

2014

DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2014

Delivered by Ipsos MediaCT – May 2014

Director Sentiment Index

Table of Contents

03–92

03	Sample profile
04	Director Sentiment Index
07	Executive Summary
10	Research findings
17	Summary of key indicators and headlines
22	<i>Detailed results</i>
24	<i>Economic outlook</i>
50	<i>Lifeblood of the economy: Credit availability</i>
56	<i>Infrastructure</i>
59	<i>Regulatory environment</i>
74	<i>Governance: Key issues for directors and boards</i>
82	<i>Shareholder relations</i>
85	<i>Environmental, Social and Governance issues</i>
90	<i>Directorships and diversity</i>

First half 2014 sample profile

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

Fieldwork period: 31 March – 13 April 2014

Total respondents 525

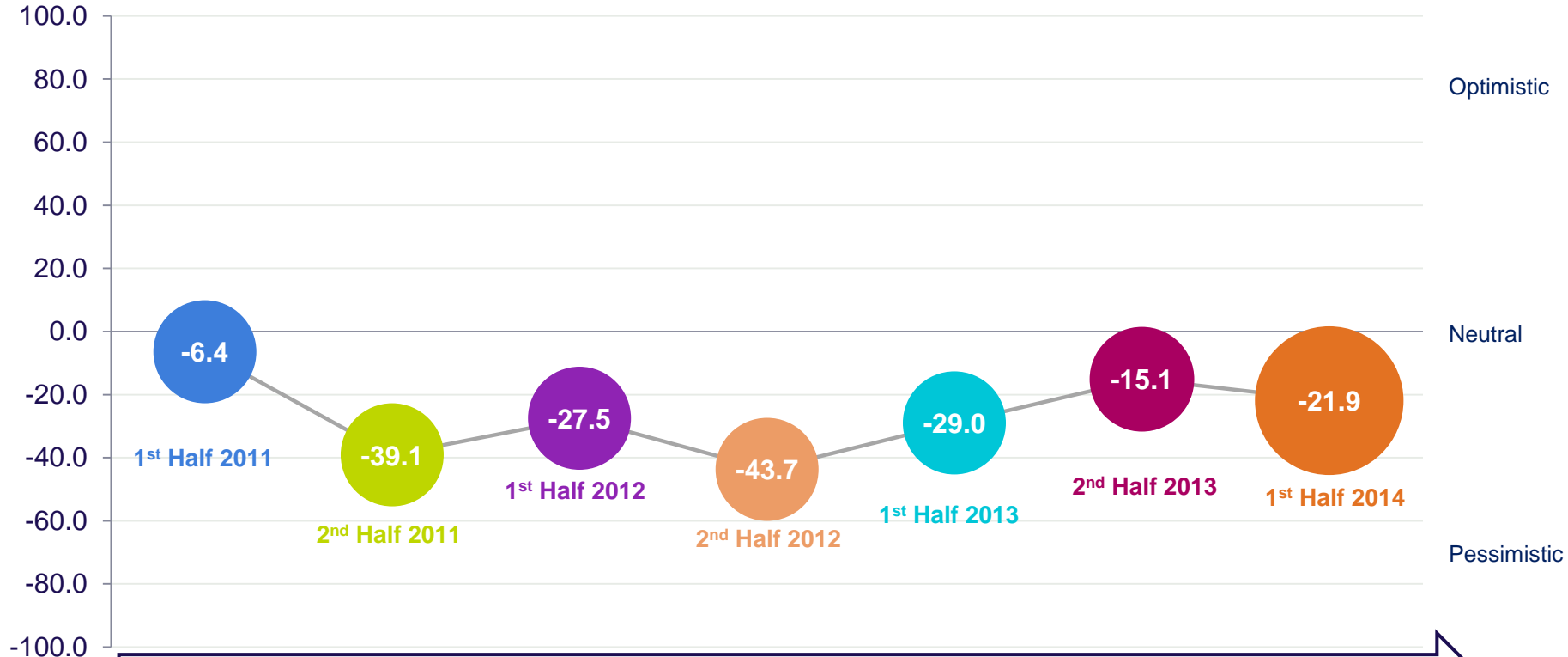
No. of current directorships	%
1	34 (31)
2	30 (27)
3 or more	35 (41)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	46 (41)
Non-Executive Director	63 (67)
Chairman	31 (34)
Other	7 (6)
Prefer not to say	2 (1)
Primary directorship company	
Publicly listed Australian entity	11 (11)
Private/non-listed Australian entity	50 (55)
Not-for profit entity	37 (31)
Prefer not to say	2 (3)

Primary directorship business sector(s)	%
Health and Community Services	23 (20)
Finance and Insurance	16 (15)
Property and Business Services	13 (12)
Education	9 (9)
Manufacturing	9 (7)
Mining	9 (10)
Personal and Other Services	8 (9)
Construction	6 (7)
Agriculture, Forestry and Fishing	6 (8)
Communication Services	4 (5)
Energy	4 (5)
Government Administration and Defence	4 (6)
Cultural and Entertainment industry	3 (4)
Retail Trade	3 (3)
Transport and Storage	3 (3)
Accommodation, Cafes and Restaurants	2 (1)
Wholesale Trade	2 (3)
Gender	
Male	81 (84)
Female	19 (16)

Director Sentiment Index

Overall Director Sentiment Index

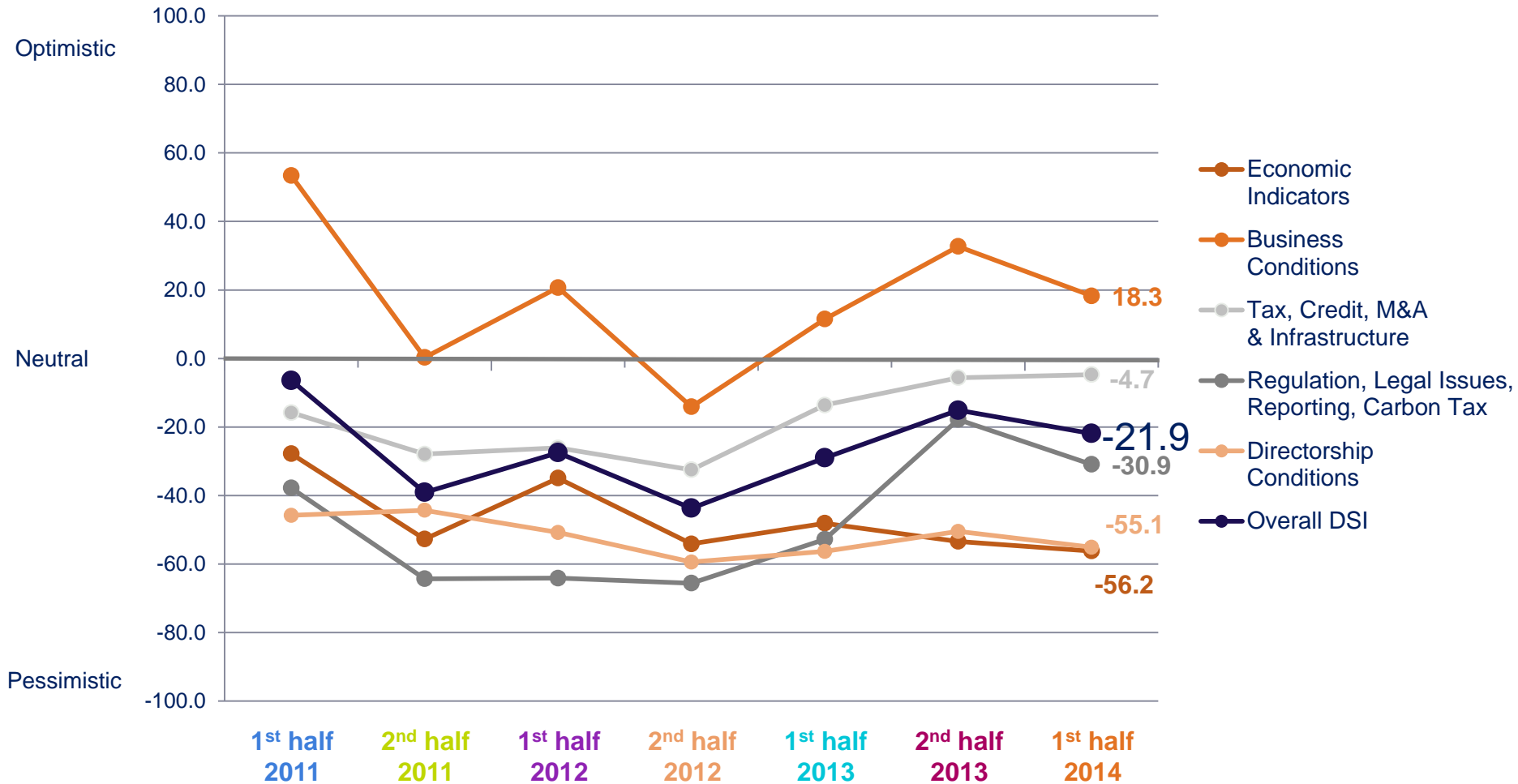
The overall sentiment in the 1st half of 2014 is down 6.8 points on the last survey, although sentiment is slightly higher than at the same time last year.



Feb'11	Mar'11- Aug'11	Sep '11- Feb'12	Mar '12-Oct'12	Nov '12-Mar'13	Apr '13-Oct '13	Nov '13-Apr'14
PM Gillard tables carbon tax by Jul 12 (Feb).	Japan Earth-quake (Mar) S and P downgrades US credit rating from AAA to AA (Aug)	Carbon Tax passed/ Qantas grounds its entire fleet (Oct) Federal gov't cuts \$6.8bn to maintain pledge of budget surplus (Nov)	Fairfax/News Ltd announce job cuts (Jun) RBA cuts interest rate by 25 basis points to 3.25%	Barack Obama re-elected (Nov) RBA cuts interest rate by 25 basis points to 3.0% (Dec) September 14 Election Date announced (Jan)	Kevin Rudd takes over as PM (May) Tony Abbott-led coalition wins federal election (Sep) US Gov't Fiscal Cliff crisis & shutdown (Oct)	Federal gov't school funding backflip (Dec) Crisis in Ukraine (Feb) Free Trade Agreements with Japan/South Korea (Apr)

Overall Director Sentiment Index by segment

This survey finds sentiment has become more pessimistic across most Index segments, with the exception of tax, credit, M&A & infrastructure. Business conditions remains the only optimistic segment.



Executive Summary

Executive Summary 1st Half 2014

-
- Director sentiment has declined by 6.8 points since the last survey to become more pessimistic, although it remains at its third-highest level since the 1st half of 2011.
 - Directors have become more pessimistic about the health of the Australian economy, with the US economy expected to be stronger in the coming year. The positive sentiment regarding the Asian economy continues, although has declined since the previous survey.
 - Sentiment around business conditions has declined, with confidence regarding the general business outlook and specific sector outlook returning to a neutral position. However, directors still expect their primary business to grow in the coming year.
 - There has been a substantial decline in the number of directors that believe the government's performance positively affects their business decision making and consumer confidence.
 - While a majority of directors believe the current Federal Government understands business, the proportion agreeing with this statement has declined since the previous survey.
 - Low productivity growth is now considered the biggest economic challenge facing Australian business, followed by global economic uncertainty. Too much regulation or 'red-tape' dropped from being the biggest concern in the 2nd half of 2013 to the third biggest.

Executive Summary 1st Half 2014

-
- Directors maintain that the level of 'red-tape' and the time spent on regulatory compliance has increased over the last 12 months. However, there is increased optimism that 'red-tape' will decrease over the coming year.
 - General economic conditions followed by 'red-tape'/regulation are still seen as the biggest impediments to productivity growth.
 - For the seventh survey in a row, infrastructure is rated as the top priority for the Federal Government to address both in the long and short term. A majority maintains that the building of the NBN is a positive thing for Australia.
 - Sentiment regarding the proposed paid parental leave scheme is negative, with a majority of directors believing the government should defer or scrap the scheme.
 - Nearly half of directors maintain that abolishing the Carbon Tax would affect their business positively, while a similar proportion believes it would not affect their business at all.

Research Findings

Research Findings

The Economic Environment

Health of economies

- Directors are increasingly pessimistic about the future health of the Australian economy. Most directors continue to rate the European economy as the weakest while the outlook for the present and future health of the US economy has significantly improved (although they remain slightly pessimistic). The outlook for the Asian economy continues to be positive.

Economic challenges

- Directors no longer rate the amount of regulation or 'red-tape' as the biggest current economic challenge facing Australian business. Directors are most concerned now with low productivity growth, followed by global economic uncertainty.

Economic indicators

- The exchange rate is expected to further decline in the coming 12 months, but directors expect inflation, the RBA official cash rate, wages growth and the unemployment rate to increase.

Research Findings

The Business Environment

Business growth

- Almost 40 per cent of directors claim the growth of their business has weakened in the last six months. Expectations for growth in the future have remained optimistic.

Profits

- Around 40 per cent of directors expect an increase in profits for their primary business in the second half of this year, compared to the same period last year and the current six months.

Business outlook

- After improving to become optimistic in the 2nd half of 2013, confidence in business outlook has returned to a neutral position. One quarter of directors are optimistic about the general business outlook, while another quarter are pessimistic. Around 30 per cent are either optimistic or pessimistic about the outlook for their own sector.

Credit availability

- In the last six months, credit availability for investment and working capital purposes has become less constrained, while more than 30 per cent of directors found credit for asset purchases to be somewhat or freely available. Predictions regarding credit availability over the coming year have remained slightly optimistic, with credit for investment purposes, asset purchases and working capital purposes expected to be more available.

Research Findings

Regulation and Perception of Federal Government

Regulation

- More than 90 per cent of directors believe that the level of 'red-tape' has increased or remained unchanged in the last 12 months, while nearly 40 per cent of directors expect a decrease in the coming year.
- Almost 70 per cent of directors identify preparing/paying taxes and workplace health and safety as the aspects of their business most affected by 'red-tape'.
- Directors estimate 'red-tape' compliance consumes an average of 23 per cent of their total board commitment. 40 per cent believe this commitment has increased in the past 12 months.

Perception of the Federal Government

- Almost half of directors believe that the current federal government understands business, although the proportion of directors agreeing with this sentiment has decreased now that the new federal government is in place, and the proportion disagreeing has increased.
- In the 2nd half of 2013 following the election, almost 70 per cent of directors expected the new government would have a positive impact on their business decision making, and 80 per cent expected it to affect consumer confidence positively. The present survey finds that less than 30 per cent of directors now believe that the government's performance is affecting their business decision making and consumer confidence positively.
- Nearly 60 per cent of directors hold the view that the government should either defer or scrap the proposed paid parental leave scheme.

Research Findings

Infrastructure and Productivity

Infrastructure

- Infrastructure is again rated the number one priority for the Federal Government to address in the short and long-term, as it has been for all seven Director Sentiment Index surveys conducted. 90 per cent of directors believe that the current level of government spending on infrastructure is too low.
- Sentiment about the building of the National Broadband Network remains positive, with almost 60 per cent of directors agreeing the NBN is a positive thing for Australia.

Productivity

- Productivity continues to follow infrastructure as the second most urgent issue for the Federal Government to address in the short-term, and the fourth-most important issue for the long-term.
- General economic conditions were again identified as the top impediment to productivity growth (71 per cent) followed by 'red-tape'/regulation (48 per cent), and workplace relations laws and regulations (41 per cent).

Research Findings

Legal and Reporting Issues

Director liability

- More than 40 per cent of directors continue to believe that legislation on director liability has a negative impact on their willingness to continue on a board, and more than half believe it has a negative impact on their willingness to accept new board appointments.
- Pessimism remains regarding the effect of legal judgments on director liability, with more than 40 per cent of directors maintaining that legal judgments negatively impact their willingness to continue on a board or accept new board appointments.

Research Findings

Ethical Considerations, Shareholder Relations and ESG

Ethics of company directors

- Most directors continue to perceive Australian listed public companies as generally ethical and more so than overseas listed companies. Directors believe the public perception regarding the ethics of Australian company directors has declined since the 2nd half of 2013.

AGM System

- Sentiment has improved regarding the functionality of the present AGM system, with more than 35 per cent of directors agreeing the current system is working quite well.

Carbon tax

- Pessimism remains regarding the Carbon Tax legislation, although to a lesser extent than the 2nd half 2013. 40 per cent of directors maintain it has a negative impact on their business, while more than half believe it does not affect their business. Most directors maintain the perception that energy costs are negatively impacted by the Carbon Tax.
- More than 45 per cent of directors continue to believe that abolishing the Carbon Tax would have a positive effect on their business, although another 45 per cent of directors now believe that abolishing the tax would not affect their business.

Summary of Key Indicators and Headlines

Summary of key indicators

(1 of 4)

Indicator (expected change in coming 12 months)	Scale	1 st Half 2014 net balance	2 nd Half 2013 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-27 ↓	-9
Health of the Asian economy	Weak/strong	12 ↓	29
Health of the European economy	Weak/strong	-61 ↑	-76
Health of the US economy	Weak/strong	-6 ↑	-43
Inflation rate (Australia)	Lower/higher	38 ↑	28
Exchange rate (value of AUD versus USD)	Lower/higher	-54 ↓	-36
RBA cash rate	Lower/higher	48 ↑	12
Level of wages growth	Lower/higher	10	13
Unemployment rate	Lower/higher	49 ↑	42



Summary of key indicators

(2 of 4)







Indicator (expected change in coming 12 months, with the exception of *)	Scale	1 st Half 2014 net balance	2 nd Half 2013 net balance
Business conditions			
Growth of primary directorship business	Weak/strong	24 ↓	30
Change in business investment levels	Decrease/increase	14 ↓	23
Change in business staffing levels/labour demand	Decrease/increase	8	11
Change in level of business exports	Decrease/increase	12	14
Change in level of outsourcing	Decrease/increase	23	21
Expectations of profits for Jul-Dec 2014 actual versus forecast*	Below/up	14	15
Confidence in general business outlook*	Pessimistic/optimistic	0 ↓	16
Confidence in business outlook for primary directorship sector*	Pessimistic/optimistic	1 ↓	14
Directorship conditions			
Impact of directors' liability on willingness to serve on a board*	Negatively/positively	-53	-52
Impact of compliance requirements on willingness to serve on a board*	Negatively/positively	-41	-40
Impact of remuneration on willingness to serve on a board*	Negatively/positively	4	5
Impact of contribution to economy/society on willingness to serve on a board*	Negatively/positively	87 ↑	82



Summary of key indicators

20

(3 of 4)

Indicator (expected change in coming 12 months, with the exception of *)	Scale	1 st Half 2014 net balance	2 nd Half 2013 net balance
Tax, credit, M&A			
Credit availability for investment purposes	Low/high	6 	3
Credit availability for asset purchases	Low/high	14	12
Credit availability for working capital	Low/high	5	6
Expected change in ASX All Ordinaries index	Fall/rise	42 	52
Expected change in level of mergers and acquisitions	Fall/rise	65	66
Perception of current level of corporate taxation*	High/low	-31 	-43
Perception of current level of personal taxation*	High/low	-50 	-56
Infrastructure			
Perception of level of government spending on infrastructure*	Low/high	-88	-88
Agreement with building of NBN being a positive thing for Aust*	Disagree/agree	30	35
Regulation, legal issues, reporting, Carbon Tax			
Agreement with 'Federal Government understands business'*	Disagree/agree	16 	32
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	18 	9



Summary of key indicators

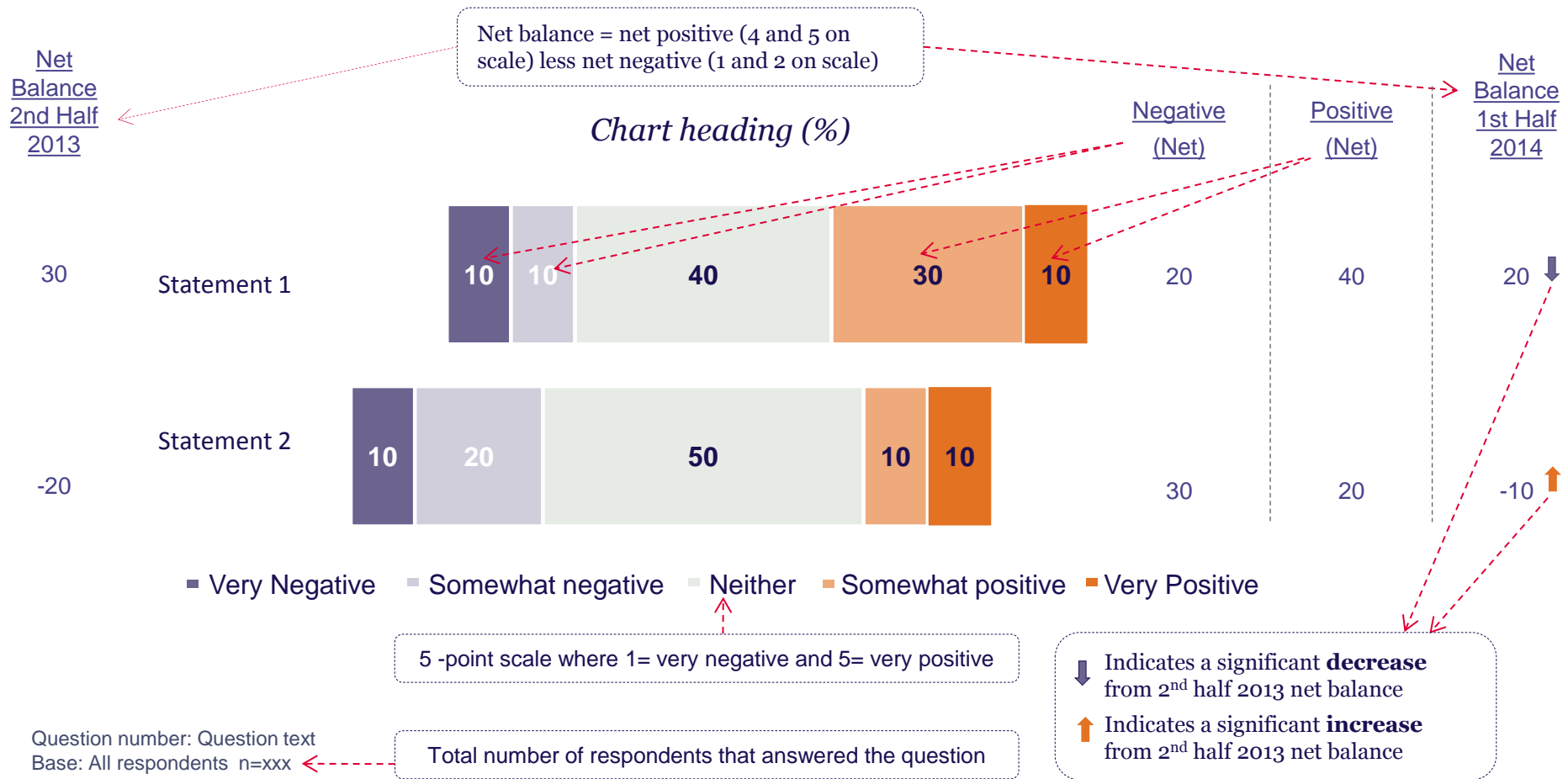
(4 of 4)

Indicator	Scale	1 st Half 2014 net balance	2 nd Half 2013 net balance
Regulation, legal issues			
How is the current Federal Government's performance affecting your business decision making? #	Negatively/Positively	-14 ↓	58
How is the current Federal Government's performance affecting consumer confidence? #	Negatively/Positively	-21 ↓	71
Perception of governance regulations	Onerous/weak	-52	-53
How is legislation affecting your business decision-making?	Negatively/positively	-24 ↑	-31
How is legislation affecting your willingness to continue on a board?	Negatively/positively	-35	-40
How is legislation affecting your willingness to accept new board appointments?	Negatively/positively	-47 ↑	-53
Extent legal judgments affect your business decision-making	Negatively/positively	-25	-30
Extent legal judgments affect your willingness to continue on a board	Negatively/positively	-36	-38
Extent legal judgments affect your willingness to accept new board appointments	Negatively/positively	-44	-49
Adequacy of business directorships and officers' insurance	Inadequate/adequate	4 ↑	1
Adequacy of public company remuneration reports	Inadequate/adequate	-22 ↓	-13
Priority of the reform of laws and regulations governing public company remuneration*	Low priority/high priority	29	27
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/functional	-5 ↑	-9
How is the Carbon Tax affecting your business?	Negatively/positively	-35 ↑	-45



Detailed Results

Explanation of charts – example only



Economic Outlook

Health of economies: summary

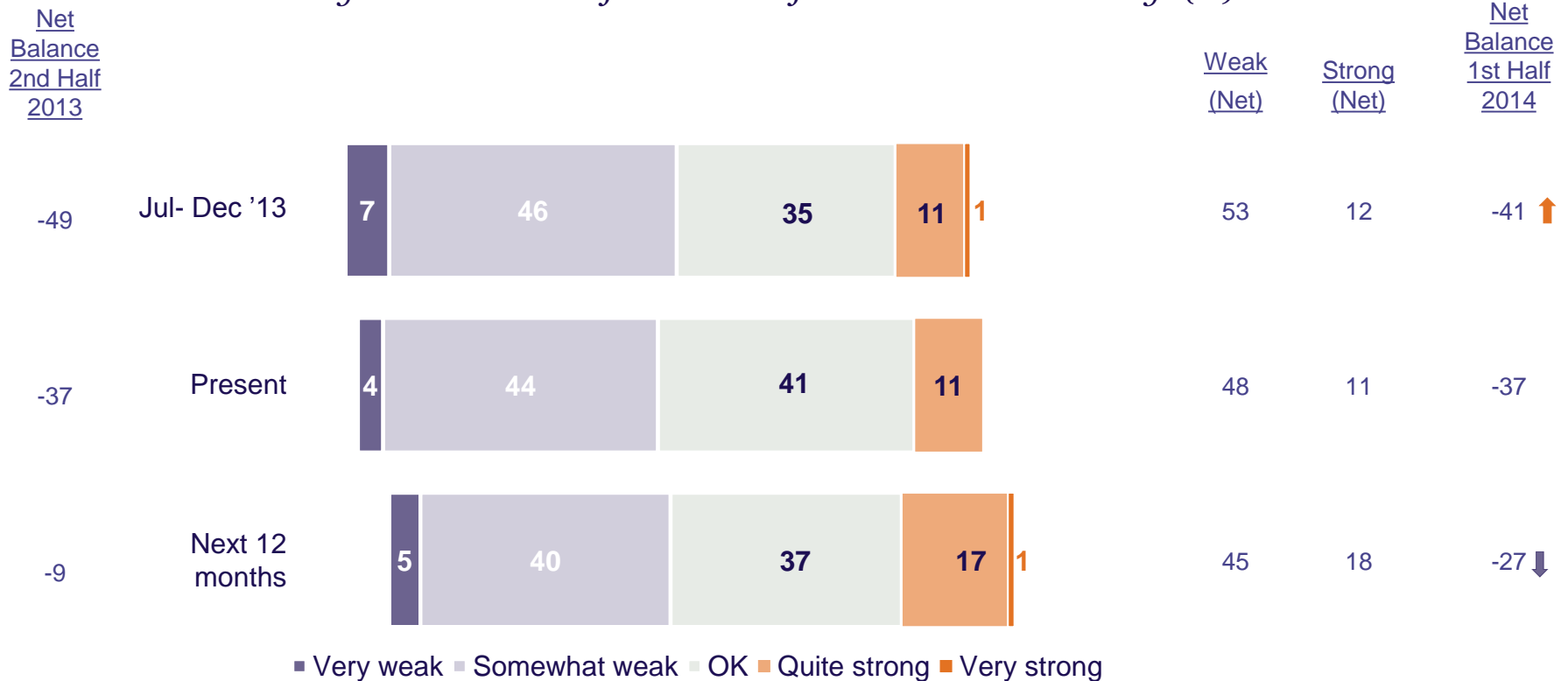
Pessimistic outlook remains regarding the current and future state of world economies, except Asia. Directors perceive the Australian economy as stronger than the US or Europe, although they expect the US to become stronger over the next 12 months.

<i>Health of economies</i>		Survey	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'13)	2 nd Half 2013	2.4	3.1	2.1	1.5
	(Jul-Dec'13)	1 st Half 2014	2.5	3.2	2.3	1.8
Present		2 nd Half 2013	2.6	3.2	2.1	1.8
		1 st Half 2014	2.6	3.1	2.6	2.0
Next 12 months		2 nd Half 2013	2.9	3.3	2.4	2.0
		1 st Half 2014	2.7	3.1	2.9	2.3

Health of the Australian economy

Pessimistic view remains regarding the health of the Australian economy. More than half of directors still perceived our economy as weak in the past 6 months, while around half see it as weak at present. Future outlook has become more pessimistic than the 2nd half of 2013, with 45 per cent of directors expecting it to be weak over the next year.

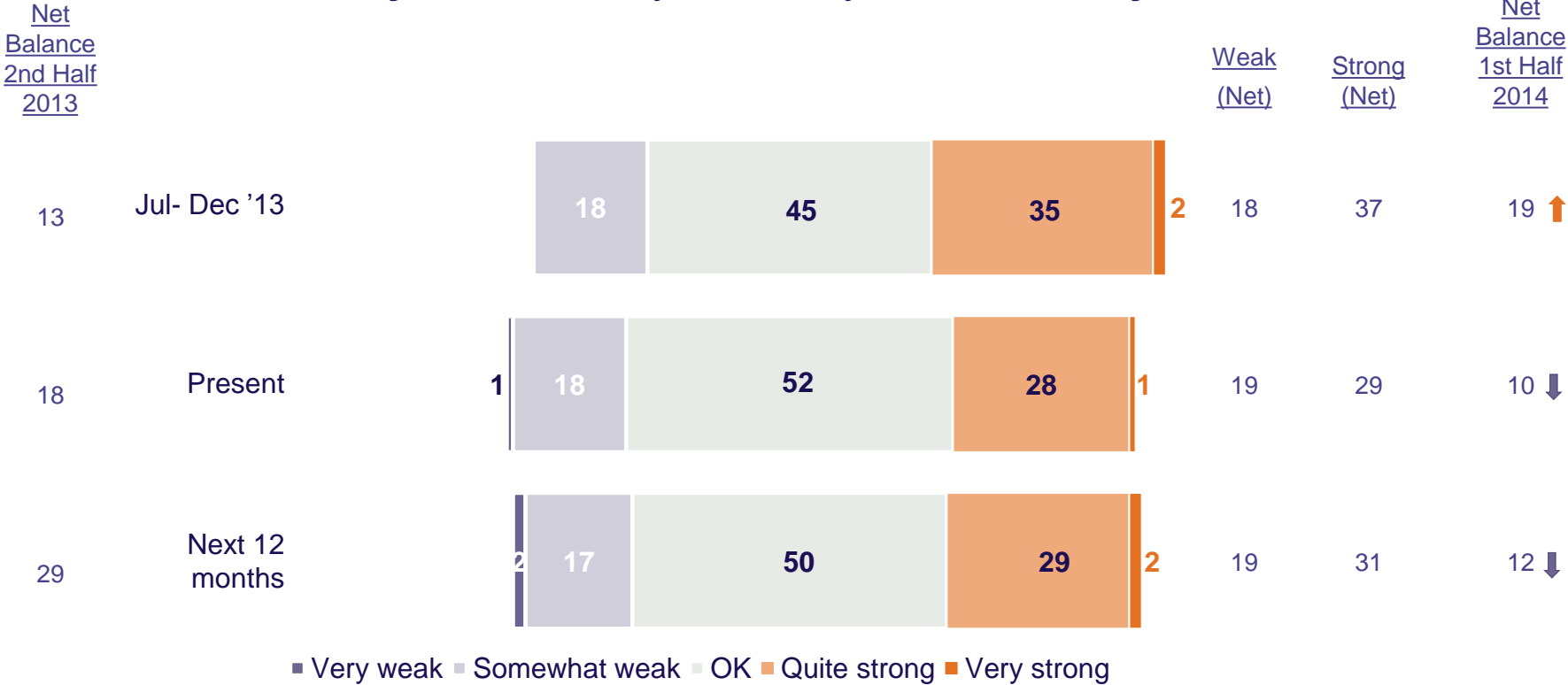
What is your assessment of the health of the Australian economy? (%)



Health of the Asian economy

Current and future sentiment regarding the health of the Asian economy remains optimistic, although less so than in the 2nd half of 2013. More than 35 per cent of directors believe the Asian economy was strong for the past 6 months, while around 30 per cent believe it is presently strong and will remain so in the coming year.

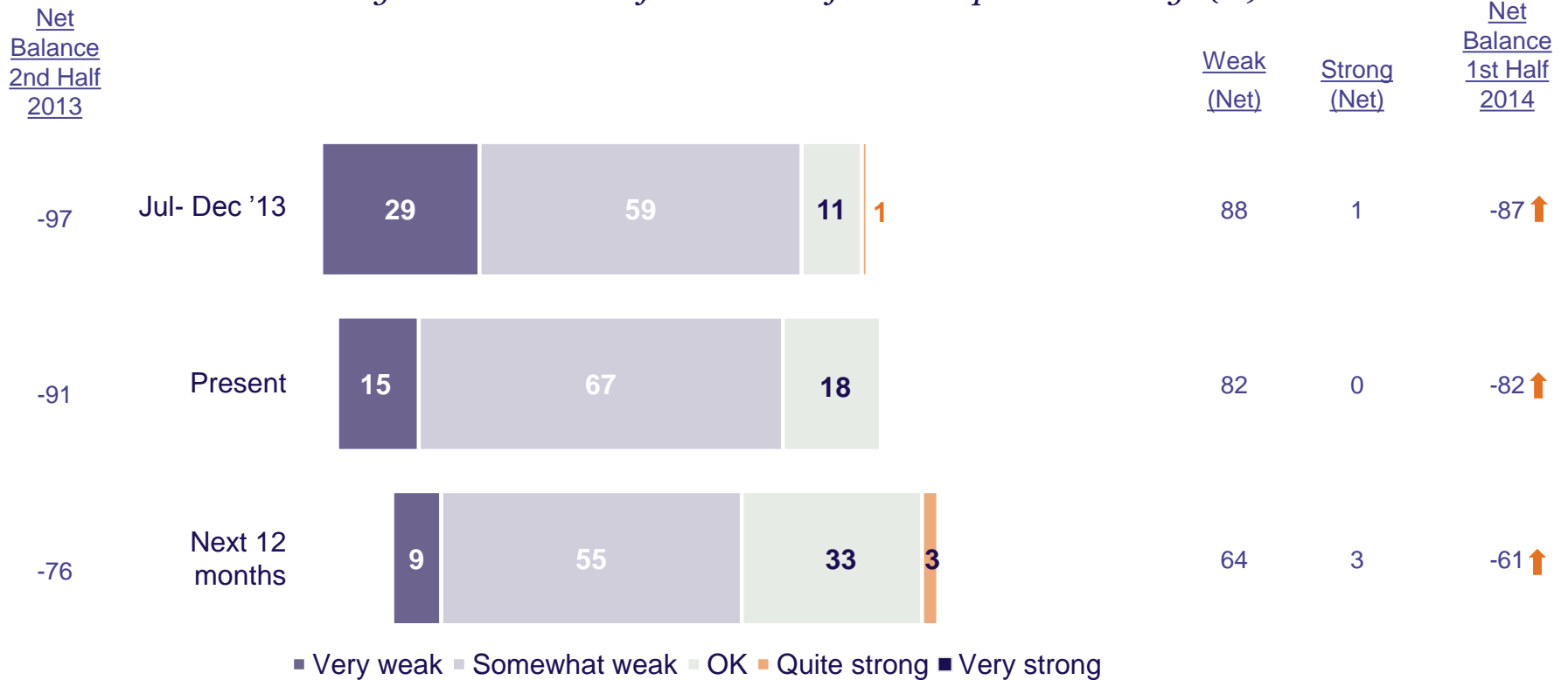
What is your assessment of the health of the Asian economy? (%)



Health of the European economy

Sentiment regarding the European economy has remained pessimistic, although less so than in the 2nd half of 2013. More than 80 per cent of directors continue to view the European economy as weak at present, although more than 30 per cent of directors expect it to be OK or strong in the next 12 months.

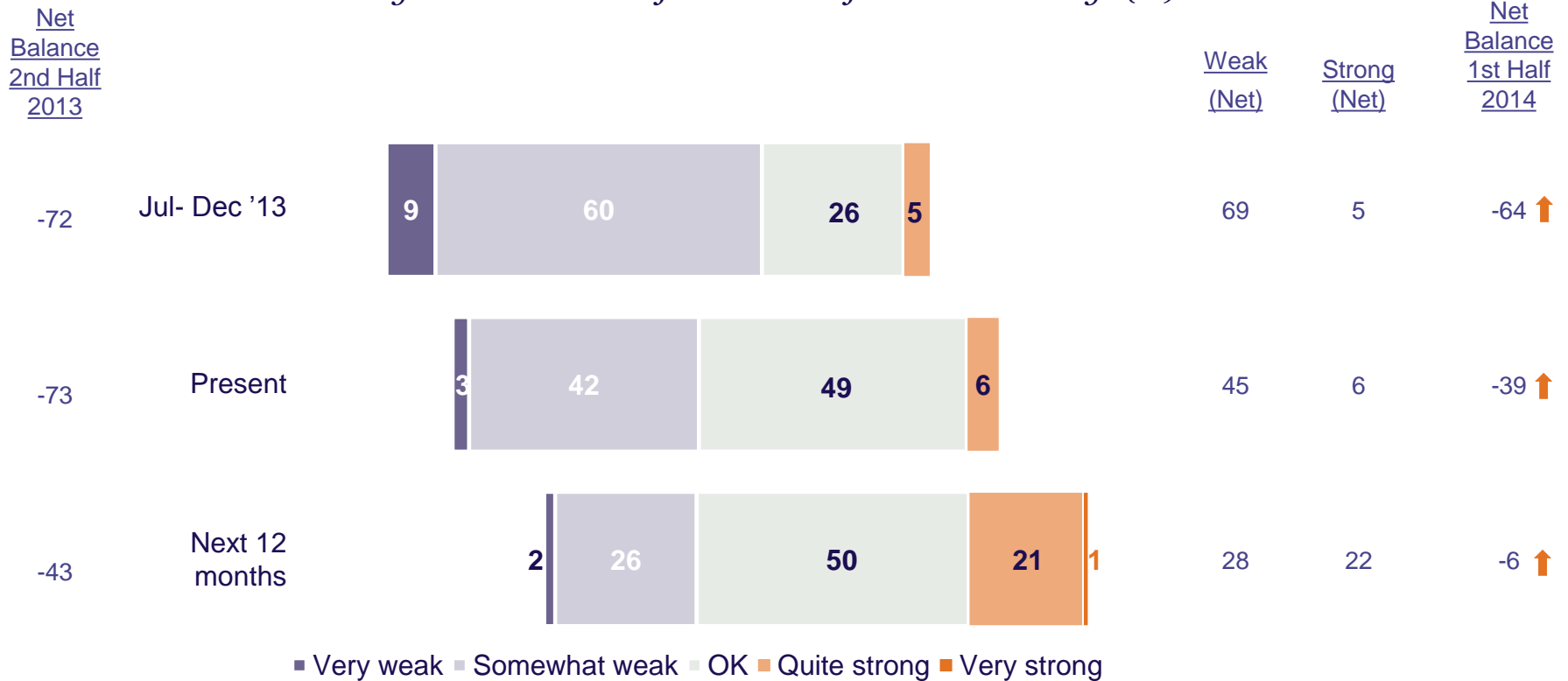
What is your assessment of the health of the European economy? (%)



Health of the US economy

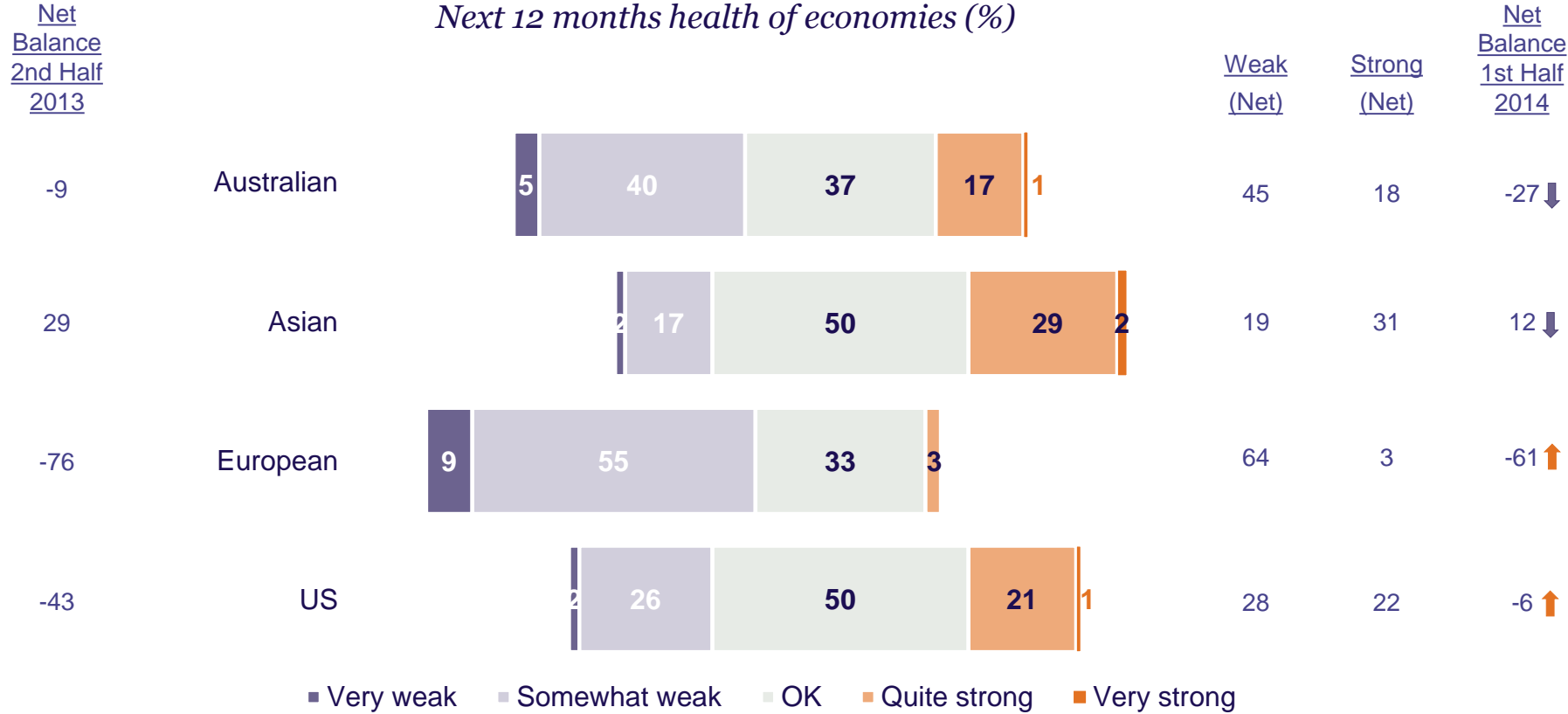
The sentiment around the US economy has improved, although it remains pessimistic. Around 70 per cent of directors believe the US economy was weak for the past 6 months, while half of directors expect it to be OK over the next year.

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



Next 12 months health of economies: summary

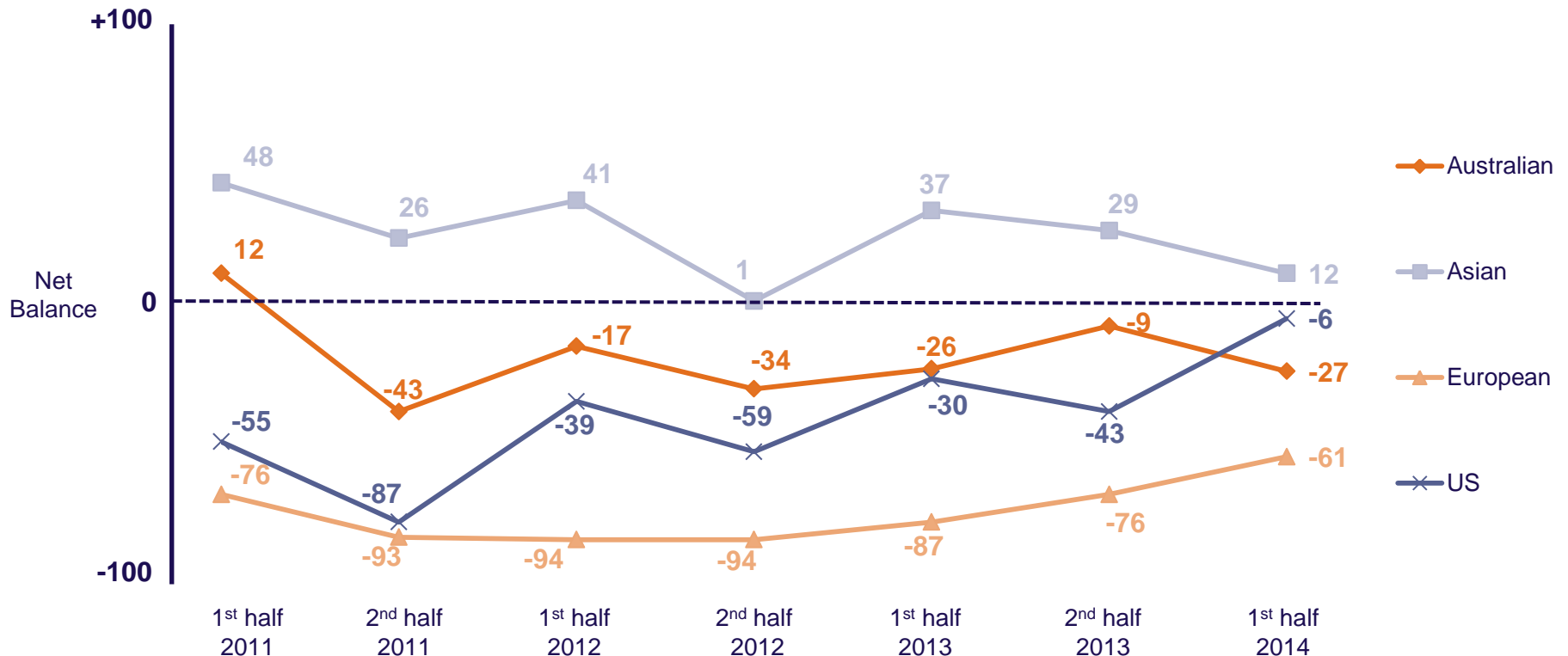
The Asian economy remains the only world economy expected to be strong, while the expectation for the US economy is more optimistic than Australia.



Next 12 months health of economies – semi-annual trend

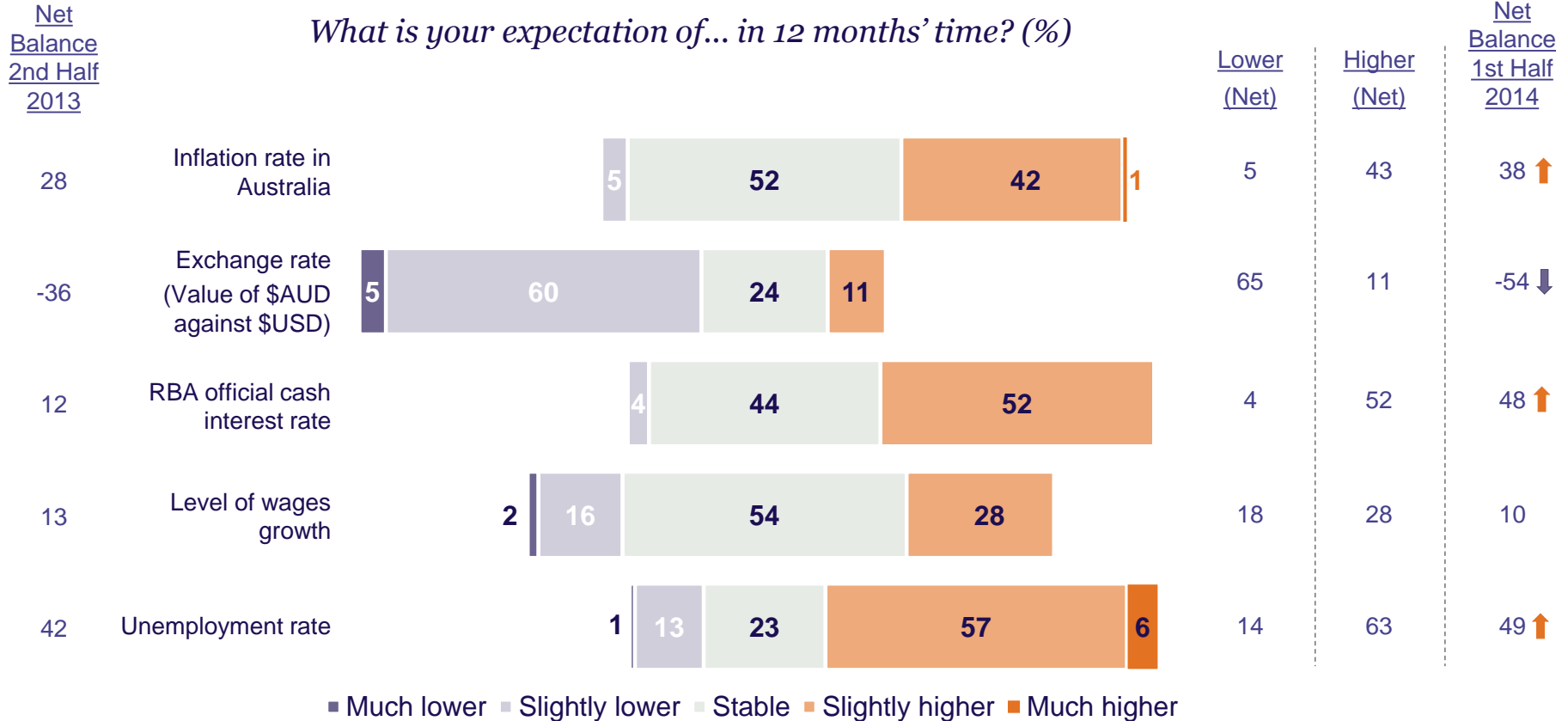
For the first time since the start of the DSI (1st half 2011), the US economy is expected to be stronger than the Australian economy over the next year. The Asian economy is still expected to be the strongest, and sentiment regarding Europe continues a trend since the 2nd half of 2012 of becoming less pessimistic

Next 12 months health of economies – semi-annual trend (net balance)



Economic indicators (Australia) – expectation in next 12 months

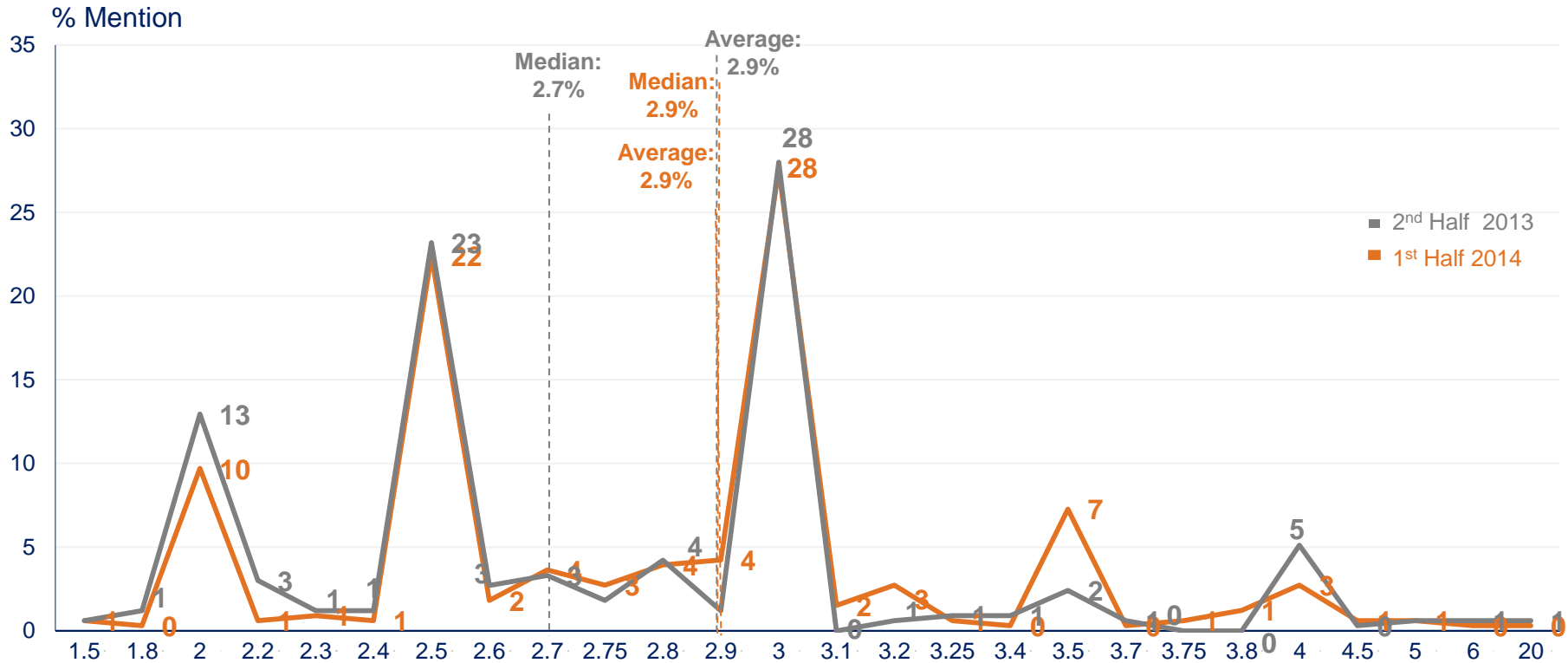
Sentiment is varied regarding economic indicators. 65 per cent of directors believe that the value of the Australian dollar will further decline, while more than half expect the RBA cash interest rate to increase. More than 40 per cent expect a rise in the inflation rate, more than half of directors expect wages growth to remain stable, and more than 60 per cent expect an increase in unemployment.



Economic indicators – Australian inflation rate in next 12 months

Estimations of the Australian inflation rate in the coming 12 months are in line with the previous survey results, at an average of 2.9 per cent, with estimates clustering around 2, 2.5 and 3 per cent. The actual inflation rate during survey fieldwork was 2.9 per cent*.

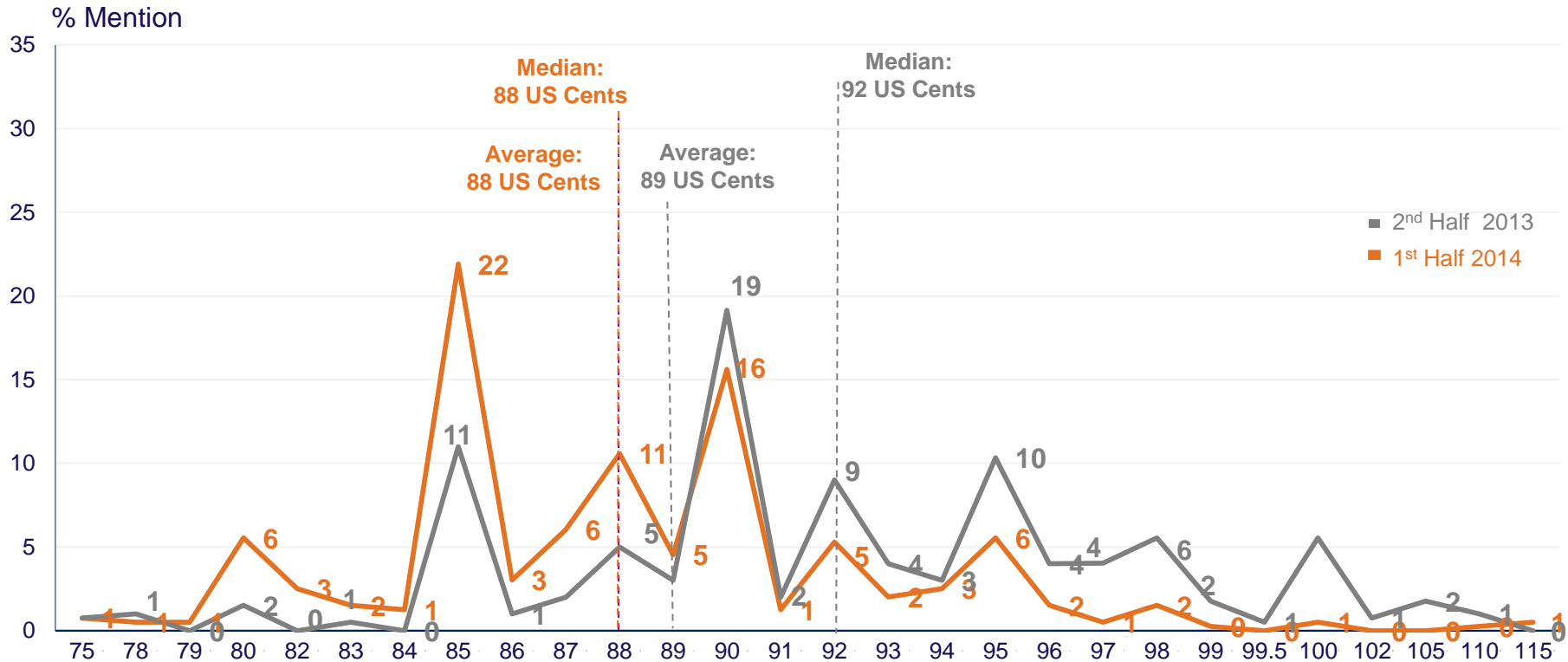
Nominate a numeric value for “the inflation rate in Australia in 12 months’ time” (%)



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 88 US cents, with estimates clustering around 85, 88 and 90 US cents. The average rate during survey fieldwork was 93 US cents*.

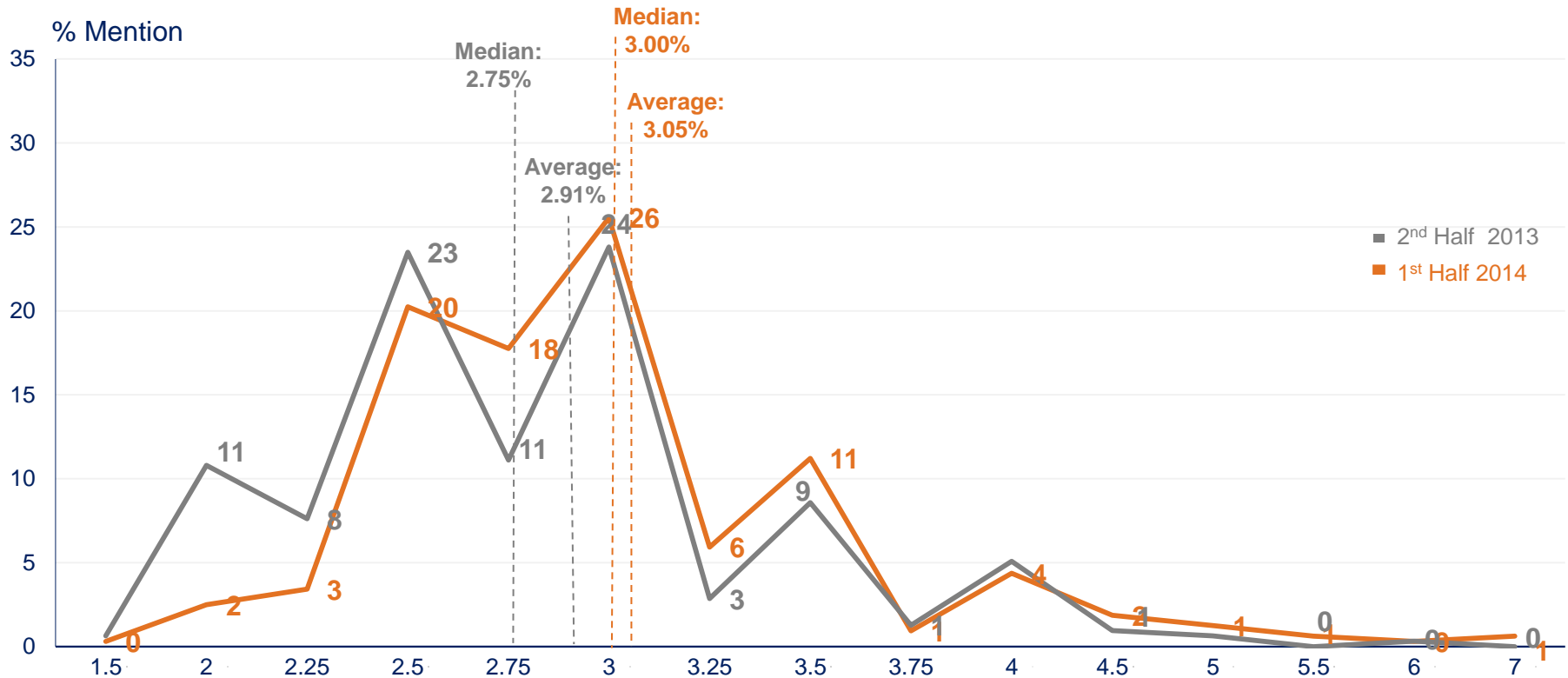
Nominate a numeric value for “the AUD/ USD exchange rate in 12 months’ time”
(1\$A = how many US cents)



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

Estimations of the RBA official cash interest rate in the next 12 months are higher, at an average of 3.05 per cent, with estimates clustering around 2.5, 3 and 3.5 per cent. The actual interest rate during survey fieldwork was 2.50 per cent*.

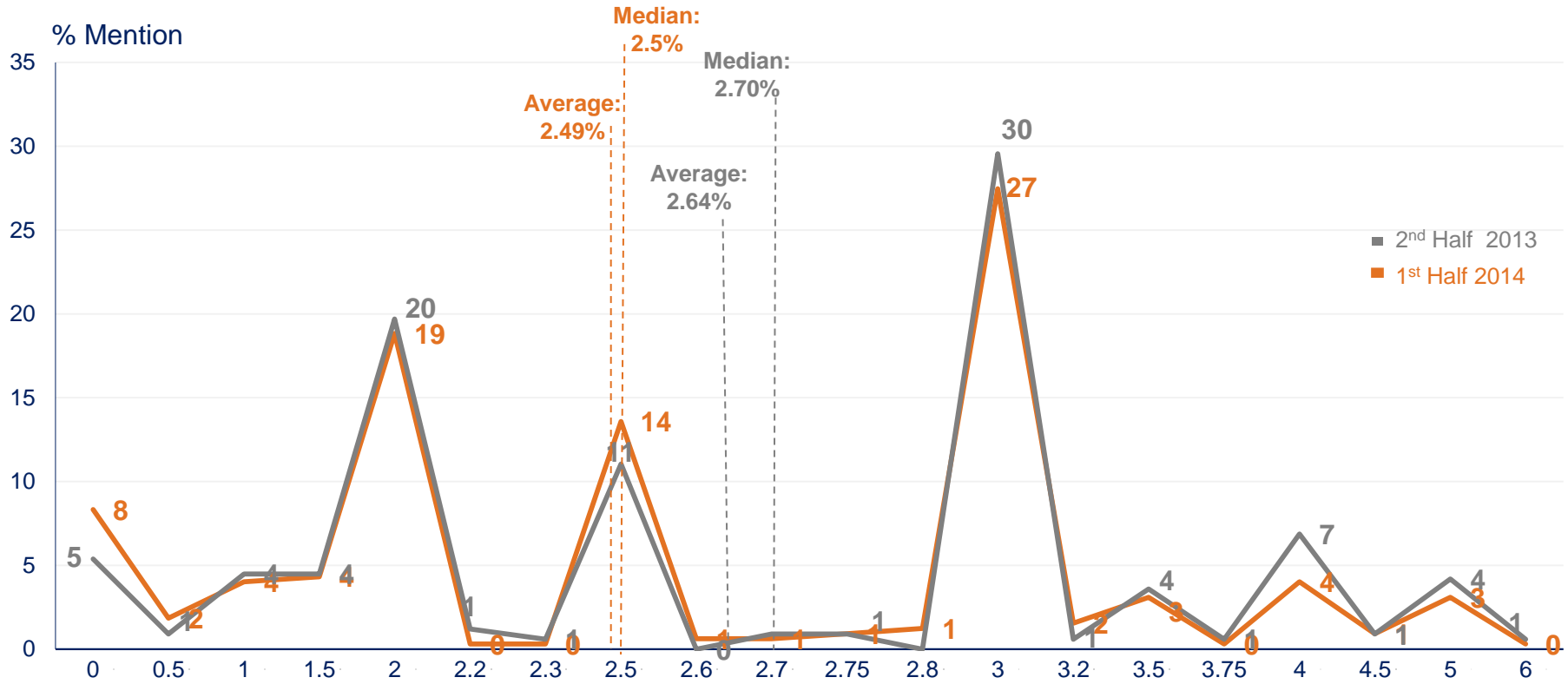
Nominate a numeric value for “the RBA official cash interest rate in 12 months’ time” (%)



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 2.49 per cent, with estimates clustering around 2 per cent, 2.5 per cent and 3 per cent. The actual growth for the most recent year to the survey fieldwork was 2.5 per cent*.

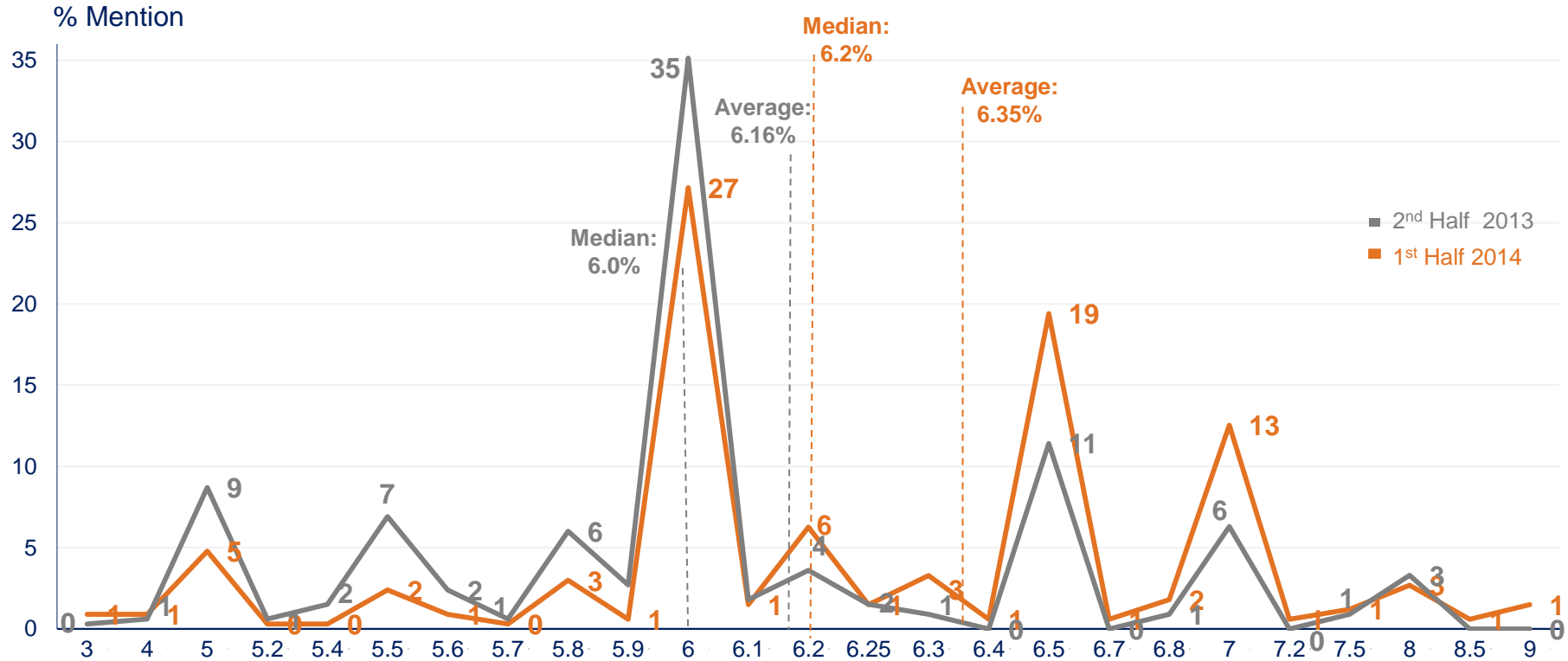
Nominate a numeric value for “the rate of wages growth in 12 months’ time” (%)



Economic indicators – unemployment rate in next 12 months

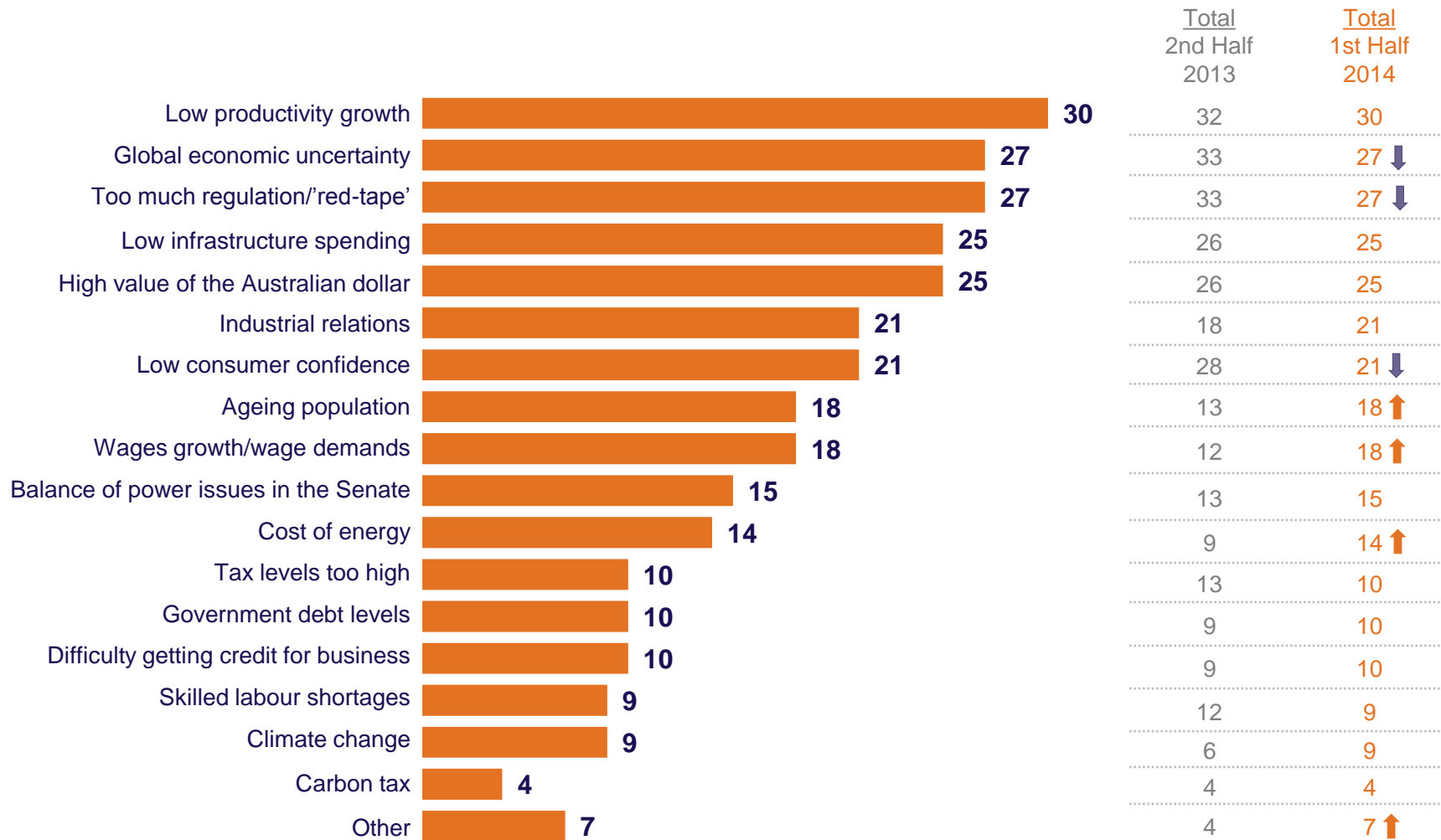
The average expected unemployment rate in the coming year is higher at 6.35 per cent, with estimates clustering around 6 per cent, 6.5 per cent and 7 per cent. The known unemployment rate during survey fieldwork was 6.0 per cent*.

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



Main current economic challenges (Top 3)

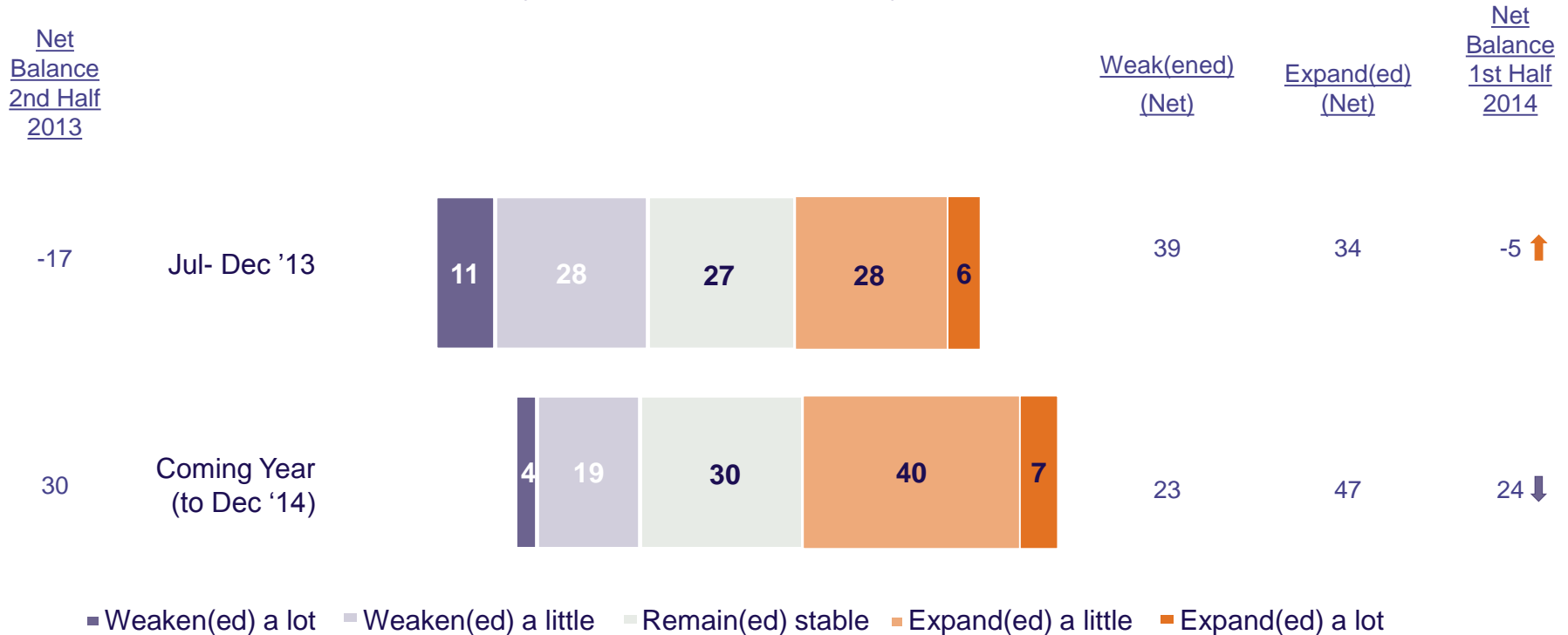
Low productivity growth is now viewed by directors as the biggest economic challenge facing Australian business, followed by global economic uncertainty and too much regulation or 'red-tape'.



Growth of the business (primary directorship company)

Almost 40 per cent of directors reported that business growth weakened in July-December 2013, while almost 35 per cent reported growth. In line with the previous survey results, future projections are optimistic, with almost half of all directors expecting their business to grow in the coming year.

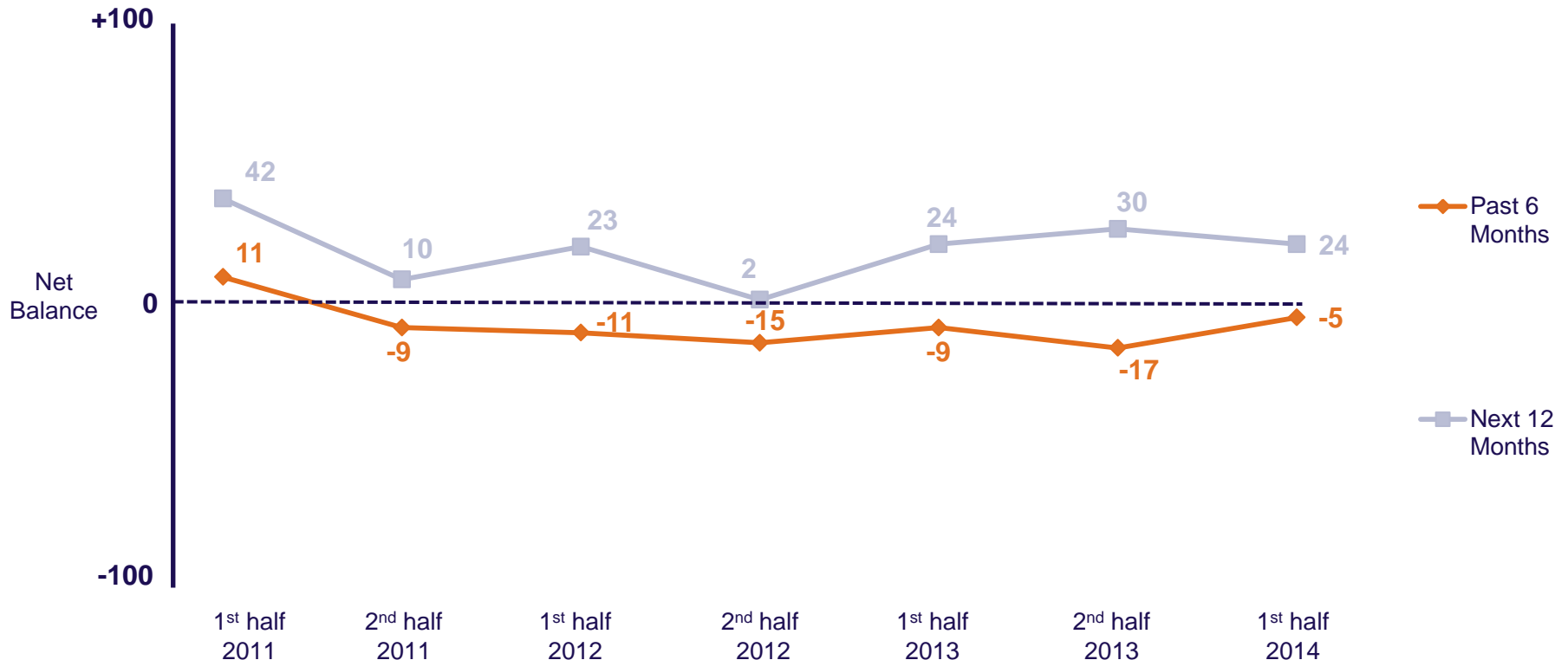
Growth of the business – Past and future (%)



Past and Future Growth of Business – semi-annual trend

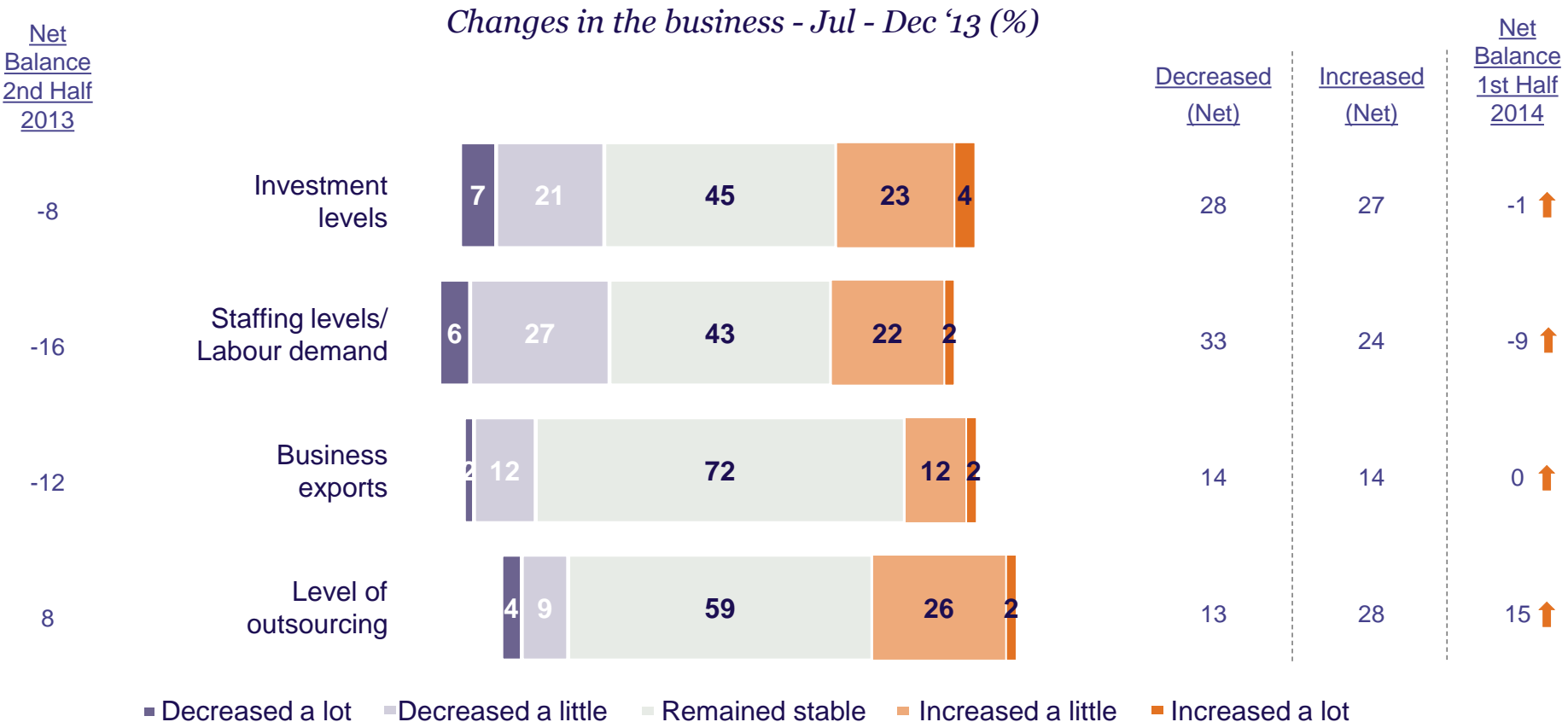
Since the 2nd half of 2011, directors have consistently reported that their business contracted over the six months leading up to each survey. Directors have remained optimistic, however, about the future growth of their business, with future expectations positive in all seven surveys conducted.

Growth of Business (Past 6 Months and Next 12 Months) – semi-annual trend
(net balance)



Changes in the business – Jul-Dec '13

A substantial proportion of directors have experienced stability across four facets of business in the last six months, although overall sentiment is slightly less pessimistic compared to the previous survey results.



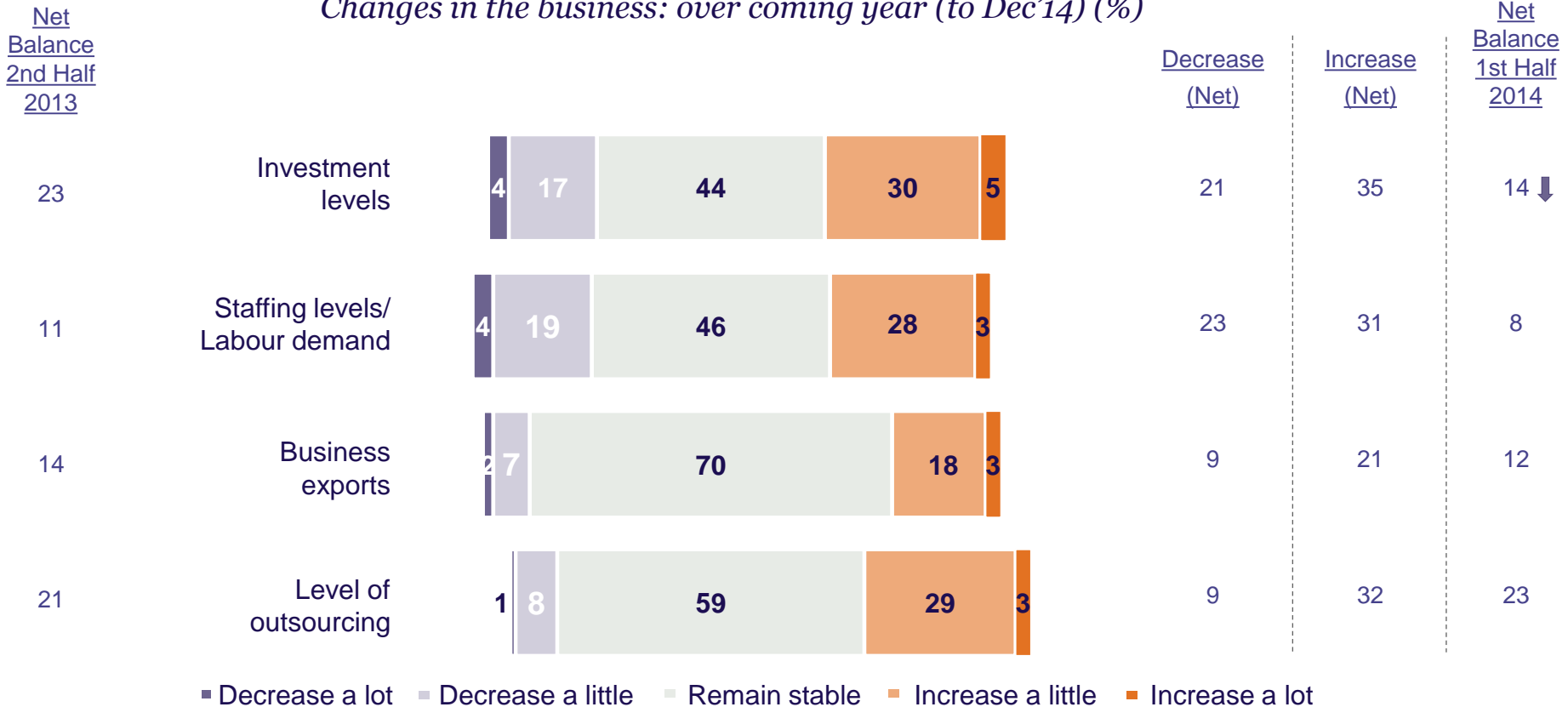
11: Which best describes changes in the business, relating to the items shown below, over the period July to December 2013?
Base: All respondents n=525

Changes in the business – coming year (to Dec '14)

42

Expectations of growth in the next 12 months across four facets of business are mostly stable, although directors are less optimistic about investment levels, with 20 per cent now expecting a decrease.

Changes in the business: over coming year (to Dec'14) (%)



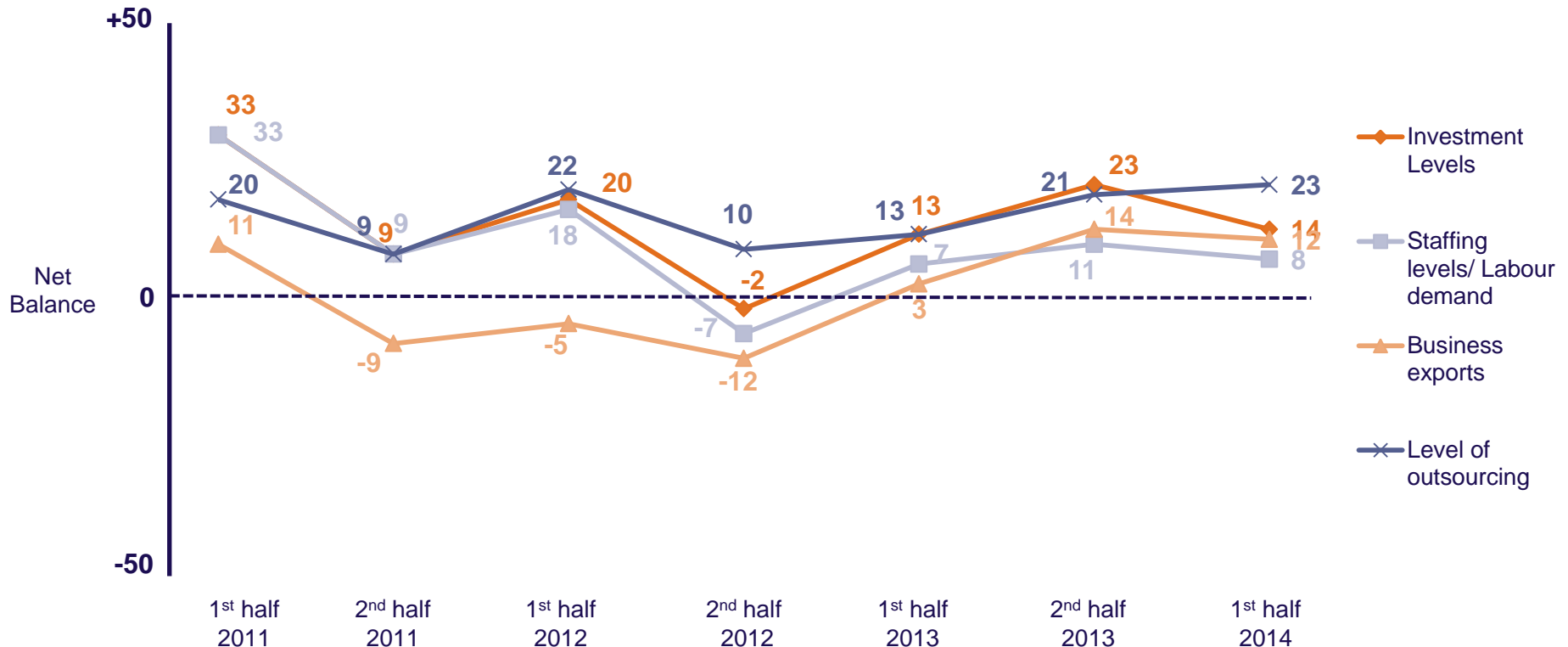
12: To what extent, if any, do you expect these things to change over the coming year?
(to December 2014)

Base: All respondents n=525

Changes in the business: over coming year – semi-annual trend

Directors have consistently expected outsourcing to increase over the coming year, since the inception of the survey. Sentiment around investment levels has decreased since the last survey.

Changes in the business: over coming year – semi-annual trend (net balance)



Main reason for change in staffing levels/labour demand

44

A change in business conditions was identified as the main reason for a change in staffing levels, in line with the 2nd half 2013 results.

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

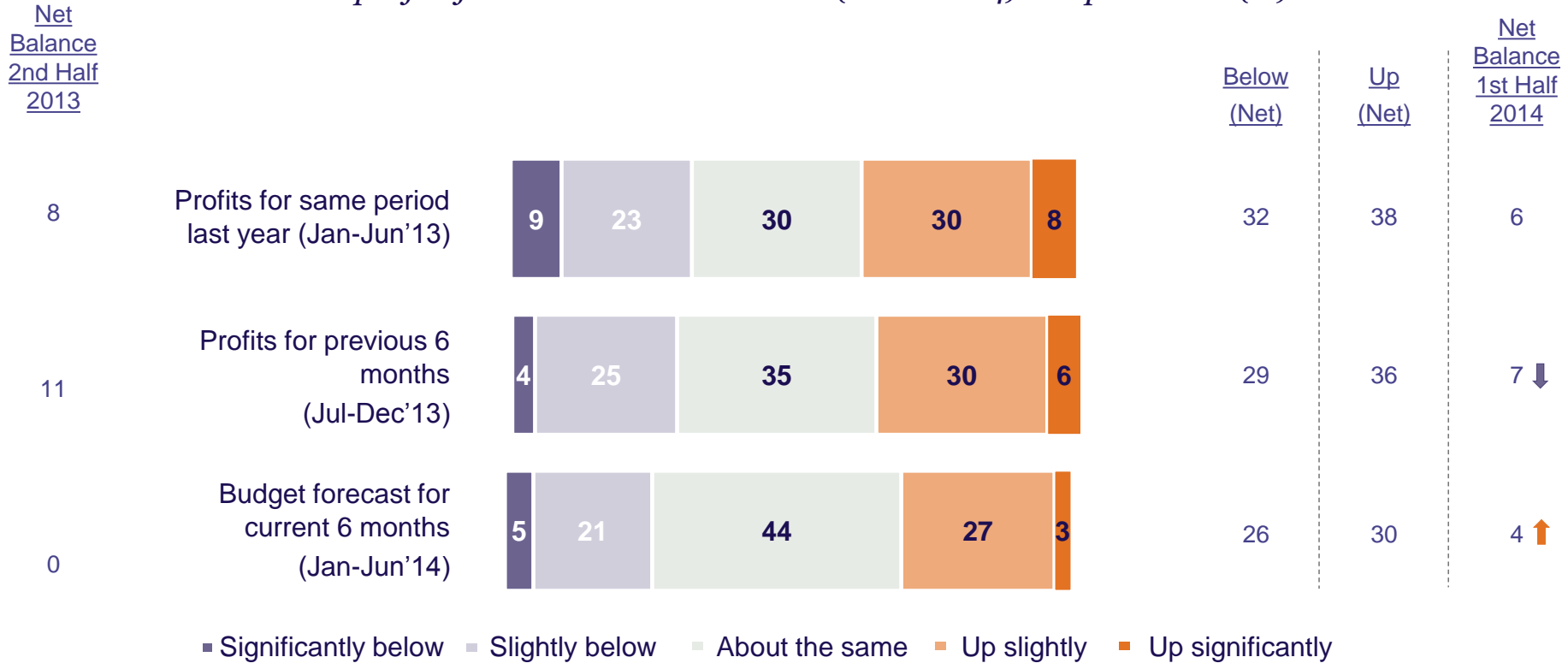
Main reason for expected change in staffing levels/ labour demand (%)	Survey	Total (Those who expect change)	Those who expect decrease	Those who expect increase
Changed business conditions	2 nd Half 2013	52	50	54
	1 st Half 2014	52	44	58
Changed economic conditions	2 nd Half 2013	27	28	25
	1 st Half 2014	29	38	23
Changed wage levels	2 nd Half 2013	2	4	2
	1 st Half 2014	4	5	2
Workplace laws	2 nd Half 2013	6	9	3
	1 st Half 2014	3 ↓	4	2
Parental leave laws	2 nd Half 2013	2	3	2
	1 st Half 2014	1	1	1
Other	2 nd Half 2013	11	7	14
	1 st Half 2014	11	8	14

Profits for current six months compared to...

45

In line with the 2nd half 2013 results, directors are slightly optimistic about actual profits for the current 6 months, with more than 30 per cent expecting an increase in profits compared to the same period last year and the previous six months, while 30 per cent expect profits to be up on the current budget forecast.

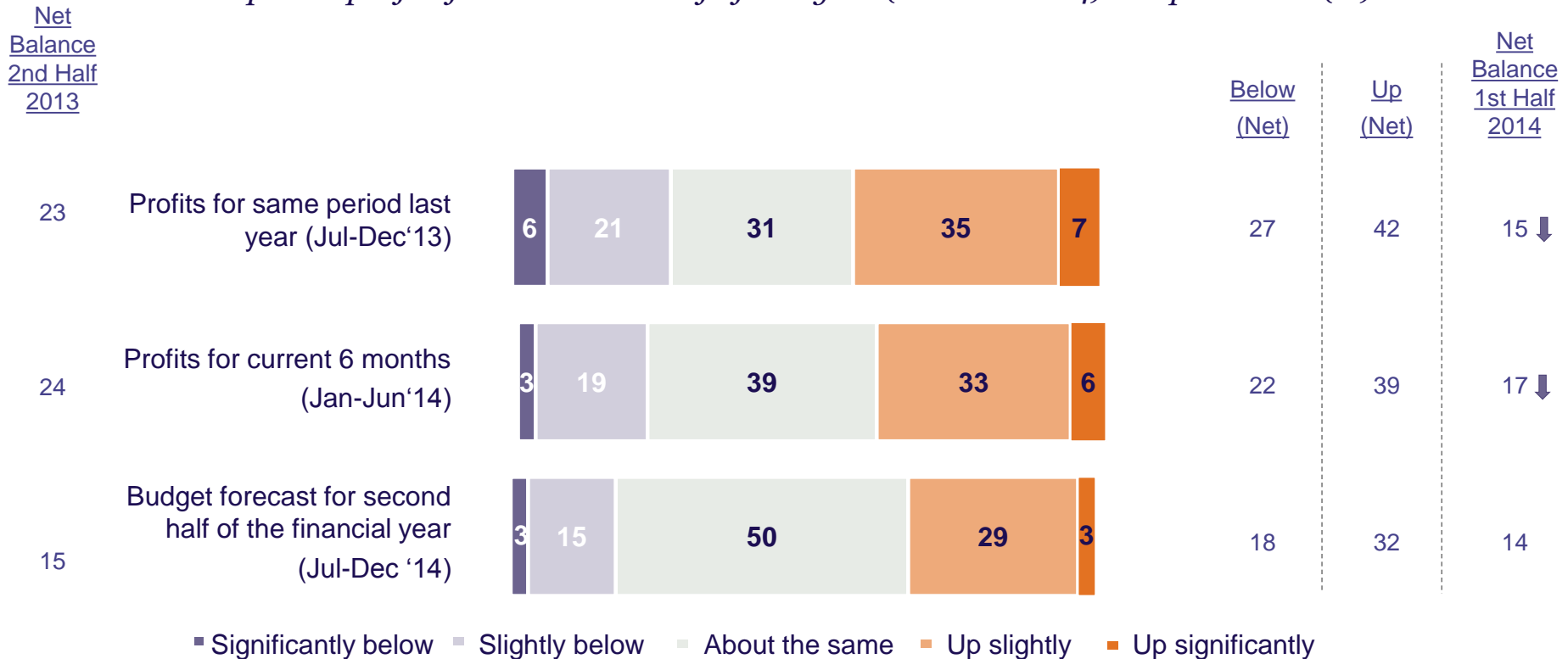
Actual profits for the current six months (Jan-Jun'14) compared to... (%)



Profits for second half of year compared to...

Expectations of profits for the second half of the year to December 2014 are lower compared to the previous survey's results, although around 40 per cent of directors still expect an increase in profits for the second half of the year compared to the same period last year and the current six months. Exactly half of directors believe their second half profits will be in line with budget forecasts.

Expected profits for the second half of this year (Jul–Dec 2014) compared to... (%)

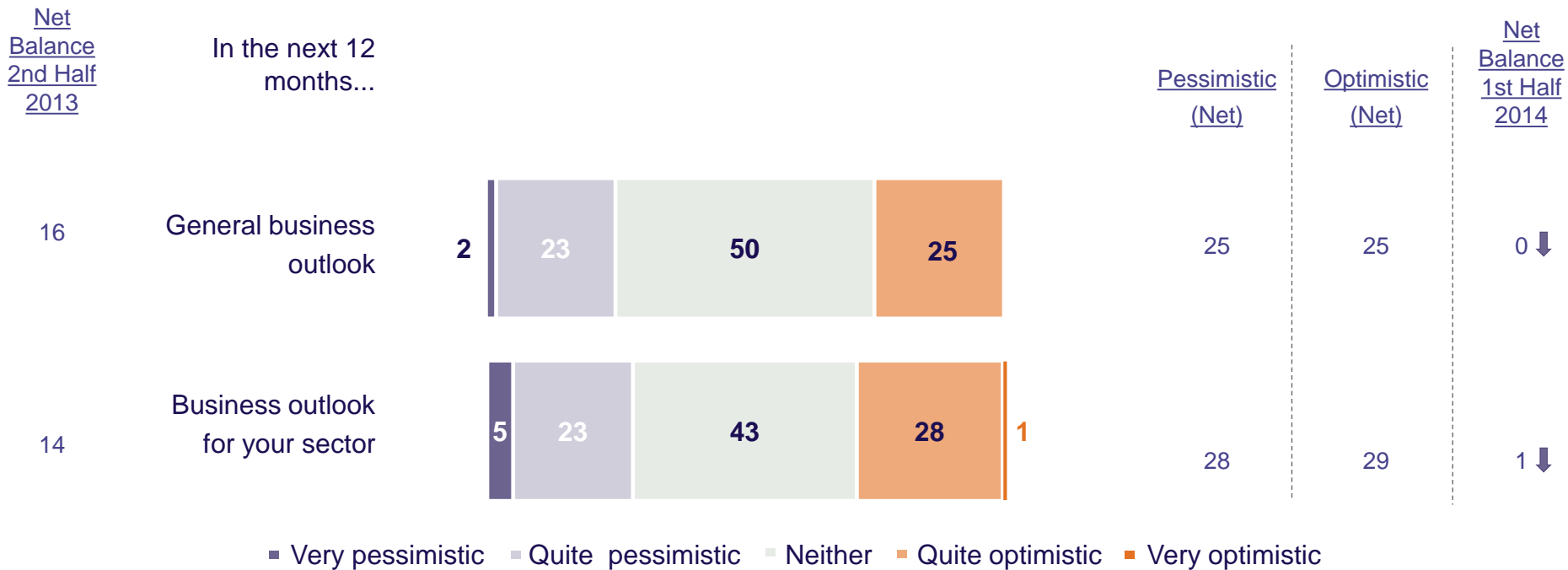


Confidence in business outlook – next 12 months

47

Directors are less optimistic about the business outlook for the 1st half of 2014 compared to the previous survey's results, with an equal proportion of directors indicating they are optimistic and pessimistic about the general business outlook, and an almost equal proportion indicating the same regarding the outlook for their own sector.

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

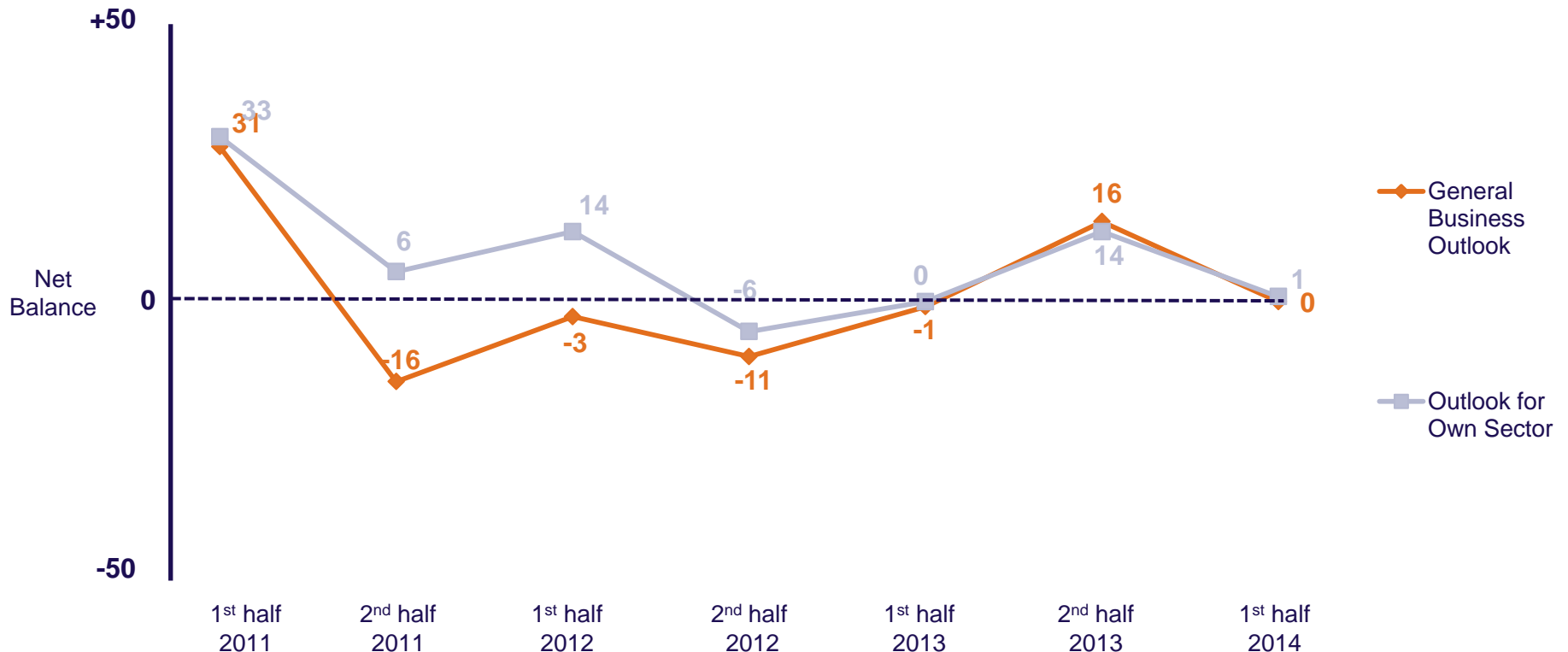


Confidence in business outlook: next 12 months– semi-annual trend

48

The previous survey saw the highest confidence levels in business outlook since the 1st survey in the 1st half of 2011. In the 1st half of 2014, confidence levels have fallen to be in line with the results from the 1st half of 2013.

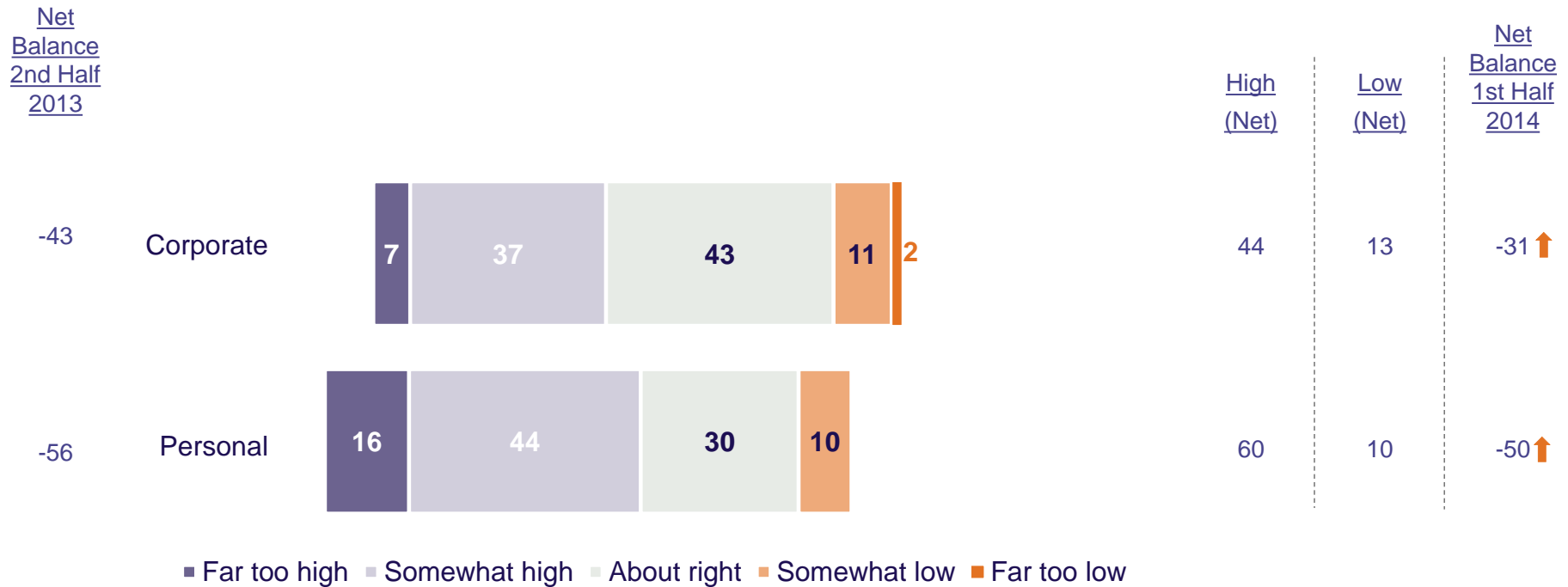
Confidence in business outlook: next 12 months– semi-annual trend (net balance)



Level of taxation in Australia

Directors are slightly less pessimistic regarding the level of corporate and personal taxation in Australia, with less than half of directors maintaining the belief that corporate taxation is too high, and 60 per cent of directors believing that the level of personal taxation is too high.

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



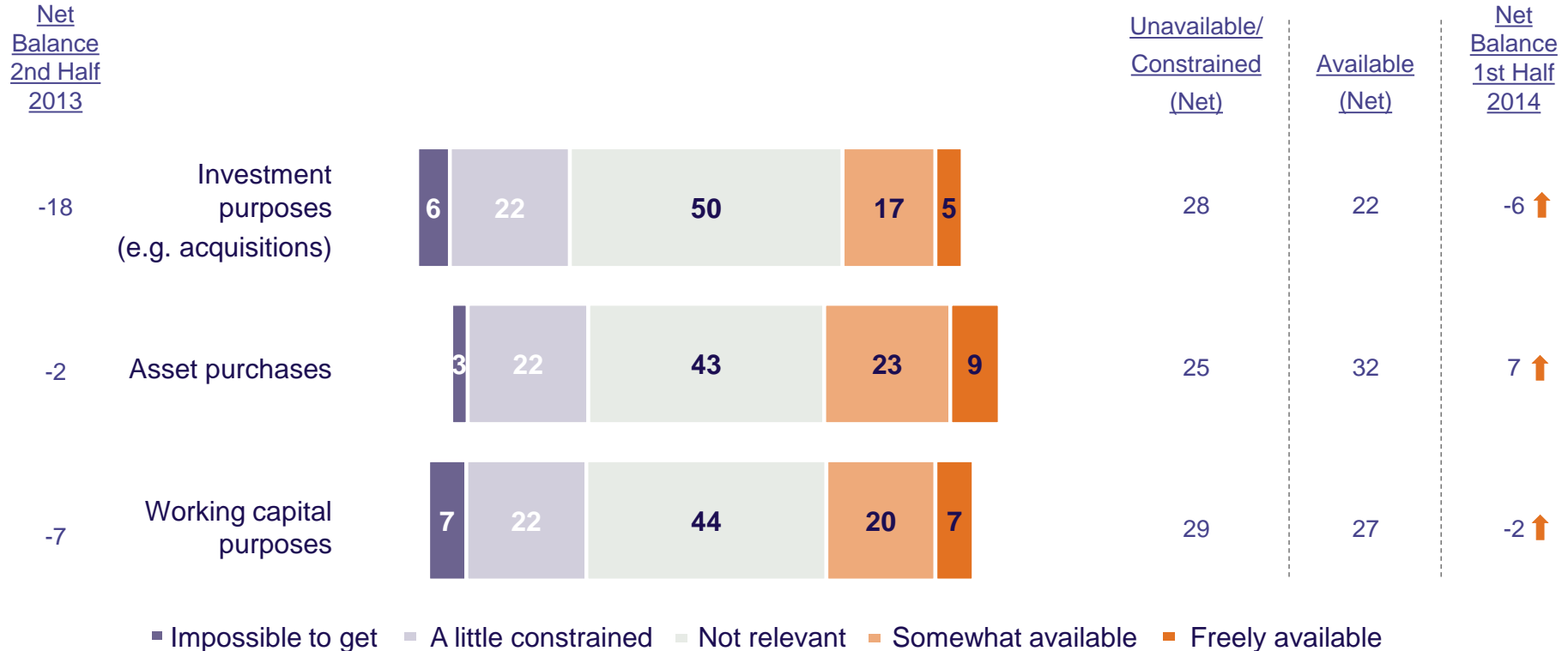
Lifeblood of the Economy

Credit Availability

Credit availability for business – Jul-Dec’13

Directors are slightly more positive regarding credit availability over the past six months, compared to the previous survey results. Credit for investment purposes and working capital purposes was still viewed as constrained, whereas more than 30 per cent of directors reported that credit for asset purchases was somewhat or freely available.

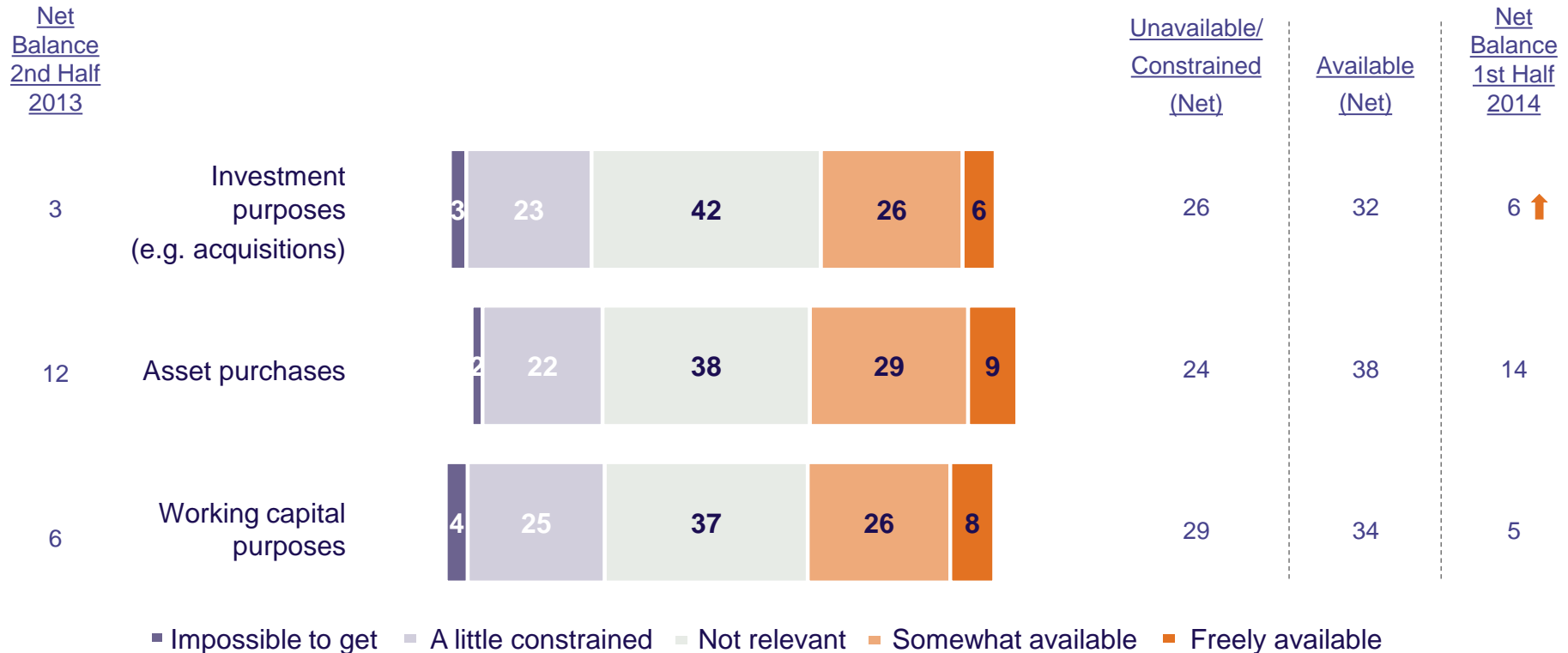
Credit availability for business – Jul-Dec’ 13 (%)



Credit availability for business – next 12 months

Expectations of credit availability in the future are mostly stable, with more than 30 per cent of directors predicting that credit for investment purposes and working capital purposes will be somewhat or freely available over the coming year, and almost 40 per cent believing the same of credit for asset purchases.

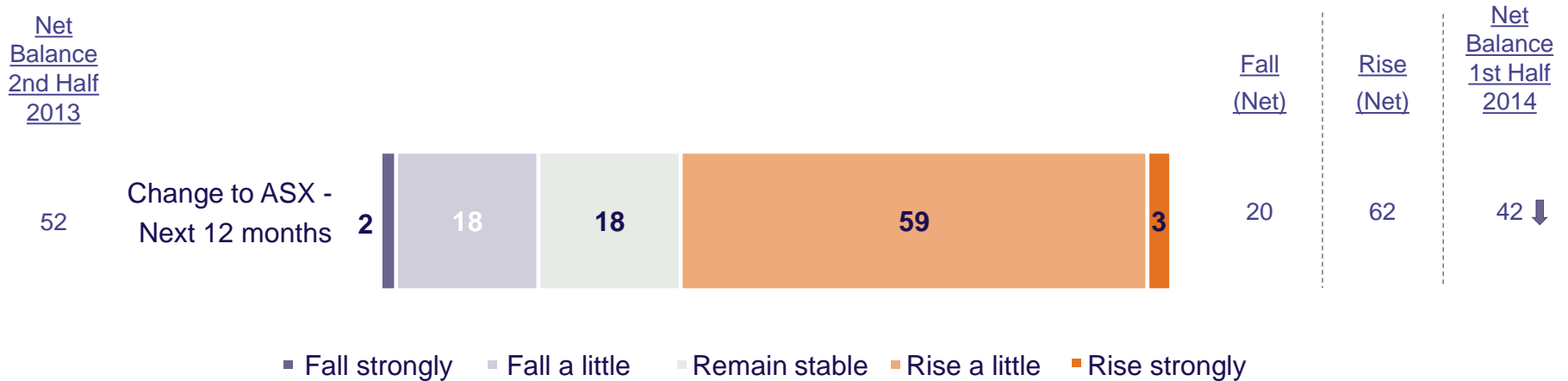
Credit availability for business - next 12 months (%)



Expected change to ASX All Ordinaries index - next 12 months

Sentiment regarding the ASX All Ordinaries Index remains optimistic in the 1st half of 2014, although to a lesser extent than the previous survey, with more than 60 per cent of directors expecting a rise in the ASX All Ordinaries in the coming year.

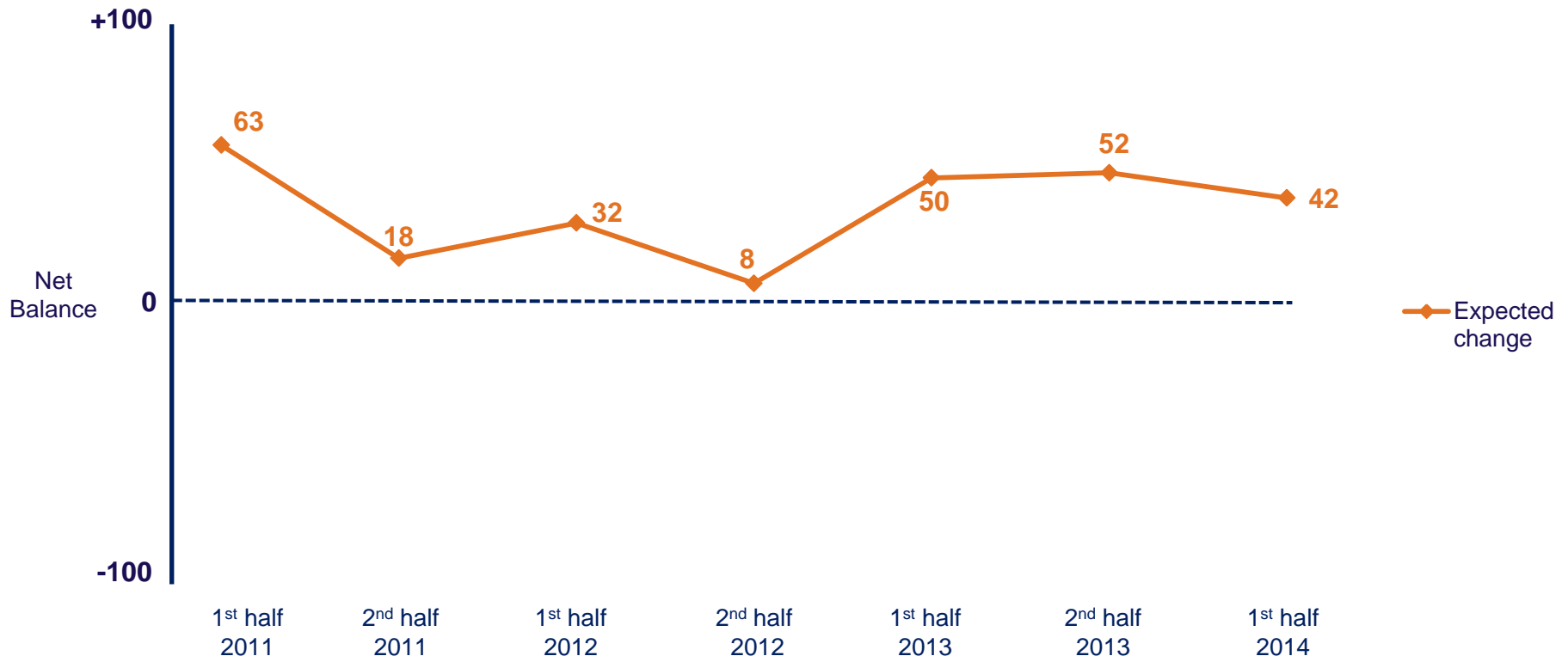
Expected change to ASX All Ordinaries index– next 12 months (%)



Expected change to All Ordinaries index: next 12 months – trend

Directors have been consistently optimistic regarding the change to the ASX All Ordinaries index over the coming year since the 1st survey in 2011. This trend continues in the 1st half 2014.

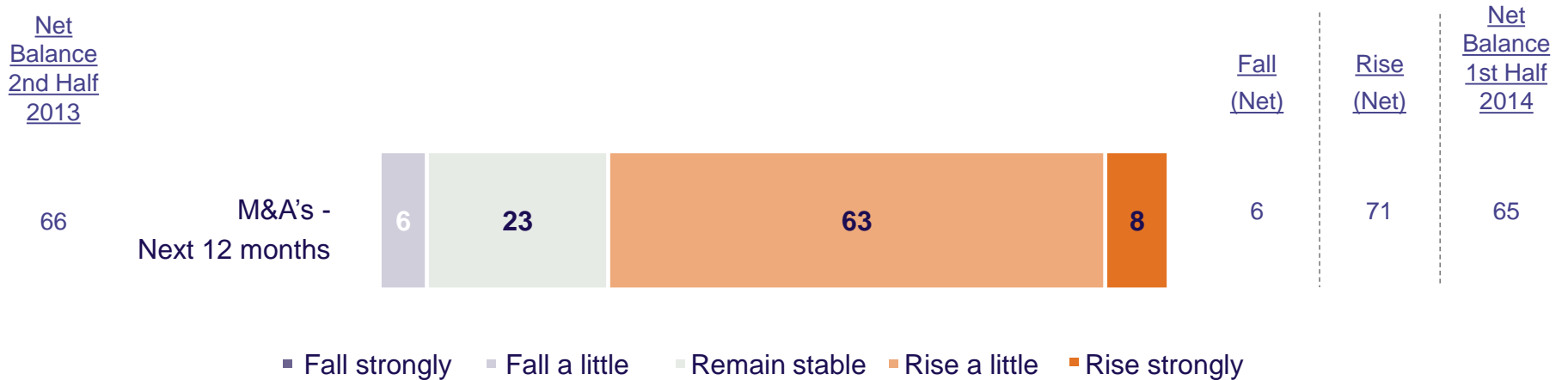
Expected change to ASX All Ordinaries index: next 12 months – semi-annual trend (net balance)



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

More than 70 per cent of directors expect a rise in mergers and acquisitions over the next 12 months, in line with the 2nd half 2013 results.

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

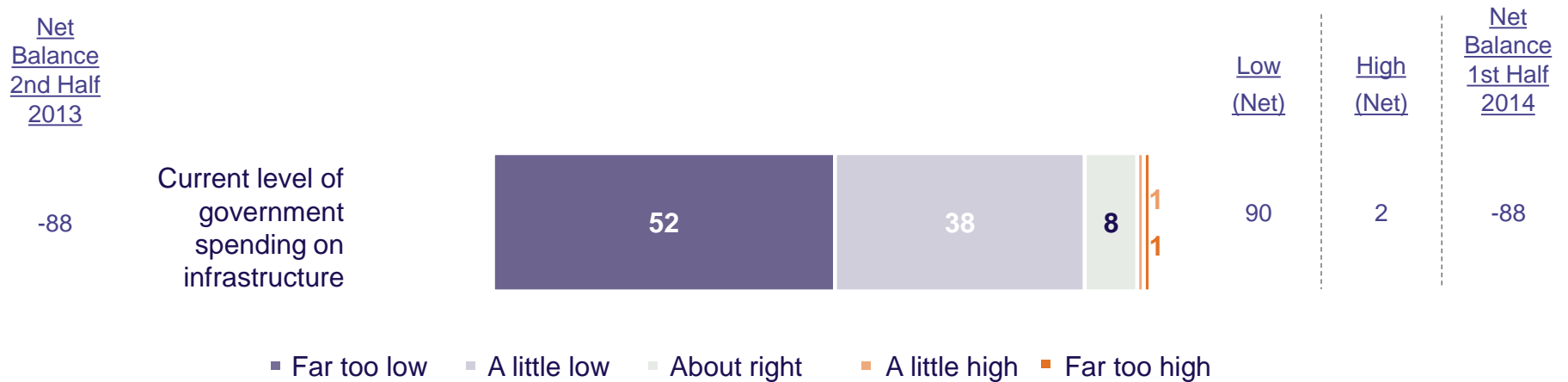


Infrastructure

Current level of government spending on infrastructure

90 per cent of directors believe that the current level of government spending on infrastructure is too low. This is the seventh survey in a row in which around 90 per cent of directors have held this view.

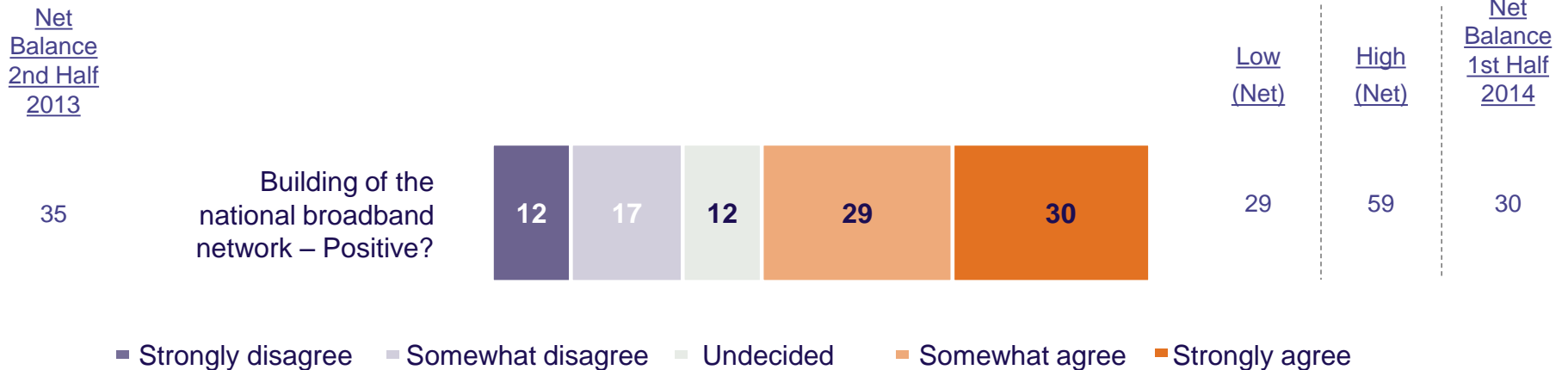
Opinion on current level of government spending on infrastructure (%)



Building of National Broadband Network (NBN)

Sentiment regarding the building of the NBN remains positive. Around 60 per cent of directors agree that the NBN is a positive thing for Australia, while less than 30 per cent of directors disagree with this statement, in line with the previous survey results.

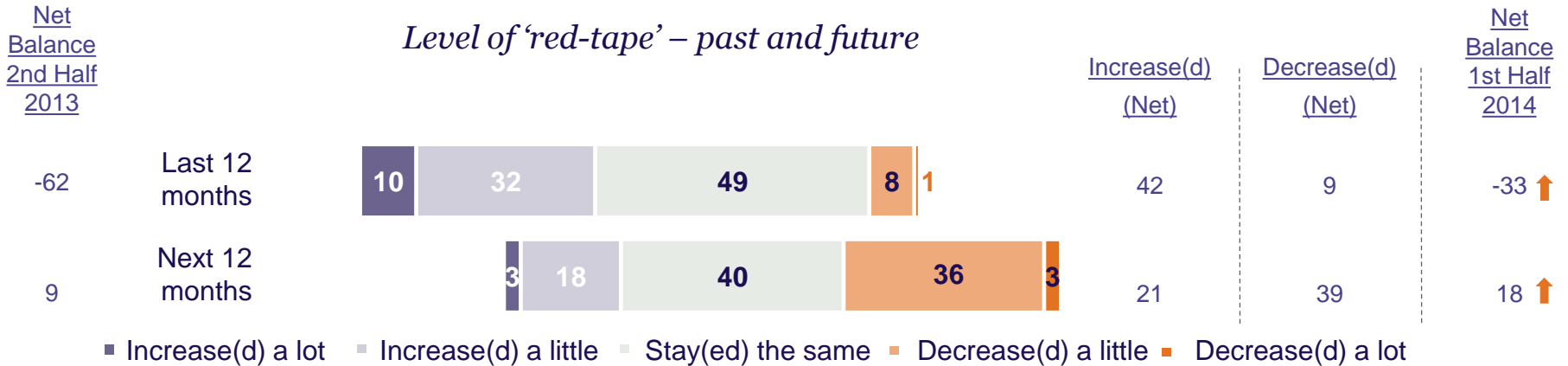
Is the building of the National Broadband Network a positive thing for Australia? (%)



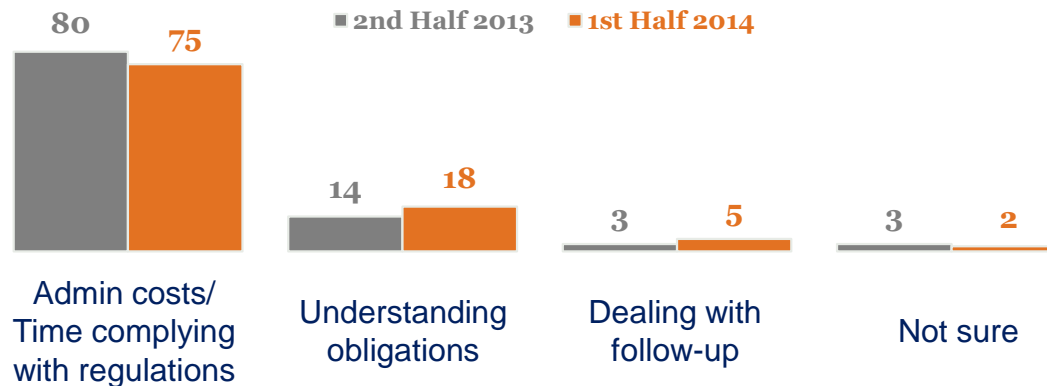
Regulatory Environment

Level of 'red-tape'

Directors remain pessimistic regarding the level of 'red-tape' in the past 12 months, although to a lesser extent than the previous survey results. Almost 40 per cent of directors expect a decrease in 'red-tape' in the next 12 months. Seventy five per cent of directors identify administrative costs and the time associated with compliance as having the greatest impact on their business.

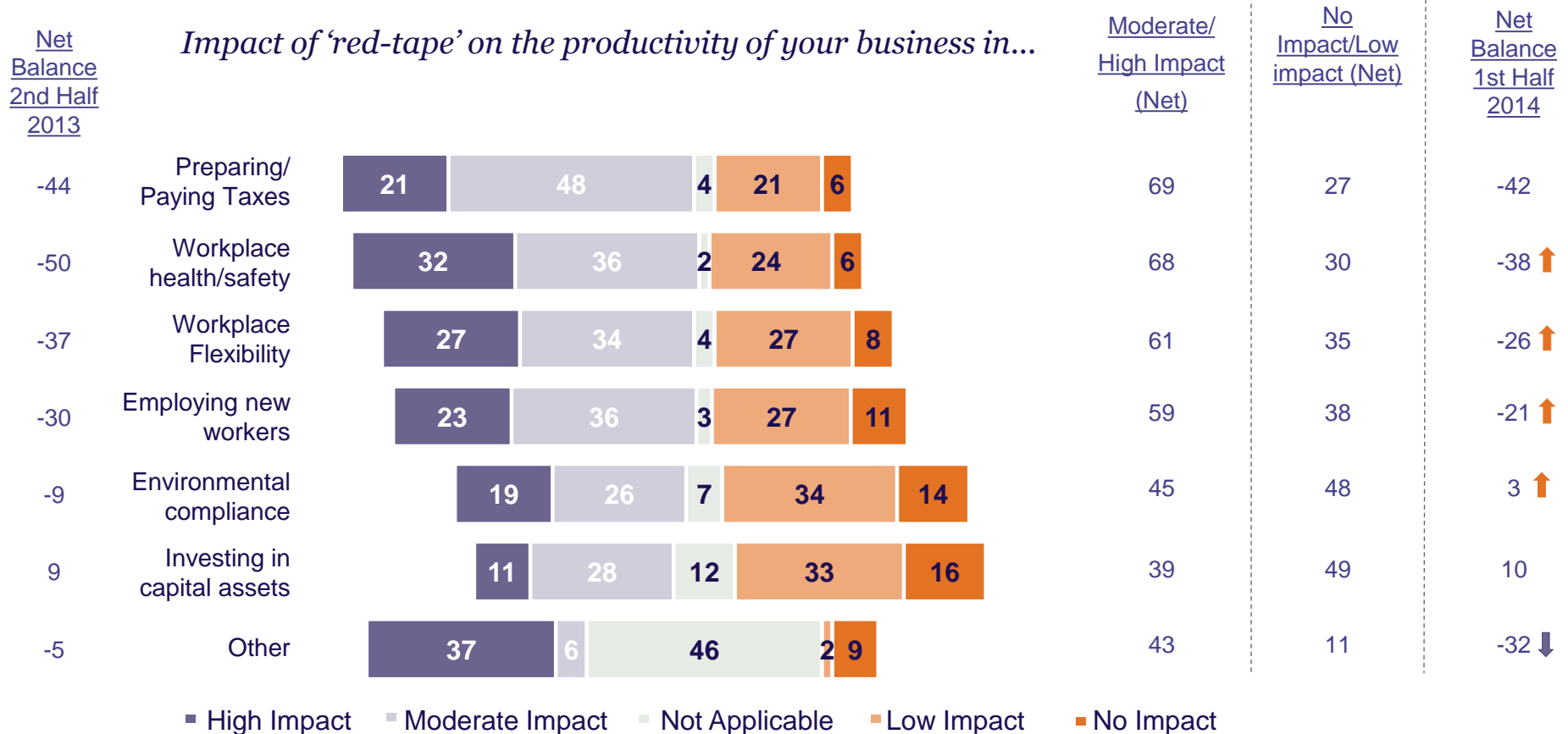


Aspects of red-tape – most impact on business (%)



Impact of 'red-tape' on business productivity

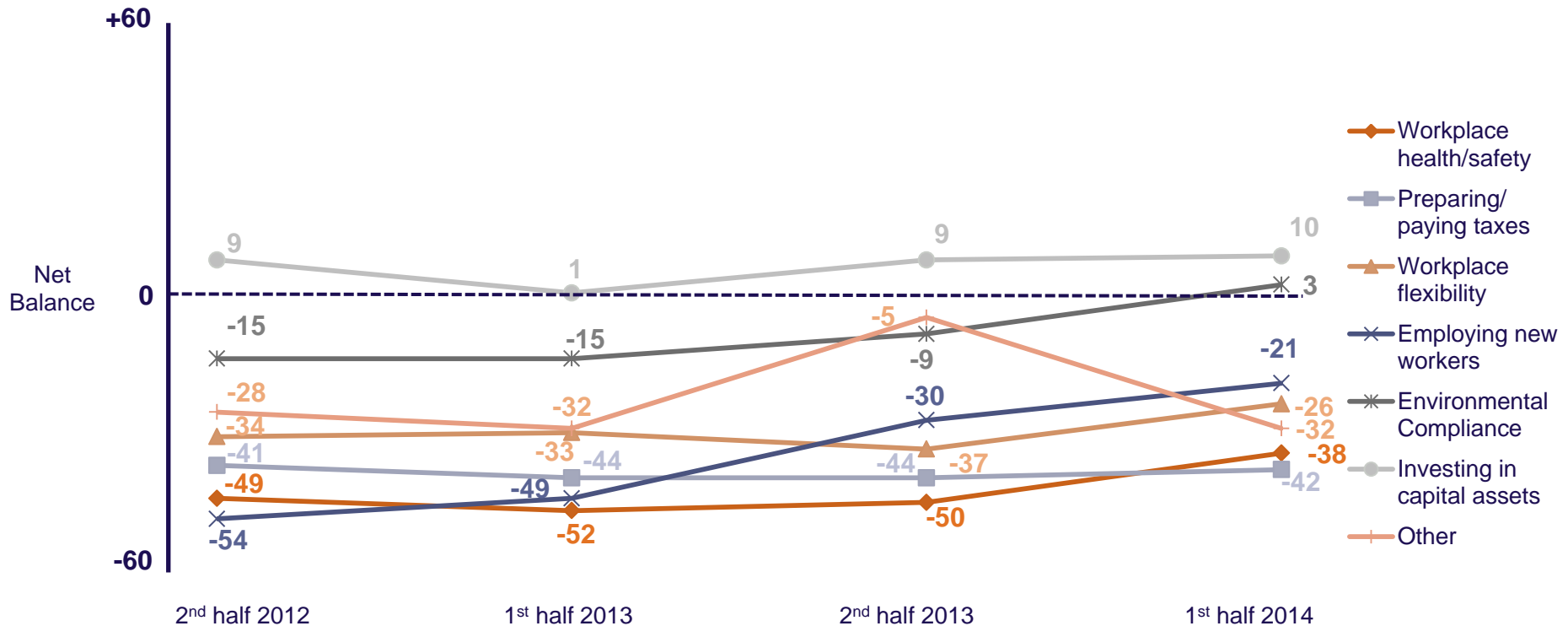
Around 70 per cent of directors identify preparing/paying taxes and workplace health/safety as the aspects of their business most affected by 'red-tape', followed by workplace flexibility and employing new workers.



Impact of 'red-tape' on business productivity – semi-annual trend

Since the 2nd half of 2012 (when this question was first asked), directors have been mostly consistent in their assessment of 'red-tape' and its negative impact on the productivity of their business. 'Red-Tape' has the most negative impact in the areas of workplace health & safety and preparing/paying taxes.

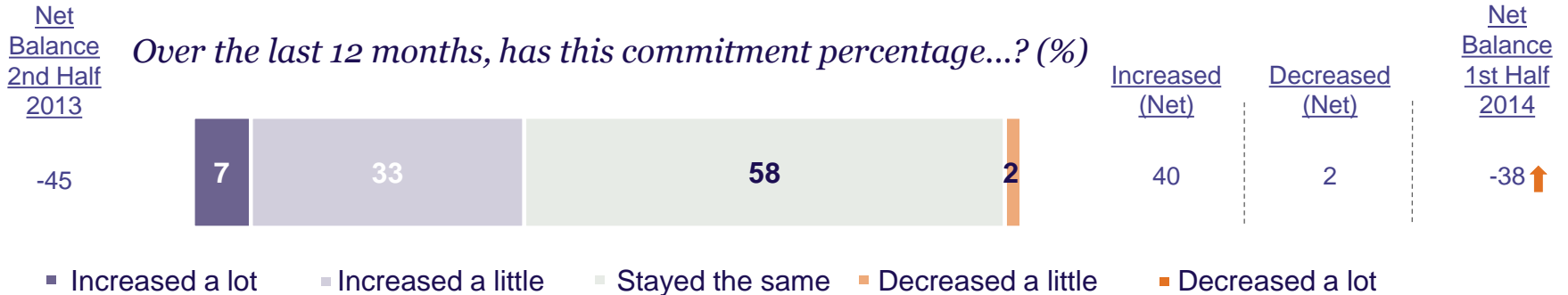
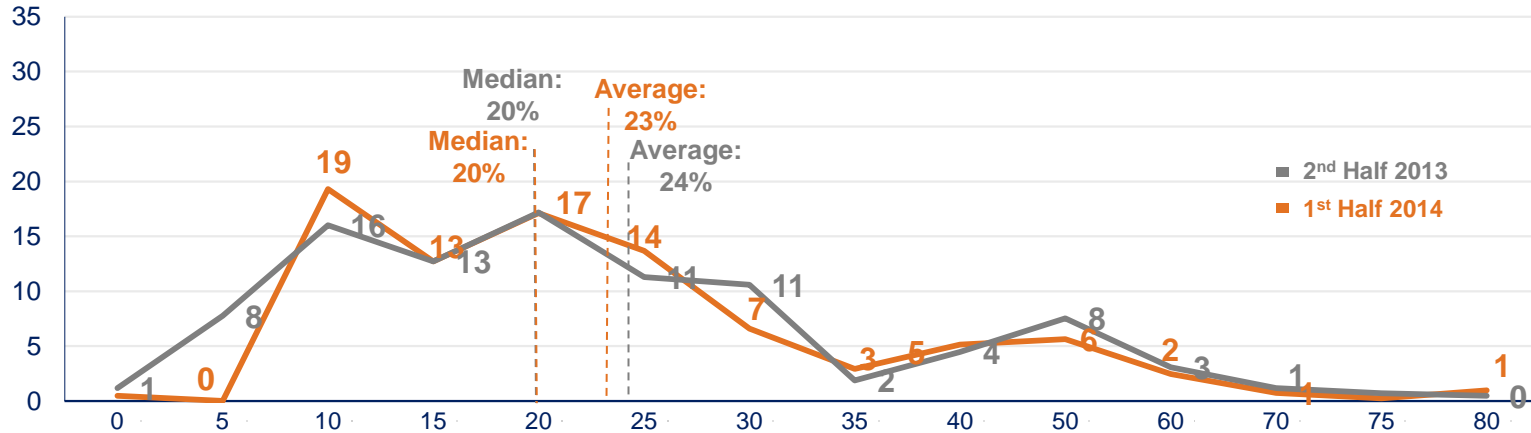
Impact of 'red-tape' on the productivity of your business in... – semi-annual trend (net balance)



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. Directors are less pessimistic about the change in percentage commitment over the past 12 months, with around 40 per cent believing this commitment percentage has increased, and around 60 per cent believing it has stayed the same.

Percentage of board commitment spent on 'red-tape' compliance... (%)



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

Base: Those who provided an answer: n=409 (some opted for "not sure")

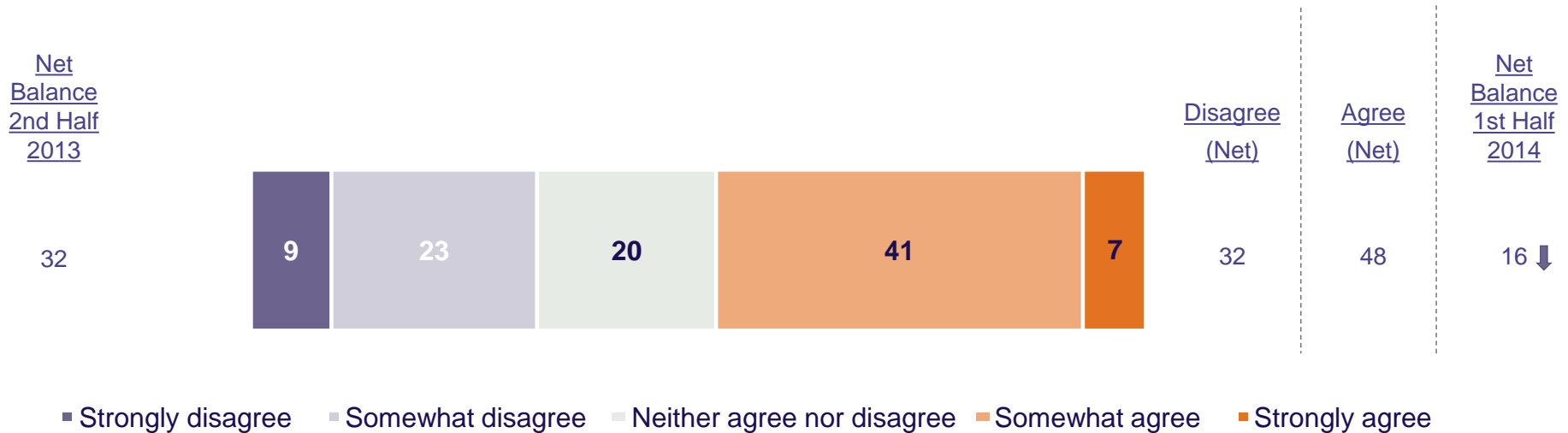
37: Over the last 12 months, has this percentage of commitment...?

Base: All respondents n=525

Federal Government understanding of business

Directors remain optimistic about the Federal Government's understanding of business, although to a lesser extent than the 2nd half of 2013, with around half of directors agreeing the current Federal Government understands business.

Does the current Federal Government understand business? (%)

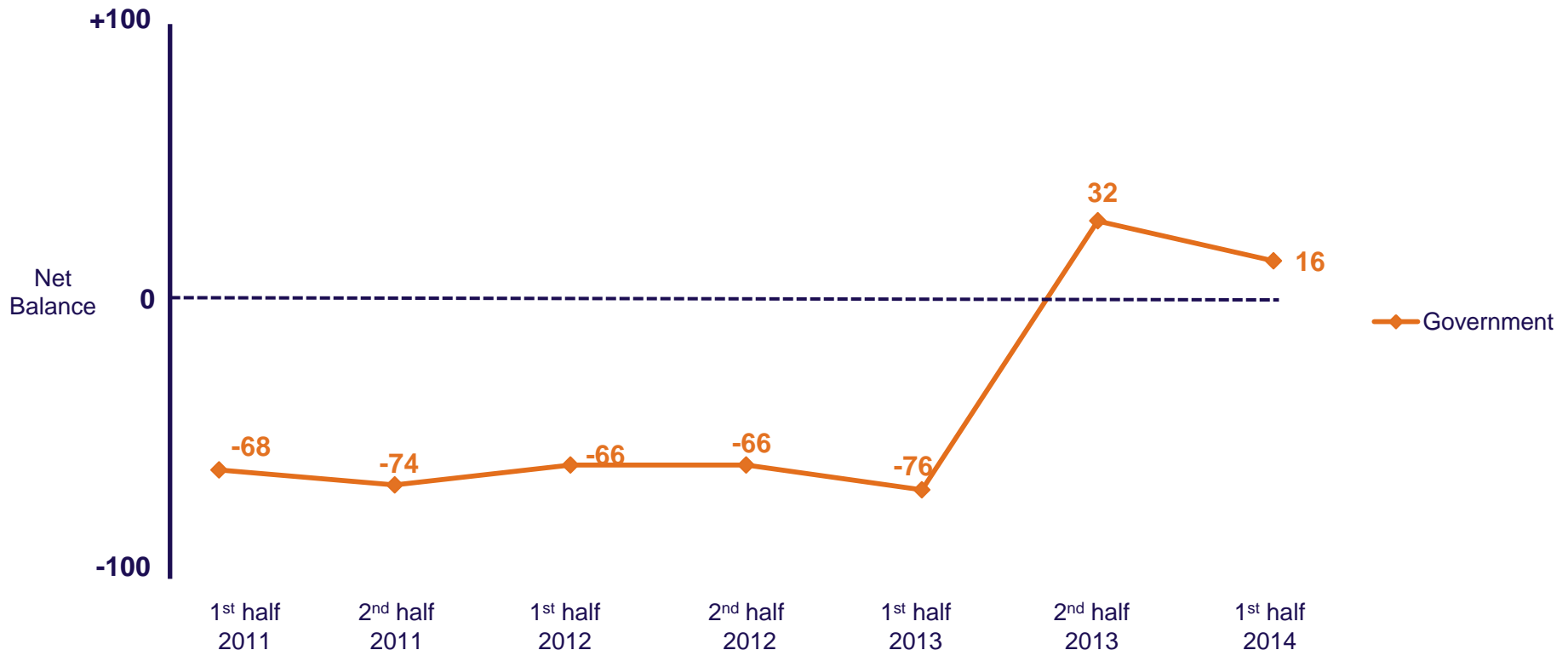


Federal Government understanding of business – semi-annual trend

65

The change in Federal Government in 2013 saw a marked improvement in directors' confidence in the government's understanding of business. While the sentiment remains positive in the 1st half of 2014, it has declined over the past six months.

Does the current Federal Government understand business? – semi-annual trend (net balance)



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 and taxation reform. Infrastructure has been identified as the top priority in every survey since the 1st half of 2011.

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 (%)

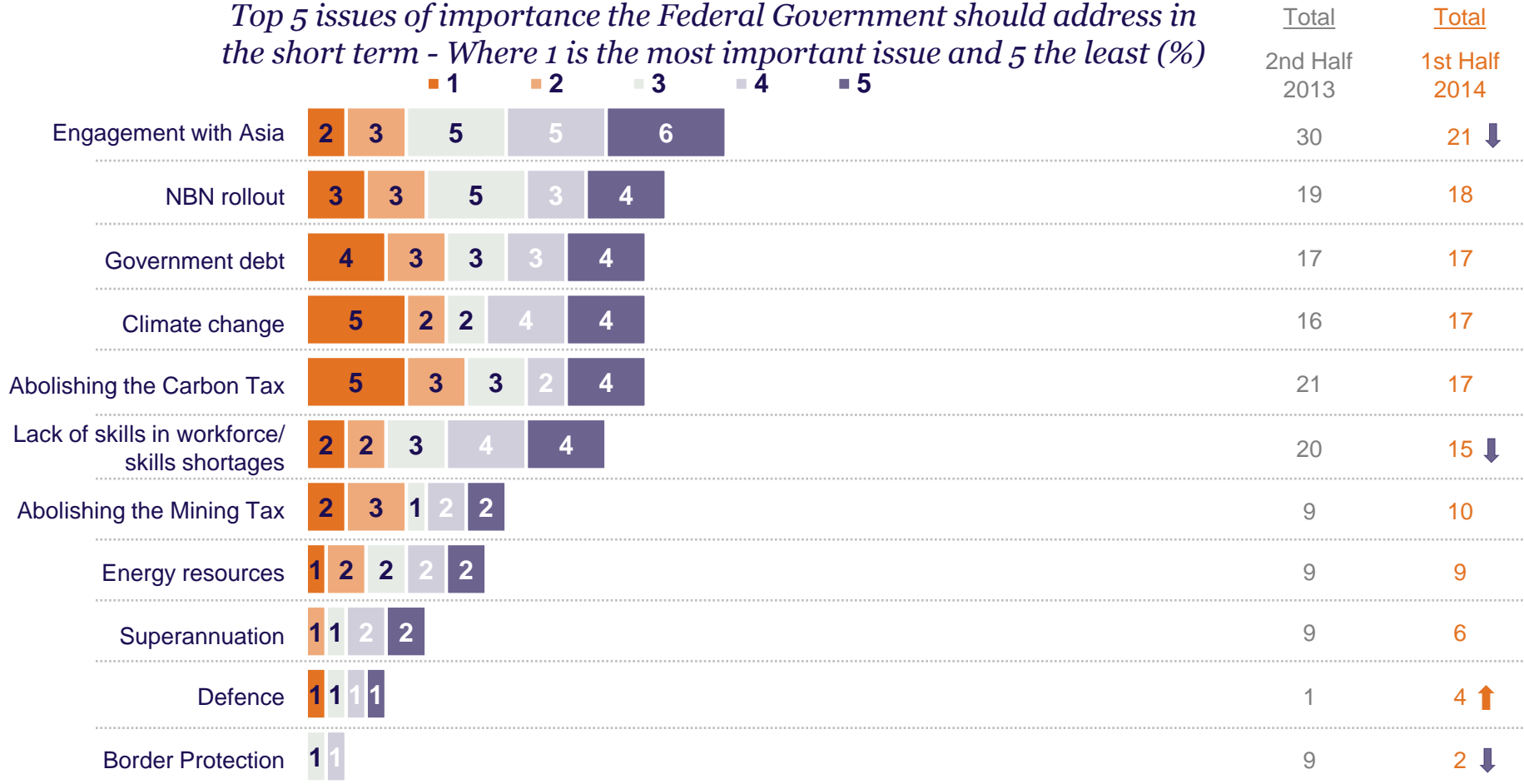
	1	2	3	4	5	Total 2nd Half 2013	Total 1st Half 2014
Infrastructure	12	10	11	10	8	56	51
Productivity growth	13	11	8	7	7	50	46
*Taxation Reform	8	11	9	7	5	N/A	40
Industrial Relations	7	8	7	8	5	34	35
International Competitiveness	6	7	7	6	6	40	32 ↓
Regulation/ 'red-tape'	4	7	7	7	7	36	32
Education	4	6	7	5	7	27	29
Ageing population	5	4	5	6	7	22	27
Federal budget deficit	7	5	5	3	6	21	26
Improve efficiency of federal bureaucracies	4	3	4	5	8	36	24 ↓
Health	4	4	4	6	3	18	21

* Note: New statement added in 1st half 2014

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

Border protection is now rated by directors as the lowest short term priority for the Federal Government, followed by defence, superannuation and energy resources.

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



Issues Federal Government should address in long term

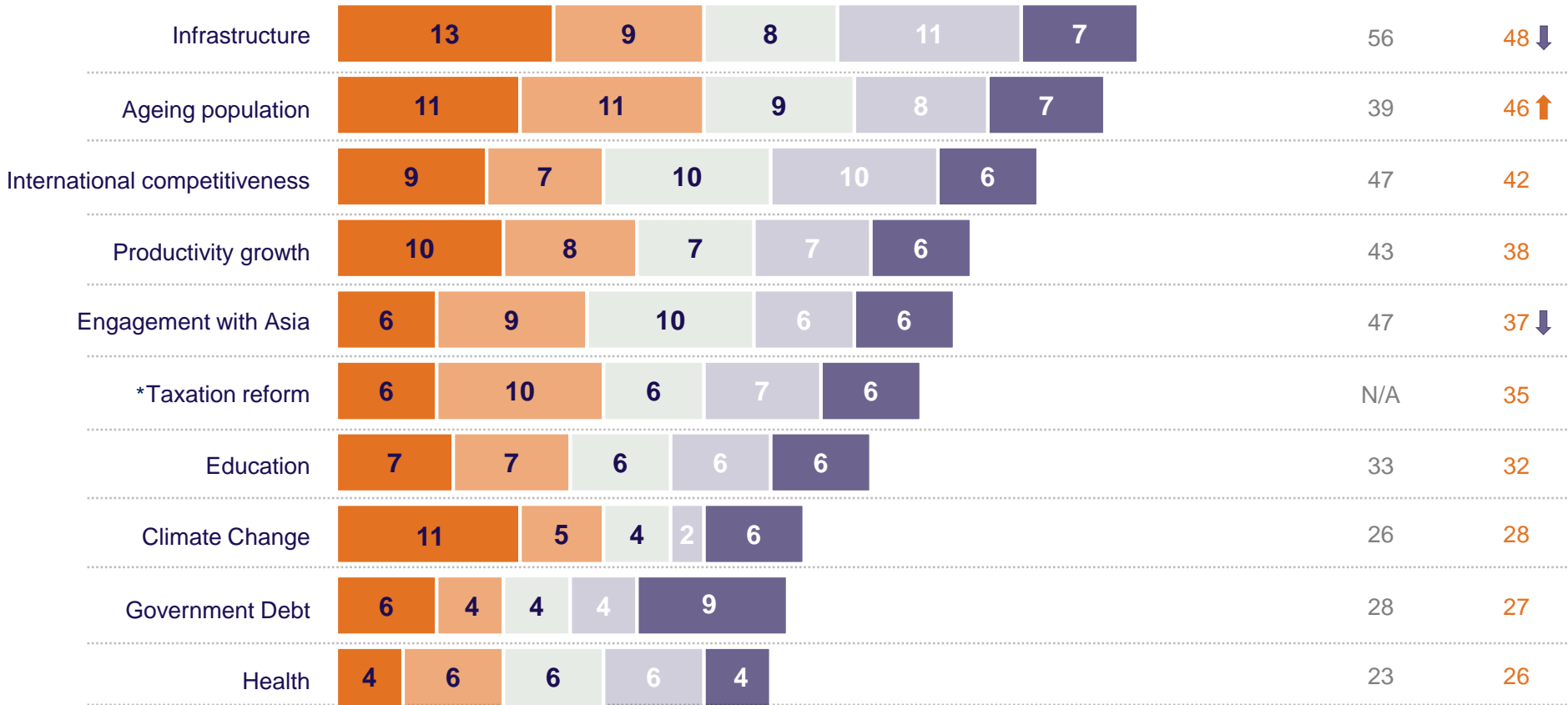
Infrastructure is also rated by directors as the top long term priority. This is followed by the ageing population and international competitiveness. Infrastructure has been the top long term priority since this question was first asked in the 2nd half of 2012.

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 (%)

Total
2nd Half
2013

Total
1st Half
2014

■ 1 ■ 2 ■ 3 ■ 4 ■ 5



* Note: New statement added in 1st half 2014

30: Please nominate the top 5 issues of importance, in your opinion, that the Federal Government should address in the long term (i.e., in the next 10-20 years), where 1 is the most important issue and 5 is the least important.

Base: All respondents n=525

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

Border protection is also rated as the lowest long-term priority the Federal Government should address. This is followed by defence and regional security.

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 (%)

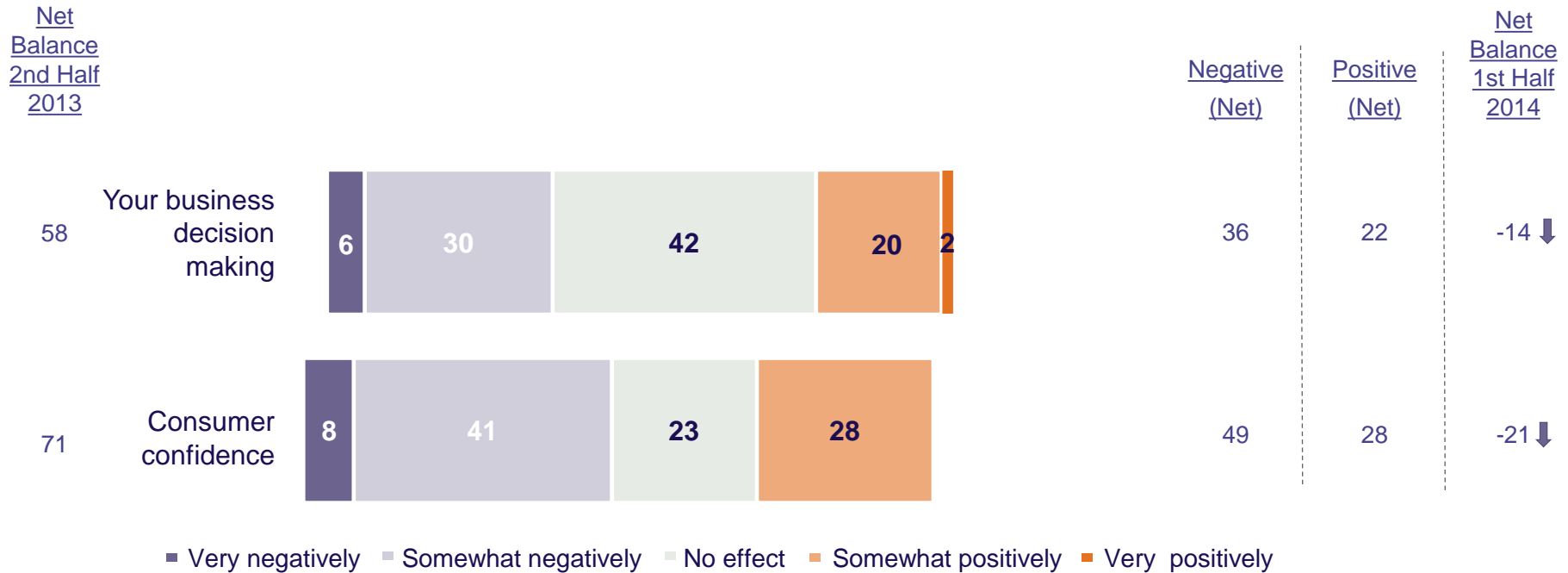
	1	2	3	4	5	Total 2nd Half 2013	Total 1st Half 2014
Water resources	2	5	4	4	6	25	21
Industrial relations	2	4	6	5	4	19	21
Population planning	4	3	4	4	5	24	20
Energy resources	1	4	3	7	4	19	19
Lack of skills in workforce/ skills shortages	2	3	4	3	4	19	16
Regulation/ 'Red-Tape'	1	3	2	4	5	20	15↓
Superannuation	1	2	2	3	4	11	12
Defence	1	1	1	1	2	5	6
Regional security	1	1	1	3		10	6↓
Border protection	1	1	1	1		6	4

Impact of Federal Government's performance on business

70

Directors have become pessimistic about the Federal Government's effect on business, with more than 35 per cent of directors viewing the Federal Government's performance as having a negative effect on their business decision making and almost half of all directors viewing the Federal Government's performance as having a negative impact on consumer confidence.

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

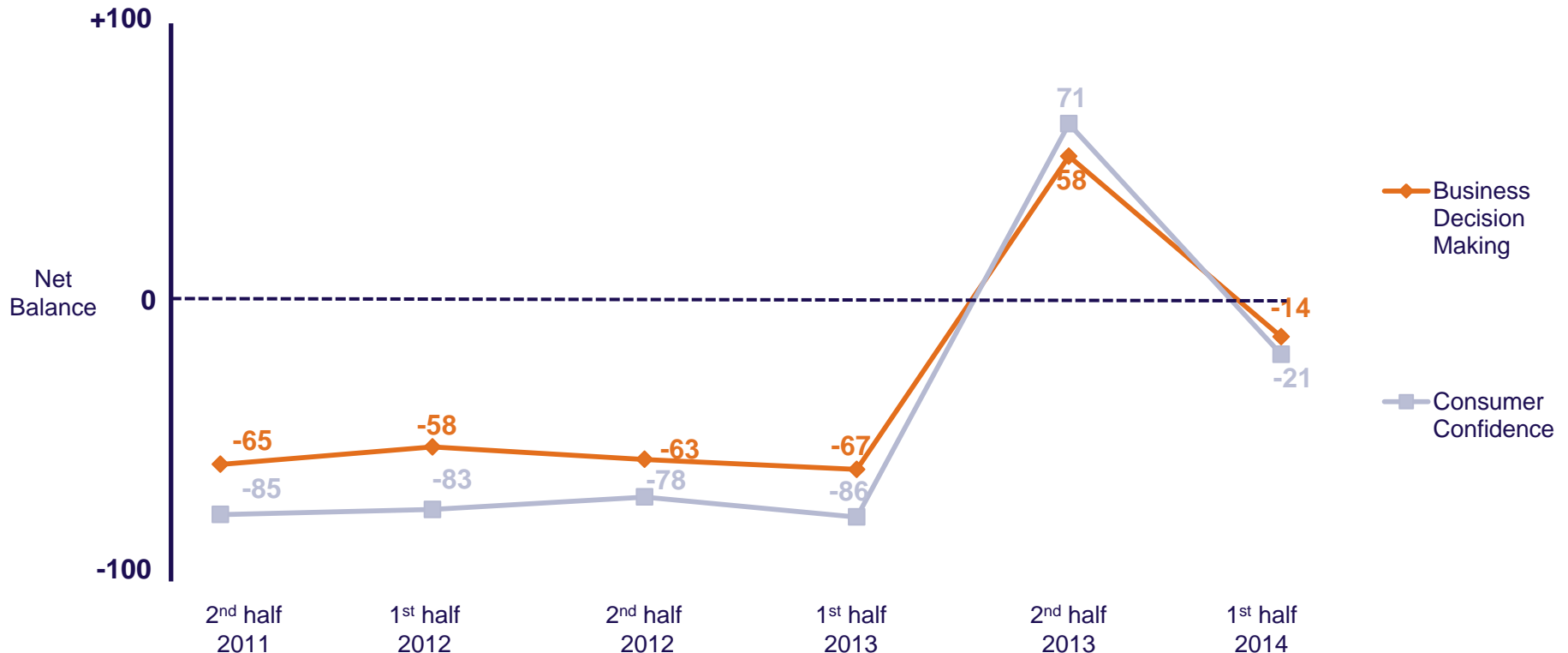


Note: Question reworded for 1st half 2014

Impact of Federal Government on business – semi-annual trend

Since the 2nd half of 2011, directors have assessed the federal government's performance as having a negative impact on their business decision making and consumer confidence. The change in federal government saw this sentiment – in terms of expectation – become positive for the first time, although the perceived impact has become negative again in the 1st half of 2014.

Federal Government's performance affecting... – semi-annual trend (net balance)



Note: Question added in 2nd Half 2011, reworded in 2nd half 2013 due to recent Federal Election

Industrial Relations/ Federal Budget/ Paid Parental Leave

Directors view industrial relations reform as a priority, although 40 per cent hold the opinion that an electoral mandate should first be given. More than 80 per cent of directors do not view a budget surplus as a priority in the next 3 years. More than 40 per cent of directors believe the Government should not implement the proposed paid parental leave scheme.

Industrial Relations Reform

<i>Extent to which Federal Government should pursue industrial relations reform</i>	<i>%</i>
Significant reform in the next term of government, following an electoral mandate	41
Significant reform in the current term of government	36
No significant reform is required	23

Federal Budget Surplus

<i>Given a likely budget deficit in May, in what timeframe should the Federal Government move towards a budget surplus?</i>	<i>%</i>
12 months	1
1-3 years	15
3-5 years	43
More than 5 years	19
A budget surplus is not a priority	22

Paid Parental Leave Scheme

<i>How should the Federal Government proceed with the proposed paid parental leave scheme?</i>	<i>%</i>
Proceed with the scheme in its current form	8
Implement the scheme with a lower maximum benefit	30
Defer the scheme	16
Not implement the scheme and maintain current arrangements	41
No Opinion	5

Impediments to productivity growth

In line with 2nd half 2013 results, directors identify general economic conditions/ concerns as the top impediment to productivity growth in their business, followed by 'red-tape' and regulation and workplace relations laws/regulations.

Top 3 impediments to productivity growth in your business.
Where 1 has the most impact and 3 has the least impact (%)

	1	2	3	Total 2nd Half 2013	Total 1st Half 2014
General economic conditions/concerns	38	18	15	72	71
'Red-tape'/regulation	12	20	16	55	48 ↓
Workplace relations laws/regulations	14	15	12	43	41
Lack of skills in workforce/skills shortages	6	10	14	29	30
Technological constraints	5	11	14	20	30 ↑
Quality of management	9	9	11	27	29
Workplace culture	7	10	10	31	27
Lack of available credit	4	6	5	15	15
Other	5	2	3	8	10

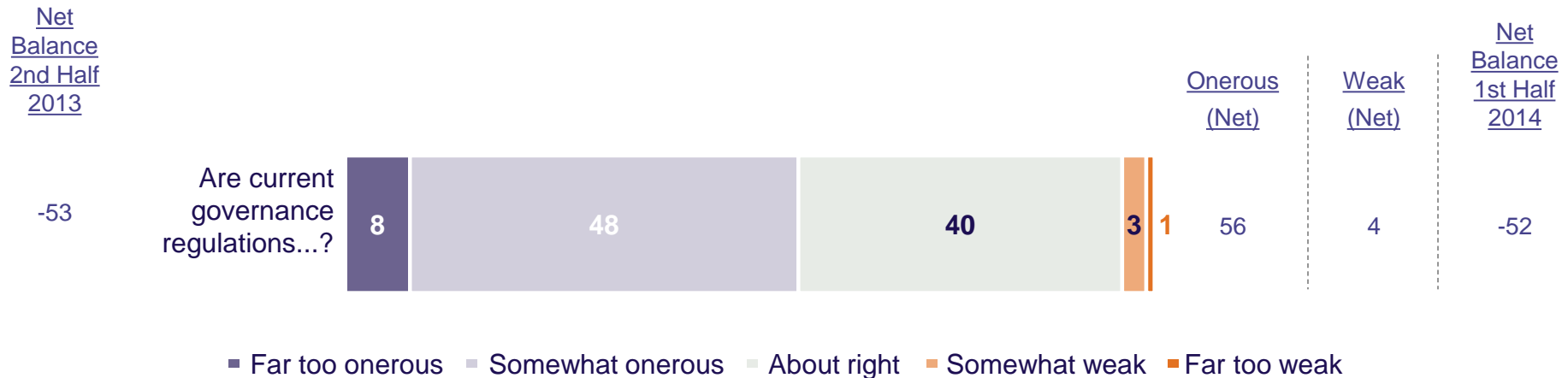
Governance

Key Issues for Directors and Boards

Current governance regulations under the Corporations Act

In line with 2nd half 2013 results, more than half of directors believe that current governance regulations under the Corporations Act are onerous.

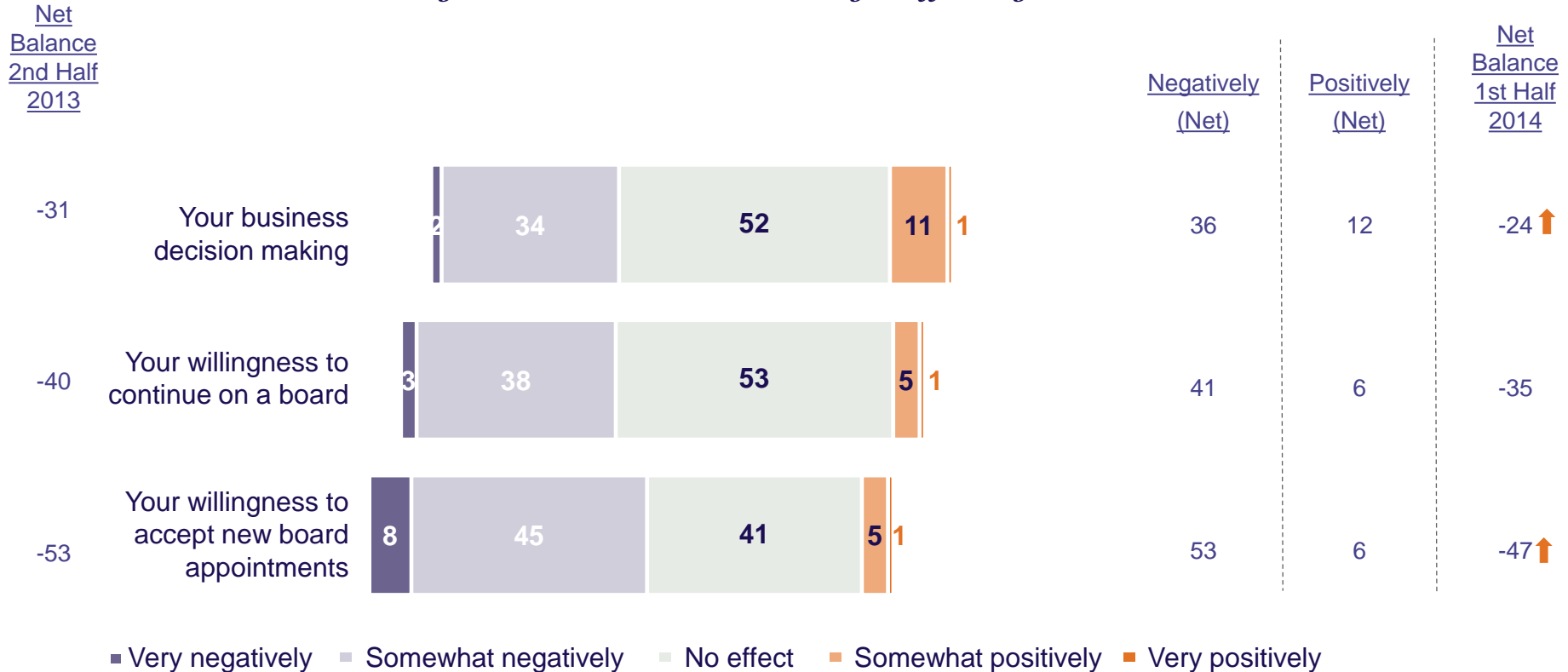
Are current governance regulations...? (%)



Impact of legislation on director liability

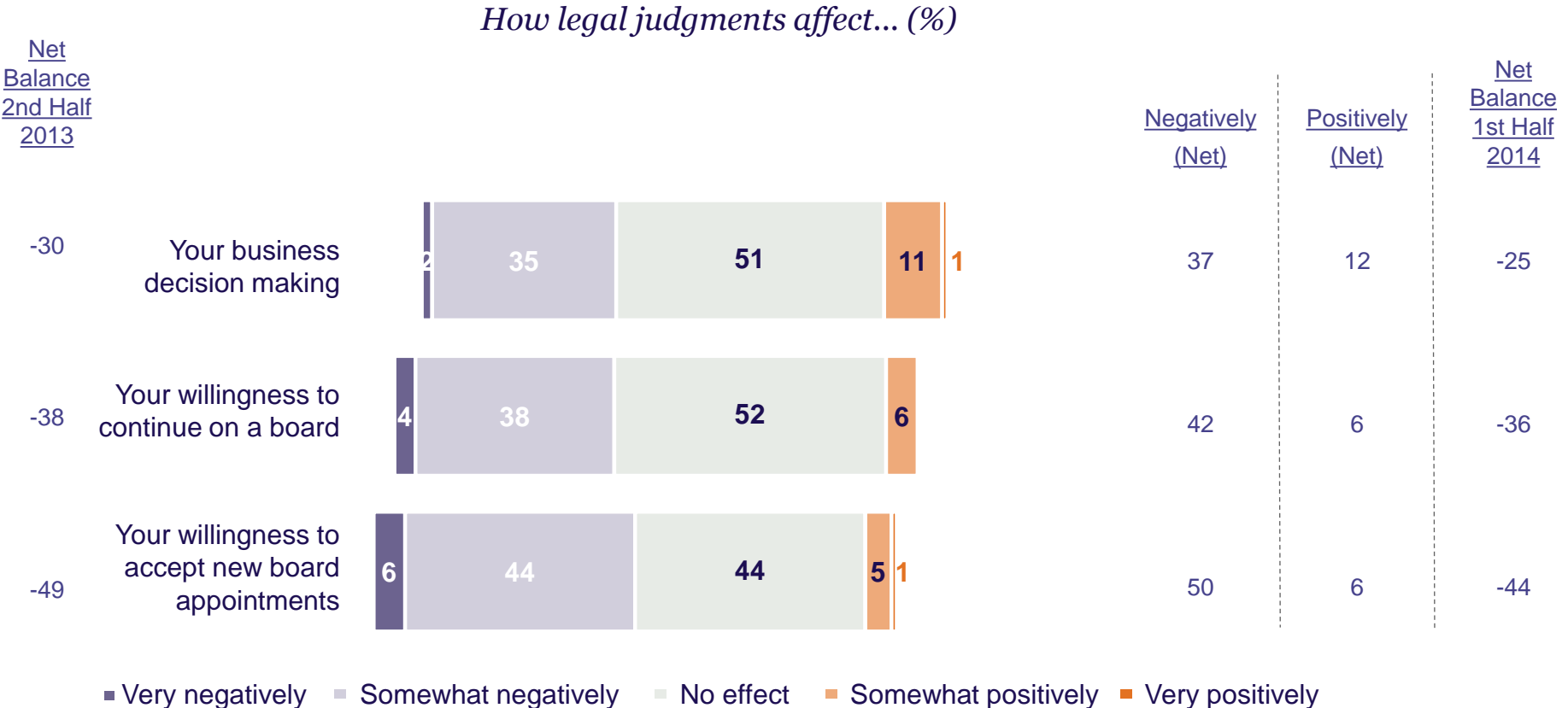
More than 40 per cent of directors still believe that legislation on director liability has a negative impact on their willingness to continue on a board, while more than half of directors agree that director liability legislation negatively impacts their willingness to accept new board appointments.

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



Impact of legal judgments on director liability

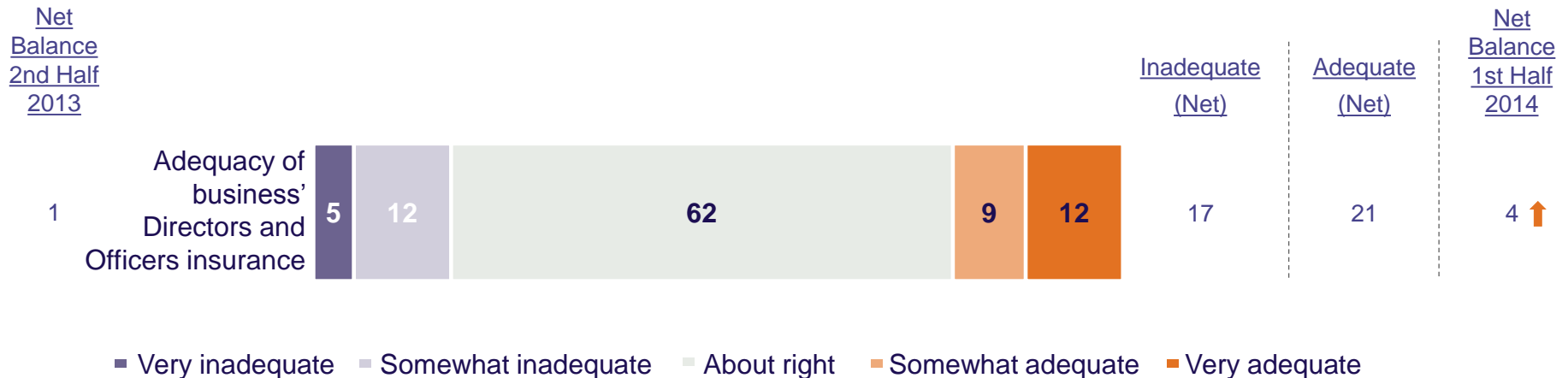
Directors remain pessimistic regarding the impact of legal judgments on director liability. More than 35 per cent of directors believe that legal judgments negatively affect their business decision making and willingness to continue on a board, and exactly half believe that legal judgments negatively affect their willingness to accept new board appointments.



Adequacy of Directors and Officers insurance

More than 80 per cent of directors perceive their business' Directors and Officers insurance as adequate, or about right. This is a slight improvement on the 2nd half 2013 survey findings.

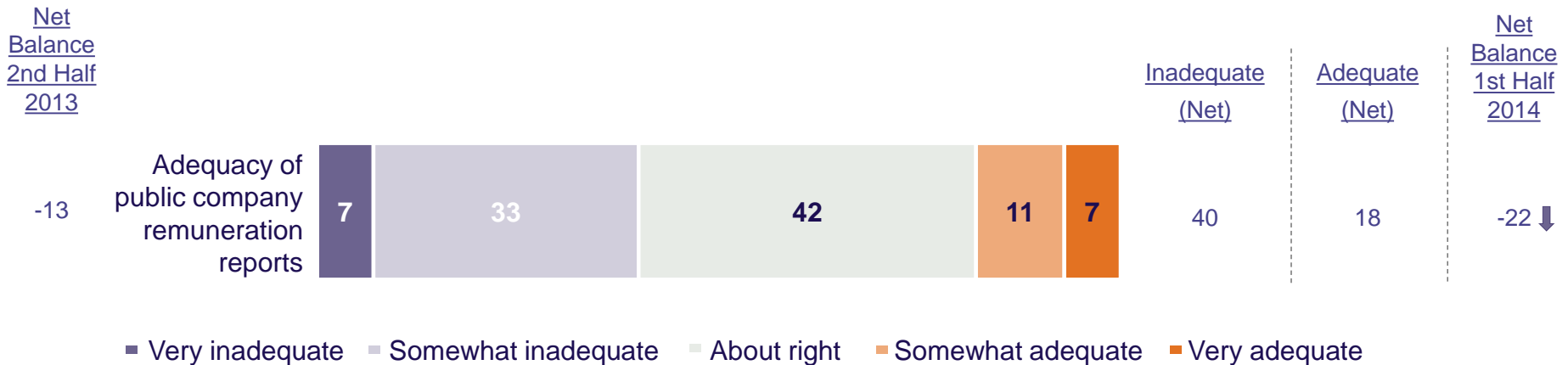
Adequacy of business' Directors and Officers Insurance (%)



Adequacy of public company remuneration reports

More than 40 per cent of directors perceive public company remuneration reports as about right, while 40 per cent of directors hold the view that they are inadequate.

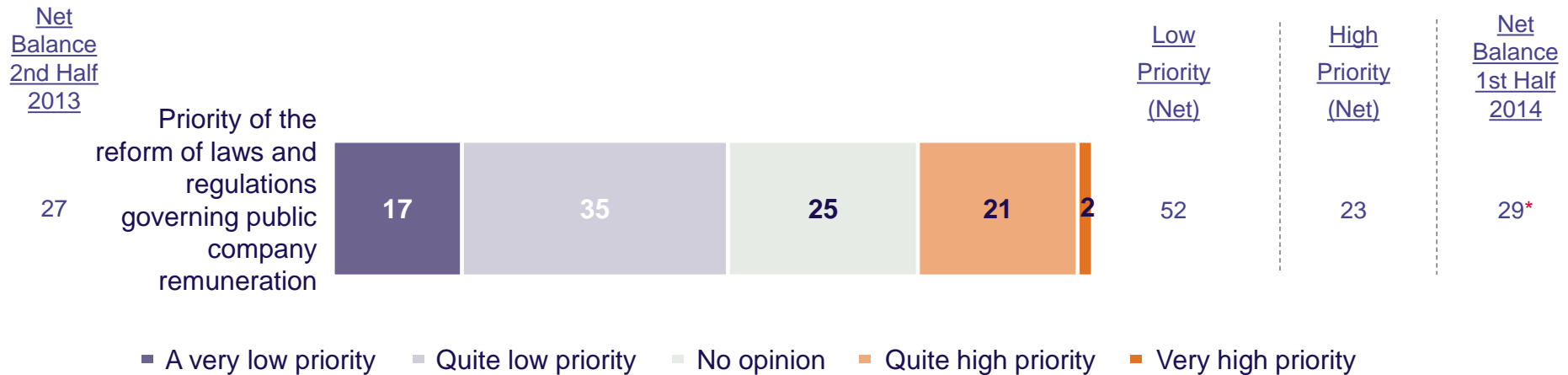
Adequacy of public company remuneration reports (%)



Reform of laws and regulations governing public company remuneration

Directors continue to assign low importance to the priority of the reform of laws and regulations governing public company remuneration, with more than half of directors believing it should be a low priority.

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

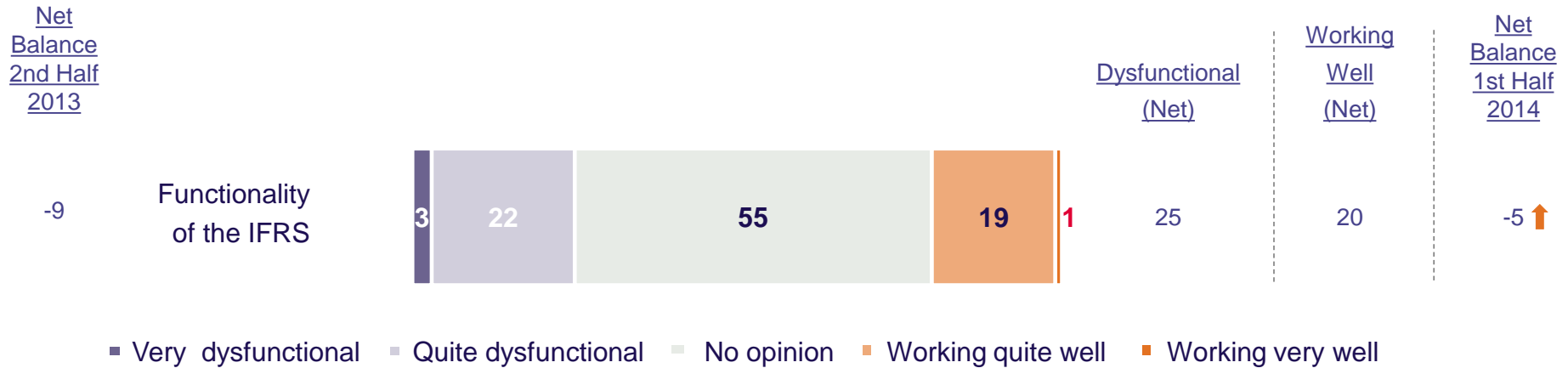


* Note: Net balance for priority of the reform of laws and regulations governing public company remuneration calculated in reverse

International Financial Reporting Standards (IFRS)

Sentiment regarding the IFRS remains slightly pessimistic, with 25 per cent of directors perceiving the IFRS as dysfunctional.

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

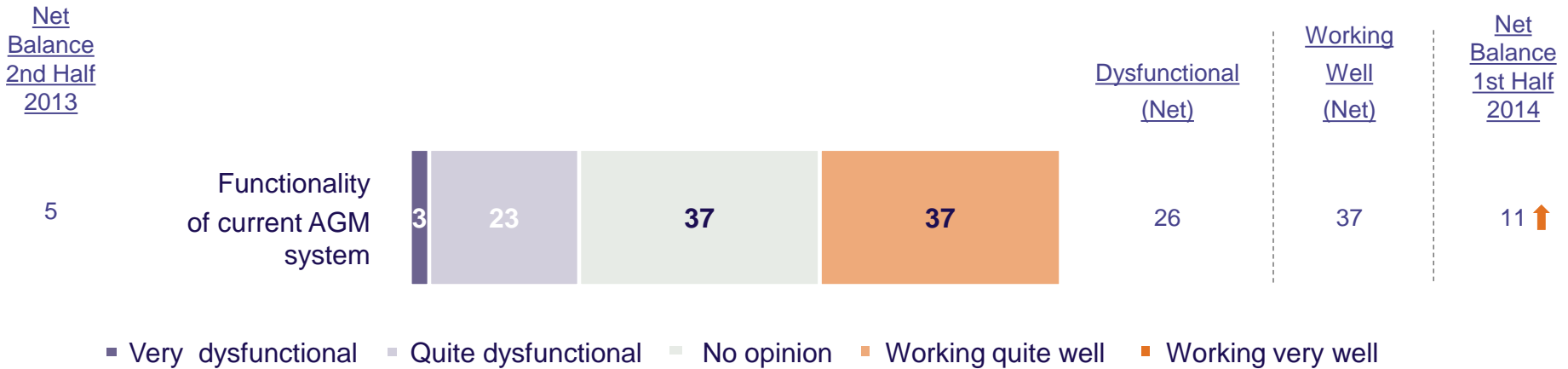


Shareholder Relations

Current AGM system

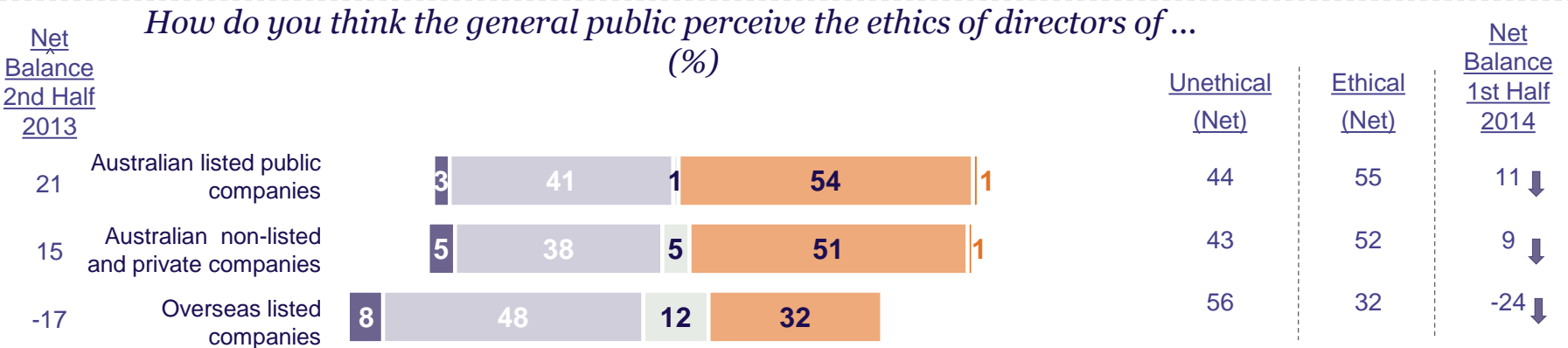
Sentiment is slightly more positive regarding the current AGM system in the 2nd half 2013, with more than 35 per cent of directors of the opinion that the current AGM system is working well and less than 30 per cent perceiving the current AGM system as dysfunctional.

Functionality of the current AGM system (%)



Personal perception of company directors' ethics

Most directors still perceive Australian companies as generally ethical and more so than overseas listed companies. Directors are less optimistic regarding the public perception of the ethics of Australian and overseas listed company directors, compared to the 2nd half of 2013.



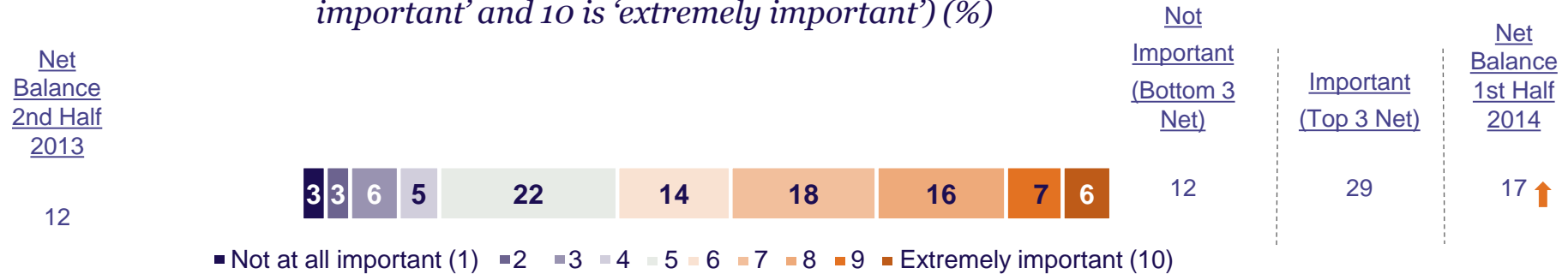
■ Totally unethical ■ Generally unethical ■ No opinion ■ Generally ethical ■ Totally ethical

Environmental, Social and Governance Issues

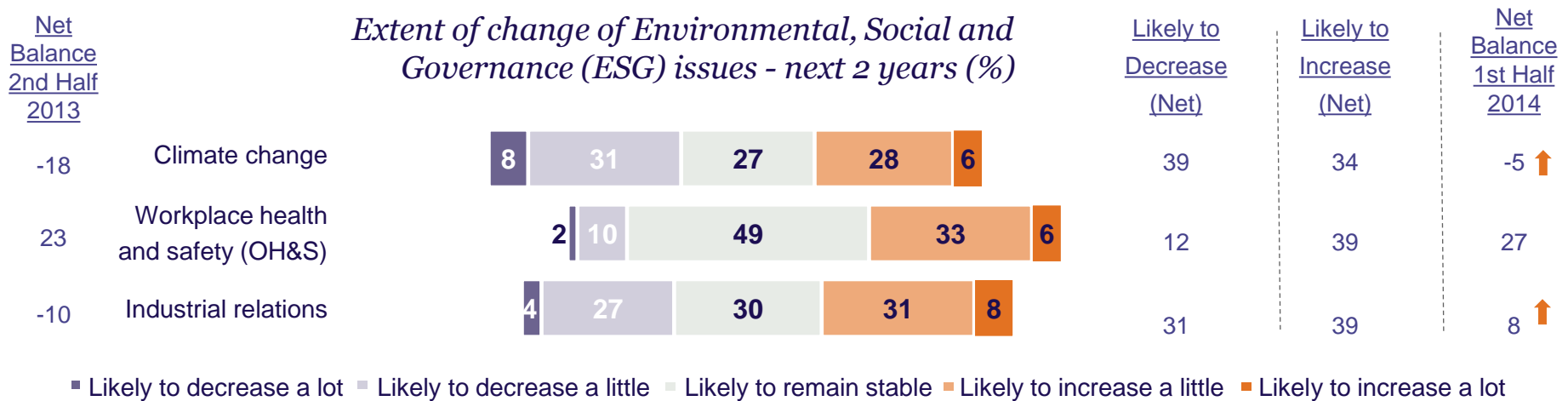
Importance of ESG issues/extent of change - next 2 years

Almost 30 per cent of directors perceive ESG issues to be very important, a slight increase from the 2nd half 2013 results. A higher proportion of directors believe that ESG regulations relating to climate change, occupational health and safety and industrial relations will decrease 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 (%)



48: 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?

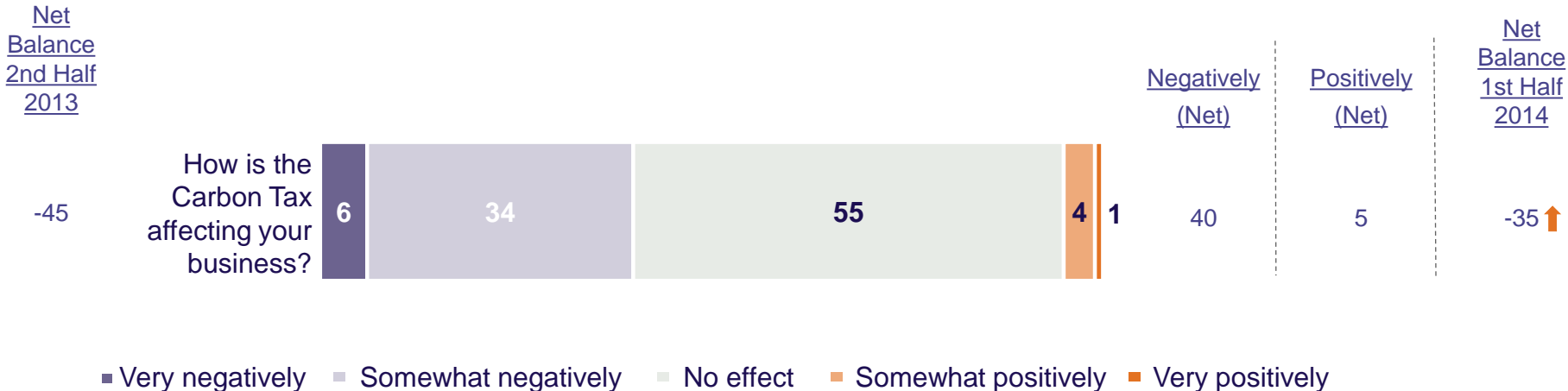
47: To what extent, if any, do you expect regulation over the area of Environmental, Social and Governance (ESG) issues to change over the next 2 years, in relation to....?

Base: All respondents n=525

Effect of carbon price on business

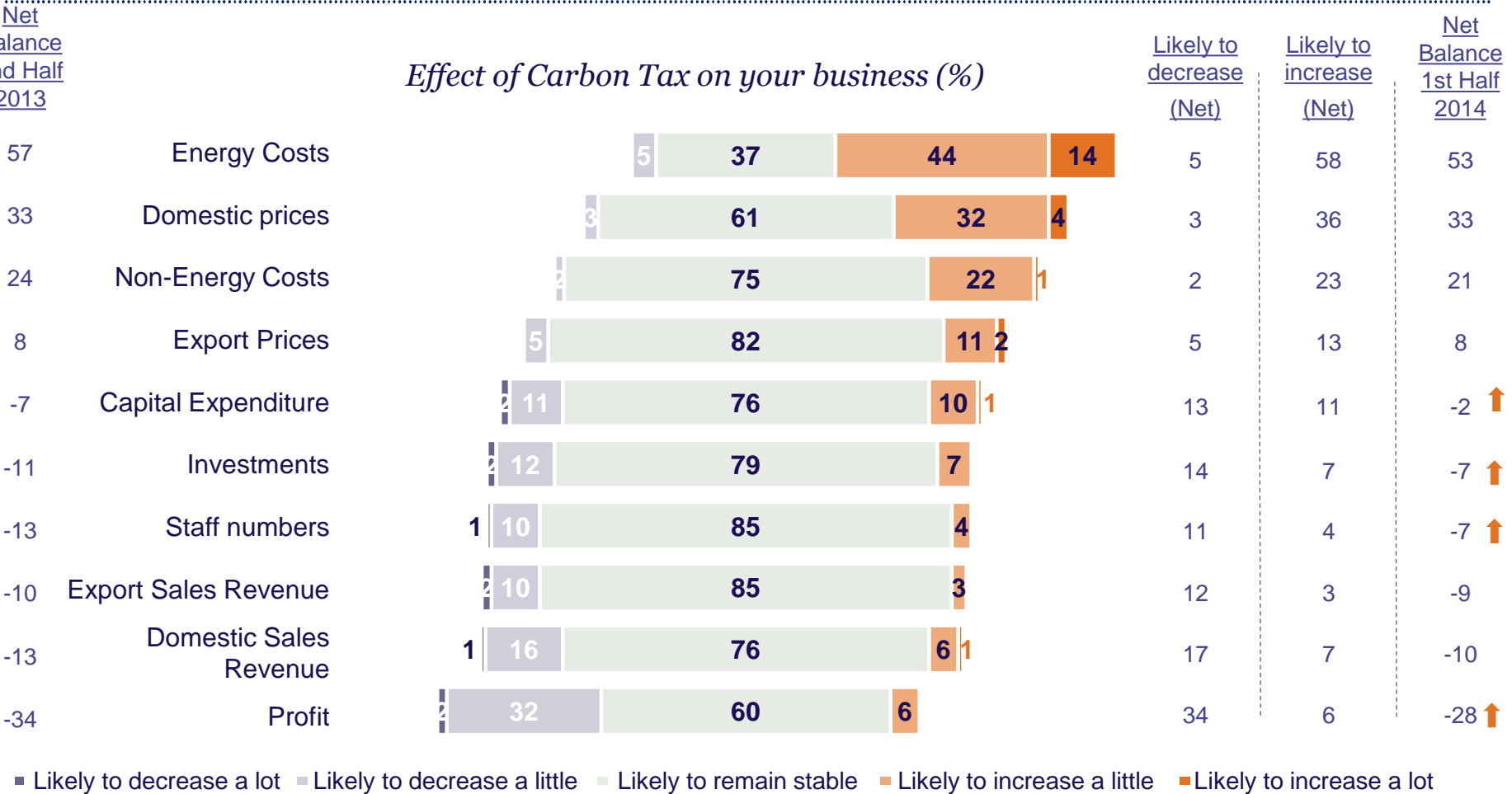
Sentiment regarding the Carbon Tax and its impact on business is less pessimistic, with more than half of directors reporting the carbon price is not affecting their business. However, 40 per cent of directors maintain the belief that the Carbon Tax is having a negative impact on their business.

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



Impact of Carbon Tax on business

A high proportion of directors still believe that the Carbon Tax has a negative impact on energy costs and profit, although the pessimism regarding profit has decreased since the previous survey.

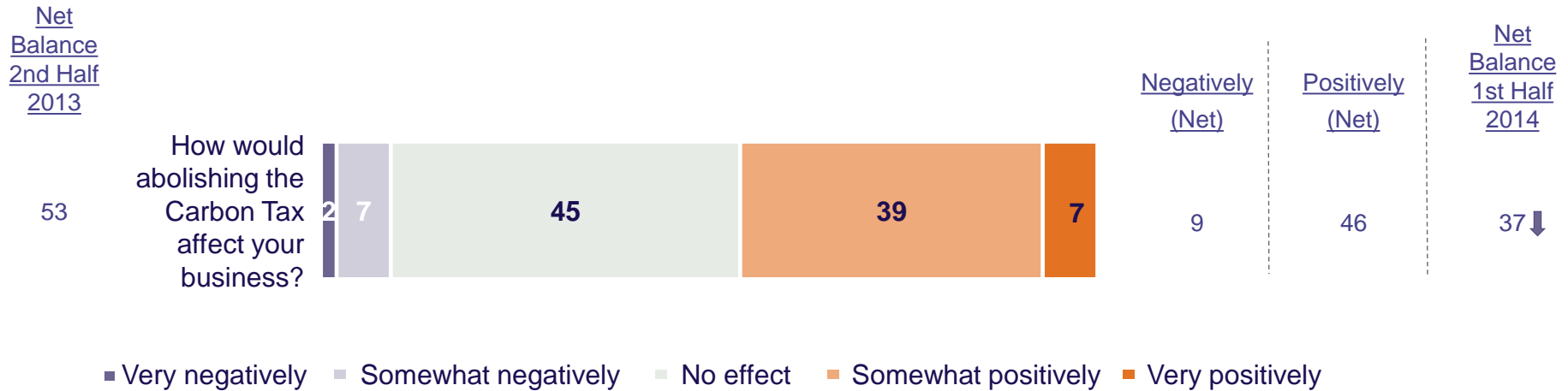


Perceived impact on business of abolishing Carbon Tax

89

Less than half of directors agree that abolishing the Carbon Tax would have a positive impact on their business, a decrease from the 2nd half of 2013.

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

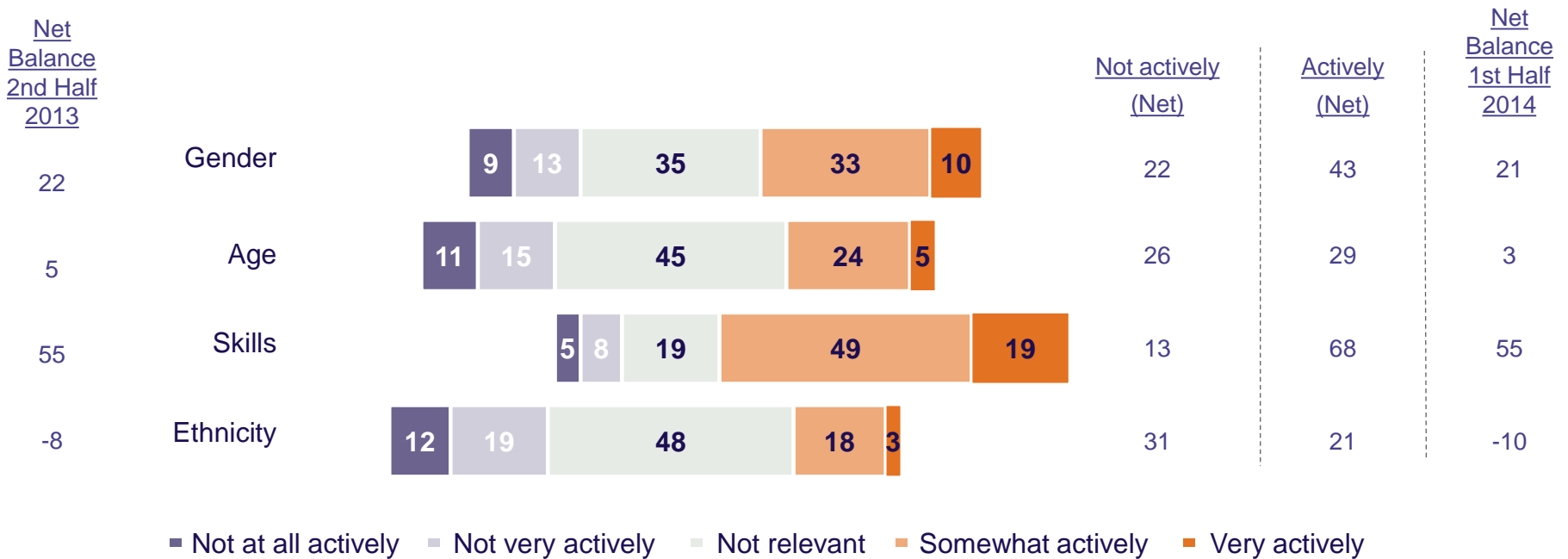


Directorships and Diversity

Board diversity: policy and efforts to increase

In line with the 2nd half 2013 results, more than 60 per cent of directors state 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.

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



Factors influencing your willingness to serve on a board

Directors believe that director liability and compliance requirements negatively impacts their willingness to serve on a board. Remuneration for non-executive directors has no effect for 60 per cent of directors, while more than 80 per cent of directors believe the contribution they make to the economy and society influences their willingness to serve on a board.

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

