

## ABN AMRO COMMUNICATIONS CONFERENCE 2006

### REMARKS OF DAVID KIRK, CEO, FAIRFAX

6 APRIL 2006

#### INTRODUCTION

THIS IS MY FIRST APPEARANCE AT THE ABN AMRO COMMUNICATIONS CONFERENCE AND I VERY MUCH APPRECIATE THE INVITATION.

FAIRFAX IS A DYNAMIC AND EXCITING MEDIA COMPANY, AND I AM VERY PLEASED TO HAVE THE OPPORTUNITY TO LEAD THE COMPANY. I RETURNED LAST WEEKEND FROM A 2-WEEK TRIP VISITING INSTITUTIONAL INVESTORS AND ANALYSTS IN EUROPE AND AMERICA. I ALSO MET WITH LEADING PRINT-BASED MEDIA COMPANIES IN LONDON AND NEW YORK.

THERE IS NO DOUBT IN MY MIND THAT FAIRFAX HAS ONE OF THE STRONGEST POSITIONS, IN PRINT AND ONLINE, AMONG OUR PEERS ANYWHERE IN THE WORLD.

I AM THEREFORE OPTIMISTIC ABOUT OUR FUTURE – AS A COMPANY AND IN THE CONTEXT OF THE EVOLUTION OF THE MEDIA INDUSTRY IN AUSTRALIA – AND I WANT TO DISCUSS BOTH THOSE DIMENSIONS OF FAIRFAX'S FUTURE TODAY.

#### FAIRFAX AND THE EVOLUTION OF THE MEDIA INDUSTRY IN AUSTRALIA

SENATOR COONAN WAS HERE EARLIER THIS MORNING, AND YOU HAD THE OPPORTUNITY TO HEAR FROM HER DIRECTLY.

FIRST, I WANT TO EXPRESS MY SUPPORT FOR SENATOR COONAN AND HER EFFORTS WITH RESPECT TO MEDIA DEREGULATION. SHE IS AN EXCEPTIONALLY ABLE MINISTER, WHO IS ACROSS THE ISSUES AND WHO IS WORKING HARD TO FIND CONSENSUS ON THE IMPORTANT PUBLIC POLICY ISSUES INVOLVED. SHE IS ALSO A STRONG POLITICAL LEADER, AND I BELIEVE, IF ANYONE CAN CUT THE GORDIAN KNOT ON MEDIA REFORM, THAT SHE CAN.

SECOND, ANY CAREFUL READING OF HER PAPER SHOWS THAT SHE IS FOCUSED ON THE ENTIRE PICTURE – THE ENTIRE DIGITAL FUTURE. HER PAPER GOES BEYOND THE TRADITIONAL ISSUES OF MEDIA OWNERSHIP RULES. SENATOR COONAN WANTS AUSTRALIAN TELEVISION TO FULLY ENTER THE DIGITAL AGE – BECAUSE OF THE BENEFITS DIGITAL CAN BRING TO CONSUMERS.

THE ISSUES PAPER, THEREFORE, IS NOT A MEDIA OWNERSHIP PAPER; IT IS A PORTRAIT OF A DIGITAL LANDSCAPE FOR AUSTRALIA'S FUTURE.

I KNOW EVERYONE WANTS TO KNOW WHAT WE WILL BE SAYING IN RESPONSE TO THE DISCUSSION PAPER. AS THE GOVERNMENT ISSUED THE PAPER AND ASKED FOR COMMENTS, AND AS THEY ARE DUE ON APRIL 18, I WANT TO RESPECT THE PROCESS AND NOT PRE-EMPT IT HERE TODAY.

BUT I CAN LAY OUT SOME MARKERS THAT GUIDE OUR THINKING ON THESE ISSUES:

FIRST, ON THE BROAD DIGITAL TELEVISION ISSUES:

FAIRFAX IS NOT IN THE TELEVISION BUSINESS. THE ISSUES OF MULTICHANNELLING AND ANTI-SIPHONING AND HDTV/SDTV, AND SIMULCASTING ETC – THEY ARE ISSUES FOR THE TELEVISION INDUSTRY PLAYERS AND THEY WILL COMMENT ON THEM.

BUT AS A GENERAL RULE: THE SOONER DIGITAL TELEVISION SERVICES CAN BE INTRODUCED, THE BETTER FOR CONSUMERS AND THE INDUSTRY – JUST AS IT WAS BETTER TO INTRODUCE GSM PHONES SOONER RATHER THAN LATER, AND 3G SOONER RATHER THAN LATER. DIGITAL RADIO IS COMING IN 2009. WE SHOULD NOT HAVE TO WAIT MUCH LONGER FOR DIGITAL TV.

SECOND, ON THE PROSPECTS OF 2 NEW DIGITAL CHANNELS, FORMERLY RESERVED FOR DATACASTING:

FOR ALL THE REASONS LAID OUT IN THE DISCUSSION PAPER, THESE ARE POTENTIALLY OF INTEREST. THE PAPER LAYS OUT POSSIBILITIES FROM PAY TV SERVICES TO MOBILE VIDEO SERVICES TO NARROWCASTING AND NICHE SERVICES, ETC.

BUT IF THESE ARE STILLBORN AS SERVICES BECAUSE OF RULES THAT ARE TOO RESTRICTIVE – JUST AS DATACASTING WAS NEUTERED FIVE YEARS AGO – THEN THAT SPECTRUM WILL LIE FALLOW FOR SEVERAL MORE YEARS TO COME.

TO THE EXTENT THAT THE RULES PERMIT THE ROBUST DEVELOPMENT OF SERVICES – SERVICES THAT PROPERLY ARE NOT FREE TO AIR TELEVISION – THEN THERE MAY BE POSSIBILITIES WORTHY OF SERIOUS ATTENTION.

FAIRFAX WAS BURNED ON THIS SPECTRUM ONCE – WHEN WE WORKED HARD, IN 2000, TO TRY TO GET SOME SENSIBLE RULES WRITTEN AND THE GOVERNMENT AT THAT TIME REJECTED OUR PROPOSALS. WE SAID AT THE TIME THAT THE LEGISLATION WOULD RENDER WORTHLESS QUITE VALUABLE SPECTRUM, WITH NO NEW SERVICES DELIVERED TO THE AUSTRALIAN PEOPLE. WE WERE RIGHT.

IT WOULD BE A SHAME IF THAT MISTAKE WAS REPEATED THIS YEAR.

THIRD, ONE OF THE MOST CRITICAL COMPONENTS OF MEDIA POLICY IS IN FACT TELECOMMUNICATIONS POLICY WITH RESPECT TO THE INTERNET. BROADBAND IS AN INTEGRAL PART OF FAIRFAX DIGITAL'S FUTURE. VIDEO ON BROADBAND WILL BE AN INCREASING DRIVER OF GROWTH – AND WE WILL BE A LEADER IN VIDEO ON BROADBAND FOR OUR WEBSITES.

THEREFORE, WE URGE THE GOVERNMENT TO ENSURE THAT THERE ARE THE MOST AGGRESSIVE POLICY SETTINGS IN PLACE TO PROMOTE BROADBAND DEPLOYMENT.

IN ADDITION, THERE MUST NOT BE ANY "BACK DOOR" REGULATION OF VIDEO SERVICES AND CONTENT ON BROADBAND.

THE SPECTRUM IS NOT USED PREDOMINANTLY FOR INTERNET VIDEO SERVICES AND, AS THE ENTIRE BASIS OF BROADCASTING REGULATION IS DERIVED FROM ITS USE OF THE PUBLIC AIRWAVES, THERE IS NO BASIS WHATSOEVER FOR REGULATION OF VIDEO VIA BROADBAND.

FOURTH, WE WILL MAKE A STRONG PUBLIC POLICY CASE FOR DEREGULATION OF THE FOREIGN AND CROSS OWNERSHIP RULES.

FIFTH, WE BELIEVE THESE REFORMS SHOULD COME INTO PLACE SOONER RATHER THAN LATER.

IF THIS PACKAGE COMES TOGETHER AND PARLIAMENT APPROVES IT, WHAT WILL HAPPEN AS FAR AS FAIRFAX IS CONCERNED?

MARKETS AND OUR SHAREHOLDERS DETERMINE THE OUTCOME OF THESE THINGS.

BUT AS I HAVE SAID, AND AS THE CHAIRMAN OF FAIRFAX HAS SAID REPEATEDLY: FREE TO AIR TELEVISION IS NOT HIGH ON OUR AGENDA. WE SEE OTHER OPPORTUNITIES THAT WILL PROMOTE HIGHER GROWTH.

BUT WE WANT THE LAWS CHANGED BECAUSE MARKETS SHOULD BE FREE – THEY OPERATE BEST WHEN THEY ARE FREE – AND ALL OPTIONS FOR GROWTH SHOULD BE AVAILABLE.

#### FAIRFAX: PERFORMANCE, GROWTH AND OPPORTUNITY

TURNING TO FAIRFAX AND THE BUSINESS ITSELF, THERE ARE TWO KEY PRIORITIES WE ARE PURSUING:

TO ENSURE WE REMAIN THE PRE-EMINENT MEDIA COMPANY IN AUSTRALASIA.

FIRSTLY, WE ARE ENSURING THAT WE DEFEND AND GROW OUR NEWSPAPERS.

WE ARE CONCENTRATING ON THE EDITORIAL QUALITY OF OUR NEWSPAPERS TO DELIVER TO OUR AUDIENCES THE BEST IN NEWS, COMMENTARY AND OPINION. THE VALUE OF TRUSTED, INDEPENDENT CONTENT HAS NEVER BEEN HIGHER. WE ARE UTILISING BETTER

AND SMARTER MARKETING TO DRIVE CIRCULATION AND READERSHIP AND HAVE STARTED TO SEE POSITIVE RESULTS FROM THIS, PARTICULARLY THE GROWTH IN CIRCULATION EXPERIENCED BY ALL OUR MAJOR METROPOLITAN PUBLICATIONS OVER THE PAST SIX MONTHS.

WE ARE CONFIDENT THAT THE ACTIONS WE ARE TAKING WILL CONTINUE TO BE SUCCESSFUL IN YIELDING FURTHER CIRCULATION GAINS, THEREBY HELPING TO ENSURE THAT NEWSPAPERS RETAIN THEIR IMPORTANCE IN A FRAGMENTING MEDIA MARKET.

TV AND NEWSPAPERS HAVE TRADITIONALLY BEEN THE TWO MAJOR MEDIA ABLE TO AGGREGATE MASS AUDIENCES. THE PERFORMANCE OF ALL MAJOR NEWSPAPERS IN AUSTRALIA IN THE LAST AUDIT SHOW THAT NEWSPAPERS RETAIN THIS CAPABILITY AND ARE STRENGTHENING THEIR POSITIONS RELATIVE TO OTHER MEDIA. OTHER MEDIA ARE SEEING AUDIENCES FRAGMENT SIGNIFICANTLY FASTER.

WE HAVE ALSO CREATED INNOVATIVE PRODUCTS FOR OUR ADVERTISING CUSTOMERS, SUCH AS THE SYDNEY AND MELBOURNE MAGAZINES AND THE SUPER PANORAMA, AND POST IT NOTES ON THE FRONT PAGES, AND ZONED MID-WEEK DOMAIN INSERTS IN THE SYDNEY MORNING HERALD. THESE INNOVATIONS, COMBINED WITH THE EXCELLENT PRINTING FACILITIES WE NOW HAVE AVAILABLE, HAVE INCREASED THE OFFERINGS WE CAN MAKE TO ADVERTISERS – OFFERINGS THAT ENSURE ADVERTISERS REACH THEIR TARGET MARKETS AND PROVIDE FAIRFAX WITH NEW REVENUE STREAMS.

THE OTHER IMPORTANT ELEMENT IN ENSURING THE VIABILITY OF NEWSPAPERS IS THE SAME ELEMENT AS FACED BY EVERY OTHER BUSINESS. THAT IS, THE CONTROL OF THE COST BASE. FAIRFAX HAS ACHIEVED SIGNIFICANT COST REDUCTIONS OVER THE PAST THREE YEARS AND THIS WILL CONTINUE VIA BUSINESS PROCESS SIMPLIFICATION AND STREAMLINING WHICH WE ARE UNDERTAKING TO DRIVE FURTHER COST REDUCTIONS.

THE SECOND ELEMENT OF OUR STRATEGY AND ONE WHICH REVOLVES AROUND THE PRINCIPALS OF DIVERSITY IS TO BUILD AN OUTSTANDING DIGITAL MEDIA BUSINESS. THERE ARE TWO ELEMENTS TO THIS: FIRST, TO BUILD STRONG INTERNET POSITIONS AND SECOND TO BUILD A COMPANY THAT CREATES, COMMISSIONS, FILES AND DISTRIBUTES DIGITAL CONTENT OVER MULTIPLE PLATFORMS. WE HAVE BUILT AND ACQUIRED VERY

STRONG DIGITAL POSITIONS IN A NUMBER OF AREAS, AND AS A RESULT, WE OWN AND MANAGE THE LEADING OVERALL PORTFOLIO OF INTERNET SITES:

- WE ARE THE NUMBER ONE IN NEWS, DATING AND HOLIDAY RENTALS
- WE ARE A STRONG NUMBER TWO IN JOBS, HOMES AND CARS AND ARE IMPROVING OUR POSITIONS IN THESE AREAS ON A DAILY BASIS
- AND THE RECENT ACQUISITION OF TRADE ME IN NEW ZEALAND, WITH ITS EXCEPTIONAL POSITION IN ONLINE AUCTIONS IN THAT MARKET AND STRONG AND GROWING PRESENCE IN CLASSIFIEDS.

WE HAVE BEEN STEADILY BUILDING OUR ONLINE BUSINESSES OVER SEVERAL YEARS. I BELIEVE IT IS FAIR TO SAY, TODAY, THAT WE HAVE, FOR A MEDIA COMPANY – IN TERMS OF CRITICAL MASS IN THE BUSINESS AND THE PROFITS IT IS NOW DELIVERING TO THE COMPANY – THE STRONGEST PORTFOLIO OF DIGITAL BUSINESSES IN AUSTRALIA IF NOT GLOBALLY FOR A MEDIA COMPANY.

TODAY, OUR CAPABILITY TO DEVELOP AND DISTRIBUTE OUR CONTENT OVER MULTIPLE DISTRIBUTION PLATFORMS AND DEVICES AND DELIVER IT – EVEN WITH OUR CONTENT AGREEMENTS ACROSS ALL 4 MOBILE PHONE NETWORKS -- IS RELATIVELY LOW. WE HAVE CLEAR PLANS TO IMPROVE THIS POSITION.

WHEN COMBINING ALL OF THESE ELEMENTS, FAIRFAX NOW HAS THE FOLLOWING IMPRESSIVE CHARACTERISTICS:

- A STRONG, SUSTAINABLE AND VIBRANT PUBLISHING BUSINESS WITH STRONG CASHFLOWS, A 5% DIVIDEND YIELD, AND AN 80% DIVIDEND PAYOUT RATIO THROUGH THE CYCLE, TOGETHER WITH
- A VERY STRONG DIGITAL POSITION THAT WILL ON ANALYSTS' FORECASTS DELIVER AROUND 20% OF OUR EARNINGS WITHIN THE NEXT TWO YEARS.

THIS IS A UNIQUE PROFILE GLOBALLY THAT POSITIONS US EXCEPTIONALLY WELL FOR GROWTH IN THE CONTEXT OF STRUCTURAL CHANGE THAT IS AFFECTING THE ENTIRE MEDIA SECTOR.

THIS IS WHY I AM VERY OPTIMISTIC ABOUT FAIRFAX'S FUTURE – ORGANICALLY, STRATEGICALLY, AND IN THE ERA OF DEREGULATION.

THANK YOU – AND I AM HAPPY TO TAKE SOME QUESTIONS.