Argo Investing in Australia

Argo Investments Limited
ABN 35 007 519 520

Head Office
GPO Box 2692
Adelaide, South Australia 5001
Level 12, 19 Grenfell Street
Adelaide, South Australia 5000

Telephone (08) 8212 2055
Facsimile (08) 8212 1658
Email invest@argoinvestments.com.au

Sydney Office
GPO Box 4313
Sydney, New South Wales 2001
Level 25, Suite 2502, 259 George Street,
Sydney, New South Wales 2000

Telephone (02) 8274 4700
Facsimile (02) 8274 4777

www.argoinvestments.com.au

4 February, 2013

Dear Shareholder,

The Directors of Argo Investments Limited ("the Company"), a leading Australian listed investment company with total assets of $4.0 billion, are pleased to report an improved result for the half-year ended 31 December, 2012, a summary of which follows:-

• Profit after tax	$86.3 million
• Earnings per share	13.7 cents
• Interim fully franked dividend per share	13.0 cents
• Net tangible asset backing per share at balance date	$6.26

Financial Result

Profit after tax for the half-year under review was $86.3 million, an improvement on the $85.8 million in the previous corresponding half-year.

The Company's dividend and distribution income rose during the half-year, but the increase was offset to some extent by reduced interest income, reflecting the declining interest rates available on cash deposits.

Earnings per share was 13.7 cents, compared with 13.8 cents in the half-year ended 31 December, 2011.

Interim Dividend

The Directors have declared a steady fully franked interim dividend of 13 cents per share.

The fully franked interim dividend, totalling $81.8 million, will be paid on 4 March, 2013. The shares will trade ex-dividend on 11 February, 2013 and the record date to establish shareholder dividend entitlements is 15 February, 2013.

Dividend Reinvestment Plan (DRP)

The Company's DRP will operate for the dividend payable on 4 March, 2013. The Directors have resolved that the shares will be allotted to eligible shareholders participating in the DRP at a discount of 2% from the market price of Argo shares, as defined by the DRP.

Eligible shareholders, being those shareholders with registered addresses in Australia or New Zealand, who wish to participate in the DRP and who have not already lodged their intention, must do so by 15 February, 2013. Any variation to an existing election must also be lodged by this date. Applications or variations can be made online at www.investorcentre.com or by post to Computershare Investor Services Pty. Limited, GPO Box 2975, Melbourne VIC 3001.

Net Asset Backing

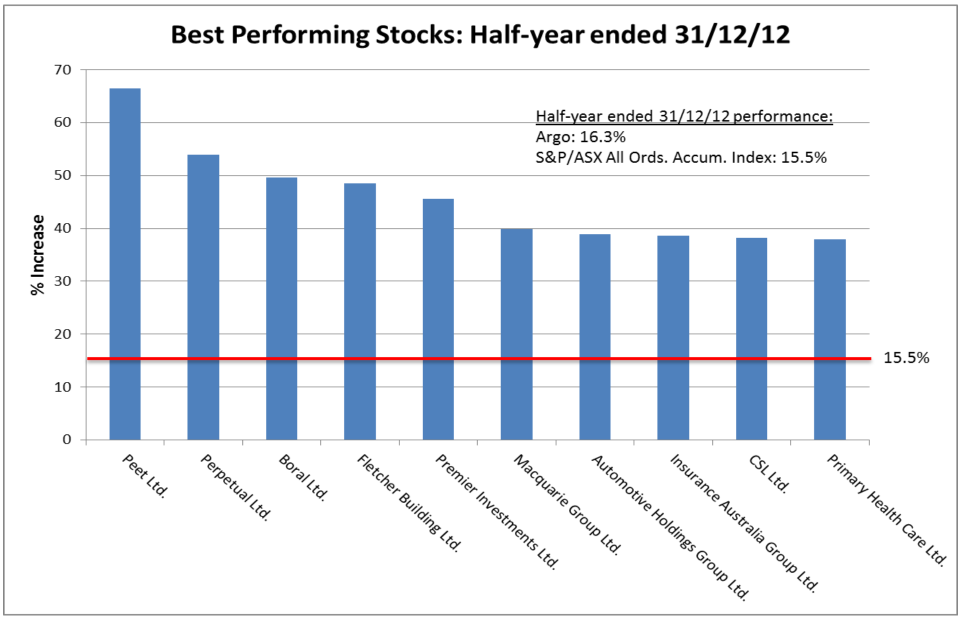
Reflecting a generally improved performance in equity markets over the reporting period, net tangible asset backing per Argo share was $6.26 as at 31 December, 2012, up from $5.50 as at 30 June, 2012 and $5.40 as at 31 December, 2011.

As a long-term equity investor, Argo does not intend to dispose of its long-term investment portfolio. However, if estimated tax on unrealised portfolio gains was to be deducted, the net tangible asset backing per share would be $5.64 as at 31 December, 2012 compared with $5.12 as at 30 June, 2012 and $5.05 as at 31 December, 2011.

Investment Performance

Argo's total return from the investment portfolio in the half-year ended 31 December, 2012 was 16.3%, measured by the movement in net asset backing per share plus dividends paid. This return is after payment of all administration costs and tax and compares favourably with the half-year return of 15.5% from the S&P/ASX All Ordinaries Accumulation Index, which makes no allowance for these items.

The following chart shows the best performing stocks in the investment portfolio for the half-year ended 31 December, 2012.



For the same period, the worst performing stocks were Billabong International Ltd., Echo Entertainment Group Ltd., Programmed Maintenance Services Ltd. and Iluka Resources Ltd.

Over the calendar year, Argo's portfolio produced a total return of 21.3%, compared with 18.8% from the S&P/ASX All Ordinaries Accumulation Index.

For the 10 years to 31 December, 2012, Argo's portfolio produced an annual compound return of 9.0%, compared with 9.1% from the S&P/ASX All Ordinaries Accumulation Index.

Over the 15 years to 31 December, 2012, the portfolio produced an annual compound return of 8.9%, compared with 8.2% from the S&P/ASX All Ordinaries Accumulation Index.

The Company's objective is to maximise long-term returns to shareholders through a balance of capital and dividend growth from a diversified investment portfolio.

Investment Portfolio

During the latest December half-year, we added to some of our existing portfolio holdings, with the larger purchases being:

	$ million
Australia and New Zealand Banking Group Ltd.	16.5
Telstra Corporation Ltd.	13.9
Westpac Banking Corporation	9.0
DuluxGroup Ltd.	3.6
Santos Ltd.	3.5

In addition, our investment in APA Group was increased by $7.9 million, with the majority of this amount being the deemed cost of the units received when APA Group acquired our Hastings Diversified Utilities Fund investment.

Overall, the number of holdings in the Company's portfolio was reduced during the period. Our investments in Fairfax Media Ltd., Aberdeen Leaders Ltd., Metcash Ltd. and Bank of Queensland Ltd. were sold, together with a few smaller holdings. Investments in several stocks were reduced, including Macquarie Group Ltd. In addition to the takeover of our investment in Hastings Diversified Utilities Fund, we also accepted takeover offers for our holdings in Consolidated Media Holdings Ltd. and Alesco Corporation Ltd.

A list of the Company's principal investments as at 31 December, 2012 is set out below:-

	Market Value $ million	% of Total Assets
BHP Billiton Ltd.	297.7	7.5
Westpac Banking Corporation	248.7	6.3
Australia and New Zealand Banking Group Ltd.	209.8	5.3
Wesfarmers Ltd.	186.7	4.7
Commonwealth Bank of Australia	172.7	4.4
Telstra Corporation Ltd.	167.0	4.2
Rio Tinto Ltd.	162.2	4.1
Milton Corporation Ltd.	143.9	3.6
Australian United Investment Company Ltd.	129.4	3.3
National Australia Bank Ltd.	128.9	3.3
Woolworths Ltd.	121.2	3.1
Macquarie Group Ltd.	95.7	2.4
Origin Energy Ltd.	77.7	2.0
CSL Ltd.	63.6	1.6
AMP Ltd.	58.8	1.5
Woodside Petroleum Ltd.	57.6	1.5
Orica Ltd.	56.1	1.4
AGL Energy Ltd.	48.6	1.2
Santos Ltd.	48.5	1.2
QBE Insurance Group Ltd.	46.1	1.2
Top 20 equity investments	2,520.9	63.8
Cash and term deposits	183.6	4.6
	2,704.5	68.4

Outlook

The S&P/ASX All Ordinaries Accumulation Index closed up strongly for the 2012 calendar year, delivering an 18.8% return which was the market's best performance since 2009. Driving this was the search by investors for yield in a low interest rate environment and easing concerns about risks to the global economy.

Although we believe some challenges remain, the global outlook does appear to be improving, particularly in the US, where the housing market recovery seems to be consolidating. In addition, the benefit to ongoing economic recovery in the US of cheap energy being released from the shale gas discoveries should not be underestimated.

Foreign demand for Australian assets kept the Australian dollar above parity when compared to the US dollar, with the result that lower Australian dollar prices were received for Australian commodity exports and local manufacturing industries continued to struggle.

The Reserve Bank of Australia has continued to reduce interest rates, with a further rate cut of 0.25% in December 2012, lowering the cash rate to 3.0%. This move takes the cash rate back down to a level first reached in April 2009 during the global financial crisis.

If required, the Reserve Bank may make additional cuts in interest rates, which should stimulate consumer spending and business investment. Further to this, we expect an improvement in both business and investor confidence is possible following the result of the Australian Federal election to be held on 14 September, 2013.

We continue to look to deploy additional funds into the market and we intend to use the news and meetings resulting from the upcoming company reporting season as opportunities. In general, we do not expect strong earnings growth from companies over the coming twelve months, which is likely to lead to only modest dividend growth. However, we believe the overall yield available in the Australian equity market will remain attractive to investors.

Argo remains of the view that for a long-term investor, the Australian equity market is relatively good value. The Company has no debt and with cash reserves of around $180 million, will continue to invest its funds into quality, well-managed companies with solid cash flows and dividend streams.

Share Purchase Plan

The Directors intend to offer a Share Purchase Plan (SPP) in the near term and the details will be announced to the Australian Securities Exchange when finalised. It is expected that the offer documents will be mailed to shareholders on 4 March, 2013.

Yours faithfully,
ARGO INVESTMENTS LIMITED

J. Beddow
Chief Executive Officer