



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

TRANSCRIPTION

Company: Fairfax
Title: Full Year Results Announcement
Date: Monday 29th August, 2005
Time: 11 a.m.
Chairperson: Fred Hilmer

[START OF TRANSCRIPT]

Fred Hilmer: Good morning. I will start how I always start and say I am delighted to be here. Sometimes when I've said that I've been polite; this time I really am delighted to be here and for a number of reasons.

Firstly I am delighted because it is an outstanding result. What we have today is a record result. There is a little known vice-president called Marshall, he was vice-president between 1913 and 1921. And he is only famous for one thing and that is the statement that what this company needs is a good 5c cigar. And we built on that. What this company needs is a good 5c special dividend.

So, it is a great result and the strong cash flows that underpinned it really have given the board the confidence to declare, not just an increase in dividend but the special dividend as well.

The second reason I am delighted to be here is what the result says to us, and what I think it reflects is a company that is not in any way losing momentum but a company that is really, if anything, gaining momentum and doing that through a transition period. And this has been an enormous year of changes for us. A major reorganisation of our business into the three operating units and I will come back to that; talk about that a little later. But, a major reorganisation of our business which was achieved thanks to a lot of the management who are here today, without us drawing breath; without any impact on our ability to continue to operate.

At the same time we have been moving ahead on a number of fronts. We have gone through a major change at the Age, with a new editor now in place and that paper really beginning to perform far better. We are in the middle of some changes at the helm and we are confident we will see good results from those. We acquired a number of additional bolt-ons; a couple in New Zealand, Ashburton and AutoCar magazine. We have a number of bolt-ons under consideration and that activity continuing and I expect we



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

will continue up through this half. We acquired RSVP, performing well ahead of our expectations, and at the same time we continued to keep our costs tightly under control. Cost growth sub two per cent and that is after we have taken account of our new initiative and after we have taken account of the costs of the re-organisation.

So, I am pleased because it is a good result and I am pleased that it is a good result that reflects growing momentum. And we have achieved that momentum with the people we have here. We haven't rushed out into the market and had to recruit hordes of people. We have largely moved and promoted and worked the changes through from our own ranks.

I am also pleased with the transition that we have in place. It has taken a long time but the Board foresaw that it might take a long time and it was always important for the Board and it was important for me that the company do it properly rather than that they do it to any prescribed time pressure. You can replace people in a week but you can get it wrong and this company has got it wrong more than it has got it right. And so I am pleased that we have done that.

And finally, I am pleased to be here, I am delighted to be here because it is my last time. I can say that with certainty. Each time you would ask me, is this your last time, and I would say I don't know and all of those things were true. This time I do know.

Let me run through some of the highlights. The main point I think you need to take away from these results, other than the tremendous strength of the earnings and the cash flow is that this is not a one masthead business or a one type of media business. This is a very diverse portfolio and that is the result of deliberate strategy where we have strengthened in Australia our regional and publishing businesses and our business publications business. We have taken a number of initiatives in our metros' business and we have added New Zealand, we have added RSVP and we see digital coming to real profit for the first time.

And so, what we have is a business that produced a record profit at a time when the biggest economy in which we work, NSW, is pretty sick. NSW property markets were very weak. You would have seen the new car data, NSW car sales weaker than any of the other states, and yet, with that environment and a very weak property market in Victoria, we were able to produce a record result.

And we were able to do that because there is no one bit of the company that is going to define the future of the company. It is a company now that has a lot of revenue opportunity and a lot of sources of revenue that are independent of each other. And it is that independence of the revenue, pieces of the revenue base that give the company its strength and its opportunities.



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

The other point that I think comes through is that we have spent a lot of money on improving our capital base and that again is really showing up in the numbers. We now have good printing presses. Everywhere in the company we have much better computer systems and further work is being done on those so as to increase our ability to innovate.

I will just show you one thing. I will need Sankar's help. This is a capacity we now have and that we have uniquely and it is called Super Panorama. We are able within the broadsheet to print these in Tullamarine and put them in our papers. And we already have significant new revenue around that product and that is a product that is unique to us. It indicates what we are trying to do which is build those new revenue streams rather than dwelling on revenue streams, even though we defend them strongly, that have been attacked. So, it's not just sit in a defensive posture but at the same time as we defend strongly, attack strongly. Attack is still the best form of defence.

So, that is the second thing and the benefits of those investments, and the benefits of the acquisitions we have made are being realised.

There are a number of new revenue generating initiatives that I have talked about and more to come. You will see travel and leisure; you will see the third of the Domain Trilogy, the local domains being launched in a couple of weeks. Domain Inner West which will supplement the North and South, and I think, again, has really put us on the front foot in the real estate market. A year ago, people were talking about Telstra and Just Listed. But the idea that you can take a franchise that is built on selling cheap used cars and translate that into high priced homes, I think, defies commercial logic and that is exactly what has happened. We are in a stronger position now in real estate than we have been for many years. And then, as I said, finally, very tight cost control.

The results, then, really do speak for themselves and you have read them and I enjoy reading them but I won't belabour them. Earnings per share up 19.2, underlying profit nearly 24 per cent, EBIT up nearly 16 per cent.

Let me just put another twist on it for you. If you go to the underlying results, we earned \$103 million more revenue and of that \$53 million dropped to the bottom line. And that was after new initiatives, so they are all included in our cost base and it was after the cost of the reorganisation. So while our average margin is in the low 20s the marginal profit on the marginal revenue is far higher; is more than double that. It is well north of 50 and on a like-for-like basis, probably closer to 60. And that is, again, a good indication that even with the challenge the businesses, and I say businesses because there are many businesses here, even with the challenge the businesses face they are strong businesses and the combination of revenue initiatives and tight cost management are what is behind this result. Free cash flow is up around \$120 million. A lot of that has gone to reducing



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

debt and a considerable amount has gone to the dividends and the special dividend.

So let me turn to Sankar who will take you through the numbers in more detail, both for the company and then the highlights of the various divisional performances. Then I will talk a little bit about the operations that underpin that and then we will have a question and answer session.

Sankar Narayan: Thanks Fred. Now before we go into the details of the group and the divisional performances for last year, I just want to take a moment to highlight the operating and the financial leverage that we are driving through the business. And you can see in the latest set of financial statements. What do I mean by that? 5.8 per cent growth in revenues, 12.1 per cent growth in EBITDA, 24 per cent growth in net profit after tax, post PRESSES and a much higher growth as far as cash flows.

And what are we doing to achieve this? It's actually focussing on all parts of the P&L and the balance sheet. Focus on revenue generating initiatives, focus on costs, focus on capital expenditure driving depreciation, all the other funding and tax components and of course the other balance sheet items.

Moving into the statements themselves and starting off with the P&L. 12.1 per cent growth in EBITDA, 15.6 per cent in EBIT, as Fred just pointed out, driving a \$425.8 million outcome on the EBIT line and that is actually at the top end of consensus, the guidance that we actually gave in the first week of June.

Sitting behind the \$425.8 million, if you work your way down from revenue and costs. 5.8 percent growth in revenue and 3.8 per cent growth in costs; that's the leverage; 2 per cent gap between revenue and costs. And that is the focus all the way through. An important part of this business is to drive the difference between revenue and costs to get and force the EBITDA margin expansion.

Depreciation is a little bit lower at 82.4 million driven by the tight controls on capital expenditure. We have tight controls on maintenance capex, and you can see that through the results. \$48 million in capital expenditure driving lower depreciation. It is mainly Fairfax digital depreciation that's rolling off from the software investment that has actually driven these results.

Starting off from the EBIT, working our way down to EPS: EBIT at 15.6 per cent, profit after taxes and PRESSES of 23.7 per cent, giving you a 19 per cent growth on the EPS line. Let me take you through the different components.

Interest is a little higher. We touched upon it at the half, a lot of our funding is in New Zealand currency and intentionally done so, to maintain the hedge to insulate ourselves against exchange rate volatility that you see at the EBITDA line. As a consequence of that you have slightly higher interest



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

expense driven by a strengthening New Zealand dollar. But with the benefits sitting in the EBITDA line we actually get a higher EBITDA growth for the year.

One of the points as far as the interest is concerned is the redeemable preference shares that we placed earlier during the year. We are very pleased with the outcome; it should reduce the cost of funding for the next five years of their duration. The issue of these redeemable preference shares in New Zealand are no longer applicable since the tax laws have changed. We are happy as the tax treatment of our redeemable preference shares have been grandfathered; one of only two issues to have been grandfathered by the New Zealand government. This is an excellent outcome for the company.

As far as the tax is concerned pretty much the same rates as the half. We did have a discussion about tax rates at the half; so I won't go through that again in detail in this presentation.

As you work your way down. Net profit after tax, 23.7 per cent growth, post presses. Why do we highlight post presses? Because that is the way we are going to be reporting in the future, under IFRS, PRESSES will be treated as debt and PRESSES dividends treated as interest. We have been doing EPS calculations on a post PRESSES basis for sometime, which is why this is the more relevant number going forward.

WANOS increased 3.7 per cent but that is more driven by the full year affect of the underwritten DRP that we had the year before. If you went back a year we had all of the shares issued but last year we did not capture the full year effect because it was a weighted average number. So, this year a lot of it is actually coming through to this year's numbers

Moving on to the balance sheet. Net debt reduced by \$158 million on top of dividend payments of \$102 million. I'm going to talk about the cash flow generation in the next slide. As well as some of the other line items, when you go through the details in the 4E you might see some large movements in some line items but they are partly driven by the disposals during the year, namely Gordon and Gotch. The net effect of it was pretty minor but they actually had some large line item movements. I'd be happy to address questions at a later point in time if there are any detailed questions on the balance sheet.

Let's get to the cash flows. \$277 million free cash flows; increase of 77 per cent over the previous year. And these free cash flows are exactly as we said we would deliver going back in time. Improving profits in the underlying business, reducing capital expenditure and tight control of other parts of the balance sheet – working capital and other components – drove that result of \$277 million.



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

I'd like to point out the free cash flow per share, 30 cents, compared to an EPS of 25 .5 cents. So you have free cash flow outpacing EPS growth for the year.

With the dividends that we have been paying, of course, the first year it was fully underwritten, we have achieved over \$260 million of debt reduction during the last couple of years. Our balance sheet is strengthening and we are happy with the credit rating that we have. With the cash flows strengthening last November we went to a BBB stable outlook. That is our comfort zone. This has enabled us to declare the special dividend of 5 cents fully franked. This is an efficient way of getting the franking credits that have been sitting in the balance sheet to our shareholders

Let me go on to the divisional performances and start off with Australian publishing; improving EBITDA and EBIT, and an expansion of EBITDA and EBIT margins.

Focussing on the EBITDA margin, 24.4 to 25.1; EBITDA margin expansion that took place when the economy was not really that robust in a few cycles. For example, real estate was weak and there were other pockets of weakness from an economy perspective. In that environment there was margin expansion, driven by new revenue generating initiatives but, more importantly, the tight cost management that we have had which we will talk about in greater detail.

While we are on EBITDA margins let me make a couple of points about EBITDA margins because it has been a topic of debate during the course of last year. What should Fairfax's EBITDA margin be? Is 25 per cent a good number or not? For us the 25 per cent is a derived outcome. The real number to look at is the EBITDA margin that sits below in the underlying publishing groups.

As we say we have four groups that actually make up this. We have the Metros, large papers working in competitive environments in big cities. And we have regionals; typically tend to be one newspaper towns; community and suburban publications and Fairfax Business Media, the AFR and its associated publications.

We have done quite a lot of work benchmarking these performances against local and global peers, in terms of what these margins look like and what should we be earning from these businesses. For the most part, we are either at or exceeding the best performances from a peer group basis. But if you roll it up to the top and you see a 25 per cent EBITDA margin, that doesn't tell a story. So what they're saying is there have been a lot of comparisons made at this level of the publishing group, and all I am saying is please exercise caution when you actually compare the 25 per cent margin to other businesses because almost no other publisher in this country, or probably even the world, has the mix of assets that are sitting behind Australian publishing. And each one of them has different EBITDA



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

margins because they have different market characteristics. Some of them are pretty much one newspaper town, suburban, high labour costs to revenue ratios; so actually the whole story gets a little bit distorted if you start looking at it at this line.

And let me actually go back in time; there's another question. 25 per cent, how does it compare with what you had about five years back? Come back to the point that we've been making for a while. The business today is different from what it was five years back. What is sitting underneath it is the metros, you have the community publications and you have the other media, but if you look at the growth of community publications the last five years, that is actually a much bigger part of the total pie. And they typically tend to be lower margin products. The regionals have pretty strong margins but community publications, suburban publications, at least in this country, tend to be lower margin products.

But what do we do internally? We break it down publication by publication and relentlessly drive EBITDA margins forward. New revenue generating initiatives and tight cost controls on an underlying basis. What are the benefits of having a big portfolio of assets? We can actually start picking which are the ones that are performing. Keep the ones at the top and raise the performance at the bottom; pretty simple equation. But that is what is happening internally in terms of overall EBITDA margin expansion.

Getting on to the advertising components in Australian publishing; same story as the half. Employment strong, National/Retail strong, and weakness in Real Estate and Motor Vehicle. There has been some migration of revenue from Motor Vehicle to National because of the ads moving to the front part of the book but basically a flattish category; strong growth in Classified and Inserts. And I will touch upon this briefly.

8.2 per cent growth in Employment. Looked at half on half we actually had employment revenues either maintained or slightly ahead in the second half compared to the first half. So the category itself was stable but when you look at the previous year's comparisons, in terms of H1 and H2 of financial year '04, the growth in H2 looks a little bit more muted and that is driven by the fact that employment started accelerating in the second half of '04. So, year on year growth looks a little bit small compared to the first half but it's not as if the category went in reverse. In fact, there was forward momentum.

Real Estate is a different story. The economy went down and the real estate cycle went backwards. First half was Victoria, second half NSW. And that number has been bolstered by the addition of Text Media in the first half, and, all of the second half, Domain East and Domain North. So the true category decline as far as Real Estate's concerned is more than the 3 ½ per cent. This is what we kept talking about; bad real estate economy in terms of economic cycle, pulling the average revenue down.



Genesis Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesis Conferencing Pty Ltd ABN: 85 082 564 252

Let me talk briefly about National/Retail. 7.2 per cent, in line with H1 but it is a case of two stories between them; business to business and business to consumer. Business to business has been weak and we have talked about this for quite a long time. The business to consumer, which is the cycle that actually really gets focused upon when you discuss television advertising, the other mediums of advertising, are predominantly relying on the business to consumer cycle for the advertising component. And for much of the year we actually had mid teens growth in that part of the advertising cycle. So, in terms of what Fairfax did performance wise, from a business to consumer part we were very strong, but the average has been pulled down when you actually throw in business to business on top of that.

Moving on to the cost side; consistent theme of tight cost controls. 1.4 per cent excluding acquisitions. Let me provide a little bit of detail.

The only thing we have eliminated here is the effect of the acquisition of Port Stevens. We have including in the 1.4 per cent all the new product initiatives. Age Melbourne Magazine, Domain East, Domain North and also about \$5 million of year end restructuring and termination charges, they are all sitting in the 1.4 per cent

Moving on to Digital. We had quite a lot of discussion at the half about Fairfax Digital, that it was growing and the direction it was trending. You see acceleration in the business performance in the second half. Margin expansion: quite significant. And for those of you who will work out what the H2 growth was and what the margin growth was in H2, part of it is timing, H1 to H2. Because you've realised an annual budget, especially with promotional activity, you want to get the full year drive or the promotional effect earlier on in the year, but look at the total annual performance, improvement from 7.3 to 12 per cent. Improvement but an accelerating margin as well, in terms of percentage growth. This is what we talked about before. We said the margins in Fairfax Digital will start improving over time as we secure better competitive positions because some other costs are actually re-invested back to actually improve the competitive position of Fairfax Digital and that is still our stated strategy in terms of making sure continued expansion of margins but also making sure that re-investment back into that platform for us to improve our competitive positions.

New Zealand. Continued strong performance in New Zealand. It has gone from strength to strength in terms of what their improvements are. Profit improvements, margin improvements, all on the back of initiatives driving revenue growth. Yes, the economy has been helpful but there were quite a lot of initiatives and good cost management right across the board. And what we see is an expansion of the EBITDA margins going from 30.2 per cent to 33.6 per cent and a bigger expansion on EBIT. Some of the year-on-year comparisons get a little distorted because of the Gordon and Gotch disposal but I'm talking about underlying trends in the latest slides.



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

Advertising revenue: growth of 9.4 per cent for the year; slightly weaker in the second half but still pretty impressive. It's 9 per cent plus. And what are the sources? Evenly distributed right across the business in terms of advertising growth. What were the key cycles that were driving it?
Employment and Real Estate.

Costs: 2.8 per cent growth for the full year and I should emphasise, again, it contains all of our new product initiatives. The only thing that has been excluded is the acquisition and balances that relate to Gordon and Gotch and the Autocar Magazine that we bought. The Auckland Mag, the Sunday Magazine, all of them are included in the 2.8. Again, you do the comparisons H1 to H2 and see there is a cost growth implied. Year on year was actually higher in H2 compared to the cost performance in the first half – again this is the previous year comparison issue. If you look at the cost performance in H2 and look at H1, there were only a few million dollars in terms of absolute dollars. But if you go back a year and look at H2 performance in FY04, some of the initiatives that we had actually started putting in place started taking effect and so the second half year on year comparisons actually look a little bit higher, but I would emphasise the cost performance on H2 versus H1 in terms of what the growth's been.

Finally, getting onto IFRS, I am not going to go through it in great detail. There is a lot of disclosure sitting in the packs, but it is relatively clean. Let me briefly talk you through the adjustments.

Small improvement to P&L, there's some amortisation off goodwill that we no longer need, about \$3 million in aggregate in terms of the profit and loss improvement.

For the balance sheet, a Total Net Assets adjustment of \$44.4 million. I should point out that the total balance sheet now is now \$2.2 billion net assets; the magnitude of the adjustments we are required to make under IFRS are quite small.

PRESSES, \$250 million will be reclassified as debt. We talked about that before. This should be no surprise as we have highlighted the treatment before as well as the EPS impact. Because that is the way we have been reporting, in terms of what the final net EPS is.

So that pretty much concludes the financial discussions in terms of the analysis and I would actually make one point before I hand it back to Fred, is to emphasise that the operating and the financial leverage that we see in these statements from the various components of the P&L and the balance sheet, improve the total shareholder returns and enable us to declare the 5 cent special. This dividend further locks in improvements to our returns. Back to you Fred.

Fred Hilmer:

Thanks, Sankar. What I would like to do is just run through a few of the highlights in terms of the operating business performance and strategy and then we will open for questions.



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

Let me just start again by reminding you of the changing shape of the business. Earlier this year I was at the World Association of Newspapers, and they had a graph like this that went back to the late '90s. And that portion that was basically the Herald and the Age was 70 percent. That portion is now 48 per cent and included in that portion is our digital business and our magazine business and, of course, the rapidly growing display businesses that we are talking about with you.

So, what we have done is significantly changed the shape of the company. New Zealand, in revenue terms, 28 per cent. It has higher margins so it is closer to 40 per cent of the profit. The regional and community business is 15, financial business media 9, and then the metros, including the magazines and the digital, something like 48. So there is a tremendous diversity in that revenue base. In order to manage that diversity, and really, in order to prepare the company for a handover, we did a major reorganisation which is really just in the throes of bedded down. What we have really done is brought together all of the operating businesses in Australia, other than the business medias, under Brian Evans who has come across from New Zealand.

Brian did a fantastic job in New Zealand, bringing that company into Fairfax and launching a series of improvements that he drove very hard, both in terms of revenue and cost and he is well on his way to doing a similar job here with the metro businesses and the regional and community publishing.

Joan Withers came from our advisory board to take up the position of Chief Executive of New Zealand. We saw Joan as a talent when we bought into New Zealand and she, at the time, had stepped down. She had been Chief Executive of Radio, had started actually with our papers, started her career as a journalist, a very solid media performer, probably one of the most respected business people in New Zealand and she was trying out her hand at being a non-executive but the excitement, I think, of being with us and the challenge allowed us to convince her to take on the executive role and Joan is now running the New Zealand business and Michael continues to run the Fairfax Business Media.

So we have the three major operating divisions. However, in line with the strategy we have talked about, we need to continue to look at opportunities in new media; opportunities that may well occur as a result of cross-media and so we have beefed up the strategy area which Rob Antulov is responsible for. And I've asked Alan to take on a special role as Group Executive with a major emphasis in the areas of new media. And then we have the supporting areas. Linda Price is responsible for organisation development and then, really, in the corporate office, Sankar, who you know and Gail our counsel and the company secretary.

So, a structure that, I believe, is serving us well and is really amenable to a smooth transition without any loss of operating focus. And, as I say, in fact,



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

to the contrary, is amenable to a transition while momentum is being increased.

Let me just say a few things about each of our businesses.

Let me first talk about the metro papers which are, clearly, the hardest part of our business. And even with the difficulties we face, we have been able to grow profits. So revenue and profits are up slightly and there are four priorities we have for that business. I will just talk a bit about each of them.

First is franchise quality. The advertising franchises, the reader franchises, the collection of franchises we have is what underpins the profit of that business and we have to ensure it.

Cost management: Sankar has talked to those numbers and we continue to do a good job on that.

Revenue growth and building capabilities: because we did this major reorganisation internally; we conceived it internally and we staffed it internally and it is a great tribute to the depth of management we now have in the company.

In terms of franchise quality, the thing that we all agonised about on both circulation and readership and there are some numbers here we haven't been happy with. We weren't happy with the Age a few years ago. We are getting happier. I think a number of you talked to me about the Age is bleeding and there are sharks in the water and all those other great expressions and I don't hear that now. The Age has some of the best readership numbers it has had for a decade on the numbers that were out a week or so ago. The Herald has had some fairly, what I would call unpleasant results. Results, again, that we are not happy with and are taking steps to ameliorate but I think what is interesting is if you look at the most recent decline, all of those declines are slowing and if you look at the run rates that we are seeing, they are further slowing and we are expected to do better than that as the further circulation results come out for this half.

So, we have some circulation issues but we are dealing with them and there are a number that we have dealt with.

In terms of readership it is a much better story. What we tend to look at is our readership share, between ourselves and our major competitors at News. The first column shows you the total readership; the second column shows you the AB readership which is, for the metro papers, the core of the franchise. You can see the significant strengths. Really, most of these numbers don't move enough to be significant in any statistical way. I mean these are surveys; these are readership polls and anything within a one or two percentage band is statistically insignificant. But basically these numbers don't move with the exception of the Saturday Herald where we still have an enormous readership lead and where there is a lot of action underway in terms of addressing some of the issues that we have seen. With



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

the exception of that we are picking up readership or holding readership across the board.

So, when you put those together, yes, you never take your franchise for granted. Yes, you make the changes that you feel have to be made but I think the important thing to understand is you don't generate results like this if you don't have superb franchise quality and the actions we have taken, whether it is in the Domains or whether it is the new Spectrum on Saturday, the actions we have taken are all aimed at maintaining the quality of those franchises and not in any way being complacent about them.

The second thing that is a priority is cost management and that is something that has been ongoing and will continue to be. Just to give you a sense of the challenge that we are facing, there are a lot of numbers that get bandied around. People love to talk about cost numbers and targets, and in fact, when I started seven or so years ago there was a \$40 million target that I was set by the Board very publicly and had to achieve. If you look at what we have been doing, we have about a \$1 billion cost base in Australian publishing and if we can keep its growth one or two points below inflation, including absorbing the costs of doing new things, then, in effect, we are reducing costs in real terms, \$20 odd million a year. And we need to continue to do that indefinitely and with the benefit of some fresh eyes that I think Brian and his team are going to bring to bear, we will look to accelerate it. But it won't be a dramatic change. There will be consistent attention to costs along the lines that you have seen, and that remains an important priority and it can be done.

Revenue growth via new initiatives, I've talked about a number of those. We tend to focus a lot on the new things coming out whether it is a magazine or an insert or a bit page that hopefully your kids will want to plaster their bedroom walls with, but in addition to that a lot of work is going on in terms of the sales process. Some good improvements in the way in which we deal with our national advertisers is underpinning that strong national retail growth and a lot of work has started and is now gaining momentum in terms of outbound sales and the call centres which are an important part of the sales engine.

And lastly, building capabilities in our people. We don't talk to it a lot but you saw the processes we now have for succession management, for performance management, there is an enormous, I think, ability now to build and develop and move people that still needs work done but it is far better than it was.

Regional and community newspapers continue very strong revenue and profit growth. Although, the story of this year was that the regionals did better than the communities; the communities bore the brunt of the real estate slump, both in NSW and Victoria where we have our biggest positions so we did not have quite the same rate of growth. But when you



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

put those together, that unit had very good growth, underpinned by what went on in the regions.

We did not sit still. James Hooke who was managing that position over the year launched eight new publications. And we continue to look at ways to build that footprint out and to bolt-on in what is an attractive segment of our business.

In terms of business media, very good year; very good revenue and profit growth but also very good cost control that underpinned that. Helped by a strong employment market, particularly a strong market for executive jobs, the passive job-seeker market that really is owned by the Financial Review. at the upper end continues to be very strong.

A number of new initiatives underway; the reorganisation of the personal investor shares magazines we hope to have done by the end of this year. You will be seeing that and the signs that we are getting from the advertising market, extremely positive. That would be a good launch.

And the new desktop product, the new AFR desktop product to be launched in the next calendar year is on track and, again, an exciting development. The thing to bear in mind here is if you take a look at the results of the FT, where you take a look at the results of Dow Jones, and then you take a look at the margins and profits that we earn in this business, this is an unusual business in financial publishing in terms of its success and its profitability.

New Zealand has continued the excellent results, building on what was a fantastic first year. I think Brian produced us a fantastic second year. The business improvement that has underpinned part of that is continuing and quite a lot of emphasis now being put into upgrading some equipment and, in particular, upgrading some of the systems but, again, within the constraints of the capex budgets that we have and have set and within the constraints of managing a good cash flow for the company.

We had further gains in the Auckland market, particularly in the suburbans and our circulations in New Zealand are largely stable and, I think, a particularly good result holding the Sunday Star-Times above 200,000 and really seeing off the APN Sunday entry as a serious paper in terms of any kind of real presence in the Sunday advertising market. And, as I have mentioned, Joan seamlessly succeeded Brian without any loss in momentum and with tremendous support from that team.

In terms of Digital, strong revenue and profit growth although, as we have signalled in that business, we are managing this business for growth, not for profit and there is quite considerable re-investment as you would have seen from the numbers Sankar showed. The revenue growth was up 38 per cent. The cost growth at 31 or so was not exactly a trivial cost growth. Everything is increasing. We are still very much, in terms of strategy, not a lot to add to where we are. We are really putting a lot of emphasis on re-investing and improving on our position of employment and I think that



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

battle has a way to go and I am comfortable with how we are addressing that.

In real estate we have a very strong position in NSW and a good position in Victoria and we need to continue to bolster those and look at our opportunities in other states. The car business is much more fragmented. There are a number of people in that market, but Drive has had very good growth compared with its competitors and our position in news remains a leading position and the strength of our display and banners in the new sites has been an important factor underpinning our growth. We have a pre-eminent position I believe in on-line news. We are well placed for future growth.

RSVP has been, again, seamlessly acquired and is performing, while small, ahead of our expectations.

So, in summary, on the main financial measures I think we are pleased with these results. It doesn't say the company is perfect; doesn't say that we don't lose sleep. I still lose sleep at night on certain areas of the company and I think when I don't that will be some time shortly after the 21st of November.

As I said, we are often, I think, simplified in a way that isn't helpful to investor understanding where people talk about one Masthead or one number and then that defines the company. We are a diverse set of businesses and no one Masthead, no one thing defines this company. That diversity and independence of the performance of the pieces is, I think, important in changing the historic profile in terms of cyclicity and also giving us opportunities.

We have seen the benefits of the investments we have made, the printing presses, the IT and we have a lot of the revenue generation underway. Cost control has been and I am confident will continue to be a way of life.

In terms of outlook, this is different from what we said last half and it is different in one important respect. The Annual General Meeting is held on a different date. So, this is exactly what we said at this time last year. It is really way too early in the first half to give any kind of outlook other than say we do expect further earnings growth but the level will depend on the vitality of the various markets in which we trade. And we will give a fuller update at our AGM on the 18th of November.

So, let me again thank you all for the time and effort you take in understanding us and explaining us to your various constituencies. We will be delighted to take some questions about what I believe is a very strong result in terms of profits, cash flows and dividends. Thank you.

Q.

(Oliver Ansted from JP Morgan.) This question might be more for you Sankar, but on the slides showing revenue growth and cost growth you've



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

been inclined to split out the acquisition impacts but could you give a bit of clarity at this time, maybe just the two main categories, employment and real estate, what they would look like in Australia ex the acquisitions?

And secondly, just on New Zealand as well, does that mean that your revenue growth of 9.4 in New Zealand is understated because the revenue slides are all up versus broken into acquisitions versus organic?

Sankar Narayan: As far as revenue growth on the acquisition impact on Australian publishing, employment had very minimal impact. If you look at where we actually got the employment growth is in a core category and the acquisition of Text which is largely a real estate publication. As far as the real estate is concerned, yes, it did have a big material impact in terms of real estate advertising. We made a comment that if we did exclude the Text Media advertising in the first half we were actually approaching real estate declines of close to 10 per cent on the two Mastheads. Without confirming the number, I would think you would see, on an aggregate basis, pretty close to high single digits in the like-for-like decline in terms of real estate.

As far as the New Zealand revenue growths, the advertising growths are pure because it disposes of Gordon and Gotch which wasn't an advertising driven business, so the 9.4 per cent represents pure growth.

Q. (Oliver Ansted from JP Morgan.) Just a quick follow up Sankar, just on newsprint can you just give a bit of clarity on what you are expecting in FY06 across New Zealand and Australia in terms of aggregate costs?

Sankar Narayan: We said the New Zealand pricing actually comes in place in January, as we all know in terms of the formula that works that hasn't actually been crystallised yet but we did make a comment in the Australian publishing side, sub two per cent on a weighted average basis of around 1.6, 1.7 if it takes a commercial print and the newsprint together, in terms of cost growth.

Fred Hilmer: I think the big driver of the newsprint, once you've got the price in place is going to be the ad markets. I mean we at the margin can control it but the big driver will be the ad market.

Q. (Ivor Rees from Bailleau's) I wonder if you could steer us through the advertising rate card increases you had in '05 over '04 across the main categories; the Australian metros and in New Zealand?

Fred Hilmer: Yes, again you have to be careful with rate cards because there is the rate card and then there is the realised rate because it is an industry where there is a lot of, particularly with large advertisers, negotiation and a lot of factors such as loading and colour et cetera come into play. And particularly in the last few years the colour impact has been important in driving up yield. But we have gone to the market with the sort of two to four type range in both countries.



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

Q. Sankar, can I just ask for a little bit more detail on your working capital movements during the 12 months and, I guess, most notably the movements in inventory and receivables.

Sankar Narayan: Yes, inventories have been well controlled. Part of the decline is related to Gordon and Gotch. So, you have two factors that are driving inventory down. But there are compensating effects in other parts of the balance sheet. For example, payables have a Gordon and Gotch component and others. That is what I said, there are big line item movements between the various components of the balance sheet; on a net basis you actually have minimum impact.

Q. (Peter Dobrowicz. from Citigroup) Just looking at chart number 13, what would those percentage changes look like if you were only looking at the Metropolitan newspapers excluding the regional and suburbans?

Fred Hilmer: We don't disclose that in that detail. We are running a competitive business and while everybody can see everybody's volumes, everybody can't see everybody's rates. That is the disclosure that we have traditionally given and that is the disclosure that we are comfortable with.

Q. (Fraser McLeish from ABN.) Couple of questions if that's okay. Firstly on New Zealand you have obviously been very successful making improvements there and taking costs out. What is the sort of cost that you can come out now from your new initiatives? Are they taken out of the margin or are there still meaningful costs to go there? And also could I just ask Sankar on capex, what do you expect for next year and I know you don't want to talk about the tax rate but should we expect it to go up or not?

Fred Hilmer: Sorry, I didn't fully understand the first question?

Q. (Fraser McLeish from ABN.) You've had some cost savings because of business, perhaps, wasn't run as efficiently as it could have been in the past. A lot of them have gone now. Is there still more to go from that such straightforward cost savings or will they be coming much harder from here?

Fred Hilmer: I think if you look at the Australian business where it has been a function of firstly taking out quite a lot of costs, sort of \$40 million target some years ago, and then really doing a number of things, some of which required capital, some of which required new systems, some of which required changing work practices. We're in the stage in New Zealand where we believe we have a good set of costs but we don't have a good set of processes and it is process improvement that will drive the cost. For example, in the finance area what do we run? 11, general ledgers? We used to run, I don't know, I think it was the same number here, 11 payrolls when I started. We put in one system and reduced the payroll department by 30



Genesisys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesisys Conferencing Pty Ltd ABN: 85 082 564 252

people. We didn't need 30 odd people, so we had that level, those sorts of opportunities ahead of us but they are going to be more dependent on work flows being basically improved and on some capital but capital at the margins. In terms of capex, we have always said there ought to be a reasonable cushion between capex and depreciation and we talked about Australian capex being at about half depreciation, New Zealand capex being at depreciation, again, over time.

In some years that will be a bit higher and in other years that will be a bit lower. This last year was a bit lower but there are some things in the pipeline; maybe it will change at the margin. But in terms of understanding the business, the fundamental drivers of our good cash flow will be that shape, roughly half Australian depreciation equals capex; roughly all New Zealand depreciation ought to be reinvested. It's a different kind of business. It's not unlike our regionals here. There is no one big thing. You don't build a big press, you've got lots of presses that need refining but you are not dealing with \$200 million type expenditures. You are dealing with \$20 million-a-year type expenditures.

Q. (Fraser McLeish from ABN.) Is this to provide in terms of what Fred talked about that should actually transfer to slightly higher?

Sankar Narayan: This year we did set guidance of 55 or 60; it's going to actually come at \$48 million but we wanted to work back the guidance of around \$60 million plus or minus five so you are actually going anywhere between 55 and 65 depending on the timing and the implementation of projects.

Q. (Fraser McLeish from ABN.) And the tax rate?

Sankar Narayan: The tax rate is the same as the half. In terms of going forward, you should see some of the tax rates going up over time which is the guidance that we gave at the half, going up towards 30, 31 percent over the next few years but not hitting that number immediately.

Q. (Lou Capparelli from JB Were) The employment growth you have in the metros, how did that distinguish between Fairfax Business Media and the metro newspapers, the Age and the Herald. Did the AFR out perform those two?

Fred Hilmer: It was across the board. They were stronger in display; the display portion of the metros was very similar to the Fin. The lineage portion was not as strong.

Q. (Lou Capparelli from JB Were.) Was it positive?

Fred Hilmer: You're testing me. I think marginally positive lineage but good growth in all display. And that is again being part of the strategy. It has been focussing on where we had competitive edge. And we had competitive edge



Genesis Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesis Conferencing Pty Ltd ABN: 85 082 564 252

because of our readership and our ability to put jobs in front of passive job seekers and that migration to display shouldn't be a surprise to you because we have been shouting it as a strategy for some years and it is continuing to bear fruit.

Q. (Lou Capparelli from JB Were.) So, you will confirm that the lineage in employment in the metros was down?

Fred Hilmer: Lineage was flat. Employment lineage was flat.

Sankar Narayan: The average growth was 8 per cent for the year so the growth was predominantly driven on the display side.

Q. (Lou Capparelli from JB Were.) But presumably skewed to regionals and FBM?

Sankar Narayan: Not necessarily. Because you can't drive that kind of growth just relying on FBM alone. You need to have contributing effects right across the board for you to get that kind of growth.

Q. (Lou Capparelli from JB Were.) Just a final question on that special dividend, we should interpret that as special once only.

Fred Hilmer: That particular 5 cents, when you get it is yours and we won't take it back and give it to you again. But I think that is really a question for the board, going forward. I think the board has indicated here is an underlying level of dividend that they have signalled which is in that 80 per cent range through the cycle. But they've signalled from time to time, when there are stronger cash flows, and there isn't an internal investment requirement that is better than giving it back to shareholders, that would just do that. And you shouldn't read anything more into it than that. I think the willingness to do it is the significance. And it is an efficient and effective use of the franking credits which still remain high.

Q. (Patrick Russell from Merrill Lynch) I have just a few questions; just quickly on the tax. In the cash flow statement was down year on year although tax provided was up, I just wondered whether there were timing differences there.

Secondly I don't know whether there was any comment on colour penetration; if you can update us on that vis-à-vis the metros in Australia.

The other one is the on-line business, just in terms of digital, it was quite a leap in the EBITDA margin in the second half. I just wondered, are you taking it to this kind of level and we are going to pause at this level as we see another phase of investment coming in, or is it fair to assume that we will start to see these margins start to rise more on a sequential basis now. You are more in line with other margins we are seeing in the underlying area.



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

And finally, on capital management, just updating on the reset PRESSES, what your plans are there.

Fred Hilmer:

Let me have Sankar address the tax question and the tax payments question and the capital management issue. In terms of colour, there is still room to move in some of the categories in terms of colour absorption or colour pickup but in terms of display we are very heavily penetrated now. In fact, colour has become the norm. But, as I say, it is not the end of the road, I talked about a three year transition when we did Tullamarine and I think it will continue to support, because it gives you support, our yield because it does give you opportunity and you start to see it now. Like in car lineage and in employment lineage you are starting to see colour being used to make an advertisement stand out.

In terms of on-line, our set up priority is growth in our competitive position. If you look at the level of property zone and we're talking of what, 5- 6 million out of 500 odd million at the EBITDA level, you don't run that to maximise short term profit. I mean we want to make a profit because we believe we can but we also would like to continue, where we see the potential, to build something that is going to be very good in the long term to do that. It would be a balancing act. We will not try to drive it to 40 per cent type margins for the sake of that.

Sankar Narayan:

As far as the tax is concerned the movement in the tax balances, the tax cash flows are actually driven upon the tax balances that we have on the balance sheet. We actually have some movement because of controls going back five years that the tax balances in the balance sheet are likely to be maintained going forward, in which case you would actually see the tax cash payment approach the tax expense with a slight benefit coming in from the tax consolidation going over a period of time.

And the final point about capital management, especially regarding the PRESSES. There is no change in our thinking in terms of the PRESSES. It is due to come up for conversion at the end of the year when it can convert to shares, we may undertake some capital management including a share buy-back at the time but nothing is certain at this point in time and we will confirm it later. But it is our intention that \$250 million is debt at this point in time and as much as it converts to shares that will be something else that happens.

Fred Hilmer:

Do we have any questions from the remote locations?

Q.

(Finola Burke of Credit Suisse.) Fred, I just wondered if you could give us a little bit more colour on the current advertising environment conditions in this half similar to the first half of calendar '05.



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

And also, in New Zealand, some of the commentary coming from other players in that market are suggesting add growth of 4 to 6 per cent for this fiscal year. I just wondered if you could comment on what you are seeing in that market.

Fred Hilmer:

Yes. I think the best way to characterise the ad market is solid but it's not spectacular, but nor is it falling apart. And it is very early in the year. In New Zealand we are in the last few weeks of an election campaign which makes it really quite hard to see through the figures although there is continuing growth in profits over the half. But it is very early, very early in the period. The display continues to be strong. Pretty similar trend to what you see in the first half; display continuing to be strong. If you look at the papers on the last weekend, those of you who count pages you will have seen a lot of display ads. And some of the new categories – sorry, not so much the new categories but things like personal choice super, which is an area that really is uniquely suited to the Fairfax franchise due to the quality of our readers, is beginning to get some attention from advertisers and that is good for us. Cars have been quiet but we also are seeing people talking about launches. It is just too early in the half, frankly to say much more than that. If there were some sort of discontinuity, we would feel obliged to tell you. There isn't.

Q.

(Finola Burke of Credit Suisse.) Can I just follow up your comment before you mentioned you obviously look at terms of realised rates, could you give us a sense of what the realised rate across the board of New Zealand was for the year?

Fred Hilmer:

No, it doesn't work like that. What we do is we change the rate card but then there are issues about mix and colour and loading. You can't take a number and say that's what it will be in the P&L.

Q.

(Alex Pollak from Macquarie.) Just a couple of quick ones. Could we get a sense of on page/slide 40 there is a number there that indicates classified volume growth from '04 to '05, but it also includes numbers from Domain North and Domain East. I am just curious to know whether if you took out Domain North and Domain East what that 5727 number would look like?

And then I have a second question which is to do with licensing of content on-line.

Fred Hilmer:

Yes. I think it is a question for my successor whether he keeps those graphs. I felt obliged to keep them there because you have always had them. I actually don't think they're helpful and the reason I don't is that we actually compete for dollars and space is something you can play with in a variety of ways, whether you give advertising lists, bonuses or whatever and the more



Genesis Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesis Conferencing Pty Ltd ABN: 85 082 564 252

meaningful number to ask is what share of the advertising dollar do we have?

A high impact, high priced ad in one part of the paper that doesn't – you know like the strips on the front of the paper that don't take a lot of space. If you do very well out of those but you don't have a sea of ads somewhere else and you end up with more dollar share than your competitor, have you done well or not? And I think we have done well.

So, we have done this on a comparable basis and what we did with the Domains was, rather than add them all up, because that would be misleading, we have simply added the two together and averaged them but we're not prepared to give any more breakdown than we have on the charts and as I say, it is a question for my successor with a strong recommendation from me that these charts, in this detail, don't continue.

- Q.** (Alex Pollak from Macquarie.) Okay. And the second question was there has been a bit more focus on this idea that newspapers are driving content and they are the content creator and that the licensing of that content on-line which is basically been pirated broadly speaking, is probably not the way to go going forward. I am curious to know what the board is thinking, or the company's thinking is on that basis in terms of one, how widely they will let the content be licensed and then, two, what plans they have to increase the charges or to charge for the content as it appears on line.

- Fred Hilmer:** Clearly, the content is valuable and it is valuable on-line and you need to make the trade-off between both exclusivity of the content if you don't sell it as opposed to revenue you give up. But you also need to make a judgement about the value to your brand franchise of the universality of your content. I don't want to go and give you a lecture here about economics of information but there is a really positive effect on the value of information of its wide dissemination and the ability of an owner to get returns from that. It is a good question but it is a complicated question and it is one that the board would continue to think about but they don't have a black and white position on it.

- Q.** (Roger Coleman, CCZ Equities) I'm looking at your Australian publishing revenue stream and I am wondering if you could give us some idea of that decline in other revenues. Is that a see through into circulation revenue decline for the year?

- Fred Hilmer:** Which page are you looking at, Roger?

- Q.** (Roger Coleman, CCZ Equities.) Australian publishing, page 6, slide 12, other revenues down .2 per cent. Was the circulation revenue fall greater than that .2 per cent?



Genesys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesys Conferencing Pty Ltd ABN: 85 082 564 252

Fred Hilmer: No. The circulation revenue is largely flat and then there were some other revenues that fell and what has happened is we have had some unit declines in circulation but we have also managed, not so much cover prices, we haven't had significant cover price increase, though there have been some. We had a significant increase in Newcastle which was successfully absorbed but we have had, I guess tweaking is probably the word, of the subscription discount. Because that price that we get is the net result after subscription discounts. So circulation revenues pretty flat, some marginal fall off in others.

Sankar Narayan: And these actually include a whole lot of syndications, commercial printing and a lot of that, so it goes up and down on a yearly basis so it is not really something that materially affecting the bottom line as far as we are concerned.

Q. (Roger Coleman, CCZ Equities.) So given the magazine industry circulation revenue figures that have been reported to the stock market from Seven and PBL, the cover price performance does not look that good in net terms for Fairfax for the capabilities of AB [socioeconomic] audience to pay for your product. What is the plan for the next two or three years in respect to these significant items?

Fred Hilmer: The judgement about cover prices, subscription prices, packaging, is a judgement that is made in the various divisions by the managers. There is no one answer for Fairfax because we have a lot of different products. We clearly do not like leaving money on the table but at the same time we are cognisant of the fact that we are 80 percent plus an advertising driven business and we want to make sure that we support the circulations as we feel appropriate. So that is the sort of trade-off that we will make and we certainly wouldn't telegraph what we will do. I think we have been clearly leaders in circulation price increases. At the moment we have a competitor that isn't doing anything on circulation price and the gap between us has opened up and we watch that situation. It is not as if we have monopoly papers and are operating in a world of our own.

Q. (George Coleman of Citigroup.) Retail/National was one of your strongest categories in Australia last year. A number of retailers have indicated that they are intending to spend less strongly. It is not clear in what segments. I take it from your comments, Fred, that you are not seeing much change in retail trends in the first quarter?

Fred Hilmer: Well, in the first few weeks of the first quarter. You can, again, count the pages. The retail sector has remained very strong. You can just look at the weekend papers that I have seen, there were very strong advertisements both in our magazines where you basically have one retailer on the front, one on the back and one in the middle. In the main books where you had, again,



Genesisys Conferencing Pty Ltd

National Service & Booking Centre: Level 8, 11 Queens Road, Melbourne VIC 3004
Phone: 1800 50 50 75 Fax 1800 50 06 35 Email: reservations@genesysconferencing.com.au
Genesisys Conferencing Pty Ltd ABN: 85 082 564 252

retailers throughout the book and in inserts. So, the retail market is still ticking along and there is no sign, we do not see a sign of an economic collapse here in this country. There are going to be bursts; some areas are going to be more competitive, others are going to be less competitive. We love competitive areas. If there's competition for funds management we will get more out of that, if there's competition for new cars we will get more out of that. We have to be positioned to take advantage of competition when it occurs. We can't predict what each segment will do.

Q. (Fraser McLeish from ABN) If I could just ask you on media reform and how do you think the discussions are going and are there any hurdles we need to get over to get a result on this one?

Fred Hilmer: I think the position is still positive. And I think the events of the last few weeks are probably helping that. I think, you know, three factors. One, I think we have a Prime Minister who, when he outlined the policy direction, generally wants to see it through and this may not be his highest but this is definitely on the agenda. Two, the industry is in reasonable agreement on the simple reforms of cross and foreign. The areas where they are not on a much agreement -- multi-channelling and anti-siphoning -- if it got too hard and would drop, wouldn't worry us. But there is fundamental agreement on the two major areas and thirdly, I believe, Helen Coonan's both authority and clout in terms of getting these reforms through have been improved by her performance on Telstra where she had a very good win in a very difficult situation. But getting that out of the way, I think, clears her agenda a little to deal with this issue and she has been quite clear that she would like to deal with it.

Q. (Roger Coleman from CCZ Equities) Given you have had nearly 12 months to think about cross media, what are the greatest synergies between cross media for Fairfax in your theoretical analysis?

Fred Hilmer: I talked about it, Roger, in general terms. I am not sure it is that helpful to go over it again. Because there are two things; one is it is not just a question of synergy, it is also a question of price. And at different prices, different combinations make more or less sense. The thing I would emphasise is that we have a strongly performing company and I believe we will, to a significant degree, and it will be after me, but we will to a significant degree be masters of our own destiny. I think that is why these results are important and that is why continuing the momentum in the company and the focus on getting good results continues to be important.

If there are no more questions, thank you and I won't say see you next time, as I may come along and see you in the audience. Thank you.

[END OF TRANSCRIPT]