JOHN FAIRFAX HOLDINGS LIMITED
INTERIM RESULTS PRESENTATION
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Mr Fred Hilmer, CEO
Mr Warren Phillips, Acting CFO

recording starts here

FH: Michael Gill for financial publishing, and Brian Evans is with us from New Zealand. He is Chief Executive of our New Zealand business. When we get into questions we will be happy to field questions. I am sorry that there is no one from Telstra here, because you are undoubtedly going to have questions that they should answer, and I guess we will just take those on notice. In terms of what we're going to talk about today – and I think most of you had a chance to skim through this material – the real story to us is what has happened in terms of the ordinary earnings per share, because that is really the comparable number. Out of the very significant new business – there aren't comparable numbers for that, and from the perspective of our shareholders and the perspective of the market, the issue that our Board is concerned with, that I am concerned with, is what is the impact of the things that we are doing on our ordinary earnings per share? That is up in the order of 25 per cent. There are a number of things driving that that I am really quite pleased about.

What we are seeing in that number is the very positive effects of the things that we have done being of sufficient magnitude to really cover some of the challenges we are facing. We are a business with challenges. So very specifically, if you look at the positive things that are happening in the business, certainly with respect to New Zealand, I think I can unequivocally say we made an excellent acquisition. We've had revenues and we have had revenue growth above what we expected when we made the acquisition. We have cost performance that is better than we expected at the time we made the acquisition. Part of those are due to a strong market and part of it, frankly, is due to the fact that we have had a very smooth and effective transition, and we have been able to realise and find the potential for more synergy and improvements than we expected. That has been a very important contributor to the growth in the earnings per share of the company.

The second factor is that we continue to see steady improvement in Australia. The story is really a display story. I think we flagged to you that we had subdued classified markets – and I would like to pick that up in more detail – but we have had very strong display, and the improvements that we have made in our printings plants that have given us colour capacity have really underpinned that growth. As we have seen, a very significant part of the display revenue growth driven by yield over and above the yield increases that we put into the market. So the colour premium starting to show up in this result, although it is very early days because not all of it was brought on at the beginning of this half. I will give you some numbers as we get into the presentation on the take up of colour, and you will see the effect of the Tullamarine investment.

We have maintained cost discipline, and again, we will go through that in more detail. And lastly, there is this big tax consolidation number. It is an accounting number that affects this half. Its significance to us is really in the cash flow impact, and the cash flow impact, as we say in the release, is something is felt over a decade, and it is worth, in terms of tax payments, in the order of $6 million a year. So that is really, from my point of view – from a value point of view – the relevant number. The accounting number looks like a big number but it is not, from my point of view, a relevant number. The relevant number is the growth in the earnings per share ignoring that factor, and the other important number to us is the cash flow.

If I just take you through the highlights of the numbers and then I will hand over to Warren. As I said, in terms of earnings per share, the basic earnings per share here is up 24.1 per cent, and the number with tax consolidation is up a much higher amount. The EBIT came in quite strongly. I think at the AGM I said to you we expected something around $170 million. When we took analysts to New Zealand we could see the strength of New Zealand was driving that towards $175 million, and we gave that guidance to put the New Zealand trip into perspective. We turned out to have a strong December, both in New Zealand and in Australia, and that has driven the result to closer to $181 million. The profit after tax, again, the number that is important to us and I think the one that you would look at is $100.1 million.

The trading performance in Australia – the revenue came in at 5 per cent. Two parts to that. Revenue in publishing – in printing businesses – up about 4 per cent. Again, I will dissect that for you as we go on. Revenue in the internet businesses and the online businesses up very strongly – slightly over 50 per cent. In terms of costs, the publishing costs up about 3.5 per cent, with some one time cost adjustments that I will talk to you about, and the cost up in the internet business by a larger amount – by in the order of 20 per cent, again, reflecting that rapidly increasing volume and revenue.

So the Australian EBITDA was up about 8 per cent, and in New Zealand we don't really have comparable figures. We do for revenue. Total revenue is up slightly above 10 per cent, and of that, advertising revenue is up close to 12 per cent. So they are the numbers that we can compare in New Zealand. We will give you, however, the full P&L for New Zealand so that you will be able to have a cross point going forward that is accurate, which is something we haven't been able to do up until now. So Warren, if I can hand to you and if you would take people through the results, and I will get into the business drivers after that.

WP: Thank you Fred. Good morning everybody. The underlying profit and loss statement shows an outstanding growth in revenue and in EBIT. The numbers are up there. Obviously the New Zealand numbers are not included, but at 44.7 per cent revenue growth and 56 per cent EBIT growth, that is stunning performance for the company as a whole. There is a number of points we can talk about on this chart. Depreciation on amortisation has obviously increased period on period. Obviously that is to do with both New Zealand, and the Tullamarine and Chullora plants coming online versus last year. Interest costs have obviously also jumped for two reasons: one, additional borrowings as a result of the acquisition in New Zealand; and secondly, we are not capitalising any interest again the construction of either Tullamarine or Chullora.

The tax consolidation number – I won't go into the details of it, simply to explain one thing, and that is basically that comes about as a result of assessing the in use value of our plant and equipment, and that increased value isn't allowed for tax purposes over the period, which is why we are estimating approximately a 10 year period to bring it back. That takes a weighted average of the assets that have been changed in value. The process is basically completed and we are certain of that number, which is why we have disclosed it.

If we look at the balance sheet, bear in mind here that New Zealand is included in this balance sheet because we acquired New Zealand on 30 June last year, and therefore, the opening balance sheet for New Zealand is there as a comparable item. I will just run through a couple of points on here. First off there is a small movement in intangibles, and you will get used to seeing that. Now that we have an international operation there will be some currency movements from time to time that will affect the value of the New Zealand mastheads, and that is basically the movement of the intangibles. Property, plant, and equipment I will come back to, but that has obviously decreased, and I will talk more about that in the cash flow.

The investments and other non-current financial liabilities – they have actually come down due to hedge accounting. I won't try to go into that in too much detail, but basically we have to bring to market our debt, and that is the other side of the entry, and it moves, obviously, with each six months as we bring those hedges and cross-currency swaps to account. The net borrowings, you will see, have decreased by about $100 million, and we can talk about that more in the cash flow. But the most significant movement is, in fact, in the other liabilities area. That is made up of basically three things. One it is the other side of the entry for the deferred tax benefit that we have picked up from consolidation, which is over $60 million. It is capital expenditure that was on timed payment and so forth with the construction of Tullamarine that was sitting in the creditor's balance as at 30 June. It was also the additional payments that we had to make to finalise the INL transaction. As you know, we acquired it on 30 June and there was some outstanding items in there which have been paid. So they are virtually one-off reductions in our working capital.

As far as the cash flow is concerned, the EBITDA growth from $142 million to $222 million is obviously reflecting of both a major part being the New Zealand profit, and of course, growth in the Australian business. Key points to look at here, of course, you will the impact of what I just talked about in terms of the movement in our trade creditors or liabilities shows up in the balance sheet movement, so I won't go back over that again now. The interest cost, you can see, has changed quite a lot. I mentioned that when we talked about the profit and loss statement. At the bottom line, the cash flow is still $99.2 million free cash flow has been generated, and that is a pretty strong performance and has been able to reduce our debt, as you would have seen on the balance sheet.

The capital expenditure – we have said all the way along we would remit cap ex. Our net capital expenditure on the cash flow is $5.8 million. The actual outflow is about $9 odd million, offset by $3 million sale of the Illawarra properties. The dividends paid versus the net proceeds – that is on the shares – is obviously the result of the DRP that was put in place last year. I will hand back to Fred to go through the Australian operation.

FH: Turning now then to the Australian result. Increasingly, the way we are thinking about this business is as one business. We have integrated the f2 business in the commercial division under Alan Revell. We are increasing cross selling and bundling, and so here is the business as a whole, although, as I say, I will in a moment break out the printing business from the internet business. So if you look at that business – and I will pick the revenue apart in more detail, but you can see we ended up with revenue growth of about 5 per cent, which was a little stronger than we anticipated. We had a strong December, and it really is – and I will come to at the moment – a tale of two quarters. We had a lift in circulation revenues – a moderate lift in circulation – and then there is a minor change, I think, driven by some fewer syndications in the period in our other revenue. So our total revenue was up 5 per cent.

In terms of our costs, as I said, there are a number of things that are happening in this half that are not going to be sustained, and therefore, I just need to explain them to you. In terms of staff, that number is some millions higher than it would normally be because of a number of factors. Firstly, we did have some extra costs in terms of the Tullamarine start up. That is normal with any printing plant, but we had quite heavy additional overtime as we had to deal with a number of the teething problems of a new plant. Again, that is going well and we don't believe that will be sustained. (indistinct) we had some costs that got into this half because of the start up of product that we didn't really have in the last half, particularly Sydney Magazine and one or two other minor publications. That accounts for about a million. Then we had an accounting change that you would be familiar with – the way we need to account for bonuses, things that were accrued, came into the half because of the change in the bonus accounting. That accounted for part of the jump – another million or so dollars – and again, that is now in there and that doesn't get sustained. We also, with new product, had quite heavy contributor costs for some of the sections that we launched, and we need to work those out as we get the sections in and we reassign that work. So there are a number, as I said, of special factors driving that, and you shouldn't look at that and say, "Boy, there is an underlying wage inflation in this business of 5 per cent". There is not, but there are those effects that affected us in the half.

In terms of newsprint and paper – and the other point I wanted to make is our basic staffing is not rising. So as I said, they are things that we have had to address, either because of accounting reasons or because we have had some one time effects that have required either overtime or contributors. In terms of newsprint and papers, as you would expect, the savings flowing through in terms of the price reduction we have experienced, and if the Aussie Dollar stays where it is, we will expect to see something in that order or maybe slightly more going forward. Production and distribution, again, driven in part by the products that we have brought on that weren't in the cost base a year ago, particularly Sydney Magazine, a gloss production, but also, frankly, by some of the extra costs we have to incur as we started up the Tullamarine plant. As I said, that plant went through some quite normal but non-trivial teething issues in terms of lateness, and we have had much better performance with that, so we don't expect anything like that – that rate of costs won't be maintained.

Promotional advertising – I foreshadowed that, and that is very deliberate. We have spent a lot of money to give ourselves the capacity to improve our franchise and improve our product, and we have lifted our promotion and

advertising expenditure, but that rate of increase is not going to be sustained, but we have brought it back to a level that we think, looking at it in historical terms, but also looking at what we need to do – competitive activity and opportunity – is going to support the kind of revenue growth that we want to get going forward. Our other expenses, again, are rising at about or slightly below inflation. Again, as I said, it is an important sign for us that we are keeping tabs on cost control. So the drivers of cost that are in here are drivers of cost that all have, I think, business reasons for this half, but they are not numbers looking forward that I would expect to be sustained in anyway. So that then drives the EBITDA improvement of about 8 per cent, and you can see the margin improvements there.

As I said, you need to then pick that apart and look at it in terms of publishing and f2 while we continue to do this. You can see in publishing the revenue growth slightly lower and the cost growth slightly lower, although most of the abnormal factors that I talked about with you – the extra costs of Tullamarine, the extra product costs – come into here. So that is the revenue and cost picture, so leading to about a 5.5 per cent at EBITDA level, and a 3 per cent improvement at the EBIT level, and moderate improvements in our margins. So now let me take you through the pieces.

As I said to you, it was a tale of two quarters. When we spoke to you at the AGM, this is how the world looked. We had, I said, roughly flat, slight decline in our metro business. We had good growth in our regionals and community business – double digit growth there – but we also had slight decline in our magazine business. That is as we saw it, but we started to see the indications of a stronger second half. If you look at the second quarter, what we have been experiencing is 7 per cent growth in the metros. The communities and the regionals continued their double digit growth, again, at around 11 per cent, and the magazine business, in line with the much stronger display market that it lives in, experienced growth in the order of 18 per cent. So you had two quite different quarters, and when you add them up that is what drives the average growth rate over the half.

Let me again take that down a level. If you look, then, at this by category what is going on? As we said to you, we have had subdued markets in terms of our publications in the classified areas, and we have had some quite vigorous activity in the display areas. So if you look at the classified areas we have had employment, which is off about 2 per cent; we have real estate, which performed relatively solidly, particularly in that third quarter, and particularly, I think, we got the benefit of the new product that we put into The Age – the Express product – and the colour. So we ended up with something like a 6 per cent increase in real estate. Motor vehicles fairly flat. Other classified up moderately, but then strong growth in national display, and very strong growth in retail display, and as you would expect with the new plant, the ability to take more inserts is reflected in – it is a large percentage growth but only a million or so dollars – a big increase in the inserts business.

The issue I just want to say a few words about is the employment issue, because it is the one that I am most asked about. The classic question is "Is this cyclical? Is this structural? What is happening to your employment franchise, or more importantly, what are you doing with your employment franchise?" And I do think it is an important issue. It is certainly one that we, as a management team, and Alan in particular, is very focussed on. I will just

give you a little more shape around that business and then, in particular, some of the things that we are doing with that franchise.

If you look at the numbers we have given, without doing very many multiplications or divisions, you can see that in the half our employment revenue was slightly over $90 million. That is the 1.7/1.8. Divide 1.8 by 1.7 and you get very close – you get low nineties. So that is the employment revenue. A number of people have said is this in the throughs of a structural decline or is it cyclical? I think it is a tough question, and there are different views in this room. There are different views even as I talk to my colleagues. Alan and I had a very interesting discussion last week with the people from The Tribune, and having experienced what they thought were some of the structural impacts, they are not firmly of the view that their business is poised to benefit cyclically. We had conversations with advertisers who we ask about it are also equivocal. We had one advertiser a few years ago who said, "No, we think we will put ads on the internet" saying to us, "No, I think we need to go back into print". So there is still a lot of uncertainty here, but we need to take the view that there may be something going on here. The issue, from our point of view, of thinking that way is sensible and prudent, because all the things you would do if you thought the business was threatened are going to be even better things to do if the business is just cyclical.

Now, the arguments why it is cyclical are the same arguments that we look at every period, which is, if you look at the markets in New South Wales and Victoria – and these are not just the Fairfax markets, these are the whole markets – the ANZ market – you can see they are flat. But if you look at the print markets in Queensland and Western Australia they continue to grow. That fact just stays there – hangs there – and says to us maybe what is going on here is cyclical. But let me come back to this. So what we have is this debate – is it cyclical or is it structural? So it is important then to unpick the 90 or so million dollars. Of the 90 or so million dollars that is employment, there are really four components. Actually, on this chart there are only three because the internet isn't there. There are really three components. I will just give you again shape.

About $20 million of that is display. That is the front of the book type employments. They are the big branding ads for, I guess, your sorts of positions that you see at the front of the AFR, at the front of the Saturday Herald, the Saturday Age, and primarily, they are the vehicles for those. That is about $20 million and that market is a growth market. That market continues to growth because it provides access to the passive job seeking, and very importantly, it provides branding, both for companies who want to get into this employer of choice game, and it provides branding for agents. So you have got $20 million there. We think there is no cyclical issue there at all, and it is an area where we are going to get the benefit and are already seeing the benefit of colour, and the benefit of product improvements.

Then we have about another $10 million of the 90 that is in James Hooke's area – in the regional and communities. What we have seen is that those types of jobs – very much local jobs – are continuing to grow strongly in print. There has been no impact of the downturn. Their performance is much more like the performance you see in print in other states. So then you come back and say what is the remaining 60? The remaining 60 is largely the big My Career sections in The Herald and The Age. That is the dimension there. You say, what is likely to go on there? Well, again, we take the view that we

don't know. We have a strong view that it is cyclical and the cycle will turn because it is turning for those sorts of ads in other states, and we are seeing equivocal behaviour by advertisers. But if there is an issue, it is an issue with respect to $60 million out of nearly $600 million in Australia or $60 million out of what is a much larger number now with New Zealand in the picture. So that is the size of the issue.

The more important question is then, what do you do?

Q: Can you double that figure to get an annualised figure?

FH: Roughly. It is slightly 52/48 is the normal, so you can apply your normal seasonal mix to that. So you say, what do you do? The first thing – we are not just sitting around watching this trying to figure out what is going to happen. You have to take the view that we need to, therefore, build this business and defend this business aggressively. So what do we do? The first thing we have got to do is we have got to get our product right. We have made major improvements in our internet site, and I think they are really starting to come to fruition. We think we have a best of breed product, and we have made major improvements in our print products, and we have done a lot of editorial support. For example, the health section, the Radar section, and some of the inserted editorials. So we are working on the product and the look of the product, and the way in which we are presenting the product.

The second thing we have got to do is we have got to improve our selling effectiveness. Part of that has to do with bundling. When you talk to the US, people are saying, "The pure players aren't quite as cocky as they were, and the newspapers are coming back" and when we probe, as we did a week or so ago, what is driving it, it is bundled sales. It is selling people a combined package. So bundled selling has been really behind some of the resurgence in the US, and it is an important part of what we are doing here. We are also putting a lot of effort into sales effectiveness. We are looking very hard at the structure of what we're doing in terms of our selling. We have made a number of changes, but we will be making more changes, and particularly we are starting to switch more of our resource into outbound selling. Again, that is one of the lessons; as the market gets tougher you call out, you don't wait for calling in. We have all done some of that, but we are really looking and benchmarking how we are doing and what we need to do in terms of inbound versus outbound.

Finally, when you have that sort of an issue, what you seek to do – what any business seeks to do if you have a challenge in one area of your business – you clearly deal with that, but at the same time you put as much emphasis as you can on the other areas of your business which have growth. We are also doing that, and that is why you are seeing increased sections, and why you are seeing the investment in Tullamarine and Chullora, and in product in order to continue to drive growth in other areas of the business.

They are the four kind of things that we are doing. It is against that kind of challenge. As I said, it is a serious challenge. It is probably the most important we face. I don't have nearly the same concerns about real estate. I have talked with a number of you about it. Real estate is growing on the internet, but the market for real estate advertising is growing very rapidly. The value to the client of one more buyer is so high in these transactions that

what you are going to see is that real estate advertising is going to go to whatever venue will offer the potential for sale. We have seen very good results from the redesign in The Age, that in that last quarter, really underpinned a lot of that growth. So I think real estate will benefit from what we have done in terms of our plant upgrades and our product improvements.

So as I said, that is the revenue story. I just wanted to take a few minutes and unpick what is behind it and put it in perspective. I am not sitting here and saying it is all great. It is hard work. But what I am saying to you is we are on the front foot here, and we are working with a combined sale, we are working to improve our selling effectiveness, we have done a lot with respect to the product, and we are certainly giving a lot of attention to continuing to push other areas of growth with, I think, some encouraging results.

In terms of some of the other categories. If you go to the national display, one of the questions you always ask is what is driving that? It is very strongly yield driven. There is small volume increase – and about six per cent of the volume increase is yield. That is the very real impact of colour coming into the market – a 2 percentage point lift in yield. You see the same sort of thing in retail, which is particularly strong at the moment. We are experiencing the delight of store wars, and competing fashion parades, and all of that stuff that is terrific from our point of view. So that is the shape of the revenue as it has occurred. As I said, this is pretty dynamic, and a lot of the things we are doing that are having positive effect are in their very early days, but we are optimistic that we are on the right track. I showed you that. Then I will juts give you the volumes. You can see in display volumes there is a slight growth in The Herald, slight decline, slight growth at the AFR. I won't dwell on these. You can see in classifieds the nature of the consistent decline over the period. So if you go period to period decline you are getting 7 to 10 per cent declines in volume, offset in part by yield.

In terms of circulation, I think you all saw the numbers last week. I think there are some numbers that I am pleased to see, and there are some numbers, frankly, that I am less pleased to see, and that we have got to pay some attention to. I think in terms of The Age, we were very pleased to see The Age up in all of the audits – up on the weekdays, up on Saturday, up on Sunday. And I think, given that that was done in a period where we had some significant lateness problems, we were pleased to see that result. In terms of The Herald, fairly solid during the week. There was a bit of downturn on Saturday, which was the reversal of the upturn they had two periods ago. The Age was the opposite. It had a bit of an upturn, a downturn, and then flat. And in terms of Sunday, I think we have had a bigger fall than perhaps we would be completely happy with. But there is a balance between how much circulation we want to buy in a competitive market and how much money we want to make, and the balance – I am always seeking to make what I think is the right balance in the long term to deliver the earnings and not just buy numbers. So there is the circulation figures.

Again, what are we doing about that? We are beginning to strengthen what we are doing in advertising in promotion, which is something, while we were in the plant construction phase and in a very weak market, we frankly pulled back. I think you can see that, and we have explained that in the figures. We are putting a lot of effort into distribution. I think the very basics of just getting the papers out on time is something that now we have gone through a construction phase we would expect to see the benefit of. But as I say, I am

not putting that up and saying, “Boy, it is all great”. I am saying there is some good news in there and there is some challenges.

Tullamarine – I just thought it would be useful just to give you a sense. This is over the half. You can see how the colour usage has increased. If you went back a year it was, for the whole of the paper, about 18 per cent, and now it is over 40%. If you look at it in advertising, you can see the advertising impact of colour has tripled. You don’t see all of that in the numbers, because it has occurred over the period and we did give incentives. I think, Alan, was it the first month for real estate we didn’t charge for colour to get people in. So, you know, you don’t see all of that in this half’s numbers, but the underlying colour take up has been great, and we are starting to see that, particularly, as I said, in that last quarter.

In terms of commercial inserts, you can see most of that insert growth coming out of the Tullamarine plant, so it is really paying off there. We were able to do a couple of stitched sections and a trimmed section – the Agenda on Sunday. And the newsprint waste, pleasingly, because this is a still a new plant, has already come back almost a per cent. Which is actually one of the factors why the revenue is down, because part of our other revenue is selling our plant waste, and we have had less waste to sell. So in a sense that is good news. There is a track for you on how Tullamarine is starting up and again, why we are confident that there is more to come.

Quickly looking at f2, and as I say, f2 is increasingly an integrated business, and we will further integrate it over the course of this half. It did trade profitably at the EBITDA level, and I will quickly go to the numbers. It is at around break even, frankly, which is where we thought it would be. We do need to continue to push hard in the employment category. I think you will have started to see the advertising this half is a little bolder than it has been and a little more aggressive, and now we feel we have got our product where we want it to be, and we have the sales proposition clearer, we will be more aggressive in the employment. In Domain, it is really good news. Our growth in New South Wales and Victoria is very good. We are now number one in New South Wales. I know everyone puts out there own numbers, but we are now number one in New South Wales.

Our online news continues to do well. All of those businesses are benefiting from the way in which we are now selling it, and we have had that 52 per cent revenue growth, and as I said, it is an integral and complimentary part of our business, and we need to see it as a part of the business, both in terms of sales and operations and marketing.

So in summary, we have had a steady improvement in Australia as the market continues to improve. We are seeing the benefits of our investments – the investment, in particular, at Tullamarine, but also at Chullora. We have got the cash flow benefit of tax consolidation, and we are maintaining the cost disciplines. Now I will turn to New Zealand quickly, because there is not a lot of comparative data, but I will just give you what will, I am sure, become first data points going forward.

In terms of our highlights, as I said, it has been an excellent acquisition. It has had great revenue growth. Its costs have been below expectations. The predictions of disaster because we had 3 per cent less people turned out not to be quite accurate, and we had a lower cost base. That is what happened.

The EBITDA, I think, for those of you who came on the New Zealand trip, we are thinking of something like NZ$75 million, and if it came in that would be consistent with a full year in the order of NZ$140 million, which is what we foreshadowed. I am sure some of you might ask Brian, but we had a very good December.

This is the P&L, and again, there is not really much to talk to. That is the P&L. It is a slightly different shape than the Australian one, and if you look at the comparison classifieds are a much lower percentage. If you look at Australia it is roughly 40/40/20. In New Zealand it is much more a more revenue out of cover price, more revenue out of display, less revenue out of classified, and then there is other sources of revenue, mainly printing. So it is a slightly different revenue profile, and from our corporate point of view, it is great to have that diversity of revenue bases, which gives us a lot more solidity in terms of the earnings and the earnings growth.

The growth that we experienced is pretty much everywhere. You say, "Where is the growth?" It is pretty much everywhere. If you look at the advertising revenue growth you can see the metros at around 12 per cent, the regionals at about 9, the communities at about 9. The magazine's 37% – no, we did bring genius to the magazines, we got the full year effect of Cuisine. INL bought Cuisine half way through the year, and it wasn't in the half to the same extent it is in this half. So the underlying growth (indistinct) is about the same as display. The underlying magazine growth is about the same as display, but we got a full year effect of Cuisine, but it is a relatively small part of the total number.

In terms of how the various components of revenue grew, you can see, again, the bigger grower is display, up nearly 14 per cent, but classified up 6, inserts up very dramatically - some of the revenue actions that we had taken to create our inserts really paying off. Circulation up quite solidly, a little bit in terms of numbers, but largely in terms of price, and other revenue, again, the printing up in line with those other areas. Circulations – the Dominion Post is off about 3 per cent. That is largely the settling down of that paper. You will recall that when we took over the company, the two papers – the morning and the afternoon paper – had been merged into a single paper. There had been a lot of hype around the launch, and it is now settling down to what is a pretty healthy level of circulation. The Press in Christchurch – the other big paper – is essentially flat. We are very pleased with the Sunday results. I think they reflect a number of the improvements that we have made to the paper and to the distribution of the paper, and we have positive circulation results. So basically solid and good news on circulation in New Zealand.

Lastly Text – Text is being delisted today and we are proceeding with compulsory acquisition. There are no Text numbers in these numbers. We have an integration team. It is going fine. The benefits that we expected to flow we are seeing as achievable. So the plan that I put to the Board in terms of justifying the acquisition is in good shape, but we will report fully on that. It will be in this half. As I say, we have got teams underway working on that.

What are our priorities? You wouldn't expect they are no different than they were last time. As I said, the key priority across all our businesses is the quality of the franchise – to make sure that the product we have is well aligned with reader needs. A lot of Mark's efforts are really starting to look very hard at that in terms of other sections, is the structure of the paper right,

are we taking the approaches, and do we have the editorial mix and the look and feel of the paper that our customers want? So I think that is going to really continue to be important. It drives redesigns like an Agenda section on a Sunday or an S section in the Sun-Herald, or an Express section in the main real estate in Melbourne. So I am saying what is the underpinning of that franchise quality and a number of things we are doing in the Fin like Life and Leisure. A lot of new growth initiative. It is going to continue to be important. We are very pleased with the revenue growth that we have been experiencing, but we have got a long way to go still in terms of all of these things – the product, the packaging, and the sales effectiveness. I flagged that a year ago, and these aren't dials you just turn, but these are improvements that you have to bed in over time. We did announce today a very appointment in Alan's area – a National Display Sales Director, who has come to us with outstanding experience, and maybe Alan can talk to that if you are interested in that.

We need to continue to get our return on new capacity, and that is through the products we offer, through the colour, but also costs, and I should have added there, timeliness, because timeliness is important in our markets, and it is an area we had problems with when we had limited capacity and we now need to really address. Continuing cost control – we can't take our eye off and we haven't taken our eye off that ball. Successful performance in New Zealand – and one great half doesn't make New Zealand transformed. We are working to a three year plan and we will look to lengthen that, but we are working to a three year plan. A number of the initiatives we have taken are the things you could do relatively quickly – purchasing type initiatives – and they are still coming in and rolling in, and some of the staffing issues in terms of costs.

The revenue initiatives that I am sure Brian would be happy to talk to if you would like to ask him, are really only starting now. They are really not in the numbers. Hopefully they will give us some continued earnings growth, and as that market moves through its less pronounced cycles. And then finally, the only thing I added to our priorities is the integration of Text Media, where we need to make sure we basically deliver the benefits that we believe will make it a good acquisition, and as I say, early day but in terms of the planning of that and the more detailed work, that is going well.

So finally, the question you are all asking is outlook. Every year at this time we say roughly the same thing, which, when you cut through it, is it is really too early to say. I have no reason to think that trends in the media market are very different from what there were last half, but I really don't know and I don't think any of my colleagues do. We have had two, at the most, what I would call normal weeks, because January is always unique in terms of how holidays fall, and school holidays fall, and weekends fall. So we have a lot of trouble reading the tea leaves at this time. We give you much more precise guidance at the AGM because we have had three fairly normal months, and you get a fairly clear outlook through to Christmas. But we don't have any clarity here, except that we have no reason to think that what has gone on in the media market won't continue to go on in the media market. So you can read that, and that is about what we feel comfortable at this point saying in terms of outlook. I would be happy to take questions, and also field some from my colleagues. Protocol – take a mike and say who you are, because we will also take questions from people on the phone. We are miked up, so if you have questions, by all means.

Q: Mike Mangen from Deutsche Bank. Just on Tullamarine, this was the year when we were supposed to get some significant cost savings coming through, and it sounds like, in the first half at least, there were some extra costs. My Melbourne spies tell me there is still some delays in the paper on Saturday, at least. I was just wondering if you could talk about those?

FH: Sure. I am trying to put the graph in my head. One of the closely watched numbers here is lateness out at Tullamarine, which we are not happy about, but does occur as you bed the plant down. The plant started actually surprisingly well. It was almost too good to be true. In the first three months we moved pretty much up to an 80 per cent on time running, and then it dropped off. It dropped off and we had, particularly in November, some really bad Saturdays. We have made a number of changes in terms of things like the time at which images are delivered from editorial, in order to basically buy the time that new plant needs when they end up doing things for the first time, depending on the size and make up of the paper. We had quite a good run through to Christmas, and a good run up to last Saturday. Last Saturday we had a bad run, and we think part of it was the corruption of the images. Is that fair Mark? I am not blaming you, but it was the corruption of the images that came from the editorial, and again, that is one of those teething problems you don't get one week and then one week you get it, and then you diagnose it, and hopefully next time you either fix it more quickly or you don't get it again.

But if you look at the underlying trend at Tullamarine, it had a good start. It then went where you thought it would be, and it has been improving. I was a bit annoyed about last Saturday, I have to tell you. It either spoils or helps my golf game, because the first thing I do when I wake up is get the production reports. It is closely watched. On the other hand, we have been benchmarking this against other plants in the world – the Irish Independent put in similar equipment – and we are tracking well, but we do still have lateness. I don't think I ever said to the market this was the year when we would get the benefits of Tullamarine. Tullamarine – it is one year to bed down a press, and it is 18 months to bed down a complex mail room. That is the industry standard when you build a new plant. Chullora was three years to do those things. We are well on track. If we hadn't had last Saturday we would have had a number of weeks – consistently six, eight weeks over 80, including some of the big weeks. We had some small weeks, but we had some big weeks. So it is carefully watched. One of the reasons Peter Graham isn't here is because he is in Melbourne. It is a top priority of our people.

Q: Justin Bradley (indistinct) Management. Slide 12 depicts a half made up of two quite different quarters. In the first quarter, advertising revenue growth was negative. In the second quarter, advertising revenue growth was 7 per cent for metro. Could you just give us some better granularity in terms of the make up of that acceleration in growth in the second quarter? Was that driven all by display, or was there a turnaround in some of the classified segments there also?

FH: Alan, do you want to get that? He is happy for me to answer it. (indistinct) correct me, but I am going from (indistinct) very strong in the third quarter, and real estate really started to pick up very strongly, and particularly in Melbourne. As I said, that was about the launch of the Express section. The

employment continued at a fairly weak level, although the front of the book employment was strong. That is roughly the shape. That is pretty accurate. That is the metros, the other part is self-evident.

Q: Peter Short from ABN Amro. Two things in the results I found slightly surprising. One was that depreciation was low versus my expectations, but can I ask why it was below the second half of last year? My second point was the tax rate seemed to be somewhat over 32 per cent. Is that there for the full year? Thirdly, can I ask, on your outlook statement, what does "steady" mean? Does it mean flat or the same rate of growth?

FH: I will let Warren answer the two hard questions, and then I will take the easy one.

WP: (inaudible), so it is quite low. In the second half, we would expect it to pick up a little bit more up to your expectations, so probably up around 45 or so in the second half. That is the prediction for the next half. Obviously, we are not predicting to go under our cap ex target originally, so it will accelerate in the second half up to our expectation. Tax rate – obviously, we now have a mixed business between a corporate rate in Australia of 30 per cent base, and a New Zealand rate of 33 per cent. Then we will have the normal timing differences and permanent differences in the calculation, obviously the permanency issue. We would normally run about 1, 1.5 over the base rate, so if you combine the two together you will end up with an average rate of around 31.5% to 32%, just depending on the spend. What I mean by steady is pretty much what I said to you – that we really haven't had comparable weeks, and steady means we have no indication that the pattern there isn't going to be similar for that of the first half.

(inaudible question)

WP: No, it doesn't mean that, because all the weeks are different. The one reason I don't give it is because it really doesn't mean anything. We do have a budget, because in our budgets we anticipate the weekend effects of the different fallings of holidays, and the late Australia Day, and all of that stuff. We are travelling, versus that, about how we were travelling in the first half. I really don't want to go into it beyond that, because it is not meaningful, unless we get into gory details. But frankly, we don't pay much attention to it. As I say, it is not going to help inform you. Let me explain our process. We haven't even started our second half reforecast. We will start it in a couple of weeks, because it is just a waste of time until you start to see a decent set of bookings and a pattern that you can give some reliability to. So we haven't even started. We do reforecasts every quarter. We haven't even started our reforecast process and we don't until middle/end of March. That is when we'll do it. So given I haven't even done it, other than as I normally do, with the Board just to give them some reassurance about where we are heading, I do pretty much what you do. I don't get into the gory detail by publication, by week, for a couple more weeks at least.

Q: Fred, just a couple of quick questions from me. Firstly, on the dividend. You reported a 24 per cent increase in earnings per share.

FH: I never mentioned the dividend, yes.

Q: And the dividend was probably a little lower than I was anticipating, particularly given your comments on payout ratio previously. Can you just give us some background behind that decision?

FH: Yes. I think the Board is prudent in terms of dividend. That just seemed to be a number that everybody was very comfortable with. It keeps options open. The pattern of dividends, in any event, is it is more a year end decision than a first year decision. You shouldn't read anything into it other than – and the trouble is the lumps. We weren't going to go into quarters, and do you do 5.25? Do you do 5.75? It was really let's get a round number, and let's make it relatively simple and clean, and 5.5 cents per share seemed like it was good number that signalled the right direction. It is really the number the Board will focus on. With a fairly brief discussion, it is the number the Board will focus on at the full year, because that is really when we will look at the policy, look at the payout, and we will follow the policy.

Q: Two other questions. You talk about one off costs in the first half, and you obviously talked about higher than normal promotional costs. Can you give us a feel for what sort of one off costs there might be coming through in the second half?

FH: I think the promotional expenditure will stay above where it was last year, but what I am saying is, don't project that through at that rate of growth. Whether it is quite at the level of the first half, again, we will look at in our reforecast, and we will look at in terms of what worked, what didn't worked. That is work that we are doing. I can't give guarantees on whether lateness will require it double run our trucks. Again, let me explain, if we are running late it is more important – I think Mike's question – the most important thing for us is to get out as close as we can to on time. So if we are running late it doesn't mean that the whole paper is late, it means that you have got a slow flow. So what you do is you double run. You run the trucks twice so that the newsagents at least have something for home deliveries, and something to put in stores. I can't give you guarantees that won't occur, but I do not expect that to occur to the same extent as it occurred in the first half. If you looked at our graph, as I said, the on time performance gets better, and as you get to that 80 per cent you don't incur double running. And when you are late but you are not as late you don't incur double running. So that is something I don't expect to occur. Some of the accounting things I talked about I don't expect to incur in the next half. The product that I talked about that weren't in that half a year ago were in the half, so the comps aren't going to be there year in/year out. There is probably 4 million or so in those items, just to give you a sense.

WP: Don't forget also we have got the Spencer Street closure costs, which will be one time.

Q: Roger Coleman from CCZ. On slide 21, just the revenue and cost split between subscriptions and advertising components. What is the stronger of the two, and have you really picked up on subscription revenues in that division? (inaudible) of where the cost and revenues get split between subscription and your advertising based sites?

FH: It is primarily advertising. The subscription, in terms of - - -

Q: Archival news.

FH: Archival is relatively small. It would be a few million. This is primarily an advertising business. Of the advertising business, roughly half is the display adds, primarily with our very strong news position that has given us a great opportunity, and we believe we are increasing share there, and the other half is the classified businesses. They have also been growing, largely driven by the bundled sale.

Q: The second question is, did one of your Board members take a proposition to merge Fairfax and Census effectively, and if the Fairfax Board knew he was doing this, have you done any calculations of the benefits thereof?

FH: As I said, I don't have a Telstra person here, but I can answer that question. That is, I think, one of the nastier and lower quality pieces of reporting that we have seen out of The Bulletin. One of – yes, one of. I just don't know where they got that from. It is absolutely untrue. I have denied out, our Chairman has denied, he has denied it. They didn't call us before they wrote the article. They didn't call to check. It is just untrue.

(inaudible comment)

FH: Our Board members don't work like that. The way we work is the way any properly governed and managed company would work. If you look at the acquisitions we have done, of course, the Board is integrally involved, but the details of that and negotiation of that is the team in this room.

(inaudible question)

FH: The answer is no, we have not. What I have said publicly – and I am happy to repeat it here – is we had a number of discussion with Sensis, and they did start a year or so after I came, so probably 1999. As a result of those we ended up selling them City Search. We did that and we were happy with that. We have an ongoing content relationship. I have discussions with all of the major media companies here about opportunities, as you would expect me to do. The process we go through is if they look like they are serious, I would ask Rob Antulov, who is our Strategy Director, to start doing some work and give me a paper. And if it really looks serious, then we would take it to the Board, and they probably then would say "You had better get some advisers".Let me tell you where we are with that idea. Rob hasn't done a day's work on it.

(inaudible question)

FH: As I said, there is no one from Telstra here. We are at the wrong meeting I think.

(inaudible question)

FH: What they do is their business. I am delighted if they feel there is some value. I am delighted to consider every proposal – it is my job. Things that improve shareholder value I will look at, and things that don't improve shareholder value I will resist.

Q: (inaudible) from Southern Cross Equities. Just wondered what your expectations were for cover price increases for the remainder of this year? Also, we have seen some fairly aggressive retail offers from your major

competitors. I just wondered whether you have seen that having any impact on circulation, and also, whether you feel inclined to match any of those offers?

FH: Circulation – you can see the circulation numbers. I don't think the issues have to do with their cover prices. We don't believe that aggressively discounting cover price is consistent with our market positioning. I think you de-value your product, and if anything, we would like to go the other way. We don't have any immediate or major cover price increases planned, given where we are and where competitors are, but it is something we keep under review, and it is something that we will play in terms of the competitive dynamic. I don't know if you want to add to that Alan, because you have got the marketing – have we got a speaker for Alan?

Alan Revell, Director, Commercial Division:
I think as Fred said, it is always on the agenda and in our planning process going forward we will take a solid look at it. Some of the issues that we are seeing on Saturday with circulation we are getting to the bottom of and just trying to work out if there is any price sensitivity involved in all of that. We don't think there is, but we are talking to readers and seeing what they say about it. As soon as we think the market is right for us, then we address that in the normal course of our business.

Q: Lou Caparelli from Goldman Sachs JB Were. Your comment before about employment revenues being around about 60 million in the half in classifieds – so let's call it 110-odd in a full year. Where is that relative to where they would have peaked in 2000? I assume 2000 would have been the peak?

FH: 2000 was the peak in employment, and I really do not have that number in my head, but I would guess 25% off, is that right? Your guides had some of that. In that component? 25-ish because we have had volume decline. You can see off the ANZ thing the volume decline is in the order of 30, 35, but we have had yield increases in the 3 or 4 that have offset that. So it is 20/25. That is where it is relative to (inaudible). That is the component that has taken the brunt?

Q: This is just on New Zealand. How close do you think we would be to topping out of the cycle in New Zealand.

FH: Mr Evans you have to come up here. Before or after the floods?

Brian Evans, CEO, Fairfax New Zealand:
Yes, that's an interesting one. When you talk about the floods, some people might say that the devastation was actually not that great, and where it is actually on the middle of the North Island it is important, but it is mainly a rural area that we are talking about. But that rain has actually been very good to break the drought that we have had in New Zealand, so that is actually quite a balance from that perspective. I think when you talk about the top of the cycle, I think it is a strong economy and a strong market, but there is nothing that I am seeing that is actually saying that is changing dramatically. So we think it has still got some life left in it at the levels it is at. There is no sign, particularly in the advertising area, of that changing whatsoever. I guess the only issue will be the New Zealand exchange rate with the American. That is maybe an issue for farmers particularly. But we are not seeing in the rural

areas, for instance, too much cutback yet, in a sense, from farmers. There are still continuing to spend. So the market looks very strong.

Q: John Moran from JP Morgan. Following the recent industrial action in Melbourne, can you give us a feel for whether the printers have put in a log of claims, what actions you have taken as a result of that strike action, and also what your expectations are from here?

FH: Going through what is unfortunately normal behaviour in Victoria in terms of continuing to reshape our business and get it on the right kind of productivity footing and viability going forward, and we are in the middle of an industrial dispute, and I would prefer, frankly, not to comment on it. I think we have come through the first bout of that in a way that was unprecedented, frankly, in the company, because the papers came out and were produced with basically staff labour. That is something we had lost the capacity to do and have now regained. I think that was a very important thing for us.

Q: Alex Pollak from Macquarie Equities. Just looking at slide 15 and 16, I have just got a couple of charts here just looking at volumes on the display side and the classified side. And if I look at the classified side there, the Sydney-Morning Herald was down 7.2, The Age was down 10.5, and for display the Herald was up 3 and The Age was down 2. Those down volumes, generally speaking, have managed to translate into revenue growth of 3, 4 per cent. Is there some compound of the revenue here, or what quantum of rate increases have you put through over the last six months? How much of that is colour rolling through, et cetera, et cetera?

AR: We have really had a very close look at the regime in Melbourne particularly, and the relationships with advertisers. As contracts have come up for renewal with our advertisers we have endeavoured to do, really, what Channel Nine has done, and that is really wash out bonus space that we give advertisers. We have driven very strong increases based on their commitments to us, and the colour opportunities we put in front of them. And what we are taking back it bonus space. So that has had an impact on volumes to a degree. I am pretty half full rather than half empty I think about looking forward, particularly on the display side. I think every brief that I get these days is talking about the opportunity for contracts with us to be substantially increased. All of our significant negotiations that are going on now are about more money rather than less money, and we are very positive about those big display components going forward.

Q: And the classifieds?

AR: In classifieds I think we are very confident about our positions in real estate, particularly in the Melbourne market. I think the opportunity to work with the Text acquisition has given us more strength in that market, and I think it will give us great opportunities to provide really good solutions for all of those leading advertisers that use both The Age and those suburban titles. We can see good market share – increased opportunities for us there.

Q: But do you want to put a figure on the rate rise?

FH: We put rates up about 4 per cent, if that is the question. Real estate is a great example, because of the classifieds, motoring always had a lot of colour because it was largely a big section, and we always had a lot of colour in it.

But real estate, if you go back to The Age – and it is interesting to pull one out. Go back to last June, and it is line drawings – you know, those little line drawings of houses. And if you look at it now, there is maybe a few line drawings that some of the agents like for its artistic merit, but most of it is colour photographs, and with colour has become increased size. We did get colour premium. We didn't get it the first month because we wanted to change the behaviour, and that also had some costs of conversion, because they had a cost structure around line drawings and all that. And initially, I don't know if you remember it, I think we talked about it maybe last time, but when we first were getting the colour photos from them, they were awful, because they were sending us the same kind of colour coding that they did to gloss, and when you put it into newsprint you got purple roofs and all sorts of things. So we decided the best way to deal with them was to give it to them free for a while and get them used to it. But if you look at it now – the issue that we are focussed on and that Alan is focussed on – I think all of us here – Mark, James is helping with – it is a team effort here – is the employment franchise and using our strength as a whole. One of the nice initiatives I talked about – out selling. We started out selling across the suburbans and the Herald in employment, and we had one week but we had a great week doing that. I think that is where our focus is. We are not as worried about the others. But we have had a very strong yield growth, and we have cleaned out a lot of bonus space, both in display and in classifieds, where people were getting free stuff. We have made changes in our sales organisations for that reason.

AR: The changes in real estate that Fred talked about – we did say the last time we were here that we were moving to a look and list environment rather than just a list environment in real estate, and that is really what we have done. We have converted the line drawings into colour photographs, and that is really where we want to be.

FH: Can we stop now, because no one on the phone has had a chance to ask questions. So maybe we will take a couple of questions from the phone and then see how we are heading. I am also conscious of the time.

Q: George Coleman from Citigroup. Fred, there is a lot of great disclosure here. I just had a question on colour. Can you further disaggregate the revenue effect of the increased colour capacity? I didn't quite catch your comment on display. Did you say that 2 per cent of the 6 per cent yield increase was due to colour?

FH: Roughly in order of magnitude.

Q: But that is not the whole story for the half from colour?

FH: That is the half number.

Q: But I am saying, have there been other effects from this colour capacity other than just two of the six?

FH: I am not sure I understand the question.

Q: In terms of the total revenue effect, you mentioned specific the rate loading. Has there been a volume element do you think that you would care to quantify separately from your earlier comment?

FH: We have had some increased volume in display, but it has been in a strong market. I don't think Alan would attribute that to the colour. I think it is helpful to us to be able to say – we could always put an ad everywhere, we just couldn't put it in colour. Now we can put the ad in colour. I don't know, Michael, if you want to talk about (indistinct). You have got a bit more volume in your centre, but that wasn't coloured constrained, and your Life an Leisure.

Michael Gill, Publisher and Editor-in-Chief, Fairfax Business Media:
If you look at the volume chart for the Fin Review, it is quite big in this half because two things. One of them was we were able to do the Life and Leisure thing, which is full colour, which we hadn't done before, and it is a retail rate. So the yield effect there is less than the volume effect. But overall, Melbourne was our constraint for colour, which means that nationally we can offer colour in many more places than we could before, and all of clients, generally speaking, branded colour.

Q: Fred, can I just come back quickly on the earlier question on first quarter versus second quarter trends, with specific reference to real estate? Did you say you had a sharp increase in that category in the second fiscal quarter?

FH: Yes.

Q: Patrick Russell from Merrill Lynch. Just a couple of points of clarification. On the costs associated with Tullamarine and the Sydney launch, what was the total cost? Was it 4 million including Sydney, or was that?

FH: No. I said all of the costs driven by the accounting change, by the comparable product mix – that is, product not in a year ago but in now – and by the lateness problems that we have. The totality of those costs and the accounting change added up to in the order of 4 million. It was the total of those factors.

Q: And the Sydney launch on top of that?

FH: The Sydney launch was minor because we added one press and we had less disruption. We had a bit of lateness, but really, Sydney has continued – we haven't had to double run trucks in Sydney, because we have had the bulk of the plant in place.

Q: Also, in relation to the New Zealand guidance, you said trading had been strong post balance (indistinct). Is that in line with the revenue increase in the first half with reference to Australia, or is that actually accelerated on that baseline?

FH: Again, we have got the same New Zealand issue. I think Brian was giving his expectation and feel of the market. We had the same week on week comparison issues that we have in Australia. As I said, it is a different profile of business – over 40 per cent display where you get a bit more visibility, less classified, and a very significant portion in those other streams – the circulation revenue and the printing revenue – and so you get a bit more visibility. I think that is just your sense of the market rather than "Here are the results for weeks one to five". We just don't want to get into that because they are not comparable.

Q: Also on dividend policy, can you just reclarify that? Is it still minimum payout of 70 per cent?

FH: Yes, through the cycle, and we said through the cycle. They were the words that the Board used, and that is what they will be applying over the year. But the number we will look at is the 10.4 not the 17. We won't be paying dividend on the tax consolidation (indistinct). We will be playing dividends on the pre-significant amounts, in line with that policy, but the real discussion of dividend will be full year.

Q: Brett Hucker from Merrill Lynch. I will just withdraw that, my question has already been answered.

FH: Any more here? I am happy to wrap up pretty soon.

Q: Peter Debrodie from Citigroup. Just a question about the customer base. What proportion of the advertising sales came from new customers who were either enticed to advertise in the newspapers for the first time due to colour or other reasons?

AR: I don't actually know the answer to that, but what I can tell you is that with our magazine strategy, clearly, with magazines like Sydney magazine, which we launched a year ago, and with Good Weekend, and Sunday Life, and others, it allows us to approach advertisers that are not traditional newsprint advertisers – certainly, newspaper advertisers – and to put a different offer to them. We are seeing good success, particularly Sydney magazine we are very pleased with, and Good Weekend is achieving very good results for us. So different opportunities through different product sets that we can offer the market.

FH: But our major advertisers are a pretty constant set. In terms of how we organise – and it is again, one of the changes Alan made which I think has been very good, is putting a real focus on the big advertisers, and driving forward the volume from those. That has been – probably a disproportionate growth has come from your top team advertising.

AR: I try to apply the 80/20 rule. Most of our money comes from the top 20 or so advertisers, and we have developed a key account management approach to those advertisers. We treat them like the VIPs they deserve to be, and we are seeing good results working with the agencies and clients.

Q: Peter ? form ABN Amro for a couple more. I wanted to ask a couple of questions on employment. Your discussion of costs generally talked about simply explaining the increase versus last year, as if last year is an accepted baseline. Going back to 2000, and the decline you have seen in the employment advertising base, and the overall shrink in Australian revenue, is it acceptable to assume that last year's cost base is acceptable? You made a comment on those employment charts, talking about how the issue for Fairfax is to change its product, improve its more effective selling. It actually looks like it is just a matter of sitting and waiting for the market to recover. I guess my point is that that market might not recover, and so why is that cost base that was related to the 2000 revenue even acceptable in the first place?

FH: It isn't, and if you go back over the cost track which, I think, we gave you in the last period, I think it is just wrong to say we have been sitting on our

hands in terms of costs. We have had good cost control and good cost improvement since that period, and over the period we have had some discontinuities this period, which in a newspaper company to have one major new press and a major press upgrade is not exactly a trivial event. I am very proud of the way our team has handled it compared to the history of these kinds of introductions. Again, the other number that is very important to us is the margin in the business. We are EBIT focussed. If we were cost focussed I would have said no more promotions. But I think you have got to be EBIT focussed, and if you make investments in a business, you have got at times build franchises, and at times you get the benefit of the franchise. But I just don't for a minute agree, and I don't think any of my team agree we are sitting on our hands waiting. If this is sitting on our hands waiting, I would like to see what working is. I think we would all be dead.

Q: No, I am not suggesting for a moment you are sitting on your hands, but I guess the recovery in employment is really going to come from cyclical pick up, and you don't know whether it is cyclical or structural.

FH: Which is exactly why we are really cleaning up the ad base, and moving in hard on yield, which is why we are improving a number of the sections which are not so effective, which is why we are looking hard at product introductions, which is why we have reorganised the magazine division, which is why we have appointed and made changes in our sales organisation in terms of display, and which is why we have got the sales and the display results that we have. So, as I said to you, there are four pieces to our response, not one of those pieces is sitting on our hands. Part of it is growing outside those areas. I want to put that area in perspective for you, because we are no different to any other company which has 10 product lines and one of them has some challenges. Nine of them look pretty good, and I think that is the way – whether you take the 60 or the 115 or however Lou annualised it – that is the way you should think about the company in terms of the various components. We have some challenges in some areas – every company does – but I am trying to give you a perspective on those. We have a lot of action underway to deal with those, and we have a lot of action underway to re-shape the business. If the business is re-shaped it will have a higher revenue base and a higher cost base. It may, particularly if we made this more a magazine business, magazine revenues and costs are quite different. If we made it more a suburban business it could go the other way. We are seeking to maximise the growth in the earnings per share, and it is driven by the EBIT. This is not a single variable business. We are looking at the various components. I am quite happy, and we have benchmarked what is our editorial productivity like, and we look hard at that and improve it. What is our productivity like in magazines, and what is our productivity like in our suburbans, and what is our productivity like in our printing plant? They are the things that matter. You get the aggregate. The aggregate does matter, but what really matters is can we deliver the growth in EBIT and earnings per share, and that is what we are on about.

I am going to call it to a halt. I thank you very much. I will, I am sure over the next week, see you more than you may want to see me, but I would be delighted to pick up further questions. Warren will be available this afternoon if you have detailed questions on the account. Thank you very much.

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