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Investing in Australia

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Dear Shareholder,

The Directors of Argo Investments Limited ("the Company"), a leading Australian listed investment company with total assets of $3.4 billion, are pleased to report the Company's result for the half-year ended 31 December, 2011, a summary of which follows:-

*	Profit after tax	$85.8 million
*	Earnings per share	13.8 cents
*	Interim fully franked dividend per share	13.0 cents
*	Net tangible asset backing per share at balance date	$5.40

Financial Result

The Company has delivered another solid result despite weaker equity markets and an uncertain economic environment.

Although the profit of $85.8 million was 4.7% lower than the previous corresponding period, it should be noted that the previous half-year's profit of $90.0 million was boosted by $11.4 million of income received due to one-off transactions which included dividends received as a result of both a demerger and an off-market share buy-back, and the early declaration of a dividend due to a takeover. This compares to $1.3 million resulting from the only one-off transaction in this period, being the Perpetual Ltd. share buy-back dividend. If the income from these one-off transactions is excluded from both periods, the result reflects improvements in dividends and distributions received from many of the companies and trusts in the portfolio.

The improved dividend and distribution income was offset to some extent by reduced interest income, reflecting Argo's lower cash balance on deposit and declining interest rates.

In addition, the result for the period benefited from the lower administration expenses paid when compared to those for the half-year ended 31 December, 2010.

Earnings per share was 13.8 cents, compared with 14.8 cents in the previous corresponding period.

Interim Dividend

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

The fully franked interim dividend, totalling $81.1 million, will be paid on 7 March, 2012. The shares will trade ex-dividend on 14 February, 2012 and the record date to establish shareholder dividend entitlements is 20 February, 2012.

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 7 March, 2012.

The Directors have resolved that the DRP shares will be allotted at the market price of Argo shares, as defined by the DRP, to participating eligible shareholders. The Directors have determined that no discount will apply on this occasion.

Eligible shareholders, being those shareholders with registered addresses in Australia or New Zealand, who wish to participate in the DRP and who have not already lodged their intention, must do so by 20 February, 2012. Any variation to an existing election must also be lodged by this date.

Net Asset Backing

Reflecting the weaker performance in equity markets over the reporting period, net tangible asset backing per share was $5.40 as at 31 December, 2011 compared with $6.11 as at 30 June, 2011.

As a long-term equity investor, Argo does not intend to dispose of its long-term investment portfolio. However, if estimated tax on unrealised portfolio gains was to be deducted, the net tangible asset backing per share would be $5.05 as at 31 December, 2011 compared with $5.55 as at 30 June, 2011.

Investment Portfolio

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

For the last 10 years, Argo's investment portfolio has produced a compound annual return of 6.6% as measured by the movement in net asset backing per share plus dividends paid. This return is after payment of all administration costs and tax and compares with a compound annual return of 6.3% from the S&P ASX All Ordinaries Accumulation Index, which makes no allowance for these items.

During the period, the larger equity purchases were $12.1 million in Australia and New Zealand Banking Group Ltd., $4.5 million in Santos Ltd., $4.2 million in National Australia Bank Ltd., $3.9 million in Commonwealth Bank of Australia and $3.6 million in Coca-Cola Amatil Ltd.

Our holding in Treasury Wine Estates Ltd. was sold together with a few smaller holdings. A takeover for our holding in Foster's Group Ltd. was accepted.

A list of the Company's principal equity investments as at 31 December, 2011 is set out below:-

	Market Value $million	% of Portfolio (ex cash)
BHP Billiton Ltd.	271.2	8.4
Westpac Banking Corporation	183.4	5.7
Australia and New Zealand Banking Group Ltd.	157.2	4.9
Wesfarmers Ltd.	146.4	4.5
Rio Tinto Ltd.	144.3	4.5
Commonwealth Bank of Australia	136.7	4.2
National Australia Bank Ltd.	120.5	3.7
Milton Corporation Ltd.	119.8	3.7
Australian United Investment Company Ltd.	107.5	3.3
Telstra Corporation Ltd.	107.2	3.3
Woolworths Ltd.	102.5	3.2
Origin Energy Ltd.	89.2	2.8
Macquarie Group Ltd.	76.6	2.4
Orica Ltd.	54.2	1.7
Woodside Petroleum Ltd.	52.1	1.6
AMP Ltd.	49.8	1.5
QBE Insurance Group Ltd.	49.2	1.5
Santos Ltd.	49.1	1.5
Computershare Ltd.	39.3	1.2
AGL Energy Ltd.	38.0	1.2

Outlook

The Australian equity market fell 11.8% in the half-year to 31 December 2011, as the global macroeconomic situation weighed on investor sentiment.

Tentative signs of improvement in the U.S. economy have been overshadowed by the continuing deterioration of the sovereign debt crisis in Europe. Despite a number of initiatives to support its most indebted member countries, the European Union's policymakers are still struggling to find a solution to the crisis. The imposed austerity measures are now beginning to further slow economies across Europe and downgrades to the credit ratings of a number of countries only exacerbate the imbalances within the European Union.

Meanwhile, China's economic growth rate has moderated as its government focuses on reigning in inflation and deflating the property market bubble. This strategy seems to have been initially successful, although the possibility of a hard landing has added a further layer of caution for investors. A stalled Chinese economy at the same time as a recession in Europe would weigh heavily on commodity prices and the mining related sectors which are critical to Australia's economy.

In response to a deteriorating global outlook, the Reserve Bank of Australia began lowering the cash rate in November 2011. However, the economic benefit of future rate cuts may be diminished following indications from some Australian banks that they may move their interest rates independently to the Reserve Bank, in order to offset the rising cost of funding due to economic issues offshore.

As a result of these key occurrences and a high currency, Australian company earnings growth and dividend forecasts continue to be downgraded, with all major sectors contributing to the decline.

We have been cautious about the global macroeconomic outlook for some time and expect the high levels of offshore volatility will continue to hamper any meaningful recovery in global equity markets. Despite these headwinds, Australia remains one of the strongest developed economies and we believe that for a long-term investor, value is beginning to emerge in the Australian equity market. With no debt and current cash reserves of around $180 million, Argo remains well placed to take advantage of opportunities as they arise.

Share Purchase Plan

At this time the Directors do not intend to offer a Share Purchase Plan (SPP). However, the SPP remains an important part of the Company's ongoing capital management and the Directors intend to offer it again at an appropriate time in the future.

Directorate

Today the Company announced the forthcoming retirement of long-serving Board members – Chairman, Mr. Chris Harris, and Non-Executive Director, Ms. Marina Darling – on 29 February, 2012.

The Company also announced the appointment of current Argo Director, Mr. Ian Martin, as its new Chairman and the appointment of Ms. Joycelyn Morton as an independent Non-Executive Director, both effective from 1 March, 2012.

As foreshadowed at Argo's Annual General Meeting in October 2011, the Company has embarked on a process of Board renewal and succession planning, following the completion of its management succession plan in 2010. Two new independent Non-Executive Directors, Ms. Anne Brennan and Mr. Russell Higgins AO, were appointed in September 2011 and Argo's former Managing Director, Mr. Rob Patterson, re-joined the Board as a Non-Executive Director following his election at the latest Annual General Meeting.

Mr. Harris and Ms. Darling have served Argo with distinction for a combined total of more than 30 years. Mr. Harris joined the Board in January 1994 and has been Chairman for the past 14 years, while Ms. Darling was appointed a Non-Executive Director in July 1999 and most recently has been Chair of the Company's Corporate Governance Committee and a member of its Nomination and Remuneration Committee. The remaining Directors sincerely thanked Mr. Harris and Ms. Darling for their long and dedicated service over many years during which strong returns were achieved for the Company's shareholders.

Mr. Martin is honoured to have been chosen by his fellow Directors as Chairman-elect and looks forward to working with the Board and management team to ensure Argo continues to produce solid returns for its shareholders.

Ms. Morton has formal tertiary qualifications in accounting, tax and commercial law, and is a former senior executive of the Shell Group of Companies and Woolworths Limited. She is currently a Non-Executive Director of Noni B Limited and Thorn Group Limited, and until recent takeovers was a Non-Executive Director of Crane Group Limited and Count Financial Limited.

The Directors look forward to Ms. Morton joining the Board and consider she will be a valuable addition to its composition. The Board is confident that her skills, experience and knowledge will add to its effectiveness.

Yours faithfully,
ARGO INVESTMENTS LIMITED

J. Beddow
<u>Chief Executive Officer</u>