KPMG
cutting through complexity

ASX50 financial reporting insights

30 June 2015 reporting season

October 2015

Introduction:

KPMG has analysed the financial reports of the ASX50 through the latest reporting season (1 January 2015 to 30 June 2015) 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
- comparing and analysing profits reported under statutory and non-statutory (underlying/non-conforming) measures.

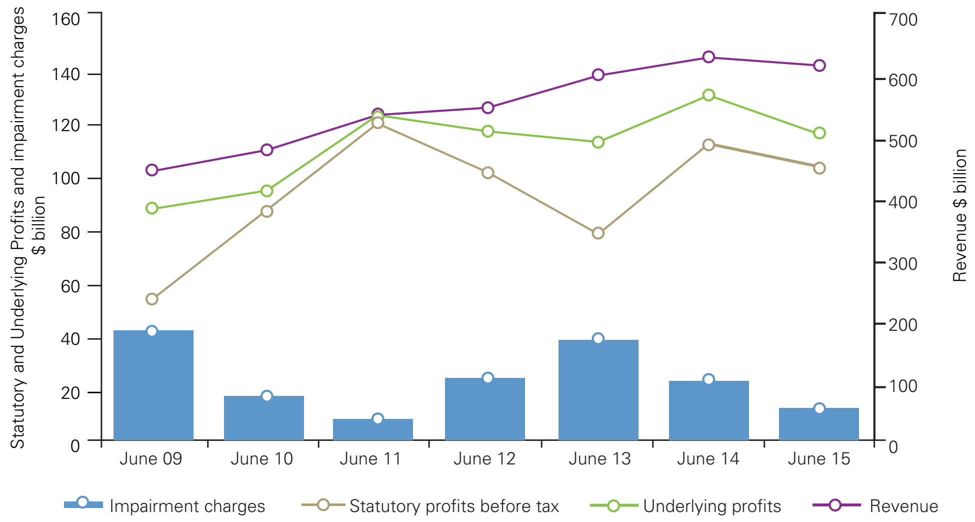
All amounts are in Australian dollars, unless otherwise stated.

Executive summary

Key findings

- Annual revenue has reduced by $13 billion (2 percent) despite 68 percent of the companies reporting an improvement in annual revenue. This is the first time in the survey period that annual revenue has reduced. This is due to the impact of the continued decline in commodity prices on the mining sector and the energy and utilities sector which has more than offset the growth stories in the remainder of the ASX50 group. Five companies from these sectors reported a combined $30 billion reduction in revenue and an $18 billion reduction in statutory profit before tax (BHP Billiton and South 32, Rio Tinto, Caltex and Origin Energy).
- Annual statutory profit before tax has reduced $8.5 billion (8 percent) to $102 billion. Thirty of the ASX50 companies reported a growth in statutory profits and there is generally a positive trend across most industry sectors. Excluding the five companies discussed above, there was a $9 billion improvement in annual statutory profit before tax.
- Thirty-six (72 percent) of the 50 companies reported an alternative measure of financial performance in addition to annual statutory profit. On a pre-tax basis these results exceeded annual statutory profits by $12 billion (12 percent) primarily due to the exclusion of $9 billion of impairment charges and $3 billion of other items.
- Annual impairment charges recorded in statutory profit before tax have decreased by 17 percent to $12 billion. Whilst 18 of the 50 companies have impairment charges greater than $50 million (excluding impairment of receivables in the 'Big 4' banks), the size of these impairments has reduced.

Annual reported financial results – ASX50



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 2015 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 2015. All results reported in US dollars have been translated to Australian dollars using the average rate for each six-month period.

Continue ...

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 3 percent increase in annual revenue and a 2 percent increase in annual statutory profit before tax (PBT).

"The majors reported a mixed financial result, maintaining momentum in lending growth and preserving asset quality, although downward pressure on margins, returns and regulatory uncertainty continue to dominate the landscape." – **Ian Pollari, National Sector Leader, Banking**

KPMG's *Major Australian Banks Survey Half Year 2015* provides a detailed analysis on this result.

Real estate (Dexus Property, Federation Centres, Goodman, GPT, Lend Lease, Mirvac, Stockland, Westfield, Scentre)

These nine companies reported a 5 percent reduction in annual revenue and a 70 percent increase in annual statutory PBT.

"All companies have benefited from key metric compression, largely attributable to the weight of money chasing assets across all classes. The buyer universe comprised REIT's, sovereign wealth funds, high net worth individuals, overseas investors and pension funds. Chasing yield and finding a home for abundant equity dominated this buyer universe.

Those companies involved in development activities enjoyed buoyant sales, securing their future development pipeline, which should emerge over the coming years. These sales have been largely created by the demand from overseas investors, supported by local investor activity." – **Steve Gatt, National Sector Leader, Real Estate**

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

The miners reported a 16 percent decrease in annual revenue and a 43 percent decrease in annual statutory PBT. Fortescue Metals Group left the ASX50 during the year. Its revenues fell 21 percent to $10 billion and statutory PBT fell 89 percent to $0.5 billion.

"The continued reduction in commodity prices has caused a decrease in revenue and profit per tonne that has offset increased production volumes and improved productivity across this group. Statutory PBT has again been affected by significant non-current asset impairments but these are at the lowest level since the 2010/11 mining boom when annual statutory PBT was 224 percent higher on 21 percent higher revenues." – **Alison Kitchen, National Partner in-charge, Energy and Resources**

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

Annual revenue has decreased 8 percent and annual statutory PBT has decreased 64 percent.

"Whilst revenue for most oil producers was impacted by the significant reduction in oil prices, Santos and Oil Search had offsetting or increased revenue from new LNG production during the year. Revenues for the retail businesses of AGL and Origin were negatively impacted by the repeal of the carbon tax meaning these costs were no longer passed through to customers. The significant decline in profit before tax across the sector was caused by a combination of lower oil prices flowing through to underlying results for the year and significant impairments of oil and gas assets." – **Alison Kitchen, National Partner in-charge, Energy and Resources**

Executive summary

Sector summary

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

Annual revenue has increased 6 percent and annual statutory PBT has increased 64 percent.

"A key theme for general insurance businesses was evidence of top line pressure and decreasing margins due to a continuing soft insurance cycle in commercial lines and increasing competition from challengers in personal lines including major banks in home and foreign entrants in motor insurance. The impact of this was further exacerbated by adverse natural catastrophe claims.

Overall, we observed increased inorganic growth activities in response to a continued and lengthening soft cycle. These include Berkshire Hathaway and IAG strategic partnership, QBE restructuring programs and divestments and leadership changes at top level.

In health, Medibank experienced strong margins from better than expected claims, inflation and reserve releases, however displayed top line pressure due to competition.

For AMP positive results were evident from the continuing rollout of a customer centric organisation coupled with a business efficiency program." – **Martin Blake, National Sector Leader, Insurance and NSW Chairman**

Consumer staples (Coca-Cola Amatil, Wesfarmers, Woolworths)

These three companies reported stable annual revenues, and a 2 percent increase in annual statutory PBT. These companies represent 21 percent of the revenue of the ASX50 and 7 percent of statutory PBT.

"Reported revenues were flat to prior year and are primarily driven by the results of Wesfarmers and Woolworths. Wesfarmers sales from continuing operations were up 3.8 percent after excluding the effect of discontinued businesses, principally on sales growth from Coles Supermarkets, Bunnings and Kmart. Woolworths sales were down 0.2 percent from prior year impacted by lower fuel sales and the performance of both food and general merchandise businesses." – **Trent Duvall, National Sector Leader, Consumer Products**

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

These seven companies reported a 5 percent annual revenue reduction but a 70 percent improvement in annual statutory profit before tax.

"The transport landscape has been shaken up with the Toll / Japan Post deal (which resulted in Toll leaving the ASX50) and the current Brookfield bid for Asciano. These are two of the largest deals in Australia in the last 12 months. The improved operating performance is showing the improved competitiveness of the Australian dollar and some relief on the cost front in terms of energy costs and continued focus on cost reductions." – **Mal Ramsay, National Sector Leader, Industrial Manufacturing**

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

All nine companies reported an increase in revenue with an 11 percent increase overall. Annual statutory PBT results were mixed with five companies reporting an increase and a 2 percent increase overall.

Thirty-six (72 percent) of the 50 companies reported an alternative measure of financial performance in addition to statutory profit.

Profits before tax on alternative measures for the 12 month period ended 30 June 2015 are 12 percent higher than statutory profits before tax.

The difference between statutory and non-statutory profit has narrowed as impairment charges have reduced within the group.

Non-statutory measures of reporting

Key findings

Prevalence of non-statutory reporting

- Thirty-six of the 50 companies chose to report results using an alternative measure of financial performance in addition to statutory profit before tax (PBT). In most cases these are the measures reported internally for decision making purposes, and are 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 reported non-statutory measure of profit for the 12 month period ended 30 June 2015 was greater than statutory PBT for 20 of the 36 companies using such a measure. For the ASX50 group as a whole, the non-statutory profits (pre-tax) exceeded statutory PBT by 12 percent.

Impairments

- Impairments have consistently been the largest reconciling item between statutory PBT and alternative profit measures for the ASX50 group. The total impairments recognised in statutory PBT in the 12 month period ended 30 June 2015 were $12.1 billion, of which $9.2 billion (76 percent) was adjusted out of statutory profit.

Changes in derivative fair values

- Companies continue to adjust for certain impacts of AASB 139 recognised in their statutory results. Companies recognise gains and losses associated with hedging activities in their non-statutory result in the same period as the related exposure to the hedged item, rather than in accordance with strict hedge accounting rules of AASB 139. Companies also adjust their non-statutory result for derivatives in economic hedges that do not qualify for hedge accounting under AASB 139 but meet the company's risk management criteria.
- We note that we have seen the early adoption of the hedge accounting model of AASB 9 by Coca-Cola Amatil, Telstra and Wesfarmers. These companies have reported a reduction in profit and loss volatility and hedge accounting outcomes that better align to risk management strategies.

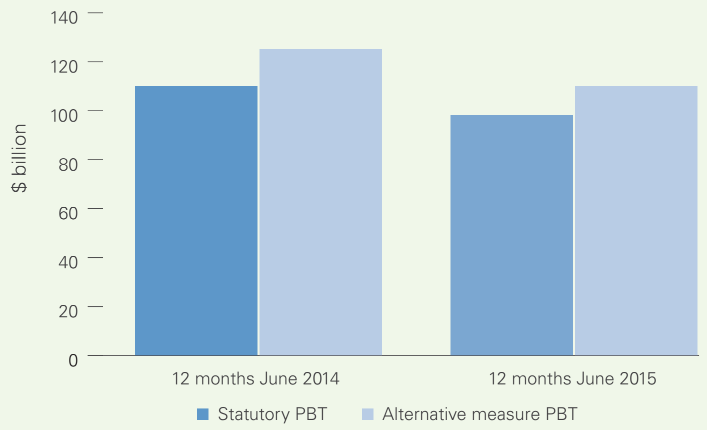
Changes in asset fair values

- The real estate sector has excluded $1 billion of upward revaluations of investment property from underlying profits which is consistent with the previous year.

Significant and separately disclosed items

- Thirty-three companies disclosed significant items or other forms of adjustment in accordance with their respective alternative methodology to exclude a net $2 billion from their alternative measures of financial performance.

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



Reconciliation between underlying and non-statutory profit before tax

	12 month period ended	
	June 2014	**June 2015**
Underlying profit before tax	**128.8**	**114.3**
Impairments	14.1	9.2
Changes in derivative fair values	0.9	2.0
Changes in asset fair values	(0.9)	(1.0)
Significant items separately disclosed	2.3	(0.6)
Other items	1.7	2.6
Statutory profit before tax	**110.7**	**102.0**

The non-bank, non-miners recorded a 1.5 percent increase in revenue for the 12 month period ended 30 June 2015.

The mining sector has reported decreases in revenues driven by sustained declines in commodity prices, which have been partially offset by increased production volumes.

The 'Big 4' banks continue to demonstrate stable revenue results.

Revenue analysis

- Annual revenue has reduced by $13 billion (2 percent) despite 68 percent of the companies reporting an improvement in annual revenue. The impact of the continued decline in commodity prices on the mining sector and the energy and utilities sector has more than offset the growth stories in the remainder of the ASX50 group. Five companies from these sectors reported a combined $30 billion reduction in revenue and an $18 billion reduction in statutory profit before tax (BHP Billiton & South 32, Rio Tinto, Caltex and Origin Energy).

Non-bank, non-miners (42 companies)

- Revenue for the 12 month period ended 30 June 2015 increased by 1.5 percent on the comparative period.
- Thirty of the 42 companies reported increases in annual revenue.
- Wesfarmers and Woolworths, which represent 31 percent of the revenues of this group, each reported annual revenue decreases of 0.2 percent.
- Seasonality is generally present in the results, with the six months to 31 December consistently outperforming the six months to June.
- There has been an 8 percent reduction in revenue for the energy and utilities sector driven by declines in commodity prices. This has had a direct impact on the profit before tax margin but this has also been affected by non-cash impairments in this sector. The repeal of the Clean Energy Act 2011 also reduced revenues in this sector relating to the pass through of the 'carbon tax'.
- The conversion of revenue into profit before tax in the services sector appears to have reduced significantly but this is distorted due to non-cash demerger profit included in the period to 30 June 2014 for Brambles.

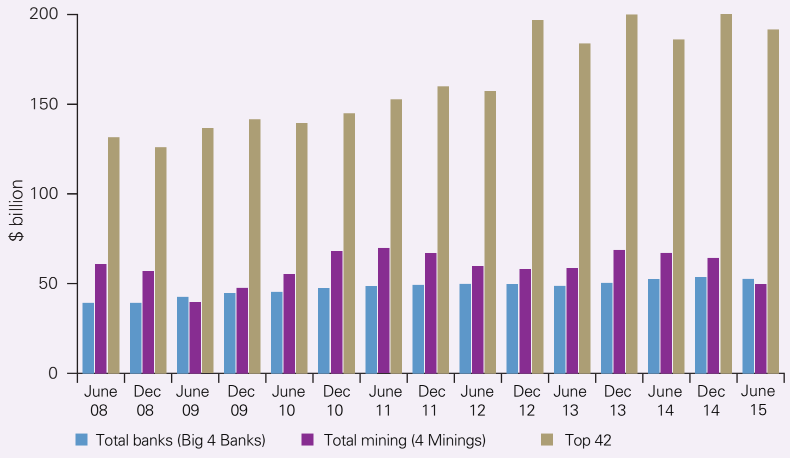
Miners

- The miners reported a 16 percent revenue decline for the 12 month period ended 30 June 2015, which included a 26 percent reduction in the 6 month period ended 30 June 2015 against the comparable period in 2014.
- The declining revenue reflects the continued weakening in commodity prices. Whilst volumes increased due to new projects entering production and production cost savings were realised these were insufficient to offset the falls in commodity price for BHP Billiton, Rio Tinto and South32. Newcrest Mining did achieve revenue growth due to increased production volumes.

'Big 4' banks

- Revenue for the 12 month period to 30 June 2015 has increased by 3 percent compared to the previous year due to increases in interest earning assets offsetting the historically low interest rates. The banks have reported a slight decline in the conversion of revenue to profit before tax due to downward pressure on margins and returns.

Revenue per 6-month period – ASX50



Conversion of revenue to profit before tax per 12 month period

Sector	Companies	June 2014		June 2015
Banks	4	39%	↓	38.6%
Consumer Markets	4	5.7%	↓	5.6%
Energy and Utilities	7	11.1%	↓	5.4%
Financials	2	29.6%	↑	30.4%
Health Care and Pharmaceuticals	3	18.5%	↓	17.9%
Insurance	5	5.6%	↑	8.8%
Materials	4	9.5%	↑	11%
Mining	4	21.4%	↓	14.6%
Real Estate	9	22.3%	↑	39.8%
Services	3	24.6%	↓	16.7%
Telecommunication Services	1	23.7%	↓	22.8%
Transportation	4	10.1%	↑	11.4%

Annual impairment charges to 30 June 2015 for the ASX50 group have decreased by 17 percent to $12.1 billion.

Whilst 18 of the 50 companies have impairment charges greater than $50 million (excluding impairment of receivables in the 'Big 4' banks), the size of these impairments has reduced.

Annual charges related to the impairment of receivables amongst the 'Big 4' banks remain at a historically low level but are 26 percent higher than the record low changes in the previous year.

Impairment analysis

Key findings

6-month highlight

- During the 6-month period ended 30 June 2015 non-bank, non-miner impairments were at the lowest level since the 6-month period ended 30 June 2013.

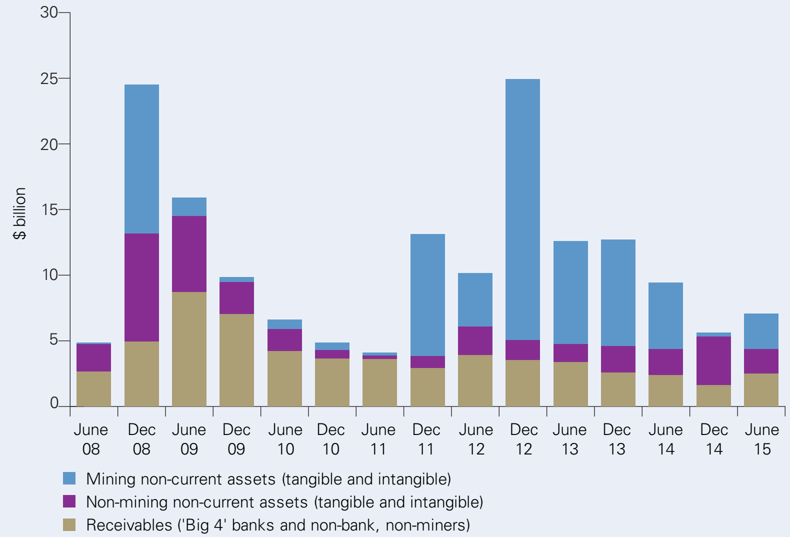
Miners

- The miners accounted for 20 percent of the ASX50 non-current asset impairments in the 12 months to 30 June 2015 and 38 percent in the previous 12 month period. The largest impairment charges of $1.8 billion were reported by South32 following a revision of the carrying value of South Africa Manganese and South Africa Energy Coal assets. BHP Billiton also recorded an impairment charge exceeding $1 billion.

Non-bank, non miners (42 companies)

- Total impairment losses for this group were unchanged at $6 billion for the 12 month period ended 30 June 2015 and the preceding 12 month period. Fifteen of the 42 companies reported impairment losses greater than $50 million.
- The impairment of receivables in the financials, insurance, energy and utilities, and telecommunication services sectors for the 12 month period ended 30 June 2015 of $0.8 billion is consistent with the previous 12 month period and is historically low indicating continuing low levels of consumer default across the Australian economy.
- Impairment losses related to non-current assets reduced by 5 percent to $5.2 billion the 12 month period ended 30 June 2015. The most significant annual impairment charges were in the energy and utilities sector which totalled $4 billion including:
  - Santos reported $2.3 billion of impairment charges related to exploration and gas production assets
  - Origin Energy reported $0.9 billion of impairment charges related to upstream production assets and the Contact Energy business
  - Woodside Petroleum and AGL Energy also reported impairment charges of $0.5 billion and $0.3 billion respectively.

Pre-tax impairment charges per 6-month period – ASX50



Companies recording impairments greater than $50 million excluding impairment of receivables by the 'Big 4' banks						
12 months to December	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Number of companies	**11**	**12**	**18**	**13**	**15**	**18**

'Big 4' banks

- The 'Big 4' banks impair receivables in the normal course of business. These charges were historically low at $2.7 billion in the 12 month period to 30 June 2014 but have increased to $3.4 billion in the 12 month period to 30 June 2015. This is still one of the lowest 12 month results in the survey period.
- National Australia Bank early adopted the financial asset impairment accounting model of AASB 9. This requires an estimate of expected future impairment losses to be recognised without the need for a specific credit-impairment event and should reduce profit and loss volatility through the economic cycle. A required 'catch-up' of $0.7 billion in impairment provisions was recognised directly in equity as required on initial adoption of this accounting standard and therefore did not affect statutory PBT.

The six month results to 30 June 2015 reflect a 16 percent reduction in statutory profit before tax compared to the three preceding six month periods. The miners are leading this reduction, and it does not appear to be indicative of the performance of the remainder of the ASX50 group.

The statutory profit before tax for the 12 month period ended 30 June 2015 has decreased by 8 percent.

The non-bankers and non-miners have reported six monthly and annual profit growth collectively.

The 'Big 4' banks have posted a record statutory profit before tax result.

Statutory profit before tax analysis

Key findings

- The statutory profit before tax for the 12 month period ended 30 June 2015 has decreased by $8.5 billion or 8 percent compared to the previous period. This is largely due to the decreased profitability of the mining sector as the 'Big 4' banks and the Top 42 have each collectively improved profitability for the six month and 12 month periods ending 30 June 2015.

Non-bank, non-miners (42 companies)

- The performance of individual companies is mixed but the general trend is positive with 26 of the 42 companies reporting an increase in annual statutory profit before tax which is collectively a 9 percent increase.
- The strongest performing industries were insurance and real estate.
- The largest declines in profit were in the energy and utilities sector where five of the seven companies reported decreases in annual profit before tax and a 58 percent reduction overall for this group.

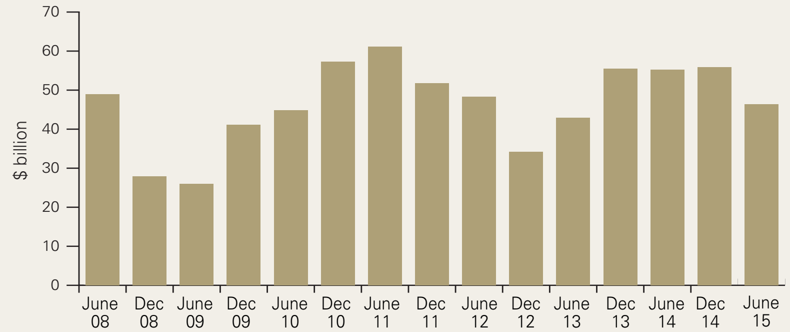
Miners

- The miners have reported a significant decline in statutory profit before tax in the six month period ended 30 June 2015 and an annual decline of 43 percent as a result of the decline in commodity prices. Historically the statutory profit before tax of this group has been impacted by non-cash impairments but these charges more than halved in the 12 month period to 30 June 2015.
- The miners have reported that a combination of cost cutting initiatives, and realisation of increased production volumes from significant expansionary investments in recent years have reduced the unit cost of production and increased sales volumes.

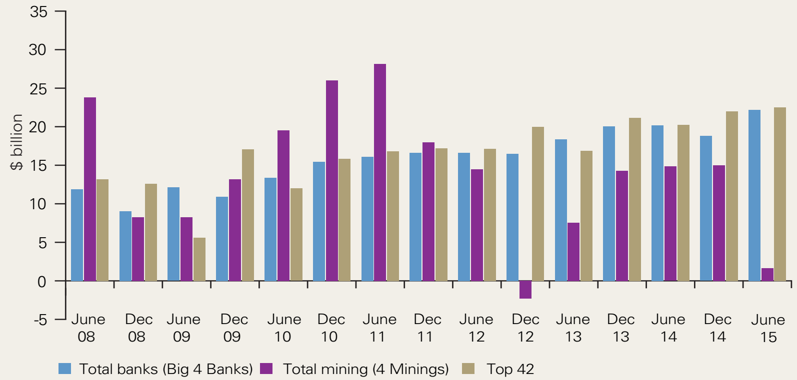
'Big 4' banks

- The 'Big 4' banks again posted a record combined statutory profit before tax for the annual period ended 30 June 2015. In a competitive environment and with low interest rates, this has been achieved through increases in revenue generating assets and reductions in the cost base.

Profit Before Taxation (PBT) per 6-month period – ASX50



Profit Before Taxation (PBT) per 6-month period – ASX50 – break down



Excluding the 'Big 4' banks, annual operating cash flows to 30 June 2015 have decreased 12 percent.

Annual operating cash flows to 30 June 2015 for the miners have decreased 12 percent.

Twenty-two of the 42 non-bank, non-miners have reported an increase in operating cash flows since the comparative period in 2014.

Operating cash flow analysis

Key findings

Miners

- The continued declines in commodity prices have resulted in a decline in the operating cash flows of 12 percent during the 12 months ended 30 June 2015. The impact has been softened by cost saving initiatives implemented to minimise spend.
- Newcrest Mining reported an increase in operating cash flows reflecting increased production volumes offsetting commodity price declines. BHP Billiton, Rio Tinto and South32 each reported reductions in operating cash flows.

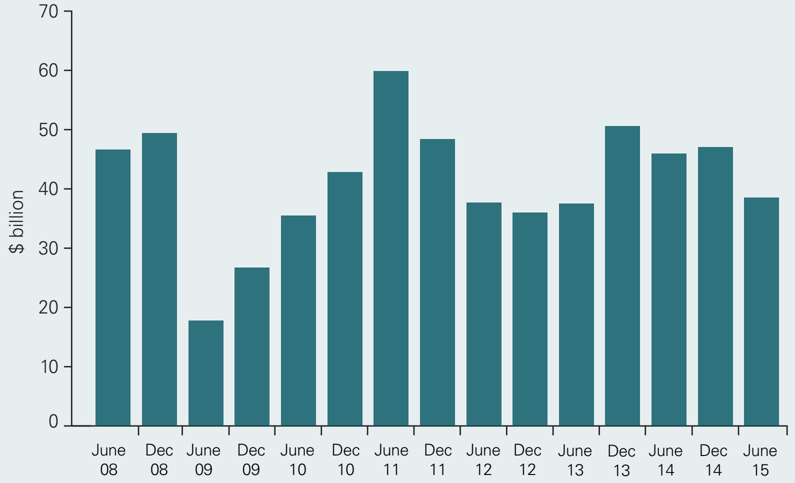
Non-bank, non miners (42 companies)

- There were mixed results in this group and an overall decline in annual operating cash flow of 12 percent. This is not consistent with the 9 percent increase in statutory profit before tax over the same period primarily due to net increases in operating assets at Macquarie and Suncorp. Excluding the financials and insurance sectors there has been a net increase in operating cash flows.
- Twenty-two of the 42 companies reported an increase in annual operating cash flows.

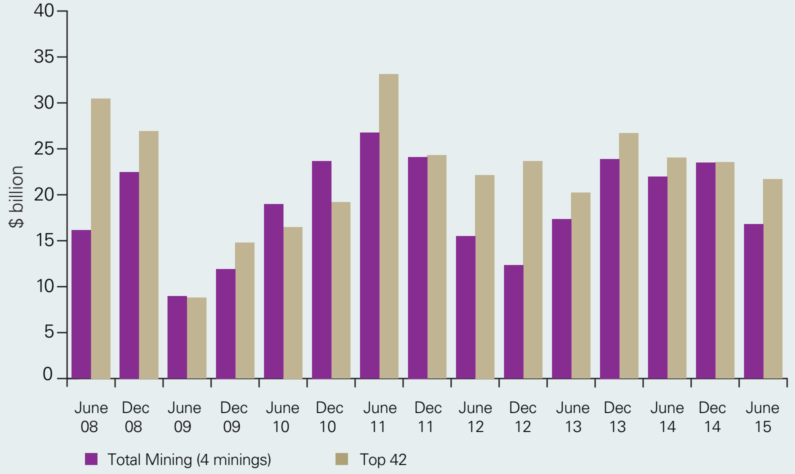
Banks

- The 'Big 4' banks have been excluded from the analysis as the inclusion of movements in loan balances does not allow for a meaningful analysis.

Operating cash flow per 6-month period – ASX50 (excluding 'Big 4' banks)



Operating cash flow per 6-month period – ASX50 (excluding 'Big 4' banks) – break down



Appendix 1: ASX50 as at 30 June 2015

S&P ASX50 as at 30 June 2015

	Symbol	Company	Sector
1	AGK	AGL Energy Ltd	■ Energy and Utilities
2	AIO	Asciano Ltd	□ Transportation
3	AMC	Amcor Ltd	■ Materials
4	AMP	AMP Ltd	■ Insurance
5	ANZ	Australia And New Zealand Banking Group	■ Banks
6	APA	APA Group	□ Energy and Utilities
7	ASX	ASX Limited	■ Financials
8	AZJ	Aurizon Holdings Limited	□ Transportation
9	BHP	BHP Billiton Ltd	■ Mining
10	BXB	Brambles Industries Ltd	■ Services
11	CBA	Commonwealth Bank Australia	■ Banks
12	CCL	Coca-Cola Amatil Ltd	■ Consumer Markets
13	CPU	Computershare Ltd	□ Services
14	CSL	CSL Ltd	■ Health Care and Pharmaceuticals
15	CTX	Caltex Australia Ltd	□ Energy and Utilities
16	CWN	Crown Limited	■ Consumer Markets
17	DXS	Dexus Property Group	□ Real Estate
18	FDC	Federation Centres	□ Real Estate
19	GMG	Goodman Group	□ Real Estate
20	GPT	GPT Group	■ Real Estate
21	IAG	Insurance Australia Group Ltd	■ Insurance
22	IPL	Incitec Pivot	■ Materials
23	JHX	James Hardie Industries PLC	□ Materials
24	LLC	Lend Lease Group	■ Real Estate
25	MGR	Mirvac Group	□ Real Estate

S&P ASX50 as at 31 December 2014

	Symbol	Company	Sector (per ASX)
26	MPL	Medibank Private Ltd	■ Health Care and Pharmaceuticals
27	MQG	Macquarie Group Ltd	■ Financials
28	NAB	National Australia Bank Ltd	■ Banks
29	NCM	Newcrest Mining Ltd	■ Mining
30	ORG	Origin Energy Ltd	■ Energy and Utilities
31	ORI	Orica Ltd	■ Materials
32	OSH	Oil Search Ltd	■ Energy and Utilities
33	QBE	QBE Insurance Group Ltd	■ Insurance
34	RHC	Ramsay Health Care	□ Health Care and Pharmaceuticals
35	RIO	Rio Tinto Ltd	■ Mining
36	S32	South32 Ltd	■ Mining
37	SCG	Scentre Group	■ Real Estate
38	SEK	Seek Ltd	□ Services
39	SGP	Stockland	■ Real Estate
40	SHL	Sonic Healthcare Ltd	■ Health Care and Pharmaceuticals
41	STO	Santos Ltd	■ Energy and Utilities
42	SUN	Suncorp Group Ltd	■ Insurance
43	SYD	Sydney Airport	■ Transportation
44	TCL	Transurban Group NPV	■ Transportation
45	TLS	Telstra Corp Ltd	■ Telecommunication Services
46	WBC	Westpac Banking Corp	■ Banks
47	WES	Wesfarmers Ltd	■ Consumer Markets
48	WFD	Westfield Corporation	■ Real Estate
49	WOW	Woolworths Ltd	■ Consumer Markets
50	WPL	Woodside Petroleum Ltd	■ Energy and Utilities

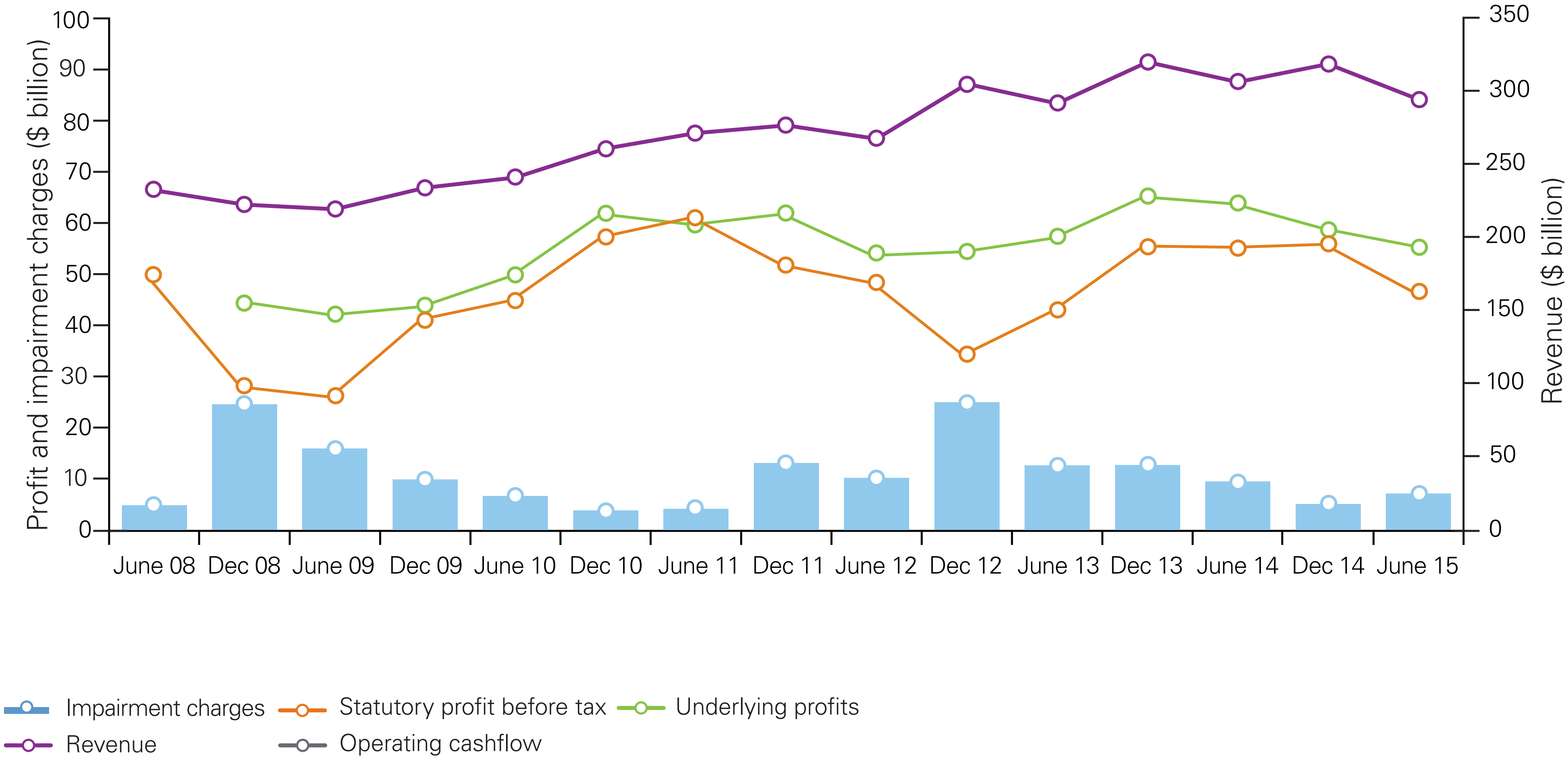
Allocation of results to 6-monthly periods

Year end	6-months to June	6-months to December
June or December	January to June	July to December
September or March	October to March	April to September

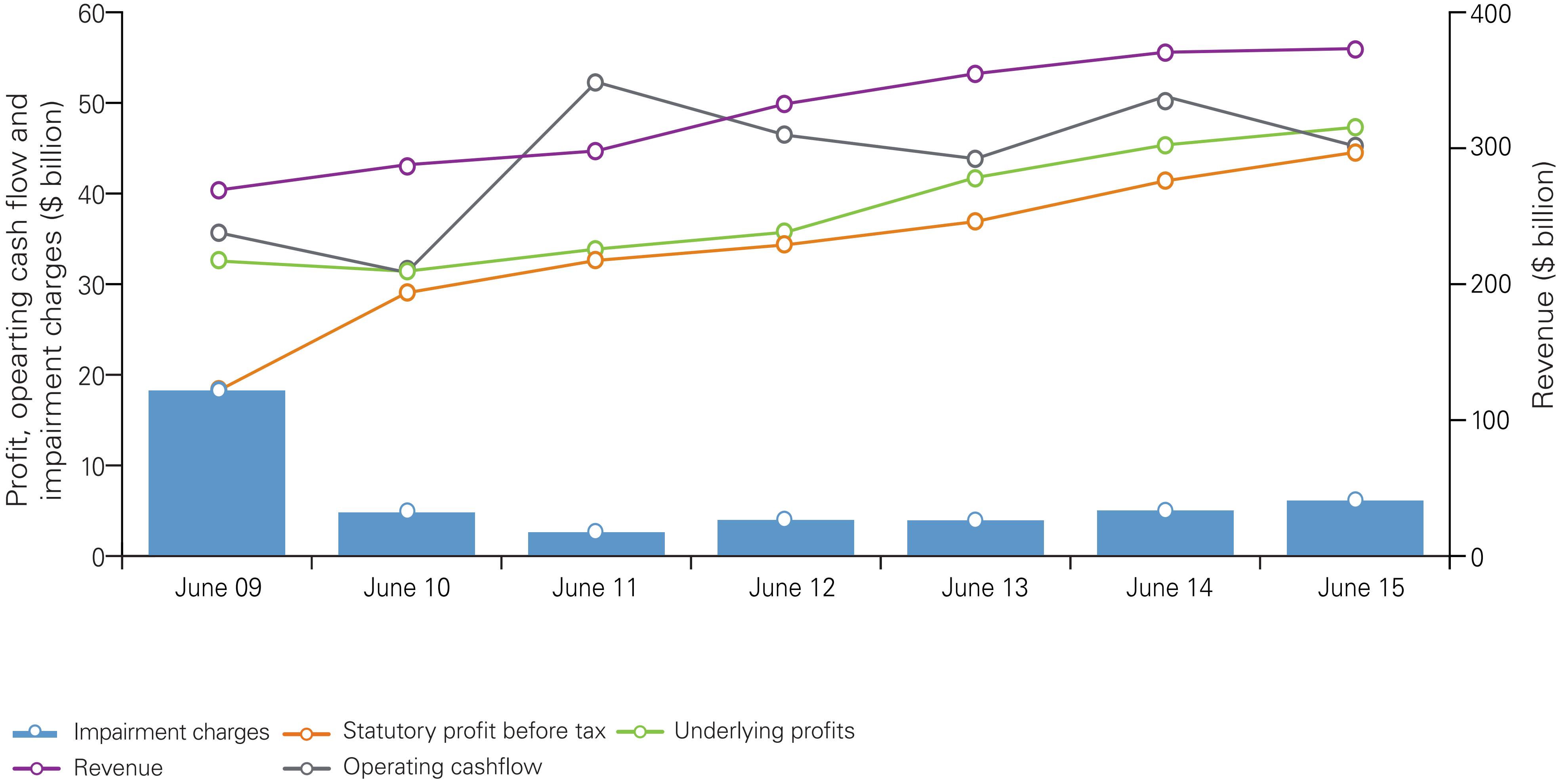
■ Company has been in the ASX50 for all periods presented. These companies represent approximately 91 percent of ASX50 revenue and 96 percent of ASX50 statutory PBT for the year ended 30 June 2015.

□ 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.

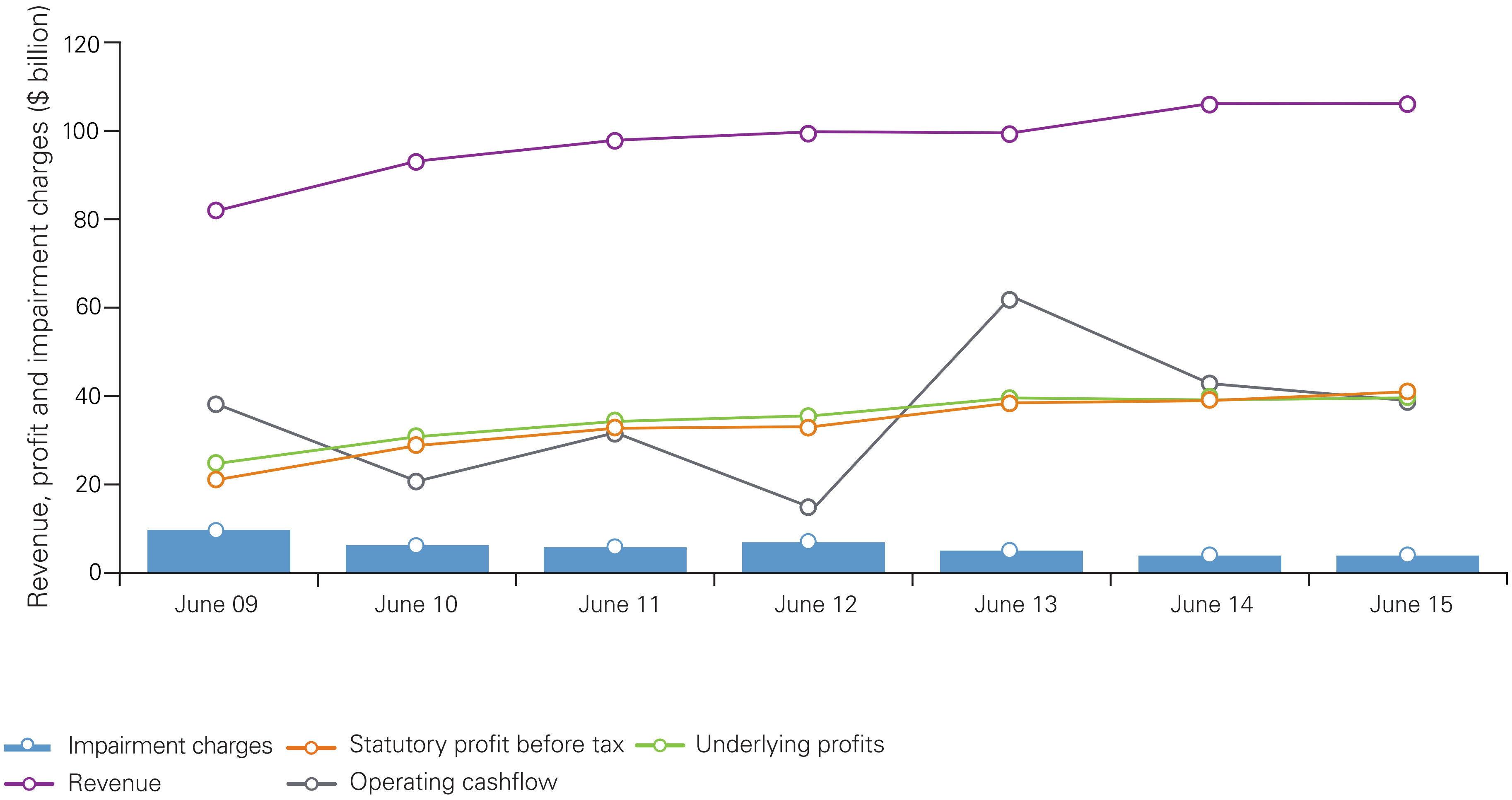
Appendix 2: 6-monthly reported financial results: ASX50



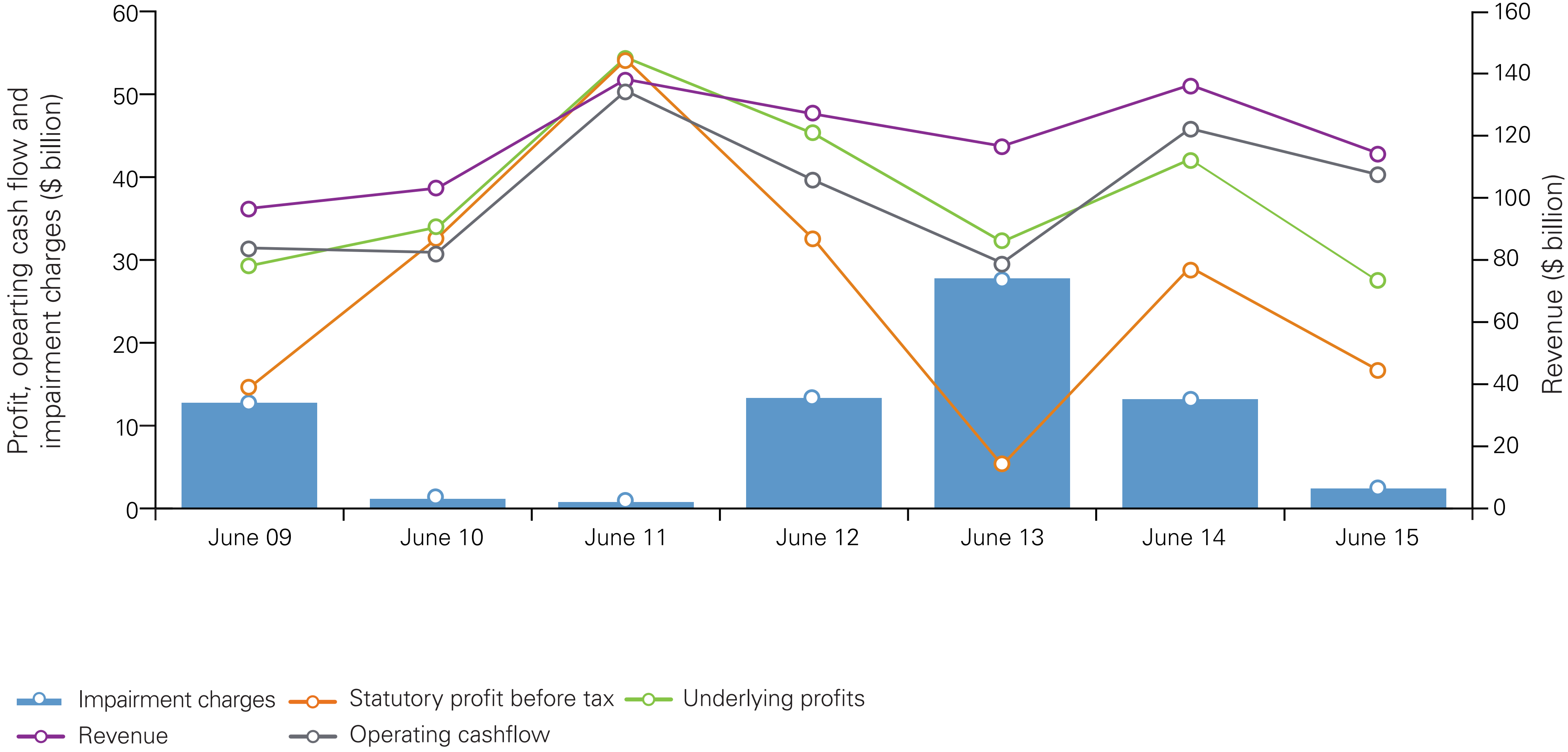
Appendix 3: Annual reported financial results: 'Top 41'



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



Appendix 5: Annual reported financial results: 'Top 4' miners



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