Fairfax

John Fairfax Holdings Limited
ACN 008 663 161

201 SUSSEX STREET, SYDNEY, 2000

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ANNOUNCEMENT

Fairfax Reports Net Profit After Tax, pre-Significant Items, of $90.2 Million

For The Financial Year Ended 30 June 2002

SYDNEY, 9 September 2002 -- John Fairfax Holdings Limited [ASX:FXJ] today announced a net profit after tax and pre-significant items for the financial year ended 30 June 2002 of $90.2 million, down 28.5% from last year.

Earnings per share pre-significant items were 11.15 cents, down 35.4% from last year.

Significant items totalled $36.5 million, primarily due to the restructure of the f2 businesses. Of this, $11.5 million was incurred as a result of the sale of the CitySearch online business to Pacific Access. As previously foreshadowed, $25 million was written off primarily with respect to the CitySearch print directory business.

Net profit after tax and significant items was $53.7 million, or 58.1% less than last year's $128.1 million.

On a trading basis, group EBITDA fell 25.1% to $230.4 million. Publishing EBITDA was $253.0 million, down 26.3%. f2's EBITDA loss improved by 35.5% to $22.7 million, consistent with the range previously indicated. Publishing revenues fell $99.4 million, or 8.0%. While revenues in f2 decreased 29.4%, to $36.2 million, revenues in f2's ongoing News and Classifieds business increased by 4.9%.

Group costs were $943.6 million, a reduction of $37.1 million, or 3.8%, from last year.

The Board is pleased to announce a final dividend for the year of 7.0 cents per share, fully franked (record date 4 October 2002, payable 17 October 2002), bringing the total dividend for the year to 11.5 cents per share, fully franked, unchanged from last year.

Statement by Mr Fred Hilmer, Chief Executive Officer

Our results reflect the worst advertising markets faced by the media industry in over ten years. At the same time, cost reductions and revenue initiatives have partially offset the effects of the advertising downturn.

Nevertheless, this has been a year of several significant developments across the company.

(1) Tullamarine and the upgrade at Chullora, which will give the company world class printing facilities in both Melbourne and Sydney, are close to completion, with both projects under budget and with new Enterprise Bargaining Agreements in place.

We will begin to see the results of these major investments in the 2003 financial year, with more substantial gains in 2004 and beyond. Tullamarine will provide significant benefits for readers and advertisers of The Age and The Australian Financial Review. The upgrades at Chullora are ahead of schedule, with additional production flexibility and colour capacity coming online in this calendar year, which will particularly benefit Herald Publications. When completed, the printing capacity efficiency and quality standards of the Tullamarine and Chullora plants will be the best available in the country.

(2) We contained our costs by improving our business operations, laying the basis for continued cost discipline throughout the cycle.

Across the group, costs were down $37.1 million, or 3.8% on the prior year. Even after allowing for the contracted newsprint price increase of 8% for the year, publishing costs decreased by $9.3 million, or 1.0%. Costs in f2 were reduced by $27.7 million, or 32.0%. Notwithstanding contracted wage and salary increases, we anticipate costs for the 2003 financial year will be at levels similar to those of the 2002 financial year.

(3) Our newspaper franchises maintained their leadership position in their markets.

Metropolitan newspapers. Over the past year, our papers have held market share across advertising categories, even as they have faced discounting. Circulation and readership are at healthy levels, and our major newspapers are unmatched in their reach to the most attractive reader segments. The value to our business of the quality journalism that underpins our franchises was reflected in the intensive attention to news coverage this year, and the Walkley and Quill awards our publications received. We expanded our editorial policy of copysharing between our metropolitan mastheads, adding to the quality of the papers.

Regional and community newspapers. To build further on the strong competitive position of our papers in these important markets, we combined our regional and community newspapers in a new structure, with improvements in revenues and profits already apparent. Compared to 2001, the unit registered revenue growth of $9.9 million, or 5.7%, and EBITDA growth of $4.6 million, or 15.4% -- outperforming the other rural and regional newspaper companies in revenue and profit growth during the year. At the same time, The Newcastle Herald registered the largest circulation gain of any regional paper.

(4) We completed a restructuring within the publishing operations to sharpen our focus on generating growth in advertising revenues across the metropolitan mastheads in the key advertising categories of real estate, employment and automotive, and in retail and national display advertising. This will enable the company to capitalise on the significant investments in expanded printing and colour capacity at Tullamarine and Chullora. Our customers are also afforded further joint print and online advertising opportunities.

(5) f2 was restructured with a concerted focus on the core News and Classifieds franchises, and is on a path to breakeven.

Costs have been reduced significantly and the News and Classifieds business is growing. Classified revenues have been bolstered by the successful introduction of charges for bundled online advertising listings. As previously stated, we anticipate that EBIT losses from f2 will be below $10 million in the 2003 financial year, with f2 moving to breakeven thereafter.

Capital Management

In December 2001, Fairfax issued $250 million of Preferred Reset Securities Exchangeable for Shares (‘Presses’). The purpose of the issue was to strengthen Fairfax’s balance sheet by diversifying its equity base and maximise funding flexibility. The funds were used to repay senior debt. A fully franked dividend of $3.3159 per Presses was paid on 12 June 2002.

Fairfax continues to focus on active capital management and will consider cost effective initiatives to enhance returns to shareholders as the earnings outlook improves.

Corporate Governance

The Board and management of the company are committed to maintaining the highest standards of corporate governance by conducting business in an open and ethical way for the benefit of our shareholders and the wider market.

With the exception of the CEO, all directors are non-executive. The company has an audit committee comprised entirely of non-executive directors which operates under a clear charter. There are independent committees for Remuneration and Nominations.

We are supportive of changes in accounting policies with respect to options. Pending their promulgation, we will report as a footnote in our Financial Report for the 2002 financial year the cost of any stock options or shares issued to employees during the relevant financial year. We note that the company issued no share options in the 2002 financial year.

Statement Regarding The Chief Executive Officer

The company also announced that Fred Hilmer's employment contract has been extended. Mr Brian Powers, Chairman of the Board, said:

"In his four years as CEO, Fred has seen both extremes of the market: two years of record profit followed by a severe two-year advertising recession. Fred has provided strong leadership throughout this period, and his experience in the role will serve us well going forward."

The contract was originally for a 5-year term through 2003. The contract has been amended today so that it continues past that date on an ongoing basis and can be terminated after that date with 12 months notice.

Outlook

Because of the improvements in the business outlined above – printing capacity; cost management; leadership position in our publications; revenue restructure; and f2 – Fairfax is well placed to benefit from an upturn in advertising markets.

On a like-for-like basis, trading in the first ten weeks of this financial year remains subdued but marginally ahead of last year. Real estate and automotive have improved over the same period last year. At the same time, national display and employment remain weak. Therefore, while there are some signs of improvement, an end to the overall advertising recession is not yet evident.

With costs expected to remain flat, continuing improvement in profitability at f2, and barring a further downturn in advertising markets, we expect to resume earnings growth in 2003, the magnitude of which will depend on the robustness and timing of a recovery in advertising markets.

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Contact:
Bruce Wolpe, Corporate Affairs (02) 9282 3640