
Director Sentiment Index: Research findings – Executive Summary

First half 2012

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Director Sentiment Index:

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First half 2012 sample profile

A random sample was sourced from the Australian Institute of Company Directors' member database.

Fieldwork period: 16th February – 3rd March 2012

Total respondents 554

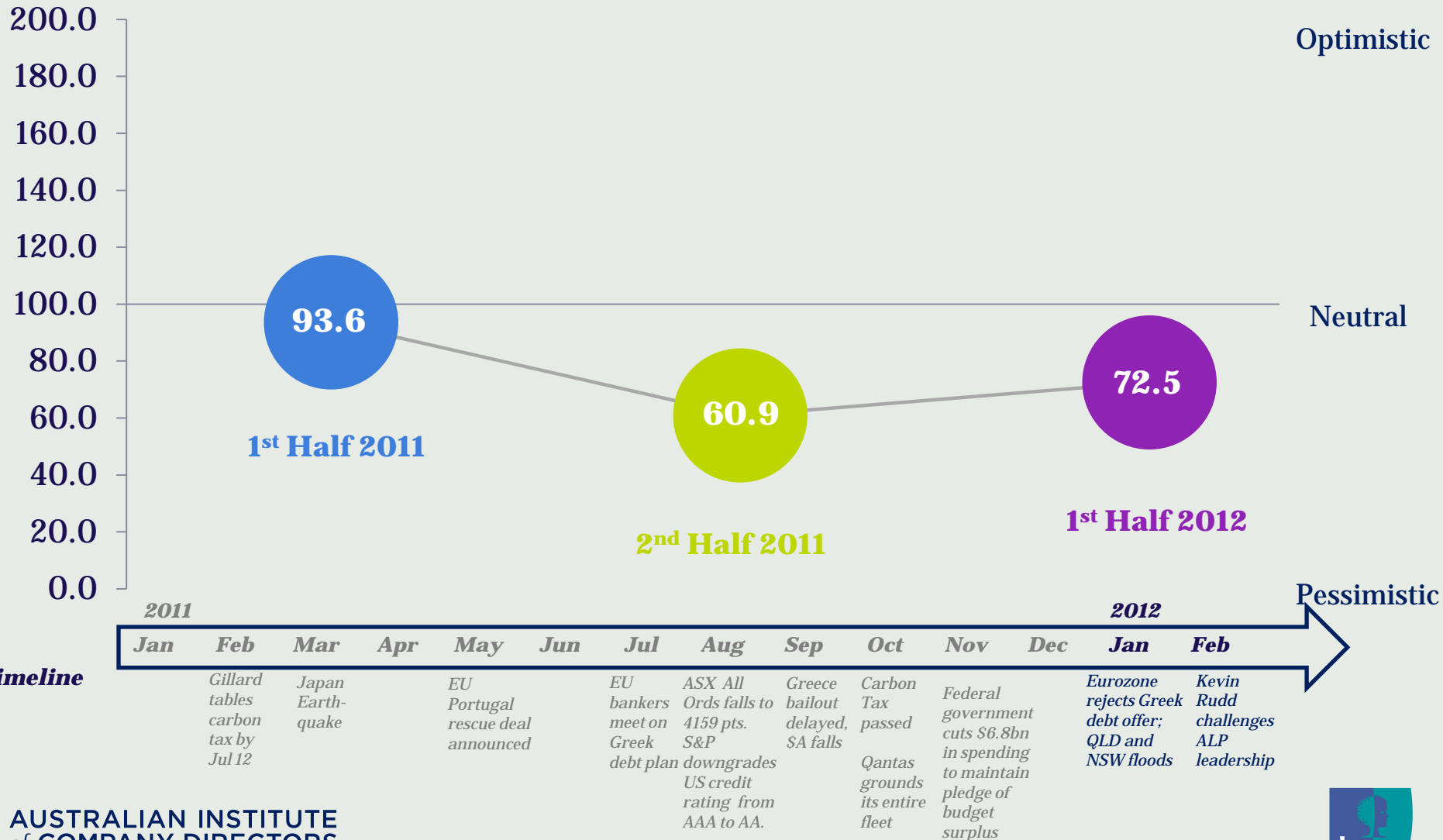
	%
No. of current directorships	
1	32 (31)
2	27 (30)
3 or more	40 (39)
Prefer not to say	- (-)
Positions held on board(s)	
Executive Director	45 (50)
Non-Executive Director	65 (60)
Chairman	31 (32)
Other	7 (7)
Prefer not to say	1 (1)
Primary directorship company	
Publicly listed Australian entity	12 (11)
Private/non-listed Australian entity	51 (60)
Not-for profit entity	35 (27)
Prefer not to say	2 (2)

	%
Primary directorship business sector(s)	
Health and Community Services	24 (NA)
Finance and Insurance	18 (20)
Property and Business Services	13 (NA)
Mining	10 (8)
Personal and Other Services	7 (NA)
Manufacturing	7 (7)
Education	7 (NA)
Agriculture, Forestry and Fishing	6 (5)
Communication Services	5 (2)
Government Administration and Defence	5 (NA)
Retail Trade	5 (4)
Construction	5 (7)
Cultural and Entertainment industry	4 (2)
Transport and Storage	4 (4)
Energy	4 (3)
Accommodation, Cafes and Restaurants	3 (4)
Wholesale Trade	2 (3)
Other	- (48)
Gender	
Male	77 (84)
Female	23 (16)

Director Sentiment Index

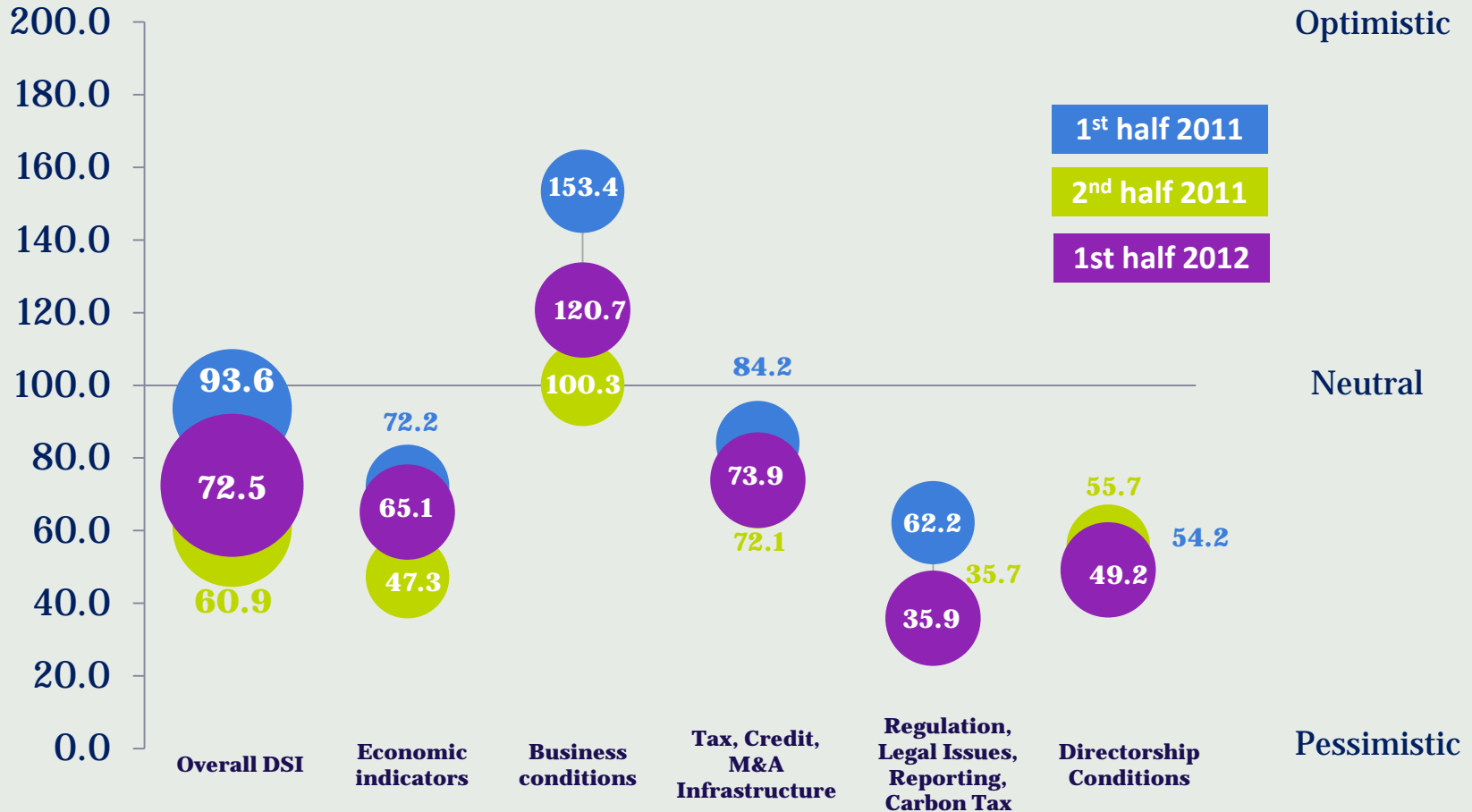
Overall Director Sentiment Index

The Director Sentiment Index is an aggregate representation of key indicators of sentiment, weighted based on importance. The overall sentiment in the 1st half of 2011 was neutral to slightly pessimistic, shifting to pessimistic in the 2nd half of 2011. In this survey, the sentiment has remained pessimistic, but to a lesser degree.



Overall Director Sentiment Index

Overall, this survey finds that directors are less pessimistic in the 1st half of 2012 compared to the 2nd half of 2011. Attitudes towards business conditions have shifted from neutral to optimistic and attitudes towards the economic environment are less pessimistic in this survey.










Summary of key indicators and headlines

Summary of key indicators

(1 of 4)

8

Indicator (expected change in coming 12 months)	Scale	1st Half 2012 net balance	2nd Half 2011 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-17 	-43
Health of the Asian economy	Weak/strong	41 	26
Health of the European economy	Weak/strong	-94	-93
Health of the US economy	Weak/strong	-39 	-88
Inflation rate (Australia)	Lower/higher	27 	35
Exchange rate (value of AUD versus USD)	Lower/higher	-10 	7
RBA cash rate	Lower/higher	-28 	-35
Level of wages growth	Lower/higher	37 	29



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



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

Summary of key indicators

(2 of 4)

9

Indicator (expected change in coming 12 months, with the exception of *)	Scale	1st Half 2012 net balance	2nd Half 2011 net balance
Business conditions			
Growth of primary directorship business	Weak/strong	23 ↑	10
Change in business investment levels	Decrease/increase	1 ↓	9
Change in business staffing levels/labour demand	Decrease/increase	4 ↓	9
Change in level of business exports	Decrease/increase	-10	-9
Change in level of outsourcing	Decrease/increase	17 ↑	9
Expectations of profits for Jul-Dec 2012 actual versus forecast*	Below/up	12 ↑	6
Confidence in general business outlook*	Pessimistic/opt	-3 ↑	-16
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	14 ↑	5
Directorship conditions			
Impact of directors' liability on willingness to serve on a board*	Negatively/positively	-54	-55
Impact of compliance requirements on willingness to serve on a board*	Negatively/positively	-38	-35
Impact of remuneration on willingness to serve on a board*	Negatively/positively	9	9

Summary of key indicators




(3 of 4)

10

Indicator (expected change in coming 12 months, with the exception of *)	Scale	1st Half 2012 net balance	2nd Half 2011 net balance
<i>Tax, credit, M&A, infrastructure</i>			
Credit availability for investment purposes	Low/high	-19 ↓	-7
Credit availability for asset purchases	Low/high	-7 ↓	4
Credit availability for working capital	Low/high	-15 ↓	0
Expected change in ASX All Ordinaries index	Fall/rise	32 ↑	18
Expected change in level of mergers and acquisitions	Fall/rise	51 ↑	44
Perception of current level of corporate taxation *	High/low	-44	-44
Perception of current level of personal taxation *	High/low	-63 ↑	-69
Perception of level of government spending on infrastructure *	Low/high	-82	-80
Agreement with building of NBN being a positive thing for Aust*	Disagree/agree	-2 ↑	-20
<i>Regulation, legal issues, reporting, Carbon Tax</i>			
Agreement with 'Federal Government understands business' *	Disagree/agree	-66 ↑	-74
Expected change in level of 'red tape' in coming 12 months*	Increase/decrease	-65 ↑	-71

Summary of key indicators

(4 of 4)

Indicator (expected change in coming 12 months)	Scale	2 nd Half net balance	1 st Half net balance
Regulation, legal issues			
How is the current Federal Government's performance affecting your business decision making? #	Negatively/Positively	-58 	-65
How is the current Federal Government's performance affecting consumer confidence? #	Negatively/Positively	-83	-85
Perception of governance regulations under Corporations Act	Onerous/weak	-51	-52
How is legislation affecting your business decision-making?	Negatively/positively	-39	-35
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	-54	-50
Extent legal judgements affect your business decision-making #	Negatively/positively	-25	-24
Extent legal judgements affect your willingness to serve on a board #	Negatively/positively	-33	-35
Extent legal judgements affect your willingness to accept new board appointments #	Negatively/positively	-45	-47
Adequacy of business directorships and officers' insurance	Inadequate/adequate	-3 	-8
Adequacy of public company remuneration reports	Inadequate/adequate	-21	-23
Priority of the reform of laws and regulations governing public company remuneration*	Low priority/high priority	34	33
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/functional	-8 	-12
Expect the Carbon Tax to affect your business	Negatively/positively	-54	-51

-
- A pessimistic sentiment is maintained among directors, though to a slightly lesser degree than in the 2nd half 2011 survey. Directors are slightly less pessimistic regarding the Australian, Asian and US economies, compared to the findings of the 2nd half 2011 survey, and are more optimistic about business growth and profits in the coming year.
 - Most directors continue to be pessimistic about the European economy with the continued uncertainty surrounding the Eurozone Debt Crisis.
 - This survey has found that the only key indicators expected to decline considerably:
 - Estimations regarding the performance of the Australian dollar (this survey found that the \$AUD is expected to be subdued or lower)
 - Expectations of the availability of credit for asset and working capital purchases
 - A few indicators remained relatively stable (it should be noted, however, that the net balances for these issues continue to maintain a negative slant):
 - Expectations regarding the health of the European economy
 - Expectations of profits for Jan-Jun 2012 (actual) vs. the budget forecast
 - The impact of liability and compliance requirements on director's willingness to serve on a board
 - Sentiments about regulation, legislation and legal issues affecting director's liability
 - Perceptions of the current level of government spending on infrastructure
 - When considering pressing issues affecting business, directors rank global economic uncertainty, followed by the high value of the Australian dollar and industrial relations as the biggest economic challenges.
 - There were notable increases in the number of directors who expect an increase in the ASX All Ordinaries and a growth in their business in the next 12 months, compared to the findings of the 2nd half 2011 survey.

Executive Summary

Economic and business environment

- Directors are slightly less pessimistic regarding the Australian, Asian and US economies, compared to the findings of the 2nd half 2011 survey, and are more optimistic about business growth and profits in the coming year.
- Most directors continue to be pessimistic about the European economy.
- When considering pressing issues affecting business, directors rank global economic uncertainty, followed by the high value of the Australian dollar and industrial relations as the biggest economic challenges.
- There were notable increases in the number of directors who expect an increase in the ASX All Ordinaries and a growth in their primary directorship in the next 12 months, compared to the findings of the 2nd half 2011 survey.
- Expectations of the inflation rate and the exchange rate in the next 12 months have declined, while expectations of the RBA cash rate and level of wages growth have increased. Nearly 60 percent of directors believe that the inflation rate will remain stable, while nearly half believe the RBA cash rate will decrease and level of wages growth will increase.
- Estimations of the Australian inflation rate in the coming 12 months are slightly lower, at an average of 3.09 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 are slightly lower, at an average of 103 US cents with estimates clustering around \$1 USD, 105 US cents and 110 US cents. The actual rate during survey fieldwork was 107 US cents*.
- Estimations of the RBA official cash interest rate in the next 12 months are lower, at an average of 4.27 per cent with estimates clustering around 4 per cent. The actual rate during survey fieldwork was 4.25 per cent*.
- The expected level of wages growth in the coming year is higher, at an average of 3.64 per cent with estimates clustering around 3 per cent, 4 per cent and 5 per cent. The actual growth for the most recent year to the survey fieldwork was 3.7 per cent**.
- Business growth declined for many in July-December 2011, with 40 percent of directors claiming the growth of their business had weakened in the last six months. There is increased optimism about the future, with nearly half of directors expecting their business to grow in the coming year.

Economic and business environment

- Akin to 2nd half 2011 results, a substantial proportion of directors have experienced stability across the four facets of business (investment levels, staffing levels/labour demands, business exports, level of outsourcing) in the previous six months. Fewer directors reported a decrease in business exports, and more directors experienced increases in the level of outsourcing.
- Higher expectations of growth in the next 12 months across all four facets of business (investment levels, staffing levels/labour demands, business exports, level of outsourcing) compared to the 2nd half of 2011, with about 40 per cent of directors expecting an increase in the levels of investment and staffing and more than 30 per cent of directors predicting an increase in the level of outsourcing, however most directors still predict that business exports will remain stable.
- Similar expectations of profits in the current survey, compared to the 2nd half of 2011 survey results. Slightly optimistic outlook, with over 30 per cent of directors expecting an increase in profits for the current six months, compared to profits for the same period last year, profits for the previous six months and the current budget forecast.
- Most directors have higher expectations of profits for the second half of this year, compared to profits for the previous six months and the budget forecast for the second half of the financial year
- Directors have become more optimistic about their business outlook, with almost 40 per cent of directors feeling optimistic about the outlook of their own sector. The general business outlook remains pessimistic in line with 2nd half 2011 results, although the level of pessimism has decreased.
- In line with 2nd half 2011 results, half of directors maintain the belief that the level of corporate taxation is too high. More than 65 per cent of directors believe the level of personal taxation is too high (a decrease from the 2nd half of 2011).

Credit availability and financial markets

- Credit availability for asset purchases and working capital purposes in the preceding six months was more constrained, however directors believe that credit availability for investment purposes has remained somewhat stable.
- Directors are more pessimistic regarding credit availability for the next 12 months. Credit for investment purposes, asset purchases and working capital purposes are all predicted to be more constrained compared to 2nd half 2011 survey results.
- More than half of directors expect a rise in the ASX All Ordinaries in the coming 12 months. This proportion has increased from the findings of the 2nd half of 2011 survey.
- More than 60 per cent of directors expect a rise in mergers and acquisitions over the next 12 months (a higher level compared to 2nd half 2011 survey results). Trade sale is no longer expected to be the most active type of business purchaser in the next 12 months; instead nearly half of directors now expect private equity to be the most active business purchaser.

Red-tape and regulation

- In line with 2nd half 2011 results, 70 per cent of directors still believe that the level of “red tape” has increased in the last 12 months. Directors are slightly less pessimistic about the likely level of “red tape” in the future, with less than 70 percent predicting an increase in the level of “red tape” in the coming year.
- Most directors still believe that director liability and compliance requirements (based on current legislation) will negatively impact their willingness to serve on a board, while nearly 60 percent of directors believe that the level of remuneration for non-executive directors will have no effect on their inclination to serve on a board
- Most directors still feel that current governance regulations under the Corporations Act are onerous.
- About 40 per cent of directors still believe that 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 director liability negatively impacts their willingness to accept new board appointments.
- Akin to 2nd half 2011 results, less than 40 percent of directors believe that legal judgements affecting directors liability will negatively impact their business decision making and their willingness to continue on a board. About half of directors still maintain the belief that legal judgements will negatively impact their willingness to accept new board appointments.

Government and business

- Nearly 90 per cent of directors continue to believe that the current level of government spending on infrastructure is too low.
- Less pessimism regarding the building of the NBN in this survey, with 45 per cent of directors believing that is a negative thing for Australia.
- Directors have identified road and telecommunications as the most important areas of infrastructure for investment in the 1st half 2012 survey. There has been a significant increase in the perceived importance of airports compared to the findings of the 2nd half of 2011 survey.
- Infrastructure is still rated by directors as the top priority the Federal Government should address in the short term, this is followed by education and industrial relations. Energy resources is no longer a top 5 concern in the current half survey.
- Less disenchantment regarding the Federal Government's understanding of business, compared to the findings of the 2nd half of 2011 survey. However most directors still maintain the belief that the Federal Government lacks understanding of business.
- Less pessimistic outlook regarding the effect of the current Federal Government's performance on director's business decision making, however akin to 2nd half 2011 results, nearly 90 per cent of directors still maintain the belief that the current Federal Government's performance is having a negative impact on consumer confidence.
- More than 60 percent of directors believe that the lack of certainty regarding the future of the current parliament is having a negative impact on their business decision making, while 85 percent believe it is negatively impacting consumer confidence.
- Nearly 60 percent of directors disagree that it is vital for the Federal Government to achieve a budget surplus in 2012 to 2013 in the face of a potential GFC2.

D&O insurance, reporting and current framework

- Less pessimistic outlook regarding the adequacy of business' Directors and Officers Insurance, with nearly 80 percent of directors perceiving their business' Directors and Officers insurance as adequate, or about right.
- In line with 2nd half 2011 survey results, about 60 per cent of directors feel that public company remuneration reports are adequate or about right.
- Nearly one-third of directors still maintain the belief that the IFRS is dysfunctional to some degree.
- Directors are evenly split on their opinion regarding the overall functionality of the current AGM system, with nearly one-third perceiving the current AGM system as dysfunctional and one-third of the opinion that it is working well.
- Nearly 90 per cent of directors still maintain the belief that the board/company's relationships with its shareholders should be a high priority.
- In line with 2nd half 2011 results, almost 60 percent of directors believe that reform of the laws and regulations governing public company remuneration should be a low priority.
- In line with 2nd half 2011 results, almost 60 percent of directors believe that reform of the laws and regulations governing public company remuneration should be a low priority.

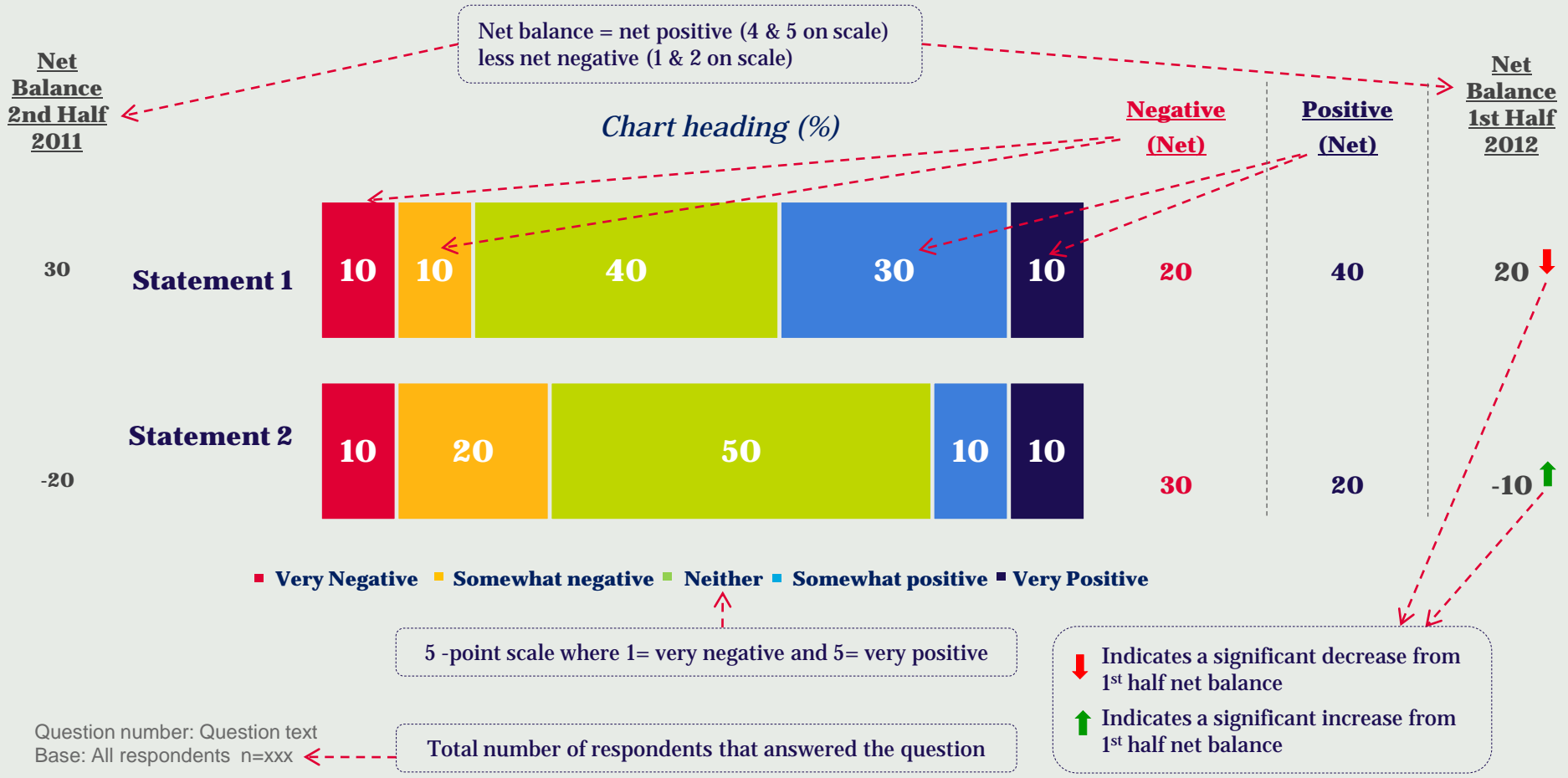
Shareholder relations

- In line with 2nd half 2011 survey results, most directors have a documented policy on business ethics within their organisation, with 80 per cent of directors addressing ethical considerations at board meetings.
- Akin to 2nd half 2011 results, less than 40 percent of directors have a documented policy on board diversity within their organisation. Less than half of directors believe that their board is actively seeking to increase the diversity of its members (a higher proportion compared to the findings of the 2nd half of 2011 survey).
- Most directors maintain the perception that Australian listed public companies are ethical, more so than with overseas listed companies. Almost half of directors believe that Australian non-listed and private companies are ethical.
- Most directors still believe that the general public perceives directors of Australian and overseas listed companies as unethical, with more directors of the perception that overseas listed companies are unethical.
- Akin to 2nd half 2011 results, 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 only.

Environmental and Social Governance

- Fewer directors perceive ESG as important within their business. Most directors still predict that the level of regulation on climate change will increase, but to a lesser extent than predicted in the 2nd half of 2011 survey. Regulation of workplace health and safety (OH&S) and industrial relations is expected to increase to a greater extent than was expected in the 2nd half of 2011 survey results.
- In line with 2nd half 2011 results, more than 60 percent of directors believe that the announcement and legislation of the Carbon Tax will impact their business negatively. Almost 85 percent of directors maintain the belief that their business is making some effort to reduce its carbon footprint.
- Most directors still believe that energy costs, non-energy costs and domestic prices will be negatively impacted by the announced Carbon Tax, but to a lesser extent in this survey.
- Nearly half of directors still believe that the abolition of the Carbon Tax will have a positive impact on their business.

Detailed results



Economic outlook

Health of economies: summary

Pessimistic outlook remains regarding the current and future state of world economies, although there is increased confidence in the Australian and US economies in the upcoming year. Directors still perceive Asian and Australian economies as stronger than US and European economies.

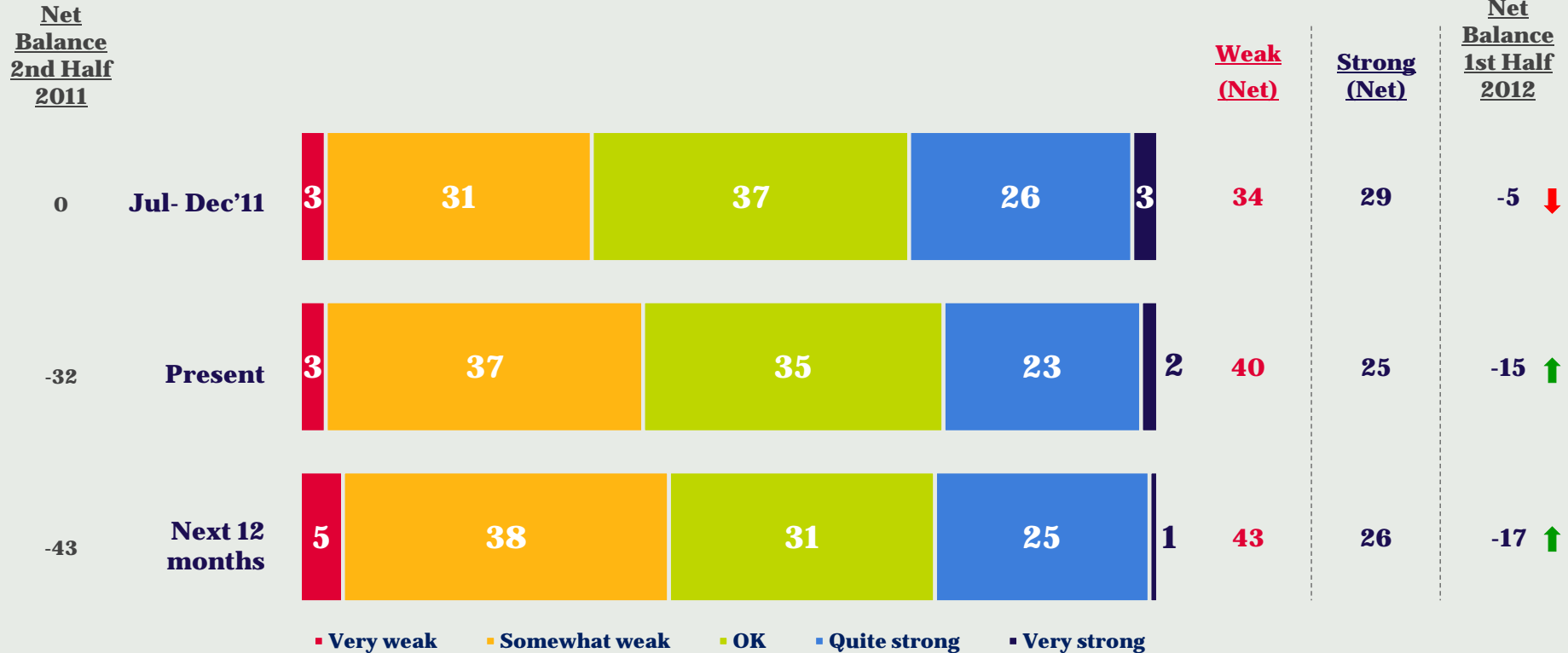
Health of economies		(Wave)	Australian	Asian	US	European
<i>Mean score (on a 5-pt scale, where 1 is 'Very Weak' and 5 is 'Very Strong')</i>						
Past six months	(Jan-Jun'11)	2nd Half 2011	3.0	3.6	1.8	1.7
	(Jul-Dec'11)	1st Half 2012	2.9	3.5	1.9	1.5
Present		2nd Half 2011	2.6	3.4	1.6	1.5
		1st Half 2012	2.8	3.5	2.2 ↑	1.5
Next 12 months		2nd Half 2011	2.5	3.3	1.7	1.5
		1st Half 2012	2.8 ↑	3.5	2.5 ↑	1.6

E1-E4 Base: All respondents n=554

Health of the Australian economy

Less pessimistic outlook on the health of the Australian economy. Forty percent of directors perceive the Australian economy to be weak at present and more than forty percent expect our economy will remain 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=554

Health of the Asian economy

Outlook on the Asian economy has remained positive, in line with the 2nd half 2011 results. Most directors thought the Asian economy was strong in the last six months, while nearly half consider it to be strong at present. More than half of directors expect the Asian economy will remain strong in the next year.

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

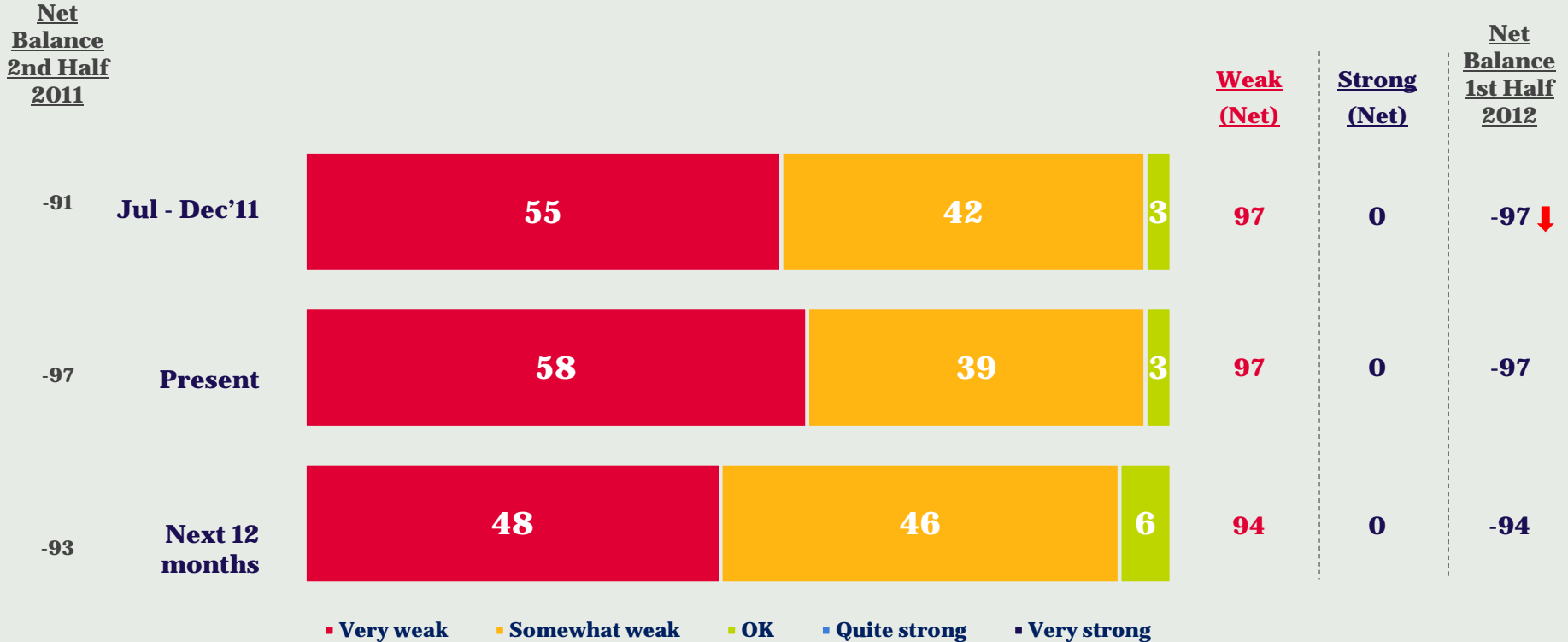


E2: What is your assessment of the health of the Asian economy.....?
 Base: All respondents n=554

Health of the European economy

Increased pessimism regarding the health of the European economy. More than 90 per cent of directors expect the European economy to remain weak in the coming year.

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

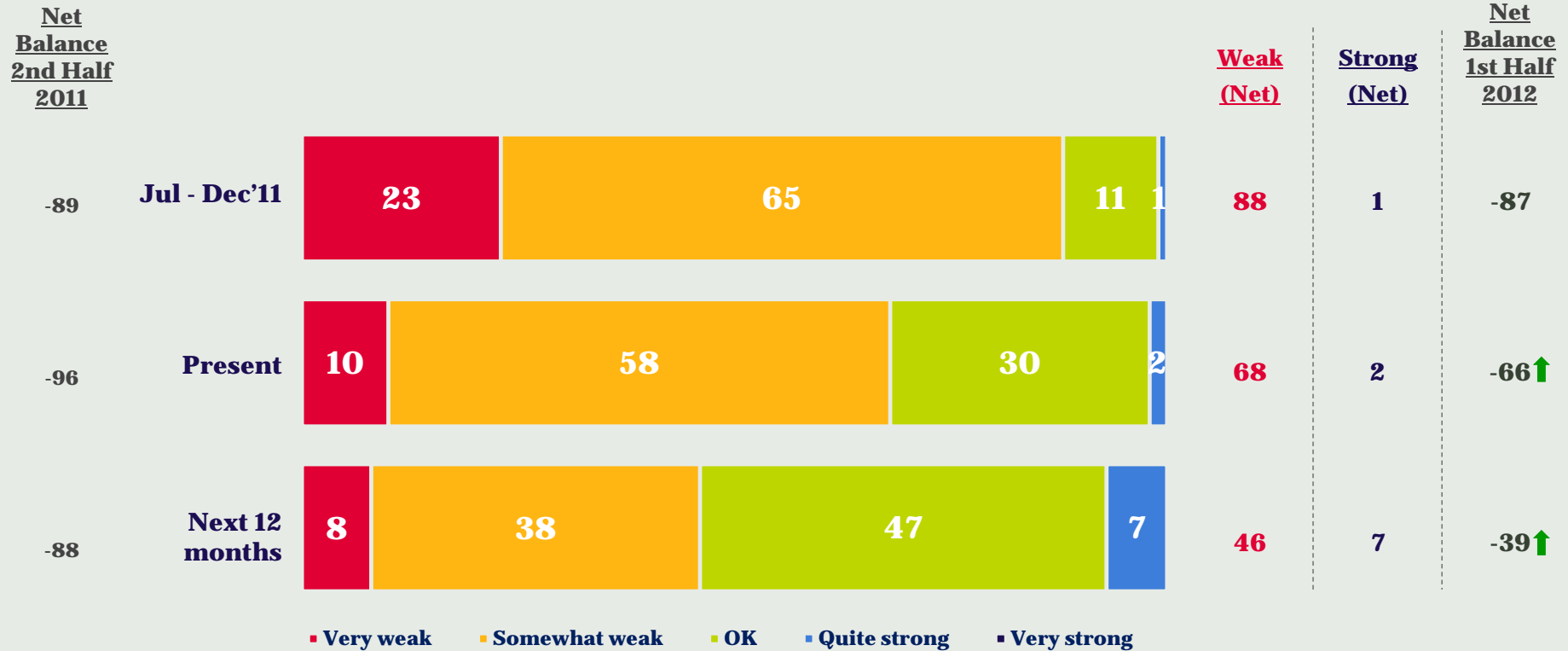


E3: What is your assessment of the health of the European economy....?
 Base: All respondents n=554

Health of the US economy

Perceptions regarding the health of the US economy in the past six months remain pessimistic. Less pessimistic assessment regarding the current and future health of the US economy, with less than 70 percent of directors perceiving the US economy to be weak at present and less than half predicting that it will remain weak in the next 12 months.

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

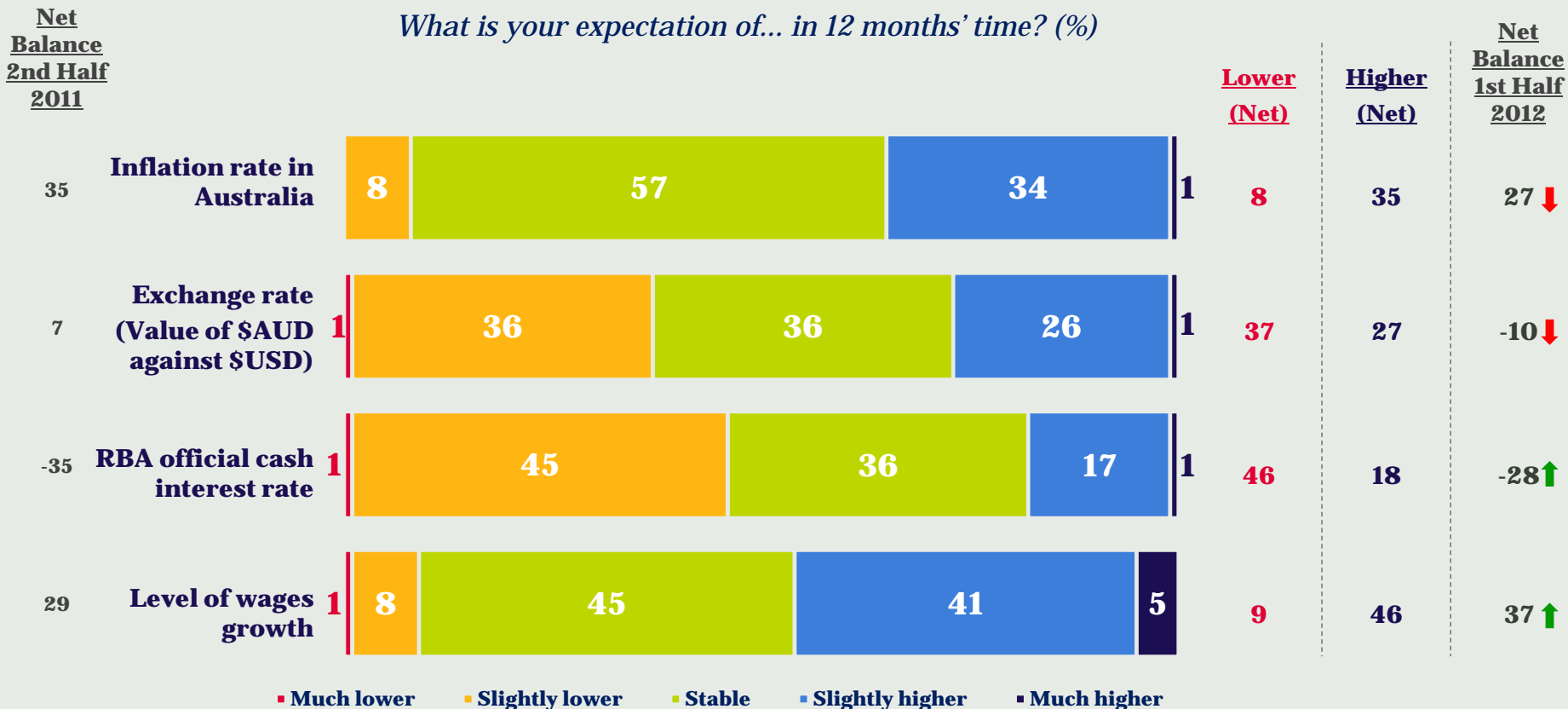


E4: What is your assessment of the health of the US economy.....?
 Base: All respondents n=554

Economic indicators (Australia) – expectation in next 12 months

30

Expectations of the inflation rate and the exchange rate in the next 12 months have declined, while expectations of the RBA cash rate and level of wages growth have increased. Nearly 60 percent of directors believe that the inflation rate will remain stable, while nearly half believe the RBA cash rate will decrease and level of wages growth will increase.

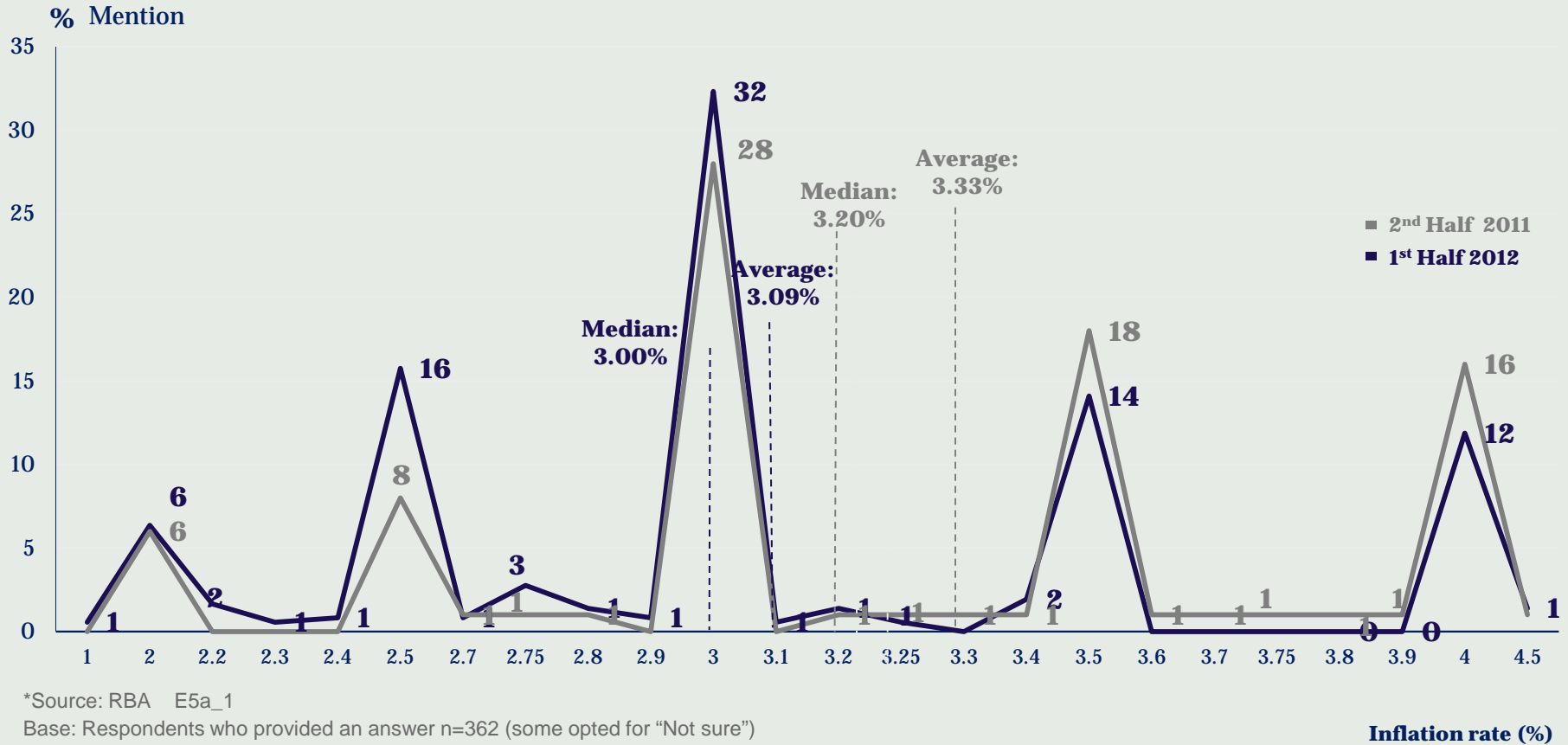


E5: What is your expectation of.....?
 Base: All respondents n=554

Economic indicators – Australian inflation rate in next 12 months

Estimations of the Australian inflation rate in the coming 12 months are slightly lower, at an average of 3.09 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” (%)



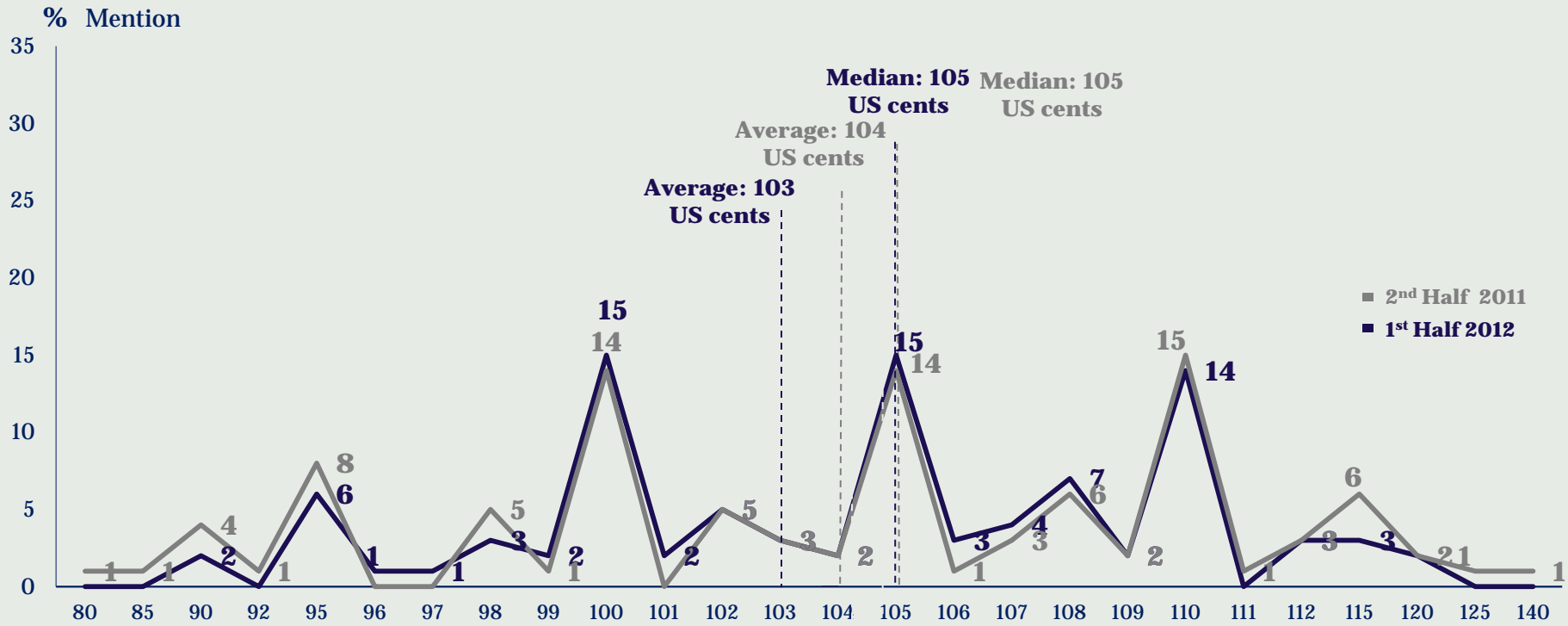
*Source: RBA E5a_1

Base: Respondents who provided an answer n=362 (some opted for “Not sure”)

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

Estimations of the exchange rate for the next 12 months are slightly lower, at an average of 103 US cents with estimates clustering around \$1 USD, 105 US cents and 110 US cents. The actual rate during survey fieldwork was 107 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

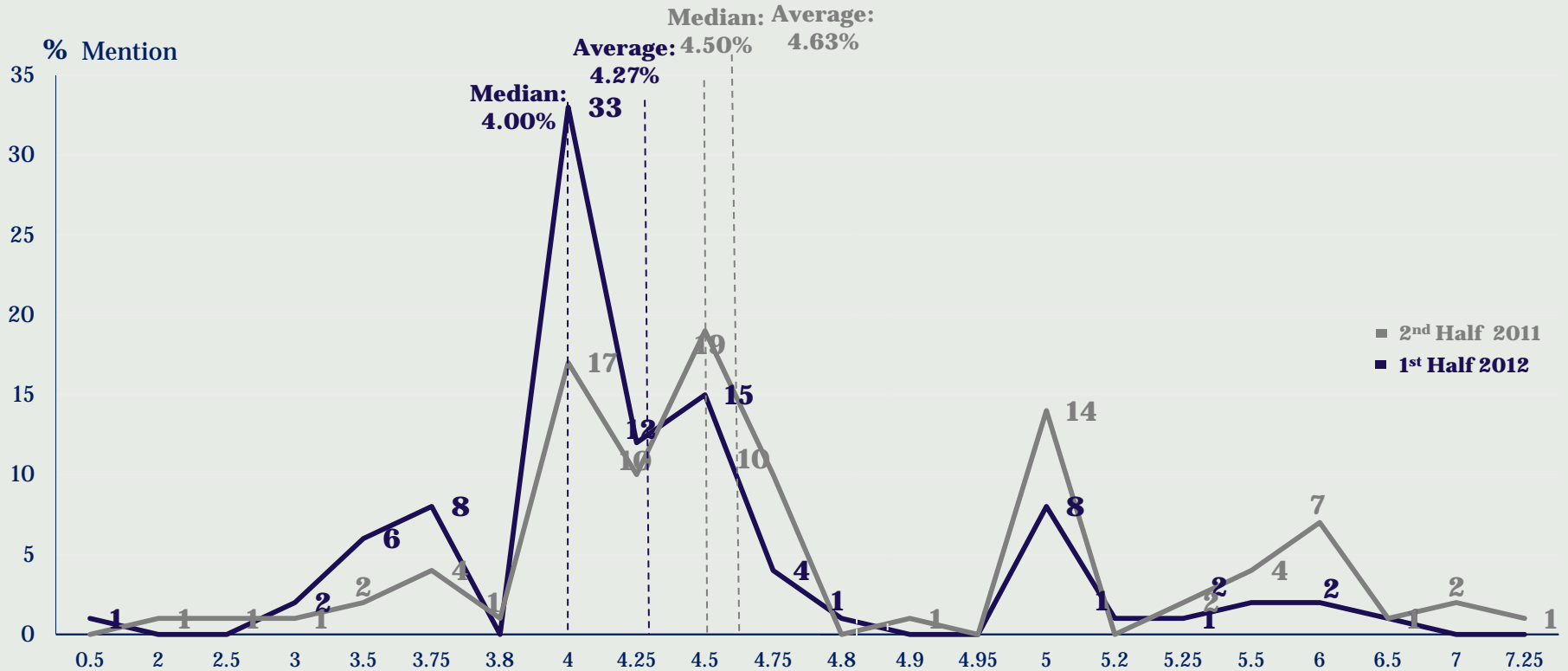
Base: Respondents who provided an answer n=422 (some opted for “Not sure”)

US cents

Economic indicators – RBA official cash interest rate in next 12 months 33

Estimations of the RBA official cash interest rate in the next 12 months are lower, at an average of 4.27 per cent with estimates clustering around 4 per cent. The actual rate during survey fieldwork was 4.25 per cent*.

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



*Source: RBA E5a_3

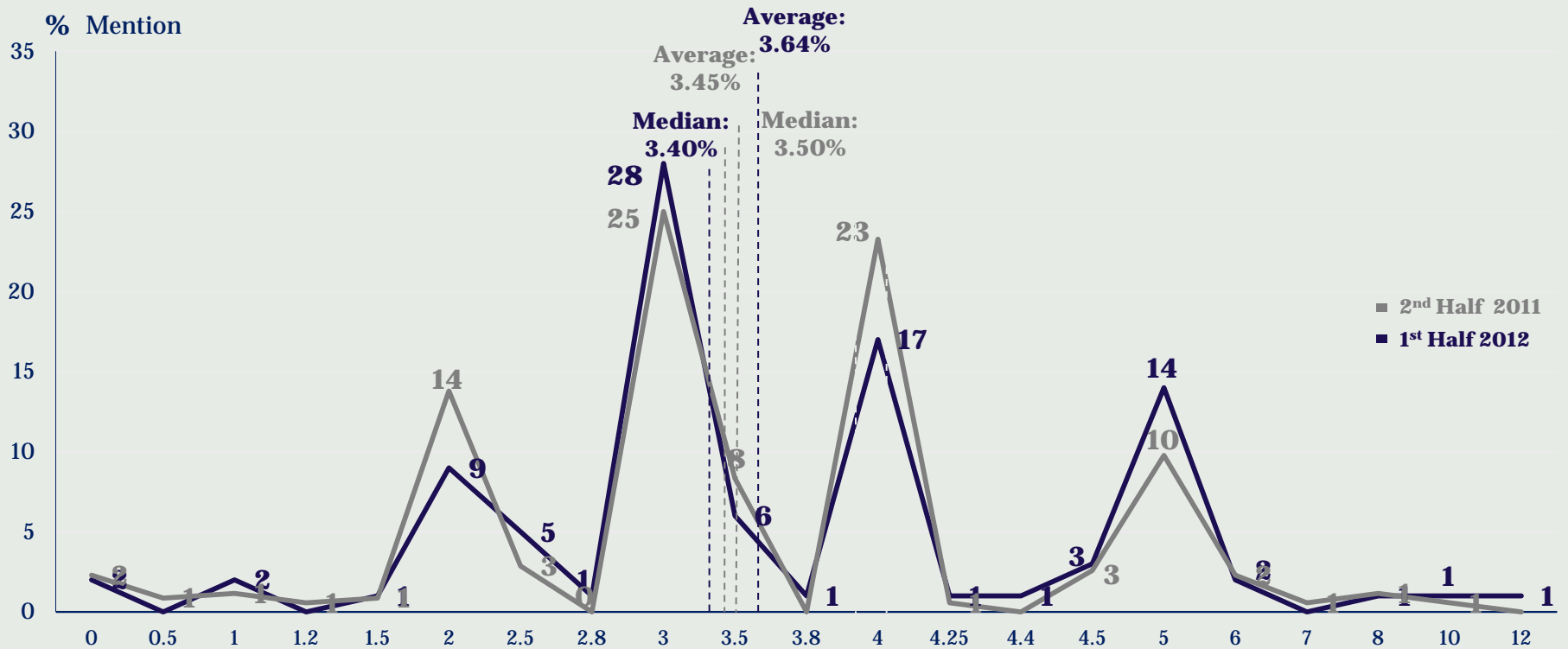
Base: Respondents who provided an answer n=308 (some opted for “Not sure”)

Cash interest rate (%)

Economic indicators – wages growth rate in next 12 months

The expected level of wages growth in the coming year is higher, at an average of 3.64 per cent with estimates clustering around 3 per cent, 4 per cent and 5 per cent. The actual growth for the most recent year to the survey fieldwork was 3.7 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=364 (some opted for “Not sure”)

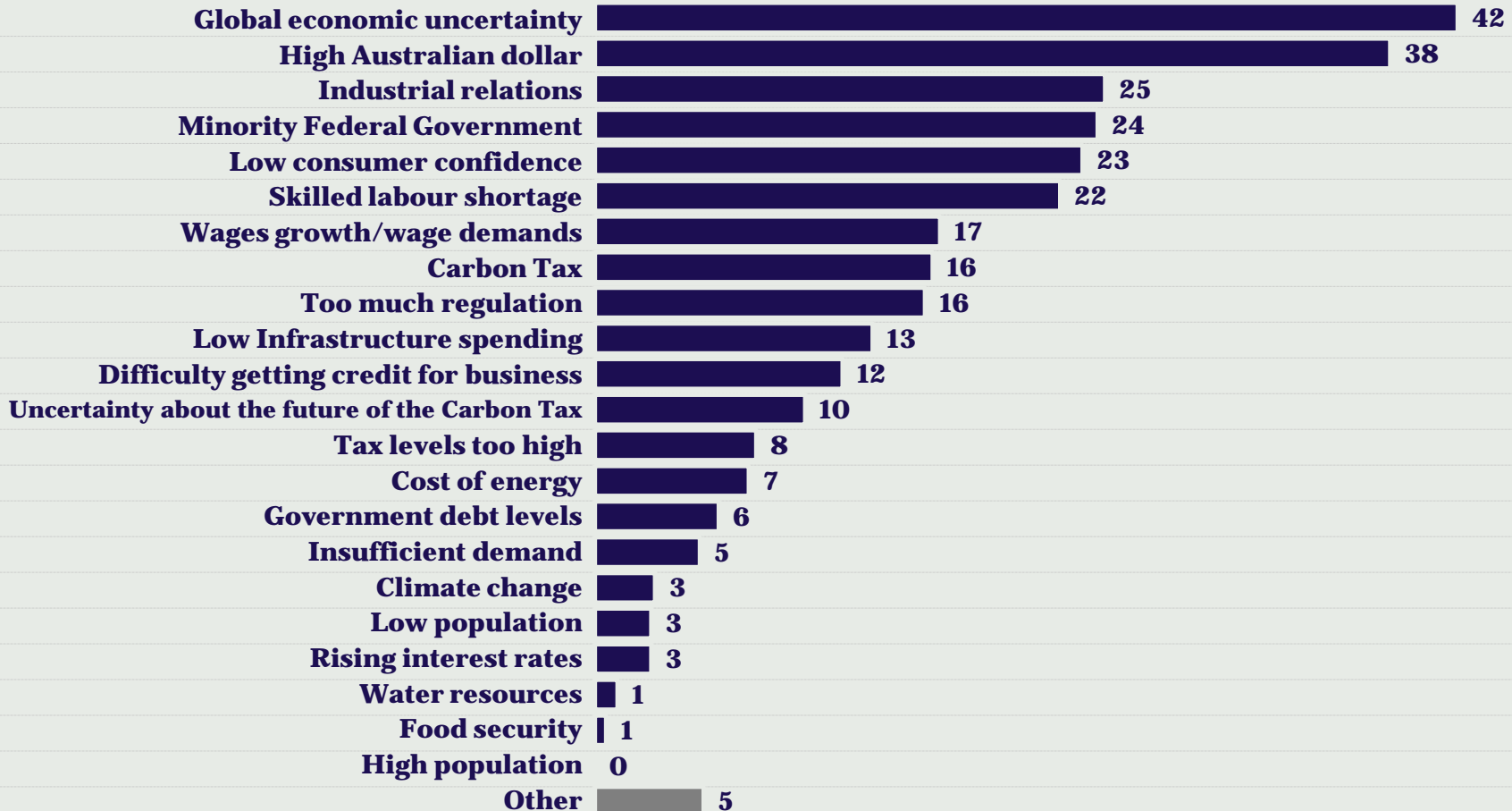
Wages growth rate (%)

Main current economic challenges (Top 3)

Global economic uncertainty is identified as the biggest economic challenge facing Australian business, followed by the high value of the Australian dollar and industrial relations.

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

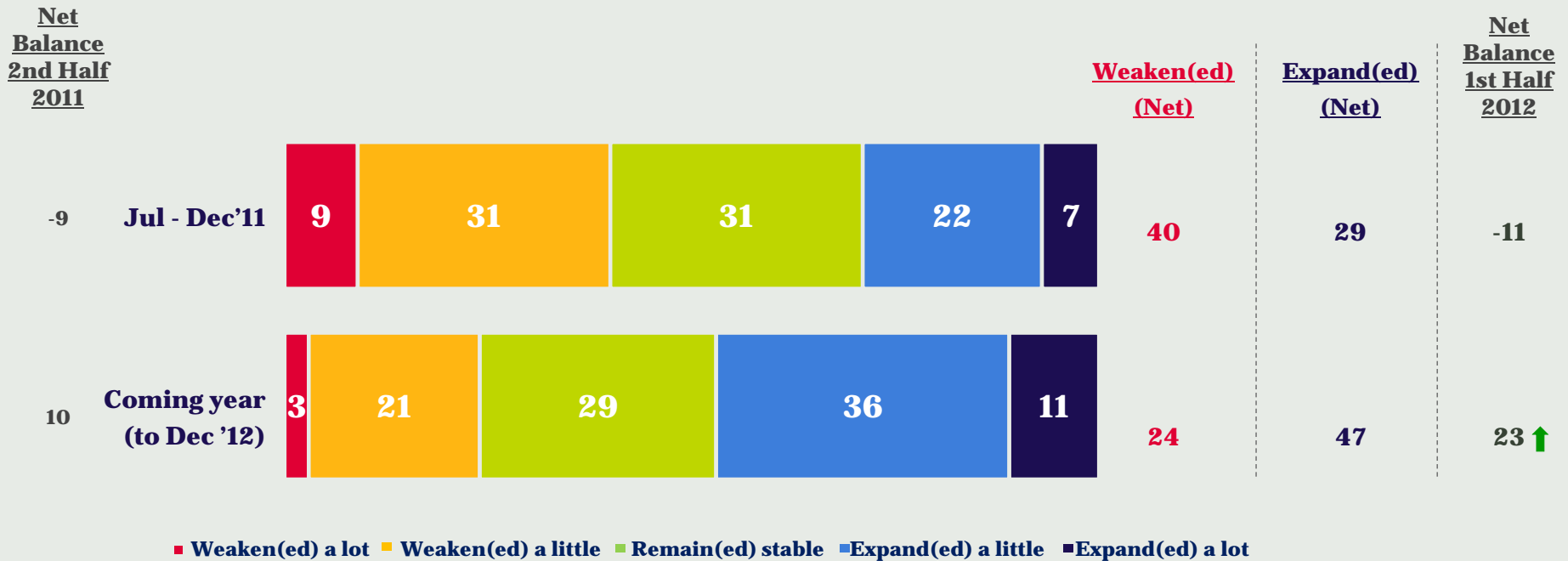
1st Half 2012



Growth of the business (primary directorship company)

Business growth declined for many in July-December 2011, with 40 percent of directors claiming the growth of their business had weakened in the last six months, however there is increased optimism regarding the future, with nearly half of directors expecting their business to grow in the coming year.

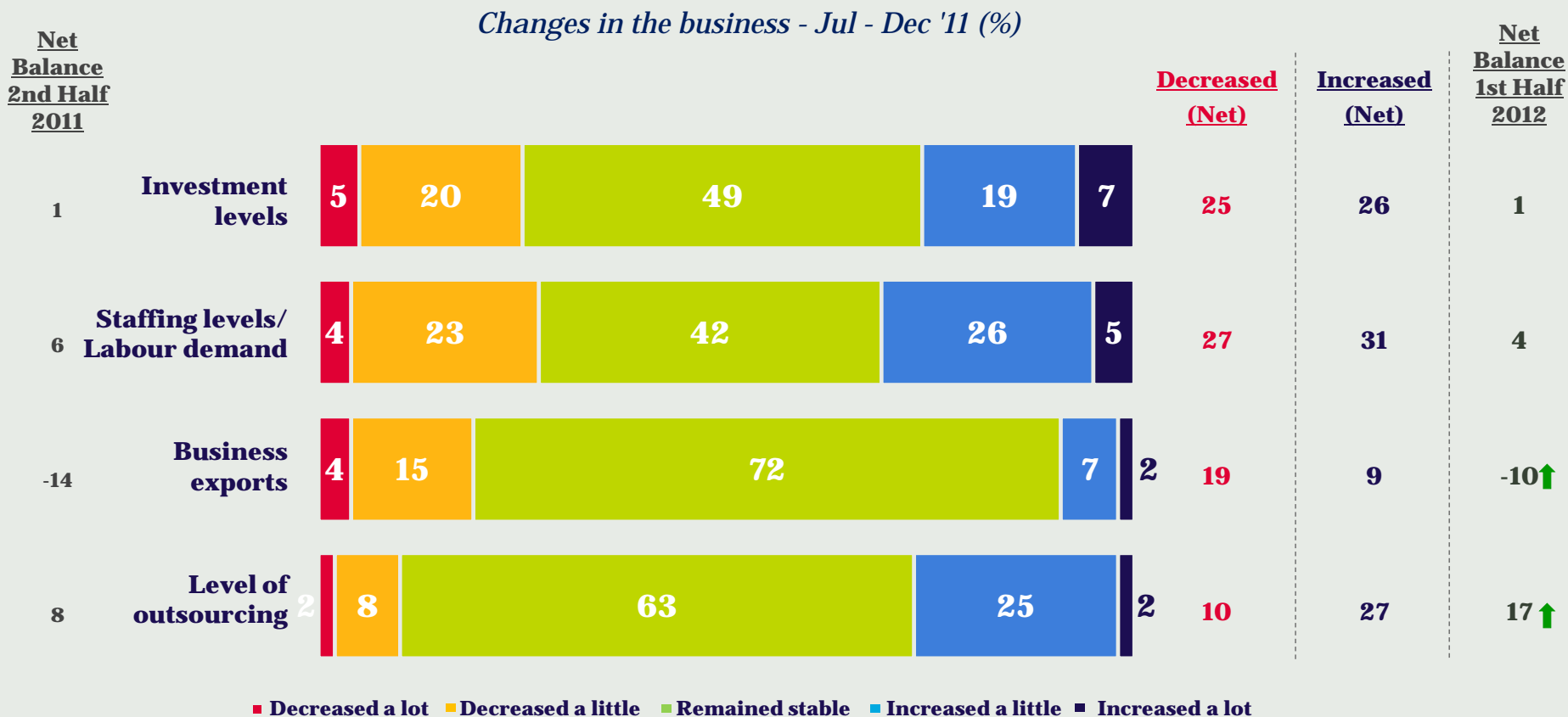
Growth of the business – Past and future (%)



B1: Which best describes the growth or otherwise of the business over the period July to December 2011?
 B2: What is your expectation of the growth or otherwise of the business over the coming year (to December 2012)?
 Base: All respondents n=554

Changes in the business – Jul-Dec'11

Akin to 2nd half 2011 results, a substantial proportion of directors have experienced stability across the four facets of business in the previous six months. Fewer directors reported a decrease in business exports, and more directors experienced increases in the level of outsourcing.



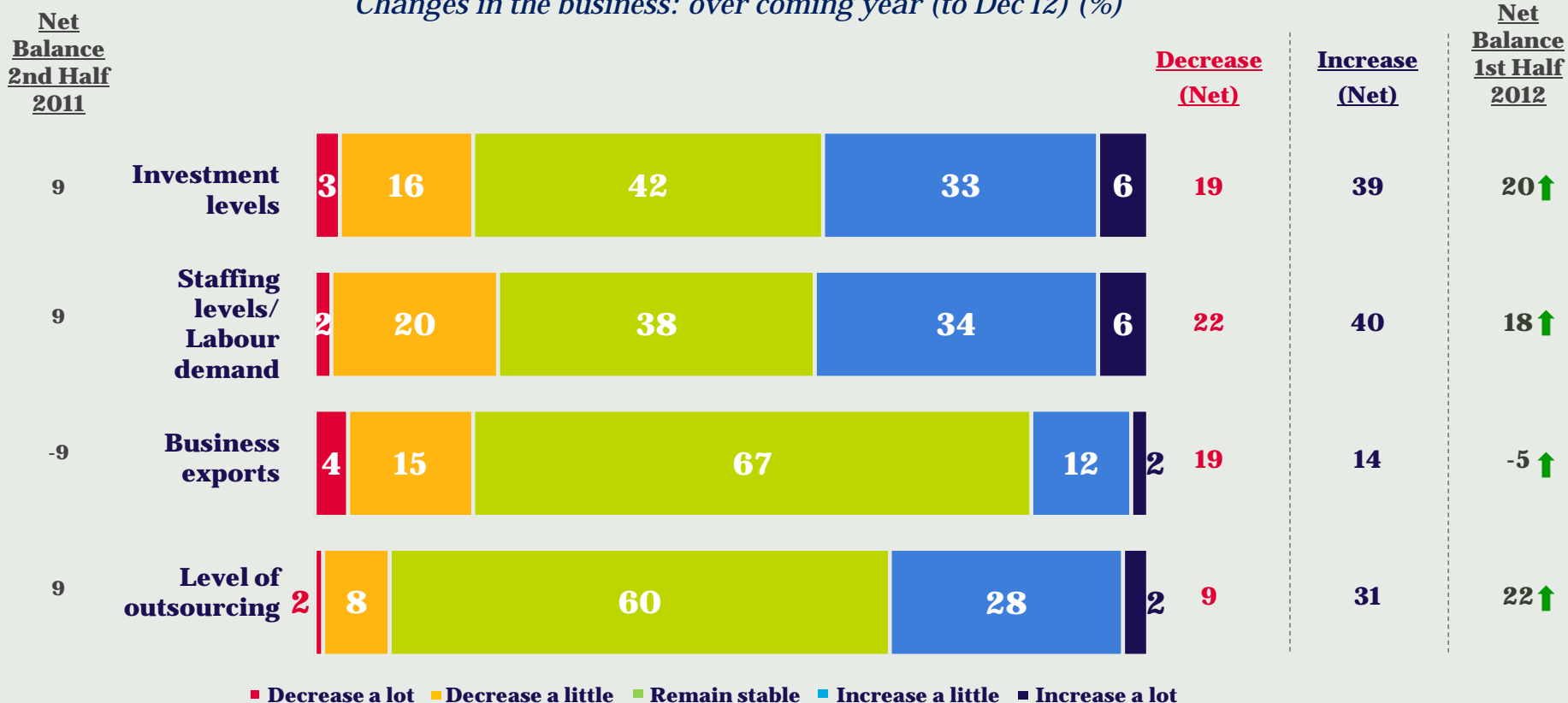
B3: Which best describes changes in the business, relating to the items shown below, over the period July to December 2011?

Base: All respondents n=554

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

Higher expectations of growth in the next 12 months across all four facets of business compared to the 2nd half of 2011, with about 40 per cent of directors expecting an increase in the levels of investment and staffing and more than 30 per cent of directors predicting an increase in the level of outsourcing, however most directors still predict that business exports will remain stable.

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



B4: To what extent, if any, do you expect these things to change over the coming year (to December 2012)?
 Base: All respondents n=554

Main reason for change in staffing levels/labour demand

More directors believe that a change in business conditions is the main reason for changes in staffing levels/labour demand.
 Changed economic conditions is making less of an impact on changes 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	2nd Half 2011	47	30	59
	1st Half 2012	53 ↑	35	63
Changed economic conditions	2nd Half 2011	33	50	21
	1st Half 2012	26 ↓	43 ↓	16 ↓
Workplace laws	2nd Half 2011	8	13	3
	1st Half 2012	6	10	5
Changed wage levels	2nd Half 2011	2	2	2
	1st Half 2012	3	6 ↑	1
Other	2nd Half 2011	11	5	15
	1st Half 2012	12	6	15

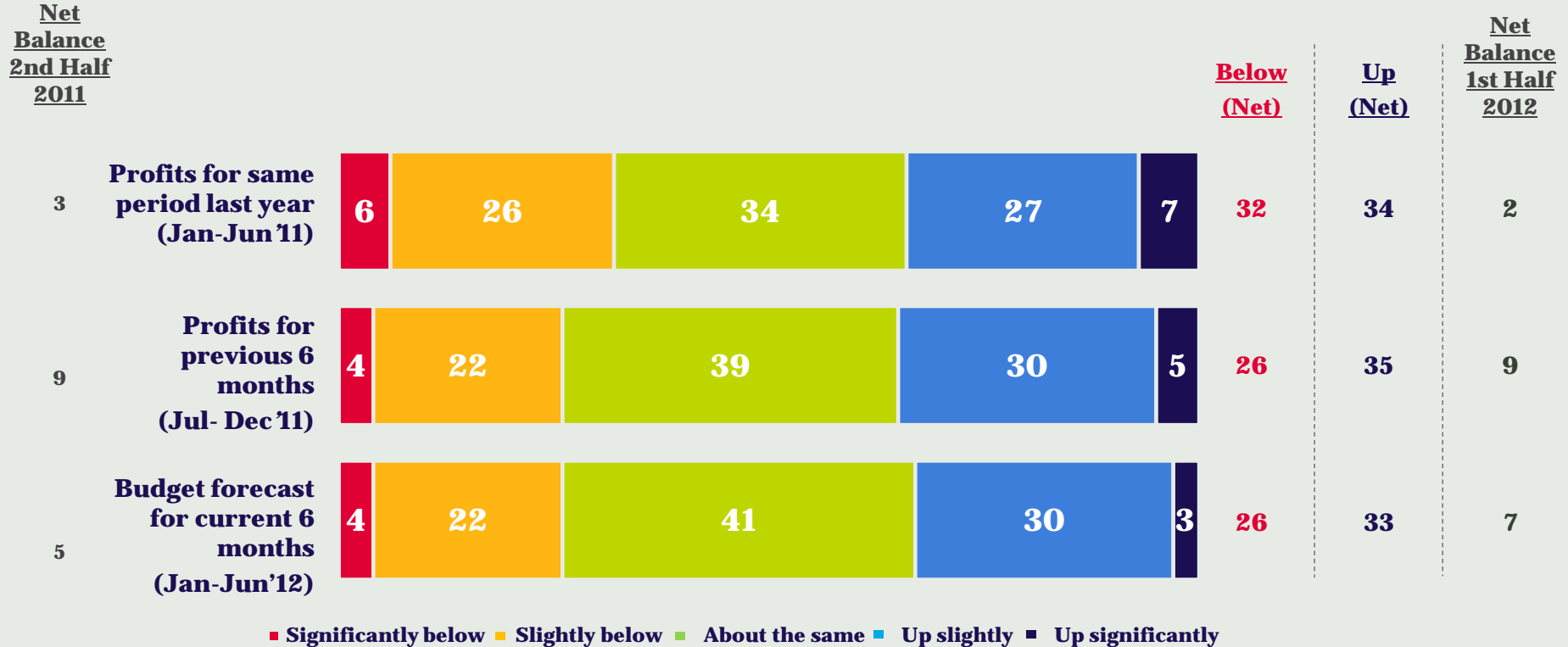
B7: What is the main reason for this expected change in staffing levels/labour demand?

Base: n=343 (who expected a change in staffing levels/labour demand), n=124 (expect decrease), n=219 (expect increase)

Profits for current six months compared to...

Similar expectations of profits in the current survey, compared to the 2nd half of 2011 survey results. Slightly optimistic outlook, with over 30 percent of directors expecting an increase in profits for the current six months, compared to profits for the same period last year, profits for the previous six months and the current budget forecast.

Actual profits for the current six months (Jan-Jun'12) compared to... (%)



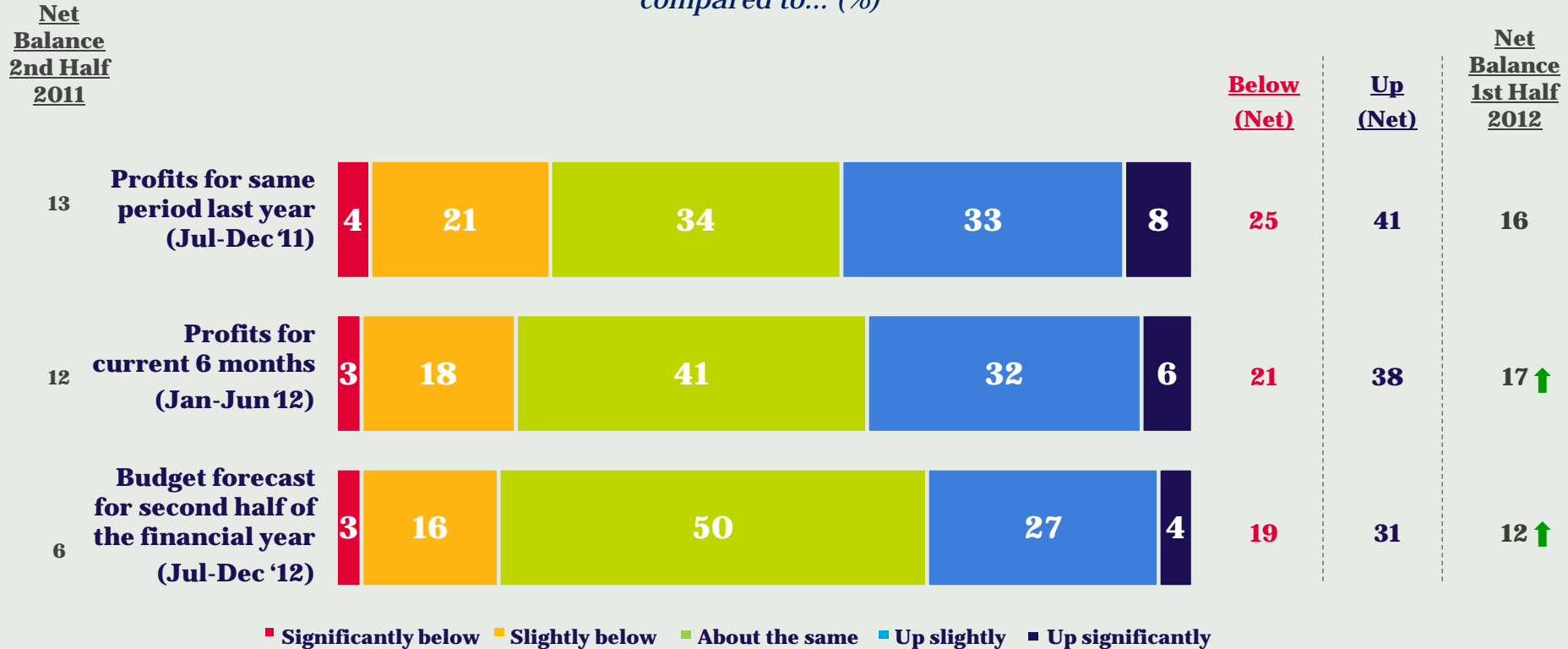
B8a: How do you expect your actual profits for the current 6 months, January to June 2012, to compare to...?

Base: All respondents n=554

Profits for second half of year compared to...

Most directors have higher expectations of profits for the second half of this year, compared to profits for the previous six months and the budget forecast for the second half of the financial year.

Expected profits for the second half of this year (Jul – Dec 2012) compared to... (%)



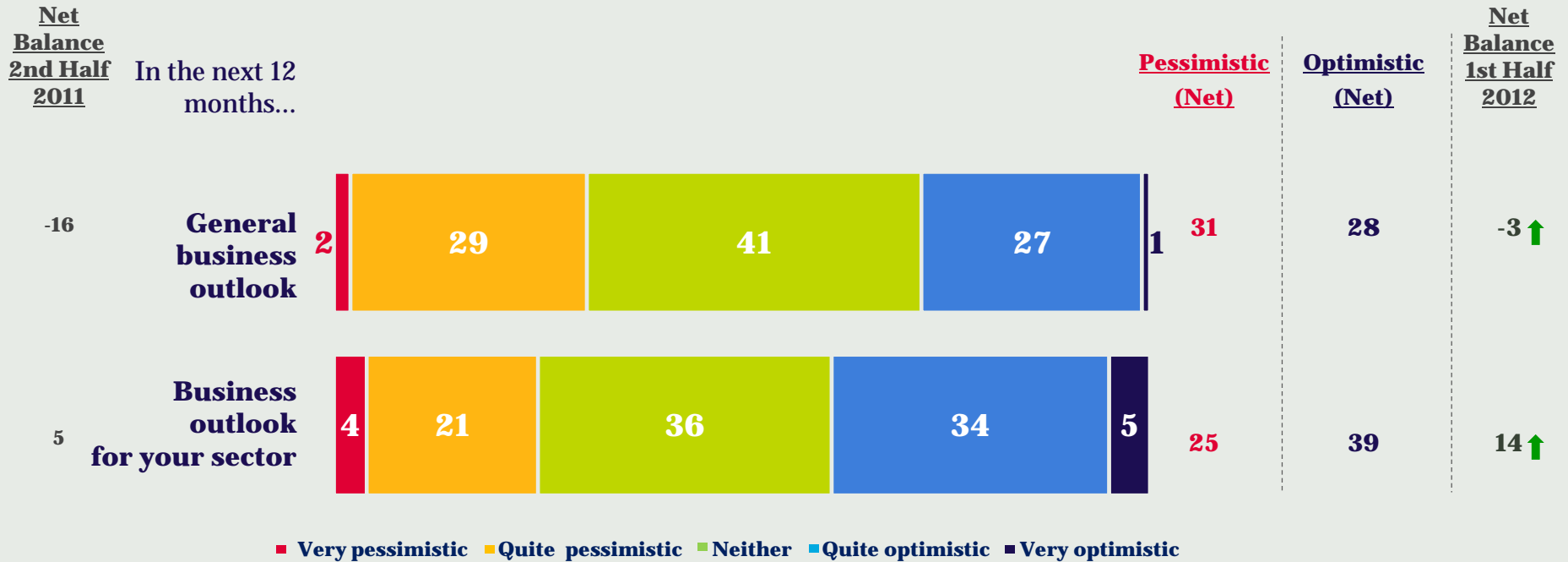
B8b: How do you expect your actual profits for the second half of this year, July to December 2012, to compare to...?

Base: All respondents n=554

Confidence in business outlook – next 12 months

More optimistic business outlook, with almost 40 per cent of directors feeling optimistic about the outlook of their own sector. The general business outlook remains pessimistic in line with 2nd half 2011 results, although the level of pessimism has decreased.

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



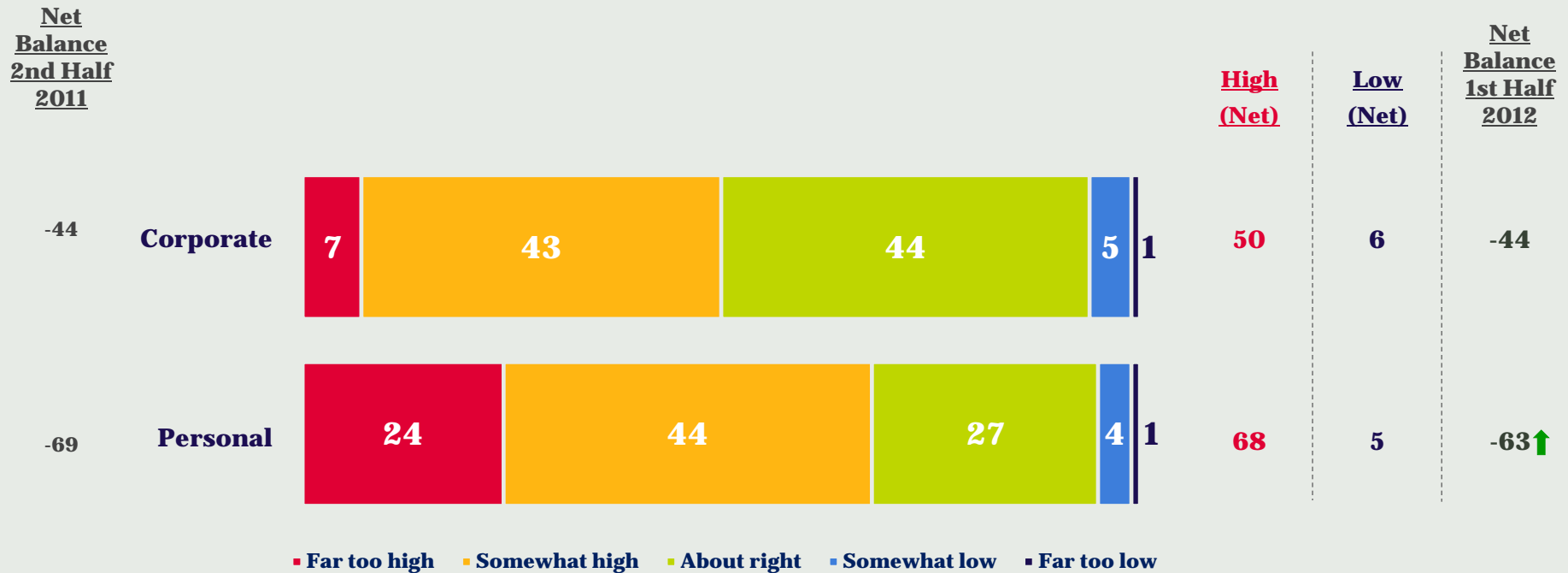
B9: Overall, how confident or otherwise are you about...?

Base: All respondents n=554

Level of taxation in Australia

In line with 2nd half 2011 results, half of directors maintain the belief that the level of corporate taxation is too high. More than 65 percent of directors believe the level of personal taxation is too high (a decrease from the findings of the 2nd half of 2011 survey).

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



T1: What is your view on the level of...?
 Base: All respondents n=554

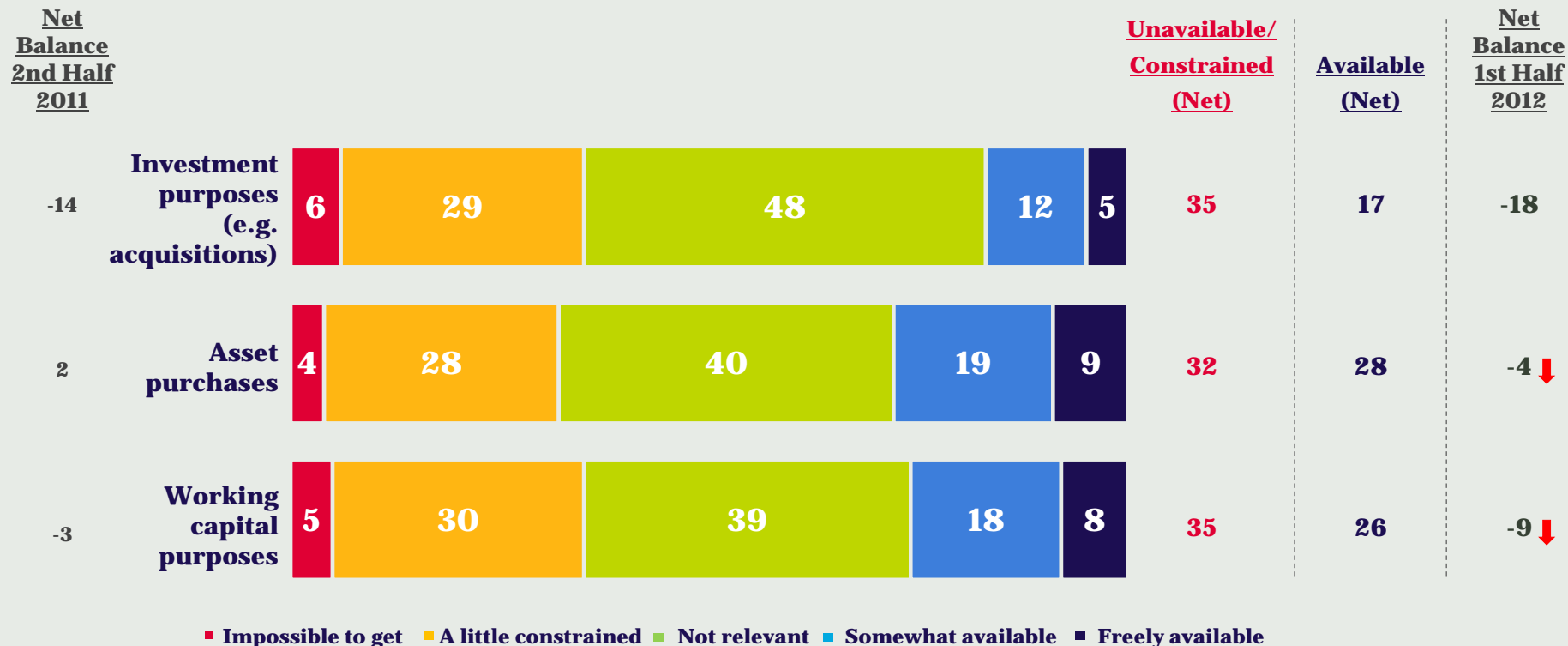
Lifeblood of the economy

Credit and infrastructure

Credit availability for business – Jul-Dec'11

Directors believe that credit availability for asset purchases and working capital purposes in the preceding six months was more constrained, however they believe that credit availability for investment purposes has remained somewhat stable.

Credit availability for business – Jul-Dec' 11 (%)

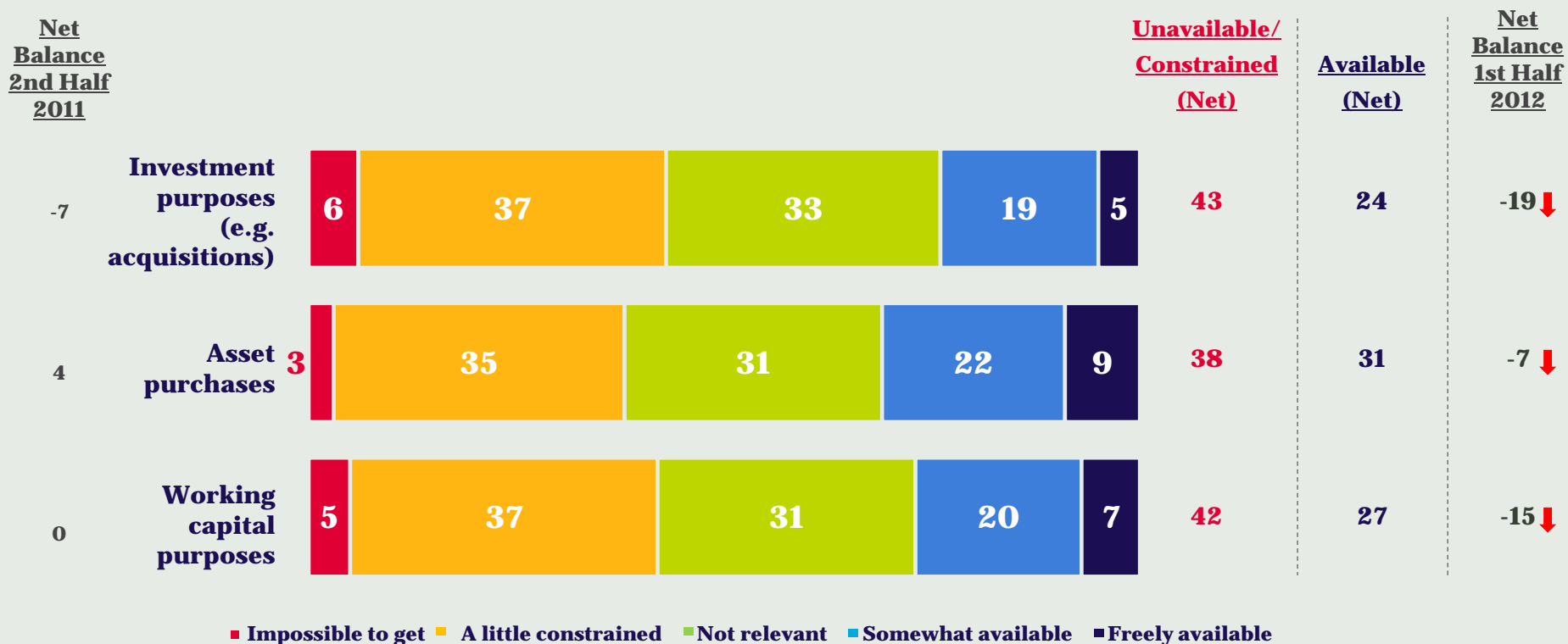


C1: For the business, what has been the experience over the period July to December 2011 relating to...?
 Base: All respondents n=554

Credit availability for business – next 12 months

Directors are more pessimistic regarding credit availability for the next 12 months. Credit for investment purposes, asset purchases and working capital purposes are all predicted to be more constrained when compared to the findings of the 2nd half 2011 survey.

Credit availability for business - next 12 months (%)

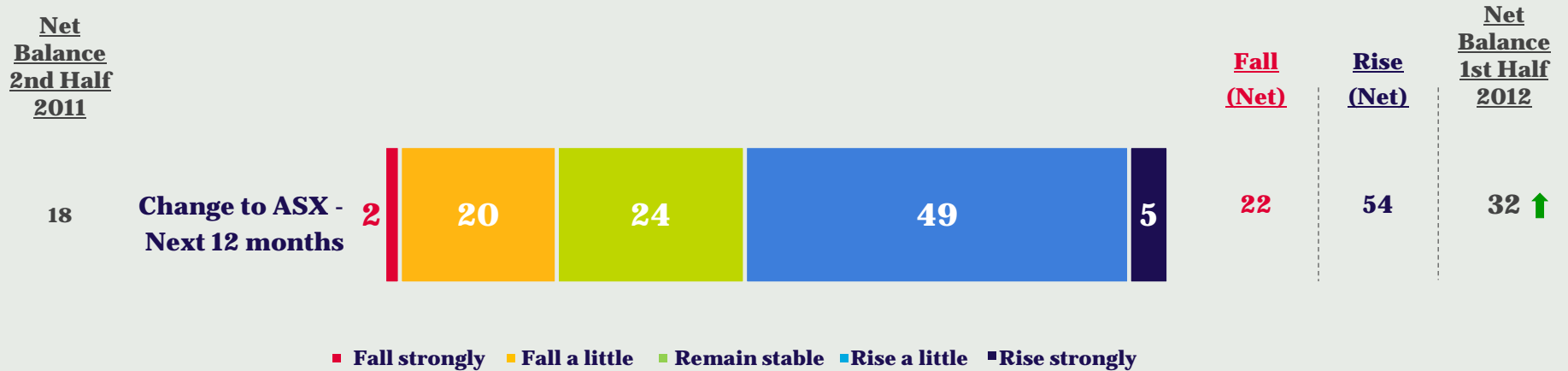


C2: And what is your expectation of credit availability over the next 12 months?
 Base: All respondents n=554

Expected change to ASX All Ordinaries index - next 12 months

More than half of directors expect a rise in the ASX All Ordinaries in the coming 12 months. This proportion has increased from the findings of the 2nd half of 2011 survey.

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



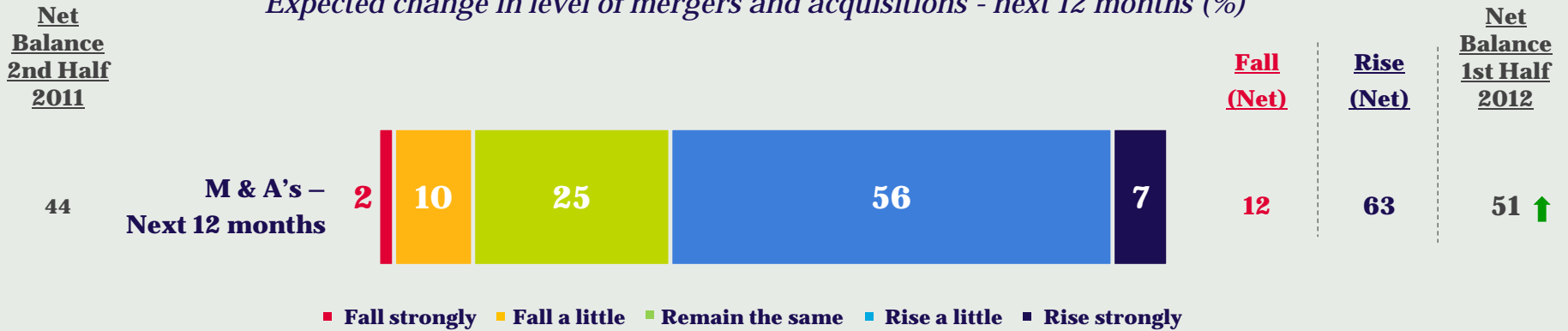
C3: What is your expectation of changes to the ASX All Ordinaries index over the next 12 months?

Base: All respondents n=554

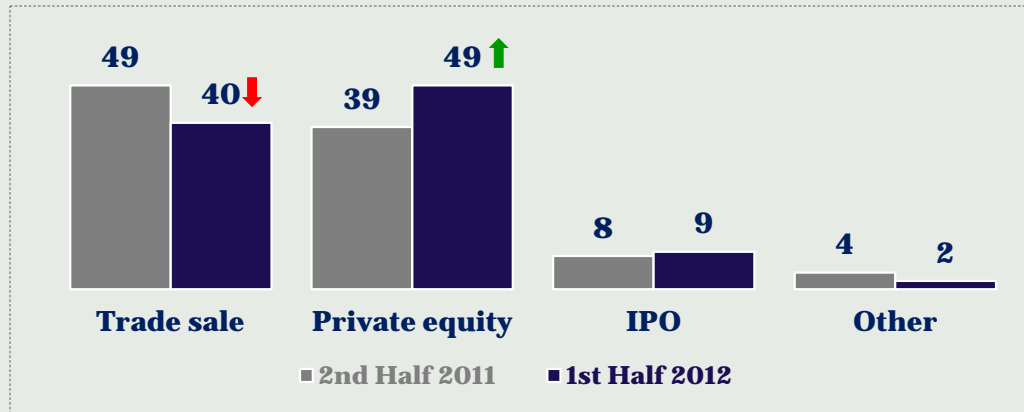
Expected change in level of mergers and acquisitions – next 12 months 48

More than 60 per cent of directors expect a rise in mergers and acquisitions over the next 12 months (a higher level compared to 2nd half 2011 survey results). Trade sale is no longer expected to be the most active business purchaser in the next 12 months; instead nearly half of directors now expect private equity to be the most active business purchaser.

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



Most active business purchasers - next 12 months (%)

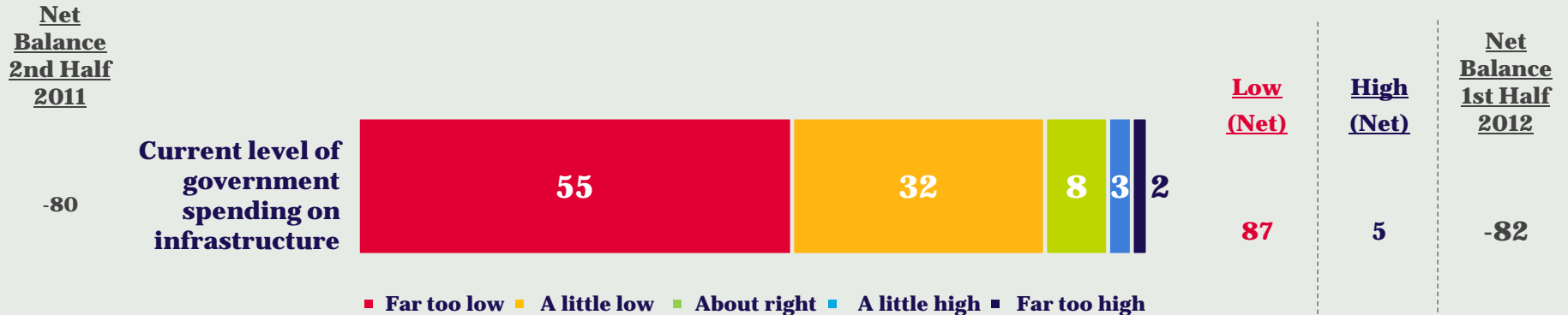


Infrastructure

Current level of government spending on infrastructure

Nearly 90 per cent of directors continue to believe that the current level of government spending on infrastructure is too low.

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



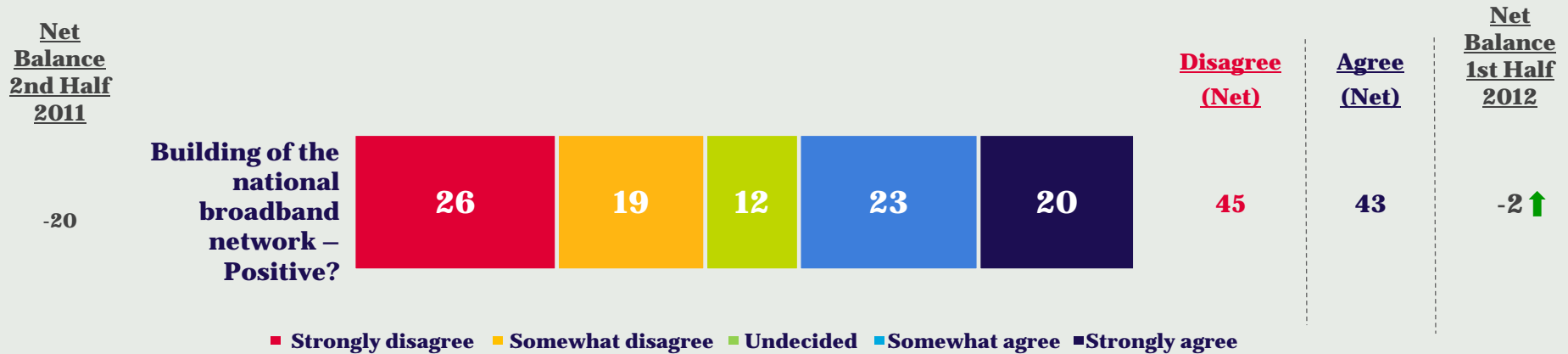
11: In your opinion, is the current level of Government spending on infrastructure...?

Base: All respondents n=554

Building of National Broadband Network (NBN)

Directors are less pessimistic regarding the building of the NBN in this survey, however 45 per cent of directors maintain that the building of the NBN is a negative thing for Australia.

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=554

Top 5 areas of infrastructure

Directors have identified road and telecommunications as the most important areas of infrastructure for investment. There has been a significant increase in the perceived importance of airports compared to the findings of the 2nd half of 2011 survey.

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

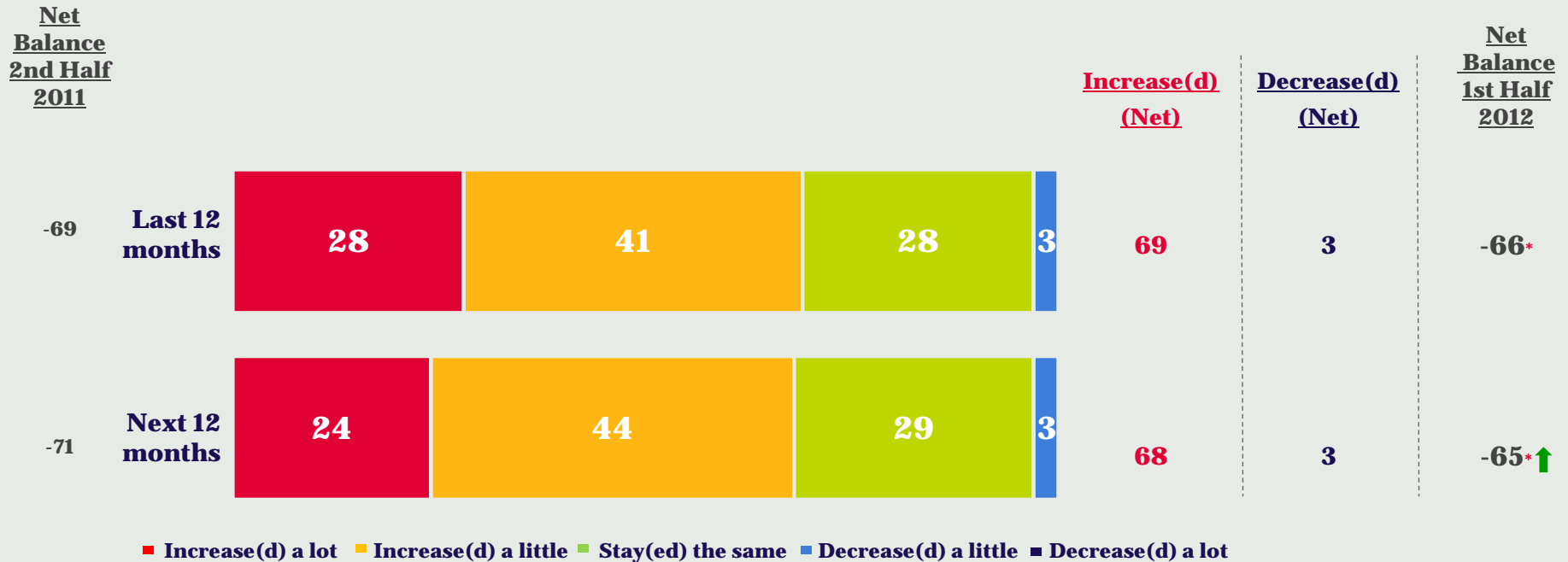
						Total	
%	Rank 1	2	3	4	5	<u>2nd Half 2011</u>	<u>1st Half 2012</u>
Road	14	14	10	10	9	57	57
Telco networks	12	10	11	13	10	51	56
Water supply	11	9	12	9	10	57	51 ↓
Port	13	11	9	9	7	46	49
Urban rail	9	10	9	7	9	44	44
Regional transport	6	9	10	9	9	45	43
'Green' energy sources	7	9	10	9	7	46	42
High speed rail	10	8	7	9	8	38	42
Intercity freight	5	7	6	6	7	32	31
Airport	4	4	5	7	9	19	29 ↑
Nuclear power	4	4	5	4	8	30	25
Light rail	1	3	4	4	4	17	16
Coal power	2	2	2	3	3	12	12
Other	1	1	1	1	1	5	5

Regulatory environment

Level of “red tape”

Around 70 per cent of directors believe that the level of “red tape” has increased in the last 12 months. Directors are slightly less pessimistic about the likely level of “red tape” in future, compared with the findings of the 2nd half 2011 survey, with less than 70 percent perceiving an increase in the level of “red tape” in the coming year.

Level of “red-tape” – past and future



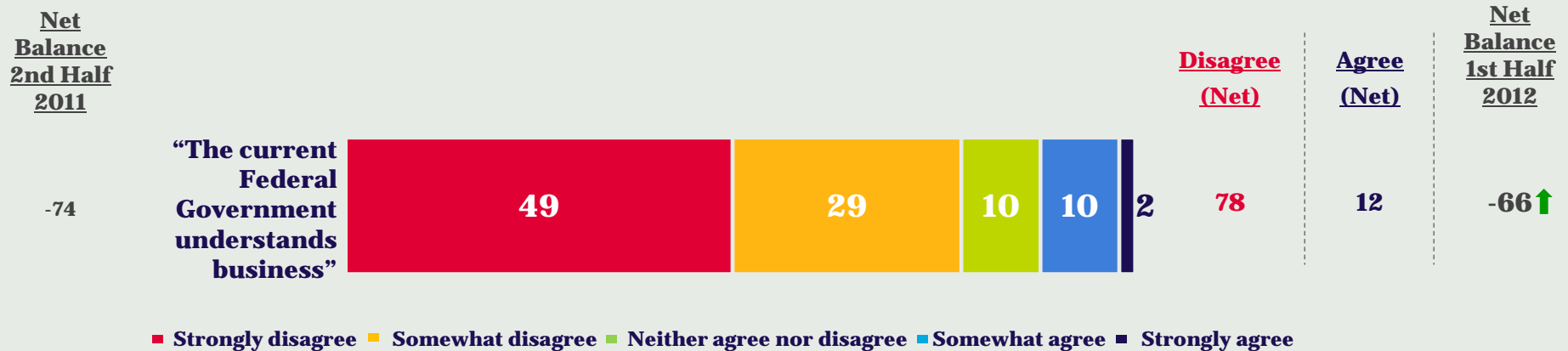
RE1: In your opinion, over the last 12 months, has the level of “red-tape”.....?
 RE2: What is your expectation of changes in the level of “red-tape” over the next 12 months?
 Base: All respondents n=554

** Note: Net balance for “red-tape” in last 12 months and next 12 months calculated in reverse*

Federal Government understanding of business

Less disenchantment regarding the Federal Government's understanding of business, compared to the findings of the 2nd half of 2011 survey. However, most directors still maintain the belief that 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=554

Issues Federal Government should address in short term

Infrastructure is still rated by directors as the top priority the Federal Government should address in the short term, this is followed by education and industrial relations. Energy resources is no longer a top 5 concern in the current half survey.

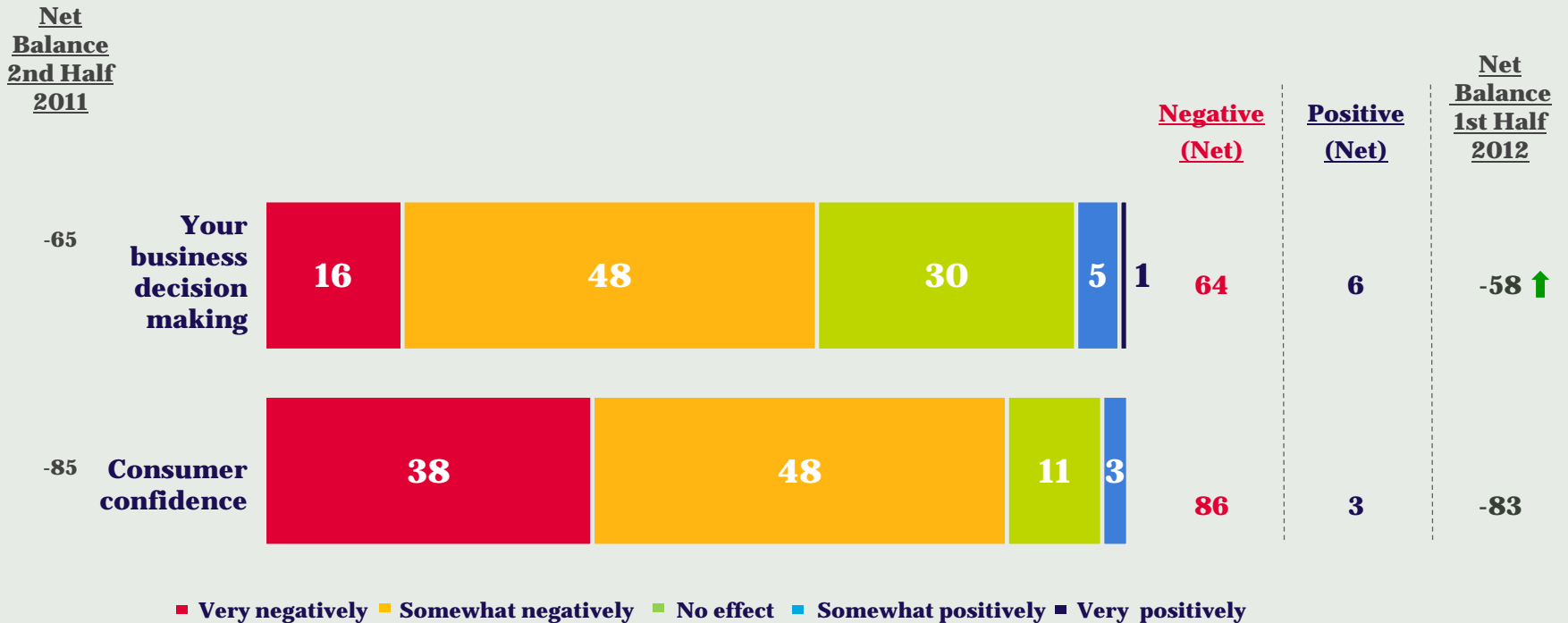
Top 5 issues of importance the Federal Government should address in the short term - Where 1 is the most important issue and 5 the least (%)

	%	Rank					Total	
		Rank 1	2	3	4	5	2nd Half 2011	1st Half 2012
Infrastructure		17	16	16	11	11	81	70 ↓
Education		10	12	10	14	11	55	58
Industrial Relations		20	13	8	8	7	NA	55
Health		8	12	11	10	8	59	50 ↓
Business regulation		6	10	11	9	10	50	46
Response to global economic downturn		12	6	5	8	6	NA	38
Energy resources		4	5	5	8	10	52	31 ↓
Federal Budget Deficit		7	6	5	4	6	35	27 ↓
Government debt		5	5	6	5	6	31	27
Emissions trading/ Carbon Tax		6	5	6	5	5	35	27 ↓
Immigration		2	3	6	6	8	35	26 ↓
Superannuation		2	2	5	4	5	26	17 ↓
NBN rollout	1	2	5	3	4		18	15
Natural disaster management systems	1	2	3	2			13	7 ↓
Defence		1	2	1			8	5 ↓

Impact of Federal Government's performance on business

Less pessimism about the effect of the current Federal Government's performance on business decision making, however akin to 2nd half 2011 results, nearly 90 per cent of directors still maintain that the current Federal Government's performance is having a negative impact on consumer confidence.

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



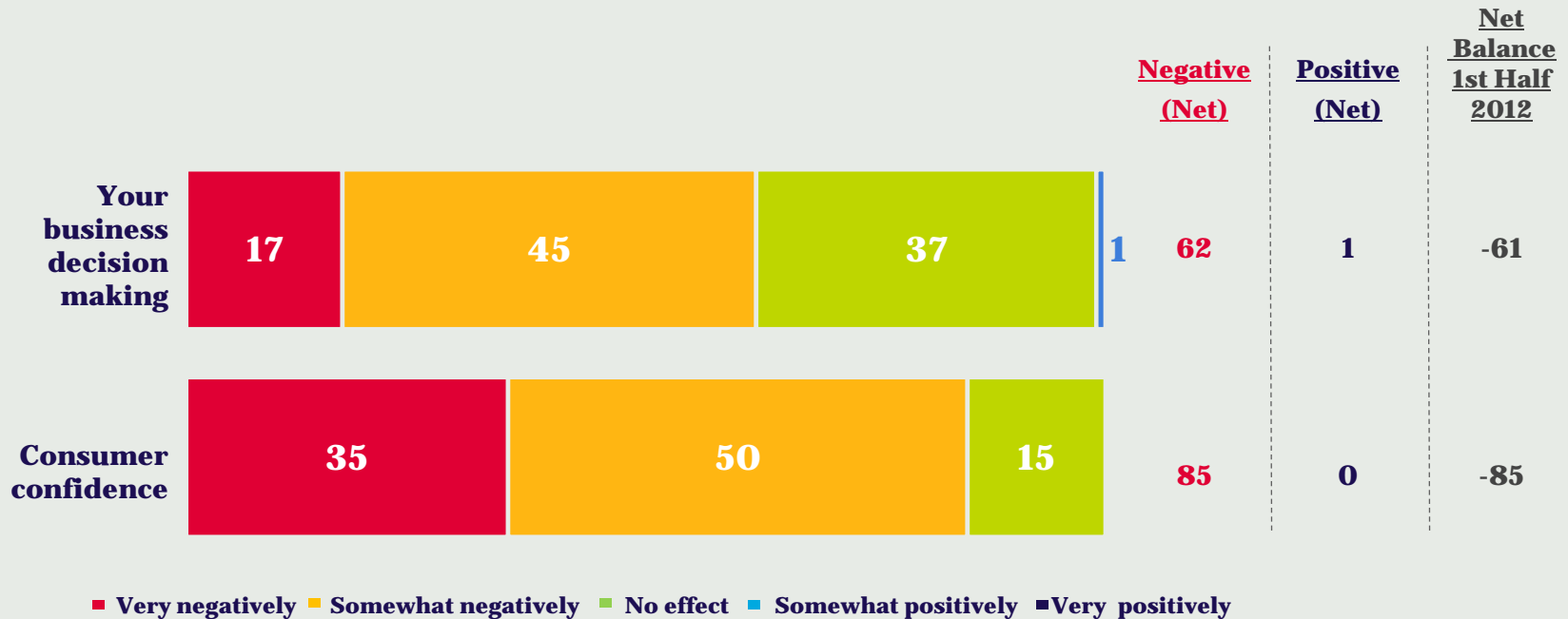
RE5: How is the current Federal Government's performance affecting...?
 Base: All respondents n=554

Note: New question asked in 2nd half 2011 onwards

Impact of uncertainty of the future of the current parliament on business 58

More than 60 percent of directors believe that the lack of certainty regarding the future of the current parliament is having a negative impact on their business decision making, while 85 percent believe it is negatively impacting consumer confidence.

**Impact of the lack of certainty about the future of the current parliament on... (%)*



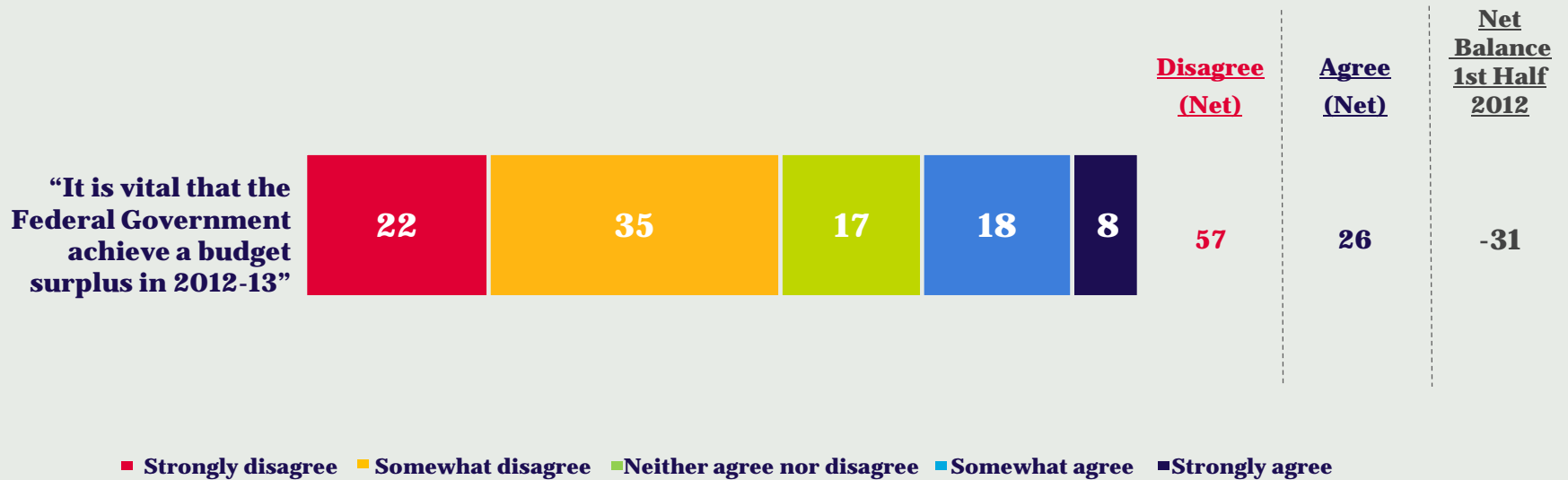
RE6: What is the impact of the lack of certainty about the future of the current parliament on...?
 Base: All respondents n=554

**Note: New question asked in 1st half 2012 only*

Importance of the Federal Government achieving a budget surplus in 2012-13

Nearly 60 percent of directors disagree that it is vital for the Federal Government to achieve a budget surplus in 2012 to 2013, in the face of a potential GFC2.

**Agreement with the statement “It is vital that the Federal Government achieve a budget surplus in 2012-13” (%)*



RE7: In the face of a potential GFC2, to what extent do you disagree or agree with the statement “It is vital that the Federal Government achieve a budget surplus in 2012-2013.”
 Base: All respondents n=554

**Note: New question asked in 1st half 2012 only*

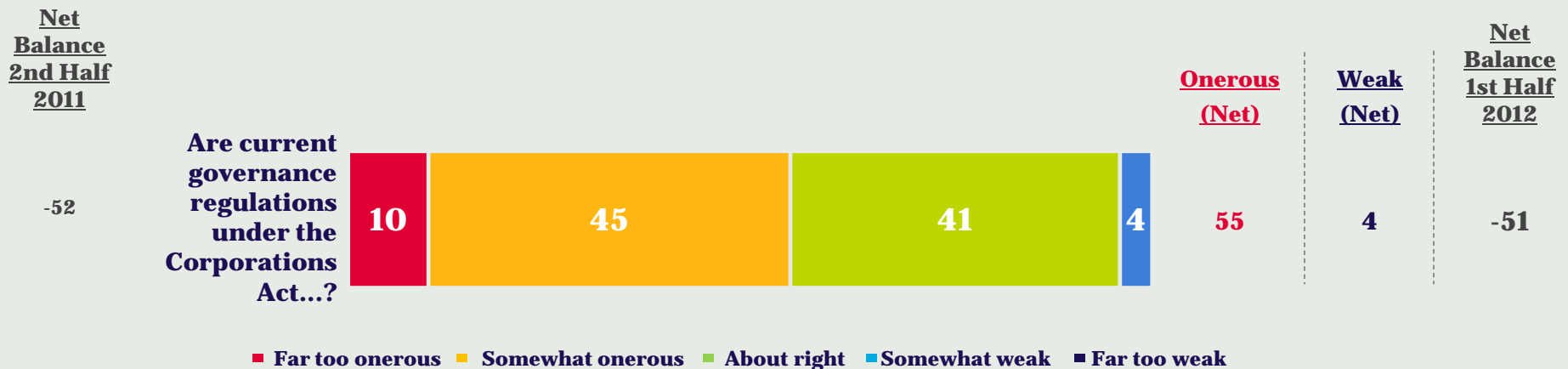
Governance

Key issues for directors and boards

Current governance regulations under the Corporations Act

Akin to 2nd half 2011 results, most directors believe that current governance regulations under the Corporations Act are onerous.

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

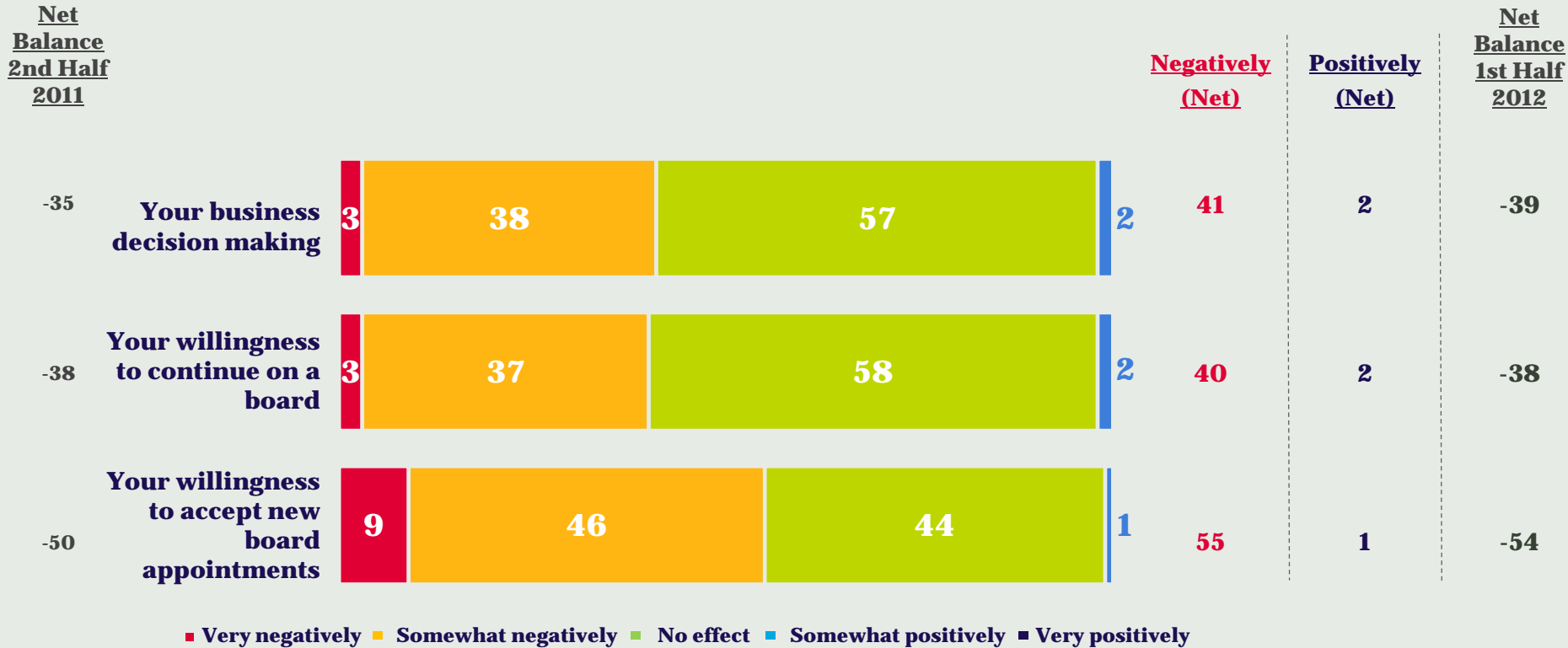


L1: In your opinion, are current governance regulations under the Corporations Act ...?
Base: All respondents n=554

Impact of Commonwealth or state legislation on director liability

About 40 per cent of directors still believe that 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 negatively impacts their willingness to accept new board appointments.

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

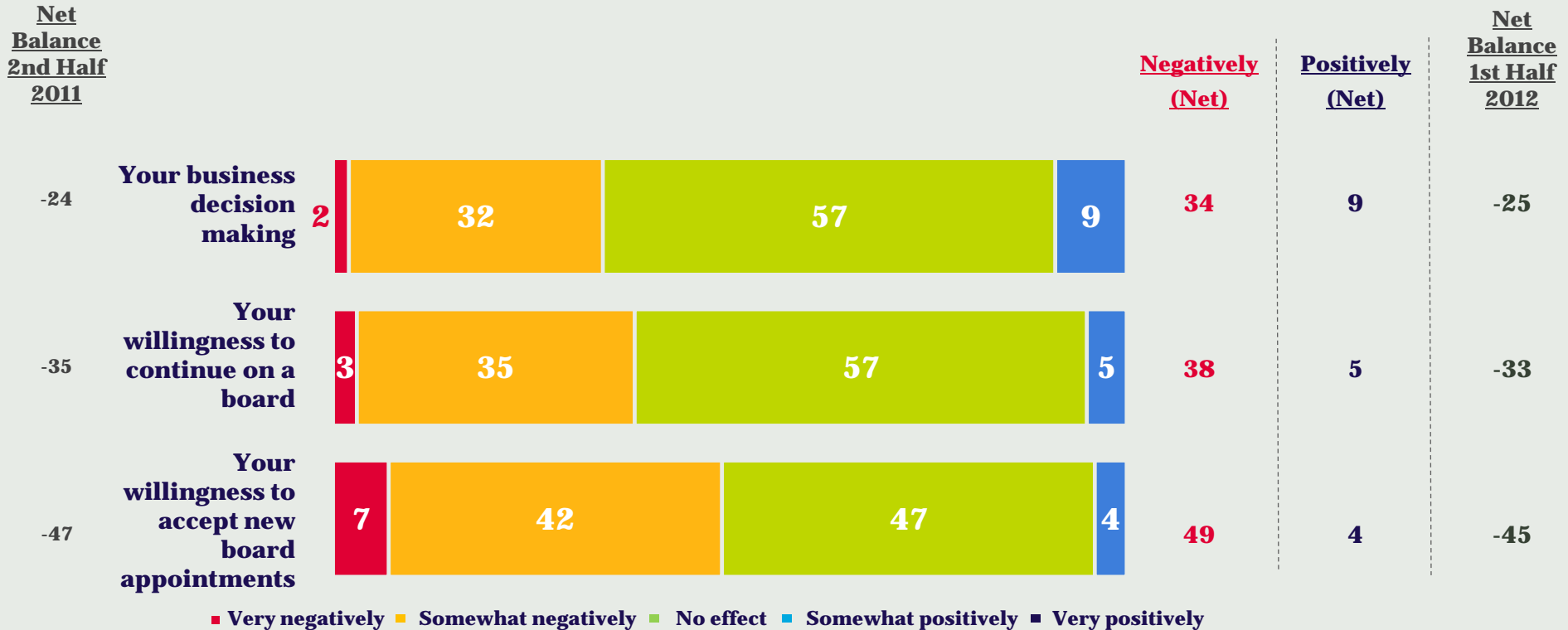


L2: How is Commonwealth or state legislation on directors' liability affecting...?
Base: All respondents n=554

Impact of legal judgments on director liability

In line with 2nd half 2011 results, less than 40 percent of directors believe that legal judgements affecting directors liability will negatively impact their business decision making and their willingness to continue on a board. About half of directors still maintain the belief that legal judgements will negatively impact their willingness to accept new board appointments.

**How legal judgments affect directors' liability (%)*



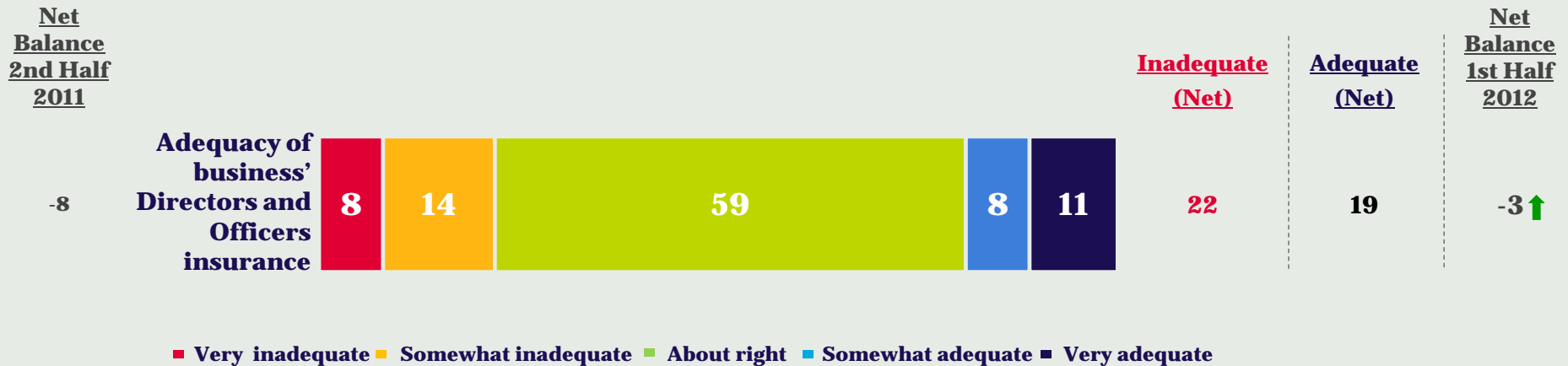
L2a: To what extent do legal judgments, such as the recent Centro case ruling, affect...?
 Base: All respondents n=554

Note: New question asked in 2nd half 2011 onwards

Adequacy of Directors and Officers insurance

Less pessimism regarding the adequacy of business' Directors and Officers Insurance compared to the findings of the 2nd half 2011 survey, with nearly 80 percent of directors perceiving their business' Directors and Officers insurance as adequate, or about right.

Adequacy of business' Directors and Officers Insurance (%)

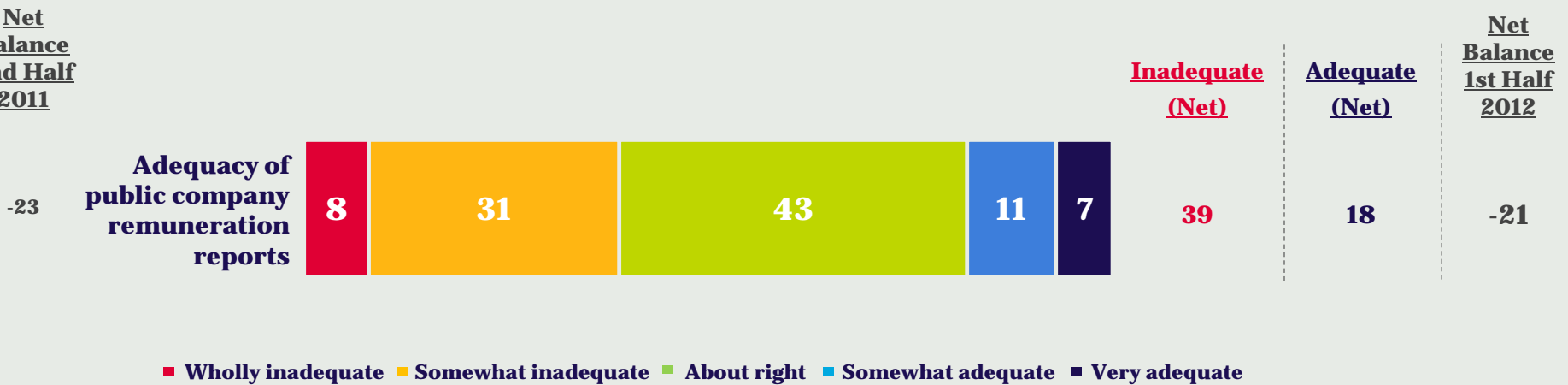


L3: How adequate is your business' Directors and Officers insurance?
 Base: All respondents n=554

Adequacy of public company remuneration reports

In line with 2nd half 2011 survey results, about 60 per cent of directors feel that public company remuneration reports are adequate or about right.

Adequacy of public company remuneration reports (%)

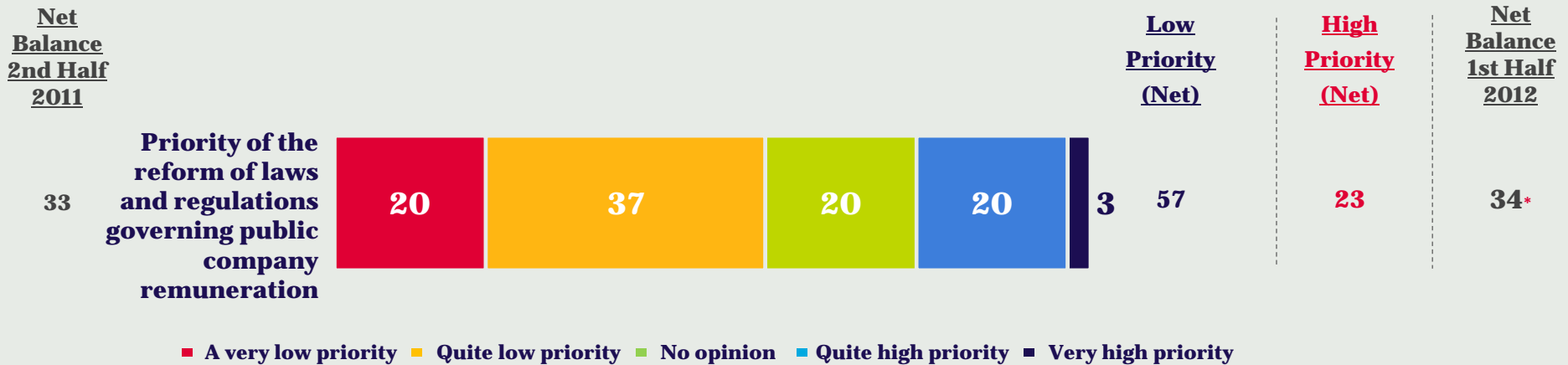


RI1: What is your view of the adequacy of public company remuneration reports?
Base: All respondents n=554

Reform of laws and regulations governing public company remuneration

Akin to 2nd half 2011 results, almost 60 percent of directors believe that 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 (%)



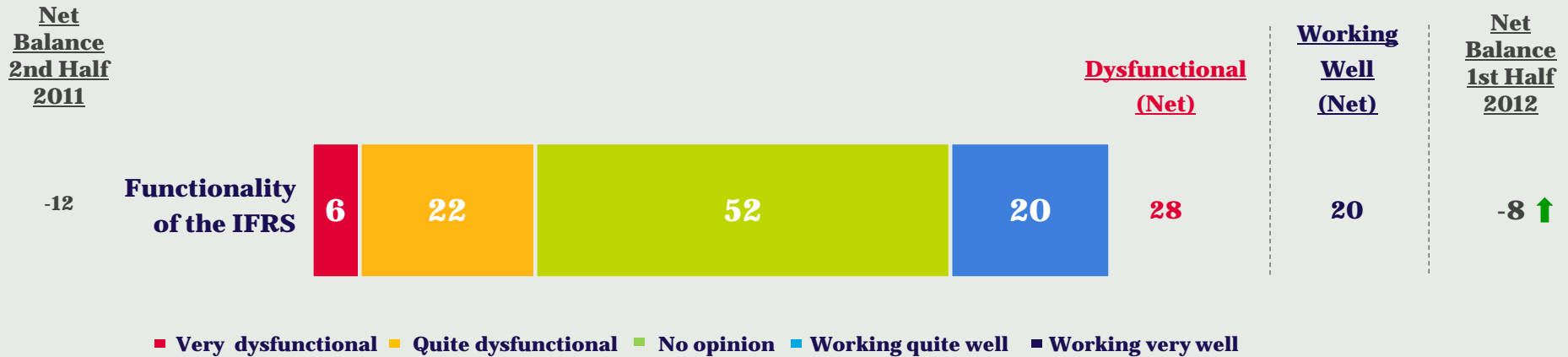
I12: In your opinion, should further laws and regulations governing public company remuneration be...?
 Base: All respondents n=554

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

International Financial Reporting Standards (IFRS)

Nearly one-third of directors still maintain the belief that the IFRS is dysfunctional to some degree.

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



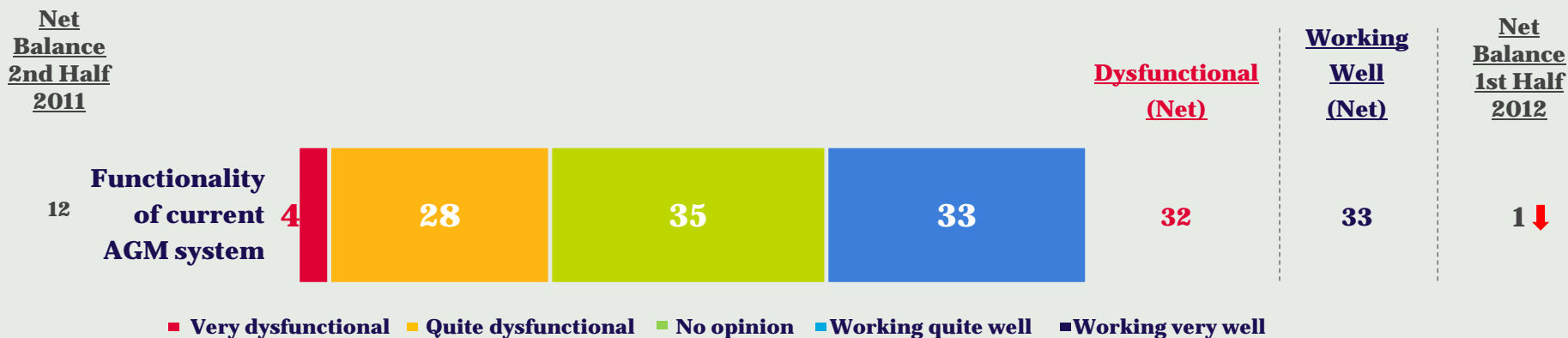
RI3: In your opinion, is the International Financial Reporting Standards (IFRS) system...?
Base: All respondents n=554

Shareholder relations

Current AGM system

Directors are evenly regarding the overall functionality of the current AGM system, with nearly one-third perceiving the current AGM system as dysfunctional and one-third of the opinion that it is working well.

Functionality of the current AGM system (%)

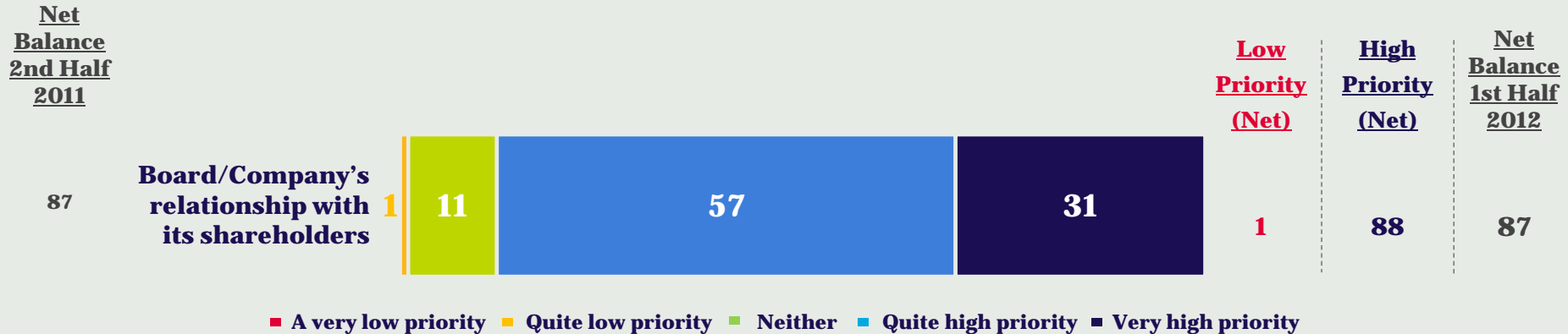


SR1: In your opinion, is the current AGM system...?
 Base: All respondents n=554

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 (%)

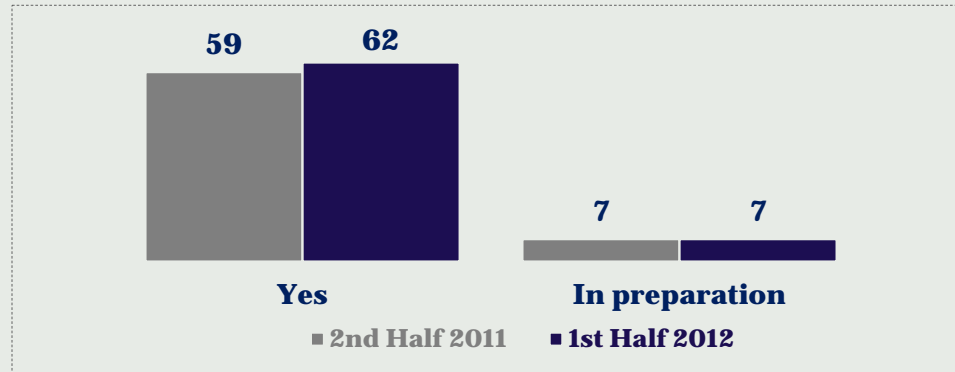


SR2: In your opinion, should the Board/Company's relationship with its shareholders be...?
 Base: All respondents n=554

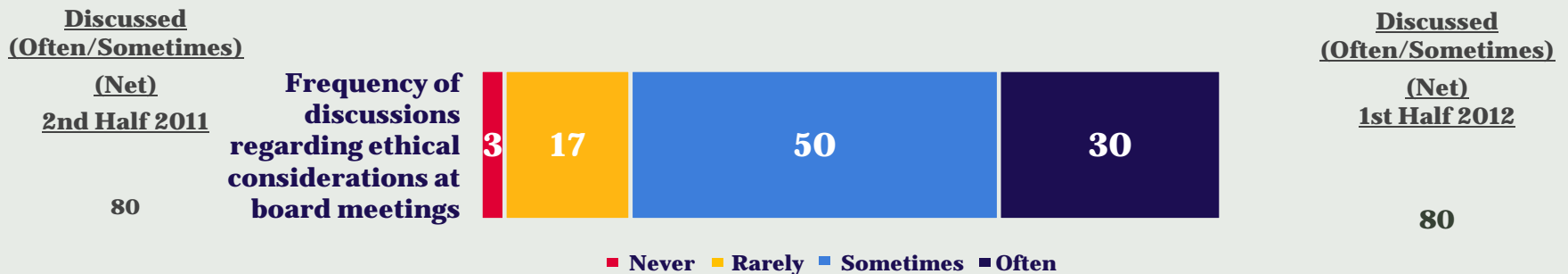
Business ethics

In line with 2nd half 2011 survey results, most 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?(%)



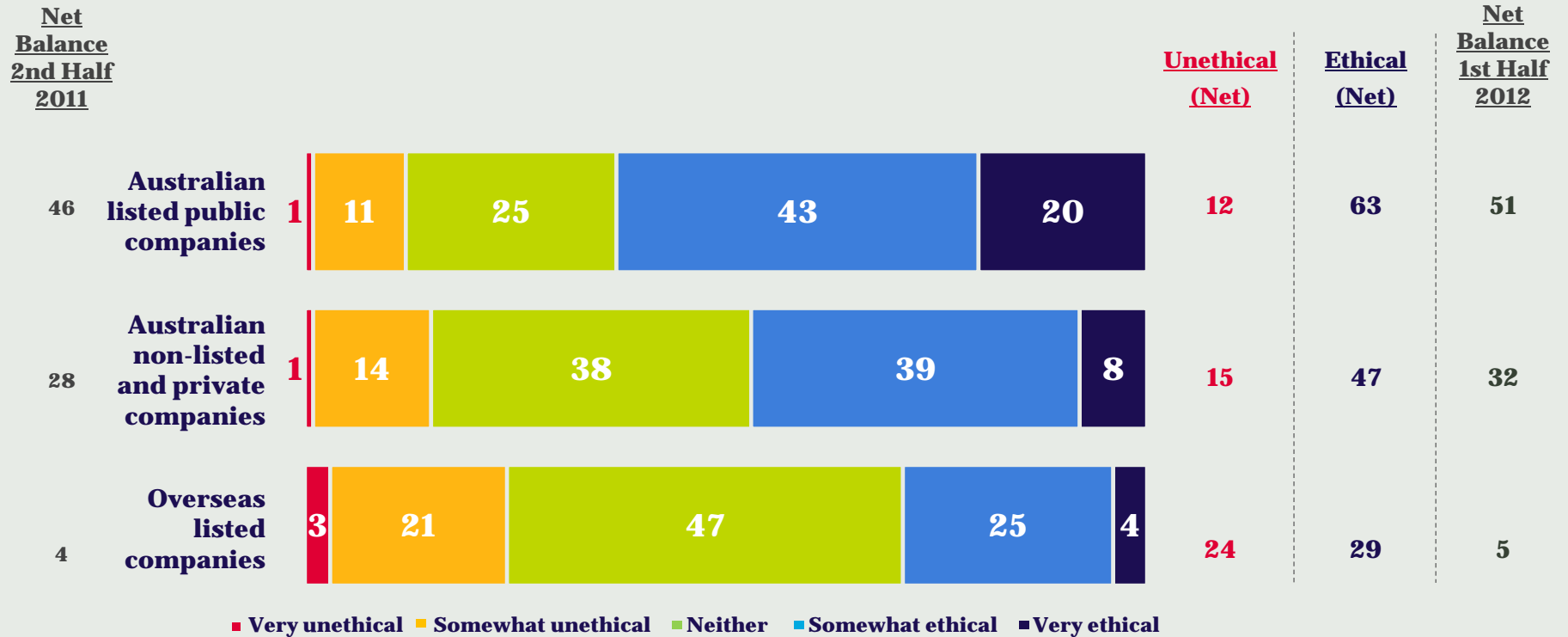
How often are ethical considerations discussed at board meetings? (%)



Personal perception of company directors' ethics

Most directors maintain the perception that Australian listed public companies are ethical, more so than overseas listed companies. Almost half of directors believe that Australian non-listed and private companies are ethical.

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

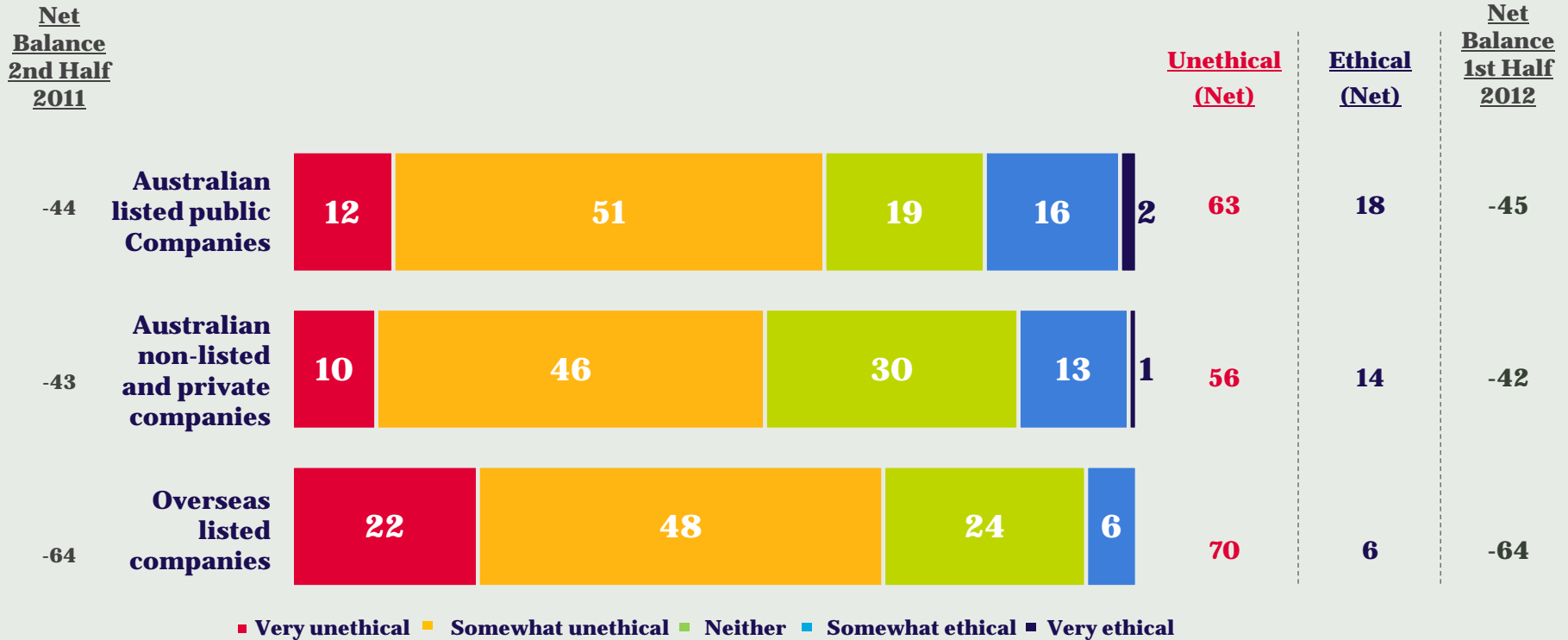


E13: How do you, personally, perceive the ethics of...?
 Base: All respondents n=554

Perceived general public perception of company directors' ethics

Most directors maintain that the general public perceives directors of Australian and overseas listed companies as unethical, with more directors of the belief that directors of overseas listed companies are 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=554

Directors' rights to trade in their company's shares

Akin to 2nd half 2011 results, 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 only.

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



■ **Totally banned from trading** ■ **Prescribed trading windows only** ■ **Trading at discretion of chairman/board** ■ **Trade at their own discretion**

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=554

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

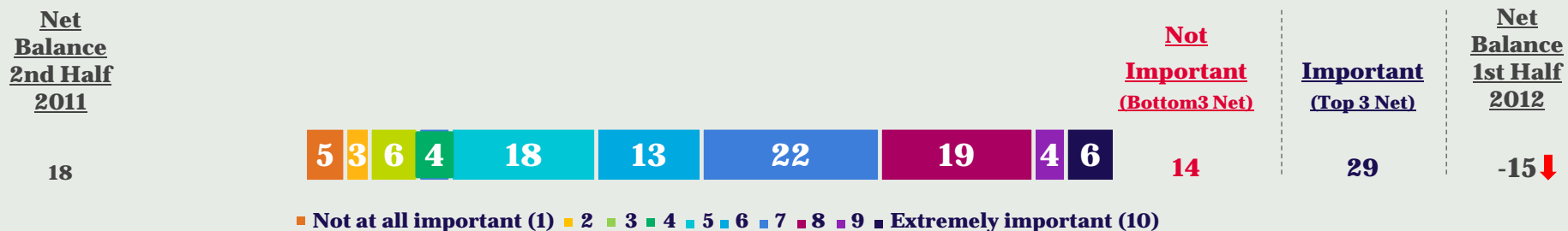
Environmental, Social and Governance issues

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

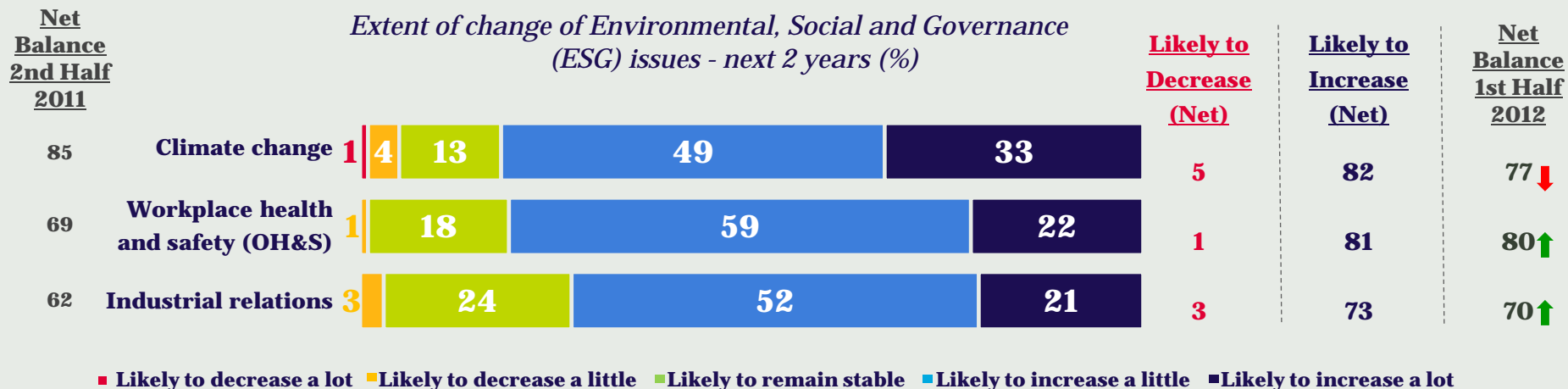
76

Fewer directors perceive Environmental, Social and Governance (ESG) issues as important within their business. Most directors still predict that the level of regulation on climate change will increase but to a lesser extent than found in 2nd half of 2011 survey. Regulation of workplace health and safety (OH&S) and industrial relations is expected to increase to a greater extent than was expected in the 2nd half of 2011 survey results.

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 (%)



CS2: How important is ESG within your business on a scale of 1 to 10 where 1 is not at all important and 10 is extremely important?/

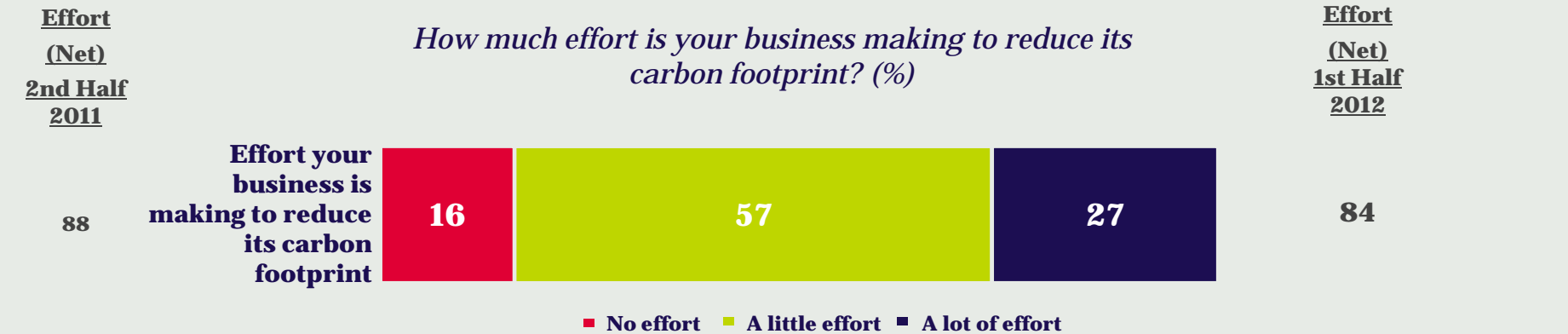
CS1: to what extent, if any, do you expect regulation over the area of Environmental, Social and Governance (ESG) to change over the next 2 years, in relation to...?

Base: All respondents n=554

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

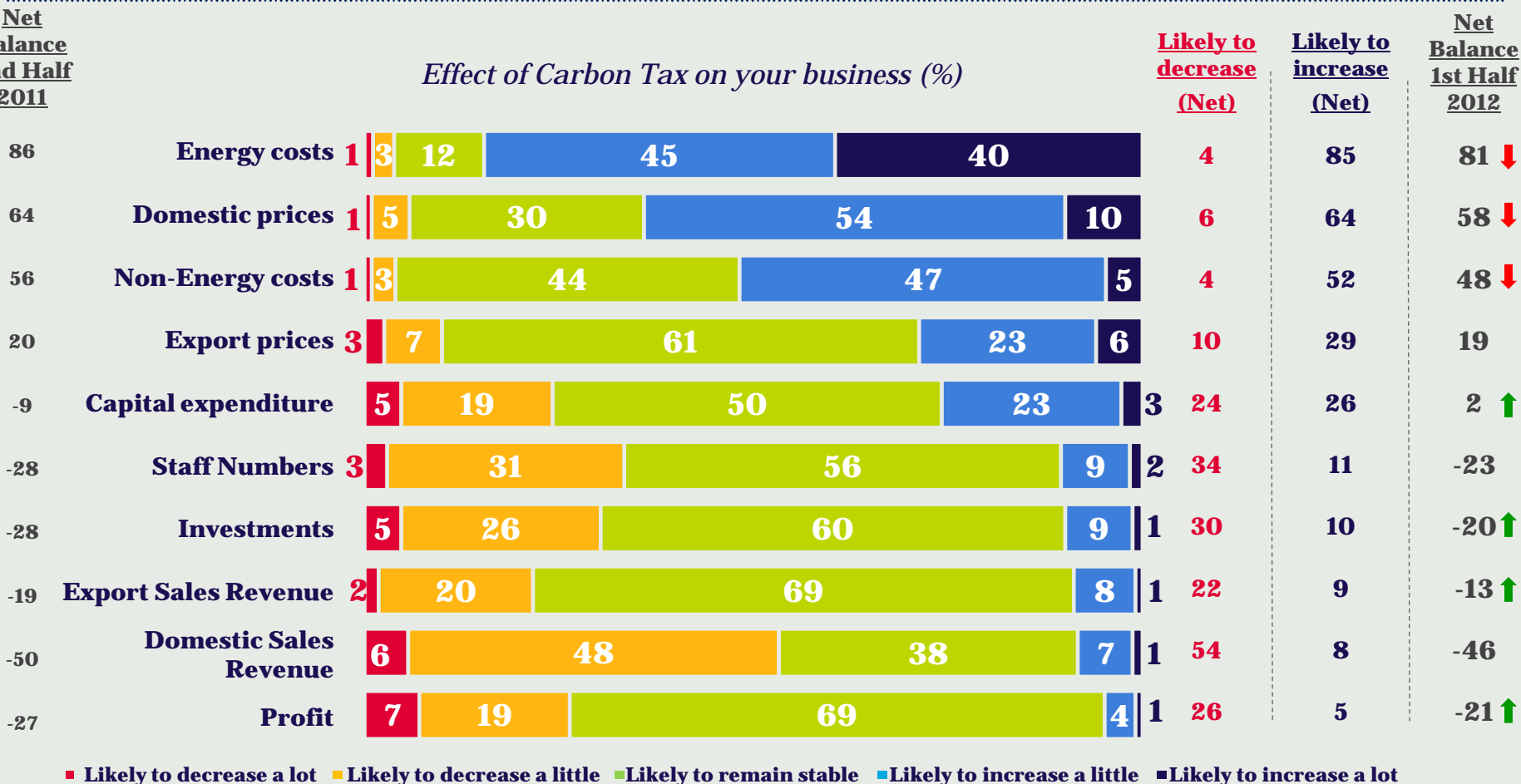
In line with 2nd half 2011 results, more than 60 per cent of directors believe that the announcement and legislation of the Carbon Tax will impact their business negatively. Almost 85 per cent of directors maintain the belief that their business is making some effort to reduce its carbon footprint.

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



Impact of Carbon Tax on business

In line with 2nd half 2011 results, most directors still believe that energy costs, non-energy costs and domestic prices will be negatively impacted by the announced Carbon Tax, but to a lesser extent in this survey.



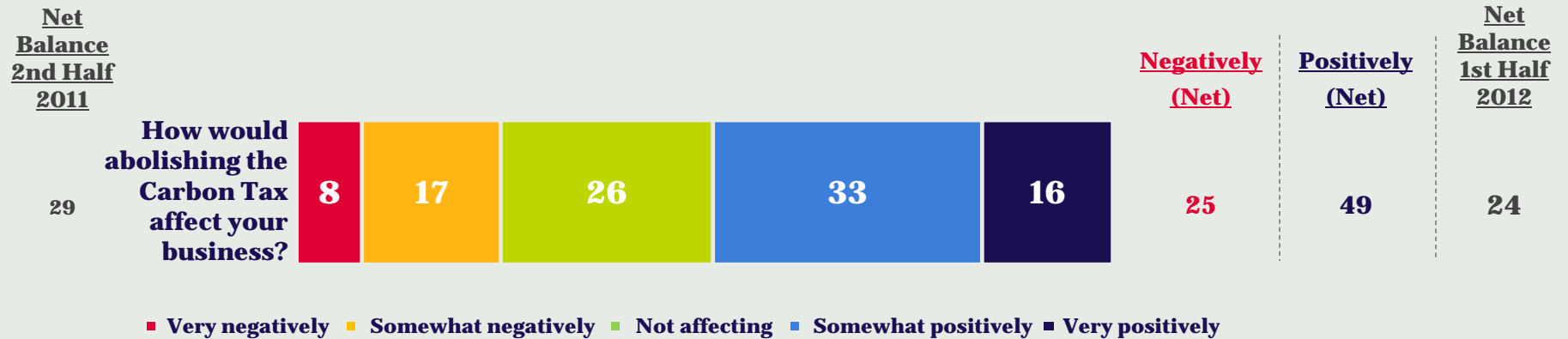
CC1b: How do you expect the following items in your business to be affected by the announced Carbon Tax?
 Base: All respondents n=554

Note: New question asked in 2nd half 2011 onwards

Perceived impact on business of abolishing Carbon Tax

Nearly half of directors still believe that the abolition of the Carbon Tax will 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=554

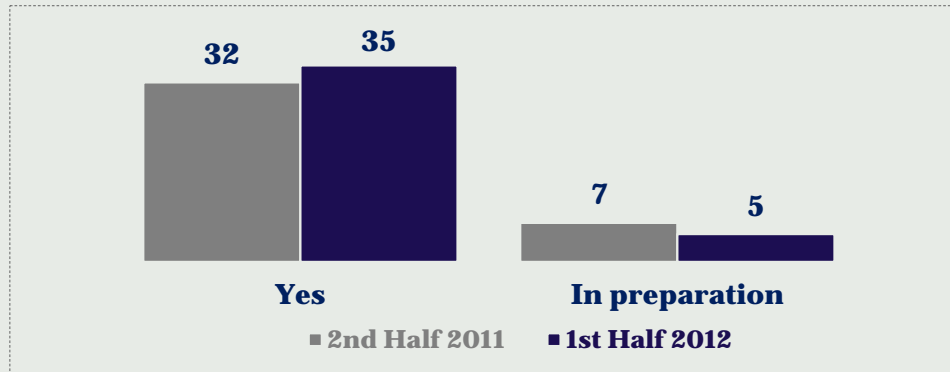
Note: New question asked in 2nd half 2011 onwards

Directorships

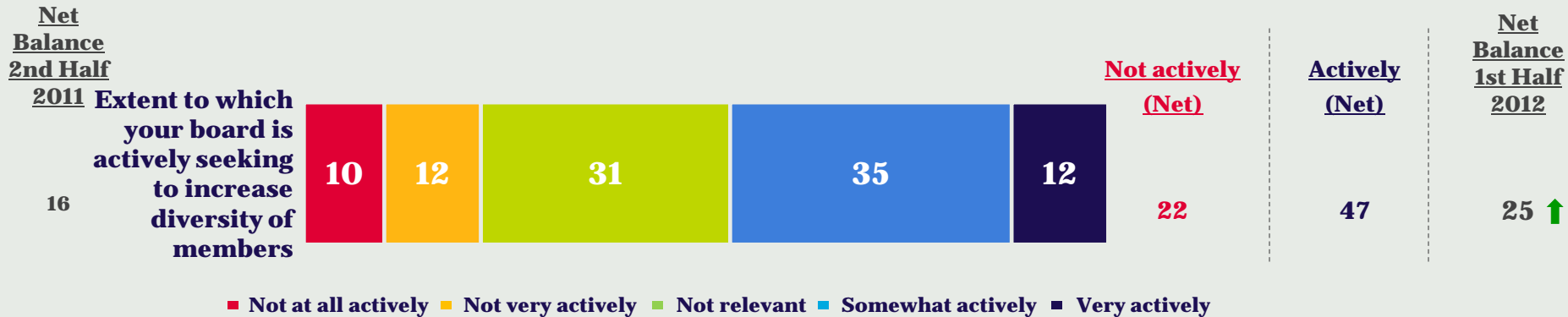
Board diversity: policy and efforts to increase

Akin to 2nd half 2011 results, less than 40 percent of directors have a documented policy on board diversity within their organisation. Less than half of directors believe that their board is actively seeking to increase the diversity of its members (a higher proportion compared to the 2nd half of 2011).

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

Akin to 2nd half 2011 results, more than 60 percent of directors 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 (%)



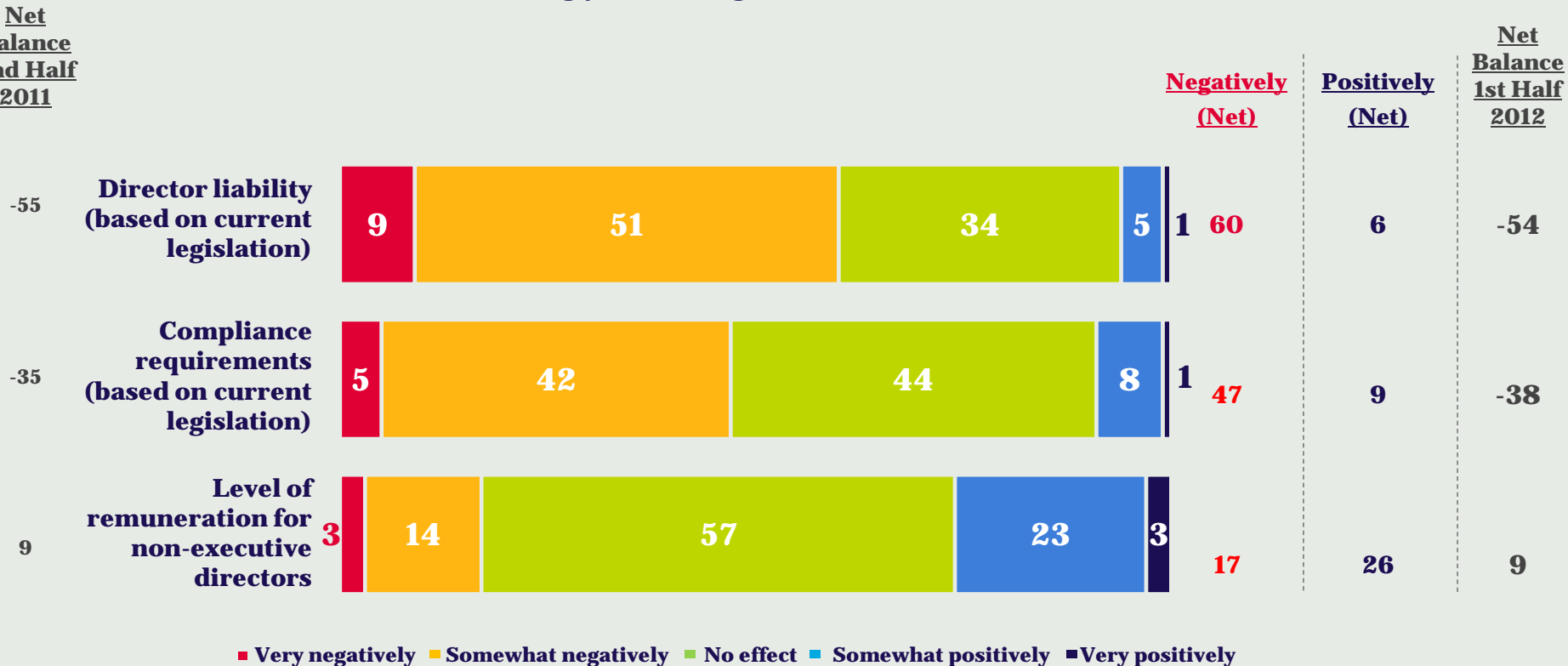
- Likely to decrease by >2
- Likely to decrease by 1-2
- Likely to stay the same
- Likely to increase by 1-2
- Likely to increase by >2

BD3: What change, if any, do you expect in the number of your directorships over the next 12 months?
 Base: All respondents n=554

Factors influencing your willingness to serve on a board

Akin to 2nd half 2011 results, most directors believe that director liability and compliance requirements (based on current legislation) will negatively impact their willingness to serve on a board, while nearly 60 percent of directors believe that the level of remuneration for non-executive directors will have no effect on their inclination to serve on a board.

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=554