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ASX 50 financial reporting insights

31 December 2014 reporting season

April 2015

Introduction:

KPMG has analysed the financial reports of the ASX 50 through the latest reporting season (1 July 2014 to 31 December 2014) with a focus on:

- considering the financial performance of the ASX 50 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.

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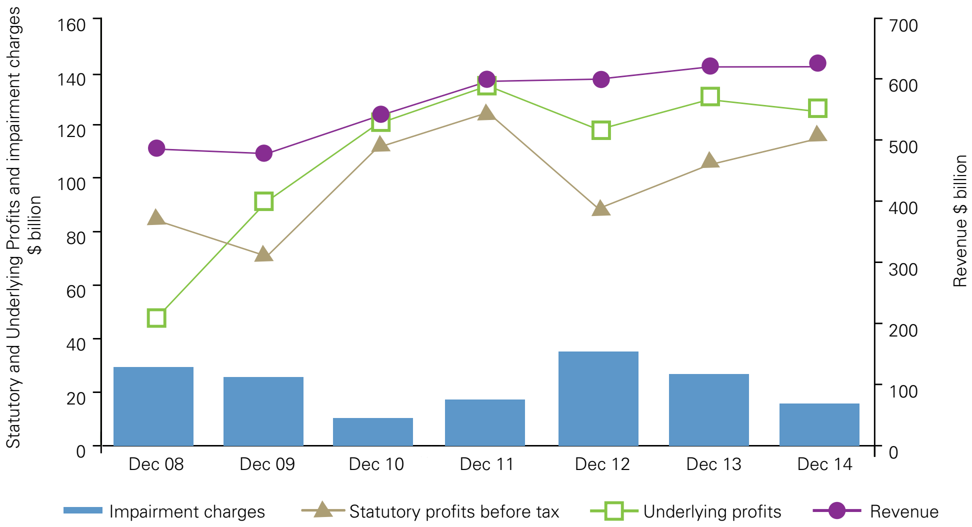
Executive summary

Key findings

- Annual statutory profit before tax for the ASX 50 group increased by 9 percent to $114.9 billion. These are the highest reported annual statutory profits for 3 years and reflect a strong first half performance across most industry sectors and lower impairment charges.
- Thirty-seven (74 percent) of the 50 companies chose to report a non-statutory profit measure. Reported non-statutory profits (pre-tax) exceeded statutory profit before tax by 9 percent primarily due to the exclusion of $7 billion of impairment charges. However the non-statutory profitability of the group is down 3.5 percent on the prior year, which is largely driven by a deterioration in trading conditions in the second half to 31 December 2014.
- Profits for the 6-months to 31 December 2014 reflect a decline in performance versus the comparative 6-months. This is the first 6-month period performance drop since December 2011, and was driven by the mining sector and parts of the 'top 41'.
- Annual revenue has increased by 0.3 percent. Revenue growth is relatively stable across industry sectors with the exception of mining which has seen continued reductions.
- Annual impairment charges have decreased by 45 percent to $15.7 billion, assisting the improvement in statutory profits. 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.
- Impairment charges for receivables, both in the 'Big 4' banks and in corporates with exposure to consumer credit risk, are at the lowest level during the survey period.

Annual reported financial results – ASX 50



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 31 December 2014

Source: 4Ds, 4Es and Annual Financial Reports

'Top 5' miners (BHP Billiton, Rio Tinto, Fortescue Metals, Newcrest Mining, Iluka Resources)

The miners continued to increase production volumes, but were not able to offset weakened commodity prices and revenue declined 4.6 percent for the 12-months to 31 December 2014. Annual statutory profit before tax has increased by $1.8 billion to $30.9 billion, primarily due to a $15.2 billion reduction in impairment charges. Underlying profitability has reduced $4.5 billion indicating that the achievements in cost reduction programs have not offset reduced prices. The miners still contributed 48 percent of non-current asset impairments in the ASX 50.

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

The 'Big 4' banks posted a 7.8 percent increase in annual statutory profit before tax and a 4 percent increase in annual cash earnings before tax (a non-statutory measure). This represents continued steady profit growth as the majors confront the challenges of a low growth/low interest rate environment, margin pressure, regulatory change, and investment required in digital innovation. KPMG's *Major Australian Banks Survey Half Year 2014* provides a detailed analysis.

'Top 41' non-bank, non-miner companies

This group experienced mixed results throughout the 12-month period. Strong revenue growth was experienced in the consumer markets, energy and utilities and healthcare sectors. A number of groups experienced improved statutory profit as a result of reduced impairment, including real estate and insurance. Despite the increase in revenue across the energy and utilities sector, the PBT for the group was impacted by a $2.3 billion impairment charge to Santos' exploration and oil production assets recognised during the period.

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Thirty-seven 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 31 December 2014 are 9 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-seven 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 measures 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 the basis that management consider it 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 was greater than statutory profit for 23 of the 37 companies using such a measure. The non-statutory profit measure exceeded the statutory result by 9 percent.

Impairments

- Impairments have consistently been the largest reconciling item between statutory profit and alternative profit measures for the ASX 50 group. The total impairments recognised in statutory profit in the 12-month period ended 31 December 2014 were $15.7 billion, of which $7 billion (47 percent) was excluded from non-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 objectives.

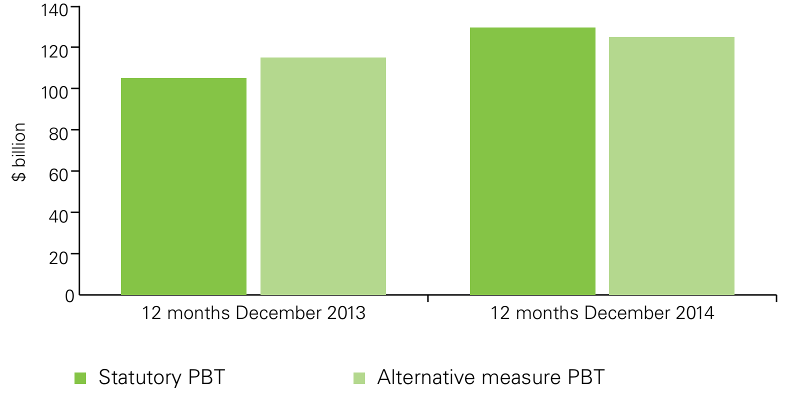
Changes in asset fair values

- Eight real estate companies report a non-statutory measure that reverses property revaluations, this group has excluded net gains of $1.9 billion that were reported in statutory profit.

Significant and separately disclosed items

- There are in total 19 companies excluding net expenses from non-statutory profit, more than offsetting net gains excluded from non-statutory profits by eight other companies.

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	
	December 2013	December 2014
Underlying profit before tax	**128,585**	**124,772**
Impairments	(20,357)	(6,957)
Changes in derivative fair values	(625)	533
Changes in asset fair values	1,197	(664)
Significant items separately disclosed	1,762	(2,731)
Other items	(5,603)	(32)
Statutory profit before tax	**104,959**	**114,921**

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Impairment analysis

Annual impairment charges to 31 December 2014 for the ASX 50 group have decreased by 45 percent to $15.7 billion.

Eighteen of the 50 companies have asset impairment charges greater than $50 million, excluding the routine impairment of receivables by the 'Big 4' banks, however the size of these impairments has reduced on average.

Annual charges related to the impairment of receivables amongst the 'Big 4' banks have decreased by 23 percent and are lower than any other annual period in our survey.

Key findings

6-month highlight

- During the 6-month period ended 31 December 2014, the miners had the lowest impairment charges since the height of the mining boom in 30 June 2011.

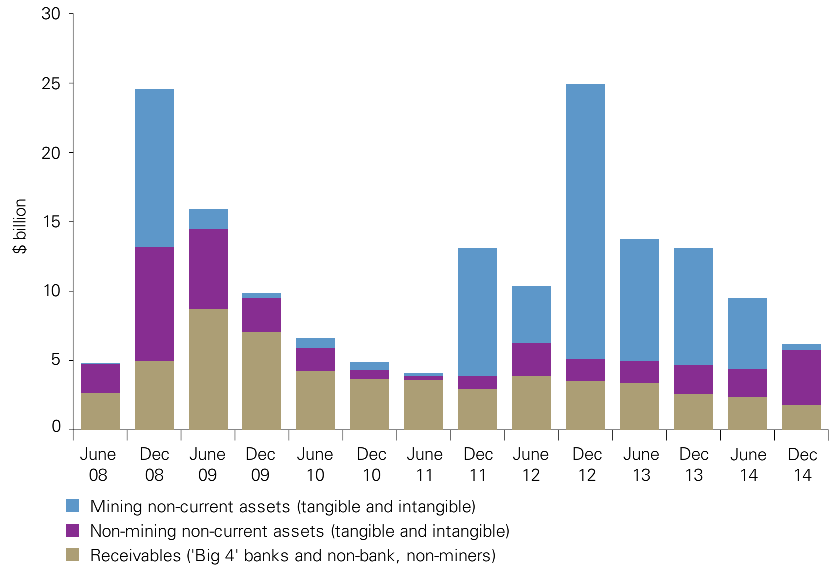
'Top 5' miners

- The miners accounted for 48 percent of the ASX 50 non-current asset impairments in the 12-months to 31 December 2014 and 82 percent in the previous 12-month period.
- In the 6-month period ended 31 December 2014 Rio Tinto recognised $1.2 billion of impairment charges primarily related to its aluminium and copper businesses.
- In the 6-month period ended 31 December 2014 BHP Billiton recognised $0.4 billion in impairment charges associated with the divestment of conventional petroleum assets in North Louisiana and unconventional gas assets in the Pecos field in the Permian Basin.

'Top 41' non-bank, non miners

- Total impairment losses for this group were $6.5 billion for the 12-month period ended 31 December 2014, a 36 percent increase compared to the $6 billion of impairment losses in the preceding 12-month period. Over the 12-month period ended 31 December 2014, 18 of the 41 companies reported impairment losses greater than $50 million.
- The impairment of receivables in the Financials, Insurance, Energy and Utilities, and Telecommunication Services sectors have reduced by 30 percent to $0.4 billion in the 12-month period ended 31 December 2014. This is consistent with the 'Big 4' banks and is indicative of reduced levels of consumer default across the Australian economy.
- Impairment losses related to non-current assets increased 41 percent to $5.7 billion in the 12-month period ended 31 December 2014 represented an increase of 56 percent compared to the preceding 12-month period. The most significant annual impairment charges were:
  - In the Energy & Utilities sector impairments of $2.3 billion were recognised, primarily by Santos in relation to exploration and gas production assets. The greater than 50 percent reduction in oil prices over the 6-month period did not give rise to significant impairments in other companies in this sector, some of which stated an expectation that oil prices will recover over the next three years.
  - Impairments in the Consumer Markets sector of $0.9 billion, primarily recognised by Wesfarmers.

Pre-tax impairment charges per 6-month period – ASX 50



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

12-months to December	2009	2010	2011	2012	2013	2014
Number of companies	22	12	15	20	19	23

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Source: 4Ds, 4Es and Annual Financial Reports

'Big 4' banks

- The 'Big 4' banks impair receivables in the normal course of business. These charges were historically low at $3.4 billion in the 12-month period, down significantly from $5.6 billion in the preceding 12-months. This reduction was achieved consistently across the four banks.

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The non-bank, non-miners recorded a 0.7 percent increase in revenue for the 12-month period ended 31 December 2014.

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

Key findings

'Top 41' non-bank, non-miners

- Revenue for the 12-month period ended 31 December 2014 increased 0.7 percent on the comparative period. Twenty-seven of the 41 companies reported increases in annual revenue.
- Wesfarmers and Woolworths, which represent 33 percent of the revenues of this group, each reported annual revenue increases of 2 percent.
- Ramsay Health Care and Macquarie Group, each achieved double-digit annual revenue increases greater than $1 billion.
- AMP and Amcor experienced notable declines in revenue greater than $3.8 billion and $2.8 billion respectively. Amcor was impacted by discontinued operations.
- From the Energy and Utility sector – Woodside and Oil Search achieved strong annual revenue growth driven largely by the 6-month period ended 31 December 2014. Woodside increased sales through higher production of LNG and oil. Oil Search increased sales following the commencement of LNG production from the PNG LNG Project in April 2014, with new production more than compensating for the effect of steeply lower oil prices in the last quarter.
- The profit margin in the Real Estate sector is distorted by the gain reported by Scentre (formally Westfield Retail Trust) following the restructuring with Westfield Corporation.
- Seasonality is generally present in the results, with the 6-months to 31 December consistently outperforming the 6-months to June.

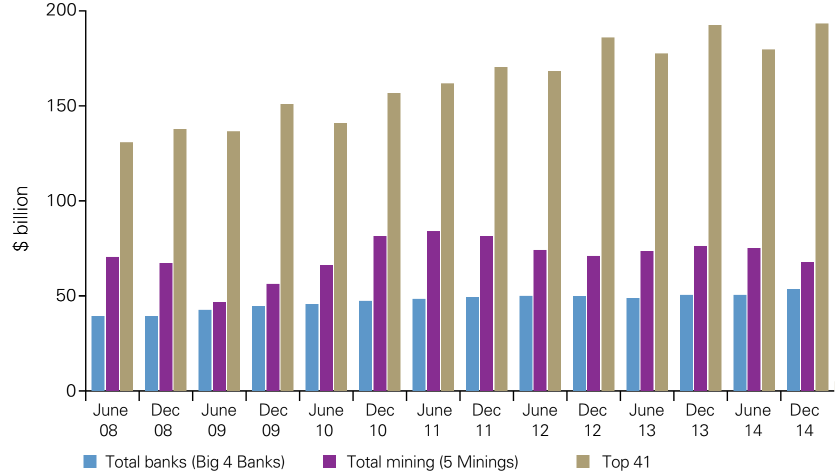
'Top 5' miners

- The miners reported a 4.6 percent revenue decline for the 12-month period ended 31 December 2014, which was most pronounced in the 11.1 percent reduction in the 6-months ended 31 December 2014 against the comparable period in 2013.
- The declining revenue reflects the continued weakening in commodity prices. Whilst production volumes increased as the benefits of expansions undertaken in recent years start to be realised, production costs savings and reduction in exploration were insufficient to offset falls in commodity price, most notably iron ore. Cost savings were obtained through increased labour, contractor and equipment productivity.

'Big 4' banks

- Revenue for the annual period has increased by 4.6 percent compared to the previous year. This is largely due to increases in interest earning assets offsetting historically low interest rates. The banks have maintained the strong conversion of revenue to profit before tax despite the reduced interest rates.

Revenue per 6-month period – ASX 50



Conversion of revenue to profit before tax per 12-month period

Sector	Companies	Dec 2013		Dec 2014
Insurance	4	4%	↑	9%
Consumer Markets	4	6%	↓	6%
Transportation	5	8%	↓	8%
Materials	4	9%	↑	10%
Energy and Utilities	7	11%	↓	11%
Health Care and Pharmaceuticals	3	19%	↓	18%
Mining	5	19%	↑	22%
Real Estate	9	22%	↑	29%
Telecommunication Services	1	22%	↑	25%
Services	2	23%	↓	14%
Financials	2	27%	↑	31%
Banks	4	39%	↑	40%

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Statutory profit before tax analysis

The statutory profit before tax for the 12-month period ended 31 December 2014 has increased by 9 percent ($10 billion) however the 6-month period ended 31 December 2014 has reduced 9 percent on the comparative period in 2014. The 6-month reduction is led by a 17 percent reduction for the non-bank, non-miners.

This year is only the second time since the GFC that we have seen declining profits. The first instance was triggered by the initial commodity price falls in late 2011. This second reduction is being led by the 'top 41' non-bank, non-miners.

The miners increased annual statutory profit before tax, however the comparative period included significant impairments.

The 'Big 4' banks have posted a record annual statutory profit, which is an increase of 7.8 percent on the previous annual period.

Key findings

- The annual statutory profit before tax for the year ended 31 December 2014 has increased by $10 billion or 9 percent compared to the previous period. This is largely due to a $11.8 billion reduction in impairments offset by reductions in operating results across the mining and real estate sectors.
- The statutory profit for the 6-months ended 31 December 2014 is down on the previous period. This is only the second time since the GFC we have seen declining profits in a 6-monthly period with a 9 percent reduction on the comparative period in 2013. The 6-month reduction is led by a 17 percent reduction for the non-bank, non-miners.

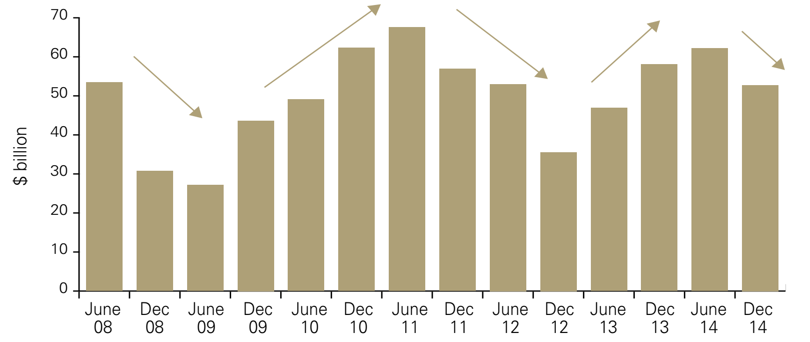
'Top 41' non-bank, non-miners

- Annual statutory profit for 31 December 2014 is up 14 percent on the prior period. The performance of individual companies is mixed with 27 of the 41 companies reporting an increase in annual profits. Across the group, only one company reported a statutory loss before tax.
- The strongest performing industries were health care and pharmaceuticals, insurance and financials, led by Macquarie Group's 42 percent increase in profits.
- Four of the seven energy and utilities companies reported increases in statutory profits. This was offset by the results of Santos which were impacted by a $2.3 billion impairment charge in relation to its exploration and gas production assets.
- The Insurance sector reported an 89 percent increase in annual profits, although this was due to impairment charges reported by QBE Insurance during the prior period.

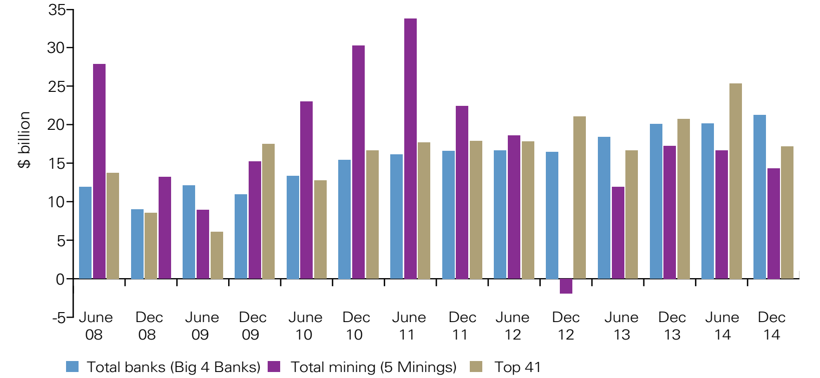
'Top 5' miners

- Annual statutory profits before tax have increased $1.8 billion or 6 percent. This has been driven by the reduction in impairments recognised during the 12-month period of $11.7 billion or 67 percent. This is offset by declines in operating results which have been continued to be impacted by the declining commodity prices.
- Through cost cutting initiatives and realisation of increased production volumes from significant expansionary investments in recent years, the miners have reduced the unit cost of production and increased sales which has partially offset the weakening of commodity prices.
- Annual profitability remains well below the levels achieved at the peak of the mining boom. The profit for the 12-months to 31 December 2014, which were largely free of impairment, is 52 percent lower than the 12-month period 1 July 2010 to 30 June 2011, which represented the height of the mining boom.

Profit Before Taxation (PBT) per 6-month period – ASX 50



Profit Before Taxation (PBT) per 6-month period – ASX 50 – break down



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'Big 4' banks

- The 'Big 4' banks again posted a record combined statutory profit before tax for the annual period ended 31 December 2014. 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, including record low loan impairment charges.

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Excluding the 'Big 4' banks, annual operating cash flows have decreased 3 percent.

Annual operating cash flows for the miners have decreased 5 percent.

Twenty-six of the 41 non-bank, non-miners have reported an increase in operating cash flows since the comparative period in 2013 yet the result overall is down 3 percent.

Operating cash flow analysis

Key findings

'Top 5' miners

- The continued declines in commodity prices have resulted in a decline in the operating cash flows of 5 percent during the 12-months ended 31 December 2014. The impact has been softened from cost saving initiatives implemented at the various sites to minimise the spend.
- Three of the five miners have reported an annual increase in operating cash flow, however, declines in the operating cash flows of Fortescue Metals Group and Rio Tinto have driven the overall decline.

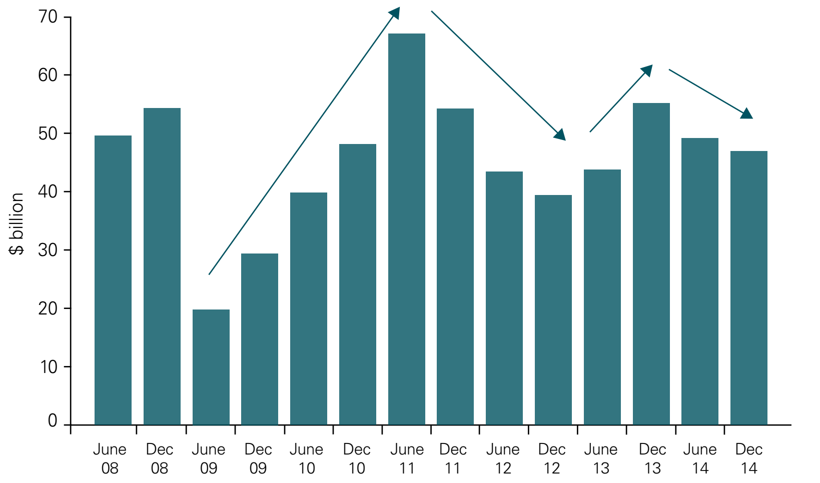
'Top 41' non-bank, non miners

- On an overall basis, this group reported consistent annual operating cash flows which were in line with the comparative prior period. Cash flows for the 6-month period ended 31 December 2014 were 2 percent less than the prior 6-month period.
- There were mixed results within the group, energy companies Woodside and Oil Search both benefited from increased combined sales revenue during the 12-month period of approximately $2.7 billion. This was offset by a decline of cash flows from Lend Lease, which experienced a decline in construction volumes.

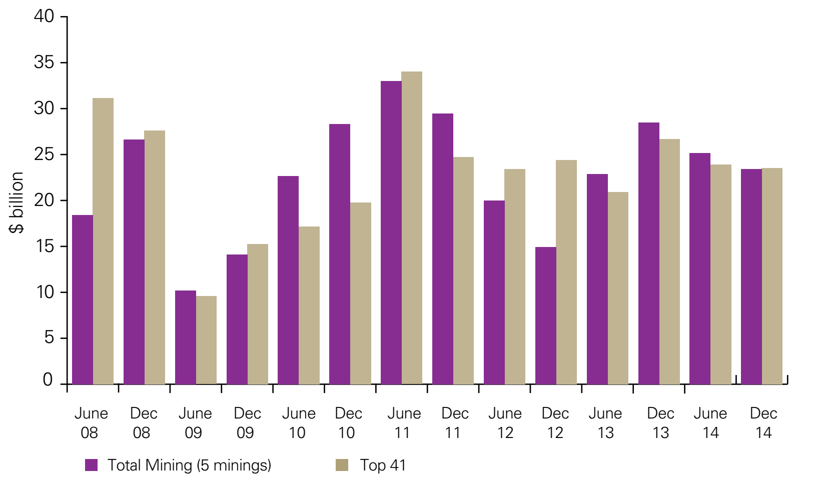
'Big 4' banks

- 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 – ASX 50 (excluding 'Big 4' banks)



Operating cash flow per 6-month period – ASX 50 (excluding 'Big 4' banks) – break down



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Appendix 1: ASX 50 as at 31 December 2014

S&P ASX 50 as at 31 December 2014

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

S&P ASX 50 as at 31 December 2014

	Symbol	Company	Sector (per ASX)
26	MQG	Macquarie Group Ltd	■ Financials
27	MGR	Mirvac Group	□ Real Estate
28	NAB	National Australia Bank Ltd	■ Banks
29	NCM	Newcrest Mining Ltd	■ Mining
30	OSH	Oil Search Ltd	■ Energy and Utilities
31	ORI	Orica Ltd	■ Materials
32	ORG	Origin Energy 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	STO	Santos Ltd	■ Energy and Utilities
37	SHL	Sonic Healthcare Ltd	■ Health Care and Pharmaceuticals
38	SGP	Stockland	■ Real Estate
39	SUN	Suncorp Group Ltd	■ Insurance
40	SYD	Sydney Airport	■ Transportation
41	TLS	Telstra Corp Ltd	■ Telecommunication Services
42	TOL	Toll Hldgs Ltd	■ Transportation
43	TCL	Transurban Group NPV	■ Transportation
44	WES	Wesfarmers Ltd	■ Consumer Markets
45	WFD	Westfield Corporation	■ Real Estate
46	SCG	Scentre Group	□ Real Estate
47	WBC	Westpac Banking Corp	■ Banks
48	WPL	Woodside Petroleum Ltd	■ Energy and Utilities
49	WOW	Woolworths Ltd	■ Consumer Markets
50	WOR	WorleyParsons 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 ASX 50 for all periods presented.

□ Entered into the ASX 50 during the survey period. The comparative information in this survey has been adjusted to reflect historical financials of these companies whilst outside the ASX 50.

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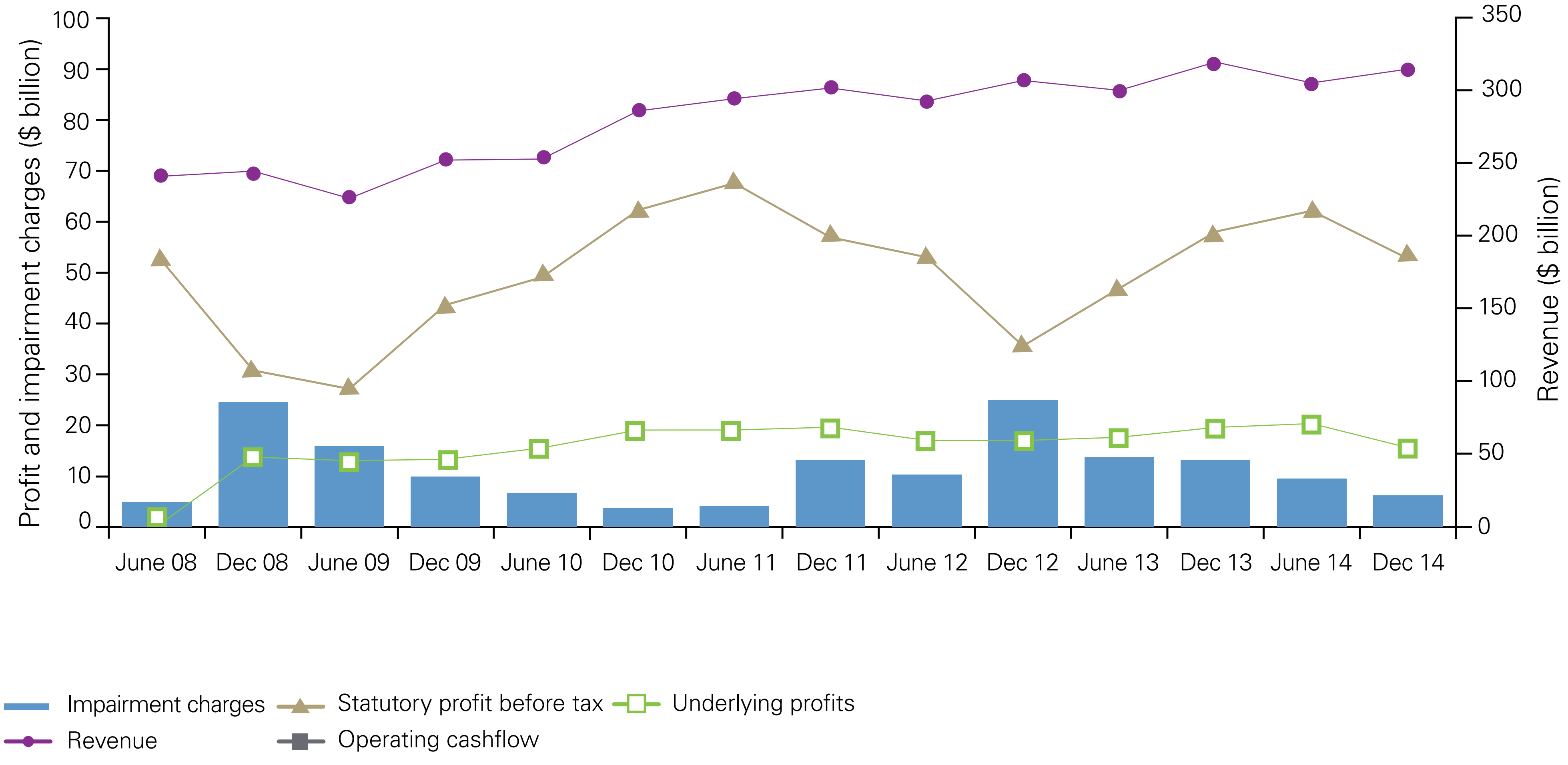
Appendix 2: 6-monthly reported financial results: ASX 50



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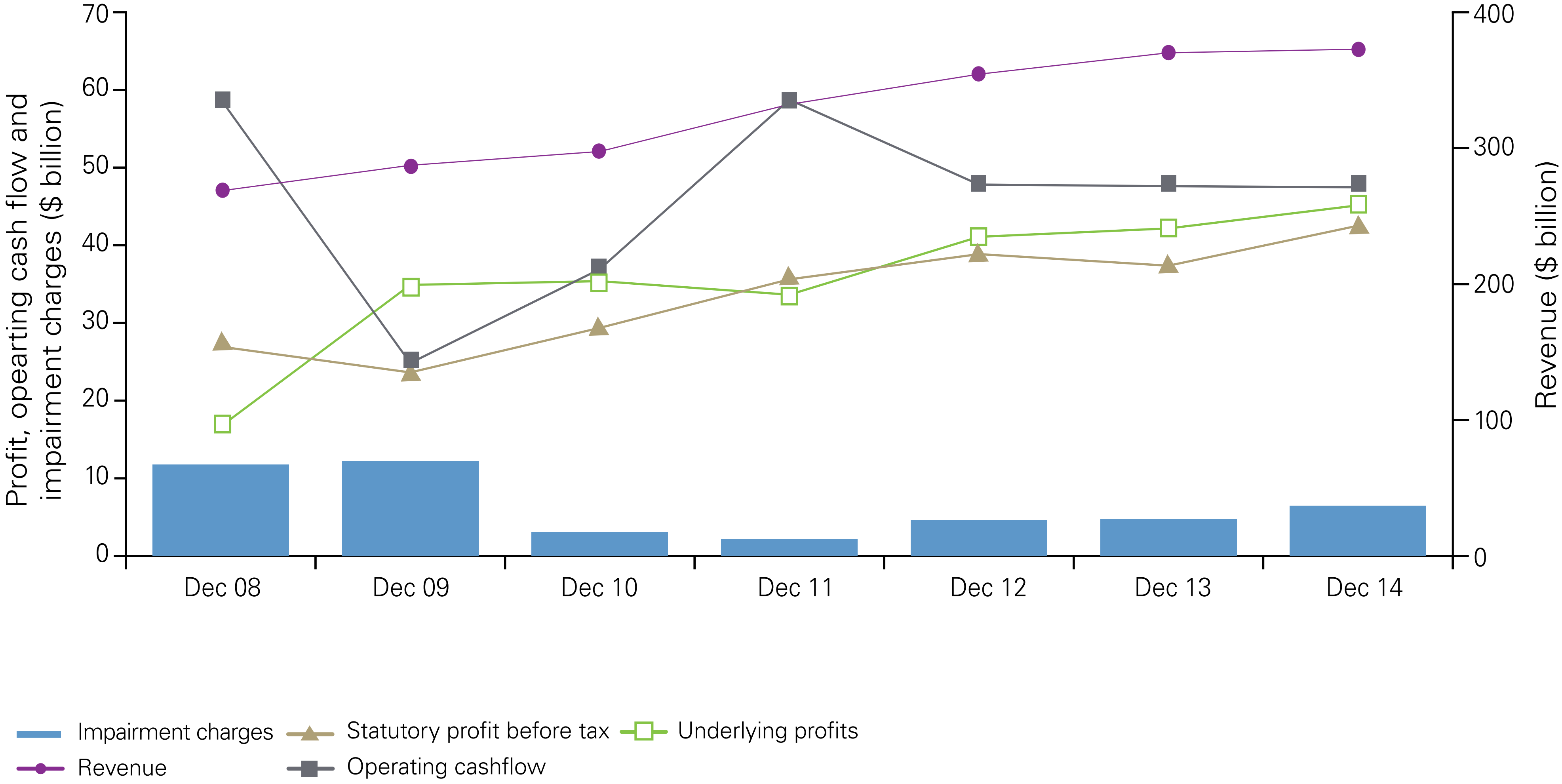
Appendix 3: Annual reported financial results: 'Top 41'



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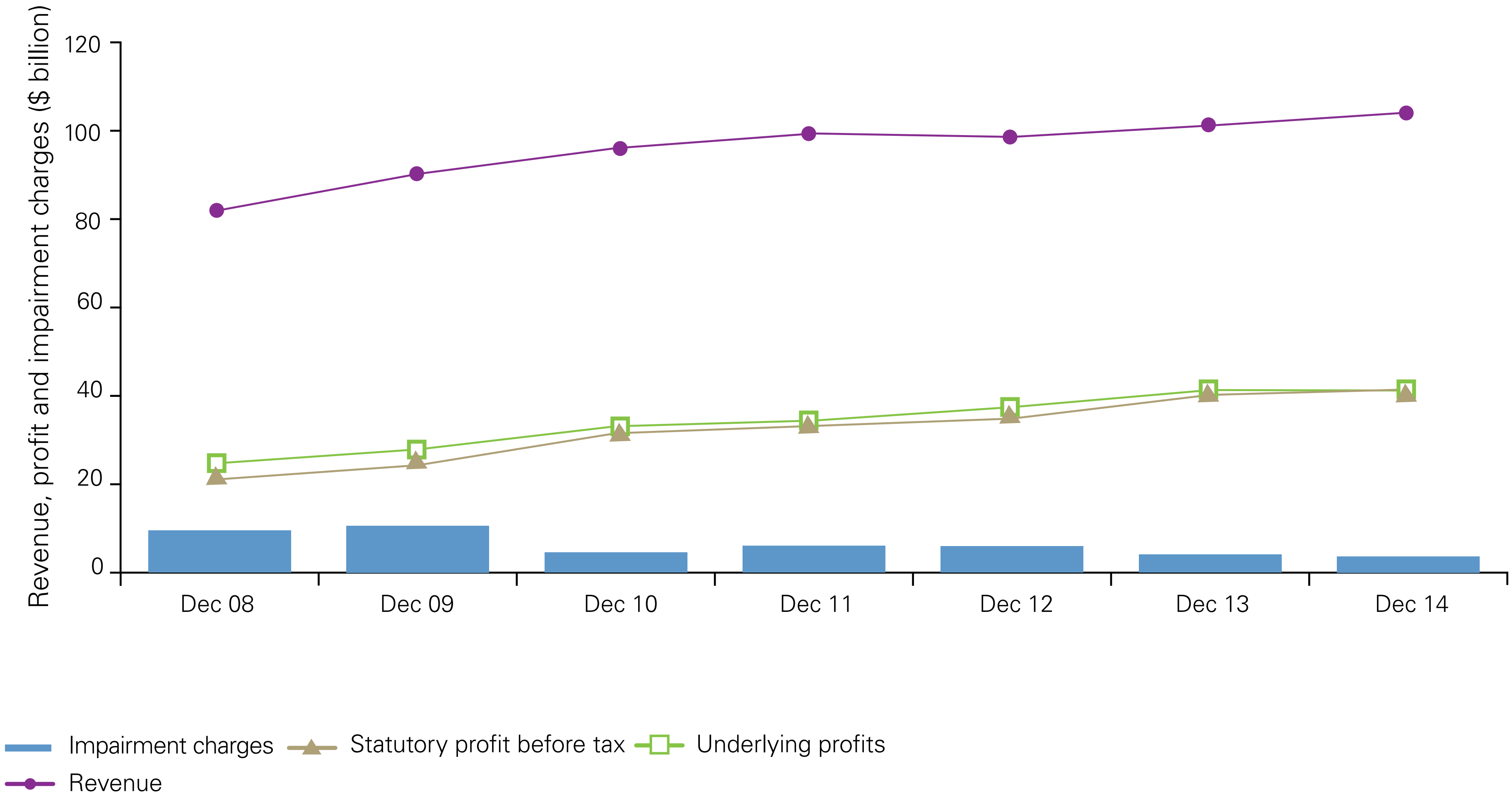
Appendix 4: Annual reported financial results: 'Big 4' banks



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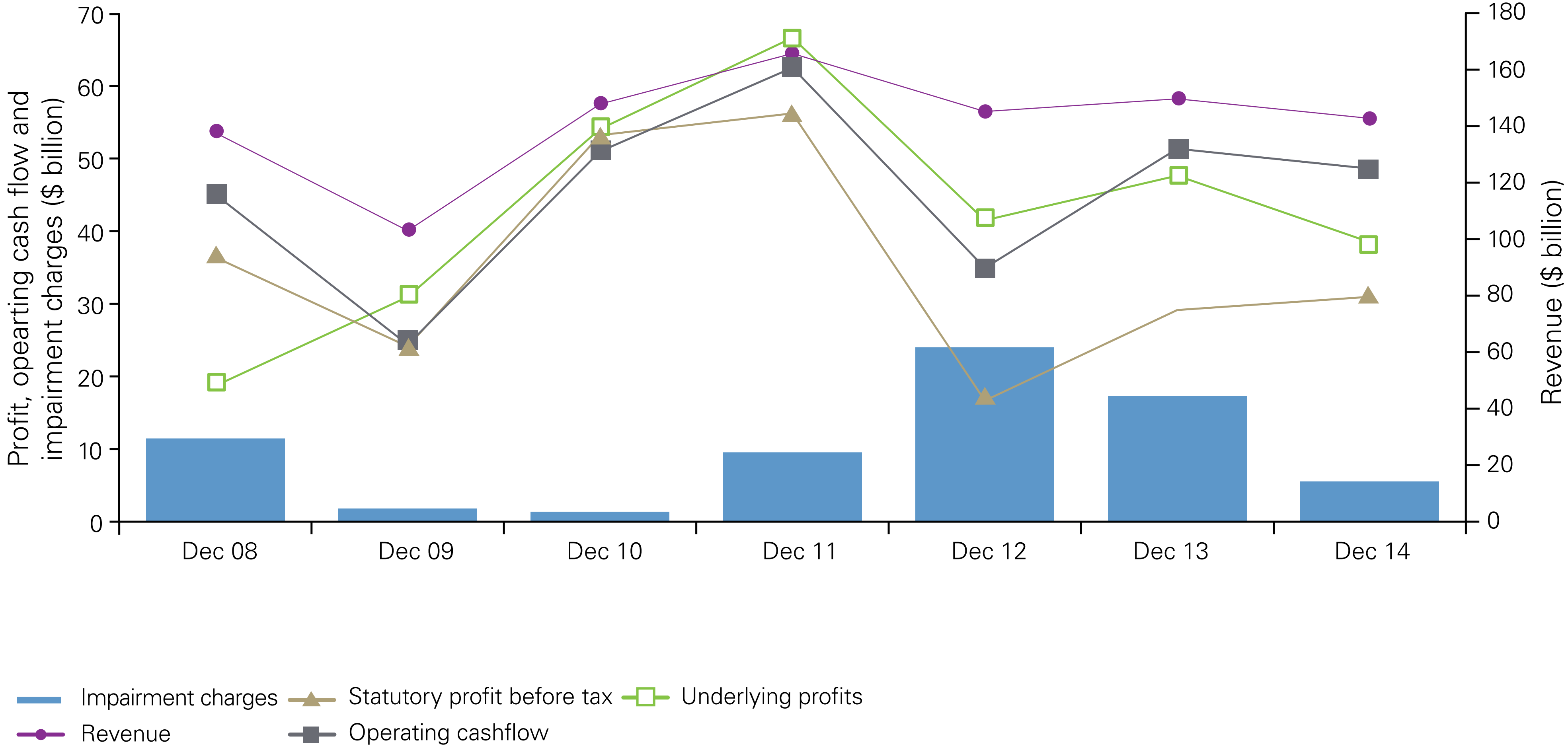
Appendix 5: Annual reported financial results: 'Top 5' miners



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