MAGELLAN
FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ("MFF")
Net Tangible Assets ("NTA") per share for May 2009 and Weekly NTA

MFF advises that its monthly and weekly NTA per share as at Friday, 29 May 2009 was $0.64 excluding net deferred tax assets[1] of $0.12.

Market gains for MFF's portfolio in May were more than offset by currency movements, particularly the weaker USD and stronger AUD (which appreciated a further 9% in May against the USD).

This month saw a continuation of the contrast between materially increased risk seeking by investors and continuing risk aversion by companies. Many investors are far more confident than in 2008 and Q1 2009, whilst corporate pessimism continues with widespread layoffs and suspension of capital expenditure, alongside very material reductions in overall corporate profitability. Restocking of inventory and significant oil and other commodity restocking are also encouraging many investors to bet on an early V-shaped recovery.

MFF's portfolio is over 95% invested in leading global multinationals. Almost all of these companies have leadership positions in emerging markets as well as in the currently recessed more developed markets. In the current difficult ongoing economic conditions we expect the earnings of our investee companies to continue to demonstrate well above average resilience, and they also have satisfactory upside potential from economic recovery, from future urbanisation and income growth, particularly in emerging markets. We regard the market prices for these securities as being inexpensive relative to their demonstrated earnings power and MFF has continued to add selectively to its holdings. MFF also continued with the current on-market share buyback towards the increased 20 million share target and hence borrowings increased in May. MFF continues to retain its strong Balance Sheet with a 20% limitation on net borrowings.

The US Government completed its 'Stress Test' of the 19 largest US Bank Holding companies in May. American Express and US Bancorp were not required to raise additional capital, but have done so ostensibly to repay the US Governments preference shares. American Express was almost alone in not being required cut its dividend, not being required to raise additional capital and projected to remain profitable across the two year period under the stressed scenario used by the regulators (note that this is not a forecast by us or by the regulators), despite the very considerable headwinds. Bank of America is required to raise approximately US $33.9 billion in additional capital and as at 27 May 2009 had met about three-quarters of this requirement. The overall results of the Stress Test and the banks' successful capital raising efforts contributed to the positive overall investor sentiment.

MFF has waited to assess the Stress Test results and the regulators' response before considering whether to add to any credit related shareholdings, given the real risk of severe dilution of ordinary equity holders in extremely adverse scenarios.

Notwithstanding the positives, we remain concerned that the rolling economic downturn is still in its early stages in many markets, as well as being concerned that some cost cutting will impact longer term business strength.

We remain very cautious about the near-term economic outlook and the future effects of the political reactions to the crisis. Funding of Government debt is an increasingly important issue.

Although we continue not to forecast a rapid 'V-shaped' recovery, our investee companies are well placed if a rapid recovery occurs. They are also relatively well placed for a longer downturn and remain inexpensive relative to their demonstrated earnings power. Shifts in market shares are occurring (typically away from the #3 or below competitors) and benefits continue to accrue from the use of more productive technologies and in favour of those companies with the strongest Balance Sheets. MFF's portfolio is concentrated in high quality #1 and #2 industry players, most of which have strong free cashflow generation and pricing power which is very valuable, particularly in a world that will likely continue to have concurrent deflationary and inflationary pressures.

The severity of this recession is magnifying competitive disadvantages, including but not only excessive gearing. Corporate and consumer confidence continue to be key factors for market participants considering the possible severity and duration of the impact of the recession for individuals, regions, industries and companies.

More than 95% of total investment assets by market value are in global multinationals (being entities that generate 50% or more of their revenue and/or have material operations in 15 or more countries outside the domicile of their primary securities exchange), with a majority of the balance being predominantly North American focused. The revenue and earnings split for the multinationals average about 40% USA, 30% Europe and 30% ROW. As at 29 May 2009, MFF had borrowings of approximately 16.7% of total investment assets, predominantly denominated in AUD, Euro and British Pounds.

Key currency rates for AUD as at 29 May 2009 were 0.8005 (USD), 0.5655 (EUR) and 0.8536 (CHF) compared with the 30 April 2009 rates which were 0.7347 (USD), 0.5544 (EUR) and 0.8368 (CHF).

Leo Quintana
Corporate Lawyer & Co-Company Secretary
2 June 2009

[1] Deferred tax assets less deferred tax liabilities
All figures are unaudited