2016

MAGELLAN FLAGSHIP FUND LIMITED

[ANNUAL FINANCIAL REPORT]

FOR THE FULL YEAR ENDED – 30 JUNE 2016

Contents

MAGELLAN FLAGSHIP FUND LIMITED
CHAIRMAN'S LETTER
for the year ended 30 June 2016

I am pleased to write to you in the 2015/16 Annual Report for Magellan Flagship Fund Limited ("MFF"). Please also take the time to read the financial statements and our Portfolio Manager's Report which follow.

<u>Financial Results</u>
MFF recorded a net loss after tax of $9.9 million for the year ended 30 June 2016 (compared with a net profit after tax of $187.1 million for the previous year). The 2015/16 result represents a decline of approximately 1.25% based on our net assets. MFF uses "mark to market" accounting for both investments and foreign exchange. Our net profit/loss principally reflect negative marks to market on some of our investments exceeding the positive marks to market, and the modest benefits from currency movements were far smaller than in the previous year. Operating expenses were comparable year on year.

MFF's profit or loss starts each new financial year at zero, based off the market values at the end of the previous financial year. Hence significant fluctuations in reported year to year results are inevitable. The short term fluctuations in the portfolio from the financial year end to the latest weekly NTA release have largely been positive, and the 2015/16 mark to market falls reversed (refer note 16 Events Subsequent to Reporting Date, in the accounts for further details).

Please refer to the Portfolio Manager's report for discussions about the portfolio, including some current risks and potential areas of focus for opportunities. In these accounts and in our other shareholder communications, we provide shareholders with very high levels of transparency about MFF, our portfolio, decisions made, prospects and risks in addition to detailed statutory information. We continue to caution against elevated investor expectations. Risks associated with the sustained low interest rates and higher asset prices continue.

MFF's balance sheet remains strong. As at 30 June 2016 the $786.4 million Total Equity comprised Retained Profits of $259.9 million and Contributed Equity of $526.5 million. Investments were $1,004.4 million and Borrowings $107.9 million. MFF continues to have significant aggregate unrealised market gains compared with the costs of our investments.

If MFF's analysis is successful, market fluctuations should continue to benefit MFF over the medium to longer term. However, negative mark to market positions are inevitable.

Portfolio turnover was again low (an outcome not a target), with sales in the year representing approximately 1.5% of the portfolio value. MFF pays tax at the corporate level and the low portfolio turnover meant that the level of current tax incurred was approximately $0.01 per share.

<u>MFF's Portfolio</u>
During the year MFF continued to be substantially invested and finished the year with a net borrowings position of approximately 10.7% of investment assets (compared with a net cash position of approximately 6.3% of investment assets as at 30 June 2015). Finance expenses were about 30% lower than in the previous year and represented approximately 0.14% of year end investment assets (reflecting lower interest rates and lower average borrowings).

MFF added a small number of new positions in the year, with the largest being CVS Health, and tended to be a buyer during market pull backs in the year.

The portfolio continues to include a significant weighting to leading financial institutions. These include credit providing institutions such as Wells Fargo, the fifth largest holding (down from second largest), and transaction processors (which are not lenders), such as Visa, again the largest holding. The credit providing institutions were the largest negatives for market value movements for the year.

Your Board continues to be updated regularly by the Portfolio Manager on his assessment of the risks and potential upside for the holdings, and potential holdings. We remain pleased with the composition of the portfolio, although there can be no guarantees that these (or any other) holdings will provide investment outperformance or even positive performance

MFF also maintained its effective "short AUD" position through 2015/16. MFF continues to favour the partial potential risk mitigation aspects that this provides for the investment portfolio, as well as being favoured on the Portfolio Manager's view of the medium term fundamentals. Of course, potential currency benefits and risk mitigation aspects are far lower at 30 June 2016 rates of approximately .745 for the AUD/USD compared with the more favourable potential risk/reward trade-offs when rates were above 1.00, in recent years. The Portfolio Manager's Report also discusses MFF's currency positions.

Dividends

The Directors have declared a fully franked dividend of 1 cent per share, to be paid in November 2016. The Directors' continued preference is for a regular six monthly dividend at 1 cent per share, subject to corporate, legal and regulatory considerations, with continued operation of the Dividend Reinvestment Plan (at zero discount). Although we note and respect the desire of some shareholders for higher dividends, we also note that MFF's retained funds continue to be put to good use with strong medium term returns. MFF remains small compared with both its cost base and investment universe, and shareholders who need or want higher levels of immediate income from their MFF holdings, in the context of their overall portfolios, have ready markets in both the MFF options and shares.

MFF does not incur current year tax in relation to unrealised gains, and the portfolio is focused upon holdings which appear to have potential for further appreciation over the medium term and beyond. As at 30 June 2016 the deferred tax liability was $108.4 million compared with a current tax credit of $1.5 million and available franking imputation credits of approximately $3.8 million. Approximately $2.1 million was deducted by overseas jurisdictions from dividend payments received (and this amount does not earn Australian franking imputation credit benefits).

Capital Structure

A bonus issue of options was undertaken in October 2012 on a 1:3 basis to shareholders and the bonus options are quoted on the ASX (Code: MFFO). The adjusted exercise price of the options is $0.9964 and the expiry date is 31 October 2017. A liquid market continues to be available to holders. As at 30 June 2016 approximately 75.6 million options were unexercised.

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

MFF's capital structure has an advantage that in times of stress, MFF is not forced to sell investments to meet redemption requests. However, MFF has not had the very material benefits of steady inflows in the generally rising markets. Over the years, MFF has had to sell existing investments to fund new investments. MFF's opportunity cost is high when selling high quality existing investments thereby incurring tax on accrued gains, in order to buy replacement investments.

The Portfolio Manager maintains a search for sensible investments which might provide MFF with a meaningful flow of income, but market prices are unfavourable compared with the benefits of MFF's portfolio, including its liquidity aspects.

Service Arrangements

The key operating subsidiary of Magellan Financial Group (ASX MFG) was originally the manager of MFF and since 2013 has provided research and other services as MFF's key service provider. Your Board has agreed to extend the arrangements (subject to 6 months' notice by either side) on financial terms including a fixed fee arrangement for 3 years from 31 December 2016, comprising base fees of $4 million per annum and possible performance fees of $1 million per annum. Please see note 13 for additional details.

As part of the revised arrangements, MFF Directors will put a resolution to the shareholders to change the name of MFF at this year's Annual General Meeting.

<u>On-market Share Buy-back</u>
MFF did not acquire any further shares pursuant to the on-market buy-back during 2015/16 but the on-market buyback authorisation remains operative.

<u>Annual General Meeting</u>
My fellow Directors and I look forward to meeting those of you who can attend the Annual General Meeting on 27 October 2016. We welcome your input and feedback on MFF. The Notice of Annual General Meeting will be despatched to shareholders in the coming weeks.

Yours faithfully,

Richard F E Warburton AO
Chairman
29 July 2016

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' REPORT
for the year ended 30 June 2016

The Directors of Magellan Flagship Fund Limited (MFF or the "Company") submit their report in respect of the year ended 30 June 2016.

1. Operations and Activities

1.1 Company Overview
The Company is a listed public company incorporated in Australia. Its principal place of business is Level 36, 19 Martin Place, Sydney, New South Wales, 2000.

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

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

1.3 Dividends
During the year, dividends amounting to $9,284,000 were paid representing 2.0 cents per ordinary share, fully franked (June 2015: $7,330,000 representing 2.0 cents per ordinary share, unfranked).

On 29 July 2016, the Directors declared a final fully franked dividend of 1.0 cent per ordinary share, (June 2015: fully franked final dividend of 1.0 cent per ordinary share), which is expected to be paid on 11 November 2016. The amount of the proposed dividend, based on the number of shares on issue at 30 June 2016, is $4,670,000. The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied for the DRP.

On 30 June 2016, the Company's total available imputation credits (based on a tax rate of 30%) were $3,785,000 (June 2015: $1,294,000).

The Directors have maintained the Company's current dividend policy, which is for regular six monthly dividends at 1 cent per ordinary share. The Directors consider that the current dividend policy is appropriate. It balances the requests of some shareholders who prefer regular dividend payments against the strong returns MFF has obtained on retained capital, MFF's need for scale to attempt to offset partially the cost base, as well as the tax inefficiency of dividend payments. The Board also note that there continue to be liquid markets in ordinary shares and MFF 2017 options for shareholders who might need additional cash in excess of the dividends.

1.4 Review of Financial Results and Operations
- **Financial Results for the Year**

The Company recorded a pre-tax loss of $14,077,000 (June 2015: pre-tax profit $267,249,000) and a net loss for the year after income tax of $9,855,000 (June 2015: after tax profit $187,081,000).

The Company's net assets decreased by $9,882,000 in the year (June 2015: increase $331,718,000) which was primarily due to market price movements for the Company's investment portfolio. This has resulted in a lower pre-tax net tangible assets (NTA) of $1.913 per ordinary share (before net tax liabilities of $0.229) as at 30 June 2016 compared with $1.998 per ordinary share (before net tax liabilities of $0.261) as at 30 June 2015. The Company also reported a lower post-tax NTA of $1.684 per ordinary share as at 30 June 2016 compared with $1.737 per ordinary share as at 30 June 2015. If all of the MFF 2017 Options had been exercised at 30 June 2016, the Pre-tax and Post-tax NTA values would have been reduced by 12.8 and 9.6 cents per share to $1.785 and $1.588 per ordinary share respectively as at that date.

As a result of the material deferred tax liability balance, the Company has the benefit of significantly larger investment assets than if all deferred tax liabilities were paid in cash each year.

1.4 Review of Results and Operations (continued)

As markets will always be subject to fluctuations, the investment performance and results of the past year to 30 June 2016 should not be considered to be representative of results and returns in future financial periods.

- **Operations – Portfolio and Activities**

The Company's financial results, investment returns, portfolio composition and changes during the year are summarised in the Portfolio Manager's Report and detailed in the financial statements. Various risks, including some economic, political and market risks are also noted.

- **Strategy and Future Outlook**

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

It is also not meaningful or prudent to forecast the level of franking credits that may arise from income tax that might become payable from net realised gains from the Company's investment portfolio particularly given there are non-controllable variables involved such as future currency and equity movements, as well as foreign tax withholding for most overseas jurisdictions. As at 30 June 2016, MFF's tax provisions comprised a deferred income tax liability of $108,379,000 and current income tax benefit of $1,549,000 in respect of the current financial year.

The Company provides regular updates in the weekly and monthly NTA announcements, which can be found in the ASX announcements and in the investor centre section of the MFF website, www.magellangroup.com.au/mff. Releases to shareholders and the ASX have included discussions in relation to MFF's investment processes and some investee companies from time to time. The Company sets out its largest portfolio holdings at 30 June 2016 in the Portfolio Manager's Report (this information was also released to the ASX on 1 July 2016 as part of the June 2016 monthly NTA release).

1.5 Likely Developments and Expected Results of Operations

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

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

1.6 Significant Changes in State of Affairs

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

1.7 Events Subsequent to the End of the Financial Year

In the latest release to the ASX on 25 July 2016, the Company reported a NTA as at 22 July 2016, as follows:

	22 July 2016 $	30 June 2016 (A) $
Pre-tax NTA	2.024	1.913
Net tax liabilities	0.262	0.229
Post-tax NTA	1.762	1.684

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

	22 July 2016	30 June 2016 (A)
Pre tax NTA if all of the MFF 2017 options had been exercised	$ 1.881	$ 1.785
Post tax NTA if all of the MFF 2017 options had been exercised	$ 1.656	$ 1.588

(A) Audited NTA (refer note 17)

Other than the above, and the proposed final dividend detailed at section 1.3, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

1.8 Unissued Shares under Option

On 17 October 2012 the Company issued 114,516,157 listed MFF 2017 options to shareholders on the basis of 1 listed MFF 2017 option for every 3 ordinary shares held on 10 October 2012 for nil consideration. As at the date of this report, there were 75,610,110 MFF 2017 options on issue, with 38,906,047 MFF 2017 options exercised to date. MFF 2017 options expire on 31 October 2017. Refer to note 8(d)(ii) for further details on the options and section 3.6 in the Remuneration Report for the options issued to the Directors of the Company.

No option holder has any right, by virtue of the option, to participate in any share issue or interest issue of the Company.

2. Directors and Secretaries

2.1 Directors

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

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

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

2.2 Secretary

The Company Secretary during the year and up to the date of this report was Geoffrey Stirton.

There are no other officers of the Company.

2.3 Information on Directors and Secretary

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

Richard Warburton AO

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

Richard Warburton is one of Australia's most prominent company directors. Prior to becoming a professional director, he was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand where he was responsible for DuPont's petro-chemical business operations in Australia and New Zealand.

Richard was previously Director and Chairman of Westfield Retail Trust and Tandou Limited, Chairman of David Jones Limited, Aurion Gold Limited, Caltex Australia Limited, Citigroup Pty Limited and The Board of Taxation, and a Director of Scentre Group Limited, Tabcorp Holdings Limited, Southcorp Limited, Nufarm Limited and the Reserve Bank of Australia. He is a Fellow (and former National President) of the Australian Institute of Company Directors.

Listed company directorships held during the past three financial years:

- Westfield Retail Trust (from December 2010 to 30 June 2015)
- Scentre Group Limited (from 30 June 2014 to 5 May 2016)

John Ballard

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

John Ballard has extensive senior executive experience across a wide range of industries. He was previously Chairman of Elders Limited, Managing Director and Chief Executive Officer of Southcorp Limited, Managing Director Asia Pacific at United Biscuits Limited and Managing Director Snack Foods for Coca-Cola Amatil Limited, a Director of Woolworths Limited and Email Limited, Chairman of Wattyl Limited, a Director of CSR Limited and subsequently Rinker Limited, a former Director of Fonterra Co-operative Group Limited and a Trustee of the Sydney Opera House Trust.

John is currently a director of International Ferro Metals Limited, Chairman of the Advisory Boards at Pacific Equity Partners and a Director of the Sydney Neuro Oncology Group. John is a Fellow of the Australian Institute of Company Directors and holds a MBA degree from Columbia University, New York.

Andy Hogendijk

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

Andy Hogendijk has extensive senior management and finance experience having previously been Chief Financial Officer of Suncorp Metway Limited (1997 – 2000), Commonwealth Bank of Australia Limited (1991 – 1997) and John Fairfax Group (1989 – 1991). Andy has also held several senior positions with Shell Company Australia and Australian Paper Manufacturers. Andy is formerly a Director of AWE Limited and was previously the Chairman of Gloucester Coal Limited, a Director of Aditya Birla Minerals Limited, Hills Motorway Management Limited and Magnesium International Limited. Andy is a Fellow of both the Australian Society of Certified Practicing Accountants and the Australian Institute of Company Directors.

2.3 Information on Directors and Secretary (continued)

Chris Mackay
Managing Director/Portfolio Manager and Executive Director

Chris Mackay was appointed Managing Director and Portfolio Manager of the Company with effect from 1 October 2013. He is a Director of Seven Group Holdings Limited (appointed June 2010) and was a Director of Consolidated Media Holdings (formerly Publishing and Broadcasting) from 2006 until its takeover by News Corporation in November 2012.

Chris has considerable experience in business management, business assessment, capital allocation, risk management and investment. He became an investment banker in 1988, after being a corporate and banking lawyer, and has broad experience in the financial and corporate sectors.

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

Geoffrey Stirton
Company Secretary

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

2.4 Directors' Meetings

The number of Board meetings, including meetings of Board Committees, held during the year ended 30 June 2016 and the number of those meetings attended by each Director is set out below:

	Board		Audit & Risk Committee	
	Held	Attended	Held	Attended
Name	while a Director		while a Member	
Richard Warburton AO	4	4	6	6
John Ballard	4	4	6	6
Andy Hogendijk	4	4	6	6
Chris Mackay	4	4	-	-

2.5 Directors' Interests

Magellan Asset Management Limited (MAM) provides investment research and administrative services to the Company under an agreement described in note 13 of the financial statements. On 1 October 2013, Mr Mackay was appointed as an Advisor to Magellan Financial Group Limited (MFG), MAM's parent entity.

Mr Mackay is paid consultancy fees of $250,000 per annum under an indefinite term agreement which may be terminated by either Mr Mackay or MAM on 3 months notice. Mr Mackay is a substantial shareholder of MFG. Refer to section 3.5 of the Remuneration Report for further details.

Apart from the above, no other Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related party other than as disclosed in this report.

3. 2016 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Company for the year ended 30 June 2016. It details the remuneration arrangements for key management personnel (KMP) who are defined as those persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly.

In the 2016 financial year, the KMP for the Company included the Independent Non-Executive Directors and its sole employee, the Managing Director and Portfolio Manager as listed in the table below.

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

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

3.1 Remuneration of Independent Non-Executive Directors

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

Directors' Fees

The Independent Non-Executive Directors' base remuneration is reviewed annually and remained unchanged during the year ended 30 June 2016. The following table outlines the Independent Non-Executive Directors fees for the Board and Committee for the year ended 30 June 2016.

	Position	Fees ($)
Board	Chairman	110,000
	Independent Non-Executive Director	70,000
Audit and Risk Committee	Chairman	25,000
	Member	12,500

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 Chairman is not entitled to other committee fees.

Retirement Benefits

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

Other Benefits (including termination) and Incentives

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

3.2 Remuneration of Executive Directors

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

3.3 Details of Remuneration

The Independent Non-Executive Directors and Executive Director were remunerated by the Company for the years ended 30 June 2016 and 30 June 2015.

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

		Short Term Benefits	Post-employment Benefits	Total
		Salary	Superannuation	
		$	$	$
Independent Non-Executive Directors				
Richard Warburton AO	2016	100,457	9,543	110,000
	2015	99,505	9,453	108,958
John Ballard	2016	75,342	7,158	82,500
	2015	73,820	7,013	80,833
Andy Hogendijk	2016	86,758	8,242	95,000
	2015	85,236	8,097	93,333
Executive Director				
Chris Mackay	2016	980,692	19,308	1,000,000
	2015	981,217	18,783	1,000,000
Total KMP remunerated by the Company	2016	1,243,249	44,251	1,287,500
	2015	1,239,778	43,346	1,283,124

The total amount paid or payable by the Company to the KMP (Independent Non-Executive Directors and Executive Director) for the year ended 30 June 2016 was $1,287,500 (June 2015: $1,283,124).

3.4 Service Agreements

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

Richard Warburton AO, Chairman, Independent Non-executive Director and member of the Audit and Risk Committee

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2016 of $110,000.

John Ballard, Independent Non-executive Director and member of the Audit and Risk Committee

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2016 of $82,500.

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 year ended 30 June 2016 of $95,000.

3.5 Employment Agreements

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

Chris Mackay, Managing Director/Portfolio Manager and Executive Director

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

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

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

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

3.6 Options and Shareholdings

The number of ordinary shares and MFF 2017 Options held in the Company at 30 June 2016 by the KMP is below:

	Balance 30 June 2014	Additions/ (disposals)	Issued/ Exercised	Balance 30 June 2015	Additions/ (disposals)	Issued/ Exercised	Balance 30 June 2016
Richard Warburton AO							
- Ordinary shares	660,966	-	165,242	826,208	-	-	826,208
- MFF 2017 Options (A)	220,299	-	-	220,299	-	-	220,299
- Rights (B)	-	165,242	(165,242)	-	-	-	-
John Ballard							
- Ordinary shares	1,120,905	-	280,709	1,401,614	-	-	1,401,614
- MFF 2017 Options (A)	373,592	-	(386)	373,206	-	-	373,206
- Rights (B)	-	280,323	(280,323)	-	-	-	-
Andy Hogendijk							
- Ordinary shares	245,602	3,096	211,821	460,519	4,897	-	465,416
- MFF 2017 Options (A)	79,213	-	-	79,213	50,000	-	129,213
- Rights (B)	-	211,821	(211,821)	-	-	-	-
Chris Mackay							
- Ordinary shares	33,363,131	474,294	12,508,712	46,346,137	985,979	464,513	47,796,629
- MFF 2017 Options (A)	1,253,930	1,124,341	(2,055,619)	322,652	198,049	(464,513)	56,188
- Rights (B)	-	10,453,093	(10,453,093)	-	-	-	-

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

(B) the rights were provided to the KMP in their capacity as a MFF shareholder under the rights issue announced on 16 March 2015. The rights held by the KMP were fully exercised and as a result no rights were held at the end of the year ended 30 June 2015.

4. Other

4.1 Indemnification and Insurance of Directors and Officers

The Company insures the Directors and Officers of the Company in office to the extent permitted by law for losses, liabilities, costs and charges in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

During the year, the Company paid insurance premiums to insure the Directors and Officers of the Company. The terms of the contract prohibit the disclosure of the premiums paid.

4.2 Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001*.

4.3 Non-Audit Services

During the year, Ernst & Young, the Company's auditor, has performed other services in addition to its statutory duties. Details of the amounts paid or payable to the auditor are set out in note 10 to the financial report.

The Directors, in accordance with advice received from the Audit and Risk Committee, are satisfied that the provision of those non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied, considering the nature and quantum of the non-audit services that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

4.4 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

4.5 Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

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

R.J.E. Warburton   Chris Mackay

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

Sydney, 29 July 2016

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ey.com/au

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

As lead auditor for the audit of Magellan Flagship Fund Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
29 July 2016

MAGELLAN FLAGSHIP FUND LIMITED
PORTFOLIO MANAGER'S REPORT
for the year ended 30 June 2016

Dear Shareholder,

MFF's annual accounting centres on "mark to market" values for both our investments and currencies. Hence our income statement starts each financial year at zero based off the previous year end market values, and year to year income results fluctuate far more than if the changes in market values were not recorded in the income statement.

This year we recorded a loss of $9.9 million after tax, which compares unfavourably with the profit after tax for the previous year of $187.1 million. We consider that the loss does not reflect systemic or significant problems with the portfolio or with market values. We regard our portfolio valuations as broadly satisfactory, and have expressed similar views for many months in our periodic ASX releases. Following the market declines in the last month of the financial year (which accelerated after the UK Brexit vote), we are moderately more positive about valuations than we were a year ago.

The business performances of the companies which comprise our largest holdings were again very strong, with widespread market share gains and excellent cash generation. Our portfolio is very high quality and it is concentrated in companies with favourable medium term prospects and well above average probabilities that they will continue to perform very well in their market places. Investment purchases of $182.0 million compared with sales of $15.7 million in the year.

We do not offer broad market forecasts, or any forecasts for the share prices of our portfolio companies. Inexpensive asset prices can continue to decline for many reasons, whereas at other times and/or in other markets, they can rise too high for sustained periods. Equities are ranked lowest in capital markets structures, and returns to equity holders must fluctuate. The main negative impact in the 12 months was that share prices for our credit based financials (banks) fell as global interest rates fell, impacting the margins they earn on their assets, and investors as a whole have the negative memories of the financial crisis fresh in minds. Our view is that this is a case of inexpensive assets becoming cheaper, even allowing for the additional risks and negative factors for their businesses in the year.

From time to time we are attracted to out of favour areas where investors have a range of concerns about individual companies and loss aversion for sector groupings. Even if our analysis is correct, negative marks to market almost always result, as investor momentum is unfavourable for the area which is out of favour. In the year our main out of favour position was maintaining the bank financials (which declined) whereas, the year end base currency market values of our two large new purchases (noted below) each happened to be comfortably above our cost (but offset in AUD terms by the calendar 2016 rise in the AUD).

Whilst we are impressed with the business performances and improvements for the credit based financials, they are cyclical and subject to many more challenges than some other businesses. We aim to be objective as we continue to assess each holding.

Sales from the portfolio during the year were low (approximately 1.5% of portfolio value), and were mostly portfolio adjustments based on risk/reward opportunity costs and valuations. The level of turnover will inevitably increase again. In previous years we sold significant positions in anticipation of heightened competition, and challenges from globalisation and technology (including UK grocery and other retailing, mature technology and emerging market multinationals). Taxes on realised gains and transaction costs are real imposts that MFF would incur with increased portfolio turnover.

Low interest rates and freely available money are important business risks and globalisation/mercantilism/optimistic forecasts continue to add to overcapacity in major industries. Technological disruption is far more pervasive than internet distribution and robotics. Market price risks are widespread. Overall likely future market returns are subdued and market risks remain elevated.

These business challenges are not reducing, although overall we are far more optimistic about capitalism and human nature than either elite opinion or anti free trade movements. Over time we will find interesting opportunities and will sell some existing holdings if that makes sense for our portfolio and capital structures. During 2015/16 there were a number of downward overall market fluctuations (and in sectors, for example energy and financials) but fortunately for us and other buyers, the really big money in securities continued to pile into bonds at record low interest rates and not chase bargain prices in assets with better growth prospects and likely better medium term capital protection characteristics. We are not in the business of trading for short term outcomes, although in the year we bought and sold a very small position in a European industrial company which was sold down hard and then rebounded [this was the only company MFF held at any time in the year not listed in the detailed investment note 6 given its zero balance at year end].

We have continued to be cautious regarding some riskier business and market positions. We are wary of positive forecasts and businesses that are over earning or over reporting, amongst a lot to be concerned about. MFF's current portfolio focus is on businesses with well above average levels of business predictability for the medium term.

We continue to struggle with our assessments of political and regulatory/legal risks, geopolitics, inequality/demographic issues and populist/socialist movements, even whilst seeking historical and global precedents. Our portfolio includes financials which have been and remain easy targets for value transfers away from shareholders. Many negatives are priced in by the markets, including ongoing impacts on earnings. We also attempt to weigh whether the risks and imposts and capricious regulation are worsening, and whether they are so draconian that the largest players face less competition due to their capacity to absorb more. We do not see any reversion to a less impacted, less regulated middle whereby businesspeople, entrepreneurs and citizens are more able to get on freely with their lives and create additional wealth and wider benefits. Growing concerns about unequal wealth and income distributions are being exacerbated by regulatory stifling of growth, and low interest rates reduce earnings for (mostly older) savers causing them to save more, reduce risks, increase self-reliance and reduce velocity of money and aggregate economic opportunity.

The EU post script to the Brexit vote was not to examine whether their elite and bureaucracies were overreaching, nor to reassess actions against goals of co-operation and increasing peace and prosperity but (as history would predict) to redouble efforts to carry on seeking to enforce the pre-eminence of their regulations, office holders and their institutions. To illustrate, immediately post the Brexit vote, whilst Spain also struggled to form a national government partly due to regional differences and secession risks, a central diktat from Brussels promulgated that Spain's hugely successful football clubs, so crucial for regional identity, have forcibly to repay property and other local concessions ostensibly to "level the playing field" in Europe.

Terrible geopolitical events are negatively impacting private sector investment and confidence whilst allowing Governments/bureaucrats to seek to strengthen their controls. Some reversals in free trade support, populism and further centralisation of power in China add caution and impact prices/flows.

We look first at potential impacts on companies, what might be currently reflected in prices and whether market relevant uncertainty is rising, viewed in the context of possible risks/rewards/costs.

During 2015/16 MFF moderately increased most of our larger holdings except Visa, our largest position which has been at the limit authorised by the MFF Directors of up to 12% at cost (compared with a limit of 10% at cost for other holdings except Wells Fargo). The business results of our large holdings remain excellent and, notwithstanding price appreciation, we have not felt compelled to sell. Visa does not take lending risk, as it and MasterCard (another significant holding which we increased during the year) are global transaction processors. They have other risks relating to their strong market positions, for example both were marked down on 30 June when a Court overturned an important legal settlement with merchants.

CVS Health (a leading Pharmacy and Health Care company) and JP Morgan were the largest additions during the year. Our lending financials are competitively advantaged, credit and other service providing financial institutions. Although their attributes extend well beyond their net interest margins, the credit providing institutions will benefit when interest rates eventually "normalise". Their 2015/16 results continued to be penalised by margin compression from lower interest rates, although they enjoy some partially offsetting benefits, including renewed loan growth.

MFF modestly increased its holdings in Home Depot and Lowe's, the two market leaders in home improvement retailing at times when they fell below our 10% limits. Holdings were also increased in HCA Holdings, the largest hospital network in the US, S+P Global (formerly McGraw Hill) and Lloyds Banking Group which is the UK's leading retail banking group. During the year there were no noteworthy reductions, with modest reductions in 3 financials being the largest sales.

Holdings with market values above A$1m (shown as percentages of total investment assets) as at 30 June 2016 are shown in the table below:

Holding	$million	%	Holding	$million	%
Visa	118.2	11.8	Lloyds Banking Group	33.1	3.3
Lowe's	108.2	10.8	Bank of New York Mellon	25.8	2.6
Home Depot	103.2	10.3	Microsoft	20.3	2.0
MasterCard	93.5	9.3	State Street	14.6	1.5
Wells Fargo	88.0	8.8	Schroders	8.9	0.9
HCA Holdings	78.0	7.8	Qualcomm	8.6	0.9
Bank of America	71.1	7.1	Axalta Coating Systems	5.6	0.6
US Bancorp	54.1	5.4	CapitaLand	3.7	0.4
CVS Health	43.1	4.3	Singapore Technologies Engineering	3.2	0.3
S&P Global	40.6	4.0	Fraport	3.1	0.3
JP Morgan Chase	36.5	3.6	SIA Engineering	2.5	0.2
BlackRock	36.5	3.6	SATS	2.4	0.2

Net borrowings as at 30 June 2016 were approximately 10.7 % of investment assets (with AUD borrowings approximately 9.1% of investment assets).

Dividend income was approximately $6.2m higher this year than in the previous year. The MFF portfolio has a higher proportion of regular dividend paying companies, paying moderately higher regular dividends than in previous years. We did not receive material benefits from special dividends in the year. Our bank financials received US Federal Reserve approval at year end to increase dividends and/or buybacks for the next year.

We remain very positive about the capital allocations by our portfolio companies, which have benefitted their business returns, focus and per share metrics as well as equity demand/supply dynamics. We continue to exclude some technology and other companies that are constantly spending shareholder money on acquisitions which more properly are in the nature of research and development expenditures. The market cycle features more companies issuing "pretend" results with regular "one-off" multi-billion accounting adjustments. We aim to avoid, or heavily discount, direct exposure, and are watching the market's lack of scepticism for broader implications.

Although our investments comprise many "very high probability" businesses, we would prefer to own high growth and/or deep bargain holdings (on favourable terms). We have some businesses which have reasonable probabilities of sustaining well above economy average growth rates, and some that remain somewhat out of favour with investors, for example because of concerns about regulatory risks and financial system stability. In current markets, we continue to prefer market leading businesses providing vital services, although we search around the world for low priced opportunities to compare with our holdings. The portfolio has a number of smaller positions in Asia, Europe, UK and Canada (see note 6 for the full listing).

The relationships between Quality, Value and Growth are more challenged in a low growth world with global overcapacity and technological disruption changing competitive dynamics, and artificially low interest rates distorting prices of most asset classes. Overconfidence is dangerous and irrational in the current market and business cycles where sustained earnings over time are preferable to hope and reality distortion (unless used to boost technology sales).

Many high quality companies risk being significantly over priced, unless sustained earnings growth exceeds reasonable forecasts and/or interest rates remain at historically low for a sustained period. Also in aggregate poorer quality companies are staying in business and attracting mathematically challenged [venture] capital and politicians, usually spending other people's money.

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

<u>Currencies and Interest Rates</u>
Our expectation remains that the AUD will trade materially lower for at least part of the next decade, even from its 30 June 2016 USD price. In our view, recent data are indicating that the so called "safe haven" currency argument was fallacious. In time there will be a re-emergence of the banana republic arguments. Downside risks remain, particularly during wider crises (which are inevitable). Discussion has started about the loss of the AAA rating (and S+P waited until after the election to formally place a negative watch).

We continue to believe that there are reasonable prospects that there will be a crossover between the US and Australia in some key economic variables including unemployment rates, balances of payments (as percentages of GDP), state and Federal budget deficits (as percentages of GDP) and GDP growth rates. If the US continues its recovery and Australia's terms of trade do not recover to the recent cyclical highs, these crossovers become closer and the interest rate differential narrower, taking away one of the causes of ongoing AUD strength. Counter arguments, relating to a successful re-emergence of Chinese stimulus offsetting commodity supply and their already high debt levels, fluctuated during the year. Extremely low and negative interest rates in much of the world are adding to current demand for AUD and portfolio (hot) money continues to flow to relatively higher rates.

Although we continue not to be fans of some US policies, we have the USD as the primary investment currency. High quality equities (for example those with sustainably high returns on capital) at attractive valuations, are more likely to hold value over decades, and cash is a much less attractive long term asset. Our expenses and dividend payments are in AUD, as are the proceeds when MFF Options are exercised. We are able to invest in AUD opportunities, but have not done so in recent years.

In recent years there have been ongoing debates on inflation and deflation in various parts of the world with articulate advocates on either side, with deflation the current primary worry. Similar very confident arguments are made on either side regarding interest rates (a matter with more importance for portfolios). Our positions in banks would have benefitted if interest rates had increased, but current consensus has moved to lower for longer. We are dubious, although we have been less concerned over the latest twelve months about the near term risks of a sudden spike in interest rates that would increase discount rates applied to investments and may materially reduce asset prices and markets (particularly relevant in considering cash versus investments). Lower commodity prices are becoming embedded in base effects for year on year data comparisons, and some commodity supplies are beginning to tighten.

We are realistic about accepting our portfolio risk parameters, and our expectations remain very subdued. Market risks are real, particularly from elevated levels, fluctuations are inevitable, and political risks continuous. Economic/business risks are greatest for equity holders, at the bottom of capital structures. Although we wish for more growth and lower equity prices for our portfolio additions, we have been cautious about straying too far from areas where we perceive sustainable business leadership. We perceive margins of safety in the valuations of our investments in varying interest rate scenarios (important given our purchases in the year and year end investment level).

Investors have few simple choices as there are no obviously under-priced low risk asset classes and the opportunity cost of cash has been expensive. Articulate "experts" and salesmen have again stepped up their exploitation of the love of storied narratives to influence elite opinion, and exploit the public and investors (who transfer assets to promoters). Credible stories about new or emerging opportunities, markets and technologies appeal widely and are most dangerous over time, particularly if supported by strong favourable emotions, positive market action (recently emerging markets, and so called accelerating technology/unicorns) and celebrity. The recent Valeant and Theranos disasters are timely warnings (MFF was not exposed to either). Out of favour sectors have less expensive fundamentals.

Whilst we have continued to be opportunistic in buying sensible businesses on reasonable terms in market selloffs, our relatively fully invested levels offer little protection in crises, and index protections have costs but limited durations. Our focus on business risks for our portfolio companies, and unwillingness to accept growth forecasts, may continue to be sensible but partial mitigants. Price fluctuations are as inevitable as sunrise, new technology, business disruption and compelling, expensive narratives. Over time, if our portfolio companies add to earnings and profitable market shares, our portfolio values will rise.

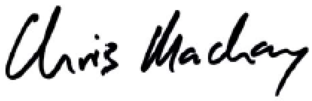
Other

Investors can track the portfolio and the underlying price movements, as we report MFF's net tangible asset backing to the ASX on a weekly basis and also advise changes to the portfolio and cash/borrowing levels regularly. Our monthly reports include commentary on risk factors and other matters.

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

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

Yours faithfully,



Chris Mackay
Portfolio Manager

29 July 2016

Important note

Magellan Flagship Fund Limited ABN 32.121.977.884 (**MFF**) has prepared the information in this Portfolio Manager's Report (Report). This Report has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this Report, it is provided by MFF as a corporate authorised representative of Magellan Asset Management Limited ABN 31 120 593 946 AFSL 304 301. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Investment income			
Dividend income		17,097	10,824
Interest income		137	69
Net change in fair value of investments		(24,026)	260,639
Net gains on foreign currency cash and borrowings		4,848	8,821
Net gains on foreign exchange settlements & contracts		840	404
Other income		321	-
Total net investment income		**(783)**	**280,757**
Expenses			
Research and services fees	13	9,863	9,424
Finance costs – interest expense		1,408	2,099
Executive Director's salary		1,000	1,000
Non-Executive Directors' fees		287	284
Transaction costs		33	47
Registry fees		240	214
ASX listing, clearing and settlement fees		116	111
Fund administration and operational costs		76	73
Auditor's remuneration	10	75	72
Employment related taxes		68	68
Other expenses		128	116
Total operating expenses		**13,294**	**13,508**
(Loss)/profit before income tax expense		**(14,077)**	**267,249**
Income tax benefit / (expense)	3(a)	4,222	(80,168)
Net (loss)/profit after income tax expense		**(9,855)**	**187,081**
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		**(9,855)**	**187,081**
Basic (loss)/earnings per share (cents per share)	9	**(2.06)**	**48.79**
Diluted (loss)/earnings per share (cents per share)	9	**(2.06)**	**44.52**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF FINANCIAL POSITION
as at 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Current Assets			
Cash and cash equivalents	4(a)	314	57,329
Investments	6	1,004,446	862,198
Receivables	5	646	749
Prepayments		13	16
Current tax benefit		1,549	-
Total current assets		**1,006,968**	**920,292**
Non-current assets			
Total non-current assets		-	-
Total assets		**1,006,968**	**920,292**
Current Liabilities			
Payables	7	4,306	4,273
Current tax liability		-	1,288
Borrowings	4(b)	107,881	-
Total current liabilities		**112,187**	**5,561**
Non-current liabilities			
Deferred tax liability	3(d)	108,379	118,447
Total non-current liabilities		**108,379**	**118,447**
Total liabilities		**220,566**	**124,008**
Net assets		**786,402**	**796,284**
Equity			
Contributed equity	8	526,494	517,237
Retained profits		259,908	279,047
Total Equity		**786,402**	**796,284**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Contributed equity			
Balance at beginning of year		517,237	365,270
Transactions with owners in their capacity as owners:			
Issue of securities:			
- on Dividend Reinvestment Plan	8(a)	1,607	1,212
- on exercise of MFF 2017 options	8(a)	7,720	23,599
- on exercise of rights issue	8(a)	-	127,646
Transaction costs:			
- on issue of MFF 2017 options	8(b)	(20)	(23)
- on issue of MFF 2017 options – tax effect	8(b)	6	6
- on issue of rights	8(c)	(80)	(677)
- on issue of rights – tax effect	8(c)	24	204
Balance at end of year		**526,494**	**517,237**
Retained profits			
Balance at beginning of year		279,047	99,296
Total comprehensive (loss)/income for the year		(9,855)	187,081
Dividends paid	2	(9,284)	(7,330)
Balance at end of year		**259,908**	**279,047**
Total equity		**786,402**	**796,284**

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 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Cash flows from operating activities			
Dividends received (after withholding tax)		14,873	9,951
Interest received		137	69
Payments for purchase of investments		(181,981)	(149,112)
Proceeds from sale of investments		15,723	86,366
Net gains on foreign exchange settlements & contracts		840	404
Research and services fee paid	13	(9,864)	(6,531)
Tax paid		(6,471)	(1,237)
Other income received		321	-
Other expenses paid		(1,858)	(2,125)
Net cash (outflow) from operating activities	4(e)	**(168,280)**	**(62,215)**
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		113,351	(24,527)
Interest paid		(1,408)	(2,099)
Proceeds from exercise of MFF 2017 options	8(a)	7,720	23,599
Payment of issue costs on MFF 2017 options	8(b)	(20)	(23)
Proceeds from exercise of rights issue	8(a)	-	127,646
Payment of issue costs of rights	8(c)	(80)	(677)
Dividends paid (net of DRP)	2	(7,677)	(6,182)
Net cash inflow from financing activities		**111,886**	**117,737**
Net increase/(decrease) in cash and cash equivalents		(56,394)	55,522
Effects of exchange rate movements on cash and cash equivalents		(621)	1,663
Cash and cash equivalents at the beginning of year		57,329	144
Cash and cash equivalents at the end of year	4(a)	**314**	**57,329**

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

1. Summary of Significant Accounting Policies

This financial report is for Magellan Flagship Fund Limited (MFF or the "Company") for the year ended 30 June 2016. The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

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

a) Basis of Preparation

This financial report for the year ended 30 June 2016 is a general purpose financial report and has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and other mandatory professional reporting requirements. It is presented in Australian dollars ($) and was approved by the Board of Directors on 29 July 2016. The Directors have the power to amend and reissue the financial report.

Compliance with IFRS

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

Historical Cost Convention

This financial report has been prepared on a going concern basis and under the historical cost convention except for assets and liabilities which are measured at fair value.

New Accounting Standards

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

Accounting Standards and Interpretations issued but not yet effective

The Australian and International Accounting Standards issued but not yet mandatory for the reporting period ended 30 June 2016 have not been adopted by the Company in the preparation of this financial report. The assessment of the impact of the new standards and interpretations, which may have a material impact on the Company, is set out below

- **AASB 15 Revenue from Contracts with Customers (effective 1 July 2018) (AASB 15)**
  AASB 15 has been identified as the only new standard which may have a material impact on the Company.

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

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

1. Summary of Significant Accounting Policies (continued)

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

- **AASB 16: Leases (effective 1 July 2019).**
  During January 2016, the IASB issued IFRS 16 *Leases*, which replaces the existing leases guidance in IAS 17 *Leases*. The AASB are expected to issue an Australian equivalent standard AASB *Leases*. AASB 16 supercedes the existing lease guidance in AASB 117 *Leases*. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset. AASB 16 provides a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees.

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

  The Company does not have leases therefore AASB 16 will have no impact based on the current year financial statements and operations.

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

(b) Segment Reporting

An operating segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different to those of other segments.

The Managing Director and Portfolio Manager makes the investment decisions for the Company and the Company's operating segments are determined based on information reviewed by the Portfolio Manager to make investment decisions. The Portfolio Manager manages the Company's investments on a portfolio basis and considers the Company operates in a single operating segment.

(c) Foreign Currency Translation

The functional and presentation currency of the Company as determined in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates* is the Australian dollar. Transactions denominated in foreign currencies are translated into Australian currency at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate ruling at the balance date.

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

(d) Investment Income

Dividend Income

Dividend income is recognised on the applicable ex-dividend date gross of withholding tax. Foreign dividends received are recognised net of withholding tax in the Statement of Cash Flows.

1. Summary of Significant Accounting Policies (continued)

(d) Investment Income (continued)

Net Changes in Fair Value of Investments

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Interest Income

Interest income is recognised on an accruals basis using the effective interest rate method.
If revenue is not received at balance date, it is included in the statement of financial position as a receivable and carried at amortised cost.

(e) Expenses

All expenses are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

Director's fees

Directors' fees (including superannuation) and related employment taxes are included as an expense in the Statement of Profit or Loss and Other Comprehensive Income as incurred. Information regarding the Directors' remuneration is provided in the Remuneration Report on page 11 of the Directors' Report.

Research and Services Fees

Research and services fees are set out in note 13.

Finance Costs

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

Performance Fees

Performance fees are set out in note 13. During each measurement period, the Company will assess the likelihood of whether the respective performance fees will be payable. A performance fee in respect of a period is recognised in the Statement of Financial Position if the Company's total shareholder return exceeds 10% per annum, annually compounded, at the end of the relevant measurement period, which is the date where certainty exists that the criteria has been met and the liability has been crystallised.

(f) Income Tax

The income tax expense/benefit for the year is the tax payable/receivable on the current year's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all deductible temporary differences and unused tax losses carried forward to the extent that it is probable that future taxable amounts will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of any deferred income tax assets is reviewed at each reporting date and recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

1. Summary of Significant Accounting Policies (continued)

(f) Income Tax (continued)

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Deferred tax assets and deferred tax liabilities are offset as there is a legally enforceable right to set off current tax assets and liabilities.

(g) Goods and Services Tax (GST)

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST, except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of that purchase or as an expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the statement of financial position as receivable or payable.

Cash Flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(h) Financial Assets and Liabilities

The Company classifies and measures its financial assets and financial liabilities in accordance with AASB 9 *Financial Instruments*. Under AASB 9, all financial assets and financial liabilities are measured at fair value.

Derecognition of Financial Instruments

Financial assets and financial liabilities are derecognised when the Company no longer controls the contractual rights that comprise the financial instrument which is normally the case when the instrument is sold.

(i) Cash and Cash Equivalents

Cash includes cash at bank and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(j) Receivables

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

(k) Investments

The Company's investments comprise shares in listed entities and are recognised at fair value through profit or loss in accordance with AASB 9 *Financial Instruments*. Transaction costs directly attributable to the acquisition of investments are expensed in the Statement of Profit or Loss and Other Comprehensive Income as incurred. Changes in the fair value of investments are recognised in the Statement of Profit or Loss and Other Comprehensive Income. When investments are disposed, the net gain and loss on sale is recognised in the Statement of Profit or Loss and Other Comprehensive Income on the date of sale.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities as movements in the fair value of these securities represent the Company's main income generating activity.

1. Summary of Significant Accounting Policies (continued)

(l) Payables
Payables are measured at fair value. Payables comprise trade creditors and accrued expenses owing by the Company at balance date which are unpaid. Payables relating to the purchase of investments are usually settled between two and five days after trade date. Trade creditors are unsecured and usually paid within 30 days of recognition.

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

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

(n) Borrowings
Borrowings are recognised at fair value. Any transaction costs directly related to the borrowings are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Borrowings are classified as current liabilities where the liability has been drawn under a financing facility which expires within one year. Finance costs include interest expense related to the borrowings which are expensed in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

(o) Contributed Equity
The Company's ordinary shares, MFF 2017 options and rights are classified as equity and recognised at the value of consideration received by the Company. Incremental costs directly attributable to the issue of new shares, options and rights are recognised in equity as a deduction, net of tax. Where the Company purchases its own issued shares under a buyback, the consideration paid, including any directly attributable transaction costs, is deducted from contributed equity.

(p) Earnings/(Loss) Per Share
Basic earnings per share is calculated as net profit / (loss) after income tax expense for the year divided by the weighted number of ordinary shares on issue. Diluted earnings per share is calculated by adjusting the basic earnings per share to take into account the effect of any costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary shares, namely the MFF 2017 options when the Company's average share price exceeds the exercise price over the period the MFF 2017 options are on issue. Refer to note 9 for further details.

(q) Rounding of Amounts
The Company is of a kind referred to in the Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

1. Summary of Significant Accounting Policies (continued)

(r) Critical Accounting Estimates and Judgements

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

Where listed equities have no active market the Directors determine fair value with reference to external observable information and conditions existing at balance date. Fair values may however move materially with movements in market prices (refer note 11(d)).

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

2. Dividends

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

	30 June 2016 $'000	30 June 2015 $'000
For the year ended 30 June 2016:		
Fully franked interim dividend (1.0 cent per ordinary share)		
– paid 20 May 2016	4,659	-
Fully franked final dividend for June 2015 (1.0 cent per ordinary share)		
– paid 12 November 2015	4,625	-
For the year ended 30 June 2015:		
Unfranked interim dividend (1.0 cent per ordinary share)		
– paid 15 May 2015	-	3,774
Unfranked final dividend for June 2014 (1.0 cent per ordinary share)		
– paid 14 November 2014	-	3,556
Total dividends declared and paid during the year	**9,284**	**7,330**

Of the $9,284,000 dividends paid during the year ended 30 June 2016, $7,677,000 was paid in cash to ordinary shareholders that did not elect to participate in the Company's Dividend Reinvestment Plan (DRP) and $1,607,000 of dividends were paid via the issue of 852,223 ordinary shares under the terms of the DRP (refer to note 2(b)).

(a) Dividend declared

In addition to the above dividends declared and paid during the year, on 29 July 2016 the Directors declared a fully franked dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2016. The amount of the proposed dividend, based on the number of shares on issue at 30 June 2016, is $4,670,000.

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

2. Dividends (continued)

(b) Dividend reinvestment plan (DRP)

The Company's DRP was available to eligible shareholders during the year ended 30 June 2016.

Under the terms of the DRP, eligible shareholders are able to elect to reinvest their dividends in additional MFF shares, free of any brokerage or other transaction costs. Shares are issued and/or transferred to DRP participants at a predetermined price, less any discount that the directors may elect to apply from time to time. No discount has been applied to shares issued under the DRP during the year ended 30 June 2016. The DRP issue price is equal to the average of the daily volume weighted average market price of all Company shares sold in the ordinary course of trading on the Australian Securities Exchange during the 5 trading day period commencing from the day the Company's shares go ex-dividend or other dates as determined by the Board.

During the year ended 30 June 2016, the following ordinary shares were issued under the terms of the DRP (refer note 8(a)):

- on 20 May 2016: 419,934 ordinary shares were issued at a reinvestment price of $1.9002; and
- on 12 November 2015: 432,289 ordinary shares were issued at a reinvestment price of $1.8709.

(c) Imputation credits

	30 June 2016 $'000	30 June 2015 $'000
Total imputation credits available in subsequent financial years based a tax rate of 30% (June 2015: 30%)	**3,785**	**1,294**

The above amount, based on a tax rate of 30% represents the balance of the imputation credits at balance date adjusted for income tax paid/payable, franked dividend receivables and declared franked dividends.

3. Income Tax

	30 June 2016 $'000	30 June 2015 $'000
(a) The income tax (expense) attributable to the year differs from the prima facie amount payable on the operating profit. The difference is reconciled as follows:		
(Loss)/profit before income tax expense	(14,077)	267,249
Prima facie income tax benefit/(expense) on net profit at 30%	4,222	(80,175)
Tax effect of franked dividends received	-	(2)
Imputation credit	-	9
	4,222	**(80,168)**
(b) The major components of income tax (expense) are:		
Current income tax benefit/(expense)	(3,390)	(3,860)
Deferred income tax (expense)		
– origination and reversal of temporary differences	7,612	(76,317)
– imputation credits on dividends received	-	9
	4,222	**(80,168)**
(c) Income tax (expense) charged directly to equity:		
Costs associated with the issue of shares from options and rights	(30)	(210)
	(30)	**(210)**
(d) Deferred tax (liability) / assets relate to the following:		
Costs associated with the issue of shares and options	156	182
Unrealised gain on investments	(108,418)	(118,517)
Other temporary differences	(117)	(112)
Total net deferred tax liability	**(108,379)**	**(118,447)**

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

	30 June 2016 $'000	30 June 2015 $'000
(a) Cash and cash equivalents		
Cash at bank - denominated in Australian Dollars	314	515
Set-off cash and borrowings - net cash:		
Cash - denominated in US Dollars	-	39,197
Cash - denominated in Australian Dollars	-	16,766
Cash - denominated in British Pounds	-	1,409
Cash - denominated in Singapore Dollars	-	220
Borrowings - denominated in Euros	-	(778)
	-	**56,814**
Total cash	**314**	**57,329**
(b) Borrowings		
Set-off cash and borrowings - net borrowings:		
Borrowings - denominated in Australian Dollars	(91,128)	-
Borrowings - denominated in US Dollars	(15,570)	-
Borrowings - denominated in Canadian Dollars	(1,356)	-
Borrowings - denominated in British Pounds	(803)	-
Borrowings - denominated in Euros	(313)	-
Cash - denominated in Singapore Dollars	1,289	-
Total borrowings	**(107,881)**	**-**

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

(c) Set-off arrangement

The foreign currency cash balances held with MLI are set-off against the borrowings drawn under the multi-currency financing facility provided by Merrill Lynch International (Australia) Limited (MLIA), which is discussed in detail at note 4(d). The Company and MLI intend to net settle and are permitted to do so under the terms of the facility. As a result, at 30 June 2016, the Company's borrowings with MLI totalling $109,170,000 (June 2015: $778,000) have been presented net of the total cash deposits held with MLI of $1,289,000 (June 2015: $57,592,000). As a result, the net borrowing position of $107,881,000 (June 2015: net cash $56,814,000) is included within borrowings in the Statement of Financial Position.

(d) Multi-currency financing facility

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

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

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

	30 June 2016 $'000	30 June 2015 $'000
Net (loss)/profit after income tax expense	(9,855)	187,081
Net gains on foreign currency cash and borrowings	(4,848)	(8,821)
Net loss on foreign exchange settlements & contracts	3	9
Finance costs - interest expense	1,408	2,099
(Increase) in investments at market value	(142,248)	(323,385)
Decrease/(increase) in receivables	99	(1,022)
Decrease/(increase) in prepayments	3	(3)
Decrease in payables	33	2,897
(Decrease)/increase in deferred, current and withholding taxes	(12,875)	78,930
Net cash (outflow) from operating activities	**(168,280)**	**(62,215)**

Non-cash financing and investing activities

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

5. Receivables

	30 June 2016 $'000	30 June 2015 $'000
Dividends receivable	444	413
Foreign tax recoverable	60	53
GST receivable	142	283
	646	**749**
Denomination of current receivables by currency:		
Australian Dollars	138	285
US Dollars	438	410
Euro	55	53
Canadian Dollars	15	-
British Pounds	-	1
	646	**749**

6. Investments

Details of the Company's investments are set out below:

Company Name	Location	2016 $'000	2015 $'000
Visa	United States	118,251	103,652
Lowe's	United States	108,170	86,146
Home Depot	United States	103,152	85,487
Mastercard	United States	93,550	88,892
Wells Fargo	United States	88,030	93,636
HCA Holdings	United States	78,037	81,510
Bank of America	United States	71,047	77,043
US Bancorp	United States	54,116	52,735
CVS Health	United States	43,105	-
S&P Global (McGraw Hill)	United States	40,639	6,546
JP Morgan Chase	United States	36,559	-
BlackRock	United States	36,487	36,831
Lloyds Banking Group	United Kingdom	33,059	48,696
Bank of New York Mellon	United States	25,836	28,123
Microsoft	United States	20,298	16,329
State Street	United States	14,570	22,733
Schroders	United Kingdom	8,937	12,646
Qualcomm	United States	8,625	9,770
Axalta Coating Systems	United States	5,627	-
CapitaLand	Singapore	3,651	-
Singapore Technologies Engineering	Singapore	3,237	3,294
Fraport	Germany	3,059	3,142
SIA Engineering	Singapore	2,468	2,501
SATS	Singapore	2,370	2,128
Power Corporation of Canada	Canada	497	-
MLP AG	Germany	389	253
Power Financial Corporation	Canada	386	-
IGM Financial	Canada	294	-
Wal-Mart	United States	-	86
Sainsbury's	United Kingdom	-	19
Total quoted investments		**1,004,446**	**862,198**

Foreign exchange rates

The Australian dollar exchange rates against the following currencies at 30 June 2016 and 30 June 2015 (London 4.00pm rates) are:

US Dollar	0.74460	0.76860
Euro	0.67024	0.68982
British Pound	0.55700	0.48871
Canadian Dollar	0.96701	0.95956
Singapore Dollar	1.00216	1.03492

7. Payables

	30 June 2016 $'000	30 June 2015 $'000
Research and services fees payable	4,186	4,187
Accrued expenses	120	86
	4,306	**4,273**
Denomination of current payables by currency:		
Australian Dollars	4,306	4,273

8. Contributed equity

	30 June 2016 Number	30 June 2015 Number	30 June 2016 $'000	30 June 2015 $'000
(a) Ordinary Shares				
Opening balance	458,380,042	355,290,029	517,805	365,348
Shares issued under DRP - 15 Nov 14 (A)	-	402,257	-	589
Shares issued under DRP - 15 May 15	-	357,652	-	623
Shares issued under DRP - 12 Nov 15	432,289	-	809	-
Shares issued under DRP - 20 May 16	419,934	-	798	-
Shares issued under DRP	852,223	759,909	1,607	1,212
Shares issued from exercise of rights	-	79,778,586	-	127,646
Shares issued from exercise of options	7,748,368	22,551,518	7,720	23,599
Total ordinary shares	**466,980,633**	**458,380,042**	**527,132**	**517,805**
(b) MFF 2017 options				
Opening balance	83,358,478	105,909,996	(95)	(78)
Shares issued from exercise of options	(7,748,368)	(22,551,518)	-	-
Transaction costs	-	-	(20)	(23)
Transaction costs - tax effect	-	-	6	6
Total MFF 2017 options	**75,610,110**	**83,358,478**	**(109)**	**(95)**
(c) Rights				
Opening balance	-	-	(473)	
Rights offered - 16 Apr 15	-	94,187,345	-	-
Rights lapsed - 7 May 15	-	(14,408,759)	-	-
Rights exercised - 13 May 15	-	(79,778,586)	-	-
Transaction costs	-	-	(80)	(677)
Transaction costs - tax effect	-	-	24	204
Total rights issued	**-**	**-**	**(529)**	**(473)**
Total contributed equity			**526,494**	**517,237**

(A) net of withholding taxes.

8. Contributed equity (continued)

(d) Terms and conditions

(i) Ordinary shares

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

(ii) Options

Each eligible shareholder of the Company received one MFF 2017 option for every 3 ordinary shares held at 10 October 2012 for nil consideration. A total of 114,516,157 options were issued by the Company on 17 October 2012. The MFF 2017 options are listed on the ASX (ASX code: MFFO) and expire on 31 October 2017.

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

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

(iii) Rights

In March 2015, the Company invited its shareholders to subscribe to a rights issue of new fully paid ordinary shares on the basis of 1 new share for every 4 ordinary shares held, at an issue price of $1.60 per share, which resulted in 79,778,586 new shares issued on 13 May 2015.

(iv) Share buy-back

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

(v) Dividend reinvestment plan (DRP)

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

9. Earnings/(Loss) per Share

	30 June 2016	30 June 2015
Basic (loss)/earnings per share (cents)	**(2.06)**	**48.79**
Diluted (loss)/earnings per share (cents)	**(2.06)**	**44.52**
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in calculating basic EPS	477,474,315	383,408,526
add: equivalent number of unexercised options for the purposes of calculating diluted EPS	38,099,276	35,677,783
Weighted average number of ordinary shares on issue used in calculating diluted EPS	**515,573,591**	**419,086,309**
Earnings reconcilation		
Net (loss)/profit after income tax expense used in the calculation of basic and diluted EPS ($'000)	(9,855)	187,081

The MFF 2017 options granted on 17 October 2012 and which remain unexercised at 30 June 2016 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. Details of the MFF 2017 options are set out in note 8(d)(ii).

10. Auditor's Remuneration

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

	30 June 2016 $	30 June 2015 $
Audit services		
Statutory audit and review of the financial reports	63,500	61,500
Non-audit services		
Taxation services	11,500	10,500
Total auditor's remuneration	**75,000**	**72,000**

11. Capital and Financial Risk Management

(a) Financial risk management

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

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

- individual investments comprising the investment portfolio will not exceed 10% at cost (or higher amount authorised by the board, with a 12% limit in respect of two holdings currently) of the investment portfolio value of the Company at the time of the investment; and

- at time of borrowing, total borrowings must not exceed 20% of the Company's investments at market value.

The Company did not use derivatives or undertake short selling during the year ended 30 June 2016. The use of derivatives and short selling has never been used by MFF since inception. The circumstances of their use are subject to Board approval and currently derivatives are permitted only where the Portfolio Manager considers that a derivative is preferable to purchasing ordinary share capital, in accordance with the investment objectives and philosophy and short selling is permitted only in relation to implementing hedges of underlying investments or merger arbitrage relating to a portfolio investment. The Portfolio Manager and Board periodically consider whether derivatives might potentially offer some hedging protection for the portfolio. To date, MFF's potential partial offsets to some portfolio risks have included MFF's currency positions to the extent that they have been inversely correlated.

(b) Capital management

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

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

At 30 June 2016, the Company's capital consists of shareholder equity. The Company issued 114,516,157 MFF 2017 Options to ordinary shareholders on 17 October 2012. The Company continues to have an active on-market share buy-back program (refer to note 8(d)(iv) for further details).

A breakdown of the Company's equity and changes in equity during the current year is provided in note 8. The Company's approach to capital management remains unchanged and it is not subject to any externally imposed capital requirements.

(c) Credit Risk

Credit risk represents the financial loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and the risk of loss is implicitly provided for in the carrying value of financial assets and liabilities when valued at fair value. The maximum exposure to credit risk at balance date is therefore carrying amount of financial assets recognised in the Statement of Financial Position.

11. Capital and Financial Risk Management (continued)

(c) Credit Risk (continued)

The Company's key credit risk exposure is to Merrill Lynch International (MLI) and Merrill Lynch International (Australia) Limited (MLIA). The services provided by MLI under the International Prime Brokerage Agreement dated May 2011 (IPBA) include clearing and settlement of transactions, securities lending and acting as custodian for the Company's assets. Under an addendum to the IPBA, MLIA may also provide financing services to the Company. The IPBA with MLI is in a form that is typical of prime brokerage arrangements and each of the Company's investment securities held by MLI may be used by MLI for its own purposes, whereupon such investment securities will become the property of MLI and the Company will have a right against MLI for the return of equivalent securities. These securities are set out in note 6.

The Company has granted MLI a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA.

In the event of MLI becoming insolvent, the Company would rank as an unsecured creditor and the Company may not be able to recover such equivalent securities in full. Cash which MLI holds or receives on behalf of the Company (refer to note 4) is not segregated from MLI's own cash and therefore may be used by MLI in the course of its business.

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2016, by Standard & Poor's as being BBB+, and by Moody's as being Baa1 (A and A1 respectively at 30 June 2015). MLI and MLIA are wholly owned subsidiaries of Bank of America which disclosed net assets attributable to common stockholders as at 30 June 2016 of approximately US$242 billion. Bank of America does not guarantee the obligations in respect of MFF.

The Company also minimises credit risk by investing and transacting with counterparties that are reputable and have acceptable credit ratings determined by a recognised rating agency, and regularly monitoring receivables on an ongoing basis.

Ageing analysis of receivables

At 30 June 2016, all of the Company's receivables are due within 0 to 30 days (June 2015: 0 to 30 days). No amounts are impaired or past due at 30 June 2016 or 30 June 2015.

(d) Fair Value Measurement

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

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

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

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

11. Capital and Financial Risk Management (continued)

(d) Fair Value Measurement (continued)

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

	Note	30 June 2016 $'000	30 June 2015 $'000
Assets measured at fair value			
Level 1: Investments - valued using quoted price		1,004,446	862,198
Level 2: Receivables and Prepayments (A)		659	765
Level 3: Investments - directors' valuation as no quoted price	(i)	-	-
Total financial assets		**1,005,105**	**862,963**
Liabilities measured at fair value			
Level 2: Payables (A)		4,306	4,273
Level 2: Borrowings (B)		107,881	-
Total financial liabilities		**112,187**	**4,273**

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

(B) Given the short-term maturities of borrowings, the fair value equates to principal plus accrued interest.

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

(i) Level 3 Investment

Level 3 investment comprises the Company's shares in China Metals Recycling (Holdings) Limited (CMR), for which there is no active market as the shares have been halted from trading since 28 February 2013. A liquidator has been appointed as a result of Court action by the Hong Kong Securities and Futures Commission, due to fraud by CMR and its Chairman. Based on available information, the Directors have adopted a valuation of zero as at 30 June 2016, which is the same as the value adopted as at 30 June 2015. As a consequence there has been no financial impact in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2016. As there are no reasonably possible alternatives for the key unobservable inputs, no sensitivity analysis is disclosed.

(e) Liquidity and Refinancing Risk

Liquidity risk refers to the risk that the Company will not have sufficient funds to settle liabilities or obligations on the due date or will be forced to sell financial assets at a value which is less than they are worth.

A key component of liquidity risk is refinancing risk, which may arise in the unlikely event that MLIA demanded repayment of the borrowings at short notice under the terms of the multi-currency facility (refer to note 8 for further details on borrowings). The Directors are confident that the net borrowings could be repaid via settlement proceeds from the sale of part of the Company's highly liquid investment portfolio, even in the unlikely event that the Company was unable to achieve satisfactory terms for refinancing elsewhere. Net borrowings repayable on demand at 30 June 2016 were $107,881,000 (June 2015: nil).

Maturities of financial liabilities

At 30 June 2016, the Company's financial liabilities comprise payables which mature in 0 to 30 days (June 2015: 0 to 30 days).

11. Capital and Financial Risk Management (continued)

(f) Price Risk

Price risk is the risk that the value of the Company's investment portfolio will fluctuate as a result of changes in market prices of individual investments and / or the market as a whole. The Company's investments are carried at market value with changes recognised in the Statement of Profit or Loss and Other Comprehensive Income. Price risk is managed by ensuring that all activities are transacted in accordance with the Company's investment policy and within approved limits.

Over the past 10 years, the annual movement in the major global share indices (MSCI and S&P 500) has varied between +35.11% and -23.42% (in AUD) and +30.69% and -29.50% (in USD). This range of yearly performances of markets may not be a reliable guide to future performances, and the Company's investment portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably be expected within the portfolio over the next twelve months. The impact of equity price movements, expressed in percentage terms, on the net profit reported by the Company, is linear. Each 5% incremental increase in the market prices of the Company's portfolio compared to 30 June 2016 would increase the total equity and net profit by $35,156,000 (June 2015: $30,177,000) and each 5% incremental decrease would have an equal and opposite impact.

(g) Currency Risk

The Company has exposure to foreign currency denominated cash and borrowings (refer to note 4) and also other assets and liabilities denominated in foreign currencies as it invests in listed international and Australian companies. Therefore the Company is exposed to movements in the exchange rate of the Australian dollar relative to foreign currencies.

At balance date, had the Australian dollar strengthened by 10% against the foreign currencies in which the Company holds foreign currency denominated monetary assets and liabilities (cash and borrowings), with all other variables held constant, the impact of monetary assets and liabilities on the Company's equity and net profit after tax would have been:

30 June 2016			**30 June 2015**		
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%	1,090	US Dollars	10%	(2,744)
Euros	10%	22	Euros	10%	54
British Pounds	10%	56	British Pounds	10%	(99)
Singapore Dollars	10%	(90)	Singapore Dollars	10%	(15)
Canadian Dollars	10%	95	Canadian Dollars	10%	-
		1,173			**(2,804)**

A 10% decline in the Australian dollar against these foreign currencies would have an equal and opposite impact on the Company's equity and net profit. Currency movements may not be correlated.

11. Capital and Financial Risk Management (continued)

(g) Currency Risk (continued)

Had the Australian dollar strengthened by 10% against the foreign currencies in which the Company holds total foreign currency denominated monetary and non-monetary assets and liabilities with all other variables held constant, total equity and net profit after tax would have decreased by $69,174,000 (2015: $63,190,000). A 10% decline in the Australian dollar would have had an equal and opposite impact.

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

All amounts stated in AUD equivalents	**30 June 2016 $'000**	**30 June 2015 $'000**
Assets and liabilities at fair value (A)		
US Dollars	930,965	829,124
Euros	3,190	2,657
British Pounds	41,194	62,782
Singapore Dollars	13,015	8,149
Canadian Dollars	(164)	-
	988,200	**902,711**

(A) Foreign currency cash balances held with MLI are netted against foreign currency borrowings provided by MLIA (refer note 4).

Assets and liabilities in the Statement of Financial Position exposed to foreign currencies:

All amounts stated in AUD equivalents	**30 June 2016 $'000**	**30 June 2015 $'000**
Assets - exposed to foreign currencies (A)	1,004,953	902,711
Assets - not exposed to foreign currencies	2,015	17,581
Assets - as per Statement of Financial Position	**1,006,968**	**920,292**
Liabilities - exposed to foreign currencies (A)	(16,753)	-
Liabilities - not exposed to foreign currencies	(203,813)	(124,008)
Liabilities - as per Statement of Financial Position	**(220,566)**	**(124,008)**
Net assets - exposed to foreign currencies	988,200	902,711
Net assets - not exposed to foreign currencies	(201,798)	(106,427)
Net assets - as per Statement of Financial Position	**786,402**	**796,284**

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

11. Capital and Financial Risk Management (continued)

(h) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk relates primarily to cash balances and net interest bearing borrowings as follows:

	Interest rate Cash & cash equivalents / (Borrowings) %	30 June 2016 $'000	Interest rate Cash & cash equivalents / (Borrowings) %	30 June 2015 $'000
Australian Dollars	1.48	**314**	1.73	**515**
Australian Dollars	n/a	-	1.94	16,766
US Dollars	n/a	-	0.05	39,198
Singapore Dollars	0.49	1,289	0.73	220
British Pounds	n/a	-	0.39	1,409
		1,289		**57,592**
Australian Dollars	(3.10)	(91,128)	n/a	-
US Dollars	(1.19)	(15,570)	n/a	-
Canadian Dollars	(1.62)	(1,356)	n/a	-
British Pounds	(1.23)	(803)	n/a	-
Euros	(0.75)	(313)	(0.75)	(778)
		(109,170)		**(778)**
		(107,881)		56,814
		(107,567)		**57,329**

Sensitivity analysis

The sensitivity of the Company's net profit and equity of a reasonably possible upwards or downwards movement in interest rate risk, assuming all other variables remain constant is set out below:

	Interest Rate Risk			
	Impact on profit increase / (decrease)		Impact on equity increase / (decrease)	
	+1%	-1%	+1%	-1%
30-Jun-16	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	13	(13)	13	(13)
Borrowings	(1,089)	1,089	(1,089)	1,089
	(1,076)	**1,076**	**(1,076)**	**1,076**
30-Jun-15				
Cash and cash equivalents	581	(581)	581	(581)
Borrowings	(8)	8	(8)	8
	573	**(573)**	**573**	**(573)**

Interest rate movements may not be correlated.

12. Related Parties

(a) Key Management Personnel
The Key Management Personnel (KMP) of the Company comprise the Independent Non-Executive Directors and the Executive Director for the years ended 30 June 2016 and 30 June 2015.

(b) Remuneration of Key Management Personnel
The following remuneration was paid or payable by the Company to the KMP, during the year:

	2016 $	2015 $
Short term benefits	1,243,249	1,239,778
Post-employment benefits	44,251	43,346
Total paid by the Company	**1,287,500**	**1,283,124**

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

13. Research and Services Fees

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

Research and services fees are calculated at 1.25% per annum (plus GST), payable quarterly in arrears, of the market value of all assets less total indebtedness of the Company divided by the weighted average number of the MFF shares on issue during the quarter and multiplied by the lesser of (i) the number of shares on issue at 30 June 2013 or (ii) the weighted average number of shares on issue during the relevant quarter. The research and service fees are reduced by an amount equivalent to Mr Mackay's remuneration and associated payroll related costs, travel and incidental expenses. Research and services fees for the year before GST, were $9,863,000 (June 2015: $7,353,000).

The Company is required to pay a performance fee to MAM if the Company's total shareholder return exceeds 10% per annum, annually compounded, with respect to the following four measurement periods:

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

The performance fee that may be payable in respect to each of the four periods is $2,000,000 and each is non-cumulative. Performance fees, under the above arrangements, cease to be payable to MAM after 31 December 2016.

For the year ended 30 June 2016, a performance fee of $2,000,000 (June 2015: $2,000,000) (plus GST) was payable as the Company's total shareholder return exceeded 10% per annum, annually compounded. For further details on performance fees, refer to note 1(e).

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

13. Research and Services Fees (continued)

Subsequent to 30 June 2016, the Board and MAM have agreed to amend the terms of the existing services agreements from 1 January 2017. Existing services would continue to be provided by MAM and existing fee arrangements would be replaced by the following fixed fees for 3 years:

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

As part of the revised arrangements, MFF Directors will put a resolution to the shareholders to change the registered company name.

14. Segment Information

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

15. Contingent Assets, Liabilities and Commitments

Under the Services Agreement effective 1 October 2013, MAM is entitled to a performance fee if the Company's total shareholder's return exceeds 10% per annum, annually compounded, with respect to the remaining measurement period, 1 July 2013 to 31 December 2016. The performance fee that may be payable is $2,000,000. As markets continue to be subject to fluctuation, there remains uncertainty as to whether the total shareholder returns will be achieved. For further details on performance fees, refer to note 13.

The Company has no other material commitments, contingent assets or contingent liabilities as at 30 June 2016 (June 2015: nil).

16. Events Subsequent to Reporting Date

On 29 July 2016, the Directors declared a fully franked final dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2016 (refer to note 2(a) for further details).

In the latest release to the ASX on 25 July 2016, the Company reported Net tangible assets (NTA) values as at 22 July as follows:

		22 July 2016 $		30 June 2016 (A) $
Pre-tax NTA		2.024		1.913
Net tax liabilities		0.262		0.229
Post-tax NTA		1.762		1.684

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

Pre tax NTA if all of the MFF 2017 options had been exercised	$	1.881	$	1.785
Post tax NTA if all of the MFF 2017 options had been exercised	$	1.656	$	1.588

(A) Audited NTA (refer note 17)

16. Events Subsequent to Reporting Date (continued)

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

17. Net Tangible Assets (NTA) Value Per Share

The following table reconciles the NTA values presented in the Statement of Financial Position as at 30 June 2016 to the NTA per share reported to the ASX on 4 July 2016.

	30 June 2016 $	30 June 2016 $	30 June 2015 $	30 June 2015 $
	Pre-tax	Post-tax	Pre-tax	Post-tax
ASX Reported NTA Value(A)	**1.914**	**1.672**	**1.996**	**1.736**
NTA Value(B)	**1.913**	**1.684**	**1.998**	**1.737**

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

ASX reported NTA value if all of the MFF 2017 options had been exercised(A)	1.786	1.578	1.844	1.623
NTA if all of the MFF 2017 options had been exercised(B)	1.785	1.588	1.844	1.623

(A) The NTA values reported on the ASX on 1 July 2016 includes estimates for accrued expenses and tax liabilities.

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

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' DECLARATION
for the year ended 30 June 2016

In the Directors' opinion:

(a) the financial statements and notes set out on pages 21 to 47 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of Magellan Flagship Fund Limited as at 30 June 2016 and of its performance, as represented by the results of its operations and its cashflows, for the year ended on that date; and

(ii) complying with Australian Accounting Standards, International Financial Reporting Standards (IFRS) as disclosed in Note 1(a), the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

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

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2016.

Signed in accordance with a resolution of the Directors.

Richard FE Warburton AO
Chairman

Chris Mackay
Managing Director and Portfolio Manager

Sydney
29 July 2016

Building a better working world

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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 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

MAGELLAN FLAGSHIP FUND LIMITED
INDEPENDENT AUDITOR'S REPORT
for the year ended 30 June 2016

Building a better working world

Opinion

In our opinion:

a. the financial report of Magellan Flagship Fund Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 11 to 13 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Magellan Flagship Fund Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

RDaSilva

Rita Da Silva
Partner
Sydney

29 July 2016

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
for the year ended 30 June 2016

Distribution of Shareholders

The distribution of shareholders of the Company as at 26 July 2016 is presented below:

Distribution Schedule of Holdings	Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	907	407,072	0.09
1,001-5,000	2,010	5,951,490	1.27
5,001-10,000	2,161	16,228,520	3.47
10,001-100,000	6,798	200,229,607	42.86
100,001 and over	599	244,366,426	52.31
Total	**12,475**	**467,183,115**	**100.00**
Number of holders with less than a marketable parcel	309	31,994	0.01

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 26 July 2016 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Christopher John Mackay	20,443,625	4.38
HSBC Custody Nominees (Australia) Limited	18,476,141	3.95
Naumov Pty Ltd	13,544,794	2.90
Magellan Equities Pty Limited	12,426,650	2.66
Mutual Trust Pty Ltd	6,642,415	1.42
Citicorp Nominees Pty Limited	5,928,721	1.27
J P Morgan Nominees Australia Limited	4,655,036	1.00
Forsyth Barr Custodians Ltd	4,215,440	0.90
Navigator Australia Ltd	3,308,372	0.71
Mr Victor John Plummer	3,000,000	0.64
Netwealth Investments Limited	2,677,956	0.57
Nota Bene Investments Pty Ltd	2,469,969	0.53
Netwealth Investments Limited	2,404,469	0.51
Hazel Equities Pty Limited	2,380,339	0.51
Cremorne Co Pty Ltd	2,358,112	0.50
Rogand Superannuation Pty Ltd	2,101,569	0.45
Nulis Nominees (Australia) Limited	1,858,194	0.40
Midas Touch Investments Pty Ltd	1,761,535	0.38
Sarl Investments Pty Ltd	1,447,690	0.31
Anberton Pty Ltd	1,444,042	0.31
Total shares held by the twenty largest shareholders	113,545,069	24.30
Total shares in issue	467,183,115	

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
for the year ended 30 June 2016

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders as at 26 July 2016 are listed below:

Shareholder	Number of Ordinary Shares
Christopher Mackay and Associates	47,796,629

Ordinary Share Capital

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

Stock Exchange Listing

The Company's ASX code is "MFF" for its ordinary shares and "MFFO" for its options.

Corporate Information

Directors
Richard Warburton AO
John Ballard
Andy Hogendijk
Chris Mackay

Company Secretary
Geoffrey Stirton

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200 George Street
Sydney NSW 2000

Share Registrar
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225 George Street
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Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

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

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