

**Transcript
Briefing for Analysts
Financial Results to 31 December 2002**

Wednesday, 12 February 2003

1 CONFERENCE CO-ORDINATOR: You are with Mr Frederick Hilmer
2 for the Fairfax half-year results announcement on
3 Wednesday, 12 February 2003, at 11.00 a.m.

4
5 MR FRED HILMER: Well, good morning, and welcome. I'm so
6 sorry the ASX had a little bit of a glitch this morning
7 in getting announcements out, so some of you may have not
8 got this as early as we sent it, but I think everyone has
9 now had a chance to read the announcement.

10
11 We will follow the normal process, which is that I will
12 give you a bit of an overview, then Mark will take us
13 through the numbers, and then we will talk about the
14 businesses. After that we will take questions. But we
15 will when we get to questions with the number of people
16 who are linked in here through telephone in Asia and in
17 Melbourne, so we will have questions from them, but also
18 if you are asking questions if you would please identify
19 yourself and give your name and organisation and we will
20 get a mike to you so that the people at the remote
21 locations can hear you and participate.

22
23 A number of my colleagues are here today, and I think you
24 know them - Peter Graham, who is Director of Group
25 Operations; Michael Gill, from the AFR; Nigel Dews, who
26 is running our Commercial and f2 divisions and a number
27 of our other colleagues are here as well. So, as I say,
28 welcome.

29
30 When I talked to you I guess six months or so ago I set
31 out four priorities that we were really giving most of
32 our time and attention to. If you cut through this
33 result, what it says to us is that we have been
34 successful to this point in pursuing those priorities and
35 we are going to be continuing with those priorities in
36 the forthcoming period.

37
38 Now, the first of our priorities was to bed down our new
39 production capacity so that we would get the benefits of
40 that going forward and over a number of years, and we had
41 all sorts of stories about, you know, would Tullamarine
42 be yet another Chullora in terms of blow-outs of cost.
43 It's finished, it's operating this week. It printed about
44 60 per cent of *The Age*. It's, according to the people who
45 are working with us from around the world, one of the
46 best start-ups that they've been involved in, and so we
47 are very pleased that that element of uncertainty is
48 really off and that the plant is coming up very well.

49
50 The same story at Chullora. I think the last colour tower
51 will be finished in a couple of weeks, and we have
52 already had the benefit of additional colour capacity
53 which helped us in the display market in the
54 pre-Christmas run-up, and, again, that is being done

1 within the budget parameters that we set, and it's being
2 done on time, to schedule and working very well. That's
3 been a major priority for us, and that's really the
4 starting point.

5
6 The first thing we had to do was get, you know, what is
7 over \$300 million of capital spent within that budget
8 with plant that is going to work, and the next thing we
9 need to do, and that's where all of our attention is at
10 the moment, is to make sure that we can get the
11 commercial benefits of that. So we are currently working
12 on things such as training staff, the sales staff, in
13 terms of how we can roll out the benefits of what we are
14 now able to offer to the market. That's increased colour,
15 increased inserts and overall better quality. I mean,
16 it's very good sort of tidbits of news, but of the
17 material that we've printed at our new facilities, we
18 have given zero advertising credit - zero. We've had
19 100 per cent quality from start-up. That was our first
20 priority, and it's an important one to us, and we are
21 pleased with how it has gone.

22
23 Our second priority was to make the reorganisation of the
24 revenue functions in the company work, and we are bedding
25 that down, and we have been very pleased with the results
26 that we are achieving to date. We've had the Commercial
27 division, which is really focusing on a number of the key
28 categories in employment, in automobile and real estate,
29 and we have the publishers focusing very hard on the
30 display parts of the market, and I will take you through
31 some of the numbers, but the revenue results that we've
32 achieved are partly due to what was a good second
33 quarter - you can overblow this - a good second quarter,
34 but also in no small measure due to a number of sales
35 initiatives that are starting to fire throughout the
36 group.

37
38 The third priority for us was to keep a lid on our costs.
39 Well, we have done that, and, again, I will take you
40 through that. While the overall costs came down, a large
41 part of that was the result of the closure of CitySearch,
42 but our publishing costs went up only marginally, and I
43 will explain that if you look at our metros, our ongoing
44 metros, our costs were actually flat. So that was our
45 third priority.

46
47 And then our final priority was to reposition f2, and we
48 made the statement that we were going to come in with a
49 loss under \$10 million, and you will see in the half that
50 we are well on track to do that with a loss of under
51 3.5 million on the half, at the EBITDA level a loss of
52 1.4 billion, very close to break even, and that was
53 driven by a tremendous increase in revenue, an 85 per
54 cent increase in revenue.

1
2 They were the priorities that we set, and they still are
3 our priorities, and in terms of the presses, we've got
4 them in place. We've got to keep them working, we've got
5 to bring them up in terms of their capacity, but we also
6 have to get the commercial benefits.
7
8 In terms of revenues, we've started a number of
9 initiatives but we are still in early days.
10
11 In terms of costs, as I said, to you, that's going on all
12 the time, and that doesn't stop. And in terms of f2, we
13 have had a lift in f2, we've had a restructuring of f2,
14 and we are now looking at taking it towards
15 profitability, but the same priorities remain, and
16 they're, as I say, the things that have underpinned this
17 result.
18
19 I will just go through some of the headline numbers and
20 then Mark will take you through the details.
21
22 Profit after tax, \$70 million, the same number whether
23 you look at it pre-significant, and in comparable terms
24 the number of pre-significant is up enormously because we
25 had the significant items through the CitySearch write-
26 off, but on a pre-significant basis were up 48.8 per
27 cent, and earnings per share, you can see that. It's
28 driven very largely by revenue, trading revenue up. There
29 are two things, and I will come to that in a minute.
30
31 There was good trading revenue in the second quarter, and
32 there was a reduction in the losses from f2, and those
33 two things together drove it, but, really, the
34 improvement in the outlook that we reported and then
35 foreshadowed before Christmas was all driven by trading
36 revenue.
37
38 Our costs are down, and again I will dissect that for you
39 in a moment, and as a result of that, the EBIT is up by
40 24 million, or 27½ per cent, and when we met I think at
41 the AGM and we talked about the outlook, we were talking
42 about 15. As we approached Christmas we could see it was
43 stronger than that, and that strengthening continued
44 right through December, and we ended up at 27½ at the
45 EBIT line, which is where we have really been focusing.
46
47 As a result of that, the board resolved in part to
48 increase the dividend, and that was to reflect two
49 things: that we were at the end of our heavy capital
50 expenditure cycle, and you will notice that in this half
51 that we repaid \$85 million of debt. Our debt is now
52 standing at around \$500 million, and we have very
53 significant franking credits, and any of the options we
54 are looking at we believe we can handle and at the same

1 time give a higher franked dividend to shareholders, but
2 we have increased the dividend by half a cent to five
3 cents. So they're the headline numbers.

4
5 If you look at that, there is the EBIT improvement, and
6 it's the EBIT improvement of \$24 million that I've really
7 concentrated on. There are really two parts to that.
8 There was discontinuing CitySearch, and that gave us an
9 improvement of \$7 million, but the lion's share has come
10 from our ongoing businesses. Seventeen million of the
11 improvement came from the ongoing businesses. And if you
12 look at that, there are three pieces to that. There's
13 publishing, there's the news and classifieds, there's the
14 f2 business as it now is, and then we had a small
15 increase in profits from AAPIS, which is \$1 million.

16
17 So if you go back to what we said at the AGM, we said,
18 well, we were looking at about 15 per cent, which is a
19 \$13 million improvement, and we could see that and a
20 little bit of that and a tiny improvement in publishing,
21 and you can see all the improvement has come out of the
22 publishing business.

23
24 If you then go to the next level, you will see that
25 what's happened in publishing is that the revenue has
26 gone up 16.8 but the costs have gone up 8½, depreciation
27 is a bit lower because Tullamarine is only starting this
28 side of January and, as a result, the EBIT is up 11.4.

29
30 It goes further. What's really gone on? What we've had is
31 about half the revenue increase came out of our regionals
32 and about half of the cost increase came out of our
33 regionals, and that's partly driven by some of the new
34 publications and the very strong growth, but if you
35 actually look at the cost increase of 8½, some 4½ is due
36 to the regionals, and that was driven largely by
37 additional volume.

38
39 If you look at the other four million of cost, two and a
40 half is costs associated with the double running of the
41 transition to Tullamarine. The one and a half is a write-
42 off of Inlumen, which is the final write-down of an
43 investment that we'd made in the Internet in the business
44 publishing area. In other words, if you look through this
45 or you look behind this, what's happened in the
46 publishing business is that pretty well all of the
47 revenue that we generated additionally in the third
48 quarter over and above our expectations has flowed
49 through to the bottom line and that there has been in
50 absolute terms no increase in cost in our core
51 publishing.

52
53 We've had an increase in cost in our regionals, driven
54 largely by a very strong increase in volumes and

1 something like a 25 per cent improvement in the earnings
2 in those businesses, and we've had an increase in
3 revenue, as I say we will unpick in the regionals and in
4 the metros. But that's very much the story.

5
6 If you look at the f2 business and its performance, it's
7 really been a story of revenues. The revenue has been
8 lifted both from classifieds and very good banner
9 performance. The cost has stayed essentially flat, and as
10 a result of that we've had an improvement of 4.9 million
11 in the like-for-like business.

12
13 So that's the story. What does it tell me, or what does
14 it tell us about the company? I think what it says to us
15 is we really are very well positioned to take advantage
16 of any improvements in markets. We will come back to the
17 outlook, and you will have read the outlook statement
18 that we all agonise over.

19
20 Talking about outlooks on what is potentially the eve of
21 a war is always a difficult thing to do but,
22 nevertheless, the underlying story here is that the work
23 that we've been doing to improve the physical plant in
24 the company, improve its systems, improve its cost
25 effectiveness, improve its revenue-generating
26 effectiveness will produce results that flow very quickly
27 to the bottom line and very solidly to the balance sheet
28 with even a small improvement in the market, because as
29 we will outline, this result is really a tale of two
30 quarters, and all of this improvement is the result of
31 what I would consider a moderate but, of course, welcome
32 improvement in the advertising market in the second
33 quarter. So a very small improvement in a relatively
34 short period of time produces quite a big lift in the
35 earnings.

36
37 Well, that's where we are. Let me now turn over to Mark
38 and take it through the numbers, and then I'll run
39 through highlights of each of the businesses.

40
41
42
43
44
45

46 MR MARK BAYLISS: Thank you, Fred. Well, good morning
47 everyone. I'd just like to take you through the financial
48 statements now and spend about 10 minutes and then we
49 will come back and look at some of the operational issues
50 goes forward.

51
52 If we start with the P&L, just a number of key points
53 come out here. This is the statutory P&L that's reported
54 in the 4B, and I think you can see here the very, very

1 significant increase in after tax profit half 1 on half 1
2 of \$70 million versus 36, a 94 per cent increase H1 on
3 H1.

4
5 If you take out the \$11 million write-down that we had
6 this time last year on CitySearch, the costs change to
7 70 million and 47.1, so effectively a 48.8 per cent rise
8 in profitability.

9
10 For those of you who like to deduct the preference share
11 dividend for profit, if you make that adjustment, and
12 that was a dividend of \$8.3 million that was paid in the
13 first half, the cost becomes \$62 million versus
14 \$47 million, underlying an effective increase in net
15 profit or earnings per share of about 31 per cent,
16 \$62 million after-preference dividends compared to 47.1,
17 as I think you can see from the face of the P&L,
18 obviously driven by increased revenues and reduced costs,
19 and we will get into the mix of revenues and costs in
20 just a minute.

21
22 In terms of our underlying performance, this is the chart
23 that I show you. The reported comment here is the P&L
24 that appeared on the face of the 4B. Now, we make some
25 adjustments to give you the underlying performance. Last
26 year there was an adjustment of \$11 million, which
27 reflects the significant item. There's an \$8.3 million
28 adjustment to both revenues and costs in the first half
29 of this year.

30
31 Now, this is because whenever we sell some assets - and
32 we've sold some CitySearch assets in the first half,
33 mainly office buildings - the Accounting Standards make
34 us gross up the \$8 million into both revenue and cost. So
35 it's just a gross-up for the statutory P&L, and when you
36 take the \$8 million out - you can see there's no impact
37 on P&L - you get the underlying trading performance on
38 the right-hand side.

39
40 While revenue is up in net terms about \$5.6 million, or
41 just under 1 per cent, costs are down \$14 million, just
42 under 3 per cent, and in terms of the bottom line here,
43 you can see that significant increase in EBIT of
44 \$24 million that Fred has just taken you through, and I
45 think we've shown you what's underlying and what's sort
46 of one off in terms of how that's built up.

47
48 I'd like to spend a bit of time looking at costs and
49 really getting down into the details of how the costs
50 have actually moved up on half. So you can see a
51 \$14.1 million saving, and you can see how we classify our
52 costs savings in pretty much every single line of costs
53 with the exception of other expenses, and I will come

1 back in just a few moments and explain why those have
2 gone up.

3
4 Of the \$14 million of cost savings, that basically has
5 arisen from a \$22 million saving in f2, largely as a
6 result of a shutdown of CitySearch. There has been an
7 offset to that of just over \$8 million, which is costs
8 rises within the main publishing division.

9
10 Now, coming back to what Fred said, included in that
11 \$8 million is a write-down on our NewsAlert investment.
12 You remember we wrote down \$4 million on this at June,
13 and it's basically a news wire service that we've now
14 fully written down - \$1.5 million in for that. And as
15 Fred said, there's \$2.5 million worth of transition costs
16 as a result of the move to Tullamarine.

17
18 When you add those two together, you get 4 million. So
19 effectively we've seen about a \$4 million increase in the
20 publishing division's costs H1 on H1. That represents a
21 1 per cent cost increase.

22
23 Now, if you go into the drivers behind that, we've gone
24 into this year with an effective increase in our wages
25 cost of about 5 per cent. We've been able to claw that
26 back through some head count changes, and we've also had
27 the benefit of a 5 per cent saving in the newsprint
28 pricing, but I think when you put it all into the sausage
29 machine and look at the results, basically coming out
30 with a 1 per cent cost increase, we feel it a pretty good
31 cost performance, and that's all as a result of increased
32 revenue and increased activity within the regionals. As
33 Fred said earlier, our metropolitan newspaper cost base
34 has effectively remained flat period on period.

35
36 Just a few more words in terms of cost management. If you
37 turn the clock back to September, we made a statement
38 that we expected the 2003 cost base as a whole to be in
39 line with 2002. Now, you have seen that we've saved
40 \$14 million of cost H1 on H1. As we go into the second
41 half, we are actually expecting a second half cost this
42 year to be slightly ahead of the second half last year -
43 obviously some underlying cost rises feeding through
44 there, but the main difference will be round about
45 \$5 million worth of cost for the transition to
46 Tullamarine that come into the second half.

47
48 You will remember from all the guidance I've given you in
49 the past I said that the overall cost increase from
50 double-running Spencer Street and Tullamarine would be
51 about \$7 million. We've seen \$2.5 million in the first
52 half where the \$4.5m drops into the second half. If you
53 look at H2 on H2, a slight increase in costs, but mainly
54 related to the dual running of Tullamarine.

1
2 So as a whole, then, we think that we're going to come
3 out under last year's cost base of 944 million, but it
4 won't be \$14 million under; it will be a number smaller
5 than that.

6
7 As we go into 2004, we are basically expecting a flattish
8 cost base. Why? Well, obviously, we're going to have
9 about \$15 million worth of savings as a result of running
10 Tullamarine and the cost-saving benefits coming through
11 there, and those will be offset to a certain extent by
12 increased wage costs as a result of a natural wage
13 inflation that we have within the business.

14
15 Just to put costs into perspective, this therefore
16 effectively means that for 2002, 2003 and 2004, we will
17 have effectively had a flat cost base, and if you look at
18 how we moved from 2001 into 2002, you will remember we
19 took \$40 million worth of costs out at the start of that
20 period.

21
22 That's effectively what's happened with our cost profile
23 over the last three years and looking at a year. I don't
24 need to tell you what effect that will have in terms of
25 the leverage. When the revenue starts to feed through,
26 most of that will therefore drop through the bottom line
27 in terms of EBITDA.

28
29 Depreciation and capex projections remain unchanged. Just
30 to remind you of those, depreciation and capex for this
31 current year, \$70 million for both. As we move into 2004,
32 depreciation of about \$80 million and capex at no more
33 than 40. So I think you can see when you take the
34 leverage effect here and try and grade it into cash flow,
35 you will get an even higher cash flow leverage as the
36 advertising revenues pick up.

37
38 Turning now to the balance sheet, we've continued to
39 focus on working capital management. When I stood here
40 six months ago, you know, we had improved working capital
41 significantly. That's basically continued through the
42 half. We've seen a decrease in debtors, we've seen a
43 decrease in inventory levels and we've also had back the
44 \$50 million of tax receivable that was on the balance
45 sheet at June, so a very, very good cash result and a
46 good working capital result. That's effectively allowed
47 us to pay down the net debt by \$85 million. We've now got
48 a net debt of just over \$500 million.

49
50 Just a couple of other points. Investments - that has
51 come down about \$1.5 million. That relates to that final
52 write-down of that NewsAlert or Inlumen investment that I
53 spoke about just a few moments ago. Other liabilities are
54 down 70 million. This is mainly due to the dividend

1 within the June accounts. There's no dividend in the
2 December accounts. Why is that? There's been two new
3 accounting standards that have come out that affected us
4 in the first half. The first one is Accounting Standard
5 1044 provisions, which effectively says until you pay a
6 dividend you can't show it as a liability in the balance
7 sheet, and, therefore, the December balance sheet won't
8 show the interim dividend in there. It will only go
9 through when we actually pay it.

10
11 The other change, and you will see this in the 4B, is as
12 a result of Accounting Standard 1012, which is on foreign
13 currency. Basically what we now have to do is any FX
14 hedges or FX cross-currency swaps we have we have to show
15 an asset and a liability in the balance sheet.
16 \$64 million of gross-up of assets, \$64 million of
17 gross-up in liabilities. You will see that in the 4B.
18 There's no P&L effect. It's just an accounting change to
19 beware of.

20
21 Cash flows - coming back to the point I just made here,
22 look, significant cash flow generation here. We have a
23 free cash flow of just short of \$170 million of an EBITDA
24 of 142, again, feeding through mainly from the income tax
25 refund that we have had in the year. That has been used
26 in three main areas - increase in net debt, which I've
27 just talked about of \$85 million; net capex of 25; and a
28 dividend of \$60 million. That's last year's final plus \$8
29 million of PRESSES dividend that actually went through in
30 the first half.

31
32 Coming back to the dividend, I think as a result of the
33 strength of the balance sheet and, you know, the
34 continuing strength that we've seen in terms of cash
35 flow, that was one of the main drivers behind, you know,
36 the board's decision to increase the dividend by 11 per
37 cent up to five cents per share in truth, and I think - I
38 don't want to sort of overestimate, go overboard on this,
39 but I think look at the cash flow leverage going forward,
40 and with capex being half depreciation, it could be very,
41 very significant, indeed.

42
43 On the ratios, just a few key points on this. Obviously
44 there has been an improvement in terms of profitability.
45 That has largely been driven by the improvements that
46 we've seen in f2 as a result of the close-down of
47 CitySearch. Net debt we've talked about.

48
49 Just a couple of words on Standard and Poor's. We have
50 actually been able to maintain Triple B Plus Stable
51 through the cycle, which I think is no mean feat given
52 the capex commitments we've had and the significant
53 decrease in profitability we've actually seen in the last
54 couple of years. I think that's, you know, a good sign

1 for us in terms of credit rating and obviously gives us a
2 lot of flexibility going forward in what we may be able
3 to do in terms of managing the balance sheet. That's me
4 done. I shall hand back to Fred for some operational's.

5
6 MR FRED HILMER: Thanks, Mark. Before I get into some of
7 the detail, it might be just worth standing back and
8 saying where are we going with the company and what are
9 we trying to do in terms of our overall direction. So,
10 again, nothing new, but I want to recap it for you.

11
12 Firstly, I think as we are reminded every day when we
13 look at our balance sheet, we've invested some
14 \$300 million-plus in our publishing business, and we need
15 to focus on getting growth from those businesses. So
16 organic growth is going to be really important to the
17 company, and it's a major priority and it will still be a
18 major priority.

19
20 Secondly, as I have indicated a number of times, this is
21 a market where there may be some relaxation in the media
22 laws and there may be some movements and realignments in
23 terms of who can own what and who can do what, and we
24 want to be well positioned to take advantage of that, but
25 we have no, you know, great hunger to rush out and merge
26 and do a deal. As I say, our main focus is organic growth
27 and then pushing out the footprints that we have and
28 basically making considerably better returns, I think, or
29 appropriate returns given the size of the investments
30 that we've had to make.

31
32 So that's where we're heading, and it's in that context
33 that we have really connected all the parts of the
34 business, the publishing business and the f2 businesses,
35 and let me just run through how they are performing.

36
37 The publishing business P&L is as set out here. You can
38 see that there's roughly \$17 million of additional
39 revenue, and actually \$19 million of advertising revenue,
40 and there's \$2 million less of circulation revenue. The
41 reduction in circulation revenue in the half is roughly
42 half-half driven by a switch from casual sales to
43 subscribers, that is, people buying the paper at a
44 discount, and there have been some drops in circulation.

45
46 So the story about revenue is really an advertising
47 story. On the other hand, and I think it's worth just
48 drawing your attention to it, that shift in the mix of
49 our circulation to subscribers is very good for us in
50 terms of the certainty of the reader base, and I think
51 it's partly reflected in the outstanding readership
52 results that we've had over the period. We had enormous
53 lifts both in absolute terms and certainly in relative
54 terms versus the papers with which we compete. We've

1 had - well, this has been an advertising-driven revenue
2 story. The cost story we've explained to you - about half
3 driven by regionals about half driven by those two items,
4 the Tullamarine changeover and the Inlumen write-off.

5
6 Depreciation is a little lower because we've stopped
7 depreciating some of the Melbourne plant because it's
8 fully written down and we've got that interim period
9 where we haven't started, or we are now starting to
10 initiate the new plant. So all of those factors come
11 together in driving down 11 per cent on improvement. And
12 you can see the margins.

13
14 As I said, it's a revenue story. So having jumped into
15 the revenue, and, as I said, to you, it's a tale of two
16 quarters. When we were preparing our statement for the
17 AGM and we were looking at our weekly figures, we could
18 see what was about a 1 per cent revenue increase, and we
19 both needed the three components here - metros, the
20 regionals, and the others, which is largely magazines and
21 inserts.

22
23 Now, if you look at - you know, what we were looking at
24 after the first three months of the financial year, we
25 were up about 1 per cent and it was all coming out of
26 regional and community papers. We went in the second
27 quarter and you could see, you know, a very sharp
28 strengthening in the metros. The metros grew about 6 per
29 cent in that quarter. The regionals continued to grow
30 strongly and the magazines grew also about 6 per cent -
31 the bargain dollars, when you look at the dollars in a
32 different scale effect.

33
34 If you look at what that meant, running through the AGM
35 we were running about 1 per cent up and with flat costs.
36 That's why we thought there would be little publishing
37 improvement. In the second quarter we ran close to 7 per
38 cent up, and it's that 7 per cent improvement in revenue
39 over a relatively short period because, you know, the
40 last part of December is not exactly buoyant in terms of
41 newspapers. So in a relatively short period we ran
42 something like the 7 per cent up, and that's what drove
43 the revenue, and you can see where it has come from. The
44 metros ended up about \$8 million, or the metros and the
45 magazines up \$9m, and the regionals up \$10m.

46
47 That's broadly the revenue story. You then dig behind it
48 and say, "Well, what went on in the major categories?"
49 See employment is pretty much steady, no growth in
50 employment. In terms of volumes, it was off a bit but
51 yield was up a bit, but the good news is it is no longer
52 declining but there's no growth in that area. There was
53 continuing growth in real estate. There was growth in
54 motor vehicles. There was growth in other classifieds,

1 entertainment. It was about flat in national but some
2 categories had good growth and some were squared, and
3 there was very strong growth in retail, and that
4 benefited considerably from the colour that we brought
5 into the market, and inserts, while it's a small number,
6 grew by almost 30 per cent, and, again, that's the
7 dividend from having the capacity to be able to handle an
8 increasing volume of inserts and to participate in that
9 below-the-line marketing business. And this is really
10 just the beginning of what we will be able to do. There
11 was no additional capacity in Melbourne to do anything in
12 that area.

13
14 We then give you this data terms classifieds and display,
15 and we give it to you by mastheads and we give it to you
16 in graphical form, which I will go through, but I just
17 want to pause for a minute and say something about it
18 before we get into the data, and that is that it's less
19 and less meaningful in terms of where the market works
20 and the way in which we now run the company. The old
21 division between classified and display, between where we
22 choose to get revenue, is increasingly not reflected in
23 those figures. I'll give you a couple of examples.

24
25 If we take volume or revenue in an insert, it doesn't
26 show up in those numbers. If we put volume into a
27 magazine and not in the paper, it doesn't show up in
28 those figures. So what we've done in MPG isn't in those
29 figures. What we've done in the magazines isn't in those
30 figures. You know, we had an instance where we shifted
31 revenue in the AFR. You might have seen an Audi ad of
32 16 pages in the middle of the AFR. That was really a
33 toss-up as to whether it's an insert and then not
34 included or whether it's run-of-book and part of the
35 paper and is included.

36
37 So we've been giving you numbers that I think have
38 understated the mix of what we're publishing, and when we
39 do the full year result, we will give you the numbers in
40 what we think are a more meaningful form that show you
41 all of the revenue. That's just a big caveat. The numbers
42 that we have here are still the numbers that we use
43 traditionally, but what I'm saying is if anything they
44 understate the revenue performance and they are less and
45 less relevant to the way we run the company, which is,
46 once more, around the key categories of advertising and
47 thinking about a customer and the total revenue we can
48 get from the customer rather than just thinking about,
49 you know, where a particular ad falls in the newspaper.

50
51 With that caveat, you can see that the classified volumes
52 were relatively steady, a slight improvement, the display
53 volumes up quite strongly in Sydney, down a little in
54 Melbourne. AFR, as we pointed out, had the biggest, I

1 guess, challenge in terms of its market in terms of what
2 was going on in finance and IT and the white-collar
3 employment, and *The Sun-Herald* has a little bit of a
4 classified effect but had quite a strong display, which
5 is the bulk of its advertising had quite a strong
6 display.

7
8 If we look at what we have defined as classifieds
9 historically and look at the trends, you can see by the
10 various mastheads, you can just see those numbers coming
11 back, and you can see what's happened it's a bottoming
12 and it's a small increase, and that's why I say the
13 leverage in the business is significant, but a small
14 increase can give you a good pick-up in earnings, and,
15 similarly, if you look at display, you can see it's
16 kicked up a bit.

17
18 *The Age* is really still disadvantaged by both its limited
19 colour capacity and its limited insertability, but, you
20 know, we're over that now. We are already substantially
21 crossed over to Tullamarine. We will have a full launch
22 of the full format of *The Saturday Age* in a couple of
23 weeks, and we will then roll out a series of new formats
24 that will give us tremendous advertising opportunities.

25
26 So looking forward, we have a number of reasons why we
27 are not too worried about that and can see how we're
28 going to manage our way out of debt. But circulation -
29 you will have seen those numbers - the circulation we are
30 not unhappy with. They are reasonably solid circulations,
31 and they are supported by excellent readership, which
32 says that the papers that we are getting to the market
33 are getting read, and, you know, that's the number that
34 matters to the advertiser.

35
36 We were also coming off a period in the last circulation
37 where a year ago we had September 11. We had very high
38 circulations, and we're really pleased to be
39 fundamentally holding those circulations.

40
41 Printing facilities I've talked to you about. I've said
42 at Tullamarine - I think a number of you have been, and
43 if you haven't been and would like to go, I'm sure we
44 will have more tours. But it's operating, and you can see
45 it, and Mark has talked about some of the financials, the
46 depreciation has commenced and the interest
47 capitalisation has ceased effectively this month, so it's
48 now coming on to - it's now on our books as an operating
49 facility, which is what it is.

50
51 In terms of Chullora, that's getting completed. There's
52 about two more weeks of work. The depreciation commenced
53 in December because we were starting to get the benefits
54 of that colour in December, and the interest cap also

1 ended in December. But those facilities, as I say, are
2 really behind us from a construction point of view. We
3 now have the challenge of operating, and, more
4 importantly, getting the money to flow from the capacity
5 we have.

6
7 In f2 there's a very good story that I've given you the
8 highlights of. This is the P&L as we used to show it. In
9 future we will just show an f2 P&L. But we broke it into
10 directories and then the ongoing businesses.

11
12 The directories - you can see we didn't have any.

13
14 The news and classifieds - you can see a very sharp
15 increase in the revenue, driven by two things. One is the
16 cross-selling of the ads that were previously free, and
17 the second is some very good performance in banners,
18 where we, in what has been a pretty static market,
19 believe we are gaining quite good increases in market
20 share.

21
22 Well, we had a lift of \$5.4 million, and most of that
23 flowed to the bottom line. You can see \$5.8m loss for
24 that business has become \$1.4m in the half. Then when you
25 add that to the depreciation the net result is a loss of
26 \$3.4m. So that's entirely consistent with our below \$10
27 million expectation for the full year.

28
29 In terms of the highlights of that division, we've
30 maintained our news leadership. I think about a million
31 or some number, Nigel? Yes, last week we had a million
32 unique users on the *Herald*, which is the first time we've
33 hit a million, and there were some big news events, but
34 there have been bigger news events in the past, and
35 that's what's helping drive both the revenue, you know,
36 the quality of that and the size of that readership, and
37 our lead in news continues to grow.

38
39 We've continued to focus on those classified categories
40 and the joint selling of those with our newspapers.
41 That's been extremely successful, and we are increasing
42 our position in the markets where we're in, which is New
43 South Wales and Victoria, and I have talked about the
44 revenue, talked about the increases in share and the
45 strong growth in all of those categories in f2.

46
47 So in summary, what we've been doing is controlling what
48 we can control. You know, I unfortunately can't put up a
49 map here of the Middle East and give you my answer how to
50 deal with that, but we can focus on a number of things
51 that are within our control, and that's what we're doing,
52 and we are continuing with the initiatives that I talked
53 about, the initiatives that will position the business
54 well for the upturn and also give us the strength of

1 balance sheet and the cost control that's important in
2 the event of weaker markets. So, you know, we're dealing
3 now with revenue, big priority, got the capacity to get
4 the revenue. We are dealing with colour, with quality and
5 with efficiency. We are continuing to focus on costs. I
6 need to keep saying that to you because there's been a
7 concern, you know, over time about our cost performance
8 growth thing. If you look at it over the last three or
9 five years, we really have delivered continual cost
10 control, and in the next upturn we will continue to hold
11 the cost. And we have f2 restructured, and it's tracking
12 towards break even.

13
14 So they are, as I said, the main pieces of what is the
15 core of our strategy, which is to get significant organic
16 growth in what is a tremendous business with tremendous
17 franchises.

18
19 Finally, outlook. If you look at the first five weeks, or
20 actually six weeks, of the year now, it's not second
21 quarter, it's not first quarter. It's something in
22 between. We're running at about 4 per cent up year on
23 year, so that's, you might say, reasonable, but the
24 outlook is extremely uncertain. It's just much too early,
25 because a lot of those six weeks are weeks that aren't
26 terribly meaningful to us. You know, there's some very,
27 very light weeks in early January, and they are
28 influenced by timing of school holidays. You don't want
29 to read too much into that.

30
31 Fundamentally, it's just too early to forecast the
32 results of the full year with any accuracy, particularly
33 when you look at the uncertainty in the international
34 situation. I think Greenspan said the same thing last
35 night. We said it first.

36
37 Should the current trading environment continue, we do
38 expect an increase on last year's profits pre-significant
39 items of \$43.3m, and we expect that despite a one-off
40 increase in our costs as a result of commissioning
41 Tullamarine.

42
43 Now, one of the questions you will say, "You earned \$70
44 million this half. How come it's going to be something
45 you think more than \$43 million subject to market?"
46 Well, in this next half we really get hit with all of the
47 costs of the new capacity but we don't really get the
48 benefits because we're beginning to roll those out to
49 market, but you won't see much of it really until the
50 beginning of the next financial year. You get the
51 additional depreciation, you get the additional interest,
52 and we talked about a \$7 million roughly double running
53 cost, and most of that is incurred in this half. So those
54 things, in a sense, take the edge off the half, but

1 they're important building blocks in terms of the earning
2 power of the business going forward. Beyond that we get
3 heavier cost savings, as Mark talked about. We get the
4 cost savings of Tullamarine then locked in, and we will
5 get a full-year effect and we will get the revenue
6 benefits of Tullamarine in terms of the additional
7 colour, and, you know, we are confident as we look
8 forward that those will more than offset the extra costs.
9 If we didn't think that we would never have done it, but
10 the experience we're having, you know, the experience we
11 had, for example, with colour and with the ability to do
12 special inserts or schemed issues in the last quarter, or
13 the quarter before Christmas, really gives us a lot of
14 confidence about our ability to take good product to
15 market in the event, you know, as that plant comes on
16 stream and we are able to really make it sing.

17
18 So there's our outlook and, as I say, we are by no means,
19 you know, where we would like to be. I think when you
20 look back, I would like to see us earn significantly high
21 levels of profit, and I think everybody on the board and
22 the senior management would like to do that.

23
24 It has been great after four very difficult quarters to
25 get a quarter where you've got a bit of daylight and
26 you've got some of the dividends from the fairly
27 considerable work that's been going on in the company
28 and, you know, we look forward, I believe, very well
29 positioned in terms of the things that we can control.

30
31 Thanks very much and we'd be happy to take questions. As
32 I say, there are people interstate and overseas, so if
33 you would give your name and speak relatively slowly and
34 just check that they can hear them.

35
36 MR MIKE MANGAN: Fred, Mike Mangan from Deutsche Bank. You
37 mentioned the war. Do you have a standard perhaps
38 additional cost that that might incur with coverage or
39 whatever and your best guess on what advertisers might do
40 during that period?

41
42 MR FRED HILMER: We don't think that the cost hike will be
43 significant. We have been covering that part of the war
44 very extensively and, yeah, we will have additional
45 people there, but it's decimal points. It's not a cost
46 issue. There might be a cost issue in the event that we -
47 you know, that we produce bigger papers, but that will be
48 very short. I mean, there will be, you know, hopefully
49 not too many but there will be nights or there will be
50 periods where, you know, things will happen that we will
51 want to cover fully as papers of record with an AB
52 demographic, but it's not a cost issue.

53

1 In terms of revenue, it's really hard to tell. I think
2 you will expect - what would I - I would expect you're
3 still seeing in those numbers that the improvement we had
4 was driven - it's local. It's the local economy that's
5 driving the improvement because if you go through the
6 categories, it's the real estate, it's the cars, it's our
7 regional and community papers, it's retail, all the local
8 industries that drove our improvement, but if the local
9 industry continues to chug along then, you know, we're
10 seeing the date. You can still - we still are I think in
11 a better advertising environment than we've been in for
12 some time.

13
14 The global schedules will shut down I think to some
15 extent, but we haven't really seen them come back.
16 Michael is smiling, because he gets a lot of them. The
17 global schedules haven't exactly overwhelmed us to this
18 stage, but it's really hard to tell. I mean, it's very
19 uncertain, and you can see. You know, you have eight
20 strong weeks in a quarter and you add \$10 million of
21 profit to what you thought two days, you know, a week
22 before that happened.

23
24 So that's the nature of our business. I can't be more
25 specific. But, you know, I think we've got the costs
26 under control as they come back, and I do think we have
27 some special factors going for us, which is the
28 additional colour and the additional quality, the
29 additional inserting capacity that we are rolling out and
30 that, you know, we will start to see it, so you will
31 start to see a quite different *Saturday Age* in about
32 three or four weeks.

33
34 MR MIKE MANGAN: Sorry, Fred, the last one. You mentioned
35 a 4 per cent. I presume you mean revenue.

36
37 MR FRED HILMER: Revenue, yes, revenue.

38
39 MR LOU CAPPARELLI: Hi. I've got a couple of questions for
40 Mark and then one for Fred. Just confirming, your
41 depreciation was down to 30 million this half, and you
42 are saying it will be 40 million next half.

43
44 MR FRED HILMER: Could you introduce yourself?

45
46 MR LOU CAPPARELLI: Sorry, Lou Capparelli, J. B. Were.

47
48 MR FRED HILMER: Yes.

49
50 MR LOU CAPPARELLI: In your labour costs, Mark, you were
51 saying that you had the starting point for the lie this
52 year or fiscal year was 5 per cent increase. I think that
53 included a 1 per cent super charge, and you said you
54 clawed that back to about a 4 per cent increase.

1
2 MR MARK BAYLISS: Better than that. About 3 per cent. We
3 effectively found 2 per cent through staff savings
4 effectively.
5
6 MR LOU CAPPARELLI: Right. But to go forward it's still
7 about 3 or 4 per cent.
8
9 MR MARK BAYLISS: Yes.
10
11 MR LOU CAPPARELLI: And then newsprint price. The outlook
12 for '04 is looking a little better given the Aussie
13 dollar.
14
15 MR MARK BAYLISS: It's a good question. If you were to
16 strike a deal today using the current exchange rate and
17 the current US dollar price of 480 bucks, we would
18 actually end up probably with a 4 per cent newsprint
19 saving going into '04, but the way the contract works, as
20 you know, is the reset period for FX is basically March,
21 April, May, and then newsprint price in US dollars is
22 May 1 price [FAIRFAX CORPORATE AFFAIRS CORRECTION
23 13/2/03: MAY 31 PRICE]. But if you struck it today,
24 there would be about an \$8 million saving in newsprint
25 going into '04 of about 4 per cent, but, you know, the
26 contract is a contract.
27
28 MR LOU CAPPARELLI: So for the currency you are looking at
29 a three-month window.
30
31 MR MARK BAYLISS: Correct.
32
33 MR LOU CAPPARELLI: But the newsprint is on a single day.
34
35 MR MARK BAYLISS: That is correct, basically.
36
37 MR LOU CAPPARELLI: Right.
38
39 MR FRED HILMER: Well, the newsprint doesn't vary that
40 much. I mean, it's a posted price. It's pretty standard.
41 What it is at that date. At the moment, Peter, we're not
42 really - the world isn't looking at a lot of demand for
43 newsprint. If you want to talk --
44
45 MR PETER GRAHAM: If I can just confirm what Mark said,
46 and basically it's too early to call. Just as things hit
47 at the moment it's exactly as Mark has described, that
48 the set periods which determine the two factors that make
49 up newsprint are still some way down the track.
50
51 MR LOU CAPPARELLI: Could I just ask one question now of
52 Fred? You made a comment before that ad volumes by market
53 are less and less relevant, and I just want to take issue
54 with that. You said that the statistic you give on ad

1 volume split between classified and display is less
2 relevant.

3
4 MR FRED HILMER: Yes.

5
6 MR LOU CAPPARELLI: It's just that in context when you
7 talk about magazines and inserts that's no more than
8 130-150 million a year compared with newspaper ads in
9 your design 500 or a million. So I would argue that the
10 ad volumes are important. If you could give us average ad
11 rates, that would help even more.

12
13 MR FRED HILMER: My flippant answer is, "Get the rate
14 cards and take out some ads, and then you will really get
15 to see what we charge", because only the customers know.
16 But, no - I mean, that is important, but if you say
17 there's some 10 to 15 per cent of volumes that are
18 outside of that and you also say some of the
19 categorisation we do within that is somewhat arbitrary -
20 you know, if you have - well, motors is a good example. I
21 mean, what's a classified and what's a display? And that
22 distinction isn't helpful in looking at, you know, the
23 relative competitive position of what we're trying to do,
24 and the real issues in life is what's going on in the
25 motors market, what's our relationship with the
26 manufacturers, with the dealers, you know, where do we
27 sit in the sales cycle, how can we get part of that
28 through, you know, where we have at the premium end the
29 ability to insert or insert like products in an AFR,
30 where we have products, you know, that have very broad
31 reach and can hit up against *The Trading Post*, like, the
32 Saturday papers that Nigel is looking after in terms of
33 that category.

34
35 We should be looking at that category and saying from a
36 customer and market point of view how are we doing.
37 That's what we want to give you. Now, we can give it to
38 you in the old way, if you want to keep your stats
39 running, but what I'm saying is that is a more meaningful
40 way to think about the market. That's how we run the
41 market. That's how we think about the market, and that's
42 how we should think about the market, because, you know,
43 we want to get the revenue in whatever form. I mean, we
44 shouldn't have to tell the customer, "Well, that's how
45 you define the opportunity," because we haven't set up
46 the paper that way. You should say what works, and that's
47 the shift in thinking that's reflected in the structure
48 and that's got to be reflected in the stats.

49
50 MR MARK BAYLISS: Fred, if I can just add to that, that's
51 why we've actually given you now this result from six
52 months ago, the actual breakdown by categories. We've
53 kept the sort of classified display by the major metros
54 in there just to be consistent, because you've always had

1 that, but you should probably really concentrate more on
2 the actual markets as opposed to what is an arbitrary
3 classification within the metros.

4
5 MR PETER SHORTHOUSE: Peter Shorthouse of ABN Amro.
6 Firstly, Fred, I'm wondering if you can make any further
7 comments on the dividend, particularly what your policy
8 would be towards dividend cover for the full year and
9 whether you can state the second half dividend will be at
10 least flat on last year. The second comment on paper
11 costs, you assume when you say '04 costs will be flattish
12 like for like, say, and a third one would be, given your
13 first half EBIT performance at two, is there a lump
14 coming of losses in the second half or is it reasonable
15 to assume that that two loss is to be left at five
16 million for the full year.

17
18 MR FRED HILMER: Quickly on dividends, we will look at
19 dividends - the board will look at dividends in the light
20 of the results of the half. I think, you know, what they
21 are signalling is with the capex lumped out of the road
22 we can move to a higher powered ratio but, you know, I
23 can't speak for the other directors, and wouldn't want
24 to, on that subject. I think that's one we are evolving.
25 This is a first step, and we will see how the result pans
26 out for the second half. Paper prices we are assuming
27 look flattish.

28
29 MR MARK BAYLISS: In the comment that I made in a slight
30 way, you will actually see that it's subject to revenue
31 changes in the print pricing. That comment was set in the
32 context of no change in newsprint price. Obviously if
33 it's price saving, it will drop through.

34
35 MR FRED HILMER: And as far as f2 goes, I don't really
36 want to get into - you know, as I said, to you, I don't
37 want to go beyond the outlook statement. I think we have
38 given you parameters, we are well within the parameter.
39 It's also going to depend on the market. F2 is in the
40 market, as is publishing, and, you know, it's heavily
41 dependent on banners and on some classified markets, and,
42 you know, if it continues to track well, then, you can do
43 whatever multiples of that, but I think it's at the level
44 of where the variance is not that material, and I think
45 we've given adequate guidance.

46
47 MR PETER SHORTHOUSE: Thank you.

48
49 MR MARK BAYLISS: There's no lump.

50
51 MR FRED HILMER: There's nothing you should worry about
52 other than what we all worry about, which is the ongoing
53 robustness of the economy.

54

1 MR ALEX POLLACK: Hi, it's Alex Pollack from Macquarie.
2 You had some revenue opportunity which maybe you could
3 quantify. I know you were looking at it earlier this
4 year, which was the level of content being accessed by
5 users, Fairfax content being accessed by users outside of
6 Fairfax publications, i.e. through [inaudible] as other
7 news aggregators. I wonder whether you could tell me
8 whether you looked at the size of the revenue that you're
9 not getting because they're getting it and what the
10 renegotiation of those contracts might conceivably mean.

11
12 MR FRED HILMER: Yes. Well, I think the short answer,
13 Alex, is we are looking very carefully at it. It's not an
14 enormous amount of revenue but we think it's something we
15 need to watch, and their contract that we won't sign on a
16 long-term basis so that we can continue. All that agrees
17 with being open as we see that area evolving, but it's
18 not a material issue in terms of, you know, the ongoing
19 performance of the company. It's just something that
20 we're watching. And all of the contracts are relatively
21 short. They have short notice periods. So there's no
22 degrees of freedom that we don't have that we couldn't
23 move on in a very short period.

24
25 NOLA: It's Nola from UBS Warburg. Can you give us an idea
26 of, I guess, what sort of yearly improvement you've seen
27 over the half but also how you've seen that rack as the
28 volume has started to return to the market?

29
30 MR MARK BAYLISS: Of the 4.2 per cent growth, which is the
31 \$19 million that we talked about, basically half was
32 volume and half was yield. If you look at the split,
33 Nola, the story within the metros is basically a yield
34 story, but when you look at the volumes, coming back to
35 Lou's point, when we showed you the slide, if you add the
36 volumes up, the classified and display across the four
37 metro mastheads, there's ups and the downs, but they
38 effectively come out at zero. It's pretty much a yield
39 story. So the \$8 million that has come through on metros
40 is mainly yield. In terms of regionals, most of the
41 volume has been coming through the regionals and there's
42 been increases there.

43
44 To answer the last part of the question, it is very much
45 a tale of two quarters, and we showed you the categories
46 of advertising, and you can see employment was down a bit
47 and national was down, but what actually happened is that
48 as we moved from Q1 into Q2 we saw a very, very
49 significant increase, mainly in employment and national.
50 That's where we saw the improvements feeding into the
51 second quarter, partly volume, but significant yield
52 effects in there as well. But largely a volume receipt.
53

1 MR FRED HILMER: I wonder if we should take questions just
2 from the remote locations because if we just hold them
3 from this room and then you can manage that from our end.
4
5 CONFERENCE CO-ORDINATOR: Thank you. The first telephone
6 question comes from Mr George Coleman from Salomon Smith
7 Barney. Go ahead, please.
8
9 MR GEORGE COLEMAN: Oh, thank you. I'm just wondering on
10 the new editorial products you're about to roll out in
11 terms of the *Sydney Magazine* and '02-03 in *The Age*. I
12 take it there are no material cost implications of that?
13
14 MR FRED HILMER: Well, we are constantly looking at new
15 product opportunities, particularly opportunities that
16 fit within the framework of what we already do, and
17 clearly we are not going to bring those to market if we
18 aren't going to meet our margin targets, and at the
19 moment the outlook that we have assumes relatively little
20 in the way of new products.
21
22 If you go to what we're doing in Melbourne is really
23 changing product. In fact, one of the benefits of
24 Tullamarine - Peter, am I right, it's about 5 per cent,
25 is it, newsprint - about a 5 per cent newsprint saving
26 just from the smaller size of the paper. I don't know -
27 you probably don't compare them that carefully, but if
28 you look at an *Age*, it's actually a longer paper. So
29 there's some actual saving in newsprint as a result of
30 what we're doing with the new plant.
31
32 In terms of additional inserts and magazines, we add
33 some, we delete some and, you know, if there are
34 significant changes in products that have a big market
35 impact, clearly that's going to impact the costs base
36 but, you know, I am delighted to do that if it impacts
37 the revenue base even more, and we're not going to do
38 them if it doesn't. So the cost base is assuming what you
39 would call normal marginal product coming in and out
40 going forward. I think that's how you should look at it.
41 If there was major new initiatives, really significant
42 ones that would make a difference, we will indicate those
43 as we go. I will indicate those as, you know, we report
44 on the half. Thanks. Is there another question?
45
46 CONFERENCE CO-ORDINATOR: Yes, the next question comes
47 from Mr Ivor Ries from Baillieu Stockbroking. Go ahead,
48 please.
49
50 MR IVOR RIES: Yes, this is a question that might be best
51 answered by Mark. It's a question on head count. How much
52 did the head count come down on the previous
53 corresponding period and are there any more numbers
54 coming out in this half?

1
2 MR MARK BAYLISS: In terms of the overall head count for
3 the group as a whole, if you compare it back to June last
4 year, it's been reasonably steady. I mean, I said H1 on
5 H1 that we'd actually seen some decreases. Compared to
6 June, I think it's up very slightly for the five or
7 10 people in sort of FTE terms, but what has happened is
8 we've actually had a change in the mix of staffing, which
9 has actually allowed us to bring through some of the
10 savings that we've actually seen, but effectively flat.

11
12 MR FRED HILMER: Yeah, but, Mark, I think that's not quite
13 what's happening, because what we've been doing is we've
14 been adding people at Tulla, but we haven't yet put in
15 place retrenchments at Spencer Street, so we've
16 effectively held staff numbers flat but within that we've
17 accommodated staffing up Tullamarine and we haven't taken
18 the staff yet out of - we haven't until, what, some time
19 in the next month, March-April, we will really start to
20 in the next month, and over that period, we will start to
21 downsize - we will start to downsize the Spencer Street
22 facility, which is why the underlying staff count is
23 probably down in the order of 2 or so per cent, but it's
24 down in that order, which is why the wage cost doesn't go
25 up 5 per cent.

26
27 MR IVOR RIES: and when you have made the full transition
28 to Tulla, what will be the number?

29
30 CONFERENCE CO-ORDINATOR: The next question comes from
31 Mr Anthony Wilson from UBS Warburg. Go ahead, please.

32
33 MR ANTHONY WILSON: G'day, Mark and Fred. You spoke
34 earlier about the limitations on *The Age*, you know,
35 colour limitations and insertion limitations. Do you get
36 a sense that there's a pent-up demand such that once you
37 are at full capacity on the new plant that there could be
38 a fairly significant and immediate step-up in demand or
39 is it going to take a bit of time to flow through.

40
41 MR FRED HILMER: It's reasonable to expect it will take a
42 bit of time to flow through. I think there is clearly
43 some pent-up demand. One of the, you know, the things we
44 look at is the ads we turn away, so, you know, there is
45 some pent-up demand, but if you look at the experience in
46 Sydney, which we ran through, it tends to build up fairly
47 gradually over time, and when you look at, you know, what
48 we're doing, you need to train salespeople, you need to
49 get on people's schedules because even though, you know,
50 they know it's coming, no-one knows it's here till it's
51 here and so you are not on the schedules and people have
52 set their budgets and they've made their bookings, and
53 you need to go out and explain what are the things that
54 you're going to do and why this is such a terrific new

1 environment in which to put in ads and, you know, it's
2 not just that *The Age* now has colour. *The Age* actually is
3 going to be laid out quite differently.

4
5 I don't know if you've seen - we have given a bit of a
6 clue in the in paper, but, you know, we've changed the
7 make-up of the Saturday booklet, the first thing that
8 you'll see, and there are a number of new sections. The
9 whole back is different, and then during the week we will
10 be doing the same thing in terms of the layout. There
11 will be more tabloid.

12
13 It's not just a question of saying, "Well, here it is."
14 It's a question of showing the market, and that's why we
15 need sales training - showing the market here are some
16 different products, here are some different environments,
17 editorial environments in which you can advertise and,
18 you know, here are the opportunities, and bringing them
19 on stream.

20
21 So in our own work we assume a fairly sort of steady
22 growth. We don't expect you turn the thing on and
23 suddenly, you know, people knock down the door, because
24 they just won't understand what it is and how it fits
25 into what are quite complicated advertising planning
26 discussions.

27
28 Are there any more? We'll have one more and then we'll
29 come back. In fact, one more on the phone. Then we've got
30 a couple more in the room to answer.

31
32 CONFERENCE CO-ORDINATOR: The next question comes from
33 Mr Patrick Russell from Merrill Lynch. Go ahead, please.

34
35 MR PATRICK RUSSELL: Good morning. Well, it might be good
36 afternoon now. Just in relation to interest expense, I'm
37 just trying to get a feel for the impact of capitalised
38 interest hitting the P&L, I guess, what you're expecting
39 in terms of the second half and then on a full-year
40 basis. And the second question, AAPIS, just some feel for
41 what drove the increase in profits and the sustainability
42 thereof.

43
44 MR MARK BAYLISS: I'll take it - Mark. In terms of the
45 first question, I think you can see the interest charge
46 that came through in H1 there was about \$8 million worth
47 of interest capitalised in the first half, and obviously
48 that won't be coming through in H2, so I think that
49 should answer your question in terms of what's actually
50 happening with the charge. You know, we expect interest
51 rates to remain pretty much the same H2 on H1. There will
52 be a little bit of effect in terms of the net debt level
53 obviously but basically the main addition will be no
54 interest capitalisation. I said about \$8 million in H2.

1
2 AAPIS is an interesting case, and I'll ask perhaps
3 Michael to talk about that in just a second. Basically
4 this is a business that has gone through a fair bit of
5 restructuring in the last year. It's had a new chief
6 executive in there for about two years now, and what has
7 been happening over the course of that period, there's
8 been far more focus on the business in terms of its
9 revenue but also looking at its cost levels, so the
10 result that has fed through, Patrick, is really just sort
11 of part of a longer term issue of them driving there
12 where they are managing their costs. There's nothing
13 specific within AAP that's sort of dumped out there.

14
15 MR PATRICK RUSSELL: Are you comfortable it can be
16 sustained? Any idea of what the asset is on the books,
17 roughly?

18
19 MR MICHAEL GILL: They are effectively there because of
20 what we did before with the telephone business, which now
21 has gone, and they're now operationally focused, as Mark
22 said, on the news business, which is performing well.

23
24 MR PATRICK RUSSELL: And the book value - any indication,
25 roughly?

26
27 MR FRED HILMER: We think it's on a good path now. I mean,
28 it's a business that's got into a lot of, you might say,
29 interesting things like investments in telephony, ATMs.
30 It's now a focused news service business and it's much
31 more efficient, and there's no reason why it won't flow
32 with the media market.

33
34 MR PATRICK RUSSELL: Okay.

35
36 MR FRED HILMER: And it probably has areas working to
37 provide more services to, you know, a number of
38 newspapers, particularly the smaller newspapers. It does
39 a lot of things. It does the setting up pages, racing,
40 stock tables, puzzles, that, you know, it can be quite
41 cost effectively done. They just lost sight of that. They
42 were more interested in telephones or other things but
43 they are now focused.

44
45 MR PATRICK RUSSELL: Thank you.

46
47 LANCE: It's Lance, Macquarie Equities. Mark, you
48 mentioned the one that came back in the second quarter.
49 Are you actually giving the sectional employment category
50 coming back or [inaudible]?

51
52 MR FRED HILMER: I think we will get Nigel to talk a bit
53 to that.

54

1 MR NIGEL DEWS: The strength or particularly the more
2 recent strength has been in the [inaudible] in both
3 Sydney and Melbourne, and the book is looking a lot
4 stronger than it has for quite a while and at the blue
5 collar end of the market and in the middle of the market
6 [inaudible].
7

8 MR MARK COLEMAN: Mark Coleman, CCZ Equities. I've got a
9 query on the \$310 million worth of capex and given some
10 of it's masthead protection and some of it's also to go
11 out after new display advertising categories, I go
12 through the *Sydney Morning Herald* or *The Age* year-end
13 section paper. Are you happy with your ad rep teams and
14 their productivity right throughout the organisation or
15 do you think they need a fair bit of extra work to pull
16 in these revenues to justify, let's say, a 15 per cent
17 rate of return on \$310 million?
18

19 MR FRED HILMER: I think the answer is we've been doing a
20 lot of work with our ad teams and the ad teams also have
21 more to sell than they had, and we are very comfortable
22 with how that's developing. I think a number of the
23 initiatives certainly have put the extra revenue into the
24 last half, you know, were initiatives that came out of
25 our ad teams, things like Shop and Peak Force of between
26 half a million and a million dollars of additional
27 revenue, but we've got ad teams that are coming up with a
28 number of initiatives, and, you know, that's like every
29 area in the company, you know, we don't take anything for
30 granted, but I think it's an area where we've had some
31 very good recent performance and very good innovation.
32

33 MR MARK COLEMAN: On that, I've looked at a couple of
34 copies and the copies typically it looks like local ads
35 in the front section of *The Sydney Morning Herald* run at
36 about seven to 10 ads a day in the EGN sections. How big
37 a team is earning seven to 10 ads a day in *The Sydney*
38 *Morning Herald*? I mean, that sounds disgraceful in terms
39 of a suburban newspaper group or any other parts of the
40 newspaper industry in Australia. Their teams must
41 generate more number count alone to justify what you're
42 trying to do in display advertising.
43

44 MR FRED HILMER: Well - no, I think that's a - I'm
45 surprised at that number, I guess, and I'd be happy to
46 talk at some future date if you like about the
47 productivity. We do the benchmarking of the sales teams
48 in terms of the dollars that are produced and the head
49 count that it takes to produce those dollars, and we
50 benchmark that across our mastheads and we benchmark that
51 as well as we can by looking at what other people do and,
52 as I said, I don't think we have a productivity issue. I
53 think we have had, but we've had higher productivity, for
54 example, in Sydney than Melbourne. You can explain that

1 because of the colour loading. In other words, they
2 sell - the ad you sell in Sydney is a more valuable ad
3 but it doesn't take less work or more work to do that
4 and, you know, I think that's really a spurious number,
5 seven ads, and we've got a --

6
7 MR MARK COLEMAN: [Inaudible].

8
9 MR FRED HILMER: Yes, but there aren't seven. I mean, we
10 sell a lot of ads, and the display ads take a lot more
11 sales time. You know, to get an ad which would run as
12 part of, say, an auto campaign or an IT campaign, is not
13 one person rolling up; it's actually getting on to a
14 schedule and then managing the - a lot of what the ad
15 teams have to do is manage the placement of the ad and
16 the fine detail of the ad, what size will it run, the
17 variations, and it's an ongoing process of managing a
18 relationship with an advertiser and, you know, our
19 productivity is fine on that. If we can - you know, I'd
20 be delighted - if it were that simple, I'd be delighted.
21 You know, if we could just get one person to run around
22 and collect seven ads a day, well, you know, whacko, but
23 it's just not the way it works. I think we're going to
24 cut off in about five minutes.

25
26 QUESTION: ABN Amro.

27
28 MR FRED HILMER: Okay. I was just picking who hadn't had a
29 question. Perhaps, Peter, you'll get one.

30
31 QUESTION: I was overseeing --

32
33 MR FRED HILMER: We will get you there.

34
35 QUESTION: -- Tullamarine as it went ahead. It was
36 finished when I got back. One comment that I heard quite
37 a lot was that people felt there was a virtual statement
38 that the reason Spencer Street hadn't been closed was
39 because the union deal had not allowed it to be closed.
40 So I am asking you to make a statement as to what the
41 situation is, and I'm not questioning whether the
42 decision to keep it open will make a profit or a loss;
43 I'm questioning the flexibility of your Melbourne cost
44 base. Are you allowed to close Spencer Street tomorrow if
45 you want to, and, if not, can you close it [inaudible]?

46
47 MR FRED HILMER: We can close it any time we want to. We
48 don't want to close it. You might be aware PMP is
49 shutting down capacity in Melbourne and we need to
50 bring - we've actually accelerated the move of our
51 regional, our community papers, in Melbourne into Spencer
52 Street, and we would be in trouble with - you know, it's
53 one of the most rapidly growing parts of our business -
54 if we didn't have that capacity right now. We've also

1 looked at, and we are getting seen because of that
2 shrinking of capacity in Melbourne, some external
3 opportunities, but they're really not a reason why we
4 keep the plant.

5
6 We keep the plant because we need it to print our own
7 material cost effectively, and that's the fundamental
8 reason. If there's a point at which we would make more
9 money by outsourcing that or by doing something else with
10 the property, which is something we keep under pretty
11 active review, then we'd do it, but there's no motive in
12 looking at the printing configuration other than what is
13 in the best interests of the business. Sorry, I've
14 missed --

15
16 QUESTION: [Inaudible] Salomon Smith Barney. [Inaudible]
17 readership [inaudible] information the number of people
18 in our place is falling [inaudible] numbers.

19
20 MR FRED HILMER: I think part of it is sectionalisation.
21 Part of it is also where papers are read. I mean, you are
22 seeing papers more in coffee shops and I think they're
23 probably the main factors. Sectionalisation I think is
24 important because it gives the paper some longevity and
25 it allows multiple readers to come into the paper. You
26 don't sort of have to wait. You can read simultaneously,
27 and you can swap.

28
29 I mean, we've had that for a while, but I think we have
30 continued to improve that, and I do think the strategy of
31 having the paper available and accessible in as many
32 public places as we can, whether it's airports, and
33 particularly airports with its coffee shops, hotels, they
34 are really helping our - it's helping our readership,
35 but, you know, the numbers are on a nice trend. You know,
36 there aren't major discontinuities; it's just a trend
37 that's moving up.

38
39 They had a big kick last time but, you know, some of
40 those trends can also be statistical, but the general
41 direction of the readership is very good but I think, you
42 know, the big thing is the fact that we sectionalised,
43 and the supplementary thing is the look at how we get the
44 papers out or where we try to place them. Okay.

45
46 Thank you very much. We appreciate you taking the time
47 and look forward to doing this again in six months.

48
49 CONFERENCE CO-ORDINATOR: Thank you Ladies and gentlemen.
50 This concludes the Fairfax half-year results
51 announcement. You may now disconnect.

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53

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