ASX50 financial reporting insights

31 December 2015 reporting season

April 2016

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Introduction

KPMG has analysed the financial reports of the ASX50 through the latest reporting season (1 July 2015 to 31 December 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; and

– Comparing and analysing earnings reported under statutory and non-statutory (underlying) measures.

All amounts are in Australian dollars, unless otherwise stated.

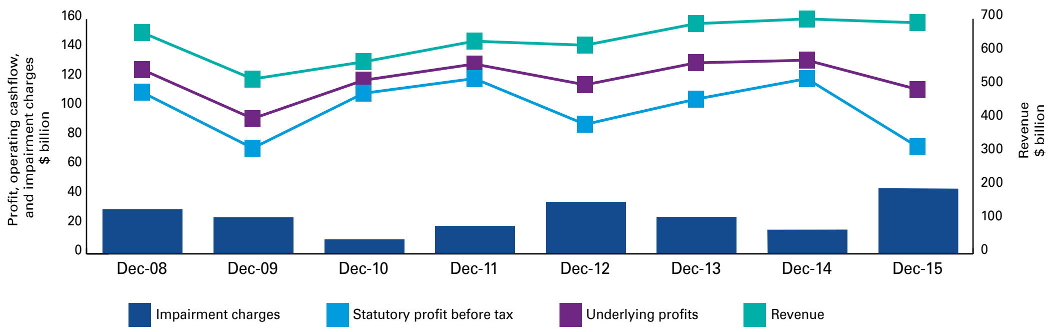
Executive summary

Methodology

Financial results have been sourced from company Annual Report, Appendix 4D and Appendix 4E disclosures. The constituents of the ASX50 as at 31 December 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 31 December 2015. All results reported in US dollars have been translated to Australian dollars using the average rate for each six-month period.

Key findings

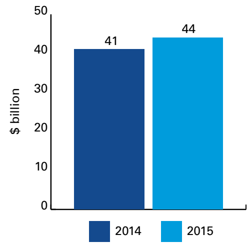
- Annual impairments of $41 billion are the highest of any period since the start of the survey. This includes the period post the Global Financial Crisis. Total statutory profit for the six months of $68 billion is also the lowest it has been since the start of the survey period in December 2008.
- Record low profitability driven by impairments and the impact of low commodity prices. BHP Billiton, South 32, Rio Tinto and Origin Energy experienced a combined $24 billion reduction in revenue and $43 billion reduction in statutory profit before tax (including $24 billion of asset impairments).
- Companies not exposed to commodity prices reported mostly positive results. Thirty-six companies reported growth in annual revenue and 30 companies reported growth in statutory profit before tax.
- Alternative measures of profit exceeded annual statutory profit for 24 (65 percent) of the 37 companies that reported an alternative profit measure. The non-statutory results for all 37 companies exceeded annual statutory pre-tax profits by $36.7 billion mainly due to the exclusion of $31.4 billion of impairment charges.



Executive summary Sector summary

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

12-month PBT



The Major banks reported a 6 percent increase in annual revenue and a 6 percent increase in annual statutory profit before tax (PBT).

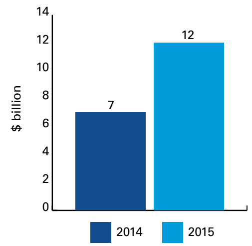
"The Australian major banks reported another record earnings result, but return on equity to shareholders is down (from 15.5 percent to 15.0 percent) as the banks face an accelerating pace of change and compounding challenges. The banks' record profits were achieved in the face of strong competition for new lending with net interest margins continuing to contract to a record low 2.02 percent, down from 2.07 percent last year. Revenue and margin headwinds, rising costs and capital levels, with a deteriorating credit quality outlook all mean the majors will face challenges in reversing declining returns in the years ahead."

– *Ian Pollari, National Sector Leader, Banking.*

KPMG's Major Australian Banks Full Year Results 2015 provides a detailed analysis.

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

12-month PBT



These nine companies reported an 11 percent increase in annual revenue and a 73 percent increase in annual statutory PBT.

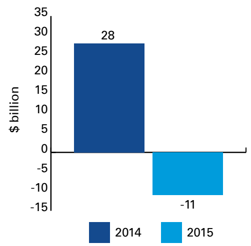
"Companies reported an average 6.6 percent increase in property values, having benefited from cap rate compression across asset classes driven by the significant weight of money chasing assets, a consistent theme over recent years however, the opportunity for further compression remains uncertain. Whilst the buyer universe continues to be comprised of REIT's, sovereign wealth funds, high net worth individuals, overseas investors and pension funds, overseas investors increasingly represent a greater percentage of these buyers.

Residential developers, whilst not experiencing 'frenzied' conditions, still enjoy healthy presale levels, ensuring their projects proceed. The key caution here is satisfying onerous bank funding requirements and managing increasing construction costs."

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

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

12-month PBT



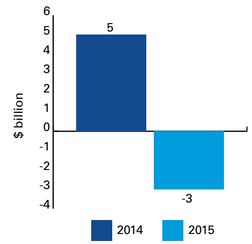
The miners reported a 16 percent decrease in annual revenue and a 137 percent decrease in annual statutory PBT resulting in a loss for the period.

"Although we have seen record levels of production, significantly weaker commodity prices in 2015 have decreased revenue and profit per tonne, which has more than offset productivity improvements. We have also seen impairments are at a record high which in combination with low commodity prices are driving profits to the lowest points we have seen in the past eight years."

– *Ted Surrete, Industry Leader, Energy & Natural Resources*

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

12-month PBT



These seven companies reported a 13 percent reduction in annual revenue and a 165 percent reduction in annual statutory profit before tax resulting in a loss for the period.

"The continued fall in oil prices led to significant revenue reductions for most oil and gas companies especially in the upstream industry. Companies with stronger balance sheets, whilst down on share price, have performed relatively well compared to peers globally. Exposure to gas projects has seen reduced revenues for a number of energy retailers, whilst downstream companies are enjoying increased margins."

– *Ted Surrete, Industry Leader, Energy & Natural Resources*

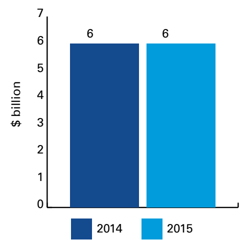
Executive summary Sector summary

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

Annual revenue has reduced 1 percent for the group. This includes declines in revenue for AMP (20 percent) and Suncorp (3 percent).

"The general insurers have continued to suffer from ongoing top line pressure and reduced margins due to the continuing soft insurance cycle in commercial lines and the challenging claims environment in both short and long tail claims. The impact of this has been further exacerbated by a year of natural catastrophe claims above normal levels."

– Martin Blake, Head of Insurance for Australia



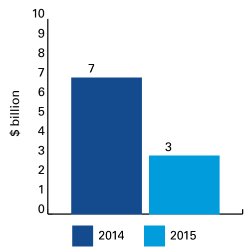
Consumer staples (Coca-Cola Amatil, Wesfarmers, Woolworths)

Wesfarmers and Coca-Cola reported stable annual revenues with a combined increase of 2 percent. Woolworths and Wesfarmers experienced annual statutory PBT declines of 129 and 14 percent respectively. These companies represent 21 percent of the revenue of the ASX50 and 4 percent of statutory PBT.

"Both Coles and Woolworths continue to invest in price in response to an ongoing shift to "value" by consumers and the emergence of ALDI.

Statutory profit for this sector was adversely impacted by the significant writedowns recorded by Woolworths in relation to the Masters Home Improvement business of $1.9bn."

– Trent Duvall, National Sector Leader, Consumer Markets



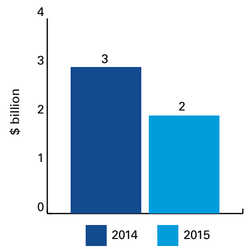
Materials and transport (Amcor, Incitec Pivot, James Hardie Industries, Orica) and Transportation (Asciano, Aurizon, Sydney Airport, Transurban)

These eight companies reported a 6 percent annual revenue increase but a 43 percent reduction in annual statutory profit before tax.

"The Transportation companies in the ASX50 had mixed fortunes with revenue streams that are not exposed to the resource industry experiencing strong growth in revenue and profitability with the converse being true for those with direct exposure.

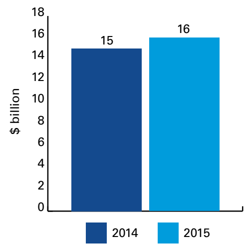
The Materials companies that experienced growth were aided by the performance of the Australian dollar, their relative product diversity and their participation in the US economy. Companies with direct exposure to the mining sector experienced material impacts to their performance including recognition of impairments. These companies continue to undertake various restructuring activities to reduce costs."

– David Drummond, National Sector Leader, Industrial Markets



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

All 10 companies reported an increase in revenue with a 14 percent increase overall. Annual statutory PBT results were generally positive with seven companies reporting an increase and an 8 percent increase overall.



Non-statutory measures of earnings

Thirty-seven companies (74 percent) in the ASX50 group reported an alternative measure of earnings in addition to statutory profit.

For these 37 companies non-statutory profits were 54 percent higher than statutory profits for the 12-month period ended 31 December 2015.

The difference has widened significantly as impairment charges are cumulatively 355 percent higher during the period.

Key findings

Prevalence of non-statutory reporting

– Thirty-seven of the 50 companies chose to report results using an alternative measure of profit including underlying profits, cash earnings, and profits before significant, non-recurring or material items. In most cases these metrics are included in the half-year or annual financial report in accordance with the requirement to report operating segment results which reflect the way management report metrics internally.

– The total reported non-statutory measure of profit for the 12-month period ended 31 December 2015 was greater than statutory PBT for 24 of the 37 companies (65 percent) using such a measure. For these 37 companies non-statutory profits (pre-tax) exceeded statutory PBT by 54 percent.

Impairments

– Seventy-six percent of total impairments recognised in statutory PBT in the 12-month period ended 31 December 2015 were excluded from of non-statutory profit ($31.4 billion out of a total $41.1 billion).

– Impairments have consistently been the largest reconciling item between statutory PBT and alternative profit measures for the ASX50 group over the last five survey years.

Changes in financial instrument fair values

– Companies typically 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.

– Some of the companies in the ASX50 have early adopted the hedge accounting model of AASB 9 and have reported a reduction in profit and loss volatility and hedge accounting outcomes that better align to risk management strategies. These companies include Coca-Cola Amatil, Telstra and Wesfarmers.

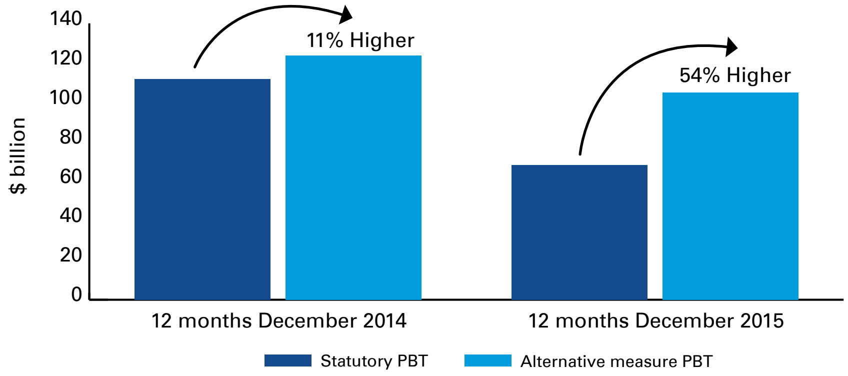
Changes in asset fair values

– The real estate sector has excluded $5.2 billion of upward revaluations of investment property from underlying profits which is over seven times higher than the previous year. This is in line with increased property prices compared to the previous 12-months.

Significant and separately disclosed items and other items

– Twenty-eight percent of companies disclosed significant items or other forms of adjustment in accordance with their respective alternative methodology to exclude a net $5.8 billion from their alternative measures of financial performance. This category continues to include costs associated with company restructuring programs.

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



Reconciliation between underlying and statutory profit before tax		
($billion)	**12 month period ended**	
	December 2014	**December 2015**
Underlying profit before tax	**123.7**	**105.0**
Impairments	(6.9)	(31.4)
Changes in financial instrument fair values	(1.5)	0.0
Investment property revaluations	0.6	5.2
Changes in asset values (excluding investment property revaluations)	(0.1)	(4.7)
Significant items separately disclosed	(2.8)	(4.0)
Other items	(1.1)	(1.8)
Statutory profit before tax	**111.9**	**68.3**

Impairment analysis

Annual impairment charges to 31 December 2015 for the ASX50 group have increased by a record result of 185 percent to $41 billion.

There are 21 companies with impairment charges greater than $50 million (excluding impairment of receivables in the 'Big 4' banks). The total value of the impairments for the group have increased in the current year.

Key findings

- Impairments recognised during the six-month period ended 31 December 2015 are the highest since the start of this survey. For the full 2015 year a total of nine companies recorded impairments greater than $1 billion compared to three in 2014.
- Non-bank, non-miner impairments were at the highest level since the start of the survey period. Miner impairments were at the second highest since the start of the survey period after the December 2012 impairments. Impairments of receivables remain relatively low.

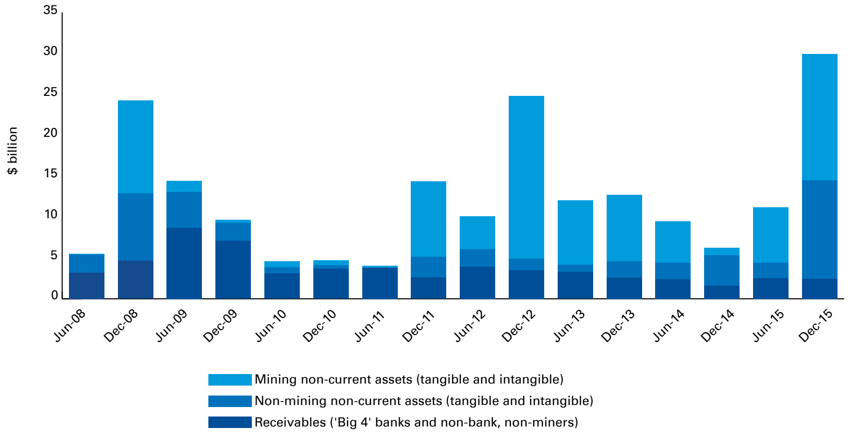
Miners

- The miners accounted for 62 percent of the ASX50 non-current asset impairments in the 12 months to 31 December 2015 and 45 percent in the previous 12-month period.
- There were large impairments from BHP Billiton in relation to Samarco and onshore US assets ($15 billion). South32 and Rio Tinto both recorded $4 billion total impairments.

Non-bank, non miners (42 companies)

- Total impairment losses for this group increased by $8.2 billion (144 percent) from the previous 12-month period.
- Impairment losses relating to non-current assets increased by 154 percent to $13.6 billion for the 12-month period ended 31 December 2015. The impairments were seen across multiple sectors with the following companies recording impairments over $1 billion:
  - Santos reported $3.9 billion in impairment charges related to oil and gas assets;
  - Woolworths reported a $2 billion impairment in relation to its exit from its home improvement assets;
  - Orica reported a $1.9 billion impairment charge primarily in relation to its ground support business and assets in its ammonium nitrate division;
  - Woodside reported a $1.5 billion impairment charge in relation to its oil and gas assets;
  - AGL reported a $1.2 billion impairment relating to its upstream gas production assets in Gloucester and Queensland; and
  - Origin reported a $1.2 billion impairment related to upstream production assets and the Contact Energy business.
- The impairment of receivables in the financials, insurance, energy and utilities, and telecommunication services sectors for the 12-month period ended 31 December 2015 was $1 billion which is consistent with the previous 12-month period.

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



Companies recording impairments greater than $1 billion excluding impairment of receivables by the 'Big 4' banks

12 months to December	2010	2011	2012	2013	2014	2015
Number of companies	1	2	2	3	3	9

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	11	18	18	21	21

'Big 4' banks

- The 'Big 4' banks impair receivables in the normal course of business. The total charge of $3.9 billion in the 12-month period to 31 December 2015 is one of the lowest 12-month results in the survey period.

Revenue analysis

The non-bank, non-miners reported a 2 percent increase in revenue for the 12-month period ended 31 December 2015.

The mining sector has reported a 16 percent decrease in revenue driven by sustained declines in commodity prices.

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

Key findings

– Total annual revenue has reduced by $10 billion (2 percent) due to lower commodity prices despite 72 percent of the companies reporting an improvement in annual revenue.

Non-bank, non miners (42 companies)

– Overall revenue for the 12-month period ended 31 December 2015 increased by 2 percent on the comparative period.

– Excluding the Energy and Utilities sector, 28 of the 35 companies reported increases in annual revenue. The total revenue for these companies increased 4 percent on the comparative period.

– Seasonality is generally present in the results, with the six months to 31 December consistently outperforming the six months to June.

– There has been a 13 percent reduction in revenue for the energy and utilities sector driven by declines in commodity prices.

– The increased profit conversion within the real estate sector (28 percent to 42 percent) was due to higher property valuations at year end. These have been excluded for the purposes of the companies' alternative profit measures.

Miners

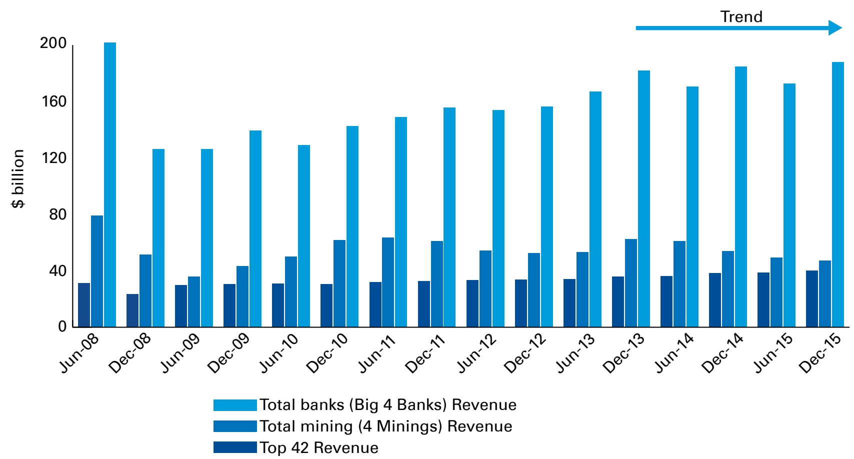
– The miners reported a 16 percent revenue decline for the 12-month period ended 31 December 2015 against the comparable period in 2014.

– The declining revenue reflects the continued weakness in commodity prices. Changes in overall volume output did not offset the sales price variance.

'Big 4' banks

– Revenue for the 12-month period to 31 December 2015 has increased by 6 percent compared to the previous year due to increases in interest earning assets offsetting historically low interest rates.

Revenue per six-month period – ASX50



Conversion of revenue to profit before tax per 12 month period

Sector	Companies	December 2014		December 2015
Banks	4	50.3%	▼	50.2%
Consumer Markets	4	5.6%	▼	2.9%
Energy and Utilities	7	7.5%	▼	(5.6%)
Financials	2	31.0%	▲	32.2%
Health Care and Pharmaceuticals	3	18.3%	▼	17.1%
Insurance	5	8.2%	▼	7.8%
Materials	4	9.1%	▼	1.7%
Mining	4	22.4%	▼	(10.0%)
Real Estate	9	27.5%	▲	41.5%
Services	3	16.3%	▲	19.4%
Tel Co Services	1	25.0%	▼	22.0%
Transportation	4	8.2%	▲	11.7%

Statutory profit before tax analysis

The six month results to 31 December 2015 are the lowest of any six-month period within the survey period.

Statutory profit before tax for the 12-month period ended 31 December 2015 has decreased by 39 percent from the previous period.

The miners have reported an annual loss for the first time in the survey period.

Twenty-five companies out of the Top 42 recorded an increase in annual profit before tax. The total reduction in profit before tax of $7 billion has primarily been driven by impairments and the impact of weakening commodity price in the energy and utilities sector.

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

Key findings

– The statutory profit before tax for the 12-month period ended 31 December 2015 has decreased by $44 billion or 39 percent compared to the previous period. The majority of this reduction comes from the last six months of 2015 ($37 billion decrease from December 2014). The downward trend is largely due to impairments recognised in the mining, energy and utilities, consumer and materials sectors. This result is partially offset by record profits for the 'Big 4' banks.

Non-bank, non miners (42 companies)

– The performance of individual companies is mixed but the general trend for the 12 months to December 2015 is positive with 25 of the 42 companies collectively reporting an increase in annual statutory profit before tax of 56 percent.

– The strongest performing industries over the year were transportation and real estate.

– The largest declines in profit for the year were in the energy and utilities sector where six of the seven companies reported decreases in annual profit before tax with a 165 percent reduction overall. Impairments were recognised for all seven companies within this group contributing to an $8 billion hit to their income statements.

Miners

– The miners have reported an $11 billion loss in statutory profit before tax for the 12-month period ended 31 December 2015, a record low.

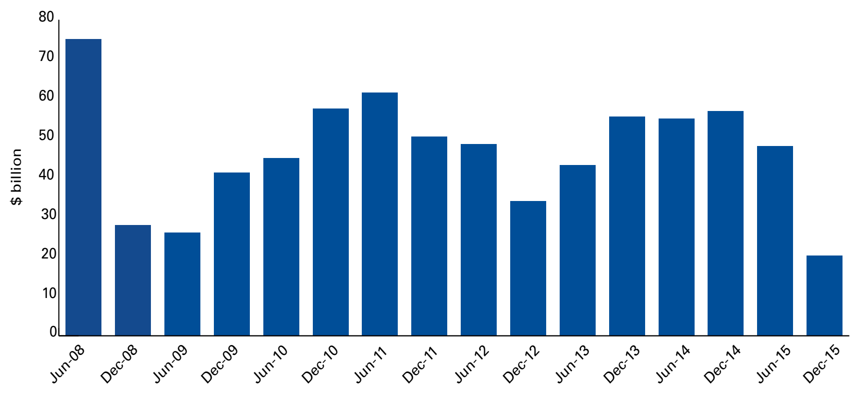
– The reduction in revenue and non-cash impairments have resulted in large reductions in statutory profit before tax for this sector. Cost saving initiaves have continued adding some offset to the decline in earnings.

'Big 4' banks

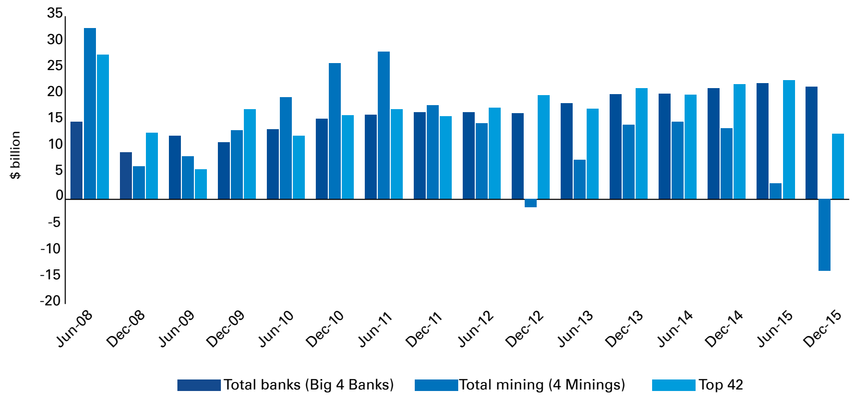
– The 'Big 4' banks again posted a record combined statutory profit before tax of $43.7 billion for the annual period ended 31 December 2015. In a competitive environment and with low interest rates this has been achieved through increases in revenue generating assets and reductions in the cost base.

– The key themes behind the result 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 pressue on industry returns.

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



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



Operating cash flow analysis

Excluding the 'Big 4' banks, annual operating cash flows to 31 December 2015 have decreased by 11 percent.

Annual operating cash flows to 31 December 2015 for the miners have decreased 23 percent.

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

Key findings

Miners

– The continued decline in commodity prices have resulted in reductions in the operating cash flows of 23 percent during the 12 months ended 31 December 2015. The impact has been softened by cost saving initatives implemented to minimise operating expenditure.

Non-bank, non miners (42 companies)

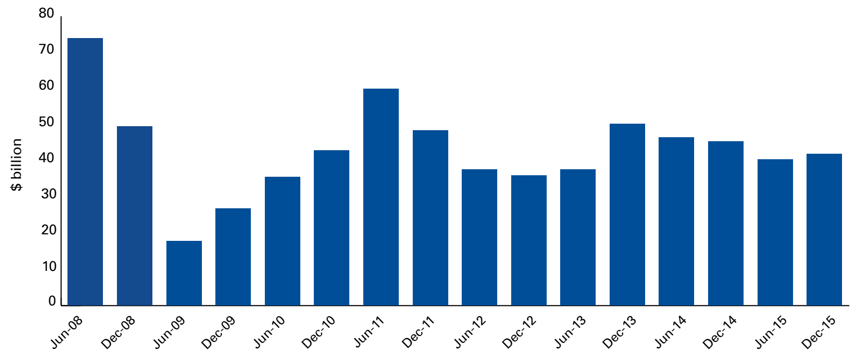
– There were mixed results within the top 42 however overall operating cash flow for the 12 months ending December 2015 were consistent with the prior period.

– The divergence in operating cash flow and statutory profit before tax is primarily due to the increase in impairments. These can be seen in the relationship between operating cash flow and underlying profit (Appendix 3).

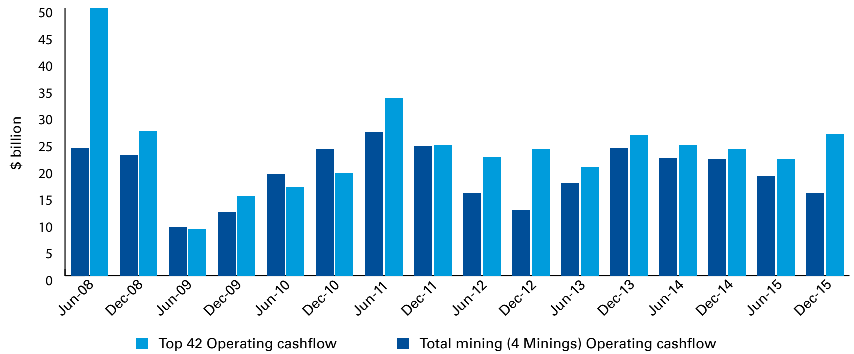
'Banks

– 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 six-month period – ASX50 (excluding 'Big 4' banks)



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



Appendix 1: ASX50 as at 30 June 2015

S&P ASX50 as at 31 December 2015

Symbol	Company	Sector
AGL	AGL Energy Limited	■ Energy and Utilities
AMC	Amcor Limited	■ Materials
AMP	AMP Limited	■ Insurance
APA	APA Group	□ Energy and Utilities
AIO	Asciano Limited	□ Transportation
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
CWN	Crown Limited	■ Consumer Markets
CSL	CSL Limited	■ Health Care and Pharmaceuticals
DXS	Dexus Property Group	□ Real Estate
FDC	Vicinity Centres Trust	□ 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

S&P ASX50 as at 31 December 2015

Symbol	Company	Sector
MPL	Medibank Private Limited	■ Insurance
MGR	Mirvac Group	■ Real Estate
NAB	National Australia Bank Limited	■ Banks
NCM	Newcrest Mining Limited	■ Mining
OSH	Oil Search Limited	■ Energy and Utilities
ORI	Orica Limited	■ Materials
ORG	Origin Energy Limited	■ Energy and Utilities
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
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

Allocation of results to six monthly periods

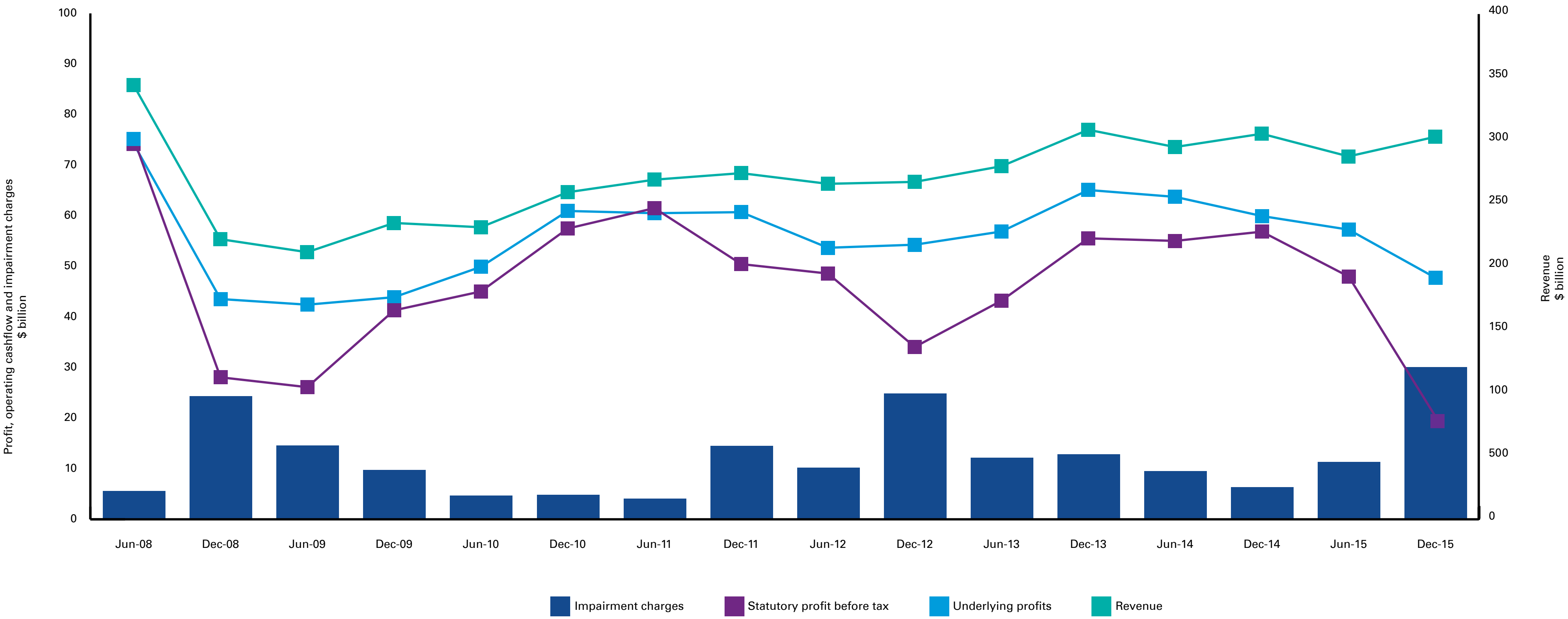
Year end	Six months to June	Six months to December
June or December	January to June	July to December
September or March	October to March	April to September

■ Company has been in the ASX50 for all periods presented. These represent approximately 92 percent of ASX50 revenue and 88 percent of ASX50 statutory PBT for the year ended 31 December 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.

No new companies entered or exited the ASX50 in the current report period (July to December 2015). Federation Centres was renamed to Vicinity Centres in the current report period.

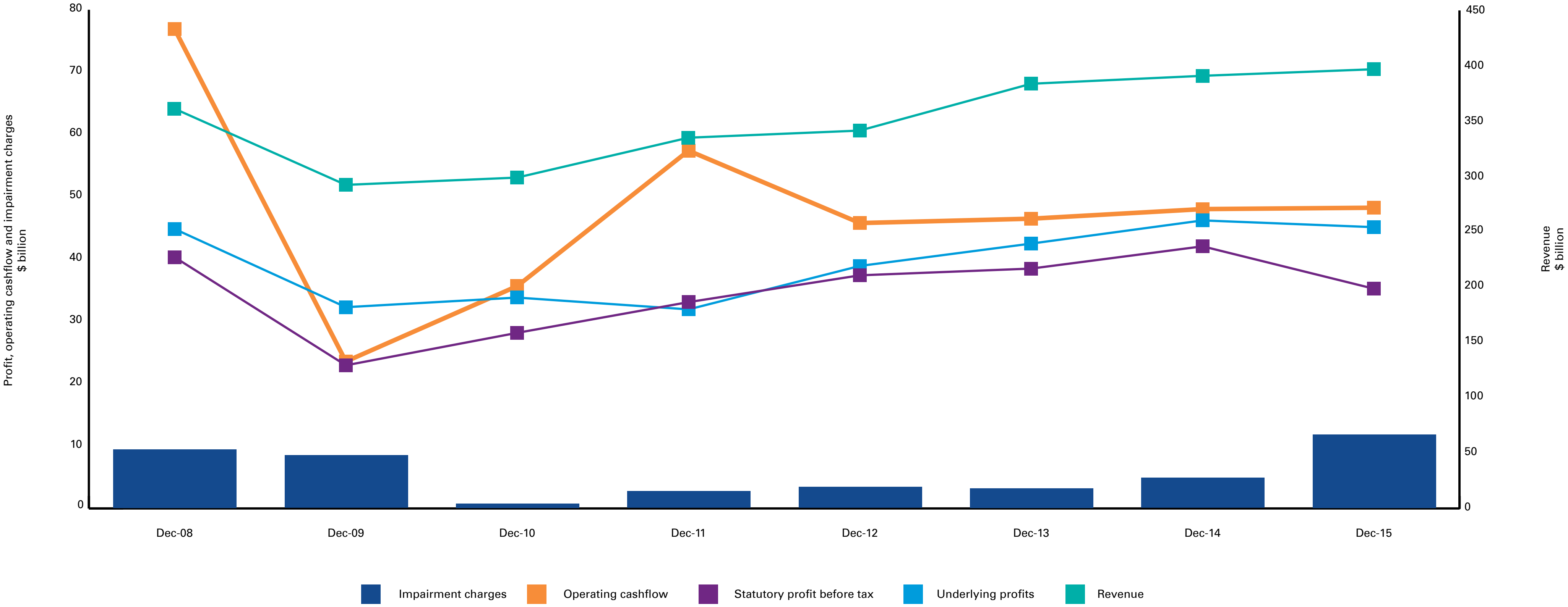
Appendix 2: ASX50 six-monthly reported financial results



Note: Foreign denominated results translated at constant exchange rates to eliminate impact of FX volatility. Comparatives have been restated such that the ASX50 reported for prior periods is comprised of the ASX50 as at 31 December 2015

Source: 4Ds, 4Es and Annual Financial Reports

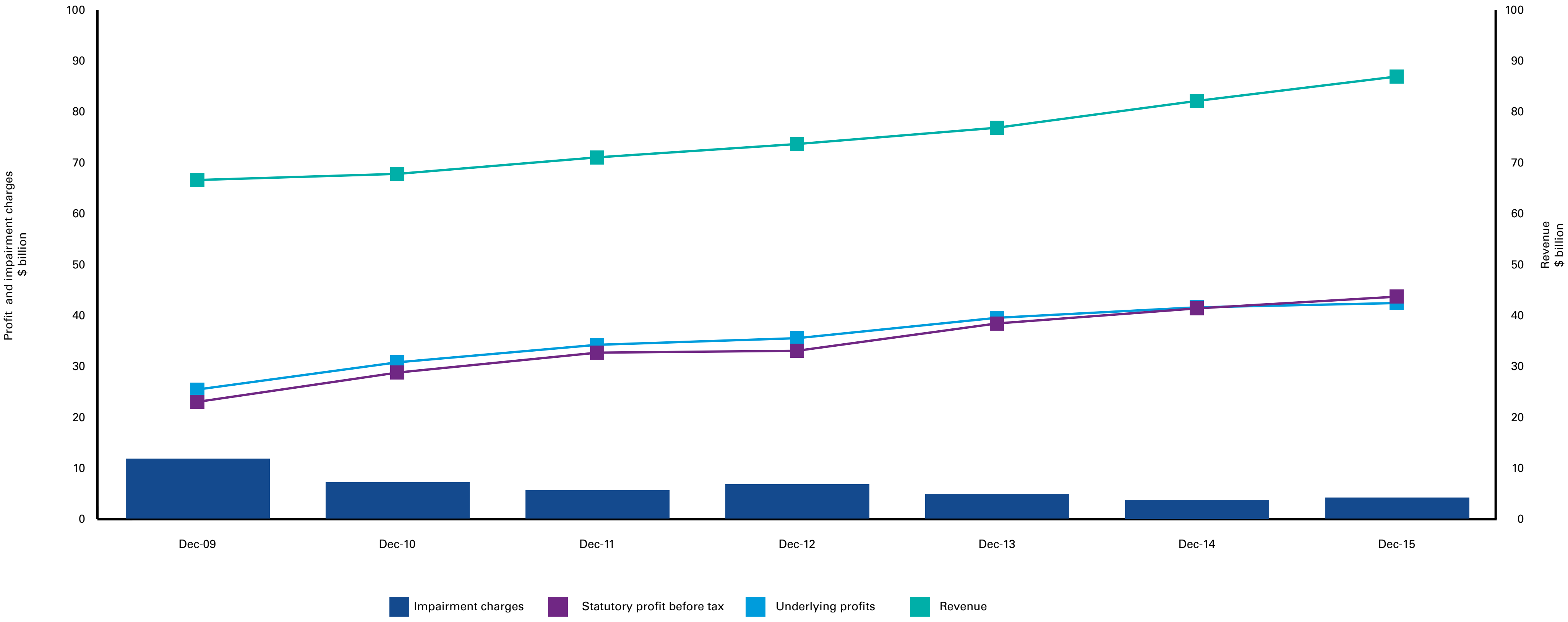
Appendix 3: Annual reported financial results: Top 42



Note: Foreign denominated results translated at constant exchange rates to eliminate impact of FX volatility. Comparatives have been restated such that the ASX50 reported for prior periods is comprised of the ASX50 as at 31 December 2015

Source: 4Ds, 4Es and Annual Financial Reports

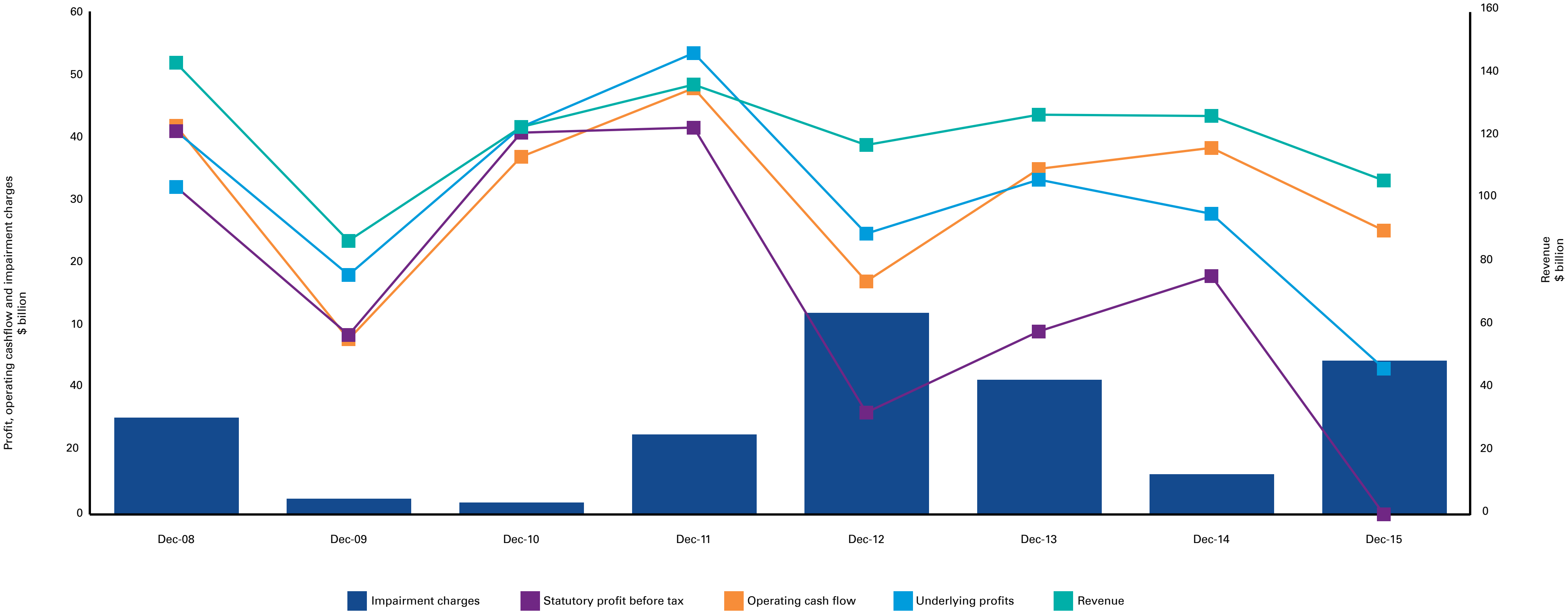
Appendix 4: Annual reported financial results: 'Big 4' banks



Note: *Foreign denominated results translated at constant exchange rates to eliminate impact of FX volatility. Comparatives have been restated such that the ASX50 reported for prior periods is comprised of the ASX50 as at 31 December 2015*

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 ASX50 reported for prior periods is comprised of the ASX50 as at 31 December 2015

Source: 4Ds, 4Es and Annual Financial Reports

Contact us

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