JOHN FAIRFAX HOLDINGS LIMITED

(ABN 15 008 663 161)

TELECONFERENCE CALL BY FRED HILMER, CEO, WITH FINANCIAL ANALYSTS

WEDNESDAY, 11 JULY, 2001

OPERATOR: Welcome to the John Fairfax Holdings Limited presentation. During the conference everyone except the guest speakers will be in listen only mode. If assistance is required at any time, please press star followed by zero on your touch tone phone and wait for a co-ordinator. If you require further assistance, you may dial the help desk on 618 8206 9820. After the presentation there will be a question and answer session and instructions will be given on how to participate. I would like to advise this conference is being recorded, and I would like to now introduce the presenter for today, Mr Fred Hilmer. Mr Hilmer, please go ahead.

MR HILMER: Thank you very much. Good morning. As we said in the press release that we put out this morning, we, in the process of doing our year end accounts, have made a number of accounting decisions, which frankly we debated whether we needed to disclose, but in the event decided that if we were to err, we should err on the side of disclosing, because these are all things that we flagged. I think when you pull them together there is what is a material amount of money and they are accounting items that are now certain and will be reflected in the accounts that we will be reporting on September 7.

So there are three things. The first is Tullamarine. We flagged a budget for Tullamarine which included redundancies. Those redundancies, in accordance with the accounting standards, are charges against income, they are not capitalised, and they are to be taken at the time in the year in which they become certain. We are now at a point where we are certain about what those redundancies will be and we therefore provided $9 million. As I said, that is part of the $220 million budget that we foreshadowed but it needs to be done in this period as a charge against earnings. That is an after tax amount and it will entail in the order of 100 people going. Most people will be going through the year and probably towards the end of the financial year, so the real operating impact of that again, for your information, will be in the following year.

The second is a lower amount of $7 million after tax, which is the result of our ongoing structural improvements in the business. As we said, we are not going to use redundancy programs to deal with the cycle; we have been doing that through managing attrition and through control of discretionary expenses; but we have a number of ongoing programs that are really flowing out of the business improvement program that has been going on a number of years. In areas including editorial on-line in production at Chullora and in a number of other administrative areas, particularly some of the headquarters support areas, the finance of IT, we are now certain about the implementation of some improvements in structural changes to the way we do our work that will lead to saving, but will require us to take a provision in this year of $7 million after tax.

The third part of the provisioning that we will be doing at year end is we will provision $6 million after tax against F2, and there are two parts to that. About $4 million of that is for provisions relating to previously capitalised development expenses and $2 million of that relates to part of our investment in the trading room joint venture that we did with Macquarie.

When you total those, you are talking about an amount in the order of $22 million. When you look at the results for the year, that will be offset, or slightly more than offset, by the $24 million or so of what in the old accounting would probably have been classed as extraordinary or abnormal items: the profit on the sale of sold and the profit from our associate APPIS, which is as I say will be in the order of $24 million.

The underlying operating profit, we want to emphasise, is in line with what we have been saying to the market, what we foreshadowed in March 2001. Our trading has been consistent with what we foreshadowed and continues to be so, and in the achievement of that expected result, which as I say is going to be in line with what we see as a consensus, there will be a significant decrease in operating costs in the second half this year compared to the second half a year ago, excluding the provisions and the write-off that we have just talked about.

So the underlying operating costs of the business are coming down significantly; the trading has been subdued but in line with the way we saw the market outlining in March; and the operating result is going to be broadly in line with the expectations, although we are only 11 days into the close of books process and we still need to do a little bit of work before we are ready to finalise on that count and announce results.

So that is broadly where we are going. As I said at the outset, we debated, we said we foreshadowed all of these various announcements I have made, but if you pull them together and total it up and look at the accounts, we felt it was a material amount and that it would be good practice to err on the side of letting you know now rather than waiting until September.

I will be happy to take some questions.

OPERATOR: Thank you, ladies and gentlemen. We will now begin the question and answer session. If you wish to register a question, please press star followed by 1 on your touch tone phone. If you wish to cancel your registration, you may remove yourself from the queue by pressing star followed by 2.

Our first question comes from Peter Shorthouse from ABN Amro. Go ahead please.

MR SHORTHOUSE: Good morning. Regarding the second provision, the $7 million, have other costs in relation to the ongoing structural improvements in the business - well, I don't remember them being separately identified. So what would be the total cost of ongoing structural improvements that you would have provided for or incurred in the year ended?

MR HILMER: That is the cost, isn't it? I think that is the cost. That will be our redundancy for structural improvement through the year. I don't think we had any in the first half. Yes, as I said, the first half of - this has been a year of two halves, from distant memory. The first half was Olympic's half, and really our focus was on coping and then putting in place, as we made the call in October, as to how the economy was turning out, putting in place measures, but these are not part of our response to the downturn, these are part of our ongoing structural improvements.

Just again, to give you a sense: the redundancies and reductions will occur over the year and will entail in total about 100 people, the bulk of which are in administrative areas. There is some smaller amount of that in editorial, but the bulk of that is going to be in areas such as finance and IT where we are able, I think, as we get our hands more strongly around the business, to put all of our businesses on common footings and common systems, whereas we had a lot of systems that I think were tailored at the local level or ideosyncratic needs of local management, but really frankly added very little in value and just incurred cost.

MR SHORTHOUSE: But is there a difference between this cost containment program and the other cost containment programs you have been undertaking on an ongoing basis?

MR HILMER: No, this is in addition to - remember I announced three measures in November that we would be looking at: (1) using attrition; (2) we would be really managing our ratios and our use of newsprint very carefully; and (3) we would have tight control of discretionary expenditures, both operating in capital; and that is ongoing and that is what has really driven the lower cost base in this half versus the half a year ago, but in addition to that, we need to be doing things now that will have an impact next year and the year after. I mean if you are not doing restructuring now with an eye on your results year in and year out, then you have no prospect of offsetting inflation. These go beyond the cycle.

MR SHORTHOUSE: So this is simply a result of having decided today to implement certain initiatives you are required to provide for them today?

MR HILMER: No, these are a series of initiatives that have been worked up through the year. The accounting requirement is that the provision for these things needs to be taken when they are certain and we are in the close of books. This is not all centrally done.

MR SHORTHOUSE: Yes.

MR HILMER: Some of these are done in divisions, some of them are done around the group, and as we pulled them together, the result of our structural work, which is a business improvement program, came to this number and we thought it both - well, we are required to provide for it and we thought it prudent and good practice to let you know.

MR SHORTHOUSE: Okay, thank you.

OPERATOR: The next question comes from George Coleman from Solomon Smith Barney. Go ahead please.

MR COLEMAN: Hi, Fred. I think you have substantially answered my question with your response to the first question, but can you just clarify the timing of the cash outflows relating to the $7 million after tax, the second item?

MR HILMER: Yes, it will be through the year. It will be spread through the year, so I think that is probably the best estimate. Yes, some of these are contingent on systems being changed over, on work flows being reorganised, so that you can get the job of the company done with the fewer number of people. So in terms of our thinking about budgets, etc, we sort of flowed these through the year. The Tullamarine one, even though you didn't ask us, to be clear, will be towards the end of the year.

MR COLEMAN: With most of the cash outgoings in F03, is there?

MR HILMER: No, cash outgoings, it will be F02. Some may be in F03 and that will depend on the rate of changeover and the degree of parallel running that program.

MR ALLELY: George, it is Richard Allely of Fairfax speaking. In terms of the $7 million other programs provision that you referred to, as Fred said, that will be spread mostly through the next financial year. In fact, some of these programs are already under way. A larger part of the cash is probably in the second half rather than in the first half. In respect to Tullamarine, which was the other issue, most of that will be towards the end of Q4 this year, with a large part of it probably rolling into the first quarter of the 03 year.

MR COLEMAN: Thank you.

OPERATOR: The next question comes from Ramsich Shalak and Alex Pollack from Macquarie. Go ahead please.

MR POLLACK: It is Ramirez Shellac and Alex Pollack actually, just to keep our young friend not from being offended. Hello, Fred, how are you?

MR HILMER: Fine.

MR POLLACK: Just a couple of very simple questions, because I am a very simple guy. Consensus I take it is some of --

MR HILMER: I agree with half of that.

MR POLLACK: That's right -- is somewhere between the $120 and 130 million, is that your conception of consensus?

MR HILMER: Yes.

MR POLLACK: And that is before any one-offs from your AAPIS, etc, etc?

MR HILMER: Yes.

MR POLLACK: And the second question relates to just in terms of how you are viewing the trading going forward right now. I think we would probably guess that there is probably one more quarter of negative growth relative to PCP, which as you say, we are 11 days into, but I am curious to know whether you have any movement on that, whether you think it is slightly better or slightly worse?

MR HILMER: We think it is pretty flat, Alex. We are trading at a sort of subdued level since March. We are still pretty much at that level.

MR POLLACK: You mean below, the same level below in the last few days as you were -

MR HILMER: Yes.

MR POLLACK: - in the March quarter perhaps?

MR HILMER: Although on a comparison this quarter and the comparison is the same with the first quarter is against what was an absolutely booming media market a year ago. I am delighted what I see and to stand up and say that the entrails of the chicken telling that we are about to come out of the subdued economy, but we don't see any change at this point, given that our forwards are more in the 4 to 8 maybe 12 weeks timeframe.

MR POLLACK: Yes.

MR HILMER: We don't see a real change. We don't see it worsening and we don't see it strengthening.

MR POLLACK: So you are the same level below PCP now as you were in the fourth quarter of 01 below PCP in the fourth quarter of 00?

MR HILMER: Broadly.

MR POLLACK: Yes, that's fine, that's fine. And the second question just concerns parallel running of the plant. Have you taken a provision in these figures here for the parallel running of Tullamarine and Spencer Street?

MR HILMER: No, and we have various operating strategies. We need to have a lot of flexibility in terms of our operating strategy. We don't really see any issues with respect to that. We understand what we will and can capitalise and what we will and need to take to operating profit, but we are now concerned - the redundancies clearly have to be dealt with this way and that is why we are dealing with them. We are dealing with them early because in the course of our discussions with our employees and the union people now crystalised, the start up and the bed down and the changeover strategies will be playing out probably in that last quarter next year and first quarter of the year after, in that period.

MR POLLACK: But you may have to expect a small component of losses --

MR HILMER: Well, we may.

MR POLLACK: -- or are you not certain about that yet?

MR HILMER: We may, although we have the ability to bring other printing into Spencer Street.

MR POLLACK: Right.

MR HILMER: So we have got a back-up plan with the use of our community newspaper flow. So we are juggling a lot of balls, some of which are related to business demands, the flows of printing, and some of which frankly are related to how the industrial system evolves and we need to keep a lot of cards close to our chest.

MR POLLACK: Thank you very much, Fred. That's great.

OPERATOR: The next question comes from Mike Mangan from Deutsche. Go ahead please.

MR MANGAN: Thanks, Fred. Just a couple of questions on the redundancies. Can you clarify what sort of level of cost savings you might be able to achieve, and I think you said in 03 they are likely to come through?

MR HILMER: Yes. Well, in the 02 year we would expect, given the flow of these redundancies, that this would be worth about one percent of our labour costs. The labour costs would have grown one percent faster had we not done these redundancies.

It will be more significant in the 02-03 year because the Tullamarine savings really this last quarter will hardly affect, whereas if it is last quarter or first quarter of the following year, then there will be that impact that you can work out, 100 printers who were quite highly paid.

MR MANGAN: Okay. And the cost benefits from the structural changes that you are providing for here?

MR HILMER: Well, the cost benefits are overwhelming, otherwise we wouldn't do it, but typically with these sorts of redundancies we are looking at one year part payback plus or minus a bit, depending on the length of service and the area being done and the amount of systems work you have to do to facilitate the improvement.

MR MANGAN: So that is the $7 million you are talking about?

MR HILMER: Yes.

MR MANGAN: A one year pay back?

MR HILMER: Yes, but again that will flow through the year. Again in broad terms, if you say we have got labour costs of what 350, something like that, and you say it is going to have a one percent effect, then you are going to get about half that seven this year and you are going to get more of it the following year. Yes, you are going to get - sorry, labour costs are slightly higher than that, if you are going to get about half the seven this year, you are going to get the benefit of the seven in full the following year, plus the benefit of the Tullamarine in full the following year.

MR MANGAN: Okay.

MR HILMER: That is how it will roll out.

MR MANGAN: So actually what you are saying is in 03 you should be getting something like 16 million a year in cost savings coming through, of that order?

MR HILMER: That is not unreasonable to suggest.

MR MANGAN: Okay.

MR HILMER: You have got to be careful you don't double account, because if a saving occurs in this year, in 03 the year on year effect is only half.

MR MANGAN: Got you, okay, no problem. And just sort of moving on to, or just, sorry, before I do, Tullamarine, can you just clarify for me again when that is likely to start printing?

MR HILMER: We are planning to start, that is start the commissioning and the production of trial copy around the end of the year, that is the end of the calendar year.

MR MANGAN: End of 01?

MR HILMER: Yes, we will be doing the commissioning then, as soon as we have the machines operating, and installation is under way now, and the switch over, that is why, as I said, we have a lot of cards that we have to keep relatively close to our chest because we are juggling both business contingency, market conditions and industrial things, so we just need to keep the cards close to our chest.

MR MANGAN: Okay. And just on two other issues. You have recently launched a couple of the new books for Big Colour/CitySearch Directories. I was just wondering how they are going?

MR HILMER: Yes, the expression I used is we have had a few swallows, but one swallow doesn't make a summer. So it is encouraging signs, but we are realistic that this is an SME product in an SME market that is pretty ------, so the sensible way to look at what we have done will be at the end of the canvass, and about the time we put results out we will have the canvass in, we will have the bulk of the canvass in, and I would like to think it is fair to expect and we would like to run you through how the canvass has gone on a proper apples for apples basis. June 30 somewhat arbitrary. We started the canvass a bit later this year in order to be able to put the books in the new form into the market. So as I said, we are seeing a few swallows, but it takes more than one swallow to make a summer and we will give you a full description of actually the trading right up-to-date when we put the results out in September.

MR MANGAN: Okay, great. And sorry, Fred, just one last question. You mentioned a couple of times managing the cycle. One way to manage the cycle of course is to make some acquisitions and I am just wondering if there is any movement on that front?

MR HILMER: I don't want to speculate or encourage speculation that way.

MR MANGAN: There has been some speculation of course.

MR HILMER: Yes, and I don't comment on speculation. When there is something to announce we will announce it. There is nothing to announce at this stage.

MR MANGAN: Okay, thanks.

OPERATOR: The next question comes from Andrew Swann from J P Morgan. Go ahead please.

MR SWANN: Good morning. Actually, a number of my questions got answered there, but one final one which is pretty small in the scheme of things, but you mentioned there is more savings coming out of Chullora. I actually had the impression that the thing was running pretty efficiently. What has sort of changed there?

MR HILMER: Well, it is running efficiently. We have actually benchmarked it against world's best practice, but there are always areas in which you can improve, and we have identified a number of those areas in Chullora, and so we will be making improvements.

We are also spending quite a lot of capital on that plant, which will increase its capacity and also it will improve some of its efficiencies, but just because we have an efficient plant, doesn't mean we don't at the same time look for improvements, and we are looking for, again just to put in perspective, improvements in the order of 20 people.

MR SWANN: That is out of Chullora, 20?

MR HILMER: Yes.

MR SWANN: Sorry, I think you mentioned of that $7 million provision there were about 100 people which remain the admin in financial IT, is that right?

MR HILMER: Yes.

MR SWANN: Is that like halving that department or -

MR HILMER: No.

MR SWANN: Thank you.

OPERATOR: The next question comes from Noela Hodgson from UBS Warburg. Go ahead please.

MS HODGSON: Yes, just one question from me. With respect to F2 you commented about the $4 million worth of capitalised development costs that are being written off. Can you just clarify how much more in the development cost side has been capitalised in F2?

MR HILMER: There is about 2 million that has been capitalised.

MS HODGSON: Thank you.

OPERATOR: The next question comes from Katherine Alsew to from Colonial First State. Go ahead please.

MS ALSEW: Just further from Noela's question on F2, could you, Fred, clarify the size of the F2 loss year 01 and also could you update on City Search please?

MR HILMER: Yes. You know, this is not a results briefing. I would love it to be that we could close our accounts within whatever it is, 11 days or 12 days of the half, and I would rather not get into year end discussion at this point. This is just flagging an item that, as I said, we thought it was prudent and appropriate to flag. But I really want to defer year end discussions until we do close the accounts and have gone through the proper audit and year end process and then we will have a very full discussion with you. I did want to just reassure people that we are on track to meet consensus, and that is about as much as I want to do at this meeting with respect to results.

With respect to City Search, I have made the comment that a sensible time for us to evaluate it, and I think for you to look at how it is tracking, is the canvass comparison, and there are a few encouraging signs, but we have a number of weeks to run that are important weeks and we will discuss those with you in our year end discussion.

OPERATOR: The next question comes from Peter Shorthouse from ABN Amro. Go ahead please.

MR SHORTHOUSE: Fred, sorry, I have a follow-up question. I guess what we are trying to identify is the normalised costs and normalised operation performance going forward, and while we understand the needs for putting this $7 million charge through, presumably if you have an ongoing structural improvement program, we should expect you to incur the same sort of charges next year for the following year. Is this really a one-off situation, this structural improvement you are putting through, or is it fair to assume, or should we assume, that you are going to continue doing this year in year out?

MR HILMER: Yes. We do a lot of improvements and we are often able to handle those improvements through attrition. I think the particular situation this year is that we are using attrition quite hard to handle the cycle, and therefore the other improvements that we seek to make, we could either defer and wait to pick them up in attrition in the future or do a costs benefits and say given the size of the payback let's do them and take it as a provision.

I think going forward, I would expect that we can handle a lot of what I call the ongoing business improvement of the structural by an ongoing management of attrition, which, particularly in some areas of our business and some of our other areas, is quite high and in bouyant economic times is very high. So I think it is not something that I expect to occur. But the point is when you get a good business improvement you do it, and if you do it in a downturn and you are seeking to use your attrition pretty hard, then you might need to do it through redundancies, but if you are doing it in different times you have more options. So I think you should look at it in that light.

MR SHORTHOUSE: Okay, thanks very much.

OPERATOR: Ladies and gentlemen, just a reminder, if you wish to register a question, please press star followed by 1 on your telephone, and to remove yourself from the queue, please press star followed by 2.

I would like to advise that there are no further questions and I now hand the conference back to Mr Hilmer for closing remarks.

MR HILMER: All right. Well, thank you very much and thanks for the questions. As I said, we think this is an appropriate thing to tell you, even though we are only 11 days into the close of accounts, and I look forward to having a fuller and more fundamental discussion of how the year is tracking with you when we do the accounts in early September. Thank you very much.

OPERATOR: Thank you, ladies and gentlemen. This concludes the John Fairfax Holdings Limited presentation. You may now disconnect.

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