
Directors' Sentiment Index: Research findings

Second half 2011

Delivered by Ipsos MediaCT

November 2011



Directors' Sentiment Index:

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Sample profile

Second half 2011 sample profile

A random sample was sourced from the Australian Institute of Company Directors' member database.
Fieldwork period: 8th August – 31st August 2011

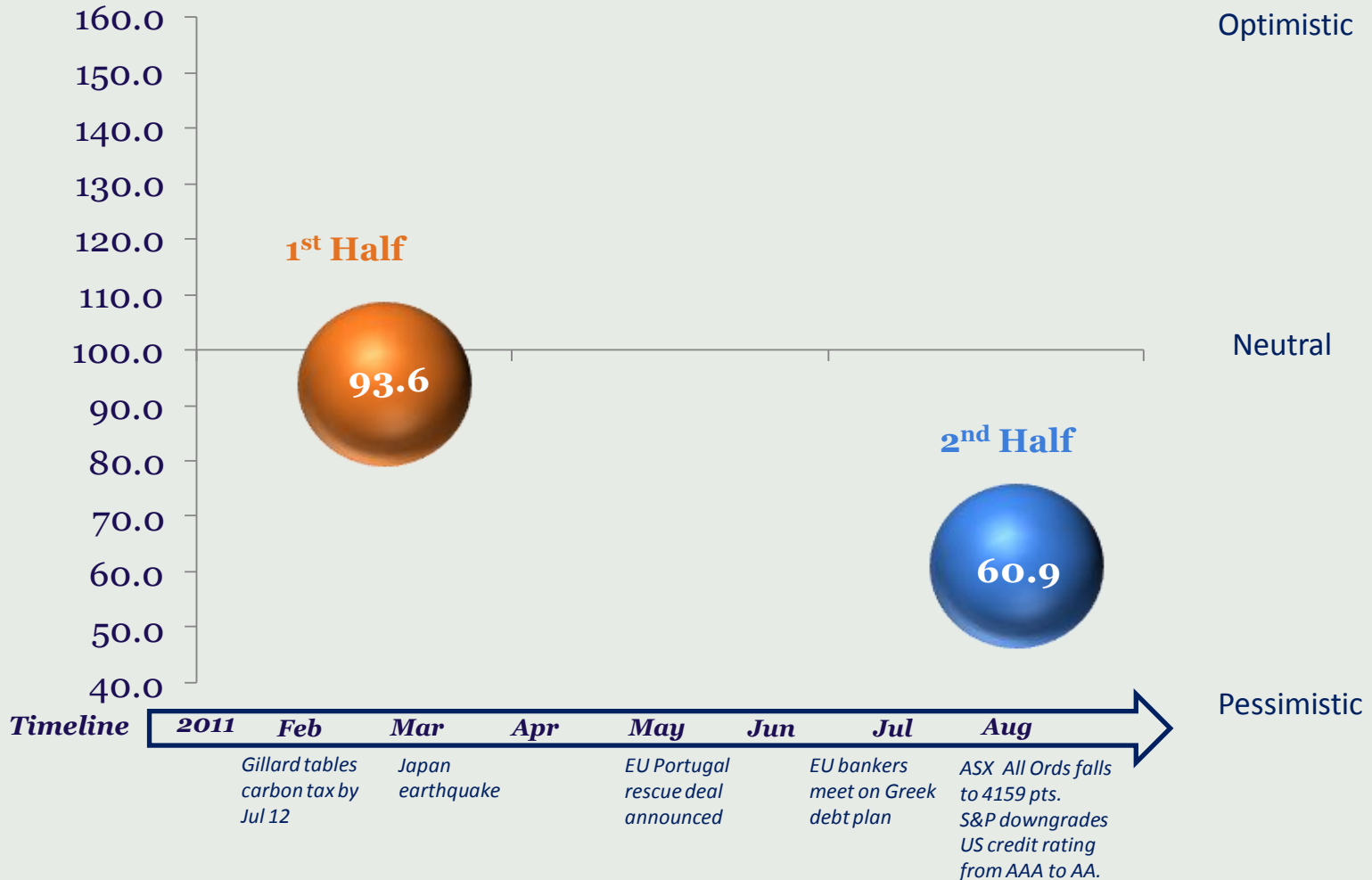
	%
No. of current directorships	
1	31 (25)
2	30 (25)
3 or more	39 (49)
Prefer not to say	- (1)
Positions held on board(s)	
Executive Director	50 (46)
Non-Executive Director	60 (61)
Chairman	32 (41)
Other	7 (4)
Prefer not to say	1 (2)
Primary directorship company	
Publicly listed Australian entity	11 (15)
Private/non-listed Australian entity	60 (64)
Not-for profit entity	27 (19)
Prefer not to say	2 (2)

	%
Primary directorship business sector(s)	
Banking, Finance and Insurance	20 (23)
Mining	8 (8)
Construction	7 (7)
Manufacturing	7 (7)
Agriculture, Forestry and Fishing	5 (6)
Hospitality, Travel and Tourism	4 (4)
Retail	4 (4)
Transport and Storage	4 (3)
Energy	3 (3)
Wholesale	3 (3)
Telecommunications	2 (2)
Cultural and Entertainment industry	2 (2)
Other	48 (41)
Gender	
Male	84 (85)
Female	16 (15)

Directors' Sentiment Index

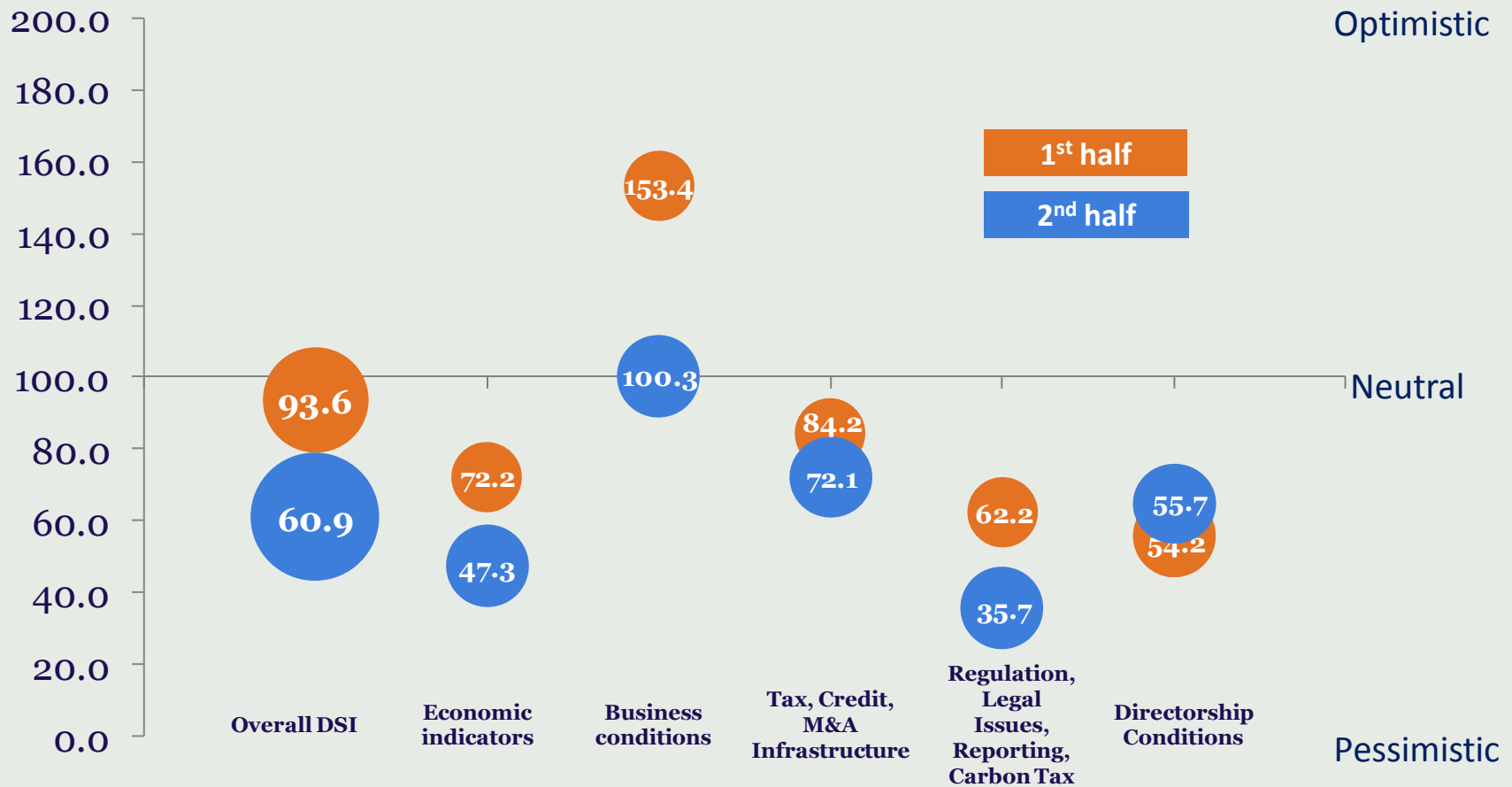
Overall Directors' Sentiment Index

The Directors' Sentiment Index is an aggregate representation of key indicators of sentiment, weighted based on importance. The overall sentiment in the 1st half survey could be described as stable to slightly pessimistic, while the overall sentiment in the 2nd half survey has shifted to pessimistic.



Overall Directors' Sentiment Index

Overall directors are more pessimistic in the 2nd half survey. Optimism towards business conditions has greatly decreased in the 2nd half survey to neutral.



Summary of key indicators and headlines

Summary of key indicators

(1 of 4)

9

Indicator (expected change in coming 12 months)	Scale	2 nd Half net balance	1 st Half net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-43 ↓	12
Health of the Asian economy	Weak/strong	26 ↓	50
Health of the European economy	Weak/strong	-93 ↓	-75
Health of the US economy	Weak/strong	-88 ↓	-56
Inflation rate (Australia)	Lower/higher	35 ↓	60
Exchange rate (value of AUD versus USD)	Lower/higher	7 ↑	-16
RBA cash rate	Lower/higher	-35 ↓	73
Level of wages growth	Lower/higher	29 ↓	71



Significantly higher vs. 1st half @ 95% confidence level



Significantly lower vs. 1st half @ 95% confidence level

Summary of key indicators

(2 of 4)

10

Indicator (expected change in coming 12 months)	Scale	2 nd Half net balance	1 st Half net balance
<i>Business conditions</i>			
Growth of primary directorship business	Weak/strong	10 ↓	42
Change in business investment levels	Decrease/increase	9 ↓	33
Change in business staffing levels/labour demand	Decrease/increase	9 ↓	33
Change in level of business exports	Decrease/increase	-9 ↓	11
Change in level of outsourcing	Decrease/increase	9 ↓	20
Expectations of profits for Jul-Dec 2011 actual versus forecast	Below/up	6 ↓	30
Confidence in general business outlook	Pessimistic/opt	-16 ↓	31
Confidence in business outlook for primary directorship sector	Pessimistic/opt	5 ↓	32
<i>Directorship conditions</i>			
Impact of directors' liability on willingness to serve on a board	Negatively/positively	-55	-50
Impact of compliance requirements on willingness to serve on a board	Negatively/positively	-35	-38
Impact of remuneration on willingness to serve on a board	Negatively/positively	9	9

Summary of key indicators

(3 of 4)

11

Indicator (expected change in coming 12 months, with the exception of *)	Scale	2 nd Half net balance	1 st Half net balance
<i>Tax, credit, M&A, infrastructure</i>			
Credit availability for investment purposes	Low/high	-7 ↓	3
Credit availability for asset purchases	Low/high	4 ↓	13
Credit availability for working capital	Low/high	0 ↓	6
Expected change in ASX All Ordinaries index	Fall/rise	18 ↓	63
Expected change in level of mergers and acquisitions	Fall/rise	44 ↓	73
Perception of current level of corporate taxation *	High/low	-44	-47
Perception of current level of personal taxation *	High/low	-69	-73
Perception of level of government spending on infrastructure *	Low/high	-80	-79
Agreement with building of NBN being a positive thing for Aust *	Disagree/agree	-20	-24
<i>Regulation, legal issues, reporting, Carbon Tax</i>			
Agreement with 'Federal Government understands business' *	Disagree/agree	-74 ↓	-68
Expected change in level of 'red tape' in coming 12 months	Increase/decrease	-71 ↓	-62

Summary of key indicators

12

(4 of 4)

Indicator (expected change in coming 12 months, with the exception of *)	Scale	2 nd Half net balance	1 st Half net balance
<i>Regulation, legal issues, reporting, Carbon Tax</i>			
How is the current Federal Government's performance affecting your business decision making?	Negatively/Positively	-65	na
How is the current Federal Government's performance affecting consumer confidence	Negatively/Positively	-85	na
Perception of governance regulations under Corporations Act	Onerous/weak	-52 ↓	-45
How is legislation affecting your business decision-making?	Negatively/positively	-35	-37
How is legislation affecting your willingness to serve on a board?	Negatively/positively	-38	-38
How is legislation affecting your willingness to accept new board appointments?	Negatively/positively	-50	-51
Extent legal judgements affect your business decision-making	Negatively/positively	-24	na
Extent legal judgements affect your willingness to serve on a board	Negatively/positively	-35	na
Extent legal judgements affect your willingness to accept new board appointments	Negatively/positively	-47	na
Adequacy of business directorships and officers' insurance	Inadequate/adequate	-8	-9
Adequacy of public company remuneration reports	Inadequate/adequate	-23	-21
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/functional	-12 ↑	-23
Expect the Carbon Tax to affect your business	Negatively/positively	-51 ↓	-41



-
- A more pessimistic sentiment is apparent among directors, following increasing economic uncertainty within some of the world's largest economies, a continuing downtrend in global financial markets and restrained consumer confidence here in Australia.
 - The only key indicators to improve in the 2nd half survey were:
 - Expectations of the value of the \$AUD (but fieldwork was conducted prior to recent decreases)
 - Expectations of inflation and interest rates (expected to be subdued or declining in the 2nd half)
 - Perceptions of the functionality of the International Financial Reporting System (IFRS)
 - A few indicators remained relatively stable (it should be noted, however, that the net balances for these issues continue to maintain a negative slant):
 - Sentiments about factors that may affect willingness to serve on a board
 - Perceptions about the level of corporate and personal taxation
 - Perceptions of the current level of government spending on infrastructure
 - Sentiments about the NBN
 - When considering pressing issues affecting business, directors now rank minority government, low consumer confidence and the carbon tax ahead of the skilled labour shortage.
 - There were notable increases in the number of directors who feel that the government should focus on reducing deficit and debt, dealing with the carbon tax and superannuation, as well as those who felt that more should be spent on 'green' energy resources and urban rail networks.
 - The perceived importance of ESG increased, as did the proportion of participants with documented diversity policies.

Executive Summary

Comments on results

- There is a more pessimistic outlook regarding the current and future state of world economies. Directors continue to perceive Asian and Australian economies as stronger than US and European economies, but confidence in the Australian economy has declined, with nearly 60 per cent of directors expecting our economy to be weak in the coming 12 months
- The expected value of the \$AUD in the next 12 months increased in the second half, while expectations of the inflation rate, RBA cash rate and level of wages growth declined. Nearly half of directors still believe inflation rates will rise, however, while half believe the RBA cash rate will drop and the level of wages growth will remain stable.
- Estimations of the Australian inflation rate in the coming 12 months were slightly lower in the 2nd half, at an average of 3.3 per cent with estimates clustering around 3 per cent. The actual inflation rate during survey fieldwork was 3.6 per cent*.
- Estimations of the exchange rate for the next 12 months were slightly higher in the 2nd half, at an average of 104 US cents with estimates clustering around \$1 USD, 105 US cents and 110 US cents. The actual rate during survey fieldwork was 104 US cents*.
- Estimations of the RBA official cash interest rate in the next 12 months were lower in the 2nd half, at an average of 4.6 per cent with estimates clustering around 4 per cent and 4.5 per cent. The actual rate during survey fieldwork was 4.75 per cent*.
- The expected level of wages growth in the coming year was lower in the 2nd half, at an average of 3.5 per cent with estimates clustering around 3 per cent and 4 per cent. The actual growth for the most recent year to the survey fieldwork was 3.8 per cent **.

* Source: RBA ** Source: ABS

- A skilled labour shortage is no longer the main economic challenge facing Australian business. Nearly half of directors perceive the minority Federal Government and low consumer confidence to be more pressing business challenges now.
- Business growth weakened for many in January to June 2011 and there was decreased optimism about the coming year. Forty one per cent of directors claimed that the growth of their business weakened in the last 6 months, however the same proportion also expect the business to grow in the coming year.
- In line with 1st half survey results, a substantial proportion of directors experienced stability across the four facets of business in the preceding 6 months. A lower level of increases were experienced in the 2nd half, compared to the 1st half, with a marked decrease in business exports.
- Lower expectation of growth in the next 12 months, across all four facets of business, in this half. A large proportion of directors continue to expect stability across their business, particularly in the area of business exports and outsourcing.
- Lower expectations of profits for the first half of this financial year, compared to the 1st half survey results.
- Declining expectations of profits for the second half of this financial year, January to June 2012, compared to the 1st half survey results.
- Directors have become pessimistic about their general business outlook, with decreased optimism about the business outlook for their specific sector.
- In line with 1st half survey results, most directors believe that the level of taxation in Australia is too high. Half of directors say that corporate taxation is too high and nearly three-quarters say that personal tax is too high.

- Credit availability for the preceding 6 months was somewhat less constrained in the 2nd half, compared to first half results, across investment, asset purchases and working capital.
- Directors are more pessimistic regarding credit availability for the next 12 months. There is a slightly higher level of optimism regarding credit availability for asset purchases and working capital, compared to credit for investment purposes.
- Fifty per cent of directors expect a rise in the ASX All Ordinaries index within the next 12 months. This proportion has decreased comparing 2nd half to first half results.
- Nearly sixty per cent of directors expect a rise in mergers and acquisitions in the next 12 months (a much lower level compared to the 1st half). Private equity is no longer expected to be the most active business purchaser in the next 12 months; instead nearly half of directors now expect that trade sale will be the most active business purchaser.

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- The vast majority of directors (nearly 90%) continue to believe that the current level of government spending on infrastructure is too low.
 - More than half of directors disagree that the building of the National Broadband Network (NBN) is a positive thing for Australia, in line with 1st half survey results.
 - In the 2nd half water supply, road and telecommunications networks continue to be the most important areas of infrastructure for investment, with an increase in the importance of ‘green’ energy sources and urban rail, and a significant drop in the importance of nuclear power.
 - In line with 1st half survey results, more than 80 per cent of directors ranked infrastructure as a top priority the Federal Government should address, followed by health, education and energy resources.

-
- In line with 1st half survey results, 70+ per cent of directors believe that the level of “red tape” has increased in the last 12 months and expect it to increase further in the future.
 - Increased disenchantment regarding the Federal Government’s understanding of business in the 2nd half. More than 80 per cent of directors believe the Government lacks understanding of business.
 - Nearly 70 per cent of directors believe their business decision making will be impacted negatively, and nearly 90 per cent of directors believe consumer confidence will be impacted negatively, by the current Federal Government’s performance.
 - More directors believe further reform of the laws and regulations governing public company remuneration should be a low priority.
 - More directors believe director liability (based on current legislation) will negatively impact their willingness to serve on a board. Forty four per cent of directors perceive compliance requirements, and 18 per cent perceive non-executive director remuneration levels, will negatively impact their willingness to serve on a board (similar levels to the 1st half survey results).
 - More directors believe current governance regulations under the Corporations Act are onerous.
 - Over 40 per cent of directors still believe Commonwealth or state legislation on director liability has a negative impact on their business decisions and willingness to continue on a board. More than half of directors maintain the belief that directors liability legislation negatively impacts their willingness to accept new board appointments.
 - Almost 40 per cent of directors believe that legal judgments (such as the recent Centro ruling) will negatively impact their business decisions and willingness to continue on a board, and half of directors say that legal judgments will negatively impact their willingness to accept new board appointments.

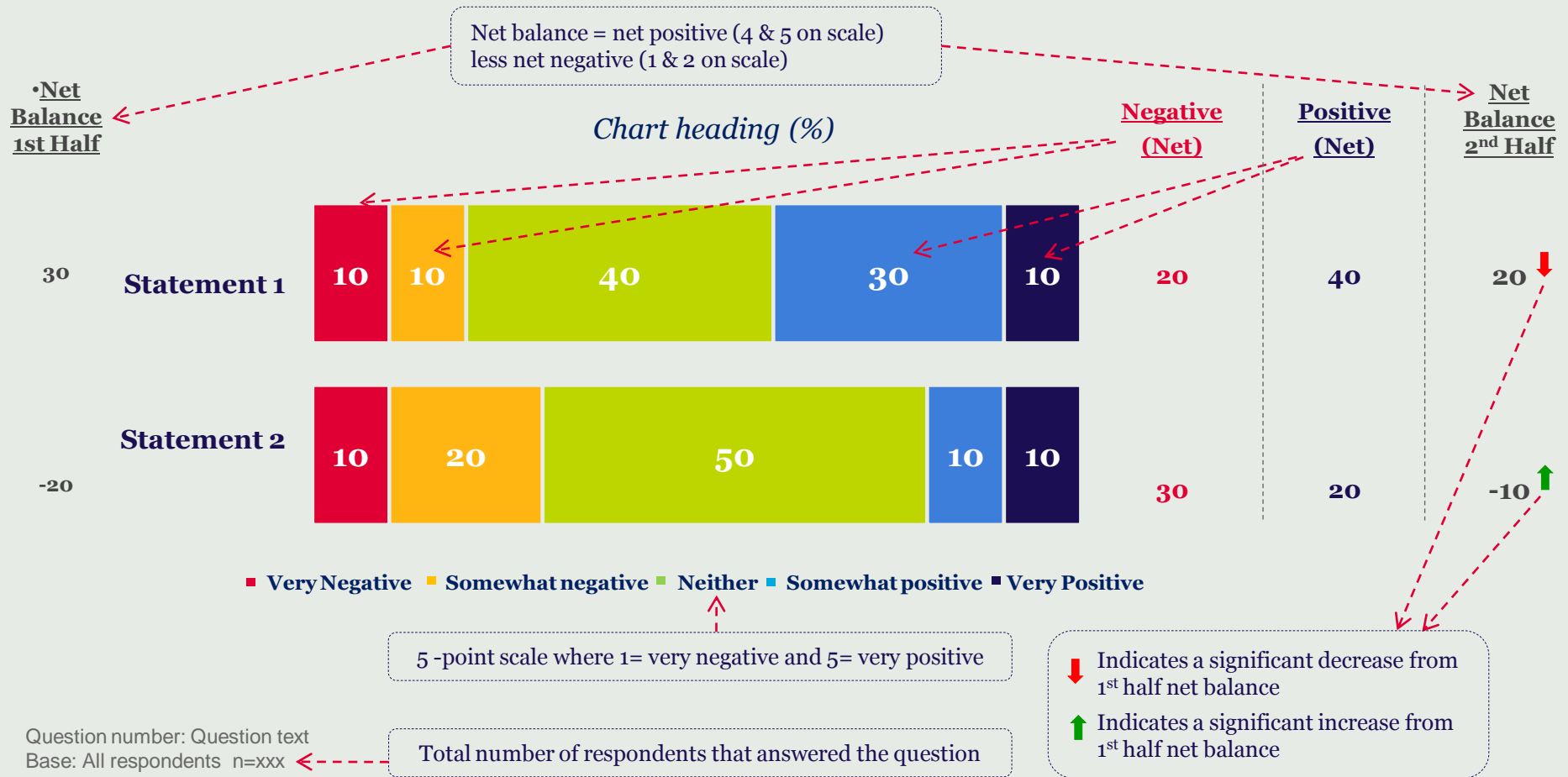
- Almost three quarters of directors still believe their business' Directors and Officers insurance is adequate, or about right.
- In line with 1st half survey results, almost 60 per cent of directors feel that public company remuneration reports are adequate or about right. It is worth noting that the net of adequate minus inadequate responses is in deficit (-23).
- Less pessimism regarding functionality of the International Financial Reporting standards (IFRS). Thirty per cent of directors perceive that the IFRS is dysfunctional to some degree.
- At a similar level to the 1st half survey results, 36 per cent of directors believe that the current AGM system is working well.
- Nearly 90 per cent of directors maintain the belief that the board/company's relationships with its shareholders should be a high priority.

- In line with 1st half survey results, nearly 60 per cent of directors have a documented policy on business ethics within their organisation, with 80 per cent of directors addressing ethical considerations at board meetings.
- More directors have a documented policy on board diversity within their organisation in the 2nd half. Akin to the 1st half survey results, a large proportion of directors are actively seeking to increase the diversity of their board members.
- Most directors still maintain the perception that Australian companies are more ethical than overseas listed companies.
- Most directors still believe the general public perceives the directors of Australian and overseas listed companies as unethical.
- In the 2nd half survey, nearly two thirds of directors maintain the belief that directors should be limited to trade in shares of their own companies within prescribed trading windows (slightly lower level than in the 1st half).

- More directors perceive ESG as important within business in the 2nd half survey. Nearly 90 per cent of directors maintain the belief that the level of regulation on climate change will increase in the next two years.
- Increased pessimism regarding impact of carbon price on business in the 2nd half survey. Sixty two per cent of directors believe the announcement and legislation for the carbon tax will impact their business negatively. In line with 1st half survey results, close to 90 per cent of directors are making some effort to reduce their carbon footprint.
- Most directors believe energy costs, non-energy costs and domestic prices will be negatively impacted by the announced Carbon Tax and that both domestic prices and export prices will likely rise as a result of the Carbon Tax.
- About half of directors expect the abolition of the Carbon Tax would have a positive impact on their business, while only a quarter believe the impact would be negative.

Appendix

Detailed results



Economic outlook

Health of economies: summary

Pessimistic outlook regarding the current and future state of world economies in the 2nd half survey. Directors perceive Asian and Australian economies as stronger than US and European economies, but confidence in the Australian economy has declined.

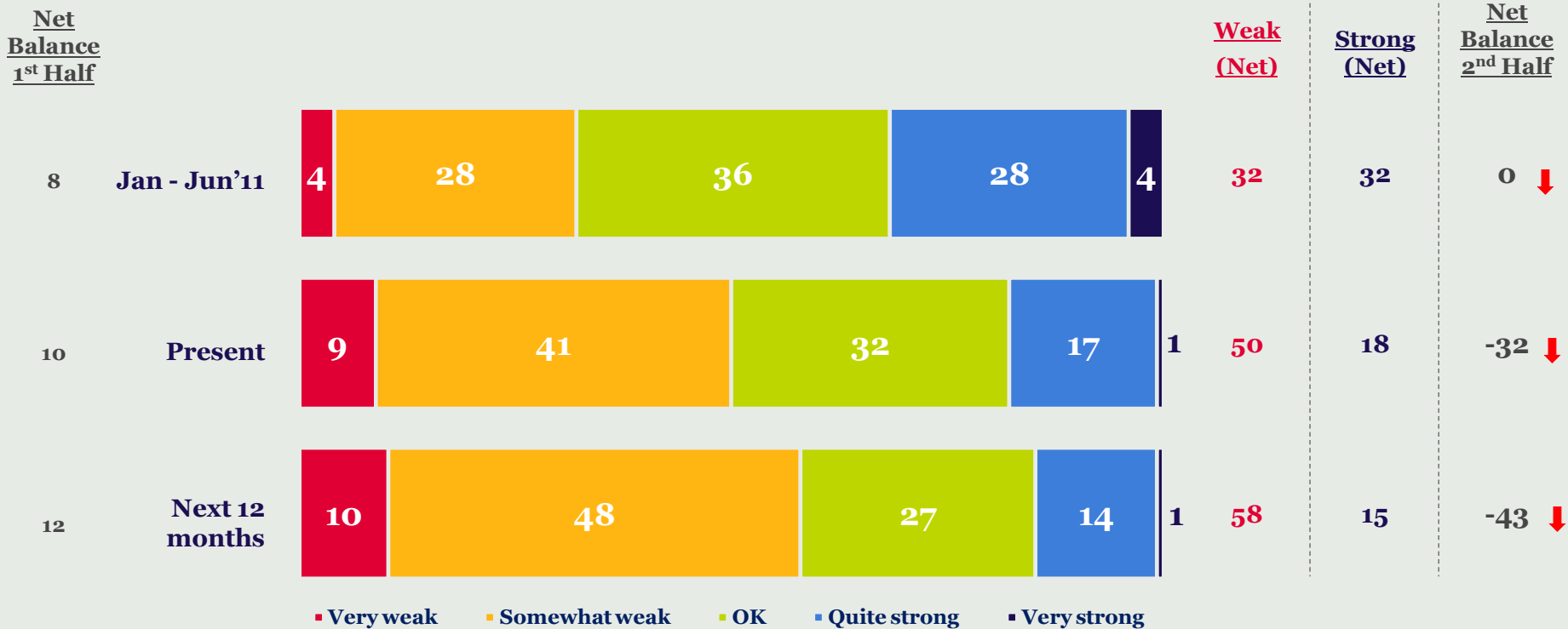
Health of economies		(Wave)	Australian	Asian	US	European
<i>Mean score (on a 5-pt scale, where 1 is 'Very Weak' and 5 is 'Very Strong')</i>						
Past 6 months	(Jul-Dec'10)	1 st Half	3.1	3.5	1.7	1.7
	(Jan-Jun'11)	2 nd Half	3.0	3.6	1.8	1.7
Present		1 st Half	3.1	3.5	2.0	1.9
		2 nd Half	2.6 ↓	3.4	1.6 ↓	1.5 ↓
Next 12 months		1 st Half	3.1	3.6	2.3	2.1
		2 nd Half	2.5 ↓	3.3 ↓	1.7 ↓	1.5 ↓

E1-E4 Base: All respondents n=523

Health of the Australian economy

Less optimistic outlook on the health of the Australian economy in the 2nd half survey. Fifty per cent of directors perceive the Australian economy to be weak at present, with nearly 60 per cent expecting our economy to be weak in the coming 12 months.

What is your assessment of the health of the Australian economy? (%)

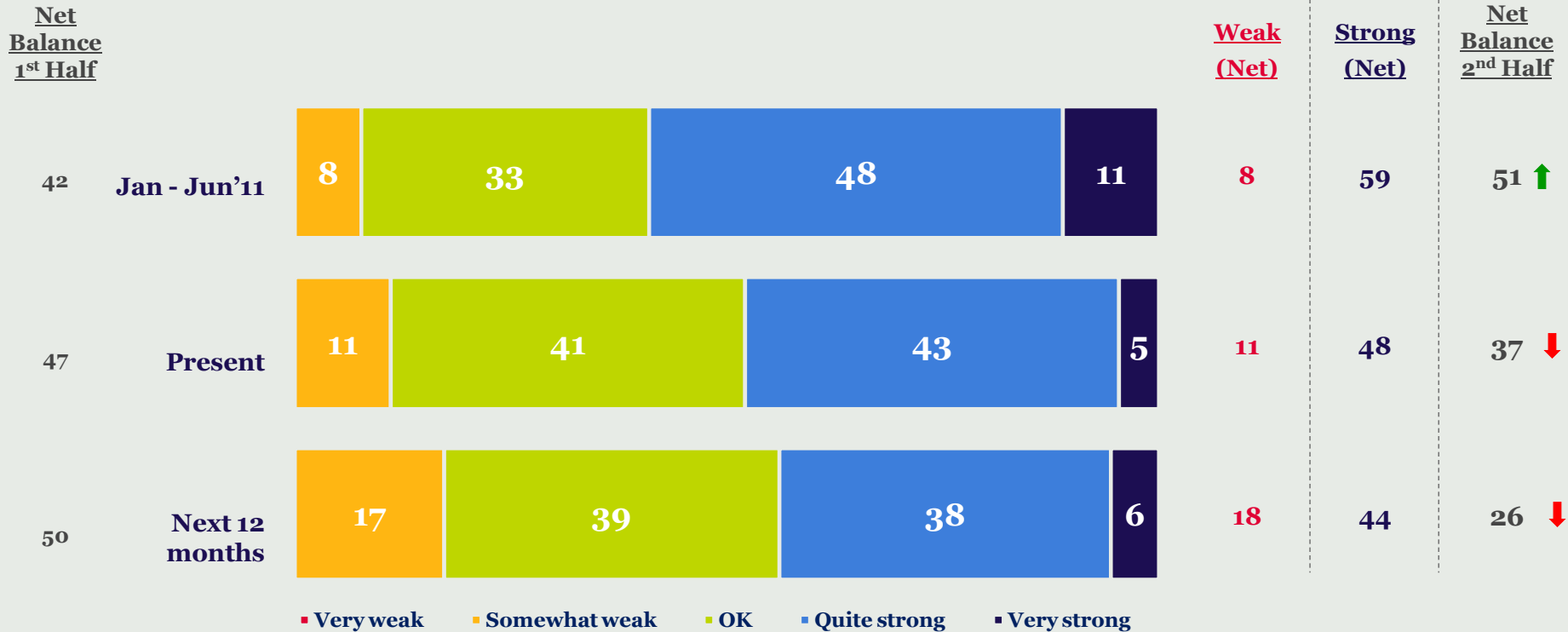


E1: What is your assessment of the health of the Australian economy...?
 Base: All respondents n=523

Health of the Asian economy

While most thought the Asian economy's performance in the period January to June 2011 was strong, present perceptions and future expectations declined in the second half: less than half of directors expect the Asian economy to remain strong in the coming 12 months.

What is your assessment of the health of the Asian economy? (%)

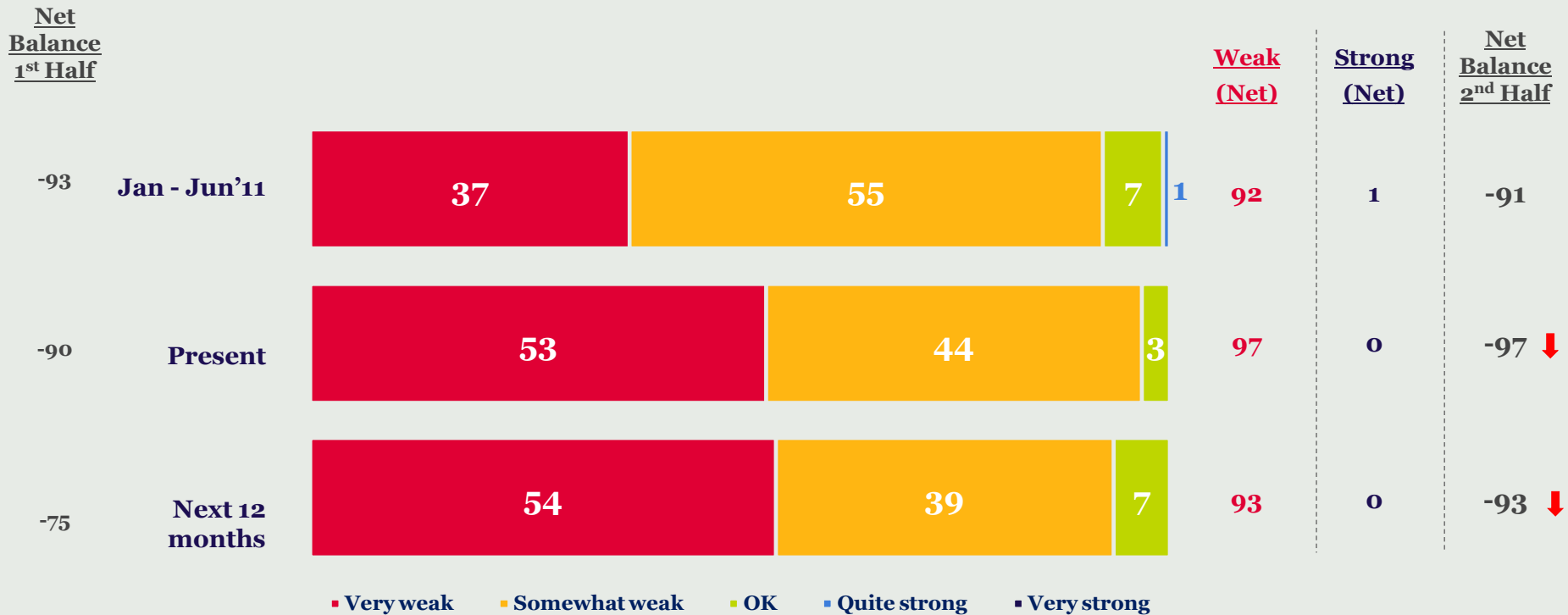


E2: What is your assessment of the health of the Asian economy.....?
 Base: All respondents n=523

Health of the European economy

Increased pessimism regarding the health of the European economy in the 2nd half survey- at present and in the next 12 months. More than half of directors perceive the current health of the European economy as very weak.

What is your assessment of the health of the European economy? (%)

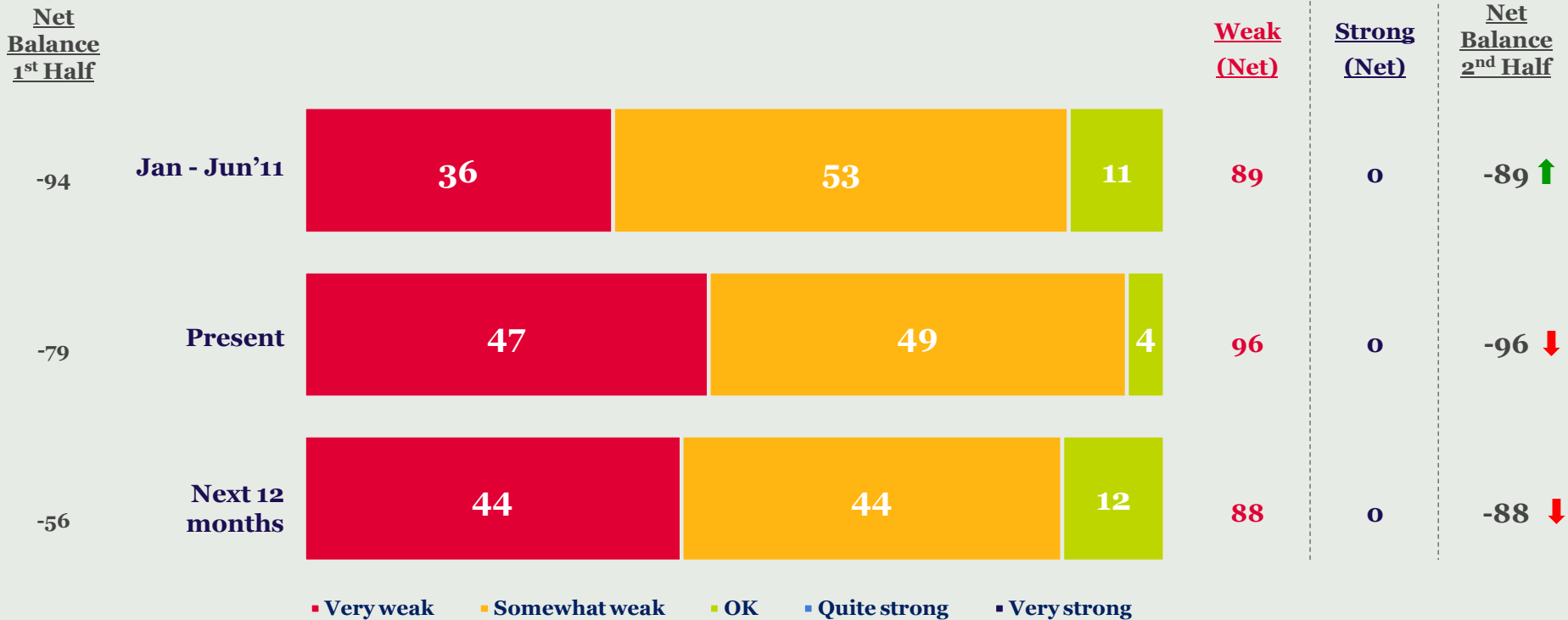


E3: What is your assessment of the health of the European economy....?
 Base: All respondents n=523

Health of the US economy

Increased pessimism regarding the health of the US economy in the 2nd half survey. Nearly half of directors perceive the current state of US economy as weak, however they are less pessimistic about its health in the coming 12 months.

What is your assessment of the health of the US economy? (%)

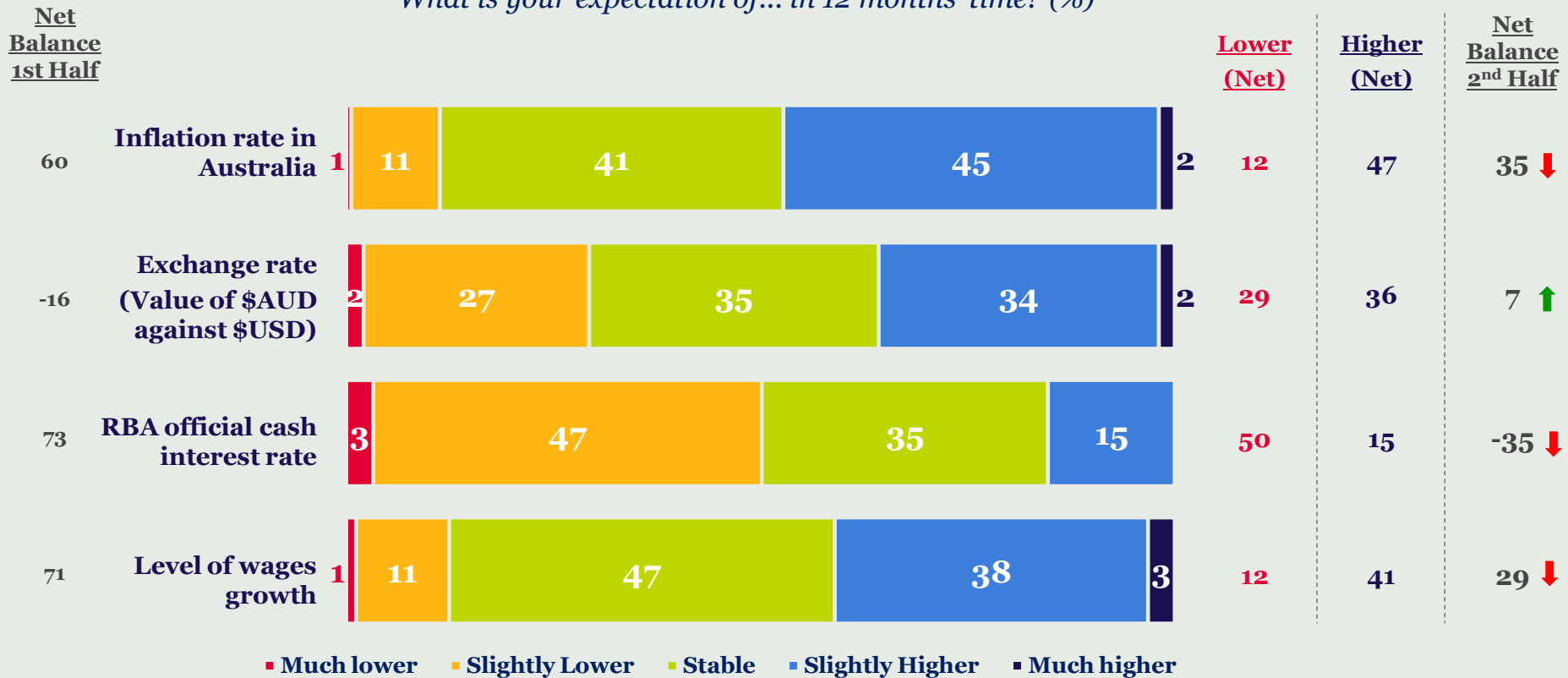


E4: What is your assessment of the health of the US economy.....?
 Base: All respondents n=523

Economic indicators (Australia) – expectation in next 12 months

The expected value of the \$AUD in the next 12 months increased, while expectations of the inflation rate, RBA cash rate and level of wages growth declined in the 2nd half. Nearly half of directors, however, still believe inflation rates will rise, while half believe the RBA cash rate will drop and level of wages growth will remain stable.

What is your expectation of... in 12 months' time? (%)

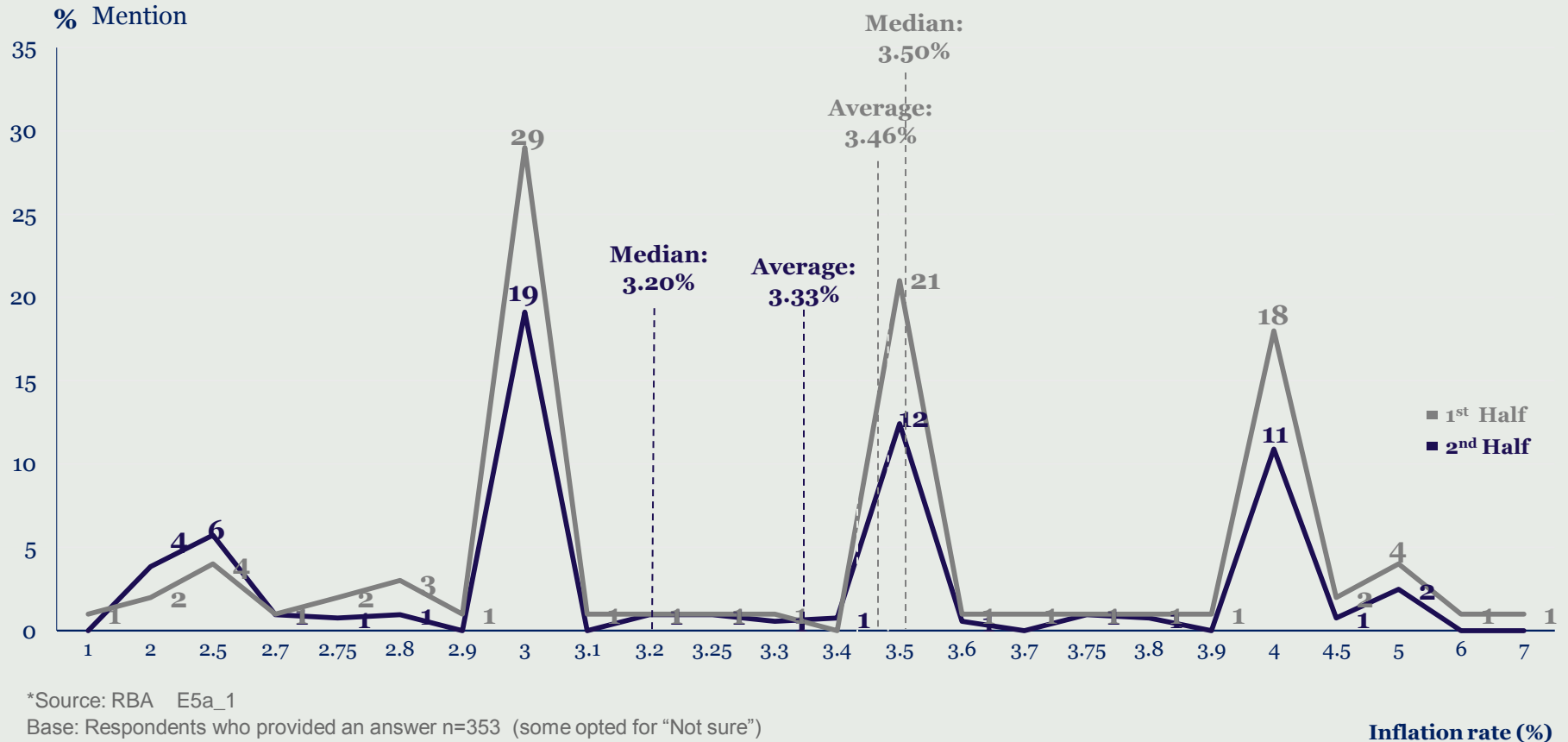


E5: What is your expectation of.....?
 Base: All respondents n=523

Economic indicators – Australian inflation rate in next 12 months

Estimations of the Australian inflation rate in the coming 12 months were slightly lower in the 2nd half, at an average of 3.3 per cent with estimates clustering around 3 per cent. The actual inflation rate during survey fieldwork was 3.6 per cent*.

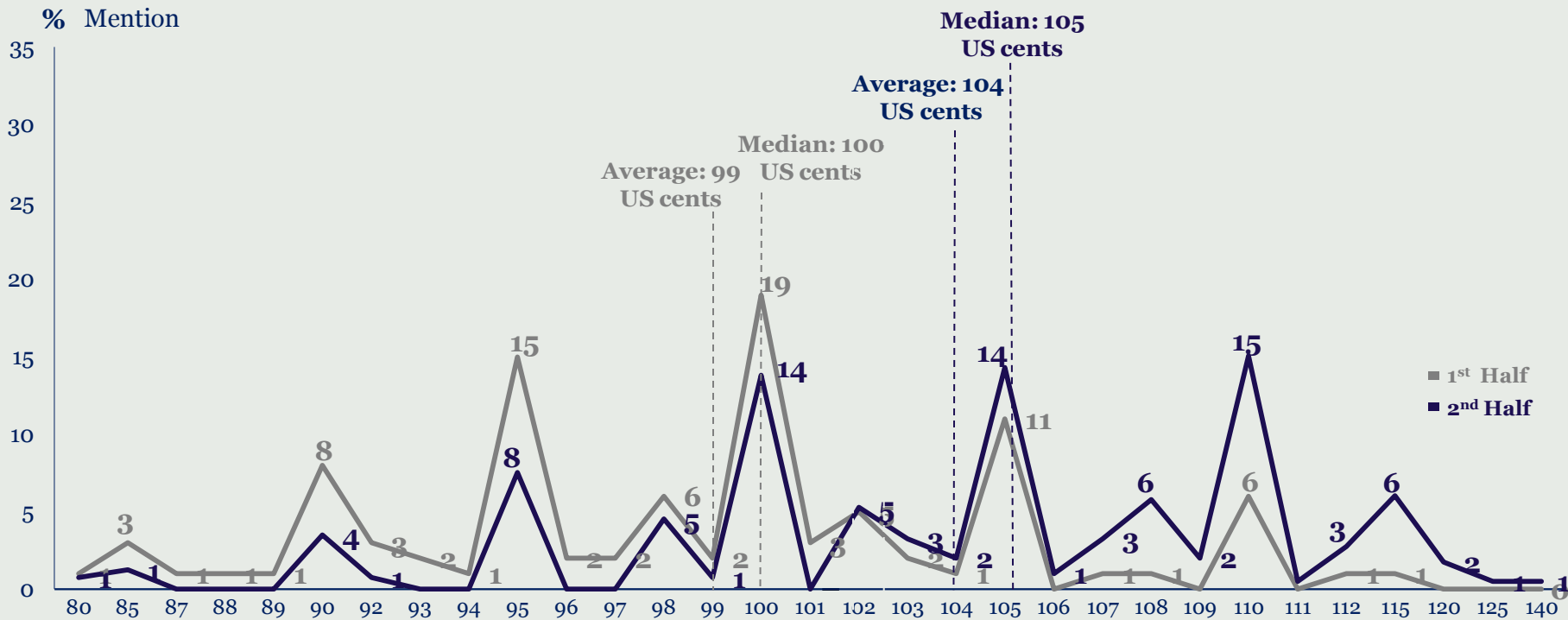
Nominate a numeric value for “the inflation rate in Australia in 12 months’ time” (%)



Economic indicators – AUD/USD exchange rate in next 12 months

Estimations of the exchange rate for the next 12 months were slightly higher in the 2nd half, at an average of 104 US cents with estimates clustering around \$1 USD, 105 US cents and 110 US cents. The actual rate during survey fieldwork was 104 US cents*.

Nominate a numeric value for “the AUD/ USD exchange rate in 12 months’ time”
(1\$A = how many US cents)



*Source: RBA E5a_2

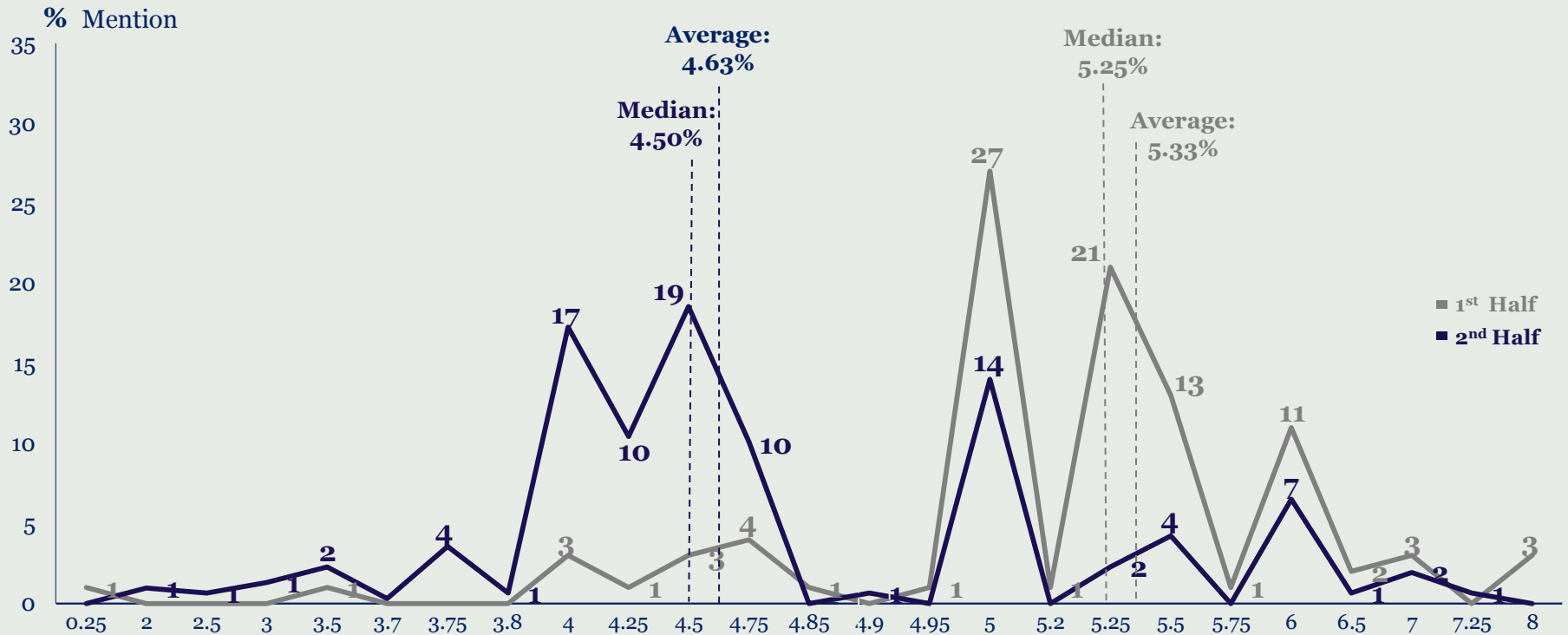
Base: Respondents who provided an answer n=398 (some opted for “Not sure”)

US cents

Economic indicators – RBA official cash interest rate in next 12 months 34

Estimations of the RBA official cash interest rate in the next 12 months were lower in the 2nd half, at an average of 4.6 per cent with estimates clustering around 4 per cent and 4.5 per cent. The actual rate during survey fieldwork was 4.75 per cent*.

Nominate a numeric value for “the RBA official cash interest rate in 12 months’ time” (%)



*Source: RBA E5a_3

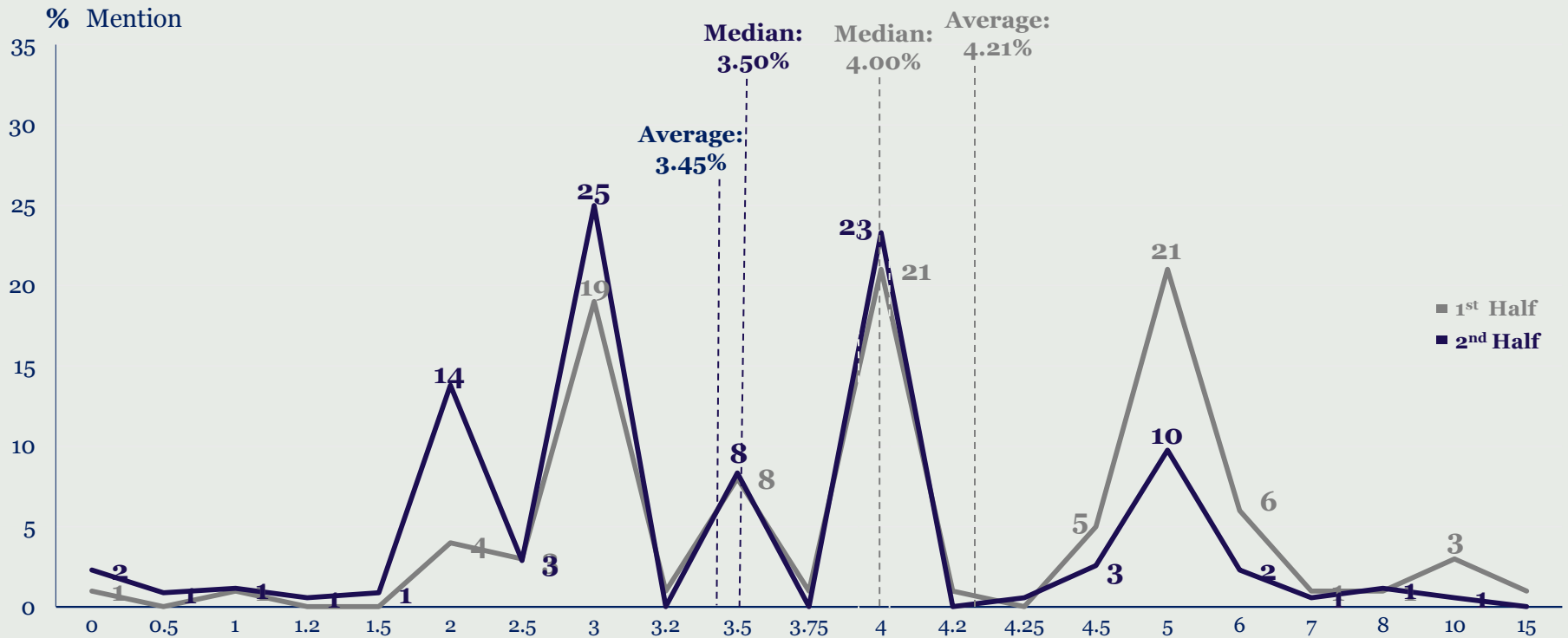
Base: Respondents who provided an answer n=398 (some opted for “Not sure”)

Cash interest rate (%)

Economic indicators – wages growth rate in next 12 months

The expected level of wages growth in the coming year was lower in the 2nd half, at an average of 3.5 per cent with estimates clustering around 3 per cent and 4 per cent. The actual growth for the most recent year to the survey fieldwork was 3.8 per cent*.

Nominate a numeric value for “the rate of wages growth in 12 months’ time” (%)



*Source: ABS E5a_4

Base: Respondents who provided an answer n=398 (some opted for “Not sure”)

Wages growth rate (%)

Main current economic challenges (Top 3)

A skilled labour shortage is no longer the main economic challenge facing Australian business, as seen in the 2nd half survey results. Nearly half of directors perceive the minority Federal Government and low consumer confidence to be more pressing business challenges now.

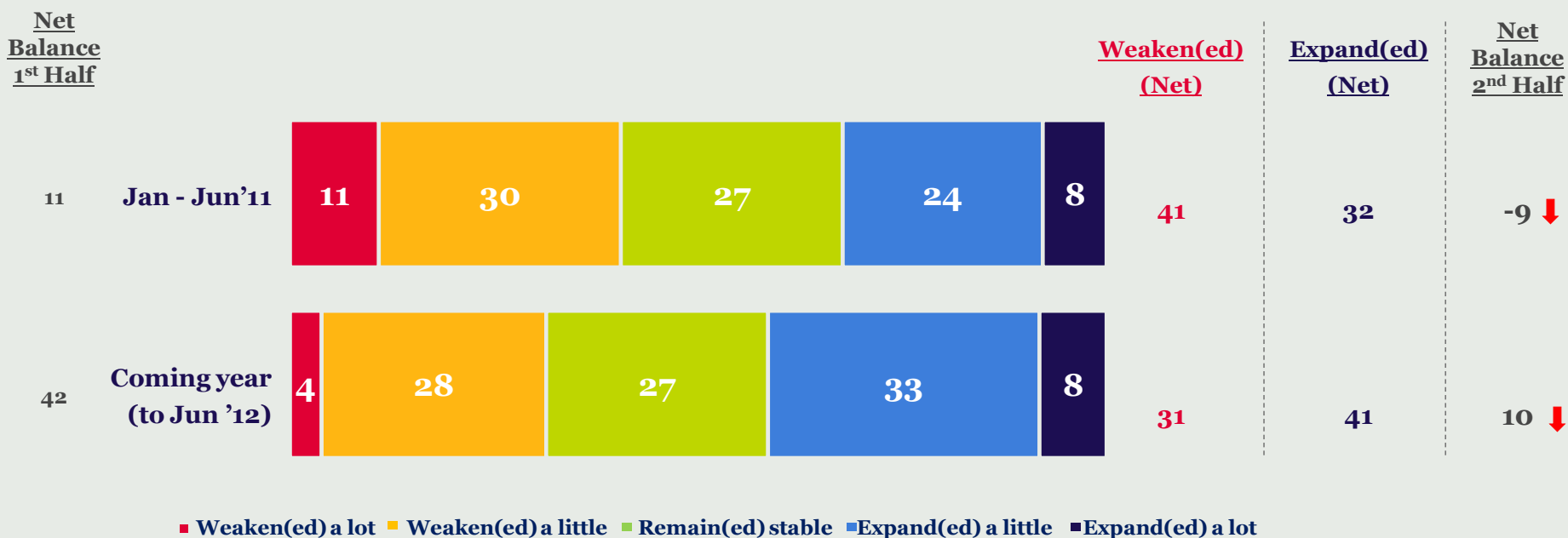
What are the 3 main economic challenges currently facing Australian business? (%)



Growth of the business (primary directorship company)

Business growth weakened for many in January-June 2011, and there was decreased optimism about the coming year, looking at 2nd half survey results. Forty one per cent of directors claimed the growth of their business weakened in the last 6 months, however the same proportion also expect the business to grow in the coming year.

Growth of the business – Past and future (%)

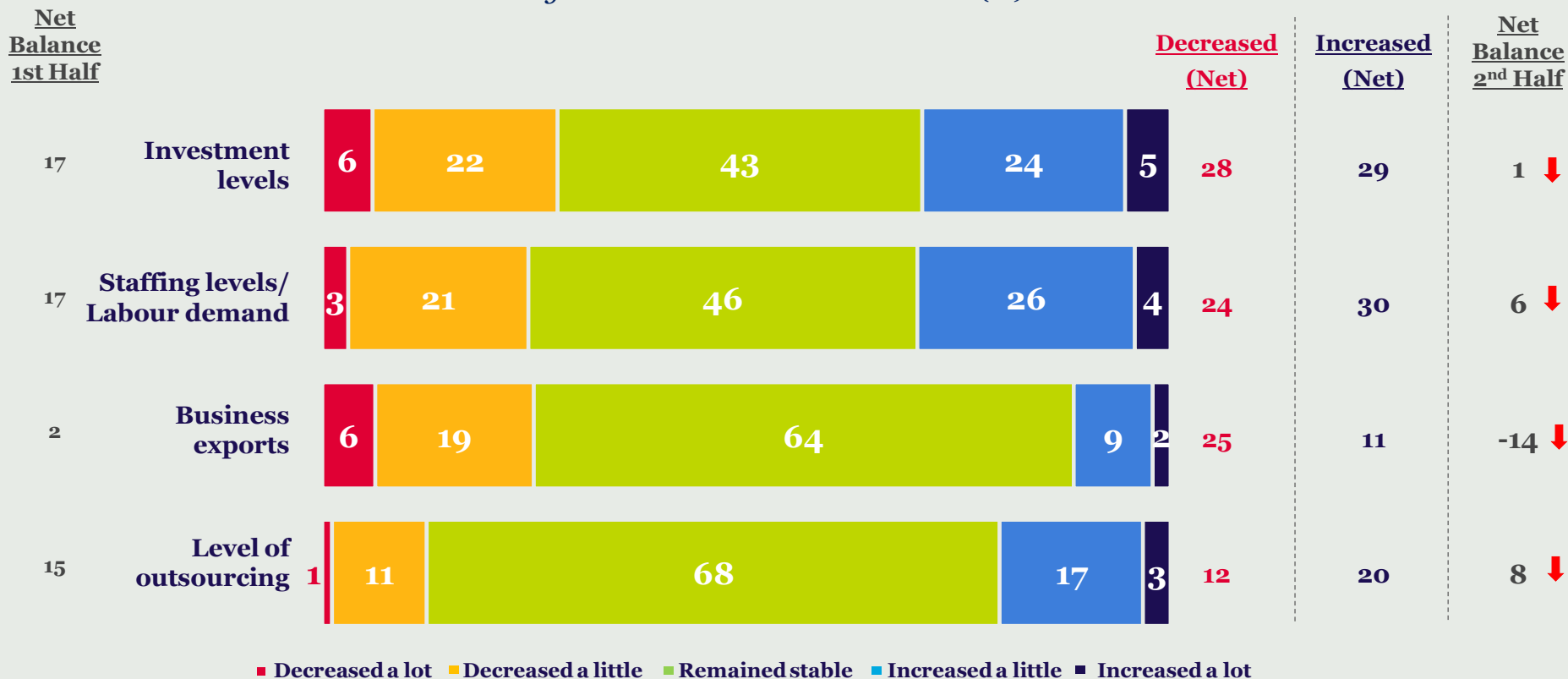


B1: Which best describes the growth or otherwise of the business over the period January to June 2011?
 B2: What is your expectation of the growth or otherwise of the business over the coming year (to June 2012)?
 Base: All respondents n=523

Changes in the business – Jan-Jun'11

In line with 1st half survey results, a substantial proportion of directors experienced stability across the four facets of business in the preceding 6 months. A lower level of increases were experienced in the 2nd half, compared to the 1st half, with a marked decrease in business exports.

Changes in the business - Jan - Jun '11 (%)

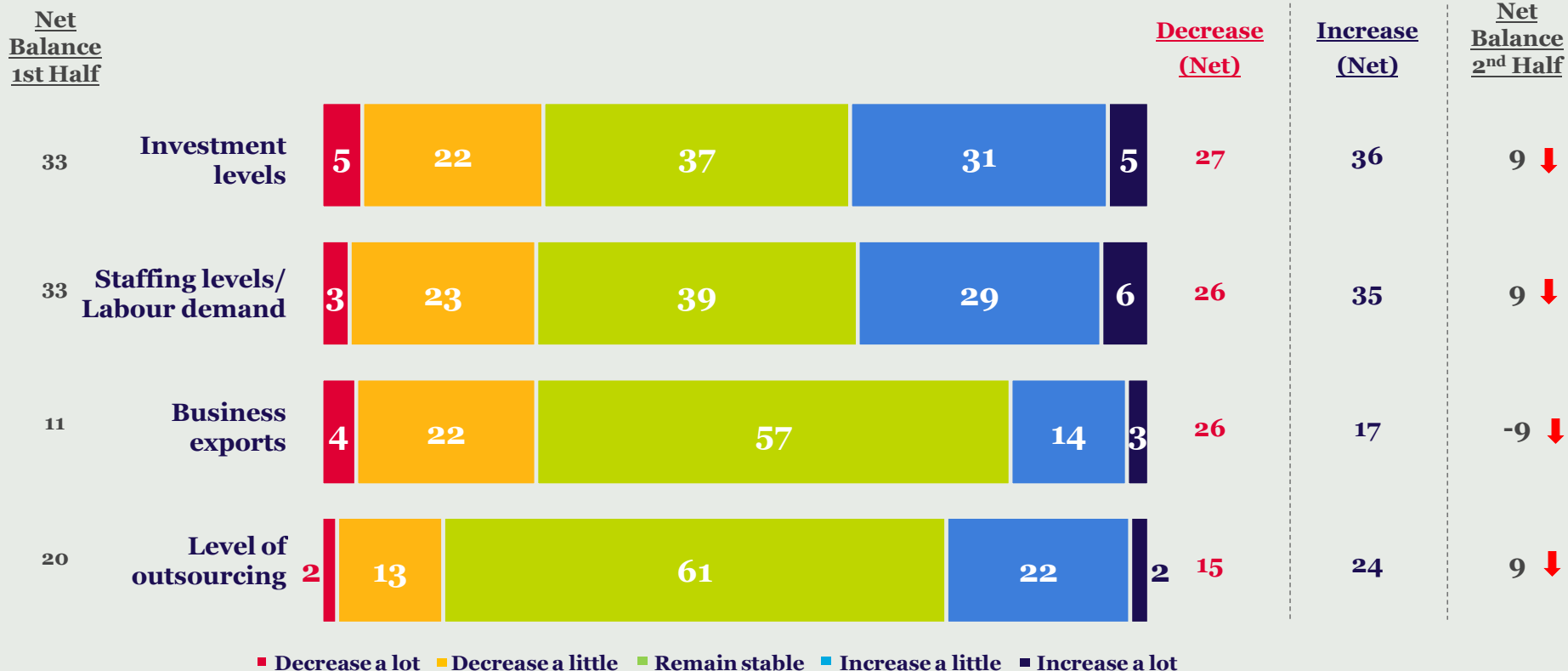


B3: Which best describes changes in the business, relating to the items shown below, over the period January to June 2011? Base: All respondents n=523

Changes in the business – coming year (to Jun-12)

Lower expectation of growth in the next 12 months, across all four facets of business, in this half. A large proportion of directors continue to expect stability across their business, particularly in the area of business exports and outsourcing.

Changes in the business: over coming year (to Jun'12) (%)



B4: To what extent, if any, do you expect these things to change over the coming year (to June 2012)? Base: All respondents n=523

Main reason for change in staffing levels/labour demand

In line with 1st half survey results, half of directors believe a change in business conditions is the main reason for changes in staffing levels/labour demand. In the 2nd half survey workplace laws are making more of an impact on decrease in staffing levels/labour demand.

Main reason for expected change in staffing levels/labour demand (%)

Main reason for expected change in staffing levels/ labour demand (%)	(Wave)	Total (Those who expect change)	Those who expect decrease	Those who expect increase
Changed business conditions	1 st Half	51	42	54
	2 nd Half	47	30 ↓	59
Changed economic conditions	1 st Half	31	37	29
	2 nd Half	33	50 ↑	21 ↓
Workplace laws	1 st Half	2	6	1
	2 nd Half	7 ↑	13 ↑	3 ↑
Changed wage levels	1 st Half	1	1	1
	2 nd Half	2	2	2
Other	1 st Half	15	13	16
	2 nd Half	11	5 ↓	15

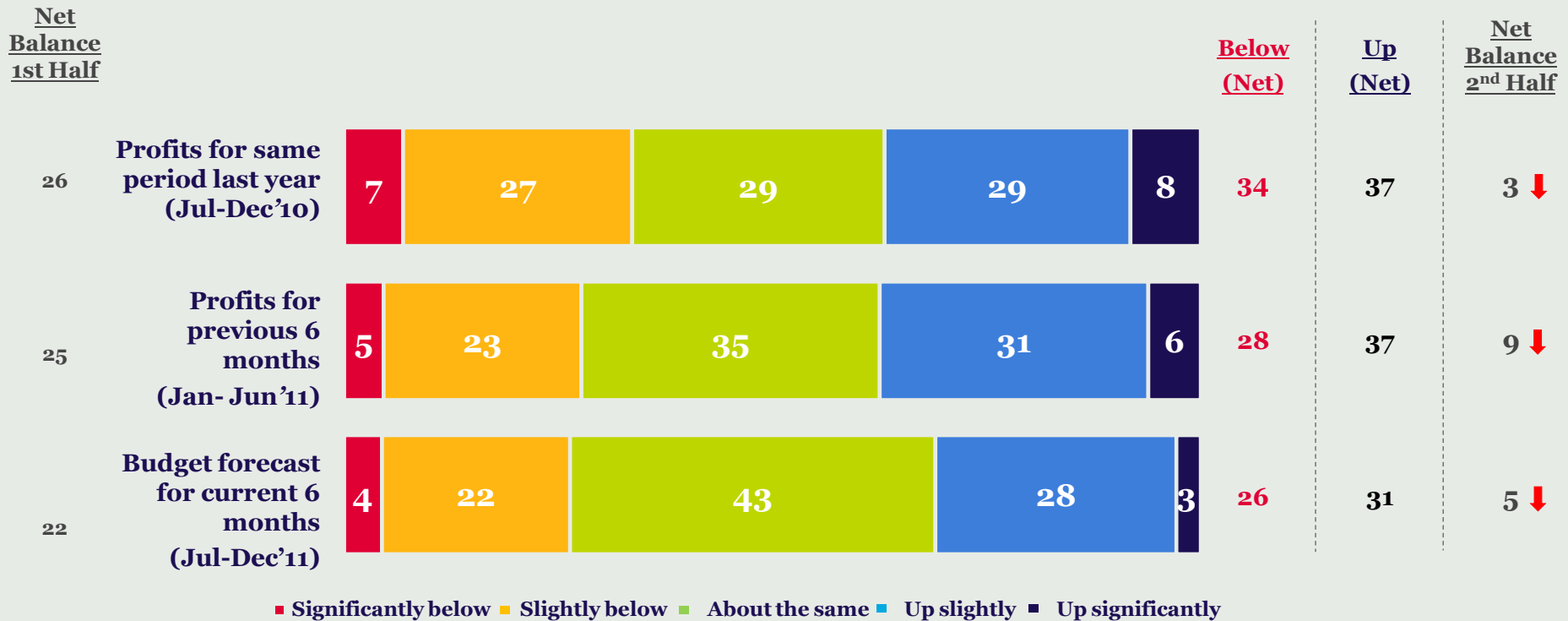
B7: What is the main reason for this expected change in staffing levels/labour demand?

Base: n=320 (who expected a change in staffing levels/labour demand), n=136 (expect decrease), n=184(expect increase)

Profits for current 6 months compared to...

Lower expectations of profits for the first half of this financial year, compared to the 1st half survey results.

Actual profits for the current 6 months (Jul-Dec'11) compared to... (%)



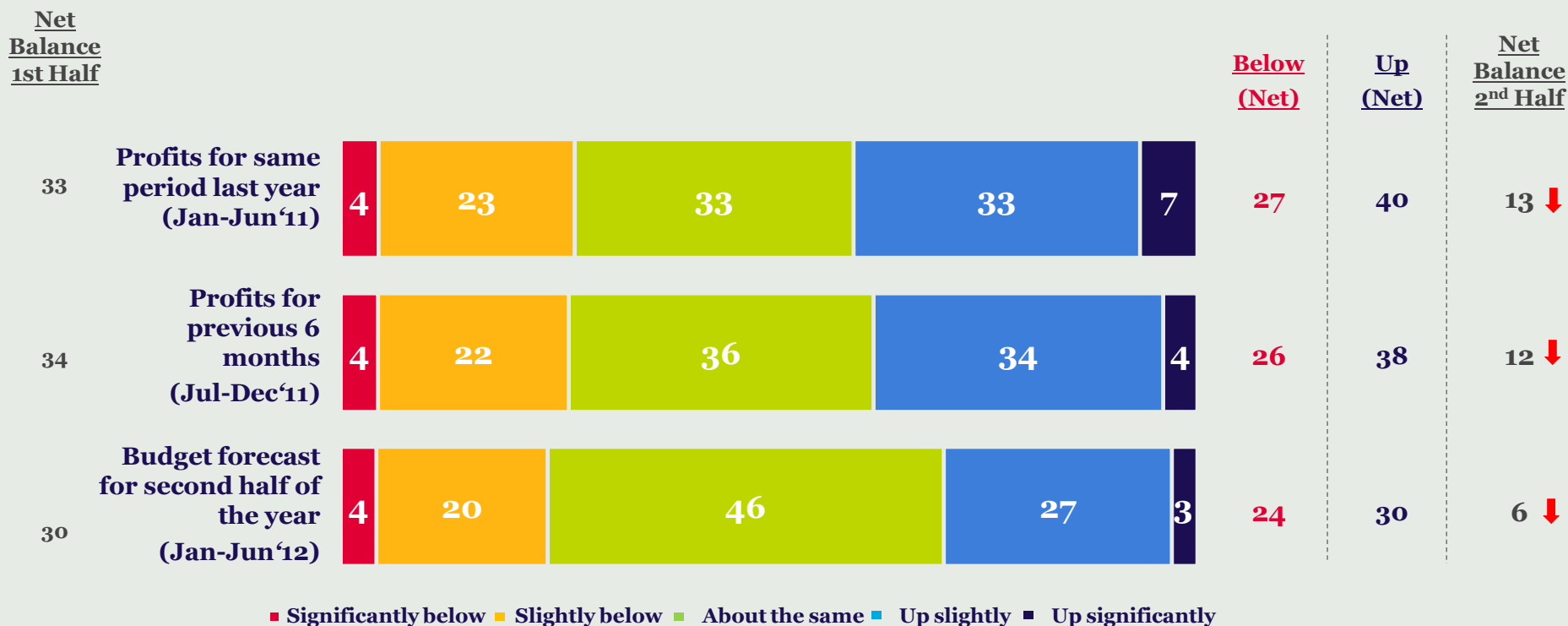
B8a: How do you expect your actual profits for the current 6 months, July to December 2011, to compare to...?

Base: All respondents n=523

Profits for second half of year compared to...

Declining expectations of profits for the second half of this financial year, compared to the 1st half survey results.

Expected profits for the second half (Jan –Jun 2012) compared to... (%)



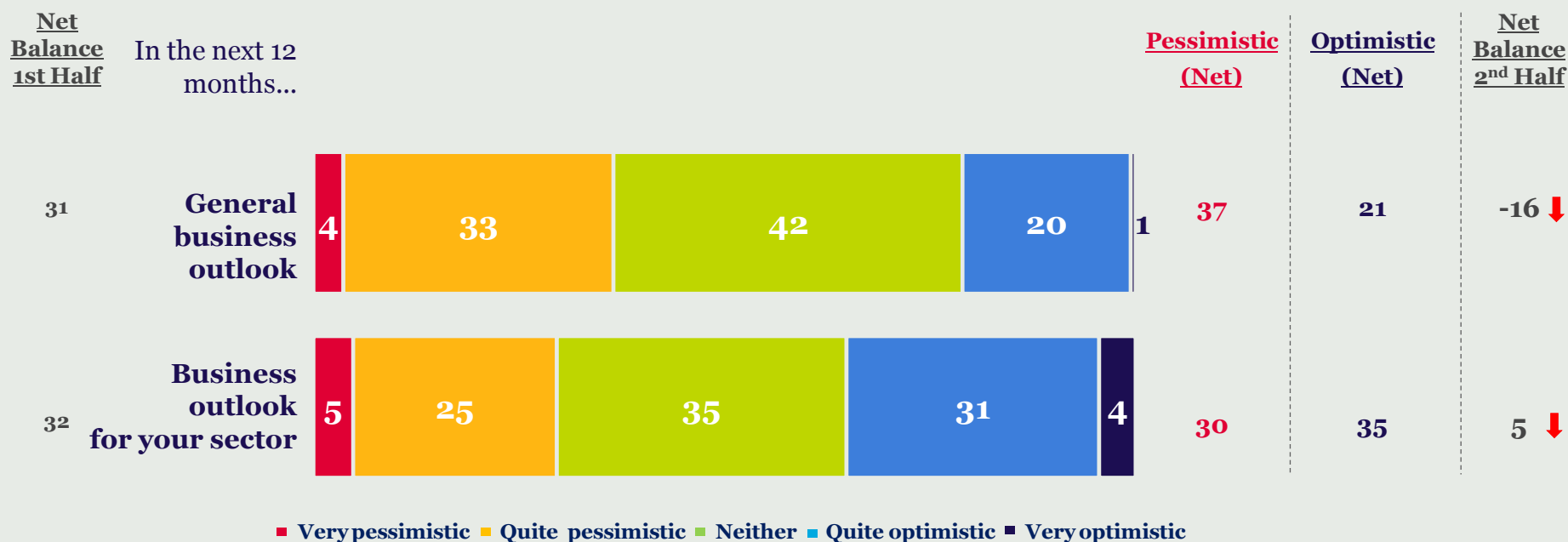
B8b: How do you expect your actual profits for the second half of this year, January to June 2012, to compare to...?

Base: All respondents n=523

Confidence in business outlook – next 12 months

Directors have become pessimistic about their general business outlook, with decreased optimism about the business outlook for their specific sector.

Confidence in business outlook – general and sector
next 12 months (%)



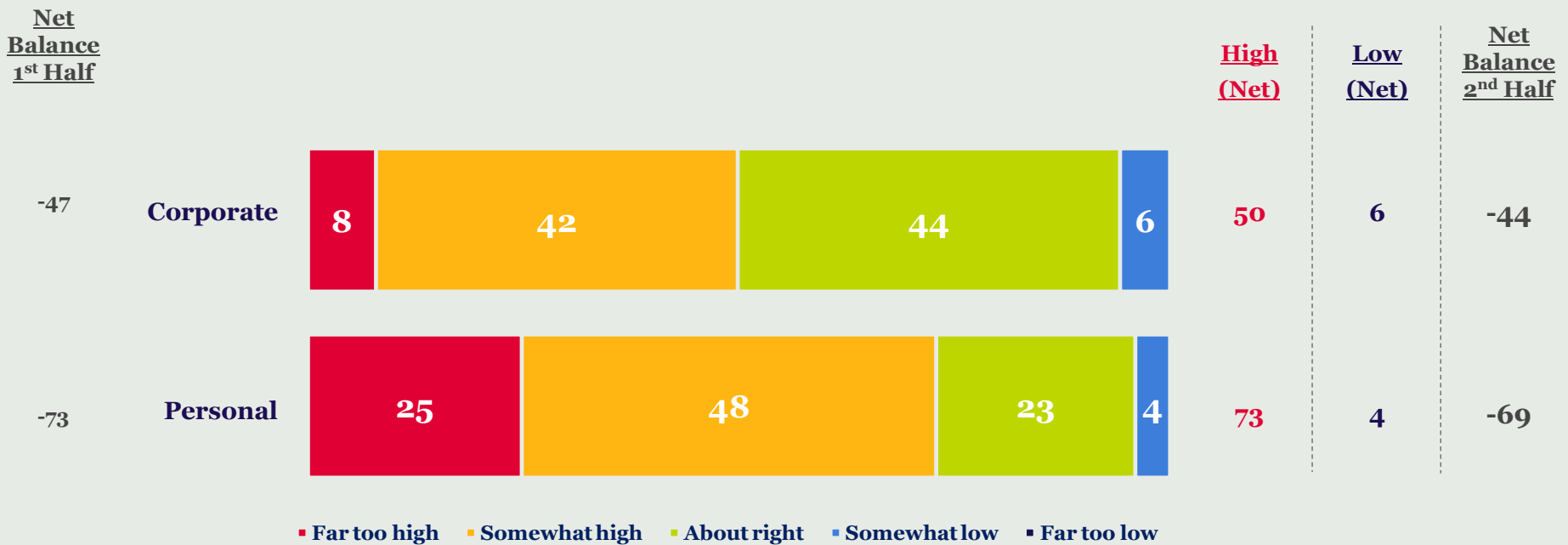
B9: Overall, how confident or otherwise are you about...?

Base: All respondents n=523

Level of taxation in Australia

In line with 1st half survey results, most directors believe that the level of taxation in Australia is too high. Half of directors say that corporate taxation is too high and nearly three quarters say that personal tax is too high.

View on level of taxation in Australia – corporate and personal (%)



T1: What is your view on the level of...?
 Base: All respondents n=523

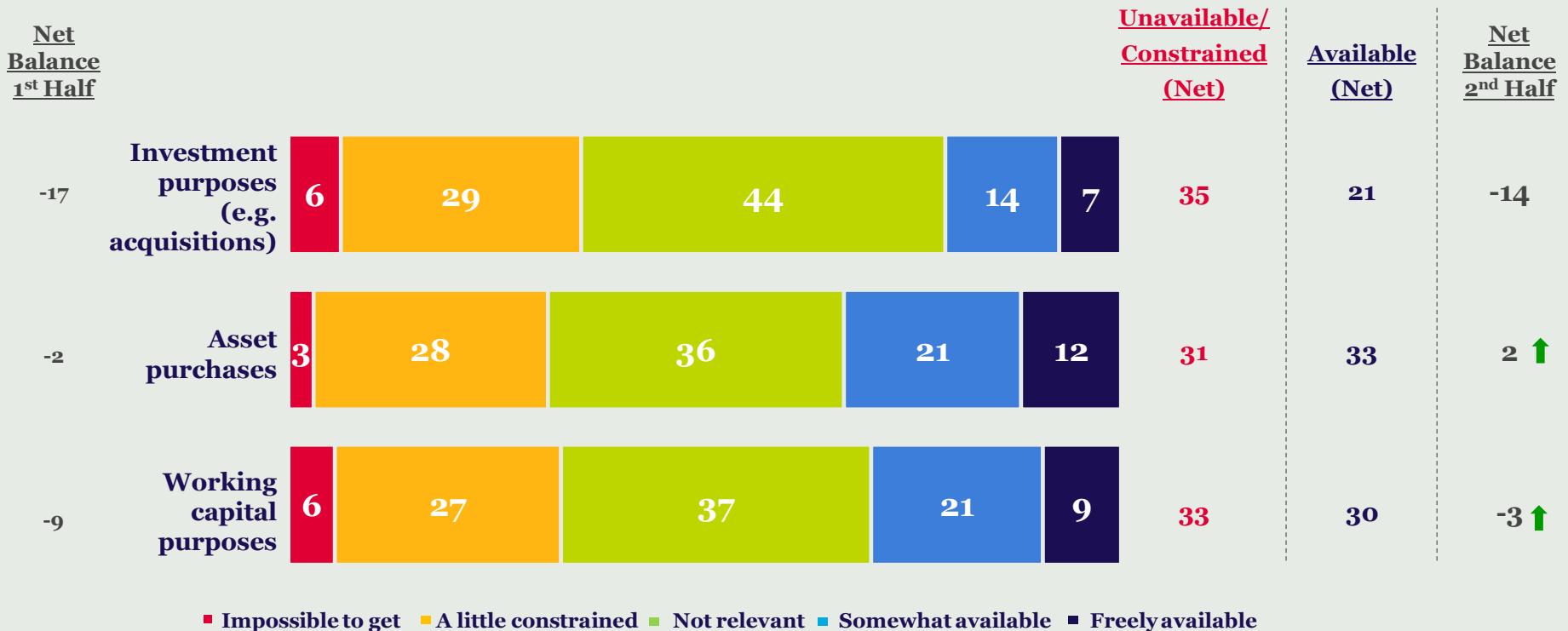
Lifeblood of the economy

Credit and infrastructure

Credit availability for business – Jan-Jun'11

Credit availability for the preceding 6 months was somewhat less constrained in the 2nd half, compared to first half survey results, across investment, asset purchases and working capital.

Credit availability for business - Jan-Jun' 11 (%)



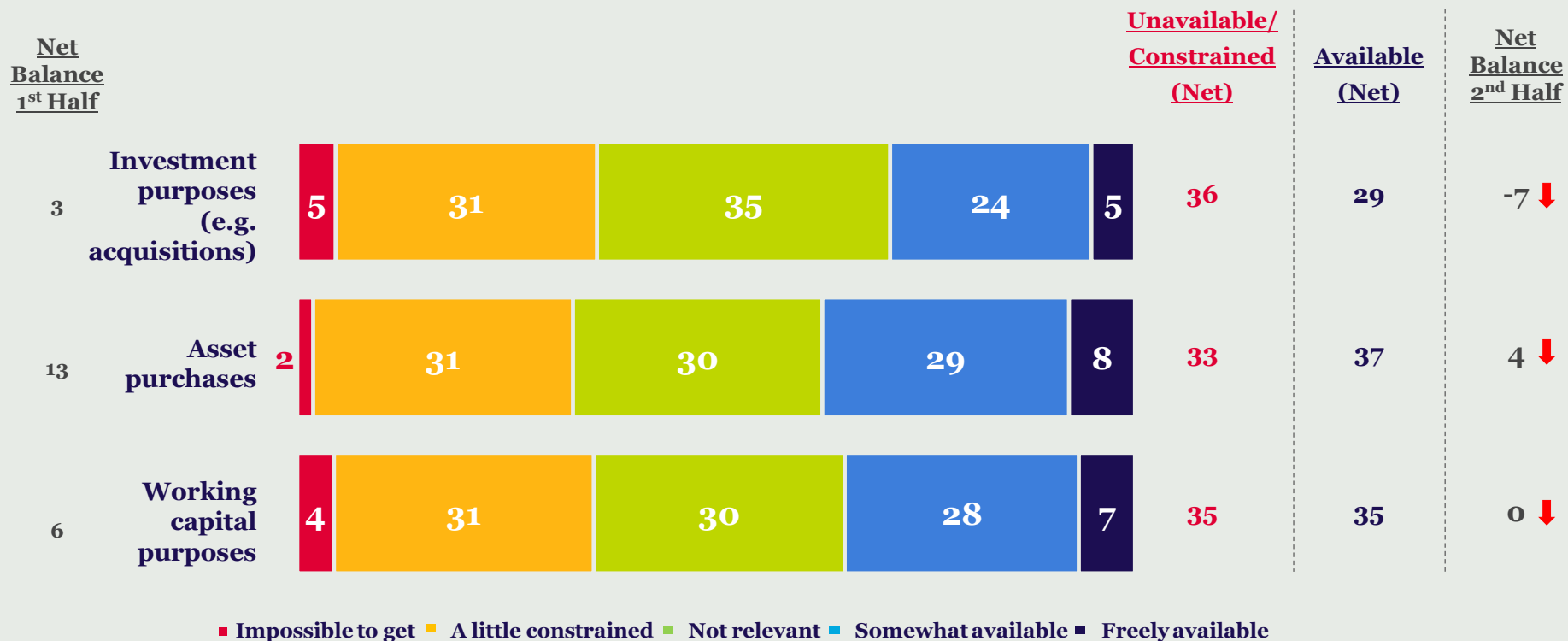
C1: For the business, what has been the experience over the period January to June 2011 relating to...?

Base: All respondents n=523

Credit availability for business – next 12 months

Directors are more pessimistic regarding credit availability for the next 12 months. There is a slightly higher level of optimism regarding credit availability for asset purchases and working capital, compared to credit for investment purposes.

Credit availability for business - next 12 months (%)



C2: And what is your expectation of credit availability over the next 12 months?

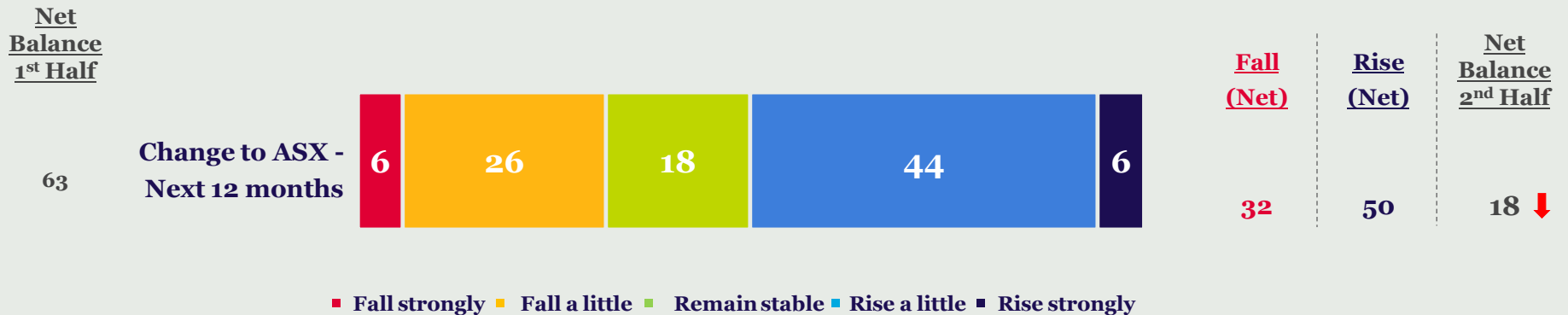
Base: All respondents n=523

Expected change to ASX All Ordinaries index - next 12 months

48

Fifty per cent of directors expect a rise in the ASX All Ordinaries index within the next 12 months. This proportion has decreased comparing 2nd half to 1st half survey results.

Expected change to ASX All Ordinaries index– next 12 months (%)



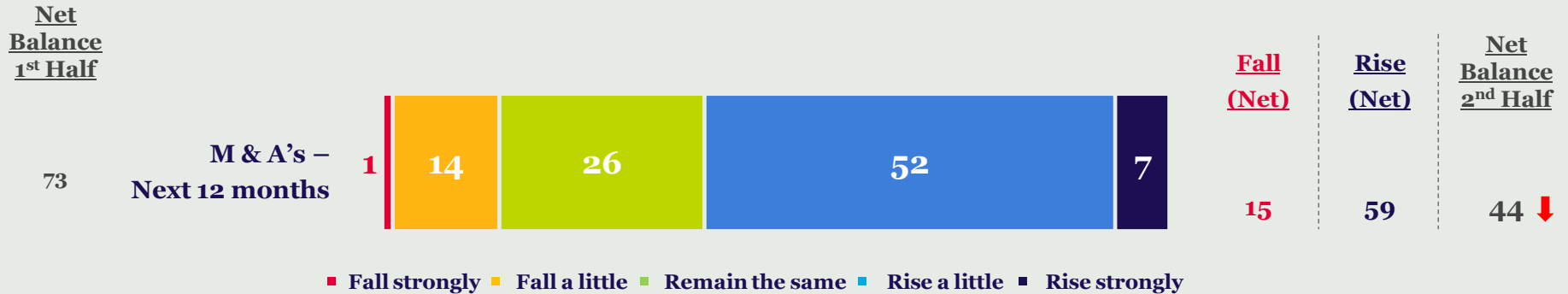
C3: What is your expectation of changes to the ASX All Ordinaries index over the next 12 months?

Base: All respondents n=523

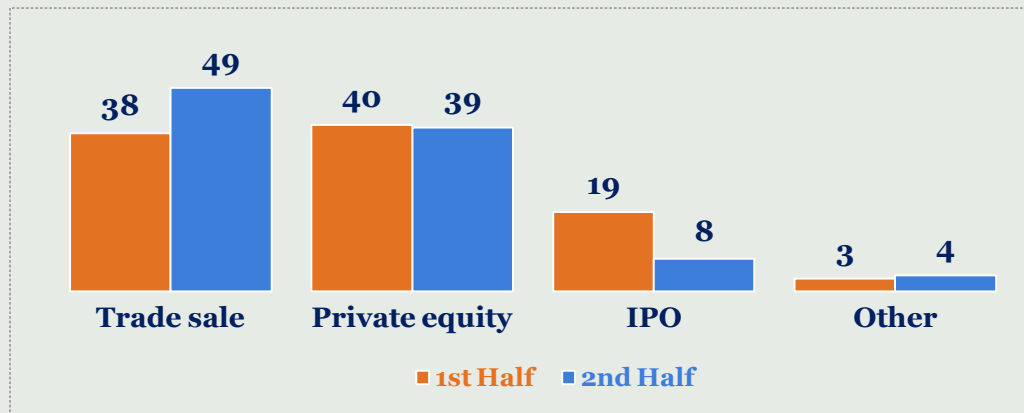
Expected change in level of mergers and acquisitions – next 12 months 49

Nearly 60 per cent of directors expect a rise in mergers and acquisitions in the next 12 months (a much lower level compared to the 1st half). Private equity is no longer expected to be the most active business purchaser in the next 12 months; instead nearly half of directors now expect that trade sale will be the most active business purchaser.

Expected change in level of mergers and acquisitions - next 12 months (%)



Most active business purchasers - next 12 months (%)

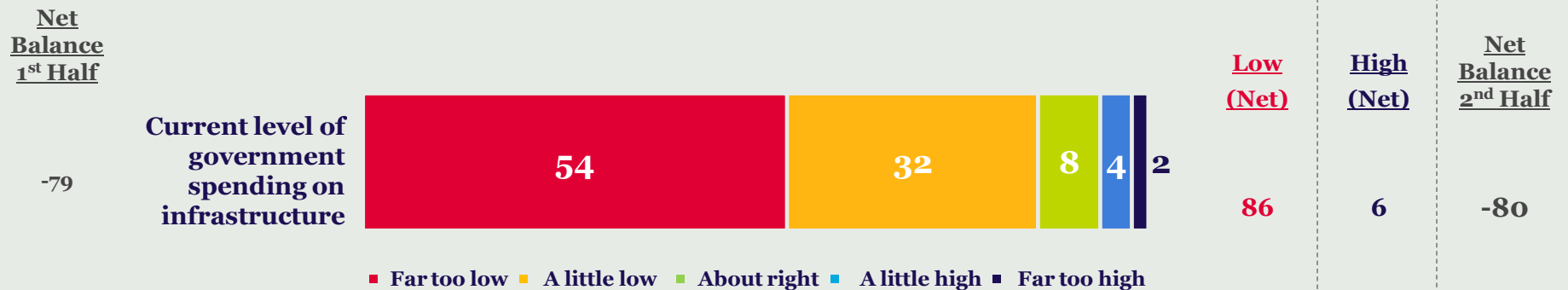


Infrastructure

Current level of government spending on infrastructure

In the 2nd half, the vast majority of directors (nearly 90 per cent) continue to believe that the current level of government spending on infrastructure is too low.

Opinion on current level of government spending on infrastructure (%)



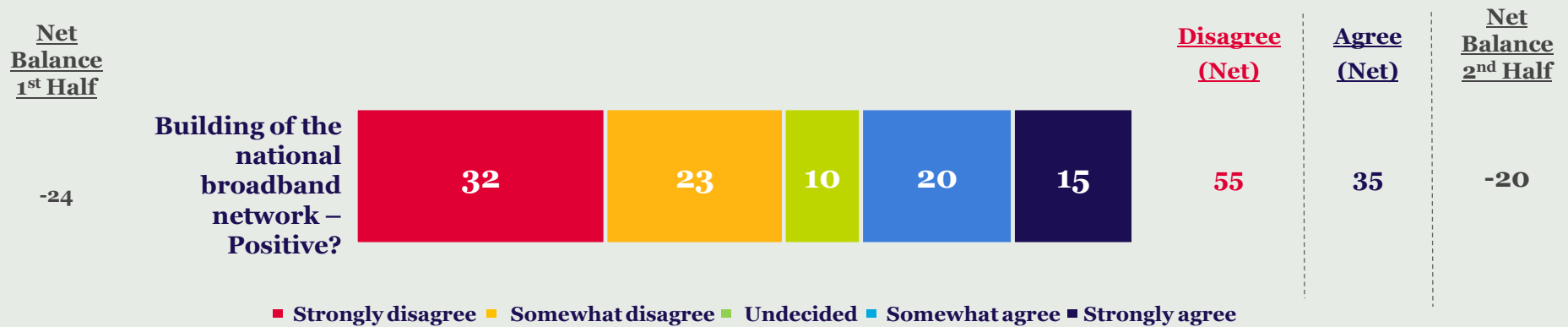
Q11: In your opinion, is the current level of Government spending on infrastructure...?

Base: All respondents n=523

Building of National Broadband Network

More than half of directors disagree that the building of the National Broadband Network (NBN) is a positive thing for Australia, in line with 1st half survey results.

Is the building of the national broadband network a positive thing for Australia? (%)



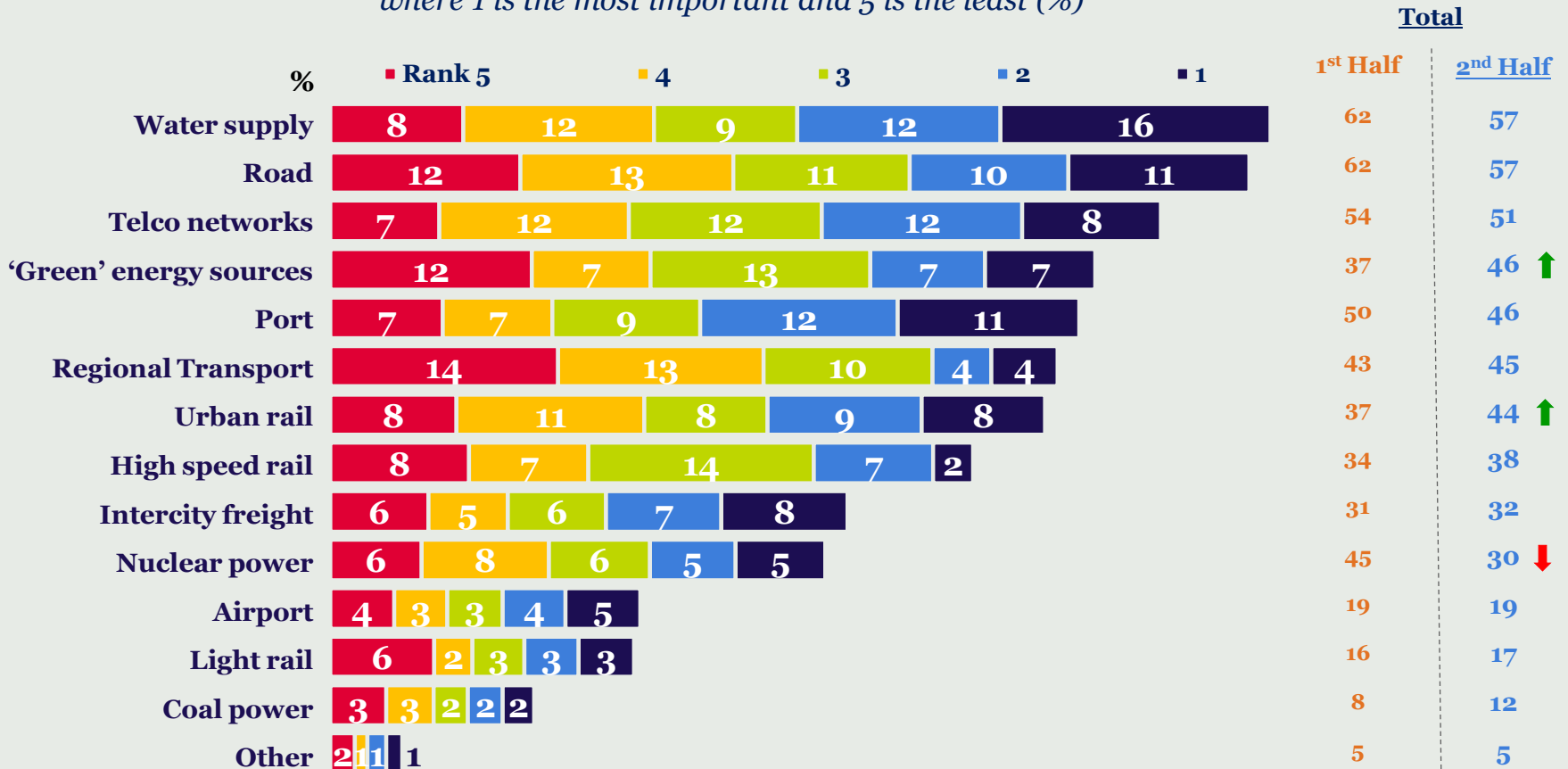
I2: To what extent do you agree or disagree that the building of the national broadband network is a positive thing for Australia?

Base: All respondents n=523

Top 5 areas of infrastructure

In the 2nd half survey water supply, road and telecommunications networks continue to be the most important areas of infrastructure for investment, with an increase in the importance of 'green' energy sources and urban rail, and a significant drop in the importance of nuclear power.

Top 5 areas of infrastructure in order of importance – where 1 is the most important and 5 is the least (%)

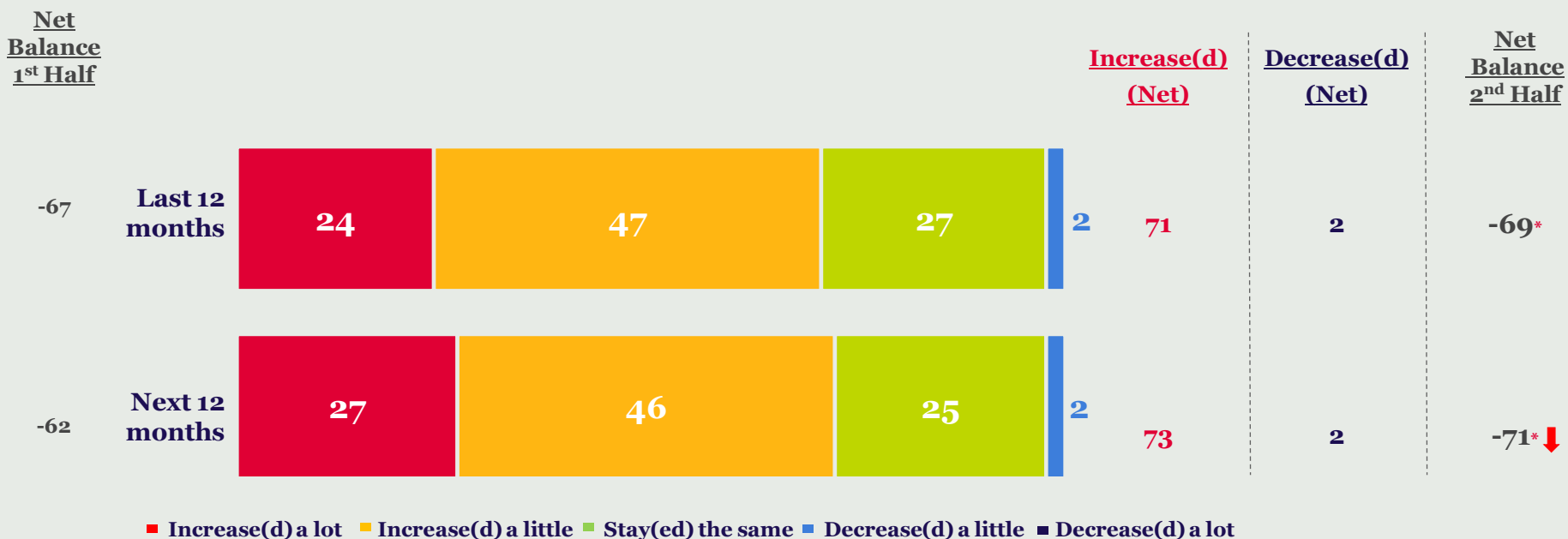


Regulatory environment

Level of “red tape”

In line with 1st half survey results, 70+ per cent of directors believe that the level of “red tape” has increased in the last 12 months and expect it to increase further in the future.

Level of “red-tape” – past and future



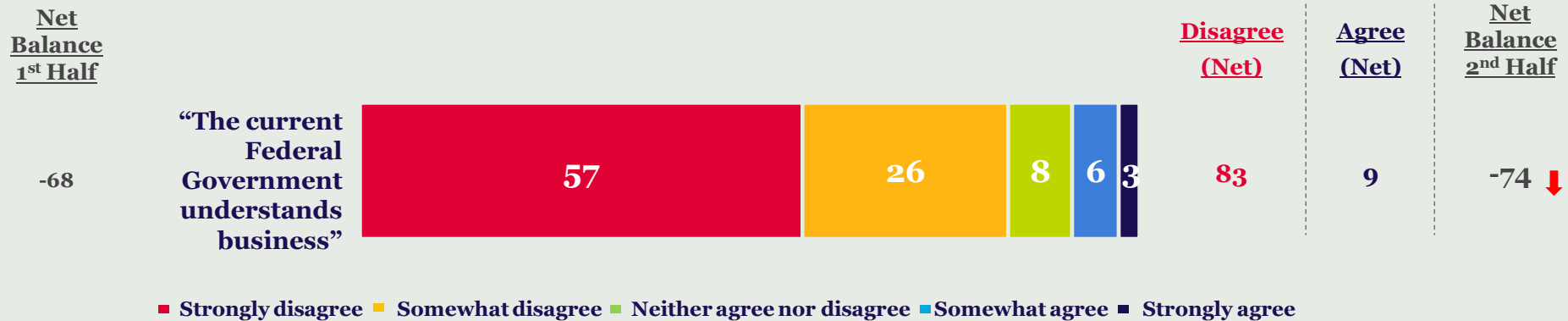
RE1: In your opinion, over the last 12 months, has the level of “red-tape”.....?
 RE2: What is your expectation of changes in the level of “red-tape” over the next 12 months?
 Base: All respondents n=523

** Note: Net balance for Red –tape in last 12 months and next 12 months calculated in reverse*

Federal Government understanding of business

Increased disenchantment regarding the Federal Government's understanding of business in the 2nd half. More than 80 per cent of directors believe the Federal Government lacks understanding of business.

Does the current Federal Government understand business? (%)

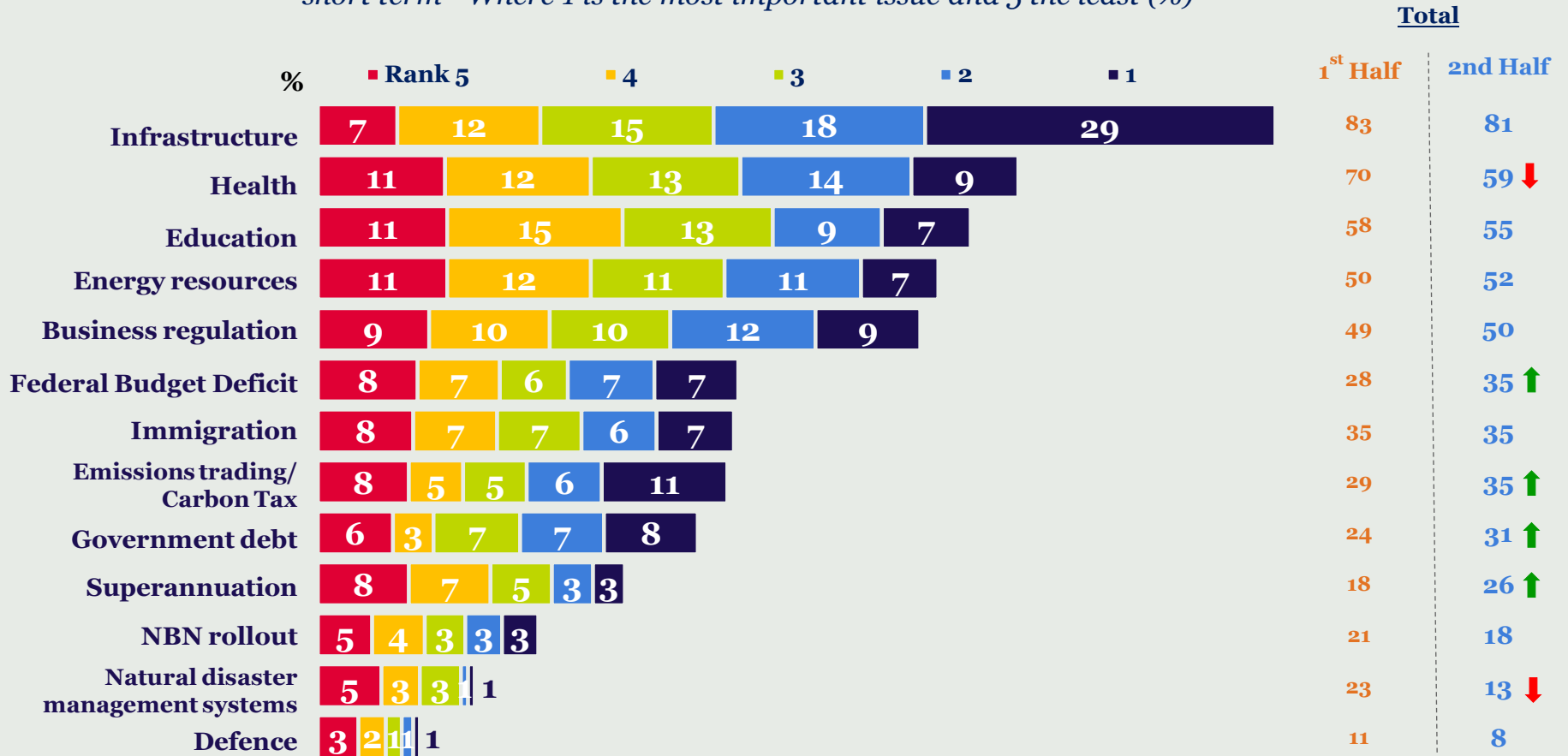


RE3: To what extent do you disagree or agree with the statement "The current Federal Government understands business"?
Base: All respondents n=523

Issues Federal Government should address in short term

In line with 1st half survey results, more than 80 per cent of directors ranked infrastructure as a top priority the Federal Government should address, followed by health, education and energy resources.

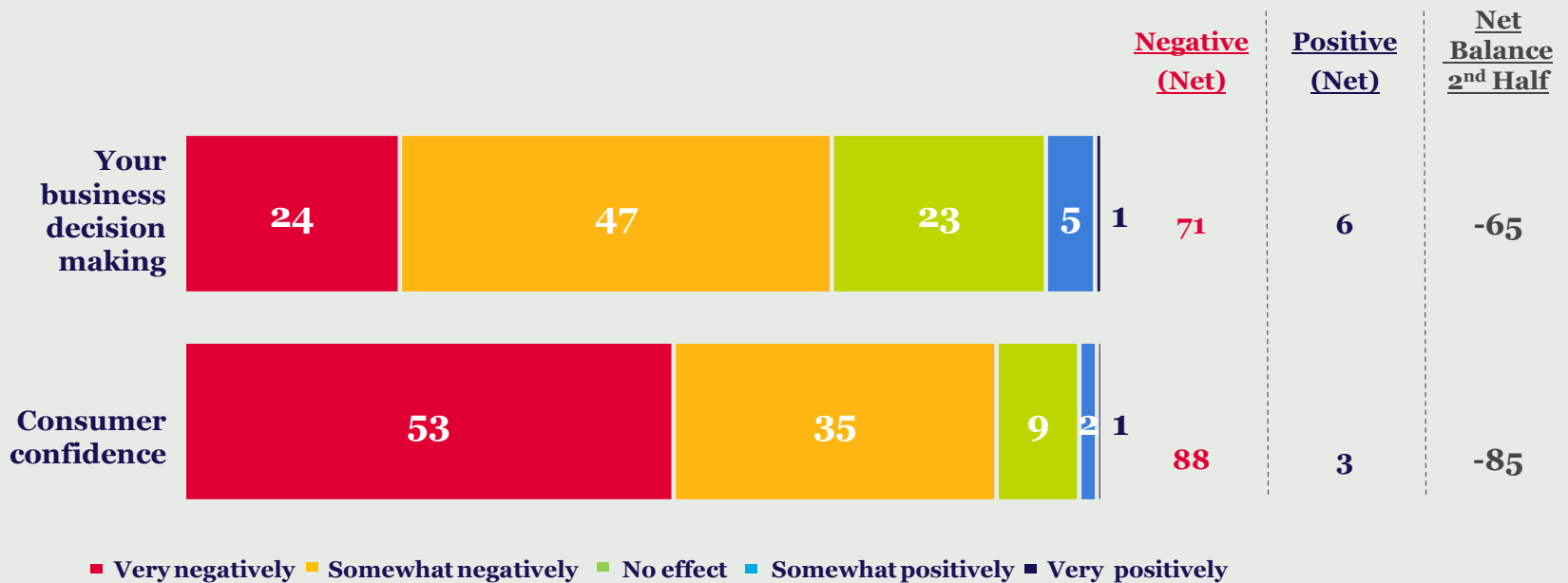
Top 5 issues of importance the Federal Government should address in the short term - Where 1 is the most important issue and 5 the least (%)



Impact of Federal Government's performance on business

More than 70 per cent of directors believe their business decision making will be impacted negatively, and nearly 90 per cent of directors believe consumer confidence will be impacted negatively, by the current Federal Government's performance.

**Effect of current Federal Government's performance on... (%)*



RE5: How is the current Federal Government's performance affecting...?
 Base: All respondents n=523

**Note: New question asked in 2nd Half only*

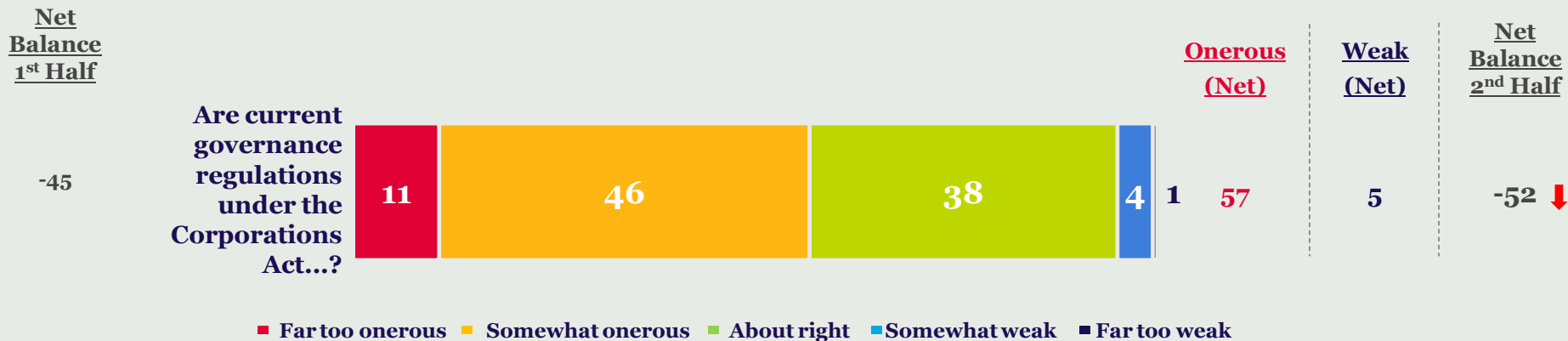
Governance

Key issues for directors and boards

Current governance regulations under the Corporations Act

More directors in the 2nd half believe current governance regulations under the Corporations Act are onerous.

Are current governance regulations under the Corporations Act...? (%)

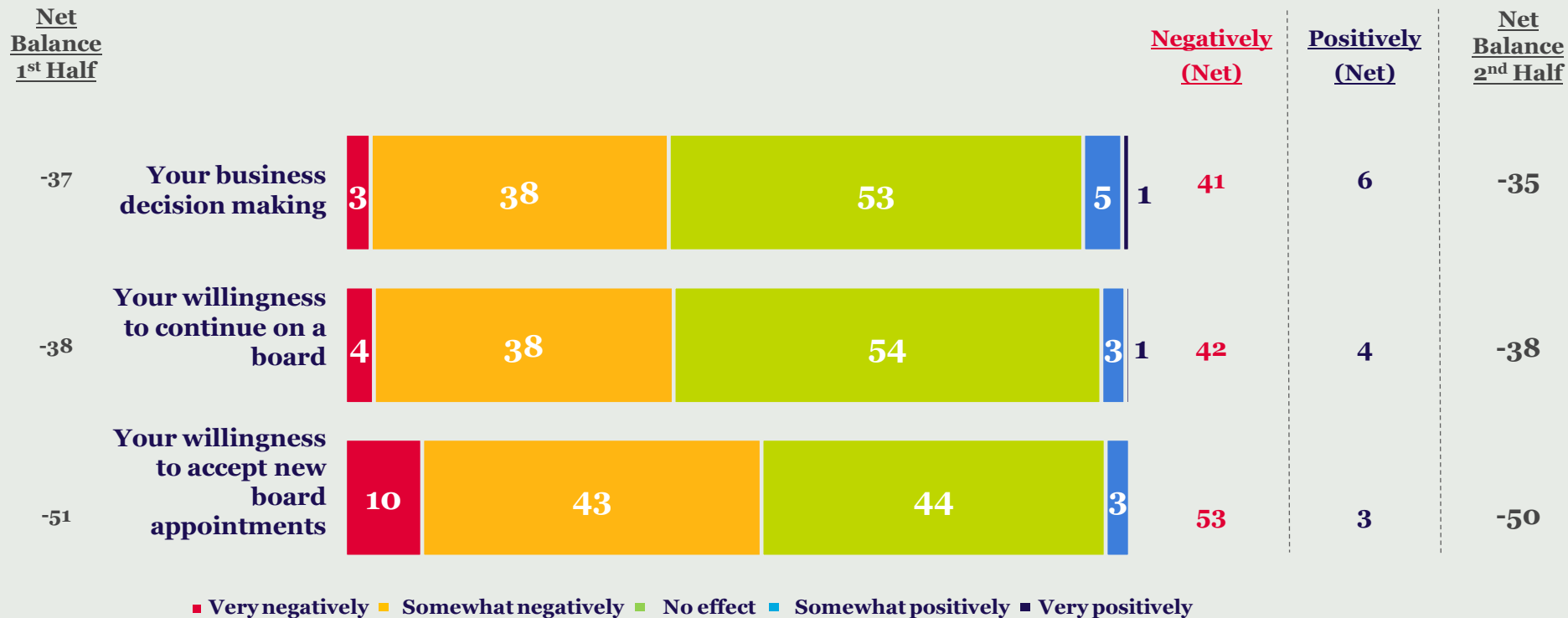


L1: In your opinion, are current governance regulations under the Corporations Act ...?
Base: All respondents n=523

Impact of Commonwealth or state legislation on director liability

Over 40 per cent of directors still believe Commonwealth or state legislation on director liability has a negative impact on their business decisions and willingness to continue on a board. More than half of directors maintain the belief that directors liability legislation negatively impacts their willingness to accept new board appointments.

How Commonwealth or state legislation on directors' liability is affecting...(%)

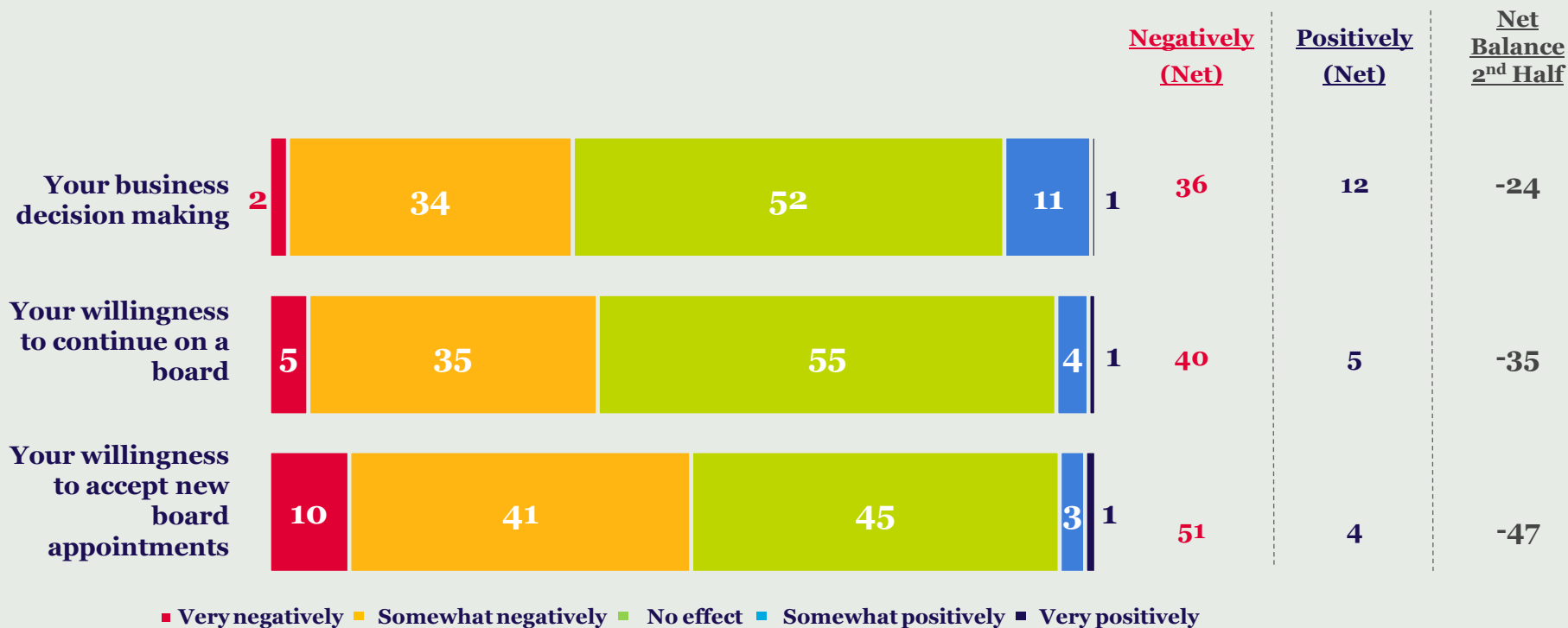


L2: How is Commonwealth or state legislation on directors' liability affecting...?
 Base: All respondents n=523

Impact of legal judgments on director liability

Almost 40 per cent of directors believe that legal judgments such as the recent Centro ruling will negatively impact their business decisions and willingness to continue on a board, and half of directors say that legal judgments will negatively impact their willingness to accept new board appointments.

*How legal judgments affect directors' liability (%)



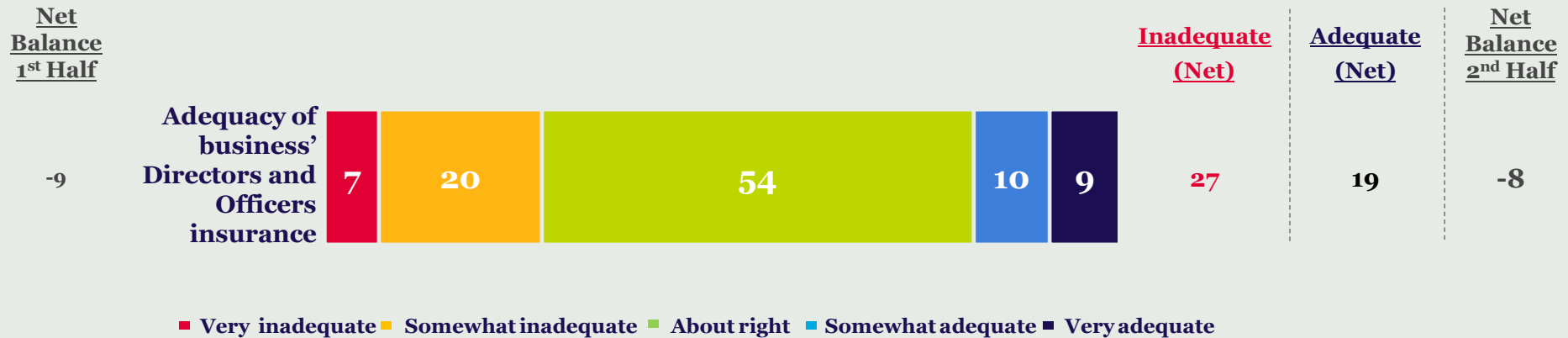
L2a: To what extent do legal judgments, such as the recent Centro case ruling, affect...?
 Base: All respondents n=523

* Note: New question asked in 2nd Half only

Adequacy of Directors and Officers insurance

Almost three quarters of directors still believe their business' Directors and Officers insurance is adequate, or about right.

Adequacy of business' Directors and Officers Insurance (%)

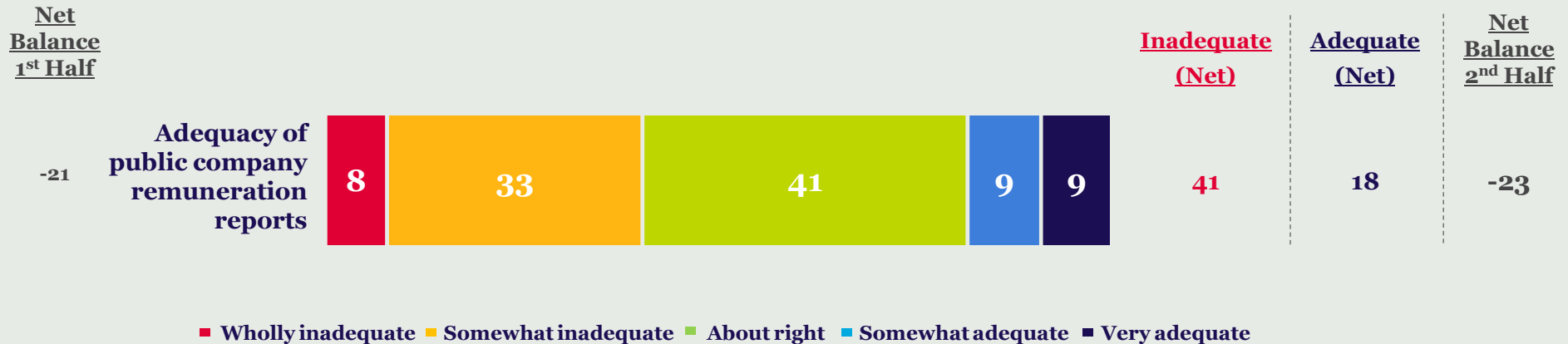


L3: How adequate is your business' Directors and Officers insurance?
Base: All respondents n=523

Adequacy of public company remuneration reports

In line with 1st half survey results, almost 60 per cent of directors feel that public company remuneration reports are adequate or about right. It is worth noting that the net balance of adequate minus inadequate responses is in deficit (-23).

Adequacy of public company remuneration reports (%)

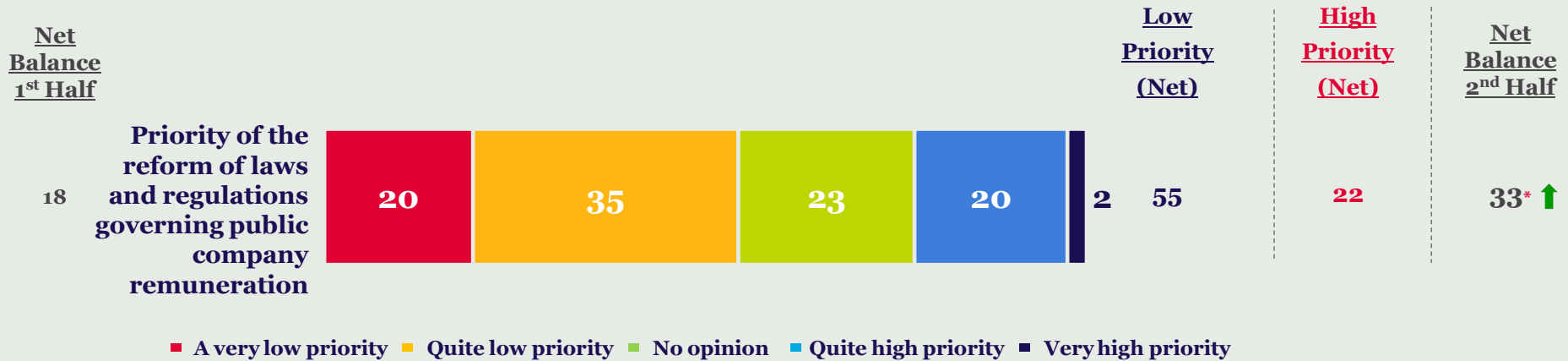


RI1: What is your view of the adequacy of public company remuneration reports?
 Base: All respondents n=523

Reform of laws and regulations governing public company remuneration

More directors in the 2nd half believe further reform of the laws and regulations governing public company remuneration should be a low priority.

Level of priority of the reform of laws and regulations governing public company remuneration (%)



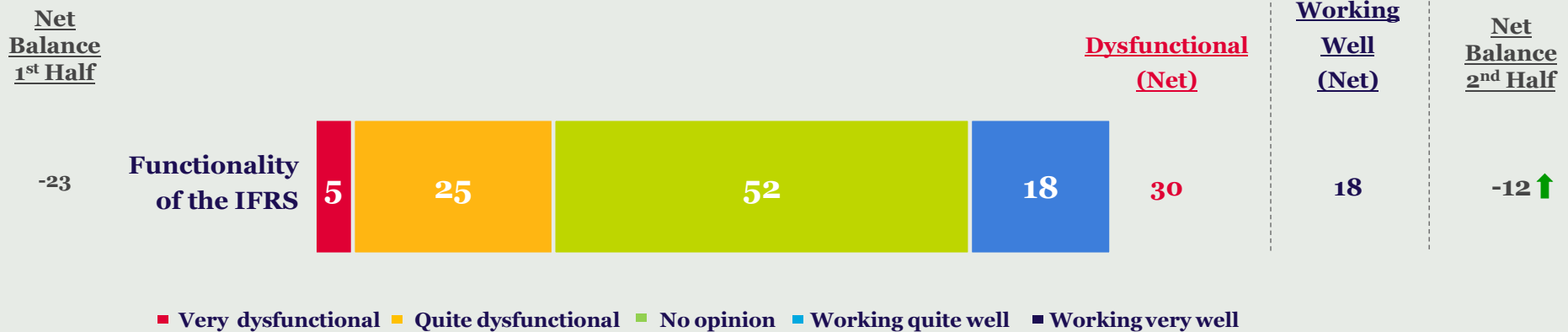
R12: In your opinion, should further laws and regulations governing public company remuneration be...? Base: All respondents n=523

* Note: Net balance for priority of the reform of laws and regulations governing public company remuneration calculated in reverse

International Financial Reporting Standards (IFRS)

Less pessimism regarding functionality of the International Financial Reporting standards (IFRS) in the 2nd half. Thirty per cent of directors perceive that the IFRS is dysfunctional to some degree.

Functionality of the International Financial Reporting Standards (IFRS) (%)



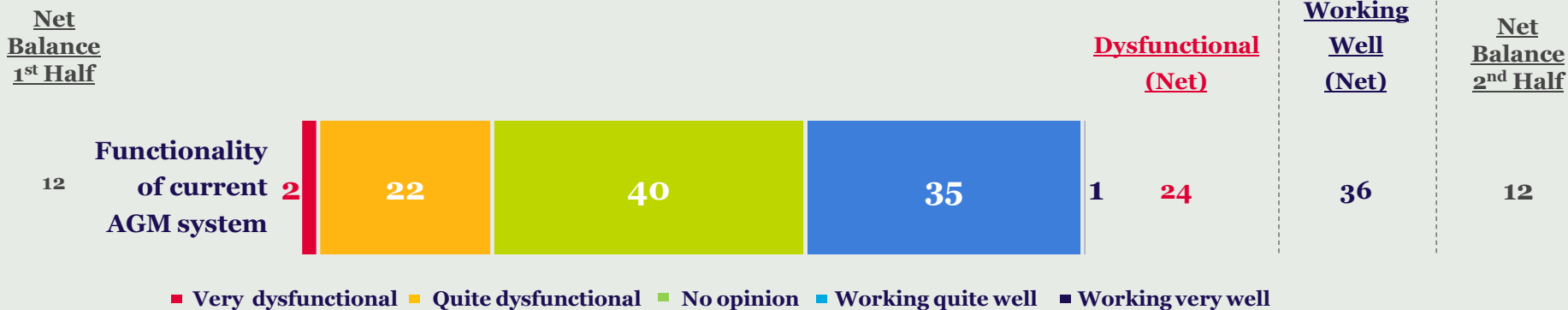
RI3: In your opinion, is the International Financial Reporting Standards (IFRS) system...?
Base: All respondents n=523

Shareholder relations

Current AGM system

At a similar level to the 1st half, only 36 per cent of directors believe that the current AGM system is working well.

Functionality of the current AGM system (%)

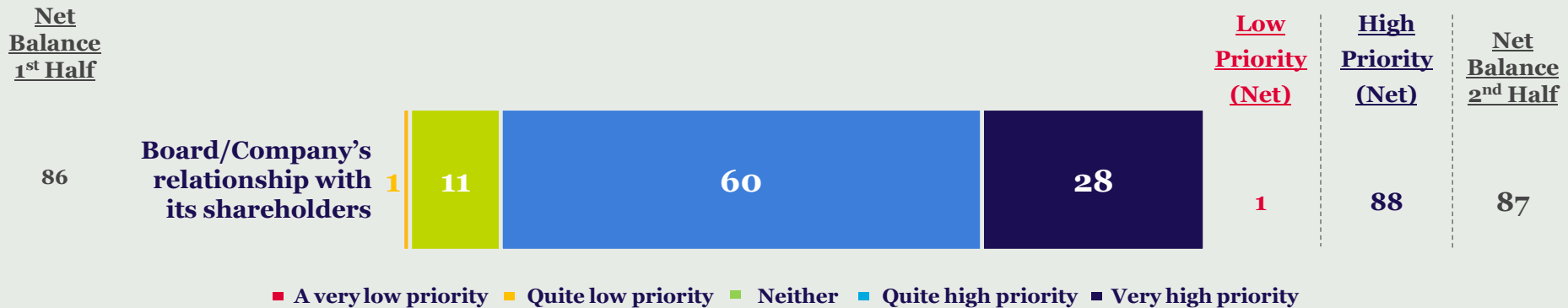


SR1: In your opinion, is the current AGM system...?
Base: All respondents n=523

Board/Company's relationship with shareholders

Nearly 90 per cent of directors maintain the belief that the board/company's relationships with its shareholders should be a high priority.

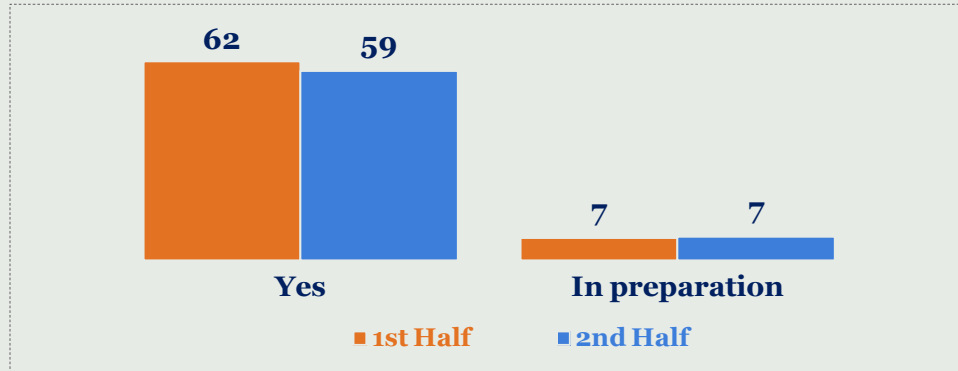
Priority of board/company's relationship with its shareholders (%)



SR2: In your opinion, should the Board/Company's relationship with its shareholders be...?
 Base: All respondents n=523

In line with 1st half survey results, nearly 60 per cent of directors have a documented policy on business ethics within their organisation, with 80 per cent of directors addressing ethical considerations at board meetings.

Does your organisation have a documented policy on business ethics?(%)



How often are ethical considerations discussed at board meetings? (%)

Discussed
(Often/Sometimes)

Discussed
(Often/Sometimes)

(Net)

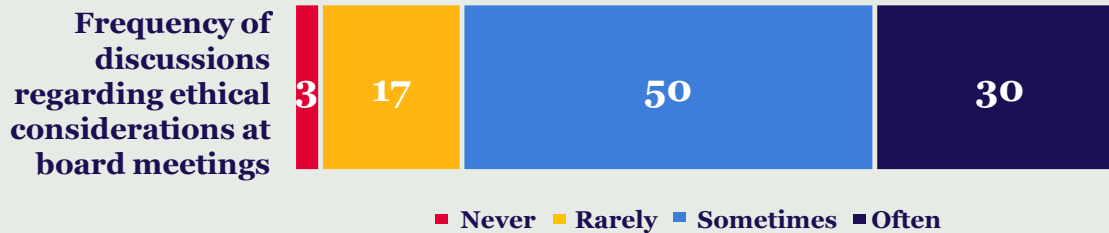
(Net)

1st Half

2nd Half

80

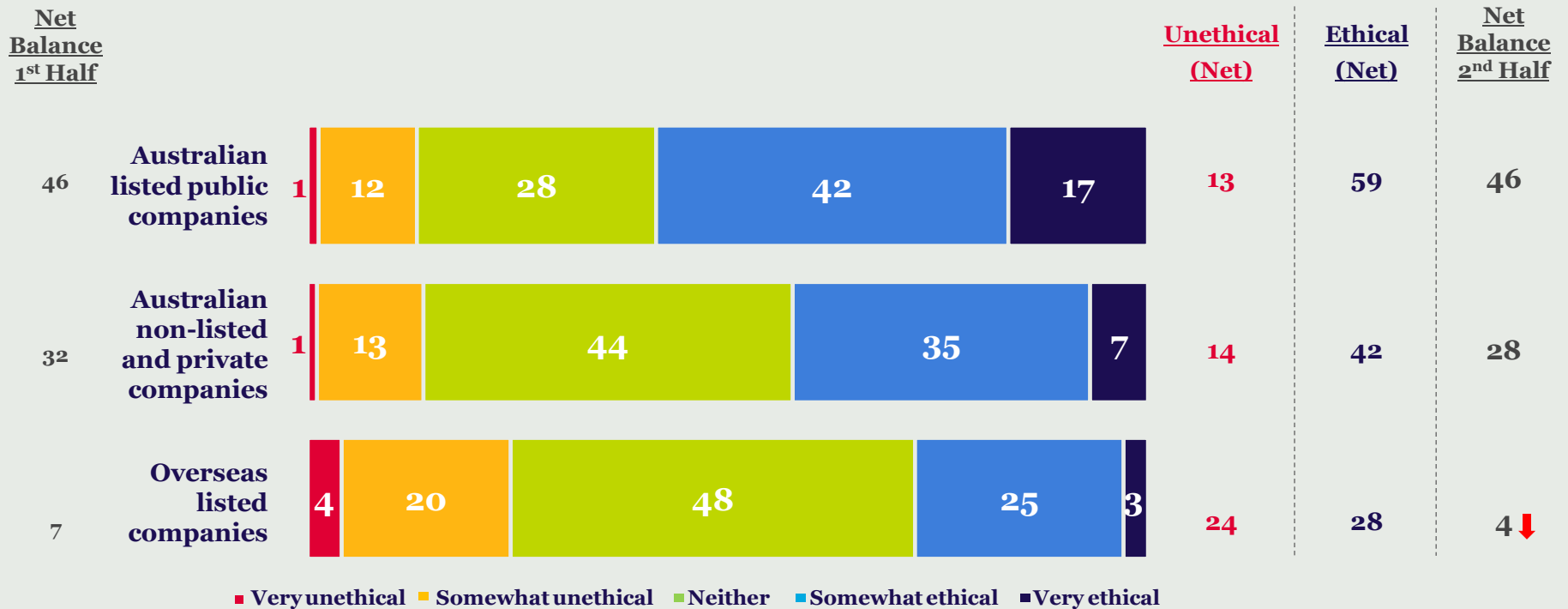
80



Personal perception of company directors' ethics

Most directors still maintain the perception that Australian companies are more ethical than overseas listed companies.

How do you, personally, perceive the ethics of directors of ... (%)

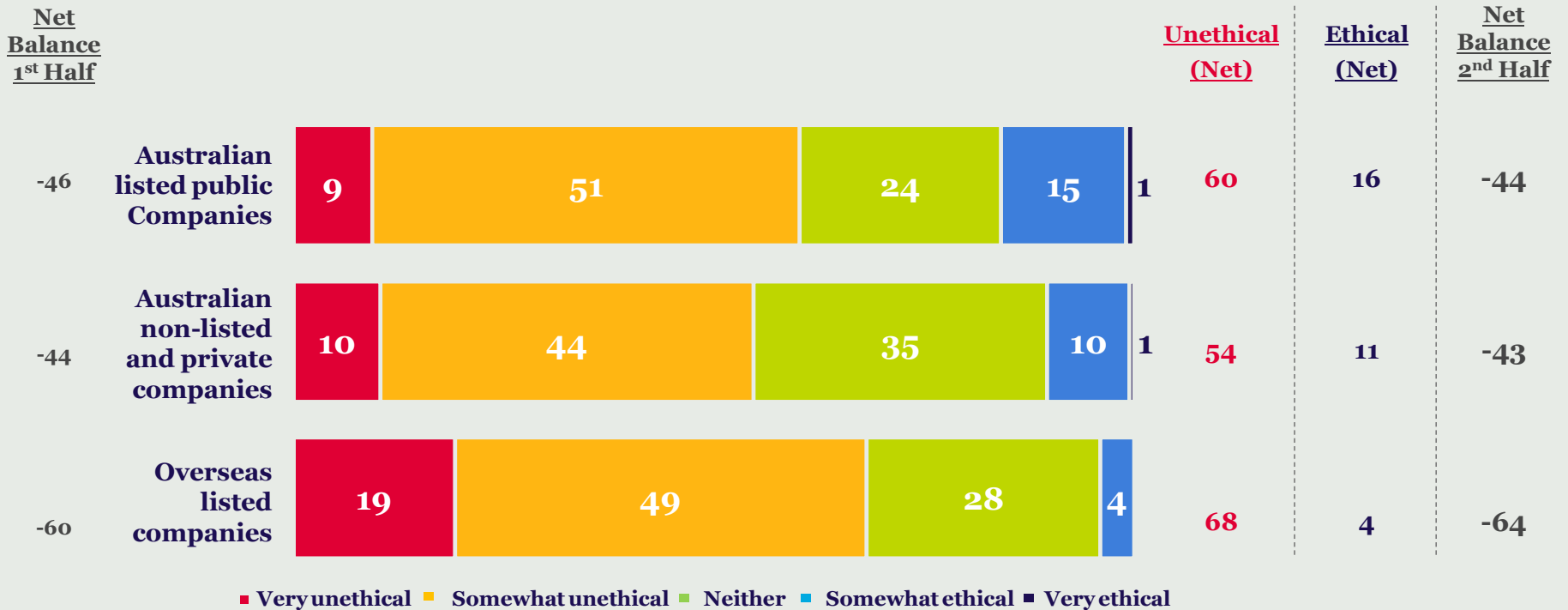


EI3: How do you, personally, perceive the ethics of...?
 Base: All respondents n=523

Perceived general public perception of company directors' ethics

Most directors still believe the general public perceives the directors of Australian and overseas listed companies as unethical.

How do you think the general public perceive the ethics of directors of ... (%)



E14: How do you think the general public perceive the ethics of...?
 Base: All respondents n=523

Directors' rights to trade in their company's shares

In the 2nd half, nearly two thirds of directors maintain the belief that directors should be limited to trade in shares of their own companies within prescribed trading windows (a slightly lower level than in the 1st half).

Should directors be allowed to trade in shares of companies of which they are a director? (%)



E15: What is your opinion on whether directors should be allowed to trade in shares of companies of which they are a director? Base: All respondents n=523

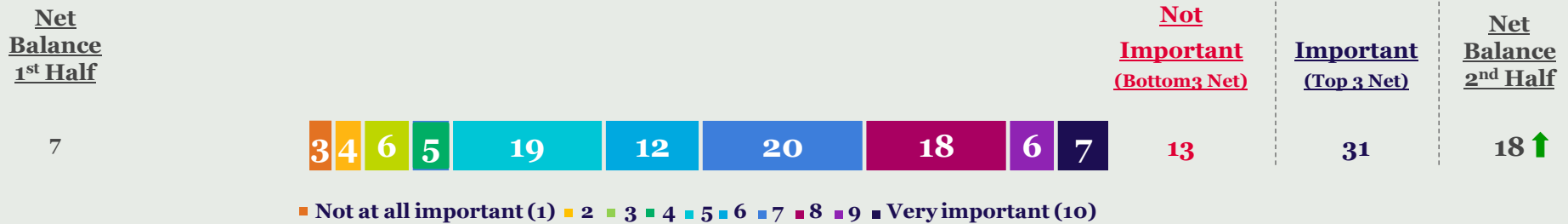
** Note: Allowed (Net) = Prescribed trading windows only + trading at discretion of chairman/board + Trade at their own discretion*

Environmental, Social and Governance issues

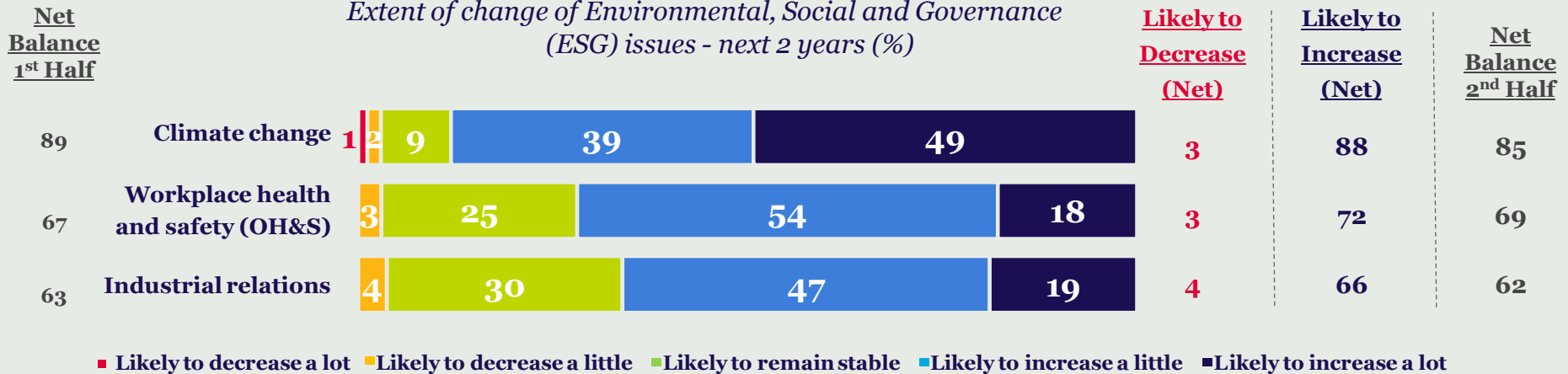
Extent of change/importance of ESG issues - next 2 years

More directors perceive Environmental/Social/Governance (ESG) issues as important within their business in the 2nd half. Nearly 90 per cent of directors maintain the belief that the level of regulation on climate change will increase in the next two years.

Importance of ESG issues within business (10-pt scale, where 1 is 'not at all important' and 10 is 'extremely important') (%)



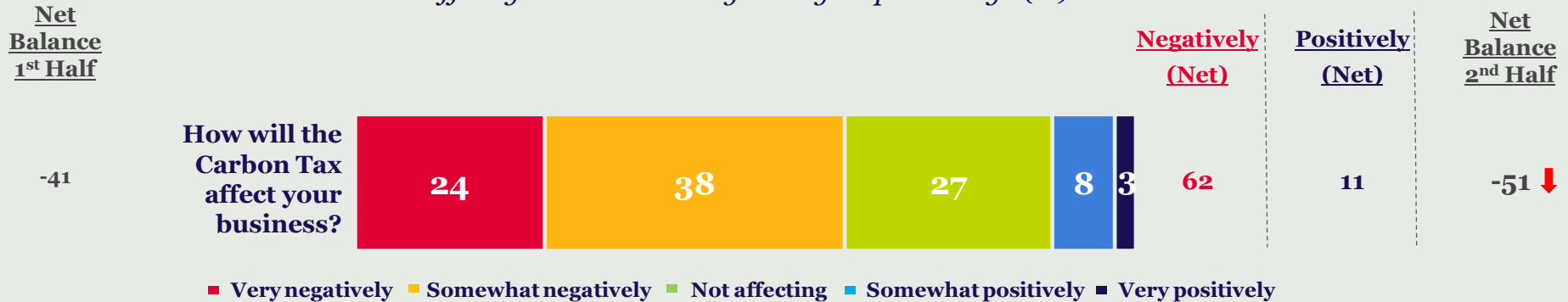
Extent of change of Environmental, Social and Governance (ESG) issues - next 2 years (%)



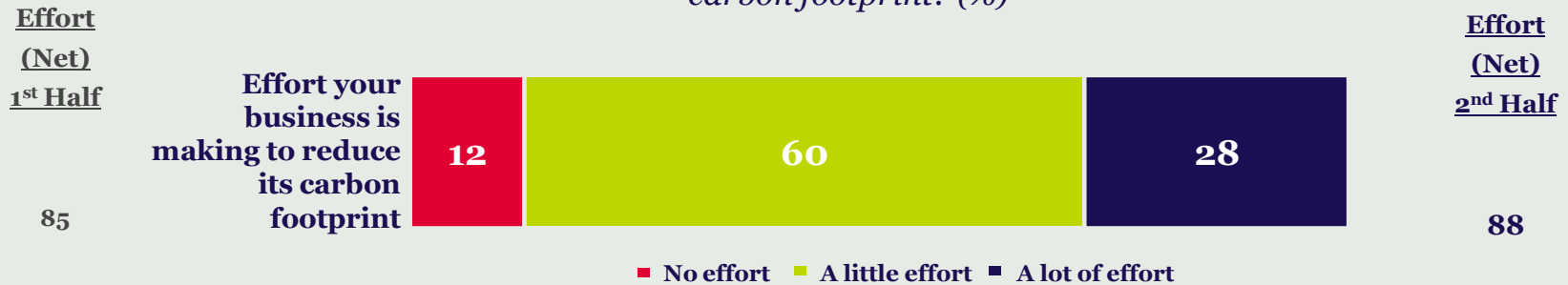
Effect of carbon price on business/business effort in reducing carbon footprint 76

Increased pessimism regarding impact of carbon price on business in the 2nd half. Sixty two per cent of directors believe the announcement and legislation for the carbon tax will impact their business negatively. In line with 1st half survey results, close to 90 per cent per cent of directors are making some effort to reduce their carbon footprint.

Do you expect the announcement and legislation for the Carbon Tax will affect your business negatively or positively? (%)



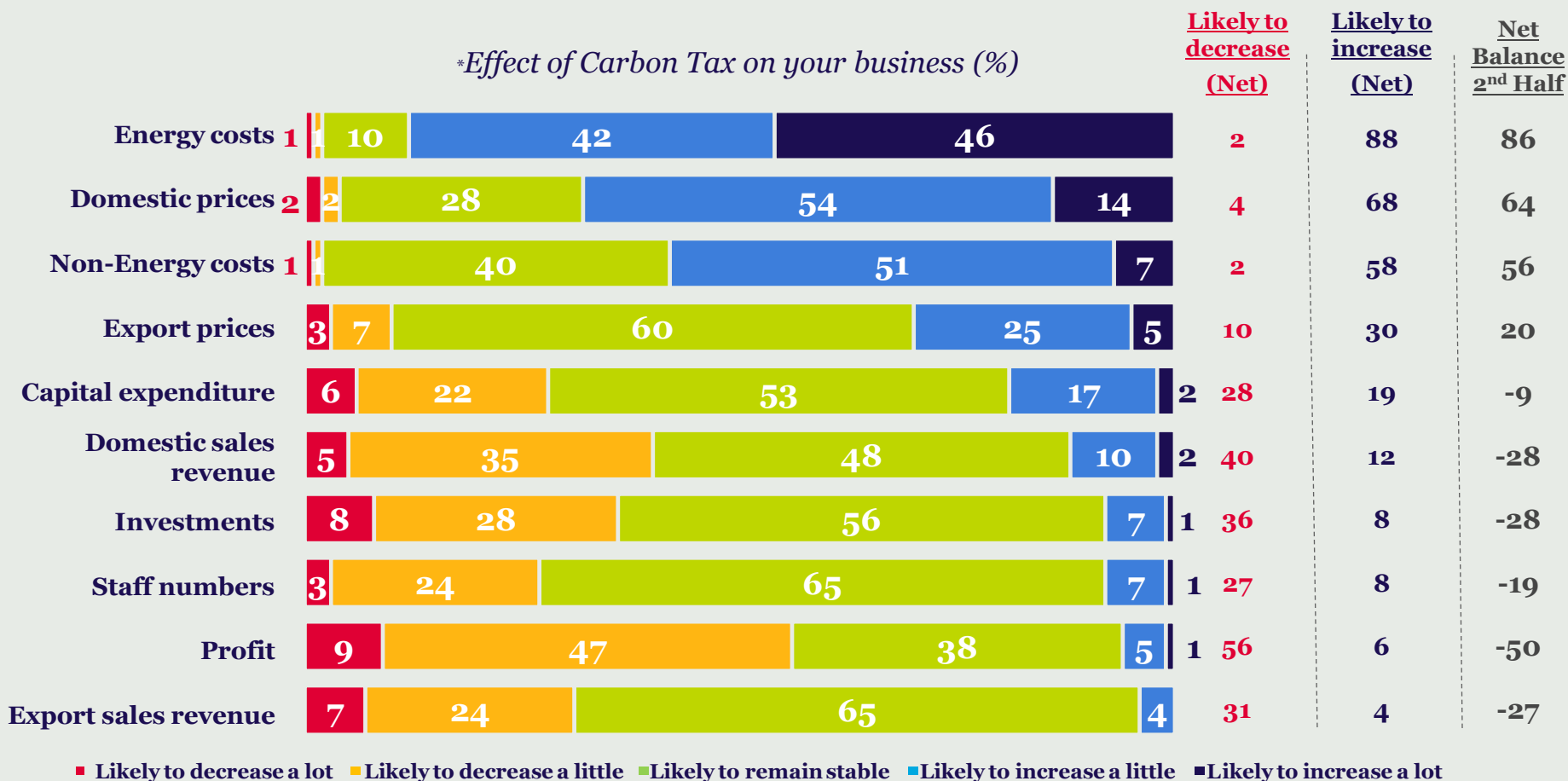
How much effort is your business making to reduce its carbon footprint? (%)



Impact of Carbon Tax on business

Most directors believe energy costs, non-energy costs and domestic prices will be negatively impacted by the announced Carbon Tax and that domestic prices and export prices will likely rise as a result of the Carbon Tax.

*Effect of Carbon Tax on your business (%)



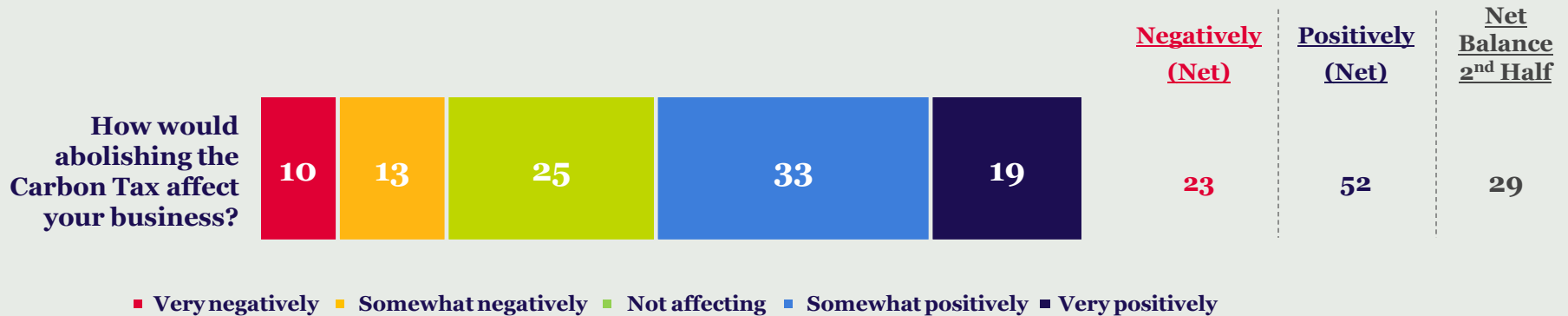
* Note: New question asked in 2nd Half only

CC1b: How do you expect the following items in your business to be affected by the announced Carbon Tax? Base: All respondents n=523

Perceived impact on business of abolishing Carbon Tax

About half of directors expect the abolition of the Carbon Tax would have a positive impact on their business.

**How would abolishing the Carbon Tax affect your business? (%)*



CC1c: Given the Carbon Tax may be in operation for about one year before the next Federal election, how would you expect abolishing the tax thereafter would affect your business?
Base: All respondents n=523

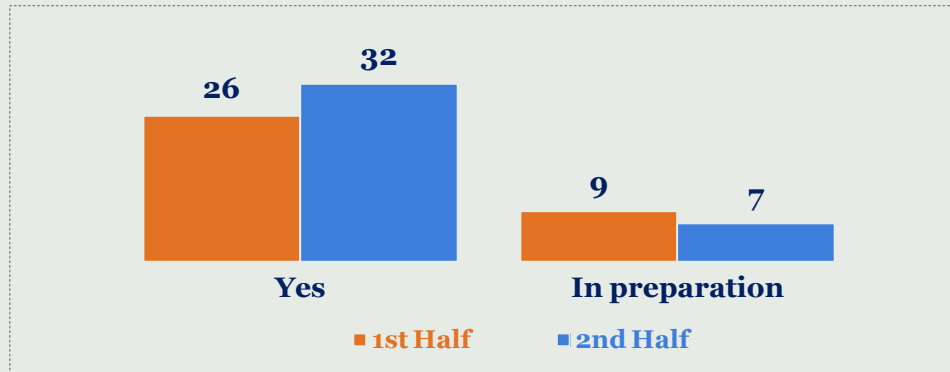
** Note: New question asked in 2nd Half only*

Directorships

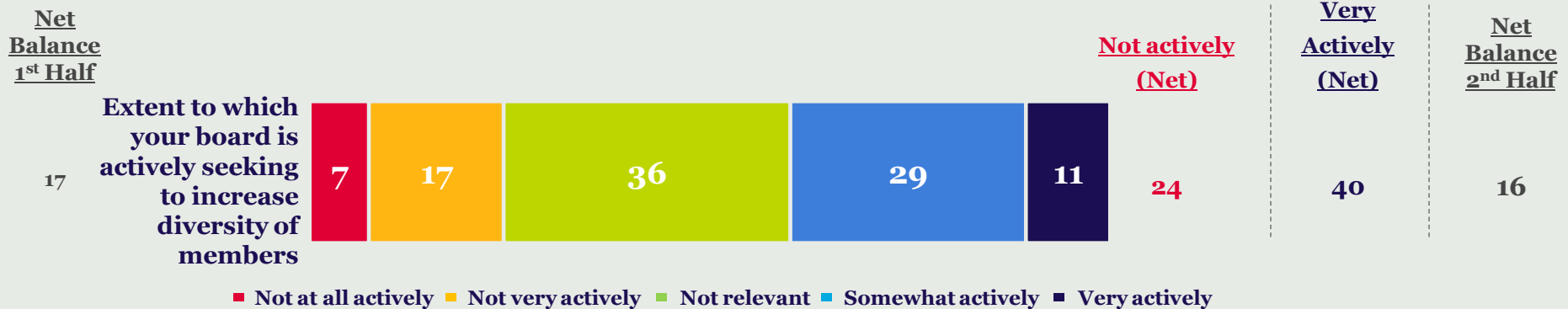
Board diversity: policy and efforts to increase

More directors have a documented policy on board diversity within their organisation. Akin to the 1st half survey results, a large proportion of directors are actively seeking to increase the diversity of their board.

Does your organisation have a documented policy on board diversity? (%)



To what extent is your board actively seeking to increase diversity of board membership? (%)



Change in number of personal directorships – next 12 months

Most directors still maintain the belief that their number of directorships will remain unchanged within the next 12 months.

Change in the number of your directorships over the next 12 months (%)



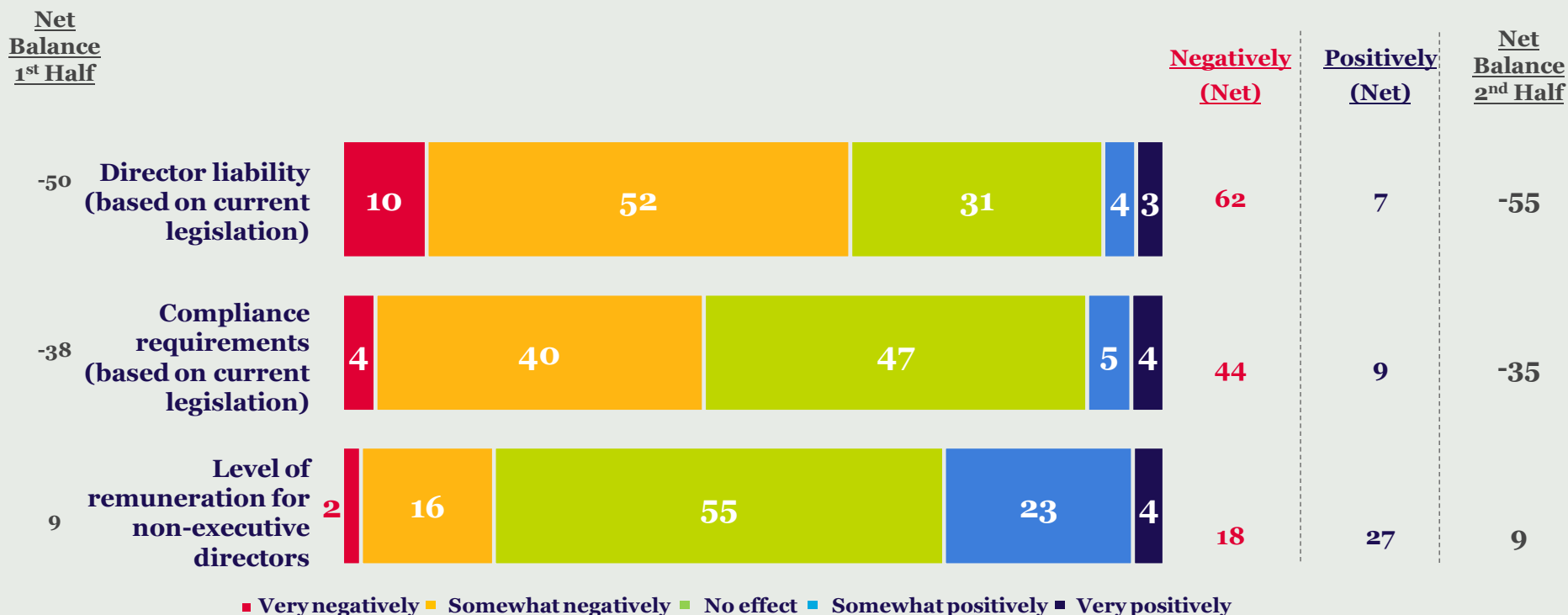
- Likely to decrease by >2
- Likely to decrease by 1-2
- Likely to stay the same
- Likely to increase by 1-2
- Likely to increase by >2

BD3: What change, if any, do you expect in the number of your directorships over the next 12 months?
 Base: All respondents n=523

Factors influencing your willingness to serve on a board

More directors believe director liability (based on current legislation) will negatively impact their willingness to serve on a board. Forty Four per cent of directors perceive compliance requirements and 18 per cent perceive non-executive director remuneration levels will negatively impact their willingness to serve on a board (similar levels to the 1st half).

Factors influencing your willingness to serve on a board (%)



BD4: How do the following things influence your willingness to serve on a Board?
 Base: All respondents n=523