MAGELLAN FINANCIAL GROUP LIMITED

2012 ANNUAL REPORT

MAGELLAN FINANCIAL GROUP LIMITED
ANNUAL SHAREHOLDER LETTER

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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 $13.7 million for the year ended 30 June 2012 ($5.8 million for 2011).

The Group's reported result includes:

- revenues, excluding realised and unrealised investment gains and foreign exchange gains/losses, of $35.8 million compared with revenues of $18.3 million for the previous corresponding period; and

- total operating expenses of $16.7 million, compared with total operating expenses of $10.2 million for the previous corresponding period.

Magellan is in a strong financial position with an extremely strong balance sheet. As at 30 June 2012:

- the Group had investment assets (including the cash and fixed and variable rate debt investments) of approximately $139.3 million and shareholders' funds of $147.2 million; and

- the Group's NTA per share (diluted assuming conversion of the Class B shares) was approximately $0.91 ($0.78 for 2011).

Revenues for 2012 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 any realised gains or losses on investments.

The Directors have proposed a final fully franked dividend of 3.0 cents per ordinary share in respect of the 2012 financial year, which represents $4.6 million. An interim dividend of 1.5 cents per ordinary share, representing $2.3 million, was paid in respect of the 2012 financial year. In accordance with accounting standards, the final dividend has not been provided for in the 30 June 2012 financial statements.

MAGELLAN'S FUNDS MANAGEMENT BUSINESS

For the year ended 30 June 2012, the funds management business generated revenues of approximately $32.7 million ($15.2 million for 2011) and had expenses of approximately $16.4 million ($9.8 million for 2011), which resulted in a profit before tax of $16.3 million ($5.4 million for 2011).

The following table summarises the profitability of the funds management business over the past two years:

Funds Management Business

	30 June 2011	30 June 2012	Change
	$'000	$'000	%
Revenue			
Management fees	13,631	31,042	128%
Consulting fees	1,266	1,218	-4%
Interest & other income	311	400	29%
	15,208	32,660	115%
Expenses			
Employee expense	6,972	11,378	63%
Other expense	2,845	4,983	75%
	9,817	16,361	67%
Profit before tax	**5,391**	**16,299**	**202%**
Key Statistics			
Net assets ($'000)	6,094	12,803	110%
Cost/income	64.6%	50.1%	-22%
Avg number of employees	28	38	36%
Employee expenses/Total expenses	71.0%	69.5%	-2%

Over the past 12 months we have grown our team adding 13 high quality employees, particularly Business Support specialists and Investment Analysts. The increase in employees in Business Support principally relates to the investment in our operational capability for our institutional funds management business.

We have established a Performance and Client reporting team and hired additional professionals in Finance, Operations and Compliance. Magellan is also investing in new IT systems and establishing offshore investment vehicles for both the global equities and infrastructure strategies. The majority of these expenses will be incurred in 2012/13 financial year. These investments will position the Group to further grow the funds management business over the longer term in a scalable manner. We intend to modestly increase our team in the 2012/13 financial year, from the current 48 employees.

The funds management business had a cost to income ratio of 50.1% for the 2011/12 financial year, with employee expenses accounting for approximately 70% of total expenses. We would expect employee expense to grow in line with employee numbers growth and remuneration inflation.

The following table sets out the total employee numbers over the past 3 years, and as at 17 August 2012.

Employee Summary

	30 June 2010	30 June 2011	30 June 2012	17 August 2012
Investment				
- professional	10	12	14	17
- administration	1	1	2	2
	11	13	16	19
Distribution				
- professional	5	10	12	12
- administration	1	1	1	1
	6	11	13	13
Business Support				
- professional	6	6	13	13
- administration	1	1	2	3
	7	7	15	16
Total	**24**	**31**	**44**	**48**
Average employees	24	28	38	

As at 17 August 2012, the Group had funds under management of approximately $4,136.1 million, split between global equities (60%) and infrastructure equities (40%). This compares with funds under management of $4,005.7 million at 30 June 2012 and $2,756.3 million at 30 June 2011. The following table sets out the composition of funds under management over the past three financial years:

Funds Under Management

A$ million	30 June 2010	30 June 2011	30 June 2012	17 August 2012
Retail	610.7	1,081.9	1,749.6	1,922.5
Institutional				
- Active	197.6	178.3	786.9	841.9
- Enhanced beta	338.7	1,496.1	1,469.2	1,371.7
	536.3	1,674.4	2,256.1	2,213.6
Total FUM	**1,147.0**	**2,756.3**	**4,005.7**	**4,136.1**
Percentage				
Retail	53%	39%	44%	46%
Institutional				
- Active	17%	6%	20%	20%
- Enhanced beta	30%	55%	36%	34%
	47%	61%	56%	54%
Total FUM	100%	100%	100%	100%
Average Base Management fee (bps), excluding Performance Fees	95	61	71	71 est.
FUM subject to Performance Fees (%)	63%	39%	53%	56%

We note that our retail business has higher fees than our institutional business and our infrastructure enhanced beta product has lower fees than other institutional mandates.

Retail Funds Under Management

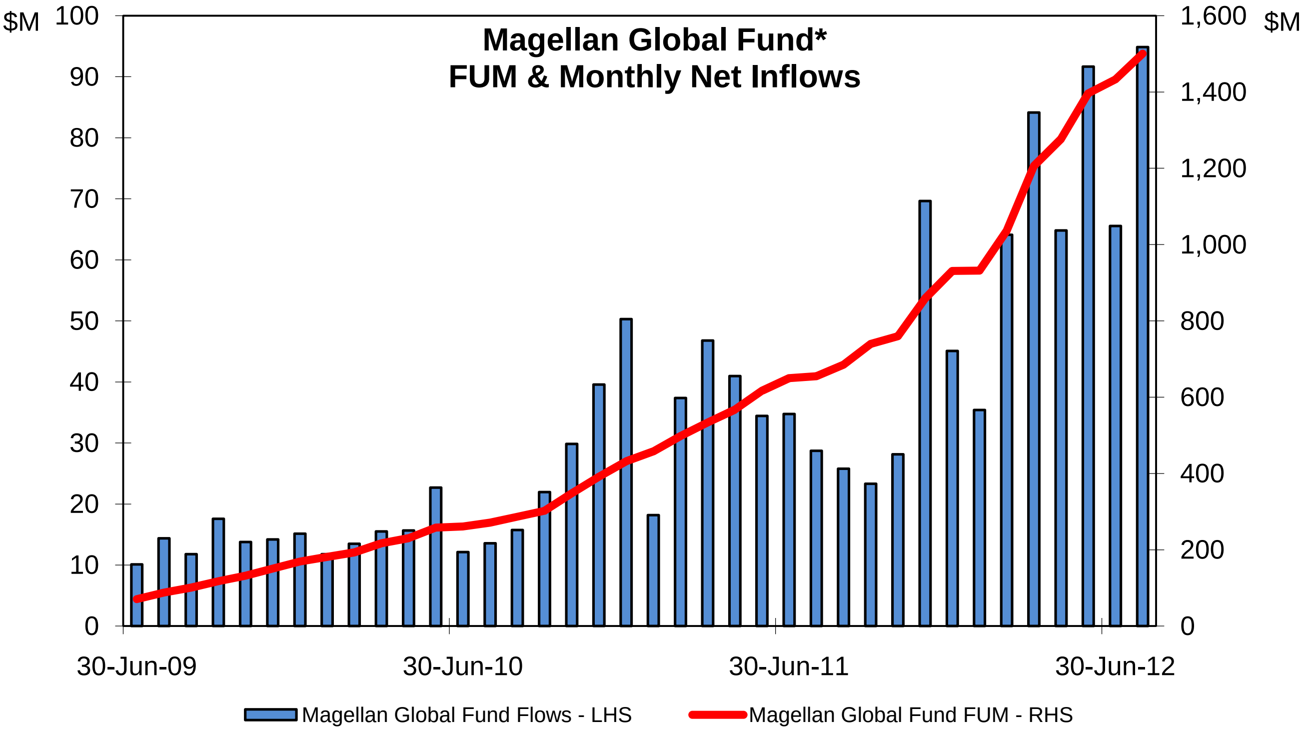
At 30 June 2012 Magellan had total retail funds under management of $1,749.6 million. We experienced total net retail inflows of $672.8 million for the 12 months to 30 June 2012.

The Magellan Global Fund and the Magellan Infrastructure Fund continue to enhance their reputations with research houses and major financial planning groups in Australia and New Zealand. We have an outstanding team of business development managers, led by Frank Casarotti, with offices in Sydney, Melbourne, Brisbane and Auckland. Both Funds have established strong performance records and rank at the top of the peer groups. The following table sets out the investment performance of the Magellan Global Fund and Magellan Infrastructure Fund over the past 5 years.

Investment Performance as at 30 June 2012*	1 Year	3 Years p.a.	5 Years p.a.	5 Years cumul.
Magellan Global Fund	18.2%	11.4%	4.1%	22.4%
MSCI World NTR Index ($A)	-0.8%	2.5%	-6.6%	-28.8%
Excess Return	19.0%	8.9%	10.7%	51.2%
Magellan Infrastructure Fund	7.6%	18.0%	2.0%	10.4%
UBS Dev Infra & Utilities NTR Index Hedged ($A)	5.0%	10.3%	-0.3%	-1.5%
Excess Return	2.6%	7.7%	2.3%	11.9%

*Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Annualised 5 Year performance is denoted with "p.a.", cumulative 5 year performance is denoted with "cumul."

The Magellan Global Fund / Colonial First State Magellan Global Option had funds under management of approximately $1,497.4 million as at 17 August 2012 and experienced strong net inflows on a monthly basis. Pleasingly, we have experienced monthly net inflows of approximately $85.1 million, on average, over the last 3 months (to 31 July 2012). The following chart sets out the monthly net inflows into the Magellan Global Fund/Colonial First State Magellan Global Option over the past 3 years.



* FUM & Flows includes Colonial First State Magellan Global Option from April 2011

The following table set out some key information of the distribution penetration for the Magellan Global Fund.

Key Representation of Magellan Global Fund

Platforms:

- BT Wrap (including Lonsdale's AssetLink, Count's Wealth-e-Account, Genesys' Solar)
- Macquarie Wrap (including AMP's badge Wealth View and Hillross' Definitive Wrap)
- Colonial First State First Choice
- Colonial First State First Wrap (including Count's Star Portfolio, PIS's Investment Exchange and Centric's Encircle)
- MLC Wrap (including the Navigator range)
- Westpac-owned Asgard (including the Hillross badge, Portfolio Care)
- NetWealth
- AXA North
- AXA Summit
- IOOF (Pursuit and The Portfolio Service)

Retail researcher MGF ratings:

- Morningstar - 5 stars quantitative (Silver qualitative)
- Lonsec - Recommended
- Zenith - Highly Recommended
- Van Eyk – A

The number of dealer groups using MGF is approximately 110.

The number of advisers attending the August 2012 roadshows was approximately 1200 (approximately 700 in 2011).

Institutional Funds Under Management

At 30 June 2012 Magellan had total institutional funds under management of $2,256.1 million. We experienced institutional gross flows of $417.6 million and net inflows of $170.4 million for the 12 months to 30 June 2012.

We are pleased with the development of our institutional funds management business. In September 2011 we entered into an agreement with Frontier Partners to distribute our global equity and infrastructure capabilities to clients in the United States and Canada. Since this time we have established meaningful relationships with many potential clients and asset consultants in North America and this year won two global equity mandates with total funds under management of approximately A$300 million. Whilst it will take a number of years to develop our institutional business in North America, we are very pleased with our relationship with Frontier Partners and the depth of the prospective client pipeline.

In February 2011 we hired Zarina Kalapesi to head our institutional client business, with a current focus on the UK. Zarina is making significant inroads for Magellan with an encouraging prospective UK client pipeline. We intend to launch a UCITS fund for institutional investors for our global equities strategy in the March quarter of 2013. Matthew Webb heads our Australian institutional business. We are very pleased with the progress we are making in Australia with asset consultants and prospective clients. At 30 June 2012 we had 23 Australian institutional clients across our business with total funds under management of $1,926.9 million.

Our infrastructure team, led by Gerald Stack and Dennis Eagar, have established a strong institutional business in Australia, with a developing presence in the UK and North America. We recently launched a Magellan Infrastructure product for UK clients and have seen solid early client interest. Investment performance has been outstanding and the infrastructure team had funds under management of approximately $1,556.1 million as at 17 August 2012, compared with $1,649.1 million at 30 June 2012 and $1,710.3 million at 30 June 2011. The infrastructure business' FUM is split approximately 95% institutional and 5% retail at 30 June 2012.

It is still 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 delivering returns for the investment funds entrusted to us, whilst maintaining the positive relationships we have with asset consultants, financial planners and investors in our funds.

INVESTMENTS IN MAGELLAN'S FUNDS AND PRINCIPAL INVESTMENTS

At 30 June 2012 Magellan had total investment assets of $139.3 million, which compares with total investment assets of approximately $109.5 million at 30 June 2011. The investment assets increased in market value by approximately $16.3 million over the 12 months in what have been and continue to be volatile and difficult investment markets.

Over time we hope to earn satisfactory returns for shareholders through 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 unforseen event. This conservative balance sheet approach benefited the Group, particularly during the early stages of the funds management business in the extreme markets of the last five years, and we believe will benefit Magellan in the future.

The following table sets out a summary of Magellan's investment assets at 30 June 2012:

Magellan's Investment Assets at 30 June 2012

	$ million
Cash	1.1
Fixed Term Deposits	30.6
Magellan Flagship Fund	42.2
Magellan Unlisted Funds*	52.6
Listed shares	9.1
Other	3.7
Total	139.3

* The Magellan Unlisted Funds include Magellan Global Fund, Magellan Infrastructure Fund and the Frontegra MFG Funds.

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 2012.

MFG's Ten Largest Investments on a "look through" basis as at 30 June 2012

	$ million
Wells Fargo	7.8
American Express	4.5
Visa	4.4
eBay	4.3
Google	4.1
US Bancorp	4.0
McDonald's	3.9
Walmart	3.5
Lowes	3.3
Nestlé	3.3
	43.1

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,

Hamish M Douglass
Managing Director & CEO
24 August 2012

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

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 2012.

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 2012 was $13,660,000 (2011: $5,792,000).

The Group's reported result includes:

• revenues, excluding realised and unrealised investment gains and foreign exchange gains/losses, of $35.8 million compared with revenues of $18.3 million for the previous corresponding year; and

• total operating expenses of $ 16.7 million, compared with total operating expenses of $10.2 million for the previous corresponding year.

Magellan is in a strong financial position with an extremely strong balance sheet. As at 30 June 2012:

• the Group had cash, fixed term deposits, and fixed and variable rate debt investments of approximately $31.6 million, investment assets (excluding the cash and fixed and variable rate debt investments) of approximately $107.6 million and shareholders' funds of $147.2 million; and

• the Group's NTA per share (diluted assuming conversion of the Class B shares) was approximately $0.91 (2011:$0.78).

Dividends and Distributions

The Directors have proposed a final fully franked dividend of 3.0 cents per ordinary share in respect of the 2012 financial year (2011: 1.5 cents per share), which represents $4.6 million. In accordance with accounting standards, the final dividend has not been provided for in the 30 June 2012 financial statements.

Unissued Shares

Share Options

As at the date of this report, there were 7,882,483 MFG 2016 Options to take up one new ordinary share each 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 have no entitlement to a dividend and convert into the Company's ordinary shares on 21 November 2016 in accordance with a conversion formula. Refer to note 15 for further information. The service conditions attached to the conversion of the MFG Class B shares to MFG ordinary shares were satisfied on 1 July 2012.

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 objectives which are to increase the profitability of the Group over time by increasing the value and performance of funds under management and seeking to grow the value of the Group's investment portfolio.

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*.

	2012 $	2011 $
Audit services:		
Ernst & Young - audit and review of the financial statements of:		
- the Company and its operating subsidiaries	79,900	77,200
- the Magellan unlisted funds	26,000	27,000
KPMG - audit and review of the financial statements of:		
- the Magellan unlisted funds	-	3,400
	105,900	107,600
Other services:		
Ernst & Young:		
- other regulatory audit services	15,000	15,000
- other services	63,198	63,250
	78,198	78,250

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 26.

Information on Directors

Chris Mackay
Chairman and Executive Director

Chris is a Non-executive Director of Consolidated Media Holdings Limited [formerly Publishing & Broadcasting Limited] (appointed March 2006), Seven Group Holdings Limited (appointed June 2010), and Magellan Flagship Fund Limited (appointed September 2006). 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. Mr Douglass is a Non-executive director of Magellan Flagship Fund Limited (appointed September 2006). 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 specialty 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 a Member of the Board of Trustees of the National Gallery of Victoria, former 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. She was awarded The Centenary of Federation Medal for her outstanding contribution to business and the fashion industry, and 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. In further recognition of her accomplishments in business, in 2011, Naomi was the first woman to be awarded an Honorary Doctorate of Business by RMIT.

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 Campbell has over 20 years experience in the investment banking and finance industry, previously holding various finance and management roles including that of Chief Financial Officer for UBS Australasia. Nerida is the Chief Operating Officer, Chief Financial Officer and Company Secretary of Magellan Asset Management Limited and Magellan Flagship Fund Limited. 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 12 years experience as a corporate lawyer. He is the Legal Counsel and Company Secretary of 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. Leo is a member of the Law Society of New South Wales and a member of the Australian Corporate Lawyers Association.

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2012 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	5
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 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.

The Board does not grant options to the Company and Group's Key Management Personnel or employees 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. Remuneration for two of the Non-executive Directors' remuneration includes share based payment amounts that represent the non cash expense to the Group of providing interest free loans under the SPP.

Remuneration of Executive Directors and Other Key Management Personnel

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.

Remuneration Report (continued)

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

Executive Directors

The Executive Directors' remuneration is determined by the Board, which may utilise the services of external advisors. In respect to the year ended 30 June 2012 it comprised fixed compensation and a discretionary variable compensation amount.

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.

The amount of fixed compensation was 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. The amount of variable compensation paid to the Executive Directors was determined with regard to the profitability of the Group's funds management business, and the Group's overall profitability.

Details of the employment agreements of the Executive Directors are described later in this report.

Other Key Management Personnel

The Other Key Management Personnel's 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's 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, with regard to the profitability of the Group's funds management business, and the Group's overall profitability.

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 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 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, taking into consideration the individual's performance and contribution during the year. The variable component of the Other Key Management Personnel is not

Remuneration Report (continued)

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

dependent on the satisfaction of performance conditions, the Company's share price, or dividends paid by the Company.

Other Key Management Personnel are eligible to participate in the Group's SPP which is described later in this report. Other Key Management Personnel remuneration includes share based payment amounts that represent the non cash expense 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 weighted average sale price of the shares on the ASX over the five trading days immediately preceding the day the offer is made.

Details of the closing price of the Company's shares for the previous 6 years are provided below together with the issue price of shares under the SPP.

	MFG shares closing price	SPP offer date	SPP offer issue price of MFG shares
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
		2 March 2011	$1.75
30 June 2011	$1.32	30 September 2011	$1.20
30 June 2012	$2.15		

The Directors believe that the Key Management Personnel and employee 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.

Remuneration Report (continued)

Details of Remuneration

The Key Management Personnel of the Group 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	9,174	-	826	-	10,000
Paul Lewis	20,000	-	-	14,331	34,331
Brett Cairns	18,349	-	1,651	14,331	34,331
Executive Directors					
Chris Mackay	234,225	150,000	15,775	-	400,000
Hamish Douglass	234,225	150,000	15,775	-	400,000
Other Key Management Personnel					
Nerida Campbell	252,975	250,000	15,775	11,535	530,285
Total Key Management Personnel	**768,948**	**550,000**	**49,802**	**40,197**	**1,408,947**

(1) Share based payments represent the expense of providing interest free loans to Participants in the Share Purchase Plan (see Directors Report – Remuneration Report – Share Purchase Plan). These are non cash items. Refer note 14b).

Remuneration Report (continued)

Details of Remuneration (continued)

Comparative information for the year ended 30 June 2011 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	13,761	-	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**

[1] Share based payments represent the expense of providing interest free loans to Participants in the Share Purchase Plan (see Directors Report – Remuneration Report – Share Purchase Plan). These are non cash items. Refer note 14b).

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 2012 of $10,000 paid by the Group

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 2012 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 2012 of $ 20,000 paid by the Group

Employment Agreements

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

Chris Mackay, Chairman and Executive Director
The Director is employed under a contract with MAM, with effect from 1 March 2008 and which will continue indefinitely until terminated.

Under the terms of the contract, for the period to 30 June 2012, the Director:

- receives fixed compensation structured as a total employment cost package of $250,000 per annum, inclusive of superannuation, which may be received as a combination of cash, non-cash benefits and superannuation contributions.

- may receive a bonus at the discretion of the Board of the Magellan Financial Group Limited (MFG), the parent entity of MAM.

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

- 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 MFG, the Magellan Flagship Fund Limited, MAM and related entities, and any managed investment scheme 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. 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.

Under the terms of a replacement contract with MAM which was executed on 7 June 2012, from 1 July 2012 the Director:

- receives a fixed compensation structured as a total employment cost package of $600,000 per annum, inclusive of superannuation, which may be received as a combination of cash, non-cash benefits and superannuation contributions.

- is not entitled to receive short term or long term incentive payments.

- has undertaken to MAM that for the period up to and including 1 July 2017 neither he nor his associates will, within Australia and New Zealand, invest in any outside business which in the reasonable opinion of MAM is primarily engaged in the business of funds management, other than an investment in MFG, the Magellan Flagship Fund Limited, MAM and related entities, and any managed investment scheme in which MAM acts as trustee or responsible entity. The restrictions will cease to apply prior to 1 July 2017, if a third party acquires control of MAM or MFG, or the employment contract is terminated for any reason. The restrictions do not apply in respect of any investment in:

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

(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.

In consideration for complying with the above investment restriction, the Director will receive an amount of $500,000 paid on or before 15 July 2017. If prior to 1 July 2017, employment ceases by reason of termination of the contract by MAM; or due to the death, total and permanent disability, ill health or genuine redundancy of the Director, and MAM reasonably considers that the investment restrictions had been complied with, the amount will be paid on a pro rated basis.

- may terminate the contract at any time by giving not less than 3 months written notice to MAM. MAM may terminate the contract by providing 3 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, Chief Executive Officer and Managing Director, and Executive Director

The Director is employed under a contract with the Investment Manager, with effect from 1 March 2008 and which will continue indefinitely until terminated.

Under the terms of the contract, for the period to 30 June 2012, the Director:

- receives fixed compensation structured as a total employment cost package of $250,000 per annum, inclusive of superannuation, which may be received as a combination of cash, non-cash benefits and superannuation contributions.
- may receive a bonus at the discretion of the Board of the Magellan Financial Group Limited (MFG), the parent entity of MAM.

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

- 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 MFG, the Magellan Flagship Fund Limited, MAM and related entities, and any managed investment scheme 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.

Under the terms of a replacement contract with MAM which was executed on 7 June 2012, from 1 July 2012 the Director:

- receives fixed compensation structured as a total employment cost package of $400,000 per annum, inclusive of superannuation which may be received as a combination of cash, non-cash benefits and superannuation contributions.

- receives variable compensation comprising an annual short term incentive amount up to but not exceeding 200% of his fixed compensation. Where MFG and its controlled entities' (MFG Group) diluted earnings per share (EPS) is less than ten (10) cents per share the maximum amount of annual short incentive will be 125% of the Director's fixed compensation. If MFG Group's diluted EPS is equal to or exceeds twenty (20) cents per share, the MFG Board and the Director will review the maximum short term incentive amount and negotiate any changes to the maximum short term incentive amount.

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

The Director's annual short term incentive amount is based on the following three key criteria and relative weight distributions:

- MFG Group performance and profitability (50% weighting)
- Investment Performance of the Global Equity Strategy (40% weighting)
- Other Criteria as determined by the MFG Board in its absolute discretion (10% weighting)

Specific performance metrics for the above have been set by the MFG Board.

o has undertaken to MAM that for the period up to and including 1 July 2017, neither he nor his associates will, within Australia and New Zealand, invest in a business which in the reasonable opinion of MAM is primarily engaged in the business of funds management, other than an investment in MFG, the Magellan Flagship Fund Limited, MAM and related entities, and any managed investment scheme in which MAM acts as trustee or responsible entity. These restrictions will cease to apply prior to 1 July 2017, if a third party acquires control of MAM or MFG, or if the employment contract is terminated for any reason. The restrictions do not apply in respect of any investment in:

(a) securities in a company; or
(b) interests in a managed investment scheme; or
(c) other interests in an entity,

which represents less than 10% of the issued securities in that company, interests in that managed investment scheme or other interests in that other entity respectively.

In consideration for complying with this investment restriction MAM shall pay the Director an amount of $500,000 on or prior to 15 July 2017.

The Director 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. The service conditions attached to the conversion of the MFG Class B shares to MFG ordinary shares were satisfied on 1 July 2012.

Other Key Management Personnel

Other Key Management Personnel have rolling contracts with MAM. MAM may terminate Other Key Management Personnel's employment agreements by providing three months written notice. On termination, Other Key Management Personnel 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 Other Key Management Personnel.

Remuneration Report (Audited) (continued)

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
24 August 2012

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Auditor's Independence Declaration to the Directors of Magellan Financial Group Limited

In relation to our audit of the financial report of Magellan Financial Group Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
24 August 2012

MAGELLAN FINANCIAL GROUP LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated		Company	
		2012	2011	2012	2011
		$ '000	$ '000	$ '000	$ '000
Revenue					
Management fee revenue	5	31,042	13,631	-	-
Consulting fee revenue		1,218	1,266	-	-
Dividend and distribution income		1,145	1,143	3,545	1,143
Interest income		2,412	1,915	1,462	1,462
Net changes in fair value of held for trading financial assets		34	132	34	132
Net gain/(loss) on sale of available for sale financial assets		(7)	216	(7)	216
Foreign exchange gain /(loss)		(2)	(19)	(2)	(19)
Other revenue		4	30	-	-
Total revenue		35,846	18,314	5,032	2,934
Expenses					
Employment expense		11,457	7,170	335	341
Fund administration and operational costs		2,006	540	-	-
Travel and entertainment expense		700	558	-	-
Marketing expense		681	571	-	-
Occupancy expense		474	422	-	-
Audit fees		139	142	62	62
Depreciation and amortisation		117	122	-	-
Legal and professional fees		172	80	10	7
Other operating expenses		947	639	180	159
Total expenses		16,693	10,244	587	569
Operating profit before income tax		19,153	8,070	4,445	2,365
Income tax expense	4 a)	(5,493)	(2,278)	(351)	(552)
Net profit for the year		13,660	5,792	4,094	1,813

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated		Company	
		2012 $ '000	2011 $ '000	2012 $ '000	2011 $ '000
Other comprehensive income					
Net gain/(loss) on sale of available for sale financial assets transferred to income		7	(216)	7	(216)
Revaluation of available for sale financial assets		16,313	4,517	16,313	4,517
Income tax expense on items of other comprehensive income	4 b)	(4,899)	(1,290)	(4,899)	(1,290)
Other comprehensive income for the year, net of tax		11,421	3,011	11,421	3,011
Total comprehensive income for the year		25,081	8,803	15,515	4,824

Earnings per share for the year

Earnings attributable to shares			
Basic earnings per share	6	9.0 cents	3.9 cents
Diluted earnings per share	6	8.5 cents	3.7 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 2012

		Consolidated		Company	
	Note	2012	2011	2012	2011
		$ '000	$ '000	$ '000	$ '000
Assets					
Current assets					
Cash and cash equivalents	8	1,052	1,625	454	695
Financial assets	10 a)	30,565	27,879	12,197	17,372
Trade and other receivables	9	9,638	8,441	2,822	5,327
Loans - share purchase plan (SPP)	11 a)	1,658	186	1,658	186
Prepayments		164	138	68	90
Total current assets		43,077	38,269	17,199	23,670
Non-current assets					
Investments in controlled entities		-	-	12,539	12,539
Financial assets	10 b)	107,595	79,980	107,595	79,980
Deferred tax assets	4 d)	200	4,637	-	4,173
Loans - share purchase plan (SPP)	11 b)	4,661	6,135	4,661	6,135
Loan to controlled entity		-	-	1,150	1,150
Property, plant and equipment	12	272	245	-	-
Total non-current assets		112,728	90,997	125,945	103,977
Total assets		155,805	129,266	143,144	127,647
Liabilities					
Current liabilities					
Trade and other payables	13 a)	4,465	2,095	47	42
Income tax payable		4,124	1,336	4,124	1,336
Total current liabilities		8,589	3,431	4,171	1,378
Non-current liabilities					
Deferred tax liability	4 d)	-	-	889	-
Total non-current liabilities		-	-	889	-
Total liabilities		8,589	3,431	5,060	1,378
Net assets		147,216	125,835	138,084	126,269
Equity					
Contributed equity	15	115,395	114,529	115,770	114,904
Available for sale reserve		16,984	5,563	16,074	4,653
Retained profits		14,837	5,743	6,240	6,712
Total attributable to members of the Group		147,216	125,835	138,084	126,269
Total Equity		147,216	125,835	138,084	126,269

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Attributable to Equity Holders of the Group			
For the year ended 30 June 2012	**Contributed Equity**	**Retained Profits**	**Available for Sale Reserve**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Equity - 1 July 2011	**114,529**	**5,743**	**5,563**	**125,835**
Net profit for the year	-	13,660	-	13,660
Other comprehensive income	-	-	11,421	11,421
Total comprehensive income for the year	-	13,660	11,421	25,081
Issue of securities under employee share purchase plan (SPP)	578	-	-	578
Dividend paid during the year	-	(4,566)	-	(4,566)
SPP expense for the year	288	-	-	288
Total transactions with equity holders in their capacity as equity owners	866	(4,566)	-	(3,700)
Equity - 30 June 2012	**115,395**	**14,837**	**16,984**	**147,216**

	Attributable to Equity Holders of the Group			
For the year ended 30 June 2011	**Contributed Equity**	**Retained Profits**	**Available for Sale Reserve**	**Total**
	$'000	**$'000**	**$'000**	**$'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

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

For the year ended 30 June 2012	Contributed Equity	Retained Profits	Available for Sale Reserve	Total
	Attributable to Equity Holders of the Company			
	$'000	$'000	$'000	$'000
Equity - 30 June 2011	**114,904**	**6,712**	**4,653**	**126,269**
Net profit for the year	-	4,094	-	4,094
Other comprehensive income	-	-	11,421	11,421
Total comprehensive income for the year	-	4,094	11,421	15,515
Issue of securities under employee share purchase plan (SPP)	578	-	-	578
Dividend paid during the year	-	(4,566)	-	(4,566)
SPP expense for the year	288	-	-	288
Total transactions with equity holders in their capacity as equity owners	866	(4,566)	-	(3,700)
Equity - 30 June 2012	115,770	6,240	16,074	138,084

For the year ended 30 June 2011	Contributed Equity	Retained Profits	Available for Sale Reserve	Total
	Attributable to Equity Holders of the Company			
	$'000	$'000	$'000	$'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

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $ '000	Consolidated 2011 $ '000	Parent 2012 $ '000	Parent 2011 $ '000
Cash flows from operating activities					
Receipt of fee income		26,886	13,726	-	-
Interest received		2,191	1,397	1,268	1,071
Proceeds from sale of held for trading financial assets		209	1,029	209	1,029
Dividends and distributions received		1,195	1,040	1,195	1,040
Tax paid		(3,125)	(246)	(3,125)	(246)
Payments to suppliers and employees		(13,945)	(8,882)	(271)	(258)
Net cash inflows / (outflows) from operating activities	14a)	13,411	8,064	(724)	2,636
Cash flows from investing activities					
Proceeds from sale of available for sale financial assets		34	2,771	34	2,771
Dividend received from subsidiary		-	-	2,400	-
Maturities of financial assets - held to maturity and loans and receivable		4,716	9,390	4,716	9,390
Purchases of available for sale financial assets		(11,336)	(10,981)	(11,335)	(10,981)
Purchases of financial assets - held to maturity and loans and receivable		(7,833)	(10,647)	-	(2,238)
Net cash flows from foreign exchange transactions		(2)	(19)	(2)	(19)
Purchase of plant and equipment		(144)	(98)	-	-
Net cash outflows from investing activities		(14,565)	(9,584)	(4,187)	(1,077)
Cash flows from financing activities					
Proceeds from issue of securities		4,137	495	4,137	495
Borrowings from controlled entities		-	-	4,089	500
Repayment of borrowings from controlled entities		-	-	-	(2,500)
Proceeds from repayment of share purchase plan loan		1,010	407	1,010	407
Dividends paid		(4,566)	-	(4,566)	-
Net cash inflows / (outflows) from financing activities		581	902	4,670	(1,098)
Net (decrease) / increase in cash and cash equivalents		(573)	(618)	(241)	461
Cash and cash equivalents at the beginning of the year		1,625	2,243	695	234
Cash and cash equivalents at the end of the year	8	1,052	1,625	454	695

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

1. Corporate Information

The financial report of Magellan Financial Group Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 24 August 2012.

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).

2. Summary of Significant Accounting Policies (continued)

(c) New Accounting Standards and Interpretations

Except as described below, the accounting policies applied by the Group in this financial report are the same as those applied by the Group for the year ended 30 June 2011.

(i) New Standards Adopted

The Group has adopted the following new Australian Accounting Standard which is applicable for interim and annual periods beginning on or after 1 January 2011:

- AASB 124 *Related Party Disclosures* (revised December 2009) effective 1 January 2011 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:

  a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other

  (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other

  (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

(ii) New Standards Not Yet Adopted

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

i) AASB 9: *Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2013, although mandatory adoption has now been 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 2011, 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.

2. Summary of Significant Accounting Policies (continued)

iii) AASB 10: *Consolidated Financial Statements*

AASB 10 is applicable to annual reporting periods beginning on or after 1 January 2013. This standard broadens the situations where an entity is likely to be considered to control another entity and includes new guidance for determining control of an entity, which may require the Group to consolidate certain investments. However, the Group has not yet completed its evaluation of the effect on the financial statements.

iv) AASB 13: *Fair Value Measurement*

AASB 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.

(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 2012	30 June 2011
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. The Group held a controlling investment in the Frontegra MFG Core Infrastructure Fund at year end, and a controlling interest in the Frontegra MFG Global Equity Fund until 29 March 2012. Consolidating these funds would not have a material impact on the financial report for the year, and consequently the investment in these funds is classified as financial assets available for sale with gains and losses recognised through other comprehensive income.

(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

2. Summary of Significant Accounting Policies (continued)

(e) Business Combinations (continued)

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.

(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.

2. Summary of Significant Accounting Policies (continued)

(i) Trade and Other Receivables (continued)

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. 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.

2. Summary of Significant Accounting Policies (continued)

(k) Financial Assets (continued)

Loans and Receivables

Fixed term deposits that have a term of 90 days or greater from date of inception are classified as loans and receivables. These deposits are initially recognised at fair value and are then carried at

amortised cost using the effective interest rate method. They are classified as current assets if term to maturity from reporting date is less than 12 months and non-current if the term to maturity is greater than 12 months.

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.

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.

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.

2. Summary of Significant Accounting Policies (continued)

(k) Financial Assets (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

(n) 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.

(o) 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 2012 are provided in note 11.

(p) 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.

2. Summary of Significant Accounting Policies (continued)

(q) 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.

(r) 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.

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

(t) 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.

2. Summary of Significant Accounting Policies (continued)

(u) 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.

(v) 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.

(w) Goods and Services Tax (GST)

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

3. Operating Segment Information

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

Funds Management

Funds management activities are undertaken by the controlled entity, Magellan Asset Management Limited (MAM). MAM acts as Investment Manager for the Magellan Flagship Fund Limited (the Flagship Fund), a listed investment company (ASX code: MFF), and other wholesale client mandates. It acts as Trustee and Responsible Entity for the Magellan Global Fund and Magellan Infrastructure Fund (the Unlisted Funds) which are managed investment schemes offered to Australian and New Zealand investors and as subadviser for the Frontegra MFG Core Infrastructure Fund and the Frontegra MFG Global Equity Fund (the Frontegra MFG Funds) which are offered to US wholesale investors. MAM acts as Trustee and Investment Manager for the Magellan Core Infrastructure Fund (MCIF) which is an unregistered managed investment scheme offered to Australian wholesale investors. The consulting fees are included in this operating segment.

Principal Investments

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

Unallocated - Corporate

This includes interest income on Non-executive Directors' Share Purchase Plan (SPP) loans, costs associated with the Board, ASX listing, audit and regulatory compliance activities of the Group and tax payable at the corporate level. All current and deferred tax assets and liabilities are assigned to Unallocated Corporate.

3. Operating Segment Information (continued)

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

30 June 2012	Funds Management $ '000	Principal Investments $ '000	Unallocated - Corporate $ '000	Consolidated $ '000
Revenue				
Management fees	31,042	-	-	31,042
Consulting fees *	1,218	-	-	1,218
Dividend income	-	1,145	-	1,145
Other revenue	4	-		4
Interest income	396	1,539	477	2,412
Net changes in fair value of financial assets	-	34	-	34
Net loss on disposal of financial assets	-	(7)	-	(7)
Foreign exchange losses		(2)	-	(2)
	32,660	2,709	477	35,846
Expense				
Employee benefits expense	11,119	-	50	11,169
Employee benefits expense - SPP	259	-	29	288
Other expenses	4,983	-	253	5,236
	16,361	-	332	16,693
Operating profit before income tax	16,299	2,709	145	19,153

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
Other revenue	30	-	-	30
Interest income	281	1,212	422	1,915
Net changes in fair value of financial assets	-	132	-	132
Net gains on disposal of financial assets	-	216	-	216
Foreign exchange losses	-	(19)	-	(19)
	15,208	2,684	422	18,314
Expense				
Employee benefits expense	6,829	-	54	6,883
Employee benefits expense - SPP	143	-	144	287
Other expenses	2,845	-	229	3,074
	9,817	-	427	10,244
Operating profit before income tax	5,391	2,684	(5)	8,070

* The arrangement under which consulting fees are received expires on 30 June 2013.

3. Operating Segment Information (continued)

Other comprehensive income before tax of the Group's operating segments are as follows:

30 June 2012	**Funds Management**	**Principal Investments**	**Unallocated - Corporate**	**Consolidated**
	$ '000	**$ '000**	**$ '000**	**$ '000**
Net gain/(loss) on sale of available for sale financial assets transferred to income	-	7	-	7
Revaluation of available for sale financial assets	-	16,313	-	16,313

30 June 2011	**Funds Management**	**Principal Investments**	**Unallocated - Corporate**	**Consolidated**
	$ '000	**$ '000**	**$ '000**	**$ '000**
Net gain/(loss) on sale of available for sale financial assets transferred to income	-	(216)	-	(216)
Revaluation of available for sale financial assets	-	4,517	-	4,517

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

30 June 2012	**Funds Management**	**Principal Investments**	**Unallocated - Corporate#**	**Elimination***	**Consolidated**
	$ '000	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Cash and cash equivalents	557	495	-	-	1,052
Financial assets	7,500	130,660	-	-	138,160
Loans – SPP	-	-	6,319	-	6,319
Other assets	9,164	909	3,331	(3,130)	10,274
Total assets	**17,221**	**132,064**	**9,650**	**(3,130)**	**155,805**
Other liabilities	4,418	46	7,255	(3,130)	8,589
Total liabilities	**4,418**	**46**	**7,255**	**(3,130)**	**8,589**
Net assets	**12,803**	**132,018**	**2,395**	**-**	**147,216**

30 June 2011	**Funds Management**	**Principal Investments**	**Unallocated – Corporate#**	**Elimination***	**Consolidated**
	$ '000	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Cash and cash equivalents	891	734	-	-	1,625
Financial assets	5,000	102,859	-	-	107,859
Loans – SPP	-	-	6,321	-	6,321
Other assets	3,709	5,417	5,787	(1,452)	13,461
Total assets	**9,600**	**109,010**	**12,108**	**(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	**6,094**	**108,969**	**10,772**	**-**	**125,835**

*Eliminations include adjustments / eliminations for inter-segment transactions and netting of items on the Statement of Financial Position.
At 30 June 2012 the deferred tax asset balance included a deferred tax liability in respect of unrealised gains on the financial asset of $2,128,000 (2011: deferred tax asset on unrealised losses of $2,774,000). Refer note 4d).

3. Operating Segment Information (continued)

The Group's net investment into its funds management business activities as at 30 June 2012 is:

	30 June 2012 $ '000	30 June 2011 $ '000
Capital invested in controlled entity	12,500	12,500
Subordinated loan to controlled entity	1,150	1,150
	13,650	13,650

The Group's business activities are conducted in Australia. Cash & cash equivalents, and fixed term deposits with maturities greater than 90 days and less than 365 days of approximately $7.5 million (2011: $5.0 million) were held by the funds management business to meet its regulatory and operating requirements.

4. Income Tax

	Consolidated		Company	
	2012 $ '000	2011 $ '000	2012 $ '000	2011 $ '000
a) Income tax expense recognised during the year through profit or loss:				
Current income tax expense	(6,299)	(2,206)	(530)	(272)
Prior year adjustments	99	8	99	15
Deferred income tax expense from				
- origination and reversal of temporary differences	707	(80)	80	(295)
	(5,493)	(2,278)	(351)	(552)
b) Income tax expense on items recognised in other comprehensive income:				
- Arising from the revaluation of available for sale financial assets	(4,897)	(1,356)	(4,897)	(1,356)
- Arising from the disposal of available for sale financial assets	(2)	66	(2)	66
	(4,899)	(1,290)	(4,899)	(1,290)

4. Income Tax (continued)

	Consolidated		Company	
	2011	2012	2011	2012
	$ '000	$ '000	$ '000	$ '000
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 income tax expense	19,153	8,070	4,445	2,365
Prima facie income tax expense on operating profit at 30%	(5,746)	(2,421)	(1,333)	(709)
Prior year adjustments	99	8	99	15
Share purchase plan	56	40	56	40
Other non-assessable income and non-deductible expenses	98	95	827	102
	(5,493)	(2,278)	(351)	(552)

	Consolidated		Company	
	2012	2011	2012	2011
	$ '000	$ '000	$ '000	$ '000
d) Deferred tax as at 30 June relates to the following:				
Tax losses carried forward	-	99	-	99
Net capital losses carried forward	1,286	1,379	1,286	1,379
Costs associated with the issue of securities, deductible in future years	-	52	-	52
Revaluation of financial assets	(2,128)	2,774	(2,129)	2,774
Other temporary differences	1,042	333	(46)	(131)
	200	**4,637**	**(889)**	**4,173**

4. Income Tax (continued)

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.

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable / payable which is at call. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The head entity may also require funding to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to or distribution from wholly-owned tax consolidated entities.

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	
	2012	**2011**	**2012**	**2011**
	$ ’000	**$ ’000**	**$ ’000**	**$ ’000**
Management and administration fees	21,976	13,311	-	-
Performances fees	9,066	320	-	-
	31,042	13,631	-	-

Magellan Asset Management Limited (MAM), a controlled entity, is entitled to receive management and administration fees for acting as trustee and responsible entity of the Unlisted Funds, and for acting as trustee and investment manager of MCIF. MAM is the Investment Manager of the Frontegra MFG Funds and 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 mandates 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. The Group has received performance fees of $8.8 million in the year primarily in respect of Magellan Global Fund and the Colonial First State Magellan Global Option.

6. Earnings Per Share

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

a) Earnings per Share

	Consolidated	
	2012 $ '000	**2011 $ '000**
Basic earnings per share		
Net profit attributable to shareholders – basic	13,660	5,792
Weighted average number of shares for basic earnings per share ('000)	152,393	147,933
Basic earnings per share	**9.0 cents**	**3.9 cents**
Diluted earnings per share		
Net profit attributable to shareholders – diluted	13,660	5,792
Weighted average number of shares for diluted earnings per share ('000)	161,537	157,479
Diluted earnings per share	**8.5 cents**	**3.7 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)	152,393	147,933
Weighted average number of shares on assumed exercise of: MFG 2011 Options ('000) – shares deemed to be issued for nil consideration	-	670
Class B shares	9,144	8,876
Weighted average number of shares for diluted earnings per share ('000)	161,537	157,479

6. Earnings Per Share (continued)

b) Further information

The Company has on issue 10.2 million Class B shares (2011: 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 2012, the total weighted average number of securities for the purposes of calculating the diluted earnings per share would be 161,536,536 (2011: 157,477,197).

The Company has on issue 7.9 million MFG 2016 Options (2011: 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. Further details of the terms of these options and shares are included in note 15.

7. Dividends

	Consolidated	
	2012	2011
	$'000	$'000
Declared and paid during the period		
Fully franked final dividend for the year ended 30 June 2011: 1.5 cents per ordinary share (2010: nil)	2,278	-
Fully franked interim dividend for the year ended 30 June 2012: 1.5 cents per ordinary share (2011: nil)	2,288	-
	4,566	-

The Directors have proposed a final fully franked dividend of 3.0 cents per ordinary share in respect of the 2012 financial year, which represents $4.6 million. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2012 financial statements. The dividend when paid will give rise to a franking debit of $2.0 million.

	Company	
Franking credit balance	2012	2011
	$ '000	$ '000
The amount of franking credits available for subsequent financial years are:	**2,412**	**1,002**
Franking credits arising from income tax paid and payable	6,156	1,410
Franking debits arising from the payment of dividends throughout the year	(1,957)	-
	6,611	**2,412**

8. Cash and cash equivalents

	Consolidated		Company	
	2012	2011	2012	2011
	$ '000	$ '000	$ '000	$ '000
Cash at bank	1,052	1,625	454	695
	1,052	**1,625**	**454**	**695**

8. Cash and cash equivalents (continued)

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	
	2012 $ '000	2011 $ '000	2012 $ '000	2011 $ '000
Trade receivables	8,796	3,417	-	-
2011 MFG Option exercise proceeds receivable	-	4,088	-	4,088
Other	10	42	10	42
	8,806	7,547	10	4,130
Related party receivables				
- Controlled entity	-	-	1,980	303
- Other related parties	832	894	832	894
	9,638	**8,441**	**2,822**	**5,327**

10. Financial Assets

	Consolidated		Company	
a) Current	2012 $ '000	2011 $ '000	2012 $ '000	2011 $ '000
Held-for-trading				
(by domicile of primary securities exchange)				
- Listed shares – Australia	-	175	-	175
Held-to-maturity				
- Fixed and floating rate securities	-	352	-	352
Loans and receivables				
- Fixed term deposits	30,565	27,352	12,197	16,845
	30,565	**27,879**	**12,197**	**17,372**

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

	2012 $ '000	2011 $ '000
Balance at 1 July	27,879	27,057
Disposals	(209)	(1,029)
Reclassification of held-to-maturity securities from non-current to current	-	352
Cash placed on fixed term deposit	30,368	27,111
Maturities of fixed term deposits	(27,155)	(16,122)
Maturities of fixed and floating rate securities	(362)	(9,390)
Changes in fair value	44	(100)
Balance at 30 June	**30,565**	**27,879**

10. Financial Assets (continued)

b) Non-current	Consolidated 2012 $ '000	Consolidated 2011 $ '000	Company 2012 $ '000	Company 2011 $ '000
Available-for-sale financial assets				
(by domicile of primary stock exchange)				
- Listed shares – Australia				
- Magellan Flagship Fund Limited	42,167	32,746	42,167	32,746
- Listed shares – United States	7,522	5,776	7,522	5,776
- Listed shares – Switzerland	1,445	1,437	1,445	1,437
- Listed shares – Netherlands	133	125	133	125
- Listed shares – Hong Kong	62	51	62	51
- Listed subordinated bank notes - Australia	1,708	-	1,708	-
- Unlisted funds - Magellan				
- Magellan Global Fund	41,695	35,262	41,695	35,262
- Magellan Infrastructure Fund	2,988	2,777	2,988	2,777
- Frontegra MFG Global Equity Fund	5,273	-	5,273	-
- Frontegra MFG Core Infrastructure Fund	2,597	-	2,597	-
- Unlisted fund - Other	1,830	1,806	1,830	1,806
- Unlisted shares - Other	175	-	175	-
	107,595	**79,980**	**107,595**	**79,980**

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

	2012 $ '000	2011 $ '000
Balance at 1 July	79,980	67,595
Acquisitions	11,336	10,992
Disposals	(34)	(2,772)
Reclassification of held-to-maturity securities from non-current to current	-	(352)
Changes in fair value	16,313	4,517
Balance at 30 June	**107,595**	**79,980**

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: quoted prices in active markets for identical assets or liabilities. The fair value of these investments is based on quoted bid prices.
- Level 2: valuation techniques using market observable inputs. 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.

10. Financial Assets (continued)

c) Fair Value Disclosures (continued)

- Level 3: valuation techniques using non market observable inputs. The Group invests in unlisted trusts which typically invest in unlisted companies. The Group has an investment in an unlisted company. 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.

	Consolidated		Company	
	2012 $ '000	2011 $ '000	2012 $ '000	2011 $ '000
Available-for-sale financial assets at fair value				
- Level 1: Listed shares and subordinated bank notes	53,037	40,135	53,037	40,135
- Level 2: Unlisted funds - Magellan	52,553	38,039	52,553	38,039
- Level 3: Unlisted fund – Other	1,830	1,806	1,830	1,806
- Level 3: Unlisted shares - Other	175	-	175	-
	107,595	**79,980**	**107,595**	**79,980**

Listed shares and subordinated notes

The fair value of the Group's investments in listed shares and subordinated notes 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.

Unlisted funds - Magellan

The fair values of investments in the Unlisted Funds and Frontegra MFG Funds are calculated using the redemption 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.

Unlisted funds – Other

'Unlisted fund – Other' comprises units a private equity fund, for which there is no active market. The fund invests 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 price provided by the fund's 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

10. Financial Assets (continued)

c) Fair Value Disclosures (continued)

fair value recorded in other comprehensive income are reasonable and the most appropriate at the reporting date.

Reconciliation of Level 3 fair value movements:

	2012 $ '000	2011 $ '000
Balance at 1 July	1,806	1,761
Capital calls	24	45
Purchase of unlisted shares	175	-
Balance at 30 June	**2,005**	**1,806**

There were no transfers in or out of level 3 during the current year.

ii) Held-to-maturity financial assets

Fixed and floating rate securities are recognised at amortised cost and have a carrying value of nil at 30 June 2012 (2011: $0.3 million).

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 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. The Group's arrangements with MLI are described in note 16(d).

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 provides 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 offer is made; and

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

11. Share Purchase Plan (SPP) (continued)

- 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 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 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 is 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.

Participants are required to apply 25% of their after tax annual bonus each year to repay the loan until the loan has been fully repaid. The maximum term of the loan for employee participants is 10 years. Any outstanding balance at the end of 10 years must be repaid by the employee. Employees are not entitled to repay their loan early.

Participating Non-executive Directors were previously required to repay the loan on the fifth anniversary of the date of issue of their shares, 17 September 2012, but during the year MFG shareholders approved an extension for repayment of their loans until 17 September 2016. The extension to the repayment of the loans has increased the period over which the unamortised portion of the SPP expense is recognised, resulting in a lower SPP expense for this and future financial years.

Loans to Participants under the Plan are secured on the shares issued to that Participant. The shares are not 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 are 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 otherwise rank equally with all other issued ordinary shares.

11. Share Purchase Plan (SPP) (continued)

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 the participant 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	
	2012 $ '000	2011 $ '000	2012 $ '000	2011 $ '000
a) Current				
Amounts due within one year	1,658	186	1,658	186
b) Non-current				
Amounts due later than one year and within ten years	4,661	6,135	4,661	6,135
	6,319	**6,321**	**6,319**	**6,321**

Included in current loans is an amount of $1.0 million, which based on the Company's share price at balance date, the Directors expect will be repaid within 12 months.

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.

Offer date	5-day weighted average share price
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
21 September 2011	$1.20

11. Share Purchase Plan (SPP) (continued)

The value of shares securing the loans to Participants at balance date applying the Company's 30 June 2012 closing market price of $2.15 was $14.4 million (2011: $8.3 million). No amounts are past due or 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:

	30 June 2012	30 June 2011
September 2007 tranche		
Face value of loans	$4.7m	$5.8m
Estimated weighted average duration of loans	2.6 years	3.6 years
Imputed interest rate	7.0%	7.0%
October 2008 tranche		
Face value of loans	$0.1m	$0.2m
Estimated weighted average duration of loans	1.9 years	5.6 years
Imputed interest rate	5.0%	5.0%
September 2009 tranche		
Face value of loans	$0.9m	$1.0m
Estimated weighted average duration of loans	3.3 years	6.8 years
Imputed interest rate	5.3%	5.3%
November 2010 tranche		
Face value of loans	$1.4m	$1.6m
Estimated weighted average duration of loans	4.4 years	7.3 years
Imputed interest rate	5.5%	5.5%
March 2011 tranche		
Face value of loans	$0.2m	$0.2m
Estimated weighted average duration of loans	4.4 years	7.3 years
Imputed interest rate	5.5%	5.5%
September 2011 tranche		
Face value of loans	$0.7m	-
Estimated weighted average duration of loans	6.8 years	-
Imputed interest rate	4.0%	-

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

	Consolidated		Company	
	2012	2011	2012	2011
Included in:	$ '000	$ '000	$ '000	$ '000
Interest income	477	422	477	422
Employee benefits expense	(288)	(287)	(288)	(287)
Net credit to profit or loss before tax	**189**	**135**	**189**	**135**

Both the change 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 not cash items and therefore are not reflected within the Group's cash flow statement. 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 in note 2(p).

12. Property, Plant and Equipment

	Consolidated					
	2012			2011		
	Leasehold Improvements $ '000	**Equipment, Fixtures and Fittings $ '000**	**Total $ '000**	**Leasehold Improvements $ '000**	**Equipment, Fixtures and Fittings $ '000**	**Total $ '000**
Cost at 1 July	**117**	**613**	**730**	**119**	**512**	**631**
Reclassification	-	-	-	(2)	2	-
Additions	-	144	144	-	99	99
Disposals	-	-	-	-	-	-
Cost at 30 June	**117**	**757**	**874**	**117**	**613**	**730**
Accumulated depreciation and impairment losses at 1 July	91	394	485	72	291	363
Disposals	-	-	-	-	-	-
Depreciation charge for the year	-	-	-	(8)	8	-
	21	96	117	27	95	122
Accumulated depreciation and impairment losses at 30 June	**112**	**490**	**602**	**91**	**394**	**485**
Net carrying amount at 30 June	**5**	**267**	**272**	**26**	**219**	**245**

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 2012 is $nil (2011:$ nil).

13. Trade and Other Payables

	Consolidated		Company	
Current	**2012 $ '000**	**2011 $ '000**	**2012 $ '000**	**2011 $ '000**
Trade payables	-	49	-	-
Accrued expenses	3,831	1,671	47	42
Other payables	634	375	-	-
	4,465	**2,095**	**47**	**42**

14. Statement of Cash Flows Reconciliation

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

	Consolidated		Company	
	2012	**2011**	**2012**	**2011**
	$ ’000	**$ ’000**	**$ ’000**	**$ ’000**
Net profit after tax	13,660	5,792	4,094	1,813
Adjusted for:				
Losses / (gains) on sale of available for sale financial assets	7	(216)	7	(216)
Change in carrying value of held to maturity financial assets	-	232	-	232
Dividends and distributions from available for sale financial assets reinvested	(894)	(950)	(894)	(950)
Depreciation	117	122	-	-
Tax paid	(3,124)	(246)	(3,124)	(246)
Dividend received from subsidiary	-	-	(2,400)	-
Net foreign exchange (gains) / losses	2	19	2	19
Imputed interest on loans under share purchase plan (SPP)	(476)	(421)	(476)	(421)
Employee expense on loans under SPP	288	287	288	287
(Increase) / decrease in trade and other receivables	(4,182)	1,380	1,226	767
(Increase) / decrease in prepayments	(25)	35	23	23
(Increase) / decrease in deferred tax assets	(3,011)	(949)	(2,385)	(735)
(Increase) / decrease in held for trading financial assets	175	897	175	897
Increase / (decrease) in trade and other payables	8,139	918	5	2
(Decrease) /increase in current tax liabilities	2,735	1,164	2,735	1,164
Net cash inflows / (outflows) from operating activities	13,411	8,064	(724)	2,636

b) Non-cash financing and investing activities:

Issue of shares under SPP	578	1,028	578	1,028
Imputed interest on loans under SPP	(476)	(421)	(476)	(421)
Share based payments under SPP	288	287	288	287
Acquisition of available-for-sale financial assets via dividend and distribution reinvestment plans	894	950	894	950

15. Contributed Equity

	Consolidated		Company	
	2012 $ '000	2011 $ '000	2012 $ '000	2011 $ '000
Contributed equity	115,395	114,529	115,770	114,904
	115,395	**114,529**	**115,770**	**114,904**

a) Movement during the year of Group securities on issue

	Shares	MFG 2016 Options	Class B Shares
	'000	'000	'000
Balance at 1 July 2011	151,893	7,882	10,200
Issue of shares under share purchase plan (SPP)	665	-	-
Balance at 30 June 2012	152,558	7,882	10,200

	Shares	MFG 2011 Options	MFG 2016 Options	Class B Shares
	'000	'000	'000	'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	Company
	$'000	$'000
Balance at 1 July 2011	114,529	114,904
Issue of shares under SPP	578	578
Recognition of SPP expense for the year	288	288
Balance at 30 June 2012	115,395	115,770

	Value	
	Consolidated	Company
	$'000	$'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

15. Contributed Equity (continued)

a) Movement during the year of Group securities on issue (continued)

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

- MFG 2016 Options can be exercised during any two month period following the announcement of the Company's full or half year results in each year prior to the expiry date. 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

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.
- Subject to Mr Douglass meeting certain service conditions, which were satisfied on 1 July 2012, the Class B shares will convert on the first business day after 21 November 2016 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 2012 the 10,200,000 the Class B shares would be entitled to convert to 9,153,500 ordinary shares, being equal to 0.06 times 152,558,341 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 unforseen event. This conservative balance sheet approach has benefited the Group, particularly during the early stages of the funds management business in the extreme markets of the last five 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.

16. Financial Risk Management Objectives and Policies

a) Financial Risk Management Objectives, Policies and Processes

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.
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 Unlisted Funds of which a controlled entity of the Group is the Responsible entity and Investment Manager, and a small, direct portfolio of investments, two unlisted United States institutional mutual funds, being the Frontegra MFG Funds of which a controlled entity of the Group is the Investment Manager.

The investment portfolios of Magellan Flagship Fund Limited, the Unlisted Funds and the Frontegra MFG Funds are managed on a daily basis by the Investment Manager (MAM) 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, the Product Disclosure Statement (PDS) of the Magellan unlisted funds, and the prospectuses of the Frontegra MFG Funds.

The Group earns management fees on funds under management, which are based on a percentage of the value of the funds portfolios. 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 and portfolios that it manages. These performance fees are reliant on the performance of the funds and 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 net profit and 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.

16. Financial Risk Management Objectives and Policies (continued)

b) Market Risk (continued)

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 and its holdings in the Magellan Flagship Fund Limited, the Unlisted Funds and the Frontegra MFG Funds.

(i) Equity Price Risk

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 +20% and -21% (in AUD) and +31% and -29% (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 occur within the portfolio over a 12 month period. 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 and the Company'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	
	2012	**2011**	**2012**	**2011**
	$ '000	**$ '000**	**$ '000**	**$ '000**
Impact on net profit for the year	-	6	-	6
Impact on available-for-sale reserve, net of tax	3,766	2,799	3,766	2,799
Total impact on net profit and equity	**3,766**	**2,805**	**3,766**	**2,805**

Assumptions and explanatory notes

i) The Group and the Company 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 and the Company 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.

16. Financial Risk Management Objectives and Policies (continued)

b) Market Risk (continued)

Impact arising on entitlements to management fees

Base fees earned from funds under management will be impacted by movements in the underlying prices in local currency, exchange rate movements, or a combination of both.
Each incremental increase of 5% in the average value of funds under management of the Group during the years ended 30 June 2012 and 30 June 2011 would have increased the base management fees recognised in net profit and equity as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$ '000	**$ '000**	**$ '000**	**$ '000**
Impact on net profit for the year	769	477	-	-
Total impact on net profit and equity	**769**	**477**	**-**	**-**

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 Group has different performance fee arrangements with some of the funds and the wholesale portfolio mandates to which it provides investment management services. The Group's entitlement to these fees is dependent on performance relative to absolute targets, index relative targets, high watermarks or some combination of these. These fees also accrue over different calculation periods, ranging from 1 month to 3 years. The fees recognised in the Statement of Comprehensive Income are characterised as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$ '000	**$ '000**	**$ '000**	**$ '000**
Based on performance relative to a market index	1,233	53	-	-
Based on performance relative to an absolute return hurdle	154	260	-	-
Based on performance relative to both a market index and an absolute return hurdle	7,679	7	-	-
Total performance fees	**9,066**	**320**	**-**	**-**

(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.

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 other comprehensive income.

At balance date, the Group and the Company'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 recognised in equity:

Group	**Increase / (decrease) in net profit**		**Increase / (decrease) in equity**	
	2012	**2011**	**2012**	**2011**
Assets denominated in:	**$ '000**	**$ '000**	**$ '000**	**$ '000**
US dollars	(8)	(2)	(1,399)	(525)
Euro	-	-	(12)	(11)
Swiss francs	-	-	(131)	(131)
Hong Kong dollars	-	-	(6)	(5)

Company	**Increase / (decrease) in net profit**		**Increase / (decrease) in equity**	
	2012	**2011**	**2012**	**2011**
Assets denominated in:	**$ '000**	**$ '000**	**$ '000**	**$ '000**
US dollars	(8)	(2)	(1,399)	(525)
Euro	-	-	(12)	(11)
Swiss francs	-	-	(131)	(131)
Hong Kong dollars	-	-	(6)	(5)

The Group and the Company held negligible foreign cash at 30 June 2012. The Group and the Company's direct foreign currency exchange exposure arises on non-monetary assets held directly, and through its holdings in the US dollar denominated Frontegra MFG Funds. The movements in foreign currencies on available for sale financial assets are 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 the Company have exposure would have an opposite impact of materially similar magnitude on amounts recognised directly in net profit and 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, the Unlisted Funds, and the Frontegra MFG Funds.
Magellan Flagship Fund Limited is listed on the Australian Securities Exchange and its market value is denominated in Australian dollars.

16. Financial Risk Management Objectives and Policies (continued)

b) Market Risk (continued)

(ii) Currency Risk (continued)

The Unlisted Funds are denominated in Australian dollars. The Frontegra MFG Funds are US dollar denominated. These entities' investment portfolios comprise companies predominantly denominated in foreign currencies, and with extensive operating exposure to global currency fluctuations which will drive portfolio values. 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.

Base fees earned from funds under management will be impacted by movements in the underlying prices in local currency, exchange rate movements, or a combination of both. For the year ended 30 June 2012, 96% of the Group's base management fee revenue was exposed to movements in the Australian dollar relative to other currencies (30 June 2011: 96%).

(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 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 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 50 basis points in floating interest rates would be as follows:

	Group		Company	
	2012	2011	2012	2011
	$ '000	$ '000	$ '000	$ '000
Decrease in net profit and equity	109	101	44	61

A decrease of 50 basis points in floating rate interest rates would have an equal but opposite effect on the annual interest income and the net profit.

16. Financial Risk Management Objectives and Policies (continued)

c) Liquidity Risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Group and the Company manage liquidity risk by maintaining sufficient cash reserves to cover its liabilities.

As at 30 June 2012, the Group had an obligation to settle trade creditors of $4.5 million (2011: $2.1 million) within 30 days. The Group had cash reserves of $1.1 million (2011: $1.6 million) and a further $9.6 million (2011: $10.0 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 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 under the IBPAs include clearing and settlement of transactions, securities lending and acting as custodian for the Company and the Unlisted Funds' assets. Under an addendum to the IPBAs, Merrill Lynch International (Australia) Limited may provide financing services to the Company and the Unlisted Funds. The IPBAs with MLI are in a form that is typical of prime brokerage arrangements. In acting as custodian of the Unlisted Funds' assets, MLI is required to comply with the relevant provisions of the Corporations Act, applicable ASIC regulatory guides and class orders relating to registered managed investment scheme property arrangements with custodians. Each of the Company and Unlisted Funds' securities held by MLI may be used by MLI for its own purposes. In relation to the Unlisted Funds', MLI's right of use over the Unlisted Funds' securities is subject to an agreed limit of A$200 million (in the case of the Magellan Global Fund) and A$100 million (in the case of the Magellan Infrastructure Fund). Securities of the Unlisted Funds so utilised by MLI become the property of MLI and each of the Unlisted Funds will have a right against MLI for the return of equivalent securities. In the event of MLI becoming insolvent the Company and the Unlisted Funds would rank as unsecured creditors and the Company or the Unlisted Funds may not be able to recover such equivalent securities in full.

16. Financial Risk Management Objectives and Policies (continued)

d) Credit Risk (continued)

Magellan Flagship Fund Limited has also entered into an IPBA with MLI. MLI's right of use over Magellan Flagship Fund Limited's securities is subject to an agreed limit of A$200 million. Details of this arrangement with MLI are provided in Magellan Flagship Fund Limited's Annual Report.

Cash which MLI holds or receives on behalf of the Company and the Unlisted Funds is not segregated from MLI's own cash and may be used by MLI in the course of its business. In the event of MLI becoming insolvent the Company and the Unlisted Funds would rank as unsecured creditors and may not be able to recover their respective cash in full.

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2012, by Standard & Poor's as being A- , and by Moody's as being Baa2 (A and A2 respectively at 30 June 2011).

At 30 June 2012 the Group and the Company had an outstanding balance totalling $6.3 million (2011: $6.3 million) for loans to Participants under the share purchase plan and held at 30 June 2012. Company shares valued at $14.4 million (2011: $8.3 million) were held as security for these loans. Further information Is provided in note 11. The loans were made to the Group's employees and certain of the Company's Non-executive Directors on a full recourse basis.

Credit risk on cash balances, fixed term deposits and listed subordinated notes is managed by ensuring that balances are only held with approved counterparties. Credit limits are reviewed by management, and may be updated throughout the year. The Group holds cash balances with Westpac Banking Corporation, Australia and New Zealand Banking Group and National Australia Bank. The credit quality of these counterparties is rated as at 30 June 2012 by Standard & Poor's as being AA-, and by Moody's as being Aa2 (AA and Aa2 respectively at 30 June 2011).

At 30 June 2012 all cash and receivables are collectable within 30 days and there are no amounts which are past due.

17. Transactions with Related Parties

a) Magellan Asset Management Limited ('MAM')

(i) Subordinated Loan to MAM

The Company has provided an interest-free subordinated 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 2012 was $1,150,000 (2011:$1,150,000).

(ii) Amounts due from MAM

At balance date, a net amount of $1,980,000 (2011: $303,000 payable) was receivable by the Company from MAM in respect of amounts arising from the transfer of MAM's tax liability to the Company.

b) Disclosures Relating to Key Management Personnel

Share Holdings

The number of ordinary shares held in the Company at 30 June 2012:

Name	Balance at 1 July 2011	Acquisitions	Cancellations/ Disposals	Balance at 30 June 2012
Directors				
Naomi Milgrom	6,182,360	-	-	6,182,360
Paul Lewis	1,900,747	100,000	-	2,000,747
Brett Cairns	1,095,481	-	-	1,095,481
Hamish Douglass	10,436,508	83,409	-	10,519,917
Chris Mackay	18,077,777	-	-	18,077,777
Other Key Management Personnel				
Nerida Campbell	660,019	-	-	660,019

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
Directors				
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
Other Key Management Personnel				
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

17. Transactions with Related Parties (continued)

b) Disclosures Relating to Key Management Personnel (continued)

The number of MFG Class B shares held in the Company at 30 June 2012:

Name	Balance at 1 July 2011	Acquisitions	Disposals	Balance at 30 June 2012
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 2011 disclosures.

The number of MFG 2016 Options (ASX: MFGOC) expiring on 30 June 2016 held at 30 June 2012:

Name	Balance at 1 July 2011	Acquisitions	Disposals	Balance at 30 June 2012
Directors				
Naomi Milgrom	16,532	-	-	16,532
Paul Lewis	5,790	-	-	5,790
Brett Cairns	11,467	-	-	11,467
Hamish Douglass	297,792	-	-	297,792
Chris Mackay	2,644,354	-	-	2,644,354
Other Key Management Personnel				
Nerida Campbell	39,600	-	-	39,600

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 2011 disclosures.

Unit Holdings in the Unlisted Funds

The number of units in Magellan Global Fund held at 30 June 2012:

Name	Balance at 1 July 2011	Acquisitions*	Disposals	Balance at 30 June 2012
Directors				
Paul Lewis	331,908	6,067	-	337,975
Hamish Douglass	829,995	15,169	-	845,164
Chris Mackay	415,676	7,597	-	423,273
Other Key Management Personnel				
Nerida Campbell	20,326	371	-	20,697

* including reinvestment of 30 June 2011 distributions

17. Transactions with Related Parties (continued)

b) Disclosures Relating to Key Management Personnel (continued)

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
Directors				
Paul Lewis	326,754	5,154	-	331,908
Hamish Douglass	817,106	12,889	-	829,995
Chris Mackay	409,222	6,454	-	415,676
				-
Other Key Management Personnel				
Nerida Campbell	20,010	316	-	20,326

* including reinvestment of 30 June 2010 distributions

The number of units in Magellan Infrastructure Fund held at 30 June 2012:

Name	Balance at 1 July 2011	Acquisitions*	Disposals	Balance at 30 June 2012
Directors				
Paul Lewis	33,530	3,453	-	36,983

* including reinvestment of 30 June 2011 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
Directors				
Paul Lewis	29,343	4,187	-	33,530

* including reinvestment of 30 June 2010 distributions

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. The carrying amount of the Directors loans is lower in the current period as a result of a five year loan extension.

Name	SPP Shares acquired during the year	Loan Balance at 1 July 2011	Loans made	Repayments	Loan Balance at 30 June 2012	
					Face value	Carrying Value
	Number	$	$	$	$	$
Directors						
Paul Lewis	-	1,245,000	-	(30,000)	1,215,000	970,343
Brett Cairns	-	1,245,000	-	(30,000)	1,215,000	970,343
Other Key Management Personnel						
Nerida Campbell	-	242,139	-	(18,901)	223,238	176,452

Comparative information for the year ended 30 June 2011 is as follows:

Name	SPP Shares acquired during the year	Loan Balance at 1 July 2010	Loans made	Repayments	Loan Balance at 30 June 2011	
					Face value	Carrying Value
	Number	$	$	$	$	$
Directors						
Paul Lewis	-	1,245,000	-	-	1,245,000	1,163,551
Brett Cairns	-	1,245,000	-	-	1,245,000	1,163,551
Other Key Management Personnel						
Nerida Campbell	75,000	147,575	101,250	(6,686)	242,139	173,197

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	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Short term Benefits				
- Salary	768,948	756,513	47,523	47,110
- Cash Bonus	550,000	125,000	-	-
Post-employment Benefits				
- Superannuation	49,802	48,487	2,477	2,990
Share based Payment				
- Under SPP [1]	40,197	152,632	40,197	148,434
Total	**1,408,947**	**1,082,632**	**90,197**	**198,534**

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

18. Contingent Assets, 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	
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	**2012**	**2011**	**2012**	**2011**
	$ '000	**$ '000**	**$ '000**	**$ '000**
Within one year	413	305	-	-
Later than one year but not later than five years	1,707	86	-	-
	2,120	**391**	**-**	**-**

Contingent Assets and Liabilities

The Group has a contingent asset of a non-crystallised performance fee at year end, which has not been recognised in the financial statements in accordance with *AASB 137 – Provisions, Contingent Liabilities and Contingent Assets*. Recognition of the fee is dependent upon the underlying values of the (US dollar denominated) portfolio at 31 December 2012. As at 30 June 2012, the performance fee payable to the Group from this mandate (ie the value had the fee crystallised at

18. Contingent Assets, Liabilities and Commitments for Expenditure (continued)

30 June 2012, based on the market value of assets and the level of performance hurdles) was approximately $4.3 million. If the value of the relevant portfolio decreased by 10% between balance date and 31 December 2012, the fee would decrease to approximately $2.9 million. Similarly, if the value of the relevant portfolio increased by 10% between balance date and 31 December 2012, the fee would increase to approximately $5.7 million. If the value of the relevant portfolio were to decrease by approximately 30% between balance date and 31 December 2012, the fee would be $nil.

The Group has a contingent liability for uncalled amounts of $0.4 million (2011: $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 assets or liabilities at balance date.

19. Events Subsequent to Reporting Date

The Directors have proposed a fully franked dividend out of current year profits of 3.0 cents per ordinary share in respect of the 2012 financial year, which represents $4.6 million. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2012 financial statements.

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	
	2012 $	**2011 $**	**2012 $**	**2011 $**
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	79,900	77,200	64,900	62,200
- audit and review of the financial statements for the Magellan unlisted funds	26,000	27,000	-	-
- other regulatory audit services	15,000	15,000	-	-
- other services	63,198	63,250	7,150	-
Amounts received or due and receivable by KPMG Australia for:				
- audit and review of the financial statements for the Magellan unlisted funds	-	3,400	-	-
	184,098	**185,850**	**72,050**	**68,800**

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 2012 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 2012.

On behalf of the Board

Chris Mackay

Chris Mackay
Chairman

Sydney
24 August 2012

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

Report on the financial report

We have audited the accompanying financial report of Magellan Financial Group Limited, which comprises the statement of financial position as at 30 June 2012, 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.

ERNST & YOUNG

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 2012 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 15 to 25 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
24 August 2012

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;
- 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 Ethics;
- 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.

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 2012.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Corporate Code of Ethics

The Company has a Corporate Code of Ethics (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 Ethics 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 Group'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, Non-executive Directors and employees may trade in the Company's securities and funds and in securities generally. The Policy also places restrictions and reporting requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

Diversity

The Group is committed to workplace diversity and recognises the value of attracting and retaining employees with different backgrounds, knowledge, experience and abilities. The Group has adopted a Diversity Policy, a copy of which is available on the company's website. Nothing in the Policy should be interpreted or construed so as to endorse diversity as the principal criteria for the selection and promotion of the Group's employees and directors. An employee or director's skills, experience and overall prospects of adding value to the Group shall take precedence over diversity considerations.

The Group's objectives for achieving diversity, including gender diversity, are set by the Board and include:

- an appropriately diverse and skilled workforce and Board, appointed on merit, which will support the Group's achievement of the its business objectives;
- a corporate culture characterised by inclusive practices and behaviours for the benefit of all employees and directors; and
- a work environment that values and utilises the contributions of employees and directors with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workforce diversity.

The following initiatives have been implemented to assist with the achievement of the Group's diversity objectives:

- flexible work arrangements to assist employees to balance their work, personal and family responsibilities;
- parental leave, including six weeks paid maternity leave, six weeks paid adoption leave, and one week paid paternity / partner leave;
- an annual gender pay equity review; and
- an equal opportunity recruitment process that draws a diverse pool of candidates for all positions, including Board and senior management appointments.

As at 30 June 2012, the proportion of women employed or engaged by the Group is set out in the table below:

	Total	No. of Women	% of Women
Magellan Financial Group Board			
Total Directors	5	1	20
Independent Directors	3	1	33
Senior Executive Positions	16	6	38
Organisation wide	44	17	39

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

Committee composition

The Company has established and 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.

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.

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 Annual Letter to Shareholders;
- the Group's Annual Report;

- the addresses to the Annual General Meeting; and
- market announcements on the Group's website after they are disclosed to the market.

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 Ethics) 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.

Assurance

In respect of the year ending 30 June 2012 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
AS AT 20 AUGUST 2012

Distribution of Shareholders

The distribution of shareholders of the Company as at 20 August 2012 is presented below:

Distribution Schedule of Holdings	Number of Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	481	273,942	0.18
1,001-5,000	713	2,032,614	1.33
5,001-10,000	369	2,838,254	1.86
10,001-100,000	744	22,828,486	14.96
100,001 and over	143	124,585,045	81.67
Total	**2,450**	**152,558,341**	**100.000**
Number of holders with less than a marketable parcel	85	6,524	0.000

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 20 August 2012 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Magellan Equities Pty Limited	15,355,551	10.08
Cavalane Holdings Pty Ltd	13,274,871	8.70
Midas Touch Investments Pty Ltd	9,761,508	6.40
Citicorp Nominees Pty Limited	8,119,280	5.32
Nota Bene Investments Pty Ltd	6,006,006	3.94
UBS Wealth Management Australia Nominees Pty Ltd	5,953,886	3.90
National Nominees Limited	5,532,484	3.63
Emmanuel Capital Pty Ltd	4,164,602	2.73
JP Morgan Nominees Australia Limited	3,162,123	2.07
ABN Amro Clearing Sydney Nominees Pty Ltd	3,103,205	2.03
Smallco Investment Manager Ltd	2,417,057	1.58
Christopher John Mackay	2,232,022	1.46
BNP Paribas Nominees Pty Ltd (DRP)	1,698,773	1.11
Mr David Doyle	1,500,000	0.98
HSBC Custody Nominees (Australia) Limited	1,484,325	0.97
Aljamat Pty Ltd	1,400,000	0.92
Giwah Pty Ltd	1,300,000	0.85
BNP Paribas Nominees Pty Ltd (Master Custody DRP)	1,229,086	0.81
UBS Nominees Pty Ltd	1,083,367	0.71
PAJ Lewis Superannuation Fund Pty Ltd	1,000,747	0.66
Total shares held by the twenty largest shareholders	89,778,893	58.85
Total shares in issue	**152,558,341**	

SHAREHOLDER INFORMATION
AS AT 20 AUGUST 2012

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders at 20 August 2012 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]	10,519,917

[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
[3] Includes shares acquired after substantial shareholder notice lodged on 16 June 2009 – 9,408,448 shares

Voting Rights

Subject to the Company Constitution:

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

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

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

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

Stock Exchange Listing

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

CORPORATE DIRECTORY

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

Company Secretaries
Nerida Campbell
Leo Quintana

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

Auditors
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Sydney NSW 2000

Share Registry
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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
www.magellangroup.com.au

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