FAIRFAX
TRANSCRIPT OF PRESENTATION TO ANALYSTS

Name of Company:	**Fairfax Presentation to Analysts**
Date:	**Tuesday 9th September 20**
Time:	**11.00 am (Est)**
Chair:	**Fred Hilmer – Chief Executive Officer**
Participants:	**Mark Bayliss, CFO**
	Alan Revell, Managing Director, Commercial and f2
	Mark Scott, Editor-in-Chief, Metropolitan Newspapers
	Brian Evans, CEO, Fairfax New Zealand

FRED HILMER. I've asked Mark Bayliss to lead us through the presentation and I've a number of colleagues here from the EMT who will also be presenting some of the material and be available to answer questions as they come up. I'm trying to save my voice for the questions that you have. Just, I'll introduce the people who are here. Warren Phillips who is acting Chief Financial Officer; Alan Revell who's responsible for Commercial, Managing Director, Commercial, Ad Sales and Circulation; Mark Scott, Editor-in-Chief of Metros; Michael Gill, Business Publications; Brian Evans who's come all the way from New Zealand to gloat about rugby; Peter Graham who's responsible for Operations and Linda Price is responsible for Organisation Development.

2003 for us has been a really good year of achievement and there are two reasons for that and the highlights on the slide tell the story. I think firstly what we've been able to do is deliver with a good result in a tough market. It's a tough market because we have a unique exposure to the CBD office towers and the advertising that generates, both in jobs and in IT and in Finance and despite that we've had good profit growth driven by some profit, driven by some very good results in display advertising that we'll go through with you.

At the same time we've kept our costs tightly under control and you will have seen that and that is even after absorbing for a number of one-time costs involved with starting up new printing presses and continuing to reorganise and streamline the company. At the same time we delivered on the third promise that we made a year ago which is that we would bring F2's loss in under $10m, but I think more encouragingly it traded in the last half very close to EBITDA break-even and is now trading profitably at the EBITDA level.

So we're pleased with this result and there's a good achievement there, but the second reason that I'm pleased with the result is because we got that result while we did a number of things that were testing, I think, for any publishing company and that could have involved some risk in execution, but as it turned out didn't. The first thing was the major improvements in our printing capacity, the bringing on of Tullamarine and the upgrade at Chullora, which have both come in at or under budget and are both moving up the curve in terms of performance in a way that we're very pleased with. The second

work that we successfully completed are the acquisition of the INL Papers, the formation now of Fairfax New Zealand, and that's going well and Brian Evans will be talking to it.

If you look ahead and say where are we going, well, our priority now, our clear priority now is to earn a good return on the investments that we've made. We're very conscious that we've spent a lot of money acquiring New Zealand, we indicated that a number of $NZ130 million of expected profit and I think we added the words now, "at least", because on the basis of 10 weeks of trading, it's travelling ahead of our expectations and so that's going well both in terms of revenue and in terms of costs. We also want to earn a return on the printing investments and we're beginning to see a significant increase in the colour uptake and we'll show you some of those as you look at the papers that are coming out now compared with where they were a year or so ago; and thirdly we want to earn a return on the F2 investment. We wanted to take that from loss and we want to take it towards profitability; we want to continue to invest in that platform. The second thing we want to do is keep our focus on revenues, that is the gain for us. Cost control will be on-going and we will continue to deliver tight management of costs, but we are, at the same time, really putting a lot of effort on revenue and I think Mark and Alan will talk to you a bit about that. And lastly we want to provide tangible returns to our shareholders and it's for that reason that the Board's increased the dividend to 13 cents and signalled a dividend policy of about a 70% plus payout over the cycle, and that's underpinned by the very strong cash flows that we expect to have now that we're through the major expenditures. That doesn't mean if we saw an acquisition of the quality and fit of New Zealand that we wouldn't do it, but we would continue to be very disciplined and we continue to look basically at every investment on the basis that it's got to be better for shareholders than returning the money.

Taking you through then the highlights of the numbers, which I think you would have seen by now, the profit after tax is slightly ahead of what we foreshadowed and it's up from the $53.7m pre-abnormals or the $90.2m post-abnormals – up in the order of close to 40%. Earnings per share up above 30% reflecting the fact that some shares were issued during the year. The underlying trading revenue is up 4% and we'll again talk about it in much more detail and F2's revenue, while revenue is down, on a like-for-like basis F2 revenues were up by over 70%, over $11m in our News and Classified sites so those are beginning to really go very well. Our underlying costs are actually down and that's after absorbing a number of one-off factors, they're down by about $4m and so EBIT is up 23.1% and against that background the Board has resolved to increase the dividend by 1.5 cents to 13 cents and foreshadowed a dividend policy that we'll go through in a little more detail.

So I'm going to save my voice for your better questions and hand over to Mark and my colleagues to take you through the balance of the presentation. Thanks.

MARK BAYLISS. Well good morning everyone. I'm going to kick off and start talking about costs. Costs are something which is fairly dear to my heart and I think that all of you know that and I'm particularly pleased in terms of what's been a very, very good year of achievement for us to actually report another good result in terms of our costs

management. As you can see our overall costs have come down some $4m on the year and if you turn the clock back to this time last year I predicted that the costs for 2003 would be very much in line with 2002. At the half we reported a good result in terms of managing costs and I predicted that our costs would come in slightly less for the year as a whole and as the slide shows you here has come in some $4m under. The next slide which I'll take you onto actually shows that our cost performance has actually been significantly better than this because we've had some specific asset write-downs and we've had some one-off costs related to the move to Tullamarine and dual running costs there and our costs base is actually down on a like-for-like basis over 2% which is really an outstanding result. In terms of the cost captions, saving in staff, newsprint and promotions. Distribution costs up a bit and other expenses up, but the only reason these cost categories are up are because of the one-off items that I've just mentioned, so why don't we actually go and have a look at what those are.

Underlying costs down $22m as I said or some 2%, 2.3%. Included in the total costs base are $4.7m of asset write-downs which basically relate to some of the small investments we had in Lumen and in SPG in the business publishing area of the business. We've had $6m of specific redundancy cost related to the organisational restructure a number of months ago. The actual real redundancy cost is actually far higher than this and I've only put in the specific one-off redundancy cost here, not all of the redundancy costs that are in the P&L and the $7m of dual running costs which is a number we flagged, I think, very, very well in the past. So you can actually see we had an underlying cost base $922m, some $22m down on last year.

The cost performance is also not a one year wonder. If you actually go back and look at how we've managed the costs over the last four years you can see the red line there, that's what's actually happened to our total cost base. If you strip out of that F2 and as Fred said F2 is now trading profitably and look at the underlying business here which is the publishing business in the blue we have on a like-for-like basis contained the cost growth at less than 1% CAGR per year over that four year period. So it's the cost performance that we're very, very pleased with and as Fred said the emphasis on cost will continue going forward for Fairfax.

Just in terms now of the specific financial statements, if we kick off with the P&L, I think that the numbers speak for themselves in terms of what's happened with profit growth and revenue growth. Just a couple of key points in terms of this part of the P&L and then we'll look at revenue and costs in terms of the individual Business Units in just a moment. Depreciation $69.2m, this time last year I flagged the depreciation charge as $70m, it's coming slightly under the $70m so very much in line with what we said. Interest costs $23½m, that's $6m down on last year and that's $6m down despite us not having $5m of capitalisation of interest costs as within the same period last year so respectively on a like-for-like basis the interest costs has come down $11m 2003 on 2002. Now why is that? Well it's basically three reasons. It's reduced levels of net debt, it's very, very good treasury management by Dale Bridle, our Group Treasurer and his team, and it's also about $2m worth of benefits that we've picked up as a result of the share placement that happened in April as a result of the INL acquisition. But $9m due to

good debt management. Tax charge is just a tad under 30%. A couple of reasons for that. The tax charge has come down, we've had some refunds on some tax paid on some of the subsidiary companies in the second half of the year and we also got a tax deduction for some of the share issue costs, again related to the INL acquisition. Going forward we expect a blended tax rate that will pick up about 30% in Australia and about 33% in New Zealand.

So let's go and have a look at the underlying performance then. This is the chart I always show you and basically over here we have the statutory reported results. Included in the revenues and costs in the statutory numbers are the revenue and cost associated with fixed assets disposal. So we have to strip those out to give us the underlying trading performance. This is exactly in line with what we've spoken to you about before and is in line with what we've presented to you in terms of the first half. So no funnies in the numbers at all. You can see down the bottom here an increase of 23% in terms of the EBIT line. If you actually go back and adjust that underlying EBIT for that $17m of one-off costs you can actually see that there's an increase in EBITDA, in EBIT percentage wise is some 34% so the underlying EBIT of the business is up 34% compared to the 23 there.

Just for completeness sake in terms of how the year stacked up, first half and second half, and how the second half stacked up on H2 of last year I've given you the numbers here. Just another word on costs. The cost base has gone up $6m in the second half compared to the first, but with $17m of one-offs that basically fell into the second half you can actually see that the cost base in H2 continued to come down from H1. Similarly H2 on H2 which is the column on the right here, an overall cost increase for the business of 10m, but again an underlying cost decrease in terms of one-off items that I've just explained. So that's how the half stacks up compared to H1 but also compared to H2 of last year.

Balance Sheet. The Balance Sheet at June is a bit of a fruit salad this year. It basically is the underlying Fairfax Balance Sheet adjusted for the acquisition of I&L which actually took place on the 30th June. As you are all well aware there is no P&L impact and no cash-flow impact of INL, the only impact in the financial statements is here so if you just go through the main changes within the Balance Sheet, the Intangibles are up about $950m, it's the INL acquisition. Plant, property and equipment is up. Basically all of the increase in TP&E is I&L; we've had about $70m worth of CAPEX within Fairfax offset by about $70m of depreciation, so most of the Delta is PP&E from INL. The Investments line here has gone up. This takes account of the new accounting standard in terms of cost currency swap and as you know we have to mark them to market now and we have to gross up both the debit side of the Balance Sheet and the credit side of the Balance Sheet as well and that accounts for $23m of the difference. There's no P&L impact there, it's just a gross up under the accounting standard in terms of assets and liabilities. Receivables and Inventories are up. The main reason for this is obviously the Receivables and Inventory from INL. We've continued with good working capital management in the year. As I showed you last year we've saved something like $61m in cash for the year to June 02 and I said that I didn't think we'd be able to push the working

capital much more. We've actually managed to do a little bit, about $5m, and I'll show you that in the cash flow in just a moment. Other Assets are down. That is basically the refunds of the tax receivable that we had this time last year that flowed through the Balance Sheet and last but not least in terms of the Net Borrowings, Net Borrowings have actually gone up to 1.2 billion, obviously as a result of the gearing up for the I&L acquisition.

Cash flow. Receipts and Payments in terms of the Cash Flow that you've got [indistinct] come to $277m and that's basically these three items here. So we've had more cash in than EBITDA. We've had $2m worth of non-cash adjustments and we've had basically a $5m improvement in working capital which is the number I've just spoken about. Interest costs, Income Tax repaid as that Tax Receivable has come back through cash during the year and I think another interesting point is here free cash flow is up, what, about 120m on an EBIT DA increase of about 82, so you can see how the cash flow has actually come into the business during the year.

Just in terms of how we use that $254m of free cash flow, obviously there's been an increase in the net debt because of the acquisition. Capital expenditure is basically the INL fixed assets plus $70m worth of CAPEX for Fairfax. A small amount of net investments which basically represent the 10% stake that we acquired in Text Media during the year, dividend payments and obviously the payment for the intangibles of I&L. So that's the Cash Flow.

The Financials. I think this is all very familiar to you. An improvement in terms of our profit margins, both on a group level and in terms of the publishing division as a whole and down at the bottom half of the slide here, just some of the indicators we look at in terms of interest cover and the Balance Sheet. Whilst we have been downgraded, and this is a deliberate downgrade from us when we entered into the I&L acquisition from BBB+ Stable to BBB Negative Outlook. Going forward, you know, the significant amount of cash generation that this business will throw off, particularly now that this business is ex-CAPEX, will actually allow us to pay down the debt fairly quickly over the next couple of years. So good news in terms of what we can do with debt and also some fairly healthy interest cover and debt EBIT DA ratios going forward.

As Fred said, now we're delighted to increase the full year dividend up 1½ cents or 13% up to 13 cents for the year and we've also decided to go fairly public in terms of dividend policy and this reflects not only our confidence in the business, but also our confidence in terms of how we can manage cash. I think we've had a good track record in managing cash, particularly working capital, and as I've just said, now the business is now ex-CAPEX and that's going to yield cash flow benefits for us going forward.

So three key bullet points. One is to basically not decrease the cash flow per share amount of the dividends going forward. Point two – a payout ratio of at least 70% of EPS through the cycle and importantly a distribution of 100% fully franked dividend going forward and this last point is a really important point. I know that we've got $1.2 billion worth of debt, but the amount of free cash flow that this business will throw off

over the next couple of years doesn't preclude in any way the ability for this organisation to think about a special dividend or a share buyback at some point in around about two years time. So I think it's important that we continue to think about getting franking credits back to shareholders and that's something that we do take very, very seriously.

What I'd like to do now is just get into the detail of the drivers of the business so why don't we start with the publishing business. Publishing P&L here, as you can see revenue up $46m, 4%, costs up $26.7m or 3%, but included in that $26.7m was that $17.7m of one-offs, so the underlying costs have gone up $9m and I think you can therefore see the actual underlying increase in the Publishing Division EBIT performance year-on-year.

Fred said a few moments ago that this had been a year of significant achievements and I think this is the year when we've actually started to see, you know, the worm turn and we've started to see a turnaround here in revenue and we've started to see a turnaround here in the EBITDA performance of the Publishing Division. We believe that this is a trend that can only be enhanced by the three bullet points here and that's the investment we've made in printing capacity in terms of Tullamarine and Chullora. As Fred said, we bought these plants pretty much in on time and slightly under budget and we actually invested in those plants for three reasons. One was the ability to allow us to print quality products going forward. The second reason was to save us approximately $10m a year in costs and the third reason was the ability that the printing plants would actually give us in terms of being able to up-sell colour which, as you know, has about a 30% premium over black-and-white advertising. Once the printing capacity came on-stream we needed to again look at how we were organised and about a year, 18 months ago, we had some changes and I think, you know, the term that we used at the time was being far more front foot in terms of our approach to actually selling advertising and we've continued with that front foot approach and Alan and Mark will talk a bit about that in just a moment.

But last, but not least, 2003 has been a year of significant product development. Significant product development around looking at the target markets in which we operate and looking at that key customer AB demographic, but also looking at how we can use the investment that we've made in colour. So there's been a lot of development in terms of new products, new sections that have been developed to take advantage of that investment and to drive revenue.

What I'd like to do now is hand over to Alan and Alan's going to take us through the next slide and really, really pick up on product development and what it actually means to Fairfax. Alan.

ALAN REVELL. Well Mark's done the words, I've got the pictures. From an advertising perspective, Tullamarine and Chullora, those investments mean to the business are more colour, better reproduction, greater capacity and flexibility and the ability to deliver our papers more consistently on time. The goal for me and the Division that I head, really, is to translate all of that into new revenues and into higher yields. So there are two drivers of that and this first driver, the two drivers really are product development and sales effectiveness. So what you see here is part of an ongoing program

to improve our papers really from front to back for the benefit of readers and advertisers. The changes, some of which overlap into the year that we're in, the financial 04 year, include some quite significant changes to the Domain products in both cities, the Real Estate sections of the papers. Those of you who live in this city will have noticed the changes, I'm sure, to Domain in the Herald two weeks ago where really that signals the move by the business from more like the black-and-white lineage word, pictures created by words philosophy to a look and list approach which now allows our advertisers to take advantage of the full back-to-back colour that we have throughout the Domain Section on Saturday and you'll see already there's been some take-up, some significant take-up of the colour opportunities that are available in Domain. In Melbourne in the coming weeks you'll see a similar transformation of the Domain section and again following that look and list approach to presenting real estate which we acknowledge is where the readers and advertisers want to be. They want to show the properties and they want to list the detail.

My Career, the employment section of the newspapers, on Saturday are also being revamped for both markets with changes that will drive readership and advertising with some selected editorial improvements which will create traffic and create new opportunities for advertisers which we'll reveal in the coming weeks.

Other major changes at The Age over on the right there you can see include the A3 section. One of the advantages of Tullamarine was to allow The Age to create a new daily magazine section in the paper which has become quite a significant new entry point for younger AB readers of the newspaper and you can see from the latest readership growth which has got The Age's Monday to Friday readership up by about 4%. That appears to be having an impact in that market. A2, it's companion broadsheet section on Saturdays, is a new Arts and Entertainment section which is becoming a venue for retail advertising in the way that Saturday Metropolitan is in The Sydney Morning Herald and again that was a product that we couldn't produce when we created The Age out of Spencer Street.

In Sydney the most recent changes that you may have noticed are the S section in the Sun Herald. Again the investment in Chullora has given us the opportunity to put a new inserted section in the Sun Herald. This is a tabloid section, for those who haven't seen it, with great appeal to under-35 ABC1 demographic, women particularly, and has already been well received by readers and advertisers alike. This follows the successful introduction of Shop which is a monthly retail magazine and which has created significant new revenues for the Sun Herald and in March, many of you will be aware just over here, The Sydney Morning Herald introduced a new glossy monthly colour magazine called The Sydney Magazine. It was profitable from issue 1 and remains so and is a hit with advertisers and readers six months into its life.

Finally, for now at least, we've created a fleet of inserted magazines under what we're calling the Fairfax Lifestyle Media banner. These are true magazines like the ones, you may have seen in The Herald last week the Good Living Fashion magazine which attracted advertising from clients not seen before in some of our publications. These

magazines will cover the likes of fashion, food and wine, travel, motoring and they will attract advertising from cosmetics, luxury goods and FMCG categories where traditionally newspapers have struggled.

The other driver which I mentioned is sales effectiveness and Mark talked about the organisational changes. What it's really done for us is to enable us to take a true National approach to categories of advertising like employment or telco and we've set out to be category experts. All our sales teams now think about audiences and not products and that's important because effectively what Fairfax has is a great pool of very attractive readers that advertisers want to reach in a number of forums across the publications and websites etc. that we produce. So those sales teams now their task is to sell solutions to advertisers who are seeking access to those AB consumers not individual products. We've aligned things like our rate cards and our contract levels across Sydney and Melbourne to make ourselves much easier to buy and we've set as the targets, as you've seen from some of these products already, other people's, what we're calling other people's advertising I suppose, whether that's television or radio, or whether that's revenues which are traditionally in consumer magazines. So that's a brief look at some of the product development we have under way.

MARK BAYLISS. Alan's actually being very modest here. It's all very well having the printing capacity to print this and actually producing the product at the end of the day you've got to be able to sell the colour and you've got to sell it at the premium which we thought we were going to sell it at. Now if you look at our performance in July and August this year compared to July and August a year ago there has been no absolutely no erosion in the colour premium and the level of colour advertising in the papers is up 20% year-on-year. This time last year was at 25% of the ads in colour, this year it's about 31% of the ads in colour, so it's not just about printing it and developing it, you've actually got to up-sell it and you've got to up-sell it without eroding the premium and that's down to a lot of the good work that Alan and his team have been doing over the course of the last year.

We're going to spend a bit of time now looking at what for me is the most important driver in the business which is advertising revenue and what I'd like to do is start by showing you the profile of how advertising revenue has built over the course of the year from the first half to the second half.

The first half of the year advertising was up H1 on H1 just over 4%; H2 on H2 that had improved to being up 6% on the previous second half of last year and I think there's really a number of drivers in here. The metropolitan papers have seen a fairly significant increase as we've moved into the second half in terms of advertising. 6.2% in H2 compared to 2.4% in terms of H1. Regionals have had a good year, 12% and 9% respectively. Magazines have also had a good year, particularly that launch of the Sydney Magazine that Alan just talked about, but the growth has been constrained at 2% on last year because of what's actually been going on within our Business Publications Division. As you know in terms of the performance for The Financial Review is linked very much to what's actually happened within the stock market and the level of activity

within ASX and a lot of the financial magazines that we have have followed that trend. We've actually got two things happening in mags – we're seeing some good growth in terms of the lifestyle mags performance being offset by some current weakness in terms of our financial publications.

If we now look at the different cup which is in terms of categories of advertising, how does it stack up? How is that 5% advertising growth year-on-year, how has it been sort of made up? Well employment, I don't think it comes as any surprise, employment has actually come down and we're going to spend a bit of time talking about employment in just a minute because it is such a key category for us. Real estate's up, motor vehicles are up 9.1%, other classifieds up, but we've seen some good growth particularly in the second half in terms of display advertising, but an explosive growth in terms of inserts and retail advertising and part of that has been driven by some of the product development that we talked about there, some very, very specific retail inserts driven around The Sun Herald and some of our other products.

Just some of the stats down the bottom here; classified was up 1.6% year-on-year, display and insert was up a much higher number, 8.6% year-on-year. Now for those of you who looked at the CEASA data to see the advertising data that came out about a week ago, newspapers reported a H2 on H2 growth in advertising of 7.7%. If you take out from Fairfax, you know, the drag effect of what's been happening in terms of employment, our performance is almost identical to CEASA, in fact I think it's .1 of a percent ahead. So the point I'm trying to make is that our underlying performance has been very much in line with the industry when you pull out that employment effect.

Here's the same graph but for H2 on H2 and you can see the weakness in employment here as we've moved from the first half into the second half, but you can also see the pick-up in display advertising, particularly the television companies, you know, have been speaking about a fair bit recently and how that's manifested itself in our results in terms of National display but also in terms of inserts and in terms of retail advertising.

As I said a few moments ago, you know, employment is a large category for us and we take it very, very seriously and there's been a lot of debate, a lot of noise in the market about, you know, is someone coming, is Seek coming, or is On-Line coming to eat Fairfax's classified lunch. So what we're going to do now is spend a bit of time looking at what the real facts are in terms of employment and look at some of the drivers there and Alan's going to take you through it.

ALAN REVELL. Thanks Mark. Take a look at this slide. What it shows is that the top two, really the two markets that Fairfax competes in and contests most strongly and in fact dominates. The bottom two are markets generally outside of our sphere of influence. But what this shows is that peak to trough newspaper ads, job ads are down by about 50% in New South Wales and about 40% in Victoria over the period you can see there, and, by the way, the decline in Internet job listings is about the same percentage over the same period and you can see that similarly there were declines of the same sort of magnitude in Queensland and Western Australia, but in the last couple of years or so, those declines

have been reversed and importantly that growth, that job growth, has been accompanied by a strong and well documented rise in newspaper job ads in the major metros, in this case The Courier Mail and the Western Australian, you will have seen that in some of the published information. So there's absolutely no reason why the same will not be true in New South Wales and Victoria when jobs growth picks up and we're already seeing, I think, the early signs of that. The pick up in the ANZ Job Survey out yesterday or reported this morning, in fact, talks about newspaper ads being up last month for the fourth time in a row, while actually reporting that on-line jobs were down by about 6% in the same period and for those of you who count the pages, the employment pages in The Herald and The Age, I know I do, particularly, let's say the My Career sections if we leave alone the front part of the books where we run EGMs, employment advertising too, just in notebooks alone The Herald and The Age between them had 80 pages on Saturday which was the strongest number for some time. So, you know, the big question around the business is, you know, cyclical or structural. Well I think, you know, this graph at least in our minds demonstrates that what we're looking at is a cyclical phenomenon.

What are we doing about it? I think I talked before a little about sales effectiveness and being a key driver to what we do in driving new revenues and higher yields. In employment, if I take employment as a category which we've created as a National category within the Fairfax business after the restructure in April, there's no question that recruitment companies who make up a very large, substantial part of our employment advertising tell us what they want are combinations of print and on-line. They've got a number of things that they want to achieve; they want to build their brand, they want passive jobseekers, they want traditional in-paper browsers, those people who traffic our dedicated section and they want the immediacy of on-line, particularly for the lower value jobs. So what they tell us is that we're now the only player really offering this bespoke solution for them with a National sales structure split into two channels with the ability to cross-sell both print and on-line. We up-sell from the print to the Web and we up-sell from Web to print. More than 60% of the print advertisers who come in through our phone room, SMEs and the like, now take on-line when it's offered and we charge for it and we've charged more for it recently and 30% of those people who come in seeking to place an on-line advertisement through our Website now take the print, the opportunity to advertise in print as well. So we've got two very effective channels working for us there.

Seek by contrast is just one channel. It offers no branding, no browsing opportunities and no up-sell and I think News Ltd's proposition now is if it's in print it's free on-line. For me there are three problems with that. They're giving away value for a start. You can see that when we offer it to people they take it and they pay for it. Recruiters don't want a one size fits all solution. They don't want every ad in print and every ad on-line and the jobseekers may well just conclude, well, what you're saying to me is that I don't need the newspapers. Now that's not a position that we'd ever want to be in.

As far as marketing and branding is concerned it would be fair to say that I think Seek's had some easy wins, particularly with SMEs and some of the recruitment companies on the back of a big marketing spend, but, you know, to grow now they have to push into the

corporate market and compete head-on with their core customers. I don't think that's going to be easy for them and our proposition to advertisers is we're in the media we're not in the recruitment business and therefore we're the only viable partners for the industry in the long term.

On the branding, with the help of a new Advertising Agency we've now re-defined our brand positioning and we've begun rolling out a major new campaign which some of you may have already seen some evidence of, you certainly will over the coming months. We'll sell the fact that we are Sydney's and Melbourne's leading job markets and the strength of our print and on-line combination I think it would be true to say that we probably haven't invested in nothing marketing in recent years, in marketing our classifieds strengths; that will change as of now.

Further on product development. As I said earlier Tullamarine and Chullora have given us great colour branding and product development opportunities and, you know, as I said, expect substantial changes on Saturday and in mid-week too around design content and advertising opportunities. On-line we've launched a new version of the My Career site last month. It's improved the user experience and that will also translate into better results for advertisers. We're already a very tight No. 2 on-line to Seek in the two markets which we contest and I think the industry is telling us our site now has greater functionality including intelligent matching, it's the amazon.com idea, but if you search for a particular book on Amazon it will recommend some other books to you that other people have bought. Our site now, it can search for a job, not only does it use the keyword search, the best available, it will throw up other opportunities – if you've applied for this job then you should apply for these others.

So in summary I think the future of the on-line field plays in the employment advertising market is not assured and I think printed on-line is what the market wants and we're uniquely positioned to deliver it.

That's just a few words on employment. I'll now hand to my colleague Mark Scott to talk to you a little bit about readership and circulation.

MARK SCOTT. Thanks Alan. Readership and circulation numbers you will have already seen, released in recent weeks. Circulation audit to June and readership numbers from Roy Morgan through June, but I thought it would be beneficial if I spent a little bit of time giving you some of our insights into current trends in circulation and readership and then some specifics about what we're doing now to drive our circulation and readership performance forward over the coming year and the one thing I want to assure you about, there's an absolute clarity of focus and clear intent to drive strong circulation and readership performance in editorial working closely with the sales side of the business and marketing side of the business and the distribution side of the business.

One of the things I think it's important to remember and to consider, particularly when we think about Melbourne, is the opportunity that really only now has become available in Melbourne with Tullamarine coming onboard. Michael Gawenda, the editor of The

Age will tell you that The Age has been significantly disadvantaged for a number of years in its ability to produce a contemporary modern broadsheet newspaper, particularly on a Saturday when there's very high reader expectation about the diversity of material and the range of material that they'll be presented with and it's only in the last few months with Tullamarine coming on-stream and a very significant redesign of the Saturday paper that we've been able to produce a vibrant, quality, diverse Saturday broadsheet the way we've wanted to be able to produce. Regarding the potential that Tullamarine gives us in an editorial sense to present a diverse newspaper for a range of reader interests and to make that paper lively and engaging and to attract more AB readers into it, we've really only just begun to see the potential of that in the paper that's delivered and we can see it through new sections like A2 which has been very popular in our reader research and also advertiser feedback, A3 and in other parts of the paper as well. There is a new flexibility in what we can do with the Australian Financial Review Monday through Saturday and you'll have seen the changes that Mike Gill's team have introduced to introduce more news content but also more lifestyle content into the Weekend Financial Review in recent weeks. A new form guide has been well received in Melbourne, only just introduced in the last week or two and even in Sydney the kind of colour capacity that we've invested in through Chullora has enabled us to be able to do a new liftout section in The Sun Herald called S, targeting specifically younger female AB readership. So we have been suffering at a little bit of a disadvantage until we've been able to get this colour capacity ready and fully available. It is now and you're going to see significant changes in our newspapers and our magazines over the next year as we take advantage of it.

One of the things I think Mark and Fred and Peter Graham will have spoken to you about in the past is the successful transition to Tullamarine and all our research and benchmarking shows this has been in a sense world class best practice in transitioning to a plant of the complexity that we've had. But there are challenges that come when you put a new plant on-stream like that and we have had some difficulties in Melbourne with on-time running, although those difficulties have been nowhere as challenging as those that we faced at Chullora some years ago. That also will have a little bit of an impact for a period of time only on your circulation. We're pleased to be able to say that the on-time running performance at Tullamarine is continuing to improve and for a plant that's been opened for the period of time it's been opened, it is absolutely world class best practice. Our ability to get a paper out and available at the outlets we want on time will also see circulation benefits.

The other thing I think we need to look at in terms of our circulation numbers this year is that newspapers around the world are finding that it is a relatively slower news period of time to sell papers. Certainly it is for us and you can tear back the previous financial year which contained events like September 11, Tampa and the very turbulent and controversial Federal Election campaign at that time.

Part of the question, I think, for senior management in newspaper groups is what do you do in response and I think you can see a lot of activity that's taking place in the marketplace at the moment and there are different alternatives and strategies that you can

take. I mean you can have a lot of giveaways and we can see a lot of giveaways in newspapers in the market now, give away cars, give away the world or you can give away your paper and that's also what we're seeing in the marketplace as well with copies of The Australian available at 16 cents a copy under certain subscription deals. That's not the path that we are going down. We are targeting with absolute focus and absolute intent around attracting the kind of readership that we want, the kind of readership that we need, attracting the readers that advertisers want and it's fair to say that in these readership numbers we see the absolute strength of our newspapers as far as reaching AB readers are concerned. Certainly the domination of The Sydney Morning Herald continues very, very strong and robust around AB readers. The Sun Herald, clear readership in ABs, AB's and C's and every income group at $50,000 a year or more and The Age as well, clear, strong AB readership over 7 days. We're not chasing a magic number in our circulation and readership strategy, we are chasing the readers that we want, the readers that our advertisers most want us to be able to deliver to them.

So what are we looking at going ahead? One of the things you can expect to see in our products is continuous improvement at every masthead over the coming year. One of the things that we are particularly looking at now is how we present the classified information that we have to readers to make it even more attractive to readers, even more attractive to advertisers. The redesign of The Saturday Age involved the editorial areas up until now but you will see significant redesign of the classified sections in coming months and also a finetuning of those classified sections in Sydney, you've already seen the new Domain section and those classified sections will involve a change in content, a change in the paper stock on occasion that we use, making them stitched and trimmed and more attractive, easier to use for readers, more attractive to advertisers. You'll see continuing changes and developments in The Sunday Age and The Sun Herald to make them more lively, more engaging to readers. We've put the form guide into The Age and we're reworking some of our successful sections as well like the Saturday Metropolitan section and the Good Weekend section. We find that we constantly need to be working on them in an editorial sense to make them fresh, to make them lively, to make them engaging to readers and to make advertisers excited about them as well.

In addition to product, though, we see absolute keys to our success in circulation and readership to be based around marketing and distribution strategies and we have integrated teams working in Sydney and Melbourne around editorial, marketing and distribution working together to support our circulation and readership initiatives.

Alan discussed the new classified campaigns that are running, we do have a sampling program that's underway to help new sections reach specifically targeted AB audiences, but what we're looking for through our marketing is sustainable growth. Growth that will be there week-in and week-out, growth which will help to build the product over time. We're not developing marketing strategies which can drive sales for one week or two weeks, but as soon as those marketing strategies are gone, all that circulation is swept back out of the circulation numbers. We are seeing a bit of that in the market at the moment and that's what we're not, definitely not going to play at. We're chasing quality readers, we're not chasing a number and we're also working hard on the strategy that

Peter Graham is leading on distribution to make sure that we have the right number of papers in the right outlets at the right time because on-time running also creates new advantages for us in terms of early editions, sales in regional areas and better support around home deliveries as well.

MARK BAYLISS. Thanks Mark. We'll try and wrap up in the next couple of minutes so that we have plenty of time for questions. F2, I think you've seen the performance of F2. A strong improvement in terms of its EBITDA, not only that we actually managed to maintain news readership with some good traffic growth across the sites. As Alan said a few moments ago No. 1 or No. 2 positions in each of the classified areas within New South Wales and Victoria and some good gain in market share in the on-line classifieds and banner advertising area. In terms of a P&L, 77% growth in revenue period-on-period. I know the numbers aren't particularly deep but $26.4m compared to $14.9m last year. Good cost control and an EBITDA loss of $1.7m, but importantly in terms of the trend as Fred has already said is currently trading profitably and we expect that to continue.

New Zealand. Brian Evans is here and will be delighted to take your questions in just a few moments time. Just a couple of key points here. We acquired the assets, as you know, for $NZ1.2 billion. INL released its 2003 numbers a couple of weeks ago and it actually reported some strong growth in terms of the underlying New Zealand assets that Fairfax has actually bought. The Expert's Report quoted a number of $118.8m Kiwi dollars of EBITDA was the expectation for 2003, the number came in slightly ahead of that which is a good performance and as I'm sure Brian will tell you we've entered into the start of the new financial year in a very, very strong position. Things are going well in New Zealand which is excellent news and we therefore feel very confident that we can make an EBIT DA performance this year of at least 130m Kiwi dollars.

Brian's focus in terms of a timeline is really around these three areas here. In the last 8 weeks and continuing over the next few weeks is obviously a smooth transitions. The transition of Fairfax into INL has gone very, very well in terms of how the business is running, but also in terms of having the management team in place. Brian has already identified a number of immediate synergies which will flow into the business over the course of the next 12 months and has also embarked on a program already at looking at how we can find some sustainable improvements to this very exciting group of assets that we've just recently acquired.

Chief, are you going to summarise?

FRED HILMER. I can handle this sort of presentation anytime. Really coming back to where we started, as I said, two reasons why we're pleased with the result. Firstly because it's solid results, it's a good result in its own right reflecting the profit growth in a market that's beginning to turn but certainly isn't booming and where we have to really work for every dollar of revenue. It's a result achieved with continuing cost control and also cash management, cash control and we've delivered on turning around the F2 business as we promised that we would. As I said the other part of the 2003 year is the

putting into place those very important foundations for, the foundations in terms of our printing capacity which is not really just about printing, but I think as Mark and Alan will have told you, are really about what it is we can put to market, how we can put it to market and it's going to open up tremendous opportunities for us and the successful acquisition of I&L and the very encouraging performance we're seeing in the first ten weeks. So that's where we are in terms of 03.

In terms of going forward, as I said, we see a lot of emphasis on franchise quality. It's not just the franchise with the reader, you know, a very clear understanding of the readers that we want and the readers that are valuable, but also some fairly sustained work in terms of the advertising franchises that we need to both build and strengthen. Revenue growth initiatives underpin that, that's an important priority for us and that will come in large part out of the new capacity that we've put in place, so a lot of focus on revenue and using the capacity to get the returns to make it pay. Continuing cost control is now, as we've said, a way of life and something that isn't just a one-year thing as Mark showed you in the numbers. It's a sustained performance that we are committed to continuing. And finally successful performance in New Zealand where we are increasingly optimistic that we have bought very good assets at a fair price in what is, in media terms, an attractive market.

Finally, the outlook statement which is in the Press Release and I will let you read. If you look at the first ten weeks of the financial year, generally steady in Australia, and very much the trends that we saw in the first half, still some weakness in the employment classified areas although as Alan mentioned a little bit of a kick-up in the last few weeks and that's more than offset by, the classified weakness is more than offset by continuing good growth in the display areas. New Zealand is stronger. The growth there is pretty solid and as a result of that we are able to say, you know, barring unforeseen circumstances which in a business that, by its nature, in short-term can occur, we are confident of earnings growth in 2004 but the scale of that is going to depend on the vitality and the extent to which some of those markets that are critical to us turnaround.

Now we'd be delighted to take questions and so we'll take questions here; we also have people remotely plugged in.

[Note – some people asking questions are too far from microphone to be fully heard]

Hi, I have two quick questions. Firstly, probably to Mark, in terms of F2 can you just explain why in the second half in particular depreciation was up sharply at F2 and was obviously up on last year given the absence of Citysearch and I have a second question as well after that.

MARK BAYLISS. I'll deal with that one first. We've actually written down some capitalised development costs in the second half which I don't expect you'll see going forward and those have effectively been written down to pretty much zero. That's the reason why it kicked-up in the second half.

And just a question, I guess clarifying the Outlook Statement. I don't know whether you or Fred want to answer this one. Two questions. In terms of trading, when you talk trading are you kind of talking the advertising market or are you kind of talking profitability and secondly when you talk steady are you talking steady on what we saw in the June Quarter or are we talking steady on what we saw in the September Quarter last year?

We're talking revenue and we're talking about revenue and we're talking of year-on-year performance.

So on the September Quarter last year?

So on September. The first ten weeks this year versus the first ten weeks last year. It's interesting if you look at last year which the pattern we're seeing is quite similar to the pattern that we saw last year, where the first quarter was quite soft and when we went to the AGM we gave, which was I think at the time, an appropriate level of guidance and then as we moved into Christmas we saw, you know, that strengthening and we continued to, I'll just keep you informed and upgrade, and we're seeing the same sort of pattern this half, but as I said it's a short-term business and we're reluctant at this stage; we'll give more guidance at the AGM where I think we'll have a better ...

(End of Side 1 of tape)

…more for Mark, there's what looks like a $2m asset sale profit in the detailed 4E, but I think you said in your underlying performance you took out 7.8m of revenue and 7.8m of costs and just a couple of other questions – there's an $8m asset write-down in the 02 year compared to a 4.7m write-down in 03, so in terms of looking at what was the underlying cost performance I'm not sure whether we should exclude that 02 amount as well and then just on your Metro Advertising, that card that you've put up, does that include more than just the four main mastheads? Does it also include the suburbans that are in the metro areas and then the dividend payment date seems to have been pushed out by a month.

MARK BAYLISS. The dividend payment date is for the timing in relation to the AGM and in particular the DRP that has been put in place, I think you know about, as a result of the INL acquisition and that will require approval at the AGM and that's the reason for that.

But will the dividend be deferred by a month as well?

No, it will be very, very similar to what we've seen historically. The question on metros, does it include suburban? No. Metro is metro and the regionals include regionals and suburbans, so in terms of the advertising revenue they're in there, the regionals number is the regional and suburban number and in terms of your question about asset sale as such, what we've done in terms of the underlying performance is we have to take the proceeds out of both the cost and revenue line because both have been grossed up by the same

amount. There was a small profit of $2.2m in terms of asset sales. That has actually got embedded into the other cost lines so technically you could argue that the costs were actually $2m higher, but it's actually irrelevant because this year we've had about $2m worth of costs for the Sydney Magazine that I haven't put into the comp so whatever way you look at it it's still a $22m cost saving.

What about the asset sale? Last year's asset sale of $8m? Sorry, there was an asset write-down. It was 4.7 this year, the previous year you had 8m.

Yes. That was comprised of a number of amounts. We actually showed them as a significant item last year. We haven't shown any significant items this year so when I did the cost chart there it was absolutely apples with apples comparison because we showed it as a significant item and it was a write-down in Lumen and some other assets basically.

Two questions; firstly on the circulation and readership page. Can you give us some idea what happened to circulation revenues last year and then in the F2 numbers I was wondering if you could just give us a rough idea of what the split up is between advertising services and the archive and news services so we can plot the performance of F2 in the relevant Seek, Real Estate, dot.com market.

In terms of the circ revenue, circ revenues are down about $1½m 2003 on 2002. About a million of that, Roger, is in the magazines and that's mainly in terms of what's been happening in that financial publishing area that I mentioned earlier. There's about $½m of circulation shortfall for everything else within the group effectively, so it's mainly been driven by mags. It's actually an improvement on the performance that we actually reported at the first half. A couple of drivers in there, you obviously had some cover price effects coming in there, but you've also had some of the circulation copy effects which take it down the other way, but effectively circulation revenue in the metro has been flat, basically. Sorry, what was your next question?

The split of F2 revenue between advertising [speaker too far from microphone]…the split up between what you do in the two markets.

I don't have those numbers in my head and I'm not sure we've actually given that level of detail.

In terms of the shape of it, I mean there were two real drivers, there's the banner ads that we get in terms of the advertising revenue and then there's basically the revenues we get for the three classified sites. Syndication revenues and stuff like that in terms of Fairfax syndicating its products out, actually come within the Publishing Division. That's not actually shown within F2.

One last question, in New Zealand the ??? profit performance. Is that in any way caused by excess staff reduction?

BRIAN EVANS. Just to answer your question first, there's no doubt the start of the year's been very strong for us given that we got reduction in staff. You know you're looking at, sort of, week 9, about $2m down in staff costs so you're going to see that coming throughout the whole year, we won't lose that, that will continue. I guess the couple of major points, I guess, would be that as Mark said 130m is safe and we're very comfortable with that figure going forward. The New Zealand economy is very sound and quite strong from what we can see and what we've seen coming through and national and employment is very, very strong and employment's actually a little bit different to Australia, it's actually quite the opposite way, it's very, very strong going forward. So I guess there's no surprises for us as far as we've concerned. What we saw in due diligence is what we're seeing in the business and obviously strong, sound revenue is there; we're getting very good revenue and also our costs control is very, very good.

Can I just add something to Roger's point, in terms of, are you talking about the 03 result that we've just announced?

[Speaker too far from microphone – cannot hear comment]

BRIAN EVANS. It was about what we expected and the significant amount of that does not require replacement which means that we've got the business on a better footing and it's achieving the revenues we expected it to achieve.

A little bit further detail on I&L. I just wondered if you had any response to The Aucklander, the launch that ??? and secondly Alan Rozelle alluded to a potential increase in marketing spend, I just wondered if you could give a little more detail on percentage increase and also dollar increase in marketing spend this year.

On the first point, *[someone coughing near microphone]*…The Aucklander, in Auckland we're by far the dominant publisher in suburban newspapers, we employ about 240 people and the new Aucklander which is a combined 5 edition of Wilson Horton's new paper coming out next week has about 70 employees so if you look at sort of the size difference, they're quite a small player compared with us, we are by far No. 1. They're talking about a combined circulation of 300,000 copies once a week and on our peak day because we have papers on most about 3 or 4 days a week, but on our peak day we do 370,000, so from that perspective they're No. 2 in the marketplace. They want to become obviously stronger than what they are, they're obviously having a bit of a go and that's fine. We're very comfortable with that. We believe that we're very well positioned with our papers and history shows that our readerships and our revenues are far, far stronger and our staffing numbers are far stronger so I think it's about time that they did something but I don't think we should be too concerned about that.

Just two questions. One, could you let us know what the status of the franking account is at the moment?

MARK BAYLISS. We can pay about a dividend of about $440m and that would exhaust it Peter.

Thank you. The second question is that if you look back over the last five years, costs, total costs of the group have grown about just under 3% per annum on average. You've obviously pulled back the cost base in this year which is a good effort, can you get back to 1998 level of costs or something approaching 1999 level of costs?

I'll pick that up, it's a good question. If you go back to the graph that I showed you where we looked at, you know, the 4 year, the 4 data points from 2002, 2003, over that period and I think we should concentrate on publishing because you have some F2 costs that were in there which have then come out, if you focus on the core business in terms of what we call F1, as I said, the compound annual growth rate is just under 1%. Now to set that in context, now we had an underlying rate of wage inflation of about 4% per annum every year throughout that whole period, we've also had some changes in newsprint pricing. Now for the year just ended we benefited from a 5% fall in newsprint pricing but the year before it was up 8% and, off my head, the year before it was flat. So the point I'm trying to make is that we've contained our costs to under 1% despite about 4% per annum in staffing and an increase in newsprint pricing over that 4 year period. Now there are some costs that have come in there as a result of investment in the business in terms of some of the new products, for example. Costs we take really, really seriously and as Fred said, it's part of the culture now and we are continually looking at ways of how we can more efficiently use our cost base. Investment in Tullamarine was a classic example of that. I think we've had a good performance on costs, but I think going forward whilst costs containment, you know, will still be a main plank of the strategy, we've got to look, I think, very carefully at making sure in terms of that franchise quality point that we talked about there, I think, Finola's point about marketing as well, you know, we've cut that back fairly significantly and I think we can spend a little bit more on marketing, not much, it's all about how we spend it effectively Peter, but that's basically what will happen with the cost base going forward.

But when we look at the cost base going forward, rather than just pick a number, what we say is that we want to actually make real productivity improvements every year and so the targets all of the businesses have as they budget is to come, is to take off some of the inflation through productivity improvements. That's our ongoing target and that's what we've been achieving and that's what we're continuing to focus on.

And you see the underlying cost in there of $922 mil for the year, when you take out those one-offs. Bear in mind that when we move to a full year the effect of Tullamarine you'll get that cost saving that I spoke about there so you're going to get a natural decrease in that 922 from the move to a full year of Tullamarine and then basically the other cost drivers on that will be what's going to happen with newsprint pricing, what's going to happen with staffing levels and wage rises and then what's actually going to happen with volume, because if we see a significant pick-up in volume that adds, that will obviously drive the cost base as well and to be quite honest with you I'll be happy to see the costs go up because it will mean that the EBIT DA is going up even more.

Sorry I have one further question on costs but I guess it's ??? the revenue. In this year though, your 4E says that your staff costs were below 400, I think the difference is that redundancy item you talked about, but given that staff costs are down particularly when you strip out the impact of Citysearch etc. and paper costs been down, other costs appear to have been up more than your headline slide shows because you're stripping out Citysearch from slide 3 or whatever. Can you explain what's going on in other costs? I make it about a $20m increase excluding the one-offs.

Yeah. The, I think I'll refer you back to the slide, my first slide, other costs are up $9.7m year-on-year. You've got an asset write-down in there of $4.7m, you've got some Tullamarine expenses which we've also included in there, so they're not up significantly Pete, year-on-year.

Can you comment on the interest expectations for next year then? Given, if we assume no profits growth for the sake of argument, what would the interest be on a like-to-like basis ???

We've got about $1.2 billion worth of debt. When you look at what our consensus forecast might be for profit, and you plug into that the DRP which will give us, and you're going to end up with a free cash flow to pay debt down in the order of about $200 mil, okay, we're going to end up with an average debt profile of about $1.1b through the year, $1 billion at the end of the year, $1.2 billion at the start of the year, you know, and we're tracking off about a 6% interest cost blended across the group, so you know, you multiply one by the other you're going to end up with an interest cost of round about 65-70 mil. Now the other thing we're doing on interest, as you know, is the debt that was put in place was a 364 day bridge and that will be refinanced this year. We're going to refinance about half of it this side of Christmas to a U.S. dollar placement, take advantage of what's actually going on within the U.S., not just in terms of interest rates but also in terms of the length of the money that we can get there, you know you can get 7-12 year money and then the remaining half will be done post-Christmas in terms of medium-term debt, mainly in Aussie and Kiwi.

Sorry, I'm being waved at to take some phone calls.

Thank you. The first question from Philip Stranow from the National Australia Bank, go ahead Philip.

Yeah Mark, I guess part of that question was just answered by mentioning the refinancing of the bridge, just one more question. Gearing's roughly around 40, 41, what do you expect that to go down to over the next 2-3 years before you start the capital management special dividend or share buyback?

The question is where do we expect the gearing to go. I think we expect it to come down a bit over the next couple of years, and part of that will be the result of the DRP and the use of some of our cash flow and at about that point, as Mark indicated in the

presentation, I think we get some interesting questions in terms of capital management versus debt management which are decisions that we really keep under constant review.

I think gearing for us is kind of, it's a statistic that is not meaningful. I mean the stats that we actually look at are interest cover in terms of interest and debt payback in terms of net debt divided by EBIT DA and if you run the numbers, you know, on basically what I said, you're going to end up at greater than six times interest cover on EBIT DA in the next 12 months and we're going to end up with a debt payback of less than 2½ times, so they're fairly healthy ratios, now even for BBB under Standard and Poor's.

Okay, so your understanding is the BBB rating will be maintained?

[Not answered]

Do we have another question. Okay. Mike.

Sorry, just coming back to the Outlook Statement, I think Fred you mentioned when you talk about trading you're talking about revenue and not volume. Is that right?

Yes.

Okay. I'm just a little bit confused because it looked like if you compared the second half to the first half, it looked like there had been a bit of momentum building up, but from the sound of that it sounds like in Australia it's kind of gone flat. Am I missing something?

MARK BAYLISS. No I think, Australia has been pretty flat for the first 8 or so weeks. We're getting some glimmers in some of the late numbers that we've seen and Alan talked a bit about, you know, bigger employment sections, and it's been, there's been quite strong display, but the classified section, sort of July-August, were relatively soft in those two things in a revenue sense washed out, so we're slightly ahead in Australia, but it's a very similar pattern to the pattern we experienced last year year-on-year.

I think the key point as well is that, I mean I actually agree with Fred, I mean look at what happened in Q2 last year. We had a revenue growth rate seemed flat in Q1 last year and then it went up to about 7% Q2-on-Q2. You know how far our forward order book goes out. Now if you look at what's actually happening within the mags then you go into late October, November, we're starting to see, you know, some quite favourable signs in terms of some of those mag bookings, but, you know, one Swallow doesn't make a Summer! So, I think we can give you much more of an update on the 31st October because if it's coming back then we're going to know about it.

Just a further question. Generally when July comes around Fairfax passes on rate increases each year. Can you give us a feel for how much of a percentage?

It varies across the different categories, but, you know, we're seeing, the yield increases we expected in some cases were much more because we've changed a number of things

like contract levels whereby people pay a different rate depending on how much they spend and in some parts of the business we're seeing double digit yield growth, but on average, across the board, we're achieving what we set out to achieve which is in the order that Fred was talking about.

The yields are holding very nicely, very nicely, and don't underestimate that point on colour, that colour uptake and that colour premium.

Just one last question. Should we expect more redundancy restructuring costs this year or is that flowed through now?

That's, at this stage, that's fairly much, we've settled down this organisation, there might be some finetuning, but, you know, it's something we're continually looking at, which gives us opportunities to make the business more effective and we're, you know, if we do that we're prepared to eat the cost.

Mark, you said at the ??? you expect good flattish costs in 2004. Is that flattish on their 939 or the 922?

It will basically be on the 939, but just come back, the underlying cost base, I mean we've done well as you can see. You've got 922 which is basically the cost base that we've got going into the year, we're going to have some Tullamarine savings, about another 8m on top of that, we've got a bit of newsprint price savings, you know, in terms of newsprint price coming off about 4% and then you've got just the underlying wage inflation which you know about on our cost base and then you're going to have the volume effects now as the revenues come back.

I don't want to put a number out on the market because it's to some degree tactical and it's certainly confidential, but we will spend more than we spent last year, but it won't lower our costs. We can contain it within that expectation.

Can we take Martin here? Okay.

Question to Brian on New Zealand. What other, or what synergies are available in New Zealand apart from the obvious staff cut we've already had? You know, what's available in terms of print ??? capacity and other things that you can alter and when will we see the benefits flow through? Will we see anything in the current year or will we have to wait until 05?

BRIAN EVANS. Thank you for that. I guess the answer to that is that we're already starting to see some of the natural synergies come through where, obviously we're looking at print runs, spoilage, all the basic sort of items that we would put into place for a company of our size. So we're starting to see those sort of benefits come through and that's why we're trading so well apart from just the wage side as well. But also we're going through and breaking down the silos back into a large company, so in other words, where the silos had actually had one of everything or two of everything we're obviously

making that more sort of groups. On August 14 and 15 we got the Senior Management team together to actually work on the synergy strategy and we spent two days on that which will give us considerable savings, but we were really only interested at this stage in the savings we'll get in this financial year. So there are obviously a lot more to come into the years to come, but really we wanted to see them come out this year which are quite considerable and so you will see those starting to come through.

FRED HILMER. Just as an example, you've already got a, just by lumping their insurance with our insurance, we've saved, what, $¾m.

BRIAN EVANS. Yeah $750,000.

FRED HILMER. We've saved $750,000 this year just on insurance, just by grouping that. The other thing Brian, it's worth spending a minute on, because we talk about ???, it isn't just a cost game, there are a lot of what we would like to do and both learn from them and them learn from us, is some of the better revenue ideas and you've got quite a lot of revenue ideas.

BRIAN EVANS. Yeah I think that's a valid point, but I think first of all the papers in New Zealand, as I said, are a silo driven and have been very editorially driven organisation, not a sales and marketing organisation, so you'll start to see it come through in the second six months of the year some very strong pushes in revenues and opportunities. We've just appointed a new Group Sales Manager who's already in the marketplace in the National market, starting to talk to advertisers as a group rather than individual products and there's some great up-sides for us there. We're also bringing across from Australia an expert in inbound and outbound sales which actually will grow classifieds volumes for us and also telemarketing. So you'll see that starting to come through in the second half as we go forward and there are tremendous up-sides for us in both of those categories because they are categories that haven't been promoted too strongly in New Zealand prior, so there's a real growth there for us as we go forward.

Mark can I just ask in relation to INL, you haven't disclosed what the 03 actuals were. You mentioned that the EBITDA was 119, yet the result that INL put out said that the EBITDA was 136m NZ. That being the case that sounds like an awfully large number for the EBITDA of the Geelong Advertiser.

MARK BAYLISS. Good question. I can't obviously talk for INL because, you know, I&L are a different public company to Fairfax, but let me give you the following answer. The Expert's Report which came out on the 12th June, so two weeks before the end of the year, talked about a profit of $118.8m.

On the assets we're buying?

On the assets we're buying. INL talked about 136m and the only difference there is the Geelong Advertiser. Now the numbers in the market on Geelong are about $6m worth of EBITDA, so $136m minus 6 is $130m, so how you get from $118m to $130m in 18 days

is beyond me, and you must ask INL. The number is not $130m, it's better than $118m but I'm not qualified to talk about a public company that I'm not Finance Director of, so if you put a number in that's slightly ahead of $118.8m that's the base you should use. If you think it's $130m you're way out, but something has gone on in their accounts that I'm not qualified to talk about.

??? CAPEX guidance, said that CAPEX in Australia will now only be half of depreciation but only for two years.

MARK BAYLISSS. What I've said is, it's very consistent with what we've said. Going forward for Fairfax Australia, CAPEX will be half depreciation and we've been saying that for 18 months. That's unchanged, okay. However, when you look at New Zealand, New Zealand has got a CAPEX requirement of about 20-25 mil a year, probably for about the next five years and it's got a D of 17. So when you add the two together you end up, as a group as a whole, having CAPEX being two-thirds of depreciation and that's what we say in the Press Release.

You also say that CAPEX in Australia will be running at half depreciation over the next two years.

Correct.

Yes, but we're not saying that thereafter it will go up, we expect that to continue relatively indefinitely. We're not saying it's going to go up then, we're just being clear about that, but whether it will be 5-10 depends a bit on technology and opportunity.

One more? Have we got any more on the phone Bruce? Okay. Mr Pollock.

Just a quick question in terms of can you give us some clarification on whether the classifieds have actually, for the first few months of the year 2004, they seem to be below a PCP in terms of revenue, is that a worsening trend relative to the second half 03 as well? ??? and I'm talking about employment and real estate.

And again it really started to turn down the last couple of months of the last year and it's continued at that level and now we're starting to see a bit of a pickup, so there's nothing sort of strange that's happened, you know, it has its ebbs and flows as the markets in which we are uniquely exposed have their ebbs and flows.

Okay thank you very much.

(End of recording)