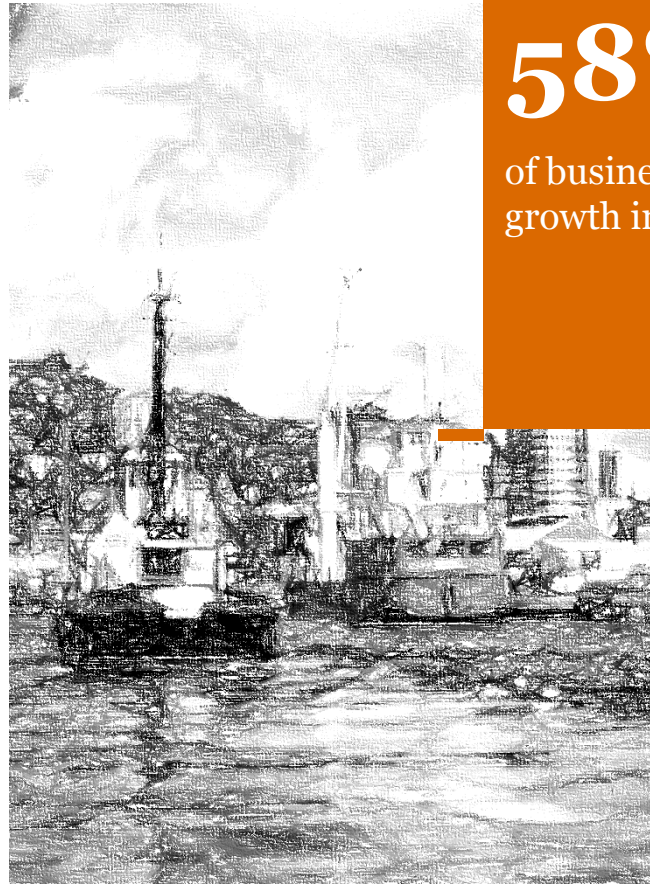


Business outlook remains challenging



58%

of businesses surveyed experienced negative growth in the first half of 2016

79%

say that the outlook over the next six months will remain challenging and are not optimistic that they can improve their results



Financial Services



Oil & Gas, and Mining



Engineering and Construction



Insurance



Industrial Manufacturing



Business & Professional Services



Banking & Capital Markets



Retail & Consumer



ICT



State-owned Enterprise



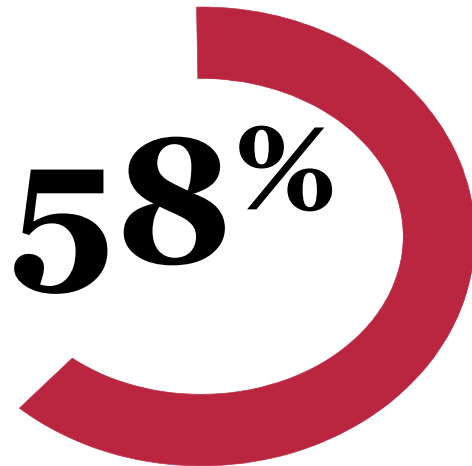
Diversified

This report contains the responses from our H1 2016 PwC Business Barometer Survey. The survey reflects the responses of businesses from 11 different sectors of the economy. The findings are the views of respondents and not of PwC.



Port Moresby's Fairfax Harbour

Revenue and profitability down in the first six months of 2016



58%

of respondents experienced negative growth at the top line in the first half of the 2016 financial year compared to this time last year. **Over half of the businesses in this group experienced more than a 10% drop in revenue and over 36% experienced a greater than 20% decline.**

For most of these businesses the reduction in revenue adversely impacted profitability by up to 20%. **Almost 11% of businesses suffered more than a 20% decline in profitability.**

There were some growth stories. 35% of respondents showed some growth but this was not sector specific. That said, most are now less optimistic about the outlook indicating that revenues and profits are likely to fall over the next half.

Many respondents say they are now reacting with a number of initiatives to improve business performance or at least stem losses. Re-sizing their businesses has meant reducing headcount, but other initiatives are also being explored. While internal initiatives are underway they also cite that Government can help by addressing some fundamental impediments to investment and growth.

The lack of foreign currency was identified as the single biggest impediment to business growth

62% of businesses said that the lack of foreign currency has adversely impacted their business

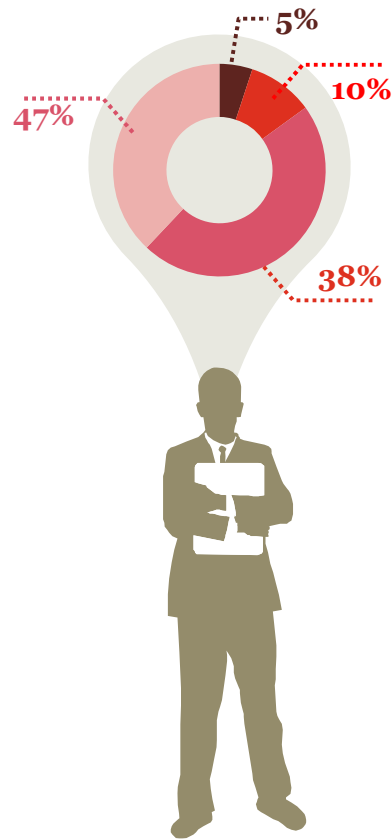
When asked what were the key impediments to business the single biggest factor was the lack of foreign currency in the domestic market. 62% of businesses indicated that this issue had adversely impacted their business and impeded growth. 33% indicated there was no impact and 5% indicated it was favourable.

Respondents to the survey recognized the complexities of the foreign currency issue and the policy challenges presented, and while proffering some solutions, there was no one preferred policy direction being proposed. They did however express a desire for more debate on what the right policy framework might be going forward, given the current operating environment.



As the survey shows, not every business was impacted but there seemed to be agreement for a stable currency, greater transparency of information on currency availability and how this issue will be addressed going forward so that they could make more informed business decisions. In addition, in future, respondents wanted more consultation and debate for such policy changes, and more implementation time.

The political landscape and discourse heavily impacts business growth and investment appetite



62% of survey respondents indicated that the recent political events has caused them to re-think their investment strategy. Of this group, 5% have stopped further investment, 10% are looking outside of PNG for investment opportunities and 47% are delaying investments.

At the other end of the spectrum, 38% of respondents indicated that they weren't impacted at all. Notwithstanding this response most of the same respondents wanted more political stability.

Impact on investment strategy?

- Delay investments
- Invest elsewhere
- Stop investments
- No impact

Respondents wanted more constructive discussion on how the government is addressing some of the real economic challenges that currently face the country. Businesses feel it is their issue as well and want greater engagement to help solve the many challenges. This however requires earlier, more regular and genuine consultation.

Many respondents wanted more clarity from government on some of the recent proposed legislative changes, such as the SME policy, the Land Act and the Mining Act. These were the sorts of issues they wanted more focus on. They felt that certain of the changes proposed and the ensuing discourse were potentially harmful to the economy and investor confidence. They also felt that the proposals were counter-intuitive or not aligned to the nation's desire to grow the economy.

Businesses are concerned about the outlook

79% of our survey respondents were concerned about the outlook for the remainder of 2016 indicating they don't expect any growth or improvements in profitability. A significant number of businesses (more than 20%) are concerned that both revenue and profitability will see a further decline over the next six months.

To maintain results or stem a further reduction the following key initiatives were shared with us in the survey:

- ❑ **Reducing headcount.** 50% of businesses had attrition rates of around 1-10% but over 1 in 5 businesses had headcount reductions of over 20%.
- ❑ **Improving productivity.** 44% of businesses indicated that the single factor that would have most impact on their business would be to focus more on productivity. Various productivity measures were being considered, including streamlining processes, leveraging technology and automation to improve efficiencies and cut costs.

- ❑ **Growth.** Few respondents saw opportunities for organic growth. Some felt that they could improve their access and distribution to market or focus on new products and services as a way to growth. In order to maintain their business most were in a holding pattern or curbing their spend.

- ❑ Almost 17% of respondents viewed the current environment as presenting opportunities for inorganic growth or acquisitions. On the flip side, some see the opportunity for divestment of marginal assets and businesses.

- ❑ **Internal restructuring and consolidation.** While most of the respondents were delaying significant capital spend, some businesses that had surplus cash, are using the opportunity to "update" their existing capital assets, including properties, in readiness for the economic up-cycle.



8 ways to regain business confidence

When asked what changes businesses want to see to create an environment more conducive to investment and growth, the following were identified by survey respondents as critical. Key messages from business is that more needs to be done sooner.

- Address fiscal challenges and communicate the strategy for doing this
- Tackle foreign currency availability issues
- Create a more investor-friendly framework against which proposed policy changes should be evaluated
- Engage early with business on proposed policy and legislative changes to minimise shocks to business and the economy
- Address corruption, improve governance and enforce value for money procurement
- Reduce cost of the public sector, improve service delivery of State-owned enterprises or co-opt the private sector
- Address infrastructure needs based on a clear prioritised plan
- Get serious about law and order.



Key takeaways



Further information - www.pwc.com/pg

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Survey methodology

We surveyed businesses from 11 different sectors of the economy covering a period from 27 July 2016 to 16 August 2016. The purpose of the survey is to capture in the form of a quick poll of businesses on various topical questions. The findings are the sentiments of those that responded. The questions were both open ended questions that required a written free text response, as well as multi-select responses. The findings in the survey are analysed and themed based on the survey responses received. We used an online survey to elicit the responses on a confidential basis and have therefore not audited or validated the responses. The views expressed are those of the survey respondents, not of PwC.

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