



Corporate Governance Statement

Magellan Flagship Fund Limited

ACN 121 977 884

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**’). As required by the ASX Listing Rules, this statement sets out the extent to which the ASX Recommendations have been followed or, where appropriate, indicates a departure from them with an explanation.

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 directors 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;
- reviewing at regular intervals relevant aspects of the Investment Management Agreement;
- reviewing and having input into overall target portfolio composition;
- 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 relevant aspects of the Administrative Services Agreement;
- 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 legal or regulatory 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 requiring 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;
- Directors who can understand and competently deal with current and emerging business issues; and
- Directors who can effectively review and challenge the performance of the Investment Manager and exercise independent judgment.

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

- R. Warburton A.O (Chairman, independent non-executive director)
- J. Ballard (independent non-executive director)
- A. Hogendijk (independent non-executive director)
- C. Mackay (non-executive director)

- H. Douglass (non-executive director)

Details of each Board member'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 has determined that a five member Board of non-executive Directors is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Company. However, the composition of the Board will be reviewed periodically and its independence, and that of the individual Directors, will be assessed as part of those reviews.

Independent Directors

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

Access to information

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

Retirement of Directors

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

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 not warranted. The Board considers the issues that would otherwise be considered by a Nominations Committee.

Review of Board performance

Under the Company's Board Charter, the Board will conduct a review of its collective performance and the performance of its Directors every two years. This review will consider the Board's role; the processes of the Board and its Committees; the Board's performance; and each Director's performance before the Director stands for re-election. This review was undertaken by the Board in August 2010.

3. **PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

Corporate Code of Conduct

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

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

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

Personal Trading Policy

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

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

A copy of the Company’s Personal Trading Policy is available on the Company’s website.

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

4. **SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

Audit and Risk Committee

Committee composition

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

- A. Hogendijk (Chair, independent non-executive director)
- J. Ballard (independent non-executive director)

- C. Mackay (non-executive director)

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

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

Objectives and responsibilities of the Committee

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

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

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

The Committee will endeavour to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process;
- promote a culture of compliance within the Company;
- ensure effective communication between the Board, the Investment Manager and the Investment Manager's senior financial and compliance management;
- ensure effective audit functions and communications between the Board and the Company 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 after each Committee meeting.

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 Listing Rules and releasing relevant information to the market and shareholders 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;
- 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 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 market announcements will also be available its website after they are released to ASX.

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

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Communication to Shareholders

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

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

- the posting of significant information on the Company's website promptly after it is disclosed to the market.

Shareholder Meetings

The Company holds its Annual General Meeting in October and a copy of the notice of Annual General Meeting is posted on the Company's website and mailed to shareholders. The Board encourages shareholders to attend the Annual General Meeting or to appoint a proxy to vote on their behalf if they are unable to attend. The formal addresses 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 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 Management and 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 2010 the Investment Manager's Chief Investment Officer and Chief Financial Officer have made the following certifications to the Board:

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

Investment Manager Governance

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

8. REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

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

Remuneration for the Independent Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Independent Non-Executive Directors. Further information is provided in the Remuneration Report set out on pages 13 to 15 in 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 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 note 11 to the Financial Statements.