



DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2018

Delivered by Ipsos



Director Sentiment Index

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First half 2018 sample profile

Members of the Australian Institute of Company Directors were invited to take part in the survey between 8 – 20 March 2018. A total of 945 members participated. Results were weighted by gender to reflect the profile of the AICD member base.

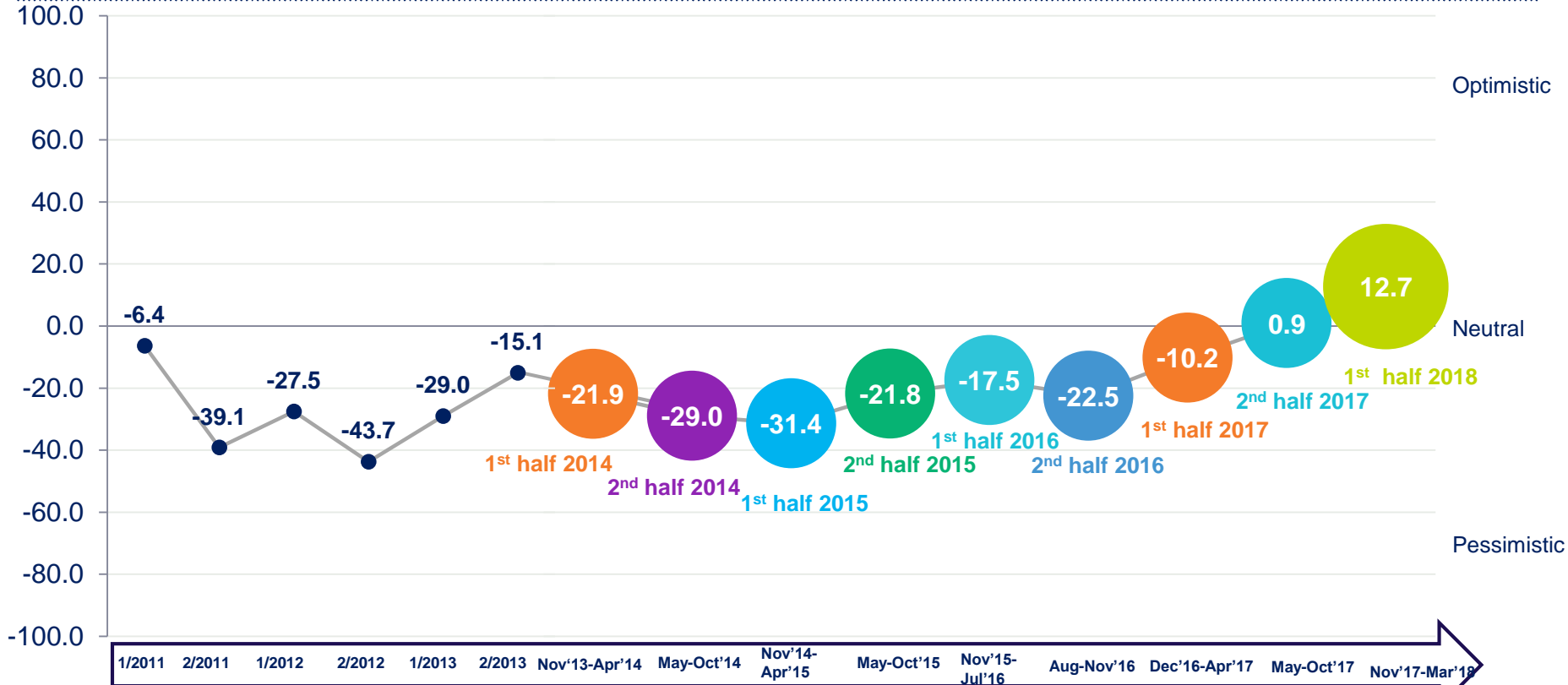
No. of current directorships	%
1	33 (32)
2	28 (29)
3 or more	38 (38)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	35 (37)
Non-Executive Director	69 (65)
Chairman	34 (34)
Other	9 (7)
Prefer not to say	1 (2)
Primary directorship company	
Publicly listed Australian entity	11 (12)
Private/non-listed Australian entity	43 (45)
Not-for profit entity	33 (29)
Public sector/ government body	8 (8)
Overseas entity	4 (5)
Prefer not to say	1 (1)
Gender	
Male	70 (70)
Female	30 (30)
Other*	0
Prefer not to say*	0

Primary directorship business sector(s)	%
Health and Community Services	23 (21)
Finance and Insurance	16 (17)
Property and Business Services	9 (9)
Education	9 (7)
Mining	6 (6)
Manufacturing	5 (6)
Agriculture, Forestry and Fishing	5 (4)
Construction	6 (3)
Personal and Other Services	3 (3)
Energy	3 (3)
Government Administration and Defence	3 (3)
Communication Services	3 (3)
Transport and Storage	3 (2)
Accommodation, Cafes and Restaurants	3 (2)
Retail Trade	2 (3)
Cultural and Entertainment industry	2 (2)
Wholesale Trade	2 (1)
Primary directorship based	%
NSW	25 (30)
VIC	23 (26)
QLD	13 (14)
WA	16 (12)
TAS	3 (2)
SA/NT	11 (7)
ACT	6 (4)
Overseas	3 (5)

Director Sentiment Index

Overall Director Sentiment Index

The overall sentiment in the first half of 2018 became increasingly optimistic, up 11.8 points on the last survey, with the Director Sentiment Index reaching 12.7, its highest point since the index began in 2011.



1/2011 2/2011 1/2012 2/2012 1/2013 2/2013 Nov'13-Apr'14 May-Oct'14 Nov'14-Apr'15 May-Oct'15 Nov'15-Jul'16 Aug-Nov'16 Dec'16-Apr'17 May-Oct'17 Nov'17-Mar'18

Federal gov't school funding backflip (Dec)
Crisis in Ukraine (Feb)
Free Trade Agreements with Japan/South Korea (Apr)

Coalition gov't announces first budget (Jun)
Carbon tax legislation scrapped (Jul)
Australia joins US-led coalition to fight in Iraq (Sep)

Leadership spill (Feb)
RBA official cash interest rate reduced to record low (Feb)
Oil and iron ore prices falling rapidly

RBA official cash interest rate reduced to record low (May)
Chinese Stock Market Crash (Jun-Aug)
Malcolm Turnbull takes over as PM (Oct)

Brexit- UK withdraws from the EU (Jun)
Malcolm Turnbull re-elected as PM (Jul)

RBA official cash interest rate reduced to historic low (Aug)
Donald Trump wins US presidential election (Nov)

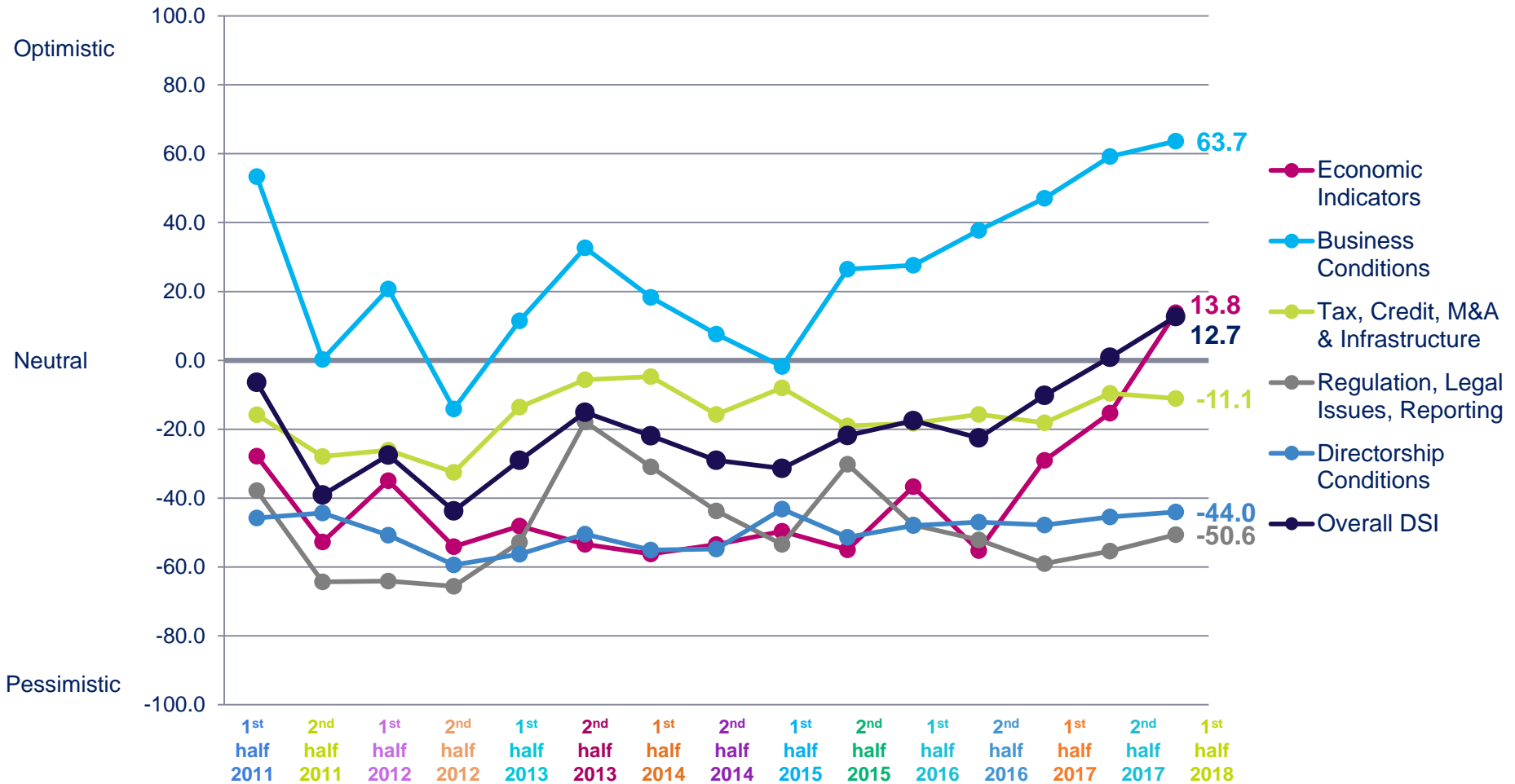
Inauguration of Donald Trump (Jan)
Donald Trump issued executive order on refugees and immigration (Jan)
Iron ore price rises significantly from November 2016 to March 2017

Cash rate remains on hold. Economic conditions globally improved. Local economy expanded 0.8% in June Qtr.

Cash rate stable. Barnaby Joyce by-election & resignation
Same sex marriage vote.
The Australian economy grew 0.4% in the December quarter of 2017.

Overall Director Sentiment Index by segment

Sentiment has mainly increased across Business Conditions and Economic Indicators. Directorship Conditions, Regulation, Legal Issues, Reporting and Tax, Credit, M&A & Infrastructure are in line with the second half of 2017.



Executive Summary

Health of economies

- The outlook for the Asian and US economies in the next 12 months is optimistic, continuing to grow in the first half of 2018. Asia is still predicted to be the strongest while the Australian and US economies are also regarded positively. By comparison the European economy continues to be perceived as weak overall.
- NSW directors are the most optimistic about the health of their state economy in the next 12 months while WA directors are the most pessimistic.

Economic indicators

- Directors expect an increase in inflation, wages and the cash rate in the next 12 months. A lower unemployment rate is expected in the next 12 months.

Economic challenges

- The taxation system is viewed by directors as the biggest economic challenge currently facing Australian business in the first half of 2018, followed by low productivity growth and high energy prices.

Executive Summary

Business Forecast

Business growth

- Directors' optimism regarding past and future business growth continues its upward trend since the second half of 2015.

Changes in business

- Directors continue to be optimistic about the changes in their business over the coming year. Optimism is highest around investment levels and staffing levels/labour demand over the coming year (to December 2018).

Profits

- No change in sentiment around actual profits for the current budget forecast, with 40% of directors expecting an increase in profits for the current six months. Expectations of profits for the first half of the financial year (Jul-Dec'18) are similar to the current six months, with 39% of directors expecting an increase in profits.

Business outlook

- Directors are increasingly optimistic about the business outlook in the next 12 months, with 47% indicating they are optimistic about the general business outlook, and 51% indicating they are optimistic regarding the outlook for their sector.

Executive Summary

Government Policy

Budgetary

- Directors rate taxation reform, energy policy and infrastructure as the top priorities for the Federal Government to address in the short term.
- Directors continue to rate infrastructure as the top long term priority the federal government should address, followed by an ageing population, climate change, taxation reform and international competitiveness.

Taxation

- Directors remain pessimistic regarding the level of personal taxation in Australia in the first half of 2018, with 73% holding the belief that it is high. 65% of directors also view corporate tax as being too high, which is more pessimistic compared with the second half of 2017.

Regulation

- Directors continue to feel pessimistic regarding the level of 'red-tape' in the next 12 months, with 42% expecting an increase. 78% of directors identify corporate reporting requirements as the aspect of their business most affected by 'red-tape'. This is followed by workplace health/safety and preparing/paying taxes.

National productivity

- Directors continue to rate less focus on short termism as the top measure for lifting national productivity, followed by broad-based tax reform and more infrastructure spending.

Credit availability

- Expectations of credit availability in the future have remained optimistic, with 48% of directors predicting that credit for asset purchases will be somewhat or freely available over the coming year, 40% expect the same regarding credit for investment purposes and 42% expect the same regarding working capital purposes.

Industrial Relations

- 46% of directors want the Government to pursue significant industrial relations reform following an electoral mandate. The key priority for industrial relations reform is individual workplace arrangements.

Performance & business understanding

- Compared to the second half of 2017, directors are less pessimistic about the effect of the Federal Government's current performance, with 67% perceiving a negative effect on consumer confidence. 43% of directors view the current Federal Government's performance as having a negative effect on their business decision making.
- Directors are slightly more optimistic about the Federal Government's understanding of business, with 42% agreeing that the current Federal Government understands business in the first half of 2018. The downward trend in sentiment since the second half of 2015 regarding the Federal Government's understanding of business has stabilised in the first half of 2018.

Executive Summary

Government Policy (cont.)

Director liability

- Directors continue to feel pessimistic about the impact of legislation on director liability in the first half of 2018. 32% of directors feel that it has negatively affected their business decision making, and 42% feel it impacts negatively on their willingness to accept new board appointments.
- 72% of directors perceive there to be a risk-averse decision-making culture on Australian boards, which is lower than the second half of 2017.

Board diversity

- The effort made to increase the diversity of skills in board membership was stable in the first half of 2018, with 74% of directors stating that their business is actively seeking to improve in this area, while 54% indicate their business is actively trying to increase diversity in terms of gender.

Corporate culture

- Ensuring culture is a regular feature on the board and audit committee meeting agenda, capturing data on key cultural indicators and communicating the ethical position of board and business generally are regarded as the top 3 elements in making changes in corporate culture.

Topical Issues

Main issues that would “keep you awake at night”

- Sustainability and long term growth prospects continues to be the main issue that keeps directors “awake at night”, followed by structural change/changing business models. Corporate culture, business reputation in the community and data security are also pertinent.

Impact of trends on organisation in the next five years

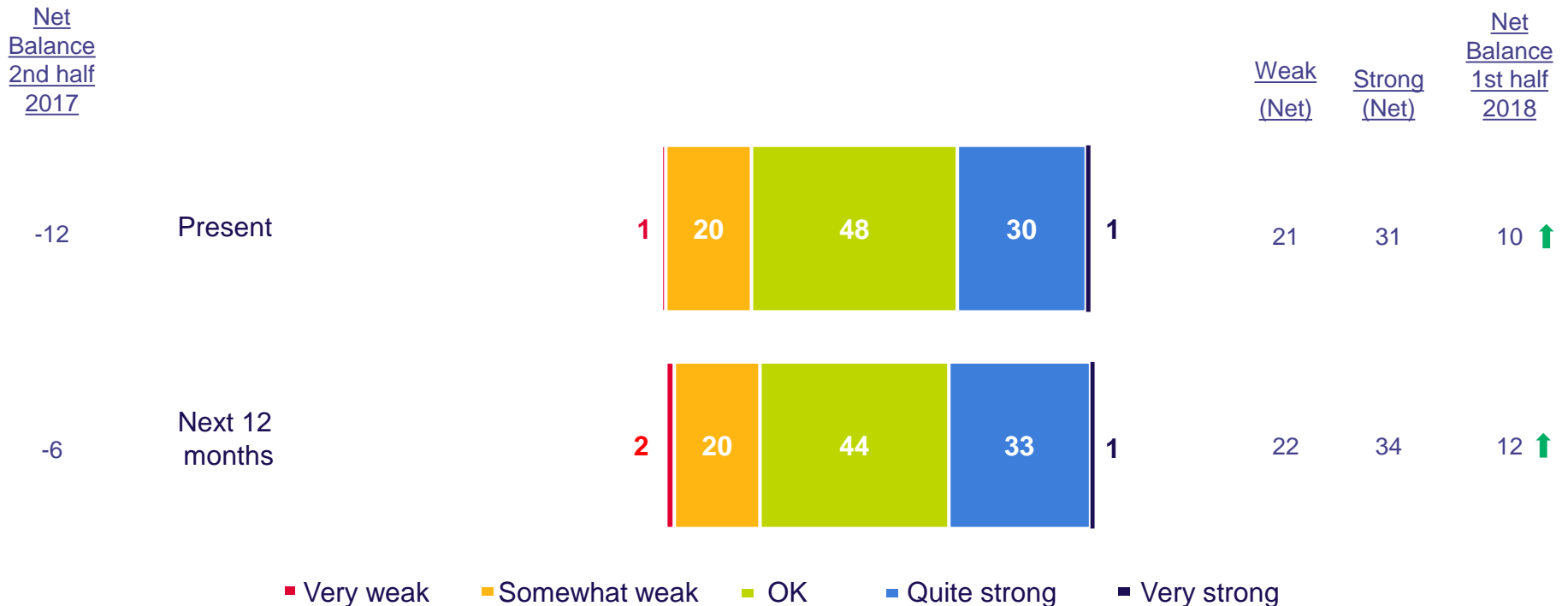
- Directors predict that big data, increased transparency and automation will have the most positive impact on their organisation in the next five years. 37% of directors believe that mass retirement of older workers will have a negative impact on their organisation over the five years to come.

Economic outlook and challenges

Health of the Australian economy

Directors have become optimistic about the Australian economy compared to the second half of 2017, with 31% perceiving the economy as strong at present. Directors are also optimistic about the Australian economy in the next 12 months compared to the second half of 2017, with 34% expecting it to be strong.

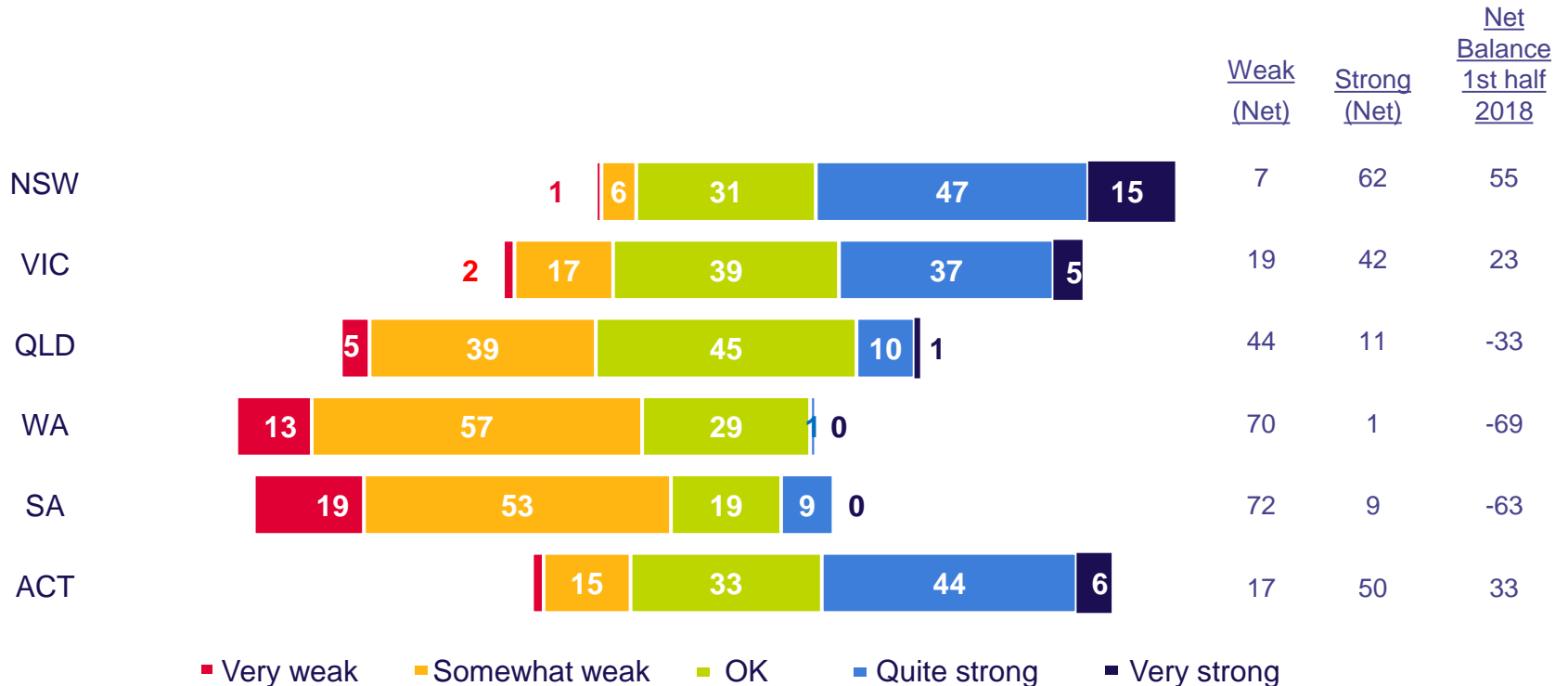
What is your assessment of the health of the Australian economy? (%)



Health of the State/Territory economies - now

Director sentiment around the health of their state/territory economy now varies from state to state. 62% of directors from NSW perceive their s economy as currently strong, while 72% of directors from SA perceive their economy as currently weak.

What is your assessment of the health of your State/Territory economy? - **Present** (%)

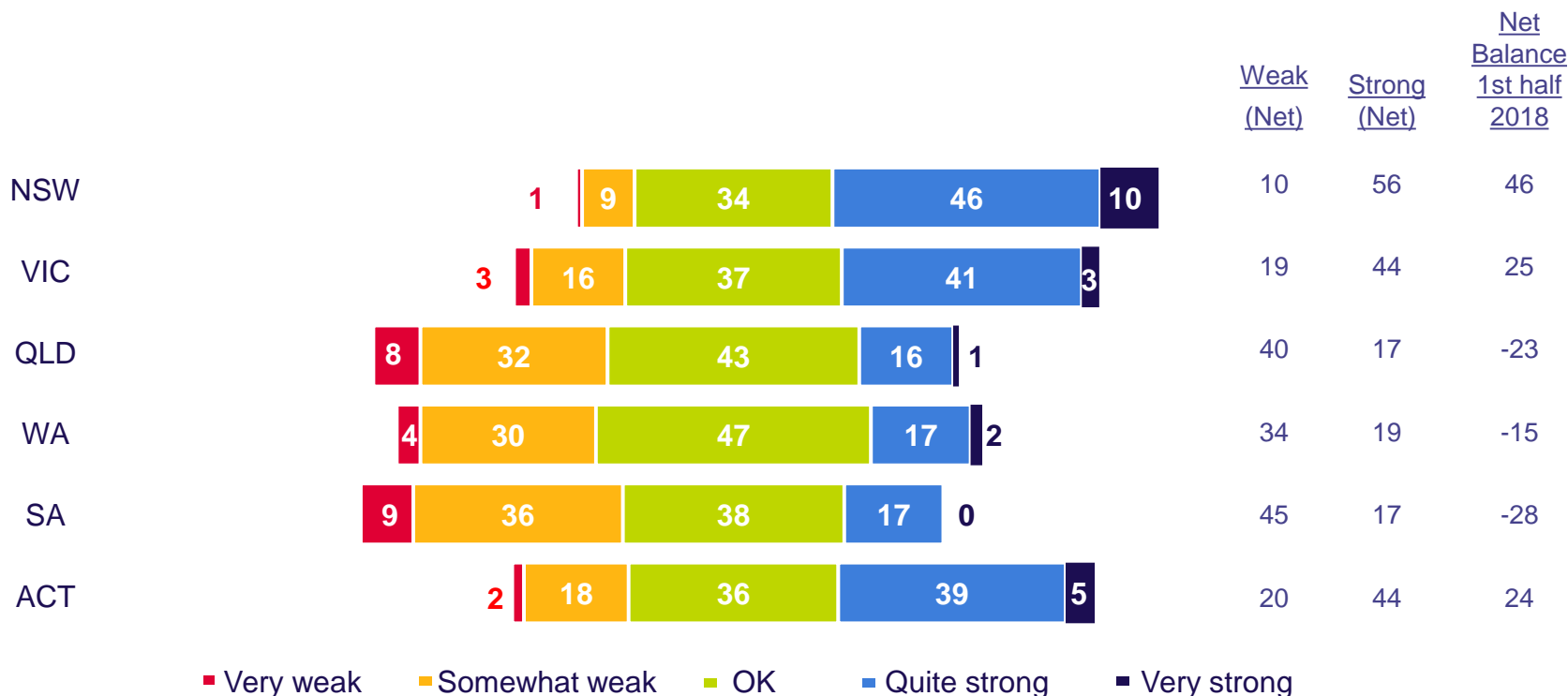


Note: New question added in 1st Half 2018
Low base for TAS/NT

Health of State/Territory economies – next 12 months

Similarly, NSW directors are the most optimistic about the health of their economy in the next 12 months. Directors from WA are less pessimistic about the health of their economy in the coming year.

What is your assessment of the health of your State/Territory economy? – **Next 12 Months**(%)

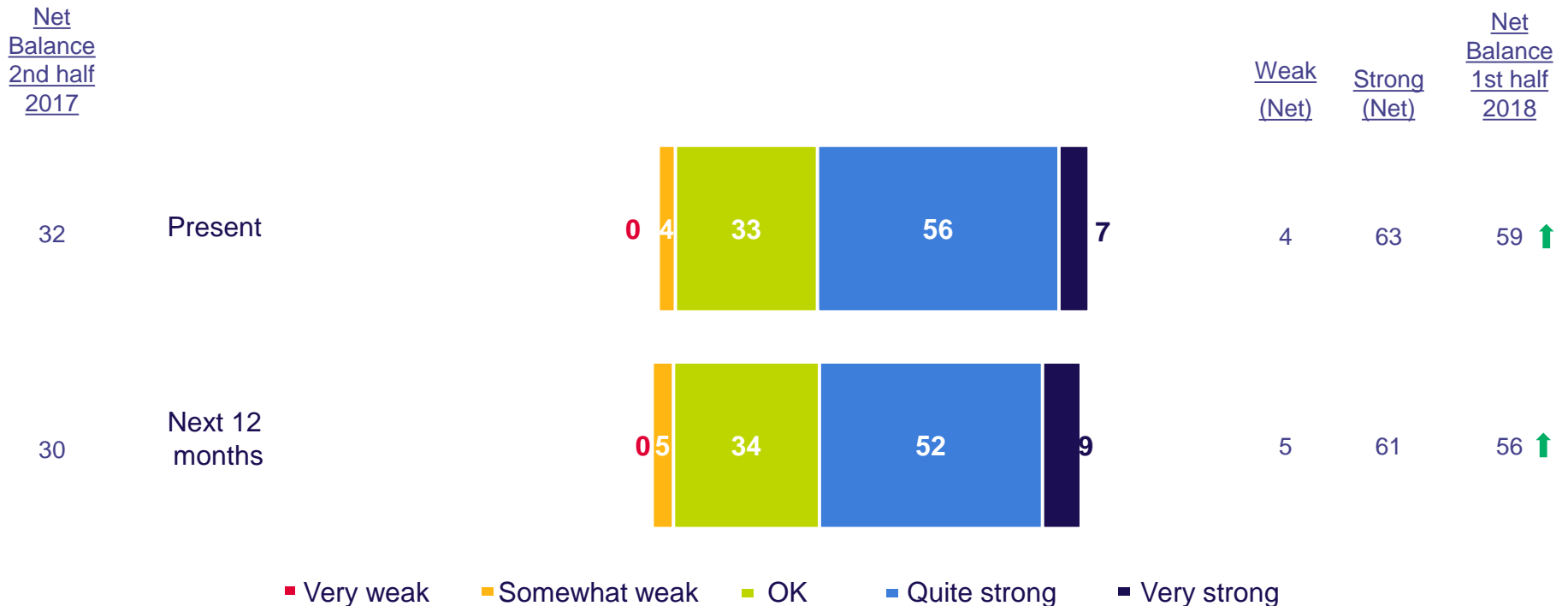


*Note: New question added in 1st Half 2018
Low base for TAS/NT*

Health of the Asian economy

Sentiment around the health of the Asian economy is more optimistic in the first half of 2018. 63% of directors perceive the Asian economy as currently strong and 61% expect it to remain strong over the next 12 months.

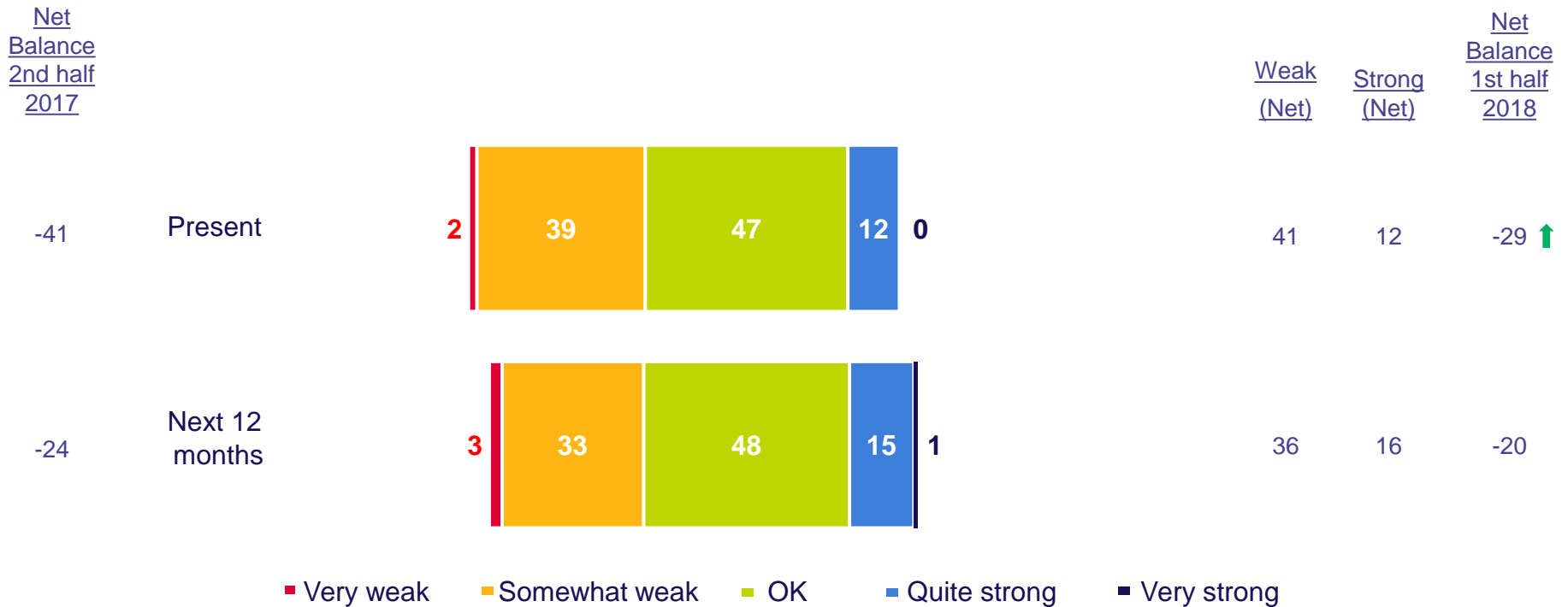
What is your assessment of the health of the Asian economy? (%)



Health of the European economy

Directors are significantly less pessimistic about the health of the European economy compared to the second half of 2017. However, 41% of directors perceive the economy as weak at present, and 36% expect it to remain weak in the next 12 months.

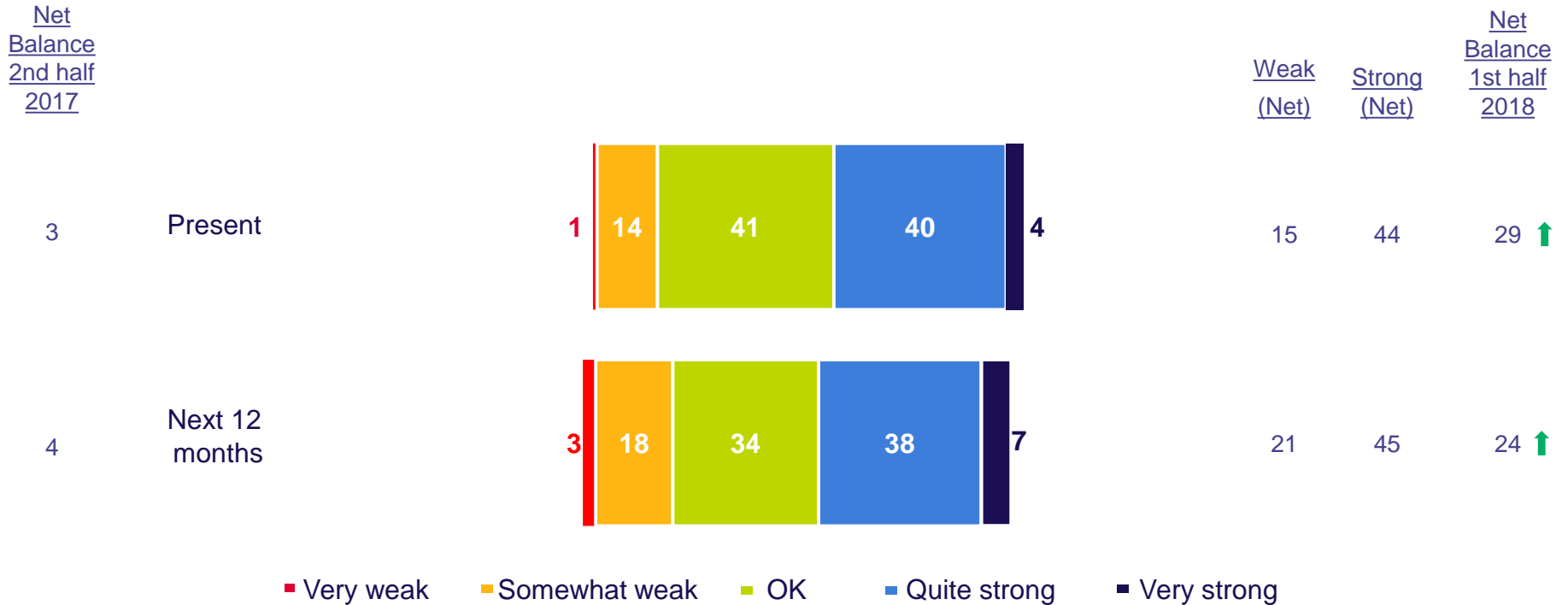
What is your assessment of the health of the European economy? (%)



Health of the US economy

The sentiment for the US economy is increasingly optimistic, with 44% of directors perceiving it as presently strong, and 45% expecting it to be strong over the coming year.

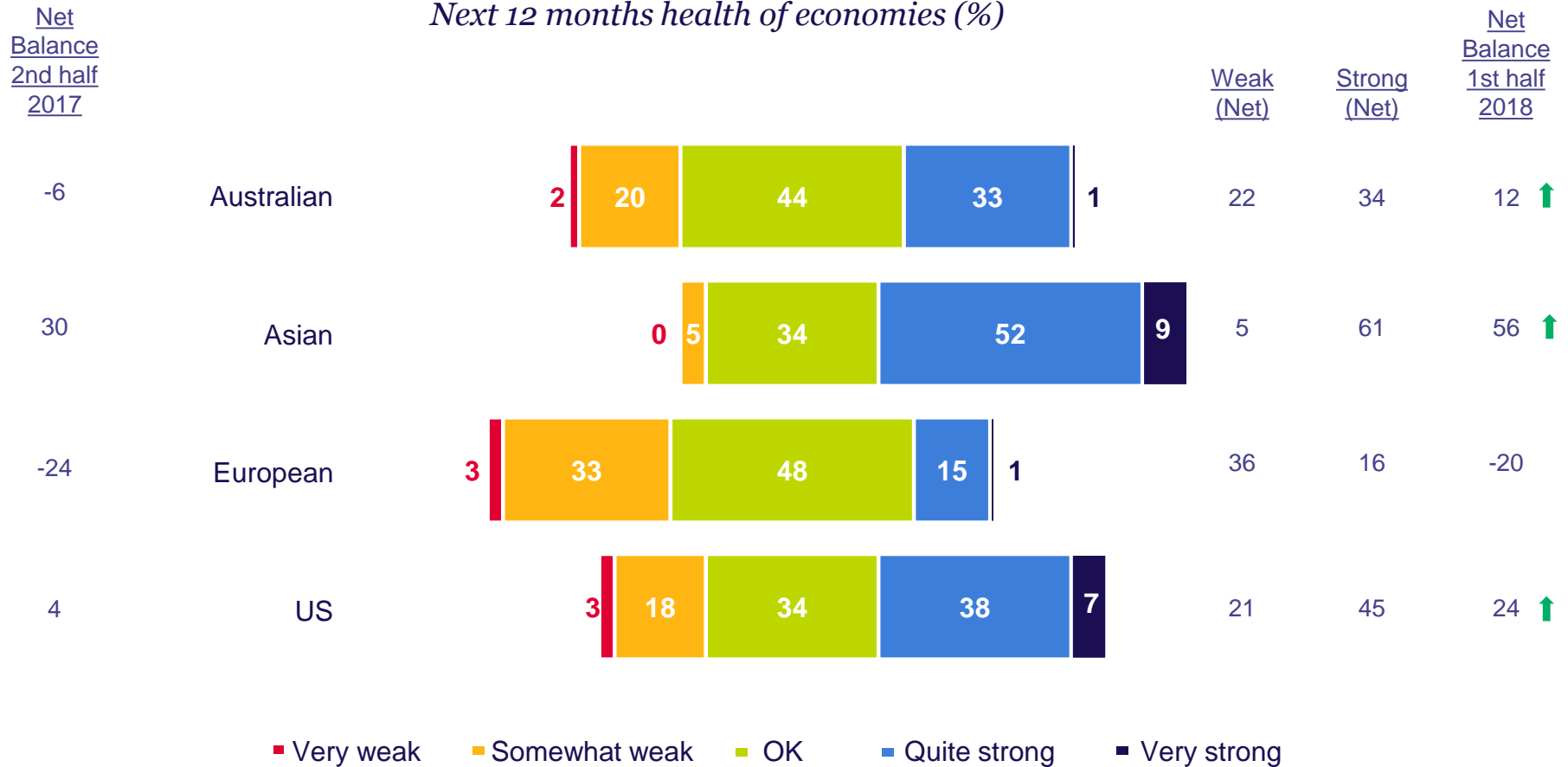
What is your assessment of the health of the US economy? (%)



Next 12 months health of economies: summary

Compared to the second half of 2017, directors have become optimistic about the future health of major global economies, with the exception of Europe.

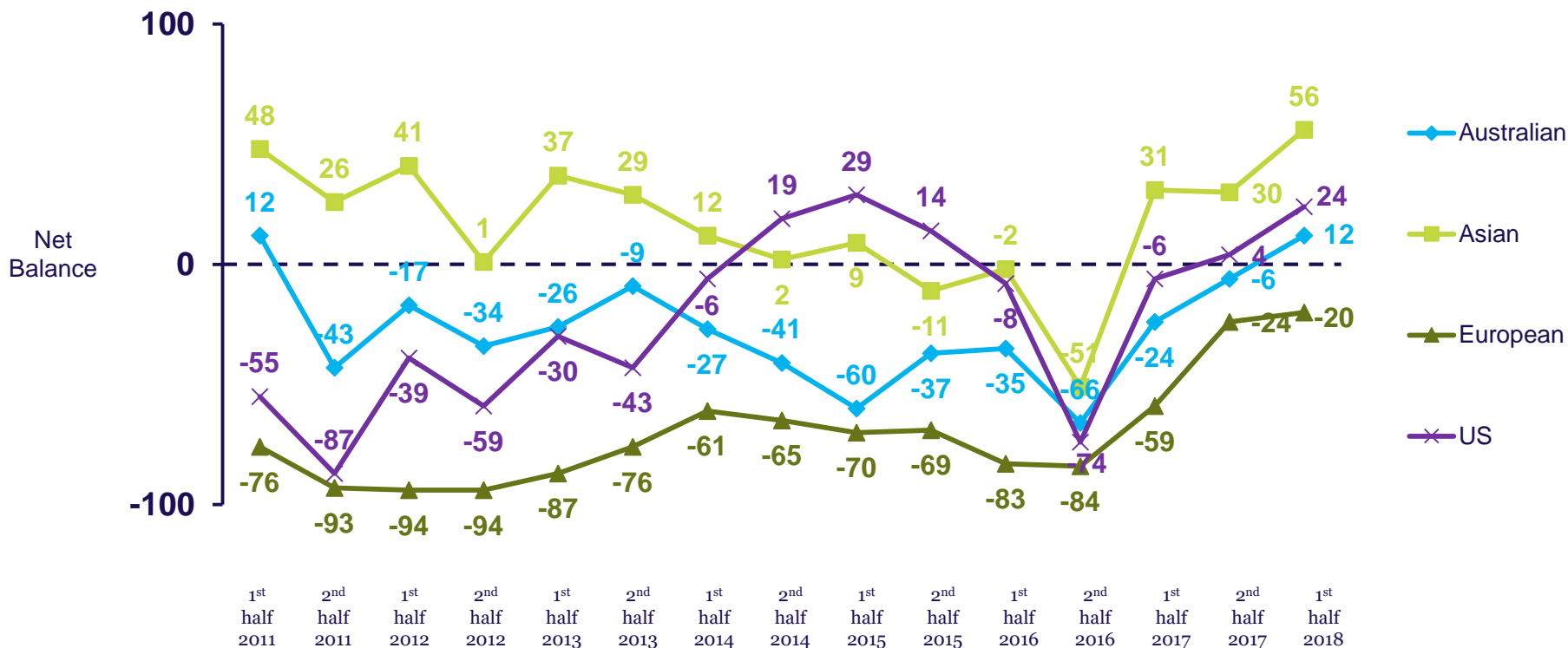
Next 12 months health of economies (%)



Next 12 months health of economies – semi-annual trend

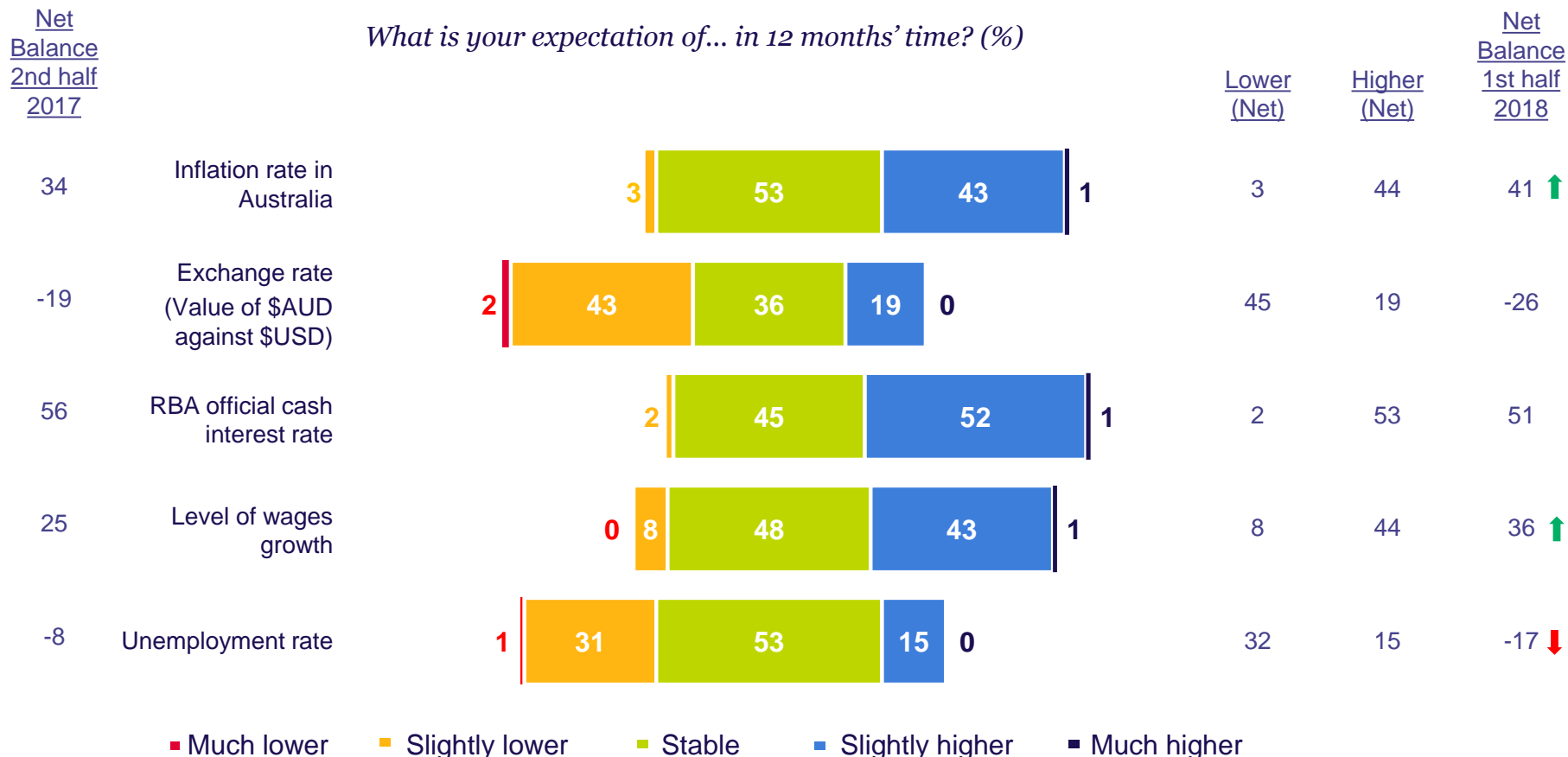
The outlook for the Asian and US in the next 12 months is optimistic, continuing to grow in the first half of 2018. Asia is still predicted to be the strongest with the Australian and US economies regarded positively, while European economies continue to be perceived as weak overall.

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



Economic indicators (Australia) – expectation in next 12 months

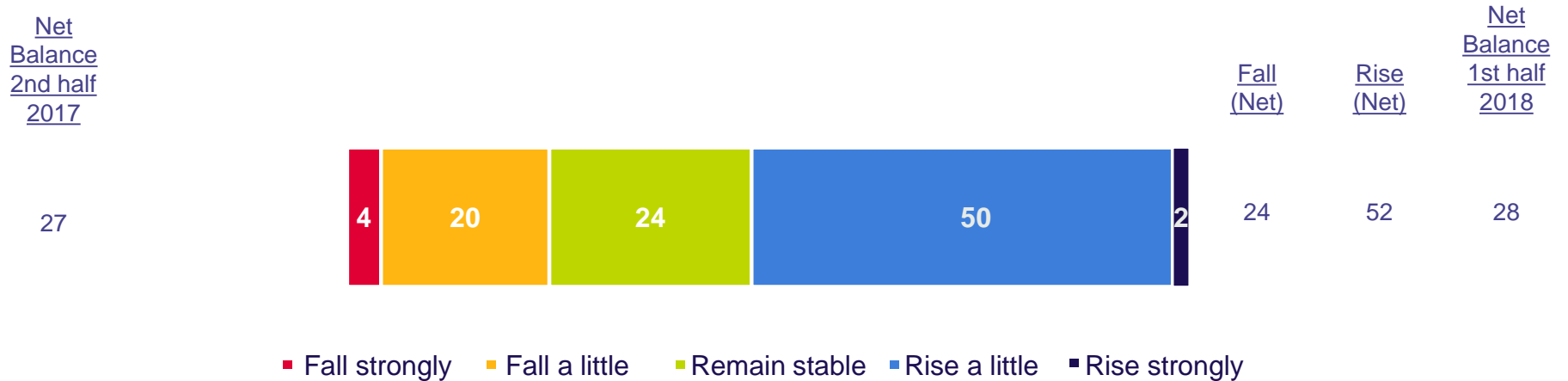
Directors expect an increase in inflation, wages and the cash rate in the next 12 months. A lower unemployment rate is expected in the next 12 months, with 32% of directors expecting it to be lower.



Expected change to ASX All Ordinaries index - next 12 months

Expectations regarding the ASX All Ordinaries index have remained optimistic, with 52% of directors expecting the index to rise in the next 12 months.

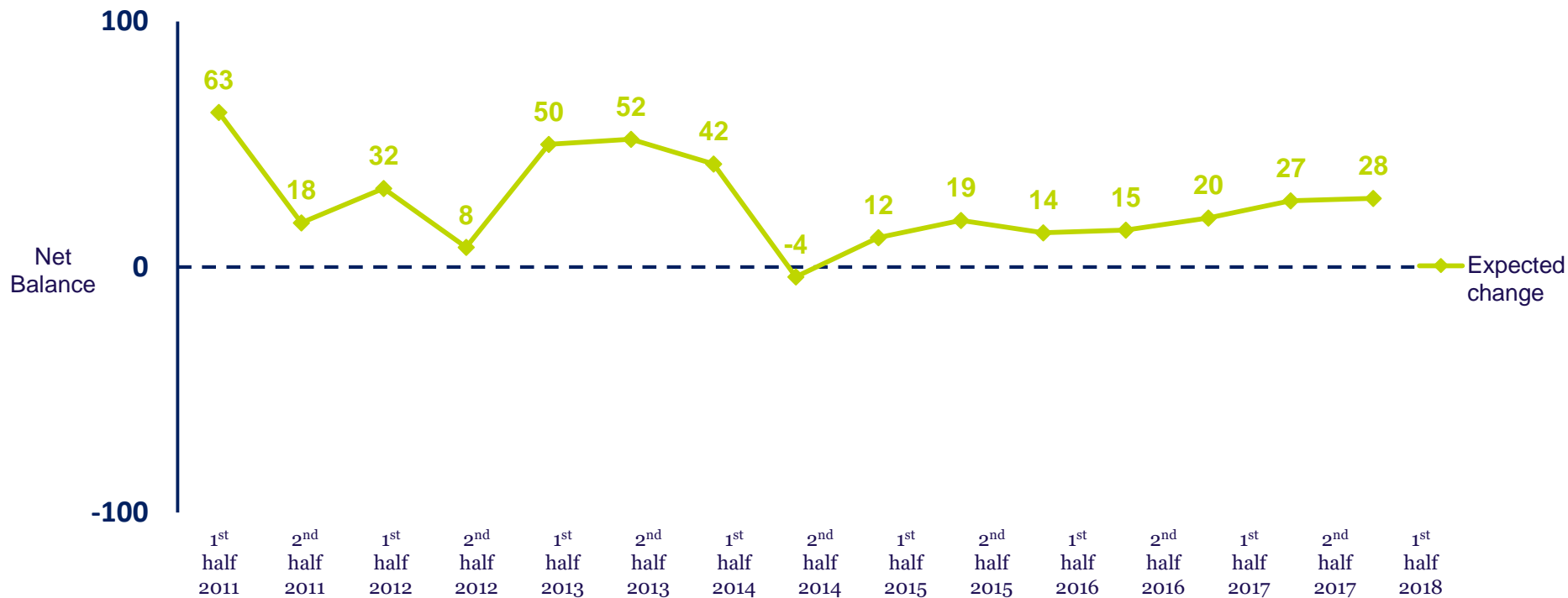
Expected change to ASX All Ordinaries index – next 12 months (%)



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

Sentiment regarding the ASX All Ordinaries index for the coming year continues to edge upwards in the first half of 2018.

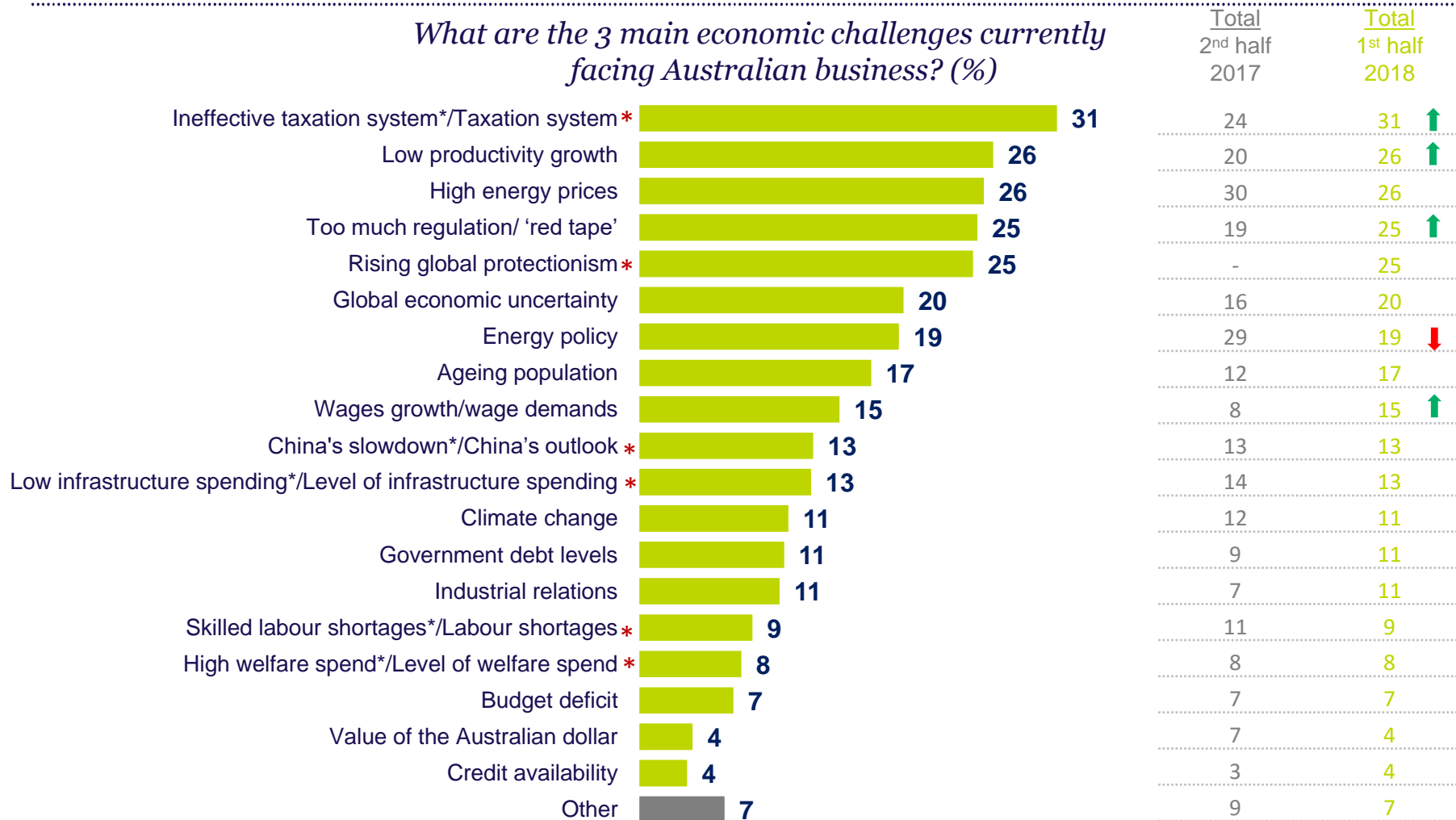
Expected change to ASX All Ordinaries index: next 12 months – semi-annual trend (net balance)



Main current economic challenges (Top 3)

The taxation system is viewed by directors as the biggest economic challenge currently facing Australian business in the first half of 2018, followed by low productivity growth and high energy prices.

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

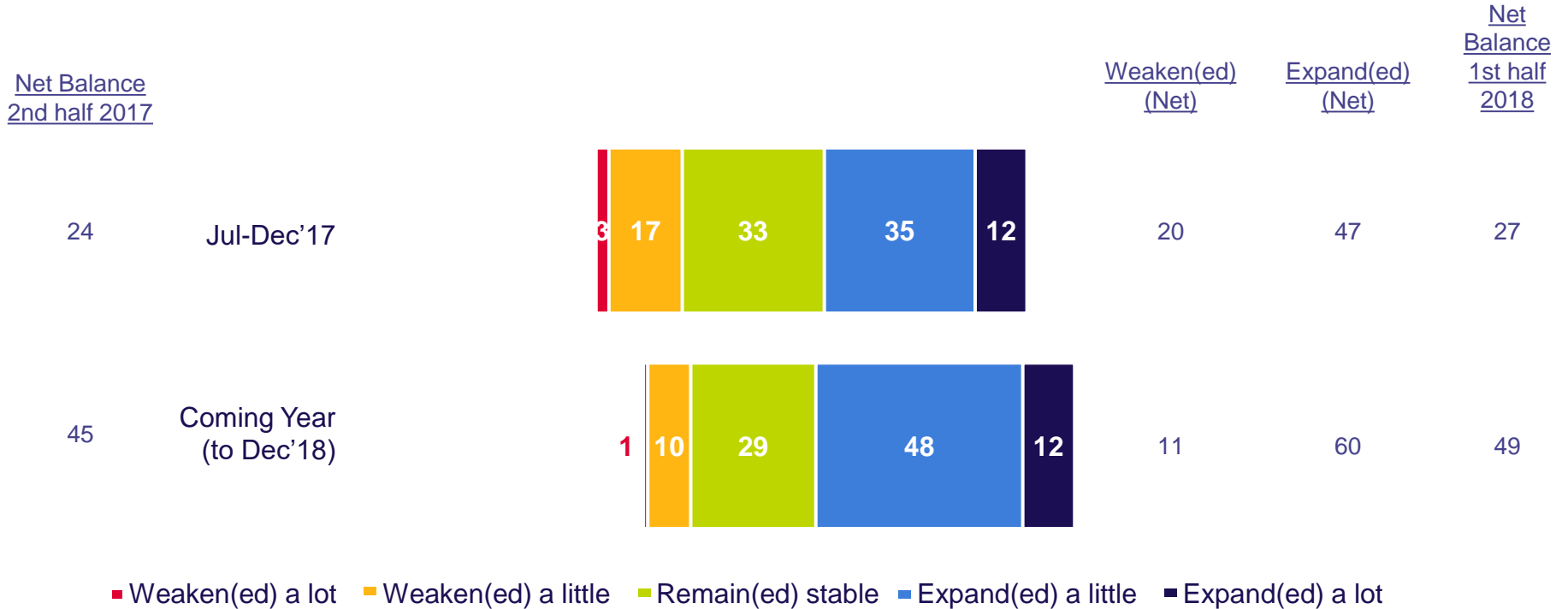


Business Forecast

Growth of the business (primary directorship company)

Directors continue to feel optimistic about the growth of their business, with 60% of directors expecting growth in the coming year.

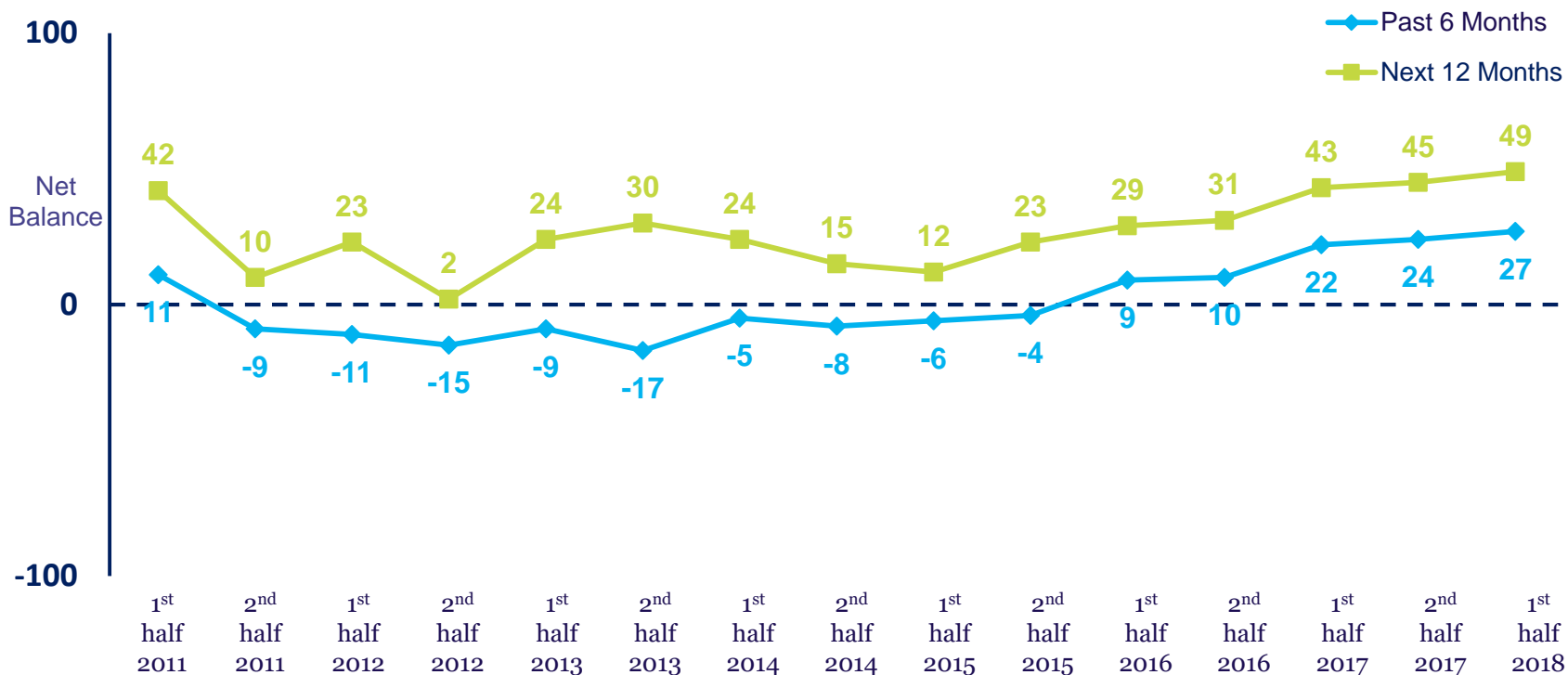
Growth of the business – past and future (%)



Past and future growth of business – semi-annual trend

Directors' optimism regarding past and future business growth continues its upward trend since the second half of 2015.

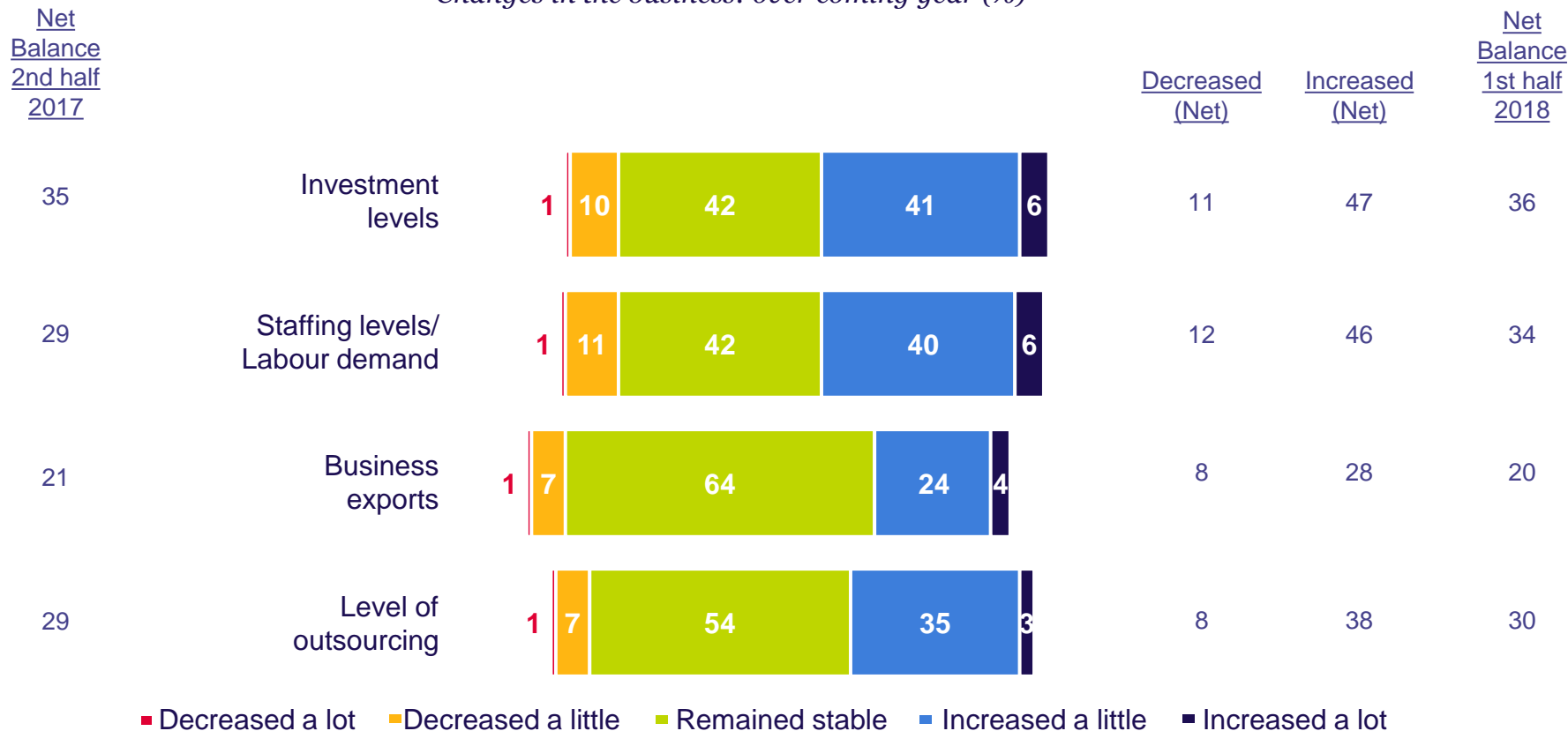
Growth of business (past 6 months and next 12 months) – semi-annual trend
(net balance)



Changes in the business – coming year

Directors continue to be optimistic about the changes in their business over the coming year. Optimism is highest around investment levels and staffing levels/labour demand over the coming year (to December 2018).

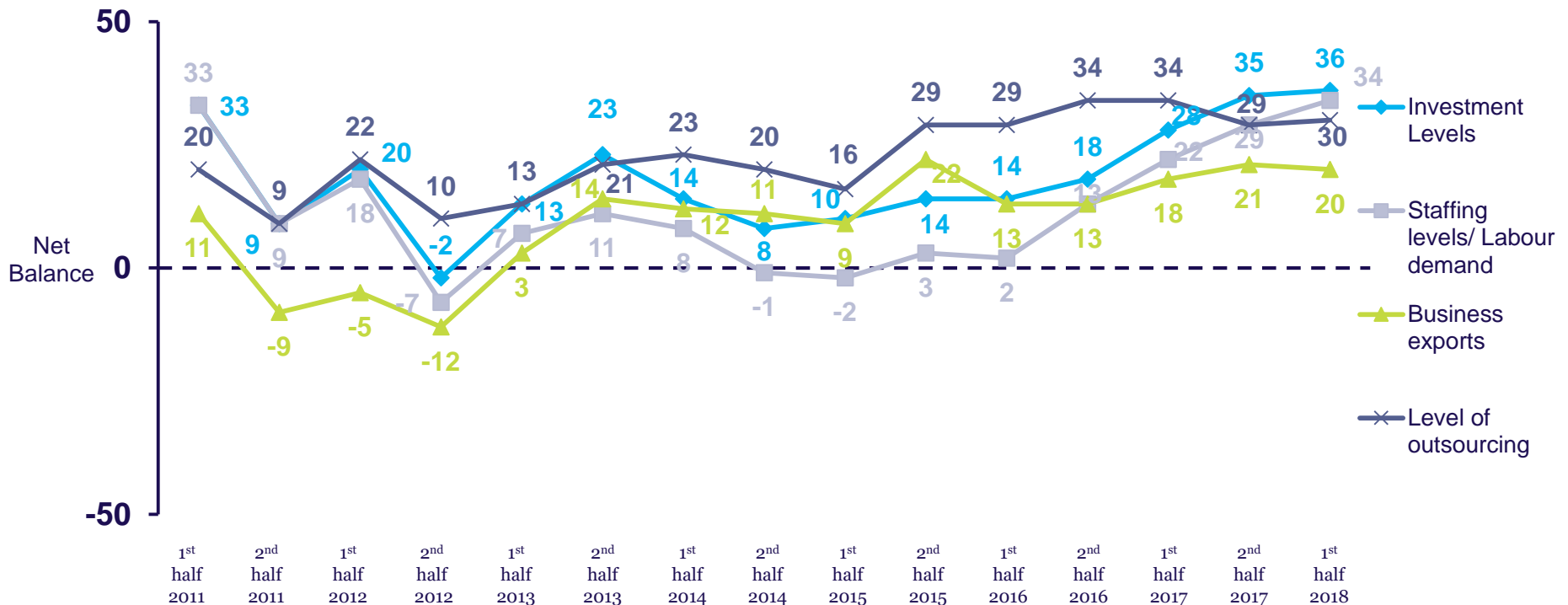
Changes in the business: over coming year (%)



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

Sentiment around changes in the business have stabilised in the first half of 2018.

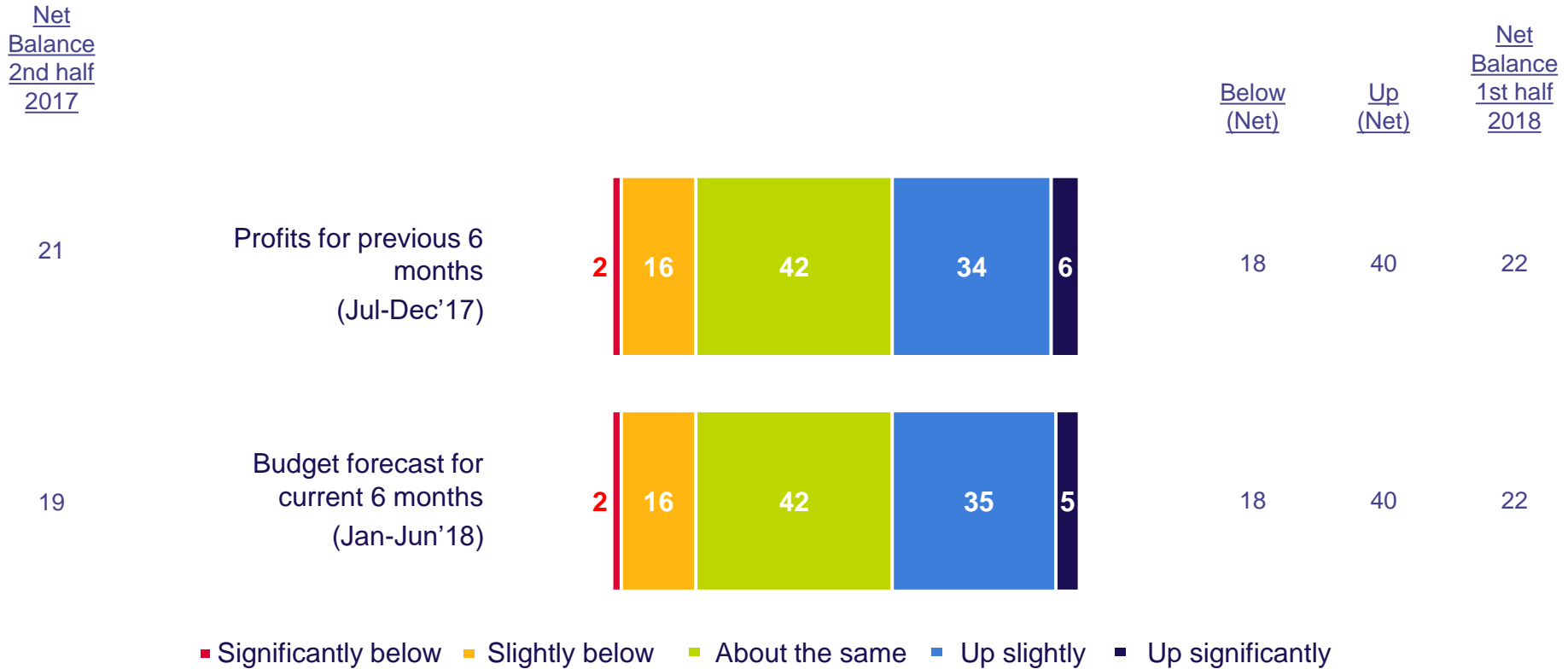
Changes in the business: over coming year – semi-annual trend (net balance)



Profits for current six months compared to...

No change in sentiment around actual profits for the current budget forecast, with 40% of directors expecting an increase in profits for the current six months.

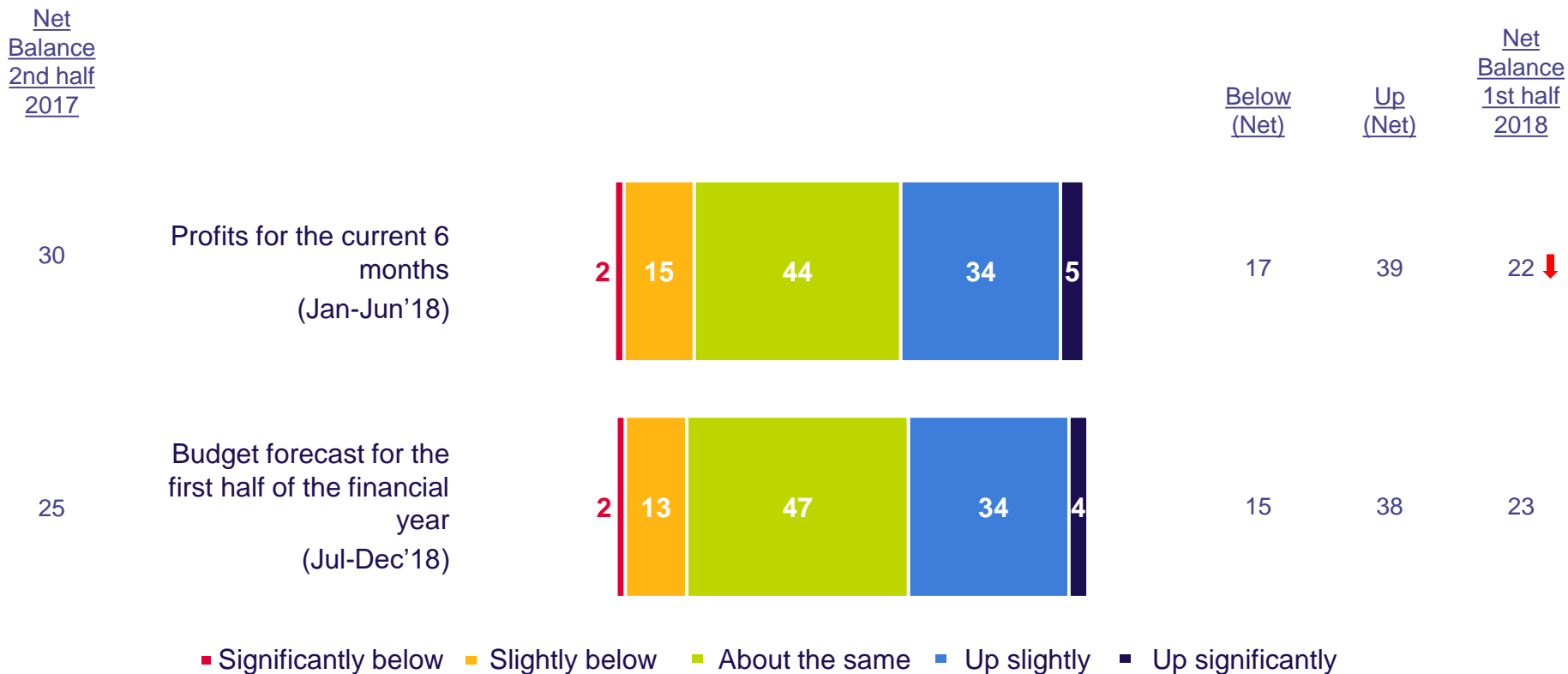
Actual profits for the current six months (Jul-Dec'17) compared to... (%)



Profits for second half of financial year compared to...

Expectations of profits for the first half of the financial year (Jul-Dec'18) are still positive compared with the current six months, with 39% of directors expecting an increase in profits.

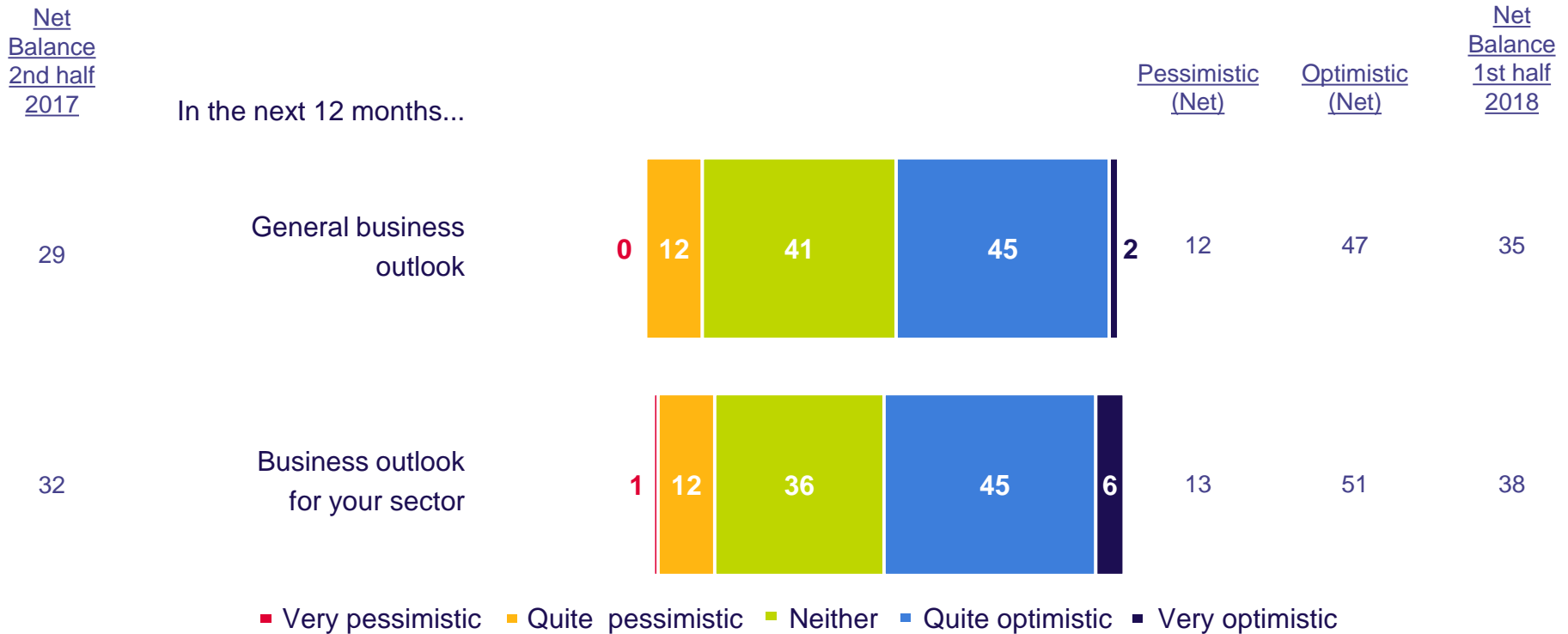
Expected profits for the first half of this financial year (Jul-Dec'18) compared to... (%)



Confidence in business outlook – next 12 months

Directors are increasingly optimistic about the business outlook in the next 12 months, with 47% indicating they are optimistic about the general business outlook, and 51% indicating they are optimistic regarding the outlook for their sector.

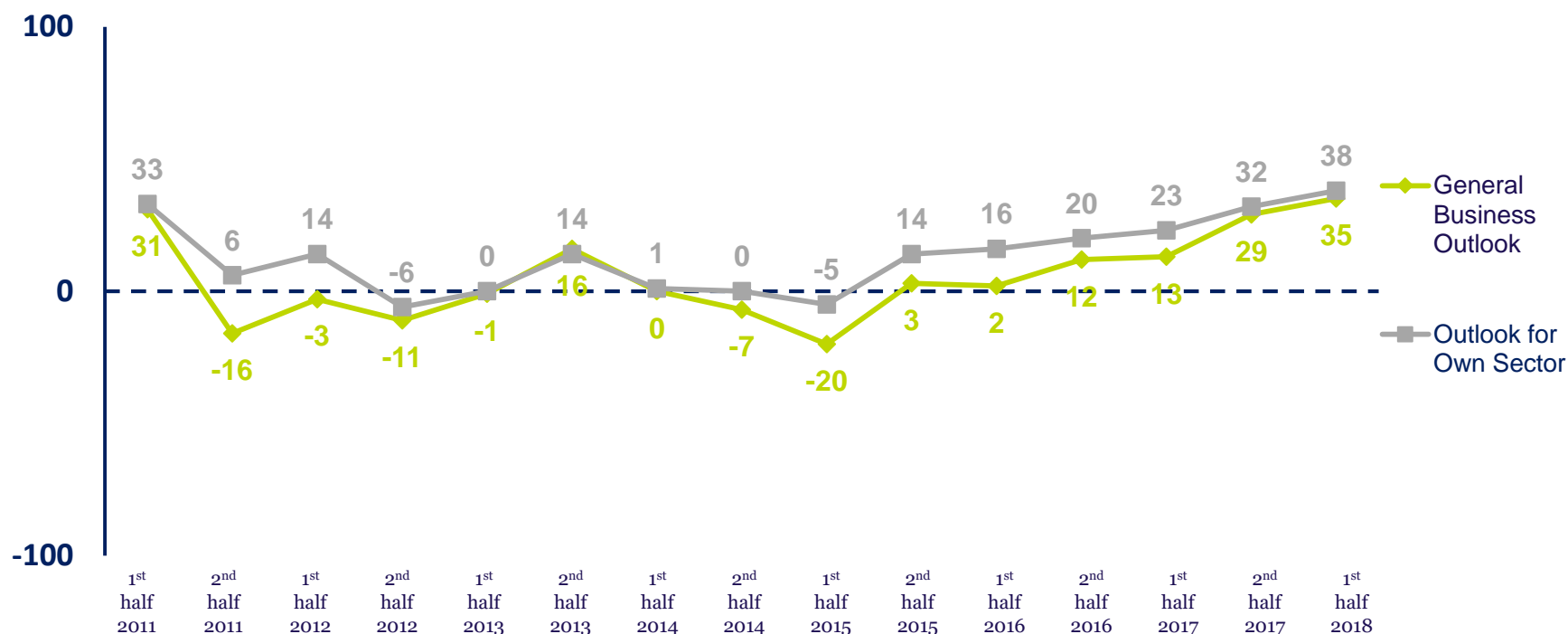
Confidence in business outlook – general and sector – next 12 months (%)



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

There has been an upward trend in directors' optimism regarding the overall business outlook since the first half of 2015.

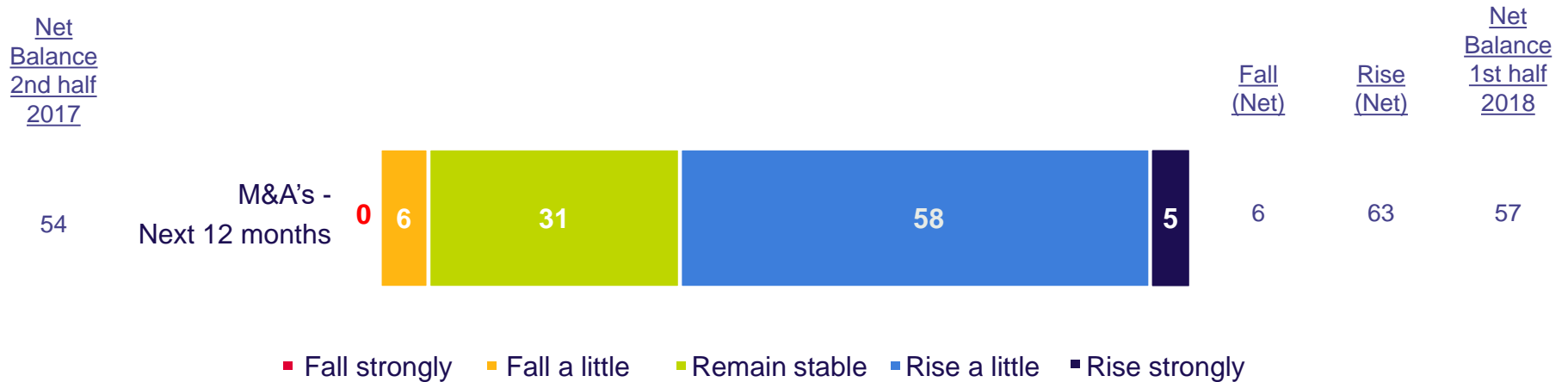
Confidence in business outlook: next 12 months – semi-annual trend (net balance)



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

Remaining stable from the second half of 2017, 63% 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 (%)



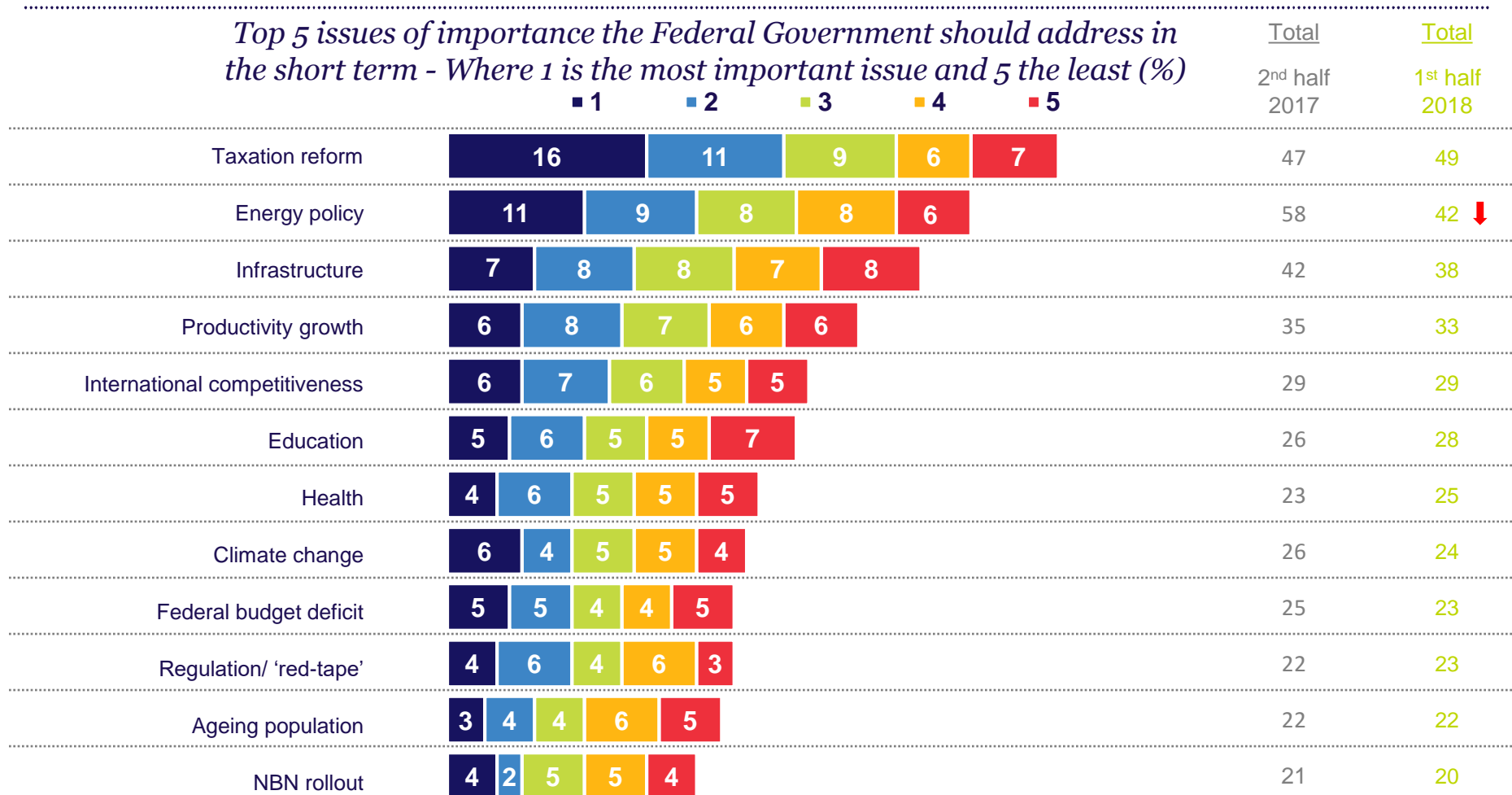
Government Policy

Budgetary

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

Directors rate taxation reform, energy policy and infrastructure as the top priorities for the Federal Government to address in the short term.

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)

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 (%)

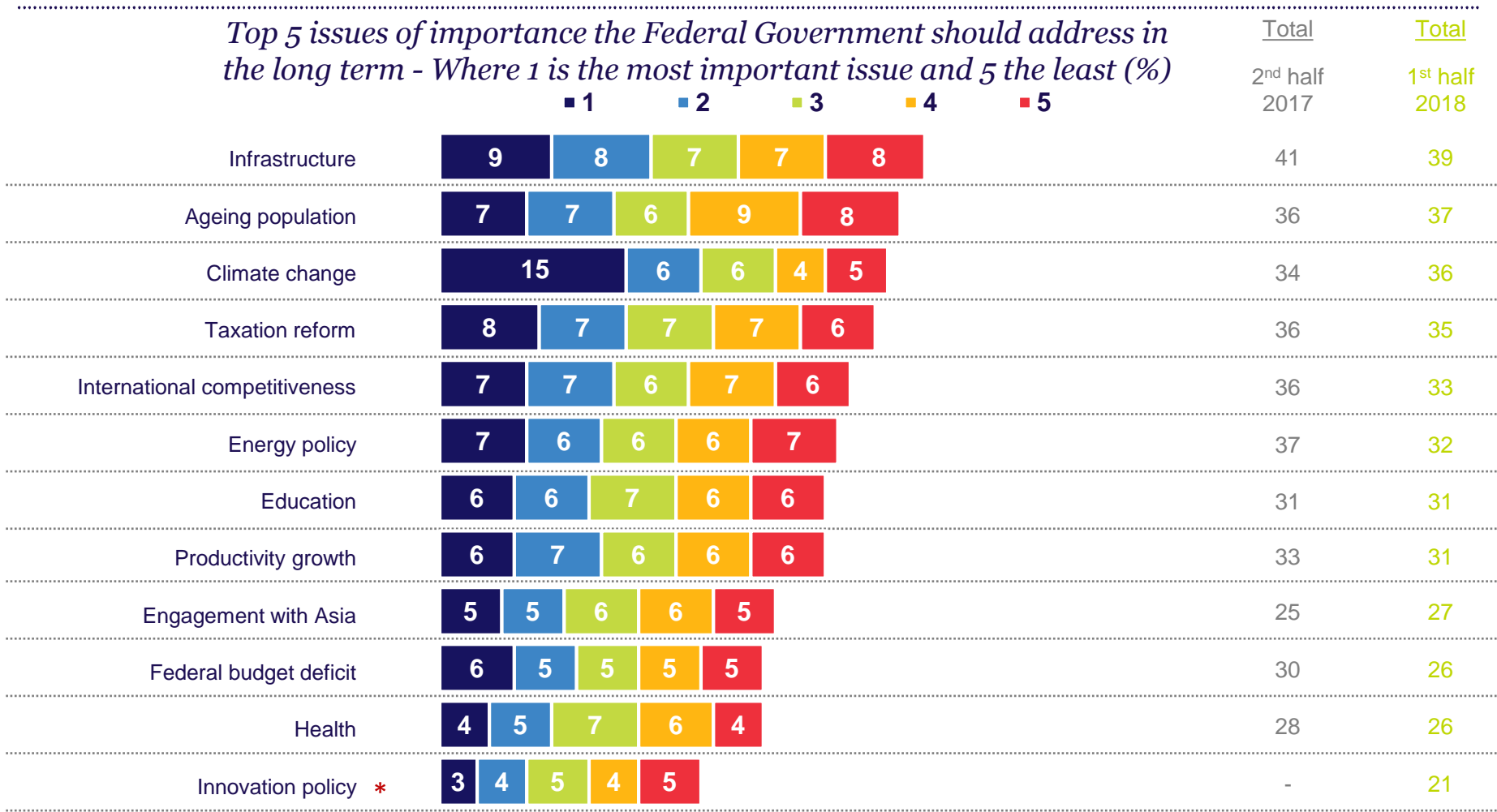
	■ 1	■ 2	■ 3	■ 4	■ 5	Total 2nd half 2017	Total 1st half 2018
Innovation policy *	3	3	4	5	5	-	20
Engagement with Asia	2	4	4	5	4	16	19
Indigenous disadvantage	2	3	3	3	5	16	16
Lack of skills in workforce/ skills shortages	2	3	4	4	3	16	16
Industrial Relations	3	3	3	3	3	18	15
Size of the Federal Government	3	2	2	3	3	14	13
Foreign ownership	2	1	3	2	4	11	12
Skilled immigration including changes to 457 arrangement *	1	3	1	2	2	7	9
Superannuation	1	1	2	3	2	8	9
Border protection	1	1	1	1	1	7	5
Childcare policies	1	1	1	2		4	5
Defence	1	1	1	1	1	6	5

*Note new/revised statements in 1st half 2018

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

Directors continue to rate infrastructure as the top long term priority the federal government should address, followed by an aging population, climate change, taxation reform and international competitiveness.

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 (%)



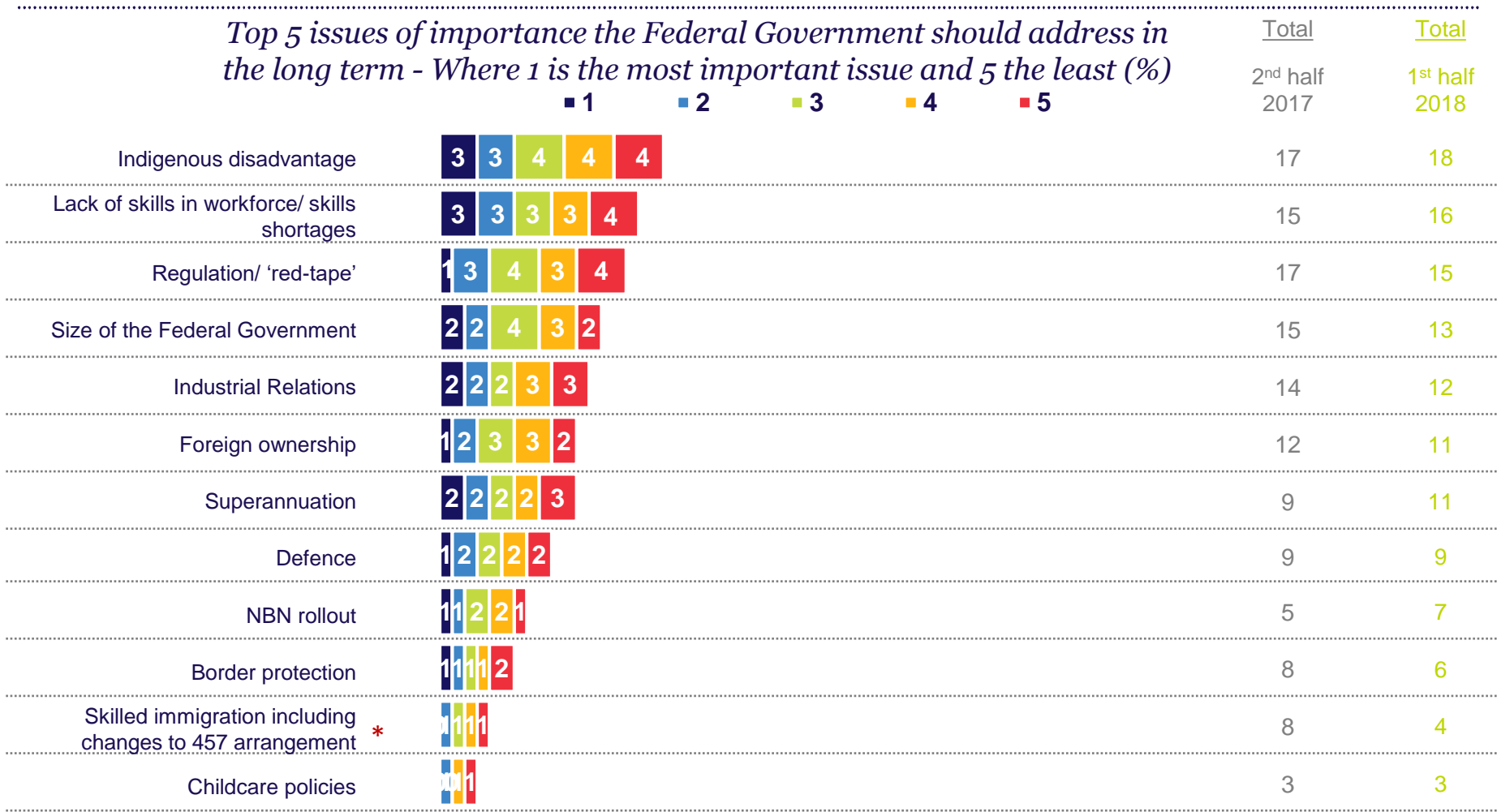
*Note new/revised statements in 1st half 2018

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=945

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

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 (%)

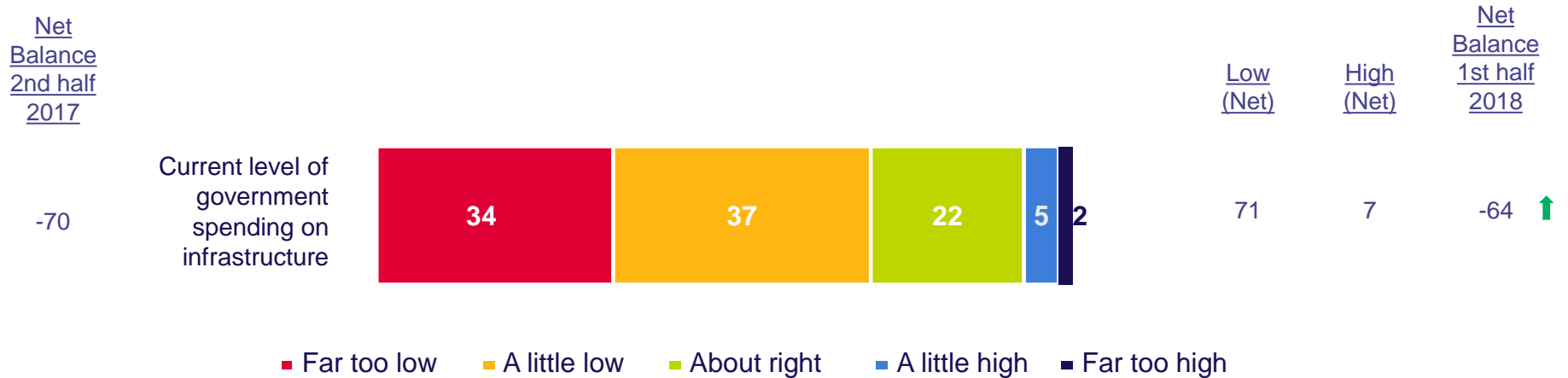


**Note new/revised statements in 1st half 2018*

Current level of government spending on infrastructure

Sentiment regarding the level of government spending on infrastructure is less pessimistic, with 71% of directors maintaining the belief that government spending on infrastructure is too low.

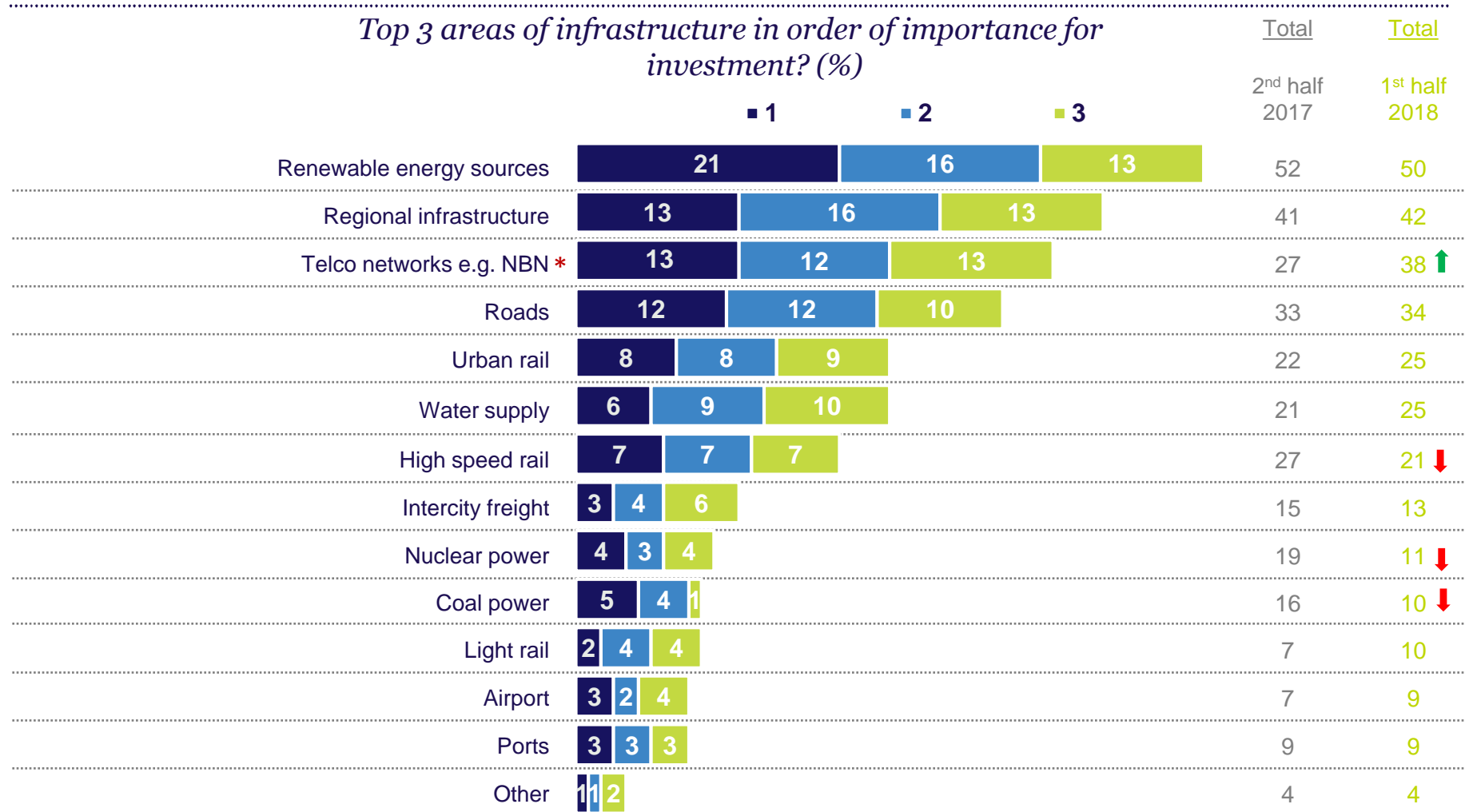
Opinion on current level of government spending on infrastructure (%)



Investment in Infrastructure (Top 3)

50% of directors rate renewable energy sources as the top area of importance for infrastructure investment, followed by regional infrastructure and telco networks.

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



*Note revised statement in 1st half 2018

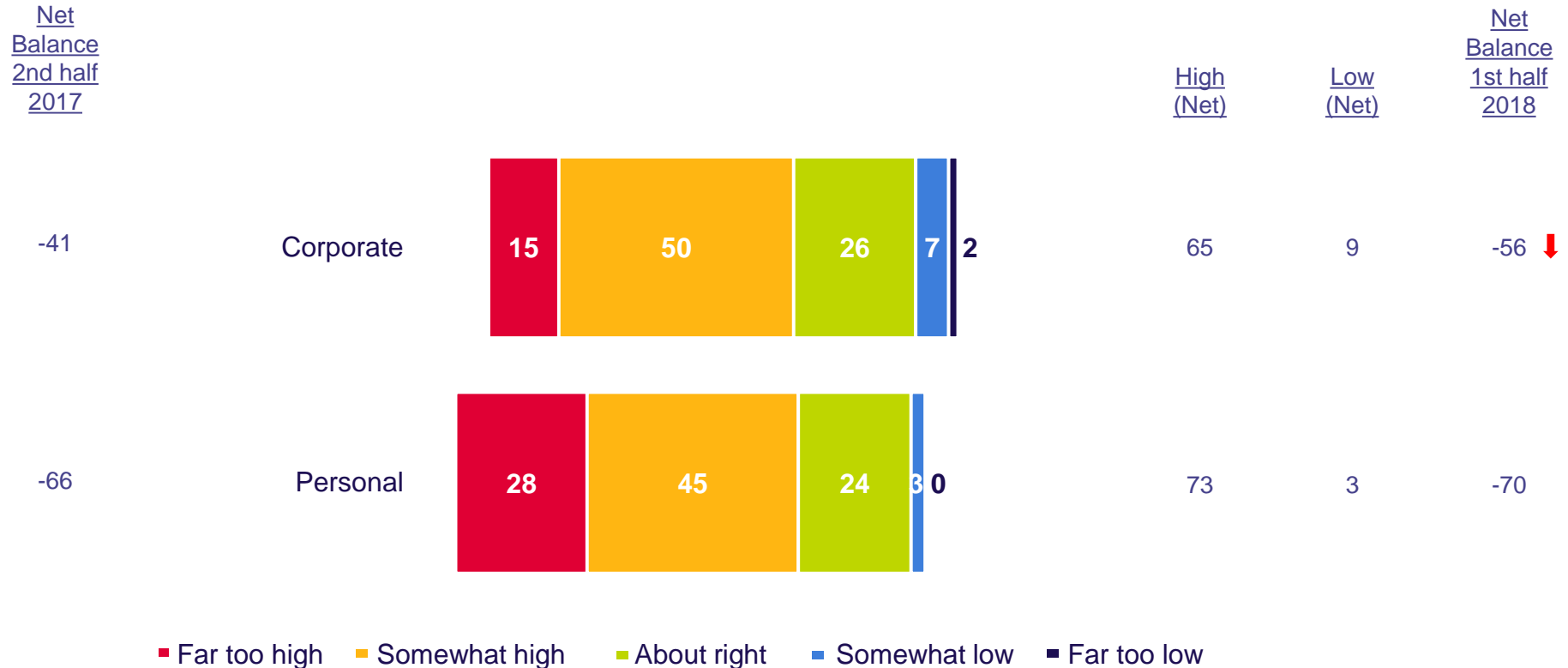
Government Policy

Taxation

Level of taxation in Australia

Directors remain pessimistic regarding the level of personal taxation in Australia in the first half of 2018, with 73% holding the belief that it is too high. 65% of directors also view corporate tax as being too high, which is more pessimistic compared with the second half of 2017.

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



Reform of taxation system

Directors rated company tax, followed by personal income tax and state based taxes 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 2017	Total 1st half 2018
Company tax	52	47	52
Personal income tax	50	50	50
State based taxes e.g. payroll tax	41	43	41
Multinational tax arrangements, e.g. transfer pricing	39	43	39
GST	37	36	37
Negative gearing	24	26	24
Superannuation taxation	23	22	23
Capital gains tax	17	18	17
Tax arrangement for NFPs	9	10	9
Dividend imputation	5	1	5

Government Policy

Regulation

Main measures to lift national productivity

Directors continue to rate less focus on short termism as the top measure for lifting national productivity, followed by broad-based tax reform and more infrastructure spending.

Main measures to lift national productivity (%)

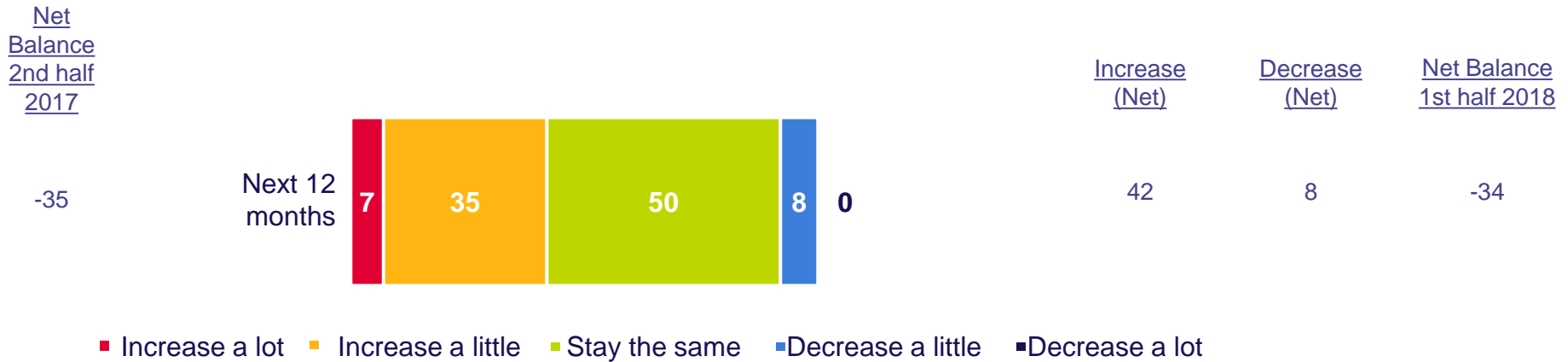
		Total 2nd half 2017	Total 1st half 2018
Less focus on short termism	45	46	45
Broad-based tax reform	31	32	31
More infrastructure spending	30	33	30
A greater focus on fostering innovation	29	31	29
Better standards of education	28	28	28
Faster adoption of technology	27	25	27
Improved outcomes between the Commonwealth and the States/Territories *	27	25	27
Industrial relations reform	21	23	21
More efficient transport networks	20	22	20
Lower company tax rates	16	14	16
Lower personal tax rates *	12	-	12
Lower government spending	4	6	4
A lower exchange rate	3	6	3
Interest rate cuts	2	2	2
More competition from offshore	2	2	2
Other	3	3	3

*Note new/revised statements in 1st half 2018

Level of 'red-tape' in next 12 months

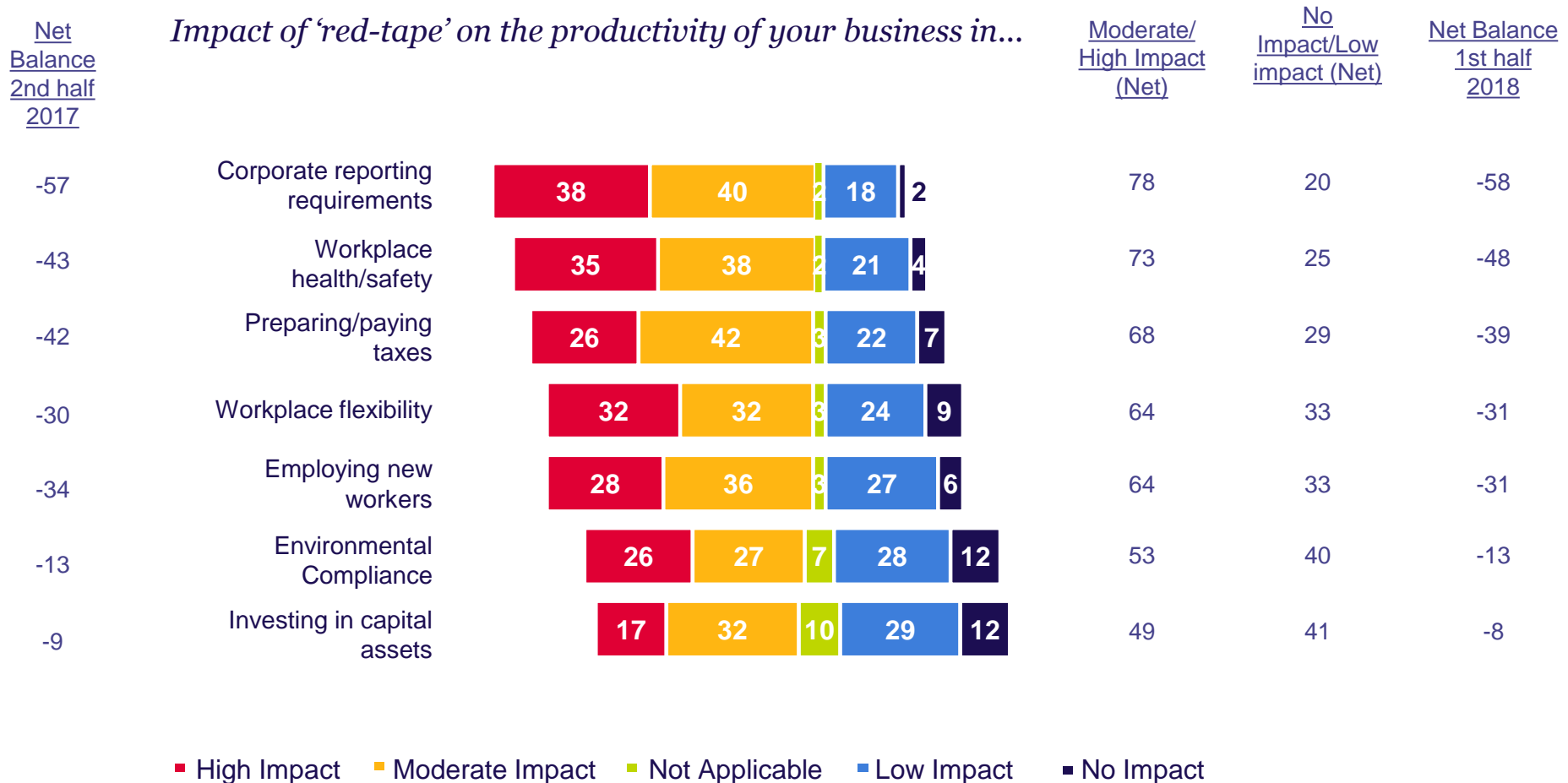
Directors continue to feel pessimistic regarding the level of 'red-tape' in the next 12 months, with 42% expecting an increase.

Level of 'red-tape' – next 12 months



Impact of 'red-tape' on business productivity

78% of directors identify corporate reporting requirements as the aspect of their business most affected by 'red-tape'. This is followed by workplace health/safety and preparing/paying taxes.



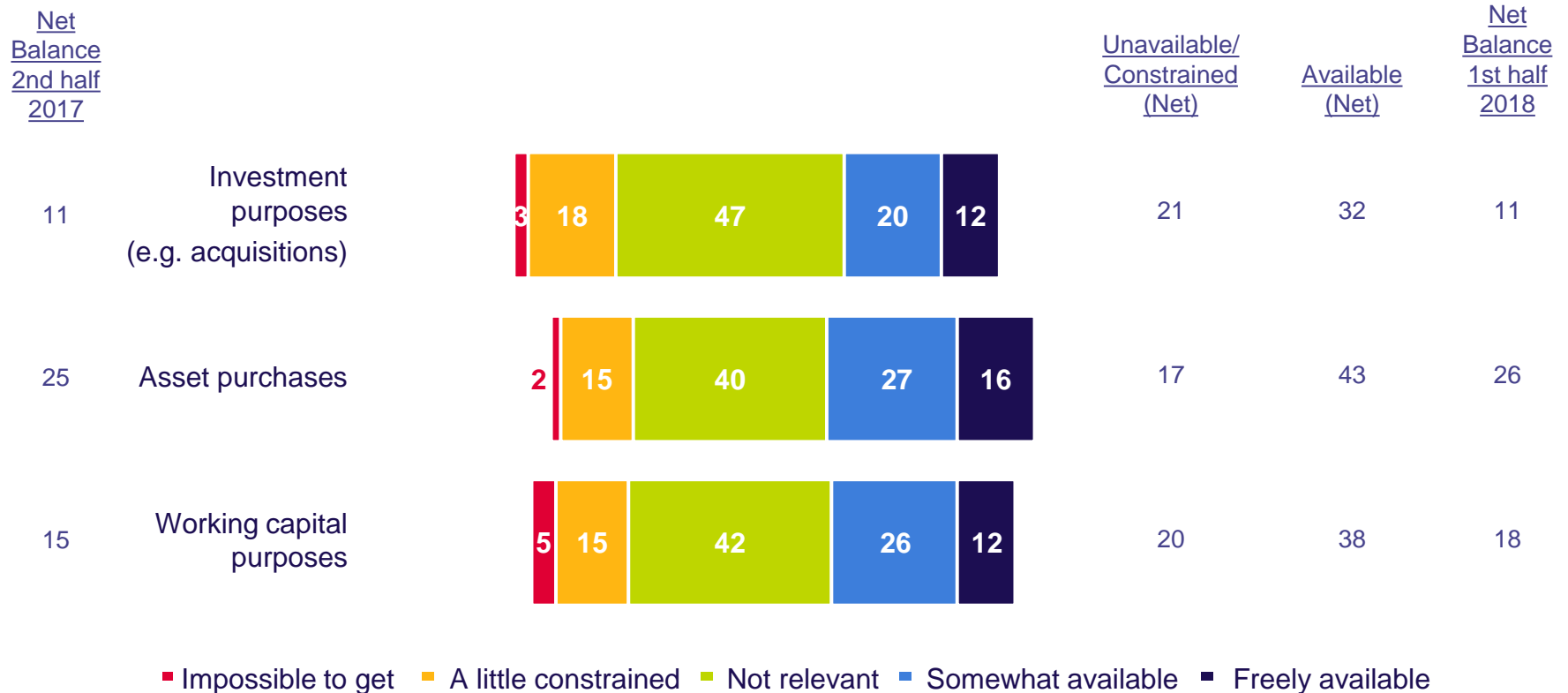
Government Policy

Credit Availability

Credit availability for business – Jul-Dec’17

Sentiment around credit availability for businesses over the past six months has remained similarly optimistic compared to the second half of 2017.

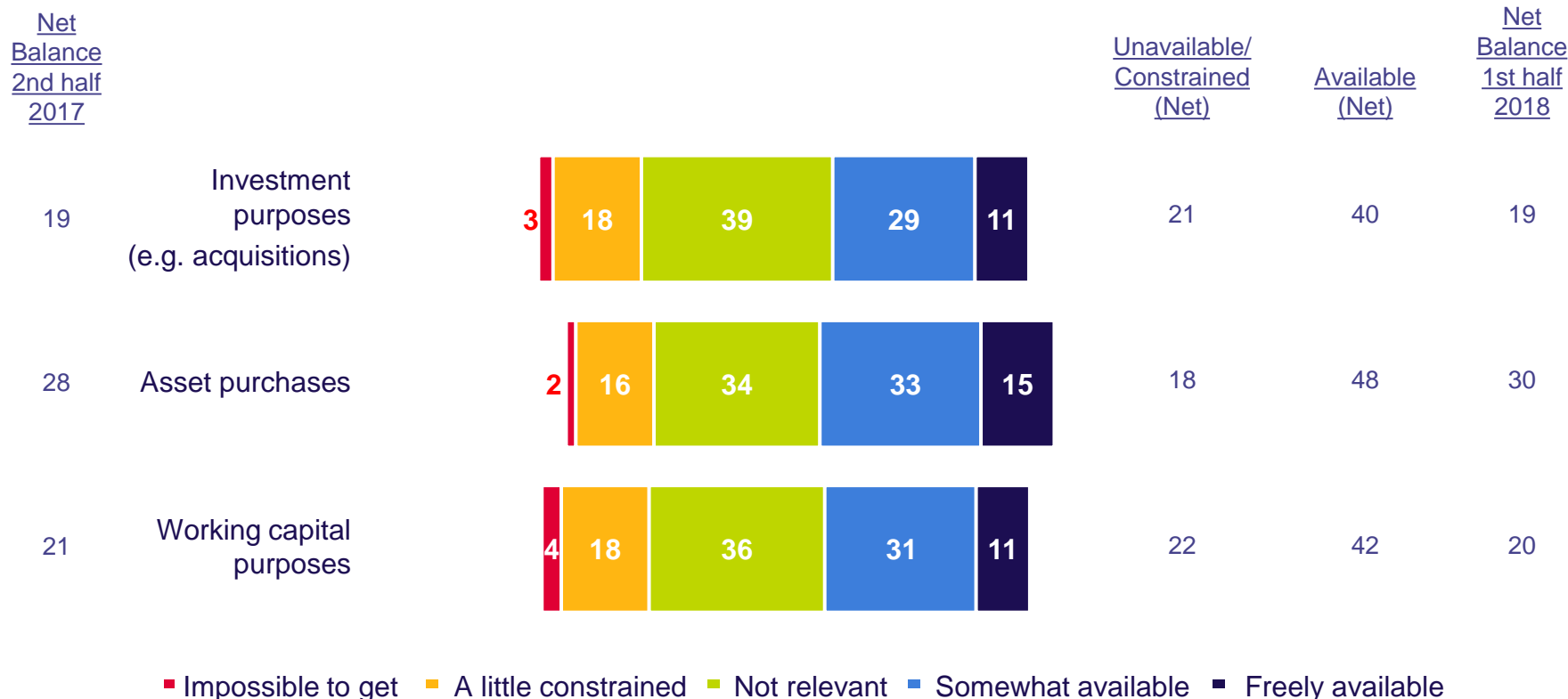
Credit availability for business – Jul-Dec’17(%)



Credit availability for business – next 12 months

Expectations of credit availability in the future have remained optimistic, with 48% of directors predicting that credit for asset purchases will be somewhat or freely available over the coming year, 40% expect the same regarding credit for investment purposes and 42% expect the same regarding working capital purposes.

Credit availability for business - next 12 months (%)



Government Policy

Industrial Relations













Priority of industrial relations reform

46% of directors want the Government to pursue significant industrial relations reform following an electoral mandate. The key priority for industrial relations reform is individual workplace arrangements.

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

	2 nd half 2017	1 st Half 2018
Significant reform in the next term of government, following an electoral mandate	42	46
Significant reform in the current term of government	23	19
No significant reform is required	35	35

Priority for industrial relations reform (%)

		Total	Total
		2 nd half 2017	1 st half 2018
Individual workplace arrangements	 39	40	39
Modern award system	 38	38	38
Enterprise bargaining system	 37	40	37
Penalty rates	 32	32	32
Unfair dismissal laws	 28	32	28
National employment standards	 27	28	27
Union right of entry	 26	23	26
Public sector employment issues	 21	17	21
The minimum wage	 18	15	18
Anti-bullying laws	 15	9	15 ↑
Migrant worker provisions	 10	14	10
Other	 4	4	4

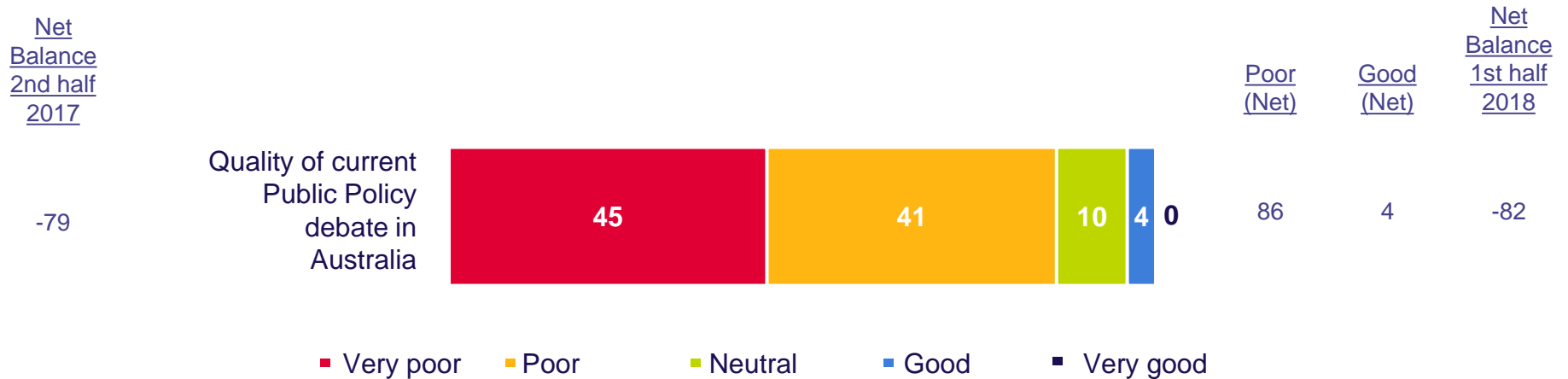
Government Policy

Public Policy

Quality of Public Policy debate

Similar to the second half of 2017, 86% of company directors believe the current quality of public policy debate in Australia is poor.

Opinion on Public Policy debate (%)

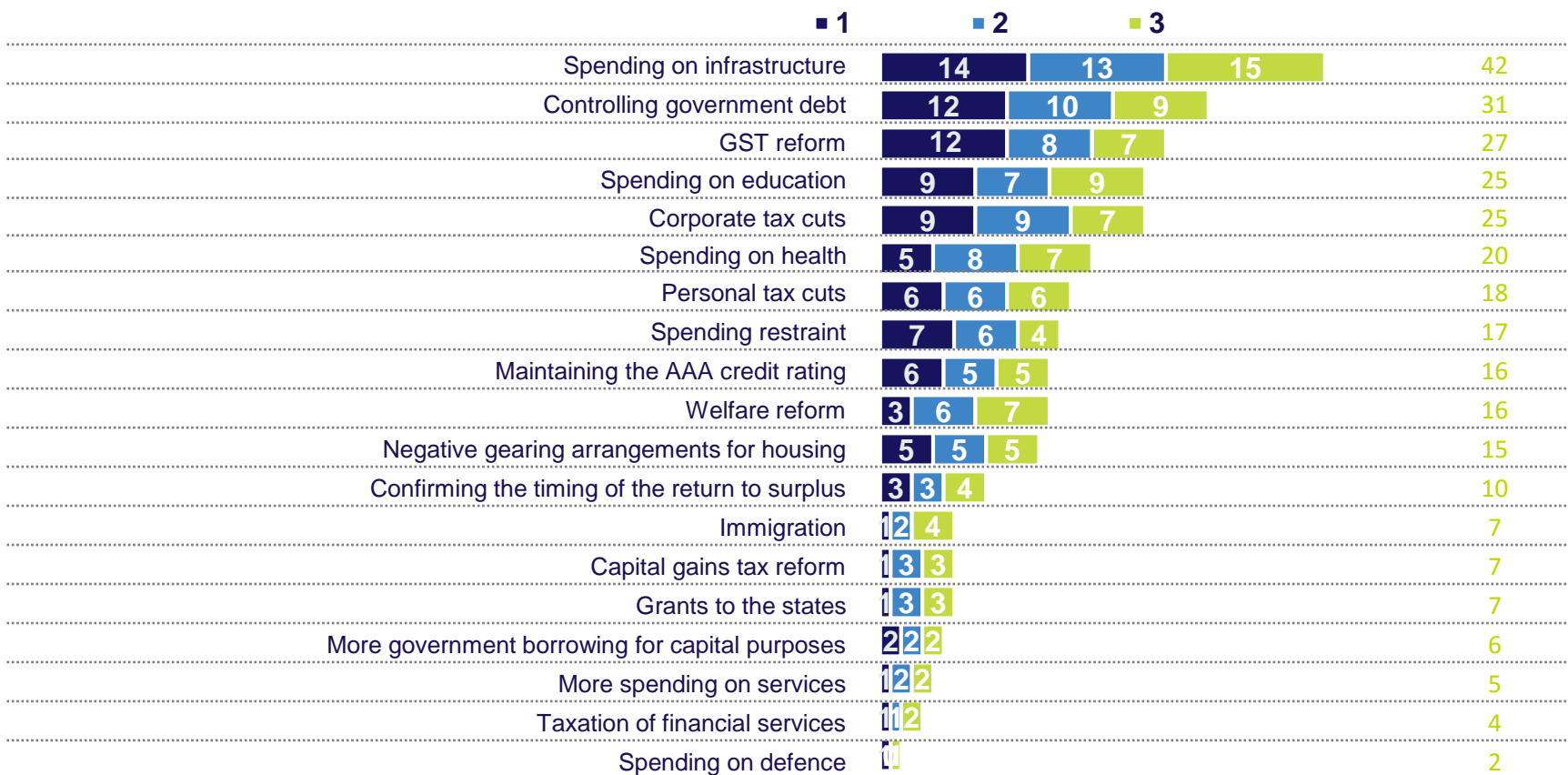


Focus for the Treasurer in the upcoming Federal Budget

Spending on infrastructure is the main issue that directors believe the Treasurer should focus on in the upcoming Federal Budget, followed by controlling government debt. GST reform, spending on education and corporate tax cuts.

Top 3 elements the Treasurer should focus on the upcoming Federal Budget (%)

Total
1st half
2018



Note: New Question added in 1st Half 2018

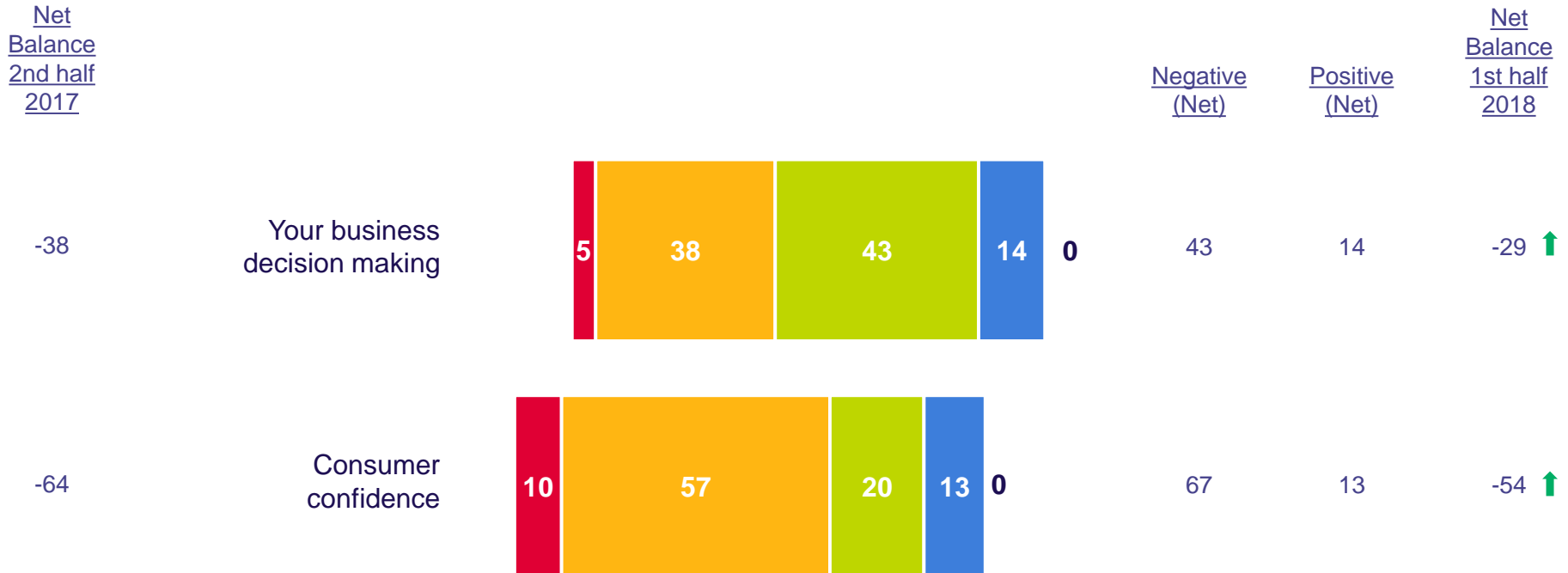
Government Policy

Performance & Business Understanding

Impact of Federal Government's performance on business

Compared to the second half of 2017, directors are less pessimistic about the effect of the Federal Government's current performance, with 67% perceiving a negative effect on consumer confidence. 43% of directors view the current Federal Government's performance as having a negative effect on their business decision making.

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

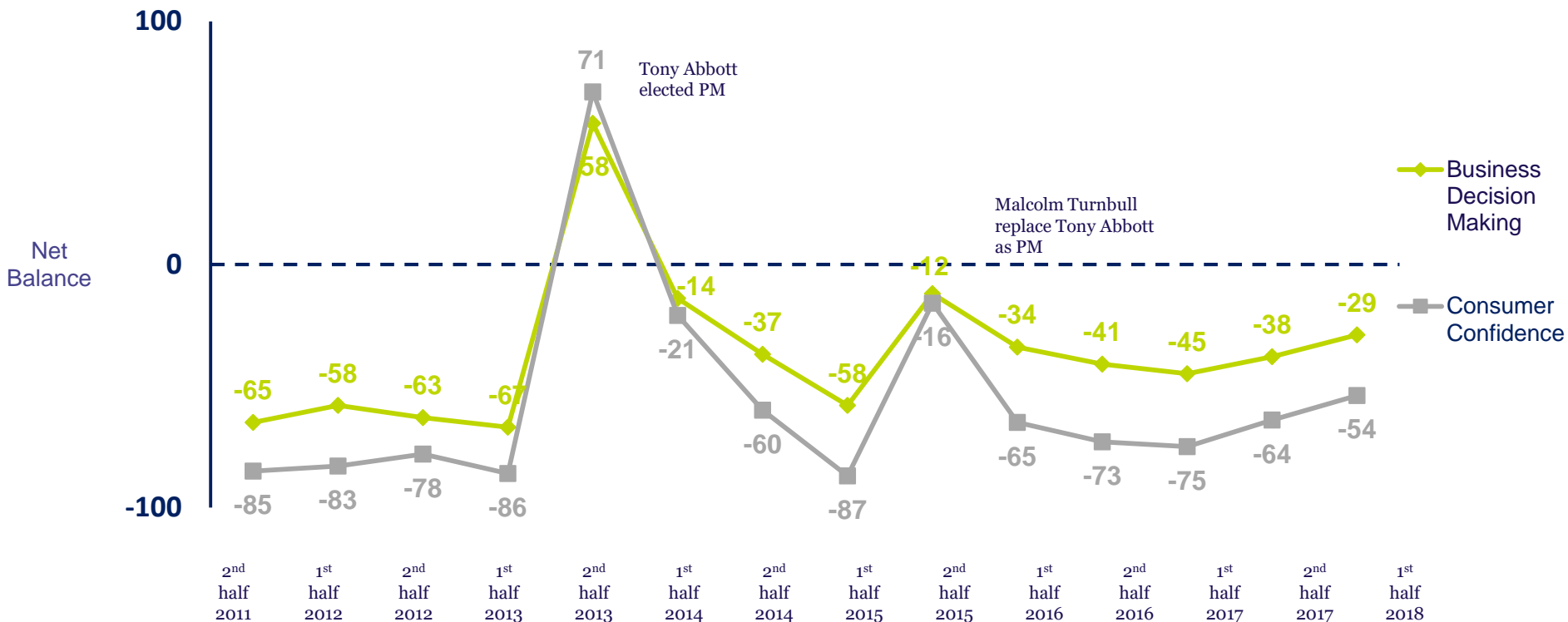


■ Very negatively ■ Somewhat negatively ■ No effect ■ Somewhat positively ■ Very positively

Impact of federal government on business – semi-annual trend

The effect of the Federal Government's performance on business decision making and consumer confidence is still pessimistic, but has recovered slightly in the first half of 2018.

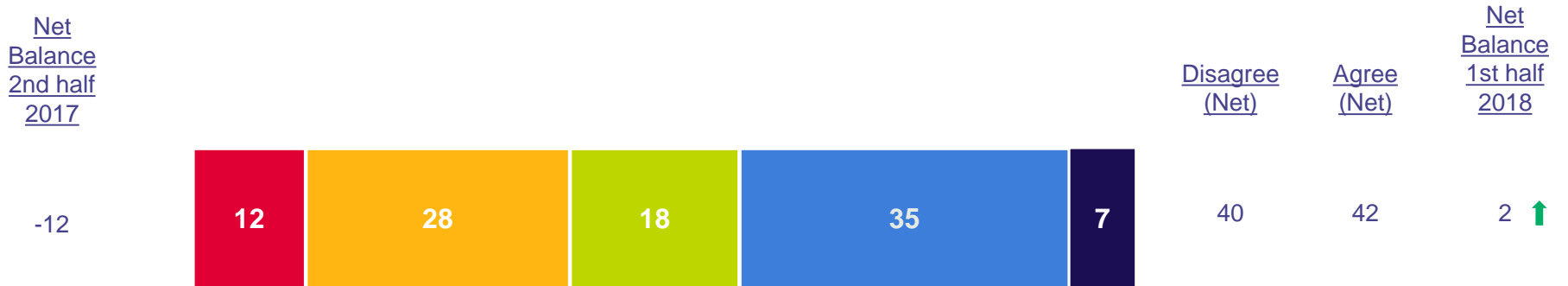
Federal government's performance affecting... – semi-annual trend (net balance)



Federal government understanding of business

Directors are slightly more optimistic about the Federal Government's understanding of business, with 42% agreeing that the current Federal Government understands business in the first half of 2018.

Does the current federal government understand business? (%)

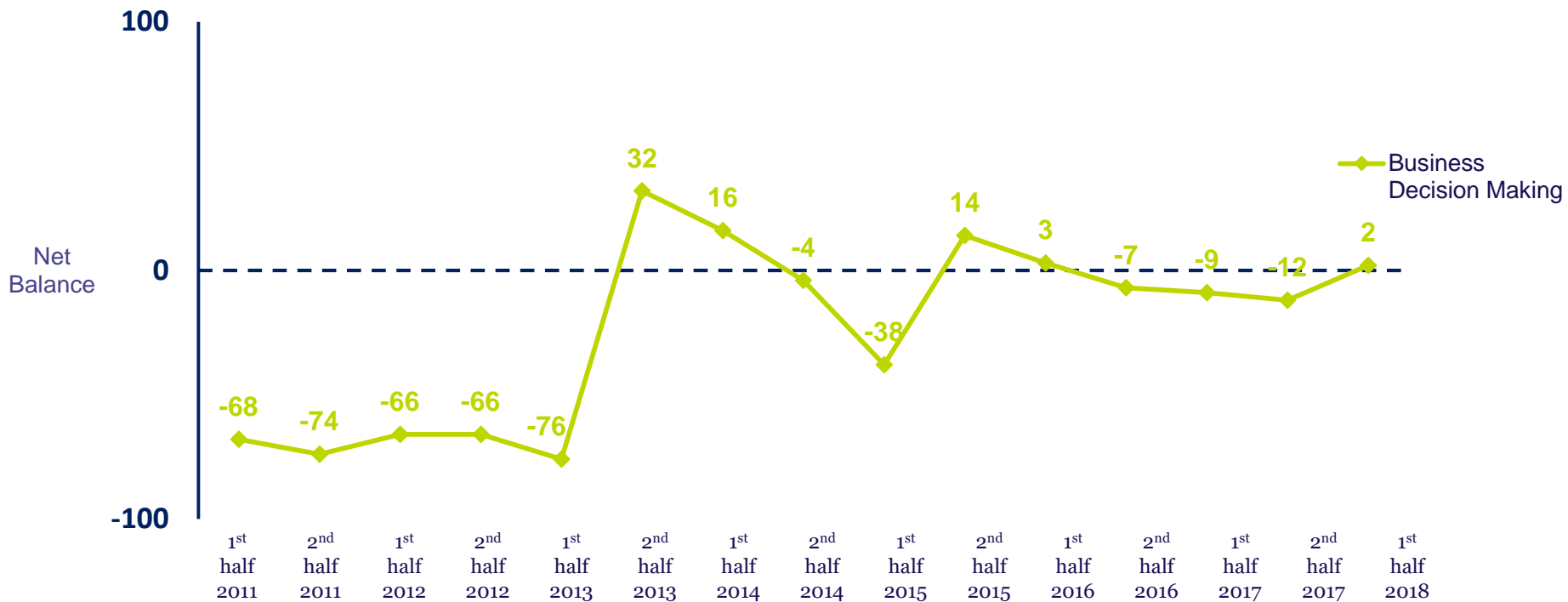


- Strongly disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Strongly agree

Federal government understanding of business – semi-annual trend

The downward trend in sentiment since the second half of 2015 regarding the Federal Government’s understanding of business has stabilised in the first half of 2018.

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



Senate's effect on business confidence

67% of directors feel that the make up of the Senate is negatively affecting business confidence.

Senate's effect on business confidence (%)



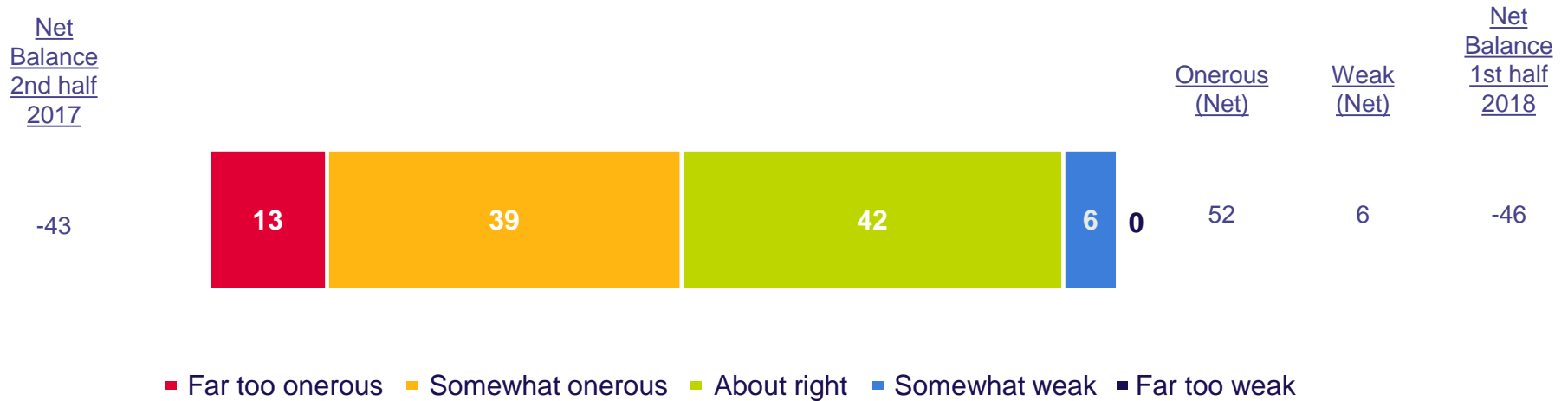
■ Very negatively
 ■ Somewhat negatively
 ■ No effect
 ■ Somewhat positively
 ■ Very positively

Key issues for Directors and Boards

Current governance regulations under the Corporations Act

Directors continue to feel pessimistic about current governance regulations, with 52% perceiving them to be onerous.

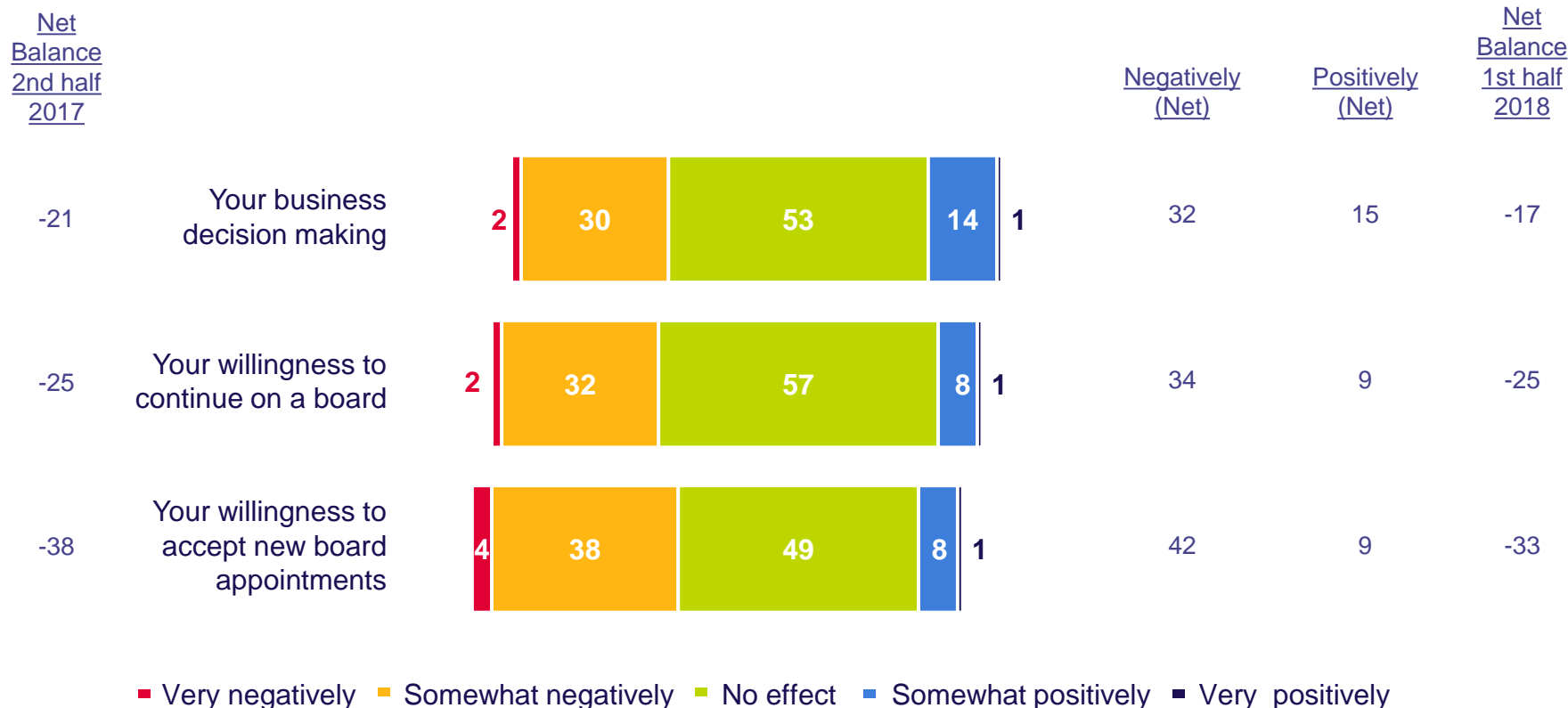
Are current governance regulations...? (%)



Impact of legislation on director liability

Directors continue to feel pessimistic about the impact of legislation on director liability in the first half of 2018. 32% of directors feel that it has negatively affected their business decision making, and 42% feel it impacts negatively on their willingness to accept new board appointments.

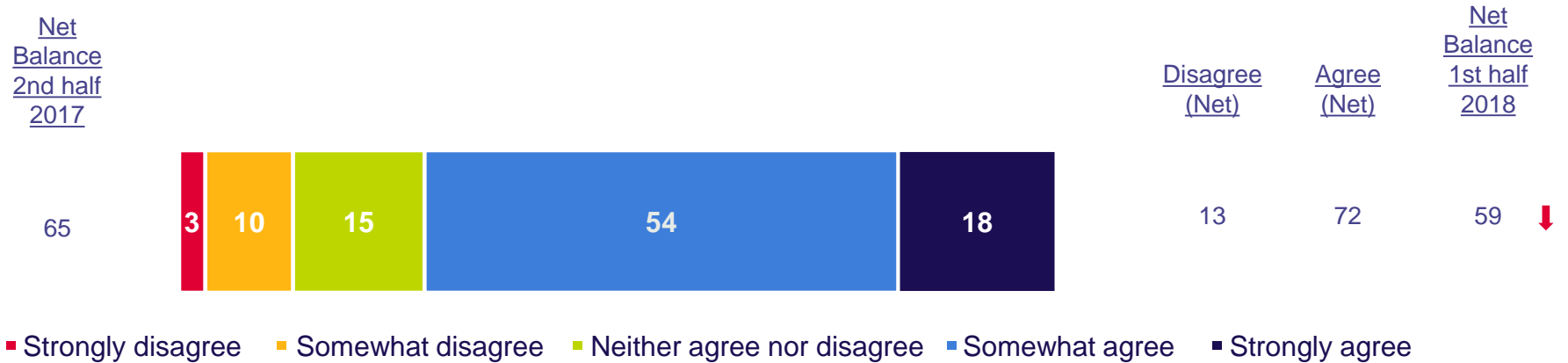
How legislation on directors' liability is affecting... (%)



Business decision making and risk aversion

72% of directors perceive there to be a risk-averse decision-making culture on Australian boards, which is lower than the second half of 2017.

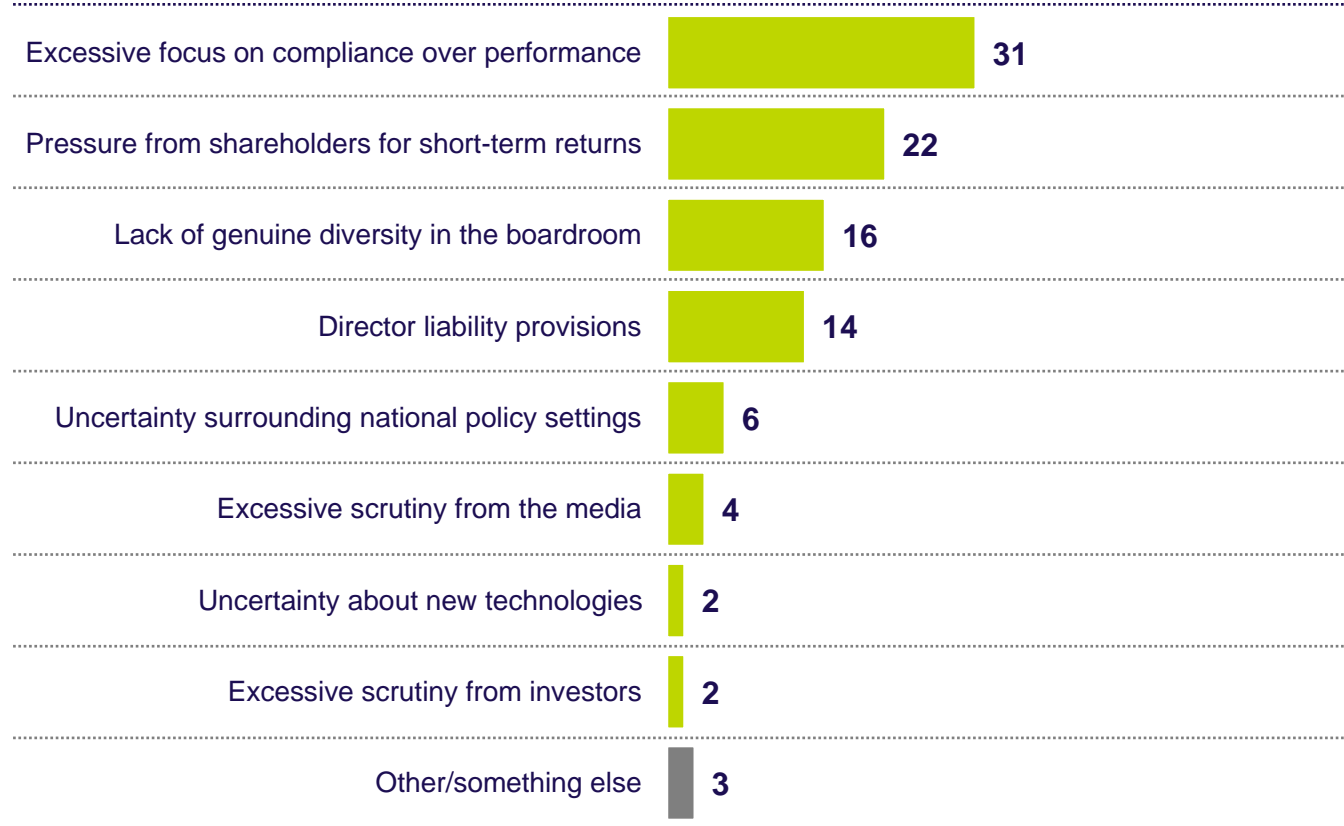
Is there a risk-averse decision-making culture on Australian boards? (%)



Reason for risk-averse decision making culture

31% of directors believe that the reason there is a risk-averse decision making culture on Australian boards, is due to excessive focus on compliance over performance followed by pressure from shareholders for short-term returns.

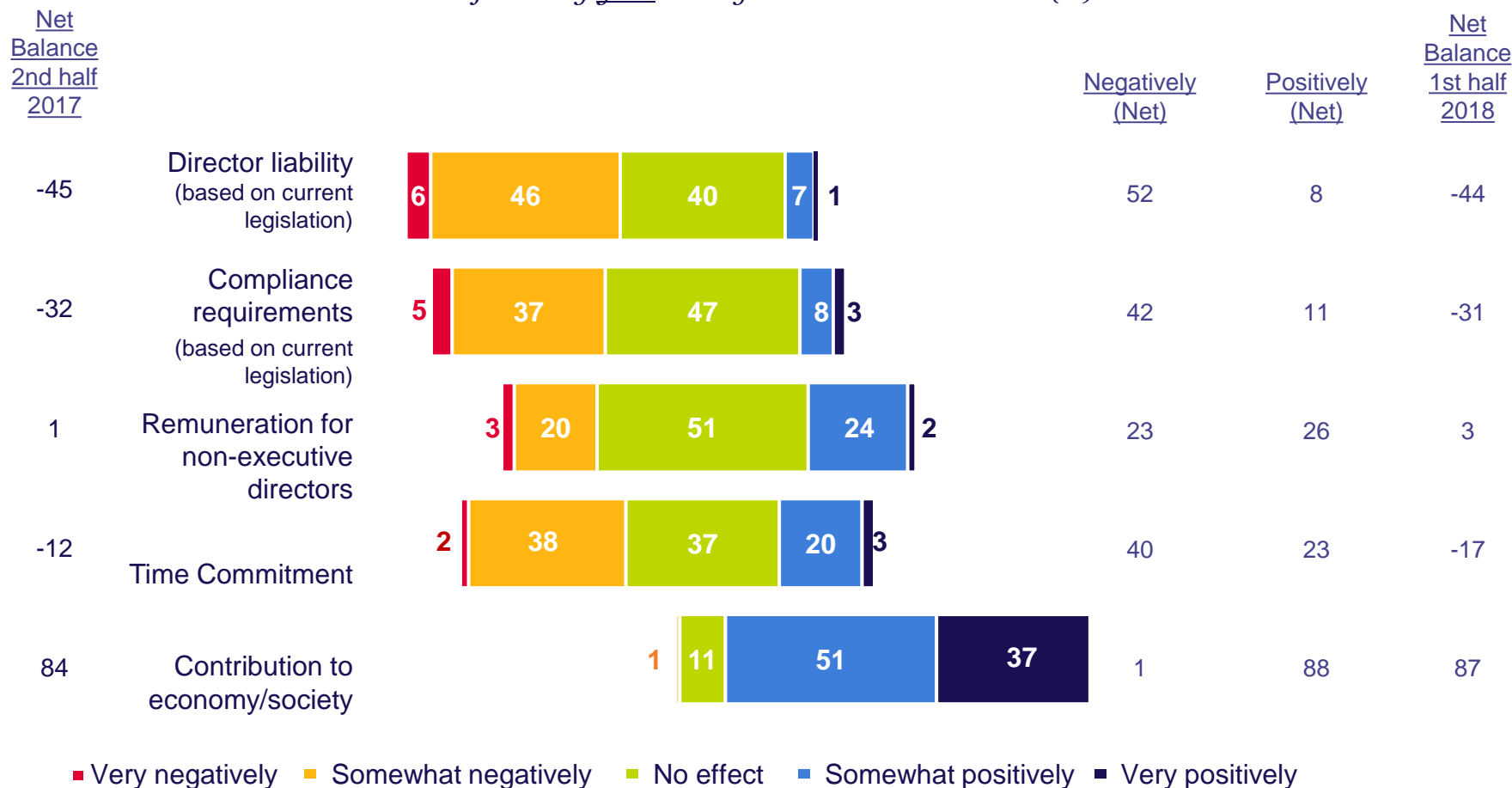
Main reason that there is a risk-averse decision making culture (%)



Factors influencing your willingness to serve on a board

Consistent with the second half of 2017, 88% of directors believe that the contribution they make to the economy and society influences their willingness to serve on a board, while 52% of them believe that director liability negatively impacts their willingness to serve on a board.

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



Adequacy of public company remuneration reports

Directors are more pessimistic about the adequacy of public company remuneration reports.

Adequacy of public company remuneration reports (%)

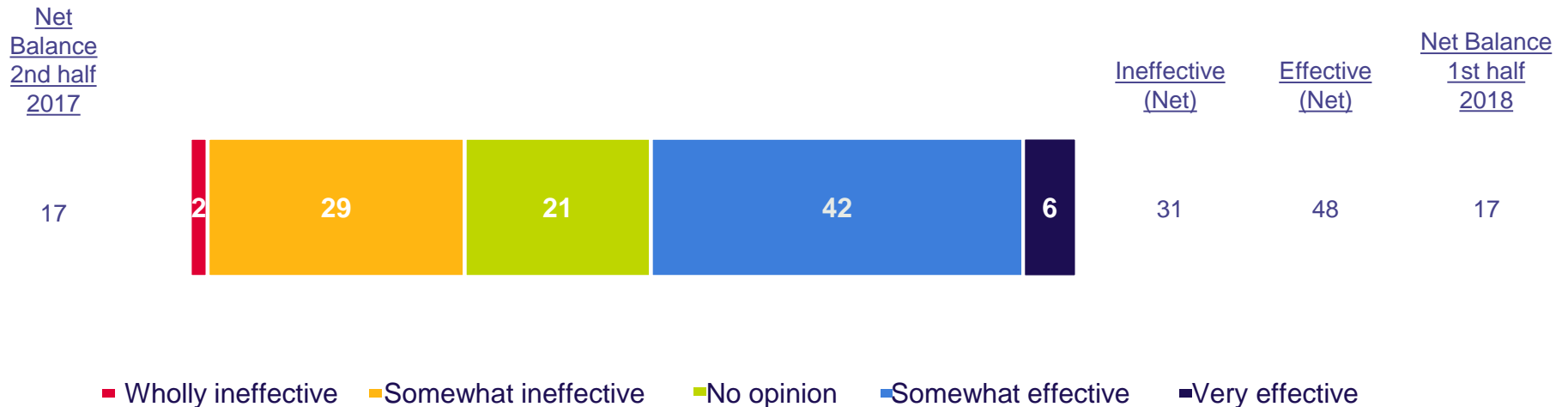


■ Wholly inadequate
 ■ Somewhat inadequate
 ■ About right
 ■ Somewhat adequate
 ■ Very adequate

Effectiveness of corporate reporting

Directors continue to feel optimistic about the effectiveness of corporate reporting, with 48% believing it is effective.

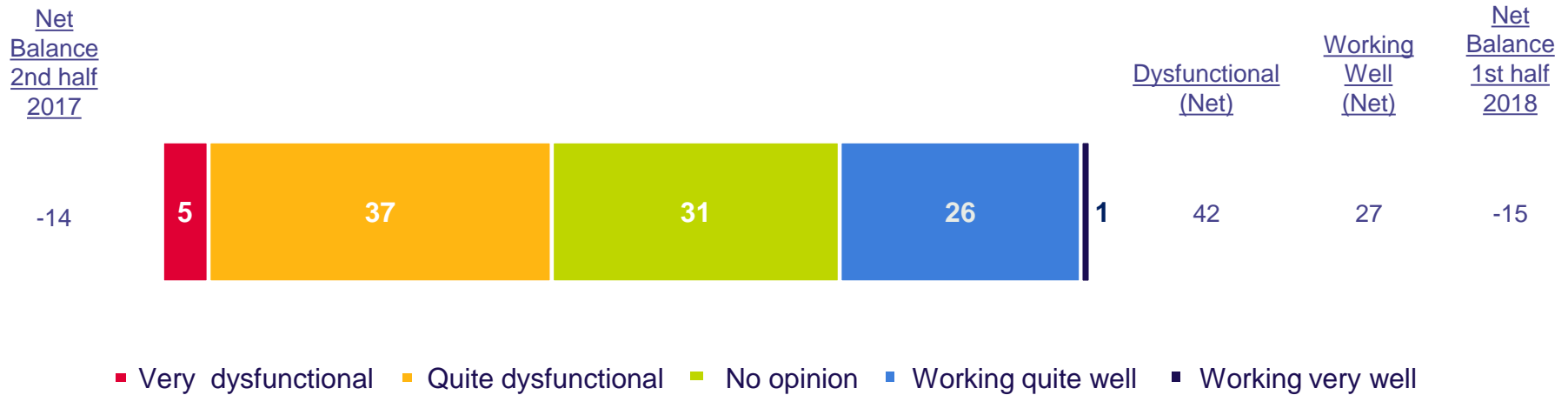
Effectiveness of corporate reporting(%)



Current AGM system

A slight reduction in sentiment regarding the current AGM system in the first half of 2018, with 42% of directors believing that the current AGM system is dysfunctional.

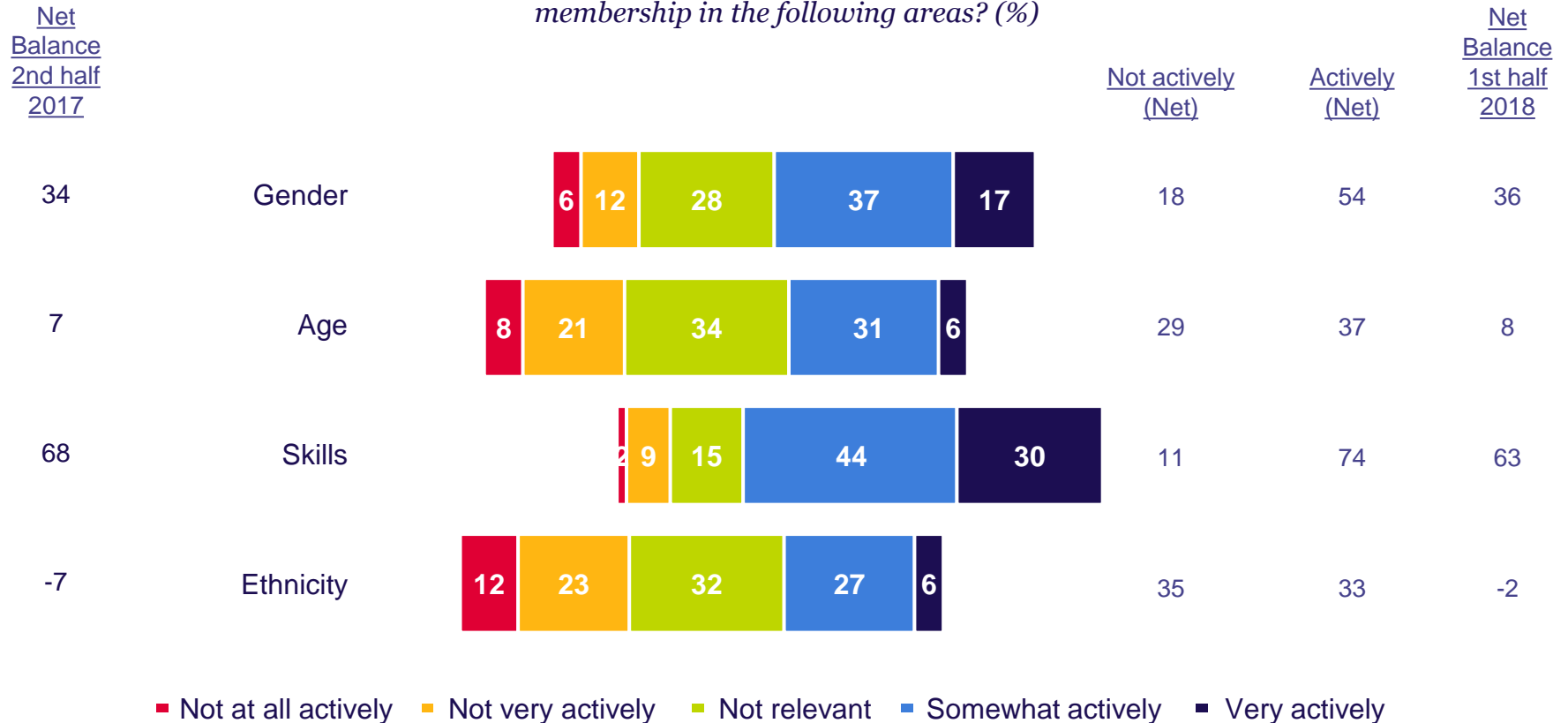
Functionality of the current AGM system (%)



Board diversity: policy and efforts to increase

The effort made to increase the diversity of skills in board membership was stable in the first half of 2018, with 74% of directors stating that their business is actively seeking to improve in this area, while 54% indicate their business is actively trying to increase diversity in terms of gender.

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



Corporate culture

Ensuring culture is a regular feature on the board and audit committee meeting agenda, capturing data on key cultural indicators and communicating ethical position of board and business generally are regarded as the top 3 elements in making changes in corporate culture.

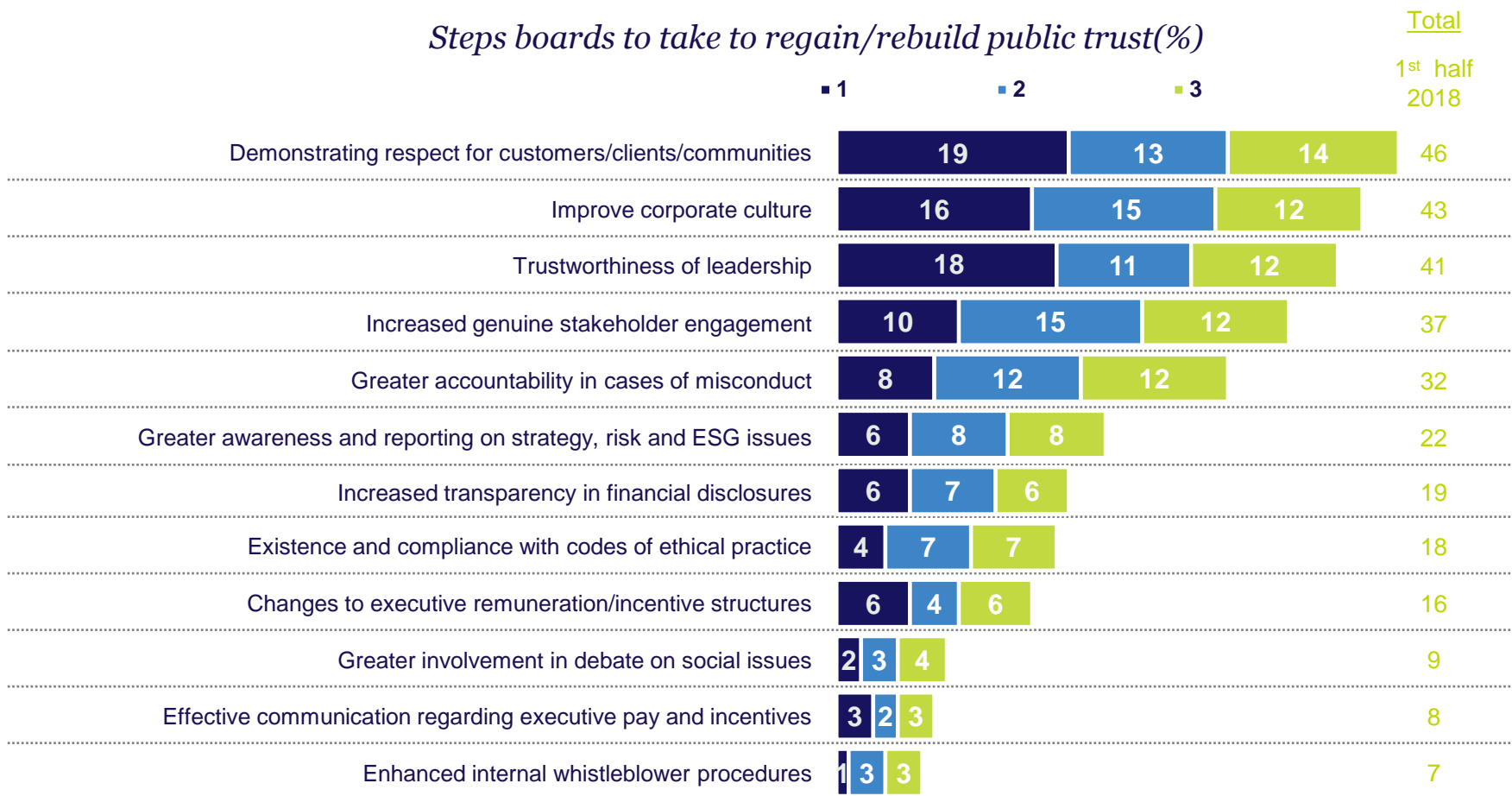
Top 3 elements in making changes in corporate culture? (%)



Steps to regain and rebuild public trust

Almost half of directors believe that improvement is required in demonstrating respect for customers/clients/communities in order to rebuild public trust, followed by improving corporate culture and trustworthiness of leadership.

Steps boards to take to regain/rebuild public trust(%)



Note: New Question added in 1st Half 2018

AUSTRALIAN INSTITUTE of COMPANY DIRECTORS 40. The 2018 Edelman Trust survey found that public trust in all institutions, including business and the not-for-profit sectors, continued to fall. What steps should boards, in your view, be prioritising to regain and rebuild public trust?

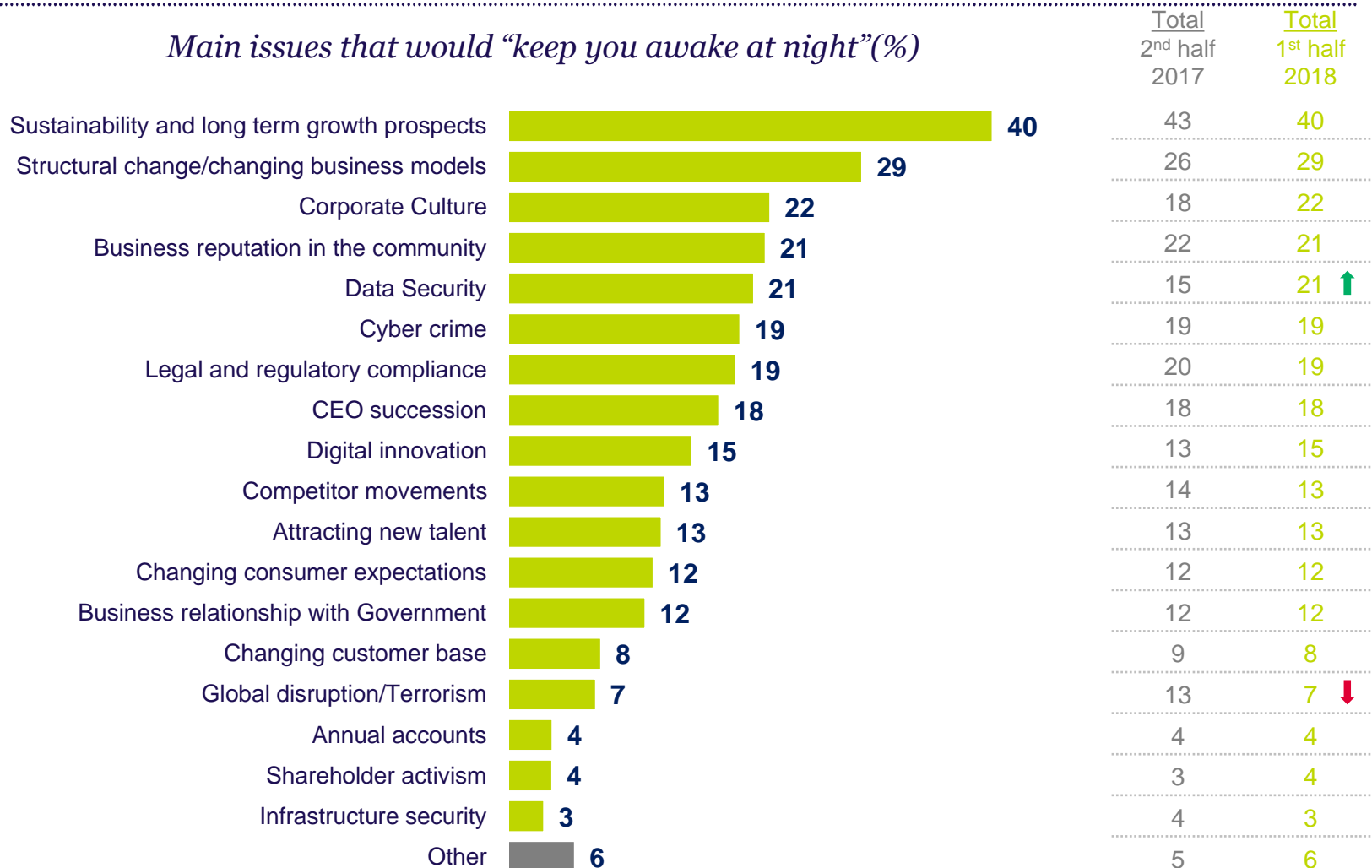
Base: All respondents n=945



Topical Issues

Main issues that would “keep you awake at night”

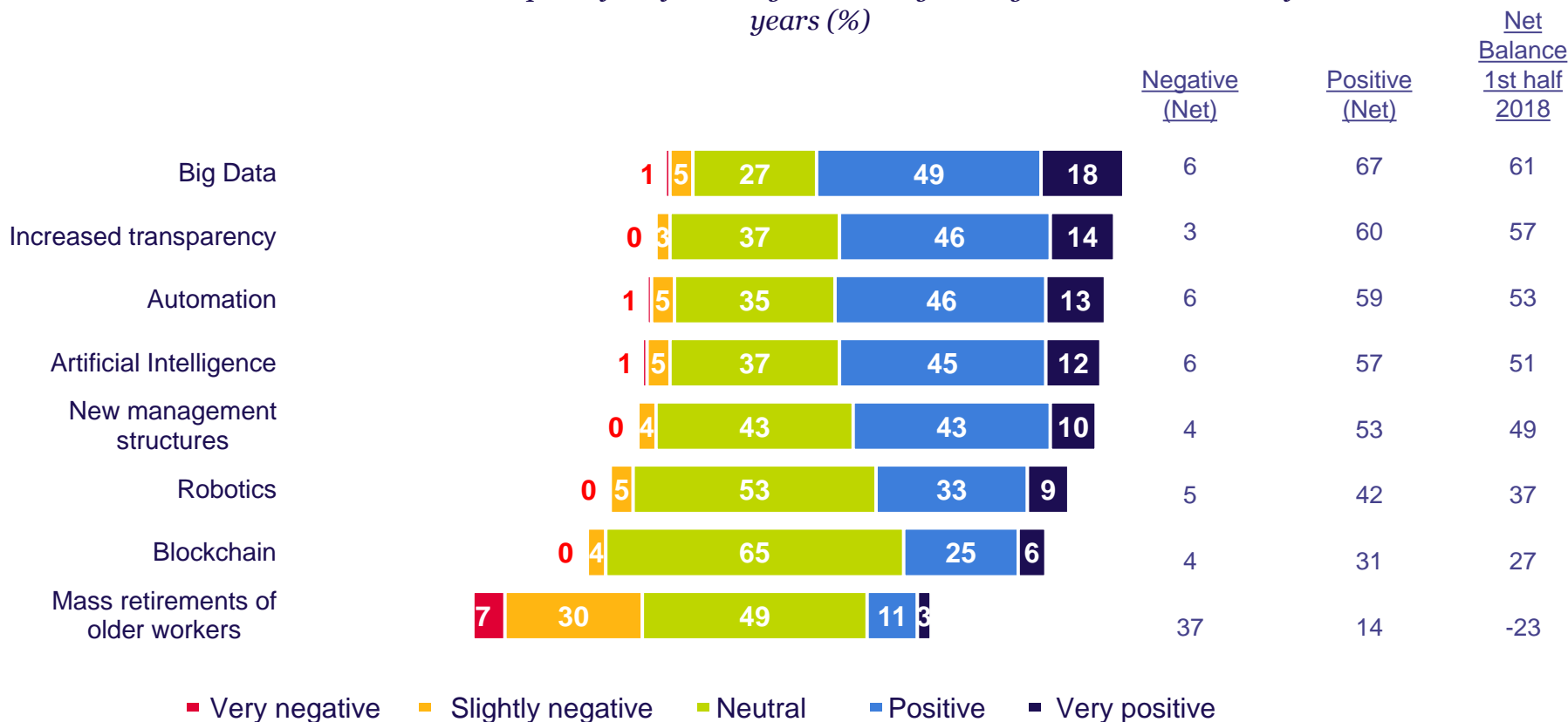
Sustainability and long term growth prospects continues to be the main issue that keeps directors “awake at night”, followed by structural change/changing business models. Corporate culture, business reputation in the community and data security are also pertinent.



Impact of trends on organisation in the next five years

Directors predict that big data, increased transparency and automation will have the most positive impact on their organisation in the next five years. 37% of directors believe that mass retirement of older workers will have a negative impact on their organisation over the five years to come.

What will be the impact of the following trends on your organisation in the next five years (%)



Summary of Key Indicators

Summary of key indicators

(1 of 6)

Indicator (expected change in coming 12 months)	Scale	1 st half 2018 net balance	2 nd half 2017 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	12 ↑	-6
Health of the Asian economy	Weak/strong	56 ↑	30
Health of the European economy	Weak/strong	-20	-24
Health of the US economy	Weak/strong	24 ↑	4
Inflation rate (Australia)	Lower/higher	41 ↑	34
Exchange rate (value of AUD versus USD)	Lower/higher	-26	-19
RBA cash rate	Lower/higher	51	56
Level of wages growth	Lower/higher	36 ↑	25
Unemployment rate	Lower/higher	-17 ↓	-8
Expected change in ASX All Ordinaries index	Fall/rise	28	27

Summary of key indicators

(2 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 st half 2018 net balance	2 nd half 2017 net balance
Business conditions			
Growth of primary directorship business	Weak/strong	49	45
Change in business investment levels	Decrease/increase	36	35
Change in business staffing levels/labour demand	Decrease/increase	34	29
Change in level of business exports	Decrease/increase	20	21
Change in level of outsourcing	Decrease/increase	30	29
Expectations of profits for Jan-Jun 2018 actual versus forecast*	Below/up	22 ↓	30
Expectations of profits for Jul-Dec 2018 actual versus forecast*	Below/up	23	25
Confidence in general business outlook*	Pessimistic/opt	35	29
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	38	32
Expected change in level of mergers and acquisitions	Fall/rise	57	54
Infrastructure			
Perception of level of government spending on infrastructure*	Low/high	-64 ↑	-70
Taxation			
Perception of current level of corporate taxation*	High/low	-56 ↓	-41
Perception of current level of personal taxation*	High/low	-70	-66

Summary of key indicators

(3 of 6)

Indicator	Scale	1 st half 2018 net balance	2 nd half 2017 net balance
<i>Regulation, legal issues, reporting</i>			
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-34	-35
Impact of 'red-tape' on preparing/ paying taxes	High impact/low impact	-39	-42
Impact of 'red-tape' on workplace health/safety	High impact/low impact	-48	-43
Impact of 'red-tape' on workplace flexibility	High impact/low impact	-31	-30
Impact of 'red-tape' on employing new workers	High impact/low impact	-31	-34
Impact of 'red-tape' on corporate reporting requirements	High impact/low impact	-58	-57
Impact of 'red-tape' on environmental compliance	High impact/low impact	-13	-13
Impact of 'red-tape' on investing in capital assets	High impact/low impact	-8	-9

Summary of key indicators

(4 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 st half 2018 net balance	2 nd half 2017 net balance
Tax, credit, M&A			
Credit availability for investment purposes	Constrained/available	19	19
Credit availability for asset purchases	Constrained/available	30	28
Credit availability for working capital	Constrained/available	20	21
Public Policy			
Quality of current Public Policy debate in Australia*	Poor/good	-82	-79
Regulation, legal issues, reporting			
Agreement with 'Federal Government understands business'*	Disagree/agree	2 ↑	-12
Regulation, legal issues			
How is the current Federal Government's performance affecting your business decision making?*	Negatively/positively	-29 ↑	-38
How is the current Federal Government's performance affecting consumer confidence?*	Negatively/positively	-54 ↑	-64

Summary of key indicators

(5 of 6)

Indicator	Scale	1 st half 2018 net balance	2 nd half 2017 net balance
<i>Regulation, legal issues</i>			
Perception of governance regulations	Onerous/weak	-46	-43
Extent legislation on directors affect your business decision-making	Negatively/positively	-17	-21
Extent legislation on directors affect your willingness to continue on a board	Negatively/positively	-25	-25
Extent legislation on directors affect your willingness to accept new board appointments	Negatively/positively	-33	-38
Risk-averse decision-making culture on Australian boards	Disagree/agree	59 ↓	65
Adequacy of public company remuneration reports	Inadequate/adequate	-23	-17
Functionality of current AGM system	Dysfunctional/ functional	-15	-14

Summary of key indicators

(6 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 st half 2018 net balance	2 nd half 2017 net balance
Board diversity			
Board actively seeking to increase diversity of gender on board	Not actively/actively	36	34
Board actively seeking to increase diversity of age on board	Not actively/actively	8	7
Board actively seeking to increase diversity of skills on board	Not actively/actively	63	68
Board actively seeking to increase diversity of ethnicity on board	Not actively/actively	-2	-7
Directorship conditions			
Impact of directors' liability on willingness to serve on a board	Negatively/positively	-44	-45
Impact of compliance requirements on willingness to serve on a board	Negatively/positively	-31	-32
Impact of remuneration on willingness to serve on a board	Negatively/positively	3	1
Impact of contribution to economy/society on willingness to serve on a board	Negatively/positively	87	84
Impact of time commitment on willingness to serve on board	Negatively/positively	-17	-12

Explanation of charts – example only

