

**Argo Investments Limited**

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4 August, 2014

Dear Shareholder,

**Result for the year ended 30 June, 2014
Argo Investments Limited (“Argo” or “the Company”)**

The Directors are pleased to announce a record full-year profit of \$195.9 million and in recognition of this solid result, a 1.0 cent lift in the final dividend to 14.5 cents per share fully franked.

Summary of financial results

	2014	2013	change
Profit	\$195.9 million	\$175.0 million	+11.9%
Earnings per share	30.2 cents	27.7 cents	+9.0%
Final dividend per share	14.5 cents	13.5 cents*	+7.4%
Total dividends per share for the full year	28.0 cents	26.5 cents	+5.7%
Net tangible asset backing (NTA) per share	\$7.35	\$6.52	+12.7%
Management expense ratio (MER)	0.15%	0.18%	-16.7%

* Included a 0.75 cent per share listed investment company (LIC) capital gain component.

Overview

Argo's full-year profit increased by 11.9% to \$195.9 million and earnings per share rose 9.0% to 30.2 cents per share. The Company received increased dividends and distributions from its long-term investment portfolio, partially offset by reduced interest income on cash deposits due to the lower interest rates available during the year.

The result was boosted by \$6.9 million of non-cash, one-off income items, being two demerger dividends resulting from the demergers of Recall Holdings and Orora by Brambles and Amcor respectively, and a special dividend due to the in-specie distribution of Sydney Airport securities by Macquarie Group to its shareholders. This compares to a demerger dividend of \$0.6 million in the previous year, when Woolworths demerged SCA Property Group.

Over the year, Argo's share price performance (assuming dividends paid are reinvested) returned +22.7%, reflecting a combination of stronger equity markets and the share price moving to a premium to NTA. Argo's investment portfolio performed in line with the broader Australian share market, returning +17.1% for the year after deducting all administration expenses and tax (measured by the movement in NTA per share assuming dividends paid are reinvested), compared with the S&P/ASX 200 Accumulation Index which returned +17.4% for the same period without taking into account any costs or tax.

The Share Purchase Plan and Dividend Reinvestment Plan were well supported by shareholders during the year and raised \$99.6 million and \$33.1 million respectively for further investment. Argo now has over 73,000 shareholders and more than 660 million shares on issue.

Investment Portfolio

During the year, \$259 million was spent on long-term investment purchases, partly funded by \$111 million in disposals and takeover proceeds. The larger movements in the portfolio during the year included:

Purchases (above \$10m)

Australia & New Zealand Banking Group
Commonwealth Bank of Australia
Mermaid Marine Australia
Sydney Airport
Telstra Corporation
Transurban Group
Westpac Banking Corporation

Sales (above \$5m)

Australian United Investment Company
BKI Investments *
Cochlear *
Diversified United Investment
James Hardie Industries *
Recall Holdings *
Seven West Media *

* Sale of complete position and removal from portfolio.

A feature of the past financial year has been the high level of initial public offerings (IPOs). Argo's investment team analysed a large number of opportunities and has established positions in Affinity Education Group, Asaleo Care, Monash IVF Group, Pact Group, Steadfast Group and 3P Learning. We also invested in Managed Accounts Holdings prior to its recent IPO and added Tassal Group to the portfolio.

Overall, the number of stocks held in the portfolio increased to 103. The cash balance at year end was \$197 million, representing 4.0% of the Company's total assets of \$4.9 billion.

Investment performance

The following table provides annual return statistics for Argo's portfolio and the relevant share market index for various periods ended 30 June, 2014. It should be noted that Argo's portfolio performance (measured by the movement in NTA per share assuming dividends paid are reinvested) is calculated after deducting all administration expenses and tax, whereas share market indices do not take account of these costs.

	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>	<i>15 years</i>
Argo portfolio performance	+17.1%	+10.9%	+11.2%	+8.8%	+9.5%
S&P/ASX 200 Accumulation Index	+17.4%	+10.4%	+11.2%	+9.0%	+8.7%

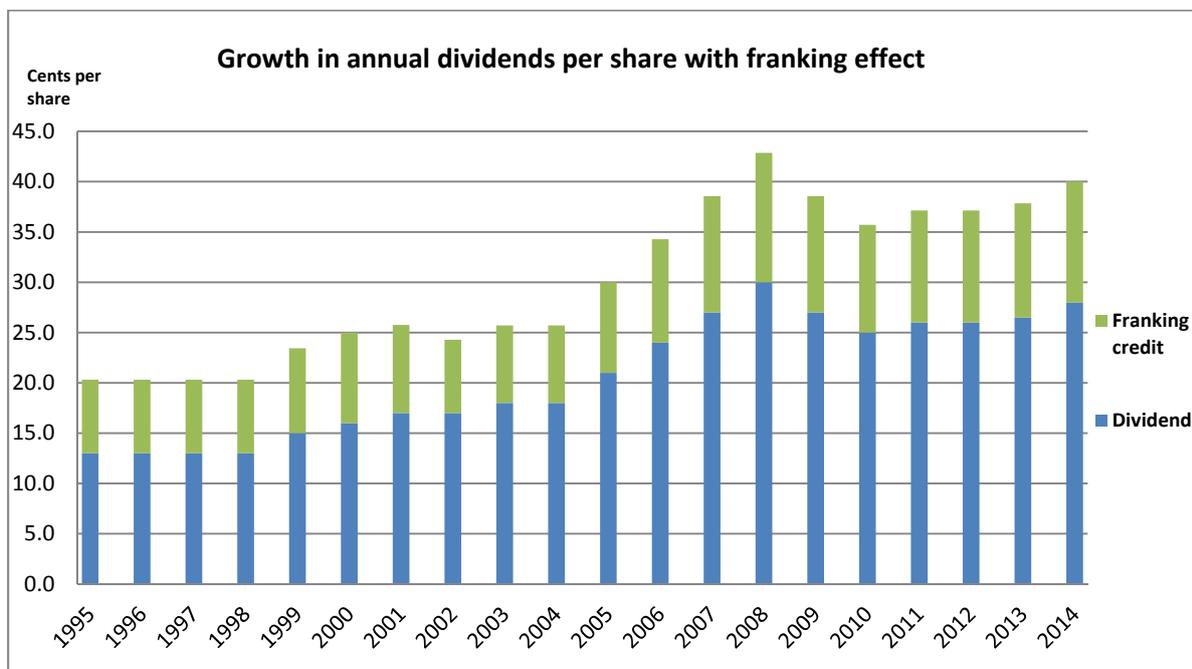
The best performing stocks in the portfolio over the year were Challenger, Lend Lease Group, David Jones, Technology One and Macquarie Group, all of which increased in price by more than 50%. This was somewhat offset by relatively poor performances from Whitehaven Coal, Mermaid Marine Australia, Fleetwood Corporation and iSelect, which all fell by over 30%.

Dividend and Dividend Reinvestment Plan

The Directors have increased the final dividend by 1.0 cent to 14.5 cents per share fully franked.

There is no listed investment company (LIC) capital gain component in the final dividend (0.75 cent per share LIC capital gain component last year).

The following graph highlights Argo's solid history of dividend growth and the benefits of franking those dividends.



The Dividend Reinvestment Plan (DRP) will apply to the final dividend for those shareholders with registered addresses in Australia or New Zealand who elect to participate. Shares issued under the DRP will be priced at a discount of 2% to the volume-weighted average price of Argo shares traded on the ASX between 18 August and 21 August, 2014 inclusive. The following dates apply to the final dividend and DRP:

- Ex-dividend date for trading in Argo shares on the ASX Monday 18 August, 2014
- Record date for dividend entitlement Wednesday 20 August, 2014
- Last day for amendment of DRP participation (election date*) Thursday 21 August, 2014
- Dividend payment date Wednesday 3 September, 2014

* following changes to the ASX Listing Rules dividend timetables, the last day for amendment of DRP participation instructions is now one business day after the record date. This date is referred to as the "election date" in the updated DRP terms and conditions, which are available on the Company's website. The DRP pricing period comprises the election date and the three preceding business days.

Please note that Argo's share registry operations are managed by Computershare Investor Services Pty. Limited, and DRP participation instructions can be updated online at www.investorcentre.com. Registering your holding online with Computershare also allows you to elect to receive communications from Argo electronically rather than by post. If you are not already registered, a form and reply paid envelope has been included with this letter, to allow you to easily provide your email address to us.

Net tangible asset backing

As a long-term investor, Argo does not intend to dispose of its long-term investment portfolio. Therefore, when calculating net tangible asset backing (NTA), Argo values its portfolio using the market price of each listed holding, without providing for estimated tax on gains that would be realised if the portfolio were to be sold. At 30 June, 2014, this valuation resulted in a NTA per share of \$7.35. However, if estimated tax on unrealised gains in the portfolio was to be deducted, the NTA per share at 30 June, 2014 would be \$6.48.

Both NTA figures are updated monthly and announced to the Australian Securities Exchange (ASX).

On 30 June, 2014, the Argo share price closed at \$7.63, ending the financial year at a 3.8% premium to NTA.

Annual General Meeting and shareholder information meetings

The Annual General Meeting will be held at the Adelaide Convention Centre, North Terrace, Adelaide on Monday 27 October, 2014 at 10.00am.

For the benefit of shareholders unable to attend the Annual General Meeting in Adelaide, information meetings will be held in Melbourne at 10.00am on Tuesday 28 October, 2014 at the Melbourne Convention and Exhibition Centre, level 2, Room 220, 1 Convention Centre Place, South Wharf, Melbourne and in Sydney at 10.00am on Wednesday 29 October, 2014 at the Wesley Conference Centre, The Lyceum, 220 Pitt Street, Sydney.

Directorate

The Deputy Chairman, Mr. Robert Rich, has advised the Board that he will not seek re-election as a Non-executive Director at the forthcoming Annual General Meeting. Mr. Rich is retiring after a distinguished career in the investment industry, including 22 years on Argo's Board. He joined the Company in 1992 as an Executive Director and was appointed Deputy Chairman when he became a Non-executive Director in 1998. His dedicated service to the Company and his contribution to its growth and success is greatly appreciated by the Board and management, and will be further acknowledged with shareholders at the Annual General Meeting.

Outlook

The Australian share market recorded another strong year, tracking similar movements in other major global markets, with particular strength in the US. While we acknowledge the continued improvement in the US economy, low interest rates globally have helped to fuel strong market returns.

We note that dividend payout ratios in the Australian market remain elevated. As a result, earnings growth will be required to drive further dividend growth. We also consider that earnings growth will be necessary to justify current market valuations.

The IPO activity that began twelve months ago has continued, with a large number of new companies coming to market. While there have been mixed performances from these new listings, demand for better quality businesses remains. We continue to assess a number of these potential investment opportunities.

Argo has no debt and cash reserves of \$195 million. We look forward to meeting our investee companies over the upcoming corporate results reporting season and will continue to selectively invest funds into quality, well managed companies with solid cash flows and dividend streams.

Yours faithfully,
ARGO INVESTMENTS LIMITED



Jason Beddow
Managing Director