Argo Investing in Australia

2017
Annual Report

Directory

Argo Investments Limited
ABN 35 007 519 520

Non-executive Directors

G. Ian Martin AM, Chairman
Anne B. Brennan
Christopher E. Cuffe AO
Roger A. Davis
Russell A. Higgins AO
Joycelyn C. Morton

Managing Director

Jason Beddow

Chief Financial Officer

Andrew B. Hill

Chief Operating Officer

Timothy C.A. Binks

Auditor

PricewaterhouseCoopers

Registered Head Office

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

Share Registry

Computershare Investor
Services Pty Limited
Level 5, 115 Grenfell Street,
Adelaide, South Australia 5000
Telephone: 1300 350 716
www.investorcentre.com

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

Meetings

Annual General Meeting

Adelaide

Monday 23 October 2017
Adelaide Oval, War Memorial Drive, North Adelaide

Information meetings

Melbourne:
24 October 2017
RACV Club
501 Bourke Street, Melbourne

Sydney:
25 October 2017
Swissotel Sydney
68 Market Street, Sydney

Brisbane:
26 October 2017
Marriott Hotel
515 Queen Street, Brisbane

Perth:
27 October 2017
Hyatt Regency
99 Adelaide Terrace, Perth

Canberra:
3 November 2017
Park Hyatt
120 Commonwealth Avenue, Yarralumla

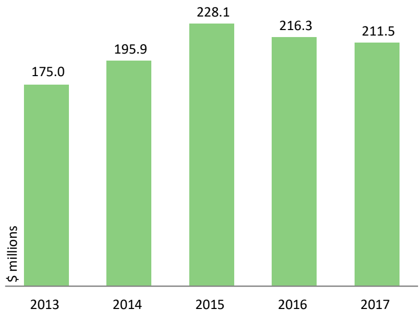
2017 Highlights

- Profit of $211.5 million, compared with $216.3 million last year.
- Earnings per share of 30.7 cents, compared with 32.0 cents last year.
- Dividends of 31.0 cents per share fully franked (including LIC capital gain component of 5.0 cents), compared with 30.5 cents per share fully franked (no LIC capital gain component) last year.
- Year-end net tangible asset backing of $7.71 per share, compared with $7.11 per share at 30 June 2016.
- Management expense ratio at 0.16% of average assets at market value, compared with 0.17% last year.
- Total portfolio return for the year of +12.9% after deducting all costs and tax, which compares with the one year S&P ASX 200 Accumulation Index return of +14.1% without taking into account any costs or tax.
- Capital raisings of $60.5 million from the Share Purchase Plan and $39.1 million from the Dividend Reinvestment Plan.

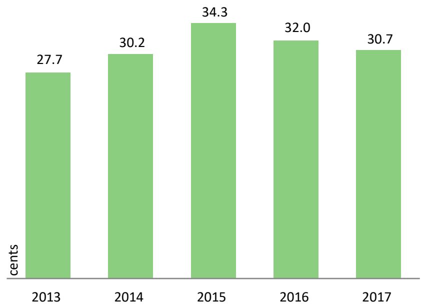
Contents

Five year summary

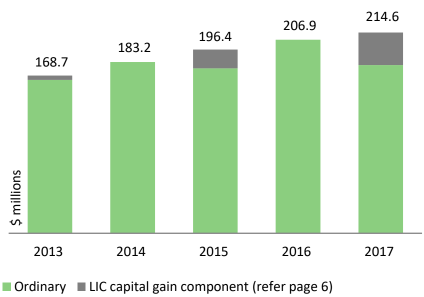
Profit



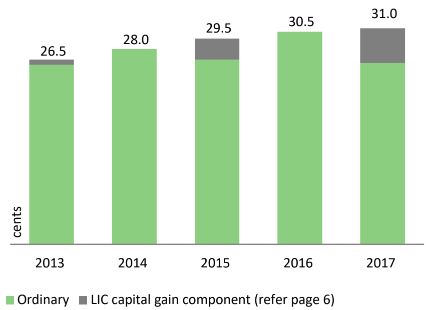
Earnings per share



Total dividends

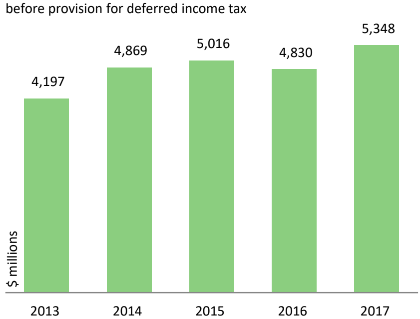


Dividends per share

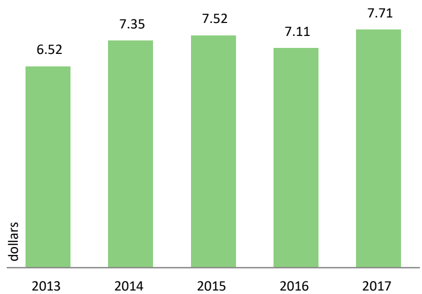


Shareholders' equity

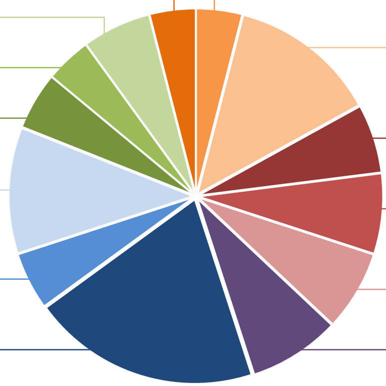
before provision for deferred income tax



Net tangible assets per share



Portfolio sector allocation as at 30 June 2017



20 largest investments as at 30 June 2017

	$m	% of total assets
Westpac Banking Corporation	339.2	6.3
Australia and New Zealand Banking Group	280.4	5.2
Commonwealth Bank of Australia	265.3	4.9
Wesfarmers	218.3	4.0
Macquarie Group	217.5	4.0
BHP Billiton	196.2	3.6
Telstra Corporation	189.3	3.5
National Australia Bank	179.2	3.3
CSL	153.7	2.8
Rio Tinto	150.0	2.8
Australian United Investment Company	122.1	2.3
Milton Corporation	116.9	2.2
Woolworths	105.6	2.0
Ramsay Health Care	105.2	1.9
Sydney Airport	102.5	1.9
APA Group	94.2	1.7
AGL Energy	92.9	1.7
Amcor	79.7	1.5
Origin Energy	75.2	1.4
Sonic Healthcare	72.2	1.3
	3,155.6	**58.3**
Cash and Short-term Deposits	**249.5**	**4.6**

Company profile

Argo Investments Limited was established in 1946 and is a leading Australian listed investment company with a market capitalisation at 30 June 2017 of $5.3 billion.

Argo shares offer investors a low cost, professionally managed entry to the Australian sharemarket.

Argo is ranked by market capitalisation in the top 100 companies listed on the Australian Securities Exchange (ASX code: ARG).

Argo seeks to provide long-term capital growth and a regular income stream to over 81,000 shareholders.

Argo’s total assets were $5.4 billion at 30 June 2017 and are invested predominantly in the shares of companies listed on the Australian Securities Exchange (ASX).

Argo's Board of Directors and management team are both experienced and highly qualified, which are considered essential qualities for the effective surveillance of a long-term investment portfolio. The Board currently consists of six Non-executive Directors and the Managing Director.

The investment philosophy followed by Argo is straightforward. Rather than attempt to gain spectacular rewards in the short term from high-risk situations, management aims to provide consistent tax-effective income combined with long-term capital growth, by investing in a diversified portfolio of securities. The portfolio contains investments in 98 companies and trusts representing a cross section of Australia’s enterprises, including a number with substantial overseas operations. A long-term investment philosophy is adopted in selecting the portfolio which extends beyond the larger companies to include smaller companies where there is judged to be good quality management and prospects for sound earnings growth.

Successful equity investing depends on good quality research and analysis. Argo’s investment team includes the Managing Director and a number of specialist research analysts. The research has two objectives: to monitor the portfolio of leading stocks and smaller companies, and to find new investments to complement the portfolio. The investment goal is to identify well-managed businesses with the potential and ability to generate growing and sustainable profits to fund increasing dividend payments.

Due to the spread of investments within the Company’s portfolio, Argo shares are particularly suitable for investors who seek to maximise long-term returns through a balance of capital and dividend growth. This could include investors who are looking for broad exposure to the Australian sharemarket, passive investors and self-managed superannuation funds.

Argo shares can be purchased through any sharebroker and the market price of the shares is quoted on the ASX and reported daily in the media. There are no fees charged to Argo shareholders. Being a securities exchange listed company, only stockbrokers' charges apply.

We encourage investors to visit the Argo website at www.argoinvestments.com.au to obtain further, up to date information about the Company’s operations.

Shareholder benefits

Low management costs

Argo's management costs are very low when compared with many other managed investment products. For the year ended 30 June 2017, total operating costs were 0.16% of average assets at market value.

Franked dividends and potential Listed Investment Company capital gain tax benefits

Argo has paid dividends every year since its inception in 1946.

Franking credits on dividends received by Argo are passed on to shareholders through dividends paid that are fully or substantially franked, depending on tax credits available to the Company. Overseas shareholders also benefit, since withholding tax is not deducted from franked dividends. In addition, certain Australian resident shareholders can also claim a tax benefit where a component of the dividend is sourced from realised eligible listed investment company (LIC) capital gains.

Share Purchase Plan

Argo has a Share Purchase Plan (SPP) which when offered allows eligible shareholders the opportunity to acquire additional parcels of shares, often at a discount to the market price as defined by the SPP. No brokerage or other transaction costs are payable. The maximum amount that a shareholder can invest in any 12 month period pursuant to the SPP is $15,000.

Dividend Reinvestment Plan

Argo has a Dividend Reinvestment Plan (DRP) which allows eligible shareholders the opportunity to reinvest their dividends, often at a discount to the market price of Argo shares as defined by the DRP.

New share issues

Argo has a history of making new issues of shares on a pro-rata basis to existing shareholders at a discount to the market price. In the case of renounceable rights issues, a shareholder who does not wish to apply for additional shares may sell the entitlement.

Share price performance

Argo's long-term share price performance, assuming that all dividends and the proceeds from the sale of rights had been reinvested in Argo shares, compared with other relevant statistics, is as follows:

	15 years to 30 June 2017
Compound annual growth rate:	
Argo shares	8.1% p.a.
S&P ASX 200 Accumulation Index	8.6% p.a.
Consumer Price Index	2.6% p.a.

A $10,000 investment in Argo shares on 1 July 2002 would have grown to a value of $32,165 at 30 June 2017.

Performance statistics for various periods of time are regularly updated on Argo's website.

Directors' Report

The Directors present their Seventy First Annual Report together with the financial report of the consolidated entity, consisting of Argo Investments Limited and its controlled entities (Argo or Company), for the financial year ended 30 June 2017, including the Independent Auditor's Report.

DIRECTORS

At the date of this report, the Board comprised six Non-executive Directors and the Managing Director.

The Directors in office during or since the end of the financial year are as follows:

Geoffrey Ian Martin AM BEc(Hons), FAICD

Non-executive Chairman – Independent

Mr. Martin joined the Board in 2004 and was appointed Chairman on 1 March 2012. He is also a member of the Remuneration Committee.

His career has included a number of senior executive roles and Board positions. In all, he has over 30 years' experience in economics, investment management, financial services, superannuation and investment banking, both in Australia and internationally.

Mr. Martin is also Chairman of Argo Global Listed Infrastructure Limited (since 2015), Chairman of UniSuper Ltd and Vice Chairman, Asia Pacific, of Berkshire Capital.

Anne Bernadette Brennan BCom(Hons), FCA, FAICD

Non-executive Director – Independent

Ms. Brennan joined the Board in 2011 and is Chair of the Audit & Risk Committee.

She has extensive financial experience gained over many years in a variety of senior management roles with large corporates and chartered accounting firms, particularly in the areas of audit, corporate finance and transaction services.

Ms. Brennan is also a Non-executive Director of Myer Holdings Limited (since 2009), Charter Hall Group (since 2010), Nufarm Limited (since 2011) and Rabobank Australia and New Zealand Limited. She was previously a Non-executive Director of Echo Entertainment Group Limited (2012 to 2014).

Christopher Edgar Cuffe AO BCom, FCA, FFin, FAICD

Non-executive Director – Independent

Mr. Cuffe was appointed to the Board on 25 August 2016. He is a member of the Audit & Risk Committee.

He is well known in the wealth management and philanthropic sectors. He is a former Chief Executive Officer of Colonial First State and Challenger Financial Services Group, and a former Chairman of UniSuper Ltd.

Mr. Cuffe is also a Non-executive Director of Global Value Fund Limited (since 2014) and Antipodes Global Investment Company Limited (since 2016).

Roger Andrew Davis BEc(Hons), MPhil(Oxon), FCPA
Non-executive Director – Independent

Mr. Davis joined the Board in 2012 and is a member of the Remuneration Committee.

He is a Rhodes Scholar and has over 30 years' experience in banking and investment banking in Australia, U.S.A. and Japan.

Mr. Davis is also Chairman of Bank of Queensland Limited (Director since 2008 and appointed Chair in 2013), a Non-executive Director of Ardent Leisure Limited (since 2008), Chairman of AIG Australia Limited and a consulting Director at Rothschild Australia Limited. He was previously a Non-executive Director of Aristocrat Leisure Limited (2005 to 2017).

Russell Allan Higgins AO BEc, FAICD
Non-executive Director – Independent

Mr. Higgins joined the Board in 2011 and is Chair of the Remuneration Committee.

He has an extensive background in the energy sector and in economic and fiscal policy, both locally and internationally. He is an experienced company director who has also held senior government positions.

Mr. Higgins is also a Non-executive Director of APA Group (since 2004) and Telstra Corporation Limited (since 2009). He was previously a Non-executive Director of Leighton Holdings Limited (2013 to 2014).

Joycelyn Cheryl Morton BEc, FCA, FCPA, FIPA, FGIA, FAICD
Non-executive Director – Independent

Ms. Morton joined the Board in 2012 and is a member of the Audit & Risk Committee.

She has an extensive business and accounting background and has worked in a number of senior financial roles both in Australia and internationally, with particular expertise in taxation.

Ms. Morton is also Chair of Thorn Group Limited (Director since 2011 and appointed Chair in 2014) and a Non-executive Director of InvoCare Limited (since 2015), Argo Global Listed Infrastructure Limited (since 2015), Snowy Hydro Ltd and ASC Pty Ltd. She was previously a Non-executive Director and Chair of Noni B Limited (2009 to 2015).

Jason Beddow BEng, GdipAppFin(SecInst)
Managing Director – Non-independent

Mr. Beddow has an engineering and investment background. He joined the Company in 2001 as an Investment Analyst and became Chief Investment Officer in 2008. He was appointed Chief Executive Officer in 2010 and Managing Director in 2014.

Mr Beddow is also Managing Director of Argo Global Listed Infrastructure Limited (since 2015).

Robert John Patterson FAICD
Non-executive Director – Independent

Mr. Patterson retired from the Board on 26 October 2016, after 46 years of dedicated service as Company Secretary, Chief Executive Officer, Managing Director, and finally as a Non-executive Director. The Board gratefully acknowledges his extraordinary contribution to the development of the Company.

DIRECTORS’ RELEVANT INTERESTS

The Directors’ relevant interests in shares and executive performance rights, as notified to the ASX in accordance with the *Corporations Act 2001,* at the date of this report are as follows:

	Shares	Performance Rights
G.I. Martin AM	279,959	-
J. Beddow	181,903	322,218
A.B. Brennan	13,544	-
C.E. Cuffe AO	6,500	-
R.A. Davis	23,424	-
R.A. Higgins AO	99,668	-
J.C. Morton	22,008	-

BOARD AND COMMITTEE MEETINGS

At the date of this report, the Company has an Audit & Risk Committee and a Remuneration Committee of the Board.

There were 9 Board meetings, 5 Audit & Risk Committee meetings and 5 Remuneration Committee meetings held during the financial year. The number of meetings attended during the financial year by each of the Directors while in office were:

	Board		Audit & Risk Committee		Remuneration Committee	
	No. of meetings held while a Director	No. of meetings attended	No. of meetings held while a member	No. of meetings attended	No. of meetings held while a member	No. of meetings attended
G.I. Martin AM	9	9	-	4[a]	5	5
J. Beddow	9	9	-	5[a]	-	5[a]
A.B. Brennan	9	9	5	5	-	-
C.E. Cuffe AO[b]	7	7	3	3	-	-
R.A. Davis	9	9	-	4[a]	5	4
R.A. Higgins AO	9	9	-	4[a]	5	5
J.C. Morton	9	9	5	5	-	-
R.J. Patterson[c]	4	3	2	1	-	-

(a) By invitation
(b) C.E. Cuffe appointed 25 August 2016
(c) R.J. Patterson retired 26 October 2016

SECRETARY

Timothy Campbell Agar Binks BEc, CA, AGIA, GAICD held the role of Company Secretary during the year and at the date of this report.

Mr. Binks joined the Company in 2007 and has a background in accounting, funds management and stockbroking. He was appointed Company Secretary in 2010 and became Chief Operating Officer in 2015, whilst still maintaining the company secretarial duties.

PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The principal activities of the Company during the financial year were the investment of funds in Australian listed securities and short-term interest bearing securities. The Company's wholly owned subsidiary also provides management services to an external listed investment company under an Australian Financial Services Licence. More details are provided in the Operating and Financial Review below.

OPERATING AND FINANCIAL REVIEW

Summary of business model

Argo Investments Limited is a listed investment company which manages a portfolio of Australian investments with the objective of maximising long-term returns to its shareholders through a balance of capital and dividend growth.

Argo generates the majority of its revenue by 'harvesting' the dividends and distributions received from the companies and trusts in its investment portfolio. Additional income is derived from interest earned on cash deposits, premium income from selling exchange-traded options, a small amount of share trading activity and fee income from managing an external listed investment company. Dividends and distributions made up 95% of Argo's income from operating activities for the financial year, with the portfolio's top 20 equity investments generating 61% of that income.

Argo's costs of operation are relatively stable and are lower than those of most other managed investment products, due to its internally managed listed investment company structure, which requires few employees to administer its business. In the 2017 financial year the Company's total operating costs were equivalent to 0.16% of average assets, which is very low by industry standards. Argo's main expense items are remuneration, share registry fees and office rent.

The above characteristics make for an efficient business model which benefits from economies of scale. The low proportion of variable costs implies that in general, profit will fluctuate according to the performance, and in particular the dividend payout policies, of each of the companies and trusts in the investment portfolio. At balance date there were 98 different stocks in the portfolio, providing the Company with dividend income from a diverse range of industries.

The majority of Argo's profit is paid out as dividends to its shareholders, with fully franked dividends a priority. Argo has paid dividends every year since it was established in 1946.

Argo shares offer investors a professionally managed, diversified and easily traded exposure to the Australian equity market, without the need to pay fees to an external investment manager.

For the last 15 years, the Company's investment portfolio has produced a compound return of 8.4% per annum, as measured by the movement in net tangible asset backing (NTA) per share assuming dividends paid are reinvested. This return is after payment of all costs and tax and compares to a return of 8.6% per annum from the S&P ASX 200 Accumulation Index, which does not take into account any costs or tax. In addition, Argo's total shareholder return based on the share price over the same period was 8.1% per annum, and 9.9% including the franking credits attached to the dividend payments.

Investment process

The investment team, led by the Managing Director, is responsible for constructing and maintaining an appropriately diversified portfolio which generates dividend income and long-term capital growth.

The investment process, which involves the monitoring and review of existing investments as well as analysing potential new investments, includes extensive research, company visits and industry studies, as well as economic analysis to help identify emerging trends and assist with the timing of transactions.

The closed-end structure of a listed investment company is ideally suited to building a long-term portfolio, as Argo does not experience investor redemptions which might otherwise force desirable long-term holdings to be sold. Instead, shareholders wishing to liquidate their holding in Argo simply sell their shares on the share market. This stability allows Argo to take advantage of short-term market fluctuations in order to buy or add to long-term holdings when prices trade below the long-term valuations calculated by the investment team. The selling of investments is relatively rare and generally only occurs due to takeovers or when it is perceived that the long-term value of an investment is compromised by deteriorating industry conditions or other concerns.

Review of activities and events during the year ended 30 June 2017

The Company's assets are invested primarily in Australian companies and trusts which are listed on the ASX. The capital growth of Argo's shares is therefore closely linked to the fortunes of the Australian equity market. In a year characterised by strong global equity markets despite a number of significant political changes, the S&P ASX 200 Accumulation Index, which includes dividend income, returned +14.1%.

During the year, $159 million was outlaid on long-term investment purchases and $218 million was received due to disposals and takeover proceeds. This contributed to an increased cash balance of $249 million at year end, reflecting our view that sections of the Australian equity market have become relatively expensive. The larger movements in the long-term portfolio during the year included:

Purchases	*Sales*
Boral	Asciano (takeover)*
CBL Corporation	ASX*
CSL	Australian United Investment Co.
Estia Health	Downer EDI
QANTM Intellectual Property	DUET Group (takeover)*
Rural Funds Group	Milton Corporation
Tabcorp Holdings	Rio Tinto
Tassal Group	
Vocus Group	

* Sale of complete position and removal from portfolio. Other stocks exited during the year were Sims Metal Management, Reliance Worldwide Corporation, Surfstitch Group and Macquarie Group income securities.

The takeovers of DUET Group and Asciano resulted in substantial capital gains being crystallised in the Company's portfolio. As a long-term, capital account, listed investment company (LIC), Argo is able to pass on the benefit of the capital gains tax discount for long-term holdings to its shareholders, in the form of an 'LIC capital gain' component of the final dividend. Most shareholders will be able to claim a tax deduction relating to this component of the dividend. Details will be in the dividend statement provided to shareholders in September.

Most sectors of the Australian market recorded healthy gains for the year. The best performing sectors were Chemicals, Diversified Financials, Food & Beverages, Metals & Mining and Pharmaceuticals. The only sectors to record negative returns were Telecommunications and Property.

The Company added a number of new smaller investments to the portfolio, primarily in industries where it is anticipated that growth opportunities may be superior to those in many of the larger companies in the broader index. The new investments during the financial year were QANTM Intellectual Property, oOh!media, Speedcast International, Murray River Organics Group and MotorCycle Holdings. In addition, 26 existing holdings were added to.

The best performing stocks in Argo's portfolio were Downer EDI, South32, Orica, Aristocrat Leisure, iSelect, Challenger, Computershare, Alumina, WorleyParsons and ALS. The worst performing stocks were Vocus Group, MMA Offshore, McGrath, Santos, Estia Health, A.P. Eagers and Asaleo Care.

Over the course of the year, Argo's investment portfolio returned +12.9% after deducting all costs and tax (measured by the movement in NTA assuming dividends paid are reinvested) and Argo's share price performance returned +8.4% for the financial year, with the share price moving from a premium to a slight discount to NTA.

In addition to managing Argo's portfolio and operations, the Company's wholly owned subsidiary, Argo Service Company Pty Ltd, manages an external listed investment company, Argo Global Listed Infrastructure Limited (AGLI). The management activities are carried out by Argo personnel and include administration, financial reporting, company secretarial duties and supervision of AGLI's share registry, asset custodian and its US-based portfolio manager, Cohen & Steers.

During the year, there was one change to the composition of the Board of Directors. Mr. Robert Patterson retired at the 2016 Annual General Meeting and Mr. Chris Cuffe AO was appointed as a Non-executive Director in August 2016.

Discussion of results and financial position

Argo's profit for the year ended 30 June 2017 was 2.2% lower than the prior year and earnings per share fell 4.1%. In the first half, profit fell 8.9% but rebounded in the second half to be 5.2% higher than the previous year's second half.

Dividend income was slightly lower than last year, following dividend cuts from Rio Tinto, BHP Billiton, Woolworths, Origin Energy and ANZ Banking Group. These cuts were partly offset by increased dividends from Macquarie Group, AGL Energy and Sydney Airport, and special dividends received from Asciano (due to its takeover) and Crown Resorts. Income from option writing and trading declined this year, although interest received on cash deposits was higher, reflecting higher cash balances on hand.

Expenses increased by only 0.5% on last year, and include the costs of managing the external listed investment company, AGLI, for which Argo received $1.7 million in management fee income.

Dividends are important to Argo shareholders, and the Company again increased annual dividends this year to a record 31.0 cents per share fully franked.

Argo's total assets increased from $4.9 billion to $5.4 billion, chiefly due to the impact of the stronger equity market on the portfolio value. During the year, shareholders contributed $39.1 million through the Dividend Reinvestment Plan and $60.5 million through the Share Purchase Plan offered in September 2016. The number of Argo shareholders has increased again this year, with 81,445 holders on the register at 30 June 2017.

The cash assets at year end were $249.5 million, representing 4.6% of the Company's total assets. Although cash on hand fluctuates throughout the year according to the timing of dividends received, dividends paid, capital raisings, and investment purchases and disposals, the Company has generally held higher levels of cash than in recent years, reflecting our cautious approach when we perceive equity market valuations to be relatively high.

One measure of the financial position of a listed investment company is its net tangible asset backing (NTA) per share. As a long-term investor, Argo does not intend to dispose of its long-term investment portfolio. Therefore, when calculating 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 entire portfolio was to be sold. At 30 June 2017, this valuation resulted in a NTA per share of $7.71, an 8.4% increase on the 30 June 2016 level of $7.11. However, if estimated tax on unrealised gains in the portfolio was to be deducted, the NTA per share at 30 June 2017 would have been $6.80, compared with $6.34 at 30 June 2016. Both NTA figures are updated monthly and announced to the ASX.

Future prospects, strategies and risks

The Company has cash available for additional long-term investment in the equity market, and will continue to focus on producing results in accord with its stated investment objective.

The results of Argo's future investment activities will depend primarily on the performance of our investee companies, their resulting share price movements, and the dividends and distributions we receive from them. The performance of those entities is influenced by many factors which are difficult to predict, including economic growth rates, inflation, interest rates, exchange rates, regulatory changes and taxation levels. There are also specific issues such as management competence, capital strength, industry trends and competitive behaviour.

Due to the above factors and general market and economic conditions which can change rapidly, the nature of Argo's business makes it very difficult to forecast future performance. However, the Company is conservatively managed and the diversification of the investment portfolio holdings generally help to reduce the volatility of Argo's earnings and capital fluctuations.

Argo will continue to focus on controlling costs, growing dividends to shareholders and achieving long-term capital growth.

Although the constantly changing nature of markets and other investment conditions requires management and the Directors to diligently appraise any opportunities that may present themselves, Argo does not envisage any significant changes to its business model.

MATTERS ARISING SINCE YEAR END

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year which has significantly affected or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future financial years except as stated elsewhere in this report.

DIVIDENDS

A fully franked interim dividend of 15.0 cents per share was paid on 10 March 2017.

On 14 August 2017, the Directors declared a fully franked final dividend of 16.0 cents per share to be paid on 15 September 2017, which includes a 5.0 cents per share listed investment company (LIC) capital gain component. The LIC capital gain component of the dividend will give rise to an attributable part of 7.14 cents per share, a portion of which eligible shareholders will be able to claim as a deduction in their 2017-2018 income tax returns.

Total fully franked dividends for the year amount to 31.0 cents per share. This compares with 30.5 cents per share last year.

The final dividend paid by the Company for the financial year ended 30 June 2016 of $105.4 million and referred to in the Directors' Report dated 18 August 2016 was paid on 9 September 2016.

DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan (DRP) raised $39.1 million of new capital for investment during the year.

The DRP will operate for the 16.0 cents per share dividend payable on 15 September 2017 and the Directors have resolved that the shares will be allotted to participating shareholders at a discount of 2.0% from the market price of Argo shares, as defined by the DRP.

SHARE BUY-BACK

The Company has an on-market share buy-back in place, in order that its shares can be bought back and cancelled where they can be purchased at a significant discount to the net tangible asset backing per share. Any such purchases have the effect of increasing the value of the remaining shares on issue.

During the year, the share buy-back was not activated.

INDEMNIFICATION OF DIRECTORS AND OFFICERS AND INSURANCE ARRANGEMENTS

The Company indemnifies its past, present and future Directors against liabilities arising out of their position with the Company, except where the liability arises out of conduct involving a lack of good faith. The deed stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has paid a premium in respect of a Directors' and Officers' insurance policy covering the liability of past, present or future Directors and Officers, including executive officers of the Company. The terms of the policy prohibit disclosure of the details of the amount of insurance cover and the premium paid.

NON-AUDIT SERVICES

Details of the amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services provided during the year are set out in Note 27 to the financial statements on page 65 of this report.

The Board has considered the position and, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* for the following reasons:

(a) all non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and

(b) the non-audit services provided do not undermine the general principles relating to audit independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

The Auditor's Independence Declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 38.

ENVIRONMENTAL REGULATIONS

The Company's operations are not directly affected by environmental regulations.

ROUNDING OF AMOUNTS

Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies to the Company and accordingly amounts have been rounded to the nearest one thousand dollars in accordance with that Instrument, unless otherwise stated.

REMUNERATION REPORT

This Report explains how the Board structures remuneration to motivate and reward executives for delivering performance that drives the achievement of Argo's business objectives and creates value for shareholders.

It provides remuneration information regarding the Key Management Personnel (KMP) for the financial year ended 30 June 2017.

KMP are those people who have authority and responsibility for planning, directing and controlling the activities of Argo. This includes the Non-executive Directors and the key executives. The Non-executive Directors were Mr. G.I. Martin AM (Chairman), Ms. A.B. Brennan, Mr. C.E. Cuffe AO, Mr. R.A. Davis, Mr. R.A. Higgins AO and Ms. J.C. Morton. Mr. J. Beddow (Managing Director) was an executive Director during the financial year. Other key executives were Mr. T.C.A. Binks (Chief Operating Officer) and Mr. A.B. Hill (Chief Financial Officer).

Contents

Section 1 Principles of remuneration

The Board recognises that remuneration plays an important role in the delivery of Argo’s business objectives and ongoing performance. The Board seeks to achieve the right balance of motivation, challenge and reward for its executives to encourage sustainable delivery of shareholder returns.

The key principles of Argo’s remuneration strategy are:

- Align remuneration structure with shareholder interests
- Attract and retain talent
- Link a significant component of remuneration with the creation of shareholder value through relative outperformance
- Ensure remuneration is competitive and fair

Alignment of the long-term interests of shareholders and executives is achieved by a significant component of executive pay being performance based. This encourages executives to take a long-term approach to decision making and business success without taking excessive risks.

The equity component of any Short-term Incentive (STI) reward is deferred for a two year period and performance under the Long-term Incentive (LTI) is measured over a four year period. The actual remuneration received by executives is therefore reflective of the ongoing performance of the Company over an extended period.

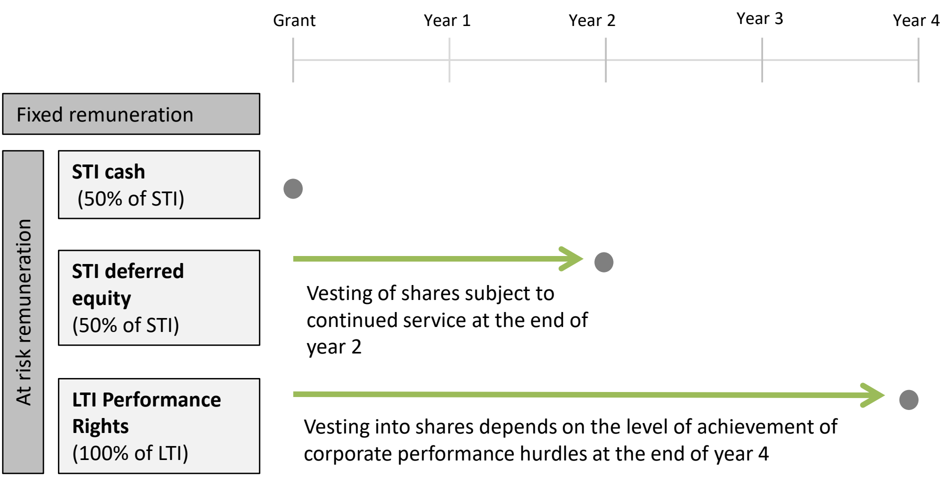
Remuneration reward is measured on a relative basis, reflecting the Company's profitability relative to its peer group and its investment performance relative to the ASX 200 share market index.

Section 2 Executive remuneration structure

The remuneration structure to reward the Company's executives includes a mix of fixed remuneration and short and long-term performance based 'at risk' remuneration which reflects both Company and individual performance.

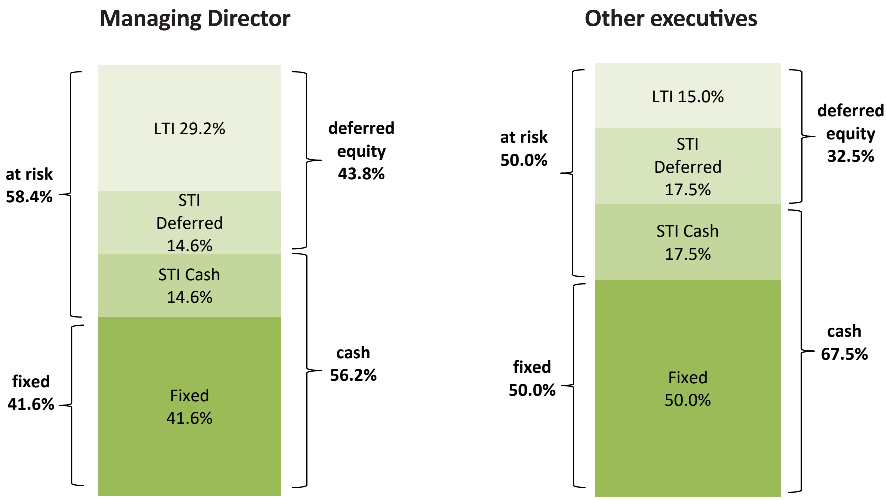
	Fixed	**At risk**	
	Fixed annual remuneration	Short-term Incentive (STI)	Long-term Incentive (LTI)
Description	Base salary including superannuation	Reward for strong individual and Company performance over ONE year	Reward for strong Company performance over FOUR years
Designed to	Attract and reward talented executives	Motivate superior executive performance during the year and retain talent	Align executive and shareholder interests over the long-term and retain talent
Achieved by	Ensuring competitive and appropriate compared to market benchmarks	Setting challenging key Company and individual performance indicators that align with business objectives	Only vesting into shares to the extent that the Company outperforms the ASX200 Index and its peer group over a four year period

Remuneration structure



Total target remuneration mix for year ended 30 June 2017

The following illustration is modelled on the executives' maximum remuneration opportunity for the year under review. Actual remuneration for executives will differ due to the variable nature of the 'at risk' remuneration components.



Fixed annual remuneration

What is fixed annual remuneration (FAR)?	All executives are offered a FAR component that is not performance based and is inclusive of statutory superannuation and any agreed salary sacrifice arrangement
How is FAR assessed?	The Board and Remuneration Committee review the levels of FAR annually, taking into account industry benchmarking, market factors and independent advice

Performance linked remuneration

The Short-term Incentive (STI) and Long-term Incentive (LTI) are described as 'at risk' because the amount earned (if any) depends on the extent that key performance conditions are met or exceeded.

Short-term incentive (STI)

What is the STI?	The STI is performance linked remuneration awarded annually to executives and is determined by reference to both the Company's financial performance and an executive's individual performance
What is the performance period?	One year
What is the value of the STI?	The STI ranges from 0-70% of an executive's fixed annual remuneration and is awarded 50% in cash and 50% in deferred STI Performance Rights
What does deferred mean?	The STI Performance Rights vest into Argo shares two years after grant, subject to continued service with the Company
What are the performance indicators?	Performance indicators comprise both key Company financial and individual objectives
What are the Company financial performance indicators?	1. TPR Performance: the Total Portfolio Return (TPR)* of the Company, adjusted for franking credits, must exceed the movement in the S&P ASX 200 Accumulation Index over the performance period, also adjusted for franking credits 2. EPS Performance: the Company must achieve a superior one year earnings per share (EPS)** performance relative to its approved listed investment company (LIC) peer group * independently calculated and based on the movement in net tangible asset backing per share before providing for tax on unrealised gains in the portfolio and assuming dividends paid are reinvested ** the Company's non-dilutive earnings per share which is measured as the net profit of the consolidated entity divided by the weighted average number of shares on issue over the performance period and as calculated by the Board on a comparable basis

What are the individual performance indicators?	Individual performance indicators are uniquely set for each executive, depending on their role and responsibilities Indicators may include strategic direction, analyst stock recommendations, risk management, succession planning, marketing, communication with internal and external stakeholders and management of external listed investment companies
How does the STI align with shareholder interests?	The STI is designed to challenge, motivate and reward executives to improve the Company's performance by meeting or exceeding business objectives, both financial and non-financial The STI supports the retention of high performing executives as 50% of the award comprises deferred STI Performance Rights which vest into shares two years later, subject to continued service The STI provides executives with the opportunity to hold equity in the Company, better aligning their interests with those of shareholders
How is STI achievement assessed?	STI achievement is measured annually by the Board and Remuneration Committee

Long-term incentive (LTI)

What is the LTI?	The LTI is performance linked remuneration offered annually to executives and is determined by reference to the Company's financial performance over the performance period It is issued in two equal tranches, each subject to different performance hurdles
What is the performance period?	Four years
What is the value of the LTI?	LTI performance rights are granted to the value of 70% of the Managing Director's fixed annual remuneration and 30% of the other executives' fixed annual remuneration The quantity of LTI Performance Rights that actually vest into shares for each executive will depend upon the Company's performance against the performance hurdles of each tranche over the performance period and includes an ongoing service condition

How is the LTI aligned with shareholder interests?	The LTI is designed to create a strong link between the long-term performance of the Company relative to the ASX 200 Index and relative to the performance of its listed investment company peer group LTI grants are based solely on financial performance, closely aligning shareholder value and executive reward
What are the Performance hurdles?	Tranche 1- TPR Performance: the Total Portfolio Return (TPR) of the Company, adjusted for franking credits, must exceed the movement in the S&P ASX 200 Accumulation Index over the performance period, adjusted for franking credits Tranche 2- EPS Performance: the Earnings Per Share (EPS) over the performance period must exceed the average of the EPS performance of those member companies of the Australian Listed Investment Companies Association, excluding the Company, which have Australian equity portfolios * independently calculated and based on the movement in net tangible asset backing per share before providing for tax on unrealised gains in the portfolio and assuming dividends paid are reinvested ** the Company's non-dilutive earnings per share which is measured as the net profit of the consolidated entity divided by the weighted average number of shares on issue over the performance period and as calculated by the Board on a comparable basis
Why were these performance hurdles chosen?	The ASX 200 is the benchmark index that tracks the combined movements of the largest 200 listed companies in Australia. It is the most appropriate measure of the Company's investment performance relative to the broader market EPS gauges how profitable the Company is per share and is therefore indicative of the Company's ability to pay dividends that will grow over time
How does the LTI vest?	The LTI is tested four years after grant, and any Performance Rights that do not vest at the performance measurement date, lapse without value

Level of performance condition achieved	*% of Performance Rights to vest into shares*
Underperform condition	Nil
Achieve (match) condition	25% vesting
Outperform condition by 0-30%	25-100% straight-line pro-rata vesting
Outperform condition by >30%	100% maximum vesting

The vesting proportions may be reduced in the event of negative absolute returns as follows:

- If the Company's absolute TPR is negative, only 50% of the TPR Performance Rights will vest
- If the Company's absolute EPS growth is negative, none of the EPS performance rights will vest

Upon vesting, shares are purchased on market and allocated to executives

Other remuneration benefits

Argo Employee Share Ownership Plan

All employees other than the Directors are offered up to $1,000 per year in Company shares at market value. The costs of acquiring the shares on market are paid by the Company. Any shares acquired cannot be disposed of or transferred until the earlier of three years from the acquisition date or the date the employee ceases employment.

Non-monetary benefits

Prior to 2004, interest free loans were issued to KMP to assist the purchase of shares in the Company. Table H sets out the remaining balances of those KMP loans and the benefit of the interest not charged to the executives.

Additional conditions applying to Performance Rights

Service condition discretion

A service condition applies to the STI and LTI Performance Rights, which means vesting is subject to the individual executives remaining in service. The Board has discretion however to allow the Performance Rights to vest in certain circumstances which could include death, incapacity, redundancy and retirement.

Clawback of executive remuneration

The Board has the discretion to claw back unvested Performance Rights if after they have been granted, a material misstatement is discovered in the Company's accounts.

Prohibition of hedging

The Company's Securities Trading Policy prohibits executives from entering into arrangements which limit the economic risk of unvested Performance Rights.

Section 3 Relationship between remuneration and Company performance

The Company's remuneration structure includes STI and LTI incentives to align executive remuneration outcomes with the interests of shareholders. The Company's objective of maximising long-term returns to shareholders through a balance of capital and dividend growth is reflected in the STI and LTI performance indicators.

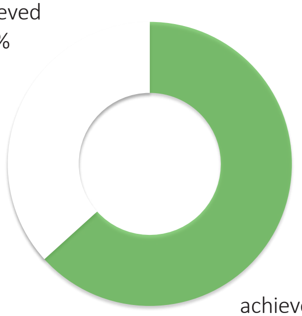
The table and charts below show relevant aspects of the Company's annual results and how they translate into executive remuneration outcomes when measured over the periods applicable to STI and LTI. The Company's relative performance as compared to its Australian listed investment company peers and the ASX 200 share market index is closely linked to remuneration actually received by executives as the STI and LTI performance indicators comprise these relative measures.

Table A: Linking remuneration outcomes to Company performance

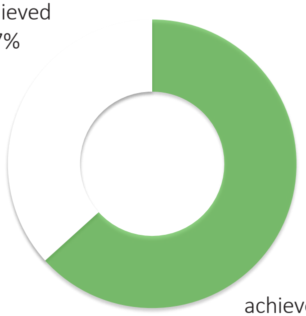
Summary of annual results	**2017**	**2016**	**2015**	**2014**	**2013**
Profit ($m)	211.5	216.3	228.1	195.9	175.0
Earnings per share (cents)	30.7	32.0	34.3	30.2	27.7
Dividends ($m)	214.6	206.9	196.4	183.2	168.7
Dividends per share (cents, fully franked)	31.0	30.5	29.5	28.0	26.5
Management Expense Ratio (% of assets)	0.16	0.17	0.15	0.15	0.18
Share price at 30 June ($)	7.67	7.37	7.97	7.63	6.46
Share price movement ($)	+0.30	-0.60	+0.34	+1.17	+1.31

ONE year returns (relate to STI awards)	**2017**	**2016**	**2015**	**2014**	**2013**
Earnings Per Share growth	-4.1%	-6.7%	+13.8%	+8.9%	+3.3%
– relative to peer group	**over**	**over**	**over**	**over**	**under**
Investment (NTA) return after all costs and tax	+12.9%	-1.2%	+6.1%	+17.1%	+23.6%
– relative to ASX 200 accum. index	**under**	**under**	**over**	**under**	**over**
Dividends per share growth	+1.6%	+3.4%	+5.4%	+5.7%	+1.9%
Average % of maximum STI achieved	63.3%	68.4%	89.4%	70.6%	69.7%

STI outcomes - 2017



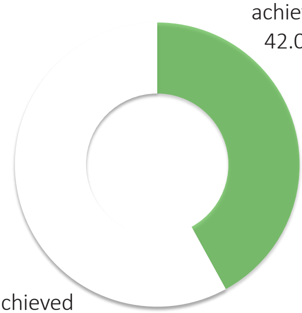
STI outcomes - 5 year average



FOUR year returns * (relate to LTI awards)	**2016**	**2015**	**2014**	**2013**
Earnings Per Share growth (pa)	+4.5%	+5.1%	+5.7%	-0.5%
– relative to peer group	over	under	under	under
Investment (NTA) return after all costs and tax (pa)	+12.9%	+9.7%	+10.6%	+9.8%
– relative to ASX 200 accum. index	over	over	over	over
Dividends per share growth (pa)	+3.8%	+3.4%	+1.9%	+3.0%
Average % of maximum LTI achieved	42.0%	11.6%	2.8%	13.4%

*2017 LTI outcomes have not yet been tested and will be reported in next year's Annual Report.

LTI outcomes - 2016



LTI outcomes - 4 year average

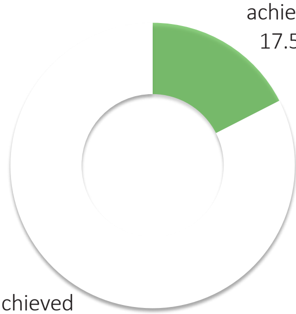


Table B: Actual executive remuneration outcomes (non-statutory disclosure)

		Total fixed remuneration[a] $	Annual STI to 30 June[b] $	Loan repayment[c] $	Prior years rights vested[d] $	Total received $
Managing Director						
J. Beddow	**2017**	**650,000**	**147,875**	**7,562**	**488,375**[e]	**1,293,812**
	2016	630,000	154,350	7,562	164,915	956,827
Other Key Management Personnel						
T.C.A. Binks	**2017**	**255,000**	**59,798**	**-**	**89,098**	**403,896**
	2016	250,000	61,688	-	57,795	369,483
A.B. Hill	**2017**	**210,000**	**51,450**	**12,100**	**93,302**	**366,852**
	2016	202,500	49,613	12,100	61,700	325,913
Total	**2017**	**1,115,000**	**259,123**	**19,662**	**670,775**	**2,064,560**
	2016	1,082,500	265,651	19,662	284,410	1,652,223

(a) Base remuneration including superannuation and any salary sacrificing arrangements.

(b) Comprises the 50% cash portion of the STI performance for the 12 months to 30 June and is paid in August each year. The 50% STI deferred component for the year ended 30 June 2017 will be issued on 23 October 2017 as STI performance rights and will vest two years after grant, subject to the executive having continued service with the Company (2016: issued 26 October 2016).

(c) Comprises the amount of dividends received to repay the interest free loan pursuant to the superseded Argo Investments Executive Share Plan.

(d) The value of STI and LTI performance rights exercised during the year is based on the market price of shares of the Company on the date the performance rights were exercised.

(e) The main factors contributing to the increase in vesting value compared to the prior year were:

- The LTI Plan was restructured in 2012 to remove the benefit of re-testing and increase the Managing Director's LTI opportunity from 50% to 70% of his fixed annual remuneration. This year was the first year of vesting under the revised structure
- The level of achievement of the LTI criteria increased from 11.6% in the prior year to 42.0% this year, due primarily to Argo outperforming both the TPR and EPS benchmarks over the four year measurement period

This table clarifies payments actually received by the executives for the year under review.

These amounts are different to the statutory remuneration as Accounting Standards require a value to be placed on performance rights at the time of grant which is expensed over the life of the rights, even though the executives may not realise all (or any) actual value from the performance rights if performance and/or service conditions are not met, or are only partly met. Remuneration details prepared in accordance with statutory obligations and Accounting Standards are contained in Section 6 of this Report.

Section 4 Non-executive Directors’ remuneration

Non-executive Directors (NEDs) are awarded fixed fees, allowing for objectivity and independence in their assessment of Company and executive performance. However, the Board has a policy that all NEDs should within three years of their initial appointment, establish and maintain a shareholding in the Company which is at least equivalent in value to one year's directors’ fees, to further align their interests with those of other shareholders.

The Board, after taking into account the recommendations of the Remuneration Committee, determines the amount of Board and Committee fees having regard to the level of fees paid to NEDs of companies of comparable size and complexity. The fees are within the aggregate annual limit approved by shareholders at the Annual General Meeting held in October 2015 ($1,100,000).

For the year ended 30 June 2017, the fee for the Chairman was $204,100 inclusive of Committee and subsidiary company appointments and the base fee for each of the other NEDs was $95,600 with additional fees of $3,200 for Committee membership and subsidiary company board appointments, and $6,400 for Committee Chairs. Statutory superannuation payments are contributed on behalf of NEDs. Further details of the Non-executive Directors' remuneration are provided in Section 6, Table C of this report.

Following a review of NED remuneration, a 2% increase is being applied for the year ending 30 June 2018.

A performance evaluation process for NEDs is undertaken each year and is described in the Corporate Governance Statement, which is available on the Company’s website.

Section 5 Remuneration governance

Remuneration Committee

The Remuneration Committee provides support and advice to the Board on setting appropriate remuneration levels, determining the remuneration structure and assessing performance.

External advice

The Remuneration Committee periodically engages independent external advisers to review and assist with aspects of the remuneration structure.

In 2015, the Financial Institutions Remuneration Group (FIRG) was engaged by the Remuneration Committee to assist it with a comprehensive review of executive remuneration compensation. No changes were recommended to the Board as a result of this review.

The Company's membership of FIRG provides it with access to up to date industry remuneration data on an ongoing basis.

Executive service agreements

Key features of the service agreements for the executives include:

- Employment continues until terminated by either the executive or Argo
- Notice periods are six months for the Managing Director and three months for other executives
- A lump sum in lieu of notice may be paid
- If an executive commits a breach such as serious misconduct, wilful neglect or criminal offence, their services may be terminated immediately, without notice
- If the Company commits any serious or persistent breach, an executive may terminate immediately
- Unless stated otherwise above, no termination payments are provided for under the service agreements
- Comply with policies of the Company including the Code of Conduct

Introduction of face value methodology next year

After consultation with the Australian Shareholders' Association and a review of emerging remuneration practices used by other listed companies, the Board has decided that executive performance rights will be awarded in the future based on the 'face' value of Argo shares, rather than the currently used 'fair' value which is discounted for the value of the dividends foregone over the life of the performance rights.

In order to ensure there is no change to the executives' potential equity vesting opportunities, the maximum percentage opportunities for equity-based incentive remuneration will be increased to compensate for the higher face value per performance right.

This change will be reflected in next year's Remuneration Report, as all executive performance rights will be issued at face value. There will be no change to the quantum of potential equity-based incentive outcomes for executives due to this simplification.

Section 6 Remuneration disclosure tables

Table C: Non-executive Directors' remuneration

		Short-term		Post-employment		
				Superannuation		
		Directors' fees $	Committee fees $	Salary sacrifice $	Other[b] $	Total $
Non-executive Directors						
G.I. Martin AM	**2017**	**204,100**	**-**	**-**	**19,389**	**223,489**
	2016	198,200	-	-	18,829	217,029
A.B. Brennan	**2017**	**95,600**	**9,600**	**-**	**9,994**	**115,194**
	2016	92,800	8,783	-	9,650	111,233
C.E. Cuffe AO*	**2017**	**81,314**	**2,207**	**-**	**7,935**	**91,456**
	2016	-	-	-	-	-
R.A. Davis	**2017**	**95,600**	**3,200**	**-**	**9,386**	**108,186**
	2016	92,800	3,100	-	9,111	105,011
R.A. Higgins AO	**2017**	**95,600**	**6,400**	**-**	**9,690**	**111,690**
	2016	92,800	6,200	-	9,405	108,405
J.C. Morton	**2017**	**95,600**	**3,200**	**-**	**9,386**	**108,186**
	2016	92,800	3,100	-	9,111	105,011
R.J. Patterson **	**2017**	**30,767**	**1,030**	**-**	**3,021**	**34,818**
	2016	70,825[a]	3,100	21,975[a]	9,111	105,011
Total	**2017**	**698,581**	**25,637**	**-**	**68,801**	**793,019**
	2016	640,225	24,283	21,975	65,217	751,700

* Appointed 25 August 2016.
** Retired 26 October 2016.

(a) Base fee totalling $92,800 includes amounts paid in cash and superannuation.

(b) Superannuation contributions made on behalf of Non-executive Directors to satisfy the Company's obligations under the Superannuation Guarantee Charge legislation.

Table D: Executive remuneration (statutory disclosures)

		Short-term			Post-employment	Share based[f]		
		Salaries[a] $	STI[b] $	Non-monetary benefits[e] $	Super-annuation $	STI[g] $	LTI[h] $	Total $
Managing Director								
J. Beddow	**2017**	**660,602**	**147,875**[c]	**777**	**-**[c]	**161,859**	**214,659**	**1,185,772**
	2016	652,271	154,350[c]	1,148	-[c]	140,473	94,517	1,042,759
Other Key Management Personnel								
T.C.A. Binks	**2017**	**245,762**	**59,798**[d]	**-**	**19,616**	**61,892**	**29,537**	**416,605**
	2016	245,666	61,688[d]	-	19,308	50,590	13,262	390,514
A.B. Hill	**2017**	**178,481**	**51,450**[d]	**867**	**35,000**	**54,124**	**27,241**	**347,163**
	2016	174,314	49,613[d]	1,353	35,000	45,996	12,497	318,773
Total	**2017**	**1,084,845**	**259,123**	**1,644**	**54,616**	**277,875**	**271,437**	**1,949,540**
	2016	1,072,251	265,651	2,501	54,308	237,059	120,276	1,752,046

(a) Salaries include the movement in the provision for annual leave and long service leave and any salary sacrifice arrangements.

(b) STI cash payments are paid in August each year.

(c) The STI of $147,875 was paid $122,875 in cash and $25,000 as a superannuation contribution (2016: $154,350 of which $124,350 was paid in cash and $30,000 as a superannuation contribution).

(d) The STI was paid in cash.

(e) Comprises the benefit of interest free loans pursuant to the superseded Argo Investments Executive Share Plan.

(f) The Accounting Standards require that the expense relating to the share based incentive instruments be reflected over the performance period, regardless of whether the executive ever receives any actual value from them. If the performance rights lapse, the expense is reversed and the amount previously disclosed for individual executives is also reversed.

(g) Argo Investments Limited Executive STI Performance Rights:

The values of the STI performance rights are calculated and allocated to each reporting period from the commencement of the performance period to the vesting date. The value of STI performance rights for the current reporting period, which are yet to be issued to executives, has been estimated.

(h) Argo Investments Limited Executive LTI Performance Rights:

The fair value of the LTI performance rights granted was calculated by estimating the value of dividends an award recipient would not receive during the performance measurement period and subtracting this amount from the value of the grant date share price, and applying the Monte Carlo simulation.

Argo Employee Share Ownership Plan:

Employees received $1,000 of Company shares at market value pursuant to the Argo Employee Share Ownership Plan.

(i) The Directors' and Officers' liability insurance contract does not specify premiums in respect of individual Directors and Officers and the policy also prohibits disclosure of the premium paid.

Table E: Executive performance percentages

		Actual STI as % of STI opportunity[1]	% of STI opportunity not achieved	Share based remuneration as proportion of remuneration[2]	Total performance related remuneration
J. Beddow	**2017**	**65.0%**	**35.0%**	**31.8%**	**44.2%**
	2016	70.0%	30.0%	22.5%	37.3%
T.C.A. Binks	**2017**	**67.0%**	**33.0%**	**21.9%**	**36.3%**
	2016	70.5%	29.5%	16.4%	32.1%
A.B. Hill	**2017**	**70.0%**	**30.0%**	**23.4%**	**38.3%**
	2016	70.0%	30.0%	18.3%	33.9%

(1) The maximum STI opportunity is 70% of each executives' fixed annual remuneration (2016: 70%).

(2) These percentages are based on the Accounting Standard disclosures and reflect the net effect of the various outcomes described in (g) and (h) above.

Table F: Executive Performance Rights[1] - granted

		Number	Grant date	Fair value per right at grant date	Earliest vesting date	Expiry date	Number yet to vest	Accounting value yet to vest Min.[2] $	Accounting value yet to vest Max.[3] $
J. Beddow	STI	25,802	26/10/15	$7.08	26/10/17	9/11/17	25,802	-	17,907
		23,106	26/10/16	$6.46	26/10/18	9/11/18	23,106	-	59,509
		-	-	-	-	-	-	-	103,265[4]
	LTI	67,700	22/11/13	$5.67	22/11/17	6/12/17	67,700	-	10,357
		64,700	20/11/14	$6.33	20/11/18	4/12/18	64,700	-	42,673
		64,950	26/10/15	$6.41	26/10/19	9/11/19	64,950	-	65,672
		75,960	26/10/16	$5.76	26/10/20	9/11/20	75,960	-	102,269
		322,218					322,218	-	401,652
T.C.A. Binks	STI	8,714	26/10/15	$7.08	26/10/17	9/11/17	8,714	-	6,048
		9,235	26/10/16	$6.46	26/10/18	9/11/18	9,235	-	23,785
		-	-	-	-	-	-	-	41,758[4]
	LTI	9,400	22/11/13	$5.67	22/11/17	6/12/17	9,400	-	1,407
		9,400	20/11/14	$6.33	20/11/18	4/12/18	9,400	-	6,035
		11,050	26/10/15	$6.41	26/10/19	9/11/19	11,050	-	10,927
		12,770	26/10/16	$5.76	26/10/20	9/11/20	12,770	-	16,822
		60,569					60,569	-	106,782
A.B. Hill	STI	8,355	26/10/15	$7.08	26/10/17	9/11/17	8,355	-	5,798
		7,427	26/10/16	$6.46	26/10/18	9/11/18	7,427	-	19,128
		-	-	-	-	-	-	-	35,930[4]
	LTI	9,700	22/11/13	$5.67	22/11/17	6/12/17	9,700	-	1,532
		9,400	20/11/14	$6.33	20/11/18	4/12/18	9,400	-	6,401
		8,950	26/10/15	$6.41	26/10/19	9/11/19	8,950	-	9,341
		10,520	26/10/16	$5.76	26/10/20	9/11/20	10,520	-	14,627
		54,352					54,352	-	92,757
Total		**437,139**					**437,139**	**-**	**601,191**

Table G: Executive Performance Rights[1] - vested, exercised and lapsed

		Grant date	Number of rights vested during the year	Number of shares purchased on exercise	Value at exercise date[5]	Number of rights lapsed during the year[6]	Value at lapse date[7]
					$		$
J. Beddow	STI	20/11/14	10,785	10,785	79,809	-	-
	LTI	17/11/11	2,172	2,172	15,877	45,295	199,298
		15/11/12	53,793	53,793	392,689	32,207	142,999
			66,750	66,750	488,375	77,502	342,297
T.C.A. Binks	STI	20/11/14	3,961	3,961	29,311	-	-
	LTI	17/11/11	683	683	4,993	14,251	62,704
		15/11/12	7,506	7,506	54,794	4,494	19,953
			12,150	12,150	89,098	18,745	82,657
A.B. Hill	STI	20/11/14	4,025	4,025	29,785	-	-
	LTI	17/11/11	756	756	5,526	15,778	69,423
		15/11/12	7,944	7,944	57,991	4,756	21,117
			12,725	12,725	93,302	20,534	90,540
Total			**91,625**	**91,625**	**670,775**	**116,781**	**515,494**

(1) The STI and LTI performance rights granted do not have an exercise price and no amount is payable by the recipient.

(2) The minimum value of STI and LTI performance rights yet to vest is $nil as the performance and service conditions may not be met and consequently the STI and LTI performance rights may not vest.

(3) The maximum value yet to vest of STI performance rights has been determined as the amount of the fair value of the STI performance rights from the commencement of the performance period to the vesting date that is yet to be expensed.

The maximum value of LTI performance rights yet to vest has been determined as the amount of the grant date fair value of the LTI performance rights that is yet to be expensed.

Ultimately, the value received from STI and LTI performance rights will be determined by the quantity of rights that vest and the market value.

(4) The maximum value yet to vest of STI performance rights which are expected to be granted on 23 October 2017 has been determined as the estimated fair value of the STI performance rights yet to be expensed.

(5) The value of STI and LTI performance rights exercised during the year is calculated as the market price of shares of the Company on the date the performance rights were exercised.

(6) The 2011 and 2012 LTI performance rights lapsed on 17 November 2016 and 15 November 2016 respectively because the performance condition was not fully satisfied.

(7) The value of LTI performance rights that lapsed during the year represents the benefit forgone, and is calculated at the date the rights lapsed assuming the performance condition had been satisfied. Rights granted 17 November 2011 and 15 November 2012 have a fair value of $4.40 and $4.44 respectively.

Table H: Executive loans

	Opening balance $	Closing balance $	Interest not charged $	Highest balance in period $
J. Beddow	55,122	47,560	777	55,122
A.B. Hill	63,573	51,473	867	63,573
Total	**118,695**	**99,033**	**1,644**	**118,695**

Prior to 2004, interest free loans were issued to key management personnel to assist the purchase of shares pursuant to the Argo Investments Executive Share Plan. The dividends paid on the shares, less an amount equal to the estimated tax payable by the executives on the dividends, are utilised to repay the loan. The shares cannot be dealt with by the executive until the loan has been repaid in full.

Table I: Key Management Personnel equity holdings

The number of ordinary shares and performance rights in the Company held or controlled by key management personnel or their related parties during the financial year:

(a) **Shareholdings**

	Opening balance	Changes during the year	Closing balance
G.I. Martin AM	264,680	15,279	279,959
J. Beddow	114,916	66,987	181,903
A.B. Brennan	3,544	10,000	13,544
C.E. Cuffe AO (appointed 25.8.16)	n/a	-	6,500
R.A. Davis	16,346	7,078	23,424
R.A. Higgins AO	89,573	10,095	99,668
J.C. Morton	19,092	2,916	22,008
R.J. Patterson (retired 26.10.16)	801,770	27	n/a
T.C.A. Binks	13,277	(9,731)	3,546
A.B. Hill	70,668	13,001	83,669

(b) STI performance rights holdings

	Opening balance	Granted as remuneration	Vested and exercised	Lapsed	Closing balance
J. Beddow	36,587	23,106	(10,785)	-	48,908
T.C.A. Binks	12,675	9,235	(3,961)	-	17,949
A.B. Hill	12,380	7,427	(4,025)	-	15,782

(c) LTI performance rights holdings

	Opening balance	Granted as remuneration	Vested and exercised	Lapsed	Closing balance
J. Beddow	330,817	75,960	(55,965)	(77,502)	273,310
T.C.A. Binks	56,784	12,770	(8,189)	(18,745)	42,620
A.B. Hill	57,284	10,520	(8,700)	(20,534)	38,570

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement for the year ended 30 June 2017 can be accessed on the Company's website at www.argoinvestments.com.au/about/corporate-governance.

Relevant governance charters, policies and codes are also available in this section of the website.

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

On behalf of the Board

G.I. Martin AM
Chairman
14 August 2017

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Argo Investments Limited for the year ended 30 June 2017, 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Argo Investments Limited and the entities it controlled during the year.

M T Lojszczyk
Partner
PricewaterhouseCoopers

Adelaide
14 August 2017

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Consolidated Statement of Profit or Loss

for the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Dividends and distributions	2	223,039	223,686
Interest		3,956	2,209
Other revenue		2,840	2,140
Total revenue		229,835	228,035
Net gains on trading investments		4,415	10,743
Income from operating activities		234,250	238,778
Administration expenses	3	(8,168)	(7,998)
Finance costs		(38)	(170)
Profit before income tax expense		226,044	230,610
Income tax expense thereon	4	(14,558)	(14,324)
Profit for the year		211,486	216,286
		cents	cents
Basic and diluted earnings per share	5	30.7	32.0

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2017

	2017 $'000	2016 $'000
Profit for the year	211,486	216,286
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Revaluation of long-term investments	435,198	(299,781)
Provision for deferred tax (expense)/benefit on revaluation of long-term investments	(131,329)	89,293
Other comprehensive income for the year	303,869	(210,488)
Total comprehensive income for the year	515,355	5,798

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Financial Position

as at 30 June 2017

	Note	2017 $'000	2016 $'000
Current Assets			
Cash and cash equivalents	6(a)	209,483	93,144
Receivables	7	52,521	41,178
Investments	8	9,129	1,865
Other financial cash assets	9	40,000	-
Current tax assets		-	5,628
Total Current Assets		311,133	141,815
Non-Current Assets			
Receivables	7	99	119
Investments	8	5,087,851	4,712,277
Plant and equipment	10	275	326
Total Non-Current Assets		5,088,225	4,712,722
Total Assets		5,399,358	4,854,537
Current Liabilities			
Payables	11	4,068	1,988
Derivative financial instruments	12	2,987	4,354
Current tax liabilities		27,849	-
Provisions	13	540	467
Total Current Liabilities		35,444	6,809
Non-Current Liabilities			
Deferred tax liabilities	14	647,287	536,369
Provisions	13	113	154
Total Non-Current Liabilities		647,400	536,523
Total Liabilities		682,844	543,332
Net Assets		4,716,514	4,311,205
Shareholders' Equity			
Contributed equity	15	2,671,527	2,572,213
Reserves	16	1,669,531	1,366,037
Retained profits	17	375,456	372,955
Total Shareholders' Equity		4,716,514	4,311,205

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Changes in Equity

for the year ended 30 June 2017

	Contributed Equity $'000 (Note 15)	Reserves $'000 (Note 16)	Retained Profits $'000 (Note 17)	Total $'000
Balance as at 1 July 2016	2,572,213	1,366,037	372,955	4,311,205
Profit for the year	-	-	211,486	211,486
Other comprehensive income	-	303,869	-	303,869
Total comprehensive income for the year	-	303,869	211,486	515,355
Transactions with shareholders:				
Dividend Reinvestment Plan	39,134	-	-	39,134
Share Purchase Plan	60,458	-	-	60,458
Cost of share issues net of tax	(278)	-	-	(278)
Executive performance rights reserve	-	(375)	-	(375)
Dividends paid	-	-	(208,985)	(208,985)
Total transactions with shareholders	99,314	(375)	(208,985)	(110,046)
Balance as at 30 June 2017	2,671,527	1,669,531	375,456	4,716,514

for the year ended 30 June 2016

	Contributed Equity $'000 (Note 15)	Reserves $'000 (Note 16)	Retained Profits $'000 (Note 17)	Total $'000
Balance as at 1 July 2015	2,473,320	1,596,512	341,572	4,411,404
Profit for the year	-	-	216,286	216,286
Other comprehensive income	-	(210,488)	-	(210,488)
Total comprehensive income for the year	-	(210,488)	216,286	5,798
Transactions with shareholders:				
Dividend Reinvestment Plan	38,819	-	-	38,819
Share Purchase Plan	60,355	-	-	60,355
Cost of share issues net of tax	(281)	-	-	(281)
Executive performance rights reserve	-	16	-	16
Dividends paid	-	(20,003)	(184,903)	(204,906)
Total transactions with shareholders	98,893	(19,987)	(184,903)	(105,997)
Balance as at 30 June 2016	2,572,213	1,366,037	372,955	4,311,205

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Dividends and distributions received		218,617	197,207
Interest received		3,519	2,164
Other receipts		2,820	1,860
Proceeds from trading investments		14,478	42,661
Payments for trading investments		(18,694)	(29,235)
Other payments		(8,341)	(7,666)
Income tax paid		(1,372)	(13,139)
Net operating cash inflows	6(b)	211,027	193,852
Cash flows from investing activities			
Proceeds from sale of long-term investments		206,957	116,222
Payments for long-term investments		(151,864)	(188,293)
Proceeds from other financial cash assets		45,000	-
Payments for other financial cash assets		(85,000)	-
Executive share scheme repayments		20	19
Payments for fixed assets		(9)	(166)
Net investing cash inflows/(outflows)		15,104	(72,218)
Cash flows from financing activities			
Proceeds from Share Purchase Plan		60,458	60,355
Cost of share issues		(399)	(402)
Dividends paid – net of Dividend Reinvestment Plan		(169,851)	(166,087)
Net financing cash outflows		(109,792)	(106,134)
Net increase in cash held		116,339	15,500
Cash at the beginning of the year		93,144	77,644
Cash at the end of the year	6(a)	209,483	93,144

(To be read in conjunction with the accompanying notes)

Notes to the Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the financial statements of the consolidated entity, consisting of Argo Investments Limited and its controlled entities (Argo or Company) which are presented in Australian currency. The Company is incorporated and domiciled in Australia. Argo is a company limited by shares.

The financial statements were authorised for issue by the Directors on 14 August 2017. The Directors have the power to amend and reissue the financial statements.

The significant accounting policies which have been adopted in the preparation of these financial statements are set out below. The policies have been consistently applied, unless otherwise stated.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001.* Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards. The Company is a 'for profit' entity for the purpose of preparing the financial statements.

These financial statements have been prepared using the conventional historical cost basis except for the fair value accounting of investments detailed in Note 1(d)(ii) and exchange traded options in Note 1(e).

The accounting policies adopted are consistent with those of the previous financial year.

(b) Principles of consolidation

The Company meets the definition of an investment entity (see Note 1(c)).

The Company's wholly owned subsidiary, Argo Service Company Pty Ltd (ASCO), provides services to the Company. The consolidated financial statements incorporate the assets and liabilities of ASCO as at 30 June 2017 and its results for the year then ended. Intercompany transactions and balances between the Company and ASCO are eliminated on consolidation.

The Company has determined that for any entities that it controls or has significant influence over, that do not provide services to the Company, consolidated financial statements are not required provided the Company measures its investments in these entities at fair value in its financial statements.

(c) Investment Entity

The Company has determined that it is an investment entity under the definition in AASB 10 *Consolidated Financial Statements* as it meets the following criteria:

(i) The Company has obtained funds from shareholders for the purpose of providing them with investment management services;

(ii) The Company's business purpose, which it communicated directly to shareholders, is investing solely for returns from capital appreciation and investment income; and

(iii) The performance of investments made by the Company are measured and evaluated on a fair value basis.

The Company also meets all of the typical characteristics of an investment entity.

(d) **Investments**

(i) **Classification**

Purchases and sales of investments are recognised on trade-date, being the date the Company commits to purchase or sell the asset.

Current Assets

Investments classified as Current Assets comprise holdings of trading securities and are categorised as financial assets measured at fair value through the Consolidated Statement of Profit or Loss. Investments are initially recognised at fair value and transaction costs are expensed. An investment is classified in this category if acquired principally for the purpose of selling in the short term.

Non-Current Assets

Investments classified as Non-Current Assets comprise holdings of long-term securities and are revalued at fair value through other comprehensive income. Investments are initially recognised at cost.

(ii) **Valuation**

Trading securities and long-term securities are continuously carried at fair value using price quotations in an active stock market.

Securities which are not listed on a securities exchange are valued using appropriate valuation techniques as reasonably determined by the Directors.

(iii) **Gains and Losses**

Investments are considered to have been sold when contractual rights to the investment expire or contractual rights to receive cash flows have been transferred and substantially all the risk and rewards of ownership have not been retained.

Current Assets

Realised gains and losses from the sale of trading securities are included in the Consolidated Statement of Profit or Loss in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of the trading securities are included in the Consolidated Statement of Profit or Loss in the period in which they arise.

Non-Current Assets

Realised gains and losses on the sale of long-term investments, net of tax, are transferred from the investment revaluation reserve and recorded in the capital profits reserve.

Unrealised gains and losses arising from changes in the fair value of long-term securities are recognised in other comprehensive income and reflected in the investment revaluation reserve.

(e) **Derivative Financial Instruments**

The Company sells Australian Securities Exchange traded options to earn income. Where the Company sells a call option, it is obligated to deliver securities at an agreed price if the holder exercises the option. Where the Company sells a put option, it is obligated to purchase securities at an agreed price if the holder exercises the option.

The premium received for selling options is not initially brought to account as revenue but is recognised in the Consolidated Statement of Financial Position as a liability. When the option expires, is exercised or is repurchased, the premium received is brought to account and is included in net gains on trading investments in the Consolidated Statement of Profit or Loss.

Any open option positions at balance date are carried at their fair value and unrealised gains and losses are included in the Consolidated Statement of Profit or Loss.

(f) **Revenue**

Revenue is recognised when the right to receive payment is established.

(g) **Plant and Equipment**

Items of plant and equipment are depreciated over their estimated useful lives to the Company using the straight line method of depreciation at rates ranging from 7.5% to 33.3%.

(h) **Income Tax**

The income tax expense is the tax payable on the current year's taxable income based on the company tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax balances attributable to revaluation amounts recognised in other comprehensive income are also recognised in the investment revaluation reserve. The revaluation of long-term investments is net of tax on unrealised capital gains by recognising a deferred tax liability. Where the Company disposes of long-term securities in the investment portfolio, tax is calculated on the net gains made according to the particular parcels allocated to the sale for tax purposes. The tax recognised in the investment revaluation reserve is then transferred to the capital profits reserve. The associated deferred tax liability is similarly adjusted and transferred to tax payable.

Argo Investments Limited (the parent) and its wholly owned subsidiary have formed an income tax consolidated group. Each entity in the group recognises its own current and deferred tax amounts. The current tax liability of both entities is subsequently assumed by the parent entity.

The entities have also entered into a tax funding agreement whereby the subsidiary compensates the parent entity for any current tax payable or receivable and deferred tax assets relating to unused tax losses or unused tax credits.

(i) **Employee Entitlements**

Provision is made for benefits accruing to employees in respect of wages, salaries, annual leave and long service leave (based on wage rates expected at the time of settling the liability) when it is probable that settlement will be required and they are capable of being reliably measured.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(j) **Argo Investments Limited Executive Performance Rights Plan**

The share based short-term incentive (STI) performance rights are measured at fair value. The amount of these rights is expensed on a straight line basis over the period between the performance commencement date and the expected date that the rights will vest.

The share based long-term incentive (LTI) performance rights are measured at fair value, and recorded as an expense on a straight line basis over the period between grant date and the expected date that the rights will vest.

(k) **Argo Investments Executive Share Plan Loans**

The interest free loans were issued to executives pursuant to the superseded Argo Investments Executive Share Plan and are recognised initially at fair value and subsequently measured at amortised cost.

(l) **Receivables**

Receivables include dividends, distributions and securities sold where settlement has not occurred at the end of the reporting period. Amounts are generally received within 30 days of recognition.

(m) **Payables**

Payables include liabilities for goods and services provided to the Company and for securities purchased where settlement has not occurred at the end of the reporting period. Amounts are usually paid within 30 days of recognition.

(n) **Operating Leases**

Payments made under operating leases are accounted for on a straight line basis over the period of the lease.

(o) **Cash and Cash Equivalents**

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include bank deposits held at call, other short-term bank fixed term deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(p) **Other Financial Cash Assets**

Other financial cash assets are bank fixed term deposits with maturities from three to six months from date of acquisition.

(q) **Earnings per Share**

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the period.

If applicable, diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) **Goods and Services Tax (GST)**

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office (ATO).

Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Consolidated Statement of Financial Position. Cash flows relating to GST are included in the Consolidated Statement of Cash Flows on a gross basis.

(s) **Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity, net of tax.

(t) **Provision for Dividend**

A provision for dividend is only made for the amount of any dividend declared by the Directors on or before the end of the financial year but not distributed at balance date.

(u) **Rounding of Amounts**

Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies to the Company and accordingly amounts have been rounded to the nearest one thousand dollars in accordance with that Instrument, unless otherwise stated.

(v) **New Accounting Standards**

The Company early adopted accounting standard AASB 9 *Financial Instruments* in December 2009 with the standard to be applied to annual reporting periods commencing on or after 1 January 2018.

Accounting Standards and interpretations that have been issued but are not yet mandatory for adoption, including AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases,* have been assessed and the impact on the Company's financial statements when they become operative is not expected to be material. The Company intends to adopt the Accounting Standards and interpretations at the date at which their application becomes mandatory.

There are no other standards that are not yet effective and that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

(w) **Critical Accounting Estimates and Judgements**

There are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

2. DIVIDENDS AND DISTRIBUTIONS

	2017 $'000	**2016** $'000
Received/receivable from:		
Long-term investments held at the end of the year	212,024	221,718
Long-term investments sold during the year	11,015	1,968
	223,039	**223,686**

3. ADMINISTRATION EXPENSES

	2017 $'000	2016 $'000
Employment benefits	5,376	4,921
Depreciation	60	163
Other	2,732	2,914
	8,168	**7,998**

4. INCOME TAX EXPENSE

	2017 $'000	2016 $'000
(a) Reconciliation of income tax expense to prima facie tax payable:		
Profit before income tax expense	226,044	230,610
Prima facie tax expense calculated at 30% (2016: 30%)	67,813	69,183
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax offset for franked dividends	(52,123)	(52,498)
Other	(1,226)	(1,845)
Under/(over) provision in previous year	94	(516)
Income tax expense	**14,558**	**14,324**
(b) Income tax expense composition:		
Charge for tax payable relating to current year	14,202	15,850
Increase/(decrease) in deferred tax liabilities	262	(1,010)
Under/(over) provision in previous year	94	(516)
	14,558	**14,324**
(c) Amounts recognised directly in other comprehensive income: Increase/(decrease) in deferred tax liabilities	**131,329**	**(89,293)**

5. EARNINGS PER SHARE

	2017 number '000	2016 number '000
Weighted average number of ordinary shares on issue used in the calculation of earnings per share	688,734	675,375
	$'000	$'000
Profit for the year	211,486	216,286
	cents	cents
Basic and diluted earnings per share	**30.7**	**32.0**

6. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents includes cash on deposit with banks (floating interest rates between 1.0% and 1.5% at 30 June 2017; 2016: between 1.25% and 2.35%) and fixed term deposits with banks (fixed interest rates to maturity between 2.30% and 2.46% at 30 June 2017; 2016: 2.51% and 2.93%), maturing within three months from date of deposit.

	2017 $'000	2016 $'000
Bank deposits	**209,483**	**93,144**
(b) Reconciliation of net cash provided by operating activities to profit for the year:		
Profit for the year	211,486	216,286
Dividends received as securities in dividend reinvestment plan	(4,758)	(23,320)
Depreciation	60	163
Charges to provisions	134	170
Other movements	(375)	16
Increase/(Decrease) in provision for income tax	33,477	(6,507)
Transfer from provision for deferred income tax	(20,889)	8,547
Decrease/(increase) in deferred tax assets	496	(942)
Changes in operating assets and liabilities:		
Increase in current investments	(7,264)	(205)
Increase in other debtors	(112)	(2,892)
(Decrease)/increase in other creditors	(1,228)	2,536
Net cash provided by operating activities	**211,027**	**193,852**
(c) Financing arrangement		
Total line of credit available:		
Loan facility – unsecured	-	100,000
Amount utilised	-	-
Undrawn facility	**-**	**100,000**

The unsecured loan facility for $100 million was cancelled on 31 October 2016.

(d) Non-cash financing activities

Dividends paid totalling $39.1 million were reinvested in shares under the Company's Dividend Reinvestment Plan (2016: $38.8 million).

7. RECEIVABLES

	2017 $'000	2016 $'000
Current		
Dividends and distributions receivable	40,244	40,581
Interest receivable	656	220
Outstanding settlements	11,231	-
Other	390	377
	52,521	**41,178**

Receivables are non-interest bearing and unsecured. Outstanding settlements include amounts due from brokers for settlement of security sales and are settled within two days of the transaction date. None of the receivables are past due or impaired.

	2017 $'000	2016 $'000
Non-Current		
Executive share plan loans	**99**	**119**

The Executive share plan loans are repaid in accordance with the terms of the superseded Argo Investments Executive Share Plan.

8. INVESTMENTS

	2017 $'000	2016 $'000
Current		
Listed securities at fair value(1)	**9,129**	**1,865**
Non-Current		
Listed securities at fair value(1)	5,082,377	4,707,567
Unlisted securities at fair value(2)	5,474	4,710
	5,087,851	**4,712,277**

The fair value of investments is based on the fair value measurement hierarchy disclosed in Note 28.

(1) The fair value of listed securities is established from the quoted prices (unadjusted) in the active market of the ASX for identical assets in accordance with Level 1 of the fair value measurement hierarchy.

(2) The fair value of unlisted securities is not based on observable market data in accordance with Level 3 of the fair value measurement hierarchy. The Directors have made valuation judgements to determine the fair value of these securities based on cost and the net tangible asset values provided by the responsible entities of the securities.

Reconciliation of changes in unlisted securities valued in accordance with Level 3 of the fair value measurement hierarchy:

	2017 $'000	2016 $'000
Carrying amount at beginning of year	4,710	29,870
Additions	644	750
Transfer to level 1 (listed securities) on listing	-	(26,000)
Fair value gains recognised in other comprehensive income	120	90
Carrying amount at end of year	**5,474**	**4,710**

The fair value of each non-current security (long-term investment) is disclosed in Note 29.

There were 527 investment transactions during the financial year. The total brokerage paid on these transactions was $1.3 million.

9. OTHER FINANCIAL CASH ASSETS

	2017 $'000	2016 $'000
Bank term deposits	**40,000**	**-**

Other financial cash assets are fixed term deposits with banks (fixed interest rates to maturity between 2.35% and 2.40% at 30 June 2017) maturing from three to six months from date of deposit.

10. PLANT AND EQUIPMENT

	2017 $'000	2016 $'000
Plant and equipment at cost	1,067	1,058
Accumulated depreciation	(792)	(732)
	275	**326**
Movements		
Carrying amount at beginning of year	326	323
Additions	9	166
Depreciation	(60)	(163)
Carrying amount at end of year	**275**	**326**

11. PAYABLES

	2017 $'000	2016 $'000
Outstanding settlements	3,009	1,069
Other	1,059	919
	4,068	**1,988**

Payables are non-interest bearing and unsecured. Outstanding settlements include amounts due to brokers for settlement of security purchases and are settled within two days of the transaction date.

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 $'000	2016 $'000
Exchange traded options at fair value	**2,987**	**4,354**

The fair value of exchange traded options is established from the quoted prices (unadjusted) in the active market of the ASX for identical assets in accordance with Level 1 of the fair value measurement hierarchy.

13. PROVISIONS

	2017 $'000	2016 $'000
Current		
Provision for employee entitlements	**540**	**467**
Non-Current		
Provision for employee entitlements	**113**	**154**

14. DEFERRED TAX LIABILITIES

	2017 $'000	2016 $'000
The balance comprises temporary differences attributed to:		
Deferred tax liability on unrealised gains on long-term investments	648,032	537,357
Income receivable which is not assessable for tax until receipt	1,371	1,270
Deferred tax (asset)/liability on unrealised gains on trading investments	(296)	40
	649,107	538,667
Offset by deferred tax assets:		
Provisions and payables	(1,619)	(2,115)
Deferred tax on cost of share issues	(201)	(183)
	(1,820)	(2,298)
Net deferred tax liabilities	**647,287**	**536,369**
Movements		
Balance at beginning of year	536,369	618,091
Debited/(credited) to profit or loss	262	(1,010)
Charged/(credited) to other comprehensive income	131,329	(89,293)
Changes to the tax base of investments	(20,673)	8,581
Balance at end of year	**647,287**	**536,369**

The amount of net deferred tax liabilities expected to be settled in the next 12 months is $0.1 million (2016: deferred tax asset $0.2 million).

15. 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 proportion to the number of the shares held. The Company does not have a limited amount of authorised capital.

	2017 No. of shares	2016 No. of shares	2017 $'000	2016 $'000
Issued and fully paid ordinary shares:				
Opening balance	679,742,854	666,769,679	2,572,213	2,473,320
Dividend reinvestment plan[a]	5,296,881	5,185,485	39,134	38,819
Share purchase plan[b]	8,373,743	7,787,690	60,458	60,355
Cost of share issues net of tax	-	-	(278)	(281)
Closing balance	**693,413,478**	**679,742,854**	**2,671,527**	**2,572,213**

(a) On 9 September 2016, 2,717,901 shares were allotted at $7.32 per share pursuant to the Dividend Reinvestment Plan in operation for the final dividend paid for the year ended 30 June 2016.

On 10 March 2017, 2,578,980 shares were allotted at $7.46 per share pursuant to the Dividend Reinvestment Plan in operation for the interim dividend paid for the year ended 30 June 2017.

(b) On 11 October 2016, 8,373,743 shares were allotted at $7.22 per share pursuant to the Share Purchase Plan offered to eligible shareholders.

The Company has an on-market share buy-back arrangement in place but it was not activated during the year.

16. RESERVES

	2017 $'000	2016 $'000
Executive Performance Rights Reserve	980	1,355
Investment Revaluation Reserve	1,423,308	1,155,839
Capital Profits Reserve	245,243	208,843
	1,669,531	**1,366,037**
Movements in reserves during the year		
Executive Performance Rights Reserve		
Balance at beginning of year	1,355	1,339
Accrued entitlement for unvested rights	891	659
Executive performance shares purchased	(1,266)	(643)
Balance at end of year	980	1,355
Investment Revaluation Reserve		
Balance at beginning of year	1,155,839	1,354,931
Revaluation of long-term investments	435,198	(299,781)
Provision for deferred tax (expense)/benefit on revaluation of long-term investments	(131,329)	89,293
Realised (gains)/losses on sale of long-term investments transferred to capital profits reserve	(54,700)	14,951
Income tax expense /(benefit) thereon	18,300	(3,555)
Balance at end of year	1,423,308	1,155,839
Capital Profits Reserve		
Balance at beginning of year	208,843	240,242
Dividend paid	-	(20,003)
Transfer from investment revaluation reserve	36,400	(11,396)
Balance at end of year	245,243	208,843
Total Reserves	**1,669,531**	**1,366,037**

Long-term investments were sold in the normal course of the Company's operations as a listed investment company or as a result of takeovers. The fair value of the investments sold during this period was $218.2 million (2016: $115.1 million). The cumulative profit after tax on these disposals was $36.4 million (2016: loss $11.4 million), which has been transferred from the investment revaluation reserve to the capital profits reserve.

Nature and Purpose of Reserves

Executive Performance Rights Reserve

This reserve contains the fair value of the short-term incentive (STI) and long-term incentive (LTI) performance rights pursuant to the Argo Investments Limited Executive Performance Rights Plan. When rights are exercised, shares are purchased on market and issued to the executive.

STI performance rights

The values of the STI performance rights are calculated and allocated to each reporting period from the commencement of the performance periods to the vesting dates. The value of the STI performance rights for the current reporting period, which are yet to be issued to participants, has been estimated.

LTI performance rights

The values of the LTI performance rights are calculated at grant dates and allocated to each reporting period from the grant dates to the vesting dates.

Investment Revaluation Reserve

Increments or decrements on the revaluation of long-term investments after provision for deferred capital gains tax are recorded in this reserve.

Capital Profits Reserve

Gains or losses arising from the sale of long-term investments, net of any tax expense or benefit, are recorded in this reserve.

17. RETAINED PROFITS

	2017 $'000	**2016** $'000
Balance at beginning of year	372,955	341,572
Dividends paid	(208,985)	(184,903)
Profit for the year	211,486	216,286
Balance at end of year	**375,456**	**372,955**

18. CAPITAL MANAGEMENT

The Company's objective in managing its capital 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 by the process of providing shareholders with a steady stream of fully franked dividends and enhancement of capital invested, with the goal of paying an increasing level of dividends and providing attractive total returns over the long term.

The Company recognises that its capital will fluctuate in accordance with market conditions and in order to maintain or adjust the capital structure, it may be necessary to vary the amount of dividends paid, issue new shares from time to time or buy back its own shares.

The Company's capital consists of its shareholders' equity and the changes to this capital are shown in the Consolidated Statement of Changes in Equity.

19. DIVIDENDS

	2017 $'000	**2016** $'000
(a) **Dividends paid during the year**		
Final dividend for the year ended 30 June 2016 of 15.5 cents fully franked at 30% tax rate paid 9 September 2016 (2016: 15.5 cents fully franked at 30% tax rate)	105,360	103,349
Interim dividend for the year ended 30 June 2017 of 15.0 cents fully franked at 30% tax rate paid 10 March 2017 (2016: 15.0 cents fully franked at 30% tax rate)	103,625	101,557
Total dividends paid	**208,985**	**204,906**

The final dividend paid did not contain a listed investment company (LIC) capital gain component (2016: 3.0 cents per share).

	2017 $'000	**2016** $'000
(b) **Dividend declared after balance date**		
Since the end of the financial year, the Directors have declared the following dividend which has not been recognised as a liability at the end of the financial year:		
Final dividend for the year ended 30 June 2017 of 16.0 cents fully franked at 30% tax rate payable 15 September 2017 (2016: 15.5 cents fully franked at 30% tax rate)	**110,946**	**105,360**

The final dividend declared will contain a LIC capital gain component of 5.0 cents per share (2016: nil).

20. FRANKING ACCOUNT

	2017 $'000	2016 $'000
Balance of the franking account after allowing for tax payable and the receipt of franked dividends recognised as receivables	105,388	85,427
Impact on the franking account of the dividend declared but not recognised as a liability at the end of the financial year	(47,548)	(45,154)
	57,840	**40,273**
The franking account balance would allow the Company to fully frank additional dividend payments up to an amount of	**134,960**	**93,970**

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the investment portfolio and the Company paying tax.

21. LISTED INVESTMENT COMPANY (LIC) CAPITAL GAIN ACCOUNT

	2017 $'000	2016 $'000
Balance of the LIC capital gain account	38,932	5,401
Impact on the LIC capital gain account of the dividend declared but not recognised as a liability at the end of the financial year	(34,671)	-
	4,261	**5,401**
This equates to an attributable amount of	**6,087**	**7,716**

LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains and the receipt of LIC capital gain distributions from LIC securities held in the investment portfolio.

22. FINANCIAL REPORTING BY SEGMENTS

The Company operates in the investment industry predominately 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 from the 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 year.

23. COMMITMENTS

	2017 $'000	2016 $'000
Operating leases		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	404	389
Later than one year but not later than five years	987	1,205
Later than five years	402	721
	1,793	**2,315**

The Company has entered into two property leases, one expiring on 12 December 2018 and the other expiring on 31 January 2024. Lease rentals are subject to review during the term of the leases. The lease expiring on 12 December 2018 provides the Company with a right of renewal.

24. RELATED PARTIES

	2017 $	2016 $
(a) **Key Management Personnel Compensation**		
Short-term	2,069,830	2,004,911
Post-employment (superannuation)	123,417	141,500
Share based	549,312	357,335
	2,742,559	**2,503,746**

Detailed remuneration disclosures are provided in the Remuneration Report.

	2017 $	2016 $
(b) **Key Management Personnel Loans**		
Balance at beginning of year	118,695	138,357
Loan repayments	(19,662)	(19,662)
Balance at end of year	**99,033**	**118,695**
Notional interest not charged	1,644	2,501

The loan repayments are made in accordance with the terms of the Argo Investments Executive Share Plan.

(c) **Argo Global Listed Infrastructure Limited**

Argo Global Listed Infrastructure Limited (AGLI) is an Australian investment company which invests in international securities in the infrastructure sector and which listed on the ASX on 3 July 2015.

The Company purchased 12,500,100 shares in AGLI for a consideration of $25.0 million, and 12,500,000 options were also received for no consideration which were exercisable for $2.00 per option on or before 31 March 2017. The options were not exercised and lapsed on 31 March 2017.

At balance date, the AGLI shares (ASX: ALI) had a fair value of $23.1 million (2016: $22.9 million).

The Company receives a fee for managing the operations of AGLI, via its wholly owned subsidiary, Argo Service Company Pty Ltd. Fees of $3.4 million (2016: $3.3 million) were received or receivable in the financial year ended 30 June 2017 with Cohen & Steers, the Portfolio Manager, receiving 50% of this fee to manage and invest the portfolio. Management fees of $0.30 million (2016: $0.28 million) were receivable at balance date.

There are five Directors of AGLI, of which three are also Directors of the Company.

25. PARENT ENTITY DISCLOSURES

In accordance with the *Corporations Amendment (Corporate Reporting Reform) Act 2010* and the *Corporations Act 2001* the following summarised parent entity information is set out below.

As at, and throughout, the financial year ended 30 June 2017 the parent entity is Argo Investments Limited.

	2017 $'000	**2016** $'000
Profit of the parent entity		
Profit for the year	211,487	216,169
Total comprehensive income for the year	515,356	5,681
Financial position of the parent entity as at 30 June		
Current assets	308,605	140,720
Total assets	5,398,504	4,854,224
Current liabilities	34,162	6,387
Total liabilities	682,111	543,140
Net assets	4,716,393	4,311,084
Total equity of the parent entity comprising of:		
Contributed equity	2,671,527	2,572,213
Reserves	1,669,531	1,366,037
Retained profits	375,335	372,834
Total equity attributable to shareholders of the parent entity	4,716,393	4,311,084

Argo Investments Limited has an agreement in place with Argo Service Company Pty Ltd to provide up to $250,000 (2016: $250,000) financing to cover any negative cash flow requirements arising from its operations. The facility was not utilised during the financial year to 30 June 2017.

26. SHARE BASED PAYMENTS

(a) Argo Employee Share Ownership Plan

The Directors may at such time or times as determined, issue invitations to eligible employees to apply for shares under the Argo Employee Share Ownership Plan (ESOP) as part of the employees' remuneration. Each eligible employee is offered up to $1,000 per year in shares at market value. The costs of acquiring the shares on market are paid for by the Company. Any shares acquired cannot be disposed of or transferred until the earlier of three years from the acquisition date or on the date the employee ceases employment. The ESOP was approved by shareholders at the 1997 Annual General Meeting.

During the year, 1,716 (2016: 1,547) shares were acquired by the Company on behalf of eligible employees under the ESOP at a cost of $13,016 (2016: $12,957) and had a market value of $13,162 (2016: $11,401) at $7.67 per share (2016: $7.37 per share) at balance date.

(b) Argo Investments Limited Executive Performance Rights Plan

The Argo Investments Limited Executive Performance Rights Plan (Plan) is designed to provide participants with performance-linked incentives as shareholder value is created. Under the Plan, performance rights are granted to executives to satisfy their STI and LTI entitlements. These performance rights only vest if certain performance and service conditions are met. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

A detailed discussion of the performance and service conditions for performance rights granted or to be granted is set out in the Remuneration Report.

The STI and LTI performance rights are granted under the Plan for no consideration, carry no dividend or voting rights and do not have an exercise price.

When exercisable, each performance right is convertible into an ordinary Company share, subject to certain adjustments allowable under the Plan.

Set out below are summaries of rights granted under the Plan:

STI Performance rights

Grant date	Earliest vesting date	Expiry date	Opening balance	Granted	Vested and exercised	Lapsed	Closing balance (unvested)
20/11/14	20/11/16	4/12/16	41,073	-	(41,073)	-	-
26/10/15	26/10/17	9/11/17	79,831	-	-	(6,886)(2)	72,945
26/10/16	26/10/18	9/11/18	-	78,936(1)	-	(6,661)(2)	72,275
			120,904	**78,936**	**(41,073)**	**(13,547)**	**145,220**

(1) The fair value at grant date of the STI performance rights issued during the year was $6.46 (2016: $7.08) and was independently calculated by estimating the value of dividends that would not have been received during the vesting period and subtracting this amount from the value of the grant date share price. The following inputs were used to calculate the fair value of the STI performance rights issued:

(a) Share price at valuation date 26 October 2016: $7.26 (26 October 2015: $7.83); and

(b) Dividend yield grossed up for franking credits based on historic and future yield estimates: 5.8% (2016: 5.0%).

(2) STI performance rights lapsed due to the resignation of an executive.

(3) STI performance rights expense of $472,639 (2016: $465,967) was recognised as an administration expense in the Consolidated Statement of Profit or Loss.

(4) The weighted average remaining life of the STI performance rights outstanding at the end of the year was 0.7 year (2016: 1.0 year).

During the year, 41,073 (2016: 44,238) shares were acquired by the Company on behalf of eligible employees for exercised STI performance rights at a cost of $303,456 and had a market value of $315,030 at $7.67 per share at balance date.

LTI performance rights

Grant date	Earliest vesting date	Expiry date	Opening balance	Granted	Vested and exercised	Lapsed	Closing balance (unvested)
17/11/11	17/11/15	1/12/16	235,500	-	(29,958)	(205,542)[2]	-
15/11/12	15/11/16	29/11/16	223,900	-	(123,849)	(100,051)[3]	-
22/11/13	22/11/17	6/12/17	171,800	-	-	(31,100)[4]	140,700
22/11/14	22/11/18	4/12/18	129,700	-	-	(10,500)[4]	119,200
26/10/15	26/10/19	9/11/19	142,260	-	-	(9,940)[4]	132,320
26/10/16	26/10/20	9/11/20	-	168,940[1]	-	(11,520)[4]	157,420
			903,160	**168,940**	**(153,807)**	**(368,653)**	**549,640**

(1) The fair value at grant date of the LTI performance rights issued during the year was $5.76 (2016: $6.41) and was independently calculated by estimating the value of dividends that would not have been received during the vesting period and subtracting this amount from the value of the grant date share price. The Monte Carlo simulation has been used to determine the probabilities of meeting the performance conditions and the expected level of vesting under each performance condition. The following inputs were used to calculate the fair value of the LTI performance rights issued:

   (a) Share price at valuation date 26 October 2016: $7.26 (26 October 2015: $7.83); and

   (b) Dividend yield grossed up for franking credits based on historic and future yield estimates: 5.8% (2016: 5.0%).

(2) 38,100 LTI performance rights lapsed due to resignation of executives and 167,442 lapsed without vesting.

(3) 25,900 LTI performance rights lapsed due to resignation of executives and 74,151 lapsed without vesting.

(4) LTI performance rights lapsed due to resignation of executives.

(5) LTI performance rights expense totalling $418,173 (2016: $192,646) was recognised as an administration expense in the Consolidated Statement of Profit or Loss.

(6) The weighted average remaining life of the LTI performance rights outstanding at the end of the year was 2.0 years (2016: 1.5 years).

During the year, 131,877 (2016: 38,980) shares were acquired by the Company on behalf of eligible employees for exercised LTI performance rights at a cost of $962,326 (2016: $299,834) and had a market value of $1,011,497 (2016: $287,283) at $7.67 per share (2016: $7.37 per share) at balance date.

27. AUDITOR'S REMUNERATION

	2017 $	2016 $
During the year the following remuneration amounts were paid or payable for services provided by the Auditor:		
(a) Audit services		
Audit and review of financial reports	148,234	141,338
(b) Non-audit services		
Taxation and professional services	18,850	22,552
Total remuneration	**167,084**	**163,890**

28. FINANCIAL RISK MANAGEMENT

The risks associated with the holding of financial instruments such as investments, cash and cash equivalents, other financial cash assets, receivables and payables include credit risk, liquidity risk and market risk.

Credit Risk

The risk that a financial loss will occur because a counterparty to a financial instrument fails to discharge an obligation is known as credit risk.

In relation to cash and cash equivalents disclosed in Note 6(a), the maximum exposure to credit risk is the carrying amount of bank deposits and any interest accrued.

The Company's cash investments are managed internally under Board approved guidelines. Funds are invested for the short to medium term with the major Australian banks which have a Standard & Poor's short-term rating of A1+. The maturities of bank term deposits in cash and cash equivalents are within three months while bank term deposits in other financial cash assets mature from three to six months.

The credit risk exposure for the Company's receivables as disclosed in Note 7 is the carrying amount.

Credit risk exposure also arises in relation to option positions held by the Company. The extent of this exposure is reflected in the carrying value and is disclosed in Note 12.

None of the assets exposed to credit risk are past due or considered to be impaired.

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they fall due.

The Company has no borrowings and monitors its cash flow requirements daily which includes the amount required for purchases of securities, the amount receivable from sales of securities, and dividends and distributions to be paid or received.

The Company's inward cash flows depend mainly upon the amount of dividends and distributions received from the investment portfolio as well as the proceeds from the sale or takeover of investments. Should these inflows drop by a material amount, the Company would amend its outward cash flows accordingly. As the Company's major cash outflows are purchases of investments and dividends paid to shareholders, the level of both is controllable by the Board and management.

The assets of the Company are largely in the form of tradeable securities which, if necessary, could be sold on market to meet obligations.

During the year the Company had a financing arrangement in place which is disclosed in Note 6(c). The unsecured line of credit loan facility for $100 million was cancelled on 31 October 2016.

Current financial liabilities are disclosed in Note 11.

Market Risk

Market risk is the risk that changes in market prices will affect the fair value of financial instruments.

The Company is a listed investment company that invests in tradeable securities. Due to the nature of its business, the Company will always be subject to market risk as it invests its capital in securities which have fluctuating market prices.

A general fall in the fair value of long-term investments of 5% and 10%, if equally spread over all assets in the long-term investment portfolio, would lead to a reduction in the Company's equity of $178.1 million (2016: $164.9 million) and $356.1 million (2016: $329.9 million) respectively, after tax. The investment revaluation reserve at 30 June 2017 has an after tax balance of $1,423.3 million (2016: $1,155.8 million). It would require a 40% (2016: 35%) after tax fall in the value of the long-term investment portfolio to fully deplete this reserve.

The Company seeks to reduce the market risk of the long-term investment portfolio by ensuring that it is not, in the opinion of the Board, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and market sectors are reviewed and risk is appropriately managed. The Company does not have set parameters as to a minimum or maximum amount of the long-term investment portfolio that can be invested in a single company or sector.

The Company's assets are spread across investment industry sectors as below:

	2017	2016
Energy	4%	4%
Materials	13%	12%
Industrials	6%	8%
Consumer Discretionary	7%	7%
Consumer Staples	7%	8%
Health Care	8%	7%
Banks	20%	20%
Cash and Short-term Deposits	5%	2%
Other Financials	11%	10%
Listed Investment Companies	5%	6%
Property	4%	4%
Telecommunication Services & I.T.	6%	7%
Utilities	4%	5%
	100%	100%

The following investments represent over 5% of total assets:

	2017	2016
Westpac Banking Corporation	6.3%	6.7%
Australian and New Zealand Banking Group	5.2%	4.9%

The fair value of the Company's derivative financial instruments, being exchange traded options, are subject to market risk, as changes in market price will affect the fair value of the financial instrument. The Company seeks to reduce the market risk of these derivatives by imposing Board approved maximum exposure limits for each security and in total. The total exposure position is determined and monitored on a daily basis. The fair value of exchange traded options at balance date was $3.0 million (2016: $4.4 million) and is disclosed in Note 12. Investments with a market value of $45.2 million (2016: $47.3 million) were lodged with the ASX Clearing Corporation as collateral for any option positions written by the Company in the Exchange Traded Option Market.

The Company is not materially exposed to interest rate risk, as all of its cash investments and bank term deposits mature in the short-term and have a fixed interest rate.

The Company is not significantly exposed to currency risk, as the majority of investments are quoted in Australian dollars. One security is not quoted in Australian dollars and has a fair value that represents 1.2% (2016: 1.3%) of the fair value of long-term investments disclosed in Note 29.

Fair Value Measurement

The Company measures the fair value of its long-term investments, as required by Accounting Standard AASB 13 *Fair Value Measurement,* based on the following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

29. LONG-TERM INVESTMENTS

The following long-term investments are valued at fair value through other comprehensive income.

	2017 No. of shares or units	2017 $'000	2016 No. of shares or units	2016 $'000
Adelaide Brighton Ltd	7,681,385	43,246	7,681,385	42,785
AGL Energy Ltd.	3,642,000	92,871	3,650,000	70,409
ALS Ltd.	5,104,023	38,025	5,104,023	24,959
Alumina Ltd.	12,429,285	23,864	12,429,285	16,096
Amcor Ltd.	4,918,564	79,730	4,918,564	73,434
AMP Ltd.	12,381,674	64,261	12,381,674	63,889
Ansell Ltd.	786,972	18,675	786,972	14,299
APA Group	10,277,940	94,249	10,277,940	94,968
A.P. Eagers Ltd.	4,432,620	37,057	4,312,620	51,450
Argo Global Listed Infrastructure Ltd.	12,500,100	23,125	12,500,100	22,938
Argo Global Listed Infrastructure Ltd. options	-	-	12,500,000	150
Aristocrat Leisure Ltd.	2,485,130	56,065	2,485,130	34,295
Asaleo Care Ltd.	14,534,001	21,365	11,534,001	24,221
Asciano Ltd.	-	-	6,743,086	59,811
ASX Ltd.	-	-	109,101	4,992
Australia and New Zealand Banking Group Ltd.	9,762,275	280,373	9,762,275	235,466
Australian United Investment Company Ltd.	15,094,383	122,114	16,461,022	117,696
Automotive Holdings Group Ltd.	5,943,484	19,911	5,184,593	19,494
BHP Billiton Ltd.	8,428,904	196,225	8,428,904	157,199
Boral Ltd.	4,460,327	30,999	3,075,132	19,127
Brambles Ltd.	5,501,609	53,586	5,501,609	68,165
Brickworks Ltd.	584,009	8,053	584,009	8,386
CBL Corporation Ltd.	9,236,706	29,557	5,592,663	13,926
Challenger Ltd.	4,190,311	55,899	4,190,311	36,162
Coca-Cola Amatil Ltd.	2,200,733	20,313	2,700,733	22,227
Commonwealth Bank of Australia	3,203,731	265,301	3,203,731	238,262
Computershare Ltd.	4,901,166	69,302	4,901,166	44,944
Crown Resorts Ltd.	2,609,184	32,041	2,609,184	32,902
CSL Ltd.	1,113,370	153,678	1,051,952	118,008
Diversified United Investment Ltd.	9,569,575	35,599	10,069,575	32,928

	2017 No. of shares or units	2017 $'000	2016 No. of shares or units	2016 $'000
Downer EDI Ltd.	1,809,538	11,599	2,392,527	9,092
DUET Group	-	-	25,458,221	63,646
DuluxGroup Ltd.	3,881,512	26,937	3,881,512	24,531
Estia Health Ltd.	11,209,250	34,188	4,316,479	19,899
Event Hospitality & Entertainment Ltd.	1,972,387	26,371	1,634,721	23,753
Fletcher Building Ltd.	900,000	6,849	1,350,701	11,022
Genworth Mortgage Insurance Australia Ltd.	3,208,901	9,402	2,208,901	6,074
GPT Group	3,480,667	16,672	3,480,667	18,830
GUD Holdings Ltd.	1,772,013	22,877	1,772,013	16,143
Harvey Norman Holdings Ltd.	5,213,182	19,914	4,213,182	19,423
Iluka Resources Ltd.	1,700,000	14,756	1,700,000	11,033
Incitec Pivot Ltd.	4,095,530	13,966	4,095,530	12,164
Insurance Australia Group Ltd.	6,281,075	42,586	6,981,075	38,047
Intrepica Pty Ltd.	3,030,502	1,394	1,630,435	750
InvoCare Ltd.	2,082,191	30,608	2,082,191	27,360
IRESS Ltd.	791,884	10,049	791,884	8,624
iSelect Ltd.	4,472,554	8,990	4,472,554	5,568
Lendlease Group	3,893,609	64,829	3,893,609	49,059
LEX Property Fund	3,000,000	4,080	3,000,000	3,960
Macquarie Group Ltd.	2,458,151	217,546	2,458,151	169,367
Macquarie Group Ltd. income securities	-	-	15,000	968
Managed Accounts Holdings Ltd.	12,500,000	4,375	12,500,000	5,625
McGrath Ltd.	7,500,000	4,200	6,500,000	5,980
Milton Corporation Ltd.	25,919,808	116,898	28,483,552	121,910
Mirvac Group	6,000,551	12,781	6,000,551	12,121
MMA Offshore Ltd.	7,000,000	1,085	13,862,997	4,228
Monash IVF Group Ltd.	8,211,645	14,617	7,711,645	14,035
MotorCycle Holdings Ltd	300,000	1,182	-	-
Murray River Organics Group Ltd	1,249,998	413	-	-
National Australia Bank Ltd.	6,055,138	179,172	6,055,138	153,982
Navitas Ltd.	3,757,061	18,222	3,623,160	19,891
oOh!media Ltd.	1,005,493	4,143	-	-
Orica Ltd.	2,307,983	47,821	2,557,983	31,540
Origin Energy Ltd.	10,959,203	75,180	10,959,203	63,015
Pact Group Holdings Ltd.	3,237,038	19,390	3,237,038	19,519

	2017 No. of shares or units	2017 $'000	2016 No. of shares or units	2016 $'000
Peet Ltd.	16,152,705	19,302	13,152,705	12,298
Perpetual Ltd.	238,905	13,348	238,905	9,824
Premier Investments Ltd.	1,250,000	15,838	1,250,000	17,825
Primary Health Care Ltd.	6,808,917	24,784	6,808,917	26,895
Programmed Maintenance Services Ltd.	1,572,197	2,932	1,572,197	2,759
QANTIM Intellectual Property Ltd.	4,718,457	5,992	-	-
QBE Insurance Group Ltd.	5,670,491	66,968	5,420,491	56,536
Ramsay Health Care Ltd.	1,393,350	102,551	1,375,437	98,701
Ramsay Health Care Ltd. reset conv. preference	25,000	2,672	25,000	2,575
Reece Ltd.	746,205	31,341	697,806	25,819
Regis Healthcare Ltd.	1,660,959	6,528	1,660,959	7,790
Reliance Worldwide Corporation Ltd.	-	-	400,000	1,236
Rio Tinto Ltd.	2,370,739	149,997	2,510,739	114,239
Rural Funds Group	5,407,750	9,977	800,009	1,264
Santos Ltd.	11,007,714	33,353	10,326,884	47,917
Scentre Group	7,526,662	30,483	8,526,662	41,951
Sims Metal Management Ltd.	-	-	415,772	3,251
Sonic Healthcare Ltd.	2,980,069	72,177	2,936,618	63,284
South32 Ltd.	7,265,004	19,470	8,265,004	12,728
Spark Infrastructure	4,868,363	12,755	4,868,363	11,879
Speedcast International Ltd	1,167,742	4,461	-	-
Steadfast Group Ltd.	9,431,269	25,087	9,431,269	18,627
Stockland	2,817,934	12,343	2,817,934	13,272
Suncorp Group Ltd.	4,260,838	63,146	4,260,838	51,897
Surfstitch Group Ltd.	-	-	8,130,000	1,585
Sydney Airport	14,458,175	102,508	14,458,175	100,340
Tabcorp Holdings Ltd.	4,050,670	17,701	2,850,670	13,028
Tassal Group Ltd.	5,714,975	21,774	4,446,083	17,695
Tatts Group Ltd.	2,052,730	8,580	2,052,730	7,841
Technology One Ltd.	5,964,564	34,356	5,964,564	30,837
Telstra Corporation Ltd.	44,014,800	189,264	43,004,800	239,107
Transurban Group	5,802,689	68,762	5,785,989	69,374
Twenty-First Century Fox, Inc. class B	1,681,687	61,062	1,681,687	61,550
Vocus Group Ltd.	6,152,447	20,734	1,509,770	12,863

	2017 No. of shares or units	2017 $'000	2016 No. of shares or units	2016 $'000
Washington H. Soul Pattinson and Company Ltd.	2,182,606	36,384	2,182,606	37,104
Wesfarmers Ltd.	5,440,027	218,254	5,440,027	218,145
Westfield Corporation	3,724,835	29,910	3,724,835	39,670
Westpac Banking Corporation	11,116,768	339,173	11,116,768	326,833
Woodside Petroleum Ltd.	1,700,873	50,805	1,700,873	45,651
Woolworths Ltd.	4,133,026	105,557	4,133,026	86,339
WorleyParsons Ltd.	797,336	8,946	972,336	7,001
Total long-term investments		**5,087,851**		**4,712,277**

Directors’ Declaration

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

(a) the consolidated financial statements and notes set out on pages 39 to 72 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 consolidated entity’s financial position as at 30 June 2017 and of its performance for the financial 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Managing Director and the Chief Financial Officer for the financial year ended 30 June 2017.

Dated this 14th day of August 2017

Signed in accordance with a resolution of the Directors

G.I. Martin AM
Chairman

Independent auditor's report

To the shareholders of Argo Investments Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Argo Investments Limited (the Company) and its controlled entities (together, Argo) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Argo's financial position as at 30 June 2017 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Argo in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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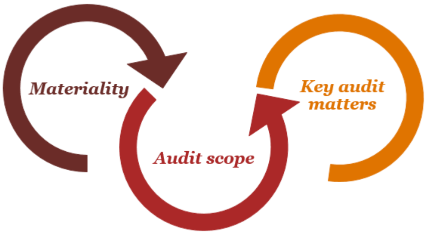
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



Materiality

- For the purpose of our audit we used overall quantitative materiality for Argo of $47.165 million, which represents approximately 1% of net assets of Argo at 30 June 2017.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose net assets as the benchmark because, in our view, net assets is:
  - the benchmark against which the performance of Argo is most commonly measured;
  - the key driver of the business and determinant of Argo's value; and
  - a generally accepted benchmark for listed investment companies.
- We selected a 1% threshold based on our professional judgement, noting that it is within the range of commonly acceptable net asset related thresholds.

Audit scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of Argo, its accounting processes and controls and the industry in which it operates.
- Our audit focused on where Argo made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Argo operates out of its Adelaide and Sydney offices with the finance function based in Adelaide. We perform our audit procedures predominantly at the Adelaide office. The investment management and administration operations for Argo are conducted by the Company's subsidiary, Argo Service Company Pty Ltd.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	**How our audit addressed the key audit matter**
Existence and valuation of investments	
Argo has investments of $5.1 billion as at 30 June 2017 (refer notes 1(d) and 8 of the financial report). Investments mostly consist of listed Australian equities and some unlisted Australian securities. Investments are valued by multiplying the quantity held by the respective market price, cost or estimated net tangible asset value per share for unlisted investments. Whilst there is not significant judgement in determining the valuation of Argo's investments, these represent a key measure of Argo's performance and comprise a significant proportion of total assets in the consolidated statement of financial position. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the consolidated statement of profit or loss and other comprehensive income which also affects the deferred tax provisions. Given the pervasive impact investments have on Argo's key financial metrics, we determined the existence and valuation of investments to be a key audit matter.	Our audit procedures included: 1) Reperforming a reconciliation of the investments balance for the year, including the 1 July 2016 investment balance, purchases, sales, other relevant transactions and the 30 June 2017 investment balance. 2) Verifying the mathematical accuracy of investments equalling quantity by unit price as at 30 June 2017. 3) Performed testing over a sample of investment purchases and sales by agreeing the transaction recorded to purchase and sale confirmations from brokers. 4) Agreeing all the investment quantity holdings at 30 June 2017 to external share registries. 5) For listed investments, agreeing market prices used to value the investments to independent market pricing sources. 6) For unlisted investments, where there was less or little market observable data, agreeing the investment value used to the cost information or net tangible asset information obtained from the unlisted entity. 7) Assessing the design and performing tests of the implementation and operating effectiveness of the key accounting controls over the investments.

Other information

The directors are responsible for the other information. The other information comprises the Five Year Summary, Portfolio Sector Allocation and 20 Largest Investments, Company Profile, Shareholder Benefits, Directors' Report and Shareholding Details included in Argo's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of Argo to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate Argo or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 17 to 36 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Argo Investments Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

M T Lojszczyk
Partner
PricewaterhouseCoopers

Adelaide
14 August 2017

Shareholder information as at 31 July 2017

	Ordinary shareholders
Number of shareholders holding:	
1- 1,000 shares	20,806
1,001- 5,000 shares	30,502
5,001- 10,000 shares	13,960
10,001- 100,000 shares	15,882
100,001 or more shares	481
Total number of shareholders (entitled to one vote per share)	**81,631**
Number of shareholders holding less than a marketable parcel	1,627

20 largest shareholders of ordinary shares

	No. of shares	% of issued capital
RCY Pty. Limited	6,166,887	0.89
JIT Pty. Limited	4,950,972	0.71
HSBC Custody Nominees (Australia) Limited	4,123,041	0.59
IOOF Investment Management Limited (IPS Super a/c)	3,788,069	0.55
TRIGT Pty. Limited	2,852,478	0.41
Nulis Nominees (Australia) Limited (Navigator Mast Plan Sett a/c)	2,829,292	0.41
Navigator Australia Ltd. (MLC Investment Sett a/c)	2,332,605	0.34
McLennan Holdings Pty. Ltd.	2,120,026	0.31
Bougainville Copper Limited	1,937,571	0.28
Donald Cant Pty. Ltd.	1,852,316	0.27
Kalymna Pty. Ltd.	1,620,737	0.23
Salur Holdings Pty. Limited	1,583,097	0.23
Poplar Pty. Ltd.	1,489,889	0.21
Jacaranda Pastoral Pty. Ltd.	1,366,178	0.20
Australian Executor Trustees Limited	1,190,704	0.17
JPMorgan Nominees Australia Limited	1,143,662	0.16
IOOF Investment Management Limited (IPS IDPS a/c)	1,091,927	0.16
Ling Nominees Pty. Ltd. (Ling Family a/c)	1,090,849	0.16
Milton Corporation Limited	985,766	0.14
Maluna Investments Pty. Ltd.	975,796	0.14
	45,491,862	**6.56**

The Company has an on-market buy-back arrangement in place but it was not activated during the year.

Argo

Investing
in Australia