MAGELLAN
FLAGSHIP FUND LIMITED

2010 ANNUAL REPORT

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MAGELLAN FLAGSHIP FUND LIMITED
CHAIRMAN'S LETTER
FOR THE YEAR ENDED 30 JUNE 2010

Dear Shareholder,

I am pleased to write to you in the 2009/10 Annual Report for Magellan Flagship Fund Limited ("MFF"). Please also take the time to read the financial statements and the Investment Manager's Report which follow.

Financial Results

MFF recorded a profit after tax of $31.1 million for 2009/10. This profit reflects the 'mark to market' of all price movements for the year. For 2009/10, equity price movements for MFF's portfolio were strongly positive whilst the rise in the AUD against other currencies was a partial offset.

The rise in MFF's pre tax net tangible assets of 13 cents per share (a rise of 20.5%) for 2009/10 compares with the rise of approximately 10% for the major global indices (or approximately 3.4% in AUD adjusted terms) and approximately 8.8% for the major Australian indices.

MFF's Portfolio

Your Directors were pleased with many aspects of the investment performance in 2009/10. We also expect that MFF's focused, disciplined investment approach will be rewarded with sustained positive performance over time.

In 2009/10 MFF maintained its investment focus. There were relatively few sales from the portfolio (less than 10% by value). The underlying business strength of the portfolio companies is very evident and your Directors are confident about the business prospects for these high quality companies.

MFF's portfolio continues to be more than 90% invested in leading global multinationals. Almost all of these companies are leaders in emerging markets as well as in the more developed markets. In some cases their business leadership extends across dozens of countries and often their competitive advantages are increasing as competitors are forced to cut back.

They continue to demonstrate well above average business resilience in the ongoing difficult economic conditions. In 2009/10 we also saw more evidence that these companies have the "satisfactory upside potential from future economic recovery and income growth" we foreshadowed last year.

Economic, political and regulatory risks continue to be significant, including increased Sovereign Risk. MFF's high quality companies are susceptible to such heightened regulatory and political risks, as they are successful, profitable and sizable.

MFF provides valuable diversification benefits for Australian and New Zealand investors in terms of companies, currencies and business geographies. We believe that the quality and attractive valuations of the companies in the MFF portfolio compares favourably with portfolio opportunities in the domestic markets.

MAGELLAN FLAGSHIP FUND LIMITED
CHAIRMAN’S LETTER
FOR THE YEAR ENDED 30 JUNE 2010

On-market Share Buy-back

During 2009/10, MFF acquired on-market a further 11.7 million shares at an average price of approximately 57.8 cents per share, which represents a discount to MFF’s net assets per share. We intend to maintain MFF’s Balance Sheet strength. Our investments are in highly liquid shares with a modest level of borrowings in comparison with investment assets.

Annual General Meeting

My fellow Directors and I look forward to meeting those of you who can attend the Annual General Meeting at 8.30 am on Friday, 29 October 2010 in the Investor Presentation Room at Magellan’s offices:

Level 7, 1 Castlereagh Street
Sydney NSW 2000

Yours faithfully,

Richard F E Warburton AO
Chairman
18 August 2010

MAGELLAN FLAGSHIP FUND LIMITED
INVESTMENT MANAGER'S REPORT
FOR THE YEAR ENDED 30 JUNE 2010

Dear Shareholder,

MFF reported a net profit after tax of $31.1million for 2009/10 primarily reflecting "mark to market" gains in the portfolio. The increase in pre tax NTA per share for the year of 20.5% exceeded the increase in global indices of about 10% (3.4% in AUD terms) and the increase of about 8.8% in the Australian indices.

MFF's 2009/10 results reflect a partial rebound in market prices, mixed rates of underlying economic recoveries and business performances from our major portfolio companies ranging from solid to superb. Our portfolio combines well above average business resilience with above average growth prospects and sustainable competitive advantages.

The extraordinary quality of the companies in MFF's portfolio and attractive purchase prices are crucial for risk management and for considering future return potential. MFF's portfolio is focussed on businesses which generate billions of dollars annually in free cash flows at well above their cost of capital whilst enhancing their geographic market leadership in industry sectors where market leadership is likely to continue to be very profitable, scalable and defensible over many years. We are optimistic that this portfolio will generate attractive investment returns reflecting the results from these companies' advantaged businesses, over the longer term.

We are patiently focused on seeking to increase MFF's exposure to the best possible businesses on attractive risk adjusted terms. In considering risk, please be aware that legislative and regulatory costs and risks (including Sovereign Risk) have increased over the past 12 months. Expect that our companies will be subject to more adverse regulation and more taxation in the future.

Hamish Douglass (Magellan's co-founder) and I remain cautious about optimistic forecasts for overall economic growth. Economic challenges include global financial imbalances, a globalising world where a majority of industry sectors have material overcapacity and lower real wages, transfer payments and retraining burdens reflecting the materially reduced life cycle or commoditisation of products, skills and work training, given advances in technology and the emergence of global labour and production pools.

Our companies are successful and profitable and hence ideal targets for Governments and regulators confronted by difficult choices and contradictory social, political and economic pressures and risks. "Emergency" fiscal settings are unsustainable in aggregate and fiscal and monetary stimulus must be reversed sooner or later. Aggregate economic growth is unlikely to be sufficient to avoid further unpleasant adjustments being imposed by, and upon, Governments and/or market dislocations led by debt investors concerned about central and regional Government credits around the world.

Sovereign Risk is real. It is also obvious that Governments around the world have increased their role in the economy and will increase it further. Heightened protectionism, nationalism and reversal of economic reforms are populist and have real impacts. Our companies are already feeling the initial direct impact of US "financial reform" and the Venezuela crisis, for example. Although political outcomes are unpredictable, the direction is negative and we must be prepared for further unfavourable impacts from legislative and regulatory decisions.

Whilst our companies are vulnerable to specific adverse regulation and increased taxation, many of their weaker competitors are struggling to even survive. Our companies are gaining market share as some others are unable to compete in the challenging economic conditions made worse by some of the Government and regulatory actions, including uncertainty around Sovereign Risks (even before considering the adverse impact of unintended consequences of increased regulation on less financially strong competitors). Our companies will lose the direct benefits to recent earnings of the Government fiscal stimulus packages with the inevitable reversal of unsustainable deficits of 10% or so of GDP (as we are focussed on the longer term, we consider the impact as part of the portfolio's exposures).

Even after taking into account such increased risks, the underlying value of the portfolio increased over the last twelve months and we believe that our portfolio companies further increased their competitive advantages.

We also believe that the market prices for our portfolio companies remain at attractive discounts to our assessment of their prospects. Many investors have been focussed elsewhere and market prices are a function of supply and demand. The perceived security of cash and bonds and higher recent returns in various emerging markets and commodities have led to strong demand and higher prices in these asset classes and lower demand and lower relative prices for some other assets.

Portfolio Update

MFF's Top 20 holdings at market value as at 30 June 2010 comprised 98% of MFF's portfolio and are shown below:

	$Am Market price	% of Portfolio		$Am Market price	% of Portfolio
American Express	64.21	19.18	Wells Fargo & Co	11.50	3.44
Yum! Brands Inc	38.18	11.40	Tesco Plc	8.71	2.60
Nestle SA	38.07	11.37	Colgate-Palmolive Co	7.38	2.20
Wal-Mart Stores Inc	28.44	8.49	Bank of America Corp	6.35	1.90
eBay Inc	25.17	7.52	Visa Inc	5.23	1.56
Coca-Cola	18.75	5.60	Lowe's Co Inc	4.52	1.35
McDonald's Corp	16.73	5.00	US Bancorp	4.51	1.35
PepsiCo Inc	16.57	4.95	Johnson & Johnson	2.86	0.85
Google Inc	14.17	4.23	Unilever NV	2.27	0.68
Procter & Gamble	12.65	3.78	Ferrovial SA	2.03	0.61

Changes in the portfolio during the year were very minor. Our actions show our confidence in the portfolio. We constantly look for additional investment opportunities but before acting we consider whether they are superior to members of the existing portfolio and/or assist in improving the portfolio construction. There were sales of about 6% of portfolio value including some sales to fund the share buyback and sales to keep the gearing at the 20% level whilst we generally maintained a fully invested position. The only new Top 20 holding was Wells Fargo as we increased this holding during the year (Ferrovial reflects a name change following the merger of Cintra with its parent Ferrovial).

Larger additions during the year were in Coca-Cola and McDonald's. The high weighting in American Express reflects a 70% increase in the share price over the year.

Results have recently been reported for the June Quarter for all of MFF's largest holdings except Wal-Mart (which reports its July Quarter results shortly).

American Express' normalised earnings per share tripled (and reported figures rose nine fold) primarily due to improved credit quality and a 16% year on year increase in billed business more than offsetting reduced interest income from a substantially reduced loan book. As an aside, "the market" is clearly not always right, even in valuing a relatively simple business that has been and will be advantaged for decades. American Express earned US$1.57 per share for the first six months and is likely to exceed US$3 per share for 2010 when considering the seasonally stronger second six months and continuing improvement in credit quality. American Express also recently told analysts that their updated on average and over time financial goals were at least 25% return on equity, 8% revenue growth and 12-15% earnings per share growth. We added a small parcel to our holding on March 6 last year at below US$10 per share.

Yum! Brands reported a 17% increase in earnings per share (excluding special items) including a 33% increase in operating profit in China. This week Nestlé reported net profits after tax for the half year of CHF 5.5billion and a 13.5% increase in earnings per share driven by solid volume revenue and margin growth. Each of MFF's other top 11 holdings [Coca-Cola, eBay, Google, McDonald's, PepsiCo, Procter & Gamble and Wells Fargo] also reported world class results.

Note that we do not have high expectations for the current Wal-Mart results but remain very happy holders of this business which has annual global sales exceeding US$400 billion, earned operating cashflow for 2009 of over US$26 billion and reinvested half at attractive incremental returns and returned half to shareholders via dividends and buybacks, and has more than US$140 billion of property plant and equipment (at cost).

MFF remains focussed resolutely on quality and value. The current earnings demonstrate resilience and give some evidence of reasonable growth potential from leadership in emerging markets in particular.

Investment Discussion

We have made detailed comments in recent reports about our investment approach, only some of which we have updated and repeat here. Our approach does not change year to year and we have no interest in tossing out our high probability, advantaged companies to chase market movements elsewhere.

Our primary investment goal is to increase the per-share asset backing of MFF. We focus first on seeking to create intrinsic value (which is very different to market price as 'Price is what you pay. Value is what you get'). However, in time, market prices for quality companies revert towards intrinsic value. Thus, if our purchases are at prices below sustainable intrinsic values, we expect that this will be reflected in increased book value per share. If this occurs, it will also be reflected in an improved price for MFF shares.

MAGELLAN FLAGSHIP FUND LIMITED
INVESTMENT MANAGER'S REPORT
FOR THE YEAR ENDED 30 JUNE 2010

Our investment approach remains clear:

We want to buy, at discounted prices, shares in companies that we feel we can understand, that have strong business positions that generate high returns on invested capital and high levels of free cashflow and where, ideally, the probability is that those strong market positions will continue to improve over time. Hence, positive future returns should be more predictable and resilient than for most businesses. Note that business risk and cycles are not eliminated in this approach, as shown by the impact of the crisis upon even the best capitalised financials. In our ideal businesses, high future returns on invested capital and free cashflows are highly likely, as these businesses strengthen their leading market positions around the world.

The Global recession has highlighted the huge levels of overcapacity in most industries and accelerated some secular technological changes (walk a mall in Europe or North America or compare online and traditional media to demonstrate). The implications of these types of issues are wide ranging but hard to predict, as are short-term moves in markets or economies (for example, what will be the impact of the inevitable restocking of inventory that has been rundown and what allowance should be made for the runoff of current Government stimulus in considering future economic figures). We feel that by narrowing our focus and by lengthening the duration, we increase the probability of making a better assessment of the sustainability of businesses' competitive advantages.

Although we invest on an individual business by business basis (and, for example, seek the lowest cost players in an industry), you may seek to categorise some of our investee companies according to the following longer-term sustainable investment trends:

- We believe that a small number of multi-decade 'global winners' are selecting themselves amongst fast moving consumer goods (FMCG) companies. These companies are the global leaders in their categories and have product, innovation, marketing, brand and distribution strengths and are growing rapidly in emerging markets as incomes rise [examples include Nestlé, Yum! Brands, PepsiCo, Unilever, Procter & Gamble, L'Oreal (30% owned by Nestle), Coca-Cola, McDonald's, Colgate-Palmolive and the consumer division of Johnson & Johnson]. Demographics are favourable for the foreseeable future as more than a billion people are moving from poverty to more middle class living standards and there is a related move of more than a billion people to urban dwelling.

- We believe that a very small number of the leading, strongly capitalised, retail focused banking and financial institutions will emerge after the current financial crisis with enhanced market shares, profitability and low funding costs [examples include American Express, Visa, MasterCard, Bank of America, US Bancorp and Wells Fargo].

- We believe that the lowest cost, market leading, non-discretionary retailers offer excellent customer value and satisfaction propositions in recessionary as well as recovery scenarios (for example Wal-Mart, Tesco and Lowes).

- We are attracted to the best global 'networks' and these may strengthen further over coming decades (American Express, eBay and Google are examples). Our FMCG companies, financials and retailers also have network economic benefits.

Capital Management

MFF bought back a further 11.7 million shares on market at an average price of approximately 57.8 cents per share during 2009/10.

Various of our companies are undertaking their own buyback programmes and we support their buying at below our assessment of fair value. Our bank holdings are awaiting regulatory advice on their required capital levels and have been unable to undertake buybacks even though prices have been attractive.

Currencies and Inflation

We have discussed currencies and inflation in some detail in previous reports. We felt that inflation and deflation would be likely to occur concurrently. This is occurring, and we expect it to continue. Damaging levels of inflation, stagflation and/or deflation are risks in each market, depending upon the underlying factors and policy responses. Factors include whether countries have freely floating and exchangeable currencies and open labour markets. Our companies' experienced global managers have shown skill in dealing market by market with the implications.

Regarding currencies, the fundamental arguments remain although US and other Government policies continue to impact the values of their currencies, and Government decisions are not getting easier. However, we remain positive about the way Switzerland is operating with its budget surplus, low government debt, foreign investment surplus trade and payments balance surpluses and foreign securities holdings.

Based on current markets and policy settings, MFF will continue with its unhedged position. We continue to aim for currency to be a moderate positive influence on performance over time, and we will promptly advise the ASX if MFF engages in any substantial currency hedging in response to changed market conditions. MFF continues to provide valuable diversification (by geography, company and currency) for Australian and New Zealand investors, many of whom are concentrated in AUD assets.

Market Updates

Investors can track the portfolio and its 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 regularly. We look forward to seeing you at the Annual General Meeting in October.

Yours faithfully,

Chris Mackay

Chris Mackay
Chief Investment Officer
12 August 2010

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

The Directors of Magellan Flagship Fund Limited (the "Company") submit their report in respect of the year ended 30 June 2010.

Directors

The following persons were Directors of the Company during the year and up to the date of this report unless otherwise noted.

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	Non-executive Director.	29 September 2006
Hamish Douglass	Non-executive Director.	29 September 2006

Results and Review of Operations

The Company recorded a net profit for the year after income tax of $ 31.1 million (2009: $14.7 million loss) principally as a result of appreciation in the market value of investments. Overall, net increases in the market value of the portfolio in base currencies benefitted the Company by about $0.18 per share, offset by movements in foreign exchange in the year of approximately $ 0.05 per share. This resulted in an increase in the Company's net tangible assets (NTA) per share (excluding deferred tax assets) of $0.13 over the year to $0.76 per share as at 30 June 2010.

The rise in the Company's pre tax NTA per share for 2009/10 was 20.5% and the Company's portfolio materially outperformed the major global and Australian indices.

The Company completed an on-market share buy-back of 20 million shares at a total cost of approximately $11.2 million on 30 July 2009. The Company announced a further on-market share buy-back of 20 million shares on 26 August 2009, has acquired approximately 8.3 million shares under this buy-back programme at an average price of $0.61. Further details of the buy-back are provided in notes 8 and 15 to the financial statements.

Principal Activity

The principal activity of the Company during the year was the investment into a minimum of twenty listed international and Australian companies, perceived by Magellan Asset Management Limited (the "Investment Manager") to have attractive business characteristics at a discount to their assessed intrinsic value.

Significant Changes in State of Affairs

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

Events Subsequent to the end of the Financial Year

On 14 July 2010 the Company purchased 4,147,355 shares for consideration of $2.6 million, under the buy-back programme of up to 20 million shares, announced on 26 August 2009.

On 18 August 2010, the Directors affirmed the continuation of this buy-back programme.

Since 30 June 2010, the Directors are not aware of any other matter or circumstance not otherwise disclosed in this report or financial statements that has significantly or may significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in subsequent financial periods.

Likely Developments and Expected Result of Operations

The Company will continue to pursue its investment objective which is to increase the net asset value of the Company. Please refer to the Chairman's Letter and the Investment Manager's Report respectively for further information.

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

Information on Directors

Richard Warburton AO

Independent Non-executive Director and Chairman of the Board

Richard Warburton is one of Australia's most prominent company directors. Prior to becoming a professional director, he was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand where he was responsible for DuPont's petro-chemical business operations in Australia and New Zealand.
Dick is currently Chairman of Tandou Limited (appointed April 2004) and The Board of Taxation, and is a Director of Citigroup Pty Limited. He was previously Chairman of David Jones Limited, AurionGold Limited and Caltex Australia Limited (appointed July 1999, resigned April 2008) and a director of Tabcorp Holdings Limited, Southcorp Limited, Nufarm Limited (appointed October 1993, resigned November 2007), and the Reserve Bank of Australia. Dick 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 Managing Director and Chief Executive Officer of Southcorp Limited, Managing Director Asia Pacific, United Biscuits Limited and Managing Director Snack Foods, 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 and a Trustee of the Sydney Opera House Trust.
John is currently Chairman – Designate of Elders Limited (appointed July 2010), a director of Fonterra Co-operative Group Limited (appointed May 2006), a director of International Ferro Metals Limited (appointed March 2010), 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.

Information on Directors (continued)

Andy Hogendijk

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

Andy Hogendijk has extensive senior management and finance experience having previously been Chief Financial Officer, Suncorp Metway Limited (1997 – 2000), Commonwealth Bank of Australia Limited (1991 – 1997) and John Fairfax Group (1989 – 1991). He has also held several senior positions with Shell Company Australia and Australian Paper Manufacturers.
Andy is currently a director of AWE Limited (appointed October 2007), and was previously a Chairman of Gloucester Coal (appointed August 2004, resigned June 2009), and a director of Aditya Birla Minerals Limited (appointed March 2006, resigned November 2007), Hills Motorway Management Limited and Magnesium International Limited. Andy is a Fellow of the Australian Society of Certified Practising Accountants and the Australian Institute of Company Directors. Andy also chairs the Company's Audit & Risk Committee.

Chris Mackay

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

Chris Mackay is the Chairman and Chief Investment Officer of Magellan Financial Group Limited (appointed November 2006), and is portfolio manager of the Company. Chris is a Director of Consolidated Media Holdings Limited [formerly Publishing & Broadcasting Limited] (appointed March 2006) and Seven Group Holdings Limited (appointed June 2010), and a former director of Crown Limited (2007 – 2008), and New Privateer Holdings Limited (2006 – 2007).
Chris retired as Chairman of the investment bank UBS Australasia, in 2006, having previously been its Chief Executive Officer. He is a member of the Federal Treasurer's Financial Sector Advisory Council, and is a former member of the Business Council of Australia and director of the International Banks & Securities Association.

Hamish Douglass

Non-executive Director

Hamish Douglass is the Managing Director and Chief Executive Officer of Magellan Financial Group Limited (appointed November 2006), and Magellan Asset Management Limited. Hamish has more than 20 years experience in financial services and was, formerly Co-Head of Global Banking at Deutsche Bank, Australasia.
Hamish is a member of the Australian Government's Foreign Investment Review Board (FIRB), the Australian Government's Financial Literacy Board, the Australian Government's Takeovers Panel, and a member of the Forum of Young Global Leaders of the World Economic Forum.

Information on Company Secretaries

Nerida Campbell
Company Secretary

Nerida has over 20 years experience in the investment banking and finance industry, previously holding various finance and management roles including that of Chief Financial Officer for UBS AG, Australia and New Zealand. She is also the Company Secretary of Magellan Financial Group Limited and Magellan Asset Management Limited. Nerida is a member of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia, and a graduate member of the Australian Institute of Company Directors.

Leo Quintana
Company Secretary

Leo has 8 years experience as a corporate lawyer. He is the Legal Counsel for the Company and is the Legal Counsel and Company Secretary of Magellan Financial Group Limited and Magellan Asset Management Limited. Leo is admitted as a solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws and a Bachelor of Business. He was previously an Associate – commercial and corporate group, of Harris Friedman Hyde Page Lawyers. Leo is a member of the Law Society of New South Wales and a member of the Australian Corporate Lawyers Association.

David Simpson
Company Secretary (resigned 20 November 2009)

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2010 and attended by each Director.

	Board Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
	while a Director		while a member	
R Warburton	4	3		
J Ballard	4	4	5	5
A Hogendijk	4	4	5	5
C Mackay	4	4	5	5
H Douglass	4	4		

Environmental Regulation

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

Rounding Off 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 and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Directors and Officers Insurance
The Company has paid premiums to insure each of its Directors and Officers in office against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

Auditor
Ernst & Young continues in office in accordance with section 307C of the *Corporation Act 2001*.

Non-audit Services
The following non-audit services were provided by the Company's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The nature and scope of the non-audit service provided means that the auditor independence was not compromised.

Amounts paid or payable to the auditor for non-audit services provided during the year are as follows:

	2010	2009
	$	$
Other services – tax compliance	7,000	-
	7,000	**-**

Auditors' Independence Declaration
A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

Remuneration Report (Audited)

Principles used to determine the nature and amount of remuneration

Only 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

Independent Non-executive Directors' base remuneration is reviewed annually. Fees paid to each Director have remained unchanged from the time of their appointment.

Retirement benefits for Directors

No retirement benefits (other than superannuation) are provided to Directors.

Other benefits (including termination) and incentives

No other benefits and incentives are paid to Directors.

Details of Remuneration

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

	30 June 2010			30 June 2009		
	Short term Benefits (Salary) $	Post-employment Benefits Superannuation $	Total $	Short term Benefits (Salary) $	Post-employment Benefits Superannuation $	Total $
R Warburton	77,982	7,018	85,000	77,982	7,018	85,000
J Ballard	17,340	45,160	62,500	28,670	33,830	62,500
A Hogendijk	68,807	6,193	75,000	68,807	6,193	75,000

The Non-Independent Directors (Mr Mackay and Mr Douglass) are both employees of the Investment Manager. They are not remunerated by the Company. The Non-Independent Directors received the following amounts from the Investment Manager during the year:

	30 June 2010			30 June 2009		
	Short term Benefits (Salary) $	Post-employment Benefits Superannuation $	Total $	Short term Benefits (Salary) $	Post-employment Benefits Superannuation $	Total $
C Mackay	235,539	14,461	250,000	236,255	13,745	250,000
H Douglass	235,539	14,461	250,000	236,255	13,745	250,000

A portion of the remuneration paid by the Investment Manager to Mr Mackay and Mr Douglass is in relation to managing the affairs of the Company. The Investment Manager has made no determination as to what proportion of Mr Mackay's and Mr Douglass' remuneration is related to the Company.

Key Management Personnel Compensation

Key management personnel include persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Company. The Company has no employees other than its Directors whose remuneration is disclosed above.

The Investment Manager is a corporate entity that has specified authority and responsibility in regard to the management of the Company's investment portfolio and is remunerated by the Company in accordance with the Investment Management Agreement between the Company and the Investment Manager, and as disclosed in note 11 to the financial statements. The Investment Manager does not directly or indirectly own shares in the Company. At the date of this report the parent company of the Investment Manager, Magellan Financial Group Limited (MFG), owns 48,874,521 or 13.98% of the Company's shares.

Share Holdings

The number of ordinary shares in which the Directors have a relevant interest at balance date is as follows:

Name	Balance at 1 July 2009	Acquisitions	Disposals	Balance at 30 June 2010
Richard Warburton	650,000	-	-	650,000
John Ballard	1,100,000	-	-	1,100,000
Andy Hogendijk	125,000	-	-	125,000
Chris Mackay*	18,914,299	39,000	-	18,953,299
Hamish Douglass *	750,000	-	-	750,000

None of the Directors' or MFG's holdings in the Company are subject to margin loan arrangements.

* Mr. Mackay and Mr. Douglass are also respectively the Chairman and Managing Director of MFG, which owned 44,727,166 shares in the Company at 30 June 2010 (2009: 30,391,049 shares). As at the date of this report, MFG's shareholding had been increased to 48,874,521 shares in the Company.

Service Agreements

Remuneration and other terms of employment for the Independent Non-executive Directors are formalised in service agreements. The Non-Independent Directors do not have service agreements with the Company.

Richard Warburton AO, Chairman and Independent Non-executive Director

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2010 of $85,000.

John Ballard, Independent Non-executive Director

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the period ended 30 June 2010 of $62,500

Service Agreements (continued)

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

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the period ended 30 June 2010 of $75,000

Chris Mackay, Non-Independent Non-executive Director

- Commenced on 29 September 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- No Base salary or other compensation from the Company

Hamish Douglass, Non-Independent Non-executive Director

- Commenced on 29 September 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- No Base salary or other compensation from the Company

Shared Based Compensation

No shares or options have been granted to Directors. There are no key management personnel.

Directors' Interests in Contracts

The Non-Independent Directors of the Company are Directors and employees of, and have a relevant interest in, the Investment Manager. They do not receive any Directors' remuneration from the Company.

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

Richard Warburton AO
Chairman
Sydney
18 August 2010

AUDITOR'S INDEPENDENCE DECLARATION

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Fax: +61 2 9248 5959
www.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 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
18 August 2010

MAGELLAN FLAGSHIP FUND LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

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

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

This Corporate Governance Statement reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('**ASX Recommendations**'). As required by the ASX Listing Rules, this statement sets out the extent to which the ASX Recommendations have been followed or, where appropriate, indicates a departure from them with an explanation.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role and responsibilities of the Board

The Board is responsible for the overall operation and stewardship of the Company and is responsible for its overall success and long-term growth and corporate governance. The Board will act in the best interests of the Company to ensure the business of the Company is properly managed. The Company's corporate governance policies revolve around its Board Charter, the purpose of which is to:

- promote high standards of corporate governance;
- clarify the role and responsibilities of the Board; and
- enable the Board to provide strategic guidance for the Company and effective operational oversight.

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

The principal responsibilities of the Board include:

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

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

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

Evaluation of the performance of the Investment Manager's Senior Executives

The Chief Executive Officer of the Investment Manager reviews the performance of the Investment Manager's senior executives and sets performance objectives for each senior executive at the beginning of each financial year. Performance reviews of each senior executive are carried out against their objectives with input from appropriate stakeholders.

Induction of the Investment Manager's Senior Executives

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

2. STRUCTURE THE BOARD TO ADD VALUE

Board Composition

The Company's Board must comprise:

- Directors with an appropriate range of skills, experience and expertise;
- Directors who can understand and competently deal with current and emerging business issues; and
- Directors who can effectively review and challenge the performance of the Investment Manager and exercise independent judgment.

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

- R. Warburton A.O (Chairman, independent non-executive director)
- J. Ballard (independent non-executive director)
- A. Hogendijk (independent non-executive director)
- C. Mackay (non-executive director)
- H. Douglass (non-executive director)

Details of each Board member's background, date of appointment and attendance at Board meetings are set out in the Directors' Report. The Board is confident that each of the Directors will bring skills and qualifications to the Company which will enable them to effectively discharge their individual and collective responsibilities as Directors of the Company.

The Company's Constitution provides that there must be a minimum of three and a maximum of ten Directors. Having regard to the to the size of the Company and the nature of its business, the Board has determined that a five member Board of non-executive Directors is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Company. However, the composition of the Board will be reviewed periodically and its independence, and that of the individual Directors, will be assessed as part of those reviews.

Independent Directors

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

Access to information

Directors have access to any information they consider necessary to fulfil their responsibilities and to exercise independent judgment when making decisions. Directors may obtain independent professional advice at the Company's expense, subject to making a request to, and obtaining the prior authorisation of, the chairperson of the Board. Where the chairperson of the Board wishes to obtain independent professional advice, he or she is required to make a request to, and obtain the prior authorisation of, the chairperson of the Audit and Risk Committee of the Board.

Retirement of Directors

A Director must retire from office no later than the later of the third annual general meeting of the Company or three years following the Director's last election or appointment.

Nominations and appointment of new Directors

ASX Recommendation 2.4 provides that the Board should establish a Nominations Committee. Given the size and the nature of the Company, the Board has determined that a Nomination Committee not warranted. The Board considers the issues that would otherwise be considered by a Nominations Committee.

Review of Board performance

Under the Company's Board Charter, the Board will conduct a review of its collective performance and the performance of its Directors every two years. This review will consider the Board's role; the processes of the Board and its Committees; the Board's performance; and each Director's performance before the Director stands for re-election. This review was undertaken by the Board in August 2010.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Corporate Code of Conduct

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

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

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

Personal Trading Policy

The Company has a Personal Trading Policy that sets out the circumstances in which the Company's Directors and Directors and employees of the Investment Manager may trade in the Company's securities.

The Policy places restrictions and notification requirements, including the imposition of blackout periods, trading windows and the need to obtain pre-trade approval.

A copy of the Company's Personal Trading Policy is available on the Company's website.

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

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

Committee composition

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

- A. Hogendijk (Chair, independent non-executive director)
- J. Ballard (independent non-executive director)
- C. Mackay (non-executive director)

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

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

Objectives and responsibilities of the Committee

The objective of the Committee is to assist the Board to discharge its responsibilities in relation to:

- effective management of financial and operational risks;
- compliance with applicable laws and regulations;
- accurate management and financial reporting;
- maintenance of an effective and efficient audit; and
- high standards of business ethics and corporate governance.

These objectives form the foundation of the Committee’s Charter. A copy of the Committee’s Charter is available on the Company’s website.

The Committee will endeavour to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process;
- promote a culture of compliance within the Company;
- ensure effective communication between the Board, the Investment Manager and the Investment Manager’s senior financial and compliance management;
- ensure effective audit functions and communications between the Board and the Company auditor;
- ensure that compliance strategies and compliance functions are effective; and
- ensure that Directors are provided with financial and non-financial information that is of high quality and relevant to the judgments to be made by them.

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

Independent external audit

The Company's independent external auditor is Ernst & Young. The Committee is responsible for recommending to the Board the appointment and removal of the external auditor. The independence and effectiveness of the external auditor is reviewed regularly. The Committee is also responsible for ensuring that the external audit engagement partners are rotated in accordance with relevant statutory requirements, and otherwise after a maximum of five years' service.

The external auditors attend the Committee's meetings when the Company's half year and full year Financial Statements are being considered. The external auditors also attend other meetings where relevant items are on the Committee's agenda.

The Company's external auditors attend the Company's Annual General Meeting and are available to answer questions from shareholders in relation to the conduct of the audit, the Audit Report, the accounting policies adopted by the Company's in preparing the Financial Statements and the independence of the auditors.

5. MAKE TIMELY AND BALANCED DISCLOSURE

The Company is committed to complying with its continuous disclosure obligations under the *Corporations Act 2001* and the Listing Rules and releasing relevant information to the market and shareholders in a timely and direct manner and to promoting investor confidence in the Company and its securities.

Continuous Disclosure Policy

The Board has adopted a Continuous Disclosure Policy that is designed to ensure the Company:

- as a minimum complies with its continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules;
- provides shareholders and the market with timely, direct and equal access to information issued by it; and
- that information which is not generally available and which may have a material effect on the price or value of the Company's securities be identified and appropriately considered by the Directors for disclosure to the market.

The Policy, which is available on the Company's website, also sets out the procedures which must be followed in relation to releasing announcements to the market and discussions with analysts, the media or shareholders.

The Company market announcements will also be available its website after they are released to ASX.

The Company's market announcements will also be available on its website promptly after they are released to the ASX.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Communication to Shareholders

The Board is committed to ensuring that shareholders are fully informed of material matters that affect the Company's position and prospects. It seeks to accomplish this through a strategy which includes:

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

Shareholder Meetings

The Company holds its Annual General Meeting in October and a copy of the notice of Annual General Meeting is posted on the Company's website and mailed to shareholders. The Board encourages shareholders to attend the Annual General Meeting or to appoint a proxy to vote on their behalf if they are unable to attend. The formal addresses at the Annual General Meeting are disclosed to the market.

The Company's external auditor will be invited to attend any Annual General Meeting and will be available to answer questions about the conduct of the audit and the preparation and contents of the Auditor's Report.

7. RECOGNISE AND MANAGE RISK

Risk management responsibility

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

- there are adequate policies for the oversight and management of material business risks to the Company;
- there are effective systems in place to identify, assess, monitor and manage the risks of the Company and to identify material changes to the Company's risk profile; and
- arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

Risks assessed include:

- implementing strategies (strategic risk);
- operations or external events (operational risk);
- legal and regulatory compliance (legal risk);

- changes in community expectation of corporate behaviour (reputation risk); and
- being unable to fund operations or convert assets into cash (liquidity risk).

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

- emphasis is placed on maintaining a strong control environment;
- accountability and delegations of authority are clearly identified;
- risk profiles are in place and regularly reviewed and updated;
- timely and accurate reporting is provided to Management and respective Committees; and
- compliance with the law, contractual obligations and internal policies (including the Corporate Code of Conduct) is communicated and demonstrated.

The Investment Manager has a risk management statement in place, which enables the identification of risks, the execution of appropriate responses, the monitoring of risks and the controls applied to mitigate risks.

Assurance

In respect of the year ending 30 June 2010 the Investment Manager's Chief Investment Officer and Chief Financial Officer have made the following certifications to the Board:

- The Company's Financial Statements and notes applicable thereto represent a true and fair view of its financial position and performance and comply with the requirements of the Accounting Standards, Corporations Act and Corporations Regulations; and

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

Investment Manager Governance

As the investment manager of the Company's investment portfolio, the Investment Manager has a fiduciary obligation to act in the best interests of the Company. The Directors of the Investment Manager are conscious of their fiduciary obligations to the Company and continually assess their decisions in light of these obligations. The Board of the Investment Manager has responsibility for the management of risks that arise from its duties as the investment manager of the Company's investment portfolio and the provision of financial services under its Australian Financial Services Licence.

8. REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

ASX Recommendation 8.1 provides that the Board should establish a Remuneration Committee. Given the size and the nature of the Company and the fact the Company does employ any executives, the Board has determined that a Remuneration Committee is not warranted, nor does it have a Remuneration Policy to disclose.

Remuneration for the Independent Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Independent Non-Executive Directors. Further information is provided in the Remuneration Report set out on pages 13 to 15 in the Directors' Report.

The Investment Manager has specified authority and responsibility in regard to the management of the Company's investment portfolio. The Investment Manager is entitled to be paid management and performance fees in accordance with the Investment Management Agreement between the Company and the Investment Manager. Persons involved in management the of the Company's portfolio are employees of the Investment Manager and are not remunerated by the Company. Further information on fees paid to the Investment Manager are set out in note 11 to the Financial Statements.

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	30 June 2010 $ '000	30 June 2009 $ '000
Investment income			
Dividend income		6,886	8,596
Interest income		3	190
Net changes in fair value of investments		44,542	(15,402)
Net gains / (losses) on foreign currency borrowings		845	(8,517)
Net gains on foreign exchange		111	1,033
Other income		-	13
Total investment income / (loss)		**52,387**	**(14,087)**
Expenses			
Management fees		3,300	3,226
Finance costs – interest expense		2,580	1,587
Directors' fees		222	223
Auditors' remuneration		40	102
Transaction costs		22	89
Registry fees		48	46
Fund administration fees		51	48
ASX listing, clearing and settlement fees		46	35
Legal and professional fees		7	28
Other expenses		55	68
Total operating expenses		**6,371**	**5,452**
Profit / (loss) before income tax		**46,016**	**(19,539)**
Income tax (expense) / benefit	2(a)	(14,918)	4,808
Net profit / (loss) after income tax		**31,098**	**(14,731)**
Other comprehensive income		-	-
Total comprehensive income / (loss) for the period		**31,098**	**(14,731)**
Basic earnings / (loss) per share (cents per share)	6	**8.74**	**(3.96)**
Diluted earnings / (loss) per share (cents per share)	6	**8.74**	**(3.96)**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	30 June 2010 $ '000	30 June 2009 $ '000
Current assets			
Cash and cash equivalents	7(a)	67	54
Investments at market value	3	334,761	277,264
Receivables	4	4,292	682
Prepayments		12	14
Total current assets		**339,132**	**278,014**
Non-current assets			
Deferred tax assets	2(d)	28,852	42,813
Total non-current assets		**28,852**	**42,813**
Total assets		**367,984**	**320,827**
Current liabilities			
Borrowings	7(b)	69,977	47,044
Payables	5	868	833
Total current liabilities		**70,845**	**47,877**
Total liabilities		**70,845**	**47,877**
Net assets		**297,139**	**272,950**
Equity			
Contributed equity	8	359,913	366,822
Accumulated loss		(62,774)	(93,872)
Total equity		**297,139**	**272,950**

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 2010

	30 June 2010 $ '000	30 June 2009 $ '000
Contributed equity		
Balance at beginning of year	366,822	373,580
Shares acquired under buy-back	(6,899)	(6,746)
Transaction costs on share buy-back	(14)	(17)
Transaction costs on share buy-back – tax effect	4	5
Balance at end of year	**359,913**	**366,822**
Accumulated loss		
Balance at beginning of year	(93,872)	(79,141)
Total comprehensive income / (loss) for the year	31,098	(14,731)
Balance at end of year	**(62,774)**	**(93,872)**
Total equity	**297,139**	**272,950**

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 2010

	Note	30 June 2010 $ '000	30 June 2009 $ '000
Cash flows from operating activities			
Dividends received	7(c)	5,577	6,788
Interest received		3	190
Other income received		-	9
Payments for purchase of investments		(36,935)	(79,857)
Proceeds from sale of investments		20,766	94,546
Net foreign exchange gains		111	1,033
Management fees paid		(3,180)	(3,311)
Other expenses paid		(575)	(444)
Net cash inflow / (outflow) from operating activities	7(d)	**(14,233)**	**18,954**
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		23,778	(10,700)
Interest paid		(2,581)	(1,587)
Payment for shares under buy-back		(6,937)	(6,708)
Payment of share buy-back costs		(14)	(17)
Net cash (outflow) / inflow from financing activities		**14,246**	**(19,012)**
Net increase/(decrease) in cash and cash equivalents		13	(58)
Cash and cash equivalents at the beginning of the year		54	112
Cash and cash equivalents at the end of the year	7(a)	**67**	**54**

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

1. Summary of Significant Accounting Policies

Corporate information

The financial report of Magellan Flagship Fund Limited (the "Company") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 18 August 2010.

The Company is limited by shares and incorporated in Australia. The shares of the Company are publicly traded on the Australian Securities Exchange (ASX).

The nature of the operations and principal activities of the Company are described in the Directors' Report.

Basis of Preparation

This financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001,* and Australian Accounting Standards. The financial report has been prepared under the historical cost convention except for investments which are measured at fair value.

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

(a) Compliance with IFRS

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

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgements, which are included below.

(b) Operating segments

The Investment Manager makes the investment decisions for the Company. The Company's operating segments are determined on the reports reviewed by the Investment Manager which are used to make investment decisions.

The Investment manager manages the Company's investments on a portfolio basis and considers the business to have a single operating segment.

(c) Income Tax

The income tax expense or benefit for the year is the tax payable or receivable on the current year taxable income or loss 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. Under AASB 112: Income Taxes, deferred tax balances are determined using the Balance Sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases.

1. Summary of Significant Accounting Policies (continued)

(c) Income Tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(d) Investments at Market Value

Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the Balance Sheet as "held at fair value through profit and loss". Investments at market value are initially recognised at fair value, excluding transaction costs, which are expensed as incurred.

Investments have been designated as held at fair value through profit or loss. Investments are managed collectively and their performance is evaluated on a fair value basis in accordance with the investment strategies and risk management policies of the Company.

(e) Transaction Costs

Initial measurement (cost) on acquisition of investments does not include directly attributable transaction costs such as fees and commissions paid to agents. Incremental transaction costs are expensed as incurred in the Income Statement.

(f) 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 sheet 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 Income Statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in the Statement of Comprehensive Income.

(g) Investment Income

Dividend income

Dividend income is recognised on the applicable ex-dividend date.

Net changes in fair value of investments

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

1. Summary of Significant Accounting Policies (continued)

(h) Directors' Entitlements
Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fee rates. Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

(i) Earnings Per Share
Basic and diluted earnings per share are determined by dividing the operating profit / (loss) after income tax by the weighted number of ordinary shares outstanding during the financial year.

(j) Cash and cash equivalents
Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

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.

(k) Receivables
Receivables are recognised as and when they are due. Receivables on shares sold are settled within the standard settlement period usually between two and five days after trade date.

Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when there is evidence the amount will not be collected.

(l) Payables
Payables and trade creditors are recognised as and when they are incurred. Payables on purchase of investments are usually paid between two and five days after trade date. Trade creditors are unsecured and payable between seven and 30 days after being incurred. Payables are non-interest bearing.

(m) Contributed Equity
Ordinary shares are classified as equity.

(n) Goods and Services Tax (GST)
Revenue, expenses and assets recognised net of the amount of any 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.

1. Summary of Significant Accounting Policies (continued)

(n) New Accounting Standards and Interpretations

Accounting policies adopted are consistent with those of the previous financial year except as follows:

(i) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101.*

- The revised Standard is applicable to annual reporting years beginning on or after 1 January 2009. The Company has adopted this standard in the preparation of this financial report. The Statement of Comprehensive Income presents all items of recognised income and expense, either in one single statement or in two linked statements. The Company has elected to present one statement.

(ii) AASB 7 *Financial Instruments: Disclosures*

- The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. The fair value measurement disclosures are presented in note 3. The liquidity risk disclosures presented in note 10(b) are not impacted by the amendments.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting year. The following standards, amendments to standards and interpretations have been indentified as those which may impact the Company in the period of initial application:

(i) AASB 9 *Financial Instruments* and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9.

- AASB 9 is applicable to annual reporting years beginning on or after 1 January 2013. The amendments require financial assets to be measure at fair value through profit or loss unless:

  - the criteria for amortised cost measurement are met, or
  - the Company qualifies and elects to recognise gains and losses on equity securities that are not held-for-trading directly in other comprehensive income.

  Where the Company elects to recognise gains and losses on qualifying securities directly in other comprehensive income there will be no requirement to recognise either impairment losses or cumulative changes in fair value on de-recognition of the assets in profit or loss.

(ii) Revised AASB 124 Related Party Disclosures

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

2. Income Tax

	30 June 2010 $ '000	30 June 2009 $ '000
(a) The income tax (expense) / benefit attributable to the financial year differs from the prima facie amount payable on the operating profit / (loss). The difference is reconciled as follows:		
Profit / (loss) before income tax expense	46,016	(19,539)
Prima facie income tax (expense) / benefit on the operating profit / (loss) at 30%	(13,805)	5,861
Tax effect of franked dividends received	2	(69)
Write-off of deferred income tax benefit on foreign tax paid [1]	(954)	(1,069)
Over / (under) provision of prior year tax	(161)	85
	(14,918)	**4,808**
(b) The major components of income tax (expense) / benefit are:		
Current income tax benefit / (expense)	(12)	1,790
Deferred income tax benefit / (expense)		
– origination and reversal of temporary differences	(13,791)	4,002
– write-off of deferred income tax benefit on foreign tax paid	(954)	(1,069)
Over / (under) provision of prior year tax	(161)	85
	(14,918)	**4,808**
(c) Income tax benefit / (expense) charged directly to equity:		
Costs associated with the issue / buy-back of shares	(4)	(5)
	(4)	**(5)**
(d) Deferred tax assets relate to the following:		
Tax losses carried forward	2,007	2,021
Capital losses carried forward	11,609	11,334
Costs associated with the issue / buy-back of shares	385	762
Unrealised loss on investments	13,911	27,744
Allowable tax credits	1,120	1,118
Other temporary differences	(180)	(166)
	28,852	**42,813**

In the Directors' judgement the future earnings potential and underlying business economics of the investee companies are favourable and, as the Company possesses the ability and intent to hold these investments until their prices recover, it is probable that future taxable amounts will be available to offset these deferred tax assets within generally acceptable timeframes.

[1] As from 1 July 2008 changes to the foreign tax credit regime have resulted in foreign tax withheld on foreign dividends being only off-settable against taxable income in the related tax year. As a result of this change and the Company being in a tax loss position, current year foreign tax credits have been written off during the financial year.

3. Investments at Market Value

	Domicile of Principal Exchange Listing	30 June 2010 $ '000	30 June 2009 $ '000
American Express *	United States	64,209	39,885
Yum Brands *	United States	38,177	34,046
Nestle *	Switzerland	38,071	34,375
WalMart Stores *	United States	28,437	28,712
eBay *	United States	25,171	21,273
Coca-Cola *	United States	18,749	12,754
McDonalds *	United States	16,731	9,917
PepsiCo *	United States	16,574	18,273
Google *	United States	14,168	13,088
Procter & Gamble *	United States	12,652	11,457
Wells Fargo and Co	United States	11,502	301
Tesco *	United Kingdom	8,715	9,029
Colgate-Palmolive Co *	United States	7,376	7,115
Bank of America	United States	6,353	6,069
Visa Inc *	United States	5,226	3,898
Lowe's	United States	4,524	4,495
US Bancorp	United States	4,513	1,665
Johnson & Johnson *	United States	2,856	4,033
Unilever *	Netherlands	2,268	6,481
Ferrovial SA *	Spain	2,032	2,010
Total top 20 holdings		**328,304**	**268,876**
Other companies		6,457	8,388
		334,761	**277,264**

* Entities that generate 50% or more of their revenue and / or have operations in 15 or more countries outside of the country of domicile of their primary securities exchange

Under AASB 7: *Financial Instruments: Disclosures,* fair value measurements are classified using a fair value hierarchy having three levels (Level 1, Level 2 and Level 3). The Company uses the Level 1 method to revalue investments at market value designated at fair value through profit and loss to fair value at each reporting date as follows:

- Securities and rights to them listed on a financial market are valued at market value which is the closing bid prices for the securities and rights, as quoted on the relevant exchange.

No financial instruments other than those quoted in active markets are held by the Company, therefore valuation techniques described in Level 2 and Level 3 do not apply. No transfers were made between the three levels of the fair value hierarchy

3. Investments at Market Value (continued)

The following table illustrates changes in Australian dollar exchange rates against the following currencies (London 4.00pm rates):

	30 June 2010 $	30 June 2009 $
US Dollars	0.8446	0.8084
Euro	0.6896	0.5764
British Pounds	0.5646	0.4909
Swiss Francs	0.9108	0.8792

4. Receivables

	30 June 2010 $ '000	30 June 2009 $ '000
Dividends receivable	641	612
Foreign tax recoverable	258	17
Settlements receivable – shares sold	3,302	-
Goods and Service Tax (GST)	91	53
	4,292	**682**

Denomination of current receivables by geographic location:		
Australian Dollars	877	92
US Dollars	1,635	359
Euro	6	17
Swiss Francs	1,567	-
British Pounds	207	214
	4,292	682

5. Payables

	30 June 2010 $ '000	30 June 2009 $ '000
Accrued expenses	842	723
Trade payables	26	110
	868	**833**

Denomination of current payables by geographic location:		
Australian Dollars	868	833
	868	833

6. Earnings Per Share

	30 June 2010	30 June 2009
Basic earnings / (loss) per shares (cents)	8.74	(3.96)
Diluted earnings / (loss) per shares (cents)	8.74	(3.96)
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	355,844,218	371,809,533
Net profit / (loss) used in the calculation of basic and diluted earnings per share ($'000)	**31,098**	**(14,731)**

As there are no potential ordinary shares, diluted loss per share is equal to basic loss per share.

7. Notes to the Statement of Cash Flows

(a) Current asset - Cash and cash equivalents

	30 June 2010 $ '000	30 June 2009 $ '000
Cash – cash denominated in Australian Dollars	67	54
	67	**54**

All bank accounts are at call and are at floating interest rates.

(b) Current liability – Interest bearing borrowings

	30 June 2010 $ '000	30 June 2009 $ '000
Borrowings – denominated Australian Dollars	(65,092)	(29,585)
Borrowings – denominated in Swiss Francs	(204)	(1,013)
Borrowings – denominated in US Dollars	(4,496)	1,940
Borrowings – denominated in British Pounds	(144)	(10,088)
Borrowings – denominated in Euros	(41)	(8,298)
	(69,977)	**(47,044)**

The Company's borrowings are under a multi-currency financing facility with Merrill Lynch International (Australia) Limited (MLIA) (refer note 14). Foreign currency cash balances held with MLIA are netted against foreign currency borrowings.

(c) Dividends received

Foreign dividends received are net of foreign taxes withheld.

7. Notes to the Statement of Cash Flows (continued)

(d) Reconciliation of net profit / (loss) after income tax to net cash from operating activities

	30 June 2010 $ '000	30 June 2009 $ '000
Net profit / (loss) after income tax	31,098	(14,731)
Foreign exchange gain / (loss) on repayment of borrowings and from transacting in foreign currencies	(845)	8,517
Interest expense	2,580	1,587
Decrease/(increase) in investments at market value	(57,499)	29,565
Increase in dividends receivable	(28)	(351)
Decrease/(increase) in foreign tax recoverable	(239)	183
Decrease/(increase) in GST receivables	(38)	140
Decrease in prepayments	2	68
Increase in unsettled trades receivable	(3,302)	-
(Decrease)/increase in management fee payable	120	(84)
Decrease in trade payables and accrued expenses	(43)	(6)
(Increase)/decrease in deferred tax	13,961	(5,934)
Net cash inflow/(outflow) from operating activities	**(14,233)**	**18,954**

Non-cash financing and investing activities:

Acquisition of financial assets via dividend and distribution reinvestment plans	106	206

8. Contributed equity

	30 June 2010 $ '000	30 June 2009 $ '000
Balance at beginning of the year	366,822	373,580
Shares cancelled under share buy-back	(6,909)	(6,758)
Balance at end of the year	**359,913**	**366,822**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

At 30 June 2010 353,826,037 ordinary shares were on issue (2009: 365,573,153). 11,747,116 shares were cancelled during the year under the share buy-back as described in the Directors' Report and in note 15.

9. Statement of Net Asset Value

	30 June 2010	30 June 2009
Reconciliation of Net Asset Value to the ASX		
Net Asset Value per Balance Sheet $'000	297,139	272,950
Divided by:		
Number of shares on issue	353,826,037	365,573,153
Net Asset Value – cents per share	**84**	**75**
Net Asset Value – cents per share ASX announcement 2 July 2010	**84**	

10. Risk Management

The Company's investment portfolio comprises listed equity securities. It is the Company's investment objective to seek long term capital growth by investing in listed international and Australian companies with attractive business characteristics at discounts to their assessed intrinsic values.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are price risk, currency risk, credit risk and liquidity risk.

The Company has investment restrictions designed to reduce risk, including the requirement that, individual investments comprising the investment portfolio will not exceed 20% of the investment portfolio value of the Company at the time of the investment.

The Company has a policy that at the time any new borrowings are entered into the aggregate of those new borrowings and any pre-existing borrowings must not exceed 20% of the investment portfolio value. The use of derivatives is very limited and permitted only where the Investment Manager considers that a derivative is preferable to purchasing ordinary share capital, in accordance with the investment objectives and philosophy. Short selling activity is very limited and permitted only in relation to implementing hedges of underlying investments or merger arbitrage relating to a portfolio investment. The use of derivatives and short selling did not occur during the year ended 2010.

(a) Market Risk

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 Income Statement and directly affect net investment income. Price risk is managed by ensuring that all activities are transacted in accordance with the Company's investment policy and within approved limits.

10. Risk Management (continued)

Price Risk (continued)

Over the past 10 years, the annual movement in the major global indices has varied between +40% and -24% (in AUD) and +22% and -31% (in USD). Performance of markets is not always a reliable guide to future performance, and the Company's investment portfolio does not attempt to mirror the global index, but this very wide range of historic movements in the index provides 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 2010 would increase the net profit by $11,717,000 (2009: $9,700,000) and each 5% incremental decrease would have an equal and opposite impact.

Currency Risk

The Company has exposure to foreign currency denominated monetary assets and liabilities (cash and borrowings). Consequently, the Company is exposed to risks that the exchange rate of the Australian dollar relative to foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's monetary assets or liabilities denominated in foreign currencies.

The Company held monetary assets and liabilities denominated in foreign currency at 30 June 2010. The Australian dollar equivalent of the foreign currency monetary assets and liabilities is detailed in note 7(b). At balance date had the Australian dollar strengthened against each of these currencies, and with all other variables held constant, the impact on net profit would have been as follows:

30 June 2010			30 June 2009		
Australian dollar strengthens against:	by:	Net increase in net profit	Australian dollar strengthens against:	by:	Net increase in net profit
		A$'000			A$'000
US Dollars	10%	315	US Dollars	5%	(100)
British Pounds	10%	10	British Pounds	5%	400
Swiss Francs	10%	3	Swiss Francs	5%	0
Euros	10%	14	Euros	5%	300
		342			**600**

A decline in the Australian dollar against the foreign currencies would have an equal and opposite impact on net profit.

In addition to holding monetary assets and liabilities denominated in foreign currencies the Company holds other assets and liabilities denominated in foreign currencies and invests in listed international and Australian companies. Consequently, the Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's total assets or liabilities denominated in currencies other than Australian Dollar.

10. Risk Management (continued)

Currency Risk (continued)

At 30 June 2010, had the Australian dollar strengthened by 10% against its foreign currency exposure with all other variables held constant, net profit would have decreased by $23,329,000 (2009: had it strengthened by 5% net profit would have decreased by $9,700,000). A 10% decline in the Australian dollar would have an equal and opposite impact.

The Company's total net exposure to fluctuations in foreign currency exchange rates at the Balance Sheet date is as follows:

All amounts stated in AUD equivalents	**30 June 2010 $ '000**	**30 June 2009 $ '000**
Assets at fair value		
US Dollars	281,449	223,579
Euros	4,487	8,809
British Pounds	8,921	9,254
Swiss Francs	39,637	34,373
	334,494	276,015
Liabilities at fair value		
US Dollars [1]	4,496	(1,940)
Euros	41	8,298
British Pounds	144	10,088
Swiss Francs	204	1,013
	4,885	17,459

[1] Foreign currency cash balances held with MLIA are netted against foreign currency borrowings (refer note 7(b))

Reconciliation of assets and liabilities exposed to foreign currencies to the Balance Sheet:

	30 June 2010 $ '000	30 June 2009 $ '000
Assets - exposed to foreign currencies	334,494	276,015
Assets - not exposed to foreign currencies	33,490	44,812
Assets - as per Balance Sheet	367,984	320,827
Liabilities - exposed to foreign currencies	4,885	17,459
Liabilities - not exposed to foreign currencies	65,960	30,418
Liabilities - as per Balance Sheet	70,845	47,877
Net assets - exposed to foreign currencies	329,609	258,556
Net assets - not exposed to foreign currencies	(32,470)	14,394
Net assets - as per Balance Sheet	297,139	272,950

10. Risk Management (continued)

Interest Rate Risk

Interest rate risk is the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at 30 June 2010 the Company had cash and borrowings and was subject to annual interest rates as follows:

	Interest rate Cash/ (Borrowings) %	30 June 2010 $ '000	Interest rate Cash/ (Borrowings) %	30 June 2009 $ '000
Australian Dollars	4.45	67	3.00	54
Australian Dollars	(5.42)	(65,092)	(3.70)	(29,585)
US Dollars	(1.03)	(4,496)	0.29	1,940
British Pounds	(1.25)	(144)	(1.30)	(10,088)
Swiss Francs	(0.74)	(204)	(0.83)	(1,013)
Euros	(1.12)	(41)	(1.20)	(8,298)
		(69,910)		(46,990)

As at 30 June 2010, had interest rates increased by 100 basis points on floating rate cash and borrowings with all other variables held constant, the interest expense calculated on the balances held would increase by $0.7m (2009: $0.5m). A 100 basis point decline in interest rates would have an equal and opposite impact.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

This includes the risk that the Company:

(i) will not have sufficient funds to settle a transaction on the due date; and
(ii) will be forced to sell financial assets at a value which is less than they are worth.

As at 30 June 2010 borrowings repayable on demand total $69,977,000 (2009: $47,044,000), amounts payable within 28 days relating to other payables is $868,000 (2009: $833,000).

The Company has sufficient funds to meet these liabilities as and when due as all of the entities that the Company has invested in are highly liquid and are listed on major securities exchanges. As at 30 June 2010 the market value of the Company's investments is $334,761,000 (2009: $277,264,000) and the value of these investments far exceeds the liabilities of the Company.

10. Risk Management (continued)

(c) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are marked to market. The total credit risk for on-balance sheet items including securities is therefore limited to the amount carried on the Balance Sheet.

The Company minimises concentrations of credit risk by undertaking transactions with counterparties that are recognised and reputable or are recognised and reputable financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The Company has entered into an International Prime Brokerage Agreement (IPBA) with Merrill Lynch International (MLI), a wholly owned subsidiary of Bank of America. The services provided by MLI include clearing and settlement of transactions, financing, securities lending and acting as custodian for the Company's assets. The IPBA with MLI is in a form that is typical of prime brokerage arrangements. In the unlikely event of MLI becoming insolvent the Company may rank as an unsecured creditor in regard to any investments that have been lent or used as collateral by MLI.

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2010, by Standard & Poor's as being A, and by Moody's as being A2.

11. Investment Manager

The Company has entered into an Investment Management Agreement with the Investment Manager, Magellan Asset Management Limited.

Base fee

The Investment Manager is entitled to a quarterly fee calculated as 0.3125% (excluding GST) of the market value of all assets less total indebtedness of the Company. The Investment Manager has excluded deferred tax assets from the calculation of the base fee thereby reducing the base fee amount.

Performance fee

The Investment Manager is entitled to a performance fee calculated as 10% (excluding GST) of the amount by which the absolute dollar value of the investment performance (after deducting the base fee) exceeds the Australian Dollar MSCI for the annual period, provided that:

(a) The total annual return in the relevant annual period exceeds the Australian Government 10-year bond rate (measured as an average of the 10-year bond rate published in the Australian Financial Review or similar publication) on the first day of each quarter occurring within the relevant annual period; and

11. Investment Manager (continued)

Performance fee (continued)

(b) The portfolio value less borrowings on the last day of the relevant annual period is more than that on the last day of the last annual period for which a performance fee was paid to the Investment Manager within the last three years. The Investment Manager has also proposed, and the Company has agreed, that no performance fees will become payable until after the Company's Portfolio Value exceeds the initial Portfolio Value (calculated on a per share basis) immediately after the Company's initial public offering (IPO) was completed.

The following amounts were incurred during the year:

	30 June 2010 $	30 June 2009 $
Base fee	3,300,025	3,226,221
Performance fee	-	-
	3,300,025	**3,226,221**

12. Contingent Assets, Liabilities and Commitments for Expenditure

No contingent assets or liabilities exist at balance sheet date.

The Company has no commitments for uncalled share capital on investments.

13. Segment Information

Whilst the Company operates from Australia only (the geographical segment), it has global investment exposures due to its investments in many truly multinational entities and specific exposure to some countries from investments in other entities that generate revenues and operate predominantly within those countries.

The geographical locations are determined by the nature of the investee entity's business:

- International Companies are defined by the Company as being entities that generate 50% or more of their revenue and / or have operations in 15 or more countries outside of the country of domicile of their primary securities exchange.

- Entities that do not meet the Company's definition of International Companies are categorised by the country or region from which they predominantly operate in and derive their revenue from.

Note 3 provides further domicile information.

14. Borrowings

During the year ended 30 June 2010 the Company continued to be provided with a borrowing facility by Merrill Lynch International (Australia) Limited (MLIA), a wholly owned subsidiary of Bank of America. The facility is associated with the International Prime Brokerage Agreements (IPBA) entered into by the Company and Merrill Lynch International (MLI). 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. The credit quality of Bank of America /Merrill Lynch's senior debt is rated by Standard & Poor's as being A and by Moody's as being A2.

As at 30 June 2010 the borrowing facility, repayable on demand, was $70.0 million (30 June 2009: $47.0 million). In the unlikely event that MLIA required repayment upon short notice, the Directors are confident that the borrowings could be refinanced via an alternative lender or the borrowings could be repaid via settlement proceeds from the sale of part of the Company's investment portfolio, having regard to the high quality and liquidity of the Company's investments.

Under the Company's borrowing policy, total borrowings by the Company on the date of any drawdown on this facility must not exceed 20% of the Company's investments at market value. MLIA may lend up to a multiple well above the Company's own borrowing limits, having regard to the high quality and liquidity of the Company's investments.

15. Capital Management

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

The Company recognises that its capital will fluctuate in accordance with market conditions and in order to maintain or adjust the capital structure, may vary the amount of dividends paid, issue new shares from time to time, or buy back its own shares. The Company completed an on-market share buy-back of 20,000,000 shares at a total cost of approximately $11,200,000 on 30 July 2009. The Company announced a further on-market share buy-back of 20,000,000 shares on 26 August 2009, and as at 15 August 2010 has acquired approximately 8,300,000 million shares under this buy-back programme at an average price of $0.61.

The Company's capital consists of its shareholders equity plus any net borrowings.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

The change in this capital is as noted in Note 8.

16. Events Subsequent to Reporting Date

On 14 July 2010 the Company purchased 4,147,355 shares for consideration of $2,615,708 under the buy-back programme of up to 20,000,000 shares announced on 26 August 2009.

No other significant events have occurred since the end of the reporting year which would impact the Balance Sheet of the Company as at 30 June 2010 and the results for the year ended on that date.

17. Related Party Information

Disclosure relating to the management fees paid and payable to the Investment Manager, Magellan Asset Management Limited, a related party are set out in Note 11.

18. Auditors' Remuneration

The auditor of the Company is Ernst & Young.

	30 June 2010	30 June 2009
	$	$
Audit and review of the financial reports	44,000	102,000
Other services – tax compliance	7,000	-
	51,000	**102,000**

19. Franking Credit Balance

The amount of franking credits available for subsequent reporting periods are:

	30 June 2010	30 June 2009
	$	$
Franking account balance as at the end of the financial year at 30% (2009: 30%)	388,277	386,773

There are no adjustments to the above balances as at balance date as there is no income tax payable, there are no franked dividend receivables, or dividends proposed or declared.

20. The Company

Magellan Flagship Fund Limited is a company limited by shares, incorporated in Victoria and domiciled in New South Wales. Its current registered office and principal place of business is:

Level 7, 1 Castlereagh Street
Sydney NSW 2000

A description of the nature of the Company's operations and its principal activities is included in the results and review of operations and description of principal activity in the Directors' Report.

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2010

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

1. In the opinion of the directors:

   (a) the financial statements, notes and the additional disclosures included in the director's report designated as audited, of the Company are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the financial position of the Company as at 30 June 2010 and of its performance for the year ended on that date.

      (ii) complying with Australian Accounting Standards, International Financial Reporting Standards (IFRS) as disclosed in Note 1(a) and *Corporations Regulations 2001*.

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

On behalf of the Board

Richard Warburton AO (Chairman)
Magellan Flagship Fund Limited
Sydney
18 August 2010

ERNST & YOUNG

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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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1a, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. 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 financial position of Magellan Flagship Fund Limited at 30 June 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 14 of the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Magellan Flagship Fund Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
18 August 2010

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
As at 13 August 2010

Distribution of Shareholders

The distribution of shareholders of the Company as at 13 August 2010 is presented below:

Distribution Schedule of Holdings	Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	92	67,346	0.02
1,001-5,000	339	1,156,541	0.33
5,001-10,000	812	7,094,998	2.03
10,001-100,000	2,558	96,129,158	27.49
100,001 and over	372	245,230,639	70.13
Total	**4,173**	**349,678,682**	**100.00**
Number of holders with less than a marketable parcel	42	18,663	0.01

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 13 August 2010 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Magellan Financial Group Limited	48,874,521	13.98
Cogent Nominees Pty Limited	23,276,509	6.66
Ubs Wealth Management Australia Nominees Pty Ltd	17,762,765	5.08
Christopher John Mackay	10,450,506	2.99
Forbar Custodians Limited	9,520,056	2.72
Naumov Pty Ltd	7,697,293	2.20
Hsbc Custody Nominees (Australia) Limited	4,163,212	1.19
National Nominees Limited	3,808,768	1.09
Bond Street Custodians Limited	3,324,171	0.95
Perpetual Trustees Consolidated Limited	3,067,600	0.88
Falcon Nominees Investments Pty Ltd	2,000,000	0.57
Wulura Investments Pty Ltd	2,000,000	0.57
Pokana Pty Ltd	1,844,000	0.53
Investment Custodial Services Limited	1,575,000	0.45
J p Morgan Nominees Australia Limited	1,326,837	0.38
Bond Street Custodians Limited	1,300,000	0.37
Favermead Pty Ltd	1,300,000	0.37
Mutual trust Pty Ltd	1,275,063	0.37
Perri Cutten Superannuation Nominees P/L	1,250,000	0.36
Turnbull & Partners Pty Limited	1,156,000	0.33
Total shares held by the twenty largest shareholders	146,972,301	42.03
Total shares in issue		**100.00**

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
As at 13 August 2010

Substantial Shareholders

The names of the substantial shareholders of the Company and their holdings as at 13 August 2010 are listed below:

Shareholder	Number of Ordinary Shares
Magellan Financial Group Limited[1]	48,874,521
Christopher Mackay and Associates[2]	18,913,294

[1] As per the Notice of Change of Interests of Substantial Holder that was lodged on 16 July 2010
[2] Includes shares acquired after the Notice of Change of Interests of Substantial Holder that was lodged on 10 December 2008 - 18,874,924

Ordinary Share Capital

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

MAGELLAN FLAGSHIP FUND LIMITED
CORPORATE DIRECTORY

Directors
Richard Warburton AO
John Ballard
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MFG MAGELLAN

FLAGSHIP FUND LIMITED