MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
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19 September 2011

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

MAGELLAN FLAGSHIP FUND LIMITED ('MFF')
ANNUAL REPORT

MFF wishes to advise, in accordance with ASX Listing Rule 4.7, that its 2011 Annual Report has been mailed today to those shareholders who have elected to receive a printed copy of the Annual Report.

A copy of the Annual Report is enclosed. The Annual Report is also available on MFF's website at: http://www.magellangroup.com.au/mff/results-reports/annual-reports/

Yours faithfully,

Leo Quintana
Legal Counsel & Company Secretary

MAGELLAN
FLAGSHIP FUND LIMITED

2011 ANNUAL REPORT

Contents

MAGELLAN FLAGSHIP FUND LIMITED
CHAIRMAN'S LETTER
FOR THE YEAR ENDED 30 JUNE 2011

Dear Shareholder,

I am pleased to write to you in the 2010/11 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 pre-tax profit of $1.33 million and a net loss after tax of $0.02 million for 2010/11 ($31.1 million net profit after tax for 2009/10). This result reflects the 'mark to market' of all price movements for the year (a rise of approximately 18.4%, after operating expenses, in base currencies). For 2010/11, these positive equity price movements for MFF's portfolio were offset by the rise in the AUD against other currencies.

MFF's Portfolio

Your Directors remain pleased with and supportive of MFF's investment portfolio. Overall, net increases in the market value of the portfolio in base currencies benefitted the Company by about $0.14 per share, offset by movements in foreign exchange in the year of approximately $0.14 per share. The Company recorded net tangible assets (NTA) (excluding deferred tax assets) of $0.762 per share as at 30 June 2011 compared with $0.759 per share as at 30 June 2010. Changes to the foreign tax credit regime require foreign tax withheld on foreign dividends to be off-set only against taxable income in the related tax year. As a result of the Company being in a tax loss position, current year foreign tax credits were written off during the financial year.

Changes to the portfolio were modest during the year. Additions to the portfolio included China Mobile, Google, Wells Fargo and Visa. Reductions included Wal-Mart, PepsiCo and Tesco.

We consider that the underlying business strength of the portfolio companies is increasingly evident and your Directors are confident about the business prospects for these high quality companies.

MFF's portfolio is about 85% invested in leading global multinationals. Almost all of these companies continue to be leaders in emerging markets as well as in the more developed markets. The ongoing economic disruptions have enabled most of them to increase their competitive advantages across many countries as competitors are forced to cut back.

In last year's Chairman's letter, I said that "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". As part of the strong performance of MFF's portfolio companies in 2010/11 they continued to address these risks, and this will continue to be required in 2011/12.

MFF provides diversification benefits for Australian and New Zealand investors in terms of companies, currencies and business geographies. Despite the benefits of diversification, the currency has continued to be a major drag, particularly as the AUD strengthened and the USD weakened during the year. The Investment Manager's Report includes a discussion of issues relating to currencies and MFF's continuing position of being unhedged.

MAGELLAN FLAGSHIP FUND LIMITED
CHAIRMAN'S LETTER
FOR THE YEAR ENDED 30 JUNE 2011

We continue to believe that the quality and attractive valuations of the companies in the MFF portfolio compare favourably with portfolio opportunities in the domestic markets.

On-market Share Buy-back

During 2010/11, MFF acquired on-market a further 4.48 million shares at an average price of approximately $0.63 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, 21 October 2011 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
11 August 2011

MAGELLAN FLAGSHIP FUND LIMITED
INVESTMENT MANAGER'S REPORT
FOR THE YEAR ENDED 30 JUNE 2011

Dear Shareholder,

The MFF portfolio gained about 18.4% (pre tax after costs) in base currencies in the latest 12 months. However this was almost entirely offset by the adverse currency movements (which are almost entirely unrealised), as the AUD rose strongly and the USD fell (as did the Euro).

We continue to be confident about MFF's portfolio holdings. The quality of MFF's companies is extremely high, their market positions are improving and we believe that valuations continue to be attractive. The portfolio results reflect excellent business performances, particularly from our major portfolio companies as well as some further recovery in market prices. Our quality/value focus and analytical, objective approach remained unchanged over the last 12 months.

MFF has a high quality transparent portfolio of companies with sustainable advantages and future potential that are unavailable in the Australian and New Zealand markets. We update the ASX each week with movements in the NTA and provide monthly commentary on changes to the portfolio.

Our currency exposure is now negative on a mark to market basis, and momentum and near term prospects both look challenging. At the half year we said that "an immediate market risk is that the December conditions of rising commodity prices and rising AUD continue to impact MFF via the currency translation…". These risks impacted MFF in this half and they continue to do so.

Whilst the near term movements in currency are adverse, we are confident for the longer term. Most importantly, we are very confident about the market positions and prospects of the investments. In a recent ASX release we noted that 9 of MFF's 13 largest holdings (American Express, Yum! Brands, eBay, Coca-Cola, Google, McDonald's, Wells Fargo, Visa and US Bancorp) reported results in July and that they ranged from strong to superb. Each company is growing profitable market share, producing billions of dollars of annual free cashflow and investing sensibly for future growth.

This portfolio has extraordinary characteristics. These companies combine high ROE, cash generative home market leadership with growth options (both domestic and international), favourable technological trends such as urbanisation and mobile internet, and global reach. Every day, our companies benefit from the rise in opportunities and freedom from increased market based specialisation, trade and easier transfers of people and capital manifested in the collapse of Communism and the Berlin Wall and the re-entry of China into world trade and investment. Despite the current prevalence of fear and despair, our companies continue with many positive initiatives.

Coca Cola has increased DAILY consumption of its products from about 1.1 billion to 1.8 billion (8oz serve equivalents) over the past decade and is only just scratching the surface in many newer markets. Yum! increased its sales in China by 28% last quarter (34% if currency benefits are added) and earned US$397 million in China for the first 6 months whilst opening 500 new restaurants in China and 1,000 elsewhere each year.

Another impressive illustration of the benefits to MFF of these trends was announced this week (2 August). China UnionPay, the monopoly state owned bankcard association in China, has just chosen one of our companies to be its partner to connect China UnionPay acceptance facilities to merchants in North America and Europe, and then Latin America. They have chosen to partner with Elavon, a wholly owned subsidiary of US Bancorp of Minneapolis, Minnesota (in the mid west region USA). China UnionPay has already issued 2.6 billion cards and this agreement will facilitate spending on these cards by tourists and other travellers outside China.

We believe that it is reasonable to be confident that aggregate living standards and GDP will continue to rise. We firmly believe that MFF's collection of businesses will continue to do better than most. Time favours quality businesses. We also believe that the currency situation will play out in our favour, even though it is as likely as not to get worse rather than better in the near term. This report will discuss some of the relevant considerations for both the portfolio and currencies.

We are continuing with the buyback and selective investment in attractive opportunities. The quality of the portfolio means that the hurdle is high for new investments. We continue to fund out of dividends and sales, where portfolio companies get close to our perception of fair value or where we perceive funds may be redeployed for better returns.

Portfolio Update

MFF's holdings with a market value as at 30 June 2011 of A$2 million or greater
(which represents about 99% of MFF's portfolio value) are shown below:

Holding	$million	Holding	$million
American Express	66.0	Visa	11.6
Yum! Brands	43.4	Procter & Gamble	10.0
Nestlé	35.8	US Bancorp	8.7
eBay	32.7	Wal-Mart	6.1
Coca-Cola	23.8	Colgate-Palmolive	4.7
Google	19.4	Bank of America	4.6
China Mobile	18.3	Tesco	2.7
McDonald's	16.9	MasterCard	2.4
Wells Fargo	15.8	Lowe's	2.4

We believe that the portfolio remains underpriced by the market, albeit less underpriced than during the Crisis. If, as we expect, sustainable underlying earnings rise strongly in coming years and decades, share prices will rise, although not in lockstep.

During 2010/11 the share prices of MFF's 5 largest holdings appreciated (in base currencies before dividends) as follows: American Express 30.2%, Yum! Brands 41.5%, Nestlé 0.1%, eBay 64.6% and Coca-Cola 34.3%. Rapid rises are cautionary against near term overconfidence, although they primarily reflect how far prices were below fair value in the Crisis. Our companies again increased their competitive advantages and their underlying value. The US rises also partially reflect the "benefit" for US domiciled multinationals of the fall in the USD (the Nestlé rise in USD or Euro terms was strong, as the Swiss Franc appreciated strongly).

Overall changes in the portfolio during the year were again modest. Over the year, the American Express and eBay holdings were unchanged, Yum! and Coca-Cola were increased and the Nestlé holding was reduced. Wal-Mart was reduced out of the top 5 holdings during the year.

We constantly look for additional investment opportunities and consider whether they are superior to components of the existing portfolio and/or to assist in improving the portfolio construction. During the year some sales were needed to fund the share buyback and to keep the gearing at the 20% level, whilst we generally maintained a fully invested position.
Larger additions during the year were in China Mobile, Google, Wells Fargo and Visa. We continue to monitor American Express (the largest holding) to seek to assess the business prospects/risks in comparison with other opportunities in the context of its rebounding stock price post March 2009. Its business rebound exceeds our expectations with increased merchant and cardholder engagement enabling card member spending to rise 15% year on year for each of the last 5 quarters and to now exceed $200 billion for the most recent quarter (about triple its Q1 2000 level), its credit losses are low and falling, its responses to digital risks/opportunities are intelligent and its market share has grown (but investors remain cautious given higher expenses, macroeconomic concerns, concerns about financials generally and regulatory concerns/uncertainty).

We had reduced our small direct exposure to Europe in 2009/10 and reduced this even further this year. We also sold down some retail/consumer exposures such as Wal-Mart and PepsiCo in 2010/11. Please note that these are both high quality companies and that there are sensible opportunities amongst the European based multinationals which we continue to assess. Such opportunities may become even more attractive if the various political and macro economic issues worsen.

At year end we only had one new position (China Mobile). It is growing its 620 million customer base by 60 million net new customers per year, has over $40 billion of cash and $15 billion of after tax earnings, our average purchase price is about 10x after tax earnings (which are deflated by a heavy investment programme) and the dividend payout ratio is currently 43% with plenty of scope for more aggressive capital management (possibly after its Shanghai listing). Of course there are technological, regulatory, competitor, macro economic, investor momentum and other factors which lowered the stock price. China Mobile is very likely to be earning far more money from its networks providing many more applications and services for more customers in 10 years, irrespective of any short term factors.

Many market investors think in terms of rolling short terms and hence create or support momentum in favour of or against particular assets. Markets are rarely driven by the longer term fundamentals in the short term. An important implication is that some high quality investment opportunities are improved when they are out of favour with a majority of investors. Inevitably it is free cashflow generated from earnings which most drives market price differentials over the decades.

Current markets are dangerous and it is difficult to assess the probability of potential outcomes. Doing nothing is likely a bad option: sitting on the sidelines in cash or Treasuries has real risk of significant real loss of capital. There are considerable risks both of action and of inaction. Commodity and currency markets may have severe dislocations…the silver price rose steadily and fell 40% in a week in May; cotton doubled to a record but has fallen 53% since March. Brazil and Switzerland are only two of the countries whose politicians are upset about the damage being caused by overpriced currencies (and Japan has intervened in the last week).

Hard to control inflation is happening concurrently with severe recessionary conditions. Record, unsustainably low bond yields (in the US for example) coincide with record commodity prices and politicians are lurching from aggressive stimulus programmes to arguing for fiscal restraint (often within the same speech). Our concerns about Sovereign Risk continue. Hopefully the downgrade of the US sovereign debt from AAA by Standard & Poor's is a sufficient shock to improve US fiscal discipline, although damaging intransigent partisanship is unresolved.

Going down the quality curve to chase yield in bonds is dangerous (as the holders of European debt are learning). Except for the most nimble and skilled, and those with excellent hedging programmes, buying lower quality companies is very hard at the moment...the rising tide post the nadir of the Crisis has already lifted the boats but in the last 3 weeks alone, a number of medium quality companies have fallen 25% or more in an hour after reporting results or outlooks below market expectations, although US corporate earnings have generally been strong (Europe and Asia far weaker). The best quality companies are winning in most regions particularly if they have the advantage of exposure to positive growth trends such as increasing affluence and urbanisation of emerging markets consumers.

It is often easy to become very negative about near term risks and political processes. There are always many risks, but despite headwinds, our companies are producing record levels of profitability and, more importantly, have their best ever future prospects. Eventually investments of this quality will trade at fair value (or likely beyond fair value). We have remained almost fully invested since early 2009.

Although we invest on an individual business by business basis (and, for example, seek the lowest cost players in an industry), and urbanisation helps all of our companies, 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!, PepsiCo, Unilever, Procter & Gamble, L'Oreal (30% owned by Nestlé), 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 are attracted to the best global 'networks' and these may strengthen further over coming decades (American Express, eBay marketplaces/PayPal and Google are examples). Our FMCG companies, financials and retailers also have network economic benefits. China Mobile also has enormous, strongly advantaged networks, albeit not global. The obvious, rapid global rise of mobile telephony, mobile internet, data, commerce and devices involves staggeringly large and rapid network effects. Google+ apparently reached 25 million users within weeks and the activation of Android devices reportedly is already at 550,000 per day.

- 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, 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).

Capital Management

MFF continued with its on market buyback in 2010/11. We expect this to continue to be a means of seeking to increase the underlying value per share.

We are also positive about MFF's investee companies buying back their own shares when they are trading below intrinsic value. A majority of our bank financials now have authorisation to again buy back shares and increase dividends (American Express did not cut its dividend in the Crisis). Active capital management including value focussed buybacks, add to earnings per share growth rates and to shareholder value, particularly for our companies which generate billions of free cashflow.

Nestlé's capital allocation has been excellent for decades. The investments in Alcon and L'oreal have generated hundred fold gains of over $50 billion. In recent years Nestlé has invested in emerging markets businesses and nutrition, acquired the #1 pizza business from Kraft and invested billions in plants, distribution, technology and R+D in over 200 countries. In addition Nestlé has bought back over $40 billion (CHF 35 billion) of its own shares. At current dividend rates this effectively yields Nestlé 3.8% in after tax dividends which represents a current cash benefit of about $1 billion p.a. (and Nestlé is very likely to continue to increase its dividend after the 15.6% increase in 2011). Similarly, Procter & Gamble bought back over $7 billion of its shares in 2010/11 and has increased its dividend for 55 consecutive years (and has paid a dividend every year since its incorporation in 1890). These companies have stronger cashflows and much lower borrowing costs than many countries.

We are cautious about highly acquisitive companies that feel the need for large acquisitions. We seek companies that already have excellent competitive positions and when they make acquisitions they typically are incremental to the core franchise. The largest dollar value investment mistake was not selling Bank of America at the onset of the Crisis, even at prices below fair value. They added 3 major acquisitions ...their share price would have been at least triple its current level if they had simply done nothing, or at least had competent, objective due diligence to assess the acquisition risks.

Inflation and Currencies

Despite ongoing broad economic stagnation and widespread overcapacity, the risks of inflation are greater now than 12 months ago. China's latest plans include an intention to double wages over 5 years. Other input prices are increasing rapidly in China (property for example). China is the most important factor in the price of traded manufactured goods. Commodity prices have also continued to rise, in part because China has maintained or even accelerated its unprecedented fixed asset investment programme to seek to maintain economic growth and social cohesion despite pressure on its export sector. We expect that the current inflation in input prices and in prices of manufactured exports coming out of China to continue.

Everyday consumer and utility prices are rising in most regions, even in those with high unemployment, and stagflation is already present for many groups such as those relying on

Government payments and workers without labour pricing power. Important factors in mitigating inflation include whether countries have freely floating and exchangeable currencies, open labour markets and sensible fiscal, microeconomic and monetary policies. Major emerging markets such as Brazil and India continue to raise interest rates to try and control inflation, whereas Chinese authorities have been much more cautious to act. The Chairman of the US Federal Reserve recently said that in 2010 risks of deflation were prevalent (hence he felt that QE2 would not be inflationary) but he recently moved to a balanced assessment of possible deflationary and inflationary risks.

Major political risks rise dramatically when inflation and unemployment impact populations, as shown recently in North Africa and the Middle East. Major political risks also continue to rise in Europe where high unemployment coincides with Government debt inspired austerity requirements. In the US (and increasingly in other democracies), political risks are also rising, including that populist programmes overturn more conventional economic and political policies with significant risks for domestic and international economic stability and social cohesion.

We continue to examine closely whether our investee companies have capacity to manage the impact of such input price rises through a combination of pricing power and improved productivity/reductions in other costs. Sovereign Risk remains a real ongoing risk for our companies and the direct (and indirect) costs of interacting with Governments are rising. We model increasing future average tax rates for almost all of our companies (their low tax rates are incompatible with fair sharing of necessary future fiscal consolidation).

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. Singapore and Hong Kong also have these positive attributes (high urbanisation is generally a positive for economic growth via specialisation, as well as for fiscal balances and for our companies).

Prior to the Crisis, China had begun to rebalance its economy by increasing consumption and incomes and to be less dependent on exports and fixed asset investment, particularly in infrastructure and property development. During the Crisis, the AUD fell heavily and MFF benefitted as the currency was a strong (unrealised) positive and a hedge against the then plunging share prices.

Post Crisis key factors combining to sustain the AUD rise include:

- China's unprecedented fixed asset investment stimulus at 70% of GDP via banks, developers, central and local governments;
- major resource projects were delayed and thus the unprecedented increase in Chinese raw materials demand from its existing record levels was not met by increased production;
- whilst stimulus in the US has failed to engineer a sustained economic recovery in the developed world, it contributed to resources demand and the Federal Reserve initiated two programmes of quantitative easing which have combined to reduce demand for/confidence in the USD and to increase financial investment in commodities; and
- these factors and the momentum of the rise in the AUD (and fall in other more liquid currencies) has encouraged financial investors including sovereigns to diversify bond and

currency holdings into AUD (as an aside, the weak ASX performance reflects the limited appetite for Australian equities from overseas financial investors). The interest rate differential is likely a factor (for example for Japanese buying, but the equally strong rise in the Swiss franc is not driven by yield chasing).

Foreign exchange and similar markets which are not referenced back to earnings/bond coupons or similar metrics and lack pricing transparency, are prone to momentum and to periodic bubbles/panics. Currency market participation and liquidity is rising at the moment as an alternative to traditional investment classes and currencies are being advertised as the online retail market of choice.

Overall, political and fiscal decisions have been disappointing in the US in recent decades. They are reflected in excessive disparities of income which are not mitigated by progressive taxation, modest real income growth outside of the highest earners, unsustainable deficits and rising fiscal debt. The US maintains world leading competitive advantages and its system's capacity to advance living standards is unmatched in history but MFF's exposure to USD is currently penalising us. Whilst I am very cautious about the likelihood of a serious correction in the AUD, there is no likelihood that the USD has a sustained recovery against serious currencies unless policies improve. The management of major US multinationals, such as those that we own, is superb and is an obvious contrast with the political outcomes.

Australia's record terms of trade, record export prices, and balance of trade surplus are underpinned by resource exports. However, greater supplies of Australia's key commodity exports are slowly coming on stream and will have increased materially by the end of the decade. It is foreseeable that the Chinese, as the buyers of more than 50% of commodity exports (and with a steel industry that in aggregate loses money in most years despite huge volumes), will reduce their demand materially once they are satisfied that the huge amounts of capital have been spent bringing enormous new (largely fixed cost) multi decade commodity supplies onto the market. If this occurs, the key commodity prices will fall materially; much closer to the then cost of marginal production (rather than the many profitable multiples of marginal cost, as at present), and this does not depend on changes in bubble like aspects of the Chinese economy.

We are cautious about extrapolating the sustainability of China's largely debt financed fixed asset investment boom. Western commentators are increasingly critical of their own politicians' "Vanity Projects", but China's low economic return projects exceed those of all other nations combined. [Incidentally you may see that our companies are major supporters and beneficiaries of public moneys being spent on new transport hubs and communications networks]. China's local government already have debt of about $1.65 trillion (equivalent to 27% of China's GDP per China's audit office, higher according to the rating agencies) although local Government borrowing is restricted and thus numerous off balance sheet vehicles (similar to those that helped fund the US subprime boom) were established. China's loss making railways have over $500 billion of debt but it appears to be mostly very long dated, at low interest rates and supplied by state owned Banks and lenders and as such there is little outside scrutiny.

China's internal debts manifest some of the structuring and accounting that encouraged Western governments to move special projects out of official budget positions and not to undertake cost benefit analyses or productivity assessments. China is building the world's largest railway and road systems as well as another 45 major airports and it is unlikely that each will be profitable given China's per capita GDP level, reduced cost competitiveness for exports to a slowing world economy, the lower ROE of many projects away from the populous east and given the subdued demographics associated with the one child policy.

Technology and greater efficiency in the use of commodities is already a hallmark of US and Europe production to achieve far greater productivity. Although recent numbers show China increasing commodity intensity and productivity falling (particularly as infrastructure moves west) it is inevitable that such technology will continue to globalise and reinstate the global trend towards reduced commodity intensity.

If Australia's terms of trade eventually rebalance, the floating exchange rate is the first automatic stabiliser to assist the policy response. Sustained high currency and resource usage/crowding out discourage investment in other activities and blunt the effectiveness of pre-emptive policy responses. Thus, there is more reliance upon a downward exchange rate movement to partially soften the aggregate economic impact when the terms of trade eventually retrace. The publications from the RBA and speeches/other material from Treasury, including the recent speeches from the new Secretary of the Treasury, Martin Parkinson, show a nuanced understanding of the complex multiple variables relating to the economic issues. Although near term growth in most sectors of the Australian economy remains under pressure, this is not such an important point for longer term currency moves.

Very rarely is it "different this time". Unless this cycle is unique, the supply/demand balance of key commodity exports will correct and the commodity prices will fall far closer to their marginal cost of production. Australian and New Zealand wool growers understand that "mean reversion" impacts world leading commodity markets, as the good times don't last for ever and the reversion causes a lot of pain. The aftermath of the booms in European countries such as Ireland and Spain demonstrate that policy responses are very difficult when key variables in an economy (eg credit and housing) swing back to trend or below after being well above trend. The Australian terms of trade arguably have similar characteristics.

Despite recent increases in domestic savings rates, record terms of trade and high dollar, Australia's net foreign debt continues to rise and Australia's banks remain far more reliant on international wholesale markets than Wells Fargo and US Bancorp, for example. Australia also has not addressed credit default swaps which give hedge funds the opportunity to bet billions that a bank's credit worsens materially. The Australian balance sheet and current account deficits would benefit from a very long China boom and changing habits to reverse the declines in competitiveness and productivity, whilst not allowing the underlying fiscal position to deteriorate materially, given weakness compared with the accounts of Singapore and Switzerland.

MFF will continue with its unhedged position in the current market conditions. We will promptly advise the ASX of any material changes. We also currently hold some cash balances in Swiss Francs, Singapore and Hong Kong Dollars (as well as USD) rather than repatriating them to reduce the AUD borrowings at recent exchange levels, but this may change with shorter term movements in investments, rates and other factors.

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
7 August 2011

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2011

The Directors of Magellan Flagship Fund Limited (the "Company") submit their report in respect of the year ended 30 June 2011.

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 pre tax profit of $1.33 million (2010: $46.0 million) and a net loss for the year after income tax of $0.02 million (2010: $31.1 million profit after tax) principally reflecting the impact of changes in the market value of investments and exchange rate movements. Overall, net increases in the market value of the portfolio in base currencies benefitted the Company by about $0.14 per share (or 18.4%), offset by movements in foreign exchange in the year of approximately $0.14 per share. The Company recorded net tangible assets (NTA) (excluding deferred tax assets) of $0.762 per share as at 30 June 2011 compared with $0.759 per share as at 30 June 2010. Changes to the foreign tax credit regime require foreign tax withheld on foreign dividends to be off-set only against taxable income in the related tax year. As a result of the Company being in a tax loss position, current year foreign tax credits were written off during the financial year.

The Company continued its on market buyback during the year and acquired approximately 4.48 million shares at an average price of approximately $0.63 per share. Further details of the buyback are provided in note 8 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.

Dividends
No dividends have been declared by the Directors and none have been paid or are payable during the year and to the date of this report.

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

Since 30 June 2011 and up to the date of this report, the Company has purchased 630,330 shares for consideration of $0.39 million, under the buy-back programme of up to 20 million shares, announced on 26 August 2009.

The Directors are not aware of any other matter or circumstance since 30 June 2011 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 Results 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 the Director and Chairman of Westfield Retail Trust (appointed December 2010), and Chairman of Citigroup Pty Limited.
Dick was previously Director and Chairman of Tandou Limited (appointed April 2004, resigned December 2010), Chairman of David Jones Limited, AurionGold Limited, Caltex Australia Limited, and The Board of Taxation, and a Director of Tabcorp Holdings Limited, Southcorp Limited, Nufarm Limited and the Reserve Bank of Australia. Dick is a Fellow (and former National President) of the Australian Institute of Company Directors.

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 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 of Suncorp Metway Limited (1997 – 2000), Commonwealth Bank of Australia Limited (1991 – 1997) and John Fairfax Group (1989 – 1991). Andy has also held several senior positions with Shell Company Australia and Australian Paper Manufacturers. Andy is currently a Director of AWE Limited (appointed October 2007), and was previously a Chairman of Gloucester Coal (appointed August 2004, resigned June 2009), and a Director of Aditya Birla Minerals Limited, 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. He 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).
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 Chief Executive Officer of Magellan Financial Group Limited (appointed November 2006), and Magellan Asset Management Limited. Hamish has more than 20 years experience in financial services and was, formerly Co-Head of Global Banking at Deutsche Bank, Australasia.
Hamish is a member of the Australian Government's Foreign Investment Review Board (FIRB), a member of the Australian Government's Financial Literacy Board, a member of the Australian Government's Takeovers Panel and is a member of the Forum of Young Global Leaders – World Economic Forum.

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

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2011 and attended by each Director.

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

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:

	2011	2010
	$	$
Other services – tax compliance	7,000	7,000
	7,000	**7,000**

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 24.

Remuneration Report (Audited)

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

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

Remuneration of Non-executive Directors

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

The Non-Independent Non-executive Directors are not remunerated by the Company. The Non-Independent Non-executive Directors are employees of, and remunerated by, the Investment Manager in accordance with the Investment Manager's remuneration policy.

Directors' fees

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

The Non-Independent Non-executive Directors' remuneration is determined by the Investment Manager. It comprises fixed compensation only and is unchanged from previous years. The amount of fixed compensation is not dependant on the satisfaction of a performance condition, or the performance of the Company, the Company's share price, or dividends paid by the Company. Similarly to previous years, no variable compensation amounts were paid to the Non-Independent Non-executive Directors by the Investment Manager.

Retirement benefits for Directors

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

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

Remuneration Report (Audited) (continued)

Remuneration of Non-executive Directors (continued)

Other benefits (including termination) and incentives

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

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

Remuneration of the Investment Manager

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

- a quarterly base 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; and

- 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
    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.

Under the terms of the IMA, the Independent Non-executive Directors' have the right to terminate the IMA under certain conditions, including where both of the Non-Independent Non-executive Directors (Chris Mackay and Hamish Douglass) cease to be Directors of the Investment Manager prior to 19 December 2016.

Remuneration Report (Audited) (continued)

Remuneration of Other Executives

The Other Executives are not remunerated by the Company. The Other Executives are employees of, and remunerated by, the Investment Manager in accordance with the Investment Manager's remuneration policy. The Other Executives receive fixed compensation which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed compensation is reviewed annually by the Investment Manager to ensure that it is competitive and reasonable. The amount of fixed compensation is not dependant on the satisfaction of a performance condition, or the performance of the Company, the Company's share price, or dividends paid by the Company. The Investment Manager determines the amount of discretionary variable compensation to be paid to the Other Executives having regard to the profitability of the Investment Manager's funds management business and in consideration of the individual performance and contribution of the Other Executives during the year. The amount of the variable compensation is not dependent on the satisfaction of a performance condition, or the performance of the Company, the Company's share price, or dividends paid by the Company.

The Other Executives are eligible to participate in a Share Purchase Plan (SPP) offered by the Investment Manager's parent entity, Magellan Financial Group Limited (MFG). Under the SPP, MFG provides financial assistance to SPP participants, including the Other Executives, by way of an interest free loan to invest in MFG shares. The issue price of MFG shares under the SPP is their fair market value on the offer date. The Other Executives' remuneration includes share based payment amounts that represent the cost to MFG of providing interest free loans under the SPP.

Details of Remuneration

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

	30 June 2011			30 June 2010		
Independent Non-executive Directors	**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	52,339	10,161	62,500	17,340	45,160	62,500
A Hogendijk	51,606	23,394	75,000	68,807	6,193	75,000
Total Independent Non-executive Directors remunerated by the Company	**181,927**	**40,573**	**222,500**	**164,129**	**58,371**	**222,500**

The Company paid base fees to the Investment Manager for the year ended 30 June 2011 of $3,279,549 (2010: $3,300,025), and performance fees of $nil (2010: $nil). Total amounts paid or payable by the Company to the Independent Non-executive Directors and the Investment Manager (Key Management Personnel) for the year ended 30 June 2011 was $3,502,049 (2010: $3,522,525).

Remuneration Report (Audited) (continued)

Details of Remuneration (continued)

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

2011

	Short term Benefits		Post-employment Benefits	Share based Payment	Total
	Salary	Cash Bonus	Superannuation	Under SPP(1)	
	$	$	$	$	$
Non-Independent Non-executive Directors					
C Mackay	234,801	-	15,199	-	250,000
H Douglass	234,801	-	15,199	-	250,000
Total Key Management Personnel remunerated by the Investment Manager	**469,602**	**-**	**30,398**	**-**	**500,000**
Other Executives					
N Campbell	234,801	125,000	15,199	9,318	384,318
L Quintana	155,963	30,000	14,037	4,692	204,692
Total Other Executives remunerated by the Investment Manager	**390,764**	**155,000**	**29,236**	**14,010**	**589,010**
Total remunerated by the Investment Manager	**860,366**	**155,000**	**59,634**	**14,010**	**1,089,010**

(1) Share based payments represent the cost of providing interest free loans to Other Executives under MFG's Share Purchase Plan

Remuneration Report (Audited) (continued)

Details of Remuneration (continued)

Comparative information for the year ended 30 June 2010 is as follows:

2010

	Short term Benefits		Post-employment Benefits	Share based Payment	Total
	Salary	Cash Bonus	Superannuation	Under SPP(1)	
	$	$	$	$	$
Non-Independent Non-executive Directors					
C Mackay	235,539	-	14,461	-	250,000
H Douglass	235,539	-	14,461	-	250,000
Total Key Management Personnel remunerated by the Investment Manager	**471,078**	**-**	**28,922**	**-**	**500,000**
Other Executives					
N Campbell	198,539	50,000	14,461	5,120	268,120
L Quintana	142,202	20,000	12,798	3,573	178,573
Total Other Executives remunerated by the Investment Manager	**340,741**	**70,000**	**27,259**	**8,693**	**446,693**
Total remunerated by the Investment Manager	**811,819**	**70,000**	**56,181**	**8,693**	**946,693**

(1) Share based payments represent the cost of providing interest free loans to Other Executives under MFG's Share Purchase Plan

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

Remuneration Report (Audited) (continued)

Service Agreements

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

Richard Warburton AO, Chairman and Independent Non-executive Director
- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 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 2011 of $62,500

Andy Hogendijk, Independent Non-executive Director and Chairman of the Audit and Risk Committee
- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the period ended 30 June 2011 of $75,000

Employment Agreements

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

Chris Mackay, Non-Independent Non-executive Director
- Commenced as Director on 29 September 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- No base salary or other compensation was received from the Company

- The Director is employed under a contract with the Investment Manager, with effect from 1 March 2008 and which will continue indefinitely until terminated. Under the terms of the contract the Director:

    - receives fixed remuneration structured as a total employment cost package of $250,000 per annum, inclusive of superannuation. It may be received as a combination of cash, non-cash benefits and superannuation contributions.
    - may receive a bonus at the discretion of the Board of the Investment Manager.

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

- has undertaken to the Investment Manager that for the period up to and including 1 July 2012 he will not, within Australia and New Zealand, invest in a business of funds management other than an investment in MFG, the Company, the Investment Manager and related entities, and any managed investment scheme in which the Investment Manager acts as responsible entity. The restrictions will cease to apply prior to 1 July 2012, if a third party acquires control of the Investment Manager, or the Investment Manager terminates the employment contract. The restrictions do not apply in respect of any investment in:

  (a) shares in a company; or
  (b) interests in a managed investment scheme; or
  (c) other interests in an entity,

  which represent less than 10% of the issued shares in that company, interests in that managed investment scheme or other interests in that other entity respectively.
- may terminate the contract at any time by giving not less than 3 months written notice to the Investment Manager and the Investment Manager may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.
- may have his contract terminated by the Investment Manager at any time without notice if serious misconduct has occurred. Where the contract is terminated for cause, the Investment Manager must pay any accrued but unpaid amounts to which the Director is entitled after setting off for misfeasance for any loss suffered by the Investment Manager from the acts which caused the termination.

Hamish Douglass, Non-Independent Non-executive Director

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

- The Director is employed under a contract with the Investment Manager with effect from 1 March 2008 and which will continue indefinitely until terminated. Under the terms of the contract the Director:

  - receives fixed remuneration structured as a total employment cost package of $250,000 per annum, inclusive of superannuation. It may be received as a combination of cash, non-cash benefits and superannuation contributions.
  - may receive a bonus, at the discretion of the Board of the Investment Manager.
  - has undertaken to the Investment Manager that for the period up to and including 1 July 2012 he will not, within Australia and New Zealand, invest in a business of funds management other than an investment in MFG, the Company, the Investment Manager and related entities, and any managed investment scheme in which the Investment Manager acts as responsible entity. The restrictions will cease to apply prior to 1 July 2012, if a third party acquires control of the Company or the Company terminates the employment contract. The restrictions do not apply in respect of any investment in:

    (a) shares in a company; or
    (b) interests in a managed investment scheme; or
    (c) other interests in an entity,

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

which represent less than 10% of the issued shares in that company, interests in that managed investment scheme or other interests in that other entity respectively.

- o may terminate the contract at any time by giving not less than 3 months written notice to the Investment Manager and the Investment Manager may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.
- o may have his contract terminated by the Investment Manager at any time without notice if serious misconduct has occurred. Where the contract is terminated for cause, the Investment Manager must pay any accrued but unpaid amounts to which the Director is entitled after setting off for misfeasance for any loss suffered by the Investment Manager from the acts which caused the termination.

- The Director also holds MFG Class B shares which have no entitlement to receive a dividend and which convert into MFG ordinary shares on the first business day after 21 November 2016 in accordance with a conversion formula. The Class B shares will convert into only one MFG ordinary share on the first business day after 21 November 2016 if, before 1 July 2012, he ceases to be a Director or employee of MFG or its subsidiary (other than through death or incapacity) or his employment has been terminated for cause.

Other Executives
The Other Executives have rolling contracts with the Investment Manager. The Investment Manager may terminate the Other Executives employment agreement by providing up to three months written notice. On termination, the Other Executives are required to repay any loan amounts outstanding in respect to shares acquired under MFG's Share Purchase Plan in accordance with the plan terms and conditions. There are no provisions for any termination payments other than for unpaid remuneration and accrued annual leave.

Directors' Interests in Contracts

No Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related entity other than as disclosed in this report.

Indemnification and Insurance of Directors and Officers

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.

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

R.J.E. Warburton.

Richard Warburton AO
Chairman
Sydney
11 August 2011

MAGELLAN FLAGSHIP FUND LIMITED
AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2011

ERNST & YOUNG

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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 2011, 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
11 August 2011

MAGELLAN FLAGSHIP FUND LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

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**'). To the extent they are relevant to the Company, the ASX Recommendations have been adopted by the Company. Where, after due consideration, the Company's corporate governance practices departs from an ASX Recommendation, this Corporate Governance Statement will set out d the reasons for the departure.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role and responsibilities of the Board

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

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

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

The principal responsibilities of the Board include:

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

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

Role and responsibilities of the Board (continued)

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

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

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

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

2. STRUCTURE THE BOARD TO ADD VALUE (continued)

Board Composition (continued)

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

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

The Company's Constitution provides that there must be a minimum of three and a maximum of ten Directors. Having regard to the to the size of the Company and the nature of its business, the Board on 15 December 2008 determined that a five member Board of non-executive Directors is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Company. However, the composition of the Board 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.

2. STRUCTURE THE BOARD TO ADD VALUE (continued)

Nominations and appointment of new Directors

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

Review of Board performance

Under the Company's Board Charter, the Board will conduct a review of its collective performance and the performance of its Directors every two years. This review will consider the Board's role; the processes of the Board and its Committees; the Board's performance; and each Director's performance before the Director stands for re-election. This review was last 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 has been lodged with the Australian Securities Exchange (ASX) 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:

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

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

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

Objectives and responsibilities of the Committee

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

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

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

The Committee will endeavour to:

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

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

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING (continued)

Independent external audit

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

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

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

5. MAKE TIMELY AND BALANCED DISCLOSURE

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

Continuous Disclosure Policy

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

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

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

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

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:

- the release of the Company's Half Year Results in February each year;
- the release of the Company's Full Year Results in August each year;
- the release of the Chairman's Letter to Shareholders each year;
- the release of Company's Annual Report in September each year;
- the release of the Chairman's and 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 by the Chairman and Chief Investment Officer 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.

7. RECOGNISE AND MANAGE RISK (continued)

Risk management responsibility (continued)

Risks assessed include:

- implementing strategies (strategic risk);
- operations or external events (operational and investment risk);
- legal and regulatory compliance (legal risk);
- changes in community expectation of corporate behaviour (reputation risk); and
- being unable to fund operations or convert assets into cash (liquidity risk).

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 Senior Management and its respective Committees; and
- compliance with the law, contractual obligations and internal policies (including the Corporate Code of Conduct) is communicated and demonstrated.

The Investment Manager has a Risk Management Statement 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 2011 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 contained within the Annual 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 the Company's Financial Statements.

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	30 June 2011 $ '000	30 June 2010 $ '000
Investment income			
Dividend income		6,605	6,886
Interest income		36	3
Net changes in fair value of investments		4,207	44,542
Net gains / (losses) on foreign currency borrowings		(1,580)	845
Net gains on foreign exchange		150	111
Total investment income		**9,418**	**52,387**
Expenses			
Management fees		3,280	3,300
Finance costs – interest expense		4,295	2,580
Directors' fees		222	222
Auditor's remuneration		43	40
Transaction costs		37	22
Registry fees		47	48
Fund administration fees		52	51
ASX listing, clearing and settlement fees		45	46
Legal and professional fees		7	7
Other expenses		57	55
Total operating expenses		**8,085**	**6,371**
Profit before income tax		**1,333**	**46,016**
Income tax (expense)	2(a)	(1,353)	(14,918)
Net profit / (loss) after income tax		**(20)**	**31,098**
Other comprehensive income		-	-
Total comprehensive income / (loss) for the period		**(20)**	**31,098**
Basic earnings / (loss) per share (cents per share)	6	**(0.01)**	**8.74**
Diluted earnings / (loss) per share (cents per share)	6	**(0.01)**	**8.74**

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 2011

	Note	30 June 2011 $ '000	30 June 2010 $ '000
Current assets			
Cash and cash equivalents	7(a)	43	67
Investments at market value	3	327,287	334,761
Receivables	4	893	4,292
Prepayments		12	12
Total current assets		**328,235**	**339,132**
Non-current assets			
Deferred tax assets	2(d)	28,453	28,852
Total non-current assets		**28,453**	**28,852**
Total assets		**356,688**	**367,984**
Current liabilities			
Net interest bearing borrowings	7(b)	61,535	69,977
Payables	5	858	868
Total current liabilities		**62,393**	**70,845**
Total liabilities		**62,393**	**70,845**
Net assets		**294,295**	**297,139**
Equity			
Contributed equity	8	357,089	359,913
Accumulated loss		(62,794)	(62,774)
Total equity		**294,295**	**297,139**

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 2011

	Note	30 June 2011 $ ’000	30 June 2010 $ ’000
Contributed equity			
Balance at beginning of year		359,913	366,822
Shares acquired under buy-back		(2,822)	(6,899)
Transaction costs on share buy-back		(3)	(14)
Transaction costs on share buy-back – tax effect	2(c)	1	4
Balance at end of year		**357,089**	**359,913**
Accumulated loss			
Balance at beginning of year		(62,774)	(93,872)
Total comprehensive income / (loss) for the year		(20)	31,098
Balance at end of year		**(62,794)**	**(62,774)**
Total equity		**294,295**	**297,139**

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 2011

	Note	30 June 2011 $ '000	30 June 2010 $ '000
Cash flows from operating activities			
Dividends received	7(c)	5,837	5,577
Interest received		36	3
Payments for purchase of investments		(58,860)	(36,935)
Proceeds from sale of investments		73,731	20,766
Net foreign exchange gains		150	111
Management fees paid		(3,287)	(3,180)
Other expenses paid		(490)	(575)
Net cash inflow / (outflow) from operating activities	7(d)	**17,117**	**(14,233)**
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		(10,021)	23,778
Interest paid		(4,295)	(2,581)
Payment for shares under buy-back		(2,822)	(6,937)
Payment of share buy-back costs		(3)	(14)
Net cash (outflow) / inflow from financing activities		**(17,141)**	**14,246**
Net increase/(decrease) in cash and cash equivalents		(24)	13
Cash and cash equivalents at the beginning of the year		67	54
Cash and cash equivalents at the end of the year	7(a)	**43**	**67**

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 2011 was authorised for issue in accordance with a resolution of the Directors on 11 August 2011.

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 based 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 Statement of Financial Position 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

The Company's investments are all measured at fair value through profit or loss in accordance with AASB 9: *Financial Instruments*. All its investments are listed equities, and their fair value is determined from the amount quoted on the primary exchange of the country of domicile. Changes in the fair value of investments are recognised in the Statement of Comprehensive Income.

Transaction costs directly attributable to the acquisition of investments are expensed in the Statement of Comprehensive Income as incurred.

(e) 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 Statement of Financial Position date.

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

(f) 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 measured at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

1. Summary of Significant Accounting Policies (continued)

(g) 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.

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

(i) 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.

(j) 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.

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

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

(m) 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) New Standards Adopted

The Company has elected to early adopt on 1 July 2010 AASB 9: *Financial Instruments* and AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9*.

Adoption of this standard has not affected any of the amounts recognised in the financial statements. Further, no prior year amounts have been restated since the standard did not affect any amounts recognised in any prior year financial statements.

(ii) New Standards Not Yet Adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Company in the preparation of this financial report. The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application:

a) Amendments to AASB 2010-4: *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual reporting periods beginning on or after 1 January 2011).

   - In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Company does not expect that any adjustments will be necessary as the result of applying the revised rules.

b) Revised AASB 124: *Related Party Disclosures*

   - AASB 124 is applicable to annual reporting years beginning on or after 1 January 2011. 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.

c) IFRS 13: *Fair Value Measurement*

   - IFRS 13 is applicable to annual reporting periods beginning on or after 1 January 2013. The Company has not yet evaluated the effect on the Company's financial statements.

2. Income Tax

	30 June 2011 $ '000	30 June 2010 $ '000
(a) The income tax (expense) 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	1,333	46,016
Prima facie income tax (expense) / benefit on the operating profit / (loss) at 30%	(400)	(13,805)
Tax effect of franked dividends received	-	2
Write-off of deferred income tax benefit on foreign tax paid [1]	(953)	(954)
Over / (under) provision of prior year tax	-	(161)
	(1,353)	**(14,918)**
(b) The major components of income tax (expense) are:		
Current income tax benefit / (expense)	1,187	(12)
Deferred income tax benefit / (expense)		
– origination and reversal of temporary differences	(1,587)	(13,791)
– write-off of deferred income tax benefit on foreign tax paid	(953)	(954)
Over / (under) provision of prior year tax	-	(161)
	(1,353)	**(14,918)**
(c) Income tax (expense) charged directly to equity:		
Costs associated with the issue / buy-back of shares	(1)	(4)
	(1)	**(4)**
(d) Deferred tax assets relate to the following:		
Tax losses carried forward	3,195	2,007
Capital losses carried forward	14,169	11,609
Costs associated with the issue / buy-back of shares	5	385
Unrealised loss on investments	10,081	13,911
Allowable tax credits	1,120	1,120
Other temporary differences	(117)	(180)
	28,453	**28,852**

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] From 1 July 2008 changes to the foreign tax credit regime have resulted in foreign tax withheld on foreign dividends being off-set only 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 were written off during the financial year.

3. Investments at Market Value

	Domicile of Principal Exchange Listing	30 June 2011 $ '000	30 June 2010 $ '000
American Express *	United States	66,023	64,209
Yum! Brands *	United States	43,409	38,177
Nestle *	Switzerland	35,722	38,071
eBay *	United States	32,668	25,171
Coca-Cola *	United States	23,808	18,749
Google *	United States	19,399	14,168
China Mobile Limited	Hong Kong	18,276	-
McDonalds *	United States	16,894	16,731
Wells Fargo and Co	United States	15,804	11,502
Visa Inc *	United States	11,638	5,226
Procter & Gamble *	United States	10,004	12,652
US Bancorp	United States	8,703	4,513
WalMart Stores *	United States	6,107	28,437
Colgate-Palmolive Co *	United States	4,725	7,376
Bank of America	United States	4,589	6,353
Tesco *	United Kingdom	2,668	8,715
MasterCard Inc*	United States	2,447	732
Lowe's	United States	2,408	4,524
ConnectEast Group	Australia	1,516	1,665
Macquarie Atlas Roads *	Australia	209	960
Total top 20 holdings		**327,017**	**307,931**
Other companies		270	26,830
		327,287	**334,761**

* 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 categorised under 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 measured 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 are 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 2011 $	30 June 2010 $
US Dollar	1.0706	0.8446
Euro	0.7384	0.6896
British Pound	0.6669	0.5646
Swiss Franc	0.9014	0.9108
Hong Kong Dollar	8.3306	6.5774
Singapore Dollar	1.3143	1.1792

4. Receivables

	30 June 2011 $ '000	30 June 2010 $ '000
Dividends receivable	404	641
Foreign tax recoverable	285	258
Settlements receivable – shares sold	135	3,302
Goods and Service Tax (GST)	69	91
	893	**4,292**

Denomination of current receivables by geographic location:		
Australian Dollars	97	877
US Dollars	512	1,635
Euro	8	6
Swiss Francs	276	1,567
British Pounds	-	207
	893	4,292

5. Payables

	30 June 2011 $ '000	30 June 2010 $ '000
Accrued expenses	834	842
Trade payables	24	26
	858	**868**

Denomination of current payables by geographic location:		
Australian Dollars	858	868
	858	868

6. Earnings Per Share

	30 June 2011	30 June 2010
Basic earnings / (loss) per share (cents)	(0.01)	8.74
Diluted earnings / (loss) per share (cents)	(0.01)	8.74
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	349,601,834	355,844,218
Net profit / (loss) after income tax used in the calculation of basic and diluted earnings per share ($'000)	**(20)**	**31,098**

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 2011 $ '000	30 June 2010 $ '000
Cash – cash denominated in Australian Dollars	43	67
	43	**67**

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

(b) Current liabilities – Net interest bearing borrowings

	30 June 2011 $ '000	30 June 2010 $ '000
Borrowings – denominated in Australian Dollars	(84,495)	(65,092)
Borrowings – denominated in US Dollars	7,708	(4,496)
Borrowings – denominated in Euros	(389)	(41)
Borrowings – denominated in British Pounds	657	(144)
Borrowings – denominated in Swiss Francs	6,153	(204)
Borrowings – denominated in Hong Kong Dollars	1,908	-
Borrowings – denominated in Singapore Dollars	6,923	-
	(61,535)	**(69,977)**

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 2011 $ '000	30 June 2010 $ '000
Net profit / (loss) after income tax	(20)	31,098
Foreign exchange gain / (loss) on repayment of borrowings and from transacting in foreign currencies	1,580	(845)
Interest expense	4,295	2,580
Decrease/(increase) in investments at market value	7,475	(57,499)
Decrease/(increase) in dividends receivable	237	(28)
Decrease/(increase) in foreign tax recoverable	(28)	(239)
Decrease/(increase) in GST receivables	22	(38)
(Increase)/decrease in prepayments	-	2
Decrease/(increase) in unsettled trades receivable	3,167	(3,302)
(Decrease)/increase in management fee payable	(8)	120
Increase/(decrease) in trade payables and accrued expenses	(2)	(43)
(Increase)/decrease in deferred tax	399	13,961
Net cash inflow/(outflow) from operating activities	**17,117**	**(14,233)**

Non-cash financing and investing activities:

Acquisition of financial assets via dividend and distribution / reinvestment plans	-	106

8. Contributed equity

	30 June 2011 $ '000	30 June 2010 $ '000
Balance at beginning of the year	359,913	366,822
Shares cancelled under share buy-back	(2,824)	(6,909)
Balance at end of the year	**357,089**	**359,913**

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

At 30 June 2011 349,348,689 ordinary shares were on issue (2010: 353,826,037). 4,477,348 (2010: 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 2011	30 June 2010
Reconciliation of Net Asset Value to the ASX		
Net Asset Value per Statement of Financial Position $'000	294,293	297,139
Divided by:		
Number of shares on issue	349,348,689	353,826,037
Net Asset Value – cents per share	**84**	**84**
Net Asset Value – cents per share ASX announcement 4 July 2011	**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 2011.

(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 Statement of Comprehensive Income 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 (MSCI and S&P 500) has varied between +18% and -26% (in AUD) and +31% and -26% (in USD). Performance of markets is not always a reliable guide to future performance, and the Company's investment portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably be expected within the portfolio over the next twelve months. The impact of equity price movements, expressed in percentage terms, on the net profit reported by the Company, is linear. Each 5% incremental increase in the market prices of the Company's portfolio compared to 30 June 2011 would increase the total equity and net profit by $11,455,000 (2010: $11,717,000) and each 5% incremental decrease would have an equal and opposite impact.

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 2011 the Company had cash and borrowings with interest rate exposures as follows:

	Interest rate Cash/ (Borrowings) %	30 June 2011 $ '000	Interest rate Cash/ (Borrowings) %	30 June 2010 $ '000
Australian Dollars	4.70	42	4.45	67
Australian Dollars	(5.61)	(84,495)	(5.42)	(65,092)
US Dollars	0.16	7,708	(1.03)	(4,496)
Euros	(1.91)	(389)	(1.12)	(41)
British Pounds	0.60	657	(1.25)	(144)
Swiss Francs	0.10	6,153	(0.74)	(204)
Hong Kong Dollars	0.20	1,908	*	*
Singapore Dollars	0.18	6,923	*	*
		(61,493)		(69,910)

* No cash/ (borrowings) were held in this currency

As at 30 June 2011, 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 $615,000 (2010: $700,000). A 100 basis point decline in interest rates 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.

10. Risk Management (continued)

Currency Risk (continued)

At 30 June 2011 the Company held net monetary assets denominated in foreign currencies (2010: net monetary liabilities denominated in foreign currencies). 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 total equity and net profit would have been as follows:

30 June 2011			**30 June 2010**		
Australian dollar strengthens against:	by:	Net increase / (decrease) in net profit	Australian dollar strengthens against:	by:	Net increase / (decrease) in net profit
		A$'000			A$'000
US Dollars	10%	(539)	US Dollars	10%	315
Euros	10%	27	Euros	10%	14
British Pounds	10%	(46)	British Pounds	10%	10
Swiss Francs	10%	(431)	Swiss Francs	10%	3
Hong Kong Dollars	10%	(133)	Hong Kong Dollars	10%	*
Singapore Dollars	10%	(485)	Singapore Dollars	10%	*
		(1,607)			**342**

* No monetary assets or liabilities were held in this currency

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

In addition 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 the Australian dollar 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 foreign currencies.

At 30 June 2011, had the Australian dollar strengthened by 10% against its foreign currency exposure to other assets and liabilities with all other variables held constant, total equity and net profit would have decreased by $22,845,000 (2010: $23,329,000). 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 Statement of Financial Position date is as follows:

All amounts stated in AUD equivalents	**30 June 2011 $ '000**	**30 June 2010 $ '000**
Assets at fair value		
US Dollars	269,294	281,449
Euros	122	4,487
British Pounds	2,668	8,921
Swiss Francs	35,999	39,637
Hong Kong Dollars	18,275	-
	326,358	334,494
Liabilities at fair value*		
US Dollars	(7,708)	4,496
Euros	389	41
British Pounds	(657)	144
Swiss Francs	(6,153)	204
Hong Kong Dollars	(1,908)	-
Singapore Dollars	(6,923)	-
	(22,960)	4,885

* 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 Statement of Financial Position:

Assets - exposed to foreign currencies	326,358	334,494
Assets - not exposed to foreign currencies	30,330	33,490
Assets - as per Statement of Financial Position	356,688	367,984
Liabilities - exposed to foreign currencies	(22,960)	4,885
Liabilities - not exposed to foreign currencies	85,353	65,960
Liabilities - as per Statement of Financial Position	62,393	70,845
Net assets - exposed to foreign currencies	349,318	329,609
Net assets - not exposed to foreign currencies	(55,023)	(32,470)
Net assets - as per Statement of Financial Position	294,295	297,139

10. Risk Management (continued)

(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 2011 borrowings repayable on demand were $61,535,000 (2010: $69,977,000), and amounts payable within 28 days relating to other payables were $858,000 (2010: $868,000).

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 listed on major securities exchanges and are highly liquid. As at 30 June 2011 the market value of the Company's investments is $327,287,000 (2010: $334,761,000) and the value of these investments exceeds the liabilities of the Company.

(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 financial assets and liabilities as they are marked to market. The total credit risk is therefore limited to the amount carried on the Statement of Financial Position.

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. Each of the Company's investments held by MLI may be used by MLI for its own purposes or the purposes of any third party up to an agreed limit, whereupon such investments will become the property of MLI and the Company will have a right against MLI for the return of equivalent assets. 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 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.

During the period the Company amended the IPBA arrangements to include access to a separate custody facility. Under this new arrangement the Company may, at its sole election and at a time of its own choosing, cause the transfer of the Company's unencumbered securities from MLI to a separate custodian, Prime Asset Custody Transfers Limited (PACT). PACT forms part of the Bank of America Merrill Lynch Group of Companies.

10. Risk Management (continued)

(c) Credit Risk (continued)

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

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2011, 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 base 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

(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 2011 $	30 June 2010 $
Base fee	3,279,549	3,300,025
Performance fee	-	-
	3,279,549	**3,300,025**

The following amounts were payable to the Investment Manager at the end of the financial year:

	30 June 2011 $	30 June 2010 $
Base fee	**834,084**	**841,754**

12. Contingent Assets, Liabilities and Commitments for Expenditure

No contingent assets or liabilities exist at balance 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 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 each 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 2011 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.

As at 30 June 2011 the borrowing facility, repayable on demand, was $61.5 million (30 June 2010: $70.0 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 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, and as at 10 August 2011 has acquired approximately 9.3 million shares under this buy-back programme at an average price of approximately $0.61.

The Company's capital consists of its shareholder's 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.

Equity is disclosed in the Statement of Financial Position and a further breakdown in the change in contributed equity is set out in Note 8.

16. Events Subsequent to Reporting Date

Since 30 June 2011 and up to the date of the Director's Report the Company purchased 630,330 shares for consideration of $394,316 under the buy-back programme of up to 20 million shares, announced on 26 August 2009.

No significant events have occurred since the end of the reporting year which would impact the Statement of Financial Position of the Company as at 30 June 2011 and the results for the year ended on that date.

17. Transactions with Related Parties

(a) Investment Manager

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

The parent company of the Investment Manager, Magellan Financial Group Limited (MFG), owns 48,874,521 shares or 13.99% of the Company's shares at 30 June 2011 (2010: 44,727,166 shares or 12.57%).

17. Transactions with Related Parties (continued)

(b) Disclosures relating to Key Management Personnel

Share Holdings

The number of ordinary shares held in the Company at 30 June 2011:

Name	Balance at 1 July 2010	Acquisitions	Disposals	Balance at 30 June 2011
Directors				
Richard Warburton	650,000	-	-	650,000
John Ballard	1,100,000	-	-	1,100,000
Andy Hogendijk	125,000	100,000	-	225,000
Chris Mackay*	18,953,299	100,000	-	19,053,299
Hamish Douglass *	750,000	-	-	750,000

* Mr. Mackay and Mr. Douglass are also respectively the Chairman and Managing Director of MFG.

The Investment Manager does not directly or indirectly own shares in the Company. Its parent company MFG held 48,874,521 ordinary shares in the Company at 30 June 2011 (2010: 44,727,166 shares).

Remuneration

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

The Independent Non-executive Directors of the Company and the Investment Manager received the following amounts from the Company during the year:

	2011 $	2010 $
Short term Benefits		
- Salary	181,927	164,129
Post-employment Benefits		
- Superannuation	40,573	58,371
Base fees	3,279,549	3,300,025
Total paid to the Key Management Personnel by the Company	**3,502,049**	**3,522,525**

17. Transactions with Related Parties (continued)

(b) Disclosures relating to Key Management Personnel (continued)

The Non-Independent Non-executive Directors of the Company received the following amounts from the Investment Manager during the year:

	2011 $	2010 $
Short term Benefits		
- Salary	469,602	471,078
Post-employment Benefits		
- Superannuation	30,398	28,922
Total paid to the Key Management Personnel by the Investment Manager	**500,000**	**500,000**

18. Auditors' Remuneration

The auditor of the Company is Ernst & Young.

	30 June 2011 $	30 June 2010 $
Audit and review of the financial reports	44,000	44,000
Other services – tax compliance	7,000	7,000
	51,000	**51,000**

19. Franking Credit Balance

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

	30 June 2011 $	30 June 2010 $
Franking account balance as at the end of the financial year at 30% (2010: 30%)	388,277	388,277

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 2011

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 2011 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 2011.

On behalf of the Board

Richard F E Warburton AO (Chairman)
Magellan Flagship Fund Limited
Sydney
11 August 2011

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 2011, 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 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 1(a), 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. 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 attached to 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 2011 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 16 to 23 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
11 August 2011

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
As at 3 August 2011

Distribution of Shareholders

The distribution of shareholders of the Company as at 3 August 2011 is presented below:

Distribution Schedule of Holdings	Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	91	66,993	0.02
1,001-5,000	332	1,127,889	0.32
5,001-10,000	739	6,363,796	1.82
10,001-100,000	2,528	94,843,152	27.15
100,001 and over	383	246,924,341	70.69
Total	**4,073**	**349,326,171**	**100.00**
Number of holders with less than a marketable parcel	9	157	0.00

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 3 August 2011 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Magellan Financial Group Limited	48,874,521	13.99
Cogent Nominees Pty Limited	23,680,926	6.78
UBS Wealth Management Australia Nominees Pty Ltd	20,922,777	5.99
Chris Mackay	10,550,506	3.02
Forsyth Barr Custodians Ltd	7,837,411	2.24
Naumov Pty Ltd	7,697,293	2.20
Mutual Trust Pty Ltd	3,904,756	1.12
Citicorp Nominees Pty Limited	3,819,730	1.09
National Nominees Limited	3,590,149	1.03
Perpetual Trustees Consolidated Limited	3,441,060	0.99
Bond Street Custodians Limited <Officium Global Fund A/C>	3,324,171	0.95
HSBC Custody Nominees (Australia) Limited	2,853,503	0.82
Wulura Investments Pty Ltd	2,000,000	0.57
Pokana Pty Ltd	1,844,000	0.53
Investment Custodial Services Limited	1,566,000	0.45
Bond Street Custodians Limited <MCGOL - CP0114 A/C>	1,300,000	0.37
Favermead Pty Ltd	1,300,000	0.37
Perri Cutten Superannuation Nominees P/L	1,250,000	0.36
Turnbull & Partners Pty Limited	1,156,000	0.33
Bond Street Custodians Limited <MCGOL - DR0020 A/C>	1,150,000	0.33
Total shares held by the twenty largest shareholders	152,062,803	43.53
Total shares in issue	**349,326,171**	

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
As at 3 August 2011

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders as at 3 August 2011 are listed below:

Shareholder	Number of Ordinary Shares
Magellan Financial Group Limited(1)	48,874,521
Christopher Mackay and Associates(2)	19,053,299

(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 Changes 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
Andy Hogendijk
Chris Mackay
Hamish Douglass

Company Secretaries
Leo Quintana
Nerida Campbell

Registered Office
Level 7, 1 Castlereagh Street
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Fax: +61 2 8114 1800

Investment Manager
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Email: info@magellangroup.com.au
Fax: +61 2 8114 1800

Auditors
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Sydney NSW 2000

Share Registry
Boardroom Pty Limited
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Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Securities Exchange Listing
Australian Securities Exchange (ASX)
ASX code: MFF

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

MFG MAGELLAN
FLAGSHIP FUND LIMITED