MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
ABN 32 121 977 844

Level 7, 1 Castlereagh Street,
Sydney NSW 2000 AUSTRALIA

General: +61 2 8114 1888
Facsimile: +61 2 8114 1800
Website: www.magellangroup.com.au

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

MFF advises that its monthly NTA per share as at 31 August 2012 was $0.964 excluding net deferred tax assets[1] of $0.02. These figures are unaudited.

In August, the proceeds from sales and dividends received exceeded purchases, and net cash increased to about 62% at month end. There were no changes in the currency positioning.

Major parts of the equity and debts markets continued their appreciation possibly in the expectation of more central bank easing and ongoing low cost fiscal deficits/stimulus. However, broad medium term business risks again appeared to increase in August. Overall profit results and corporate outlook statements were mixed or even weak, with benefits from lower interest rates and cost reductions offset by lower revenue growth.

Various Chinese company results reflect competitive, margin and capital expenditure pressures, as well as China's slowing growth and regulatory pressures. During August, prices in the (albeit nascent, thin) spot market for iron ore (Australia's largest export) fell again and are down about 50% in 12 months, reflecting China's slowdown. Some other Asian and emerging market economies including India also remain pressured. Leading Asian steelmakers lost billions in the first half of 2012 and their multi-billion dollar debt levels require ongoing financier support and (likely) official policy support.

Data related to Government revenues again showed more pressure in August and the flow of capital away from weaker banks and higher taxing economies also continued. Data relating to Japan's weaker trade position highlighted another pressure point. Central banks' funding increased again and much has moved from emergency and temporary to mandatory to replace private sector withdrawals. Central Government support was required for another group of insolvent or illiquid regional Governments and financial institutions. During the month Russia again deferred repayment on bonds from the 1980s.

Governments are under increasing policy and revenue pressures with decisions becoming harder. Cycles are self fulfilling and underestimated, as for example low cost (and then reasonably priced) debt and equity capital dries up for the private sector in countries that are bailed out or in default, resulting in another round of reduced confidence and activity. Optimism and over capacity continue to prevail, even in the commodity, property and steel sectors, except where the Crisis cycle has already had a direct impact. The electoral seasons which start in September add to private sector caution.

China's growth rate is slowing but its policy response is unclear given its own political cycle, property bubbles, upward pressures on wages, food and energy (including as a consequence of the ongoing deficits/stimulus by Governments and central banks) as well as early stage bad debt/funding pressures. The goals of China's latest 5 year plan include rebalancing away from unsustainable resource intensive fixed asset investment, and more recently party officials have talked about the need for profitability and commercial returns from state owned enterprises. It is unclear whether this will be obeyed in the provinces and unprofitable plants shut, or whether the communist party needs or can regain the confidence of western portfolio investors to help finance its transitions. Despite China being by far the fastest growing major economy, the Shanghai market has performed even worse than most European markets since the Crisis, and foreign investors have suffered significant losses.

We continue to hold substantial cash balances and look for high quality bargains where the business prospects are not recognised by the market, or where quality companies are out of favour. Refer to the discussion in the July NTA release regarding some general risk factors which may influence future market volatility. We believe that cash provides valuable investment flexibility for a closed-end LIC, such as MFF, in the current market conditions.

About 39% of MFF's portfolio securities 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 0.4% being China focussed. The revenue and earnings split for the multinationals average almost 40% USA, about 25% Europe and about 1/3 ROW.

As at 31 August 2012, MFF had net cash of approximately 62% of total investment assets. Cash balances are almost entirely held in a mix of US Dollars, Singapore Dollars, Hong Kong Dollars and Swiss Francs. Borrowings remain in AUD and a small amount of Euro. MFF remains effectively "short" the AUD.

Key currency rates for AUD as at 31 August 2012 1.033 (USD), 0.820 (EUR), 0.651 (GBP) and 0.984 (CHF) compared with rates as at 31 July 2012 which were 1.052 (USD), 0.854 (EUR), 0.672 (GBP), and 1.027 (CHF).

Yours faithfully,

Chris Mackay
Director

Leo Quintana
Legal Counsel & Company Secretary

4 September 2012

[1] Deferred tax assets less deferred tax liabilities.