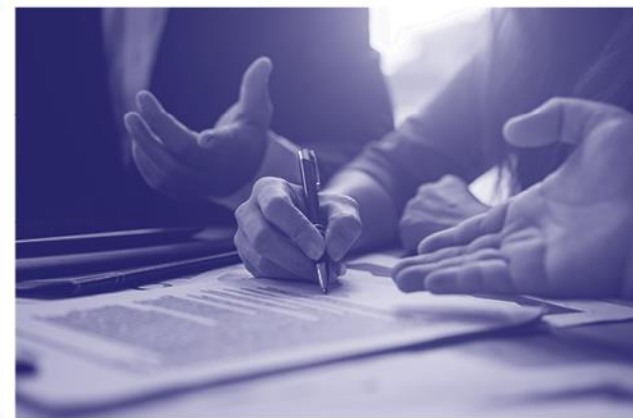


DIRECTORS SENTIMENT INDEX: RESEARCH FINDINGS SECOND HALF 2018

Delivered by Ipsos



Director Sentiment Index

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Second half 2018 sample profile

Members of the Australian Institute of Company Directors were invited to take part in the survey between 13 – 27 September 2018. A total of 1252 members participated. Results were weighted by gender to reflect the profile of the AICD member base.

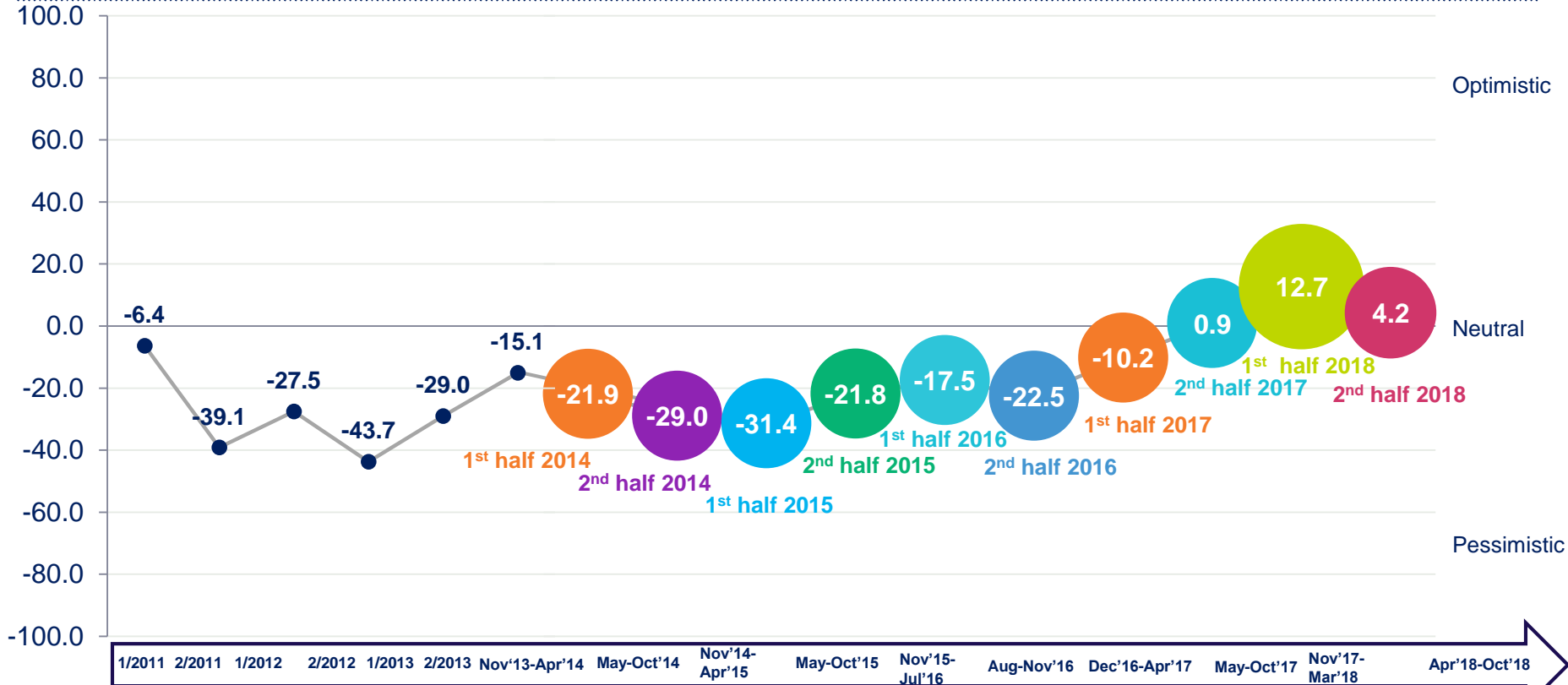
No. of current directorships	%
1	32 (33)
2	30 (28)
3 or more	37 (38)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	36 (35)
Non-Executive Director	65 (69)
Chairman	34 (34)
Other	8 (9)
Prefer not to say	1 (1)
Primary directorship company	
Publicly listed Australian entity	12 (11)
Private/non-listed Australian entity	42 (43)
Not-for profit entity	34 (33)
Public sector/ government body	8 (8)
Overseas entity	3 (4)
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	24 (23)
Finance and Insurance	15 (16)
Property and Business Services	10 (9)
Education	8 (9)
Mining	6 (6)
Manufacturing	5 (5)
Agriculture, Forestry and Fishing	5 (5)
Construction	4 (6)
Personal and Other Services	4 (3)
Energy	3 (3)
Government Administration and Defence	3 (3)
Communication Services	3 (3)
Transport and Storage	3 (3)
Wholesale Trade	2 (2)
Retail Trade	2 (2)
Cultural and Entertainment industry	2 (2)
Accommodation, Cafes and Restaurants	1 (3)
Primary directorship based	%
NSW	28 (25)
VIC	24 (23)
QLD	13 (13)
WA	14 (16)
TAS	4 (3)
SA/NT	10 (11)
ACT	4 (6)
Overseas	3 (3)

Director Sentiment Index

Overall Director Sentiment Index

The overall sentiment in the second half of 2018 became less optimistic, down 8.5 points on the last survey, although the Index remains in positive territory.



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	Apr'18-Oct'18
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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

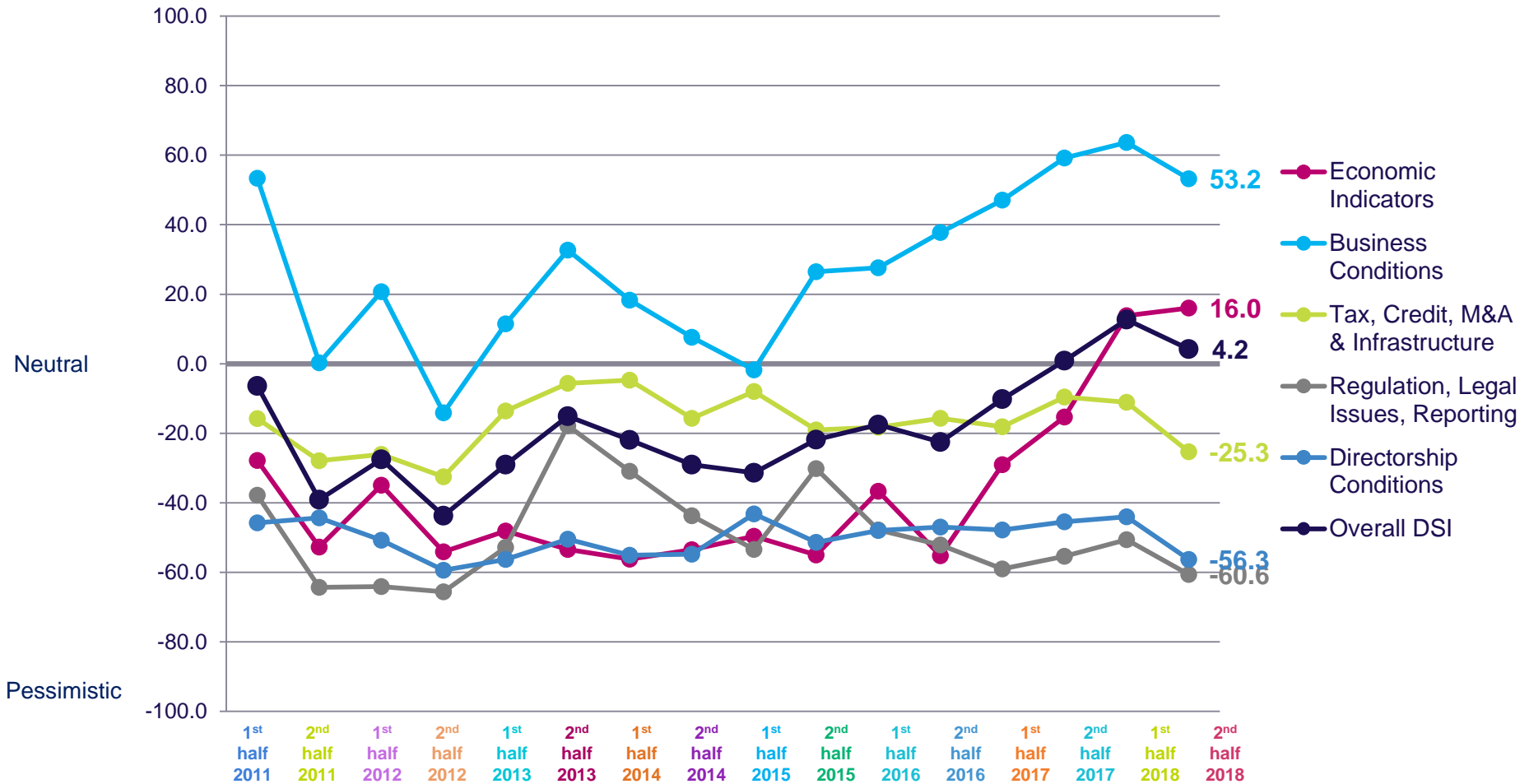
Cash rate remains on hold. Economic conditions globally improved. Local economy expanded 0.8% in June Qtr.

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

Cash rate remains stable however, increase in mortgage rates by banks. Scott Morrison takes over as PM (end Aug)

Overall Director Sentiment Index by segment

Sentiment has decreased across Business Conditions, Tax, Credit, M&A & Infrastructure, Regulation, Legal Issues, Reporting and Directorship Conditions. Economic Indicators are in line with the first half of 2018.



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 second half of 2018. Asia is still predicted to be the strongest while the US and Australian economies are also regarded positively. By comparison the European economy continues to be perceived as weak overall.
- NSW, VIC and ACT directors are the most optimistic about the health of their state economy in the next 12 months while QLD directors are the most pessimistic.

Economic indicators

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

Economic challenges

- Rising global protectionism is viewed by directors as the biggest economic challenge currently facing Australian business in the second half of 2018, followed by global economic uncertainty and energy policy.

Executive Summary

Business Forecast

Business growth

- Directors' optimism regarding past and future business growth, although still positive, has had the first downward movement since the second half of 2014.

Changes in business

- Directors continue to be optimistic about the changes in their business over the coming year. Optimism is highest in regards to staffing levels/labour demand and investment levels over the coming year (to June 2019).

Profits

- No change in sentiment around actual profits for the current budget forecast, with 35% of directors expecting an increase in profits for the current six months. Expectations of profits for previous six months (Jan-Jun'18) are similar to the current six months, with 35% of directors expecting an increase in profits.

Business outlook

- Directors remain optimistic about the business outlook in the next 12 months, with 41% indicating they are optimistic about the general business outlook and 47% indicating they are optimistic regarding the outlook for their sector.

Executive Summary

Government Policy

Budgetary

- The top three priorities the Federal Government should address in the short term continue to be energy policy, taxation reform and infrastructure.
- Directors rate climate change as the top long term priority the federal government should address, followed by an ageing population, energy policy, taxation reform and infrastructure.
- 41% of directors rate spending on infrastructure as the top measure government should prioritise before the end of the year if a mini budget is released to coincide with MYEFO.

Taxation

- Directors remain pessimistic regarding the level of personal taxation in Australia in the second half of 2018, with 70% of directors believing it is high. 62% of directors also view corporate tax as being high.

Regulation

- Directors continue to feel pessimistic regarding the level of 'red-tape' in the next 12 months, with 51% expecting an increase. 77% 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.

Executive Summary

Government Policy (cont.)

National productivity

- Directors continue to nominate less focus on short termism as the top measure for lifting national productivity, followed by a greater focus on fostering innovation and broad-based tax reform.

Credit availability

- Expectations of credit availability in the future is pessimistic compared to the first half of 2018. 31% of directors expect credit for working capital purposes will be unavailable/constrained in the next twelve months, 30% expect the same regarding credit for investment purposes and 29% expect the same regarding asset purchases.

Industrial Relations

- 48% of directors want the Government to pursue significant industrial relations reform following an electoral mandate.

Performance & business understanding

- Compared to the first half of 2018, directors are more pessimistic about the effect of the Federal Government's current performance, with 79% perceiving a negative effect on consumer confidence and 54% perceiving a negative effect on their business decision making.
- Directors are pessimistic about the Federal Government's understanding of business, with 44% disagreeing that the current Federal Government understands business.

Executive Summary

Government Policy (cont.)

Director liability

- Directors continue to feel pessimistic about the impact of legislation on director liability in the second half of 2018. 33% of directors feel that it has negatively affected their business decision making, 40% on their willingness to continue on a board and 51% on their willingness to accept new board appointments.
- 69% of directors perceive there to be a risk-averse decision-making culture on Australian boards.

Board diversity

- The effort made to increase the diversity of skills in board membership was stable in the second half of 2018, with 74% of directors stating that their business is actively seeking to improve in this area. 53% indicate their business is actively trying to increase diversity in terms of gender.

Corporate culture

- 89% of directors believe their Board is trying to effect change in culture within their organisation.

Topical Issues

Director issues

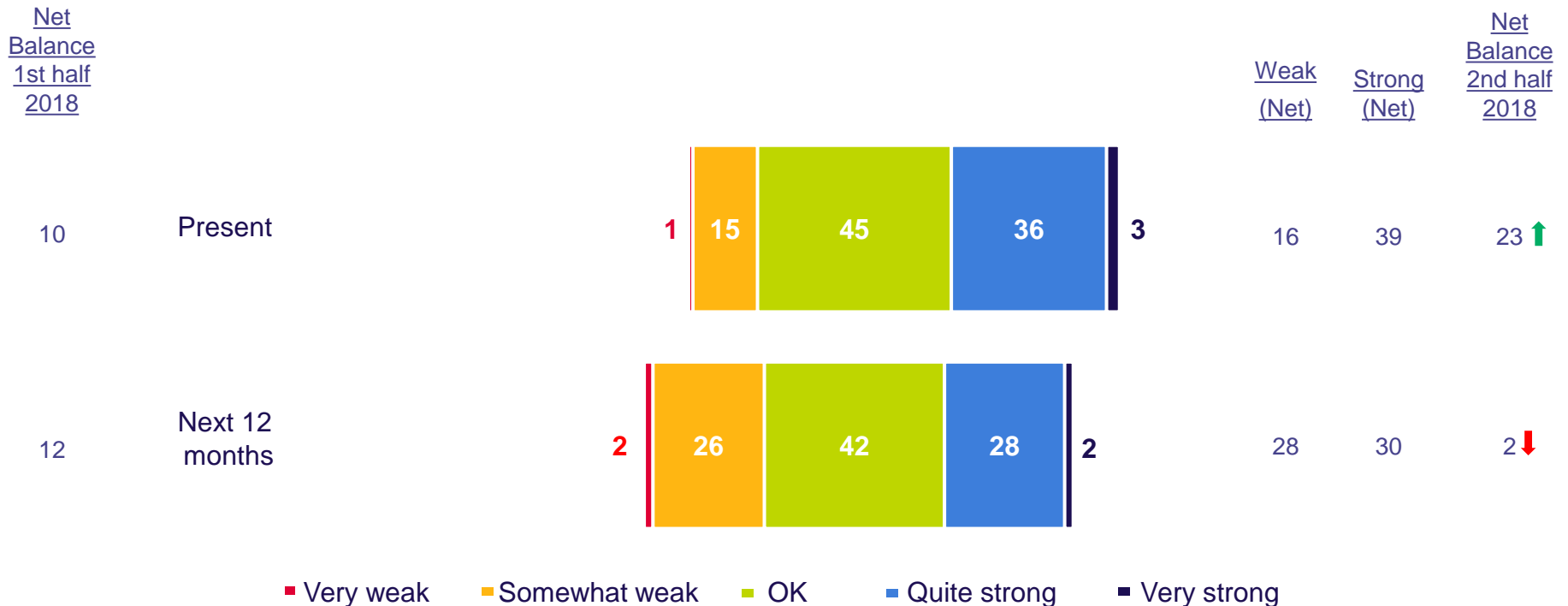
- 82% of directors support stronger penalties for misconduct and 57% of directors agree with increased funding for regulators as policy options to respond to the current governance challenges.
- Sustainability and long term growth prospects continues to be the main issue that keeps directors “awake at night”. Business reputation in the community, corporate culture, cyber crime as well as legal and regulatory compliance are also pertinent.

Economic Outlook and Challenges

Health of the Australian economy

Directors are more optimistic about the Australian economy compared to the first half of 2018, with 39% perceiving the economy as strong at present. Directors are less optimistic about the Australian economy in the next 12 months compared to the first half of 2018, with 30% expecting it to be strong and 28% expecting it to be weak.

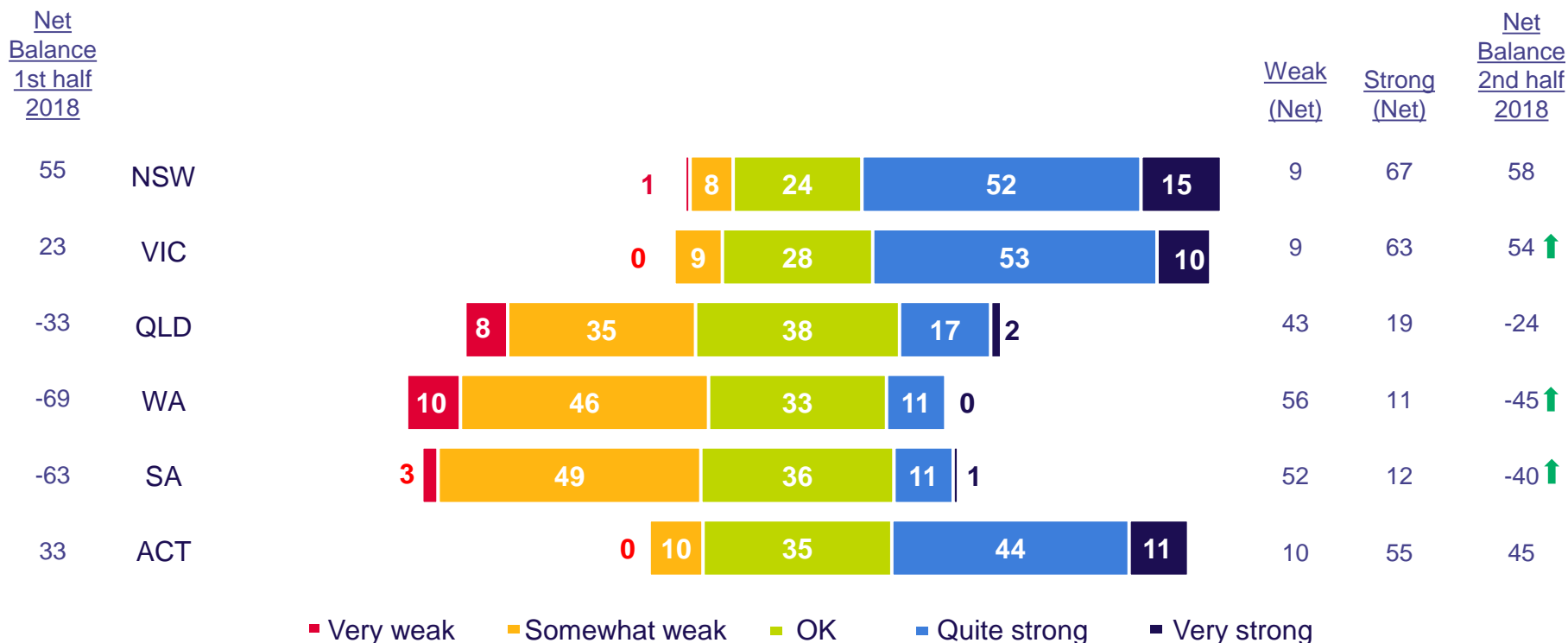
What is your assessment of the health of the Australian economy? (%)



Health of the State/Territory economies - now

Director sentiment around the health of their state/territory economy varies from state to state. Directors in VIC, NSW and the ACT are most optimistic about their economy at present.

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

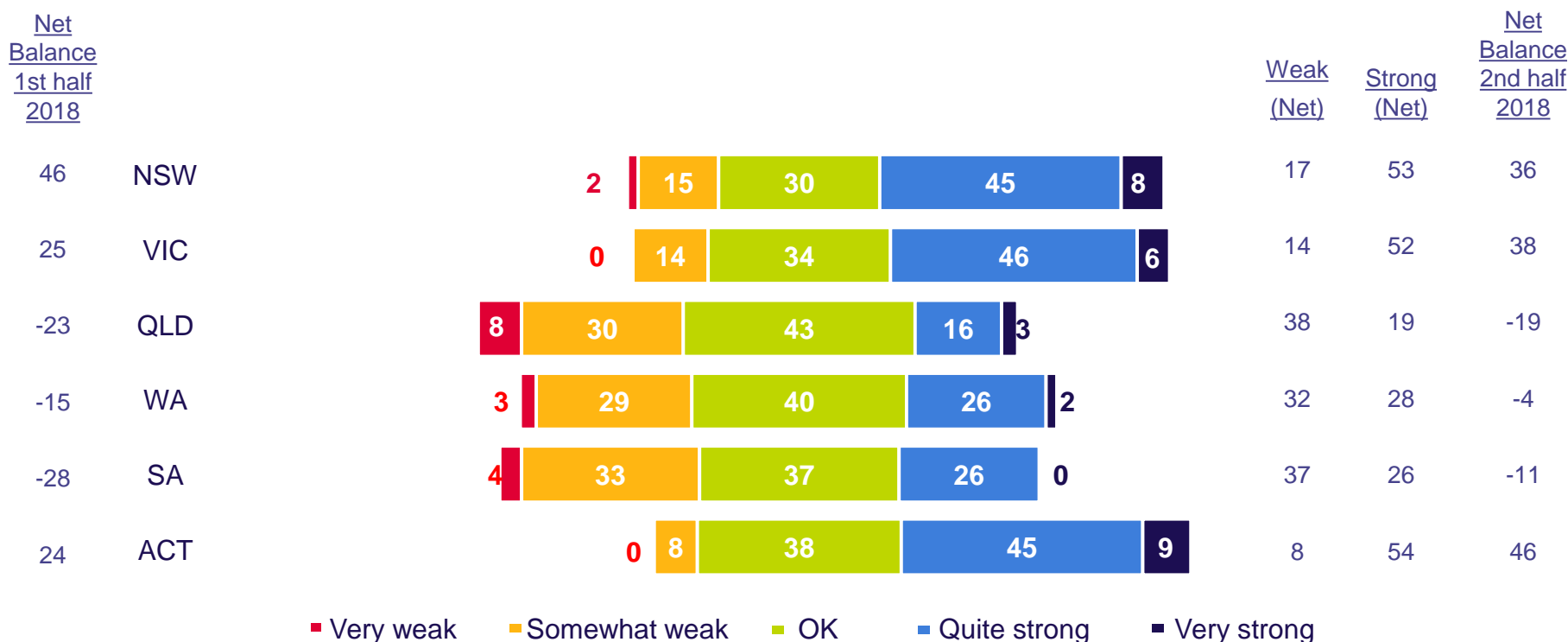


*Note: New question added in 1st Half 2018
Low base for TAS/NT*

Health of State/Territory economies – next 12 months

NSW, ACT and VIC directors are the most optimistic about the health of their economy in the next 12 months. Directors from QLD, WA and SA are less optimistic 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**(%)

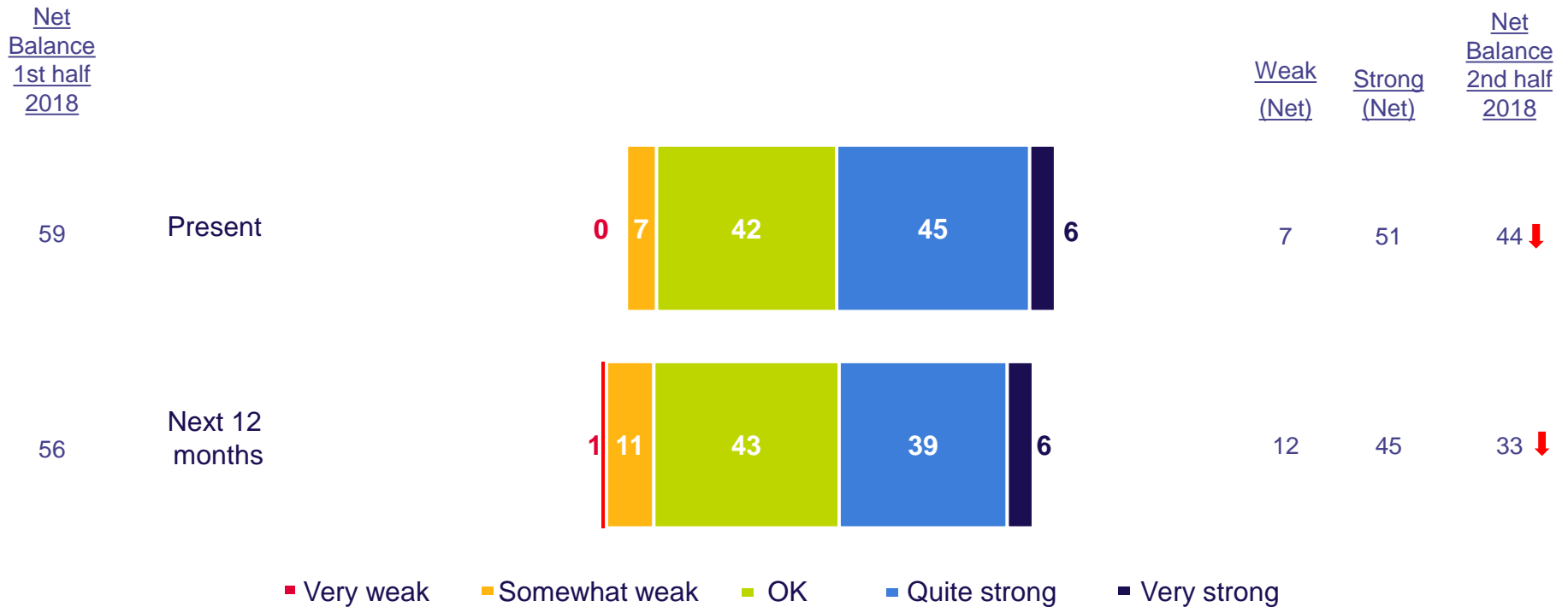


Note: New question added in 1st Half 2018
Low base for TAS/NT

Health of the Asian economy

Sentiment on the health of the Asian economy remains positive although less optimistic in the second half of 2018. 51% of directors perceive the Asian economy as currently strong and 45% expect it to remain strong over the next 12 months.

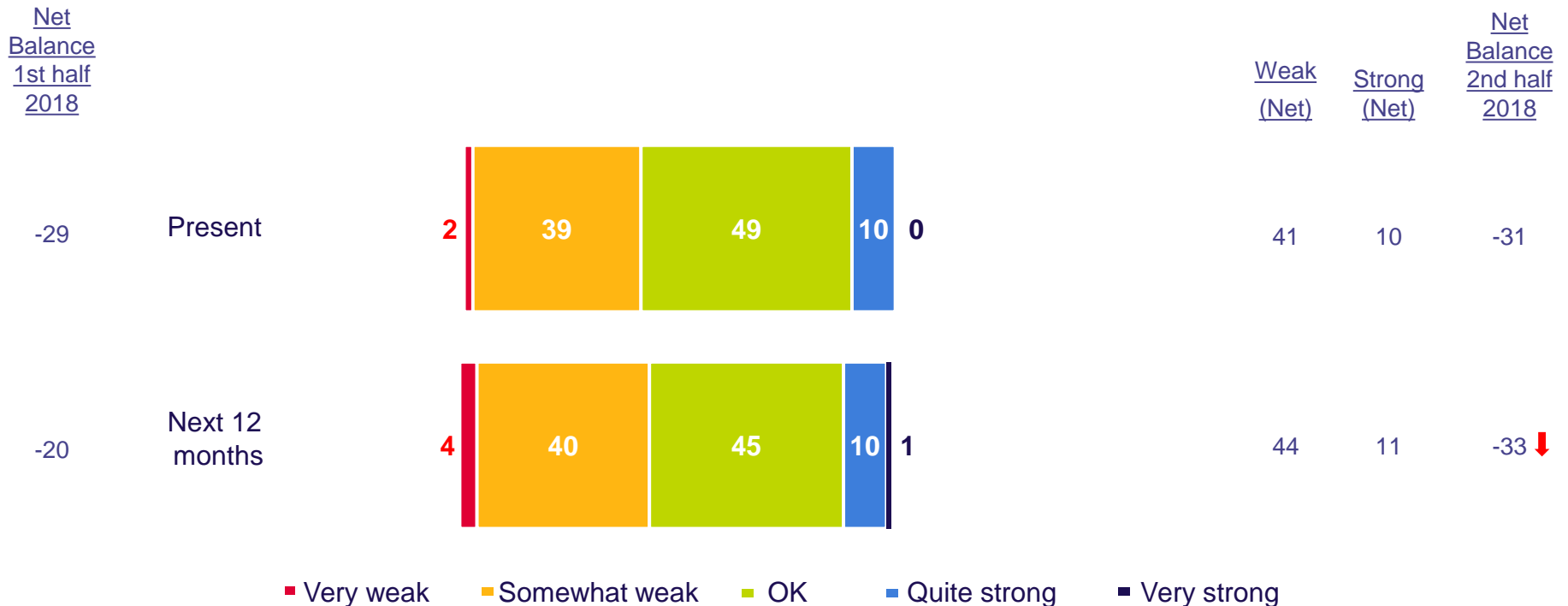
What is your assessment of the health of the Asian economy? (%)



Health of the European economy

Directors remain pessimistic about the current health of the European economy compared to the first half of 2018. 41% of directors perceive the economy as weak at present, and 44% expect it to remain weak in the next 12 months.

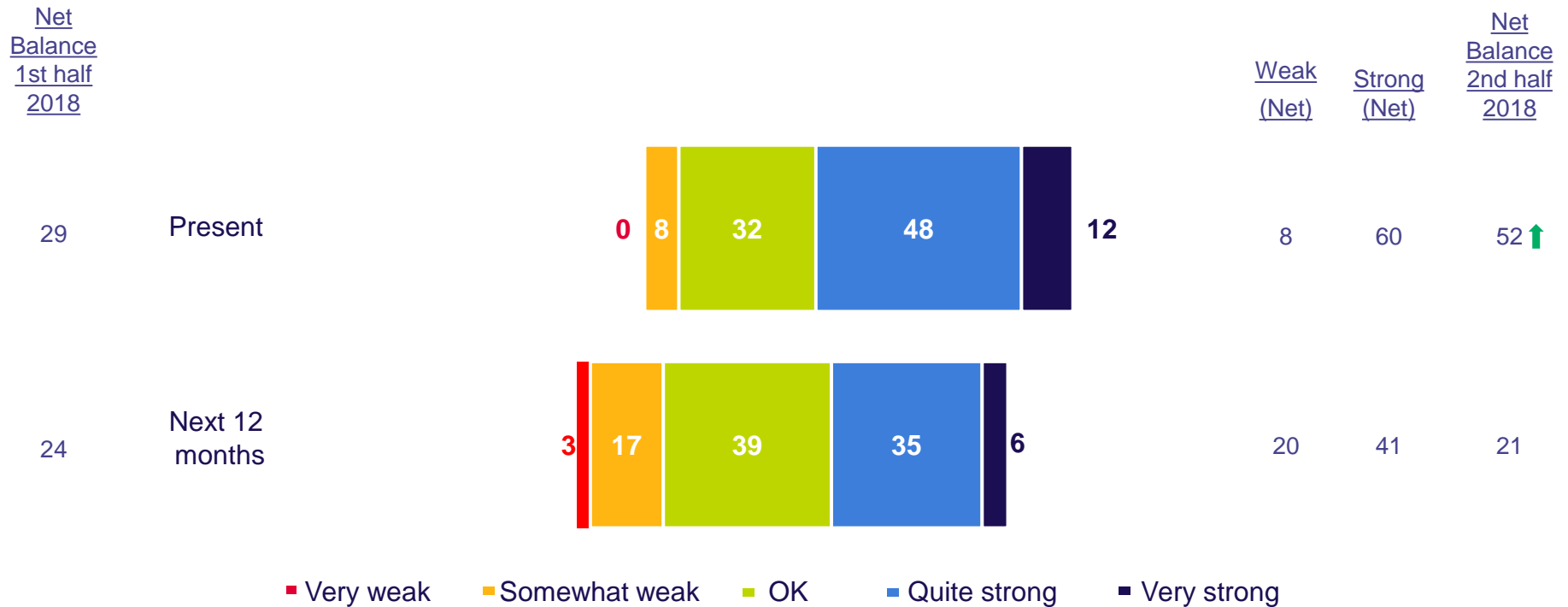
What is your assessment of the health of the European economy? (%)



Health of the US economy

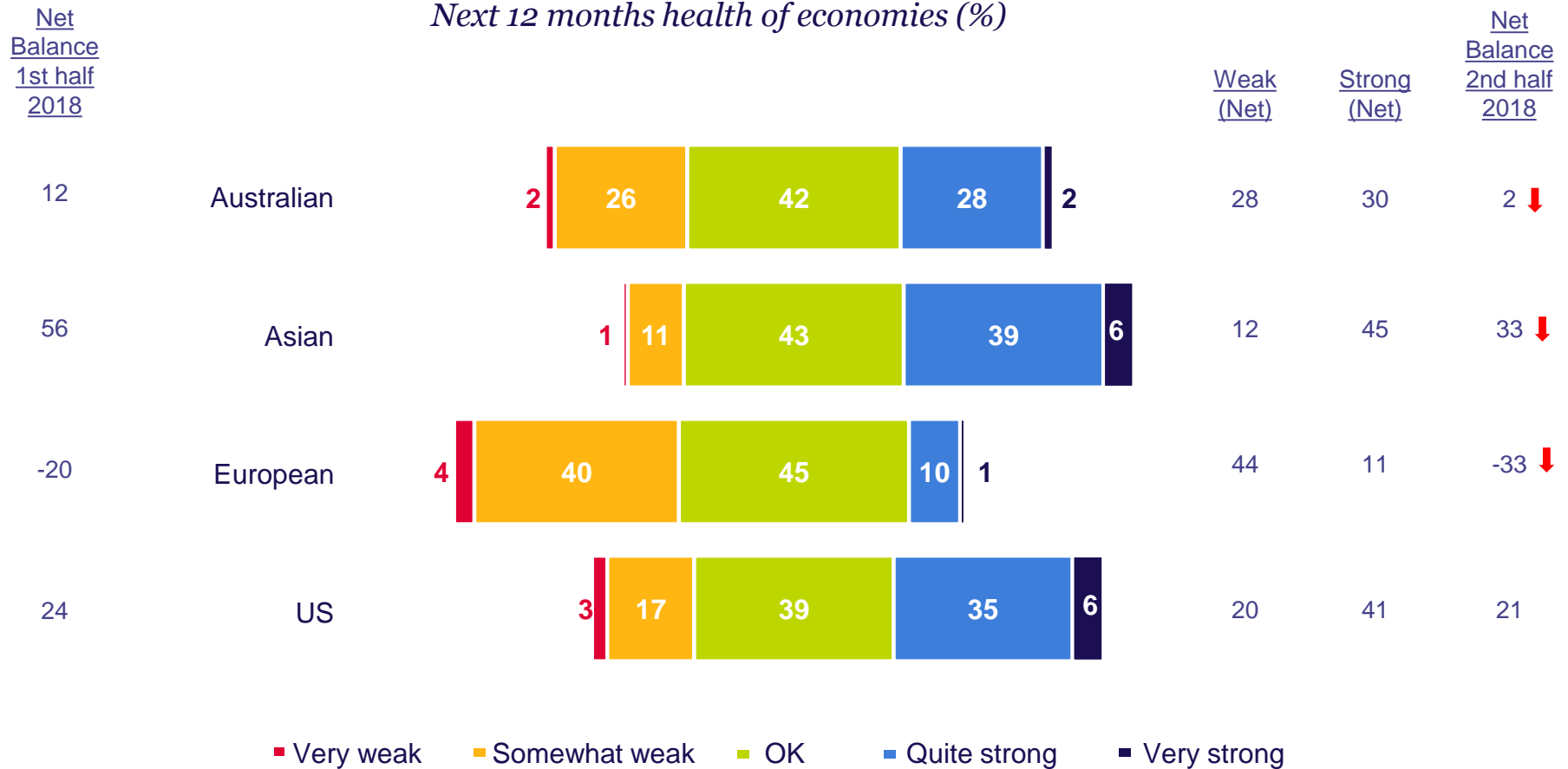
The sentiment for the US economy is optimistic, with 60% of directors perceiving it as presently strong, however, only 41% are expecting it to be strong over the coming year.

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



Next 12 months health of economies: summary

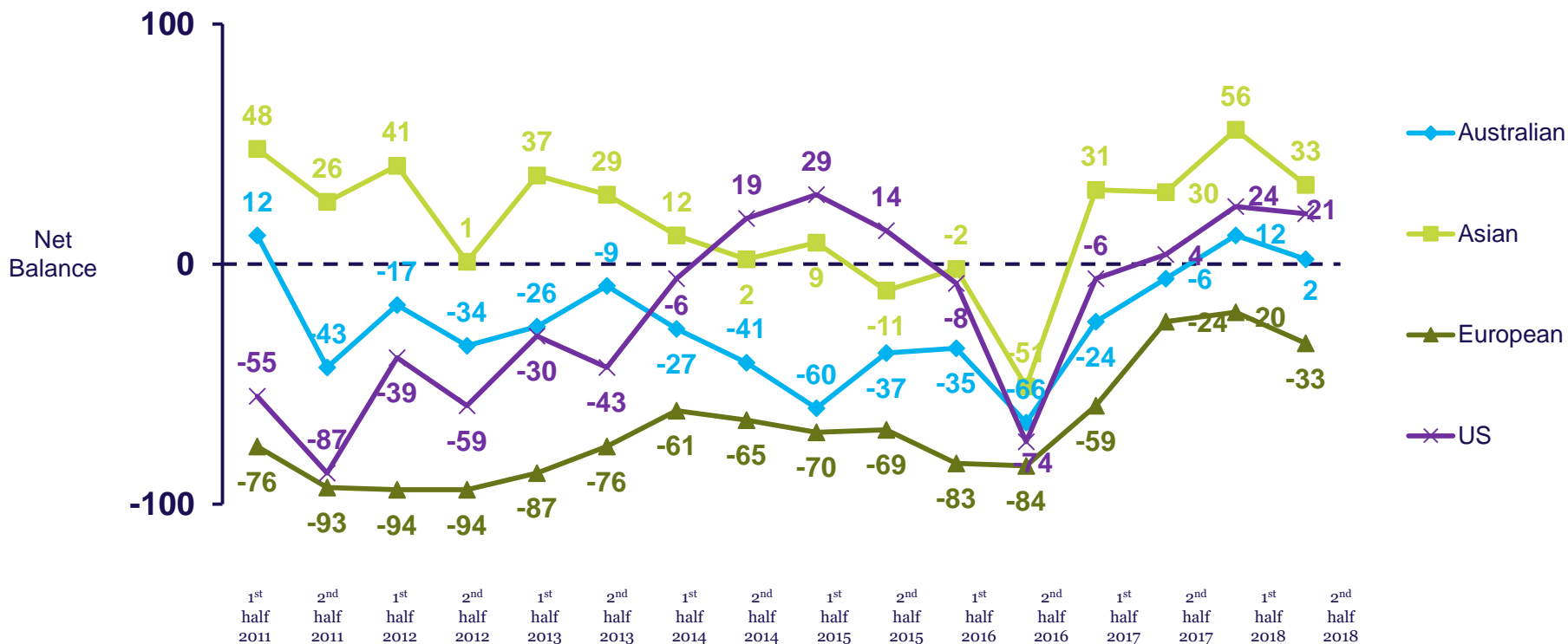
Compared to the first half of 2018, directors have become less optimistic about the future health of major global economies, with the exception of the US.



Next 12 months health of economies – semi-annual trend

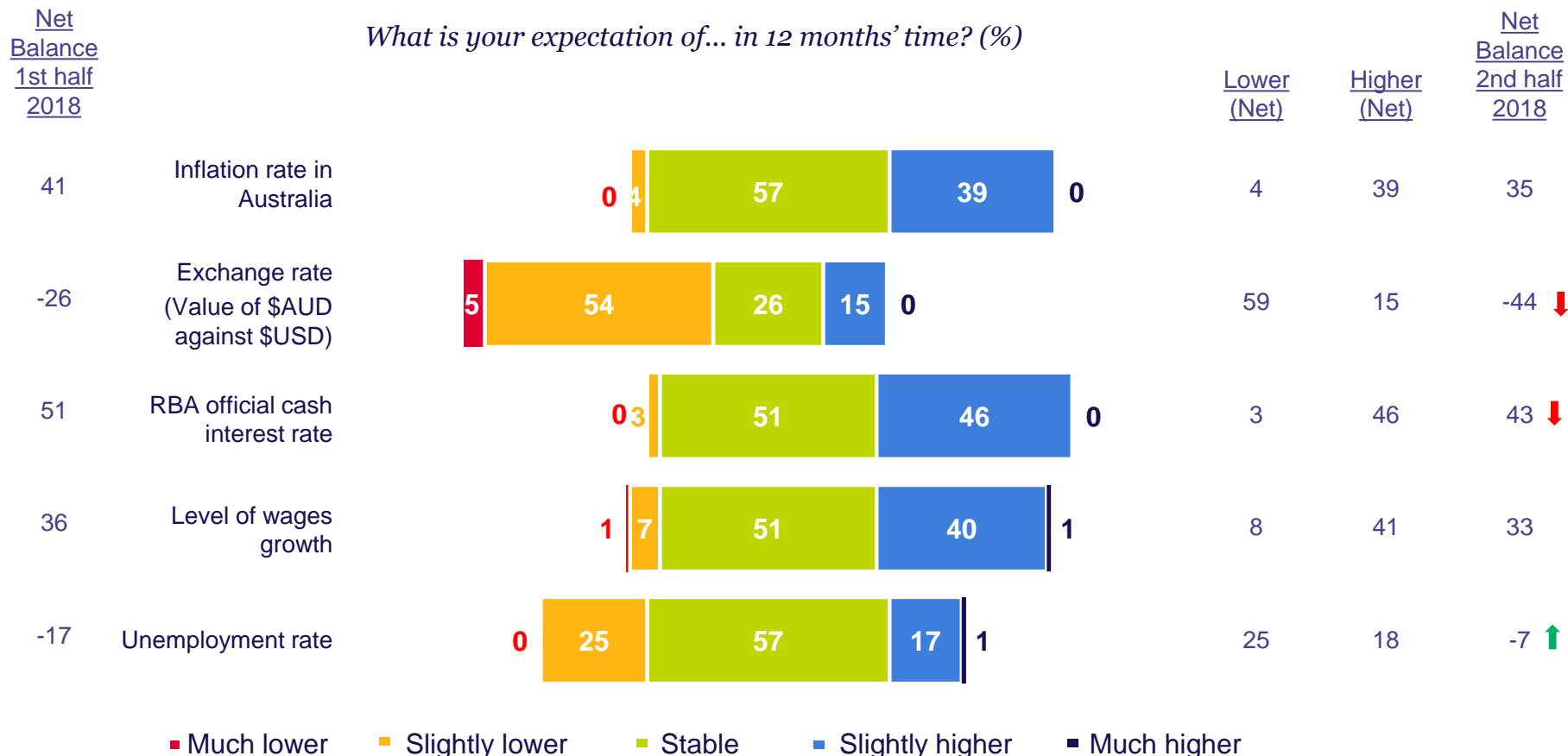
The outlook for the US in the next 12 months is relatively optimistic, remaining stable in the second half of 2018. Asia is still predicted to be the strongest, with the Australian economy regarded positively, while the European economy continues to be perceived as weak overall.

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



Economic indicators (Australia) – expectation in next 12 months

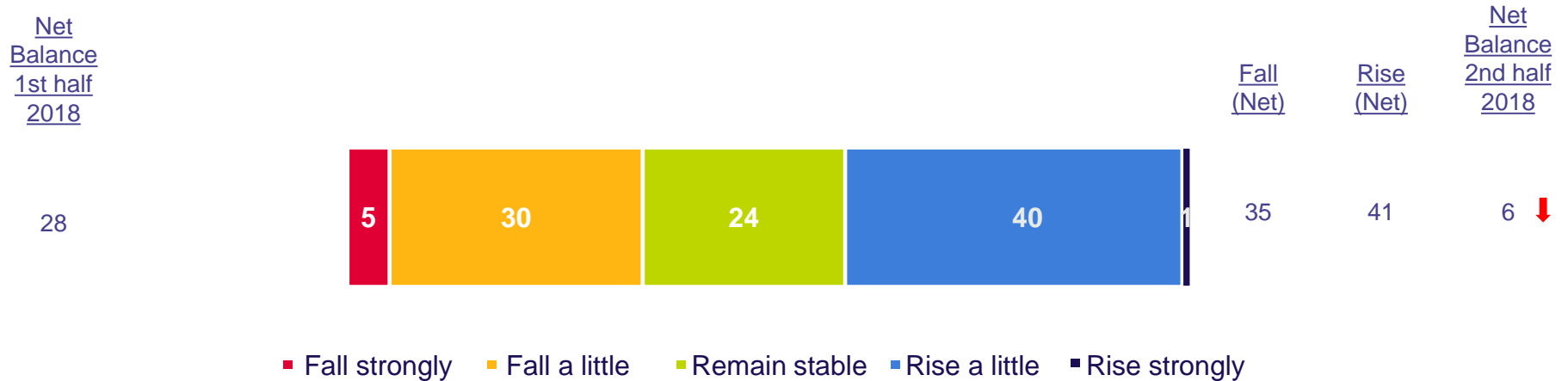
More than 50% of directors expect key economic indicators to remain stable in the next 12 months, with the exception of the exchange rate, with 59% of directors expecting it to be lower.



Expected change to ASX All Ordinaries index - next 12 months

Expectations regarding the ASX All Ordinaries index have become less positive, with 35% of directors expecting the index to fall in the next 12 months.

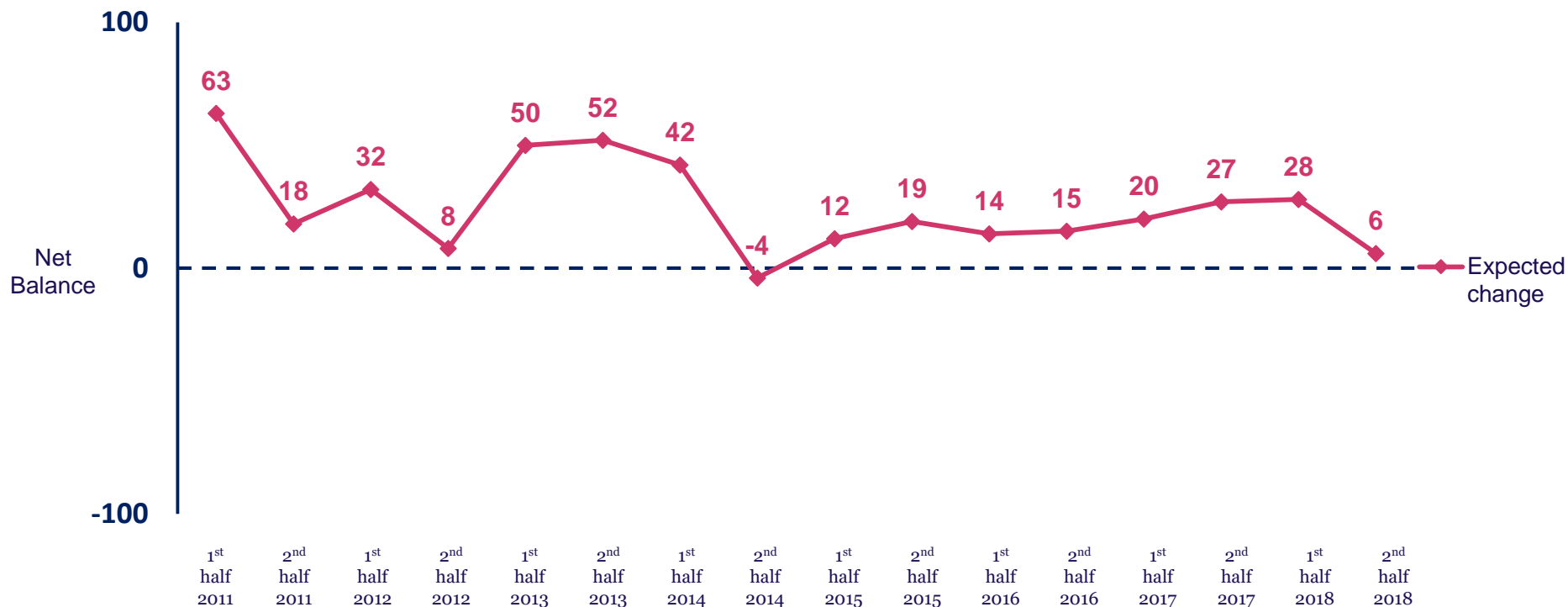
Expected change to ASX All Ordinaries index – next 12 months (%)



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

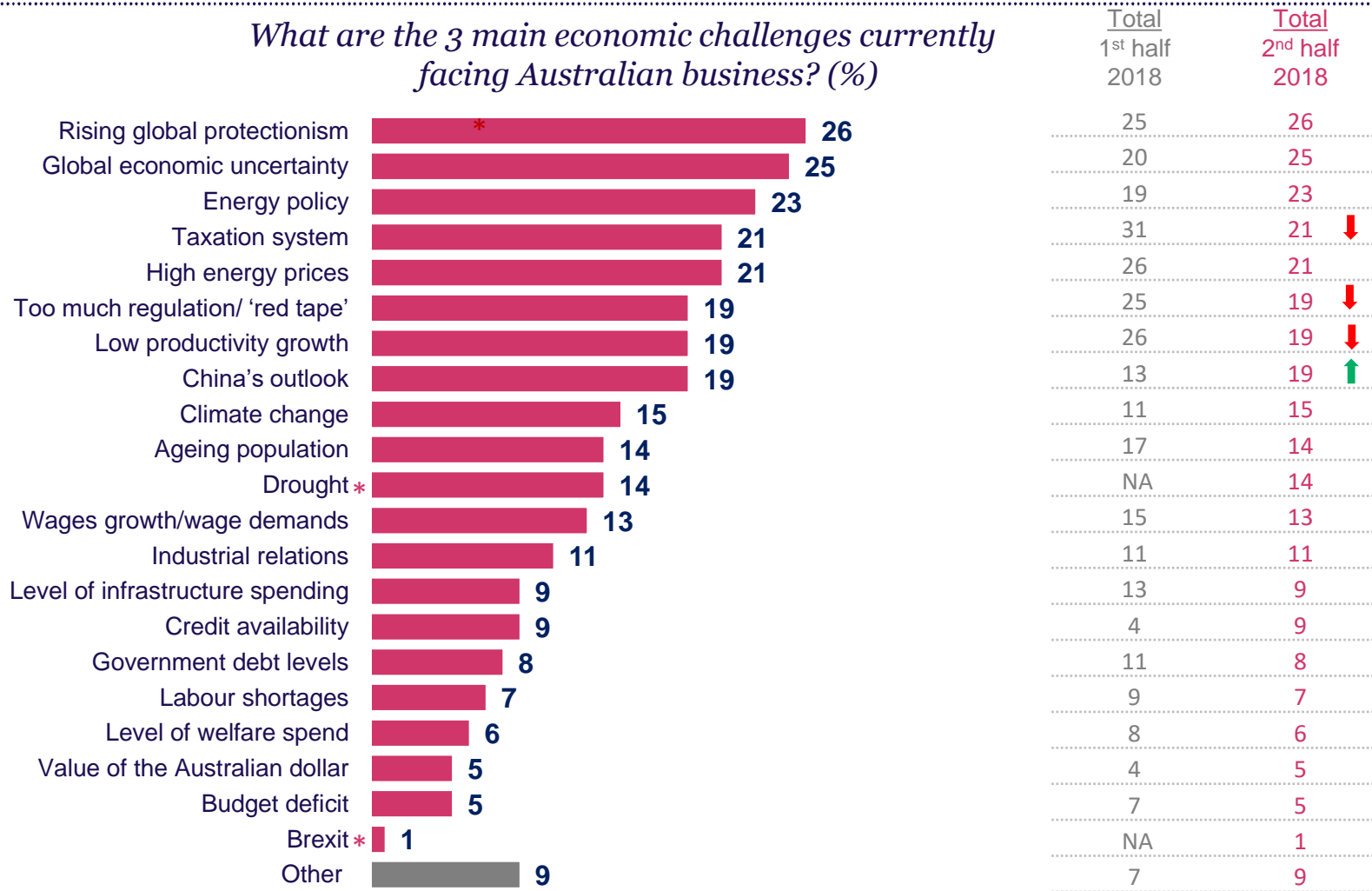
Sentiment regarding the ASX All Ordinaries index for the coming year has fallen in the second half of 2018.

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



Main current economic challenges (Top 3)

Rising global protectionism is viewed by directors as the biggest economic challenge currently facing Australian business in the second half of 2018, followed by global economic uncertainty and energy policy.

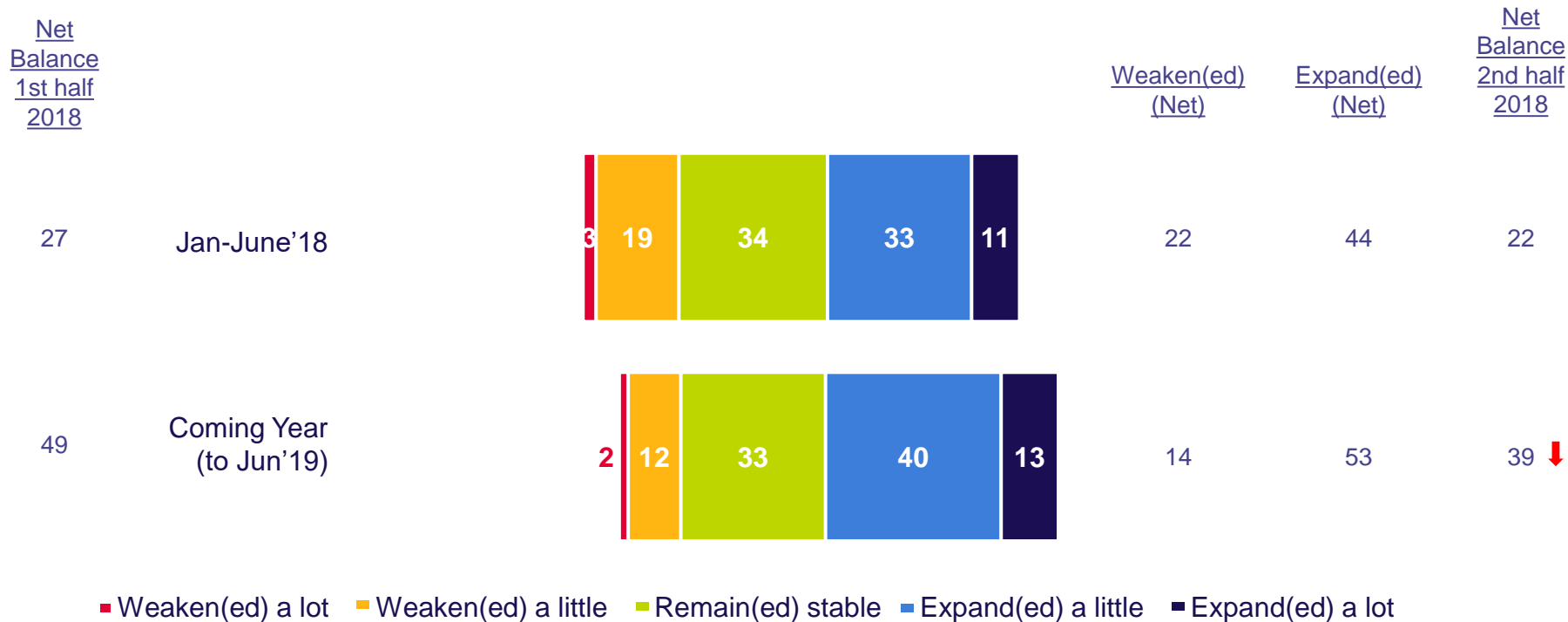


Business Forecast

Growth of the business (primary directorship company)

Directors continue to feel relatively optimistic regarding the growth of their business, with 53% of directors expecting this to increase in the coming year.

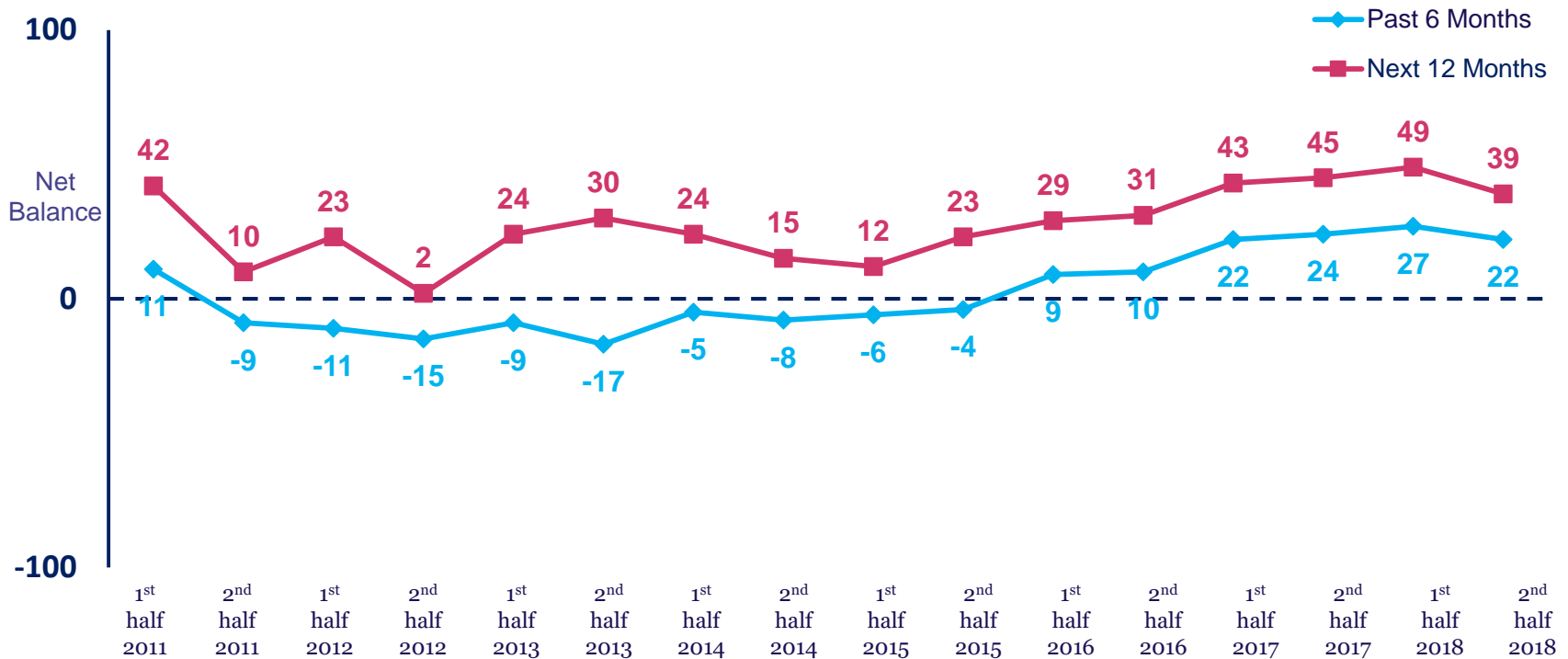
Growth of the business – past and future (%)



Past and future growth of business – semi-annual trend

Directors' optimism regarding past and future business growth has had the first downward movement since the second half of 2014.

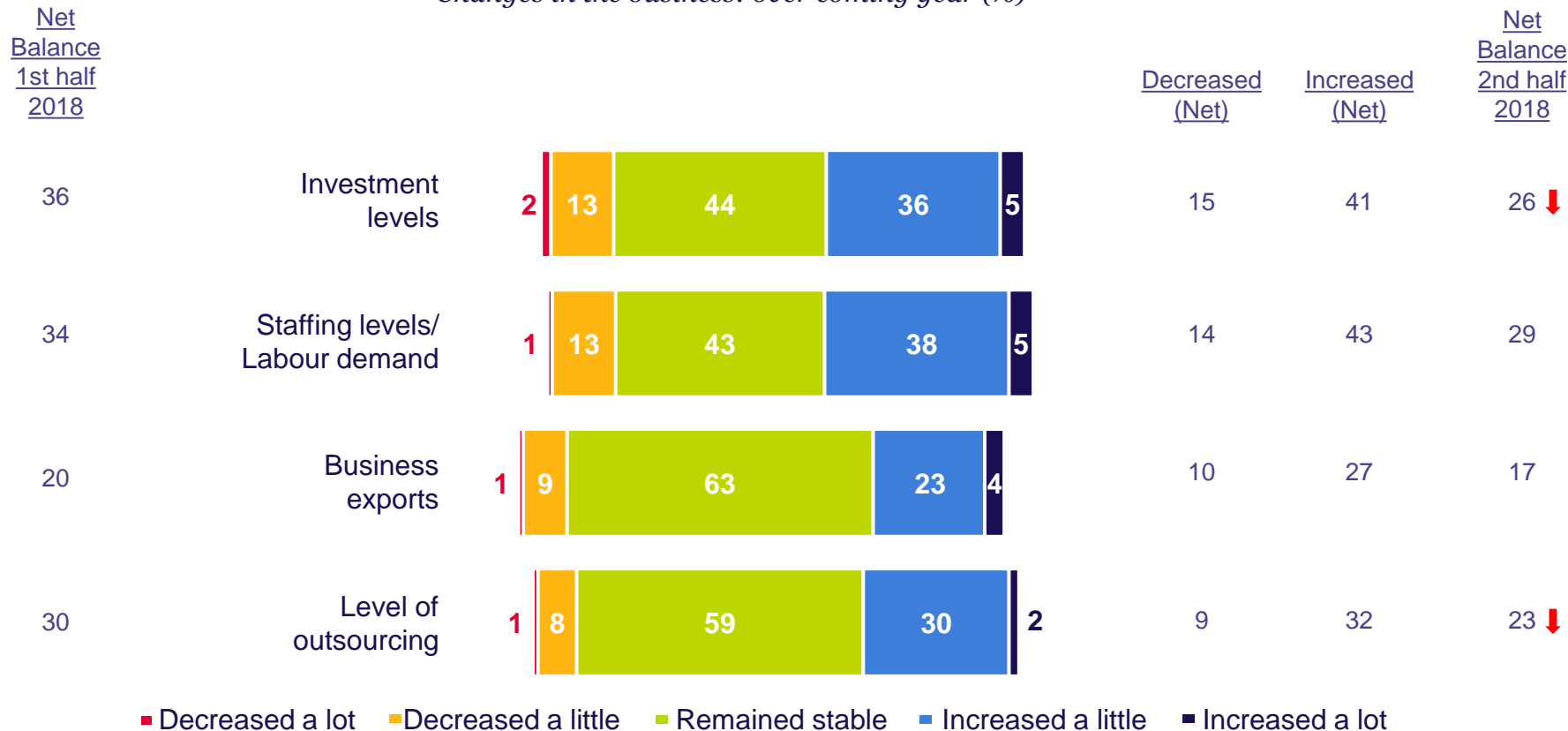
Growth of business (past 6 months and next 12 months) – semi-annual trend
(net balance)



Changes in the business – coming year

Directors have mixed opinions about the changes in their business over the coming year. Compared to the first half of 2018 staffing levels/labour demand remain stable while the increase in investment levels has decreased significantly.

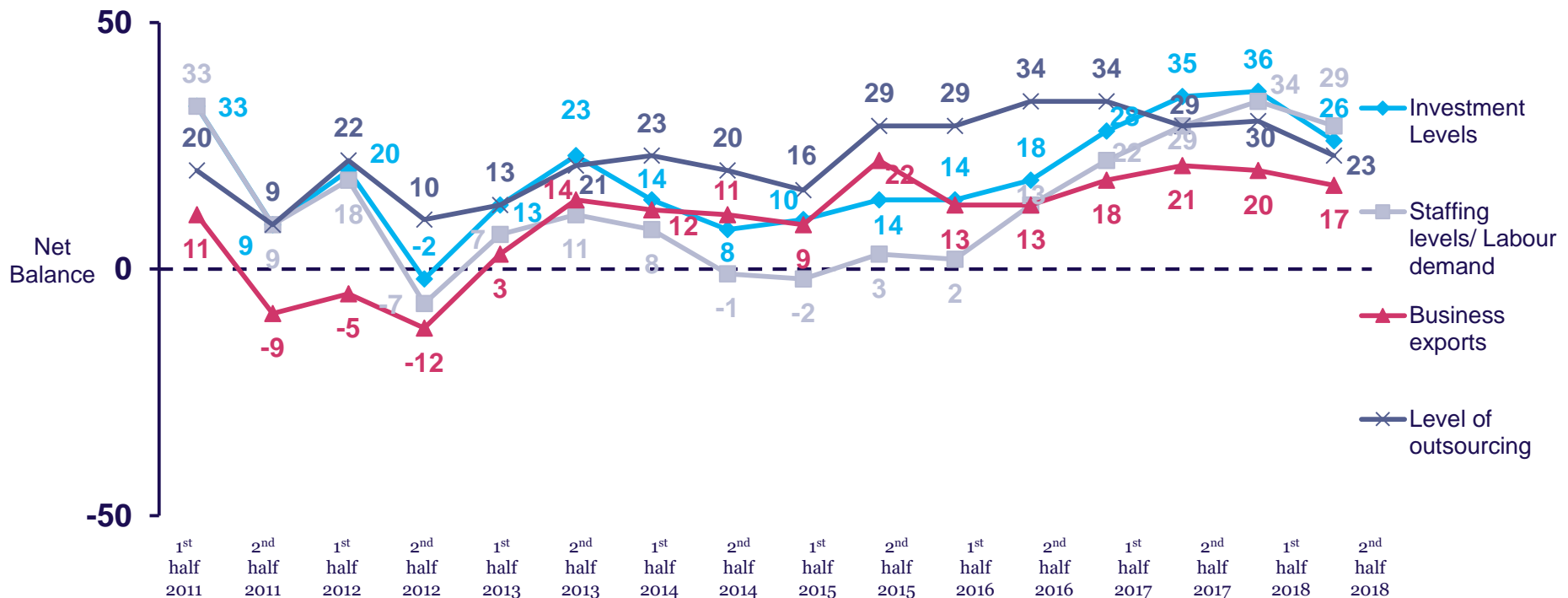
Changes in the business: over coming year (%)



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

Sentiment around changes in the business have dropped significantly for investment levels and the level of outsourcing in the second half of 2018.

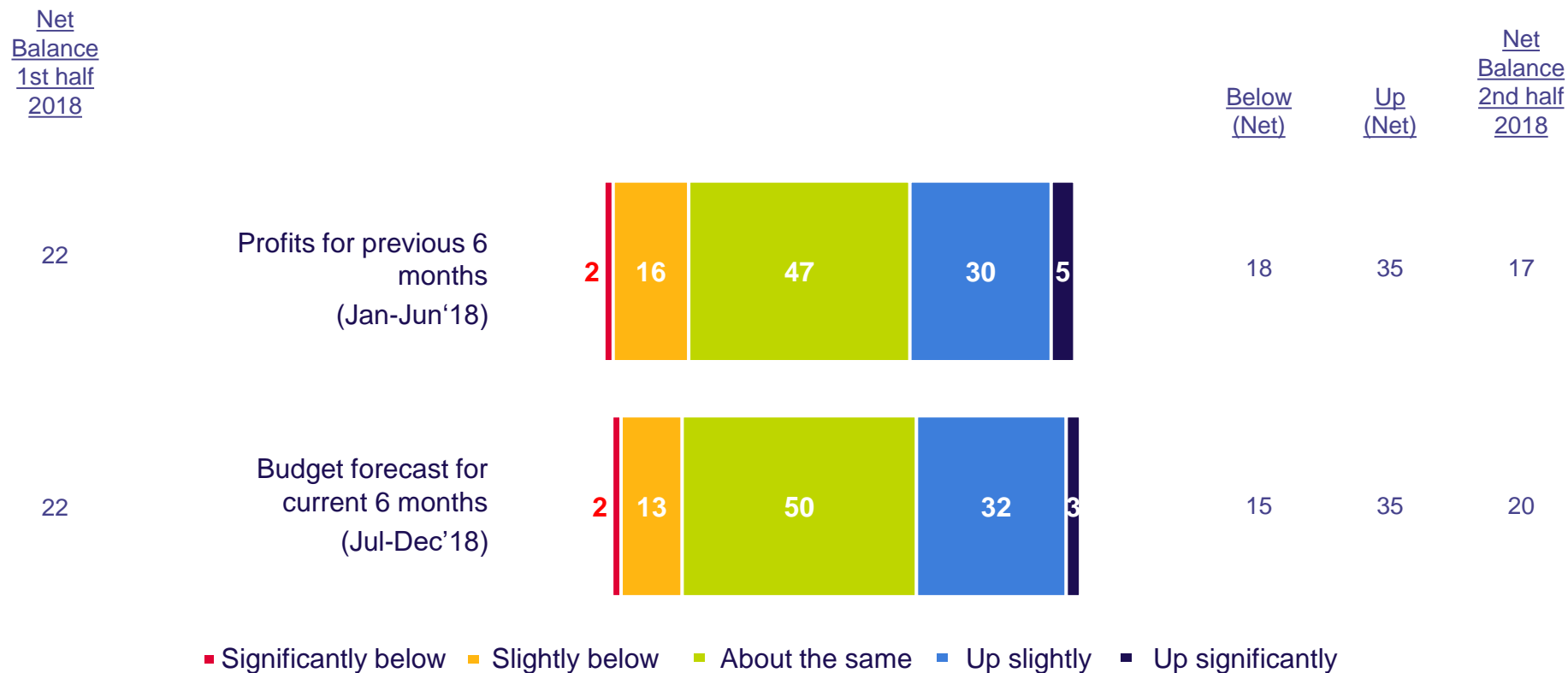
Changes in the business: over coming year – semi-annual trend (net balance)



Profits for current six months compared to...

No change in sentiment around actual profits for the budget forecast, with 35% of directors expecting an increase in profits for the current six months.

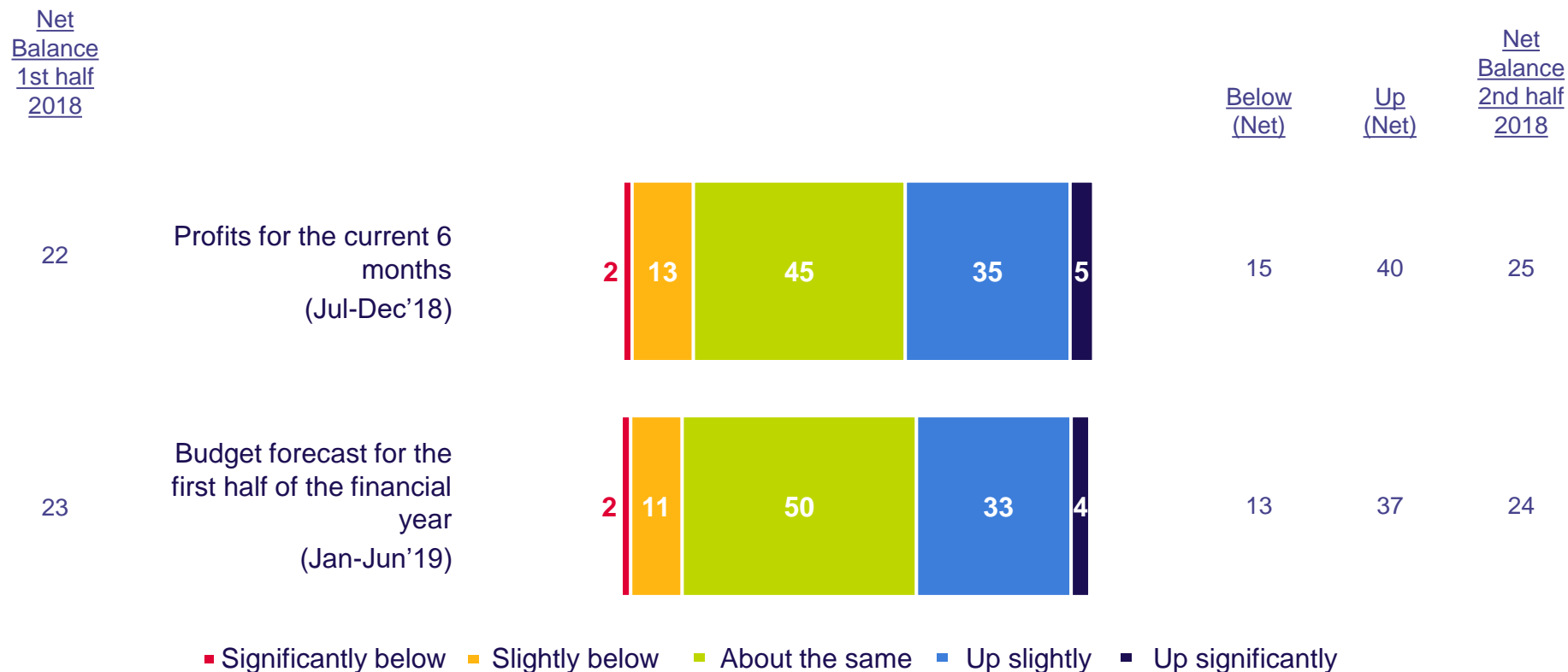
Actual profits for the current six months (Jul-Dec'18) compared to... (%)



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

Expectations of profits for the second half of this financial year (Jan-Jun'19) are still positive compared with the budget forecast, with 37% of directors expecting an increase in profits.

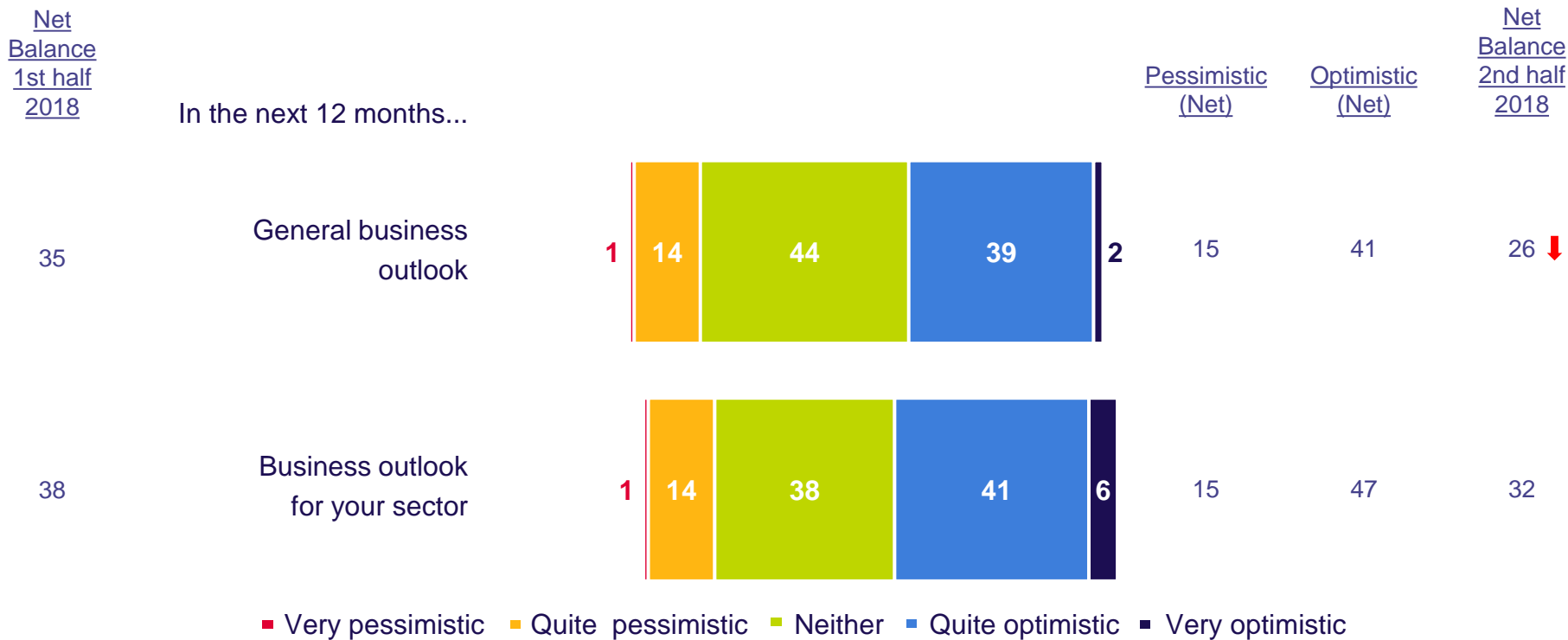
Expected actual profits for the second half of this financial year (Jan-Jun'19) compared to... (%)



Confidence in business outlook – next 12 months

Directors are a little less optimistic about the business outlook in the next 12 months, with 41% indicating they are optimistic about the general business outlook, while 47% indicate they are optimistic regarding the outlook for their sector.

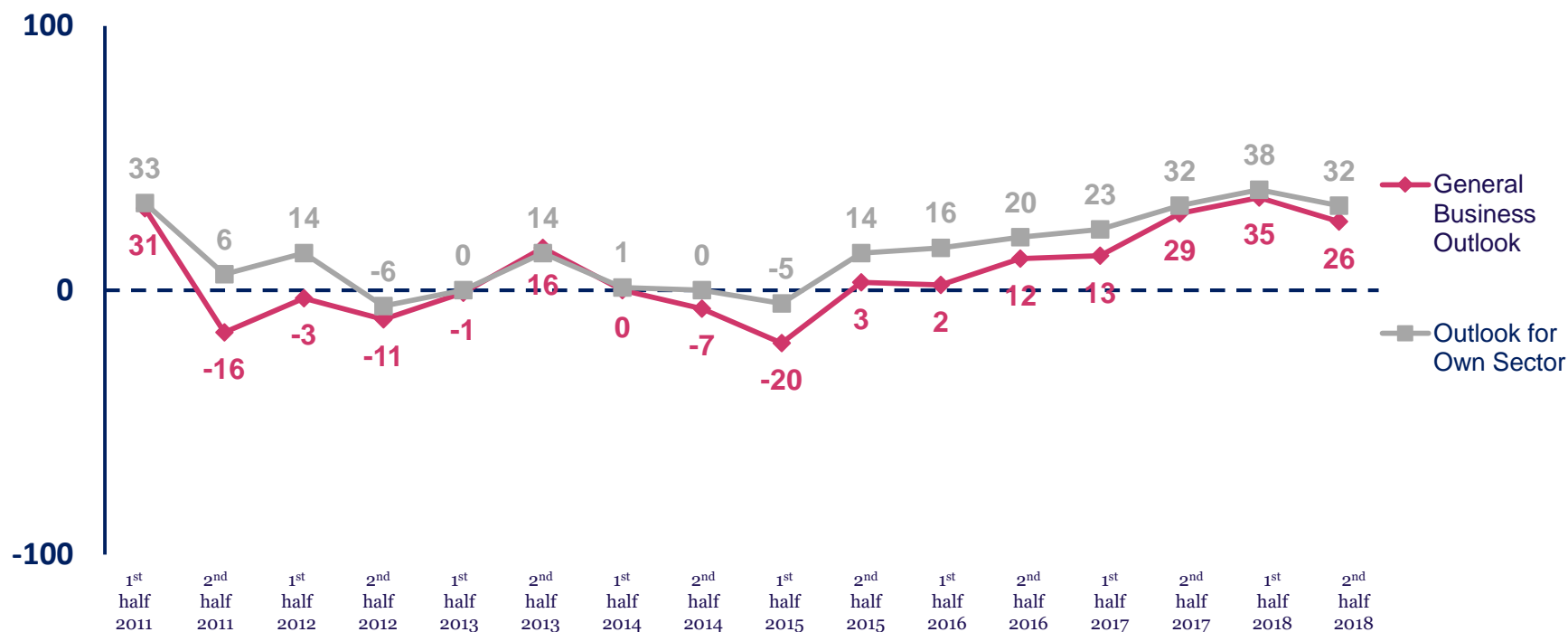
Confidence in business outlook – general and sector – next 12 months (%)



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

The second half of 2018 has seen the first downward movement in directors' optimism regarding the overall business outlook since the first half of 2015.

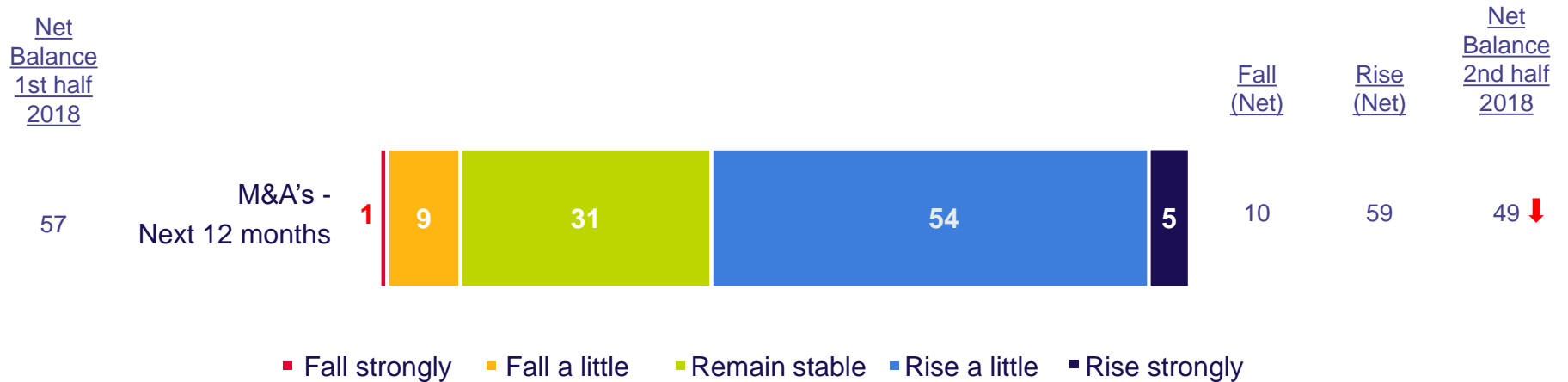
Confidence in business outlook: next 12 months – semi-annual trend (net balance)



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

59% of directors expect a rise in the level of mergers and acquisitions over the coming year. Sentiment regarding the expected change in the level of mergers and acquisitions has significantly declined compared to the first half of 2018.

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



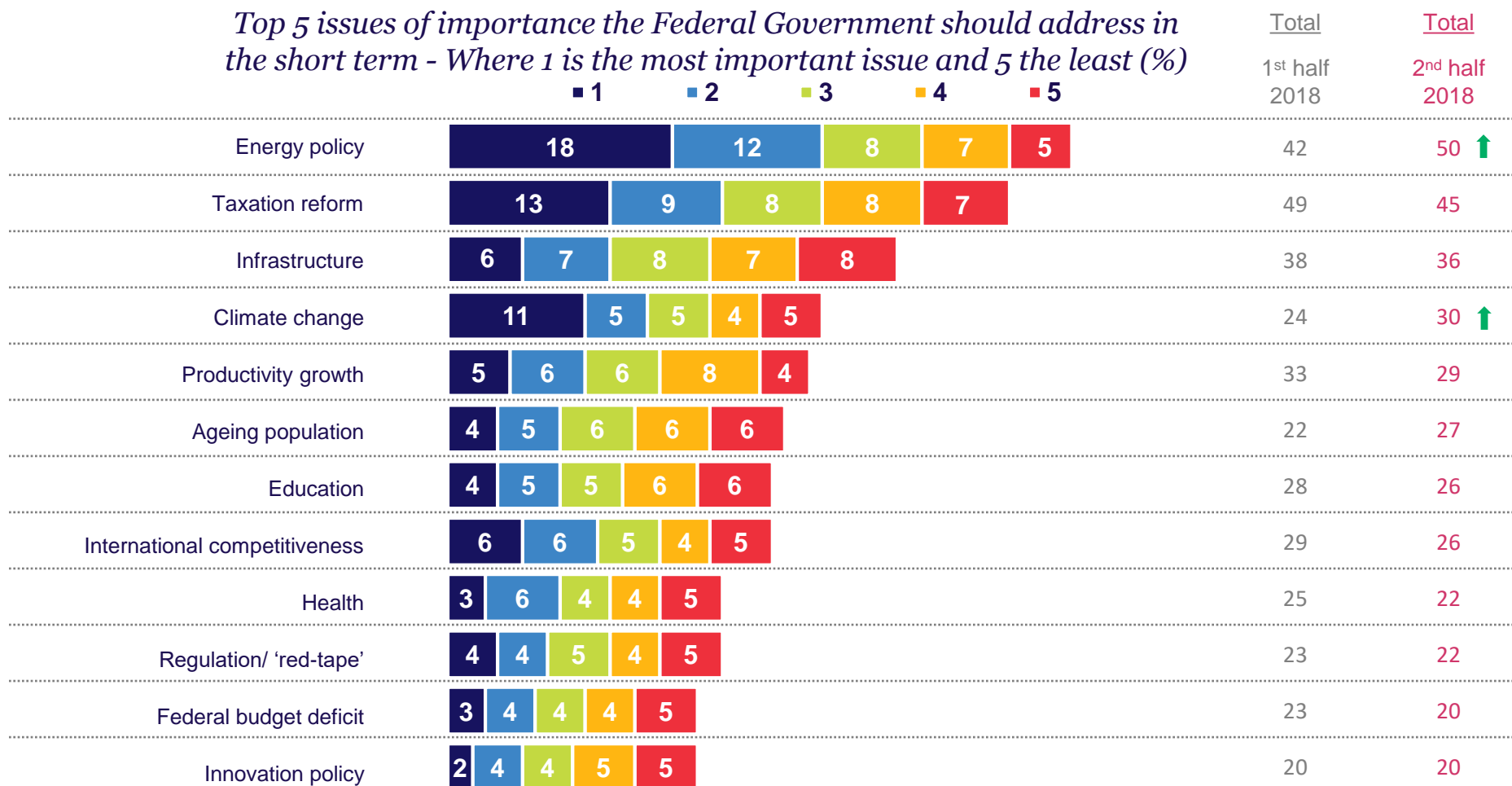
Government Policy

Budgetary

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

Directors rate energy policy, taxation reform 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 (%)

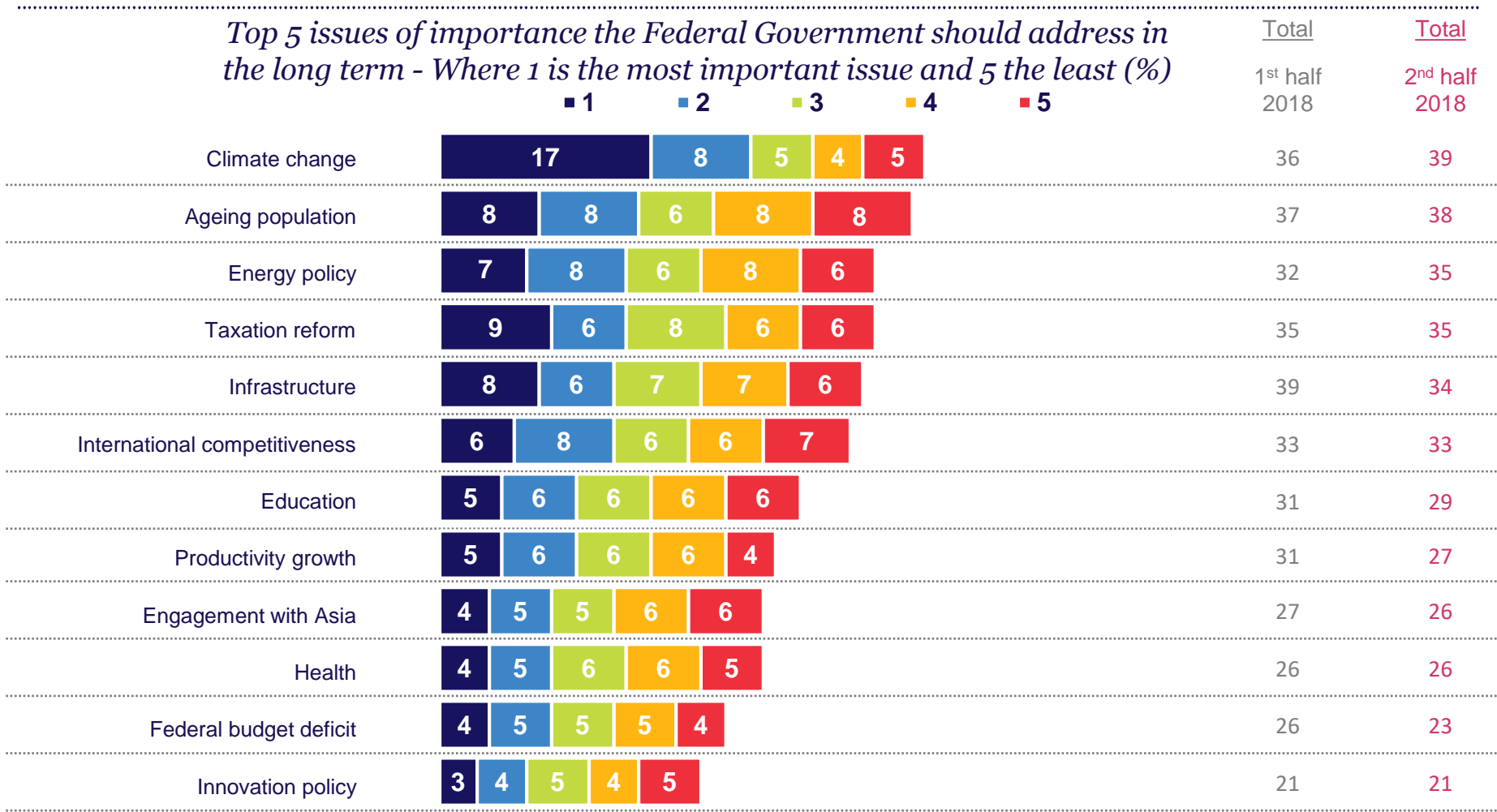
	■ 1	■ 2	■ 3	■ 4	■ 5	Total 1st half 2018	Total 2nd half 2018
Lack of skills in workforce/ skills shortages	3	4	5	4	4	16	20
Engagement with Asia	3	3	4	5	4	19	19
Indigenous disadvantage	2	2	4	4	5	16	17
Industrial Relations	3	3	3	3	3	15	15
Foreign ownership	2	3	2	3	3	12	13
NBN rollout	2	2	3	3	3	20	13 ↓
Size of the Federal Government	2	2	2	3	3	13	12
Superannuation	1	2	2	3	3	9	11
Skilled immigration including changes to 457 arrangements	1	1	2	2	2	9	8
Border protection	1	1	1	2	2	5	7
Constitutional reform *	1	1	1	1	1	NA	5
Childcare policies	1	1	1	1		5	4
Defence	1	1	1	1		5	4

*Note new statement in 2nd half 2018

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

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

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 (%)



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 (%)

	■ 1	■ 2	■ 3	■ 4	■ 5	Total	Total
						1st half 2018	2nd half 2018
Indigenous disadvantage	3	3	4	5	5	18	20
Lack of skills in workforce/ skills shortages	2	4	4	3	3	16	16
Regulation/ 'red-tape'	2	3	4	3	4	15	16
Foreign ownership	2	3	2	3	3	11	13
Industrial Relations	1	2	4	3	2	12	12
Size of the Federal Government	2	2	2	2	3	13	11
Superannuation	2	2	2	2	2	11	10
Constitutional reform *	2	1	2	2	2	NA	9
Defence	2	1	2	2	2	9	9
Border protection	1	1	1	2	2	6	7
NBN rollout	1	1	1	1	1	7	4
Childcare policies	1	1	1			3	3
Skilled immigration including changes to 457 arrangements	1	1	1			4	3

*Note new statement in 2nd half 2018

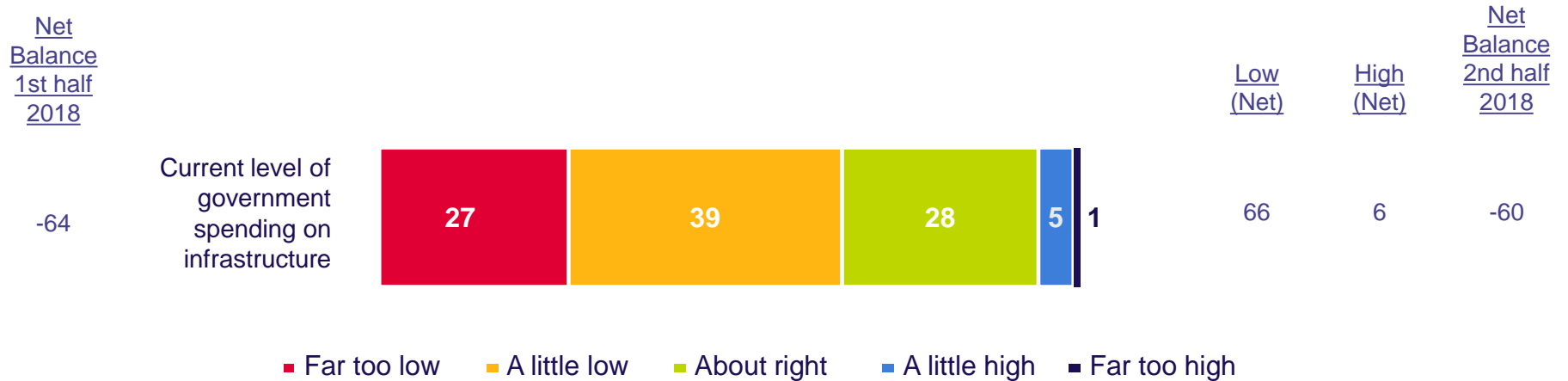
26: Please nominate the top 5 issues of importance, in your opinion, that the federal government should address in the long term (i.e. in the next 10-20 years), where 1 is the most important issue and 5 is the least important.

Base: All respondents n=1252

Current level of government spending on infrastructure

Sentiment regarding the level of government spending on infrastructure is pessimistic, with 66% of directors maintaining the belief that government spending on infrastructure is low.

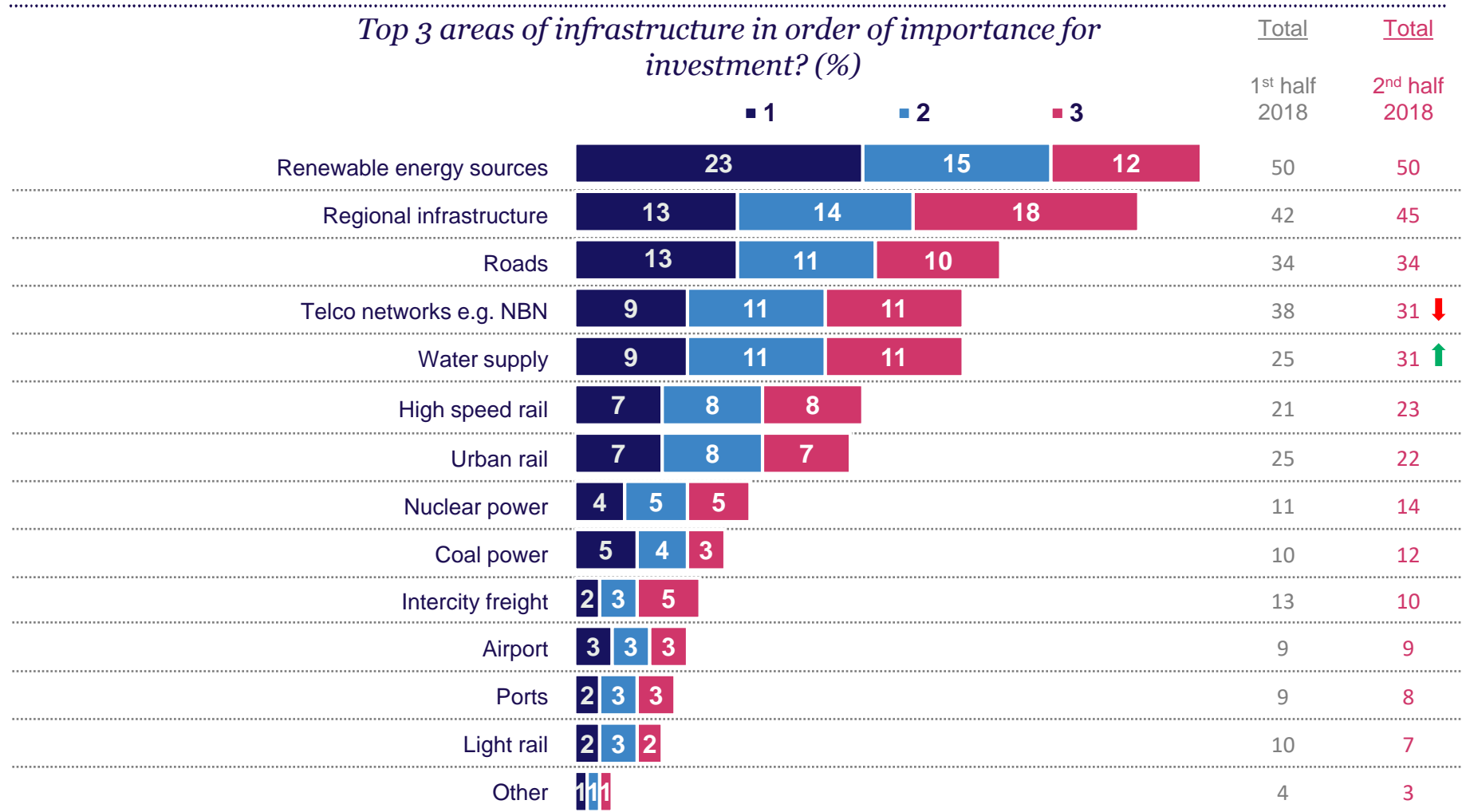
Opinion on current level of government spending on infrastructure (%)



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 roads.

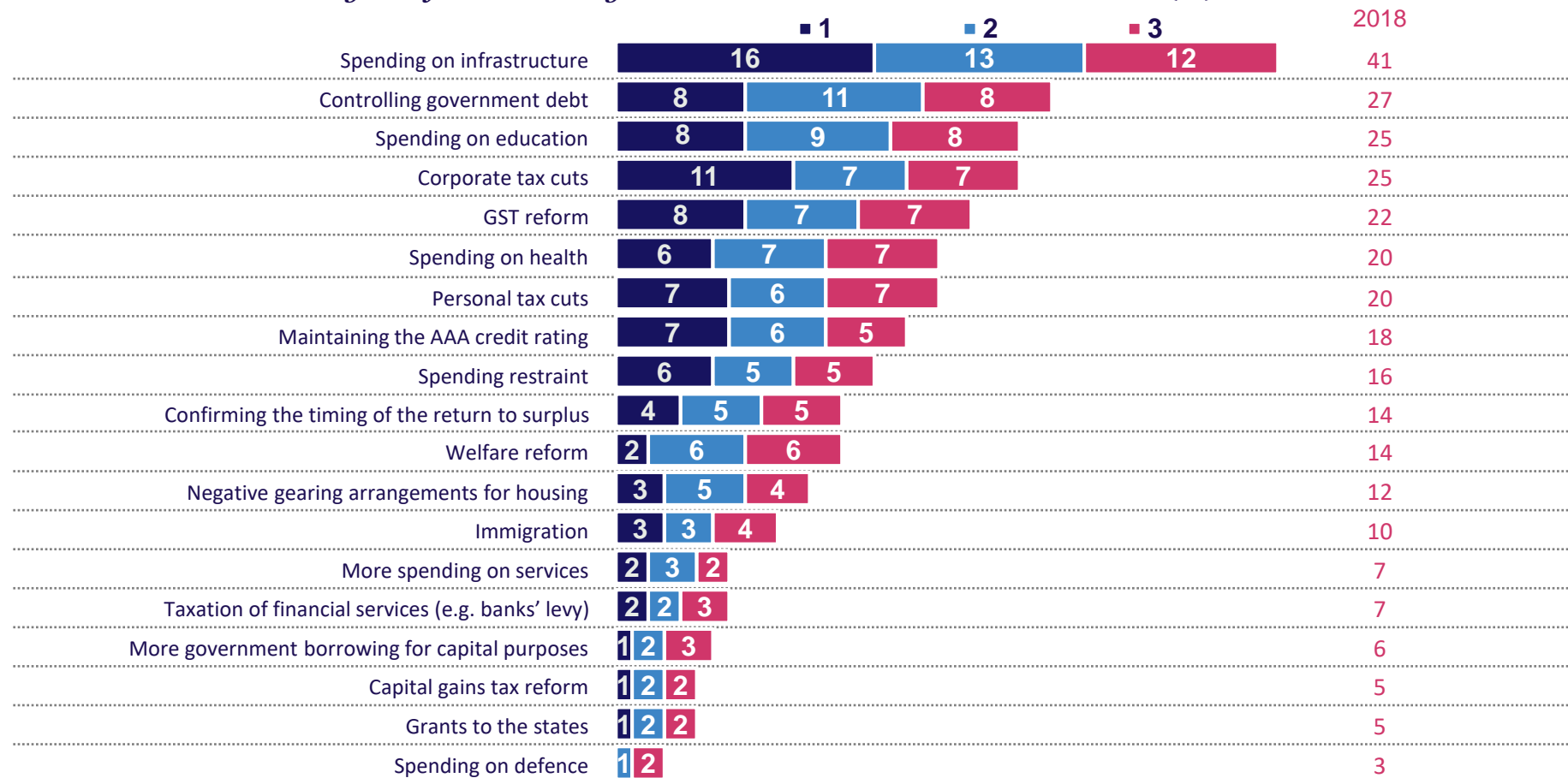
Top 3 areas of infrastructure in order of importance for investment? (%)



Government priorities for a mini-budget to coincide with MYEFO (Top 3) 44

41% of directors rate spending on infrastructure as the top measure the government should prioritise before the end of the year if a mini budget is released to coincide with MYEFO.

Top 3 measures the government should prioritise before the end of this year if a mini-budget is released to coincide with MYEFO (%)



Note: New Question added in 2nd Half 2018

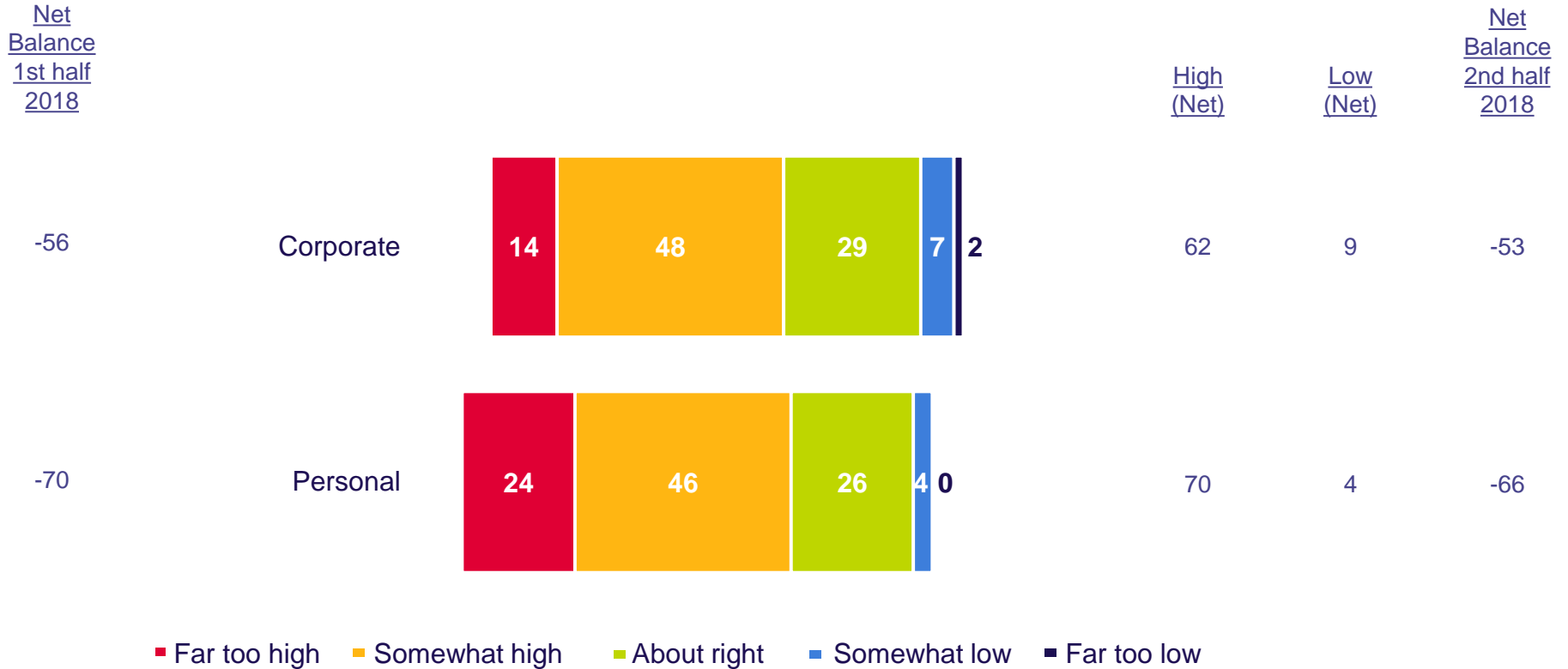
Government Policy

Taxation

Level of taxation in Australia

Directors remain pessimistic regarding the level of taxation in Australia in the second half of 2018. 70% of directors believe personal taxation is high and 62% of directors view corporate tax as high.

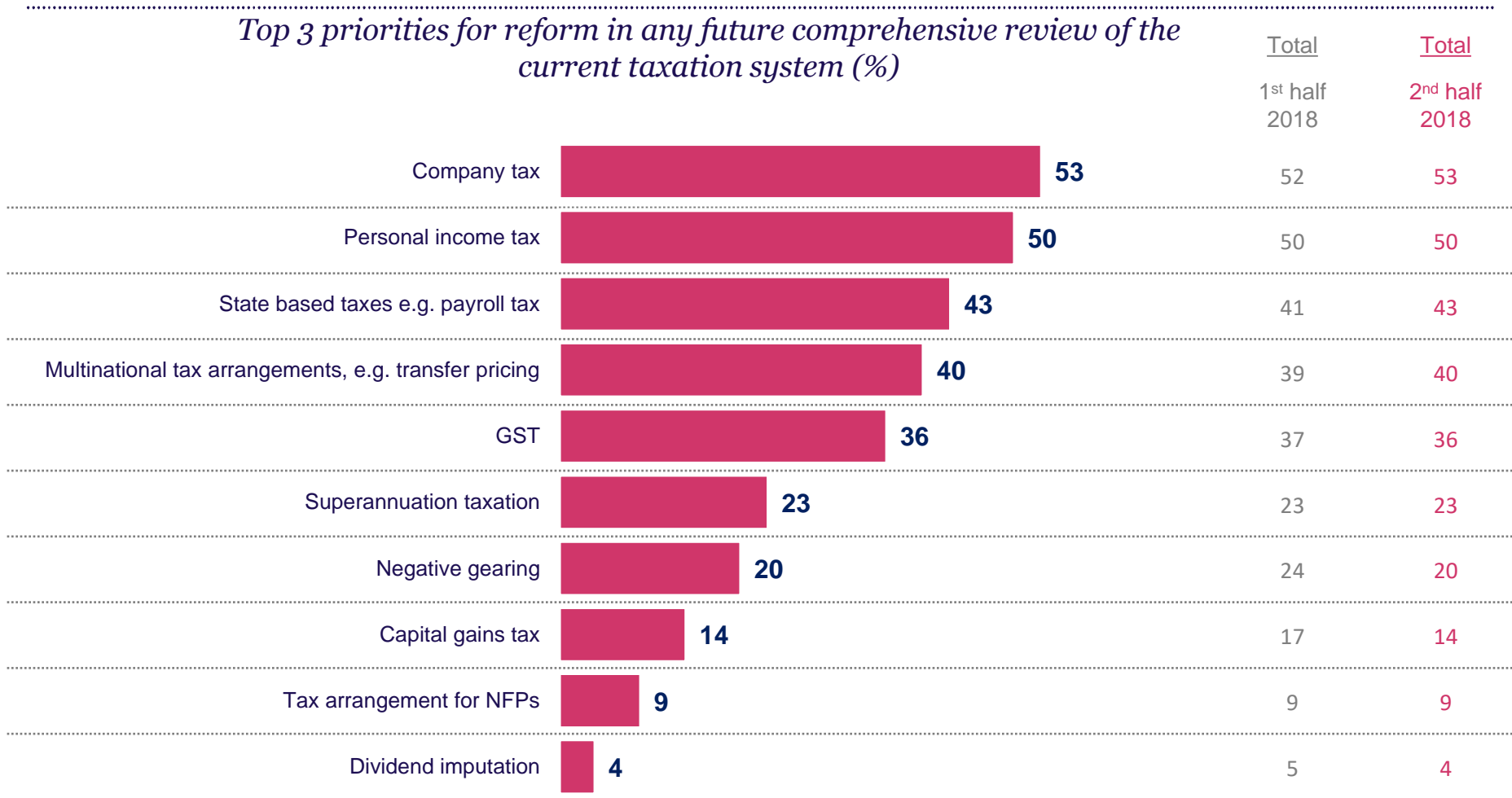
View on level of taxation in Australia – corporate and personal (%)



Reform of taxation system

Directors rate 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 (%)



Government Policy

Regulation

Main measures to lift national productivity

Directors continue to nominate less focus on short termism as the top measure for lifting national productivity, followed by a greater focus on fostering innovation and broad-based tax reform.

Main measures to lift national productivity (%)

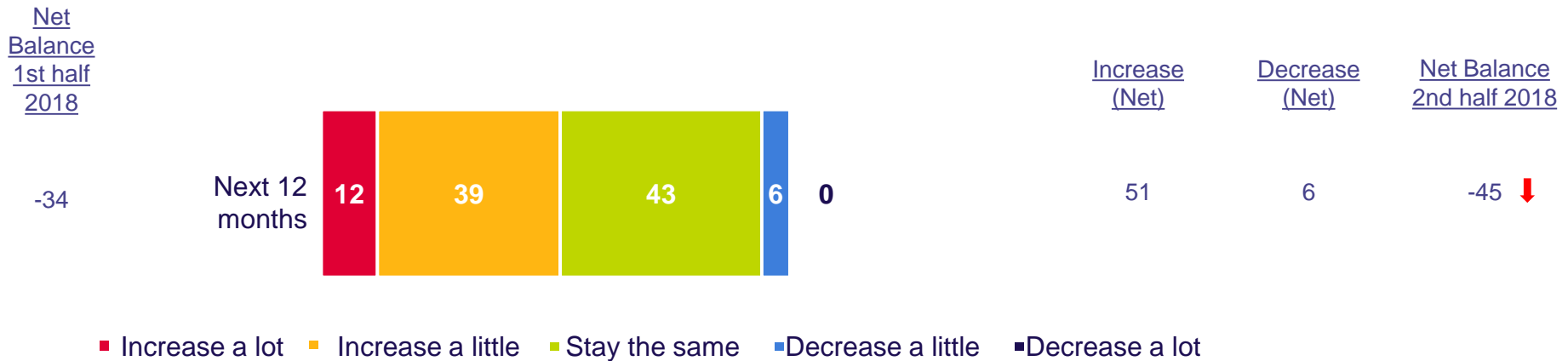
		Total 1st half 2018	Total 2nd half 2018
Less focus on short termism	47	45	47
A greater focus on fostering innovation	35	29	35 ↑
Broad-based tax reform	30	31	30
Better standards of education	28	28	28
More infrastructure spending	28	30	28
Improved outcomes between the Commonwealth and the States/Territories	24	27	24
Faster adoption of technology	22	27	22
Industrial relations reform	22	21	22
Lower company tax rates	19	16	19
More efficient transport networks	19	20	19
Lower personal tax rates	12	12	12
Lower government spending	5	4	5
A lower exchange rate	2	3	2
Interest rate cuts	2	2	2
More competition from offshore	1	2	1
Other	3	3	3

Level of 'red-tape' in next 12 months

50

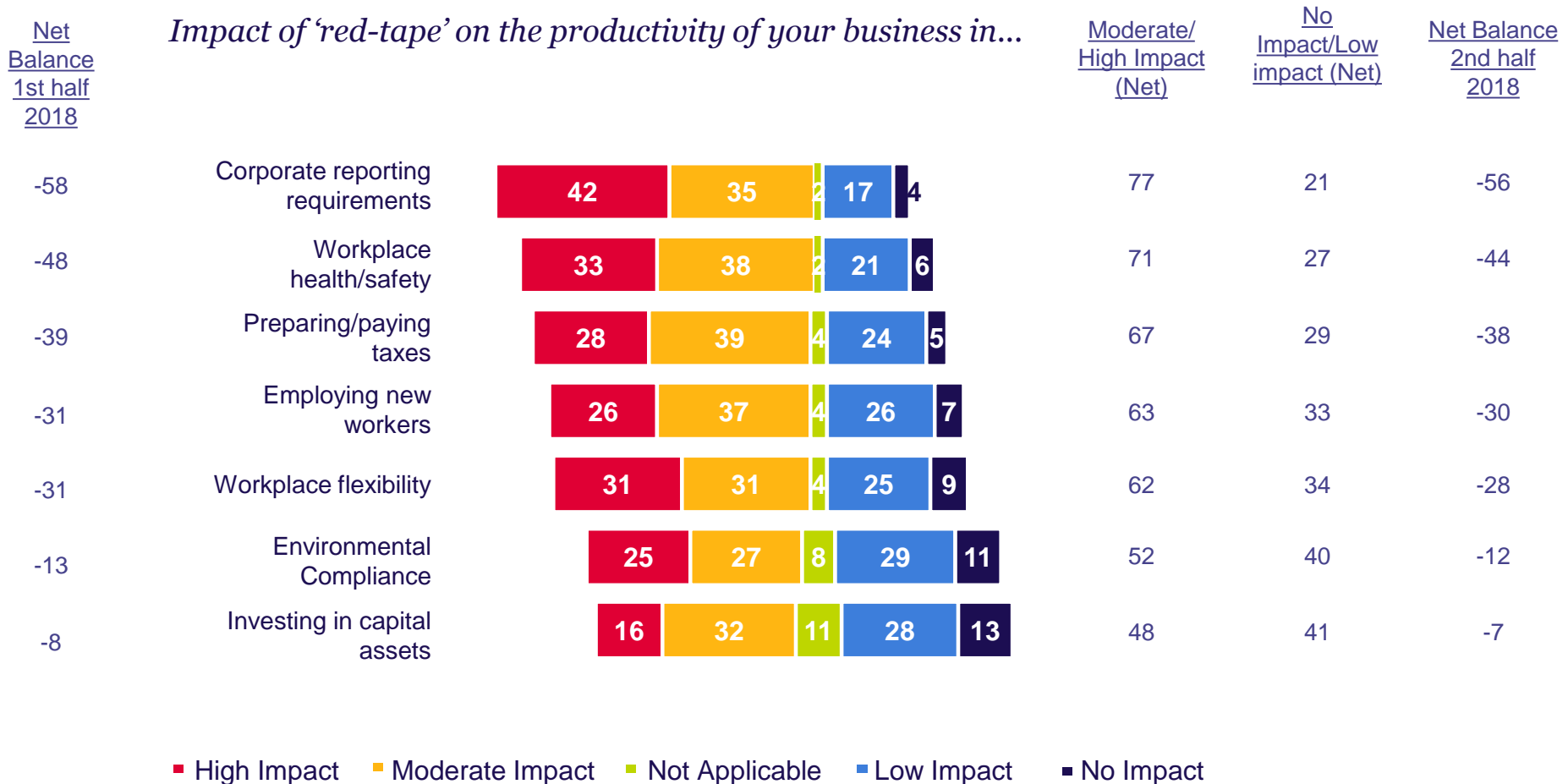
Directors continue to feel pessimistic regarding the level of 'red-tape' in the next 12 months, with 51% expecting an increase.

Level of 'red-tape' – next 12 months



Impact of 'red-tape' on business productivity

77% 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.



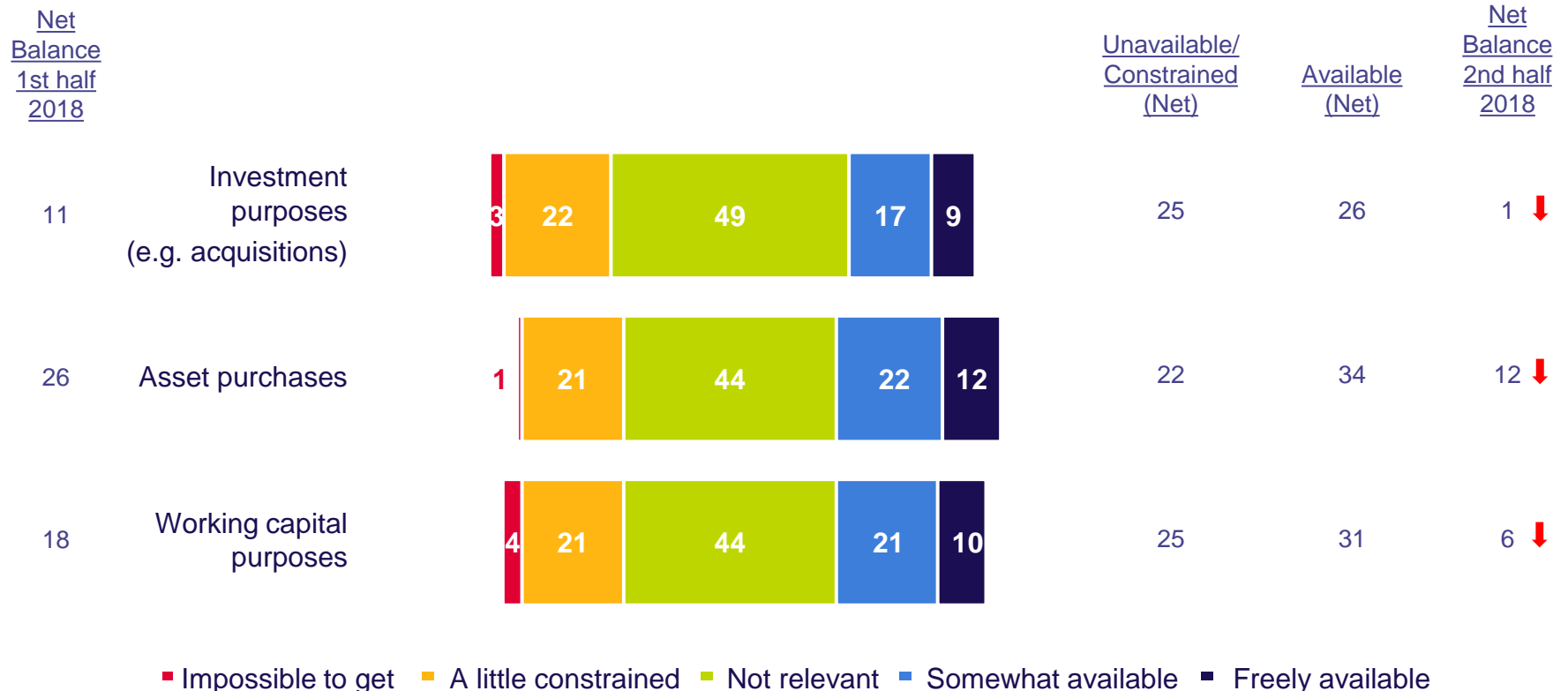
Government Policy

Credit Availability

Credit availability for business – Jan-Jun'18

Sentiment around credit availability for businesses over the past six months has decreased compared to the first half of 2018.

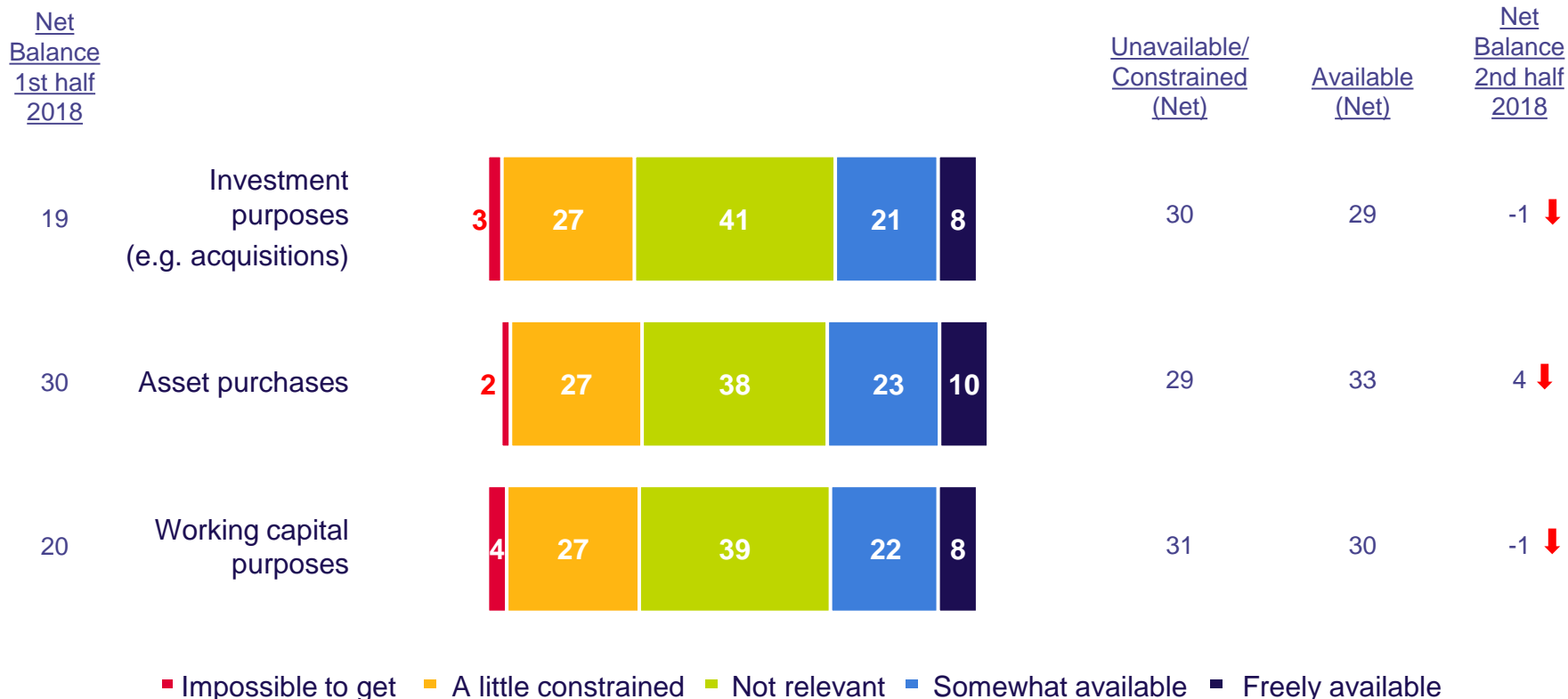
Credit availability for business – Jan-Jun'18 (%)



Credit availability for business – next 12 months

Expectations of credit availability in the future have become pessimistic compared to the first half of 2018. 31% of directors expect credit for working capital purposes will be unavailable/constrained in the next twelve months, 30% expect the same regarding credit for investment purposes and 29% expect the same regarding asset purchases.

Credit availability for business - next 12 months (%)



Government Policy

Industrial Relations

Extent Federal government should pursue industrial relations reform

56

48% of directors want the Government to pursue significant industrial relations reform following an electoral mandate.

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

	1 st half 2018	2 nd half 2018
Significant reform in the next term of government, following an electoral mandate	46	48
Significant reform in the current term of government	19	17
No significant reform of industrial relations is required	35	35

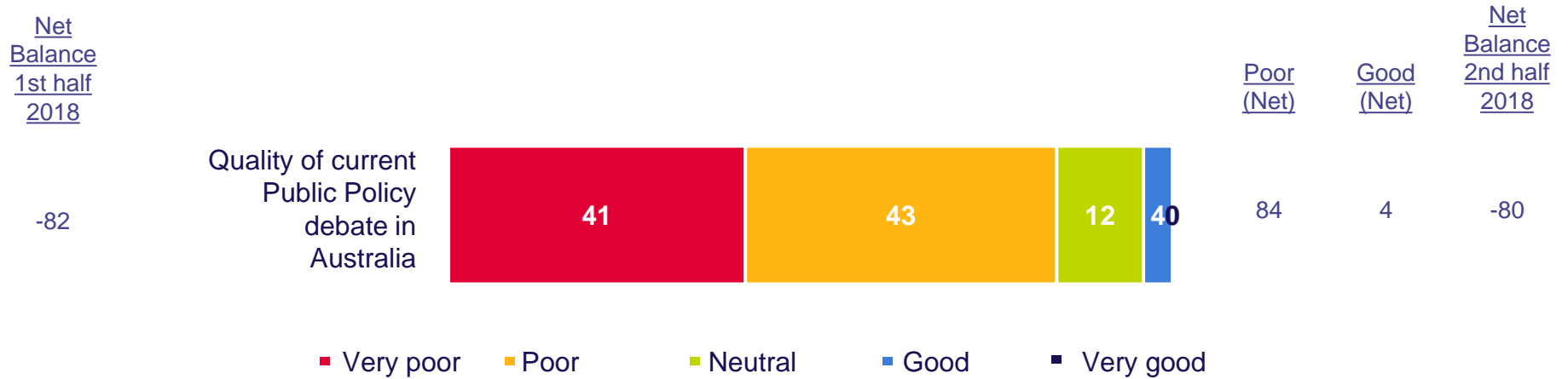
Government Policy

Public Policy

Quality of Public Policy debate

Similar to the first half of 2018, 84% of directors believe the current quality of public policy debate in Australia is poor.

Opinion on Public Policy debate (%)



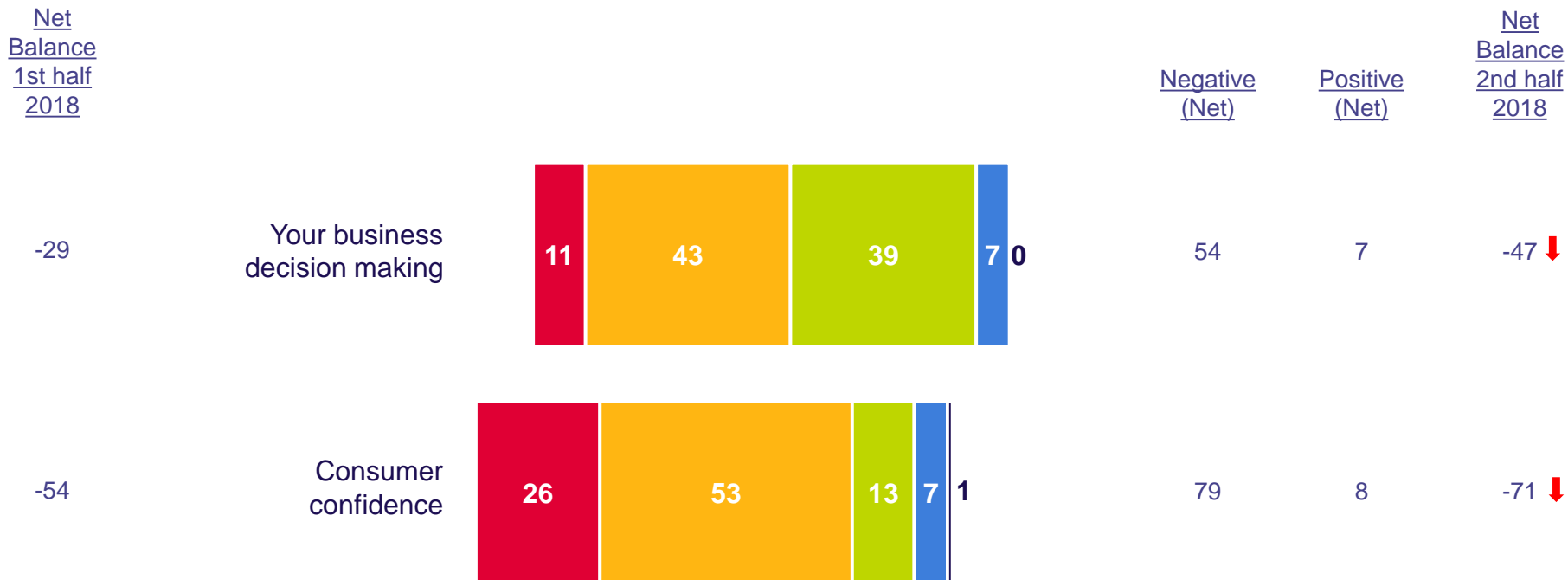
Government Policy

Performance & Business Understanding

Impact of Federal Government's performance on business

Compared to the first half of 2018, directors are more pessimistic about the effect of the Federal Government's current performance, with 79% perceiving a negative effect on consumer confidence and 54% perceiving a negative effect on their business decision making.

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

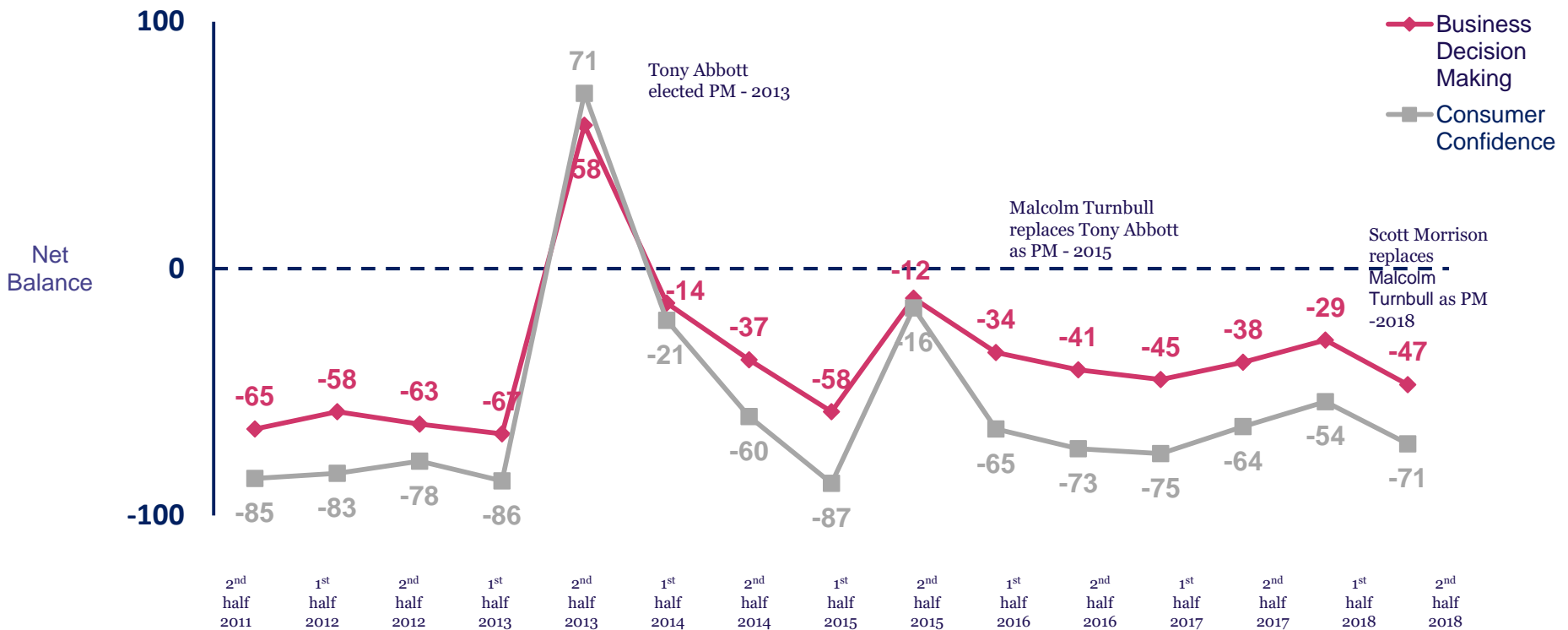


■ Very negatively ■ Somewhat negatively ■ No effect ■ Somewhat positively ■ Very positively

Impact of federal government on business – semi-annual trend

The effect of the Federal Government's performance on business decision making and consumer confidence has become increasingly pessimistic.

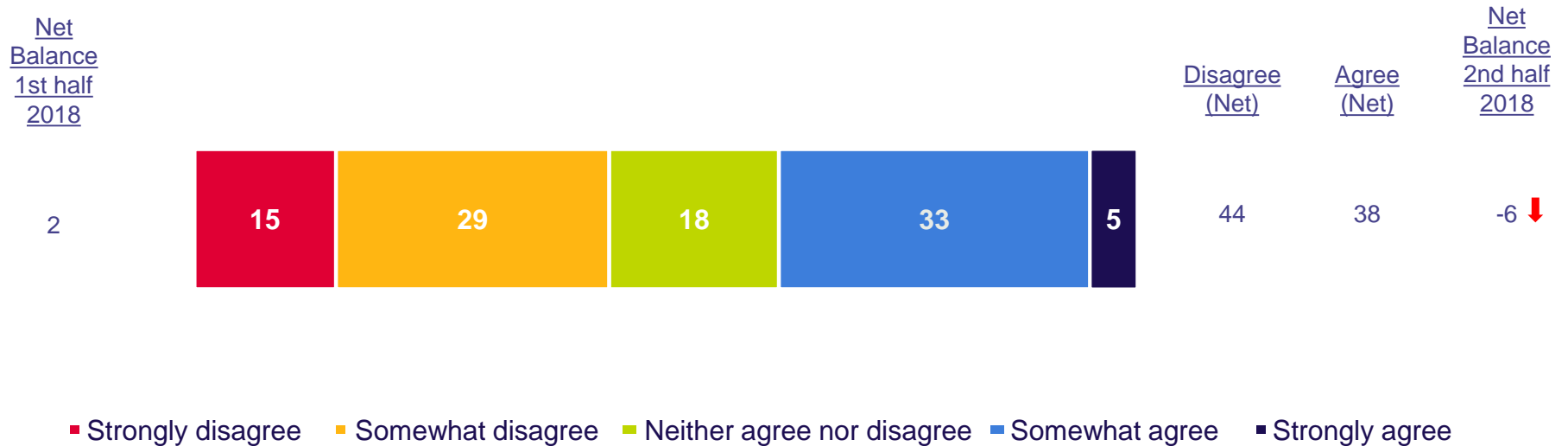
Federal government's performance affecting... – semi-annual trend (net balance)



Federal government's understanding of business

Directors are pessimistic about the Federal Government's understanding of business, with 44% disagreeing that the current Federal Government understands business.

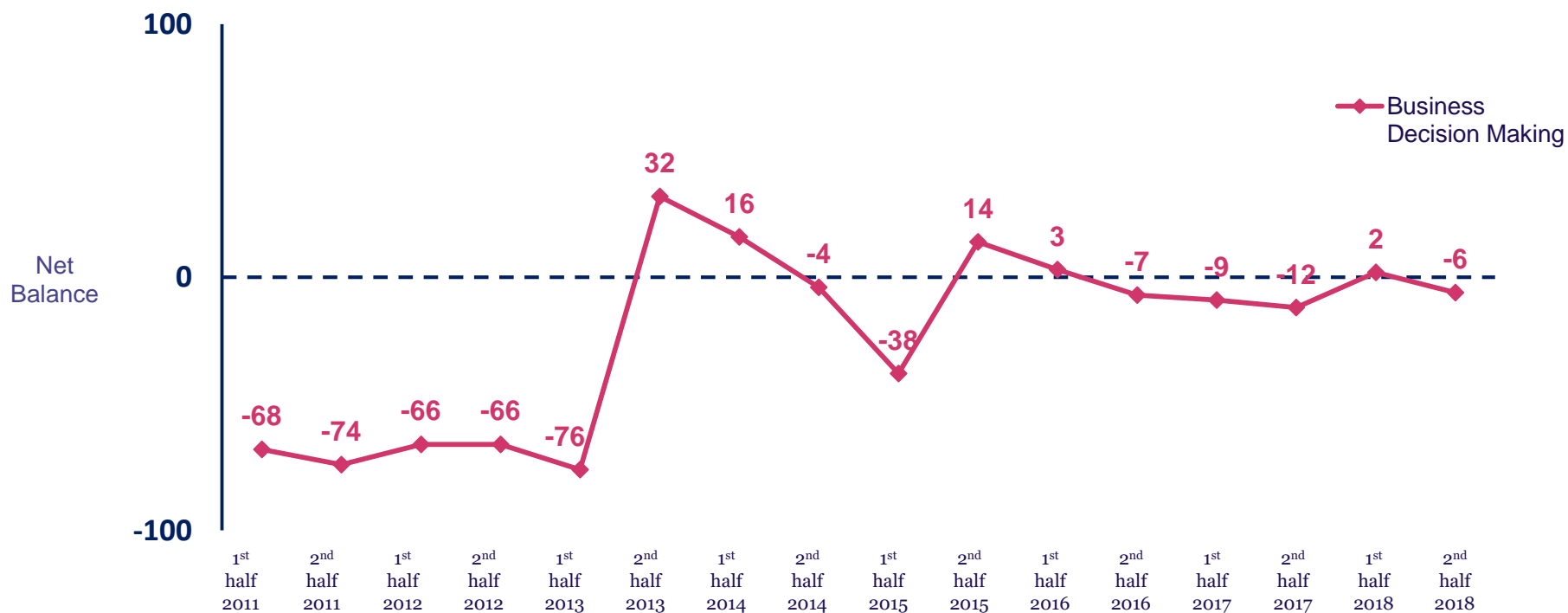
The current federal government understands business ... ? (%)



Federal government's understanding of business – semi-annual trend

The upward movement in sentiment in the first half of 2018 regarding the Federal Government's understanding of business has reverted downwards in the second half of 2018.

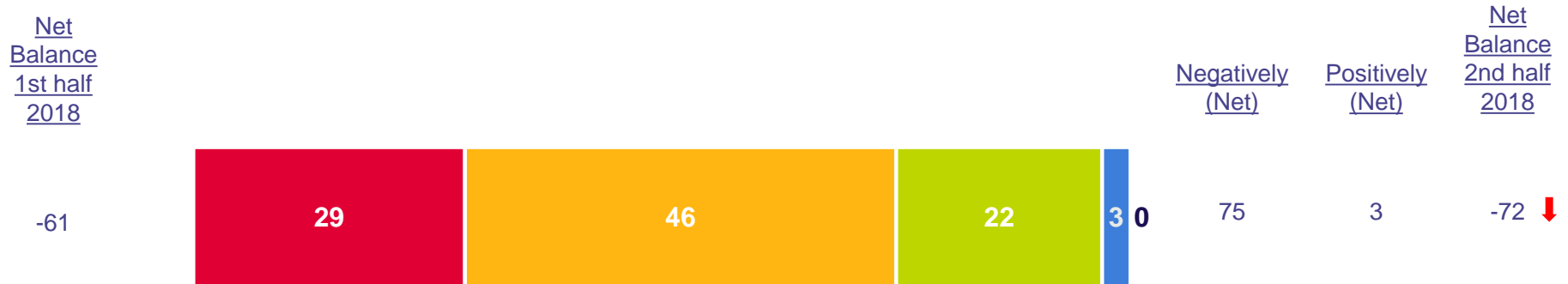
Does the current federal government understand business? – semi-annual trend (net balance)



Senate's effect on business confidence

75% of directors feel that the make up of the Senate is negatively affecting business confidence.

Senate's effect on business confidence (%)



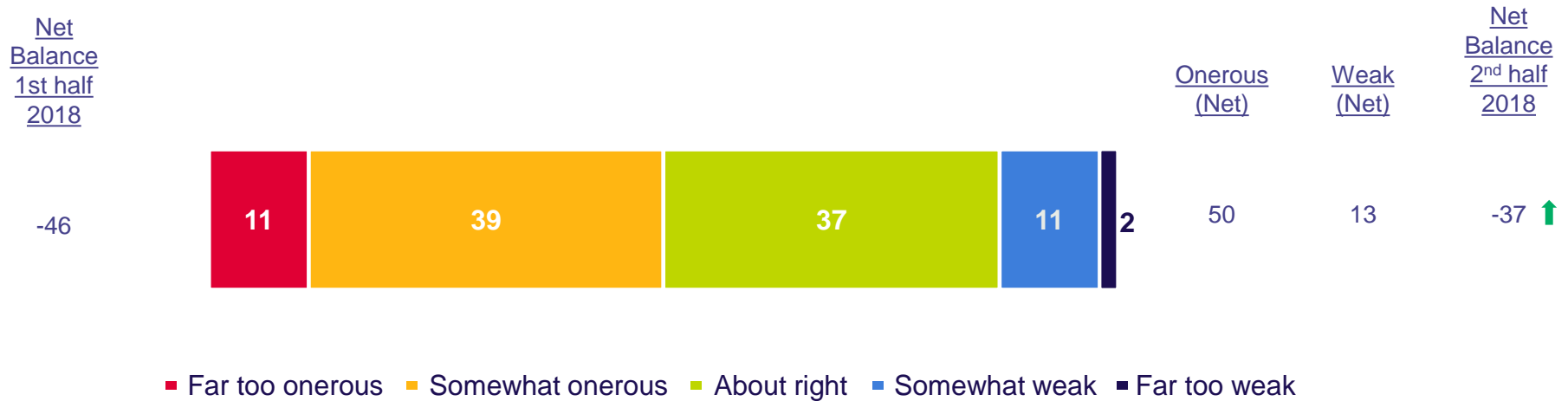
- Very negatively
- Somewhat negatively
- No effect
- Somewhat positively
- Very positively

Key Issues for Directors and Boards

Current governance regulations under the Corporations Act

Directors continue to feel pessimistic about current governance regulations, with 50% perceiving them to be onerous. However, there has been a significant increase in directors considering the governance regulations as weak compared to the first half of 2018.

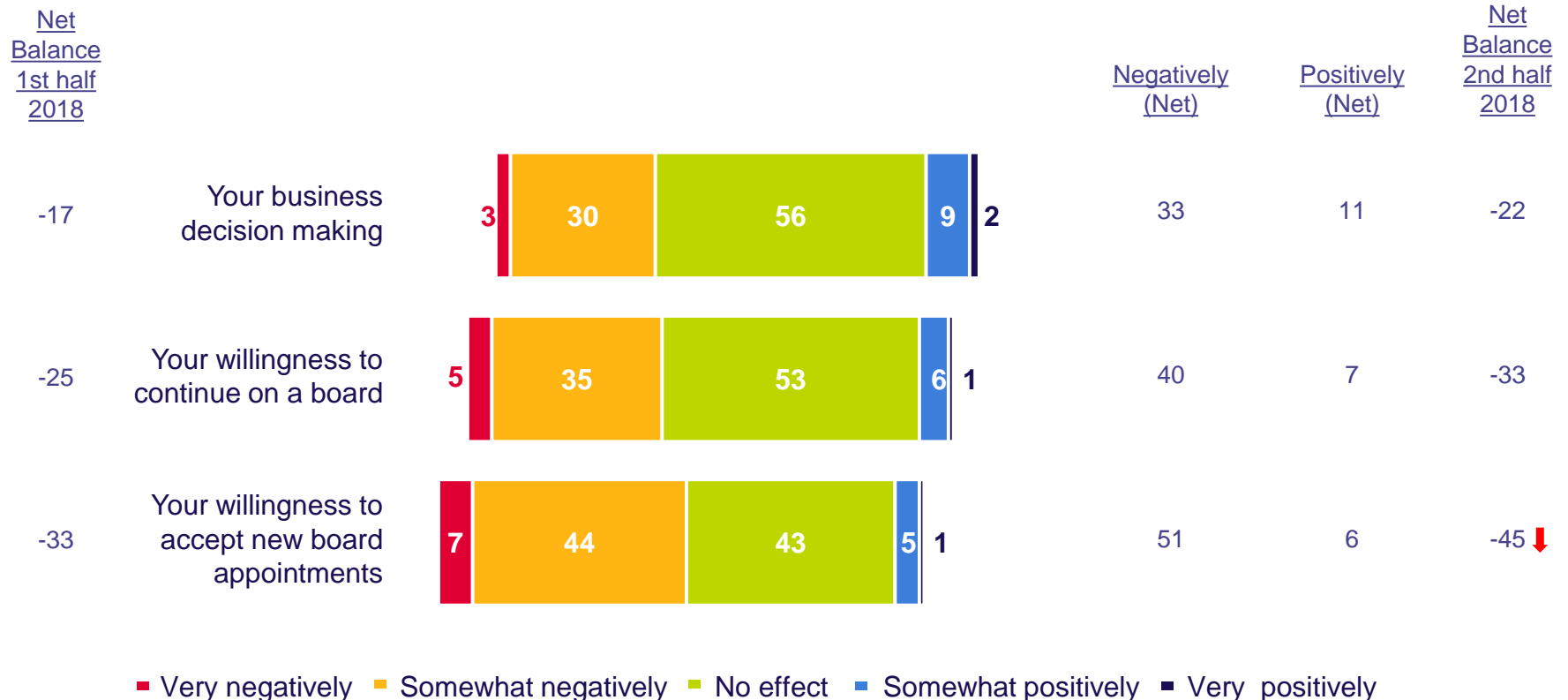
Are current governance regulations...? (%)



Impact of legislation on director liability

Directors are increasingly concerned about the impact director liability is having on their willingness to accept new board appointments.

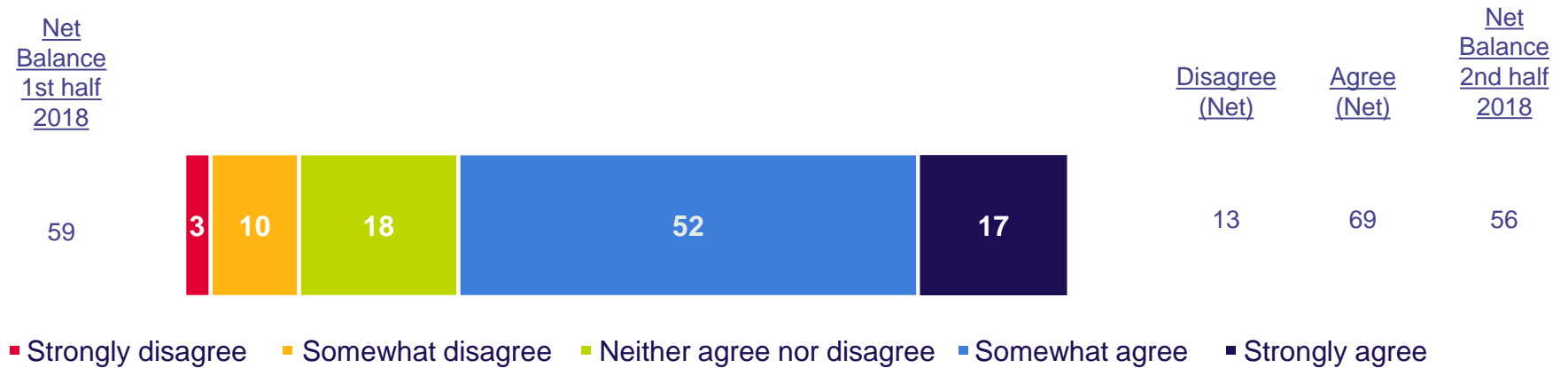
How legislation on directors' liability is affecting... (%)



Business decision making and risk aversion

69% of directors perceive there to be a risk-averse decision-making culture on Australian boards.

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



Reason for risk-averse decision making culture

28% of directors believe 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.

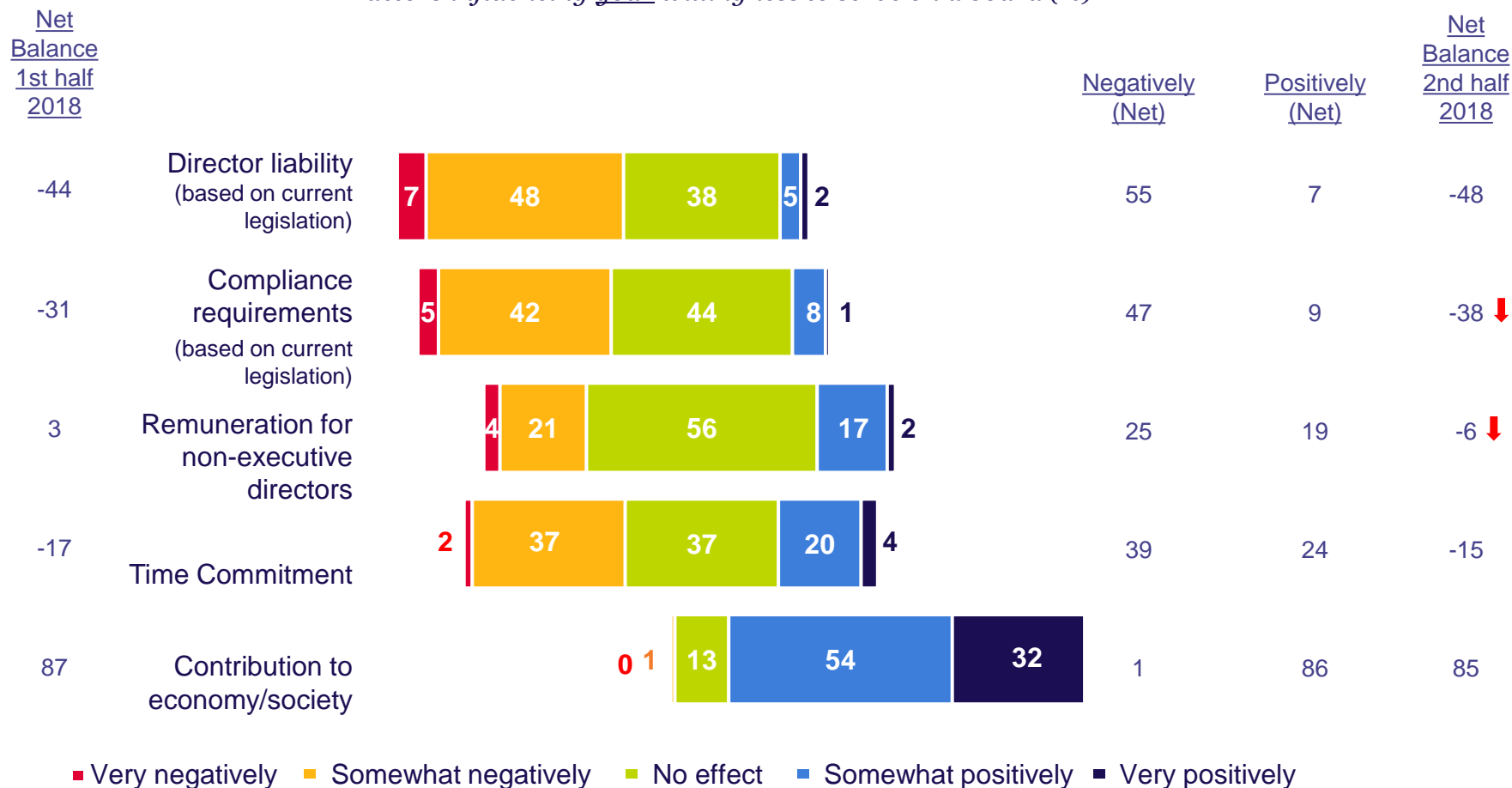
Main reason that there is a risk-averse decision making culture (%)	Total	Total
	1 st half 2018	2 nd half 2018
Excessive focus on compliance over performance	31	28
Pressure from shareholders for short-term returns	22	21
Lack of genuine diversity in the boardroom	16	11
Director liability provisions	14	9
Uncertainty surrounding national policy settings	6	9
Increased penalties for directors *	NA	7
Excessive scrutiny from the media	4	5
Class actions *	NA	3
Uncertainty about new technologies	2	2
Excessive scrutiny from investors	2	1
Other/something else	3	2

*Note new statements in 2nd half 2018

Factors influencing your willingness to serve on a board

Consistent with the first half of 2018, 86% of directors believe that the contribution they make to the economy and society influences their willingness to serve on a board, while 55% believe that director liability negatively impacts their willingness to serve on a board.

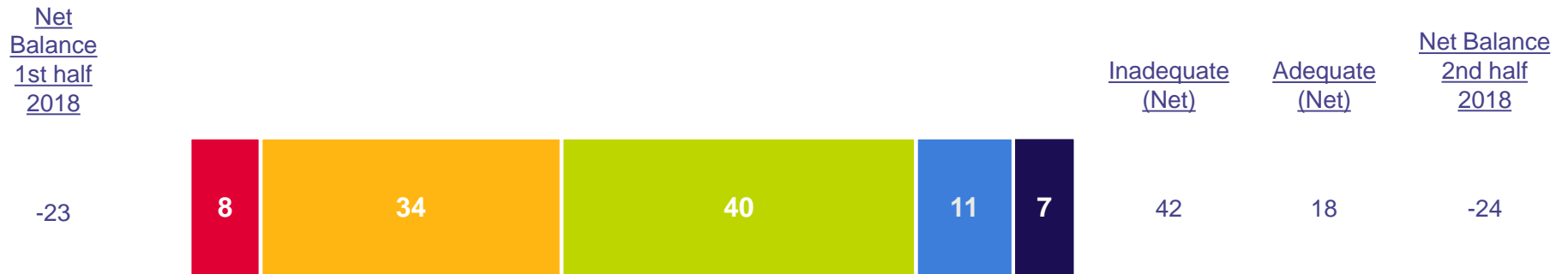
Factors influencing your willingness to serve on a board (%)



Adequacy of public company remuneration reports

Directors remain pessimistic about the adequacy of public company remuneration reports, with 42% of directors perceiving them to be inadequate.

Adequacy of public company remuneration reports (%)

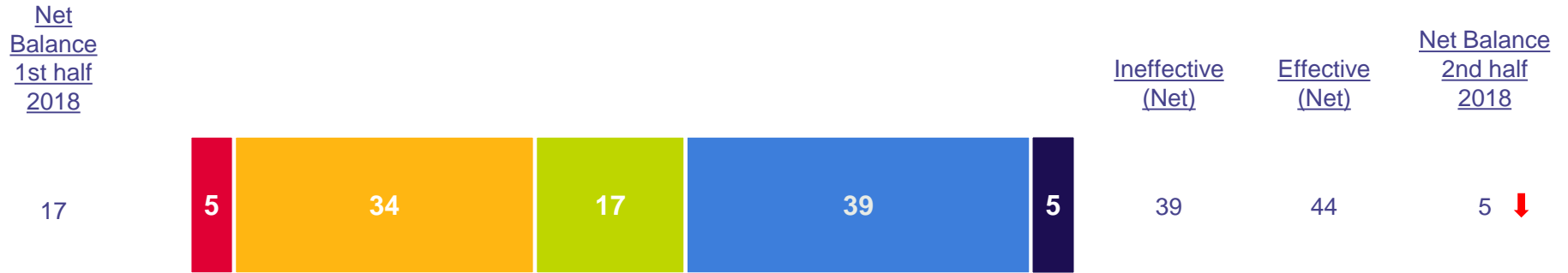


■ Wholly inadequate
 ■ Somewhat inadequate
 ■ About right
 ■ Somewhat adequate
 ■ Very adequate

Effectiveness of corporate reporting

Director sentiment is mixed about the effectiveness of corporate reporting, almost the same numbers rating it as effective or ineffective.

Effectiveness of corporate reporting(%)

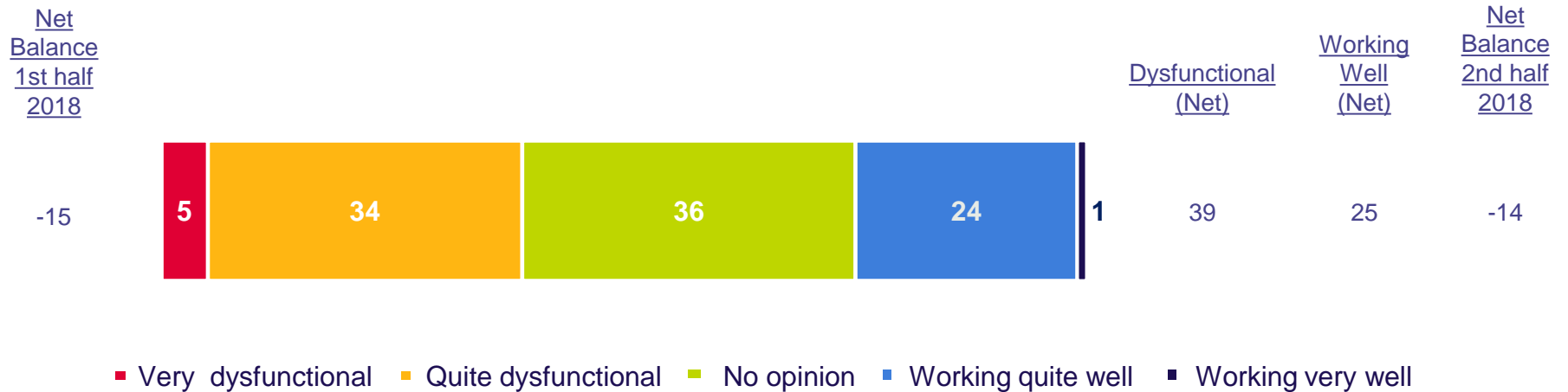


■ Wholly ineffective ■ Somewhat ineffective ■ No opinion ■ Somewhat effective ■ Very effective

Current AGM system

Sentiment regarding the current AGM system remains relatively consistent in the second half of 2018, with 39% 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 second half of 2018, with 74% of directors stating that their business is actively seeking to improve in this area, while 53% 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? (%)



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

Extent Board is trying to effect change in culture

89% of directors believe their Board is trying to effect change in culture within their organisation.

Extent Board is trying to effect change in culture in the organisation (%)



Steps to regain and rebuild public trust

52% of directors believe that demonstrating respect for customers/clients/communities should be prioritised by boards in order to rebuild public trust, followed by trustworthiness of leadership and improving corporate culture.

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

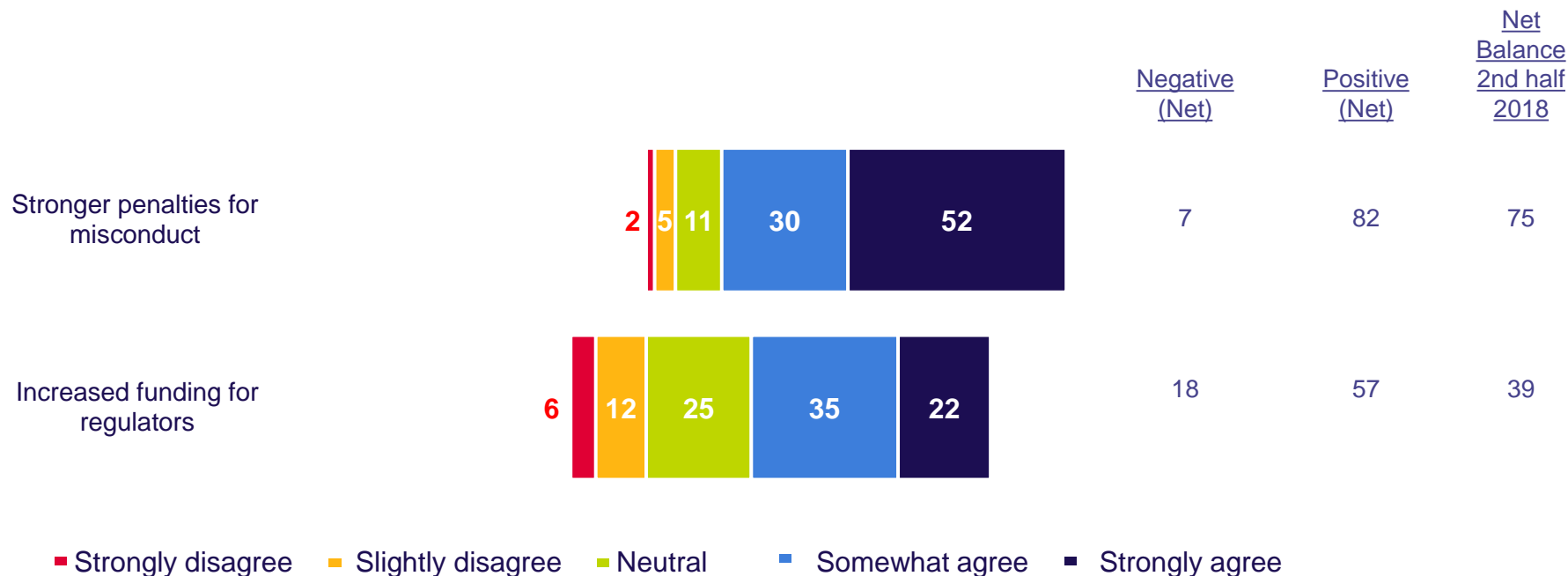


Topical Issues

Support for policy options in response to current governance challenges 78

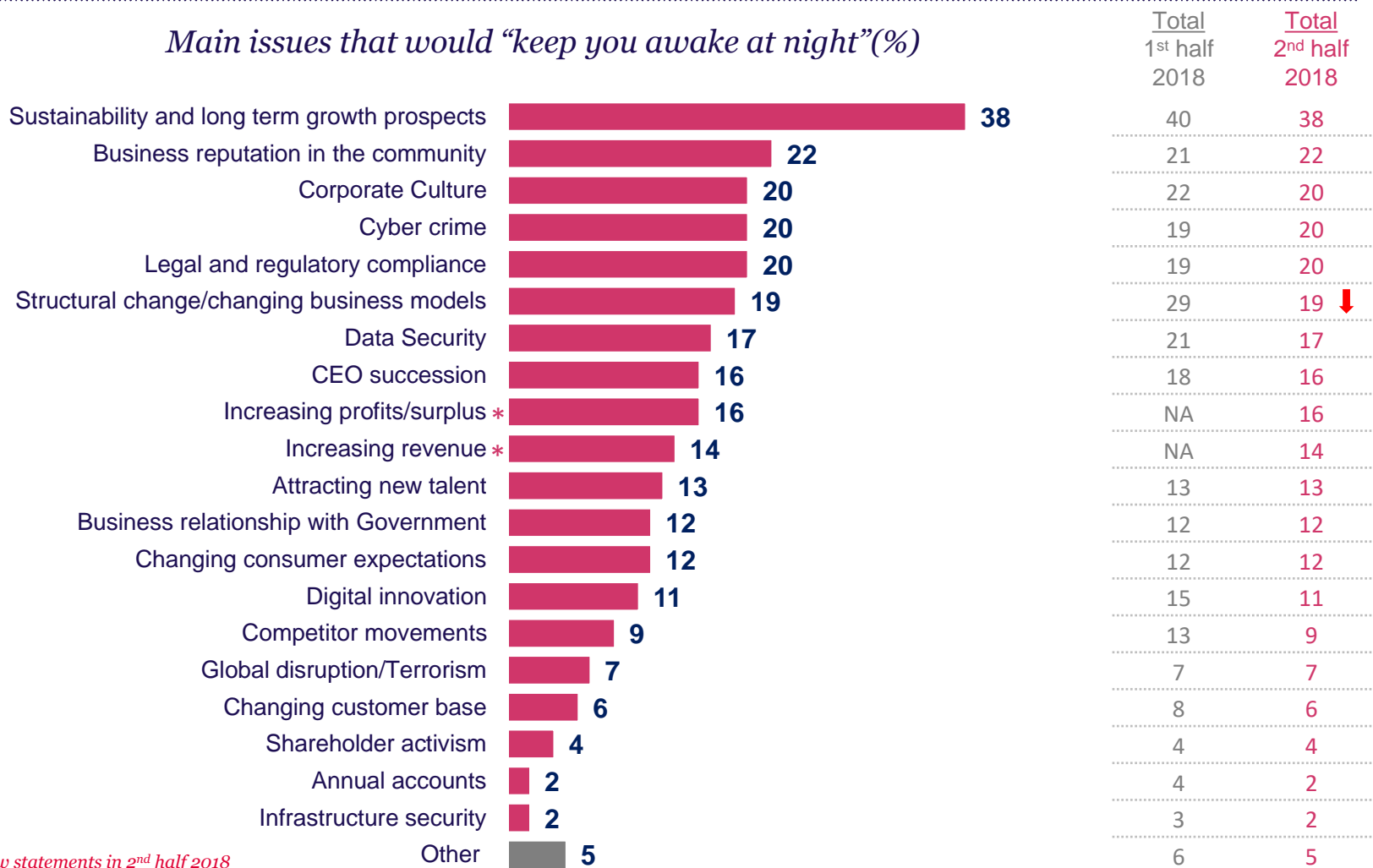
82% of directors support stronger penalties for misconduct and 57% of directors agree with increased funding for regulators as policy options to respond to the current governance challenges.

47. Various policy options have been suggested in response to the current governance challenges facing the Financial Services and Superannuation sectors. To what extent do you support the following potential reforms? (%)



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”. Business reputation in the community, corporate culture, cyber crime as well as legal and regulatory compliance are also pertinent.



**Note new statements in 2nd half 2018*

Summary of Key Indicators

Summary of key indicators

(1 of 6)

Indicator (expected change in coming 12 months)	Scale	2 nd half 2018 net balance	1 st half 2018 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	2 ↓	12
Health of the Asian economy	Weak/strong	33 ↓	56
Health of the European economy	Weak/strong	-33 ↓	-20
Health of the US economy	Weak/strong	21	24
Inflation rate (Australia)	Lower/higher	35	41
Exchange rate (value of AUD versus USD)	Lower/higher	-44 ↓	-26
RBA cash rate	Lower/higher	43 ↓	51
Level of wages growth	Lower/higher	33	36
Unemployment rate	Lower/higher	-7 ↑	-17
Expected change in ASX All Ordinaries index	Fall/rise	6 ↓	28

Summary of key indicators

(2 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	2 nd half 2018 net balance	1 st half 2018 net balance
Business conditions			
Growth of primary directorship business	Weak/strong	39 ↓	49
Change in business investment levels	Decrease/increase	26 ↓	36
Change in business staffing levels/labour demand	Decrease/increase	29	34
Change in level of business exports	Decrease/increase	17	20
Change in level of outsourcing	Decrease/increase	23 ↓	30
Expectations of profits for Jul-Dec 2018 actual versus forecast*	Below/up	20	22
Expectations of profits for Jan-Jun 2019 actual versus forecast*	Below/up	24	23
Confidence in general business outlook*	Pessimistic/opt	26 ↓	35
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	32	38
Expected change in level of mergers and acquisitions	Fall/rise	49 ↓	57
Infrastructure			
Perception of level of government spending on infrastructure*	Low/high	-60	-64
Perception of current level of taxation*			
Perception of current level of corporate taxation*	High/low	-53	-56
Perception of current level of personal taxation*	High/low	-66	-70

Summary of key indicators

(3 of 6)

Indicator	Scale	2 nd half 2018 net balance	1 st half 2018 net balance
Regulation, legal issues, reporting			
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-45 ↓	-34
Impact of 'red-tape' on preparing/ paying taxes	High impact/low impact	-38	-39
Impact of 'red-tape' on workplace health/safety	High impact/low impact	-44	-48
Impact of 'red-tape' on workplace flexibility	High impact/low impact	-28	-31
Impact of 'red-tape' on employing new workers	High impact/low impact	-30	-31
Impact of 'red-tape' on corporate reporting requirements	High impact/low impact	-56	-58
Impact of 'red-tape' on environmental compliance	High impact/low impact	-12	-13
Impact of 'red-tape' on investing in capital assets	High impact/low impact	-7	-8




Summary of key indicators

(4 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	2 nd half 2018 net balance	1 st half 2018 net balance
Tax, credit, M&A			
Credit availability for investment purposes	Constrained/available	-1 ↓	19
Credit availability for asset purchases	Constrained/available	4 ↓	30
Credit availability for working capital	Constrained/available	-1 ↓	20
Public Policy			
Quality of current Public Policy debate in Australia*	Poor/good	-80	-82
Regulation, legal issues, reporting			
Agreement with 'Federal Government understands business'*	Disagree/agree	-6 ↓	2
Regulation, legal issues			
How is the current Federal Government's performance affecting your business decision making?*	Negatively/positively	-47 ↓	-29
How is the current Federal Government's performance affecting consumer confidence?*	Negatively/positively	-71 ↓	-54

Summary of key indicators

(5 of 6)

Indicator	Scale	2 nd half 2018 net balance	1 st half 2018 net balance
Regulation, legal issues			
Perception of governance regulations	Onerous/weak	-37 	-46
Extent legislation on directors affect your business decision-making	Negatively/positively	-22	-17
Extent legislation on directors affect your willingness to continue on a board	Negatively/positively	-33	-25
Extent legislation on directors affect your willingness to accept new board appointments	Negatively/positively	-45 	-33
Risk-averse decision-making culture on Australian boards	Disagree/agree	56	59
Adequacy of public company remuneration reports	Inadequate/adequate	-24	-23
Effectiveness of corporate reporting	Ineffective/effective	5 	17
Functionality of current AGM system	Dysfunctional/ functional	-14	-15

Summary of key indicators

(6 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	2 nd half 2018 net balance	1 st half 2018 net balance
Board diversity			
Board actively seeking to increase diversity of gender on board	Not actively/actively	35	36
Board actively seeking to increase diversity of age on board	Not actively/actively	7	8
Board actively seeking to increase diversity of skills on board	Not actively/actively	64	63
Board actively seeking to increase diversity of ethnicity on board	Not actively/actively	2	-2
Directorship conditions			
Impact of directors' liability on willingness to serve on a board	Negatively/positively	-48	-44
Impact of compliance requirements on willingness to serve on a board	Negatively/positively	-38 ↓	-31
Impact of remuneration on willingness to serve on a board	Negatively/positively	-6 ↓	3
Impact of contribution to economy/society on willingness to serve on a board	Negatively/positively	85	87
Impact of time commitment on willingness to serve on board	Negatively/positively	-15	-17

Explanation of charts – example only

