8 August, 2011

Argo Investing in Australia

Dear Shareholder,

The Directors of Argo Investments Limited ("the Company"), a leading Australian listed investment company with total assets of $3.8 billion, are pleased to report an improved result and increased total dividend for the year ended 30 June, 2011. A summary of the result is as follows:-

*	Operating profit after tax	$172.1 million
*	Operating earnings per share based on above	28.1 cents
*	Fully franked final dividend per share including 2 cents LIC capital gain	13.0 cents
*	Fully franked dividends per share for the year	26.0 cents
*	Management expense ratio (MER)	0.17%
*	Net tangible asset backing per share at balance date	$6.11

Financial Result

Operating profit after tax rose 20.5% to $172.1 million, compared with $142.8 million in the previous year. The Directors welcome this improved profit which was achieved as a result of income growth in several of the Company's operating activities.

The receipt of dividend income from the Company's investment portfolio of some 125 Australian stocks is a major contributor to operating profit and during the year a number of investee companies increased their dividend payments. In addition, the Company's result also benefited from one-off transactions which included fully franked share buy-back dividends from Woolworths Ltd. and BHP Billiton Ltd., together with the dividend that resulted from the demerger of DuluxGroup Ltd. from Orica Ltd. Another feature of the result was the strong recovery in interest income, due to the benefit received from higher interest rates.

The Directors are also pleased to report that the management expense ratio (MER) remained steady at 0.17% of average assets at market value and that operating earnings per share was 28.1 cents, up from 24.2 cents in the previous year.

The Company has previously advised that it adopted Accounting Standard AASB 9 *Financial Instruments* as at 7 December, 2009. After that date, realised gains on the sale of long-term investments are accounted for through the capital profits reserve, rather than as part of profit. Therefore, for the year under review, no realised gains on the sale of long-term investments are included as profit whereas $11.1 million was included in the previous year, which resulted in a profit after net realised gains on the sale of long-term investments for the year ended 30 June, 2010 of $153.9 million.

The Directors are pleased that it is no longer a requirement to include realised gains on the sale of long-term investments as profit in the Income Statement and believe that the presentation now allowed by Accounting Standard AASB 9 *Financial Instruments* better reflects the Company's long-term investment objectives.

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Dividends

Following the increased fully franked interim dividend of 13 cents per share, the Directors have declared a steady fully franked final dividend of 13 cents per share, which includes a 2 cents per share listed investment company (LIC) capital gain component (last year 2 cents per share). The LIC component of the dividend will give rise to an attributable part of 2.86 cents per share, which will allow eligible shareholders to claim a portion of the attributable part as a deduction in their 2011/2012 income tax returns. The amount which eligible shareholders may be able to claim as a tax deduction depends on their individual situation. Details will be provided in the dividend statement.

The fully franked final dividend, totalling $80.7 million, will be paid on 7 September, 2011. The shares will trade ex-dividend on 18 August, 2011 and the record date to establish shareholder dividend entitlements is 24 August, 2011.

Total fully franked dividends for the year amount to 26 cents per share, compared with fully franked dividends of 25 cents per share for the previous year.

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 7 September, 2011.

The Directors have resolved that the shares will be allotted to eligible shareholders participating in the DRP at a discount of 2.5% from the market price of Argo shares, as defined by the DRP.

Eligible shareholders, being those shareholders with registered addresses in Australia or New Zealand, who wish to participate in the DRP and who have not already lodged their intention, must do so by 24 August, 2011. Any variation to an existing election must also be lodged by this date.

Net Asset Backing

Reflecting an improved performance in equity markets over the reporting period, net tangible asset backing per share was $6.11 as at 30 June, 2011 compared with $5.82 as at 30 June, 2010.

As a long-term equity investor, the Company 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 $5.55 as at 30 June, 2011 compared with $5.32 as at 30 June, 2010.

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 Australian investment portfolio.

For the last 10 years, the Company's investment portfolio has produced a compound annual return of 8.2% 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 return of 7.4% from the S&P ASX All Ordinaries Accumulation Index, which makes no allowance for these items. Included in the Company's 10 year portfolio performance is a total return of 9.5% generated in the 2011 financial year.

During the year, the larger equity purchases were as follows:

	$ million
Australia and New Zealand Banking Group Ltd.	49.5
BHP Billiton Ltd.	37.2
Commonwealth Bank of Australia	17.6
Asciano Group	14.5
Origin Energy Ltd.	14.1
Australian United Investment Company Ltd.	13.1
Westpac Banking Corporation	11.2

New holdings which were added to the portfolio as a result of corporate actions included DuluxGroup Ltd., Echo Entertainment Group Ltd., Treasury Wine Estates Ltd. and Westfield Retail Trust when they were demerged from Orica Ltd., Tabcorp Holdings Ltd., Foster's Group Ltd. and Westfield Group respectively. In addition, Fletcher Building Ltd. was added to the portfolio when its scrip was offered as part consideration for the takeover of Crane Group Ltd.

Overall, the number of holdings in the Company's portfolio was reduced during the year following the sale of some smaller investments and takeovers which were accepted for our holdings in Aevum Ltd., AXA Asia Pacific Holdings Ltd., Centennial Coal Company Ltd., Choiseul Investments Ltd., Corporate Express Australia Ltd., Crane Group Ltd., Dexion Ltd., International Coal Holdings Ltd., Intoll Group, Transfield Services Infrastructure Fund and Westpac Office Trust. Suncorp-Metway Ltd. reset convertible preference shares were redeemed and several other holdings were partially sold, including Macquarie Group Ltd.

A list of the Company's principal equity investments as at 30 June, 2011 is set out below:-

	Market Value $ million	% of portfolio (ex cash)
BHP Billiton Ltd.	341.9	9.3
Westpac Banking Corporation	203.6	5.6
Rio Tinto Ltd.	198.6	5.4
Wesfarmers Ltd.	155.8	4.2
Australia and New Zealand Banking Group Ltd.	155.1	4.2
Commonwealth Bank of Australia	141.1	3.8
Milton Corporation Ltd.	128.9	3.5
National Australia Bank Ltd.	127.6	3.5
Australian United Investment Company Ltd.	127.6	3.5
Woolworths Ltd.	113.3	3.1
Origin Energy Ltd.	102.4	2.8
Macquarie Group Ltd.	100.7	2.7
Telstra Corporation Ltd.	92.5	2.5
Woodside Petroleum Ltd.	69.7	1.9
QBE Insurance Group Ltd.	62.6	1.7
AMP Ltd.	59.0	1.6
Orica Ltd.	58.9	1.6
Santos Ltd.	49.4	1.3
Computershare Ltd.	43.5	1.2
Diversified United Investment Ltd.	40.0	1.1

Outlook

Despite the level of economic stimulus provided by governments around the world over the past few years, the global macroeconomic environment continues to be difficult, with weak economic indicators across multiple regions, ongoing risk aversion and widening divergence in growth expectations between economies.

Equity markets remain focussed on the European sovereign debt crisis, with the fear of further contagion still a major issue. The U.S. recovery is very patchy and tentative with concerns about a double dip recession paramount. Unemployment levels in the U.S. remain stubbornly high and the housing market has yet to show any sign of rebounding.

The rapid growth of some emerging economies, such as India, has driven their inflation to high levels and these countries now face policy-driven slowdowns to return growth to a more sustainable pace. Importantly for the Australian equity market, China needs to manage the balance between growth and inflation in order to provide continued economic stability. If this is carried out successfully, it should provide support for commodity prices in the longer term.

In Australia, we have seen a softening of the Reserve Bank's domestic growth outlook following recent weaker economic data. Confidence and consumer spending in the economy continue to remain fragile. The cost of the proposed Carbon Pricing Scheme recently announced by the Federal Government will be borne directly by a narrow range of industries and further uncertainty surrounds the transition arrangements to a market Emissions Trading Scheme in 2015. This is adding to the concern of both international and domestic investors already wary of the high level of government regulation currently overhanging the Australian economy and equity market.

The new financial year has already seen some company profit warnings and forecasts of earnings for many sectors are being downgraded. Our meetings with the management of our investee companies in the forthcoming reporting season will be important as equity market conditions are likely to remain challenging for the foreseeable future. With current cash reserves of about $160 million and no debt, Argo as a long-term investor remains ready to take advantage of selective buying opportunities as they present themselves in the share market.

Annual General Meeting

The Annual General Meeting will be held at the Adelaide Convention Centre, North Terrace, Adelaide on Tuesday 25 October, 2011 at 10.00 a.m.

Information Meetings

For the benefit of shareholders unable to attend the Annual General Meeting in Adelaide, informal meetings will be held in Melbourne on Wednesday 26 October, 2011 at 10.00 a.m. at the State Library of Victoria Theatrette, entry 3, 179 La Trobe Street, Melbourne and in Sydney on Thursday 27 October, 2011 at 10.00 a.m. in the offices of PricewaterhouseCoopers, Darling Park Cockle Bay, Tower 2, 201 Sussex Street, Sydney.

Yours faithfully,
ARGO INVESTMENTS LIMITED

C.L. Harris
Chairman

J. Beddow
Chief Executive Officer