



2012

DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS SECOND HALF 2012

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Second half 2012 sample profile

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

Fieldwork period: 29th August– 10th October 2012

Total respondents 540

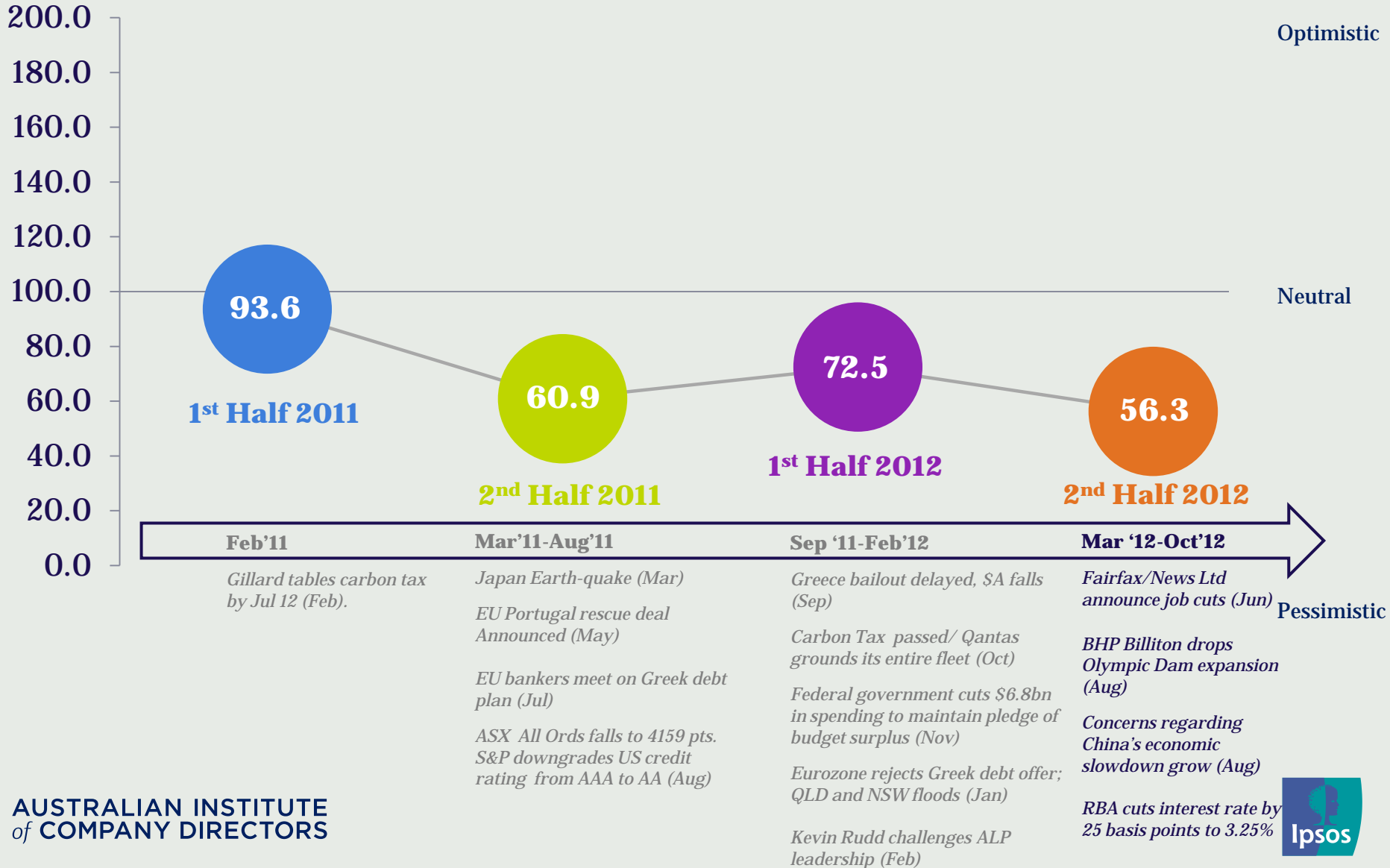
	%
No. of current directorships	
1	38 (32)
2	26 (27)
3 or more	35 (40)
Prefer not to say	1 (-)
Positions held on board(s)	
Executive Director	48 (45)
Non-Executive Director	60 (65)
Chairman	26 (31)
Other	6 (7)
Prefer not to say	1 (1)
Primary directorship company	
Publicly listed Australian entity	12 (12)
Private/non-listed Australian entity	53 (51)
Not-for profit entity	33 (35)
Prefer not to say	2 (2)

	%
Primary directorship business sector(s)	
Health and Community Services	21 (24)
Finance and Insurance	15 (18)
Property and Business Services	12 (13)
Mining	11 (10)
Manufacturing	10 (7)
Education	9 (7)
Agriculture, Forestry and Fishing	6 (6)
Construction	6 (5)
Energy	6 (4)
Government Administration and Defence	6 (5)
Personal and Other Services	5 (7)
Retail Trade	5 (5)
Communication Services	4 (5)
Cultural and Entertainment industry	3 (4)
Transport and Storage	3 (4)
Accommodation, Cafes and Restaurants	2 (3)
Wholesale Trade	2 (2)
Other	- (-)
Gender	
Male	76 (77)
Female	24 (23)

Director Sentiment Index

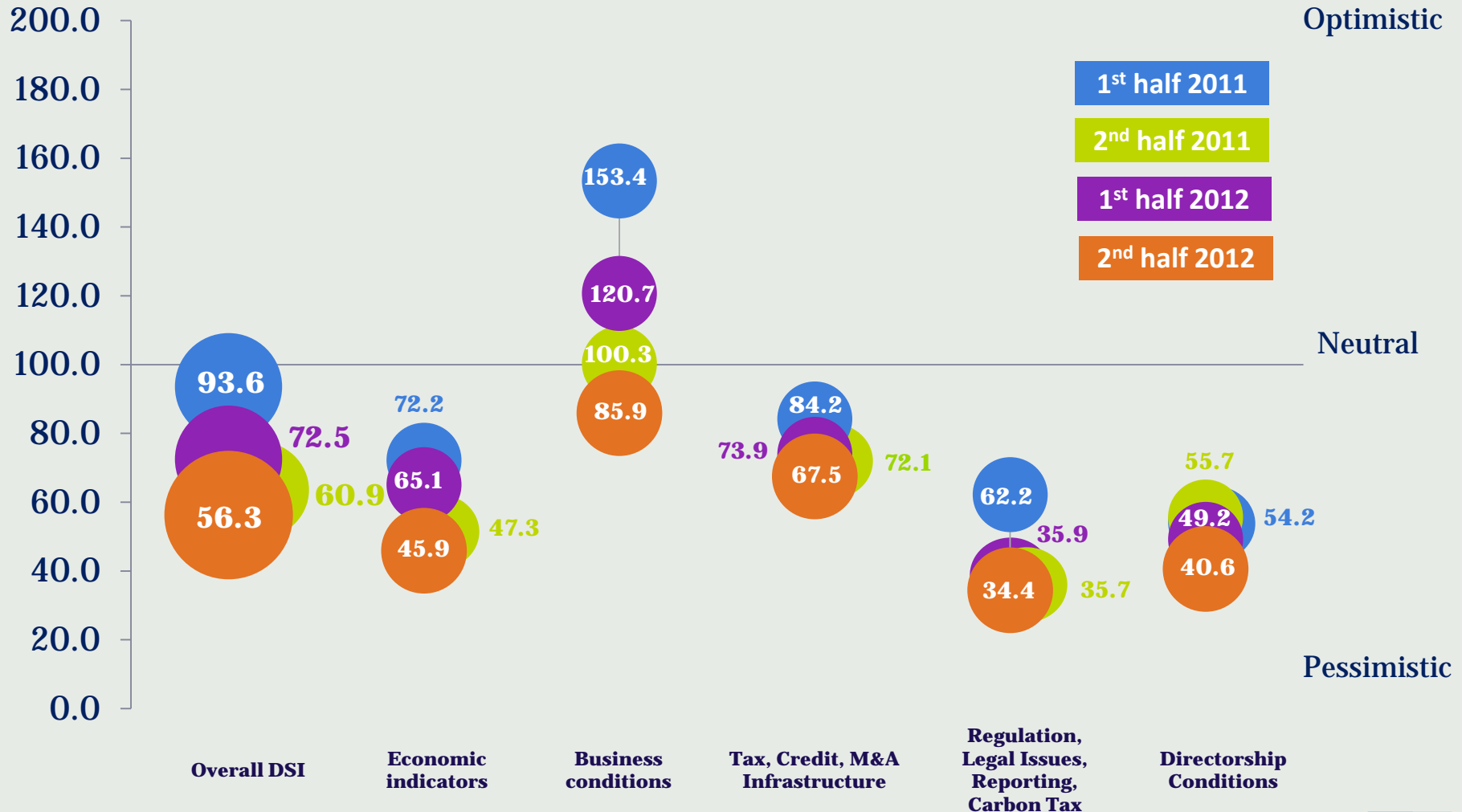
Overall Director Sentiment Index

The Director Sentiment Index is an aggregate representation of key indicators of sentiment, weighted based on importance. The overall sentiment in the 2nd half of 2012 remains pessimistic, but to a greater degree. The sentiment in the 1st half of 2011 was neutral to slightly pessimistic, shifting to pessimistic in the 2nd half of 2011, and remaining pessimistic in the 1st half of 2012, but to a lesser degree.



Overall Director Sentiment Index

Overall, this survey finds that all Index segments are at their lowest levels since the survey's commencement. The economic outlook has remained pessimistic, but to a greater degree, attitudes towards business conditions have shifted from optimistic to slightly pessimistic, while perceptions of directorship conditions have become slightly more pessimistic.



Summary of key indicators and headlines

Summary of key indicators

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(1 of 4)

Indicator (expected change in coming 12 months)	Scale	2 nd Half 2012 net balance	1 st Half 2012 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-42 ↓	-17
Health of the Asian economy	Weak/strong	2 ↓	41
Health of the European economy	Weak/strong	-93	-94
Health of the US economy	Weak/strong	-56 ↓	-39
Inflation rate (Australia)	Lower/higher	13 ↓	27
Exchange rate (value of AUD versus USD)	Lower/higher	-42 ↓	-10
RBA cash rate	Lower/higher	-58 ↓	-28
Level of wages growth	Lower/higher	7 ↓	37
Unemployment rate #	Lower/higher	47	NA

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

Summary of key indicators

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(2 of 4)

Indicator (expected change in coming 12 months, with the exception of *)	Scale	2 nd Half 2012 net balance	1 st Half 2012 net balance
Business conditions			
Growth of primary directorship business	Weak/strong	2 ↓	23
Change in business investment levels	Decrease/increase	-2 ↓	1
Change in business staffing levels/labour demand	Decrease/increase	-7 ↓	4
Change in level of business exports	Decrease/increase	-12	-10
Change in level of outsourcing	Decrease/increase	10 ↓	17
Expectations of profits for Jan-Jun 2013 actual versus forecast*	Below/up	-6 ↓	12
Confidence in general business outlook*	Pessimistic/opt	-20 ↓	-3
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	-9 ↓	14
Directorship conditions			
Impact of directors' liability on willingness to serve on a board*	Negatively/positively	-62 ↓	-54
Impact of compliance requirements on willingness to serve on a board*	Negatively/positively	-50 ↓	-38
Impact of remuneration on willingness to serve on a board*	Negatively/positively	8	9
Impact of contribution to economy/society on willingness to serve on a board* #	Negatively/positively	79	N/A



Summary of key indicators

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(3 of 4)

Indicator (expected change in coming 12 months, with the exception of *)	Scale	2 nd Half 2012 net balance	1 st Half 2012 net balance
<i>Tax, credit, M&A</i>			
Credit availability for investment purposes	Low/high	-19	-19
Credit availability for asset purchases	Low/high	-10	-7
Credit availability for working capital	Low/high	-14	-15
Expected change in ASX All Ordinaries index	Fall/rise	8 ↓	32
Expected change in level of mergers and acquisitions	Fall/rise	42 ↓	51
Perception of current level of corporate taxation*	High/low	-52 ↓	-44
Perception of current level of personal taxation*	High/low	-64	-63
<i>Infrastructure</i>			
Perception of level of government spending on infrastructure*	Low/high	-82	-82
Agreement with building of NBN being a positive thing for Aust*	Disagree/agree	-1	-2
<i>Regulation, legal issues, reporting, Carbon Tax</i>			
Agreement with 'Federal Government understands business'*	Disagree/agree	-66	-66
Expected change in level of 'red tape' in coming 12 months	Increase/decrease	-54 ↑	-65

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

Summary of key indicators

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(4 of 4)

Indicator (expected change in coming 12 months)	Scale	2 nd Half 2012 net balance	1 st Half 2012 net balance
<i>Regulation, legal issues</i>			
How is the current Federal Government's performance affecting your business decision making?	Negatively/Positively	-63	-58
How is the current Federal Government's performance affecting consumer confidence?	Negatively/Positively	-78	-83
Perception of governance regulations under Corporations Act	Onerous/weak	-54	-51
How is legislation affecting your business decision-making?	Negatively/positively	-41	-39
How is legislation affecting your willingness to serve on a board?	Negatively/positively	-42	-38
How is legislation affecting your willingness to accept new board appointments?	Negatively/positively	-53	-54
Extent legal judgements affect your business decision-making	Negatively/positively	-31 ↓	-25
Extent legal judgements affect your willingness to serve on a board	Negatively/positively	-39 ↓	-33
Extent legal judgements affect your willingness to accept new board appointments	Negatively/positively	-51 ↓	-45
Adequacy of business directorships and officers' insurance	Inadequate/adequate	-1	-3
Adequacy of public company remuneration reports	Inadequate/adequate	-24	-21
Priority of the reform of laws and regulations governing public company remuneration	Low priority/high priority	27 ↓	34
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/functional	-8	-8
How do you expect the Carbon Tax to affect your business?	Negatively/positively	-48 ↑	-54

Executive summary

Executive Summary 2nd Half 2012

- The sentiment amongst directors has become more pessimistic in the 2nd half of 2012. Directors are more pessimistic regarding the health of the Australian and US economies, and optimism regarding the health of the Asian economy has declined. Directors are also more pessimistic about business growth and profits in the coming year.
- When considering pressing issues affecting business, directors rank global economic uncertainty, followed by the high value of the Australian dollar and low consumer confidence as the biggest economic challenges.
- This survey has found that sentiment on the following issues is at its lowest level since the commencement of the survey
 - Predictions regarding the health of the Australian, Asian and US economies over the next 12 months
 - Estimations regarding the performance of the Australian dollar
 - Estimations regarding the RBA official cash rate
- Perception of the current Federal Government remains negative. Most directors maintain the belief that the current Federal Government lacks understanding of business and government performance is negatively impacting consumer confidence and business decision making. However, while concerns about the Carbon Tax legislation and its negative impact on business remain, there has been a decrease in negative sentiment since the implementation of the Carbon Tax.
- Pessimism regarding Government regulation also remains. Most directors believe that the level of red-tape and board commitment spent on regulatory compliance has increased over the last 12 months. Admin costs and time spent complying with regulations are identified by directors as having the most impact on their business, with employing workers and workplace health and safety identified as aspects of their business most affected by 'red-tape'.
- Productivity growth – or the lack of it – was ranked as the second most urgent issue for the Federal Government to address in the short term and high amongst the most important economic challenges facing Australia. General economic conditions were identified as the top impediment to productivity growth followed by workplace laws and regulations, government policy, excessive 'red-tape' and regulation and skills shortages.
- Directors continue to rate Infrastructure as the top priority that the Federal Government should address for both the short and long term, with government spending on infrastructure considered to be too low.

Research findings

Research Findings

The Economic Environment

Health of economies

- The outlook for world economies has become more pessimistic, compared to the findings of the last survey*. Most directors perceive the current and future state of the Australian, US and European economies as weak and optimism regarding the current and future health of the Asian economy has declined.

Economic challenges

- Directors continue to rank global economic uncertainty as the biggest current economic challenge, followed by the high value of the Australian dollar and low consumer confidence.

Economic indicators and financial markets

- Expectations of economic indicators have declined compared to findings from the previous survey*. The exchange rate and RBA official cash rate are expected to decline, while inflation and wages growth are expected to remain stable, with fewer directors expecting an increase in these indicators in the coming year. More than half of directors expect the unemployment rate to rise in the coming 12 months.
- More than 40 per cent of directors expect a rise in the ASX All Ordinaries in the coming 12 months, although this proportion has decreased from the findings of the last survey*.

Research Findings

The Business Environment

Business Growth

- Business growth declined for many in January-June 2012, with more than 40 per cent of directors claiming the growth of their business had weakened in the last six months. Expectations for growth in the future have also become more pessimistic, with only 40 per cent of directors expecting growth in their business and more directors predicting a decrease in investment levels, staffing levels, business exports and level of outsourcing in the coming year.

Profits

- Lower profit expectations were identified in the current survey, compared to the results of the last survey*. This saw a slightly pessimistic outlook, with over 30 per cent of directors expecting a decrease in profits for the period of January-June 2013, compared to profits for the same period last year, the last six months and the budgeted forecast.

Credit availability

- In the last six months, credit availability for investment and working capital purposes has remained constrained, in line with the previous survey's results*, while credit for asset purchases has become more constrained. Predictions regarding credit availability over the coming year have remained slightly pessimistic, with credit for investment purposes, asset purchases and working capital purposes expected to be constrained.

Business Outlook

- Business outlook has become more pessimistic, compared to the results from the last survey*. About 40 per cent of directors are pessimistic about the general business outlook, and 35 per cent of directors are pessimistic about the outlook for their own sector.

Research Findings

Regulation, Perception of Federal Government and Infrastructure

Regulation

- In line with the results from the previous survey* more the 60 per cent of directors believe that the level of 'red-tape' has increased in the last 12 months, however directors are slightly less pessimistic regarding the level of red-tape in future, with less than 60 per cent expecting an increase in the coming year.
- Admin costs and time spent complying with regulations are identified by more than 70 per cent of directors as having the most impact on their business, with more than 70 per cent of directors identifying employing workers and workplace health and safety as aspects of their business most affected by 'red-tape'. Directors estimate 'red-tape' compliance as consuming an average of 26 per cent of their total board commitment, with more than half believing that this level of commitment has increased in the last 12 months.

Productivity

- Productivity is ranked as the second most urgent issue for the Federal Government to address in the short term and high amongst the most important economic challenges facing Australia. General economic conditions were identified as the top impediment to productivity growth (65 per cent) followed by workplace laws and regulations (42 per cent), government policy (41 per cent), excessive red tape and regulation (39 per cent) and skills shortages (31 per cent).

Perception of the Federal Government

- In line with the previous survey's results, disenchantment with the Federal Government's performance remains. Nearly 80 per cent of directors maintain the belief that the Federal Government lacks understanding of business. Directors also remain pessimistic about the impact of the current Federal Government's performance and uncertainty about the future of the current parliament on business decision making and consumer confidence.
- Directors identify general economic conditions and concerns, followed by workplace relations laws and regulations, and Government policy as the top three impediments to productivity growth.

Infrastructure

- Infrastructure is rated by directors as the top short term and long term priority that the Federal Government should address. Nearly 80 per cent of directors believe that the current level of government spending on infrastructure is too low and have identified road and telecommunications as the most important areas for investment.

Research Findings

Legal and reporting issues

Director liability

- Akin to the results of the previous survey* more than 40 per cent of directors believe that Commonwealth or state legislation on director liability has a negative impact on their business decision making and willingness to continue on a board, and more than half believe it has a negative impact on their willingness to accept new board appointments.
- There is increased pessimism regarding the affect of legal judgements on director liability, with more than 40 per cent of directors maintaining that legal judgements negatively impact their business decision making, their willingness to continue on a board, and their willingness to accept new board appointments.

D&O insurance, reporting and current framework

- Outlook regarding business' Directors and Officers Insurance remains consistent with the previous survey results*, with about 80 per cent of directors perceiving their business' Directors and Officers insurance as adequate, or about right.
- Directors continue to believe that public company remuneration reports are inadequate, with fewer directors assigning a low priority to the reform of the laws and regulations governing public company remuneration.
- One quarter of directors still maintain the belief that the IFRS is dysfunctional to some degree.
- Directors are more optimistic regarding the overall functionality of the current AGM system, with more than 30 per cent perceiving the current AGM system as working well, and less than 30 per cent perceiving it to be dysfunctional.

Research Findings

Ethical Considerations, shareholder relations and ESG

Ethical considerations and diversity

- Directors are more optimistic about their perception, and public perception of company directors' ethics, with most directors maintaining the perception that Australian listed public companies are more ethical than overseas listed companies.
- Akin to the results of the previous survey*, about one third of directors have a documented policy on board diversity within their organisation. Around two thirds of directors are actively seeking to increase board diversity in terms of skills. And more than 40 per cent in the area of gender.

Environmental and Social Governance

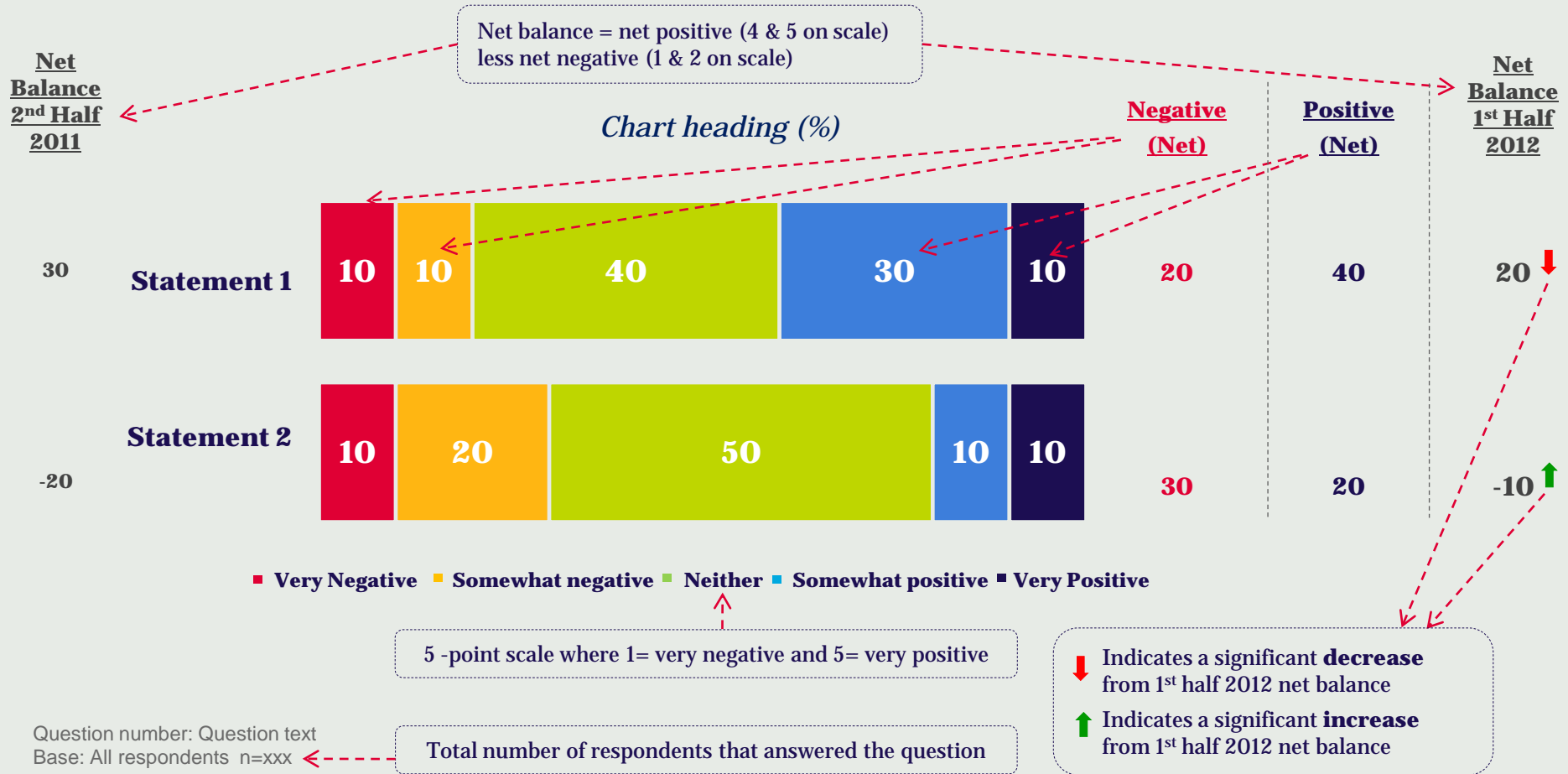
- More directors perceive ESG as important within their business. Most directors still predict that the level of regulation on climate change, workplace health and safety and industrial relations will increase, but to a lesser extent compared to results of the last survey*.
- Directors are less pessimistic regarding the Carbon Tax legislation, with fewer directors perceiving it to have a negative impact on their business. Most directors maintain the perception that energy costs, domestic prices, and non-energy costs are negatively impacted by the Carbon Tax, but to a lesser extent compared to the results of the previous survey*. Nevertheless, more than 50 per cent of directors continue to believe that abolishing the Carbon Tax would have a positive effect on their business.
- More than 80 per cent of directors maintain the belief that their business is making some effort to reduce its carbon footprint.

Shareholder relations

- In line with the results of the previous 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 only.

Detailed results

Explanation of charts – example only



Economic outlook

Health of economies: summary

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Pessimistic outlook remains regarding the current and future state of world economies. Directors continue to perceive Asian and Australian economies as stronger than US and European economies.

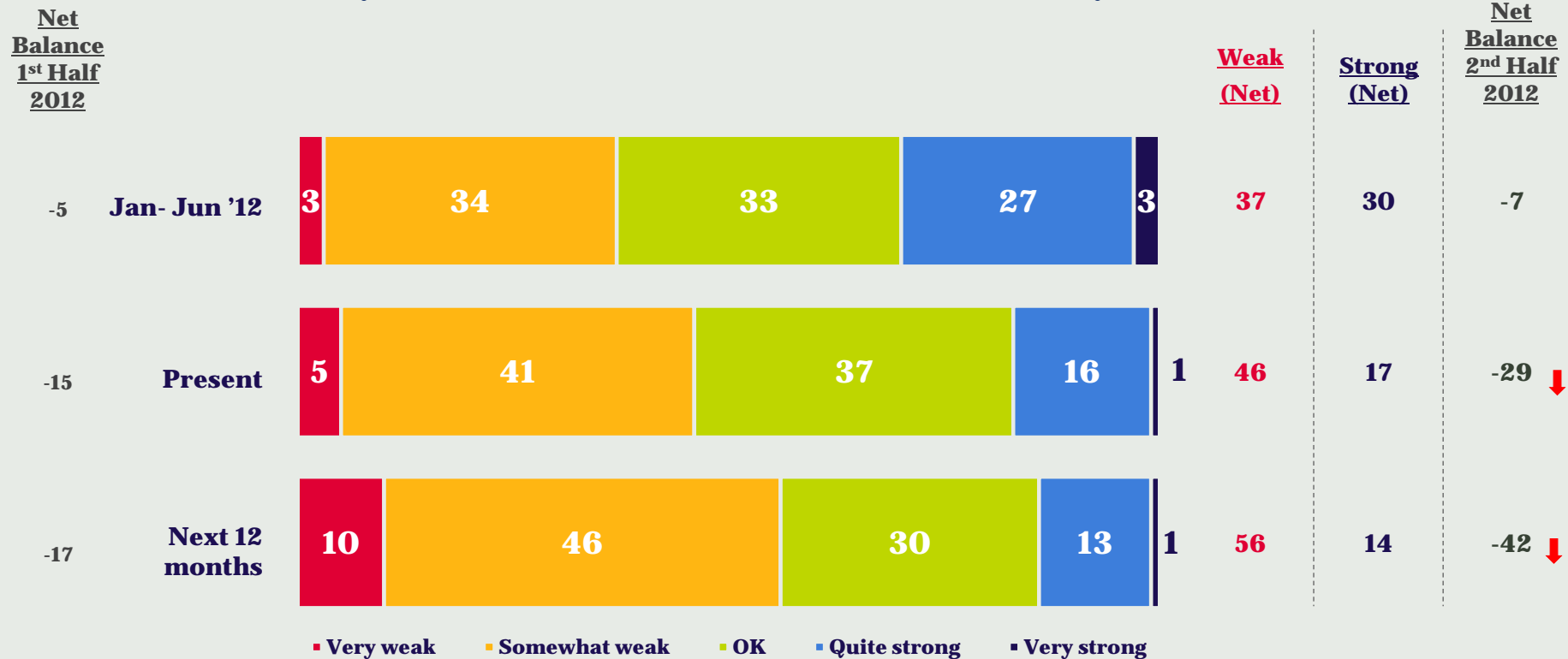
Health of economies		(Wave)	Australian	Asian	US	European
<i>Mean score (on a 5-pt scale, where 1 is 'Very Weak' and 5 is 'Very Strong')</i>						
Past six months	(Jul-Dec'11)	1 st Half 2012	2.9	3.5	1.9	1.5
	(Jan-Jun'12)	2 nd Half 2012	2.9	3.4	1.8	1.4
Present		1 st Half 2012	2.8	3.5	2.2	1.5
		2 nd Half 2012	2.7	3.1	2.0	1.5
Next 12 months		1 st Half 2012	2.8	3.5	2.5	1.6
		2 nd Half 2012	2.5	3.0	2.3	1.6

E1-E4 Base: All respondents n=540

Health of the Australian economy

More pessimistic outlook on the health of the Australian economy. More than 40 per cent of company directors believe our economy is weak at present, and more than half expect our economy to remain weak in the coming 12 months.

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

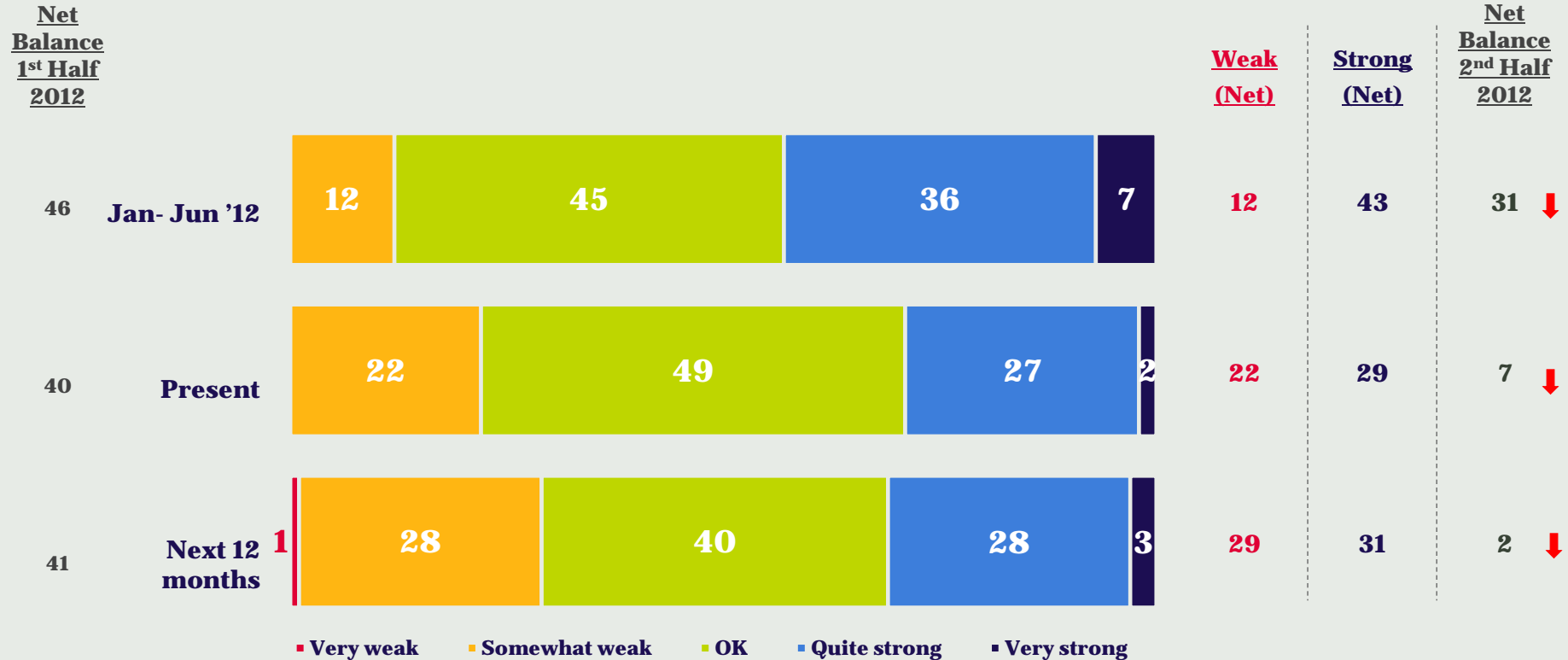


E1: What is your assessment of the health of the Australian economy...?
 Base: All respondents n=540

Health of the Asian economy

Asian economic outlook has remained positive, however optimism has decreased in the 2nd half of 2012. Less than half of directors believe that the Asian economy was strong in the last 6 months, while less than 30 per cent consider it to be strong at present. Future sentiment is fairly evenly split, with around 30 per cent believing it will be strong or weak over the next 12 months.

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

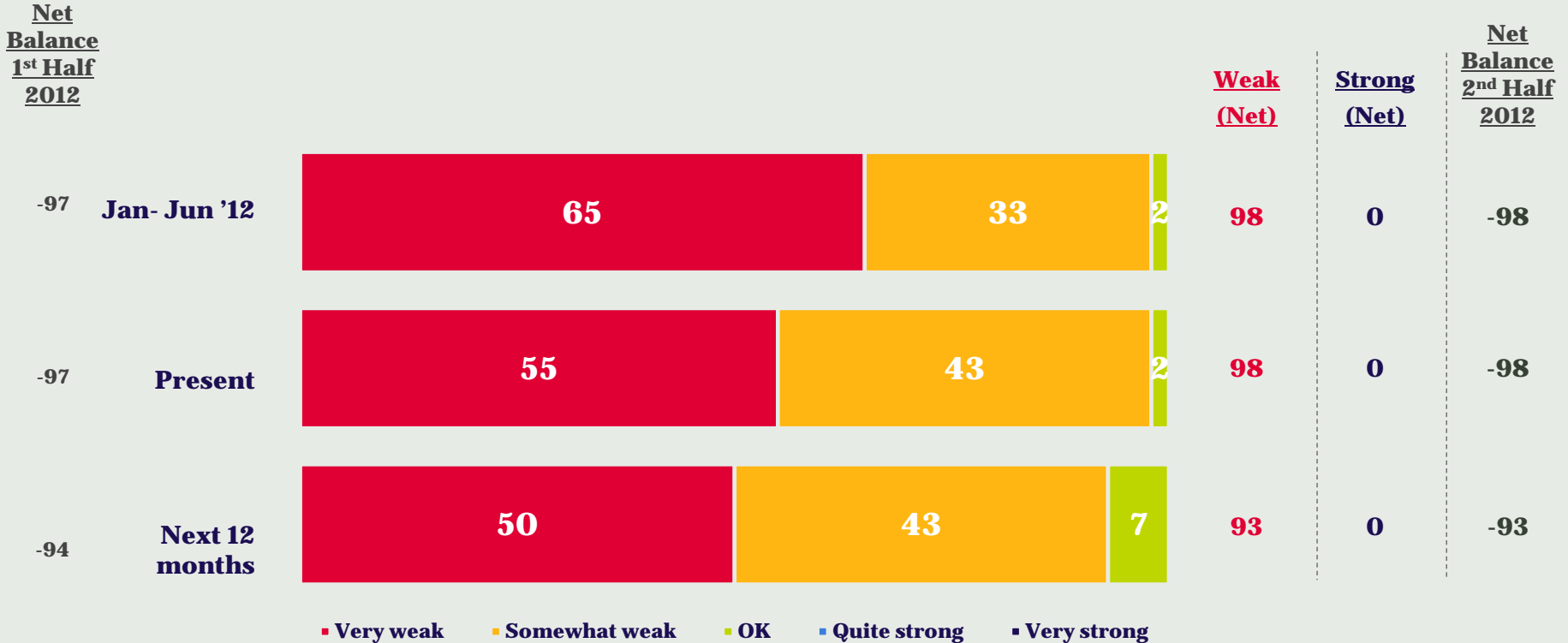


E2: What is your assessment of the health of the Asian economy.....?
 Base: All respondents n=540

Health of the European economy

Sentiment regarding the European economy has remained pessimistic in line with 1st half 2012 results. More than 90 per cent of directors view the European economy as weak at present, and expect it to remain weak over the next year.

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

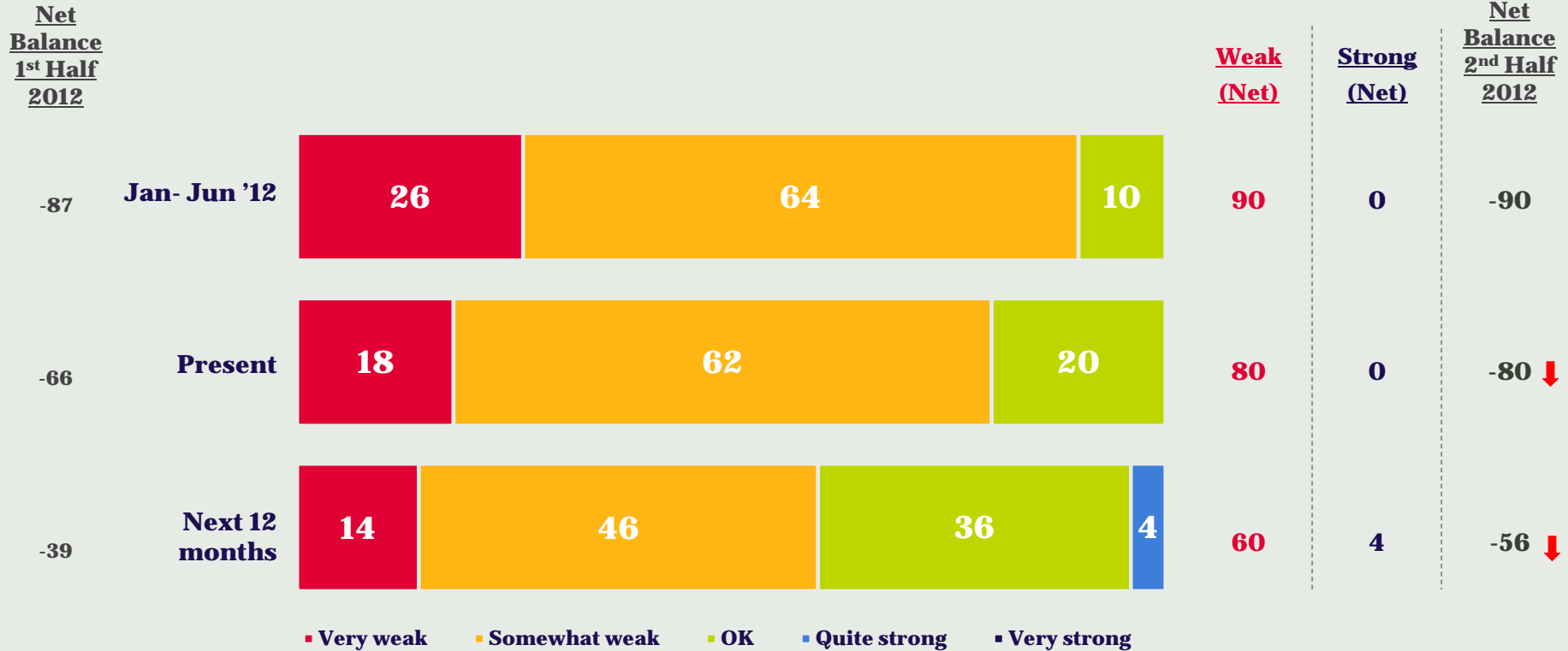


E3: What is your assessment of the health of the European economy....?
 Base: All respondents n=540

Health of the US economy

Perceptions regarding the health of the US economy have become more pessimistic. Eighty per cent of company directors assess the US economy as weak at present, while 60 per cent expect it to remain weak over the next 12 months.

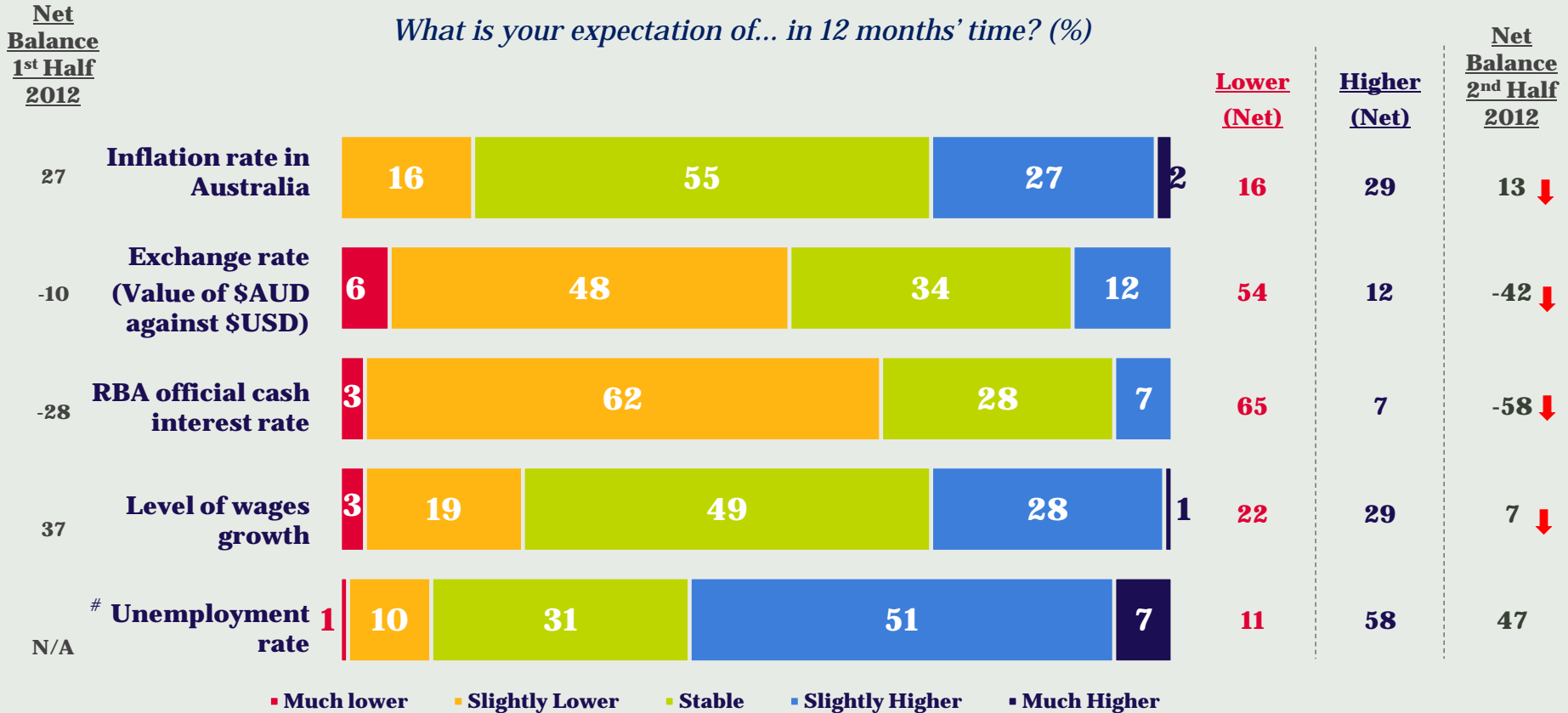
What is your assessment of the health of the US economy? (%)



E4: What is your assessment of the health of the US economy.....?
 Base: All respondents n=540

Economic indicators (Australia) – expectation in next 12 months

Expectations of economic indicators have declined in the 2nd half of 2012. More than half of directors believe that the value of the Australian dollar and RBA cash rate will decline. Around half of directors believe that the inflation rate and level of wages growth will remain stable, while more than half expect the unemployment rate to increase over the coming year.



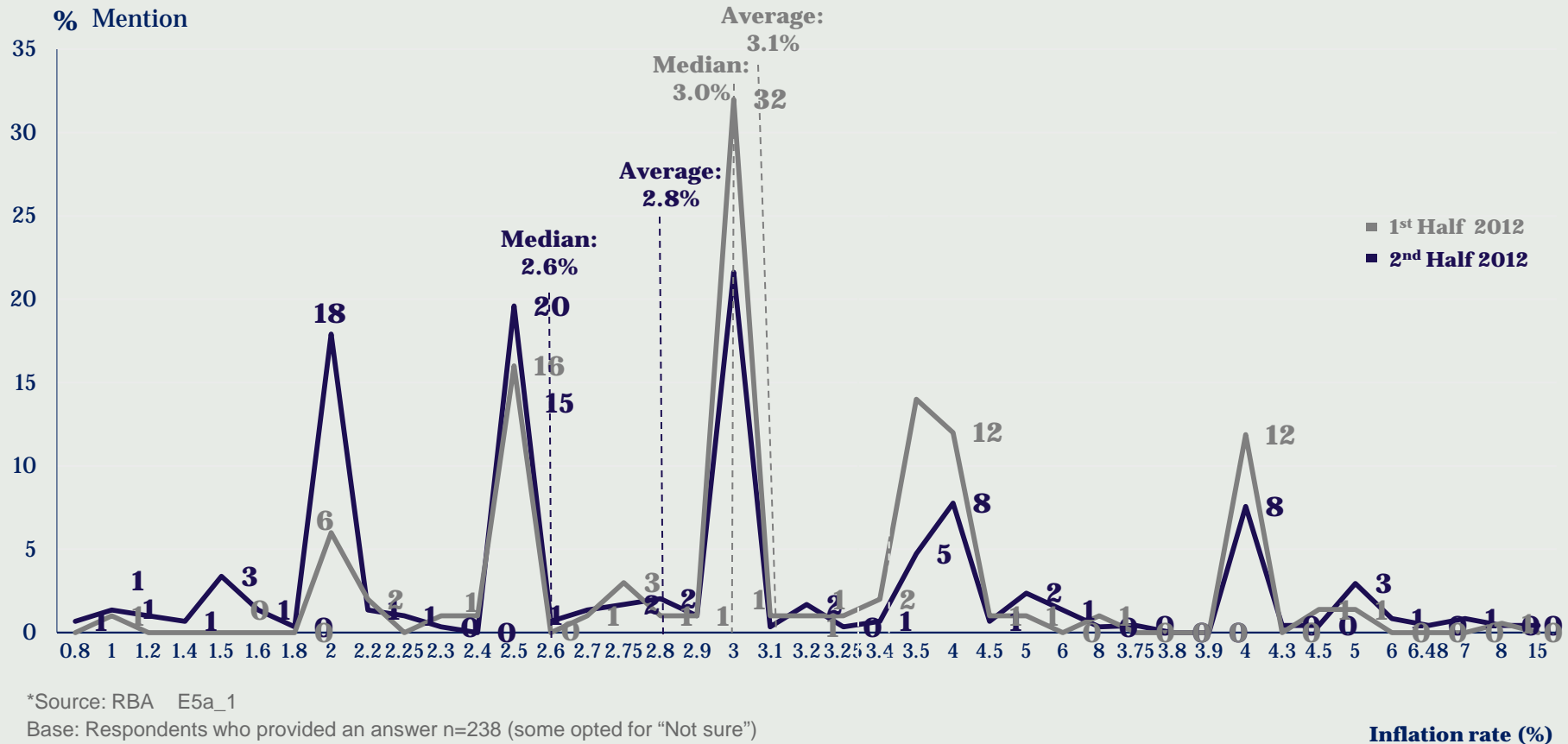
E5: What is your expectation of.....?
 Base: All respondents n=540

Note: New statements added in 2nd half 2012

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 2.8 per cent, with estimates clustering around 2, 2.5 and 3 per cent. The actual inflation rate during survey fieldwork was 1.2 per cent*.

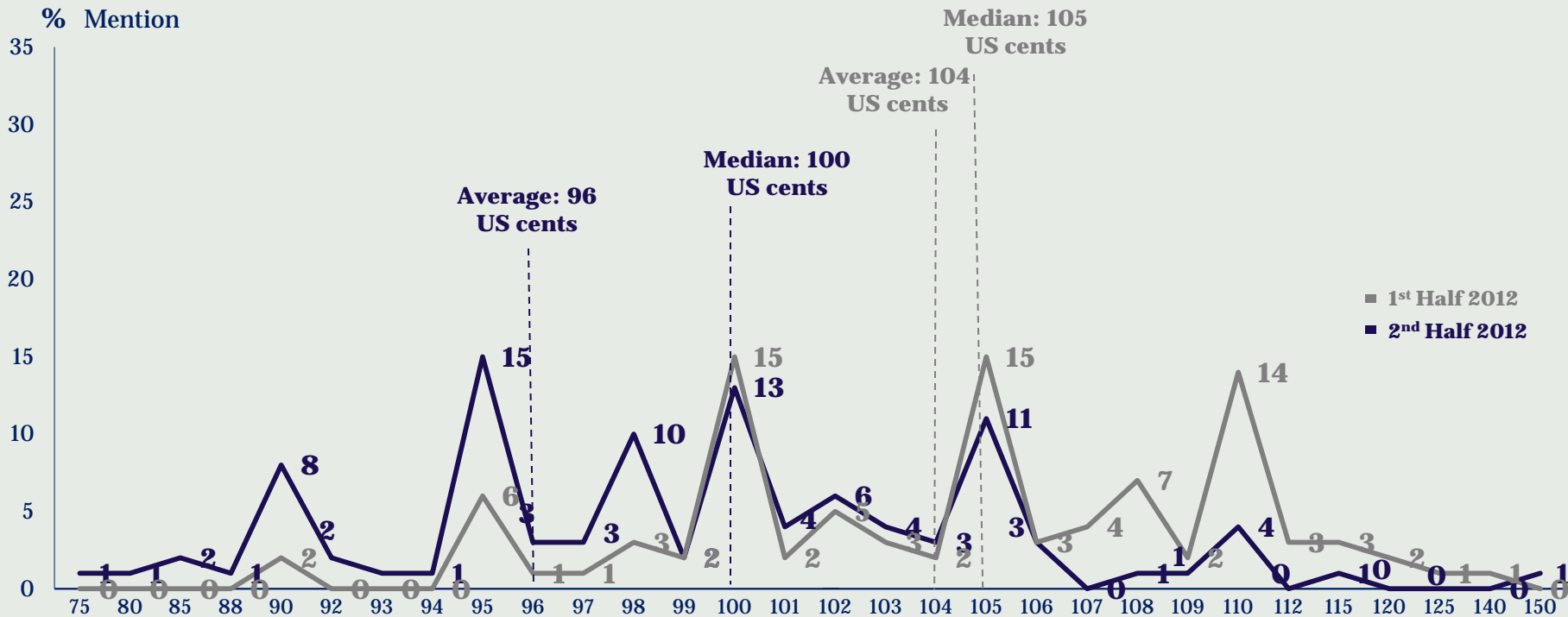
Nominate a numeric value for “the inflation rate in Australia in 12 months’ time” (%)



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

Estimations of the exchange rate for the next 12 months are lower, at an average of 96 US cents, with estimates clustering around 95, 100, and 105 US cents. The average 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

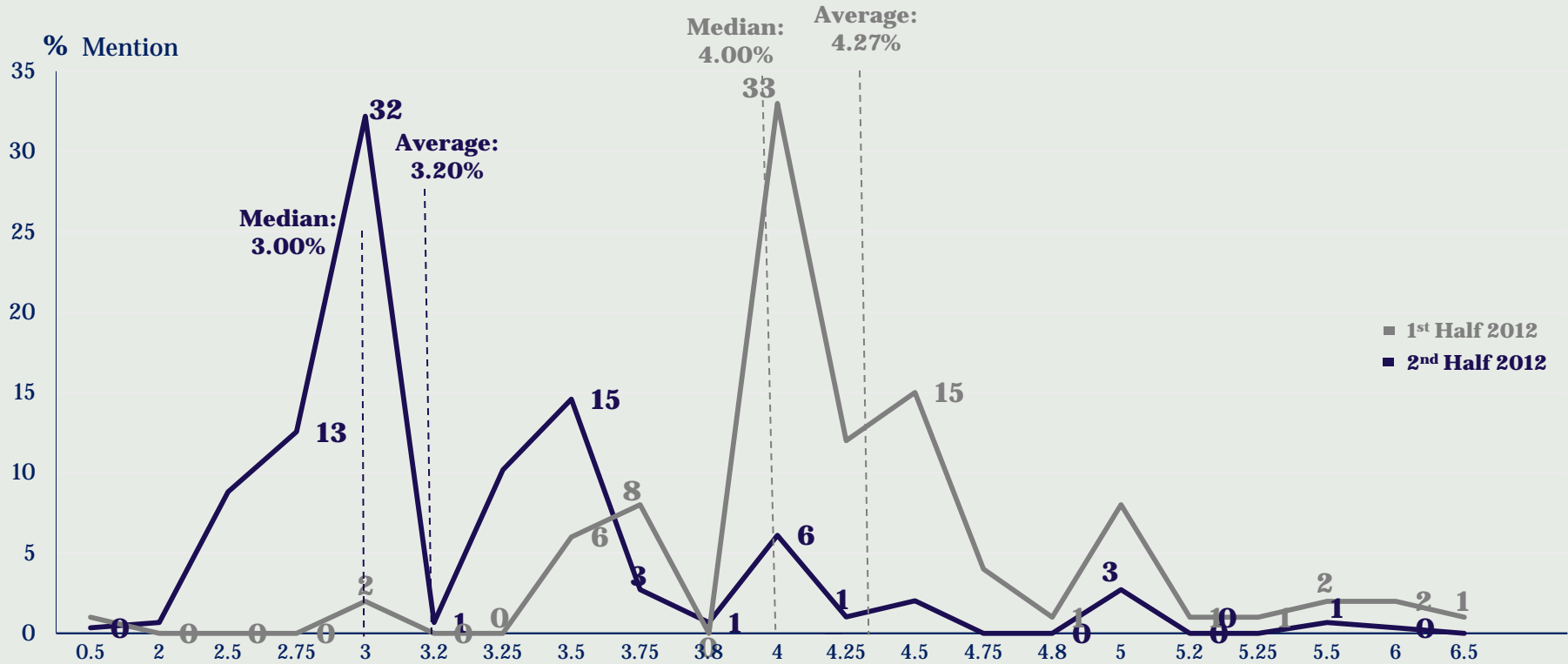
Base: Respondents who provided an answer n=317 (some opted for “Not sure”)

US cents

Economic indicators – RBA official cash interest rate in next 12 months 31

Estimations of the RBA official cash interest rate in the next 12 months are lower, at an average of 3.2 per cent, with estimates clustering around 3 and 3.5 per cent. The actual interest rate during survey fieldwork dropped by 25 basis points from 3.50 per cent to 3.25 per cent*.

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



*Source: RBA E5a_3

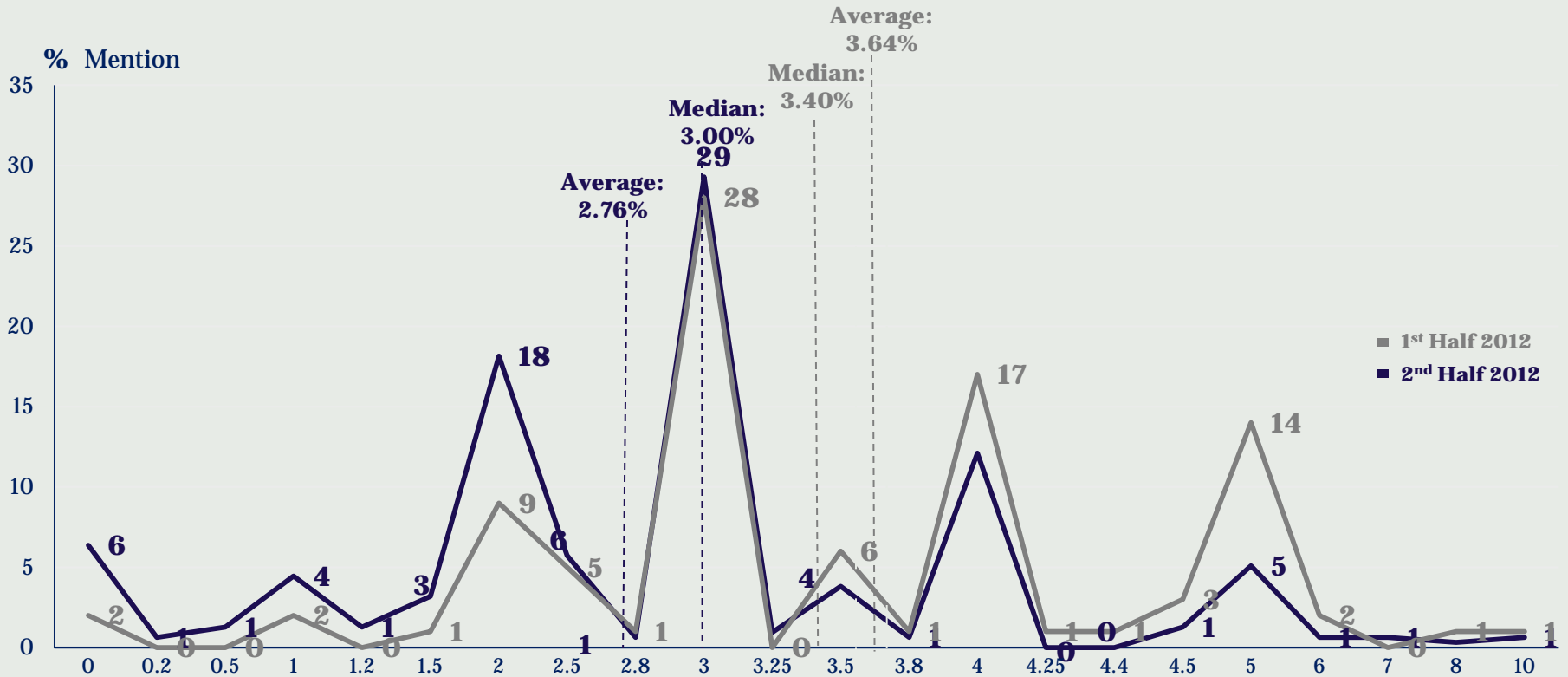
Base: Respondents who provided an answer n=212 (some opted for “Not sure”)

Cash interest rate (%)

Economic indicators – wages growth rate in next 12 months

The expected level of wages growth in the coming year is lower, at an average of 2.76 per cent, with estimates clustering around 2 per cent, 3 per cent and 4 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

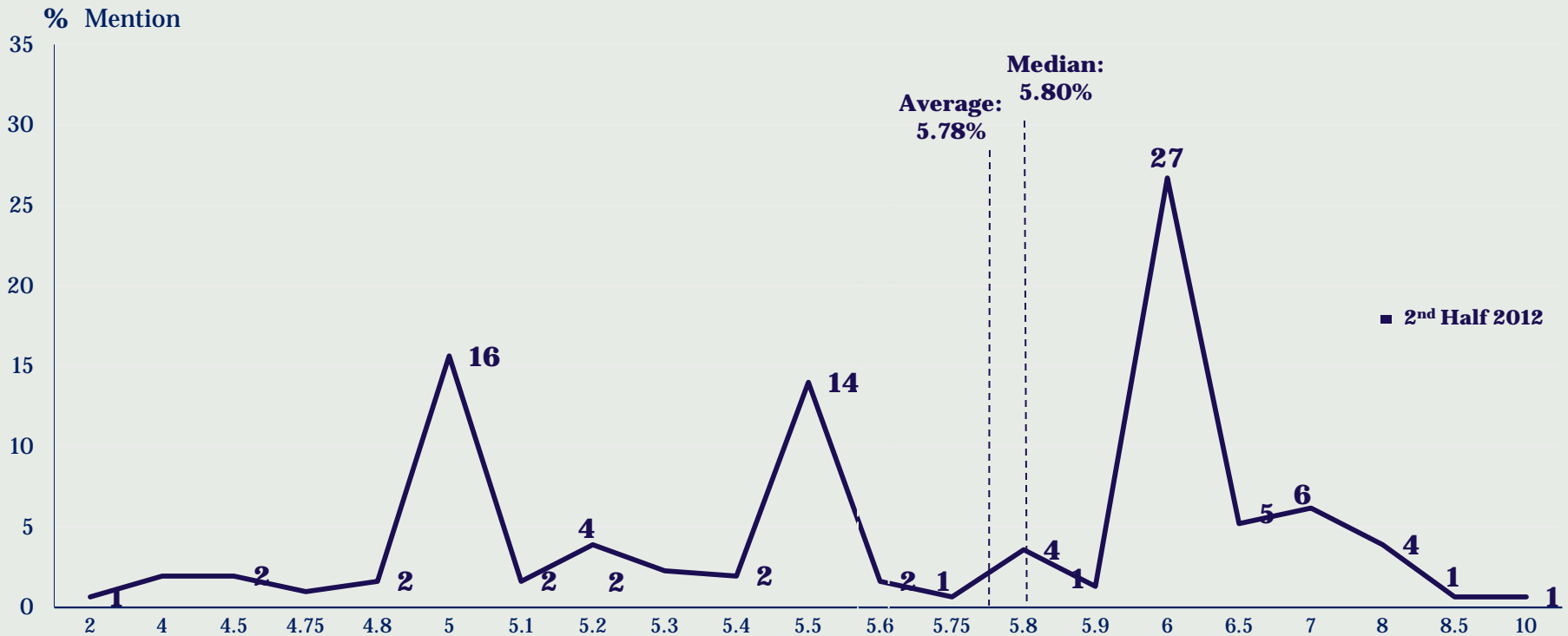
Base: Respondents who provided an answer n=257 (some opted for “Not sure”)

Wages growth rate (%)

Economic indicators – unemployment rate in next 12 months

The average expected unemployment rate in the coming year is 5.8 per cent, with estimates clustering around 5 per cent, 5.5 per cent and 6 per cent. The actual unemployment rate during survey fieldwork was 5.4 per cent*.

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



*Source: ABS E5a_5

Base: Respondents who provided an answer n=258 (some opted for “Not sure”)

Unemployment rate (%)

Note: New question asked in 2nd half 2012

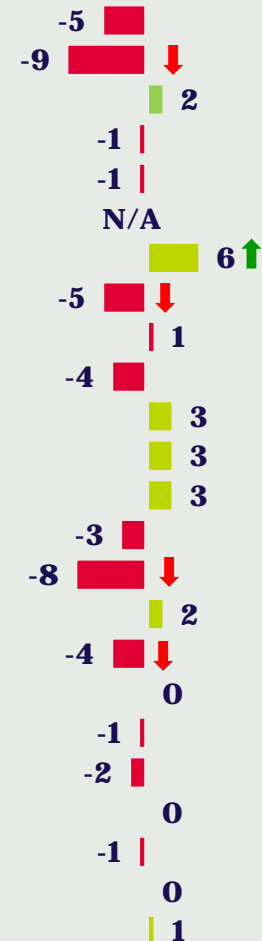
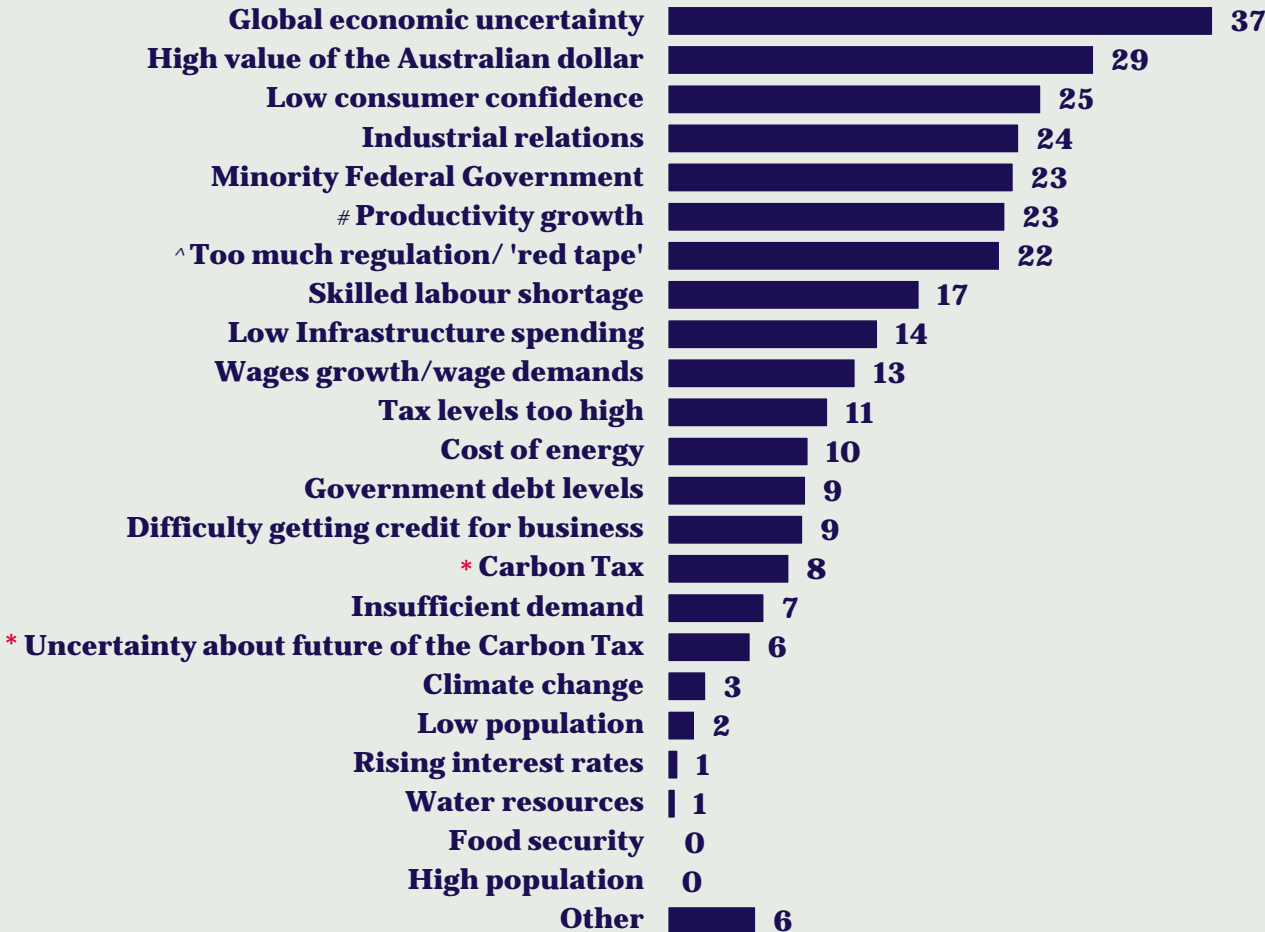
Main current economic challenges (Top 3)

In line with 1st half 2011 results, global economic uncertainty remains the biggest economic challenge facing Australian business, followed by the high value of the Australian dollar and low consumer confidence. Too much regulation and 'red-tape' is perceived as a greater challenge in the 2nd half of 2012, while fewer directors perceive the high value of the Australian dollar and the Carbon Tax as a main challenge.

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

2nd Half 2012

Difference from 1st Half 2012



*Note: Carbon Tax + Uncertainty about Carbon Tax's future (nett) = 13%

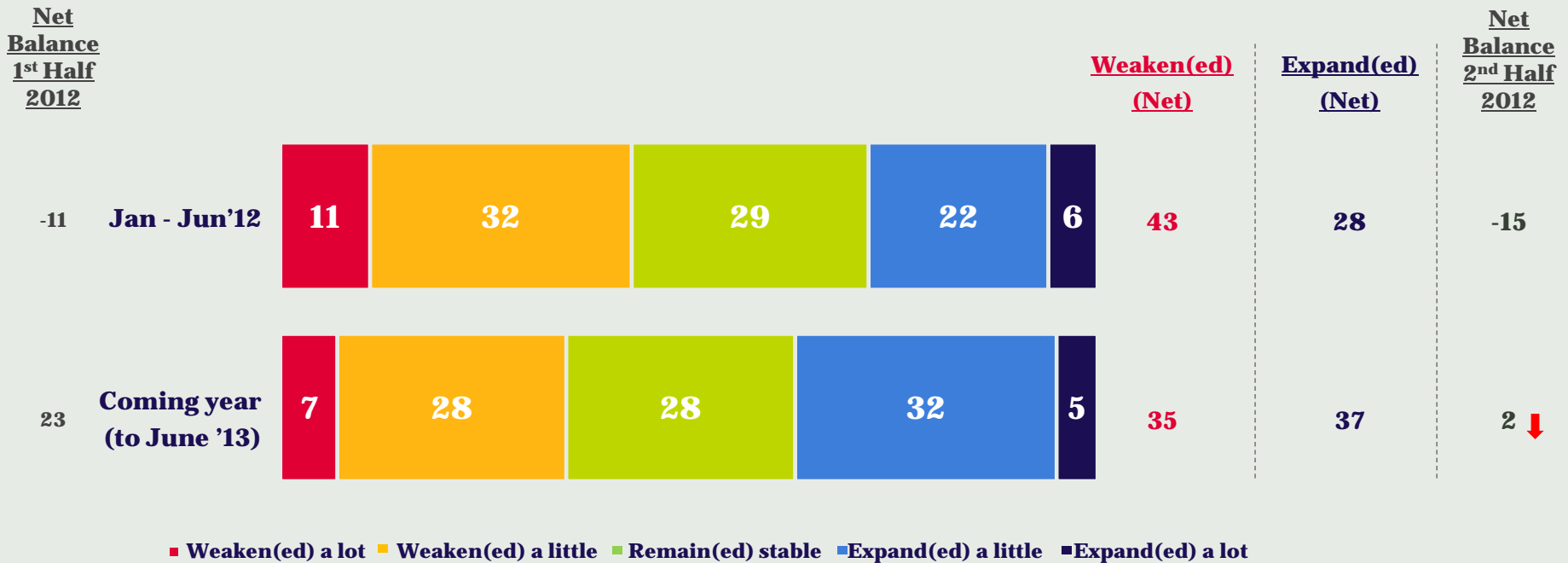
^ Note: "Too much regulation" changed to "Too much regulation/red-tape" in 2nd half 2012

#Note: New statement added to 2nd half 2012

Growth of the business (primary directorship company)

Business growth declined for many in January-June 2012, with more than 40 per cent of directors claiming the growth of their business had weakened in the last six months, in line with the 1st half 2012 results. Future projections remain optimistic, although less so than the previous survey's results, with nearly 40 per cent of directors expecting their business to grow in the coming year.

Growth of the business – Past and future (%)

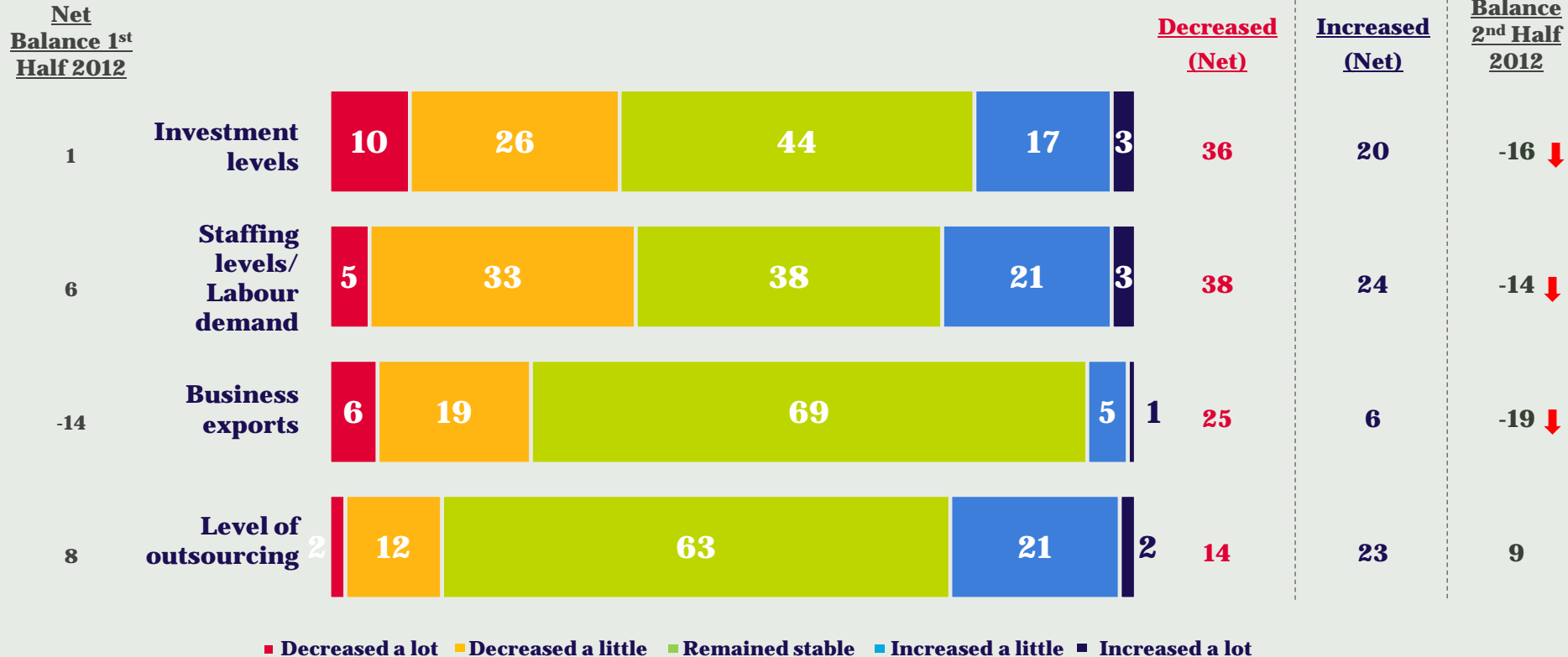


B1: Which best describes the growth or otherwise of the business over the period January to June 2012?
 B2: What is your expectation of the growth or otherwise of the business over the coming year (to June 2013)?
 Base: All respondents n=540

Changes in the business – Jan-Jun '12

While a substantial proportion of directors have experienced stability across the four facets of business in the last six months, an increased proportion have experienced a decrease in investment, staffing levels and business exports compared to the 1st half of 2012. Akin to 1st half 2012 results, nearly one-quarter of directors have seen an increase in the level of outsourcing in the last six months.

Changes in the business - Jan - Jun '12 (%)



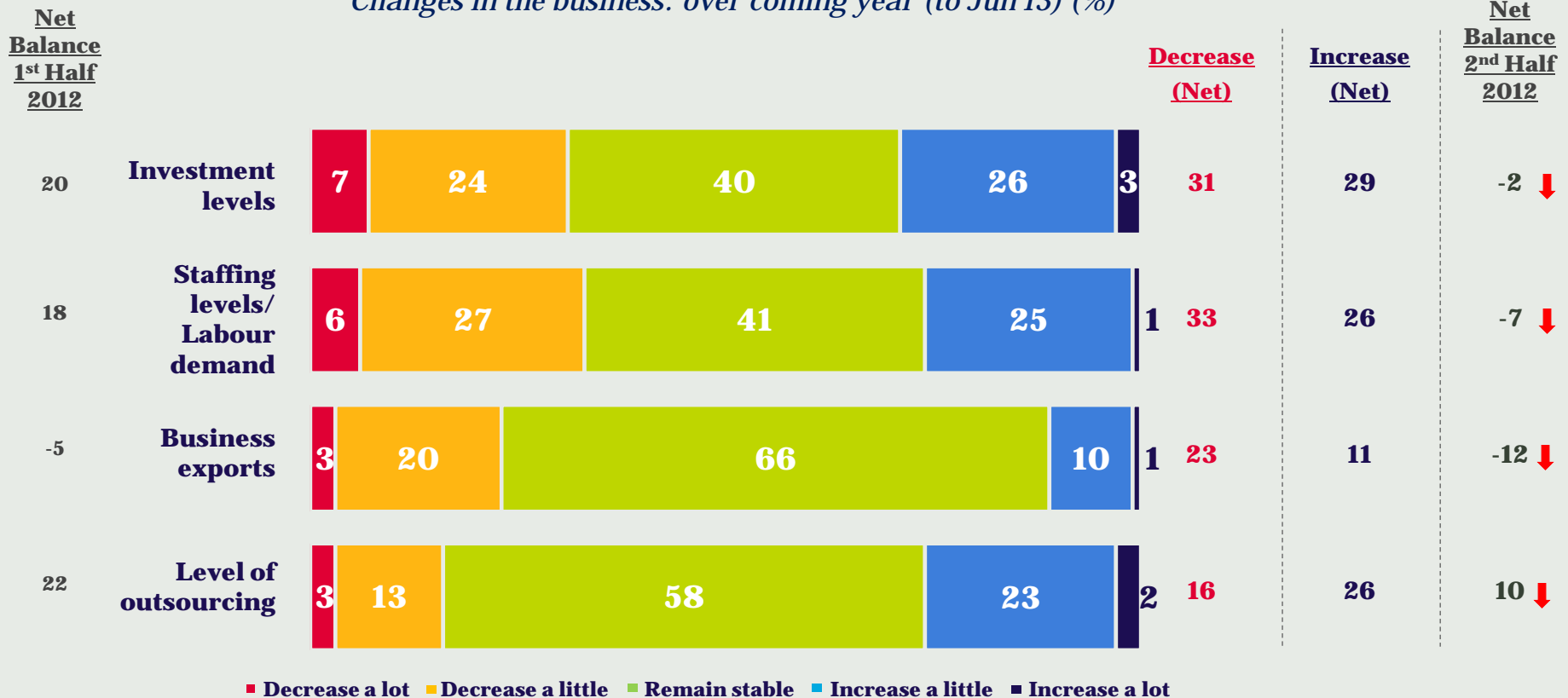
B3: Which best describes changes in the business, relating to the items shown below, over the period January to June 2012?

Base: All respondents n=540

Changes in the business – coming year (to Jun '13)

Lower expectations of growth in the next 12 months across all four facets of business, compared to 1st half 2012 survey results, with more than 30 per cent of directors expecting a decrease in investment and staffing levels. Nearly 70 per cent of directors perceive business exports to remain stable and nearly 60 per cent believe that the level of outsourcing will remain stable.

Changes in the business: over coming year (to Jun'13) (%)



B4: To what extent, if any, do you expect these things to change over the coming year (to June 2013)?
 Base: All respondents n=540

Main reason for change in staffing levels/labour demand

38

Akin to 1st half 2012 results, nearly half of directors believe that a change in business conditions is the main reason for changes in staffing levels/labour demand, followed by changed economic conditions.

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 2012	53	35	63
	2 nd Half 2012	47 ↓	38	59
Changed economic conditions	1 st Half 2012	26	43	16
	2 nd Half 2012	35 ↑	50 ↑	16
Workplace laws	1 st Half 2012	6	10	5
	2 nd Half 2012	2 ↓	4 ↓	0 ↓
Changed wage levels	1 st Half 2012	3	6	1
	2 nd Half 2012	4	5	2
Parental leave laws	1 st Half 2012	0	0	0
	2 nd Half 2012	0	0	0
Other	1 st Half 2012	12	6	15
	2 nd Half 2012	11	3 ↓	20 ↑

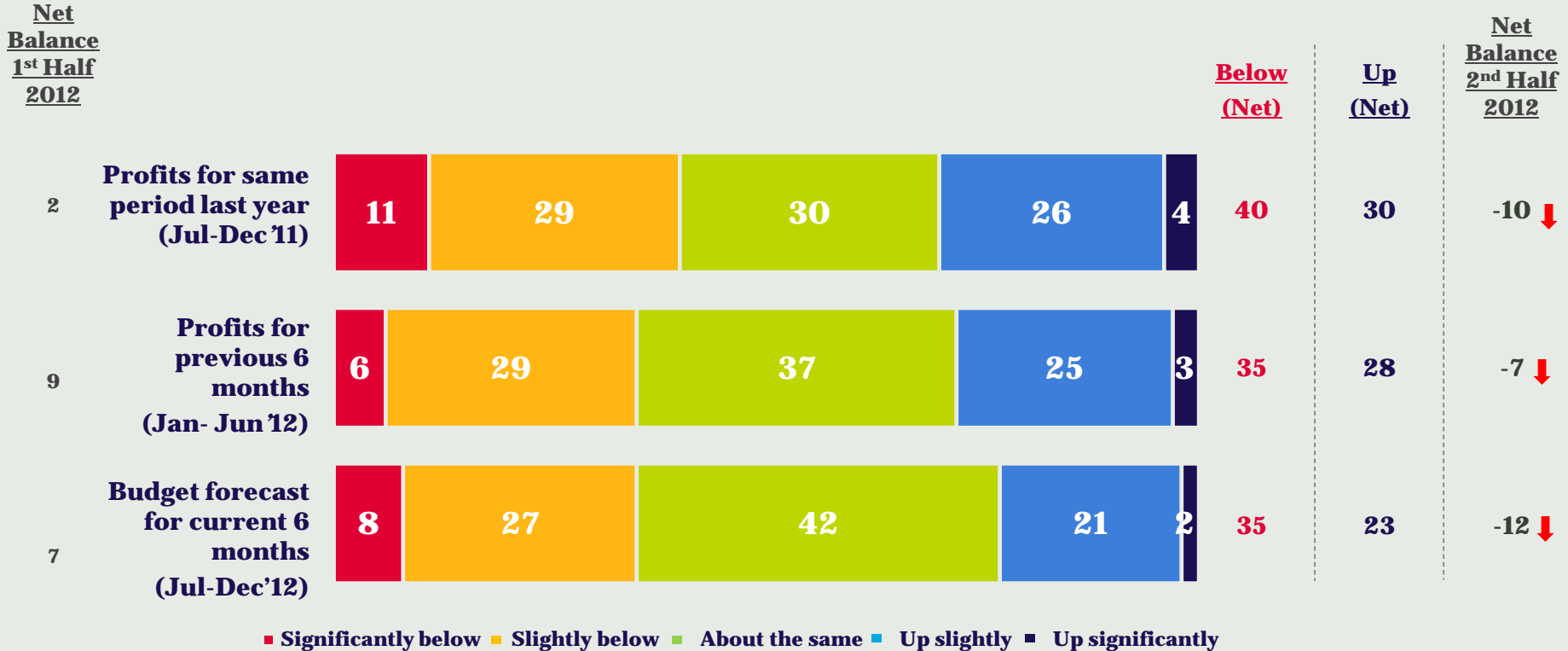
B7: What is the main reason for this expected change in staffing levels/labour demand?

Base: n=281 (who expected a change in staffing levels/labour demand), n=146 (expect decrease), n=135 (expect increase)

Profits for current six months compared to...

Lower expectations of profits in the current survey, compared to 1st half 2012 survey results. Directors are slightly pessimistic, with more than 30 per cent expecting a decrease in profits 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 (Jul-Dec'12) compared to... (%)



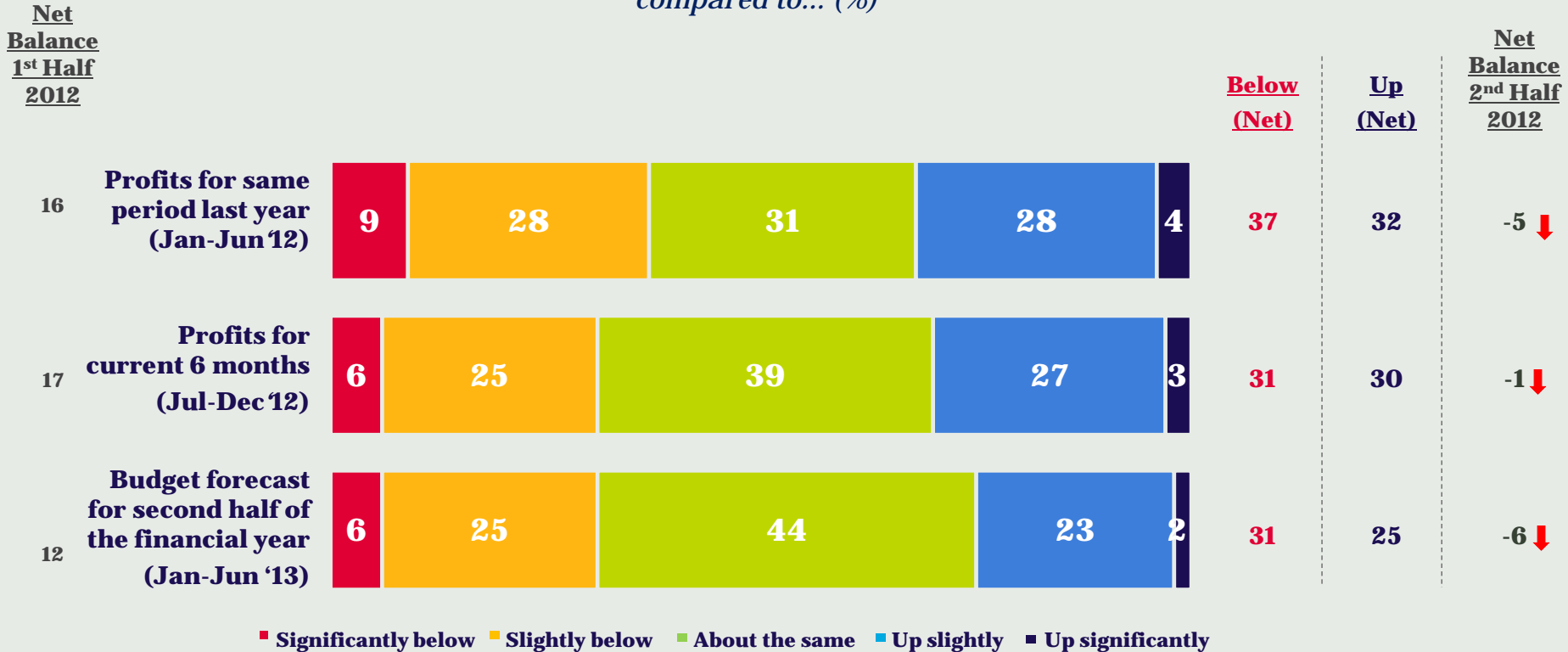
B8a: How do you expect your actual profits for the current 6 months, July to December 2012, to compare to...?

Base: All respondents n=540

Profits for second half of year compared to...

Lower expectations of profits for the 2nd half of 2012. Directors are fairly evenly split regarding their projections, with around one third of directors expecting either an increase or a decrease in profits compared to the same period last year, the previous six months, and the budget forecast for the 2nd half of the financial year.

Expected profits for the second half of this year (Jan –Jun 2013) compared to... (%)



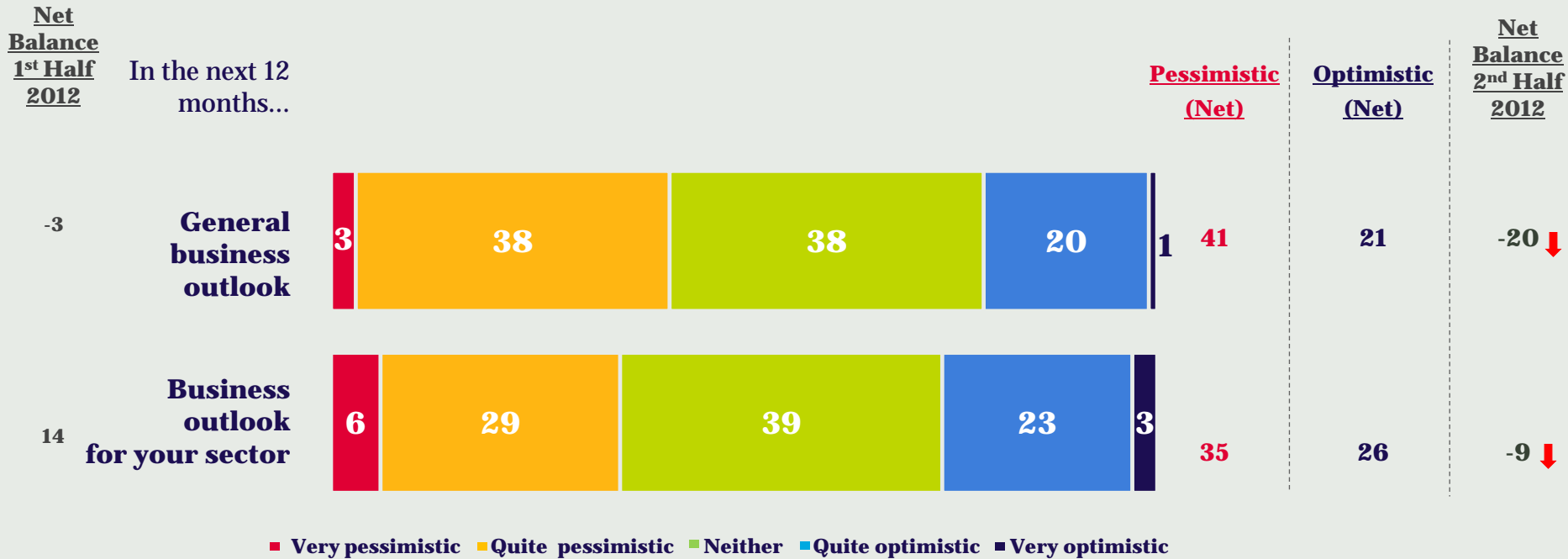
B8b: How do you expect your actual profits for the second half of this year, January to June 2013, to compare to...?

Base: All respondents n=540

Confidence in business outlook – next 12 months

More pessimistic business outlook in the 2nd half of 2012, with more than 40 per cent of directors feeling pessimistic about the general business outlook and more than 30 per cent feeling pessimistic about the outlook for their own sector.

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



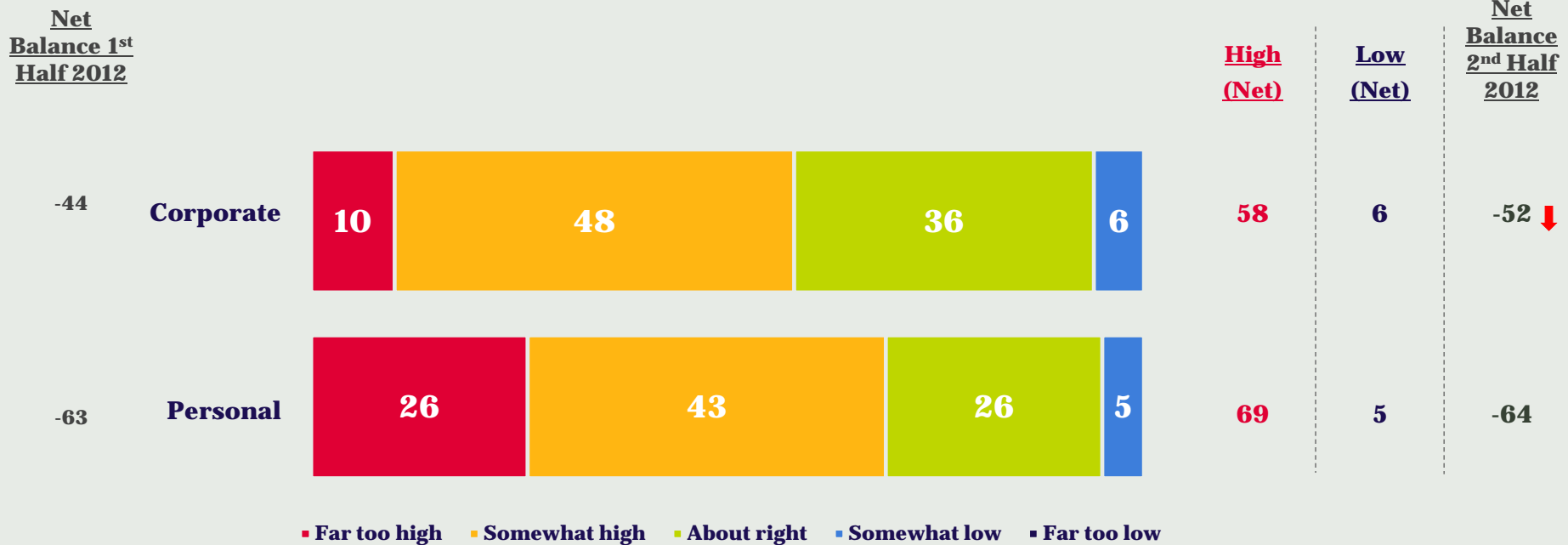
B9: Overall, how confident or otherwise are you about...?

Base: All respondents n=540

Level of taxation in Australia

Directors are more pessimistic regarding the level of corporate taxation in Australia, with more than half of directors maintaining the belief that corporate taxation is too high. Akin to 1st half 2012 results, nearly 70 per cent of directors believe that the level of personal taxation 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=540

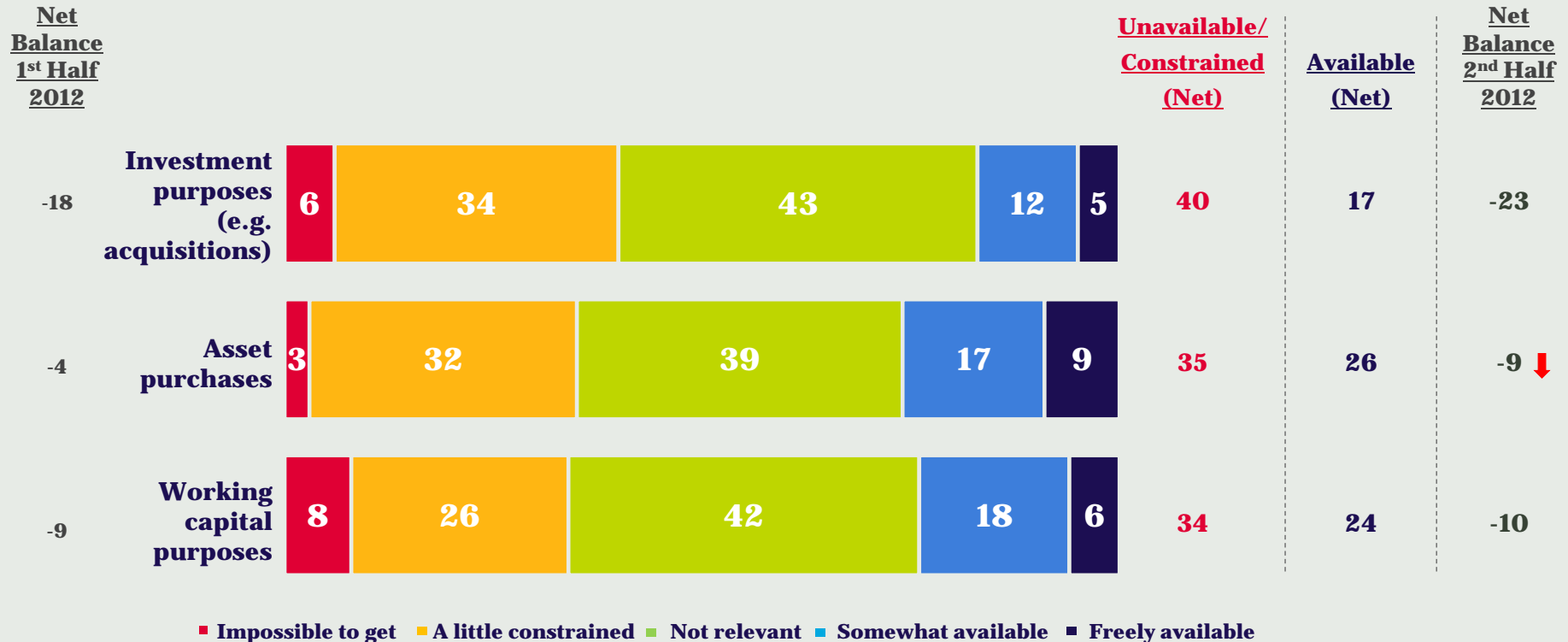
Lifblood of the economy

Credit availability

Credit availability for business – Jan-Jun’12

In line with 1st half 2012 results, 40 per cent of directors believe that credit availability for investment purposes was constrained in the last six months. More than 30 per cent believe that credit for asset purchases and working capital purposes was also constrained, with credit for asset purchases perceived to be more constrained than the 1st half of 2012.

Credit availability for business - Jan-Jun’ 12 (%)



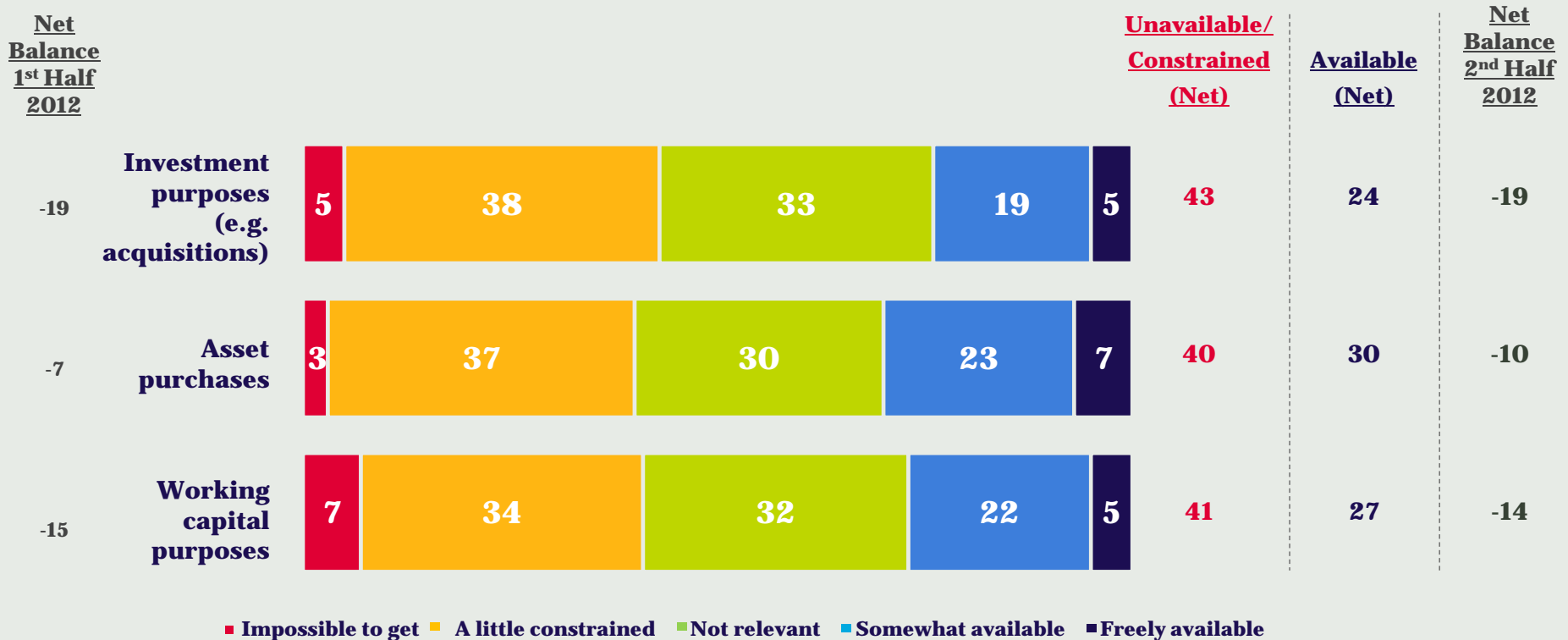
C1: For the business, what has been the experience over the period January to June 2012 relating to...?

Base: All respondents n=540

Credit availability for business – next 12 months

Directors remain pessimistic regarding credit availability in the future, with about 40 per cent of directors predicting that credit for investment purposes, asset purchases, and working capital purposes will remain constrained over the coming year.

Credit availability for business - next 12 months (%)

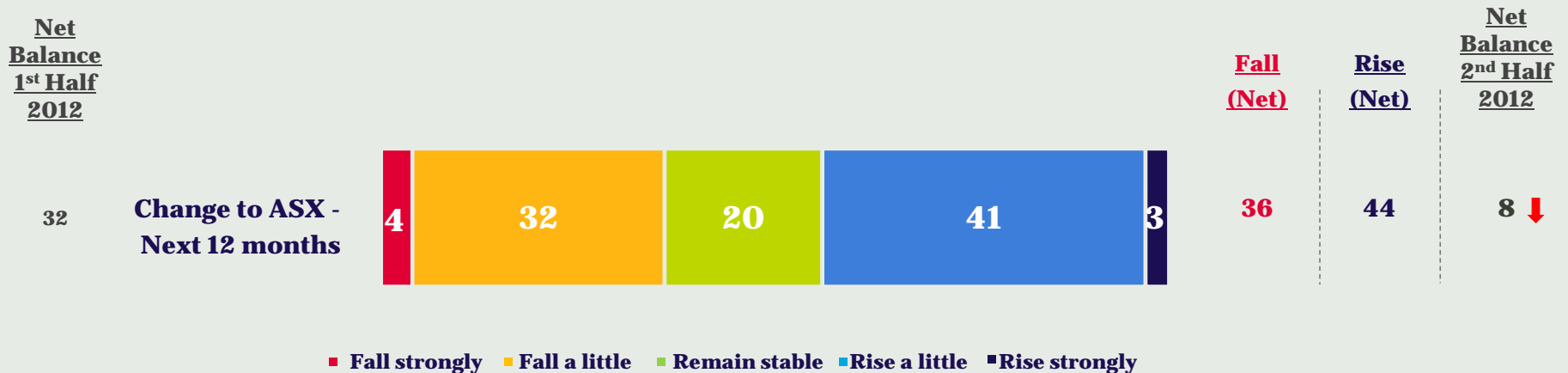


C2: And what is your expectation of credit availability over the next 12 months?
 Base: All respondents n=540

Expected change to ASX All Ordinaries index - next 12 months

Less optimistic outlook regarding the ASX All Ordinaries Index in the 2nd half of 2012, with nearly 40 per cent of directors expecting a fall in the ASX All Ordinaries in the coming year. The proportion of directors expecting an increase has decreased since the 1st half 2012 survey.

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

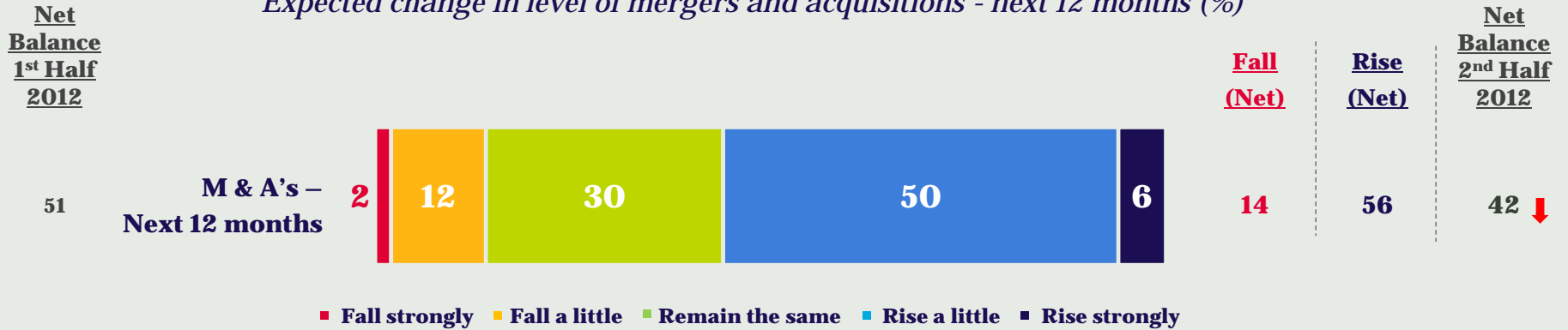


C3: What is your expectation of changes to the ASX All Ordinaries index over the next 12 months?
 Base: All respondents n=540

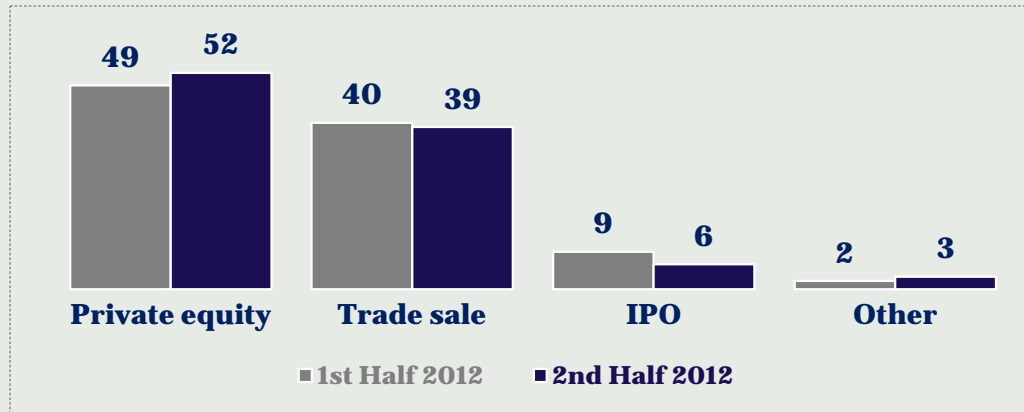
Expected change in level of mergers and acquisitions – next 12 months 47

More than half of directors expect a rise in mergers and acquisitions over the next 12 months (a lower level compared to 1st half 2012 results). Private equity is still expected to be the most active business purchaser in the coming year, followed by trade sale.

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



Most active business purchasers - next 12 months (%)

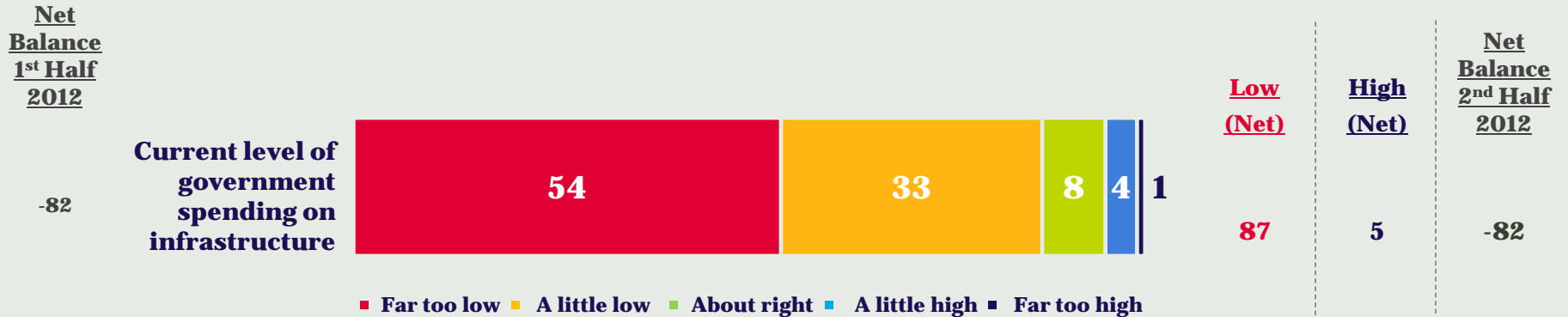


Infrastructure

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 (%)



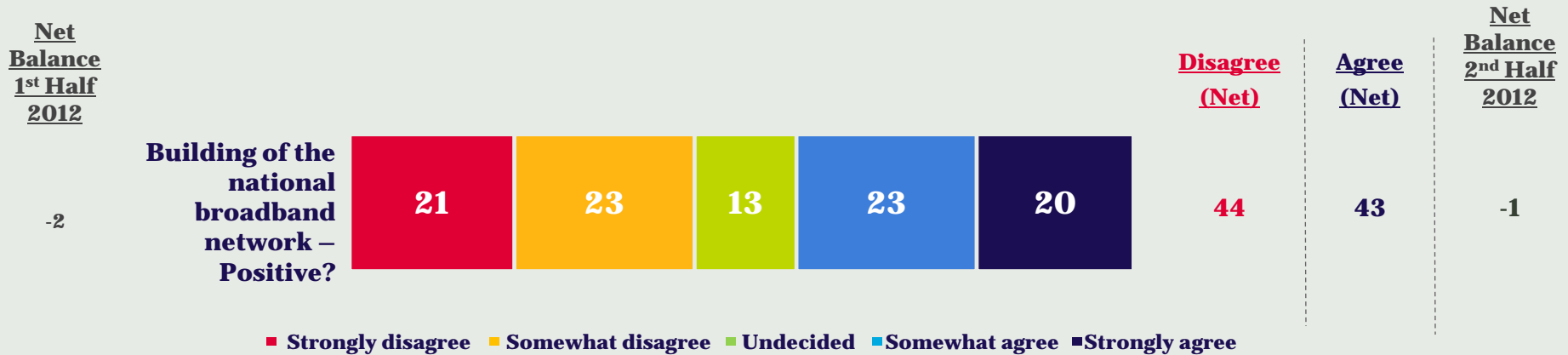
11: In your opinion, is the current level of Government spending on infrastructure...?

Base: All respondents n=540

Building of National Broadband Network (NBN)

In line with 1st half 2012 results, sentiment regarding the building of the NBN remains divided, with more than 40 per cent of directors agreeing that the NBN is a positive thing for Australia and more than 40 per cent of directors in disagreement with this statement.

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=540

Top 5 areas of infrastructure

51

In line with 1st half 2012 survey results, directors have identified roads as the most important area of infrastructure for investment, followed by telecommunications, water supply and port infrastructure.

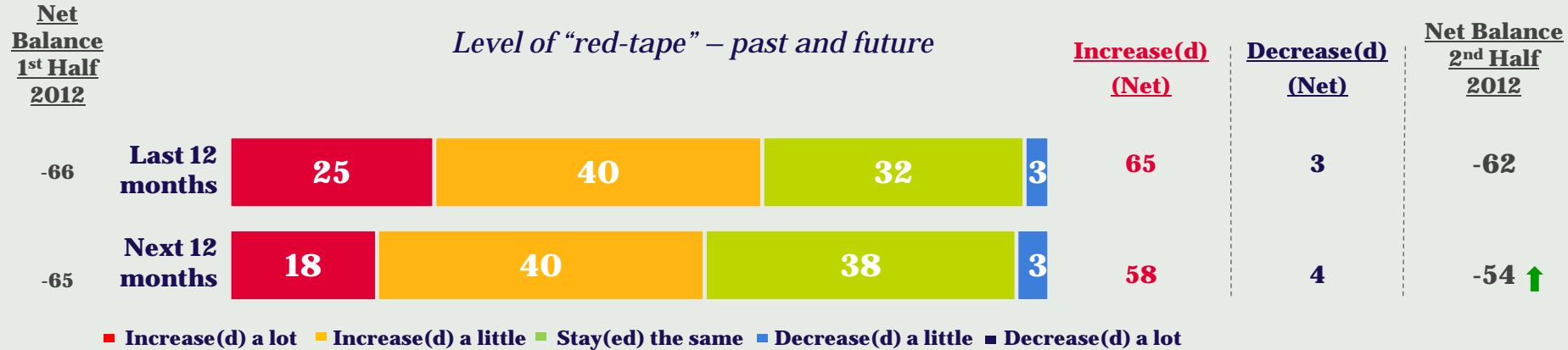
Top 5 areas of infrastructure in order of importance –
where 1 is the most important and 5 is the least (%)

	%						Total	
		1	2	3	4	5	<u>1st Half 2012</u>	<u>2nd Half 2012</u>
Road		16	14	12	11	9	57	62
Telco networks		14	10	9	9	13	56	55
Water supply		9	9	11	12	9	51	50
Port		11	9	8	10	8	49	46
High speed rail		10	9	8	9	8	42	44
Regional transport		4	9	12	8	10	43	43
Urban rail		9	9	7	9	7	42	41
'Green' energy sources		9	8	9	8	7	44	41
Airport		4	7	7	7	8	29	33
Intercity freight		5	6	5	7	8	31	31
Nuclear power		4	4	5	3	6	25	22
Light rail		2	4	4	4	4	16	18
Coal power		3	1	3	2		12	10
Other	1	1	1	1	1		5	4

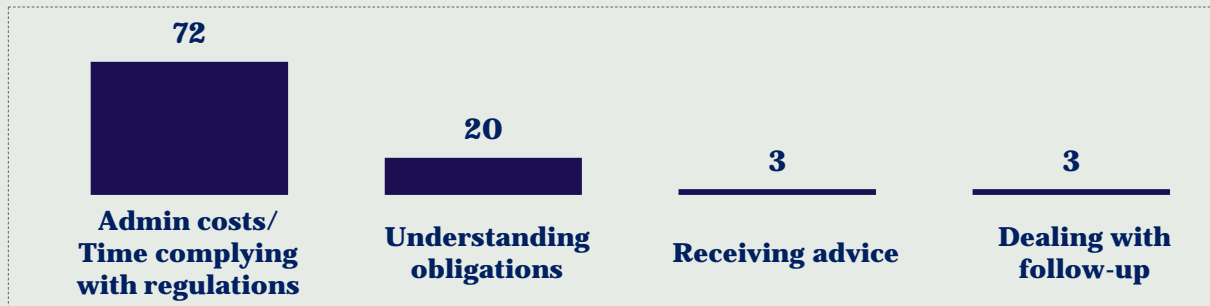
Regulatory environment

Level of “red tape”

Directors remain pessimistic regarding the level of “red tape” in the past 12 months, but are slightly less pessimistic about the level of “red-tape” in future, compared to the findings of the 1st half 2012 survey. More than 70 per cent of directors identify administrative costs and the time associated with complying with regulations as the aspect of “red tape” having the greatest impact on their business.



#Aspects of red-tape – most impact on business (%)



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?

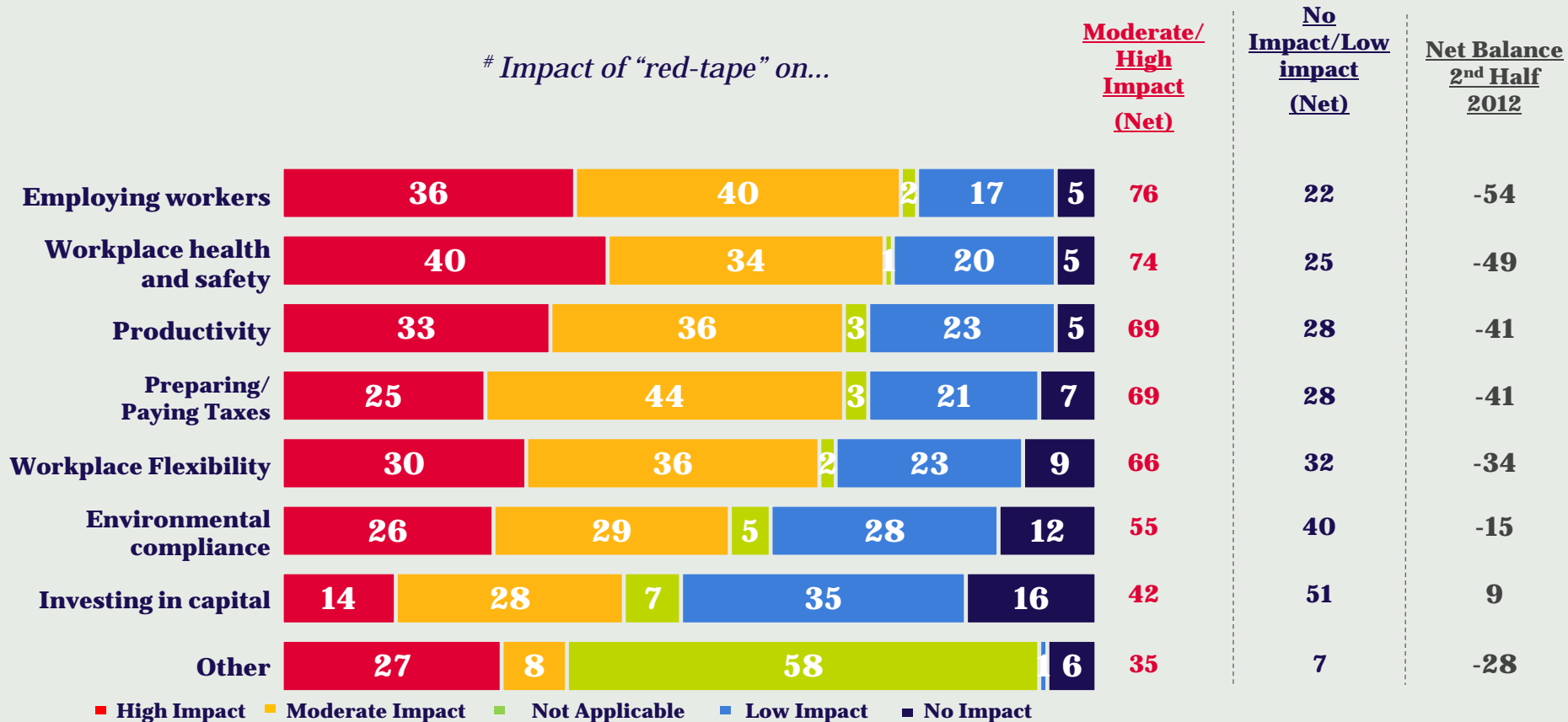
RE2A: For your primary directorship, what aspect of ‘red-tape’ impacts your business the most?

Base: All respondents n=540

Note: New question asked in 2nd half 2012

Impact of “red tape” on business

More than 70 per cent of directors identify employing workers and workplace health and safety as the aspects of their business most affected by “red tape”, followed by productivity and preparing /paying taxes.



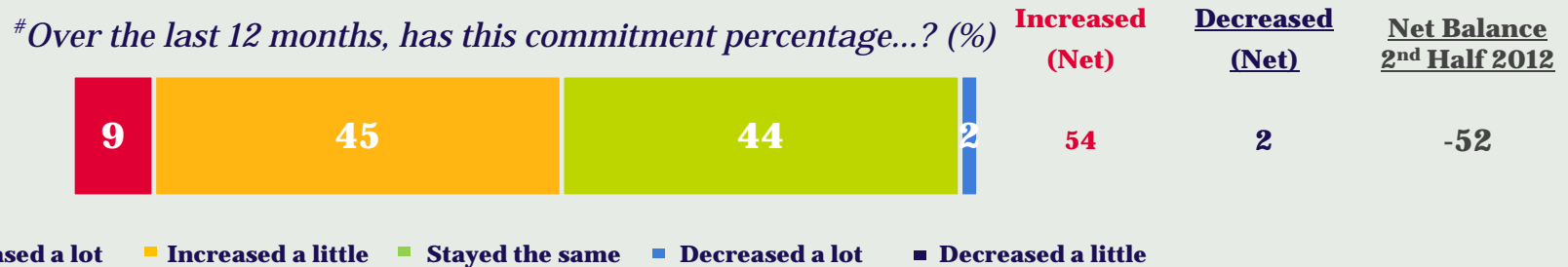
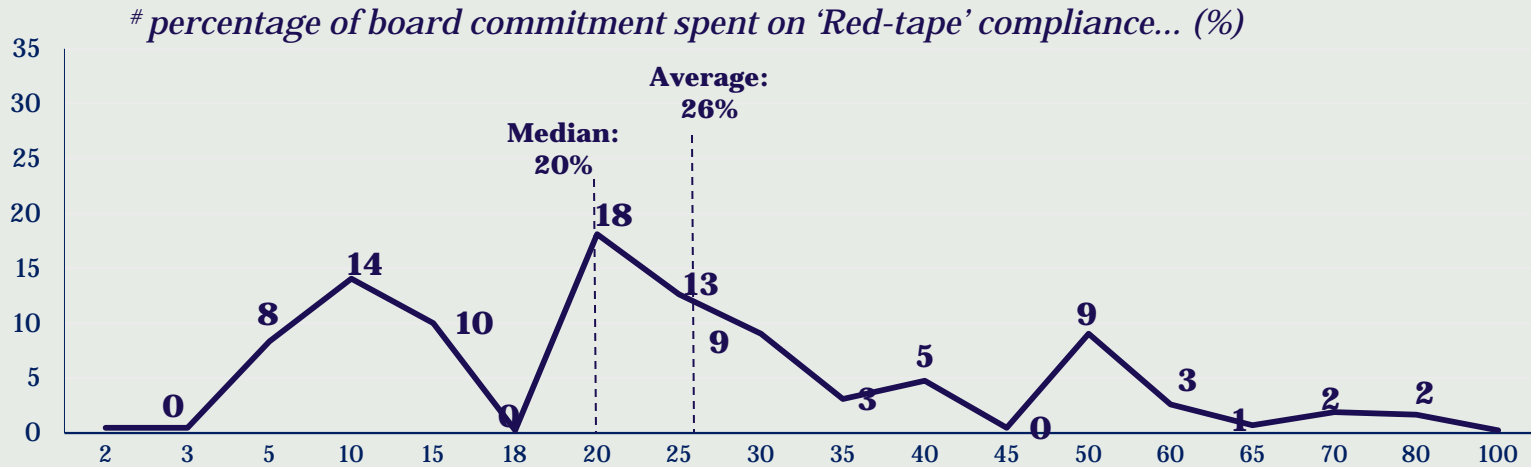
Note: New question asked in 2nd half 2012

RE2B: What impact (cost/time) does ‘red-tape’ have on the following areas of your business?

Base: All respondents n=540

Percentage of board commitment on “red-tape” compliance

On average, directors rate “red-tape” compliance as consuming about one-quarter of their total board commitment. More than half of directors believe that the level of board commitment spent on regulatory compliance has increased over the last 12 months.



RE8: In your primary Directorship, what percentage of your total board commitment is spent on regulatory or ‘red-tape’ compliance at present??

Note: New question asked in 2nd half 2012

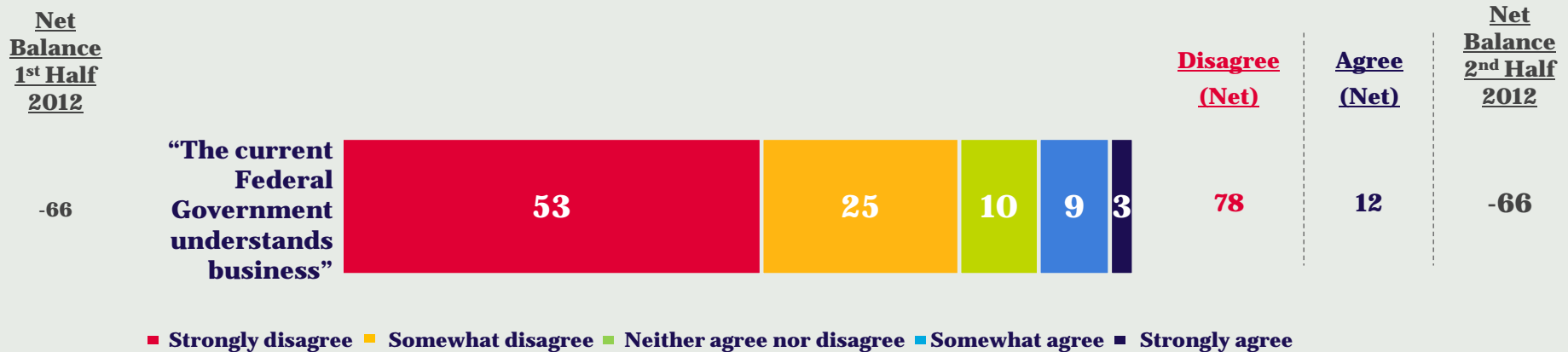
RE8a. Over the last 12 months, has this percentage of commitment...?

Base: All respondents n=540

Federal Government understanding of business

In line with 1st half 2012 survey results, disenchantment regarding the Federal Government's understanding of business remains, with nearly 80 per cent of directors maintaining the belief that the Federal Government lacks understanding of business.

Does the current Federal Government understand business? (%)

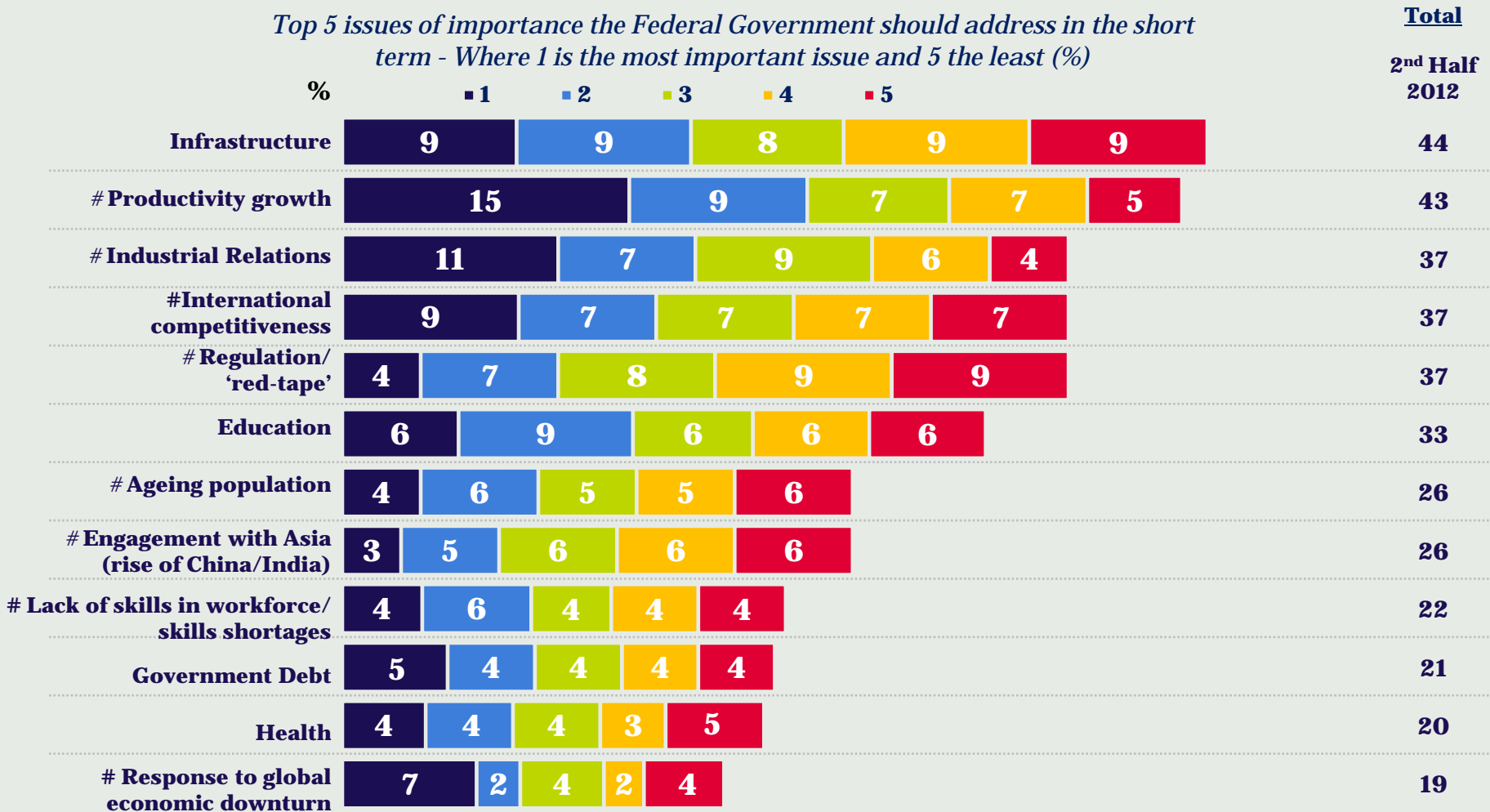


RE3: To what extent do you disagree or agree with the statement "The current Federal Government understands business"?
 Base: All respondents n=540

Issues Federal Government should address in short term (part 1)

Infrastructure is still rated by directors as the top priority the Federal Government should address in the short term, followed by productivity growth.

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 (%)



Note: New statements added in 2nd half 2012

Issues Federal Government should address in short term (Part 2)

Natural disaster management systems and defence are rated by directors as the lowest short term priorities for the Federal Government.

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 (%)

Total
2nd Half 2012

% ■ 1 ■ 2 ■ 3 ■ 4 ■ 5

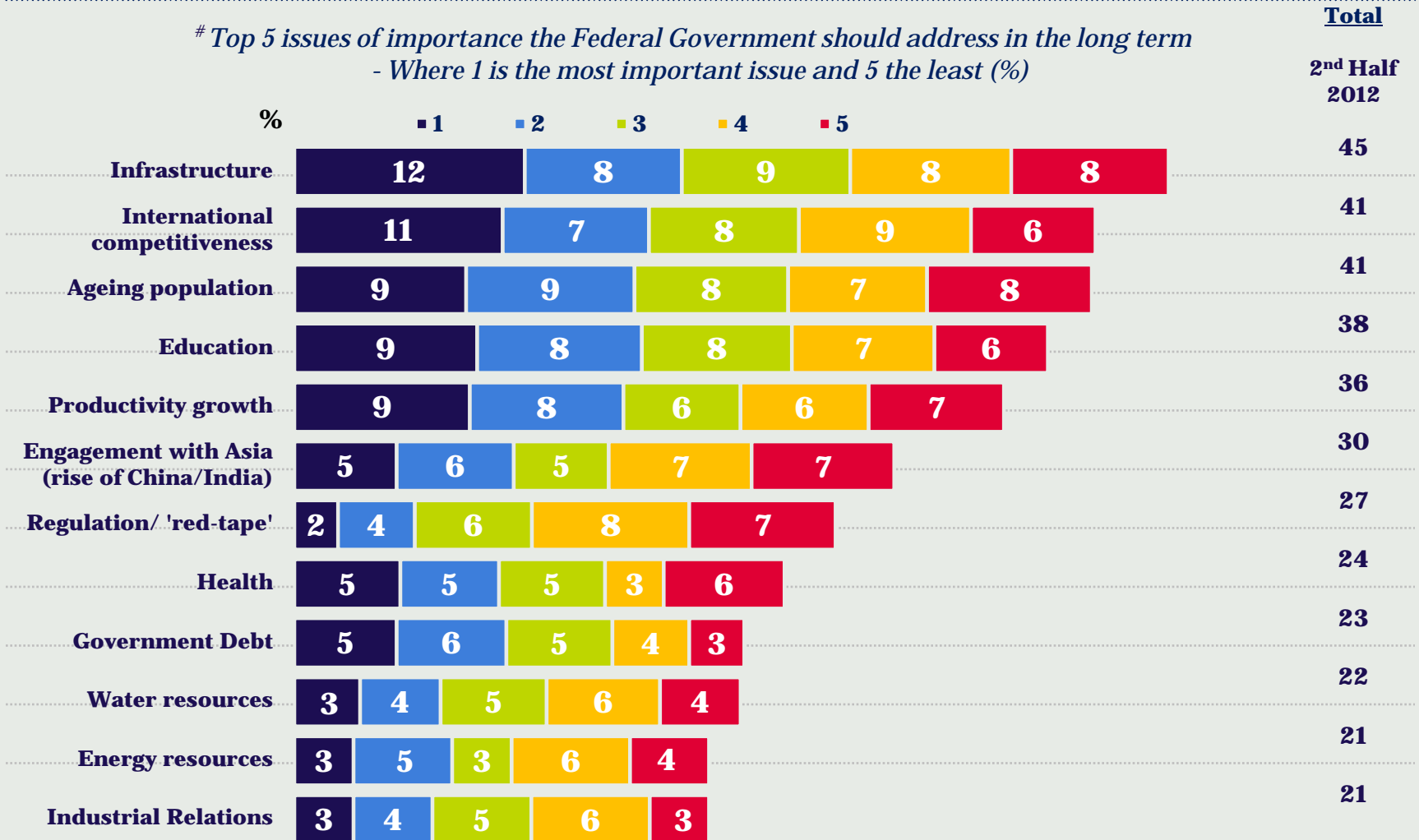
Issue	1	2	3	4	5	Total
Federal Budget Deficit	4	3	2	4	4	17
Energy resources	2	2	2	4	4	14
Superannuation	1	1	4	4	3	13
# Water resources	1	2	2	4	3	12
NBN rollout	1	2	3	2	2	10
# Border protection	1	2	1	3	3	10
# Climate change	2	2	2	2	1	9
Emissions trading / Carbon Tax implementation	1	2	2	2	2	9
# Skilled immigration	1	1	2	2	1	7
# Housing shortages	1	1	2	1	2	7
# Population planning	2	1	1	3		7
Defence	1	1	2	1		5
Natural disaster management systems	1					1

Note: New statements added in 2nd half 2012

Issues Federal Government should address in long term (part 1)

In line with the top short term priority that the Federal Government should address, infrastructure is also rated by directors as the top long term priority, this is followed by international competitiveness and the ageing population.

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

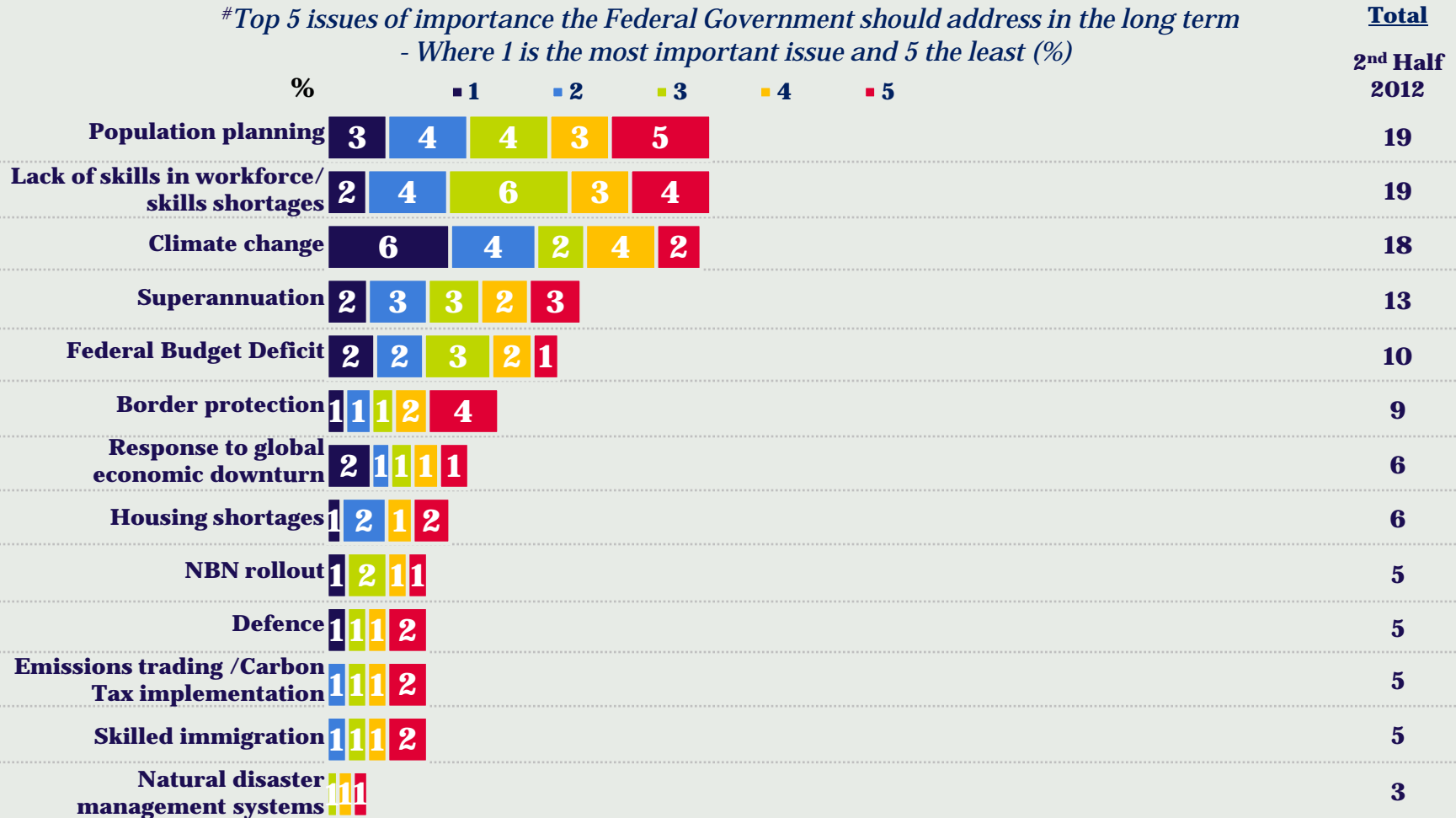


Note: New question asked in 2nd half 2012

Issues Federal Government should address in long term (part 2)

Natural disaster management systems and skilled immigration are rated as the least important long term priorities for the Federal Government.

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

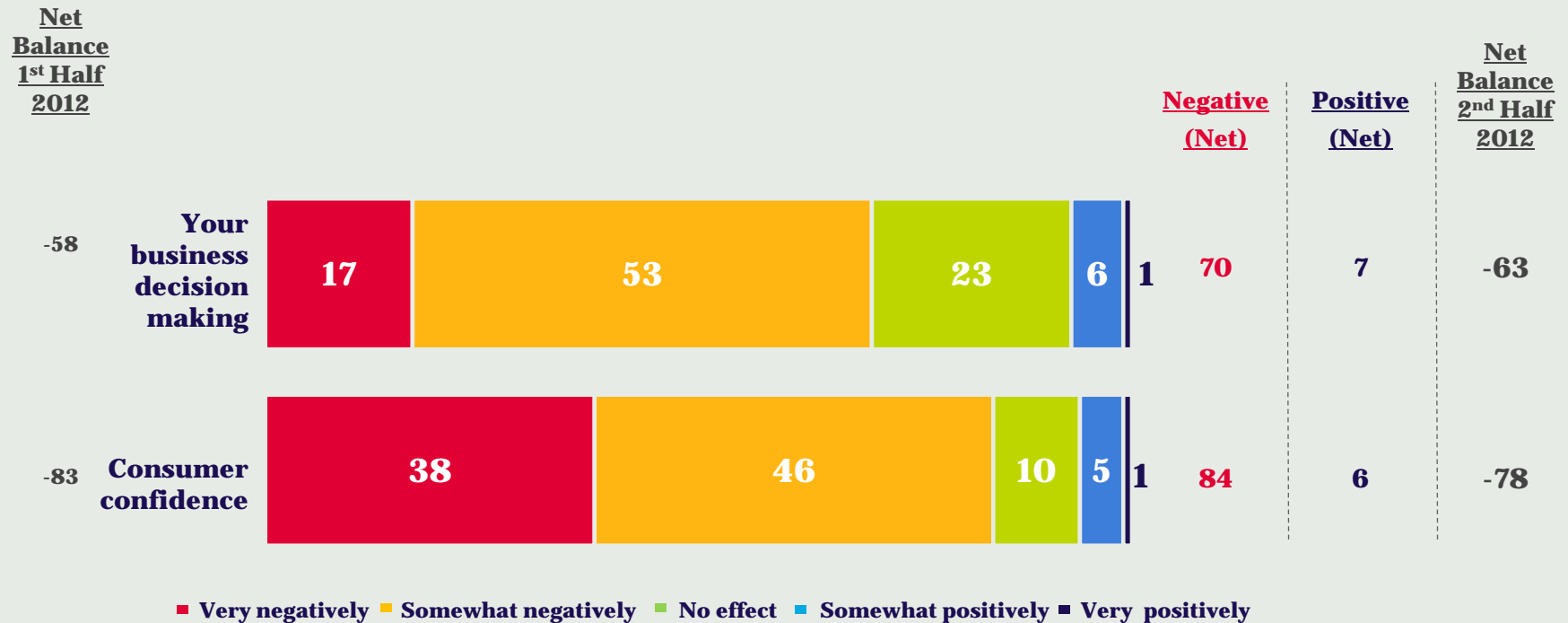


Note: New question asked in 2nd half 2012

Impact of Federal Government's performance on business

Akin to 1st half 2012 survey results, directors maintain a pessimistic outlook regarding the impact of the Federal Government's performance on business decision making and consumer confidence.

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

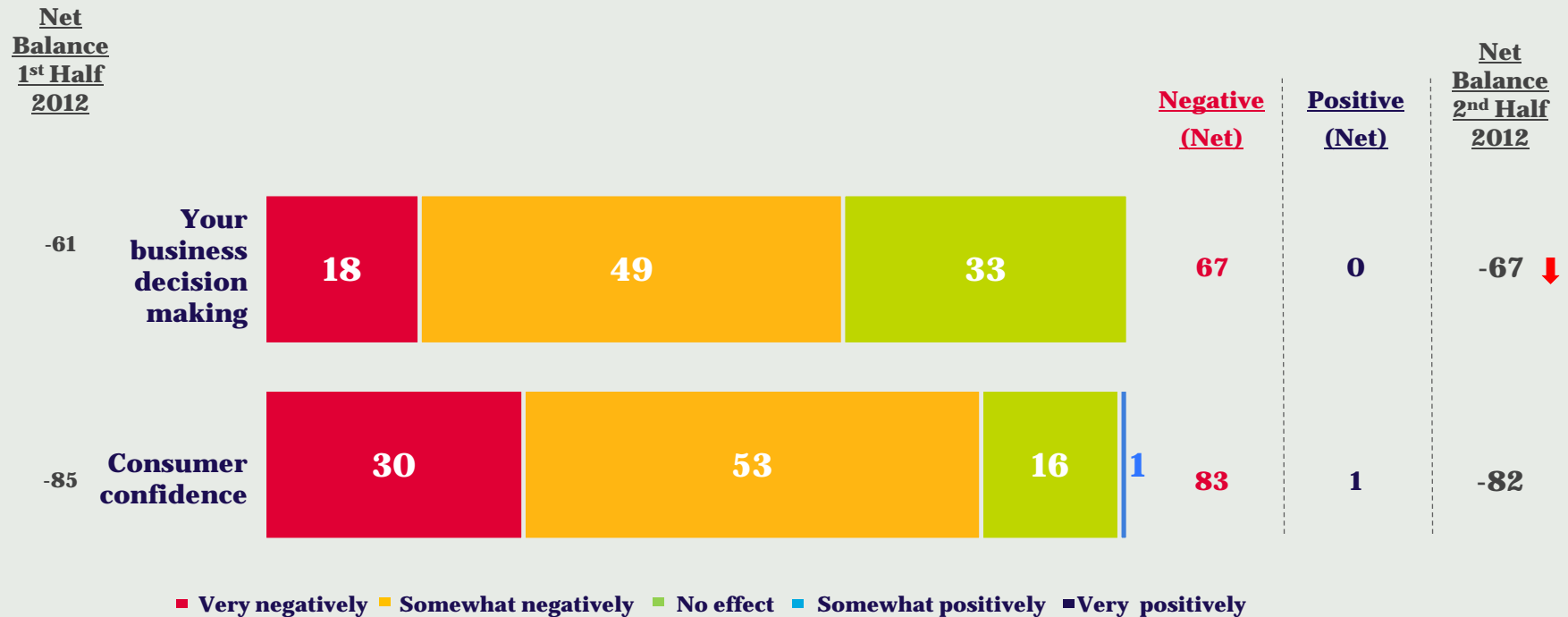


RE5: How is the current Federal Government's performance affecting...?
 Base: All respondents n=540

Impact of uncertainty of the future of the current parliament on business 62

In line with 1st half 2012 results, more than 60 per cent 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 more than 80 per cent 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=540

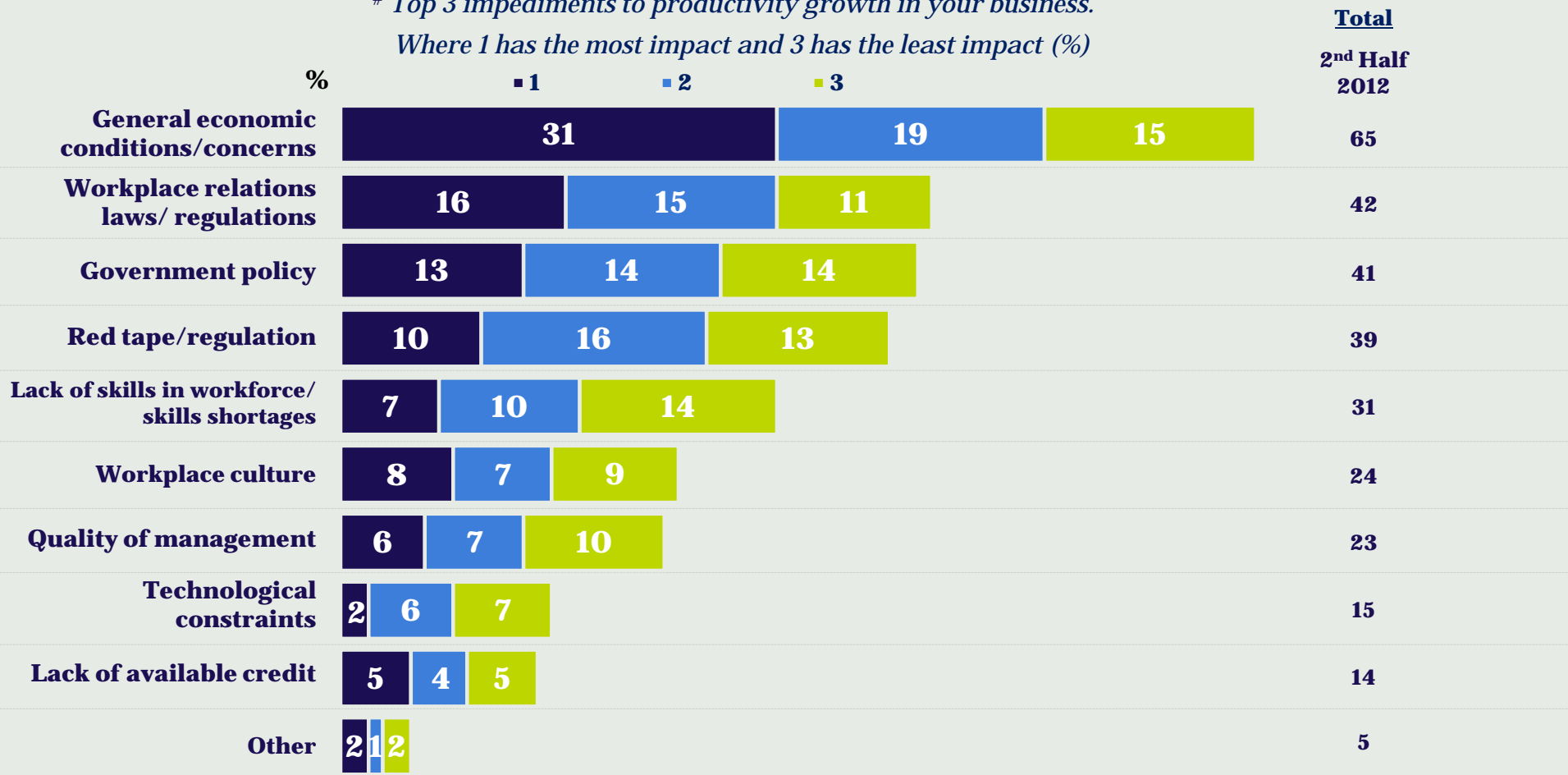
Impediments to productivity growth

63

Directors identify general economic conditions and concerns as the top impediment to productivity growth in their business, followed by workplace relations laws and regulations, as well as government policy.

Top 3 impediments to productivity growth in your business.

Where 1 has the most impact and 3 has the least impact (%)



Note: New question asked in 2nd half 2012

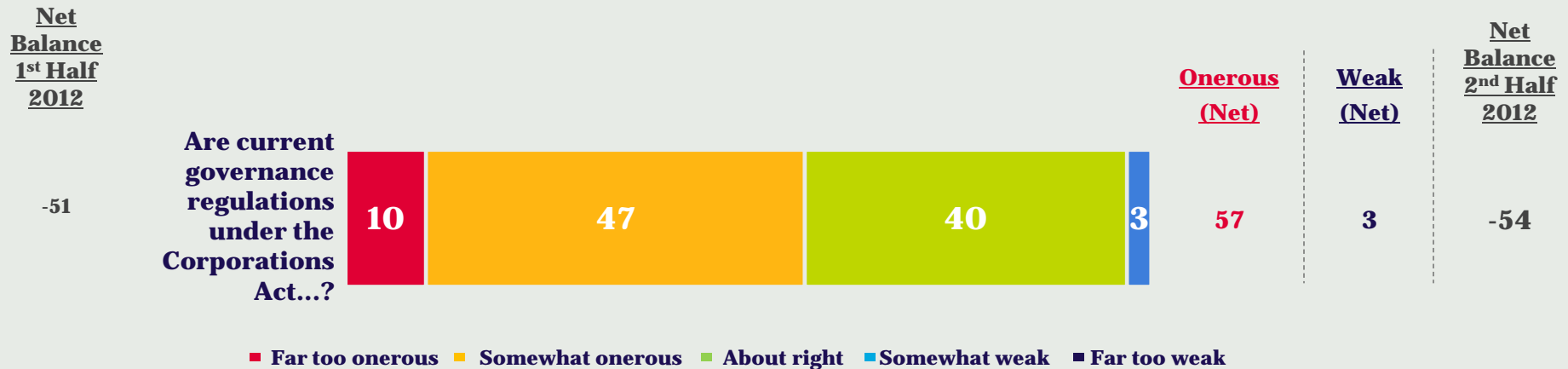
Governance

Key issues for directors and boards

Current governance regulations under the Corporations Act

In line with 1st half 2012 results, more than half of directors believe that current governance regulations under the Corporations Act are onerous.

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

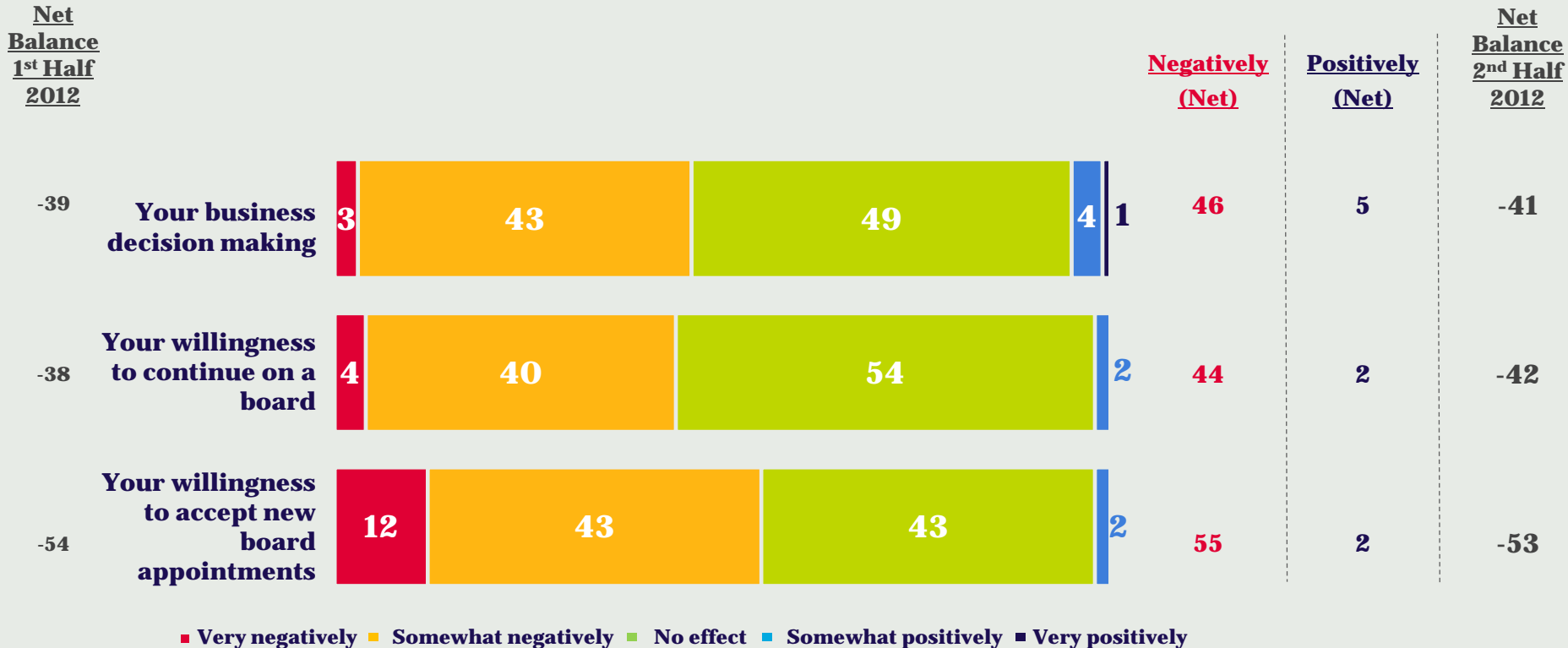


L1: In your opinion, are current governance regulations under the Corporations Act ...?
 Base: All respondents n=540

Impact of Commonwealth or state legislation on director liability

Akin to 1st half 2012 results, more than 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, while more than half of directors maintain the belief that director liability legislation negatively impacts their willingness to accept new board appointments.

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

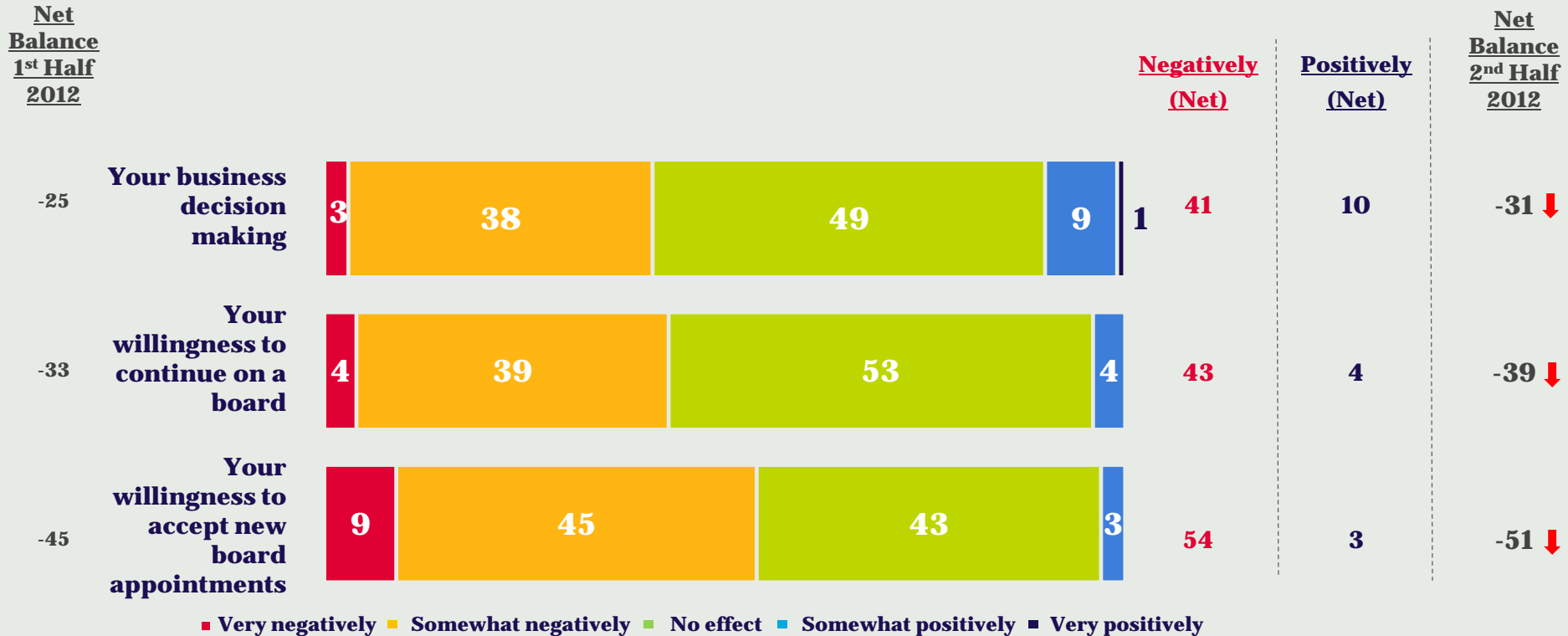


L2: How is Commonwealth or state legislation on directors' liability affecting...?
 Base: All respondents n=540

Impact of legal judgments on director liability

Directors are more pessimistic regarding the impact of legal judgements on director liability. More than 40 per cent of directors believe that legal judgements negatively affect their business decision making and willingness to continue on a board, and more than half believe that legal judgements negatively affect their willingness to accept new board appointments.

How legal judgments affect directors' liability (%)

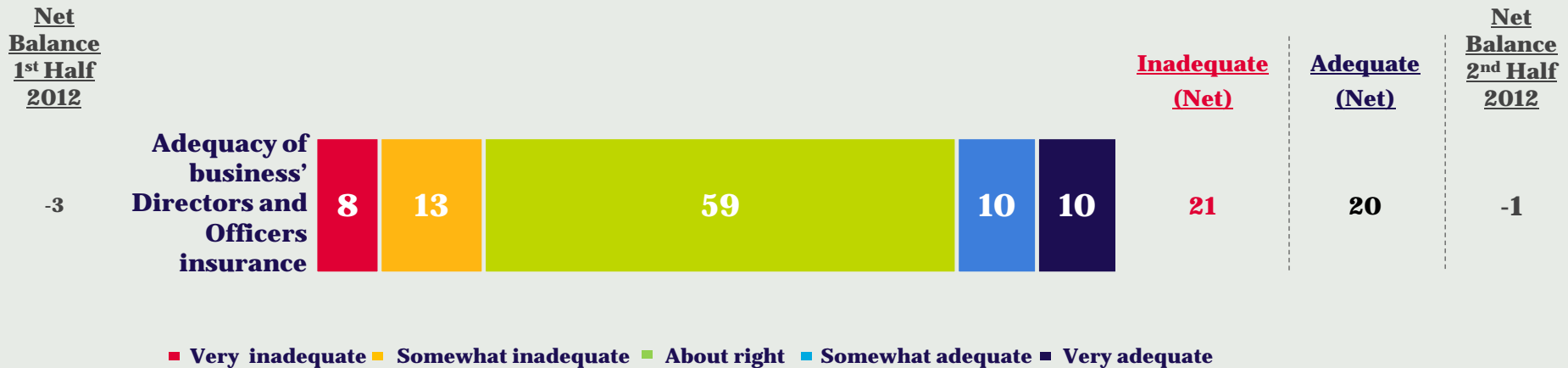


L2a: To what extent do legal judgments, such as the recent Centro case ruling, affect...?
 Base: All respondents n=540

Adequacy of Directors and Officers insurance

In line with 1st half 2012 survey findings, nearly 80 per cent of directors perceive their business' Directors and Officers insurance as adequate, or about right.

Adequacy of business' Directors and Officers Insurance (%)

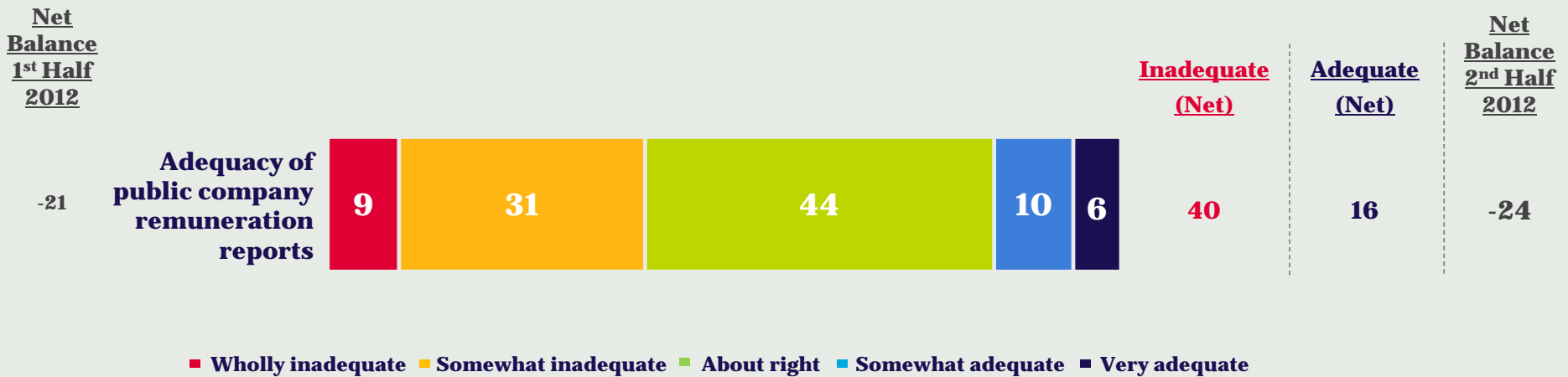


L3: How adequate is your business' Directors and Officers insurance?
 Base: All respondents n=540

Adequacy of public company remuneration reports

Directors continue to remain pessimistic regarding the adequacy of public company remuneration reports, with 40 per cent of directors perceiving public company remuneration reports as inadequate.

Adequacy of public company remuneration reports (%)

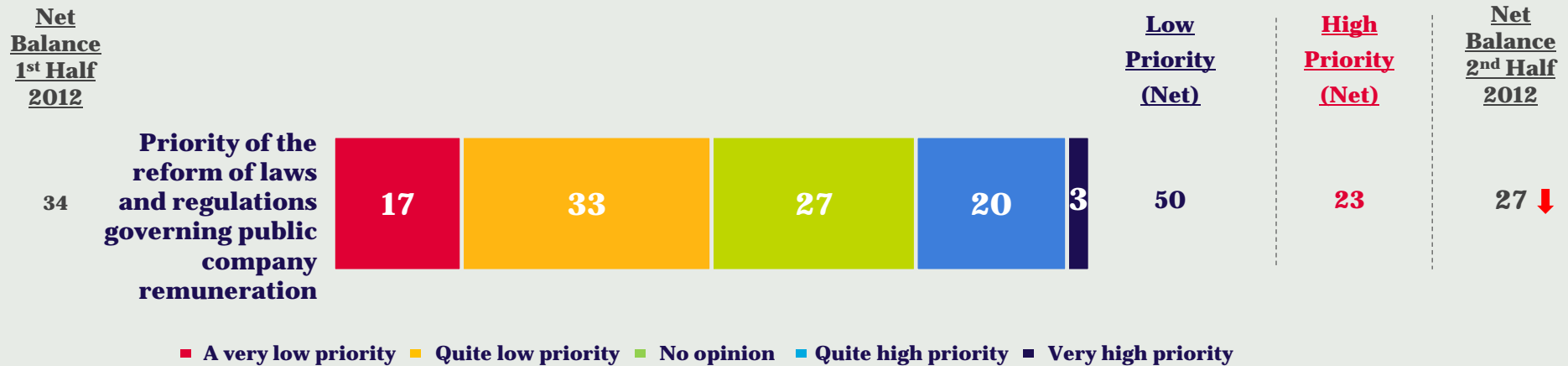


RI1: What is your view of the adequacy of public company remuneration reports?
 Base: All respondents n=540

Reform of laws and regulations governing public company remuneration

Directors have assigned less importance to the priority of the reform of laws and regulations governing public company remuneration in the 2nd half of 2012, with half of directors believing it should be a low priority.

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

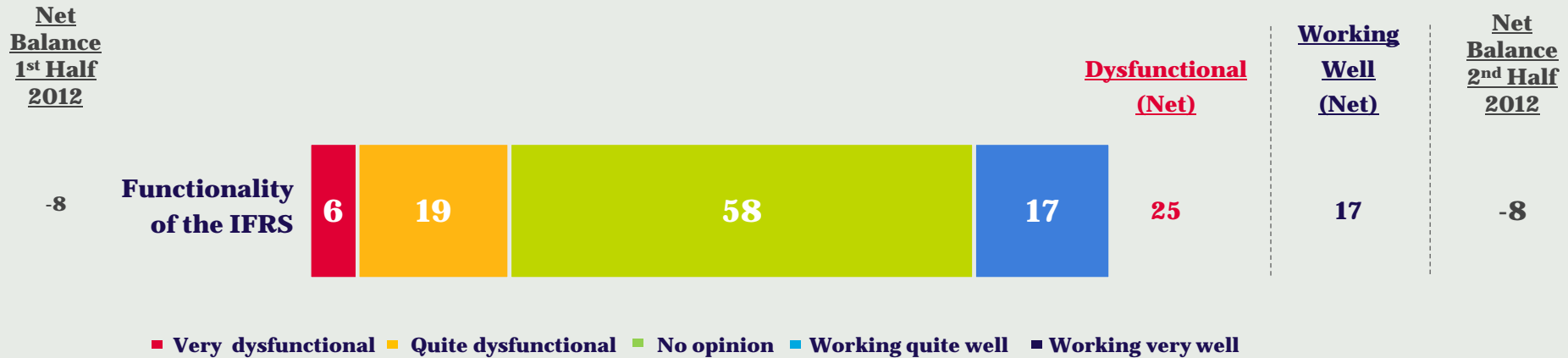


R12: In your opinion, should further laws and regulations governing public company remuneration be...?
 Base: All respondents n=540

International Financial Reporting Standards (IFRS)

Sentiment regarding the IFRS remains slightly pessimistic in the 2nd half of 2012, with one quarter of directors perceiving the functionality of the IFRS as dysfunctional.

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



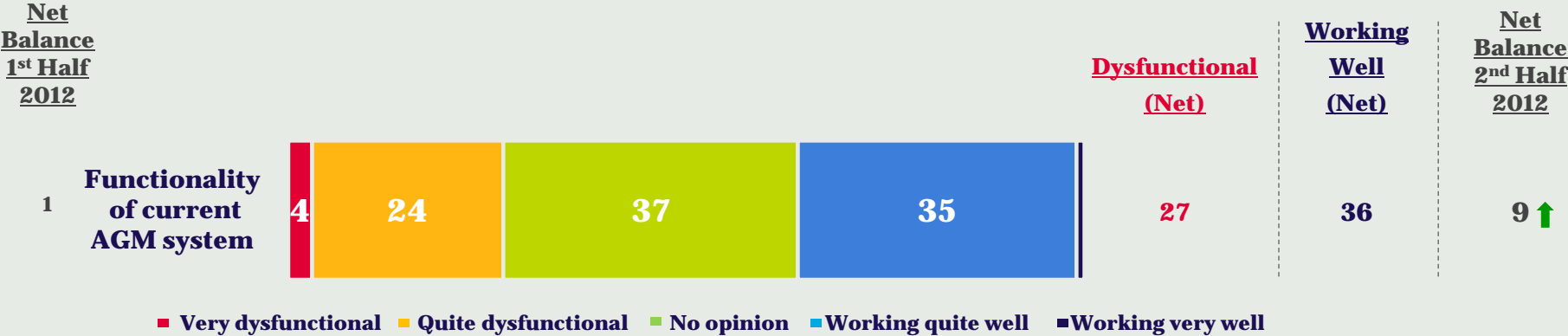
RI3: In your opinion, is the International Financial Reporting Standards (IFRS) system...?
 Base: All respondents n=540

Shareholder relations

Current AGM system

Increased optimism about the current AGM system, with more than 30 per cent of directors of the opinion that the current AGM system is working well.

Functionality of the current AGM system (%)

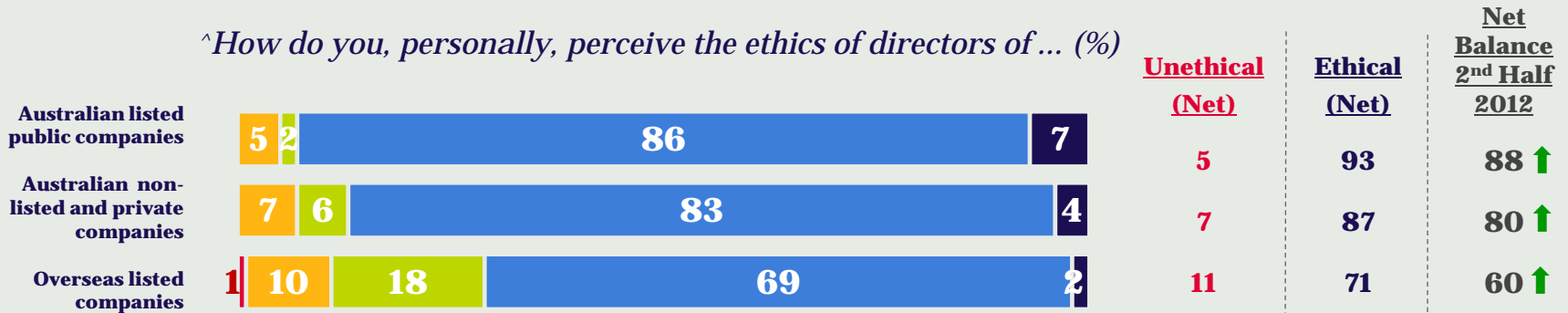


SR1: In your opinion, is the current AGM system...?
Base: All respondents n=540

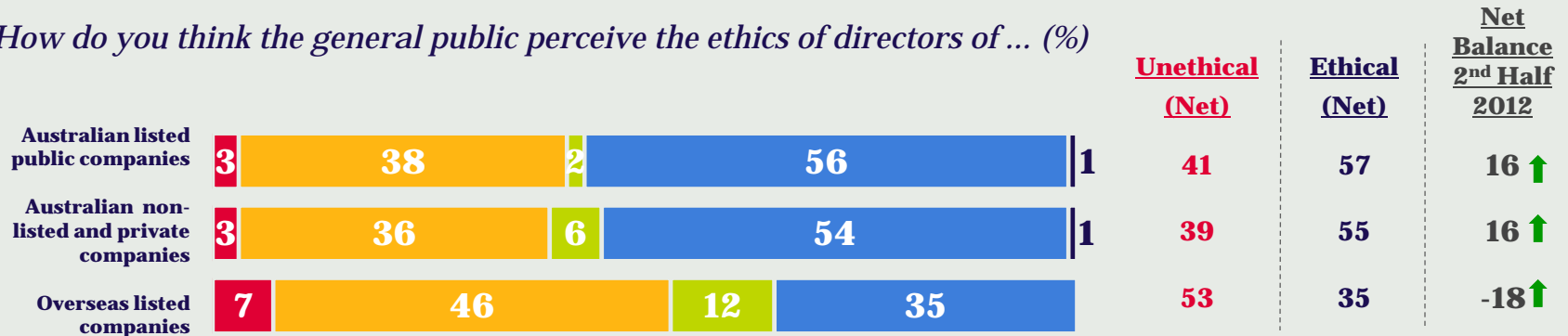
Personal perception of company directors' ethics

Overall, directors are optimistic in their perception, and public perception of company directors' ethics. Most directors perceive Australian companies as more ethical than overseas listed companies. Public perception of company director ethics is slightly less optimistic, with more than half of directors believing that the public perceives overseas listed companies as unethical.

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



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



■ **Totally unethical** ■ **Generally unethical** ■ **No opinion** ■ **Generally ethical** ■ **Totally ethical**

E13: How do you, personally, perceive the ethics of...?

E14: How do you think the general public perceive the ethics of...?

Base: All respondents n=540

^ Note: Answer scale changed in 2nd half of 2012 onwards

Directors' rights to trade in their company's shares

In line with 1st half 2012 survey results, more than 80 per cent of directors believe that directors should be allowed to trade in shares of their own companies, however about 60 per cent of these 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? (%)



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=540

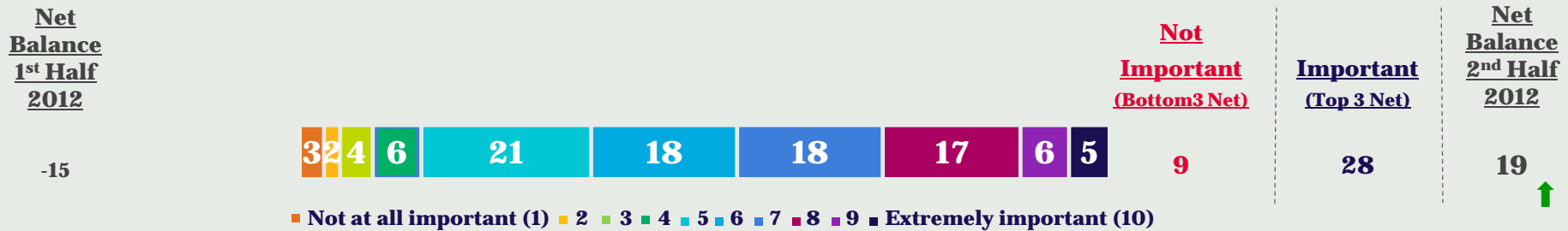
** Note: Allowed (Net) = Prescribed trading windows only + trading at discretion of chairman/board + Trade at their own discretion*

Environmental, Social and Governance issues

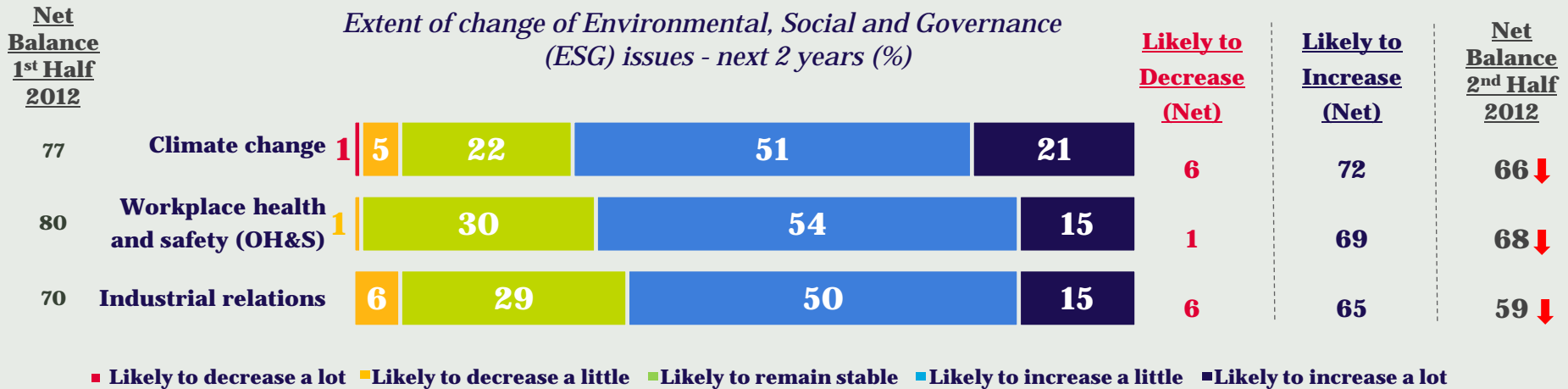
Extent of change/importance of ESG issues - next 2 years

An increased proportion of directors perceive Environmental, Social and Governance (ESG) issues as important within their business, with nearly 30 per cent perceiving it to be very important. Fewer directors believe that ESG regulation relating to climate change, Occupational Health and Safety and industrial relations will increase over the next 2 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 (%)



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?

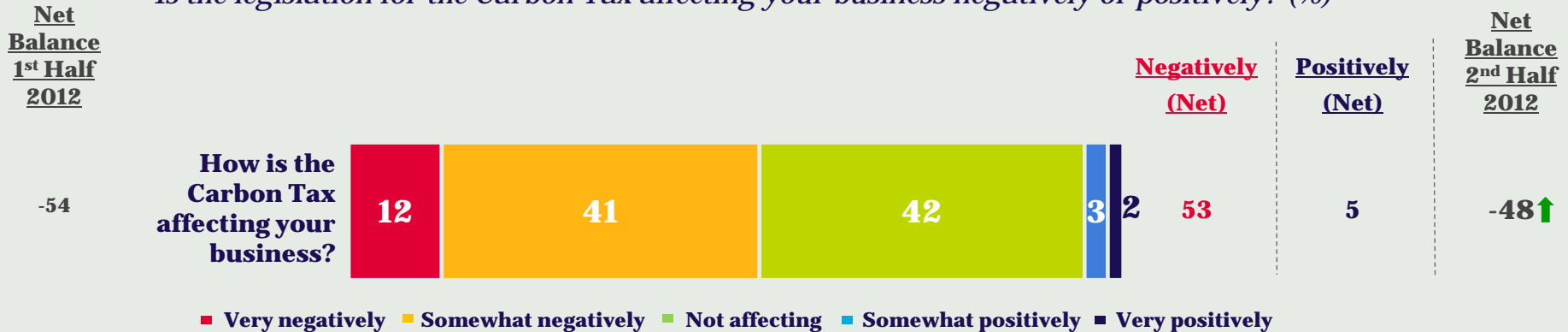
CS1: To what extent, if any, do you expect regulation over the area of Environmental, Social and Governance (ESG) issues to change over the next 2 years, in relation to....?

Base: All respondents n=540

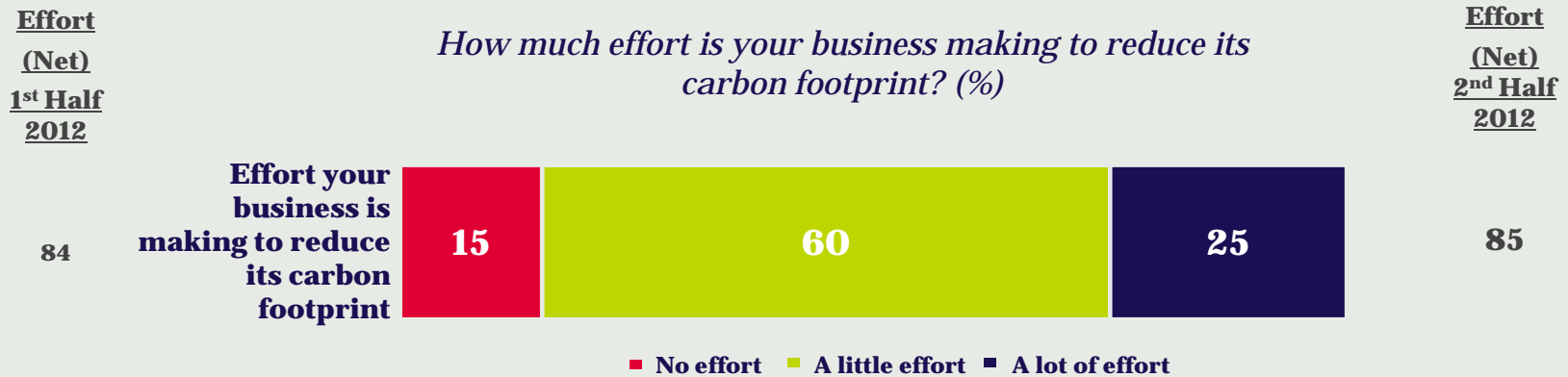
Effect of carbon price on business/business effort in reducing carbon footprint 78

Following the implementation of the Carbon Tax legislation, there is decreased pessimism regarding its impact on business, with half of directors of the belief that the Carbon Tax affects their business negatively. Akin to 1st half 2012 results, 85 per cent of directors maintain the belief that their business is making some effort to reduce its carbon footprint.

^ Is the legislation for the Carbon Tax affecting your business negatively or positively? (%)



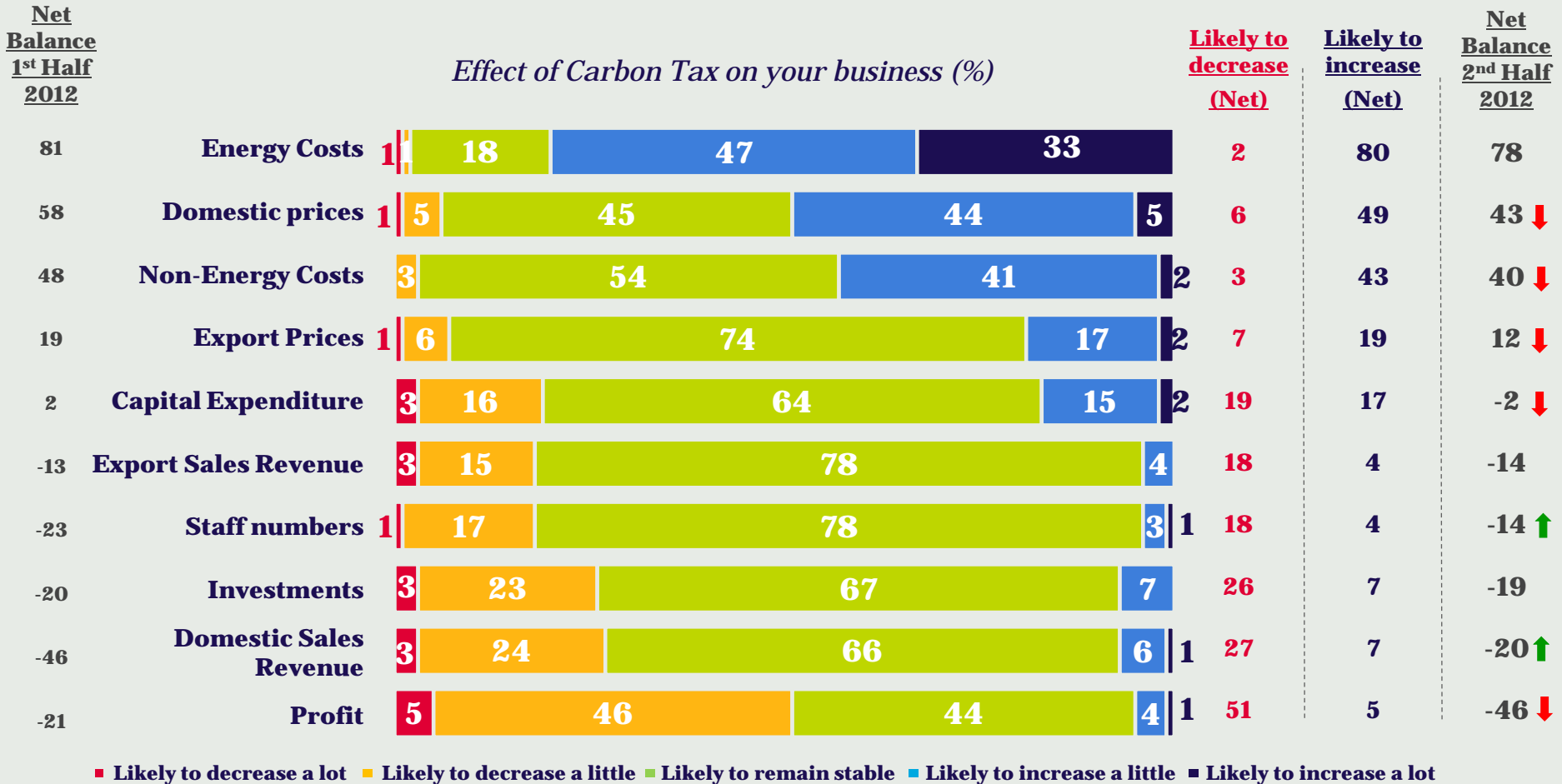
How much effort is your business making to reduce its carbon footprint? (%)



^ Note: Question reworded for 2nd half 2012 onwards due to implementation of Carbon Tax.

Impact of Carbon Tax on business

In line with 1st half 2012 survey results, most directors still believe that the Carbon Tax will have a negative impact on energy costs, domestic prices and non-energy costs, but to a lesser extent in the current survey. Directors are less pessimistic about the effect of the Carbon Tax on staff numbers and domestic sales revenue, however there is increased pessimism regarding its impact on profit.

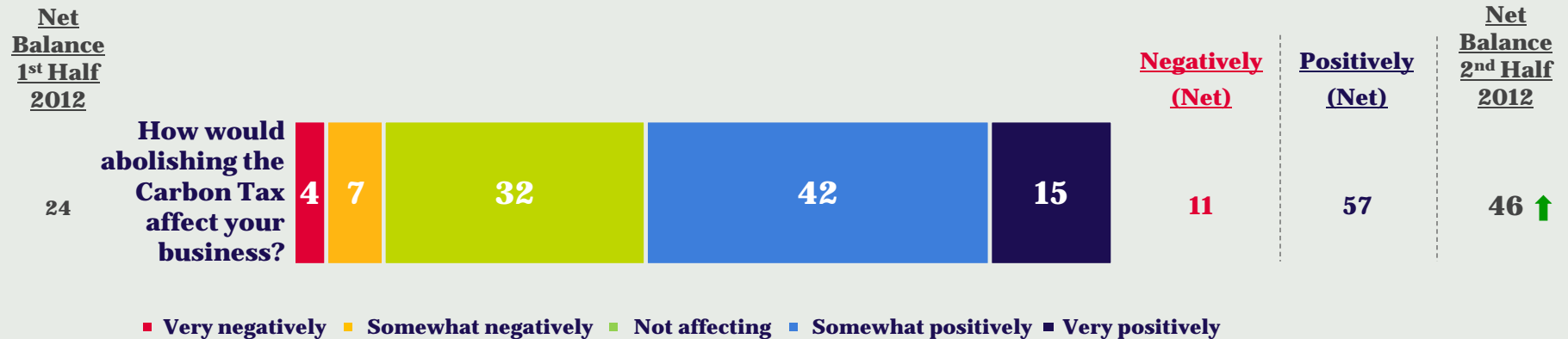


CC1b: How do you expect the following items in your business to be affected by the announced Carbon Tax?
 Base: All respondents n=540

Perceived impact on business of abolishing Carbon Tax

More than half of directors agree that the abolishment of the Carbon Tax would have a positive impact on their business (a higher proportion compared to 1st half 2012 survey results).

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



CC1c: How would you expect abolishing the Carbon tax to affect your business?
 Base: All respondents n=540

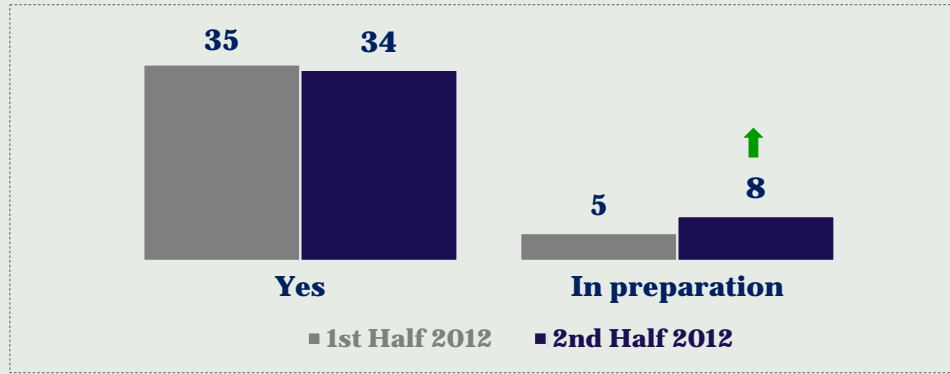
^ Note: Question reworded for 2nd Half 2012 onwards due to implementation of the Carbon Tax

Directorships and diversity

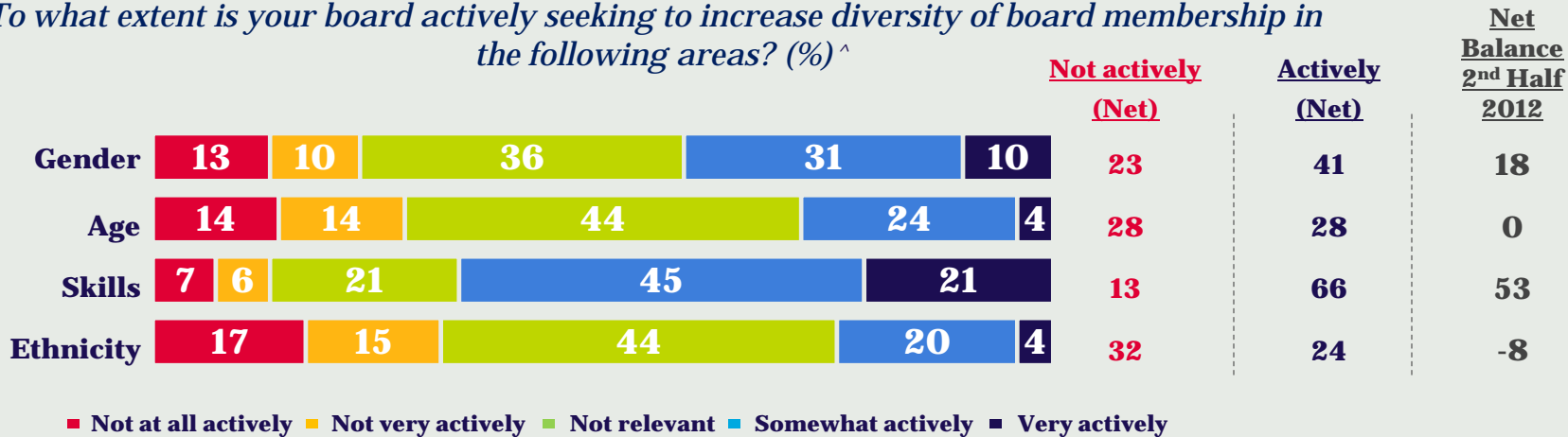
Board diversity: policy and efforts to increase

In line with 1st half 2012 results, more than 30 per cent of directors have a documented policy on board diversity within their organisation. More than 60 per cent of directors believe that their business is actively seeking to increase diversity of their board in terms of skills, and more than 40 per cent in the area of gender.

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



To what extent is your board actively seeking to increase diversity of board membership in the following areas? (%) ^



^ Note: Question reworded with segmentation for 2nd Half 2012 onwards

Change in number of personal directorships – next 12 months

More than half of directors maintain the belief that there will be no change in the number of their directorships over the coming year, however more than 30 per cent of directors predict an increase in directorships within the next 12 months (a higher proportion compared to 1st half 2012 survey results).

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



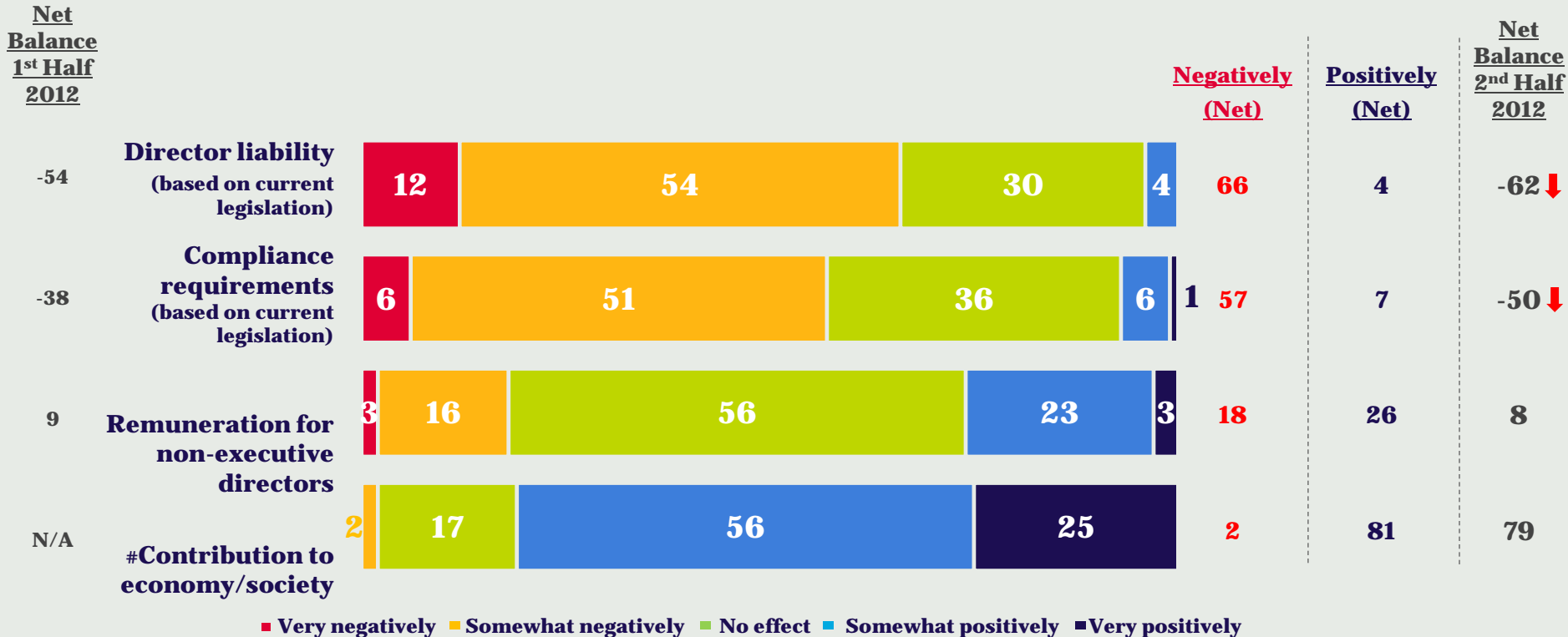
- Likely to decrease by >2
- Likely to decrease by 1-2
- Likely to stay the same
- Likely to increase by 1-2
- Likely to increase by >2

BD3: What change, if any, do you expect in the number of your directorships over the next 12 months?
 Base: All respondents n=540

Factors influencing your willingness to serve on a board

Most directors believe that director liability and compliance requirements negatively impact their willingness to serve on a board, and to a greater extent in the 2nd half of 2012. About 80 per cent of directors believe that the contribution they make to the economy and society positively effects their willingness 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=540

New statement added 2nd Half 2012