MAGELLAN FLAGSHIP FUND LIMITED

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

MFF advises that its monthly NTA per share as at 31 December 2012 was $0.986 excluding net deferred tax assets[1] of $0.012. These figures are unaudited. MFF's after expenses portfolio returns were a little over 4% for the latest six months, and exceeded 20% for calendar 2012 (pre tax NTA was $0.820 per share at calendar year end 2011 and $0.954 per share at 30 June 2012, prior to the 1 cent per share dividend). Our currency position was a modest headwind for the six months and for the calendar year.

There were investment opportunities in December, as company specific and general market/political factors helped constrain purchase prices. The prices we paid appeared reasonable; some businesses that are likely to be highly profitable and free cash generative for decades were priced at sensible multiples of current earnings levels.

The Company's largest holdings as at 31 December 2012 were:

Holding	$million	Holding	$million
Tesco	32.7	Lowe's	11.5
McDonald's	24.3	CME Group	10.9
Wells Fargo	23.8	Danone	10.8
Yum! Brands	21.0	MasterCard	7.4
Visa	19.8	Mondelez (formerly Kraft)	5.2
Bank of America	18.4	Apple	5.1
US Bancorp	17.0	Unilever Plc	4.8
HCA Holdings	15.9	Unilever NV	4.8
Wal-Mart	15.1	China Metal Recycling	3.8
Google	14.6	American Express	3.5
Sainsbury J	12.5	Singapore Technologies	2.0
State Street	11.8	Home Depot	1.8
Bank of New York Mellon	11.6	SIA Engineering	1.3

We are positive about the cash generating qualities, competitive advantages and business resilience of the portfolio. Non-financials as well as financials gave MFF some investment opportunities in the latest quarter. We monitor and adjust the portfolio composition including the overall levels of financials and credit based financials, with MFF's increased position in Bank of America being the strongest of the Dow Industrials in calendar 2012 (after its stock price performed badly in recent calendar years including 2011). MFF retains capacity for individual opportunities in the future (including net cash of about 8% of the portfolio). High quality, cash generative companies are preferable to cash, provided that purchase prices are sensible, and our hurdle rates (or opportunity costs, probability weighted) are high.

We continue to be focused upon, and more positive about, company specific situations than broad indices or macro economics over the medium-term. In this last quarter, we continued to be a significant net purchaser and made portfolio changes throughout. We have duration, mandate and focus advantages in comparison with most investors. In current conditions we expect to be relatively active in adjusting the portfolio for price fluctuations reacting to, for example, pressured Q4 earnings, the ongoing political negotiations and longer term issues.

The US recovery may finally be somewhat sustained and more broadly based, despite the ongoing Washington farce. The Fed's ultra easy money liquidity, ongoing Government deficit/stimulus, improved US external balances and prospects, including in energy, combined with meaningful repair of bank and household balance sheets are broad market positives. Many US multinationals and domestic industry leaders have strengthened their competitive advantages; many are very profitable, structurally lean with decent investment opportunities in the US and overseas.

Although politics and macro economics are important, markets do not simply mirror short-term macroeconomics; the Shanghai equity market has been close to the worst in the world for 2012 and over 4 years, despite unprecedented positive Chinese GDP growth. The Japanese elections, policies and recent market reactions may be the writing of a new vignette on the uncertain consequences of unsustainable artificiality. The policy actions of the new Chinese administration are very important for many economies and markets.

Cautious assumptions underpin our business case and valuation assessments, which we consider reasonable to provide MFF's portfolio with decent buffers. More favourable conditions may continue for a while, particularly if reinforced by positive asset price movements and economic recovery, but it would be imprudent to assume them, as zero interest rates, sustained deficit funding and a return to private sector economic growth are eventually incompatible.

We are maintaining MFF's effective "short" AUD position, although we do not expect favourable movements in the near term. We believe that the medium term risks in the Australian economy are large and growing, although they are not in focus for a majority of investors and momentum and investor sentiment continues for a strong AUD. We believe that the accelerating deterioration in Australian competitiveness and narrowing of the productive economic base is impossible to reverse without major adjustments. Eventually the market will focus intently upon the unsustainability of Australia's economic positions and the AUD will adjust materially. Recent trade, external payments, Federal and State budgetary data continue to be consistent with these views. We will pay the interest differential to maintain this position on behalf of MFF shareholders until a sizable adjustment occurs or it is clear that we are wrong. The "short" AUD position may also continue to provide a hedge against negative equity market movements.

As at 31 December 2012, MFF had net cash of approximately 8% 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 December 2012 were 1.038 (USD), 0.787 (EUR), 0.639 (GBP) and 0.950 (CHF) compared with rates as at 30 November 2012 which were 1.043 (USD), 0.802 (EUR), 0.651 (GBP), and 0.966 (CHF).

Yours faithfully,

Chris Mackay
Director

Leo Quintana
Legal Counsel & Company Secretary

3 January 2013

[1] Deferred tax assets less deferred tax liabilities.