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ANNOUNCEMENT FROM DAVID KIRK, CEO

THE YEAR AHEAD: THE NEXT STEPS IN IMPLEMENTING OUR STRATEGY

I am writing to update you on our progress in implementing our strategy and to tell you about the next steps we will take over the next year to continue the transformation of Fairfax Media.

Our Strategy And Our Recent Achievements

We can all be justifiably proud of what has been achieved in the last year. Media companies all over the world face unprecedented challenges in adapting their businesses to the new digital environment. Our response and results have been second to none. This is due to the success of our strategy and how we are implementing it.

As I have often said, our strategy has three parts to it.

First, defending and growing our newspapers. A focus on editorial excellence, subscriptions and effective promotion has driven circulation and readership growth. We continuously innovate and improve our publications with new supplements, sections and redesigns. Our distribution and production are improving all the time and cost management has been excellent. Finding advertising sales growth has been hard work in the current environment, but we have worked creatively and well together to get the best out of a soft market.

At the same time, better operations performance alone will not be enough to position our print publications for the long term growth we need. We have therefore used acquisitions and new initiatives to reshape the portfolio of our print publishing assets. Our focus has been on regional newspapers, newspapers with unique specialist content and magazines.

We have had great success on this front. In Australia we have completed the purchase of the Border Mail, The Independent group of community newspapers and just three days ago the Court approved our merger with Rural Press. In New Zealand, we purchased The Rodney Times and The Independent (now The Independent Financial Review, buttressed by content from the AFR). Fairfax Business Media has created Smart Investor, relaunched BRW and established the leading position in IT magazines in Singapore and New Zealand.

Our second priority has been rapid growth in our internet earnings. We have made the major and very successful acquisition of Trade Me and we have developed and grown a wide range of online businesses. In Australia we are #1 in news and information (our launch of *brisbanetimes.com.au* has been an unprecedented success), we are #1 in dating and holiday rentals and we have strong #2 positions in jobs, homes and cars classifieds.

Our business news and information and investor positions are very powerful with *afr.com* and *BusinessDay.com.au*, which complement each other as they cover and expand the market. We are rapidly implementing a successful online entertainment strategy with

Austereo in music and Anytime for online video-on-demand downloads. Our travel strategy is moving fast with online hotel bookings launched and online flights and cars on the way.

Overall, Fairfax Digital's contribution to Fairfax Media's profits has grown from 1% to 14% in two years and there is much, much more to come.

Our third priority has been to build a digital media company, by adapting our media products, working processes, systems and organisation to the new converged world of digital media.

It is important to appreciate that we are growing, and expanding our reach. Taken as a whole, we have more readers than ever before – we are reaching more people than ever before in the history of this company – and they are reading (and more and more are watching) our journalism over more media platforms than ever before.

In this new world, the fundamental mission of our media company remains the same – and what it has been for Fairfax for 175 years:

- To inform, challenge, shine a light, report, review and surprise by excellent news gathering, editing, design and distribution, and
- To create markets for buyers and sellers and provide audiences for advertisers.

However, as the supply of news and information and other content proliferates, and as demand fragments over multiple distribution channels, our products, technologies, working processes, physical surroundings, attitudes and behaviours have to change, because fulfilling our mission has now inherently become a multi-media challenge and a dialogue between us and the audiences we serve.

This is what we have to continuously drive and manage.

The Next Steps Forward As A Digital Media Company

What this says to us is that the way forward is to aggressively position Fairfax Media for a future defined by our becoming a fully integrated digital media publishing business.

That means our newspapers have to be stronger, our internet businesses have to be stronger, and that what we produce for publication is fully shared across platforms in an integrated fashion.

This means that our working processes – editorial, advertising, and production – need to change and become integrated across media.

Physical Layout And Working Processes

What this will mean for the layout of the new news floor at One Darling Island for The Sydney Morning Herald and The Sun-Herald and Fairfax Digital is pretty dramatic.

It is the Newsroom of the Future, where we will produce the newspapers of the future.

At One Darling Island, online and print editors will be working on newsdesks across from each other. There will be a massive multimedia wall that will bring the world to our newsroom and connect us with the world. Editorial decisions will be made with print, internet and mobile options available. Video will be a bigger part of what we offer online.

All of this is an extension of what we already do today but the degree to which we substantially integrate editorial processes will be the key to our success.

The time is therefore right to strengthen The Sydney Morning Herald and The Sun-Herald by a proposed integration of production staff – but not reporters or photographers – at both mastheads.

As a result, we propose to introduce across Herald Publications a 7-day rostering and production structure for subediting, design and graphics. This will greatly streamline production and achieve greater quality and efficiency.

We will be consulting with staff and the MEAA as required by the EBA about the proposed changes over the next week, and if the proposal is implemented we will undertake a voluntary redundancy program for Herald Publications production staff, in the range of 30-35 FTEs.

Reporters and photographers will not be part of the proposed redundancy program.

The distinct culture and integrity of the two mastheads will be fully maintained under this proposal. There will be no amalgamation of the two mastheads.

Commercial Integration

On the commercial side, print and online ad reps in the key categories – Domain, MyCareer and Drive – will be co-located in Wharf 7, working in an integrated fashion. This builds on the integrated print-online offer we give our top 30 clients in display. We will now also extend this offer to a larger number of display clients.

Training

A major training program for most editorial staff will commence in Sydney in June and other locations later. This program will help prepare editorial staff with new skills as we move towards a multimedia future. The training will focus on how multi-media news gathering takes place; principles and techniques for video and audio news gathering; writing techniques for different platforms; basic use of different tools that may be used to support publishing to various platforms; and extended training in multi-media equipment and news gathering techniques.

IT Systems

We are also investing in an upgrade to Cyber Genera to help meet the demands of the journalism and newsroom of the future, and drive new commercial growth.

The Cyber Genera Editorial suite will be rolled out first in Victoria, beginning within the next year, with a phased rollout in NSW and across the company over the next 3-4 years. The total investment will be in the order of \$20 million.

For editorial, Cyber Genera will mean the elimination of inefficient and outdated work practices inherent in our legacy systems, with minimal retraining required. The multi-media capabilities allow for a story to be prepared for both print and online, and additional elements, such as videos, can be attached to the online story.

For advertising, Cyber Genera will mean automation of existing manual tasks, support for cross-selling and the ability to support advertising strategies with new media opportunities, eg email and SMS.

What These Changes Mean

All of these proposed changes to rostering and production, along with increased physical integration of print and digital and the upgraded IT systems and training mean we will be leaner and more efficient in how we produce our publications, and richer in the content, scope and scale of our journalism.

The Shape Of The Metro Newspapers

With all our newspapers, what our readers demand, after accuracy and originality, is utility and readability. The challenge every day is to give them a paper that meets their needs, so that they become more engaged with us.

Broadsheets have been our currency for 175 years, and we are sticking with them. Readers turn to our broadsheets for quality, integrity, authority, incisiveness and the very best journalism in Australia.

But size does matter, and it is time to give our readers what they keep telling us they want: a slightly narrower broadsheet so that they can spend more time with our newspapers.

We intend to move to a narrower broadsheet format for the SMH and The Age in 2008. We are not moving to tabloid size, or to become a compact; but our new broadsheets will be narrower and more reader-friendly. While our metro papers will have a new size and format, the content will be retained.

We have not made a final decision on the precise size we will move to, but we are taking a careful look at the successful narrower broadsheets around the world, with particular attention to the current size of The New York Times. We will continue to consult with readers, editors, advertisers, agencies and other parties before we announce more specifics towards the end of this year.

We are making these changes from a position of strength. Our circulation and readership are growing, and our editorial impact is as strong as ever.

The move to a narrower broadsheet therefore is not simply about size or design, but is part of a comprehensive effort to conceive and implement the newspaper of the future – with the needs and preferences of our readers and advertisers in the forefront of our thinking.

Conclusion

These are significant decisions and proposals that reach across the entire business. We will be talking extensively with you about them in the weeks and months ahead. And at the end of the day, we will move forward together.

The move to One Darling Island, and the impending move in Melbourne to new headquarters for The Age and our business in Victoria, give us a unique opportunity to strengthen our mastheads, expand our digital businesses, and build an integrated digital media company.

I am determined that we seize this opportunity and accelerate our growth as the leading media company in Australasia.

David Kirk
Chief Executive Officer