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FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ("MFF")
Net Tangible Assets ("NTA") per share for January 2012

MFF advises that its monthly NTA per share as at 31 January 2012 was $0.803 excluding net deferred tax assets[1] of $0.071. These figures are unaudited.

During the month MFF continued to make modest sales of some of the high quality consumer companies which appear to be closest to underlying values. Modest purchases included Google, CME Group, Chinese telecoms and some of MFF's preferred financial companies, which were perceived to offer better relative value. There was no activity in MFF's on-market buy-back in January.

December results for the portfolio were very strong in comparison with overall company results. However, even amongst these companies there are signs of economic weakness particularly in outlook statements for companies with substantial European (and Japanese) businesses. Amongst consumer goods companies there was weakness in developed country consumption, particularly in Europe and evident price competition and margin compression (and commodity price rises were not always recovered).

Google shares were marked down about 10% despite strong results (including 25% revenue growth) primarily because some market expectations were not met, concerns about margins, particularly as rapid mobile search growth reduces average search revenue, and possibly because of comparisons with Apple and Facebook.

MFF's 3 main credit exposed financials (American Express, Wells Fargo and US Bancorp) continued to increase revenue and profitability, in contrast to many financials and despite the economic, regulatory and competitive challenges. 2011 earnings per share for each was above previous pre crisis highs. Investors remain cautious about investing in financials and share prices remain low relative to earnings. Bank of America's share price recovered a little in January as results showed progress in bolstering capital and its underlying businesses have earnings power, but poor previous decisions (particularly about acquisitions) continue to damage the Bank.

Macro economic concerns are ongoing. The ECB intervened to provide emergency liquidity to European banks and this helped to avert disasters at both Government and Bank levels, at this time. This intervention was necessary to again give Euro leaders more time to seek to address the fiscal, structural and other fundamental issues in relation to the Greek and Portuguese rescues, and for the EU more broadly. The ECB continues to monetise Government and Bank liabilities and this may encourage private sector involvement in the 2012 bailouts. Europe may now have scope to defer its hardest decisions for this year, although uncertainty remains as Greece and Portugal are unresolved and EU leaders are frustrated with the ongoing Greek negotiations to avoid the consequences of a disorderly default.

In the US, the political cycle also makes deferral of substantive action most likely, and hopefully less confidence sapping regulation is passed in 2012 than in recent years. Although Japan had its first trade deficit in 30 years, its population fell for the fifth year in a row and Government waste continues to accrue, the tipping point for a funding crisis has not yet been reached. Amongst much complexity in China, policy makers have the levers with which to restimulate if the current slowdown becomes too risky for them.

Many asset markets are inflated by yield seeking and fiscal and monetary stimulus which increases underlying cashflows and reduces the discount rates used to assess those cashflows. Close focus on macro events as well as companies and industries continues to be required as policies and confidence can change rapidly. The AUD remains firm despite domestic economic and budgetary pressures and the apparent China commodity slowdown, as Central Bankers and others borrow in zero cost currencies to buy yielding Australian assets.

Almost 85% of MFF's 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 the balance being predominantly North American focused and about 7.5% being China focussed. The revenue and earnings split for the multinationals average almost 40% USA, about 25% Europe and about 1/3 ROW. The emerging markets' proportion of underlying revenue and earnings continues to rise.

As at 31 January 2012, MFF had net borrowings of approximately 17.1% of total investment assets. Most of the borrowings are in AUD with small amounts in Euro, Swiss Francs and Sterling. Cash balances from unutilised sales proceeds and dividends are currently held in a mix of US Dollars, Singapore Dollars and Hong Kong Dollars.

Key currency rates for AUD as at 31 January 2012 were 1.063 (USD), 0.812 (EUR), 0.673 (GBP) and 0.977 (CHF), compared with 30 December 2011 rates which were 1.025 (USD), 0.790 (EUR), 0.660 (GBP) and 0.959 (CHF).

Yours faithfully,

Chris Mackay
Director

Leo Quintana
Legal Counsel & Company Secretary

2 February 2012

[1] Deferred tax assets less deferred tax liabilities.