



Argo Investments Limited

ABN 35 007 519 520

Appendix 4D

**Half-year Report
for the period ended 31 December, 2014
(previous corresponding period being
the half-year ended 31 December, 2013)**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET
HALF-YEAR ENDED 31 DECEMBER, 2014**

(Comparative figures being the half-year ended 31 December, 2013)

				<u>\$A'000</u>
Revenue from operating activities	up	3.2%	to	112,654
Profit for the half-year	up	2.9%	to	104,848

Dividend

Interim fully franked dividend payable 4 March, 2015
(previous corresponding period 13.5 cents fully franked) 14.0 cents

The Company's Dividend Reinvestment Plan will operate for this dividend. The Directors have resolved that the shares will be allotted at a discount of 2% from the market price of Argo shares which will be the weighted average ex-dividend market price of the shares sold on the ASX on the day after the record date (election date) and during the three business days preceding the election date.

The record date for determining entitlements to the interim dividend 16 February, 2015
The election date for determining participation in the Dividend Reinvestment Plan 17 February, 2015

Final fully franked dividend for year ended 30 June, 2014 paid
3 September, 2014 14.5 cents

Net Asset Backing

Net Tangible Asset Backing per Argo share was \$7.36 as at 31 December, 2014, compared with \$7.31 as at 31 December, 2013.

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 \$6.49 as at 31 December, 2014, compared with \$6.41 as at 31 December, 2013.



Media Release

2nd February, 2015

Record Argo first half profit and increased interim dividend

Argo Investments Limited (ASX: "ARG") today announced a record first half profit of \$104.8 million for the six months to 31 December, 2014 and has again lifted the interim dividend.

Argo, a leading Australian listed investment company with a market capitalisation of more than \$5 billion, said the improved results followed increased dividends and distributions from investments in its portfolio of more than 100 stocks, partly offset by a dip in interest income from the Company's cash deposits.

The interim dividend has been increased for the second successive year - to a fully franked 14 cents per share from a fully franked 13.5 cents per share in the previous corresponding period - and follows the increased final dividend paid last year to Argo shareholders.

Summary of financial results	Half-year to 31.12.14	Half-year to 31.12.13	change
Profit	\$104.8 million	\$101.9 million	+2.9%
Earnings per share	15.8 cents	15.8 cents	-
Interim dividend per share	14.0 cents	13.5 cents	+3.7%
Net asset backing per share	\$7.36	\$7.31	+0.7%

The improved \$104.8 million profit was up 2.9% from \$101.9 million in the previous corresponding period. The result included \$4.0 million of special dividends from Harvey Norman, Suncorp Group and Wesfarmers which compared to \$2.1 million of special dividends and \$6.9 million of non-cash, one-off income items in the previous corresponding half-year. Excluding these special dividends and one-off items, profit increased by 8.5% and earnings per share increased by 5.6%.

Argo's Managing Director, Mr. Jason Beddow, said sharp falls in commodity prices led to steep declines in the share prices of many companies in the mining and energy sectors over recent months, which impacted a number of stocks in Argo's portfolio. The investment portfolio returned 4.5% for the calendar year, while the total shareholder return was 10.1%. This compares with the S&P/ASX 200 Accumulation Index return of 5.6% for the same period.

"Initial public offering (IPO) activity continued to be a feature of the Australian share market, with Argo participating in several new floats. We expect IPO activity to continue into 2015, but at a reduced pace to that seen in 2014, when 61 new companies were listed, raising over \$14.6 billion" he said.

"Argo has cash reserves of \$90 million and remains cautious regarding the short term outlook and volatility of markets."

Larger than normal shifts in Investment Portfolio sector allocation

During the half-year, Argo spent \$215 million on long-term investment purchases, partly funded by \$61 million in disposals.

The largest purchases were Medibank Private, APA Group, Santos, Commonwealth Bank of Australia, Asaleo Care and Telstra Corporation. The largest sales were a reduction in the Milton Corporation holding, the acceptance of the takeover offer for David Jones, and the fully exited positions in News Corporation and Orora.

The stocks in the Argo portfolio which contributed most positively to performance during the half-year were Twenty-First Century Fox, Ramsay Health Care, Lend Lease Group, APA Group, Medibank Private and Sydney Airport. Negative contributors were largely energy related, and included Santos, MMA Offshore, Origin Energy and ALS.

Mr. Beddow noted larger than normal shifts in the sector allocation of the Argo portfolio during the 2014 calendar year, primarily due to the weakness of share prices in the energy and materials (especially mining) sectors relative to the rest of the market, which has reduced the Company's portfolio weighting in those areas.

"In addition, we have deployed some of Argo's cash balance into our preferred sectors during the year, increasing the portfolio weighting in health care, utilities and other financials in particular," he said.

"The sector composition of the broader Australian securities market has changed significantly in recent years. For example, the larger resources (including energy) companies made up almost one-third of the S&P/ASX 200 Index in 2011, but this proportion had fallen to less than 15% by the end of 2014. Conversely, the financials (ex-real estate) and health care sectors now comprise 39% and 6% of the Index respectively, their highest ever weightings."

Outlook

Mr. Beddow said global macro-economic uncertainty has unwound a positive start to the 2014/15 financial year, with the Australian market falling over 5% during the December quarter and earnings expectations continuing to be revised downwards in the wake of significant commodity price falls.

"There is a growing economic divergence between the US and many other developed countries. The US economy is strengthening, leading to a stronger US dollar and potentially higher interest rates. This is in stark contrast to the continued aggressive easing of monetary policy in both the EU and Japan," he said.

"These events have created a volatile, and more difficult to navigate, investment environment. Whilst the defensive, higher yielding sectors such as banks and utilities, and offshore earners, are trading at or near all-time highs, other sectors have lagged significantly."

"In Australia, we expect that business activity and investment will continue to rotate towards non-mining sectors, as mining related capital expenditure continues to fall. The unemployment rate, approaching a 12-year high, may continue to climb and remains a risk to consumer spending. However, the housing market is likely to remain robust, supported by continued accommodative monetary policy. In addition, the long-awaited fall in the Australian dollar occurred towards the end of 2014, falling to US\$0.81 on 31 December, which bodes as a potential positive for the Australian economy in 2015. We look forward to meeting with our investee companies over the upcoming corporate results reporting season to review how their businesses are adapting to the current economic conditions."

Media contact:

Jason Beddow

Managing Director

02 8274 4702 or 0409 900 709

DIRECTORS' REPORT

The Directors submit the financial report of Argo Investments Limited ("the Company") for the half-year ended 31 December, 2014.

The Company's objective is to maximise long-term returns to shareholders through a balance of capital and dividend growth from a diversified Australian investment portfolio. This is achieved through building a portfolio of long-term investments, currently 104 stocks, representing a cross section of Australia's enterprises, where there is good quality management and prospects for sound earnings and dividend growth.

Profit for the half-year under review was \$104.8 million, a 2.9% increase on the \$101.9 million in the previous corresponding half-year.

Dividend income strengthened during the period as a number of companies increased their payments due to improved company earnings. In addition, \$4.0 million of special dividends were received from Harvey Norman Holdings Limited, Suncorp Group Limited and Wesfarmers Limited. This compared to \$2.1 million of special dividends and \$6.9 million of non-cash, one-off income items in the previous corresponding half-year.

The Company's earnings per share was 15.8 cents, which was unchanged from the previous corresponding half-year ended 31 December, 2013.

The Directors have declared a fully franked interim dividend of 14 cents per share, compared with 13.5 cents per share paid for the half-year ended 31 December, 2013. This dividend totals \$93.0 million, compared with \$87.2 million in the previous corresponding period and will be paid on 4 March, 2015.

Net tangible asset backing per Argo share was \$7.36 as at 31 December, 2014, compared with \$7.35 as at 30 June, 2014 and \$7.31 as at December, 2013.

The Company has no debt and has liquid funds on deposit at balance date available for additional long-term investment.

The Dividend Reinvestment Plan raised \$18.4 million of new capital for investment during the half-year and resulted in the allotment of 2,357,163 shares at \$7.79 per share.

The Company has an on-market share buy-back facility in place and for the six months ended 31 December, 2014, no Company shares were acquired.

The following persons were Directors during the half-year and are in office at the date of this report:

<u>Name</u>	<u>Period of Directorship</u>
Geoffrey Ian Martin AM (Chairman)	Director since 28 October, 2004
Anne Bernadette Brennan	Director since 1 September, 2011
Roger Andrew Davis	Director since 1 June, 2012
Russell Allan Higgins AO	Director since 1 September, 2011
Joycelyn Cheryl Morton	Director since 1 March, 2012
Robert John Patterson	Director since 25 October, 2011

Robert Tom Rich, a Director since 1992 and Deputy Chairman since 1998, retired on 27 October, 2014.

Rounding of Amounts

Australian Securities and Investments Commission Class Order 98/100 dated 10 July, 1998 applies to the Company and accordingly amounts have been rounded to the nearest one thousand dollars in accordance with that Class Order, unless otherwise stated.

Auditor's Independence Declaration

The auditor's independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 3.

This report is made in accordance with a resolution of the Board of Directors.

On behalf of the Board,

A handwritten signature in black ink, appearing to read 'G.I. Martin', with a stylized flourish at the end.

G.I. Martin AM
Chairman

Adelaide
2 February, 2015

Auditor's Independence Declaration

As lead auditor for the review of Argo Investments Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



AG Forman
Partner
PricewaterhouseCoopers

Adelaide
2 February 2015

STATEMENT OF PROFIT OR LOSS
for the half-year ended 31 December, 2014

	Note	2014 \$'000	2013 \$'000
Dividends and distributions		109,676	105,199
Interest		2,600	3,516
Other revenue		<u>378</u>	<u>493</u>
Total revenue		112,654	109,208
Net gains on trading investments		<u>2,084</u>	<u>2,454</u>
Income from operating activities		114,738	111,662
Administration expenses		<u>(3,728)</u>	<u>(3,792)</u>
Profit before income tax expense		111,010	107,870
Income tax expense thereon		<u>(6,162)</u>	<u>(5,983)</u>
Profit for the half-year		<u><u>104,848</u></u>	<u><u>101,887</u></u>
		2014 cents	2013 cents
Basic and diluted earnings per share	2	<u><u>15.8</u></u>	<u><u>15.8</u></u>

STATEMENT OF COMPREHENSIVE INCOME
for the half-year ended 31 December, 2014

	2014 \$'000	2013 \$'000
Profit for the half-year	<u>104,848</u>	<u>101,887</u>
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
Revaluation of long-term investments	(2,771)	497,565
Provision for deferred tax benefit/(expense) on revaluation of long-term investments	<u>215</u>	<u>(149,732)</u>
Other comprehensive income for the half-year	<u>(2,556)</u>	<u>347,833</u>
Total comprehensive income for the half-year	<u><u>102,292</u></u>	<u><u>449,720</u></u>

(To be read in conjunction with the accompanying notes)

STATEMENT OF FINANCIAL POSITION
as at 31 December, 2014

	31 December 2014 \$'000	30 June 2014 \$'000
CURRENT ASSETS		
Cash and cash equivalents	88,532	126,893
Receivables	7,566	38,334
Investments	3,263	-
Other financial cash assets	-	70,000
Total Current Assets	<u>99,361</u>	<u>235,227</u>
NON-CURRENT ASSETS		
Receivables	148	157
Investments	4,817,441	4,676,433
Plant and equipment	335	345
Total Non-Current Assets	<u>4,817,924</u>	<u>4,676,935</u>
TOTAL ASSETS	<u>4,917,285</u>	<u>4,912,162</u>
CURRENT LIABILITIES		
Payables	430	10,299
Derivative financial instruments	3,830	1,000
Current tax liabilities	6,942	12,360
Provisions	433	480
Total Current Liabilities	<u>11,635</u>	<u>24,139</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	592,086	599,192
Provisions	140	122
Total Non-Current Liabilities	<u>592,226</u>	<u>599,314</u>
TOTAL LIABILITIES	<u>603,861</u>	<u>623,453</u>
NET ASSETS	<u>4,313,424</u>	<u>4,288,709</u>
SHAREHOLDERS' EQUITY		
Contributed equity	2,455,601	2,437,259
Reserves	1,546,472	1,548,931
Retained profits	311,351	302,519
TOTAL SHAREHOLDERS' EQUITY	<u>4,313,424</u>	<u>4,288,709</u>

(To be read in conjunction with the accompanying notes)

STATEMENT OF CHANGES IN EQUITY
for the half-year ended 31 December, 2014

	Contributed Equity \$'000	Reserves \$'000	Retained Profits \$'000	Total \$'000
Balance at 1 July, 2014	<u>2,437,259</u>	<u>1,548,931</u>	<u>302,519</u>	<u>4,288,709</u>
Profit for the half-year	-	-	104,848	104,848
Other comprehensive income	-	(2,556)	-	(2,556)
Total comprehensive income for the half-year	-	(2,556)	104,848	102,292
Transactions with shareholders:				
Dividend Reinvestment Plan	18,362	-	-	18,362
Cost of shares issued net of tax	(20)	-	-	(20)
Executive performance rights reserve	-	97	-	97
Dividend paid	-	-	(96,016)	(96,016)
Total transactions with shareholders	<u>18,342</u>	<u>97</u>	<u>(96,016)</u>	<u>(77,577)</u>
Balance at 31 December, 2014	<u>2,455,601</u>	<u>1,546,472</u>	<u>311,351</u>	<u>4,313,424</u>

For the half-year ended 31 December, 2013

Balance at 1 July, 2013	<u>2,304,790</u>	<u>1,181,322</u>	<u>275,887</u>	<u>3,761,999</u>
Profit for the half-year	-	-	101,887	101,887
Other comprehensive income	-	347,833	-	347,833
Total comprehensive income for the half-year	-	347,833	101,887	449,720
Transactions with shareholders:				
Dividend Reinvestment Plan	16,446	-	-	16,446
Cost of shares issued net of tax	(34)	-	-	(34)
Executive performance rights reserve	-	122	-	122
Dividend paid	-	(4,826)	(82,041)	(86,867)
Total transactions with shareholders	<u>16,412</u>	<u>(4,704)</u>	<u>(82,041)</u>	<u>(70,333)</u>
Balance at 31 December, 2013	<u>2,321,202</u>	<u>1,524,451</u>	<u>295,733</u>	<u>4,141,386</u>

(To be read in conjunction with the accompanying notes)

STATEMENT OF CASH FLOWS
for the half-year ended 31 December, 2014

	2014	2013
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Dividends and distributions received	135,598	120,630
Interest received	3,401	3,871
Other receipts	378	493
Proceeds from trading investments	10,627	12,395
Payments for trading investments	(8,976)	(9,162)
Other payments	(4,464)	(4,119)
Income tax paid	(18,463)	(7,232)
	<u>118,101</u>	<u>116,876</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of long-term investments	71,719	51,151
Payments for long-term investments	(220,863)	(86,335)
Proceeds from other financial cash assets	70,000	100,000
Payments for other financial cash assets	-	(70,000)
Executive share scheme repayments	380	52
Payments for fixed assets	(15)	(7)
	<u>(78,779)</u>	<u>(5,139)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cost of shares issued	(29)	(49)
Dividend paid - net of Dividend Reinvestment Plan	(77,654)	(70,421)
	<u>(77,683)</u>	<u>(70,470)</u>
Net (decrease)/increase in cash held	(38,361)	41,267
Cash at the beginning of the half-year	<u>126,893</u>	<u>135,910</u>
Cash at the end of the half-year	<u><u>88,532</u></u>	<u><u>177,177</u></u>

(To be read in conjunction with the accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 31 December, 2014

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

The general purpose financial report for the half-year ended 31 December, 2014 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this half-yearly report is to be read in conjunction with the Annual Report for the year ended 30 June, 2014 and any public announcements made by Argo Investments Limited ("the Company") during the half-year, in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2. EARNINGS PER SHARE

	2014	2013
	number	number
	'000	'000
Weighted average number of ordinary shares on issue used in the calculation of earnings per share	663,704	645,047
	\$'000	\$'000
Profit for the half-year	104,848	101,887
	cents	cents
Basic and diluted earnings per share	<u>15.8</u>	<u>15.8</u>

3. DIVIDENDS

	2014	2013
	\$'000	\$'000
Dividend paid during the half-year:		
Final dividend for the year ended 30 June, 2014 of 14.5 cents fully franked at 30% tax rate paid 3 September, 2014 (2013: 13.5 cents fully franked at 30% tax rate)	<u>96,016</u>	<u>86,867</u>
Since the end of the half-year, the Directors have declared the following dividend which has not been recognised as a liability at the end of the half-year:		
Interim dividend for the year ending 30 June, 2015 of 14 cents fully franked at 30% tax rate payable 4 March, 2015 (previous corresponding period: 13.5 cents fully franked at 30% tax rate)	<u>93,035</u>	<u>87,201</u>

4. CONTRIBUTED EQUITY

Ordinary shares rank pari passu, have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the Company in the proportion to the number of the shares held. The Company does not have a limited amount of authorised capital.

	2014 No. of shares	2013 No. of shares	2014 \$'000	2013 \$'000
Issued and fully paid ordinary shares:				
Opening balance	662,179,486	643,456,209	2,437,259	2,304,790
Dividend reinvestment plan ^(a)	2,357,163	2,480,493	18,362	16,446
Cost of shares issued net of tax	<u>-</u>	<u>-</u>	<u>(20)</u>	<u>(34)</u>
Closing balance	<u>664,536,649</u>	<u>645,936,702</u>	<u>2,455,601</u>	<u>2,321,202</u>

(a) On 3 September, 2014, 2,357,163 shares were allotted at \$7.79 per share pursuant to the Dividend Reinvestment Plan in operation for the final dividend paid for the year ended 30 June, 2014.

5. FINANCIAL REPORTING BY SEGMENTS

The Company operates predominantly in the investment industry within Australia.

The Company is managed as a whole and is considered to have a single operating segment. There is no further division of the Company or internal segment reporting used by the Directors when making strategic, investment or resource allocation decisions.

The Company is domiciled in Australia and derives its revenue entirely from an Australian investment portfolio, through the receipt of dividends, distributions, interest and other income. The portfolio is highly diversified, with no single investment accounting for more than 10% of revenue.

There has been no change to the operating segments during the half-year.

DIRECTORS' DECLARATION

In the opinion of the Directors of Argo Investments Limited ("the Company"):

- (a) the financial statements and notes set out on pages 4 to 9 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December, 2014 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors



G. I. Martin AM
Chairman

Adelaide
2 February, 2015

Independent auditor's review report to the members of Argo Investments Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Argo Investments Limited (the Company), which comprises the statement of financial position as at 31 December 2014, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Argo Investments Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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**Independent auditor's review report to the members of Argo Investments Limited
(continued)**

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Argo Investments Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers



AG Forman
Partner

Adelaide
2 February 2015