 2008 was $1.7 million to $1.9 million and this did not include any allowance for mark to market accounting on investments held by the Group. On a like for like basis, the underlying operating result for the Group for 2008 is a loss after tax of approximately $1.6 million.

The underlying revenues of the Group, excluding realised and unrealised gains and losses on financial assets, were approximately $9.7 million and included investment management fees of $4.3 million, interest income of $4.2 million and dividend and other income of $1.2 million.

The expenses of the Group for the year ended 30 June 2008 of $11.6 million included employment costs of $8.4 million. As at 30 June 2008, the Group had 25 employees.

For the 2009 financial year we expect that underlying revenues (prior to the effects of mark to market accounting on investments) will exceed expenses. The budgeted total expenses for the Group are approximately $10 million. The lower expected expense base for 2009 reflects lower expected employment costs, the elimination of the Management Services Agreement and lower occupancy costs.

The underlying revenues for 2009 will be dependent upon the Group's average level of funds under management, the investment performance of the individual funds, interest, dividend and fee income. Reported revenue will also include the effect of mark to market accounting on the Group's trading portfolio and any realised gains or losses on investments.

2008 was a particularly challenging year for the funds management industry, both in terms of absolute investment returns and funds flow. The directors are comfortable that Magellan is well placed to attract funds under management in 2009 and beyond. The Magellan Global Fund has outperformed the A$ MSCI benchmark by around 9.4% over the 14 months since inception to 31 August 2008 and our infrastructure team is in advanced discussions with a number of institutional clients which should lead to a number of new mandates in the 2009 financial year. As at 30 June 2008 Magellan had net funds under management of approximately $336 million.

BALANCE SHEET AS AT 30 JUNE 2008

Set out below is a summarised consolidated balance sheet for the Group at 30 June 2008.

	$ million
Assets	
Cash, cash equivalents and term deposits	53.6
Financial investments	50.3
Less external unitholders' interests in controlled trusts	(10.7)
Net financial assets	93.2
Other assets	14.8
Total assets	108.0
Liabilities	
AASB 132 Accounting Adjustment	1.3
Other liabilities	4.8
Total liabilities	6.1
Net assets	**101.9**
Net assets excluding AASB 132 Accounting Adjustment	**103.2**

As at 30 June 2008 the Group's NTA per share (excluding the AASB 132 Accounting Adjustment and diluted for the conversion of the Class B shares) was approximately $0.67.

IMPAIRMENT OF GOODWILL AND ACCOUNTING ADJUSTMENTS

As noted above the directors have written off the goodwill relating to the internalisation of the Management Services Agreement (MSA) between NPH Funds Pty. Limited and the Company. The decision to write off the goodwill was a result of the subsequent cancellation of the MSA by the Group, as NPH Funds Pty. Limited was then wholly owned. This should lead to greater transparency for investors of the Group's underlying assets and liabilities. The cancellation of the MSA has material ongoing benefits as the Group will no longer be required to pay ongoing management fees to an external party.

There are two large non-cash Accounting Adjustments which have materially benefited the Group's reported profitability and require some explanation. The directors also believe that these Accounting Adjustments should be excluded from the Group's results to better understand the true financial position of the Group.

The first Accounting Adjustment relates to the accounting treatment of the potential issue of the 2011 Secondary Options. Due to the decrease in the market value of these Secondary Options the Group recorded a gain of $26.6 million in the 2008 financial year. We explained in last year's annual report why this accounting treatment is inappropriate and we believe investors should disregard the accounting gain when assessing the performance of the Group in 2008.

The second Accounting Adjustment relates to the treatment of the minority unitholders' interests in the Magellan Global Fund and the Magellan Infrastructure Fund which the Group is currently required to consolidate. Under the Accounting Standards unitholders interest in trusts are treated as a financial liability (akin to a debt) and not part of shareholders equity. Given the unit value of the Trusts have decreased during the reporting period the Group is required to record as a profit in the consolidated accounts the reduction in the value of the minority unitholders' interests in the trusts as it is deemed to be a financial liability. We believe that this accounting treatment is inappropriate as the change in the value of the minority unitholders' interests in the Trusts is not a gain or loss that accrues to shareholders in Magellan but rather to the individual minority unitholders in the Trusts. Again we believe that investors should disregard this accounting gain when assessing the performance of the Group in 2008. This accounting treatment will continue to affect the Group's accounts whilst the Trusts are majority owned.

ACQUISITION OF NEW PRIVATEER HOLDINGS LIMITED AND NPH FUNDS PTY LIMITED AND THE INTERNALISATION OF THE MANAGEMENT SERVICES AGREEMENT WITH NPH FUNDS PTY LIMITED

On 7 February 2008, the Company acquired control of New Privateer Holdings Limited ('New Privateer'), having relevant interests in at least 90% of the ordinary shares and relevant interests in at least 90% of the issued options of New Privateer. The Company compulsorily acquired the remaining shares and issued options in New Privateer on 20 March 2008. New Privateer owns 60% of the share capital of NPH Funds Pty Limited ('NPH Funds'). The Company acquired the remaining 40% interest of NPH Funds from a private investment company owned by Mr Douglass. The Company's shareholders approved the acquisitions of New Privateer and NPH Funds at a shareholders meeting on 29 January 2008.

As a consequence of these acquisitions, the Company internalised the Management Services Agreement (MSA) between itself and NPH Funds. The MSA was subsequently terminated on 27 June 2008. Further details of these acquisitions and internalisation of the MSA are included in notes 17 and 18 to this financial report.

DIVIDENDS AND DISTRIBUTIONS

No dividends have been declared by the Directors and none have been paid or are payable during the year and to the date of this report. In the prior year the Group paid a Company dividend of 5.39 cents (fully franked) and a Trust distribution of 1.61 cents for a total of 7.0 cents per stapled security.

CHANGES IN THE STATE OF AFFAIRS

There were significant changes in the state of affairs of the Group that occurred during the year. These changes have been disclosed in this report or the financial statements.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report or in the financial statements that has significantly 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.

LIKELY DEVELOPMENTS AND EXPECTED RESULT OF OPERATIONS

The Group will continue to pursue its financial objective which is to increase the profitability of the Company over time by increasing the value and performance of funds under management and by containing costs.

The methods of operating the Group are not expected to change in the foreseeable future.

ROUNDING OFF OF AMOUNTS

The Group 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 and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

ENVIRONMENTAL REGULATION

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

AUDITOR

Ernst & Young (the "Auditor") continues in office in accordance with section 307C of the *Corporation Act 2001*.

AUDIT AND NON-AUDIT SERVICES

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the period are set out below.

The Directors, in accordance with advice received from the Audit Committee, are satisfied that the provision of non-audit services during the period 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's independence requirements of the *Corporations Act 2001*.

	2008	2007
	$	$
Audit services:		
Auditors of the Company and its operating subsidiaries – Ernst & Young		
Audit and review of the annual financial report	112,800	112,412
Auditors of the controlled trusts - KPMG		
Audit and review of the annual financial report	14,000	-
	126,800	112,412
Other services:		
Auditors of the Company and its operating subsidiaries – Ernst & Young		
Other regulatory audit services (AFSL)	9,700	9,000
Auditors of the controlled trusts - KPMG		
Compliance plan audit	10,000	-
Tax compliance (tax returns)	43,230	-
Tax advice	39,169	-
	102,099	9,000

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

INFORMATION ON DIRECTORS

Hamish Douglass
Chairman and Executive Director, and member of the Audit and Risk Committee

Mr Douglass has more than 17 years experience in financial services and has advised on some of the largest corporate transactions in Australia. Mr Douglass was formerly the co-head of Global Banking at Deutsche Bank, Australasia. Mr Douglass is a Non-executive director of Magellan Flagship Fund Limited. Mr Douglass is a member of the Australian Takeovers Panel.

Chris Mackay
Deputy Chairman and Executive Director

Mr Mackay has considerable experience in business management, business assessment, capital allocation, risk management and investment. Mr Mackay is a Non-executive director of Magellan Flagship Fund Limited, and a Director of Consolidated Media Holdings Limited (formerly Publishing & Broadcasting Limited), and was previously a director of Crown Limited and New Privateer Holdings Limited. Mr Mackay retired as Chairman of UBS Australasia in March 2006, having previously been its Chief Executive Officer. Mr Mackay is a member of the Federal Treasurer's Financial Sector Advisory Council and a former member of the Business Council of Australia and Director of the International Banks & Securities Association.

Naomi Milgrom
Non-executive Director

Naomi Milgrom is the Executive Chair and CEO of Australia's largest speciality women's fashion retailer, the Sussan Group - comprising Sussan, Suzanne Grae and Sportsgirl. One of Australia's top business entrepreneurs, Ms Milgrom has combined business leadership with leadership in the arts, sciences and women's health, as Chair of the Australian Centre for Contemporary Art (ACCA), Chair of the Melbourne Fashion Festival, and Director of the Howard Florey Institute. Ms Milgrom was the first woman to deliver the Batman Oration on Australia Day 2006. The Centenary of Federation Medal was awarded to Ms Milgrom for her outstanding contribution to business and the fashion industry.

Paul Lewis
Non-executive Director and member of the Audit and Risk Committee

Mr Lewis 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. Mr Lewis led major assignments in financial services – retail banking, life insurance and stock exchanges - energy, manufacturing, telecommunications, rail, air, container shipping and government. Mr Lewis also served on senior advisory panels with ministerial representation in Hong Kong, Malaysia and Indonesia. Mr Lewis currently holds a number of senior advisory roles with British Telecom, namely, being on the Asia Pacific Advisory Board since 2003, the Global Advisory Board since 2005 and in senior advisory roles. He is a council member for the Australian British Chamber of Commerce.

Brett Cairns
Non-executive Director and Chairman of the Audit and Risk Committee

Mr Cairns is co-head of the Capital Markets Group within Structured Finance at Babcock & Brown, which he joined in 2002. Mr 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, Mr Cairns spent 3 years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group.

David Simpson
Company Secretary

Mr Simpson is the Company's General Counsel and Company Secretary. He is also the Company Secretary and General Counsel of Magellan Flagship Fund Limited and Magellan Asset Management Limited. Mr Simpson has over 20 years of experience as a corporate lawyer. He was a partner in Freshfields Bruckhaus Deringer ("Freshfields"), one of the world's largest law firms, and before that was a partner in one of Australia's leading law firms, Allen Allen & Hemsley (now Allens Arthur Robinson). From 1991 to 2004, Mr Simpson was based in Asia, in Indonesia and Singapore.

DIRECTORS' MEETINGS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2008 and attended by each Director.

	Board Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
	while a Director		while a member	
Hamish Douglass	4	4	3	3
Chris Mackay	4	4	n/a	n/a
Naomi Milgrom	4	3	n/a	n/a
Paul Lewis	4	4	3	3
Brett Cairns	4	4	3	3

REMUNERATION REPORT (AUDITED)

This report outlines the director and executive remuneration arrangements of the Company and Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel of the Group are defined as those persons having "authority and responsibility for planning, directing and controlling activities of the entity".

Remuneration of Non-executive Directors

The Executive Directors review and determine the remuneration of the Non-executive Directors and may utilise the services of external advisors. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-executive Directors. The remuneration of the Non-executive Directors is not linked to the performance of the Group.

Remuneration of Executive Directors and Key Management Personnel

The remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified executives in order to achieve the Group's objectives. Executive remuneration is a combination of fixed and variable remuneration that takes into account the executives experience, abilities and achievements.

The fixed compensation is structured as a total employment cost package, which the executive may elect to receive as a combination of cash, non-cash benefits and superannuation contributions. There are no guaranteed increases to the fixed remuneration, however it is reviewed annually to ensure that it is competitive and reasonable.

The variable compensation is performance related and is determined by the Board after consideration of Key Management Personnel skills and contributions to the achievement of the Group's objectives as measured by such indicators as the performance of the Group and the performance of the Magellan Flagship Fund Limited, the Magellan Global Fund and the Magellan Infrastructure Fund, as appropriate.

The Directors do not consider it appropriate to assess Key Management Personnel performance solely against short term indicators. A focus on short term indicators may encourage performance that is not in the best interests of the Group and its shareholders. The Directors are more concerned that the Key Management Personnel are motivated to build shareholder wealth over the long term.

Share Purchase Plan
The Group has put in place a Share Purchase Plan (the 'Plan') for its employees and Non-executive Directors (Participants'). The Plan will provide 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.

Employees will be invited to apply for a specified number of fully paid ordinary shares in the Company once a year. The number of Company shares that may be offered is limited to:

(a) shares with a market value equal to a multiple of one times the employee's after-tax bonus for the financial year (ending 30 June) prior to the financial year in which the subsequent offer is made;

(b) such further number of shares as requested and approved by the Board, subject to:

(i) 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

(ii) 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:

(c) 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 initially offer additional shares to the new employee; and

(d) the aggregate maximum number of shares issued under each subsequent 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 will 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 will be the fair market value of the shares at the offer date. This will ordinarily be calculated using the volume weighted average price of traded shares in the 5 business days prior to the offer date.

Participants will be required to pay an amount equal to 25% of the issue price at the time of issue. The remaining 75% of the issue price will be funded by way of a full recourse interest free loan from the Company.

Participants will be required to apply 25% of their after tax annual 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. Employees will not be entitled to repay their loan early.

Participating Non-executive Directors will be required to repay the loan on the fifth anniversary of the date of issue of their shares. Participating Non-executive Directors will be entitled to repay their loan early.

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

Dividends will be payable on the shares issued under the Plan on the same basis as all other issued fully paid ordinary shares, and will be applied to repay the loan until the loan has been fully repaid.

The shares issued under the Plan will have the same rights to participate in any entitlements or bonus issues and will otherwise rank equally with all other issued ordinary shares.

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

a) 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

b) 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:

a) 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 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

b) require the shares issued under the Plan to be bought back or sold by the Company and must pay to the Company the balance (if any) of the total amount outstanding under the loan after the application of the proceeds of sale.

Directors' fees
The Non-executive and Executive Directors' base remuneration is reviewed annually.

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

Details of Remuneration
The Non-executive Directors of the Company were remunerated by the Company and received the following amounts during the year:

	Short term Benefits	Post-employment Benefits	Share based payment	
Non-executive Directors	**Salary**	**Superannuation**	**Under SPP(1)**	**Total**
	$	**$**	**$**	**$**
Naomi Milgrom	18,349	1,651	-	20,000
Paul Lewis	20,000	-	71,657	91,657
Brett Cairns	20,000	-	71,657	91,657

(1) Share based payments represent the cost of providing interest free loans to Participants in the Share Purchase Plan (see Directors Report – Remuneration Report – Share Purchase Plan)

The Key Management Personnel of the Company, including the Executive Directors, were remunerated by Magellan Asset Management Limited, a controlled entity, and received the following amounts during the year:

	Short Term Benefits		Post Employment Benefits	Share based Payments	Total
Key Management Personnel (including Executive Directors)	Salary $	Cash Bonus $	Superannuation $	Under SPP(1) $	$
Hamish Douglass * Chairman and Executive Director	78,957	-	5,059	-	84,016
Chris Mackay * Deputy Chairman and Executive Director	78,957	-	5,059	-	84,016
N Campbell Chief Financial Officer and Chief Operating Officer	199,871	220,000	13,129	1,031	434,031
D Simpson (appointed 10 November 2007) General Counsel and Company Secretary	199,871	140,000	13,129	8,011	361,011
D Barkas (appointed 23 April 2007) Group Financial Controller	166,871	70,000	13,129	-	250,000

* the Executive Directors received remuneration from 1 March 2008
(1) Share based payments represent the cost of providing interest free loans to Participants in the Share Purchase Plan (see Directors Report – Remuneration Report – Share Purchase Plan)

No amounts were paid to Non-executive Directors, Executive Directors or other Key Management Personnel during the year in respect of other long-term benefits, termination benefits or share based payments.

Service Agreements
Remuneration and other terms of employment for the Non-executive Directors are formalised in service agreements.

Employment Agreements
The Executive Directors (Messrs Douglass and Mackay), Key Management Personnel and all other employees have employment agreements.

The Executive Directors are employed under employment contracts with the following key terms.

The Chairman, Mr. Douglass, is employed under a contract which commenced on 22 May 2008 and which will continue indefinitely until terminated. Under the terms of the contract:

- Mr. Douglass receives fixed remuneration of $250,000 per annum, inclusive of superannuation.

- Mr. Douglass is not entitled to a bonus for the financial years ending 30 June 2008 and 30 June 2009. For subsequent financial years, Mr. Douglass may receive a bonus, at the discretion of the Board.

- Mr. Douglass has undertaken to the Company that for the period up to and including 1 July 2012 he will not, within Australia and New Zealand, invest in a business of funds management other than an investment in a Magellan entity. The restrictions will cease to apply prior to 1 July 2012 if a third party acquires control of the Company or the Company terminates the employment contract. The restrictions do not apply in respect of any investment in:

  (a) shares in a company; or
  (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.

- Mr. Douglass may terminate the contract at anytime by giving not less than 3 months written notice to the Company and the Company may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.

- The Company may terminate the contract at anytime without notice if serious misconduct has occurred. Where the contract is terminated for cause, the Company must pay Mr. Douglass any accrued but unpaid amounts to which he is entitled after setting off for misfeasance for any loss suffered by the Company from the acts which caused the termination.

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. Mr. Douglass' Class B shares will convert into only one MFG ordinary share on the first business day after 21 November 2016 if, before 1 July 2012, he ceases to be a director or employee of MFG, or a subsidiary of MFG (other than through death or incapacity) or his employment has been terminated for cause.

Mr. Mackay is employed under a contract which commenced on 22 May 2008 and which will continue indefinitely until terminated. Under the terms of the contract:

- Mr. Mackay receives fixed remuneration of $250,000 per annum, inclusive of superannuation.

- Mr. Mackay is not entitled to a bonus for the financial years ending 30 June 2008 and 30 June 2009. For subsequent financial years, Mr. Mackay may receive a bonus, at the discretion of the Board.

- Mr. Mackay has undertaken to the Company that for the period up to and including 1 July 2012 he will not, within Australia and New Zealand, invest in a business of funds management other than an investment in a Magellan entity. The restrictions will cease to apply prior to 1 July 2012 if a third party acquires control of the Company or the Company terminates the employment contract. The restrictions do not apply in respect of any investment in:

  (a) shares in a company; or
  (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.

- Mr. Mackay may terminate the contract at anytime by giving not less than 3 months written notice to the Company and the Company may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.

- The Company may terminate the contract at anytime without notice if serious misconduct has occurred. Where the contract is terminated for cause, the Company must pay Mr. Mackay any accrued but unpaid amounts to which he is entitled after setting off for misfeasance for any loss suffered by the Company from the acts which caused the termination

Key Management Personnel and other executives have rolling contracts. The Group may terminate the executive's employment agreement by providing three months written notice. On termination, the executive must repay any loan amounts outstanding in respect to shares acquired under the Share Purchase Plan in accordance with the plan terms and conditions. There are no provisions for any termination payments other than for unpaid remuneration and accrued annual leave.

DIRECTORS' INTERESTS IN CONTRACTS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Group has paid premiums to insure each of its Directors and Officers in office against liabilities for costs and expenses incurred by them 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.

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

Hamish Douglass
Chairman
Sydney
22 September 2008

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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 2008, 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

Ernst & Young

R Da Silva

Rita Da Silva
Partner
17 September 2008

CORPORATE GOVERNANCE STATEMENT

Magellan Financial Group Limited (the "Company") is a listed company whose shares are traded on the Australian Securities Exchange (ASX). The Board recognises the importance of good corporate governance. The Company's corporate governance framework, policies and practices are designed to ensure the effective management and operation of the Company, and will remain under regular review.

1. THE BOARD

1.1 The Board of Directors

H. Douglass (Chair)
N. Milgrom
P. Lewis
B. Cairns
C. Mackay

The Board is responsible for the overall operation and stewardship of the Company and is responsible for its overall success and long-term growth and corporate governance. The Board will act in the best interests of the Company to ensure the business of the Company is properly managed.

1.2 Board Composition and Independence

There must be a minimum of three Directors and a maximum of ten Directors. The Board has a majority of independent Non-executive Directors.

The Board comprises:

- Directors with an appropriate range of skills, experience and expertise; and
- Directors who can understand and competently deal with current and emerging business issues.

The Board currently comprises five Directors, three of whom are Independent Non-executive Directors.

A Director must retire from office no later than the longer of the third annual general meeting of the Company or three years following that Director's last election or appointment.

An independent Non-executive Director is a Non-executive Director who is independent of the Company and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

The Board is confident that each of the Directors will bring skills and qualifications to the Company which will enable them to effectively discharge their individual and collective responsibilities as Directors of the Company.

The Board considers that the number of Directors is sufficient to enable it to effectively discharge its responsibilities. However, the composition of the Board will be reviewed periodically and its independence, and that of the individual Directors, will be assessed as part of those reviews.

1.3 The Role of the Board and Delegation

The Company's corporate governance policies revolve around a Charter the purpose of which is to:

- promote high standards of corporate governance;
- clarify the role and responsibilities of the Board; and
- enable the Board to provide strategic guidance for the Company and effective operational oversight.

The Charter will apply subject to applicable legal and regulatory requirements, including duties and obligations imposed on the directors by statute and general law. The Board may review and amend the Charter at any time.

The Board is responsible for:

- approving the appointment and removal of the Chairman and the Company Secretary;
- assessing the Company's overall performance;
- establishing committees of the Board and, in relation to each committee, appointing the members and the Chairman, setting committee charters and delegating authority to relevant committees;
- subject to the law and the Company's Constitution, determining the remuneration of the Non-executive directors (including the members of all committees of the Board);
- nominating candidates for election to the Board by shareholders;
- reporting to shareholders;
- reviewing and having input into overall target portfolio composition;
- recommending to shareholders any increase or decrease in the share capital of the Company;
- issuing, allotting, granting options over, offering or otherwise dealing with or disposing of unissued shares in the capital of the Company or rights to subscribe for or convert any security into shares in the capital of the Company in accordance with the Company's Constitution. The Directors, however, will not, in the absence of extraordinary circumstances, do so without the approval of the Company's shareholders obtained in general meeting, unless such issue, allotment, grant of offer is made pro-rata to all of the Company's shareholders;
- making calls in respect of any money unpaid on shares and forfeiting or accepting surrender of shares in accordance with the Company's Constitution;
- approving an appropriate debt/equity ratio limit for the Company;
- approving material funding facilities for the Company;
- approving by the end of June of each year an operating budget for the Company, for the financial year ahead;
- approving the transfer or transmission of shares in accordance with the Company's Constitution, provided that such power may be delegated to a share registrar;
- approving the financial markets on which the Company's securities, including its shares, will be listed;
- approving any notifications to the relevant exchanges for listings, suspensions, de-listings or re-listings;
- declaring the amount of profits available for payment of dividends, to fix the amount of a dividend to be recommended to shareholders, and to declare and make arrangements for the payment of interim dividends in accordance with the Company's Constitution;
- approving the establishment of a dividend re-investment plan;
- approving the giving of guarantees and letters of comfort by the Company;
- approving any security, mortgage or other pledge given over any of the Company's assets or revenues;
- approving the Company's annual financial statements and reports to shareholders;
- approving the Company's half year financial statements and reports to shareholders;
- authorising charitable contributions by the Company;
- continuing the Board policy that the Company does not make donations to any political parties;
- reporting as appropriate, that the business is a going concern, with supporting assumptions or qualifications as necessary;
- on advice from the Audit & Risk Committee of the Board, approving the Company's accounting policies;
- approving the appointment and removal of the external auditors of the Company;
- considering and, if appropriate, accepting external audit reports, including management letters;
- reviewing any recommendation from the Audit & Risk Committee of the Board arising from internal audit reports;
- reviewing reports and appraisals from the Audit & Risk Committee of the Board on market and operational controls;
- reviewing and overseeing the implementation of a Code of Conduct;
- monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies;

- monitoring and ensuring compliance with best practice corporate governance requirements;
- ensuring the risk management systems, including internal controls, operating systems and compliance processes, are operating efficiently and effectively;
- convening meetings of shareholders (including the annual general meeting) and exercising all other powers relating to shareholders' meetings given to directors in the Company's Constitution;
- approving all resolutions being put and matters concerned with a notice of general meeting or annual general meeting;
- approving the Company's Continuous Disclosure Policy and monitoring compliance with this policy;
- approving the establishment of overseas branch registers of the Company;
- approving any material related party transaction and any transaction that any Director would directly benefit from; and
- approving any material conflict of interest that the Company or a Director may have prior to relevant transactions being entered into.

Subject to legal or regulatory requirement and the Company's Constitution, the Board may delegate any of the above powers to individual Directors, or committees of the Board. Any such delegation shall be in compliance with the law and the Company's Constitution.

1.4 Non-executive Directors' Remuneration Structure

For the year ended 30 June 2008 the Non-executive Directors' fees are in each case $20,000 per annum plus reimbursement of expenses such as travelling expenses. From 1 July 2008 the Non-executive Directors fees are:

- $10,000 as a Non-executive Director of MFG;
- $5,000 as a member of the audit committee;
- $5,000 as a director of Magellan Asset Management Limited

Two of the Non-executive Directors were entitled to participate in the Company's Share Purchase Plan. The terms and conditions of the Share Purchase Plan are described in the Directors Report – Share Purchase Plan. Details of each Non-executive Directors participation in the Share Purchase Plan is disclosed in the Directors Report – Remuneration Report – Share Purchase Plan.

2.0 BOARD COMMITTEES

The Board may from time to time establish committees to assist it in the discharge of its responsibilities. To date, the Board has only found a need to establish the Audit & Risk Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors. The Board expects that, over time, the Directors will rotate on and off various committees. Committee members will be appointed for a three year term of office with staggered anniversary dates. A Nomination and Remuneration Committee is not required given the size and nature of the Company.

Performance of all committee members will be reviewed periodically by the Board.

2.1 Audit & Risk Committee

The Audit & Risk Committee must comprise:

- at least three Directors; and
- a majority of Independent Directors.

The Chairman of the Audit & Risk Committee is an Independent Non-executive Director and is not the Chairman of the Board.

The objective of the Audit & Risk Committee is to assist the Board to discharge its responsibilities in relation to:

- effective management of financial and operational risks;
- compliance with laws and regulations;
- accurate management and financial reporting;
- maintenance of an effective and efficient audit; and
- high standards of business ethics and corporate governance.

The Audit & Risk Committee will endeavour to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process;
- promote a culture of compliance within the Company;
- ensure effective communication between the Board and the Company's senior financial and compliance management;
- ensure effective audit functions and communications between the Board and the Company's auditor;
- ensure that compliance strategies and compliance functions are effective; and
- ensure that Directors are provided with financial and non-financial information that is of high quality and relevant to the judgments to be made by them.

3. KEY POLICIES AND PROCEDURES

The Company acts in accordance with the following policies and procedures:

3.1 Continuous Disclosure Policy

The Company is committed to complying with its continuous disclosure obligations under the *Corporations Act 2001* and the Listing Rules and releasing relevant information to the market and shareholders in a timely and direct manner and to promoting investor confidence in the Company and its securities.

The Company:

- as a minimum complies with its continuous disclosure obligations under the *Corporations Act 2001* and the ASX Listing Rules;
- provides shareholders and the market with timely, direct and equal access to information issued by it; and
- ensures that information which is not generally available and which may have a material effect on the price or value of the Company securities (price sensitive information), is identified and appropriately considered by the Directors and senior executives for disclosure to the market.

The Company adheres to procedures which must be followed in relation to releasing announcements to the market and discussions with analysts, the media or shareholders.

The Company's market announcements will also be available on its website (www.magellangroup.com.au) after they are released to ASX.

3.2 Trading Policy

All Directors and employees of the Company may deal in:

- the Company's securities, which includes any shares in the Company, debentures (including convertible notes) issued by the Company, units of shares in the Company and options to acquire or subscribe for shares in the Company; and
- other financial products, which includes any shares, options, derivatives (including market index derivatives), debentures any other financial product able to be traded of any company, trust or other organisation, local domestic and international, in which the Company invests or proposes to invest,

with the objective that no Director or employee will contravene the requirements of the Corporations Act 2001, the ASX Listing Rules or any other applicable law.

This is designed to protect the reputation of the Company and to ensure that such reputation is maintained or perceived to be maintained by persons external to the Company.

An overriding principle is that the Directors and employees who possess non-public price sensitive information must not deal in the Company's securities.

3.3 Conflicts of Interest Policy

A 'conflict of interest' may arise where the Company makes internal decisions that may materially impact shareholders or other stakeholders. The Company takes conflicts seriously, as they have the potential to impact adversely on the Company's business, its obligations under the law, its ethical standards and its reputation.

The Company is committed to maintaining high moral and business ethics and ensuring that the conduct of all of its officers is exemplary, at all times. The Company sets itself high standards, and has implemented policies and procedures to achieve its aim.

The Company:

- addresses and resolves conflicts of interest as necessary precursor to the maintenance of the Company's ethics;
- wants to ensure that the quality of its business is not compromised by conflicts of interest;
- wants to ensure that adequate conflicts of interest management procedures are in place to minimise any adverse impact on shareholders and other stakeholders.

3.4 Related Party Transaction Policy

The Company has established a protocol for officers of the Company in negotiating and entering into transactions between the Company and related parties. This is directed at ensuring compliance with the law and the ASX Listing Rules when contracting with parties which are related parties of the Company. Procedures are followed when negotiating and entering into arrangements between the Company and related parties, aimed at ensuring that at all times the best interests of the Company are paramount without regard to the interests of related parties.

4.0 CORPORATE REPORTING

In respect of the year ending 30 June 2008 the Chairman and Chief Financial Officer have certified to the Board that:

- the financial records of the Company for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001 (Act);
- the financial statements and notes referred to in paragraph 295(3)(b) of the Act for the financial period comply with the accounting standards;
- the financial statements and notes, including the additional disclosures relating the AASB 132 Financial Instruments: Presentation Accounting Adjustment for the financial period give a true and fair view (as per section 297 of the Act);
- any other matters that are prescribed by the Corporations Regulations 2001 in relation to the financial statements and the notes for the financial period are satisfied;
- the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated		Parent	
		2008	2007	2008	2007
	Note	$ '000	$ '000	$ '000	$ '000
Revenue					
Management fee revenue	3	4,261	2,568	-	-
Interest income		4,219	1,866	3,042	1,713
Dividend income		630	-	544	-
Changes in the fair value of financial assets	4 (a)	(3,372)	2,493	(1,821)	-
Net gains / (losses) on sale of financial assets	4 (b)	247	-	218	(59)
Other revenue		544	148	(43)	89
Total revenue		6,529	7,075	1,940	1,743
Expenses					
Employee benefits expense		8,384	5,622	-	-
Depreciation and amortisation		78	36	-	-
Loss on disposal of property, plant and equipment		66	-	-	-
Rental expense		514	208	-	-
Audit fees		147	121	86	77
Legal and professional fees		148	320	30	130
Management fee expense		606	1,678	597	1,678
Finance costs		21	-	1	-
Other operating expenses		1,649	1,172	587	329
Total expenses		11,613	9,157	1,301	2,214
Operating (loss) / profit before significant items and income tax		(5,084)	(2,082)	639	(471)
Income tax benefit / (expense)	5 (a)	1,182	937	(266)	141
Net operating (loss) / profit before significant items		(3,902)	(1,145)	373	(330)
Significant items:					
Amounts attributable to external unitholders	6	2,199	-	-	-
Writedown of goodwill	18	(18,644)	-	-	-
AASB 132 Accounting Adjustment[1]	2(q)	26,550	4,681	26,550	4,681
Income tax expense on significant items		-	-	-	-
Net profit before minority interests		6,203	3,536	26,923	4,351
Deduct net profit / (loss) attributable to minority interests:					
- Magellan Financial Group Trust		-	471	-	-
- External minority interests		-	549	-	-
Net profit / (loss) attributable to members of the parent		**6,203**	**2,516**	**26,923**	**4,351**

[1] As explained in note 2(q), the AASB 132 Adjustment arises from the requirement to recognise one element of the capital structure of the Company as a financial liability rather than as an equity instrument and to recognise changes in the fair value of this financial liability in the Income Statement.

		Consolidated	
		2008	2007
	Note	$ '000	$ '000
Net profit attributable to members of the parent represented by:			
- Magellan Financial Group Limited		6,203	2,516
- Magellan Financial Group Trust		-	471
		6,203	**2,987**

<u>Earnings per security</u>

Earnings attributable to securities			
Basic earnings per security	7	**5.0 cents**	**5.2 cents**
Diluted (loss) /earnings per security	7	**(15.7 cents)**	**(2.6 cents)**

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

BALANCE SHEET

AS AT 30 JUNE 2008

		Consolidated		Parent	
		2008	2007	2008	2007
	Note	$ '000	$ '000	$ '000	$ '000
Assets					
Current assets					
Cash and cash equivalents	9	53,363	74,408	33,288	67,515
Financial assets	11 (a)	3,200	405	1,978	-
Trade and other receivables	10	1,248	1,982	1,006	413
Loans under share plan scheme (SPP)	12	203	-	203	-
Prepayments		241	64	17	5
Total current assets		**58,255**	**76,859**	**36,492**	**67,933**
Non-current assets					
Financial assets	11 (b)	47,367	24,772	102,567	32,772
Deferred tax asset	5 (d)	8,740	2,594	8,300	1,422
Loans under share plan scheme (SPP)	12	3,840	-	3,840	-
Loan to controlled entity	20 (c)	-	-	1,150	1,150
Property, plant and equipment	13	511	408	-	-
Total non-current assets		**60,458**	**27,774**	**115,857**	**35,344**
Total assets		**118,713**	**104,633**	**152,349**	**103,277**
Liabilities					
Current liabilities					
Trade and other payables	14	4,745	5,151	23,337	1,063
External unitholders' interests in controlled trusts		10,731	-	-	-
AASB 132 Accounting Adjustment	2 (q)	1,327	-	1,327	-
Tax liabilities		43	-	-	-
Total current liabilities		**16,846**	**5,151**	**24,664**	**1,063**
Non-current					
AASB 132 Accounting Adjustment	2 (q)	-	30,033	-	30,033
Total non-current liabilities		**-**	**30,033**	**-**	**30,033**
Total liabilities		**16,846**	**35,184**	**24,664**	**31,096**
Net assets		**101,867**	**69,449**	**127,685**	**72,181**

		Consolidated		Parent	
		2008	2007	2008	2007
	Note	$ '000	$ '000	$ '000	$ '000
Equity					
Issued securities		139,315	103,080	139,690	103,080
AASB 132 Accounting Adjustment	2 (q)	(32,558)	(34,715)	(32,558)	(34,715)
Contributed equity	16	106,757	68,365	107,132	68,365
Available for sale reserve		(13,380)	(1,203)	(11,389)	(1,203)
Retained profit		8,490	2,287	31,942	5,019
Total attributable to members of the Group		**101,867**	**69,449**	**127,685**	**72,181**
Total equity		**101,867**	**69,449**	**127,685**	**72,181**

The Balance Sheet is to be read in conjunction with the accompanying notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Attributable to Equity Holders of the Group			
For the year ended 30 June 2008	**Contributed Equity**	**Retained Profits / (Accumulated Losses)**	**Available for Sale Reserve**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Equity as at beginning of year	**68,365**	**2,287**	**(1,203)**	**69,449**
Revaluation of available for sale financial assets	-	-	(18,613)	(18,613)
Transfer of realised gains to income	-	-	(194)	(194)
Impairment loss on available for sale financial asset	-	-	2,244	2,244
Transaction costs associated with the issue of securities	(123)	-	-	(123)
Income tax on items taken directly to or transferred from equity	36	-	4,386	4,422
Total income and expenses for the year recognised directly in equity	**(87)**	**-**	**(12,177)**	**(12,264)**
Net profit for year		6,203	-	6,203
Total (expense) / income for year	**(87)**	**6,203**	**(12,177)**	**(6,061)**
Issue of securities:				
- as consideration for acquisition of controlled entities	47,610	-	-	47,610
- under employee share scheme (SPP)	6,347	-	-	6,347
- on exercise of MFG 2009 Options	8	-	-	8
SPP expense for the period	335	-	-	335
Buyback and cancellation of shares and options held by controlled entities (note 16)	(17,978)	-	-	(17,978)
AASB 132 Adjustment:				
- on cancellation of MFG 2009 Options	2,155	-	-	2,155
- on exercise of MFG 2009 Options	2	-	-	2
Total transactions with equity holders in their capacity as equity owners	**38,479**	**-**	**-**	**38,479**
Equity as at end of year	**106,757**	**8,490**	**(13,380)**	**101,867**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	Attributable to Equity Holders of the Group					
	Contributed Equity	Retained Profits / (Accumulated Losses)	Available for Sale Reserve	Total	Minority Interests	Total Equity
For the year ended 30 June 2007	$'000	$'000	$'000	$'000	$'000	$'000
Equity as at beginning of year	**28,163**	**1,348**	**(374)**	**29,137**	**5,920**	**35,057**
Net gains realised on disposal of available for sale financial assets	-	-	374	374	(700)	(326)
Net impact of disposal of controlling interest	-	-	-	-	(6,701)	(6,701)
Revaluation of available for sale financial assets	-	-	(1,719)	(1,719)	-	(1,719)
Tax assets arising on revaluation of available for sale financial assets	**-**	-	**516**	**516**	**-**	**516**
Transaction costs associated with the issue of securities	(1,749)	-	-	(1,749)	-	(1,749)
Tax assets arising on transaction costs associated with the issue of securities	525	-	-	525	-	525
Total income and expenses for the year recognised directly in equity	(1,224)	-	(829)	(2,053)	(7,401)	(9,454)
Net profit for year	**-**	**2,516**	**-**	**2,516**	**1,020**	**3,536**
Total (expense) / income for year	(1,224)	2,516	(829)	463	(6,381)	(5,918)
Issue of securities	76,141	-	-	76,141	-	76,141
AASB 132 Accounting Adjustment	(34,715)	-	-	(34,715)	-	(34,715)
Dividends and distributions paid	-	(1,577)	-	(1,577)	(471)	(2,048)
Equity issued to minority interests	-	-	-	-	911	911
Other	-	-	-	-	21	21
Total transactions with equity holders in their capacity as equity owners	**41,426**	**(1,577)**	**-**	**39,849**	**461**	**40,310**
Equity as at end of year	**68,365**	**2,287**	**(1,203)**	**69,449**	**-**	**69,449**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Attributable to Equity Holders of the Parent			
For the year ended 30 June 2008	Contributed Equity	Retained Profits / (Accumulated Losses)	Available for Sale Reserve	Total
	$'000	$'000	$'000	$'000
Equity as at beginning of year	**68,365**	**5,019**	**(1,203)**	**72,181**
Revaluation of available for sale financial assets	-	-	(16,289)	(16,289)
Transfer of realised gains to income	-	-	1,144	144
Transfer of realised gains to income	-	-	1,144	144
Transaction costs associated with the issue of securities	(123)	-	-	(123)
Income tax on items taken directly to or transferred from equity	36	-	4,333	4,369
Total income and expenses for the year recognised directly in equity	**(87)**	**-**	**(10,186)**	**(10,273)**
Net profit for year	-	26,923	-	26,923
Total income / (expense) for year	**(87)**	**26,923**	**(10,186)**	**16,650**
Issue of securities				
- as consideration for acquisition of controlled entities	47,610	-	-	47,610
- under employee share scheme (SPP)	6,347	-	-	6,347
- on exercise of MFG 2009 Options	8	-	-	8
SPP expense for the period	335	-	-	335
Buyback and cancellation of shares and options held by controlled entities (note 16)	(17,603)	-	-	(17,603)
AASB 132 Adjustment				
- on cancellation of MFG 2009 Options	2,155	-	-	2,155
- on exercise of MFG 2009 Options	2	-	-	2
Total transactions with equity holders in their capacity as equity owners	**38,854**	**-**	**-**	**38,854**
Equity as at end of year	**107,132**	**31,942**	**(11,389)**	**127,685**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	Attributable to Equity Holders of the Parent			
For the year ended 30 June 2007	Contributed Equity	Retained Profits / (Accumulated Losses)	Available for Sale Reserve	Total
	$'000	$'000	$'000	$'000
Equity as at beginning of year	**28,163**	**2,245**	**(1,251)**	**29,157**
Net gains realised on disposal of available for sale financial assets	-	-	1,251)	1,251
Revaluation of available for sale financial assets	-	-	(1,719)	(1,719)
Tax assets arising on revaluation of available for sale financial assets	-	-	516	516
Transaction costs associated with the issue of securities	(1,749)	-	-	(1,749)
Tax assets arising on transaction costs associated with the issue of securities	525	-	-	525
Total income and expenses for the year recognised directly in equity	**(1,224)**	**-**	**48**	**(1,176)**
Net profit for year	-	4,351	-	4,351
Total (expense) / income for year	**(1,224)**	**4,351**	**48**	**3,175**
Issue of securities	76,141	-	-	76,141
AASB 132 Accounting Adjustment	(34,715)	-	-	(34,715)
Dividends and distributions paid	-	(1,577)	-	(1,577)
Total transactions with equity holders in their capacity as equity owners	**41,426**	**(1,577)**	**-**	**39,849**
Equity as at end of year	**68,365**	**5,019**	**(1,203)**	**72,181**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $ '000	Consolidated 2007 $ '000	Parent 2008 $ '000	Parent 2007 $ '000
Cash flows from operating activities					
Receipt of fee income		4,585	1,686	-	120
Interest received		4,311	1,460	3,201	1,303
Proceeds from sale of held-for-trading financial assets		998	25,232	-	-
Purchases of held-for-trading financial assets		-	(944)	-	-
Other revenue received		455	-	(43)	-
Dividends received		392	-	37	-
Tax paid		(440)	(675)	-	(675)
Administration and general expenses paid		(12,050)	(3,939)	(1,830)	(1,115)
Net cash inflows / (outflows) from operating activities	15 (a)	(1,749)	22,820	1,365	(367)
Cash flows from investing activities					
Proceeds from sale of available for sale financial assets		4,971	11,062	2,168	29,140
Purchases of available for sale financial assets		(38,818)	(26,732)	(9,488)	(34,491)
Loan advanced to controlled entity		-	-	(7,246)	(1,150)
Purchases of shares and units in controlled entities		-	-	(24,500)	-
Transaction costs paid in acquiring controlled entities		(770)	-	(770)	-
Net cash inflow on acquisition of controlled entity	17	7,003	697	-	-
Cash attributable to minority interests					
on disposal of controlled entity		-	(6,424)	-	-
Loan repayment to related party		-	(1,150)	-	-
Proceeds from foreign exchange contracts		99	-	-	-
Proceeds from sale of plant and equipment		325	-	-	
Purchase of plant and equipment		(244)	(719)	-	-
Net cash (outflows)/ inflows from investing activities		(27,434)	(23,266)	(39,836)	(6,501)

		Consolidated		Parent	
		2008	2007	2008	2007
	Note	$ '000	$ '000	$ '000	$ '000
Cash flows from financing activities					
Proceeds from issue of securities and units	16	16,718	77,051	2,064	76,140
Payments for redemption of units		(1,382)	-	-	-
Borrowings from controlled entities		-	-	2,304	-
Payment of costs on issue of securities	16	(123)	(1,749)	(123)	(1,749)
Repayment of loans		(7,000)	(13)	-	-
Interest paid		(56)	(22)	(1)	-
Dividends and distributions paid		-	(2,051)	-	(1,577)
Net cash inflows / (outflows) from financing activities		**8,157**	**73,216**	**4,244**	**72,814**
Net increase / (decrease) in cash and cash equivalents		(21,026)	72,770	(34,227)	65,946
Effects of exchange rate movements		(19)	-	-	-
Cash and cash equivalents at the beginning of the year		74,408	1,638	67,515	1,569
Cash and cash equivalents at the end of the year		**53,363**	**74,408**	**33,288**	**67,515**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

1. CORPORATE INFORMATION

Magellan Financial Group Limited (the "Company") is a company limited by shares and incorporated in Australia. The shares of the Company are publicly traded on the Australian Securities Exchange (ASX).

Prior to 22 March 2007, the Company was party to an agreement to staple its shares to units in the Magellan Financial Group Trust (the "Trust"). The shares of the Company and the units of the Trust were jointly quoted on the ASX. The Constitutions of the Company and the Trust deemed that, as long as the two entities remained jointly quoted, the number of shares in the Company and the number of units in the Trust would be equal in number, and that the shareholders of the Company and the unitholders in the Trust would be identical.

On 22 March 2007, shareholders of the Company and unitholders in the Trust voted to amend the Constitutions of the Company and the Trust respectively to terminate the stapling agreement. From 22 March 2007, shares in the Company remained listed on the ASX as individual securities and units in the Trust were de-listed. The Trust was subsequently wound up on 29 June 2007. The net assets of the Trust at the date of the de-stapling were nil.

On 7 February 2008, the Company acquired control of New Privateer Holdings Limited ('New Privateer'), an ASX listed company, having relevant interests in at least 90% of the ordinary shares and relevant interests in at least 90% of the issued options of New Privateer. The Company compulsorily acquired the remaining shares in New Privateer on 20 March 2008. New Privateer owns 60% of the share capital of NPH Funds Pty Limited ('NPH Funds'). The Company acquired the remaining 40% interest of NPH Funds from a private investment company controlled by Mr Douglass. The Company's shareholders approved the acquisitions of New Privateer and NPH Funds at a shareholders meeting on 29 January 2008. As a consequence of these acquisitions, the Company internalised the Management Services Agreement between itself and NPH Funds.

New Privateer was de-listed on 28 February 2008, and was made a proprietary company on 29 May 2008.

The nature of the operations and the principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Report is a general purpose Financial Report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

(a) Basis of Preparation
The principal accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

These financial statements have been prepared under the historical cost convention, except for financial assets, which have been measured at fair value.

Comparative information in respect of the previous period has been re-classified where this assists in the understanding of the current period's Financial Report.

The Financial Report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

(b) Compliance with IFRS

The Financial Report complies with Australian Accounting Standards (AAS) and International Financial Reporting Standards (IFRS).

The preparation of the financial statements in conformity with AAS and IFRS requires the use of certain critical accounting estimates and judgements, which are included below.

(c) New Standards Not Yet Adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group in the preparation of this Financial Report. The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application.

- AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB* 8 may impact the Group in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing these financial statements. The impact of early adoption of this standard would be to remove disclosures previously presented under AASB 114 Segment Reporting. AASB 8 is effective for annual reporting periods beginning on or after 1 January 2009.

- Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* is applicable to annual reporting period beginning on or after 1 January 2009. The Group has not adopted this standard early. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements. If the Group makes a prior period adjustment or re-classifies items in the financial statement, it will need to disclose a third balance sheet (statement of financial position), this one being at the beginning of the comparative period.

- AASB 132 *Financial Instruments: Presentation* and AASB 2008-2 *Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation* (Revised AASB 132). Revised AASB 132 is applicable for reporting periods beginning on or after 1 January 2009. The Group has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements as the units issued by the controlled unlisted trusts are not sub-ordinate to all other capital issued by the Group. The trusts' units will continue to be classified as debt instruments with the consolidated Group accounts irrespective of their classification in the individual financial reports of the trusts.

(d) Basis of Consolidation

The combined Financial Report of the Group comprises the consolidated financial reports of the Company and its controlled entities and the Trust which were jointly quoted on the ASX until 22 March 2007 (refer note 1).

As a result, in the prior year the Company applied AASB 127: Consolidated and Separate Financial Statements and AASB Interpretation 1002: Post-Date-of-Transition Stapling Arrangements in the preparation of its Financial Report. The parent company in this arrangement was the Company, which consolidated the Trust. The results of the Trust in the prior year were included up to the date of de-stapling. In accordance with AASB Interpretation 1002, in the prior year the results of the Trust and the interests of unitholders in the net assets and equity of the consolidated group have been disclosed as a minority interest.

In addition to the Trust, other controlled entities included within the consolidated financial report are:

	Ownership %	
	30 June 2008	30 June 2007
Magellan Asset Management Ltd^	100.0	100.0
Magellan Global Fund	56.2	-
Magellan Infrastructure Fund	75.2	-
New Privateer Holdings Pty Ltd*	100.0	-
NPH Funds Pty Ltd	100.0	-

^ became a public company on 27 March 2007
* became a proprietary company on 29 May 2008

The Company's controlling interest in Magellan Global Fund and Magellan Infrastructure Fund was acquired on 1 July 2007. The controlling interest in New Privateer Holdings Pty Limited ('New Privateer') and NPH Funds Pty Limited ('NPH Funds') was acquired on 7 February 2008. The results of these entities have been included from the date control was acquired. All controlled entities have a 30 June financial year end.

The external untiholders interests in units of the Magellan Global Fund and Magellan Infrastructure Fund are classified as a financial liability, and the profit or loss which has accrued to the units during the period have been accounted for as an income or expense and presented in the Income Statement as amounts attributable to unitholders.

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

Acquisitions have been accounted for using the purchase method of accounting, which involves allocating the cost of the business combination to the fair value of assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority equity interests in the equity and the results of the entities that are controlled are shown as a separate item in the consolidated Financial Report.

(e) 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 plus costs directly attributable to the combination. 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 is their theoretical fair value determined using a Black – Scholes option pricing framework as at the date of exchange. Transaction 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 the Income Statement, 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.

(f) Segment Reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments.
A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(g) Foreign Currency Translation

Functional and Presentation Currency

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 will be the Australian dollar.

Transactions and Balances

Transactions denominated in foreign currencies are translated into Australian currency 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 foreign currency closing exchange rate ruling at the Balance Sheet date.

Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the Income Statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to investments at fair value through profit and loss and derivative financial instruments are included in gains and losses on investments. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the Income Statement.

(h) Cash and Cash Equivalents

Cash comprises current deposits with banks. 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. Fixed term cash deposits (maturity less than 90 days from balance date) are classified as cash equivalents.

Cash and cash equivalents at the end of the period, as shown in the Cash Flow Statement, is reconciled to the related item in the Balance Sheet.

(i) Trade and Other Receivables

Receivables are recognised as and when they are due. They are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method, less any allowance for uncollectible amounts.

Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when there is evidence the amount will not be collected. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(j) Derivative Financial Instruments

The Group may enter into a variety of derivative financial instruments to manage their exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps.

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 the Income Statement 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 carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Group has not entered into any transactions that qualify as cashflow or fair value hedges

(k) Financial Assets

Financial assets in the scope of AASB139: *Financial Instruments: Recognition and Measurement* are categorised either as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus in the case of assets not at fair value through profit and loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date, ie the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets or settlement within the period generally established by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

Fixed Term Deposits

Fixed term cash deposits (maturity greater than 90 days and less than 1 year from balance date) are classified as current financial assets and are designated as assets held to maturity.

Held-for-Trading Financial Assets

Short-term trading securities are classified as held-for-trading financial assets and are carried at fair value. Gains or losses arising from changes in fair value are recognised in the Income Statement.

Available-for-Sale Financial Assets

Long term investments are classified as available-for-sale financial assets and are carried at fair value. Unrealised changes in fair value are taken directly to an available-for-sale reserve within equity until the asset is sold, or until the investment is determined to be impaired, at which time the cumulative change in fair value previously reported in equity is recognised in the Income Statement.

Investments in operating subsidiaries are also classified as available-for-sale financial assets and are carried at cost in accordance with AASB 127: *Consolidated and Separate Financial Statements.*

From time to time, the Company may hold controlling interests in unlisted unit trusts which classify their long-term investments as 'at fair value through profit and loss'. On consolidation of these unlisted unit trusts into the results of the Group, these long-term investments are designated as available-for-sale financial assets to achieve consistency with long-term investments held directly by the Company and are carried at fair value. Unrealised changes in fair value are taken directly to available-for-sale reserve within equity until the asset is sold, at which time the cumulative change in fair value previously reported in equity is recognised in the Income Statement.

Impairment Losses on Available-For-Sale Financial Assets

An impairment loss on available-for-sale financial assets is recognised where the Board assesses that the intrinsic value of the asset is below cost. In assessing whether an asset is impaired, the Board will consider 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.

If an asset is deemed to be impaired, the difference between fair value and cost will be recognised as an impairment charge in the Income Statement, less any impairment losses relating to that asset that have been recognised in previous periods. Subsequent reversals of impairment losses are recognised directly in equity through the available-for-sale reserve.

(l) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

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

If the estimated recoverable amount of an asset is less than its carrying amount, the carrying amount will be written down to the 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.

(m) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment. Impairment losses recognised for goodwill are not subsequently reversed.

(n) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for good and services received by the Group prior to the end of the financial period that remain unpaid at balance sheet date. They are recognised at the point where the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(o) Provisions and Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date, 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 are measured at the rates paid or payable.

Long Service Leave

Liabilities for long service leave are recognised when employees reach a qualifying period of continuous service.

Bonus Plan

Liabilities and expenses for bonuses are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Directors' Entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fee rates. Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

(p) Share Purchase Plan

The Company has in place a Share Purchase Plan for employees and Non-executive Directors ('Participants') to purchase shares in the Company (see Directors Report – Remuneration Report – Share Purchase Plan).

Loans to Participants are recognised at fair value based on an estimated repayment schedule, and are classified as current or non-current loans in accordance with this schedule. Fair value is determined by discounting loans to their net present value using a risk-free imputed interest rate. Changes in fair value of these are recognised in 'interest income' on the Income Statement. The cost of providing the benefit to Participants is recognised as an employee expense in the Income Statement on a straight line basis over the expected life of the loan, in accordance with AASB 2: *Share Based Payments.*

(q) Financial Instruments
The Company has issued options (ASX code: MFGOA) (MFG 2009 Options) which when exercised entitle the option holder to be issued with one new ordinary share in the Company (ASX code: MFG) and one additional option (MFG 2011 Option, ASX code: MFG) (refer note 16).

The MFG 2009 Options are regarded by AASB 132 *Financial Instruments: Presentation* as compound financial instruments which comprise: (i) an option on a share; and (ii) an option on an option. The Standard regards the option on an option as a derivative contract for the future delivery of the Company's own shares and hence as a financial liability which is required to be measured at fair value.

The financial liability is valued as at the dates the MFG 2009 Options were issued and this value is recognised on the Balance Sheet. At each subsequent reporting date, gains or losses arising from changes in fair value are recognised in the Income Statement.

The financial liability components of the MFG 2009 Options have been measured at their theoretical fair values determined using a Black – Scholes option pricing framework as at the relevant MFG 2009 Option issue dates. Theoretical values have been used to determine the fair values at the relevant MFG 2009 Option issue dates as there was no market in the MFG 2009 Options until they were listed on ASX on 17 May 2007. At balance date, the financial liability components were measured at their market fair value using the observed market value for the MFG 2009 Options less a Black-Scholes option pricing framework value for the option on a share component of the MFG 2009 Options ((i) above).

(q) Financial Instruments (continued)

The following primary assumptions have been adopted in determining the fair value of financial liability components of the MFG 2009 Options in the current financial year:

	21 November 2006 First Issue date (1)	16 May 2007 Second Issue date	29 June 2007	30 June 2008
MFG 2009 Options				
Strike price	$1.20	$1.20	$1.20	$1.20
Maturity date	30 June 2009	30 June 2009	30 June 2009	30 June 2009
Interest rate (semi-annual)	6.36%	6.59%	6.83%	7.98%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	30%	30%	30%	30%
MFG 2011 Options				
Strike price	$1.30	$1.30	$1.30	$1.30
Maturity date	30 June 2011	30 June 2011	30 June 2011	30 June 2011
Interest rate (semi-annual)	6.27%	6.59%	6.94%	7.87%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	30%	30%	30%	30%
No of MFG 2009 Options issued (millions)	19.2	9.1	n/a	n/a
Cumulative MFG 2009 Options on issue (millions) [1]	19.2	28.3	28.3	19.0
Closing market price for Shares (MFG) [2]	$2.30	$2.00	$2.20	$0.53
Closing market price for MFG 2009 Options (MFGOA)	-	-	$2.22	$0.08
Theoretical value of option on a share component of MFGOA	-	-	$1.16	$0.07
Fair value of each MFG 2011 Option	$1.33	$1.01	$1.06	$0.01

[1] MFG 2009 Options can be exercised in set windows between issue date and expiry date. On exercise, cancellation or expiry of an MFG 2009 Option, the AASB 132 liability is extinguished. During the year 6,365 MFG 2009 Options were exercised and 9,370,267 MFG 2009 Options held by controlled entities were subject to selective buy-back and cancellation.

[2] The market price of the Company's securities rose materially over the period from the announcement of the recapitalisation on 7 September 2006 (closing market price of $1.00) to 21 November 2006, being the First Issue Date.

(r) Contributed Equity

Ordinary shares issued by the Company and units issued by the Trust are classified as equity. Units issued by the Trust are separately identified as minority interests in the Statement of Changes in Equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of the issue of shares and options.

(s) Revenue Recognition

Management Fee Revenue

Base management fee revenue is recognised in the Income Statement as it accrues based on the entitlements set out in the relevant investment management agreements, and unlisted funds constitutions.

Performance fee revenue is recognised in the Income Statement when the Group's entitlement to it becomes certain, which will usually be at the end of the period to which the performance fee relates.

Interest Income

Interest income is recognised in the Income Statement as it accrues, using the effective interest rate method and if not received at balance date, is reflected in the Balance Sheet as a receivable.

Dividend Income

Dividend income is brought to account on the applicable ex-dividend date.

(t) Expense Recognition

Expenses are recognised in the Income Statement when a present obligation exists (legal or constructive) as a result of a past event that can be reliably measured. Expenses are recognised in the Income Statement if expenditure does not produce future economic benefits that qualify for recognition in the Balance Sheet.

(u) Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(v) Income Tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period taxable income or loss 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. Under AASB 112: Income Taxes, deferred tax balances are determined using the Balance Sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(w) Earnings Per Share

Basic earnings per share is determined by dividing the net profit attributable to members of the parent by the weighted number of ordinary shares outstanding during the financial year. Diluted earnings per share is determined by dividing the net profit attributable to members of the parent, adjusted for the impact of potential equity, divided by the weighted number of ordinary shares and dilutive potential ordinary shares.

(x) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial year but not paid at balance date.

(y) Goods and Services Tax (GST)

Revenue, expenses and assets recognised net of the amount of any 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 the acquisition of the asset.

3. MANAGEMENT FEE REVENUE

	Consolidated 2008 $ '000	Consolidated 2007 $ '000	Parent 2008 $ '000	Parent 2007 $ '000
Management and administration fees	4,261	2,568	-	-
	4,261	2,568	-	

Magellan Asset Management Limited ('MAM'), a controlled entity, acts as Investment Manager for the Magellan Flagship Fund Limited (Flagship Fund) – see note 20(b) – the Magellan Global Fund and the Magellan Infrastructure Fund which are also controlled entities – see note 20(d). MAM also provided administrative services to NPH Funds for the period 1 July 2007 to 7 February 2008, the date on which the Company acquired control of NPH Funds. MAM received fees of $40,000 (2007: $50,000) in respect of the services provided to NPH Funds – see note 20 (a).

4. CHANGES IN THE FAIR VALUE OF FINANCIAL ASSETS

The changes in fair value of financial assets recognised in the Income Statement comprise:

		Consolidated 2008 $ '000	Consolidated 2007 $ '000	Parent 2008 $ '000	Parent 2007 $ '000
a) Change in the fair value of financial assets					
Fair value movements – held-for-trading					
- Company and its operating subsidiaries		(1,128)	2,493	(195)	-
Unrealised impairment loss – available-for-sale	2 (k)				
- Company and its operating subsidiaries		(1,626)	-	(1,626)	-
- controlled trusts		(618)	-	-	-
		(3,372)	2,493	(1,821)	-
b) Net gain / (loss) on sale of available-for-sale financial assets					
Company and its operating subsidiaries		239	-	218	(59)
Controlled trusts		8	-	-	-
		247	-	218	(59)

5. INCOME TAX

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	$ '000	$ '000	$ '000	$ '000
a) Income tax attributable to the financial year differs from the prima facie amount payable on operating (losses) / profit. The difference is reconciled as follows:					
Operating (loss) / profit before significant items and income tax expense	v	(5,084)	(2,082)	639	(471)
Prima facie income tax credit / (expense) on operating loss at 30%		1,525	625	(191)	141
Other non-assessable income and non-deductible expenses		(2)	-	(75)	-
Net contribution from controlled trusts	i	(101)	171	-	-
Net profits / (losses) of Magellan Financial Group Trust	ii	-	141	-	-
Adjustments arising on tax consolidation	iii	(172)	-	-	-
Share purchase plan	iv	(74)	-	-	-
Tax effect of franked dividends received		6	-	-	-
		1,182	937	(266)	141

i. The controlled trusts are not normally subject to tax. This represents the tax effect, calculated at 30% of the net contribution to the Group's operating profit from controlled trusts, excluding the Company's share of distributions made by the trusts for the year on which a tax provision has been raised. The Company and Group do carry a tax provision relating to unrealised gains or losses on the Company's investment in the controlled trusts. This is reflected with the available-for-sale reserve.

ii. The Magellan Financial Group Trust distributed all its income ($471,000) for the period ended 29 June 2007 and was not liable to pay tax. The reconciling item reflects the nominal tax effect of these earnings, computed at 30%.

iii. This amount represents the net deferred tax asset that was recognised by New Privateer Holdings Limited ('New Privateer') in respect to the fair value movements of its investments arising between 7 February 2008, the date that New Privateer was acquired, and 20 March 2008, the date at which New Privateer joined the tax consolidation group. On joining the tax consolidation group, the tax cost base of investments was re-set to their 20 March 2008 fair values and this net tax deferred asset was written off.

iv. These are nominal interest and expenses recognised in accordance with AASB 2: *Share Based Payments* (see note 2 (p)) on which there is no tax effect.

v. There is no income tax expense on significant items.

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
b) The major components of income tax expense are:				
Current income tax benefit / (expense)	(7)	-	-	-
Deferred income tax benefit / (expense)				
– origination and reversal of timing differences	1,189	937	(266)	141
	1,182	**937**	**(266)**	**141**

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
c) Income tax benefit / (charge) directly to equity comprises:				
Deferred income tax arising from:				
- Revaluation of financial assets available-for-sale	4,386	356	4,333	(20)
- Costs associated with the issue of securities	37	525	37	525
	4,423	881	4,370	505
d) Deferred tax as at 30 June relates to the following:				
Tax losses carried forward	451	1,223	451	451
Tax losses transferred from controlled entities	2,711	-	2,772	-
Tax losses utilised	(624)	-	(624)	-
Costs associated with the issue of securities deductible in future years	567	527	347	527
Revaluation of financial assets held-for-trading	148	-	-	-
Impairment losses on available-for-sale financial assets	488	-	-	-
Other temporary differences	69	328	17	(72)
Deferred tax asset	8,740	2,594	8,300	1,422

e) Tax consolidation

Members of the tax consolidated group

The Company and its 100% owned Australian subsidiary Magellan Asset Management Limited formed a tax consolidated group on 1 July 2007. The 100% owned Australian subsidiaries acquired during the year, New Privateer Holdings Pty Limited and NPH Funds Pty Limited joined the tax consolidated group on 20 March 2008. The Company is the head entity of the tax consolidated group.

Tax effect accounting by members of the tax consolidated group

The head entity and its controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. In addition to its own current and deferred tax amounts, the head entity also recognises 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.

6. AMOUNTS ATTRIBUTABLE TO EXTERNAL UNITHOLDERS OF CONTROLLED TRUSTS

Amounts attributable to external unitholders of controlled trusts comprise:

	Consolidated	
	2008	2007
	$ '000	$ '000
Distributions paid or payable	(296)	-
Decrease in net assets attributable to external unitholders	2,495	-
	2,199	-

The decrease in net assets attributable to external unitholders include their share of the trusts' income / expense that is not yet assessable / deductible and their share of unrealised investment gains and losses. The trusts' unrealised investment gains and losses are recognised directly in the Group's equity in the available-for-sale reserve.

7. EARNINGS PER SHARE

The following reflects the earnings and weighted average stapled security data used in calculation of basic and diluted earnings per share.

a) Earnings per Share

	Consolidated	
	2008	2007
	$ '000	$ '000
Basic earnings per share		
Net profit attributable to security holders – basic	6,203	2,516
Weighted average number of securities for basic earnings per security ('000)	124,099	57,233
Basic earnings per share	**5.0 cents**	**5.2 cents**
Diluted earnings per share		
Net (loss) / profit attributable to security holders – diluted	(20,347)	(1,694)
Weighted average number of securities for diluted earnings per security ('000)	129,823	65,555
Diluted (loss) / earnings per share	**(15.7 cents)**	**(2.6 cents)**

7. EARNINGS PER SHARE (CONTINUED)

a) Earnings per Share (continued)

Basic earnings per share	Consolidated	
	2008	2007
	$ '000	$ '000
The net (loss) / profit attributable to security holders on a fully diluted basis can be reconciled to the basic net profit as follows:		
Net profit attributable to security holders – basic	6,203	2,987
Deduct AASB 132 Accounting Adjustment	(26,550)	(4,681)
Net (loss) / profit attributable to security holders – diluted	(20,347)	(1,694)
The weighted average number of securities on a fully diluted basis can be reconciled to the weighted average number of securities used to calculate basic earnings per security as follows:		
Weighted average number of securities already issued ('000)	124,099	57,233
Weighted average number of securities on assumed exercise of:		
MFG 2009 Options ('000)	5,724	8,322
MFG 2011 Options ('000)	-	-
MFG 2016 Options ('000)	-	-
Class B shares	-	-
Weighted average number of securities for diluted earnings per security ('000)	129,823	65,555

b) Further information

The Company has on issue 19.0 million MFG 2009 Options expiring 2009 (2007: 28.3 million), 6.0 million MFG 2011 Options (2007: nil), 7.9 million MFG 2016 Options (2007: nil) and 10.2 million Class B shares (2007: nil) that represent potential ordinary shares. The Class B shares have the right to a pro-rata share of net assets on winding up of the Group but as they do not carry the right to participate in dividends, they have been deemed not to represent ordinary shares already on issue. Further details of the terms of these options and shares are included in note 16.

The AASB 132 Accounting Adjustment arises from the classification of the option embedded in the MFG 2009 Options as a financial liability and the requirement to recognise changes in net market value of this liability in the Income Statement. This adjustment in the determination of the earnings on a fully diluted basis is no longer applicable once the MFG 2009 Options have been exercised or expired.

For the calculation of the earnings per security before the AASB 132 Accounting Adjustment, the effect of the 2011 and 2016 options and the Class B shares in the calculation of earnings per share for the current and prior reporting period is anti-dilutive. However, these options and Class B shares have the potential to dilute basic earnings per security in the future.

The net profit attributable to stapled security holders for the prior reporting period includes the net profit of the Trust up to and including 22 March 2007 when the units of the Trust were de-stapled from the shares of the Company (refer note 1). The earnings of the Trust post de-stapling were nil and the Trust was wound up on 29 June 2007.

8. DIVIDENDS AND DISTRIBUTIONS

a) Dividends and distributions declared and paid during the year	Consolidated 2008 $ '000	Consolidated 2007 $ '000	Parent 2008 $ '000	Parent 2007 $ '000
Dividends on ordinary shares (2007: 5.39c per share)	-	1,577	-	1,577
Trust distribution (2007: 1.61c per unit)	-	471	-	-
Total per stapled security / share (2007: 7c per stapled security)	-	2,048	-	1,577

No interim or final dividend has been declared.

b) Franking credit balance	Parent 2008 $ '000	Parent 2007 $ '000
Balance at 1 July	-	-
Franking credits arising from controlled entities joining the tax consolidation group	771	-
Franking credits on dividends received	8	-
Franking credits arising from tax paid	-	675
Franking credits on dividends paid	-	(675)
Franking account balance at 30 June	**779**	**-**

Dividends paid during the prior financial year were franked at 30%.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	Consolidated 2008 $ '000	Consolidated 2007 $ '000	Parent 2008 $ '000	Parent 2007 $ '000
Cash held by the parent company and its operating subsidiaries	46,286	74,408	33,288	67,515
Cash held by controlled trusts	7,077	-	-	-
	53,363	74,408	33,288	67,515

10. TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Trade receivables	7	321	-	-
Accrued interest	277	423	167	409
Other	153	28		4
	437	772	167	413
Related party receivables				
- Controlled entity	-	-	825	-
- Other related parties	811	1,210	-	-
	1,248	1,982	1,006	413

11. FINANCIAL ASSETS

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	$ '000	$ '000	$ '000	$ '000
a) Current					
Held for trading					
(by domicile of primary stock exchange)					
- Listed shares – Australia	11 (c) iii	2,972	-	1,978	-
- Unlisted shares – Australia	11 (c) v	*	-	-	-
Forward foreign exchange contracts		(12)	-	-	-
Held to maturity					
- Cash term deposits	11 (c) ii	240	405	-	-
		3,200	**405**	**1,978**	**-**
Held by:					
- Company and its operating subsidiaries		3,212	405	1,978	-
- controlled trusts		(12)	-	-	-
		3,200	**405**	**1,978**	**-**

* less than $1,000

11. FINANCIAL ASSETS (CONTINUED)

		Consolidated		Parent	
		2008	2007	2008	2007
		$ '000	$ '000	$ '000	$ '000
b) Non-current					
Available for sale financial assets					
(by domicile of primary stock exchange)					
- Listed shares - Australia	11 (c) iv	17,160	24,772	14,969	24,772
- Listed shares – United States	11 (c) iv	18,076	-	5,962	-
- Listed shares – Switzerland	11 (c) iv	2,733	-	1,133	-
- Listed shares – United Kingdom	11 (c) iv	2,677	-	-	-
- Listed shares – Europe	11 (c) iv	2,131	-	-	-
- Listed shares – other	11 (c) iv	1,435	-	432	-
- Unlisted shares – controlled entity	11 (c) v	-	-	60,881	8,000
- Unlisted unit trusts – controlled entity	11 (c) ii	-	-	16,035	-
- Unlisted unit trusts – other	11 (c) i	3,155	-	3,155	-
		47,367	**24,772**	**102,567**	**32,772**
Held by:					
- Company and its operating subsidiaries		26,327	24,772	102,567	32,772
- controlled trusts		21,040	-	-	-
		47,367	24,772	102,567	32,772

c) Valuation Methodologies and Material Investments

i. The fair values of unlisted unit trusts are deemed to be the redemption unit prices at balance sheet date reported by the manager of those trusts.

ii. Details of unlisted unit trusts that were controlled entities of the Company during the year are disclosed in note 2(d). The holding in other unlisted trusts at 30 June 2008 of $3.2 million was comprised wholly of investments in Catalyst Buyout Fund 1A and Catalyst Buyout Fund 1B.

iii. The fair value of cash term deposits is determined on an amortised cost basis using the effective interest rate method.

iv. The fair value of listed shares are determined to be the closing bid price of shares on the last business day preceding the balance sheet date.

The Group's holding in Listed shares – Australia at 30 June 2008 includes 27,494,268 shares (2007: 26,494,268 shares) in the Magellan Flagship Fund Limited ('Flagship Fund'), an ASX listed investment company of which Magellan Asset Management Limited ('MAM') is the investment manager (refer note 20 (b)). The Company holds 26,494,268 shares (2007: 26,494,268) in the Flagship Fund. A controlled entity, New Privateer Holdings Limited, which was acquired on 7 February 2008, holds 1,000,000 shares in the Flagship Fund.

11. OTHER FINANCIAL ASSETS (CONTINUED)

c) Valuation Methodologies and Material Investments (continued)

v. The carrying value of shares in unlisted companies that are operating subsidiaries of the Company represent the cost of the investment in those subsidiaries, in accordance with AASB 127: *Consolidated and Separate Financial Statements*. Details of controlled entities during the year are disclosed in note 2(d).

vi. Where there is no active market for shares in an entity, the directors select a valuation technique that, in their opinion, best estimates the fair value of the asset. Possible valuation techniques include using independent third party valuations, recent arms length market transactions, where available, referring to the fair value of another instrument that is substantially the same, discounted cash flow analysis or an option pricing model.

12. LOANS UNDER SHARE PLAN SCHEME (SPP)

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
a) Current				
Amounts due within one year	203	-	203	-
b) Non-current				
Amounts due later than one year and within ten years	3,840	-	3,840	-
	4,043	-	4,043	-

The Company has in place a Share Purchase Plan for employees and non-executive directors ('Participants'). Participants make an upfront contribution of 25% of the value of the shares acquired. The remaining 75% of the purchase price is funded via an interest free loan from the Company. Loans are full recourse to the Participants and hence are classified as loans on the balance sheet. Loans to Participants are secured by the shares issued to that Participant. The shares are not transferable until the loan is has been fully repaid.

Employees are required to apply 25% of their after tax annual bonus each year to repay the loan until the loan amount has been fully repaid. Non-executive directors will be required to repay the loan on or before the fifth anniversary of the issue of the shares. Dividends payable on the shares issued under the Share Purchase Plan are applied to repay the loan until the loan has been fully repaid.

Shares were 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.

Offer date	5-day weighted average share price
10 September 2007	$1.66

The value of shares securing the loans to Participants at balance date applying the Company's closing market price of $0.525 was $2,601,000 (2007:$nil). No amounts are past due nor considered impaired as the Plan provides that any shortfall between the loan amount and the value of the shares is recoverable from the Participant.

12. LOANS UNDER SHARE PLAN SCHEME (SPP) (CONTINUED)

The accounting treatment of these loans is described further in note 2 p).

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

	30 June 2008	30 June 2007
Face value of loans	$5.8m	-
Estimated weighted average duration of loans	4.9 years	-
Imputed interest rate	7%	-

Details of the plan are provided in the Directors Report – Remuneration Report – Share Purchase Plan.

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated					
	2008			2007		
	Leasehold Improvements	Office Equipment, Fixtures and Fittings	Total	Leasehold Improvements	Office Equipment, Fixtures and Fittings	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Cost at 1 July	261	183	444	-	-	-
Additions	111	134	245	540	150	690
Disposals	(11)	(79)	(90)	(291)	-	(291)
Acquisition of controlled entity	-	-	-	12	33	45
Cost at 30 June	**361**	**238**	**599**	**261**	**183**	**444**
Accumulated depreciation and impairment losses at 1 July	18	18	36	-	-	-
Disposals	(4)	(22)	(26)	-	-	-
Depreciation charge for the year	10	68	78	18	18	36
Accumulated depreciation and impairment losses at 30 June	**25**	**64**	**88**	**18**	**18**	**36**
Net carrying amount at 30 June	**337**	**174**	**511**	**243**	**165**	**408**

All property, plant and equipment is held by a controlled entity of the parent company. The net carrying value of property, plant and equipment of the parent company at 30 June 2008 is $nil (2007:$ nil).

14. TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Trade payables	616	173	3	33
Accrued expenses	244	3,609	54	142
Distributions payable to external unitholders	296	-	-	-
Other payables	3,589	559	2	65
	4,745	4,341	59	240
Related party payables				
- Controlled entities	-	-	23,278	13
- Other related parties	-	810	-	810
	4,745	5,151	23,337	1,063

15. CASH FLOW STATEMENT RECONCILIATION

a) Reconciliation of Net Profit / (Loss) after Tax to Net Cash Flows from Operations:

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Net profit / (loss) after tax	6,203	2,516	26,923	4,351
Adjusted for:				
Amounts attributable to unitholders	(2,199)	-	-	-
Writedown of goodwill	18,644	-	-	-
AASB 132 Adjustment	(26,550)	(4,681)	(26,550)	(4,681)
Minority interests	-	1,020	-	-
Losses / (gains) on sale of available-for-sale financial assets	(268)	(269)	(218)	(59)
Unrealised impairment losses on available-for-sale financial assets	2,244	-	1,626	-
Depreciation	78	36	-	-
Loss on disposal of plant and equipment	66	-	-	-
Unrealised foreign exchange (gains) / losses	47	-	-	-
Imputed interest on loans under share purchase plan	(86)	-	(86)	-
Employee expense on loans under share purchase plan	335	-	335	-
Investing and financing cash flows– interest paid	20	-	1	-
Changes in assets and liabilities				
(Increase) / decrease in trade and other receivables	446	(953)	(259)	4
(Increase) / decrease in prepayments	(30)	(15)	(12)	(188)
Increase / (decrease) in deferred tax assets	(1,272)	(937)	(2,507)	(141)
(Increase) / decrease in held for trading financial assets	1,934	21,944	(1,978)	-
(Increase) in loan to controlled entity	-	-	-	(1,150)
Increase / (decrease) in trade and other payables	(925)	4,834	4,090	1,022
(Decrease) /increase in current tax liabilities	(436)	(675)	-	(675)
	(1,749)	22,820	1,365	(367)

b) Non-cash financing and investing activities

		Consolidated		Parent	
		2008	2007	2008	2007
		$ '000	$ '000	$ '000	$ '000
Settlement of controlled entity purchase with securities	17	47,610	-	47,610	-
Issue of shares under Share Purchase Plan (SPP)		4,291	-	4,291	-
Share based payments under SPP		335	-	335	-
Buy back and cancellation of securities held by controlled entities		(17,978)	-	(17,603)	-
Acquisition of financial assets by means of amounts payable to controlled entities		-	-	39,258	-

16. CONTRIBUTED EQUITY

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Contributed equity	106,757	68,365	107,132	68,365
	106,757	68,365	107,132	68,365

On 22 March 2007 shares in the Company were de-stapled from units in the Trust (refer note 1).

The movement during the year of Group securities on issue were as follows:

	Number				
	Shares	MFG 2009 Options	MFG 2011 Options	MFG 2016 Options	Class B Shares
	'000	'000	'000	'000	'000
Balance at 1 July 2007	107,355	28,334	-	-	-
Issue of shares under employee share scheme (SPP)	4,955	-	-	-	-
Exercise of MFG 2009 Options	6	(6)	6	-	-
Issue of shares and options as consideration for the acquisition of controlled entities	52,424	-	6,028	7,882	10,200
Shares and options cancelled	(19,303)	(9,370)	-	-	-
Balance at 30 June 2008	145,437	18,958	6,034	7,882	10,200

16. CONTRIBUTED EQUITY (CONTINUED)

	Value					
	Consolidated			Parent		
	Total	AASB 132 Adjustment	After AASB 132 Adjustment	Total	AASB 132 Adjustment	After AASB 132 Adjustment
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2007	103,080	(34,715)	68,365	103,080	(34,715)	68,365
Issue of shares and options as consideration for the acquisition of controlled entities	47,610	-	47,610	47,610	-	47,610
Issue of shares under Share Purchase Plan	6,347	-	6,347	6,347	-	6,347
Exercise of MFG 2009 Options	8	2	10	8	2	10
Security issue costs (net of tax)	(87)	-	(87)	(87)	-	(87)
Buy-back and cancellation of shares and options held by controlled entities acquired during the year(1) (2)	(17,978)	2,155	(15,823)	(17,603)	2,155	(15,448)
Recognition of SPP expense for the year	335		335	335		335
Balance at 30 June 2008	139,315	(32,558)	106,757	139,690	(32,558)	107,132

(1) The acquired controlled entities, New Privateer Holdings Limited ('New Privateer') and NPH Funds Pty Limited ('NPH Funds'), held shares and options in the Company. New Privateer held 6,696,651 shares and 3,069,666 MFG 2009 Options, and NPH Funds held 12,606,006 shares and 6,300,601 MFG 2009 Options. For Group purposes the shares and options are treated as treasury securities and are deducted from consolidated contributed equity using the closing bid prices of these securities at 7 February 2008, the date the Company acquired control of New Privateer and NPH Funds. The closing bid prices for the Company's shares and MFG 2009 Options on 7 February 2008 were $0.81 and $0.25 respectively.

(2) The Company undertook a selective buy-back of and cancellation of the Company's shares and MFG 2009 Options that were held by the acquired entities on 22 May 2008. The consideration for the securities acquired under the buy-back was determined as their fair values at 22 May 2008 being the closing bid prices of $0.81 and $0.21 respectively. The shares and MFG 2009 Options subject to the buy-back were cancelled on 9 June 2008.

The key terms and rights attaching to the MFG 2009 Options are as follows:

- MFG 2009 Options can be exercised during any two month period following the announcement of the Company's full year or half year results in each year prior to the expiry date.
- Upon exercise of a MFG 2009 Option, the option holder will be issued with one new ordinary share in the Company and one MFG 2011 Option.
- The exercise price of the MFG 2009 Options is $1.20.
- The MFG 2009 Options expire on 30 June 2009.

The key terms and rights attaching to the MFG 2011 Options are as follows:

- MFG 2011 Options can be exercised during any two month period following the announcement of the Company's full year or half year results in each year prior to the expiry date.
- Upon exercise of an MFG 2011 Option, the option holder will be issued with one new ordinary share in the Company.
- The exercise price of the MFG 2011 options is $1.30.
- The MFG 2011 options expire on 30 June 2011.

The key terms and rights attaching to the MFG 2016 Options are as follows:

- MFG 2016 Options can be exercised during any two month period following the announcement of the Company's full year or half year results in each year prior to the expiry date.
- Upon exercise of an MFG 2016 Option, the option holder will be issued with one new ordinary share in the Company.
- The exercise price of the MFG 2016 options is $3.00.
- The MFG 2016 options expire on 30 June 2016.

The key terms and rights attaching to the 10,200,000 Class B Shares issued to the investment company controlled by Hamish Douglass are as follows:

- No entitlement to receive dividends
- If Mr Douglass has met certain service conditions, the Class B shares convert to the number of ordinary shares equal to 0.06 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 maximum number of ordinary shares that will be issued on conversion of all the Class B shares is 10,200,000.

For example, based on the issued capital as at 30 June 2008 the 10,200,000 the Class B shares would be entitled to convert to 8.73 million ordinary shares, being equal to 0.06 times 145.4 million ordinary shares on issue.

17. ACQUISITION OF CONTROLLED ENTITIES

(a) Acquisition of New Privateer Holdings Pty Limited ('New Privateer') and NPH Funds Pty Limited ('NPH Funds')

On 7 February 2008, the Company acquired a controlling interest in New Privateer, an ASX listed company, and its 60% owned subsidiary NPH Funds by way of an off-market takeover offer. The Company subsequently acquired the remaining 40% of NPH Funds from Mr Douglass' investment company.

The Company issued 46,579,412 ordinary shares and 7,882,483 MFG 2016 Options as consideration for the acquisition of 100% of New Privateer's issued shares, and 6,027,537 MFG 2011 Options as consideration for the acquisition of 100% of New Privateer's issued options. The total fair value of the consideration paid by the Company for New Privateer was $38,744,751.

The Company issued 5,844,799 ordinary shares and 10,200,000 Class B shares as consideration for the acquisition of 40% of NPH Funds issued shares. The total fair value of the consideration paid by the Company for the 40% interest NPH Funds was $8,865,287.

The fair value of each ordinary shares and MFG 2009 Options paid as consideration was determined to be the closing bid price of those securities on 7 February 2008, being $0.81 and $0.25 respectively. The fair value of each MFG 2011 Option and MFG 2016 Option paid as consideration was measured at their theoretical fair values determined using a Black - Scholes option pricing framework as, at the date of issue, there was no market until they were listed on ASX on 2 April 2008. The fair value of the MFG 2011 Options and MFG 2016 Options were $0.09 and $0.06 respectively. The fair value of each Class B share was determined to be $0.41 by reference to the Independent Expert's report provided to the Company's shareholders in relation to the proposed acquisition of Mr Douglass' 40% interest in NPH Funds which was lodged with the Australian Securities Exchange on 24 December 2007.

17. ACQUISITION OF CONTROLLED ENTITIES (CONTINUED)

(a) Acquisition of New Privateer Holdings Pty Limited ('New Privateer') and NPH Funds Pty Limited ('NPH Funds') (continued)

The fair values of the identifiable assets and liabilities of New Privateer and NPH Funds at the date of acquisition were as follows:

	New Privateer $'000	NPH Funds $'000
Current		
Cash and cash equivalents	6,481	522
Trade and other receivables	112	-
Prepayments	149	-
Financial assets [1]	5,613	1,575
Trade and other payables	(120)	(140)
Tax liabilities	(132)	(354)
Borrowings – interest bearing	-	(7,000)
Non-current		
Financial assets [2]	14,124	13,149
Deferred tax assets	328	222
Deferred tax liabilities	(9)	-
Fair value of identifiable net assets	26,546	7,974
Interest acquired	100%	40%
Identifiable net assets acquired – at fair value	**26,546**	**3,190**
Goodwill arising on acquisition	**12,969**	**5,675**
	39,515	**8,865**
Cost of the combination:		
Shares and options issued, at fair value	**38,745**	**8,865**
Direct costs relating to the acquisition	**770**	**-**
	39,515	**8,865**

[1] At acquisition date New Privateer held 3,096,666 MFG 2009 Options and NPH Funds held 6,300,601 MFG 2009 Options. These securities were subject to selective buy-back and cancelled on 9 June 2008, refer note 16.

[2] At acquisition date New Privateer held 6,696,651 ordinary shares in the Company and NPH Funds held 12,606,006 ordinary shares in the Company. These securities were subject to selective buy-back and cancelled on 9 June 2008, refer note 16.

The goodwill arising on acquisition of New Privateer and NPH Funds represents the value of the Management Services Agreement between the Company and NPH Funds that was internalised. The Management Services Agreement was terminated on 27 June 2008.

17. ACQUISITION OF CONTROLLED ENTITIES (CONTINUED)

(a) Acquisition of New Privateer Holdings Pty Limited ('New Privateer') and NPH Funds Pty Limited ('NPH Funds') (continued)

	$'000
The cash flow on acquisition is as follows:	
Net cash acquired	
- New Privateer	6,481
- NPH Funds	522
Cash paid	-
Net cash inflow	7,003

	New Privateer $'000	NPH Funds $'000	Total $'000
From the date of acquisition the following amounts were contributed to the results of the Group			
Revenue *	(793)	8	(785)
Net profit or (loss)	(742)	(13)	(755)

* The revenue of New Privateer includes unrealised fair value losses on held for trading financial assets of $1.2m

It is impracticable to provide the revenue and net profit or loss of the Group under the assumption that the business combination with New Privateer and NPH Funds had occurred at the beginning of the financial year. The preparation of this information would require assumptions to be made as to what management's intentions may have been in respect to the investments held by New Privateer and NPH Funds in the period prior to acquisition, including decisions to acquire or dispose of investments and to realise gains or losses. In addition, an assumption would be required to be made as to the date that New Privateer and NPH Funds would join the tax consolidation group, as this would be required to estimate the amount of deferred tax asset or deferred tax liability to be written off when entities joined the tax consolidation group.

The acquired controlled entities operations consisted predominantly of investment activities and the provision of services under a Management Services Agreement (MSA) to the Company. The MSA was cancelled on 27 June 2008. The majority of the investment portfolios of each acquired controlled entities was transferred to the Company prior to balance date.

(b) Acquisition of Magellan Global Fund and Magellan Infrastructure Fund

The Company acquired 15,000,001 units in the Magellan Global Fund and 5,000,001 units in the Magellan Infrastructure Fund on 1 July 2007. The unit price of each trust on 1 July 2007 was $1.00. This represented seed capital into the funds and the group acquired no net assets as a result of these acquisitions.

The units are carried at their fair value being the exit unit price at 30 June 2008 of $0.8063 and $0.7882 respectively. The fair value of the unitholdings at 30 June 2008 are $12,095,000 (2007:$nil) and $3,941,000 (2007:$nil) respectively.

18. GOODWILL

(a) Reconciliation of carrying amounts of goodwill at the beginning and end of the period

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
At 1 July net of impairment	-	-	-	-
Acquisition of controlled entities	18,644	-	-	-
Impairment	(18,644)	-	-	-
At 30 June net of impairment	-	-	-	-

(b) Impairment losses recognised

The goodwill arising on acquisition of New Privateer and NPH Funds represents the value of the Management Services Agreement between the Company and NPH Funds that was internalised. The Management Services Agreement was terminated on 27 June 2008, and an impairment loss of $18,644,000 was recognised in the current financial year. The impairment loss has been recognised in the income statement in the line item 'Write down of goodwill'.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial Risk Management Objectives, Policies and Processes

The activities of the Group and the Company give rise to exposure to direct and indirect financial risk, including market risk, credit risk and liquidity risk. Risks are managed through a process of ongoing identification, measurement and monitoring.

Direct exposure to financial risk occurs through the impact on the Group's and Company's profit and total equity arising from changes in the value of the Group's investment portfolios and changes in other financial assets and liabilities, including trade receivables and payables that arise directly from its operations.

The Group's investment assets comprise:

- long term, strategic investments in the Magellan Flagship Fund Limited and two Magellan unlisted funds of which a controlled entity of the Group is the investment manager;
- a portfolio of assets owned by New Privateer and NPH Funds when the Group acquired those companies;
- the application of a portion of the Group's cash reserves into a small, direct portfolio of quality investments.

Since the acquisition of New Privateer and NPH Funds, the investment portfolios of those companies have been rationalised, with the disposal of several investments completed during the reporting period, and the reclassification of others as held-for-trading assets with a view to disposing of them in the near future. The Group intends to retain the remaining assets in the medium to long term.

The investment portfolios of Magellan Flagship Fund Limited and the two unlisted funds are managed on a daily basis by the Investment Manager in accordance with the investment objectives and mandates of those funds. Further details of the risk management objectives and policies of those funds can be found in the annual report of Magellan Flagship Fund Limited and the Product Disclosure Statement (PDS) of the unlisted funds.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial Risk Management Objectives, Policies and Processes (continued)

The remainder of this note provides further details of the specific risks faced by the Group and the Company and illustrates the potential impact of changes in risk variables on the Income Statement and Statement of Changes in Equity.

(b) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, foreign exchange rates, and interest rates.

(i) Equity Price Risk

Equity price risk is the risk that the fair value of equities increases or decreases as a result of changes in market prices, caused by factors specific to the individual stock or affecting all instruments in the market. Equity price risk exposures arise from the Group's and the Company's investments in equity securities.

All investments are carried at fair value with changes arising from held-for-trading investments reflected in the Income Statement, and changes arising from available-for-sale investments reflected in the Statement of Changes in Equity.

An increase of 5% in the market prices of the Group's and the Company's investments held at balance sheet date would have had the following impact on net profit and total reserves:

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Impact on net profit after tax attributable to members of the parent	(254)	-	125	-
Impact on available for sale reserve, net of tax	1,560	-	1,293	-
Total impact on equity	1,306	-	1,418	-

Assumptions and explanatory notes

i. The Company and the Group hold an investment in an unlisted trust that invests in unlisted equities. The fair value of this trust is determined using the unit price supplied by the manager of that trust. The underlying values of the unlisted equities are determined 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 that trust.

ii. The decrease in net profit of the Group with a 5% increase in the market values of investments arises due to the increase in the external unit holders' share of assets of the controlled trusts being greater than the net increase in fair value of held-for-trading assets owned by the Group.

iii. A decrease of 5% in the market prices of the Group's and the Company's investments held at balance sheet date would have an equal and opposite effect to the changes disclosed above.

iv. The impact of market changes of the fair value of the Group's and the Company's AASB 132 Accounting Adjustment has been ignored for the purposes of the sensitivities disclosed above. The options on which this Accounting Adjustment is based are out of the money and would remain out of the money with a 5% increase in the market price of MFG shares. The impact of such a change is therefore expected to have a minimal impact on the fair value of the AASB 132 Accounting Adjustment.

v. The Group recognises impairment losses on available for sale investments in accordance with the accounting policy disclosed in note 2(k). For the purposes of the sensitivity disclosed above, it has been assumed that a 5% change in market prices would have no impact on the assessment of whether individual assets are impaired.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market Risk (continued)

(ii) 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 and the Company are potentially exposed to currency risk on foreign currency denominated:

- held for trading financial assets
- available for sale financial assets
- cash balances and overdrafts
- currency derivatives
- payables and receivables, such as income receivable from foreign investments or outstanding settlements on purchase or sale of foreign investments.

Changes in the fair value of available for sale financial assets arising from currency movements will be recognised in the Statement of Changes in Equity. Changes in the fair value of all other foreign currency denominated assets or liabilities are recognised in the Income Statement.

At balance sheet date, the Company's currency risk exposure was limited to foreign currency financial assets designated as available for sale and to interests in unlisted trusts that invest in foreign currency financial assets. It did not hold foreign currency cash balances and did not make use of currency derivatives during the reporting periods. It is not expected that this will change in future reporting periods.

The Group had additional exposure to currency risk arising from its controlling interests in unlisted trusts. These funds invest in equity securities which are listed on foreign domiciled securities exchanges. They may also enter into forward foreign exchange contracts to hedge the currency exposures of their portfolios of assets and may hold foreign currency cash balances. As at 30 June 2008, the net exposure of the Group to currency risk arising from monetary assets or liabilities was insignificant. Substantially all of the foreign exchange exposure disclosed below therefore arises from the Group's portfolios of investment assets.

An increase of 5% in the Australian dollar relative to each currency to which the Group and Company had significant exposure would have the following impact on amounts recognised in the Income Statement and amounts recognised directly in equity:

Consolidated	Increase / (decrease) in net profit		Increase / (decrease) credited directly to equity	
	2008	2007	2008	2007
Assets denominated in:	$ '000	$ '000	$ '000	$ '000
US dollars	252	-	(677)	-
Euro	94	-	(69)	-
Swiss francs	57	-	(108)	-
British pounds	52	-	(99)	-

Parent	Increase / (decrease) in net profit		Increase / (decrease) credited directly to equity	
	2008	2007	2008	2007
Assets denominated in:	$ '000	$ '000	$ '000	$ '000
US dollars	-	-	(425)	-
Euro	-	-	25)	-
Swiss francs	-	-	(51)	-
British pounds	-	-	(47)	-

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market Risk (continued)

(ii) Currency Risk (continued)

A increase in the Australian dollar relative to each currency would reduce the fair value of the Group's investments in securities listed on foreign domiciled securities with the decrease being recognised directly in equity net of tax effect. External unit holders' share of decreases in the fair value of investments held by the controlled trusts would reduce the Group's liability for external unit holders' interests in controlled trusts, and increase amounts attributable to unit holders in the Income Statement.

A decrease of 5% in the Australian dollar relative to each currency would have an opposite impact of materially similar magnitude on amounts recognised in the Income Statement and amounts recognised directly in equity for both the Group and the Company.

The Group and the Company also have indirect foreign exchange exposure via the investment in Magellan Flagship Fund. Magellan Flagship Fund is listed on the Australian Securities Exchange and its market value is denominated in Australian dollars. The assets that comprise Magellan Flagship Fund investment portfolio comprise companies predominantly denominated in foreign currencies, and with extensive operating exposure to global currency fluctuations. The fair value of the Group and the Company's holdings in Magellan Flagship Fund are therefore influenced by movements in currencies. The sensitivity analysis disclosed above disregards the impact on the fair value of holdings in Magellan Flagship Fund.

(iii) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Group and the Company do not currently hold financial assets or liabilities with exposure to fixed rate interest rates. Substantially all of the Group's and Company's holdings of cash and cash equivalents are held with major Australian banks. Cash term deposits are of short duration and their fair value would not be materially affected by changes in interest rates.

The sensitivity of the Group's and the Company's income statement to changes in interest rates is reflected in the impact on the interest that would be earned. Based on the cash and cash equivalents held by the Group and the Company at balance sheet date, the effect on the annual interest income of an increase of 100 basis points in floating interest rates would be as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Impact on net profit after tax attributable to members of the parent	354	521	233	473

A decrease of 100 basis points in floating rate interest rates would have an equal but opposite effect on the annual interest income and the net profit after tax attributable to members of the parent company.

(iv) Indirect Impacts of Market Risk

In addition to the direct impacts of market risk on the financial assets and liabilities of the Group, the operating profit is indirectly exposed to market risks. The most significant impact is on the fees earned by a controlled entity of the group for providing investment management services to Magellan Flagship Fund and the two unlisted funds. Base fees earned by the Group are based on a percentage of the fair value of the investments managed by these funds. Changes in equity prices and foreign exchange rates would impact the net asset value of the funds and therefore the base fees earned by the Group. The Group may also earn performance fees from the funds based on their performance relative to certain benchmarks. Changes in market conditions might also impact the flow of funds into or out of the unlisted funds.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risk by maintaining sufficient cash reserves to cover its liabilities and by receiving management fee income on a regular basis.

As at 30 June 2008, the Group had an obligation to settle trade creditors of $4.7m (2007: $5.2m) within 30 days and, if redeemed, External unitholders' interest in controlled trusts of $10.7m (2007: nil) payable at call. The Group had sufficient cash reserves of $53.4m (2007: $74.4m) and a further $1.3m ($2007: $2.0m) of receivables collectable within 30 days to cover these liabilities and accordingly the Group does not have a significant direct exposure to liquidity risk.

The Company's trade and other payables of $23m arise from balances owed to controlled entities. There are no contractual settlement terms for these balances and no liquidity risk arises from them.

(d) 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 on-balance sheet financial assets and liabilities as they are marked to market. The total credit risk for on-balance sheet items including securities is therefore limited to the amount carried on the Balance Sheet. The Group minimises concentrations of credit risk by undertaking transactions with counterparties that are recognised and reputable or are recognised and reputable financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The Group has entered into International Prime Brokerage Agreements (IPBA) with Merrill Lynch International (Merrill). The Company has entered into an IPBA, and two further IPBAs have been entered into by a controlled entity in its capacity as Responsible Entity of the controlled trusts. The services provided by Merrill include lending, clearance, settlement and custody services. The IPBA with Merrill is in a form that is typical of prime brokerage arrangements. Certain of the Company's investments and all of the controlled trusts' investments are held directly by Merrill as prime broker and custodian.

The credit quality of Merrill's senior debt is rated, as at 1 August 2008, by Standard and Poor's as being A, and by Moody's as being A2. Merrill has been designated by the US Securities and Exchange Commission as one of the substantial financial institutions in which short selling was temporarily prohibited mid way through calendar year 2008. Merrill has also raised significant amounts of additional capital and has sold its 20% stake in Bloomberg. On 15 September 2008 Bank of America announced an agreed takeover of Merrill's parent company to create a larger combined financial institution with completion scheduled for the first quarter of calendar 2009.

In the unlikely event of Merrill becoming insolvent the Group may rank as an unsecured creditor in regard to any investments that have been lent or used as collateral by Merrill.

At 30 June 2008 the Group had an outstanding balance totalling to $4.0m (2007: nil) for loans to participants under the share plan scheme and held at 30 June 2008 Company shares valued at $2.6m (2007: nil) as security for the loans (note 12 provides further information). The loans were made to Company employees and Directors on a full recourse basis.

At 30 June 2008 all cash and receivables are collectable within 30 days and there are no amounts which are passed due.

20. TRANSACTIONS WITH RELATED PARTIES

(a) NPH Funds Pty Limited ('NPH Funds')

(i) Management Services Agreement

The Company was party to a Management Services Agreement with NPH Funds which commenced on 21 November 2006 under which it engaged NPH Funds to provide strategic and management services. Under the agreement the Company paid NPH Funds a quarterly services fee and an annual performance fee. The quarterly services fee was calculated at the rate of 0.3125% per quarter of the market capitalisation of the Company at the end of the quarter. An annual performance fee was payable if the total return to shareholders of the Company from dividends received and share market movements exceeded certain minimum hurdles.

The directors of NPH Funds, Chris Mackay and Hamish Douglass, are also directors of the Company and of its controlled entity, Magellan Asset Management Limited (MAM).

On 7 February 2008, the Company acquired control of NPH Funds by acquiring relevant interests in at least 90% of the ordinary shares and relevant interests in at least 90% of the issued options of New Privateer Holdings Limited which owned 60% of the share capital of NPH Funds. The Company acquired the remaining 40% interest of NPH Funds from a private investment company owned by Mr Douglass, and internalised the Management Services Agreement between the Company and NPH Funds. Information on the acquisition of NPH Funds is contained in note 17.

On 12 February 2008, the Boards of the Company and NPH Funds agreed to waive the service fee payable to NPH Funds in respect of the quarter ended 31 December 2007. The Management Services Agreement was terminated on 27 June 2008.

The Company has recognised an expense of $596,740 in relation to the management services fee for the year ended 30 June 2008 (2007: $1,412,955). The balance owing by the Company to NPH Funds at balance sheet date in respect of this fee was $nil (2007: $810,100)

No performance fee liability was crystallised during the year ended 30 June 2008 (2007: $nil) and no performance fee expense was recognised in the Income Statement for the year ended 30 June 2008 (2007: $nil).

(ii) Administration Services Provided to NPH Funds

NPH Funds engaged MAM to provide administration, secretarial and accounting services. These services were provided until 7 February 2008, the date the Company acquired control of NPH Funds. During the year ended 30 June 2008, administration fee revenue of $39,750 was received (2007: $50,000). The balance owing from NPH Funds at 30 June 2008 in respect of these services was $nil (2007: $50,000).

(iii) Amounts due to NPH Funds

At balance date, a net amount of $7,681,000 (2007:$nil) was payable by the Company to NPH Funds in respect of intergroup transactions including settlement amounts arising from the transfer of financial assets held by NPHF to the Company and amounts arising from the transfer of NPH Funds' tax losses to the Company, net of expenses paid by the Company on behalf of NPH Funds.

20. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

b) Magellan Flagship Fund Limited ('Flagship Fund')

MAM is the investment manager of the Flagship Fund. Under the Investment Management Agreement, MAM is entitled to the following fees:

(i) Base Fee

A quarterly fee is payable, calculated as 0.3125% (excluding GST) of the market value of all assets held by the Flagship Fund less total debt. To date, the Investment Manager has excluded deferred tax assets from the calculation of the base fee thereby reducing the base fee amount. During the year ended 30 June 2008, the total base fees earned by MAM from the Flagship Fund were $3,932,000 (2007: $2,567,000). The amount owing from the Flagship Fund to MAM at balance sheet date was $808,000 (2007: $1,152,000).

(ii) Performance Fee

MAM is entitled to an annual performance fee of 10% (excluding GST) of the amount by which the absolute dollar value of the investment performance, net of the base fee, exceeds the Australian Dollar MSCI for each annual period, provided that:

- the total annual return in the relevant annual period exceeds the Australian Government 10-year bond rate (measured as an average of the 10-year bond rate published in the Australian Financial Review or similar publication) on the first day of each quarter occurring within the relevant annual period; and

- the portfolio value less borrowings on the last day of the relevant annual period is more than that on the last day of the last annual period for which a performance fee was paid to the Investment Manager within the last three years.

No performance fee was receivable from the Flagship Fund for the annual period to 30 June 2008 (2007: $nil).

c) Magellan Asset Management Limited ('MAM')

(i) Sub-ordinated Loan to MAM

The Company has provided an interest-free sub-ordinated loan facility to its wholly owned subsidiary MAM. Under the terms of MAM's Australian Financial Services Licence, the loan cannot be repaid without the prior consent of the Australian Securities and Investments Commission. The current loan agreement commenced on 29 November 2006, following the acquisition of MAM by the Company. The amount drawn down on the facility at 30 June 2008 was $1,150,000 (2007: $1,150,000).

(ii) Amounts due to MAM

At balance date, a net amount of $2,467,000 (2007: $13,473) was payable by the Company to MAM in respect of amounts arising from the transfer of MAM's tax losses to the Company. The amount payable to MAM in the previous year was in respect of expenses paid by MAM on behalf of the Company.

(iii) Amounts due from MAM

At balance date, a net amount of $334,000 (2007:$nil) was payable by MAM to the Company representing employee share scheme loan repayments withheld from employee bonuses in accordance with Share Purchase Plan rules.

20. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

d) Magellan Global Fund and Magellan Infrastructure Fund

(i) Management and Administration Fees

Magellan Asset Management Limited (MAM) is the Responsible Entity and investment manager of the Magellan Global Fund and Magellan Infrastructure Fund. Under the Investment Management Agreement, MAM is entitled to the following fees:

Management fees paid to MAM for managing the Magellan Global Fund and the Magellan Infrastructure Fund are 1.26% per annum and 0.96% per annum respectively of the net asset value of each fund at the end of each month. Administration fees paid to MAM for managing the Magellan Global Fund and the Magellan Infrastructure Fund are 0.10% per annum of the net asset value of each fund at the end of each month. The management and administration fees are reflected in the daily unit price of each fund and are paid to MAM monthly. During the year ended 30 June 2008, the total management and administration fees earned by MAM from the Magellan Global Fund were $295,000 (2007: $nil), and earned from the Magellan Infrastructure Fund were $62,000 (2007:$nil). The amounts owing from the Magellan Global Fund and the Magellan Infrastructure Fund to MAM at balance sheet date were $24,000 (2007: $nil) and $5,000 (2007:$nil) respectively.

(ii) Performance Fees

MAM is entitled to an annual performance fees from Magellan Global Fund and Magellan Infrastructure Fund of 10% (excluding GST) of the amount by which the absolute dollar value of their performance, net of base fees, exceeds the applicable hurdle index for that fund, provided that:

- the total annual return in the relevant annual period exceeds the Australian Government 10-year bond rate (measured as an average of the 10-year bond rate published in the Australian Financial Review or similar publication) on the first day of each quarter occurring within the relevant annual period; and

- the Funds' unit prices (adjusted for intervening distributions) on the last day of the relevant annual period exceeds that on the last day of the most recent annual period for which a performance fee was paid to the Investment Manager within the last three years.

No performance fees were receivable from Magellan Global Fund or Magellan Infrastructure Fund for the annual period to 30 June 2008 (2007: $nil).

(iii) Unit holdings

The Company acquired 15,000,001 units in the Magellan Global Fund and 5,000,001 units in the Magellan Infrastructure Fund on 3 July 2007. The units are carried at their fair value being the exit unit price at 30 June 2008 of $0.8063 and $0.7882 respectively. The fair value of the unitholdings at 30 June 2008 are $12,095,000 (2007:$nil) and $3,941,000 (2007:$nil) respectively.

e) New Privateer Holdings Limited ('New Privateer')

(i) Amounts due to New Privateer

At balance date, a net amount of $13,304,000 (2007:$nil) was payable by the Company to New Privateer in respect of intergroup transactions including settlement amounts arising from the transfer of financial assets held by New Privateer to the Company, and amounts arising from the transfer of New Privateer's tax losses to the Company.

20. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

f) Equity Instrument Disclosure Relating to Key Management Personnel and Related Parties

Share Holdings

The number of ordinary shares held in the Company at balance date are:

Name	Balance at 1 July 2007	Acquisitions	Cancellations/ Disposals	Balance at 30 June 2008
Directors				
Naomi Milgrom	6,084,667	97,693	-	6,182,360
Paul Lewis	35,997	1,034,216 [5]	-	1,070,213
Brett Cairns	18,661	1,067,566 [5]	-	1,086,427
Hamish Douglass	12,645,337 [1]	7,604,482 [2]	12,606,006 [1]	7,643,813
Chris Mackay	20,728,698 [3]	15,625,740 [4]	19,302,657 [3]	17,051,771
Executives				
N Campbell	100,000	258,096 [6]	-	358,096
D Simpson	83,334	240,963 [7]	-	240,963

[1] This figure included the 12,606,006 MFG ordinary shares held by NPH Funds Pty Limited ('NPH Funds'), which at the time was a company 40% owned by a private investment company controlled by Mr Douglass and 60% owned by New Privateer Holdings Limited ('NPH').

[2] In connection with the Company's off-market takeover of NPH and the acquisition of Mr Douglass' 40% interest in NPH Funds (see note 17) the investment company controlled by Mr Douglass was issued with a total of 7,604,482 MFG ordinary Shares.

[3] This figure included the 6,696,651 MFG ordinary shares held by NPH (which at the time was company 36% owned by Mr Mackay) and the 12,606,006 shares held by NPH Funds (which at the time was 60% owned by NPH).

[4] As a result of the Company's off-market takeover of NPH (see note 17) Chris Mackay and his associates were issued with 15,625,740 MFG Ordinary Shares in consideration for accepting the Company's takeover offers for the 8,013,200 ordinary shares held in NPH.

[5] Includes 1,000,000 shares acquired under the Company's Share Purchase Plan

[6] Includes shares issued as a result of the Company's off-market takeover offer of NPH as consideration for Ms Campbell's holding of 120,000 ordinary shares in NPH, and shares acquired under the Company's Share Purchase Plan

[7] Includes shares acquired under the Company's Share Purchase Plan

The number of MFG Class B shares held in the Company at balance date are:

Name	**Balance at 1 July 2007**	**Acquisitions**	**Disposals**	**Balance at 30 June 2008**
Hamish Douglass	-	10,200,000 [1]	-	10,200,000

[1] Pursuant to a Share Purchase Agreement between the investment company controlled by Mr Douglass and Company, Mr Douglass' investment Company was issued 5,844,799 MFG ordinary Shares and 10,200,000 MFG Class B Shares in consideration for the sale to the Company of all the ordinary shares held in NPH Funds (representing 40% of all the NPH Funds shares).

The key terms and rights attaching to the MFG Class B Shares are disclosed in note 16.

20. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

f) Equity Instrument Disclosure Relating to Key Management Personnel and Related Parties (continued)

Option Holdings

The number of MFG 2009 Options (ASX: MFGOA) expiring 30 June 2009 held at balance date are:

Name	Balance at 1 July 2007	Acquisitions	Cancellations/ Disposals	Balance at 30 June 2008
Directors				
Naomi Milgrom	3,008,468	-	-	3,008,468
Paul Lewis	3,600	-	-	3,600
Brett Cairns	1,867	60,000	-	61,867
Hamish Douglass	6,304,535 [1]	-	6,300,601 [1]	3,934
Chris Mackay	9,992,874 [2]	-	9,370,267 [2]	622,607
Executives				
N Campbell	10,000	-	-	10,000
D Simpson	8,334	-	-	8,334

[1] This figure included the 6,300,601 MFG 2009 Options held at the time by NPH Funds Pty Limited ('NPH Funds'), a company 40% owned by a private investment company controlled by Mr Douglass and 60% owned by New Privateer Holdings Limited ('NPH').

[2] This figure included the 3,069,666 MFG 2009 Options held by NPH (which at the time was a company 36% owned by Mr Mackay) and the 6,300,601 MFG 2009 Options held by NPH Funds (which at the time was 60% owned by NPH).

The number of MFG 2011 Options (ASX: MFGOB) expiring 30 June 2011 held at balance date are:

Name	Balance at 1 July 2007	Acquisitions	Disposals	Balance at 30 June 2008
Directors				
Brett Cairns	-	9,054	-	9,054

20. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

f) Equity Instrument Disclosure Relating to Key Management Personnel and Related Parties (continued)

The number of MFG 2016 Options (ASX: MFGOC) expiring 30 June 2016 held at balance date are:

Name	Balance at 1 July 2007	Acquisitions	Disposals	Balance at 30 June 2008
Directors				
Naomi Milgrom	-	16,532	-	16,532
Paul Lewis	-	5,790	-	5,790
Brett Cairns	-	11,467	-	11,467
Hamish Douglass	-	297,792 [1]	-	297,792
Chris Mackay	-	2,644,354 [2]	-	2,644,354
Executives				
N Campbell	-	39,600 [3]	-	39,600

[1] As a result of the Company's off-market takeover of NPH (see note 17), the investment company controlled by Mr Douglass was issued with a total of 297,792 MFG 2016 Options in consideration for accepting the Company's takeover offer for the 902,402 ordinary shares held in NPH.

[2] As a result of the Company's off-market takeover of NPH (see note 17), Chris Mackay and his associates were issued with 2,644,354 MFG 2016 Options in consideration for accepting the Company's takeover offer for the 8,013,200 ordinary shares held in NPH.

[3] MFG 2016 Options issued as a result of the Company's off-market takeover offer of NPH as consideration for Ms Campbell's holding of 120,000 ordinary shares in NPH

The key terms and rights attaching to the MFG 2009 Options, MFG 2011 Options, and MFG 2016 Options are disclosed in note 16.

Unit Holdings in Magellan Global Fund and Magellan Infrastructure Fund

The number of units in Magellan Global Fund held at balance date are:

Name	Balance at 1 July 2007	Acquisitions	Disposals	Balance at 30 June 2008
Directors				
Paul Lewis	-	26,744	-	26,744
Hamish Douglass	-	781,959	-	781,959
Chris Mackay	-	391,619	-	391,619

20. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

f) Equity Instrument Disclosure Relating to Key Management Personnel and Related Parties (continued)

The number of units in Magellan Infrastructure Fund held at balance date are:

Name	Balance at 1 July 2007	Acquisitions	Disposals	Balance at 30 June 2008
Directors				
Paul Lewis	-	26,360	-	26,744

In respect of these units issued to directors, Magellan Asset Management, the Responsible Entity, exercised its right to waive the contribution fee of 1.25% which it is entitled to levy on investors who invest in the funds directly instead of through a financial adviser.

Loans

The Company has made full recourse interest free loans to Non-executive Directors 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 the Remuneration Report – Share Purchase Plan.

Name	Shares acquired during the year under SPP	SPP Loan Balance at 1 July 2007	Loans made	Repayments	SPP Balance at 30 June 2008 Face value	SPP Balance at 30 June 2008 Face value
	Number	$	$	$	$	$
Directors						
Paul Lewis	1,000,000	-	1,245,000	-	1,245,000	949,804
Brett Cairns	1,000,000	-	1,245,000	-	1,245,000	949,804
					2,490,000	1,899,608

The Company has made full recourse interest free loans to the following Key Management Personnel in connection with shares acquired under the Company's SPP during the year. The number of shares acquired and the terms and conditions of the loans including repayment terms are disclosed in the Remuneration Report – Share Purchase Plan.

Name	Shares acquired during the year under SPP	SPP Loan Balance at 1 July 2007	Loans made	Repayments	SPP Balance at 30 June 2008 Face value	SPP Balance at 30 June 2008 Face value
	Number	$	$	$	$	$
Executives						
N Campbell	24,096	-	30,000	29,425	575	537
D Simpson	240,963	-	300,000	18,725	281,275	198,399
					281,850	198,936

21. CONTINGENT LIABILITIES AND COMMITMENTS FOR EXPENDITURE

Capital Commitments
The directors are not aware of any capital commitments as at the date of this report.

Lease Commitments
A controlled entity, Magellan Asset Management Limited ('MAM'), has entered into non-cancellable operating leases for its office premises at Level 7 at 1 Castlereagh Street Sydney and for office equipment.

	Consolidated		Parent	
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Within one year	323	513	-	-
Later than one year but not later than five years	960	2,002	-	-
	1,283	2,515	-	-

In March 2008, MAM surrendered its operating lease for office premises at Level 1 at 1 Castlereagh Street, and ceased making lease payments from that time. The Group has no further lease commitments or other obligations in relation to these office premises.

Contingent Liabilities
The directors are not aware of any contingent liabilities at balance date.

22. SEGMENT INFORMATION

The Company operates solely from Australia. It operates in one business sector, being the provision of investment management services.

While the Company operates from Australia only (the geographical segment), it has investment exposures in different countries. The geographical locations, as determined by the domicile of the primary stock exchange of the investments, of those exposures are outlined in note 11 to the financial statements

23. EVENTS SUBSEQUENT TO REPORTING DATE

No significant events have occurred since the balance date which would impact on the financial position of the group as at 30 June 2008 and on the results for the year ended on that date.

24. AUDITOR'S REMUNERATION

	Consolidated		Parent	
	2008	2007	2008	2007
	$'000	$ '000	$ '000	$ '000
Amounts received or due and receivable by Ernst & Young Australia for:				
-an audit of the financial report for the entity and its operating subsidiaries	113	112	86	77
-other regulatory audit services - AFSL	10	9	-	-
Amounts received or due and receivable by KPMG Australia for:				
-audit and review of the annual financial report for the controlled trusts	14	-	-	-
-audit of the compliance plan for each controlled trust	10	-	-	-
-tax compliance (tax returns)	43	-	13	-
-tax advice	39	-	-	-
	229	121	99	77

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2008

In accordance with a resolution of the Directors of Magellan Financial Group Limited, I state that:

In the opinion of the Directors:

(a) the financial statements, notes and the additional disclosures included in the Directors Report designated as audited, of the company and of the consolidated entity are in with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2008 and of their performance for the year ended on that date; and

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

(b) there are reasonable grounds to believe that 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 2008.

On behalf of the Board

Hamish Douglass
Chairman
Sydney
22 September 2008

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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 balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entities 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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.

ERNST & YOUNG

Independence

In conducting our audit we have met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. 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 financial position of Magellan Financial Group Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2008. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

RDaSilva

Rita Da Silva
Partner
Sydney
17 September 2008

SHAREHOLDER INFORMATION

AS AT 5 SEPTEMBER 2008

Distribution of Shareholders
The distribution of shareholders of the Company as at 5 September 2008 is presented below:

Distribution Schedule of Holdings	Number of Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	894	589,045	0.41
1,001-5,000	1,192	3,010,166	2.07
5,001-10,000	413	3,133,839	2.15
10,001-100,000	782	22,832,992	15.70
100,001 and over	110	115,871,483	79.67
Total	**3,391**	**145,437,525**	**100.00**
Number of holders with less than a marketable parcel	667		

Twenty Largest Shareholders
The names of the twenty largest shareholders of the Company as at 5 September 2008 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Cavalene Holdings Pty Ltd	18,006,006	12.38
Magellan Equities Pty Ltd	15,426,120	10.61
Midas Touch Investments Pty Ltd	7,643,813	5.26
Nota Bene Investments Pty Ltd	6,006,006	4.13
UBS Wealth Management Australia Nominees Pty Ltd	5,628,615	3.87
Cogent Nominees Pty Ltd	4,967,645	3.42
Vahedin Pty Ltd	4,371,069	3.01
Mr Jeffrey Emmanuel	3,880,196	2.67
Queensland Investment Corporation	2,875,540	1.98
Doulev Pty Ltd	2,286,006	1.57
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	2,218,059	1.53
Aljamat Pty Ltd	1,962,056	1.35
Mr Peter David Kennan	1,891,594	1.30
ANZ Nominees Limited	1,851,985	1.27
Mr David Dixon & Ms Catherine Ramm	1,782,810	1.23
Mr David Doyle	1,500,000	1.03
Innisfallen Investments Pty Ltd	1,356,662	0.93
Christopher John Mackay	1,206,016	0.83
Giwah Pty Ltd	1,121,287	0.77
Forbar Custodians Limited	1,021,684	0.70
Total shares held by the twenty largest shareholders	**87,003,169**	**59.82**
Total shares in issue		**145,437,525**

SHAREHOLDER INFORMATION

AS AT 5 SEPTEMBER 2008

Substantial Shareholders

The names of the substantial shareholders of the Company and their holdings as at 5 September 2008 are listed below:

Shareholder	Number of Ordinary Shares	Percentage of Shares in Issue
Cavalane Holdings Pty Ltd		
(an entity controlled by Consolidated Press Holdings Ltd)	18,006,006	12.38%
Chris Mackay and associates	16,829,701	11.57%
Hamish Douglass and Midas Touch Investments Pty Ltd	7,643,813	5.26%

Voting Rights

Subject to the Company Constitution:

a) at meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;

b) on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and

c) on a poll, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote for every share held by the shareholder.

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

Stock Exchange Listing

The Company's ASX code is "MFG" for its shares and "MFGOA", "MFGOB", and "MFGOC" for its listed options.

CORPORATE DIRECTORY

Directors

Hamish Douglass – Chairman
Chris Mackay – Deputy Chairman
Naomi Milgrom
Paul Lewis
Brett Cairns

Company Secretaries

David Simpson
Leo Quintana

Registered Office

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

Auditors

Ernst & Young
680 George Street
Sydney NSW 2000

http://www.magellangroup.com.au

MAGELLAN
FINANCIAL GROUP LIMITED