Argo Investing in Australia

Argo Investments Limited

ABN 35 007 519 520

Appendix 4D

Half-year Report
for the period ended 31 December 2018
(previous corresponding period being
the half-year ended 31 December 2017)

ARGO INVESTMENTS LIMITED ABN 35 007 519 520

RESULTS FOR ANNOUNCEMENT TO THE MARKET
HALF-YEAR ENDED 31 DECEMBER 2018

(Comparative figures being the half-year ended 31 December 2017)

				Consolidated $A'000
Revenue from operating activities	up	37.1%	to	163,047
Profit for the half-year	up	42.2%	to	157,215

Dividend

Interim fully franked dividend payable 8 March 2019 (previous corresponding period 15.5 cents fully franked)	16.0 cents

The Company's Dividend Reinvestment Plan will operate for the interim dividend. The Directors have resolved that the shares will be allotted at a 2% discount to the market price of Argo shares, which will be the volume-weighted average ex-dividend market price of the shares traded on the record date and the three business days following the record date.

The record date for determining entitlements to the interim dividend	18 February 2019
The election date for determining participation in the Dividend Reinvestment Plan	19 February 2019
Final fully franked dividend for year ended 30 June 2018 paid 14 September 2018	16.0 cents

Net Asset Backing

Net Tangible Asset Backing per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio was $7.34 as at 31 December 2018, compared with $8.06 as at 31 December 2017.

As a long-term equity investor, Argo does not intend to dispose of its long-term investment portfolio. However, if estimated tax on unrealised portfolio gains was to be deducted, the net tangible asset backing per share would be $6.60 as at 31 December 2018, compared with $7.05 as at 31 December 2017.

Argo Investing in Australia

ARGO INVESTMENTS LIMITED ACN 007 519 520

ASX / Media Release

4 February 2019

Argo raises interim dividend after strong half-year profit result

Argo Investments Limited (ASX: ARG), a major Australian listed investment company with $5.3 billion in assets, announces a 42.2% increase in half-year profit to $157.2 million. The interim dividend has been raised to 16 cents per share fully franked.

Summary of financial results	***Half-year to 31.12.18***	*Half-year to 31.12.17*	*change*
Profit	$157.2 million	$110.5 million	+42.2%
Earnings per share	22.1 cents	15.9 cents	+39.0%
Profit excluding Coles demerger dividend	**$121.1 million**	$110.5 million	+9.6%
Earnings per share excl. Coles demerger dividend	**17.0 cents**	15.9 cents	+6.9%
Interim dividend per share	**16.0 cents**	15.5 cents	+3.2%
Net tangible asset backing (NTA) per share	**$7.34**	$8.06	-8.9%
Management expense ratio	**0.15%**	0.15%	-

The very strong profit result was significantly influenced by a one-off, non-cash income item of $36.1 million, due to the demerger of Coles Group from Wesfarmers. Excluding this corporate action, Argo's profit increased by 9.6% on the previous half-year result.

Argo's revenue was boosted by higher dividends from BHP, Rio Tinto, CSL, Macquarie Group and Ramsay Healthcare. Profit from trading investments, which includes income from writing options, rose by $4.5 million to $6.8 million. Interest income on cash deposits was steady and administration expenses were slightly lower.

Investment portfolio

Over the half-year, Argo purchased $265 million of long-term investments and received proceeds of $132 million from long-term investment sales. The larger movements in the portfolio were:

Purchases	*Sales*
Bega Cheese	AMP
Boral	Asaleo Care
Coles Group *(due to demerger from Wesfarmers)*	Coca-Cola Amatil *(exited position)*
Corporate Travel Management *(new position)*	Twenty-First Century Fox *(exited position)*
Eclipx Group *(new position)*	Wesfarmers *(partly demerged into Coles position)*
James Hardie Industries *(new position)*	
Oil Search	
QBE Insurance Group	
Rural Funds Group	
Star Entertainment Group *(new position)*	
Transurban Group	
Viva Energy *(new position)*	

Sharp falls in the Australian equity market toward the end of the calendar year created opportunities for buying at more attractive prices than had been the case during most of 2018.

Investment sales were led by the disposal of the remainder of our Twenty-First Century Fox holding, resulting in a $50 million capital gain during the half-year. After these transactions, the number of stocks held in the portfolio rose from 93 to 99 and the cash balance decreased slightly to $199 million at 31 December 2018, representing 3.8% of the Company's total assets.

Investment performance

Following the substantial declines in equity markets in the December quarter, Argo's investment (NTA) performance returned -8.3% after all costs and tax over the half-year to 31 December 2018, underperforming the S&P/ASX 200 Accumulation Index which returned -6.8% (without any allowance for costs or tax). Argo's share price fared better, as it often does when markets fall quickly, returning -3.0% to outperform the market by 3.8%.

Technology One, Ramsay Healthcare and Washington H. Soul Pattinson were positive contributors to portfolio performance, but were outweighed by our holdings in Origin Energy, Adelaide Brighton and Lendlease, which all performed poorly. Argo's underweight position in property trusts also negatively impacted relative performance.

Refundable franking credits

Argo is very concerned that many of its retired and self-managed superannuation fund shareholders may experience significant reductions in income due to the Australian Labor Party's policy to prevent them receiving refunds of excess franking credits. We believe the proposed policy is inequitable.

Argo maintains a prudent franking account balance to protect franking on its next dividend and we do not have excess franking credits to distribute at this time.

Share Purchase Plan

Argo is not intending to offer a Share Purchase Plan to its shareholders in the near future. If this position changes later in the year, we will make an announcement to the ASX and shareholders will be notified immediately.

Outlook

The 2018 calendar year began with accelerating earnings for US corporations, helped by tax cuts and a strong synchronised global growth outlook. However in the last quarter of the year, an increasing focus on geopolitical tensions, deteriorating economic data and, as Apple showed with its profit warning, economic and trade-related issues, started to have a material impact on company earnings. Mounting concerns of a global growth slowdown, fears of higher US interest rates, failing Brexit negotiations and soft data out of China added to uncertainty.

As a result, global equity markets recorded their largest monthly falls for the year in December, and the December quarter saw the largest quarterly declines since September 2011. The S&P/ASX 200 Index finished the year with a 12-month return of -6.8% (-2.8% including dividends). Health Care (+17.3%) was the standout sector, led by CSL and ResMed. Communication Services (-21.4%) was the worst performing sector for the third year running. Roughly two thirds of all S&P/ASX 200 Index companies delivered negative share price returns in 2018.

While the lower market valuations may seem more appealing for a long-term investor, we remain cautious. In addition to global macroeconomic issues, a number of local uncertainties need to be resolved during the next few months. These include the final outcomes of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the duration and severity of the housing downturn and its associated consumer impact, and the result of the federal election.

In our view, investors can expect volatility to continue throughout 2019 as the primary trends driving instability last year are likely to persist. In recent months, market expectations for company earnings growth in Australia have been tempered by a consistent stream of downgrades to earnings forecasts for the 2019 financial year, although corporate balance sheets are generally sound and we expect dividend levels from our investee companies to be at least maintained in the upcoming results reporting season.

Media contact:
Jason Beddow
Managing Director
(02) 8274 4702

Argo Investments Limited

ABN 35 007 519 520

Half-year Report
31 December 2018

Directors' Report

The Directors present the financial report of the consolidated entity, consisting of Argo Investments Limited and its controlled entity (Argo or Company), for the half-year ended 31 December 2018.

The Company's objective is to maximise long-term returns to shareholders through a balance of capital and dividend growth. It does this by investing in a diversified Australian equities portfolio which is actively managed in a low cost structure in a tax-aware manner.

REVIEW OF OPERATIONS

Profit for the half-year under review increased by 42.2% on the previous corresponding period to $157.2 million and earnings per share rose 39.0% to 22.1 cents per share. The growth in profit was due to higher dividends and distributions received from the investments in the portfolio, which also included a $36.1 million non-cash, one-off income item, being a demerger dividend resulting from the demerger of Coles by Wesfarmers.

The Directors have declared a fully franked interim dividend of 16.0 cents per share compared with 15.5 cents per share paid for the half-year to 31 December 2017. This dividend totals $113.9 million, compared with $107.9 million in the previous corresponding period and will be paid on 8 March 2019.

Net tangible asset backing per Argo share was $7.34 as at 31 December 2018, compared with $8.16 as at 30 June 2018 and $8.06 as at 31 December 2017.

During the half-year, $21.5 million of additional capital was raised for investment from the Dividend Reinvestment Plan.

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

Name	Period of Directorship
Russell Allan Higgins AO (Chairman)	Director since 1 September 2011
Jason Beddow (Managing Director)	Director since 3 February 2014
Anne Bernadette Brennan	Director since 1 September 2011
Christopher Edgar Cuffe AO	Director since 25 August 2016
Roger Andrew Davis	Director since 1 June 2012
Elizabeth Anne Lewin	Director since 1 July 2018
Joycelyn Cheryl Morton	Director since 1 March 2012

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 3.

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.

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

On behalf of the Board

R.A. Higgins AO
Chairman

Sydney
4 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Argo Investments Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

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

M.T. Lojszczyk
Partner
PricewaterhouseCoopers

Sydney
4 February 2019

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T +61 8 8218 7000, F +61 8 8218 7999, www.pwc.com.au

Consolidated Statement of Profit or Loss

for the half-year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Dividends and distributions		159,060	114,745
Interest		2,838	2,766
Other revenue		1,149	1,429
Total revenue		163,047	118,940
Net gains on trading investments		6,822	2,278
Income from operating activities		169,869	121,218
Administration expenses		(4,214)	(4,254)
Profit before income tax expense		165,655	116,964
Income tax expense thereon		(8,440)	(6,426)
Profit for the half-year		157,215	110,538
		cents	cents
Basic and diluted earnings per share	2	22.1	15.9

Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2018

	2018 $'000	2017 $'000
Profit for the half-year	157,215	110,538
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Revaluation of long-term investments	(613,712)	249,291
Provision for deferred tax benefit/(expense) on revaluation of long-term investments	172,646	(76,169)
Other comprehensive income for the half-year	(441,066)	173,122
Total comprehensive income for the half-year	(283,851)	283,660

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Financial Position

as at 31 December 2018

	31 December 2018 $'000	30 June 2018 $'000
Current Assets		
Cash and cash equivalents	124,240	108,519
Receivables	11,705	123,181
Investments	15,463	10,729
Other financial cash assets	75,000	120,000
Total Current Assets	226,408	362,429
Non-Current Assets		
Receivables	67	78
Investments	5,041,106	5,486,170
Plant and equipment	295	261
Total Non-Current Assets	5,041,468	5,486,509
Total Assets	5,267,876	5,848,938
Current Liabilities		
Payables	1,195	11,299
Derivative financial instruments	4,330	7,593
Current tax liabilities	3,186	17,521
Provisions	559	569
Total Current Liabilities	9,270	36,982
Non-Current Liabilities		
Deferred tax liabilities	557,697	734,653
Provisions	170	155
Total Non-Current Liabilities	557,867	734,808
Total Liabilities	567,137	771,790
Net Assets	4,700,739	5,077,148
Shareholders' Equity		
Contributed equity	2,817,270	2,795,816
Reserves	1,401,169	1,871,129
Retained profits	482,300	410,203
Total Shareholders' Equity	4,700,739	5,077,148

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2018

	Contributed Equity $'000	Reserves $'000	Retained Profits $'000	Total $'000
Balance as at 1 July 2018	2,795,816	1,871,129	410,203	5,077,148
Profit for the half-year	-	-	157,215	157,215
Other comprehensive income	-	(441,066)	-	(441,066)
Total comprehensive income for the half-year	-	(441,066)	157,215	(283,851)
Transactions with shareholders:				
Dividend Reinvestment Plan	21,497	-	-	21,497
Cost of share issues net of tax	(43)	-	-	(43)
Executive performance rights reserve	-	(521)	-	(521)
Dividend paid	-	(28,373)	(85,118)	(113,491)
Total transactions with shareholders	21,454	(28,894)	(85,118)	(92,558)
Balance as at 31 December 2018	2,817,270	1,401,169	482,300	4,700,739

for the half-year ended 31 December 2017

Balance as at 1 July 2017	2,671,527	1,669,531	375,456	4,716,514
Profit for the half-year	-	-	110,538	110,538
Other comprehensive income	-	173,122	-	173,122
Total comprehensive income for the half-year	-	173,122	110,538	283,660
Transactions with shareholders:				
Dividend Reinvestment Plan	20,510	-	-	20,510
Cost of share issues net of tax	(42)	-	-	(42)
Executive performance rights reserve	-	(680)	-	(680)
Dividend paid	-	(34,670)	(76,276)	(110,946)
Total transactions with shareholders	20,468	(35,350)	(76,276)	(91,158)
Balance as at 31 December 2017	2,691,995	1,807,303	409,718	4,909,016

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Cash Flows

for the half-year ended 31 December 2018

	2018 $'000	2017 $'000
Cash flows from operating activities		
Dividends and distributions received	148,713	135,032
Interest received	2,914	2,544
Other receipts	1,149	1,431
Proceeds from trading investments	8,917	8,816
Payments for trading investments	(10,092)	(8,437)
Other payments	(4,970)	(5,371)
Income tax paid	(27,067)	(29,401)
Net operating cash inflows	119,564	104,614
Cash flows from investing activities		
Proceeds from sale of long-term investments	182,376	60,347
Payments for long-term investments	(239,112)	(89,199)
Proceeds from other financial cash assets	120,000	40,000
Payments for other financial cash assets	(75,000)	(50,000)
Executive share scheme repayments	11	11
Payments for fixed assets	(63)	(25)
Net investing cash outflows	(11,788)	(38,866)
Cash flows from financing activities		
Cost of share issues	(61)	(61)
Dividend paid – net of Dividend Reinvestment Plan	(91,994)	(90,436)
Net financing cash outflows	(92,055)	(90,497)
Net increase/(decrease) in cash held	15,721	(24,749)
Cash at the beginning of the half-year	108,519	209,483
Cash at the end of the half-year	124,240	184,734

(To be read in conjunction with the accompanying notes)

Notes to the Financial Statements

for the half-year ended 31 December 2018

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

The general purpose financial report for the half-year ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this half-yearly report is to be read in conjunction with the Annual Report for the year ended 30 June 2018 and any public announcements made by Argo Investments Limited (Company) during the half-year, in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

Accounting Standard AASB 15 *Revenue from Contracts with Customers* was applied from 1 July 2018 and did not have a material impact on the Company's financial statements.

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

2. EARNINGS PER SHARE

	2018 number ’000	**2017 number** ’000
Weighted average number of ordinary shares on issue used in the calculation of earnings per share	710,916	694,977
	$'000	$'000
Profit for the half-year	157,215	110,538
	cents	cents
Basic and diluted earnings per share	**22.1**	**15.9**

3. DIVIDENDS

	2018 $'000	2017 $'000
Dividend paid during the half-year:		
Final dividend for the year ended 30 June 2018 of 16.0 cents fully franked at 30% tax rate paid 14 September 2018 (2017:16.0 cents fully franked at 30% tax rate)	**113,491**	**110,946**
Since the end of the half-year, the Directors have declared the following dividend which has not been recognised as a liability at the end of the half-year:		
Interim dividend for the year ending 30 June 2019 of 16.0 cents fully franked at 30% tax rate payable 8 March 2019 (previous corresponding period: 15.5 cents fully franked at 30% tax rate)	**113,927**	**107,896**

4. CONTRIBUTED EQUITY

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

	2018 No. of shares	2017 No. of shares	2018 $'000	2017 $'000
Issued and fully paid ordinary shares:				
Opening balance	709,317,039	693,413,478	2,795,816	2,671,527
Dividend reinvestment plan[(a)]	2,724,536	2,688,134	21,497	20,510
Cost of share issues net of tax	-	-	(43)	(42)
Closing balance	**712,041,575**	**696,101,612**	**2,817,270**	**2,691,995**

(a) On 14 September 2018, 2,724,536 shares were allotted at $7.89 per share pursuant to the Dividend Reinvestment Plan in operation for the final dividend paid for the year ended 30 June 2018.

5. 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. Argo has a diversified portfolio of investments, with only the investment in Wesfarmers (as a consequence of the non-cash demerger of Coles Group) accounting for more than 10% of revenue.

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

6. EVENTS AFTER BALANCE DATE

Since 31 December 2018, to the date of this report, there have been no events specific to the Company of which the Directors are aware which has had a material effect on the Company or its financial position.

7. CONTINGENCIES

At balance date the Directors are not aware of any material contingent liabilities or contingent assets.

Directors' Declaration

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

(a) the consolidated financial statements and notes set out on pages 4 to 10 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 31 December 2018 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors

R.A. Higgins AO
Chairman

Sydney
4 February 2019

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Argo Investments Limited (Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Argo Investments Limited (the Consolidated Entity). The Consolidated Entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Argo Investments Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T +61 8 8218 7000, F +61 8 8218 7999, www.pwc.com.au

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

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

M.T. Lojszczyk
Partner

Sydney
4 February 2019