

## CHAIRMAN'S ADDRESS

### 2001 ANNUAL GENERAL MEETING

It is my privilege to welcome our shareholders to this year's annual general meeting.

Before turning to the formal business of the meeting, I want first to report on the financial year concluded on June 30, as well as important developments – and achievements – for the Company.

The 2001 financial year was a challenging one for the Company financially.

The Australian economy slowed significantly following the Sydney Olympics, and with it, the advertising market.

With advertising constituting approximately 80% of our total revenues, the slowdown materially affected our results.

Following two strong years during which earnings per share pre-abnormal items rose over 65%, earnings per share, pre-significant items, fell 25% to 17.3 cents.

Against this background, we continued our efforts to reinforce Fairfax's position as Australia's premier information provider, to keep our costs under control by running our businesses as efficiently as possible, and to further build an appropriate online strategy.

I am pleased to report substantial progress on all three of these initiatives, making Fairfax a stronger company, albeit in a weaker economy. In addition, since reporting to you, we have initiated an important capital raising, further strengthening our balance sheet.

#### **Mastheads**

Our publications are the pre-eminent newspapers in this country, and are of world class quality.

Our journalism continues to be marked by excellence – as anyone who has read our newspapers over the past two months knows so very well. We had exceptional coverage of the catastrophe on September 11, and in the weeks following. Our coverage was wide-ranging, rich in content – and context – and was drawn from our best journalists overseas and from the best copy available from international sources.

Similarly, our coverage of the current election campaign has been excellent.

Our readers are more informed about what is happening in Australia and in the world, in our communities and with the arts, education and science, than ever before.

While the quality and relevance of our editorial content remain the main focus, we have also invested heavily in a new printing plant at Tullamarine in Melbourne and a substantial upgrade at our Chullora plant in Sydney, which will both come on stream towards the end of this financial year.

These investments will ensure production qualities, features and flexibility required to meet the needs of our readers and advertisers.

### **Operating Efficiencies**

As I mentioned, our ability to control costs generally, and to react to changes in economic conditions specifically, have improved markedly.

Our costs rose in the 1999/2000 financial year and the first quarter of the past year as we published larger papers to accommodate surging advertising volumes and as we incurred incremental costs associated with our outstanding coverage of the Olympics.

We reacted quickly to the post-Olympic slowdown, instituting a hiring freeze, reducing the size of our papers to reflect the decreased advertising volumes and scrutinising all discretionary spending.

The results of these efforts were outstanding, with costs for the second half of the year down some \$33 million, or 6.5%, from the first half, and \$26 million, or 5.2%, from the corresponding second half one year ago.

Our efforts to drive efficiencies have continued, with some 200 redundancies to be taken in the 2002 financial year already identified and the associated costs provided in the 2001 financial year accounts.

You will recall that we have emphasised the twin goals of continued editorial excellence and stringent cost controls over the past several years. While some argue that you cannot pursue editorial excellence while holding costs, we believe just the opposite. We believe that in order for us to continue to be in a position to devote the resources required to maintain and enhance our editorial standards, it is absolutely imperative that we operate our business as efficiently as possible.

Evidence of this commitment to editorial excellence can be found in our increased expenditure on editorial staff over recent years, a major investment in editorial systems, our re-introduction of an editorial trainee program (which is already turning out promising young journalists) and the introduction of a new accuracy and quality program. Notwithstanding these commitments, our editorial staff are being asked to improve their individual and collective productivity, as we have continued to expand the range and depth of our coverage

over the years. While our expenditure on technology and systems can assist in these efforts, our future success will require a continued extraordinary effort by our entire editorial staff. I might add that we are asking a similar effort from all our staff – from our printers to our sales people and administrative personnel. I think virtually everyone in this room who has a job is being asked to strive to improve their own quality and productivity and understands the difficult challenges involved. We are very appreciative of the effort of all our staff in this regard.

## **f2 Limited**

The past year also saw a major reappraisal of f2, our online business, spawned by our increasing knowledge of how people actually use the internet, its relation to our print products and its implication on where profit opportunities may or may not exist in the Australian market.

As a result, we are now focused on two main areas – News and Classifieds, and CitySearch Directories.

Our news and classified sites, which are, of course, direct, natural and necessary adjuncts to our core print business, have enjoyed considerable success.

Just as *The Sydney Morning Herald* and *The Age* have been papers of record for well over a century, their respective online sites have established themselves as the online news sites of record, holding the number one and two positions in Australia.

In addition, *The Australian Financial Review* online site is the dominant business site.

I should pause here to stress how important this success in establishing our mastheads as the online news sites of record is to the future value of our brands and our business, and the pride we take in what we have achieved here.

Our classified sites – MyCareer.com.au, Drive.com.au and Domain.com.au – have established themselves among the leaders in their areas. Our news and classified sites together lost approximately \$17 million last year, an improvement of some \$5 million over the prior year. We would expect further improvement this year.

While we view this as an essential investment that supports and strengthens our franchises, we will continue to seek to devise ways to monetise the substantial traffic generated by these sites.

CitySearch, our directories business, revamped and relaunched its products under a new management team in the past year.

## Looking Ahead

In addition to our ongoing efforts to improve and grow our existing business we will seek new platforms for growth: new outlets for our content, both in new technology or other media, and new geographical markets.

To this end, we continue to advocate a change to the media laws which restrict our ability to grow and restrict access to our share register. The cross-media laws, which prohibit us from active involvement in the television and radio businesses, are particularly constraining.

While these laws were designed to meet valid public policy concerns, we believe the media market has changed materially since their enactment in 1992.

We believe it is time for government to change them, and we call upon the Government to be formed after the election to make this a high priority for action in the next several months.

In our view, it is now clear that the public policy concerns no longer required the restrictive cross-media laws. Rather, the media industry should be regulated by the ACCC and FIRB, just as other industries are.

We welcome the re-opening of the political debate of these issues. With our share register completely open for the first time since we have been publicly listed, our company is now truly master of its own destiny. This freedom and flexibility will be particularly important if the restrictive laws are in fact relaxed.

It is impossible to forecast financial results for the year ahead with any confidence. The economy is too uncertain, not only here in Australia, but worldwide, to make meaningful predictions. It is for this reason that we have been conservative in our outlook. We made a statement in early September to the effect that advertising markets remained weak and that without a lift in the second half, profits this year could be well down on last year's result. While our revenues have been stable following the events of September 11, our earlier statement remains an accurate view.

However, as we look ahead in a more general sense, we believe the Company is extremely well positioned for the future.

While our core business will remain cyclical, we believe that we can generate material organic growth from cycle to cycle and that this will drive shareholder value going forward.

Furthermore, should restrictive government regulations be relaxed, we are extremely well positioned to benefit from any realignment of Australia's media landscape.

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