



2010 ANNUAL REPORT



MAGELLAN FINANCIAL GROUP LIMITED

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MAGELLAN FINANCIAL GROUP LIMITED

ANNUAL SHAREHOLDER LETTER

Dear Shareholder,

OVERVIEW OF RESULTS

Magellan Financial Group Limited ('Magellan' or 'Group') recorded a full year net profit after tax of \$3.8 million for the year ended 30 June 2010.

The Group's underlying operating result, excluding significant items and unrealised mark-to-market investment gains, was a profit after tax of \$3.6 million. This compares with a corresponding underlying operating profit after tax for the previous financial year of \$1.1 million.

The Group's reported result includes:

- revenues, excluding realised and unrealised investment gains and foreign exchange gains, of \$12.3 million compared with underlying revenues of \$9.8 million for the previous corresponding period; and
- total operating expenses of \$7.2 million, compared with total operating expenses of \$7.7 million for the previous corresponding period.

Magellan is in a strong financial position with an extremely strong balance sheet. As at 30 June 2010:

- the Group had cash, fixed term deposits, and fixed and variable rate debt investments of approximately \$28.6 million, investment assets (excluding the cash and fixed and variable rate debt investments) of approximately \$68.3 million and shareholders funds of \$111.1 million; and
- the Group's NTA per share (diluted for the conversion of the Class B shares) was approximately \$0.71 (2009:\$0.66).

The underlying revenues for 2011 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.

MAGELLAN'S FUNDS MANAGEMENT BUSINESS

For the year ended 30 June 2010, the funds management business generated revenues of approximately \$9.0 million (2009: \$6.3 million) and had expenses of approximately \$6.7 million (2009: \$6.5 million), which resulted in a profit before tax of \$2.3 million (2009: loss of \$0.2 million).

We believe that over time Magellan is likely to generate an attractive return from our investment in the funds management business. This core business should be scalable over

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time, and Magellan's funds under management should continue to grow without the need to make material additional capital investment into the business.

Over the past 12 months we have added additional high quality employees, particularly specialists in relationship management and distribution for the funds management business. We have opened offices in Brisbane and Melbourne to service our growing relationships with financial planners around the country. We believe that developing and maintaining strong and trusted relationships with financial planners is an important factor in Magellan's future.

As at 23 August 2010, the Group had funds under management of approximately \$1.3 billion, split between global equities and infrastructure equities. This compares with funds under management of \$393 million at 30 June 2009 and \$1.1 billion at 30 June 2010. The directors are comfortable that Magellan continues to be well placed to attract funds under management:

- the Magellan Global Fund has continued to build its reputation with research houses and major financial planning groups, with solid investment outperformance in these difficult markets (31.2% above the market benchmarks for the first 3 years to 30 June 2010). As at 23 August 2010 the Magellan Global Fund had funds under management of approximately \$283 million, compared with \$70.6 million at 30 June 2009 and \$261 million at 30 June 2010.
- our infrastructure team has built momentum and continues to have promising discussions with a number of institutional clients. We are hopeful that these discussions will result in a number of additional mandates being awarded in the 2011 financial year.

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, whilst maintaining positive relationships with financial planners and investors in our funds.

INVESTMENTS IN MAGELLAN'S FUNDS AND PRINCIPAL INVESTMENTS

As at 30 June 2010, Magellan's investment assets comprised \$60.7 million invested in the three funds we manage and an investment portfolio of \$7.6 million (which excludes cash, fixed term deposits, and fixed and floating rate debt investments of \$28.6 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. We intend for Magellan to maintain a very strong balance sheet including a high level of liquidity to ensure our business will withstand almost any market condition or unforeseen event. This conservative balance sheet approach has benefited the Group, particularly during the early stages of the funds management business in the extreme markets of the last three years and will benefit Magellan in the future.

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

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“look through” investments with the Group’s direct portfolio investments to show the ten largest aggregated “look through” equity investments as at 30 June 2010.

We are delighted with the quality of the investments in our funds and believe that Magellan has acquired interests in high quality companies at attractive prices.

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 above average growth profiles with market leading positions in emerging markets, as well as leadership in most developed markets. We believe that, in aggregate, that these companies continued to strengthen their competitive advantages and gained market share in 2009/10.

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

MFG’s ten largest investments on a “look through” basis	30 June 2010 A\$m market price
American Express	10.5
Nestlé	7.6
Yum! Brands	7.3
eBay	6.0
Wal-Mart	5.4
Coca-Cola	4.3
McDonald's Corp	3.8
Google	3.5
Wells Fargo	3.5
PepsiCo	3.4

The other listed holdings in which the Group has “look through” holdings valued in excess of \$2 million as at 30 June 2010 market prices are Procter & Gamble and Colgate-Palmolive.

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

26 August 2010

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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 2010.

Directors

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

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

Corporate Information

The Company is limited by shares and incorporated in Australia. The shares and options of the Company that are publicly traded on the Australian Securities Exchange (ASX) are ASX Code: MFG, 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 profit after tax for the year ended 30 June 2010 was \$3,826,000 (2009: \$12,365,000 loss).

The Group's underlying operating result, excluding significant items and unrealised mark-to-market investment gains, was a profit after tax of \$3.6 million. This compares with a corresponding underlying operating profit after tax for the previous financial year of \$1.1 million.

The Group's reported result includes:

- revenues, excluding realised and unrealised investment gains and foreign exchange gains, of \$12.3 million compared with underlying revenues of \$9.8 million for the previous corresponding period; and
- total operating expenses of \$7.2 million, compared with total operating expenses of \$7.7 million for the previous corresponding period.

Magellan is in a strong financial position with an extremely strong balance sheet. As at 30 June 2010:

- the Group had cash, fixed term deposits, and fixed and variable rate debt investments of approximately \$28.6 million, investment assets (excluding the cash and fixed and variable rate debt investments) of approximately \$68.3 million and shareholders funds of \$111.1 million; and
- the Group's NTA per share (diluted for the conversion of the Class B shares) was approximately \$0.71 (2009:\$0.66).

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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.

Unissued Shares

Share Options

As at the date of this report, there were 13,916,425 unissued ordinary shares under option as follows:

- 6,033,942 MFG 2011 Options to take up one new ordinary share in the Company at an exercise price of \$1.30. The options expire on 30 June 2011
- 7,882,483 MFG 2016 Options to take up one new ordinary share in the Company at an exercise price of \$3.00. The options expire on 30 June 2016

Option holders do not have any right, by virtue of the option, to participate in any share issue or interest issue of the Company.

MFG Class B Shares

As at the date of this report, Mr Douglass held 10,200,000 MFG Class B Shares which will convert into the Company's ordinary shares on 21 November 2016 in accordance with a conversion formula. The maximum number of the Company's ordinary shares that will be issued on conversion of all the Class B shares is 10,200,000.

Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group that occurred during the year.

Events Subsequent to the end of the Financial Year

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

Likely Developments and Expected Result of Operations

The Group will continue to pursue its financial objective which is to increase the profitability of the 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.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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 year 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 year by the Auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied, considering the nature and quantum of the non-audit services that the provision of non-audit services by the Auditor, as set out below, did not compromise the Auditor independence requirements of the *Corporations Act 2001*.

	2010	2009
	\$	\$
<i>Audit services:</i>		
Ernst & Young - audit and review of the financial statements of:		
- the Company and its operating subsidiaries	73,850	151,498
- wholesale unit trust	6,000	-
KPMG - audit and review of the financial statements of:		
- the Magellan unlisted funds	23,130	26,167
	<u>102,980</u>	<u>177,665</u>
<i>Other services:</i>		
Ernst & Young:		
- other regulatory audit services	29,500	10,000
- tax compliance	18,600	8,500
- tax advice	14,300	15,000
KPMG		
- compliance plan audit	9,900	10,250
- tax compliance (tax returns)	-	44,341
- tax advice	-	5,364
	<u>72,300</u>	<u>93,455</u>

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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 17.

Information on Directors

Chris Mackay

Chairman and Executive Director (Chief Investment Officer)

Mr Mackay is an experienced finance industry executive and co-founded Magellan with Mr Douglass. He is also a Non-executive director of Consolidated Media Holdings Limited [formerly Publishing & Broadcasting Limited] (appointed March 2006), Seven Group Holdings Limited (appointed June 2010) and Magellan Flagship Fund Limited (appointed September 2006). He was previously a director of Crown Limited (2007 – 2008), and New Privateer Holdings Limited (2006 – 2007). Mr Mackay retired as Chairman of the investment bank UBS Australasia in 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 20 years experience in financial services and 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 Government's Foreign Investment Review Board (FIRB), the Australian Government's Financial Literacy Board, the Australian Government's Takeovers Panel, and a member of the Forum of Young Global Leaders of the World Economic Forum.

Naomi Milgrom AO

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. In 2010, Ms Milgrom received an Officer of the Order of Australia "for service to business as a leader and mentor in the fashion industry, and to the community through advisory and management roles of a wide range of arts, health and philanthropic bodies".

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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, and from 2003 to 2009 was a member of British Telecom's Global Advisory Board. Mr Lewis is currently Chair of NAB's Private Wealth Advisory Council, Chairman of PSP International, Deputy Chairman of the Australian British Chamber of Commerce, and a board member of St Vincent's Hospital Prostate Cancer Centre.

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.

Information on Company Secretaries

Nerida Campbell

Company Secretary

Ms Campbell has over 20 years experience in the investment banking and finance industry, previously holding various finance and management roles including that of Chief Financial Officer for UBS AG, Australia and New Zealand. She is also the Company Secretary of Magellan Flagship Fund Limited and Magellan Asset Management Limited. Ms Campbell is a member of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia, and a graduate member of the Australian Institute of Company Directors.

Leo Quintana

Company Secretary

Leo has 8 years experience as a corporate lawyer. He is the Legal Counsel for the Company and the Legal Counsel and Company Secretary of Magellan Flagship Fund Limited and Magellan Asset Management Limited. Leo is admitted as a solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws and a Bachelor of Business. He was previously an Associate – commercial and corporate group, of Harris Friedman Hyde Page Lawyers. Leo is a member of the Law Society of New South Wales and a member of the Australian Corporate Lawyers Association.

David Simpson

Company Secretary (resigned 20 November 2009)

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2010 and attended by each Director.

	Board Meetings		Audit and Risk Committee Meetings	
	Held	Attended	Held	Attended
	While a Director		While a Member	
Chris Mackay	4	4		
Hamish Douglass	4	4	5	4
Naomi Milgrom	4	4		
Paul Lewis	4	4	5	5
Brett Cairns	4	4	5	5

Remuneration Report (audited)

This report outlines the Key Management Personnel and Other 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". Key Management Personnel for the Group are the Non-executive Directors, Executive Directors and other Key Management Personnel identified below. Other Executives are employees that are senior managers of the Group, and the company secretary of the Company. The Group has no senior managers, other than Key Management Personnel, with executive authority.

The Board's remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified personnel in order to achieve the Group's objectives. The Board does not grant options under its remuneration policy.

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.

The Non-executive Directors are eligible to participate in the Group's Share Purchase Plan (SPP) which is described later in this report. Non-executive Directors' remuneration includes share based payment amounts that represent the cost to the Group of providing interest free loans under the SPP.

Remuneration of Executive Directors, Other Key Management Personnel and Other Executives

Executive Director, Other Key Management Personnel and Other Executive remuneration comprises fixed and variable remuneration that takes into account the individual's experience, abilities, achievements, and contribution to the Group.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

Executive Directors

The Executive Directors' remuneration is determined by the Board, which may utilise the services of external advisors. The Executive Directors' fixed compensation is unchanged from the previous year, and similarly to the previous year there are no variable compensation amounts. The Executive Directors fixed remuneration is not dependent on the performance of the Group, the Company's share price, or dividends paid by the Company. Details of the employment agreements of the Executive Directors are described later in this report.

Other Key Management Personnel and Other Group Executives

Other Key Management Personnel and the Other Executive are eligible to participate in the Group's SPP which is described later in this report. Other Key Management Personnel and Other Executive remuneration includes share based payment amounts that represent the cost to the Group of providing interest free loans under the SPP.

Other Key Management Personnel and Other Executive fixed compensation is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed compensation is reviewed annually to ensure that it is competitive and reasonable, however there are no guaranteed increases to the fixed compensation amount. The amount of fixed compensation is not dependant on the satisfaction of a performance condition, or the performance of the Group, the Company's share price, or dividends paid by the Company.

The Board determines the total amount of discretionary variable compensation to be paid to the Group's employees with regard to the profitability of the Group's funds management business. The amount of the variable compensation payable to an individual is not dependent on the satisfaction by employees of a performance condition, or the performance of the Group, the Company's share price, or dividends paid by the Company, and is paid to employees after the finalisation and public release of the Group's full year results.

The Executive Directors determine the amount of variable compensation to be paid to Other Key Management Personnel and the Other Executive, taking into consideration each individual's performance and contribution during the year.

As neither the fixed or variable component of the Other Key Management Personnel and the Other Executive remuneration is dependent on the satisfaction of a performance condition, or the performance of the Group, the Company's share price, or dividends paid by the Company, a discussion of the relationship between the Board's remuneration policy and the Group's performance is not provided.

The Board considers that a focus on short term indicators for the determination of short term discretionary compensation, including the Group's earnings, and movements in the Company's share price over the period since its re-capitalisation in November 2006, may encourage performance that is not in the best interests of the Group and its shareholders. The Directors are more concerned that the Other Key Management Personnel and the Other Executive are motivated to build investment returns for investors in the funds managed by the Group and to build shareholder wealth over the long term. The Directors believe that the participation in the SPP by the Other Key Management Personnel and the Other Executive closely align their interests with the long term interests of shareholders.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

Share Purchase Plan (SPP)

The Group has put in place a SPP that provides financial assistance to Non-executive Directors and employees ('Participants'), by way of an interest free loan, to invest in shares in the Company. The issue price of shares under the SPP is their fair market value on the offer date.

Details of the closing price of the Company's shares at each financial year end since the Company's re-capitalisation are provided below together with the issue price of shares under the SPP.

	MFG shares closing price	Offer date	MFG shares Issue price
30 June 2007	\$2.20	10 September 2007	\$1.66
30 June 2008	\$0.53	20 October 2008	\$0.52
30 June 2009	\$0.55	23 September 2009	\$0.78
30 June 2010	\$1.13		

The Directors believe that the Key Management Personnel and Other Executive participation in the SPP closely aligns their interests with the interests of the shareholders of the Group.

Further details of the SPP are provided in note 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.

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**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010**

Details of Remuneration

The Key Management Personnel of the Group, including the Non-executive and Executive Directors of the Company, and the Other Executives received the following amounts during the year:

	Short term Benefits		Post-employment Benefits	Termination Benefits	Share based Payment	Total
	Salary	Cash Bonus ⁽²⁾	Superannuation		Under SPP ⁽¹⁾	
	\$	\$	\$	\$	\$	\$
Non-executive Directors						
Naomi Milgrom	13,485	-	1,215	-	-	14,700
Paul Lewis	20,000	-	-	-	71,657	91,657
Brett Cairns	18,349	-	1,651	-	71,657	91,657
Executive Directors						
Chris Mackay	235,539	-	14,461	-	-	250,000
Hamish Douglass	235,539	-	14,461	-	-	250,000
Other Key Management Personnel						
Nerida Campbell	198,539	50,000	14,461	-	5,120	268,120
Total Key Management Personnel						
	721,451	50,000	46,249	-	148,434	966,134
Other Executives						
Leo Quintana	142,202	20,000	12,798	-	3,573	178,573
Total	863,653	70,000	59,047		152,007	1,144,707

⁽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⁾ The cash bonus entitlements relating to the year ended 30 June 2010 were discretionary and are payable on 15 September 2010.

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**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010**

Comparative information for the year ended 30 June 2009 is as follows:

	Short term Benefits		Post-employment Benefits	Termination Benefits	Share based Payment	Total
	Salary	Cash Bonus	Superannuation		Under SPP ⁽¹⁾	
	\$	\$	\$	\$	\$	\$
Non-executive Directors						
Naomi Milgrom	13,379	-	1,204	-	-	14,583
Paul Lewis	20,000	-	-	-	71,657	91,657
Brett Cairns	79,223	13,380	5,865	83,626	71,657	253,751
Executive Directors						
Chris Mackay	236,255	-	13,745	-	-	250,000
Hamish Douglass	236,255	-	13,745	-	-	250,000
Other Key Management Personnel						
Nerida Campbell	199,255	-	13,745	-	1,823	214,823
Total Key Management Personnel						
	784,367	13,380	48,304	83,626	145,137	1,074,814
Other Executives						
Leo Quintana	132,569	-	11,931	-	754	145,254
Total	916,936	13,380	60,235	83,626	145,891	1,220,068

⁽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).

Executive Directors, Other Key Management Personnel and Other Executives were remunerated by Magellan Asset Management Limited, a controlled entity.

Mr Cairns was employed as an Executive by Magellan Asset Management Limited 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 was contractually entitled to the cash bonus paid to him, which was not performance related. 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.

All other payments to Non-Executive Directors were made by the Company.

There are no Other Executives other than as disclosed in the tables above.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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, Executives 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 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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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 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' 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 employees have rolling contracts. The Group may terminate the employee's employment agreement by providing up to three months written notice. On termination, the employee is required to 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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

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 2010

MAGELLAN FINANCIAL GROUP LIMITED
AUDITOR'S INDEPENDENCE DECLARATION



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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 2010, 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.

A stylized signature of the Ernst & Young logo, written in a cursive script.

Ernst & Young

A handwritten signature in cursive script, appearing to read 'Rita Da Silva'.

Rita Da Silva
Partner
26 August 2010

Liability limited by a scheme approved
under Professional Standards Legislation

MAGELLAN FINANCIAL GROUP LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

		Consolidated		Parent	
		2010	2009	2010	2009
	Note	\$ '000	\$ '000	\$ '000	\$ '000
Revenue					
Management fee revenue	4 a)	7,320	4,017	-	-
Interest income		2,364	2,947	2,169	2,455
Dividend and distribution income		1,138	794	1,138	797
Net changes in the fair value of financial assets	5	214	(15,331)	214	(16,714)
Net gain / (loss) on sale of financial assets		6	(137)	6	(547)
Foreign exchange gain / (loss)		40	(231)	41	(342)
Other revenue	4 b)	1,496	2,000	-	1
Total revenue		12,578	(5,941)	3,568	(14,350)
Expenses					
Employee benefits expense		4,954	5,519	345	763
Depreciation and amortisation		121	154	-	-
Occupancy expense		377	342	-	-
Audit fees		137	198	59	123
Legal and professional fees		54	80	7	21
Fund administration expenses		351	251	-	-
Marketing expense		330	260	-	-
Other operating expenses		837	902	159	168
Total expenses		7,161	7,706	570	1,075
Share of income from associate entity		(292)	272	-	-
Finance cost – external unitholders' share of net profit		-	(484)	-	-
Operating profit / (loss) before significant items and income tax		5,125	(13,859)	2,998	(15,425)
Income tax (expense) / benefit	6 a)	(1,406)	4,254	(764)	4,905
Net operating profit / (loss) before significant items		3,719	(9,605)	2,234	(10,520)

MAGELLAN FINANCIAL GROUP LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

	Note	Consolidated		Parent	
		2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Significant Items					
Finance cost – revaluation of external unit holders' units in unlisted funds		-	(769)	-	-
Gain to Group on loss of significant influence over associate entity	18	153	-	-	-
Deemed loss to Group on loss of control of unlisted funds		-	(4,118)	-	-
Write down of carrying value of controlled entities		-	-	-	(20,084)
AASB 132 Accounting Adjustment		-	1,327	-	1,327
Income tax (expense) / benefit on significant items	6 a)	(46)	800	-	-
Net profit / (loss) attributable to members of the parent		3,826	(12,365)	2,234	(29,277)
Other comprehensive income					
Net loss realised on disposal of available-for-sale financial assets		(6)	137	-	547
Net impact of deemed disposal upon ending of significant influence over associate entity	18	(153)	-	-	-
Net impact of deemed disposal of controlling interest in unlisted funds		-	4,084	-	-
Revaluation of available-for-sale financial assets		5,372	(2,178)	6,517	(4,467)
Share of revaluation of available-for-sale financial assets of an associate	18	1,444	(1,290)	-	-
Impairment loss on available-for-sale financial assets		-	14,478	-	15,977
Income tax expense on items of other comprehensive income	6 b)	(1,997)	(3,959)	(1,955)	(3,589)
Other comprehensive income for the year, net of tax		4,660	11,272	4,562	8,468
Total comprehensive income for the year		8,486	(1,093)	6,796	(20,809)

		Consolidated	
		2010	2009
<u>Earnings per share</u>			
Earnings attributable to shares			
Basic earnings / (loss) per share	7	2.6 cents	(8.5 cents)
Diluted earnings / (loss) per share	7	2.5 cents	(8.5 cents)

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

MAGELLAN FINANCIAL GROUP LIMITED

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010**

	Note	Consolidated		Parent	
		2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Assets					
<i>Current assets</i>					
Cash and cash equivalents	9	2,243	39,622	234	35,969
Financial assets	12 a)	27,057	3,316	25,098	3,075
Trade and other receivables	10	3,181	2,310	956	1,093
Loans - share purchase plan (SPP)	13 a)	357	-	357	-
Prepayments		176	223	112	140
Total current assets		33,014	45,471	26,757	40,277
<i>Non-current assets</i>					
Investment in associate	11	-	15,441	-	15,441
Investments in controlled entities		-	-	12,539	12,539
Financial assets	12 b)	67,595	27,054	67,595	27,054
Deferred tax asset	6 d)	6,683	9,874	6,433	9,826
Loans - share purchase plan (SPP)	13 b)	4,922	4,217	4,922	4,217
Loan to controlled entity	20 a)	-	-	1,150	1,150
Property, plant and equipment	14	268	359	-	-
Total non-current assets		79,468	56,945	92,639	70,227
Total assets		112,482	102,416	119,396	110,504
Liabilities					
<i>Current liabilities</i>					
Trade and other payables	15 a)	1,177	707	39	124
Loan from controlled entity		-	-	2,000	-
Income tax payable		172	-	172	-
Total current liabilities		1,349	707	2,211	124
<i>Non-current liabilities</i>					
Trade and other payables	15 b)	-	-	1,639	2,569
Total non-current liabilities		-	-	1,639	2,569
Total liabilities		1,349	707	3,850	2,693
Net assets		111,133	101,709	115,546	107,811
Equity					
Contributed equity	17	108,630	107,692	109,005	108,067
Available-for-sale reserve		2,552	(2,108)	1,642	(2,921)
Retained profits / (Accumulated losses)		(49)	(3,875)	4,899	2,665
Total attributable to members of the Group		111,133	101,709	115,546	107,811
Total equity		111,133	101,709	115,546	107,811

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

MAGELLAN FINANCIAL GROUP LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010**

Attributable to Equity Holders of the Group

	Contributed Equity \$'000	Retained Profits / (Accumulated Losses) \$'000	Available-for- sale Reserve \$'000	Total \$'000
Equity as at 1 July 2009	107,692	(3,875)	(2,108)	101,709
Net profit for the year	-	3,826	-	3,826
Other comprehensive income	-	-	4,660	4,660
Total comprehensive income	-	3,826	4,660	8,486
Issue of securities:				
- under share purchase plan (SPP)	647	-	-	647
SPP expense for the year	291	-	-	291
Total transactions with equity holders in their capacity as equity owners	938	-	-	938
Equity as at 30 June 2010	108,630	(49)	2,552	111,133

Attributable to Equity Holders of the Group

	Contributed Equity \$'000	Retained Profits / (Accumulated Losses) \$'000	Available-for- sale Reserve \$'000	Total \$'000
Equity as at 1 July 2008	106,757	8,490	(13,380)	101,867
Net loss for the year	-	(12,365)	-	(12,365)
Other comprehensive income	-	-	11,272	11,272
Total comprehensive income	-	(12,365)	11,272	(1,093)
Issue of securities:				
- under employee share scheme (SPP)	209	-	-	209
SPP expense for the year	726	-	-	726
Total transactions with equity holders in their capacity as equity owners	935	-	-	935
Equity as at 30 June 2009	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.

MAGELLAN FINANCIAL GROUP LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010**

Attributable to Equity Holders of the Parent

	Contributed Equity \$'000	Retained Profits / (Accumulated Losses) \$'000	Available-for- sale Reserve \$'000	Total \$'000
Equity as at 1 July 2009	108,067	2,665	(2,921)	107,811
Net profit for the year	-	2,234	-	2,234
Other comprehensive income	-	-	4,562	4,562
Total comprehensive income	-	2,234	4,562	6,796
Issue of securities				
- under share purchase plan (SPP)	647	-	-	647
SPP expense for the year	291	-	-	291
Total transactions with equity holders in their capacity as equity owners	938	-	-	938
Equity as at 30 June 2010	109,005	4,899	1,641	115,545

Attributable to Equity Holders of the Parent

	Contributed Equity \$'000	Retained Profits / (Accumulated Losses) \$'000	Available-for- sale Reserve \$'000	Total \$'000
Equity as at 1 July 2008	107,132	31,942	(11,389)	127,685
Net loss for the year	-	(29,277)	-	(29,277)
Other comprehensive income	-	-	8,468	8,468
Total comprehensive income	-	(29,277)	8,468	(20,809)
Issue of securities				
- under share purchase plan (SPP)	209	-	-	209
SPP expense for the year	726	-	-	726
Total transactions with equity holders in their capacity as equity owners	935	-	-	935
Equity as at 30 June 2009	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.

MAGELLAN FINANCIAL GROUP LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated		Parent	
		2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Cash flows from operating activities					
Receipt of fee income		6,940	4,085	-	-
Interest received		1,615	2,762	1,423	2,273
Proceeds from sale of held-for-trading financial assets		169	1,777	169	1,466
Purchases of held-for-trading financial assets		(297)	(263)	(297)	(263)
Other revenue received		1,196	1,293	-	-
Dividends received		578	475	578	140
Tax paid		-	(30)	-	-
Payments to suppliers and employees		(6,197)	(9,810)	(297)	(324)
Net cash inflows / (outflows) from operating activities	16 a)	4,004	289	1,576	3,292
Cash flows from investing activities					
Proceeds from sale and maturity of financial assets		5,528	7,951	5,528	2,879
Purchases of financial assets		(46,921)	(14,692)	(45,220)	(9,215)
Cash outflow on loss of control of unlisted trusts		-	(9,343)	-	-
Net cash flows from foreign exchange contracts		37	(1,162)	37	(138)
Purchase of plant and equipment		(30)	(2)	-	-
Net cash (outflows) / inflows from investing activities		(41,386)	(17,248)	(39,655)	(6,474)
Cash flows from financing activities					
Proceeds from issue of securities and units		-	4,770	-	66
Payments for redemption of units		-	(1,978)	-	-
Borrowings from controlled entities		-	-	2,341	6,001
Repayment of loans		-	-	-	-
Distributions paid by controlled unlisted trusts		-	(247)	-	-
Net cash inflows / (outflows) from financing activities		-	2,545	2,341	6,067
Net increase / (decrease) in cash and cash equivalents		(37,382)	(14,414)	(35,738)	2,885
Effects of exchange rate movements		3	673	3	(204)
Cash and cash equivalents at the beginning of the year		39,622	53,363	35,969	33,288
Cash and cash equivalents at the end of the year	9	2,243	39,622	234	35,969

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. Corporate Information

The financial report of Magellan Financial Group Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 26 August 2010.

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.

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 (AASB) and International Financial Reporting Standards (IFRS).

The preparation of the financial statements in conformity with AASB and IFRS requires the use of critical accounting estimates and judgements. The following balances rely on such judgements:

- balances relating to the Share Purchase Plan. Details are provided in note 2 (p) and note 13;
- investment in other unlisted funds. Details are provided in note 12 (c).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(c) New Accounting Standards

Except as described below, the accounting policies applied by the Group in this financial report are the same as those applied by the Group for the year ended 30 June 2009.

(i) New Standards Adopted

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations which are applicable for interim and annual periods beginning on or after 1 January 2009:

- AASB 101 *Presentation of Financial Statements* (revised 2007) effective 1 January 2009. The Statement of Comprehensive Income presents all items of recognised income and expense, either in one single statement or in two linked statements. The Group has elected to present one statement.
- AASB 7 *Financial Instruments: Disclosures* effective 1 January 2009. The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurement related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. The fair value measurement disclosures are presented in note 12 (c). The liquidity risk disclosures presented in note 19 (c) are not impacted by the amendments.

(ii) New Standards Not Yet Adopted

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

- AASB 9 *Financial Instruments* effective 1 January 2013. The amendments require financial assets to be measured at fair value through profit or loss, unless:
 - the criteria for amortised cost measurement are met, or
 - the Group qualifies and elects to recognise gains and losses on equity securities that are not held-for-trading directly in other comprehensive income.

Where the Group elects to recognise gains and losses on qualifying securities directly in other comprehensive income there will be no requirement to recognise either impairment losses or cumulative changes in fair value on de-recognition of the assets in profit or loss.

A number of other Australian Accounting Standards and Interpretations have been issued but are not effective for the current year. The adoption of these Standards and Interpretations will not affect the reported results and position of the Group. Adoption may result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(d) Basis of Consolidation

The financial report of the Group comprises the consolidated financial reports of the Company and its controlled entities. Controlled entities included within the consolidated financial report are:

	% Ownership	
	30 June 2010	30 June 2009
Magellan Asset Management Limited	100.0	100.0
New Privateer Holdings Pty Limited	*	100.0
Magellan Capital Partners Pty Limited	100.0	100.0

* New Privateer Holdings Pty Limited was voluntarily de-registered on 23rd June 2010

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

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

(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 profit or loss, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Company's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(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* is the Australian dollar.

Transactions and Balances

Transactions denominated in foreign currencies are translated into Australian dollars at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the London 4pm exchange rates at balance date. The fair values of financial assets are determined using the London 4pm exchange rates at balance date.

Foreign currency exchange differences relating to financial assets are included in changes in fair value disclosed in other comprehensive income or profit or loss account. All other foreign currency exchange differences are presented separately in profit or loss.

(h) Cash and Cash Equivalents

Cash comprises current accounts 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 deposits (maturity less than 90 days from date of inception) are classified as cash equivalents.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(j) Derivative Financial Instruments

The Group may enter into a variety of derivative financial instruments to manage its 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 profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives are 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 as; financial assets at fair value through profit or loss, loans and receivables, held-for-trading, 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 or 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 year 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.

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 profit or loss.

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 initially recognised at fair value and then are carried at amortised cost using the effective interest rate method.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(k) Financial Assets (continued)

Loans and Receivables

Fixed term deposits that have a term of 90 days or greater from date of inception are classified as loans and receivables. These deposits are initially recognised at fair value and are then carried at amortised cost using the effective interest rate method. They are classified as current assets if the term to maturity from reporting date is less than 12 months and non-current if the term to maturity is greater than 12 months.

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 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 other comprehensive income is recognised in profit or loss.

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 or loss'. On consolidation of these trusts into the results of the Group, their 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 until the asset is sold, at which time the cumulative change in fair value previously reported in equity is recognised in profit or loss.

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 profit or loss, 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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(k) Financial Assets (continued)

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

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

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

(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) Comparative Information

Comparative information in respect of the previous period's Operating Segment Information (Note 3 to the financial statements) has been re-classified to assist in the understanding of the current period's financial report.

(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 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(o) Provisions and Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

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

Long Service Leave

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

Bonus Plan

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

Directors' Entitlements

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

(p) Share Purchase Plan

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

Loans to Participants are initially recognised at fair value, which is determined by discounting loans to their net present value using the risk-free interest rate at the time the loan is granted and an estimated repayment schedule. Following initial recognition, they are carried at amortised cost using the effective interest rate method, adjusted for changes in the projected repayment schedule. Changes in the carrying value of these are recognised in 'interest income' in profit or loss. The cost of providing the benefit to Participants is recognised as an employee benefits expense in profit or loss on a straight line basis over the expected life of the loan, in accordance with AASB 2: *Share Based Payments*.

Details of the loans outstanding at balance date, and of the changes in carrying value of the loans and employee benefits expense recognised in profit or loss during the year ended 30 June 2010 are provided in note 13.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of Significant Accounting Policies (continued)

(q) Contributed Equity

Ordinary shares are classified as 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 profit or loss as it accrues based on the entitlements set out in the relevant investment management agreements, and unlisted funds constitutions or product disclosure statements. Performance fee revenue is recognised in profit or loss 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 profit or loss as it accrues, using the effective interest rate method and if not received at balance date it is reflected in the Statement of Financial Position 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 profit or loss when a present obligation exists (legal or constructive) as a result of a past event that can be reliably measured. Expenses are recognised in profit or loss if expenditure does not produce future economic benefits that qualify for recognition in the Statement of Financial Position.

(t) Leases

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

(u) Income Tax

The current income tax payable is based on the Group's taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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 average 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 average 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. Operating Segment Information

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

Funds management

Funds management activities are undertaken by the controlled entity, Magellan Asset Management Limited (MAM). MAM acts as 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 which are managed investment schemes offered to Australian and New Zealand investors. MAM also acts as trustee for the Magellan Infrastructure Beta Fund which is an unregistered managed investment scheme offered to Australian wholesale 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.

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

3. Operating Segment Information (continued)

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

30 June 2010	Funds management \$ '000	Principal Investments \$ '000	Unallocated - Corporate \$ '000	Total \$ '000
Revenue				
Management fees	7,320	-	-	7,320
Consulting fees	1,490	-	-	1,490
Interest income	193	1,756	415	2,364
Dividend income and distribution income	-	1,138	-	1,138
Changes in fair value of financial assets	-	214	-	214
Net gains on disposal of financial assets	-	6	-	6
Foreign exchange losses	-	40	-	40
Other revenue	6	-	-	6
	9,009	3,154	415	12,578
Expense				
Employee benefits expense	4,609	-	54	4,663
Employee benefits expense - (SPP)	147	-	144	291
Other expenses	1,982	-	225	2,207
	6,738	-	423	7,161
Share of income from an associate	-	(292)	-	(292)
Operating profit before significant items and income tax	2,271	2,862	(8)	5,125
30 June 2009	Funds management \$ '000	Principal Investments \$ '000	Unallocated - Corporate \$ '000	Total \$ '000
Revenue				
Management fees	4,017	-	-	4,017
Consulting fees	1,747	-	-	1,747
Interest income	271	2,638	38	2,947
Dividend income	-	794	-	794
Changes in fair value of financial assets	-	(15,331)	-	(15,331)
Net losses on disposal of financial assets	-	(137)	-	(137)
Foreign exchange losses	-	(231)	-	(231)
Other revenue	249	4	-	253
	6,284	(12,263)	38	(5,941)
Expense				
Employee benefits expense	4,756	-	38	4,794
Employee benefits expense - (SPP)	582	-	143	725
Other expenses	1,188	-	999	2,187
	6,526	-	1,180	7,706
Share of income from an associate	-	272	-	272
Finance cost – external units holder' share of net profit	-	(484)	-	(484)
Operating (loss) before significant items and income tax	(242)	(12,475)	(1,142)	(13,859)

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

3. Operating Segment Information (continued)

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

30 June 2010	Funds management \$ '000	Principal Investments \$ '000	Unallocated - Corporate \$ '000	Eliminations* \$ '000	Total \$ '000
Cash and cash equivalents	1,971	272	-	-	2,243
Financial assets	1,958	92,694	-	-	94,652
Loan to Unallocated – Corporate	2,000	-	-	-	2,000
Loans – share purchase plan (SPP)	-	-	5,279	-	5,279
Other assets	4,445	7,502	1,150	(4,789)	8,308
Total assets	10,374	100,468	6,429	(4,789)	112,482
Loan from Funds management	-	-	2,000	-	2,000
Other liabilities	2,286	213	1,639	(4,789)	(651)
Total liabilities	2,286	213	3,639	(4,789)	1,349
Net assets	8,088	100,256	2,790	-	111,133

30 June 2009	Funds management \$ '000	Principal Investments \$ '000	Unallocated - Corporate \$ '000	Eliminations* \$ '000	Total \$ '000
Cash and cash equivalents	3,617	36,005	-	-	39,622
Financial assets	240	30,130	-	-	30,370
Investment in associate	-	15,441	-	-	15,441
Loans – share purchase plan (SPP)	-	-	4,217	-	4,217
Other assets	4,616	10,696	1,150	(3,696)	12,766
Total assets	8,473	92,272	5,367	(3,696)	102,416
Other liabilities	2,075	-	2,328	(3,696)	707
Total liabilities	2,075	-	2,328	(3,696)	707
Net assets	6,398	92,272	3,039	-	101,709

*Eliminations includes adjustments and eliminations for inter-segment transactions and netting of items in the Statement of Financial Position.

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

	2010 \$ '000	2009 \$ '000
Capital invested in controlled entity	12,500	12,500
Subordinated loan to controlled entity	1,150	1,150
	<u>13,650</u>	<u>13,650</u>
Cash and cash equivalents	1,971	3,617
Fixed term deposits	1,718	-
Loan to parent company from controlled entity	2,000	-
Net investment in funds management business	<u>7,961</u>	<u>10,033</u>

The Group's business activities are conducted in Australia.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. Revenue

a) Management fee revenue	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Management and administration fees	7,320	4,017	-	-
	7,320	4,017	-	-

MAM is the Responsible Entity and investment manager of the Magellan Global Fund and Magellan Infrastructure Fund (the Unlisted Funds) and is entitled to receive monthly management and administration fees from these funds. MAM is the trustee and investment manager for the Magellan Infrastructure Beta Fund and is entitled to receive monthly management and administration fees from this fund. MAM is also the investment manager of Magellan Flagship Fund Limited (the Flagship Fund) an ASX listed investment company, and is entitled to receive a quarterly management fee.

MAM may also be entitled to receive performance fees from the Unlisted Funds and the Flagship Fund depending on specific hurdles being achieved.

The total fees earned by MAM for the year ended 30 June 2010 from these entities was \$6,419,000 (2009: \$3,934,000).

b) Other revenue	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Consulting fee income	1,490	1,746	-	-
Other revenue*	6	254	-	1
	1,496	2,000	-	1

* Other revenue in 2009 includes reimbursement by UBS of costs paid by MAM, as disclosed in the Directors' report.

5. Changes in the Fair Value of Financial Assets

The changes in fair value of financial assets recognised in profit or loss comprise:

Change in the fair value of financial assets	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
- Fair value movements – held-for-trading	214	(853)	214	(737)
- Unrealised impairment loss – available-for-sale	-	(14,478)	-	(15,977)
	214	(15,331)	214	(16,714)

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

6. Income Tax

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
a) Total income tax expense recognised during the year comprises:				
Income tax (expense) / benefit attributable to operating profit / (loss)	(1,406)	4,254	(764)	4,905
Income tax (expense)/ benefit attributable to significant items	(46)	800	-	-
Total income tax (expense) /benefit recognised in Profit or Loss	(1,452)	5,054	(764)	4,905
Current income tax (expense) / benefit	(1,458)	-	(577)	-
Prior year adjustment	29	-	36	-
Deferred income tax (expense) / benefit - origination and reversal of temporary differences	(23)	5,054	(223)	4,905
	(1,452)	5,054	(764)	4,905
(b) Income tax expense recognised in other comprehensive income:				
- Arising from the revaluation of available-for-sale financial assets	(1,564)	1,428	(1,957)	1,339
- Arising from the disposal of available-for-sale financial assets	-	(244)	2	(234)
- Arising from the loss of significant influence over associate entity	(433)	-	-	-
- Arising from the recognition of impairment losses in other comprehensive income	-	(4,459)	-	(4,939)
- Arising from the deemed disposal of controlling interest in unlisted funds	-	(790)	-	-
- Arising from the formation of a consolidated tax group	-	106	-	245
Total income expense recognised in other comprehensive income	(1,997)	(3,959)	(1,955)	(3,589)

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

6. Income Tax (continued)

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
c) Income tax attributable to the financial year differs from the prima facie amount payable on operating profit / (losses). The difference is reconciled as follows:				
Operating profit / (loss) before significant items and income tax expense	5,125	(13,859)	2,998	(15,425)
Prima facie income tax (expense) / benefit on operating loss at 30%	(1,537)	4,158	(899)	4,628
Prior year adjustments	29	-	36	-
Adjustments arising on tax consolidation				
Tax expense relating to controlled entity recognised by parent	-	181	-	539
Share purchase plan	37	(206)	37	(71)
Tax effect of franked dividends received	-	3	-	(206)
Other non-assessable income and non-deductible expenses	65	12	62	-
Tax effect of contribution from unlisted unit trusts	-	106	-	15
	(1,406)	4,254	(764)	4,905

- 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.

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

6. Income Tax (continued)

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
d) Deferred tax balances				
Tax losses carried forward	806	1,863	806	1,863
Net capital losses carried forward	971	943	971	943
Costs associated with the issue of securities deductible in future years	210	395	210	395
Revaluation of financial assets	4,509	6,681	4,509	6,681
Other temporary differences	186	(8)	(63)	(56)
Deferred tax asset	6,682	9,874	6,433	9,826

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 subsidiary and Magellan Capital Partners 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

7. 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	
	2010	2009
	\$ '000	\$ '000
<u>Basic earnings per share</u>		
Net profit / (loss) attributable to security holders – basic	3,826	(12,365)
Weighted average number of securities for basic earnings per security ('000)	146,906	145,774
Basic (loss) / earnings per share	2.6 cents	(8.5 cents)
<u>Diluted earnings per share</u>		
Net profit / (loss) attributable to security holders – diluted	3,826	(12,365)
Weighted average number of securities for diluted earnings per security ('000)	155,721	145,774
Diluted (loss) / earnings per share	2.5 cents	(8.5 cents)
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)	146,906	145,774
Weighted average number of shares on assumed exercise of:		
MFG 2011 Options ('000)	-	-
MFG 2016 Options ('000)	-	-
Class B shares	8,815	-
Weighted average number of shares for diluted earnings per share ('000)	155,721	145,774

b) Further information

The Company has on issue 6.0 million MFG 2011 Options (2009: 6.0 million), 7.9 million MFG 2016 Options (2009: 7.9 million) and 10.2 million Class B shares (2009: 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 2010, the effect of the Class B shares is dilutive as the Group has reported a net profit 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 2010, the total weighted average number of securities for the purposes of calculating the diluted earnings per share would be 155,720,857 (2009: 156,030,149). 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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

7. Earnings Per Share (continued)

The 2011 and 2016 options are anti-dilutive because their respective exercise prices were in excess of the market price of the Company's 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 in the future.

8. Dividends

No dividends were paid during the financial year (2009: nil). No final dividend has been declared.

	Parent	
Franking credit balance	2010 \$ '000	2009 \$ '000
The amount of franking credits available for subsequent financial year are:	830	816
Franking credits arising from the payment of income tax payable	172	-
	<u>1,002</u>	<u>816</u>

9. Cash and cash equivalents

Cash and cash equivalents comprise:

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Cash at bank	643	9,950	234	9,469
Fixed term deposits	1,600	29,672	-	26,500
	<u>2,243</u>	<u>39,622</u>	<u>234</u>	<u>35,969</u>

Fixed term deposits with maturity dates greater than 90 days from inception date are classified as financial assets and are designated as loans and receivables.

10. Trade and Other Receivables

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Trade receivables	1,008	701	-	-
Accrued interest	14	255	-	226
Other	31	35	31	31
	<u>1,053</u>	<u>991</u>	<u>31</u>	<u>257</u>
Related party receivables				
- Controlled entity	-	-	-	341
- Other related parties	2,128	1,319	925	495
	<u>3,181</u>	<u>2,310</u>	<u>956</u>	<u>1,093</u>

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

11. Investment in Associate

Magellan Global Fund ceased to be an associate of the Group on 13 August 2009, the date when loss of significant influence over the associate occurred. Since that date Magellan Global Fund has been treated as an investment by the Group and classified as a non-current available-for-sale financial asset (refer to note 12 (b)).

a) Reconciliation of the carrying value of the investment in associate:

	Consolidated	
	2010	2009
	\$ '000	\$ '000
Carrying value – 1 July (2009: Cost at 4 December 2008)	15,441	14,278
Additional amounts invested ^	2,318	2,500
Share of profits for the period	(292)	272
Distribution receivable	-	(319)
Share of unrealised gains / (losses) on available for sale financial assets ^	1,443	(1,290)
Reclassification of carrying value at date of loss of significant influence over associate to available-for-sale financial assets	(18,910)	-
Carrying value - 30 June	-	15,441

^ 2010 figures relate to period from 1 July 2009 to date of loss of significant influence over associate.

At 30 June 2009 the carrying value of Group's investment in Magellan Global Fund was equal to the fair value, which comprised of 17,789,949 units at a redemption unit price of \$0.85.

b) Summarised financial information

The following table provides summarised financial information at balance date relating to the investment in associate for the prior year for comparative purposes:

	30 June 2010	30 June 2009
	\$'000	\$'000
Total assets	*	71,103
Total liabilities	*	(1,682)
Net assets	*	69,421
Company's share of net assets	*	15,441

	1 July 2009 to 13 August 2009	4 December 2008 to 30 June 2009
	\$'000	\$'000
Revenue	*	462
Net profit	*	(43)
Distributions payable	*	(1,427)
Unrealised losses on investments recognised in other comprehensive income	*	(2,992)

* Not applicable since investment in Magellan Global Fund is reflected as an investment in available-for-sale financial asset as at 30 June 2010

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

12. Financial Assets

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
a) Current				
Held-for-trading (by domicile of primary stock exchange)				
- Listed shares – Australia	1,072	684	1,072	684
Held-to-maturity				
- Fixed and floating rate securities	9,622	2,391	9,622	2,391
Loans and receivables				
- Fixed term deposits	16,363	241	14,404	-
	27,057	3,316	25,098	3,075

The movement in the carrying value of the Group's current financial assets can be analysed as follows:

	2010 \$ '000	2009 \$ '000
Balance at 1 July	3,316	3,200
Acquisitions	9,826	2,734
Disposals	(168)	(1,765)
Reclassification of held-to-maturity securities from non-current to current	2,822	-
Cash placed on fixed term deposit	16,122	-
Maturities of fixed and floating rate securities	(5,400)	-
Changes in fair value	539	(853)
Balance at 30 June	27,057	3,316

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
b) Non-current				
Held-to-maturity				
- Fixed and floating rate securities	352	2,822	352	2,822
Available-for-sale financial assets (by domicile of primary stock exchange)				
- Listed shares – Australia				
- Magellan Flagship Fund	27,507	15,499	27,507	15,499
- Listed shares – United States	3,252	2,613	3,252	2,613
- Listed shares – Switzerland	1,420	1,143	1,420	1,143
- Listed shares – Europe	134	122	134	122
- Unlisted funds - Magellan				
- Magellan Global Fund	29,822	**	29,822	**
- Magellan Infrastructure Fund	3,347	3,172	3,347	3,172
- Unlisted funds - Other	1,761	1,683	1,761	1,683
	67,595	27,054	67,595	27,054

** the Company and the Group's investment in Magellan Global Fund was classified as an Investment in an Associate as at 30 June 2009 (see note 11).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

12. Financial Assets (continued)

b) Non-current (continued)

The movement in the fair value of the Group's non-current financial assets can be analysed as follows:

	2010	2009
	\$ '000	\$ '000
Balance at 1 July	27,054	26,327
Acquisitions	19,215	8,133
Reclassification of investment in associate	18,910	-
Disposals	(128)	(2,879)
Reclassification of held-to-maturity securities from non-current to current	(2,822)	-
Changes in fair value	5,366	(4,527)
Balance at 30 June	67,595	27,054

c) Fair Value Disclosures

i) Financial Assets carried at Fair Value

Accounting standards require financial instruments to be recognised and measured at fair value and disclosed by source of inputs using a three level fair value hierarchy:

- Level 1 : The Group invests in liquid securities quoted on major stock exchanges. The fair value of these investments is based on quoted bid prices.
- Level 2 : The Group invests in unlisted trusts which in turn invest in liquid securities quoted on major stock exchanges. The fair value is estimated using the redemption price provided by the investment manager of the unlisted trust.
- Level 3 : The Group invests in unlisted trusts which typically invest in unlisted companies. The fair value is estimated based on Director's valuation.

The three level fair value hierarchy has been applied to the Group's equity financial instruments only and does not apply to the Group's investments in loans and receivables or held-to-maturity financial assets.

Listed shares

The fair value of the Group's listed shares has been determined directly by reference to published price quotations in an active market and are categorised as Level 1 in the fair value hierarchy. The fair value of the Group's listed securities categorised as Level 1 is \$33,385,000 (2009: \$20,061,000) which comprises both held-for-trading and available-for-sale listed securities.

Unlisted funds - Magellan

The fair values of investments in the Magellan Global Fund and Magellan Infrastructure Fund are calculated using the redemption unit prices at balance date. They are categorised as Level 2 in the fair value hierarchy on the basis that the inputs into the redemption unit price are directly observable from published price quotations. The fair value of the Group's investment in these funds categorised as Level 2 is \$33,169,000 (2009: \$3,172,000).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

c) Fair Value Disclosures (continued)

i) Financial Assets carried at Fair Value (continued)

Unlisted funds – other

'Unlisted funds – other' comprises units in two private equity funds, for which there is no active market. These funds invest in equity and debt securities of unlisted companies, which are valued by the funds' investment manager using valuation techniques. The Group's Directors' have applied a discount to the unit prices provided by the funds' investment manager to reflect the illiquidity of the units, and the estimated impact on the investment manager valuations of investee companies of periodic re-financing requirements.

The Directors' valuation is based on assumptions which are not supported by observable market prices and therefore categorised as Level 3 in the fair value hierarchy. The Directors believe the estimated fair value based on other unlisted funds' investment manager valuations and these discount assumptions recorded in the Statement of Financial Position and the related changes in fair value recorded in other comprehensive income are reasonable and the most appropriate at the reporting date.

Reconciliation of Level 3 fair value movements:

	2010	2009
	\$ '000	\$ '000
Balance at 1 July	1,683	3,155
Acquisitions	-	-
Capital calls	78	101
Impairment charge during the year	-	(1,573)
Balance at 30 June	1,761	1,683

There were no transfers between Level 1 and Level 2 during the year.

ii) Held-to-maturity financial assets

Fixed and floating rate securities are recognised at amortised cost and have a carrying value of \$9.97 million at 30 June 2010. Two independent broker quotes are obtained for these securities as at 30 June 2010 in order to estimate the fair value. The fair value of these securities is estimated to be \$9.73 million.

iii) Loans and receivables

Fixed term deposits are carried at amortised cost which is a close approximation to fair value.

d) Fixed charge

Certain of the Group's investment assets are held in custody with Merrill Lynch International (MLI), a wholly owned subsidiary of Bank of America. The Group has granted MLI a fixed charge over the Group's rights, title and interest in these assets as security for the performance of its obligations under an International Prime Brokerage Agreement (IPBA) which it has entered into with MLI.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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. Subject to the Listing Rules, the Directors have overall discretion in relation to the Plan and may vary the rules. They have currently determined that the number of Company shares that may be offered is limited to:

- i) shares with a market value equal to a multiple of one times the employee's after-tax bonus for the financial year (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 may be required to make an upfront contribution of up to 25% of the issue price at the time of issue. The remaining amount of the issue price will be funded by way of a full recourse interest free loan from the Company. The Directors waived the requirement in respect of offers made pursuant to the SPP in respect of the years ended 30 June 2009 and 30 June 2010.

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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13. Share Purchase Plan (SPP) (continued)

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 date was:

	Consolidated		Parent	
	2010	2009	2010	2009
	\$ '000	\$ '000	\$ '000	\$ '000
a) Current				
Amounts due within one year	357	-	357	-
b) Non-current				
Amounts due later than one year and within ten years	4,922	4,217	4,922	4,217
	5,279	4,217	5,279	4,217

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13. Share Purchase Plan (SPP) (continued)

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

<u>Offer date</u>	<u>5-day weighted average share price</u>
10 September 2007	\$1.66
20 October 2008	\$0.52
23 September 2009	\$0.78

The value of shares securing the loans to Participants at balance date applying the Company's closing market price of \$1.13 was \$7.6 million (2009:\$3.0 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.

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

	<u>30 June 2010</u>	<u>30 June 2009</u>
--	---------------------	---------------------

September 2007 tranche

Face value of loans	\$5.8m	\$5.8m
Estimated weighted average duration of loans	4.5 years	5.8 years
Imputed interest rate	7.0%	7.0%

October 2008 tranche

Face value of loans	\$0.2m	\$0.2m
Estimated weighted average duration of loans	6.1 years	4.8 years
Imputed interest rate	5.0%	5.0%

September 2009 tranche

Face value of loans	\$1.0m	-
Estimated weighted average duration of loans	7.7 years	n/a
Imputed interest rate	5.3%	n/a

The increase in the estimated weighted average duration of loans between June 2009 and June 2010 resulted from changes in assumptions surrounding the repayment patterns of the loans.

Amounts recognised in profit or loss in respect of the SPP loans are as follows:

	Consolidated		Parent	
	2010	2009	2010	2009
<i>Included in:</i>	\$ '000	\$ '000	\$ '000	\$ '000
Interest income	415	38	415	38
Employee benefits expense	(291)	(725)	(291)	(725)
Net credit / (charge) to profit or loss before tax	124	(687)	124	(687)

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

13. Share Purchase Plan (SPP) (continued)

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					
	2010			2009		
	Leasehold Improvements \$ '000	Equipment, Fixtures and Fittings \$ '000	Total \$ '000	Leasehold Improvements \$ '000	Equipment, Fixtures and Fittings \$ '000	Total \$ '000
Cost at 1 July	119	481	600	361	238	599
Reclassifications	-	-	-	(241)	241	-
Additions	-	30	30	-	2	2
Disposals	-	-	-	(1)	-	(1)
Cost at 30 June	119	511	630	119	481	600
Accumulated depreciation and impairment losses at 1 July	43	198	241	25	63	88
Reclassification	-	-	-	(19)	19	-
Disposals	-	-	-	(1)	-	(1)
Depreciation charge for the year	29	92	121	38	116	154
Accumulated depreciation and impairment losses at 30 June	72	290	362	43	198	241
Net carrying amount at 30 June	47	221	268	76	283	359

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 2010 is \$nil (2009:\$ nil).

15. Trade and Other Payables

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
a) Current				
Trade payables	110	189	4	42
Accrued expenses	870	247	24	71
Other payables	197	271	11	11
	1,177	707	39	124
b) Non-current				
Related party payables - Controlled entities	-	-	1,639	2,569
	-	-	1,639	2,569

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. Statement of Cash Flows Reconciliation

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

	Consolidated		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Net profit / (loss) after tax	3,826	(12,365)	2,234	(29,277)
Adjusted for:				
Amounts attributable to external unitholders	-	1,253	-	-
Deemed loss to parent on loss of control of unlisted funds	-	4,118	-	-
Deemed gain to parent on loss of significant influence over associate	97	-	-	-
AASB 132 Adjustment	-	(1,327)	-	(1,327)
Losses / (gains) on sale of available-for-sale financial assets	(6)	168	(6)	547
Unrealised impairment losses on available-for-sale financial assets	-	14,478	-	15,977
Impairment of controlled entities	-	-	-	20,084
Change in carrying value of fixed and floating rate securities	(320)	(40)	(320)	(40)
Dividends and distributions on available-for-sale financial assets reinvested	(495)	(508)	(495)	(508)
Depreciation	121	154	-	-
Unrealised foreign exchange (gains) / losses	(3)	(793)	(3)	342
Net cash flows from foreign exchange contracts	(37)	1,024	(37)	-
Imputed interest on loans under share purchase plan (SPP)	(415)	(38)	(415)	(38)
Employee expense on loans under SPP	291	725	291	725
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	303	(159)	54	(80)
(Increase) / decrease in prepayments	43	26	27	(123)
(Increase) / decrease in deferred tax assets	306	(5,232)	507	(4,957)
(Increase) / decrease in held-for-trading financial assets	(388)	2,288	(388)	1,295
Increase / (decrease) in trade and other payables	509	(3,211)	(45)	28
Increase / (decrease) in current tax liabilities	172	-	172	-
Net cash inflows / (outflows) from operating activities	4,004	289	1,576	3,292

b) Non-cash financing and investing activities:

Issue of shares under SPP	647	143	647	143
Share based payments under SPP	291	726	291	726
Acquisition of financial assets by means of amounts payable to controlled entities	-	-	-	746
Acquisition of available-for-sale financial assets via dividend and distribution reinvestment plans	495	508	495	508

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

17. Contributed Equity

	Consolidated		Parent	
	2010	2009	2010	2009
	\$ '000	\$ '000	\$ '000	\$ '000
Contributed equity	108,630	107,692	109,005	108,067
	108,630	107,692	109,005	108,067

a) Movement during the year of Group securities on issue was as follows:

	Number			
		MFG	MFG	Class
		2011	2016	B
	Shares	Options	Options	Shares
	'000	'000	'000	'000
Balance at 1 July 2009	145,945	6,034	7,882	10,200
Issue of shares under share purchase plan (SPP)	1,253	-	-	-
Balance at 30 June 2010	147,198	6,034	7,882	10,200

	Value	
	Consolidated	Parent
	\$'000	\$'000
Balance at 1 July 2009	107,692	108,067
Issue of shares under SPP	647	647
Recognition of SPP expense for the year	291	291
Balance at 30 June 2010	108,630	109,005

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. However, the final exercise period commences on the date that is two business days after the release of the results for the half year to 31 December 2010 and ends on 30 June 2011.
- Upon exercise of an MFG 2011 Option, the option holder will be issued with one new ordinary share in the Company.
- The exercise price of the MFG 2011 options is \$1.30.
- The MFG 2011 options expire on 30 June 2011.

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

- MFG 2016 Options can be exercised during any two month period following the announcement of the Company's full or half year results in each year prior to the expiry date. However, the final exercise period commences on the date that is two business days after the release of the results for the half year to 31 December 2015 and ends on 30 June 2016.
- Upon exercise of 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. Contributed Equity (continued)

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 will 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 10.2 million.

For example, based on the issued capital as at 30 June 2010 the 10,200,000 the Class B shares would be entitled to convert to approximately 8.83 million ordinary shares, being equal to 0.06 times 147.2 million ordinary shares on issue.

b) Capital Management

The Directors aim to earn satisfactory returns for shareholders over time via the sensible deployment of the Group's capital, whilst maintaining capital strength to underpin the business. The Directors intend to maintain a very strong balance sheet including a high level of liquidity to ensure the business will withstand almost any market conditions or unforeseen event. This conservative balance sheet approach has benefitted the Group, particularly during the early stages of the funds management business in the extreme markets of the last three years, and will benefit the Group in the future.

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

The Group's capital consists of its shareholders equity and the Group has no external net borrowings. The Company's wholly owned subsidiary, Magellan Asset Management ('MAM'), is the holder of an Australian Financial Services License ('AFSL'). As a holder of an AFSL, the Australian Securities and Investment Commission (ASIC) sets out requirements in respect of holdings of Net Tangible Assets and Surplus Liquid Funds. MAM has complied with all externally imposed requirements to hold an AFSL during the year.

There were no changes in the Group's approach to capital management during the year. Other than the requirements imposed under the AFSL, the Group is not subject to any externally imposed capital requirements.

18. Deemed Gain to Group on Loss of Significant Influence Over Associate Entity

At 1 July 2009, the Magellan Global Fund was deemed to be an associate entity as the percentage of units held by the Group was sufficient to provide the Group with significant influence. On 13 August 2009, the Group's percentage holding in Magellan Global Fund was diluted below 20% by inflows into the Fund from external unit holders. At this date, the Fund ceased to be an associate entity and was classified as an available-for-sale investment.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

18. Deemed Gain to Group on Loss of Significant Influence Over Associate Entity (continued)

In accordance with AASB 128: *Investments in Associates*, on the day that the Fund ceased to be an associate of the Group, the Group is deemed to have disposed of its share of the underlying assets of the Fund as if it held those assets directly. The profit that arose on this deemed disposal is recognised in the profit or loss account.

The fair value of the Group's ongoing investment in the Fund following the loss of significant influence is determined by the redemption unit price of the Fund on the applicable date. Subsequent changes in the fair value of the investment in the Fund are recognised in the available-for-sale reserve and disclosed in other comprehensive income.

19. Financial Risk Management Objectives and Policies

a) Financial Risk Management Objectives, Policies and Processes

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

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; and
- the effect of market movements on the Group's funds under management and the consequent impact on the management fees earned.

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 investments. The investment portfolios of Magellan Flagship Fund and the two Magellan 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 Magellan unlisted funds.

The Group earns management fees on funds under management, which are typically based on a percentage of the value of those funds. Market movements will therefore affect the management fees that the Group earns. The Group may also be entitled to earn performance fees on a portion of the funds that it manages. These performance fees are reliant on the performance of portfolios compared to absolute and index relative hurdles and hence have some exposure to market risk.

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 profit or loss and the Statement of Changes in Equity.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. Financial Risk Management Objectives and Policies (continued)

b) Market Risk

Market risk is the risk that the Group's revenues and 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 entitlement to investment management fees on the funds under management, and from the Group's and the Company's direct investment in equity securities.

All equity investments are carried at fair value with changes arising from held-for-trading investments reflected in profit or loss, and changes arising from available-for-sale investments reflected in other comprehensive income.

Over the past 10 years, the annual movement in the major global indices has varied between +40% and -24% (in AUD) and +22% and -31% (in USD). Past performance of markets is not always a reliable guide to future performance, and neither the Company's own investment portfolio, nor the portfolios managed by the Group, attempt to mirror the global indices. However, this very wide range of historical movements in the index provides an indication of the magnitude of equity price movements that might reasonably be expected within the portfolio over the next twelve months.

Impact arising from the Group's own investment portfolio

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

	Group		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Impact on net profit after tax attributable to members of the parent	38	24	38	24
Impact on available-for-sale reserve, net of tax	2,410	1,381	2,410	1,381
Total impact on equity	2,448	1,405	2,448	1,405

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 by Director's valuation. 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) A decrease of 5% in the market prices of the Group's and the Company's investments held at balance date would have an equal and opposite effect to the changes disclosed above.
- iii) The Group recognises impairment losses on available-for-sale investments in accordance with the accounting policy disclosed in note 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. Financial Risk Management Objectives and Policies (continued)

(i) Equity Price Risk (continued)

Impact arising from the Group's funds under management

Each incremental increase of 5% in the average funds under management of the Group during the years ended 30 June 2010 and 30 June 2009 would have increased the net profit after tax as follows:

	Group		Parent	
	2010 \$ '000	2009 \$ '000	2010 \$ '000	2009 \$ '000
Impact on net profit after tax attributable to members of the parent	256	147	-	-
Total impact on equity	256	147	-	-

Assumptions and explanatory notes

- i) A decrease of 5% in the average funds under management of the Group would have an equal and opposite effect to the changes disclosed above;
- ii) The potential impact of performance fees has not been estimated, as these arise from the performance of the funds managed by the Group relative to the market, as well as to movements in the overall market. The Group did not earn any material performance fees during the year ended 30 June 2010 (2009: nil) and therefore the impact of market movements on future performance fees will not reduce the Group's net profit after tax;
- iii) Changes in market prices may impact the inflows to, and outflows from, the Group's funds under management. This impact has not been estimated.

(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 date, the Group's direct currency risk exposure arose from:

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

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

19. Financial Risk Management Objectives and Policies (continued)

(ii) Currency Risk (continued)

An increase of 10% 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 profit or loss and amounts recognised in other comprehensive income:

Group	Increase / (decrease) in net profit		Increase / (decrease) other comprehensive income	
	2010	2009	2010	2009
	\$ '000	\$ '000	\$ '000	\$ '000
Assets denominated in:				
US dollars	(5)	(68)	(296)	(124)
Swiss francs	-	-	(129)	(54)

Parent Company	Increase / (decrease) in net profit		Increase / (decrease) other comprehensive income	
	2010	2009	2010	2009
	\$ '000	\$ '000	\$ '000	\$ '000
Assets denominated in:				
US dollars	(5)	(68)	(296)	(124)
Swiss francs		-	(129)	(54)

The Group and the Company held a US dollar cash balance at 30 June 2010, 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 other comprehensive income, unless financial assets are sold. A decrease of 10% in the Australian dollar relative to each currency would have an opposite impact of materially similar magnitude on amounts recognised in profit or loss 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. Financial Risk Management Objectives and Policies (continued)

(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 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.

The sensitivity of the Group's and the Company's statement of comprehensive income 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 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	
	2010	2009	2010	2009
	\$ '000	\$ '000	\$ '000	\$ '000
Impact on net profit after tax attributable to members of the parent	149	303	121	276

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.

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 2010, the Group had an obligation to settle trade creditors of \$1.2 million (2009: \$0.7 million) within 30 days. The Group had sufficient cash reserves of \$2.2 million (2009: \$39.6 million) and a further \$3.2 million (2009: \$2.3 million) 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 loan to the Company from the controlled entity is repayable on demand. The Company has sufficient cash reserves of \$2.2 million to repay this loan as required.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. Financial Risk Management Objectives and Policies (continued)

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 financial assets and liabilities as they are marked to market. The total credit risk for on-Statement of Financial Position items including securities is therefore limited to the amount carried on the Statement of Financial Position. 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 (MLI), a wholly owned subsidiary of Bank of America. 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 Unlisted Funds. The services provided by MLI to the Group include clearing and settlement of transactions, financing, securities lending and acting as custodian for the Company and the Unlisted Funds' assets. The IPBA with Merrill is in a form that is typical of prime brokerage arrangements. In acting as custodian of the each Unlisted Funds' assets, MLI complies with the relevant provisions of the Corporations Act and applicable ASIC policy statements relating to registered managed investment scheme property arrangements with custodians. In the unlikely event of MLI becoming insolvent the Company and the Unlisted Funds may rank as an unsecured creditor in regard to any investments that have been lent or used as collateral by MLI.

As at 30 June 2010, 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.

At 30 June 2010 the Group had an outstanding balance totalling \$5.3 million (2009: \$4.2 million) for loans to participants under the share purchase plan and held at 30 June 2010 Company shares valued at \$7.6 million (2009: \$3.0 million) as security for the loans (note 13 provides further information). The loans were made to Company employees and Directors on a full recourse basis.

At 30 June 2010 all cash and receivables are collectable within 30 days and there are no amounts which are past due.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

20. Transactions with Related Parties

a) 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 Company's acquisition of MAM. The amount drawn down on the facility at 30 June 2010 was \$1,150,000 (2009: \$1,150,000).

(ii) Amounts due to MAM

At balance date, a net amount of \$1,638,000 (2009: \$2,568,000) 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 \$76,000 (2009: \$341,000) was payable by MAM to the Company representing employee share purchase plan (SPP) loan repayments withheld from employee bonuses in accordance with the SPP rules. As at balance date MAM has an unsecured, interest free loan to the Company of \$2,000,000 which is repayable on demand.

b) Disclosures Relating to Key Management Personnel

Share Holdings

The number of ordinary shares held in the Company at 30 June 2010:

Name	Balance at 1 July 2009	Acquisitions	Cancellations/ Disposals	Balance at 30 June 2010
<i>Directors</i>				
Naomi Milgrom	6,182,360	-	-	6,182,360
Paul Lewis	1,569,747	331,000	-	1,900,747
Brett Cairns	1,086,427	-	-	1,086,427
Hamish Douglass	9,408,448	1,028,060	-	10,436,508
Chris Mackay	18,077,777	-	-	18,077,777

Other Key Management Personnel

Nerida Campbell ⁽¹⁾	435,019	150,000	-	585,019
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⁽¹⁾ Acquisitions during the period under the Company's Share Purchase Plan

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

20. Transactions with Related Parties (continued)

The number of ordinary shares held in the Company at 30 June 2009:

Name	Balance at 1 July 2008	Acquisitions	Cancellations/ Disposals	Balance at 30 June 2009
<i>Directors</i>				
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	17,051,781	1,025,996	-	18,077,777

***Other Key
Management
Personnel***

Nerida Campbell ⁽¹⁾	358,096	76,923	-	435,019
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⁽¹⁾ Acquisitions during the period under the Company's Share Purchase Plan

The number of MFG Class B shares held in the Company at 30 June 2010:

Name	Balance at 1 July 2009	Acquisitions	Disposals	Balance at 30 June 2010
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Hamish Douglass	10,200,000	-	-	10,200,000
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The key terms and rights attaching to the MFG Class B Shares are disclosed in note 17. MFG Class B shares disclosed above are identical to 30 June 2009 disclosures.

Option Holdings

The number of MFG 2011 Options (ASX: MFGOB) expiring on 30 June 2011 held at 30 June 2010:

Name	Balance at 1 July 2009	Acquisitions	Disposals	Balance at 30 June 2010
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Directors

Brett Cairns	9,054	-	-	9,054
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The number of MFG 2016 Options (ASX: MFGOC) expiring on 30 June 2016 held at 30 June 2010:

Name	Balance at 1 July 2009	Acquisitions	Disposals	Balance at 30 June 2010
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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

***Other Key
Management
Personnel***

Nerida Campbell	39,600	-	-	39,600
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The key terms and rights attaching to the MFG 2011 Options, and MFG 2016 Options are disclosed in note 17. Option Holdings disclosed above are identical to 30 June 2009 disclosures.

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

20. Transactions with Related Parties (continued)

Unit Holdings in the Unlisted Funds

The number of units in Magellan Global Fund held at 30 June 2010:

Name	Balance at 1 July 2009	Acquisitions*	Disposals	Balance at 30 June 2010
<i>Directors</i>				
Paul Lewis	161,793	164,961	-	326,754
Hamish Douglass	800,659	16,447	-	817,106
Chris Mackay	400,985	8,237	-	409,222

***Other Key
Management
Personnel***

Nerida Campbell	-	20,010	-	20,010
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* including reinvestment of 30 June 2009 distributions

The number of units in Magellan Global Fund held at 30 June 2009:

Name	Balance at 1 July 2008	Acquisitions*	Disposals	Balance at 30 June 2009
<i>Directors</i>				
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 30 June 2008 distributions

The number of units in Magellan Infrastructure Fund held at 30 June 2010:

Name	Balance at 1 July 2009	Acquisitions*	Disposals	Balance at 30 June 2010
<i>Directors</i>				
Paul Lewis	27,792	1,551	-	29,343

* including reinvestment of 30 June 2009 distributions

The number of units in Magellan Infrastructure Fund held at 30 June 2009:

Name	Balance at 1 July 2008	Acquisitions*	Disposals	Balance at 30 June 2009
<i>Directors</i>				
Paul Lewis	26,360	1,432	-	27,792

* including reinvestment of 30 June 2008 distributions

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

20. Transactions with Related Parties (continued)

c) Loans

The Company has made full recourse interest free loans to Non-executive Directors and Key Management Personnel 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	Loan Balance at 1 July 2009	Loans made	Repayments	Loan Balance at 30 June 2010	
	Number				Face value	Carrying Value
		\$	\$	\$	\$	\$
<i>Directors</i>						
Paul Lewis	-	1,245,000	-	-	1,245,000	1,087,431
Brett Cairns	-	1,245,000	-	-	1,245,000	1,087,431
<i>Other Key Management Personnel</i>						
Nerida Campbell	150,000	30,575	117,000	-	147,575	111,295

Comparative information for the year ended 30 June 2009 is as follows:

Name	Shares acquired during the year	Loan Balance at 1 July 2008	Loans made	Repayments	Loan Balance at 30 June 2009	
	Number				Face value	Carrying value
		\$	\$	\$	\$	\$
<i>Directors</i>						
Paul Lewis	-	1,245,000	-	-	1,245,000	1,016,291
Brett Cairns	-	1,245,000	-	-	1,245,000	1,016,291
<i>Other Key Management Personnel</i>						
Nerida Campbell	76,923	575	30,000	-	30,575	30,575

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

20. Transactions with Related Parties (continued)

d) Remuneration

The Key Management Personnel of the Group, including the Non-executive and Executive Directors of the Company, received the following amounts during the year:

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short term Benefits				
- Salary	721,451	784,367	46,834	33,658
- Cash Bonus	50,000	13,380	-	-
Post-employment Benefits				
- Superannuation	46,249	48,304	2,866	1,790
Termination Benefits	-	83,626	-	-
Share based Payment				
- Under SPP ⁽¹⁾	148,434	145,137	148,434	145,137
Total	966,134	1,074,814	198,134	180,585

⁽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)

21. Contingent Liabilities and Commitments for Expenditure

Capital Commitments

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

Lease Commitments

A controlled entity, Magellan Asset Management Limited ('MAM'), has entered into non-cancellable operating leases for its office premises in Sydney, Melbourne and Brisbane as well as for office equipment.

	Consolidated		Parent	
	2010	2009	2010	2009
	\$ '000	\$ '000	\$ '000	\$ '000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	375	334	-	-
Later than one year but not later than five years	292	610	-	-
	668	944	-	-

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

21. Contingent Liabilities and Commitments for Expenditure (continued)

Contingent Liabilities

The Group has a contingent liability for uncalled amounts of \$0.4 million (2009: \$0.5 million) on units in other unlisted unit trusts that are held for investment purposes. The directors are not aware of any other contingent liabilities at balance date.

22. Events Subsequent to Reporting Date

No significant events have occurred since the balance date which would impact on the financial position of the Group as at 30 June 2010 and on the results for the year ended on that date.

23. Auditor's Remuneration

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Amounts received or due and receivable by Ernst & Young Australia for:				
- audit and review of the financial statements for the Company and its operating subsidiaries	73,850	151,498	58,850	122,551
- audit of the financial statements for the wholesale unit trust	6,000	-	-	-
- other regulatory audit services	29,500	10,000	-	-
- tax compliance (tax returns)	18,600	9,291	6,600	-
- tax advice	14,300	15,000	-	-
Amounts received or due and receivable by KPMG Australia for:				
- audit and review of the financial statements for the Magellan unlisted funds	23,130	26,167	-	-
- audit of the compliance plan for each of the Magellan unlisted funds	9,900	10,250	-	-
- tax compliance (tax returns)	-	44,341	-	18,150
- tax advice	-	5,364	-	-
	175,280	271,120	65,450	140,701

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- (a) the financial statements, notes and the additional disclosures included in the Directors Report designated as audited, of the company and of the consolidated entity are in 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 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting , International Financial Reporting Standards (IFRS) as disclosed in Note 1(b) and *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2010.

On behalf of the Board



Chris Mackay
Chairman

Sydney
26 August 2010

MAGELLAN FINANCIAL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT



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

Report on the Financial Report

We have audited the accompanying financial report of Magellan Financial Group Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 and International Standards on Auditing. 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.

Liability limited by a scheme approved
under Professional Standards Legislation

MAGELLAN FINANCIAL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT



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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 2010 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 9 to 15 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads "Ernst & Young".

Ernst & Young

A handwritten signature in cursive script that reads "Rita Da Silva".

Rita Da Silva
Partner
Sydney
26 August 2010

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

This Corporate Governance Statement (**'Statement'**) applies to Magellan Financial Group Limited (the **'Company'**) and its controlled entities (collectively, the **'Group'**). The Company's Directors and Group senior management recognise the importance of good corporate governance. The Group's corporate governance framework, policies and practices are designed to ensure the effective management and operation of the Group, and will remain under regular review.

Some of the Company's controlled entities have adopted their own policies and practices to deal with specific matters relevant to their business including, for instance, compliance with the conditions of an Australian Financial Services Licence. Where such policies and practices have been adopted, they have been developed in line with the standards referred to in this Statement.

This Statement reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**'ASX Recommendations'**). As required by the ASX Listing Rules, this statement sets out the extent to which the ASX Recommendations have been followed or, where appropriate, indicates a departure from them with an explanation.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role and responsibilities of the Board

The Board is responsible for the overall operation and stewardship of the Group and is responsible for its overall success and long-term growth and corporate governance. The Board will act in the best interests of the Group to ensure the business of the Group is properly managed. The Group's corporate governance arrangements revolve around the Company's Board 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 Board may review and amend the Board Charter at any time. The Company's Board Charter is available 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, 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 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;

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

- approving the Group's annual Financial Statements and reports to shareholders;
- approving the Group's half year Financial Statements and reports to shareholders;
- reviewing and overseeing the implementation of a Corporate 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 Group's 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.

Evaluation of senior executive performance

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

Induction of senior executives

The Group has an induction process in place for all new employees of the Group, including senior executives. As part of this induction process, new senior executives will receive briefings on the Group's business and its policies and procedures. These briefings will focus on the key operational, regulatory, risk and compliance issues that are of relevance to the Group.

2. STRUCTURE THE BOARD TO ADD VALUE

Board Composition

The Company's Board must comprise:

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

The following persons were Directors of the Company during the year:

- 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, date of appointment and attendance at Board meetings are set out in the Directors' Report. The Board is confident that each of the Directors will bring the skills and qualifications which will enable them to effectively discharge their individual and collective responsibilities as Directors of the Company.

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

The Company's Constitution provides that there must be a minimum of three Directors and a maximum of ten Directors. Having regard to the size of the Group and the nature of its business, the Board has determined that a five member Board is the appropriate composition for the Board and will enable it to continue 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.

Independent Directors

The Board has a majority of Independent Non-Executive Directors. Directors of the Company are considered to be independent when they are independent of management and free from 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 Chairman of the Board is not an independent director. This is a departure from ASX Recommendation 2.2, which recommends that the Chair should be an independent director. The Board believes that Mr Mackay is the most appropriate person to lead the Board as Chairman and that he is able to and does bring independent judgment to all relevant issues falling within the scope of the role of Chairman and that the Company and Group as a whole benefits from his experience and expertise.

Access to information

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 Group's expense, subject to making a request to, and obtaining the prior authorisation of, the chairperson of the Board. Where the chairperson of the Board wishes to obtain independent professional advice, he or she is required to make a request to, and obtain the prior authorisation of, the chairperson of the Audit and Risk Committee of the Board.

Retirement of Directors

A Director must retire from office no later than the later of the third Annual General Meeting of the Company or three years following the Director's last election or appointment.

Nominations and appointment of new Directors

ASX Recommendation 2.4 provides that the Board should establish a Nominations Committee. Given the size and the nature of the Group, the Board has determined that a Nomination Committee not warranted. The Board considers the issues that would otherwise be considered by a Nominations Committee.

Review of Board performance

Under the Company's Board Charter, the Board will conduct a review of its collective performance and the performance of its Directors every two years. This review will consider the Board's role; the processes of the Board and its Committees; the Board's performance; and each Director's performance before the Director stands for re-election. This review was undertaken by the Board in August 2010.

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Corporate Code of Conduct

The Company has a Corporate Code of Conduct (the “**Code**”) that applies to all Directors and employees of the Group. 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 of the Group;
- encourage the observance of those standards so as to protect and promote the interests of shareholders and other stakeholders;
- guide Directors and employees of the Group 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 of the Group to report and investigate reports of unethical practices.

A copy of the Corporate Code of Conduct is available on the Company’s website.

Personal Trading Policy

The Company has a Personal Trading Policy that sets out the circumstances in which the Directors and employees of the Group may trade in the Company’s securities.

The Policy places restrictions and notification requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

A copy of the Company’s Personal Trading Policy is available the Company’s website.

One of the Company’s controlled entities, Magellan Asset Management Limited (**‘MAM’**), has also established its own Personal Trading Policy. This Policy sets out the circumstances in which MAM’s Executive Directors and employees may trade in the Company’s securities and in securities generally. The Policy also places restrictions and notification requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

Committee composition

The Company has established an Audit & Risk Committee (**‘Committee’**). The following persons were members of the Committee during the year:

- 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 & Risk Committee meetings are set out in the Directors’ Report.

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

The Chairman of the Committee is an Independent Non-Executive Director and is not the Chairman of the Board. The Committee also consists of a majority of Independent Non-Executive Directors. This is a departure from ASX Recommendation 2.4 which recommends that the Audit Committee should consist only of non-executive directors. Given the size and the nature of the Group, and the skills and expertise of each Committee member, the Board considers that a Committee comprised of a majority of Independent Non-Executive Directors is appropriate.

Objectives and responsibilities of the Committee

The objective of the 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 Committee's Charter. A copy of the Committee's Charter can be found on the Company's website.

The Committee will endeavour to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process;
- promote a culture of compliance within the Group;
- ensure effective communication between the Board and the Group's senior financial and compliance management;
- ensure effective audit functions and communications between the Board and the Group'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.

The Committee will meet a minimum of three times each year. The Chairman of the Committee will report to the Board after each Committee meeting.

Independent external audit

The Group's independent external auditor is Ernst & Young. The Committee is responsible for recommending to the Board the appointment and removal of the external auditor. The independence and effectiveness of the external auditor is reviewed regularly. The Committee is also responsible for ensuring that the external audit engagement partners are rotated in accordance with relevant statutory requirements, and otherwise after a maximum of five years' service.

The external auditors attend the Committee's meetings when the Group's half year and full year Financial Statements are being considered. The external auditors also attend other meetings where relevant items are on the Committee's agenda.

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

The Group's external auditors attend the Company's Annual General Meeting and are available to answer questions from shareholders in relation to the conduct of the audit, the Audit Report, the accounting policies adopted by the Group in preparing the Financial Statements and the independence of the auditors.

5. MAKE TIMELY AND BALANCED DISCLOSURE

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

Continuous Disclosure Policy

The Board has adopted a Continuous Disclosure Policy that is designed to ensure 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
- that information which is not generally available and which may have a material effect on the price or value of the Company's securities be identified and appropriately considered by the Directors and Group senior executives for disclosure to the market.

The Policy, which can be found on the Company's website, 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 the ASX.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Communication to Shareholders

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

- the Group's Half Year Results released in February each year;
- the Group's Full Year Results released in August each year;
- the Chairman's and Chief Executive Officer's Letter to Shareholders each year;
- the Group's Annual Report released in September each year;
- the Chairman's address to the Annual General Meeting; and
- the posting of market announcements on the Group's website after they are disclosed to the market.

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

Shareholder Meetings

The Company holds its Annual General Meeting in October and a copy of the notice of the Annual General Meeting is released to the ASX and also mailed to shareholders. The Board encourages 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 Group's external auditor will be invited to attend any Annual General Meeting and will be available to answer questions about the conduct of the audit and the preparation and contents of the Audit Report.

7. RECOGNISE AND MANAGE RISK

Risk management responsibility

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 assessed 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).

Risk Management Framework

The Group 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 Group senior management and respective Committees; and
- compliance with the law, contractual obligations and internal policies (including the Corporate Code 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.

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

Assurance

In respect of the year ending 30 June 2010 the Chief Executive Officer and Chief Financial Officer have made the following certifications to the Board:

- The Group's Financial Statements and notes applicable thereto represent a true and fair view of its financial position and performance and comply with the requirements of the Accounting Standards, Corporations Act and Corporations Regulations; and
- The risk management and internal compliance and control systems are sound, appropriate, operating efficiently and effectively managing the Group's material business risks.

Responsible Entity and Trustee Governance

Magellan Asset Management Limited ('MAM') is a wholly owned controlled entity of the Company. It is the holder of an Australian Financial Services Licence ('AFSL') and is the Responsible Entity of two registered managed investment schemes and the Trustee of one unregistered managed investment scheme (collectively, the 'Magellan Funds').

There are currently four Directors on the MAM Board: Hamish Douglass, Paul Lewis, Naomi Milgrom and Brett Cairns. At least half of the Board of MAM is comprised of External Directors, within the meaning of section 601JA of the Corporations Act.

As the Responsible Entity or Trustee of each of the Magellan Funds, MAM has a fiduciary obligation to act in the best interests of the investors in the Magellan Funds. The Directors of MAM are conscious of their fiduciary obligations to investors and continually assess their decisions in light of these obligations. The MAM Board has responsibility for the management of risks that arise from its duties as the Responsible Entity and Trustee of the Magellan Funds and the provision of financial services under its AFSL.

8. REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

ASX Recommendation 8.1 provides that the Board should establish a Remuneration Committee. Given the size and the nature of the Group the Board has determined that a Remuneration Committee is not warranted, nor does it have a Remuneration Policy to disclose. The Board considers the issues that would otherwise be considered by a Remuneration Committee.

Remuneration Framework and Structure

The remuneration details for Directors and senior executives are provided in the Remuneration Report which commences on page 9 of the Directors' Report.

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION AS AT 20 AUGUST 2010

Distribution of Shareholders

The distribution of shareholders of the Company as at 20 August 2010 is presented below:

Distribution Schedule of Holdings	Number of Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	643	408,710	0.278
1,001-5,000	842	2,257,067	1.533
5,001-10,000	379	2,948,903	2.003
10,001-100,000	745	22,701,451	15.422
100,001 and over	128	118,882,123	80.763
Total	2,737	147,198,254	100.000
Number of holders with less than a marketable parcel	98	16,470	0.011

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 20 August 2010 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Cavalane Holdings Pty Ltd	16,689,645	11.338
Magellan Equities Pty Limited	15,355,551	10.432
Midas Touch Investments Pty Ltd	9,686,508	6.581
Nota Bene Investments Pty Ltd	6,006,006	4.080
UBS Wealth Management Australia Nominees Pty Ltd	5,769,070	3.919
Vahedin Pty Limited	5,348,638	3.634
Citicorp Nominees Pty Limited	3,777,249	2.566
Emmanuel Capital Pty Ltd	3,380,196	2.296
HSBC Custody Nominees (Australia) Limited	2,925,341	1.987
ABN Amro Clearing Sydney Nominees Pty Ltd	2,542,522	1.727
ANZ Nominees Limited	2,370,284	1.610
Christopher John Mackay	2,232,012	1.516
National Nominees Limited	1,592,540	1.082
J P Morgan Nominees Australia Limited	1,572,886	1.069
Mr David Doyle	1,500,000	1.019
Aljamat Pty Ltd	1,462,000	0.993
Innisfallen Investments Pty Limited	1,356,662	0.922
UBS Nominees Pty Ltd	1,246,289	0.847
Giwah Pty Ltd	1,241,873	0.844
JDV Limited	1,228,767	0.835
Total shares held by the twenty largest shareholders	87,284,039	59.297
Total shares in issue	147,198,254	

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION AS AT 20 AUGUST 2010

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders at 20 August 2010 are listed below:

Shareholder	Number of Ordinary Shares
Cavalane Holdings Pty Ltd (an entity controlled by Consolidated Press Holdings Ltd)	18,006,006
Chris Mackay and associates ⁽¹⁾	18,077,777
Hamish Douglass, Midas Touch Investments Pty Ltd and associates ⁽²⁾	10,436,508

⁽¹⁾ includes shares acquired after substantial shareholder notice that was lodged on 27 March 2008 – 16,830,301 shares

⁽²⁾ includes shares acquired after substantial shareholder notice that was lodged on 16 June 2009 – 9,408,448 shares

Voting Rights

Subject to the Company Constitution:

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

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

Stock Exchange Listing

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

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE DIRECTORY

Directors

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

Company Secretaries

Nerida Campbell
Leo Quintana

Registered Office

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

Auditors

Ernst & Young
680 George Street
Sydney NSW 2000

Share Registrar

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: +61 2 9279 0664
Email: registries@registries.com.au

Securities Exchange Listing

Australian Securities Exchange
ASX code: MFG

Website

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

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