

John Fairfax Holdings Limited
ABN 15 008 663 161

Half Year Financial Report
31 December 2005

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Directors' Report

The directors present their report on the consolidated entity of John Fairfax Holdings Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2005 and the audit review report thereon.

Directors

The directors of the Company in office during the half year ended 31 December 2005 and until the date of this report are:

- Mr Ronald Walker, AC, CBE
Non-Executive Chairman
- Mr Mark Burrows
Non-Executive Deputy Chairman
- Mr David Kirk
Chief Executive Officer
Appointed to the Board on 18 November 2005
- Mr Roger Corbett, AM
Non-Executive Director
- Mr David Evans
Non-Executive Director
- Mrs Julia King
Non-Executive Director
- Mr Peter Young
Non-Executive Director
Appointed to the Board on 16 September 2005 and reappointed at the AGM on 18 November 2005.
- Mr Frederick G. Hilmer, AO
Chief Executive Officer
Resigned from the Board on 18 November 2005
- Mr Dean Wills, AO
Former Non-Executive Chairman
Resigned from the Board on 26 August 2005

Review and results of operations (Results as at 31 December 2004 adjusted for AIFRS)

Excluding the effects of significant and non-recurring items in the current and previous corresponding period, the key highlights of trading performance of the Company for the six months ended 31 December 2005 are:

- Trading revenue increased 4.4% to \$977.6 million.
- Earnings before interest and tax increased 4.5% to \$223.5 million.
- Net profit after tax and OEI increased 5.2% to \$124.8 million.
- Earnings per share increased 3.6%, to 13.45 cents.
- Dividend declared of 8 cents per share fully franked.

Significant and non-recurring items during the half were comprised of the share of profits from an associated company, Australian Associated Press Pty Limited of \$4.4 million, which relates to the sale of its operating divisions during the period and restructuring costs in Australia of \$13.3m.

Including these significant and non-recurring items, the consolidated entity's net profit after income tax expense was \$119.9 million, with earnings per share of 12.92 cents.

The key financial drivers are:

- Significant revenue and profit growth from Fairfax Digital
- Maintenance of tight cost controls
- Continuing growth from Fairfax New Zealand

The Board has declared an interim dividend of 8 cents, fully franked.

The Company continues to offer a Dividend Reinvestment Plan to shareholders. There is no discount on the issue of shares under this Plan.

Directors' Report

Key Areas of Activity

Australian Publishing

Fairfax's Australian publishing businesses experienced a slight decline as a result of difficult economic markets, particularly in New South Wales. Compared to the previous corresponding period:

- EBITDA decreased 3.2% to \$159.9 million.
- Total revenue increased 1.3% to \$660.9 million.
- Advertising revenue increased 1.0% to \$541.7 million.
- Costs were well contained.

Metropolitan papers (The SMH, Sun Herald and The Age plus Magazines). As a result of difficult economic markets, particularly in New South Wales, revenues remain flat. Metro newspapers experienced a slight decline in advertising revenues due largely to weaker automotive and employment markets. This was partly offset by the national and retail categories which grew by 3.8%. Fairfax General Magazines was steady with Travel + Leisure, *the(sydney)magazine* and *theage(Melbourne)magazine* all performing ahead of expectations.

Fairfax Business Media. FBM revenue grew during the period, driven by its strong position in the premium employment advertising sector. The consolidation and re launch of the investor magazines, *AFR Smart Investor*, has been particularly successful and performing at above anticipated targets. The AFR digital desktop product will launch later this calendar year.

Fairfax Regional and Community Newspapers. FRCN posted solid revenue growth with the benefit of relatively stronger regional markets in both NSW and Victoria. Suburban newspapers in NSW continue to be affected by the slowdown in real estate markets.

Circulation and Readership. One of Fairfax's key priorities is to continue to stabilise and grow circulation and readership. It is the first time in seven years that Fairfax has had a positive circulation audit for all days of the week for the NSW metropolitan newspapers. The *Herald* readership in particular is now 4.7% higher than it was 10 years ago. The circulation rise for The Sun-Herald clearly reflects editorial improvements and more effective marketing programs. Its readership is steady at 1.41 million and its lead in key AB readers has grown to 114,000. Subscription levels are at a record high for *The Age* publications and the latest readership figures show The Age has achieved the highest percentage readership growth in the past quarter across all days of the week of any metropolitan newspaper in Australia. The *Australian Financial Review* readership profile continues to show its strength with business professionals, with an AB demographic concentration of over 70%, and a 7.3% lift in readership for the Weekend edition of the AFR. The success of our initiatives is reflected in the 3.2% growth in circulation revenue.

Costs. Cost growth was 2.9% which included the introduction of new publications. Cost savings initiatives undertaken last year and ongoing tight cost management (excluding the launch of Travel & Leisure and costs associated with AFR desktop) resulted in an underlying cost growth of 2.1%.

Fairfax Digital

With very strong organic growth as well as contributions from RSVP, Fairfax Digital's revenue was \$42.6m up 66.6%, with EBITDA of \$12m from \$1.2m last year. Revenue grew across all news and classifieds sites, particularly in employment, and display advertising on our news sites where strong demand and yields increased revenues by 87.2%. Operating margins expanded strongly in the half.

Fairfax Digital has also experienced outstanding audience growth across its portfolio of news, information and classified sites, with traffic up 35% in 2005 to a total unique browser base of over 6.9m per month.

To expand the base for Fairfax Digital's future profit growth, there will be continued re-investment of some of the profits in its brand and market position.

Fairfax New Zealand

Fairfax New Zealand had good revenue and earnings growth, with gains in all classified and display advertising categories notwithstanding a slowdown in the New Zealand economy and the effects of the national election campaign. Earnings margins were sustained over and above inflationary pressures and cyclical factors.

Compared to the previous corresponding period, the underlying reported results are:

- Advertising revenues increased 3.8%.
- EBITDA of NZ\$98.8 million, up 3.7%.
- EBIT of NZ\$93.4 million, up 3.5%.

The New Zealand mastheads' circulation revenue continues to grow with The Sunday Star-Times becoming the country's #1 selling newspaper for the first time.

Directors' Report

Capital Management

As part of the Company's ongoing review of capital management initiatives, a review of its options in respect to PRESSES was conducted. This review has concluded that it is not in the best interests of ordinary shareholders to debt finance a buy-back of PRESSES at around the current prevailing market price.

The Company also intends to convert PRESSES into ordinary shares when first permitted, pursuant to clause 3.3 (a)(i) of the terms, in July 2006.

Rounding

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

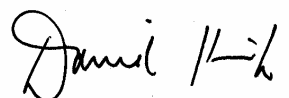
Auditors' Independence Declaration

A copy of the auditors' independence declaration, as required under section 397C of the Corporations Act 2001 is set out on page 27.

This report is made in accordance with a resolution of the directors of John Fairfax Holdings Limited.



Mark Burrows
Chairman, Audit & Risk Committee



David Kirk
Chief Executive Officer and Director

Sydney, 5 March 2006

Condensed Income Statement

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

		Consolidated	
		December	December
	Note	2005	2004
		\$' 000	\$' 000
Revenues from operating activities	2	977,617	936,607
Interest income		595	1,745
Total revenue from continuing activities		978,212	938,352
Share of net profits of associates and joint ventures	2	4,789	1,168
Operating expenses from continuing activities	3(a)	(728,419)	(679,419)
Depreciation and amortisation	3(b)	(39,380)	(40,480)
Finance costs - PRESSES	3(b)	(9,567)	-
Finance costs - other	3(b)	(39,859)	(40,040)
Net profit from continuing activities before income tax expense		165,776	179,581
Income tax expense		(45,561)	(44,124)
Net profit from continuing activities after income tax expense		120,215	135,457
Net profit attributable to minority interest		(310)	(302)
Net profit attributable to members of the Company*		119,905	135,155
Basic earnings per share (cents per share)	5	12.92	13.76
Diluted earnings per share (cents per share)	5	12.92	13.76
* Net profit attributable to members of the Company comprises:			
Ongoing operations before PRESSES dividend		134,406	128,086
PRESSES dividend	10(iv)(b)	(9,567)	-
Ongoing operations after PRESSES dividend		124,839	128,086
Net significant and non-recurring items	3(d)	(4,934)	7,069
		119,905	135,155

The above Condensed Income Statement is to be read in conjunction with the notes to the half year financial statements set out on pages 8 to 23.

The basic and diluted earnings per share (cents per share) before significant and non-recurring items is shown in note 5.

Condensed Balance Sheet

as at 31 December 2005

John Fairfax Holdings Limited and its controlled entities

	Consolidated	
	December	June
	2005	2005
	\$' 000	\$' 000
ASSETS		
Current assets		
Cash and cash equivalents	7,326	134,154
Receivables	277,050	284,061
Inventories	33,272	30,195
Derivative instruments	17,974	-
Other	-	411
Total current assets	335,622	448,821
Non-current assets		
Receivables	2,346	8,739
Investments accounted for using the equity method	12,582	10,661
Intangible assets	2,417,908	2,352,524
Property, plant and equipment	680,706	697,017
Deferred tax assets	85,467	54,615
Derivative instruments	439	-
Defined benefit plan asset	8,938	6,816
Other	10,577	13,151
Total non-current assets	3,218,963	3,143,523
Total assets	3,554,585	3,592,344
LIABILITIES		
Current liabilities		
Payables	186,893	204,676
Interest bearing liabilities	544,606	163,505
Non-interest bearing liabilities	643	-
Provisions	58,797	61,004
Current tax liabilities	16,332	25,805
Total current liabilities	807,271	454,990
Non-current liabilities		
Interest bearing liabilities	669,628	886,675
Non-interest bearing liabilities	1,774	867
Derivative instruments	32,430	-
Deferred tax liabilities	73,200	43,051
Provisions	38,521	34,999
Total non-current liabilities	815,553	965,592
Total liabilities	1,622,824	1,420,582
Net assets	1,931,761	2,171,762
EQUITY		
Contributed equity	1,225,752	1,425,547
Reserves	14,465	28,144
Retained profits	687,134	713,971
Total parent entity interest	1,927,351	2,167,662
Minority interest in controlled entities	4,410	4,100
Total equity	1,931,761	2,171,762

The above Condensed Balance Sheet is to be read in conjunction with the notes to the half year financial statements set out on pages 8 to 23.

Condensed Statement of Recognised Income and Expense

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

	Consolidated	
	December	December
	2005	2004
	\$' 000	\$' 000
Net profit from continuing activities after income tax expense	120,215	135,457
Amounts recognised directly in equity:		
Adjustment on adoption of AASB 132 and AASB 139, net of tax:		
Retained earnings	10(iv) (262)	-
Reserves	10(iv) (3,059)	-
Cashflow hedges, net of tax	10(iv) (648)	-
Cashflow hedges, net of tax	(1,369)	-
Reserves (adjusted due to AASB 132 and AASB 139) net of tax	(9,933)	
Net exchange differences on translation of foreign controlled entities	1,420	5,053
Actuarial gains/(losses) on defined benefit plans, net of tax	1,277	-
Total recognised income and expense for the half year	107,641	140,510
Attributable to minority interests	(310)	(302)
Attributable to members of the Company	107,331	140,208

The above Condensed Statement of Recognised Income and Expense is to be read in conjunction with the notes to the half year financial statements set out on pages 8 to 23.

Condensed Cash Flow Statement

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

	Consolidated	
	December 2005 \$' 000	December 2004 \$' 000
Cash flows from operating activities		
Receipts from customers	1,099,935	1,025,426
Payments to suppliers and employees (inclusive of goods and services tax)	(857,070)	(837,183)
Dividend and distribution income received	2,977	1,095
Interest received	595	1,745
Finance costs paid – other	(41,005)	(41,167)
Finance costs paid – PRESSES*	(9,275)	-
Net income taxes paid	(57,719)	(16,517)
Net cash provided by operating activities	138,438	133,399
Cash flows from investing activities		
Payment for property, plant & equipment	(16,607)	(11,480)
Proceeds from sale of property, plant & equipment	-	8,350
Proceeds from sale of other assets	-	293
Payment for financial assets	(4,128)	-
Proceeds from sale of investments	-	3
Payment for mastheads and tradenames	(8,955)	(3,050)
Payment for purchase of Port Stephens Publishers Pty Ltd (net of cash acquired)	-	(8,675)
Payment for purchase of rsvp.com.au (net of cash acquired)	(41,955)	-
Repayment of loans and deposits	223	100
Net cash used in investing activities	(71,422)	(14,459)
Cash flows from financing activities		
Proceeds from issue of shares	6 1,308	-
Refund of initial transaction costs from issue of shares	-	969
Dividends paid**	(108,470)	(43,899)
Dividends paid – PRESSES*	-	(9,428)
Proceeds received from borrowings	23,572	4,070
Proceeds from bank syndicated facility	70,000	-
Repayment of medium term notes	(150,000)	-
Repayment of borrowings and other financial liabilities	(30,254)	(91,329)
Net cash used in financing activities	(193,844)	(139,617)
Net decrease in cash assets held	(126,828)	(20,677)
Cash and cash equivalents at the beginning of period	134,154	28,105
Cash and cash equivalents at the end of the half year	7,326	7,428

* In addition to the ordinary dividend, a final PRESSES dividend of \$9.3 million (2004: \$9.4 million) was paid. Under AIFRS, the PRESSES were reclassified as a financial liability and the dividends on the PRESSES reclassified as an interest expense (refer note 10(iv)(b)).

** A cash dividend payment of \$108.5 million (2004: \$43.9 million) was made to shareholders that did not elect to participate in the DRP.

The above Condensed Cash Flow Statement is to be read in conjunction with the notes to the half year financial statements set out on pages 8 to 23.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial report does not include all notes of the type normally included within the annual financial report. Accordingly, this report is to be read in conjunction with the annual report of John Fairfax Holdings Limited for the year ended 30 June 2005 and any public announcements made by John Fairfax Holdings Limited and its controlled entities during the interim period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of preparation of half year financial report

This general purpose financial report for the half year ended 31 December 2005 has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRSs) including Accounting Standard AASB 134 *Interim Financial Reporting*, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The principal accounting policies under AIFRS and adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

This interim financial report is the first John Fairfax Holdings Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements. Compliance with AIFRS ensures that the half year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

Financial statements of John Fairfax Holdings Limited and the Group until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (previous AGAAP). Previous AGAAP differs in certain respects from AIFRS. When preparing the John Fairfax Holdings Limited interim financial report for the half year ended 31 December 2005, management has amended certain accounting and valuation methods applied in previous AGAAP financial statements to comply with AIFRS. The comparative information has been restated to reflect these adjustments, with the exception of financial instruments as John Fairfax Holdings Limited has applied previous AGAAP for comparative disclosures on financial instruments within the scope of AASB 132 and AASB 139.

Early adoption of standard

The Group has elected to apply AASB 119 *Employee Benefits* (issued in December 2004) to the annual reporting period beginning 1 July 2005.

Transitional elections

The Group has not taken advantage of any first time transition elections available under AASB 1 apart from the following:

- to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005
- to not apply AASB 3 *Business Combinations* retrospectively to business combinations that occurred before the transition date of 1 July 2004
- to recognise all cumulative defined benefit superannuation plan actuarial gains and losses directly in retained earnings; and
- to apply AASB 2 *Share Based Payment* only to shares and options granted after 7 November 2002 that had not vested on or before 1 January 2005.

The impact of the transition from previous AGAAP to AIFRS on the Group's equity and net profit are reconciled and described in note 10.

Historical cost convention

These financial statements have been prepared on a going concern basis and on the basis of historical cost principles except for land and buildings, derivative financial instruments and certain financial instruments which are measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

1 Summary of significant accounting policies (continued)

(b) Accounting for acquisitions

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity. The excess of the cost of acquisition over the fair value of the net identifiable assets acquired represents goodwill (refer to note 1(c)(i)).

(c) Intangibles

(i) Goodwill

Goodwill on acquisition represents the excess of purchase consideration, including incidental expenses associated with the acquisition, over the fair value of the Group's share of the identifiable net assets of the acquired. Goodwill on acquisitions of subsidiaries and associates are included in intangible assets and investments in associates respectively.

Goodwill is not amortised, instead it is tested for impairment annually, or whenever there is an indication that the carrying value may be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purposes of impairment testing (refer note 1(d)). Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

(ii) Other intangible assets

Mastheads and tradenames

The newspaper mastheads and tradenames have been assessed to have indefinite useful lives. Mastheads are not amortised, instead they are tested for impairment annually, or whenever there is an indication that the carrying value may be impaired, and are carried at cost less accumulated impairment losses.

Computer software

Acquired computer software licences are capitalised as an intangible as are internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements when it is probable that they will generate future economic benefits attributable to the consolidated entity. These costs are amortised using the straight-line method over 3 years.

Other

Other intangibles, where applicable, are stated at cost less accumulated amortisation and impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite and are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intangible assets created within the business are not capitalised and are expensed in the income statement in the period the expenditure is incurred.

Intangible assets are tested for impairment annually (refer to note 1(d)).

(d) Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash generating unit is the grouping of assets at the lowest level for which there are separately identifiable cash flows.

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

1 Summary of significant accounting policies (continued)

(e) Investments and other financial assets

The consolidated entity adopted AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Adjustments have been made to the opening balance sheet at 1 July 2005 to reflect this change in accounting policy for the adoption of AASB 139 and these are shown separately in note 10(iv).

From 1 July 2005, the consolidated entity classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

The consolidated entity classifies and measures its investments as follows:

(i) *Financial assets at fair value through profit and loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss on initial recognition. The policy of management is to designate a financial asset at fair value through profit and loss if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. These assets are measured at fair value and realised and unrealised gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are included in receivables in the balance sheet and measured at amortised cost using the effective interest method.

(iii) *Available for sale financial assets*

These assets are non-derivatives that are either designated or not classified in any of the other categories and measured at fair value. Any unrealised gains and losses arising from changes in fair value are included in equity.

(f) Financial instruments

The consolidated entity adopted AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Adjustments have been made to the opening balance sheet at 1 July 2005 to reflect this change in accounting policy for the adoption of AASB 139 and these are shown separately in note 10(iv).

Financial assets other than derivatives are recognised at fair value or amortised cost in accordance with the requirements of AASB 139. Where they are carried at fair value, gains and losses on remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit and loss, in which case the gains and losses are recognised directly in the income statement. All financial liabilities other than derivatives are carried at amortised cost.

The Group uses derivative financial instruments such as forward foreign currency contracts, foreign currency and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Derivatives, including those embedded in other contractual arrangements, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The measurement of the fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges (hedges of the fair value of recognised assets or liabilities or a firm commitment) or cash flow hedges (hedges of highly probable forecast transactions).

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

1 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

The consolidated entity's interest rate swaps and cross currency swaps held for hedging purposes are generally accounted for as cash flow hedges. At 31 December 2005, the consolidated entity had closed out all forward foreign currency contracts held for hedging purposes.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Derivatives that do not qualify for hedge accounting

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

(g) Leases

Finance leases

Assets held under leases which result in the consolidated entity receiving substantially all the risks and rewards of ownership of the asset (finance leases) are capitalised at the lower of the fair value of the leased property or the estimated present value of the minimum lease payments. The corresponding finance lease obligation, net of finance charges, is included within interest bearing liabilities. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the liability for each accounting period. The leased asset is included in property, plant and equipment and is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term investments with original maturities of three months or less that are readily convertible to cash and subject to insignificant risk of changes in value. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

(i) Interest-bearing liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Preferred reset securities exchangeable for shares are classified as liabilities (refer to note 10(iv)(b)). The dividends on these shares are recognised in the income statement as interest expense.

Finance lease liabilities are determined in accordance with the requirements of AASB 117 *Leases* (refer to note 1(g)).

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

1 Summary of significant accounting policies (continued)

(j) Foreign currency

Currency of presentation

All amounts are expressed in Australian dollars, which is the consolidated entity's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation and qualifying cash flow hedges, which are deferred in equity until disposal. Tax charges and credits attributable to exchange differences on borrowings are also recognised in equity.

Translation differences on non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Translation differences on non-monetary items, such as available for sale financial assets, are translated using the exchange rates at the date when the fair value was determined and included in the fair value reserve in equity.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation on any net investment in foreign entities are taken directly to a separate component of equity, the foreign currency translation reserve. On disposal of a foreign entity, or borrowings that form part of the net investment are repaid, the deferred cumulative amount of the exchange differences in the foreign currency translation reserve relating to that foreign operation is recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Employee benefits

(i) Share-based payment transactions

Share based compensation benefits can be provided to employees in the form of shares and options. There are currently two plans in place to provide these benefits. Information relating to these schemes is set out in the annual financial report.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in the income statement in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the share plans is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is

transferred to share capital.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

1 Summary of significant accounting policies (continued)

(k) Employee benefits (continued)

The market value of shares issued to employees for no cash consideration under the Long Term Incentive Share Plan is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in earnings per share.

(ii) Superannuation

John Fairfax Holdings Limited and certain controlled entities participate in a number of superannuation plans. Contributions made by the Company to defined contribution superannuation funds are charged to the income statement in the period the employee's service is provided.

For defined benefit superannuation plans, the cost of providing pensions is charged to the income statement so as to recognise current and past service costs and interest cost on defined benefit obligations net of expected returns on plan assets. Actuarial gains and losses are recognised in full directly in equity. An asset or liability is consequently recognised in the balance sheet based on the present value of the defined benefit obligations, any unrecognised past service costs and the fair value of plan assets.

(l) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributed to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

1 Summary of significant accounting policies (continued)

(m) Contributed equity

Ordinary shares are classified as equity. Preferred reset securities exchangeable for shares are classified as liabilities (refer note 1(i)).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(o) Rounding of Amounts

The consolidated entity is of a kind referred to in Class Order 98/0100, as amended by Class Order 04/667, issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

	December 2005 \$' 000	December 2004 \$' 000
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2. Revenue

Revenue from operating activities

Revenue generated from sale of:

Newspapers	811,678	788,064
Magazines	103,720	104,675
Other	53,756	35,349
	<u>969,154</u>	<u>928,088</u>

Revenue from rendering of services	8,171	8,139
Dividends and distributions from unit trusts	292	380
	<u>977,617</u>	<u>936,607</u>

3. Expenses

a) Expenses by nature

Staff costs	317,426	297,719
Redundancy and restructuring	14,250	1,082
Newsprint and paper	124,515	124,125
Distribution and other production costs	112,253	108,203
Promotion and advertising costs	46,037	39,408
Rent and outgoings	17,873	15,973
Repairs and maintenance	11,108	9,818
Communication costs	7,723	6,291
News services	5,784	5,653
Computer costs	6,927	5,701
Fringe benefits tax	3,889	3,914
Net (gain)/loss on disposals	18	(4,019)
Other expenses	60,616	65,551
	<u>728,419</u>	<u>679,419</u>

Total expenses before depreciation, amortisation and finance costs

b) Detailed expense disclosures

Finance costs - interest payment on PRESSES	9,567	-
Finance costs - other		
Other persons / corporations	37,463	37,694
Finance charges on capitalised leases	2,396	2,346
	<u>39,859</u>	<u>40,040</u>
Depreciation of freehold property	1,642	2,086
Depreciation of plant and equipment	30,039	30,824
Amortisation of leasehold property	670	666
Amortisation of software	7,029	6,904
Total depreciation and amortisation	<u>39,380</u>	<u>40,480</u>

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

	December 2005 \$' 000	December 2004 \$' 000
3. Expenses (continued)		
c) Gains/(Losses)		
Net foreign exchange gain/(loss)	(216)	10
Net profit on disposal of property, plant & equipment	18	2,525
Net profit on disposal of investments	-	3
Net profit on disposal of other assets	-	1,491
d) Significant and non-recurring items		
Profit from continuing activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the consolidated entity:		
Share of profits from an associate's, Australian Associated Press Pty Limited, sale of one of its operating divisions	4,380	-
Major restructure and redundancy programme	(13,305)	-
Proceeds from sale of Gordon and Gotch business and associated assets and liabilities sold	-	7,679
Cost of sale of Gordon and Gotch business and associated assets and liabilities sold	-	(3,640)
Net significant and non-recurring items before income tax	(8,925)	4,039
Income tax benefit	3,991	3,030
Net significant and non-recurring items after income tax	(4,934)	7,069

4. Dividends paid and proposed

Dividends paid during the year

Ordinary shares	147,953	99,754
PRESSES	-	9,428
	3(b), 10(iv)(b)	
Total franked dividends paid	147,953	109,182

Dividends proposed and not recognised as a liability

Since the end of the half-year the directors have declared an interim dividend of 8 cents per fully paid ordinary share fully franked at the corporate tax rate of 30%. The aggregate amount of the interim dividend to be paid on 12 April 2006 out of the retained profits at 31 December 2005, but not recognised as a liability at the end of the half year is expected to be \$74.9 million.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

	Note	December 2005 \$' 000	December 2004 \$' 000
5. Earnings per share			
Basic earnings per share (cents) based on net profit attributable to members of the Company			
After significant and non-recurring items		12.92	13.76
Before significant and non-recurring items		13.45	12.98
Diluted earnings per share (cents) based on net profit attributable to members of the Company			
After significant and non-recurring items		12.92	13.76
Before significant and non-recurring items		13.45	12.98
Earnings reconciliation – basic			
Net profit attributable to members of the Company:			
Before significant and non-recurring items	3(d)	124,839	128,086
Less dividend paid on PRESSES	10(iv)(b)	-	(9,428)
Basic earnings before significant and non-recurring items		124,839	118,658
Net profit attributable to members of the Company:			
After significant and non-recurring items		119,905	135,155
Less dividend paid on PRESSES	10(iv)(b)	-	(9,428)
Basic earnings after significant and non-recurring items		119,905	125,727
Earnings reconciliation – diluted			
Net profit attributable to members of the Company:			
Before significant and non-recurring items	3(d)	124,839	128,086
Less dividend paid on PRESSES	10(iv)(b)	-	(9,428)
Diluted earnings before significant and non-recurring items		124,839	118,658
Net profit attributable to members of the Company:			
After significant and non-recurring items		119,905	135,155
Less dividend paid on PRESSES	10(iv)(b)	-	(9,428)
Diluted earnings after significant and non-recurring items		119,905	125,727
Weighted average number of ordinary shares used in calculating basic EPS before and after significant and non-recurring items (000s)			
		927,951	913,885
Weighted average number of ordinary shares used in calculating diluted EPS before significant and non-recurring items (000s)			
		927,951	913,885
PRESSES (000s)		-	-
Options (000s)		27	23
		927,978	913,908
Weighted average number of ordinary shares used in calculating diluted EPS after significant and non-recurring items (000s)			
		927,978	913,908

At 31 December 2005, the consolidated entity has 65,394,098 potential ordinary shares (PRESSES) (2004: 59,324,358 PRESSES) that are not dilutive.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

	December 2005 \$' 000	June 2005 \$' 000
Note		
6. Contributed equity		
Issued and fully paid shares	1,225,752	1,183,596
Preferred reset securities exchangeable for shares	-	241,951
	<u>1,225,752</u>	<u>1,425,547</u>
		December 2005 \$'000
	No. of shares	
Movements in contributed equity		
At 1 July 2005	926,963,510	1,425,547
Shares issued:		
Dividend reinvestment plan issue	8,602,112	39,483
Option conversion	300,000	1,308
Reclassification of PRESSES from equity to debt	10(iv)(b) (2,500,000)	(241,951)
Reallocation of share issue costs relating to PRESSES from equity to debt	10(iv)(b) -	1,365
At 31 December 2005	<u>933,365,622</u>	<u>1,225,752</u>

7. Commitments and Contingencies

There have been no material changes in contingent liabilities since the financial year ended 30 June 2005.

8. Segment reporting

The consolidated entity operates predominantly in two geographic segments, Australia and New Zealand.

Geographical segments 6 months to 31 December 2005	Australia	New Zealand	Unallocated	Consolidated
	\$'000	\$'000	\$'000	Entity \$'000
Segment revenue	703,024	274,593	-	977,617
Unallocated revenue	-	-	595	595
Share of net profits of associates and joint ventures	-	-	4,789	4,789
Total revenue				983,001
Segment profit from continuing activities before tax	123,765	86,053	5,384	215,202
Unallocated expenses*	-	-	(49,426)	(49,426)
Net profit from continuing activities before income tax				165,776
Significant items	13,306	-	-	13,306
Unallocated significant items	-	-	(4,380)	(4,380)
Net profit from continuing activities before income tax and excluding significant items	<u>137,071</u>	<u>86,053</u>	<u>(48,422)</u>	<u>174,702</u>
Geographical segments 6 months to 31 December 2004				Consolidated Entity \$'000
Segment revenue	676,691	259,916	-	936,607
Unallocated revenue	-	-	1,745	1,745
Share of net profits of associates and joint ventures	-	-	1,168	1,168
Total revenue				939,520
Segment profit from continuing activities before tax	129,564	87,144	2,913	219,621
Unallocated expenses			(40,040)	(40,040)
Net profit from continuing activities before tax				179,581
Significant items	-	(4,038)	-	(4,038)
Unallocated significant items	-	-	-	-
Net profit from continuing activities before income tax and excluding significant items	<u>129,564</u>	<u>83,106</u>	<u>(37,127)</u>	<u>175,543</u>

* At 31 December 2005 unallocated expenses include dividends on PRESSES of \$9.567m.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

9. Events Occurring after Reporting Date

Acquisition of Australian Property Monitors Pty Limited

On 3 January 2006, John Fairfax & Sons Pty Limited, a wholly-owned subsidiary of John Fairfax Holdings Limited, acquired 50% of Australian Property Monitors Pty Limited, taking total ownership in this entity to 100% of its issued share capital. Australian Property Monitors Pty Limited is an Australian unlisted company specialising in the provision of property sales and auction data. The 50% share was acquired for cash consideration of \$3.0 million.

Acquisition of Web Options Pty Limited

On 3 January 2006, Fairfax Digital Limited, a wholly-owned subsidiary of John Fairfax Holdings Limited, acquired 100% of the issued capital of the Web Options Pty Limited group, which operates the stayz.com.au business. Stayz.com.au is one of the market leaders in on-line holiday accommodation. The Stayz business and associated intellectual property assets were acquired for cash consideration of \$12.7 million.

Acquisition of Trade Me Limited Group of Companies

On 5 March 2006, Fairfax New Zealand Holdings Limited, a wholly owned subsidiary of John Fairfax Holdings Limited, entered into a Share Sale Agreement to purchase 100% of the Trade Me Limited Group for NZ\$700 million subject to satisfactory due diligence and receipt of all consents required under the Overseas Investments Act 2005 (New Zealand). There is a further incentive payment of up to NZ\$50 million on achievement of stretch targets in the Trade Me business. The transaction is expected to complete in late April.

The purchase will be funded through a combination of hybrid equity and senior debt. The company will shortly launch a Step Up Preference Security ("Fairfax SPS") for approximately A\$250m. The remainder of the purchase price will be provided through a 364 day committed bridge facility which will be refinanced during 2006.

10. Explanation of Transition to Australian equivalents to IFRSs

The impacts of transition to AIFRS on the Group's total equity and net profit after income tax expense are set out below.

(i) Reconciliation of consolidated total equity reported under previous AGAAP to consolidated total equity under AIFRS

	Note	Consolidated		
		30 Jun 2005	31 Dec 2004	1 July 2004
		\$'000	\$'000	\$'000
Total equity under previous AGAAP (audited)		2,209,182	2,154,139	2,068,748
Aggregate of prior period AIFRS adjustments		(39,152)	(41,365)	
AIFRS adjustments to retained earnings:				
De-recognition of internally-generated intangibles	(a)	(28)	-	(6,846)
Masthead and tradenames impairment write downs, net of foreign currency	(b)	-	-	(17,713)
Write back of goodwill amortisation	(c)	1,179	1,179	-
Recognition of defined benefit pension asset	(d)	140	142	4,725
Straight-lining leases	(e)	876	930	15,502
Recognition of share based payment expense	(f)	(208)	(208)	(179)
Application of AASB 112 <i>Income taxes</i>	(g)	-	-	(36,352)
Defined benefit recognition of actuarial gains/(loss)	(d)	(384)	-	-
Other		(32)	(72)	(737)
Adjustments to reserves:				
Recognition of share based payment expense	(f)	208	208	179
Foreign currency translation movements on above adjustments		(19)	34	56
Total equity under AIFRS		2,171,762	2,114,987	2,027,383

The transition to AIFRS also resulted in the reclassification of certain balances on the balance sheet. Whilst these did not affect total equity, the significant reclassifications have been described in detail below.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

10. Explanation of Transition to Australian equivalents to IFRSs (continued)

(ii) Reconciliation of consolidated net profit under previous AGAAP to consolidated net profit under AIFRS

	Note	Consolidated	
		Year ended 30 June 2005	Half-year ended 31 Dec 2004
		\$'000	\$'000
Net profit under previous AGAAP (audited)		260,321	133,486
AIFRS adjustments to net profit:			
Write back of goodwill amortisation	(c)	2,358	1,179
Straight-lining of finance lease	(e)	1,806	930
Expense of share based payments	(f)	(416)	(208)
Movement in defined benefit plan asset	(d)	282	142
Other		(132)	(72)
Net profit under AIFRS		264,219	135,457

(iii) Reconciliation of cashflow statement

The transition to AIFRS has not resulted in any material adjustments between the cashflow statement presented under AIFRS and previous AGAAP.

Notes to the reconciliations

(a) De-recognition of internally generated intangible assets

Under previous AGAAP, recognition of internally generated intangible assets on balance sheet was permitted whereas under AIFRS, internally generated intangible assets must meet strict criteria in order to be recognised.

At the date of transition and in accordance with AASB 138 *Intangible Assets*, certain mastheads and trade names have been derecognised. The effect of this is a decrease in intangibles by \$6.8m and corresponding decrease in retained earnings at 1 July 2004.

(b) Impairment of non-financial assets

Under AIFRS, the recoverable amount of a non-financial asset is determined as the higher of its net selling price and value in use. Following an assessment of the recoverable amount of the consolidated entity's individual mastheads in accordance with AASB 136 *Impairment of Assets* compared with the impairment testing for groups of assets basis used previously, an impairment write-down adjustment is required. The effect of this is a decrease in intangible assets by \$17.7 million and corresponding decrease in retained earnings at 1 July 2004.

(c) Goodwill

Under previous AGAAP, goodwill was amortised over a maximum of 20 years. Under AIFRS, goodwill is no longer amortised but instead is tested for impairment annually to ensure that the carrying amount is not greater than the recoverable amount. As a result, accumulated goodwill amortisation is written back to goodwill.

During the year ended 30 June 2005, additional goodwill was amortised under previous AGAAP. Accordingly, at:

- 31 December 2004 - intangible assets increased by \$1.1 million representing the write-back of accumulated goodwill amortisation and there was a corresponding decrease in amortisation for the half year ended 31 December 2004.
- 30 June 2005 - intangible assets increased by \$1.1 million representing the write-back of accumulated goodwill amortisation and there was a corresponding decrease in amortisation expense for the half year ended 30 June 2005.

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

10. Explanation of Transition to Australian Equivalents to IFRSs (continued)

(d) Defined benefit plan pension asset

The company and certain controlled entities currently sponsor defined benefit superannuation plans in Australia and New Zealand. Under previous AGAAP, surpluses and/or deficits that arise on the defined benefit superannuation plans were not recognised on the balance sheet and contributions to the plans were recognised as an expense when due and payable. Under AASB 119 *Employee Benefits*, a pension asset (surplus) or liability (deficit) is recognised on the balance sheet and any actuarial gains or losses in the movement of the asset or liability is recognised in retained earnings, as elected by the Company in accordance with AASB 1.

The effect of this is the recognition of a new defined benefit plan pension asset on the balance sheet for \$6.9 million, which represents the cumulative actuarial gains existing at transition date, an increase in retained earnings of \$4.7 million and increase in deferred tax liabilities of \$2.2 million.

At 31 December 2004, the defined benefit plan pension asset increased by \$0.2 million (including foreign exchange translation gain for the New Zealand pension asset) and superannuation plan expense in the income statement decreased by \$0.2 million to reflect the write back of net non-cash contributions and service costs based on actuarial valuations for the 6 month period to 31 December 2004. This adjustment reflects the accrual accounting associated with defined benefit plans under AASB 119. The tax-effect of this adjustment increased deferred tax liabilities and increased income tax expense for the 6 months to 31 December 2004.

At 30 June 2005, an actuarial loss on the defined benefit plans resulted in a decrease in the defined benefit pension asset by \$0.5 million and a corresponding decrease in retained earnings. The decrease in the asset was offset by a net increase of \$0.2 million (including foreign exchange translation loss for the New Zealand pension asset) to reflect the write back of the net contributions and service costs of \$0.2 million based on actuarial valuations for the 6 month period to 30 June 2005. The tax-effect of this adjustment decreased deferred tax liabilities and increased income tax expense for the 6 months to 30 June 2005.

(e) Leases

(i) Finance lease liability

Under previous AGAAP, the minimum lease payments of a finance lease were determined using an implicit interest rate, whereas under AIFRS, a constant periodic interest rate must be applied.

The effect in the consolidated entity is:

- a decrease in the lease liability by \$15.5 million and corresponding increase in retained earnings at 1 July 2004. Due to the nature of the finance lease, deferred tax assets have immaterially increased.
- a decrease in the lease liability by \$0.9 million and increase in deferred tax assets at 31 December 2004. Interest expense for the 6 months ended 31 December 2004 decreased by \$0.9 million
- a decrease in the lease liability by \$0.9 million and increase in deferred tax asset at 30 June 2005. Interest expense for the 6 months ended 30 June 2005 decreased by \$0.9 million.

(ii) Operating leases

Under previous AGAAP, lease payments were recognised in the income statement on an accruals basis reflecting the payment terms of the underlying lease. Under AIFRS, lease payments under leases which contain fixed increases are recognised on a straight line basis over the lease term. The effect of this was to increase lease payable by \$0.08 million and a corresponding increase in lease expense for the year ended 30 June 2005. There was no impact at transition date or for the 6 months to 31 December 2004.

(f) Shared based payments

Under previous AGAAP the Group did not account for performance options or shares issued to employees or directors of the Group. Under AIFRS, the consolidated entity is required to recognise an expense for all share based remuneration, including shares or options issued to employees or directors after 7 November 2002 which had not vested by 1 January 2005. The Company has elected not to apply AASB 2 *Share Based Payments* to its share based payment arrangements granted before 7 November 2002 in accordance with AASB 1.

The effect in the consolidated entity of accounting for share based payment transactions is:

- a decrease in retained earnings of \$0.2 million and corresponding increase in the share options reserves at 1 July 2004
- an increase in the share options reserve of \$0.2 million, a corresponding decrease in retained earnings and increase in the employee benefits expense by \$0.2 million for the 6 months ended 31 December 2004
- an increase in the share options reserve of \$0.2 million, a corresponding decrease in retained earnings and increase in the employee benefits expense by \$0.2 million for the 6 months ended 30 June 2005

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

10. Explanation of Transition to Australian Equivalents to IFRSs (continued)

(g) Deferred tax

The adoption of AIFRS has resulted in a change in accounting policy. Under previous AGAAP, income tax expense was calculated by reference to the accounting profit after allowing for permanent balances ('the income statement approach'). Deferred tax was not recognised in relation to amounts recognised directly in equity. The application of AASB 112 *Income Taxes* has resulted in the recognition of additional deferred tax assets of \$0.8 million and deferred tax liabilities of \$37.0 million and a decrease to retained earnings of \$36.2 million at 1 July 2004.

(h) Software classified as intangible assets

Under previous AGAAP, capitalised software and software developments costs were included in, and accounted for, as property, plant and equipment. As the date of transition, capitalised software and software development costs were reclassified in the balance sheet as intangible assets in accordance with AASB 138 *Intangible Assets*.

The effect of this was to reduce property, plant and equipment by:

- \$32.3 million and increase intangible assets by \$32.3 million at 1 July 2004
- \$1.8 million and increase intangible assets by \$1.8 million 31 December 2004
- \$6.7 million and increase intangible assets by \$6.7 million at 30 June 2005.

There was no effect on total or net assets and in all other respects, the accounting for the asset remains unchanged.

(iv) Adoption of AASB 132 and AASB 139 on 1 July 2005

John Fairfax Holdings Limited has taken the exemption available under AASB 1 *First Time Adoption of Australian International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. The adoption by the Group of AASB 132 and AASB 139 on 1 July 2005 had the following effects:

	Note	Consolidated 1 July 2005 \$'000
Total equity under AIFRS (excluding AASB 132 and AASB 139)		2,171,762
AIFRS adjustments to retained earnings:		
Fair value of derivative assets and liabilities	(a)	(12,974)
Fair value movement of hedged financial liabilities	(c)	26,184
Amortisation of transaction costs on PRESSES	(b)	(8,657)
Tax-effect of AASB 139 adjustments listed above		(4,815)
AIFRS adjustment to cashflow hedge reserve:		
Fair value derivatives, net of tax	(a)	(648)
AIFRS adjustment to foreign currency translation reserve:		
Fair value derivatives, net of tax	(a)	(3,059)
AIFRS adjustment to contributed equity:		
Reclassification of PRESSES from equity to debt	(b), 6	(241,951)
Reallocation of share issue costs relating to PRESSES from equity to debt	(b), 6	1,365
Total equity under AIFRS		1,927,207

Notes to the Financial Statements

for the half year ended 31 December 2005

John Fairfax Holdings Limited and its controlled entities

10. Explanation of Transition to Australian Equivalents to IFRSs (continued)

Notes to the reconciliations

(a) Derivatives and hedging

Under previous AGAAP, derivatives were not recorded on the balance sheet and unrealised gains or losses from re-measurement of derivatives used to hedge foreign exchange or interest rate exposures were excluded from the income statement but disclosed in the notes to the financial statements. In accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, derivatives are now recognised on balance sheet at fair value and derivatives held for hedging purposes are accounted for as fair value or cash flow hedges with changes in the fair value recognised directly in the income statement or equity respectively until the hedged transaction occurs.

The effect of this is to increase derivative assets and derivative liabilities by \$20.0 million and \$37.3 million respectively at 1 July 2005 with a corresponding decrease in retained earnings of \$12.9 million, cashflow hedge reserve of \$0.7 million and foreign currency translation reserve of \$3.1 million net of tax. This adjustment is net of previously recognised hedge receivables and payables under AGAAP, which amounted to \$3.7 million at 30 June 2005.

(b) Reclassification of PRESSES

Under AGAAP, PRESSES were classified in the balance sheet as an equity instrument. Under AASB 132 *Financial Instruments: Presentation and Disclosure*, PRESSES were reclassified from equity to debt. \$1.3 million of transaction costs relating to PRESSES were reallocated at the time of reclassification of the PRESSES to debt (refer note 6). The effect of this was a net decrease from contributed equity by \$240.6 million and a corresponding increase in non-current interest bearing liabilities.

Under AASB 139, the PRESSES are measured at amortised cost and transaction costs totalling \$9.4 million are amortised over 5 years. At 1 July 2005, \$8.6 million of transaction costs were amortised and the effect of this was to increase the PRESSES in non-current interest bearing liabilities of \$8.6 million and decrease retained earnings. As such at 1 July 2005, PRESSES (inclusive of amortised transactions costs) were carried at \$249.2 million.

The PRESSES are contractually due to reset on 12 December 2006, the PRESSES have been reclassified from non-current interest bearing liabilities to current interest bearing liabilities at 31 December 2005.

(c) Interest bearing liabilities – US debt notes and redeemable preference shares

Under AGAAP, notes and redeemable preference shares (RPS) were recognised at cost and transaction costs capitalised and amortised over the life of those liabilities. Under AASB 139, interest bearing liabilities are recognised at amortised cost and fair valued to the extent the liability is hedged.

The effect of this is a \$26.2 million increase in non-current interest bearing liabilities and decrease in retained earnings at 1 July 2005 for the fair value changes in the hedged component of the US debt notes and RPS.

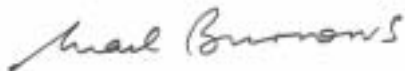
Directors' Declaration

In accordance with a resolution of the directors of John Fairfax Holdings Limited, we state that -

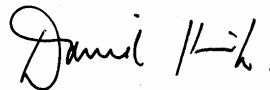
In the opinion of the directors:

- a) the financial statements and notes of the consolidated entity set out on pages 4 to 23 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance as represented by the results of its operations and cash flows for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board



Mark Burrows
Chairman, Audit & Risk Committee



David Kirk
Chief Executive Officer and Director

Sydney, 5 March 2006

Independent review report to members of John Fairfax Holdings Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense and accompanying notes to the financial statements for the consolidated entity comprising both John Fairfax Holdings Limited (the company) and the entities it controlled during the period, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

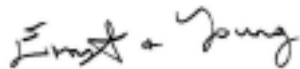
Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising John Fairfax Holdings Limited and the entities it controlled during the period is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



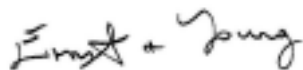
Ernst & Young



David Simmonds
Partner
Sydney
5 March 2006

Auditor's Independence Declaration to the Directors of John Fairfax Holdings Limited

In relation to our review of the financial report of John Fairfax Holdings Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



David Simmonds
Partner
5 March 2006