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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for May 2012

MFF advises that its monthly NTA per share as at 31 May 2012 was $1.001 excluding net deferred tax assets[1] of $0.012. These figures are unaudited.

Portfolio turnover was high in May. Sales materially outweighed purchases and MFF is now in a net cash position. MFF has increased its financial flexibility and has the financial resources to be able to make more sizable purchases in the future without the requirement for concurrent sales. We are not making macro or market index calls. Our positive views about the business cases for the MFF investee companies remain.

MFF had remained largely fully invested since 2008/9, including utilising the borrowing capacity. MFF benefitted from the material increases in share prices of most of its portfolio companies over that period, although the AUD appreciation and USD depreciation detracted materially in AUD terms. Although deliberate, the fully invested position was unusual, as availability of cash resources/cash inflows is usually very valuable particularly given periodic movements in market prices.

In the long run cash is likely to be a poor investment and we expect MFF to be more fully invested from time to time. Timing and the level of investments will depend primarily on the focus on opportunities that we regard as most attractive, and on overall portfolio construction. We continue to expect that in 5 or 10 years most share prices for the MFF companies will be well above current prices in most economic scenarios and we make no attempt to predict whether they will be higher or lower in the short run. We do not believe that the portfolio is broadly overpriced on most foreseeable scenarios.

Volatility (overall market and company specific) is very likely to increase compared with the low volatility in recent quarters (which accompanied the fiscal and monetary stimulus). There will be opportunities to buy high quality bargains over the next decade or so, provided that we are patient, focused and have resources available. Bargains are no longer everywhere, in contrast to the depth of the panic selling during the Crisis.

The actions of the Federal Reserve (in particular) in keeping interest rates at or about zero and the apparent restart of the economic recovery appeared to encourage various investors to re-enter US equity markets in 2012, particularly via exchange traded instruments and hedge funds. Dividends from yielding equities attracted investors as their current yields exceed cash and bond yields, but equities are perpetual, equity prices are volatile, equities rank after bonds in claims on cashflows and medium term business prospects are far more determinative of aggregate equities outcomes than near term yields.

Future movements in investment flows to and from asset classes are likely to be sizable, as choices remain very difficult for investors, including for retirees and pension funds. Long dated bonds are very risky and provide inadequate long term returns unless deflation prevails. All other choices have their own risks, and price volatility/momentum contribute to irrationality and increase the likelihood of material mispricing.

Business conditions continue to strongly favour high quality companies, and they are our focus, although US debt/equity markets have opened up for many companies to obtain longer dated funding at attractive costs. Implications of this funding window include some pro shareholder capital management initiatives by cash generative companies and more business competition in various markets (the Facebook/social media phenomena undoubtedly assists early stage companies in obtaining funding to provide competitive products; investing in competitive inventory build-ups or "price wars" are less costly than if interest rates are high). Low interest rates also generally mean lower hurdle rates for projects but reflect lower underlying demand, and

overcapacity problems are worsening. Western competitiveness is pressured and hence wages, employment, living standards and government budgets. Low hurdle rates and high spot prices result in record levels of commodity projects and activity with beneficial economic multipliers, including for emerging economies.

Capital allocation is very difficult for Boards and management in periods of low interest rates. BHP is a fascinating illustration. They must assess region, industry and individual project choices across a range of durations and payback profiles, future commodity prices and energy charges/wages/interest rates and other costs, what competitors, governments, customers and portfolio investors/speculators may do over the multi decade lives of projects, and then project returns amidst shareholder pressure for increased capital management.

MFF continues the effectively 'short' AUD position, which we believe is favoured by probabilities in the medium-term. MFF's April NTA announcement discussed currencies. Events and data in May have not weakened the core viewpoints that were expressed. We are prepared for ongoing adverse fluctuations, particularly with ongoing record levels of so called "safe haven" portfolio flows into perceived lower risk and higher yield bonds, and China may increase its stimulus and further delay the economic "rebalancing" its leaders are seeking.

In the short run, some attention may be given to the Australian announcements in the first week of June of the March Quarter Balance of Payments, GDP and net foreign liabilities increasing towards $1 trillion. Even if the Balance of Payments reaches 6% of GDP over the next few years (as forecast in the May Federal budget), it may not get much attention until the broader impacts of rebalancing of supply and demand for key commodity prices and project deferral impacts become clearer. Regional Government finances in Australia and elsewhere continue to be more vulnerable than widely perceived.

About 42% 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 about 14% being predominantly North American focused and about 7% being China focussed. We have added small positions in two Singapore based multinational service industry companies which are likely to achieve better long term results than our SGD cash. The revenue and earnings split for the multinationals average about 40% USA, almost 25% Europe and about 1/3 ROW. The emerging markets' proportion of underlying revenue and earnings continues to rise.

As at 31 May 2012, MFF had net cash of approximately 38% of total investment assets. Most of MFF borrowings are in AUD with a small amount in Euro. Cash balances are currently held in a mix of US Dollars (predominantly), Singapore Dollars, Hong Kong Dollars and Swiss Francs.

MFF's Monthly and Weekly NTA figures released to the market are net of estimates of liabilities including estimated fee accruals. As MFF's high water mark of approximately 98.26 cents per share pre tax NTA was not reached as at 1 July 2011, there will be no Performance Fee payable in respect of 2011/12.

Key currency rates for AUD as at 31 May 2012 were 0.970 (USD), 0.784 (EUR), 0.630 (GBP), and 0.943 (CHF), compared with rates as at 30 April 2012 which were 1.041 (USD), 0.787 (EUR), 0.641 (GBP) and 0.945 (CHF).

Yours faithfully,

Chris Mackay
Director

Leo Quintana
Legal Counsel & Company Secretary

4 June 2012

[1] Deferred tax assets less deferred tax liabilities.