



Magellan Flagship Fund Limited  
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***Magellan Flagship Fund Limited ('MFF')  
Net Tangible Assets ('NTA') per share for December 2014***

*Please find enclosed MFF's monthly NTA per share for December 2014.*

A handwritten signature in blue ink, appearing to read 'G. Stirton', is positioned above the name of the signatory.

***Geoffrey Stirton  
Company Secretary***

*5 December 2014*

**Magellan Flagship Fund Limited ('MFF')**  
**Net Tangible Assets ('NTA') per share for December 2014**

MFF advises that its approximate monthly NTA per share as at 31 December 2014 was \$1.938 pre-tax (\$1.427 pre-tax as at 30 June 2014) and \$1.689 post-tax. Although tax liabilities are almost entirely deferred liabilities, the probability of future realisations which incur tax liabilities continues to increase (as does the probable extent of such liabilities). Investors should also adjust for the expected dilution from the exercise of the MFF 2017 options (exercise price \$1.05). If all of the MFF 2017 options had been exercised on 31 December 2014 the pre-tax NTA would have been reduced by approximately 20.3 cents per share (and the approximate post tax figure by approximately 14.6 cents per share). All figures in this release are unaudited and approximate.

The portfolio was again modestly changed during the month and quarter, with changes mostly related to the matters discussed in the next paragraph. We had a small number of market price related sales, although MFF's portfolio prices remained broadly satisfactory. In previous years we have argued that our portfolio contained bargains. The increase in MFF's portfolio market prices over the last 6 months should encourage caution as it reflected an unusual confluence of positive factors outside of our control, particularly the ongoing consequences of the global flood of money resulting from quantitative easing. The short term effects on MFF were amplified because, improbably, the rise in the portfolio prices coincided with the decline in the AUD, which also caused nominal gains for MFF in this period.

We remain concerned about possible increases in business risks, although we continued to overestimate interest rate risks in 2014. Competition continues to increase via innovation, globalisation and technological changes, and some previously advantaged areas appear subject to increased pricing competition (and hence likely pressured margins). Overall, pricing power continues to deteriorate. Major commodity markets illustrate dramatic pricing pressures when supply and demand re-equilibrate. Knock on effects, particularly from energy markets, will continue well into 2015. We continue to adjust the portfolio where we perceive rising risks compared with market prices. Our priorities continue to include risk assessments and comparing opportunity costs between alternatives. At calendar year end, we continue to concentrate upon companies where we perceive lower than average near/medium term business risks, with market prices perceived to be satisfactory using cautious growth assumptions, and we have maintained MFF's effective "short AUD" position, liquid balance sheet and 20% borrowing limit.

Holdings as at 31 December 2014 with market values that represent 1% or more of the portfolio are shown in the table below (shown as percentages of total investment assets).

| <b>Holding</b>   | <b>%</b> |
|------------------|----------|
| Visa             | 13.4     |
| Wells Fargo      | 11.8     |
| Lowe's           | 11.7     |
| Home Depot Inc   | 10.7     |
| Mastercard       | 10.1     |
| Bank of America  | 9.3      |
| HCA Holdings Inc | 8.1      |

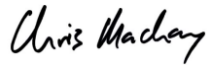
| <b>Holding</b>               | <b>%</b> |
|------------------------------|----------|
| US Bancorp                   | 5.7      |
| Lloyds Banking Group PLC     | 5.4      |
| Bank of New York Mellon Corp | 3.6      |
| State Street Corp            | 3.1      |
| Blackrock Inc                | 2.7      |
| Schroders Plc                | 1.4      |
| Qualcomm Inc                 | 1.3      |

The ongoing US economic recovery continues to be a primary driver of the increasing investor popularity/overall market prices of MFF's existing portfolio, and during recent months some investors also decided to leave declining markets elsewhere. The extent and consensus expected duration of these trends strengthened in the quarter, but such trends are always temporary. We continued to look for, but not find, new compelling opportunities to add to the portfolio. Overall, the current market momentum is being enjoyed for an indeterminate time period by investors. However, extrapolation of recent large cap equity/bond market price rises, assuming ongoing demand from the recent combination of index, ETF, momentum, yield seeking and "safety" buyers, remains dangerous compared with focus on underlying value.

Net borrowings as a percentage of investment assets as at 31 December 2014 were approximately 2.5%. The AUD gross borrowing figure was approximately A\$54.0 million as at 31 December 2014 compared with A\$98.2 million as at 30 June 2014. Cash balances were approximately 5.2% of investment assets at month end with the majority of holdings in USD and a small amount in GBP.

Key currency rates for AUD as at 31 December 2014 were 0.818 (USD), 0.685 (EUR) and 0.525 (GBP). compared with rates at 28 November 2014 which were 0.854 (USD), 0.676 (EUR) and 0.545 (GBP).

Yours faithfully,



Chris Mackay  
Portfolio Manager

05 December 2014

**Important note**

Magellan Flagship Fund Limited ABN 59 108 437 592 (**MFF**) has prepared the information in this document. This document has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this document, it is provided by MFF as a corporate authorised representative of Magellan Asset Management Limited ABN 31 120 593 946 AFSL 304 301. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.