2016

MAGELLAN FLAGSHIP FUND LIMITED

[INTERIM REPORT]

FOR THE HALF YEAR ENDED – 31 DECEMBER 2015

MAGELLAN FLAGSHIP FUND LIMITED: ABN 32 121 977 884

Contents

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Magellan Flagship Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' REPORT
For the half year ended 31 December 2015

The Directors of Magellan Flagship Fund Limited ("MFF" or the "Company") present their report in respect of the half year ended 31 December 2015.

1.1 Directors

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

Name	Directorship	Appointed
Richard Warburton AO	Chairman & Independent Non-executive Director	19 October 2006
John Ballard	Independent Non-executive Director	19 October 2006
Andy Hogendijk	Independent Non-executive Director	19 October 2006
Chris Mackay	Executive Director[(A)]	29 September 2006

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

1.2 Company Overview

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

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

1.3 Principal Activity

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

1.4 Dividends

On 30 July 2015, the Directors declared a fully franked dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2015, which amounted to $4,625,000. The dividend was paid on 12 November 2015.

On 5 February 2016, the Directors declared a fully franked interim dividend of 1.0 cent per ordinary share (December 2014: unfranked 1.0 cent per ordinary share), which is expected to be paid on 15 May 2016. The amount of the proposed interim dividend, which is not recognised as a liability as at 31 December 2015, based on the number of shares on issue at 31 December 2015, is $4,639,000 (December 2014: $3,560,000). The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied for the DRP.

At 31 December 2015, the company's available imputation credits (based on a tax rate of 30%) were $4,327,000 (June 2015: $2,082,000), and the 1.0 cent per ordinary share interim dividend is expected to utilise approximately $2,000,000 of the available imputation credits, based on the number of shares on issue at 31 December 2015.

The Directors have maintained the Company's current dividend policy, which is for regular six monthly dividends at 1.0 cent per ordinary share. The Directors consider that the current dividend policy is appropriate. It balances the requests from some shareholders who prefer regular dividend payments against the strong returns MFF has obtained on retained capital, MFF's need for scale to attempt to offset partially the cost base, as well as the tax treatment of dividend payments. The Board also note that there continues to be liquid markets in MFF ordinary shares and MFF 2017 options for shareholders who might need additional cash in excess of the dividends.

1.5 Review of Results and Operations for the Half year

- **Financial Results for the Half year**

For the six months to 31 December 2015, the Company recorded a pre-tax profit of $64,815,000 (December 2014: $185,833,000) and a net profit after income tax expense of $45,370,000 (December 2014: $130,088 000). This interim financial result principally reflects "mark to market" accounting as the Australian dollar value of MFF's investments rose in the period. Six month periods are not meaningful for a long term capital allocation vehicle such as MFF. MFF's appreciation is primarily due to a continuing rise in the portfolio holdings in the period coupled with the weaker Australian dollar. The favourable changes in both metrics were smaller than for the extraordinarily favourable six month period to 31 December 2014.

1.5 Review of Results and Operations for the Half year (continued)

- **Financial Results For the Half year (continued)**

After allowing for deferred taxation, the Company's net assets increased by $46,595,000 in the six months to $842,879,000 at 31 December 2015 (June 2015: $796,284,000) which was primarily due to the performance of the Company's investment portfolio. This has resulted in a higher pre-tax net tangible assets (NTA) of $2.104 per ordinary share (prior to net tax liabilities of $0.287) as at 31 December 2015 compared with $1.998 per ordinary share as at 30 June 2015. The Company also reported a higher post-tax NTA of $1.817 per ordinary share as at 31 December 2015 compared with $1.737 per ordinary share as at 30 June 2015. If all of the MFF 2017 options had been exercised at 31 December 2015, the pre-tax and post-Tax NTA values would have been reduced by 16.0 and 11.9 cents per share to approximately $1.944 and $1.698 per ordinary share respectively as at that date. Refer note 11.

As markets are subject to fluctuations and market prices fall as well as rise, the investment performance and results of the past six months to 31 December 2015 should not be considered to be representative of results and returns in future financial years.

- **Operations – Portfolio and Activities**

In the six months to 31 December 2015, the Company's Portfolio Manager examined many potential investments to add to the existing portfolio holdings, however did not purchase any investments in companies primarily exposed to the falling energy and commodity markets, whole businesses or any significant shareholdings in smaller companies. In recent years the Portfolio Manager considered that the generally higher prices and low cost of capital for market participants have resulted in very few opportunities being attractive in risk adjusted financial terms for MFF, and also held concerns that there is diminishing pricing power and increased competition for many businesses.

There was very little activity in the portfolio in the latest six months and it was almost entirely limited to modest additions to existing holdings. Previous reductions in exposure to situations where competitive pressures and foreseeable business risks may not have been reflected in market prices saved some pain. The Portfolio Manager continued to maintain a wary tone in MFF's monthly NTA releases in the six months to 31 December 2015, as prices in MFF's portfolio have risen significantly compared with the post Crisis years. The Board and Portfolio Manager consider the portfolio is focussed upon businesses with competitive advantages, although note the headwinds for MFF's significant holdings in banks from ongoing regulatory and litigation actions, as well as extremely low interest rates which reduce what they can earn from their lending activities.

MFF has portfolio concentration risks, and portfolio concentration has increased in recent years, particularly as a result of rising markets and low interest rates and other factors increasing competitive pressures on most businesses. MFF has focussed exposures, with well in excess of 90% of the investment portfolio held in the 15 largest positions. In recent years the Portfolio Manager has eliminated a number of global multinationals and other so called "safe haven" positions from the portfolio. These global multinational positions have not been reinstated as risks relating to emerging market and other global expansion, as well as competitive pressures and pricing limitations, including with increased internet distribution, may not be reflected in market prices.

Board approved risk controls relating to concentration include a minimum of 20 individual holdings and no individual position, at cost, may exceed 10% of the Company's investment assets, except where approved by the Board. At 31 December 2015, two of the larger holdings (Wells Fargo and Visa) have a Board approved limit of 12%, at cost. As a result of price appreciation, some ongoing positions have appreciated above the respective 10% and 12% initial purchase levels. The Company's holdings as at 31 December 2015 are set out in note 5 to the financial statements and the largest holdings are shown in the Portfolio Manager's Report on page 8.

1.5 Review of Results and Operations for the Half year (continued)

- **Operations – Portfolio and Activities (continued)**

MFF remains primarily focussed on what is described as the intersection of "Quality" and "Value". MFF continues to seek companies that it describes as "Quality" at competitive prices ("Value") and upon inception set a general target of at least 85% of the portfolio. For most periods since inception, MFF has characterised over 90% of its portfolio as meeting the "Quality" description.

MFF's manner of investment has been favoured recently, but in future periods it is very likely that MFF will have to adjust. Other investments considered by MFF might include lesser quality companies or so called "deep value" investments, or earlier stage so called "growth" opportunities. Each of these types of investment is likely to have higher levels of business risk than so called "Quality" companies but in recent times a number have seen meaningful share price declines. Each investment involves a trade-off between risk and the possibility of returns from revaluation and/or growth.

MFF continues to have a Board authorised borrowing limit of 20% of investment assets (at the time of the borrowing) and MFF is unrestricted as to the level of cash that may be held from time to time (refer to note 4 in the financial statements for more detail).

The Portfolio Manager has provided details of the rationale for MFF's currency positions, including perceived partial risk management benefits, in numerous releases to the ASX in recent years. Over the past 18 months, market participants changed their views relating to the AUD, and economic risks and forecasts for the AUD are much lower than they were when the AUD was trading at $1.10 to the USD. Whilst MFF continues with its effective "short AUD" position, we have maintained lower levels of AUD borrowings primarily to reflect the changing risk/return trade off at the lower AUD levels.

The primary goal for MFF is increasing shareholder value on a per share basis over the longer term. MFF's corporate structure has the advantage that the portfolio does not have to be sold in a downturn to fund withdrawals by selling shareholders. However, MFF does not receive cash flows from business activities and funding of new investments, expenses and dividends relies principally upon dividends and sales proceeds. Although not a first order issue in comparison with successful portfolio management, the lack of regular cash flow remains modestly restrictive for MFF. In effect, sales are required to fund purchases of major investments perceived to be more attractive. In the current interest rate environment, borrowings continue to be attractively priced. MFF's pro rata equity issue completed in May 2015 was offered on equal terms to shareholders and was well supported.

In the six months to 31 December 2015, MFF's investment resources have also been supplemented modestly by the exercise of 5,118,401 MFF 2017 options at the $0.9964 exercise price. Approximately 78.2m MFF 2017 options remain on issue as at 31 December 2015, from the bonus issue to MFF shareholders in October 2012.

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

The Portfolio Manager considers whether businesses are likely to return significant levels of cash to shareholders, as part of investment evaluations and in considering MFF's cash position. The Company has previously had some benefits from some special dividends (although nothing material in the latest 6 months), and we have been pleased with the capital allocation practices of the Company's investee companies (sensible reinvestment and sensible buybacks/dividend policies).

1.5 Review of Results and Operations for the Half year (continued)

- **Strategy and Future Outlook**

The Company is invested in equities, with a focus upon the equities of non-Australian domiciled companies. This is expected to continue, although Australian equities may become more attractive if prices fluctuate significantly, for example as a result of the resources and property cycles. We have provided information in this report about overall strategy and objectives, but it is not meaningful or prudent to provide a detailed outlook statement or statement of expected results of operations, as MFF is not a traditional operating company.

As at 31 December 2015, MFF's tax provisions comprised a deferred income tax liability of $133,876,000 and a current income tax asset of $739,000 in respect of the current financial period.

It is also not meaningful or prudent to forecast the level of franking credits that may arise from income tax that might become payable from net realised gains from the Company's investment portfolio particularly given there are non-controllable variables involved such as significant expenses, currency and equity movements, as well as foreign tax withholding for most overseas jurisdictions.

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

Releases to shareholders and the ASX have included discussions in relation to MFF's investment processes and some investee companies from time to time. The Company sets out its largest portfolio holdings at 31 December 2015 in the Portfolio Manager's Report (this information was also released to the ASX on 5 January 2016 as part of the December 2015 monthly NTA release).

1.6 Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the half year ended 31 December 2015.

1.7 Events Subsequent to the End of the Half Year

Since the end of the half year, the Board and MFF's main service provider, Magellan Asset Management Limited (MAM), have commenced discussions to amend the terms of the existing services agreements from 1 January 2017. Key commercial terms, which are subject to agreement on documentation and ongoing discussions, are that existing services would continue to be provided by MAM and existing fee arrangements would be replaced by the following fixed fees for 3 years:

- a base fee of $1,000,000 per quarter;
- a performance fee of $1,000,000 per annum payable should MFF's total shareholder return exceed 10% per annum compounded annually from 1 January 2017; and
- the agreement would be subject to termination by either party, on six months notice.

In the latest release to the ASX on 2 February 2016, the Company reported NTA as at 29 January 2016, as follows:

	29 January 2016 $	31 December 2015 (A) $
Pre-tax NTA	2.005	2.104
Net tax liabilities	0.254	0.287
Post-tax NTA	1.751	1.817

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

(A) Based on the assets/liabilities presented in the Statement of Financial Position for the half year ended 31 December 2015.

1.7 Events Subsequent to the End of the Half Year (continued)

Other than the matters set out on page 6, and the proposed interim dividend detailed at section 1.4, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

1.8 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

1.9 Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 (as amended) and consequently amounts in the Directors' Report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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

Richard Warburton AO
Chairman

Chris Mackay
Managing Director and Portfolio Manager

Sydney, 5 February 2016

MAGELLAN FLAGSHIP FUND LIMITED
PORTFOLIO MANAGER'S REPORT
for the half year ended 31 December 2015

Dear Shareholder,

The net assets of Magellan Flagship Fund Limited ("MFF" or the "Company") continued to benefit in the second half of the 2015 calendar year from solid investment positions and some currency benefits in the fluctuating markets. We continue to make no forecasts about future year to year investment returns, which should be expected to fluctuate.

The business positions of MFF's portfolio companies remain strong. There have been no changes in MFF's strategy or positioning. We remain focussed on quality companies, where we perceive sustainable, profitable business advantages. Valuations are fundamentally important, and we remain very cautious about extrapolating positive growth assumptions. Fluctuations in equity markets give us purchase opportunities from time to time including when investor consensus turns very negative. Although markets in recent years have favoured MFF's approach, we must adapt for future opportunities.

Complacency is completely unwarranted as the much higher market prices for key parts of our portfolio must be added to the many other risks. Already in 2016, fluctuations in commodity, equity and currency markets have been dramatic, and some businesses failures have surprised. Significant downward movements are inevitable, not just the rises of recent years. We prefer the lower purchase prices available during downward fluctuations, and our portfolio companies may also be able to buy back their own shares at lower prices.

In recent years our key portfolio considerations have been weighing the potential risk adjusted returns of existing and potential new holdings against each other, and against increases in the net cash/debt levels. Balance sheet capacity gives us the opportunity to make future purchases, hopefully at times of general or company specific selling, when prices are pressured. MFF's focus and processes continued to be positive for the portfolio in the latest six months, and the relative simplicity of MFF's business is advantageous.

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

However we made some sensible portfolio sales in recent years where we were concerned about risks in comparison with market prices; for example where investors might possibly have been extrapolating recent emerging market growth rates or the sustainability of higher margins and/or competitive/technological dominance. Such sales will continue, although there were none in the latest six months. Competitive disruption is not diminishing.

Strong markets mean that there are few bargains available, we receive smaller economic interests for each dollar that we spend, and risks of non-temporary falls in asset values are again increasing. We continue to look for opportunities that are less expensive, and have maintained the strong balance sheet. Some market areas have been disrupted and volatility has risen in more numerous parts. We are looking as investors jump around and we may get some chances in out of favour situations, for example as momentum retreats. Panic has not yet been prevalent on the part of sellers in many parts (outside of some emerging markets and possibly commodity/energy exposures), and certainly not in our principal focus areas. Short sellers have returned over the last six to twelve months.

Our portfolio has a number of companies with sustained advantages, strong medium term business outlooks which appear to have genuine above average growth prospects over the medium term, even in ongoing subdued global economies. The share prices for possible growth remain broadly satisfactory but are riskier than when they were far lower. Prices for some parts of the portfolio have been subdued (the credit based financials had run up in calendar 2014 in anticipation of rate increases from the Federal Reserve) and there appear to be some pockets of interesting value, although the portfolio is nowhere near as inexpensive as during the Crisis and the aftermath. The halving of energy prices, deceleration in "emerging market" demand and ongoing strength in real estate remain important factors to watch in assessing credit based financials.

Although we have capacity to invest part of the portfolio in some "deep value" out of favour situations or alternatively in smaller "growth" companies, we have continued to be very wary and have passed on numerous situations. We have also passed on many "relative value" situations where competitive and pricing challenges (possibly based on internet, cloud and other technology and/or execution issues) have impacted near term business outlooks for previously market leading businesses. MFF's assessments of individual opportunities continue without any pressure to act (or conversely to do nothing). Our balance sheet capacity remains important, including our very liquid portfolio and investment flexibility.

We have maintained MFF's currency positions, including the "effective short AUD" position, although we reduced the absolute amounts (as detailed in the interim financial statements). Our reasons are unchanged from our previous explanations, although we continue to review the data and events. We continue to perceive that the currency position gives us some potential risk management benefits, and some of the economic factors supporting MFF's AUD currency position are playing out. During the latest quarter bad domestic data was explained away whilst the medium term sustainability of the east coast apartment and property build out may be a key variable. Australia's net foreign debt moved to the symbolic $1 trillion level noted as a risk in 2012 (up more than 35%, despite high resources revenues over the period).

Net debt as a percentage of investment assets was approximately 1.3% at 31 December 2015. AUD net debt was approximately 1.9% of investment assets and other cash/borrowing currency exposures were below 1% of investment assets as at 31 December 2015.

Holdings as at 31 December 2015 with market values that represent 1% or more of the portfolio are shown in the table below (shown as percentages of total investment assets).

Holding	%	Holding	%
Visa	12.8	Lloyds Banking Group	4.8
Home Depot	11.0	BlackRock	4.1
Lowe's	10.7	Bank of New York Mellon	2.9
MasterCard	10.0	McGraw Hill	2.8
Wells Fargo	10.0	Microsoft	2.3
Bank of America	8.7	State Street	2.1
HCA Holdings	6.7	JP Morgan Chase	2.0
US Bancorp	5.8	Schroders	1.2

The portfolio continues to have a lower weighting to global multinationals and a higher weighting to financials than in previous years. Some global multinationals may remain somewhat expensive because of their past reputations and perceived safe haven status, or situations where competition, technology and other business risk may be underappreciated. The overall operating leverage of the portfolio is higher than in previous years. This is principally associated with the higher weighting to financials, and means higher portfolio risk.

Whilst the business performances of many of our portfolio companies continue to be superb, I continued to underestimate the ongoing impact on MFF's bank holdings of both low interest rates and regulatory/litigation actions. Both headwinds will eventually diminish, probably before the next adverse credit/markets cycle, but this is less probable than it was.

We continue to prioritise portfolio construction, risks and capital structure. Our capital is not allocated based upon guesses of short term market movements, investment thematics or weightings, but we have to focus on changes in assessments of business risks. If we felt that it was right to sell the portfolio, or individual holdings, we would do so. At the moment we prefer MFF's mix of businesses, some of whom have genuine longer term growth potential and overall satisfactory business risks. However, higher prices continue to shift the risk/reward equations. If there is a market decline, our portfolio market values will go down irrespective of how the underlying businesses have changed. As prices rise, risks of sustained declines also rise.

MAGELLAN FLAGSHIP FUND LIMITED
PORTFOLIO MANAGER'S REPORT (continued)
for the half year ended 31 December 2015

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

Yours faithfully,

Chris Mackay
Portfolio Manager

15 January 2016

Important note
Magellan Flagship Fund Limited ABN 32 121 977 884 (**MFF**) has prepared the information in this Portfolio Manager's Report (Report). This Report has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this Report, it is provided by MFF as a corporate authorised representative of Magellan Asset Management Limited ABN 31 120 593 946 AFSL 304 301. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

AUDITOR'S INDEPENDENCE DECLARATION

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

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

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

As lead auditor for the review of Magellan Flagship Fund Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
5 February 2016

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the half year ended 31 December 2015

	Note	31 December 2015 $'000	31 December 2014 $'000
Investment income			
Dividend income		7,567	4,544
Interest income		80	15
Net change in fair value of investments		59,417	181,240
Net gains / (losses) on foreign currency cash and borrowings		2,470	5,877
Net gains / (losses) on foreign exchange settlements and contracts		28	222
Other income		321	-
Total net investment income		**69,883**	**191,898**
Expenses			
Research and services fees		3,942	3,625
Finance costs – interest expense		88	1,439
Executive Director's salary		500	500
Non Executive Directors' fees		143	139
Transaction costs		13	29
Registry fees		148	117
ASX listing, clearing and settlement fees		64	46
Fund administration and operational costs		38	37
Auditor's remuneration		30	31
Employment related taxes		34	34
Other expenses		68	68
Total operating expenses		**5,068**	**6,065**
Profit before income tax expense		**64,815**	**185,833**
Income tax expense		(19,445)	(55,745)
Net profit after income tax expense		**45,370**	**130,088**
Other comprehensive income		-	-
Total comprehensive income for the half year		**45,370**	**130,088**
Basic earnings per share (cents per share)	8	**9.83**	**36.60**
Diluted earnings per share (cents per share)	8	**9.08**	**33.35**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

	Note	31 December 2015 $'000	30 June 2015 $'000
Current assets			
Cash and cash equivalents	4	546	57,329
Investments	5	991,263	862,198
Receivables		668	749
Prepayments		74	16
Current tax asset		739	-
Total current assets		**993,290**	**920,292**
Non-current assets			
Total non-current assets		-	-
Total assets		**993,290**	**920,292**
Current liabilities			
Payables		2,134	4,273
Current tax liability		-	1,288
Borrowings	4	14,401	-
Total current liabilities		**16,535**	**5,561**
Non-current liabilities			
Deferred tax liability		133,876	118,447
Total non-current liabilities		**133,876**	**118,447**
Total liabilities		**150,411**	**124,008**
Net assets		**842,879**	**796,284**
Equity			
Contributed equity	7	523,087	517,237
Retained profits		319,792	279,047
Total equity		**842,879**	**796,284**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF CHANGES IN EQUITY
for the half year ended 31 December 2015

	Note	31 December 2015 $'000	31 December 2014 $'000
Contributed equity			
Balance at beginning of the half year		517,237	365,270
Transaction with owners in their capacity as owners:			
Issue of securities:			
- on Dividend Reinvestment Plan		809	590
- on exercise of MFF 2017 options		5,100	360
Transaction costs:			
- on issue of MFF 2017 options		(7)	-
- on issue of MFF 2017 options – tax effect		2	-
- on issue of rights		(78)	-
- on issue of rights - tax effect		24	-
Balance at end of the half year		**523,087**	**366,220**
Retained profits			
Balance at beginning of the half year		279,047	99,296
Total comprehensive income for the half year		45,370	130,088
Dividends paid	2	(4,625)	(3,555)
Balance at end of the half year		**319,792**	**225,829**
Total equity		**842,879**	**592,049**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF CASH FLOWS
for the half year ended 31 December 2015

	Note	31 December 2015 $'000	31 December 2014 $'000
Cash flows from operating activities			
Dividends received		6,525	4,524
Interest received		80	15
Other income received		321	-
Payments for purchase of investments		(69,648)	(70,259)
Proceeds from sale of investments		-	81,534
Net gains on foreign exchange settlements and contracts		28	222
Research and services fee paid		(4,036)	(2,762)
Performance fee paid		(2,050)	-
Other expenses paid		(970)	(1,083)
Tax paid		(5,015)	-
Net cash (outflow) / inflow from operating activities		**(74,765)**	**12,191**
Cash flows from financing activities			
Proceeds / (repayment) of borrowings		16,871	(8,064)
Interest paid		(88)	(1,439)
Payment of issue costs on MFF 2017 options		(7)	-
Proceeds from exercise of MFF 2017 options		5,100	360
Payment of issue costs on issue of rights		(78)	-
Dividends paid (net of DRP and withholding tax)	2	(3,816)	(2,913)
Net cash inflow / (outflow) from financing activities		**17,982**	**(12,056)**
Net (decrease) / increase in cash and cash equivalents		(56,783)	135
Cash and cash equivalents at the beginning of the half year	4	57,329	144
Cash and cash equivalents at the end of the half year		**546**	**279**

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

1. Summary of Significant Accounting Policies

This interim financial report is for Magellan Flagship Fund Limited ("MFF" or the "Company") for the half year ended 31 December 2015. The principal accounting policies adopted in the preparation of the financial report are set out below. These policies applied to the annual financial statements, have been consistently applied to the half year presented, unless otherwise stated.

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

(a) Basis of Preparation

The interim report for the half year ended 31 December 2015 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars ($) and was approved by the Board of Directors on 5 February 2016. The Directors have the power to amend and reissue the financial report.

This interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2015 Annual Report and any public announcements made in respect of the Company during the half year ended 31 December 2015 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

New Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period except for the adoption of the new standards and amendments which became mandatory for the first time this reporting period commencing 1 July 2015. No new standards or amendment affected any of the amounts or the disclosures in the current or prior year.

Accounting Standards and Interpretations Issued but not yet Effective

The Australian and International Accounting Standards issued but not yet mandatory for the interim reporting period ended 31 December 2015 have not been adopted by the Company in the preparation of this interim financial report. The assessment of the impact of new standards and interpretations, which may have a material impact on the company, is set out below:

AASB 15 *Revenue from contracts with customers* (effective 1 July 2018).

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

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

AASB 16: *Leases* (effective 1 July 2019).

During January 2016, the IASB issued IFRS 16 Leases, which replaces the existing leases guidance in IAS 17 Leases. The AASB are expected to issue an Australian equivalent standard AASB Leases. AASB 16 supercedes the existing lease guidance in AASB 117 Leases. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition if based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset. AASB 16 provides a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees.

1. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

Accounting Standards and Interpretations Issued but not yet Effective (continued)

AASB 16: *Leases* (effective 1 July 2019) (continued).

The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability. Lessors will continue to account for leases as either operating or finance leases, consistent with current practice. For operating leases, the underlying asset remains on the lessor's balance sheet. For finance leases, the underlying asset is derecognised and a lease receivable is recognised. The Company will evaluate the recognition and disclosure requirements of this standard upon issuance by the AASB.

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

(b) Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 (as amended) and amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, or in certain cases, the nearest dollar.

(c) Critical Accounting Estimates and Judgments

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

Where listed equities have no active market the Directors determine fair value with reference to external observable information and conditions existing at balance date (refer to note 6). Fair values may however move materially with movements in market prices.

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

2. Dividends

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

	31 December 2015 $'000	31 December 2014 $'000
For the half year ended 31 December 2015:		
Fully franked final dividend for the year ended 30 June 2015 (1.0 cent per ordinary share) - paid 12 November 2015	4,625	-
For the half year ended 31 December 2014:		
Unfranked final dividend for the year ended 30 June 2014 (1.0 cent per ordinary share) - paid 14 November 2014	-	3,555
Total dividends declared and paid during the half year	**4,625**	**3,555**

2. Dividends (continued)

Of the $4,625,000 dividends paid during the half year ended 31 December 2015 (December 2014: $3,555,000), $3,816,000 was paid in cash to ordinary shareholders that did not elect to participate in the Company's Dividend Reinvestment Plan (DRP) (December 2014: $2,965,000), and $809,000 of dividends were paid (December 2014: $590,000) via the issue of 432,289 ordinary shares (December 2014: 402,257), under the terms of the DRP and at a reinvestment price of $1.8709 (December 2014: $1.4659). The dividend was paid on 12 November 2015.

(a) Dividend Declared

In addition to the above dividend declared and paid during the half year ended 31 December 2015, on 5 February 2016 the Directors declared a fully franked dividend of 1.0 cent per ordinary share in respect of the half year ended 31 December 2015. The amount of the proposed dividend, based on the number of shares on issue at 31 December 2015, is $4,639,000.

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

(b) Dividend Reinvestment Plan (DRP)

The Company's DRP was available to eligible shareholders during the half year ended 31 December 2015.

Under the terms of the DRP, eligible shareholders are able to elect to reinvest their dividends in additional MFF shares, free of any brokerage or other transaction costs. Shares are issued to DRP participants at a predetermined price, less any discount that the Directors may elect to apply from time to time. No discount has been applied to shares issued under the DRP during the half year ended 31 December 2015. The DRP issue price is equal to the average of the daily volume weighted average market price of all Company shares sold in the ordinary course of trading on the Australian Securities Exchange during the 5 trading day period commencing from the day the Company's shares go ex-dividend or other dates as determined by the Board.

(c) Imputation Credits

	31 December 2015 $'000	30 June 2015 $'000
Total imputation credits available in subsequent financial years based on a tax rate of 30% (30 June 2015: 30%)	4,327	1,294

The above amount represents the balance of the imputation credits at the balance date adjusted for income tax paid/payable, franked dividend receivables or declared franked dividends.

3. Segment Information

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

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

	31 December 2015 $'000	30 June 2015 $'000
(a) Cash and Cash Equivalents		
Cash at bank - denominated in Australian Dollars	546	515
(b) Set-off cash and borrowings - net cash:		
Cash - denominated in US Dollars	-	39,197
Cash - denominated in Australian Dollars	-	16,766
Cash - denominated in British Pounds	-	1,409
Cash - denominated in Singapore Dollars	-	220
Borrowings - denominated in Euros	-	(778)
Total cash	**546**	**57,329**
(c) Set-off cash and borrowings - net borrowings:		
Cash - denominated in US Dollars	4,494	-
Borrowings - denominated in Australian Dollars	(18,603)	-
Borrowings - denominated in British Pounds	(227)	-
Borrowings - denominated in Singapore Dollars	(47)	-
Borrowings - denominated in Euros	(18)	-
Total borrowings	**(14,401)**	-

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

(d) Set-Off Arrangement

The foreign currency cash balances held with MLI are set-off against the borrowings drawn under the multi-currency financing facility provided by Merrill Lynch International (Australia) Limited (MLIA), which is discussed in detail at note 4(e).The Company and MLI intend to net settle and are permitted to do so under the terms of the facility. As a result, at 31 December 2015, the Company's borrowings with MLI totalling $18,895,000 (June 2015: $778,000) have been presented net of the total cash deposits held with MLI of $4,494,000 (June 2015: $57,592,000), as the requirements under Australian Accounting Standards to offset have been met. As a result, the net borrowings position of $14,401,000 (June 2015: net cash, $56,814,000) is included within borrowings in the Statement of Financial Position.

(e) Multi-Currency Financing Facility

The Company has a multi-currency credit facility with MLIA. Amounts drawn as borrowings are repayable on written demand. The credit facility, is a service provided under the International Prime Brokerage Agreements (IPBA) between the Company and MLI. The IPBA provides MLI with a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA.

5. Investments

Details of the Company's investments as at 31 December 2015 and 30 June 2015 are set out below:

Company Name	Location	31 December 2015 $'000	30 June 2015 $'000
Visa	United States	126,517	103,652
Home Depot	United States	109,331	85,487
Lowe's	United States	105,674	86,146
MasterCard	United States	99,322	88,892
Wells Fargo	United States	98,893	93,636
Bank of America	United States	86,006	77,043
HCA Holdings	United States	66,791	81,510
US Bancorp	United States	57,398	52,735
Lloyds Banking Group	United Kingdom	47,582	48,696
BlackRock	United States	40,853	36,831
Bank of New York Mellon	United States	29,186	28,123
McGraw Hill	United States	27,544	6,546
Microsoft	United States	22,512	16,329
State Street	United States	20,706	22,733
JP Morgan Chase	United States	19,612	-
Schroders	United Kingdom	11,693	12,646
Qualcomm	United States	8,237	9,770
Fraport	Germany	3,364	3,142
Singapore Technologies Engineering	Singapore	3,013	3,294
SIA Engineering	Singapore	2,416	2,501
SATS	Singapore	2,227	2,128
Axalta Coating Systems	United States	1,994	-
MLP	Germany	295	253
Wal-Mart Stores	United States	79	86
Sainsbury's	United Kingdom	18	19
Total investments		**991,263**	**862,198**

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

	31 December 2015	30 June 2015
US Dollar	0.72755	0.76860
Euro	0.66975	0.68982
British Pound	0.49362	0.48871
Singapore Dollar	1.03214	1.03492

6. Fair Value Measurements

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The Company invests in securities and rights in listed entities. The fair value of these investments is based on the closing bid price for the security as quoted on the relevant exchange;

Level 2: valuation techniques using market observable inputs, either directly or indirectly. The fair value of assets and liabilities with short-term maturities are valued at the amount at which the asset or liability could be exchanged in a current transaction between willing parties. The fair value of variable-rate receivables/borrowings are based on parameters such as interest rates and individual creditworthiness of the investee company; and

Level 3: valuation techniques using non-market observable market data with the fair value for investments based on a Directors' valuation.

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

	Note	31 December 2015 $	30 June 2015 $
Assets measured at fair value			
Level 1: Investments - valued using quoted prices		991,263	862,198
Level 2: Receivables and Prepayments [A]		742	765
Level 3: Investments - directors' valuation as no quoted price	(i)	-	-
Total financial assets		**992,005**	**862,963**
Liabilities measured at fair value			
Level 2: Payables [A]		2,134	4,273
Level 2: Borrowings - valued using bank valuation		14,401	-
Total financial liabilities		**16,535**	**4,273**

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

There have been no transfers between any of the three levels in the hierarchy during the half year and the Company's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the half year.

(i) Level 3 investment

Level 3 investment comprises the Company's shares in China Metals Recycling (Holdings) Limited (CMR), for which there is no active market as the shares have been halted from trading since 28 February 2013. A liquidator has been appointed as a result of Court action by the Hong Kong Securities and Futures Commission, due to fraud by CMR and its Chairman. Based on available information, the Directors have adopted a valuation of zero as at 31 December 2015, which is the same as the value adopted as at 30 June 2015. As a consequence there has been no financial impact in the Statement of Profit or Loss and Other Comprehensive Income for the half year ended 31 December 2015.

7. Contributed Equity

	31 December 2015 No. of securities	30 June 2015 No. of securities	31 December 2015 $'000	30 June 2015 $'000
(a) Ordinary Shares				
Opening balance	458,380,042	355,290,029	517,805	365,348
Shares issued under DRP - 15 Nov 14	-	402,257	-	589 (A)
Shares issued under DRP - 15 May 15	-	357,652	-	623 (A)
Shares issued under DRP - 12 Nov 15	432,289	-	809	-
Shares issued under DRP	432,289	759,909	809	1,212
Shares issued from exercise of rights	-	79,778,586	-	127,646
Shares issued from exercise of options	5,118,401	22,551,518	5,100	23,599
Total ordinary shares	**463,930,732**	**458,380,042**	**523,714**	**517,805**
(b) MFF 2017 options				
Opening balance	83,358,478	105,909,996	(95)	(78)
Shares issued from exercise of options	(5,118,401)	(22,551,518)	-	-
Transaction costs	-	-	(7)	(23)
Transaction costs - tax effect	-	-	2	6
Total listed options	**78,240,077**	**83,358,478**	**(100)**	**(95)**
(c) Rights				
Opening balance	-	-	(473)	-
Rights offered - 16 Apr 15	-	94,187,345	-	-
Rights lapsed - 7 May 15	-	(14,408,759)	-	-
Rights exercised - 13 May 15	-	(79,778,586)	-	-
Transaction costs	-	-	(78)	(677)
Transaction costs - tax effect	-	-	24	204
Total rights issued 13 May 15	**-**	**-**	**(527)**	**(473)**
Total contributed equity			**523,087**	**517,237**

(A) Net of withholding taxes

(d) Terms and Conditions

(i) Ordinary shares

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

7. Contributed equity (continued)

(d) Terms and Conditions (continued)

(ii) Options

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

MFF 2017 options entitle the holder to the right to acquire one ordinary share in the Company and are exercisable at any time on or prior to 31 October 2017, at which time they will lapse. The exercise price of each MFF 2017 option was $1.05 up to 9 April 2015, and was subsequently adjusted to $0.9964 to reflect the entitlement value of the Company's rights issue announced in March 2015.

The MFF 2017 options are not entitled to dividends, and ordinary shares issued on exercise of the options rank equally with all other ordinary shares from the date of exercise and entitle the holder to receive dividends on or prior to the applicable record date.

(iii) Share buy-back

On the 26 August 2009, the Company announced its intention to undertake a second on-market buyback of up to 20,000,000 shares after completion of the first buyback. Under this buyback, the Company has bought back and cancelled 13,155,651 shares at a total cost of approximately $8,276,000. No shares were acquired under this buy-back during the half year ended 31 December 2015 (December 2014: nil). On 30 July 2015, the Company authorised a further extension to the on-market share buyback period to 10 September 2016. No shares were acquired under the buybacks during the half year ended 31 December 2015.

(iv) Dividend reinvestment plan (DRP)

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

8. Earnings Per Share

	31 December 2015	31 December 2014
Basic earnings per share (cents)	**9.83**	**36.60**
Diluted earnings per share (cents)	**9.08**	**33.35**
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in calculating basic EPS	461,564,842	355,475,512
Add: equivalent number of unexercised options for the purposes of calculating diluted EPS	38,213,509	34,627,863
Weighted average number of ordinary shares on issue used in calculating diluted EPS	**499,778,351**	**390,103,375**
Earnings reconciliation		
Net profit after income tax expense used in the calculation of basic and diluted EPS ($'000)	45,370	130,088

The options granted on 17 October 2012 and which remain unexercised at 31 December 2015 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. Details of the options are set out in note 7 (d)(ii).

9. Contingent Assets, Contingent Liabilities and Commitments

Under the Services Agreement effective 1 October 2013, Magellan Asset Management Limited (MAM) is entitled to a performance fee if the Company's total shareholder's return exceeds 10% per annum, annually compounded, with respect to the two remaining measurement periods, 1 July 2013 to 30 June 2016 and 1 July 2013 to 31 December 2016. The performance fees that may be payable in respect to each period is $2,000,000 and each is non-cumulative. The maximum total performance fees payable over the remaining periods is capped at $4,000,000.

The Board has commenced discussions to amend the terms of the performance fee for the period post 31 December 2016. Refer to note 10 for further details.

The Company has no other material commitments, contingent assets or contingent liabilities as at 31 December 2015 (June 2015: nil).

10. Events Subsequent to the End of Half Year

Since the end of the half year, the Board and MFF's main service provider, MAM, have commenced discussions to amend the terms of the existing services agreements from 1 January 2017. Key commercial terms, which are subject to agreement on documentation and ongoing discussions, are that existing services would continue to be provided by MAM and existing fee arrangements would be replaced by the following fixed fees for 3 years:

- a base fee of $1,000,000 per quarter;
- a performance fee of $1,000,000 per annum payable should MFF's total shareholder return exceed 10% per annum compounded annually from 1 January 2017; and
- the agreement would be subject to termination by either party, on six months notice.

On 5 February 2016, the Directors declared a fully franked interim dividend of 1.0 cent per ordinary share in respect of the half year ended 31 December 2015 (refer to note 2(a) for further details).

In the latest release to the ASX on 2 February 2016, the Company reported Net tangible assets (NTA) as at 29 January 2016 as follows:

	29 January 2016 $	31 December 2015 (A) $
Pre-tax NTA	2.005	2.104
Net tax liabilities	0.254	0.287
Post-tax NTA	1.751	1.817

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

Pre tax NTA if all of the MFF 2017 options had been exercised	1.860	1.944
Post tax NTA if all of the MFF 2017 options had been exercised	1.642	1.698

(A) Refers to the net assets of the Company presented in the Statement of Financial Position. Refer note 11.

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

11. Net Tangible Assets (NTA) Value Per Share

The following table reconciles the NTA values presented in the Statement of Financial Position as at 31 December 2015 to the NTA per share reported to the ASX on 5 January 2016.

	31 December 2015 $	31 December 2015 $	30 June 2015 $	30 June 2015 $
	Pre-tax	**Post-tax**	**Pre-tax**	**Post-tax**
ASX reported NTA value[(A)]	**2.102**	**1.816**	**1.996**	**1.736**
NTA value[(B)]	**2.104**	**1.817**	**1.998**	**1.737**

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

ASX reported NTA value if all of the MFF 2017 options had been exercised[(A)]	1.944	1.699	1.844	1.623
NTA value if all of the MFF 2017 options had been exercised[(B)]	1.944	1.698	1.844	1.623

(A) The NTA reported to the ASX on 5 January 2016 include estimates for accrued expenses and tax liabilities.

(B) The NTA value refers to the net assets of the Company including the net current and deferred tax liabilities/assets presented in the Statement of Financial Position.

The movement between the ASX reported NTA value and the NTA value represents a reduction of $752,000 in the value of liabilities, which was reflected in the Company's Statement of Financial Position for the half year ended 31 December 2015 and consequently resulted in a small increase in the Company's Pre-tax NTA and Post-tax NTA values of $2.104 and $1.817.

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' DECLARATION
for the half year ended 31 December 2015

In the Directors' opinion,

a) the financial statements and notes set out on pages 12 to 25 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of Magellan Flagship Fund Limited as at 31 December 2015 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and

   (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

b) there are reasonable grounds to believe that Magellan Flagship Fund Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving declarations which mirror those required under section 295A of the *Corporations Act 2001* and are recommended by the ASX Corporate Governance Principles and Recommendations.

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

Richard Warburton AO	**Chris Mackay**
Chairman	Managing Director/Portfolio Manager

Sydney, 5 February 2016

INDEPENDENT AUDITOR'S REVIEW REPORT

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

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

Report on the Half-Year Financial Report

To the members of Magellan Flagship Fund Limited

We have reviewed the accompanying half-year financial report of Magellan Flagship Fund Limited, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magellan Flagship Fund Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

INDEPENDENT AUDITOR'S REVIEW REPORT

Building a better working world

Conclusion

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

a. giving a true and fair view of the company's financial position as at 31 December 2015 and of its performance for half-year ended on that date; and

b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
5 February 2016

MAGELLAN FLAGSHIP FUND LIMITED

Corporate Information

Directors
Richard Warburton AO - Chairman
John Ballard
Andy Hogendijk
Chris Mackay

Company Secretary
Geoffrey Stirton

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

Auditor and Taxation Adviser
Ernst & Young
680 George Street
Sydney NSW 2000

Share Registrar
Boardroom Pty Limited
Level 12, Grosvenor Place
225 George Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

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

Website
http://www.magellangroup.com.au/mff