



Magellan Flagship Fund Limited
ABN 32 121 977 844

Level 7, 1 Castlereagh Street,
Sydney NSW 2000 AUSTRALIA

General: +61 2 8114 1888
Facsimile: +61 2 8114 1800
Website: www.magellangroup.com.au

8 August 2013

ASX Market Announcements
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

2013 FULL YEAR RESULTS

Please refer to the enclosed:

- Appendix 4E Statement for the year ended 30 June 2013, and
- Annual Report and Financial Statements for the year ended 30 June 2013, incorporating the Chairman's Letter and Investment Manager's Report.

Yours sincerely,

Magellan Flagship Fund Limited

A handwritten signature in black ink, appearing to read 'Leo Quintana', written in a cursive style.

Leo Quintana
Company Secretary

Magellan Flagship Fund Limited
Appendix 4E
Final Report Year Ended 30 June 2013

Details of reporting periods:	
Current period:	1 July 2012 to 30 June 2013
Comparative period:	1 July 2011 to 30 June 2012

Results for announcement to the market:					
		\$ '000	%		\$ '000
Total investment income	Up	48,092	63%	To	124,638
Net profit after income tax	Up	34,934	76%	To	80,819
<i>"Profit from ordinary activities after tax attributable to members" and "Net profit for the period attributable to members"</i>					

Dividends:	Amount per share	Franked amount per share at 30% tax
Final dividend per share	1.0 cent	0 cents
Previous corresponding period	1.0 cent	0.26 cents

Final dividend dates:	
Ex-dividend date	14 October 2013
Record date	18 October 2013
Payment date	15 November 2013

The amount declared to be Conduit Foreign Income is 0.0 cents per share. In accordance with accounting standards, the dividend has not been provided for in the financial statements. The Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend and no discount will be applied. The last date for receipt of election notices to participate in the DRP: 18 October 2013.

Net tangible assets per share:		
	30 June 2013	30 June 2012
Pre-tax NTA	\$1.263	\$0.954
Net deferred tax (liability) / asset	(\$0.072)	\$0.026
Post-tax NTA	\$1.191	\$0.980

Commentary on results:

MFF recorded a net profit after tax of \$80.82 million for the year ended 30 June 2013. The 2012/2013 result principally reflects the net appreciation in the underlying market value of MFF's investments over the period, and realised gains from disposals. The result also reflects some benefits in the year from the weakening Australian dollar, which fell against the USD by approximately 12.0% over the year, from AUD/USD 1.0251 to 0.9154. Please refer to the attached Chairman's Letter, Investment Manager's Report, and Financial Statements.

Financial Report:

The Company's independent auditor Ernst & Young has completed an audit of the Company's 30 June 2013 Annual Report and Financial Statements on which this report is based and has provided an unqualified audit report. A copy of the Company's Annual Report and Financial Statements, inclusive of the audit report, is attached.



ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2013

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MAGELLAN FLAGSHIP FUND LIMITED

CHAIRMAN'S LETTER FOR THE YEAR ENDED 30 JUNE 2013

Dear Shareholder,

I am pleased to write to you in the 2012/13 Annual Report for Magellan Flagship Fund Limited ("MFF"). Please also take the time to read the financial statements and the Investment Manager's Report which follow.

Financial Results

MFF recorded a net profit after tax of \$80.82 million for the year ended 30 June 2013. The 2012/2013 result principally reflects the net appreciation in the underlying market value of MFF's investments over the period, and realised gains from disposals. The result also reflects some benefits in the year from the weakening Australian dollar, which fell against the USD by approximately 12.0% over the year, from AUD/USD 1.0251 to 0.9154.

MFF recorded a rise in net tangible assets (NTA) per share (excluding deferred tax assets/liabilities) of approximately 32.4% to \$1.263 per share as at 30 June 2013 compared with \$0.954 per share as at 30 June 2012. The overall investment result for the portfolio was approximately 35% pre tax after expenses, which exceeded the gain in broad global market measures.

MFF's Portfolio

The Investment Manager's Report includes details of the large holdings and commentary. During the year MFF reduced its substantial net cash position to approximately 1% of investment assets as at 30 June 2013 (approximately 4.9% as at 31 July 2013).

A short AUD position has been held through the throughout year ended 30 June 2013 and the Investment Manager continues to favour the partial risk hedging aspects that this provides to the investment portfolio.

The Investment Manager's stock and portfolio decisions are considered within a framework of valuations, quality and portfolio mix assessments, and its processes are focussed on seeking out investments in advantaged companies at attractive prices.

MFF continues to provide diversification benefits for Australian and New Zealand investors in terms of companies, currencies and business geographies. The Investment Manager's Report includes a further discussion of issues relating to currencies, and MFF's position of being effectively "short" the AUD.

Dividends

The Directors have declared an unfranked dividend of 1 cent per share, to be paid in November 2013. The Directors' preference is for a regular six monthly dividend at 1 cent per share, subject to corporate, legal and regulatory considerations.

MAGELLAN FLAGSHIP FUND LIMITED

CHAIRMAN'S LETTER FOR THE YEAR ENDED 30 JUNE 2013

Bonus Issue of Options

A bonus issue of options was undertaken in October last year on a 1:3 basis to shareholders and the bonus options are quoted on the ASX (Code: MFFO). The strike price of the options is \$1.05 and the expiry date is 31 October 2017.

On-market Share Buy-back

MFF did not acquire any further shares during 2012/2103 through the on-market buy-back but the on-market buyback authorisation remains in operation.

Annual General Meeting

My fellow Directors and I look forward to meeting those of you who can attend the Annual General Meeting on 17 October 2013. The Notice of Annual General Meeting will be despatched to shareholders in the coming weeks.

Yours faithfully,



Richard F E Warburton AO
Chairman
8 August 2013

MAGELLAN FLAGSHIP FUND LIMITED

INVESTMENT MANAGER'S REPORT FOR THE YEAR ENDED 30 JUNE 2013

Dear Shareholder,

Market prices for the MFF portfolio rose materially in the second six months of fiscal 2013 and the AUD depreciated somewhat towards the end of the period. MFF's pre tax investment result after fees and other expenses was approximately 35% for the year. Please see below MFF's table of major portfolio holdings which shows how the high cash levels held twelve months ago have been deployed.

Caution, not extrapolation, is reasonable in interpreting these investment results, as markets have been running far more strongly than the very mixed recoveries in economies. This year's benefits from MFF's short AUD position also require caution not extrapolation. Although we aim for a modest net positive over time from currency exposures, our current AUD position is perceived by us to have ongoing risk management benefits (in a major equity market downturn the AUD is more likely than not to also decline).

Our primary focus is on "Quality" companies at attractive valuations. We have been spoiled for choice in recent years with some of the most enduring companies in the world on sale at prices giving reasonable probabilities of (the companies') earning the entire purchase price in around ten years, and these high quality businesses will still be earning for decades to come. Hence in recent years, the portfolio has been close to 100% invested in "Quality" companies, compared with the Portfolio Manager's previous rule of thumb expectation that, in most market conditions, better risk adjusted returns would be achieved if up to 15% of the portfolio was in a range of specific "perceived Value" situations.

During calendar 2013, the Portfolio Manager has not invested in any new situations in either category. Purchases have been limited to additions to existing holdings and one repurchase of a previous holding. Some earlier "Quality" and "perceived Value" situations have matured satisfactorily and one is very unclear for risk reasons (see below). "Quality" is better and safer than "perceived Value", particularly in these markets and economic conditions with Central bank underpinning. We expect that "perceived Value" situations will remain well under 5% of the portfolio for the foreseeable future, and at least through the next market cycle.

Buying "Quality" when it is out of favour inevitably results in some "value traps", but eventually earnings and market valuation follow, unless the assessment is wrong. Overall recent returns on the portfolio materially exceed returns on cash, on a risk adjusted basis and on our perceived opportunity cost basis (opportunity costs have much higher hurdle rates).

The usual equation for Quality/Value investors is that even if prices for the highest "Quality" investments run ahead of their value, it is only a matter of time before future returns catch up. This relationship is more challenged in a low growth world with global overcapacity changing competitive dynamics and artificially low interest rates distorting upwards prices of most asset classes. This is a particular focus for MFF, and we have let go some profitable "Quality" situations where an assumption of stronger growth is required to reach valuations.

Markets will inevitably again give us opportunities to buy more freely at more attractive prices compared with perceived values. In the meantime we have remained largely invested with some net cash on hand, the full borrowing capacity and some additional perceived risk management benefit from the short AUD position. Sales are needed in a closed end portfolio such as MFF's to

MAGELLAN FLAGSHIP FUND LIMITED

INVESTMENT MANAGER'S REPORT FOR THE YEAR ENDED 30 JUNE 2013

have capacity when compelling opportunities arrive. Current markets are perceived by the Portfolio Manager to be too risky to support a range of specific "perceived Value" situations and we would prefer to build cash and wait.

The Company's holdings with a market value of A\$1 million or greater as at 28 June 2013 were:

Holding	\$million	%	Holding	\$million	%
Wells Fargo	50.1	11.6	MasterCard	20.4	4.7
Visa	44.7	10.3	Lowe's	17.6	4.1
Apple	37.1	8.6	Bank of New York Mellon	17.2	4.0
Tesco	33.2	7.7	State Street	14.7	3.4
Microsoft	32.6	7.5	Sainsbury	11.4	2.6
Bank of America	30.7	7.1	Home Depot	2.3	0.5
Yum! Brands	27.7	6.4	Singapore Technologies Engineering	2.3	0.5
HCA Holdings	24.5	5.6	Treasury Group	1.6	0.4
McDonald's	21.4	4.9	SIA Engineering	1.6	0.4
Wal-Mart	21.3	4.9			
US Bancorp	21.0	4.8			

Net cash as at 28 June 2013 was approximately 1 % of investment assets, and was 4.9% as at 31 July 2013.

MFF has significant holdings in select US based financial institutions including some with credit based businesses (Wells Fargo, Bank of America, US Bancorp, Bank of New York Mellon and State Street) where we perceived the probabilities that at prevailing prices risks were adequately offset by strong business models. These holdings continue to benefit from the gradual recovery in the US economy, including in housing and in credit quality. Positives also appear to outweigh negatives for them if US interest rates rise moderately.

Expect materially divergent returns from individual industries and individual companies within industries. China's entry into the WTO, and the fall of the Berlin Wall, have ushered in unprecedented rises in opportunities and living standards, along with challenges for more developed economies, and for many companies with hitherto sustainable competitive advantages. Some trends which are reversing, or at least stalling, have been favourable to equities over the last two decades. In other words current business and investment risks are not low.

MFF's current level of exposure to the domestic US economy is higher relative to exposure to other markets, such as developing economies and Europe, than it has been in recent years. Market prices may not have reflected issues/risks in some developing economies and Europe compared with perceived risk adjusted value elsewhere (domestic US in particular). Full blown crises are thankfully rare, but they reduce market prices and raise risk adjusted returns for purchasers. We felt that domestic US exposures, such as the financial institutions and the largest hospital chain (HCA), were available on satisfactory terms during the year, given investor concerns. Low prices are required for decent returns in Quality companies, and are required even with favourable thematic.

Reinvestment of cashflows is an important factor in returns, particularly for high return on capital companies which add rapidly to the capital that management deploys. We support companies that are disciplined in reinvestment at attractive long term rates above fair assessments of their cost of capital whilst treating shareholders fairly with surplus capital generated. We are cautious about highly acquisitive companies that feel the need for large acquisitions. We seek companies that already have excellent competitive positions, and when they make acquisitions they typically are incremental to the core franchise.

MAGELLAN FLAGSHIP FUND LIMITED

INVESTMENT MANAGER'S REPORT FOR THE YEAR ENDED 30 JUNE 2013

We are positive about MFF's investee companies buying back their own shares when they are trading below intrinsic value. Active capital management, including value focussed buybacks, add to earnings per share growth rates and to shareholder value. This is particularly so for our companies which generate billions of free cashflows. Some companies prefer dividends. Fortress balance sheets add value, particularly in crises.

One of MFF's "perceived Value" situations has been China Metal Recycling (Holdings) Limited. We have valued it at zero in the financial statements compared with a cost of about 1% of the portfolio and last market price of about 1.3%. It has not recommenced trading since February 2013 when it announced that a Chinese State Owned Enterprise was to become a 30% shareholder at a premium to the market price, and a US based short seller research group issued a very critical report. The company's disclosure has been poor, there are allegations of fraud and the company has not issued audited accounts for December 2012. The latest information is that the Securities and Futures Commission of Hong Kong has received an interim High Court order to appoint provisional liquidators to operate the company's business and investigate its affairs including the allegations of longstanding fraud.

Currencies and Interest Rates

Our expectation remains that the AUD will trade materially lower for at least part of the next decade. In our view, the "safe haven" currency argument is not sustained by the data. If adjustments are made for the stimulus from Government deficits and off balance sheet items and for the cyclical benefits of the resources boom via record project investment and commodity sales, the data is concerning. A review of IMF and other data continues to indicate that a reversal of the 'super cycle' elements of the commodities boom would detract 5% or so from GDP, with the level depending on multipliers, policy responses, international factors and severity of the inevitable reversal.

We expect that Australia's net foreign liabilities will exceed \$1 trillion during this decade and consider that risk factors are rising, partly because of the negative economic effects of the sustained high AUD.

Although we are not fans of some US policies, we currently have the USD as the primary cash holding. We also hold Singapore Dollars and Hong Kong Dollars. High quality equities (for example those with sustainably high returns on capital) at attractive valuations are more likely to hold value over decades, and cash is a much less attractive long term asset.

There are risks relating to inevitable upward spikes in interest rates whether or not as part of a Crisis (peripheral Europe recently, or Asia in 1997) or more broadly (e.g. 1994 or 1979), as well as debt market dislocations such as withdrawal of private sector liquidity. We believe that the AUD is not a genuine safe haven and is vulnerable to such crises, which are inevitable.

MFF will continue with its unhedged/short AUD position in the current market conditions. We will promptly advise the ASX of any material changes.

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INVESTMENT MANAGER'S REPORT FOR THE YEAR ENDED 30 JUNE 2013

Investors can track the portfolio and the underlying price movements, as we report MFF's net tangible asset backing to the ASX on a weekly basis and also advise changes to the portfolio and cash/borrowing levels regularly.

We look forward to seeing you at the Annual General Meeting in October.

Yours faithfully,

A handwritten signature in black ink that reads "Chris Mackay". The signature is written in a cursive, flowing style.

Chris Mackay
Portfolio Manager
1 August 2013

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

The Directors of Magellan Flagship Fund Limited (MFF or the "Company") submit their report in respect of the year ended 30 June 2013.

1. Operations and Activities

1.1 Company Overview

The Company is a listed public company incorporated in Australia. Its principal place of business is Level 7, 1 Castlereagh Street, Sydney, New South Wales, 2000.

The Company is listed on the Australian Stock Exchange (ASX code: MFF).

1.2 Principal Activity

The principal activity of the Company during the year was investment into a minimum of twenty exchange listed international and Australian companies with attractive business characteristics.

1.3 Dividends

An unfranked interim dividend of 1.0 cent per share representing approximately \$3,456,000 was paid on 16 May 2013 (June 2012: \$3,448,000 representing 1.0 cent per share, partially franked final dividend).

Since the end of the year, the Directors have declared an unfranked final dividend of 1.0 cent per ordinary share (June 2012: 1.0 cent per ordinary share) in respect of the year ended 30 June 2013, which represents approximately \$3,462,000. The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied to the DRP.

1.4 Review of Operations

- **Financial results for the year**

The Company recorded a pre-tax profit of \$114,865,000 (June 2012: \$66,989,000) and a net profit for the year after income tax of \$80,819,000 (June 2012: \$45,885,000). Net profit after income tax expense is up 76% as a result of a rise in international equity markets contributing to a \$37,141,000 increase in the market value of investments and \$13,800,000 foreign exchange movements due to a strengthening USD as the Company holds a significant unhedged position in US dollars.

A final dividend of 1 cent per share brought the full year dividend to 2 cents per share, an increase of 100% over 2012.

The Company's net tangible assets (NTA) (net of deferred tax liability) was \$1.191 per share as at 30 June 2013 compared with \$0.980 per share as at 30 June 2012 (including net deferred tax assets), principally reflecting the investment returns.

- **Strategy and Future Outlook**

The Company is predominantly invested in equities, with a focus upon the equities of non-Australian domiciled companies and this is expected to continue. As markets are subject to fluctuations, it is imprudent to provide a detailed outlook statement or statement of expected results of operations. The Company provides regular updates in the weekly and monthly NTA announcements, which can be found in the ASX announcement section of the MFF website.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

1.4 Review of Operations (continued)

In addition, releases to shareholders and the ASX have included discussions in relation to investment processes and some investee companies from time to time. The Company sets out its largest portfolio holdings in this Annual Report and from time to time in other disclosures, and those companies also make extensive public disclosures of their financial information.

1.5 Likely Developments and Expected Results of Operations

The Company will continue to pursue its investment objective which is to increase the net asset value of the Company. Additional comments on expected results of certain operations of the Company are included in this report under the review of operations at section 1.4. Refer also to the Chairman's Letter and the Investment Manager's Report for further information.

The methods of operating the Company are not expected to change in the foreseeable future.

1.6 Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company that occurred during the year not otherwise disclosed in this report or the financial statements.

1.7 Events Subsequent to the end of the Financial Year

On 28 June 2013, the Company announced that the Investment Management Agreement (IMA) with Magellan Asset Management Limited (MAM) had been amended effective 1 July 2013. The key changes were:

- base fees (unchanged at 1.25% per annum payable quarterly in arrears) will be capped to the actual number of the Company's ordinary shares on issue. Under this methodology, where the Company's asset base increases through the issuance of additional shares, such as upon exercise of the Company's listed options or under the DRP, the quantum of base fees no longer automatically increase. The quantum of the base fees will rise if the value per MFF's ordinary share rises.
- performance fees will cease to be payable to MAM after 31 December 2016 and the maximum total performance fees that may be paid or payable over the period 1 July 2013 to 31 December 2016 will be capped at \$8,000,000. In addition, no performance fee will be payable unless the total shareholder return exceeds 10% per annum annually compounded, with four measurement periods each commencing 1 July 2013 and ending on 30 June 2014, 30 June 2015 and 31 December 2016. The maximum performance fee that may be payable in respect to each period is \$2,000,000, and is non-cumulative.
- the Company has the right to terminate the IMA upon 3 months notice and Magellan Asset Management Limited has the right to terminate the IMA upon 6 months notice, which notice cannot expire prior to 31 December 2016. Until that time, termination rights without cause are limited to an event where Chris Mackay ceases to be portfolio manager, Hamish Douglass (Chief Executive Officer of MAM) is unable to act as portfolio manager, and MAM is not able to identify a person to act as portfolio manager that is acceptable to the Company (acting reasonably). The Company will continue to receive services from MAM under an Administrative Services Agreement for no additional charge while the IMA is in effect.

The Company will continue to receive services from MAM under an Administrative Services Agreement for no additional charge while the IMA is in effect.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

1.7 Events Subsequent to the end of the Financial Year (continued)

On 8 August 2013, the Directors declared an unfranked final dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2013, which represents approximately \$3,462,000. The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied to the DRP.

In the latest release to the ASX on 6 August 2013, the Company reported a Pre-tax NTA per share of \$1.398 (excluding net deferred tax liabilities of \$0.082) as at 2 August 2013. This represented an increase of approximately 10.7% over the Pre-tax NTA per share of \$1.263 as at 30 June 2013 as set out below:

	2 August 2013	Reported 30 June 2013	Audited 30 June 2013
Pre-tax NTA	\$1.398	\$1.263	\$1.263
Net deferred tax liabilities	(\$0.082)	(\$0.073)	(\$0.072)
Post-tax NTA	\$1.316	\$1.190	\$1.191

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

1.8 Environmental Regulation

The Company is not subject to any particular or significant environmental regulation under either Commonwealth, State or Territory legislation.

1.9 Unissued Shares under Option

On 17 October 2013 the Company issued 114,516,157 listed MFF 2017 Options to shareholders on a 1 listed option for every 3 ordinary shares held on the record date of 10 October 2012 for nil consideration. As at the date of this report, there were 114,078,554 MFF 2017 Options on issue, with 437,603 MFF 2017 Options having been exercised. Refer to note 9(c)(ii) for further details on the listed options and note 13(c) in the financial statements for the listed options issued to the Directors of the Company.

No listed option holder has any right, by virtue of the option, to participate in any share issue or interest issue of the Company.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

2. Directors and Secretaries

2.1 Directors

The following persons were Directors of the Company during the year and up to the date of this report:

Name	Directorship	Appointed	Resigned
Richard Warburton AO	Chairman & Independent Non-executive Director	19 October 2006	
John Ballard	Independent Non-executive Director	19 October 2006	
Andy Hogendijk	Independent Non-executive Director	19 October 2006	
Chris Mackay	Non-executive Director	29 September 2006	
Hamish Douglass	Non-executive Director	29 September 2006	6 February 2013

2.2 Secretaries

The following persons were Company Secretaries of the Company during the year and up to the date of this report:

Nerida Campbell
Leo Quintana

There are no other officers of the Company.

2.3 Information on Directors and Secretaries

Richard Warburton AO

Independent Non-executive Director and Chairman of the Board

Richard Warburton is one of Australia's most prominent company directors. Prior to becoming a professional director, he was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand where he was responsible for DuPont's petro-chemical business operations in Australia and New Zealand. Dick is currently the Director and Chairman of Westfield Retail Trust (appointed December 2010) and Chairman of Citigroup Pty Limited.

Dick was Director and Chairman of Tandou Limited (appointed April 2004, resigned December 2010), Chairman of David Jones Limited, AurionGold Limited, Caltex Australia Limited, and The Board of Taxation, and a Director of Tabcorp Holdings Limited, Southcorp Limited, Nufarm Limited and the Reserve Bank of Australia. Dick is a Fellow (and former National President) of the Australian Institute of Company Directors.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

2.3 Information on Directors and Secretaries (continued)

John Ballard

Independent Non-executive Director and member of the Audit and Risk Committee

John Ballard has extensive senior executive experience across a wide range of industries. He was previously Chairman of Elders Limited (appointed July 2010, resigned June 2013), Managing Director and Chief Executive Officer of Southcorp Limited, Managing Director Asia Pacific at United Biscuits Limited and Managing Director Snack Foods for Coca-Cola Amatil Limited, a Director of Woolworths Limited and Email Limited, Chairman of Watty Limited, a Director of CSR Limited and subsequently Rinker Limited, a former Director of Fonterra Co-operative Group Limited (appointed May 2006, resigned April 2012) and a Trustee of the Sydney Opera House Trust.

John is currently a director of International Ferro Metals Limited, Chairman of the Advisory Boards at Pacific Equity Partners and a Director of the Sydney Neuro Oncology Group. John is a Fellow of the Australian Institute of Company Directors.

Andy Hogendijk

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

Andy Hogendijk has extensive senior management and finance experience having previously been Chief Financial Officer of Suncorp Metway Limited (1997 – 2000), Commonwealth Bank of Australia Limited (1991 – 1997) and John Fairfax Group (1989 – 1991). Andy has also held several senior positions with Shell Company Australia and Australian Paper Manufacturers.

Andy is currently a Director of AWE Limited (appointed October 2007), and was previously the Chairman of Gloucester Coal Limited, and a Director of Aditya Birla Minerals Limited, Hills Motorway Management Limited and Magnesium International Limited. Andy is a Fellow of both the Australian Society of Certified Practising Accountants and the Australian Institute of Company Directors.

Chris Mackay

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

Chris Mackay is Chairman of Magellan Financial Group Limited and the Portfolio Manager of the Company. He is a Director of Seven Group Holdings Limited (appointed June 2010) and was a Director of Consolidated Media Holdings (formerly Publishing and Broadcasting) from 2006 until its takeover by News Corporation in November 2012.

Chris has considerable experience in business management, business assessment, capital allocation, risk management and investment. He became an investment banker in 1988, after being a corporate and banking lawyer, and has broad experience in the financial and corporate sectors over many years.

Chris retired as Chairman of the investment bank UBS Australasia, in March 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.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

2.3 Information on Directors and Secretaries (continued)

Hamish Douglass

Non-executive Director (resigned 6 February 2013)

Hamish Douglass is Chief Executive Officer of Magellan Financial Group Limited (appointed November 2006), and Magellan Asset Management Limited. Hamish has more than 20 years experience in financial services and was formerly Co-Head of Global Banking at Deutsche Bank, Australasia.

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

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 and Company Secretary of Magellan Financial Group Limited and Magellan Asset Management 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 Quintana has over 10 years experience as a corporate lawyer. Leo is the Legal Counsel and Company Secretary of Magellan Financial Group Limited, Magellan Asset Management Limited and Magellan Flagship Fund Limited. Leo is admitted as a solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws and a Bachelor of Business. Leo is a member of the Law Society of New South Wales and of the Australian Corporate Lawyers Association.

2.3 Directors' Meetings

The number of Board meetings, including meetings of Board Committees, held during the year ended 30 June 2013 and the number of those meetings attended by each Director is set out below:

	Board		Audit & Risk Committee	
	Held while a Director	Attended	Held while a member	Attended
R Warburton AO	4	3	-	-
J Ballard	4	4	5	5
A Hogendijk	4	4	5	5
C Mackay	4	4	5	5
H Douglass*	3	3	-	-

*Mr. Douglass resigned on 6 February 2013

2.4 Directors' Interests

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.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3. 2013 Remuneration Report (Audited)

This report outlines the Key Management Personnel remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel of the Company are defined as those persons and corporate entities having "authority and responsibility for planning, directing and controlling activities of the entity". Key Management Personnel for the Company are the Non-executive Directors and the Investment Manager. The Company has no employees.

The Board does not grant options to Key Management Personnel under its remuneration policy.

3.1 Remuneration of Non-executive Directors

The Independent Non-executive Directors are remunerated by the Company. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Independent Non-executive Directors. The remuneration of the Independent Non-executive Directors is not linked to the performance or earnings of the Company.

The Non-Independent Non-executive Directors are not remunerated by the Company. The Non-Independent Non-executive Directors are employees of, and remunerated by, the Investment Manager.

Directors' fees

The Independent Non-executive Directors' base remuneration is reviewed annually. Fees paid to each Director have remained unchanged from the time of their appointment. The amount of base remuneration is not dependant on the satisfaction of a performance condition, or on the performance of the Company, the Company's share price, or dividends paid by the Company.

The Non-Independent Non-executive Directors' remuneration is determined by the Board of Magellan Financial Group Limited (MFG), the parent entity of the Investment Manager, and in respect to the year ended 30 June 2013 comprised fixed base compensation and, in respect to Mr Douglass only, a discretionary variable compensation amount.

The amount of fixed base compensation was not dependant on the satisfaction of a performance condition, or the performance of the Company, the Company's share price, or dividends paid by the Company.

Retirement benefits for Directors

The Company does not provide retirement benefits (other than superannuation) to the Independent Non-executive Directors.

The Investment Manager does not provide retirement benefits (other than superannuation) to the Non-Independent Non-executive Directors.

Other benefits (including termination) and incentives

The Company does not pay other benefits and incentives to the Independent Non-executive Directors. The Company and the Investment Manager do not pay other benefits and incentives to the Non-Independent Non-executive Directors.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3. 2013 Remuneration Report (Audited) (continued)

3.2 Remuneration of the Investment Manager

The Investment Manager is a corporate entity that has specified authority and responsibility in regard to the management of the Company's investment portfolio and is remunerated by the Company in accordance with the Investment Management Agreement (IMA) between the Company and the Investment Manager. In respect of the year ended 30 June 2013, the Investment Manager was entitled to:

- a base fee calculated as 1.25% per annum (excluding GST, payable quarterly in arrears) of the market value of all assets less total indebtedness of the Company. The Investment Manager and the Company determined that net deferred tax assets/liabilities would be excluded from the calculation of the base fee, thereby reducing the amount of base fee; and
- a performance fee of 10% of the outperformance of the investment portfolio relative to the MSCI World Index, subject to performance also meeting absolute return and high water mark hurdles. Performance fee entitlements are calculated on an annual basis, commencing on 1 July of each calendar year.

No performance fee was payable in respect of the year ended 30 June 2013 as the net asset value per share as at 30 June 2012 was below the agreed high water mark.

On 28 June 2013, the Company announced that the terms of the Investment Management Agreement had been varied with effect from 1 July 2013. The key changes are set out in section 1.7 of the Directors' Report.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3. 2013 Remuneration Report (Audited) (continued)

3.2 Remuneration of the Investment Manager (continued)

Details of Remuneration

The Independent Non-executive Directors were remunerated by the Company and received the following amounts during the year:

Independent Non-executive Directors	30 June 2013			30 June 2012		
	Short term Benefits (Salary)	Post-employment Benefits (Superannuation)	Total	Short term Benefits (Salary)	Post-employment Benefits (Superannuation)	Total
	\$	\$	\$	\$	\$	\$
R Warburton	77,982	7,018	85,000	77,982	7,018	85,000
J Ballard	57,340	5,160	62,500	57,340	5,160	62,500
A Hogendijk	68,807	6,193	75,000	57,340	17,660	75,000
Total Independent Non-executive Directors remunerated by the Company	204,129	18,371	222,500	192,662	29,838	222,500

The Company paid base fees to the Investment Manager for the year ended 30 June 2013 of \$4,656,473 (June 2012: \$3,789,441) and performance fees of nil (June 2012: nil).

The total amount paid or payable by the Company to the Key Management Personnel (Independent Non-executive Directors and the Investment Manager) for the year ended 30 June 2013 was \$4,878,973 (June 2012: \$4,011,941).

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3. Remuneration Report (Audited) (continued)

3.3 Details of Remuneration (continued)

The Non-Independent Non-executive Directors are not remunerated by the Company. The Non-Independent Non-executive Directors received the following amounts from the Investment Manager during the year:

2013

	Short term Benefits		Post-employment Benefits	Total
	Salary	Cash Bonus	Superannuation	
	\$	\$	\$	\$
Non-Independent Non-executive Directors				
C Mackay ⁽¹⁾	583,530	100,000	16,470	700,000
H Douglass ⁽²⁾	232,220	438,973	9,972	681,165

Total Key Management Personnel remunerated by the Investment Manager	815,750	538,973	26,442	1,381,165
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⁽¹⁾ Mr Mackay's cash bonus is the deferred component of the 30 June 2012 bonus that was paid over the course of the year ended 30 June 2013. Mr Mackay was not entitled to receive a short term or long term incentive in respect of the year ended 30 June 2013.

⁽²⁾ Mr Douglass' remuneration is shown as a pro-rata for the period 1 July 2012 to 6 February 2013, the period he was a director of the Company. Mr Douglass' cash bonus includes a pro rata of the deferred component of his 30 June 2012 bonus and the cash component of his bonus in respect to the year ended 30 June 2013.

2012

	Short term Benefits		Post-employment Benefits	Total
	Salary	Cash Bonus ⁽¹⁾	Superannuation	
	\$	\$	\$	\$
Non-Independent Non-executive Directors				
C Mackay ⁽¹⁾	234,225	150,000	15,775	400,000
H Douglass	234,225	150,000	15,775	400,000

Total Key Management Personnel remunerated by the Investment Manager	468,450	300,000	31,550	800,000
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⁽¹⁾ Cash bonus is the cash component of the 30 June 2012 bonus. The deferred component of the 30 June 2012 bonus is paid over the course of the year ended 30 June 2013.

A portion of the remuneration paid by the Investment Manager to the Non-Independent Non-executive Directors and the Other Executives is in relation to managing the affairs of the Company. The Investment Manager has made no determination as to what proportion of this remuneration paid relates to managing the affairs of the Company.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3. Remuneration Report (Audited) (continued)

3.4 Service Agreements

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

Richard Warburton AO, Chairman and Independent Non-executive Director

- Commenced on 19 October 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 2013 of \$85,000.

John Ballard, Independent Non-executive Director and member of the Audit and Risk Committee

- Commenced on 19 October 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 2013 of \$62,500

Andy Hogendijk, Independent Non-executive Director and Chairman of the Audit and Risk Committee

- Commenced on 19 October 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 2013 of \$75,000

3.5 Employment Agreements

The Non-Independent Non-executive Directors have employment agreements with the Investment Manager, not the Company.

Chris Mackay, Non-Independent Non-executive Director and member of the Audit and Risk Committee

- Commenced as Director on 29 September 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- No base salary or other compensation was received from the Company
- The Director is employed under a contract with the Investment Manager, dated 7 June 2012 which will continue indefinitely until terminated.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3. Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Chris Mackay, Non-Independent Non-executive Director and member of the Audit and Risk Committee

Under the terms of the contract, which applied for the year to 30 June 2013, 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 the Investment Manager 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 the Investment Manager is primarily engaged in the business of funds management, other than an investment in MFG, the Magellan Flagship Fund Limited, the Investment Manager and related entities, and any managed investment scheme in which the Investment Manager acts as trustee or responsible entity. The restrictions will cease to apply prior to 1 July 2017, if a third party acquires control of the Investment Manager or MFG, or the employment contract is terminated for any reason. 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.

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 the Investment Manager; or due to the death, total and permanent disability, ill health or genuine redundancy of the Director, and the Investment Manager 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 the Investment Manager. The Investment Manager may terminate the contract by providing 3 months written notice or providing payment in lieu of that notice.
- may have his contract terminated by the Investment Manager at any time without notice if serious misconduct has occurred. Where the contract is terminated for cause, the Investment Manager must pay any accrued but unpaid amounts to which the Director is entitled after setting off for misfeasance for any loss suffered by the Investment Manager from the acts which caused the termination.
- is restrained from soliciting employees and clients of the Investment Manager for a period of 3 months after termination of employment.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3. Remuneration Report (Audited) (continued)

3.5 Employment Agreements (continued)

Chris Mackay, Non-Independent Non-executive Director and member of the Audit and Risk Committee

On 2 July 2013, Mr Mackay's fixed base salary was subject to annual review and increased to \$1,250,000 per annum (inclusive of superannuation) effective from 1 July 2013. In all other respects Mr Mackay's employment contract remained unchanged, including that he will not receive any short or long term incentives.

Hamish Douglass, Non-Independent Non-executive Director

- Commenced as Director on 29 September 2006 and resigned on 6 February 2013
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- No base salary or other compensation was received from the Company
- During the period Mr Douglass was a director of the Company, he was employed under a contract with the Investment Manager, which had effect from 7 June 2012 and which would continue indefinitely until terminated.

Under the terms of the contract, which applied for the year to 30 June 2013 and for the period Mr Douglass was a director of the Company, 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.

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.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

3.5 Employment Agreements (continued)

Hamish Douglass, Non-Independent Non-executive Director

- has undertaken to the Investment Manager 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 the Investment Manager is primarily engaged in the business of funds management, other than an investment in MFG, the Magellan Flagship Fund Limited, the Investment Manager and related entities, and any managed investment scheme in which the Investment Manager acts as trustee or responsible entity. These restrictions will cease to apply prior to 1 July 2017, if a third party acquires control of the Investment Manager or MFG, or if the employment contract is terminated for any reason. 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.

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

- may terminate the contract at any time by giving not less than 3 months written notice to the Investment Manager and the Investment Manager may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.
- may have his contract terminated by the Investment Manager at any time without notice if serious misconduct has occurred.
- is restrained from soliciting employees and clients of the Investment Manager for a period of 3 months after termination of employment

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

4. Other

4.1 Indemnification and Insurance of Directors and Officers

The Company insures the Directors and Officers of the Company in office to the extent permitted by law for losses, liabilities, costs and charges in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

During the year, the Company paid insurance premiums to insure the Directors and Officers of the Company. The terms of the contract prohibit the disclosure of the premiums paid.

4.2 Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001*.

4.3 Non-audit Services

During the year, Ernst & Young, the Company's auditor, has performed other services in addition to its statutory duties. Details of the amounts paid or payable to the auditor are set out in note 11 to the financial report.

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* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure that they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

4.4 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 22.

4.5 Rounding of Amounts

The Company 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 have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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



Richard Warburton AO
Director

Sydney, 8 August 2013

MAGELLAN FLAGSHIP FUND LIMITED

AUDITOR'S INDEPENDENCE DECLARATION FOR THE YEAR ENDED 30 JUNE 2013

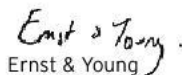


Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Magellan Flagship Fund Limited

In relation to our audit of the financial report of Magellan Flagship Fund Limited for the financial year ended 30 June 2013, 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



Graeme McKenzie
Partner
Sydney
8 August 2013

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

Magellan Flagship Fund Limited (the '**Company**') is a listed investment company whose shares are traded on the Australian Securities Exchange ('**ASX**'). The Company has no employees and its day-to-day functions and investment activities are managed by Magellan Asset Management Limited (the '**Investment Manager**') in accordance with an Administrative Services Agreement and an Investment Management Agreement executed 10 November 2006 and re-executed 28 June 2013.

The Company's Directors and the Investment Manager's Directors and senior management recognise the importance of good corporate governance. The Company's corporate governance framework, policies and practices are designed to ensure the effective management and operation of the Company, and will remain under regular review.

This Corporate Governance 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 Company and is responsible for its overall success and long-term growth and corporate governance. The Board will act in the best interests of the Company to ensure the business of the Company is properly managed. The Company's corporate governance policies revolve around its 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 Company and effective operational oversight.

The Board Charter will apply subject to applicable legal and regulatory requirements, including duties and obligations imposed on the Board by statute and general law. The Board may review and amend the Board Charter at any time. The Board Charter is available on the Company's website.

The principal responsibilities of the Board include:

- assessing the Company's overall performance;
- reporting to shareholders;
- exercising all rights conferred on it and performing all obligations imposed on it under the Investment Management Agreement (IMA) entered into with the Investment Manager;
- reviewing at regular intervals the relevant aspects of the IMA;
- reviewing and having input into overall target portfolio composition;
- providing strategic guidance to the Investment Manager on investments;

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (continued)

Role and responsibilities of the Board (continued)

- monitoring and assessing the performance of the Investment Manager under the Investment Management Agreement;
- reviewing at regular intervals the relevant aspects of the Administrative Services Agreement entered into with the Investment Manager;
- monitoring and assessing the performance of the Investment Manager under the Administrative Services Agreement;
- monitoring and ensuring compliance with best practice corporate governance requirements; and
- ensuring the risk management systems, including internal controls, operating systems and compliance processes, are operating efficiently and effectively.

Subject to any legal requirement and the Company's Constitution, the Board may delegate any of the above powers to individual Directors, committees of the Board or the Investment Manager. Any such delegation shall be in compliance with the law and the Company's Constitution. The Board has authorised the Investment Manager to make decisions concerning the Company but has expressly reserved certain matters which require a decision of the Board.

The Investment Manager has an induction process in place for all of its new employees with responsibilities under the Agreements, including senior executives. As part of this induction process, new senior executives will receive briefings on the business of the Company and the Investment Manager and their policies and procedures. These briefings will focus on the key operational, regulatory, risk and compliance issues that are of relevance to the Company and the Investment Manager.

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;
- who can understand and competently deal with current and emerging business issues; and
- who can effectively monitor and review the performance of the Investment Manager and exercise independent judgment.

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

- Richard Warburton AO (Chairman, Independent Non-executive Director)
- John Ballard (Independent Non-executive Director)
- Andy Hogendijk (Independent Non-executive Director)
- Chris Mackay (Non-executive Director)
- Hamish Douglass (Non-executive Director) (resigned 6 February 2013)

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

2. STRUCTURE THE BOARD TO ADD VALUE (continued)

Board Composition (continued)

Details of each Director's background, date of appointment and attendance at Board meetings are set out in the Directors' Report. The Board is confident that each of the Directors will bring skills and qualifications to the Company 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 and a maximum of ten Directors. Having regard to the size of the Company and the nature of its business, the Board on 15 December 2008 determined that a five member Board of non-executive Directors is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Company. However, the composition of the Board is reviewed periodically and its independence, and that of the individual Directors, is assessed as part of those reviews.

Independent Directors

The Board has a majority of Independent Non-Executive Directors. An independent non-executive Director is a non-executive Director who is independent of the Investment Manager and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

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

Retirement of Directors

A Director must retire from office no later than 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 Company, 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 before the Director stands for re-election.

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Corporate Code of Conduct

The Company has a Corporate Code of Conduct (the "**Code**") that applies to Directors of the Company. The purpose of this Code is to:

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

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

Trading Policy

The Company has a Trading Policy that sets out the circumstances in which the Company's Directors and Directors and employees of the Investment Manager 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 Trading Policy has been lodged with the Australian Securities Exchange (ASX) is available on the Company's website.

The Investment Manager has established a Personal Trading Policy. This Policy sets out sets out the circumstances in which the Investment Manager's employees may trade in the Company's securities and in securities generally. The Policy also places restrictions and notification requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

Diversity

MFF has not established a Diversity Policy or set measurable objectives for gender diversity in accordance with ASX Recommendations 3.2 and 3.3. Given the Company has no employees, the Board has determined that a Diversity Policy and the setting of measurable objectives for achieving gender diversity are not warranted. However, the composition of the Board is reviewed periodically.

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

Committee composition

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

- Andy Hogendijk (Chairman, Independent Non-executive Director)
- John Ballard (Independent Non-executive Director)
- Chris Mackay (Non-executive Director)

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

The Chairman of the Committee is an Independent Non-executive Director and is not the Chairman of the Board. The Committee also consists of only Non-executive Directors.

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 applicable 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 is available 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 Company;
- ensure effective communication between the Board, the Investment Manager and the Investment Manager's senior financial and compliance management;
- ensure effective audit functions and communications between the Board and the Company's auditor;
- ensure that compliance strategies and compliance functions are effective; and
- ensure that Directors are provided with financial and non-financial information that is of high quality and relevant to the judgments to be made by them.

The Committee will meet a minimum of four times each year. The Chairman of the Committee will report to the Board in respect of each Committee meeting.

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING (continued)

Independent external audit

The Company'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 Company'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 Company'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 Company's 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 in a timely and direct manner and to promoting 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 for disclosure to the market.

The Continuous Disclosure Policy, which is available on the Company's website, also sets out the 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.

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

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 Company's position and prospects. It seeks to accomplish this through:

- the release of the Company's Half Year Results in February each year;
- the release of the Company's Full Year Results in August each year;
- the release of the Chairman's Letter to Shareholders each year;
- the release of Company's Annual Report in September each year;
- the release of the Chairman's and Investment Manager's addresses to the Annual General Meeting;
- the posting of the Company's weekly and monthly NTA on the Company's website as soon as it is disclosed to the market; and
- the posting of significant information on the Company's website promptly after it is disclosed to the market.

Shareholder Meetings

The Company holds its Annual General Meeting in October and a copy of the notice of Annual General Meeting is posted on the Company's website and mailed to shareholders. The Board 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 by the Chairman and Investment Manager at the Annual General Meeting are disclosed to the market.

The Company'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 Auditor's Report.

7. RECOGNISE AND MANAGE RISK

Risk management responsibility

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

- the oversight and management of material business risks to the Company;
- the review of reports provided by the Investment Manager;
- that effective systems are in place to identify, assess, monitor and manage the risks of the Company and to identify material changes to the Company's risk profile; and
- the monitoring of compliance with laws and regulations applicable to the Company.

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).

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

7. RECOGNISE AND MANAGE RISK (continued)

Risk management responsibility (continued)

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

- an effective control environment is maintained;
- 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 senior management and its respective Committees; and
- compliance with the law, contractual obligations and internal policies (including the Corporate Code of Conduct) is communicated and demonstrated.

The Investment Manager has a Risk Management Statement, which defines the process used to identify risks, the execution of appropriate responses, the monitoring of risks and the controls applied to mitigate risks associated with the Agreements.

Assurance

In respect of the year ending 30 June 2013 the Investment Manager's Portfolio Manager for the Company, Chief Operating Officer and Chief Financial Officer have made the following certifications to the Board:

- a) The Company'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
- b) The risk management and internal compliance and control systems are sound, appropriate, operating efficiently and effectively managing the Company's material business risks.

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 Company and the fact the Company does not employ any executives, the Board has determined that a Remuneration Committee is not warranted, nor does it have a Remuneration Policy to disclose.

Remuneration for the Independent Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Independent Non-Executive Directors. Further information is provided in the Remuneration Report contained within the Directors' Report.

The Investment Manager has specified authority and responsibility in regard to the management of the Company's investment portfolio. The Investment Manager is entitled to be paid management and performance fees in accordance with the Investment Management Agreement between the Company and the Investment Manager. Persons involved in management of the Company's portfolio are employees of the Investment Manager and are not remunerated by the Company. Further information on fees paid to the Investment Manager are set out in the Company's Financial Statements.

MAGELLAN FLAGSHIP FUND LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	30 June 2013 \$ '000	30 June 2012 \$ '000
Investment income			
Dividend income		9,191	6,155
Interest income		177	66
Net changes in fair value of investments		106,032	74,867
Net gains/(losses) on foreign currency cash and borrowings		9,338	(4,925)
Net (losses) / gains on foreign exchange		(112)	383
Other income		12	-
Total net investment income		124,638	76,546
Expenses			
Management fees		4,656	3,789
Finance costs – interest expense		4,290	5,152
Directors' fees		222	222
Transaction costs		121	80
Registry fees		194	49
Fund administration and operational costs		155	103
Auditor's remuneration	11	55	60
Legal and professional fees		26	15
Employment related taxes		11	43
Other expenses		43	44
Total operating expenses		9,773	9,557
Profit before income tax expense		114,865	66,989
Income tax expense	3(a)	(34,046)	(21,104)
Net profit after income tax expense		80,819	45,885
Other comprehensive income		-	-
Total comprehensive income for the year		80,819	45,885
Basic earnings per share (cents per share)	10	23.41	13.23
Diluted earnings per share (cents per share)	10	23.29	13.23

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

MAGELLAN FLAGSHIP FUND LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Note	30 June 2013 \$ '000	30 June 2012 \$ '000
Current assets			
Cash and cash equivalents	4	3,358	167,408
Investments	6	433,653	139,337
Receivables	5	1,719	23,360
Prepayments		11	9
Total current assets		438,741	330,114
Non-current assets			
Deferred tax asset	3(d)	-	8,147
Total non-current assets		-	8,147
Total assets		438,741	338,261
Current liabilities			
Payables	7	1,485	1,073
Total current liabilities		1,485	1,073
Non-current liabilities			
Deferred tax liability	3(d)	24,817	-
Total non-current liabilities		24,817	-
Total liabilities		26,302	1,073
Net assets		412,439	337,188
Equity			
Contributed equity	9	355,433	354,097
Retained profits/(loss)		57,006	(16,909)
Total equity		412,439	337,188

The above statement of financial position should be read in conjunction with the accompanying notes.

MAGELLAN FLAGSHIP FUND LIMITED

STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2013

	Note	30 June 2013 \$ '000	30 June 2012 \$ '000
Contributed equity			
Balance at beginning of year		354,097	357,089
Transactions with owners in their capacity as owners:			
Issue of securities:			
- on Dividend Reinvestment Plan	9(a)	1,033	-
- on exercise of listed options	9(b)	378	-
Shares bought back and cancelled	9	-	(2,986)
Transaction costs:			
- on issue of listed options		(107)	-
- on issue of listed options – tax effect		32	-
- on share buy-back		-	(8)
- on share buy-back– tax effect		-	2
Balance at end of year	9	355,433	354,097
Retained profits/(loss)			
Balance at beginning of year		(16,909)	(62,794)
Total comprehensive income for the year		80,819	45,885
Dividends paid	2	(6,904)	-
Balance at end of year		57,006	(16,909)
Total equity		412,439	337,188

The above statement of changes in equity should be read in conjunction with the accompanying notes.

MAGELLAN FLAGSHIP FUND LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	Note	30 June 2013 \$ '000	30 June 2012 \$ '000
Cash flows from operating activities			
Dividends received		6,710	5,774
Interest received		177	66
Other income received		12	-
Payments for purchase of investments		(337,448)	(68,260)
Proceeds from sale of investments		172,259	308,235
Net foreign exchange (losses)/gains		(112)	383
Management fees paid		(4,316)	(3,591)
Other expenses paid		(831)	(636)
Net cash (outflow)/inflow from operating activities	4(b)	(163,549)	241,971
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		9,338	(66,460)
Interest paid		(4,290)	(5,152)
Payment for shares bought back and cancelled	9(a)	-	(2,986)
Payment of share buy-back transaction costs		-	(8)
Proceeds from exercise of listed options	9(a)	378	-
Payment of issue costs on listed options		(107)	-
Dividends paid	2	(5,820)	-
Net cash outflow from financing activities		(501)	(74,606)
Net (decrease)/increase in cash and cash equivalents		(164,050)	167,365
Cash and cash equivalents at beginning of year		167,408	43
Cash and cash equivalents at end of year	4(a)	3,358	167,408

The above statement of cash flows should be read in conjunction with the accompanying notes.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies

This financial report is for Magellan Flagship Fund Limited (the "Company") for the year ended 30 June 2013 and was approved by the Board of Directors on 8 August 2013.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

(a) Basis of Preparation

This financial report is a general purpose financial report which is presented in Australian dollars and has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and other mandatory professional reporting requirements. The Company is a for-profit entity for the purpose of preparing this financial report.

Compliance with IFRS

This financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Historical cost convention

This financial report has been prepared on a going concern basis and under the historical cost convention except for assets and liabilities which are measured at fair value.

New accounting standards

None of the new standards and amendments to standards that are mandatory for the first time in this financial report affected any of the amounts recognised or disclosures in the current or prior year.

New accounting standards issued but not yet adopted

The following accounting standards and interpretations issued or amended but not yet mandatory have not been adopted by the Company in the preparation of this financial report. The impact of these standards, along with the effective date, is set out below:

- **AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13** (effective 1 July 2013)
AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when the Fund is required to use fair value but, rather, provides guidance on how to determine fair value when fair value is required or permitted. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. During the year, the Company has undertaken an assessment of all assets and liabilities and determined only cash and cash equivalents and investments are held at fair value. No impact is expected on the Company's financial performance or financial position nor are additional disclosures required upon adoption of this Standard as the necessary fair value disclosure is currently provided under AASB 7 for these assets.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

New accounting standards issued but not yet adopted (continued)

- **AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australia Accounting Standards arising from the Consolidation and Joint Arrangements Standards** (effective 1 July 2013)

AASB 10 establishes a new control model and broadens the situations when an entity is considered to be controlled by another entity. AASB 11 replaces AASB 131 Interests in Joint Ventures and uses the principle of control in AASB 10. During the year, the Company has undertaken an assessment of all its investments and has not identified any investments or interests that would require to be consolidated by the Company under AASB 10 or would qualify as a joint venture or joint operation under AASB 11. As a result, no impact on the Company's financial performance or financial position is expected upon adoption of this Standard.

AASB 12 includes all disclosures relating to the Fund's interests in subsidiaries, joint arrangements, associates and structured entities. It introduces new disclosures about the judgements made by management to determine whether control exists and requires summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. As the Company does not have any controlled or non-controlled interests, no additional disclosure will be required under AASB 12 on adoption of this Standard.

- **AASB 2012-5: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures** (effective 1 July 2013)

AASB 2012-5 comprises minor amendments to AASB 1, 101, 116, 132 and 134 and no impact on the Company's financial performance or financial position is expected once the Company applies these amendments.

- **AASB 2012-2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities** (effective 1 July 2013) and **AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities** (effective 1 July 2014)

AASB 2012-2 and AASB 2012-3 amends AASB 7 Financial Instruments: Disclosures and AASB 132 Financial Instruments: Presentation by revising and clarifying the criteria where financial assets and liabilities can be offset in the financial statements. During the year, the Company reviewed the set off arrangements and determined that the disclosures included in note 4 for the set-off arrangement for the cash and borrowings with the Company's prime broker comply with AASB 2012-2 and no additional disclosures are expected on adoption of this standard.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (continued)

(b) Segment reporting

An operating segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different to those of other segments.

The Investment Manager makes the investment decisions for the Company and the Company's operating segments are determined based on the reports reviewed by the Investment Manager to make investment decisions. The Investment Manager manages the Company's investments on a portfolio basis and considers the Company operates in a single operating segment.

(c) Foreign Currency Translation

The functional and presentation currency of the Company as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates* is the Australian dollar. Transactions denominated in foreign currencies are translated into Australian currency at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate ruling at the balance date.

Foreign currency exchange differences arising on translation, and realised gains and losses on disposals or settlements of monetary assets and liabilities, are recognised in the Statement of Comprehensive Income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in the Statement of Comprehensive Income.

(d) Investment Income

Dividend income

Dividend income is recognised on the applicable ex-dividend date gross of withholding tax. Foreign dividends received are recognised net of withholding tax in the Statement of Cashflows.

Net changes in fair value of investments

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

Interest income

Interest income is recognised on an accruals basis using the effective interest rate method.

If revenue is not received at balance date, it is included in the statement of financial position as a receivable and carried at amortised cost.

(e) Expenses

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis. Management fees are set out in note 13 and the basis on which finance costs incurred on borrowings are recognised is included in note 1(m). Directors' fees (including superannuation) and related employment taxes are included as an expense in the Statement of Comprehensive Income as incurred. Information regarding the Directors' remuneration is provided in the Remuneration Report on page 13 of the Directors' Report.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (continued)

(f) Income Tax

The income tax expense/benefit for the year is the tax payable/receivable on the current year's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all deductible temporary differences and unused tax losses carried forward to the extent that it is probable that future taxable amounts will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised only to the extent that it is become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Deferred tax assets and deferred tax liabilities are offset as there is a legally enforceable right to set off current tax assets and liabilities.

(g) Goods and Services Tax (GST)

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST, except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of that purchase or as an expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the statement of financial position as receivable or payable.

Cashflows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (continued)

(h) Financial assets and liabilities

The Company classifies and measures its financial assets and financial liabilities in accordance with AASB 9 *Financial Instruments* which the Company early adopted from 1 July 2010. Under AASB 9, all financial assets and financial liabilities are measured at fair value.

Derecognition of financial instruments

Financial assets and financial liabilities are derecognised when the Company no longer controls the contractual rights that comprise the financial instrument which is normally the case when the instrument is sold.

(i) Cash and cash equivalents

Cash includes cash at bank and demand deposits. 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.

(j) Receivables

Receivables are measured at fair value, which in the case of the Company is the:

- balance in the unsettled report for receivables on shares sold but not settled at balance date. The standard settlement period is usually between two and five days after trade date;
- original invoice amount less a provision for any uncollected debt.

Collectability of receivables is reviewed on an ongoing basis, and bad debts are written off by reducing the amount of the receivable in the statement of financial position. A specific provision is made for doubtful debts where evidence exists that the amount will not be collected.

(k) Investments

The Company's investments comprise shares in listed entities and are recognised at fair value through profit or loss in accordance with AASB 9 *Financial Instruments*. Transaction costs directly attributable to the acquisition of investments are expensed in the Statement of Comprehensive Income as incurred. Changes in the fair value of investments are recognised in the Statement of Comprehensive Income. When investments are disposed, the net gain and loss on sale is recognised in the Statement of Comprehensive Income on the date of sale.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Company's main income generating activity.

(l) Payables

Payables comprise trade creditors and accrued expenses owing by the Company at balance date which are unpaid. Payables relating to the purchase of investments are usually settled between two and five days after trade date. Trade creditors are unsecured and usually paid within 30 days of recognition. Payables are recognised at fair value.

A dividend payable to shareholders of the Company is recognised for the amount of any dividend approved on or before balance date but not distributed at reporting date.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (continued)

(m) Borrowings

Borrowings are recognised at fair value where any transaction fees and costs directly related to the borrowings are recognised in the statement of comprehensive income over the expected life of the borrowings. Borrowings are classified as current liabilities where the liability has been drawn under a financing facility which expires within one year. Finance costs include interest expense related to the borrowings which are expensed in the statement of comprehensive income as incurred.

(n) Contributed Equity

The Company's ordinary shares and listed options are classified as equity and recognised at the value of consideration received by the Company. Incremental costs directly attributable to the issue of new shares and options are recognised in equity as a deduction, net of tax. Where the Company purchases its own issued shares under a buy-back, the consideration paid, including any directly attributable transaction costs, is deducted from contributed equity.

(o) Earnings Per Share

Basic earnings per share is calculated as net profit / (loss) after income tax expense for the year divided by the weighted number of ordinary shares on issue. Diluted earnings per share is calculated by adjusting the basic earnings per share to take into account the effect of any costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary shares, namely the listed options when the Company's average share price exceeds the exercise price over the period the listed options are on issue. Refer to note 9 for further details.

(p) Rounding of amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, or in certain cases, the nearest dollar.

(q) Critical accounting estimates and judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The Directors base their judgements and estimates on historical experience and various other factors they believe to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from those estimates.

Where listed equities have no active market the Directors determine fair value with reference to external observable information and conditions existing at balance date. Fair values may however move materially with movements in market prices (refer to further detail in note 6(a)(i)). As most investments are valued with reference to the listed quoted prices, the Company's financial assets are not subject to significant judgment or complexity nor are the Company's liabilities.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. Dividends

Dividends paid and payable by the Company during the year are:

	30 June 2013	30 June 2012
	\$'000	\$'000
For the year ended 30 June 2013:		
Unfranked interim dividend (1.0 cent per ordinary share) – paid 16 May 2013	3,456	-
For the year ended 30 June 2012:		
Partially franked final dividend (1.0 cent per ordinary share) – paid 16 November 2012	3,448	-
Total dividends declared and paid during the year	6,904	-

Of the \$6,904,000 dividends paid during the current year, \$5,871,000 (\$5,820,000 net of withholding taxes) was paid in cash to ordinary shareholders that did not elect to participate in the DRP and \$1,033,000 of dividends were paid via the issue of 1,016,801 ordinary shares under the terms of the DRP (refer to note 9(a)).

(a) Dividend declared

In addition to the above dividends paid, on 8 August 2013 the Directors declared an unfranked dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2013, which represents approximately \$3,462,000. The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied to the DRP.

(b) Dividend reinvestment plan

The Company's Dividend Reinvestment Plan (DRP) was available to eligible shareholders during the year ended 30 June 2013.

Under the terms of the DRP, eligible shareholders are able to elect to reinvest their dividends in additional MFF shares, free of any brokerage or other transaction costs. Shares are issued and/or transferred to DRP participants at a predetermined price, less any discount that the directors may elect to apply from time to time. No discount has been applied to shares issued under the DRP during the year ended 30 June 2013. The DRP issue price is equal to the average of the daily volume weighted average market price of all Company shares sold in the ordinary course of trading on the Australian Securities Exchange during the 5 trading day period commencing from the day the Company's shares go ex-dividend or other dates as determined by the Board.

During the year ended 30 June 2013, the following ordinary shares were issued under the terms of the DRP:

- on 16 November 2012: 535,225 ordinary shares were issued at a reinvestment price of \$0.9281;
- on 16 May 2013: 481,576 ordinary shares were issued at a reinvestment price of \$1.1108.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. Income Tax

	30 June 2013 \$ '000	30 June 2012 \$ '000
(a) The income tax (expense) attributable to the year differs from the prima facie amount payable on the operating profit. The difference is reconciled as follows:		
Profit before income tax expense	114,865	66,989
Prima facie income tax (expense) on net profit at 30%	(34,460)	(20,097)
Write-off of deferred income tax benefit on foreign tax paid	-	(1,000)
Tax effect of franked dividends received	13	-
Over / (under) provision of prior year tax	401	(7)
	(34,046)	(21,104)
(b) The major components of income tax (expense) are:		
Current income tax (expense) / benefit	-	2,308
Deferred income tax (expense)		
– origination and reversal of temporary differences	(34,463)	(22,405)
– write-off of deferred income tax benefit on foreign tax paid	-	(1,000)
– imputation credits on dividends received	16	-
Over / (under) provision of prior year tax	401	(7)
	(34,046)	(21,104)
(c) Income tax (expense) charged directly to equity:		
Costs associated with the issue / buy-back of shares	(32)	(2)
	(32)	(2)
(d) Deferred tax (liability) / assets relate to the following:		
Tax losses carried forward	5,908	5,491
Capital losses carried forward	-	2,099
Costs associated with the issue / buy-back of shares	29	5
Unrealised gain on investments	(30,333)	(318)
Allowable tax credits	-	915
Other temporary differences	(421)	(45)
	(24,817)	8,147
(e) Imputation credits:		
Total imputation credits available in subsequent financial years based a tax rate of 30% (2012 – 30%)	\$ 16,960	\$ 388,277

The above amount represents the balance of the imputation credits at balance date as there were no adjustments since there is no income tax paid/payable, no franked dividend receivables or declared franked dividends.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

4. Cash and Cash Equivalents, and Net Interest Bearing Borrowings

	30 June 2013 \$ '000	30 June 2012 \$ '000
Note	\$ '000	\$ '000
Cash at bank – denominated in Australian Dollars	305	31
Set-off of cash assets and borrowings		
Assets		
Cash – denominated in US Dollars	83,340	204,478
Cash – denominated in Swiss Francs	-	9,727
Cash – denominated in Hong Kong Dollars	32,426	9,788
Cash – denominated in Singapore Dollars	7,339	23,076
Subtotal – foreign currency cash	<u>123,105</u>	<u>247,069</u>
Liabilities		
Borrowings – denominated in Australian Dollars	(95,645)	(76,916)
Borrowings – denominated in Euros	(17,526)	(1,966)
Borrowings – denominated in British Pounds	(6,684)	(810)
Borrowings – denominated in Swiss Francs	(197)	-
Subtotal – borrowings	<u>(120,052)</u>	<u>(79,692)</u>
Subtotal – net cash/(borrowings) set-off	<u>3,053</u>	<u>167,377</u>
Net cash and cash equivalents	4(a) <u>3,358</u>	<u>167,408</u>

The Company holds cash at bank, which is at call and subject to floating interest rates with an Australian bank. The foreign currency cash balances, which are held with Merrill Lynch International (MLI), a wholly owned subsidiary of Bank of America, are demand deposits and also subject to floating interest rates.

(a) Set-off arrangement

The foreign currency cash balances held with MLI are set-off against the borrowings drawn under the multi-currency financing facility provided by Merrill Lynch International (Australia) Limited (MLIA) (refer to further details of the borrowings at note 8). As the foreign cash of \$123,105,000 (June 2012: \$247,069,000) exceeds borrowings of \$120,052,000 (June 2012: \$79,692,000), the net cash position of \$3,053,000 is included within cash and cash equivalents in the Statement of Financial Position.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

4. Cash and Cash Equivalents, and Net Interest Bearing Borrowings (continued)

(b) Reconciliation of net profit after income tax to net cash from operating activities

	30 June 2013 \$ '000	30 June 2012 \$ '000
Net profit after income tax	80,819	45,885
Net (gains) / losses on foreign currency cash and borrowings	(9,338)	4,925
Interest expense	4,290	5,152
(Increase) /decrease in investments at market value	(294,316)	187,950
(Increase) / decrease in dividends receivable	(1,407)	222
(Increase) / decrease in foreign tax recoverable	(955)	192
Increase in GST receivables	(22)	(38)
(Increase) / decrease in prepayments	(2)	3
Decrease/(increase) in unsettled trades receivable	22,978	(22,843)
Increase in management fee payable	340	199
Increase in trade payables and accrued expenses	18	18
Decrease in deferred and current tax	34,046	20,306
Net cash (outflow) /inflow from operating activities	(163,549)	241,971

Non-cash financing and investing activities

Dividends satisfied by the issue of shares under the DRP are shown in note 2.

5. Receivables

Dividends receivable	1,589	182
Foreign tax recoverable	1	93
Settlements receivable – shares sold	-	22,978
GST receivable	129	107
	1,719	23,360
Denomination of current receivables by currency:		
Australian Dollars	129	107
US Dollars	192	10,257
Euro	1	1
Hong Kong Dollars	-	12,873
Swiss Francs	-	92
British Pounds	1,397	30
	1,719	23,360

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

6. Investments

Company name	Domicile of Principal Exchange Listing	30 June 2013	30 June 2012
		\$ '000	\$ '000
Wells Fargo	United States	50,095	22,307
Visa	United States	44,727	15,746
Apple	United States	37,122	3,689
Tesco	United Kingdom	33,238	1,614
Microsoft	United States	32,641	-
Bank of America	United States	30,685	3,581
Yum! Brands	United States	27,698	-
HCA Holdings	United States	24,495	1,689
McDonalds	United States	21,361	15,502
Wal-Mart Stores	United States	21,275	3,352
US Bancorp	United States	21,029	13,826
MasterCard	United States	20,362	5,071
Lowe's	United States	17,594	3,627
Bank of New York Mellon	United States	17,197	-
State Street	United States	14,704	-
Sainsbury's	United Kingdom	11,363	-
Home Depot	United States	2,323	-
Singapore Technologies Engineering	Singapore	2,308	1,554
Treasury Group	Australia	1,614	-
SIA Engineering	Singapore	1,611	1,045
Total - top 20 holdings		433,442	92,603
Other companies		211	46,734
Total investments		433,653	139,337

(a) Fair value disclosures

The Company classifies the fair value measurements of financial assets and financial liabilities using the three level fair value hierarchy set out below, to reflect the source of valuation inputs used when determining the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The Company invests in securities and rights in listed entities. The fair value of these investments is based on the closing bid price for the security as quoted on the relevant exchange;
- Level 2: valuation techniques using market observable inputs, either directly or indirectly; and
- Level 3: valuation techniques using non-market observable market data with the fair value based on a Director's valuation.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

6. Investments (continued)

(a) Fair value disclosures (continued)

The table below presents the Company's financial assets and liabilities measured and recognised at fair value:

	30 June 2013	30 June 2012
Note	\$ '000	\$ '000
Assets		
Level 1: Investments – valued using quoted price	433,653	139,337
Level 3: Investments – directors' valuation as no quoted price (i)	-	-
Total financial assets	433,653	139,337

The transfers between level 1 and 3 and reconciliation of the fair value movements within level 3 for the year ended 30 June 2013 is shown below. At 30 June 2012, all financial assets were classified as Level 1 and there were no transfers between the three levels in the hierarchy.

	Level 3
	\$'000
Opening balance – 1 July 2012	-
Transfer into level 3 from level 1	5,976
Unrealised loss recognised in net changes in fair value of investments	(5,976)
Closing balance – 30 June 2013	-

(i) Level 3 investment

The level 3 investment comprises the Company's shares in China Metals Recycling (Holdings) Limited, for which there is no active market as the shares have been halted from trading since 28 February 2013. As a result this investment is categorised as a Level 3 in the fair value hierarchy.

In the absence of information relating to the resumption of trading, the Directors' have adopted a valuation of zero as at 30 June 2013. This compares with cost of \$4,540,000 and last market value of \$5,976,000. This results in a \$5,976,000 reduction in the Statement of Comprehensive Income (\$4,183,000 net of tax) within net changes in fair value of investments.

The fair value of all other financial assets and liabilities approximate their carrying values in the Statement of Financial Position.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

6. Investments (continued)

Foreign exchange rates

The Australian dollar exchange rates against the following currencies (London 4.00pm rates) are:

	30 June 2013	30 June 2012
	\$	\$
US Dollar	0.9154	1.0251
Euro	0.7042	0.8077
British Pound	0.6035	0.6535
Swiss Franc	0.8661	0.9702
Hong Kong Dollar	7.0998	7.9512
Singapore Dollar	1.1609	1.2985
	\$ '000	\$ '000

7. Payables

Accrued expenses	1,372	1,032
Trade payables	54	41
Other payables	59	-
	1,485	1,073

Denomination of current payables by currency:

Australian Dollars	1,485	1,073
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8. Borrowings

The Company has a multi-currency facility with Merrill Lynch International (Australia) Limited (MLIA) which commenced in October 2007. MLIA has the ultimate discretion as to the amount to lend under the facility, having regard to the high quality and liquidity of the Company's investments. Amounts drawn are repayable on demand.

The facility, which is included in the International Prime Brokerage Agreements (IPBA), provides MLI with a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA. Each of the Company's securities held by MLI may be used by MLI for its own purposes up to a total value of AUD \$200,000,000, whereupon such securities will become the property of MLI and the Company will have a right against MLI for the return of equivalent securities.

As at 30 June 2013, the drawn borrowings were \$120,052,000 (June 2012: \$79,692,000) however as the cash held with MLI exceeds the borrowings, the net borrowing position was nil (June 2012: nil). Refer to note 4(a) for further details on the set-off arrangement.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

8. Borrowings (continued)

Under the Company's borrowing policy, total borrowings on the date of any drawdown under the facility must not exceed 20% of the Company's investments at market value. As at 30 June 2013, the Company's net borrowing level was nil as the Company reported a net cash position (refer note 4).

9. Contributed equity	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	Number of shares	Number of shares	\$'000	\$'000
(a) Ordinary Shares				
Opening balance	344,844,354	349,348,689	354,097	357,089
Shares issued under DRP – 16 Nov 12	535,225	-	498	-
Shares issued under DRP – 16 May 13	481,576	-	535	-
Shares issued from exercise of options	360,112	-	378	-
Shares bought back & cancelled	-	(4,504,335)	-	(2,992)
Total ordinary shares	346,221,267	344,844,354	355,508	354,097
(b) Listed Options				
Opening balance	-	-	-	-
Options issued	114,516,157	-	-	-
Shares issued from exercise of options	(360,112)	-	-	-
Transaction costs	-	-	(75)	-
Total listed options	114,156,045	-	(75)	-
Total contributed equity	460,377,312	344,844,354	355,433	354,097

(c) Terms and conditions

(i) Ordinary shares

Fully paid ordinary shares entitle the holder to receive dividends as declared and the proceeds on winding up the Company in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person, or by proxy, at a meeting of the Company.

(ii) Listed options

Each shareholder received one listed option for every 3 ordinary shares held at 10 October 2012 for nil consideration. A total of 114,516,157 listed options were issued by the Company on 17 October 2012. The options are listed on the ASX (ASX code: MFFO).

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

9. Contributed equity (continued)

(c) Terms and conditions (continued)

(ii) Listed options (continued)

Listed options entitle the holder to the right to acquire one ordinary share in the Company at a price of \$1.05 and are exercisable at any time on or prior to 31 October 2017, at which time they will lapse. The options are not entitled to dividends and ordinary shares issued on exercise of the options rank equally with all other ordinary shares from the date of exercise and entitle the holder to receive dividends on or prior to the applicable record date.

Share buy-back

The Company completed an on-market share buy-back of 20,000,000 shares at a total cost of approximately \$11,200,000 on 30 July 2009. On 8 August 2012 the Company announced its intention to extend the on-market share buy-back period to 9 September 2013. To date, the Company has bought back and cancelled 13,200,000 shares of a maximum 20,000,000 under this buy-back programme at an average price of \$0.628 per share. No shares were acquired under this offer during the year ended 30 June 2013.

Dividend reinvestment plan

Refer to note 2(b) for details on the dividend reinvestment plan (DRP).

10. Earnings per Share

	30 June 2013	30 June 2012
Basic earnings per share (cents)	23.41	13.23
Diluted earnings per share (cents)	23.29	13.23

Weighted average number of ordinary shares

Weighted average number of ordinary shares on issue used in calculating basic earnings per share

345,249,172 346,745,355

add: equivalent number of unexercised listed options for the purposes of calculating diluted earnings per share

1,786,715 -

Weighted average number of ordinary shares on issue used in calculating diluted earnings per share

347,035,887 346,745,355

The listed options granted on 17 October 2012 and which remain unexercised at 30 June 2013 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. Detailed of the listed options are set out in note 9(c)(ii).

Earnings reconciliation

Net profit after income tax expense used in the calculation of basic and diluted earnings per share (\$'000)

80,819 45,885

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

11. Auditor's Remuneration

Amounts received or due and receivable by the auditor of the Company, Ernst & Young:

	30 June 2013	30 June 2012
	\$	\$
Audit services		
Statutory audit and review of the financial reports	47,000	46,000
Non-audit services		
Taxation services	8,000	7,000
Other	-	6,600
Total auditor's remuneration	55,000	59,600

12. Capital and Financial Risk Management

(a) Financial risk management

The Company's investing activities expose it to various types of risk: price risk, currency risk, credit risk and liquidity risk.

The Company has investment restrictions designed to reduce risk, including the requirement that:

- individual investments comprising the investment portfolio will not exceed 20% of the investment portfolio value of the Company at the time of the investment;
- total borrowings must not exceed 20% of the Company's investments at market value;
- the use of derivatives is very limited and permitted only where the Investment Manager considers that a derivative is preferable to purchasing ordinary share capital, in accordance with the investment objectives and philosophy. In addition, short selling is very limited and permitted only in relation to implementing hedges of underlying investments or merger arbitrage relating to a portfolio investment. The Company did not use derivatives or undertake short selling during the year ended 2013.

(b) Capital management

The Company's objective in managing capital is to maximise compound after-tax returns for shareholders by identifying and investing in an investment portfolio of listed international and Australian companies assessed to have highly attractive business characteristics, at a discount to their assessed intrinsic values, while minimising the risk of permanent capital loss. The Company's investment portfolio comprises listed equity securities. It is the Company's investment objective to seek long term capital growth by investing in listed international and Australian companies with attractive business characteristics at discounts to their assessed intrinsic values.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

12. Capital and Financial Risk Management (continued)

(b) Capital management (continued)

The Company recognises that its capital will fluctuate in accordance with market conditions and in order to maintain or adjust the capital structure, may vary the amount of dividends paid, issue new shares or options from time to time, or buy back its own shares.

The Company's capital consists of shareholder equity and net borrowings. During the year, the Company issued 114,516,157 options to ordinary shareholders on 17 October 2012 and the Company continues to have an active on-market share buy-back programme. Refer to note 9(c) for further details.

Refer to note 9 for a breakdown of the Company's equity and changes in equity during the current year. There were no changes in the Company's approach to capital management during the current year and the Company is not subject to any externally imposed capital requirements.

(c) Credit Risk

Credit risk represents the financial loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and the risk of loss is implicitly provided for in the carrying value of financial assets and liabilities when valued at fair value. The maximum exposure to credit risk at balance date is therefore carrying amount of financial assets recognised in the Statement of Financial Position.

The Company's key credit risk exposure is to Merrill Lynch International (MLI) and Merrill Lynch International (Australia) Limited (MLIA). The services provided by MLI under the International Prime Brokerage Agreement dated May 2011 (IPBA) include clearing and settlement of transactions, securities lending and acting as custodian for the Company's assets. Under an addendum to the IPBA, MLIA may also provide financing services to the Company. The IPBA with MLI is in a form that is typical of prime brokerage arrangements and each of the Company's securities held by MLI may be used by MLI for its own purposes up to a total amount of AUD \$200,000,000, whereupon such securities will become the property of MLI and the Company will have a right against MLI for the return of equivalent securities. These securities are set out in note 6.

The Company has granted MLI a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA.

In the event of MLI becoming insolvent, the Company would rank as an unsecured creditor and the Company may not be able to recover such equivalent securities in full. Cash which MLI holds or receives on behalf of the Company (refer to note 4) is not segregated from MLI's own cash and therefore may be used by MLI in the course of its business.

To minimise this credit risk in addition to limiting the amount of securities used by MLI for its own purposes to AUD\$200,000,000, the Company has put in place a separate custody facility with MLI. Under this arrangement the Company may, at its sole election and at a time of its own choosing, transfer the Company's unencumbered securities from MLI to a separate custodian, Prime Asset Custody Transfers Limited (PACT). MLI and PACT form part of the Bank of America Merrill Lynch Group of Companies.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

12. Capital and Financial Risk Management (continued)

(c) Credit Risk (continued)

If transferred to PACT, the Company's securities would be held in a custody account by PACT pursuant to a Custody Agreement. PACT may not use in any way the Company's securities credited to the PACT custody account for its own purposes.

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2013, by Standard & Poor's as being A- , and by Moody's as being Baa2 (A- and Baa2 respectively at 30 June 2012)

The Company also minimises credit risk by investing and transacting with counterparties that are reputable and have acceptable credit ratings determined by a recognised rating agency, and regularly monitoring receivables on an ongoing basis.

Ageing analysis of receivables

At 30 June 2013, all of the Company's receivables are due within 0 to 30 days (June 2012: 0 to 30 days). No amounts are impaired or past due at 30 June 2013 or 30 June 2012.

(d) Liquidity and Refinancing Risk

Liquidity risk refers to the risk that the Company will not have sufficient funds to settle liabilities or obligations on the due date or will be forced to sell financial assets at a value which is less than they are worth.

A key component of liquidity risk is refinancing risk, which may arise in the unlikely event that MLIA demanded repayment of the borrowings at short notice under the terms of the multi-currency facility (refer to note 8 for further details on borrowings). The Directors are confident that the net borrowings could be repaid via settlement proceeds from the sale of part of the Company's highly liquid investment portfolio.

Therefore as net borrowings repayable on demand at 30 June 2013 were nil (June 2012: nil) and amounts payable within 28 days relating to other payables were \$1,485,000 (June 2012: \$1,073,000), the Company has sufficient funds to meet its liabilities as the market value of the Company's investments at 30 June 2013 is \$433,653,000 (2012: \$139,337,000) and the value of these investments well exceeds the liabilities of the Company.

Maturities of financial liabilities

At 30 June 2013, the Company's financial liabilities comprise payables which mature in 1 year or less (Jun 2012: 1 year or less).

(e) Price Risk

Price risk is the risk that the value of the Company's investment portfolio will fluctuate as a result of changes in market prices of individual investments and / or the market as a whole. The Company's investments are carried at market value with changes recognised in the Statement of Comprehensive Income. Price risk is managed by ensuring that all activities are transacted in accordance with the Company's investment policy and within approved limits.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

12. Capital and Financial Risk Management (continued)

(e) Price Risk (continued)

Over the past 10 years, the annual movement in the major global share indices (MSCI and S&P 500) has varied between +35.11% and -23.42% (in AUD) and +30.69% and -29.50% (in USD). Performance of markets is not always a reliable guide to future performance, and the Company's investment portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably be expected within the portfolio over the next twelve months. The impact of equity price movements, expressed in percentage terms, on the net profit reported by the Company, is linear. Each 5% incremental increase in the market prices of the Company's portfolio compared to 30 June 2013 would increase the total equity and net profit by \$15,178,000 (June 2012: \$4,877,000) and each 5% incremental decrease would have an equal and opposite impact.

(f) Currency Risk

The Company has exposure to foreign currency denominated cash and borrowings (refer to note 4) and also other assets and liabilities denominated in foreign currencies as it invests in listed international and Australian companies. Therefore the Company is exposed to movements in the exchange rate of the Australian dollar relative to foreign currencies.

At balance date, had the Australian dollar strengthened by 10% against the foreign currencies in which the Company holds foreign currency denominated monetary assets, with all other variables held constant, the impact of monetary assets on the Company's equity and net profit would have been:

30 June 2013			30 June 2012		
Australian dollar strengthens against:	10%	Net increase / (decrease) in net profit	Australian dollar strengthens against:	10%	Net increase / (decrease) in net profit
	by:	A\$'000		by:	A\$'000
US Dollars	10%	(5,834)	US Dollars	10%	(14,314)
Euros	10%	1,227	Euros	10%	138
British Pounds	10%	468	British Pounds	10%	57
Swiss Francs	10%	14	Swiss Francs	10%	(681)
Hong Kong Dollars	10%	(2,270)	Hong Kong Dollars	10%	(685)
Singapore Dollars	10%	(514)	Singapore Dollars	10%	(1,615)
		(6,909)			(17,100)

A 10% decline in the Australian dollar against these foreign currencies would have an equal and opposite impact on the Company's equity and net profit.

At 30 June 2013, had the Australian dollar strengthened by 10% against the foreign currencies in which the Company holds foreign currency denominated other non-monetary assets and liabilities with all other variables held constant, total equity and net profit would have decreased by \$30,345,000 (2012: \$11,390,000). A 10% decline in the Australian dollar against these foreign currencies would have an equal and opposite impact on the Company's equity and net profit.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

12. Capital and Financial Risk Management (continued)

(f) Currency Risk (continued)

Had the Australian dollar strengthened by 10% against the foreign currencies in which the Company holds total foreign currency denominated monetary and non-monetary assets and liabilities with all other variables held constant, total equity and net profit would have decreased by \$37,254,000 (2012: \$28,490,000). A 10% decline in the Australian dollar would have had an equal and opposite impact.

Currency movements may not be correlated.

The Company's total net exposure to fluctuations in foreign currency exchange rates at the Statement of Financial Position date is:

<i>All amounts stated in AUD equivalents</i>	30 June 2013 \$ '000	30 June 2012 \$ '000
Assets at fair value*		
US Dollars	466,838	337,675
Euros	(17,525)	(1,359)
British Pounds	39,396	835
Singapore Dollars	11,257	25,672
Swiss Francs	(197)	10,412
Hong Kong Dollars	32,426	33,769
	<u>532,195</u>	<u>407,004</u>

* Foreign currency cash balances held with MLI are netted against foreign currency borrowings provided by MLIA (refer note 4)

Assets and liabilities in the Statement of Financial Position exposed to foreign currencies:

Assets - exposed to foreign currencies	532,195	407,004
Assets - not exposed to foreign currencies	(93,454)	(68,743)
Assets - as per Statement of Financial Position	<u>438,741</u>	<u>338,261</u>
Liabilities - exposed to foreign currencies	-	-
Liabilities - not exposed to foreign currencies	(26,302)	(1,073)
Liabilities - as per Statement of Financial Position	<u>(26,302)</u>	<u>(1,073)</u>
Net assets - exposed to foreign currencies	532,195	407,004
Net assets - not exposed to foreign currencies	(119,756)	(69,816)
Net assets - as per Statement of Financial Position	<u>412,439</u>	<u>337,188</u>

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

12. Capital and Financial Risk Management (continued)

(g) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk relates primarily to cash balances and net interest bearing borrowings as follows:

	Interest rate Cash & cash equivalents/ (Borrowings) %	30 June 2013 \$ '000	Interest rate Cash & cash equivalents/ (Borrowings) %	30 June 2012 \$ '000
Australian Dollars	2.70	305	3.45	31
US Dollars	0.16	83,340	0.10	204,478
Swiss Francs	n/a	-	0.00	9,727
Hong Kong Dollars	0.21	32,426	0.20	9,788
Singapore Dollars	0.17	7,339	0.16	23,076
		<u>123,105</u>		<u>247,069</u>
Australian Dollars	(4.08)	(95,645)	(4.84)	(76,916)
Swiss Francs	(1.25)	(197)	n/a	-
Euros	(1.35)	(17,526)	(1.57)	(1,966)
British Pounds	(1.74)	(6,684)	(1.81)	(810)
		<u>(120,052)</u>		<u>(79,692)</u>
		3,053		167,377
		3,358		167,408

Sensitivity analysis

The sensitivity of the Company's net profit and equity of a reasonably possible upwards or downwards movement in interest rate risk, assuming all other variables remain constant is set out below:

	Interest rate risk			
	Impact on profit increase/(decrease)		Impact on equity increase/(decrease)	
	+10bps \$'000	-10bps \$'000	+10bps \$'000	-10bps \$'000
30 June 2013				
Cash and cash equivalents	123	(123)	123	(123)
Borrowings	(120)	120	(120)	120
	<u>3</u>	<u>(3)</u>	<u>3</u>	<u>(3)</u>
30 June 2012				
Cash and cash equivalents	247	(237)	247	(237)
Borrowings	(80)	80	(80)	80
	<u>167</u>	<u>(157)</u>	<u>167</u>	<u>(157)</u>

Interest rate movements may not be correlated.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

13. Related Parties

(a) Investment Manager

The Company has appointed Magellan Asset Management Limited (MAM) as the Investment Manager and has entered into an Investment Management Agreement. MAM is wholly owned by MFG and is a related party.

Management and performance fees paid and payable to the Investment Manager by the Company for the current year ended 30 June 2013 are set out below:

(i) Base fee

The Investment Manager is entitled to a base fee calculated as 1.25% per annum (excluding GST, payable quarterly in arrears) of the market value of all assets less total indebtedness of the Company. The Investment Manager determined that net deferred tax assets/liabilities would be excluded from the calculation of the base fee, thereby reducing the amount of the base fee.

(ii) Performance fee

For the year ended 30 June 2013, the Investment Manager is entitled to a performance fee of 10% of the outperformance of the investment portfolio relative to the MSCI World Index, subject to performance also meeting absolute return and high water mark hurdles. Performance fee entitlements are calculated on an annual basis, commencing on 1 July of each calendar year.

No performance fee was payable in respect of the year ended 30 June 2013 as the net asset value per share was below the required high water mark at 1 July 2012.

	30 June 2013	30 June 2012
	\$	\$
<hr/>		
The following amounts were paid during the year:		
Base fee	4,656,473	3,789,441
Performance fee	-	-
	<u>4,656,473</u>	<u>3,789,441</u>

The following amounts were payable at the end of the year:

Base fee	<u>1,371,595</u>	<u>1,031,572</u>
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(iii) Variation to Investment Management Agreement (IMA) from 1 July 2013

On 28 June 2013, the Company announced that the Investment Management Agreement (IMA) with Magellan Asset Management Limited (MAM) had been amended effective 1 July 2013. The key changes were:

- base fees (unchanged at 1.25% per annum payable quarterly in arrears) will be capped to the actual number of the Company's ordinary shares on issue. Under this methodology, where the Company's asset base increases through the issuance of additional shares, such as upon exercise of the Company's listed options or under the DRP, the quantum of base fees no longer automatically increase. The quantum of the base fees will rise if the value per MFF's ordinary share rises.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

13. Related Parties (continued)

(iii) Variation to Investment Management Agreement from 1 July 2013 (continued)

- performance fees will cease to be payable to MAM after 31 December 2016 and the maximum total performance fees that may be paid or payable over the period 1 July 2013 to 31 December 2016 will be capped at \$8,000,000. In addition, no performance fee will be payable unless the total shareholder return exceeds 10% per annum annually compounded, with four measurement periods each commencing 1 July 2013 and ending on 30 June 2014, 30 June 2015 and 31 December 2016. The maximum performance fee that may be payable in respect to each period is \$2,000,000, and is non-cumulative.
- the Company has the right to terminate the IMA upon 3 months notice and Magellan Asset Management Limited has the right to terminate the IMA upon 6 months notice, which notice cannot expire prior to 31 December 2016. Until that time, termination rights without cause are limited to an event where Chris Mackay ceases to be portfolio manager, Hamish Douglass (Chief Executive Officer of MAM) is unable to act as portfolio manager, and MAM is not able to identify a person to act as portfolio manager that is acceptable to the Company (acting reasonably). The Company will continue to receive services from MAM under an Administrative Services Agreement for no additional charge while the IMA is in effect.

(b) Key Management Personnel

The Key Management Personnel of the Company comprise the Independent Non-executive Directors of the Company, the Non-Independent Non-executive Directors of the Company and the Investment Manager.

(c) Remuneration of Key Management Personnel

The following remuneration was paid or payable by the Company to the Independent Non-executive Directors of the Company and the Investment Manager during the year:

	2013	2012
	\$	\$
Short term Benefits		
- Salary	204,129	192,662
Post-employment Benefits		
- Superannuation	18,371	29,838
Base fees	4,656,473	3,789,441
Total paid by the Company	4,878,973	4,011,941

The following amounts were paid or payable to the Non-Independent Non-executive Directors of the Company by the Investment Manager during the year:

Short term Benefits		
- Salary	815,750	468,450
- Cash bonus	538,973	300,000
Post-employment Benefits		
- Superannuation	26,442	31,550
Total paid by the Investment Manager	1,381,165	800,000

Further details of remuneration paid to the Directors is disclosed in the Remuneration Report in the Directors' Report.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

13. Related Parties (continued)

(c) Related Party shareholdings

The number of ordinary shares and listed options held in the Company at 30 June 2013 by the Key Management Personnel is set out below:

Director	Balance at 1 July 2012	Acquisitions	Disposals	Balance at 30 June 2013
Richard Warburton AO				
- Ordinary shares	650,000	10,966	-	660,966
- Listed options	-	220,299	-	220,299
John Ballard				
- Ordinary shares	1,100,000	19,740	-	1,119,740
- Listed options	-	373,206	-	373,206
Andy Hogendijk				
- Ordinary shares	225,000	17,216	-	242,216
- Listed options	-	79,213	-	79,213
Chris Mackay ^(A)				
- Ordinary shares	19,253,299	6,538,744	-	25,792,043
- Listed options	-	8,388,236	-	8,388,236
Hamish Douglass ^{(A),(B)}				
- Ordinary shares	750,000	-	-	750,000
- Listed options	-	249,999	-	249,999

^(A) Mr Mackay and Mr Douglass are also Chairman and Chief Executive Officer respectively of MFG.

^(B) Mr Douglass resigned as a Director on 6 February 2013 and the transactions above relate to the period 1 July 2012 to 6 February 2013.

MAM, the Investment Manager does not directly or indirectly own shares in the Company and MFG, being the ultimate parent entity of MAM, held nil ordinary shares in the Company at 30 June 2013 (June 2012: 50,198,707 shares or 14.56% of total shares on issue).

On 14 December 2012, MFG, the Company's largest shareholder and the ultimate parent entity of MAM, announced an inspecie distribution to its shareholders of all of its holdings of ordinary shares and listed options in the Company. As a consequence, on 13 February 2013, MFG disposed of all of its investment in both ordinary shares and listed options it held in the Company to each MFG ordinary shareholder, and held no investment in the Company as at 30 June 2013.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

14. Segment Information

The Company operates in one business segment being equity investment, and in one geographic segment, Australia, however the Company continues to have foreign exposures as it invests in companies which operate internationally.

15. Contingent Assets, Liabilities and Commitments

The Company has no commitments, contingent assets or contingent liabilities as at 30 June 2013 (June 2012: nil).

16. Events Subsequent to Reporting Date

On 8 August 2013, the Directors declared an unfranked final dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2013 (refer to note 2(a) for further details).

In the latest release to the ASX on 6 August 2013, the Company reported a Pre-tax NTA per share of \$1.398 (excluding net deferred tax liabilities of \$0.082) as at 2 August 2013. This represented an increase of approximately 10.7% over the Pre-tax NTA per share of \$1.263 as at 30 June 2013 as set out below:

	2 August 2013	Reported 30 June 2013	Audited 30 June 2013
Pre-tax NTA	\$1.398	\$1.263	\$1.263
Net deferred tax liabilities	(\$0.082)	(\$0.073)	(\$0.072)
Post-tax NTA	\$1.316	\$1.190	\$1.191

Other than the above, the Directors are not aware of any matter or circumstance not otherwise dealt with in this financial report that has or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future years.

17. Net Tangible Assets (NTA) Value Per Share

The following table reconciles the NTA^(A) presented in the Statement of Financial Position as at 30 June 2013 to the NTA per share reported to the ASX on 2 July 2013.

	30 June 2013	30 June 2012
Audited NTA in Statement of Financial Position (\$'000)	412,439	337,188
divided by:		
Number of ordinary shares on issue	346,221,267	344,844,354
Audited Post-tax NTA Value – cents per share^(B)	119.1	98.0
ASX Reported Post-tax NTA Value – cents per share per the ASX announcement dated 2 July 2013	119.0	98.0

^(A) Net tangible assets refers to the net assets of the Company including the net deferred tax liabilities/assets. This is also referred to as the 'post-tax NTA' per share in the Company's ASX NTA announcements. Where the Company reports 'pre-tax' NTA per share, this refers to the net assets of the Company minus the net deferred tax assets/liabilities presented in the Statement in Financial Position.

^(B) Since the Post-tax NTA value of 119.0 cents per share was issued on 2 July 2013, an additional \$387,000 deferred tax asset was recorded in relation to tax losses. This has been reflected in the Company's audited financial statements for the financial year ended 30 June 2013 and resulted in an increase of 0.1 cent per share to the Post-tax NTA value.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2013

In accordance with a resolution of the Directors of Magellan Flagship Fund Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes set out on pages 31 to 59 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards, International Financial Reporting Standards (IFRS) as disclosed in Note 1(a), the *Corporations Regulations 2001*.
- (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 year ended 30 June 2013.

Signed in accordance with a resolution of the Directors.



Richard Warburton AO
Director

Sydney
8 August 2013

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent auditor's report to the members of Magellan Flagship Fund Limited

Report on the financial report

We have audited the accompanying financial report of Magellan Flagship Fund Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and 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.

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 1(a), 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 of the financial report that gives a true and fair view 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.

INDEPENDENT AUDITOR'S REPORT



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 included in the directors' report.

Opinion

In our opinion:

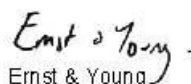
- a. the financial report of Magellan Flagship Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 14 to 20 of the directors' report for the year ended 30 June 2013. 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 Flagship Fund Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.


Ernst & Young


Graeme McKenzie
Partner
Sydney
8 August 2013

MAGELLAN FLAGSHIP FUND LIMITED

SHAREHOLDER INFORMATION

As at 1 August 2013

Distribution of Shareholders

The distribution of shareholders of the Company as at 1 August 2013 is presented below:

Distribution Schedule of Holdings	Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	1,087	477,391	0.14
1,001-5,000	1,316	3,592,328	1.04
5,001-10,000	1,090	8,539,346	2.47
10,001-100,000	3,983	129,346,462	37.35
100,001 and over	496	204,343,231	59.01
Total	7,972	346,298,758	100.00
Number of holders with less than a marketable parcel	515	86,155	0.02

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 1 August 2013 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
UBS Wealth Management Australia Nominees Pty Ltd	16,745,570	4.84
Chris Mackay	11,627,261	3.36
Naumov Pty Ltd	7,905,598	2.28
Mutual Trust Pty Ltd	7,773,730	2.25
Forsyth Barr Custodians Ltd	5,988,435	1.73
Magellan Equities Pty Limited	5,745,077	1.66
Citicorp Nominees Pty Limited	5,251,221	1.52
HSBC Custody Nominees (Australia) Limited	4,419,788	1.28
Cavalane Holdings Pty Ltd	4,367,432	1.26
Midas Touch Investments Pty Ltd	3,961,535	1.14
National Nominees Limited	3,813,017	1.10
Citicorp Nominees Pty Limited	2,843,857	0.82
Navigator Australia Ltd <MLC Investment Sett A/C>	2,687,379	0.78
Wulura Investments Pty Ltd	2,000,000	0.58
Nota Bene Investments Pty Ltd <Nota Bene Inv A/C>	1,975,975	0.57
Netwealth Investments Limited <Super Services A/C>	1,835,429	0.53
Rogand Superannuation Pty Ltd <Rogand Super Fund A/C>	1,626,202	0.47
Netwealth Investments Limited <Wrap Services A/C>	1,604,622	0.46
Victor John Plummer	1,500,000	0.43
Cremorne Co Pty Ltd <Cremorne Co A/C>	1,415,118	0.41
Total shares held by the twenty largest shareholders	95,087,246	27.47
Total shares in issue	346,298,758	

MAGELLAN FLAGSHIP FUND LIMITED

SHAREHOLDER INFORMATION

As at 1 August 2013

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders as at 1 August 2013 are listed below:

Shareholder	Number of Ordinary Shares
Christopher Mackay and Associates ⁽¹⁾	25,792,043

(1) Includes shares acquired after the Notice of Change of Interests of Substantial Holder that was lodged on 19 February 2013 – 25,294,843

Ordinary Share Capital

All issued ordinary shares carry one vote per share and carry the rights to dividends.

Stock Exchange Listing

The Company's ASX code is "MFF" for its ordinary shares and "MFFO" for its listed options.

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE DIRECTORY

Directors

Richard Warburton AO
John Ballard
Andy Hogendijk
Chris Mackay
Hamish Douglass (resigned 6 February 2013)

Company Secretaries

Leo Quintana
Nerida Campbell

Registered Office

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

Investment Manager

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

Auditors

Ernst & Young
680 George Street
Sydney NSW 2000

Share Registry

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

Securities Exchange Listing

Australian Securities Exchange (ASX)
ASX code (ordinary shares): MFF
ASX code (listed options): MFFO

Website

www.magellangroup.com.au/mff