



DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2016

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Director Sentiment Index

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First half 2016 sample profile

Members of the Australian Institute of Company Directors were invited to take part in the survey between 20 July – 28 July 2016, just after the Australian Federal Election. A total of 833 members participated. Results were weighted by gender to reflect the profile of the AICD member base.

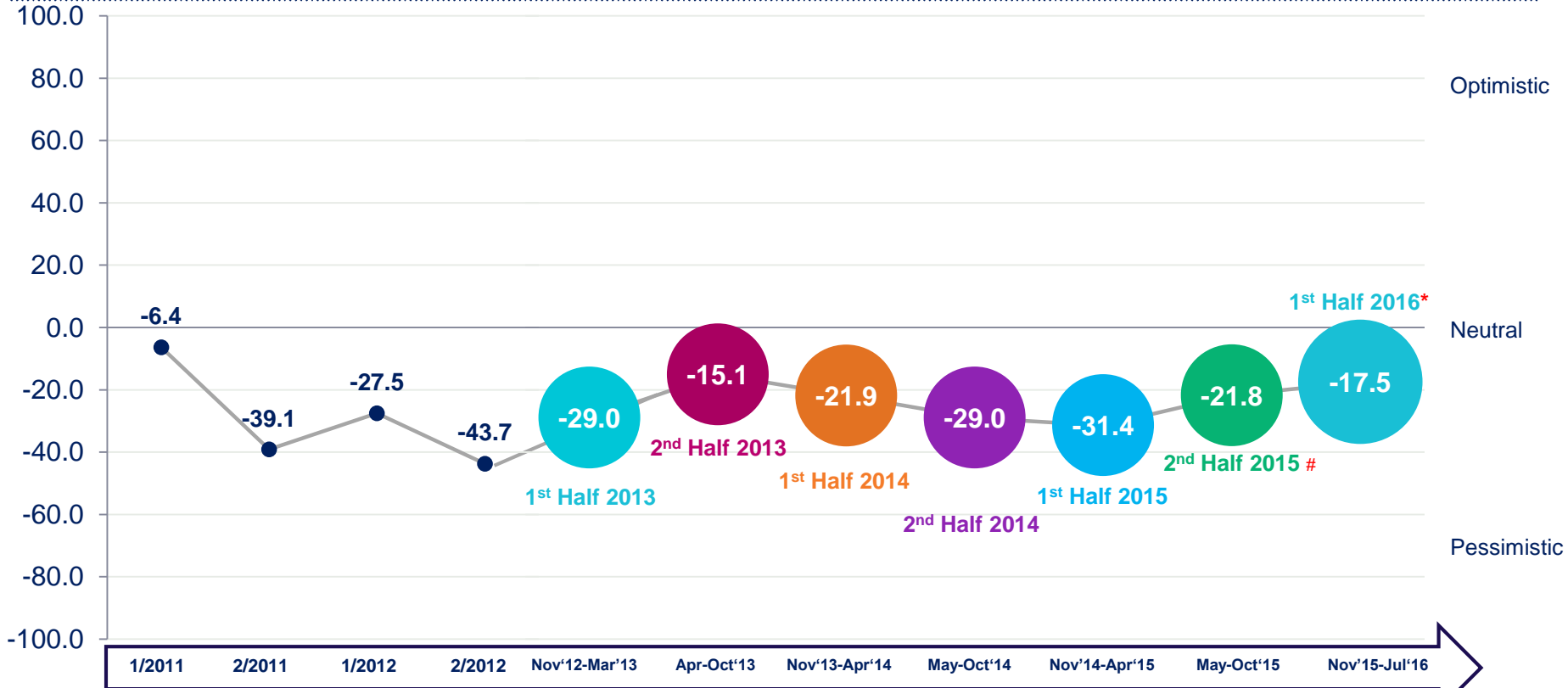
No. of current directorships	%
1	32 (33)
2	31 (27)
3 or more	36 (39)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	37 (41)
Non-Executive Director	64 (65)
Chairman	34 (33)
Other	7 (6)
Prefer not to say	2 (2)
Primary directorship company	
Publicly listed Australian entity	11 (14)
Private/non-listed Australian entity	43 (49)
Not-for profit entity	33 (31)
Public sector/ government body	7 (n/a)
Overseas entity	5 (5)
Prefer not to say	1 (1)

Primary directorship based	%
NSW	34 (n/a)
VIC	25 (n/a)
QLD	16 (n/a)
WA	11 (n/a)
TAS	2 (n/a)
SA/NT	6 (n/a)
ACT	2 (n/a)
Overseas	4 (n/a)
Gender	
Male	70 (80)
Female	30 (20)

Director Sentiment Index

Overall Director Sentiment Index

The overall sentiment in the 1st half of 2016 is up 4.3 points on the last survey, continuing the upward trend from 2nd half 2015.

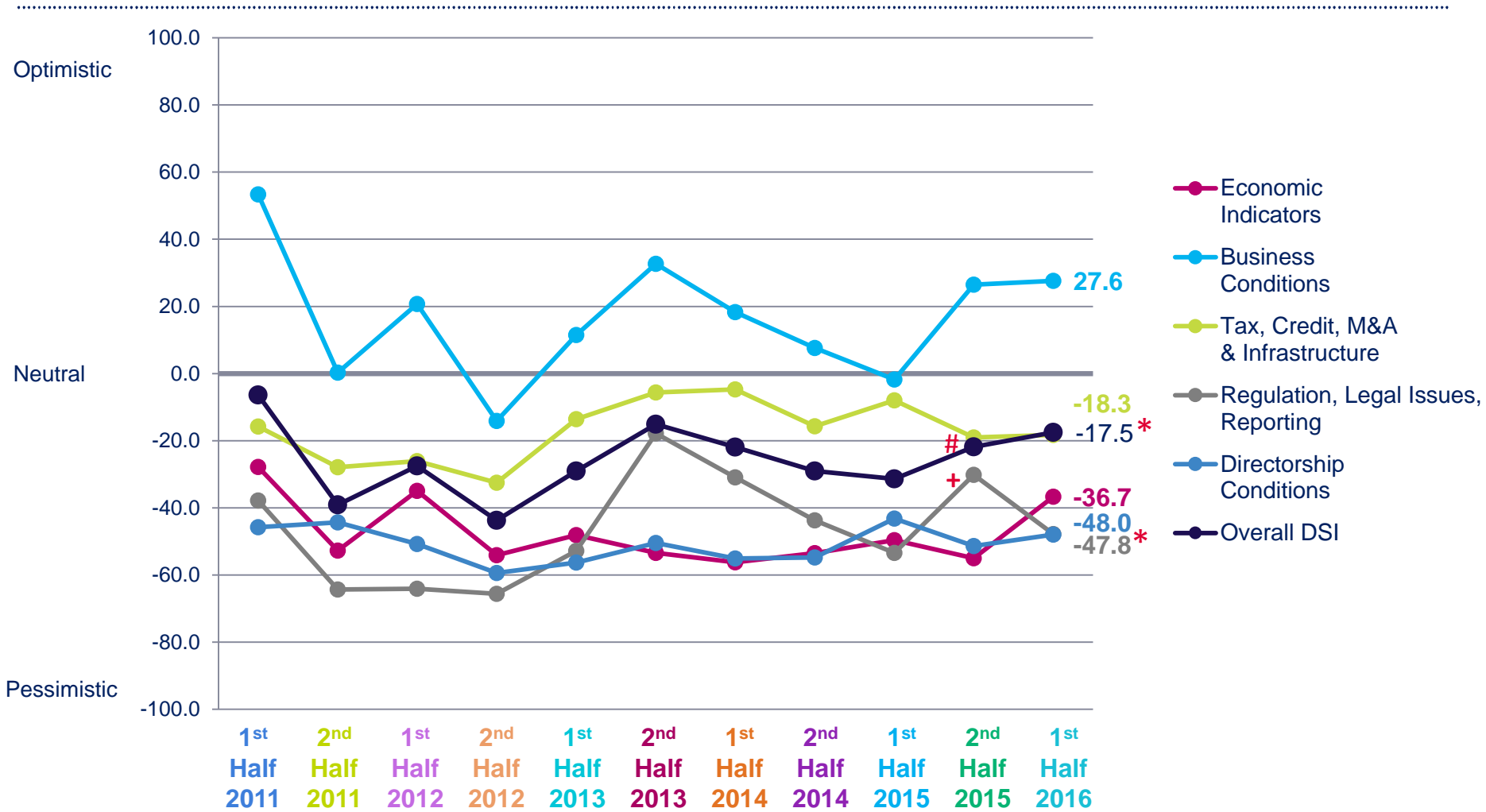


11/2011	12/2011	1/2012	2/2012	Nov'12-Mar'13	Apr-Oct'13	Nov'13-Apr'14	May-Oct'14	Nov'14-Apr'15	May-Oct'15	Nov'15-Jul'16
				Barack Obama re-elected (Nov)	Kevin Rudd takes over as PM (May)	Federal gov't school funding backflip (Dec)	Coalition gov't announces first budget (Jun)	Leadership spill (Feb)	RBA official cash interest rate reduced to record low (May)	Brexit- UK withdraws from the EU (Jun)
		September 14 Election Date announced (Jan)		Tony Abbott-led coalition wins federal election (Sep)	Crisis in Ukraine (Feb)	Free Trade Agreements with Japan/South Korea (Apr)	Carbon tax legislation scrapped (Jul)	RBA official cash interest rate reduced to record low (Feb)	Chinese Stock Market Crash (Jun-Aug)	Malcolm Turnbull re-elected as PM (Jul)
							Australia joins US-led coalition to fight in Iraq (Sep)	Oil and iron ore prices falling rapidly	Malcolm Turnbull takes over as PM (Oct)	

* Note: Five questions previously contributing to index removed in 1st half 2016
 # 2nd half 2015 index with corresponding five questions removed = -20.7

Overall Director Sentiment Index by segment

Sentiment has increased across all segments except for Regulation, Legal Issues, and Reporting.



* Note: Five questions previously contributing to index removed in 1st half 2016. These were contained within the Regulation, Legal Issues and Reporting segment.
 # 2nd half 2015 index with corresponding five questions removed = -20.7 (vs. -21.8)
 + 2nd half 2015 Regulation, Legal Issues and Reporting segment with corresponding five questions removed = -27.2 (vs. -30.2)

Executive Summary

Executive Summary

Economic and Market Outlook

Health of economies

- Expectations for the Australian economy continue to be less pessimistic than they were since the 1st half of 2015, however half of directors still remain pessimistic about its future. The Asian economy is expected to be slightly stronger than the US economy over the next 12 months, while sentiment regarding the health of the US economy has become much more pessimistic. The European economy continues to be regarded very pessimistically.

Economic indicators

- Sentiment around the unemployment rate remains unchanged while directors expect the exchange rate to fall. Expectations for the inflation rate and wages growth have become more pessimistic compared to the 2nd half 2015. Directors expect the RBA official cash rate to fall. Sentiment regarding the ASX All Ordinaries index for the coming year has slightly declined.

Economic challenges

- Directors continue to view global economic uncertainty as the biggest economic challenge facing Australian business, while balance of power issues in the senate and government debt levels have become increasingly important challenges.

Executive Summary

Business Forecast

Business growth

- Directors continue to report strong business growth over the last six months. They are also increasingly optimistic about the future growth of their business, with almost 50 per cent expecting growth in the next 12 months.

Changes in business

- Directors are a little less optimistic about the level of business exports in the next 12 months compared to the 2nd half 2015. Expectations of investment levels, staffing levels/labour demand and outsourcing remain relatively stable overtime.

Profits

- No change in sentiment around actual profits for the current budget forecast, with almost 35 per cent expecting an increase in profits for the current 6 months.

Business outlook

- Directors continue to be optimistic about the outlook for business, with almost 30 per cent indicating they are optimistic about the general business outlook, and nearly 40 per cent indicating they are optimistic regarding the outlook for their sector.

Executive Summary

Government Policy

Budgetary

- Directors rate taxation reform as the top priority the Federal Government should address in the short term, followed by infrastructure and productivity growth. Infrastructure is rated as the top long term priority, the top area of importance being regional infrastructure, followed closely by renewable energy sources and roads.

Taxation

- There is little to no change in sentiment regarding the level of corporate and personal taxation in Australia, with over 55 per cent and almost 70 per cent of directors, respectively, holding the belief that each tax is too high.

Regulation

- Directors have become more pessimistic regarding the level of 'red-tape' in the next 12 months, with almost 40 per cent expecting an increase. Red tape/ regulation is seen as the second top impediment to productivity growth in their business.

Industrial Relations

- Around 45 per cent of directors would continue to advise the government to pursue a significant industrial relations reform following an electoral mandate. The key priorities for an industrial relations reform are penalty rates and modern award system.

Executive Summary

Government Policy (cont.)

Performance & business understanding

- Directors have become more pessimistic about the effect of the Federal Government's performance on business overall, with close to 50 per cent of directors viewing the Federal Government as having a negative effect on their business decision making and close to 80 per cent perceiving a negative effect on consumer confidence.
- Directors have become less optimistic about the Federal Government's understanding of business, with about 40 per cent of directors disagreeing that the current Federal Government understands business

Director liability

- Directors feel less pessimistic about the impact of legislation on director liability. While over 30 per cent feel that it has negatively affected their business decision making and willingness to continue on a board, almost 50 per cent feel it impacts negatively on their willingness to accept new board appointments.
- Seventy per cent of directors perceive there to be a risk-averse decision-making culture on Australian boards. About 85 per cent of directors claim that the risk of personal liability has caused them to take an overly cautious approach in their business decision making at some point.

Board diversity

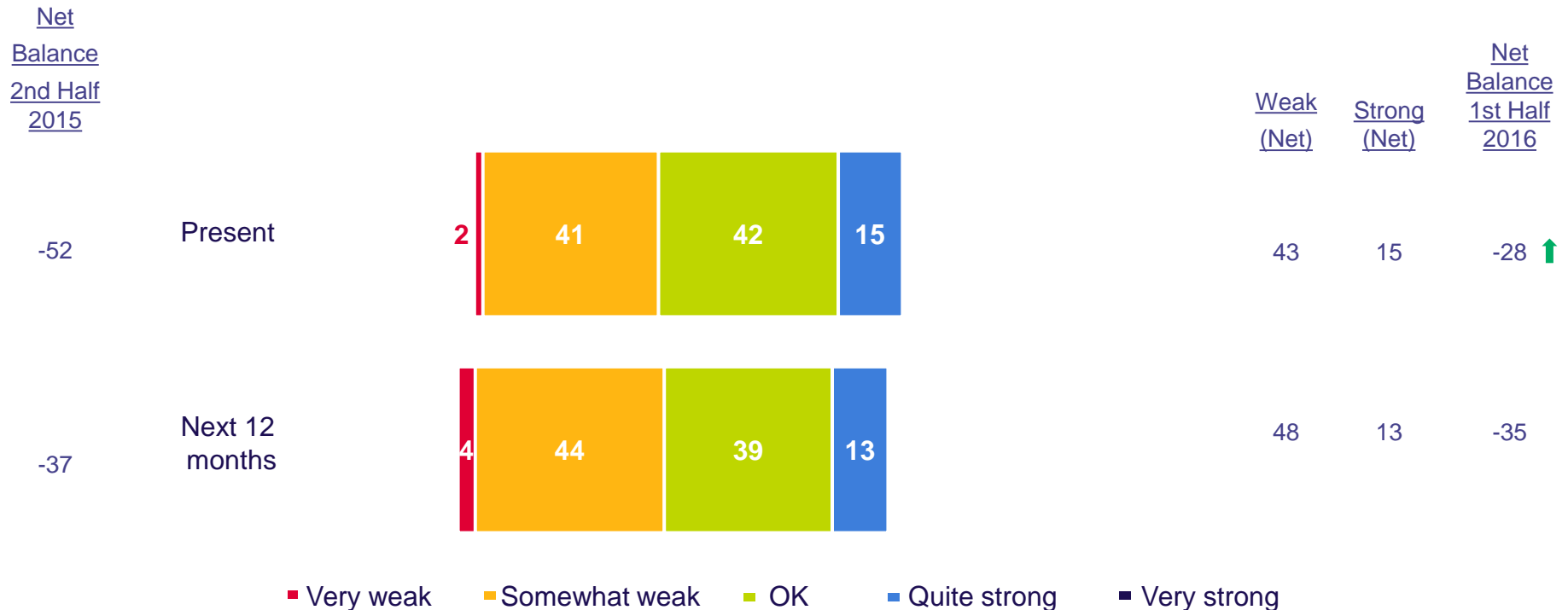
- Efforts to increase board diversity have become more pronounced. Over 75 per cent of directors state that their business is actively seeking to increase diversity of their board in terms of skills and over half indicate their business is actively trying to increase diversity in terms of gender. Efforts in terms of age and ethnicity have improved too.

Economic outlook and challenges

Health of the Australian economy

Directors are less pessimistic about the Australian economy compared to the 2nd half 2015. About 45 per cent of directors perceive the economy as weak at present, while almost 50 per cent expect it to remain weak in the next 12 months.

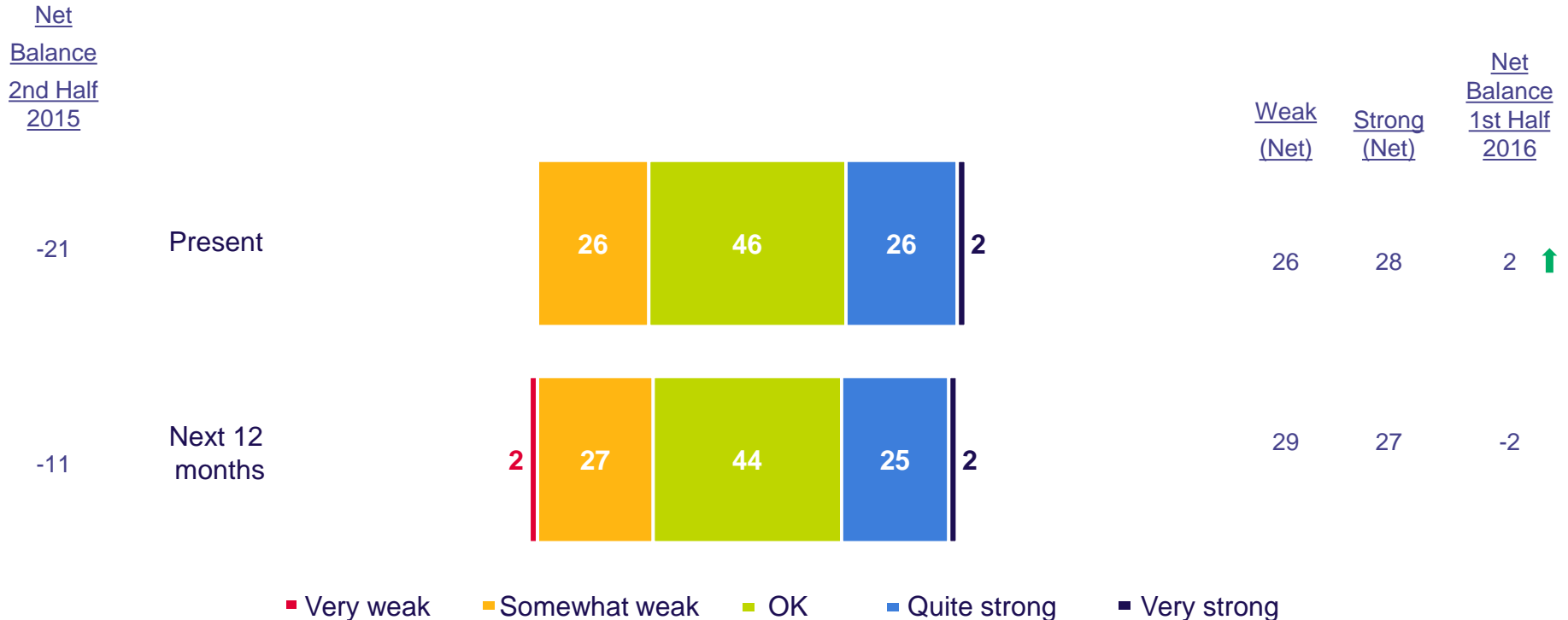
What is your assessment of the health of the Australian economy? (%)



Health of the Asian economy

Sentiment around the health of the Asian economy is much more optimistic compared to the 2nd half 2015. About 30 per cent of directors perceive the Asian economy as currently strong and about 30 per cent expect it to remain strong over the next 12 months.

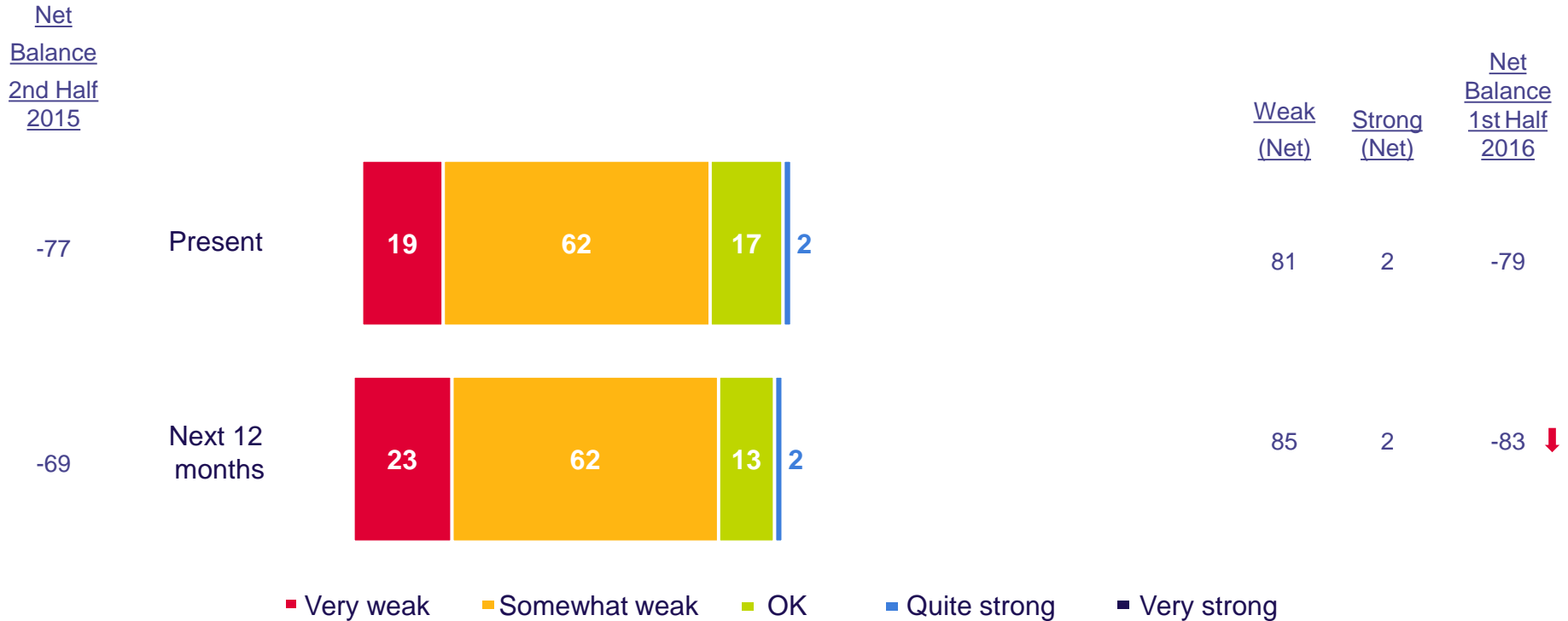
What is your assessment of the health of the Asian economy? (%)



Health of the European economy

Sentiment regarding the European economy remains very pessimistic. About 80 per cent of directors perceive the economy as weak at present while 85 per cent expect it to remain weak in the next 12 months.

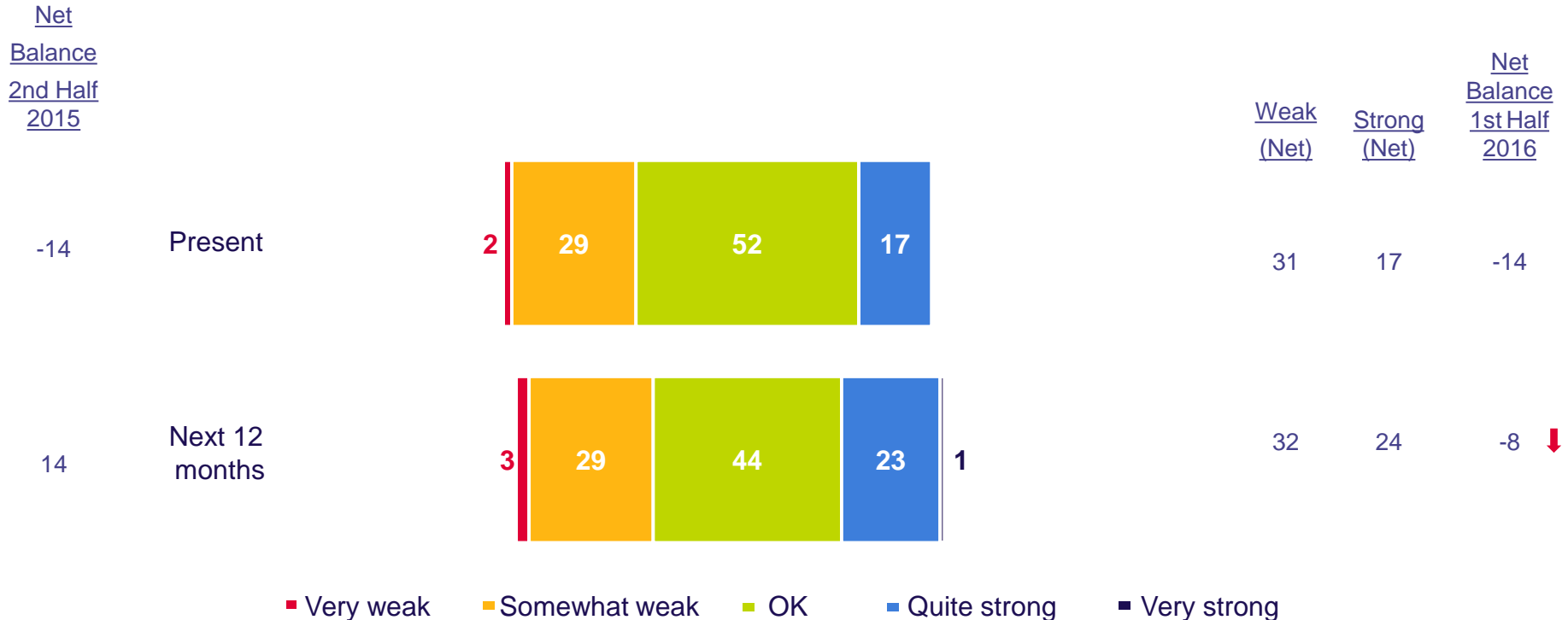
What is your assessment of the health of the European economy? (%)



Health of the US economy

No change in director sentiment regarding the current health of the US economy. About 30 per cent of directors perceive the economy as presently weak. The future US economy is expected to remain weak over the next 12 months, with directors being more pessimistic compared to the 2nd half 2015.

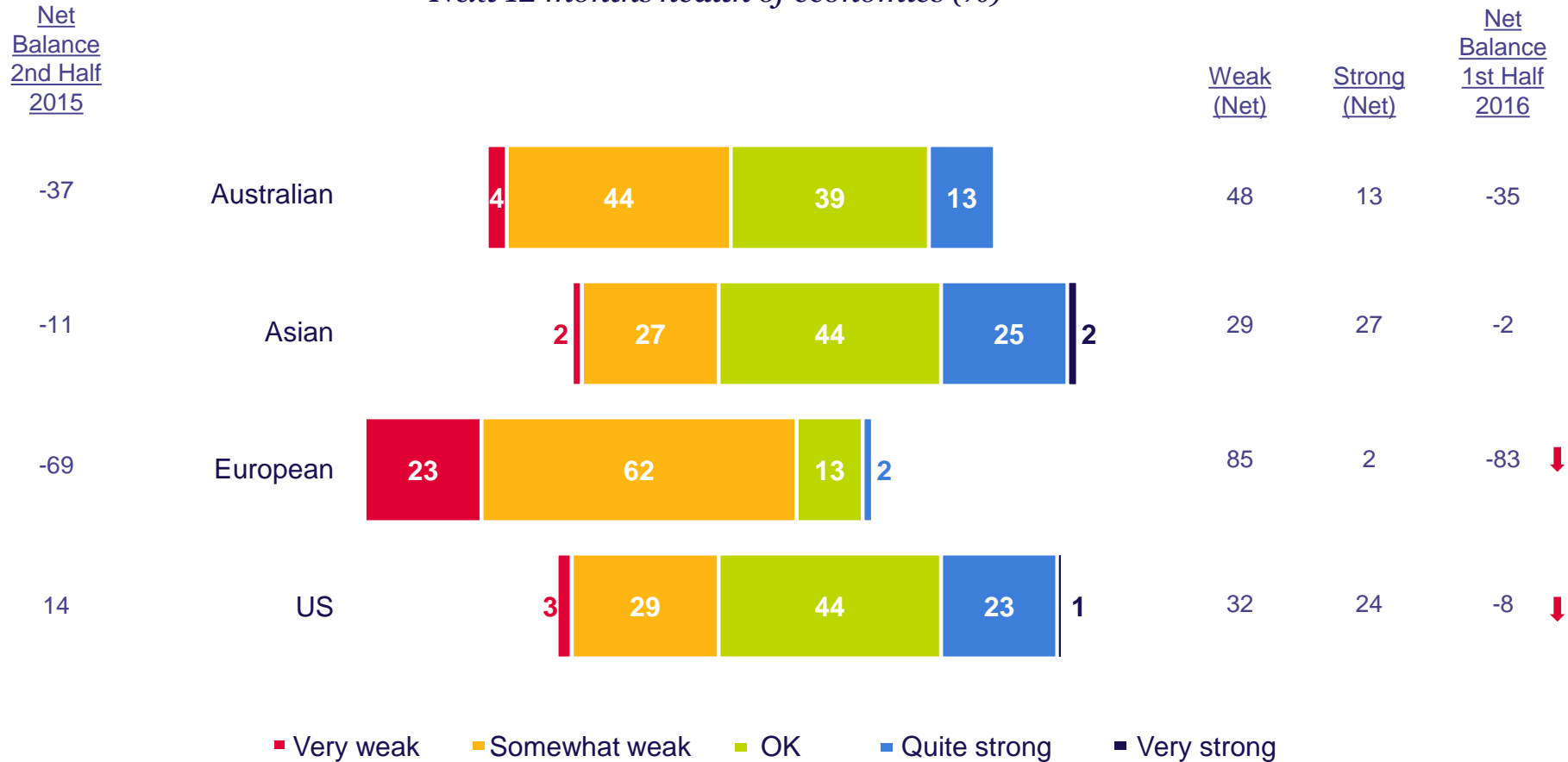
What is your assessment of the health of the US economy? (%)



Next 12 months health of economies: summary

The Asian economy is expected to be slightly stronger than the US economy over the next 12 months, while sentiment around the strength of the Australian economy remains weak overall. Directors continue to feel very pessimistic about the health of the European economy, with 85 per cent expecting it to remain weak over the next 12 months.

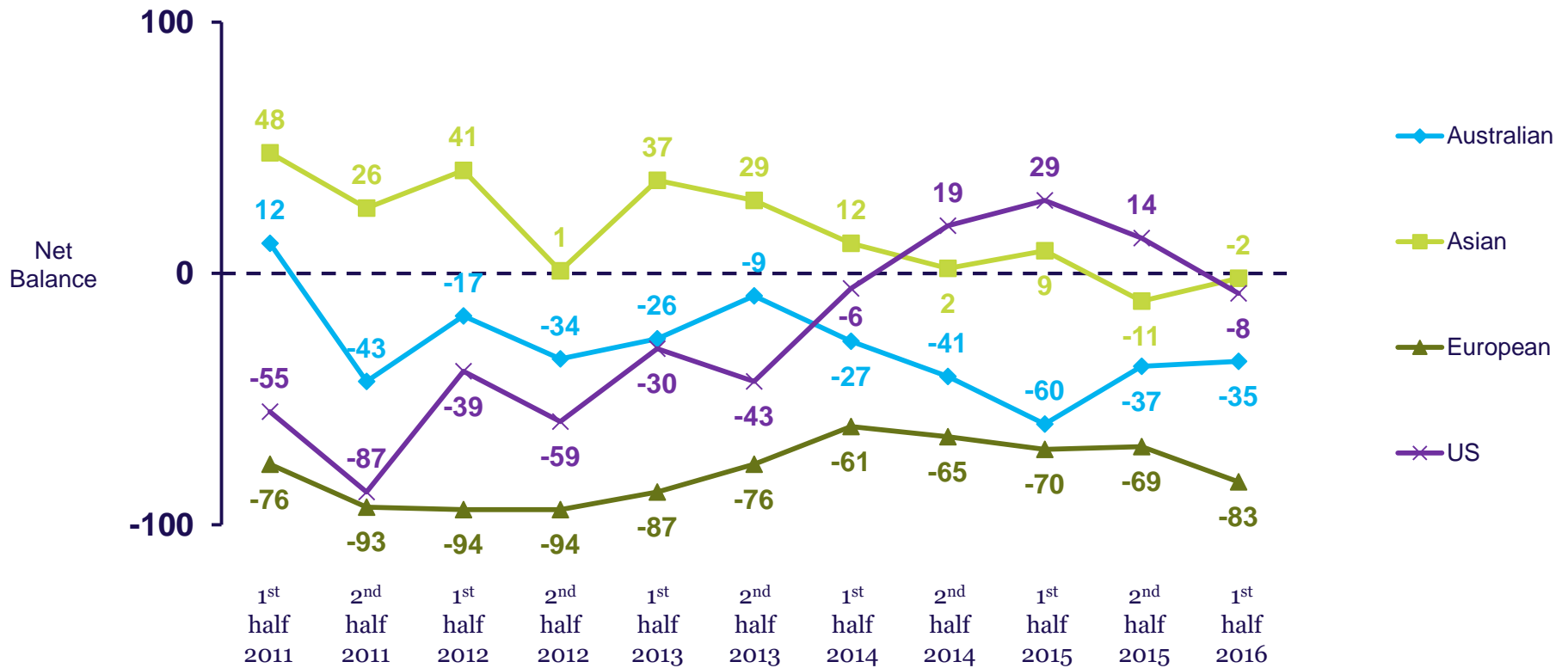
Next 12 months health of economies (%)



Next 12 months health of economies – semi-annual trend

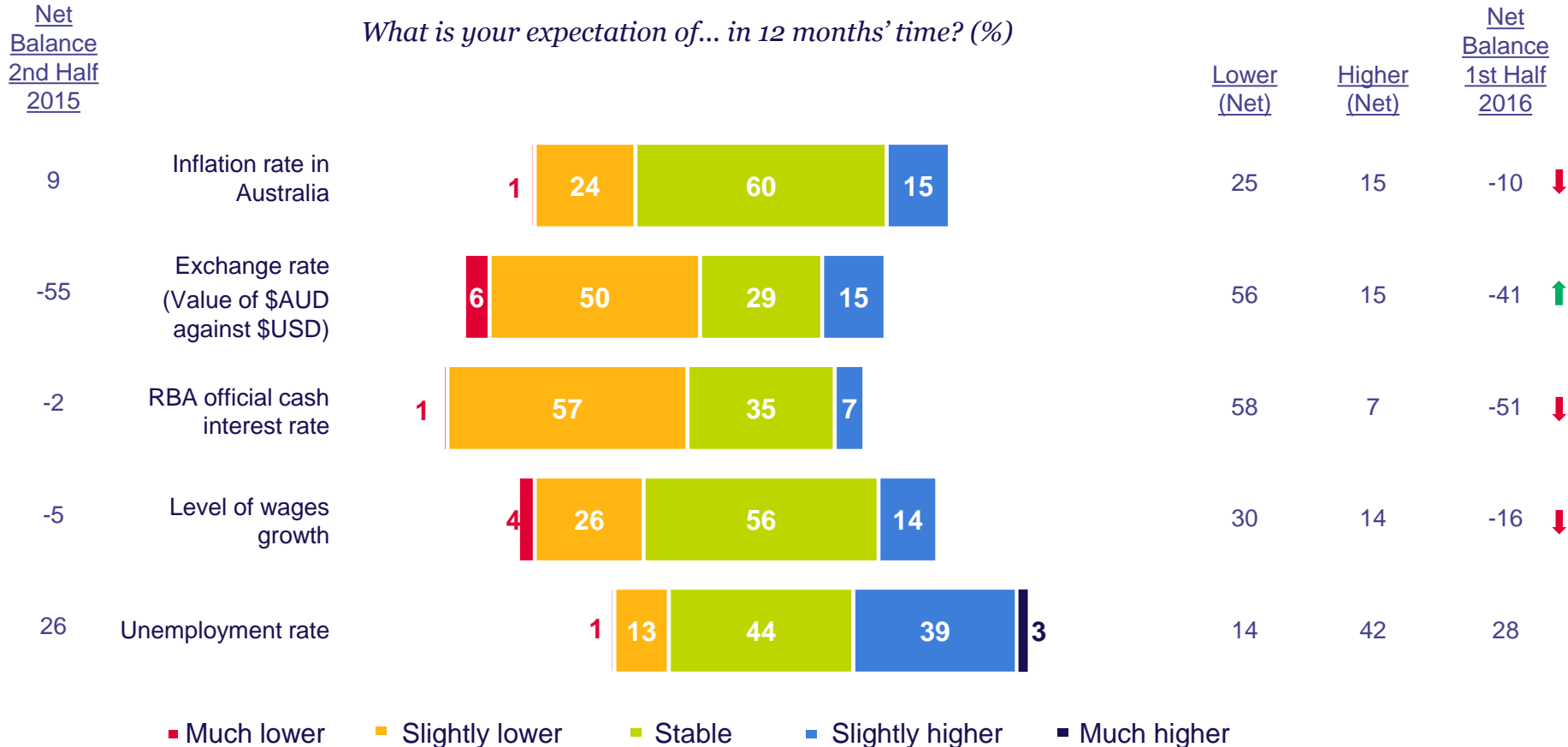
Expectations for the Australian economy continue to improve since the 1st half of 2015, whilst outlook for the Asian economy has become less pessimistic. Sentiment regarding the health of the US economy has become much more pessimistic, while the European economy continues to be regarded very pessimistically.

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



Economic indicators (Australia) – expectation in next 12 months

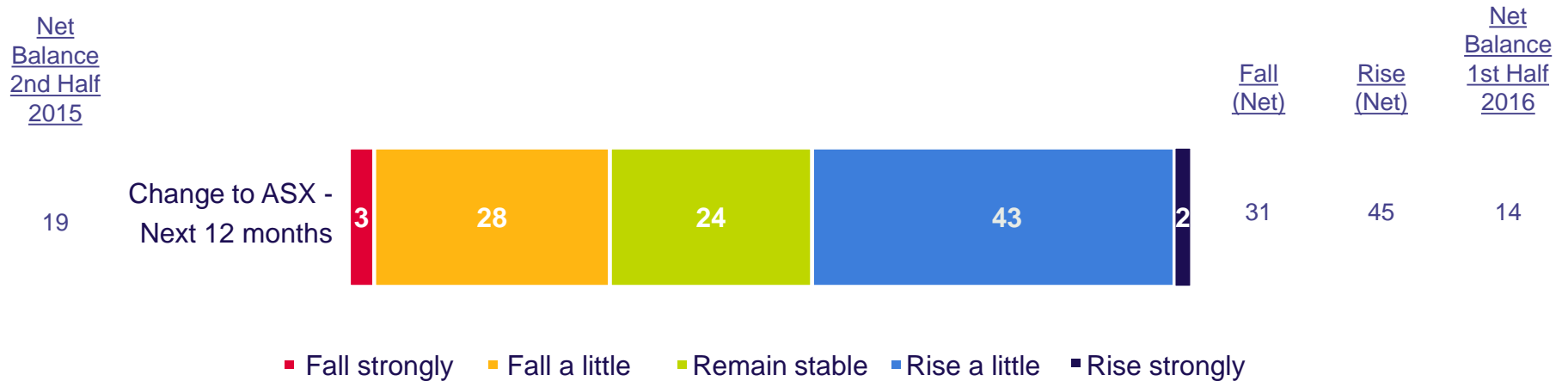
Sentiment around the unemployment rate remains unchanged while directors expect the exchange rate to fall. Expectations for the inflation rate and wages growth have become more pessimistic compared to the 2nd half 2015. Directors expect the RBA official cash rate to fall.



Expected change to ASX All Ordinaries index - next 12 months

Despite a slight decline compared to the 2nd half 2015, expectations regarding the ASX All Ordinaries index have remained similarly optimistic, with 45 per cent of directors expecting the index to rise in the next 12 months.

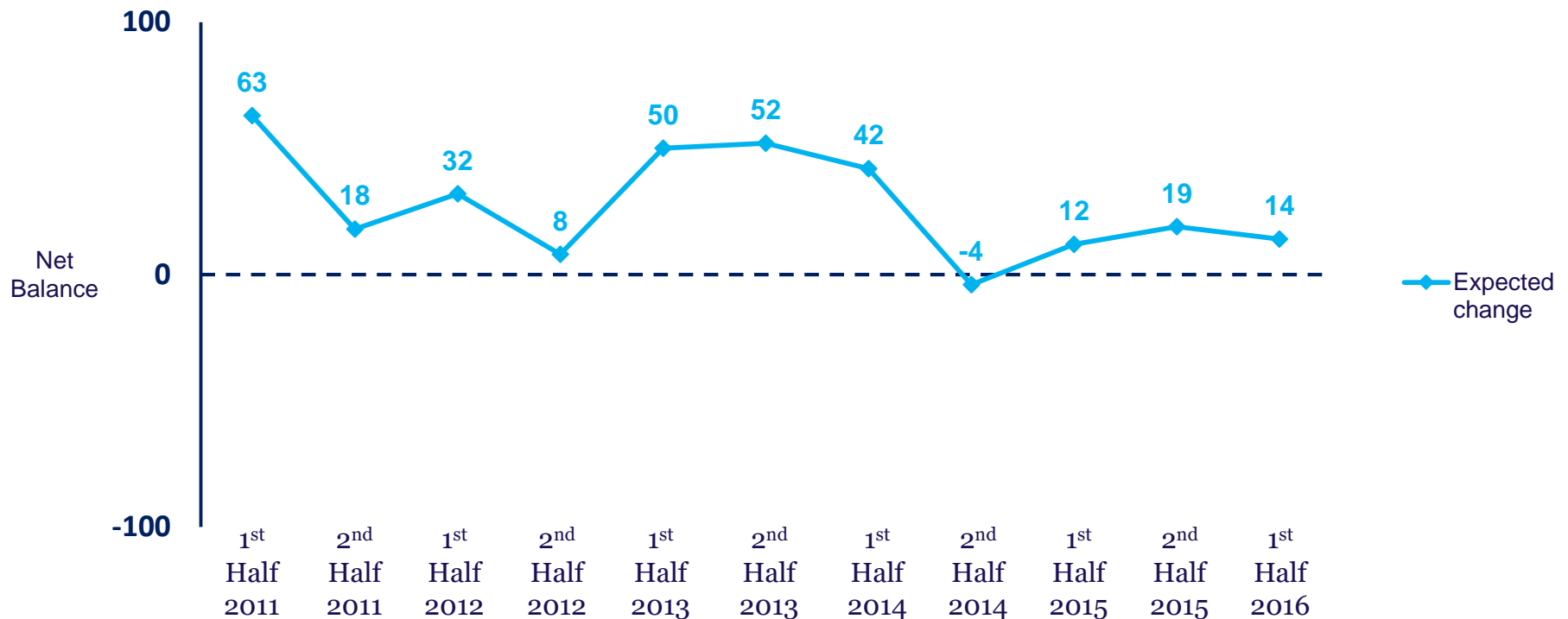
Expected change to ASX All Ordinaries index – next 12 months (%)



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

Sentiment regarding the ASX All Ordinaries index for the coming year has slightly declined in the 1st Half 2016.

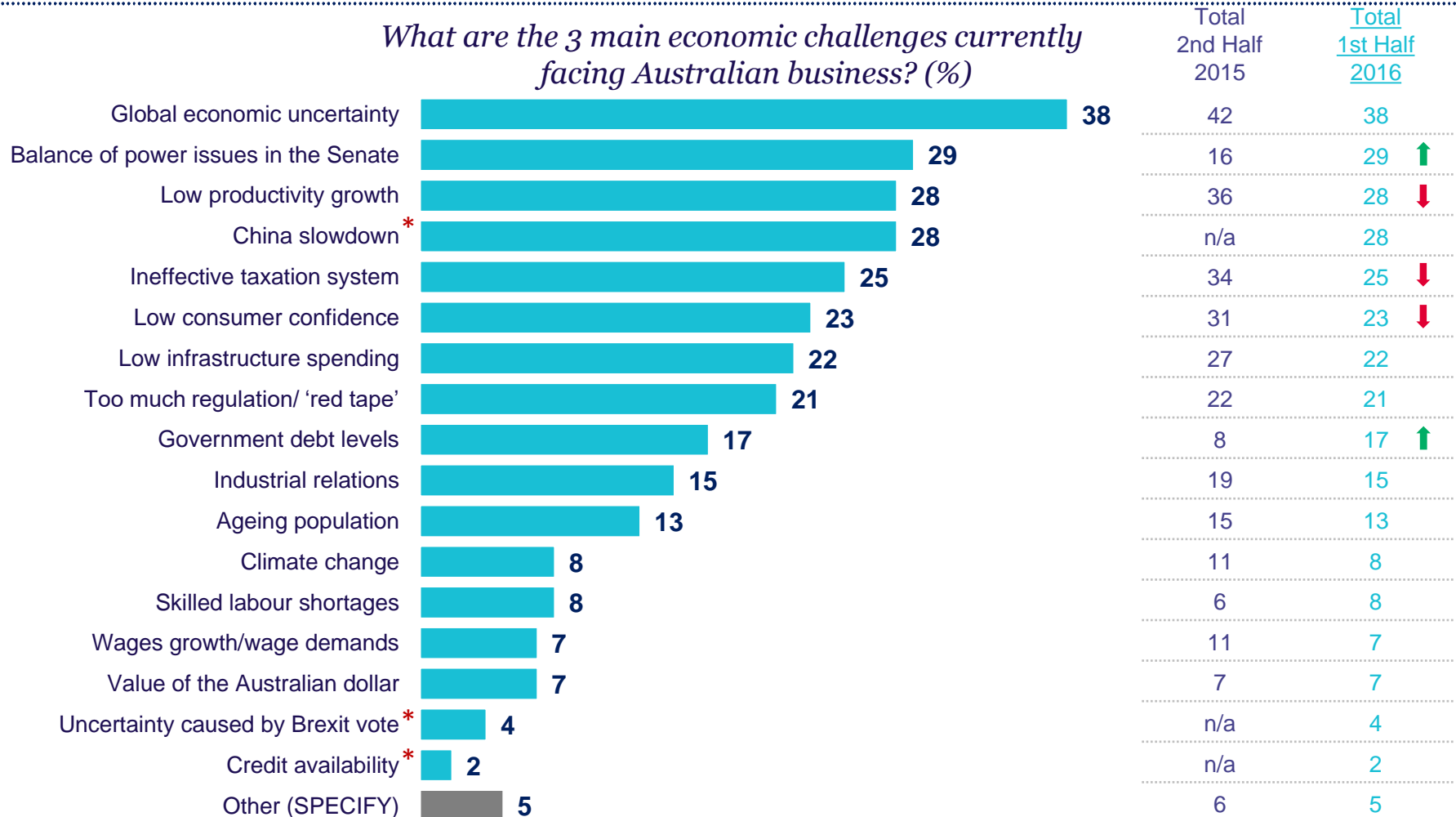
Expected change to ASX All Ordinaries index: next 12 months – semi-annual trend (net balance)



Main current economic challenges (Top 3)

Directors continue to view global economic uncertainty as the biggest economic challenge currently facing Australian business, while balance of power issues in the senate and government debt levels have become increasingly important challenges compared to the 2nd half of 2015.

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

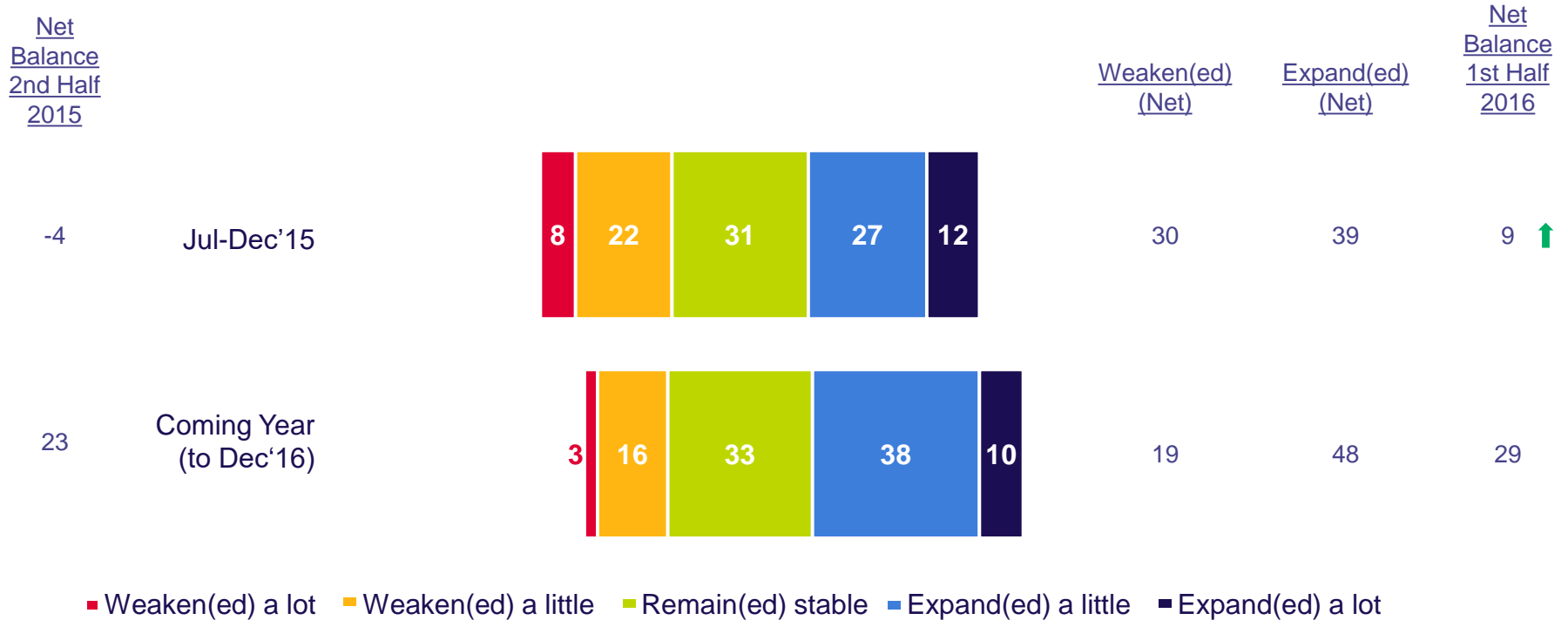


Business Forecast

Growth of the business (primary directorship company)

Directors are more optimistic about the growth of their business with almost 50 per cent of directors expecting growth this year.

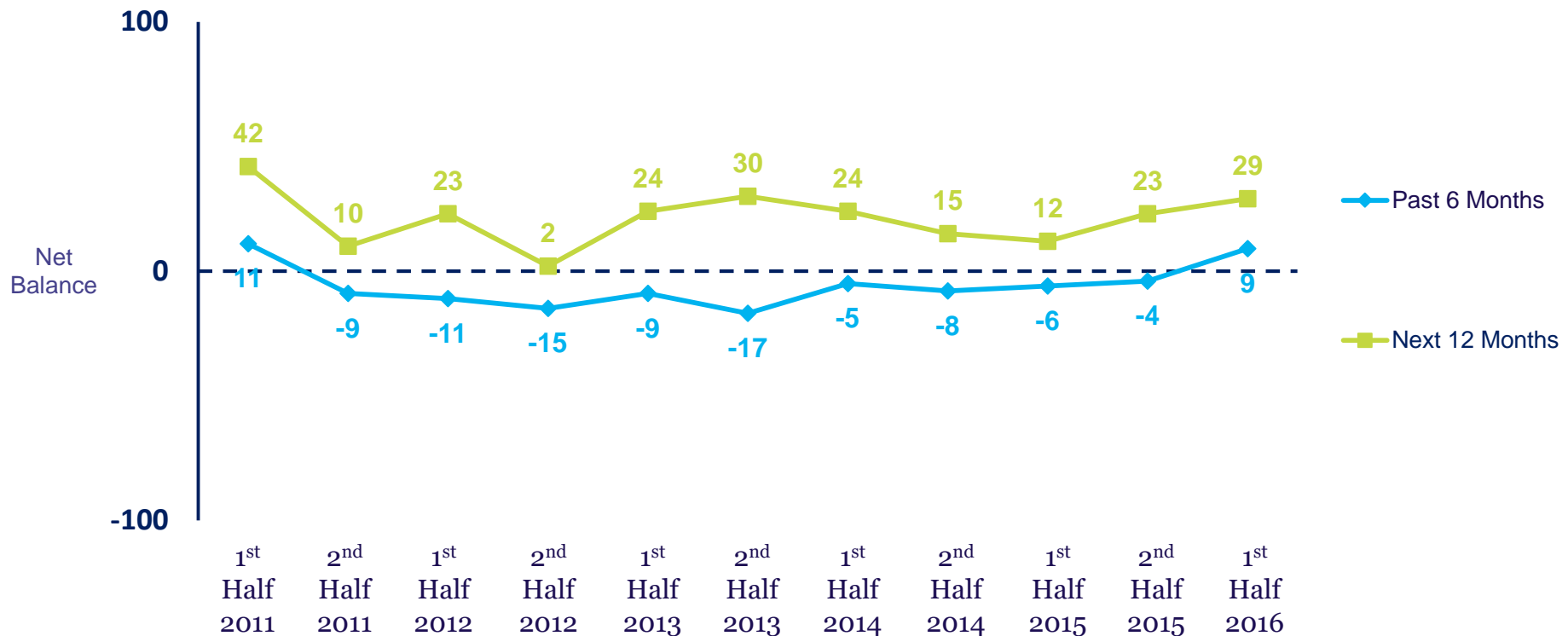
Growth of the business – past and future (%)



Past and future growth of business – semi-annual trend

Directors continue to report strong business growth over the last six months. Directors are also increasingly optimistic about the future growth of their business.

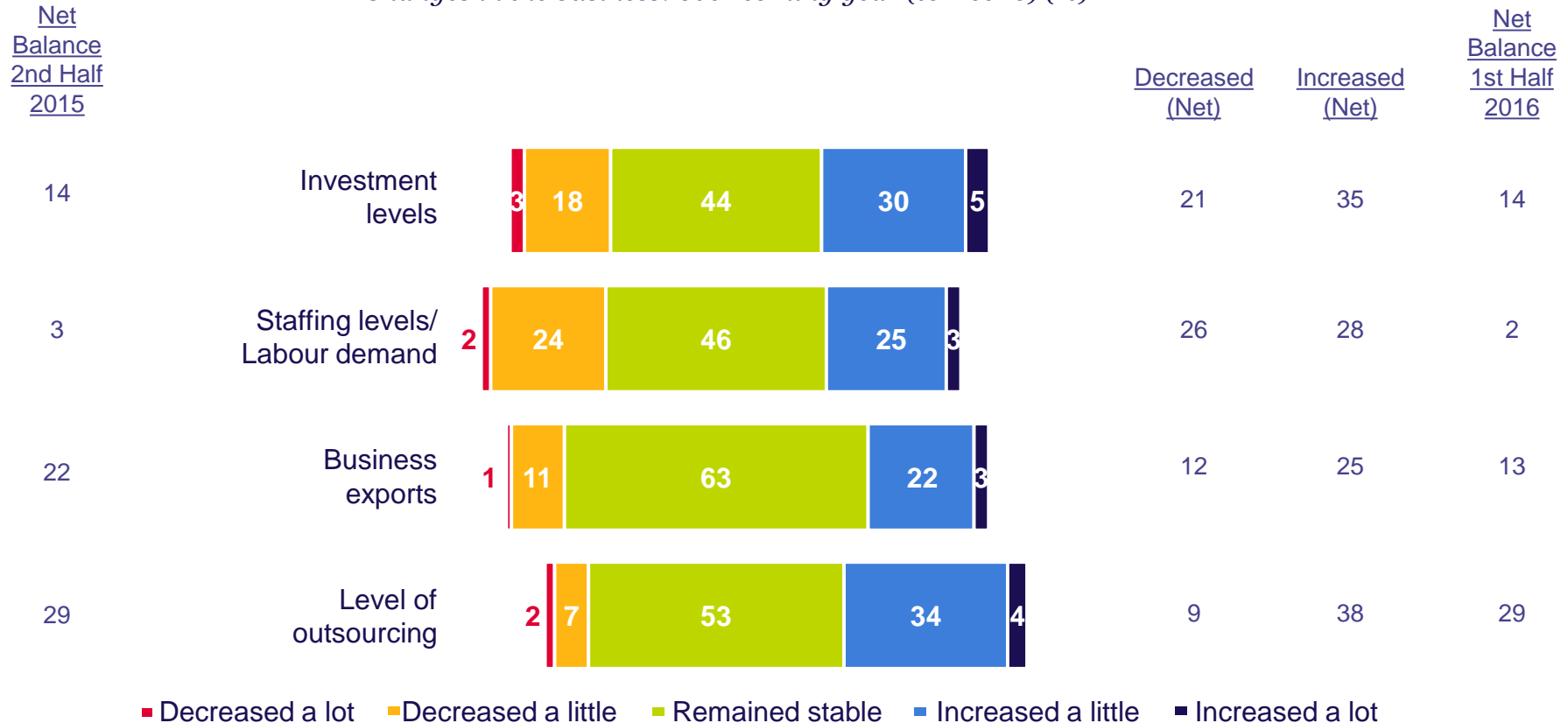
Growth of business (past 6 months and next 12 months) – semi-annual trend
(net balance)



Changes in the business – coming year (to December ‘16)

Directors are less optimistic about the level of business exports this year. Expectations of investment levels, staffing levels/labour demand and outsourcing remain relatively stable overtime.

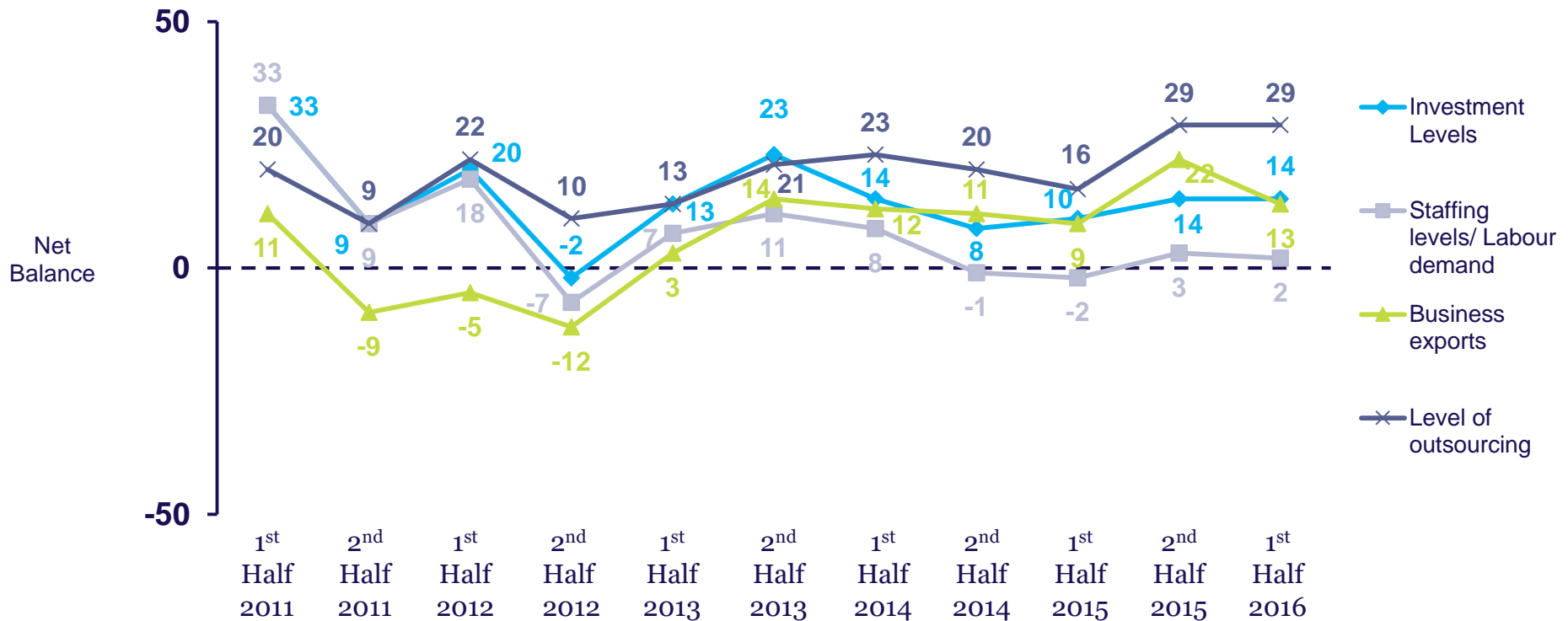
Changes in the business: over coming year (to Dec'16) (%)



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

Sentiments around changes in the business have remained stable since 2nd half 2015, except for business exports which has become less optimistic.

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



Main reason for change in staffing levels/labour demand

A change in business conditions continued to be identified as the main reason for a change in staffing levels, followed by a change in economic conditions, in line with the 2nd half 2015 results. Directors felt more strongly about the change in business conditions being the main reason in the 1st half 2016.

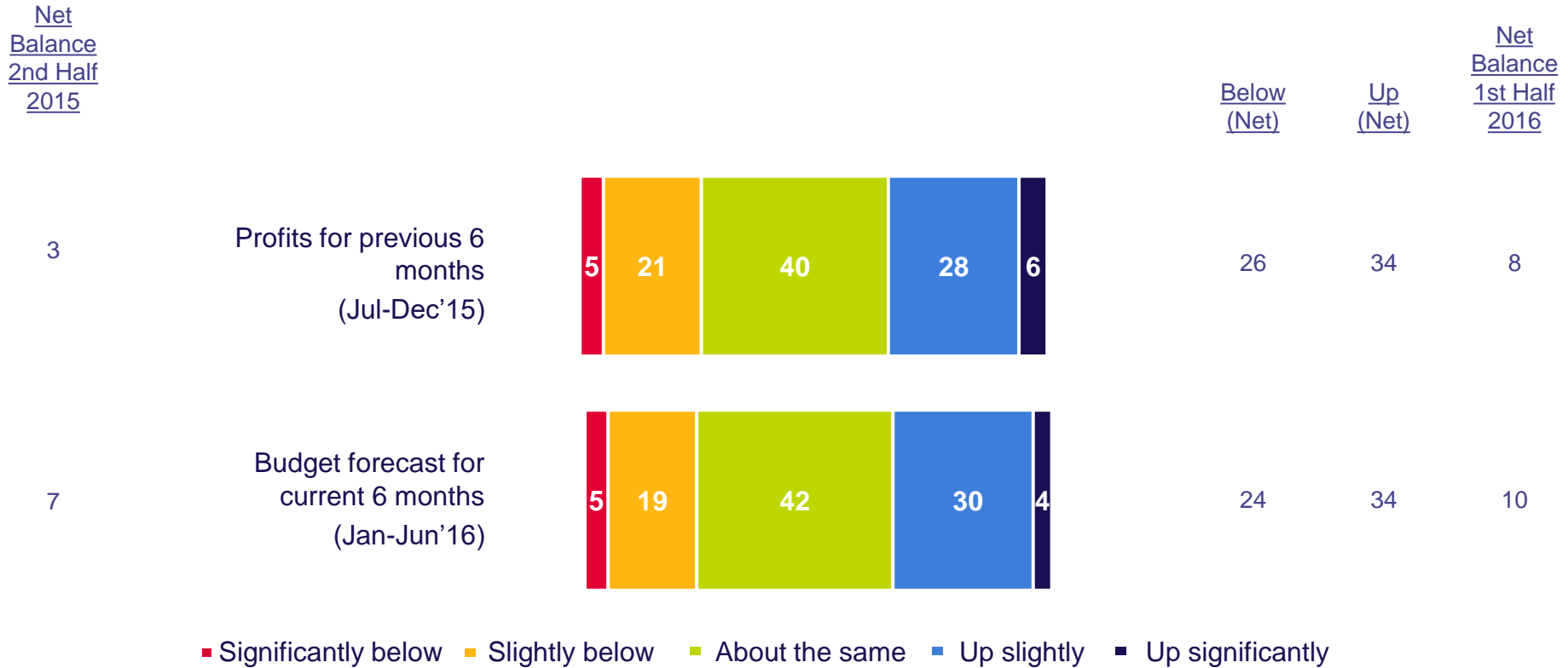
Main reason for expected change in staffing levels/labour demand (%)

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 2015	46	38	54
	1 st Half 2016	54 ↑	41	65 ↑
Changed economic conditions	2 nd Half 2015	35	50	22
	1 st Half 2016	29 ↓	45	15 ↓
Changed wage levels	2 nd Half 2015	4	4	3
	1 st Half 2016	1	2	0
Workplace laws	2 nd Half 2015	2	2	2
	1 st Half 2016	4	6	2
Other	2 nd Half 2015	13	6	18
	1 st Half 2016	12	6	18

Profits for current six months compared to...

No change in sentiment around actual profits for the current budget forecast, with almost 35 per cent expecting an increase in profits for the current 6 months.

Actual profits for the current six months (Jan-Jun'16) compared to... (%)

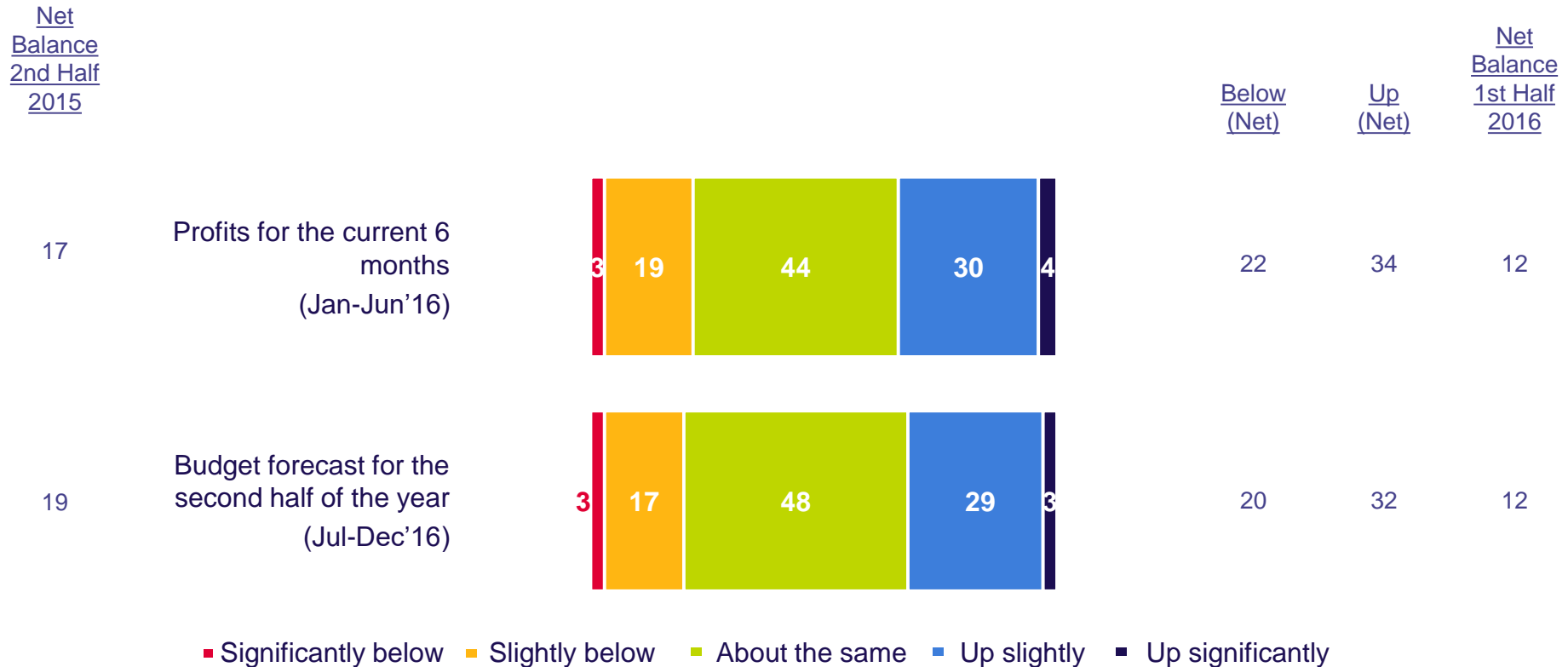


Profits for second half of year compared to...

30

Expectations of profits for the 2nd half of this year are similar to that of the 1st half 2016, with around 30 per cent of directors expecting an increase in profits.

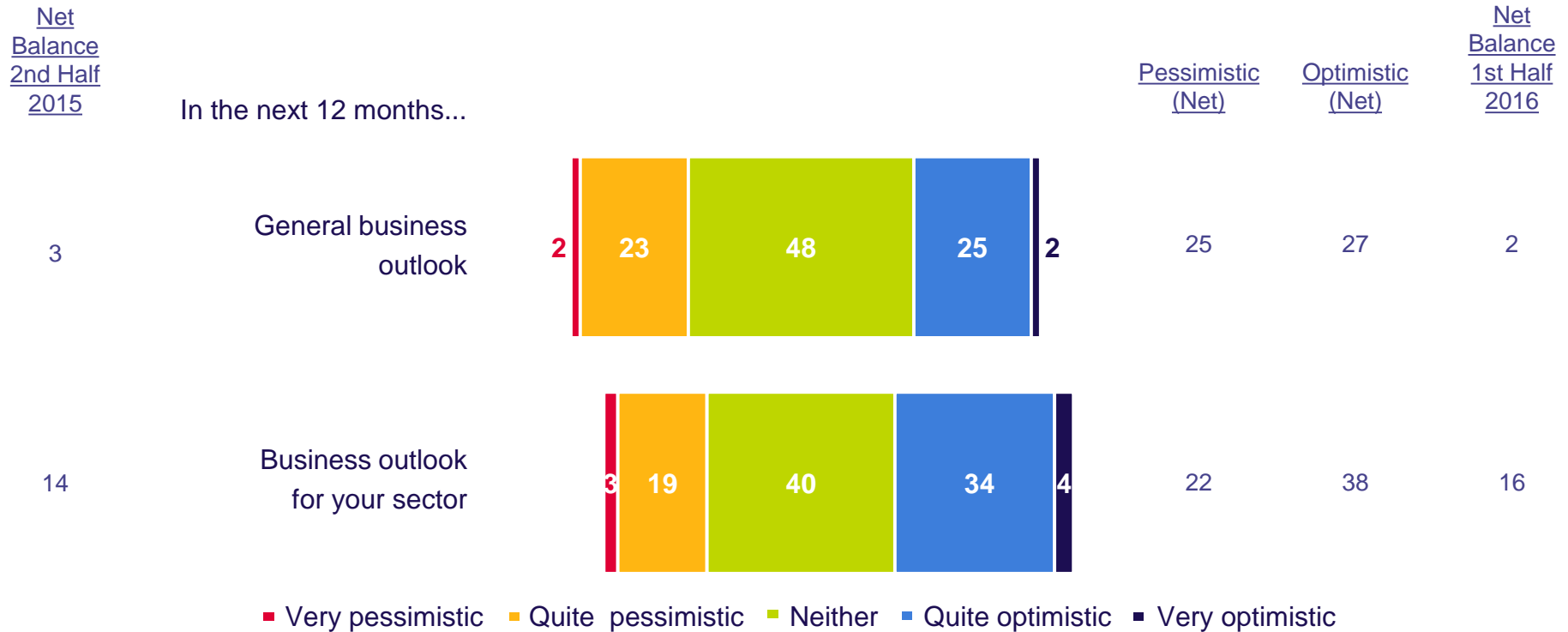
Expected profits for the second half of this year (Jul–Dec 2016) compared to... (%)



Confidence in business outlook – next 12 months

Directors continue to be optimistic about the business outlook in the 1st half 2016, with around 25 per cent indicating they are optimistic about the general business outlook, and nearly 40 per cent indicating they are optimistic regarding the outlook for their sector.

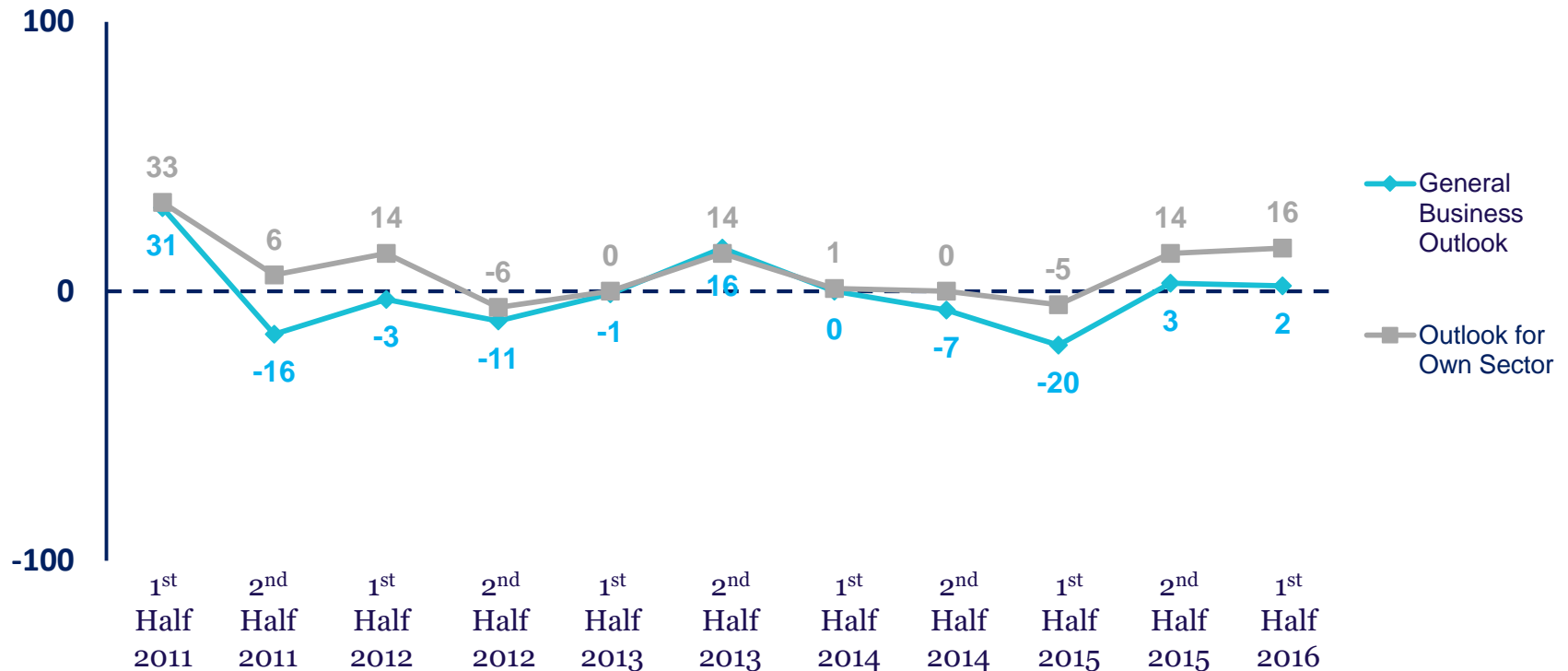
Confidence in business outlook – general and sector – next 12 months (%)



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

Directors' optimism regarding the overall business outlook remained stable since the 2nd half 2015.

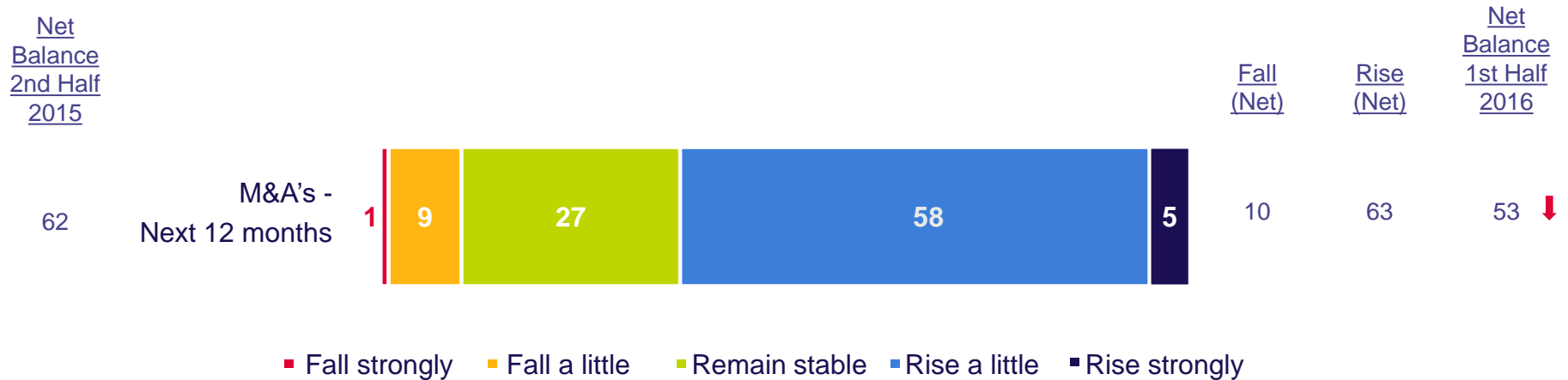
Confidence in business outlook: next 12 months – semi-annual trend (net balance)



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

Almost 65 per cent of directors expect a rise in the level of mergers and acquisitions over the coming year.

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



Government Policy

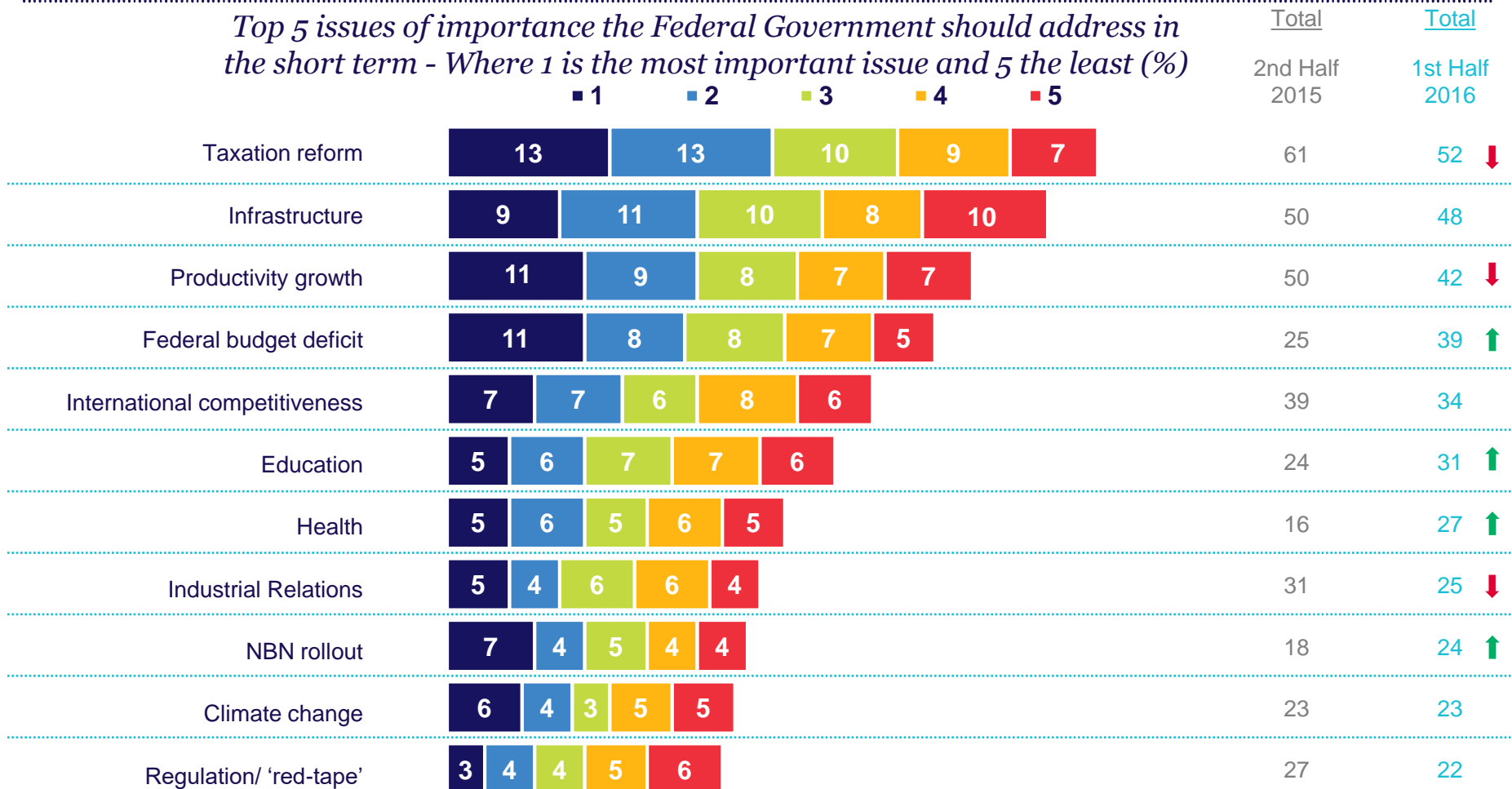
Budgetary

Issues federal government should address in short term (part 1)

35

Directors rate taxation reform as the top priority the Federal Government should address in the short term, followed by infrastructure and productivity growth. Furthermore, directors are now more concerned about the federal budget deficit, education, health and NBN rollout compared to the 2nd half 2015.

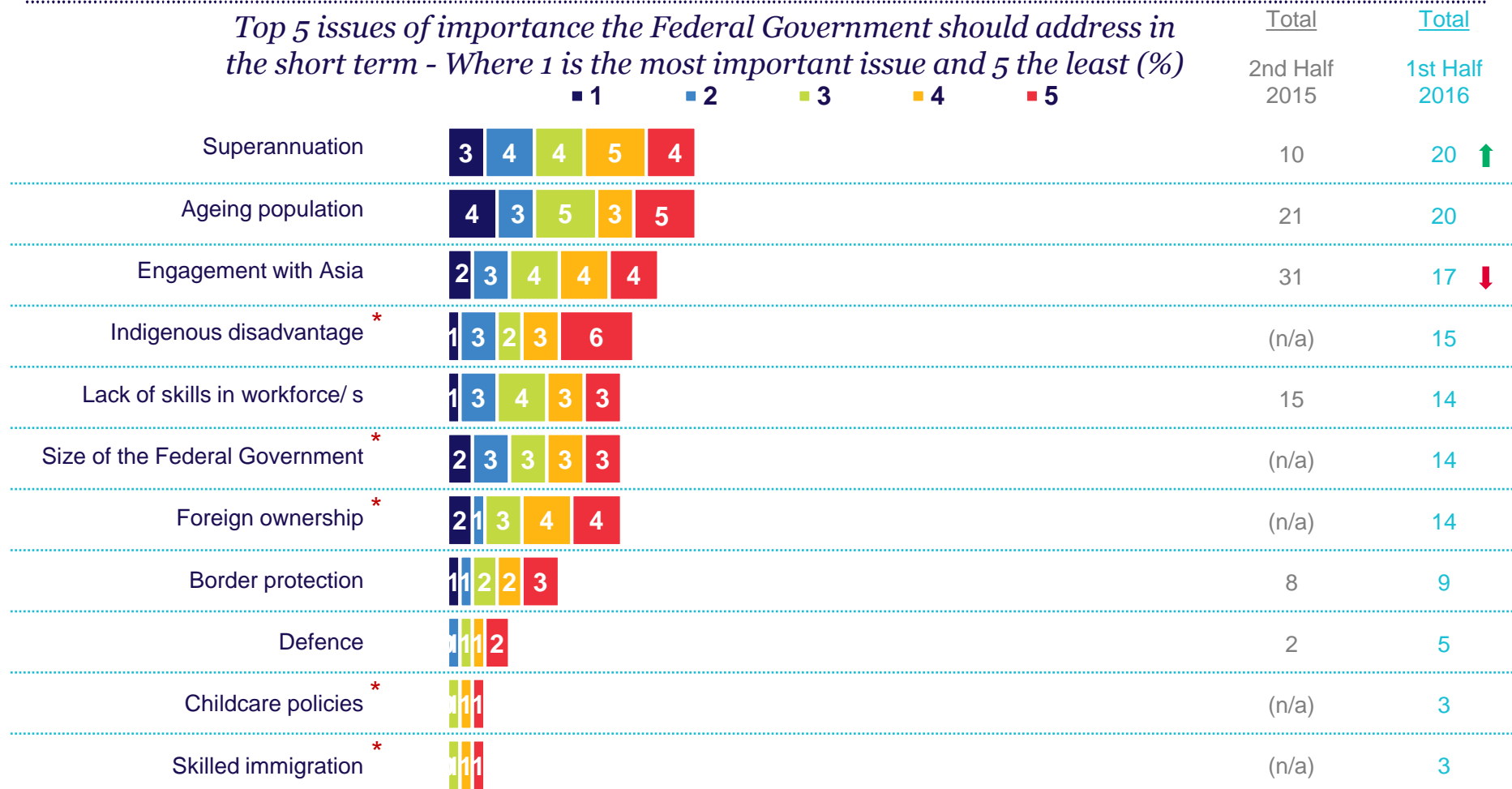
Top 5 issues of importance the Federal Government should address in the short term - Where 1 is the most important issue and 5 the least (%)



Issues federal government should address in short term (part 2)

Skilled immigration is rated as the lowest short term priority for the Federal Government, followed by childcare policies, defence.

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 (%)

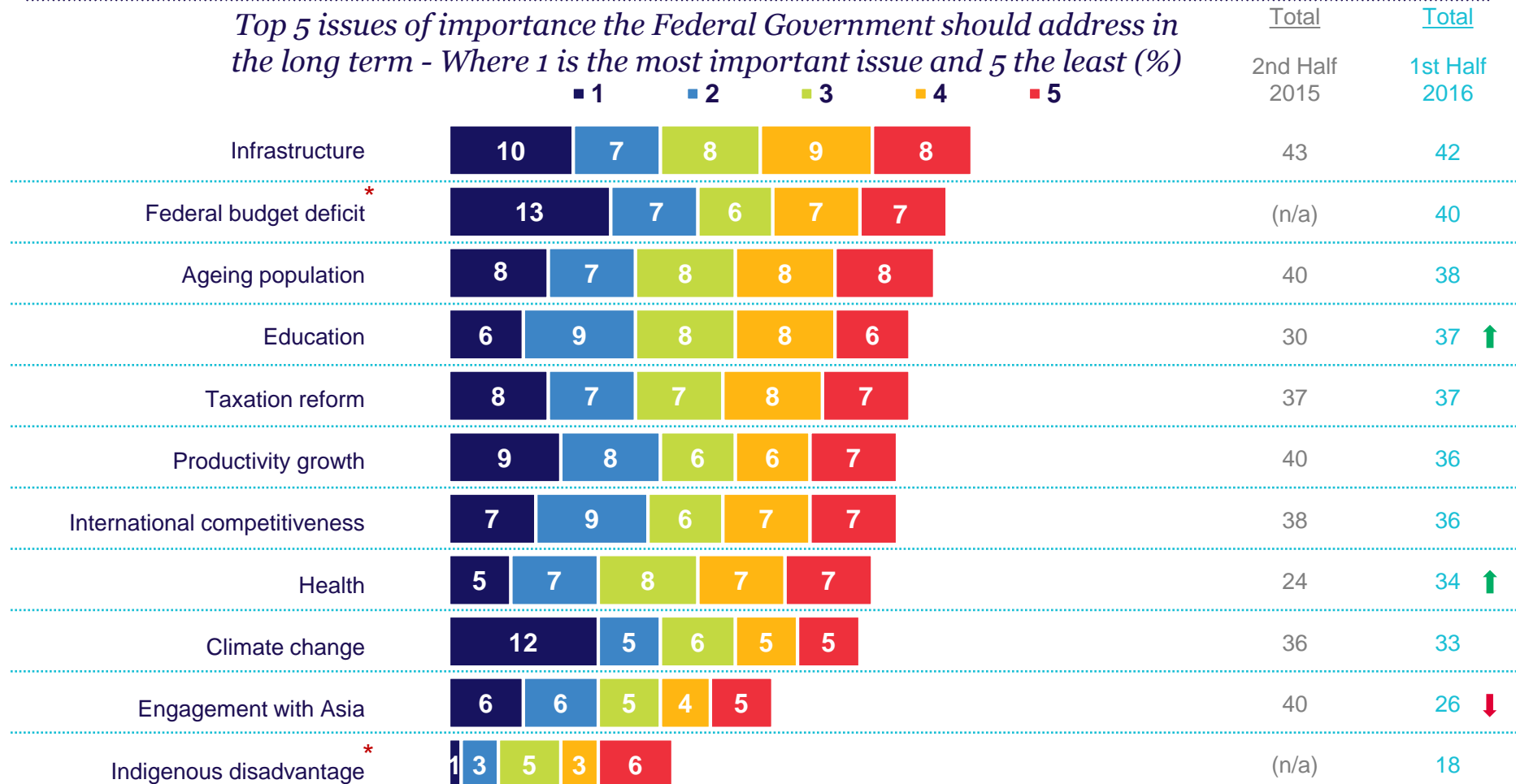


*Note new statements inserted in 1st Half 2016

Issues federal government should address in long term (part 1)

Directors continue to rate infrastructure as the top long term priority. This is closely followed by the federal budget deficit and ageing population. Infrastructure has remained 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 (%)



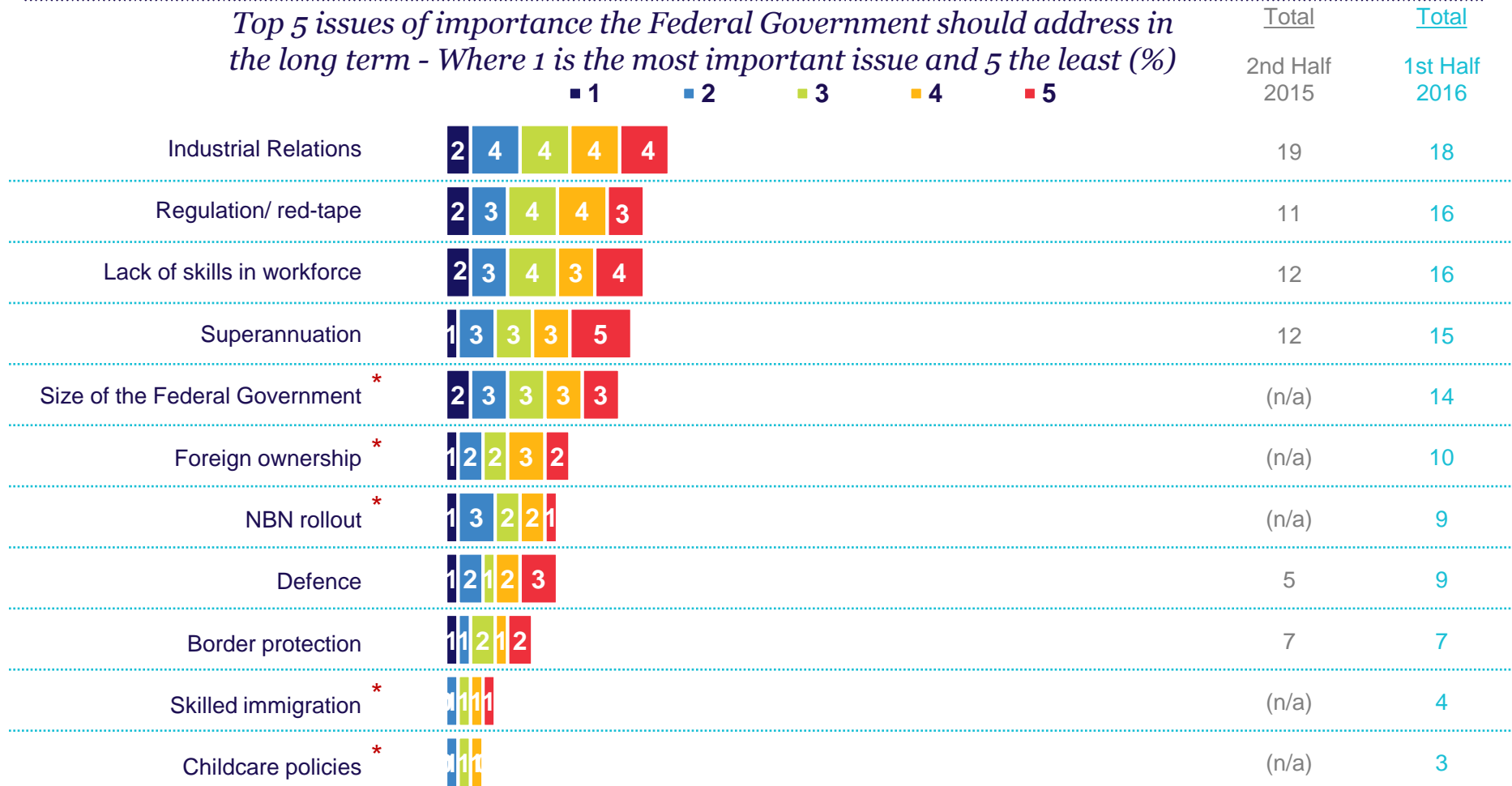
*Note new statements inserted in 1st Half 2016

26: 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=833

Issues federal government should address in long term (part 2)

Childcare policies is rated as the lowest long-term priority the Federal Government should address. This is followed by skilled immigration and border protection.

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 statements inserted in 1st Half 2016

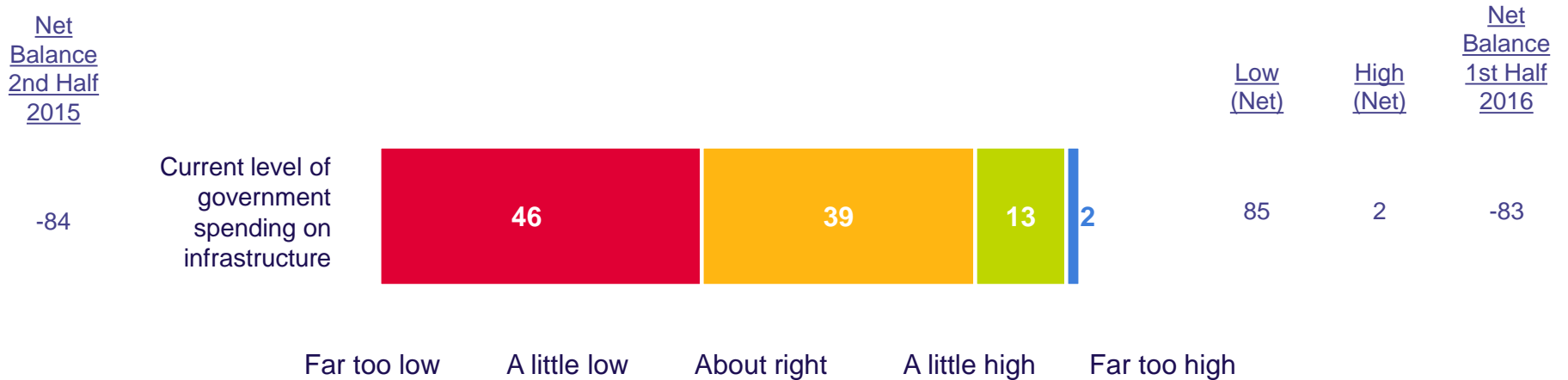
26: Please nominate the top 5 issues of importance, in your opinion, that the federal government should address in the long term (i.e. in the next 10-20 years), where 1 is the most important issue and 5 is the least important. Base: All respondents n=833

Current level of government spending on infrastructure

39

Sentiment regarding the level of government spending on infrastructure is in line with 2nd Half 2015, with 85 per cent of directors maintaining the belief that government spending on infrastructure is too low.

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

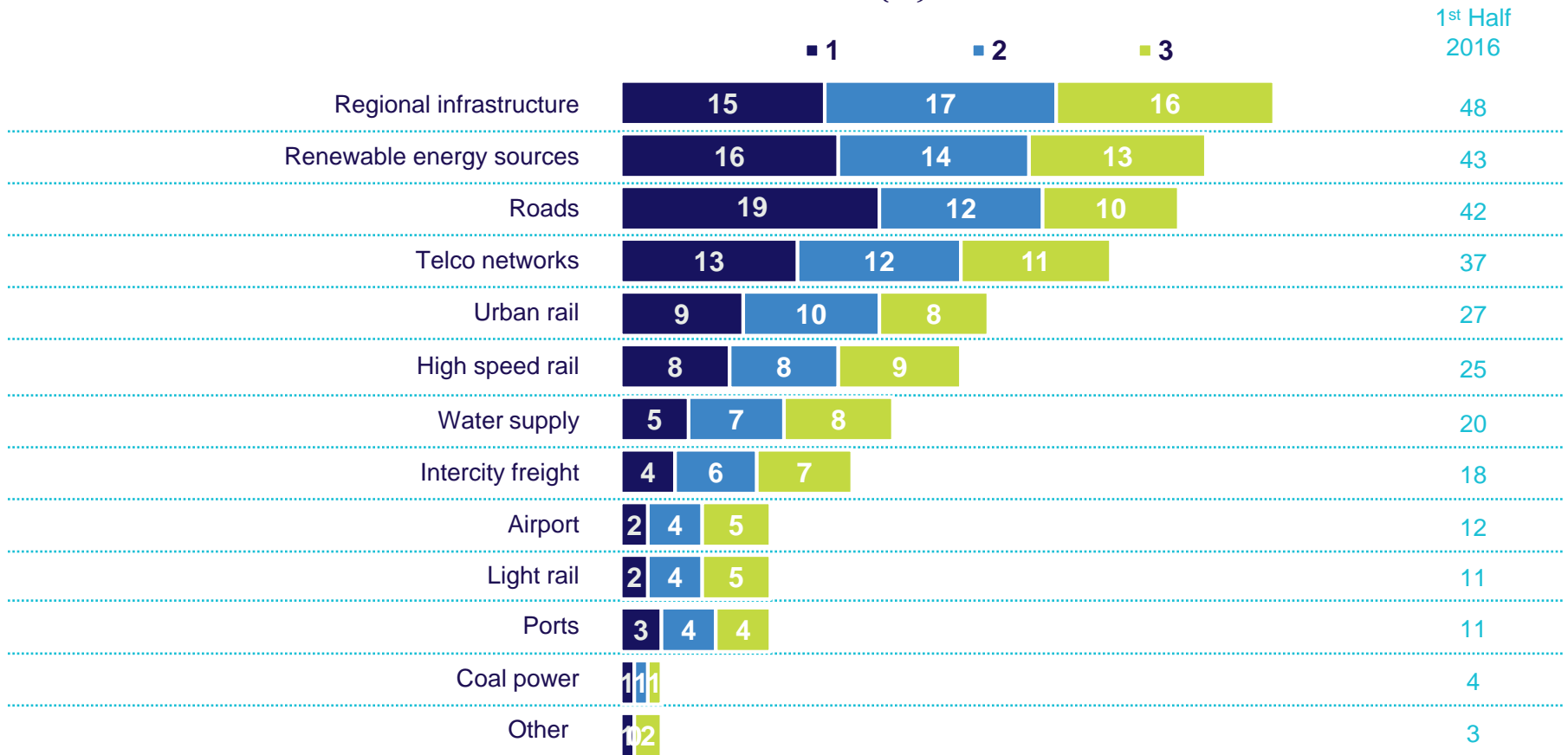


Investment in Infrastructure (Top 3)

40

Almost 50 per cent of directors rate regional infrastructure as the top area of importance for infrastructure, followed closely by renewable energy sources and roads.

Top 3 areas of infrastructure in order of importance for investment? (%)



Note: New question asked in 1st Half 2016

20: Please nominate the top 3 areas of infrastructure in order of importance for investment, in your opinion (Select 3 answers only)
Base: All respondents n=833

Federal Government's move towards a budget surplus

41

Around 70 per cent of directors believe that the Federal Government should move towards a budget surplus within the next 5-10 years. Almost 20 per cent believe a budget surplus is not a priority.

Federal Government's move towards a budget surplus (%)

	<i>1st Half 2016</i>
Within the next three years	12
Within the next five years	41
Within the next ten years	29
A budget surplus is not a priority	18

Protection/Government support for local ailing industries

42

Almost 55 per cent of directors do not support greater protection or government support for local ailing industries, while 25 per cent did not have an opinion on the matter.

Support for Protection/Government support for local ailing industries (%)

<i>Yes</i>	<i>No</i>	<i>Neutral</i>
21	54	25

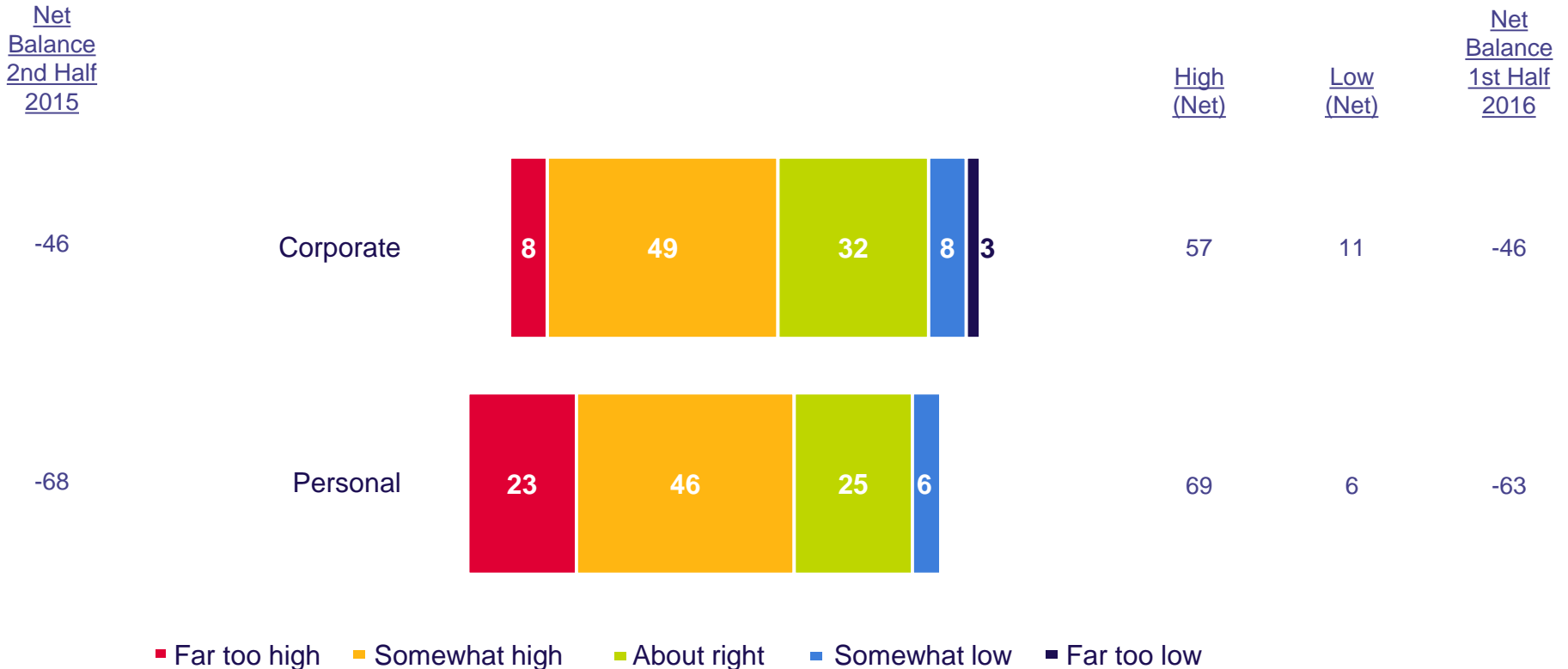
Government Policy

Taxation

Level of taxation in Australia

No change in sentiment regarding the level of corporate and personal taxation in Australia, with over 55 per cent and almost 70 per cent of directors, respectively, holding the belief that each tax is too high.

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



Reform of taxation system

45

Directors rated multinational tax arrangements, followed by personal and company tax as the top three priorities for reform in any future comprehensive review of the current taxation system.

Top 3 priorities for reform in any future comprehensive review of the current taxation system (%)

		Total 2nd Half 2015	Total 1st Half 2016
Multinational tax arrangements, e.g. transfer pricing	50	44	50 ↑
Personal income tax	45	50	45
Company tax	45	36	45 ↑
State based taxes e.g. payroll tax	45	43	45
GST	37	54	37 ↓
Superannuation taxation	30	27	30
Negative gearing	24	20	24
Capital gains tax	14	16	14
Tax arrangement for NFPs	6	9	6
Dividend imputation	1	1	1

Note: Question format changed from top 3 by rank, to a simple nominated top 3 in 1st Half 2016

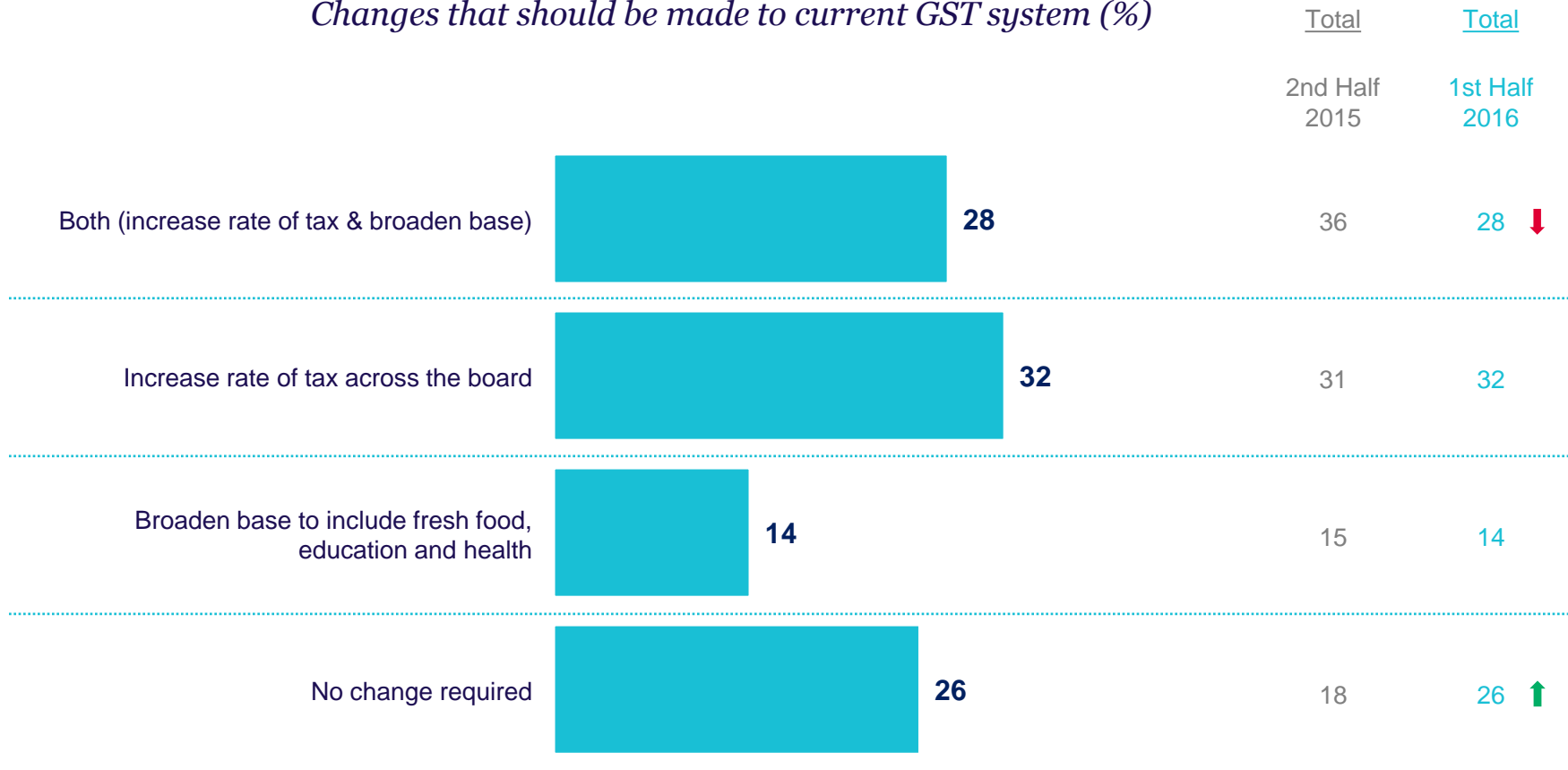
29. Please nominate the top 3 priorities for reform, in your opinion, in any future comprehensive review of the current taxation system.

Base: All respondents n=833

Changes to the GST system

About 70 per cent of directors support a change to the GST system, almost 30 per cent preferring both an increase in the rate of tax as well as broadening the tax base. Around 25 per cent feel no change is required.

Changes that should be made to current GST system (%)



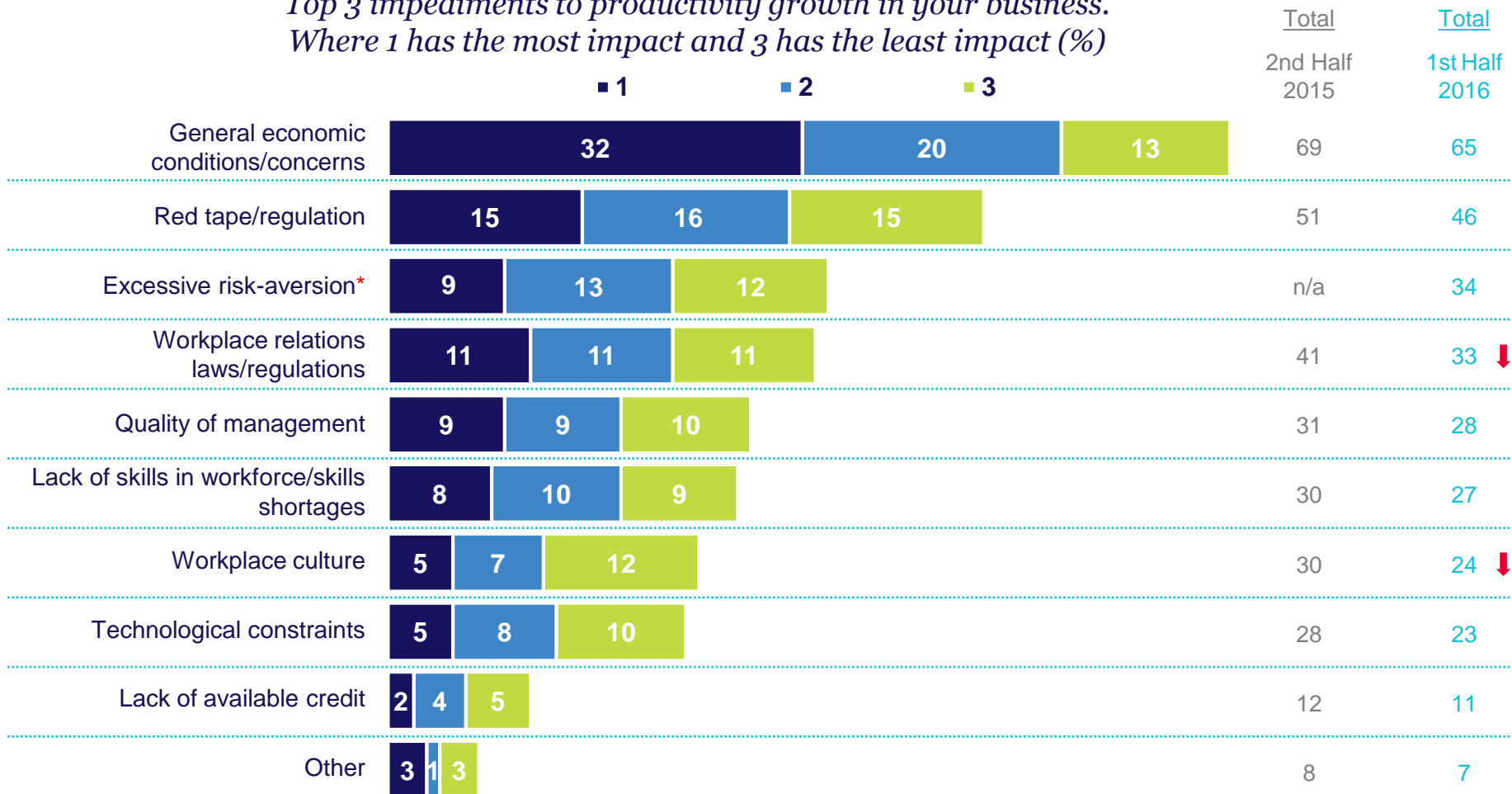
Government Policy

Regulation

Impediments to productivity growth

In line with 2nd half 2015 results, directors identify general economic conditions/concerns as the top impediment to productivity growth in their business. This is followed by 'red-tape'/regulation, excessive risk-aversion and workplace relations laws/regulations.

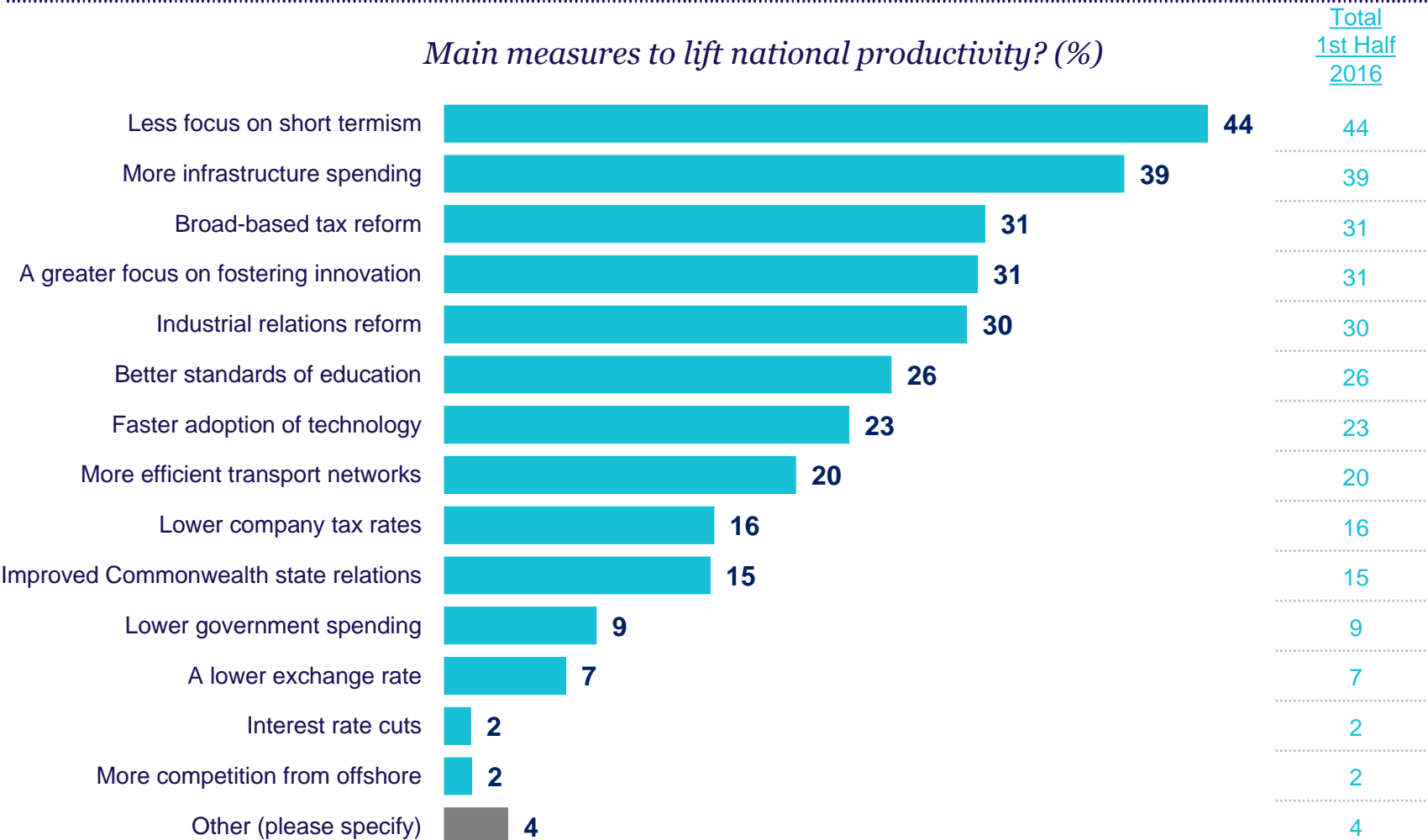
Top 3 impediments to productivity growth in your business.
Where 1 has the most impact and 3 has the least impact (%)



*Note new statements inserted in 1st Half 2016

Main measures to lift national productivity

Directors rate less focus on short termism as the top measure for lifting national productivity, followed by more infrastructure spending.



Level of 'red-tape' in next 12 months

50

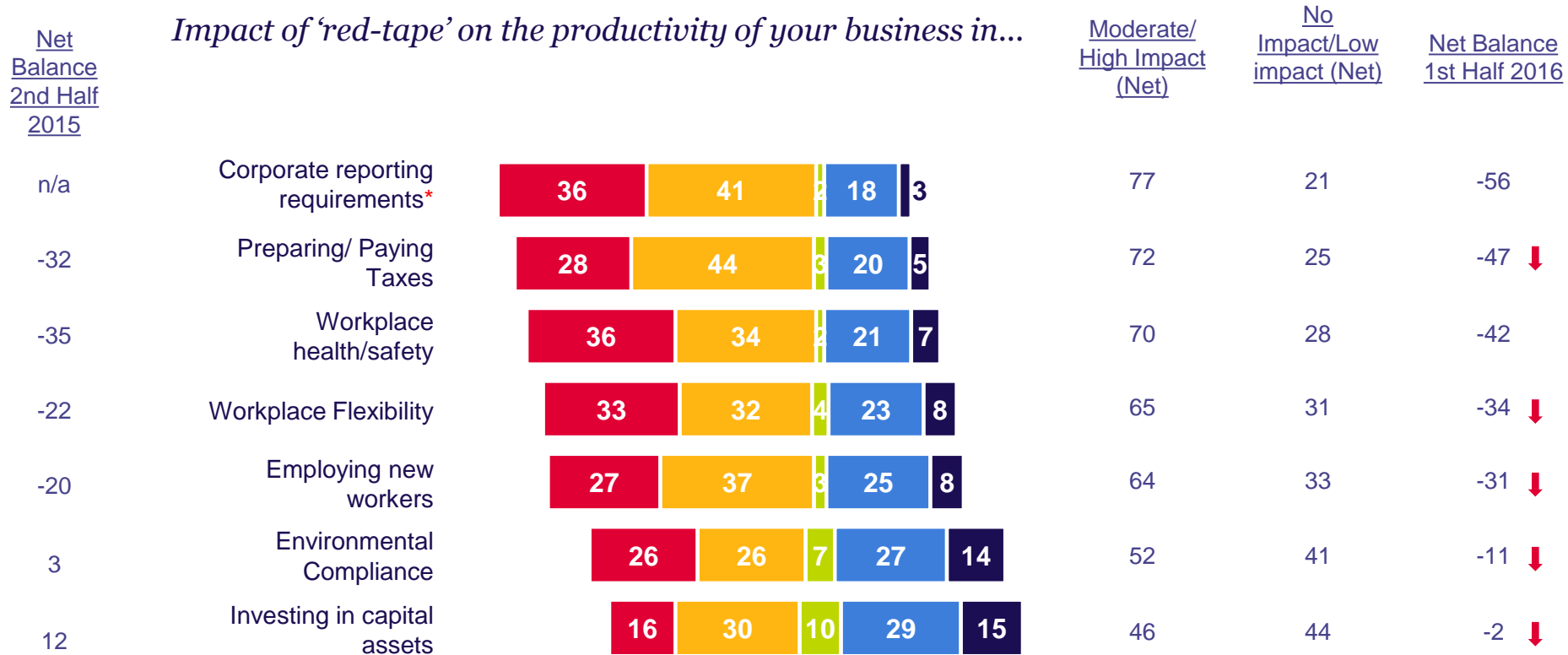
Directors have become more pessimistic regarding the level of 'red-tape' in the next 12 months, with almost 40 per cent expecting an increase.

Level of 'red-tape' – next 12 months



Impact of 'red-tape' on business productivity

Almost 80 per cent of directors identify corporate reporting requirements as the aspect of their business most affected by 'red-tape'. This is followed by preparing/paying taxes and workplace health/safety.



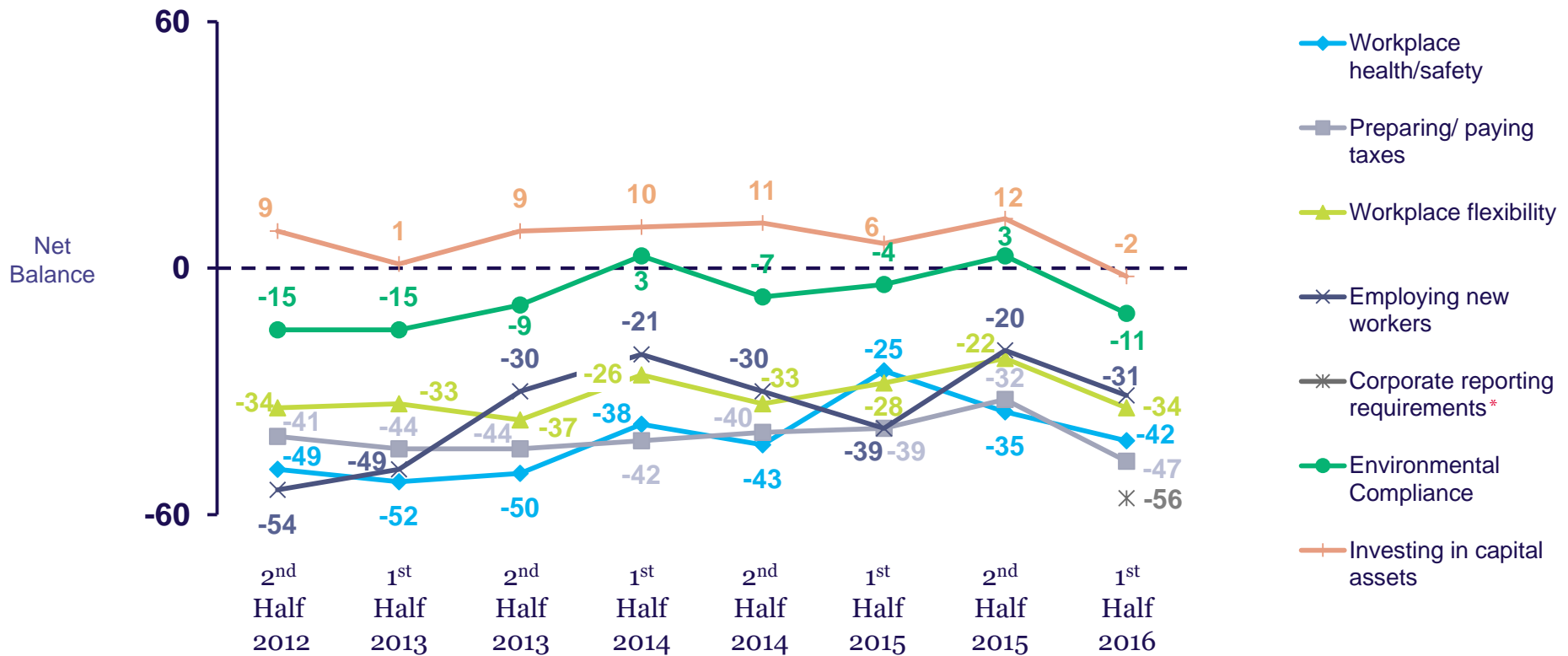
■ High Impact ■ Moderate Impact ■ Not Applicable ■ Low Impact ■ No Impact

**Note new statement inserted in 1st Half 2016*

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 corporate reporting requirements and preparing/paying taxes.

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



*Note new statement inserted in 1st Half 2016

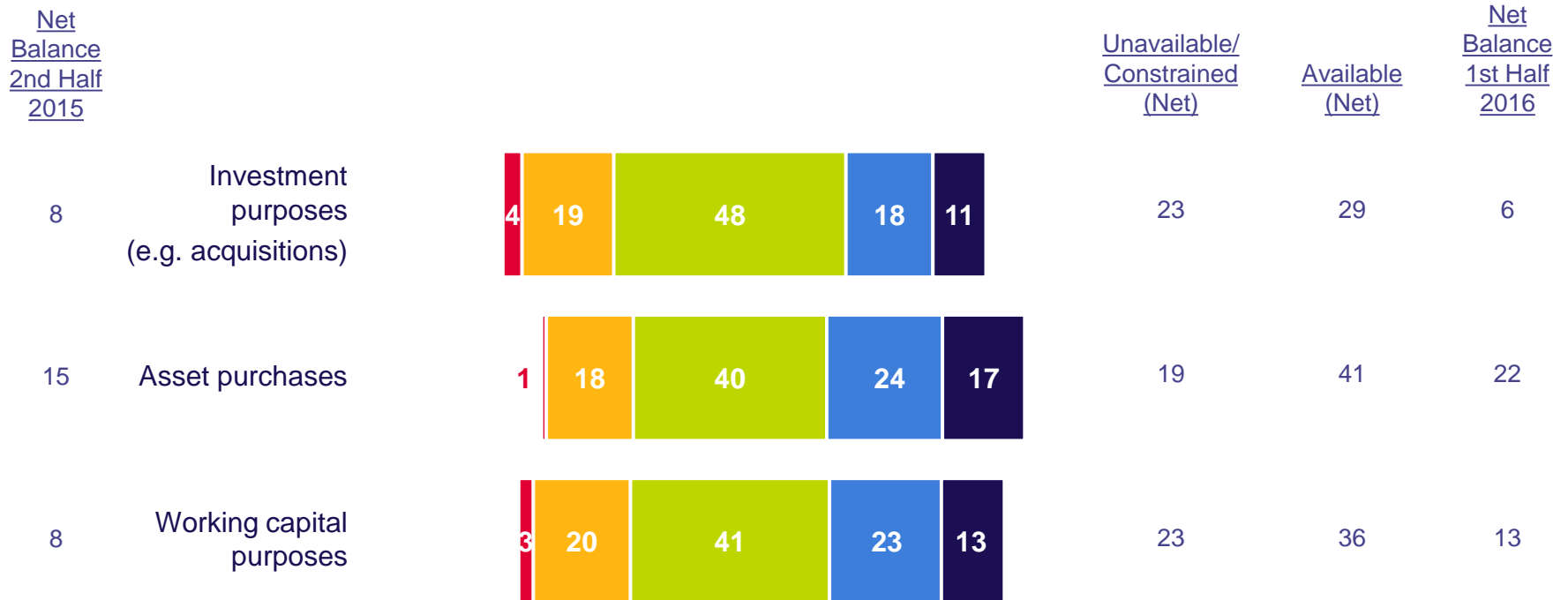
Government Policy

Credit Availability

Credit availability for business – Jul-Dec’15

Sentiment around credit availability for asset purchases and working capital purposes over the past six months has improved a little from the 2nd half 2015 results, whilst sentiment around credit availability for investment purposes has remained stable.

Credit availability for business – Jul-Dec’15 (%)

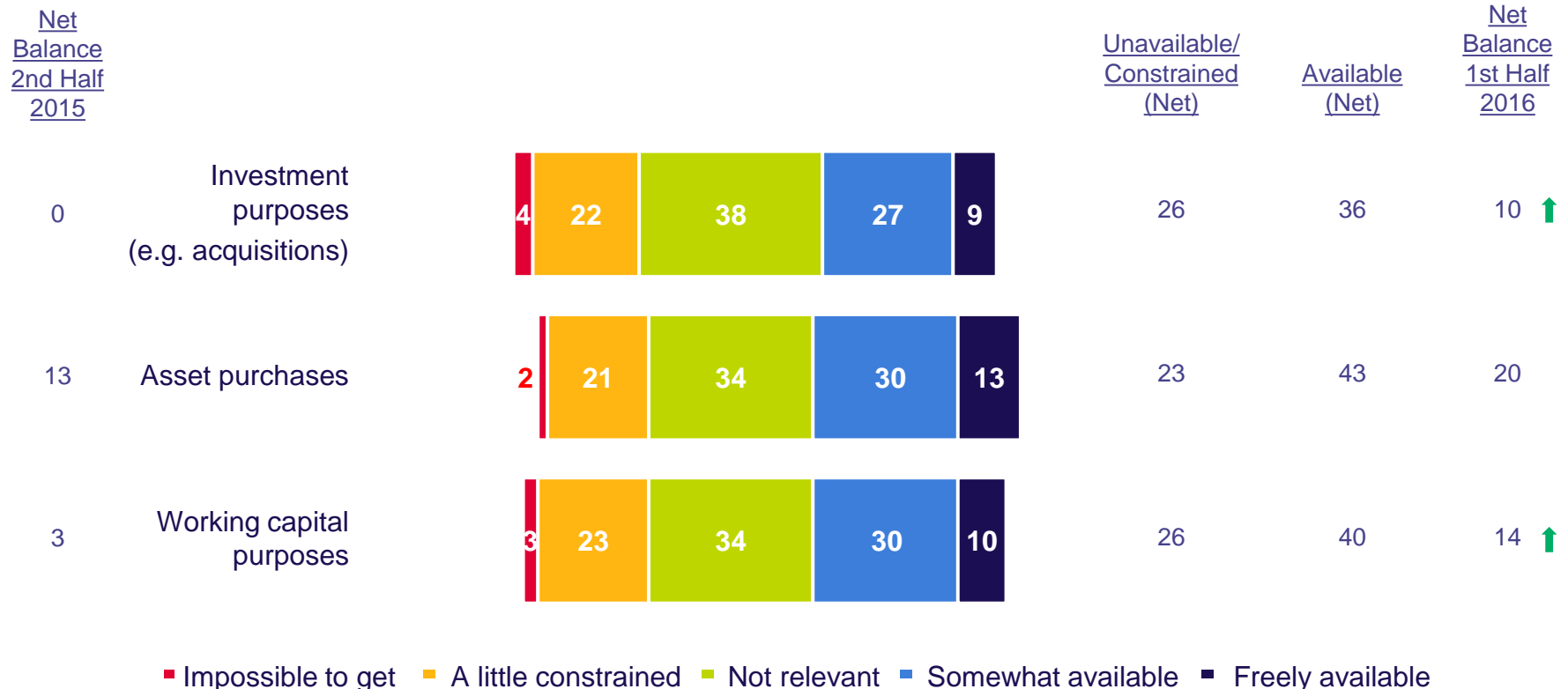


■ Impossible to get ■ A little constrained ■ Not relevant ■ Somewhat available ■ Freely available

Credit availability for business – next 12 months

Expectations of credit availability in the future have become more optimistic, with over 40 per cent of directors now predicting that credit for asset purchases will be somewhat or freely available over the coming year, and around 40 per cent expecting the same regarding credit for investment purposes and working capital purposes.

Credit availability for business - next 12 months (%)



Government Policy

Industrial Relations

Priority of industrial relations reform

Around 45 per cent of directors would continue to advise the government to pursue a significant industrial relations reform following an electoral mandate. The key priorities for an industrial relations reform are penalty rates and modern award system, in line with 2nd half 2015 results.

Extent to which Federal Government should pursue industrial relations reform (%)

	2 nd Half 2015	1 st Half 2016
Significant reform in the next term of government, following an electoral mandate	53	43
Significant reform in the current term of government	23	28
No significant reform is required	24	29

Priority for industrial relations reform (%)

	Total	2 nd Half 2015	1 st Half 2016
Penalty rates	48	49	48
Modern award system	39	37	39
Individual workplace arrangements	38	36	38
Enterprise bargaining system	36	31	36
Union right of entry *	32	n/a	32
Unfair dismissal laws	28	29	28
National employment standards *	25	n/a	25
Public sector employment issues	15	20	15
The minimum wage	13	11	13
Anti-bullying laws	10	7	10
Migrant worker provisions *	8	n/a	8
Other	3	3	3

*Note new statement inserted in 1st Half 2016

Government Policy

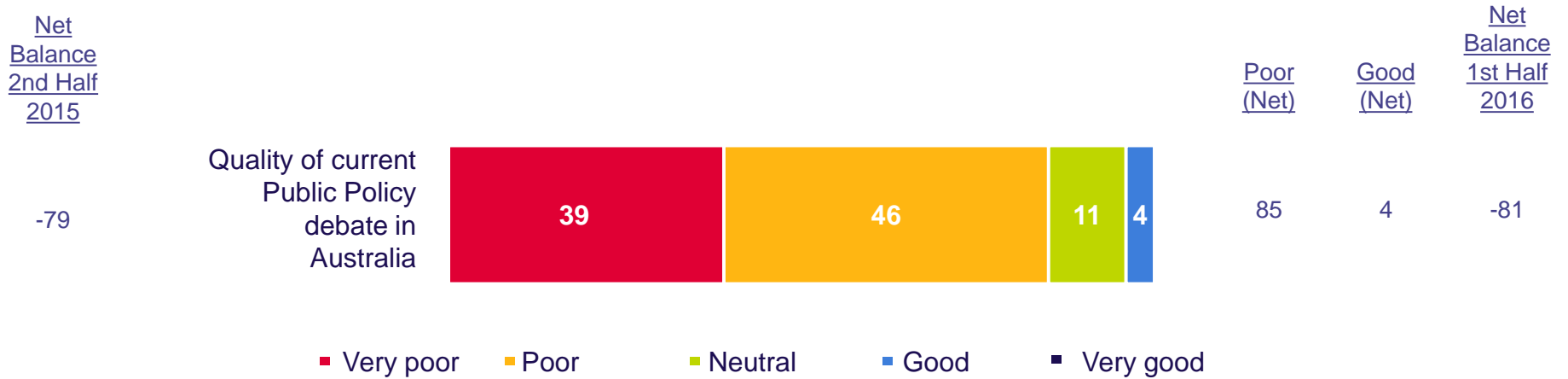
Public Policy

Quality of Public Policy debate

59

Similar to the 2nd half 2015, 85 per cent of company directors believe the current quality of public policy debate in Australia is poor.

Opinion on Public Policy debate (%)



Government Policy

Performance & Business Understanding

Impact of federal government's performance on business

Directors have become more pessimistic about the effect of the Federal Government's performance on business overall, with close to 50 per cent of directors viewing the Federal Government as having a negative effect on their business decision making and close to 80 per cent perceiving a negative effect on consumer confidence.

Effect of current federal government's performance on... (%)



Impact of federal government on business – semi-annual trend

The effect of the Federal Government's performance on business decision making and consumer confidence has become more pessimistic since 2nd half 2015 when Malcolm Turnbull took over as Prime Minister, with sentiment decreasing back to similar levels as in the 2nd half 2014.

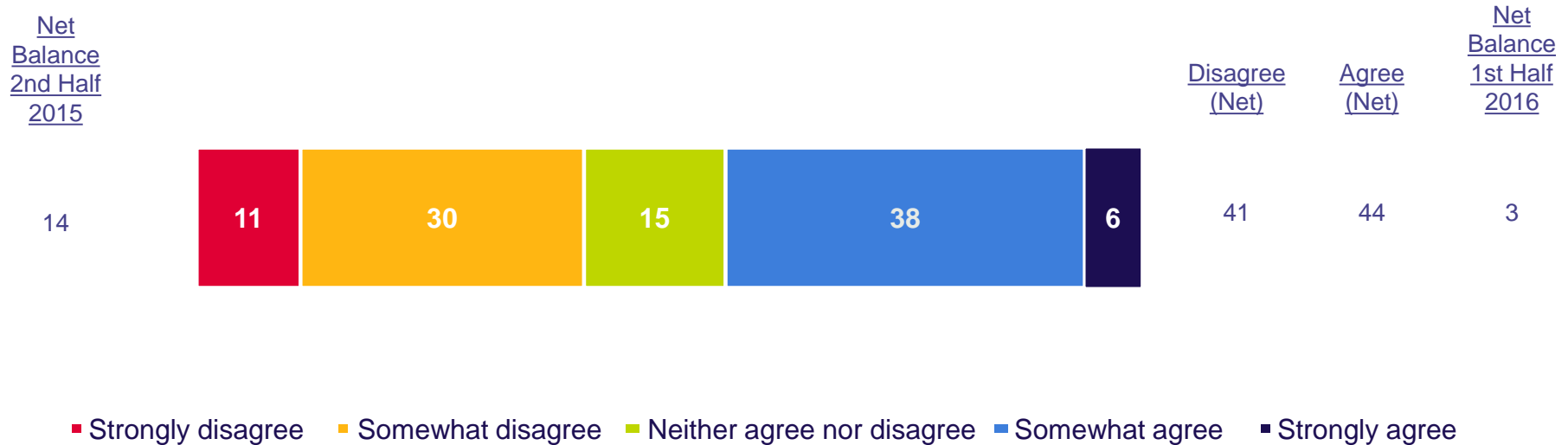
Federal government's performance affecting... – semi-annual trend (net balance)



Federal government understanding of business

Directors have become less optimistic about the Federal Government's understanding of business, with about 40 per cent of directors disagreeing that the current Federal Government understands business.

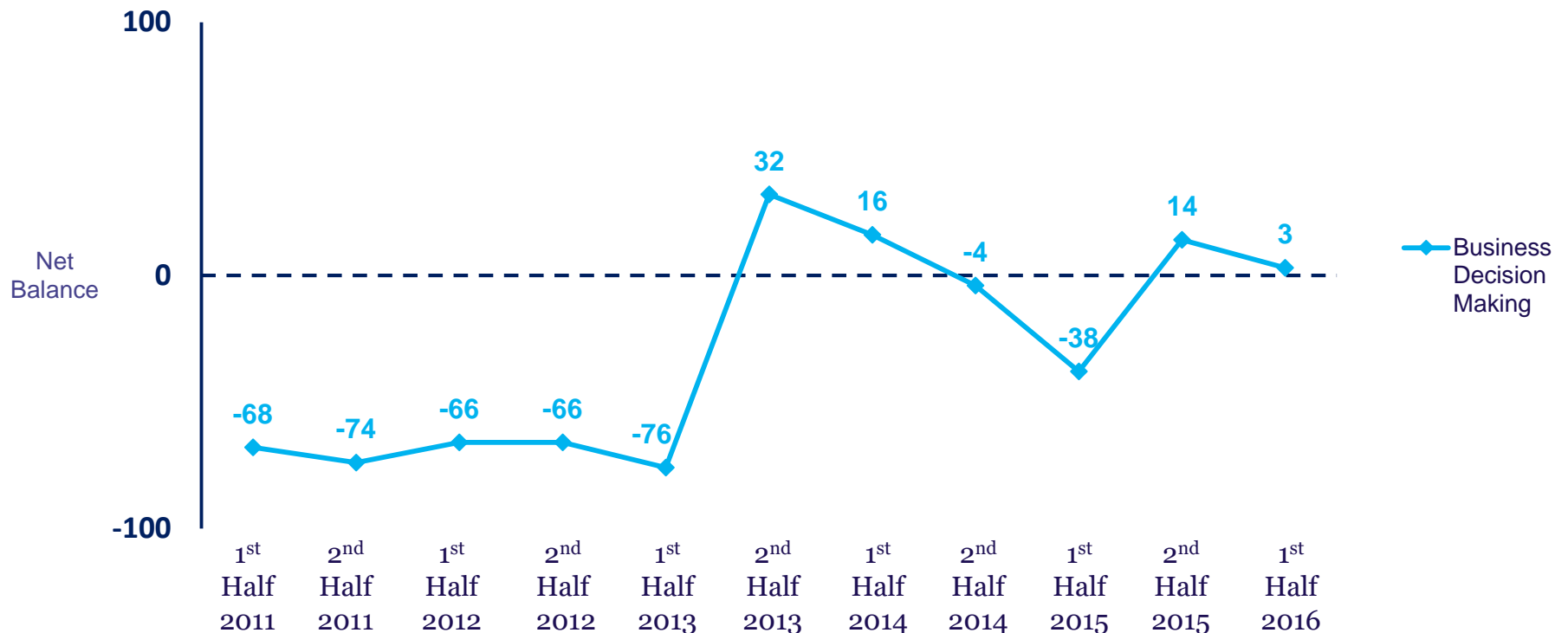
Does the current federal government understand business? (%)



Federal government understanding of business – semi-annual trend

After overturning to very positive levels in 2nd half 2015, when Malcolm Turnbull took over as Prime Minister, sentiment regarding the Federal Government’s understanding of business has become less optimistic in 1st half 2016.

Does the current federal government understand business? – semi-annual trend (net balance)



Senate's effect on business confidence

Almost 90 per cent of directors feel that the make up of the Senate is likely to negatively affect business confidence.

Senate's effect on business confidence (%)



■ Very negatively
 ■ Somewhat negatively
 ■ No effect
 ■ Somewhat positively
 ■ Very positively

Government stability

Only 28 per cent of directors believe that this parliament will deliver stable Government for the next 3 years.

Parliament delivering stable Government for the next 3 years (%)

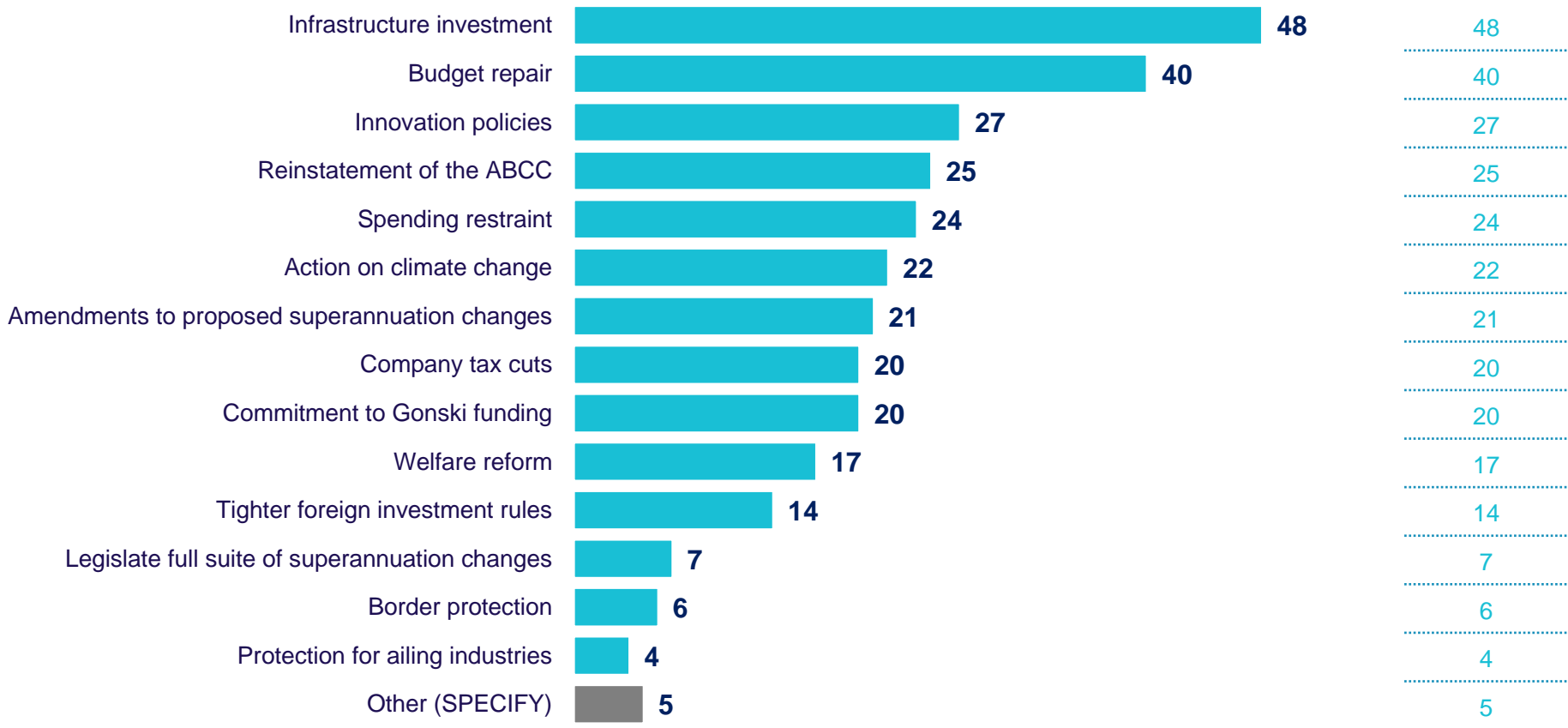
<i>Yes</i>	<i>No</i>	<i>Neutral</i>
28	49	23

Main priorities for re-elected Government (Top 3)

Infrastructure investment is seen as the top priority for the re-elected Government in the next 6 months, followed by budget repair.

What should be the 3 main priorities for the re-elected Government in the next 6 months? (%)

Total
1st Half
2016

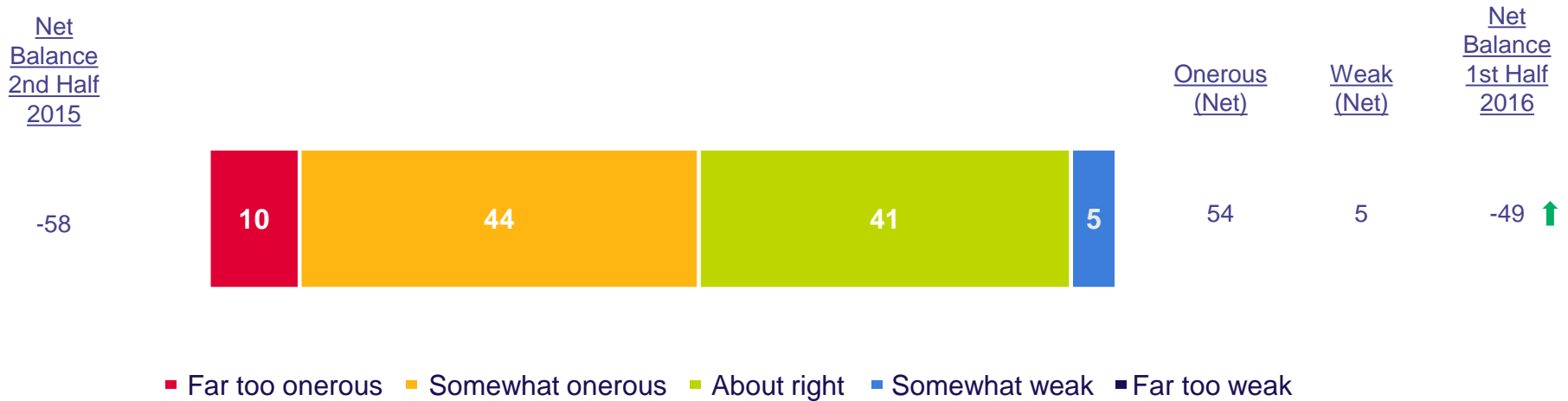


Key issues for Directors and Boards

Current governance regulations under the corporations act

Compared with the 2nd half 2015, directors have become less pessimistic about the current governance regulations, however around 55 per cent perceive them to be onerous.

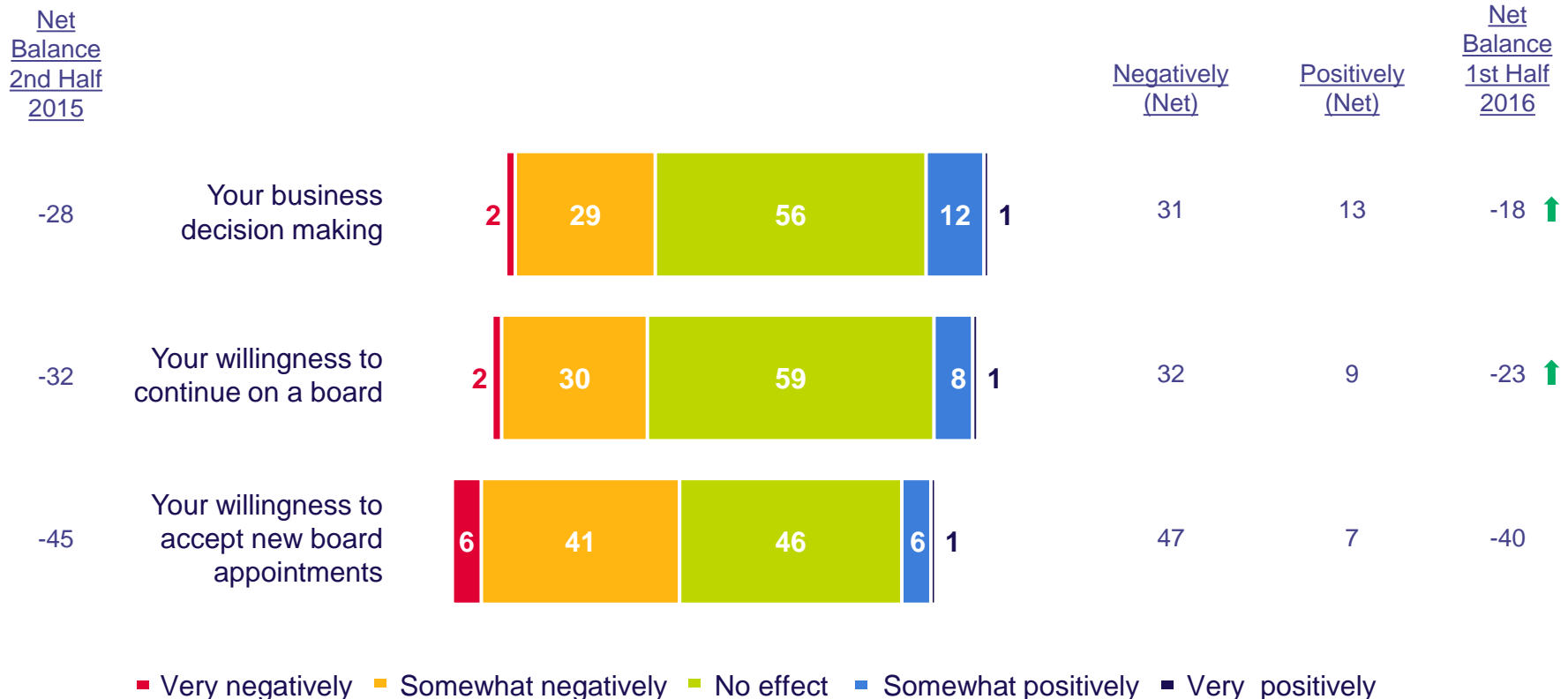
Are current governance regulations...? (%)



Impact of legislation on director liability

Directors feel less pessimistic about the impact of legislation on director liability compared to 2nd half 2015. While over 30 per cent feel that it has negatively affected their business decision making and willingness to continue on a board, almost 50 per cent feel it impacts negatively on their willingness to accept new board appointments.

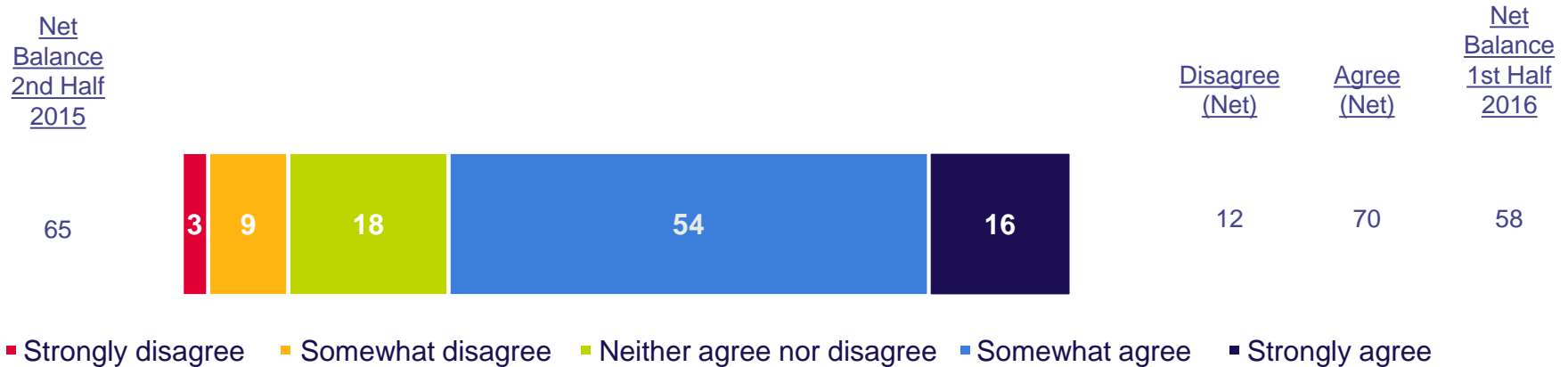
How legislation on directors' liability is affecting... (%)



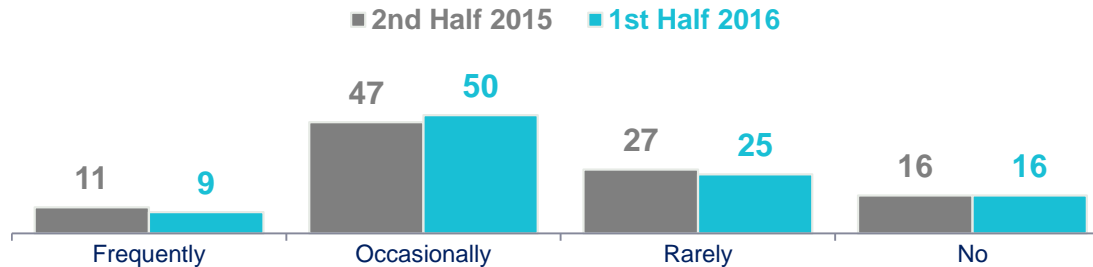
Business decision making and risk aversion

Seventy per cent of directors perceive there to be a risk-averse decision-making culture on Australian boards. About 85 per cent of directors claim that the risk of personal liability has caused them to take an overly cautious approach in their business decision making at some point.

Is there a risk-averse decision-making culture on Australian boards? (%)



Has the risk of personal liability caused you to take an overly cautious approach to business decision making? (%)



40. To what extent do you agree or disagree that there is a risk-averse decision-making culture on Australian boards?

41. Has the risk of personal liability caused you, or a board of directors on which you sit, to take an overly cautious approach to business decision making

Base: All respondents n=833

Adequacy of public company remuneration reports

Almost 45 per cent of directors perceive the adequacy of public company remuneration reports to be about right, while around 40 per cent hold the view that they are inadequate.

Adequacy of public company remuneration reports (%)

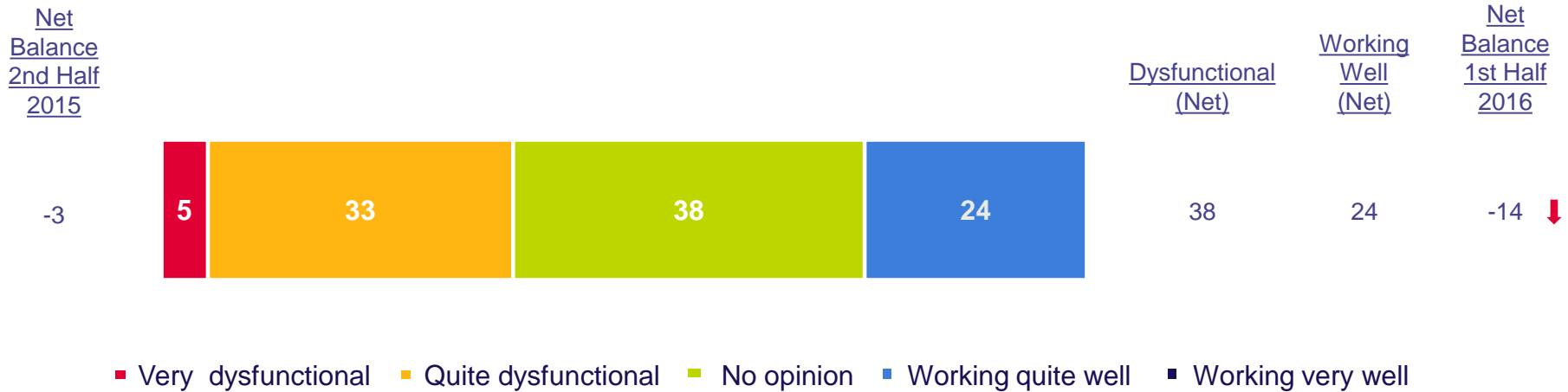


■ Wholly inadequate
 ■ Somewhat inadequate
 ■ About right
 ■ Somewhat adequate
 ■ Very adequate

Current AGM system

Sentiment regarding the current AGM system has become more pessimistic in the 1st half 2016, with only 25 per cent of directors of the opinion that the current AGM system is working well.

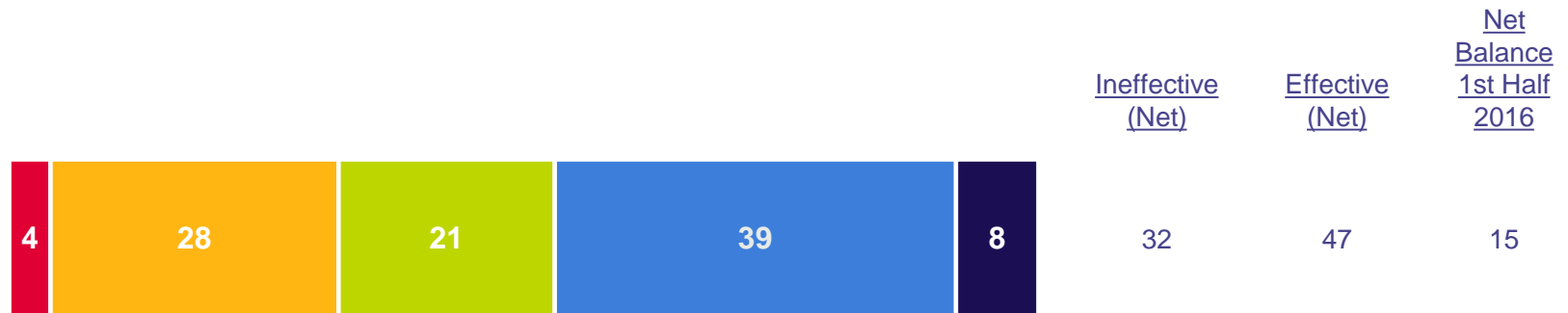
Functionality of the current AGM system (%)



Effectiveness of corporate reporting in Australia

Almost 50 per cent of directors rate corporate reporting in Australia as effective.

Effectiveness of corporate reporting in Australia (%)



■ Very ineffective
 ■ Somewhat ineffective
 ■ No opinion
 ■ Somewhat effective
 ■ Very effective

Board meetings

On average, directors rate compliance obligations as consuming about one-third of their total board meetings, while almost 60 per cent of their total board meetings is spent on performance discussions.

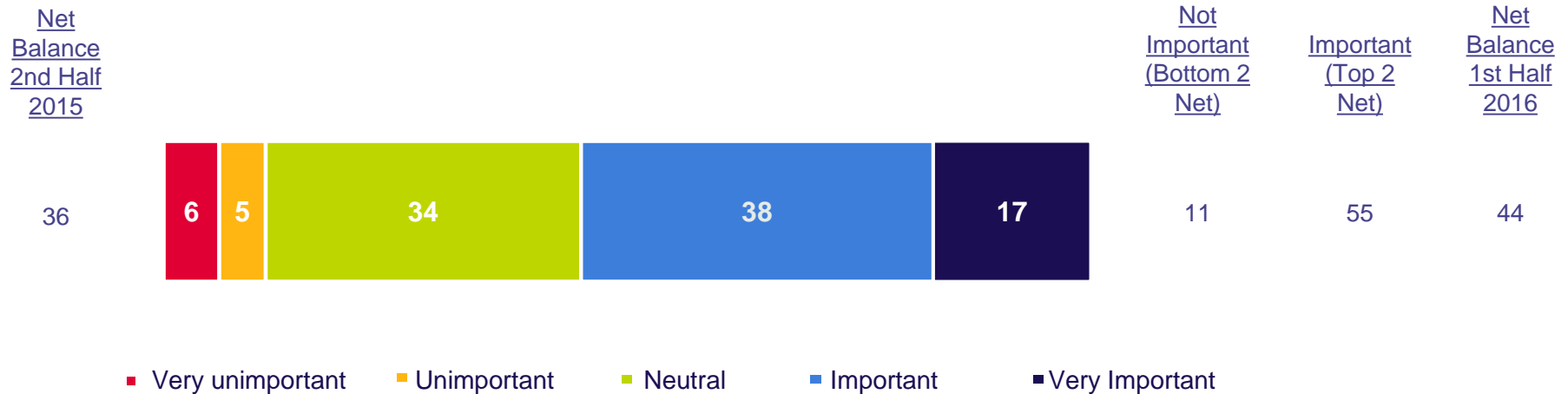
Percentage of board meetings spent on compliance obligations versus performance discussions (% mention)

	<i>Compliance obligation</i>	<i>Performance discussions</i>
Average	33	59
Median	30	60

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

Fifty five per cent of directors perceive ESG issues to be important, while about 10 per cent believe they are unimportant. Overall sentiment has become slightly more optimistic in the 1st half of 2016.

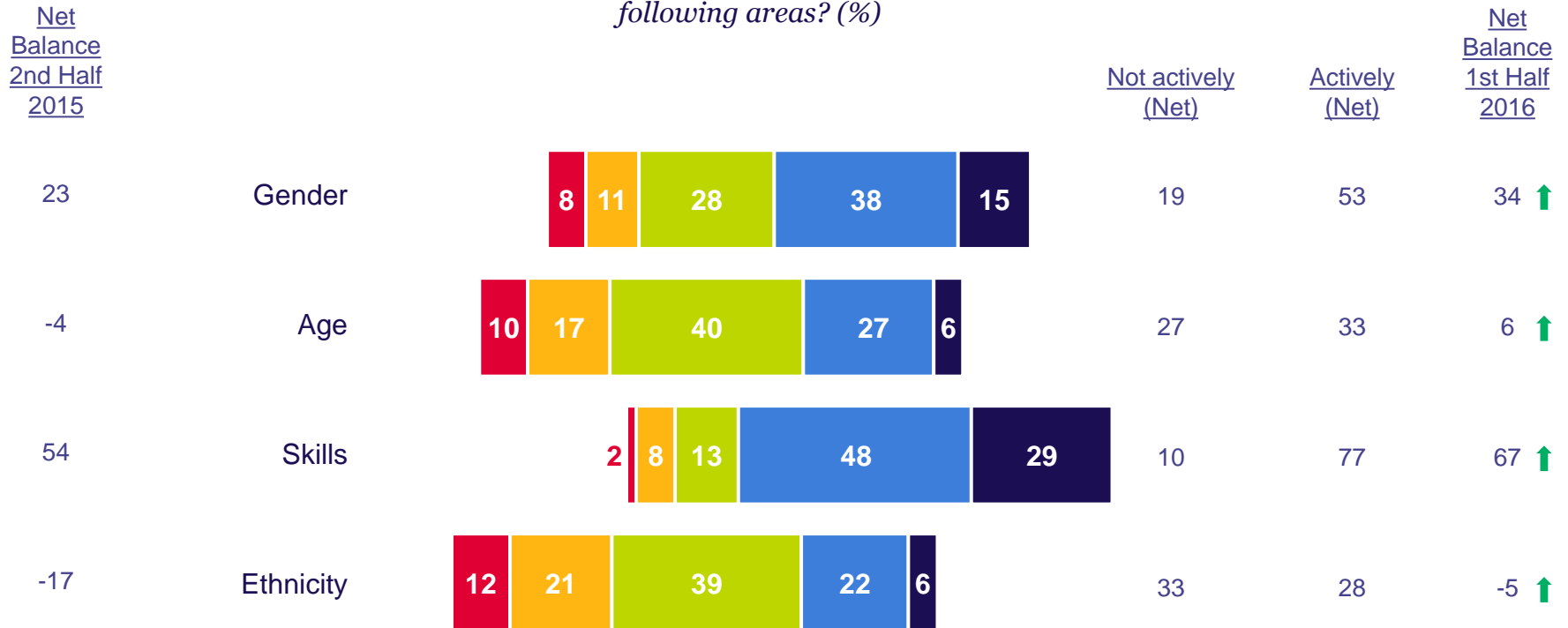
Importance of ESG issues within business (%)



Board diversity: policy and efforts to increase

Efforts to increase board diversity have become more pronounced. Over 75 per cent of directors state that their business is actively seeking to increase diversity of their board in terms of skills and over half indicate their business is actively trying to increase diversity in terms of gender. Efforts in terms of age and ethnicity have improved too.

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

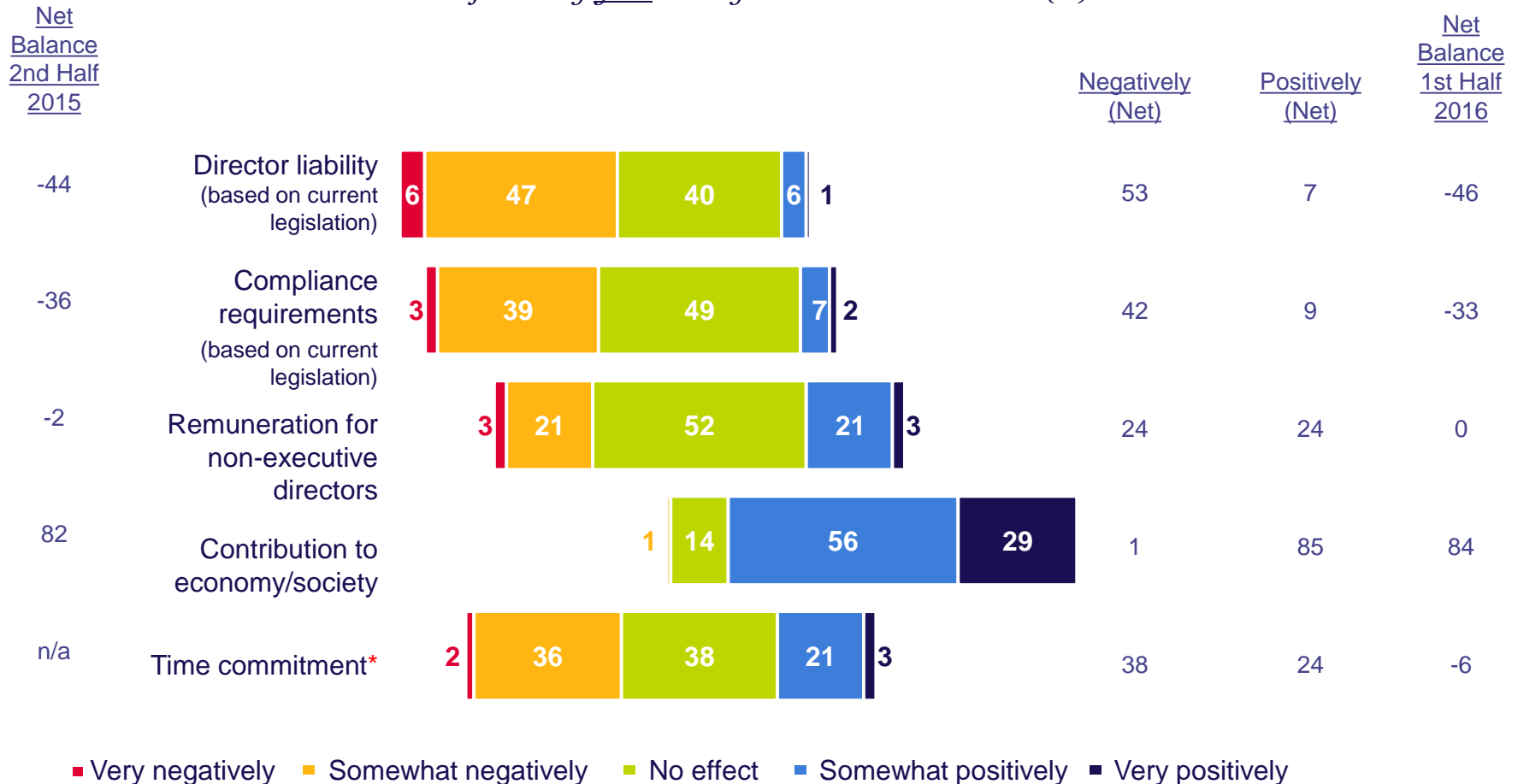


■ Not at all actively
 ■ Not very actively
 ■ Not relevant
 ■ Somewhat actively
 ■ Very actively

Factors influencing your willingness to serve on a board

Over half of directors believe that director liability negatively impacts their willingness to serve on a board. Eighty-five 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 (%)



APPENDIX

Summary of Key Indicators

Summary of key indicators

(1 of 6)

Indicator (expected change in coming 12 months)	Scale	1 st Half 2016 net balance	2 nd Half 2015 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-35	-37
Health of the Asian economy	Weak/strong	-2	-11
Health of the European economy	Weak/strong	-83 ↓	-69
Health of the US economy	Weak/strong	-8 ↓	14
Inflation rate (Australia)	Lower/higher	-10 ↓	9
Exchange rate (value of AUD versus USD)	Lower/higher	-41 ↑	-55
RBA cash rate	Lower/higher	-51 ↓	-2
Level of wages growth	Lower/higher	-16 ↓	-5
Unemployment rate	Lower/higher	28	26
Expected change in ASX All Ordinaries index	Fall/rise	14	19

Summary of key indicators

(2 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 st Half 2016 net balance	2 nd Half 2015 net balance
Business conditions			
Growth of primary directorship business	Weak/strong	29	23
Change in business investment levels	Decrease/increase	14	14
Change in business staffing levels/labour demand	Decrease/increase	2	3
Change in level of business exports	Decrease/increase	13	22
Change in level of outsourcing	Decrease/increase	29	29
Expectations of profits for Jan-Jul 2016 actual versus forecast*	Below/up	12	7
Expectations of profits for Jul-Dec 2016 actual versus forecast*	Below/up	12	19
Confidence in general business outlook*	Pessimistic/opt	2	3
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	16	14
Expected change in level of mergers and acquisitions	Fall/rise	53 ↓	62
Infrastructure			
Perception of level of government spending on infrastructure*	Low/high	-83	-84
Taxation			
Perception of current level of corporate taxation*	High/low	-46	-46
Perception of current level of personal taxation*	High/low	-63	-68

Summary of key indicators

(3 of 6)

Indicator	Scale	1 st Half 2016 net balance	2 nd Half 2015 net balance
Regulation, legal issues, reporting			
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-27 ↓	4
Impact of 'red-tape' on workplace health/safety	High impact/low impact	-42	-35
Impact of 'red-tape' on preparing/ paying taxes	High impact/low impact	-47 ↓	-32
Impact of 'red-tape' on workplace flexibility	High impact/low impact	-34 ↓	-22
Impact of 'red-tape' on employing new workers	High impact/low impact	-31 ↓	-20
Impact of 'red-tape' on corporate reporting requirements*	High impact/low impact	-56	(n/a)
Impact of 'red-tape' on environmental compliance	High impact/low impact	-11 ↓	-3
Impact of 'red-tape' on investing in capital assets	High impact/low impact	-2 ↓	12

**Note new statement inserted in 1st Half 2016*

↑ Significantly higher vs. 2nd half 2015 @ 95% confidence level

↓ Significantly lower vs. 2nd half 2015 @ 95% confidence level

Summary of key indicators

(4 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 st Half 2016 net balance	2 nd Half 2015 net balance
Tax, credit, M&A			
Credit availability for investment purposes	Constrained/available	10 ↑	0
Credit availability for asset purchases	Constrained/available	20	13
Credit availability for working capital	Constrained/available	14 ↑	3
Public Policy			
Quality of current Public Policy debate in Australia*	Poor/good	-81	-79
Regulation, legal issues, reporting			
Agreement with 'Federal Government understands business'*	Disagree/agree	3	14
Regulation, legal issues			
How is the current Federal Government's performance affecting your business decision making?*	Negatively/positively	-34 ↓	-12
How is the current Federal Government's performance affecting consumer confidence?*	Negatively/positively	-65 ↓	-16

Summary of key indicators

(5 of 6)

Indicator	Scale	1 st Half 2016 net balance	2 nd Half 2015 net balance
Regulation, legal issues			
Perception of governance regulations	Onerous/weak	-49 ↑	-58
Extent legislation on directors affect your business decision-making	Negatively/positively	-18 ↑	-28
Extent legislation on directors affect your willingness to continue on a board	Negatively/positively	-23 ↑	-32
Extent legislation on directors affect your willingness to accept new board appointments	Negatively/positively	-40	-45
Risk-averse decision-making culture on Australian boards	Disagree/agree	58	65
Adequacy of public company remuneration reports	Inadequate/adequate	-22	-19
Functionality of current AGM system	Dysfunctional/ functional	-14	-3

Summary of key indicators

(6 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 st Half 2016 net balance	2 nd Half 2015 net balance
Board diversity			
Board actively seeking to increase diversity of gender on board	Not actively/actively	34 ↑	23
Board actively seeking to increase diversity of age on board	Not actively/actively	6 ↑	-4
Board actively seeking to increase diversity of skills on board	Not actively/actively	67 ↑	54
Board actively seeking to increase diversity of ethnicity on board	Not actively/actively	-5 ↑	-17
Directorship conditions			
Impact of directors' liability on willingness to serve on a board	Negatively/positively	-46	-44
Impact of compliance requirements on willingness to serve on a board	Negatively/positively	-33	-36
Impact of remuneration on willingness to serve on a board	Negatively/positively	0	-2
Impact of contribution to economy/society on willingness to serve on a board	Negatively/positively	84	82
Impact of time commitment on willingness to serve on board*	Negatively/positively	-6	(n/a)
ESG importance			
Importance of ESG within business	Unimportant/Important	44	36

*Note new statement inserted in 1st Half 2016

↑ Significantly higher vs. 2nd half 2015 @ 95% confidence level

↓ Significantly lower vs. 2nd half 2015 @ 95% confidence level

Explanation of charts – example only

