ASX50 financial reporting insights

30 June 2016 reporting season

October 2016

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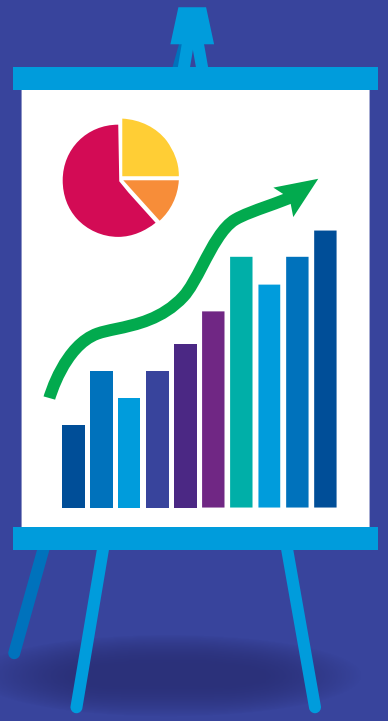


Introduction

KPMG has analysed the financial reports of the ASX50 through the latest reporting season (1 January 2016 to 30 June 2016) with a focus on:

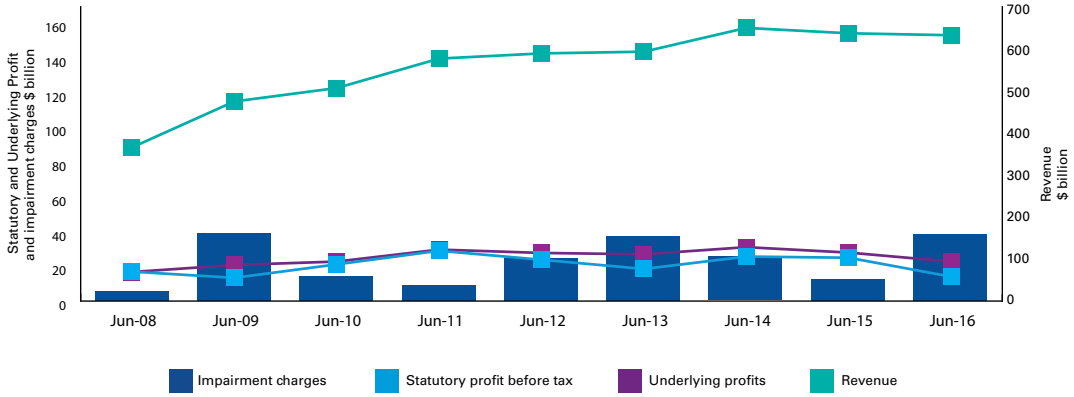
- Considering the financial performance of the ASX50 group of companies as an indicator of the economy in general;
- Analysing trends by industry sector, with specific focus on the contribution of mining companies and the 'Big 4' banks; and
- Comparing and analysing earnings reported under statutory and non-statutory (underlying) measures.

All amounts are in Australian dollars, unless otherwise stated.

Executive summary

Key findings

- Impairment charges have more than doubled since 2015. These charges are the most widespread and the largest in total since the start of the survey period, including the global financial crisis. Impairment charges for ASX50 totalled $38 billion for the 12 months, an increase of 134 percent from 2015. $21.1 billion of impairment charges have been triggered by low commodity prices, significantly impacting mining and resources companies.
- Over 75 percent of the ASX50 are reporting alternative measures of financial performance in addition to annual statutory profit. Pre-tax alternative profit results exceeded annual statutory profits by 61 percent ($36 billion). The main item excluded in arriving at alternative profit measures is impairment charges.
- Compared to 2015, the ASX50 impairments have contributed to a 43 percent or $44 billion overall decrease in annual statutory profit before tax (PBT) for the 12 months to June 2016.

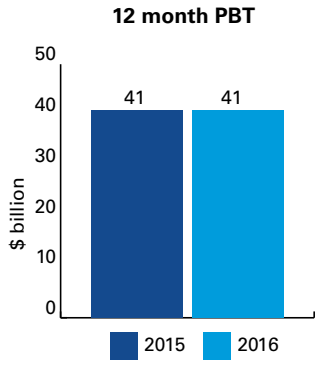


Methodology

Financial results have been sourced from company Annual Report, Appendix 4D and Appendix 4E disclosures. The constituents of the ASX50 as at 30 June 2016 are set out in Appendix 1. The comparative periods of the survey have been restated to reflect the financial results of the ASX50 constituents as at 30 June 2016. All results reported in other currencies have been translated to Australian dollars using the average rate for each six month period.

Executive summary Sector summary

'Big 4' banks (Australia & New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Corporation)



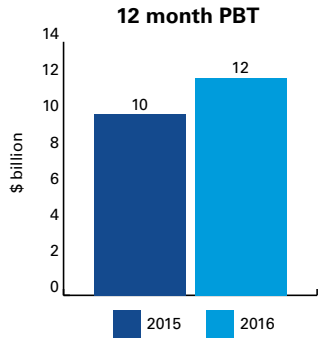
The major banks reported a 1 percent increase in annual revenue and flat annual statutory PBT.

"More challenging economic and market conditions, coupled with the continued upward trajectory of regulatory capital are now starting to bite for the majors, underpinning a softer half year result. Given credit's cyclical nature, it is inevitable that loan impairments would eventually rise. What has been a positive driver of results for the industry over recent years is now becoming a headwind."

– Ian Pollari, National Sector Leader, Banking.

KPMG's Major Australian Banks Full Year Results 2016 provides a detailed analysis.

Real Estate (Dexus Property, Vicinity Centres Trust, Goodman, GPT, Lend Lease, Mirvac, Stockland, Westfield, Scentre)



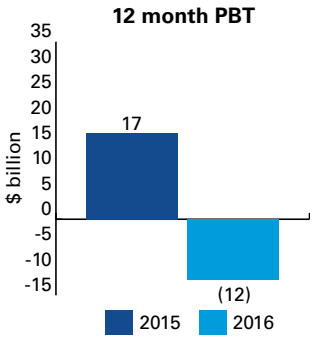
These nine companies reported a 21 percent increase in annual revenue and a 27 percent increase in annual statutory PBT.

"Companies reported an average 6% increase in investment property values, having benefited from continued cap rate compression across asset classes driven by the significant weight of money chasing assets, a consistent theme over recent years.

Developers have realised healthy profits from recently completed projects that benefitted from the strong levels of pre-sales in previous years, which enabled margin and volume growth. The frenzied conditions experienced in previous years are behind us now. Overseas investors, while still active, are shrinking as a proportion of total sales, making it more challenging for developers to secure pre-sales."

– Steve Gatt, National Sector Leader, Real Estate & Construction

Miners (BHP Billiton, Rio Tinto, Newcrest Mining, South32)

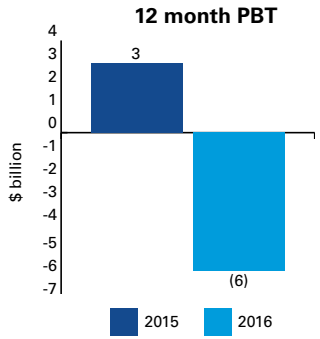


The miners reported a 12 percent decrease in annual revenue and a 170 percent decrease in annual statutory PBT.

"A continuation in the softening of key commodity prices during 2016 has had a negative impact on the big miners' revenues throughout the year which has not been offset by the increases in volumes. Unfortunately for the big miners the productivity gains achieved have been overshadowed by significant impairment charges."

– Ted Surette, Industry Leader, Energy & Natural Resources

Energy and utilities (AGL Energy, APA, Oil Search, Origin Energy, Santos, Caltex Australia, Woodside Petroleum)



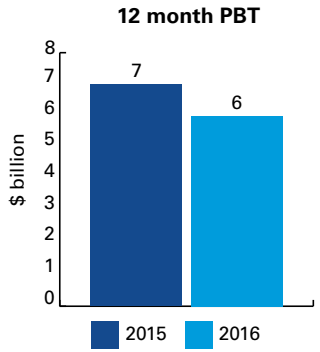
These seven companies reported a 6 percent reduction in annual revenue and a 291 percent reduction in annual statutory PBT.

"The sustained low oil price environment and volatile market conditions resulted in a continued reduction in profitability for the majority of these companies during the year. Several of these companies have responded by reviewing the composition of their balance sheets, including a focus on risk management and liquidity, deferral of project and capital expenditure, and divestment of non-core assets."

– Ted Surette, Industry Leader, Energy & Natural Resources

Executive summary Sector summary

Insurance (AMP, Medibank Private, Insurance Australia, QBE Insurance, Suncorp)



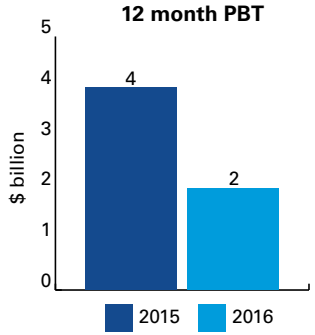
Annual revenue has reduced consistently at 2 percent for the group. Annual statutory PBT has decreased 12 percent contrary to a 5 percent increase in the six month period to June 2016 when compared to June 2015.

"Continuing soft commercial insurance premiums, low investment yields and ongoing challenges in short and long tail claims have resulted in reductions in the profitability of the Australian general insurers. Specifically, the NSW CTP claims environment has been a significant concern.

In contrast, Medibank's focus on health claims management and ongoing operational improvements has led to a significant improvement in margins"

– Martin Blake, Head of Insurance for Australia

Materials (Amcor, Incitec Pivot, James Hardie Industries, Orica) and Transportation (Aurizon, Sydney Airport, Transurban, Qantas)



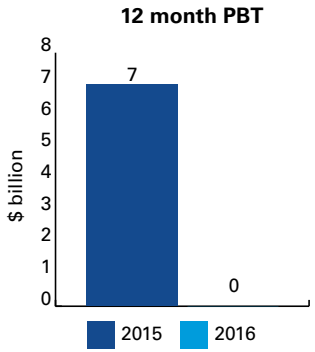
These eight companies reported a 2 percent annual revenue increase but a 53 percent decline in annual statutory PBT. The main driver was impairments recognised in two of the eight companies.

"The diverse product mix of these companies has generally performed well with strong revenue performance across most of the portfolio. The companies with direct exposure to the commodity sector had a challenging period which is reflected in the results. These companies continue to undertake various restructuring activities to reduce costs.

"The Transportation companies in the ASX50 had mixed fortunes with revenue streams not exposed to the resource industry experiencing strong growth with the converse being true for those with direct exposure. This has resulted in an overall 2% revenue reduction. "

– David Drummond, National Sector Leader, Industrial Markets

Consumer Staples (Coca-Cola Amatil, Treasury Wine Estates, Wesfarmers, Woolworths)

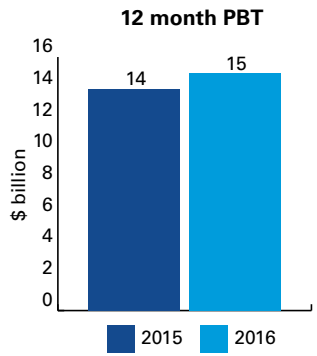


The Consumer Staples sector reported stable annual revenues with a combined increase of 3 percent (including discontinued operations). Annual statutory PBT experienced a combined decline of 101 percent. The new entrant to the ASX50, Treasury Wine Estates, had an increase in revenue of 19 percent and a PBT increase of 134 percent.

"June 2016 was a mixed reporting cycle for consumer staples. Headlines were the adverse impact of major business impairments and restructures at both of the major retailers. Wesfarmers reported a $2.2bn impairment related to the Target and Coal businesses whilst Woolworths reported impairment and other restructuring charges of $3bn, primarily related to the Home Improvement and Big W businesses. The major supermarkets continue to significantly invest in price in an effort to attract and retain customers and in response to competition."

– Trent Duvall, National Sector Leader, Consumer Markets

Other (ASX, Brambles, Computershare, CSL, Macquarie, Ramsay Health Care, Sonic Healthcare, Telstra, Seek)



Seven of the nine companies reported an increase in revenue which contributed to a 7 percent increase overall. Annual statutory PBT results were also generally positive with six companies reporting an increase leading to a 5 percent increase overall.

Non-statutory measures of reporting

Thirty-nine companies (78 percent) in the ASX50 group reported an alternative measure of financial performance in addition to statutory profit.

Alternative measures to PBT were 61 percent higher than statutory profits before tax for the 12 month period ended 30 June 2016.

The difference between statutory and non-statutory profit has widened for a second report in a row as greater impairment and significant other charges have been recognised during the period.

Key findings

Prevalence of non-statutory reporting

- Thirty-nine of the 50 companies chose to report results using an alternative measure of financial performance in addition to statutory PBT. In most cases, these are the measures reported internally for decision making purposes, included in the half-year or annual results under the accounting standards requirement to provide information on the performance of operating segments using the measure reported internally. These non-statutory measures are also used in communicating performance to investors on a basis that management consider useful in addition to statutory information.
- Measures used include underlying profits, cash earnings, and profits before significant, non-recurring or material items. The total reported non-statutory measure of profit for the 12 month period ended 30 June 2016 was greater than statutory PBT, with over 78 percent of companies using such a measure. For the ASX50 group as a whole, the non-statutory profits (pre-tax) exceeded statutory PBT by 61 percent.

Impairments

- Impairments have consistently been the largest reconciling item between statutory PBT and alternative profit measures for the ASX50 group. The total impairment excluded from alternative measures in the 12 month period ended 30 June 2016 was $26.2 billion.

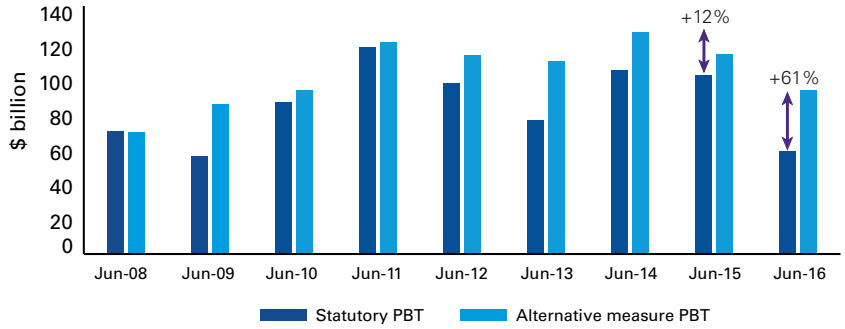
Changes in financial instrument fair values

- Some companies exclude unrealised fair value changes in financial instruments from non-statutory PBT measures and include realised amounts.

Changes in asset fair values

- The Real Estate sector has excluded $5.1 billion of upward revaluations of investment property from underlying profits reflecting the strength of Australia's property market. This is in line with a continued increase in property prices and exchange rate differences compared to the previous 12 months.

Annual statutory profit before tax compared to alternative profit before tax measures



Significant and separately disclosed items and other items

- Thirty-five companies disclosed significant items or other forms of adjustment in accordance with their respective alternative methodology to exclude a net $15.9 billion of expense from their alternative measures of financial performance.

Reconciliation between underlying and statutory profit before tax

($billion)	12 month period ended	
	June 2015	June 2016
Underlying profit before tax	**114**	**94**
Impairments	(9)	(26)
Changes in financial instrument fair values	(2)	2
Revaluation of non-financial assets	8	5
Significant items separately disclosed	1	(11)
Other items	(9)	(5)
Statutory profit before tax	**103**	**58**

Impairment analysis

Annual impairment charges to 30 June 2016 for the ASX50 group have increased by 134 percent to $38 billion.

Compared to June 2015 there has been an increase from 18 to 23 in the number of companies that have impairment charges greater than $50 million (excluding impairment of receivables in the 'Big 4' banks).

Annual charges related to the impairment of receivables amongst the 'Big 4' banks have started to increase after several periods of low levels.

Key findings

– Following the large number and magnitude of impairments disclosed in the 6 months to December 2015, annual impairment charges disclosed in the 12 months to June 2016 have significantly increased from same period to June 2015. Out of the ASX50 group, 23 companies recorded an impairment charge greater than $50 million (excluding impairment of receivables in the 'Big 4' banks), an increase from 18 in 2015 and the greatest number since this survey began, including during the Global Financial Crisis. Impairment charges for whole group totalled $38 billion for the 12 months, an increase of 134 percent from 2015.

Miners

– The miners accounted for 41 percent of the ASX50 non-current asset impairments in the 12 months to 30 June 2016 and 39 percent in the previous 12 month period.

– Several of the large impairments were recognised in the six months to December 2015. Large impairments from BHP Billiton arose from write downs from Samarco Dam and onshore US assets. South32 impaired its South African and Australian Manganese joint ventures and Wolverkrans Middelburg Complex. Rio Tinto also impaired a number of its assets, most significantly its Simandou Diamond and Minerals assets.

Non-bank, non miners (42 companies)

– Total impairment losses for this group increased by $11 billion from the previous 12 month period. Twenty-three of the forty-two companies reported impairment losses greater than $50 million, with five companies reported impairment losses greater than $1 billion.

– Impairment losses relating to non-current assets increased by over 200 percent to $11.3 billion for the 12 month period ended 30 June 2016. All sectors were affected with the following companies recording impairments over $1 billion:

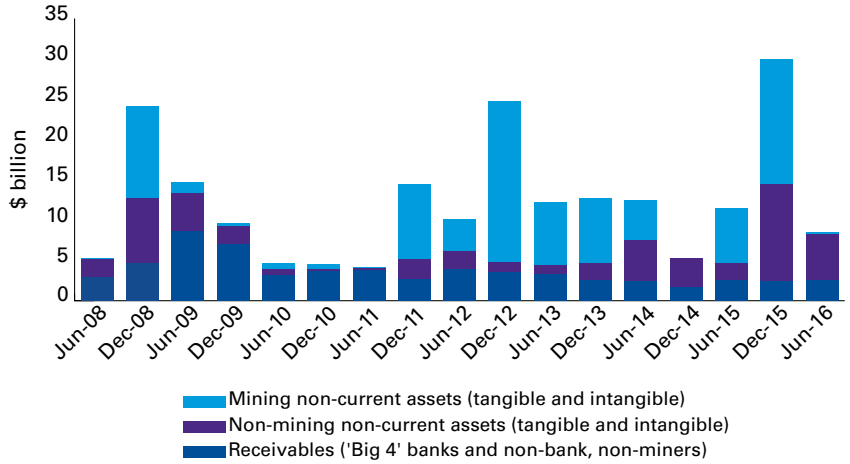
  – Santos reported a $5.4 billion impairment charges related to oil and gas assets

  – Orica recorded a $1.9 billion impairment charge primarily due to a write-down of goodwill in its ground support business and assets in its ammonium nitrate division;

  – Woodside posted an impairment in the year of $1.5 billion primarily against oil and gas assets;

  – Wesfarmers reported a $2.2bn impairment related to the Target and Coal businesses;

Pre-tax impairment charges per six month period – ASX50



Companies recording impairments greater than $50m excluding impairment of receivables by the 'Big 4' banks

12 months to December	2011	2012	2013	2014	2015	2016
Number of companies	12	19	17	20	18	23

  – Woolworths recorded a $2.1 billion impairment primarily in relation to its exit from its home improvement business; and

  – The impairment of receivables in the Financials, Insurance, Energy and Utilities, and Telecommunication Services sectors for the 12 month period ended 30 June 2016 of $0.9 billion is an increase with the previous 12-month period at $0.8 billion.

'Big 4' banks

– The 'Big 4' banks impair receivables in the normal course of business. For the 12 month period to June 2016 $4 billion was impaired, an increase of 19 percent, primarily caused by resource related exposures and continued commodity sector weaknesses.

Revenue analysis

The non-bank, non-miners reported a 2 percent increase in revenue for the 12 month period ended 30 June 2016.

The mining sector has reported a 12 percent decrease in revenue driven by the continued decline in commodity prices.

The 'Big 4' banks have again continued the trend of the previous period of stable revenue results and conversion to PBT.

Key findings

– Reduced revenue in the Mining and Energy & Utilities sectors due to continued declining commodity prices has more than offset the growth stories in the remainder of the ASX50 group. Four companies from these sectors reported a combined $16 billion reduction in revenue (BHP Billiton & South32, Rio Tinto and Caltex). This has been offset most significantly by a combined $9 billion revenue increase in QBE and Wesfarmers. Overall, annual revenue has reduced by 1 percent or $4 billion despite 34 of the companies reporting an improvement in annual revenue.

Non-bank, non miners (42 companies)

– Revenue for the 12 month period ended 30 June 2016 increased by 2 percent on the comparative period.

– 76 percent reported increases in annual revenue consistent with the December reporting period.

– The companies in the Real Estate sector all saw an increase in revenue with the most significant movements being Lend Lease of 11% ($1.5 billion) and Westfield of 6% ($1.5 billion).

– Seasonality is generally present in the results, with December revenue being consistently higher than the June period since June 2009.

– There has been a 7 percent reduction in revenue for the Energy & Utilities sector driven by continued weak oil and gas prices. This, along with non-cash impairments, has had a direct impact on the PBT margin.

– The overall non-bank, non-miner conversion of revenue into statutory PBT has reduced on average from 18 percent to 15 percent with the greatest improvement observed within the Financial sector (30% to 33%) and the largest decline noted in the Energy and Utilities (5% to -10%).

Miners

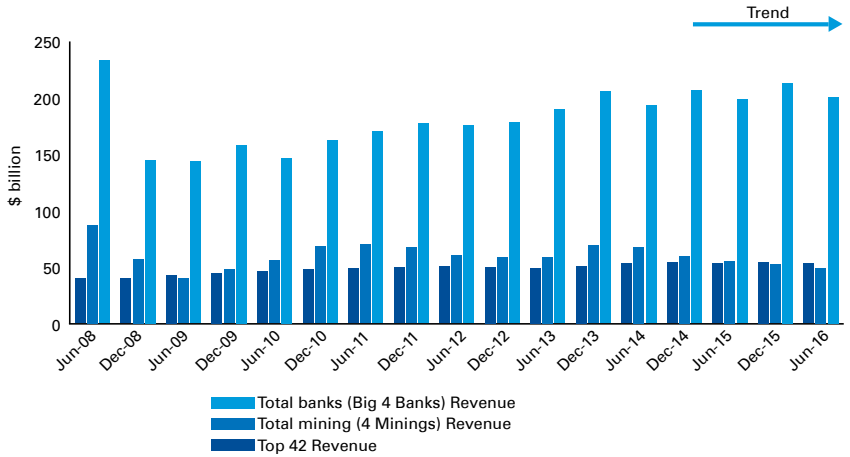
– The Miners reported a 12 percent revenue decline for the 12 month period ended 30 June 2016, which included a 10 percent reduction in the 6 month period ended 30 June 2016 against the comparable period in 2015.

'Big 4' banks

– Revenue for the 12 month period to 30 June 2016 has remained consistently stable with only a 0.1 percent increase.

– This stability has also remained with the revenue to profit conversion rate with only a 1 percent decrease in the 12 month period.

Revenue per six month period – ASX50



Profit Margin Analysis (PBT/Revenue)

Sector	Companies	June 2015		June 2016
Banks	4	39%	▼	38%
Consumer Markets	4	5%	▼	-
Energy and Utilities	7	5%	▼	(10%)
Financials	2	30%	▲	33%
Health Care and Pharmaceuticals	3	18%	▼	16%
Insurance	5	9%	▼	8%
Materials	4	11%	▼	.3%
Mining	4	15%	▼	(12%)
Real Estate	9	38%	▲	40%
Services	3	17%	▲	19%
Tel Co Services	1	23%	▼	22%
Transportation	4	8%	-	8%

Statutory profit before tax analysis

Annual Statutory profit before tax for the 12 month period ended 30 June 2016 has decreased by 43 percent from the previous period.

The non-bank, non-miners have reported a slight increase in six monthly and annual profit growth.

Key findings

- Declining commodity prices, the significant impairments recorded in the period and other significant one off items have led to a 43 percent or $44 billion overall decrease of annual statutory PBT for the 12 months to June 2016. These significant reductions are largely related to the sectors impacted by commodities. Other industries in the group such as Real Estate have had a positive 12 month period seeing their results to 30 June 2016 up by 27 percent or $2.6 billion compared to the previous period.
- The ASX50 group experienced a slight recovery primarily due to lower impairments in the sector relating to mining in the 6 months to June 2016 compared to the 6 months to December 2015.

Non-bank, non miners (42 companies)

- The performance of individual companies is mixed again. Overall there was a 34 percent decline in PBT in the 12 month period compared to June 2015. However this was countered by industries such as Real Estate performing well, with all 9 companies experiencing a growth in PBT.
- The Consumer Markets sector has reported the largest year on year movements originating largely from Woolworths and Wesfarmers, of impairment charges posting $3.6 billion of combined impairment charges.
- Energy and Utilities has also seen a large downwards movement in Santos and Woodside who experienced significant losses for the 12 months to June 2016 due in part to declining commodity prices.

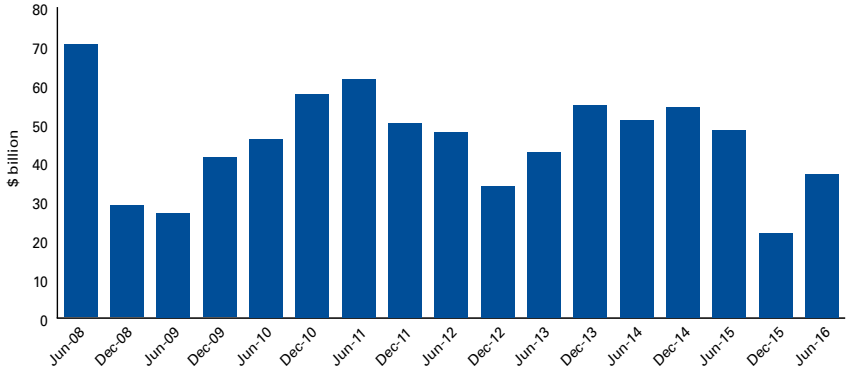
Miners

- The miners have marginally recovered since reporting the worst annual and 6 monthly statutory profit since the start of the survey period in December 2015.
- All four mining majors reported decreases in annual PBT and a 170 percent reduction overall.
- The reduction in revenue, non-cash impairments, one off events and stabilising of mining volumes have resulted in large reductions in statutory PBT for the miners.

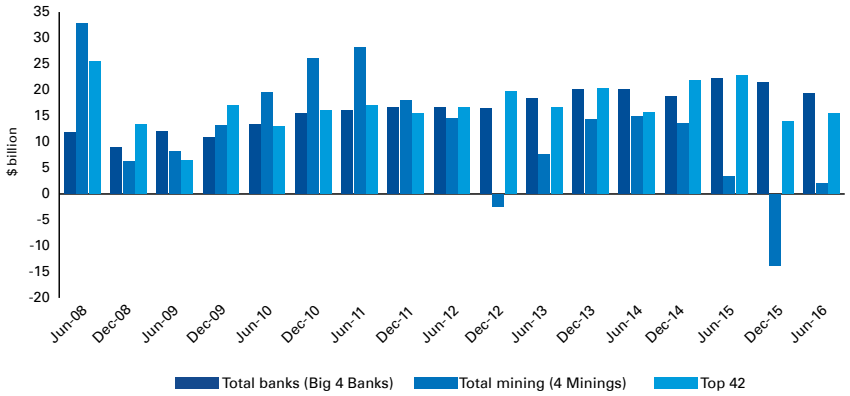
'Big 4' banks

- The 'Big 4' banks posted steady annual statutory PBT ($40.9 billion) for the annual period ended 30 June 2016, however this is a 13 percent decrease on the 6 months to June 2015.
- The key themes behind the result have continued to include tightening margins, the normalisation of loan impairment charges and modest improvement in costs to income. Banks continue to face the impact of increased regulation which puts downward pressure on industry returns.

Profit Before Taxation (PBT) per six month period – ASX50



Profit Before Taxation (PBT) per six month period – ASX50 – break down



Appendix 1: ASX50 as at 30 June 2016

S&P ASX50 as at 30 June 2016

Symbol	Company	Sector
AGL	AGL Energy Limited	■ Energy and Utilities
AMC	Amcor Limited	■ Materials
AMP	AMP Limited	■ Insurance
APA	APA Group	□ Energy and Utilities
ASX	ASX Limited	■ Financials
AZJ	Aurizon Holdings Limited	□ Transportation
ANZ	Australia And New Zealand Banking Group Limited	■ Banks
BHP	BHP Billiton Limited	■ Mining
BXB	Brambles Industries Limited	■ Services
CTX	Caltex Australia Limited	□ Energy and Utilities
CCL	Coca-Cola Amatil Limited	■ Consumer Markets
CBA	Commonwealth Bank Australia	■ Banks
CPU	Computershare Limited	□ Services
CSL	CSL Limited	■ Health Care and Pharmaceuticals
DXS	Dexus Property Group	□ Real Estate
GMG	Goodman Group	□ Real Estate
GPT	GPT Group	■ Real Estate
IPL	Incitec Pivot Limited	■ Materials
IAG	Insurance Australia Group Limited	■ Insurance
JHX	James Hardie Industries PLC	□ Materials
LLC	Lend Lease Group	■ Real Estate
MQG	Macquarie Group Limited	■ Financials
MPL	Medibank Private Limited	■ Insurance
MGR	Mirvac Group	□ Real Estate
NAB	National Australia Bank Limited	■ Banks

S&P ASX50 as at 30 June 2016

Symbol	Company	Sector
NCM	Newcrest Mining Limited	■ Mining
OSH	Oil Search Limited	■ Energy and Utilities
ORI	Orica Limited	■ Materials
ORG	Origin Energy Limited	■ Energy and Utilities
QAN	Qantas Airways Limited	□ Transportation
QBE	QBE Insurance Group Limited	■ Insurance
RHC	Ramsay Health Care Limited	□ Health Care and Pharmaceuticals
RIO	Rio Tinto Limited	■ Mining
STO	Santos Limited	■ Energy and Utilities
SCG	Scentre Group	■ Real Estate
SEK	Seek Limited	□ Services
SHL	Sonic Healthcare Limited	■ Health Care and Pharmaceuticals
S32	South32 Limited	■ Mining
SGP	Stockland	■ Real Estate
SUN	Suncorp Group Limited	■ Insurance
SYD	Sydney Airport	■ Transportation
TLS	Telstra Corp Limited	■ Tel Co Services
TCL	Transurban Group	■ Transportation
TWE	Treasury Wine Estates	□ Consumer Markets
FDC	Vicinity Centres Trust	□ Real Estate
WES	Wesfarmers Limited	■ Consumer Markets
WFD	Westfield Corporation	■ Real Estate
WBC	Westpac Banking Corp	■ Banks
WPL	Woodside Petroleum Limited	■ Energy and Utilities
WOW	Woolworths Limted	■ Consumer Markets

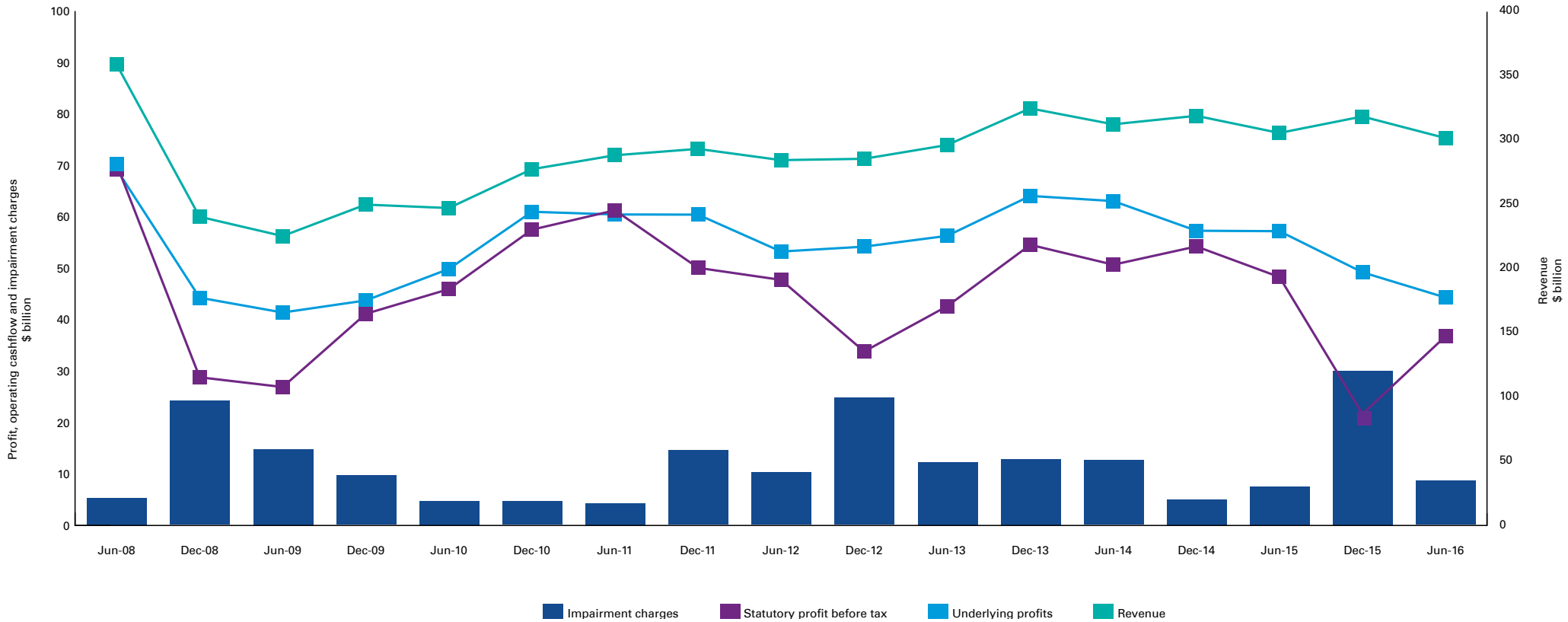
■ Company has been in the ASX50 for all periods presented. These represent approximately 88 percent of ASX50 revenue and 85 percent of ASX50 statutory PBT for the year ended 30 June 2016.

□ Entered into the ASX50 during the survey period. The comparative information in this survey has been adjusted to reflect historical financials of these companies whilst outside the ASX50.

Allocation of results to six monthly periods

Year end	Six months to June	Six months to December
June or December	January to June	July to December
September or March	October to March	April to September

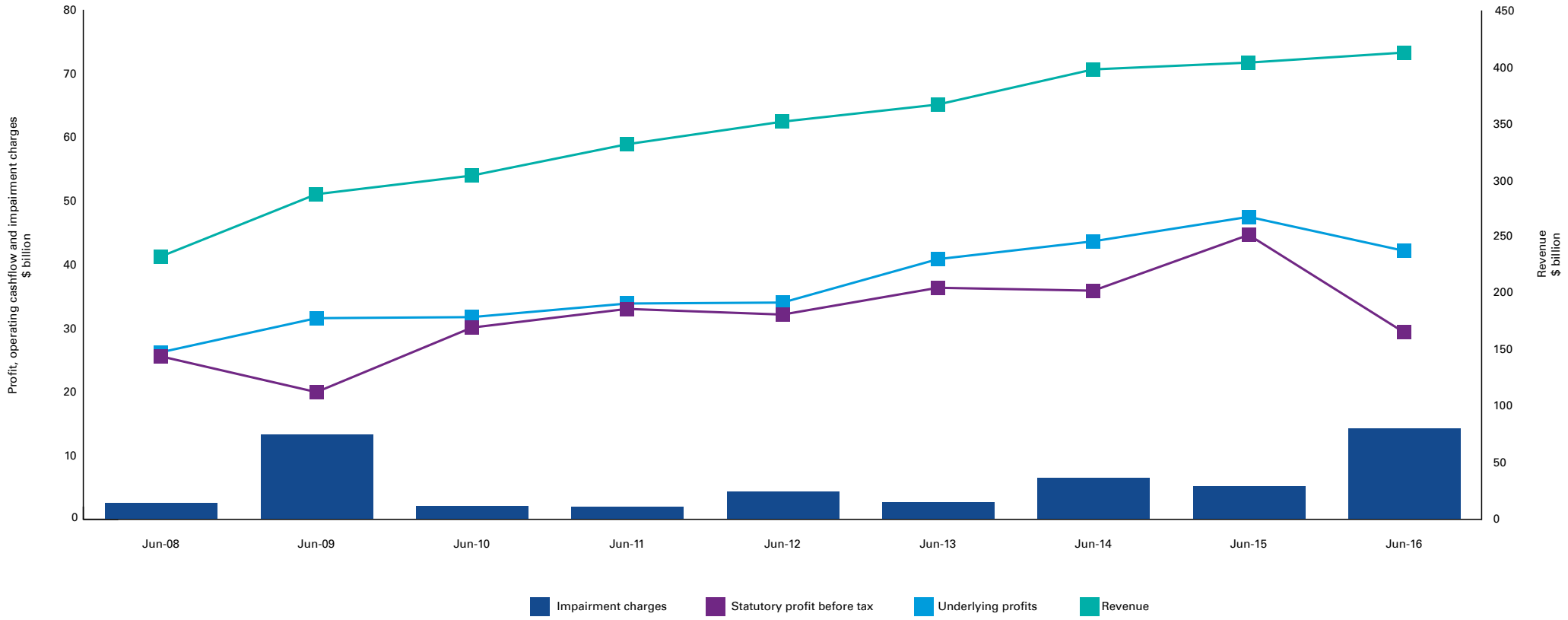
Appendix 2: ASX50 six-monthly reported financial results



Note: *Foreign denominated results translated at constant exchange rates to eliminate impact of FX volatility. Comparatives have been restated such that the ASX 50 reported for prior periods is comprised of the ASX 50 as at 30 June 2016*

Source: *4Ds, 4Es and Annual Financial Reports*

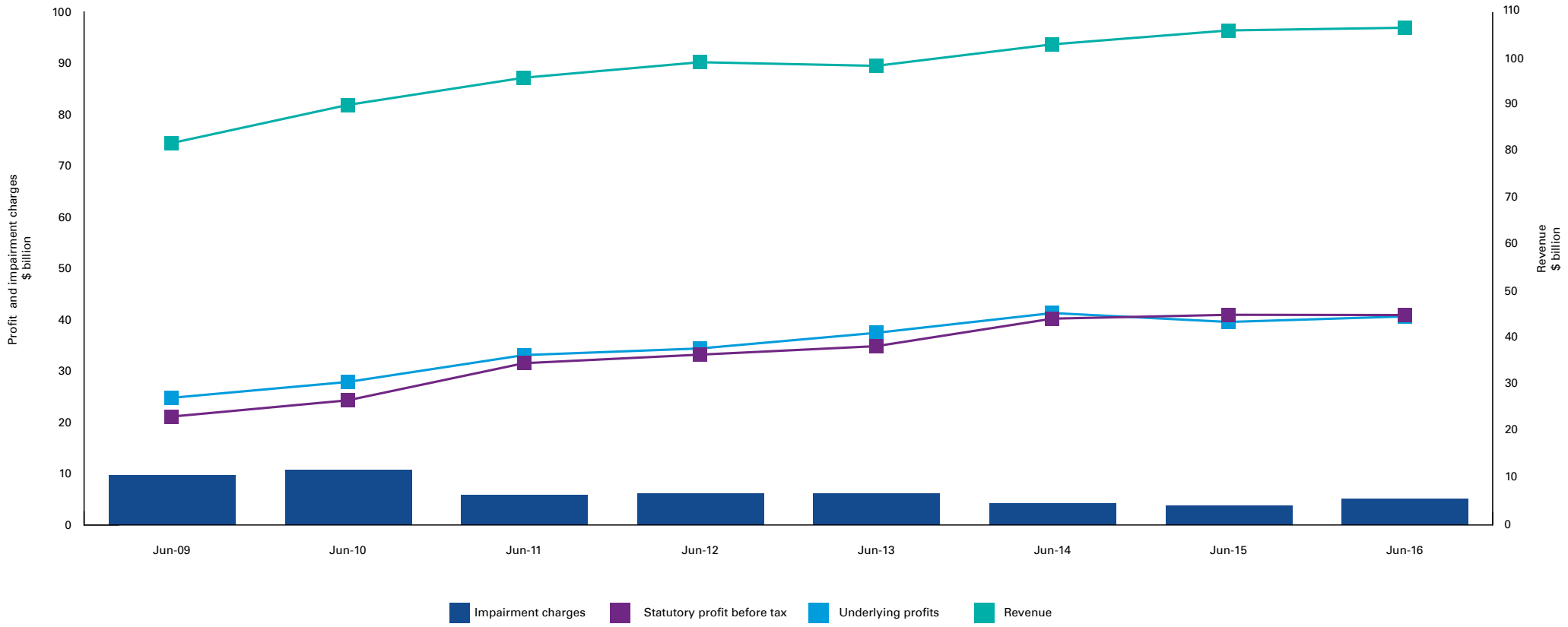
Appendix 3: Annual reported financial results: Top 42



Note: Foreign denominated results translated at constant exchange rates to eliminate impact of FX volatility. Comparatives have been restated such that the ASX 50 reported for prior periods is comprised of the ASX 50 as at 30 June 2016

Source: 4Ds, 4Es and Annual Financial Reports

Appendix 4: Annual reported financial results: 'Big 4' banks



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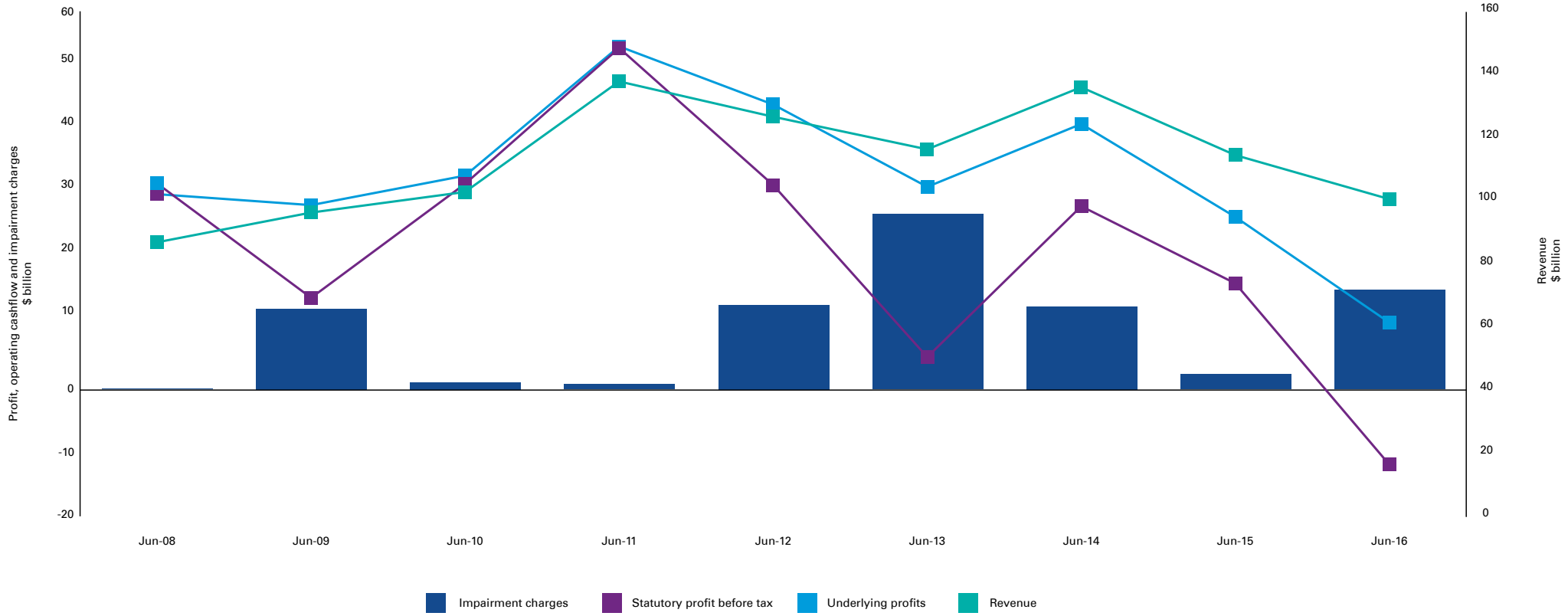
Source: 4Ds, 4Es and Annual Financial Reports

Appendix 5: Annual reported financial results: Miners



Note: *Foreign denominated results translated at constant exchange rates to eliminate impact of FX volatility. Comparatives have been restated such that the ASX 50 reported for prior periods is comprised of the ASX 50 as at 30 June 2016*

Source: *4Ds, 4Es and Annual Financial Reports*

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