Start of Transcript

Brian McCarthy: Welcome everyone to our half year result presentation. I should say that Sankar and I will be presenting and Sankar is doing something a little different this year. He's going to sit down and present. The main reason is he has a broken foot, so that's why he'll be sitting down through the whole presentation.

I really think there's four thrusts today in this presentation. I assume you've all seen it. Firstly the trading result, the underlying trading result, etc in each business unit which I'll go through briefly. Second part of it is the non-recurring items which are reasonably significant in there and Sankar's volunteered to talk about those. The third part is debt, we talk a bit about the debt and the fourth part that I think we should focus on briefly is the last part which is you know where are we sort of going, what is the focus for the management of this company, what are the issues on our plate today.

So, and at the end we'll leave a little bit of time for questions to finish off.

So in terms of the result itself, I use the word creditable, I think it was creditable in the circumstances would be the way I'd describe it. Creditable in the circumstances, and we'll obviously talk about the circumstances as we push through the morning.

On that second slide, I don't have the controller which is a good start. Are you going to do it? I'll do it, I'm technologically advanced. Under the first slide, I won't go through them in great detail, but I've got to say that I personally prefer to use that 13.1 number that's on there because that's like for like on a constant currency basis and to me reflects the true earnings.

The table that you'll see in that presentation actually talks to 11.6 in the main, mainly to get a head start on where we were at this time last year. You'll see the number there, 418 for last year so we used that as a base to move forward, being the figure we announced a year ago. The dividend, which is no surprise the 2.0

cents really, Sankar will talk about the significant items and I think importantly across the publishing part of the business that we did achieve two per cent cost reductions in that year and that, of course, is the largest part of our business is still publishing, print and publishing, two per cent reduction and again I can talk about that in more detail later as well.

Moving on to the online area, this was a positive part for the result. Online in Australia and New Zealand revenues grew as they have in prior years and on I guess a not so positive note, if you like to use that language, due to the tough economic times in some of our newspapers they were affected by those economic conditions and particularly in New Zealand I suspect that that had more to do with the results there. They were earlier into the downturn and one would hope that they come out of it earlier but that's to be decided later.

And Sydney was probably an area that still, the Sydney advertising market was still, we think, probably the toughest part overall, and importantly there the declining economic conditions which was significant as the half went on. So that's the result there. There's the numbers we talked about, I talked about a moment ago. The bottom line down the bottom there, Sankar has some slides on that to talk about that, the methodology changes within the company. But the 13.1 is the figure that I think is the good base, but we're using 11.6 for the sake of comparisons.

The savings, these are generally well known. The synergies between Rural Press and between Southern Cross and Fairfax, we believe we're getting those cost synergies coming through and if there's a question on that I can explain where that shows through. I mentioned the two per cent earlier and there's a bit of a numbers I can give you to illustrate that the cost savings are coming through.

In terms of that third bullet point obviously they're not coming through as yet. They will come through basically towards the end of the half. They've started to come through but they will be more into the second half of ’09 in terms of those August announcements we made.

Looking now at the businesses themselves, firstly the regional business across Australia and the Canberra Times is included in this, the revenue’s down about four and a bit per cent, 4.4, a bit of volume decline and good yield management. So I think they handled the situation very well. You’ll find through this there are different business models through each of the businesses for various reasons. Circulation’s flat, a bit of cost reduction and there was not a lot of restructuring in this business so the August ’09 announcements, very little of it applied to this slide. It was mainly in this slide where the Sydney and Melbourne operations and indeed the head office numbers were taken out in that last December quarter.

And I think the important number there is that two per cent decline. I talked about business models a moment ago, we have taken a decision in those metro papers to try and retain the volumes but that does come, did come, in a very competitive market and, in a declining market, did come at some yield cost.

In terms of the printing, our printing plants, you’ll see the revenue line there’s down. That is an external revenue line and that basically reflects the customers who chose to reduce pagination as commercial customers given their own difficult financial climates in which they were operating. That drove, the smaller paginations drove most of that revenue. Sankar will have to help me here later on but there are some changes as it says down the bottom with the costs between the printing and the publishing if there’s any questions there.

Significantly that new Ormiston plant in Brisbane is up and running. It’s been a tremendous success so far, a few teething problems but it’s up and running within about a year of being approved by the Board, a little over a year, which is outstanding. We did close the Burnie plant in Tasmania to consolidate work into Launceston and we are focusing on better utilisation of plants across the company and that includes logistics and freight type issues as well going forward.

In terms of the specialist publications which includes the AFR for example and a number of other publications in FBM, the agricultural papers and seniors, it's a bit of a mixed bag of publications, that 0.7 revenue decline probably looks a bit better than it is because it's inflated by acquisitions and on a like for like basis, as it says there, there's about 3.6 per cent decline rather than .7 decline if you take like on like, but still a very good effort out of all those publications. Similarly there's a cost benefit if you take out those acquisitions.

The advertising volumes declined by 16 per cent but the yields were stronger. Again a different business model in FBM, significantly cover price increases there and our circulation, particularly with the AFR is very strong. In fact, it's up despite those cover price increases which shows you the great strength of that publication.

In the agricultural markets, still in the specialist area, revenue's flat with EBITDA up, a bit of volume and yield trade off there, the Horse Deals acquisition which I mentioned six months ago, that's gone very well. In New Zealand and the US in agriculture, this is agricultural publishing, down a little bit, no big deal, in both countries.

Moving to online which comprises both Trade Me and Fairfax Digital Australia, the combination there, revenue growth is 15 per cent which is really 22 per cent in New Zealand and 12 per cent in Australia, constitutes that 15 per cent. Trade Me is going very well. It remains firmly the number one website in New Zealand in auctions, real estate and cars and, importantly, Trade Me Jobs continued to strengthen its number two position in the online employment market. So very happy with the online business in Trade Me and we've very happy with Digital in Australia.

Revenue growth in all categories be it display, classifieds or indeed transaction revenue and importantly the total traffic across all the sites continues to grow strongly. So those initiatives are continuing as well to reinvest in our future.

In New Zealand, as I said earlier it went into the recession earlier, revenues are down by 14 per cent, roughly 14 per cent, and the areas of most decline are real estate and employment. I think it's a real positive that despite that climate our circulations are up, circulation revenues are up, and again to the great credit of their management in New Zealand, costs are down by 4.4 per cent which takes quite a deal of work to achieve.

Looking at the radio network now. Last but not least our radio network, it's very hard to compare because of timing differences here, perhaps Sankar can help us with that later, but I think we're generally moving forward in that radio division. We've still got some work to do, we've achieved our synergies and cost savings and we just need to, in an operational sense, fine tune some of our areas there and, you know, there has been some ratings improvement in some of those stations so we're placing a lot of focus on that, or I'm placing a lot of focus on that now and in the months ahead.

So I'll now hand over to Sankar to continue the presentation.

Sankar Narayan: Thanks, Brian. In following past presentations I'll just take you through the group financials and moving on slide 16, underlying trading performance. The adjustments and the impairments are reflected in the significant items which I will talk in greater detail in a few, a couple of slides later.

The key here is $370m, that's the EBITDA. Brian went through the segmental splits. In terms of what we recorded last year 418.4 giving you 11.6 but on a like for like comparison taking into account the businesses that we didn't own last year it's 13.1 on constant currency terms.

Moving on through the P&L on slide 17, I just want to talk about two or three numbers here. Net interest 100.7. That increased from $84m last year both as a result of the higher interest rates but also slightly higher debt levels drawn by Southern Cross and Southern Star. But the key here is going forward with a significant reduction in interest rates. We're going to see that interest expense come down quite dramatically and I'll talk about that later when we go through the detailed slides on interest.

Tax, tax rates are lower than what was in last year but consistent with the full year results in FY08, probably around the 26 per cent. That's what the tax rate was. So if you at the full year results it'll be pretty much line ball in terms of the similar performance on the tax rates.

And the other number is the SPS dividend, $10.3m net of tax. That will come down quite dramatically, 40 per cent reduction in excess of that as the rates come down because that is an unhedged number so the full benefit of the rate reduction flows through the SPS dividend line. Whereas the other net debt facilities have a 50 per cent hedge, this one actually has a big benefit.

So in terms of looking at the P&L, we talked about uncertainty in the advertising environment that Brian will talk about later, but in terms of the cost elements that will flow through in the next half you're going to see a big reduction in the interest expense, you're going to see a reduction in SPS and you're going to see the cost savings from the second half flowing in, from the first half, the restructuring program that will start flowing through from this half.

Now moving onto the significant items, talking about the $447m. The methodology that we have used, as of last year we moved to a discounted cash flow analysis and as per IFRS if the DCF is below the book value then you have to take an asset adjustment. But if the DCF is higher than book value you do not adjust the book value. So we do not write up the assets that are sitting higher than the book value, you just take an impairment for those and that's done on an individual CGU level.

So we've gone right across the group and $447m, 447.5. The assumptions are outlined there and there's a little bit more in the 4D behind the significant items and impairment notes. But the key here is it's very broad based. The impairment is broad based across the group, across the publishing and the broadcasting side and it's not specifically isolated or quarantined to any particular business unit. It's very broad based asset reductions.

And Trade Me has not been written down. Trade Me is being carried because the future value of the cash flows are justifying the purchase price.

The other items, in terms of goodwill, $30m. We have communicated that to the market through when we actually sold the asset or we initially announced the transaction. Impairment of plant, equipment and software that is actually linked with restructuring and redundancy which we initially said $50m, ended up being 60 but the benefits are correspondingly higher and that will flow through in the current half giving you a significant item of 523 million, 522.9.

Moving on to cash flows. They've been particularly strong. Operating cash flows down only 2.8 per cent from the period last year. A lot of strength in the business and if you look at Fairfax that is one of the highlights of this business. We've been saying this before, generates a lot of cash, a lot of free cash flows that can and is being applied towards debt reduction and I'll actually talk about it when we get through the debt slides.

So the business, you know, a very pleasing outcome on the cash side. On the acquisitions front $56m that is, the bulk of it is the Trade Me earnout, the final instalment that we actually paid and a few others in the online space that we did in the quarter one, in quarter one and petered out in quarter two so we expect that number not to be a significant driver going forward as from a cash perspective.

Net PP&E additions, $41m. The gross number's higher but there was a sale that was anticipated in Christchurch so it should be taken together, so capital expenditure was 41 million. We said we would tighten up capital expenditure and we see that number come down as well, and lower than the guidance that we had initially given.

SPS dividend, that's the pre-tax number, 14.7. The number that you saw in the P&L is a post tax number but as I said that number will come down as well. So the outflows will reduce in terms of SPS dividend and the ordinary dividends, at least for the next half and going forward.

Debt structure. There's been a lot of discussion about our debt structure, a lot of reports written, a lot of media reports so I think it's worthwhile for us to go through this in a little bit of detail. We talked about a hedging policy 50 per cent fixed, 50 per cent floating in broad terms and given you some sensitivities. Every one per cent reduction on $2.5 billion worth of debt on 50 per cent fixed gives you two and a half million so it's not simple maths.

But as I said before, with the reduction in the interest rates we're going to see interest reduce significantly starting from the second half, as much as around 20 per cent reduction in interest in the second half. And in the next year going forward, 20 to 30 per cent reduction in interest expense. Big reduction, and I'll talk about that in the discussion about covenants.

The debt levels are also expected to reduce. As we said we actually reduced the dividend payout ratio. That will have an effect in the current half because last half we still paid out the dividends from the previous half. So that debt reduction you'll start seeing from this half onwards. And expect to see debt reductions between five and 10 per cent because you have the Southern Star proceeds as well coming in in this half.

The key highlight there is going forward on the interest expense, you know looking forward 12 to 18 months you see a 20 to 30 per cent reduction in interest expense and in the order of five per cent of debt is generated as free cash flows every half. So in an annualised basis and that's based on current earning [unclear] that'll fluctuate but just to give you an order of magnitude in terms of the cash generating ability of this business.

So in terms of looking at covenants, you look at covenants, 3.2x, we've said this before, maximum of four. There's good headroom there but not making any assumptions and going to EBITDA to net interest that's 3.9x on 3.25, but without making any assumptions on EBITDA. On the same EBITDA, so I'm not getting into a discussion on EBITDA, just on the net debt and on the interest line you see that headroom start expanding because on the second one EBITDA to net interest, if you get 20 to 30 per cent reduction in the interest ratio you have on the same EBITDA, just hypothetical exercise, that 3.9x starts going towards five.

So then you can actually factor in whatever EBITDA assumptions you want but what I'm saying to you is from a covenant perspective because of declining debt levels and declining, significantly declining interest expense, you see those covenant headrooms being expanded, without adjusting or making assumptions about what the EBITDA might do. Shows you the headroom that we have on our covenants and going forward relief coming in in terms of interest and on debt.

The net debt calculation, we have outlined that. The face value is 2.9 because a lot of our borrowing is actually in foreign currency but as we said before we're hedged on the foreign exposure so with the declining Aussie we actually have benefits coming in in terms of debt related derivatives. That's actually shown. So your net debt is 2.5. That's the way we should look at and that will be disclosed in each half and that number's included in the 4D so it's 2,544.9 million.

Moving onto the maturity profile, that's another discussion and a lot of debate's been going on so let me take a little bit of time going through this one.

We refinanced our debt in October 2008 ahead of the further tightening of the debt markets. That was a very pleasing result. $422m that was due for expiry in 2010 got pushed out. So now what do we have resulting from this? We have around $400m of refinancing coming in 2010 but we have $500m of facilities on hand, facilities in cash on hand right now, today, that's 31 December. So 2010 is well and truly covered.

Moving on to 2011. On a debt refinancing profile it's in the mid 600s. That's what we need to refinance. That is before the debt reduction that I flagged before. As I said we have actually reduced the dividend payout ratio, we sold Southern Star, all of that will be put to reducing the 2011 maturity requirements. So as I said one half worth of cash flows is giving relief between, you know including Southern Star, is giving you relief between five to 10 per cent. But the free cash flows of the business every half is in the order of magnitude of five per cent.

So without any debt reduction associated with it, we don't have to look at it until 2011 but even looking at the maturities coming in this maturity profile doesn't factor in the debt reduction activities that are actually taking place in keeping cash within the business. So we have a significantly stronger maturity profile than what we even had six months back by refinancing the 422 million that was coming due in 2010. So refi risk is significantly reduced for going forward in time for a while.

The next two slides, it's just for reference purposes so I'm not actually go through in detail what those slides are. That's slide 22 and 23. We have changed the overhead allocation methodology so some of the segmental splits have changed so just for those of you who want to compare last year's segmental splits and actually relook at what they are, we have provided what a new revised FY08 will look like. Some minor adjustments up and down but, so that when we come with the full year results you know what the segments are. So that covers slide 22 and 23.

And that's it from my side, back to Brian.

Brian McCarthy: Thanks, Sankar. That's something in the presentation, that's the current statement that has been made by the directors. Fairly self explanatory so I won't go through it but January and February were weaker and in the case of classifieds we think that that will continue through certainly until the remainder of this financial year. And as Sankar said the cost benefits will come through but clearly the trading conditions are weaker in January and February to date.

And then the last slide looks at some of the activities that sort of keep me busy I guess, and the team, but the management structure will be announced very shortly, just finalising a few arrangements there, and I think that will take us forward in a very constructive way.

Continuous operational improvement covers a whole host of things. Working better as a team for example to deliver better outcomes. That involves working across some of the business units or some people use the word silos but I don't like to call them that, to drive some of the new projects we're doing, focus on those, for example in IT, to push those through, and generally just to have more accountability and responsibility in the organisation. So all those sorts of things to me come under the heading of continuous operational improvement.

The cost savings, I don't want to go through all those again, we've done it, but they are coming through. And the last point again for commercially sensitive reasons I don't think I want to go into too much detail here but we need to listen to what our customers are telling us and we need to take advantage of where we have a competitive advantage in print or online, to look at how we might do that differently or better. And that's really what we're doing internally at the moment.

So that really sort of ends the presentation. In summary I think the important point to remember is that we are a diversified media group be it by the nature of our assets or indeed by our geographic coverage. We have some outstanding brands, we'll no doubt ride out this storm and when the recovery comes we will benefit accordingly. So over to questions. If there's any questions hard ones go to Sankar and the easy ones go to me.

Question: (Digby Gilmour, Citigroup). Sankar, just around the S&P downgrade to negative outlook, just what's your view there I suppose. On slide 21 you've highlighted that the SPS conversion to equity could occur April 2011, is that something that you've discussed with S&P or are you able to share their view on that?

Sankar Narayan: In terms of S&P ratings, not something we specifically want to comment on it. They have their own mechanisms and internal evaluation in terms of the way they go about it and it's not something that I have visibility on and it's something that we don't want to comment on their own internal processes.

Just want to point out in terms of uncertainty, the two things that comes out is what is a cost of debt and what is a refi risk? Those are the two things that potential shareholders and others should have in mind. And what we're saying is as far as refinancing risk, 2010 has actually been addressed. 2011, there's cash flows that's coming in and invested towards actually reducing that refinancing and I'll come back to your point about SPS as well. So we're well on track in giving us good horizon where we are not affected by refinancing risks of maturities that are coming in or there's a big cash flow need from the business.

So short term access to debt capital markets is not necessary for Fairfax at this point in time. But we are working with S&P and we have actually done quite a lot in terms of actually reducing the dividend payout ratio and in terms of keeping cash in the business to reduce the debt. So those are all various moves that I've actually been undertaking towards improving the debt position.

SPS, all we have highlighted is there's an option for us to convert it to equity at a discount, at a slight, small discount to the current, to the trading price at that time. There is no forced requirement for us to raise alternate sources of capital for the SPS. We're not indicating anything. Two and a half, three years is a long time away when we have to address that, comes mid 2011.

So it is not a debt because we have alternate sources of refinancing. No, it's not something that we have discussed with S&P but we thought it prudent to take it off our refinancing chart so that reflect truly the nature of the SPS that we have put in place.

Question: (Digby Gilmour, Citigroup). Okay, thanks, Sankar. Just one more if I could on newsprint, if you could just give us an update on the negotiation of the contract? I understand the industry's in negotiation with Norske Skog and if perhaps you're considering buying more on the spot rather than through the contract.

Brian McCarthy: Well you're right there. We are in negotiations with Norske and they're at a fairly interesting stage right now so, be careful what I say. There's a whole host of things going on there because it's the last year next year of the old contract and so there's a timing issue there, there's the state of the world price which is probably a fair bit different to where the Australian price is at to consider. There's a currency conversion issue to consider. There's a whole host of issues going on and we're just working through those right now so I don't know whether I can tell you anything. The negotiations are, they haven't been concluded so there's nothing I can tell you.

Question: (Digby Gilmour, Citigroup). You can't give any broad guidance for the cost of newsprint?

Brian McCarthy: Not really. The only thing I would say is, in terms of broad guidance, I mean under the old, existing contract sorry, the cap's seven per cent in terms of an increase and I would be, you know if you're looking for some guidance I think that's sort of where you need to head.

Question: (Digby Gilmour, Citigroup). Thanks, Brian.

Question: (Finola Burke, Credit Suisse). I had a couple of questions. Actually can I follow on from Digby's question on the newsprint prices, I just wondered if you are also considering bringing in the New Zealand contract because that's just about coming to an end as well and I think WAN gave us a bit of guidance that they were expecting a 10 per cent increase so is that along the lines of your expectation for the overall increase?

Brian McCarthy: Yeah, well, you know, I can't speak for WAN, I can only speak for Fairfax and we are looking to involve the New Zealand component as well which I don't think WAN has anything in New Zealand so that changes their position. So we will look at that and so we are a little different in that respect and it is a matter of negotiating but if they said 10 per cent, they said 10 per cent, I would be hoping not to go that high.

Question: (Finola Burke, Credit Suisse). And, Brian, just wondered if you could add a little more colour on the trends for display advertising in March given you've, I think the Board's comment was that it had, or it seemed to have a little bit more cause for comfort. So perhaps if you could give us a bit more colour on what those display advertising trends were.

Brian McCarthy: Well they're ahead, we're looking ahead here and generally the display for March as distinct from the classifieds outlook is for a pick up and I think generally the media, certainly newspapers, have done reasonably well in display revenues through this downturn and that's in print and online. We've done reasonably well. So it's really across the sector there, Finola. I don't think there's any area that will stick out. Things are generally good in each area of display advertising.

You know, some of our customers have also said to us, contrary to some expectation, that they will honour existing contracts which

	hasn't been reported in that way either. So I'm not going to name individual businesses because they're public companies and that would be inappropriate but some of those that have been reported are saying we will honour existing arrangements, which is good. So display revenues are generally okay.
Question:	(Finola Burke, Credit Suisse). And just one housekeeping question. Just wondered if you could give us the New Zealand and US currencies you used in this result.
Sankar Narayan:	120 this half and 115 last half, the previous year that is, FY08, FY09.
Question:	(Unidentified) Just a query for Sankar on the $43m net where you picked up tax benefits on redundancy payments, can you give us some idea of what your expectations are for redundancy payments where you get a tax credit in the second half and next year in terms of the plan for restructuring. That's the first question. 62 less the 18 tax benefit, so it's 43.
Sankar Narayan:	Yeah.
Question:	(Unidentified) What's your expectation for the second half on those sort of redundancy where you get the tax benefit, so that we can adjust our net profit figure.
Sankar Narayan:	We haven't made any comments on ongoing redundancy amounts for the next half.
Question:	(Unidentified) Right. Question for Brian then. On the payment, if I take your display volumes and revenues, it looks like ad rates fell 11 per cent roughly, you know.
Brian McCarthy:	Whereabouts are you?
Question:	(Unidentified) If I go through ...
Brian McCarthy:	Which share of the business I mean.
Question:	(Unidentified) I don't know. In the summary I think it was advertising lines were down 9.1 and then you had a two per cent fall in overall dollars in displaying classifieds in the result release.

Brian McCarthy: So which page are you on, Roger?

Question: (Unidentified) Sorry, I rewrote it. I've forgotten which page it was, I rewrote it in my notes there. But the rate …

Brian McCarthy: I hope you got it right.

Question: (Unidentified) I hope I got it right. It looks like minus seven, minus seven per cent. But if you take minus seven per cent where was the biggest fall in rates, in classifieds? Ad volumes down nine per cent, sorry no, I've made a mistake on this. Ad volumes were down nine per cent were they?

Brian McCarthy: When you rewrite it you made a mistake, you mean?

Question: (Unidentified) Yes, I made a mistake.

Brian McCarthy: Glad you admitted that.

Sankar Narayan: Revenue's down nine.

Brian McCarthy: Volume's down two.

Question: (Unidentified) Thank you. Sorry about that.

Brian McCarthy: Righto. Next question.

Question: (Mark McDonnell, BBY). Sankar, I'm just wondering, you were talking about you've hedged all your foreign exchange risk. Could you comment on the levels of duration and the costs of that?

Sankar Narayan: They're all included so we actually look at all the costs. We have not specifically identified there, they're all included in the interest costs so what we look at is the post hedged amount in Australian dollars so that actually flows through in the interest line. So there's not an additional expense over and beyond that.

Question: (Mark McDonnell, BBY). And when does it, when do the current hedging arrangements cease?

Sankar Narayan: When we take foreign currency exposure we actually take for the duration of the contract. So we don't take foreign currency risk. So depending on the duration of the debt facilities, usually the hedging arrangements go all the way. The only unhedged, the hedging components only come on the interest rate, in the interest rate side, not on foreign currency.

Question: (Mark McDonnell, BBY). Okay, thanks.

Question: (Richard [Erry], UBS). I've just got two sort of housekeeping questions. The first one is looking at the impairments that you've taken down and you go to the balance sheet, there's still just over six billion in terms of what you think is the MPV of the cash flows going forward. You said you hadn't written down Trade Me within that. Can you give us sort of a feel in terms of across the business units of where the mix is in terms of that six billion? And if you could just comment in terms of what the value of Trade Me is on the books. That would be the first question.

Sankar Narayan: I don't know the exact segmental splits but they've been provided in the full year annual reports, if you go back you actually have allocation of goodwill and quite a big chunk is sitting in the metros as well and also in terms of some of the regional assets that we've got. Of course Trade Me, you know what the purchase price was, 750 in New Zealand dollars converted to Australian, so that's sitting in the balance sheet.

So in terms of the impairments, when I said it's broad based Trade Me wasn't affected, so we're carrying it because future cash flows as well is covering the purchase price on Trade Me so that's actually intact. And the impairments actually go across most of the divisions so of course the metropolitan publications, I've had a chunk of impairments as well. and you had some isolated, some smaller ones in New Zealand because these tests are actually at the individual level.

So if you look at New Zealand as a whole, that's fine because in terms of what we paid to what the earnings of the business are in terms of this kind of cash flows. But because the tests are done on an individual CGU level, we are required by accounting standards to take an impairment. So I don't have the detailed segmental splits but they are actually provided in the annual report right across the business and there was very minimal amounts in the radio side in terms of the recent acquisitions, smaller amounts, no more in percentage terms to the broader write down that's actually reflected across the group.

Question: (Richard [Erry], UBS). Sankar, just to follow up as well. You talk about interest costs being down 20 per cent. Is that on a PCP basis or based on the first half number?

Sankar Narayan: It's on the first half number so you actually get down, so we actually have a number, just to be specific we said $100m. Well not we said, it is 100 million. It will be around in the order of $80m and coming down even further on an annualised basis. There's no seasonality to it, so it's just times two. So next year's numbers will be in FY10 we expect it to be lower than 80 times two.

Question: (Richard [Erry], UBS). Thanks.

Question: (Alex [Pollock], Macquarie). I think at the AGM the discussion was that EBITDA was, in the first six weeks of the year, something like possibly 15 per cent at the EBITDA line. Clearly there was a significant global series of events that took place post that first six weeks of trading. I'm just curious to pick up as much colour as I can in terms of how you, how the revenue went on a quarter, thinking about the half as two quarters and whether you, you know, pulled or maintained it at a 15 per cent EBITDA reduction by means of really reigning in the costs in the second quarter or whether the revenue impact in the second quarter was not as negative as we've seen across some other industries. I'm sorry if that's not as clear as it should be.

Sankar Narayan: I'll take it. We did say it was in the mid teens. That's what we said in terms of the first quarter and if you look at it on a like for like constant currency basis it's 13 per cent, but on a reported number is 11.6. So as you say either one of the two numbers is actually an improvement in the first quarter performance, so quarter two was better than for quarter one.

And in terms of a revenue performance, December was fine so as you said some of the improvement was driven on cost outcomes but as we said revenues did actually have an impact. Second quarter revenues were tough, tougher than the first quarter especially in Australia. But we had the cost elements coming in through so what you had is an EBITDA performance on quarter two better than EBITDA performance on quarter one.

Question: (Alex [Pollock], Macquarie). And could we get a revenue on PCP, quarter by quarter, one Q, two Q on PCP? Is that possible?

Sankar Narayan: We haven't done that, partly because the comparisons are a little bit distorted by the acquisitions we did. Because on total revenues, as we said, reported revenue is saying it's 0.5 per cent up. But it's not. If you go to the segmental splits, you see revenue declines there.

So there's actually a little bit of distortion on quarter on quarter. Of course as we said, New Zealand was consistently weak all the way through. It started deteriorating as we said before in August, September, and remained that way through the rest of the half. Some of the Australian markets actually had tougher second quarters than they had first quarters. But the bottom line outcomes were better.

Question: (Fraser McLeish, ABN AMRO) Brian, just on the overall cost base from now on in, I mean do you think there is opportunities for some sort of reasonably sizeable savings going forward, now you're looking across the whole group now? Or do you think most of that's already been encapsulated by the restructuring you've already made and it's just bits and pieces from here?

Brian McCarthy: Well I don't think there's any plan. I'm sure there isn't any plan to announce a restructure of the size and scale etc of the one we did in August. There's certainly no plan to do that across the whole company. However, I'm not going to stand here and say there will not be any more redundancies in Fairfax across our more than 10,000 people. That would be inappropriate for me to do that.

I don't like the word bits and pieces because they're people, but there will be here and there, opportunities to do things differently. I think it would be irresponsible of our management not to take those opportunities as they come along.

It's very much a process driven within the business now. There's no plan to do a corporate wide program. There still may be a few redundancies here and there. In fact there's been a few since Christmas in the second half, but certainly not at the scale that they were back in August, and very much at a business unit level.

Question: (Fraser McLeish, ABN AMRO) Thanks. This one probably for Sankar actually. I'm just trying to get a handle on what the variable costs are in the newspaper business, obviously where you're seeing the revenue declines. What do you estimate, if you lose a dollar in ad revenue, how much do you lose off the bottom line after you take sales commission and news print and that sort of thing into account?

Sankar Narayan: You actually see usually, is our newsprint comes down because the news [unclear] comes down, and so you actually get the newsprint reduction. There are also opportunities for us to address the cost base promotions and the various other components in the cost base that actually are variable.

So just discretion in cost elements is there. We actually had historical numbers before. Of course all of that has actually changed by structural change that management puts through. Brian, do you want to talk about that?

Brian McCarthy: I think it varies from business to business and I think we've got to be very careful. We have as I said a moment ago, we have great brands, and we have a great staff. So to sort of focus on the negative is very dangerous. You can only cut your costs so far, and you don't want to damage your business long term. You can certainly do these things short term, but there is a point where you say, enough is enough. That's a matter of managerial judgement as to when you get to that point.

So some of our businesses on the marginal revenue decline are saving 20 per cent. Some of them are saving a lot more than that. As I said, it's a matter of judgement as to where you make the changes and how far you go.

I would hate to think that within Fairfax, we have a sort of one thing fits all. It doesn't work like that. Each business needs to be looked at in its own right, with its own challenges, its own competitive advantage, its own pricing models, etc, and that's the way we look at it. Business by business.

There's no emphatic approach to these things. Where we think we can achieve a saving, we will. But it needs to be done for the long term, with a long term masthead or business, whatever it might be in mind. We're just not going to cut and cut and cut, because there is a point where you can't go any further. But we need to look at each business individually.

Question: (Fraser McLeish, ABN AMRO) Can I just ask one final question, just on circulation revenue, looking out six to 12 months when you take a combination of the cover price increases, what you think maybe on circulation, and then promotional activities. Do you think you can maintain or grow circulation revenues? Or is that an area that we might see come back a bit as well?

Brian McCarthy: I think that's a matter for the management strategy and which way we want to go. But there's no doubt, if you're talking in metropolitans, I mean we've got a lot of different newspapers in the company. But if your question is specifically about metropolitans, there's a lot of strings we can address in that mix if you like.

Our circulations in Sydney and Melbourne have been very positive for a number of years. It's been very pleasing. We've made some changes to our editors on both those newspapers in the last six months or so which I think will produce a better newspaper going forward. It's not a criticism of those individuals, it just means I think we can do better.

I think that's all part of our strategy. Can we save marketing dollars? As Sankar mentioned. I think there's a trade off between the two things. There's no doubt our marketing expenditure generates circulation revenue. There is a correlation.

So it's a matter of fine tuning those two areas. I think it's inappropriate for me to stand up here in this environment and disclose what our strategies are. But we certainly haven't pulled back in that first half on our marketing expenditure in the metros. We've kept the foot on the accelerator.

Question: (Christian Guerra, Goldman Sachs JBWere) Good morning and thanks for your time this morning. I just had three questions please if that's okay. Firstly on the impairment charges. I know you've made some comments earlier in response to a previous question. I'm just wondering, when you look at the intangibles balance overall, 30 June, it was basically $4 billion mastheads and licences, and about $2.6 billion of goodwill. Could you please maybe break up the impairment charges you've taken today between mastheads and goodwill please? That's the first question.

Secondly, in the trading comment, you talked about classifieds. I'm just wondering if you could maybe comment on how employment, real estate and autos have changed over the last three to six months in terms of volume?

My third question is if you could remind us please on the SPS and whose option is that to convert? Thank you.

Sankar Narayan: On the impairment, we haven't given specific splits. Because it's done at the individual CGU level, a lot of impairments would be in individual mastheads. Expect a good chunk of it to come on the masthead side as opposed to goodwill, but the splits are something that we haven't disclosed, and we don't intend to disclose until the full year is released, so as they get finalised. That's the impairment discussion.

The third one was SPS conversion, it's our option.

Brian McCarthy: In terms of the second one, out of the three classified categories, there's no doubt that the employment centimetres have been the area of greatest decline. Reasonably happy with real estate and motors, but employment has been down significantly, and if you look the market today, you can obviously see that. The unemployment is growing. Even our competitors in online who've been high-flyers for some time, they're even down. The whole market is down, and we're in that market. Employment would be the area that we would like to recover first.

Question: (Christian Guerra, Goldman Sachs JBWere) Brian, it's fair to say that real estate and employment make up the vast majority of your classifieds business?

Brian McCarthy: In volume terms, yes, real estate would be the biggest category.

Question: (Christian Guerra, Goldman Sachs JBWere) That's great, thank you very much.

Question: (Owen Birrell, Goldman Sachs JBWere) I've just got a couple of questions, firstly just in digital, if you can give us a feel for what the display trading environment is like. Also I noted with the revised cost allocation, you've lost about two per cent off your digital margins. I'm just wondering how you've allocated the cost differently to digital? I'm assuming most of it's content, and just to get a feel for what sort of proportion of your content cost is, if this new allocation then represents the digital business.

The second question I've got is on radio. I'm just wondering if you can give us a feel for what revenue and EBITDA growth was on a like for like basis?

Sankar Narayan: In terms of display, we did say there was good growth in display in the first half, and apart from the broad comments that Brian made, although not specifically commenting on segmental splits for the current half, but there was good display growth.

In terms of deterioration of margins, yes, there were a few more overheads that applied. So it's an overhead application to digital in terms of a service is being provided to digital. Digital has actually been charged for all the incremental costs on content and it's not fundamentally changed in terms of share cost of content, but all the incremental costs that digital incurs for the purposes of that are being applied.

Then the second question…

Question: (Owen Birrell, Goldman Sachs JBWere) Just on radio in terms of revenue on a like for like.

Sankar Narayan: We haven't disclosed that because we've only owned it for two months in our position. There was revenue decline, but in terms of the exact revenue and EBITDA declines, we're not disclosing it because four months of it, we didn't have management control and we didn't have audited accounts for those.

Question: (Dominique d'Avrincourt, Merrill Lynch) I just wanted to talk about the regional versus the metros. I think the regional revenues were down four per cent which does not seem to indicate much resilience when you compare that metros were down five per cent. I guess we're just trying to get a sense of within that, there was this [unclear], what proportion of each was under more pressure. And also in your view Brian, what would be an Armageddon type scenario for regionals given there should be more resilience than the metros in terms of revenue decline.

Sankar Narayan: Part of the reason why regional communities are actually showing a decline, a lot of it is communities based. Because what you have included in that is a community publications and Sydney and Melbourne. You actually had the real estate decline, it's actually a factor there in the metro causing a downward fall. So the regionals by themselves actually had more resilience, but we haven't split those two.

Brian McCarthy: I didn't understand your last question. What was that about?

Question: (Dominique d'Avrincourt, Merrill Lynch) Just the Armageddon scenario.

Brian McCarthy: What does that mean? I don't know what you mean. What's that mean?

Question: (Dominique d'Avrincourt, Merrill Lynch) In terms of the regional revenue declining. What would be your worse case scenario you think in an environment where the economy's slowing?

Brian McCarthy: I don't think that's a fair question. If I knew the answer to that, I wouldn't be standing here, would I? I'd be out doing something else with my life. Nobody knows the future in terms of where that may go or not go. I think your question's a little bit weird. I don't think we're at Armageddon stage at all. We've got darn good brands, darn good businesses, darn good people, and we've just got to work through this cycle. So you draw whatever conclusion you want to that.

Question: (Craig Shepherd, CommSec) Just returning to that $4.8 million cost transfer, I think you answered it fairly well, but does it reflect the weaker conditions? Is it a business head decision to say that they need to remove cost from one to the other? Or is it just a long term trend? If it's a long term trend, how has it been modelled in the write down of your masthead? So is the cost movement something that you factor in, going forward, and has that changed the write downs?

Sankar Narayan: That change in overheads was not a consequence of the economic conditions. They were done to reflect the services that are being provided to digital, and fully reflect accountability. So that is organisational need as opposed to economic conditions driven.

Question: (Craig Shepherd, CommSec) So you don't apply a trend to that movement? It's just that if we look at the two businesses, one's a high margin, one's a low margin. One has a big multiple, the other has a small. If this trend continues, you're looking at wiping out a significant amount of value in your digital business.

Sankar Narayan: Yes. In terms of the allocation of those costs, they have no bearing on the impairment. Because as we said at the last AGM, for the purposes of impairment and CGU assessment, the online and print side are viewed together. So moving dollars between one division or the other division does not affect the total value of the business. So it has no material effect.

Question: (Craig Shepherd, CommSec) Does that mean that in the future you think you'd be able to give us better information about how revenue is actually split on a more fair basis? On a non-transfer pricing basis?

Sankar Narayan: The revenues are not affected by transfer pricing at all. It's only the cost. So the revenues are as per the divisions. So if the digital loan is a dollar of revenue, that goes to digital. If it's then on the print side, it goes to print.

So in terms of revenue allocation, it's as usual. There's no change to it. In terms of EBITDA, yes, there is a segmental difference and there's the few million that you talked about. That is more driven by overhead allocation from the group across as well. So it's actually not just print to digital, but it's also from corporate as well going to the various divisions.

In terms of methodology for valuation for CGUs, we do not value smh.com.au or domain or drive, separately to the print brands. They are all combined together and viewed together.

So moving dollars of cost between one division to another through overhead allocation has no influence in terms of CGU valuation.

Question: (Alice Bennett, Merrill Lynch) Hello Brian and Sankar. Just a couple of questions, firstly on New Zealand. I'm just wondering if you could give us some idea on how the six months progressed. Whether there was a big deterioration as you moved into the December quarter. I guess also, what you've seen post-balance date. We look at the page count volumes, and they look like they've deteriorated again quite substantially in January and February. I just wanted to get your thoughts there.

The second question is on real estate volumes which you've said in the presentation, held up really well for the metros. I'm just wondering if that has changed or is changing as we move into this calendar year – particularly for The Age where it looks like volumes there are coming under pressure.

Lastly just some housekeeping, I'm just wondering if you could give us an idea where you think capex should play out for the full year? And within specialist publications, is Horse Deals the only acquisition that was distorting those numbers?

Sankar Narayan: On the New Zealand front, as we said before, I think we made similar comments at the AGM and at the full year results. New Zealand, the economic conditions started deteriorating in the middle of last calendar year, in the 2008 calendar year. That deterioration continued through, and there hasn't been any recovery. There hadn't been any recovery going into December, so we actually had similar trends going all the way through.

The key point of note is they started deteriorating in quarter four of the last financial year, i.e., in April to June quarter of last year. So in terms of looking on year on year cons, we're all cycling the good cons before the reduction in the business which started around March, April last year. So that is when you actually have a judgement in terms of what is deteriorating, year after year. We'll have to wait until Q4 for this financial year for us to get an assessment on that.

The next question was metros. I think January and February as Brian said, had started weak but we really need to go past February for us to get an assessment, but as Brian said, we probably expect classified markets to be weak. We also believe there's been a bit of seasonality. How much of it comes through, we need to wait. That is people coming back later from vacations or a lot more people forced out on vacations. We actually have had a slow start to the year, but as Brian said, we really need to wait for the next few months for us to assess that.

On capex, we had initially said close to $120 million. If you look at the current net, capex is around $40 million. There are a few capexs coming in, but all we can say without giving another guidance, is they are being controlled very tightly.

Brian McCarthy: I think that's fair. I think we need to internally do the projects that need to be done, and those that are a little bit marginal, to get them to wait. That message is going out throughout the company. It doesn't mean we don't do anything. We need to keep running the business properly, but I think the internal hurdles, don't ask me what the numbers are, because they're not internal hurdles, it's a matter of management judgement. I think they're being raised a little bit so that we do some, but not others, and that's the way we'll move forward to protect that capex line.

Sankar Narayan: Your last comment about specialist publications, yes, some acquisitions have affected it. As Brian mentioned, Horse Deals and there's a couple of smaller ones, and FBM. Those have all actually distorted what the numbers are, but the like for like numbers are presented below the table.

Question: (Alice Bennett, Merrill Lynch) Just to clarify Sankar, just on real estate, is that an area that in Melbourne you're seeing come off more than Sydney, or as we move into this second half? Or not necessarily?

Brian McCarthy: I think right now at this moment, the Melbourne market's probably down a little more than Sydney. They're both weaker as we openly state in our announcement.

Thanks everyone for coming and your continued interest in Fairfax. Thank you.

End of Transcript