



# Genesys Conferencing Pty Ltd

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## TRANSCRIPTION

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**Moderator / Speaker:** Mr David Kirk

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[START OF TRANSCRIPT]

David Kirk: Welcome everyone and thank you very much for coming to our half-year results. This year is of course the first year we have had it in the new building and I hope you have been able to get a flavour for the building as you have found it today and come through. It certainly is proving to be a great working environment for all of our staff.

I am going to run through a summary of the results at the consolidated level and also talk briefly about the operational divisions. Sankar I think I will talk in more detail about the financial performance and the balance of cash flow. I will then come back and briefly summarise and then all three of us Brian, Sankar and myself will be very happy to take any questions that you may have.

So let us get underway. The result summary at a very high level is very pleasing for the organisation. I know it is a little confusing and I'll come to it in the table on the next table, but what we think is most appropriate for you to focus on is like for like growth and that like for like growth really includes the Rural Press organisation and the [break in transmission] organisation in the two years adjusted for an additional Saturday in the 2007 year and for [break in transmission] acquisitions and divestments in the process. So it is genuine like for like trading performance.

And under those circumstances we are very pleased to report the revenue is up 5.7 per cent, EBITDA ten per cent and EBIT 11.3 per cent. The underlying earnings per share grew 8.6 per cent and those of you that know the company well will know that that's on a much expanded capital base and that we issued nearly 50 per cent again shares as part of the merger with Rural Press. So that is a pleasing result on the basis of a much bigger denominator.



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Very importantly we have made a number of acquisitions in the last couple of years and those acquisitions are all delivering our expectations. And particularly the integration of Rural Press, both in terms of the performance of the assets that came from the merger - from the Rural Press side of the merger, they performed very well in the period - and integration synergies of 9.5 million have been recorded in the first-half which puts us very much on track to deliver the [break in transmission] we forecast in this financial year and the 45 million we forecast to be delivered in cost synergies only - I stress - cost synergies in the two years to say the financial year '09.

[Break in transmission] an acquisition we made in just about [break in transmission] closed that deal at the end of March 2006. That's continuing to grow strongly. Southern Cross Synergies have been realised; quite a large number of cost synergies have already been realised of the Southern Cross acquisition although that's not relevant for these earnings in that we had the business for only six trading weeks during the period. An interim dividend of ten per cent franked to 75 per cent was declared.

I won't spend a lot of time on this, but this does seek to show the difference between the growth as reported and the growth adjusted for the separate weekend. Neither of these columns includes any Southern Cross earnings because really there is no like for like comparison sensible for just six weeks of trading.

The bottom one does include Southern Cross and Southern Star but there is nothing in the previous year so it is not like for like. The key drivers of the results are very wide spread and it is a function of the expanded and more diversified Fairfax Media that that should be the case. Running through then the key drivers of the result effectively by areas of the business we saw consistent strong performance - of course some regional variations or state by state variations depending on overall state growth - but consistently across the board we saw regional and community publications perform strongly for us.

The metropolitan results - the newspapers in Sydney and Melbourne in particular - were down year on year largely as a result of the Sydney advertising market. Melbourne on the other hand was a much firmer result. Sydney advertising markets were relatively weak overall and we know that from general macro econ because state-based macro trends and that it's most acute in the Sydney metro area as opposed to the surrounding areas or further a field in the state.

The number of one-off things that also occurred we had very little benefit from the election advertising and then during the period of the election probably that weekend was a slow period for newspaper. And in Sydney we also had the APEC weekend that fell over the weekend which also was detrimental to the earnings in the half.



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Fairfax Business Media - a national business - driven of course largely by the AFR performed strongly in the period. It has been a very strong period for *Financial News*; our circulation revenue was up as was the advertising revenue.

The agricultural performance - the agricultural sector - also [break in transmission] strongly despite the drought and of course we're gratified by the recent rains across much of rural Australia.

New Zealand Publishing returned to solid profit growth. Those of your who have covered the business for awhile will know that we have had relatively weak performance out of New Zealand for the last couple of periods, but we are pleased to report solid profit growth. Fairfax Digital and Trade Me both performed very strongly, both grew at relatively similar rates around about the 40 per cent rate I will come to that in more detail and we are delighted to be able to report that.

The metro radio and TV production - these are the assets bought from Southern Cross Broadcasting, Southern Star and now the Fairfax Radio Network both performed to our expectations to the eight-week period or six-weeks of significant trading because the two weeks after Christmas of course are very quiet periods so as part of these results there's no real new news in that.

This graph just helps to summarise at a very high level where Fairfax is at today and the diversification of revenue and earnings which flows largely from the acquisition activity, but also from the growth - the organic growth - in our online businesses.

Regional and community publishing I've talked about that. Specialist publications refer to Fairfax Business Media and also our agricultural titles; they are both national niche audiences with clearly very strong competitive positions in those national meshes.

Australian printing that is run as a profit centre and has a significant amount of external revenue. New Zealand Publications that's the newspapers and magazines, Broadcasting and Film Production, just for eight weeks of ownership and really six weeks of trading.

Online of course that's the largest growth area and fastest growing part of the business and for now a fairly large organisation with pretty significant operating earnings to see a segment of that size and continuing to grow 40 per cent clearly is a very strong position for the company to be in. And then Metropolitan Publishing which includes our magazines as well you can see is a smaller part of the overall pie, but a very important part of the overall business mix.

Just moving on then to the operational reviews or a high level summary of the businesses by segment; overall growth in the Australian publishing and printing segment - and again I focus on the adjusted percentage growth as that's the most clear like for like - was 2.3 per cent of the revenue line and



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again a very pleasing and continue theme, also helped by a synergy achievement, just a 1.3 per cent growth in costs across a very big business unit. So it is an excellent management performance delivering EBITDA growth of [break in transmission] a growth of 7.4 per cent. So a relatively sluggish advertising growth, at the aggregate level a solid EBIT performance.

Just breaking that down a little more metro and magazines I have talked a bit about this, the Sydney market was not strong in the period. Overall classified advertising, volumes were stronger particularly in the real estate segment yields were, however, lower in motors and real estate. There is a small growth in overall display advertising.

Regional and community results were stronger, favourable trading conditions across much of Australia for those businesses. Canberra performed strongly in the period.

Printing - margins in printing improved to a very solid way, partly a result of continuing operational improvement in all of the plants, but also as a result of the synergies that have been able to flow from optimisation of the former Rural Press and Fairfax products - products to be printed - and plant. So we've been able to put the right products on the right presses and in the process we have been able to improve capacity utilisation and close plants in Wagga, Nowra and Warrnambool and they were all closed with a minimum of fuss and well managed processes for employees and their communities.

Fairfax Business had a strong performance as I have said in the period, it was a very strong news period for Financial News and that's certainly continued into the New Year. But revenue and profit were strong. Market conditions have been buoyant, national display and commercial real estate markets did particularly well and as we know that draws on a national market so we do get a lot of interstate advertising and that's helpful.

AFR.com we relaunched in November and then also added the market wrapped product just before Christmas and we're very confident that's a successful launch - re-launch - and the product's performing well absolutely to expectations. We expect to see really sustained growth, traffic and earnings out of our AFR.com product over the next months and years.

The Australian Agriculture - again many of you that have followed the former Rural Press business will know that this business continues to perform well and has performed well in the face of really tough markets over the last few years and for most of the six-month period that remains a relatively tough operating period, but the business continued to perform well and delivered high revenue and profit performance. National, local and property were stronger on good volume growth.

Circulation results for our major newspapers including all around the world major newspapers, particularly metropolitan newspapers are under pressure for circulation. But we are very pleased to report a strong set of circulation



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and readership results which go with this and this has now been a consistent trend for the last two to three years. Each six-month period we've been able to report solid circulation performance, either small growth or a more or less flat performance. And as I have said consistently as a mass media product and a fragmented [break in transmission] being able to underwrite your business model by being able to consistently deliver a mass market to advertisers is a fundamental driver of the long-term performance and health of these businesses. So that is indeed an important result for us.

*The Sun Herald* by the way is down two per cent and it absorbed a price increase - the only one of our newspapers to absorb a price increase during the period - and we see that as a pretty strong result, given that the price went up.

Going then to New Zealand Publishing like for like EBITDA growth - reported EBITDA growth of 5.1 per cent like for like ads back the extra weekend. The revenue growth of just on four per cent to drive that. New Zealand therefore returns to strong growth. Real estate continued to grow strongly in New Zealand. We had a rebound of employment which had dropped off; employment revenues were strong across the board. Our suburban newspapers in Auckland did well. Then the display categories were relatively broad based but retail entertainment and travel were the strongest categories.

Cost performance in New Zealand was strong, management of cost performance was strong and the cost was the standout, but news print costs were higher as a result of the operating of the price calculation mechanism and the contract that we have.

Moving to our Australian Internet business; revenue is 39.5 higher to just under 40 per cent higher to 85.4 million. EBITDA increased 41.2 per cent and that leaves our margin relatively unchanged or pretty much unchanged and we've said consistently we expect over time our margin to move up.

It's determined very much by how much we choose effectively to invest to drive market position and we are still driving audience growth, brand awareness and recognition, traffic to our websites, establishing listings and inventory on our classifieds site, investing in the richness and capability of our news and information site, so there is still a lot of costs going into those businesses and we are quite comfortable that we are making the right decisions and establishing leadership and market position. And where we had them we intend to hold on to them so we are going to invest to make sure that happens.

Other is a category which relates largely to transaction revenues and businesses such as RSVP, InvestSMART and Stayz are the three leading businesses in that category.

As the graph on the previous page shows there is strong growth in both display and classifieds both are up more than 40 per cent. Transaction



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revenue is our key focus or an emerging component of our earnings' growth and we see that as an important third leg to our stool. The whole of Fairfax Digital is an investment in a range of broad-based businesses from news and information through classifieds and a range of transaction businesses and we think for a media company that's a good place for us to be as there are changes in the varying rates of growth which are pretty difficult to predict as I stand here, but we know will come from the different revenue models that exist on the Internet today.

The major focus in the period really was very much on building inventory, in other words building listings in the classified sites and yield management, in other words getting the price per listing up or the price per lead delivered, whatever the metric might be and we spent more money on that on putting feet on the ground and getting sales people out there driving the listings, connecting with real estate agents and employment agencies and corporates and so on than we did in driving traffic in the period.

Clearly there is a cycle of focusing on one or both - we always focus on both - but the relative focus in the period was on listings and we feel comfortable that that has been the right focus for us and we will be in a position to continue to focus on broad-based listings, traffic and yield management efforts in the future.

New initiatives were implemented successfully in the period where the acquisition and the merger of InvestSMART with our direct access business to take us comfortably to the largest independent online lead generator for the funds management business in Australia and we think that is a good business model that will continue to grow for us.

The distribution agreement with CarsGuide whereby Drive will sell across both sites. We also think it's an important consolidation in the motoring segment which will position us well in the future.

Going then to Trade Me in New Zealand; the EBITDA increased by 39.9 per cent, a very pleasing NZ\$32.6 million. The business does continue to exceed the pre-acquisition targets. We do expect pay and additional earn out in July of this year; earn out period runs to the end of March. The financial year of the former Trade Me business went on to stand alone business and our forecast at this stage is that we will plan an additional earn out.

The business maintained its [file] leadership [break in transmission]. Number one at auctions listings up year on year on a now very big base of listings; 36 per cent up, real estate up 84 per cent, Cars which is now a very big business as well up 25 per cent so that's on a big base and employment, very strong growth listings up 60 per cent. We're number two in employment, the competitor had a five-year head start on us over there, but we are very comfortable with our position and we're growing strongly and



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look forward to continuing to make good money and close the gap on the number in employment in New Zealand.

Broadcasting and production - TV and film production. The regional radio businesses that were acquired as part of the merger with Rural Press performed very well in the period. These radio stations are in Queensland and in South Australia and in both those areas they performed well. The revenue was up by 14.5 per cent, it was a very strong performance; EBITDA a huge improvement on a small number.

Market conditions were good with the businesses continuing to be run well and we expect those conditions to remain strong. We are required by ACMA to divest the Ipswich station because it has a broadcast footprint that extends into Brisbane and with the Southern Cross broadcasting acquisition we bought two radio stations in Brisbane and we are not able to own more than two in one metropolitan market. So that divestment process is underway.

Metropolitan radio and Southern Star as I said a very brief period of ownership; they delivered an EBITDA of 8.7 million which is just what we would have expected for the period. Most importantly the integration and the delivery of costs indeed out of that business are well underway. The cost restructuring of 2UE is very much a talent-driven cost restructuring. In other words with John Laws leaving and a number of other shufflings of talent we have been able to take a significant amount of cost out of the business.

The re-branding of the nationwide network of journalists and other news gatherers as Fairfax News Network has begun to work well and those of you who listen to the station will notice that there is already a pleasing amount of cross promotion available for the Fairfax News network generally.

Agricultural Publishing in the United States is another good story. This is a national niche publishing business with stronger editions and a couple of sub-segments, monthly regional publishing and in national market.

A revenue drop of 8.4 per cent so this is all just organic operational performance improvements from a strong management team and a strong positioning of this business, it was undertaken by Rural Press prior to the merger and by Brian in particular and the real benefits of that are really just coming through now. So EBITDA up 20 per cent to just on 4 million is a really strong result for the business.

The marketplace does remain competitive over there, but we feel very comfortable that that business is well established with a very strong publishing model, good people, very close relationship with its readers and its customers and it is well positioned for future growth.

So there you go it is a very diverse organisation now and as I said we have been getting a really pleasing result overall and I will just pass it to Sankar now to talk a bit more about the group financials.



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Sankar Narayan: As usual I will actually walk you through the underlying trading performance from a group perspective and take you through the adjustments and the significant items that we have disclosed.

This result as David said is a little bit more complex because there are significant items. The prior period adjustments in terms of the additional weekend, plus we actually have comparisons with Rural Press not included in the reported results, so let me just walk you through that.

Focusing on the EBITDA line starting with 46.1, that's the reported number. You have adjustments which is a significant item of \$12.3 million. I will talk a little bit more in detail. This number is actually lower than what we had disclosed or what we had anticipated at the end of the first period that is following the merger which was in August. At that time actually we talked about a number close to around \$20 million. That number is actually significantly lower than 12 million and we will talk about the components.

In the prior period 13.2. That was a one-off gain that we actually realised through the sale of the car sales stake getting to our underlying trading performance of 418.4. The numbers in that column tie in with the numbers that David talked about in slide 3, with Southern Cross so that is the underlying trading performance. But as David mentioned the prior period comparisons are not completely relevant, mainly because H1 FY07 doesn't have two adjustments. One is it doesn't have performances related to Rural Press and the second component is the additional weekend and David has walked you through the headline numbers there. It is ten per cent EBITDA growth and 11.3 EBITDA growth.

Moving through from EBIT all the way down to EPS focus on EPS; 8.6 per cent EPS growth. That actually takes into account the additional shares on issue an increase of 49 per cent from last year and the higher earnings coming in from the acquisitions and the mergers. But if you look at it in a way 8.6 per cent growth in EPS does not adjust or take into account one weekend less. So if you adjust for the increased earnings for the weekend that 11.3 per cent EBIT growth would have delivered double-digit EPS growth. So with an additional weekend we would have hit double-digit EPS growth for the period on an underlying basis like for like comparison.

If you also look at it another way there's earnings in the contribution and the additional interest from the Southern Start/Southern Cross assets; they were actually largely EPS neutral for the period. So you actually have where 11.2 per cent EBIT growth on a like for like basis - 11.3 EBIT growth on a like for like basis - gives you 8.6 as reported here or adjusting for the weekend double-digit EPS growth. But typically you would have actually seen a much bigger leverage on a stable capital structure so that 11.3 per cent EBIT growth would have given you another few percentage points on top of 11.3 on a stable capital structure in terms of what the EPS growth for the business is. So that is pretty much the growth that was



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delivered from the underlying business translating all the way down to an EPS.

Of course the dilution of 49 per cent as we said it's the worst this half in terms of a prior period comparison. This current half it reduces about 30 per cent and then for the next year it's pretty much flat year on year.

Going down to significant and non-recurring items as we said the sum total offered is less than our previous guidance and just talking about the components of it property \$2.1 million - that's the residual component of the provisions that we have taken up in the previous results in August. At that time we had a \$12.8 million post-tax gain through all of the property moves and this is the last component of it.

And then on the restructuring and the redundancy charges that is to deliver the synergies primarily from the Rural Press side and Rural Press Fairfax merger side. Not so much relating to the Southern Cross but through the previous transaction; that's just over \$10 million. The sum total of it actually gives you an 8.6 post-tax and less than the previous guidance as we said.

Moving on to the cash flows in terms of the operating cash flow year on year there's growth, but in the operating cash flows there's a \$30 million timing of cash flows. We have taken up a provision for the exit of Darling Park the last financial year. That money was paid out in the current half and if we adjust for that timing delay in terms of the outflows you would have operating cash flows in line with earnings which sees that the underlying business is generating the free cash flow as per previous pattern, so that hasn't changed in terms of underlying free cash flow being strong adjusting for the \$30 million.

I just want to spend a little bit of time on the debt structure which is very topical now, the state of the credit markets. We did [break in transmission] issue release toward the end of last calendar year in December about our debt profile and our refinancing commitment. Nothing before 2010, we've got a clear run for the next two years; you see that committed facilities' profile - maturity profile and we are quite pleased with that. And if you look at it, it actually gets paced out for the next three years and we have a few facilities in the longer term.

In terms of the source debt those diversified multiple sources, multiple geographies; actually a good profile and we are quite pleased with it. In terms of the average interest costs we have around eight per cent for the half. We expect a little bit of uptake, but we do have quite a bit of hedging in place for the second-half so around property about 2.5 higher for the next half. That is pretty much it, back to David.

David Kirk:

I wanted to just finish up and just really try and put what's becoming a much more complicated piece to report on in a slightly different context for you to talk about what we're trying to - the sort of drivers or the sort of elements



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that we think are necessary to have a successful media company, necessarily in our view multi-media company in today's world and I just thought this might be an interesting and helpful way for you to think about the business.

Firstly content. I said very consistently that we are a content company that's our fundamental history and heritage and what we want to be and what we are. So continuing to build on what we believe today in this part of the world this Australasia is unrivalled capability to create content. I say digital content there, but everything is digital content today. Everything might get distributed in a printed or physical form, but it's digital before we chose to send it out in a newspaper.

So being able to originate that content and that's obviously our general newspaper the text and the photography that goes with that and that's both metropolitan newspapers, regional newspapers, community newspapers and the reason that that spread's important or one of the reasons is that the local news and information is still a big driver of audience and readership and it's totally unique. If you have a newspaper you are developing unique content for your readers and the communities that you serve. Clearly we've got that across Australia and New Zealand and unrivalled in this market are global syndication arrangements as well.

So that's general newspapers. There's business and financial news and we think that's a fundamentally important part of us being able to service the market and great opportunities for us to continue to grow our profits and we're unrivalled in this market in business and financial news and we're increasingly developing our capacity in video and audio content. Audio content - clearly the acquisition of Southern Cross Broadcasting radio station brings audio content for us and we can originate audio content associated with our news websites as well and video news and information content; we're building that. There are for instance four studios in this building on the *Sydney Morning Herald* floor, on the Fairfax Digital floor, on the Fairfax Business Media floor and a bigger one downstairs. So creation of video and audio content is a big part [break in transmission] to do and we will continue to do.

Southern Cross/Southern Star as I should say it's a bit early to think about how the creation of that video content works in an integrated sense. It is clearly the leading creator TV and film production business in this part of the world with a great catalogue and library and the ability to distribute that globally. So there's another source of video content that will be important over time.

So the ability to create content we think is the fundamental success of media companies today. So also are brands and brands that can be extended and have been extended in a multimedia way. Not in and of themselves, but they do bring [break in transmission] and all those important things that they stand for, but largely the multimedia component of it is that they extend audience reach. And if you look at both the *Sydney Morning Herald* and



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*The Age* as a brand; if you take as a newspaper we reach about one million readers a week - one million eyeballs a week just [break in transmission]. If you take the number of people that also read smh.com or theage.com online you can add another 50 per cent to that. If you then take a group of people that only read it online there's another 50 per cent of the one million; if you then take the international audience there's over 100 per cent more read the paper currently internationally.

So you are getting to a stage where you're leveraging up the brand across eyeballs in a really, really significant way and the ability to build those multimedia brands SMH, *The Age*, afr.com, *The Land* over time for its audiences both locally, nationally and internationally is a fundamentally important part of being successful. And markets because they are Internet, because they are digital they are turning more and more to be overall opportunities in global challenges.

You have got to be on multiple platforms as well so distributing and promoting - cross-promoting great content - which is carrying and which is [led] by those great brands - across multiple platforms is fundamental to success in a multimedia world and we're working hard on that. Clearly we have our newspapers, our magazines, Internet and mobile platforms which are opportunities over time. [Break in transmission] other platforms, I mean IPTV, so video content and distribution will come it's not here in any meaningful sense at the moment, but we're positioning ourselves for that.

Fourthly and very importantly it's all very well to talk about being multimedia and it's all very well to talk about having an Internet position, but you need proven new media revenue models and that's largely from our perspective Internet or mobile models. You need revenue models that actually turn audience and brand participation online to money and we are very strongly focused on the display advertising market, the classified market, the transactions' market where the transactions' market is very largely driven by Trade Me in New Zealand, but you've seen strongly today also growing strongly in Fairfax Digital in Australia.

Subscription is the fourth component and we are very gratified that *The Wall Street Journal* has notwithstanding some earlier predisposition to go with a free model once it looked at it in detail, concluded as we had somewhat earlier that it makes sense to monetise unique highly focused brand related content in the business and financial services market via a subscription model and we expect that to be an important part of earnings growth in the future as well.

So what all of that does is add up to positioning the company for what is inevitable and still unpredictable changes in technology and media consumption habits that are driven from that technology and experiences of younger [break in transmission] in a very different media world. We believe we just fundamentally have to be positioned for those changes that we can't predict today and we think the content capability brands and extension of



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those brands and the capacity to go across multiple platforms and the understanding of the appropriate revenue models is a fundamentally strong place for us to be and we would invite you to hold our position against our competitors in this part of the world and certainly our conclusion is we are as well positioned as anyone and probably [break in transmission]

All [this] of course has got to add up to something and we believe that adds up to the basics of a strong media performance, which is all about our brands, audience and the ability to monetise that audience largely through an advertising model and we will remain in the advertising-driven business and we believe that sustained earnings per share growth offer that base of assets and the base of that positioning and a changing media market all goes well for our future in the years to come.

Thank you. We are all very happy to take whatever questions you may have.

Question:

Good morning [I am from] Credit Suisse I've got three questions. I know that you only have 20 per cent of your earnings now coming from the metro newspapers David, but could you give us a sense of what display in classified volumes may have done in the metro papers, in particular the *Sydney Morning Herald* and *The Age* versus the regionals?

And secondly, could you talk a little bit about the revenue synergy that you may have identified from the Rural Press and the radio and Southern Star acquisitions and specifically on the nine and half million dollars in synergies that you accumulated in the first-half, what the split was between printing plank closures and other cost savings?

Thirdly, Sankar you highlighted there was \$30 million in relocation costs that fell outside the period in the cash flow I just wondered in terms of your capex for the year that you identified at the end of the last results that you would probably be looking at \$160 million in capex this year; are you still on track to do that?

David Kirk:

Well let me go quite quickly through what was billed as three, but turned into five questions; a good plan. We haven't broken out in great detail the volumes and yield changes in the metro papers or in any other of our papers. What we have said is that overall volumes are up in the classifieds and that was largely driven by real estate that yields were on average down and overall added up to a net down performance in revenue.

From all of the metros taken together we've also said that Sydney was a tougher market than Melbourne and that wouldn't come as any surprise to anyone and we clearly saw that in the radio markets, for instance, obviously as well.

As far as display is concerned I think we were pretty flat overall, flat volume and yields slightly down.



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On revenue synergies we said \$45 million of cost synergies from the merger of Rural Press; we've said we believed there's at least \$5 million of revenue synergies, but we won't report to you on those revenue synergies because the time and effort to go around and get them and aggregate them it's pretty much an inexact science. But we can feel very confident that there are at least five million and number more.

I will just give you some examples. We have rolled out now across all of the newspapers in the group in Australia which is some 300 joint branding and join packaging of our real estate brand *Domain* so that's both online and in the newspapers. So there is [domain.com.au](http://domain.com.au) and there's the *Domain* brand in all of our newspapers across the whole of Australia. Now we have seen some very clear examples where that has been able to push back competitors, whether they were launching print products or they were competing online products and we have found that to be very helpful and it is clear that we have retained or grown our share of local real estate dollars because of that.

We will now do that with MyCareer across the business as well and there is a range of other joint online, national and local newspaper brand opportunities.

Cross-promotion is very difficult to put a number on, but we also believe that cross-promotion across our various [areas such as] radio, Internet and media would have helped our brand and will help our revenue over time.

How is the 9.5 in synergies split? We haven't broken that out. Printing was a good chunk of it and that is quite front ended. We didn't get all that much of it and it took through the period before the plants were closed, but the printing was a solid component of that. But of course we have a long way to go 9.5 needs to turn into 45 and we remain very confident that will happen over the two-year period.

Sankar Narayan: Capital expenditure as you see we actually had just over \$50 million for the half. We had given a guidance of around 150. A little bit delayed in terms of rolling out some of the projects only because we are proving the business cases again; we expect to spend that not all [at once]. It may happen in this financial year, we may have some spill overs into the next financial year as well.

But a couple of big projects have started. We have actually started the Christchurch upgrade; a new plant announced and a few other internal IT projects that are rolling on. So expect the capital expenditure profile, but it might be slightly delayed.

Question: (David [Digby-Gilmore] from Citigroup) A couple of questions if I may more around outlook. So firstly for your regional publications just in terms of a revenue environment that you're trading into now for the second-half of '08 and then also around the cost growth, your expectations there and then perhaps the same for the New Zealand publications?



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David Kirk:

I might do New Zealand and then Brian can comment on that. What we've said in our outlook is that we've seen in the first six weeks of the year and January is a notoriously difficult period to forecast on, so all we can say is we have seen trading conditions consistent with the first-half of the year and our outlook therefore is similar to what we have delivered in this six-month period. And that goes for New Zealand as well.

So the sorts of things we talked about in New Zealand it's returned to year on year growth. We still see solid real markets in New Zealand. They have seemingly defied gravity a little bit in New Zealand for a while and interest rates have gone up significantly in New Zealand and more quickly than Australia, but we still see real estate motoring along reasonably well. And employment advertising also is due to rebound in the first-half. There are no indications in the period we've had so far that that's changing and display advertising again is a similar trend.

So there is no particular change to any cost base in the period so we expect similar.

Question:

Thank you and in a regional sense?

Brian McCarthy:

In Australia I think there's a couple of factors there that are probably relevant, firstly the rain which has been pretty good across most of Australia particularly the east coast. WA is still a bit quiet, but we've got New South Wales down under 50 per cent drought declared now; it hasn't been there for I don't know how many years and Queensland about 60 per cent, Victoria and South Australia - still bit dry across there - but that's a significant change that we haven't had for some years.

Now it gives you a lot of confidence, but we have to get money in the bank for our farmers et cetera so until that happens it's still a potential benefit, not an actual benefit.

I think the other key factor in that area is commodity prices. If you look at wheat, wool - they're right up there against that obviously for a higher Aussie dollar, but the gains far outweigh the stronger dollar. So that's all good.

As David said in New Zealand real estate is still very strong in Australia outside of Sydney, particularly in regional markets we've had a very good run. WA is on fire whether in Perth or regional WA is still very good and we are doing very well there.

So real estate's strong, employment is strong same as David said for New Zealand; they are some of the key drivers. Our national business has been very good and there is nothing to say that won't continue and I guess that's sort of been in a more micro way.

In a macro way you might argue that interest rates and petrol prices and all those terrible things which we all face are negatives, but we all know that those are macro influences over which we have no control. But some of the



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more fundamentals I think are in pretty good shape and I don't know what the regional numbers were in terms of volumes, but I suspect they were pretty good in the first-half.

On a negative thing to be totally frank with you we did very well in the May/June period of those seven. With government advertising there is a question mark over that, that's very open and honest with you. Will that continue? Who knows, but other than that the fundamentals of the business I think are pretty good.

Question: Thanks Brian just one final question with regards to online if I could it appears that CareerOne might be catching you up there in terms of unique browsers in the job sites. I was just wondering whether you could give us estimated movements in market share for the period by way of revenue?

David Kirk: I don't know is market share and revenue available? Have we ever reported that? No. Our view is our market share is growing. I mean it is clear we have had quite high [UBs] by the way they have always had quite a lot of traffic, but it is not really for me to comment on their business too much, but our understanding is they've [relished travel to monetise it] they don't have a strong model for actually making money out of the traffic or out of the listings. That probably goes back to the fact that they used to bundle and give free leftovers from newspapers.

Sankar Narayan: UB market share is actually more divided than revenue market shares which are actually more concentrated between only two players, between MyCareer and SEEK. It's pretty much we won't see a big change to that in terms of - it's only a two party player as far as revenue market shares are concerned.

Question: (Fraser McLeish, ABN) David sorry to push a bit on the metro classifieds, but I guess it is the one part of the business that does sort of hurt you period in, period out and you were talking about volumes up, yields down; is that a strategy for cutting rates and how is that going to, trying to go forward? I am just really trying to understand what the drivers are there a bit more please?

David Kirk: I think two drivers in particular one of them is a chosen and the other is an outcome and the outcome one is a mix. So it depends on some classified categories are higher yielding than others and the very small lineage at the back of the paper; migrating that into an environment like the inserted *Domain* magazine or a display classified type environment is going to hurt overall yield. Part of that is structural we are losing - and we have been open about this - losing some of the very high yielding lineage out of the back of the newspapers it is kind of an ongoing type issue.

The other one is - the more specific choice - is in the real estate category where in the Sydney market we have in particular built a strong mid-week *Domain* zoned advertising product and then bundled the sale between a



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Saturday and a mid-week product and that's driven volume, a lot of volume into that and a net low yield.

We have done our maths extensively on that to know that that is contributing to a stronger overall profit outcome, but it does see a switch in volume and yield.

Very importantly too - thinking about the long-term here - we're building advertising products that we think have got long-term success because they are recreating a new type of advertising market and on the back of the newspaper lineage market it's an insert tabloid section, heavily coloured, photographed real estate agent branding driven type environment and while that comes as a bit of a hit for more newsprint and lower overall yields, we think creating that market and then growing off that destination market if you like for advertising is the right thing for us to do long-term for the product.

Question: Great that's very helpful. Just one more question if you like for Brian I am just wondering if you can give us an idea Brian if there would be some areas outside of the synergies that were publicly talked about where you sort of identified areas for savings and whether you have got a plan for some of those areas going forward?

Brian McCarthy: Look Fraser I think there's the integration pan that's pretty well agreed across the company that we're working through that David talked about. The sorts of things you're talking about now I think are just normal business improvement issues and we are constantly looking at things and how we can do things better.

So I think that is sort of a given that we would be trying to do things outside of that synergistic sort of identified area wherever we can in a sensible business way. So that is something we do all the time and maybe we can do a bit better than that number, but that's the official number and we will try and do better.

Question: Are you seeing quite a few things from Rural Press that you can just bring to Fairfax? Do you think there are quite a few opportunities there?

Brian McCarthy: I think there are ideas going both ways I don't think Rural Press has got all the answers; we never said that and we don't. Hopefully we'll get the best of both companies coming together. They've got some good ideas, we've got some good ideas and out of the joint entity you get a better result I mean that's really where the heads are at that's the way we're working as an executive team and through the company. How can we do things better in every way?

It doesn't matter if it's the FBN - the business area under [Michael Kewell] or any other part or Jack's part if we can work together that's the culture we're trying to create. And I won't bore you now, but there's examples of that I could list to illustrate that that's what we're doing. We've only been



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together for what eight, nine or ten months whatever it is so I think we're making good progress.

Those things will evolve and I think very importantly we need to evolve and not have a revolution; I don't think we need a revolution the company does not need a revolution in the way we change and adapt. We need evolution and that's really where our minds are at.

Question: (Roger Coleman, CCZ) This is for David. Your skills to date have been very much in acquisitions and strategic thinking. On page three the top line revenue growth like on like is 5.5 per cent which is negative on normal GDP growth and in terms of your thinking what delivered the revenue growth is the acquisitions you've made. So strategically for Fairfax looking to the next two to three years is the game finished for acquisitions to add top line revenue growth or are you going to put up with a 5.5 per cent on let's say eight per cent nominal GDP growth? That is the first question?

David Kirk: Just to get the maths right the number on page three, the focus on it is really 5.7?

Question: I'm looking at 5.5 per cent right?

David Kirk: Well yes 5.7 is the true like for like and then there's organic growth in the business because that's comparing last year's Rural Press and Fairfax pro forma with this years so that organic growth, if you want to look at what the acquisition driven growth is if you like - that's the 43 per cent or whatever...

Question: Yes but that's the question I'm asking in terms of where you see Fairfax - the financial gearing position - do you have to dial in more acquisitions over the next three to four years to deliver that top line bottom table on page three?

David Kirk: No the answer is no. I tried to explain a little bit about that at the end at a high level about what I think it takes to be successful as a media company and necessarily a digital media company today in terms of the content, origination, capability, the brands and the ability to extend those brands, the online revenue models, the capacity to distribute and monitor platforms to find our readers and viewers wherever they may be and therefore the ability to adapt to all these changing technologies and consumer consumption habits to deliver consistent earnings and growth.

And I think that with the portfolio of assets, the capability of the management and the technology that we have today we are well positioned to do that.

Question: I just have two small additional ones on page eleven, the like on like revenue growth in the Internet division after the acquisitions I think you had a baby site and country cars in there. Could you give us an idea of what the revenue growth was and was the percentage increase in banner display greater than classifieds or less?



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Sankar Narayan: Country Cars is a small business and it actually didn't materially contribute to this half's results. It actually has a good profile which will actually yield benefits in future years.

The other acquisition was in [West Mart] that happened late into the half so while there was some contribution which we are not identifying was a very small contribution to the overall revenue growth and EBITDA was a little bit smaller because we are on a fast growth profile in future earnings.

In terms of the rate of growth classifieds actually grew stronger than display so when you said both of them were about 40 per cent he actually had a stronger growth in the classified segment than display.

Question: One last quick one the floating rate to fix rate debt profile for the group at the moment thank you, percentage-wise?

Sankar Narayan: We have 60 per cent fixed.

Question: (Andrew [unclear], Deutsch Bank) I just wanted to get a bit more colour around the cost performance; 1.3 per cent increase in Australian publishing and printing? Just one or two questions - some colour around what's in there? Also are you seeing any benefits yet from the actual move to these premises, some impacts around that and just I suppose a more overall question on how you allocate costs between this division and digital, given they increasingly integrated going forward?

Sankar Narayan: In terms of the 1.3 per cent cost performance what's in that is savings from newsprint, savings from the integration savings largely flow into that and also tighter cost management so all of them actually contributed to the strong cost performance in those businesses.

In terms of the savings of moving here that is not going to be sold until FY09 and we actually have pretty much accounted for this financial year we actually had duplicated rent so the various benefits are actually going to be realised in the FY09 financial year.

What was the third question?

Question: The allocation between digital and probably revenue as well?

Sankar Narayan: Revenue - anything that Fairfax Digital writes is theirs so they have a separate sales force and all the revenues are specifically attributable to Fairfax Digital. Any costs specifically incurred by Fairfax Digital on the editorial side are Fairfax Digital's cost base. There was no attribution of cost which is not specifically repurpose but for the editorial content that comes from the *Sydney Morning Herald* and *The Age* that is actually not attributed and transferred across, but that's actually just the content that's coming from - not just that, it's a big part of it - but it's the quantum coming out of the newspapers.



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So what we have in Fairfax Digital is anything specifically required to drive the digital revenue is all sitting and fully captured in the Fairfax Digital sphere now.

[Break in transmission]

Question: (Rebecca Michele, JP Morgan) I have a few questions thank you. Firstly can you give us an idea of the break out of the contributions...

[Question interjects]

Question: (Owen Birrell, Goldman Sachs JB Were) I've just got a few questions. Firstly Sankar can you give us the average exchange rates for the US dollar and NZ dollar and the second question, you indicated that your circulations were up at the major metros. I was just wondering if you can give us a feel for what the circulation revenues did and the impact that subscription discounting had on news - your circulation revenues.

Just a bit further forward looking in terms of 2008 I was just wondering what impact you expect to see from the Beijing Olympics whether you guys benefit or the opposite?

Sankar Narayan: 1.155 is the NZ one, 0.86 is the US one.

David Kirk: I have got my head around subscription circulation revenues here. They are net up a little bit. We talked about this before we had a cycle of focusing on driving subscription revenues which are clearly migrating some people from a casual buy some days a week to a subscription for the full week, but that is at a lower price. That cycle is more advanced in Melbourne than in Sydney so my recollection is Melbourne circulation revenue growth is a bit stronger than Sydney's revenue growth, notwithstanding fairly similar outcomes when it came to volume circulation.

The circulation of the *AFR* was up quite strongly on the back of a price increase and volume increases.

The Olympics are quite a tricky one. I think it is probably slightly negative for us is my guess. In a two-week period there is less advertising and a lot of newsprint. Obviously we are going to cover them substantially and we are going to send people over to the event and we will we will cover it well and as efficiently and effectively as possible, but we need to invest the money to cover it. So will we have some new advertising packages, some specials and supplements we can do in the run up to it? My guess is - and I have never been through a full cycle of this business and I am interested in Brian's thoughts on it, but I think it is negative.

Brian McCarthy: I think that's fair. There is no positive for us The TV boys usually [acquire] all the big passages and I don't know if they make a lot out of it either, certainly in regional TV they don't. But we have a commitment to go, we've got quite a number of journalists registered et cetera and it will be probably a net negative I would think rather than a positive.



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The other issue there of course is the timing. If they could change the clock in Beijing it would help us because it's not very good for our press deadlines and things so yes it is a little bit different this time round. Although I should say it's better for online.

Question: (Alex [Bulloch], Macquarie) David a question on the display market going forward it is kind of a hard one I think. But what do you think of the kind of display market we are going to have in the next 12 months, particularly across the metros? I mean you've got sub-prime recession et cetera, but it's been weak already.

So what is the on balance view of growth in the display market for the next 12 months?

David Kirk: I think you've got to look at like segments. If we take the retail segment we are hopeful that because times are a little bit tougher in the retail segment - we've seen Myer come back into our newspapers in the last few weeks - that we will see retail being relatively - and I say relatively, compared to what we've seen in the last, this six month period where retail was relatively weak because there is a very strong retail environment we didn't have any Myer in the newspapers and I'd just say it was a relatively weak performance. So we see retail being relatively stronger.

And then if you look at the other national categories you have really got to look at them by financial services, [ITNT], travel, entertainment - a whole range of different services. It is just very hard to predict. I mean I think we have done well with tourism for instance, lately we read in the paper that today Queensland want to reduce their tourism spend. Whether that will have an impact on us we don't know. So it is very difficult to predict.

What we can do is position our products with their audience and their connection with their communities as well as we possibly can and then get out there and sell in the best possible way and then we will get what we are able to get and we think there is more and more we can do in that area, and we are going to work even harder at it than we have in the past. Then we think we will get our share.

But we certainly won't be able to control the market and if there is a softer market then that will affect us. If there is a stronger market then we will get some benefit out of that as well.

Question: (Rebecca Michele, JP Morgan) Thank you good afternoon guys just a few questions - a lot of mine have been addressed now, but firstly in terms of the circulation revenues are you seeing any increase in the subscription discount that you have to make there.

And secondly then in terms of the metro radio and Southern Star contributions if you can give us an idea of the breakdown there? And finally just more of a housekeeping issue in terms of the abnormal items in the second-half in terms of the restructuring and redundancy charges we should expect to see coming through there?



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[Break in transmission]

Question: I have a couple more for David. What proportion of the Fairfax - this year's revenues - are transaction-based, and secondly I noticed at my newsagent this morning that you are going to lift the cover price of the *Sydney Morning Herald* by ten cents on Monday.

Can you talk a little bit about what you are planning to do [break in transmission] this month?

David Kirk: Brian can comment on the *Sydney Morning Herald*. It is about 20 per cent I think is the proportion - 17. Jack knows his numbers, 17.

Jack: Is it going up?

Question: According to my newsagent this morning.

Jack: Just a joke. And the Saturday is too, ten cents they haven't gone up for I don't know three years or whatever thereabouts and they should go up, why not go up?

*The Melbourne Age* is actually already more expensive than the *Sydney Morning Herald* so there is a very good business case to say put it up and that's what we're doing.

Question: [Inaudible]

Jack: Well that is just the *Sydney Morning Herald* I am talking about. The regionals you probably know my views on regional cover price rises off by heart by now. I believe you look at it on a paper by paper basis, there is no corporate philosophy or rulings and that will I think as David [said] that will prevail and we will look at it paper by paper.

So in the half-year that we're just talking about there were very, very few went up. How many went up Bruce? One, no he went like that I think it meant one, two maybe I don't know. Very few [Fanulla] and going forward we go through all our strategies in April and all that will be decided then.

So we have really had a period of restraint in cover price rises for a little while. Perhaps if regional economies [pick up] and [there is] a bit of rain and a bit more bullish stuff out there it might give us an opportunity, but undecided is the answer going forward. Certainly Sydney goes up on Monday.

David Kirk: Thank you and thank you for coming.

[END OF TRANSCRIPT]