Fairfax Media Limited
Annual General Meeting
10 November, 2009
Address of Brian McCarthy

SYDNEY, 10 November, 2009

Good Morning!

I would also like to welcome you to our Annual General Meeting … and I am pleased to report to you in my first year as Chief Executive Officer and Managing Director of Fairfax Media Limited.

Today I will concentrate on a number of areas … including the 2009 financial year, new initiatives and developments, and the overall strength of Fairfax Media.

Before I comment on these areas, I would like to highlight the diversified nature of the company.

For many decades, Fairfax Media was primarily a Sydney and Melbourne newspaper centric Company. Our fortunes rested upon the economic conditions of those two cities with the profitability of Fairfax almost totally dependent upon the Saturday editions of the Sydney Morning Herald and The Age in Melbourne.

Through a number of acquisitions, we have diversified from the almost total dependence on these mastheads. Today, our media assets are spread across Australia, New Zealand and the United States and include:-

- Over 430 print publications
- Over 280 websites
- 15 commercial radio licences
- and 24 Printing centres

We are by far the most diversified media company in the Asia Pacific Region, and one of the more diversified media companies by world standards. Our results are indicative of this diversification. No segment of the business represented more than 30% of our total earnings in the 2009 financial year.

Our customer base, and therefore our sources of revenue, have expanded and our risk profile has been reduced. This leads me to the 2009 financial year results.

Without doubt the past financial year was one of the toughest years ever experienced in the commercial world. This was evident not only in the media industry, but in most businesses across the globe. Few industries escaped the ravages of the uncertain economic conditions and the significant decline in confidence in the global financial system.

For Fairfax Media, this was particularly evident during the second half of the financial year, where the speed of decline in advertising revenues was the fastest experienced in my more than 30 years in the media.

This decline was felt across all media companies, both in Australia and overseas, and for the first time affected online assets and their rate of revenue growth.

While no one foresaw the extent of the decline, Fairfax Media was ahead of the pack when it came to implementing a number of initiatives aimed at dealing with this new environment. These included:

- Implementing a new organisational structure aimed at enhancing accountability, responsibility and teamwork, and addressing organisational and attitudinal change.

- Moving to a new classified metropolitan business model by combining the strengths of our brands in print and online to sell classified space across the key categories of employment, real estate and motor vehicles. This mirrors the model in our regional markets, which has proven successful.

- Implementing a company wide management training system which increases the emphasis on our people working together as a team, develops our managers and supervisors as individuals, and provides an excellent pipeline of future senior managers for the Company.

- Lowering the cost base through the implementation of improved technologies and the changing of business processes. The cost base was reduced by 4.3% for the year and in the second half alone was down 13.6% on the same period in the previous financial year.

- And strengthening the balance sheet through the $624 million pro-rata entitlement offer, the sale of Southern Star and positive operating cash flows. This enabled a $734 million reduction in net debt during the year.

More specifically, some of the business initiatives included the installation and commissioning of new state-of-the-art printing presses in Brisbane and Christchurch; the launch of a new website, nationaltimes.com.au which has taken market leadership against our competitors; the rollout of RADAR, clever software that enhances the user experience with domain.com.au; launching a new-look drive.com.au website; format changes to the business and sports sections of The Sydney Morning Herald and The Age; upgrades to the afr.com.au site, with further ongoing user enhancements in November of this year, and February of next year.

While my focus has primarily been on important issues such as these, there is also a need to review the longer term strategic direction of Fairfax. We are currently in the process of this review. In the meantime, the existing strategy remains in place … i.e. defending and growing our publishing assets; growing our digital media businesses.

The media is a people business … and recently the skills and creativity of our staff were recognised at the Pacific Area Newspaper Publishers' Association annual conference … Fairfax staff and publications won 17 awards … including the prized Newspaper of the Year Award by the Sydney Morning Herald, and the Sunday Newspaper of the Year Award … to the Sunday Age.

And I would like to acknowledge our people … our staff …. in all areas of Fairfax Media, who have been through a lot of change over the past year: these are staff who have been asked to embrace and accept those changes, and meet the challenges and opportunities ahead … I thank the staff for their support.

We have generally maintained our newspaper circulations and these are a positive when compared to the experience of newspaper publishers in the United States and the United Kingdom.

We believe that we have been able to perform better in newspaper circulation due to a number of specific reasons, namely:

- The outstanding quality of the editorial content we produce
- The look and feel of our newspapers has evolved to meet the changed reading habits of our customers:
- The strength of our brands in their respective markets, and
- The installation of printing presses that provide full colour on every page.

Circulation isn't the only positive audience measure for us. Over the past year we have increased the audience reach in our digital assets by 46% to 21 million unique browsers a month.

Our radio ratings have also shown improvement.

Fairfax Media now has more people reading and interacting with our content than at any time in our long history. Our brands remain extremely powerful in their respective local markets and at a broader geographic level.

It is the strength of these brands and the excellent audience reach that we have that will allow us to grow. We shall continue to enhance our brands through excellence in all that we do.

I would like to take this opportunity to talk about the rollout of the National Broadband Network in Australia, and mention the ongoing issue of charging for online content.

Firstly, on the National Broadband Network. Shareholders should be assured that we are actively preparing for the opportunities this high speed broadband network will present. Although it will take a number of years for the rollout to be completed, there is no time to be wasted in developing our strategies.

Our first step has been to ensure that every newspaper masthead has its own dedicated website, which in turn allows our brands to be the leaders in the local markets in both print and online. This places us in a strong position in those markets as we remain the prime source for local news. We are also planning for a number of additional product enhancements that will further strengthen our market positions, particularly in the regional markets.

In relation to charging for online content, a great deal has been said and written on this subject over the past six months or so.

We are looking closely at this issue and at this stage we have not made a final decision as to what course of action we may take. Fairfax reaches more consumers than it ever has, and produces content that is highly valuable to these consumers. Fairfax already charges for content online in a number of areas and is constantly reviewing further opportunities to charge for content in the digital space where it makes economic and strategic sense to do so.

We are however, pleased with the profit growth we have seen from our online assets over the years and at 18% of our 2009 earnings we are positioned among the strongest of any publisher in the world.

We monetise our online audiences through our classified sites and through our transaction sites such as Trade Me, RSVP, Stayz and InvestSmart. Importantly, we are not totally dependent on display advertising for our online revenues.

It is, however, important that we maintain a high level of audience reach via our news sites such as smh.com.au and theage.com.au, plus many other sites. Charging users of these general news sites for access may not be profitable for us in the long term.

Given our online positions and the success of our various websites, we listen with interest to the public comments by other media companies about their charging intentions. Whatever we do, we shall base our decisions on what is best for Fairfax Media.

I would now like to update shareholders on current trading conditions

Advertising revenues remain below the same period last year, however advertising revenue trends have improved in recent months.

There are signs of increased confidence among our advertisers, which has been very pleasing. However this must be tempered by the uncertainty of interest rate increases on real estate markets and on retail spending during the important lead up to Christmas, and the threat of residual problems relating to the global financial crisis that may eventuate in the coming six to 12 months.

For the first four months of this half, underlying EBITDA from continuing businesses has been below the same period last year by approximately 15%.

By way of comparison, EBITDA for the last four months of the 2009 year was below the same period last year by approximately 40%.... and I have already outlined the exceptional economic conditions we encountered at that time.

In the second half of 2010, we anticipate improved business conditions to deliver modest earnings growth compared with the same period last year.

Ladies and gentlemen, I firmly believe that the initiatives we have undertaken over this past twelve months, the quality of our media assets and strength of our brands, the diversified business base that we now have and the commitment of our management, staff and Board, led by our Chairman Roger Corbett, places us in an excellent position to benefit from improvements in market conditions.

Thank you.

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Contacts:

Frank Sufferini
General Manager Investor Relations
+61 2 9282 3846