MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
ABN 32 121 977 844

Level 7, 1 Castlereagh Street,
Sydney NSW 2000 AUSTRALIA

General: +61 2 8114 1888
Facsimile: +61 2 8114 1800
Website: www.magellangroup.com.au

13 September 2012

ASX Market Announcements
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

MAGELLAN FLAGSHIP FUND LIMITED ('MFF')
ANNUAL REPORT

MFF wishes to advise, in accordance with ASX Listing Rule 4.7, that its 2012 Annual Report has been mailed today to those shareholders who have elected to receive a printed copy of the Annual Report.

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

Yours faithfully,

Leo Quintana
Legal Counsel & Company Secretary

MAGELLAN
FLAGSHIP FUND LIMITED

2012 ANNUAL REPORT

MAGELLAN FLAGSHIP FUND LIMITED

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MAGELLAN FLAGSHIP FUND LIMITED
CHAIRMAN'S LETTER
FOR THE YEAR ENDED 30 JUNE 2012

Dear Shareholder,

I am pleased to write to you in the 2011/12 Annual Report for Magellan Flagship Fund Limited ("MFF"). Please also take the time to read the financial statements and the Investment Manager's Report which follow.

Financial Results

MFF recorded a net profit after tax of $45.89 million for 2011/12. This result reflects realised gains during the year as well as the 'mark to market' of all price movements for the year. In 2011/12 strong portfolio gains were achieved (well in excess of the modest declines for broad global market measures in AUD terms). There were also positive currency movements, particularly as the USD appreciated against the AUD by approximately 4.4% over the year from approximately 1.0706 to 1.0251 USD for each AUD.

MFF's Portfolio

The Company recorded a rise in net tangible assets (NTA) per share (excluding deferred tax assets) of approximately 25.2% to $0.954 per share as at 30 June 2012 compared with $0.762 per share as at 30 June 2011.

The portfolio had been largely fully invested over the past 3 years until recently. MFF achieved pre tax returns, after expenses, in base currencies of approximately 29% (2010), 18% (2011) and 20% (2012) over those 3 years. As at 30 June 2012, MFF had moved to net cash (including net receivables from unsettled sales) of approximately 58% of investment assets, as MFF reduced its level of investment.

The Investment Manager made these changes to the portfolio after assessing opportunity costs, including those resulting from movements in prices/values and risk factors. We continue to believe in the outstanding underlying business strengths of the portfolio companies.

At present, MFF has 3 core positions (high quality equities, substantial net cash and MFF is effectively short AUD). We feel that each has a reasonable probability of enabling value to be added in future years.

We consider MFF's equity positions are world class and the Investment Manager considers that they offer quality and value in comparison with equities in general, compared with portfolio opportunities in the domestic markets, and in comparison with other asset classes.

MFF provides diversification benefits for Australian and New Zealand investors in terms of companies, currencies and business geographies. Despite the benefits of diversification and the modest currency benefits this year, currencies continue to be a negative since inception. The Investment Manager's Report includes a further discussion of issues relating to currencies and MFF's position of being effectively "short" the AUD.

As set out in last year's Annual Report, changes to the foreign tax credit regime require foreign tax withheld on foreign dividends to be off-set only against taxable income in the related tax year. As a result of the Company being in a tax loss position, current year and some previous year foreign tax credits were written off during the financial year (approximately $1 million).

MAGELLAN FLAGSHIP FUND LIMITED

CHAIRMAN'S LETTER

FOR THE YEAR ENDED 30 JUNE 2012

Dividends

The Directors have declared a dividend of 1 cent per share, to be paid in November 2012. This dividend will be partially franked to 26.3% and utilises currently available franking credits. The Directors' preference is to commence a regular 6 monthly dividend at 1 cent per share, subject to corporate, legal and regulatory considerations. You may recall that the Directors considered a dividend at the most recent half yearly results but this decision had to be deferred pending a general ATO Ruling to resolve inconsistencies between ATO views and recent amendments to corporate legislation intended to simplify declaration of dividends. This ruling was only issued in late June 2012.

A separate letter is being sent to shareholders advising them of the dividend, asking them to provide their tax file numbers and bank account details and advising them of the opportunity to participate in the Dividend Reinvestment Plan (which will operate at zero discount to market price).

Bonus issue of Options

The Directors have resolved to undertake a bonus issue of options on a 1:3 basis to shareholders. The options will be issued for no consideration. Each option will allow the holder to subscribe for a new share in the Company until 31 October 2017 at an exercise price of $1.05 per share. The options are expected to be tradeable on the ASX. It is expected that the Prospectus for the options will be despatched to shareholders in mid to late September 2012.

In issuing the options and declaring the dividend, the Directors wanted to provide benefit to shareholders. Many shareholders prefer to receive regular cash dividends, even if they are unfranked, rather than have the company retain those funds for reinvestment, notwithstanding that dividends have tax consequences for shareholders. In addition, the bonus options are expected to be tradeable on the ASX and, if there is a liquid market, shareholders are likely to have the opportunity to realise some value for them if they do not wish to exercise them. As the strike price for the options is above the current market price for MFF shares and above recent levels of NTA per share, the dilutive effect may be minimised.

On-market Share Buy-back

During 2011/12, MFF acquired on-market a further 4.5 million shares at an average price of approximately $0.66 cents per share, which represents a discount to MFF's net assets per share. We intend to maintain MFF's Balance Sheet strength. Our investments are in highly liquid shares, as shown by the successful move to increase cash during quarter four of 2011/12.

Annual General Meeting

My fellow Directors and I look forward to meeting those of you who can attend the Annual General Meeting on 17 October 2012. The Notice of Annual General Meeting will be despatched to shareholders in the coming weeks.

Yours faithfully,

R.F.E. Warburton.

Richard F E Warburton AO
Chairman
8 August 2012

MAGELLAN FLAGSHIP FUND LIMITED
INVESTMENT MANAGER'S REPORT
FOR THE YEAR ENDED 30 JUNE 2012

Dear Shareholder,

MFF's NTA per share as at 29 June 2012 was $0.954 excluding net deferred tax assets of $0.026. Over the last twelve months, the pre-tax NTA rose from approximately $0.762 at 30 June 2011 (being a rise of approximately 25.2%). Overall global markets were flat to slightly lower over the last twelve months.

During the 12 months approximately 4.5 million shares were bought back at an average cost of 66.3 cents per share. Since inception 33.2 million shares have been bought back at an average cost of 58.7 cents per share.

The Company's holdings with a market value of A$1 million or greater (which represented about 41.3% of investment assets plus net cash) as at 29 June 2012 were:

Holding	$million	Holding	$million
Wells Fargo	22.3	Lowe's	3.6
Visa	15.7	Bank of America	3.6
McDonald's	15.5	Wal-Mart	3.4
US Bancorp	13.8	China Telecom	2.8
CME Group	11.6	China Unicom	2.5
Procter & Gamble	7.6	HCA Holdings	1.7
Google	6.1	Tesco	1.6
American Express	5.9	Singapore Technologies	1.6
China Mobile	5.8	McGraw Hill Companies	1.3
MasterCard	5.1	SIA Engineering	1.0
Apple	3.7		

Net cash as at 29 June 2012 was approximately $190.8 million (including net receivables from unsettled sales as at 29 June) or 58% of investment assets plus cash. The portfolio changes creating the large cash position followed 3 financial years of portfolio gains of approximately 29% (2010), 18% (2011) and 20% (2012) (in base currencies and after costs) during which MFF was fully invested.

We are pleased with our 3 core positions (high quality equities, current net cash and effective short AUD) as each has a reasonable probability of enabling value to be added in future years.

Our equity positions are world class and offer quality and value in comparison with equities in general and in comparison with other asset classes. The companies that we hold remain very advantaged. The current and recent MFF portfolio companies remain priorities when considering new investments, particularly when prices fluctuate.

11 of the 12 largest positions as at financial year end were in companies that have improved their payouts to shareholders and/or engaged in shareholder friendly capital management activities over the past 12 months. The 12th company (Google) has generated cash holdings of over $40 billion after tax in the 8 years since its IPO. Wells Fargo now arranges about 1/3 of the mortgages in the United States, has a fully (120%) funded loan book based off deposits with an average funding cost of about 0.46% and earned a little under $5 billion after tax for the June quarter despite the tepid US recovery.

Our sizeable cash position gives us flexibility to acquire more world class equities on attractive terms, and stock specific and general market volatility is expected to provide opportunities.

We moved to the sizeable cash position in the fourth quarter of 2011/12. Until then we had assessed that the benefits of being fully invested in high quality, liquid securities with the 'effective' hedge of being short the AUD, outweighed the benefits of having significant cash resources ready for future opportunities. During the fourth quarter we assessed that the opportunity cost moved in favour of cash instead of some individual securities that we regarded as being at or about fair value. By the end of the quarter we also assessed that the growing negative feedback loop in real economies around the world increased the riskiness of some large positions and for the portfolio as a whole at prevailing market prices, and resulted in a further increase in cash levels.

We have reduced the grocery / fast moving consumer goods (FMCG) positions, many of which had been core holdings. These 'defensive' companies are very attractive businesses, but some are now favourites with the market and trade at higher multiples of earnings. We are watching apparent changes in consumer behaviour, competition and increasing big retailer power. Procter & Gamble (P&G), a clear global leader for decades is under pressure to 're-set', regain momentum and market shares, and anything P&G does has broad ramifications. In specific cases, we may be more confident about FMCG companies that have their own distribution (Yum!, McDonald's, low cost private label retailers, Apple, Google Android). In the case of Yum! we sold into significant share price rises reflecting confidence in their China and emerging markets growth, prior to Yum!'s more recent correction.

Nestlé has recently disposed of its frozen food and ice cream businesses in Australia. It is the largest food company in the world, is number one or two globally in both businesses with huge economies of scale in innovation, billions of almost zero cost capital etc, Nestle has had decades of success in capital allocation and has sizeable Australian operations (above $2bn of sales). Multinational FMCG manufacturing in Australia is under pressure.

Our most recent general market views were set out in the July NTA announcement released to the ASX last week, and an extract follows:

"In July, portfolio transactions were at more modest levels with a small number of purchases and sales, including further selling of two positions (Procter & Gamble and China Mobile) where we perceive some risks of heightened competition and margin pressures not reflected in their market prices. We continue to hold substantial cash balances and look for high quality bargains where the business prospects are not recognised by the market or companies are out of favour. In these market conditions, we believe that cash provides valuable investment flexibility for a closed-end Listed Investment Company (LIC) such as MFF. The following paragraphs discuss some general risk factors which may contribute to future market volatility and provide lower prices and more investment opportunities for us.

Quarterly corporate results released in the month were marked by lower earnings quality and lower growth rates than in recent quarters although key stock indices have held up, as equity markets expand price multiples for large cap companies. Many companies are becoming more cautious about prospects. In this context, we were cautiously positive about the results for the MFF portfolio companies.

Overall consumer and business confidence weakened, asset price falls have reduced wealth but not nominal debt and private sectors seek to deleverage, in developed economies. In the month, some best in class 'defensive' companies described operating, competitive, margin and currency challenges across many parts of the globe. Spanish consumer confidence and spending declines accelerated and appear to be structural whilst cyclical slowdowns are happening in consumer markets from Brazil and India to China and Australia. Patience may be rewarded as, at this stage 'muddle through' is still possible, as these companies' initial business responses to the challenges appear broadly rational and negative feedback loops are not too widespread.

Governments are incurring substantial deficits via stimulus to offset private sector declines and/or support voters, local governments, banks, jobs and strategic industries. Deficits are made worse by the mathematics of declining revenue bases and increased support payments. China is embarking on another stimulus despite its leaders' concerns about property bubbles, inflation and fixed asset distortions. In July iron ore prices sustained daily falls to be down over 30% year on year and coal prices down almost 25%, despite the new China stimulus and project announcements.

We expect the record monetary stimulus to grow further. Fiscal deficits are also ongoing. Choices are increasingly hard for many Governments. Stimulus works better in traditional recessions rather than 'balance sheet recessions', and from a fiscally responsible starting position. At current high debt levels the benefits of stimulus are partially offset by business nervousness about consequences, some crowding out and distorted allocations, such as penalising prudent savers. However, deflationary negative feedback loops are extremely difficult to break once they take hold and are likely to be exacerbated in the near term if Governments exercise fiscal restraint.

Short term capital moving rapidly to and from jurisdictions, entities and assets adds pressure to official balance sheets and policy responses, and adds to business/financing risks, liquidity requirements and market price volatility.

There are few applicable recent precedents for policies or time frames. Two decades of 'failed' Japanese stimulus may have shielded that economy from worse outcomes absent the stimulus, and Japan's unprecedentedly high Government debt levels continue to be serviced and refinanced, but pressures are rising on internal and external balances and Japan remains unattractive for equity investors.

The long awaited start of the US housing recovery may have commenced, albeit off a very low base. US uncertainty remains widespread particularly as past political and economic decisions, including high aggregate personal debt levels, make future decisions more difficult and more 'political' (i.e. there are direct losers from fiscal responsibility).

Investors should also closely watch debt and liquidity weaknesses in banks and regional governments in Europe (and elsewhere). Debt can't simply be wished away because it suits an investment case or a re-election timetable. Corporate defaults increase as banks are forced to deleverage, and they decline rollovers. Emerging market corporate and project debt levels are risky including Trust financing of mainland Chinese property developers. Rapid growth in debt has funded unsustainably high aggregate economic growth rates via economic multipliers but companies and economies are stressed when private sector debt growth rates fall or become negative, for example after substantial asset price falls (Spain, Ireland).

Bond market participants remain optimistic that their bond rally will continue. In equities, "safe haven" prices continued rising with markets chasing yields and expanding the multiples they are willing to pay. Momentum is behind the rallies in bonds and prices of those equities that avoid profit warnings, as well as for perceived beneficiaries of further monetary easing. However, caution is warranted as market risks extend well beyond profit warnings; for example emerging market companies in commodity industries such as steel have weak balance sheets, little or no true profitability and are risky, with weak prospects in the absence of a sustained, early global recovery.

We are looking for high quality businesses where the equity prices and business resilience are more probable than not to be able to withstand whatever combination and order of margin pressure, deflation, global overcapacity and normalisation of interest rates/market assessed costs of capital (possibly after money printing inflation) that may occur over the next decade. Although upward economic growth has prevailed (with fluctuations) for much of the period since the 1930s for most market based economies such as the US, many more entities will probably join Spain in the casualty ward this decade, particularly given the magnitude of the increases in overall debt levels and global imbalances. MFF's cash, short AUD position and portfolio of quality equities should give flexibility and some protection whilst searching for additional attractive risk adjusted equity opportunities." [end of extract]

Capital Management

MFF continued with its on market buyback in 2011/12. We expect this to continue to be a means of seeking to increase the underlying value per share if markets remain volatile. MFF Directors have also declared a dividend and authorised an issue of options to shareholders. Please see the ASX announcement for details.

We are also positive about MFF's investee companies buying back their own shares when they are trading below intrinsic value. Active capital management, including value focussed buybacks, add to earnings per share growth rates and to shareholder value, particularly for our companies which generate billions of free cashflow. Some companies prefer dividends.

We support companies that are disciplined in reinvestment at attractive long term rates above fair assessments of their cost of capital whilst treating shareholders fairly with surplus capital generated. We recognise that fortress balance sheets add value (it is tragic that Governments have not had the same perspective, as now taxpayers/citizens are forced to endure bad or worse outcomes).

We are cautious about highly acquisitive companies that feel the need for large acquisitions. We seek companies that already have excellent competitive positions and when they make acquisitions they typically are incremental to the core franchise.

Currencies and Interest Rates

We believe that the effectively short AUD position is more likely than not to provide material value in coming years as a combination of factors including growing uncompetitiveness, which appears to have moved from the cyclical to more structural.

Our expectation remains that the AUD will trade materially lower for at least part of the next decade and the likelihood of a material downward move is increasing. However, strength is as likely as not to continue in the near term despite the recent fall in the terms of trade as prices of the key Australian exports of coal and iron ore have recently been down about 25-30% year on year. Currently, there are "non-fundamental" value-based reasons behind significant buying in the AUD and AUD bonds (e.g. central bank 'diversification').

The "safe haven" currency argument is not sustained by the data in our view. If adjustments are made for the stimulus from Government deficits and off balance sheet items and for the cyclical benefits of the resources boom via record project investment and commodity sales the data is actually concerning, particularly when it is seen that credit is still expanding, unlike in some other countries with excessive debt and property price vulnerability. A review of IMF and other data continue to indicate that a reversal of the 'super cycle' elements of the commodities boom would detract 5% or so from GDP with the level depending on multipliers, policy responses, international factors and severity of the inevitable reversal.

We expect that Australia's net foreign liabilities will exceed $1 trillion during this decade and consider that risk factors are rising, partly because of the negative 'real' economic effects of the sustained high AUD and balance of payments deficits.

Although we are not fans of some US policies, we currently have the USD as the primary holding. There are a lot of underlying competitive strengths in the US. We also hold high quality equities, Singapore Dollars, Hong Kong Dollars and Swiss Francs. We prefer high quality equities (for example with sustainably high returns on capital) at attractive valuations as being more likely to hold value over decades. We have previously discussed the risks of cash as a poor long term asset, and there are material short term risks in cash from the impact of stimulus on commodities and other markets, despite current deflation.

We also anticipate risks relating to inevitable upward spikes in interest rates whether or not as part of a Crisis (peripheral Europe recently, or Asia 1997) or more broadly (e.g. 1994 or 1979), as well as debt market dislocations such as withdrawal of private sector liquidity. We believe that the AUD is not a genuine safe haven and is vulnerable to such crises, which are inevitable.

MFF will continue with its unhedged/short AUD position in the current market conditions. We will promptly advise the ASX of any material changes.

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

Yours faithfully,

Chris Mackay

Chris Mackay
8 August 2012

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

The Directors of Magellan Flagship Fund Limited (the "Company") submit their report in respect of the year ended 30 June 2012.

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

Name	Directorship	Appointed
Richard Warburton AO	Chairman & Independent Non-executive Director	19 October 2006
John Ballard	Independent Non-executive Director	19 October 2006
Andy Hogendijk	Independent Non-executive Director	19 October 2006
Chris Mackay	Non-executive Director	29 September 2006
Hamish Douglass	Non-executive Director	29 September 2006

Results and Review of Operations
The Company recorded a pre tax profit of $66.99 million (2011: $1.33 million) and a net profit for the year after income tax of $45.89 million (2011: $0.02 million loss after tax) principally reflecting the impact of changes in the market value of investments and exchange rate movements. The Company recorded net tangible assets (NTA) (excluding deferred tax assets) of $0.954 per share as at 30 June 2012 compared with $0.762 per share as at 30 June 2011, a rise of approximately 25.2%.

The Company continued its on market buyback during the year and acquired approximately 4.5 million shares at an average price of approximately $0.66 per share. Further details of the buyback are provided in note 8 to the financial statements.

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

Dividends
No dividends were paid during the financial year (2011: nil). The Directors have declared a partially franked dividend out of current year profits of 1.0 cent per ordinary share in respect of the 2012 financial year, which represents $3,448,444. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2012 financial statements.

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

Events Subsequent to the end of the Financial Year

The Directors have resolved to undertake a bonus issue of options on a 1:3 basis to shareholders. The options will be issued for no consideration. Each option will allow the holder to subscribe for a new share in the Company until 31 October 2017 at an exercise price of $1.05 per share. The options are expected to be tradeable on the ASX. It is expected that the Prospectus for the options will be despatched to shareholders in mid to late September 2012.

The Directors are not aware of any other matter or circumstance since 30 June 2012 not otherwise disclosed in this report or financial statements that has significantly or may significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in subsequent financial periods.

Likely Developments and Expected Results of Operations

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

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

Information on Directors

Richard Warburton AO

Independent Non-executive Director and Chairman of the Board

Richard Warburton is one of Australia's most prominent company Directors. Prior to becoming a professional Director, he was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand where he was responsible for DuPont's petro-chemical business operations in Australia and New Zealand. Dick is currently the Director and Chairman of Westfield Retail Trust (appointed December 2010), and Chairman of Citigroup Pty Limited.

Dick was Director and Chairman of Tandou Limited (appointed April 2004, resigned December 2010), Chairman of David Jones Limited, AurionGold Limited, Caltex Australia Limited, and The Board of Taxation, and a Director of Tabcorp Holdings Limited, Southcorp Limited, Nufarm Limited and the Reserve Bank of Australia. Dick is a Fellow (and former National President) of the Australian Institute of Company Directors.

John Ballard

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

John Ballard has extensive senior executive experience across a wide range of industries. He was previously Managing Director and Chief Executive Officer of Southcorp Limited, Managing Director Asia Pacific, United Biscuits Limited and Managing Director Snack Foods, Coca-Cola Amatil Limited, a Director of Woolworths Limited and Email Limited, Chairman of Wattyl Limited, a Director of CSR Limited and subsequently Rinker Limited, a former Director of Fonterra Co-operative Group Limited (appointed May 2006, resigned April 2012) and a Trustee of the Sydney Opera House Trust.

John is currently Chairman of Elders Limited (appointed July 2010), a Director of International Ferro Metals Limited (appointed March 2010), Chairman of the Advisory Boards at Pacific Equity Partners and a Director of the Sydney Neuro Oncology Group. John is a Fellow of the Australian Institute of Company Directors.

Information on Directors (continued)

Andy Hogendijk
Independent Non-executive Director and Chairman of the Audit 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 currently a Director of AWE Limited (appointed October 2007), and was previously the Chairman of Gloucester Coal, and a Director of Aditya Birla Minerals Limited, Hills Motorway Management Limited and Magnesium International Limited. Andy is a Fellow of the Australian Society of Certified Practising Accountants and the Australian Institute of Company Directors.

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

Chris Mackay is Chairman of Magellan Financial Group Limited (appointed November 2006), and is portfolio manager of the Company. Chris is a Director of Consolidated Media Holdings Limited [formerly Publishing & Broadcasting Limited] (appointed March 2006) and Seven Group Holdings Limited (appointed June 2010).

Chris retired as Chairman of the investment bank UBS Australasia, in 2006, having previously been its Chief Executive Officer. He is a member of the Federal Treasurer's Financial Sector Advisory Council, and is a former member of the Business Council of Australia and Director of the International Banks & Securities Association.

Hamish Douglass
Non-executive Director

Hamish Douglass is Chief Executive Officer of Magellan Financial Group Limited (appointed November 2006), and Magellan Asset Management Limited. Hamish has more than 20 years experience in financial services and was formerly Co-Head of Global Banking at Deutsche Bank, Australasia.

Hamish is a member of the Australian Government's Foreign Investment Review Board (FIRB), a member of the Australian Government's Financial Literacy Board, a member of the Australian Government's Takeovers Panel and is a member of the Forum of Young Global Leaders – World Economic Forum.

Information on Company Secretaries

Nerida Campbell
Company Secretary

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

Leo Quintana
Company Secretary

Leo Quintana has 12 years experience as a corporate lawyer. Leo is the Legal Counsel and Company Secretary of Magellan Financial Group Limited, Magellan Asset Management Limited and Magellan Flagship Fund Limited. Leo is admitted as a solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws and a Bachelor of Business. Leo is a member of the Law Society of New South Wales and of the Australian Corporate Lawyers Association.

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2012 and attended by each Director.

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

Environmental Regulation

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

Rounding Off of Amounts

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

Auditor

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

Non-audit Services

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

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

	2012	**2011**
	$	**$**
Other services – tax compliance	7,000	7,000
Other services	6,600	-
	13,600	**7,000**

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

Remuneration Report (Audited)

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

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

Remuneration of Non-executive Directors

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

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

Directors' fees

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

The Non-Independent Non-executive Directors' remuneration is determined by the Board of Magellan Financial Group Limited, the parent entity of the Investment Manager, and in respect to the year ended 30 June 2012 comprised fixed base compensation and a discretionary variable compensation amount.

The amount of fixed compensation was not dependant on the satisfaction of a performance condition, or the performance of the Company, the Company's share price, or dividends paid by the Company. The amount of the variable compensation paid to the Non-Independent Non-executive Directors was determined with regard to the profitability of Magellan Financial Group Limited and its controlled entities' (MFG Group) funds management business, and MFG Group's overall profitability and capacity to pay dividends to MFG Group's shareholders.

Retirement benefits for Directors

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

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

Remuneration Report (Audited) (continued)

Remuneration of Non-executive Directors (continued)

Other benefits (including termination) and incentives

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

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

Remuneration of the Investment Manager

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

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

- a performance fee of 10% of the outperformance of the investment portfolio relative to the MSCI World Index, subject to performance also meeting absolute return and high water mark hurdles. Performance fee entitlements are calculated on an annual basis, commencing on 1 July of each calendar year.

No performance fee was payable in respect of the year ended 30 June 2012 and no fee will be payable for the year ending 30 June 2013 because the NTA per share at the start of each year was below the required high water mark.

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

Remuneration Report (Audited) (continued)

Details of Remuneration

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

	30 June 2012			30 June 2011		
Independent Non-executive Directors	**Short term Benefits (Salary) $**	**Post-employment Benefits (Superannuation) $**	**Total $**	**Short term Benefits (Salary) $**	**Post-employment Benefits (Superannuation) $**	**Total $**
R Warburton	77,982	7,018	85,000	77,982	7,018	85,000
J Ballard	57,340	5,160	62,500	52,339	10,161	62,500
A Hogendijk	57,340	17,660	75,000	51,606	23,394	75,000
Total Independent Non-executive Directors remunerated by the Company	**192,662**	**29,838**	**222,500**	**181,927**	**40,573**	**222,500**

The Company paid base fees to the Investment Manager for the year ended 30 June 2012 of $3,789,441 (2011: $3,279,549), and performance fees of $nil (2011: $nil).

The total amount paid or payable by the Company to the Key Management Personnel (Independent Non-executive Directors and the Investment Manager) for the year ended 30 June 2012 was $4,011,941 (2011: $3,502,049).

Remuneration Report (Audited) (continued)

Details of Remuneration (continued)

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

2012

	Short term Benefits		Post-employment Benefits	Total
	Salary	**Cash Bonus** [1]	**Superannuation**	
	$	**$**	**$**	**$**
Non-Independent Non-executive Directors				
C Mackay	234,225	150,000	15,775	400,000
H Douglass	234,225	150,000	15,775	400,000
Total Key Management Personnel remunerated by the Investment Manager	**468,450**	**300,000**	**31,550**	**800,000**

[1] The cash bonus in respect to the year ended 30 June 2012 is paid in the following financial year.

Comparative information for the year ended 30 June 2011 is as follows:

2011

	Short term Benefits		Post-employment Benefits	Total
	Salary	**Cash Bonus**	**Superannuation**	
	$	**$**	**$**	**$**
Non-Independent Non-executive Directors				
C Mackay	234,801	-	15,199	250,000
H Douglass	234,801	-	15,199	250,000
Total Key Management Personnel remunerated by the Investment Manager	**469,602**	**-**	**30,398**	**500,000**

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

Remuneration Report (Audited) (continued)

Service Agreements

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

Richard Warburton AO, Chairman and Independent Non-executive Director
- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2012 of $85,000.

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 period ended 30 June 2012 of $62,500

Andy Hogendijk, Independent Non-executive Director and Chairman of the Audit and Risk Committee
- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the period ended 30 June 2012 of $75,000

Employment Agreements

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

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

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

  Under the terms of the contract, for the period to 30 June 2012, the Director:

  - receives fixed compensation structured as a total employment cost package of $250,000 per annum, inclusive of superannuation, which may be received as a combination of cash, non-cash benefits and superannuation contributions.

  - may receive a bonus at the discretion of the Board of the Magellan Financial Group Limited (MFG), the parent entity of the Investment Manager.

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

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

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

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

- o may terminate the contract at any time by giving not less than 3 months written notice to the Investment Manager. The Investment Manager may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.

- o may have his contract terminated by the Investment Manager at any time without notice if serious misconduct has occurred. Where the contract is terminated for cause, the Investment Manager must pay any accrued but unpaid amounts to which the Director is entitled after setting off for misfeasance for any loss suffered by the Investment Manager from the acts which caused the termination.

The Director and the Investment Manager entered into a replacement employment contract on 7 June 2012 with effect from 1 July 2012. The key terms of the agreement were released to the ASX by Magellan Financial Group Limited on 7 June 2012.

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

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

  Under the terms of the contract, for the period to 30 June 2012, the Director:

  - o receives fixed compensation structured as a total employment cost package of $250,000 per annum, inclusive of superannuation, which may be received as a combination of cash, non-cash benefits and superannuation contributions.

  - o may receive a bonus at the discretion of the Board of the Magellan Financial Group Limited (MFG), the parent entity of the Investment Manager.

Remuneration Report (Audited) (continued)

Employment Agreements (continued)

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

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

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

- may terminate the contract at any time by giving not less than 3 months written notice to the Investment Manager and the Investment Manager may terminate the contract by providing 12 months written notice or providing payment in lieu of that notice.

- may have his contract terminated by the Investment Manager at any time without notice if serious misconduct has occurred. Where the contract is terminated for cause, the Investment Manager must pay any accrued but unpaid amounts to which the Director is entitled after setting off for misfeasance for any loss suffered by the Investment Manager from the acts which caused the termination.

The Director and the Investment Manager entered into a replacement employment contract on 7 June 2012 with effect from 1 July 2012. The key terms of the agreement were released as a notice to the ASX by Magellan Financial Group Limited on 7 June 2012.

The Director also holds MFG Class B shares which have no entitlement to receive a dividend and which convert into MFG ordinary shares on the first business day after 21 November 2016 in accordance with a conversion formula. The service conditions attached to the conversion of the MFG Class B shares to MFG ordinary shares were satisfied on 1 July 2012.

Directors' Interests in Contracts

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

Indemnification and Insurance of Directors and Officers

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

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

Dated at Sydney this 8th day of August 2012.

	Chris Mackay
Director	Director

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2012

ERNST & YOUNG

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

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

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

In relation to our audit of the financial report of Magellan Flagship Fund Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
8 August 2012

MAGELLAN FLAGSHIP FUND LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role and responsibilities of the Board

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

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

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

The principal responsibilities of the Board include:

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

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

Role and responsibilities of the Board (continued)

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

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

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

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

Induction of the Investment Manager's Senior Executives

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

2. STRUCTURE THE BOARD TO ADD VALUE

Board Composition

The Company's Board must comprise Directors:

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

2. STRUCTURE THE BOARD TO ADD VALUE (continued)

Board Composition (continued)

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

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

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

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

Independent Directors

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

Access to information

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

Retirement of Directors

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

2. STRUCTURE THE BOARD TO ADD VALUE (continued)

Nominations and appointment of new Directors

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

Review of Board performance

Under the Company's Board Charter, the Board will conduct a review of its collective performance and the performance of its Directors every two years. This review will consider the Board's role; the processes of the Board and its Committees; the Board's performance; and each Director's performance before the Director stands for re-election. This review is being undertaken by the Board in August 2012.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Corporate Code of Conduct

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

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

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

Personal Trading Policy

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

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

A copy of the Company's Personal Trading Policy has been lodged with the Australian Securities Exchange (ASX) is available on the Company's website.

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

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING (continued)

Diversity

MFF has not established a Diversity Policy or set measurable objectives for gender diversity in accordance with ASX Recommendations 3.2 and 3.3. Given the Company has no employees, the Board has determined that a Diversity Policy and the setting of measurable objectives for achieving gender diversity are not warranted.

The Company has no female Board members.

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

Committee composition

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

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

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

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

Objectives and responsibilities of the Committee

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

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

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

The Committee will endeavour to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process;
- promote a culture of compliance within the Company;

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING (continued)

- ensure effective communication between the Board, the Investment Manager and the Investment Manager's senior financial and compliance management;
- ensure effective audit functions and communications between the Board and the Company's auditor;
- ensure that compliance strategies and compliance functions are effective; and
- ensure that Directors are provided with financial and non-financial information that is of high quality and relevant to the judgments to be made by them.

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

During the year, in accordance with the Committee's Charter, the Committee conducted its annual appraisal of the performance of the Committee's members and the achievement of the Committee's objectives.

Independent external audit

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

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

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

5. MAKE TIMELY AND BALANCED DISCLOSURE

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

Continuous Disclosure Policy

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

- the Company as a minimum complies with its continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules;

5. MAKE TIMELY AND BALANCED DISCLOSURE (continued)

- the Company provides shareholders and the market with timely, direct and equal access to information issued by it; and
- that information which is not generally available and which may have a material effect on the price or value of the Company's securities be identified and appropriately considered by the Directors for disclosure to the market.

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

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

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Communication to Shareholders

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

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

Shareholder Meetings

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

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

7. RECOGNISE AND MANAGE RISK

Risk management responsibility

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

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

Risks assessed include:

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

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

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

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

Assurance

In respect of the year ending 30 June 2012 the Investment Manager's Portfolio Manager for the Company and Chief Financial Officer have made the following certifications to the Board:

a) The Company's Financial Statements and notes applicable thereto represent a true and fair view of its financial position and performance and comply with the requirements of the Accounting Standards, Corporations Act and Corporations Regulations; and
b) The risk management and internal compliance and control systems are sound, appropriate, operating efficiently and effectively managing the Company's material business risks.

7. RECOGNISE AND MANAGE RISK (continued)

Investment Manager Governance

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

8. REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

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

Remuneration for the Independent Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Independent Non-Executive Directors. Further information is provided in the Remuneration Report contained within the Directors' Report.

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	30 June 2012 $ '000	30 June 2011 $ '000
Investment income			
Dividend income		6,155	6,605
Interest income		66	36
Net changes in fair value of investments		74,867	4,207
Net losses on foreign currency cash and borrowings		(6,888)	(1,580)
Net gains on foreign exchange		2,346	150
Total investment income		**76,546**	**9,418**
Expenses			
Management fees		3,789	3,280
Finance costs – interest expense		5,152	4,295
Directors' fees		222	222
Employment related taxes		43	-
Auditor's remuneration		49	43
Transaction costs		80	37
Registry fees		49	47
Fund administration fees		56	52
ASX listing, clearing and settlement fees		47	45
Legal and professional fees		15	7
Other expenses		55	57
Total operating expenses		**9,557**	**8,085**
Profit before income tax		**66,989**	**1,333**
Income tax (expense)	2(a)	(21,104)	(1,353)
Net profit / (loss) after income tax		**45,885**	**(20)**
Other comprehensive income		-	-
Total comprehensive income / (loss) for the period		**45,885**	**(20)**
Basic earnings / (loss) per share (cents per share)	6	**13.23**	**(0.01)**
Diluted earnings / (loss) per share (cents per share)	6	**13.23**	**(0.01)**

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

MAGELLAN FLAGSHIP FUND LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	30 June 2012 $ '000	30 June 2011 $ '000
Current assets			
Cash and cash equivalents	7(a)	167,408	43
Investments at market value	3	139,337	327,287
Receivables	4	23,360	893
Prepayments		9	12
Total current assets		**330,114**	**328,235**
Non-current assets			
Deferred tax assets	2(d)	8,147	28,453
Total non-current assets		**8,147**	**28,453**
Total assets		**338,261**	**356,688**
Current liabilities			
Net interest bearing borrowings	7(b)	-	61,535
Payables	5	1,073	858
Total current liabilities		**1,073**	**62,393**
Total liabilities		**1,073**	**62,393**
Net assets		**337,188**	**294,295**
Equity			
Contributed equity	8	354,097	357,089
Accumulated loss		(16,909)	(62,794)
Total equity		**337,188**	**294,295**

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 2012

	Note	30 June 2012 $ '000	30 June 2011 $ '000
Contributed equity			
Balance at beginning of year		357,089	359,913
Shares acquired under buy-back		(2,986)	(2,822)
Transaction costs on share buy-back		(8)	(3)
Transaction costs on share buy-back – tax effect	2(c)	2	1
Balance at end of year		**354,097**	**357,089**
Accumulated loss			
Balance at beginning of year		(62,794)	(62,774)
Total comprehensive income / (loss) for the year		45,885	(20)
Balance at end of year		**(16,909)**	**(62,794)**
Total equity		**337,188**	**294,295**

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 2012

	Note	30 June 2012 $ '000	30 June 2011 $ '000
Cash flows from operating activities			
Dividends received	7(c)	5,774	5,837
Interest received		66	36
Payments for purchase of investments		(68,260)	(58,860)
Proceeds from sale of investments		308,235	73,731
Net foreign exchange gains		2,346	150
Management fees paid		(3,591)	(3,287)
Other expenses paid		(636)	(490)
Net cash inflow from operating activities	7(d)	**243,934**	**17,117**
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		(68,423)	(10,021)
Interest paid		(5,152)	(4,295)
Payment for shares under buy-back		(2,986)	(2,822)
Payment of share buy-back costs		(8)	(3)
Net cash (outflow) from financing activities		**(76,569)**	**(17,141)**
Net increase/(decrease) in cash and cash equivalents		167,365	(24)
Cash and cash equivalents at the beginning of the year		43	67
Cash and cash equivalents at the end of the year	7(a)	**167,408**	**43**

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

1. Summary of Significant Accounting Policies

Corporate information

The financial report of Magellan Flagship Fund Limited (the "Company") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 8 August 2012.

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

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

Basis of Preparation

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

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

(a) Compliance with IFRS

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

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

(b) Operating segments

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

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

(c) Income Tax

The income tax expense or benefit for the year is the tax payable or receivable on the current year taxable income or loss based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Under AASB 112: *Income Taxes*, deferred tax balances are determined using the Balance Sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Statement of Financial Position and their associated tax bases.

1. Summary of Significant Accounting Policies (continued)

(c) Income Tax (continued)

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

(d) Investments at Market Value

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

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

(e) Foreign Currency Translation

The functional and presentation currency of the Company as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates* is the Australian dollar.

Transactions denominated in foreign currencies are translated into Australian currency at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate ruling at the Statement of Financial Position date.

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

(f) Investment Income

Dividend income

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

Net changes in fair value of investments

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

1. Summary of Significant Accounting Policies (continued)

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

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

(i) Cash and cash equivalents
Cash comprises 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.

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

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

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

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

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

(m) Goods and Services Tax (GST)
Revenue, expenses and assets recognised net of the amount of any GST except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of that purchase.

1. Summary of Significant Accounting Policies (continued)

(n) New Accounting Standards and Interpretations

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

(i) New Standards Adopted

The Company has adopted the following new Australian Accounting Standard which is applicable for interim and annual periods beginning on or after 1 January 2011:

a) AASB 124 *Related Party Disclosures* (revised December 2009) effective 1 January 2011 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:

   (i) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other;
   (ii) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and
   (iii) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

   Application of this standard did not affect any of the amounts recognised in the financial statements.

(ii) New Standards Not Yet Adopted

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

a) AASB 10: *Consolidated Financial Statements*

   AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.*

   The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

   Consequential amendments were also made to other standards via AASB 2011-7.

   AASB 10 is applicable to annual reporting periods beginning on or after 1 January 2013. The Company has not yet evaluated the effect on the Company's financial statements.

1. Summary of Significant Accounting Policies (continued)

(n) New Accounting Standards and Interpretations (continued)

b) AASB 11: *Joint Arrangements*

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.

AASB 11 is applicable to annual reporting periods beginning on or after 1 January 2013. The Company has not yet evaluated the effect on the Company's financial statements.

c) AASB 12: *Disclosure of Interests in Other Entities*

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB 12 is applicable to annual reporting periods beginning on or after 1 January 2013.
The Company has not yet evaluated the effect on the Company's financial statements.

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

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

e) IFRS 13: *Fair Value Measurement*

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

2. Income Tax

	30 June 2012 $ '000	30 June 2011 $ '000
(a) The income tax (expense) attributable to the financial year differs from the prima facie amount payable on the operating profit. The difference is reconciled as follows:		
Profit before income tax expense	66,989	1,333
Prima facie income tax (expense) on the operating profit at 30%	(20,097)	(400)
Write-off of deferred income tax benefit on foreign tax paid [1]	(1,000)	(953)
Over / (under) provision of prior year tax	(7)	-
	(21,104)	**(1,353)**
(b) The major components of income tax (expense) are:		
Current income tax benefit	2,308	1,187
Deferred income tax (expense)		
– origination and reversal of temporary differences	(22,405)	(1,587)
– write-off of deferred income tax benefit on foreign tax paid [1]	(1,000)	(953)
Over / (under) provision of prior year tax	(7)	-
	(21,104)	**(1,353)**
(c) Income tax (expense) charged directly to equity:		
Costs associated with the issue / buy-back of shares	(2)	(1)
	(2)	**(1)**
(d) Deferred tax assets relate to the following:		
Tax losses carried forward	5,491	3,195
Capital losses carried forward	2,099	14,169
Costs associated with the issue / buy-back of shares	5	5
Unrealised (gain) / loss on investments	(318)	10,081
Allowable tax credits	915	1,120
Other temporary differences	(45)	(117)
	8,147	**28,453**

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

[1] From 1 July 2008 changes to the foreign tax credit regime have resulted in foreign tax withheld on foreign dividends being off-set only against taxable income in the related tax year. As a result of this change and the Company being in a tax loss position, current year foreign tax credits of $795k and pre-commencement excess foreign income tax credits of $205k were written off during the financial year.

3. Investments at Market Value

	Domicile of Principal Exchange Listing	30 June 2012 $ '000	30 June 2011 $ '000
Wells Fargo and Co	United States	22,307	15,804
Visa Inc *	United States	15,746	11,638
McDonalds *	United States	15,502	16,894
US Bancorp	United States	13,826	8,703
CME Group Inc	United States	11,644	-
Procter & Gamble *	United States	7,577	10,004
Google *	United States	6,139	19,399
American Express *	United States	5,917	66,023
China Mobile Limited	Hong Kong	5,841	18,276
MasterCard Inc *	United States	5,071	2,447
Apple Inc*	United States	3,689	-
Lowe's	United States	3,627	2,408
Bank of America	United States	3,581	4,589
WalMart Stores *	United States	3,352	6,107
China Telecom Limited	Hong Kong	2,766	-
China Unicom Limited	Hong Kong	2,496	-
HCA Holdings Inc	United States	1,689	-
Tesco *	United Kingdom	1,614	2,668
Singapore Tech Eng	Singapore	1,554	-
McGraw-Hill Companies Inc	United States	1,317	-
Total top 20 holdings		**135,255**	**184,960**
Other companies		4,082	142,327
		139,337	**327,287**

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

Under AASB 7: *Financial Instruments: Disclosures,* fair value measurements are categorised under a fair value hierarchy having three levels (Level 1, Level 2 and Level 3).

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

3. Investments at Market Value (continued)

The Company uses the Level 1 method to revalue investments at market value measured at fair value through profit and loss to fair value at each reporting date as follows:

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

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

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

	30 June 2012	30 June 2011
	$	$
US Dollar	1.0251	1.0706
Euro	0.8077	0.7384
British Pound	0.6535	0.6669
Swiss Franc	0.9702	0.9014
Hong Kong Dollar	7.9512	8.3306
Singapore Dollar	1.2985	1.3143

4. Receivables

	30 June 2012	30 June 2011
	$ '000	$ '000
Dividends receivable	182	404
Foreign tax recoverable	93	285
Settlements receivable – shares sold	22,978	135
Goods and Services Tax (GST)	107	69
	23,360	**893**
Denomination of current receivables by geographic location:		
Australian Dollars	107	97
US Dollars	10,257	512
Euro	1	8
Hong Kong Dollars	12,873	-
Swiss Francs	92	276
British Pounds	30	-
	23,360	893

5. Payables

	30 June 2012 $ '000	30 June 2011 $ '000
Accrued expenses	1,032	834
Trade payables	41	24
	1,073	**858**
Denomination of current payables by geographic location:		
Australian Dollars	1,073	858
	1,073	858

6. Earnings Per Share

	30 June 2012	30 June 2011
Basic earnings / (loss) per share (cents)	13.23	(0.01)
Diluted earnings / (loss) per share (cents)	13.23	(0.01)
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	346,745,355	349,601,834
Net profit / (loss) after income tax used in the calculation of basic and diluted earnings per share ($'000)	**45,885**	**(20)**

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

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

(a) Current assets - Cash and cash equivalents

	30 June 2012 $ '000	30 June 2011 $ '000
Cash at bank – denominated in Australian Dollars	31	43
Borrowings – denominated in Australian Dollars	(76,916)	-
Cash – denominated in US Dollars	204,478	-
Borrowings – denominated in Euros	(1,966)	-
Borrowings – denominated in British Pounds	(810)	-
Cash – denominated in Swiss Francs	9,727	-
Cash – denominated in Hong Kong Dollars	9,788	-
Cash – denominated in Singapore Dollars	23,076	-
	167,377	-
	167,408	**43**

(b) Current liabilities – Net interest bearing borrowings

	30 June 2012 $ '000	30 June 2011 $ '000
Borrowings – denominated in Australian Dollars	-	(84,495)
Cash – denominated in US Dollars	-	7,708
Borrowings – denominated in Euros	-	(389)
Cash – denominated in British Pounds	-	657
Cash – denominated in Swiss Francs	-	6,153
Cash – denominated in Hong Kong Dollars	-	1,908
Cash – denominated in Singapore Dollars	-	6,923
	-	**(61,535)**

The Company holds cash at bank which is at call and is at floating interest rates.

The Company holds cash with Merrill Lynch International (MLI) which are demand deposits and are at floating interest rates. The Company has a multi-currency financing facility provided by Merrill Lynch International (Australia) Limited (MLIA). Borrowings under this facility are interest bearing (refer note 14). The cash balances held with MLI and borrowings provided by MLIA are netted, as there is a right of set-off.

(c) Dividends received

Foreign dividends received are recognised net of foreign taxes withheld.

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

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

	30 June 2012 $ '000	30 June 2011 $ '000
Net profit / (loss) after income tax	45,885	(20)
Net losses on foreign currency cash and borrowings	6,888	1,580
Interest expense	5,152	4,295
Decrease/(increase) in investments at market value	187,950	7,475
Decrease/(increase) in dividends receivable	222	237
Decrease/(increase) in foreign tax recoverable	192	(28)
Decrease/(increase) in GST receivables	(38)	22
(Increase)/decrease in prepayments	3	-
Decrease/(increase) in unsettled trades receivable	(22,843)	3,167
(Decrease)/increase in management fee payable	199	(8)
Increase/(decrease) in trade payables and accrued expenses	18	(2)
(Increase)/decrease in deferred tax	20,306	399
Net cash inflow/(outflow) from operating activities	**243,934**	**17,117**

Non-cash financing and investing activities:

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

8. Contributed equity

	30 June 2012 $ '000	30 June 2011 $ '000
Balance at beginning of the year	357,089	359,913
Shares cancelled under share buy-back	(2,992)	(2,824)
Balance at end of the year	**354,097**	**357,089**

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

At 30 June 2012 344,844,354 ordinary shares were on issue (2011: 349,348,689).
4,504,335 shares were cancelled during the year (2011: 4,477,348) under the share buy-back as described in the Directors' Report and in note 15.

9. Statement of Net Asset Value

	30 June 2012	30 June 2011
Reconciliation of Net Asset Value to the ASX		
Net Asset Value per Statement of Financial Position $'000	337,188	294,295
Divided by:		
Number of shares on issue	344,844,354	349,348,689
Net Asset Value – cents per share	**98**	**84**
Net Asset Value – cents per share ASX announcement 3 July 2012	**98**	**84**

10. Risk Management

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

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

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

The Company has a policy that at the time any new borrowings are entered into the aggregate of those new borrowings and any pre-existing borrowings must not exceed 20% of the investment portfolio value. The use of derivatives is very limited and permitted only where the Investment Manager considers that a derivative is preferable to purchasing ordinary share capital, in accordance with the investment objectives and philosophy. Short selling activity is very limited and permitted only in relation to implementing hedges of underlying investments or merger arbitrage relating to a portfolio investment. The use of derivatives and short selling did not occur during the year ended 2012.

(a) Market Risk

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

10. Risk Management (continued)

(a) Market Risk (continued)

Price Risk (continued)

Over the past 10 years, the annual movement in the major global share indices (MSCI and S&P 500) has varied between +11.5% and -29.7% (in AUD) and +28.7% and -40.7% (in USD). Performance of markets is not always a reliable guide to future performance, and the Company's investment portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably be expected within the portfolio over the next twelve months. The impact of equity price movements, expressed in percentage terms, on the net profit reported by the Company, is linear. Each 5% incremental increase in the market prices of the Company's portfolio compared to 30 June 2012 would increase the total equity and net profit by $4,877,000 (2011: $11,455,000) and each 5% incremental decrease would have an equal and opposite impact.

Interest Rate Risk

Interest rate risk is the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company had cash and cash equivalents and net interest bearing borrowings with interest rate exposures as follows:

	Interest rate Cash & cash equivalents/ (Borrowings) %	30 June 2012 $ '000	Interest rate Cash & cash equivalents/ (Borrowings) %	30 June 2011 $ '000
Australian Dollars	3.45	**31**	4.70	**43**
US Dollars	0.10	204,478	0.16	7,708
British Pounds	n/a	-	0.60	657
Swiss Francs	0.00	9,727	0.10	6,153
Hong Kong Dollars	0.20	9,788	0.20	1,908
Singapore Dollars	0.16	23,076	0.18	6,923
		247,100		23,349
Australian Dollars	(4.84)	(76,916)	(5.61)	(84,495)
Euros	(1.57)	(1,966)	(1.91)	(389)
British Pounds	(1.81)	(810)	n/a	-
		(79,692)		(84,884)
		167,377		**(61,535)**
		167,408		**(61,492)**

The Company holds cash at bank with NAB which is at call and is at floating interest rates.

The Company holds cash with Merrill Lynch International (MLI) which are demand deposits and are at floating interest rates. The Company has a multi-currency financing facility provided by Merrill Lynch International (Australia) Limited (MLIA). Borrowings under this facility are interest bearing (refer note 14). The cash balances held with MLI and borrowings provided by MLIA are netted, as there is a right of set-off.

10. Risk Management (continued)

(a) Market Risk (continued)

Interest Rate Risk (continued)
The sensitivity of the Company's net profit and equity to changes in interest rates is reflected in the impact on the interest income that would be earned on its cash and cash equivalents, or the finance costs - interest expense on its borrowings.

Based on the gross cash and cash equivalents held by the Company at balance date, a 10 basis points increase in floating interest rates, with all other variables held constant, would increase annual interest income by $247,000 (2011:$23,000).

Based on the gross borrowings held by the Company at balance date, a 10 basis points increase in floating interest rates, with all other variables held constant, would increase annual finance costs - interest expense by $80,000 (2011: $85,000).

The net effect of a 10 basis points increase in floating interest rates with all other variables held constant, would increase net profit and equity by $167,000 (2011:$62,000 decrease).

Based on the gross cash and cash equivalents held by the Company at balance date, a 10 basis points decrease[1]in floating interest rates, with all other variables held constant, would decrease annual interest income by $237,000 (2011:$23,000).

Based on the gross borrowings held by the Company at balance date, a 10 basis points decrease in floating interest rates, with all other variables held constant, would decrease annual finance costs - interest expense by $80,000 (2011: $85,000).

The net effect of a 10 basis points decrease in floating interest rates with all other variables held constant, would decrease net profit and equity by $157,000 (2011:$62,000 decrease).

[1] Interest rates on foreign currency cash and cash equivalent balances that are 10 basis points or less, have for the purposes of the sensitivity analysis been reduced to 0.00%

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

10. Risk Management (continued)

(a) Market Risk (continued)

Currency Risk (continued)

At 30 June 2012 the Company held net monetary assets denominated in foreign currencies (2011: net monetary liabilities denominated in foreign currencies). The Australian dollar equivalent of the foreign currency monetary assets and liabilities is detailed in note 7(b). At balance date, had the Australian dollar strengthened against each of these currencies, and with all other variables held constant, the impact on total equity and net profit would have been as follows:

30 June 2012			30 June 2011		
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%	(14,314)	US Dollars	10%	(539)
Euros	10%	138	Euros	10%	27
British Pounds	10%	57	British Pounds	10%	(46)
Swiss Francs	10%	(681)	Swiss Francs	10%	(431)
Hong Kong Dollars	10%	(685)	Hong Kong Dollars	10%	(133)
Singapore Dollars	10%	(1,615)	Singapore Dollars	10%	(485)
		(17,100)			**(1,607)**

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

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

At 30 June 2012, had the Australian dollar strengthened by 10% against its foreign currency exposure to other assets and liabilities with all other variables held constant, total equity and net profit would have decreased by $11,390,000 (2011: $22,845,000). A 10% decline in the Australian dollar would have an equal and opposite impact.

At 30 June 2012, had the Australian dollar strengthened by 10% against its foreign currency exposure to total foreign monetary and non-monetary assets and liabilities with all other variables held constant, total equity and net profit would have decreased by $28,490,000 (2011: $22,452,000). A 10% decline in the Australian dollar would have an equal and opposite impact.

10. Risk Management (continued)

(a) Market Risk (continued)

Currency Risk (continued)

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

All amounts stated in AUD equivalents	**30 June 2012 $ '000**	**30 June 2011 $ '000**
Assets at fair value*		
US Dollars	337,675	269,294
Euros	(1,359)	122
British Pounds	835	2,668
Singapore Dollars	25,672	-
Swiss Francs	10,412	35,999
Hong Kong Dollars	33,769	18,275
	407,004	326,358
Liabilities at fair value*		
US Dollars	-	(7,708)
Euros	-	389
British Pounds	-	(657)
Singapore Dollars	-	-
Swiss Francs	-	(6,153)
Hong Kong Dollars	-	(1,908)
Singapore Dollars	-	(6,923)
	-	(22,960)

* Foreign currency cash balances held with MLI are netted against foreign currency borrowings provided by MLIA (refer note 7(b))

Reconciliation of assets and liabilities exposed to foreign currencies to the Statement of Financial Position:

Assets - exposed to foreign currencies	407,004	326,358
Assets - not exposed to foreign currencies	(68,743)	30,330
Assets - as per Statement of Financial Position	338,261	356,688
Liabilities - exposed to foreign currencies	-	(22,960)
Liabilities - not exposed to foreign currencies	(1,073)	85,353
Liabilities - as per Statement of Financial Position	(1,073)	62,393
Net assets - exposed to foreign currencies	407,004	349,318
Net assets - not exposed to foreign currencies	(69,816)	(55,023)
Net assets - as per Statement of Financial Position	337,188	294,295

10. Risk Management (continued)

(b) Liquidity Risk

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

This includes the risk that the Company:

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

As at 30 June 2012 net borrowings repayable on demand were $Nil (2011: $61,535,000), and amounts payable within 28 days relating to other payables were $1,073,000 (2011: $858,000).

The Company has sufficient funds to meet these liabilities as and when due as all of the entities that the Company has invested in are listed on major securities exchanges and are highly liquid. As at 30 June 2012 the market value of the Company's investments is $139,337,000 (2011: $327,287,000) and the value of these investments exceeds the liabilities of the Company.

(c) Credit Risk

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

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

The Company has entered into an International Prime Brokerage Agreement (IPBA) with Merrill Lynch International (MLI), a subsidiary of Bank of America. The services provided by MLI include clearing and settlement of transactions, securities lending and acting as custodian for the Company's assets. Under an addendum to the IPBA, Merrill Lynch International (Australia) Limited may provide financing services to the Company. The IPBA with MLI is in a form that is typical of prime brokerage arrangements. Each of the Company's securities held by MLI may be used by MLI for its own purposes up to an agreed limit of A$200 million, whereupon such securities will become the property of MLI and the Company will have a right against MLI for the return of equivalent securities. 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 is not segregated from MLI's own cash and may be used by MLI in the course of its business. In the event of MLI becoming insolvent the Company would rank as an unsecured creditor and the Company may not be able to recover its cash in full. The Company has granted MLI a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA.

The Company's IPBA arrangements include access to a separate custody facility. Under this arrangement the Company may, at its sole election and at a time of its own choosing, cause the transfer of the Company's unencumbered securities from MLI to a separate custodian, Prime Asset Custody Transfers Limited (PACT). MLI and PACT form part of the Bank of America Merrill Lynch Group of Companies. If transferred to PACT, the Company's securities would be held in a custody account by PACT pursuant to a Custody Agreement. PACT may not use in any way the Company's securities credited to the PACT custody account for its own purposes.

10. Risk Management (continued)

(c) Credit Risk (continued)

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

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2012, by Standard & Poor's as being A-, and by Moody's as being Baa2 (A and A2 respectively at 30 June 2011)

11. Investment Manager

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

Base fee

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

Performance fee

The Investment Manager is entitled to a performance fee of 10% of the outperformance of the investment portfolio relative to the MSCI World Index, subject to performance also meeting absolute return and high water mark hurdles. Performance fee entitlements are calculated on an annual basis, commencing on 1 July of each calendar year.

No performance fee was payable in respect of the year ended 30 June 2012 and no fee will be payable for the year ending 30 June 2013 because the NTA per share at the start of each year was below the required high water mark.

The following amounts were incurred during the year:

	30 June 2012 $	30 June 2011 $
Base fee	3,789,441	3,279,549
Performance fee	-	-
	3,789,441	**3,279,549**

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

	30 June 2012 $	30 June 2011 $
Base fee	**1,031,572**	**834,084**

12. Contingent Assets, Liabilities and Commitments for Expenditure

No contingent assets or liabilities exist at balance date.

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

13. Segment Information

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

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

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

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

Note 3 provides further domicile information.

14. Borrowings

During the year ended 30 June 2012 the Company continued to be provided with a multi-currency financing facility by Merrill Lynch International (Australia) Limited (MLIA), a wholly owned subsidiary of Bank of America. The facility is associated with the International Prime Brokerage Agreements (IPBA) entered into by the Company and Merrill Lynch International (MLI). The Company has granted MLI a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA.

As at 30 June 2012 the net borrowings under the facility, repayable on demand, was $Nil (30 June 2011: $61.5 million). In the unlikely event that MLIA required repayment upon short notice, the Directors are confident that the borrowings could be refinanced via an alternative lender or the borrowings could be repaid via settlement proceeds from the sale of part of the Company's investment portfolio, having regard to the high quality and liquidity of the Company's investments.

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

15. Capital Management

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

The Company recognises that its capital will fluctuate in accordance with market conditions and in order to maintain or adjust the capital structure, may vary the amount of dividends paid, issue new shares from time to time, or buy back its own shares. The Company completed an on-market share buy-back of 20,000,000 shares at a total cost of approximately $11,200,000 on 30 July 2009. The Company announced a further on-market share buy-back of 20,000,000 shares on 26 August 2009, and as at 8 August 2012 has acquired approximately 13.2 million shares under this buy-back programme at an average price of approximately $0.628 per share.

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

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

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

16. Events Subsequent to Reporting Date

The Directors have resolved to undertake a bonus issue of options on a 1:3 basis to shareholders. The options will be issued for no consideration. Each option will allow the holder to subscribe for a new share in the Company until 31 October 2017 at an exercise price of $1.05 per share. The options are expected to be tradeable on the ASX. It is expected that the Prospectus for the options will be despatched to shareholders in mid to late September 2012.

The Directors have proposed a partially franked dividend out of current year profits of 1.0 cent per ordinary share in respect of the 2012 financial year, which represents $3,448,444. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2012 financial statements.

No significant events have occurred since the end of the reporting year which would impact the Statement of Financial Position of the Company as at 30 June 2012 and the results for the year ended on that date.

17. Transactions with Related Parties

(a) Investment Manager

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

The parent company of the Investment Manager, Magellan Financial Group Limited (MFG), owns 50,198,707 shares or 14.56% of the Company's shares at 30 June 2012 (2011: 48,874,521 shares or 13.99%).

(b) Disclosures relating to Key Management Personnel

Share Holdings

The number of ordinary shares held in the Company at 30 June 2012:

Name	Balance at 1 July 2011	Acquisitions	Disposals	Balance at 30 June 2012
Directors				
Richard Warburton	650,000	-	-	650,000
John Ballard	1,100,000	-	-	1,100,000
Andy Hogendijk	225,000	-	-	225,000
Chris Mackay*	19,053,299	200,000	-	19,253,299
Hamish Douglass *	750,000	-	-	750,000

* Mr. Mackay and Mr. Douglass are also respectively the Chairman and Chief Executive Officer of MFG.

The Investment Manager does not directly or indirectly own shares in the Company. Its parent company MFG held 50,198,707 ordinary shares in the Company at 30 June 2012 (2011: 48,874,521 shares).

Remuneration

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

17. Transactions with Related Parties (continued)

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

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

	2012 $	2011 $
Short term Benefits		
- Salary	192,662	181,927
Post-employment Benefits		
- Superannuation	29,838	40,573
Base fees	3,789,441	3,279,549
Total paid to the Key Management Personnel by the Company	**4,011,941**	**3,502,049**

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

	2012 $	2011 $
Short term Benefits		
- Salary	468,450	469,602
- Cash bonus	300,000	-
Post-employment Benefits		
- Superannuation	31,550	30,398
Total paid to the Key Management Personnel by the Investment Manager	**800,000**	**500,000**

18. Auditors' Remuneration

The auditor of the Company is Ernst & Young.

	30 June 2012 $	30 June 2011 $
Audit and review of the financial reports	46,000	44,000
Other services – tax compliance	7,000	7,000
Other services	6,600	-
	59,600	**51,000**

19. Franking Credit Balance

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

	30 June 2012 $	30 June 2011 $
Franking account balance as at the end of the financial year at 30% (2011: 30%)	388,277	388,277

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

Subsequent to balance date, the Directors have proposed a partially franked dividend out of current year profits of 1.0 cent per ordinary share in respect of the 2012 financial year, which represents $3.4 million. In accordance with accounting standards, the dividend has not been provided for in the 30 June 2012 financial statements. The dividend when paid will give rise to a franking debit of $388,277.

20. The Company

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

Level 7, 1 Castlereagh Street
Sydney NSW 2000

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

MAGELLAN FLAGSHIP FUND LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2012

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

1. In the opinion of the Directors:

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

   (i) giving a true and fair view of the financial position of the Company as at 30 June 2012 and of its performance for the year ended on that date.

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

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2012.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 8th day of August 2012.

Director

Chris Mackay

Director

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

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

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 2012, the statement of 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.

ERNST & YOUNG

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 2012 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 12 to 20 of the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
8 August 2012

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
As at 2 August 2012

Distribution of Shareholders

The distribution of shareholders of the Company as at 2 August 2012 is presented below:

Distribution Schedule of Holdings	Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	95	65,484	0.02
1,001-5,000	366	1,232,139	0.36
5,001-10,000	708	5,981,962	1.73
10,001-100,000	2,455	90,392,264	26.21
100,001 and over	368	247,172,505	71.68
Total	**3,992**	**344,844,354**	**100.00**
Number of holders with less than a marketable parcel	35	11,113	0.00

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 2 August 2012 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Magellan Financial Group Limited	50,198,707	14.56
UBS Wealth Management Australia Nominees Pty Ltd	21,041,526	6.10
Cogent Nominees Pty Limited	18,902,353	5.48
Chris Mackay	10,550,506	3.06
Naumov Pty Ltd	7,697,293	2.23
Mutual Trust Pty Ltd	7,316,095	2.12
Forsyth Barr Custodians Ltd	6,533,087	1.90
Bond Street Custodians Limited <Mosaic Global Fund A/C>	6,315,238	1.83
National Nominees Limited	4,785,601	1.39
Citicorp Nominees Pty Limited	3,823,437	1.11
HSBC Custody Nominees (Australia) Limited	3,753,472	1.09
Perpetual Trustees Consolidated Limited	3,529,760	1.02
Wulura Investments Pty Ltd	2,000,000	0.58
Pokana Pty Ltd	1,844,000	0.54
Victor John Plummer	1,600,000	0.46
Favermead Pty Ltd	1,350,000	0.39
Bond Street Custodians Limited <MCGOL - CP0114 A/C>	1,300,000	0.38
Perri Cutten Superannuation Nominees P/L	1,250,000	0.36
Bond Street Custodians Limited <MCGOL - DR0020 A/C>	1,150,000	0.33
Navigator Australia Limited	1,131,402	0.33
Total shares held by the twenty largest shareholders	156,072,477	45.26
Total shares in issue	**344,844,354**	

MAGELLAN FLAGSHIP FUND LIMITED
SHAREHOLDER INFORMATION
As at 2 August 2012

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders as at 2 August 2012 are listed below:

Shareholder	Number of Ordinary Shares
Magellan Financial Group Limited[(1)]	50,198,707
Christopher Mackay and Associates[(2)]	19,253,299

(1) Including shares acquired after the Notice of Change of Interests of Substantial Holder that was lodged on 16 July 2010- 48,874,521
(2) Includes shares acquired after the Notice of Change of Interests of Substantial Holder that was lodged on 10 December 2008 – 18,874,924

Ordinary Share Capital

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

MAGELLAN FLAGSHIP FUND LIMITED
CORPORATE DIRECTORY

Directors
Richard Warburton AO
John Ballard
Andy Hogendijk
Chris Mackay
Hamish Douglass

Company Secretaries
Leo Quintana
Nerida Campbell

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

Investment Manager
Magellan Asset Management Limited
Level 7, 1 Castlereagh Street
Sydney NSW 2000
Telephone: +61 2 8114 1888
Email: info@magellangroup.com.au
Fax: +61 2 8114 1800

Auditors
Ernst & Young
680 George Street
Sydney NSW 2000

Share Registry
Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

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

Website
www.magellangroup.com.au/mff

MFG MAGELLAN
FLAGSHIP FUND LIMITED