2014

MAGELLAN FLAGSHIP FUND LIMITED

[INTERIM REPORT]

FOR THE HALF YEAR ENDED – 31 DECEMBER 2014

Contents

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Magellan Flagship Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' REPORT
for the half year ended 31 December 2014

The Directors of Magellan Flagship Fund Limited (MFF or the "Company") present their report in respect of the half-year ended 31 December 2014.

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

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

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

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

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

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

1.3 Review of Results and Operations for the Half-Year
- **Financial results for the half-year**

For the six months to 31 December 2014, the Company recorded a pre-tax profit of $185,833,000 (December 2013: $94,623,000) and a net profit after income tax expense of $130,088,000 (December 2013: $66,251,000). This strong interim financial result principally reflects "mark to market" accounting as the Australian dollar value of MFF's investments rose in the period. The pre-tax, after costs, investment returns were approximately 36.7% for the six months. MFF is a long term capital allocation vehicle and returns over short periods will continue to fluctuate and have no reliable predictive value for future short periods. Prudent investors should expect periods of far lower future returns and prepare for negative return periods, as well as materially increased fluctuations.

MFF's appreciation in the period was primarily due to a continuing rise in the portfolio holdings coupled with the weaker Australian dollar. Changes in the market value of investments in the portfolio (measured in AUD) contributed approximately $181,240,000 to net investment income for the current half-year, compared with approximately $96,327,000 for the previous half-year.

After allowing for deferred taxation, the Company's net assets increased by $127,483,000 to $592,049,000 in the six months to 31 December 2014 (June 2014: $464,566,000) which was primarily due to the performance of the Company's investment portfolio. This has resulted in higher pre-tax net tangible assets (NTA) of $1.939 per ordinary share (prior to net tax liabilities of $0.276) as at 31 December 2014 compared with $1.427 per ordinary share as at 30 June 2014. The Company also reported a higher post-tax NTA of $1.663 per ordinary share as at 31 December 2014 compared with $1.308 per ordinary share as at 30 June 2014. If all of the MFF 2017 Options had been exercised at 31 December 2014, the Pre-tax and Post-Tax NTA values would have been reduced by 20.4 cents and 12.0 cents per share to approximately $1.735 and $1.543 per ordinary share respectively as at that date.

MFF's investment performance and financial results of the past six months to 31 December 2014 should not be considered to be representative of results and returns in future financial periods. Markets are subject to fluctuations, and market prices fall as well as rise.

1.3 Review of Results and Operations for the Half-Year (continued)

- **Operations – portfolio and activities**

In the six-months to 31 December 2014, MFF has continued to operate as an investment company, holding a minimum of twenty stock exchange listed investment positions. MFF's Portfolio Manager examined many potential investments in the preceding six months, as well as focussing upon portfolio holdings. In the period, the Portfolio Manager also analysed some whole businesses and significant shareholding positions, and this analysis included comparison with MFF's portfolio. MFF has not made any such significant investments, and none are currently under detailed evaluation. The Portfolio Manager and the Board continue to consider that the possible risk adjusted returns for MFF's portfolio (including its liquidity aspects) exceed the possible risk adjusted returns for the alternatives reviewed to date. The Board remain cautious about extending MFF's core competencies, and feel that appropriately priced partial interests (such as MFF's portfolio) have less overall business risks than the alternatives considered.

The Board and Portfolio Manager consider that the portfolio is focussed upon businesses with competitive advantages, including some companies which appear to combine well above average sustainable advantages, growth prospects and cash flow generation. We continue to note the headwinds for MFF's significant holdings in banks from ongoing regulatory and litigation actions, as well as extremely low interest rates which reduce what the banks can earn from their lending activities (refer to the additional discussion in the Portfolio Manager's report).

Recent activity in the MFF portfolio has included a focus upon reducing exposure to situations where competitive pressures and business risks may not be reflected in market prices. The Portfolio Manager continues to warn in MFF's monthly NTA releases that market risks have increased, as the prices for MFF's portfolio have risen significantly compared with underlying business performances in recent years.

Few opportunities have recently been considered to be attractive in risk adjusted financial terms for MFF, given generally higher market prices. Additionally, business risks have risen, with diminishing pricing power and increased competition. Overall, the Portfolio Manager and the Board remain pleased with MFF's actions in relation to its assessment of business risks. However mistakes have been and will continue to be made in MFF's assessment of business and market risks.

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

Board approved risk controls relating to concentration include a minimum of 20 individual holdings and that no individual position, at cost, may exceed 10% of the Company's investment assets, except where approved by the Board. At 31 December 2014, the two largest holdings (Wells Fargo and Visa) have a Board approved limit of 12%, at cost. As a result of price appreciation, some current positions have appreciated above the respective 10% and 12% initial purchase limits. The Company's holdings as at 31 December 2014 are set out on note 5 in the financial statements and the main holdings are shown in the Portfolio Manager's Report.

MFF remains primarily focussed on what is described as the intersection of "Quality" and "Value". MFF continues to seek companies that it describes as "Quality" at competitive prices ("Value"). Upon inception, MFF set a general target for at least 85% of the portfolio in this intersection. For most periods since inception, MFF has characterised well over 90% of its portfolio as meeting the "Quality" description. In recent periods there have been less of the bargains that we prefer, although the Portfolio Manager has considered that recent portfolio values remained broadly satisfactory.

1.3 Review of Results and Operations for the Half-Year (continued)

- **Operations – portfolio and activities (continued)**

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

MFF continues to have a Board authorised borrowing limit of 20% of investment assets (at the time of the borrowing), and MFF is unrestricted as to the level of cash that may be held from time to time. As at 31 December 2014, MFF's net borrowings were equivalent to approximately 2.5% of MFF's investment assets. Gross borrowings were higher, as cash holdings were equivalent to approximately 5.2% of MFF's investment assets. MFF's borrowings were almost entirely in Australian Dollars and the cash almost entirely in US Dollars (refer to note 4 in the financial statements for more detail). The Directors have set risk control limits for borrowings, including a limit for AUD borrowings of $AUD100 million. As at 31 December 2014 the AUD borrowings were approximately $54.0 million compared with approximately $98.2 million as at 30 June 2014.

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

The primary financial goal for MFF is increasing shareholder value on a per share basis over the longer term. MFF's corporate structure has the advantage that the portfolio does not have to be sold in a downturn to fund withdrawals by selling shareholders. However, MFF does not receive cash flows from business activities. Thus, funding of new investments, expenses and dividends relies principally upon dividends and sales proceeds. Although not a first order issue in comparison with successful portfolio management, the lack of regular cash flow remains modestly restrictive for MFF. In effect, sales are required to fund purchases of investments perceived to be more attractive. In the current interest rate environment, borrowings are an alternative, and for the latest six months net borrowings have been more attractive for MFF shareholders than an equity issue.

In the six months to 31 December 2014, MFF's investment resources have also been supplemented modestly by the exercise of 342,333 MFF 2017 Options at the $1.05 exercise price. Approximately 105.6 million MFF 2017 Options remain on issue as at 31 December 2014, from the bonus issue to MFF shareholders in October 2012.

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

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

1.3 Review of Results and Operations for the Half-Year (continued)

- **Strategy and future outlook**

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

It is also not meaningful or prudent to forecast the level of franking credits that may arise from Australian income tax that might become payable from net realised gains from the Company's investment portfolio particularly given there are non-controllable variables involved such as significant expenses, currency and equity movements, as well as foreign tax withholding for most overseas jurisdictions. As at 31 December 2014, MFF's tax provisions comprised a deferred income tax liability of $95,021,000 and current income tax liability of $2,551,000 (which includes approximately $95,000 payable in respect of previous financial year and the accounting provision for the current year to date).

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

Releases to shareholders and the ASX have included discussions in relation to MFF's investment processes and some investee companies from time to time. The Company sets out its largest portfolio holdings at 31 December 2014 in the Portfolio Manager's Report (this information was released to the ASX on 5 January 2015 as part of the December 2014 monthly NTA release).

1.4 Dividends

On 6 August 2014, the Directors declared an unfranked dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2014, which amounted to $3,555,000. The dividend was paid on 14 November 2014.

On 5 February 2015, the Directors declared an unfranked interim dividend of 1.0 cent per ordinary share (December 2013: unfranked 1.0 cent per ordinary share), which is expected to be paid on 15 May 2015. The amount of the proposed dividend, which is not recognised as a liability as at 31 December 2014, based on the number of shares on issue at 31 December 2014 is $3,560,000 (December 2013: $3,510,000). The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied for the DRP.

At 31 December 2014, the company's available imputation credits (based on a tax rate of 30%) were $56,000.

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 from some shareholders who prefer regular dividend payments against the strong returns MFF has obtained on retained capital, MFF's need for scale to attempt to offset partially the cost base, as well as the tax inefficiency of dividend payments. The Board also note that there continue to be liquid markets in MFF ordinary shares and MFF 2017 Options for shareholders who might need additional cash in excess of the dividends. The MFF share price has traded in recent times above per share net asset values after allowing for deferred taxation and dilution for future exercise of options.

1.5 Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the half-year ended 31 December 2014, other than those matters stated in this report.

1.6 Events subsequent to the end of the half year

	30 January 2015	31 December 2014
Pre-tax NTA	1.931	1.938
Net tax liabilities	0.271	0.249
Post-tax NTA	1.66	1.689

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	1.732	1.735
Post tax NTA if all of the MFF 2017 Options had been exercised	1.522	1.543

In the latest release to the ASX on 2 February 2015, the Company reported NTA as at 30 January 2015, as follows:
Other than the above, and the proposed interim 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.

1.7 Rounding of amounts
The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and consequently amounts in the Directors' Report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

1.8 Auditor's independence declaration
A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

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

R.J.E. Warburton

Chris Mackay

Richard Warburton AO
Chairman

Chris Mackay
Managing Director and Portfolio Manager

Sydney, 5 February 2015

MAGELLAN FLAGSHIP FUND LIMITED
PORTFOLIO MANAGER'S REPORT
for the half year ended 31 December 2014

The net assets of Magellan Flagship Fund Limited (MFF or the "Company") benefitted from strong markets, as well as from the decline in the AUD, both of which continued in the second half of the 2014 calendar year. Shareholders should not expect the level of MFF's investment performance for the six months to continue, as it represented a confluence of positive low probability events (see the December NTA release to the ASX for a discussion). US government 10 year bonds currently yield about 1.8% per annum, and risk assets such as equities cannot sustain increases in market prices at multiples of these yields.

The business positions of MFF's portfolio companies remain strong, although MFF's percentage on paper gains were far greater than the percentage business improvements. Complacency is completely unwarranted as much higher market prices must be added to the many other risks. Already in 2015, fluctuations in commodity markets and in the Swiss currency have been dramatic, and some businesses failed overnight. Although MFF suffered no direct impact, and immaterial second order impacts, from these fluctuations, in the future significant downward movements are inevitable, and not just the rises of recent years.

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

We have maintained MFF's currency positions, including the "effective short AUD" position, although we reduced the absolute amounts (as set out in the accounts). Our reasons are unchanged from our previous explanations, although we continue to review the data and events. We continue to perceive that the currency position gives us some potential risk management benefits, and some of the economic factors supporting MFF's AUD currency position are playing out.

In recent months and years our key portfolio considerations have been weighing the potential risk adjusted returns of existing and potential new holdings against each other and against increases in the net cash/debt levels. Balance sheet capacity gives us the opportunity to make future purchases, hopefully at times of general or company specific selling, when prices are pressured. A comparison of cash returns with investment returns (for example, over the latest six months), indicates that cash has a significant real (opportunity) cost, and generally it is better to focus on high quality securities at sensible prices.

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

We made some portfolio sales in the latest six months where we were concerned about risks in comparison with market prices; for example where investors might possibly have been extrapolating recent emerging market growth rates or the sustainability of higher margins and/or competitive/technological dominance. Such sales will continue. Competitive disruption is not diminishing and we perceive that business risks are rising, partly because uneconomic activities are encouraged, and stay in businesses during periods of low interest rates, and rising asset prices encourage further activity and speculation.

Strong markets mean that there are few bargains available, we get smaller economic interests for each dollar spent, and risks of non-temporary falls in asset values are again increasing. We continue to look for opportunities that are less expensive, whilst maintaining our strong balance sheet. Some market areas have been disrupted and volatility has risen in some parts. We are looking as investors jump around and may get some chances in out of favour situations, for example as momentum retreats. However, panic has not been prevalent on the part of many sellers, and certainly not in our principal focus areas.

MAGELLAN FLAGSHIP FUND LIMITED
PORTFOLIO MANAGER'S REPORT
for the half year ended 31 December 2014

Holdings as at 31 December 2014 with market values that represent 1% or more of the portfolio are shown in the table below (shown as percentages of total investment assets).

Holding	%	Holding	%
Visa	13.4	US Bancorp	5.7
Wells Fargo	11.8	Lloyds Banking Group	5.4
Lowe's	11.7	Bank of New York Mellon Corp	3.6
Home Depot	10.7	State Street Corp	3.1
MasterCard	10.1	Blackrock	2.7
Bank of America	9.3	Schroders	1.4
HCA Holdings	8.1	Qualcomm	1.3

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

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

Portfolio construction, risks and capital structure remain priorities. Capital is not allocated based upon guesses of short term market movements, investment thematics or weightings, and we have to focus on changes in assessments of business risks. If we felt that it was right to sell individual holdings, or large parts of the portfolio, we are unrestricted from doing so. In such circumstances, significant deferred tax liabilities would be realised.

At the moment we prefer MFF's mix of businesses, some of which have genuine longer term growth potential and overall satisfactory business risks. However, higher prices continue to shift the risk/reward equations. If there is a market decline, our portfolio market values will go down, irrespective of how the underlying businesses have changed. Possible partial currency protection in circumstances of severe market declines from current levels will be far less than when the AUD was at previous higher levels.

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

Yours faithfully,

Chris Mackay

Chris Mackay
Portfolio Manager

5 February 2015

Important note

Magellan Flagship Fund Limited ABN 59 108 437 592 (**MFF**) has prepared the information in this Portfolio Manager's Report (Report). This Report has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this Report, it is provided by MFF as a corporate authorised representative of Magellan Asset Management Limited ABN 31 120 593 946 AFSL 304 301. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

AUDITOR'S INDEPENDENCE DECLARATION

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Building a better working world

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

In relation to our review of the financial report of Magellan Flagship Fund Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

RDaSilva

Rita Da Silva
Partner
Sydney
5 February 2015

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MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the half year ended 31 December 2014

	Note	31 December 2014 $'000	31 December 2013 $'000
Investment income			
Dividend income		4,544	3,589
Interest income		15	57
Net change in fair value of investments		181,240	96,327
Net gains / (losses) on foreign currency cash and borrowings		5,877	918
Net gains / (losses) on foreign exchange settlements and contracts		222	(621)
Total net investment income		**191,898**	**100,270**
Expenses			
Management fees	9	-	1,466
Research and services fees	9	3,625	1,407
Finance costs – interest expense		1,439	2,066
Executive Director's salary	9	500	250
Non Executive Directors' fees		139	111
Transaction costs		29	52
Registry fees		117	106
Fund administration and operational costs		37	31
ASX listing, clearing and settlement fees		46	41
Auditor's remuneration		31	30
Legal and professional fees		-	27
Employment related taxes		34	19
Other expenses		68	41
Total operating expenses		**6,065**	**5,647**
Profit before income tax expense		**185,833**	**94,623**
Income tax expense		(55,745)	(28,372)
Net profit after income tax expense		**130,088**	**66,251**
Other comprehensive income		-	-
Total comprehensive income for the half-year		**130,088**	**66,251**
Basic earnings per share (cents per share)	8	**36.60**	**19.02**
Diluted earnings per share (cents per share)	8	**33.35**	**17.57**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Note	31 December 2014 $'000	30 June 2014 $'000
Current Assets			
Cash and cash equivalents	4	279	144
Investments	5	708,778	538,813
Receivables		546	1,155
Prepayments		62	13
Total current assets		**709,665**	**540,125**
Total non-current assets		-	-
Total assets		**709,665**	**540,125**
Current Liabilities			
Payables		2,301	1,440
Current tax liability		2,551	95
Borrowings	4	17,743	31,684
Total current liabilities		**22,595**	**33,219**
Non-current Liabilities			
Deferred tax liability		95,021	42,340
Total non-current liabilities		**95,021**	**42,340**
Total liabilities		**117,616**	**75,559**
Net assets		**592,049**	**464,566**
Equity			
Contributed equity	7	366,220	365,270
Retained profits		225,829	99,296
Total equity		**592,049**	**464,566**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF CHANGES IN EQUITY
for the half year ended 31 December 2014

	Note	31 December 2014 $'000	31 December 2013 $'000
Contributed equity			
Balance at beginning of the half-year		365,270	355,433
Transaction with owners in their capacity as owners:			
Issue of securities:			
- on Dividend Reinvestment Plan	7(a)	590	577
- on exercise of MFF 2017 options	7(a)	360	4,588
Transaction costs:			
- on issue of MFF 2017 options	7(b)	-	(3)
- on issue of MFF 2017 options – tax effect		-	-
Balance at end of the half-year		**366,220**	**360,595**
Retained profits			
Balance at beginning of the half-year		99,296	57,006
Total comprehensive income for the half-year		130,088	66,251
Dividends paid	2	(3,555)	(3,505)
Balance at end of the half-year		**225,829**	**119,752**
Total equity		**592,049**	**480,347**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF CASH FLOWS
for the half year ended 31 December 2014

	Note	31 December 2014 $'000	31 December 2013 $'000
Cash flows from operating activities			
Dividends received		4,524	4,139
Interest received		15	57
Payments for purchase of investments		(70,259)	(99,514)
Proceeds from sale of investments		81,534	130,388
Net gains / (losses) on foreign exchange settlements and contracts		222	(621)
Management fees paid		-	(2,839)
Research and services fee paid		(2,762)	-
Other expenses paid		(1,083)	(721)
Net cash inflow/ (outflow) from operating activities		**12,191**	**30,889**
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		(8,064)	919
Interest paid		(1,439)	(2,066)
Payment of issue costs on MFF 2017 options		-	(3)
Proceeds from exercise of MFF 2017 options		360	4,588
Dividends paid (net of DRP and withholding tax)	2	(2,913)	(2,928)
Net cash inflow / (outflow) from financing activities		**(12,056)**	**510**
Net decrease/(increase) in cash and cash equivalents		135	31,399
Cash and cash equivalents at the beginning of the half-year	4	144	3,358
Cash and cash equivalents at the end of the half-year		**279**	**34,757**

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

1. Summary of significant accounting policies

This interim financial report is for Magellan Flagship Fund Limited (MFF or the "Company") for the half year ended 31 December 2014.

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 (ASX code: MFF and MFFO).

(a) Basis of preparation

The interim report for the six months ended 31 December 2014 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars ($) and was approved by the Board of Directors on 5 February 2015. The Directors have the power to amend and reissue the financial report.

This interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2014 Annual Report and any public announcements made in respect of the Company during the half year ended 31 December 2014 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(b) Changes in accounting policy, accounting standards and interpretations

(i) New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of the following new standards and amendments which became mandatory for the first time from 1 July 2014, in this interim reporting period.

The adoption of these standards and amendments did not result in any adjustments to the amounts recognised in the financial statements and only affected the disclosures in the notes as described below:

- **AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (effective 1 July 2014)**
  AASB 2012-3 amends AASB 7 Financial Instruments: Disclosures and AASB 132 Financial Instruments: Presentation requiring disclosure about rights of offset and related arrangements where financial assets and financial liabilities can be offset under contractual agreements. The disclosures arising from the application of AASB 2012-3 are included in note 4.

- **AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments**
  AASB 9 was revised in December 2014 to include new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. As the Company does not apply hedge accounting, the revision to AASB 9 has not resulted in any impact on the Company's financial statements or disclosures.

(ii) Accounting standards and interpretations issued but not yet effective

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2014 interim reporting period which have not been adopted by the Company in the preparation of this interim financial report, are described below:

AASB 15 *Revenue from Contracts with Customers* (AASB 15) has been identified as the only new standard which may have a material impact on the Company. An assessment of its impact is as follows.

1. Summary of significant accounting policies (continued)

(b) Changes in accounting policy, accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

- **AASB 15: Revenue from Contracts with Customers (effective 1 July 2017)**

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

  Whilst AASB 15 has not yet been issued as an Australian Accounting Standard, this is expected to occur shortly. As this accounting standard will apply to the Company, a preliminary assessment of the impact of AASB 15 is currently being performed. At 31 December 2014, the assessment has involved reviewing the Company's current contracts and arrangements to determine which arrangements qualify as a contract under AASB 15 and also whether the Company's existing revenue recognition policies will be materially affected by AASB 15. Based on the assessment completed to date, the Company does not anticipate there will be any material change to the timing or manner of recognition for its key revenues as dividend and distribution income and interest income are excluded from AASB 15.

  The Company will continue to assess the impact of AASB 15 including the extent of information required to meet any new disclosures so as to understand the extent of impact on the Company's systems, processes and controls.

(c) Rounding of amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, or in certain cases, the nearest dollar.

(d) Critical accounting estimates and judgments

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

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

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

2. Dividends

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

	31 December 2014 $'000	31 December 2013 $'000
For the half-year ended 31 December 2014:		
Unfranked final dividend for the year ended 30 June 2014 (1.0 cent per ordinary share) - paid 14 November 2014	3,555	-
For the half-year ended 31 December 2013:		
Unfranked final dividend for the year ended 30 June 2013: (1.0 cent per ordinary share) - paid 15 November 2013	-	3,505
Total dividends declared and paid during the half-year	**3,555**	**3,505**

Of the $3,555,000 dividends paid during the half-year ended 31 December 2014, $2,965,000 was paid in cash to ordinary shareholders that did not elect to participate in the Company's Dividend Reinvestment Plan (DRP) and $590,000 of dividends were paid via the issue of 402,257 ordinary shares under the terms of the DRP and at a reinvestment price of $1.4659. The dividend was paid on 14 November 2014.

(a) Dividend declared

On 5 February 2015, the Directors declared an unfranked interim dividend of 1.0 cent per ordinary share in respect of the half-year ended 31 December 2014, payable on 15 May 2015. The amount of the proposed dividend, based on the number of shares on issue at 31 December 2014, is $3,560,000. The DRP will operate in conjunction with this dividend and no discount will be applied to the DRP.

(b) Dividend reinvestment plan (DRP)

The Company's DRP was available to eligible shareholders during the half-year ended 31 December 2014.

Under the terms of the DRP, eligible shareholders are able to elect to reinvest their dividends in additional MFF shares, free of any brokerage or other transaction costs. Shares are issued to DRP participants at a predetermined price, less any discount that the Directors may elect to apply from time to time. No discount has been applied to shares issued under the DRP during the half-year ended 31 December 2014. The DRP issue price is equal to the average of the daily volume weighted average market price of all Company shares sold in the ordinary course of trading on the Australian Securities Exchange during the 5 trading day period commencing from the day the Company's shares go ex-dividend or other dates as determined by the Board.

(c) Imputation credits

	31 December 2014 $'000	30 June 2014 $'000
Total imputation credits available in subsequent financial years based on a tax rate of 30% (30 June 2014: 30%)	**56**	47

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

2. Dividends (continued)

(c) Imputation credits (continued)

The Federal Government announced in the 2014/2015 Federal Budget that the company tax rate will reduce from 30% to 28.5% effective 1 July 2015. Should the legislation be passed by the Government and no transitional measures are available, the Company's total imputation credits available in subsequent financial years will reduce from 1 July 2015.

3. Segment information

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

4. Cash and cash equivalents, and net interest bearing borrowings

	31 December 2014 $'000	30 June 2014 $'000
(a) Cash and cash equivalents		
Cash at bank - denominated in Australian Dollars	279	144
(b) Set-off cash and borrowings and the net borrowings amount is presented in the Statement of Financial Position:		
(Borrowings) - denominated in Australian Dollars	(54,030)	(98,242)
Cash - denominated in US Dollars	36,065	66,534
(Borrowings) - denominated in Euros	(435)	(826)
Cash - denominated in British Pounds	857	7
(Borrowings)/Cash - denominated in Singapore Dollars	(200)	843
Total net borrowings	**(17,743)**	**(31,684)**

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

(c) Set-off arrangement

The foreign currency cash balances held with MLI are set-off against the borrowings drawn under the multi-currency financing facility provided by Merrill Lynch International (Australia) Limited (MLIA), which is detailed in note 4(b) above. The Company and MLI intend to net settle. As a result, at 31 December 2014, the Company's borrowings with MLI totalling $54,665,000 (June 2014: $99,068,000) have been presented net of the total cash deposits held with MLI of $36,922,000 (June 2014: $67,384,000), as the requirements under Australian Accounting Standards to offset have been met. As a result, the net borrowing position of $17,743,000 (June 2014: $31,684,000) was included within borrowings in the Statement of Financial Position.

(d) Multi-currency financing facility

The Company has a multi-currency facility with Merrill Lynch International (Australia) Limited (MLIA) which was established in October 2007. MLIA has the ultimate discretion as to the amount to lend under the facility, having regard to the quality and liquidity of the Company's investments. Amounts drawn as borrowings are repayable on demand. The facility, which is included in the International Prime Brokerage Agreements (IPBA), provides MLI with a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA.

5. Investments

Details of the Company's investments as at 31 December 2014 and 30 June 2014 are set out below:

Company Name		31 December 2014 $'000	30 June 2014 $'000
Visa	United States	95,074	56,893
Wells Fargo	United States	83,683	69,538
Lowe's	United States	83,112	49,291
Home Depot	United States	75,852	47,156
MasterCard	United States	71,420	39,750
Bank of America	United States	65,623	44,271
HCA Holdings	United States	57,439	36,824
US Bancorp	United States	40,724	30,309
Lloyds Banking Group	United Kingdom	37,957	32,258
Bank of New York Mellon	United States	25,484	25,361
State Street	United States	21,773	19,770
BlackRock	United States	19,180	-
Schroders	United Kingdom	9,744	-
Qualcomm	United States	9,436	6,981
Sainsbury's	United Kingdom	3,441	17,823
Singapore Technologies Engineering	Singapore	3,142	3,124
SIA Engineering	Singapore	2,586	2,746
SATS	Singapore	1,646	1,478
Adidas	Germany	1,264	6,741
Wal-Mart Stores	United States	98	29,138
Treasury Group	Australia	75	730
McDonalds	United States	25	666
Danone	France	-	7,420
Unilever	United Kingdom	-	4,987
eBay	United States	-	2,678
Diageo	United Kingdom	-	2,547
Tesco	United Kingdom	-	333
Total investments		**708,778**	**538,813**

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

	31 December 2014	30 June 2014
US Dollar	0.81835	0.94385
Euro	0.67629	0.68937
British Pound	0.52484	0.55201
Swiss Franc	0.81315	0.83701
Hong Kong Dollar	6.34618	7.31517
Singapore Dollar	1.08440	1.17665

6. Fair value measurements

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

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

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

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

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

	Note	31 December 2014 $	30 June 2014 $
Assets measured at fair value			
Level 1: Investments - valued using quoted prices		708,778	538,813
Level 2: Receivables and Prepayments[(A)]		608	1,168
Level 3: Investments - directors valuation as no quoted price	(i)	-	-
Total financial assets		**709,386**	**539,981**
Liabilities measured at fair value			
Level 2: Payables[(A)]		2,301	1,440
Level 2: Borrowings - valued using bank valuation[(A)]		17,743	31,684
Total financial liabilities		**20,044**	**33,124**

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

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

(i) Level 3 investment

The level 3 investment comprises the Company's shares in China Metals Recycling (Holdings) Limited (CMR), which is shown at zero. There is no active market as the shares have been halted from trading since 28 January 2013 and on 26 July 2013, CMR was subject to a liquidation petition by the Hong Kong Securities and Futures Commission (SFC). According to the SFC website, court hearings including a challenge to the appointment of the liquidators by the former Chairman of CMR, remain scheduled for February, March and May 2015.

This investment is categorised as a Level 3 in the fair value hierarchy. The Directors have adopted a valuation of zero as at 31 December 2014 based upon the following factors. Although the SFC has stated that it has secured assets intended to be applied for the benefit of creditors and shareholders, its actions are subject to legal challenge, the process has not been prompt and based on the amount of assets seized, the quantum of any possible recovery by MFF is unable to be determined. There also continues to be no market in CMR shares. As a result, the investment remains carried at zero, which is the same as the value adopted as at 30 June 2014.

6. Fair value measurements (continued)

(i) Level 3 investment (continued)

As a consequence there has been no movement in the balance held in level 3, nor the financial impact in the Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2014. The fair value of all financial assets and financial liabilities approximate their carrying values in the Statement of Financial Position.

7. Contributed equity

	31 December 2014 No. of securities	30 June 2014 No. of securities	31 December 2014 $'000	30 June 2014 $'000
(a) Ordinary shares				
Opening balance	355,290,029	346,221,267	365,348	355,508
Shares issued under DRP - 15 Nov 13	-	414,228	-	577
Shares issued under DRP - 16 May 14	-	408,485	-	604
Shares issued under DRP - 14 Oct 14	402,257	-	590	-
Shares issued from exercise of options	342,333	8,246,049	360	8,659
Total ordinary shares	**356,034,619**	**355,290,029**	**366,298**	**365,348**
(b) Options				
Opening balance	105,909,996	114,156,045	(78)	(75)
Shares issued from exercise of options	(342,333)	(8,246,049)	-	-
Transaction costs	-	-	-	(3)
Total options	**105,567,663**	**105,909,996**	**(78)**	**(78)**
Total contributed equity			**366,220**	**365,270**

(c) 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).

The MFF 2017 Options entitle the holder to the right to acquire one ordinary share in the Company at a price of $1.05 and are exercisable at any time on or prior to 31 October 2017, at which time they will lapse. The MFF 2017 Options are not entitled to dividends, and ordinary shares issued on exercise of the options rank equally with all other ordinary shares from the date of exercise and entitle the holder to receive dividends on or prior to the applicable record date.

(iii) Share buy-back

On the 26 August 2009, the Company announced its intention to undertake a second on-market buyback of up to 20,000,000 shares after completion of the first buyback. Under this buyback, the Company has bought back and cancelled 13,155,651 shares at a total cost of approximately $8,276,000. No shares were acquired under this buy-back during the half-year ended 31 December 2014 (2013: nil). On 6 August 2014, the Company authorised a further extension to the on-market share buy-back period to 9 September 2015.

(iv) Dividend reinvestment plan (DRP)

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

8. Earnings per share

	31 December 2014	31 December 2013
Basic earnings per share (cents)	**36.60**	**19.02**
Diluted earnings per share (cents)	**33.35**	**17.57**
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in calculating basic EPS	355,475,512	348,300,287
add: equivalent number of unexercised options for the purposes of calculating diluted EPS	34,627,863	28,797,345
Weighted average number of ordinary shares on issue used in calculating diluted EPS	**390,103,375**	**377,097,632**
Earnings reconciliation		
Net profit after income tax expense used in the calculation of basic and diluted EPS ($'000)	130,088	66,251

The options granted on 17 October 2012 and which remain unexercised at 31 December 2014 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. Details of the options are set out in note 7 (c)(ii).

9. Investment management, research and services arrangements

The Company varied the Investment Management Agreement (IMA) with Magellan Asset Management Limited (MAM) effective from 1 October 2013. The key changes were:

- MAM ceased as Investment Manager of MFF on 30 September 2013 however continues to provide MFF with investment research and administrative services. Mr Mackay was appointed Managing Director and Portfolio Manager by MFF with effect from 1 October 2013; and
- research and service 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 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. Fees incurred from 1 October 2013 are classified as research and services fees in the Statement of Profit or Loss and Other Comprehensive Income.

10. Contingent assets, contingent liabilities and commitments

There were no changes to the performance fees under the Services Agreement effective 1 October 2013. Magellan Asset Management Limited is entitled to a performance fee if the Company's total shareholder's return exceeds 10% per annum, annually compounded, with respect to the following three remaining measurement periods:

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

The performance fees that may be payable in respect to each period is $2,000,000 and each is non-cumulative. As markets continue to be subject to fluctuation, there remains uncertainty as to whether the total shareholder returns will be achieved.

The maximum total performance fees payable over the remaining periods is capped at $6,000,000.
For further details on performance fees, refer to notes 1(e) in the Company's 30 June 2014 Annual Financial Report.

Performance fees have been disclosed as a contingent liability on the basis that markets are subject to fluctuations and therefore uncertainty exists as to whether the criteria of the performance fee will be achieved

The Company has no material commitments or contingent assets as at 31 December 2014 (June 2014: nil).

11. Events subsequent to the end of half-year

On 5 February 2015, the Directors declared an unfranked interim dividend of 1.0 cent per ordinary share in respect of the half-year ended 31 December 2014 (refer to note 2(a) for further details).

In the latest release to the ASX on 2 February 2015, the Company reported NTA as at 30 January 2015, as follows:

	30 January 2015	**31 December 2014**
Pre-tax NTA	1.931	1.938
Net tax liabilities	0.271	0.249
Post-tax NTA	1.66	1.689

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	1.732	1.735
Post tax NTA if all of the MFF 2017 Options had been exercised	1.522	1.543

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

12. Net tangible assets (NTA) value per share

The following table reconciles the NTA[(A)] presented in the Statement of Financial Position as at 31 December 2014 to the NTA per share reported to the ASX on 5 January 2015.

	31 December 2014 Pre-tax	31 December 2014 Post-tax	30 June 2014 Pre-tax	30 June 2014 Post-tax
NTA Value – cents per share[(A)]	1.939	1.663	1.427	1.308
Adjustment[(B)(C)]	(0.001)	0.026	-	-
ASX Reported NTA Value – cents per share	1.938	1.689	1.427	1.308
per the ASX announcement dated 5 January 2015				

(A) Net tangible assets refers to the net assets of the Company including the net current and deferred tax liabilities/assets. This is also referred to as the 'Post-tax NTA' per share in the Company's ASX NTA announcements. Where the Company reports 'Pre-tax' NTA per share, this refers to the net assets of the Company excluding the net current and deferred tax assets/liabilities presented in the Statement of Financial Position.

(B) Since the Pre-tax NTA and Post-tax NTA values of 1.938 and 1.689 cents per share respectively were issued on 5 January 2015, an increase of $9,129,000 in deferred tax liability was recorded in relation to the increase in the value of the portfolio. This has been reflected in the Company's reviewed financial statements for the half year ended 31 December 2014.

(C) Since the Pre-tax NTA and Post-tax NTA values of 1.427 and 1.308 cents per share respectively were disclosed on 2 July 2014, a reduction of $124,000 deferred tax asset was recorded in relation to tax losses. This was reflected in the Company's audited financial statements for the year ended 30 June 2014.

The ASX Reported NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 Options.

NTA if all of the MFF 2017 Options had been exercised	1.735	1.543	1.341	1.248

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' DECLARATION
for the half year ended 31 December 2014

In the Directors' opinion,

a) the financial statements and notes set out on pages 11 to 24 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of Magellan Flagship Fund Limited as at 31 December 2014 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date;

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

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

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

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

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

Sydney, 5 February 2015

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Report on the Half-Year Financial Report

To the members of Magellan Flagship Fund Limited

We have reviewed the accompanying half-year financial report of Magellan Flagship Fund Limited, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magellan Flagship Fund Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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INDEPENDENT AUDITOR'S REVIEW REPORT

Building a better working world

Conclusion

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

a. giving a true and fair view of the company's financial position as at 31 December 2014 and of its performance for half-year ended on that date; and

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

Ernst & Young

Ernst & Young

RLDaSilva

Rita Da Silva
Partner
Sydney
5 February 2015

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MAGELLAN FLAGSHIP FUND LIMITED
CORPORATE INFORMATION

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

Corporate Governance Statement
The Corporate Governance Statement for MFF can be found at the Corporate Governance tab at http://www.magellangroup.com.au/mff

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