MAGELLAN
FLAGSHIP FUND LIMITED

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17 October 2012

ASX Market Announcements
Australian Securities Exchange Limited
Level 4, Exchange Centre
20 Bridge Street,
Sydney NSW 2000

Dear Sir/Madam,

Magellan Flagship Fund Limited (ASX:MFF)
2012 Annual General Meeting
Chairman's Address & Investment Manager's Comments

Magellan Flagship Fund Limited ('**MFF**') hereby lodges copies of:

- the address by MFF's Chairman, Mr Richard Warburton AO; and
- the Investment Manager's comments by Mr Chris Mackay,

which will be delivered at this morning's Annual General Meeting of MFF.

Yours faithfully,

Leo Quintana
Legal Counsel & Company Secretary

Important Notice

This material has been prepared by Magellan Flagship Fund Limited ('**MFF**').

While the information in this material has been prepared in good faith and with reasonable care, no representation or warranty, express or implied, is made as to the accuracy, adequacy or reliability of any statements, estimates, opinions or other information contained in this Address.

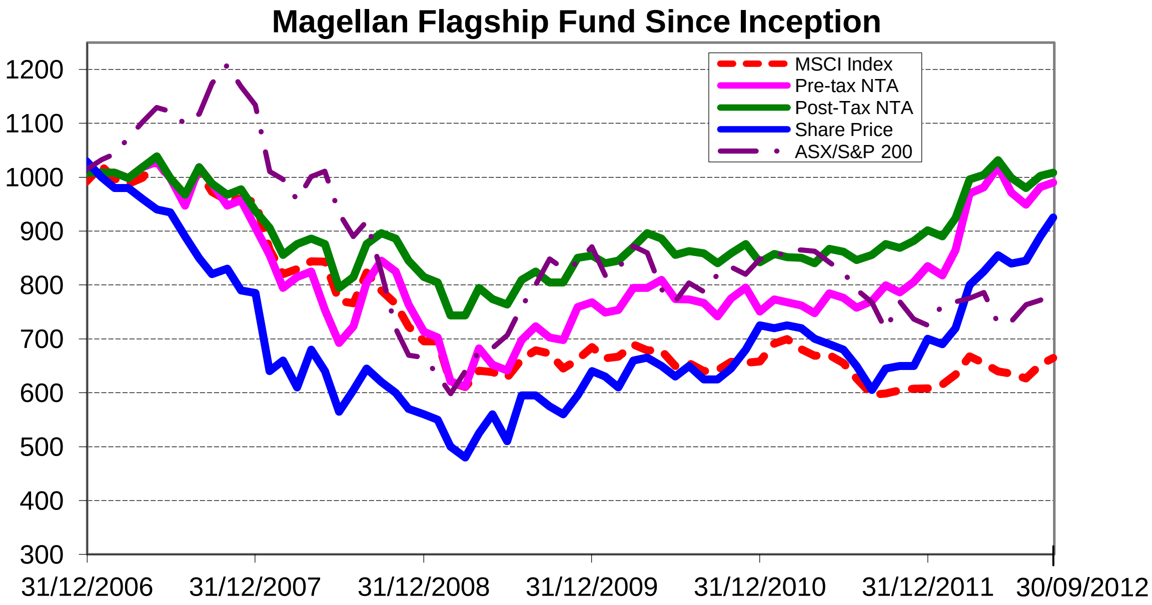
This material may contain forward looking statements. These forward-looking statements have been made based upon MFF's expectations and beliefs concerning future developments and their potential effect upon MFF and are subject to risks and uncertainty which are, in many instances, beyond MFF's control. No assurance is given that future developments will be in accordance with MFF's expectations. Actual results could differ materially from those expected by MFF.

This material is not intended to be relied upon as advice to investors or potential investors, who should consider seeking independent professional advice depending upon their specific investment objectives, financial situation or particular needs.

Chairman's Address
to the 2012 Annual General Meeting
Wednesday, 17 October 2012

MFF recorded a net profit after tax of $45.89 million for 2011/12. This result reflects realised gains during the year as well as the 'mark to market' of all price movements for the year. In 2011/12 strong portfolio gains were achieved (well in excess of broad global market measures). There were also positive currency movements, reflected in the USD appreciation against the AUD by approximately 4.4% over the year from approximately 1.0706 to 1.0251 USD for each AUD.

The Company recorded a rise in net tangible assets (NTA) per share (excluding deferred tax assets) of approximately 25.2% to 95.4 cents per share as at 30 June 2012 compared with 76.2 cents per share as at 30 June 2011.



MFF graphs exclude the value of:

(a) rights to acquire MFG shares (and attaching options) at 97.5 cents each in 2007 [current market value of approximately 20 cents per MFF share, assuming full exercise]; and

(b) bonus MFF Options issued recently [current market value of approximately 5 cents per MFF share, based on 1:3 issuance].

The Company's Portfolio

The portfolio had been largely fully invested over the past 3 years until the fourth quarter of 2011/12 and we currently have high net cash balances of about 40% of total assets. MFF achieved pre tax returns, after expenses, in base currencies of approximately 29% (2010), 18% (2011) and 20% (2012) over those 3 years.

MFF has 3 core positions (high quality equities, substantial net cash and MFF is effectively short AUD). We feel that each has a reasonable probability of enabling value to be added in future years.

We consider that MFF's equity positions are world class and the Investment Manager considers that they offer quality and value in comparison with equities in general, compared with portfolio opportunities in the domestic markets, and in comparison with other asset classes.

MFF provides diversification benefits for Australian and New Zealand investors in terms of companies, currencies and business geographies. Despite the benefits of diversification and the modest currency benefits this year, currencies have been a negative since inception.

As set out in last year's Annual Report, changes to the foreign tax credit regime require foreign tax withheld on foreign dividends to be off-set only against taxable income in the related tax year. As a result of the Company being in a tax loss position, current year and some previous year foreign tax credits were written off during the financial year (approximately $1 million).

Dividends

The Directors have declared a dividend of 1 cent per share, to be paid on 19 November 2012. This dividend will be partially franked to 26.3% and utilises currently available franking credits. The Directors' preference is to commence a regular 6 monthly dividend at 1 cent per share, subject to corporate, legal and regulatory considerations. The Dividend Reinvestment Plan is in operation in respect of this dividend payment with a zero discount to the applicable market price.

Bonus Issue of Options

MFF has undertaken a 1:3 bonus issue of Options to shareholders for no consideration (ASX Code MFFO). Each option allows the holder to subscribe for a new share in the Company at an exercise price of $1.05 per share until 31 October 2017. The Prospectus for the options will be despatched to shareholders this week, along with Option holding statements.

In issuing the options and declaring the dividend, the Directors wanted to provide benefits to shareholders. Many shareholders prefer to receive regular cash dividends, even if they are unfranked, rather than have the company retain those funds for reinvestment, notwithstanding that dividends have tax consequences for shareholders. In addition, the bonus options are tradeable on the ASX and, if there is a liquid market, shareholders are likely to have the opportunity to realise some value for them if they do not wish to exercise them. As the strike price for the options is above the current market price for MFF shares and above recent levels of NTA per share, the dilutive effect may be minimised. The initial trading in the Options commenced on 4 October 2012 on a deferred settlement basis (ASX code MFFO).

On Market buy-back

During 2011/12, MFF acquired on-market a further 4.5 million shares at an average price of approximately $0.66 cents per share, which represents a discount to MFF's net assets per share. We intend to maintain MFF's Balance Sheet strength .

I now invite Chris Mackay to make some remarks and we look forward to your questions.

Richard Warburton AO LVO
Chairman

COMMENTS FROM CHRIS MACKAY
MAGELLAN'S CHIEF INVESTMENT OFFICER
At the Magellan Flagship Fund Limited Annual General Meeting
Wednesday, 17 October 2012

The MFF portfolio gained about 25.2% (pre tax, after costs) in the 12 months to 30 June 2012. This was mostly related to increases in the stock portfolio with smaller currency benefits.

The quality of MFF's companies is extremely high, and their strong market positions have improved meaningfully since the start of the Crisis. We are currently finding some valuations that appear attractive, even in the sustained difficult economic conditions, and notwithstanding recent rises in equity markets, well off the Crisis lows. Our quality/value focus and analytical, objective approach remain unchanged. This applies to our overall portfolio construction as well as individual company selection and selling decisions

MFF has a high quality, transparent portfolio of companies which have sustainable advantages. We have significant cash levels and believe that we have a mandate to buy quality companies when they are out of favour(and hopefully relatively inexpensive) and to hold them whilst valuations and risk assessments remain favourable, subject to overall opportunity cost assessments in relation to the portfolio.

Transparency is relevant for MFF shareholders. Hence, we update the ASX daily when there are share buybacks, each week with movements in the NTA and provide monthly commentary on changes to the portfolio and other matters. However we try as hard as we can to avoid damaging risks of measuring relative performance or comparisons with indices. We aim to be objective and resilient in relation to our analysis and positioning, even where consensus and markets are against us for a sustained period, such as for our currency positions, despite the small currency benefits in 2011/12.

Our overall currency exposure is negative on a mark to market basis from our inception, and momentum and near term prospects have looked very challenging for much of that period. We have repeatedly urged patience and caution regarding currency. Our views have been firming regarding the fundamental overvaluation of the AUD and we believe that the probabilities, and likely materiality, of a sustained correction have increased.
Market prices are a function of supply and demand and there are considerable 'non fundamental' reasons for purchasers to be acquiring AUD and AUD bonds and other

assets, for example sovereign and central bank buying of unhedged bonds for diversification. This buying contributes to AUD currency strength whilst this demand remains; but this demand is volatile when measured over periods of years. The terms of trade are plateauing, or reversing, as commodity supply and demand eventually rebalances post the Crisis hiatus and Chinese fixed asset growth levels normalise. In addition, the high dollar itself is contributing to the steady increase in real world businesses moving core manufacturing, service and R+D functions away from Australia to lower cost jurisdictions.

Australia's twin deficits may cause some concerns, although the floating AUD is itself an important stabiliser in helping to prevent catastrophes (in the absence of sustained policy errors which reverse benefits and strengths built up over long periods). The commodity price correction has hardly started and Australian business closures and moves offshore due to lack of competiveness are also at an early stage. The negative turnaround in Australia's trade balance was already about A$50 billion annualised for August.

MFF's portfolio has excellent characteristics and we are very confident about the market positions and prospects. Time favours the highest quality businesses. We have been very selective on prices and are vigilant about regulatory risks and future tax imposts. In one case 4 retrospective tax imposts were imposed within two weeks on a company which we had held previously. Low growth, general overcapacity and high debt levels are exerting massive pressure on societies, with many consequences, including lower aggregate investment returns than in previous decades and more tax and more adverse regulation.

With your MFF portfolio, we attempt to be objective and disciplined, including in relation to sales. In this low growth, high regulatory risk environment, with prices enhanced by monetary and fiscal stimulus, we have found more to sell than we would customarily. However, the flexibility of our high cash balance allowed us recently to acquire shares in companies such as Yum! Brands and Tesco, where the medium term probabilities of positive outcomes appear high and greater than our assessment of the likely business risks. The longer duration of our investment horizon is an important advantage, even in these fluctuating markets, where rapid appreciation caused us to sell some holdings far earlier than usual.

Overall markets are uncertain, but this is always the case, and risks are present whether or not they are broadly recognised. Low purchase prices and growing competitive advantages are the goals we aim for. We are comfortable with the portfolio, although it lacks the same weighting of extraordinarily low price, high probability, low business risk, extraordinarily high quality companies we talked about in 2008/09 (as prices have increased materially). In AUD terms, the probabilities are currently very favourable, in our assessment. We also expect increased volatility in markets to give us some sensible entry points in the future, with emphasis on vigilance and focus.

The largest investments (with a market value of A$1 million or greater) as at 30 September 2012 are shown on the screen at the front of the room.

Holding	$million	Holding	$million
Wells Fargo	21.8	Sainsbury J	6.4
McDonald's	19.7	Wal-Mart	5.8
US Bancorp	17.8	Danone	5.5
Visa	17.5	Unilever Plc	3.5
HCA Holdings	13.3	Unilever NV	3.4
Bank of America	13.0	American Express	2.1
CME Group	12.3	Singapore Tech Engineering	1.8
Tesco	9.4	Home Depot	1.7
Lowe's	8.3	Google	1.3
Yum! Brands	7.5	SIA Engineering	1.2
MasterCard	6.8		

I will hand back to the Chairman and we would be happy to address questions later in the meeting on the portfolio, changes in the portfolio (including those relating to China) and other pertinent investment matters.