

ARGO INVESTMENTS LIMITED

ABN 35 007 519 520

CHAIRMAN'S ADDRESS

DELIVERED BY MR. CHRIS HARRIS AT THE SIXTY THIRD ANNUAL GENERAL MEETING OF ARGO INVESTMENTS LIMITED HELD AT THE ADELAIDE CONVENTION CENTRE ON MONDAY 26 OCTOBER, 2009 AT 10.00 A.M.

I welcome you to the sixty third Annual General Meeting of Argo Investments Limited. On behalf of your Directors, I am pleased to report that your Company produced a creditable result for shareholders in a year of many challenges.

Operating Profit Result

The Company's 2009 operating profit, after providing for tax and before realised gains or losses and unrealised impairment revaluation charge on long-term investments, fell 10.4% to \$163.4 million, compared with \$182.3 million in the previous year. However, it does represent the second highest operating profit in the Company's 63 year history.

The Company's operating profit principally relies on the continuing profitability and dividend paying prospects of the listed stocks within our diverse Australian investment portfolio and for the period under review, some companies reduced or cancelled their dividends due to either lower earnings or to preserve cash to see them through the extremely difficult credit environment and the challenging economic situation.

In addition, interest income also fell significantly due to lower interest rates and reduced cash holdings as we selectively supported a number of the multitude of capital raisings by companies in our extensive investment portfolio.

Notwithstanding the significant decline in the value of the Company's investment portfolio, the management expense ratio (MER) for the year was still a very competitive 0.19% of average assets at market value.

Operating earnings per share fell 12.4% to 28.2 cents, compared with 32.2 cents in the previous year.

AIFRS Accounting Result

Accounting Standards require net realised gains or losses and any unrealised impairment revaluation charge on long-term investments to be included in the reported profit of the Company. We do not consider that these capital transactions are part of the Company's ordinary activities and they have been identified separately from its operating profit.

The AIFRS accounting result for the year was a loss of \$64.4 million and includes the Company's operating profit of \$163.4 million, net realised losses on the sale of long-term investments after tax of \$22.2 million and an unrealised impairment revaluation charge on long-term investments after tax of \$205.6 million.

The unrealised impairment revaluation charge has arisen due to the requirement in Accounting Standard 139 to impair equity investments where there has been a significant or prolonged decline in the market value below cost, and the Auditor's quantitative interpretation of that accounting standard.

The Company's diversified investment portfolio did not fully insulate it from the significant negative impact of the global financial crisis on the Australian and international sharemarkets, although it should be noted that the value of our "impaired" investments have risen 34% since balance date, compared with a rise of 23% for the overall sharemarket.

Our Managing Director will comment on the impairment of equity investments in his Address to follow.

Net Asset Backing

Reflecting the continued downturn in equity markets over the reporting period, the net tangible asset backing per Argo share before providing for deferred capital gains tax on unrealised gains within the investment portfolio was \$5.32 as at 30 June, 2009, compared with \$6.76 as at 30 June, 2008.

As at 30 September, 2009, the improvement in equity markets since balance date has resulted in the net tangible asset backing figure, calculated on the same basis as stated above, increasing to \$6.38 per share.

Dividends

Argo has continued its record of paying dividends to shareholders in each year of operation.

Total fully franked dividends for the year amounted to 27 cents per share (including a 2 cents per share LIC capital gain component which provides certain Australian resident shareholders with the ability to claim a tax benefit from the dividend sourced from LIC capital gains), compared with fully franked dividends totalling 30 cents per share for the previous year, and is the same as two years ago.

Following four consecutive years of strong dividend growth, the Directors adopted a more cautious approach in relation to this year's dividend due to the effect that the global financial crisis has had on company profits and dividends.

Total Portfolio Return and Total Shareholder Return

Argo's corporate objective is to maximise long-term returns to shareholders and to accord with this objective, we consider the Company's performance should be measured over longer-term time periods.

The following tables provide compound growth rates per annum to 30 September, 2009 over various longer-term periods and are compared against our benchmark, the S&P ASX All Ordinaries Accumulation Index.

The first table provides details of the Total Portfolio Return as measured by the movement in the net tangible asset backing (NTA) per share, plus dividends paid.

Total Portfolio Return : NTA plus dividends paid Compound growth rates per annum to 30 September, 2009

	Argo	All Ordinaries Accumulation Index
5 years	9.5%	9.7%
10 years	11.2%	9.7%
15 years	12.6%	10.2%
20 years	12.1%	9.3%

Source: Goldman Sachs JBWere

The second table provides details of Total Shareholder Return as measured by the movement in the share price, plus dividends paid.

**Total Shareholder Return : Share Price plus dividends paid
Compound growth rates per annum to 30 September, 2009**

	Argo	All Ordinaries Accumulation Index
5 years	10.9%	9.7%
10 years	11.5%	9.7%
15 years	13.1%	10.2%
20 years	11.5%	9.3%

Source: Goldman Sachs JBWere

Argo's returns vary in the tables above due to the share price fluctuating between a discount or a premium to our net tangible asset backing during the periods. These variations mainly result from supply and demand imbalances and changes in sentiment in the market for our shares.

Capital Management

During the year under review, the Dividend Reinvestment Plan (DRP) raised \$34.3 million of new equity and the Share Purchase Plan (SPP) resulted in shareholders investing an additional \$44.9 million.

As a result of these capital raisings, Argo's contributed equity increased from \$1,865.1 million to \$1,943.9 million. On 30 June, 2009, Argo had 584.4 million shares on issue.

Subsequent to year end, the September DRP raised \$14.8 million.

After careful consideration of the Company's capital requirements, the Directors resolved not to offer the SPP in September 2009. There were a number of matters affecting this decision, including a lack of investment opportunities given the recent strong performance of the sharemarket, earnings per share dilution and administrative issues. The current intention is to offer a SPP of up to \$15,000 to eligible shareholders in March next year.

Succession

After 40 years of dedicated and loyal service to the Company, our Managing Director, Mr. Rob Patterson has indicated that he will be retiring at next year's Annual General Meeting in October 2010.

The Board and senior management have been preparing for this eventuality for a number of years and I intend to further update shareholders on our succession plans in March 2010.

It is the Board's intention to invite Mr. Patterson to subsequently rejoin the Board as a non-executive Director following a well earned break. The expertise that he will continue to contribute to the Company in a non-executive role is considerable.

In view of Mr. Patterson's retirement in twelve months time, the Board has determined that he will not participate in the Executive Performance Rights Plan for the year ending 30 June, 2010. However, he will be entitled to receive a yet to be determined short-term performance incentive bonus and his performance hurdles will include an appropriate focus on issues concerning succession, transition, staffing matters and appropriate mentoring.

I will of course have further opportunities over the next year to acknowledge the significant contribution that Rob has made to the Argo group over his long and distinguished career.

Argo Executive Remuneration

The global financial crisis has thrown the spotlight more than ever before on the level and structure of executive remuneration, with governments worldwide considering this matter, especially in the financial services industry. Here in Australia, the Federal Government has made changes to share plan arrangements and has asked both APRA and the Productivity Commission to report to them on this issue.

In view of the likely legislative changes relating to executive remuneration and the upcoming succession arrangements, the Board is undertaking an independent review of executive remuneration.

Some commentators and investors incorrectly assume that executives receive all of the remuneration disclosed in annual reports, however, this is often not necessarily the case in relation to share based remuneration. Companies are required to expense the accounting fair value of this form of remuneration over the period from the grant date to the vesting date and if the shares are not awarded in due course, the expense is reversed.

It should be noted that the five year performance rights issued to Argo executives in 2004 are about to lapse, having just fallen short of the performance condition. This means that the remuneration disclosures for executives between 2005 and 2009 are in excess of what the Argo executives ultimately received.

Outlook & Prospects

The past twelve months have seen significant challenges for both governments and financial markets globally. The financial stimulus by governments and central banks worldwide has been unprecedented in its magnitude and co-ordination. This global initiative to revive economic growth is showing signs of success, with the US economy slowly emerging from recession and the Australian economy avoiding recession.

Since troughing in March 2009, the Australian share market has risen around 56% in anticipation of the economic and earnings recovery flowing initially from the stimulus programs and subsequently from resumption in global growth. Despite some relief, credit conditions for borrowers still remain tight with funding costs relatively high and credit availability constrained. As a result, more than \$110 billion in fresh equity has been raised over the past year by listed companies on the Australian Securities Exchange as corporate Australia de-leveraged balance sheets. Argo participated in many of these capital raisings at favourable prices.

The key issue many commentators are now grappling with is the sustainability of the economic recovery. The answer to this is not clear as consumers need to deal with potentially higher interest rates, rising unemployment and moderate economic growth. Furthermore, the Federal Government needs to fund its ever expanding budget deficit, which may result in higher direct and/or indirect taxes.

Importantly, the developing countries, which are critical to Australia's recovery, are also showing signs of improvement. Led by China, the long-term prospects for these countries remain attractive as they continue to develop and industrialize. Australia's proximity as a trading partner to Asia is of long-term strategic benefit.

As was expected, Corporate Australia recently reported a tough results season. Those companies which were able to quickly cut costs and manage their capital fared better than those with high legacy cost structures. Looking forward, revenue growth should moderately improve and profit margins increase as the economy recovers, however, further cost cutting is likely to be limited as credit costs remain relatively high and input costs begin to pick up. Capital management is likely to remain conservative.

Presently, macroeconomic themes appear to be driving share market valuations as opposed to fundamental earnings. This makes long-term investment decisions more difficult.

Throughout our proud history of more than 60 years, Argo has managed to navigate its way through turbulent periods, and this recent period has been no exception. We continue to manage a diverse, quality portfolio with a conservative long-term investment philosophy and with around \$130 million in cash deposits, our experienced management team will seek investment opportunities in a risk controlled manner.

On 17 September, 2009 your Directors reported to the Australian Securities Exchange that the Company's operating profit after tax for the half-year ending 31 December, 2009 – excluding realised gains or losses on long-term investments and any unrealised impairment revaluation charge – is expected to be between 25% to 28% below the previous corresponding period.

This forecast, based on expected lower dividend and interest income, is unlikely to be representative of the Company's results for the current full year ending 30 June 2010, for the following reasons:-

- The result for the previous corresponding period was a record first half for the Company – whereas the result, on the same basis, for that full year ended 30 June 2009 was down 10.4%.
- In our letter to shareholders dated 3 August 2009 we mentioned that we expected continued downward pressure on company profits and dividends in the half-year ending 31 December 2009, before a modest improvement expected in the first half of calendar 2010.

In the absence of any unforeseen circumstances, the Directors have provided interim dividend guidance of 12 cents per share, fully franked, for the current half-year ending 31 December 2009, which compares with 14 cents per share in the previous corresponding period.

Appreciation

I thank the Managing Director and his staff for their focus and commitment during what was a truly challenging year.

I also acknowledge the significant contributions by my fellow Board members and finally, thank our 67,000 owners – our loyal shareholders – for their on-going support.