Fairfax Media Staff Bulletin – 26 August 2011

FAIRFAX MEDIA RESULTS ANNOUNCEMENT

This morning we will be presenting Fairfax Media's financial results for the year to 26 June 2011.

We will be reporting a performance that I believe is more than creditable. We have been responding decisively to the domestic and global structural changes in the media and we have been doing it during this prolonged cyclical downturn.

Despite challenging trading conditions - particularly in the last 6 months – Fairfax has delivered an underlying operating profit after tax of $273.7 million for the financial year, a decrease of only 1.8% on last year. I am grateful to all of our staff for their individual roles in delivering this result.

We should all be proud of the company's performance, which is in no small part due to our tight cost control and because our multi-platform strategy is gaining traction.

We are assisted by our strong regional and agricultural businesses, and because we have been in profitable digital businesses for a long time.

We have the best high quality independent journalism in the country and we are getting the metro business right for the new media world.

There is a lot of hard work being done by a lot of people. We are managing this difficult market because we have a plan and we are implementing it, and because we are making the changes that have to be made across the business.

Be in no doubt Fairfax has strong cashflows and we have a strong balance sheet. We are in a more than reasonable debt position – and will decrease debt further.

There are two aspects of today's announcements that I wanted to draw to your attention.

First, I want to explain the $650 million writedown that we have taken against our intangible assets – including our mastheads, licences and goodwill - reducing their value by around 10%.

This writedown is very much a technical issue arising from the accounting standards that apply to all major Australian media companies. The process of calculating the writedown relies on a long-term valuation based on a complex set of variables.

Obviously when business conditions are like they are at present, some of our assets do decline in value. Under the accounting standards we are required to reflect this change in the company's financial statements. That's why we have reported a loss after tax of $401 million.

However, the ultimate test of Fairfax's financial health is the cashflow that we generate, and the level of our debt. The writedowns have had no effect on either of these key measures. Indeed, our trading cash flows increased 8.5% to over $620 million during the financial year, while we were able to reduce our debt by $247 million.

These are not numbers that point to a business in financial stress.

A second significant matter announced today is a new program to reduce costs across our businesses by $85 million over the next two years.

While this level of cost reduction will be no small challenge, if you put the number in their true context $85 million represents only around five per cent of Fairfax's total cost base. I envisage that a significant part of the cost reductions will be delivered through printing rationalization and other process and operational changes.

While an ongoing focus on costs is a necessary response to the current business environment, our commitment to the activities that lie at the heart of Fairfax – including quality journalism and a high performing sales operation – will not change.

Similarly, continued investment in the growth and development of our digital businesses will remain part of our strategy.

I encourage you to read through the results announcement and slide presentation that are available on the Fairfax website this morning. I am sure that you will come away from them sharing my confidence in Fairfax's strategy, and in our future.

Greg