



2011 ANNUAL REPORT



MAGELLAN FINANCIAL GROUP LIMITED

Contents	Page
Annual Shareholder Letter	1
Directors' Report	4
Auditor's Independence Declaration	17
Statement of Comprehensive Income	18
Statement of Financial Position	20
Statement of Changes in Equity	21
Statement of Cash Flows	23
Notes to the Financial Statements	24
Directors' Declaration	63
Independent Auditor's Report	64
Corporate Information	
- <i>Corporate Governance Statement</i>	66
- <i>Shareholder Information</i>	74
- <i>Corporate Directory</i>	76

MAGELLAN FINANCIAL GROUP LIMITED

ANNUAL SHAREHOLDER LETTER

Dear Shareholder,

OVERVIEW OF RESULTS

Magellan Financial Group Limited ('Magellan' or 'Group' or 'MFG') recorded a full year net profit after tax of \$5.8 million for the year ended 30 June 2011 (\$3.8 million for 2009/10).

The Group's reported result includes:

- revenues, excluding realised and unrealised investment gains and foreign exchange gains/losses, of \$18.0 million compared with revenues of \$12.3 million for the previous corresponding period; and
- total operating expenses of \$10.2 million, compared with total operating expenses of \$7.2 million for the previous corresponding period.

Magellan is in a strong financial position with an extremely strong balance sheet. As at 30 June 2011:

- the Group had cash, fixed term deposits, and fixed and variable rate debt investments of approximately \$29.3 million, investment assets (excluding the cash and fixed and variable rate debt investments) of approximately \$80.1 million and shareholders funds of \$125.8 million; and
- the Group's NTA per share (diluted assuming conversion of the Class B shares) was approximately \$0.78 (2010:\$0.71).

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 2011, the funds management business generated revenues of approximately \$15.4 million (2010: \$9.0 million) and had expenses of approximately \$9.8 million (2010: \$6.7 million), which resulted in a profit before tax of \$5.6 million (2010: \$2.3 million).

We believe that over time Magellan is likely to generate attractive returns from our investment in the funds management business. This business should be scalable over 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, distribution, operations and analysts for the funds management business. In 2009/10, we opened offices in Brisbane and Melbourne to service our growing relationships with financial planners around the country. We are pleased with the

MAGELLAN FINANCIAL GROUP LIMITED ANNUAL SHAREHOLDER LETTER

initial progress and believe that developing and maintaining strong and trusted relationships with financial planners is an important factor in Magellan's future.

Magellan is also developing its capabilities for domestic and offshore institutional client opportunities. The Group is hiring additional people, investing in new IT systems and establishing offshore investment vehicles for both the global equities and infrastructure strategies. Whilst these expenses will be incurred in 2011/12 and beyond we do not expect an early payback from these investments. Our objective is that these investments position the Group to further grow the funds management business over the longer term.

As at 17 August 2011, the Group had funds under management of approximately \$2.72 billion, split between global equities and infrastructure equities. This compares with funds under management of \$393 million at 30 June 2009, \$1.1 billion at 30 June 2010 and \$2.76 billion as at 30 June 2011. The directors are confident 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 4 years to 30 June 2011). As at 17 August 2011 the Magellan Global Fund / Colonial First State Magellan Global Option had funds under management of approximately \$667 million, compared with \$71 million at 30 June 2009, \$261 million at 30 June 2010 and \$650 million at 30 June 2011.
- our infrastructure team had a strong investment performance in 2010/11 and also increased fund under management. This team has momentum and continues to have promising discussions with a number of additional institutional clients. The infrastructure team had funds under management of approximately \$1.67 billion as at 17 August 2011, compared with \$89 million at 30 June 2009, \$471 million at 30 June 2010 and \$1.71 billion at 30 June 2011.

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.

The Directors have proposed a final fully franked dividend of 1.5 cents per ordinary share in respect of the 2011 financial year, which represents \$2.28 million. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2011 financial statements.

INVESTMENTS IN MAGELLAN'S FUNDS AND PRINCIPAL INVESTMENTS

As at 30 June 2011, Magellan's investment assets comprised \$70.8 million invested in the three funds we manage and an investment portfolio of \$9.3 million (which excludes cash, fixed term deposits, and fixed and floating rate debt investments of \$29.3 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

MAGELLAN FINANCIAL GROUP LIMITED ANNUAL SHAREHOLDER LETTER

balance sheet approach has benefited the Group, particularly during the early stages of the funds management business in the extreme markets of the last four 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 "look through" investments with the Group's direct portfolio investments to show the ten largest aggregated "look through" equity investments as at 30 June 2011.

MFG's ten largest investments on a "look through" basis	30 June 2011 A\$m market price
American Express	12.3
Nestlé	8.6
Yum! Brands	8.6
eBay	8.4
Wells Fargo	6.4
Google	5.4
Coca-Cola	5.3
McDonald's	4.0
Visa	3.1
Procter & Gamble	3.0

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. The benefit of the excellent underlying business performances was offset in 2010/11 by the ongoing rise in the Australian dollar.

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 attractive growth profiles with market leading positions in emerging markets, as well as leadership in most developed markets. We believe that, in aggregate, these companies continued to strengthen their competitive advantages and again gained market share in 2010/11.

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

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

22 August 2011

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

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 2011.

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 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 high net worth and retail investors in Australia and New Zealand, and institutional investors.

Trading Results

The Group's net profit after tax for the year ended 30 June 2011 was \$5,792,000 (2010: \$3,826,000).

The Group's reported result includes:

- revenues, excluding realised and unrealised investment gains and foreign exchange gains/losses, of \$18.0 million compared with revenues of \$12.3 million for the previous corresponding period; and
- total operating expenses of \$10.2 million, compared with total operating expenses of \$7.2 million for the previous corresponding period.

Magellan is in a strong financial position with an extremely strong balance sheet. As at 30 June 2011:

- the Group had cash, fixed term deposits, and fixed and variable rate debt investments of approximately \$29.3 million, investment assets (excluding the cash and fixed and variable rate debt investments) of approximately \$80.1 million and shareholders funds of \$125.8 million; and
- the Group's NTA per share (diluted assuming conversion of the Class B shares) was approximately \$0.78 (2010:\$0.71).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Dividends and Distributions

No dividends were paid during the financial year (2010: nil). The Directors have proposed a final fully franked dividend of 1.5 cents per ordinary share in respect of the 2011 financial year, which represents \$2.28 million. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2011 financial statements.

Unissued Shares

Share Options

As at the date of this report, there were 7,882,483 unissued ordinary shares under option which comprised 7,882,483 MFG 2016 Options to take up one new ordinary share in the Company at an exercise price of \$3.00 per share. 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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

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*.

	2011	2010
	\$	\$
<i>Audit services:</i>		
Ernst & Young - audit and review of the financial statements of:		
- the Company and its operating subsidiaries	77,200	73,850
- the Magellan unlisted funds	27,000	6,000
KPMG - audit and review of the financial statements of:		
- the Magellan unlisted funds	3,400	23,130
	<u>107,600</u>	<u>102,980</u>
<i>Other services:</i>		
Ernst & Young:		
- other regulatory audit services	15,000	5,000
- other services	63,250	57,400
KPMG		
- other regulatory audit services	-	9,900
	<u>78,250</u>	<u>72,300</u>

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

Information on Directors

Chris Mackay

Chairman and Executive Director (Chief Investment Officer)

Chris is a Director of Consolidated Media Holdings Limited [formerly Publishing & Broadcasting Limited] (appointed March 2006) and Seven Group Holdings Limited (appointed June 2010).

Chris retired as Chairman of the investment bank UBS Australasia, in 2006, having previously been its Chief Executive Officer. He is a member of the Federal Treasurer's Financial Sector Advisory Council, and is 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

Hamish has more than 20 years experience in financial services and was, formerly Co-Head of Global Banking at Deutsche Bank, Australasia.

Hamish is a member of the Australian Government's Foreign Investment Review Board (FIRB), a member of the Australian Government's Financial Literacy Board, a member of the Australian Government's Takeovers Panel and is a member of the Forum of Young Global Leaders – World Economic Forum.

Naomi Milgrom AO

Non-executive Director

Naomi 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, Naomi has combined business leadership with leadership in the arts, sciences and women's health, as Chair of the Australian Centre for Contemporary Art (ACCA), former Chair of the Melbourne Fashion Festival, and director of the Howard Florey Institute. Naomi was the first woman to deliver the Batman Oration on Australia Day 2006. The Centenary of Federation Medal was awarded to Naomi for her outstanding contribution to business and the fashion industry. In 2011, Naomi 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 2011

Paul Lewis

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

Paul 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. Paul led major assignments in financial services – retail banking, life insurance and stock exchanges, energy, manufacturing, telecommunications, rail, air, container shipping and government. Paul also served on senior advisory panels with ministerial representation in Hong Kong, Malaysia and Indonesia, and from 2003 to 2010 was a member of British Telecom's Global Advisory Board. Paul 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

Brett was formerly co-head of the Capital Markets Group within Structured Finance at Babcock & Brown, which he joined in 2002. Brett 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, Brett 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

Nerida 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. Nerida 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 9 years experience as a corporate lawyer. He is the Legal Counsel and Company Secretary of Magellan Financial Group Limited, Magellan Asset Management Limited and Magellan Flagship Fund 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 Lawyers. Leo is a member of the Law Society of New South Wales and a member of the Australian Corporate Lawyers Association.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2011 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	6	6
Naomi Milgrom	4	4		
Paul Lewis	4	4	6	6
Brett Cairns	4	4	6	6

Remuneration Report (audited)

This report outlines the Key Management Personnel and Other Executives remuneration arrangements of the Company and the 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 those identified as Key Management Personnel.

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 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 remuneration of the Non-executive Directors is not linked to the performance or earnings 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

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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Remuneration Report (continued)

Remuneration of Executive Directors, Other Key Management Personnel and Other Executives (continued)

Executive Directors

The Executive Directors' remuneration is determined by the Board, which may utilise the services of external advisors. It comprises fixed compensation only and is unchanged from the previous

year. The amount of fixed compensation is not 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. Similarly to previous years, no variable compensation amounts were paid to the Executive Directors. Details of the employment agreements of the Executive Directors are described later in this report.

Other Key Management Personnel and Other Executives

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

Other Key Management Personnel and Other Executives' 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 variable compensation to be paid to the Group's employees including Other Key Management Personnel and Other Executives with regard to the profitability of the Group's funds management business, and the Group's overall profitability and capacity to pay dividends to shareholders.

The Board considers that a focus on short term indicators for the determination of short term variable compensation, such as movements in the Company's share price, may encourage performance that is not in the best interests of the Group and its shareholders. The Board is more concerned that Other Key Management Personnel and Other Executives 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 Board believes that the participation in the Group's SPP by Other Key Management Personnel and Other Executives closely aligns their interests with the long term interests of shareholders.

The Executive Directors determine the amount of variable compensation to be paid to Other Key Management Personnel and Other Executives, taking into consideration each individual's performance and contribution during the year. The variable component of the Other Key Management Personnel and the Other Executive remuneration is not dependent on the satisfaction of performance conditions, the Company's share price, or dividends paid by the Company.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Remuneration Report (continued)

Remuneration of Executive Directors, Other Key Management Personnel and Other Executives (continued)

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

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 the fair market value of the shares on the offer date.

Details of the closing price of the Company's shares for the previous 5 years are provided below together with the issue price of shares under the SPP.

	MFG shares closing price	Offer date	MFG shares SPP 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	8 September 2009	\$0.78
30 June 2010	\$1.13	10 November 2010	\$1.35
30 June 2011	\$1.32	2 March 2011	\$1.75

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 11 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.

MAGELLAN FINANCIAL GROUP LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2011**

Remuneration Report (continued)

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	Share based Payment	Total
	Salary	Cash Bonus	Superannuation	Under SPP ⁽¹⁾	
	\$	\$	\$	\$	
Non-executive Directors					
Naomi Milgrom	13,761	-	1,239	-	15,000
Paul Lewis	20,000	-	-	71,657	91,657
Brett Cairns	18,349	-	1,651	71,657	91,657
Executive Directors					
Chris Mackay	234,801	-	15,199	-	250,000
Hamish Douglass	234,801	-	15,199	-	250,000
Other Key Management Personnel					
Nerida Campbell	234,801	125,000	15,199	9,318	384,318
Total Key Management Personnel					
	756,513	125,000	48,487	152,632	1,082,632
Other Executives					
Leo Quintana	155,963	30,000	14,037	4,692	204,692
Total	912,476	155,000	62,524	157,324	1,287,324

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

MAGELLAN FINANCIAL GROUP LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2011**

Remuneration Report (continued)

Details of Remuneration (continued)

Comparative information for the year ended 30 June 2010 is as follows:

	Short term Benefits		Post-employment Benefits	Share based Payment	Total
	Salary	Cash Bonus	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 non-cash cost of providing interest free loans to Participants in the Share Purchase Plan (see Directors Report – Remuneration Report – Share Purchase Plan).

Service Agreements

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

Naomi Milgrom AO, Non-executive Director

- Commenced on 20 December 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 of \$15,000 paid by the Group.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Remuneration Report (continued)

Service Agreements (continued)

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

- Commenced on 20 December 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the period ended 30 June 2011 of \$20,000 paid by the Group

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

- Commenced on 22 January 2007
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the period ended 30 June 2011 of \$20,000 paid by the Group

Employment Agreements

The Executive Directors, Key Management Personnel, and Other Executives are engaged under employment agreements with Magellan Asset Management Limited (MAM), a controlled entity of the Company.

Chris Mackay, Executive Director

The Director is employed under a contract with effect from 1 March 2008 and which will continue indefinitely until terminated. Under the terms of the contract the Director:

- receives fixed remuneration of \$250,000 per annum, inclusive of superannuation.
- may receive a bonus at the discretion of the Board.
- has undertaken to MAM 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 the Company, the Magellan Flagship Fund Limited, MAM and related entities, and any managed investment schemes in which MAM acts as responsible entity. The restrictions will cease to apply prior to 1 July 2012, if a third party acquires control of MAM, or MAM 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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Remuneration Report (continued)

Employment Agreements (continued)

- may terminate the contract at any time by giving not less than 3 months written notice to MAM and MAM may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.
- may have his contract terminated by MAM at any time without notice if serious misconduct has occurred. Where the contract is terminated for cause, MAM must pay any accrued but unpaid amounts to which the Director is entitled after setting off for misfeasance for any loss suffered by MAM from the acts which caused the termination.

Hamish Douglass, Executive Director

The Director is employed under a contract with effect from 1 March 2008 and which will continue indefinitely until terminated. Under the terms of the contract the Director:

- receives fixed remuneration of \$250,000 per annum, inclusive of superannuation.
- may receive a bonus at the discretion of the Board.
- has undertaken to MAM 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 the Company, the Magellan Flagship Fund Limited, MAM and related entities, and any managed investment schemes in which MAM acts as responsible entity. The restrictions will cease to apply prior to 1 July 2012, if a third party acquires control of MAM, or MAM 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.

- may terminate the contract at any time by giving not less than 3 months written notice to MAM and MAM may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.
- may have his contract terminated by MAM at any time without notice if serious misconduct has occurred. Where the contract is terminated for cause, MAM must pay any accrued but unpaid amounts to which the Director is entitled after setting off for misfeasance for any loss suffered by MAM 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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

Remuneration Report (continued)

Employment Agreements (continued)

to be a director or employee of MFG, or a subsidiary of MFG (other than through death or incapacity) or his employment has been terminated for cause.

Key Management Personnel and Other Executives

Key Management Personnel and Other Executives have rolling contracts with MAM. MAM may terminate Key Management Personnel and Other Executives employment agreement by providing up to three months written notice. On termination, Key Management Personnel and Other Executives are required to repay any loan amounts outstanding in respect to shares acquired under the Company's Share Purchase Plan in accordance with the SPP terms and conditions. There are no provisions for any termination payments other than for unpaid remuneration and accrued annual leave to be paid to Key Management Personnel and Other Executives.

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
22 August 2011

MAGELLAN FINANCIAL GROUP LIMITED
AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

**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 2011, 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 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
22 August 2011

Liability limited by a scheme approved
under Professional Standards Legislation

MAGELLAN FINANCIAL GROUP LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated		Company	
		2011	2010	2011	2010
		\$ '000	\$ '000	\$ '000	\$ '000
Revenue					
Management fee revenue	5	13,631	7,320	-	-
Consulting fee revenue		1,266	1,490	-	-
Dividend income		1,143	1,138	1,143	1,138
Interest income		1,915	2,364	1,462	2,169
Net changes in fair value of held for trading financial assets		132	214	132	214
Net gain on sale of available for sale financial assets		216	6	216	6
Foreign exchange gain / (loss)		(19)	40	(19)	41
Other revenue		30	6	-	-
Total revenue		18,314	12,578	2,934	3,568
Expenses					
Employee benefits expense		7,170	4,954	341	345
Depreciation and amortisation		122	121	-	-
Occupancy expense		422	377	-	-
Audit fees		142	137	62	59
Legal and professional fees		80	54	7	7
Fund administration		540	351	-	-
Marketing expense		571	330	-	-
Travel and entertainment expense		558	314	-	-
Other operating expenses		639	523	159	160
Total expenses		10,244	7,161	569	570
Share of income from associate entity		-	(292)	-	-
Gain to Group on loss of significant influence over associate entity		-	153	-	-
Operating profit before income tax		8,070	5,278	2,365	2,998
Income tax expense	4 a)	(2,278)	(1,452)	(552)	(764)
Net operating profit		5,792	3,826	1,813	2,234

MAGELLAN FINANCIAL GROUP LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Other comprehensive income				
Net gain on sale of financial assets	(216)	(6)	(216)	-
Net impact of deemed disposal upon ending of significant influence over associate entity	-	(153)	-	-
Revaluation of available for sale financial assets	4,517	5,372	4,517	6,517
Share of revaluation of available for sale financial assets of an associate	-	1,444	-	-
Income tax expense on items of other comprehensive income	4 b) (1,290)	(1,997)	(1,290)	(1,955)
Other comprehensive income for the year, net of tax	<u>3,011</u>	<u>4,660</u>	<u>3,011</u>	<u>4,562</u>
Total comprehensive income for the year	<u>8,803</u>	<u>8,486</u>	<u>4,824</u>	<u>6,796</u>

Earnings per share for the year

Earnings attributable to shares

Basic earnings per share	6	3.9 cents	2.6 cents
Diluted earnings per share	6	3.7 cents	2.5 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 2011**

	Note	Consolidated		Company	
		2011	2010	2011	2010
		\$ '000	\$ '000	\$ '000	\$ '000
Assets					
<i>Current assets</i>					
Cash and cash equivalents	8	1,625	2,243	695	234
Financial assets	10 a)	27,879	27,057	17,372	25,098
Trade and other receivables	9	8,441	3,181	5,327	956
Loans - share purchase plan (SPP)	11 a)	186	357	186	357
Prepayments		138	176	90	112
Total current assets		38,269	33,014	23,670	26,757
<i>Non-current assets</i>					
Investments in controlled entities		-	-	12,539	12,539
Financial assets	10 b)	79,980	67,595	79,980	67,595
Deferred tax assets	4 d)	4,637	6,683	4,173	6,433
Loans - share purchase plan (SPP)	11 b)	6,135	4,922	6,135	4,922
Loan to controlled entity		-	-	1,150	1,150
Property, plant and equipment	12	245	268	-	-
Total non-current assets		90,997	79,468	103,977	92,639
Total assets		129,266	112,482	127,647	119,396
Liabilities					
<i>Current liabilities</i>					
Trade and other payables	13 a)	2,095	1,177	42	39
Loans from controlled entity		-	-	-	2,000
Income tax payable		1,336	172	1,336	172
Total current liabilities		3,431	1,349	1,378	2,211
<i>Non-current liabilities</i>					
Trade and other payables	13 b)	-	-	-	1,639
Total non-current liabilities		-	-	-	1,639
Total liabilities		3,431	1,349	1,378	3,850
Net assets		125,835	111,133	126,269	115,546
Equity					
Contributed equity	15	114,529	108,630	114,904	109,005
Available for sale reserve		5,563	2,552	4,653	1,642
Retained profits / (accumulated losses)		5,743	(49)	6,712	4,899
Total attributable to members of the Group		125,835	111,133	126,269	115,546
Total Equity		125,835	111,133	126,269	115,546

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 2011**

	Attributable to Equity Holders of the Group			
	Contributed Equity \$'000	Retained Profits / (Accumulated Losses) \$'000	Available for Sale Reserve \$'000	Total \$'000
Equity - 1 July 2010	108,630	(49)	2,552	111,133
Net profit for the year	-	5,792	-	5,792
Other comprehensive income	-	-	3,011	3,011
Total comprehensive income for the year	-	5,792	3,011	8,803
Issue of securities:				
- under employee share purchase plan (SPP)	1,028	-	-	1,028
- on exercise of MFG 2011 Options	4,584	-	-	4,584
SPP expense for the year	287	-	-	287
Total transactions with equity holders in their capacity as equity owners	5,899	-	-	5,899
Equity - 30 June 2011	114,529	5,743	5,563	125,835

	Attributable to Equity Holders of the Group			
	Contributed Equity \$'000	Retained Profits / (Accumulated Losses) \$'000	Available for Sale Reserve \$'000	Total \$'000
Equity - 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 for the year	-	3,826	4,660	8,486
Issue of securities:				
- under employee SPP	647	-	-	647
SPP expense for the year	291	-	-	291
Total transactions with equity holders in their capacity as equity owners	938	-	-	938
Equity - 30 June 2010	108,630	(49)	2,552	111,133

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 2011**

For the year ended 30 June 2011	Attributable to Equity Holders of the Company			
	Contributed Equity \$'000	Retained Profits \$'000	Available for Sale Reserve \$'000	Total \$'000
Equity - 1 July 2010	109,005	4,899	1,642	115,546
Net profit for the year	-	1,813	-	1,813
Other comprehensive income	-	-	3,011	3,011
Total comprehensive income for the year	-	1,813	3,011	4,824
Issue of securities:				
- under employee SPP	1,028	-	-	1,028
- on exercise of MFG 2011 Options	4,584	-	-	4,584
SPP expense for the year	287	-	-	287
Total transactions with equity holders in their capacity as equity owners	5,899	-	-	5,899
Equity - 30 June 2011	114,904	6,712	4,653	126,269

For the year ended 30 June 2010	Attributable to Equity Holders of the Company			
	Contributed Equity \$'000	Retained Profits \$'000	Available for Sale Reserve \$'000	Total \$'000
Equity - 1 July 2009	108,067	2,665	(2,920)	107,812
Net profit for the year	-	2,234	-	2,234
Other comprehensive income	-	-	4,562	4,562
Total comprehensive income for the year	-	2,234	4,562	6,796
Issue of securities:				-
- under employee SPP	647	-	-	647
SPP expense for the year	291	-	-	291
Total transactions with equity holders in their capacity as equity owners	938	-	-	938
Equity - 30 June 2010	109,005	4,899	1,642	115,546

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 2011

	Consolidated		Parent	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Cash flows from operating activities				
Receipt of fee income	13,158	6,940	-	-
Interest received	1,397	1,615	1,071	1,423
Proceeds from sale of held for trading financial assets	1,029	169	1,029	169
Purchases of held for trading financial assets	-	(297)	-	(297)
Other revenue received	568	1,196	-	-
Dividends and distributions received	1,040	578	1,040	578
Tax paid	(246)	-	(246)	-
Payments to suppliers and employees	(8,882)	(6,197)	(258)	(297)
Net cash inflows from operating activities	14a) 8,064	4,004	2,636	1,576
Cash flows from investing activities				
Proceeds from sale of available for sale financial assets	2,771	128	2,771	128
Maturities of held to maturity financial assets	9,390	5,400	9,390	5,400
Purchases of available for sale financial assets	(10,981)	(21,212)	(10,981)	(21,212)
Purchases of held to maturity financial assets	(10,647)	(25,708)	(2,238)	(24,008)
Net cash flows from foreign exchange transactions	(19)	37	(19)	37
Purchase of plant and equipment	(98)	(30)	-	-
Net cash outflows from investing activities	(9,584)	(41,385)	(1,077)	(39,655)
Cash flows from financing activities				
Proceeds from exercise of MFG 2011 Options	495	-	495	-
Borrowings from controlled entities	-	-	500	2,341
Repayment of borrowings from controlled entities	-	-	(2,500)	-
Proceeds from repayment of share purchase plan loan	407	-	407	-
Net cash inflows from financing activities	902	-	(1,098)	2,341
Net increase / (decrease) in cash and cash equivalents				
	(618)	(37,381)	461	(35,738)
Effects of exchange rate movements	-	3	-	3
Cash and cash equivalents at the beginning of the year	2,243	39,622	234	35,969
Cash and cash equivalents at the end of the year	8 1,625	2,244	695	234

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 2011

1. Corporate Information

The financial report of Magellan Financial Group Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 22 August 2011.

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 11;
- investment in other unlisted funds. Details are provided in note 10 c) i).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Summary of Significant Accounting Policies (continued)

(c) New Accounting Standards and Interpretations

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 2010.

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:

- i) *AASB 9: Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2013. The IASB recently issued an exposure draft proposing that the date for mandatory adoption be delayed until periods commencing on or after 1 January 2015. 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.

- ii) Amendments to AASB 2010-4: *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual reporting periods beginning on or after 1 January 2011).

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

- iii) Revised AASB 124: *Related Party Disclosures*

AASB 124 is applicable to annual reporting years beginning on or after 1 January 2011. It requires disclosure of additional information relating to individual key management personnel. Application of this standard will not affect any of the amounts recognised in the financial statements.

- iv) IFRS 10: *Consolidated Financial Statements*

IFRS 10 is applicable to annual reporting periods beginning on or after 1 January 2013. The Group has not yet evaluated the effect on the Group's financial statements.

- v) IFRS 13: *Fair Value Measurement*

IFRS 13 is applicable to annual reporting periods beginning on or after 1 January 2013. The Group has not yet evaluated the effect on the Group's financial statements.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 2011	30 June 2010
Magellan Asset Management Limited	100.0	100.0
Magellan Capital Partners Pty Limited	100.0	100.0

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 Company.

(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. 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. Acquisition 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.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Summary of Significant Accounting Policies (continued)

(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 net operating profit or other comprehensive income. 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 with a maturity less than 90 days from 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.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Summary of Significant Accounting Policies (continued)

(j) Derivative Financial Instruments (continued)

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 recognised 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 cash flow 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.

Financial assets are initially 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 period generally established by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

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.

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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Summary of Significant Accounting Policies (continued)

(k) Financial Assets (continued)

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 the 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. 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.

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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Summary of Significant Accounting Policies (continued)

(k) Financial Assets (continued)

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) 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.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Summary of Significant Accounting Policies (continued)

(p) Share Purchase Plan

The Company has in place a Share Purchase Plan (SPP) for employees and Non-executive Directors ('Participants') to purchase shares in the Company (see Directors Report – Remuneration Report – Share Purchase Plan). The Company provides financial assistance to Participants, by way of an interest free loan. 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 2011 are provided in note 11.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Summary of Significant Accounting Policies (continued)

(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 not 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.

(v) Earnings Per Share

Basic earnings per share is determined by dividing the net profit attributable to members of the Company 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 Company, 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 Trustee and Responsible Entity for the Magellan Global Fund and Magellan Infrastructure Fund (Unlisted Funds) which are managed investment schemes offered to Australian and New Zealand investors. MAM acts as Trustee and Investment Manager 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

Interest income on Non-executive Directors' Share Purchase Plan (SPP) loans, and 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 2011**

3. Operating Segment Information (continued)

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

30 June 2011	Funds Management \$ '000	Principal Investments \$ '000	Unallocated - Corporate \$ '000	Consolidated \$ '000
Revenue				
Management fees	13,631	-	-	13,631
Consulting fees	1,266	-	-	1,266
Dividend income	-	1,143	-	1,143
Interest income	451	1,042	422	1,915
Changes in fair value of financial assets	-	132	-	132
Net gains on disposal of financial assets	-	216	-	216
Foreign exchange losses	-	(19)	-	(19)
Other revenue	30	-	-	30
	<u>15,378</u>	<u>2,514</u>	<u>422</u>	<u>18,314</u>
Expense				
Employee benefits expense	6,829	-	54	6,883
Employee benefits expense - SPP	143	-	144	287
Other expenses	2,845	-	229	3,074
	<u>9,817</u>	<u>-</u>	<u>427</u>	<u>10,244</u>
Operating profit before income tax	<u>5,561</u>	<u>2,514</u>	<u>(5)</u>	<u>8,070</u>
30 June 2010	Funds Management \$ '000	Principal Investments \$ '000	Unallocated - Corporate \$ '000	Consolidated \$ '000
Revenue				
Management fees	7,320	-	-	7,320
Consulting fees	1,490	-	-	1,490
Dividend income	-	1,138	-	1,138
Interest income	193	1,756	415	2,364
Changes in fair value of financial assets	-	214	-	214
Net gains on sale of financial assets	-	6	-	6
Foreign exchange gains	-	40	-	40
Other revenue	6	-	-	6
	<u>9,009</u>	<u>3,154</u>	<u>415</u>	<u>12,578</u>
Expense				
Employee benefits expense	4,609	-	54	4,663
Employee benefits expense - SPP	147	-	144	291
Other expenses	1,982	-	225	2,207
	<u>6,738</u>	<u>-</u>	<u>423</u>	<u>7,161</u>
Share of income from an associate	-	(292)	-	(292)
Gain to Group on loss of significant influence over associate entity	-	153	-	153
Operating profit before significant items and income tax	<u>2,271</u>	<u>3,015</u>	<u>(8)</u>	<u>5,278</u>

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Operating Segment Information (continued)

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

30 June 2011	Funds Management	Principal Investments	Unallocated - Corporate	Eliminations*	Consolidated
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Cash and cash equivalents	891	734	-	-	1,625
Financial assets	10,508	97,351	-	-	107,859
Loans – SPP	-	-	6,321	-	6,321
Other assets	4,173	9,590	1,150	(1,452)	13,461
Total assets	15,572	107,675	7,471	(1,452)	129,266
Other liabilities	3,506	41	1,336	(1,452)	3,431
Total liabilities	3,506	41	1,336	(1,452)	3,431
Net assets	12,066	107,634	6,135	-	125,835

30 June 2010	Funds Management	Principal Investments	Unallocated - Corporate	Eliminations*	Consolidated
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Cash and cash equivalents	1,971	272	-	-	2,243
Financial assets	1,958	92,694	-	-	94,652
Loan to Company – Corporate	2,000	-	-	(2,000)	-
Loans – SPP	-	-	5,279	-	5,279
Other assets	4,445	7,502	1,150	(2,789)	10,308
Total assets	10,374	100,468	6,429	(4,789)	112,482
Loan from Funds management	-	-	2,000	(2,000)	-
Other liabilities	2,286	41	1,811	(2,789)	1,349
Total liabilities	2,286	41	3,811	(4,789)	1,349
Net assets	8,088	100,427	2,618	-	111,133

*Eliminations include adjustments / eliminations for inter-segment transactions and netting of items on the Statement of Financial Position

The Group's net investment into its funds management business activities as at 30 June 2011 is:

	30 June 2011	30 June 2010
	\$ '000	\$ '000
Capital invested in controlled entity	12,500	12,500
Subordinated loan to controlled entity	1,150	1,150
	13,650	13,650
Cash and fixed term deposits held by funds management	(11,159)	(3,689)
Loan at call from funds management to unallocated – corporate	-	(2,000)
Cash held for regulatory and operating requirements	5,000	3,000
Net investment in funds management business	7,491	10,961

The Group's business activities are conducted in Australia.

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

4. Income Tax

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
a) Income tax expense recognised during the year through profit or loss:				
Current income tax expense	(2,206)	(1,458)	(272)	(577)
Prior year adjustments	8	29	15	36
Deferred income tax expense arising from - origination and reversal of temporary differences	(80)	(23)	(295)	(223)
	<u>(2,278)</u>	<u>(1,452)</u>	<u>(552)</u>	<u>(764)</u>
b) Income tax expense on items recognised in other comprehensive income:				
- Arising from the revaluation of available for sale financial assets	(1,356)	(1,564)	(1,356)	(1,957)
- Arising from the disposal of available for sale financial assets	66	-	66	2
- Arising from the loss of significant influence over associate entity	-	(433)	-	-
	<u>(1,290)</u>	<u>(1,997)</u>	<u>(1,290)</u>	<u>(1,955)</u>
c) Income tax attributable to the financial year differs from the prima facie amount payable on operating profit. The difference is reconciled as follows:				
Operating profit before significant items and income tax expense	8,070	5,278	2,365	2,998
Prima facie income tax expense on operating profit at 30%	(2,421)	(1,583)	(709)	(899)
Prior year adjustments	8	29	15	36
Share purchase plan	40	37	40	37
Other non-assessable income and non-deductible expenses	95	65	102	62
	<u>(2,278)</u>	<u>(1,452)</u>	<u>(552)</u>	<u>(764)</u>

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

4. Income Tax (continued)

	Consolidated		Company	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
d) Deferred tax as at 30 June relates to the following:				
Tax losses carried forward	99	806	99	806
Net capital losses carried forward	1,379	971	1,379	971
Costs associated with the issue of Securities, deductible in future years	52	210	52	210
Revaluation of financial assets	2,774	4,509	2,774	4,509
Other temporary differences	333	187	(131)	(63)
	<u>4,637</u>	<u>6,683</u>	<u>4,173</u>	<u>6,433</u>

e) Tax consolidation

Members of the tax consolidated group

The Company and its 100% owned Australian subsidiaries Magellan Asset Management Limited and Magellan Capital Partners Pty Limited are part of a tax consolidated group. 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.

5. Management fee revenue

	Consolidated		Company	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
Management and administration fees	13,311	7,303	-	-
Performances fees	320	17	-	-
	<u>13,631</u>	<u>7,320</u>	<u>-</u>	<u>-</u>

Magellan Asset Management Limited (MAM), a controlled entity, is the Trustee and Responsible Entity 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, an unregistered managed investment scheme, and is entitled to receive monthly management and administration fees from this fund. MAM is 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 is also the Investment Manager for a number of wholesale funds on which management fees are earned.

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

6. Earnings Per Share

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

a) Earnings per Share

	Consolidated	
	2011	2010
	\$ '000	\$ '000
<u>Basic earnings per share</u>		
Net profit attributable to shareholders – basic	5,792	3,826
Weighted average number of shares for basic earnings per share ('000)	147,933	146,906
Basic earnings per share	3.9 cents	2.6 cents
<u>Diluted earnings per share</u>		
Net profit attributable to shareholders – diluted	5,792	3,826
Weighted average number of shares for diluted earnings per share ('000)	157,479	155,721
Diluted earnings per share	3.7 cents	2.5 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)	147,933	146,906
Weighted average number of shares on assumed exercise of:		
MFG 2011 Options ('000) – shares deemed to be issued for nil consideration	670	-
MFG 2016 Options ('000)	-	-
Class B shares	8,876	8,815
Weighted average number of shares for diluted earnings per share ('000)	157,479	155,721

b) Further information

The Company has on issue 10.2 million Class B shares (2010: 10.2 million) that represent potential ordinary shares. 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 2011, the total weighted average number of securities for the purposes of calculating the diluted earnings per share would be 157,477,197 (2010: 155,720,857).

For the calculation of the diluted earnings per share for the year ended 30 June 2011, the effect of the MFG 2011 Options is dilutive since the options were exercised during the year at a market price above the exercise price.

As at balance date approximately 3.5 million MFG 2011 Options had been exercised and the remaining 2.5 million options lapsed.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

6. Earnings Per Share (continued)

The Company has on issue 7.9 million MFG 2016 Options (2010: 7.9 million) that represent potential ordinary shares. The 2016 options are anti-dilutive because their exercise price was 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. Further details of the terms of these options and shares are included in note 15.

7. Dividends

No dividends were paid during the financial year (2010: nil). The Directors have proposed a final fully franked dividend of 1.5 cents per ordinary share in respect of the 2011 financial year, which represents \$2.28 million. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2011 financial statements.

Franking credit balance	Company	
	2011 \$ '000	2010 \$ '000
The amount of franking credits available for subsequent financial year are:	1,002	830
Franking credits arising from income tax paid and payable	1,410	172
	2,412	1,002

8. Cash and cash equivalents

Cash and cash equivalents comprise:	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Cash at bank	1,625	643	695	234
Fixed term deposits	-	1,600	-	-
	1,625	2,243	695	234

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.

9. Trade and other receivables

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Trade receivables	3,417	1,008	-	-
Accrued interest	-	14	-	-
2011 MFG Option exercise proceeds receivable*	4,088	-	4,088	-
Other	42	31	42	31
	7,547	1,053	4,130	31
Related party receivables				
- Controlled entity	-	-	303	-
- Other related parties	894	2,128	894	925
	8,441	3,181	5,327	956

*MFG 2011 Option exercise proceeds held in trust at 30 June 2011 and received by the Company in July 2011 - refer to note 15

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

10. Financial Assets

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
a) Current				
Held-for-trading (by domicile of primary securities exchange)				
- Listed shares – Australia	175	1,072	175	1,072
Held-to-maturity				
- Fixed and floating rate securities	352	9,622	352	9,622
Loans and receivables				
- Fixed term deposits	27,352	16,363	16,845	14,404
	27,879	27,057	17,372	25,098

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

	2011 \$ '000	2010 \$ '000
Balance at 1 July	27,057	3,316
Acquisitions	-	9,826
Disposals	(1,029)	(168)
Reclassification of held-to-maturity securities from non-current to current	352	2,822
Cash placed on fixed term deposit	27,111	16,122
Maturities of fixed term deposits	(16,122)	-
Maturities of fixed and floating rate securities	(9,390)	(5,400)
Changes in fair value	(100)	539
Balance at 30 June	27,879	27,057

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
b) Non-current				
Held-to-maturity				
- Fixed and floating rate securities	-	352	-	352
Available-for-sale financial assets (by domicile of primary stock exchange)				
- Listed shares – Australia				
- Magellan Flagship Fund	32,746	27,507	32,746	27,507
- Listed shares – United States	5,776	3,252	5,776	3,252
- Listed shares – Switzerland	1,437	1,420	1,437	1,420
- Listed shares – Netherlands	125	134	125	134
- Listed shares – Hong Kong	51	-	51	-
- Unlisted funds - Magellan				
- Magellan Global Fund	35,262	29,822	35,262	29,822
- Magellan Infrastructure Fund	2,777	3,347	2,777	3,347
- Unlisted funds - Other	1,806	1,761	1,806	1,761
	79,980	67,595	79,980	67,595

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

10. 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:

	2011	2010
	\$ '000	\$ '000
Balance at 1 July	67,595	27,054
Acquisitions	10,992	19,215
Reclassification of investment in associate*	-	18,910
Disposals	(2,772)	(128)
Reclassification of held-to-maturity securities from non-current to current	(352)	(2,822)
Changes in fair value	4,517	5,366
Balance at 30 June	79,980	67,595

* the Company and the Group's investment in Magellan Global Fund was classified as an Investment in an Associate as at 30 June 2009 and reclassified as an investment during the year ended 30 June 2010.

c) Fair Value Disclosures

i) Financial Assets carried at Fair Value

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

- Level 1 : The Group invests in liquid securities quoted on major securities 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 does not apply to the Group's investments in loans and receivables or held-to-maturity financial assets, as these are not measured at fair value.

Listed shares

The fair value of the Group's investments in 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 \$40.3 million (2010: \$33.4 million) 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 \$38.0 million (2010: \$33.2 million).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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:

	2011 \$ '000	2010 \$ '000
Balance at 1 July	1,761	1,683
Capital calls	45	78
Balance at 30 June	1,806	1,761

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 \$0.3 million at 30 June 2011 (2010: \$9.7 million). The fair value of these securities is estimated to be \$0.3 million (2010: \$9.7 million).

iii) Loans and receivables

Fixed term deposits are carried at amortised cost which is a close approximation to fair value due to the relatively short duration of the fixed term deposits.

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 2011

11. 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 are invited to apply for a specified number of fully paid ordinary shares in the Company. Subject to the Listing Rules, the Directors have overall discretion in relation to the Plan and may vary the rules. The Directors 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 is 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 is funded by way of a full recourse interest free loan from the Company. The Directors waived the requirement for an upfront contribution in respect of offers made to certain employees pursuant to the SPP in respect of the years ended 30 June 2010 and 30 June 2011.

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 2011

11. Share Purchase Plan (SPP) (continued)

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

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

Dividends are 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 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		Company	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
a) Current				
Amounts due within one year	186	357	186	357
b) Non-current				
Amounts due later than one year and within ten years	6,135	4,922	6,135	4,922
	6,321	5,279	6,321	5,279

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

11. 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
8 September 2009	\$0.78
10 November 2010	\$1.35
2 March 2011	\$1.75

The value of shares securing the loans to Participants at balance date applying the Company's 30 June 2011 closing market price of \$1.32 was \$8.3 million (2010:\$7.6 million). No amounts are past due nor considered impaired as the SPP 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 2011</u>	<u>30 June 2010</u>
September 2007 tranche		
Face value of loans	\$5.8m	\$5.8m
Estimated weighted average duration of loans	3.6 years	4.5 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	5.6 years	6.1 years
Imputed interest rate	5.0%	5.0%
September 2009 tranche		
Face value of loans	\$1.0m	\$1.0m
Estimated weighted average duration of loans	6.8 years	7.7 years
Imputed interest rate	5.3%	5.3%
November 2010 tranche		
Face value of loans	\$1.6m	-
Estimated weighted average duration of loans	7.3 years	n/a
Imputed interest rate	5.5%	n/a
March 2011 tranche		
Face value of loans	\$0.2m	-
Estimated weighted average duration of loans	7.3 years	n/a
Imputed interest rate	5.5%	n/a

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

	Consolidated		Company	
	2011	2010	2011	2010
<i>Included in:</i>	\$ '000	\$ '000	\$ '000	\$ '000
Interest income	422	415	422	415
Employee benefits expense	(287)	(291)	(287)	(291)
Net credit to profit or loss before tax	135	124	135	124

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

11. 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).

12. Property, Plant and Equipment

	Consolidated					
	2011			2010		
	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	512	631	119	482	601
Additions	-	99	99	-	30	30
Disposals	-	-	-	-	-	-
Cost at 30 June	119	611	730	119	512	631
Accumulated depreciation and impairment losses at 1 July	72	291	363	43	199	242
Disposals	-	-	-	-	-	-
Depreciation charge for the year	28	94	122	29	92	121
Accumulated depreciation and impairment losses at 30 June	100	385	485	72	291	363
Net carrying amount at 30 June	19	226	245	47	221	268

Property, plant and equipment is held by a controlled entity of the Company. The carrying value of property, plant and equipment of the Company at 30 June 2011 is \$nil (2010:\$ nil).

13. Trade and Other Payables

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
a) Current				
Trade payables	49	110	-	4
Accrued expenses	1,671	870	42	24
Other payables	375	197	-	11
	2,095	1,177	42	39
b) Non-current				
Related party payables - Controlled entities	-	-	-	1,639
	-	-	-	1,639

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

14. Statement of Cash Flows Reconciliation

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

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Net profit after tax	5,792	3,826	1,813	2,234
Adjusted for:				
Deemed gain to the Company on loss of significant influence over associate	-	97	-	-
Losses on sale of available for sale financial assets	(216)	(6)	(216)	(6)
Change in carrying value of held to maturity financial assets	232	(320)	232	(320)
Dividends and distributions on available for sale financial assets reinvested	(950)	(495)	(950)	(495)
Depreciation	122	121	-	-
Tax paid	(246)	-	(246)	-
Unrealised foreign exchange gains	-	(3)	-	(3)
Net foreign exchange (gains) / losses	19	(37)	19	(37)
Imputed interest on loans under share purchase plan (SPP)	(421)	(415)	(421)	(415)
Employee expense on loans under SPP	287	291	287	291
(Increase) / decrease in trade and other receivables	1,380	303	767	54
(Increase) / decrease in prepayments	35	43	23	27
(Increase) / decrease in deferred tax assets	(949)	306	(735)	507
(Increase) / decrease in held for trading financial assets	897	(388)	897	(388)
Increase / (decrease) in trade and other payables	918	509	2	(45)
(Decrease) / increase in current tax liabilities	1,164	172	1,164	172
<i>Net cash inflows from operating activities</i>	8,064	4,004	2,636	1,576

b) Non-cash financing and investing activities:

Issue of shares under SPP	1,028	647	1,028	647
Imputed interest on loans under SPP	(421)	(415)	(421)	(415)
Share based payments under SPP	287	291	287	291
Acquisition of available-for-sale financial assets via dividend and distribution reinvestment plans	950	495	950	495

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

15. Contributed Equity

	Consolidated		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Contributed equity	114,529	108,630	114,904	109,005
	114,529	108,630	114,904	109,005

a) Movement during the year of Group securities on issue

	Shares '000	MFG 2011 Options '000	MFG 2016 Options '000	Class B Shares '000
Balance at 1 July 2010	147,198	6,034	7,882	10,200
Issue of shares from exercise of Options*	3,526	(3,526)	-	-
Options expired	-	(2,508)	-	-
Issue of shares under share purchase plan (SPP)	1,169	-	-	-
Balance at 30 June 2011	151,893	-	7,882	10,200

* Proceeds from the exercise of options totalled \$4,583,684. \$495,420 was received prior 30 June 2011 and the balance of \$4,088,264 was held in trust and received by the Company in July 2011 – refer note 9.

	Value	
	Consolidated \$'000	Company \$'000
Balance at 1 July 2010	108,630	109,005
Issue of shares from exercise of MFG 2011 Options	4,584	4,584
Issue of shares under SPP	1,028	1,028
Recognition of SPP expense for the year	287	287
Balance at 30 June 2011	114,529	114,904

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 2011

15. Contributed Equity (continued)

a) Movement during the year of Group securities on issue (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 2011 the 10,200,000 the Class B shares would be entitled to convert to 9,113,591 ordinary shares, being equal to 0.06 times 151,893,175 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 four 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 Limited (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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

16. 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 Limited 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 Limited 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 entities can be found in the annual report of Magellan Flagship Fund Limited and the Product Disclosure Statement (PDS) of the Magellan unlisted funds.

The Group earns management fees on funds under management, which are based on a percentage of the value of those entities. 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.

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.

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

16. Financial Risk Management Objectives and Policies (continued)

b) Market Risk (continued)

(i) Equity Price Risk (continued)

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 MSCI Total Return Net World Index varied between +23% and -24% (in AUD) and +31% and -30% (in USD). Performance of markets is not always a reliable guide to future performance, and the Company's investment portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably be expected within the portfolio over the next twelve months. The impact of equity price movements, expressed in percentage terms, on the net profit reported by the Company, is linear.

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 equity:

	Group		Company	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
Impact on net profit attributable to members of the Company	6	38	6	38
Impact on available-for-sale reserve, net of tax	2,799	2,410	2,799	2,410
Total impact on net profit and equity	2,805	2,448	2,805	2,448

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 2011

16. Financial Risk Management Objectives and Policies (continued)

b) Market Risk (continued)

(i) Equity Price Risk (continued)

Impact arising on entitlements to management fees

Each incremental increase of 5% in the average value of funds under management of the Group during the years ended 30 June 2011 and 30 June 2010 would have increased the base management fees recognised in the net profit and equity as follows:

	Group		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Impact on net profit attributable to members of the Company	477	256	-	-
Total impact on net profit and equity	477	256	-	-

Assumptions and explanatory notes

- i) A decrease of 5% in the average value of funds under management of the Group would have an equal and opposite effect to the changes disclosed above;
- ii) Changes in market prices may impact the inflows to, and outflows from, the Group's funds under management. This impact has not been estimated.

The equity price impact on base fees earned from funds under management may arise from movements in the underlying prices in local currency, exchange rate movements, or a combination of both. Approximately 82% of the Group's base management fee revenue for the year ended 30 June 2011 (30 June 2010: 84%) was exposed to movements in the Australian dollar relative to other currencies.

The Group has a variety of different performance fee arrangements with its funds and some of its wholesale mandates. The Group's entitlement to these fees may be dependant on performance relative to absolute targets, index relative targets, high watermarks or some combination of these. Fees also accrue over different calculation periods, ranging from 1 month to 3 years. A 5% decrease in the absolute value of the Group's portfolios but no change in the index relative performance would have reduced performance fees earned by the Group in 2011 by approximately \$270,000 (2010: nil). It is not feasible to estimate the impact on performance fees of a 5% increase in the absolute performance with no change in relative performance.

(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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

16. Financial Risk Management Objectives and Policies (continued)

b) Market Risk (continued)

(ii) Currency Risk (continued)

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.

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 net profit and amounts recognised in equity:

Group	Increase / (decrease) in net profit		Increase / (decrease) in equity	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
Assets denominated in:				
US dollars	-	(5)	(525)	(296)
Euro	-	-	(11)	(12)
Swiss francs	-	-	(131)	(129)
Hong Kong dollars	-	-	(5)	-
Company	Increase / (decrease) in net profit		Increase / (decrease) in equity	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
Assets denominated in:				
US dollars	-	(5)	(525)	(296)
Euro	-	-	(11)	(12)
Swiss francs	-	-	(131)	(129)
Hong Kong dollars	-	-	(5)	-

The Group and the Company held negligible foreign cash at 30 June 2011. 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 to which the Group and Company have exposure would have an opposite impact of materially similar magnitude on 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 Limited, Magellan Global Fund and Magellan Infrastructure Fund.

Magellan Flagship Fund Limited is listed on the Australian Securities Exchange and its market value is denominated in Australian dollars.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Magellan Global Fund and Magellan Infrastructure Fund 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

16. Financial Risk Management Objectives and Policies (continued)

b) Market Risk (continued)

(ii) Currency Risk (continued)

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.

The equity price impact on base fees earned from funds under management may arise from movements in the underlying prices in local currency, exchange rate movements, or a combination of both. Approximately 82% of the Group's base management fee revenue for the year ended 30 June 2011 (30 June 2010: 84%) was exposed to movements in the Australian dollar relative to other currencies.

(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 fixed interest securities, 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 net profit and equity 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		Company	
	2011 \$ '000	2010 \$ '000	2011 \$ '000	2010 \$ '000
Decrease in net profit and equity attributable to members of the Company	203	149	122	121

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 attributable to members of the Company.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

16. Financial Risk Management Objectives and Policies (continued)

c) Liquidity Risk

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

As at 30 June 2011, the Group had an obligation to settle trade creditors of \$2.1 million (2010: \$1.2 million) within 30 days. The Group had cash reserves of \$1.6 million (2010: \$2.2 million) and a further \$10.0 million (2010: \$3.2 million) of receivables collectable and fixed term deposits maturing within 30 days to cover these liabilities, accordingly the Group does not have a significant direct exposure to liquidity risk.

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 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 Trustee and Responsible Entity of the Magellan Global Fund and Magellan Infrastructure Fund (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 MLI is in a form that is typical of prime brokerage arrangements. In acting as custodian of the 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 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 used by MLI for its own purposes.

During the period Magellan Asset Management Limited (MAM), in its capacity as Trustee and Responsible Entity of the Unlisted Funds, amended the prime brokerage arrangements with MLI as follows:

- Limiting the extent to which the Unlisted Funds' securities held by MLI may be used by MLI for its own purposes to value not exceeding A\$200 million (in the case of the Magellan Global Fund) or A\$100 million (in the case of the Magellan Infrastructure Fund). Investments of an Unlisted Fund utilised by MLI become the property of MLI and the Fund will have a right against MLI for the return of equivalent assets.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

16. Financial Risk Management Objectives and Policies (continued)

d) Credit Risk (continued)

- Establishing an arrangement where MAM may, at its sole election and at a time of its own choosing, cause the transfer of an Unlisted Fund's unencumbered securities from MLI to a separate custodian, Prime Asset Custody Transfers Limited (PACT). PACT forms part of the Bank of America Merrill Lynch Group of Companies. If transferred to PACT, the Unlisted Fund's securities would be held in a custody account by PACT pursuant to a Custody Agreement. PACT may not use in any way the Unlisted Fund's securities credited to the PACT custody account for its own purposes.

The Company has also entered into an arrangement giving it access to PACT.

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2011, by Standard & Poor's as being A, and by Moody's as being A2.

At 30 June 2011 the Group had an outstanding balance totalling \$6.3 million (2010: \$5.3 million) for loans to participants under the share purchase plan and held at 30 June 2011 Company shares valued at \$8.3 million (2010: \$7.6 million) as security for the loans (note 11 provides further information). The loans were made to the Group's employees and Company's Non-executive Directors on a full recourse basis.

At 30 June 2011 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 2011

17. 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 2011 was \$1,150,000 (2010:\$1,150,000).

(ii) Amounts due from MAM

At balance date, a net amount of \$303,000 (2010: \$1,638,000 payable) was receivable by the Company from MAM in respect of amounts arising from the transfer of MAM's tax losses to the Company.

b) Disclosures Relating to Key Management Personnel

Share Holdings

The number of ordinary shares held in the Company at 30 June 2011:

Name	Balance at 1 July 2010	Acquisitions	Cancellations/ Disposals	Balance at 30 June 2011
<i>Directors</i>				
Naomi Milgrom	6,182,360	-	-	6,182,360
Paul Lewis	1,900,747	-	-	1,900,747
Brett Cairns ⁽¹⁾	1,086,427	9,054	-	1,095,481
Hamish Douglass	10,436,508	-	-	10,436,508
Chris Mackay	18,077,777	-	-	18,077,777
<i>Other Key Management Personnel</i>				
Nerida Campbell ⁽²⁾	585,019	75,000	-	660,019

⁽¹⁾ Acquisitions during the year arising from the exercise of MFG 2011 Options

⁽²⁾ Acquisitions during the year under the Company's Share Purchase Plan

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

17. Transactions with Related Parties (continued)

b) Disclosures Relating to Key Management Personnel (continued)

Share Holdings (continued)

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
--------------------------------	---------	---------	---	---------

⁽¹⁾ Acquisitions during the year under the Company's Share Purchase Plan

The number of MFG Class B shares held in the Company at 30 June 2011:

Name	Balance at 1 July 2010	Acquisitions	Disposals	Balance at 30 June 2011
Hamish Douglass	10,200,000	-	-	10,200,000

The key terms and rights attaching to the MFG Class B Shares are disclosed in note 15 a). MFG Class B shares disclosed above are identical to 30 June 2010 disclosures.

The number of MFG 2016 Options (ASX: MFGOC) expiring on 30 June 2016 held at 30 June 2011:

Name	Balance at 1 July 2010	Acquisitions	Disposals	Balance at 30 June 2011
<i>Directors</i>				
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
-----------------	--------	---	---	--------

The key terms and rights attaching to the MFG 2016 Options are disclosed in note 15 (a). Option holdings disclosed above are identical to 30 June 2010 disclosures.

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

17. Transactions with Related Parties (continued)

b) Disclosures Relating to Key Management Personnel (continued)

Unit Holdings in the Unlisted Funds

The number of units in Magellan Global Fund held at 30 June 2011:

Name	Balance at 1 July 2010	Acquisitions*	Disposals	Balance at 30 June 2011
<i>Directors</i>				
Paul Lewis	326,754	5,154	-	331,908
Hamish Douglass	817,106	12,889	-	829,995
Chris Mackay	409,222	6,454	-	415,676
				-
<i>Other Key Management Personnel</i>				
Nerida Campbell	20,010	316	-	20,326

* including reinvestment of 30 June 2010 distributions

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
<i>Other Key Management Personnel</i>				
Nerida Campbell	-	20,010	-	20,010

* including reinvestment of 30 June 2009 distributions

The number of units in Magellan Infrastructure Fund held at 30 June 2011:

Name	Balance at 1 July 2010	Acquisitions*	Disposals	Balance at 30 June 2011
<i>Directors</i>				
Paul Lewis	29,343	4,187	-	33,530

* including reinvestment of 30 June 2010 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

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

17. Transactions with Related Parties (continued)

b) Disclosures Relating to Key Management Personnel (continued)

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 2010	Loans made	Repayments	Loan Balance at 30 June 2011	
	Number				Face value	Carrying Value
		\$	\$	\$	\$	\$
<i>Directors</i>						
Paul Lewis	-	1,245,000	-	-	1,245,000	1,163,551
Brett Cairns	-	1,245,000	-	-	1,245,000	1,163,551
<i>Other Key Management Personnel</i>						
Nerida Campbell	75,000	147,575	101,250	(9,375)	239,450	173,830

Comparative information for the year ended 30 June 2010 is as follows:

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

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

17. Transactions with Related Parties (continued)

b) Disclosures Relating to Key Management Personnel (continued)

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		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short term Benefits				
- Salary	756,513	721,451	47,110	46,834
- Cash Bonus	125,000	50,000	-	-
Post-employment Benefits				
- Superannuation	48,487	46,249	2,990	2,866
Termination Benefits	-	-	-	-
Share based Payment				
- Under SPP ⁽¹⁾	152,632	148,434	148,434	148,434
Total	1,082,632	966,134	198,534	198,134

⁽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)

18. 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		Company	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	305	375	-	-
Later than one year but not later than five years	86	293	-	-
	391	668	-	-

The operating lease for MAM's office premises in Sydney expires as at 31 March 2012. MAM has an option to extend the lease for a further 3 years subject to a market rent review at 31 March 2012 and a 4% increase per annum for the following 2 years.

MAGELLAN FINANCIAL GROUP LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

18. Contingent Liabilities and Commitments for Expenditure (continued)

Contingent Liabilities

The Group has a contingent liability for uncalled amounts of \$0.4 million (2010: \$0.4 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.

19. Events Subsequent to Reporting Date

Since the end of the year, there have been no matters or circumstances not otherwise dealt with in this report or the financial statements that have 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.

20. Auditor's Remuneration

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
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	77,200	73,850	62,200	58,850
- audit and review of the financial statements for the Magellan unlisted funds	27,000	6,000	-	-
- other regulatory audit services	15,000	5,000	-	-
- other services	63,250	57,400	-	-
Amounts received or due and receivable by KPMG Australia for:				
- audit and review of the financial statements for the Magellan unlisted funds	3,400	23,130	-	-
- other regulatory audit services	-	9,900	-	-
	185,850	175,280	68,800	65,450

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 2011 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 2 (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 2011.

On behalf of the Board



Chris Mackay
Chairman

Sydney
22 August 2011

MAGELLAN FINANCIAL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

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 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 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, the auditor considers 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 complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

Liability limited by a scheme approved
under Professional Standards Legislation

MAGELLAN FINANCIAL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT



2

Opinion

In our opinion:

- a. 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 company's and consolidated entity's financial positions as at 30 June 2011 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 9 to 16 of the directors' report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2011, 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
22 August 2011

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'**). To the extent they are relevant to the Company, the ASX Recommendations have been adopted by the Company. Where, after due consideration, the Company's corporate governance practices depart from an ASX Recommendation, this Corporate Governance Statement will set out the reasons for the departure.

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 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:

- Chris Mackay (Chairman and Executive Director)
- Hamish Douglass (Executive Director)
- Naomi Milgrom AO (Independent Non-Executive Director)
- Paul Lewis (Independent Non-Executive Director)
- Brett Cairns (Independent Non-Executive Director)

Details of each Directors' 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. 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 is 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. This review was last 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 has been lodged with the Australian Securities Exchange (ASX) and is also 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:

- Paul Lewis (Chairman and Independent Non-Executive Director)
- Brett Cairns (Independent Non-Executive Director)
- Hamish 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 in respect of 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;
- the Company 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 Continuous Disclosure 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 the release of:

- the Group's Half Year Results in February each year;
- the Group's Full Year Results in August each year;
- the Chairman's and Chief Executive Officer's Letter to Shareholders each year;
- the Group's Annual Report;
- the Chairman's address to the Annual General Meeting; and
- 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 and investment 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 2011 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 Trustee of various registered and unregistered managed investment schemes (collectively, the 'Magellan Funds').

There are currently three Directors on the MAM Board: Hamish Douglass, Paul Lewis, 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 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 forms part of the Directors' Report.

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION

Distribution of Shareholders

The distribution of shareholders of the Company as at 17 August 2011 is presented below:

Distribution Schedule of Holdings	Number of Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	511	309,649	0.20
1,001-5,000	696	1,894,556	1.25
5,001-10,000	359	2,769,682	1.82
10,001-100,000	767	23,700,470	15.60
100,001 and over	133	123,218,818	81.12
Total	2,466	151,893,175	100.000
Number of holders with less than a marketable parcel	95	14,362	0.000

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 17 August 2011 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Magellan Equities Pty Limited	15,355,551	10.11
Cavalane Holdings Pty Ltd	13,274,871	8.74
Midas Touch Investments Pty Ltd	9,686,508	6.38
Citicorp Nominees Pty Limited	7,710,292	5.08
UBS Wealth Management Australia Nominees Pty Ltd	6,833,126	4.50
National Nominees Limited	6,096,815	4.01
Nota Bene Investments Pty Ltd	6,006,006	3.95
J P Morgan Nominees Australia Limited	4,070,306	2.68
HSBC Custody Nominees (Australia) Limited	3,647,792	2.40
Emmanuel Capital Pty Ltd	3,380,196	2.23
ABN Amro Clearing Sydney Nominees Pty Ltd	2,844,891	1.87
Christopher John Mackay	2,232,022	1.47
UBS Nominees Pty Ltd	1,967,712	1.30
Aljamat Pty Ltd	1,919,381	1.26
Mr David Doyle	1,500,000	0.99
Giwah Pty Ltd	1,341,826	0.88
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	1,305,752	0.86
Smallco Investment Manager Ltd	1,114,331	0.73
Alexander Hone	1,057,528	0.70
Naze Nominees Pty Ltd	1,000,000	0.66
Total shares held by the twenty largest shareholders	93,344,906	61.45
Total shares in issue	151,893,175	

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders at 17 August 2011 are listed below:

Shareholder	Number of Ordinary Shares
Chris Mackay and associates ⁽¹⁾	18,077,777
Cavalane Holdings Pty Ltd ⁽²⁾	13,781,069
Hamish Douglass, Midas Touch Investments Pty Ltd and associates ⁽³⁾	10,436,508

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

⁽²⁾ As per substantial shareholder notice lodged on 16 February 2011. Current holding at 17 August 2011 – 13,274,871 shares

⁽³⁾ Includes shares acquired after substantial shareholder notice 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 "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 Registry

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Securities Exchange Listing

Australian Securities Exchange
ASX code: MFG

Website

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

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

