Health of the Market Report

November 2008

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Executive summary

Lincoln notes the significant deterioration in the health of the market and the resulting opportunities created for long-term investors

Purpose: Lincoln Indicators releases its semi-annual *Health of the Market (HOTM)* report to provide investors with independent, timely analysis of the financial health of almost 2000 listed Australian companies.

Methodology[1]: Developed by Dr Merv Lincoln, Lincoln's unique research and investment methodology applies models and accounting ratios to measure a company's level of risk and financial health based on its financial report.

Key findings: The latest *Health of the Market* report (covering the reporting period starting June 2008 through to September 2008) shows:

- The global financial crisis and weaker commodity markets have seen the health of the Australian sharemarket deteriorate in the last six months.
- 62 per cent of all companies display a 'Marginal' or 'Distressed' financial health position, while only 27 per cent of companies on the Australian sharemarket are exposed to a manageable level of financial risk.
- Financials, Consumer Discretionary and Industrials are among the healthiest sectors while Materials, Energy and Health Care are the least healthy.

Health rating	Jun 2008
Strong	23%
Satisfactory	4%
Early Warning	11%
Marginal	50%
Distressed	12%

Unique sector by sector analysis:

Lincoln provides unique analysis of each market sector.

Sector	Market cap $million	% of total market
Financials	356,490	32.46%
Consumer Staples	92,802	8.45%
Consumer Discretionary	59,696	5.44%
Industrials	82,114	7.48%
Telecommunications	59,224	5.39%
Materials	269,912	24.58%
Energy	103,072	9.39%
Utilities	18,667	1.70%
Health Care	47,565	4.33%
IT	8,512	0.78%

The outlook:

The continued declining health of the market is of a major concern for investors in these uncertain times. Pressures that are coming to bear on a number of companies have seen many take some drastic action.

A number of companies are making a conscious effort to de-leverage their balance sheets in order to better absorb the current shocks and this can only be a good thing for the market over the long term. While there may be some short term pain, the return to more sound practices with regards to funding and reporting is a step in the right direction.

[1] Methodology background information: *HOTM report Page 35*

Lincoln Health of the Market Report
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The financial health of Australian listed companies continues to deteriorate, however visible steps are being taken to improve this situation.

Lincoln's unique sector-by-sector analysis of the Australian sharemarket shows the 'health of the market' has continued to deteriorate following the release of data covering the June/September 2008 reporting period.

Analysis of the broader market shows 23 per cent of all companies on the Australian sharemarket are in a 'Strong' financial health position and 4 per cent in a 'Satisfactory' position. Overall, only 27 per cent of the companies on the Australian sharemarket are exposed to manageable levels of financial risk, representing a 3 per cent decline compared to the previous six months.

After years of prosperity for both the global economy and the market, the insatiable hunger for growth which drove companies to take on increased risk through gearing and financial engineering have finally taken their toll. The financial crisis which has played out over the past six months has brought the global economy to a stand still.

With debt markets drying up around the world, many companies have been forced to fundamentally restructure their businesses in order to cope with the crisis. Even healthy companies have not been immune from the crisis with many required to act on the shift in the financial landscape. That said, they have been in a better position to be able to raise the capital necessary to continue as a going concern.

With an unsustainable 62 per cent of all companies displaying a 'Marginal' or 'Distressed' financial health position, hopefully the revaluation of debt and the role it plays in business will spark an improvement over the coming reporting seasons.

Despite the current landscape there are still many companies which are healthy, profitable, efficient, growing and represent fantastic value for long term investors. Such companies are providing excellent opportunities, particularly following the market correction.

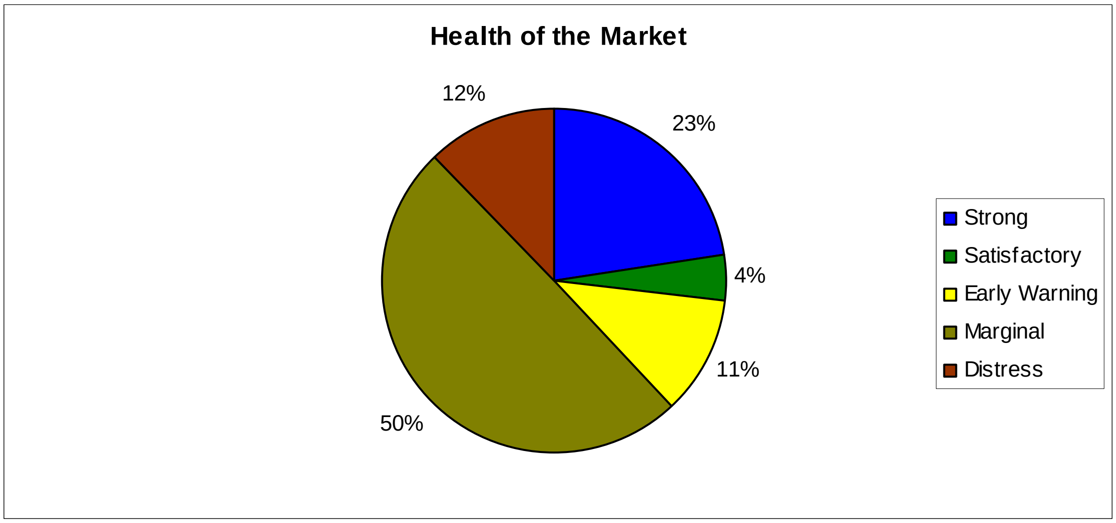
Key points

- Overall, the market's health has continued to deteriorate over the last six months.
- As access to credit dried up, a number of companies felt the squeeze and were forced into some drastic action.
- Over 60 per cent of all companies listed on the ASX exhibit unsatisfactory exposures to financial risk, with many coming under significant pressure during the recent correction.
- Consumer Discretionary, Retail and Industrials sectors are among the most healthy.
- Financials continue to be a fairly robust sector despite the problems which have plagued a number of high profile companies.
- Materials, Energy and Health Care are the least healthy.
- The recent steps toward an 'across the board' de-leveraging of companies' assets is a good thing for the market long term.
- Despite the deterioration in financial health and market turmoil, the recent sharemarket correction has thrown up a **'once in a lifetime' opportunity for savvy investors.**

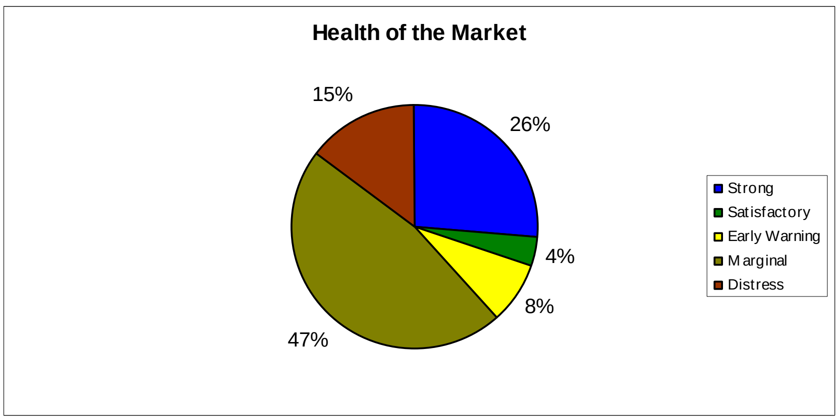
Health rating	Jun 2008	Dec 2007
Strong	23%	26%
Satisfactory	4%	4%
Early Warning	11%	8%
Marginal	50%	47%
Distressed	12%	15%

For background information on Lincoln's rating methodology, refer to the Appendix on page 35.

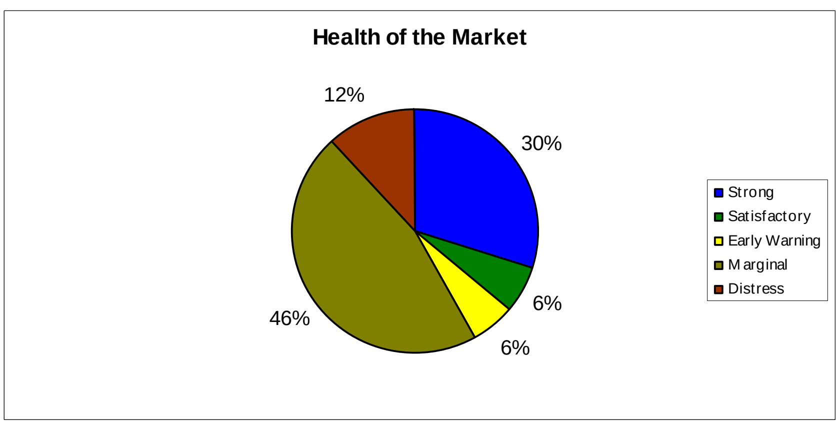
Health of the Market – Jun 08



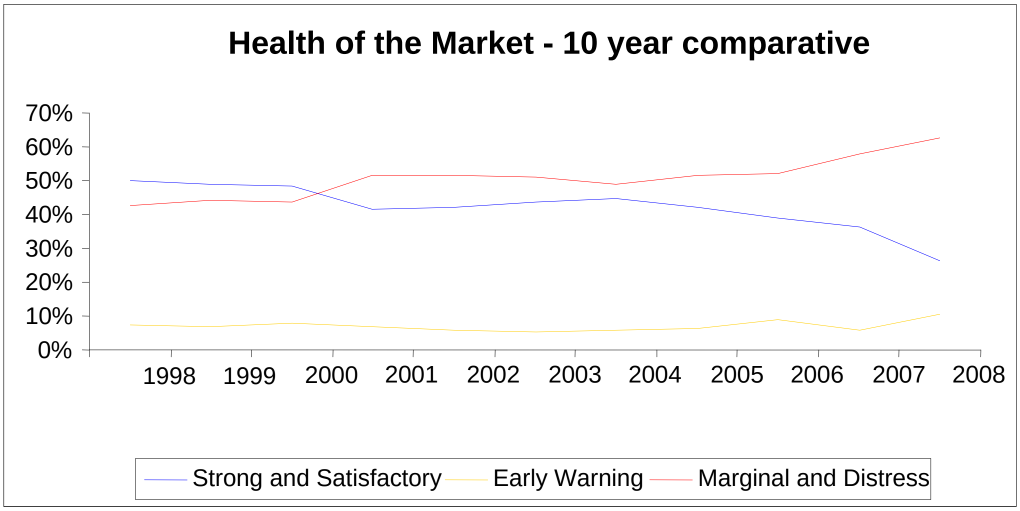
Health of the Market - Dec 07



Health of the Market - Jun 07



Health of the Market – 10 year comparative data



Global financial crisis
Most investors watched with fear (and loathing) at the number of high profile global financial institutions that succumbed to the pressures of the financial crisis. The untangling of what history will record as a complex web of debt packaging and re-selling, has been most painful, with many falling prey to their own over-engineering. What was once a plentiful well of funding froze virtually overnight as the role of debt within the balance sheet was re-valued and credit lenders decided to tighten lending practices. The ensuing months have seen the financial landscape change, particularly in the US, forever.

Global recession fears
On the back of the financial crisis the world is now gripped in fear of a protracted and long recession. What started off as a 'crisis of confidence' has quickly turned into a 'crisis of growth'. With global demand falling significantly over the past two months, most economists are predicting a contraction in world GDP over the FY09. In order to stave off the potential of a prolonged recession, central banks and governments across the world have taken steps to stimulate economic activity. The quicker these stimulus packages work, the more likely it will be that Australia's economy (which is still quite sound), will avoid a recession.

Impact on our companies' health
Recessions and crises are never good for the sharemarket, especially the businesses listed on it. Should the world, and then possibly Australia, enter a recession then obviously the health of a business will become integral in its ability to be able to withstand the full brunt of a negative economy. With credit markets drying up and cash flow levels down on previous years, now more than any time over the past decade, investors should only be exposed to companies with sound balance sheets, strong cash flow levels and positive profits in order to minimise their risk in this difficult market.

The good news
Hindsight tells us that this 'crisis' was going to eventually happen one day. Investors should take an almost socialist perspective on the recent performance and think about this correction as occurring for the 'greater long term good'. Unfortunately there needs to be a bit of pain as the market weeds out the poison which has infected our financial system after years of prosperity. Hopefully we will see companies return to 'tried-and-true' practices of maintaining manageable gearing levels, reverting to good working capital measures and growing within their means. However, despite the current landscape there are companies which are healthy, profitable, efficient, growing and represent fantastic value for long term investors. Such companies are providing excellent opportunities, particularly following the market correction.

At the end of October 2008, the market PE ratio of 9.9 times was at its lowest since 1982. The market at its worst had fallen 45 per cent, just 5 per cent off the infamous 1987 correction. History has taught us that the market will eventually recover and we know that it will be the quality structured businesses that will lead the charge and ultimately return us strong long term returns.

Financials

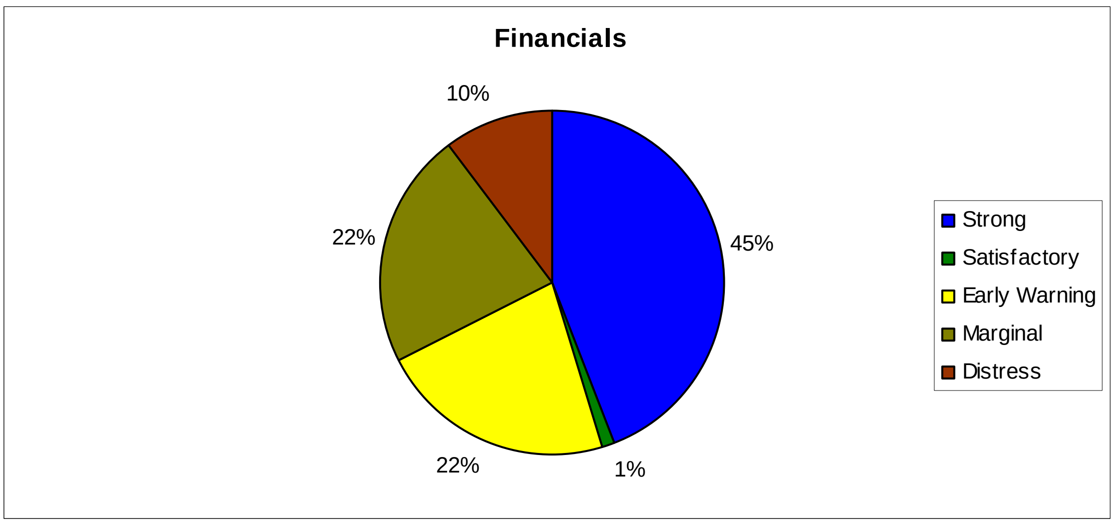
The Financial sector represents approximately 30% of the ASX by market capitalisation and consists of the Banks, Insurance, Diversified Financials and Real Estate Sectors.

Traditionally, the financial sector exhibits strong financial health. However, the recent credit crunch has affected the profitability of many companies in this sector. Losses on derivative instruments, difficulty in obtaining credit, the high cost of debt and weak investment returns have contributed to the fall in short term earnings growth.

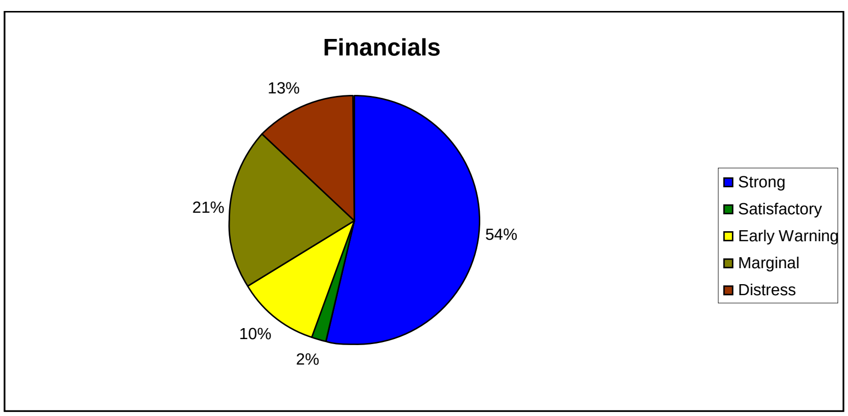
Currently, 46% of the companies in this sector exhibit ‘Strong’ or ‘Satisfactory’ financial health. This represents deterioration from 56% achieved six months ago. Debt refinancing and exposure to US financial institutions have hamstrung many businesses in the sector. Some companies in this sector are no longer in a position to withstand many further shocks.

The only silver lining on this news is that the strength of this sector leading up to the crisis has contributed significantly to its survival in the current environment.

Financials Jun 08



Financials Dec 07



Quick stats on sector	Financials
Sector market capitalisation ($mil)	$356,490 million
% of total market	32.46%
Number of companies	291
Highest cap company	Commonwealth Bank of Australia (CBA) $55,904 million
Lowest cap company	Questus Limited (QSS) $1 million

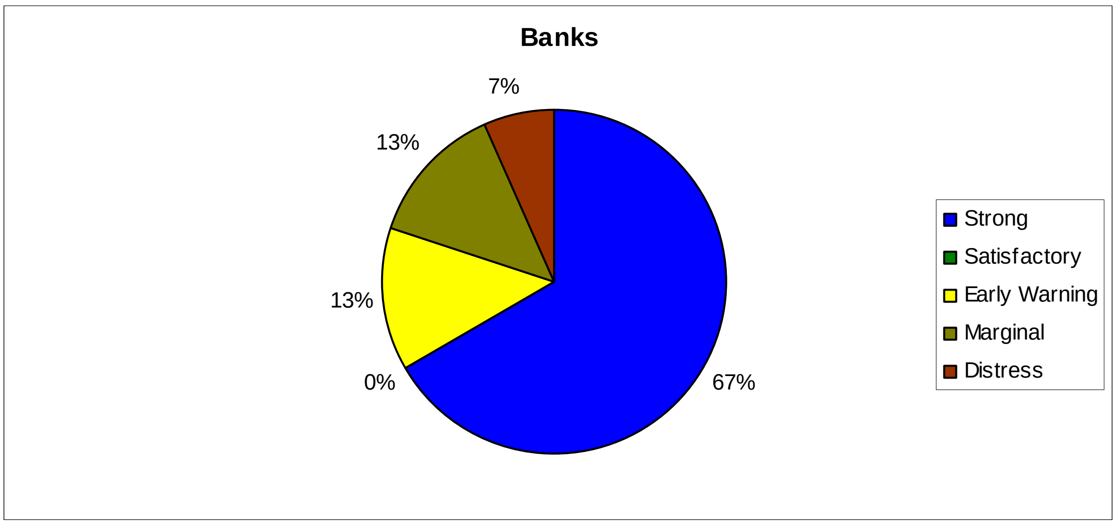
Banks and Insurance

Banks and Insurance companies are often considered the strongest companies in the sector and contribute significantly to the sector's overall health. Australian bank and insurance companies operate in a highly regulated environment with the Australian Prudential Regulatory Authority (APRA) responsible for ensuring that these companies are transparent and maintain a low level of financial risk.

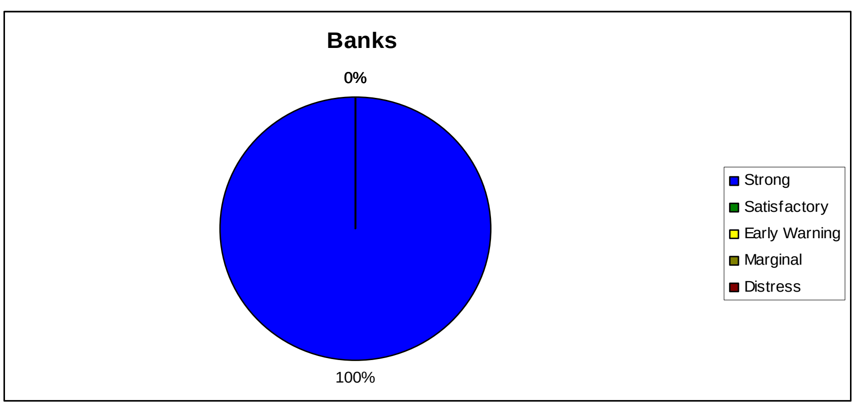
The value of this regulatory environment can be seen in the banking and insurance sector's resilience in surviving the credit crunch and weak equity markets. This has been reinforced by the government's guarantee on deposits for our banks.

However, the credit crunch has started to take its toll on the non-commercial banks in the banking sector, namely the thrift and mortgage financiers. As a result we noted a weakening of the Banks compared to the previous period.

Banks Jun 08

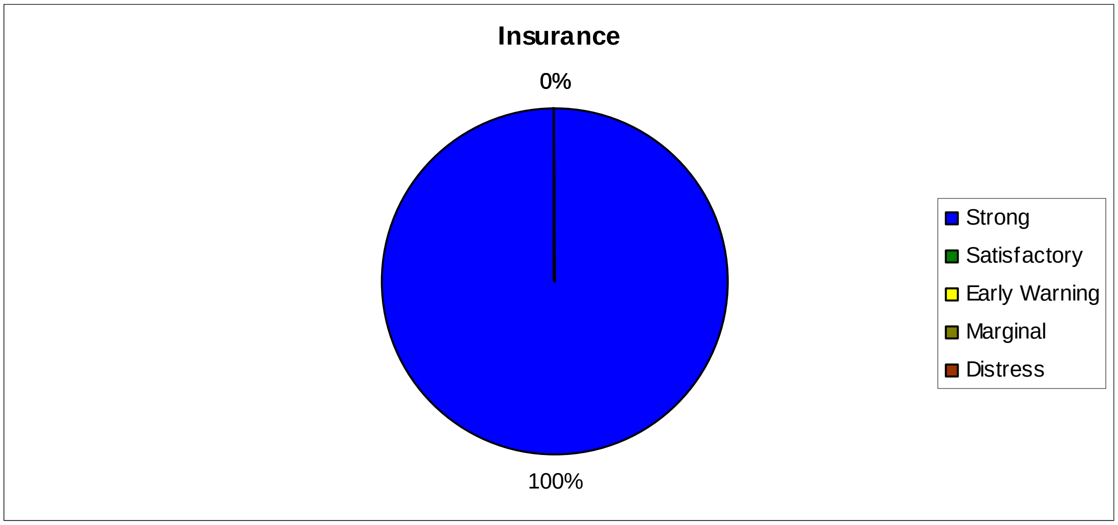


Banks Dec 07

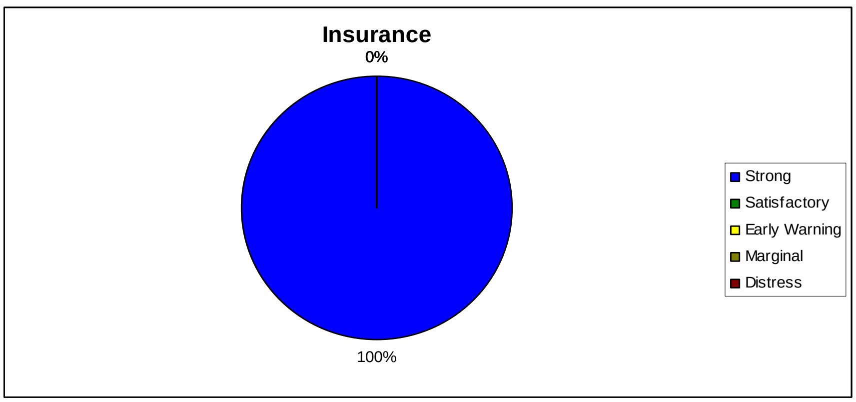


Quick stats on sector	Banks
Sector market capitalisation ($mil)	$189,178 million
% of total market	17.23%
Number of companies	15
Highest cap company	Commonwealth Bank of Australia (CBA) $55,904 million
Lowest cap company	Coneco Limited (CEC) $2 million

Insurance Jun 08



Insurance Dec 07



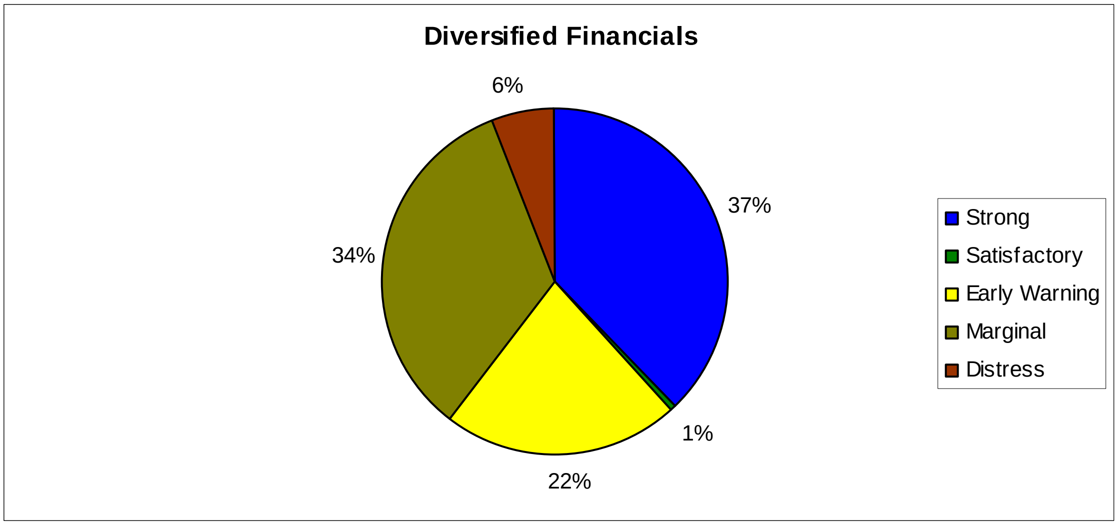
Quick stats on sector	Insurance
Sector market capitalisation ($mil)	$60,317 million
% of total market	5.49%
Number of companies	10
Highest cap company	QBE Insurance Group Ltd (QBE) $24,804 million
Lowest cap company	Caliden Group Ltd (CIX) $79 million

Diversified Financials

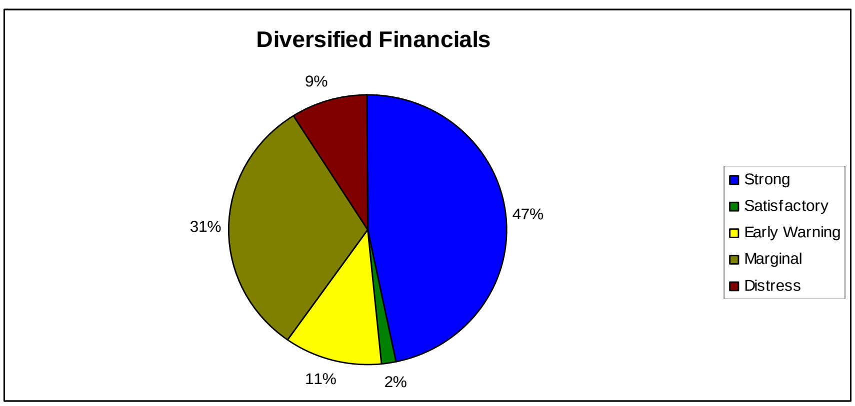
The Diversified Financials sector has continued to weaken as credit markets remain frozen. Notable casualties in the last six months are **Allco Finance Group (AFG)** and **Babcock and Brown (BNB)**. 38% of all companies in this sector are in a 'Strong' or 'Satisfactory' financial health position. This represents further deterioration from the previous result of 49% six months ago.

Numerous listed investment funds have suffered due to the deterioration of the equity markets and poor overall investment return. Highly leveraged companies and companies that funded operations with short term debt have been savaged on the sharemarket due to refinancing difficulties and weaker profits.

Diversified Financials Jun 08



Diversified Financials Dec 07



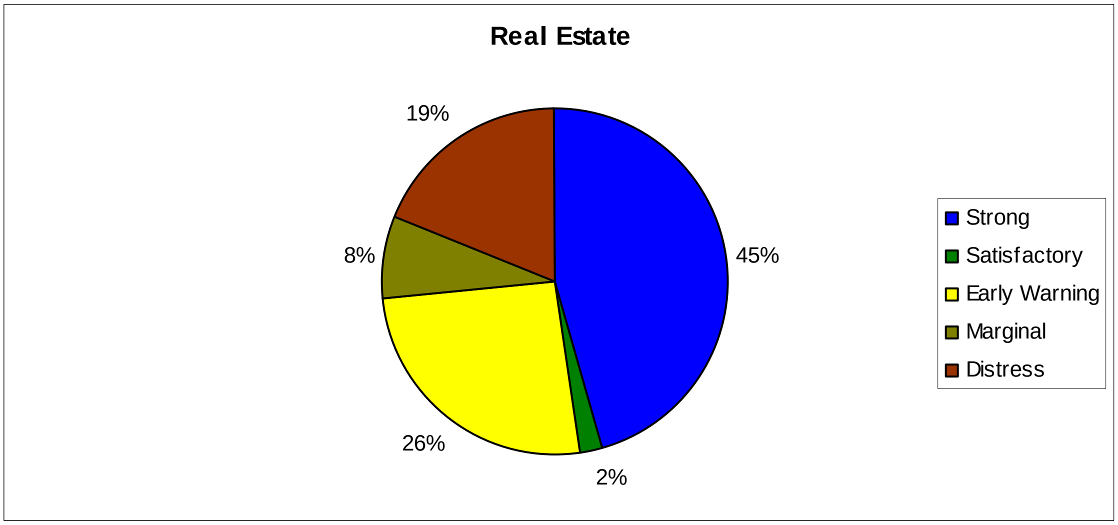
Quick stats on sector	Diversified Financials
Sector market capitalisation ($mil)	$45,497 million
% of total market	4.14%
Number of companies	162
Highest cap company	Macquarie Group Limited (MQG) $8,470 million
Lowest cap company	Questus Limited (QSS) $1 million

Real Estate

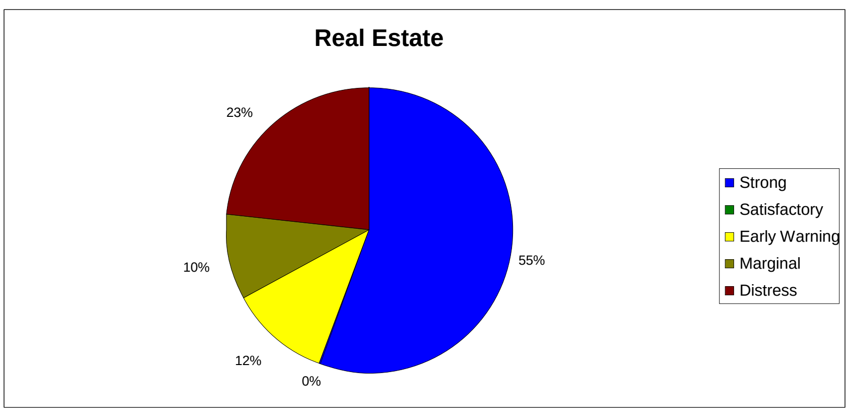
The Real Estate sector, like the Diversified Financials, has been a victim of the credit crisis. 47% of all Real Estate companies are in a ‘Strong’ or ‘Satisfactory’ position, a substantial fall from the 55% in this position six months ago. The complex structure of the financial arrangements for several of these companies has hidden the true level of debt for these companies. The current environment, has resulted in the sudden demise of several companies in the sector.

Fear is prevalent in the sector and prices have fallen across the board. As the financial health of some of these companies is sound, opportunities to pick up quality businesses with strong income yields are available, but caution is advised.

Real Estate Jun 08



Real Estate Dec 07



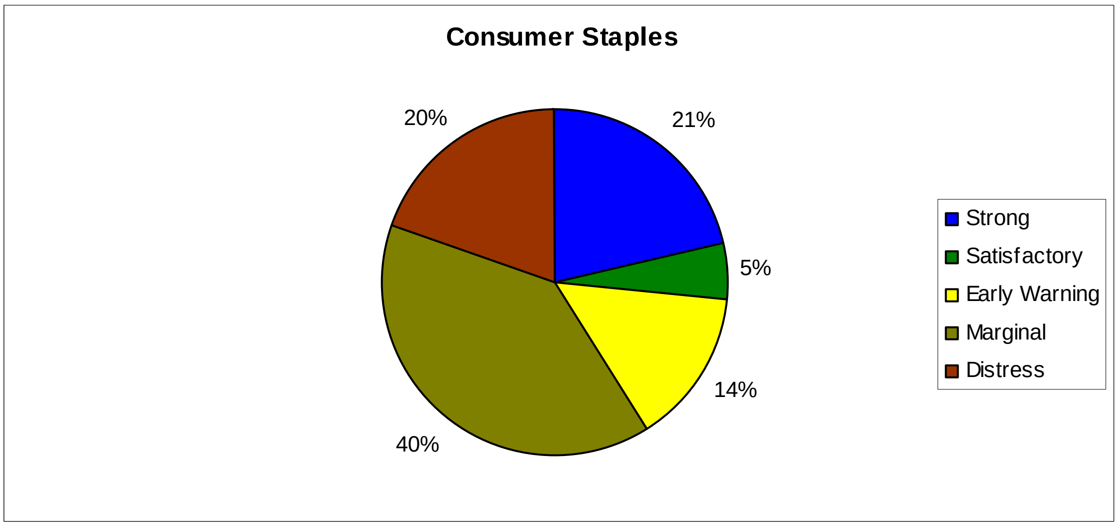
Quick stats on sector	**Real Estate**
Sector market capitalisation ($mil)	$61,498 million
% of total market	5.6%
Number of companies	104
Highest cap company	Westfield Group (WDC) $27,671 million
Lowest cap company	Sabina Corporation Limited (SAP) $2 million

Consumer Staples

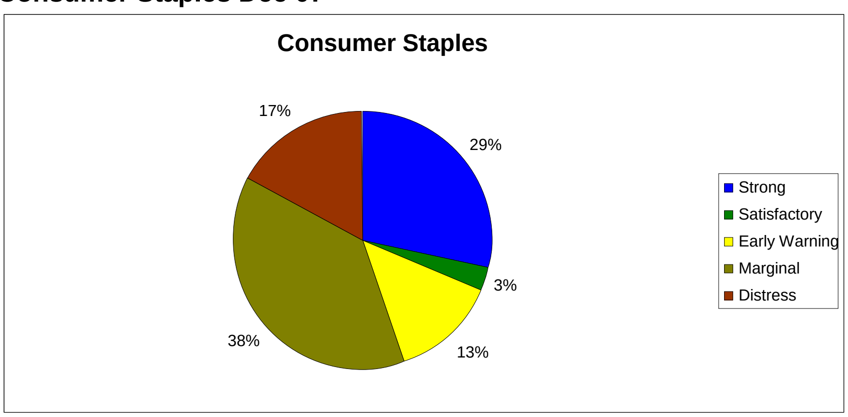
The Consumer Staples sector consists of the Food and Staples Retailing Sector and the Food Beverage and Tobacco industry groups. This sector is generally considered to be a 'defensive' sector and expected to remain stable despite current economic conditions.

However, it appears this may be deceptive in the current economic climate. With the exception of the large players, weakness in this sector is evident. 26% of Consumer Staples are in a 'Strong' or 'Satisfactory' position compared to 32% in this position six months ago. This weakness is a result of the credit crisis and a reduction in consumer spending due to recessionary fears.

Consumer Staples Jun 08



Consumer Staples Dec 07

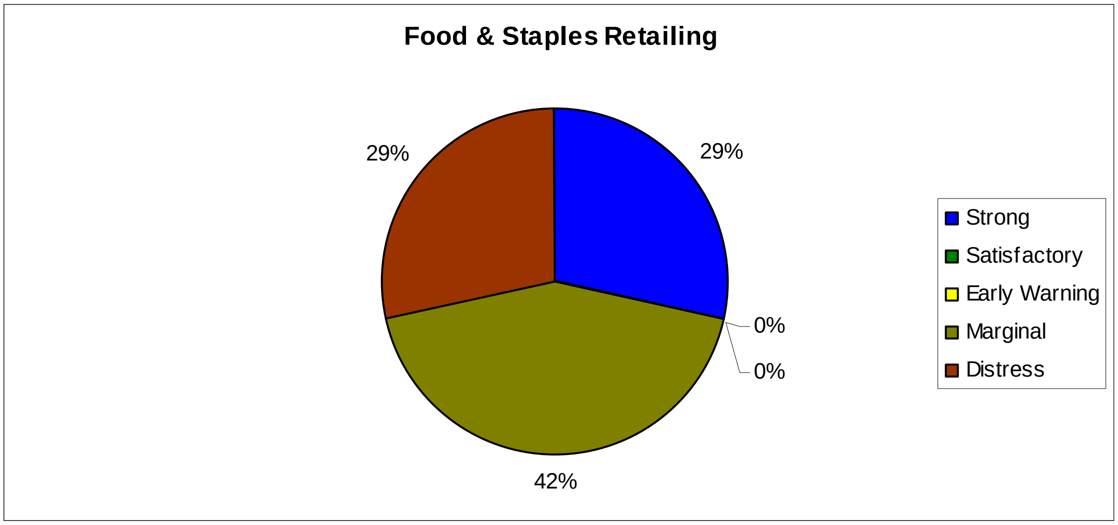


Quick stats on sector	Consumer Staples
Sector market capitalisation ($mil)	$92,802 million
% of total market	8.45%
Number of companies	57
Highest cap company	Woolworths Limited (WOW) $35,506 million
Lowest cap company	Health Corporation Limited (HEA) $1 million

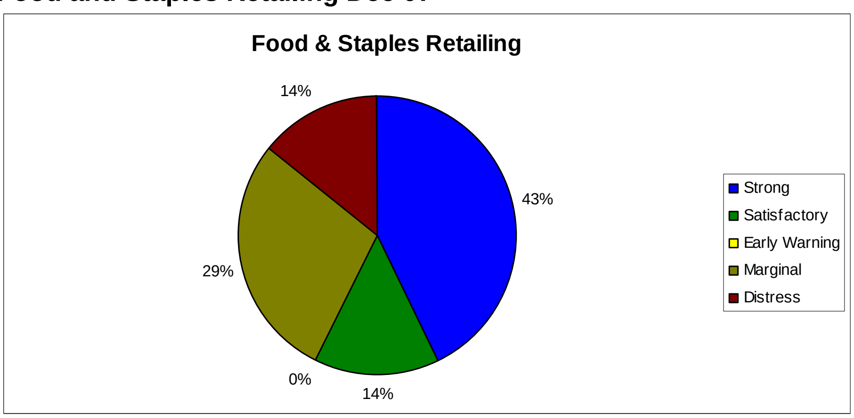
Food and Staples Retailing

Food and Staples Retailing represents one of the smaller industry groups in the Australian market comprising of just eight companies. The sector is dominated by retailing giants **Woolworths Limited (WOW)** and **Wesfarmers Limited (WES)** following its acquisition of **Coles Group**. Financial health for this sector has weakened with the number of 'Strong' or 'Satisfactory' companies reduced from 57% to 29%.

Food and Staples Retailing Jun 08



Food and Staples Retailing Dec 07



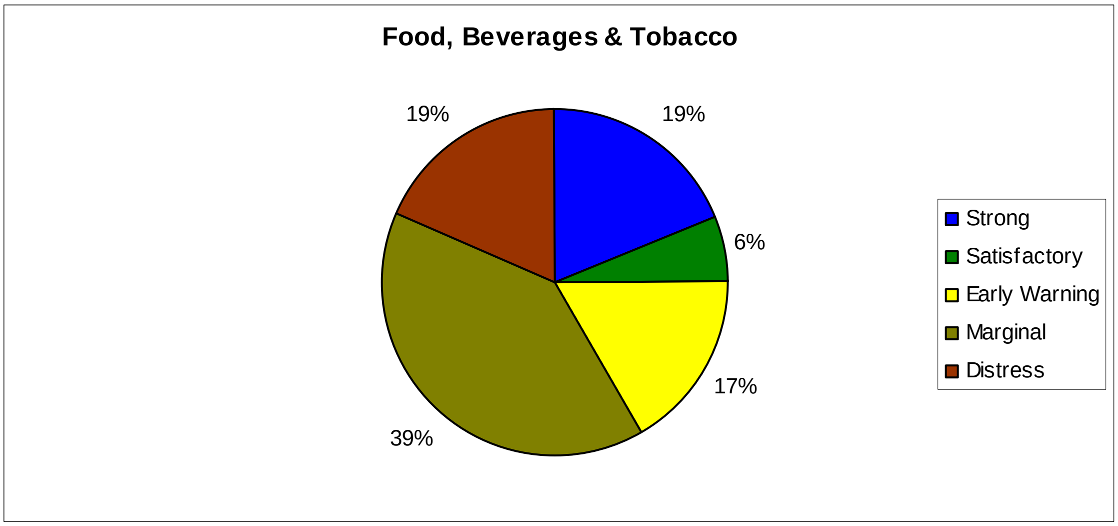
Quick stats on sector	Food & Staples Retailing
Sector market capitalisation ($mil)	$56,394 million
% of total market	5.14%
Number of companies	9
Highest cap company	Woolworths Limited (WOW) $35,506 million
Lowest cap company	Health Corporation Limited (HEA) $1 million

Food, Beverages & Tobacco

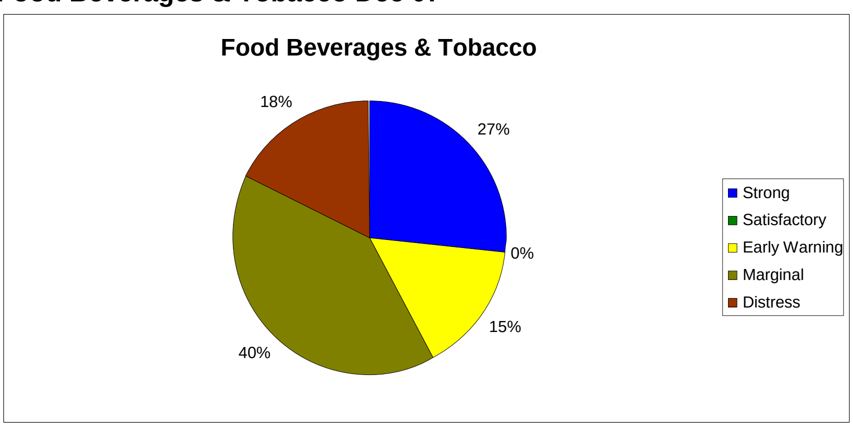
The Food, Beverages & Tobacco industry is dominated by a few large players with **Foster's Group Limited (FGL)** and **Coca Cola Amatil Limited (CCL)** accounting for approximately half of the total market capitalisation for the sector.

Both companies and other large cap companies in the sector such as **Goodman Fielder Limited (GFF)** and **Lion Nathan (LNN)** – retain 'Strong' positions of financial health. Most of the weakness in this sector is found amongst the smaller companies. Notably, the financial health of this sector has remained stable at 25% 'Satisfactory' or 'Strong' in comparison to 27% in the previous period. The defensive nature of the sector's products is evident and large cap companies in the sector may provide a safe haven for investors with recessionary fears.

Food Beverages & Tobacco Jun 08



Food Beverages & Tobacco Dec 07

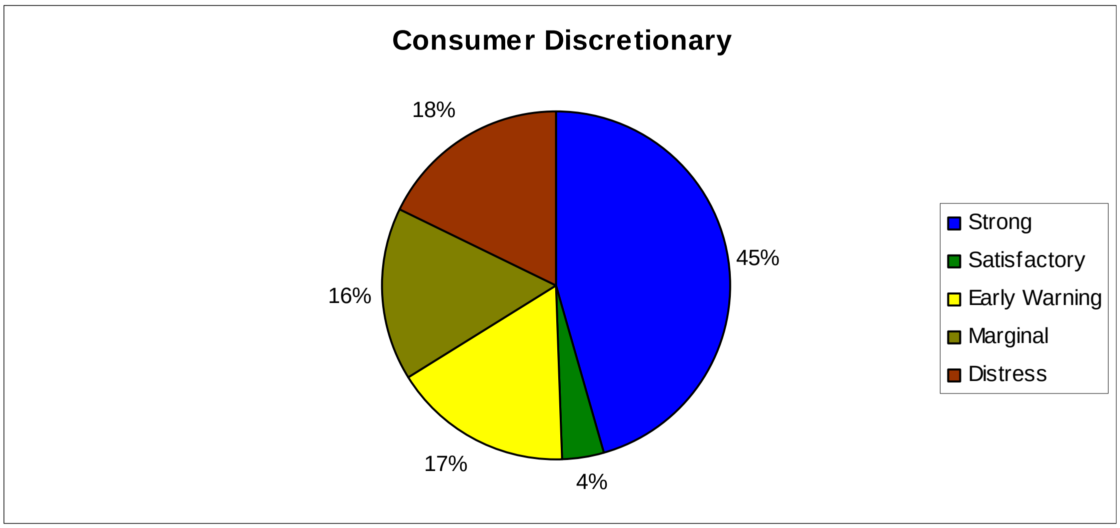


Quick stats on sector	Food Beverages & Tobacco
Sector market capitalisation ($mil)	$36,408 million
% of total market	3.32%
Number of companies	48
Highest cap company	Fosters Group Limited (FGL) $11,415 million
Lowest cap company	Montec International Limited (MTI) $1 million

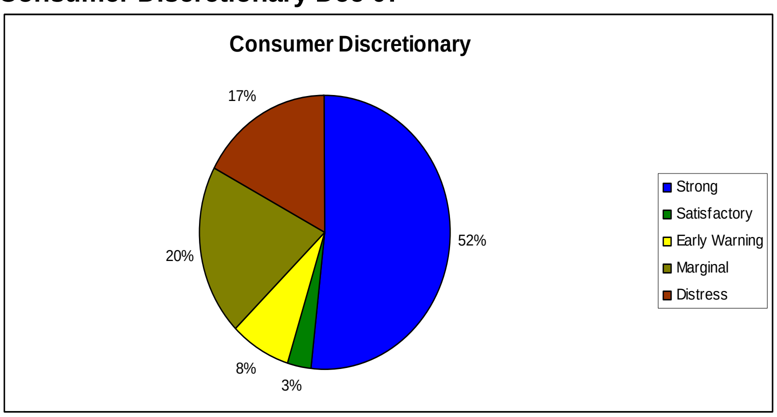
Consumer Discretionary

Consumer Discretionary is generally considered to be the sector to avoid in an economic downturn. This industry segment is broad and consists of the Media, Consumer Services, Consumer Durables & Apparel, Automobiles & Components and Retailing industry groups. Recessionary fears and falls in the Australian dollar are expected to impact this sector. Surprisingly, the sector has remained relatively robust due to stable consumer spending. However, we remain cautious about companies in this sector and expect future weakness for companies that import due to the weakening of the Australian dollar.

Consumer Discretionary Jun 08



Consumer Discretionary Dec 07

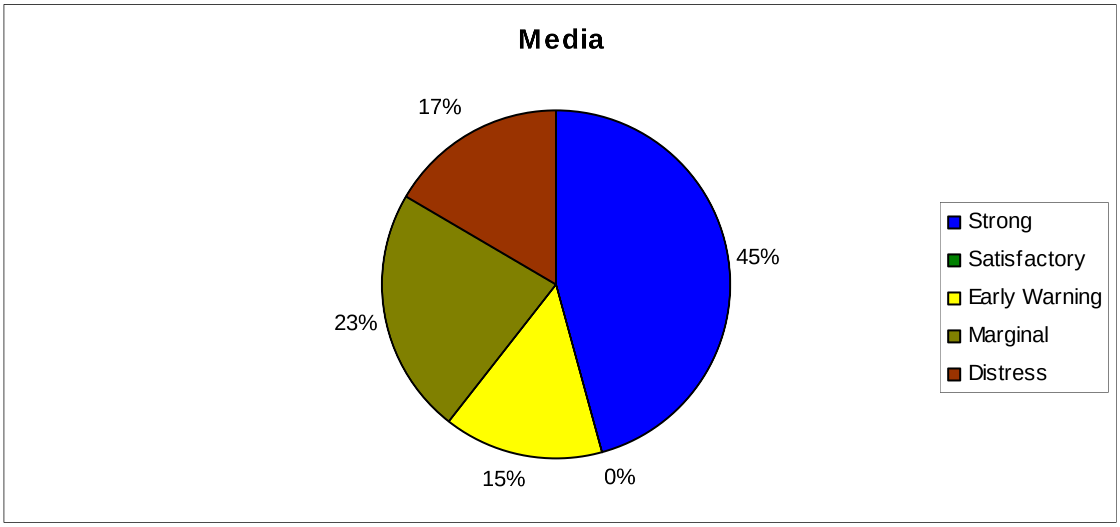


Quick stats on sector	Consumer Discretionary
Sector market capitalisation ($mil)	$59,696 million
% of total market	5.44%
Number of companies	163
Highest cap company	News Corporation (NWS) $9,742 million
Lowest cap company	Costarella Design Limited (CLD) $1 million

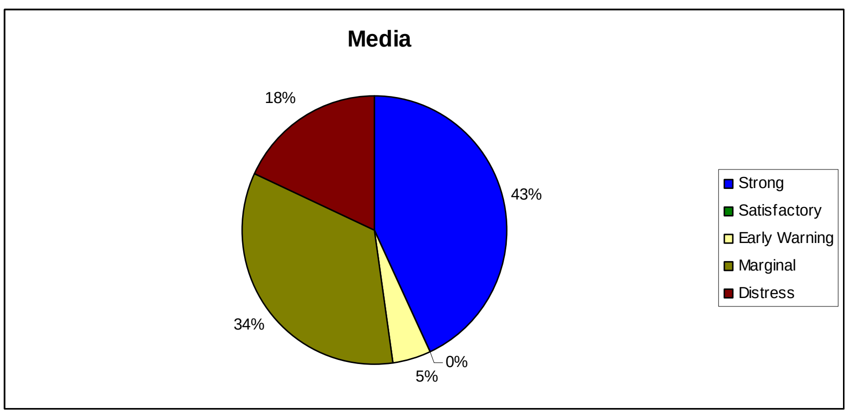
Media

The media sector has recovered marginally, with 45% of companies in a ‘Strong’ or ‘Satisfactory’ position. This represents a slight improvement on the previous six month period where 43% were exhibiting acceptable financial risk levels. However with concerns over global growth and a reduction in business spending there are fears that maybe tougher times may be ahead.

Media Jun 08



Media Dec 07

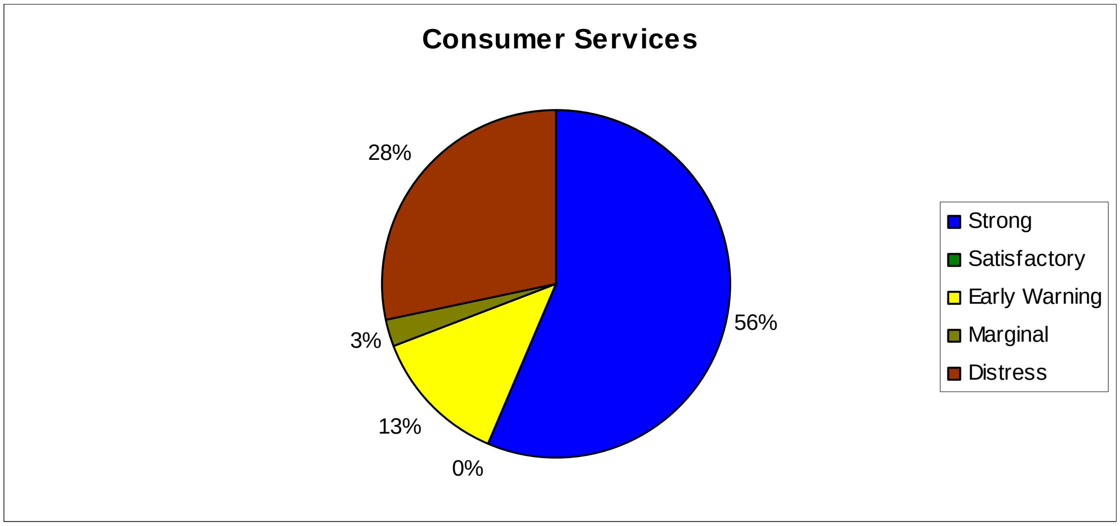


Quick stats on sector	**Media**
Sector market capitalisation ($mil)	$26,298 million
% of total market	2.39%
Number of companies	49
Highest cap company	News Corporation (NWS) $9,742 million
Lowest cap company	WAG Limited (WAG) $1 million

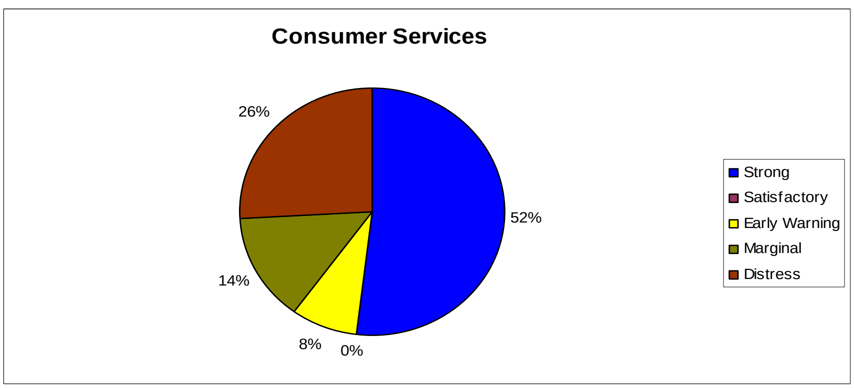
Consumer Services

The Consumer Services sector is dominated by gambling which has been resilient in the current environment. This sector's financial health has improved with 56% of companies exhibiting acceptable levels of financial risk in comparison to 52% in the previous half year.

Consumer Services Jun 08



Consumer Services Dec 07



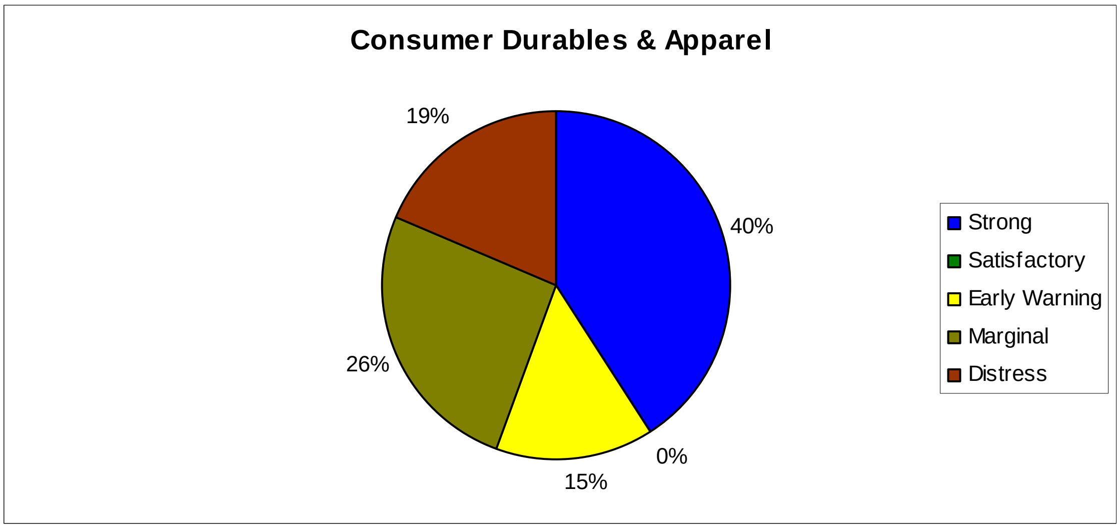
Quick stats on sector	Consumer Services
Sector market capitalisation ($mil)	$18,585 million
% of total market	1.69%
Number of companies	39
Highest cap company	Crown Limited (CWN) $4,756 million
Lowest cap company	Artist & Entertainment Group Limited (AEM) $1 million

Consumer Durables & Apparel

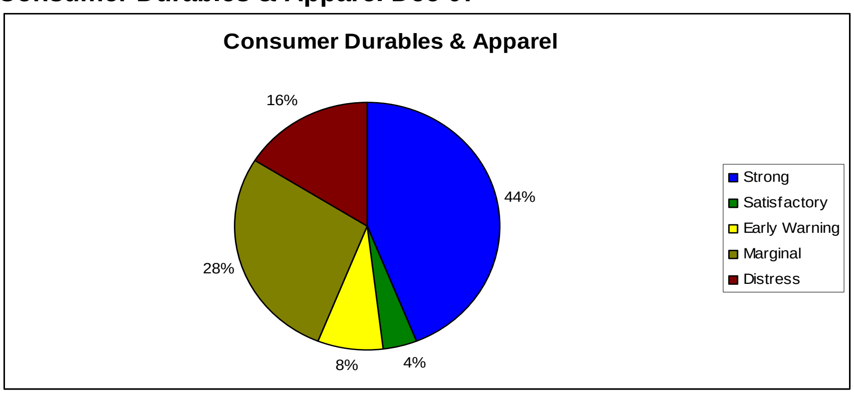
The small Consumer Durables & Apparel industry group traditionally experiences large swings in its financial health. Overall, acceptable financial health for the sector has fallen from 48% in the previous six months to 40% due to the difficult market conditions.

Billabong International Limited (BBG) dominates the sector. It retains a 'Strong' rating and is expected to remain in 'Strong' health due to the performance of its overseas operation benefiting from the weakening Australian dollar. However, the majority of companies in this sector are importers and will suffer due to the weak Australian dollar and frozen credit markets.

Consumer Durables & Apparel Jun 08



Consumer Durables & Apparel Dec 07

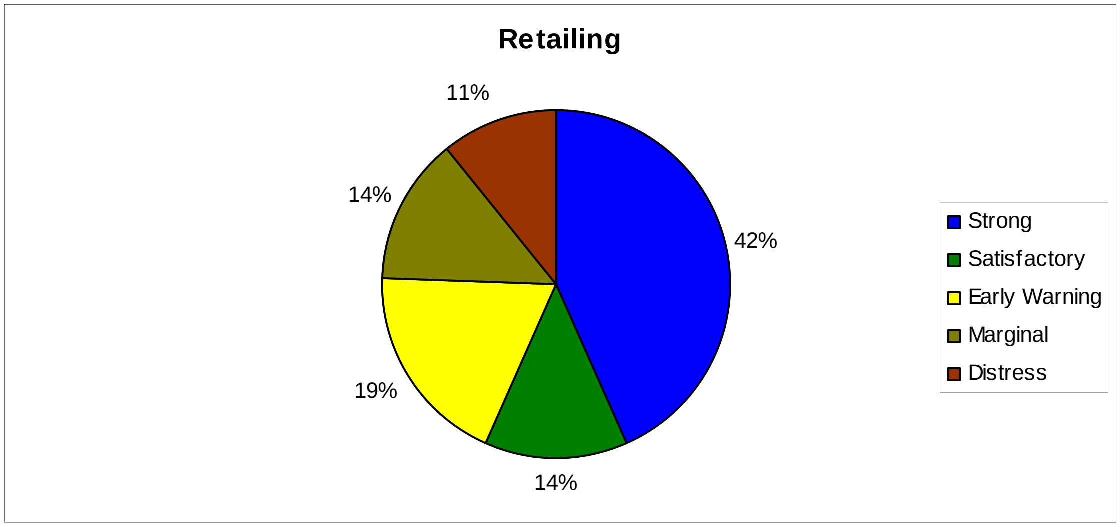


Quick stats on sector	**Consumer Durables & Apparel**
Sector market capitalisation ($mil)	$3,722 million
% of total market	0.34%
Number of companies	27
Highest cap company	Billabong International Limited (BBG) $2,374 million
Lowest cap company	Costarella Design Limited (CLD) $1 million

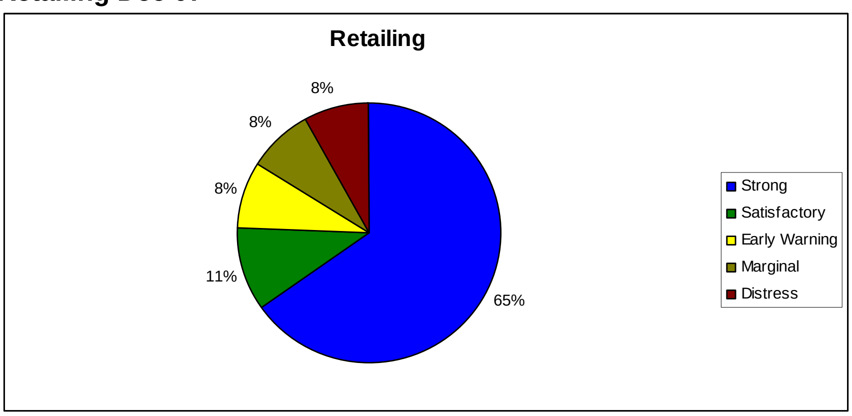
Retailing

The retailing sector continues to perform well, but has weakened significantly over the last 6 months. The retailing industry group has attained a solid result with 56% of its companies in either a 'Strong' or 'Satisfactory' position. However this figure is down on the 76% result attained in the previous period. However, the sector is expected to continue to weaken due to the weaker Australian dollar, a drop in consumer sentiment and possible recessionary consequences.

Retailing Jun 08



Retailing Dec 07



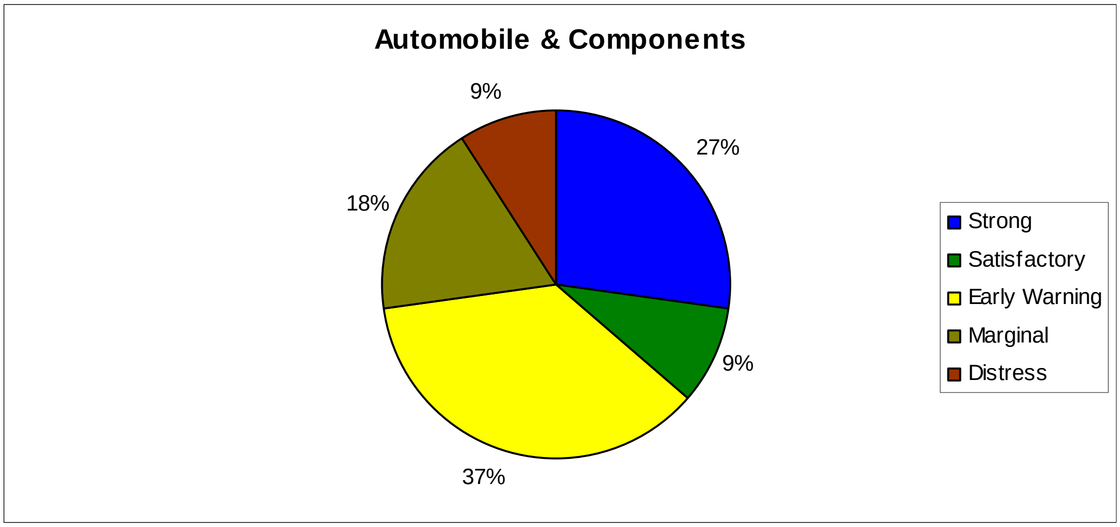
Quick stats on sector	**Retailing**
Sector market capitalisation ($mil)	$10,413 million
% of total market	0.95%
Number of companies	37
Highest cap company	Harvey Norman Holdings Ltd (HVN) $3,134 million
Lowest cap company	TVN Corporation Limited (TVN) $2 million

Automobile & Components

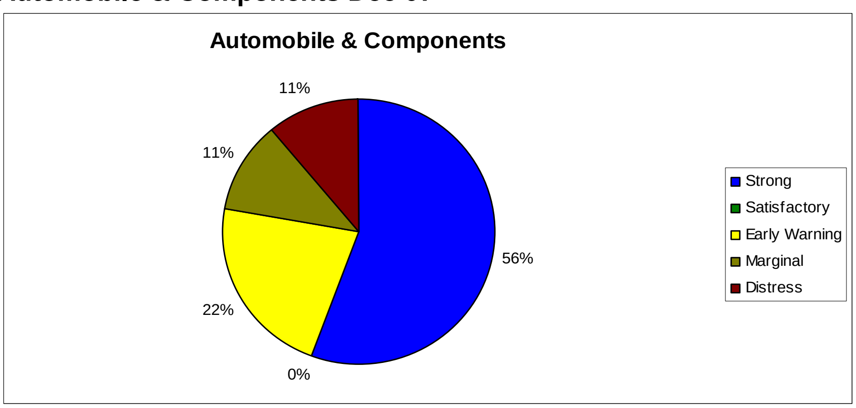
The Automobile and Components industry group represents a small but resilient sector, largely consisting of automotive components. This sector has weakened, with acceptable financial health falling from 56% in the previous period to 36%. Record oil prices and recessionary fears contributed to a very difficult environment for these companies.

The largest company in this sector, **Fleetwood Corporation Limited (FWD),** dwarfs most of the remaining constituents and is notably both in 'Strong' financial health and has exhibited strong growth. The fall in oil prices could provide a boost to several companies in this sector.

Automobile & Components Jun 08



Automobile & Components Dec 07

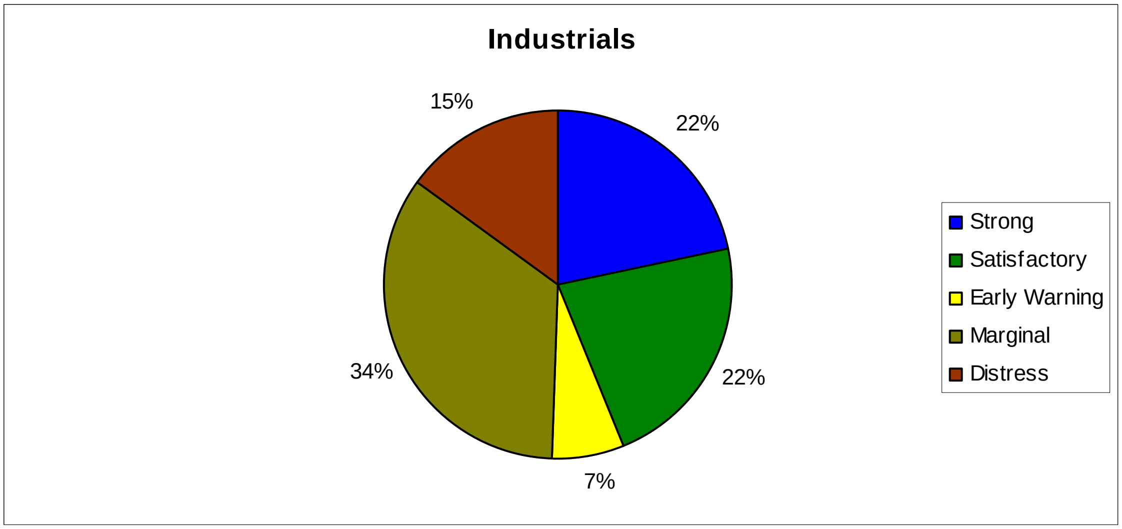


Quick stats on sector	Automobile & Components
Sector market capitalisation ($mil)	$678 million
% of total market	0.06%
Number of companies	11
Highest cap company	Fleetwood Corporation Ltd (FWD) $308 million
Lowest cap company	Advanced Braking Technology Limited (ABV) $5 million

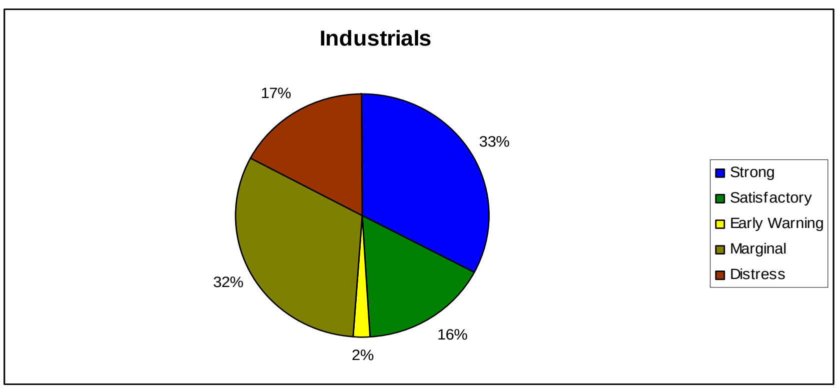
Industrials

The Industrials sector consists of the Transportation, Capital Goods and Commercial Services and Supplies industries. This sector has weakened marginally over the last six months with the number of companies exhibiting an acceptable level of risk falling from 49% in the previous period to 44%. This is largely driven by the impact of high oil prices on the Transportation sector. The weakening Australian dollar and oil prices will strengthen the sector, but this may be more than offset by weaker resource prices.

Industrials Jun 08



Industrials Dec 07

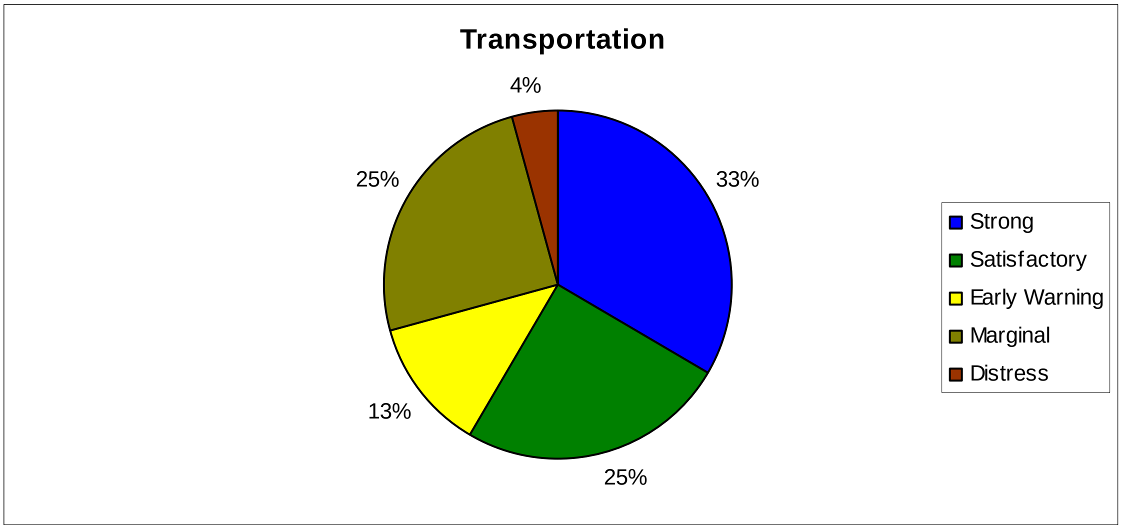


Quick stats on sector	Industrials
Sector market capitalisation ($mil)	$82,144 million
% of total market	7.48%
Number of companies	193
Highest cap company	Brambles Limited (BXB) $11,628 million
Lowest cap company	GTI Resources Limited (GTR) $1 million

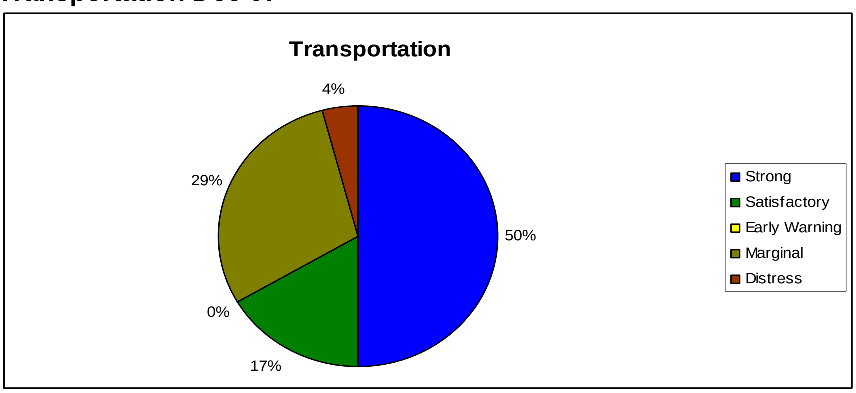
Transportation

Although the Transportation sector remains the strongest among the industrial industry group, it has been significantly weakened over the last six months with 58% of the companies in either a 'Strong' or 'Satisfactory' position compared to 67% in the previous period. This can be largely attributed to the cost increase caused by high oil prices during the period. This is likely to ease going forward as crude oil has weakened significantly since.

Transportation Jun 08



Transportation Dec 07

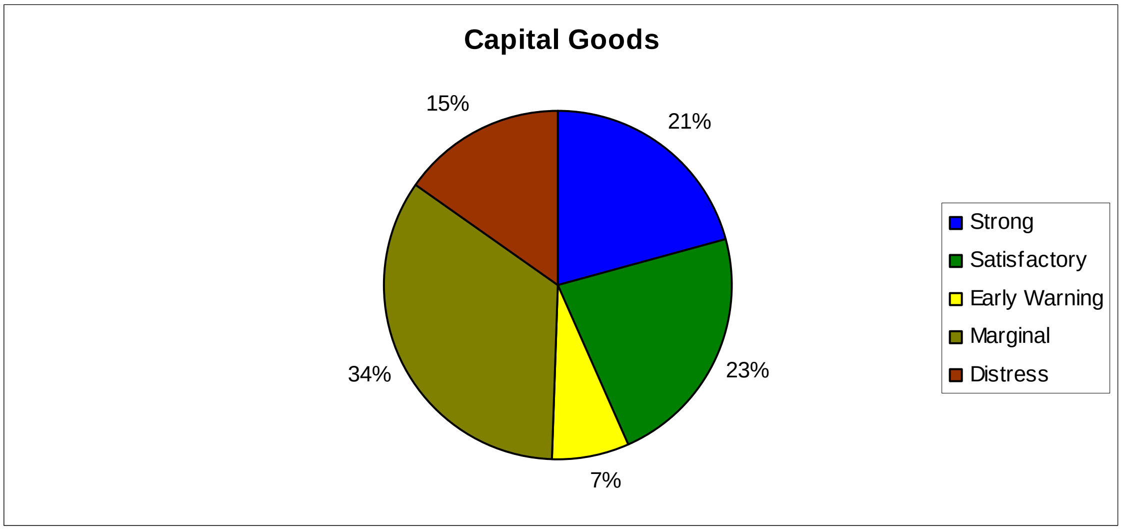


Quick stats on sector	Transportation
Sector market capitalisation ($mil)	$33,078 million
% of total market	3.01%
Number of companies	24
Highest cap company	Transurban Group Limited (TCL) $7,320 million
Lowest cap company	Richfield International Limited (RGH) $3 million

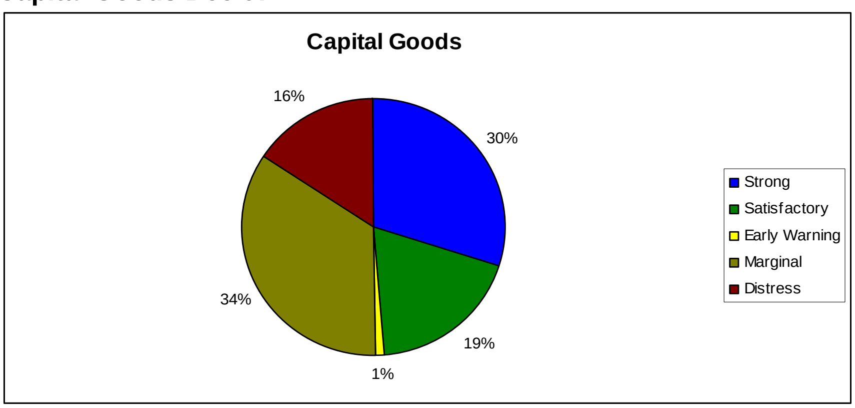
Capital Goods

The Capital Goods industry group covers a broad range of companies including construction and engineering services and producers of industrial goods. In this industry group 44% of the companies are in a sound position of financial health with either a 'Strong' or 'Satisfactory' rating, a fall from 49% achieved six months ago. Stand-out performers in this sector are the engineering and construction companies which service the commodities sector. However, with weaker commodity prices going forward, the sector is likely to weaken.

Capital Goods Jun 08



Capital Goods Dec 07

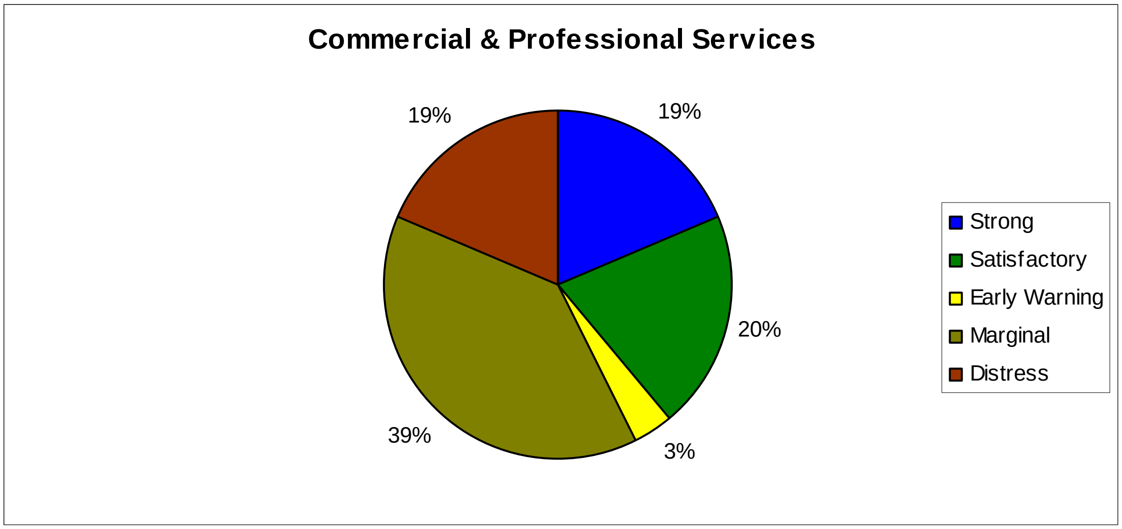


Quick stats on sector	Capital Goods
Sector market capitalisation ($mil)	$25,089 million
% of total market	2.28%
Number of companies	112
Highest cap company	Leighton Holdings Limited (LEI) $7,852 million
Lowest cap company	GTI Resources Limited (GTR) $1 million

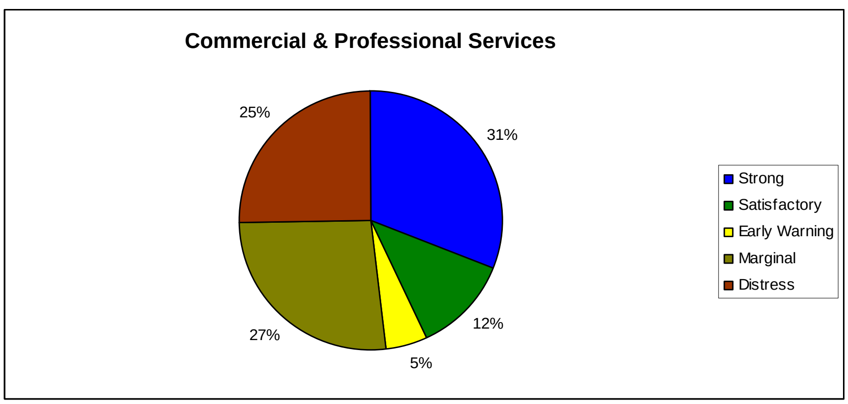
Commercial & Professional Services

The Commercial Services & Supplies sector continues to be the weakest group within Industrials with 39% of companies in a sound position of financial health, a slight deterioration on 43% in the previous six months. Notably, the majority of weakness in this sector is derived from the numerous small cap companies within the sector.

Commercial & Professional Services Jun 08



Commercial & Professional Services Dec 07



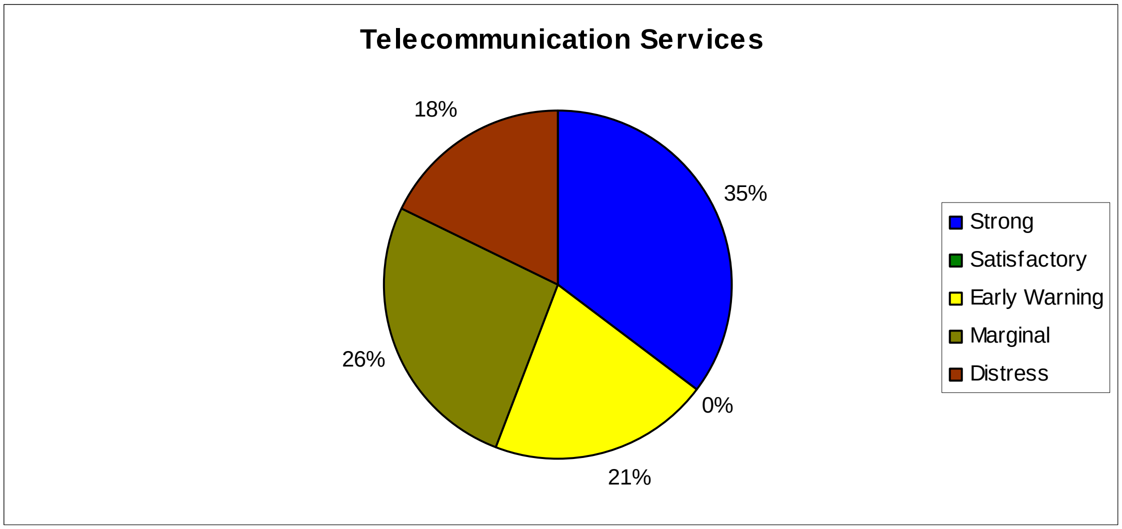
Quick stats on sector	Commercial & Professional Services
Sector market capitalisation ($mil)	$23,977 million
% of total market	2.18%
Number of companies	59
Highest cap company	Brambles Limited (BXB) $11,628 million
Lowest cap company	HiTech Group Australia Limited (HIT) $1 million

Telecommunication Services

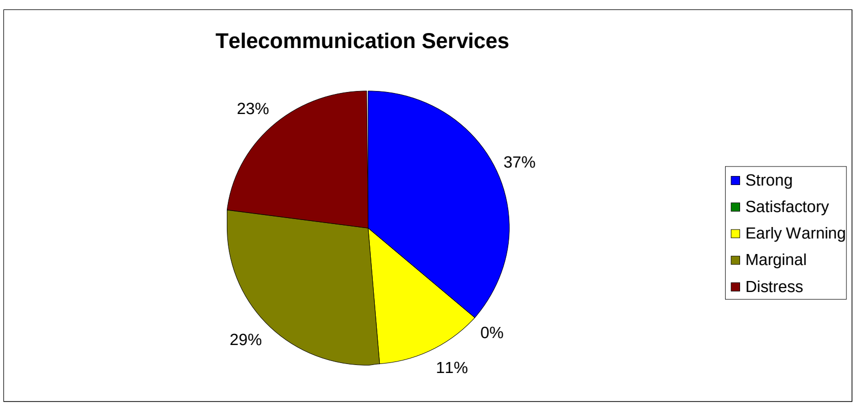
This industry group is largely dominated by **Telstra Corporation Limited (TLS)** with the majority of other participants' smaller telecommunications suppliers.

Although the overall financial health of the industry has fallen from 37% to 35% of companies exhibiting acceptable financial health, this relatively low value misrepresents the sector as a whole. The large telcos including **Telecom Corporation of New Zealand (TEL)** and **Singapore Telecommunications (SGT)** which lead the sector all exhibit 'Strong' financial health.

Telecommunication Services Jun 08



Telecommunication Services Dec 07



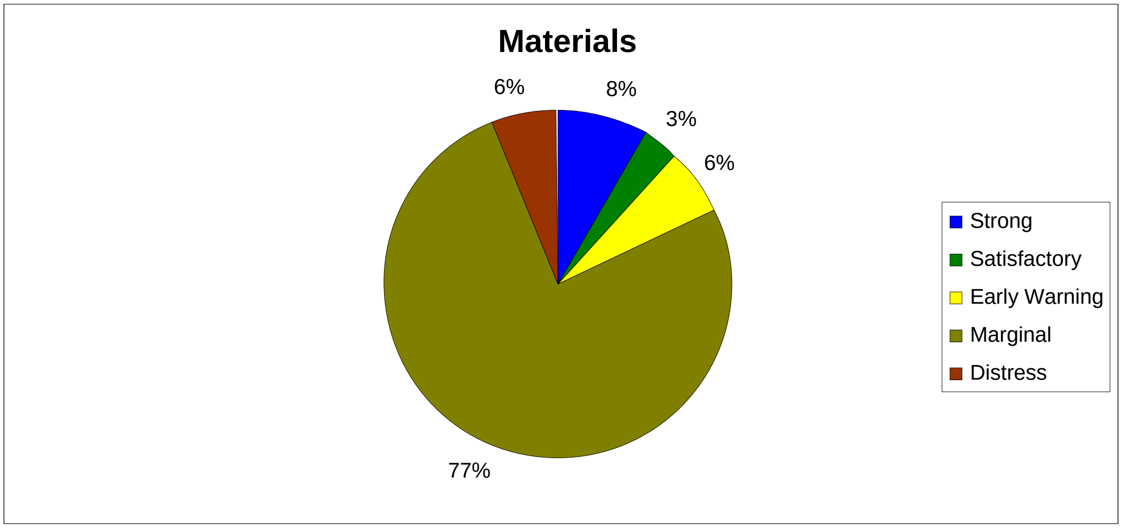
Quick stats on sector	**Telecommunication Services**
Sector market capitalisation ($mil)	$59,224 million
% of total market	5.39%
Number of companies	34
Highest cap company	Telstra Corporation Limited (TLS) $53,505 million
Lowest cap company	Enerji Ltd (ERJ) $1 million

Materials

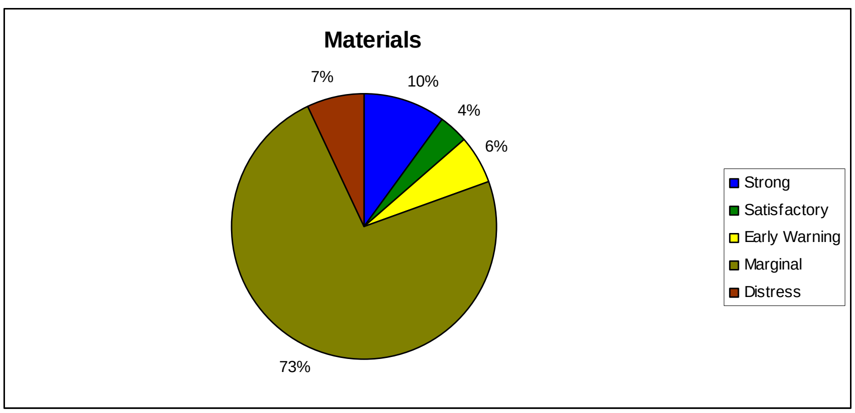
The Materials sector is composed of the largest number of companies on the Australian sharemarket. However, quantity is not equivalent to quality, as can be seen by the financial health of the sector; the majority of companies are in a poor state of financial health. These companies are generally exploratory companies which looked to cash in on the recent resource super-cycle. These companies have not commenced production and hence are largely speculative in nature. Weaker commodity prices will have a significant impact on the survival of these companies.

The two largest companies in this sector are **BHP Billiton Limited (BHP)** and **Rio Tinto Limited (RIO),** both of which continue to retain 'Strong' or 'Satisfactory' financial health despite the fall in profitability due to weaker mineral prices. Overall, the number of companies in this sector that exhibit an acceptable level of financial health has fallen from 14% to 11%.

Materials Jun 08



Materials Dec 07



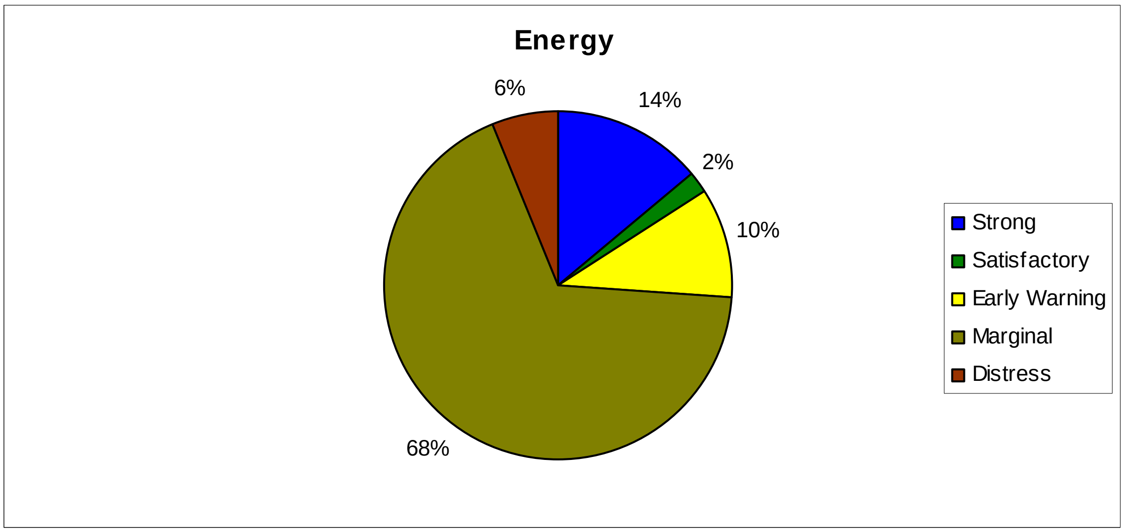
Quick stats on sector	**Materials**
Sector market capitalisation ($mil)	$269,912 million
% of total market	24.58%
Number of companies	605
Highest cap company	BHP Billiton Limited (BHP) $93,735 million
Lowest cap company	Queensland Gold and Minerals Limited (QGM) $1 mil

Energy

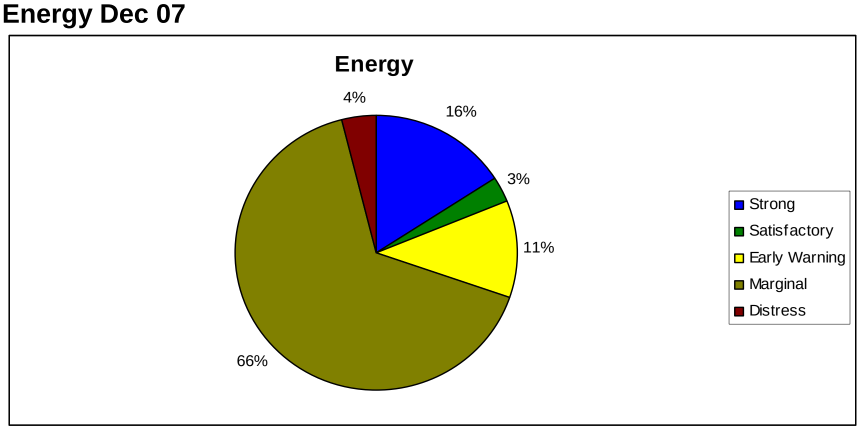
The Energy sector has surged over the last six months, driven by record oil and gas prices. However, like the Materials sector its performance has not been reflected in the financial health of companies in this sector, with the number of companies possessing sound financial health falling from 19% to 16%. Like Materials, the Energy sector consists of a large number of junior oil and gas exploration companies which have not commenced production and are currently loss-making operations. Large companies in the sector like **Woodside Petroleum Limited (WPL)** and **Origin Energy Limited (ORG)** continue to retain 'Strong' and 'Satisfactory' financial health.

Energy prices have weakened substantially since its highs and this fall in profitability is expected to affect the financial health of the sector going forward. The weakening Australian dollar may soften some of the profit downgrades.

Energy Jun 08



Energy Dec 07

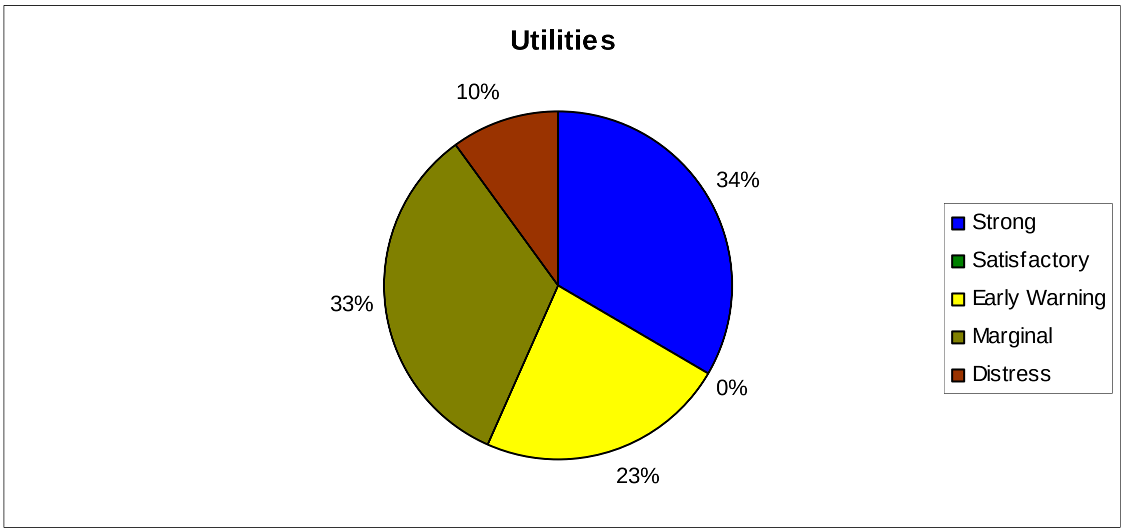


Quick stats on sector	**Energy**
Sector market capitalisation ($mil)	$103,072 million
% of total market	9.39%
Number of companies	209
Highest cap company	Woodside Petroleum Limited (WPL) $27,802 million
Lowest cap company	Southern Pacific Petroleum Limited (SPP) $1 million

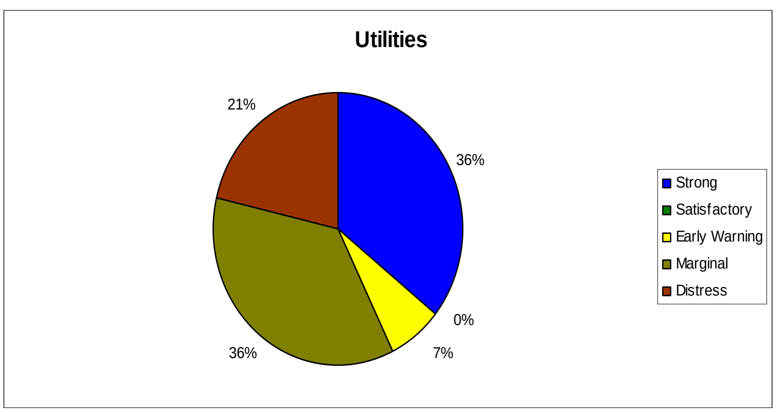
Utilities

The Utilities industry group is traditionally considered as a defensive or 'flight to safety' sector in uncertain times. However, the credit crunch has taken its toll on this sector. Companies with 'Strong' or 'Satisfactory' financial health has fallen marginally from 36% in the previous period to 34% in the last six months. Whilst dominant companies in the sector such as **AGL Energy Ltd (AGK)** remain sound, numerous smaller companies have yet to make a profit and exhibit poor financial health. The majority of these smaller companies are developers of 'green' energy which have not been proven to be commercially viable.

Utilities Jun 08



Utilities Dec 07



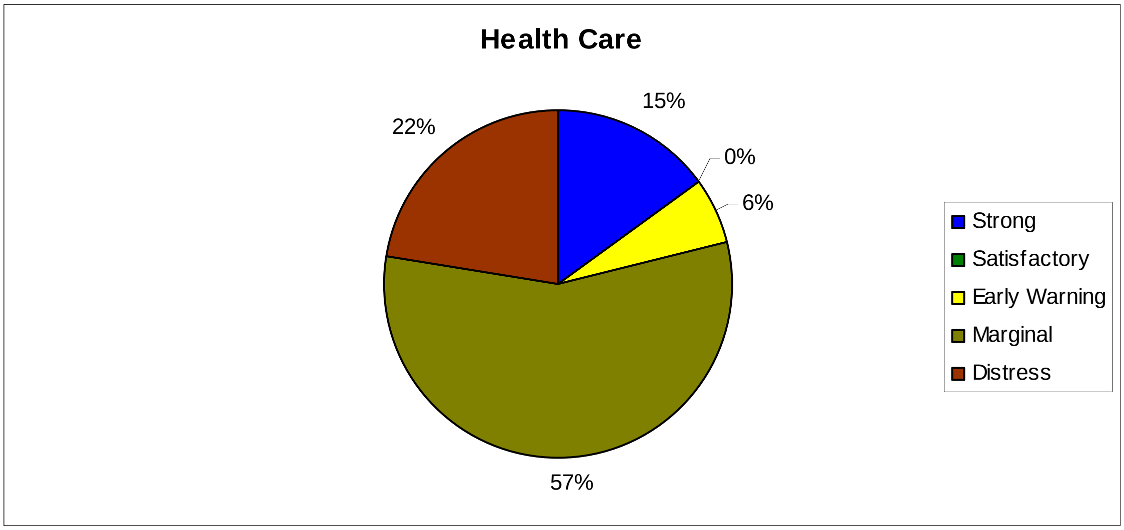
Quick stats on sector	**Utilities**
Sector market capitalisation ($mil)	$18,667 million
% of total market	1.70%
Number of companies	31
Highest cap company	AGL Energy Limited (AGK) $6,915 million
Lowest cap company	Hot Rock Limited (HRL) $3 million

Health Care

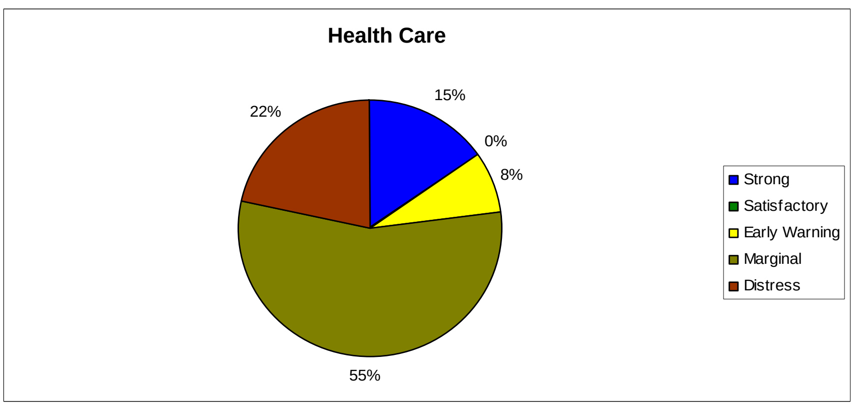
The Health Care sector has historically been an area with poor financial health largely due to the biotechnology sector. Although only 15% of the companies in this sector are in a sound position of financial health with a ‘Strong’ or ‘Satisfactory’ rating, this has remained stable in the last six months despite the difficult economic environment.

Large cap stocks in this sector exhibit similar defensive characteristics to Consumer Staples due to inelastic demand for their products. The sector’s flagship, **CSL Limited (CSL),** has retained its ‘Strong’ financial health rating and has been one of the strongest performers on the Australian Stock Exchange.

Health Care Jun 08



Health Care Dec 07



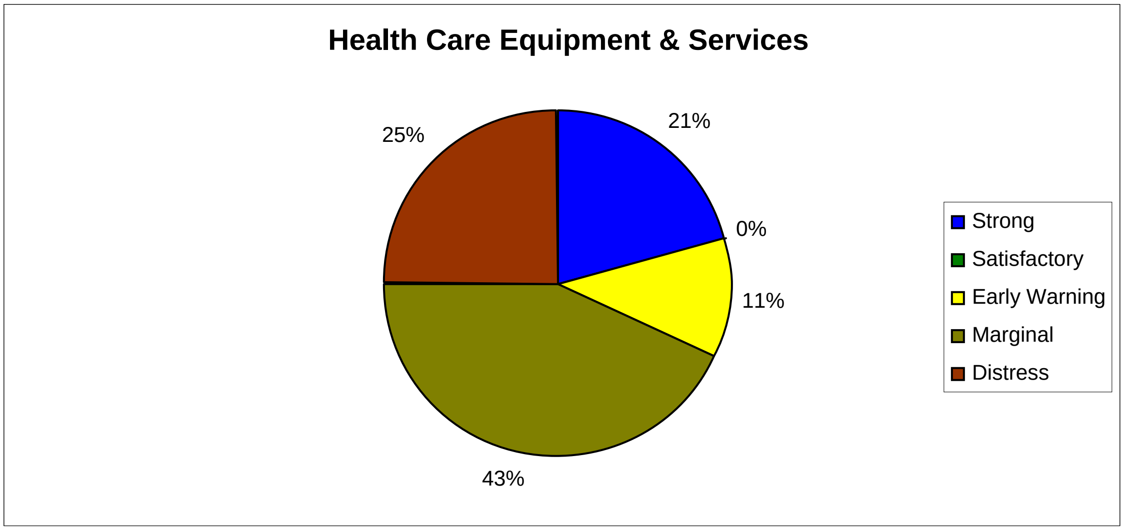
Quick stats on sector	**Health Care**
Sector market capitalisation ($mil)	$47,565 million
% of total market	4.33%
Number of companies	151
Highest cap company	CSL Limited (CSL) $22,209 million
Lowest cap company	BrainZ Instruments Limited (BZI) $1 million

Health Care Equipment & Services

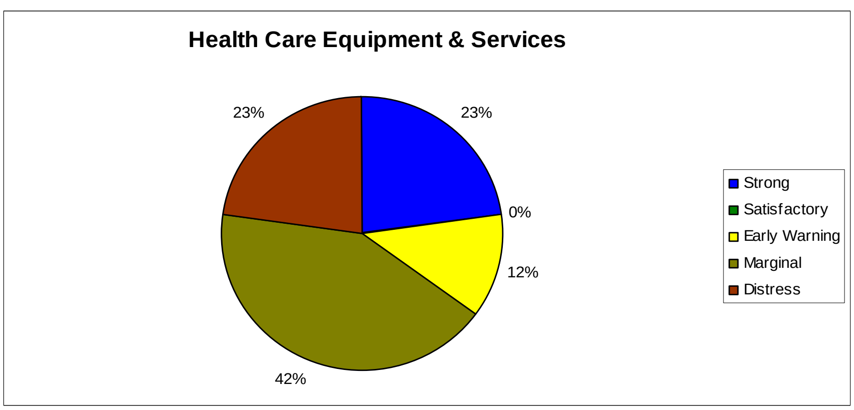
Healthcare Equipment & Services consists of a few large health services providers such as **Ramsay Health Care Limited (RHC)** and **Sonic Healthcare Limited (SHL)** and a number of health products manufacturers like **Cochlear (COH), Ansell (ANN), Sigma Pharmaceuticals (SIP) and ResMed Inc. (RMD)** all of which exhibit 'Strong' financial health. These companies are typical of defensive stocks in this sector. However, most companies in this sector are involved in the research and development of new healthcare technology. These are generally highly speculative, loss-making operations and in poor financial health.

Overall, the Health Care Equipment & Services industry group has experienced deterioration in the number of companies with a 'Strong' or 'Satisfactory' financial health rating from 23% to 21%.

Health Care Equipment & Services Jun 08



Health Care Equipment & Services Dec 07



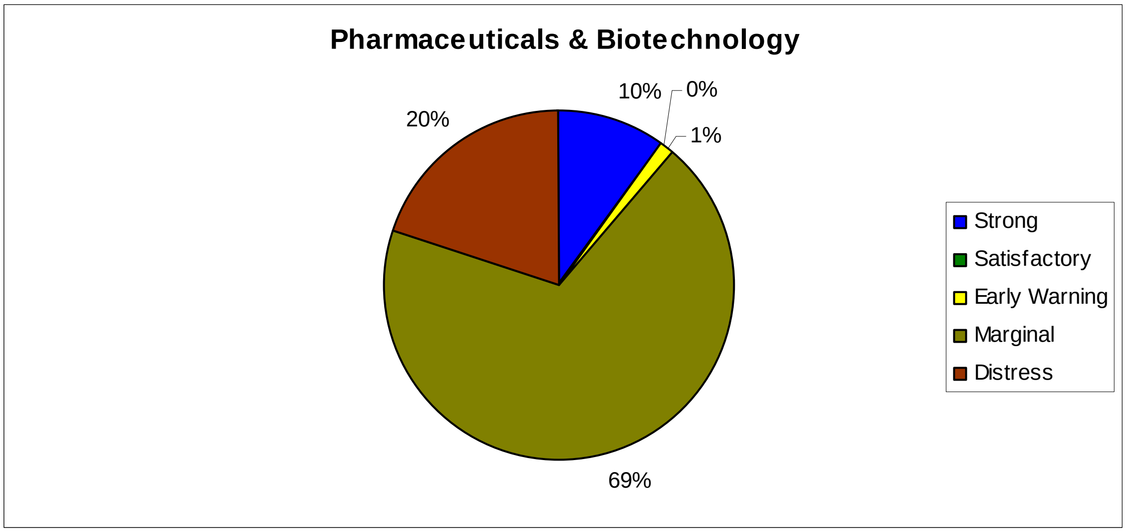
Quick stats on sector	Health Care Equipment & Services
Sector market capitalisation ($mil)	$22,866 million
% of total market	2.08%
Number of companies	71
Highest cap company	Sonic Healthcare Limited (SHL) $4,642 million
Lowest cap company	BrainZ Instruments Limited (BZI) $1 million

Pharmaceutical & Biotechnology

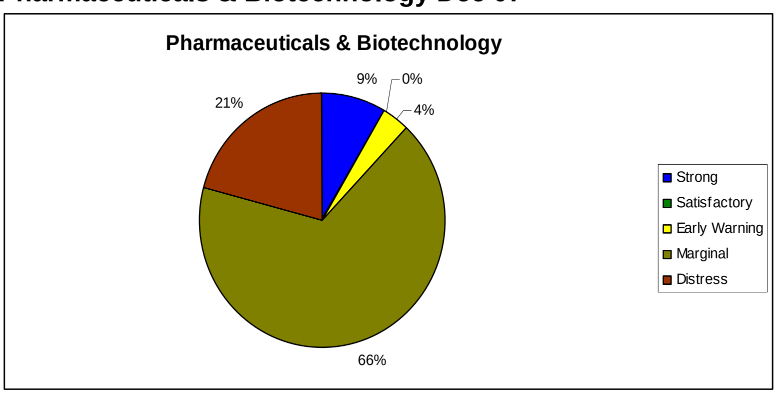
The Pharmaceutical & Biotechnology industry group possesses a larger gulf in the financial health of its constituents. This sector is dominated by **CSL Limited (CSL)** which is in a sound position of financial health.

However a significant remainder of the group consists of small caps involved in the loss making activities of research and development of new pharmaceuticals. Like exploratory miners, these companies are expected to continue to incur losses unless they successfully develop a new product. Notably, only 10% of companies in this sector are in a ‘Strong’ or ‘Satisfactory’ position, marginally higher than the 9% achieved in the previous six months.

Pharmaceuticals & Biotechnology Jun 08



Pharmaceuticals & Biotechnology Dec 07



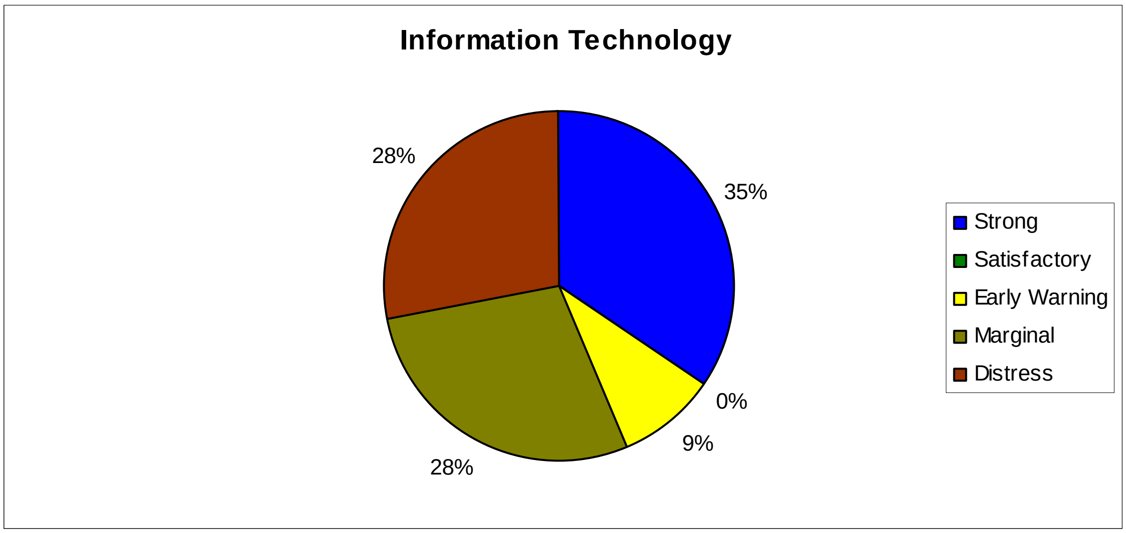
Quick stats on sector	**Pharmaceuticals & Biotechnology**
Sector market capitalisation ($mil)	$24,699 million
% of total market	2.25%
Number of companies	80
Highest cap company	CSL Limited (CSL) $22,209 million
Lowest cap company	Helicon Group Limited (HCG) $1 million

Information Technology

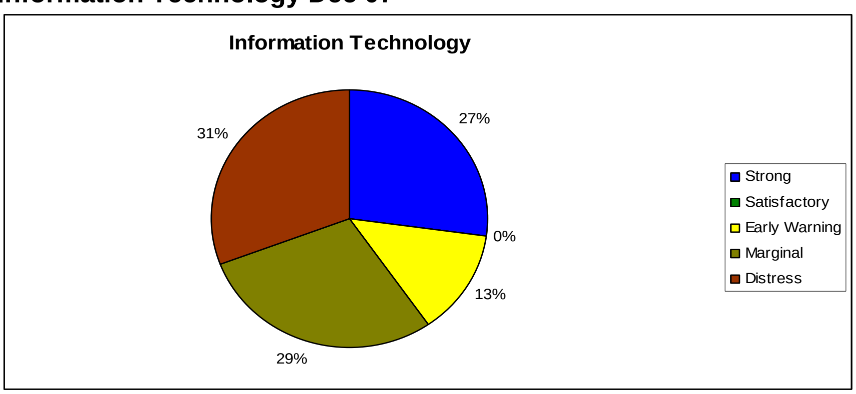
The Information Technology sector consists of the following industry groups: Software Services, Technology Hardware & Equipment and Semiconductors & Semiconductors Equipment. This has traditionally been one of the least healthy sectors of the market since the 'tech wreck'. However, due to the sector's minimal exposure to the financial markets, the credit crunch had minimal impact on many businesses.

Overall, 35% of the companies are in a 'Strong' or 'Satisfactory' position compared to the previous result of 27%. This is only sector that improved over the last six months. The existence of healthy and profitable companies in the group such as **Computershare Limited (CPU)** is somewhat offset by the numerous small start-up companies involved in technological development.

Information Technology Jun 08



Information Technology Dec 07



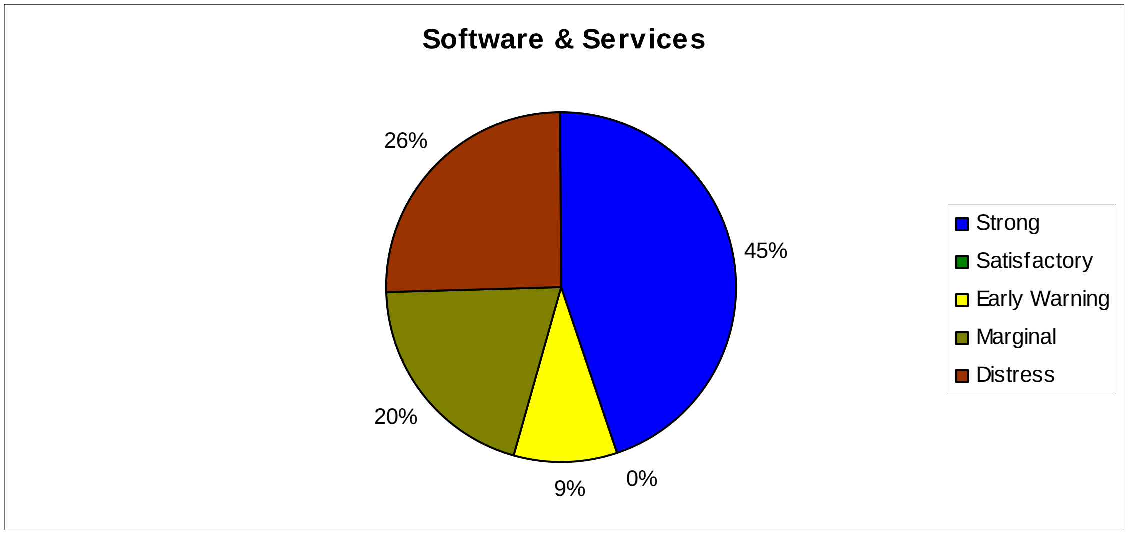
Quick stats on sector	Information Technology
Sector market capitalisation ($mil)	$8,512 million
% of total market	0.78%
Number of companies	105
Highest cap company	Computershare Limited (CPU) $4,367 million
Lowest cap company	Omnitech Holdings Limited (OHL) $1 million

Software and Services

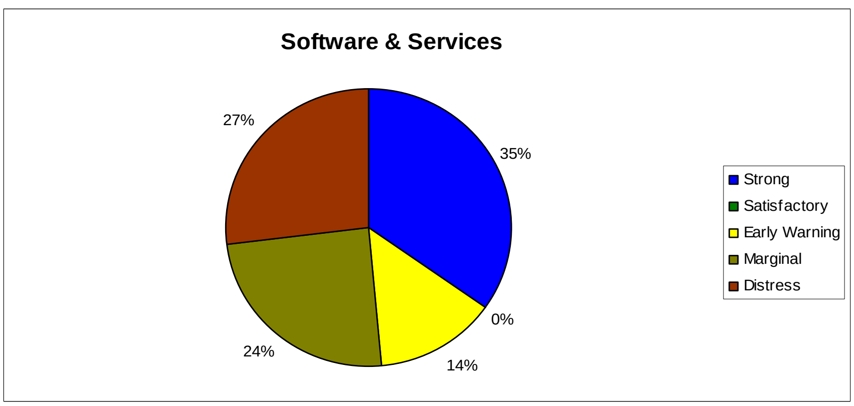
The Software and Services sector represent the majority of companies in the Information Technology sector. Overall this sector has strengthened despite the credit crisis with the Number of companies possessing sound financial health increasing from 35% to 45%. A likely reason for this is due to the low marginal cost and low capital intensive nature of these businesses.

Computershare Limited (CPU) dominates this industry group and has retained its 'Strong' financial health rating. The weaker Australian dollar is likely to improve profitability for the company due to its vast overseas operations.

Software and Services Jun 08



Software and Services Dec 07

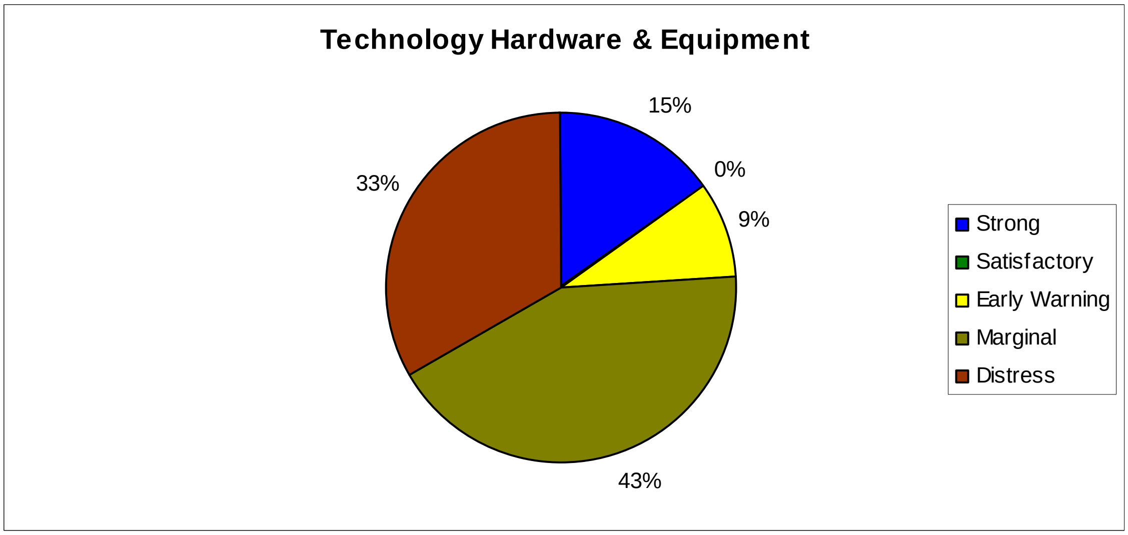


Quick stats on sector	Software and Services
Sector market capitalisation ($mil)	$8,176 million
% of total market	0.74%
Number of companies	73
Highest cap company	Computershare Limited (CPU) $4,367 million
Lowest cap company	Mooter Media Limited (MMZ) $1 million

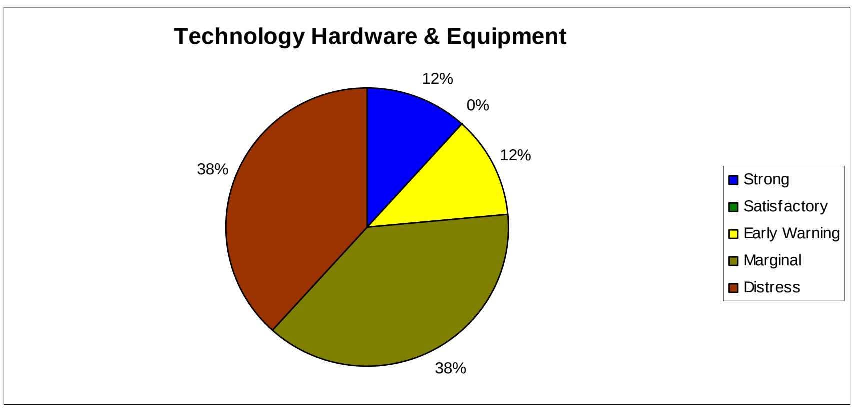
Technology Hardware & Equipment

This small segment of the market consists of small cap companies with generally poor financial health. Surprisingly, the number of companies with 'Strong' or 'Satisfactory' financial health in this sector has improved marginally from 12% in the previous period to 15% in the last six months.

Technology Hardware & Equipment Jun 08



Technology Hardware & Equipment Dec 07



Quick stats on sector	Technology Hardware & Equipment
Sector market capitalisation ($mil)	$336 million
% of total market	0.03%
Number of companies	32
Highest cap company	Codan Limited (CDA) $94 million
Lowest cap company	Omnitech Holdings Limited (OHL) $1 million

See next page for Appendix on "Lincoln ratings and ratios – Background information"

Important Information

Lincoln Indicators Pty Ltd ACN 006 715 573 (Lincoln) AFSL 237740.

This information is current as at 20 November 2008.

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Indices data source: ASX Operations Pty Limited. ASX-listed company data derived from Huntley's Information Pty Ltd. Available through Stock Doctor®.

APPENDIX

Lincoln ratings and ratios - Background information

Dr Merv Lincoln's methodology develops models from accounting ratios and characterises the financial standing of a company using a single figure on a scale of risk from 0.01 to 1, with the company's level of risk increasing as the measure moves up the scale towards 1. On the scale of risk, for ease of interpretation, the following benchmarks are used:

LEVEL OF RISK	FINANCIAL STANDING
0.01 - 0.10	Strong
0.11 - 0.30	Satisfactory
0.31 - 0.50	Early Warning
0.51 - 0.80	Marginal
0.81 - 1.00	Distress

If a company has a '**Strong**' or '**Satisfactory**' financial standing it will be interpreted as having sufficient cash flow and a balance sheet robust enough to finance growth, withstand significant business shocks or prolonged economic downturns.

If a company is in the zone of '**Early Warning**', it is neither satisfactory nor particularly unhealthy. The company will need to address certain issues in regards to its business operations in order to achieve a healthy financial position.

A '**Marginal**' financial standing indicates unsatisfactory risk above desired levels and it is preferable that management focus on getting the company into better shape. The company will have difficulties funding future growth through existing business facilities and its ability to withstand significant shocks or prolonged downturns in the economy is questionable.

If the company is in '**Distress**' it is exhibiting similar financial characteristics of failing companies. It will be difficult for this company to recover should there be negative developments, and any recovery will generally be slow as it tends to take longer to get out of a difficult situation than it does to get into one.

In Dr Lincoln's initial study, models were constructed using companies; both those that had failed and those that had survived during the period 1969 to 1978. Using a sample of failed and non-failed companies, a set of financial ratios was selected which yielded a linear function of ratios making the best distinction between the two groups. It was necessary to acknowledge that the financial characteristics of industries differ and models were constructed for different industry groups.

Recognising the changes in the economic landscape, accounting methods and reporting standards, Lincoln undertook further research in 2007 to refine its unique methodology.
Under the guidance and supervision of esteemed academic Associate Professor Neville Norman of the University of Melbourne, the model was revisited and new ratios were tested using multi-level modelling with the aim of improving its predictive power.

The model currently has a predictive accuracy of 95% where companies flagged in poor shape actually failed.

The ratios

From a population of over 60 ratios, 12 ratios make up the Lincoln model. These ratios, when combined and weighted, separate the high risk companies from the low risk companies.

CATAI: Current Assets to Total Tangible Assets
This ratio measures the efficiency in the management of stock and/or debtors, and the backstop of fixed assets that may be available as a source of funds, either by way of sale or mortgage. Lower risk firms have a lower value for CATAI because they turn their stock over faster and/or collect their debtors quicker, and/or have a backstop of long-term assets that may be available as a source of funds, either by way of sale or mortgage. Higher risk companies have a higher value for CATAI.

CBTA: Cash Balance to Total Assets
Cash balance is defined as a company's total cash in the bank as it appears on the balance sheet. Lower risk firms have a higher value for CBTA because they have more cash that can be used to pay for commitments that it has with suppliers, a bank or any other party that has rendered a product or service. Higher risk companies have a higher value for CBTA which means its ability to meet its commitments is significantly hampered.

CBTL: Cash Balance to Total Liabilities
This ratio shows a company's cash balance in relation to its total liabilities. Lower risk firms have a higher value for CBTL because they have more cash that can be used to pay for commitments that it has with suppliers, a bank or any other party that has rendered a product or service. Higher risk companies have a lower value for CBTL which means its ability to meet its commitments is significantly hampered.

CLTL: Current Liabilities to Total Liabilities
A factor determining a company's financial standing is the extent of more pressing debt commitments. Higher risk companies have more of their borrowings short term than is normal for the industry. The higher the value of this ratio, the greater the risk because the more that borrowings are short term, the more susceptible a company is to financial difficulties in the event of a downturn in trading.

CTCCL: Change in Total Cash Flow to Current Liabilities
Total cash flow refers to the net cash flow from a company's operating, investing and financing activities. If a company produces a negative change in cash flow over the year, then this development puts a significant strain on the business to meet its short-term commitments. A reduction in the amount of cash in the bank is an increased risk, particularly if a third party needs to be paid in the short term.

OCFTAI: Operating Cash Flow to Total Tangible Assets
Operating cash flow pertains to the cash generated from the operations of a company, generally defined as revenues less all operating expenses, plus depreciation. It is a better measure of a company's profitability than net income because it deducts only the actual cash expenses and therefore shows the strength of its operations. Consistent negative operating cash flow implies a business is going backwards in relation to its ordinary operations. A negative operating cash flow is a drain on the businesses assets, which can not only be used to support ongoing business, but is also vital for it to be a going concern. This ratio shows what percentage of assets is supported by the cash flow.

OCFCL: Operating Cash Flow to Current Liabilities
This ratio is significant because it shows the ability of a company to meet short-term commitments from internally generated cash flow. The higher the value of this ratio, the lower the level of risk because it implies that the company has more cash from its operations to cover short-term liabilities. A lower value for OCFCL denotes higher risk.

PDACL (formerly CFBCL): Profit before Depreciation and Amortisation to Current Liabilities
Profit before depreciation and amortisation is defined as net operating profit before tax plus non cash charges. This is a powerful ratio because it depicts the margin of safety to meet short-term commitments from cash flow generated from trading operations. Lower risk companies have a higher margin of safety, whereas higher risk companies have a lower margin of safety.

QACA: Quick Assets (Current Assets - Stock) to Current Assets
The "immediate liquidity" of a firm is measured by this relationship. Implied in this ratio is the relationship between stock and more liquid assets. The higher the value of this ratio, the lower the level of risk because the company has more claims to immediate liquidity than is norm for the industry. The lower the value for QACA, the higher the risk.

QLCL: Quick Liabilities (Current Liabilities - Short-term Bank Finance) to Current Liabilities
This ratio describes the relationship between trade and short-term bank finance. The lower the value of this ratio, the higher the level of risk, because there is a limit to the amount of short-term funds available from a bank. The closer a company gets to that limit, the less likely additional funds will be available, should they be required.

RPTAI: Retained Profits to Total Tangible Assets
The extent of funding from profit retention is a factor determining a company's financial standing. Lower risk companies have a higher proportion of their funds being sourced from profit retention. A high value would indicate a mature company with a history of good profits and a conservative dividend payout ratio.

TLTAI: Total Liabilities to Total Tangible Assets
This is the gearing ratio: the relationship between liabilities and equity. The higher the value of this ratio, the higher the level of risk because the more a company borrows, the more susceptible it is to financial difficulties in the event of a downturn in trading.

Important Information

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