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FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ("MFF")
Net Tangible Assets ("NTA") per share for April 2011

MFF advises that its monthly and weekly NTA per share as at 29 April 2011 was $0.734 excluding net deferred tax assets[1] of $0.091. These figures are unaudited.

In April, equity prices generally continued to strengthen. About half of MFF's portfolio companies reported Quarterly sales and/or earnings results. In almost every case these results showed continued profitable market share gains as well as investment for the medium term. It is almost unimaginable that in the 2 years since the bottom of the market corporate profitability has returned to pre-crisis levels in many cases.

Key concerns relate to margins (particularly as commodity and other input costs rise), weak consumer spending power (which is squeezed further by elevated unemployment and rising fuel and utility costs) and rising Government regulation, taxation and intervention pressuring business and consumers (for example via higher utility prices).

Inflation is returning in many markets but, outside of emerging markets such as Brazil and China, with massive Government stimulus programmes adding to the economic momentum, the recovery is not broad based. Our companies are exceptionally well placed in this environment with limited capital expenditure requirements (Australian readers see the contrast with significant cost blow outs in capital budgets for major resource, renewables, infrastructure and other projects).

Many of our companies are implementing price increases to offset input price rises whilst maintaining scale and other advantages as lowest cost operators. Our companies maintain exposure to long term growth via demographics (emerging market consumers and urbanisation), the movement to electronic payments and network effect benefits, as well as technology leadership (this includes companies using technology in customer fulfilment as well as our networked technology leaders).

We disagree with "the market's" consensus concerns about the step up in investment, particularly in operating expenses by some of our companies. Google's share price fell despite an extraordinary increase in revenue and obvious broadening of its business. Our largest holding, American Express, is perhaps an early indicator as it has been investing heavily, particularly in operating expenses, to widespread analyst concerns but has now had 5 quarters in a row of circa 15% increases in card member spending and record Q4 and Q1 earnings for the latest two quarters.

April also featured another very strong rise in the AUD and deterioration in the USD in particular. This detracted from NTA and offset the market price gains.

Changes in the month were again modest, although some sales are occurring with the stronger market prices reducing the margin of safety. We remain concerned about European sovereign and bank debt and continue to expect some rescheduling. If the oil price remains elevated this is also a particular negative and oil remains vulnerable to supply shocks. The Japanese disasters are having more near term impact on GDP than Kobe, in part because supply chains are more integrated. We continue to believe that the Japanese disasters are unlikely to have a prolonged material negative impact on global GDP but we believe that markets will likely focus on Japanese Government funding pressures in due course. We are watching the Chinese efforts to rein in inflation, transition from the unprecedented stimulus (including fiscal, money supply and debt funded railway and other infrastructure) and respond to the high level of housing investment (which has per capita housing building at multiples of the peaks reached during the bubbles elsewhere).

True returns on capital in many sectors in China remain poor and pressured by commodity and other input price inflation (including wages). Corporate and Local Government Dependant Entity (eg many developers) results are vulnerable if interest rates cease to be subsidised at below market rates. Many Government Owned Enterprises (eg the railway entities that have debt funded the most rapid and largest railway expansion in history) benefit from low price long dated bullet payment borrowings (which are carried at cost on lender balance sheets) but we have not seen the implied Government guarantees aggregated in official figures.

We continue to reduce our very small exposure to Australia as large parts of the economy are developing many of the characteristics of stagflation and fiscal pressures. We continue to expect that commodity prices will adjust when supply and demand rebalance with major new project expansion and associated transport improvements (for example Chinese railways to transport coal).

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 4% 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.

As at 29 April 2011, MFF had net borrowings of approximately 18.7% of total investment assets. The borrowings are almost entirely denominated in AUD, with a small amount in Euros.

Key currency rates for AUD as at 30 April 2011 rates were 1.094 (USD), 0.7376 (EUR), 0.6561 (GBP) and 0.9504 (CHF) compared with the 31 March 2011 rates which were 1.0342 (USD), 0.7287 (EUR), 0.6452 (GBP) and 0.9461 (CHF).

Yours faithfully,

Chris Mackay
Chief Investment Officer

Leo Quintana
Legal Counsel & Company Secretary

3 May 2011

[1] Deferred tax assets less deferred tax liabilities.