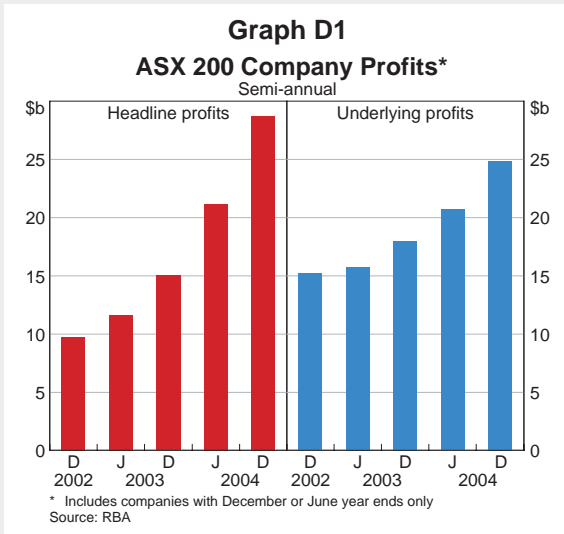


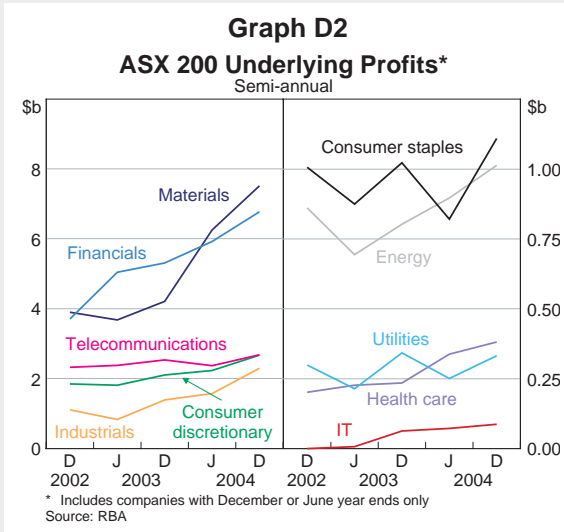
Box D: December Half 2004 Profit Results

The latest corporate profit reporting season was a strong one. Half-year profits of the 158 companies in the ASX 200 index that reported for the half year to December 2004 amounted to \$29 billion, 91 per cent higher than in the corresponding period of the previous year (Graph D1).



D1). Underlying profits – which exclude significant items such as write-downs – rose by 38 per cent to \$25 billion.

The growth in underlying profits was broad-based, with 80 per cent of individual companies and nine of the ten broad industry sectors recording an increase in underlying profits (Graph D2). The strongest growth was from companies in the materials sector, whose profits rose by 80 per cent. This was particularly driven by mining companies, whose profits almost doubled from the December half of 2003, benefiting from higher commodity prices and increased production.



Aggregate profits were roughly 5 per cent above analysts' expectations, with 70 per cent of individual companies reporting profits that were ahead of expectations. Over the course of the reporting season, market analysts revised up their earnings forecasts for the 2004/05 and 2005/06 financial years. Forecasts of earnings growth for the current financial year were revised up by around 4 percentage points to 36 per cent, while forecasts for growth in 2005/06 were revised up slightly to 9 per cent. The mining industry experienced the largest

upward revisions to earnings forecasts, with market analysts expecting profitability to remain high as a result of continued strong demand for commodities.

Growth in listed companies' underlying profits of 38 per cent was much faster than the economy-wide measure of profits from the national accounts – gross operating surplus (GOS) – which was up by 6 per cent in the December half year compared with the corresponding period of 2003. This difference is partly due to differences in the treatment of specific components of earnings such as interest, tax and depreciation, and in company coverage. GOS includes unlisted Australian companies and the domestic subsidiaries of non-resident companies, and excludes offshore subsidiaries of Australian companies. As a result, mining and financials companies, which both reported strong profit growth, account for a much larger share of listed companies' profits than of GOS. ↗