

UBS Investment Research

Australian Equity Strategy

Australia

Equity Strategy

Market Comment

The Impact Of Carbon Pricing

■ Summary of Scheme

The Australia Federal Government has announced a carbon pricing mechanism to address Australia's contribution to climate change. Around 500 of the biggest polluters in Australia will be required to pay for their carbon emissions. From 1 July 2012, a fixed carbon price will start at \$23 a tonne, for three years. From 1 July 2015, the carbon price will be set by the market under an emissions trading scheme. There will be compensation for industries heavily affected by the scheme.

■ Economic Impact

The Government estimates the initial impact of a \$23/t carbon price will raise CPI by a total of 0.7% in 2012-13. The carbon tax will cost the Budget \$4.0bn over 4 years from 2011-12 to 2014-15. The carbon tax will likely have a limited impact on activity, especially capex in the mining sector. Further, household consumption should not be materially impacted, as some lower and middle income households could end up 'better off' should they choose to abate (although higher income households will be 'worse off').

■ Sector Impacts – Pass-Through Assumptions The Key

Even with the proposed assistance measures the carbon tax will impose an additional cost on a number of emissions intensive industries including; Building materials, chemicals, transport (particularly aviation), steel, mining (particularly coal) and oil and gas. However the key assumption that needs to be made is the ability of companies to pass the cost through to end customers. This will depend on industry structure and the extent to which pricing is "globalised". Overall, we believe the impact on FY13 earnings post-pass-through will be less than 1%.

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Summary of Scheme

The Australia Federal Government has announced a carbon pricing mechanism to address Australia’s contribution to climate change. Around 500 of the biggest polluters in Australia will be required to pay for their carbon emissions by reporting on their emissions and then buying and surrendering to the Government a carbon permit for every tonne of carbon they produce.

From 1 July 2012, a fixed carbon price will start at \$23 a tonne, for three years. From 1 July 2015, the carbon price will be set by the market under an emissions trading scheme.

In the fixed price period, there will be no pollution caps – i.e. the government will issue as many carbon permits as businesses require, at the fixed price.

In the emissions trading scheme, the number of permits issued each year will be limited by a Government-set cap on annual carbon pollution. Businesses will then compete to buy the fixed number of permits available. Businesses will also be able to buy permits from international carbon markets.

The carbon tax will not apply to emission from households and light vehicle usage. However domestic aviation, shipping, rail, and transportation will be taxed, though this will be achieved through changes in fuel tax credits or excise.

Direct agricultural and land use emissions and agricultural transportation emissions are exempt from the scheme.

A combination of tax cuts and direct payments will assist households.


There will be compensation for industries heavily affected by the scheme. Companies with carbon intensity of 1000-1999t/\$m will qualify for a 66% assistance rate and those companies with carbon intensity of greater than 2000t/\$m will qualify for a 94.5% assistance rate, reducing by 1.3% a year.

Additionally, there will be an extra \$1.3bn over 6 years for coal miners and an extra \$300m over 5 years for the steel industry.

The Federal Government will foster the development and implementation of renewable energy in Australia with \$15bn invested over 4 years.

Chart 1: Australia’s Carbon Price Timeline

begins 1 July 2012			begins 1 July 2015			begins 1 July 2018
FY13	FY14	FY15	FY16	FY17	FY18	FY19+
\$23.00	24.15¹	25.36¹	market-determined price			market-determined price
begins at \$23 and escalates at 2.5% real pa			within a price ceiling ² & floor ³			no price ceiling or floor
Fixed price period			Emissions trading scheme			



1. Assumes per annum escalation of 2.5% real + 2.5% inflation
2. Ceiling starts \$20 above the expected international price for FY16 and will rise by 5% real each year.
3. Floor starts at \$15 and rises 4% real each year.

Source: Department of Climate Change and Energy Efficiency

Compensation Structure

The government has also proposed compensation for industries that are heavily affected by the scheme, such as steel and coal. The compensation aims to assist emission intensive industries, transitional risk and development of renewable energy technologies.

Emission Intensive, Trade-Exposed Industries Assistance Program

Companies will be means tested to see if they qualify for assistance under the program based on carbon emitted per million dollar of revenue. Assistance can come in the form of freely allocated carbon permits or direct compensation.

To qualify for the EITE program, a company's carbon intensity needs to cross two thresholds

- 2000t/\$m revenue for 94.5% assistance rate with a reduction of 1.3%p.a.
- 1000t-1999t/\$m for 66% assistance rate with a reduction of 1.3%p.a.

The intensity is calculated based on the weighted average of carbon emissions in Australia divided by the weighted average of revenue attributable to those emissions.

Energy Security Fund

The Energy Security Fund (ESF) will ensure a smooth transition from high carbon intensive power source to a lower intensity power source. The fund has two main objectives

- 1) Scope payments for the closure of about 2000MW worth of intensive coal-fired power stations by 2020.
- 2) Free allocation of Australian carbon permits and cash until 2016-2017; worth up to \$5.5b (23% of expected liability).

Coal Sector Jobs Package

The \$1.3bn over 6 years is designed to offset some of the costs bore by mines with high fugitive emissions (i.e. methane escaping from coal beds). Coal miners with fugitive emissions intensity of at least 0.1t of CO₂ for every tonne of coal mined will receive up to 80% assistance for emissions above that threshold.

Steel Transformation Plan

The Steel Transformation Plan will provide assistance worth up to \$300 million over five years to encourage investment and innovation in the Australian steel manufacturing industry.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) will be established with \$10b to invest and foster the development of renewable energy technology in Australia.

Economic Impact

Impact On Inflation

The Government estimates the initial impact of a \$23/t carbon price will raise CPI by a total of 0.7% in 2012-13, less than Treasury and RBA estimates of around 1% under the previously proposed CPRS. The initial estimated price impact on electricity prices is 10%, gas prices is 9%, but food prices is minimal at <0.5%. Post the initial impact, during the fixed price period, we estimate this would probably raise CPI by less than 0.1% p.a. Once prices are set by the market, the impact could vary depending on the price.

It's unclear from the Government's documents, but it does seem that these assumptions were based on a carbon price of \$20/t for businesses, but a \$23/t price for households. This effect may add 0.1%pt to the estimated inflation impact.

This impact is significant – but not a 'game changer' for the medium-term outlook. To put it in context, the initial 0.7%pt impact is the same as the contribution to CPI from the fruit & vegetables price spike (caused by weather) across Q111 and Q410. It is also well below the GST impact of 2.5% in 2000-01, which was also much broader across all sectors of the economy.

The Government estimates that the imposition of the carbon price will raise electricity prices by 10% and gas & other household fuel prices by 9%. Our analysis suggests that this will account for about 0.3-0.4%pts, or half of the estimated 0.7% impact. 'Indirect' price rises will come from food, transport, services etc due to rises in business costs as a result of the imposition of the carbon tax. (This is a similar conclusion as the RBA previously made with a \$25/t price under CPRS.) This is a reasonable assumption, albeit perhaps on the low side.

Questions remain over the second round impacts, if price-setters take the opportunity to raise prices 'under the cover' of a carbon tax. However, the Government says 'that appropriate action will be taken against businesses' that raise prices above the carbon impact (albeit it is unclear how the Government can either determine this, or can regulate prices in this manner).

Impact On Household Income

On average, households are fully compensated. According to the government, out of 9 million households in 2012/13, and 8 million get some assistance. Of this, 5.7 million will be assisted to (at least) meet the impact, and of them, 4 million will be better off with assistance of 120% of the impact. However, almost 1 million higher income households will receive virtually no compensation.

The total assistance is \$14.9bn over 4 years – primarily from tax cuts and family payments. This includes \$8bn of tax reform, including \$7bn of tax cuts targeted and low and middle-income earners. There is also a 1.7% increase in pensions to account for pensioners' higher than average spending on utilities relative to the average population, which is a 1% increase above the estimated CPI impact.

Overall, households receive just over 50% of the revenue raised from the carbon tax.

The carbon tax will cause overall households average weekly spending to increase by \$9.90/week, which is slightly more than offset by assistance of \$10.10/week. Of this, there will be increases for bills of electricity (\$3.30/week), gas (\$1.50/week), and food (<\$1/week).

We estimate the price rises reduce household disposable income by 0.3%pts, around the same as a 25bp rate increase (0.4%pts, assuming all variable rates). However, this analysis is before 'abatement' (where households reduce their consumption and their bills voluntarily in response to changes in price relativities and).

Income Tax Reform

Part of household compensation will come from changes to income tax, benefiting taxpayers earning up to \$80,000 per annum. Those who earn more than \$80,000 will pay the same as before.

The tax-free threshold will rise from \$6000 to \$18,200 in 2012-13, and to \$19,400 from 2015/16. However, while thresholds increase, the lowest marginal tax rates will also increase to 19% (from 15%), and the second lowest (for incomes from \$18,200 to \$37,000) will increase to 32.5% from 30% (and to 33% in 2015/16). More importantly, the 'effective' tax free threshold will rise by a much smaller amount – from \$16,000 now, to \$20,452 in 12-13, and then to \$20,979 in 15-16.

60% of taxpayers get an annual tax cut of \$300 in mid-2012, and another \$83 in mid-15 – for a total of \$386. Specifically, incomes under \$25,000 receive \$503 and \$83 (total \$586). Incomes under \$20,000 receive \$600 initially (then nothing).

The Government has a stated aim is to 'increase rewards from work and reduce disincentives to participation'. However, incentives may differ across income groups, with some possibly negatively affected. They also want to 'assist households to improve energy efficiency to save money' (i.e. encourage abatement).

Impact On Growth & Employment

The carbon pricing is estimated by the Government to slow Australia's income (GDP) growth by 0.1%p.a. This seems to be a relatively conservative (i.e. low) estimate.

This suggests that the impact on jobs will be limited overall. However, we expect to see some reallocation of labour away from large-emitting industries to lower-emitting industries.

Impact On The Federal Budget

The carbon tax will cost the Budget \$4.0bn over 4 years from 2011-12 to 2014-15, rather than being 'revenue neutral' (as previously thought). However, this is a small impact. There is a negative impact in 2011-12 due to upfront payments to families and pensioners (in May-June 2012). Revenue raised in 2012-13 sees

a positive net impact of \$1.1bn. However, increased costs in 2013-14 and 2014-15 see a negative impact of \$1.3bn and \$1.1bn. This is largely due to new initiatives, such as the establishment of the Clean Energy Finance Corporation and the Energy Security Fund.

What Does It Mean For The RBA?

Should the RBA adopt the Government's estimate of a 0.7% CPI impact to its forecasts at its next SoMP, that would imply an upgrade to its headline CPI forecasts by ~¾%pt for Dec-12 and Jun-13 (all else unchanged). Further, given the policy will affect a range of items, there is likely to be a non-negligible impact on core CPI as well. (This is in contrast to the narrower spike in fruits and vegetables prices in Q410 and Q111, which had minimal impact on core CPI).

The announcement of the carbon tax should help to alleviate concerns about government policy uncertainty, which seems to have weighed on consumer and business confidence recently. Overall, we think the package may be viewed as 'less bad than feared', with households overall being fully compensated and businesses in the most exposed sectors getting some form of government assistance.

Notwithstanding the RBA's current near-term 'neutral' stance, the prospect of higher core inflation post the carbon tax does add to the case that higher rates are likely for the medium term. Inflation expectations are important to assess the degree to which second round effects are likely.

All of these analyses assume the carbon tax will have only a limited impact on activity, especially capex in the mining sector. Further, household consumption should not be materially impacted, as some lower and middle income households could end up 'better off' should they choose to abate (although higher income households will be 'worse off').

Sector Impacts – Pass-Through Assumptions The Key

Even with the proposed assistance measures the carbon tax will impose an additional cost on a number of emissions intensive industries including; Building materials, chemicals, transport (particularly aviation), steel, mining (particularly coal) and oil and gas. However the key assumption that needs to be made is the ability of companies to pass the cost through to end customers. This will depend on industry structure and the extent to which pricing is “globalised”.

Our views on the degree of pass-through by sector are discussed immediately below. In summary we believe a number of industries will have the capacity to pass the great bulk of the cost burden through to end customers through higher pricing; namely building materials, chemicals (but not fertilisers), transport and utilities. Mining, steel and aluminium will have limited capacity to pass through the residual burden (after assistance) and thus earnings in these sectors will be the most negatively impacted.

We find there are only 2 companies with an assumed modest positive FY13 impact (AGL Energy and Origin Energy). Computershare and ASX Limited are likely to benefit from 2015 from increased potentially revenues from trading and management of carbon permits/futures.

Overall, we believe the impact on FY13 earnings post-pass-through will be less than 1%.

Note that table 1 generally is constructed on a post-compensation but pre-pass-through basis, so the ultimate impact on earnings will be less significant as discussed below.

Mining

The most emissions-intensive, trade-exposed activities will initially be eligible for free permits representing 94.5% of industry average carbon costs. This will apply to manufacturing activities like aluminium smelting, steel manufacturing, flat glass making, zinc smelting and most pulp and paper manufacturing activities.

Additionally, Liquefied Natural Gas (LNG) projects will receive a supplementary allocation to ensure an effective assistance rate of 50%.

The mining industry, which effectively pays no fuel excise, will face an effective carbon price, through changes to the current fuel tax regime.

The Carbon Price package includes a program worth \$9.2bn over its first three years to support jobs and competitiveness in industries affected by the introduction of a carbon price.

The major miners (BHP Billiton and Rio Tinto) are less impacted by having a globally diversified suite of assets, and so have less Australian emissions on a relative sense than many stocks in our coverage.

Coal miners are more impacted than iron ore miners. Conceptually, while both are moving significant material, coal miners also have fugitive emissions.

Miners that have significant processing facilities have relatively more emissions (e.g. Alumina, Gindalbie Metals, Minara Resources, etc).

Steel

Carbon policy detail is a positive catalyst, in our view, as investors can now assess valuation and earnings impact. Upon our initial review, policy detail appears more favourable than the CPRS, with more generous compensation. There is also scope for review of the policy by the Productivity Commission in FY15, or at request of the steel makers upon implementation. This may mean recommendations for adjustments to assistance if the competitiveness of the industry has been impacted.

Initial compensation of 94.5% and decay rates of 1.3% p.a. are in line with the CPRS but the prior mechanism had a 5% GFC buffer built in, with removal after year 5 so compensation is better than forecast. Further the steel sector is to receive A\$300m in assistance over four years as per the Steel Transformation Plan.

We estimate a valuation impact of 10-11% for Bluescope Steel and 5-6% for Onesteel. We estimate FY13 earnings impact of 6-7% for BSL and 1-2% for OST. OST remains our preferred exposure given an iron ore earnings offset to weak domestic steel manufacturing & distribution, which is being impacted by weak domestic demand, a strong A\$ and record raw material prices impacting steel manufacturing spreads.

Oil & Gas

Santos and Woodside Petroleum are eligible for the 50% rate of assistance for their respective LNG projects. In addition, Santos is also eligible for the 66% rate of assistance on its other projects due to the company's emissions intensity. Oil Search has no Australian production, and therefore the carbon tax does not impact its earnings. While not specifically mentioned, Caltex believes refineries will receive the highest level of assistance at 94.5%.

We believe the oil and gas companies will not be able to pass on the majority of the tax via higher prices due to the global market dictating the price of oil and LNG. There may be some scope for some costs to be passed on via higher domestic gas pricing, however this is not material in our view. We believe there are medium to longer term opportunities for oil and gas producers to mitigate their GHG emissions (e.g. utilisation of waste heat, CO2 reinjection, etc). As such, the implementation of these design and operational features could reduce the impact the carbon tax has on these companies.

Transport

Business transport emissions from liquid fuels (rail and shipping) and non-transport emissions from businesses using liquid fuels will be subject to an *equivalent* carbon price, generally applied by reducing business fuel tax credits by an amount equivalent to that of placing the carbon price on liquid fuel emissions. Despite the high intensity of the sector we do not foresee any material impacts on the companies.

Rail is specifically impacted by a 6.2c /litre reduction in the fuel tax credit (currently 38c). Using a gate price of \$1.30, this will push up fuel costs by 7%.

Asciano is the largest single consumer of diesel in Australia, using 330m litres in FY11. The proposed 6.2c reduction in fuel tax credit would add \$20m in prima facie costs. However, coal rail contracts almost entirely include fuel pass through mechanisms, and contracts in the intermodal rail business allow for fuel surcharging on a monthly basis. We therefore expect almost no impact on Asciano.

QR National consumed c.250m litres of diesel in FY10, with slightly less intensity than Asciano because of its use of electrified services in the Goonyella coal system and much smaller intermodal business. Obviously the electric costs will also be captured separately under the tax. QRN's coal contracts (except one) have all had fuel pass through mechanisms since August-10.

Airlines are targeted through a 6c per litre rise in the fuel excise applying to jet kerosene, but this only applies to domestic flight segments.

Qantas consumed 32m bbl of jet kero in FY11, or 5.1bn litres, of which 40% was for domestic. This equates to 2bn litres of jet kero used in domestic operations, to which a 6c /litre extra cost will now apply, equating to \$120m of extra cost. Virgin Blue's equivalent number is \$50m.

These numbers look big relative to profit, but they need to be considered against revenue because they will need to be passed on.

The best way to look at the impact for airlines is as follows:

1. Each Qantas domestic passenger consumes an average of 65 litres.
2. The extra 6c increase in fuel cost equates to \$4 per passenger.
3. Passing this through in full would result in the following needed increases in average domestic fares:

Qantas group, 2.0% (Jetstar 3.0%)

Virgin Blue Holdings, 2.5%

Tiger Airways, 5.5%

Buildings Materials

A carbon tax of \$25 per ton would have between 1-7% negative impacts on FY13 EPS for building materials companies based on our current estimates. However, when we look at the total cost net of compensation, average price rises of <1% at each of the companies in 2013 would recover the cost. We think that this is achievable and a carbon tax would not impact our valuations or estimates.

Utilities

Overall, we expect that Origin Energy and AGL Energy will see some marginal benefit from the carbon tax and anticipate it could be 1-1.5% of FY13 earnings, with risk more likely to the upside. In the near term though, we do not regard it as an important share price driver.

We do not expect any earnings impact on the smaller regulated utilities – they do emit some greenhouse gasses, but the impact on earnings is minimal as it is assumed that there will be a full pass through of costs in the regulation.

Chemicals

The fertiliser industry (50% of Incitec Pivot) will find it difficult to pass through costs given the international competitiveness of the industry and the fact that Incitec Pivot are effectively price takers.

However, the explosives industry (90% of Orica and 50% of Incitec Pivot) will find it easier to pass through costs given the high value add nature of their activities and the narrower scope of competition domestically and abroad.

Retail

The carbon tax is set to have a minimal impact on retailers given the low carbon intensity of their businesses. However, large supermarket operators (i.e. Woolworths and Wesfarmers) will suffer a material hit due to emissions from their logistics networks and fugitive emissions from coal mining operations (Wesfarmers).

REITs

Real estate stocks should be only minimally impacted, with most REITs' EPS impacted by less than 1%. The stocks producing the highest emissions generally sell residential developments or own office assets. Industrial assets are the least impacted with shopping centres in between.

Paper and Packaging

Under the late 2009 CPRS design, negotiated between the govt and coalition, special assistance levels were agreed for EITE industries. The majority (c80%) of Amcor's Australian operations fall under paper & cartonboard manufacturing and glass container manufacturing which are up to receive assistance level of 90% and 60% respectively. Moreover, a large proportion of AMC's contracts have pass through provisions which should limit any impact on profitability.

Registry Management

ASX Limited & Computershare could have an additional source of revenue generated from trading and management of carbon permits. However, positive upside impact will not be seen until FY16, when the emissions trading scheme replaces the carbon tax.

Table 1: Key EPS Impacts Of Carbon Pricing (Post-Compensation, Pre-Pass-Through)

Name	Security	EPS Impact FY13	EPS Impact FY14
Adelaide Brighton	ABC	-4.0%	-4.0%
AGL Energy	AGK	+1.2%	+0.0%
Alumina Limited	AWC	-2.5%	-1.3%
Amcor	AMC	-1.0%	-0.9%
Asciano Limited	AIO	-6.6%	-6.6%
BHP Billiton	BHP	-0.9%	-0.9%
BlueScope Steel	BSL	-7.4%	-5.0%
Boral	BLD	-6.1%	-5.0%
CFS Retail Property Trust	CFX	-0.6%	-0.6%
Charter Hall Office REIT	COO	-0.8%	-0.7%
Coca-Cola Amatil	CCL	-0.6%	-0.6%
Commonwealth Property Office Fund	CPA	-0.9%	-0.8%
Crown Limited	CWN	-1.0%	-1.0%
CSR	CSR	-6.7%	-6.4%
David Jones	DJS	-0.9%	-0.9%
Dexus Property Group	DXS	-0.9%	-0.9%
Downer EDI	DOW	-2.9%	-2.6%
Goodman Fielder	GFF	-1.8%	-1.7%
GPT Group	GPT	-1.0%	-1.0%
GrainCorp	GNC	-3.6%	-3.8%
Incitec Pivot	IPL	-4.3%	-4.1%
Investa Office Fund	IOF	-0.6%	-0.6%
James Hardie Industries SE	JHX	-1.1%	-0.7%
Lend Lease Group	LLC	-0.6%	-0.6%
MacArthur Coal	MCC	-3.9%	-7.7%
Mirvac Group	MGR	-1.8%	-1.7%
Myer Holdings	MYR	-1.3%	-1.2%
Newcrest Mining	NCM	-3.4%	-4.0%
Oil Search	OSH	+0.0%	+0.0%
OneSteel	OST	-1.5%	-2.5%
Orica	ORI	-3.1%	-2.7%
Origin Energy	ORG	+1.2%	+0.0%
OZ Minerals	OZL	-1.5%	-1.6%
Qantas Airways	QAN	-14.1%	-14.1%
QR National	QRN	-4.9%	-4.9%
Ramsay Health Care	RHC	-1.3%	-1.3%
Rio Tinto	RIO	-1.9%	-2.3%
Santos	STO	-5.1%	-3.1%
Toll Holdings	TOL	-2.4%	-2.4%
Transfield Services	TSE	-3.0%	-2.6%
Transurban Group	TCL	-1.0%	-1.0%
Treasury Wine Estates	TWE	-0.6%	-0.6%
Virgin Blue Holdings	VBA	-24.5%	-24.5%
Wesfarmers	WES	-2.9%	-2.8%
Woodside Petroleum	WPL	-2.4%	-2.4%
Woolworths	WOW	-1.9%	-1.8%

Source: UBS

Note that all EPS sensitivities are “pre-pass-through”, with the exception of AGL Energy and Origin Energy

■ **Statement of Risk**

Equity market returns are influenced by corporate earnings, interest rates, and investor demand risk premiums. The outlook for any and all of these variables is subject to change.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	54%	39%
Neutral	Hold/Neutral	39%	35%
Sell	Sell	7%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities Australia Ltd: David Cassidy; Dean Dusanic; George Tharenou; Alvin Pontoh.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Adelaide Brighton Limited ¹³	ABC.AX	Buy	N/A	A\$2.96	08 Jul 2011
AGL Energy Limited ¹⁶	AGK.AX	Buy	N/A	A\$14.52	08 Jul 2011
Alumina Limited ^{4, 13, 16}	AWC.AX	Buy	N/A	A\$2.22	08 Jul 2011
Amcor Limited ^{4, 16}	AMC.AX	Neutral	N/A	A\$7.18	08 Jul 2011
Asciano Limited ^{4, 13}	AIO.AX	Buy	N/A	A\$1.65	08 Jul 2011
BHP Billiton Limited ^{4, 5a, 6, 16, 18a, 22}	BHP.AX	Buy	N/A	A\$44.95	08 Jul 2011
BlueScope Steel ^{13, 16}	BSL.AX	Neutral	N/A	A\$1.35	08 Jul 2011
Boral Limited ^{2, 3b, 4, 5a, 13}	BLD.AX	Buy	N/A	A\$4.24	08 Jul 2011
CFS Retail Property Trust	CFX.AX	Neutral	N/A	A\$1.82	08 Jul 2011
Charter Hall Office Reit	CQO.AX	Neutral	N/A	A\$3.49	08 Jul 2011
Coca-Cola Amatil Limited ^{5a, 16}	CCL.AX	Neutral	N/A	A\$11.38	08 Jul 2011
Commonwealth Property Office Fund	CPA.AX	Neutral	N/A	A\$0.93	08 Jul 2011
Crown Limited ¹³	CWN.AX	Buy	N/A	A\$9.12	08 Jul 2011
CSR Limited ^{4, 5b}	CSR.AX	Buy	N/A	A\$2.94	08 Jul 2011
David Jones Limited ¹³	DJS.AX	Neutral	N/A	A\$4.09	08 Jul 2011
Dexus Property Group	DXS.AX	Neutral	N/A	A\$0.89	08 Jul 2011
Downer EDI Limited ^{2, 4, 5a, 6, 13}	DOW.AX	Not Rated	N/A	A\$3.85	08 Jul 2011
Gindalbie Metals Ltd ^{2, 4, 5a, 13}	GBG.AX	Buy	N/A	A\$0.83	08 Jul 2011
Goodman Fielder Limited ^{13, 16}	GFF.AX	Neutral	N/A	A\$1.04	08 Jul 2011
GPT Group ^{3a, 4, 5a, 13}	GPT.AX	Neutral	N/A	A\$3.11	08 Jul 2011
Graincorp Limited ¹³	GNC.AX	Buy	N/A	A\$8.14	08 Jul 2011
Incitec Pivot Limited ^{4, 5a, 16}	IPL.AX	Buy	N/A	A\$4.01	08 Jul 2011
Investa Office Fund	IOF.AX	Neutral	N/A	A\$0.65	08 Jul 2011
James Hardie Industries ^{13, 16}	JHX.AX	Neutral	N/A	A\$6.08	08 Jul 2011
Lend Lease Group ^{5a, 16}	LLC.AX	Buy	N/A	A\$9.26	08 Jul 2011
Macarthur Coal Limited	MCC.AX	Neutral	N/A	A\$11.40	08 Jul 2011
Minara Resources Limited	MRE.AX	Buy	N/A	A\$0.75	08 Jul 2011
Mirvac Group ^{4, 5a}	MGR.AX	Neutral	N/A	A\$1.24	08 Jul 2011
Myer Holdings Limited ¹³	MYR.AX	Buy	N/A	A\$2.67	08 Jul 2011
Newcrest Mining Limited ^{2, 4, 5a, 13, 16}	NCM.AX	Buy	N/A	A\$38.79	08 Jul 2011
Oil Search Limited ^{4, 16}	OSH.AX	Buy	N/A	A\$6.71	08 Jul 2011
OneSteel Limited ^{5a}	OST.AX	Neutral	N/A	A\$2.03	08 Jul 2011
Orica Limited ¹³	ORI.AX	Neutral	N/A	A\$27.18	08 Jul 2011
Origin Energy ^{2, 4, 5a, 5b}	ORG.AX	Buy	N/A	A\$15.50	08 Jul 2011
OZ Minerals Limited ^{12, 16}	OZL.AX	Neutral	N/A	A\$13.71	08 Jul 2011
Qantas Airways Limited ^{4, 5a, 13, 18b}	QAN.AX	Buy	N/A	A\$2.00	08 Jul 2011
QR National ^{2, 4, 13}	QRN.AX	Neutral	N/A	A\$3.47	08 Jul 2011
Ramsay Health Care Limited ^{5a}	RHC.AX	Neutral	N/A	A\$17.71	08 Jul 2011
Rio Tinto Limited	RIO.AX	Buy	N/A	A\$84.35	08 Jul 2011
Santos Limited ^{2, 4, 5a, 16}	STO.AX	Buy	N/A	A\$13.64	08 Jul 2011
Toll Holdings Limited ¹³	TOL.AX	Neutral	N/A	A\$4.87	08 Jul 2011
Transfield Services ^{2, 13}	TSE.AX	Not Rated	N/A	A\$3.51	08 Jul 2011
Transurban Group ^{4, 5a}	TCL.AX	Buy	N/A	A\$5.21	08 Jul 2011
Treasury Wine Estates Limited ¹³	TWE.AX	Neutral	N/A	A\$3.49	08 Jul 2011
Virgin Blue Airlines Ltd ¹³	VBA.AX	Buy	N/A	A\$0.35	08 Jul 2011
Wesfarmers Limited ^{4, 5a, 16}	WES.AX	Buy	N/A	A\$31.98	08 Jul 2011
Woodside Petroleum Limited ^{2, 4, 5a, 5b, 6, 16}	WPL.AX	Buy	N/A	A\$41.20	08 Jul 2011
Woolworths Limited ¹⁶	WOW.AX	Buy	N/A	A\$27.78	08 Jul 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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