



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

5 February 2014

Company Announcements Office
Australian Securities Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

2014 HALF YEAR RESULTS

Magellan Flagship Fund Limited (**MFF**) hereby lodges:

1. Appendix 4D Statement for the half year ended 31 December 2013;
2. Interim Financial Report for the half year ended 31 December 2013, incorporating interim financial statements and Portfolio Manager's Report.

Yours sincerely,

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

Leo Quintana
Company Secretary

Appendix 4D

Magellan Flagship Fund Limited

Half Year Report Ended 31 December 2013

Details of Reporting Periods:

Current: 1 July 2013 to 31 December 2013
Corresponding: 1 July 2012 to 31 December 2012

Results for Announcement to the Market:	Change from the Corresponding Period \$'000	31 Dec 2013 \$'000
Total net investment income (<i>"revenue from ordinary activities"</i>)	Up by 80,356 or 403.5%	to 100,270
Net operating profit after income tax (<i>"Profit / (loss) from ordinary activities after tax attributable to members"</i> and <i>"Net profit / (loss) for the period attributable to members"</i>)	Up by 55,507 or 516.6%	to 66,251

Interim Dividends:

	Amount per share	Franked Amount per share at 30% tax
Interim dividend	1.0 cent	0.0 cents
Previous corresponding period	1.0 cent	0.0 cents

Interim Dividends Dates:

Ex-dividend date	29 April 2014
Record date	01 May 2014
DRP election date	02 May 2014
Interim dividend payment date	16 May 2014

The amount declared to be 'Foreign Sourced Dividend Income' is 0.0 cents per share. In accordance with the accounting standards, the dividend has not been provided for in the financial statements. The Dividend Reinvestment Plan (DRP) will operate in respect of the interim dividend and no discount will be applied. The last date for receipt of election notices to participate in the DRP is 02 May 2014. The Company paid an unfranked dividend of 1.0 cent per share representing approximately \$3.5 million, in respect of the year ended 30 June 2013.

Net tangible assets per share:

	31 December 2013	31 December 2012
Pre-tax NTA	\$1.519	\$0.986
Net tax (liability) / asset	\$0.150	\$0.012
Post-tax NTA	\$1.369	\$0.974
Diluted Pre-tax NTA	\$1.407	No dilution
Diluted Post-tax NTA	\$1.293	No dilution

Commentary on Results:

For the six months to 31 December 2013, the Company recorded a pre-tax profit of \$94,623,000 (December 2012: \$15,349,000) and a net profit after income tax expense of \$66,251,000 (December 2012: \$10,744,000). This strong interim financial result is primarily due to a continuing rise in international equity markets. Changes in the market value of investments in the portfolio contributed approximately \$96,000,000 to net investment income for the current half-year, compared with approximately \$14,000,000 for the previous half-year.

The Company's net assets increased by \$67,908,000 in the six months to \$480,347,000 at 31 December 2013 (June 2013: \$412,439,000) which was primarily due to the performance of the Company's investment portfolio. This has resulted in a higher pre-tax net tangible assets (NTA) of \$1.519 per ordinary share (prior to net tax liabilities of \$0.150) as at 31 December 2013 compared with \$1.263 per ordinary share as at 30 June 2013. The Company also reported a higher post-tax NTA of \$1.369 per ordinary share as at 31 December 2013 compared with \$1.190 per ordinary share as at 30 June 2013. If all of the MFF 2017 Options had been exercised at 31 December 2013, the Pre-tax and Post-Tax NTA values would have been reduced by 11.2 and 7.6 cents per share to approximately \$1.41 and \$1.29 per ordinary share respectively at as that date.

As markets continue to be subject to fluctuations, the investment performance and results of the past six months to 31 December 2013 should not be considered to be representative of results and returns in future financial periods.

Please refer to the attached Portfolio Manager's Report, and Interim Financial Report.

Subsequent Events:

Refer to Note 10 in the Company's 31 December 2013 Interim Financial Report.

Financial Report:

The Company's independent auditor Ernst & Young has completed a review of the Company's 31 December 2013 Interim Financial Report on which this report is based and has provided an unqualified review report. A copy of the Company's Financial Report, inclusive of the review report, is attached.

2013



ABN: 32 121 977 884

[INTERIM REPORT]

FOR THE HALF YEAR ENDED – 31 DECEMBER 2013

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Magellan Flagship Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2013

The Directors of Magellan Flagship Fund Limited (MFF or the "Company") submit their report in respect of the half year ended 31 December 2013.

1.1 Directors

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

Name	Directorship	Appointed
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	Executive Director	29 September 2006

On 1 October 2013, Mr Chris Mackay was appointed Managing Director of the Company, in addition to his role as Portfolio Manager of the Company.

1.2 Principal Activity

The principal activity of the Company remains unchanged which is the investment into a minimum of twenty exchange listed international and Australian companies with attractive business characteristics.

The Company is domiciled in Australia and has its principal place of business at Level 7, 1 Castlereagh Street, Sydney, New South Wales, 2000.

1.3 Review of Results and Operations for the Half-Year

• Financial results

For the six months to 31 December 2013, the Company recorded a pre-tax profit of \$94,623,000 (December 2012: \$15,349,000) and a net profit after income tax expense of \$66,251,000 (December 2012: \$10,744,000). This strong interim financial result is primarily due to a continuing rise in international equity markets. Changes in the market value of investments in the portfolio contributed approximately \$96,000,000 to net investment income for the current half-year, compared with approximately \$14,000,000 for the previous half-year.

The Company's net assets increased by \$67,908,000 in the six months to \$480,347,000 at 31 December 2013 (June 2013: \$412,439,000) which was primarily due to the performance of the Company's investment portfolio. This has resulted in a higher pre-tax net tangible assets (NTA) of \$1.519 per ordinary share (prior to net tax liabilities of \$0.150) as at 31 December 2013 compared with \$1.263 per ordinary share as at 30 June 2013. The Company also reported a higher post-tax NTA of \$1.369 per ordinary share as at 31 December 2013 compared with \$1.190 per ordinary share as at 30 June 2013. If all of the MFF 2017 Options had been exercised at 31 December 2013, the Pre-tax and Post-Tax NTA values would have been reduced by 11.2 and 7.6 cents per share to approximately \$1.41 and \$1.29 per ordinary share respectively at as that date.

As markets continue to be subject to fluctuations, the investment performance and results of the past six months to 31 December 2013 should not be considered to be representative of results and returns in future financial periods.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT (continued) for the half year ended 31 December 2013

1.3 Review of Results and Operations for the Half-Year (continued)

• Operations – Portfolio and Activities

In the six-months to 31 December 2013, MFF has continued to operate as an investment company, holding a minimum of twenty stock exchange listed investment positions. MFF has focussed exposures, with more than 90% of the investment portfolio held in the 15 largest positions at most times. No individual position, at cost, exceeds 10% of the Company's investment assets, except where approved by the Board. At 31 December 2013, the two largest holdings (Wells Fargo and Visa) have a Board approved limit of 12%, at cost. The Company's largest holdings as at 31 December 2013 are set out later in the financial statements and in the Portfolio Manager's Report.

MFF is primarily focussed on what is described as the intersection of "Quality" and "Value". MFF seeks companies that it describes as "Quality" at competitive prices ("Value") to comprise at least 85% of the portfolio. For most periods since inception, MFF has characterised over 90% of its portfolio as meeting the "Quality" and "Value" descriptions. MFF's manner of investment has been favoured recently.

Other investments considered by MFF might include lesser quality companies or so called "deep value" investments, or earlier stage so called "growth" opportunities. Each of these types of investment is likely to have higher levels of business risk than so called "Quality" companies. Each investment involves a trade off between risk and the possibility of returns from revaluation and/or growth.

MFF continues to have a Board authorised borrowing limit of 20% of investment assets (at the time of the borrowing) and MFF is unrestricted as to the level of cash that may be held from time to time. As at 31 December 2013, approximately 6.4% of MFF's investment assets were held in net cash. MFF has a net cash position because it has significant cash on deposit predominantly in US Dollars, HK Dollars and Singapore Dollars but has maintained borrowings predominantly in Australian Dollars and also in Euro (refer to note 4 in the financial statements for more detail). The Portfolio Manager has provided details of the rationale for MFF's currency and net cash positions, including perceived partial risk management benefits, in the Portfolio Manager's Report and also in numerous releases to the ASX in recent years.

The Directors have set risk control limits for borrowings, including a borrowing limit for AUD borrowings of \$AUD100 million.

The primary goal for MFF is increasing shareholder value on a per share basis over the longer term. MFF's corporate structure has the advantage that the portfolio does not have to be sold in a downturn to fund withdrawals by selling shareholders.

MFF does not receive cashflows from business activities and relies principally upon dividends and sales proceeds to fund new investments. Although not a first order issue in comparison with successful portfolio management, the lack of regular cashflow remains modestly restrictive for MFF. In effect, sales are required to fund purchases of investments perceived to be more attractive.

In the six months to 31 December 2013, MFF's investment resources have also been supplemented modestly by the exercise of 4,368,948 MFF 2017 Options at the \$1.05 exercise price. A total of 109,787,097 MFF 2017 Options remain on issue from the bonus issue to MFF shareholders in October 2012. Directors remain pleased with the benefits to MFF and to shareholders from the bonus issue of MFF 2017 Options.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT (continued) for the half year ended 31 December 2013

1.3 Review of Results and Operations for the Half-Year (continued)

• Operations – Portfolio and Activities

The bonus issue of MFF 2017 Options was specifically designed to be fair to all MFF shareholders. Importantly, compared with other capital raisings, the options were issued pro rata to all MFF shareholders, had an exercise price at a premium to the share price at the time, gave shareholders 5 years in which to decide whether to exercise and, in the meantime, provided shareholders with a tradeable instrument.

The Portfolio Manager considers whether businesses are likely to return significant levels of cash to shareholders, as part of investment evaluations and in considering MFF's cash position. To date, the Company has had some benefits from some special dividends, and we have been pleased with the capital allocation practices for the Company's investee companies (sensible reinvestment and sensible buybacks/dividend policies).

In the six months to 31 December 2013, MFF moved from being externally managed by Magellan Asset Management Limited ((MAM), a wholly owned subsidiary of ASX listed Magellan Financial Group (MFG)). Mr Mackay was appointed as Managing Director and Portfolio Manager for MFF, which has provided continuity in MFF's portfolio management, and from 1 October 2013, MAM ceased to be the investment manager of MFF. MAM continues to provide investment research and administrative services to MFF on commercial terms materially equivalent to the previous Investment Management Agreement.

• Strategy and Future Outlook

The Company is predominantly invested in equities, with a focus upon the equities of non-Australian domiciled companies. As markets continue to be subject to fluctuations, it is not meaningful or prudent to provide a detailed outlook statement or statement of expected results of operations.

It is also not meaningful or prudent to forecast the level of franking credits that may arise from income tax that might become payable from net realised gains from the Company's investment portfolio particularly given there are non-controllable variables involved such as future currency and equity movements. As at 31 December 2013 MFF's tax provisions comprised a deferred income tax liability of \$49.9million and current income tax liability of \$2.74million in respect of the current financial year.

The Company provides regular updates in the weekly and monthly NTA announcements, which can be found in the ASX announcements and in the investor centre section of the MFF website, www.magellangroup.com.au/mff.

Releases to shareholders and the ASX have included discussions in relation to MFF's investment processes and some investee companies from time to time. The Company has set out its largest portfolio holdings at 31 December 2013 in the Portfolio Manager's Report on page 8 (this information was also released to the ASX on 3 January 2014 as part of the December 2013 monthly NTA release).

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT (continued) for the half year ended 31 December 2013

1.4 Dividends

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 amounted to \$3,505,000. The dividend was paid on 15 November 2013.

On 5 February 2014, the Directors declared an unfranked interim dividend of 1.0 cent per ordinary share (December 2012: unfranked 1.0 cent per ordinary share), which is expected to be paid on 16 May 2014. The amount of the proposed dividend, which is not recognised as a liability as at 31 December 2013, is approximately \$3,510,000 (December 2012: \$3,448,000). The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied for the DRP.

At 31 December 2013, MFF's total imputation credits available (based on a tax rate of 30%) were \$39,685. As no material franking credits are available, the interim dividend is unfranked.

The Directors have maintained the Company's current dividend policy, which is for regular six monthly dividends at 1 cent per ordinary share. The Directors consider that the current dividend policy is appropriate. The Directors note that some shareholders prefer regular dividend payments. Directors also note that the capital retained by MFF from its recent earnings has achieved strong returns, as demonstrated by recent investment results. Directors also note that there continue to be liquid markets in MFF ordinary shares and MFF 2017 options for shareholders who might need additional cash in excess of the dividends. The MFF share price has traded in recent times materially above per share net asset values.

1.5 Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the half-year ended 31 December 2013, other than those matters stated in this report.

1.6 Events Subsequent to the End of the Half Year

In the latest release to the ASX on 4 February 2014, the Company reported a Pre-tax NTA per share of \$1.522 (excluding net tax liabilities of \$0.152) as at 31 January 2014.

	31 January 2014	31 December 2013
Pre-tax NTA	1.522	1.519
Net tax liabilities	(0.152)	(0.150)
Post-tax NTA	1.370	1.369

The above NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 Options. If all of the MFF 2017 Options had been exercised at 31 December 2013, the Pre-tax and Post-tax NTA values would have been reduced by 11.2 and 7.6 cents per share to approximately 140.7 and 129.3 cents per share respectively as at that date.

Other than the above, and the proposed interim dividend detailed at section 1.3, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly 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.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT (continued) for the half year ended 31 December 2013

1.7 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.

1.8 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 10.

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



Richard Warburton AO
Chairman



Chris Mackay
Managing Director/Portfolio Manager

Sydney, 5 February 2014

MAGELLAN FLAGSHIP FUND LIMITED

PORTFOLIO MANAGER'S REPORT

for the half year ended 31 December 2013

The net assets of Magellan Flagship Fund Limited (MFF or the "Company") benefitted from the strong markets, as well as from the decline in the AUD, both of which continued in the second half of the 2013 calendar year. MFF's pre-tax net tangible assets (NTA) per share rose by approximately 20.3% for the six-months and by approximately 54.1% for the 2013 calendar year, reflecting these factors.

The business positions of MFF's portfolio companies remain very strong, and improved further in 2013, although the percentage on paper gains were far greater than the percentage business improvements. Complacency is completely unwarranted as higher market prices must be added to the many other risks.

There have been no changes in MFF's strategy or positioning. We remain focussed on Quality companies, where we perceive sustainable, profitable business advantages. Valuations are fundamentally important, and we remain very cautious about extrapolating positive growth assumptions. Fluctuations in equity markets give us attractive purchase opportunities from time to time.

We have maintained MFF's currency positions, including the "effective short AUD" position. Our reasons are unchanged from our previous explanations, although we continue to review the data and events. We continue to perceive that the currency position gives us some potential risk management benefits, and some of the economic factors supporting MFF's AUD currency position are playing out.

In recent months our key portfolio considerations have been weighing the potential risk adjusted returns of existing and potential new holdings against each other and against increases in the net cash level. Cash and balance sheet capacity give us the opportunity to make future purchases, hopefully at times of general or company specific selling when prices are pressured. However, cash has a significant real (opportunity) cost and generally it is better to focus on high quality securities at sensible prices.

In 2013, the broadly higher markets meant few opportunities to sell one thing to buy another of similar quality at a lower price. We are cautious about sales as we want to maintain exposure to MFF's quality portfolio and have made some expensive errors in selling some very high quality companies, particularly in earlier periods during the transition to the current higher priced, more momentum driven markets.

We made some sales in 2013 where we were concerned about risks in comparison with market prices; for example where investors might possibly have been extrapolating recent emerging market growth rates or the sustainability of higher margins and/or competitive/technological dominance. Such sales will continue. Competitive disruption is not diminishing.

The strong markets mean that there are fewer bargains available, we get smaller economic interests for each dollar that we spend, and risks of non temporary falls in asset values are again increasing. We continue to look for opportunities that are less expensive, and have maintained the strong balance sheet. There are few bargains at the moment; although some companies appear to be satisfactorily priced as investors jump from what they perceive to be boring out of favour situations, or areas of lower near term growth or where there is near term earnings pressure or other volatility.

MAGELLAN FLAGSHIP FUND LIMITED

PORTFOLIO MANAGER'S REPORT

for the half year ended 31 December 2013

As at 31 December 2013 net cash was approximately 6.4% of investment assets. MFF's holdings above 2% of investment assets as at 31 December 2013 are shown below:

Holding	%
Wells Fargo	11.9
Visa	10.4
Bank of America	8.6
Lowe's	7.5
Apple	7.2
Home Depot	6.3
HCA Holdings	6.1
MasterCard	5.7
US Bancorp	5.5
Lloyds Banking Group	5.5
Bank of New York Mellon	4.7
Wal-Mart	4.3
State Street	4.3
Sainsbury's	2.4

The portfolio has a lower weighting to global multinationals and a higher weighting to financials than in previous years. The overall operating leverage of the portfolio is higher than in previous years. This is principally associated with the higher weighting to financials, and means higher portfolio risk.

The business performances of many of our portfolio companies continue to be superb.

The MFG research, operations, trading and distribution teams are providing excellent, professional services to MFF and me. They are each and all appreciated and valuable, as are our external MFF Directors. MFF shareholders continue to be well served by their judgement, commitment and input. Thank you.

MFF releases regular portfolio and investment information to the ASX including the weekly NTA details, as well as monthly NTA updates and commentary.

Yours faithfully,



Chris Mackay
Portfolio Manager
5 February 2014

Important note

Magellan Flagship Fund Limited ABN 59 108 437 592 (**MFF**) has prepared the information in this Portfolio Manager's Report (Report). This Report has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this Report, it is provided by MFF as a corporate authorised representative of Magellan Asset Management Limited ABN 31 120 593 946 AFSL 304 301. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

MAGELLAN FLAGSHIP FUND LIMITED

AUDITOR'S INDEPENDENCE DECLARATION



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 review of the financial report of Magellan Flagship Fund Limited for the financial half year ended 31 December 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

Ernst & Young
Graeme McKenzie
Partner
Sydney
5 February 2014

MAGELLAN FLAGSHIP FUND LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 31 December 2013

		31 December 2013 \$'000	31 December 2012 \$'000
	Note		
Investment income			
Dividend income		3,589	4,652
Interest income		57	1
Net change in fair value of investments		96,327	13,746
Net gains / (losses) on foreign currency cash and borrowings		247	1,924
Net gains / (losses) on foreign exchange		50	(418)
Other income		-	9
Total net investment income		100,270	19,914
Expenses			
Management and Research/Service fees		2,873	2,164
Finance costs – interest expense		2,066	2,010
Executive Director's salary		250	-
Non Executive Directors' fees		111	111
Transaction costs		52	75
Fund administration and operational costs		72	66
Registry fees		106	76
Auditor's remuneration		30	23
Legal and professional fees		27	-
Employment related taxes		19	6
Other expenses		41	34
Total operating expenses		5,647	4,565
Profit before income tax expense		94,623	15,349
Income tax expense		(28,372)	(4,605)
Net profit after income tax expense		66,251	10,744
Other comprehensive income		-	-
Total comprehensive income for the half-year		66,251	10,744
Basic earnings per share (cents per share)	7	19.02	3.11
Diluted earnings per share (cents per share)	7	17.57	3.11

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 31 December 2013

	Note	31 December 2013 \$'000	30 June 2013 \$'000
Current Assets			
Cash and cash equivalents	4	34,757	3,358
Investments	5	500,608	433,653
Receivables		1,583	1,719
Prepayments		65	11
Total current assets		537,013	438,741
Total assets		537,013	438,741
Current Liabilities			
Payables		3,942	1,485
Current tax liability		2,743	-
Total current liabilities		6,685	1,485
Non-current Liabilities			
Deferred tax liability		49,981	24,817
Total current liabilities		49,981	24,817
Total liabilities		56,666	26,302
Net assets		480,347	412,439
Equity			
Contributed equity	6	360,595	355,433
Retained profits		119,752	57,006
Total equity		480,347	412,439

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

MAGELLAN FLAGSHIP FUND LIMITED

STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2013

	Note	31 December 2013 \$'000	31 December 2012 \$'000
Contributed equity			
Balance at beginning of the half-year		355,433	354,097
Transaction with owners in their capacity as owners:			
Issue of securities:			
- on Dividend Reinvestment Plan	6(a)	577	498
- on exercise of MFF 2017 options	6(a)	4,588	8
Transaction costs:			
- on issue of MFF 2017 options	6(b)	(3)	(110)
- on issue of MFF 2017 options – tax effect		-	33
Balance at end of the half-year		360,595	354,526
Retained profits/(loss)			
Balance at beginning of the half-year		57,006	(16,909)
Total comprehensive income for the half-year		66,251	10,744
Dividends paid	2	(3,505)	(3,448)
Balance at end of the half-year		119,752	(9,613)
Total equity		480,347	344,913

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 half year ended 31 December 2013

	Note	31 December 2013 \$'000	31 December 2012 \$'000
Cash flows from operating activities			
Dividends received		4,139	3,985
Interest received		57	1
Other income received		-	9
Payments for purchase of investments		(99,514)	(194,159)
Proceeds from sale of investments		130,388	70,928
Net foreign exchange gains/(losses)		50	(5,079)
Management fees paid		(2,839)	(2,109)
Other expenses paid		(721)	(433)
Net cash inflow/ (outflow) from operating activities		31,560	(126,857)
Cash flows from financing activities			
Net proceeds of borrowings		248	1,924
Interest paid		(2,066)	(2,010)
Payment of issue costs on MFF 2017 options		(3)	(110)
Proceeds from exercise of MFF 2017 options		4,588	8
Dividends paid (net of DRP)	2	(2,928)	(2,950)
Net cash outflow from financing activities		(161)	(3,138)
Net decrease/(increase) in cash and cash equivalents		31,399	(129,995)
Cash and cash equivalents at the beginning of the half-year		3,358	167,408
Cash and cash equivalents at the end of the half-year		34,757	37,413

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 half year ended 31 December 2013

1. Summary of Significant Accounting Policies

This interim financial report is for Magellan Flagship Fund Limited (MFF or the “Company”) for the half year ended 31 December 2013.

a) Basis of preparation

The interim report for the six months ended 31 December 2013 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 5 February 2014. The Directors have the power to amend and reissue the financial report.

This interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2013 Annual Report and any public announcements made in respect of the Company during the half year ended 31 December 2013 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The Company is a for-profit entity limited by shares, incorporated and domiciled in Australia, whose securities are publicly traded on the Australian Securities Exchange (ASX code: MFF).

b) New accounting standards

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of the following new standards and amendments which became mandatory for the first time in this interim reporting period, from 1 July 2013.

The adoption of these standards and amendments did not result in any adjustments to the amounts recognised in the financial statements and only affected the disclosures in the notes as described below:

- **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 and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards**

AASB 10 established 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. AASB 12 includes all disclosures relating to the Company’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.

AASB 10, AASB 11 nor AASB 12 have resulted in any impact on the Company’s financial statements or disclosures as the Company does not have any investments or interests that would be required to be consolidated under AASB 10, qualify as a joint venture or joint operation under AASB 11. In addition, it does not have any controlled or non-controlled interests requiring disclosure under AASB 12.

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

1. Summary of Significant Accounting Policies (continued)

b) Changes in accounting policy, accounting standards and interpretations (continued)

- **AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13**

AASB 13 provided guidance for determining the fair value of assets and liabilities. It did not change when the Company is required to use fair value but, rather, provides guidance on how to determine fair value when fair value is required or permitted. It also expands the disclosure requirements for all assets or liabilities carried at fair value. As a result of the guidance in AASB 13, the Company reviewed its policies for measuring fair values and the application of AASB 13 has not resulted in any change in the fair value measurements of the Company. Additional disclosures have been included in note 5(a).

- **AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments**

AASB 9 was revised in December 2013 to include new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be edged and disclosures. As the Company does not apply hedge accounting, the revision to AASB 9 has not resulted in any impact on the Company's financial statements or disclosures.

- **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 requiring disclosure about rights of offset and related arrangements where financial assets and financial liabilities can be offset under contractual agreements. The disclosures arising from the application of AASB 2012-2 are included in note 4(a).

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

1. Summary of Significant Accounting Policies (continued)

c) Critical accounting estimates and judgments

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.

In the interim financial statements for the half-year ended 31 December 2013, the area where there was a higher degree of judgement and assumptions is detailed below:

i) Recognition of performance fees

Under the Investment Management Agreement amended effective 1 July 2013 (as discussed in note 13 of MFF's 30 June 2013 Annual Financial Report), Magellan Asset Management Limited is entitled to up to four performance fees if MFF's total shareholder return exceeds 10% per annum, annually compounded, with respect to the following four measurement periods:

- 1 July 2013 to 30 June 2014
- 1 July 2013 to 30 June 2015
- 1 July 2013 to 30 June 2016
- 1 July 2013 to 31 December 2016

The performance fees that may be payable in respect to each of the four periods is \$2,000,000 and each is non-cumulative. No performance fees are payable after 31 December 2016 and the maximum total performance fees payable over the period 1 July 2013 to 31 December 2016 is capped at \$8,000,000.

Although MFF's total shareholder return for the period since 1 July 2013 has been well above 10%, there remains uncertainty as to whether the total shareholder returns will be achieved, as markets are subject to fluctuations. As a result, the Company has disclosed the performance fee as a contingent liability.

A performance fee in respect of a period will be recognised in the Statement of Financial Position if the Company's total shareholder return exceeds 10% per annum at the end of the relevant measurement period, which is the date where certainty exists that the criteria has been met and the liability has been crystallised. During each measurement period, the Company will continue to assess the likelihood of whether the respective performance fees will be payable.

d) 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.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

2. Dividends

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

	31 December 2013 \$'000	31 December 2012 \$'000
Unfranked final dividend for the year ended 30 June 2013: (1.0 cent per ordinary share) - paid 15 November 2013	3,505	-
Partially franked final dividend for year ended 30 June 2012: (1.0 cent per ordinary share) - paid 19 November 2012	-	3,448
Total dividends declared and paid during the half-year	3,505	3,448

Of the \$3,505,000 dividends paid during the half-year ended 31 December 2013, \$2,928,000 was paid in cash to ordinary shareholders that did not elect to participate in the Company's Dividend Reinvestment Plan (DRP) and \$577,000 of dividends were paid via the issue of 414,228 ordinary shares under the terms of the DRP and at a reinvestment price of \$1.3954.

a) Dividend declared

On 5 February 2014, the Directors declared an unfranked interim dividend of 1.0 cent per ordinary share in respect of the half-year ended 31 December 2013. The amount of the proposed dividend expected to be paid on 16 May 2014, but not recognised as a liability, is approximately \$3,510,000. The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied to the DRP.

b) Imputation credits

	31 December 2013 \$'000	31 December 2012 \$'000
Total imputation credits available in subsequent financial years based on a tax rate of 30% (2012: 30%)	40	-

The above amount represents the balance of the imputation credits at 31 December 2013 as there were no adjustments since there is no income tax paid/payable, no franked dividend receivables or declared franked dividends.

3. 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.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

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

	31 December 2013 \$'000	30 June 2013 \$'000
Cash at bank – denominated in Australian Dollars	79	305
Set-off of cash assets and borrowings		
Assets		
Cash – denominated in US Dollars	114,607	83,340
Cash – denominated in Hong Kong Dollars	32,206	32,426
Cash – denominated in Singapore Dollars	4,562	7,339
Cash – denominated in British Pounds	2,553	-
Subtotal - foreign currency cash	153,928	123,105
Liabilities		
Borrowings – denominated in Australian Dollars	(97,543)	(95,645)
Borrowings – denominated in Euros	(21,492)	(17,526)
Borrowings – denominated in British Pounds	-	(6,684)
Borrowings – denominated in Swiss Francs	(215)	(197)
Subtotal - borrowings	(119,250)	(120,052)
Subtotal - net cash/(borrowings) set-off	34,678	3,053
Net cash and cash equivalents	34,757	3,358

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), which is discussed in detail at note 4(b) below. As the foreign cash of \$153,928,000 (June 2013: \$123,105,000) exceeds borrowings of \$119,250,000 (June 2013: \$120,052,000), the net cash position of \$34,678,000 (June 2013: \$3,053,000) is included within cash and cash equivalents in the Statement of Financial Position.

b) Multi-currency financing facility

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. As at 31 December 2013, the drawn borrowings were \$119,250,000 (June 2013: \$120,052,000) however as the cash held with MLI exceeds the borrowings, the net borrowing position was nil (June 2013: nil).

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

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

The Company has entered into a IPBA with MLI, which is in a form that is typical of prime brokerage arrangements. 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.

During the half-year ended 31 December 2013, the Company's arrangement with Prime Asset Custody Transfer Limited (PACT), to which the Company could transfer its unencumbered securities from MLI, was terminated.

5. Investments

Details of the Company's investments as at 31 December 2013, including investment holdings above 2% of total investments which are separately listed, are set out below:

Company name	Domicile of Principal Exchange Listing	31 December 2013 \$'000	30 June ^(A) 2013 \$'000
Wells Fargo and Co	United States	63,379	50,095
Visa	United States	55,814	44,727
Bank of America	United States	46,208	30,685
Lowe's	United States	40,173	17,594
Apple	United States	38,539	37,122
Home Depot	United States	33,773	2,323
HCA Holdings	United States	32,621	24,495
MasterCard	United States	30,494	20,362
US Bancorp	United States	29,375	21,029
Lloyds Banking Group	United Kingdom	29,261	-
Bank New York Mellon	United States	24,948	17,197
Wal-Mart	United States	22,992	21,275
State Street	United States	22,771	14,704
Sainsbury's	United Kingdom	13,050	11,363
Total - holdings above 2% of total investment assets		483,398	312,971
Other companies		17,210	120,682
Total investments		500,608	433,653

(A) The 30 June 2013 comparative information has been reclassified to conform to the 31 December 2013 presentation.

Foreign exchange rates

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

	31 December 2013 \$	30 June 2013 \$
US Dollar	0.8947	0.9154
Euro	0.6493	0.7042
British Pound	0.5402	0.6035
Swiss Franc	0.7957	0.8661
Hong Kong Dollar	6.9369	7.0998
Singapore Dollar	1.1296	1.1609

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

5. Investments

(a) Fair value disclosures

The Company classified 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.

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

	31 December 2013 \$	30 June 2013 \$
Assets		
Level 1: Investments - valued using quoted prices	500,608	433,653
Level 3: Investments - directors valuation as no quoted price (i)	-	-
Total financial assets	500,608	433,653

The level 3 investment comprises the Company's shares in China Metals Recycling (Holdings) Limited (CMR), for which there is no active market as the shares have been halted from trading since 28 January 2013. On 26 July 2013 CMR was placed into liquidation upon the petition of the Hong Kong Securities and Futures Commission (SFC). According to the SFC website, a court hearing to challenge the appointment of the liquidators by the former Chairman of CMR has since been scheduled for March 2014.

This investment is categorised as a Level 3 in the fair value hierarchy. The Director's have adopted a valuation of zero as at 31 December 2013, which is the same as the value adopted as at 30 June 2013, and the liquidators remain appointed. As a consequence there has been no movement in the balance held in level 3 during the period, nor financial impact in the Statement of Comprehensive Income for the half-year ended 31 December 2013.

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

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

6. Contributed Equity

	31 December 2013 No. of securities	30 June 2013 No. of securities	31 December 2013 \$'000	30 June 2013 \$'000
(a) Ordinary Shares				
Opening balance	346,221,267	344,844,354	355,433	354,097
Shares issued under DRP - 16 Nov 12	-	535,225	-	498
Shares issued under DRP - 16 May 13	-	481,576	-	535
Shares issued under DRP - 15 Nov 13	414,228	-	577	-
Shares issued from exercise of options	4,368,948	360,112	4,588	378
Shares bought back & cancelled	-	-	-	-
Total ordinary shares	351,004,443	346,221,267	360,598	355,508
(b) Options				
Opening balance	114,156,045	-	-	-
Options issued	(4,368,948)	114,516,157	-	-
Shares issued from exercise of options	-	(360,112)	-	-
Transaction costs	-	-	(3)	(75)
Total options	109,787,097	114,156,045	(3)	(75)
Total contributed equity			360,595	355,433

(a) 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) Options

Each shareholder received one MFF2017 Option for every 3 ordinary shares held at 10 October 2012 for nil consideration. A total of 114,516,157 Options were issued by the Company on 17 October 2012. The MFF 2017 Options are listed on the ASX (ASX code: MFFO).

The MFF 2017 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.

(iii) 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 2013, the Company announced the extension to the on-market share buy-back period to 9 September 2014. 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 buy-back programme during the half-year ended 31 December 2013.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

7. Earnings per Share

	31 December 2013	31 December 2012
Basic earnings per share (cents)	19.02	2.50
Diluted earnings per share (cents)	17.57	2.50
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	348,300,287	429,317,320
add: equivalent number of unexercised options for the purposes of calculating diluted earnings per share	28,797,345	-
Weighted average number of ordinary shares on issue used in calculating diluted earnings per share	377,097,632	429,317,320
Earnings reconciliation		
Net profit after income tax expense used in the calculation of basic and diluted earnings per share (\$'000)	66,251	10,744

The options granted on 17 October 2012 and which remain unexercised at 31 December 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. Details of the options are set out in note 6(a)(ii).

8. Investment Management, Research and Services Arrangements

The Company varied the Investment Management Agreement (IMA) with Magellan Asset Management Limited (MAM) effective from 1 October 2013. The key changes were:

- MAM ceased as Investment Manager of MFF on 30 September 2013 however continues to provide MFF with investment research and administrative services. Mr Mackay was appointed Managing Director and Portfolio Manager by MFF with effect from 1 October 2013;
- research and service fees are calculated at 1.25% per annum (excluding GST, payable quarterly in arrears) of the market value of all assets less total indebtedness of the Company divided by the weighted average number of MFF shares on issue during the quarter and multiplied by the lesser of (i) the number of shares on issue at 30 June 2013 or (ii) the weighted average number of shares on issue during the relevant quarter. The research and service fees are reduced by an amount equivalent to Mr Mackay's remuneration and associated payroll related costs, travel and incidental expenses. Fees incurred from 1 October 2013 are classified as research and services fees in the Statement of Comprehensive Income. Fees incurred prior to 1 October 2013 are classified as management fees in the Statement of Comprehensive Income; and
- both the Company and MAM have the right to terminate the arrangements with 3 months notice, which notice cannot expire prior to 31 December 2016.

There were no changes to the performance fees. Refer to note 1(c) for details of significant judgement and assumptions used in the assessment of the recognition of performance fees.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

9. Contingent Assets, Liabilities and Commitments

Under the Investment Management Agreement, amendment effective 1 July 2013, Magellan Asset Management Limited is entitled to receive a performance fee of \$2,000,000 if the Company's total shareholder return to MFF shareholders for the period 1 July 2013 to 30 June 2014 exceeds 10% per annum. Refer to further details at note 1(c). As at 31 December 2013, the total shareholder return for MFF shareholders for the period 1 July 2013 to 31 December 2013 has been well above 10% per annum. As markets continue to be subject to fluctuation, and the total shareholder return of MFF shareholders achieved in the six month period to 31 December 2013 may not be representative of the total shareholder return that would be achieved over the full measurement period of 1 July 2013 to 30 June 2014. As a result, the Company discloses a contingent liability of \$2,000,000 as at 31 December 2013 in respect of the performance fee for the measurement period ending 30 June 2014 (June 2013: nil).

The Company has no material commitments or contingent assets as at 31 December 2013 (June 2013: nil).

10. Events Subsequent to Reporting Date

On 5 February 2014, the Directors declared an unfranked interim dividend of 1.0 cent per ordinary share in respect of the half-year ended 31 December 2013 (refer to note 2(a) for further details).

In the latest release to the ASX on 4 February 2014, the Company reported a Pre-tax NTA per share of \$1.522 (excluding net tax liabilities of \$0.152) as at 31 January 2014.

	31 January 2014	31 December 2013
Pre-tax NTA	1.522	1.519
Net tax liabilities	(0.152)	(0.150)
Post-tax NTA	1.370	1.369

The above NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 Options. If all of the MFF 2017 Options had been exercised at 31 December 2013, the Pre-tax and Post-tax NTA values would have been reduced by 11.2 and 7.6 cents per share to approximately 140.7 and 129.3 cents per share respectively as at that date.

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

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the half year ended 31 December 2013

11. Net Tangible Assets (NTA) Value Per Share

The following table reconciles the NTA^(A) presented in the Statement of Financial Position as at 31 December 2013 to the NTA per share reported to the ASX on 3 January 2014.

	31 December 2013	31 December 2013	30 June 2013	30 June 2013
Audited NTA in Statement of Financial Position (\$'000)	480,347	480,347	412,349	412,439
add back: net tax liabilities (\$'000)	-	52,724	-	24,439
divided by:				
Number of ordinary shares on issue (refer note 6(a))	351,004,443	351,004,443	346,221,267	346,221,267
Audited Post-tax NTA Value - cents per share ^(B)	136.9	151.9	119.1	126.2
ASX Reported Post-tax NTA Value - cents per share ^{(B)(C)} per the ASX announcement dated 3 January 2014	136.9	151.9	119.0	126.3

^(A) Net tangible assets refers to the net assets of the Company including the net 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 tax assets/liabilities presented in the Statement of Financial Position.

^(B) The NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 Options. If all of the MFF 2017 Options had been exercised at 31 December 2013, the Pre-tax NTA value would have been reduced by 11.2 and 7.6 cents per share to approximately 140.7 and 129.3 cents per share respectively as at that date.

^(C) Since the Post-tax NTA and Pre-tax NTA values of 119.0 and 126.3 cents per share respectively were 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 year ended 30 June 2013 and resulted in a decrease of 0.1 cent per share to the Post-tax NTA value and the inverse to Pre-tax NTA value.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 11 to 25 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Magellan Flagship Fund Limited as at 31 December 2013 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date;
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that Magellan Flagship Fund Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Richard Warburton AO
Chairman



Chris Mackay
Managing Director/Portfolio Manager

Sydney, 5 February 2014

INDEPENDENT AUDITOR'S REVIEW 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

To the members of Magellan Flagship Fund Limited

We have reviewed the accompanying half-year financial report of Magellan Flagship Fund Limited, which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 that the directors determine are necessary to enable the preparation of the condensed half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magellan Flagship Fund Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

MAGELLAN FLAGSHIP FUND LIMITED

INDEPENDENT AUDITOR'S REVIEW REPORT



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magellan Flagship Fund Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'Ernst & Young', is positioned above the printed name.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Graeme McKenzie', is positioned above the printed name.

Graeme McKenzie
Partner
Sydney
5 February 2014

MAGELLAN FLAGSHIP FUND LIMITED

CORPORATE INFORMATION

Directors

Richard Warburton AO
John Ballard
Andy Hogendijk
Chris Mackay

Company Secretaries

Nerida Campbell
Leo Quintana

Registered Office

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

Auditor and Taxation Adviser

Ernst & Young
680 George Street
Sydney NSW 2000

Share Registrar

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 (options): MFFO

Website

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