MAGELLAN
FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ("MFF")
Net Tangible Assets ("NTA") per share for December 2010

MFF advises that its monthly and weekly NTA per share as at 31 December 2010 was $0.737 excluding net deferred tax assets of $0.09. These figures are unaudited.

The portfolio's appreciation in December and in the last 6 months has been more than offset by the negative impact of the appreciation in the Australian Dollar on the NTA and on reported results. As all movements in market prices are reported through the income statement the half year results to be released in February will reflect the pre tax reduction in NTA over the 6 months of approximately 2.2c per share. The AUD rose approximately 21.36% against the USD over the 6 months, including a 6.88% rise against the USD in December.

The business performances for MFF's portfolio companies remain strong in the generally more confident international economic conditions. Whilst US growth and confidence appear to be returning, we continue to believe that overall market and economic conditions remain unsettled. Issues to watch include input price inflation, particularly from commodity price rises and rising costs in China, European Sovereign debt problems, further official tightening to reduce Chinese inflation, Government/regulatory actions including their impact on confidence, and fluctuating capital flows in the context of low official interest rates. A specific risk is that the December conditions of rising commodity prices and rising AUD continue to impact MFF via the currency translation, the impact on margins and consumer confidence from rising input prices and the impact on relative investment multiples if investors move away from MFF's multinationals to other asset classes. For much of 2010 there was a close correlation between the AUD and broader equity markets, and we viewed our non AUD position as an important hedge against a broad market selloff with an expectation that the correlation would eventually unwind in favour of MFF's portfolio performance.

The portfolio's largest category of exposure is to profitable multinationals with leading market shares in consumer products/services in emerging markets, as well as in the slower growing, more established countries. Consumer spending is growing at or above 10% per annum in the largest emerging markets, with favourable longer term outlooks. Many Chinese provinces are implementing double digit wages growth at the start of 2011.

Rising living standards and urbanisation underpin strong demand in emerging markets for products and services of many of MFF's portfolio companies. For example, Yum! Brands expects another year of double digit earnings growth whilst investing heavily in its Chinese and other emerging markets businesses. McDonald's has maintained its extraordinary record of month after month of profitable same store sales growth and has committed to more rapid expansion in the largest emerging market (China). Nestlé, Coca Cola and Procter & Gamble achieved global volume sales growth in the most recent reportings of 5 - 8%, including very strong emerging markets growth offsetting slower growth in developed markets.

We believe that favourable secular trends are likely to continue for many years, although there will be numerous challenges, such as inflation. Very few other companies have invested for decades in the distribution networks, products and brands necessary for scale profitability and sustainable competitive advantages. Monetary policy tightening is currently encouraging some investor caution, particularly in equity markets with western investors who understand monetary policy's lagging impact. However, the monetary policy tightening in China may not yet be curbing its property sector and fixed asset investment levels.

MFF increased its exposure to high quality financials during the last 6 months. This is the most economically sensitive part of our portfolio and the most vulnerable to an economic relapse. However, American Express and our small number of bank holdings, are materially improving their credit outcomes. American Express card member spending is back to pre Crisis levels. Some strong financials, such as USB and Wells Fargo have low cost, sticky deposits which match their loan books. The damaging effects of uncertain and changeable regulations remain an impact, but we are positive about this category of our holdings even though their market prices are much higher than in early 2009.

We intend to maintain our unhedged currency position in prevailing market conditions. Although the various fiscal and monetary stimulus packages, particularly out of the US, have damaged market sentiment for its currency (and hence reduced the value of the USD against many other currencies and make future weakness likely) we believe that the Australian situation is vulnerable to reversal. The AUD rose strongly in the latest 6 months and particularly in December, despite weak economic growth figures (0.2% GDP growth for the September Quarter, with similar poor numbers also possible for the December Quarter). Current growth is below the US and European levels and Australian inflation is materially above each, despite perceptions to the contrary and the huge commodity benefits. More importantly, iron ore (in particular) and metallurgical coal supply and demand will inevitably rebalance. We expect a leveraged impact from at least a partial reversal in the improved terms of trade, particularly as Australia has already benefitted by over $100 billion from the Chinese Keynesian stimulus during the Crisis which has brought forward over a $trillion of infrastructure and other capital spending. The impacts of crowding out, and of the rising currency itself, increased in 2010. Timing of any reversal is unclear as, for example, projects to expand resource supply were deferred during the Crisis.

About 90% of MFF's total investment assets by market value continue to be 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 and almost 3% being China focussed. The revenue and earnings split for the multinationals average about 40% USA, slightly less than 30% Europe and slightly more than 30% ROW. The emerging markets proportion of underlying revenue and earnings continues to rise.

The Company's holdings with a market value of A$2.5 million or greater (which represent about 97% of the portfolio value) as at 31 December 2010 were:

Holding	$million	Holding	$million
American Express	57.3	PepsiCo	9.7
Yum! Brands	39.5	US Bancorp	9.6
Nestlé	36.1	Colgate-Palmolive	6.6
eBay	29.4	Visa	6.3
Coca-Cola	24.3	Bank of America	5.8
Wells Fargo	17.9	Lowe's	4.6
Google	16.2	Tesco	4.5
McDonald's	16.1	China Mobile	4.4
Wal-Mart	12.4	Johnson & Johnson	2.5
Procter & Gamble	10.6		

All of the largest holdings for the past few years continue to be held with modest reweightings, including a reduction in the staples retailers Wal-Mart and Tesco as well as in snackfood and drinks company PepsiCo and other food companies. We felt that valuations for the MFF companies generally remained attractive during the period and hence there was no substantial selling. Small positions were also commenced in China Mobile and two other Hong Kong listed Chinese entities with significant exposure to the Chinese consumer and, as far as these matters can be ascertained, regulatory regimes and valuations that are not unfavourable.

As at 31 December 2010, MFF had net borrowings of approximately 20% of total investment assets and this has since reduced modestly as some sell orders have been executed in the post year end rally. A continuation of the rally may give an opportunity to reduce gearing and restore future investment capacity on favourable terms. We will continue to advise these details as part of the NTA updates to the ASX. The borrowings are almost entirely denominated in AUD.

Key currency rates for AUD as at 31 December 2010 were 1.0251 (USD), 0.7641 (EUR), 0.6547 (GBP) and 0.9554 (CHF) compared with the 30 November 2010 rates which were 0.9591 (USD), 0.7367 (EUR), 0.6158 (GBP) and 0.9559 (CHF).

Yours faithfully,

Chris Mackay	Nerida Campbell
Chief Investment Officer	Company Secretary

5 January 2011

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