MAGELLAN
FINANCIAL GROUP LIMITED

2009 ANNUAL REPORT

CONTENTS

ANNUAL INVESTOR LETTER

SEPTEMBER 2009

Dear Investor,

Magellan Financial Group Limited ('Magellan' or 'Group') recorded a full year net loss after tax of $12,365,000 for the year ended 30 June 2009 (2008: $6,203,000 profit).

OVERVIEW OF RESULTS

The Group's underlying operating result, excluding significant items and unrealised mark-to-market investment losses, was a profit after tax of $1.1 million. This compares with a corresponding underlying operating loss after tax for the previous financial year of $1.6 million.

The Group's reported result includes:

- revenues, excluding realised and unrealised investment losses and foreign exchange losses, of $9.8 million compared with underlying revenues of $9.6 million for the previous corresponding period;

- total operating expenses of $7.7 million, compared with total operating expenses of $11.6 million for the previous corresponding period. We had originally forecast total operating expenses for the 2009 financial year of approximately $10 million and we revised this estimate to $7.3 million at the time of the release of the Group's half year results. The total operating expenses of $7.7 million for the 2009 financial year included a non-recurring non-cash charge in respect of the Company's share purchase plan of $0.47 million, which was incurred in the last six months;

- non-recurring and non-cash significant items which reduced the reported result by $2.8 million after tax. Each of these items represent accounting entries which we believe should be excluded from the results in order to better understand the underlying operating performance of the Group. These items are:

  - an accounting profit after tax of $1.3 million for the final accounting adjustment for MFG 2009 Options which expired on 30 June 2009;

  - an accounting loss after tax of $3.3 million on the deemed disposal on deconsolidation of our two managed unit trusts; and

  - an accounting loss after tax of $0.8 million representing the minority unitholders' share of the change in value of their interests in our two managed unit trusts from 1 July 2008 up to the date of their deconsolidation,

- a net loss before tax of $15.3 million ($10.7 million after tax) consisting of the Group's share of unrealised mark-to-market losses. This includes the transfer of $14.5 million (before tax) as an impairment loss to the Income Statement from the available for sale reserve, as required by International Accounting Standards, where there has been a significant or prolonged decline in the market value of an investment below its cost. As shown in the Financial Statements, the Directors note that the impairment losses are unrealised and may reverse in future periods, but that any such reversals will be credited to the asset revaluation reserve and not the Income Statement. The transfer of the impairment losses has no impact on the Group's Balance Sheet or net assets per share, as these assets are carried at their market value.

Magellan is in a strong financial position with an extremely strong Balance Sheet. At 30 June 2009:

- the Group had cash of approximately $39.6 million, investment assets of approximately $45.8 million and shareholders funds of $101.7 million; and

- the Group's NTA per share (diluted for the conversion of the Class B shares) was approximately $0.66 (2008:$0.67).

The underlying revenues for 2010 and future years will depend upon the Group's average level of funds under management, the investment performance of the individual funds, as well as 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.

The Group's investment assets comprised $34.1 million in the three funds that we manage and an investment portfolio of $11.7 million (which includes fixed and floating rate debt investments of $5.4 million). As we indicated at the time of the release of the half year results, we intend to make further investments in the funds that we manage. Subsequent to the end of the financial year, the Group acquired a further 14.3 million shares in Magellan Flagship Fund Limited for $8.4 million.

As at 30 June 2009, the Group had invested approximately $10 million in the establishment of its funds and asset management business. We believe that this largely covers our upfront investment in people and infrastructure. Based on the current revenues and cost structure for this business, we do not believe we will need to make any material additional capital commitment to this business. We continue to believe that over time Magellan is likely to generate an acceptable return on this investment, and this business is Magellan's focus.

MAGELLAN'S FUNDS AND ASSET MANAGEMENT BUSINESS

For the year ended 30 June 2009, the funds and asset management business generated revenues of approximately $6.2 million (2008: $5.1 million) and had expenses of approximately $7.1 million (2008: $10.4 million), which resulted in a loss before tax of $0.9 million (2008: loss of $5.3 million). Based on current revenues and expenses, the funds and asset management business is now profitable. The future results of the funds and asset management business will largely depend upon Magellan's ability to grow and retain funds under management and achieve satisfactory risk adjusted returns for investors in our funds.

As at 18 September 2009, the Group had funds under management of approximately $500 million, split between global equities and infrastructure equities. This compared with funds under management of $393 million at 30 June 2009, $383 million at 31 December 2008, and $336 million at 30 June 2008. The directors are comfortable that Magellan is well placed to attract funds under management in 2010 and beyond:

- the Magellan Global Fund has continued to build its reputation with research houses and major financial planning groups. As at 18 September 2009 the Magellan Global Fund had funds under management of approximately $115 million, compared with $36 million at 31 December 2008.

- our infrastructure team continues to have promising discussions with a number institutional clients and we are hopeful that these discussions will result in a number of mandates being awarded in the 2010 financial year.

Magellan is establishing the foundations for a world class funds and asset management business built upon the achievement of solid risk adjusted investment performances over time. This core business is scalable and funds under management can grow significantly without the need to add materially to the number of people employed.

It is still very early days in the life of our business and there are no grounds for any complacency or lack of focus. We will only succeed for the long-term through rigorous analytical processes and a disciplined focus upon managing risks as well as returns for the investment funds entrusted to us.

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

We have reviewed many proposals over the past 24 months. However 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. Some very detailed work was undertaken in conjunction with UBS during the financial year but we determined not to progress these opportunities. We compare any outside investment opportunities with the opportunities inside Magellan Asset Management and the Group's funds and principal investments.

ANNUAL INVESTOR LETTER (CONTINUED)

INVESTMENTS IN MAGELLAN'S FUNDS AND PRINCIPAL INVESTMENTS

As at 30 June 2009, Magellan's investment assets comprised $34.1 million in the three funds we manage and an investment portfolio of $11.7 million (which includes fixed and floating rate debt investments of $5.4 million). Subsequent to the end of the financial year, we acquired a further 14.3 million shares in Magellan Flagship Fund Limited for $8.4 million. Over time we hope to earn satisfactory returns for shareholders via the sensible deployment of the Group's capital, whilst maintaining capital strength to underpin the business.

In 2008/9 we deployed $5.4 million (as at 30 June 2009) in fixed and floating rate investments in Australian Dollar bonds issues by some global companies where we were satisfied with their credit quality. These are scheduled to mature in calendar 2010 and earn analysed yields from 5.55% to 9.67% for credit qualities that we believe are comparable with those of the major Australian banks. These securities are liquid and we regard them as comparable to our cash holdings, although we expect to hold them to maturity.

In early 2009 we also decided to increase our investment in equities and have done so by increasing our investment in the funds we manage.

We consider the Group's investments in our funds as "look through" investments in the underlying companies which comprise the portfolios. The following table aggregates these "look through" investments with the Group's direct portfolio investments to show the ten largest aggregated "look through" equity investments as at 30 June 2009.

MFG's Ten largest Investments on a "Look Through" basis	30 June 2009 A$m Market Price
American Express	5.2
Nestlé	5.1
Yum! Brands	3.9
Wal-Mart	3.9
eBay	3.3
PepsiCo	2.4
Google	2.1
Procter & Gamble	2.0
Coca-Cola	1.7
McDonald's	1.7

The other listed holdings in which the group has "look through" holdings valued in excess of $1m as at 30 June 2009 market prices are Tesco Plc, Unilever and Colgate-Palmolive.

We are delighted with the quality of the investments in our funds and believe that Magellan has acquired interests in high quality companies on terms that we regard as attractive.

Many of these businesses have extraordinary and sustainable competitive advantages. They generate strong cash flows and returns well above their cost of capital. They have satisfactory growth profiles with market leading positions in emerging markets, as well as leadership in most developed markets

Although economic growth and business profitability is likely to be subdued in many parts of the world, we expect these companies to continue to demonstrate business resilience.

As at 30 June 2009, the group had cash of approximately $39.6 million in addition to the fixed and floating rate investments mentioned earlier. We intend for Magellan to keep a very strong Balance Sheet including a high level of liquidity and the investments in a handful of global leading, high ROE businesses.

We firmly believe that this conservative Balance Sheet approach has benefitted the Company, particularly during the early stages of the funds and asset management business in the extreme markets of the last two years. We also believe that Balance Sheet strength will be a significant future benefit.

MAGELLAN'S INVESTMENT OBJECTIVES

As our business remains young and our approach not widely known, we felt it helpful to discuss our investment approach again this year. For those of you who read last year's Annual Report you will see that it is virtually identical to Hamish's comments in that Report, and may help explain why the Magellan Global Fund managed by Hamish is very materially outperforming the market benchmarks.

At Magellan we have two fundamental investment objectives:

- minimise the risk of a permanent capital loss for our investors; and

- 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 our 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.

The concept of "Margin of Safety" is central to our investment philosophy and our desire to minimize the risk of permanent capital loss. The margin of safety is a discount to our assessment of intrinsic value that we require before buying shares of a company. For companies of comparable quality and characterstics, the bigger the assessed discount, the wider the margin of safety. We combine this concept with a complementary primary filter focussed upon business quality.

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 24 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".

ANNUAL INVESTOR LETTER (CONTINUED)

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 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 analysing 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

In last year's Annual Report, Hamish set out some detailed market commentary which is worth reading, particularly in light of subsequent events. We have also released detailed market updates with the Annual Reviews of the funds and this is available from our website or from the ASX website.

In summary, we expect that ramifications from the Global Crisis will permeate for many years. Our principal response is to refocus upon the dual disciplines of Quality and Value. Over time, companies of the highest quality gain market share, produce strong free cashflows and demonstrate earnings resilience. If they are purchased when their valuations are attractive, we believe that returns will be at least satisfactory when held for the medium-term and beyond.

The Global Crisis put additional stress upon businesses, including quality businesses. This was most obvious in financials where even very high quality institutions were dragged into the vortex of the crisis of confidence when bankers stopped transacting and lending with each other and the inter-bank market dried up.

We sought to asses and reassess the business strengths and weaknesses of all of our investee companies in the context of the crisis. The crisis has been an opportunity to further upgrade the quality of the portfolios managed by Magellan on terms we regard as attractive.

There will be further market volatility. The last 12 months demonstrate the speed with which the 'crowd' (investors and speculators) swing to and from greed and fear. Politicians and the public will rewrite the rules governing some industries, and protectionism will increase. Consumers, businesses, governments and central bankers also have the extremely difficult tasks of assessing when (and how) the unprecedented stimulus should be reduced and how to pay for it. Some significant distortions in asset markets, from artificially low interest rates and excess liquidity, are returning.

There are also considerable debates about inflation and deflation. We seek to be prepared for both, with investments in companies with pricing power supported by sustainable competitive advantages. We also expect the impacts of technological change to continue to be very important for society and investors.

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 faithfully,

Chris Mackay
Chairman

Hamish Douglass
Managing Director & CEO

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2009

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 2009.

DIRECTORS

Name	Directorship	Appointed
Chris Mackay	Chairman (appointed 27 May 2009) and Executive Director	21 November 2006
Hamish Douglass	Managing Director and Chief Executive Officer (resigned as Chairman 27 May 2009)	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

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

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, MFGOB, and MFGOC. The Company also has on issue unlisted Class B shares.

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

TRADING RESULTS
The Group's net loss after tax for the year ended 30 June 2009 was $12,365,000 (2008: $6,203,000 profit).

The Group's underlying operating result, excluding significant items and unrealised mark to market investment losses, was a profit after tax of $1.1 million. This compares with a corresponding underlying operating loss after tax for the previous financial year of $1.6 million.

The Group's reported result includes

- revenues, excluding realised and unrealised investment losses and foreign exchange losses, of $9.8 million which compares to underlying revenues of $9.6 million for the previous corresponding period.

- total operating expenses of $7.7 million, which compares to total operating expenses of $11.6 million for the previous corresponding period. We had originally forecast total operating expenses for the 2009 financial year at approximately $10 million and we revised this estimate to $7.3 million at the time of the release of the Group's half year results. The total operating expenses of $7.7 million for the 2009 financial year included a non-recurring non-cash charge in respect of the Company's share purchase plan of $0.47 million, which was incurred in the last six months.

- non-recurring and non-cash significant items which reduced the reported result by $2.8 million after tax. Each of these items represent accounting entries which we believe should be excluded from our results in order to better understand the underlying operating performance of the Group. These items are:

  - an accounting profit after tax of $1.3 million for the final accounting adjustment for MFG 2009 Options which expired on 30 June 2009;
  - an accounting loss after tax of $3.3 million on the deemed disposal on deconsolidation of our two managed unit trusts;

- an accounting loss after tax of $0.8 million representing the minority unit holders' share of the change in value of their interests in our two managed unit trusts from 1 July 2008 up to the date of their de-consolidation.

- a net loss before tax of $15.3 million ($10.7 million after tax) consisting of the Group's share of unrealised mark to market losses. This includes the transfer of $14.5 million (before tax) as an impairment loss to the Income Statement from the available for sale reserve, as required by International Accounting Standards where there has been a significant or prolonged decline in the market value of an investment below its cost. The directors note that the impairment losses are unrealised and may reverse in future periods, but that any such reversals will be credited to the asset revaluation reserve and not the Income Statement. The transfer of the impairment losses has no impact on the Group's balance sheet or net assets per share, as these assets are carried at their market value.

Magellan is in a strong financial position with an extremely strong balance sheet. At 30 June 2009:

- the Group had cash of approximately $39.6 million, investment assets of approximately $45.8 million and shareholders funds of $101.7 million.

- the Group's NTA per share (diluted for the conversion of the Class B shares) was approximately $0.66 (2008:$0.67).

The Group's investment assets comprised $34.1 million in the three funds that we manage and an investment portfolio of $11.7 million (which includes fixed and floating rate debt investments of $5.4 million). As we indicated at the time of the release of the half year results we intend to make further investments in the funds that we manage. Subsequent to the end of the financial year the Group acquired a further 14.3 million shares in Magellan Flagship Fund Limited for $8.4 million.

As at 30 June 2009 the Group has invested approximately $10 million in the establishment of its funds and asset management business. As previously disclosed, we believe that this largely covers our upfront investment in people and infrastructure. Based on the current revenues and cost structure for this business, we do not believe we will need to make any material additional capital commitment to this business. We continue to believe that over time Magellan is likely to generate an acceptable return on this investment, and this business is Magellan's focus.

For the year ended 30 June 2009 the funds and asset management business generated revenues of approximately $6.2 million (2008: $5.1 million) and had expenses of approximately $7.1 million (2008: $10.4 million), which resulted in a loss before tax of $0.9 million (2008: loss of $5.3 million). Based on current revenues and expenses, the funds and asset management business is now profitable. The future results of the funds and asset management business will be largely dependent on Magellan's ability to grow and retain funds under management and achieve satisfactory risk adjusted returns for investors in our funds.

As at 21 August 2009, the Group had funds under management of approximately $481 million, which compared to funds under management of $393 million at 30 June 2009, $383 million at 31 December 2008, and $336 million at 30 June 2008. The Group's funds under management are split approximately $370 million in global equities and $100 million in infrastructure equities. The directors are comfortable that Magellan is well placed to attract funds under management in 2010 and beyond:

- the Magellan Global Fund has continued to build its reputation with research houses and major financial planning groups. At 21 August 2009 the Magellan Global Fund had funds under management of approximately $98 million, which compared to $36 million at 31 December 2008.

- our infrastructure team continues to have promising discussions with a number institutional clients and we are hopeful that these discussions will result in a number of mandates being awarded in the 2010 financial year.

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.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

CHANGES IN THE STATE OF AFFAIRS
There were no 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
Subsequent to the end of the financial year, the Group acquired 14,336,117 shares in Magellan Flagship Fund Limited (ASX code: MFF) on-market for $8.4 million. As at the date of this report the Group holds 44,727,166 MFF shares or 12.49% (2008: 27,494,268 or 7.27%).

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 Group over time by increasing the value and performance of funds under management, seeking to grow the value of the Group's investment portfolio 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 those 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 independence requirements of the *Corporations Act 2001.*

	2009	2008
	$	$
Audit services:		
Auditors of the Company and its operating subsidiaries – Ernst & Young		
Audit and review of the annual financial report	151,498	112,800
Auditors of the unlisted trusts – KPMG		
Audit and review of the annual financial report	26,167	14,000
	177,665	126,800
Other services:		
Auditors of the Company and its operating subsidiaries – Ernst & Young		
Other regulatory audit services	10,000	9,700
Tax compliance	8,500	-
Tax advice	15,000	-
Auditors of the unlisted trusts - KPMG		
Compliance plan audit	10,250	10,000
Tax compliance (tax returns)	44,341	43,230
Tax advice	5,364	39,169
	93,455	102,099

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

INFORMATION ON DIRECTORS

Chris Mackay
Chairman and Executive Director

Mr Mackay has considerable experience in business management, capital allocation, risk management and investment. Mr Mackay is a Non-executive director of Magellan Flagship Fund Limited (appointed September 2006), and a director of Consolidated Media Holdings Limited (formerly Publishing & Broadcasting Limited) (appointed March 2006), and was previously a director of Crown Limited (appointed July 2007, resigned March 2008), and New Privateer Holdings Limited (appointed April 2006, resigned August 2007). 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.

Hamish Douglass
Managing Director and Chief Executive Officer, and member of the Audit and Risk Committee

Mr Douglass has more than 18 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 (appointed September 2006). Mr Douglass is a member of the Australian Takeovers Panel, and a member of the Forum of Global Young Leaders of the World Economic Forum.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

Naomi Milgrom
Non-executive Director

Ms 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 Chairman 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 is Chairman of PSP International and 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 including local Chairman for Australia and New Zealand. He is the Deputy Chairman of the Australian British Chamber of Commerce.

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

Mr Cairns was formerly 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 Consulting Counsel and Company Secretary. He is also the Company Secretary and Consulting 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.

Leo Quintana
Company Secretary

Mr Quintana is the Company's Legal Counsel and Company Secretary. He is also the Legal Counsel and Company Secretary of Magellan Flagship Fund Limited and Magellan Asset Management Limited. Mr Quintana has 8 years experience as a corporate lawyer. He is admitted as a solicitor of the Supreme Court of New South Wales and previously was an associate - commercial and corporate group, of Harris Friedman Hyde Page Lawyers.

DIRECTORS' MEETINGS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2009 and attended by each Director.

	Board Meetings		Audit and Risk Committee Meetings	
	Held	Attended	Held	Attended
	Whilst a Director		Whilst a Member	
Chris Mackay	4	4	n/a	n/a
Hamish Douglass	4	4	7	6
Naomi Milgrom	4	3	n/a	n/a
Paul Lewis	4	4	7	7
Brett Cairns	4	4	7	7

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 Board reviews and determines the remuneration of the Non-executive Directors and may utilise the services of external advisors. 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 investment returns for investors in the funds managed by the Group and 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.

Further details of the Plan are provide in note 13 to the financial statements.

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.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

Details of Remuneration

The Non-executive Directors of the Company were remunerated by the Company, except where noted, and received the following amounts during the year:

	Short term Benefits		Post-employment Benefits	Termination Benefits	Share based Payment	Total
Non-executive Directors	**Salary**	**Cash Bonus**	**Superannuation**		**Under SPP[1]**	
	$	$	$	$	$	$
Naomi Milgrom	13,379	-	1,204	-	-	14,583
Paul Lewis	20,000	-	-	-	71,657	91,657
Brett Cairns [2]	79,223	13,380	5,865	83,626	71,657	253,751

[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)

[2] Mr Cairns was employed as an Executive by Magellan Asset Management Limited, a controlled entity, during the period 10 November 2008 to 22 May 2009, and received remuneration of $175,427 (inclusive of a cash bonus of $13,380, superannuation of $5,727 and a termination payment of $83,626) in that capacity. Mr Cairns employment costs relating to his Executive appointment were fully reimbursed by UBS Investment Bank (UBS) under the Strategic Alliance announced on 3 October 2008.

Comparative information for the year ended 30 June 2008 is as follows:

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

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 Payment	Total
Key Management Personnel (including Executive Directors)	**Salary**	**Superannuation**	**Under SPP[1]**	
	$	$	$	$
Chris Mackay Chairman and Executive Director	236,255	13,745	-	250,000
Hamish Douglass Managing Director and Chief Executive Officer	236,255	13,745	-	250,000
N Campbell Chief Financial Officer and Chief Operating Officer	199,255	13,745	1,823	214,823

[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

Comparative information for the year ended 30 June 2008 is as follows:

	Short term Benefits		Post-employment Benefits	Share based Payment	Total
Key Management Personnel (including Executive Directors)	Salary	Cash Bonus	Superannuation	Under SPP[1]	
	$	$	$	$	$
Chris Mackay Chairman and Executive Director	78,957	-	5,059	-	84,016
Hamish Douglass Managing Director and Chief Executive Officer	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

No amounts were paid to Non-executive Directors, Executive Directors or other Key Management Personnel during the year (2008: nil) in respect of other long-term benefits.

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), Mr Cairns while employed in the capacity of Chief Executive Officer of Magellan Capital Partners Pty Limited, Key Management Personnel and all other employees are engaged under employment agreements.

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

The Chairman, Mr. Mackay is employed under a contract with effect from 1 March 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 year ending 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 any time 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 any time 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.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

The Managing Director and Chief Executive Officer, Mr. Douglass, is employed under a contract with effect from 1 March 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 year ending 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 any time 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 any time 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's 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.

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.

Chris Mackay
Chairman

Sydney
26 August 2009

AUDITOR'S INDEPENDENCE DECLARATION

ERNST & YOUNG

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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 2009, 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
26 August 2009

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

C. Mackay (Chairman and Executive Director)
H. Douglass (Executive Director)
N. Milgrom (Independent Non-Executive Director)
P. Lewis (Independent Non-Executive Director)
B. Cairns (Independent Non-Executive Director)

Details of each Board member's background and attendance at Board meetings are set out in the Directors' Report.

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 currently comprises five Directors, three of whom are 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.

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 corporate governance policies of the Company and its controlled entities (collectively the "Group") 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 Group 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 Charter is available from the Company by contacting the Company Secretary.

The principal responsibilities of the Board include:

- assessing the Group's overall performance;
- providing strategic advice to the Group's senior management;
- approving the appointment and removal of the Chairman, Deputy Chairman, Chief Executive Officer, Chief Financial Officer and the Company Secretary;
- 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);
- reporting to shareholders;
- reviewing the Group's investment activities;
- approving an annual operating budget for the Group, for the financial year ahead;
- approving the Company's annual financial statements and reports to shareholders;
- approving the Company's half year financial statements and reports to shareholders;
- 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; and
- ensuring the risk management systems, including internal controls, operating systems and compliance processes, are operating efficiently and effectively.

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 2009 the Non-executive Directors' fees are in each case:

- $10,000 as a Non-executive Director of MFG;
- $5,000 as a member of the Audit and Risk Committee;
- $5,000 as a Director of Magellan Asset Management Limited

plus reimbursement of expenses such as travelling expenses

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

1.5 Evaluation of Performance

The Board reviews its performance in terms of the Group's objectives and results.

The Group's Chief Executive Officer reviews the performance of the Group's senior management team. The Chief Executive Officer sets performance objectives for each senior management team member at the beginning of each financial year. Performance reviews of each senior management team member are carried out against their objectives with input from appropriate stakeholders.

1.6 Access to Information and Independent advice

Directors have access to any information they consider necessary to fulfil their responsibilities and to exercise independent judgment when making decisions.

Directors may obtain independent professional advice at the Company's expense, subject to making a request to, and obtaining the prior authorisation of, the Chairman of the Board. Where the Chairman of the Board wishes to obtain independent professional advice, the Chairman is required to make a request to, and obtain the prior authorisation of, the Chairman of the Audit and Risk Committee of the Board.

2 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 Company does not have a Nomination Committee. This represents a departure from Recommendations 1.2 and 1.3 of the ASX Principles as 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.

Audit & Risk Committee

The Audit and Risk Committee is comprised of:

P. Lewis (Chairman and Independent Non-Executive Director)
B. Cairns (Independent Non-Executive Director)
H. Douglass (Executive Director)

Details of each Committee member's background and attendance at Audit and Risk Committee Meetings are set out in the Directors' Report.

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

The objective of the Audit and 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.

These objectives form the foundation of the Audit and Risk Committee's Charter. A copy of this Charter is available from the Company by contacting the Company Secretary.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Audit and 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. ETHICAL CONDUCT

The Group's operating company, Magellan Asset Management Limited, has a Corporate Code of Conduct (the "Code") that applies to Directors and employees. The purpose of this Code is to:

- articulate the high standards of honest, ethical and law-abiding behaviour that is expected of Directors and employees;
- encourage the observance of those standards so as to protect and promote the interests of shareholders and other stakeholders;
- guide Directors and employees as to the practices thought necessary to maintain confidence in the Group's integrity; and
- set out the responsibilities and accountabilities of Directors and employees to report and investigate reports of unethical practices.

A copy of the Corporate Code of Conduct is available from the Company by contacting the Company Secretary.

4. MARKET DISCLOSURE

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's Continuous Disclosure Policy is designed to ensure that 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 Policy, which is available from the Company by contacting the Company Secretary, also sets out 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 after they are released to ASX.

5. SHAREHOLDER COMMUNICATIONS

The Board is committed to ensuring that shareholders are fully informed of material matters that affect the Company's position and prospects. It seeks to accomplish this through a strategy which includes:

- the Half Year Results released in February each year;
- the Full Year Results released in August each year;
- the Annual Report released in September each year;
- the Chairman's address to the Annual General Meeting; and
- the posting of significant information on the Company's website as soon as it is disclosed to the market.

The Company holds its Annual General Meeting in October and a copy of the notice of Annual General Meeting is posted on the Company's website and mailed to shareholders. The Board invites shareholders to attend the Annual General Meeting or to appoint a proxy to vote on their behalf if they are unable to attend. The formal addresses at the Annual General Meeting are disclosed to the market.

The Company's external auditor will be invited to attend any annual meeting and will be available to answer questions about the conduct of the audit and the preparation and contents of the auditor's report.

6. SHARE TRADING BY DIRECTORS AND EMPLOYEES

The Group's Trading Policy sets out the circumstances in which Directors and employees of the Group may deal in:

- the Company's securities, which includes any shares in the Company, debentures (including convertible notes) issued by 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, or 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.

A copy of the Trading Policy is available from the Company by contacting the Company Secretary.

7. RISK MANAGEMENT

The Board, through the Audit and Risk Committee, is responsible for ensuring that:

- there are adequate policies for the oversight and management of material business risks to the Group;
- there are effective systems in place to identify, assess, monitor and manage the risks of the Group and to identify material changes to the Group's risk profile; and
- arrangements are adequate for monitoring compliance with laws and regulations applicable to the Group.

Risks managed include:

- implementing strategies (strategic risk);
- operations or external events (operational risk);
- legal and regulatory compliance (legal risk);
- changes in community expectation of corporate behaviour (reputation risk); and
- being unable to fund operations or convert assets into cash (liquidity risk).

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Company has implemented risk management and compliance frameworks. These frameworks ensure that:

- emphasis is placed on maintaining a strong control environment;
- accountability and delegations of authority are clearly identified;
- risk profiles are in place and regularly reviewed and updated;
- timely and accurate reporting is provided to Management and respective Committees; and
- compliance with the law, contractual obligations and internal policies (including business rules of conduct) is communicated and demonstrated

The Group's senior management reports periodically to the Audit and Risk Committee on the effectiveness of its risk management and compliance frameworks.

8. CORPORATE REPORTING

In respect of the year ending 30 June 2009 the Chief Executive Officer 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 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.

9. REMUNERATION

It is an objective of the Group to attract and maintain talented and motivated Directors and employees so as to encourage enhanced performance and to pursue the long-term growth and success of the Group.

The Board determines the remuneration of the non-executive directors (including the members of all committees of the Board). Details of Board and executive remuneration are set out in the Remuneration Report which forms part of the Directors' Report.

The Company does not have a remuneration committee or has not disclosed a remuneration committee charter and this is a departure from ASX Recommendation 8.1 and 8.3. Given the size of the Company and its Board, a separate committee is not considered appropriate.

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Revenue					
Management fee revenue	3 a)	4,017	4,261	-	-
Interest income		2,947	4,219	2,455	3,042
Dividend and distribution income		794	630	797	544
Changes in the fair value of financial assets	4 a)	(15,331)	(3,372)	(16,714)	(1,821)
Net (losses) / gains on disposal of return available for sale financial assets	4 b)	(137)	247	(547)	218
Foreign exchange (losses) / gains		(231)	36	(342)	(20)
Other revenue	3 b)	2,000	508	1	(23)
Total revenue		(5,941)	6,529	(14,350)	1,940
Expenses					
Employee benefits expense		5,519	8,445	763	391
Depreciation and amortisation		154	78	-	-
Occupancy expense		342	514	-	-
Audit fees		198	147	123	86
Legal and professional fees		80	148	21	30
Fund administration expenses		251	137	-	-
Marketing expense		260	322	-	-
Management fee expense		-	606	-	597
Other operating expenses		902	1,216	168	197
Total expenses		7,706	11,613	1,075	1,301
Share of income from associate entity		272	-	-	-
Finance cost - external unitholders' share of net profit		(484)	(296)	-	-
Operating (loss) / profit before significant items and income tax		(13,859)	(5,380)	(15,425)	639
Income tax benefit / (expense)	5 a)	4,254	1,182	4,905	(266)
Net operating (loss) / profit before significant items		(9,605)	(4,198)	(10,520)	373

INCOME STATEMENT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Significant Items					
Finance cost – revaluation of external unit holders' units in unlisted funds		(769)	2,495	-	-
Deemed loss to parent on loss of control of unlisted funds	19	(4,118)	-	-	-
Write down of Goodwill	20	-	(18,644)	-	-
Write down of carrying value of controlled entities	11	-	-	(20,084)	-
AASB 132 Accounting Adjustment	18	1,327	26,550	1,327	26,550
Income tax expense on significant items	5 a)	800	-	-	-
Net profit / (loss) attributable to members of the parent		**(12,365)**	**6,203**	**(29,277)**	**26,923**

		Consolidated 2009 $'000	Consolidated 2008 $'000
Earnings per share			
Earnings attributable to shares			
Basic (loss)/ earnings per share	6	(8.5 cents)	5.0 cents
Diluted (loss)/earnings per share	6	(8.5 cents)	(15.7 cents)

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

BALANCE SHEET
AS AT 30 JUNE 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Assets					
Current assets					
Cash and cash equivalents	8	39,622	53,363	35,969	33,288
Financial assets	12 a)	3,316	3,200	3,075	1,978
Trade and other receivables	9	2,310	1,248	1,093	1,006
Loans - share purchase plan (SPP)	13	-	203	-	203
Prepayments		223	241	140	17
Total current assets		**45,471**	**58,255**	**40,277**	**36,492**
Non-current assets					
Investment in associate	10	15,441	-	15,441	-
Investments in controlled entities	11	-	-	12,539	76,916
Financial assets	12 b)	27,054	47,367	27,054	25,651
Deferred tax asset	5 d)	9,874	8,740	9,826	8,300
Loans - share purchase plan (SPP)	13	4,217	3,840	4,217	3,840
Loan to controlled entity	22 b)	-	-	1,150	1,150
Property, plant and equipment	14	359	511	-	-
Total non-current assets		**56,945**	**60,458**	**70,227**	**115,857**
Total assets		**102,416**	**118,713**	**110,504**	**152,349**
Liabilities					
Current liabilities					
Trade and other payables	15 a)	707	4,745	124	20,565
External unitholders' interests in controlled trusts		-	10,731	-	-
AASB 132 Accounting Adjustment	18	-	1,327	-	1,327
Tax liabilities		-	43	-	-
Total current liabilities		**707**	**16,846**	**124**	**21,892**
Non-current liabilities					
Trade and other payables	15 b)	-	-	2,569	2,772
				2,569	2,772
Total liabilities		**707**	**16,846**	**2,693**	**24,664**
Net assets		**101,709**	**101,867**	**107,811**	**127,685**
Equity					
Contributed equity	17	107,692	106,757	108,067	107,132
Available for sale reserve		(2,108)	(13,380)	(2,921)	(11,389)
Retained profit		(3,875)	8,490	2,665	31,942
Total attributable to members of the Group		**101,709**	**101,867**	**107,811**	**127,685**
Total equity		**101,709**	**101,867**	**107,811**	**127,685**

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 2009

	Attributable to Equity Holders of the Group			
	Contributed Equity	Retained Profits / (Accumulated Losses)	Available for Sale Reserve	Total
	$'000	$'000	$'000	$'000
Equity as at beginning of year	**106,757**	**8,490**	**(13,380)**	**101,867**
Net loss realised on disposal of available for sale financial assets	-	-	137	137
Impairment loss on available for sale financial assets	-	-	14,478	14,478
Net impact of deemed disposal of controlling interests in unlisted funds	-	-	4,084	4,084
Revaluation of available for sale financial assets	-	-	(2,178)	(2,178)
Share of revaluation of available for sale financial assets of associate	-	-	(1,290)	(1,290)
Income tax on items taken directly to or transferred from equity	-	-	(3,959)	(3,959)
Total income and expenses for the year recognised directly in equity	**-**	**-**	**11,272**	**11,272**
Net loss for year	-	(12,365)	-	(12,365)
Total (expense) / income for year	**-**	**(12,365)**	**11,272**	**(1,093)**
Issue of securities:				
- under share purchase plan (SPP)	209	-	-	209
SPP expense for the period	726	-	-	726
Total transactions with equity holders in their capacity as equity owners	**935**	**-**	**-**	**935**
Equity as at end of year	**107,692**	**(3,875)**	**(2,108)**	**101,709**

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

	Attributable to Equity Holders of the Group			
	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**
Net gains realised on disposal of available for sale financial assets			(194)	(194)
Impairment loss on available for sale financial asset	-	-	2,244	2,244
Revaluation of available for sale financial assets	-	-	(18,613)	(18,613)
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	(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 (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

	Attributable to Equity Holders of the Parent			
	Contributed Equity	Retained Profits / (Accumulated Losses)	Available for Sale Reserve	Total
	$'000	$'000	$'000	$'000
Equity as at beginning of year	**107,132**	**31,942**	**(11,389)**	**127,685**
Net loss realised on disposal of available for sale financial assets	-	-	547	547
Impairment loss on available for sale financial assets	-	-	15,977	15,977
Revaluation of available for sale financial assets	-	-	(4,467)	(4,467)
Income tax on items taken directly to or transferred from equity	-	-	(3,589)	(3,589)
Total income and expenses for the year recognised directly in equity	-	-	8,468	8,468
Net loss for year	-	(29,277)	-	(29,277)
Total (expense) / income for year		**(29,277)**	**8,468**	**(20,809)**
Issue of securities:				
- under share purchase plan (SPP)	209	-	-	209
SPP expense for the period	726	-	-	726
Total transactions with equity holders in their capacity as equity owners	**935**	**-**	**-**	**935**
Equity as at end of year	**108,067**	**2,665**	**(2,921)**	**107,811**

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

	Attributable to Equity Holders of the Parent			
	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**
Net loss realised on disposal of available for sale financial assets	-	-	144	144
Impairment loss on available for sale financial assets	-	-	1,626	1,626
Revaluation of available for sale financial assets	-	-	(16,289)	(16,289)
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 expensesfor 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 share purchase plan (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	(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 CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Cash flows from operating activities					
Receipt of fee income		4,085	4,585	-	-
Interest received		2,737	4,311	2,248	3,201
Proceeds from sale of held-for-trading financial assets		1,777	998	1,466	-
Purchases of held-for-trading financial assets		(263)	-	(263)	-
Other revenue received		1,293	455	-	(43)
Dividends received		475	392	140	37
Tax paid		(30)	(440)	-	-
Payments to suppliers and employees		(9,810)	(12,050)	(324)	(1,830)
Net cash inflows / (outflows) from operating activities	16	**264**	**(1,749)**	**3,267**	**1,365**
Cash flows from investing activities					
Proceeds from sale of available for sale financial assets		7,951	4,971	2,878	2,168
Purchases of available for sale financial assets		(14,692)	(38,818)	(9,215)	(9,488)
Interest received on fixed and floating rate securities		25	-	25	-
Loan advanced to controlled entity		-	-	-	(7,246)
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		-	7,003	-	-
Cash outflow on loss of control of unlisted trusts		(9,343)	-	-	-
Net cash flows from foreign exchange contracts		(1,162)	99	(138)	-
Proceeds from sale of plant and equipment		-	325	-	-
Purchase of plant and equipment		(2)	(244)	-	-
Net cash (outflows)/ inflows from investing activities		**(17,223)**	**(27,434)**	**(6,450)**	**(39,836)**
Cash flows from financing activities					
Proceeds from issue of securities and units	17	4,770	16,718	66	2,064
Payments for redemption of units		(1,978)	(1,382)	-	-
Borrowings from controlled entities		-	-	6,001	2,304
Payment of costs on issue of securities	17	-	(123)	-	(123)
Repayment of loans		-	(7,000)	-	-
Interest paid		-	(56)	-	(1)
Distributions paid by controlled unlisted trusts		(247)	-	-	-
Net cash inflows / (outflows) from financing activities		**2,545**	**8,157**	**6,067**	**4,244**
Net increase / (decrease) in cash and cash equivalents		(14,414)	(21,026)	2,884	(34,227)
Effects of exchange rate movements		673	(19)	(204)	-
Cash and cash equivalents at the beginning of the year		53,363	74,408	33,288	67,515
Cash and cash equivalents at the end of the year	8	**39,622**	**53,363**	**35,968**	**33,288**

The Statement of Changes in Equity 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 2009

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).

The nature of the operations and the principal activities of the Company and its controlled entities (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 and certain financial liabilities, 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 Accounting Standards
(i) 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.

- 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.

(ii) New Standards Adopted Early
AASB 8 Operating Segments is mandatory for accounting periods starting on or after 1 January 2009 but is available for early adoption. The Group has elected to early adopt this standard and has applied it in the preparation of this financial report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 8 replaces *AASB 114 Segment Reporting* and adopts a management reporting approach to segment reporting. The impact is to provide additional information to investors, that was not previously required.

(d) Basis of Consolidation

The financial report of the Group comprises the consolidated financial reports of the Company and its controlled entities:

	Ownership %	
	30 June 2009	30 June 2008
Magellan Asset Management Ltd^	100.0	100.0
Magellan Global Fund	ø	56.2
Magellan Infrastructure Fund	µ	75.2
New Privateer Holdings Pty Ltd*	100.0	100.0
Magellan Capital Partners Pty Ltd**	100.0	100.0

^ became a public company on 27 March 2007
* became a proprietary company on 29 May 2008
** formerly NPH Funds Pty Ltd
ø ceased to be a controlled entity on 4 December 2008
µ ceased to be a controlled entity on 22 October 2008

The controlling interest in New Privateer Holdings Pty Ltd ('New Privateer') and Magellan Capital Partners Pty Ltd (formerly NPH Funds Pty Ltd) ('MCP') was acquired on 7 February 2008. The results of these entities have been included from the date control was acquired.

The Company's controlling interest in Magellan Global Fund and Magellan Infrastructure Fund ('the Funds') was acquired on 1 July 2007. They ceased to be controlled entities of the Company on 4 December 2008 and 22 October 2008 respectively when external investor contributions into the funds diluted the Company's percentage holdings to less than 50% in each fund. As at 30 June 2009, the Company owned 9.3% of the total units in Magellan Infrastructure Fund and 22.2% of the total units in Magellan Global Fund.

The Funds are accounted for as controlled entities for the period from 1 July 2008 until the dates of loss of control and in the comparative information for the year ended 30 June 2008. From 4 December 2008 to 30 June 2009, Magellan Global Fund was deemed to be an associate entity as the percentage of the units of the fund held was sufficient to provide the Group with significant influence. The Group's share of Magellan Global Fund's result following loss of control is recognised as share of loss of an associate in accordance with *AASB 128: Investments in Associates* (see note 2k).

Magellan Infrastructure Fund has been classified as an available-for-sale financial investment from the date of loss of control or significant influence to 30 June 2009. Changes in the fair value since the date of loss of control are recognised in the Available For Sale Reserve.

Further details of the impact on the Income Statement of the Group's loss of control over Magellan Infrastructure Fund and Magellan Global Fund are disclosed in note 19.

The external unitholders' interests in units of the Magellan Global Fund and Magellan Infrastructure Fund up to the date at which they ceased to be controlled entities are classified as a financial liability, and the profit or loss which has accrued to the units during the period has been accounted for as an income or expense and presented in the Income Statement as "Finance cost – external unitholders' share of net profit".

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 will be determined by the Directors using an appropriate valuation methodology. 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) Operating Segment Reporting

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 De-recognition

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. Changes in fair value are recognised in the Income Statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-Maturity Financial Assets

Fixed and floating rate bonds are classified as held-to-maturity where it is the intention to hold them until maturity date. These securities are carried at amortised cost and the premium or discount on acquisition is recognised in the Income Statement using the effective interest rate method over the period from acquisition to maturity.

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 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 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. Unrealised changes in fair value are taken to an 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 there has been a significant or prolonged decline in the value of the asset, in accordance with *AASB 139: Financial Instruments: Recognition and Measurement*. 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.

Investments in Associates

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements and at fair value in the parent. The associate is an entity over which the Group is determined to have significant influence and that is neither a subsidiary nor a joint venture. The Group generally deems it has significant influence if it has greater than a 20% share in the entity.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Where an associate was previously a controlled entity of the Group, the deemed cost for the purpose of applying the equity method is the fair value on the date that the Group ceased to have a controlling interest.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with the respect to the Group's net investment in associates.

The Group's share of its associate's post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in reserves, including its available-for-sale reserve, is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions receivable from the associate are recognised in the Company's income statement as income, while in the consolidated financial statements they reduce the carrying value of the investment.

The reporting dates of the associate and the Group are identical. The Group's accounting policies have been adopted in determining the Group's share of profit or loss and the Group's share of post-acquisition movement in reserves recognised in the financial report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 three to five years
- Computer equipment	- over three to five 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 goods 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 the risk-free imputed interest rate at the time the loan is granted. 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*.

Details of the loans outstanding at balance sheet date, and of the changes in carrying value of the loans and staff expense recognised in the Income Statement during the year ended 30 June 2009 are provided in note 13.

(q) Contributed 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.

(r) 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, usually at the end of the period to which the 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 recognised on the applicable ex-dividend date.

Consulting Fee Income

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

(s) 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.

(t) Leases

Operating equipment lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

(u) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) 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.

(w) 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.

(x) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of recoverable GST. Where GST is not recoverable from the taxation authority, the GST is recognised as part of the applicable expense or cost of the asset acquired.

3. REVENUE

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
a) Management fee revenue				
Management and administration fees	4,017	4,261	-	-
	4,017	**4,261**	**-**	**-**

Magellan Asset Management Limited ('MAM'), a controlled entity, acts as Investment Manager for the Magellan Flagship Fund Limited (Flagship Fund) – see note 22(a) – and the Magellan Global Fund and the Magellan Infrastructure Fund – see note 22 (c). MAM received fees of $nil (2008: $40,000) in respect of administrative services provided to MCP for the period 1 July 2007 to 7 February 2008, the date on which the Company acquired control of MCP

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
b) Other revenue				
Consulting fee income	1,746	500	-	-
Other revenue[1]	254	8	1	(23)
	2,000	**508**	**1**	**(23)**

[1] Other revenue includes reimbursement by UBS of costs paid by MAM, as disclosed in the Directors' report.

4. CHANGES IN THE FAIR VALUE OF FINANCIAL ASSETS

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
a) Change in the fair value of financial assets				
Company and its operating subsidiaries				
- Fair value movements – held for trading	(853)	(1,128)	(737)	(195)
- Unrealised impairment loss – available for sale	(14,478)	(1,626)	(15,977)	(1,626)
Controlled trusts				
- Unrealised impairment loss – available for sale	-	(618)	-	-
	(15,331)	**(3,372)**	**(16,714)**	**(1,821)**
b) Net gain / (loss) on sale of available for sale financial assets				
- Company and its operating subsidiaries	(137)	239	(547)	218
- Controlled trusts	-	8	-	-
	(137)	**247**	**(547)**	**218**

The unrealised impairment loss on available for sale assets is categorised as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Company and its operating subsidiaries				
- Listed shares – Australia – Magellan Flagship Fund	(11,745)	-	(11,730)	-
- Listed shares – Australia - other	(111)	-	(111)	-
- Listed shares – United States	(973)	(1,626)	(967)	(1,626)
- Unlisted unit trusts – Magellan Infrastructure Fund	-	-	(1,596)	-
- Unlisted unit trusts - other	(1,649)	-	(1,573)	-
	(14,478)	**(1,626)**	**(15,977)**	**(1,626)**
Controlled trusts				
- Listed shares – Australia - other	-	(618)	-	-
	-	**(618)**	**-**	**-**

5. INCOME TAX

		Consolidated		Parent	
		2009 $'000	2008 $'000	2009 $'000	2008 $'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	iv)	(13,859)	(5,084)	(15,425)	639
Prima facie income tax credit / (expense) on operating loss at 30%		4,158	1,525	4,628	(191)
Adjustments arising on tax consolidation	i)	181	(172)	539	-
Tax expense relating to controlled entity recognised by parent		-	-	(71)	-
Share purchase plan	ii)	(206)	(74)	(206)	-
Tax effect of franked dividends received		3	6	-	-
Other non-assessable income and non-deductible expenses		12	(2)	15	(75)
Tax effect of contribution from unlisted unit trusts	iii)	106	(101)	-	-
		4,254	**1,182**	**4,905**	**(266)**

i) These adjustments reflect the increase or decrease to deferred tax assets arising from re-setting the tax cost base of financial assets under the tax consolidation regime.

Tax consolidation requires that the tax cost bases of a subsidiary member's assets be re-set at joining date to align them to the tax cost base of the consolidated tax group's interests in that subsidiary member. The tax cost base setting process allocates the cost of the membership interests in the subsidiary to the assets that the subsidiary has brought into the consolidated tax group in proportion to the assets' market values.

ii) 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.

iii) 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.

iv) There is no tax effect on the significant items except for the deemed loss to parent on loss of control of unlisted funds. Included within this item is the recognition in the Income Statement of investment gains and losses on the investment portfolios held by the trusts. Although these investment gains and losses are unrealised by the trusts, they are deemed to be realised in the consolidated income statement of the Group upon loss of a controlling interest in the trusts. A tax expense of 30% of the Group's (excluding external unit holders') share of these deemed losses has been recognised as a tax expense on significant items .

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
b) Total income tax benefit recognised in Income Statement:				
Income tax benefit attributable to operating profit	4,254	1,182	4,905	(266)
Income tax benefit attributable to significant items	800	-	-	-
Total income tax benefit / (expense) recognised in Income Statement	5,054	1,182	4,905	(266)
Current income tax benefit / (expense)	-	(7)	-	-
Deferred income tax benefit / (expense) – origination and reversal of timing differences	5,054	1,189	4,905	(266)
	5,054	**1,182**	**4,905**	**(266)**

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
c) Income tax benefit transferred directly to / (from) equity				
- Arising from the revaluation of available for sale financial assets	1,428	(4,889)	1,339	(4,836)
- Arising from the disposal of available for sale financial assets	(244)	16	(234)	16
- Arising from the recognition of impairment losses in the Income Statement	(4,459)	488	(4,939)	488
- Arising from the deemed disposal of controlling interest in unlisted funds	(790)	-	-	-
- Arising from the formation of a consolidated tax group	106	-	245	-
- Arising from costs associated with the issue of securities	-	(37)	-	(37)
Total income tax benefit / (expense) recognised directly in equity	(3,959)	(4,422)	(3,589)	(4,369)
Deferred income tax benefit / (expense) - origination and reversal of timing differences	(3,959)	(4,422)	(3,589)	(4,369)
	(3,959)	**(4,422)**	**(3,589)**	**(4,369)**

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
d) Deferred tax as at 30 June relates to the following:				
Tax losses carried forward	1,863	2,503	1,863	2,564
Net capital losses carried forward	943	35	943	35
Costs associated with the issue of securities deductible in future years	395	567	395	347
Revaluation of financial assets available-for-sale	6,198	4,930	6,198	5,337
Revaluation of financial assets held for trading	495	148	495	-
Impairment losses on available for sale financial assets	(12)	488	(12)	-
Other temporary differences	(8)	69	(56)	17
Deferred tax asset	**9,874**	**8,740**	**9,826**	**8,300**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

5. INCOME TAX (CONTINUED)

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 MCP 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. EARNINGS PER SHARE

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

a) Earnings per Share

	Consolidated	
	2009 $'000	**2008 $'000**
Basic earnings per share		
Net profit / (loss) attributable to security holders – basic	(12,365)	6,203
Weighted average number of securities for basic earnings per security ('000)	145,774	124,099
Basic (loss) / earnings per share	**(8.5 cents)**	**5.0 cents**
Diluted earnings per share		
Net profit / (loss) attributable to security holders – diluted	(12,365)	(20,347)
Weighted average number of securities for diluted earnings per security ('000)	145,774	129,823
Diluted (loss) / earnings per share	**(8.5 cents)**	**(15.7 cents)**

	Consolidated	
	2009 $'000	2008 $'000
The net (loss) / profit attributable to share holders on a fully diluted basis can be reconciled to the basic net profit as follows:		
Net profit attributable to share holders – basic	(12,365)	6,203
Deduct AASB 132 Accounting Adjustment	-	(26,550)
Net (loss) / profit attributable to security holders – diluted	(12,365)	(20,347)
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 share as follows:		
Weighted average number of shares already issued ('000)	145,774	124,099
Weighted average number of share on assumed exercise of:		
MFG 2009 Options ('000)	-	5,724
MFG 2011 Options ('000)	-	-
MFG 2016 Options ('000)	-	-
Class B shares	-	-
Weighted average number of shares for diluted earnings per share ('000)	145,774	129,823

b) Further information

The Company has on issue 6.0 million MFG 2011 Options (2008: 6.0 million), 7.9 million MFG 2016 Options (2008: 7.9 million) and 10.2 million Class B shares (2008: 10.2 million) 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 17.

For the calculation of the diluted earnings per share for the year ended 30 June 2009, the effect of the Class B shares is anti-dilutive as the Group has reported a net loss attributable to share holders. The Class B shares have the potential to dilute basic earnings per share in the future. If the Class B shares were converted for the year ended 30 June 2009, the total weighted average number of securities for the purposes of calculating the diluted earnings per share would be 154,520,578.

The 2011 and 2016 options are anti-dilutive as the Group has reported a net loss attributable to share holders, and because the exercise prices are in excess of the market price of ordinary shares throughout the year. These securities have the potential to dilute basic earnings per share in the future but it is not possible to estimate the potential impact they will have on the total weighted average number of shares for purposes of calculating diluted earnings per share.

For the calculation of the earnings per share for the year ended 30 June 2008, the effect of the 2009 options was dilutive. The AASB 132 Accounting Adjustment arose from the classification of the option embedded in the MFG 2009 Options as a financial liability and the requirement to recognise changes in fair value of this liability in the Income Statement. The net profit attributable to share holders was adjusted for this item in the calculation of fully diluted earnings per share. The 2011 and 2016 options and the Class B shares were anti-dilutive and disregarded in the calculation of fully diluted earnings per share.

7. DIVIDENDS

No dividends were paid during the financial year (2008: nil). No final dividend has been declared.

	Parent	
	2009 $'000	2008 $'000
Franking credit balance		
Balance at 1 July	779	-
Franking credits arising from controlled entities joining the tax consolidation group	32	771
Franking credits on dividends received	5	8
Franking account balance at 30 June	**816**	**779**

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash held by the parent company and its operating subsidiaries	39,622	46,286	35,969	33,288
Cash held by controlled trusts	-	7,077	-	-
	39,622	53,363	35,969	33,288

9. TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade receivables	701	7	-	-
Accrued interest	255	277	226	167
Other	35	153	31	-
	991	437	257	167
Related party receivables				
- Controlled entity	-	-	341	839
- Other related parties	1,319	811	495	-
	2,310	**1,248**	**1,093**	**1,006**

10. INVESTMENT IN ASSOCIATE

a) Investment details

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Magellan Global Fund	15,441	-	15,441	-
	15,441	-	15,441	-

b) Movement in carrying value

	Consolidated	
	2009 $'000	2008 $'000
Cost – at 4 December 2008	14,278	-
Additional amounts invested	2,500	-
Share of profits for the period	272	-
Distribution receivable	(319)	-
Share of unrealised gains / (losses) on available for sale financial assets	(1,290)	-
Carrying value at 30 June	15,441	-

Magellan Global Fund became an associate entity on 4 December 2008 when it ceased to be a controlled entity of the Company. The cost of the Company's investment is the fair value on the date of loss of control.

c) Summarised financial information

The following table provides summarised financial information relating to Magellan Global Fund as at 30 June 2009 and for the period from 4 December to 30 June 2009:

	30 June 2009 $'000
Total assets	71,103
Total liabilities	(1,682)
Net assets	69,421
Company's share of net assets	**15,441**

	4 December 2008 to 30 June 2009 $'000
Revenue	462
Net profit	(43)
Distributions payable	(1,427)
Unrealised losses on available for sale investments recognised directly in equity	(2,992)

d) Fair value

The fair value of the Company's investment in Magellan Global Fund is $15,441,000. The Company held 17,789,949 units in Magellan Global Fund and the fair value per unit (redemption price) was $0.85.

11. INVESTMENTS IN CONTROLLED ENTITIES – PARENT ENTITY

	Parent	
	2009 $'000	2008 $'000
Operating subsidiaries	12,539	60,881
Controlled trusts	-	16,035
	12,539	**76,916**

The Operating subsidiaries include two entities, New Privateer and MCP, for which substantially all the assets were disposed of or transferred to the Company during the year ended 30 June 2009. An impairment charge has been recognised in accordance with *AASB 136: Impairment of Assets*. The carrying value of New Privateer and MCP as at 30 June 2009 equates to the residual net tangible assets of each entity. The impairment loss has been recognised in the Company's income statement for the year ended 30 June 2009 in the line item 'Write down of carrying value of controlled entities'.

The Company ceased to hold controlling interests in the Controlled trusts during the year ended 30 June 2009. See note 2 d) for further information.

12. FINANCIAL ASSETS

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
a) Current				
Held for trading				
(by domicile of primary stock exchange)				
- Listed shares – Australia	684	2,971	684	1,978
- Unlisted shares – Australia				-
Forward foreign exchange contracts	-	(12)	-	-
Held to maturity				
- Fixed and floating rate securities	2,391	-	2,391	-
- Cash term deposits	241	241	-	-
	3,316	**3,200**	**3,075**	**1,978**
Held by:				
- Company and its operating subsidiaries	3,316	3,212	3,075	1,978
- Controlled trusts	-	(12)	-	-
	3,316	**3,200**	**3,075**	**1,978**

The movement in the fair value of current financial assets of the Company and its operating subsidiaries can be analysed as follows

	$'000
Balance at 30 June 2008	**3,200**
Acquisitions	2,734
Disposals	(1,765)
Changes in fair value	(853)
Balance at 30 June 2009	**3,316**

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
b) Non-current					
Held to maturity					
- Fixed and floating rate securities		2,822	-	2,822	-
Available for sale financial assets					
(by domicile of primary stock exchange)					
- Listed shares – Australia - Magellan Flagship Fund	22 b)	15,499	15,534	15,499	14,969
- Listed shares – Australia - other		-	1,626	-	-
- Listed shares – United States		2,613	18,076	2,613	5,962
- Listed shares – Switzerland		1,143	2,733	1,143	1,133
- Listed shares – United Kingdom		-	2,677	-	-
- Listed shares – Europe		122	2,131	122	-
- Listed shares – other		-	1,435	-	432
- Unlisted unit trust – - Magellan Infrastructure Fund	22 c)	3,172	-	3,172	**
- Unlisted unit trusts – other^		1,683	3,155	1,683	3,155
		27,054	**47,367**	**27,054**	**25,651**
Held by:					
- Company and its operating subsidiaries		27,054	26,327	27,054	25,651
- Controlled trusts		-	21,040	-	-
		27,054	**47,367**	**27,054**	**25,651**

* less than $1,000
** Magellan Infrastructure Fund was a controlled entity at 30 June 2008 and is included in note 11.
^ the Company and the Group's investment in Magellan Global Fund is classified as an Investment in an Associate as at 30 June 2009 (see note 10).

The movement in the fair value of non-current financial assets of the Company and its operating subsidiaries can be analysed as follows:

	$'000
Balance at 30 June 2008	**26,327**
Acquisitions	8,133
Disposals	(2,879)
Changes in fair value	(4,527)
Balance at 30 June 2009	**27,054**

Acquisitions includes the deemed re-acquisition of the Company's interest in Magellan Infrastructure Fund ($3,618,000) following it ceasing to be a controlled trust.

12. FINANCIAL ASSETS (CONTINUED)

c) Fixed and floating charge

Certain of the Group's investment assets are held in custody with Merrill Lynch, a wholly owned subsidiary of Bank of America. The Group has granted Merrill Lynch a fixed and floating charge over the Group's rights, title and interest in the assets as security for the performance of its obligations under this arrangement.

13. SHARE PURCHASE PLAN (SPP)

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:

i) 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; and

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

- where the total amount of the financial assistance being provided to an employee participant will exceed $750,000 or will exceed three times the amount of an employee participant's annual base salary inclusive of superannuation, the prior approval of the Board is required; and
- the maximum amount of financial assistance that may be provided by the company to an individual employee is $1,000,000.

and, in each case:

iii) subject to a maximum of $750,000 worth of shares per employee in each financial year, other than in the case of a new employee where the Board may resolve, in its absolute discretion, to initially offer additional shares to the new employee; and

iv) 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 make an upfront contribution of up to 25% of the issue price at the time of issue. The remaining amount 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 are not 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:

i) any breach by the Participant of the Share Purchase Plan Rules (the 'Plan Rules') where the breach is not remedied within 7 days of the Company's notice to the Participant to do so; or

ii) an application being made to a court for an order, or an order being made, that the Participant be made bankrupt (or any similar event in any jurisdiction as determined by the Board in its discretion).

If a Participant ceases to be an Employee whilst a loan to that Participant is outstanding, the Participant must:

i) repay the total amount owing under the loan within 3 months (or, in the event that a Participant has died, within 6 months), or such longer period determined by the Board in its discretion, of ceasing to be an Employee and, upon payment of such amount the holding lock and any security over the shares issued under the Plan will be released and the Participant shall be entitled to retain his or her shares issued under the Plan; or

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

The carrying value of loans outstanding at balance sheet date was:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
a) Current				
Amounts due within one year	-	203	-	203
b) Non-current				
Amounts due later than one year and within ten years	4,217	3,840	4,217	3,840
	4,217	**4,043**	**4,217**	**4,043**

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
20 October 2008	$0.52

The value of shares securing the loans to Participants at balance date applying the Company's closing market price of $0.55 was $3.0 million (2008:$2.6 million). 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 Participants.

13. SHARE PURCHASE PLAN (SPP) (CONTINUED)

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

	30 June 2009	30 June 2008
September 2007 tranche		
Face value of loans	$5.8m	$5.8m
Estimated weighted average duration of loans	5.8 years	4.9 years
Imputed interest rate	7%	7%
October 2008 tranche		
Face value of loans	$0.2m	-
Estimated weighted average duration of loans	4.8 years	-
Imputed interest rate	5%	-

The increase in the estimated weighted average duration of loans between June 2008 and June 2009 results from changes in assumptions surrounding the repayment patterns of the loans.

Amounts recognised in the Income Statement in respect of the SPP loans are as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Included in:				
Interest income	38	87	38	87
Employee benefits expense [1]	(725)	(338)	(725)	(338)
Net credit / (charge) to profit and loss before tax	**(687)**	**(251)**	**(687)**	**(251)**

[1] Included in the expense amount for the year ended 30 June 2009 is a non-recurring amount of $0.47million relating to future employee benefits expenses which were required to be recognised in the current financial year, as a result of employment changes.

Both the increase in the carrying value of the loans recorded in interest income and the cost of providing the benefit to Participants recorded in employee benefits expense are non-cash items. Over the life of the loans the amounts credited to interest income and the amounts recognised as employee benefits expense will exactly offset each other. The accounting treatment of these loans is described further in note 2 p).

14. PROPERTY, PLANT AND EQUIPMENT

	Consolidated					
	2009			2008		
	Leasehold Improvements $'000	Equipment, Fixtures and Fittings $'000	Total $'000	Leasehold Improvements $'000	Equipment, Fixtures and Fittings $'000	Total $'000
Cost at 1 July	361	238	599	261	183	444
Reclassifications	(241)	241	-	-	-	-
Additions	-	2	2	111	134	245
Disposals	(1)	-	(1)	(11)	(79)	(90)
Cost at 30 June	**119**	**481**	**600**	**361**	**238**	**599**
Accumulated depreciation and impairment losses at 1 July	25	63	88	18	18	36
Reclassification	(19)	19	-			
Disposals	(1)	-	(1)	(4)	(22)	(26)
Depreciation charge for the year	**38**	**116**	**154**	**10**	**68**	**78**
Accumulated depreciation and impairment losses at 30 June	**43**	**198**	**241**	**24**	**64**	**88**
Net carrying amount at 30 June	**76**	**283**	**359**	**337**	**174**	**511**

Property, plant and equipment is held by a controlled entity of the parent company. The carrying value of property, plant and equipment of the parent company at 30 June 2009 is $nil (2008:$ nil).

15. TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
a) Current				
Trade payables	189	616	42	3
Accrued expenses	247	244	71	54
Distributions payable to external unitholders	-	296	-	-
Other payables	271	3,589	11	2
	707	4,745	124	59
Related party payables				
- Controlled entities	-	-	-	21,833
- Other related parties	-	-	-	-
	707	**4,745**	**124**	**21,892**
b) Non-current				
Related party payables - Controlled entities	-	-	2,569	2,772
	-	**-**	**2,569**	**2,772**

16. CASH FLOW STATEMENT RECONCILIATION

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
a) Reconciliation of Net Profit / (Loss) after Tax to Net Cash Flows from Operations:				
Net profit / (loss) after tax	(12,365)	6,203	(29,277)	26,923
Adjusted for:				
Amounts attributable to external unitholders	1,253	(2,199)	-	-
Deemed loss to parent on loss of control of unlisted funds	4,118	-	-	-
Writedown of goodwill	-	18,644	-	-
AASB 132 Adjustment	(1,327)	(26,550)	(1,327)	(26,550)
Losses / (gains) on sale of available-for-sale financial assets	168	(268)	547	(218)
Unrealised impairment losses on available-for-sale financial assets	14,478	2,244	15,977	1,626
Impairment of controlled entities	-	-	20,084	-
Interest received and accrued on fixed and floating rate securities	(64)	-	(64)	-
Dividends and distributions on available-for-sale financial assets reinvested	(508)	-	(508)	-
Depreciation	154	78	-	-
Loss on disposal of plant and equipment	-	66	-	-
Unrealised foreign exchange (gains) / losses	(793)	47	342	-
Net cash flows from foreign exchange contracts	1,024	-	-	-
Imputed interest on loans under share purchase plan	(38)	(86)	(38)	(86)
Employee expense on loans under share purchase plan	725	335	725	335
Interest paid	-	20	-	1
Share of income of an associate	(272)	-	-	-
Intra-group transfer of sundry balances via loan account with controlled entities	-	-	644	-
(Increase) / decrease in trade and other receivables	(159)	446	(80)	(259)
(Increase) / decrease in prepayments	26	(30)	(123)	(12)
(Increase) / decrease in deferred tax assets	(5,232)	(1,272)	(4,957)	(2,507)
(Increase) / decrease in held for trading financial assets	2,288	1,934	1,295	(1,978)
Increase / (decrease) in trade and other payables	(3,212)	(925)	27	4,090
(Decrease) /increase in current tax liabilities	-	(436)	-	-
Net cash inflows / (outflows) from operating activities	**264**	**(1,749)**	**3,267**	**1,365**

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
b) Non-cash financing and investing activities				
Settlement of controlled entity purchase with securities	-	47,610	-	47,610
Issue of shares under SPP	143	4,291	143	4,291
Share based payments under SPP	726	335	726	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	-	-	746	39,258
Acquisition of available for sale financial assets via dividend and distribution reinvestment plans	508	-	508	-

17. CONTRIBUTED EQUITY

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Contributed equity	107,692	106,757	108,067	107,132
	107,692	**106,757**	**108,067**	**107,132**

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

	Number				
	Shares '000	MFG 2009 Options '000	MFG 2011 Options '000	MFG 2016 Options '000	Class B Shares '000
Balance at 1 July 2008	145,437	18,958	6,034	7,882	10,200
Issue of shares under employee share scheme (SPP)	508	-	-	-	-
Exercise of MFG 2009 Options	-	-	-	-	-
Options expired	-	(18,958)	-	-	-
Balance at 30 June 2009	145,945	-	6,034	7,882	10,200

	Value	
	Consolidated $'000	Parent $'000
Balance at 1 July 2008	**106,757**	**107,132**
Issue of shares under Share Purchase Plan	209	209
Recognition of SPP expense for the year	726	726
Balance at 30 June 2009	**107,692**	**108,067**

The MFG 2009 Options expired 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 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.

17. CONTRIBUTED EQUITY (CONTINUED)

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 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 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 2009 the 10,200,000 the Class B shares would be entitled to convert to 8.76 million ordinary shares, being equal to 0.06 times 145.9 million ordinary shares on issue.

18. AASB 132 ACCOUNTING ADJUSTMENT

Amounts recognised in the Income Statement as a AASB 132 Adjustment arise from the revaluation of a financial liability embedded in the MFG 2009 Options, in accordance with *AASB: 132 Financial Instruments: Presentation*. As the options expired on 30 June 2009, the value of the liability per option as at 30 June 2009 was nil (2008: $0.07).

19. DEEMED DISPOSAL OF CONTROLLING INTERESTS IN MAGELLAN GLOBAL FUND AND MAGELLAN INFRASTRUCTURE FUND

The Company's controlling interests in Magellan Global Fund and Magellan Infrastructure Fund ('the Funds') were acquired on 1 July 2007. They ceased to be controlled entities of the Company on 4 December 2008 and 22 October 2008 respectively when external investor contributions into the funds diluted the Company's percentage holdings to less than 50% in each fund. As at 30 June 2009, the Company owned 9.3% of the total units in Magellan Infrastructure Fund and 22.2% of the total units in Magellan Global Fund. The loss of control gave rise to losses as follows:

	30 June 2009 $'000
Reclassification of unrealised losses on non-current investments held by the Funds (i)	**(4,084)**
Effect of recognition of investment in Funds at fair value on date of loss of control (ii)	(34)
Total loss to Group on deemed disposal	(4,118)

(i) In accordance with *AASB: 127 Consolidated and Separate Financial Statements*, the unrealised losses on available for sale investments held by the Funds that were previously recognised in the consolidated Group's Available for Sale Reserve have been reclassified to the Income Statement on loss of control of the Funds.

(ii) The fair value of the Group's ongoing investment in the Funds following loss of control is determined by the redemption price of each Fund on applicable reporting dates. The difference between the redemption price and the net asset value, which represents an allowance made for disposal costs, gives rise to a loss on recognition of the investments in the Funds on date of loss of control.

20. GOODWILL

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
At 1 July net of impairment	-	-	-	-
Acquisition of controlled entities	-	18,644	-	-
Impairment	-	(18,644)	-	-
At 30 June net of impairment	-	-	-	-

21. 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 the Company's profit and total equity arising from changes in the value of the Group's and the Company'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 and two Magellan unlisted funds of which a controlled entity of the Group is the investment manager, and the application of a portion of the Group's cash reserves into a small, direct portfolio of quality investments.

The investment portfolios of Magellan Flagship Fund 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 and the Product Disclosure Statement (PDS) of the unlisted funds.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(i) Equity Price Risk (Continued)
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:

	Group		Parent Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Impact on net profit after tax attributable to members of the parent	24	(254)	24	125
Impact on available for sale reserve, net of tax	1,381	1,560	1,381	1,293
Total impact on equity	1,405	1,306	1,405	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 comparative figures, for the year ended 30 June 2008, indicate a decrease in profit of the Group with a 5% increase in the market values of investments, which arises due to the impact of consolidating the controlled trusts. The trusts were no longer controlled entities at 30 June 2009.

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 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.

(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.

To the extent that changes in the fair value of available for sale financial assets arise from currency movements, this will be recognised in the Statement of Changes in Equity.

At balance sheet date, the Group's direct currency risk exposure arose from:

- foreign currency financial assets designated as available for sale;
- foreign currency cash balances.

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:

	Increase / (decrease) in net profit		Increase / (decrease) credited directly to equity	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Group				
Assets denominated in:				
US dollars	(68)	252	(124)	(677)
Euro	-	94	(6)	(69)
Swiss francs	-	57	(54)	(108)
British pounds	-	52	-	(99)
Parent Company				
Assets denominated in:				
US dollars	(68)	-	(124)	(425)
Euro	-	-	(6)	25
Swiss francs	-	-	(54)	(51)
British pounds	-	-	-	(47)

The Group and the Company held a US dollar cash balance at 30 June 2009, which gives rise to the currency exposure recognised in net profit. The rest of the Group's and the Company's foreign currency exchange exposure arises on non-monetary assets and is recognised directly in equity, unless financial assets are sold. 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 investments in Magellan Flagship Fund, Magellan Global Fund and Magellan Infrastructure Fund. Magellan Flagship Fund is listed on the Australian Securities Exchange and its market value is denominated in Australian dollars. Magellan Global Fund and Magellan Infrastructure Fund ('the Funds') are unlisted registered schemes, also denominated in Australian dollars. These entities' investment portfolios comprise companies predominantly denominated in foreign currencies, and with extensive operating exposure to global currency fluctuations. Changes in their fair value are therefore influenced by movements in currencies. The sensitivity analysis disclosed above disregards the impact on the fair value of these investments.

(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. At balance sheet date, the Group and the Company's exposure to changes in interest rates arises from:

- cash balances, including amounts on term deposit;
- floating rate notes.

The Group and the Company also held some fixed interest securities. These are designated as "held-to-maturity" and recognised at amortised cost. Future changes in interest rates will not affect the carrying value of these securities, nor the future cash flows to be received.

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.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iii) Interest Rate Risk (Continued)

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:

	Group		Parent Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Impact on net profit after tax attributable to members of the parent	303	354	276	233

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.

(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 2009, the Group had an obligation to settle trade creditors of $0.7m (2008: $4.7m) within 30 days. The Group had sufficient cash reserves of $39.6m (2008: $53.4m) and a further $2.0m (2008: $1.3m) 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 $3m 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 (Australia) Limited (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 are held directly by Merrill as prime broker and custodian.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

During the financial year, Merrill Lynch was acquired by Bank of America, one of the 'systemically important' global financial institutions. As at 30 June 2009, the credit quality of Bank of America / Merrill Lynch's senior debt is rated by Standard & Poor's as being A and by Moody's as being A2. In the unlikely event of Merrill Lynch becoming insolvent, the Company may rank as an unsecured creditor in respect of any investments that have been lent or used as collateral by Merrill Lynch.

At 30 June 2009 the Group had an outstanding balance totalling to \$4.2m (2008: \$3.8m) for loans to participants under the share plan scheme and held at 30 June 2009 Company shares valued at \$3.0m (2008: \$2.6m) 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 2009 all cash and receivables are collectable within 30 days and there are no amounts which are passed due.

22. TRANSACTIONS WITH RELATED PARTIES

a) Magellan Flagship Fund Limited ('Flagship Fund')

Magellan Asset Management ('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 2009, the total base fees earned by MAM from the Flagship Fund were \$3,207,000 (2008: \$3,932,000). The amount owing from the Flagship Fund to MAM at balance sheet date was \$722,000 (2008: \$808,000).

(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 2009 (2008: \$nil).

b) 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 2009 was \$1,150,000 (2008: \$1,150,000).

(ii) Amounts due to MAM

At balance date, a net amount of \$2,568,000 (2008: \$2,467,000) was payable by the Company to MAM in respect of amounts arising from the transfer of MAM's tax losses to the Company.

(iii) Amounts due from MAM

At balance date, a net amount of \$341,000 (2008:\$334,000) was payable by MAM to the Company representing employee share scheme loan repayments withheld from employee bonuses in accordance with Share Purchase Plan rules.

22. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

c) Magellan Global Fund and Magellan Infrastructure Fund

(i) Management and Administration Fees

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 2009, the total management and administration fees earned by MAM from the Magellan Global Fund were $536,000 (2008: $295,000), and earned from the Magellan Infrastructure Fund were $189,000 (2008:$62,000). The amounts owing from the Magellan Global Fund and the Magellan Infrastructure Fund to MAM at balance sheet date were $78,000 (2008: $24,000) and $23,000 (2008:$5,000) 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 2009 (2008: $nil).

(iii) Unit holdings

The numbers of units held in the Funds at balance sheet date are:

Related party	Balance at 1 July 2008	Acquisitions	Balance at 30 June 2009		Distribution receivable
	Number	Number	Number	%	$'000
Magellan Global Fund	15,000,001	3,249,709	18,249,710	22.3	318
Magellan Infrastructure Fund	5,000,001	271,662	5,271,663	9.3	177

The units acquired include units allocated under the Funds' distribution reinvestment plans. The Company participates in this optional scheme on the terms and conditions available to all investors in the Funds.

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

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

Name	Balance at 1 July 2008	Acquisitions	Cancellations / Disposals	Balance at 30 June 2009
Directors				
Naomi Milgrom	6,182,360	-	-	6,182,360
Paul Lewis	1,070,213	499,534	-	1,569,747
Brett Cairns	1,086,427	-	-	1,086,427
Hamish Douglass	7,643,813	1,764,635	-	9,408,448
Chris Mackay	17,051,771	1,029,006	-	18,080,777
Executives				
N Campbell	358,096	76,923 [1]	-	435,019

[1] 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 2008	Acquisitions	Disposals	Balance at 30 June 2009
Hamish Douglass	10,200,000	-	-	10,200,000

The key terms and rights attaching to the MFG Class B Shares are disclosed in note 17.

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

Option Holdings
MFG 2009 Options (ASX: MFGOA) expired unexercised on 30 June 2009:

Name	Balance at 1 July 2008	Acquisitions	Expired	Balance at 30 June 2009
Directors				
Naomi Milgrom	3,008,468	-	3,008,468	-
Paul Lewis	3,600	-	3,600	-
Brett Cairns	61,867	-	61,867	-
Hamish Douglass	3,934	-	3,934	-
Chris Mackay	622,607	-	622,607	-
Executives				
N Campbell	10,000	-	10,000	-

22. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

e) Equity Instrument Disclosure Relating to Key Management Personnel and Related Parties (CONTINUED)

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

Name	Balance at 1 July 2008	Acquisitions	Disposals	Balance at 30 June 2009
Brett Cairns	9,054	-	-	9,054

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

Name	Balance at 1 July 2008	Acquisitions	Disposals	Balance at 30 June 2009
Directors				
Naomi Milgrom	16,532	-	-	16,532
Paul Lewis	5,790	-	-	5,790
Brett Cairns	11,467	-		11,467
Hamish Douglass	297,792	-		297,792
Chris Mackay	2,644,354			2,644,354
Executives				
N Campbell	39,600	-	-	39,600

The key terms and rights attaching to the MFG 2011 Options, and MFG 2016 Options are disclosed in note 17.

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 2008	Acquisitions*	Disposals	Balance at 30 June 2009
Paul Lewis	26,744	135,049	-	161,793
Hamish Douglass	781,959	18,700	-	800,659
Chris Mackay	391,619	9,366	-	400,985

* including reinvestment of distributions

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

Name	Balance at 1 July 2008	Acquisitions	Disposals	Balance at 30 June 2009
Paul Lewis	26,360	1,432	-	27,792

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.

f) 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 2008	Loans made	Repayments	SPP Loan Balance at 30 June 2009 Face value	SPP Balance at 30 June 2009 Fair Value
	Number	$	$	$	$	$
Directors						
Paul Lewis	-	1,245,000	-	-	1,245,000	1,016,291
Brett Cairns	-	1,245,000	-	-	1,245,000	1,016,291
					2,490,000	2,032,582

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 2008	Loans made	Repayments	SPP Loan Balance at 30 June 2009 Face value	SPP Balance at 30 June 2009 Fair Value
	Number	$	$	$	$	$
Executives						
N Campbell	76,923	575	30,000	-	30,575	26,615
					30,575	26,615

23. 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	334	323	-	-
Later than one year but not later than five years	610	960	-	-
	944	**1,283**	**-**	**-**

Contingent Liabilities

The Group has a contingent liability for uncalled amounts of $0.5 million (2008: $0.6million) on units in unlisted unit trusts that are held for investment.

The directors are not aware of any other contingent liabilities at balance date

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2009

24. OPERATING SEGMENT INFORMATION

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

Funds and asset management
Funds and asset management activities are undertaken by the controlled entity, Magellan Asset Management Limited (MAM), which acts as an Investment Manager for the Magellan Flagship Fund Limited (the Flagship Fund), a listed investment company (ASX code: MFF) and other wholesale client mandates. It acts as Responsible Entity and Investment Manager for the Magellan Global Fund and Magellan Infrastructure Fund (the Unlisted Funds) which are registered schemes offerings made to Australian and New Zealand wholesale and retail investors.

Principal investments
The principal investment portfolio is comprised of investments in the Flagship Fund, the Unlisted Funds, and in a select portfolio of Australian and international listed companies, cash and fixed interest securities and other investments.

Unallocated - Corporate
Costs associated with the board, ASX listing, audit and regulatory compliance activities of the Group.

The operating results of the Group's operating segments are as follows:

30 June 2009	Funds and asset management $'000	Principal Investments $'000	Unallocated - Corporate $'000	Consolidated $'000
Revenue				
Management fees	4,017	-	-	4,017
Consulting fees	1,747	-	-	1,747
Interest income	271	2,638	-	2,909
Interest income - (SPP)	(95)	-	133	38
Dividend income	-	794	-	794
Changes in fair value of financial assets	-	(15,331)	-	(15,331)
Net gains / (losses) on disposal of financial assets	-	(137)	-	(137)
Foreign exchange gains / (losses)	-	(231)	-	(231)
Other revenue	249	4	-	253
	6,189	**(12,263)**	**133**	**(5,941)**
Expense				
Employee benefits expense	4,756	-	38	4,794
Employee benefits expense - (SPP)	582	-	143	725
Other expenses	1,769	62	356	2,187
	7,107	**62**	**537**	**7,706**
Share of income from an associate	-	272	-	272
Finance cost – external units holder' share of net profit	-	(484)	-	(484)
Operating profit / (loss) before significant items and income tax	**(918)**	**(12,537)**	**(404)**	**(13,859)**

30 June 2009	Funds and asset management $'000	Principal Investments $'000	Unallocated - Corporate $'000	Consolidated $'000
Revenue				
Management fees	4,261	-	-	4,261
Consulting fees	500	-	-	500
Interest income	330	3,802		4,132
Interest income - (SPP)	(37)	-	124	87
Dividend income	-	630	-	630
Changes in fair value of financial assets	-	(3,372)	-	(3,372)
Net gains / (losses) on disposal of financial assets	-	247	-	247
Foreign exchange gains / (losses)	-	36	-	36
Other revenue	8	-	-	8
	5,062	**1,343**	**124**	**6,529**
Expense				
Employee benefits expense	8,047	-	62	8,109
Employee benefits expense - (SPP)	193	-	143	336
Other expenses	2,135	-	1,033	3,168
	10,375	**-**	**1,238**	**11,613**
Finance cost				
– external unit holders' share of net profit	-	296	-	296
Operating profit / (loss) before significant items and income tax	**(5,313)**	**1,047**	**(1,114)**	**(5,380)**

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

30 June 2009	Funds and asset management $'000	Principal Investments $'000	Unallocated - Corporate $'000	Eliminations* $'000	Consolidated $'000
Cash and cash equivalents	3,617	36,005	-	-	39,622
Financial assets	240	30,370	-	-	30,610
Investment in associate	-	15,441	-	-	15,441
Loans – share purchase plan (SPP)	-	-	4,217	-	4,217
Other assets	4,616	9,401	-	(1,491)	12,526
Total assets	**8,473**	**91,217**	**4,217**	**(1,491)**	**102,416**
External unit holders' interests in controlled trusts	-	-	-	-	-
Other liabilities	2,074	124	-	(1,491)	707
Total liabilities	**2,074**	**124**	**-**	**(1,491)**	**707**
Net assets	**6,399**	**91,093**	**4,217**	**-**	**101,709**

24. OPERATING SEGMENT INFORMATION (CONTINUED)

30 June 2008	Funds and asset management $'000	Principal Investments $'000	Unallocated - Corporate $'000	Eliminations* $'000	Consolidated $'000
Cash and cash equivalents	7,349	46,014	-	-	53,363
Financial assets	240	50,327	-	-	50,567
Investment in associate	-	-	-	-	-
Loans – share purchase plan (SPP)	-	-	4,043	-	4,043
Other assets	4,140	8,084	-	(1,484)	10,740
Total assets	**11,729**	**104,425**	**4,043**	**(1,484)**	**118,713**
External unit holders' interests in controlled trusts	-	10,731	-	-	10,731
Other liabilities	5,283	2,316	-	(1,484)	6,115
Total liabilities	**5,283**	**13,047**	**-**	**(1,484)**	**16,846**
Net assets	**6,446**	**91,378**	**4,043**	**-**	**101,867**

*Eliminations includes adjustments and eliminations for inter-segment transactions and netting of balance sheet items

The Group's net investment into its funds and asset management business activities as at 30 June 2009 is:

	$'000
Capital invested in controlled entity	12,500
Subordinated loan to controlled entity	1,150
	13,650
Cash held by funds and asset management operating segment	3,617
Net investment in funds and asset management business	**10,033**

The Group's business activities are conducted in Australia.

25. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the end of the financial year, the Group acquired 14,336,117 shares in Magellan Flagship Fund Limited (ASX code: MFF) on-market for consideration of $8.4 million. As at the date of this report the Group holds 44,727,166 MFF shares or 12.49% (2008: 27,494,268 or 7.27%).

No other significant events have occurred since the balance date which would impact on the financial position of the group as at 30 June 2009 and on the results for the year ended on that date.

26. AUDITOR'S REMUNERATION

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'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	152	113	123	86
- other regulatory audit services - AFSL	10	10	-	-
- tax compliance (tax returns)	9	-	-	-
- tax advice	15	-	-	-
Amounts received or due and receivable by KPMG Australia for:				
- audit and review of the annual financial report for the controlled trusts	26	14	-	-
- audit of the compliance plan for each controlled trust	10	10	-	-
- tax compliance (tax returns)	44	43	18	13
- tax advice	5	39	-	-
	271	**229**	**141**	**99**

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- 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 accordance 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 2009 and of their performance for the year ended on that date; and

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

- 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 2009.

On behalf of the Board

Chris Mackay
Chairman

Sydney
26 August 2009

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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 2009, 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 entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation 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.

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 attached to 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.

ERNST & YOUNG

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 2009 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 7 to 11 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
26 August 2009

SHAREHOLDER INFORMATION
AS AT 20 AUGUST 2009

DISTRIBUTION OF SHAREHOLDERS

The distribution of shareholders of the Company as at 20 August 2009 is presented below:

Distribution Schedule of Holdings	Number of Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	**789**	**515,069**	**0.367**
1,001-5,000	1,012	2,599,077	1.850
5,001-10,000	378	2,901,780	2.065
10,001-100,000	754	22,387,509	15.935
100,001 and over	107	112,091,532	79.783
Total	**3,040**	**140,494,967**	**100.000**
Number of holders with less than a marketable parcel	569		

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders of the Company as at 20 August 2009 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Cavalane Holdings Pty Ltd	18,006,006	12.338
Magellan Equities Pty Ltd	15,355,551	10.521
Midas Touch Investments Pty Ltd	8,708,448	5.967
Nota Bene Investments Pty Ltd	6,006,006	4.115
Vahedin Pty Limited	5,348,638	3.665
UBS Wealth Management Australia Nominees Pty Ltd	5,332,277	3.654
RBC Dexia Investor Services Australia Nominees Pty Limited	3,031,613	2.077
Mr Jeffrey Emmanuel	2,505,000	1.716
Mr David Dixon	2,433,801	1.668
Mr Christopher Mackay	2,232,012	1.529
Mr Peter Kennan	1,891,594	1.296
Doulev Pty Limited	1,886,006	1.292
Mr David Dixon & Ms Catherine Ramm	1,832,810	1.256
Aljamat Pty Ltd	1,799,863	1.233
JP Morgan Nominees Australia Limited	1,728,532	1.184
Mr David Doyle	1,500,000	1.028
Mr Philip Naylor & Mrs Andrea Naylor	1,490,059	1.021
National Nominees Limited	1,417,940	0.972
ANZ Nominees Limited	1,406,122	0.963
Emmanuel Capital Pty Ltd	1,375,196	0.942
Total shares held by the twenty largest shareholders	**85,287,474**	**58.438**
Total shares in issue	**145,945,254**	

SHAREHOLDER INFORMATION (CONTINUED)
AS AT 20 AUGUST 2009

SUBSTANTIAL SHAREHOLDERS
The names of the substantial shareholders of the Company and their holdings as at 20 August 2009 are listed below

Shareholder	Number of Ordinary Shares	Percentage of Shares in Issue
Chris Mackay and associates	18,080,777	12.389
Cavalane Holdings Pty Ltd (an entity controlled by Consolidated Press Holdings Ltd)	18,006,006	12.338
Hamish Douglass, Midas Touch Investments Pty Ltd and associates	9,408,448	6.447

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 "MFGOB", and "MFGOC" for its listed options.

CORPORATE DIRECTORY

Directors
Chris Mackay– Chairman
Hamish Douglass – Managing Director and Chief Executive Officer
Naomi Milgrom
Paul Lewis
Brett Cairns

Company Secretaries
David Simpson
Leo Quintana

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FINANCIAL GROUP LIMITED