

**MAGELLAN GLOBAL FUND**

**ARSN 126 366 961**

**MAGELLAN INFRASTRUCTURE FUND**

**ARSN 126 367 226**

## **FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2008**

**MAGELLAN GLOBAL FUND**  
(ARSN 126 366 961)  
AND  
**MAGELLAN INFRASTRUCTURE FUND**  
(ARSN 126 367 226)

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

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**MAGELLAN GLOBAL FUND**  
(ARSN 126 366 961)  
AND  
**MAGELLAN INFRASTRUCTURE FUND**  
(ARSN 126 367 226)

**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2008**

The Directors of Magellan Asset Management Limited (ABN 31 120 593 946), the Responsible Entity of Magellan Infrastructure Fund and Magellan Global Fund ("the Funds") submit their financial report in respect of the year ended 30 June 2008.

**Directors**

The following persons were Directors of Magellan Asset Management Limited during the period and up to the date of this report unless otherwise noted.

<b>Name</b>	<b>Directorship</b>	<b>Appointed</b>	<b>Resigned</b>
Naomi Milgrom	Independent Non-executive Director	23 July 2007	-
Paul Lewis	Independent Non- executive Director	23 July 2007	-
Brett Cairns	Independent Non-executive Director	23 July 2007	-
Hamish Douglass	Executive Director and Chairman of the Board	31 July 2006	-
Chris Mackay	Executive Director	6 July 2006	-
David Simpson	Executive Director	28 March 2007	23 July 2007

**Review and Result of Operations**

Magellan Global Fund commenced on 1 July 2007 and invests in companies and businesses in the global financial services, consumer and retail, and infrastructure sectors, in accordance with its investment strategy as detailed in the current Product Disclosure Statement.

Magellan Infrastructure Fund commenced on 1 July 2007 and invests in listed entities on any stock exchange whose primary business is the ownership and operation of infrastructure assets, in accordance with its investment strategy as detailed in the current Product Disclosure Statement.

There have been no significant changes to the investment strategies of the Funds or to the operational circumstances since the publication of the initial Product Disclosure Statements of the Funds.

The Funds are Australian registered schemes.

The results of the Funds' operations and their performance were as follows:

	<b>Magellan Global Fund</b>	<b>Magellan Infrastructure Fund</b>
	\$	\$
<b>Results</b>		
Net loss attributable to unit holders	(4,527,804)	(1,091,610)
Distribution paid and payable for the year	515,515	285,478
Distribution – cents per unit	1.9330	4.2933
<b>Performance</b>		
Growth return	(19.1%)	(21.0%)
Distribution return	1.9%	4.3%
<b>Total return</b>	(17.2%)	(16.7%)
Benchmark return	(21.0%)	(0.4%)
Redemption unit price (ex distribution) as at 30 June 2008	0.8063	0.7882
Indirect cost ratio	1.36%	1.06%

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Returns have been calculated after fees and assuming reinvestment of distributions, in accordance with IFSA Standard 6.00 Product Performance – calculation and presentation of returns.

The Indirect cost ratio is the ratio of the Funds' management costs over their average net assets attributable for the year, expressed as a percentage. Management costs include management fees and other reimbursements deducted in relation to the Funds, but do not include transactional and operational costs such as brokerage or foreign withholding tax. Management costs are accrued within the Funds' unit prices on a daily basis.

**Fees Paid to and Interests Held by the Responsible Entity and Related Parties**

Details of fees paid to the Responsible Entity in respect of its management of the Funds and holdings by the Responsible Entity and its related parties in the Funds are disclosed in note 8.

**Units on Issue**

Details of the units on issue at the start and end of the year, and of the units issued and redeemed during the year are disclosed in note 6.

**Fund Assets**

At 30 June 2008 net assets attributable to unit holders of Magellan Global Fund were \$21,542,473 and net assets attributable to unit holders of Magellan Infrastructure Fund were \$5,252,957. The basis for valuation of assets is disclosed in note 2.

**Significant Events After the Balance Sheet Date**

As at 15 September 2008 the net asset value per unit price of Magellan Global Fund had increased from its balance sheet value of \$0.81 to \$0.94. The net asset value unit price of Magellan Infrastructure Fund had not materially changed.

There have been no other matters or circumstances arising after the balance sheet date that have significantly affected, or may significantly affect, the Funds' operations in future financial years, the results of those operations, or the Funds' state of affairs in future financial years.

**Likely Developments**

The Funds will continue to invest in companies and businesses in accordance with their investment strategy as detailed in the current Product Disclosure Statement.

Further information about likely developments in the operations of the Funds and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Funds.

**Environmental Regulation**

The Funds' operations are not subject to any significant environmental regulation under either Commonwealth, State or Territory legislation.

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**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**Indemnification and Insurance of Directors and Officers**

The Constitution of the Responsible Entity requires it to indemnify all current and former officers of the Responsible Entity (and where approved by the Directors, employee, former employees and the auditor and former auditors of the Company) out of the property of the Responsible Entity against:

- (a) any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person's favour, or in which the person is acquitted, or in connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
- (b) liabilities incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than the Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

During the financial year, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the officers of the Responsible Entity. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors.

The Funds have not indemnified or insured directors or officers.

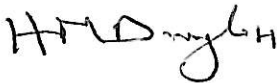
**Auditor**

KPMG continues in office in accordance with section 307C of the *Corporation Act 2001*.

**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 4.

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



Hamish Douglass  
Chairman  
Magellan Asset Management Limited  
Sydney

17 September 2008



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Magellan Asset Management Limited as Responsible Entity of Magellan Global Fund and Magellan Infrastructure Fund

I declare that, to the best of my knowledge and belief, in relation to the audits for the financial year ended 30 June 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audits; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audits.

A handwritten signature in black ink, appearing to read 'KPMG', written over the printed name 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'T. Gilerman', written over the printed name 'Tanya Gilerman'.

Tanya Gilerman  
*Partner*

Sydney

18 September 2008

**MAGELLAN GLOBAL FUND**  
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**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2008**

Note	Magellan Global Fund	Magellan Infrastructure Fund
	\$	\$
<b>Investment income</b>		
Interest income	520,441	126,746
Dividend and distribution income	290,684	196,717
Net changes in the fair value of investments		
- held for trading	-	104,620
- designated at fair value through profit or loss	(4,956,858)	(1,447,570)
Net foreign exchange gain/(loss)	(46,037)	3,948
<b>Net investment income/(loss)</b>	<b>(4,191,770)</b>	<b>(1,015,539)</b>
<b>Expenses</b>		
Management fees	290,600	61,401
Other expenses	45,434	14,670
<b>Total expenses</b>	<b>336,034</b>	<b>76,071</b>
<b>Loss from operating activities</b>	<b>(4,527,804)</b>	<b>(1,091,610)</b>
<b>Finance costs</b>		
- distribution expense to unit holders	(515,515)	(285,478)
<b>Net change in net assets attributable to unit holders</b>	<b>(5,043,319)</b>	<b>(1,377,088)</b>

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

**STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 30 JUNE 2008**

As the Funds have no equity, the Funds have not included any items of recognised income and expense for the current year.

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**BALANCE SHEET**  
**AS AT 30 JUNE 2008**

	Note	Magellan Global Fund 30 June 2008	Magellan Infrastructure Fund 30 June 2008
		\$	\$
<b>Assets</b>			
Cash and cash equivalents	7(a)	5,778,446	1,288,893
Loans and receivables	3	38,897	58,134
Investments	4(a)	16,831,884	4,208,458
<b>Total assets</b>		<b>22,649,227</b>	<b>5,555,485</b>
<b>Liabilities</b>			
Investments	4(b)	-	11,727
Payables	5	1,106,754	290,801
<b>Total liabilities</b> <b>(excluding net assets attributable to unit holders)</b>		<b>1,106,754</b>	<b>302,528</b>
<b>Net assets attributable to unit holders</b>	6	<b>21,542,473</b>	<b>5,252,957</b>

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



**MAGELLAN GLOBAL FUND**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Magellan Global Fund 30 June 2008 \$	Magellan Infrastructure Fund 30 June 2008 \$
<b>Cash flows from operating activities</b>			
Interest received		520,441	126,746
Dividends and distributions received		215,719	81,177
Responsible Entity fees paid		(263,402)	(56,078)
Other expenses		(45,434)	(14,670)
<b>Net cash inflow/(outflow) from operating activities</b>	7(b)	<b>427,324</b>	<b>137,175</b>
<b>Cash flows from investing activities</b>			
Purchase of investments		(23,039,100)	(5,904,612)
Sale of investments		1,850,467	305,990
Net cash flows from foreign exchange hedging activities		-	116,347
Other net foreign exchange gains / (losses)		(19,999)	3,339
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(21,208,632)</b>	<b>(5,478,936)</b>
<b>Cash flows from financing activities</b>			
Receipts from issue of units		27,905,846	6,692,167
Payments for redemption of units		(1,320,054)	(62,122)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>26,585,792</b>	<b>6,630,045</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,804,484</b>	<b>1,288,284</b>
Cash and cash equivalents at beginning of the year		-	-
Effect of exchange rate fluctuations on cash and cash equivalents		(26,038)	609
<b>Cash and cash equivalents at the end of the year</b>	7(a)	<b>5,778,446</b>	<b>1,288,893</b>

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**1. Reporting Entity**

Magellan Infrastructure Fund and Magellan Global Fund (the 'Funds') are registered managed investment schemes under the Corporations Act 2001. In accordance with the Funds' Constitutions, they commenced on the date that the first units were issued, which was 1 July 2007. These financial statements report on the Funds' first year of operation from 1 July 2007 to 30 June 2008.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in these financial statements.

**(a) Basis of preparation**

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. The financial report is presented in Australian dollars which is the Funds' functional currency.

**(b) Statement of compliance**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations adopted by the Australian Accounting Standards Board), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. The financial report complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

The Financial Statements were approved by the Board of Directors of the Responsible Entity, Magellan Asset Management Limited, on 17 September 2008.

**(c) Investments**

*Recognition*

The Funds recognise financial assets and financial liabilities on the date they become a party to the contractual provisions of the instrument.

Financial assets are recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of AASB 139.

*Classification*

The Funds have designated all their investments into the fair value through profit or loss category.

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments held for trading. Derivative financial instruments held by the Funds are classified as held for trading investments. The only such instruments held by the Funds at the reporting date were forward foreign exchange contracts held by Magellan Infrastructure Fund. All derivatives in a net receivable position (positive fair value) are reported as financial assets held-for-trading. All derivatives in a net payable position (negative fair value) are reported as financial liabilities held-for-trading.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(c) Investments (continued)**

*Classification (continued)*

- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes and which may be sold. These include investments in equity securities. The fair value through profit or loss classification is in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. The fair value through profit or loss classification is available for the majority of the financial assets held by the Funds and the financial liabilities arising from the units on issue must be fair valued. Therefore, not fair valuing the financial assets used in the calculation of the financial liability would result in an accounting mismatch. In addition, the Funds' performance and risk management are assessed on a fair value basis.
- Financial instruments designated at fair value through profit or loss are not reclassified.

Financial assets that are classified as loans and receivables include accounts receivable.

Financial liabilities that are not at fair value through profit or loss include payables.

*Measurement*

Financial instruments are measured initially at transaction price. Transaction costs are expensed immediately. Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value. Changes in fair value are recognised in the Income Statement.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

Financial liabilities arising from the redeemable units issued by the Funds are carried at redemption amount representing the investors' right to a residual interest in the Funds' assets, effectively fair value at reporting date.

*Fair Value Measurement Principles*

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flows techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

**(d) Comparatives**

As the year ended 30 June 2008 represents the Funds' first financial reporting period, there are no comparatives for these financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(e) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(f) Revenue recognition**

Dividend income and trust distributions are recognised on the ex-dividend / distribution declaration date with any related foreign withholding tax recorded as an expense. In some cases the Funds may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Funds recognise the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

Interest income is recognised on an accruals basis.

**(g) Expenses**

Expenses are recognised in the income statement on an accruals basis.

**(h) Distributions**

Distributions are recognised at the date at which the Responsible Entity determines that amounts of profit, income, capital or tax credits are to become distributable to unit holders. Unit holders will be entitled to a share of any amounts thus declared based on the number of units they hold in the Funds on the distribution date determined by the Responsible Entity.

**(i) Income tax**

Under current legislation, the Funds are not subject to income tax provided the net taxable income of the Funds is fully distributed to unit holders.

The Funds currently incur withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the income statement. The benefits of foreign withholding tax paid, and of imputation credits attaching to Australian franked dividends, are passed on to unit holders.

**(j) Foreign exchange gains and losses**

Purchases and sales of foreign currency denominated financial assets or liabilities are translated into Australian dollars using the closing London 4pm exchange rate on the trade date of the transaction. Unrealised foreign exchange gains and losses arising on revaluation of financial assets and liabilities are included in the net change in fair value of investments in the Income Statement.

Foreign exchange gains and losses arising from:

- the difference between trade date and settlement date of purchase and sale of foreign currency denominated financial assets, and
- revaluation of foreign cash balances and all foreign currency denominated financial assets and liabilities except for investment assets and forward foreign exchange contracts

are recognised in the Income Statement as net gains or losses on foreign exchange.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(k) Receivables**

Receivables comprise amounts due from brokers for sales of assets unsettled at balance sheets date, dividends and trust distributions declared but not yet received, and reclaimable taxes. They are recognised and carried at cost, adjusted for changes in foreign exchange rates where applicable, less a provision for uncollectible amounts, which is a good approximation to fair value.

**(l) Payables**

Payables are classified as other financial liabilities and comprise amounts due to brokers for purchases of assets unsettled at balance sheet date, distributions declared but not yet paid by the Funds, and management fees accrued at Balance Sheet date. They are recognised and carried at cost, adjusted for changes in foreign exchange rates where applicable, which is a good approximation to fair value.

**(m) Units on issue**

Units issued by the Funds provide investors with the right to require redemption for cash and give rise to a financial liability.

Applications received for units in the Funds are recorded net of any entry fees payable prior to the issue of units in the Funds. Redemptions from the Funds are recorded gross of any exit fees payable after the cancellation of units redeemed.

**(n) Goods and services tax**

Management fees and other expenses are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO).

Payables are stated with the amount of GST included.

GST recoverable from the ATO is included in receivables in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis.

**(o) Application of accounting standards**

*(i) New accounting standards and interpretations early adopted*

The following standards are not mandatory for the reporting year covered by this financial report but the Funds have elected for early adoption and they have been applied in the preparation of this financial report.

AASB 8 *Operating Segments* is effective for reporting periods beginning on or after 1 January 2009 and has the effect of removing the requirement to disclose segment information for entities whose securities are not traded in a public market. The Funds adoption of this standard removes disclosures that would otherwise have been required under AASB114 *Segment Reporting*.

*(ii) New accounting standards and interpretations not yet adopted*

The following standards and amendments have been identified as those which may impact the Funds in the period of initial application. They are available for early adoption at 30 June 2008 but are not yet mandatory, and have not been applied in the preparation of this financial report.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(o) Application of accounting standards (continued)**

*(ii) New accounting standards and interpretations not yet adopted (continued)*

Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary statement") the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The standard will become mandatory for the Funds' 30 June 2010 financial statements. The Funds have not yet determined the potential effect of the revised standard on their disclosures.

AASB 2008-02 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* changes the definition of a financial liability, and requires puttable instruments that meet certain conditions to be classified as equity. AASB 2008-02 is effective for years beginning on or after 1 January 2009. The Funds have not yet determined the potential effect of the revised standard on the Funds' disclosures.

**(p) Use of estimates and judgements**

There are not considered to be any accounting estimates and assumptions used, or judgements made, having a significant impact on the accounts recognised in the financial report.

**3. Loans and receivables**

	<b>Magellan Global Fund</b>	<b>Magellan Infrastructure Fund</b>
	<b>30 June 2008</b>	<b>30 June 2008</b>
	\$	\$
Income receivable	35,429	57,108
Recoverable GST and foreign withholding tax	3,468	1,026
<b>Total loans and receivables</b>	<b>38,897</b>	<b>58,134</b>

**4. Investments**

	<b>Magellan Global Fund</b>	<b>Magellan Infrastructure Fund</b>
	<b>30 June 2008</b>	<b>30 June 2008</b>
	\$	\$
<b>a) Financial assets designated at fair value through profit or loss upon initial recognition</b>		
<b>Equity securities</b>		
- Australian equity securities	172,000	1,343,137
- International equity securities	16,659,884	2,865,321
<b>Total financial assets at fair value through profit or loss upon initial recognition</b>	<b>16,831,884</b>	<b>4,208,458</b>
<b>b) Held for trading financial assets / (liabilities)</b>		
<b>Derivatives</b>		
- Foreign currency forward contracts	-	(11,727)
<b>Total financial liabilities at fair value through profit or loss upon initial recognition</b>	<b>-</b>	<b>(11,727)</b>

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**5. Payables**

	Magellan Global Fund 30 June 2008	Magellan Infrastructure Fund 30 June 2008
	\$	\$
Distribution payable	515,515	285,478
Outstanding settlements	564,041	-
Management fees payable	27,198	5,323
<b>Total payables</b>	<b>1,106,754</b>	<b>290,801</b>

**6. Net assets attributable to unit holders**

	Magellan Global Fund 30 June 2008	Magellan Infrastructure Fund 30 June 2008
	Number of units	Number of units
<b>(a) Units on issue</b>		
Units on issue as at beginning of financial year	-	-
Units issued during the financial year	28,128,731	6,718,719
Units redeemed during the financial year	(1,459,396)	(69,407)
<b>Units on issue at the end of the financial year</b>	<b>26,669,335</b>	<b>6,649,312</b>

*Terms and conditions of units*

Each unit confers upon the unit holder an equal interest in that Fund, and is of equal value to other units in the same Fund. A unit does not confer upon the holder any interest in any particular asset or investment of the Funds. The rights of unit holders are contained in the Funds' Constitutions and include:

- the right to redeem units, subject to restrictions disclosed in the Funds' Product Disclosure Statements;
- the right to receive a share of any distribution determined by the Responsible Entity in proportion to the units held on the distribution date;
- the right to attend and vote at meetings of unit holders; and
- the right to participate in the termination and winding up of the Funds.

	Magellan Global Fund 30 June 2008	Magellan Infrastructure Fund 30 June 2008
	\$	\$
<b>(b) Changes in net assets attributable to unit holders</b>		
Profit/(loss) from operating activities	(4,527,804)	(1,091,610)
<b>Transactions with unit holders in their capacity as unit holders</b>		
Applications	27,905,846	6,692,167
Redemptions	(1,320,054)	(62,122)
Distributions paid or payable	(515,515)	(285,478)
<b>Net transactions with unit holders</b>	<b>26,070,277</b>	<b>6,344,567</b>
<b>Net assets attributable to unit holders</b>	<b>21,542,473</b>	<b>5,252,957</b>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**7. Notes to the Cash Flow Statement**

	<b>Magellan Global Fund 30 June 2008</b>	<b>Magellan Infrastructure Fund 30 June 2008</b>
	\$	\$
<b>(a) Cash and cash equivalents</b>		
Cash at bank – denominated in A\$	5,242,145	1,288,753
Cash at bank – denominated in foreign currency	536,301	140
	<b>5,778,446</b>	<b>1,288,893</b>
<b>(b) Reconciliation of cash flows from operating activities</b>		
Loss from operating activities	(4,527,804)	(1,091,610)
Adjusted for:		
- Income entitlements reinvested	(36,068)	(57,406)
- Net (increases) in fair value of held for trading investments	-	(104,620)
- Net losses on investments designated fair value through profit or loss	4,956,858	1,447,570
- Net foreign exchange (gains) / losses on currency transactions	46,037	(3,948)
Changes in operating receivables and payables		
- Net (increase) in receivables and other assets	(38,897)	(58,134)
- Net increase in payables and other liabilities	27,197	5,323
<b>Net cash inflow/(outflow) from operating activities</b>	<b>427,323</b>	<b>137,175</b>
<b>(c) Non-cash investing activities</b>		
Investments purchased via reinvestment of income entitlements	36,068	57,406

**8. Related Parties**

*Responsible Entity*

The Responsible Entity of the Funds is Magellan Asset Management Limited. Magellan Financial Group Limited (ASX code: MFG) is the immediate and ultimate parent entity of the Responsible Entity.

*Key management personnel*

Key management personnel ('KMP') are those persons or corporate entities who have authority and responsibility for planning, directing and controlling the activities of the Funds. The Responsible Entity is responsible for managing the activities of the Funds and this is considered to be the KMP. The Funds do not employ personnel in their own right.

The directors of the Responsible Entity are the KMP of that company.

*Responsible Entity fees and other transactions*

The Responsible Entity is entitled to receive a management fee from each of the Funds. The Responsible Entity also charges an administration fee from which the operating expenses of the fund, such as audit and tax compliance fees, distribution costs, investor reporting, custody and fund administration costs, are paid. Management and administration fees are calculated and payable monthly, based on the net asset value of the Funds at the end of that month.



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**8. Related Parties (continued)**

*Responsible Entity fees and other transactions (continued)*

The rates at which management and administration fees have been payable during the year, inclusive of the net effects of GST, and the amounts that have been charged to the Funds are:

	<b>Magellan Global Fund</b>		<b>Magellan Infrastructure Fund</b>	
	% pa	\$	% pa	\$
Management fee	1.26	267,038	0.96	55,863
Administration fee	0.10	23,562	0.10	5,538
	1.36	290,600	1.06	61,401

At balance sheet date, Magellan Global Fund and Magellan Infrastructure Funds had balances payable to the Responsible Entity in respect of management and administration fees of \$27,198 and \$5,323 respectively.

*Related Party investments in the Funds*

Details of unit holdings and related transactions in Magellan Global Fund by related parties were as follows:

<b>Related party</b>	<b>Number of units acquired during the year</b>	<b>Number of units redeemed during the year</b>	<b>Units held at balance sheet date</b>		<b>Distribution paid or payable</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>%</b>	<b>\$</b>
Magellan Financial Group Ltd	15,000,001	-	15,000,001	56.2	289,948
<i>Directors and director related interests:</i>					
Hamish Douglass	781,959	-	781,959	2.9	15,115
Chris Mackay	391,619	-	391,619	1.5	7,570
Paul Lewis	26,744	-	26,744	0.1	517

Details of unit holdings and related transactions in Magellan Infrastructure Fund by related parties were as follows:

<b>Related party</b>	<b>Number of units acquired during the year</b>	<b>Number of units redeemed during the year</b>	<b>Units held at balance sheet date</b>		<b>Distribution paid or payable</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>%</b>	<b>\$</b>
Magellan Financial Group Ltd	5,000,001	-	5,000,001	75.2	214,667
<i>Directors and director related interests:</i>					
Paul Lewis	26,360	-	26,360	0.4	1,132

From time to time the Responsible Entity, its related corporate entities, or its director-related entities may invest in or withdraw from the Funds. Unit holders who invest in the Funds directly rather than through a financial adviser are liable to pay a contribution fee of 1.25% to the Responsible Entity on applications to the Funds. The Responsible Entity has the right to waive this fee in respect of certain investors and has exercised this discretion in respect of applications from all employees of the Responsible Entity and from directors and their related entities.

In all other respects, transactions between the Funds and related parties are subject to the same terms and conditions as those entered into by other unit holders in the Funds.

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**9. Risk Management**

**(a) Financial risk management objectives, policies and processes**

The Funds' investment portfolio primarily comprises listed equity investments. It is the Funds' investment objective to seek long term capital growth through investing in undervalued securities across the world. The Funds' investing activities expose them to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Funds are exposed are market risk, credit risk and liquidity risk.

Financial risk management is carried out by the investment management department under policies approved by the Responsible Entity. The risk management programme focuses on ensuring compliance with the Funds' Product Disclosure Statements and seeks to maximise the returns derived for the level of risk to which the Funds are exposed.

The following disclosures in relation to the various risks of the Funds' portfolio have been based on the Funds' direct holdings.

**(b) Market Risk**

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

*Equity Price Risk*

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. The investment philosophy of the Funds is to invest in portfolios of assets of between 15 to 50 stocks weighted towards the manager's highest conviction ideas. The size and diversification of the portfolios is sufficient to ensure the Funds' returns are not overly correlated to a single company, industry specific or macroeconomic risk but the returns of the portfolios are not expected to be perfectly correlated to any market or sector index. If equity markets as a whole rise or fall by 5%, the returns of the Funds may increase or decrease by different amounts.

Notwithstanding the lack of correlation of the Funds' portfolios to market indices, an increase of 5% in the market prices of each of the Funds' investments held at balance sheet date would have increased the net assets attributable to unit holders and the profit or loss from operating activities of Magellan Global Fund by \$841,594 and increased the net assets attributable to unit holders and the profit or loss from operating activities of Magellan Infrastructure Fund by \$210,423. A decrease of 5% in the market prices of each of the Funds' investments would have had an equal but opposite effect on the net loss of the Funds' attributable to unit holders.

*Currency Risk*

Currency risk is the risk that the fair value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Assets and liabilities that the Funds may typically own and that can be affected by foreign exchange rate fluctuations include equities listed on foreign exchanges, cash, foreign exchange forward contracts, outstanding broker settlements with foreign exchanges, and outstanding receipts of income from foreign companies.

Magellan Global Fund is managed on an unhedged basis and therefore the returns of the Fund are exposed to changes in exchange rates relative to the Australian dollar. In exceptional circumstances the manager may elect to hedge currency exposure to a major currency. No such hedging activities were undertaken during the year.

Magellan Infrastructure Fund is managed on a hedged basis using forward foreign currency contracts. Due to daily changes in the fair value of underlying assets, the face value of hedging contracts will not always completely eliminate currency exposure. The appropriateness of the amounts hedged is monitored daily and adjusted if the total net exposure of the fund to any individual foreign currency is greater than 5% of the net assets of the fund.

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**9. Risk Management (continued)**

**(b) Market Risk (continued)**

*Currency Risk (continued)*

The Australian dollar (A\$) net exposures of the Funds as at balance sheet date to assets and liabilities denominated in foreign currencies were as follows:

	<b>Magellan Global Fund 30 June 2008</b>	<b>Magellan Infrastructure Fund 30 June 2008</b>
	\$	\$
US dollars	11,919,106	16,525
Euro	917,507	(151,950)
Swiss francs	1,608,191	-
British pounds	2,509,380	-
New Zealand dollars	-	(9,742)
Hong Kong dollars	-	18,469

The changes in net assets attributable to unit holders and profit or loss from operating activities that would arise from a 5% increase or decrease in the Australian dollar relative to each currency to which the Funds are exposed, based on monetary and non-monetary financial assets and liabilities held by the Funds at 30 June 2008, are as follows:

	<b>Magellan Global Fund 30 June 2008</b>		<b>Magellan Infrastructure Fund 30 June 2008</b>	
	5% increase in A\$	5% decrease in A\$	5% increase in A\$	5% decrease in A\$
US dollars	(567,576)	627,321	787	(870)
Euro	(43,691)	48,290	7,236	(7,997)
Swiss francs	(76,581)	84,642	-	-
British pounds	(119,513)	132,094	-	-
New Zealand dollars	-	-	464	(513)
Hong Kong dollars	-	-	(879)	972

*Interest Rate Risk*

The primary exposure to interest rates arises on cash balances held by the Funds, which are all held in floating interest rate accounts. Based on the cash balances held by the Funds at 30 June 2008, an increase in Australian interest rates of 10 basis points would increase the annual interest earned by Magellan Global Fund by \$5,242 and for Magellan Infrastructure Fund by \$1,289. A decrease of 10 basis points in Australian dollar interest rates would reduce the annual interest earned by the Funds by equivalent amounts. The level of cash held by the Funds may vary from time to time, depending on the level in recent capital flows into and out of the Funds, and on the manager's judgement. The cash balances held by the Funds as at 30 June 2008 may therefore not be typical of the amounts of cash generally held by the Funds.

Neither fund holds significant cash balances exposed to interest rates in other currencies.

The Funds did not have any borrowings, or other financial liabilities or assets with direct exposure to changes in interest rates.

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**9. Risk Management (continued)**

**(c) Liquidity Risk**

Liquidity risk is the risk that the Funds will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Funds' investment in listed securities which are considered to be readily realisable as they are all listed on international stock exchanges. In addition, the Funds maintain sufficient cash and cash equivalents to meet normal operating requirements. The Funds' Constitutions and Product Disclosure Statements allow the manager to suspend capital withdrawals from the funds for up to 28 days, at its discretion, if withdrawal requests exceed 5% of the net assets of the Funds, the payment of withdrawals would disadvantage remaining unit holders by imposing a disproportionate share of capital gains tax liabilities, or if the manager reasonably considers it to be in the interests of remaining unit holders of the Funds.

As at 30 June 2008, the Funds held cash balances significantly in excess of its liabilities. All liabilities existing at balance sheet date are to be settled within four months of the balance sheet date.

**(d) Credit Risk**

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are marked to market. The total credit risk for on-balance sheet items, other than derivatives, is therefore limited to the amount carried on the balance sheet.

Magellan Global Fund does not have credit risk arising from derivative positions. Magellan Infrastructure Fund may have credit risk arising from its forward foreign exchange positions if the market value of those positions is positive. At 30 June 2008 the market value of its open positions was negative. Potential credit risk arising from its foreign currency hedging activities is managed by using only top-tier financial institutions as counter-parties. In addition, contracts are usually of relatively short duration, typically maturing within six months of inception date.

The Responsible Entity has entered into International Prime Brokerage Agreements (IPBA) with Merrill Lynch International (Australia) Limited ('Merrill') on behalf of the Funds. The services provided by Merrill include lending, clearance, settlement and custody services. The IPBA with Merrill is in a form that is typical of prime brokerage arrangements. All of the Funds' investments are held directly by Merrill as prime broker and custodian.

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

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

At balance sheet date, the Funds did not have any receivables that were past due date or which were considered impaired.

**10. Fair Values**

The Funds' financial assets and liabilities included in the Balance Sheet are carried at their fair value or at amounts that approximate their fair values. The methods and assumptions for determining fair value are disclosed in note 2c).

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. Contingent Assets, Liabilities and Commitments for Expenditure**

No contingent assets or liabilities and commitments for expenditure exist as at 30 June 2008.

**12. Events Subsequent to the Balance Sheet Date**

As at 15 September 2008 the net asset value per unit price of Magellan Global Fund had increased from its balance sheet value of \$0.81 to \$0.94. The net asset value per unit price of Magellan Infrastructure Fund had not materially changed.

There have been no other matters or circumstances arising after the balance sheet date that have significantly affected, or may significantly affect, the Funds' operations in future financial years, the results of those operations, or the Funds' state of affairs in future financial years.

**13. Auditor's Remuneration**

	<b>Magellan Global Fund</b>	<b>Magellan Infrastructure Fund</b>
	<b>30 June 2008</b>	<b>30 June 2008</b>
	\$	\$
<b>Audit Services</b>		
Auditors of the Funds - KPMG		
Audit of the financial reports	7,000	7,000
Other regulatory audit services	5,000	5,000
	<u>12,000</u>	<u>12,000</u>

All costs of auditing the Funds are borne by the Responsible Entity out of the administration fee charged to the Funds.

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**DIRECTORS DECLARATION  
FOR THE YEAR ENDED 30 JUNE 2008**

In the opinion of the Directors of Magellan Asset Management Limited, the Responsible Entity for the Magellan Global Fund and the Magellan Infrastructure Fund ('the Funds'):

- (a) the financial statements, notes and the additional disclosures included in the Directors Report designated as audited, of the Funds are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the Funds as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*; and
- (b) the financial reports also complies with International Financial Reporting Standards as disclosed in note 2 b); and
- (c) there are reasonable grounds to believe that the Funds will be able to pay their 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 year ended 30 June 2008.

Signed in accordance with a resolution of the directors of Magellan Asset Management Limited:



Hamish Douglass  
Chairman  
Magellan Asset Management Limited  
Sydney

17 September 2008





## **Independent auditor's report to the unitholders of Magellan Global Fund and Magellan Infrastructure Fund**

We have audited the accompanying financial report of Magellan Global Fund and Magellan Infrastructure Fund (the Funds), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 13 and the directors' declaration set out on page 20.

### *Directors' responsibility for the financial report*

The directors of Magellan Asset Management Limited (the Responsible Entity) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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(b), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Funds' 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 Funds' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australia Accounting Interpretations) a view which is consistent with our understanding of the Funds' financial position, and of their performance.



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 complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of Magellan Global Fund and Magellan Infrastructure Fund is in accordance with the *Corporations Act 2001*, including:

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

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b).

KPMG

Tanya Gilerman  
*Partner*

Sydney

18 September 2008