

**26 AUGUST 2004**

**FAIRFAX FULL YEAR UNDERLYING EPS UP 48.5%  
UNDERLYING NPAT \$207.6 MILLION, UP 65.4 %  
DIVIDEND INCREASED 26.9% TO 16.5 CENTS PER  
SHARE**

**"Improvement in operating performance in the second half in Australia, strong returns from Fairfax's operations in New Zealand, and benefits obtained from the printing plants in Australia have underpinned substantial growth in earnings per share for the year and a significant rise in dividends to shareholders."**

**Fred Hilmer, CEO**

## **HIGHLIGHTS**

- **UNDERLYING EARNINGS PER SHARE (BEFORE SIGNIFICANT ITEMS, POST-PRESSES DIVIDEND) UP 48.5% TO 21.36 CENTS.**
- **FULL YEAR DIVIDEND INCREASED 26.9% TO 16.5 CENTS PER SHARE.**
- **UNDERLYING NET PROFIT AFTER TAX UP 65.4% TO \$207.6 MILLION.**
- **UNDERLYING EBIT UP 82.9% TO \$368.2 MILLION.**
- **UNDERLYING H2 AUSTRALIA EBIT UP 31.6%.**
- **FAIRFAX NEW ZEALAND EBITDA OF NZ\$165.5 MILLION, AHEAD OF EXPECTATIONS.**

Fairfax's net profit after tax before significant items for the financial year ended 30 June 2004 was \$207.6 million, up 65.4%. Earnings per share (before significant items, post-presses dividend) were 21.36 cents, up 48.5%.

Group EBIT before significant items was \$368.2 million, up 82.9% and slightly higher than foreshadowed in the company's announcement of 24 May 2004.

As a result of the introduction of tax consolidation and other significant items, the company's total net profit after tax (post significant items and presses dividend) was \$276.0 million, with earnings per share of 29.07 cents, up 102.2%.

The one-off tax consolidation gain of \$82.7 million was partly offset by other previously foreshadowed significant items, totalling \$20.5 million pre tax, including the closure costs of the Spencer Street printing operations, the ensuing industrial action at The Age Print Centre, and the editorial restructuring at Herald Publications.

Fairfax's Australian businesses have again improved their performances over the past year.

- EBITDA increased 13.9% to \$308.0 million.
- EBIT increased 16.9% to \$235.2 million.
- Total revenue increased 6.6% to \$1,290.3 million.
- Advertising revenue increased 7.4% to \$1,045.1 million.

Performance in the second half of the financial year was particularly strong compared with the previous corresponding period.

- EBITDA increased 20.5% to \$154.8 million.
- EBIT increased 31.6% to \$117.1 million.
- Revenues increased 8.3% to \$651.1 million.

In its first full year of ownership, Fairfax New Zealand has performed well ahead of the NZ\$130 million EBITDA foreshadowed at the time of acquisition:

- EBITDA was NZ\$165.5 million.
- EBIT was NZ\$151.2 million.
- Revenues were NZ\$547.2 million, an increase of 9.1% over the 2003 financial year.

The New Zealand performance continued to improve through the second half when compared to the first half.

- EBITDA increased 10.4% to NZ\$86.8 million
- EBIT increased 11.0% to NZ\$79.5 million
- Revenues increased by 0.4% to NZ\$274.2 million

During the year, cash flow was strong and net debt (post acquisition of Text Media) was reduced by \$110.8 million.

Taking into account the company's strong operating performance, reduced earnings volatility, strengthening credit ratios, continuing lower levels of capital expenditure, and large free cash flows, the Board has revised its dividend policy. Going forward, the Board will target a higher payout ratio through the cycle of around 80% of normal profits after tax versus the previously indicated target of 70%.

The Board has announced a final dividend of 11.0 cents, fully franked, bringing the total dividend for the year to 16.5 cents per share, an increase of 3.5 cents, or 26.9% over last year. Record date for the dividend is 28 September 2004, and payable 21 October 2004.

As part of the company's capital management strategy, the Company continues to offer a Dividend Reinvestment Plan ("Plan") to shareholders but will remove the current 2.5% discount on the issue of shares under the Plan beginning in the 2005 financial year. However, the discount will apply to the final dividend of 11 cents per share for the 2004 financial year.

During the 2005 financial year, the Board also intends to assess other capital management initiatives aimed at reducing the company's overall cost of financing.

#### **STATEMENT BY MR FRED HILMER CHIEF EXECUTIVE OFFICER**

As a result of accelerated performance in the second half in Australia, an excellent year in New Zealand, and returns on our capital investments, we are reporting solid revenue and earnings growth. Two key factors have driven these achievements.

#### **1. Strategic initiatives have been successfully implemented.**

- With the investment in New Zealand, the growth in our regional and community newspapers (including the integration of Text Media), and the improved performance of Fairfax Digital, Fairfax has a different business mix than previously. The Australian metropolitan newspapers are

continuing to grow but are now only 50% of revenues, compared to 70% a year ago. Fairfax is therefore less dependent on the advertising cycles of Sydney and Melbourne.

- Tullamarine is now operating consistently on-time and delivering higher colour yields and improved print quality. The Spencer Street printing operations have been closed, with significant cost savings going forward. All our papers now have world class printing infrastructure, with unmatched full-colour capacity.

## **2. A series of operational improvements across the Australian businesses are in place, contributing to a stronger business with higher performance.**

- We have improved cost control and management processes, with a significant slowing in costs in the second half of last year.
- A series of new labour agreements, in both the printing and editorial areas, have improved productivity.
- The functional management structure is providing an across-the-board focus in the metro newspapers on improved editorial quality and revenue synergies. Our publications are benefiting from innovation and editorial improvements. Commercially, there is greater cross selling and utilisation of resources in securing advertising revenue growth across all key advertising categories.
- The advertising performance of our publishing platforms in print and online is robust.
- Fairfax Digital is profitable at the EBITDA level and has strengthened its competitive position in news and classifieds.

Fairfax today has a far broader portfolio of strong businesses all well positioned for further revenue and earnings growth.

## **KEY AREAS OF ACTIVITY**

### ***AUSTRALIA***

• ***Metropolitan papers.*** Advertising revenues increased 3.7% to \$696.2 million. Revenue growth accelerated in the second half, with a recovery in employment classifieds and display, continued growth in real estate classifieds, and double-digit growth in retail

display advertising. Total employment revenues across classified, display and online were up 13.1% in the second half, and grew by 6.7% for the year. Real estate classifieds and display revenues were also higher. Automotive classified revenues were softer.

Circulation revenue was up marginally over last year. In readership, The Sydney Morning Herald increased its market share overall and in the key AB demographic. The Age gained AB market share on Saturdays and Sundays, and had a slight share decline in overall figures during weekdays.

- **Fairfax Business Media.** FBM had improved trading conditions, with revenue growth of 4.6%, particularly at *The Australian Financial Review*, driven by stronger display advertising across the key sectors of employment, travel and leisure, and commercial property. Revenue from new category initiatives and cover price were significant drivers along with effective restructuring, particularly at FBM magazines. Core categories of financial services and IT remained subdued.

- **Regional and Community Newspapers.** For the year, the regional and community publications registered EBITDA growth of over 38%. The unit now contributes over 19% of Australian revenues. *The Newcastle Herald*, *Illawarra Mercury* and *Warrnambool Standard* continue to post both strong advertising and circulation growth. Text Media is performing in line with expectations and is successfully expanding our commercial footprint in Victoria. In July, Fairfax acquired full control of *The Port Stephens Examiner*, enhancing our reach on the mid-North Coast of NSW.

- **Fairfax Digital.** Fairfax Digital (formerly f2 Network) posted revenue of \$39.8 million, up 50.8%, resulting in a profit at the EBITDA level of \$3.0 million. Total traffic across all the Fairfax sites increased 27% to over 5.4 million unique visitors per month. All the classified sites have improved their competitive position over the past year. Fairfax Digital is #1 in online news in Australia, with traffic to smh.com.au and theage.com.au reaching over 4.1 million unique users per month.

## **NEW ZEALAND**

All aspects of Fairfax New Zealand are performing well, in both metro and regional markets, as reflected in the strong revenue and earnings results. This is due not only to continued strength in advertising markets, but from revenue and cost initiatives implemented by management. Advertising revenues increased

12.8%, with solid classified and display revenues in all categories. Circulation revenues increased from organic growth in metro and regional franchises. Fairfax New Zealand's websites are continuing to expand, particularly in online classifieds.

### ***GROUP COSTS***

In Australia, underlying publishing costs (excluding the acquisition of Text Media) increased by 2.5% year-on-year, with underlying publishing costs in the second half increasing by only 1.4%. In New Zealand, costs continue to be tightly managed.

### **OUTLOOK**

Revenues for the early part of this year across the group are running ahead of the same period last year by about 5%, fuelled by strength in employment, retail and continuing growth in our New Zealand businesses. We expect further earnings growth in this cycle through FY2005, the scale of which will depend on the vitality of further trading activities during the year. Further comment will be provided at the Annual General Meeting on 29 October 2004.

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