

28 September 2015

ASX Limited
ASX Market Announcements Office
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

**MAGELLAN FLAGSHIP FUND LIMITED ('MFF')
NOTICE OF ANNUAL GENERAL MEETING**

Pursuant to ASX Listing Rule 3.17.1 please find attached a copy of the following documents which have been mailed to shareholders today:

1. Notice of Annual General Meeting to be held at the Adelaide Room, Sofitel Sydney Wentworth, 61 – 101 Phillip Street, Sydney on Thursday 29 October 2015 at 11:00am;
2. Copy of Proxy Form; and
3. Copy of Annual Report (for those shareholders who have elected to receive a hard copy).



Geoffrey Stirton
Company Secretary

Notice of 2015 Annual General Meeting

Notice is hereby given that the Annual General Meeting ('AGM') of Magellan Flagship Fund Limited ('Company') will be held in the Adelaide Room, Sofitel Sydney Wentworth, 61 – 101 Phillip Street, Sydney, New South Wales on Thursday, 29 October 2015, at 11:00am (AEDT).

ORDINARY BUSINESS:

1. Financial Statements and Reports

To receive and consider the Financial Statements, Directors' Report and Auditor's Report of the Company for the year ended 30 June 2015.

2. Remuneration Report

To consider and if thought fit to pass the following resolution as an ordinary resolution:

"To adopt the Remuneration Report of the Company for the year ended 30 June 2015."

3. Re-election of Director

To consider and if thought fit to pass the following resolution as an ordinary resolution:

"That John Ballard, a Director retiring pursuant to the requirements of ASX Listing Rule 14.5, and being eligible, is re-elected as a director of Magellan Flagship Fund Limited."

4. Questions and Comments

Shareholders will be given a reasonable opportunity to ask questions about or comment on the Company's activities and the audit of the Company.

GENERAL INFORMATION

Voting Entitlements

The Company has determined in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that for the purposes of the AGM (including voting), shares will be taken to be held by those persons recorded in the Company's register as at 7:00pm (AEDT) on Tuesday, 27 October 2015.

Proxies

A shareholder entitled to attend and vote at the AGM is entitled to appoint not more than two proxies, who need not be members of the Company. Where more than one proxy is appointed, each proxy should be appointed to represent a specified percentage or specified number of the shareholder's voting rights. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half the votes. Fractions of votes will be disregarded.

A Proxy Form accompanies this Notice of AGM. To be valid, online proxy voting or the completed Proxy Form

must be submitted at least 48 hours before the time for holding the meeting (i.e. by no later than 11:00am (AEDT) on Tuesday, 27 October 2015) using one of the following methods:

- **Vote online** at:
www.votingonline.com.au/mffagm2015
- **Deliver** the Proxy Form to the office of the Company's Share Registry, Boardroom Pty Limited, Level 12, Grosvenor Place 255 George Street, Sydney NSW 2000;
- **Mail** the Proxy Form to Boardroom Pty Limited, GPO Box 3993, Sydney, NSW 2001 Australia; or
- **Fax** the Proxy Form to +61 2 9290 9655.

Further directions for the proper completion of the Proxy Form are set out in the Proxy Form.

Voting by Attorney

A shareholder entitled to attend and vote at the AGM may appoint an attorney to vote at the AGM. Attorneys should bring an original or certified copy of the Power of Attorney to the AGM.

Corporations

A corporation that is a shareholder or a proxy may elect to appoint a representative in accordance with the *Corporations Act 2001* (Cth), in which case the Company will require written proof of the representative's appointment, which must be lodged with or presented to the Company before the commencement of the AGM.

Registration

If you are attending the AGM in person, please bring the personalised Proxy Form enclosed with this Notice of AGM with you to facilitate registration. If you do not bring the Proxy Form with you, you will still be able to attend the AGM, but at registration, our representatives will need to verify your identity. Registration will be available from 10:30am (AEDT) on the day of the AGM.

By order of the Board



Geoffrey Stirton
Company Secretary
28 September 2015

ENCLOSURES

Enclosed with this Notice of AGM are:

- Your personalised Proxy Form;
- an AGM Question Form to be completed if you would like a question to be addressed by the Chairman, Managing Director and Portfolio Manager or the Auditor at the AGM; and
- the Company's Annual Report (only for those shareholders that previously elected to receive a copy of the Annual Report).

Shareholders that did not elect to receive a printed copy of the Annual Report can access the Report from our website at: www.magellangroup.com.au/mff

EXPLANATORY NOTES

These Explanatory Notes have been included to provide information about the items of business to be considered at the Company's AGM to be held on Thursday, 29 October 2015 at 11:00am (AEDT).

1. Financial Statements and Reports

As required by section 317 of the *Corporations Act 2001* (Cth), the Company's Financial Statements, Directors' Report and Auditor's Report will be presented for consideration. No resolution is required for this item, but shareholders will be given the opportunity to ask questions and to make comments on all aspects of these reports. Shareholders will also have a reasonable opportunity to ask the Auditor questions relevant to the conduct of the audit and the preparation and content of the Independent Audit Report.

2. Remuneration Report

A resolution for the adoption of the Remuneration Report must be considered and voted on in accordance with section 250R(2) of the *Corporations Act 2001* (Cth).

The Remuneration Report forms part of the Directors' Report and appears on pages 15 to 18 of the Company's Annual Report. The Remuneration Report details the Company's policy on the remuneration of its Directors. The vote on the adoption of the Remuneration Report resolution is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

The Board recommends that shareholders vote in favour of the adoption of the Remuneration Report. The Chairman of the meeting intends to vote all available proxies in favour of the adoption of the Remuneration Report.

Voting exclusion statement

The Company will disregard any votes cast on Item 2 by, or on behalf of:

- a member of the key management personnel (KMP), as disclosed in the Remuneration Report; and
- their closely related parties,

unless the vote is cast:

- by a person as proxy for a person entitled to vote in accordance with a direction on the Proxy Form; or
- by the Chairman of the Meeting as proxy for a person entitled to vote and the Chairman has received express authority to vote undirected proxies as the Chairman sees fit.

3. Re-election of Director

Re-election of John Ballard

John Ballard retires in accordance with ASX Listing Rule 14.5 and, being eligible, offers himself for re-election as an independent non-executive director. Mr Ballard was originally appointed to the Board in October 2006 and was re-elected as a Director at the Company's Annual General Meeting in October 2013.

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 and holds a MBA degree from Columbia University, New York. John is also a member of the Company's Audit and Risk Committee.

The Board (other than the relevant Director in relation to his own re-election) recommends the re-election of Mr Ballard.

The Chairman of the Meeting intends to vote undirected proxies in favour of the re-election of Mr Ballard.

4. Questions and Comments

In addition to any questions asked or comments made in relation to the specific items of business, the Chairman will give shareholders a reasonable opportunity to ask questions about or comment on the activities of the Company.

2015 Annual General Meeting – Thursday, 29 October 2015

AGM QUESTIONNAIRE

Your questions regarding any matter relating to Magellan Flagship Fund Limited (the “**Company**”) that may be relevant to the 2015 Annual General Meeting (“**AGM**”) are important to us.

We invite you to use this form to submit any questions you may have on:

- the activities of the Company;
- the accounting policies adopted by the Company in relation to the preparation of the financial statements;
- the conduct of the audit;
- the preparation of the Independent Audit Report; and/or
- the independence of the Auditor in relation to the conduct of the audit.

You may respond to this form by faxing it to +61 2 8114 1800. Alternatively, you can email your questions to info@magellangroup.com.au. All questions must be received by 5:00pm (AEDT) on Friday, 23 October 2015.

We will attempt to respond to as many of the more frequently asked questions as possible in the addresses by the Chairman and the Managing Director and Portfolio Manager at the AGM. The Chairman will also permit the Auditor to answer any written questions submitted to the Auditor.

Shareholder Name:

Address:

Shareholder Reference Number (SRN) or Holder Identification Number (HIN):

I

or

X

My question is for the: **Chairman** **Managing Director and Portfolio Manager** **Auditor**

Question(s):

All Correspondence to:

- ✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia
Level 12, 225 George Street,
Sydney NSW 2000 Australia
- 📠 **By Fax:** +61 2 9290 9655
- 💻 **Online:** www.boardroomlimited.com.au
- ☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 11:00am (AEDT) on Tuesday, 27 October 2015.**

🖥 TO VOTE ONLINE

- STEP 1: VISIT** www.votingonline.com.au/mffagm2015
STEP 2: Enter your holding/investment type:
STEP 3: Enter your Reference Number:
STEP 4: Enter your Voting Access Code:

PLEASE NOTE: For security reasons it is important you keep the above information confidential.

📱 BY SMARTPHONE



Scan QR Code using smartphone
QR Reader App

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
(b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **11:00am (AEDT) on Tuesday, 27 October 2015.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

💻 **Online** www.votingonline.com.au/mffagm2015

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

👤 **In Person** Level 12, Grosvenor Place, 225 George Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Magellan Flagship Fund Limited

ABN 32 121 977 884

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes.

Please note you cannot change ownership of your securities using this form.

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Magellan Flagship Fund Limited ('Company')** and entitled to attend and vote hereby appoint

Appoint the **Chairman of the Meeting (mark box)**

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting as my/our proxy at the Annual General Meeting of the Company to be held at the Adelaide Room, Sofitel Sydney Wentworth, 61 – 101 Phillip Street, Sydney, New South Wales on Thursday, 29 October 2015 at 11:00am (AEDT) and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

If I/we have appointed the Chair of the Meeting as my/our proxy or the Chair of the Meeting becomes my/our proxy by default and I/we have not directed my/our proxy how to vote in respect of Item 2, I/we expressly authorise the Chair of the Meeting to exercise my/our proxy in respect of Item 2 even though Item 2 is connected with the remuneration of a member of key management personnel of the Company.

Subject to the voting exclusion statement in the Explanatory Notes attached to the Notice of Meeting in respect of Item 2, the Chair of the Meeting will vote all undirected proxies in favour of all Items of business. If you wish to appoint the Chair of the Meeting as your proxy with a direction to vote against, or to abstain from voting on an item, you must provide a direction by marking the 'Against' or 'Abstain' box opposite that resolution.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Item 2.	To adopt the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3.	To re-elect Mr John Ballard as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STEP 3 SIGNATURE OF SHAREHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2015

2015



[ANNUAL FINANCIAL REPORT]

FOR THE FULL YEAR ENDED – 30 JUNE 2015

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MAGELLAN FLAGSHIP FUND LIMITED

CHAIRMAN'S LETTER

for the year ended 30 June 2015

I am pleased to write to you in the 2014/15 Annual Report for Magellan Flagship Fund Limited ("MFF"). Please also take the time to read the financial statements and our Portfolio Manager's Report which follow.

Financial Results

MFF recorded a net profit after tax of \$187.1 million for the year ended 30 June 2015. This result reflects significant increases in market prices for our investment portfolio, as well as foreign exchange gains. MFF uses "mark to market" accounting for both investments and foreign exchange, and our net profit figures in the year directly reflect the market benefits in both categories. MFF's profit and loss starts each new financial year at zero, based off the market values at the end of the previous financial year. Hence significant fluctuations in reported year to year results are inevitable.

MFF recorded a rise in net tangible assets (NTA) per share (pre-tax) of approximately 40% to \$1.998 per share as at 30 June 2015 compared with \$1.427 per share as at 30 June 2014. The percentage investment result for the portfolio for the year was above 50% (based on MFF's 2014/15 pre-tax profits of \$267.2 million and MFF's 30 June 2014 net assets plus deferred tax liability of \$506.9 million).

This unusually positive investment result reflected a combination of favourable occurrences in the year, combined with a solid base from previous decisions, rather than deliberate increases in risk taking or share trading. In the year investment gains were split approximately 2/3 from portfolio appreciation and 1/3 from currency benefits. Portfolio turnover was low (an outcome not a target), with large sales mostly being in cases where our Portfolio Manager felt that business risks compared unfavourably with market prices. The low portfolio turnover meant that the level of current tax incurred on portfolio gains was below \$0.01 per share.

Please refer to the Portfolio Manager's report for discussions of risks associated with current higher market prices and our attempts to mitigate some impacts of increasing business risks in many industries and geographies. In these accounts and in our other shareholder communications, we provide shareholders with very high levels of transparency about MFF, our portfolio, decisions made, prospects and risks in addition to detailed statutory information.

MFF's Portfolio

Your Board remains pleased with MFF's progress and risk parameters and believe that the portfolio is well constructed. During the second half of the year MFF undertook an entitlements issue which added to MFF's balance sheet strength and increases financial flexibility. The Portfolio Manager's Report includes details of MFF's portfolio holdings and markets and commentary about them.

During the year MFF continued to be substantially invested and, after the entitlements issue, finished the year with a net cash position of approximately 6.3% of investment assets (compared with a net debt position of approximately 5.9% of investment assets as at 30 June 2014). MFF tended to be buyer during pull backs during the year, primarily to increase existing holdings. MFF also maintained its effective "short AUD" position through most of 2014/15. This position was reduced when the entitlements issue proceeds paid off AUD borrowings. At year end MFF remained currency unhedged (see below).

The portfolio continues to include a significant weighting to leading financial institutions. These include credit providing institutions such as Wells Fargo, the second largest holding, and transaction processors (which are not lenders), such as Visa, the largest holding. Your Board continues to be updated regularly by the Portfolio Manager on his assessment of the risks and potential upside for the holdings, and potential holdings.

We are pleased with the composition of the portfolio. Obviously there can be no guarantees that these (or any other) holdings will provide investment outperformance or even positive performance, and recent market price movements have been strong for MFF's holdings. The Board is also updated in relation to other risks and potential future opportunities in the portfolio construction, including investment areas not currently

MAGELLAN FLAGSHIP FUND LIMITED

CHAIRMAN'S LETTER

for the year ended 30 June 2015

emphasised (including the ongoing lower current exposures to global multinationals, to less developed markets, to Europe and to sectors such as energy and commodities).

The Portfolio Manager's Report also discusses MFF's currency positions. At year end almost all of MFF's assets are securities in foreign domiciled companies which only earn a fraction of their profits in AUD. This position is not currency hedged, and MFF continues to favour the partial potential risk mitigation aspects that this provides for the investment portfolio, as well as being favoured on the Portfolio Manager's view of the medium term fundamentals. Of course, potential currency benefits and risk mitigation aspects are far lower at 30 June 2015 rates of approximately .769 for the AUD/USD compared with the more favourable potential risk/reward trade-offs when rates were above 1.00, in recent years.

Dividends

The Directors have declared a fully franked dividend of 1 cent per share, to be paid in November 2015. The Directors' preference is for a regular six monthly dividend at 1 cent per share, subject to corporate, legal and regulatory considerations. Although we note and respect the desire of some shareholders for higher dividends, we also note that MFF's retained funds continue to be put to good use with strong medium term returns. MFF remains small compared with both its cost base and investment universe, and shareholders who need or want higher levels of immediate income from their MFF holdings, in the context of their overall portfolios, have ready markets in both the MFF options and shares.

MFF did not incur current year tax in relation to unrealised gains, and the portfolio is focussed upon holdings which appear to have potential for further appreciation over the medium term and beyond. The current tax liability as at 30 June 2015 was approximately \$1.3 million, compared with the deferred tax liability of approximately \$118.4 million. Approximately \$ 1.4 million was deducted by overseas jurisdictions from dividend payments received (and this amount does not earn Australian franking credit benefits).

Capital Structure

A bonus issue of options was undertaken in October 2012 on a 1:3 basis to shareholders and the bonus options are quoted on the ASX (Code: MFFO). The adjusted exercise price of the options is \$0.9964 and the expiry date is 31 October 2017. A liquid market continues to be available to holders.

During the financial year MFF undertook a renounceable entitlements issue on a 1:4 basis at \$1.60 per new share. When combined with some early exercises of MFF options, MFF's issued share capital increased by approximately \$152 million during the year.

Following the entitlements issue, we do not currently have any plans to raise new capital or otherwise alter MFF's overall capital structure. MFF has available capital on balance sheet, and liquid investments. Debt markets remain favourable, although we are not currently participating. Capital structure can be reviewed promptly if circumstances change, for example if a general fall in markets leads to far more attractive investment opportunities and the most sensible funding is not sale of existing investments, or the use of MFF's borrowing capacity. Your Board favours the possible benefits of greater scale but only if this is in shareholders overall interests. Your Board seeks to ensure that shareholders have equal opportunity to participate in entitlements or bonus option issues, and to realise market value for their entitlements and options.

MFF's capital structure has an advantage that in times of stress, MFF is not forced to sell investments to meet redemption requests. However, MFF has not had the very material benefits of steady inflows in the generally rising markets. Over the years, MFF has had to sell existing investments to fund new investments. MFF's opportunity cost is high when selling high quality existing investments thereby incurring tax on accrued gains, in order to buy replacement investments. The Portfolio Manager maintains a search for sensible investments which might provide MFF with a meaningful flow of income, but market prices are unfavourable compared with the benefits of MFF's portfolio, including its liquidity aspects.

MAGELLAN FLAGSHIP FUND LIMITED

CHAIRMAN'S LETTER

for the year ended 30 June 2015

On-market Share Buy-back

MFF did not acquire any further shares pursuant to the on-market buy-back during 2014/2015 but the on-market buyback authorisation remains operative.

Annual General Meeting

My fellow Directors and I look forward to meeting those of you who can attend the Annual General Meeting on 29 October 2015. We welcome your input and feedback on MFF. The Notice of Annual General Meeting will be despatched to shareholders in the coming weeks.

Yours faithfully,



Richard F E Warburton AO
Chairman
30 July 2015

MAGELLAN FLAGSHIP FUND LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2015

Dear Shareholder,

The composition of our portfolio remains pleasing, with the important caveats that market prices generally have risen, as has our portfolio. Our portfolio is very high quality as it is concentrated in companies where there are well above average probabilities of their businesses continuing to perform very well in their market places. In current market conditions, our investment approach continues to have "duration advantages" as we are not overly concerned when materially higher earnings might emerge to produce attractive returns to us in comparison with prices, whereas many market participants need more near term satisfaction. During the year almost all of our major businesses performed superbly, avoided or mitigated significant risks, and there was further improvement in the business predictability of the portfolio from an already high base.

The portfolio's market prices continued to appear satisfactory at year end, with favourable medium term business prospects being the key attraction rather than low prices. The gaps between market prices and plausible valuation ranges have reduced materially, as prices have risen more strongly than the improvement in our businesses. In the years around the financial crisis, very high quality companies were on sale at knockdown prices.

Our caution about valuation risks is further heightened compared with 12 months ago, although the market continues to climb the proverbial "wall of worry", with a lot to worry about. We continue to feel that demand for stocks is not yet rampant, possibly because investors as a whole have the financial crisis fresh in memories and also have a range of concerns about individual companies and some loss aversion for sector groupings.

The 2014/15 investment returns for MFF far exceeded our expectations of a year ago, reflecting above market gains in the portfolio and favourable currency movements. However, the new financial year will involve more challenges. Low interest rates and recent asset price gains halt bargain purchases in major asset classes, reduce likely future returns and elevate market risks. Business risks are rising as money is freely available and globalisation/mercantilism/optimistic forecasts also add to overcapacity in major industries. Technological disruption is far more pervasive than internet distribution and robotics. Market price risks are widespread.

MFF's recent progress has involved avoiding some riskier business and market positions, retaining some sensible past allocations and satisfactory combinations of favourable probabilities. We retain business advantaged major positions with favourable medium term probabilities, significant balance sheet strength and extremely high levels of liquid assets, with considerable flexibility to reallocate should other assets appear to become more appropriate. Over the next decade we expect some decent investment opportunities combining market value and business strength, although the opportunities from the financial crisis which caused many market prices to be low, and allowed purchases of quality positions with significant margins of safety, are history.

We are wary of positive forecasts and businesses that are over earning or over reporting, amongst a lot to be concerned about. Unpunished return chasing mispricing of mediocrity may realise losses across the full cycle comparable with losses from expensive and low quality business investments. Index/ETF and speculative success lure more money and investor interest, and are currently hurting short sellers. Despite some country and sector reversals and more names appearing on lists of recent lows, optimists outweigh forced sellers and we are not finding deep value with satisfactory risks for comparison with our portfolio. Over time many of these factors will change.

MFF's portfolio focus is on businesses with high levels of business predictability for the medium term. As the current market upswing progresses, risks to capital are rising and require caution about some elevated market prices and estimates relating to various geographies, business changes, technology, competition and growth assumptions. There is no change in our need to be vigilant, involved and focussed on our companies, data, prices and risks including new and developing risks.

During 2014/15 MFF moderately increased some of our larger holdings including Wells Fargo and Visa, our two largest positions, in which the MFF Directors have authorised acquisitions in these two businesses up to a limit of 12% at cost compared with a limit of 10% at cost for other holdings. The business results of our large holdings

MAGELLAN FLAGSHIP FUND LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2015

remain excellent and, notwithstanding price appreciation, we have not felt compelled to sell. Visa does not take lending risk, as it and MasterCard (another significant holding which we increased during the year) are global transaction processors.

Wells Fargo and our other lending financials (which we increased during the year) are competitively advantaged, credit and other service providing financial institutions. Although their attributes extend well beyond their net interest margins, the credit providing institutions will benefit when interest rates eventually "normalise". Their 2014/15 results continued to be penalised by margin compression from lower interest rates, although they enjoy some partially offsetting benefits.

MFF also increased its holdings in Home Depot and Lowe's, the two market leaders in home improvement retailing. Holdings were also increased in HCA Holdings, the largest hospital network in the US, and Lloyds Banking Group which is the UK's leading retail banking group. During the year, the largest reduction was Wal-Mart where we perceived heightened business risks which were not reflected in the market price. We added some advantaged asset manager positions and reduced or eliminated some positions in consumer based multinationals, principally where we felt that market prices may have run ahead of competitive pressures, including potential problems in distribution channels in developed as well as less developed markets. In current markets, we continue to prefer market leading businesses providing vital services, although we are hunting widely for low priced opportunities.

Holdings with market values above A\$1m (shown as percentages of total investment assets) as at 30 June 2015 are shown in the table below:

Holding	\$million	%	Holding	\$million	%
Visa	103.7	11.3	Bank of New York Mellon	28.1	3.1
Wells Fargo	93.6	10.2	State Street	22.7	2.5
MasterCard	88.9	9.7	Microsoft	16.3	1.8
Lowe's	86.2	9.4	Schrodgers	12.7	1.4
Home Depot	85.5	9.3	Qualcomm	9.8	1.1
HCA Holdings	81.5	8.9	McGraw Hill Financial	6.5	0.7
Bank of America	77.0	8.4	Singapore Technologies	3.3	0.4
US Bancorp	52.7	5.7	Fraport	3.1	0.3
Lloyds Banking Group	48.7	5.3	SIA Engineering	2.5	0.3
BlackRock	36.8	4.0	SATS	2.1	0.2

Net cash as at 30 June 2015 was approximately 6.3 % of investment assets. We have been buying investments with current and foreseeable earnings yields materially above our interest revenue, but these investments have capital risk, and their prices fluctuate.

You will see from the financial results that dividend income was approximately \$2.6m higher this year than in the previous year. The MFF portfolio has a higher proportion of regular dividend paying companies, paying moderately higher regular dividends than in previous years. We did not receive material benefits from special dividends in the year.

We remain very positive about the capital allocation by our portfolio companies, and continue to exclude some technology and other companies that are constantly spending shareholder money on acquisitions which more properly are in the nature of research and development expenditures. The market cycle features more companies issuing "pretend" results with regular "one-off" multi-billion accounting adjustments. We aim to avoid, or heavily discount, direct exposure, and are watching the market's lack of scepticism for broader implications.

MAGELLAN FLAGSHIP FUND LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2015

Although our investments comprise many "very high probability" businesses, we continue to lack the dirt cheap mouth-watering opportunities which have been available in previous years. We have some businesses which have reasonable probabilities of sustaining well above economy average growth rates, and some that remain somewhat out of favour with investors, for example because of concerns about regulatory risks and financial system stability. We continue to review many businesses around the world to compare with our holdings.

Buying "Quality" when it is out of favour inevitably results in some "value traps", but eventually earnings and market valuation follow, unless our assessment is wrong. Overall recent returns on the portfolio have materially exceeded 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 and technological disruption changing competitive dynamics, and artificially low interest rates distorting prices of most asset classes. Overconfidence is dangerous and irrational in the current market and business cycles, with many high quality companies being significantly over priced, unless sustained earnings growth exceeds reasonable forecasts.

Markets will inevitably again give us opportunities to buy freely at very attractive prices compared with perceived values. In the meantime we have remained largely invested and, even with the benefit of the proceeds of the entitlements issue, sales are needed to have full capacity when compelling opportunities arrive. Note, however, when markets present more opportunities, the market prices of our portfolio will also fall and broad market falls likely will also reduce the cyclical business activity benefits currently enjoyed.

Currencies and Interest Rates

Our expectation remains that the AUD will trade materially lower for at least part of the next decade, even from its 30 June 2015 USD price. In our view, recent data are indicating that the so called "safe haven" currency argument was fallacious. In time there will be a re-emergence of the banana republic arguments. Downside risks remain, particularly during wider crises (which are inevitable).

We continue to believe that there are reasonable prospects that there will be a crossover between the US and Australia in some economic variables including unemployment rates, balances of payments (as percentages of GDP), state and Federal budget deficits (as percentages of GDP) and GDP growth rates. If the US continues its recovery and Australia's terms of trade do not recover to the recent cyclical highs, these crossovers become closer and the interest rate differential narrower, taking away one of the causes of previous AUD strength. Counter arguments, relating to a successful re-emergence of Chinese stimulus offsetting commodity supply, weakened during the year.

Although we continue not to be fans of some US policies, we have the USD as the primary cash holding and investment currency. 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. The USD cash holding detracts from overall results for MFF compared with the equivalent amount being invested in the portfolio, but gives us a little extra investment flexibility compared with holding our (highly liquid) securities on satisfactory terms.

Our expenses and dividend payments are in AUD and we expect to continue to hold some AUD cash, given recent exchange rates. Also, given the relatively poor performance of parts of the Australian equities market, we may find some AUD investment opportunities.

There are ongoing debates on inflation and deflation in various parts of the world with articulate advocates on either side, and we aim to be ready for a range of occurrences. Similar very confident arguments are made on either side regarding interest rates (a matter with more importance for portfolios). We are accepting of our portfolio risk parameters, although we remain wary. Investors have few simple choices as there are no obviously underpriced low risk asset classes, the opportunity cost of cash has been expensive, our modest cash levels offer little protection in crises, and index protections have costs but limited durations. We prioritise opportunities to

MAGELLAN FLAGSHIP FUND LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2015

buy sensible businesses on reasonable terms, and price fluctuations are as inevitable as business disruption. Our focus on business risks for our portfolio companies, and unwillingness to accept growth forecasts, may continue to be sensible but partial mitigants.

Other

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. Our monthly reports include commentary on risk factors and other matters.

I thank our Non-Executive Directors, who continue to provide excellent guidance, judgement and counsel. They understand the benefits of focus and limited distractions, and have also been very patient and supportive.

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

Yours faithfully,



Chris Mackay
Portfolio Manager

30 July 2015

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

DIRECTORS' REPORT

for the year ended 30 June 2015

Directors of Magellan Flagship Fund Limited (MFF or the "Company") submit their report in respect of the year ended 30 June 2015.

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 and MFFO).

1.2 Principal Activity

The principal activity of the Company is the investment in a minimum of twenty exchange listed international and Australian companies.

1.3 Dividends

During the year, dividends amounting to \$7,330,000 were paid representing 2.0 cents per ordinary share, unfranked (June 2014: \$7,053,000 representing 2.0 cents per ordinary share, unfranked).

On 30 July 2015, the Directors declared a final fully franked dividend of 1.0 cent per ordinary share, (June 2014: unfranked final dividend of 1.0 cent per ordinary share), which is expected to be paid on 12 November 2015. The amount of the proposed dividend, based on the number of shares on issue at 30 June 2015, is \$4,584,000. The shares issued under the rights issue (refer to note 8(c) of the Financial Statements) are entitled to participate in the dividend for the year ended 30 June 2015, which has contributed to a higher dividend amount in dollar terms. The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied for the DRP.

On 30 June 2015, the Company's total available imputation credits (based on a tax rate of 30%) were \$2,082,000 (June 2014: \$47,000).

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. It balances the requests of some shareholders who prefer regular dividend payments against the strong returns MFF has obtained on retained capital, MFF's need for scale to attempt to offset partially the cost base, as well as the tax inefficiency of dividend payments. The Board also note that there continue to be liquid markets in ordinary shares and MFF 2017 Options for shareholders who might need additional cash in excess of the dividends.

1.4 Review of Financial Results and Operations

• Financial Results for the Year

The Company recorded a pre-tax profit of \$267,249,000 (June 2014: \$68,014,000) and a net profit for the year after income tax of \$187,081,000 (June 2014: \$49,343,000).

The Company's net assets increased by \$331,718,000 in the year (June 2014: \$52,127,000) which was primarily due to a rights issue and the performance of the Company's investment portfolio. This has resulted in a higher pre-tax net tangible assets (NTA) of \$1.998 per ordinary share (before net tax liabilities of \$0.261) as at 30 June 2015 compared with \$1.427 per ordinary share (before net tax liabilities of \$0.119) as at 30 June 2014. The Company also reported a higher post-tax NTA of \$1.737 per ordinary share as at 30 June 2015 compared with \$1.308 per ordinary share as at 30 June 2014. If all of the MFF 2017 Options had been exercised at 30 June 2015, the Pre-tax and Post-tax NTA values would have been reduced by 15.4 and 11.4 cents per share to \$1.844 and \$1.623 per ordinary share respectively as at that date.

As markets will always be subject to fluctuations, the investment performance and results of the past year to 30 June 2015 should not be considered to be representative of results and returns in future financial periods.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

1.4 Review of Results and Operations (continued)

• Operations – Portfolio and Activities

On 16 March 2015, the Company announced a pro-rata renounceable entitlements issue (rights issue or entitlements issue) to eligible shareholders. The purpose of the rights issue was to:

- raise additional investment funds to take advantage of future opportunities in global equity markets and reduce the requirement to realise long term investments to fund those opportunities; and
- strengthen the Company's balance sheet by paying down debt and increasing cash balances.

The rights issue permitted the rights to be traded on the ASX between 9 April 2015 and 30 April 2015. As a consequence of the rights issue, the MFF 2017 Option price reduced from \$1.05 to \$0.9964 on 9 April 2015 to reflect the entitlement value. The rights issue closed on 7 May 2015 and was not underwritten.

Under the rights issue, the Company raised \$127,646,000, and issued 79,778,586 new shares at an issue price of \$1.60 per share. The rights issue was subscribed to 84.7% and as a consequence share capital increased by 21%. The new shares were allotted on 13 May 2015 and normal trading of the new shares commenced on 14 May 2015. The new shares rank equally with ordinary shares, however were not entitled to receive the interim dividend for the half year ended 31 December 2014, which was paid on 15 May 2015. Entitlements not subscribed for lapsed.

The Company's financial results, investment returns, portfolio composition and changes during the year are summarised in the Portfolio Manager's Report and detailed in the financial statements. During the year, MFF's focus on high quality companies was unchanged, as was the approach to risk management.

• Strategy and Future Outlook

The Company is invested in equities, with a focus upon the equities of non-Australian domiciled companies and this is expected to continue. 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 well as foreign tax withholding for most overseas jurisdictions. As at 30 June 2015, MFF's tax provisions comprised a deferred income tax liability of \$118,447,000 and current income tax liability of \$1,288,000 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 sets out its largest portfolio holdings at 30 June 2015 in the Portfolio Manager's Report (this information was also released to the ASX on 2 July 2015 as part of the June 2015 monthly NTA release).

1.5 Likely Developments and Expected Results of Operations

The Company will continue to pursue its principal investment objective which is to increase the per share net asset value of the Company, over time, in a manner consistent with prudent risk management. Additional comments on expected results of certain operations of the Company are included in this report under the review of operations – portfolio and activities at section 1.4. Refer also to the Chairman's Letter and the Portfolio 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

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the year.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

1.7 Events Subsequent to the End of the Financial Year

In the latest release to the ASX on 28 July 2015, the Company reported a NTA as at 24 July 2015, as follows:

	24 July 2015	30 June 2015 ^(A)
	\$	\$
Pre-tax NTA	2.170	1.998
Net tax liabilities	0.315	0.261
Post-tax NTA	1.855	1.737

The above NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 options.

Pre tax NTA if all of the MFF 2017 Options had been exercised	\$ 1.991	\$ 1.844
Post tax NTA if all of the MFF 2017 Options had been exercised	\$ 1.724	\$ 1.623

(A) Audited NTA (refer note 17)

Other than the above, and the proposed final 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.

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 2012 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 82,293,893 MFF 2017 Options on issue, with 32,222,264 MFF 2017 Options having been exercised. Refer to note 8(d)(ii) for further details on the Options and section 3.6 in the Remuneration Report for the 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.

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
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 ^(A)	29 September 2006

(A) Mr Mackay serves as the Company's Managing Director and Portfolio Manager.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

2.2 Secretary

The Company Secretary during the year and up to the date of this report was Geoffrey Stirton, who was appointed to the position on 20 March 2014.

There are no other officers of the Company.

2.3 Information on Directors and Secretary

The following information is current as at the date of this Report.

Richard Warburton AO

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

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. He is currently a director of Scentre Group (following the merger of Westfield Group and Westfield Retail Trust on 30 June 2014, the latter of which he was a Director and Chairman, appointed in December 2010) and is currently Chairman of Citigroup Pty Limited.

Richard was previously Director and Chairman of Tandou Limited, Chairman of David Jones Limited, Aurion Gold 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. He is a Fellow (and former National President) of the Australian Institute of Company Directors.

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 Wattyl 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 and holds a MBA degree from Columbia University, New York.

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 formerly a Director of AWE Limited and was previously the Chairman of Gloucester Coal Limited, 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.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

2.3 Information on Directors and Secretary (continued)

Chris Mackay

Managing Director/Portfolio Manager

Chris Mackay was appointed Managing Director and Portfolio Manager of the Company with effect from 1 October 2013. 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.

Chris co-founded Magellan after retiring as Chairman of the investment bank UBS Australasia in 2006, having previously been its Chief Executive Officer. He was a member of the Federal Treasurer's Financial Sector Advisory Council and the Business Council of Australia, and a director of the International Banks & Securities Association.

Geoffrey Stirton

Company Secretary

Geoffrey Stirton was appointed the Company Secretary of the Company on 20 March 2014. Geoffrey was previously Group Company Secretary at The Trust Company and has also held Group Company Secretary roles at Investa Property Group and MLC Limited. He has over 20 years experience in financial services in various company secretarial, finance and management roles. Geoffrey holds a Bachelor of Commerce degree from the University of NSW, is a Chartered Accountant, a Fellow of the Governance Institute of Australia and a Fellow of the Australian Institute of Company Directors.

2.4 Directors' Meetings

The number of Board meetings, including meetings of Board Committees, held during the year ended 30 June 2015 and the number of those meetings attended by each Director is set out below:

Name	Board		Audit & Risk Committee	
	Held while a Director	Attended	Held while a Member	Attended
Richard Warburton AO	11	10	6	6
John Ballard	11	10	6	6
Andy Hogendijk	11	11	6	6
Chris Mackay	11	11	-	-

2.5 Directors' Interests

Magellan Asset Management Limited (MAM) provides investment research and administrative services to the Company under an agreement described in Section 13 of the Financial Statements. On 1 October 2013, Mr Mackay was appointed as an Advisor to Magellan Financial Group Limited (MFG), MAM's parent entity. Mr Mackay is a substantial shareholder of MFG. Mr Mackay is paid consultancy fees of \$250,000 per annum under an indefinite term agreement which may be terminated by either Mr Mackay or MAM on 3 months notice. Refer to section 3.5 of the Remuneration Report for further details.

Apart from the above, no other 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 party other than as disclosed in this report.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3. 2015 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Company for the year ended 30 June 2015. It details the remuneration arrangements for key management personnel (KMP) who are defined as those persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly.

In the 2015 financial year, the KMP for the Company included the Non-Executive Directors and its sole employee, the Managing Director and Portfolio Manager as listed in the table below.

Name	Position	Term as KMP
Independent Non-Executive Directors		
Richard Warburton AO	Chairman	Full Year
John Ballard	Director	Full Year
Andy Hogendijk	Director	Full Year
Executive Director		
C Mackay	Managing Director/Portfolio Manager	Full Year

The Board does not grant options or rights to Key Management Personnel under its remuneration policy. The Remuneration Report has been prepared and audited against the disclosure requirements of the Corporations Act 2001.

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.

Directors' Fees

The Independent Non-Executive Directors' base remuneration is reviewed annually and on 6 August 2014 the Board approved an increase to Directors' Fees. Effective 1 August 2014, inclusive of superannuation, the Chairman received \$110,000 per annum, Directors \$70,000 per annum, and in addition the Audit and Risk Committee Chairman received \$25,000 per annum, and an Audit and Risk Committee Member \$12,500 per annum. The Chairman is not entitled to other committee fees. Total annual Directors' fees remain within the limit set in the Company's Constitution of \$500,000.

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.

Retirement Benefits

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

Other Benefits (including termination) and Incentives

The Company does not provide other benefits and incentives to the Independent Non-Executive Directors.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3.2 Remuneration of Executive Directors

The Executive Director is remunerated by the Company. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne. The remuneration is not linked to the performance or earnings of the Company. Refer to Section 3.5 for further details on the employment agreement of Mr Mackay.

3.3 Details of Remuneration

The Independent Non-Executive Directors and Executive Director were remunerated by the Company for the year ended 30 June 2015. In the prior year ended 30 June 2014, the Company moved from being externally managed by Magellan Asset Management Limited (MAM) and appointed Mr Mackay as Managing Director and Portfolio Manager for the Company. As a result Mr Mackay was a Non-Independent Non-Executive Director remunerated by MAM from 1 July 2013 to 30 September 2013 and an Executive Director from 1 October 2013.

The total amount paid or payable to the Directors by the Company and MAM during the year is detailed below:

		Short Term Benefits	Post- employment Benefits	Other Benefits	Total
		Salary	Superannuation	(C)	
		\$	\$	\$	\$
Independent Non-Executive Directors					
Richard Warburton AO	2015	99,505	9,453	-	108,958
	2014	79,164	7,323	-	86,487
John Ballard	2015	73,820	7,013	-	80,833
	2014	57,208	5,292	-	62,500
Andy Hogendijk	2015	85,236	8,097	-	93,333
	2014	68,650	6,350	-	75,000
Executive Directors					
C Mackay ^(A)	2015	981,217	18,783	-	1,000,000
	2014	736,669	13,331	-	750,000
Total KMP remunerated by the Company	2015	1,239,778	43,346	-	1,283,124
	2014	941,691	32,296	-	973,987
Non-Independent Non-Executive Directors					
C Mackay ^(B)	2015	-	-	-	-
	2014	482,225	17,775	125,000	625,000
Personnel remunerated by MAM	2015	-	-	-	-
	2014	482,225	17,775	125,000	625,000

(A) Mr Mackay was appointed Managing Director and Portfolio Manager of the Company on 1 October 2013 and was an Executive Director of the Company from that date. For the year ended 30 June 2014, Mr Mackay's remuneration is shown as a pro-rata for the period 1 October 2013 to 30 June 2014. Refer to remuneration details described in section 3.5 of the Remuneration Report.

(B) Mr Mackay's remuneration related to the period 1 July 2013 to 30 September 2013 when he was the Chairman of MFG and employed by MAM, and held the position of Non-Independent Non-executive Director of the Company. A portion of the remuneration paid by MAM was in relation to managing the affairs of the Company up to 30 September 2013. There was no determination as to what proportion of that remuneration paid related to managing the affairs of the Company.

For the period 1 July 2013 to 30 September 2013, when MAM was the Investment Manager of the Company and KMP, the Company paid base fees of \$1,466,408 (refer note 12(a),(b) and 13(a),(b) of the financial report).

The total amount paid or payable by the Company to the KMP (Independent Non-Executive Directors and Executive Director) for the year ended 30 June 2015 was \$1,283,124 (June 2014: \$2,440,395 which included the Independent Non-Executive Directors, Executive Director, Non-Independent Non-Executive Director and MAM in the capacity of Investment Manager).

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

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, 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 year ended 30 June 2015 of \$108,958

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 year ended 30 June 2015 of \$80,833

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 year ended 30 June 2015 of \$93,333

3.5 Employment Agreements

Remuneration and other terms of employment for the Executive Director is formalised in the respective employment agreement with the Company.

Chris Mackay, Managing Director/Portfolio Manager

Executive Director (from 1 October 2013)

On 1 October 2013, Mr Mackay was appointed Managing Director and Portfolio Manager of the Company. Mr Mackay entered into an employment contract. Under the terms of the contract, which would continue indefinitely until terminated, Mr Mackay:

- receives fixed compensation structured as a total employment cost package of \$1,000,000 per annum (inclusive of superannuation) effective from 1 October 2013, which may be received as a combination of cash, non-cash benefits and superannuation contributions and is subject to annual review;
- is not entitled to receive short term incentive payments;
- is restrained from soliciting clients, employees or agents of the Company or related parties for a period of 6 months after termination of employment;

The contract may be terminated by the Company at any time without notice for cause. Mr Mackay may terminate the contract at any time by providing the Company with not less than 6 months written notice. The Company may terminate the contract at any time by providing 6 months written notice or providing payment in lieu of that notice.

Mr Mackay is also a substantial shareholder of MFG, the parent entity of MAM. Mr Mackay has been appointed an Advisor to MFG. Mr Mackay is entitled to consultancy fees of \$250,000 per annum, payable quarterly in advance under an agreement of indefinite term, unless terminated by either Mr Mackay or MAM on 3 months notice.

Non-Independent Non-executive Director (1 July 2013 – 30 September 2013)

In the prior year ended 30 June 2014, Mr Mackay held the office of Non-Independent Non-executive Director up to 30 September 2013 and was employed under a contract with MAM which was the Company's Investment Manager up to 30 September 2013. On 1 October 2013, Mr Mackay resigned as Chairman of MFG and from MAM and as a result the employment contract was terminated.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

3.5 Employment Agreements (continued)

The terms of the contract with MAM, which applied for the period 1 July 2013 to 30 September 2013, were that Mr Mackay:

- received a fixed compensation structured as a total employment cost package of \$1,250,000 per annum (inclusive of superannuation) effective from 1 July 2013, which may be received as a combination of cash, non-cash benefits and superannuation contributions
- was not entitled to receive short term or long term incentive payments
- had undertaken to MAM that for the period up to and including 1 July 2017 neither he nor his associates would, within Australia and New Zealand, invest in any outside business which in the reasonable opinion of MAM was primarily engaged in the business of funds management, other than an investment in MFG, the Company, MAM and related entities, and any managed investment scheme in which MAM acted as trustee or responsible entity. The restrictions did 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 represented less than 10% of the issued shares in that company, interests in that managed investment scheme or other interests in that other entity respectively.

The investment restrictions ceased when Mr Mackay's employment contract terminated on 30 September 2013. A payment of \$125,000 was made to Mr Mackay upon his resignation as Chairman of MFG and an employee of MAM on 30 September 2013, acknowledging his compliance with the investment restrictions in his employment agreement with MAM, as a discretionary payment determined by the MFG Board.

3.6 Options and Shareholdings

The number of ordinary shares, MFF 2017 Options and Rights held in the Company at 30 June 2015 by the KMP is below:

	Balance 30 June 2013	Additions/ (disposals)	Exercised	Balance 30 June 2014	Additions/ (disposals)	Exercised	Balance 30 June 2015
Richard Warburton AO							
- Ordinary shares	660,966	-	-	660,966	-	165,242	826,208
- MFF 2017 Options ^(A)	220,299	-	-	220,299	-	-	220,299
- Rights ^(B)	-	-	-	-	165,242	(165,242)	-
John Ballard							
- Ordinary shares	1,120,905	-	-	1,120,905	-	280,709	1,401,614
- MFF 2017 Options ^(A)	373,592	-	-	373,592	-	(386)	373,206
- Rights ^(B)	-	-	-	-	280,323	(280,323)	-
Andy Hogendijk							
- Ordinary shares	242,216	3,386	-	245,602	3,096	211,821	460,519
- MFF 2017 Options ^(A)	79,213	-	-	79,213	-	-	79,213
- Rights ^(B)	-	-	-	-	211,821	(211,821)	-
Chris Mackay							
- Ordinary shares	25,792,043	436,782	7,134,306	33,363,131	474,294	12,508,712	46,346,137
- MFF 2017 Options ^(A)	8,388,236	-	(7,134,306)	1,253,930	1,124,341	(2,055,619)	322,652
- Rights ^(B)	-	-	-	-	10,453,093	(10,453,093)	-

(A) all options on issue are vested (refer note 8(d)(ii) to the financial report).

(B) the rights were provided to the KMP in their capacity as a MFF shareholder under the rights issue announced on 16 March 2015. The rights held by the KMP were fully exercised and as a result no rights were held at the end of the year.

MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2015

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 10 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; and
- 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 20.

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
Chairman



Chris Mackay
Managing Director and Portfolio Manager

Sydney, 30 July 2015

MAGELLAN FLAGSHIP FUND LIMITED

AUDITOR'S INDEPENDENCE DECLARATION

for the year ended 30 June 2015



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 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva' in a cursive style.

Rita Da Silva
Partner
30 July 2015

MAGELLAN FLAGSHIP FUND LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2015

	Note	30 June 2015 \$'000	30 June 2014 \$'000
Investment income			
Dividend income		10,824	8,236
Interest income		69	79
Net change in fair value of investments		260,639	75,236
Net gains / (losses) on foreign currency cash and borrowings		8,821	(4,351)
Net gains / (losses) on foreign exchange settlements and contracts		404	(194)
Total net investment income		280,757	79,006
Expenses			
Management fees	12(b)	-	1,466
Research and services fees	13	9,424	3,914
Finance costs – interest expense		2,099	3,992
Executive Director's salary		1,000	750
Non Executive Directors' fees		284	224
Transaction costs		47	83
Registry fees		214	194
ASX listing, clearing and settlement fees		111	84
Fund administration and operational costs		73	65
Auditor's remuneration		72	70
Legal and professional fees		-	19
Employment related taxes		68	49
Other expenses		116	83
Total operating expenses		13,508	10,992
Profit before income tax expense		267,249	68,014
Income tax expense	3(a)	(80,168)	(18,671)
Net profit after income tax expense		187,081	49,343
Other comprehensive income		-	-
Total comprehensive income for the year		187,081	49,343
Basic earnings per share (cents per share)	9	48.79	14.08
Diluted earnings per share (cents per share)	9	44.52	12.94

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF FINANCIAL POSITION
as at 30 June 2015

	Note	30 June 2015 \$'000	30 June 2014 \$'000
Current Assets			
Cash and cash equivalents	4(a)	57,329	144
Investments	6	862,198	538,813
Receivables	5	749	1,155
Prepayments		16	13
Total current assets		920,292	540,125
Non-current assets			
Total non-current assets		-	-
Total assets		920,292	540,125
Current Liabilities			
Payables	7	4,273	1,440
Current tax liability		1,288	95
Borrowings	4(b)	-	31,684
Total current liabilities		5,561	33,219
Non-current liabilities			
Deferred tax liability	3(d)	118,447	42,340
Total non-current liabilities		118,447	42,340
Total liabilities		124,008	75,559
Net assets		796,284	464,566
Equity			
Contributed equity	8	517,237	365,270
Retained profits		279,047	99,296
Total Equity		796,284	464,566

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 year ended 30 June 2015

	Note	30 June 2015 \$'000	30 June 2014 \$'000
Contributed equity			
Balance at beginning of year		365,270	355,433
Transactions with owners in their capacity as owners:			
Issue of securities:			
- on Dividend Reinvestment Plan	8(a)	1,212	1,182
- on exercise of MFF 2017 options	8(a)	23,599	8,658
- on exercise of rights issue	8(a)	127,646	-
Transaction costs:			
- on issue of MFF 2017 options	8(b)	(23)	(4)
- on issue of rights	8(c)	(677)	-
- on issue of MFF 2017 options – tax effect	8(b)	6	1
- on issue of rights – tax effect	8(c)	204	-
Balance at end of year		517,237	365,270
Retained profits			
Balance at beginning of year		99,296	57,006
Total comprehensive income for the year		187,081	49,343
Dividends paid	2	(7,330)	(7,053)
Balance at end of year		279,047	99,296
Total equity		796,284	464,566

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 2015

	Note	30 June 2015 \$'000	30 June 2014 \$'000
Cash flows from operating activities			
Dividends received		9,951	7,567
Interest received		69	79
Payments for purchase of investments		(149,112)	(211,002)
Proceeds from sale of investments		86,366	181,273
Net foreign exchange gains		404	116
Management fees paid	13(b)(i)(ii)	-	(2,838)
Research and services fee paid	13(a)	(6,531)	(2,620)
Income tax paid		(1,237)	-
Other expenses paid		(2,125)	(1,613)
Net cash (outflow) from operating activities	4(e)	(62,215)	(29,038)
Cash flows from financing activities			
Net (repayment)/proceeds of borrowings		(22,864)	27,022
Interest paid		(2,099)	(3,992)
Proceeds from exercise of MFF 2017 options	8(a)	23,599	8,658
Proceeds from exercise of rights issue	8(a)	127,646	-
Payment of issue costs on MFF 2017 options	8(b)	(23)	(3)
Payment of issue costs of rights	8(c)	(677)	-
Dividends paid (net of DRP)	2	(6,182)	(5,861)
Net cash inflow from financing activities		119,400	25,824
Net increase/(decrease) in cash and cash equivalents		57,185	(3,214)
Cash and cash equivalents at the beginning of year		144	3,358
Cash and cash equivalents at the end of year	4(a)	57,329	144

The above Statement of Cash Flows should be read in conjunction with the accompanying note

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies

This financial report is for Magellan Flagship Fund Limited (MFF or the “Company”) for the year ended 30 June 2015. The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

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

a) Basis of Preparation

This financial report for the year ended 30 June 2015 is a general purpose financial report 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. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 30 July 2015. The Directors have the power to amend and reissue the 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

The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period except for the adoption of the new standards and amendments which became mandatory for the first time this reporting period commencing 1 July 2014. The adoption of these standards and amendments did not result in any adjustments to the amounts or disclosures in the current or prior year. The relevant standards are set out below:-

- **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 however some additional disclosures has been included in note 11(d).
- **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. There is not expected to be a material impact to the financial statements. The disclosures arising from the application of AASB 2012-2 are included in note 4.

Accounting Standards and Interpretations issued but not yet effective

The Australian and International Accounting Standards issued but not yet mandatory for the reporting period ended 30 June 2015 have not been adopted by the Company in the preparation of this financial report. The assessment of the impact of the new standards and interpretations, which may have a material impact on the Company, is set out on the following page.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

Accounting Standards and Interpretations issued but not yet effective (continued)

- **AASB 15 Revenue from Contracts with Customers (effective 1 July 2018) (AASB 15)**

AASB 15 has been identified as the only new standard which may have a material impact on the Company.

AASB 15 supercedes the revenue recognition guidance in AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates. The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers.

The Company has undertaken an assessment of the impact of AASB 15. Based on the assessment completed to date, the Company does not expect any material change to the timing or manner of recognition of its key revenues as interest revenue, dividend and distribution income and investment gains are excluded from the scope of AASB 15. The Company will continue to assess the disclosure requirements of AASB 15 so as to understand the extent of any impact on the current systems, processes and controls.

There are no other pronouncements or accounting standards, not yet effective at this time, that are expected to have a material impact to the financial statements in future periods.

(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 Managing Director and Portfolio Manager makes the investment decisions for the Company and the Company's operating segments are determined based on information reviewed by the Portfolio Manager to make investment decisions. The Portfolio 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 Profit or Loss and Other 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 Profit or Loss and Other 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 Cash Flows.

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 Profit or Loss and Other Comprehensive Income.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(d) Investment Income (continued)

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 Profit or Loss and Other Comprehensive Income on an accruals basis.

Directors' fees (including superannuation) and related employment taxes are included as an expense in the Statement of Profit or Loss and Other Comprehensive Income as incurred. Information regarding the Directors' remuneration is provided in the Remuneration Report on page 16 of the Directors' Report.

Research and Services Fees

Research and services fees are set out in note 13.

Finance Costs

The basis on which finance costs incurred on borrowings are recognised is included in note 1(n).

Performance Fees

Performance fees are set out in note 13(a). During each measurement period, the Company will assess the likelihood of whether the respective performance fees will be payable. A performance fee in respect of a period is 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.

(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 any 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.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(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.

Cash Flows 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.

(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 and include dividends, distributions and amounts due on investments sold but not settled at balance date. Receivables relating to the sale of investments are usually settled between two and five days after trade date. Collectability of receivables is reviewed on an ongoing basis, and non-recoverable amounts are written off by reducing the amount of the receivable in the Statement of Financial Position.

(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 Profit or Loss and Other Comprehensive Income as incurred. Changes in the fair value of investments are recognised in the Statement of Profit or Loss and Other Comprehensive Income. When investments are disposed, the net gain and loss on sale is recognised in the Statement of Profit or Loss and Other 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 are measured at fair value. 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.

A dividend payable to shareholders of the Company is recognised if it has been approved by the Directors on or before balance date but has not been paid

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(m) Employee Expenses and Entitlements

Wages, Salaries, Annual Leave and Long Service Leave

Liabilities for wages and salaries (including non-monetary benefits) and annual leave are recognised in payables within accrued employee entitlements and are measured at the amounts to be expected to be paid when the liabilities are settled. The employee entitlement liability expected to be settled within 12 months from balance date is recognised in current liabilities. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Employee benefit on-costs are included in accrued employee entitlements in the Statement of Financial Position and employee costs in the Statement of Profit or Loss and Other Comprehensive Income when the employee entitlements to which they relate are recognised in liabilities.

Long Service Leave

Liabilities for long service leave are recognised when employees reach a qualifying period of continuous service and are measured at the amount expected to be settled within 12 months from balance date. Any amount which is expected to be payable after 12 months from balance date is classified as a non-current liability and measured as the present value of expected future payments. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service and discounted using corporate bond rates at balance date, with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(n) Borrowings

Borrowings are recognised at fair value where any transaction fees and costs directly related to the borrowings are recognised in the Statement of Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income as incurred.

(o) Contributed Equity

The Company's ordinary shares, MFF 2017 Options and rights 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, options and rights are recognised in equity as a deduction, net of tax. Where the Company purchases its own issued shares under a buyback, the consideration paid, including any directly attributable transaction costs, is deducted from contributed equity.

(p) 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 MFF 2017 Options when the Company's average share price exceeds the exercise price over the period the MFF 2017 Options are on issue. Refer to note 9 for further details.

(q) 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.

(r) 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.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. Summary of Significant Accounting Policies (continued)

(r) Critical Accounting Estimates and Judgements (continued)

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 note 11(d)).

As most investments are valued with reference to listed quoted prices and the Company's cash and borrowing facility are provided by strongly rated financial institutions (refer to note 4 and 11(c)), the Company's financial assets are not subject to significant judgment or complexity nor are the Company's liabilities.

2. Dividends

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

	30 June 2015 \$'000	30 June 2014 \$'000
For the year ended 30 June 2015:		
Unfranked interim dividend (1.0 cent per ordinary share)		
– paid 15 May 2015	3,774	-
Unfranked final dividend for June 2014 (1.0 cent per ordinary share)		
– paid 14 November 2014	3,556	-
For the year ended 30 June 2014:		
Unfranked interim dividend (1.0 cent per ordinary share)		
– paid 16 May 2014	-	3,548
Unfranked final dividend for June 2013 (1.0 cent per ordinary share)		
– paid 15 November 2013	-	3,505
Total dividends declared and paid during the year	7,330	7,053

Of the \$7,330,000 dividends paid during the year ended 30 June 2015, \$6,115,000 was paid in cash to ordinary shareholders that did not elect to participate in the Company's Dividend Reinvestment Plan (DRP) and \$1,215,000 of dividends were paid via the issue of 759,909 ordinary shares under the terms of the DRP (refer to note 2(b)).

(a) Dividend declared

In addition to the above dividends declared and paid during the year, on 30 July 2015 the Directors declared a fully franked dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2015. The amount of the proposed dividend, based on the number of shares on issue at 30 June 2015, is \$4,584,000. The shares issued under the rights issue (refer to note 8(c)) are entitled to participate in the dividend for the year ended 30 June 2015, which has contributed to a higher dividend amount in dollar terms.

The DRP will operate in conjunction with this dividend and no discount will be applied to the DRP.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2. Dividends (continued)

(b) Dividend reinvestment plan (DRP)

The Company's DRP was available to eligible shareholders during the year ended 30 June 2015.

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 2015. 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 2015, the following ordinary shares were issued under the terms of the DRP (refer note 8(a)):

- on 15 May 2015: 357,652 ordinary shares were issued at a reinvestment price of \$1.7414; and
- on 14 November 2014: 402,257 ordinary shares were issued at a reinvestment price of \$1.4659.

(c) Imputation credits

The imputation credits at balance date adjusted for income tax paid/payable, franked dividend receivables and declared franked dividends is:

	30 June 2015 \$'000	30 June 2014 \$'000
Total imputation credits available in subsequent financial years based a tax rate of 30% (2014: 30%)	1,294	47

MAGELLAN FLAGSHIP FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

3. Income Tax

	30 June 2015 \$'000	30 June 2014 \$'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	267,249	68,014
Prima facie income tax (expense) on net profit at 30%	(80,175)	(20,404)
Tax effect of franked dividends received	(2)	(9)
Imputation credit	9	30
Recouped prior year tax losses	-	1,712
	(80,168)	(18,671)
(b) The major components of income tax (expense) are:		
Current income tax (expense) / benefit	(3,860)	(9,333)
Deferred income tax (expense)		
– origination and reversal of temporary differences	(76,317)	(11,080)
– imputation credits on dividends received	9	30
Recouped prior year tax losses	-	1,712
	(80,168)	(18,671)
(c) Income tax (expense) charged directly to equity:		
Costs associated with the issue of options and rights	(210)	(1)
	(210)	(1)
(d) Deferred tax (liability) / assets relate to the following:		
Costs associated with the issue	182	21
Unrealised gain on investments	(118,517)	(42,085)
Other temporary differences	(112)	(276)
Total net deferred tax liability	(118,447)	(42,340)

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

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

	30 June 2015 \$'000	30 June 2014 \$'000
(a) Cash and cash equivalents		
Cash at bank - denominated in Australian Dollars	515	144
Set-off cash and borrowings and net cash amount presented in Statement of Financial Position:		
Cash - denominated in US Dollars	39,197	-
Cash - denominated in Australian Dollars	16,766	-
Cash - denominated in British Pounds	1,409	-
Cash - denominated in Singapore Dollars	220	-
Borrowings - denominated in Euros	(778)	-
	56,814	-
Total cash	57,329	144
(b) Borrowings		
Set-off cash and borrowings and net borrowings amount presented in Statement of Financial Position:		
Borrowings - denominated in Australian Dollars	-	(98,242)
Cash - denominated in US Dollars	-	66,534
Borrowings - denominated in Euros	-	(826)
Cash - denominated in British Pounds	-	7
Cash - denominated in Singapore Dollars	-	843
	-	(31,684)

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.

(c) 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(d). The Company and MLI intend to net settle. At 30 June 2015, the total cash deposits held with MLI of \$57,592,000 exceeded borrowings provided by MLI of \$778,000 and as a result the net cash position of \$56,814,000 was included within cash and cash equivalents in the Statement of Financial Position as the requirements under Australian Accounting Standards to offset have been met. At 30 June 2014, the Company's borrowings with MLI totalling \$99,068,000 have been presented net of the \$67,384,000 total cash deposits held with MLI.

(d) Multi-currency financing facility

The Company has a multi currency facility with Merrill Lynch International (Australia) Limited (MLIA) which was established 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 as borrowings are repayable on demand. The facility, which is included in the International Prime Brokerage Agreements

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

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

(d) Multi-currency financing facility (continued)

(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.

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

	30 June 2015 \$'000	30 June 2014 \$'000
Net profit after income tax	187,081	49,343
Net (losses)/gains on foreign currency cash and borrowings	(8,821)	4,661
Foreign currency revaluation of outstanding settlements	9	126
Interest expense	2,099	3,992
(Increase) in investments at market value	(323,385)	(105,160)
Decrease in interest and dividends receivable	547	496
(Increase) in foreign tax recoverable	(1,429)	(1,096)
(Increase) in GST receivables	(140)	(15)
(Increase) in prepayments	(3)	(2)
(Decrease) in management fee payable	-	(1,372)
Increase in research and services fee payable	843	1,294
Increase in performance fees fee payable	2,050	-
Increase in trade payables and accrued expenses	4	24
Increase in deferred, current and withholding taxes	78,930	18,671
Net cash (outflow) from operating activities	(62,215)	(29,038)

Non-cash financing and investing activities

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

5. Receivables

	30 June 2015 \$'000	30 June 2014 \$'000
Dividends receivable	413	960
Foreign tax recoverable	53	44
GST receivable	283	144
Outstanding settlements	-	7
	749	1,155
Denomination of current receivables by currency:		
Australian Dollars	285	144
US Dollars	410	260
Euro	53	44
British Pounds	1	707
	749	1,155

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

6. Investments

Company Name	Domicile of Principal Exchange Listing	30 June	30 June
		2015 \$'000	2014 \$'000
Visa	United States	103,652	56,893
Wells Fargo	United States	93,636	69,538
MasterCard	United States	88,892	39,750
Lowe's	United States	86,146	49,291
Home Depot	United States	85,487	47,156
HCA Holdings	United States	81,510	36,824
Bank of America	United States	77,043	44,271
US Bancorp	United States	52,735	30,309
Lloyds Banking Group	United Kingdom	48,696	32,258
BlackRock	United States	36,831	-
Bank of New York Mellon	United States	28,123	25,361
State Street	United States	22,733	19,770
Microsoft	United States	16,329	-
Schroders	United Kingdom	12,646	-
Qualcomm	United States	9,770	6,981
McGraw Hill	United States	6,546	-
Singapore Technologies Engineering	Singapore	3,294	3,124
Fraport	Germany	3,142	-
SIA Engineering	Singapore	2,501	2,746
SATS	Singapore	2,128	1,478
MLP	Germany	253	-
Wal-Mart Stores	United States	86	29,138
Sainsbury's	United Kingdom	19	17,823
Adidas	Germany	-	6,741
Unilever	United Kingdom	-	4,987
Danone	France	-	7,420
eBay	United States	-	2,678
Diageo	United Kingdom	-	2,547
Treasury Group	Australia	-	730
McDonalds	United States	-	666
Tesco	United Kingdom	-	333
Total quoted investments		862,198	538,813

Foreign exchange rates

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

US Dollar	0.76860	0.94385
Euro	0.68982	0.68937
British Pound	0.48871	0.55201
Swiss Franc	0.71830	0.83701
Hong Kong Dollar	5.95861	7.31517
Singapore Dollar	1.03492	1.17665

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

7. Payables

	30 June 2015 \$'000	30 June 2014 \$'000
Accrued expenses	4,187	1,294
Trade payables	86	82
Other payables	-	64
	4,273	1,440
Denomination of current payables by currency:		
Australian Dollars	4,273	1,440

8. Contributed equity

	30 June 2015 Number	30 June 2014 Number	30 June 2015 \$'000	30 June 2014 \$'000
(a) Ordinary Shares				
Opening balance	355,290,029	346,221,267	365,348	355,508
Shares issued under DRP - 15 Nov 13	-	414,228	-	578
Shares issued under DRP - 16 May 14	-	408,485	-	604
Shares issued under DRP - 15 Nov 14	402,257	-	589 ^(A)	-
Shares issued under DRP - 15 May 15	357,652	-	623 ^(A)	-
Shares issued under DRP	759,909	-	1,212	-
Shares issued from exercise of rights	79,778,586	-	127,646	-
Shares issued from exercise of options	22,551,518	8,246,049	23,599	8,658
Total ordinary shares	458,380,042	355,290,029	517,805	365,348
(b) Listed Options				
Opening balance	105,909,996	114,156,045	(78)	(75)
Shares issued from exercise of options	(22,551,518)	(8,246,049)	-	-
Transaction costs	-	-	(23)	(3)
Transaction costs - tax effect	-	-	6	-
Total listed options	83,358,478	105,909,996	(95)	(78)
(c) Rights				
Rights offered - 16 Apr 15	94,187,345	-	-	-
Rights lapsed - 7 May 15	(14,408,759)	-	-	-
Rights exercised - 13 May 15	(79,778,586)	-	-	-
Transaction costs	-	-	(677)	-
Transaction costs - tax effect	-	-	204	-
Total rights issued 13 May 15	-	-	(473)	-
Total contributed equity			517,237	365,270

(A) net of withholding taxes.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

8. Contributed equity (continued)

(d) 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 eligible shareholder of the Company received one MFF 2017 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).

MFF 2017 Options entitle the holder to the right to acquire one ordinary share in the Company and are exercisable at any time on or prior to 31 October 2017, at which time they will lapse. The exercise price of each MFF 2017 Option was \$1.05 up to 9 April 2015. The rights issue announced in March 2015 permitted the rights to be traded on the ASX between 9 April 2015 and 30 April 2015 and the adjusted MFF 2017 Option exercise price was \$0.9964, which reflects the entitlement value.

The MFF 2017 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) Rights

In March 2015, the Company invited its shareholders to subscribe to a rights issue of new fully paid ordinary shares on the basis of 1 new share for every 4 ordinary shares held, at an issue price of \$1.60 per share. The rights issue was not underwritten. The rights issue traded on the ASX between 9 April 2015 and 30 April 2015.

On 13 May 2015, the Company issued 79,778,586 new shares and raised \$127,646,000, which represented a subscription rate of 84.7%. The rights issue closed on 7 May 2015, the new shares were allotted on 13 May 2015 and normal trading of the new shares commenced on 14 May 2015. The new shares rank equally with ordinary shares, however were not entitled to receive the interim dividend for the half year ended 31 December 2014, which was paid on 15 May 2015.

(iv) Share buy-back

On 26 August 2009, the Company announced its intention to undertake a second on-market buyback of up to 20,000,000 shares after completion of the first buyback. Under this buyback, the Company has bought back and cancelled 13,155,651 shares at a total cost of approximately \$8,276,000. On 30 July 2015, the Company authorised a further extension to the on-market share buyback period to 10 September 2016. No shares were acquired under the buybacks during the year ended 30 June 2015.

(v) Dividend reinvestment plan (DRP)

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

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

9. Earnings per Share

	30 June 2015	30 June 2014
Basic earnings per share (cents)	48.79	14.08
Diluted earnings per share (cents)	44.52	12.94
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in calculating basic EPS	383,408,526	350,565,102
add: equivalent number of unexercised options for the purposes of calculating diluted EPS	35,677,783	30,741,035
Weighted average number of ordinary shares on issue used in calculating diluted EPS	419,086,309	381,306,137
Earnings reconciliation		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	187,081	49,343

The options granted on 17 October 2012 and which remain unexercised at 30 June 2015 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 8(d)(ii).

10. Auditor's Remuneration

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

	30 June 2015	30 June 2014
	\$	\$
Audit services		
Statutory audit and review of the financial reports	62,053	60,000
Non-audit services		
Taxation services	10,250	9,500
Total auditor's remuneration	72,303	69,500

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Capital and Financial Risk Management

(a) Financial risk management

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

The Company has investment restrictions designed to reduce some risks. These restrictions are determined from time to time by the Board and currently include requirements that:

- individual investments comprising the investment portfolio will not exceed 10% (or higher amount authorised by the board, with a 12% limit in respect of one holding currently) of the investment portfolio value of the Company at the time of the investment; and
- total borrowings must not exceed 20% of the Company's investments at market value.

The Company did not use derivatives or undertake short selling during the year ended 30 June 2015. The use of derivatives and short selling is very limited and neither have been used by MFF since inception. The circumstances of their use are subject to Board approval and currently derivatives are permitted only where the Portfolio Manager considers that a derivative is preferable to purchasing ordinary share capital, in accordance with the investment objectives and philosophy and short selling is permitted only in relation to implementing hedges of underlying investments or merger arbitrage relating to a portfolio investment. The Portfolio Manager and Board periodically consider whether derivatives might potentially offer some hedging protection for the portfolio. To date, MFF's potential partial offsets to some portfolio risks have included MFF's currency positions to the extent that they have been inversely correlated.

(b) Capital management

The Company's objective in managing capital and investment is to maximise compound after-tax returns for shareholders by identifying and investing in an investment portfolio of listed international and Australian companies, predominantly those which are assessed to have attractive business characteristics, at a discount to their assessed intrinsic values, while seeking to minimise the risk of permanent capital loss.

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

At 30 June 2015, the Company's capital consists of shareholder equity. The Company issued 114,516,157 MFF 2017 Options to ordinary shareholders on 17 October 2012 and issued 79,778,586 new shares on 13 May 2015 arising from the rights issue (refer to note 8(d)(iii) for further details). The Company continues to have an active on-market share buy-back program (refer to note 8(d)(iv) for further details).

A breakdown of the Company's equity and changes in equity during the current year is provided in note 8. The Company's equity increased by \$152,457,000, largely as a result of the rights issue which increased equity by 21% in May 2015. The Company's approach to capital management remains unchanged and it 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.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Capital and Financial Risk Management (continued)

(c) Credit Risk (continued)

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 investment securities held by MLI may be used by MLI for its own purposes, whereupon such investment 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.

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2015, by Standard & Poor's as being A , and by Moody's as being A1 (A- and Baa2 respectively at 30 June 2014). MLI and MLIA are wholly owned subsidiaries of Bank of America which disclosed net assets attributable to common stockholders as at 30 June 2015 of approximately US\$227 billion. Bank of America does not guarantee the obligations in respect of MFF.

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 2015, all of the Company's receivables are due within 0 to 30 days (June 2014: 0 to 30 days). No amounts are impaired or past due at 30 June 2015 or 30 June 2014.

(d) Fair Value Measurement

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. The fair value of asset and liabilities with short-term maturities are valued at the amount at which the asset or liability could be exchanged in a current transaction between willing parties. The fair value of variable-rate receivables/borrowings are based on parameters such as interest rates and individual creditworthiness of the investee company; and
- Level 3: valuation techniques using non-market observable market data with the fair value for investments based on a Director's valuation.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Capital and Financial Risk Management (continued)

(d) Fair Value Measurement (continued)

The table below presents the fair value measurement hierarchy of the Company's financial assets and liabilities:

	Note	30 June 2015 \$'000	30 June 2014 \$'000
Assets measured at fair value			
Level 1: Investments - valued using quoted price		862,198	538,813
Level 2: Receivables and Prepayments ^(A)		765	1,168
Level 3: Investments - directors' valuation as no quoted price	(i)	-	-
Total financial assets		862,963	539,981
Liabilities measured at fair value			
Level 2: Payables ^(A)		4,273	1,440
Level 2: Borrowings - valued using bank valuation		-	31,684
Total financial liabilities		4,273	33,124

(A) Given the short-term maturities, the fair value of the assets and liabilities are recognised at the face value on the invoice.

There have been no movements or transfers within level 3, nor any transfers between any of the three levels in the hierarchy during the year. The Company's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year.

(i) Level 3 Investment

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 February 2013. The court hearing brought by the Hong Kong Securities and Futures Commission (SFC) was completed in March 2015 and ruled in favour of the regulator and recommended CMR be wound up. The liquidator of CMR has advised the Company that the liquidation is likely to continue for at least the next 12 months and there is no certainty regarding the quantum of recovery, if any, from the liquidation. The investment is categorised as a Level 3 in the fair value hierarchy. Although the SFC has stated that it has secured assets intended to be applied for the benefit of creditors and shareholders, the recovery is subject to legal challenge and the quantum of recovery is uncertain. There also continues to be no market in CMR shares. Based on these factors the Directors have adopted a valuation of zero as at 30 June 2015 which is the same as the value adopted as at 30 June 2014. As a consequence there has been no financial impact in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2015.

(e) 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.

The Company used the proceeds from the rights issue to repay borrowings under the multi-currency facility during the year. As a result, the Company had nil borrowings at 30 June 2015. In the year ended 30 June 2014, the Company reported net borrowings of \$31,684,000. As a result, a key component of liquidity risk was refinancing risk, arising in the unlikely event that MLIA demanded repayment of the borrowings at short notice under the terms of the multi-currency facility set out at note 4.

Maturities of financial liabilities

At 30 June 2015, the Company's financial liabilities comprise payables which mature in 0 to 30 days (June 2014: 0 to 30 days).

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Capital and Financial Risk Management (continued)

(f) 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 Profit or Loss and Other 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.

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). This range of yearly performances of markets may not be a reliable guide to future performances, 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 2015 would increase the total equity and net profit by \$30,177,000 (June 2014: \$18,858,000) and each 5% incremental decrease would have an equal and opposite impact.

(g) 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 and liabilities (cash and borrowings), with all other variables held constant, the impact of monetary assets and liabilities on the Company's equity and net profit would have been:

30 June 2015			30 June 2014		
Australian dollar strengthens against:	by:	Net increase / (decrease) in net profit	Australian dollar strengthens against:	by:	Net increase / (decrease) in net profit
		A\$'000			A\$'000
US Dollars	10%	(2,744)	US Dollars	10%	(4,657)
Euros	10%	54	Euros	10%	58
British Pounds	10%	(99)	British Pounds	10%	-
Singapore Dollars	10%	(15)	Singapore Dollars	10%	(59)
		(2,804)			(4,658)

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. Currency movements may not be correlated.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Capital and Financial Risk Management (continued)

(g) 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 \$63,190,000 (2014: \$42,394,000). A 10% decline in the Australian dollar would have had an equal and opposite impact.

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

	30 June 2015	30 June 2014
	\$'000	\$'000
<i>All amounts stated in AUD equivalents</i>		
Assets and liabilities at fair value ^(A)		
US Dollars	829,124	525,421
Euros	2,658	13,379
British Pounds	62,782	58,653
Singapore Dollars	8,149	8,192
	902,712	605,645

(A) At 30 June 2014, 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:

	\$'000	\$'000
<i>All amounts stated in AUD equivalents</i>		
Assets - exposed to foreign currencies ^(A)	902,711	539,087
Assets - not exposed to foreign currencies	17,581	1,038
Assets - as per Statement of Financial Position	920,292	540,125
Liabilities - exposed to foreign currencies ^(A)	-	66,558
Liabilities - not exposed to foreign currencies	(124,008)	(142,117)
Liabilities - as per Statement of Financial Position	(124,008)	(75,559)
Net assets - exposed to foreign currencies	902,711	605,645
Net assets - not exposed to foreign currencies	(106,427)	(141,079)
Net assets - as per Statement of Financial Position	796,284	464,566

(A) Foreign currency cash and borrowings, where applicable, are subject to set-off (refer note 4).

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

11. Capital and Financial Risk Management (continued)

(h) 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	30 June	Interest rate	30 June
	Cash & cash equivalents	2015	Cash & cash equivalents	2014
	/(Borrowings)		/(Borrowings)	
	%	\$'000	%	\$'000
Australian Dollars	1.73	515	2.40	144
Australian Dollars	1.94	16,766	-	-
US Dollars	0.05	39,198	0.02	66,534
Singapore Dollars	0.73	220	0.04	843
British Pounds	0.39	1,409	0.38	7
		57,592		67,384
Australian Dollars	n/a	-	(3.41)	(98,242)
Euros	(0.75)	(778)	(0.82)	(826)
		(778)		(99,068)
		56,814		(31,684)
		57,329		(31,540)

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	- 10bps	+10bps	- 10bps
30 June 2015	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	581	(581)	581	(581)
Borrowings	(8)	8	(8)	8
	573	(573)	573	(573)
30 June 2014				
Cash and cash equivalents	674	(674)	674	(674)
Borrowings	(989)	989	(989)	989
	(315)	315	(315)	315

Interest rate movements may not be correlated.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

12. Related Parties

(a) Key Management Personnel

The Key Management Personnel (KMP) of the Company comprise the Independent Non-Executive Directors and the Executive Director for the year ended 30 June 2015. In the prior year, the KMP also included the Non-Independent Non-Executive Directors of the Company and MAM for the period 1 July 2013 to 30 September 2013 when MAM was the Investment Manager of the Company.

MAM ceased as a KMP from 1 October 2013, being the date the Investment Management Agreement with MAM was terminated. MAM continues to provide the Company with investment research and administration services. Refer to further details in note 13.

(b) Remuneration of Key Management Personnel

The following remuneration was paid or payable by the Company to the KMP, during the year:

	Note	2015 \$	2014 \$
Short term benefits		1,239,778	941,691
Post-employment benefits		43,346	32,296
Management fee	13(b)(i)	-	1,466,408
Total paid by the Company		1,283,124	2,440,395
Short term benefits		-	482,225
Post-employment benefits		-	17,775
Other benefits		-	125,000
Total paid by MAM		-	625,000

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

13. Research and services fees

On 1 October 2013, the Company moved from being externally managed by Magellan Asset Management Limited (MAM), a wholly owned subsidiary of ASX listed Magellan Financial Group Limited (MFG) and appointed Mr Mackay as Managing Director and Portfolio Manager for the Company.

(a) For the year ended 30 June 2015

MAM provides investment research and administrative services to the Company in accordance with a Services Agreement (SA) between the Company and MAM.

Research and services fees are calculated at 1.25% per annum (plus 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 the 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. Research and services fees for the year before GST, were \$7,353,000.

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

13. Research and services arrangements (continued)

(a) For the year ended 30 June 2015 (continued)

The Company is required to pay a performance fee to MAM if the Company'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 fee that may be payable in respect to each of the four periods was \$2,000,000 and each is non-cumulative. Performance fees cease to be payable to MAM after 31 December 2016.

For the year ended 30 June 2015, a performance fee of \$2,000,000 (plus GST) was payable as the Company's total shareholder return exceeded 10% per annum, compounded annually. No performance fee was paid or payable in respect of the year ended 30 June 2014.

The total maximum performance fees payable over the remaining periods is capped at \$4,000,000. For further details on performance fees, refer to note 1(e).

Performance fees are included in research and service fees in the Statement of Profit or Loss and Other Comprehensive Income.

(b) For the year ended 30 June 2014

(i) For the period 1 July 2013 to 30 September 2013

For the period 1 July 2013 to 30 September 2013 when the Company appointed Magellan Asset Management Limited (MAM) as Investment Manager, MAM was a corporate entity that had specified authority and responsibility in regard to the management of the Company's investment portfolio. During this period, MAM was remunerated by the Company in accordance with the Investment Management Agreement (IMA) and was entitled to:

- a base management fee calculated as 1.25% per annum (plus GST) payable quarterly in arrears, capped to the actual number of the Company's ordinary shares on issue; and
- performance fees are detailed above in note 13(a).

Fees incurred prior to 1 October 2013 are classified as management fees in the Statement of Profit or Loss and Other Comprehensive Income.

(ii) For the period 1 October 2013 to 30 June 2014

With the Company's move to being internally managed, MAM ceased to be the Investment Manager of the Company effective 1 October 2013. MAM continued to provide investment research and administrative services to the Company on commercial terms materially equivalent to the previous IMA, which is detailed above in note 13(b)(i). As a result, during the period 1 October 2013 to 30 June 2014, MAM was remunerated by the Company in accordance with a Services Agreement (SA) between the Company and MAM as set out below:

- service fees calculated at 1.25% per annum (excluding GST) payable quarterly in arrears, of the market value of the portfolio less total indebtedness of the Company divided by the weighted average number of the Company's 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, associated payroll related costs, travel costs and incidental expenses; and
- performance fees, as detailed above in note 13(a).

MAGELLAN FLAGSHIP FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

14. Segment Information

The Company's investments are managed on a single portfolio basis, and in one business segment being equity investment, and in one geographic segment, Australia. The Company continues to have foreign exposures as it invests in companies which operate internationally.

15. Contingent Assets, Liabilities and Commitments

Under the Services Agreement effective 1 October 2013, Magellan Asset Management Limited is entitled to a performance fee if the Company's total shareholder's return exceeds 10% per annum, annually compounded, with respect to the two remaining measurement periods, 1 July 2013 to 30 June 2016 and 1 July 2013 to 31 December 2016. The performance fees that may be payable in respect to each period is \$2,000,000 and each is non-cumulative. As markets continue to be subject to fluctuation, there remains uncertainty as to whether the total shareholder returns will be achieved.

The maximum total performance fees payable over the remaining periods is capped at \$4,000,000. For further details on performance fees, refer to note 13(a).

The Company has no other material commitments, contingent assets or contingent liabilities as at 30 June 2015 (June 2014: nil).

16. Events Subsequent to Reporting Date

On 30 July 2015, the Directors declared a fully franked final dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2015 (refer to note 2(a) for further details).

In the latest release to the ASX on 28 July 2015, the Company reported a NTA as at 24 July 2015 of \$2.170 (excluding net tax liabilities of \$0.315).

Other than the above, the Directors are not aware of any 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

for the year ended 30 June 2015

17. Net Tangible Assets (NTA) Value Per Share

	24 July 2015	30 June 2015 ^(A)
	\$	\$
Pre-tax NTA	2.170	1.998
Net tax liabilities	0.315	0.261
Post-tax NTA	1.855	1.737

(A) Audited NTA

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 30 June 2015, the Pre-tax and Post-tax NTA values would have been reduced by 15.4 and 11.4 cents per share to approximately 184.4 and 162.3 cents per share respectively as at that date.

The following table reconciles the NTA ^(A) presented in the Statement of Financial Position as at 30 June 2015 to the NTA per share reported to the ASX on 2 July 2015.

	30 June 2015	30 June 2015	30 June 2014	30 June 2014
	\$	\$	\$	\$
	Pre-tax	Post-tax	Pre-tax	Post-tax
ASX Reported NTA Value^(A)	1.996	1.736	1.427	1.308

(A) The estimated NTA announced to the ASX on 2 July 2015 includes estimates for accrued expenses and tax liabilities.

NTA Value^(B)	1.998	1.737	1.427	1.308
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(B) Net tangible assets (NTA) refers to the net assets of the Company including the net current and 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 excluding the net current and deferred tax assets/liabilities presented in the Statement in Financial Position.

The above NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 options.

NTA if all of the MFF 2017 Options had been exercised	1.844	1.623	1.340	1.248
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MAGELLAN FLAGSHIP FUND LIMITED

DIRECTORS' DECLARATION

for the year ended 30 June 2015

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 21 to 48 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 30 June 2015 and of its performance, as represented by the results of its operations and its cashflows, 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* and other mandatory professional reporting requirements;
- (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.

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 2015.

Signed in accordance with a resolution of the Directors.



Richard FE Warburton AO
Chairman



Chris Mackay
Managing Director and Portfolio Manager

Sydney
30 July 2015

MAGELLAN FLAGSHIP FUND LIMITED

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2015



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 2015, 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.

Independence

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

MAGELLAN FLAGSHIP FUND LIMITED

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2015



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 2015 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 15 to 18 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva'.

Rita Da Silva
Partner
30 July 2015

MAGELLAN FLAGSHIP FUND LIMITED

SHAREHOLDER INFORMATION

for the year ended 30 June 2015

Distribution of Shareholders

The distribution of shareholders of the Company as at 27 July 2015 is presented below:

Distribution Schedule of Holdings	Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	948	436,242	0.09
1,001-5,000	1,749	5,022,549	1.09
5,001-10,000	1,842	13,889,840	3.02
10,001-100,000	5,990	180,797,612	39.35
100,001 and over	633	259,298,384	56.44
Total	11,162	459,444,627	100.00
Number of holders with less than a marketable parcel	289	26,583	0.01

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 27 July 2015 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
CHRISTOPHER JOHN MACKAY	20,228,480	4.40
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	18,999,440	4.14
NAUMOV PTY LTD	13,402,251	2.92
MAGELLAN EQUITIES PTY LIMITED	11,348,383	2.47
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,412,906	1.61
MUTUAL TRUST PTY LTD	7,063,775	1.54
CITICORP NOMINEES PTY LIMITED	5,783,996	1.26
FORSYTH BARR CUSTODIANS LTD	5,116,874	1.11
EMMANUEL CAPITAL PTY LTD	3,500,000	0.76
MR VICTOR JOHN PLUMMER	3,000,000	0.65
NETWEALTH INVESTMENTS LIMITED	2,754,244	0.60
NAVIGATOR AUSTRALIA LTD	2,724,232	0.59
NETWEALTH INVESTMENTS LIMITED	2,479,097	0.54
NOTA BENE INVESTMENTS PTY LTD	2,469,969	0.54
HAZEL EQUITIES PTY LIMITED	2,380,339	0.52
CREMORNE CO PTY LTD	2,358,112	0.51
ROGAND SUPERANNUATION PTY LTD	2,101,569	0.46
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,999,530	0.44
NATIONAL NOMINEES LIMITED	1,932,468	0.42
MIDAS TOUCH INVESTMENTS PTY LTD	1,761,535	0.38
Total shares held by the twenty largest shareholders	118,817,200	25.86
Total shares in issue	459,444,627	

MAGELLAN FLAGSHIP FUND LIMITED

SHAREHOLDER INFORMATION

for the year ended 30 June 2015

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders as at 27 July 2015 are listed below:

Shareholder	Number of Ordinary Shares
Christopher Mackay and Associates	46,346,137

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 options.

MAGELLAN FLAGSHIP FUND LIMITED

Corporate Information

Directors

Richard Warburton AO
John Ballard
Andy Hogendijk
Chris Mackay

Company Secretary

Geoffrey Stirton

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 12, Grosvenor Place
225 George 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>

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