# APPENDIX 4E FINAL REPORT

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES
FOR THE PERIOD ENDED 29 JUNE 2014

# RESULTS FOR ANNOUNCEMENT TO THE MARKET

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## FINAL REPORT

The following sets out the requirements of Appendix 4E and should be read in conjunction with the attached 2014 Annual Report.

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| REPORTED | | |
|---|---|---|
| Total revenue | down 3.0% | to $1,972.7m |
| Net profit for the period attributable to members | up 1,465.8% | to $224.4m |

Refer to the attached market release for the period ended 29 June 2014 for management commentary on the results.

The accounts have been audited.

### DIVIDENDS

| | AMOUNT PER SECURITY | FRANKED AMOUNT PER SECURITY |
|---|---|---|
| **29 June 2014** | | |
| Interim dividend | 2.0¢ | 2.0¢ |
| Dividend | 2.0¢ | 2.0¢ |
| Record date for determining entitlements to the dividend | 26 August 2014 | |

### NET TANGIBLE ASSETS PER SHARE

| | **29 JUNE 2014 $** | 30 JUNE 2013 $ |
|---|---|---|
| Net tangible asset backing per ordinary share | **0.29** | 0.16 |
| Net asset backing per ordinary share | **0.85** | 0.77 |

# TRADING PERFORMANCE

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

| | | AS REPORTED | | SIGNIFICANT ITEMS (IV) | | TRADING PERFORMANCE EXCLUDING SIGNIFICANT ITEMS | |
|---|---|---|---|---|---|---|---|
| | NOTE | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 |
| Total revenue | (i) | **1,972,694** | 2,033,786 | **106,477** | 19,830 | **1,866,217** | 2,013,956 |
| Associate profits/(losses) | | **8,007** | (2,239) | **–** | – | **8,007** | (2,239) |
| Expenses | | **(1,609,387)** | (2,150,758) | **(47,909)** | (460,302) | **(1,561,478)** | (1,690,456) |
| **Operating EBITDA** | | **371,314** | (119,211) | **58,568** | (440,472) | **312,746** | 321,261 |
| Depreciation and amortisation | | **(93,517)** | (100,762) | **–** | – | **(93,517)** | (100,762) |
| **EBIT** | | **277,797** | (219,973) | **58,568** | (440,472) | **219,229** | 220,499 |
| Net finance costs | (ii) | **(10,428)** | (54,967) | **–** | – | **(10,428)** | (54,967) |
| **Net profit/(loss) before tax** | | **267,369** | (274,940) | **58,568** | (440,472) | **208,801** | 165,532 |
| Tax (expense)/benefit | | **(42,201)** | (37,912) | **8,108** | 12,569 | **(50,309)** | (50,481) |
| **Net profit/(loss) after tax from continuing operations** | | **225,168** | (312,852) | **66,676** | (427,903) | **158,492** | 115,051 |
| Net profit after tax from discontinued operations | (iii) | **–** | 311,881 | **–** | 283,444 | **–** | 28,437 |
| **Net profit/(loss) after tax** | | **225,168** | (971) | **66,676** | (144,459) | **158,492** | 143,488 |
| Net profit attributable to non-controlling interest | | **(736)** | (15,461) | **–** | – | **(736)** | (15,461) |
| **Net profit/(loss) attributable to members of the Company** | | **224,432** | (16,432) | **66,676** | (144,459) | **157,756** | 128,027 |
| **Earnings/(loss) per share** | | **9.5** | (0.7) | | | **6.7** | 5.4 |

**Notes:**

(i) Revenue from ordinary activities excluding interest income and trading results of discontinued operations.

(ii) Finance costs less interest income.

(iii) The remaining 51% of Trade Me Group Ltd was disposed of on 21 December 2012 and classified as a discontinued operation in 2013. The "As reported" net profit after tax from discontinued operations includes both trading results of this business up to the date of disposal and the profit on disposal.

(iv) Significant items are those items of such a nature or size that separate disclosure will assist users to understand the accounts. Refer to Note 4 for further details of significant items for impairments, restructuring and redundancy and gains on sale of controlled entities consistent with prior period disclosures.

# COMPLIANCE STATEMENT

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

The following sets out the requirements of Appendix 4E and should be cross referenced to the 2014 Consolidated Final Report, which is attached.

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views and other standards acceptable to the ASX.

2 This report and the accounts upon which the report is based use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on accounts to which one of the following applies.

- ☑ The accounts have been audited.
- ☐ The accounts have been subject to review.
- ☐ The accounts are in the process of being audited or subject to review.
- ☐ The accounts have not yet been audited or reviewed.

5 The entity does have a formally constituted audit and risk committee.

**Greg Hywood**
Chief Executive Officer and Managing Director

14 August 2014

## COMMENTARY ON RESULTS FOR THE FINANCIAL YEAR

Refer to media release.

# BOARD OF DIRECTORS

## ROGER CORBETT, AO

NON-EXECUTIVE CHAIRMAN,
APPOINTED TO THE BOARD 4 FEBRUARY 2003

Mr Corbett was elected Chairman of the Board in October 2009. He has been involved in the retail industry for more than 40 years. In 1984, Mr Corbett joined the Board of David Jones Australia as Director of Operations. In 1990, he was appointed to the Board of Woolworths Limited and to the position of Managing Director of BIG W. In 1999, Mr Corbett was appointed Chief Executive Officer of Woolworths Limited. He retired from that position in 2006.

Mr Corbett is a Director of the Reserve Bank of Australia, a Director of Wal-Mart Stores and Chairman of Mayne Pharma Group Limited. He is also Chairman of the Salvation Army Advisory Board (Australian Eastern Territory); a member of the Dean's Advisory Group of the Faculty of Medicine at the University of Sydney; a member of the Advisory Council of the Australian School of Business and Chairman of the University of New South Wales Centre for Healthy Brain Ageing Advisory Board.

## MICHAEL ANDERSON

NON-EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD 2 SEPTEMBER 2010

Mr Anderson has had a long career in the radio industry including as Chief Executive of Austereo Limited from 2003 until January 2010. During his time as Chief Executive he focused the company on building strong station brands and adapting the business to the changing media market including building and maintaining market leadership and developing new strategic directions, focusing on target audiences and adapting to increased competition. He launched a nationwide digital network and Australia's first digital radio station. He has been a leader in adapting radio to the digital era and is Director of Oztam Pty Limited and Ooh Media.

## JACK COWIN

NON-EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD 19 JULY 2012

Mr Cowin is the Founder and Executive Chairman of Competitive Foods Australia Pty Ltd. The company was founded in 1969. Competitive Foods owns and operates over 350 fast food restaurants in Australia, it also operates several food manufacturing plants for the supermarket and food service industries exporting to 29 countries. Mr Cowin is a Director of Network Ten, BridgeClimb and Chandler Macleod Pty Ltd, and is Chairman of Domino's Pizza Enterprises Ltd.

## GREGORY HYWOOD

EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD (NON-EXECUTIVE) EFFECTIVE 4 OCTOBER 2010
APPOINTED AS CEO AND MANAGING DIRECTOR 7 FEBRUARY 2011

Mr Hywood has enjoyed a long career in the media and government. A Walkley Award winning journalist, he held a number of senior management positions at Fairfax including Publisher and Editor-in-Chief of each of The Australian Financial Review, The Sydney Morning Herald/Sun Herald and The Age. He also held the position of Group Publisher Fairfax magazines. He was Executive Director Policy and Cabinet in the Victorian Premier's Department between 2004 and 2006, and from 2006 to 2010 was Chief Executive of Tourism Victoria. Mr Hywood is a Director of The Victorian Major Events Company.

## SANDRA MCPHEE, AM

NON-EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD 26 FEBRUARY 2010

Ms McPhee is a Director of AGL Energy Limited, Scentre Group (previously Westfield Retail Trust), Kathmandu Limited and Tourism Australia. Her previous directorships include Australia Post, Coles Group Limited and Perpetual Limited. Prior to becoming a Non-Executive Director, Ms McPhee held senior executive positions in a range of consumer oriented industries including retail, tourism and aviation, including 10 years with Qantas Airways Limited.

# BOARD OF DIRECTORS

## JAMES MILLAR, AM

NON-EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD 1 JULY 2012

Mr Millar is a Director of a number of organisations and companies including Mirvac Limited and Helloworld Limited. Mr Millar is also Chairman of The Smith Family and former Chairman of Fantastic Holdings Limited. He is the former Chief Executive Officer and Oceania Area Managing Partner of Ernst & Young and was a member of the Ernst & Young Global Board. Mr Millar is a Director, trustee or member of a number of not-for-profit and charitable organisations. He has qualifications in business and accounting and is a Fellow of both the Institute of Chartered Accountants and the Australian Institute of Company Directors.

## LINDA NICHOLLS, AO

NON-EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD 26 FEBRUARY 2010

Mrs Nicholls has more than 30 years' experience as a senior executive and company director in Australia, New Zealand and the United States. She is currently the chairman of Yarra Trams and Japara Healthcare, and a Director of Pacific Brands, Medibank Private and Sigma Pharmaceutical Group. Previously, Mrs Nicholls held the position of chairman at Healthscope and Australia Post, and was a Director of St George Bank. Mrs Nicholls has a Bachelor of Arts in Economics from Cornell University and a Masters of Business Administration from Harvard Business School, where she was formerly Trustee and Vice President of The Harvard Business School Alumni Board.

## TODD SAMPSON

NON-EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD 29 MAY 2014

Mr Sampson is the national Chief Executive Officer of Australia's leading communications company, Leo Burnett Australia. He has an MBA and has spent nearly 20 years working as a strategic advisor with a diverse range of expertise including marketing, communication, digital transformation, new media, reputational risk and corporate turnaround. He is also a writer, producer and host on a number of TV shows including the Gruen Planet, The Project and the award winning documentary Redesign My Brain.

## PETER YOUNG, AM

NON-EXECUTIVE DIRECTOR,
APPOINTED TO THE BOARD 16 SEPTEMBER 2005

Over the last 30 years, Mr Young has been an investment banking executive in Australia, New Zealand and the U.S.A. He is currently the Chairman of Barclays Australia and New Zealand and Chairman of Standard Life Investments Australia. Mr Young was a member of the Royal Bank of Scotland's Advisory Council in Australia. He also served as Chairman of Investment Banking for ABN AMRO in Australia and New Zealand, Chairman of Queensland Investment Corporation and a Director of PrimeAg Australia. From 1998 to 2002, Mr Young was Executive Vice Chairman, ABN AMRO Group (Australia and New Zealand) and Head of Telecommunications, Media & Technology Client Management for Asia Pacific. Mr Young is also a member of Standard Life plc Asia Advisory Board, a member of the Barangaroo Delivery Authority Board, a member of the Board of the Great Barrier Reef Foundation, and Governor of the Taronga Foundation. He is involved in a number of community, environmental and artistic activities.

# DIRECTORS' REPORT

The Board of Directors presents its report together with the financial report of Fairfax Media Limited (the Company) and of the consolidated entity, being the Company and its controlled entities for the period ended 29 June 2014 and the auditor's report thereon.

## DIRECTORS

The Directors of the Company at any time during the financial year or up to the date of this report are as follows. Directors held office for the entire period unless otherwise stated.

### ROGER CORBETT, AO

Non-Executive Chairman

### MICHAEL ANDERSON

Non-Executive Director

### JACK COWIN

Non-Executive Director

### GREGORY HYWOOD

Chief Executive Officer and Managing Director

### SANDRA MCPHEE, AM

Non-Executive Director

### JAMES MILLAR, AM

Non-Executive Director

### SAM MORGAN

Non-Executive Director

Resigned 29 May 2014

### LINDA NICHOLLS, AO

Non-Executive Director

### TODD SAMPSON

Non-Executive Director

Appointed 29 May 2014

### PETER YOUNG, AM

Non-Executive Director

A profile of each Director holding office at the date of this report is included in the Board of Directors section of this report.

# DIRECTORS' REPORT

## COMPANY SECRETARY

Gail Hambly is Group General Counsel and Company Secretary. She has over 25 years experience as a commercial and media law specialist. Ms Hambly is Chair of CopyCo Pty Limited and a Director of Trade Me Limited, Company B Belvoir Limited and Sydney Story Factory. She is a member of the Media and Communications Committee and the Privacy Committee for the Law Council of Australia, a member of the Advisory Board for the Centre of Media and Communications Law at the Melbourne Law School, a member of Chartered Secretaries Australia and of the Australian Institute of Company Directors. She holds degrees in Law, Economics and Science.

## CORPORATE STRUCTURE

Fairfax Media Limited is a company limited by shares that is incorporated and domiciled in Australia.

## PRINCIPAL ACTIVITIES

During the course of the financial year the consolidated entity operated as a multi-platform media, marketing services and property services Group.

The principal activities were the publishing of news, information and entertainment, advertising sales in print and digital formats, and radio broadcasting. In addition, the Group operated or held investments in several digital businesses.

There were no significant changes in the nature of the consolidated entity during the year other than the matters set out as significant changes in the state of affairs below.

## CONSOLIDATED RESULT

The profit attributable to the consolidated entity for the financial year was $224,432,000 (2013: $16,432,000 loss).

## DIVIDENDS

An interim fully franked dividend of 2 cents per ordinary share and debenture was paid on 19 March 2014 in respect of the year ended 29 June 2014.

Since the end of the financial year, the Board has declared a fully franked dividend of 2.0 cents per ordinary share and debenture in respect of the year ended 29 June 2014. This dividend is payable on 9 September 2014.

## REVIEW OF OPERATIONS

Revenue for the Group was lower than the prior year at $1,988 million (2013: $2,045 million). After significant items of $66.7 million the Group generated a net profit after tax of $224.4 million (2013: $16.4 million loss). Earnings per share increased to 9.5 cents (2013: loss 0.7 cents).

Further information is provided in the Management Discussion and Analysis Report.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

The Company repurchased some of its outstanding Senior Notes in July 2013. Of the outstanding total of US$430 million, US$224 million were repurchased.

On 6 December 2013, the Company disposed of the Stayz business for gross proceeds of $218 million.

The Company acquired 100% of the shares in Property Data Solutions Pty Ltd on 13 December 2013 for $30 million.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The consolidated entity's prospects and strategic direction are discussed in the Management Discussion and Analysis Report.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

No material non-compliance with environmental regulation has been identified relating to the 2014 financial year.

The Company reported to the Department of Climate Change on the total carbon emissions of the Group generated in the 2013 financial year under the National Greenhouse and Energy Reporting legislation. The Group's main source of carbon emissions overall was from electricity consumption at its larger sites and total scope 1 and 2 emissions reported was 79,174 (2013: 84,976) tonnes $CO_2$-e.

## EVENTS AFTER REPORTING DATE

The Group completed an agreement to merge RSVP.com.au Pty Limited with 3H Group Pty Ltd on 1 July 2014. Following the merger, the Group will hold a 58% interest in RSVP.com.au Pty Limited. The Group will no longer consolidate this entity as it does not control the financial and operating policies of the entity. The investment will be accounted for using the equity method.

# DIRECTORS' REPORT

On 10 July, the Group entered into an agreement to acquire All Homes Pty Ltd and All Data Australia Pty Ltd subject to regulatory approval. Total consideration is expected to be $50 million.

On 10 July, the Group repaid US$105 million (A$125 million) of senior notes.

## REMUNERATION REPORT

A remuneration report is set out on the pages that follow and forms part of this Directors' Report.

## DIRECTORS' INTERESTS

The relevant interest of each Director in the equity of the Company and related bodies corporate as at the date of this report are disclosed in the remuneration report.

## DIRECTORS' MEETINGS

The following table shows the number of Board and Committee meetings held during the financial year ended 29 June 2014 and the number attended by each Director or Committee member.

| | MEETINGS * | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | BOARD MEETING | | AUDIT AND RISK | | NOMINATIONS | | PEOPLE AND CULTURE | | SUSTAINABILITY AND CORPORATE RESPONSIBILITY # | |
| | NO. HELD | NO. ATTENDED | NO. HELD | NO. ATTENDED | NO. HELD | NO. ATTENDED | NO. HELD | NO. ATTENDED | NO. HELD | NO. ATTENDED |
| R Corbett ** | 8 | 7 | 5 | 5 | 3 | 3 | 8 | 8 | 1 | 1 |
| G Hywood *** | 8 | 8 | 5 | 4 | – | – | 8 | 7 | 1 | 1 |
| M Anderson | 8 | 8 | – | – | – | – | 8 | 8 | 1 | 1 |
| J Cowin | 8 | 7 | – | – | – | – | 8 | 7 | – | – |
| S McPhee | 8 | 7 | – | – | – | – | 8 | 8 | 1 | 1 |
| J Millar | 8 | 8 | 5 | 5 | 3 | 3 | – | – | – | – |
| S Morgan | 7 | 6 | – | – | – | – | – | – | 1 | 1 |
| L Nicholls | 8 | 8 | 5 | 5 | 3 | 3 | – | – | – | – |
| T Sampson | 2 | 2 | – | – | – | – | – | – | – | – |
| P Young | 8 | 7 | 5 | 4 | 3 | 1 | – | – | – | – |

* The number of meetings held refers to the number of meetings held while the Director was a member of the Board or Committee.

** Mr Corbett, Chairman, is an ex officio member of all Board committees.

*** Mr Hywood attends the Audit and Risk, People and Culture and Sustainability and Corporate Responsibility Committee meetings as an invitee of the Committees.

# The Sustainability and Corporate Responsibility Committee was dissolved in December 2013.

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Directors of the Company and such other officers as the Directors determine, are entitled to receive the benefit of an indemnity contained in the Constitution of the Company to the extent allowed by the *Corporations Act 2001*, including against liabilities incurred by them in their respective capacities in successfully defending proceedings against them.

During or since the end of the financial year, the Company has paid premiums under contracts insuring the Directors and officers of the Company and its controlled entities against liability incurred in that capacity to the extent allowed by the *Corporations Act 2001*. The terms of the policies prohibit disclosure of the details of the liability and the premium paid.

Each Director has entered into a Deed of Access, Disclosure, Insurance and Indemnity which provides for indemnity by the Company against liability as a Director to the extent allowed by the law.

There are no indemnities given or insurance premiums paid during or since the end of the financial year for the auditors.

# DIRECTORS' REPORT

## NO OFFICERS ARE FORMER AUDITORS

No officer of the consolidated entity has been a partner of an audit firm or a Director of an audit company that is the auditor of the Company and the consolidated entity for the financial year.

## NON-AUDIT SERVICES

Under its Charter of Audit Independence, the Company may employ the auditor to provide services additional to statutory audit duties where the type of work performed and the fees for services do not impact on the actual or perceived independence of the auditor.

Details of the amounts paid or payable to the auditor, Ernst & Young, for non-audit services provided during the financial year are set out below. Details of amounts paid or payable for audit services are set out in Note 31 to the financial statements.

The Board of Directors has received advice from the Audit and Risk Committee and is satisfied that the provision of the non-audit services did not compromise the auditor independence requirements of the *Corporations Act 2001* because none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration under section 307C of the *Corporations Act 2001* follows this report.

During the financial year, Ernst & Young received or were due to receive the following amounts for the provision of non-audit services:

Subsidiary company and other audits required by contract or regulatory or other bodies:

- Australia $178,249
- Overseas $71,948

Other assurance and non-assurance services:

- Australia $110,164

## ROUNDING

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts contained in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed on behalf of the Directors in accordance with a resolution of the Directors.

**Roger Corbett, AO**
Chairman

**Greg Hywood**
Chief Executive Officer and Managing Director

14 August 2014

# AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Building a better working world

## Auditor's Independence Declaration to the Directors of Fairfax Media Limited

In relation to our audit of the financial report of Fairfax Media Limited for the financial year ended 29 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Douglas Bain
Partner
14 August 2014

# REMUNERATION REPORT

Dear shareholder

On behalf of the Board, I am pleased to present Fairfax Media's Remuneration Report for 2014.

At the 2013 Annual General Meeting shareholders approved the Remuneration Report including the Transformation Incentive Plan (TIP). The TIP was developed to support the achievement of the Company's strategic transformation by concentrating most incentives on the longer term and setting annual targets which represent milestones on the way. This is why the TIP incentives are heavily weighted to longer term equity opportunities. We are not proposing any changes to the executive remuneration structure for 2015.

The Company's strategic goals are referred to later in this report.

We implemented the TIP in 2014. This replaced the previous short term and long term incentive plans. The TIP strongly aligns executive rewards with shareholder interests because any incentive award for executive Key Management Personnel (KMP) is made entirely in equity, through a combination of options and deferred performance shares which are subject to achievement of hurdles.

Seventy percent of the TIP equity is in the form of options. These options are only exercisable if a challenging performance hurdle linked to Total Shareholder Return (TSR) over a three to four year period is achieved.

The remaining 30% of the TIP incentive is an annual grant of deferred performance shares. Performance shares are allocated if annual targets in the Company's transformation plan are achieved. The targets are set at the beginning of each year and are largely financial. They include earnings before interest, tax, depreciation and amortisation (EBITDA), revenue, targets and cost reduction. Details of the objectives and outcomes for 2014 are set out in detail later in this Report.

2014 saw significant improvement in returns to shareholders:

- the share price increased significantly;
- dividends doubled;
- earnings per share increased 78% (for continuing businesses and after significant items);
- costs savings continued to favourably impact profitability;
- Domain EBITDA grew by 39% year on year;
- debt reduced by $222 million resulting in a net cash position of $68 million at year end; and
- portfolio assets reviewed to maximize long term value resulted in the very successful sale of the Stayz business for $218 million.

The options awarded under the TIP provide no short term reward. Their exercise is subject to the achievement of an absolute TSR performance condition measured over an initial 3 year period, so no options were tested for vesting in 2014. The strong performance in 2014 is however reflected in the number of deferred performance shares granted to the executive KMP. The value of these performance shares in the future, after the deferral of entitlement will depend on the value of Fairfax shares at the time so they continue to motivate the executives to improve the value of the Company.

In addition to the TIP the following changes to the remuneration framework were introduced during 2014:

- KMP volunteered to sacrifice 10% of their annual fixed remuneration into Fairfax shares;
- 10% reduction in Non-Executive Directors base fees from 1 July 2013;
- reduction in total Board Committee fees by discontinuing the Sustainability and Corporate Responsibility Committee and dividing its responsibilities between the Audit & Risk and the People & Culture Committees from January 2014; and
- no fees for Nomination Committee membership.

On behalf of the Board, I would like to thank our executives for their tireless efforts in achieving significant progress for the Company in the past year.

The Board recommends the Remuneration Report to you and asks that you support our remuneration policies and practices by voting in favour of this Report at our 2014 Annual General Meeting.

Yours faithfully

**Sandra McPhee, AM**
Chair – People and Culture Committee

# REMUNERATION REPORT (AUDITED)

## 1. INTRODUCTION

This report forms part of the Company's 2014 Directors' Report and sets out the Fairfax Group's remuneration arrangements for Key Management Personnel (KMP) in accordance with the requirements of the *Corporations Act 2001* and its regulations. KMP comprises Directors and members of the senior executive team who have authority and responsibility for planning, directing and controlling the activities of the Fairfax Group.

The KMP for the financial year are set out in Table 1.

**Table 1**

| NAME | ROLE |
|---|---|
| **Non-Executive Directors** | |
| Roger Corbett | Non-Executive Chairman |
| Michael Anderson | Non-Executive Director |
| Jack Cowin | Non-Executive Director |
| Sandra McPhee | Non-Executive Director |
| James Millar | Non-Executive Director |
| Sam Morgan (1) | Non-Executive Director |
| Linda Nicholls | Non-Executive Director |
| Todd Sampson (2) | Non-Executive Director |
| Peter Young | Non-Executive Director |
| **Executive Director** | |
| Greg Hywood | Chief Executive Officer |
| **Other Executives** | |
| David Housego | Chief Financial Officer |
| Gail Hambly | Group General Counsel/Company Secretary |
| Allen Williams | Managing Director, Australian Publishing Media |

(1) Sam Morgan retired from the Board on 29 May 2014.
(2) Todd Sampson joined the Board on the 29 May 2014.

# REMUNERATION REPORT (AUDITED)

## 2. KEY REMUNERATION CHANGES DURING 2014 TO SUPPORT THE COMPANY'S TRANSFORMATION STRATEGY

The Board implemented a number of changes to the Company's remuneration framework during 2014. The changes were set out in the Company's 2013 Remuneration Report which was approved by shareholders. Overall the targets for the Transformation Incentive Plan for senior executives (TIP) are set to drive the transformation strategy. The company is transforming an old publishing business into a multi-platform media organisation and growing new businesses such as property, marketing and data services, events and related digital businesses. Ultimately the goal is a sustainable growing business which delivers consistent value to shareholders. Details of the TIP targets are set out later in this Report.

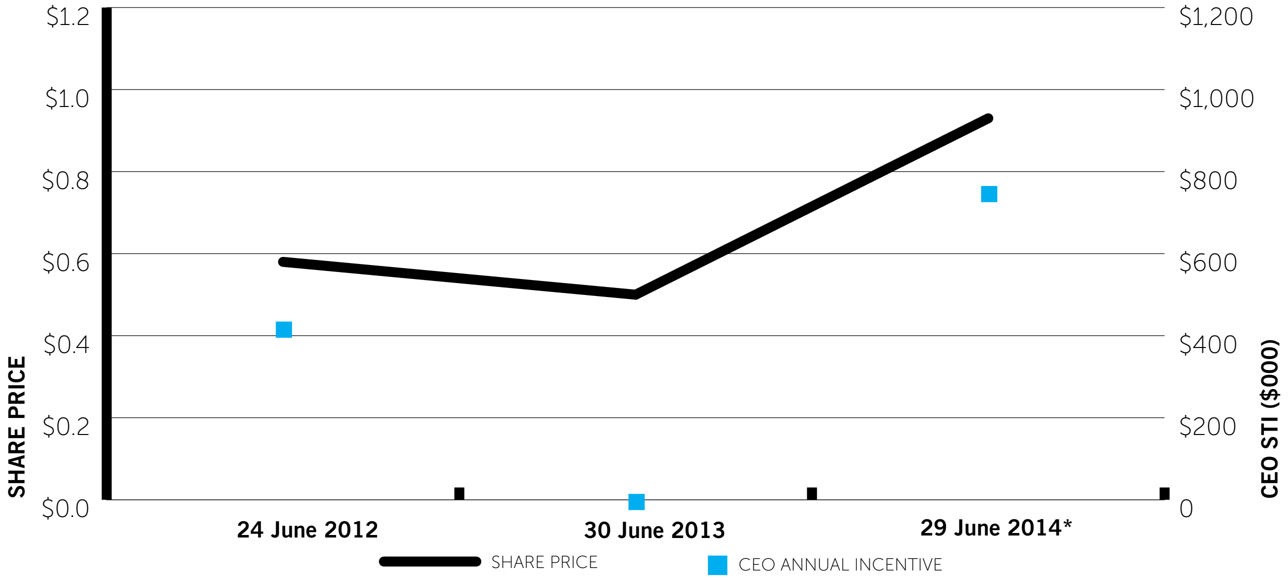
As well as the TIP the following changes were made in 2014:

- executive KMP volunteered to sacrifice 10% of their annual fixed remuneration to purchase Fairfax shares;
- the freeze on fixed remuneration for the vast majority of our senior executives continued; and
- Non-Executive Directors agreed to a reduction of 10% in their base fees, no Nominations Committee fees have been paid, and the responsibilities of the Sustainability and Corporate Responsibility Committee were incorporated into the Audit & Risk and the People & Culture Committees.

Further details of the TIP are set out below.

The new remuneration structure aligns executive rewards with our shareholders over the medium and longer term and provides an appropriate incentive to deliver on our strategy. The diagram below demonstrates the link between the Company performance in 2014 and the value of the CEO's annual incentive. The annual incentive earned by the CEO for 2014 is in line with the performance of the Company. Under the TIP rules, the annual incentive earned in 2014 by KMP will be entirely delivered by the grant of deferred performance shares.

**SHARE PRICE AND CEO ANNUAL INCENTIVE**




Note – share price relates to closing price at financial year end date.

* Introduction of TIP with annual incentive awarded in the form of deferred performance shares. Prior to 2014 the short term incentive arrangements was paid in cash.

# REMUNERATION REPORT (AUDITED)

## 3. REMUNERATION FRAMEWORK AND GOVERNANCE

Please Note. The following principles and framework were detailed in the Company's 2013 Remuneration Report and approved by shareholders. In 2014 the approved principles and framework were implemented.

### 3.1 REMUNERATION PRINCIPLES AND FRAMEWORK

#### FAIRFAX MEDIA EXECUTIVE REMUNERATION FRAMEWORK

The objectives of the Company's executive remuneration framework are to align executive remuneration with the creation of value for shareholders, achievement of strategic objectives, and to have regard to the employment market so as to be able to attract and retain key people.

The **executive remuneration framework** comprises a mix of fixed and performance based components.
**The framework aims to:**

- align remuneration with achievement of business strategy;
- fairly remunerate and reward for achievement of Group strategic milestones, with incentive payments deferred to promote alignment with shareholder interests;
- attract, retain and motivate talented, qualified and experienced people in the context of industry changes; and
- be transparent and fair.

**Fixed remuneration package**

- set to attract and retain high calibre talent to drive the Company's transformation strategy
- has regard to the scope of the individual's role, level of knowledge and experience, and the market (including Fairfax's competitors)
- most senior executives' fixed remuneration was frozen in 2014
- for 2014, executive KMP volunteered to sacrifice 10% of their annual fixed remuneration into Fairfax shares
- acknowledging the voluntary sacrifice, and as a further retention mechanism, if the executive KMP is still employed at the end of a 2 year period, then Fairfax will provide one additional bonus share for every five shares purchased by the executive through the voluntary salary sacrifice arrangement

**Performance Based Incentives – Transformation Incentive Plan**

- the new Transformation Incentive Plan (TIP) was implemented during 2014 replacing the former short term and long term incentive plans. The TIP better aligns executive outcomes with shareholder interests and provides rewards on delivery of our strategy
- the TIP is designed to reward the most senior executives if they achieve the transformation plan for the Company over 3–4 years
- steps in the transformation are designed to translate into enhancement of shareholder wealth over time
- under the TIP, long term options are issued. The options are exercisable only if challenging absolute shareholder return objectives are achieved at the end of the vesting period
- a smaller proportion of deferred performance shares are granted if specific annual business metrics linked to the transformation of the Company (including linked to EBITDA, revenue and cost reduction) are achieved. Metrics are measurable and are weighted and tailored according to each executive's responsibilities
- rewards under the TIP are delivered in equity for executive KMP (i.e. no cash payments) in order to further incentivise growth in shareholder returns
- any performance shares earned are deferred so that executives do not become entitled to the equity until later in the transformation process which also promotes and rewards longer term service by the executives

# REMUNERATION REPORT (AUDITED)

### 3.2 REMUNERATION GOVERNANCE

The Board's goal is that Fairfax's executive remuneration strategy aligns with Company performance and shareholder interests and supports achievement of the business strategy.

Importantly, the Board is focused on delivering a remuneration framework that attracts and retains the right executive team to establish and deliver upon Company strategy, and that remuneration arrangements support achievement of that strategy and growth in shareholder value.

The People and Culture Committee (P&CC), comprising solely of Non-Executive Independent Directors, assists the Board in discharging its duties.

The members of the P&CC during 2014 were:

- Sandra McPhee (Chair);
- Roger Corbett;
- Michael Anderson; and
- Jack Cowin.

The CEO, CFO, Group General Counsel/Company Secretary and Group Director Human Resources attend P&CC meetings as invitees except when their own performance or remuneration arrangements are being discussed.

The Board has a formal Charter for the P&CC which sets out the responsibilities, composition and rules of the Committee. The Committee's primary responsibilities include making recommendations in relation to executive remuneration that support the remuneration strategy and the performance conditions that underpin it, to promote the achievement of the Group's strategy, make recommendations to the Board on Non-Executive Directors fees and review and recommend the aggregate remuneration pool of Non-Executive Directors, within the maximum amount approved by shareholders. Further details of the role and responsibilities of the Committee are set out in its Charter, which is available on the Fairfax Media website; www.fairfaxmedia.com.au

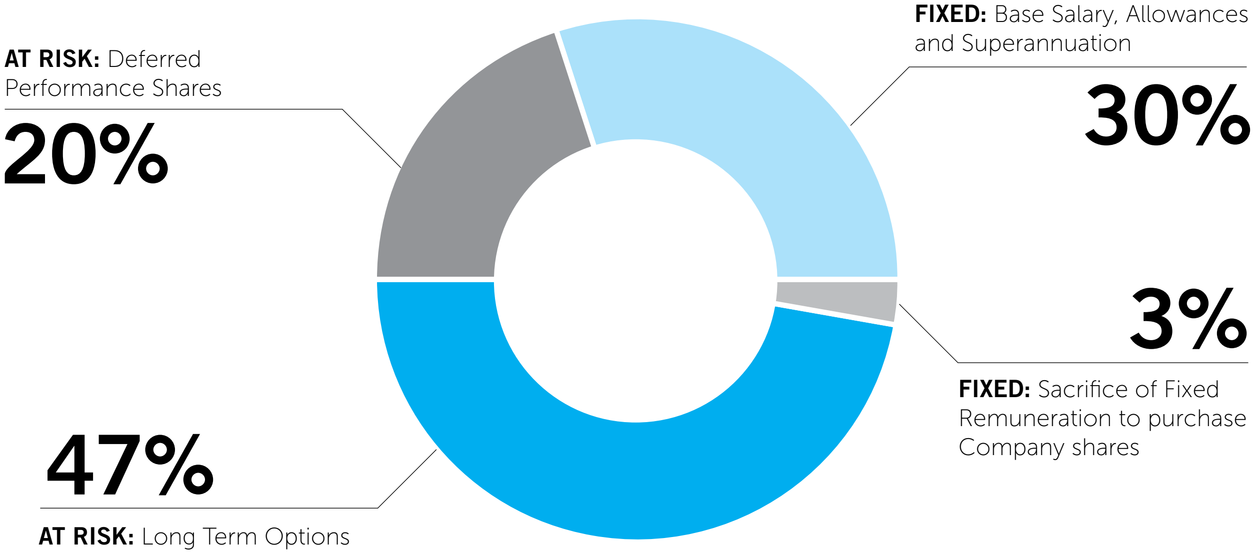
The Committee engages independent remuneration consultants to provide advice and information regarding market relativities as required. During the year JWS Consulting was engaged by the Committee to assist with implementation of the changes to remuneration arrangements summarised in Section 3.1 above. The fees paid to JWS Consulting were $25,000 plus GST.

JWS Consulting has provided confirmation that the recommendations provided were free from 'undue influence' by the members of the KMP to whom the recommendations related and, based on these confirmations, the Board is satisfied that the recommendations were made free from any undue influence.

# REMUNERATION REPORT (AUDITED)

## 3.3 REMUNERATION MIX

The Board considers that a significant proportion of executive remuneration should be 'at risk', and linked to Fairfax's short and long term strategy and performance. The following diagram provides the executive KMP remuneration mix for the 2014 financial year at maximum achievable value.




Note – Long Term Options are granted at on-target performance. Determination of further options up to the maximum opportunity will be at the Board's discretion based on the outcomes against the performance hurdles at the conclusion of the performance period.

## 3.4 EXECUTIVE SHAREHOLDINGS

The Company encourages executives to hold Fairfax Media shares to align their interests with our shareholders, and the Company's new remuneration framework has been developed with this in mind.

To reinforce this, as summarised in Section 3.1, during 2014 executive KMP sacrificed 10% of their fixed remuneration, post-tax, into Company shares. Furthermore as detailed in section 4.1, the Transformation Incentive Plan rewards executives with the issue of long term options exercisable only if challenging absolute shareholder return objectives are achieved, and also with the achievement of annual objectives through delivery of Performance Shares that are restricted for a period.

Executive KMP equity holdings disclosure as at 29 June 2014 is set out below:

# REMUNERATION REPORT (AUDITED)

## (A) SHAREHOLDINGS OF EXECUTIVE KMP

Table 2

**2014**

| EXECUTIVE KMP | BALANCE AT 30 JUNE 2013 | NET CHANGE [1] | BALANCE AT 29 JUNE 2014 | POST YEAR-END ACQUISITIONS | POST YEAR-END DISPOSALS | POST YEAR-END BALANCE |
|---|---|---|---|---|---|---|
| G. Hywood | 318,343 | 110,912 | 429,255 | – | – | 429,255 |
| D. Housego | 291,139 | 57,182 | 348,321 | – | – | 348,321 |
| G. Hambly | 104,815 | 43,321 | 148,136 | – | – | 148,136 |
| A. Williams | – | 44,200 | 44,200 | – | – | 44,200 |
| **Total** | **714,297** | **255,615** | **969,912** | – | – | **969,912** |

(1) Includes shares acquired by sacrifice of 10% of fixed remuneration.

**2013**

| EXECUTIVE KMP | BALANCE AT 24 JUNE 2012 | NET CHANGE | BALANCE AT 30 JUNE 2013 | POST YEAR-END ACQUISITIONS | POST YEAR-END DISPOSALS | POST YEAR-END BALANCE |
|---|---|---|---|---|---|---|
| G. Hywood | 118,343 | 200,000 | 318,343 | – | – | 318,343 |
| D. Housego | – | 291,139 | 291,139 | – | – | 291,139 |
| G. Hambly | 104,815 | – | 104,815 | – | – | 104,815 |
| A. Williams | – | – | – | – | – | – |
| B. Cassell [2] | 1,061,014 | – | 1,061,014 | | | 1,061,014 |
| **Total** | **1,284,172** | **491,139** | **1,775,311** | – | – | **1,775,311** |

(2) The closing balance represents the number of shares at the date of resignation. Mr Cassell ceased in the position of CFO on 3 Dec 2012 and resigned on 1 July 2013.

## (B) RIGHTS OVER SHAREHOLDINGS OF EXECUTIVE KMP

Details of the TIP can be found in section 4.1 and the Long Term Incentive Plan prior to 2014 in section 6.

Table 3

**2014**

| EXECUTIVE KMP | BALANCE AT 30 JUNE 2013 | GRANTED AS REMUNERATION | NET CHANGE [2] | CLOSING BALANCE AT 29 JUNE 2014 [3] |
|---|---|---|---|---|
| G. Hywood | 10,403,380 | 8,000,000 | – | 18,403,380 |
| D. Housego | 3,666,667 | 4,125,000 | – | 7,791,667 |
| G. Hambly | 2,690,313 | 3,125,000 | (56,488) | 5,758,825 |
| A. Williams | 1,837,124 | 3,875,000 | – | 5,712,124 |
| **Total** | **18,597,484** | **19,125,000** | **(56,488)** | **37,665,996** |

**2013**

| Executive KMP | BALANCE AT 24 JUNE 2012 | GRANTED AS REMUNERATION | NET CHANGE [2] | CLOSING BALANCE AT 30 JUNE 2013 |
|---|---|---|---|---|
| G. Hywood | 1,514,491 | 8,888,889 | – | 10,403,380 |
| D. Housego | – | 3,666,667 | – | 3,666,667 |
| G. Hambly | 717,949 | 2,083,333 | (110,969) | 2,690,313 |
| A. Williams | – | 1,837,124 | – | 1,837,124 |
| B. Cassell [1] | 785,983 | – | (121,057) | 664,926 |
| **Total** | **3,018,423** | **16,476,013** | **(232,026)** | **19,262,410** |

(1) The closing balance represents the number of rights over shareholdings at the date of resignation. Mr Cassell ceased in the position of CFO on 3 Dec 2012 and resigned on 1 July 2013. Any unvested rights were forfeited.

(2) Net change movements due to forfeitures.

(3) The number of deferred Performance Shares granted under the 2014 Transformation Incentive Plan is determined based on the Volume Weighted Average Price (VWAP) of the Company share price in the 5 days commencing the day after the August 2014 results announcement. The rights over shares for this plan have therefore not been included in the above table for 2014.

# REMUNERATION REPORT (AUDITED)

## 4. INCENTIVE REMUNERATION OF EXECUTIVE KMP

### 4.1 TRANSFORMATION INCENTIVE PLAN (TIP) APPROVED AT 2013 AGM

The following table sets out how the Company's TIP operated during the 2014 financial year.

**Table 4**

DETAIL OF TRANSFORMATION INCENTIVE PLAN

| | |
|---|---|
| **What is the TIP and who participates?** | As summarised in Section 3.1, the TIP is designed to reward executives for achieving objectives linked to the Company's transformation strategy and for creating growth in shareholder value. The TIP is weighted heavily to the long term.<br>Senior executives whose roles and skills are critical to the strategy of the Group are eligible to participate in the TIP.<br>Executive KMP are offered an incentive opportunity that comprises:<br>• options (70% of total incentive opportunity); and<br>• deferred performance shares (30% of total incentive opportunity). |
| **OPTIONS** | |
| **How is the options grant determined?** | Options are granted each year with an exercise price determined by the Volume Weighted Average Price (VWAP) of Fairfax shares over the 5 trading day period commencing on the day after the Fairfax AGM.<br>Each option entitles the participant to one ordinary Company share, subject to achievement of the performance and service conditions and payment of the exercise price.<br>The value of options granted depends on the participant's role and responsibilities. The number of options granted is set by an independent valuation based on the Monte Carlo pricing model.<br>Before the options can vest and be exercised, the granted options are subject to an absolute total shareholder return (absolute TSR) condition which must be satisfied over the 3 year performance period.<br>Options are granted at on-target opportunity. Determination of further options up to the maximum opportunity will be at the Board's discretion based on the outcomes against the performance hurdles at the conclusion of the performance period. |
| **What is the performance period?** | Initially, three years. |
| **Are the performance conditions re-tested?** | There are re-tests of the performance hurdles in the fourth year if the performance hurdles are not achieved in the initial 3 year performance period. Two further re-testing opportunities at six monthly intervals will occur.<br>In order for the condition to be met on re-testing, absolute TSR on a cumulative basis will be tested over the extended period.<br>If the condition is met over the extended period, the Board considers it appropriate that executives should be rewarded along with shareholders.<br>Any options that remain unvested after the final re-test will lapse immediately.<br>The Board is cognisant that a number of factors can impact the outcome against an absolute TSR condition, including general market volatility at the time, which is outside of the influence of executives. Accordingly, the Board wants to ensure that executives are not penalised for factors outside of their control. |

# REMUNERATION REPORT (AUDITED)

DETAIL OF TRANSFORMATION INCENTIVE PLAN

**What are the performance hurdles?**

**Why were they chosen?**

Options will not vest unless the compound annual growth rate (CAGR) targets for absolute total shareholder return growth (absolute TSR) are met. Absolute TSR measures growth in shareholder wealth over the performance period as it takes into account both share price growth as well as dividends paid to shareholders.

The applicable targets are set out in the table below.

| Performance | % exercisable | Absolute TSR growth |
|---|---|---|
| Threshold | 25% | 15% CAGR |
| Target | 50% | 20% CAGR |
| Stretch | 100% | 25% CAGR |

The Board adopted absolute TSR as the performance condition for the options as it considers share price growth and other distributions to shareholders to be a key indicator of Fairfax's success over the coming years.

The Board believes that the level of growth required in order for the options to vest would result in a healthy rate of return to shareholders. The Board also considers absolute return targets to be appropriate during the current rebuilding phase, rather than a relative measure against a variety of companies that are not facing the issues Fairfax currently faces.

Notwithstanding these targets, the Board has discretion to deem performance conditions not met if vesting would otherwise only occur as a result of extraneous factors, such as speculation about a takeover bid for the Company. The Company considers it important that any award of options reflects the quality of the Company's performance and excludes any independent factors.

## DEFERRED PERFORMANCE SHARES

**How is the grant of deferred performance shares determined?**

Performance shares are granted if participants achieve certain annual objectives that are linked to the Company's transformation strategy.

The actual number of performance shares granted will be dependent on the participants' performance outcomes for the year and the Volume Weighted Average Price (VWAP) of the Company share price in the 5 days commencing on the day after the August 2014 results announcement.

The objectives are set annually by the Board to provide flexibility to moderate, change or introduce new measures as the transformation strategy progresses through each stage of implementation.

Performance shares are granted on a deferred basis to ensure that the value of any award continues to be linked to shareholder value. Accordingly, 50% of the shares allocated to a participant following testing in 2014 are deferred for 12 months (i.e. until 2015) and the remaining 50% are deferred for 24 months (i.e. until 2016).

# REMUNERATION REPORT (AUDITED)

DETAIL OF TRANSFORMATION INCENTIVE PLAN

**What are the performance conditions?**

Performance shares are granted at the end of the relevant financial year if a participant achieves specific performance conditions linked to the transformation strategy.

**Why were they chosen?**

For every participant in the TIP, the majority of their opportunity is tied to financial milestones such as EBITDA, revenue and costs targets. The remaining portion of the opportunity comprises non-financial milestones that drive performance against key business outcomes.

The specific targets and weighting are tailored to each executive based on their role (and including, for example, whether it is tied to Group or business unit metrics). Further detail around the targets for 2014, and the weightings that apply in respect to executive KMP, are set out in the table below:

| TARGET | GREG HYWOOD | DAVID HOUSEGO | GAIL HAMBLY | ALLEN WILLIAMS |
|---|---|---|---|---|
| **EBITDA**<br>Achieve group and/or divisional EBITDA targets set in reference to the FY14 budget and FY13 performance. | 50% | 50% | 50% | 50% |
| **Revenue**<br>Achieve revenue growth and/or revenue adjacency targets at group and/or division level. | 20% | 10% | 5% | 20% |
| **Cost**<br>Achieve cost reduction targets for group and/or division. | 15% | 20% | 10% | 10% |
| **Key Business Outcomes**<br>Achieve strategic outcomes relating to business plan and transformation strategy. | 10% | 15% | 30% | 15% |
| **Safety**<br>Achieve reduction targets relating to LTIFR and HSE plan initiatives. | 5% | 5% | 5% | 5% |

**Transformation Strategy**

Overall, the targets are set to drive the transformation strategy. The Board believes that generating new revenue streams and containing our cost structure should translate into shareholder value. The Board selected these milestones with a view to setting clear and measurable objectives, over which executives have a clear line of sight.

We are transforming our old publishing business into a multi-platform media organisation and growing new businesses, such as property, marketing and data services, events and related digital businesses. Ultimately the goal is a sustainable, growing business which delivers consistent value to shareholders.

**What is the performance period?**

One year. Performance Shares are awarded by reference to transformational objectives that are set at the start of each year. Performance shares are granted at the end of the relevant financial year if specific goals are achieved.

**Are the performance conditions re-tested?**

No.

## GENERAL

**Is there an ability to claw back awards under the TIP?**

Yes. The Board has the discretion to claw back awards made under the TIP to ensure that participants do not unfairly benefit, including in the event of fraud, dishonesty or a breach of obligation to the Company.

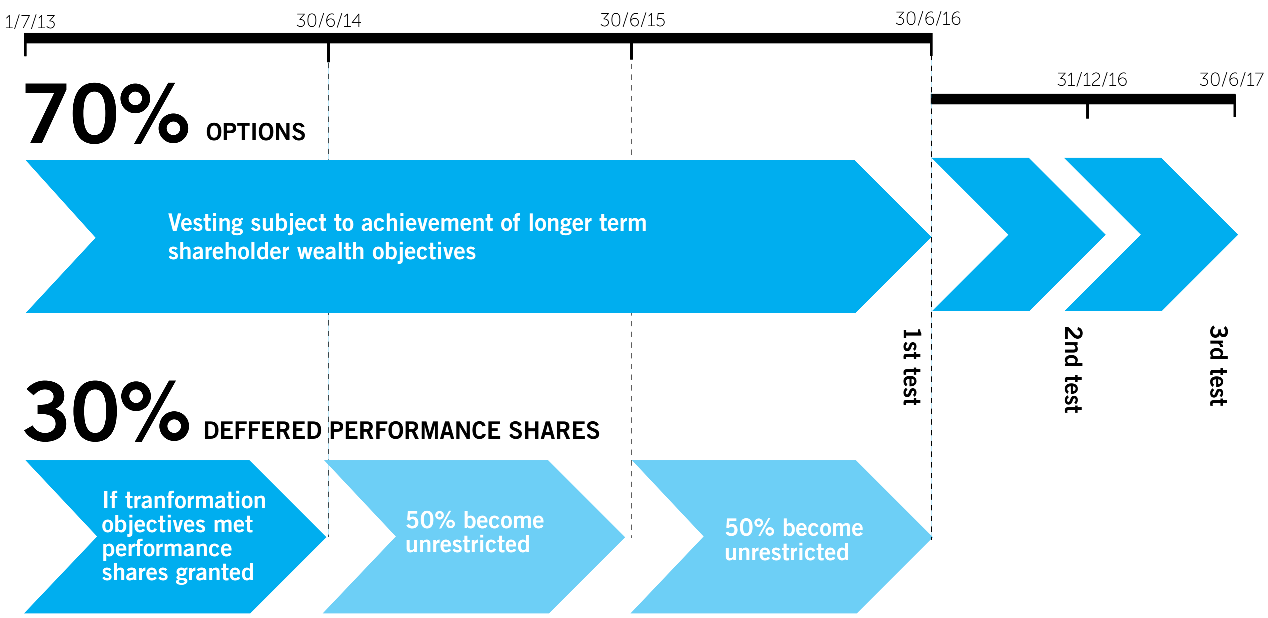
In addition, the Board may also claw back awards in the case of material risk or where financial information becomes available after awards are granted, which suggests that the initial grant was not justified.

# REMUNERATION REPORT (AUDITED)

DETAIL OF TRANSFORMATION INCENTIVE PLAN

| | |
|---|---|
| **Is there a restriction on executives hedging awards under the TIP?** | Yes. The rules prohibit employees from creating any encumbrance on unvested awards. All executives must operate under the Fairfax Security Trading Policy. |
| **What happens in a change of control?** | In the event of a takeover bid or other transaction, event or state of affairs that in the Board's opinion is likely to result in a change in control of the Company, the Board has discretion to determine that vesting of some or the entire TIP should be accelerated.<br>If the Board needs to exercise its discretion regarding a change of control event it would be guided by the time remaining before the set vesting test date, whether if, the performance hurdles were applied at the date of the likely change of control, the vesting test would be achieved, and, the best interest of shareholders. |
| **What happens if the executive ceases employment?** | Where an executive resigns or their employment is terminated by mutual agreement, the unvested transformation incentives will remain on foot and subject to the original performance hurdle (in the case of Options) and the deferral period (in the case of Performance Shares), as though the executive has not ceased employment.<br>However, the Board may at its discretion determine to lapse any or all of the unvested transformation incentives and ordinarily, in the case of resignation, would be expected to do so.<br>Where an executive is terminated for cause such as misconduct or poor performance all of the unvested transformation incentives will lapse or be forfeited, unless the Board determines otherwise. |

The following diagram provides a timeline and overview of the how the 2014 TIP operates, demonstrating the strong alignment of the plan with shareholder interests.



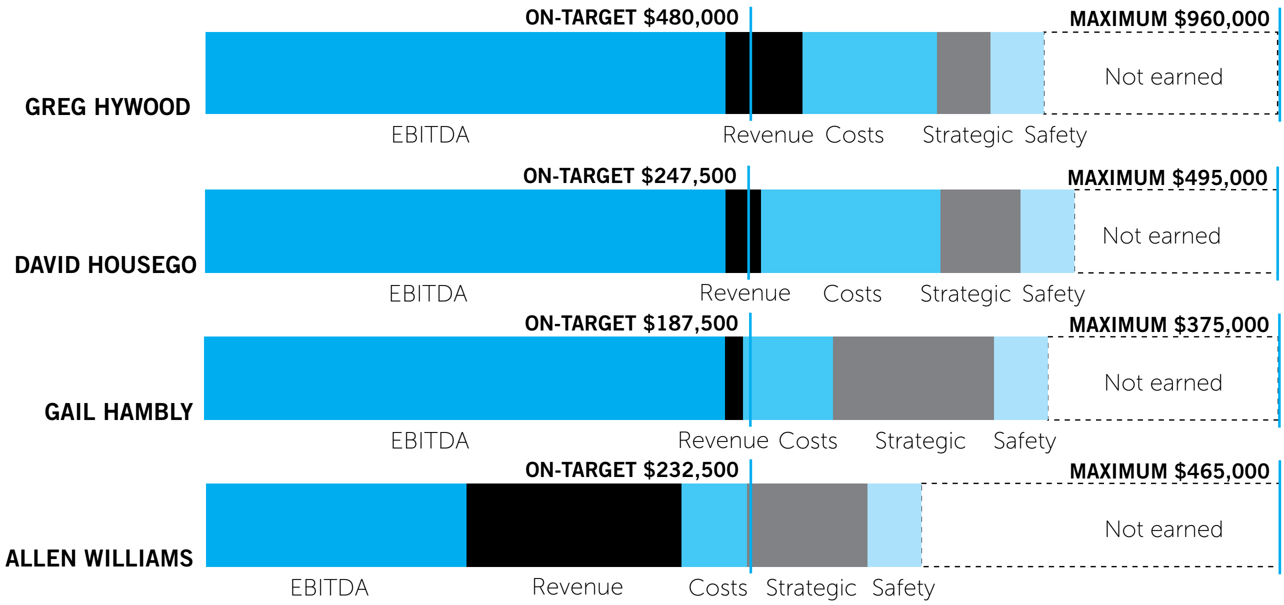
# REMUNERATION REPORT (AUDITED)

## 4.2 2014 OUTCOMES UNDER THE TRANSFORMATION INCENTIVE PLAN

### (A) ANNUAL COMPONENT: DEFERRED PERFORMANCE SHARES

The positive outcome on the 2014 annual transformational objectives has resulted in executive KMP receiving an annual allocation of deferred performance shares. The outcomes reflect that EBITDA performance was broadly in line with plans. However due to the continued challenges in revenue this was largely achieved through significant cost reductions across the group. Safety performance has improved remarkably.

The average outcomes for executive KMP was 77% of maximum opportunity. The diagrams below represent the dollar value earned by each executive KMP. The amount of deferred performance shares to be granted will be determined based on the VWAP of Company shares in the five trading days commencing on the day after the August 2014 results announcement.




The following table provides the weightings and performance achieved for each measure for each executive KMP:

**Table 5**

| NAME | EBITDA | REVENUE | COSTS | KEY BUSINESS OUTCOMES | SAFETY |
|---|---|---|---|---|---|
| G. Hywood | 50% | 20% | 15% | 10% | 5% |
| D. Housego | 50% | 10% | 20% | 15% | 5% |
| G. Hambly | 50% | 5% | 10% | 30% | 5% |
| A. Williams | 50% | 20% | 10% | 15% | 5% |

**Legend:**

- Minimum performance target not achieved
- Overall performance below on-target, but some performance elements achieved
- Overall performance either met on-target, or achieved above targets
- Maximum performance target achieved

# REMUNERATION REPORT (AUDITED)

**Performance summary:**

| | |
|---|---|
| **EBITDA[1]** | Strong Group EBITDA result achieved which provided awards above on-target performance for Group EBITDA.<br>Because Mr Williams has 25% of his incentive based on Group performance and 25% based on Australian Publishing Media performance he achieved overall EBITDA performance below his target. |
| **Revenue** | Mr Williams exceeded his target for the transformational digital growth revenue targets. The rest of KMP had targets based on Group Revenue measures. |
| **Costs** | Cost reduction targets have been achieved, with the targets in the Fairfax of the Future exceeded. |
| **Key Business Outcomes** | Key annual milestones and initiatives in the transformation journey were achieved. For example, for the CEO these outcomes included targeted assets sales (e.g. Stayz); closure of non-profitable products; and deliver on growth of Domain. |
| **Safety** | Targets were based on year on year improvement of Lost Time Injury Frequency Rates, and were exceeded. |

(1) The EBITDA targets set were based on the Group's 2014 budget and were adjusted for significant acquisitions and disposals made during the year.

**Summary of TIP deferred performance share awards for the 2014**

Table 6

| NAME | MAXIMUM OPPORTUNITY ANNUAL PERFORMANCE BASED STI [1] | % OF MAXIMUM OPPORTUNITY EARNED | % OF MAXIMUM OPPORTUNITY FORFEITED |
|---|---|---|---|
| G. Hywood | 60% | 78% | 22% |
| D. Housego | 60% | 81% | 19% |
| G. Hambly | 60% | 79% | 21% |
| A. Williams | 60% | 67% | 33% |

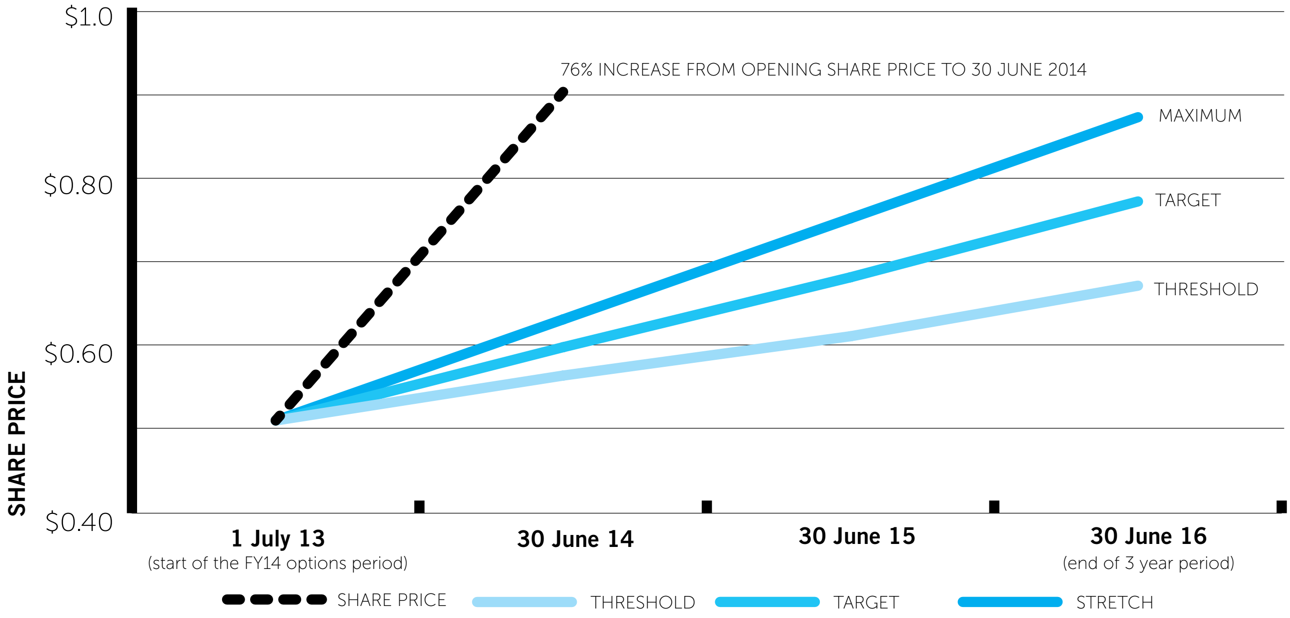
(1) As a percentage of Fixed Remuneration

# REMUNERATION REPORT (AUDITED)

### (B) OPTIONS GRANTED

The options are subject to achievement of an absolute TSR performance measured over 3 years aligned to the strategic plan. No options were available to vest under the TIP during 2014. The diagram below provides the starting share price and the forecast share price required at the end of the 3 year period for the absolute TSR target to be achieved and vesting to occur. The Company share price after the first year of the performance period is tracking at a level that would meet maximum vesting if this performance continues over the 3 to 4 year period.

**FXJ FORECAST SHARE PRICE REQUIRED TO MEET 2014 OPTIONS ABSOLUTE TSR PERFORMANCE HURDLE**




Note – Target share price required (incorporating a conservative dividend assumption) calculated by PricewaterhouseCoopers (PwC).

# REMUNERATION REPORT (AUDITED)

## 5. EXECUTIVE KMP REMUNERATION AND EQUITY GRANTED IN 2014

### 5.1 REMUNERATION OF KEY MANAGEMENT PERSONNEL

This table sets out details of remuneration during the financial year.

Table 7

| | | BASE SALARY & OTHER BENEFITS [4] | CASH BONUS | SUPER-ANNUATION | LONG SERVICE LEAVE EXPENSE | TOTAL EXCLUDING SHARES / RIGHTS | VALUE OF SHARES / RIGHTS [5] | TOTAL INCLUDING SHARES / RIGHTS |
|---|---|---|---|---|---|---|---|---|
| **G. Hywood** | **2014** | **1,575,000** | **–** | **25,000** | **17,394** | **1,617,394** | **1,244,877** | **2,862,271** |
| – Chief Executive Officer | 2013 | 1,575,000 | – | 25,000 | 11,239 | 1,611,239 | 371,468 | 1,982,707 |
| **D. Housego** | **2014** | **760,000** | **–** | **25,000** | **2,357** | **787,357** | **545,748** | **1,333,105** |
| – Chief Financial Officer [1] | 2013 | 464,166 | 100,000 | 26,923 | – | 591,089 | 250,556 | 841,645 |
| **G. Hambly** | **2014** | **554,210** | **–** | **70,790** | **10,829** | **635,829** | **427,365** | **1,063,194** |
| – Group General Counsel & Company Secretary | 2013 | 554,210 | – | 70,790 | 10,830 | 635,830 | 82,366 | 718,196 |
| **Allen Williams** | **2014** | **750,000** | **–** | **25,000** | **14,655** | **789,655** | **406,923** | **1,196,578** |
| – Managing Director Australian Publishing Media [2] | 2013 | 184,083 | – | 2,885 | 2,966 | 189,934 | 125,537 | 315,471 |
| **B. Cassell** – Chief Financial Officer [3] | 2013 | 274,411 | – | 9,615 | 14,654 | 298,680 | (79,828) | 218,852 |
| **TOTAL** | **2014** | **3,639,210** | **–** | **145,790** | **45,235** | **3,830,235** | **2,624,913** | **6,455,148** |
| | 2013 | 3,051,870 | 100,000 | 135,213 | 39,689 | 3,326,772 | 750,099 | 4,076,871 |

(1) D. Housego commenced with the Company on the 3 December 2012.

(2) A Williams met the definition of a KMP on his appointment as Managing Director Australian Publishing Media on 4 April 2013 (with an annual fixed remuneration of $775,000). Prior to this Mr Williams was the CEO of Fairfax New Zealand.

(3) B. Cassell ceased in the position of CFO on 3 December 2012 and was no longer deemed to be KMP.

(4) Executive KMP voluntary salary sacrifice of 10% of their fixed annual remuneration to purchase Company shares is on a post-tax basis.

(5) Amount includes the amortised cost of the fair value of rights to shares and options issued but not yet vested.

# REMUNERATION REPORT (AUDITED)

## 5.2 EQUITY GRANTED TO EXECUTIVES WHO ARE KEY MANAGEMENT PERSONNEL DURING THE FINANCIAL YEAR

Table 8

| | EQUITY AWARD [1] | PERFORMANCE CONDITION [2] | NUMBER OF OPTIONS/ SHARES GRANTED [3] | FAIR VALUE PER OPTIONS/ SHARES [4] | MAXIMUM VALUE OF GRANT [5] |
|---|---|---|---|---|---|
| **G. Hywood** | Options | Absolute TSR | 8,000,000 | $0.14 | $1,120,000 |
| – Chief Executive Officer | Performance Shares | Transformation Objectives | n/a | n/a | $750,644 |
| | | | | | $1,870,644 |
| **D. Housego** | Options | Absolute TSR | 4,125,000 | $0.14 | $577,500 |
| – Chief Financial Officer | Performance Shares | Transformation Objectives | n/a | n/a | $401,277 |
| | | | | | $978,777 |
| **G. Hambly** | Options | Absolute TSR | 3,125,000 | $0.14 | $437,500 |
| – Group General Counsel & Company Secretary | Performance Shares | Transformation Objectives | n/a | n/a | $294,496 |
| | | | | | $731,996 |
| **Allen Williams** | Options | Absolute TSR | 3,875,000 | $0.14 | $542,500 |
| – Managing Director Australian Publishing Media | Performance Shares | Transformation Objectives | n/a | n/a | $309,604 |
| | | | | | $852,104 |

The maximum value of unvested shares for executive KMP in the LTI plans for FY2011, FY2012, and FY2013 is $5,163,520.
The minimum total value of all unvested shares for all plan years is nil.

1) The Performance Share grants made to executives for 2014 are subject to the terms summarised in section 4.1 and will not be known until after the Company results announcement in August 2014, in line with the plan rules.
2) Performance Shares and Options are subject to performance hurdles that are outlined in section 4.1. Rights to Performance Shares and Options lapse where the applicable performance conditions are not satisfied on testing. As the Performance Shares and Options only vest on satisfaction of performance conditions which are to be tested in future years, the 2014 Performance Shares and Options have not yet been forfeited or vested.
3) Options are granted at on-target performance. Determination of further options up to the maximum opportunity will be at the Board's discretion based on the outcomes against the performance hurdles at the conclusion of the performance period.
4) Fair value per Option was calculated by independent consultants PwC as at the grant date of 8 November 2013.
5) The maximum value of the grant has been estimated based on the fair value per instrument. The minimum total value of the grant is nil (this assumes none of the applicable performance conditions are met).

# REMUNERATION REPORT (AUDITED)

## 6. LONG TERM INCENTIVE PLAN PRIOR TO 2014

Prior to 2014, the Company operated a short term incentive plan and a separate long term incentive plan (LTIP). These plans were discontinued from 2014. The following table sets out how the LTIP prior to 2014 operates.

**Table 9**

DETAIL OF LTIP ARRANGEMENT

| | |
|---|---|
| **How was the LTIP grant determined?** | In 2013, LTIP participants received an allocation of performance rights (rights) which allowed the executive to acquire shares for no consideration subject to achievement of the performance hurdles. No dividends were payable to participants on the unvested rights.<br>Allocations were set at a fixed percentage of the executive's Fixed Remuneration at the time they participate in the LTIP. The value of the rights at the time of allocation was determined by an independent external valuer using the industry standard valuation method.<br>In the allocations for the 2011 and 2012 financial years, participants in the LTIP received an allocation of Company shares. The shares were allocated to the executives and held in trust until they either vest, or forfeited. |
| **What was the performance period?** | Three years.<br>For allocations prior to 2013, if an allocation did not vest at the end of the three year period, a re-test of the performance hurdles occurred at the end of the fourth. This re-test was removed in respect of the 2013 allocation. |
| **What were the performance hurdles?** | For an allocation to vest, there were two performance hurdles, both linked to the Company's return to shareholders.<br>Fifty percent of an allocation vested on achievement of the total shareholder return (TSR) target.<br>**TSR** was measured against the S&P/ASX 300 Consumer Discretionary Index and allocations vested as described in the table below: |

| TSR PERFORMANCE | % OF ALLOCATION THAT VESTS |
|---|---|
| Below 50th percentile | Nil |
| 50th percentile | 50% of allocation |
| 50th to 75th percentile | Vested on a straight line basis |
| Above 75th percentile | 100% |

The other 50% of the allocation vested if the Company achieves the earnings per share (EPS) target.

**EPS** was measured by the compound annual growth rate (CAGR) of the Company's EPS and vested according to the table below:

| EPS PERFORMANCE | % OF ALLOCATION THAT VESTS |
|---|---|
| Less than 7% CAGR | Nil |
| 7% CAGR | 25% |
| 7% to 10% CAGR | Vested on a straight line basis |
| 10% CAGR or above | 100% |

The base case to be used for the EPS performance hurdle test for the 2013 allocation is the underlying 2012 financial year EPS of 8.7 cents per share as set out in the Fairfax Media 2012 Annual Report. Underlying EPS is calculated excluding significant items which are set out in Note 4 to the 2012 financial year audited accounts. In order to be consistent, underlying EPS will also be used at the test date.

| | |
|---|---|
| **What happened if there was a change of control of the Company?** | The Board had discretion regarding vesting.<br>If the Board needs to exercise its discretion regarding a change of control event it would be guided by the time remaining before the set vesting test date, whether if, the performance hurdles were applied at the date of the likely change of control, the vesting test would be achieved, and, the best interest of shareholders |
| **What happened if the executive ceased employment?** | If an executive resigned, unvested allocations were, in general forfeited. On termination for misconduct, allocations were forfeited.<br>If an executive was terminated without cause, for example made redundant or died or permanently disabled, then vesting was at the Board's discretion. |

# REMUNERATION REPORT (AUDITED)

**Status and dates – LTIP Prior to 2014 (unvested awards)**

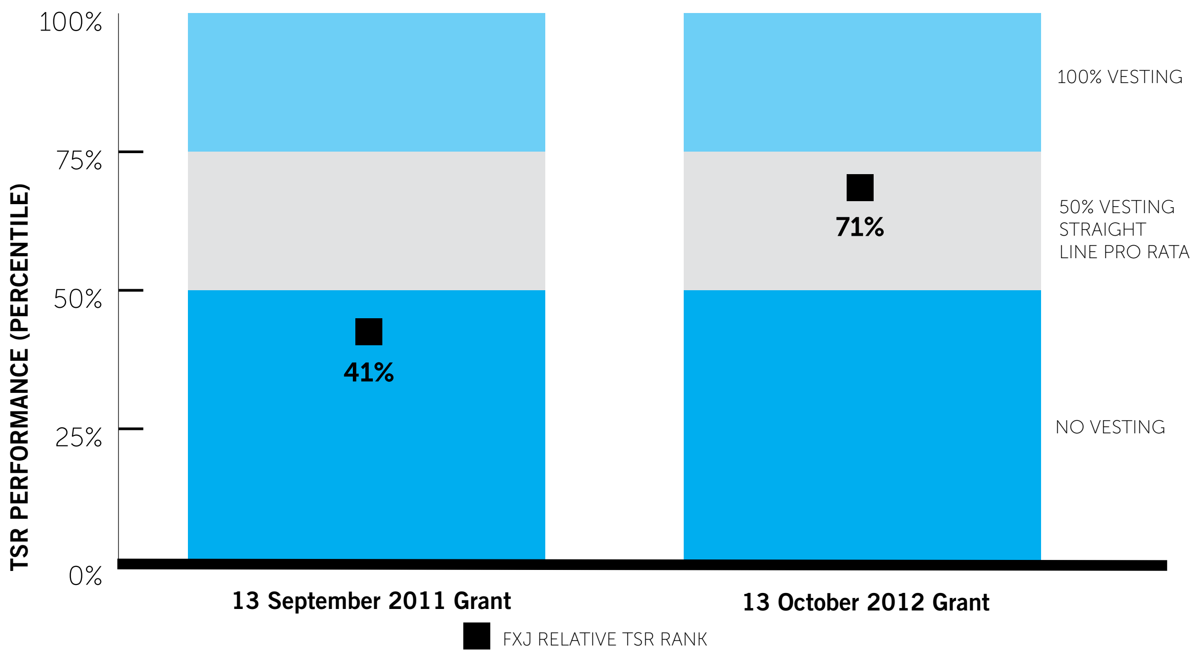
**Table 10**

| GRANT DATE | AWARD INSTRUMENT | PERFORMANCE TESTING WINDOW | EXPIRY DATE (IF HURDLE NOT MET)* | AWARD STILL ELIGIBLE FOR VESTING? |
|---|---|---|---|---|
| 17 November 2010 | Performance Shares | 1 July 2010 – 30 June 2013 | 30 June 2014 | No. Performance hurdles not achieved, shares have been forfeited |
| 13 September 2011 | Performance Shares | 1 July 2011 – 30 June 2014 | 30 June 2015 | In re-testing period. Base EPS FY11 = 11.6c. Three year test minimum FY14 = 14.2c. Minimum retest FY15 = 15.2c |
| 31 October 2012 | Performance Rights | 1 July 2012 – 30 June 2015 | n/a | Performance testing window not yet complete. Base EPS FY12 = 8.7c. Three year test minimum FY15 = 10.7c. |

* Retest of conditions performed in the fourth year in respect of LTIP allocations prior to 2013, if performance hurdle is not met in the initial performance testing window. Performance is re-tested over the 4 year period.

Of the two remaining LTIP grants prior to 2014, the EPS hurdles are currently not being achieved but progress on the TSR hurdle for the 31 October 2012 grant is tracking on target to achieve part vesting. The following diagram shows the current TSR progress against the S&P/ASX 300 Consumer Discretionary Index vesting hurdle.

**TSR Progress on existing Long Term Incentive Grants**




Note – Forecast tracking of relative TSR against the S&P/ASX 300 Consumer Discretionary Index provided by PricewaterhouseCoopers (PwC).

# REMUNERATION REPORT (AUDITED)

**Retirement Benefits for Executives**

Except for a small number of long serving executives who are members of a defined-benefit superannuation plan, retirement benefits are delivered through contribution accumulation superannuation plans. The defined-benefit funds (which are closed to new entrants) provides defined lump sum benefits based on years of service, retirement age and the executive's remuneration at the time of retirement.

## 7. EXECUTIVE SERVICE AGREEMENTS

The remuneration and other terms of employment for the executive KMP are set out in written service agreements. These service agreements are unlimited in term but may be terminated by written notice by either party or by the Company making payment in lieu of notice. They may also be terminated with cause as set out below.

Each agreement sets out the Fixed Remuneration, performance related incentive opportunities and termination rights and obligations.

The Company may terminate the employment of the executive without notice and without payment in lieu of notice in some circumstances, including if the executive commits an act of serious misconduct or a material breach of the executive service agreement or is charged with any criminal offence which, in the reasonable opinion of the Company, may embarrass or bring the Fairfax Group into disrepute.

The Company may terminate the employment of the executive at any time by giving the executive notice of termination or payment in lieu of such notice. The amount of notice required from the Company in these circumstances is set out in the table below. If the Company elects to make payment in lieu of all or part of the required notice, the payment is calculated on the basis of fixed remuneration excluding bonuses and non cash incentives.

Also set out in the table below is the notice that the executive is required to give.

**Table 11**

| NAME OF EXECUTIVE | COMPANY TERMINATION NOTICE PERIOD | EMPLOYEE TERMINATION NOTICE PERIOD | POST-EMPLOYMENT RESTRAINT |
|---|---|---|---|
| Greg Hywood | 12 months | 6 months | 12 month no solicitation of employees or clients |
| | | | 6 months no work for a competitor of the Fairfax Group |
| David Housego | 12 months | 4 months | 12 month no solicitation of employees or clients |
| | | | 6 months no work for a competitor of the Fairfax Group |
| Gail Hambly [(1)] | 18 months | 3 months | 12 month no solicitation of employees or clients |
| | | | 6 months no work for a competitor of the Fairfax Group |
| Allen Williams | 12 months | 6 months | 12 month no solicitation of employees or clients |
| | | | 6 months no work for a competitor of the Fairfax Group |

(1) Participant in the Fairfax defined benefit superannuation scheme.

## 8. REMUNERATION OF NON-EXECUTIVE DIRECTORS

Under the Fairfax Constitution, the aggregate remuneration of Non-Executive Directors is set by resolution of shareholders. The aggregate was last approved by shareholders at the 2010 Annual General Meeting and set at $2,100,000 per annum. Within this limit, the Board annually reviews Directors' remuneration with advice from the P&CC. The Board also considers survey data on Directors' fees paid by comparable companies, and any independent expert advice commissioned.

In addition to the reduction in fees implemented during 2013, as foreshadowed in our 2013 Remuneration Report, Directors' base fees were reduced by 10% as of 1 July 2013.

A further reduction in Board Committee fees was realised by incorporating the responsibilities of the Sustainability and Corporate Responsibility Committee into the Audit & Risk and the People & Culture Committees from January 2014.

# REMUNERATION REPORT (AUDITED)

Board and committee fees payable as at the date of this report are as follows:

Table 12

| | $ |
|---|---|
| Chairman of the Board* | 327,600 |
| Other Non-Executive Director | 117,000 |
| Chair of Audit and Risk Committee | 44,000 |
| Members of Audit and Risk Committee | 33,000 |
| Chair of People and Culture Committee | 33,000 |
| Members of People and Culture Committee | 22,000 |
| Chair of the Nominations Committee | 0 |
| Members of Nominations Committee | 0 |

* The Chairman of the Board does not receive committee fees for membership of Committees.

The fees above do not include statutory superannuation payments.

## 8.1 RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS

Other than superannuation contributions made on behalf of Non-Executive Directors in accordance with statutory requirements, Non-Executive Directors are not entitled to any retirement benefits.

## 8.2 NON-EXECUTIVE DIRECTORS' FEES

The following table outlines fees paid to Non-Executive Directors during the financial year.

Table 13

| | | NON-EXECUTIVE DIRECTORS FEES | SUPER-ANNUATION | TOTAL |
|---|---|---|---|---|
| M. Anderson | **2014** | **156,883** | **14,512** | **171,395** |
| | 2013 | 180,290 | 29,644 | 209,934 |
| R. Corbett | **2014** | **327,600** | **30,303** | **357,903** |
| | 2013 | 380,500 | 34,245 | 414,745 |
| J. Cowin [(1)] | **2014** | **140,426** | **12,989** | **153,415** |
| | 2013 | 136,178 | 12,256 | 148,434 |
| J. Millar | **2014** | **151,538** | **14,017** | **165,555** |
| | 2013 | 148,869 | 13,398 | 162,267 |
| S. McPhee | **2014** | **162,510** | **15,032** | **177,542** |
| | 2013 | 185,000 | 16,650 | 201,650 |
| S. Morgan [(2)] | **2014** | **117,472** | **10,866** | **128,338** |
| | 2013 | 142,579 | 12,832 | 155,411 |
| L. Nicholls | **2014** | **162,651** | **15,045** | **177,696** |
| | 2013 | 174,000 | 15,660 | 189,660 |
| T. Sampson [(3)] | **2014** | **12,150** | **1,124** | **13,274** |
| P. Young | **2014** | **151,538** | **14,017** | **165,555** |
| | 2013 | 184,000 | 16,560 | 200,560 |
| Directors | **2014** | **1,382,768** | **127,905** | **1,510,673** |
| | 2013 | 1,531,416 | 151,245 | 1,682,661 |

(1) J. Cowin joined the Board on 19 July 2012.

(2) S. Morgan retired from the Board on the 29 May 2014.

(3) T. Sampson joined the Board on the 29 May 2014.

# REMUNERATION REPORT (AUDITED)

### 8.3 NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS

Non-Executive Director equity holdings disclosure as at 29 June 2014 is set out below:

Table 14

**2014**

| NON-EXECUTIVE DIRECTOR | BALANCE AT 30 JUNE 2013 | NET CHANGE OTHER | BALANCE AT 29 JUNE 2014 | POST YEAR-END ACQUISITIONS | POST YEAR-END DISPOSALS | POST YEAR-END BALANCE |
|---|---|---|---|---|---|---|
| M. Anderson | – | – | – | – | – | – |
| R. Corbett | 99,206 | – | 99,206 | – | – | 99,206 |
| J. Cowin | 3,000,000 | – | 3,000,000 | – | – | 3,000,000 |
| J. Millar | 100,000 | – | 100,000 | – | – | 100,000 |
| S. McPhee | 110,893 | 29,902 | 140,795 | – | – | 140,795 |
| S. Morgan (1) | 1,564,668 | – | 1,564,668 | – | – | 1,564,668 |
| L. Nicholls | 107,758 | 28,085 | 135,843 | – | – | 135,843 |
| T. Sampson (2) | – | – | – | – | – | – |
| P. Young | 131,117 | – | 131,117 | – | – | 131,117 |
| **Total** | **5,113,642** | **57,987** | **5,171,629** | **–** | **–** | **5,171,629** |

**2013**

| EXECUTIVE KMP | BALANCE AT 24 JUNE 2012 | NET CHANGE OTHER | BALANCE AT 30 JUNE 2013 | POST YEAR-END ACQUISITIONS | POST YEAR-END DISPOSALS | POST YEAR-END BALANCE |
|---|---|---|---|---|---|---|
| M. Anderson | – | – | – | – | – | – |
| R. Corbett | 99,206 | – | 99,206 | – | – | 99,206 |
| J. Cowin | – | 3,000,000 | 3,000,000 | – | – | 3,000,000 |
| J. Millar | – | 100,000 | 100,000 | – | – | 100,000 |
| S. McPhee | 40,220 | 70,673 | 110,893 | – | – | 110,893 |
| S. Morgan | 1,564,668 | – | 1,564,668 | – | – | 1,564,668 |
| L. Nicholls | 40,387 | 67,371 | 107,758 | – | – | 107,758 |
| P. Young | 131,117 | – | 131,117 | – | – | 131,117 |
| **Total** | **1,875,598** | **3,238,044** | **5,113,642** | **–** | **–** | **5,113,642** |

(1) S. Morgan retired from the Board on the 29 May 2014. The closing balance represents the number of shares at the date retired from the Board.

(2) T. Sampson joined the Board on the 29 May 2014.

## 9. LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans made to Directors of Fairfax Media Limited or to other key management personnel of the Group, including their personally related parties, during the financial period ended 29 June 2014 (2013: nil).

There are no outstanding loans for the financial years ended 29 June 2014 and 30 June 2013.

# REMUNERATION REPORT (AUDITED)

## 10. FIVE YEAR FINANCIAL PERFORMANCE OF THE COMPANY IN KEY SHAREHOLDER VALUE MEASURES

The financial performance of the Company in key shareholder value measures over the past five years is shown below.

**Table 15**

| | | **IFRS 2014** | IFRS 2013 (1) | IFRS 2012 | IFRS 2011 | IFRS 2010 |
|---|---|---|---|---|---|---|
| Underlying operating revenue | $m | **1,866** | 2,074 | 2,328 | 2,466 | 2,482 |
| Underlying net profit after tax | $m | **158.5** | 143.5 | 212.0 | 285.0 | 290.7 |
| Earnings per share after significant items | Cents | **6.7** | 5.4 | 8.7 | 11.6 | 11.8 |
| Dividends per share | Cents | **4.0** | 2.0 | 3.0 | 3.0 | 2.5 |
| Total Shareholder Returns (TSR)* | % | **97.5** | (3.4) | (40.5) | (23.9) | 11.3 |

* TSR comprises share price appreciation and dividends, gross of franking credits, reinvested in the shares. Source: Bloomberg.

(1) Trade Me revenue has been included in 2013 for comparative purposes up to the date of sale on 21 December 2012 (refer Note 5).

# CORPORATE GOVERNANCE

The Company's compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 2nd edition ("ASX Recommendations") is set out in the following table.

| | | COMPLIANCE |
|---|---|---|
| **Principle 1: Lay solid foundations for management and oversight** | | |
| 1.1 | Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions | ✓ |
| 1.2 | Disclose the process for evaluating the performance of senior executives | ✓ |
| 1.3 | Provide the information indicated in the Guide to reporting on Principle 1 | ✓ |
| **Principle 2: Structure the Board to add value** | | |
| 2.1 | A majority of the Board should be independent Directors | ✓ |
| 2.2 | The chair should be an independent Director | ✓ |
| 2.3 | The roles of chair and Chief Executive Officer should not be exercised by the same individual | ✓ |
| 2.4 | The Board should establish a nomination committee | ✓ |
| 2.5 | Disclose the process for evaluating the performance of the Board, its committees and individual Directors | ✓ |
| 2.6 | Provide the information indicated in Guide to reporting on Principle 2 | ✓ |
| **Principle 3: Promote ethical and responsible decision making** | | |
| 3.1 | Establish a code of conduct and disclose the code or a summary of the code as to:<br>• the practices necessary to maintain confidence in the Company's integrity<br>• the practices necessary to take into account legal obligations and the reasonable expectations of shareholders, and<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices | ✓ |
| 3.2 | Establish a policy concerning diversity and disclose the policy or a summary of that policy | ✓ |
| 3.3 | Disclose the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them | ✓ |
| 3.4 | Disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board | ✓ |
| 3.5 | Provide the information indicated in the Guide to reporting on Principle 3 | ✓ |
| **Principle 4: Safeguard integrity in financial reporting** | | |
| 4.1 | The Board should establish an audit committee | ✓ |
| 4.2 | Structure the audit committee so that it:<br>• consists of only Non-Executive Directors<br>• consists of a majority of independent Directors<br>• is chaired by an independent chair, who is not chair of the Board, and<br>• has at least three members. | ✓ |
| 4.3 | The audit committee should have a formal charter | ✓ |
| 4.4 | Provide the information indicated in Guide to reporting on Principle 4 | ✓ |
| **Principle 5: Make timely and balanced disclosure** | | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies | ✓ |
| 5.2 | Provide the information indicated in Guide to reporting on Principle 5 | ✓ |
| **Principle 6: Respect the rights of shareholders** | | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of the policy | ✓ |
| 6.2 | Provide the information indicated in Guide to reporting on Principle 6 | ✓ |

# CORPORATE GOVERNANCE

| | | COMPLIANCE |
|---|---|---|
| **Principle 7: Recognise and manage risk** | | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies | ✓ |
| 7.2 | Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks | ✓ |
| 7.3 | Board should disclose whether it has received assurance from the Chief Executive (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks | ✓ |
| 7.4 | Provide the information indicated in Guide to reporting on Principle 7 | ✓ |
| **Principle 8: Remunerate fairly and responsibly** | | |
| 8.1 | The Board should establish a remuneration committee | ✓ |
| 8.2 | The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent director and has at least three members | ✓ |
| 8.3 | Clearly distinguish the structure of Non-Executive Directors' remuneration from that of executive Directors and senior executives | ✓ |
| 8.4 | Provide the information indicated in Guide to reporting on Principle 8 | ✓ |

The key corporate governance principles of the Fairfax Group are set out below. This section contains summaries of the Fairfax Board Charter, Nomination Committee Charter, Code of Conduct, Audit and Risk Committee Charter, Charter of Audit Independence, policy on market disclosure and shareholder communications, risk management policy, securities trading policy (including policy on hedging unvested securities issued as part of remuneration) and the Diversity Policy and data. The People and Culture Committee Charter is summarised in the Remuneration Report. The Committee and Board Charters are also available at www.fairfaxmedia.com.au.

## BOARD OF DIRECTORS

The Board of Directors is responsible for the long-term growth and profitability of the Group.

The Board has adopted a Board Charter which sets out the responsibilities of the Board and its structure and governance requirements. Under the Board Charter, the responsibilities of the Board are to:

(a) set the strategic direction of the Fairfax Group;

(b) provide overall policy guidance and ensure that policies and procedures for corporate governance and risk management are in place to ensure shareholder funds are prudently managed and that the Group complies with its regulatory obligations and ethical standards;

(c) set and monitor performance against the financial objectives and performance targets for the Group;

(d) determine the terms of employment and review the performance of the Chief Executive Officer (CEO);

(e) set and monitor the Group's programs for succession planning and key executive development with the aim to ensure these programs are effective;

(f) approve acquisitions and disposals of assets, businesses and expenditure above set monetary limits; and

(g) approve the issue of securities and entry into material finance arrangements, including loans and debt issues.

Subject to the specific authorities reserved to the Board under the Board Charter, and to the authorities delegated to the Board committees, the Board has delegated to the CEO responsibility for the management and operation of the Fairfax Group. The CEO is responsible for the day-to-day operations, financial performance and administration of the Fairfax Group within the powers authorised to him from time-to-time by the Board. The CEO may make further delegation within the delegations specified by the Board and is accountable to the Board for the exercise of these delegated powers.

# CORPORATE GOVERNANCE

Membership of the Board and its committees during the 2014 year is set out below.

| | | COMMITTEE MEMBERSHIP | | | |
|---|---|---|---|---|---|
| DIRECTOR | MEMBERSHIP TYPE | AUDIT AND RISK | NOMINATIONS | PEOPLE AND CULTURE | SUSTAINABILITY AND CORPORATE RESPONSIBILITY# |
| R. Corbett | Independent Chair | Member | Chair | Member | Member |
| G. Hywood | CEO/Managing Director | – | – | – | – |
| M. Anderson | Independent | – | – | Member | Chair |
| J. Cowin | Independent | – | – | Member | – |
| S. McPhee | Independent | – | – | Chair | Member |
| J. Millar | Independent | Member | Member | – | – |
| S. Morgan* | Independent | – | – | – | Member |
| L. Nicholls | Independent | Chair | Member | – | – |
| T. Sampson** | Independent | – | – | – | – |
| P. Young | Independent | Member | Member | – | – |

* Resigned 29 May 2014

** Appointed 29 May 2014

# Committee dissolved in December 2013

The qualifications and other details of each member of the Board are set out in the Board of Directors section of the 2014 Annual Report.

Except for the Chief Executive Officer, all Directors (including the Chair) are considered by the Board to be independent, Non-Executive Directors.

The Constitution authorises the Board to appoint Directors to vacancies and to elect the Chair. One third of Directors (excluding the Chief Executive Officer and a Director appointed to fill a casual vacancy and rounded down to the nearest whole number) must retire at every Annual General Meeting. Other than the Chief Executive Officer, no Director may remain in office for more than three years or the third annual general meeting following appointment without resigning and being re-elected. Any Director appointed by the Board must stand for election at the next general meeting of shareholders.

Any Director may seek independent professional advice at the Company's expense. Prior approval by the Chair is required, but approval must not be unreasonably withheld.

The Board has a Nominations Committee which reviews potential Board candidates as required. The Committee is comprised of Non-Executive Independent Directors. The Committee may seek expert external advice on suitable candidates.

The Board has adopted a formal Nominations Committee Charter. Under the Charter, the purpose of the Committee is to identify individuals qualified to become Board members and recommend them for nomination to the Board and its Committees; to ensure Board members' performance is reviewed regularly and to recommend changes from time to time to ensure the Board has an appropriate mix of skills and experience.

The Committee uses the following principles to recommend candidates and provide advice and other recommendations to the Board:

- a majority of the Directors and the Chair should be independent; and
- the Board should represent a broad range of expertise consistent with the Company's strategic focus.

Duties of the Nominations Committee include:

- making recommendations to the Board on the size and composition of the Board;
- identifying and recommending individuals qualified to be Board members, taking into account such factors as it deems appropriate;
- identifying Board members qualified to fill vacancies on the Committees;

# CORPORATE GOVERNANCE

- recommending the appropriate process for the evaluation of the performance of each director and the Board; and
- other duties delegated to it from time to time relating to nomination of Board or Committee members or corporate governance.

The Board conducts a review of its structure, composition and performance annually. The Board may seek external advice to assist in the review process.

## INDEPENDENT DIRECTORS

Under the Board Charter, the majority of the Board and the Chair must be independent. A Director must notify the Company about any conflict of interest, potential material relationship with the Company or circumstance relevant to his/her independence.

Directors have determined that all Directors except the Chief Executive Officer are independent. In assessing whether a Director is independent, the Board has considered Directors' obligations to shareholders, the requirements of applicable laws and regulations, criteria set out in the Board Charter and the ASX Recommendations. The Board has not set specific materiality thresholds, considering it more effective to assess any relationship on its merits on a case-by-case basis, and where appropriate, with the assistance of external advice.

The ASX Recommendations, in summary, state that the Board should consider whether the Director:

- is a substantial shareholder or officer or associated with a substantial shareholder of the Company;
- was employed in an executive capacity by the Group within the last three years;
- within the last three years, was a principal of a material professional adviser or a material consultant or an employee materially associated with a service;
- is, or is associated with a material supplier or customer of the Group;
- has a material contractual relationship with the Group other than as a Director;
- has close family ties with any person who falls within any of the categories described above; and
- has been a director of the entity for such a period that his or her independence may be compromised.

## CODE OF CONDUCT

All Directors, managers and employees are required to act honestly and with integrity.

The Company has developed and communicated to all employees and Directors the Fairfax Code of Conduct. The Code assists in upholding ethical standards and conducting business in accordance with applicable laws. The Code also sets out the responsibility of individuals for reporting Code breaches.

The Fairfax Code of Conduct aims to:

- provide clear guidance on the Company's values and expectations while acting as a representative of Fairfax;
- promote minimum ethical behavioural standards and expectations across the Group, all business units and locations;
- offer guidance for shareholders, customers, readers, suppliers and the wider community on our values, standards and expectations, and what it means to work for Fairfax; and
- raise employee awareness of acceptable and unacceptable behaviour and provide a means to assist in avoiding any real or perceived misconduct.

Supporting the Code of Conduct is the Company's range of guidelines and policies. These policies are posted on the Company intranet, are communicated to employees at the time of employment and are reinforced by training programs.

The Code of Conduct is a set of general principles relating to employment with Fairfax, covering the following areas:

- business integrity – conducting business with honesty, integrity and fairness; reporting concerns without fear of punishment; making public comments about the Company and disclosing real or potential conflicts of interest;
- professional practice – dealings in Fairfax shares; disclosing financial interests; protecting Company assets and property; maintaining privacy and confidentiality; undertaking employment outside Fairfax; personal advantage, gifts and inducements, recruitment and selection; and Company reporting;

# CORPORATE GOVERNANCE

- health, safety and environment;
- Equal Employment Opportunity and anti-harassment;
- compliance with Company policies; and
- implementation of and compliance with the Code of Conduct.

The Code of Conduct is to be read in conjunction with the codes of ethics for each masthead and the other Fairfax policies as amended from time to time.

## AUDIT AND RISK COMMITTEE

The Audit and Risk Committee operates in accordance with a Charter which sets out its role and functions. In summary, the Committee's role is to advise and assist the Board on the establishment and maintenance of a framework of risk management, internal controls and ethical standards for the management of the Fairfax Group, to monitor the quality and reliability of financial information for the Group, and from December 2013, to manage certain sustainability and corporate responsibility matters. To carry out this role, the Committee:

- recommends to the Board the appointment of the external auditor, reviews its performance, independence and effectiveness, approves the auditor's fee arrangements and enforces the Company's Charter of Audit Independence;
- ensures that appropriate systems of control are in place to effectively safeguard assets;
- ensures accounting records are maintained in accordance with statutory and accounting requirements;
- formulates policy for Board approval and oversees key finance and treasury functions;
- formulates and oversees an effective business risk plan;
- ensures appropriate policies and procedures are in place with the goal to ensure compliance with all regulatory requirements;
- monitors compliance with all regulatory and ethical requirements;
- identifies and monitors current and emerging sustainability and corporate responsibility trends, risks and opportunities and ensuring that the Board is kept up to date with market and investor expectations on sustainability and corporate responsibility activities;
- oversees the Group's compliance with corporate governance and legal requirements in relation to sustainability and corporate responsibility issues and related reporting;
- ensures there is an appropriate framework for compliance with all legal and Australian Securities Exchange requirements;
- reviews the external audit process with the external auditor, including in the absence of management;
- reviews the performance of internal audit and has input into the performance review and remuneration of the Internal Audit Manager;
- recommends to the Board the appointment and dismissal of the Internal Audit Manager;
- reviews and approves the internal audit plan;
- Receives internal audit summaries of significant reports prepared by internal audit;
- meets with the Internal Audit Manager including in the absence of management if considered necessary; and
- deals with such matters as the Committee deems necessary to carry out the functions set out above.

Under its Charter, all members of the Committee must be Non-Executive Directors. Executives may attend by invitation. The Chair of the Committee is required to be independent and have relevant financial expertise and may not be the Chair of the Board. The members of the Audit and Risk Committee and details of their attendance at Committee meetings are set out in the Directors' Report. The Chair of the Committee may, at the Company's expense, obtain external advice, or obtain assistance and information from officers of the Group, or engage other support as reasonably required from time to time.

# CORPORATE GOVERNANCE

## CHARTER OF AUDIT INDEPENDENCE

The Board has also adopted a Charter of Audit Independence. The purpose of this Charter is to provide a framework for the Board and management to ensure that the external auditor is both independent and seen to be independent. The purpose of an independent statutory audit is to provide shareholders with reliable and clear financial reports on which to base investment decisions. The Charter sets out key commitments by the Board and procedures to be followed by the Audit and Risk Committee and management aimed to set a proper framework of audit independence.

To promote audit quality and effective audit service by suitably qualified professionals, the Board ensures that the auditor is fairly rewarded for the agreed scope of the statutory audit and audit-related services. The auditor is required to have regular communications with the Committee, at times without management present. Audit personnel must be appropriately trained, meet the required technical standards and maintain confidentiality.

Restrictions are placed on non-audit work performed by the auditor. Non-audit fees above a fixed level may not be incurred without the approval of the Chair of the Audit and Risk Committee.

The Company requires the rotation of the lead audit partner and the independent review partner for the Company at least every five years. The Committee requires the auditor to confirm annually that it has complied with all professional regulations and guidelines issued by the Australian accounting profession relating to auditor independence. The auditor must also confirm that neither it nor its partners has any financial or material business interests in the Company outside of the supply of professional services.

## MARKET DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

The Company has a Market Disclosure Policy which sets out requirements aimed to ensure full and timely disclosure to the market of material issues relating to the Group to ensure that all stakeholders have an equal opportunity to access information.

The Policy reflects the ASX Listing Rules and Corporations Act continuous disclosure requirements.

The Market Disclosure Policy requires that the Company notify the market, via the ASX, of any price sensitive information (subject to the exceptions to disclosure under the Listing Rules). Information is price sensitive if a reasonable person would expect the information to have a material effect on the price or value of the Company's securities or if the information would, or would be likely to, influence investors in deciding whether to buy, hold or sell Fairfax securities.

The Chief Executive Officer, Chief Financial Officer and Group General Counsel/Company Secretary are designated as Disclosure Officers who are responsible for reviewing potential disclosures and deciding what information should be disclosed.

Only the Disclosure Officers may authorise communications on behalf of the Company to the ASX, media, analysts and investors. This safeguards the premature exposure of confidential information and aims to ensure proper disclosure is made in accordance with the law. ASX and press releases of a material nature must be approved by a Disclosure Officer.

The Disclosure Officers, in conjunction with the Chair of the Board are authorised to determine whether a trading halt will be requested from the ASX to prevent trading in an uninformed market.

The onus is on all staff to inform a Disclosure Officer of any price sensitive information as soon as becoming aware of it. The Executive Leadership Team is responsible for ensuring staff understand and comply with the policy.

As well as its Listing Rules and statutory reporting obligations, the Company actively encourages timely and ongoing shareholder communications.

To ensure ready access for shareholders to information about the Company, Company announcements, annual reports, analyst and investor briefings, financial results and other information useful to investors such as press releases are placed on the Company's website at www.fairfaxmedia.com.au as soon as practical after their release to the ASX. Several years' worth of historical financial information is available on the website. The results briefings given to analysts by senior management are webcast on the website.

The full text of notices of meetings and the accompanying explanatory materials are posted on the website for each Annual General Meeting. The Chair's and the Chief Executive Officer's addresses, proxy counts and results of shareholder resolutions at the meeting are also posted on the website.

# CORPORATE GOVERNANCE

At the Annual General Meeting, shareholders are encouraged to ask questions and are given a reasonable opportunity to comment on matters relevant to the Company. The external auditor attends the Annual General Meeting and is available to answer shareholder questions about the audit and the audit report.

## RISK MANAGEMENT AND INTEGRITY OF FINANCIAL REPORTING

The Board oversees the risk management and internal compliance and control system.

The system seeks to provide a consistent approach to identifying, assessing, and reporting risks, whether they are related to Company performance, reputation, safety, environment, internal control, compliance or other risk areas.

Key aspects of the Company's risk management and internal compliance and control system are summarised as follows:

- risks are assessed at least annually and revised periodically for each division through the business planning, budgeting, forecasting, reporting, internal audit and performance management processes;
- the Board, through the Audit and Risk Committee, receives regular reports from management (and independent advisers where appropriate) on key risk areas such as treasury, health safety and environment, regulatory compliance, taxation, finance and internal audit and the effectiveness of the risk management system;
- formal risk assessments are required as part of business case approvals for one-off projects or initiatives of a significant nature. Project teams are responsible for managing the risks identified; and
- under the direction of the Audit and Risk Committee, Internal Audit conducts a program of internal process control reviews over key areas, based on their importance to the Company, and provides assurance over the internal control assessments undertaken by management.

The Company's risk framework is overseen and monitored by both the Board and the Audit and Risk Committee.

As part of the risk framework, specific policies and approval processes have been developed to cover key risk areas such as material investments and contracts, treasury, capital expenditure approval, occupational health and safety and environmental processes.

The Company's Internal Audit function comprises the Manager, Corporate Risk and Assurance and a team of professionals who work through a schedule of prioritised risk areas across all the major business units to provide an independent risk assessment and evaluation of operating and financial controls. The Internal Audit and Risk function is independent from the external auditor and the Manager, Corporate Risk and Assurance may meet with the Audit and Risk Committee in the absence of management. Internal Audit and Risk reports its results to each meeting of the Audit and Risk Committee and the Manager, Corporate Risk and Assurance attends the meetings.

The Board has received written assurances from the Chief Executive and the Chief Financial Officer that in their opinion:

(a) the financial statements and associated notes comply in all material respects with the accounting standards as required by the *Corporations Act 2001*;

(b) the financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at the end of the financial year and performance of the Company and Consolidated Entity for the period then ended as required by the *Corporations Act 2001*;

(c) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable;

(d) the financial records of the Company have been properly maintained in accordance with the *Corporations Act 2001*;

(e) the statements made above regarding the integrity of the financial statements are founded on a sound system of financial risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board;

(f) the risk management and internal compliance and control systems of the Company and Consolidated Entity relating to financial reporting compliance and operations objectives are operating efficiently and effectively, in all material respects. Management has reported to the Board as to the effectiveness of the Company's management of its material business risks; and

# CORPORATE GOVERNANCE

(g) subsequent to the end of the financial year, no changes or other matters have arisen that would have a material effect on the operation of the risk management and internal compliance and control systems of the Company and Consolidated Entity.

These statements to the Board are underpinned by the requirement for appropriate senior executives to provide a signed letter of representation addressed to the Chief Executive Officer and Chief Financial Officer verifying material issues relating to the executive's areas of responsibility and disclosing factors that may have a material effect on the financial results or operations of the Group.

## REMUNERATION

Information about the Board's People and Culture Committee, its Charter, the Company's remuneration policies for Non-Executive Directors and the remuneration of the CEO and senior executives is set out in the Remuneration Report.

## TRADING IN COMPANY SECURITIES

Directors and managers must not trade directly or indirectly in Fairfax securities while in possession of price sensitive information. Price sensitive information is information which has not been made public, usually about the Group or its intentions, which a reasonable person would expect to have a material effect on the price or value of Fairfax securities or which would be likely to influence an investment decision in relation to the securities.

The Fairfax Securities Trading Policy regulates dealings by Directors and certain senior employees ("Designated People") in Fairfax securities (including shares, convertible notes derivatives and options). The purpose of the Policy is to ensure that Designated People comply with the legal and company-imposed restrictions on trading in securities whilst in possession of unpublished price sensitive information. The Policy sets out blackout periods when no trading is to be undertaken and a process for authorisation of trading at other times. Designated People means the Directors, CEO, Company Secretary, those employees who report directly to the CEO and those employees who are notified that they are subject to the Policy.

A Designated Person must not trade in breach of the Policy either directly or indirectly through another entity, such as a partner, child, nominee or controlled company acting on his/her behalf. Under the Policy, Designated People are prohibited from trading in Fairfax securities without approval under the Policy or when in possession of price-sensitive information about Fairfax. In addition, Designated People must not tip anyone else on Fairfax securities, engage in short term speculative trading in Fairfax securities or trade in Fairfax derivatives.

Black-out periods occur before the announcement of the half-yearly and annual results, other trading updates and the Annual General Meeting. During black-out periods Designated People will not be authorised to trade. Outside of the trading black-out periods, Directors must obtain approval from the Chair (or the chairman of the Audit and Risk Committee for approvals for the Chair to trade). Other Designated People must obtain approval from the Company Secretary who will consult with the Chair.

Each Director must notify the Company Secretary of any change in the Director's interest in Fairfax securities so as to ensure compliance with the disclosure requirements of the ASX Listing Rules.

The Policy prohibits Designated People from entering into any financial transactions that operate to limit the economic risk of unvested Fairfax securities which have been allocated to an employee as part of his/her remuneration, prior to the securities vesting. Any breach of this prohibition risks disciplinary sanctions.

## SUSTAINABILITY AND CORPORATE RESPONSIBILITY COMMITTEE

The Board determined that the Sustainability and Corporate Responsibility Committee will no longer continue from effect from December 2013. Sustainability and corporate responsibility matters were transferred to other Board Sub-Committees.

## DIVERSITY

Fairfax Media is committed to creating a workplace that is fair and inclusive and reflects the diversity of the communities in which we operate. Fairfax Medial values, respects and encourages diversity of board members, employees, customers and suppliers. The Company believes diversity includes but is not limited to gender, age, ethnicity and cultural background.

# CORPORATE GOVERNANCE

Fairfax Media recognises the importance of its employees and aims to attract, motivate, retain and engage high performing employees. The Company recognises that each employee brings their own unique capabilities, experiences and characteristics to their work, and values such diversity at all levels of the Company in all that it does.

Encouraging diversity broadens the pool for the recruitment of talented employees, enhances retention and supports innovation. Increasing the focus on high quality employees supports the Company to improve its financial performance and achieve its strategic objectives.

The Company's workforce gender demographics were:

- Proportion of women who are Non-Executive Directors on the Board: 25%
- Proportion of women in senior management: 30%
- Proportion of women across the organisation: 53%

As at 29 June 2014 female gender representation among senior managers was 30 per cent. The Company has achieved its objective of 30 percent female gender representation among senior managers by 2015. It will aim to maintain this and set new targets over the course of the next 12 months.

In line with the new Workplace Gender Equality Act 2012 requirements, this year the Company updated its definition of senior managers, and this definition will be used of senior managers in the future. If a "like-for-like" comparison was used for the definition of senior managers in the 2013 Annual Report, the proportion of women in senior management would be 29%. This is still an improvement of 2013 figures.

Fairfax Media continues to focus on gender diversity, and in 2013, the Fairfax Women of Influence Awards was introduced. Fairfax Women of Influence Awards is an internal reward and recognition award aiming to celebrate the contributions and successes of high-achieving female Fairfax employees to raise their leadership profiles. The awards comprised of six categories: young leader, community leadership, public agenda setting, leadership, innovation, and change champion. Judging panel included members of the Board in addition to senior leaders across the business. Participation in the awards was high and the calibre and diversity of nominees was outstanding. The program has made a significant impact in raising the leadership profiles of females across the business.

The Company is moving in the right direction with regards to its targets to have a senior female included in all panels for senior executive roles and at least one female candidate in the shortlist for senior roles. This financial year a senior female has been on the recruitment panel for senior positions such as the new Commercial Director, MD Events and CEO Domain. Based on merit, a female has also been included in the candidate shortlist for senior roles. Fairfax Media will continue to make these practises standard.

Analysis into gender pay equity has begun and the Company will continue to conduct further research to gather diversity metrics across the business and in individual business units. Data submitted for the 2014 WGEA report indicates that in Australia, the following employment terms that can positively impact on women's participation in the workforce are available to Fairfax employees:

- Flexible work hours;
- Compressed working weeks;
- Time-in-lieu;
- Telecommuting;
- Part-time work job sharing;
- Carer's leave;
- Purchased leave; and
- Unpaid leave.

The Company has submitted and is compliant with the Workplace Gender Equality Act 2012 report in Australia.

More detailed analysis of pay equity and further research to gather robust diversity metrics across the business will be key areas of focus in FY15.

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## TRADING OVERVIEW

Fairfax Media Group reported a statutory net profit after significant items and tax of $224.4 million with underlying operating earnings before interest tax depreciation and amortisation (EBITDA) of $312.7 million. This was a pleasing result for the Group. EBITDA for continuing businesses of $306.4 million was 1.8% above last year.

The 2013 financial year included 53 weeks while the 2014 financial year had 52 weeks. This had a positive impact in 2013 of $38 million revenue and $5.6 million EBITDA.

The Australian Metro Media segment performed strongly with EBITDA growth of 41.3%, excluding significant items. Contributing to this result was revenue from digital subscriptions that were launched at the beginning of the financial year, growth in the Domain Group and an ongoing focus on cost. Advertising revenue remained challenged in the 2014 financial year with print revenue declines of 23.5%. Digital advertising revenue increased by 5.6%.

There was pleasing growth of digital subscriptions for *The Sydney Morning Herald*, *The Age*, and *The Australian Financial Review* during the 2014 financial year, with total revenue from those products of $24 million, $19.2 million higher than the prior year.

Australian Metro Media continues to attract strong audience numbers. The *Sydney Morning Herald* is Australia's most read masthead – attracting an audience of 5.6 million a month across print, web, mobile in May 2014 – according to the Enhanced Media Metrics Australia survey. *The Age* attracted an audience of 3.4 million in May 2014, while *The Australian Financial Review* attracted an audience of 1.4 million during the same period.

The Domain Group continued to accelerate its digital growth and manage declines in print. During the financial year, Domain's total digital revenue grew 40.5% year-on-year and EBITDA increased by 47%. Domain's online revenue (excluding Australian Property Monitors, Commercial Real Estate, Property Data Solutions and Commerce Australia) was 33% higher than the prior year. Domain had more than 8,550 agent subscribers at the end of the financial year, which was 12% higher than the prior year, representing approximately 80% market penetration.

Domain continued its national expansion strategy with the acquisition of property data business Property Data Solutions (PDS) for approximately $30 million in December 2013. PDS provides property data research to more than 5,000 subscribers with the majority being real estate businesses. The acquisition of Canberra's leading real estate listings business Allhomes was announced in July after the end of the 2014 financial year, subject to regulatory approval.

Digital Ventures continued its strategy of growing existing portfolio businesses and investing in and building new businesses through international and local partnerships. There were a number of strategic divestments during the financial year, including the sale of Stayz in December 2013 for approximately $220 million and the sale of InvestSmart in August 2013 for $7 million. Investments made during the financial year included a minority interest in Sydney-based digital health services company Healthshare in November 2013, and a joint venture with leading international job search engine Adzuna to provide a major new platform for recruiters and job seekers in Australia. A merger between RSVP and competitor Oasis Active was announced in June 2014, with Fairfax holding a 58% interest in the merged entities following the transaction. The merger of RSVP and Oasis brings together two of Australia's largest online dating services businesses.

Australian Community Media continued to experience revenue declines in the 2014 financial year although there was some improvement in the second half. Advertising revenue in the segment was down 16.1% with the drought in the Eastern states and a downturn in the resource sector being contributing factors. Costs are being tightly managed across the business.

Australian Community Media conducted a review of its business and operating model during the financial year. The outcome of the review involves adopting a flatter management structure and the phased introduction of a new operating model.

In the New Zealand segment for the 2014 financial year, total revenue was down 5.4%, with advertising revenue down 5.2%. The New Zealand print advertising market is not experiencing the same rate of decline seen in the Australian market. A new business structure was implemented in the second half of the 2014 financial year to drive revenue and efficiencies. The changes have contributed to the improved trend in the segment's second half revenue. There was a focus on cost reduction during the 2014 financial year as well as investment in growth initiatives.

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Radio experienced a decline in revenue of 6% in the 2014 financial year. The total metro radio advertising market grew 2% during that same period. New programming line-ups were put in place at five of the seven stations in the second half of the 2014 financial year. Management has been implementing changes to strengthen the position of the business. Sales teams have been restructured to have a national focus resulting in changes to three out of four of the sales leadership teams. Melbourne's 3AW and 96fm in Perth continued to have strong ratings and audience share.

Fairfax continued to deliver against its Fairfax of the Future transformation targets, with total annualised run-rate savings of $300 million achieved to the end of the 2014 financial year. Fairfax is making pleasing progress in growing several new revenue initiatives, including Events, Small to Medium Enterprise (SME) Digital and Marketing Services, Content Marketing and Data.

The second half of the 2014 financial year also saw the closures of Chullora and Tullamarine print sites and transition of work done at those sites to smaller regional print sites of North Richmond and Ballarat.

The 2014 financial year recorded significant items net of tax totalling $66.7 million for the Group. This included gains from the sales of Stayz and other controlled entities totalling $106.5 million, offset by restructuring and redundancy costs of $24.0 million and impairments of property, plant and equipment (with the majority relating to Chullora and Tullamarine closures).

## FINANCIAL POSITION

Net cash inflow from operating activities was $171.5 million. After capital expenditure of $72.3 million, dividends paid of $71.4 million, the impact of the sale of Stayz and other controlled businesses, repayments of borrowings, cash and cash equivalents decreased by $80.8 million.

Net cash was $67.6 million at 29 June 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## RECONCILIATION OF STATUTORY TO UNDERLYING PERFORMANCE

| | | AS REPORTED | | SIGNIFICANT ITEMS (IV) | | TRADING PERFORMANCE EXCLUDING SIGNIFICANT ITEMS | |
|---|---|---|---|---|---|---|---|
| | NOTE | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 |
| Total revenue | (i) | **1,972,694** | 2,033,786 | **106,477** | 19,830 | **1,866,217** | 2,013,956 |
| Associate profits/(losses) | | **8,007** | (2,239) | **–** | – | **8,007** | (2,239) |
| Expenses | | **(1,609,387)** | (2,150,758) | **(47,909)** | (460,302) | **(1,561,478)** | (1,690,456) |
| **Operating EBITDA** | | **371,314** | (119,211) | **58,568** | (440,472) | **312,746** | 321,261 |
| Depreciation and amortisation | | **(93,517)** | (100,762) | **–** | – | **(93,517)** | (100,762) |
| **EBIT** | | **277,797** | (219,973) | **58,568** | (440,472) | **219,229** | 220,499 |
| Net finance costs | (ii) | **(10,428)** | (54,967) | **–** | – | **(10,428)** | (54,967) |
| **Net profit/(loss) before tax** | | **267,369** | (274,940) | **58,568** | (440,472) | **208,801** | 165,532 |
| Tax (expense)/benefit | | **(42,201)** | (37,912) | **8,108** | 12,569 | **(50,309)** | (50,481) |
| **Net profit/(loss) after tax from continuing operations** | | **225,168** | (312,852) | **66,676** | (427,903) | **158,492** | 115,051 |
| Net profit after tax from discontinued operations | (iii) | **–** | 311,881 | **–** | 283,444 | **–** | 28,437 |
| **Net profit/(loss) after tax** | | **225,168** | (971) | **66,676** | (144,459) | **158,492** | 143,488 |
| Net profit attributable to non-controlling interest | | **(736)** | (15,461) | **–** | – | **(736)** | (15,461) |
| **Net profit/(loss) attributable to members of the Company** | | **224,432** | (16,432) | **66,676** | (144,459) | **157,756** | 128,027 |
| **Earnings/(loss) per share** | | **9.5** | (0.7) | | | **6.7** | 5.4 |

**Notes:**

(i) Revenue from ordinary activities excluding interest income and trading results of discontinued operations.

(ii) Finance costs less interest income.

(iii) The remaining 51% of Trade Me Group Ltd was disposed of on 21 December 2012 and classified as a discontinued operation in 2013. The "As reported" net profit after tax from discontinued operations includes both trading results of this business up to the date of disposal and the profit on disposal.

(iv) Significant items are those items of such a nature or size that separate disclosure will assist users to understand the accounts. Refer to Note 4 for further details of significant items for impairments, restructuring and redundancy and gains on sale of controlled entities consistent with prior period disclosures.

## RECONCILIATION OF TRADING TO OPERATING CASH FLOW

| | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 |
|---|---|---|
| Cash flow from trading activities | **284,343** | 376,645 |
| Redundancy payments | **(86,397)** | (96,018) |
| Interest and dividends received | **17,821** | 14,330 |
| Finance costs and income tax paid | **(44,285)** | (108,506) |
| Net cash flow from operating activities | **171,482** | 186,451 |

# ANNUAL FINANCIAL REPORT 2014

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

# CONSOLIDATED INCOME STATEMENT

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from operations | 2(A) | **1,856,762** | 2,010,488 |
| Other revenue and income | 2(B) | **130,806** | 34,902 |
| **Total revenue and income** | | **1,987,568** | 2,045,390 |
| Share of net profits/(losses) of associates and joint ventures | 12(C) | **8,007** | (2,239) |
| Expenses from operations excluding impairment, depreciation, amortisation and finance costs | 3(A) | **(1,585,928)** | (1,690,820) |
| Depreciation and amortisation | 3(B) | **(93,517)** | (100,762) |
| Impairment of intangibles, investments and property, plant and equipment | | **(23,459)** | (459,938) |
| Finance costs | 3(C) | **(25,302)** | (66,571) |
| **Net profit/(loss) from continuing operations before income tax expense** | | **267,369** | (274,940) |
| Income tax expense | 6 | **(42,201)** | (37,912) |
| **Net profit/(loss) from continuing operations after income tax expense** | | **225,168** | (312,852) |
| | | | |
| **Discontinued operations** | | | |
| Net profit from discontinued operations after income tax expense | 5 | **–** | 311,881 |
| **Net profit/(loss) after income tax expense** | | **225,168** | (971) |
| | | | |
| **Net profit/(loss) is attributable to:** | | | |
| Non-controlling interest | | **736** | 15,461 |
| Owners of the parent | | **224,432** | (16,432) |
| | | **225,168** | (971) |
| | | | |
| **Earnings per share (cents per share)** | | | |
| Basic earnings/(loss) per share (cents per share) | 24 | **9.5** | (0.7) |
| Diluted earnings/(loss) per share (cents per share) | 24 | **9.5** | (0.7) |
| | | | |
| **Earnings per share from continuing operations (cents per share)** | | | |
| Basic earnings/(loss) per share (cents per share) | 24 | **9.5** | (13.3) |
| Diluted earnings/(loss) per share (cents per share) | 24 | **9.5** | (13.3) |

The above Consolidated Income Statement should be read in conjunction with the accompanying Notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| Net profit/(loss) after income tax expense | | **225,168** | (971) |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Changes in fair value of available for sale financial assets | | **707** | 296 |
| Changes in fair value of cash flow hedges | | **511** | 3,407 |
| Changes in value of net investment hedges | | **(11,231)** | (18,431) |
| Exchange differences on translation of foreign operations | | **22,451** | 28,033 |
| Income tax relating to these items | 6 | **3,387** | 4,532 |
| Items that will not be reclassified to profit or loss: | | | |
| Actuarial gain on defined benefit plans | | **518** | 2,353 |
| Income tax relating to these items | 6 | **(149)** | (702) |
| **Other comprehensive income for the period, net of tax** | | **16,194** | 19,488 |
| **Total comprehensive income for the period** | | **241,362** | 18,517 |
| **Total comprehensive income is attributable to:** | | | |
| Non-controlling interest | | **736** | 15,461 |
| Owners of the parent | | **240,626** | 3,056 |
| | | **241,362** | 18,517 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

# CONSOLIDATED BALANCE SHEET

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES AS AT 29 JUNE 2014

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 33(B) | **452,687** | 533,531 |
| Trade and other receivables | 8 | **295,424** | 298,330 |
| Inventories | 9 | **25,362** | 30,908 |
| Derivative assets | 16 | **213** | 11,018 |
| Assets held for sale | 10(A) | **91,494** | 6,979 |
| Income tax receivable | | **8,725** | 8,466 |
| Other financial assets | 11 | **4,858** | 4,386 |
| **Total current assets** | | **878,763** | 893,618 |
| **NON-CURRENT ASSETS** | | | |
| Receivables | 8 | **1,232** | 1,046 |
| Investments accounted for using the equity method | 12 | **88,801** | 80,490 |
| Available for sale investments | 13 | **2,488** | 1,929 |
| Intangible assets | 14 | **1,312,111** | 1,438,034 |
| Property, plant and equipment | 15 | **407,978** | 478,933 |
| Derivative assets | 16 | **1,551** | 7,815 |
| Deferred tax assets | 17(A) | **86,022** | 107,895 |
| Pension assets | 21(A) | **1,195** | 709 |
| Other financial assets | 11 | **1,369** | 6,222 |
| **Total non-current assets** | | **1,902,747** | 2,123,073 |
| **Total assets** | | **2,781,510** | 3,016,691 |
| **CURRENT LIABILITIES** | | | |
| Payables | 18 | **218,052** | 235,919 |
| Interest bearing liabilities | 19 | **119,721** | 284,323 |
| Derivative liabilities | 16 | **13,278** | 47,978 |
| Liabilities directly associated with held for sale assets | 10(B) | **4,202** | – |
| Provisions | 20 | **118,959** | 191,319 |
| Current tax liabilities | | **9,290** | 1,333 |
| **Total current liabilities** | | **483,502** | 760,872 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest bearing liabilities | 19 | **235,526** | 353,889 |
| Derivative liabilities | 16 | **21,957** | 26,939 |
| Deferred tax liabilities | 17(A) | **–** | 3,581 |
| Provisions | 20 | **49,416** | 53,942 |
| Pension liabilities | 21(A) | **440** | 1,273 |
| **Total non-current liabilities** | | **307,339** | 439,624 |
| **Total liabilities** | | **790,841** | 1,200,496 |
| **NET ASSETS** | | **1,990,669** | 1,816,195 |
| **EQUITY** | | | |
| Contributed equity | 22 | **4,646,525** | 4,646,248 |
| Reserves | 23 | **55,432** | 35,517 |
| Retained losses | | **(2,713,145)** | (2,867,387) |
| **Total parent entity interest** | | **1,988,812** | 1,814,378 |
| Non-controlling interest | | **1,857** | 1,817 |
| **TOTAL EQUITY** | | **1,990,669** | 1,816,195 |

The above Consolidated Balance Sheet should be read in conjunction with the accompanying Notes.

# CONSOLIDATED CASH FLOW STATEMENT

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | **2,044,784** | 2,326,259 |
| Payments to suppliers and employees (inclusive of GST) | | **(1,760,441)** | (1,949,614) |
| Redundancy payments | | **(86,397)** | (96,018) |
| Interest received | | **12,933** | 10,963 |
| Dividends and distributions received | | **4,888** | 3,367 |
| Finance costs paid | | **(31,162)** | (60,456) |
| Net income taxes paid | | **(13,123)** | (48,050) |
| **Net cash inflow from operating activities** | 33(A) | **171,482** | 186,451 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of controlled entities, associates and joint ventures (net of cash acquired) | | **(33,713)** | (51,935) |
| Payment for purchase of businesses, including mastheads | | **(482)** | (10,048) |
| Payment for property, plant, equipment and software | | **(72,321)** | (60,584) |
| Proceeds from sale of property, plant and equipment | | **12,260** | 2,047 |
| Proceeds from sale of investments, net of transaction fees and cash disposed * | | **222,444** | 644,099 |
| Loans repaid by other parties | | **4,986** | 6,056 |
| **Net cash inflow from investing activities** | | **133,174** | 529,635 |
| **Cash flows from financing activities** | | | |
| Payment for purchase of non-controlling interests in subsidiaries | | **(3,983)** | (2,999) |
| Proceeds from borrowings and other financial liabilities | | **12,871** | – |
| Repayment of borrowings and other financial liabilities | | **(319,457)** | (480,586) |
| Payment of facility fees | | **(1,475)** | – |
| Dividends paid to shareholders | 7 | **(70,559)** | (47,040) |
| Dividends paid to non-controlling interests in subsidiaries | | **(884)** | (14,407) |
| **Net cash outflow from financing activities** | | **(383,487)** | (545,032) |
| **Net (decrease)/increase in cash and cash equivalents held** | | **(78,831)** | 171,054 |
| Cash and cash equivalents at beginning of the financial year | | **533,531** | 358,364 |
| Reclassification to held for sale | 10 | **(8,439)** | – |
| Effect of exchange rate changes on cash and cash equivalents | | **6,426** | 4,113 |
| **Cash and cash equivalents at end of the financial year** | 33(B) | **452,687** | 533,531 |

* The 2014 proceeds primarily relate to the disposal of the Stayz business on 6 December 2013. The 2013 proceeds relate to the disposal of the remaining 51% interest in Trade Me Group Ltd on 21 December 2012 and the disposal of the US Agricultural Media business on 14 November 2012.

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying Notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

| | | RESERVES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CONTRIBUTED EQUITY (NOTE 22) $'000 | ASSET REVALUATION RESERVE (NOTE 23) $'000 | ACQUISITION RESERVE (NOTE 23) $'000 | FOREIGN CURRENCY TRANSLATION RESERVE (NOTE 23) $'000 | CASHFLOW HEDGE RESERVE (NOTE 23) $'000 | NET INVESTMENT HEDGE RESERVE (NOTE 23) $'000 | SHARE-BASED PAYMENT RESERVE (NOTE 23) $'000 | GENERAL RESERVE (NOTE 23) $'000 | TOTAL RESERVES $'000 | RETAINED LOSSES $'000 | NON-CONTROLLING INTEREST $'000 | TOTAL EQUITY $'000 |
| **Balance at 30 June 2013** | 4,646,248 | 41 | 181,048 | (132,599) | (4,703) | (10,232) | 8,799 | (6,837) | 35,517 | (2,867,387) | 1,817 | 1,816,195 |
| Profit for the period | – | – | – | – | – | – | – | – | – | 224,432 | 736 | 225,168 |
| Other comprehensive income | – | 712 | – | 22,451 | 524 | (7,862) | – | – | 15,825 | 369 | – | 16,194 |
| **Total comprehensive income for the period** | – | 712 | – | 22,451 | 524 | (7,862) | – | – | 15,825 | 224,801 | 736 | 241,362 |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | | | |
| Dividends paid to shareholders | – | – | – | – | – | – | – | – | – | (70,559) | – | (70,559) |
| Dividends paid to non-controlling interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | (736) | (736) |
| Acquisition of non-controlling interest | – | – | 1,658 | – | – | – | – | – | 1,658 | – | 40 | 1,698 |
| Reclassification due to prior distribution of shares | 277 | – | – | – | – | – | (277) | – | (277) | – | – | – |
| Share-based payments, net of tax | – | – | – | – | – | – | 2,709 | – | 2,709 | – | – | 2,709 |
| **Total transactions with owners** | 277 | – | 1,658 | – | – | – | 2,432 | – | 4,090 | (70,559) | (696) | (66,888) |
| **Balance at 29 June 2014** | 4,646,525 | 753 | 182,706 | (110,148) | (4,179) | (18,094) | 11,231 | (6,837) | 55,432 | (2,713,145) | 1,857 | 1,990,669 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 30 JUNE 2013

| | | RESERVES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CONTRIBUTED EQUITY (NOTE 22) $'000 | ASSET REVALUATION RESERVE (NOTE 23) $'000 | ACQUISITION RESERVE (NOTE 23) $'000 | FOREIGN CURRENCY TRANSLATION RESERVE (NOTE 23) $'000 | CASHFLOW HEDGE RESERVE (NOTE 23) $'000 | NET INVESTMENT HEDGE RESERVE (NOTE 23) $'000 | SHARE-BASED PAYMENT RESERVE (NOTE 23) $'000 | GENERAL RESERVE (NOTE 23) $'000 | TOTAL RESERVES $'000 | RETAINED LOSSES $'000 | NON-CONTROLLING INTEREST $'000 | TOTAL EQUITY $'000 |
| **Balance at 24 June 2012** | 4,646,248 | (259) | 177,759 | (219,528) | (7,088) | 2,669 | 7,764 | (6,837) | (45,520) | (2,805,566) | 247,515 | 2,042,677 |
| Loss for the period | – | – | – | – | – | – | – | – | – | (16,432) | 15,461 | (971) |
| Other comprehensive income | – | 300 | – | 28,053 | 2,385 | (12,901) | – | – | 17,837 | 1,651 | – | 19,488 |
| **Total comprehensive income for the period** | – | 300 | – | 28,053 | 2,385 | (12,901) | – | – | 17,837 | (14,781) | 15,461 | 18,517 |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | | | |
| Dividends paid to shareholders | – | – | – | – | – | – | – | – | – | (47,040) | – | (47,040) |
| Dividends paid to non-controlling interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | (14,067) | (14,067) |
| Disposal of subsidiaries, net of tax * | – | – | – | 58,876 | – | – | (495) | – | 58,381 | – | (240,798) | (182,417) |
| Disposal of non-controlling interest in subsidiary | – | – | 6,294 | – | – | – | – | – | 6,294 | – | (6,294) | – |
| Acquisition of non-controlling interest | – | – | (3,005) | – | – | – | – | – | (3,005) | – | – | (3,005) |
| Share-based payments, net of tax | – | – | – | – | – | – | 1,530 | – | 1,530 | – | – | 1,530 |
| **Total transactions with owners** | – | – | 3,289 | 58,876 | – | – | 1,035 | – | 63,200 | (47,040) | (261,159) | (244,999) |
| **Balance at 30 June 2013** | 4,646,248 | 41 | 181,048 | (132,599) | (4,703) | (10,232) | 8,799 | (6,837) | 35,517 | (2,867,387) | 1,817 | 1,816,195 |

* This relates to the disposal of the remaining 51% interest in Trade Me Group Ltd on 21 December 2012 and the disposal of the US Agricultural Media business on 14 November 2012. The Trade Me business has been classified as a discontinued operation. Refer to Note 5 for additional disclosures in relation to its disposal.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes the consolidated entity consisting of Fairfax Media Limited and its controlled entities.

The financial report is for the period 1 July 2013 to 29 June 2014 (2013: the period 25 June 2012 to 30 June 2013). Reference in this report to 'a year' is to the period ended 29 June 2014 or 30 June 2013 respectively, unless otherwise stated.

Fairfax Media Limited is a for profit company limited by ordinary shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

### (A) BASIS OF PREPARATION

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Group has prepared the financial statements in compliance with amendments to the *Corporations Act 2001* in June 2010 which removed the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 36.

**Historical cost convention**

These financial statements have been prepared on a going concern basis and on the basis of historical cost principles except for those assets and liabilities disclosed in Note 34(E) which are measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

### (B) PRINCIPLES OF CONSOLIDATION

**(i) Controlled entities**

The consolidated financial statements incorporate the assets and liabilities of the Company, Fairfax Media Limited, and its controlled entities. Fairfax Media Limited and its controlled entities together are referred to in this financial report as the Group or the consolidated entity.

Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of controlled entities by the Group (refer to Note 1(C)).

All inter-entity transactions, balances and unrealised gains on transactions between Group entities have been eliminated in full.

Non-controlling interests in the earnings and equity of controlled entities are shown separately in the income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

**(ii) Associates and joint ventures**

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method. Associates are entities over which the Group has significant influence and are neither subsidiaries or joint ventures.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses are recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates and joint ventures are recognised in the consolidated financial statements as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in associates and joint ventures.

### (C) ACCOUNTING FOR ACQUISITIONS

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other expenses.

# NOTES TO THE FINANCIAL STATEMENTS



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with AASB 139 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

### (D) IMPAIRMENT OF ASSETS

Intangibles, property, plant and equipment and investments accounted for using the equity method are tested for impairment annually, or at each reporting date where there is an indication that the asset may be impaired.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets, or groups of assets, which are called cash generating units (CGUs).

Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### (E) INTANGIBLES

#### (i) Goodwill

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the investment in associates and joint ventures.

Goodwill is not amortised. It is carried at cost less accumulated impairment losses. Impairment losses relating to goodwill cannot be reversed in future periods. Goodwill is allocated to a CGU for the purposes of impairment testing. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which goodwill relates. Refer to Note 1(D).

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed.

#### (ii) Other intangible assets

**Mastheads and tradenames**

The majority of mastheads and tradenames have been assessed to have indefinite useful lives. Accordingly, they are not amortised and are carried at cost less accumulated impairment losses. Mastheads and tradenames are tested for impairment in accordance with Note 1(D).

The Group's mastheads and tradenames operate in established markets with limited licence conditions and are expected to continue to complement the Group's new media initiatives. On this basis, the Directors have determined that the majority of mastheads and tradenames have indefinite lives as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group.

There are a small number of tradenames that have been assessed to have a definite useful life and are amortised using a straight-line method over twenty years.

**Radio licences**

Radio licences, being commercial radio licences held by the consolidated entity under the provisions of the Broadcasting Services Act 1992, have been assessed to have indefinite useful lives. Accordingly, they are not amortised and are carried at cost less accumulated impairment losses. Radio licences are tested for impairment in accordance with Note 1(D).

**Software, databases and websites**

Computer software licences and databases acquired are capitalised as an intangible asset. Internal and external costs directly incurred in the purchase or development of software or databases are capitalised, including subsequent upgrades and enhancements when it is probable that they will generate future economic benefits attributable to the consolidated entity. These costs are amortised using the straight-line method over three to six years.

Internal and external costs directly incurred in the development of websites are capitalised and amortised using a straight-line method over two to four years.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalised software, databases and website costs are reviewed annually for potential impairment.

**Other**

Other intangibles, where applicable, are stated at cost less accumulated amortisation and impairment losses. The useful life of the intangible assets are assessed to be either finite or indefinite and are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Other intangible assets created within the business are not capitalised and are expensed in the income statement in the period the expenditure is incurred.

### (F) FOREIGN CURRENCY

#### (i) Currency of presentation

All amounts are expressed in Australian dollars, which is the consolidated entity's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity and qualifying cash flow hedges, which are deferred in equity until disposal. Tax charges and credits attributable to exchange differences on borrowings are also recognised in equity.

Translation differences on non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Translation differences on non-monetary items, such as available for sale financial assets, are translated using the exchange rates at the date when the fair value was determined and included in the asset revaluation reserve in equity.

#### (iii) Group entities

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average monthly exchange rates during the financial year; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the borrowings designated as hedges of the net investment in foreign entities are taken directly to a separate component of equity; the net investment hedge reserve.

On disposal of a foreign entity, or when borrowings that form part of the net investment are repaid, the deferred cumulative amount of the exchange differences in the net investment hedge reserve relating to that foreign entity are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (G) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue from advertising, circulation, subscription, online services, radio broadcasting and printing is recognised when control of the right to be compensated has been obtained and the stage of completion of the contract can be reliably measured. For newspapers, magazines and other publications the right to be compensated is on the publication date. Revenue from the provision of online advertising on websites is recognised in the period the advertisements are placed or the impression occurs. Amounts disclosed as revenue are net of commissions, rebates, discounts, returns, trade allowances, duties and taxes paid.

Dividend revenue is recognised when the Group's right to receive the payment is established, which is generally when the dividend has been declared.

Interest revenue is recognised as it accrues, based on the effective yield of the financial asset.

### (H) INCOME TAX AND OTHER TAXES

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributed to temporary differences and to unused tax losses. Deferred tax assets and liabilities are recognised for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

# NOTES TO THE FINANCIAL STATEMENTS



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in equity are recognised in equity.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable group and the same taxation authority.

**Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST except:

(i) where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) receivables and payables are stated with the amount of GST included.

This net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cashflows are included in the cash flow statement on a gross basis and the GST component of cashflows arising from investing and financing activities, which are recoverable from, or payable to the taxation authority are classified as operating cashflows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**Tax consolidation – Australia**

Fairfax Media Limited (the head entity) and its wholly-owned Australian entities implemented the tax consolidation legislation as of 1 July 2003. The current and deferred tax amounts for each member in the tax consolidated group (except for the head entity) have been allocated based on stand-alone calculations that are modified to reflect membership of the tax consolidated group.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default of the head entity, Fairfax Media Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Fairfax Media Limited for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits transferred to Fairfax Media Limited under the tax consolidation legislation. Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. The amounts receivable/payable under the tax funding arrangements are due upon demand from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (I) LEASES

**(i) Finance leases**

Assets acquired under finance leases which result in the consolidated entity receiving substantially all the risks and rewards of ownership of the asset are capitalised at the lease's inception at the lower of the fair value of the leased property or the estimated present value of the minimum lease payments. The corresponding finance lease obligation, net of finance charges, is included within interest bearing liabilities. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the liability for each accounting period. The leased asset is included in property, plant and equipment and is depreciated over the shorter of the estimated useful life of the asset or the lease term.

**(ii) Operating leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Net rental payments, excluding contingent payments, are recognised as an expense in the income statement on a straight-line basis over the period of the lease.

**(iii) Onerous property costs**

Property leases are considered to be an onerous contract if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Where a decision has been made to vacate the premises or there is excess capacity and the lease is considered to be onerous, a provision is recorded.

### (J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term investments with original maturities of three months or less that are readily convertible to cash and subject to insignificant risk of changes in value. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

### (K) TRADE AND OTHER RECEIVABLES

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost which is the original invoice amount less an allowance for any uncollectible amount. Collectability of trade receivables is reviewed on an ongoing basis and a provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts.

Interest receivable on related party loans is recognised on an accruals basis.

### (L) INVENTORIES

Inventories including work in progress are stated at the lower of cost and net realisable value. The methods used to determine cost for the main items of inventory are:

- raw materials (comprising mainly newsprint and paper on hand) are assessed at average cost and newsprint and paper in transit by specific identification cost;
- finished goods and work in progress are assessed as the cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity; and
- in the case of other inventories, cost is assigned by the weighted average cost method.

### (M) AVAILABLE FOR SALE INVESTMENTS

Available for sale financial assets are investments in listed equity securities in which the Group does not have significant influence or control. They are stated at fair value based on current quoted prices and unrealised gains and losses arising from changes in the fair value are recognised in the asset revaluation reserve. The assets are included in non-current assets unless management intends to dispose of the investment within twelve months of the reporting date.

### (N) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

The consolidated entity classifies and measures its investments as follows:

**(i) Financial assets at fair value through profit and loss**

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss on initial recognition. The policy of management is to designate a financial asset at fair value through profit and loss if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. These assets are measured at fair value and realised and unrealised gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

# NOTES TO THE FINANCIAL STATEMENTS



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are included in receivables and other financial assets in the balance sheet. These assets are measured at amortised cost using the effective interest method.

**(iii) Other financial assets**

These assets are non-derivatives that are either designated or not classified in any of the other categories and measured at fair value. Any unrealised gains and losses arising from changes in fair value are included in equity, impairment losses are included in the income statement.

**(iv) Held to maturity investments**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. These assets are measured at amortised cost using the effective interest method.

Financial assets other than derivatives are recognised at fair value or amortised cost in accordance with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*. Where they are carried at fair value, gains and losses on remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit and loss, in which case the gains and losses are recognised directly in the income statement.

All financial liabilities other than derivatives are carried at amortised cost.

The Group uses derivative financial instruments such as forward foreign currency contracts, and foreign currency and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Derivatives, including those embedded in other contractual arrangements, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The measurement of the fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

### Hedge accounting

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges: hedges of the fair value of recognised assets or liabilities or a firm commitment;
- Cash flow hedges: hedges of highly probable forecast transactions; or
- Net investment hedges: hedges of the net investment in a foreign operation.

### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the income statement within finance costs. Where the adjustment is to the carrying amount of a hedged interest bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance costs. Gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

### Net investment hedge

Hedges of a net investment in a foreign operation are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of such gains or losses recognised directly in equity is transferred to the income statement based on the amount calculated during the direct method of consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Derivatives that do not qualify for hedge accounting**

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

### (O) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost less accumulated depreciation and any accumulated impairment losses. Directly attributable costs arising from the acquisition or construction of fixed assets, including internal labour and interest, are also capitalised as part of the cost.

**Recoverable amount**

All items of property, plant and equipment are reviewed annually to ensure carrying values are not in excess of recoverable amounts. Recoverable amounts are based upon the present value of expected future cashflows.

**Depreciation and amortisation**

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | up to 60 years |
| Printing presses | up to 10 years |
| Other production equipment | up to 15 years |
| Other equipment | up to 20 years |
| Computer equipment | up to 6 years |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the income statement.

### (P) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

### (Q) TRADE AND OTHER PAYABLES

Liabilities for trade creditors and other amounts are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received. Loans payable to related parties are carried at amortised cost and interest payable is recognised on an accruals basis.

### (R) PROVISIONS

Provisions are recognised when the Group has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to others as a result of past transactions or events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before reporting date.

### (S) INTEREST BEARING LIABILITIES

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Finance lease liabilities are determined in accordance with the requirements of AASB 117 *Leases* (refer to Note 1(l)).

**Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation or ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

# NOTES TO THE FINANCIAL STATEMENTS



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than twelve months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

### (T) EMPLOYEE BENEFITS

**(i) Wages, salaries, annual leave and long service leave**

Current liabilities for wages and salaries, holiday pay, annual leave and long service leave are recognised in the provision for employee benefits and measured at the amounts expected to be paid when the liabilities are settled.

The employee benefit liability expected to be settled within twelve months from reporting date is recognised in current liabilities. The non-current provision relates to entitlements, including long service leave, which are expected to be payable after twelve months from reporting date and are measured as the present value of expected future payments to be made in respect of services, employee departures and periods of service. Expected future payments are discounted using market yields at reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Employee benefit on-costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

**(ii) Share-based payment transactions**

Share-based compensation benefits can be provided to employees in the form of equity instruments.

The cost of share-based payments is recognised over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become entitled to the award (the vesting date).

At each reporting date until vesting, the cumulative charge to the income statement is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The market value of equity instruments issued to employees for no cash consideration under the Long Term Incentive Plan is recognised as an employee benefits expense over the vesting period (refer to Note 30).

Shares purchased, but which have not yet vested to the employee as at reporting date are offset against contributed equity of the Group (refer to Note 1(U)).

**(iii) Defined benefit superannuation plans**

Fairfax Media Limited and certain controlled entities participate in a number of superannuation plans.

An asset or liability in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses), less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Actuarial gains and losses are recognised in retained earnings in the periods in which they arise.

Contributions made by the Group to defined contribution superannuation funds are charged to the income statement in the period the employee's service is provided.

**(iv) Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

**(v) Bonus plans**

The Group recognises a provision and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

### (U) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are recognised in equity as a reduction from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the Group reacquires its own equity instruments, e.g. under the Long Term Incentive Plan, those instruments are deducted from equity.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Debentures**

Debentures have been included as equity as the rights attaching to them are in all material respects comparable to those attaching to the ordinary shares. Such debentures are unsecured non-voting securities that have interest entitlements equivalent to the dividend entitlements attaching to the ordinary voting shares and rank equally with such shares on any liquidation or winding up. These interest entitlements are treated as dividends.

The debentures are convertible into shares on a one-for-one basis at the option of the holder provided that conversion will not result in a breach of any of the following:

(i) any provision of the *Foreign Acquisitions and Takeovers Act 1975*;

(ii) any undertaking given by the Company to the Foreign Investment Review Board or at the request of the Foreign Investment Review Board from time to time; or

(iii) any other applicable law including, without limitation the *Broadcasting Act 1942*.

### (V) EARNINGS PER SHARE

**Basic earnings per share**

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members, adjusted to exclude costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the financial year.

**Diluted earnings per share**

Diluted earnings per share is calculated by dividing the basic EPS earnings adjusted by the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

### (W) SEGMENT REPORTING

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenue and expense relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the Board of Directors, Chief Executive Officer and Chief Financial Officer and are disclosed in Note 35.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "Other segments".

### (X) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The carrying amounts of certain assets and liabilities are determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next financial year are:

**(i) Impairment of goodwill and intangibles with indefinite useful lives**

The Group tests annually or at each reporting date where there is an indication of impairment. This requires an estimation of the recoverable amount of the cash generating units (CGU), using a value in use methodology, as detailed in Note 1(D).

The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives, along with a sensitivity analysis, are detailed in Note 14.

**(ii) Income taxes**

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

# NOTES TO THE FINANCIAL STATEMENTS



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(iii) Share-based payment transactions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by an external independent valuer using a Monte Carlo model, using the assumptions detailed in Note 30.

**(iv) Defined benefit plans**

Various actuarial assumptions are required when determining the Group's superannuation plan obligations. These assumptions and the related carrying amounts are discussed in Note 21.

**(v) Restructuring and redundancy provision**

A provision for restructuring and redundancy has been disclosed in Note 20 as a result of the Group having a constructive obligation and a detailed formal plan for restructuring.

### (Y) ROUNDING OF AMOUNTS

The consolidated entity is of a kind referred to in Class Order 98/0100, as amended by Class Order 04/667, issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the financial report. Amounts in this report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### (Z) NEW ACCOUNTING STANDARDS AND URGENT ISSUES GROUP (UIG) INTERPRETATIONS

**(i) Changes in accounting policy and disclosure**

The Group has changed some of its accounting policies as a result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013.

The affected policies and standards are:

- Principles of consolidation – new standards AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*;
- Accounting for employee benefits – revised AASB 119 *Employee Benefits*;
- Recoverable amount disclosures for non-financial assets – amendments to AASB 136 *Impairment of Assets*.

Other new standards that are applicable for the first time for the June 2014 year end report are AASB 13 *Fair Value Measurement*, AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* and AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011*. These standards have introduced new disclosures but did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

**Principles of consolidation – subsidiaries and joint arrangements**

AASB 10 replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation – Special Purpose Entities*. Under the new principles, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Under AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined it only has joint ventures.

Under the previous standard, investments in joint ventures could be accounted for using either the proportionate consolidation method or the equity method. Under AASB 11, investments in joint ventures may only be accounted for using the equity method. For the Group, this has resulted in no change or adjustments in the financial statements as the Group's policy is to account for all joint ventures using the equity method.

**Employee benefits**

The adoption of the revised AASB 119 changed the accounting for the Group's annual leave provisions. As the Group does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave provisions are now assessed as long term employee benefits. This has changed the measurement of these provisions, as the provisions are now measured on a discounted basis. However, it has not changed the balance sheet classification of the annual leave provision as current. The financial impact of this change is considered not to be material.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Recoverable amount disclosures for non-financial assets**

The amendments to AASB 136 introduced via 2013-3 remove the unintended consequences of AASB 13 on the disclosures required under AASB 136. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided AASB 13 is also applied. The Group has early adopted these amendments to AASB 136 in the current period since the amended/additional disclosures provide useful information as intended by the AASB. Accordingly, these amendments have been considered while making disclosures for impairment of non financial assets. These amendments would continue to be considered for future disclosures.

**(ii) Accounting standards and interpretations issued but not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 29 June 2014 reporting periods. The Group has elected not to early adopt these new standards or amendments in the financial statements. The Group has yet to fully assess the impact the following accounting standards and amendments to accounting standards will have on the financial statements, when applied in future periods:

- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*;
- AASB 9 *Financial Instruments*;
- Annual Improvements 2010–2012 Cycle;
- Annual Improvements 2011–2013 Cycle;
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B and Part C)*;
- AASB 1031 *Materiality*; and
- IFRS 15 *Revenue from Contracts with Customers*.

Other standards and interpretations that have been issued but are not yet effective are not expected to have any significant impact on the Group's financial statements in the year of their initial application.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 2. REVENUES

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **(A) REVENUE FROM OPERATIONS** | | |
| Total revenue from sale of goods * | **503,919** | 489,764 |
| Total revenue from services | **1,352,843** | 1,520,724 |
| **Total revenue from operations** | **1,856,762** | 2,010,488 |
| **(B) OTHER REVENUE AND INCOME** | | |
| Interest income | **14,874** | 11,604 |
| Dividend revenue | **147** | 112 |
| Foreign exchange gains | **3,817** | 1,541 |
| Gains on sale of property, plant and equipment | **868** | 1,011 |
| Gains on sale of controlled entities | **106,477** | 19,830 |
| Gain on derivative at fair value through profit and loss | **354** | 785 |
| Other | **4,269** | 19 |
| **Total other revenue and income** | **130,806** | 34,902 |
| **Total revenue and income** | **1,987,568** | 2,045,390 |

* Revenue from the sale of goods includes revenue from circulation, subscription, printing and printing-related products.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 3. EXPENSES

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **(A) EXPENSES BEFORE IMPAIRMENT, DEPRECIATION, AMORTISATION AND FINANCE COSTS** | | |
| Staff costs excluding staff redundancy costs | **731,502** | 786,915 |
| Redundancy costs | **22,126** | 522 |
| Newsprint and paper | **141,752** | 165,487 |
| Distribution costs | **144,155** | 151,069 |
| Production costs | **135,155** | 157,801 |
| Promotion and advertising costs | **91,997** | 107,831 |
| Rent and outgoings | **59,815** | 63,903 |
| Repairs and maintenance | **25,832** | 29,129 |
| Outsourced services | **22,477** | 3,517 |
| Communication costs | **18,630** | 19,812 |
| Maintenance and other computer costs | **24,763** | 25,218 |
| Fringe benefits tax, travel and entertainment | **25,174** | 25,179 |
| Other | **142,550** | 154,437 |
| **Total expenses before impairment, depreciation, amortisation and finance costs** | **1,585,928** | 1,690,820 |
| | | |
| **(B) DEPRECIATION AND AMORTISATION** | | |
| Depreciation of freehold property | **6,275** | 5,370 |
| Depreciation of plant and equipment | **54,629** | 60,024 |
| Amortisation of leasehold property | **4,370** | 3,745 |
| Amortisation of tradenames | **33** | 31 |
| Amortisation of software | **27,451** | 29,485 |
| Amortisation of customer relationships | **759** | 2,107 |
| **Total depreciation and amortisation** | **93,517** | 100,762 |
| | | |
| **(C) FINANCE COSTS** | | |
| External parties | **31,172** | 56,734 |
| Gain on partial redemption of senior notes | **(10,183)** | – |
| Finance lease | **4,073** | 4,513 |
| Hedge ineffectiveness | **240** | 5,324 |
| **Total finance costs** | **25,302** | 66,571 |
| | | |
| **(D) DETAILED EXPENSE DISCLOSURES** | | |
| Operating lease rental expense | **40,580** | 43,077 |
| Defined contribution superannuation expense | **47,658** | 53,275 |
| Share-based payment expense | **3,870** | 1,695 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 4. SIGNIFICANT ITEMS

The net profit after tax includes the following items whose disclosure is relevant in explaining the financial performance of the consolidated entity.

Significant items are those items of such a nature or size that separate disclosure will assist users to understand the financial statements.

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Impairment of intangibles, investments, inventories and property, plant and equipment – Comprising:** | | |
| Impairment of mastheads, goodwill, licences and customer relationships | **–** | (418,655) |
| Impairment of investments, inventories and property, plant and equipment | **(23,890)** | (37,189) |
| Income tax benefit | **7,056** | 11,232 |
| **Impairment of intangibles, investments, inventories and property, plant and equipment, net of tax** | **(16,834)** | (444,612) |
| **Restructuring and redundancy – Comprising:** | | |
| Restructuring and redundancy charges | **(24,019)** | (4,458) |
| Income tax benefit | **7,094** | 1,337 |
| **Restructuring and redundancy, net of tax** | **(16,925)** | (3,121) |
| **Gains on sale of controlled entities – Comprising:** | | |
| Gain on sale of Stayz business and other controlled entities disclosed in other revenue and income (i) | **106,477** | – |
| Gain on sale of US Agricultural Media business disclosed in other revenue and income (ii) | **–** | 19,830 |
| Gain on sale of Trade Me business disclosed in net profit from discontinued operations (iii) | **–** | 283,444 |
| Income tax expense | **(6,042)** | – |
| **Gains on sale of controlled entities, net of tax** | **100,435** | 303,274 |
| **Net significant items after income tax** | **66,676** | (144,459) |

(i) On 6 December 2013, the Group disposed of the Stayz business for gross proceeds of $218.0 million.

(ii) On 14 November 2012, the Group disposed of the US Agricultural Media business for US$79.9 million.

(iii) On 21 December 2012, the Group disposed of its remaining 51% interest in Trade Me Group Ltd for proceeds of A$605.5 million net of transaction fees.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 5. DISCONTINUED OPERATIONS

On 21 December 2012, the Group disposed of its remaining 51% interest in Trade Me Group Ltd for proceeds of A$605.5 million net of transaction fees.

The Trade Me business had its own operating segment within the segment reporting disclosures (refer Note 35).

As at 30 June 2013, the Trade Me business was classified as a discontinued operation and the results for the period ended 30 June 2013 are presented below. For the period ended 29 June 2014, no operations were classified as discontinued.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Total revenue and income | – | 60,871 |
| Expenses | – | (21,229) |
| **Net profit before income tax expense** | – | 39,642 |
| Income tax expense | – | (11,205) |
| **Net profit after income tax expense** | – | 28,437 |
| | | |
| Gain on sale of discontinued operations * | – | 283,444 |
| Income tax expense | – | – |
| **Net profit from discontinued operations after income tax expense** | – | 311,881 |

* The gain on sale is associated with the disposal of the Group's 51% interest in Trade Me Group Ltd. Previous disposals of the Group's interest in this entity have resulted in a gain on sale of $182.8 million recorded in equity as an acquisition reserve while the Group still retained control.

| | 2014 ¢ PER SHARE | 2013 ¢ PER SHARE |
|---|---|---|
| **Earnings per share** | | |
| Basic earnings per share from discontinued operations | – | 13.3 |
| Diluted earnings per share from discontinued operations | – | 13.3 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Cash flows of discontinued operations** | | |
| The net cash flows incurred by discontinued operations are as follows: | | |
| | | |
| Operating | – | 27,010 |
| Investing | – | (4,020) |
| Financing | – | (26,894) |
| **Net cash outflow** | – | (3,904) |

# NOTES TO THE FINANCIAL STATEMENTS



## 6. INCOME TAX EXPENSE

### CONSOLIDATED INCOME STATEMENT

Income tax expense is reconciled to prima facie income tax payable as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Net profit/(loss) from continuing operations before income tax expense | 267,369 | (274,940) |
| Net profit from discontinued operations before income tax expense | – | 323,086 |
| **Profit before income tax expense** | **267,369** | 48,146 |
| | | |
| Prima facie income tax at 30% (2013: 30%) | 80,211 | 14,444 |
| Tax effect of differences: | | |
| Overseas tax rate and accounting differentials | (811) | (8,030) |
| Share of net (profits)/losses of associates and joint ventures | (1,813) | 1,313 |
| Capital gains not taxable | (24,581) | (83,774) |
| Non-assessable dividends | (11) | (5) |
| Adjustments in respect of current income tax of previous years* | (11,686) | (941) |
| Adjustments in respect of deferred income tax of previous years | – | (966) |
| Temporary differences not recognised on intangible and other asset write-offs | (891) | 125,486 |
| Non-deductible items | 1,642 | 2,309 |
| Other | 141 | (719) |
| **Income tax expense** | **42,201** | 49,117 |
| Income tax expense for continuing operations | 42,201 | 37,912 |
| Income tax expense for discontinued operations | – | 11,205 |
| **Income tax expense** | **42,201** | 49,117 |

* The 2014 adjustment includes $9.8 million of prior year R&D claims finalised in the current year.

The major components of income tax expense in the income statement are:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Current income tax expense | 32,842 | 27,620 |
| Deferred income tax expense | 21,045 | 11,233 |
| Adjustments in respect of current income tax of previous years | (11,686) | (941) |
| **Income tax expense in the income statement** | **42,201** | 37,912 |

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Deferred tax related to items charged or credited directly to other comprehensive income during the year:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Unrealised gain/(loss) on available for sale financial assets | 5 | 4 |
| Net (loss)/gain on actuarial gains and losses | (149) | (702) |
| Net (loss)/gain on revaluation of cash flow hedges | 13 | (1,022) |
| Net gain on hedge of net investment | 3,369 | 5,530 |
| Net gain on exchange differences on translation of foreign operations | – | 20 |
| **Income tax on items of other comprehensive income** | **3,238** | 3,830 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 7. DIVIDENDS PAID AND PROPOSED

### (A) ORDINARY SHARES

| | CONSOLIDATED 29 JUNE 2014 $'000 | CONSOLIDATED 30 JUNE 2013 $'000 | COMPANY 29 JUNE 2014 $'000 | COMPANY 30 JUNE 2013 $'000 |
|---|---|---|---|---|
| Interim 2014 dividend: fully franked 2.0 cents – paid 19 March 2014 | **47,039** | | **47,039** | |
| (2013: fully franked dividend 1.0 cent – paid 20 March 2013) | | 23,520 | | 23,520 |
| 2013 dividend: fully franked 1.0 cent – paid 17 September 2013 | **23,520** | | **23,520** | |
| (2012: fully franked dividend 1.0 cent – paid 21 September 2012) | | 23,520 | | 23,520 |
| **Total dividends paid** | **70,559** | 47,040 | **70,559** | 47,040 |

### (B) DIVIDENDS PROPOSED AND NOT RECOGNISED AS A LIABILITY

Since reporting date the Directors have declared a dividend of 2.0 cents per fully paid ordinary share, fully franked at the corporate tax rate of 30%. The aggregate amount of the dividend to be paid on 9 September 2014 out of profits, but not recognised as a liability at the end of the year, is expected to be $47.0 million.

| | COMPANY 2014 $'000 | COMPANY 2013 $'000 |
|---|---|---|
| **(C) FRANKED DIVIDENDS** | | |
| Franking account balance as at reporting date at 30% (2013: 30%) | **34,063** | 60,043 |
| Reduction in franking credits that will arise from the receipt of income tax receivable balances as at the end of the financial year | **–** | (3,901) |
| Franking credits that will arise from the payment of income tax payable balances as at the end of the financial year | **1,262** | – |
| **Total franking credits available for subsequent financial years based on a tax rate of 30%** | **35,325** | 56,142 |

On a tax-paid basis, the Company's franking account balance is approximately $34.1 million (2013: $60.0 million). The impact on the franking account of the dividend declared by the Directors since reporting date will be a reduction in the franking account of approximately $20.2 million.

# NOTES TO THE FINANCIAL STATEMENTS



## 8. RECEIVABLES

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Current** | | |
| Trade debtors * | **266,955** | 274,797 |
| Provision for doubtful debts | **(8,253)** | (10,014) |
| | **258,702** | 264,783 |
| Loans and deposits | **2,766** | 3,045 |
| Prepayments | **20,250** | 11,919 |
| Other | **13,706** | 18,583 |
| **Total current receivables** | **295,424** | 298,330 |
| **Non-current** | | |
| Loans and deposits | **977** | 716 |
| Other | **255** | 330 |
| **Total non-current receivables** | **1,232** | 1,046 |

* Trade debtors are non-interest bearing and are generally on 7 to 45 day terms.

### IMPAIRED TRADE DEBTORS

As at 29 June 2014, trade debtors of the Group with a nominal value of $8.3 million (2013: $10.0 million) were impaired and provided for. No individual amount within the provision for doubtful debts is material. Refer to Note 34(C) for the factors considered in determining whether trade debtors are impaired.

As at 29 June 2014, an analysis of trade debtors that are not considered impaired is as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Not past due | **190,229** | 205,999 |
| Past due 0 – 30 days | **48,026** | 45,960 |
| Past due 31 – 60 days | **9,885** | 8,291 |
| Past 60 days | **10,562** | 4,533 |
| | **258,702** | 264,783 |

Based on the credit history of the trade debtors, it is expected that these amounts will be received. All other receivables are not past due and do not contain impaired assets.

Movements in the provision for doubtful debts are as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | **10,014** | 10,059 |
| Additional provisions | **2,608** | 4,807 |
| Acquisition of controlled entities | **33** | – |
| Disposal of controlled entities | **(523)** | (80) |
| Discontinued operations | **–** | (56) |
| Receivables written off as uncollectible | **(4,072)** | (4,886) |
| Exchange differences | **193** | 170 |
| **Balance at the end of the financial year** | **8,253** | 10,014 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 9. INVENTORIES

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Raw materials and stores – at net realisable value | **19,990** | 25,552 |
| Finished goods – at cost | **4,753** | 4,358 |
| Work in progress – at cost | **619** | 998 |
| **Total inventories** | **25,362** | 30,908 |

During the year, newsprint and paper expense (excluding cartage) of $139.7 million (2013: $164.0 million) was recognised in the income statement.

During the year, a $0.4 million (2013: $6.1 million) write down to net realisable value on raw materials and stores was recognised within other expenses in the income statement.

## 10. ASSETS AND LIABILITIES HELD FOR SALE

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **(A) Assets held for sale** | | |
| Freehold land and buildings | **36,244** | 6,979 |
| RSVP.com.au Pty Limited disposal group | | |
| Cash | **8,439** | – |
| Intangible assets | **46,262** | – |
| Other assets | **549** | – |
| **Total assets held for sale** | **91,494** | 6,979 |

| | | |
|---|---|---|
| **(B) Liabilities directly associated with held for sale assets** | | |
| RSVP.com.au Pty Limited disposal group | | |
| Payables | **4,066** | – |
| Other liabilities | **136** | – |
| **Total liabilities directly associated with held for sale assets** | **4,202** | – |

### FREEHOLD LAND AND BUILDINGS

Assets held for sale comprise properties in Australia and New Zealand that are being actively marketed and for which the sale is highly probable. During 2014, three of these properties were sold.

Prior to being transferred to held for sale, the properties are remeasured at the lower of carrying amount and fair value less costs to sell. An impairment charge of $7.9 million (2013: $0.5 million) was recognised in the income statement against the assets.

### RSVP.COM.AU PTY LIMITED DISPOSAL GROUP

On 24 June 2014, an agreement was signed for the merger of RSVP.com.au Pty Limited with 3H Group Pty Ltd with the merger being completed subsequent to the reporting date. RSVP.com.au Pty Limited will no longer be consolidated and as a result, the assets and liabilities of this company have been transferred to held for sale.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 11. OTHER FINANCIAL ASSETS

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **CURRENT** | | |
| Loan receivable | **4,858** | 4,386 |
| **Total current other financial assets** | **4,858** | 4,386 |
| **NON-CURRENT** | | |
| Shares in unlisted entities – at fair value | **67** | 67 |
| Loan receivable | **1,302** | 6,155 |
| **Total non-current other financial assets** | **1,369** | 6,222 |

The loan receivable has quarterly repayments, consisting of both interest and principal, and matures on 30 September 2015.

## 12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| Shares in associates | (A) | **69,457** | 63,103 |
| Shares in joint ventures | (B) | **19,344** | 17,387 |
| **Total investments accounted for using the equity method** | | **88,801** | 80,490 |

### (A) INTERESTS IN ASSOCIATES

| | | | OWNERSHIP INTEREST | |
|---|---|---|---|---|
| NAME OF COMPANY | PRINCIPAL ACTIVITY | PLACE OF INCORPORATION | 29 JUNE 2014 | 30 JUNE 2013 |
| Australian Associated Press Pty Ltd | News agency business and information service | Australia | **47.0%** | 47.0% |
| Digital Radio Broadcasting Melbourne Pty Ltd (i) | Digital audio broadcasting | Australia | **18.2%** | 18.2% |
| Digital Radio Broadcasting Perth Pty Ltd | Digital audio broadcasting | Australia | **33.3%** | 33.3% |
| Digital Radio Broadcasting Brisbane Pty Ltd | Digital audio broadcasting | Australia | **25.0%** | 25.0% |
| Digital Radio Broadcasting Sydney Pty Ltd (i) | Digital audio broadcasting | Australia | **11.3%** | 11.3% |
| Earth Hour Ltd | Environmental promotion | Australia | **33.3%** | 33.3% |
| Healthshare Pty Ltd (ii) | Information technology tools for healthcare practitioners and consumers | Australia | **19.7%** | – |
| Homebush Transmitters Pty Ltd | Rental of a transmission facility | Australia | **50.0%** | 50.0% |
| MMP Holdings Pty Ltd (iii) | Community newspaper publisher | Australia | **50.01%** | 50.01% |
| New Zealand Press Association Ltd | News agency business and financial information service | New Zealand | **49.2%** | 49.2% |
| NGA.net Pty Ltd | Provider of e-recruitment software to corporations | Australia | **23.7%** | 23.7% |
| Perth FM Facilities Pty Ltd | Rental of a transmission facility | Australia | **33.3%** | 33.3% |
| The Video Network Pty Ltd | Internet delivered television network | Australia | **28.6%** | 28.6% |
| Times Newspapers Ltd | Newspaper publishing | New Zealand | **49.9%** | 49.9% |
| Xchange IT Software Pty Ltd | Provider of EDI software | Australia | **33.3%** | 33.3% |
| Xchange IT Newsagents Pty Ltd | Provider of EDI software | Australia | **25.0%** | 25.0% |

(i) The Group has significant influence in the entity due to its right to participate in policy setting for the entity.

(ii) The investment was acquired on 5 November 2013. The Group has significant influence in this entity due to its representation on the Board and its participation in policy-making processes.

(iii) The Group does not have control of this company as it does not have power to govern the financial and operating policies of the company, such as power over budget, operational plans and appointment and removal of key personnel. The investment has been classified as an associate, rather than a joint venture, as all significant decisions do not require unanimous consent.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **(i) Share of associates' profits** | | |
| Revenue | **79,853** | 76,193 |
| Profit/(loss) before income tax expense | **8,284** | (1,856) |
| Non-recurring impairment charge in associate | **–** | (2,805) |
| Income tax expense | **(2,398)** | (96) |
| **Net profit/(loss) after income tax expense** | **5,886** | (4,757) |
| **(ii) Share of associates' assets and liabilities** | | |
| Current assets | **28,001** | 18,205 |
| Non-current assets | **28,363** | 30,685 |
| **Total assets** | **56,364** | 48,890 |
| Current liabilities | **14,333** | 13,627 |
| Non-current liabilities | **3,634** | 3,280 |
| **Total liabilities** | **17,967** | 16,907 |

### (B) INTERESTS IN JOINT VENTURES

| NAME OF COMPANY | PRINCIPAL ACTIVITY | PLACE OF INCORPORATION | OWNERSHIP INTEREST 29 JUNE 2014 | OWNERSHIP INTEREST 30 JUNE 2013 |
|---|---|---|---|---|
| Adzuna Australia Pty Ltd (iv) | Job advertisements search engine | Australia | **50.0%** | – |
| Dog Lovers Show Pty Ltd (v) | Organisation of canine industry exhibitions | Australia | **–** | 50.0% |
| Fermax Distribution Company Pty Ltd | Letterbox distribution of newspapers | Australia | **50.0%** | 50.0% |
| Gilgandra Newspapers Pty Ltd | Newspaper publishing and printing | Australia | **50.0%** | 50.0% |
| Gippsland Regional Publications Partnership | Newspaper publishing and printing | Australia | **50.0%** | 50.0% |
| Pricemaker Ltd (vi) | Online shopping platform | New Zealand | **50.0%** | – |
| Torch Publishing Company Pty Ltd | Newspaper publishing and printing | Australia | **50.0%** | 50.0% |

(iv) This company was incorporated on 31 October 2013 and established as a joint venture investment on 13 November 2013.

(v) This investment was disposed of on 31 July 2013.

(vi) This investment was acquired on 6 June 2014.

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **(i) Share of joint ventures' profits** | | |
| Revenues | **10,449** | 11,257 |
| Expenses | **(8,208)** | (8,631) |
| Profit before income tax expense | **2,241** | 2,626 |
| Income tax expense | **(120)** | (108) |
| **Net profit after income tax expense** | **2,121** | 2,518 |
| **(ii) Share of joint ventures' assets and liabilities** | | |
| Current assets | **5,126** | 4,786 |
| Non-current assets | **17,789** | 16,466 |
| **Total assets** | **22,915** | 21,252 |
| Current liabilities | **1,330** | 1,223 |
| Non-current liabilities | **177** | 257 |
| **Total liabilities** | **1,507** | 1,480 |

### (C) SHARE OF NET PROFITS/(LOSSES) OF ASSOCIATES AND JOINT VENTURES

| | | |
|---|---|---|
| Profit/(loss) before income tax expense | **10,525** | (2,035) |
| Income tax expense | **(2,518)** | (204) |
| **Net profit/(loss) after income tax expense** | **8,007** | (2,239) |

# NOTES TO THE FINANCIAL STATEMENTS



## 13. AVAILABLE FOR SALE INVESTMENTS

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Listed equity securities – at fair value | **2,488** | 1,929 |
| **Total available for sale investments** | **2,488** | 1,929 |

Available for sale investments consist of investments in ordinary shares at fair value and have no fixed maturity date.

In the prior year an impairment charge of $0.4 million was recognised in the income statement due to a significant decline in the share price in respect of one investment.

## 14. INTANGIBLE ASSETS

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Mastheads and tradenames | **972,022** | 966,223 |
| Goodwill | **177,898** | 294,385 |
| Radio licences | **114,037** | 114,037 |
| Software | **46,974** | 56,840 |
| Customer relationships | **1,180** | 6,549 |
| **Total intangible assets** | **1,312,111** | 1,438,034 |

### RECONCILIATIONS

Reconciliations of the carrying amount of each class of intangible at the beginning and end of the current financial year are set out below:

| | NOTE | MASTHEADS & TRADENAMES $'000 | GOODWILL $'000 | RADIO LICENCES $'000 | SOFTWARE $'000 | CUSTOMER RELATIONSHIPS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|---|
| **At 24 June 2012** | | | | | | | |
| Cost | | 3,692,719 | 2,455,250 | 143,700 | 269,976 | 15,417 | 6,577,062 |
| Accumulated amortisation and impairment | | (2,405,876) | (1,446,165) | (22,063) | (193,970) | (6,943) | (4,075,017) |
| **Net carrying amount** | | 1,286,843 | 1,009,085 | 121,637 | 76,006 | 8,474 | 2,502,045 |
| **Period ended 30 June 2013** | | | | | | | |
| Balance at beginning of the financial year | | 1,286,843 | 1,009,085 | 121,637 | 76,006 | 8,474 | 2,502,045 |
| Additions | | – | – | – | 7,954 | – | 7,954 |
| Capitalisations from works in progress | 15 | – | – | – | 9,364 | – | 9,364 |
| Disposals | | – | – | – | (286) | – | (286) |
| Discontinued operations | | (26,199) | (585,939) | – | (8,814) | – | (620,952) |
| Disposal of controlled entities | | (26,196) | (23,143) | – | (96) | – | (49,435) |
| Acquisition through business combinations | | 1,766 | 13,872 | – | 2,154 | 375 | 18,167 |
| Amortisation for continuing operations | 3(B) | (31) | – | – | (29,485) | (2,107) | (31,623) |
| Amortisation for discontinued operations | | – | – | – | (2,010) | – | (2,010) |
| Impairment | | (280,100) | (130,706) | (7,600) | – | (249) | (418,655) |
| Exchange differences | | 10,140 | 11,216 | – | 2,053 | 56 | 23,465 |
| **At 30 June 2013, net of accumulated amortisation and impairment** | | 966,223 | 294,385 | 114,037 | 56,840 | 6,549 | 1,438,034 |
| **At 30 June 2013** | | | | | | | |
| Cost | | 3,707,070 | 1,809,157 | 143,700 | 276,874 | 15,921 | 5,952,722 |
| Accumulated amortisation and impairment | | (2,740,847) | (1,514,772) | (29,663) | (220,034) | (9,372) | (4,514,688) |
| **Net carrying amount** | | 966,223 | 294,385 | 114,037 | 56,840 | 6,549 | 1,438,034 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 14. INTANGIBLE ASSETS (CONTINUED)

| | NOTE | MASTHEADS & TRADENAMES $'000 | GOODWILL $'000 | RADIO LICENCES $'000 | SOFTWARE $'000 | CUSTOMER RELATIONSHIPS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|---|
| **Period ended 29 June 2014** | | | | | | | |
| Balance at beginning of the financial year | | 966,223 | 294,385 | 114,037 | 56,840 | 6,549 | 1,438,034 |
| Additions | | – | – | – | 12,735 | – | 12,735 |
| Capitalisations from works in progress | 15 | – | – | – | 8,028 | – | 8,028 |
| Disposals | | – | – | – | (1,327) | – | (1,327) |
| Disposal of controlled entities | | (2,867) | (104,149) | – | (3,803) | (4,695) | (115,514) |
| Assets classified as held for sale | | (5,850) | (39,717) | – | (695) | – | (46,262) |
| Acquisition through business combinations | | – | 26,890 | – | 1,350 | – | 28,240 |
| Amortisation | 3(B) | (33) | – | – | (27,451) | (759) | (28,243) |
| Exchange differences | | 14,549 | 489 | – | 1,297 | 85 | 16,420 |
| **At 29 June 2014, net of accumulated amortisation and impairment** | | 972,022 | 177,898 | 114,037 | 46,974 | 1,180 | 1,312,111 |
| **At 29 June 2014** | | | | | | | |
| Cost | | 3,791,271 | 1,676,208 | 143,700 | 285,513 | 8,342 | 5,905,034 |
| Accumulated amortisation and impairment | | (2,819,249) | (1,498,310) | (29,663) | (238,539) | (7,162) | (4,592,923) |
| **Net carrying amount** | | 972,022 | 177,898 | 114,037 | 46,974 | 1,180 | 1,312,111 |

The carrying value of intangibles should be considered with reference to accounting policies described in Note 1(D) and (E). The carrying value of intangible assets is an area of significant accounting estimate and judgement as described in Note 1(X) of the Group's accounting policies. The assumptions used in this estimation of recoverable amount and the sensitivities around the key assumptions are outlined in (i)–(ii) below.

### (i) Impairment of cash generating units (CGU) including goodwill and indefinite life assets

A CGU is the grouping of assets at the lowest level for which there are separately identifiable cash flows. CGU Groups are an aggregation of CGUs which have similar characteristics. The recoverable amount of each CGU which includes goodwill or indefinite life intangibles has been tested.

The value in use calculations prepared by the company use discounted cash flow methodology. Key components of the calculation and the basis for each component are set out below:

#### Year 1 cash flows

This is based upon the annual budget for 2015 which includes the impact of the Fairfax of the Future program.

#### Year 2 and 3 cash flows

These cash flows are forecast using year 1 as a base and a growth or decline factor applied to revenue and expenses in years 2 and 3. The rate of change takes account of management's best estimate of the likely results in these periods, industry forecasts, historical actual rates and the impact of the Fairfax of the Future restructure. Revenue declines of between 5% and 8% have been used in publishing where management expect the cyclical downturn and structural change to continue. In the digital businesses, revenue growth of 5% to 18% depending on the maturity of the market, has been adopted including the introduction of digital subscription models. Expenses have been adjusted to account for the revenue growth or decline, Fairfax of the Future restructuring and other committed management initiatives.

#### Terminal growth factor

A terminal growth factor that estimates the long term average growth for that CGU is applied to the year 3 cash flows into perpetuity. A rate of 3.5% (2013: 3.5%) has been used for Australian Digital Transactions cash flows. Metropolitan Media, Australian Regional Media and New Zealand Media were calculated at nil growth (2013: nil) and Radio calculated at 2.5% (2013: 2.5%)

#### Discount rate

The discount rate is an estimate of the post-tax rate that reflects current market assessment of the time value of money and the risks specific to the CGU. The post-tax discount rates applied to the CGU Groups' cash flow projections were in a range producing a mid point of 11.0% for Australian and 11.3% for New Zealand Media (2013: Aust: 11.0%; NZ: 10.9%) and 12.5% for Australian Digital Transactions (2013: 12.9%).

# NOTES TO THE FINANCIAL STATEMENTS



## 14. INTANGIBLE ASSETS (CONTINUED)

Each of the above factors is subject to significant judgement about future economic conditions and the ongoing structure of the publishing and digital industries. Specifically, the Directors note that the extent and duration of the structural change in print advertising is difficult to predict. The Directors have applied their best estimates to each of these variables but cannot warrant their outcome. To assess the impact of this significant uncertainty, and the range of possible outcomes, sensitivity analysis is disclosed below.

### (ii) Impact of possible change in key assumptions

Holding all other assumptions constant, if year 1 cash flow forecasts declined by 5% across all CGU's then an impairment would arise of $45 million in Metro, $1 million in Regional and $14 million in New Zealand CGU Groups. If year 1 cash flow forecasts increased by 5% across all CGU's then there would be a reversal of prior period impairments of $47 million in Metro, $8 million in Regional, $1 million in Agricultural and $15 million in New Zealand CGU Groups.

Holding all other assumptions constant, if year 3 cash flow forecasts declined by 5% across all CGU's then an impairment would arise of $35 million in Metro, $16 million in Regional, $6 million in Agricultural and $11 million in New Zealand CGU Groups. If year 3 cash flow forecasts increased by 5% across all CGU's then there would be a reversal of prior period impairments of $36 million in Metro, $23 million in Regional, $6 million in Agricultural and $11 million in New Zealand CGU Groups.

Holding all assumptions constant, if the discount rate applied to the cash flow projections was increased by 0.5% across all CGU's then an impairment would arise of $25 million in Metro, $13 million in Regional, $5 million in Agricultural and $9 million in New Zealand CGU Groups. If the rate was decreased by 0.5% across all CGU's then there would be a reversal of prior period impairments of $29 million in Metro, $23 million in Regional, $6 million in Agricultural and $10 million in New Zealand CGU Groups.

Holding all assumptions constant, if terminal growth factors were reduced by a further 0.5% for Digital Transactions and Radio then there would still be no impairment in any CGU Groups. If terminal growth factors were increased by 0.5% across all CGU's there would be a reversal of prior period impairments of $25 million in Metro, $20 million in Regional, $5 million in Agricultural and $9 million in New Zealand CGU Groups.

### (iii) Allocation of goodwill, licences, mastheads and tradenames to CGUs

For the financial year ended 29 June 2014, goodwill, licences, mastheads and tradenames were allocated to the CGU Groups below. The table below also indicates which operating segment each CGU Group belongs to. Operating segments are defined at Note 1(W) and Note 35 with further disclosure on the results for each operating segment.

| At 29 June 2014 | OPERATING SEGMENT | GOODWILL $'000 | LICENCES, MASTHEADS AND TRADENAMES $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Allocation to CGU Groups** | | | | |
| Metropolitan Media | Australian Metro Media | **91,558** | **387,135** | **478,693** |
| Australian Digital Transactions | Australian Metro Media | **30,155** | **564** | **30,719** |
| Australian Regional Media | Australian Community Media | **–** | **299,224** | **299,224** |
| Agricultural Media | Australian Community Media | **–** | **122,333** | **122,333** |
| Radio | Radio | **56,185** | **114,037** | **170,222** |
| New Zealand Media | New Zealand Media | **–** | **162,766** | **162,766** |
| **Total goodwill, licences, mastheads and tradenames** | | **177,898** | **1,086,059** | **1,263,957** |

| At 30 June 2013 | OPERATING SEGMENT | GOODWILL $'000 | LICENCES, MASTHEADS AND TRADENAMES $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Allocation to CGU Groups** | | | | |
| Metropolitan Media | Australian Metro Media | 33,041 | 393,389 | 426,430 |
| Australian Digital Transactions | Australian Metro Media | 205,159 | 18,739 | 223,898 |
| Australian Regional Media | Australian Community Media | – | 283,519 | 283,519 |
| Agricultural Media | Australian Community Media | – | 122,333 | 122,333 |
| Radio | Radio | 56,185 | 114,037 | 170,222 |
| New Zealand Media | New Zealand Media | – | 148,243 | 148,243 |
| **Total goodwill, licences, mastheads and tradenames** | | 294,385 | 1,080,260 | 1,374,645 |

In the current year, there has been a reallocation between CGUs for some goodwill, mastheads and tradenames following changes to the structure of the organisation.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 15. PROPERTY, PLANT AND EQUIPMENT

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Freehold land and buildings** | | |
| At cost | **226,959** | 273,198 |
| Accumulated depreciation and impairment | **(34,956)** | (59,774) |
| **Total freehold land and buildings** | **192,003** | 213,424 |
| **Leasehold buildings** | | |
| At cost | **115,711** | 110,574 |
| Accumulated depreciation and impairment | **(66,245)** | (70,785) |
| **Total leasehold buildings** | **49,466** | 39,789 |
| **Plant and equipment** | | |
| At cost | **1,091,328** | 1,061,360 |
| Accumulated depreciation and impairment | **(942,820)** | (868,862) |
| **Total plant and equipment** | **148,508** | 192,498 |
| Capital works in progress – at cost | **18,001** | 33,222 |
| **Total property, plant and equipment** | **407,978** | 478,933 |

### RECONCILIATIONS

Reconciliations of the carrying amount of each class of property, plant and equipment during the financial year are set out below:

| | NOTE | CAPITAL WORKS IN PROGRESS $'000 | FREEHOLD LAND & BUILDINGS $'000 | LEASEHOLD BUILDINGS $'000 | PLANT AND EQUIPMENT $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **At 24 June 2012** | | | | | | |
| Cost | | 7,749 | 257,582 | 103,904 | 1,083,690 | 1,452,925 |
| Accumulated depreciation and impairment | | – | (38,220) | (36,166) | (831,535) | (905,921) |
| **Net carrying amount** | | 7,749 | 219,362 | 67,738 | 252,155 | 547,004 |
| **Period ended 30 June 2013** | | | | | | |
| Balance at beginning of financial year | | 7,749 | 219,362 | 67,738 | 252,155 | 547,004 |
| Additions/capitalisations | | 35,715 | 2,313 | 762 | 13,130 | 51,920 |
| Capitalisation to software | 14 | (9,364) | – | – | – | (9,364) |
| Disposals | | – | (259) | – | (2,132) | (2,391) |
| Disposal of controlled entities | | – | (979) | (209) | (406) | (1,594) |
| Discontinued operations | | (1,047) | – | (46) | (3,111) | (4,204) |
| Acquisition through business combinations | | – | 1,350 | 4 | 1,218 | 2,572 |
| Depreciation for continuing operations | 3(B) | – | (5,370) | (3,745) | (60,024) | (69,139) |
| Depreciation for discontinued operations | | – | – | – | (1,114) | (1,114) |
| Assets classified as held for sale | 10 | – | 1,052 | – | 524 | 1,576 |
| Reclasses between asset categories | | 123 | 4,838 | 2,692 | (7,653) | – |
| Impairment | | – | (11,430) | (27,534) | (1,967) | (40,931) |
| Exchange differences | | 46 | 2,547 | 127 | 1,878 | 4,598 |
| **At 30 June 2013, net of accumulated depreciation and impairment** | | 33,222 | 213,424 | 39,789 | 192,498 | 478,933 |
| **At 30 June 2013** | | | | | | |
| Cost | | 33,222 | 273,198 | 110,574 | 1,061,360 | 1,478,354 |
| Accumulated depreciation and impairment | | – | (59,774) | (70,785) | (868,862) | (999,421) |
| **Net carrying amount** | | 33,222 | 213,424 | 39,789 | 192,498 | 478,933 |

# NOTES TO THE FINANCIAL STATEMENTS



## 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | NOTE | CAPITAL WORKS IN PROGRESS $'000 | FREEHOLD LAND & BUILDINGS $'000 | LEASEHOLD BUILDINGS $'000 | PLANT AND EQUIPMENT $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **Period ended 29 June 2014** | | | | | | |
| Balance at beginning of financial year | | **33,222** | **213,424** | **39,789** | **192,498** | **478,933** |
| Additions/capitalisations | | **(930)** | **17,716** | **8,497** | **34,524** | **59,807** |
| Capitalisation to software | 14 | **(8,028)** | **–** | **–** | **–** | **(8,028)** |
| Disposals | | **(4)** | **(4,611)** | **(696)** | **(2,553)** | **(7,864)** |
| Disposal of controlled entities | | **–** | **–** | **–** | **(112)** | **(112)** |
| Acquisition through business combinations | | **–** | **–** | **–** | **51** | **51** |
| Depreciation for continuing operations | 3(B) | **–** | **(6,275)** | **(4,370)** | **(54,629)** | **(65,274)** |
| Assets classified as held for sale | 10 | **(20)** | **(32,782)** | **–** | **(99)** | **(32,901)** |
| Reclasses between asset categories | | **(6,340)** | **13,303** | **6,044** | **(13,007)** | **–** |
| Impairment | | **–** | **(12,388)** | **–** | **(10,421)** | **(22,809)** |
| Exchange differences | | **101** | **3,616** | **202** | **2,256** | **6,175** |
| **At 29 June 2014, net of accumulated depreciation and impairment** | | **18,001** | **192,003** | **49,466** | **148,508** | **407,978** |
| | | | | | | |
| **At 29 June 2014** | | | | | | |
| Cost | | **18,001** | **226,959** | **115,711** | **1,091,328** | **1,451,999** |
| Accumulated depreciation and impairment | | **–** | **(34,956)** | **(66,245)** | **(942,820)** | **(1,044,021)** |
| **Net carrying amount** | | **18,001** | **192,003** | **49,466** | **148,508** | **407,978** |

During the current year, an impairment charge of $22.8 million (2013: $40.9 million) was recorded on property, plant and equipment. This impairment primarily relates to freehold land and buildings and plant and equipment at various sites in the Group's print network. The impairment was recognised following a review of the fair value less costs to sell.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Current assets** | | |
| Cross currency swap – cash flow hedge | – | 3,193 |
| Cross currency swap – net investment hedge | – | 5,617 |
| Forward contracts | 213 | 1,808 |
| Call option derivative | – | 400 |
| **Total current derivative assets** | **213** | 11,018 |
| **Non-current assets** | | |
| Cross currency swap – cash flow hedge | 1,551 | 7,107 |
| Cross currency swap – net investment hedge | – | 708 |
| **Total non-current derivative assets** | **1,551** | 7,815 |
| **Current liabilities** | | |
| Interest rate swap – cash flow hedge | – | 4,381 |
| Cross currency swap – cash flow hedge | 4 | 598 |
| Cross currency swap – fair value hedge | 13,274 | 35,741 |
| Forward contracts | – | 822 |
| Obligation under put option * | – | 6,436 |
| **Total current derivative liabilities** | **13,278** | 47,978 |
| **Non-current liabilities** | | |
| Interest rate swap – cash flow hedge | 14,711 | 19,453 |
| Cross currency swap – fair value hedge | 5,254 | 7,290 |
| Cross currency swap – cash flow hedge | 73 | 196 |
| Cross currency swap – net investment hedge | 1,919 | – |
| **Total non-current derivative liabilities** | **21,957** | 26,939 |

* Present value of exercise price of the put option over subsidiary shares. The put option was exercised on the 14 August 2013.

The Group uses derivative financial instruments to reduce the exposure to fluctuations in interest rates and foreign currency rates.

The Group formally designates hedging instruments to an underlying exposure and details the risk management objectives and strategies for undertaking hedge transactions. The Group assesses at inception and on a semi-annual basis thereafter, as to whether the derivative financial instruments used in the hedging transactions are effective at offsetting the risks they are designed to hedge. Due to the high effectiveness between the hedging instrument and underlying exposure being hedged, value changes in the derivatives are generally offset by changes in the fair value or cash flows of the underlying exposure. Any derivatives not formally designated as part of a hedging relationship are fair valued with any changes in fair value recognised in the income statement.

The derivatives entered into are over the counter instruments within liquid markets.

# NOTES TO THE FINANCIAL STATEMENTS



## 16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### HEDGING ACTIVITIES

**(i) Cash flow hedges – interest rate and cross currency swaps**

At 29 June 2014, the Group held cross currency swaps designated as hedges of future contracted interest payments on the USD denominated senior notes issued in July 2007. The cross currency swaps are being used to hedge a combination of future movements in interest rates and foreign currency exchange rates.

At 29 June 2014, the notional principal amounts and period of expiry of the swaps for each counterparty are as follows:

| | | INTEREST RATE | |
|---|---|---|---|
| | MATURITY DATE | 2014 | 2013 |
| Pay fixed, receive floating – AUD$59.5m | 10 July 2017 | 7.52% | 7.52% |
| Pay fixed, receive floating – AUD$22.6m | 10 July 2017 | 7.46% | 7.46% |

The contracts require settlement on interest receivable semi-annually and interest payable each 90 days. These dates coincide with the interest payable dates on the underlying senior notes.

At 29 June 2014, the Group held an interest rate swap designated as hedging the future contracted interest payments on AUD denominated bank borrowings. The interest rate swap is being used to hedge future movements in interest rates.

At 29 June 2014, the notional principal amount and period of expiry of the swap is as follows:

| | | INTEREST RATE | |
|---|---|---|---|
| | MATURITY DATE | 2014 | 2013 |
| Pay fixed, receive floating – AUD$125m | 12 October 2015 | 6.52% | 6.52% |

The contract requires settlement on interest receivable and interest payable each 90 days. These dates coincide with the interest payable dates on the underlying AUD denominated bank borrowings.

At 29 June 2014, the above hedges were assessed to be highly effective with a combined unrealised gain in fair value of $1.2 million (2013: $1.7 million gain) recognised in equity for the period. During the period no material ineffectiveness (2013: $0.4 million unrealised loss) was recognised in the income statement attributable to the cash flow hedges.

During the year there was a gain transferred from equity to finance costs of $0.1 million (2013: nil).

**(ii) Cash flow hedges – foreign exchange contracts**

During the year, forward exchange contracts were used by the Group to hedge future foreign capital and non-capital purchase commitments across the Australian and New Zealand business. The contracts are timed to mature as payments are scheduled to be made to suppliers. At 29 June 2014, the Group held forward exchange contracts of $0.2 million (2013: $1.0 million).

The foreign currency contracts are considered to be fully effective hedges as they are matched against the highly probable foreign capital and non-capital purchases with any gain or loss on the contracts taken directly to equity. When the contract is delivered, the Group will adjust the initial measurement of any component recognised on the balance sheet by the related amount deferred in equity.

During the current and prior financial period there was no material ineffectiveness recognised in the income statement attributable to cash flow hedges of foreign exchange contracts.

**(iii) Fair value hedges**

At 29 June 2014, the Group held cross currency swap agreements designated as hedging changes in the underlying value of USD denominated senior notes (refer to Note 19). The terms of certain cross currency swap agreements exchange USD obligations into AUD obligations and other agreements exchange USD obligations into NZD obligations. The latter are also designated to hedge value changes in the Group's New Zealand controlled entities, as discussed in Note (iv) below.

At 29 June 2014, the cross currency swap agreements had a combined derivative liability position of $18.5 million (2013: $43.0 million).

The cross currency swaps are designated based on matched terms to the debt and also have the same maturity profile as the USD denominated senior notes.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The terms of these cross currency swaps are as follows:

| | MATURITY DATE |
|---|---|
| Pay floating AUD receive fixed USD – USD$105m | 10 July 2014 |
| Pay floating NZD receive fixed USD – USD$19m | 15 January 2016 |

For the Group, the remeasurement of the hedged items resulted in a gain before tax of $13.9 million (2013: $21.4 million loss) and the changes in the fair value of the hedging instruments resulted in a loss before tax of $14.0 million (2013: $16.1 million gain) resulting in a net loss before tax of $0.1 million (2013: $5.3 million loss) recorded in finance costs.

**(iv) Net investment hedges**

The NZD/USD cross currency swap agreements have also been designated to hedge the net investment in New Zealand controlled entities acquired as part of the acquisition of the business assets of Independent News Limited in June 2003.

At 29 June 2014, the hedges were assessed to be highly effective with an unrealised loss of $7.9 million (2013: $12.9 million loss) recognised in equity. During the current financial period there was an unrealised loss of $0.2 million (2013: $0.8 million loss) recognised in the income statement attributable to the ineffective portion of the net investment hedges.

## 17. DEFERRED TAX ASSETS AND LIABILITIES

### (A) RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | ASSETS | | LIABILITIES | | NET | |
|---|---|---|---|---|---|---|
| | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 |
| Property, plant and equipment | **15,987** | 11,607 | **7,177** | 10,111 | **8,810** | 1,496 |
| Inventories | **–** | – | **1,068** | 3,055 | **(1,068)** | (3,055) |
| Investments | **–** | – | **364** | 515 | **(364)** | (515) |
| Intangible assets | **6,120** | 6,286 | **2,059** | 5,038 | **4,061** | 1,248 |
| Other assets | **16,677** | 16,946 | **194** | 4,182 | **16,483** | 12,764 |
| Provisions | **44,980** | 62,524 | **–** | – | **44,980** | 62,524 |
| Payables | **7,208** | 10,669 | **–** | – | **7,208** | 10,669 |
| Other liabilities | **5,134** | 9,747 | **130** | 475 | **5,004** | 9,272 |
| Tax losses | **–** | 8,144 | **–** | – | **–** | 8,144 |
| Other | **941** | 1,415 | **33** | (352) | **908** | 1,767 |
| **Gross deferred tax assets/liabilities** | **97,047** | 127,338 | **11,025** | 23,024 | **86,022** | 104,314 |
| Set-off of deferred tax assets/liabilities | **(11,025)** | (19,443) | **(11,025)** | (19,443) | **–** | – |
| **Net deferred tax assets/liabilities** | **86,022** | 107,895 | **–** | 3,581 | **86,022** | 104,314 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 17. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

### (B) MOVEMENT IN TEMPORARY DIFFERENCES DURING THE FINANCIAL YEAR

| | BALANCE 30 JUNE 2013 | RECOGNISED ON ACQUISITION | RECOGNISED IN INCOME | RECOGNISED IN EQUITY | BALANCES DISPOSED | DISCONTINUED OPERATIONS | **BALANCE 29 JUNE 2014** |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 1,496 | – | 7,417 | – | (103) | – | **8,810** |
| Inventories | (3,055) | – | 1,987 | – | – | – | **(1,068)** |
| Investments | (515) | – | 146 | 5 | – | – | **(364)** |
| Intangible assets | 1,248 | (405) | 1,695 | – | 1,523 | – | **4,061** |
| Other assets | 12,764 | – | 336 | 3,383 | – | – | **16,483** |
| Provisions | 62,524 | 95 | (17,434) | – | (205) | – | **44,980** |
| Payables | 10,669 | 10 | (3,431) | – | (40) | – | **7,208** |
| Other liabilities | 9,272 | – | (4,068) | – | (200) | – | **5,004** |
| Tax losses | 8,144 | – | (8,143) | – | (1) | – | **–** |
| Other | 1,767 | – | 450 | (1,309) | – | – | **908** |
| | 104,314 | (300) | (21,045) | 2,079 | 974 | – | **86,022** |

| | BALANCE 24 JUNE 2012 | RECOGNISED ON ACQUISITION | RECOGNISED IN INCOME | RECOGNISED IN EQUITY | BALANCES DISPOSED | DISCONTINUED OPERATIONS | BALANCE 30 JUNE 2013 |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | (6,158) | (102) | 7,659 | – | 55 | 42 | 1,496 |
| Inventories | (3,121) | – | 66 | – | – | – | (3,055) |
| Investments | (1,133) | – | 614 | 4 | – | – | (515) |
| Intangible assets | (6,740) | (113) | (647) | – | 8,748 | – | 1,248 |
| Other assets | 1,305 | – | 10,205 | 4,190 | (1,987) | (949) | 12,764 |
| Provisions | 100,620 | 195 | (38,078) | – | – | (213) | 62,524 |
| Payables | 15,004 | 47 | (4,058) | – | – | (324) | 10,669 |
| Other liabilities | 4,524 | – | 4,881 | – | – | (133) | 9,272 |
| Tax losses | – | – | 8,144 | – | – | – | 8,144 |
| Other | 3,004 | 4 | (19) | (1,211) | – | (11) | 1,767 |
| | 107,305 | 31 | (11,233) | 2,983 | 6,816 | (1,588) | 104,314 |

### (C) TAX LOSSES AND FUTURE DEDUCTIBLE TEMPORARY DIFFERENCES

The Group has realised Australian capital losses for which no deferred tax asset is recognised on the balance sheet of $146.0 million (2013: $280.0 million) which are available indefinitely for offset against future capital gains subject to continuing to meet relevant statutory tests.

The Group has deductible temporary differences for which no deferred tax asset is recognised on the balance sheet of $755.6 million (2013: $770.2 million).

### (D) FUTURE ASSESSABLE TEMPORARY DIFFERENCES

At 29 June 2014, there are no material unrecognised future assessable temporary differences associated with the Group's investments in associates or joint ventures, as the Group has no material liability should the associates or joint ventures retained earnings be distributed (2013: Nil).

## 18. PAYABLES

| | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 |
|---|---|---|
| Trade and other payables * | **155,599** | 160,726 |
| Income in advance | **56,413** | 65,748 |
| Interest payable | **6,040** | 9,445 |
| **Total current payables** | **218,052** | 235,919 |

* Trade payables are non-interest bearing and are generally on 30 day terms.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 19. INTEREST BEARING LIABILITIES

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| **Current interest bearing liabilities – unsecured** | | | |
| Other loans | | | |
| Senior notes | (C) | **111,637** | 277,700 |
| Other | (D) | **3,316** | 2,185 |
| Finance lease liability | (D) | **4,768** | 4,438 |
| **Total current interest bearing liabilities** | | **119,721** | 284,323 |
| | | | |
| **Non-current interest bearing liabilities – unsecured** | | | |
| Bank borrowings | (B) | **138,055** | 123,548 |
| Other loans | | | |
| Senior notes | (C) | **95,722** | 220,508 |
| Other | (D) | **503** | 3,819 |
| Finance lease liability | (D) | **1,246** | 6,014 |
| **Total non-current interest bearing liabilities** | | **235,526** | 353,889 |

### NET DEBT

| | | |
|---|---|---|
| Cash and cash equivalents | **(452,687)** | (533,531) |
| Current interest bearing liabilities | **119,721** | 284,323 |
| Non-current interest bearing liabilities | **235,526** | 353,889 |
| Derivative financial instruments liabilities * | **29,879** | 49,812 |
| **Net (cash)/debt** | **(67,561)** | 154,493 |

* Debt hedging instruments are measured against the undiscounted contractual AUD cross currency swap obligations and therefore may not equate to the values disclosed in the balance sheet (inclusive of transaction costs).

### (A) FINANCING ARRANGEMENTS

The Group net cash, taking into account all debt related derivative financial instruments, was $67.6 million as at 29 June 2014 (2013: Net debt of $154.5 million).

The Group has sufficient unused committed facilities and cash at the reporting date to finance maturing current interest bearing liabilities. The Group has a number of finance facilities which are guaranteed by the Group and are covered by deeds of negative pledge.

### (B) BANK BORROWINGS

A $275.0 million syndicated bank facility (2013: $441.6 million) is available to the Group with maturities in February 2017 and February 2018. At 29 June 2014, $125.0 million was drawn (2013: $125.0 million). The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

A NZ$40.0 million revolving cash advance facility is available to the Group until April 2016. At 29 June 2014, NZ$15.5 million was drawn (2013: Nil). The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

### (C) SENIOR NOTES

The Group issued senior notes in the US private placement market with a principal value of US$230 million (A$289.8 million) in January 2004 with a fixed coupon of between 4.7% p.a. and 5.9% p.a. payable semi-annually in arrears. The interest and principal on the senior notes are payable in US dollars and were swapped into floating rate New Zealand dollars and floating rate Australian dollars via cross currency swaps. This issue of senior notes comprises maturities ranging from January 2011 to January 2019. Senior notes of US$50 million were repaid in January 2011, US$148 million were repaid in July 2013 and US$13.0 million were repaid in January 2014. The weighted average maturity of the issue is approximately 1.5 years. The applicable cross currency swap credit margin includes the cost of hedging all currency risk and future interest and principal repayments on a quarterly basis.

# NOTES TO THE FINANCIAL STATEMENTS



## 19. INTEREST BEARING LIABILITIES (CONTINUED)

The Group issued further senior notes in the US private placement market with a principal value of US$250 million (A$308.2 million) in July 2007 comprising maturities ranging from July 2013 to July 2017. Senior notes of US$76 million were repaid in July 2013. The weighted average maturity of this issue is approximately 1.2 years. The issued notes include fixed and floating rate coupon notes, paying a weighted average coupon of 7.4% p.a. semi-annually in arrears. The interest and principal on the senior notes are payable in US dollars and were swapped into fixed and floating rate Australian dollars via cross currency swaps. An additional 1.0% p.a. step up margin is payable on the coupons, effective from 10 July 2009.

### (D) OTHER LOANS AND FINANCE LEASE LIABILITY

The Chullora printing facility in Sydney is partially financed by a finance lease facility and loans with a maturity date of 30 September 2015. This comprises a finance lease of $6.0 million (2013: $10.5 million), which was entered into in February 1996, and principal and interest outstanding of $3.8 million (2013: $6.0 million) in the form of a fixed rate loan with an established repayment schedule.

## 20. PROVISIONS

| | **29 JUNE 2014 $'000** | 30 JUNE 2013 $'000 |
|---|---|---|
| **Current** | | |
| Employee benefits | **85,478** | 92,198 |
| Restructuring and redundancy | **25,394** | 94,640 |
| Property | **1,116** | 686 |
| Other | **6,971** | 3,795 |
| **Total current provisions** | **118,959** | 191,319 |
| **Non-current** | | |
| Employee benefits | **8,287** | 12,529 |
| Property | **41,129** | 40,433 |
| Other | **–** | 980 |
| **Total non-current provisions** | **49,416** | 53,942 |

### RECONCILIATION

Reconciliations of the carrying amount of each class of provision, other than employee benefits, during the financial year are set out below:

| | PROPERTY $'000 | RESTRUCTURING AND REDUNDANCY $'000 | OTHER $'000 |
|---|---|---|---|
| **At 30 June 2013** | | | |
| Current | 686 | 94,640 | 3,795 |
| Non-current | 40,433 | – | 980 |
| **Total provisions, excluding employee benefits** | 41,119 | 94,640 | 4,775 |
| | | | |
| **Period ended 29 June 2014** | | | |
| Balance at beginning of the financial year | **41,119** | **94,640** | **4,775** |
| Additional provision | **2,378** | **23,210** | **4,605** |
| Utilised | **(1,381)** | **(92,785)** | **(2,246)** |
| Acquisition through business combinations | **70** | **–** | **–** |
| Disposal of controlled entities | **(55)** | **–** | **(163)** |
| Exchange differences | **114** | **329** | **–** |
| **Balance at end of the financial year** | **42,245** | **25,394** | **6,971** |
| **At 29 June 2014** | | | |
| Current | **1,116** | **25,394** | **6,971** |
| Non-current | **41,129** | **–** | **–** |
| **Total provisions, excluding employee benefits** | **42,245** | **25,394** | **6,971** |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 20 PROVISIONS (CONTINUED)

### NATURE AND TIMING OF PROVISIONS

**(i) Employee benefits**
Provisions for employee benefits include liabilities for annual leave and long service leave and are measured at the amounts expected to be paid when the liabilities are settled, refer to Note 1(T)(i).

**(ii) Restructuring and redundancy**
The provision is in respect of amounts payable in connection with restructuring and redundancies, including termination benefits, on-costs, outplacement and consultancy services.

**(iii) Property**
The provision for property costs is in respect of make good provisions, deferred lease incentives and onerous lease provisions. The make good provisions and deferred lease incentives are amortised over the shorter of the term of the lease or the useful life of the assets, being up to fifteen years.

**(iv) Other**
Other provisions includes defamation and various other costs relating to the business.

## 21. PENSION ASSETS AND LIABILITIES

### SUPERANNUATION PLAN

The Group contributes to defined contribution and defined benefit plans which provide benefits to employees and their nominated dependants on retirement, disability or death. All defined benefit plans are closed to new members.

The superannuation arrangements in Australia are managed in a sub-plan of the Mercer Super Trust, called Fairfax Media Super. The Trustee of the Trust is Mercer Investment Nominees Limited. The superannuation arrangements in New Zealand are managed by AoN Consulting New Zealand Limited in two funds – Fairfax NZ Retirement Fund and Fairfax NZ Senior Executive Superannuation Scheme. Both New Zealand funds have defined contribution plans and the Fairfax NZ Retirement Fund has a defined benefit section.

The defined contribution plans receive fixed contributions from employees and from Group companies and the Group's legally enforceable obligation is limited to these contributions. The defined benefit plans receive employee contributions plus Group company contributions at rates recommended by the plans' actuaries.

The following sets out details in respect of the defined benefit plans only and in the case of the Fairfax NZ Retirement Fund, excludes $58.0 million (2013: $59.2 million) of defined contribution assets and entitlements.

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| **(A) BALANCE SHEET** | | | |
| The amounts recognised in the balance sheet are determined as follows: | | | |
| Pension assets | | **1,195** | 709 |
| Pension liabilities | | **(440)** | (1,273) |
| **Net pension assets/(liabilities)** | | **755** | (564) |
| Present value of the defined benefit plan obligation | (B) | **(12,358)** | (14,128) |
| Fair value of defined benefit plan assets | (C) | **13,113** | 13,564 |
| **Net pension assets/(liabilities)** | | **755** | (564) |

# NOTES TO THE FINANCIAL STATEMENTS



## 21. PENSION ASSETS AND LIABILITIES (CONTINUED)

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|

### (B) RECONCILIATION OF THE PRESENT VALUE OF DEFINED BENEFIT PLAN OBLIGATION

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | **14,128** | 21,974 |
| Current service cost | **589** | 768 |
| Interest cost | **386** | 497 |
| Contributions by employees | **83** | 160 |
| Actuarial gains arising from changes in financial assumptions | **(65)** | (1,141) |
| Actuarial losses arising from liability experience | **786** | 678 |
| Benefits paid | **(1,765)** | (3,376) |
| Transfers in | **2,100** | – |
| Taxes, premiums and expenses paid | **(325)** | (109) |
| Exchange differences on foreign plans | **25** | 24 |
| Curtailments | **133** | (924) |
| Settlements | **(3,717)** | (4,423) |
| **Balance at the end of the financial year** | **12,358** | 14,128 |

### (C) RECONCILIATION OF THE FAIR VALUE OF DEFINED BENEFIT PLAN ASSETS

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | **13,564** | 18,190 |
| Interest income | **401** | 1,131 |
| Actual return on plan assets | **1,239** | 1,890 |
| Contributions by Group companies and employees | **1,522** | 204 |
| Benefits paid | **(1,765)** | (3,376) |
| Transfers in | **2,100** | – |
| Taxes, premiums and expenses paid | **(325)** | (109) |
| Exchange differences on foreign plans | **94** | 57 |
| Settlements | **(3,717)** | (4,423) |
| **Balance at the end of the financial year** | **13,113** | 13,564 |

### (D) AMOUNTS RECOGNISED IN INCOME STATEMENT

The amounts recognised in the income statement are as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Current service cost | **589** | 768 |
| Net interest income | **(15)** | (634) |
| Curtailments | **133** | (924) |
| Total included in employee benefits expense | **707** | (790) |
| | | |
| **Actual return on plan assets** | **1,297** | 2,527 |

### (E) CATEGORIES OF PLAN ASSETS

The major categories of plan assets as a percentage of the fair value of the total defined benefit plan assets are as follows:

| | 29 JUNE 2014 % | 30 JUNE 2013 % |
|---|---|---|
| Cash | **20** | 26 |
| Australian equities | **23** | 18 |
| International equities | **27** | 26 |
| Fixed interest securities | **17** | 17 |
| Property | **9** | 4 |
| Other | **4** | 9 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 21. PENSION ASSETS AND LIABILITIES (CONTINUED)

### (F) EMPLOYER CONTRIBUTIONS

Employer contributions to the defined benefit section of the plans are based on recommendations by the plans' actuaries. Actuarial assessments are made at two yearly intervals for Australia and the last actuarial assessment of Fairfax Media Super was carried out as at 1 July 2012 by Mercer Human Resource Consulting Pty Ltd. Actuarial assessments are made at three yearly intervals for New Zealand and the last actuarial assessment of Fairfax NZ Retirement Fund was carried out as at 1 April 2011 by AoN Consulting New Zealand Limited. As at reporting date, the 2014 actuarial assessment for New Zealand had not been finalised. Fairfax NZ Senior Executive Superannuation Scheme is a defined contribution fund and does not require an actuarial assessment.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their working lifetimes.

Total employer contributions expected to be paid by Group companies for the 2015 financial year are $0.7 million.

### (G) NET FINANCIAL POSITION OF PLAN

In accordance with AAS 25 Financial Reporting by Superannuation Plans the plans' net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as a deficit of $2 million at the most recent financial position of the plans, being 1 July 2012 for Australia and 1 April 2011 for New Zealand. In accordance with the actuarial assessment of Fairfax Media Super as at 1 July 2012, additional contributions are being made to meet the financing objective of the plan.

The Directors, based on the advice of the trustees of the plan, are not aware of any changes in circumstances since the date of the most recent financial statements of the plans (1 July 2012 for Australia and 1 April 2011 for New Zealand), which would have a material impact on the overall financial position of the defined benefit plan.

### (H) SIGNIFICANT ACTUARIAL ASSUMPTIONS

The significant actuarial assumptions used to determine the present value of the defined benefit plan obligation (expressed as weighted averages) were as follows:

| | **2014**<br>**%** | 2013<br>% |
|---|---|---|
| Discount rate | **3.4** | 2.7 |
| Future salary increases | **2.9** | 4.0 |

### (I) SENSITIVITY ANALYSIS

A quantitative sensitivity analysis for significant actuarial assumptions as at 29 June 2014 is as shown below:

| ASSUMPTIONS | DISCOUNT RATE | | FUTURE SALARY INCREASES | |
|---|---|---|---|---|
| SENSITIVITY LEVEL | 0.5% INCREASE<br>$'000 | 0.5% DECREASE<br>$'000 | 0.5% INCREASE<br>$'000 | 0.5% DECREASE<br>$'000 |
| Impact on the net defined benefit plan obligation | (152) | 168 | 160 | (149) |

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the net defined benefit plan obligation as a result of reasonable changes in key assumptions at the end of the reporting period.

The average duration of the defined benefit plan obligation at the end of the reporting period is 4.4 years.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 22. CONTRIBUTED EQUITY

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| **Ordinary shares** | | | |
| 2,351,955,725 ordinary shares authorised and fully paid (2013: 2,351,955,725) | (A) | **4,667,944** | 4,667,944 |
| **Unvested employee incentive shares** | | | |
| 11,594,031 unvested employee incentive shares (2013: 11,723,026) | (B) | **(21,419)** | (21,696) |
| **Debentures** | | | |
| 281 debentures fully paid (2013: 281) | (C) | * | * |
| **Total contributed equity** | | **4,646,525** | 4,646,248 |

* Amount is less than $1000

### RECONCILIATIONS

Movements for each class of contributed equity, by number of shares and dollar value, are set out below:

| | 29 JUNE 2014 NO. OF SHARES | 30 JUNE 2013 NO. OF SHARES | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|---|
| (A) ORDINARY SHARES | | | | |
| Balance at beginning of the financial year | **2,351,955,725** | 2,351,955,725 | **4,667,944** | 4,667,944 |
| **Balance at end of the financial year** | **2,351,955,725** | 2,351,955,725 | **4,667,944** | 4,667,944 |
| (B) UNVESTED EMPLOYEE INCENTIVE SHARES | | | | |
| Balance at beginning of the financial year | **11,723,026** | 11,723,026 | **(21,696)** | (21,696) |
| Reclassification due to prior distribution of shares | **(128,995)** | – | **277** | – |
| **Balance at end of the financial year** | **11,594,031** | 11,723,026 | **(21,419)** | (21,696) |
| (C) DEBENTURES | | | | |
| Balance at beginning of the financial year | **281** | 281 | * | * |
| **Balance at end of the financial year** | **281** | 281 | * | * |
| **Total contributed equity** | | | **4,646,525** | 4,646,248 |

* Amount is less than $1000

### TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

#### (A) ORDINARY SHARES

Ordinary shares entitle the holder to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person, or by proxy, at a meeting of the Company.

#### (B) UNVESTED EMPLOYEE INCENTIVE SHARES

Shares in Fairfax Media Limited are held by the Executive Employee Share Plan Trust for the purpose of issuing shares under the Long Term Incentive Plan. Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at a meeting of the Company.

#### (C) DEBENTURES

Debenture holders terms and conditions are disclosed in Note 1(U).

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 23. RESERVES

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| Asset revaluation reserve, net of tax | (A) | **753** | 41 |
| Foreign currency translation reserve, net of tax | (B) | **(110,148)** | (132,599) |
| Cashflow hedge reserve, net of tax | (C) | **(4,179)** | (4,703) |
| Net investment hedge reserve, net of tax | (D) | **(18,094)** | (10,232) |
| Share-based payment reserve, net of tax | (E) | **11,231** | 8,799 |
| Acquisition reserve | (F) | **182,706** | 181,048 |
| General reserve | (G) | **(6,837)** | (6,837) |
| **Total reserves** | | **55,432** | 35,517 |

### (A) ASSET REVALUATION RESERVE

| | | |
|---|---|---|
| Balance at beginning of the financial year | **41** | (259) |
| Revaluation of available for sale investments | **820** | (61) |
| Impairment losses transferred to the income statement | **16** | 357 |
| Disposal of available for sale investments | **(129)** | – |
| Tax effect on available for sale investments | **5** | 4 |
| **Balance at end of the financial year** | **753** | 41 |

### (B) FOREIGN CURRENCY TRANSLATION RESERVE

| | | |
|---|---|---|
| Balance at beginning of the financial year | **(132,599)** | (219,528) |
| Exchange differences on currency translation | **22,451** | 28,033 |
| Disposal of subsidiaries, net of tax | **–** | 58,876 |
| Tax effect of net changes on foreign currency translation reserve | **–** | 20 |
| **Balance at end of the financial year** | **(110,148)** | (132,599) |

### (C) CASHFLOW HEDGE RESERVE

| | | |
|---|---|---|
| Balance at beginning of the financial year | **(4,703)** | (7,088) |
| Gains arising during the year on interest rate and cross currency swaps | **1,410** | 2,543 |
| (Losses)/gains arising during the year on currency forward contracts | **(774)** | 864 |
| Reclassification adjustments for gains included in the income statement | **(125)** | – |
| Tax effect of net changes on cashflow hedges | **13** | (1,022) |
| **Balance at end of the financial year** | **(4,179)** | (4,703) |

### (D) NET INVESTMENT HEDGE RESERVE

| | | |
|---|---|---|
| Balance at beginning of the financial year | **(10,232)** | 2,669 |
| Effective portion of changes in value of net investment hedges | **(11,231)** | (18,431) |
| Tax effect on net investment hedges | **3,369** | 5,530 |
| **Balance at end of the financial year** | **(18,094)** | (10,232) |

### (E) SHARE-BASED PAYMENT RESERVE

| | | |
|---|---|---|
| Balance at beginning of the financial year | **8,799** | 7,764 |
| Reclassification due to prior distribution of shares | **(277)** | – |
| Share-based payment expense | **3,870** | 2,038 |
| Disposal of subsidiaries, net of tax | **–** | (495) |
| Tax effect on share-based payment expense | **(1,161)** | (508) |
| **Balance at end of the financial year** | **11,231** | 8,799 |

### (F) ACQUISITION RESERVE

| | | |
|---|---|---|
| Balance at beginning of the financial year | **181,048** | 177,759 |
| Acquisition of non-controlling interest | **1,658** | (3,005) |
| Disposal of non-controlling interest in subsidiary | **–** | 6,294 |
| **Balance at end of the financial year** | **182,706** | 181,048 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 23. RESERVES (CONTINUED)

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| (G) GENERAL RESERVE | | |
| Balance at beginning of the financial year | **(6,837)** | (6,837) |
| **Balance at end of the financial year** | **(6,837)** | (6,837) |

### NATURE AND PURPOSE OF RESERVES

#### (A) ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets. From 1 July 2004, changes in the fair value of investments classified as available for sale investments are recognised in the asset revaluation reserve, as described in Note 1(M).

#### (B) FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising on translation of foreign controlled entities and associated funding of foreign controlled entities, as described in Note 1(F).

#### (C) CASHFLOW HEDGE RESERVE

The hedging reserve is used to record the portion of gains and losses on a hedging instrument in a cash flow hedge that is determined to be an effective hedge, as described in Note 1(N). Refer to further disclosures at Note 16.

#### (D) NET INVESTMENT HEDGE RESERVE

The net investment hedge reserve is used to record gains and losses on a hedging instruments in a fair value hedge, as described in Note 1(N). Refer to further disclosures at Note 16.

#### (E) SHARE-BASED PAYMENT RESERVE

The share-based payment reserve is used to recognise the fair value of shares issued but not vested and transfers to fund the acquisition of Share Trust shares, as described in Note 1(T)(ii).

#### (F) ACQUISITION RESERVE

The acquisition reserve is used to record differences between the carrying value of non-controlling interests and the consideration paid/received, where there has been a transaction involving non-controlling interests that does not result in a loss of control. The reserve is attributable to the equity of the parent.

#### (G) GENERAL RESERVE

The general reserve is used to record Stapled Preference Share (SPS) issue costs that have been transferred from contributed equity. The SPS were repurchased on 29 April 2011.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 24. EARNINGS PER SHARE

| | 29 JUNE 2014 ¢ PER SHARE | 30 JUNE 2013 ¢ PER SHARE |
|---|---|---|
| **Basic earnings per share** | | |
| Net profit/(loss) attributable to owners of the parent | **9.5** | (0.7) |
| Net profit/(loss) from continuing operations attributable to owners of the parent | **9.5** | (13.3) |
| **Diluted earnings per share** | | |
| Net profit/(loss) attributable to owners of the parent | **9.5** | (0.7) |
| Net profit/(loss) from continuing operations attributable to owners of the parent | **9.5** | (13.3) |

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Earnings reconciliation – basic** | | |
| Net profit/(loss) attributable to owners of the parent | **224,432** | (16,432) |
| Net profit/(loss) from continuing operations attributable to owners of the parent | **224,432** | (312,852) |
| **Earnings reconciliation – diluted** | | |
| Net profit/(loss) attributable to owners of the parent | **224,432** | (16,432) |
| Net profit/(loss) from continuing operations attributable to owners of the parent | **224,432** | (312,852) |

| | 29 JUNE 2014 NUMBER '000 | 30 JUNE 2013 NUMBER $'000 |
|---|---|---|
| **Weighted average number of ordinary shares used in calculating basic EPS** | **2,351,956** | 2,351,956 |
| **Weighted average number of ordinary shares used in calculating diluted EPS** | **2,365,174** | 2,351,956 |

# NOTES TO THE FINANCIAL STATEMENTS



## 25. COMMITMENTS

### OPERATING LEASE COMMITMENTS – GROUP AS LESSEE

The Group has entered into commercial leases on office and warehouse premises, motor vehicles and office equipment.

Future minimum rentals payable under non-cancellable operating leases as at the period end are as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Within one year | **42,661** | 39,861 |
| Later than one year and not later than five years | **143,080** | 122,219 |
| Later than five years | **266,212** | 284,111 |
| **Total operating lease commitments** | **451,953** | 446,191 |

Non-cancellable leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases can be renegotiated. The leases have remaining terms of between one and twenty-three years and usually include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

### FINANCE LEASE COMMITMENTS – GROUP AS LESSEE

The Group has a finance lease for property, plant and machinery with a carrying amount of $7.0 million (2013: $8.2 million). The lease has a remaining term of one year (2013: two years) and a weighted average interest rate of 13.3% (2013: 13.3%). Future minimum lease payments under the finance lease together with the present value of the net minimum lease payments are as follows:

| | | MINIMUM PAYMENTS | PRESENT VALUE OF PAYMENTS | MINIMUM PAYMENTS | PRESENT VALUE OF PAYMENTS |
|---|---|---|---|---|---|
| | NOTE | 2014 $'000 | 2014 $'000 | 2013 $'000 | 2013 $'000 |
| Within one year | | **5,076** | **4,768** | 5,076 | 4,438 |
| Later than one year and not later than five years | | **1,269** | **1,246** | 6,344 | 6,014 |
| Later than five years | | **–** | **–** | – | – |
| Minimum lease payments | | **6,345** | **6,014** | 11,420 | 10,452 |
| Less future finance charges | | **(331)** | **–** | (968) | – |
| **Total finance lease liability** | 19(D) | **6,014** | **6,014** | 10,452 | 10,452 |

### CONTINGENT RENTALS UNDER FINANCE LEASE

A component of the finance lease payments are contingent on movements in the consumer price index. At reporting date, the rent payable over the remaining lease term of one year which is subject to such movements amounts to $6.0 million (2013: $10.4 million).

### CAPITAL COMMITMENTS

At 29 June 2014, the Group has commitments principally relating to the purchase of property, plant and equipment. Commitments contracted for at reporting date but not recognised as liabilities are as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Within one year | **4,619** | 30,407 |
| Later than one year and not later than five years | **109** | – |
| Later than five years | **–** | – |
| **Total capital commitments** | **4,728** | 30,407 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 26. CONTINGENCIES

### GUARANTEES

Under the terms of ASIC Class Order 98/1418 (as amended), the Company and certain controlled entities (refer Note 27), have guaranteed any deficiency of funds if any entity to the class order is wound-up. No such deficiency exists at reporting date.

The Group has provided a bank guarantee of $2.5 million in relation to a property sublease for a period of 30 months commencing 4 July 2013.

### DEFAMATION

From time to time, entities in the Group are sued for defamation and similar matters in the ordinary course of business. At the date of this report, there were no legal actions against the consolidated entity, other than those recognised at Note 20, that are expected to result in a material impact.

## 27. CONTROLLED ENTITIES

The following entities were controlled as at the end of the financial year:

| | | | OWNERSHIP INTEREST | |
|---|---|---|---|---|
| | NOTES | COUNTRY OF INCORPORATION | **2014 %** | 2013 % |
| Fairfax Media Limited | (A) | Australia | | |
| **CONTROLLED ENTITIES** | | | | |
| 2GTHR Pty Limited | (A) | Australia | **100** | 100 |
| ACN 000 128 281 Pty Limited | | Australia | **100** | 100 |
| ACN 000 834 257 Pty Limited | | Australia | **100** | 100 |
| ACN 001 004 815 Pty Limited | | Australia | **100** | 100 |
| ACN 001 260 671 Pty Limited | | Australia | **100** | 100 |
| ACN 091 950 462 Pty Limited | | Australia | **100** | 100 |
| ACN 101 806 302 Pty Limited | (A) | Australia | **100** | 100 |
| ACN 113 587 527 Pty Limited | | Australia | **100** | 100 |
| Agricultural Publishers Pty Limited | (A) | Australia | **100** | 100 |
| Allure Media Pty Ltd | (A) | Australia | **100** | 100 |
| Associated Newspapers Pty Limited | (A), (B) | Australia | **100** | 100 |
| Aussie Destinations (1) Pty Ltd | (A) | Australia | **100** | 100 |
| Australian Property Monitors Pty Limited | (A) | Australia | **100** | 100 |
| AZXC Pty Ltd | (A) | Australia | **100** | 100 |
| Border Mail Printing Pty Ltd | (A) | Australia | **100** | 100 |
| Bridge Printing Office Pty Limited | (A) | Australia | **100** | 100 |
| Carpentaria Newspapers Pty Ltd | (A) | Australia | **100** | 100 |
| Commerce Australia Pty Ltd | (A) | Australia | **100** | 100 |
| Country Publishers Pty Ltd | (A) | Australia | **100** | 100 |
| CountryCars.com.au Pty Ltd | (A) | Australia | **100** | 100 |
| Creative House Publications Pty Ltd | | Australia | **60** | 60 |
| David Syme & Co Pty Limited | (A) | Australia | **100** | 100 |
| Debt Retrieval Agency Limited | | New Zealand | **100** | 100 |
| Examiner Properties Pty Ltd | (A) | Australia | **100** | 100 |
| Fairfax Business Media (South Asia) Pte Ltd | | Singapore | **100** | 100 |
| Fairfax Business Media Pte Ltd | (C) | Singapore | **–** | 100 |
| Fairfax Business Media Sdn. Bhd. | (C) | Malaysia | **–** | 100 |
| Fairfax Community Newspapers Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Corporation Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Digital Holdings NZ Limited | (D) | New Zealand | **–** | 100 |
| Fairfax Digital Assets NZ Limited | (D) | New Zealand | **–** | 100 |
| Fairfax Digital Australia & New Zealand Pty Limited | (A) | Australia | **100** | 100 |

# NOTES TO THE FINANCIAL STATEMENTS



## 27. CONTROLLED ENTITIES (CONTINUED)

| | NOTES | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2014 % | 2013 % |
|---|---|---|---|---|
| Fairfax Digital Pty Limited | (A), (E) | Australia | **100** | 100 |
| Fairfax Group Finance New Zealand Limited | | New Zealand | **100** | 100 |
| Fairfax Media (UK) Limited | | United Kingdom | **100** | 100 |
| Fairfax Media Group Finance Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Media Management Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Media Operations Limited | | New Zealand | **100** | 100 |
| Fairfax Media Productions UK Limited | (F) | United Kingdom | **–** | 100 |
| Fairfax Media Publications Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax New Zealand Holdings Limited | (G) | New Zealand | **–** | 100 |
| Fairfax New Zealand Limited | (G) | New Zealand | **100** | 100 |
| Fairfax News Network Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax OF Limited | (D) | New Zealand | **–** | 100 |
| Fairfax OSI Limited | (D) | New Zealand | **–** | 100 |
| Fairfax Print Holdings Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Printers Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Radio Network Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Radio Syndication Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Regional Media (Tasmania) Pty Limited | (A) | Australia | **100** | 100 |
| Fairfax Regional Printers Pty Limited | (A) | Australia | **100** | 100 |
| Financial Essentials Pty Ltd | | Australia | **100** | 100 |
| Find a Babysitter Pty Ltd | (A) | Australia | **100** | 100 |
| Golden Mail Pty Limited | (H) | Australia | **100** | 66 |
| Gunnedah Publishing Co Pty Ltd | (A) | Australia | **100** | 100 |
| Harris and Company Pty Limited | (A) | Australia | **100** | 100 |
| Harris Enterprises Pty Ltd | (A) | Australia | **100** | 100 |
| Harris Print Pty Ltd | (A) | Australia | **100** | 100 |
| Hunter Distribution Network Pty Ltd | (A) | Australia | **100** | 100 |
| Illawarra Newspapers Holdings Pty Ltd | (A) | Australia | **100** | 100 |
| Integrated Publication Solutions Pty Limited | (A) | Australia | **100** | 100 |
| Internet Marketing Australia Pty Ltd | (A) | Australia | **100** | 100 |
| Internet Products Sales & Services Pty Ltd | (A) | Australia | **100** | 100 |
| InvestSMART Financial Services Pty Ltd | (I) | Australia | **–** | 100 |
| John Fairfax & Sons Pty Limited | (A), (J) | Australia | **100** | 100 |
| John Fairfax (US) Limited | | United States | **100** | 100 |
| John Fairfax Pty Limited | (A), (K) | Australia | **100** | 100 |
| Lime Digital Pty Limited | | Australia | **100** | 100 |
| Mackamedia Pty Ltd | (A) | Australia | **100** | 100 |
| Mamiko Co Pty Ltd | (A) | Australia | **100** | 100 |
| Mapshed Pty Ltd | (A), (L) | Australia | **100** | – |
| Mayas Pty Ltd | | Australia | **100** | 100 |
| Mayas Unit Trust | | Australia | **100** | 100 |
| Media Investments Pty Ltd | (A) | Australia | **100** | 100 |
| Micosh Pty Ltd | | Australia | **100** | 100 |
| Milton Ulladulla Publishing Co. Pty Ltd | (A) | Australia | **100** | 100 |
| Mistcue Pty Limited | | Australia | **65** | 65 |
| Mountain Press Pty Ltd | (A), (M) | Australia | **100** | 88 |
| Namoi Media & Marketing Pty Ltd | (A) | Australia | **100** | 100 |
| Netus Pty Limited | (A) | Australia | **100** | 100 |
| Newcastle Newspapers Pty Ltd | (A) | Australia | **100** | 100 |
| Newsagents Direct Distribution Pty Ltd | (A) | Australia | **100** | 100 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 27. CONTROLLED ENTITIES (CONTINUED)

| | NOTES | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2014 % | 2013 % |
|---|---|---|---|---|
| North Australian News Pty Ltd | (A) | Australia | **100** | 100 |
| Northern Newspapers Pty Ltd | (A) | Australia | **100** | 100 |
| Occupancy Pty Limited | (N) | Australia | **–** | 97 |
| Ollority Pty Ltd | (A) | Australia | **100** | 100 |
| Online Marketing Group Pty Limited | (A) | Australia | **100** | 100 |
| OSF Australia Pty Limited | | Australia | **100** | 100 |
| Personal Investment Direct Access Pty Limited | (I) | Australia | **–** | 100 |
| Port Lincoln Times Pty Ltd | (A) | Australia | **100** | 100 |
| Port Stephens Publishers Pty Ltd | (A) | Australia | **100** | 100 |
| Port Stephens Publishers Trust | | Australia | **100** | 100 |
| Property Data Solutions Pty Ltd | (A), (L) | Australia | **100** | – |
| Queensland Community Newspapers Pty Ltd | (A) | Australia | **100** | 100 |
| Radio 1278 Melbourne Pty Limited | (A) | Australia | **100** | 100 |
| Radio 2UE Sydney Pty Ltd | (A) | Australia | **100** | 100 |
| Radio 3AW Melbourne Pty Limited | (A) | Australia | **100** | 100 |
| Radio 4BC Brisbane Pty Limited | (A) | Australia | **100** | 100 |
| Radio Magic 882 Brisbane Pty Limited | (A), (O) | Australia | **100** | 100 |
| Radio 6PR Perth Pty Limited | (A) | Australia | **100** | 100 |
| Radio 96FM Perth Pty Limited | (A) | Australia | **100** | 100 |
| Regional Press Australia Pty Limited | | Australia | **100** | 100 |
| Regional Printers Pty Limited | (A) | Australia | **100** | 100 |
| Regional Publishers (Tasmania) Pty Ltd | | Australia | **100** | 100 |
| Regional Publishers (Victoria) Pty Limited | (A) | Australia | **100** | 100 |
| Regional Publishers (Western Victoria) Pty Limited | (A) | Australia | **100** | 100 |
| Regional Publishers Pty Ltd | (A) | Australia | **100** | 100 |
| RSVP.com.au Pty Limited | (A) | Australia | **100** | 100 |
| Rural Press Printing (Victoria) Pty Limited | (A) | Australia | **100** | 100 |
| Rural Press Printing Pty Limited | (A) | Australia | **100** | 100 |
| Rural Press Pty Limited | (A) | Australia | **100** | 100 |
| Rural Press Queensland Pty Ltd | (A) | Australia | **100** | 100 |
| Rural Press Regional Media (WA) Pty Limited | (A) | Australia | **100** | 100 |
| Rural Publishers Pty Limited | (A) | Australia | **100** | 100 |
| Southern Weekly Partnership | | Australia | **75** | 75 |
| S.A. Regional Media Pty Limited | (A) | Australia | **100** | 100 |
| Satellite Music Australia Pty Limited | (A) | Australia | **100** | 100 |
| Stayz Limited | (N) | New Zealand | **–** | 97 |
| Stayz Pty Limited | (N) | Australia | **–** | 97 |
| Stock Journal Publishers Pty Ltd | (A) | Australia | **100** | 100 |
| Suzannenic Pty Limited | (A) | Australia | **100** | 100 |
| The Advocate Newspaper Proprietary Limited | (A) | Australia | **100** | 100 |
| The Age Company Pty Limited | (A) | Australia | **100** | 100 |
| The Age Print Company Pty Ltd | (A) | Australia | **100** | 100 |
| The Barossa News Pty Limited | (A) | Australia | **100** | 100 |
| The Border Morning Mail Pty Limited | (A) | Australia | **100** | 100 |
| The Border News Partnership | | Australia | **63** | 63 |
| The Federal Capital Press of Australia Pty Limited | (A) | Australia | **100** | 100 |
| The Independent News Pty Ltd | | Australia | **100** | 100 |
| TheVine.com.au Pty Limited | | Australia | **70** | 70 |
| The Wagga Daily Advertiser Pty Ltd | (A) | Australia | **100** | 100 |
| The Warrnambool Standard Pty Ltd | (A) | Australia | **100** | 100 |

# NOTES TO THE FINANCIAL STATEMENTS



## 27. CONTROLLED ENTITIES (CONTINUED)

| | NOTES | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2014 % | 2013 % |
|---|---|---|---|---|
| The Weather Company Pty Limited | | Australia | **75** | 75 |
| Tricom Group Pty Ltd | | Australia | **100** | 100 |
| Weatherzone Japan LLC | | Japan | **75** | 75 |
| West Australian Rural Media Pty Ltd | (A) | Australia | **100** | 100 |
| West Australian Primary Industry Press Pty Ltd | (A) | Australia | **100** | 100 |
| Western Magazine Pty Ltd | | Australia | **75** | 75 |
| Western Magazine Settlement Trust | | Australia | **75** | 75 |
| Whyalla News Properties Pty Ltd | | Australia | **100** | 100 |
| Winbourne Pty Limited | (A) | Australia | **100** | 100 |

(a) The Company and the controlled entities incorporated within Australia are party to Class Order 98/1418 (as amended) issued by the Australian Securities & Investment Commission. These entities have entered into a Deed of Cross Guarantee dated June 2007 (as varied from time to time) under which each entity guarantees the debts of the others. These companies represent a 'Closed Group' for the purposes of the Class Order and there are no other members of the 'Extended Closed Group'. Under the Class Order, these entities have been relieved from the requirements of the *Corporations Act 2001* with regard to the preparation, audit and publication of accounts.

(b) This company was formerly called Associated Newspapers Ltd.

(c) Disposed on 7 August 2013.

(d) Amalgamated with Fairfax Group Finance New Zealand Limited on 5 February 2014.

(e) This company was formerly called Fairfax Digital Limited.

(f) This company was formally dissolved on 19 November 2013, following members voluntary liquidation.

(g) Fairfax New Zealand Holdings Limited and Fairfax New Zealand Limited were amalgamated into Fairfax New Zealand Holdings Limited on 31 March 2014. Fairfax New Zealand Holdings Limited subsequently adopted the name of Fairfax New Zealand Limited.

(h) The remaining interest in this company was acquired on 12 December 2013.

(i) Disposed on 30 September 2013.

(j) This company was formerly called John Fairfax & Sons Ltd.

(k) This company was formerly called John Fairfax Limited.

(l) Acquired on 13 December 2013.

(m) The remaining interest in this company was acquired on 1 July 2013.

(n) Disposed on 6 December 2013.

(o) This company was formerly called Radio 4BH Brisbane Pty Limited.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 27. CONTROLLED ENTITIES (CONTINUED)

### DEED OF CROSS GUARANTEE

Fairfax Media Limited and certain wholly-owned entities (the 'Closed Group') identified at (a) above are parties to a Deed of Cross Guarantee under ASIC Class Order 98/1418 (as amended). Pursuant to the requirements of that Class Order, a summarised consolidated income statement for the period ended 29 June 2014 and consolidated balance sheet as at 29 June 2014, comprising the members of the Closed Group after eliminating all transactions between members are set out below:

### (A) BALANCE SHEET

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **444,707** | 449,780 |
| Trade and other receivables | **230,103** | 244,349 |
| Inventories | **20,674** | 25,394 |
| Derivative assets | **213** | 11,018 |
| Assets held for sale | **83,784** | 3,176 |
| Income tax receivable | **–** | 3,200 |
| Other financial assets | **4,858** | 4,386 |
| **Total current assets** | **784,339** | 741,303 |
| **Non-current assets** | | |
| Receivables | **1,248** | 19,611 |
| Investments accounted for using the equity method | **87,667** | 80,396 |
| Available for sale investments | **2,488** | 1,929 |
| Intangible assets | **1,141,818** | 1,213,572 |
| Property, plant and equipment | **341,196** | 406,958 |
| Derivative assets | **1,551** | 7,815 |
| Deferred tax assets | **84,773** | 109,159 |
| Other financial assets | **574,070** | 647,107 |
| **Total non-current assets** | **2,234,811** | 2,486,547 |
| **Total assets** | **3,019,150** | 3,227,850 |
| **Current liabilities** | | |
| Payables | **103,074** | 176,052 |
| Interest bearing liabilities | **119,721** | 284,323 |
| Derivative liabilities | **13,278** | 41,957 |
| Liabilities directly associated with held for sale assets | **4,202** | – |
| Provisions | **99,958** | 175,630 |
| Current tax liabilities | **3,132** | – |
| **Total current liabilities** | **343,365** | 677,962 |
| **Non-current liabilities** | | |
| Interest bearing liabilities | **235,526** | 353,889 |
| Derivative liabilities | **21,957** | 26,939 |
| Provisions | **47,041** | 51,467 |
| Pension liabilities | **440** | 1,273 |
| **Total non-current liabilities** | **304,964** | 433,568 |
| **Total liabilities** | **648,329** | 1,111,530 |
| **Net assets** | **2,370,821** | 2,116,320 |
| **Equity** | | |
| Contributed equity | **4,646,525** | 4,646,248 |
| Reserves | **(12,711)** | (66,921) |
| Retained losses | **(2,262,993)** | (2,463,007) |
| **Total equity** | **2,370,821** | 2,116,320 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 27. CONTROLLED ENTITIES (CONTINUED)

### (B) INCOME STATEMENT

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Total revenue | **1,637,018** | 1,834,598 |
| Share of net profits of associates and joint ventures | **8,012** | (2,251) |
| Expenses before finance costs | **(1,350,936)** | (1,895,265) |
| Finance costs | **12,040** | (58,683) |
| **Net profit/(loss) from operations before income tax expense** | **306,134** | (121,601) |
| Income tax expense | **(41,847)** | (13,812) |
| **Net profit/(loss) from operations after income tax expense** | **264,287** | (135,413) |

## 28. ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

### (A) ACQUISITIONS

The Group gained control over the following entities during the year:

| ENTITY OR BUSINESS ACQUIRED | PRINCIPAL ACTIVITY | DATE OF ACQUISITION | OWNERSHIP INTEREST |
|---|---|---|---|
| Property Data Solutions Pty Ltd | Property data research subscriptions | 13 December 2013 | 100% |
| Mapshed Pty Ltd | Property data research subscriptions | 13 December 2013 | 100% |

### (B) DISPOSALS

The Group disposed of its interest in the following entities during the year:

| ENTITY OR BUSINESS DISPOSED | PRINCIPAL ACTIVITY | DATE OF DISPOSAL | OWNERSHIP INTEREST |
|---|---|---|---|
| Fairfax Business Media Pte Ltd | Business media publishing | 7 August 2013 | 100% |
| Fairfax Business Media Sdn. Bhd. | Business media publishing | 7 August 2013 | 100% |
| InvestSMART Financial Services Pty Ltd | Agent to managed investment funds | 30 September 2013 | 100% |
| Personal Investment Direct Access Pty Limited | Agent to managed investment funds | 30 September 2013 | 100% |
| Stayz Pty Ltd | Online accommodation advertising | 6 December 2013 | 100% |
| Stayz Limited | Online accommodation advertising | 6 December 2013 | 100% |
| Occupancy Pty Ltd | Online accommodation advertising | 6 December 2013 | 100% |

For the above entities, the major classes of assets and liabilities disposed were as follows:

| | $'000 |
|---|---|
| Cash and cash equivalents | 6,120 |
| Trade and other receivables | 3,107 |
| Income tax receivable | 453 |
| Intangible assets | 115,514 |
| Property, plant and equipment | 112 |
| Deferred tax assets | 448 |
| **Total assets** | 125,754 |
| Payables | 10,346 |
| Provisions | 677 |
| Deferred tax liabilities | 1,850 |
| **Total liabilities** | 12,873 |
| **Net assets** | 112,881 |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 29. BUSINESS COMBINATIONS

### ACQUISITIONS DURING THE PERIOD

The acquisition of Property Data Solutions Pty Ltd and Mapshed Pty Ltd is listed in Note 28(A).

The fair values of the identifiable assets and liabilities acquired were:

| | RECOGNISED ON ACQUISITION $'000 |
|---|---|
| **Value of net assets acquired** | |
| Cash and cash equivalents | 482 |
| Receivables | 546 |
| Property, plant and equipment | 51 |
| Intangible assets | 1,350 |
| Deferred tax assets | 105 |
| **Total assets** | 2,534 |
| Payables | 564 |
| Provisions | 284 |
| Current tax liabilities | 376 |
| Deferred tax liabilities | 405 |
| **Total liabilities** | 1,629 |
| **Value of identifiable net assets** | 905 |
| Goodwill arising on acquisition | 26,890 |
| **Total identifiable net assets and goodwill attributable to the Group** | 27,795 |
| **Purchase consideration** | |
| Cash paid | 27,795 |
| **Total purchase consideration** | 27,795 |
| | |
| **Net cash outflow on acquisition** | |
| Net cash acquired with subsidiary | 482 |
| Cash paid | (27,795) |
| **Net cash outflow** | (27,313) |

In addition to cash paid of $27.8 million, remuneration of up to $2.0 million is payable by the Group to specified former shareholders if certain financial performance criteria is achieved. This is payable over a period of two years with the final payment due on 31 December 2015.

As a result of this acquisition, the consolidated income statement includes revenue and net profit before tax for the period ended 29 June 2014 of $4.8 million and $0.6 million respectively (including $0.9m of earn out costs). Had the acquisition occurred at the beginning of the reporting period, the consolidated income statement would have included revenue and net profit before tax of $8.9 million and $1.9 million respectively (including $0.9m of earn out costs).

Goodwill of $26.9 million includes the acquired workforces and future growth opportunities.

# NOTES TO THE FINANCIAL STATEMENTS



## 30. EMPLOYEE BENEFITS

### (A) NUMBER OF EMPLOYEES

As at 29 June 2014 the Group employed 6,410 full-time employees (2013: 7,043) and 1,211 part-time and casual employees (2013: 1,384). This includes 1,636 (2013: 1,813) full-time employees and 259 (2013: 285) part-time and casual employees in New Zealand.

### (B) EMPLOYEE SHARE PLANS

The Company had three employee share plans during the period. The terms of each plan are set out below:

**1. Fairfax Exempt Employee Share Plan**

This plan is open to all Australian employees with at least twelve months service with the consolidated entity in Australia, whose adjusted taxable income is $180,000 per annum or less. Under this Plan, participants may salary sacrifice up to $1,000 of pre tax salary per annum for the purchase of issued Fairfax shares at the market price on the open market of the ASX. The shares are purchased by an independent trustee company on predetermined dates.

**2. Fairfax Deferred Employee Share Plan**

This plan is open to all Australian employees with at least twelve months service with the consolidated entity in Australia. Under this Plan, participants may salary sacrifice a minimum of $1,000 and up to a maximum of $5,000 of salary per annum for the purchase of issued Fairfax shares at the market price on the open market of the ASX. The shares are purchased by an independent trustee company on predetermined dates. Participants must nominate a ‘lock’ period of either 3, 5 or 7 years during which their shares must remain in the plan, unless they leave the consolidated entity in Australia.

**3. Long Term Equity Based Incentive Scheme**

The long term incentive plan is available to certain permanent full-time and part-time employees of the consolidated entity.

**2008 – 2012 Financial Year**

Under this plan, the cash value of a percentage of an eligible executive’s annual total fixed remuneration was in the form of allocated Fairfax shares, which are beneficially held in a trust. The shares vest if the eligible employee remains in employment three years from the date the shares were allocated and certain performance hurdles are satisfied. If the allocation does not vest at the end of year three post allocation, a re-test of the performance hurdles occurs in the fourth year. There are currently no cash settlement alternatives. Dividends on the allocated shares during the vesting period are paid directly to the eligible employee and the Company does not have any recourse to dividends paid.

**2013 Financial Year**

For 2013, participants in the plan received an allocation of performance rights (rights) which allow the executive to acquire shares for no consideration subject to achievement of the performance hurdles. No dividends are payable to participants on the unvested rights.

The number of rights to which a participant was entitled depended on the participant’s role and responsibilities. Allocations were set at a fixed percentage of the executive’s fixed remuneration at the time they participate in the scheme. The value of the rights at the time of allocation was determined by an independent external valuer.

**2014 Financial Year**

For 2014, participants in the plan were granted options following the 2013 AGM with the exercise price set at the share price around the time of issue. The options have a vesting hurdle of absolute total shareholder return over three years from issue with a retest in the fourth year. No dividends are payable to participants on the unvested options. The options have been valued using a Monte Carlo simulation model.

Participants are also entitled to receive performance shares for no consideration subject to achievement of certain performance hurdles. Half of the shares granted are deferred for one year and the other half are deferred for two years. Participants must remain employed during the deferral period or the shares will be forfeited.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 31. REMUNERATION OF AUDITORS

During the financial year the following amounts were paid or payable for services provided by the auditor of the Company and its related parties:

| | 29 JUNE 2014 $ | 30 JUNE 2013 $ |
|---|---|---|
| **Audit services** | | |
| Ernst & Young Australia | | |
| Audit and review of financial reports | **885,800** | 1,088,401 |
| Affiliates of Ernst & Young Australia | | |
| Audit and review of financial reports | **228,521** | 244,044 |
| Non Ernst & Young Firms | | |
| Audit and review of financial reports | **23,251** | 26,498 |
| **Total audit services** | **1,137,572** | 1,358,943 |
| **Other assurance services** | | |
| Ernst & Young Australia | | |
| Regulatory and contractually required audits | **178,249** | 243,809 |
| Other | **110,164** | 225,449 |
| Affiliates of Ernst & Young Australia | | |
| Regulatory and contractually required audits | **71,948** | 98,020 |
| Other | **–** | – |
| Non Ernst & Young Firms | | |
| Regulatory and contractually required audits | **2,160** | 8,151 |
| Other | **–** | – |
| **Total other assurance services** | **362,521** | 575,429 |
| **Total remuneration for assurance services** | **1,500,093** | 1,934,372 |
| **Non assurance services** | | |
| Ernst & Young Australia | | |
| Other services | **–** | – |
| Affiliates of Ernst & Young Australia | | |
| Other services | **–** | – |
| Non Ernst & Young Firms | | |
| Other services | **–** | – |
| **Total non assurance services** | **–** | – |
| **Total remuneration of auditors** | **1,500,093** | 1,934,372 |

# NOTES TO THE FINANCIAL STATEMENTS



## 32. RELATED PARTY TRANSACTIONS

### (A) ULTIMATE PARENT

Fairfax Media Limited is the ultimate parent company.

### (B) CONTROLLED ENTITIES

Interests in controlled entities are set out in Note 27.

### (C) KEY MANAGEMENT PERSONNEL

**Transactions with Director-related entities**

A number of Directors of Fairfax Media Limited also hold directorships with other corporations which provide and receive goods or services to and from the Fairfax Group in the ordinary course of business on normal terms and conditions. None of these Directors derive any direct personal benefit from the transactions between the Fairfax Group and these corporations.

Transactions were entered into during the financial year with the Directors of Fairfax Media Limited and its controlled entities or with Director-related entities, which:

- occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the Director or Director-related entity at arm's length in the same circumstances;
- do not have the potential to adversely affect decisions about the allocation of scarce resources or discharge the responsibility of the Directors; or
- are minor or domestic in nature.

**Rights over shareholdings of key management personnel**

Details of equity-based incentive schemes are included in the remuneration report.

| 2014 | OPENING BALANCE 30 JUNE 2013 | GRANTED AS REMUNERATION | NET CHANGE OTHER ** | CLOSING BALANCE 29 JUNE 2014 |
|---|---|---|---|---|
| G Hywood | **10,403,380** | **8,000,000** | **–** | **18,403,380** |
| D Housego | **3,666,667** | **4,125,000** | **–** | **7,791,667** |
| G Hambly | **2,690,313** | **3,125,000** | **(56,488)** | **5,758,825** |
| A Williams | **1,837,124** | **3,875,000** | **–** | **5,712,124** |
| **Total** | **18,597,484** | **19,125,000** | **(56,488)** | **37,665,996** |

| 2013 | OPENING BALANCE 24 JUNE 2012 | GRANTED AS REMUNERATION | NET CHANGE OTHER ** | CLOSING BALANCE 30 JUNE 2013 |
|---|---|---|---|---|
| G Hywood | 1,514,491 | 8,888,889 | – | 10,403,380 |
| B Cassell * | 785,983 | – | (121,057) | 664,926 |
| D Housego | – | 3,666,667 | – | 3,666,667 |
| G Hambly | 717,949 | 2,083,333 | (110,969) | 2,690,313 |
| A Williams | – | 1,837,124 | – | 1,837,124 |
| **Total** | 3,018,423 | 16,476,013 | (232,026) | 19,262,410 |

* For KMP, the closing balance represents the number of shares at the date of resignation. B Cassell ceased in the position of CFO on 3 December 2012 and resigned on 1 July 2013. Any unvested rights were forfeited.

** Net change movements include forfeitures.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 32. RELATED PARTY TRANSACTIONS (CONTINUED)

### (D) TRANSACTIONS WITH RELATED ENTITIES

The following transactions for the sale and purchase of goods and services occurred with related parties on normal market terms and conditions:

| | SALES TO RELATED PARTIES $'000 | PURCHASES FROM RELATED PARTIES $'000 | AMOUNT OWED BY RELATED PARTIES $'000 | AMOUNT OWED TO RELATED PARTIES $'000 |
|---|---|---|---|---|
| **Associates** | | | | |
| 29 June 2014 | 3,588 | 17,753 | 343 | 64 |
| 30 June 2013 | 13,688 | 7,307 | 246 | 3,413 |
| **Joint ventures** | | | | |
| 29 June 2014 | 348 | 3,101 | 35 | 155 |
| 30 June 2013 | 54 | 241 | – | 1 |

## 33. NOTES TO THE CASH FLOW STATEMENT

| | NOTE | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|---|
| **(A) RECONCILIATION OF NET PROFIT/(LOSS) AFTER INCOME TAX EXPENSE TO NET CASH INFLOW FROM OPERATING ACTIVITIES** | | | |
| Net profit/(loss) for the period | | **225,168** | (971) |
| **Non-cash items** | | | |
| Depreciation and amortisation for continuing operations | 3(B) | **93,517** | 100,762 |
| Depreciation and amortisation for discontinued operations | | **–** | 3,124 |
| Impairment of property, plant and equipment, intangibles and investments | | **23,459** | 459,938 |
| Amortisation of borrowing costs | | **1,764** | 1,191 |
| Share of (profits)/losses of associates and joint ventures not received as dividends | | **(3,266)** | 5,528 |
| Straight-line rent adjustment | | **312** | 513 |
| Net (gain)/loss on disposal of property, plant and equipment | | **(121)** | 92 |
| Net gain on disposal of investments and other assets | | **(106,345)** | (299,413) |
| Fair value adjustment to derivatives | | **(157)** | 4,539 |
| Net foreign currency (gain)/loss | | **(5,526)** | 660 |
| Share-based payment expense | | **3,870** | 2,038 |
| Non-cash superannuation expense | | **(731)** | (833) |
| Gain on partial redemption of senior notes | | **(10,183)** | – |
| Other non-operating gains | | **–** | 142 |
| **Changes in operating assets and liabilities, net of effects from acquisitions** | | | |
| Decrease in trade receivables | | **8,751** | 34,033 |
| (Increase)/decrease in other receivables | | **(11,153)** | 7,611 |
| Decrease in inventories | | **5,916** | 6,180 |
| Increase in other assets | | **(1,286)** | (788) |
| Decrease in payables | | **(3,287)** | (41,020) |
| Decrease in provisions | | **(78,298)** | (100,942) |
| Increase in tax balances | | **29,078** | 4,067 |
| **Net cash inflow from operating activities** | | **171,482** | 186,451 |

### (B) RECONCILIATION OF CASH AND CASH EQUIVALENTS

Reconciliation of cash at end of the financial year (as shown in the Cash Flow Statement) to the related items in the financial statements is as follows:

| | | |
|---|---|---|
| Cash on hand and at bank | **452,687** | 533,531 |
| **Total cash at end of the financial year** | **452,687** | 533,531 |

# NOTES TO THE FINANCIAL STATEMENTS



## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT

### FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, other than derivatives, comprise cash, short term deposits, bills of exchange and bank loans. The main purpose of these financial instruments is to manage liquidity and to raise finance for the Group's operations. The Group has various other financial instruments, such as trade and other receivables and trade and other payables, which arise directly from its operations.

The Group uses derivatives in accordance with Board approved policies to reduce the Group's exposure to fluctuations in interest rates and foreign exchange rates. These derivatives create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative instruments that the Group uses to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps;
- forward foreign currency contracts; and
- forward rate agreements.

The Group's risk management activities for interest rate and foreign exchange exposures are carried out centrally by Fairfax Media Group Treasury department. The Group Treasury department operates under policies as approved by the Board. The Group Treasury department operates in co-operation with the Group's operating units so as to maximise the benefits associated with centralised management of Group risk factors.

### CAPITAL RISK MANAGEMENT

The capital structure of Group entities is monitored using net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio. The ratio is calculated as net debt divided by underlying EBITDA. Net debt is calculated as total interest bearing liabilities less cash and cash equivalents. Where interest bearing liabilities are denominated in a currency other than the Australian dollar functional currency, and the liability is hedged into an Australian dollar obligation, the liability is measured for financial covenant purposes as the hedged Australian dollar amount.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, buy back shareholder equity, issue new shares or sell assets to reduce debt. The Group reviews the capital structure to ensure:

- sufficient finance capacity for the business is maintained at a reasonable cost; and
- sufficient funds are available for the business to implement its capital expenditure and business acquisition strategies.

Where excess funds arise with respect to the funds required to enact the Group's business strategies, consideration is given to increased dividends or buy back of shareholder equity.

The net (cash)/debt to EBITDA ratio for the Group at 29 June 2014 and 30 June 2013 is as follows:

| | NOTE | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Net (cash)/debt | 19 | **(67,561)** | 154,493 |
| EBITDA * | | **312,452** | 366,474 |
| Net debt to EBITDA ratio | | **(0.22)** | 0.42 |

* For the purposes of the debt to EBITDA ratio, underlying EBITDA is adjusted for specific items of a non-recurring nature and excludes any unrealised profit/(loss) arising from mark to market revaluations of financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

### RISK FACTORS

The key financial risk factors that arise from the Group's activities, including the Group's policies for managing these risks are outlined below.

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices. The market risk factors to which the Group is exposed to are discussed in further detail below.

### (A) INTEREST RATE RISK

Interest rate risk refers to the risks that the value of a financial instrument or future cash flows associated with the instrument will fluctuate due to movements in market interest rates.

Interest rate risk arises from interest bearing financial assets and liabilities that the Group utilises. Non-derivative interest bearing assets are predominantly short term liquid assets. Long term debt issued at fixed rates exposes the Group to fair value interest rate risk. The Group's borrowings which have a variable interest rate attached give rise to cash flow interest rate risk.

The Group's risk management policy for interest rate risk seeks to reduce the effects of interest rate movements on its asset and liability portfolio through management of the exposures.

The Group seeks to maintain a mix of foreign and local currency fixed rate and variable rate debt, as well as a mix of long term debt versus short term debt. The Group primarily enters into interest rate swap, interest rate option and cross currency swap agreements to manage these risks. The Group designates which of its financial assets and financial liabilities are exposed to a fair value or cash flow interest rate risk, such as financial assets and liabilities with a fixed interest rate or financial assets and financial liabilities with a floating interest rate that is reset as market rates change.

The Group hedges the currency risk on foreign currency borrowings by entering into cross currency swaps, which have the economic effect of converting foreign currency borrowings to local currency borrowings. Over the counter derivative contracts are carried at fair value, which are estimated using valuation techniques based wherever possible on assumptions supported by observable market prices or rates prevailing at the reporting date. For other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices.

Refer to Note 16 for further details of the Group's derivative financial instruments and details of hedging activities.

At reporting date, the Group had the following mix of financial assets and financial liabilities exposed to interest rate risks:

| **As at 29 June 2014** | **FLOATING RATE $'000** | **FIXED RATE $'000** | **NON-INTEREST BEARING $'000** | **TOTAL $'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 452,687 | – | – | 452,687 |
| Trade and other receivables | – | – | 276,406 | 276,406 |
| Available for sale investments | – | – | 2,488 | 2,488 |
| Other financial assets | 6,227 | – | – | 6,227 |
| Derivatives | – | – | 1,764 | 1,764 |
| **Total financial assets** | 458,914 | – | 280,658 | 739,572 |
| **Financial liabilities** | | | | |
| Payables | – | – | 218,052 | 218,052 |
| Interest bearing liabilities: | | | | |
| Bank borrowings and loans | 138,055 | 3,819 | – | 141,874 |
| Senior notes | – | 207,359 | – | 207,359 |
| Finance lease liability | 6,014 | – | – | 6,014 |
| Total interest bearing liabilities | 144,069 | 211,178 | – | 355,247 |
| Derivatives | 20,518 | 14,717 | – | 35,235 |
| **Total financial liabilities** | 164,587 | 225,895 | 218,052 | 608,534 |
| | | | | |
| Total interest bearing liabilities | 144,069 | 211,178 | – | 355,247 |
| Notional principal hedged | (123,654) | (78,012) | – | (201,666) |
| **Net exposure to cash flow interest rate risk** | 20,415 | 133,166 | – | 153,581 |

# NOTES TO THE FINANCIAL STATEMENTS



## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

| As at 30 June 2013 | FLOATING RATE $'000 | FIXED RATE $'000 | NON-INTEREST BEARING $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 533,531 | – | – | 533,531 |
| Trade and other receivables | – | – | 287,457 | 287,457 |
| Available for sale investments | – | – | 1,929 | 1,929 |
| Other financial assets | 10,541 | – | 67 | 10,608 |
| Derivatives | 6,325 | – | 12,508 | 18,833 |
| **Total financial assets** | 550,397 | – | 301,961 | 852,358 |
| **Financial liabilities** | | | | |
| Payables | – | – | 235,919 | 235,919 |
| Interest bearing liabilities: | | | | |
| Bank borrowings and loans | 123,549 | 6,003 | – | 129,552 |
| Senior notes | 27,338 | 470,870 | – | 498,208 |
| Finance lease liability | 10,452 | – | – | 10,452 |
| Total interest bearing liabilities | 161,339 | 476,873 | – | 638,212 |
| Derivatives | 43,826 | 23,833 | 7,258 | 74,917 |
| **Total financial liabilities** | 205,165 | 500,706 | 243,177 | 949,048 |
| | | | | |
| Total interest bearing liabilities | 161,339 | 476,873 | – | 638,212 |
| Notional principal hedged | (123,526) | (116,495) | – | (240,021) |
| **Net exposure to cash flow interest rate risk** | 37,813 | 360,378 | – | 398,191 |

### Sensitivity analysis

The table below shows the effect on net profit and equity after income tax if interest rates at reporting date had been 30% higher or lower with all other variables held constant, taking into account all underlying exposures and related hedges. Concurrent movements in interest rates and parallel shifts in the yield curves are assumed.

A sensitivity of 30% (2013: 30%) has been selected as this is considered reasonable given the current level of both short term and long term Australian interest rates. A 30% sensitivity would move short term interest rates at 29 June 2014 from around 2.71% to 3.52% representing a 81 basis point shift (2013: 85 basis point shift).

In 2014, 90% (2013: 66%) of the Group's debt, taking into account all underlying exposures and related hedges was denominated in Australian Dollars; therefore, only the movement in Australian interest rates is used in this sensitivity analysis.

Based on the sensitivity analysis, if interest rates were 30% higher, net profit would be impacted by the interest expense being higher on the Group's floating rate Australian Dollar debt during the year.

| | IMPACT ON POST-TAX PROFIT | | IMPACT ON EQUITY | |
|---|---|---|---|---|
| | **2014 $'000** | 2013 $'000 | **2014 $'000** | 2013 $'000 |
| If interest rates were 30% higher with all other variables held constant – increase/(decrease) | **(737)** | (2,603) | **889** | 1,670 |
| If interest rates were 30% lower with all other variables held constant – increase/(decrease) | **737** | 2,603 | **(900)** | (1,704) |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

### (B) FOREIGN CURRENCY RISK

Foreign currency risk refers to the risk that the value or the cash flows arising from a financial commitment, or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's foreign currency exchange risk arises primarily from:

- borrowings denominated in foreign currency; and
- firm commitments and/or highly probable forecast transactions for receipts and payments settled in foreign currencies and prices dependent on foreign currencies respectively.

The Group is exposed to foreign exchange risk from various currency exposures, primarily with respect to:

- United States Dollars; and
- New Zealand Dollars.

Forward foreign exchange contracts are used to hedge the Group's known non-debt related foreign currency risks. These contracts generally have maturities of less than twelve months after the reporting date and consequently the net fair value of the gains and losses on these contracts will be transferred from the cash flow hedging reserve to the income statement at various dates during this period when the underlying exposure impacts earnings. The derivative contracts are carried at fair value, being the market value as quoted in an active market.

The Group's risk management policy for foreign exchange is to only hedge known or highly probable future transactions. The policy only permits hedging of the Group's underlying foreign exchange exposures.

Benefits or costs arising from currency hedges for revenue and expense transactions that are designated and documented in a hedge relationship are brought to account in the income statement over the lives of the hedge transactions depending on the effectiveness testing outcomes and when the underlying exposure impacts earnings. For transactions entered into that hedge specific capital or borrowing commitments, any cost or benefit resulting from the hedge forms part of the initial asset or liability carrying value.

When entered into, the Group formally designates and documents the financial instrument as a hedge of the underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. The Group formally assesses both at the inception and at least semi-annually thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument's change in fair value is immediately recognised in the income statement and this is mainly attributable to financial instruments in a fair value hedge relationship. Derivatives entered into and not documented in a hedge relationship are revalued with the changes in fair value recognised in the income statement. All of the Group's derivatives are straight forward over the counter instruments with liquid markets.

Refer to Note 16 for further details of the Group's derivative financial instruments and details of hedging activities.

**Sensitivity analysis**

The tables below show the effect on net profit and equity after income tax as at reporting date from a 15% weaker/stronger base currency movement in exchange rates at that date on a total derivative portfolio with all other variables held constant.

A sensitivity of 15% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for potential future movement. The Group's foreign currency risk from the Group's long term borrowings denominated in foreign currencies has no significant impact on profit from foreign currency movements as they are effectively hedged.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

### (a) AUD / NZD

Comparing the Australian Dollar exchange rate against the New Zealand Dollar, a 15% weaker Australian Dollar would result in an exchange rate of 0.9149 and a 15% stronger Australian Dollar in an exchange rate of 1.2378 based on the year end rate of 1.0763. This range is considered reasonable given over the last five years, the Australian Dollar exchange rate against the New Zealand Dollar has traded in the range of 1.0554 to 1.3746.

| | IMPACT ON POST-TAX PROFIT | | IMPACT ON EQUITY (HEDGING RESERVES) * | |
|---|---|---|---|---|
| | **2014 $'000** | 2013 $'000 | **2014 $'000** | 2013 $'000 |
| If the AUD exchange rate was 15% weaker against the NZD with all other variables held constant – increase/(decrease) | **107** | 852 | **(3,613)** | (31,522) |
| If the AUD exchange rate was 15% stronger against the NZD with all other variables held constant – increase/(decrease) | **(79)** | (630) | **2,670** | 23,299 |

* Hedging reserves includes both the cash flow hedge reserve and net investment hedge reserve.

### (b) AUD / USD

Comparing the Australian Dollar exchange rate against the United States Dollar, a 15% weaker Australian Dollar would result in an exchange rate of 0.8006 and a 15% stronger Australian Dollar in an exchange rate of 1.0832 based on the year end rate of 0.9419. This range is considered reasonable given over the last five years, the Australian Dollar exchange rate against the United States Dollar has traded in the range of 0.7783 to 1.1028.

| | IMPACT ON POST-TAX PROFIT | | IMPACT ON EQUITY (CASH FLOW HEDGE RESERVE) | |
|---|---|---|---|---|
| | **2014 $'000** | 2013 $'000 | **2014 $'000** | 2013 $'000 |
| If the AUD exchange rate was 15% weaker against the USD with all other variables held constant – increase/(decrease) | **58** | 1 | **(801)** | (1,249) |
| If the AUD exchange rate was 15% stronger against the USD with all other variables held constant – increase/(decrease) | **–** | (3) | **1,136** | 1,786 |

### (C) CREDIT RISK

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Group to make a financial loss. The Group has exposure to credit risk on all financial assets included in the Group's balance sheet. To help manage this risk, the Group:

- has a policy for establishing credit limits for the entities it deals with;
- may require collateral where appropriate; and
- manages exposures to individual entities it either transacts with or enters into derivative contracts with (through a system of credit limits).

The Group is exposed to credit risk on financial instruments and derivatives. For credit purposes, there is only a credit risk where the contracting entity is liable to pay the Group in the event of a closeout. The Group has policies that limit the amount of credit exposure to any financial institution. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Group's policy requirements. At 29 June 2014 counterparty credit risk was limited to financial institutions with S&P credit ratings ranging from A- to AA-.

The Group's credit risk is mainly concentrated across a number of customers and financial institutions. The Group does not have any significant credit risk exposure to a single or group of customers or individual institutions.

Financial assets are considered impaired where there is objective evidence that the Group will not be able to collect all amounts due according to the original trade and other receivable terms. Factors considered when determining if an impairment exists include ageing and timing of expected receipts and the credit worthiness of counterparties. A provision for doubtful debts is created for the difference between the assets carrying value and the present value of estimated future cash flows. The Group's trading terms do not generally include the requirement for customers to provide collateral as security for financial assets.

Refer to Note 8 for an ageing analysis of trade receivables and the movement in the provision for doubtful debts. All other financial assets are not impaired and are not past due. Based on the credit history of these classes, it is expected that these amounts will be received when due.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

### (D) LIQUIDITY RISK

Liquidity risk is the risk that the Group cannot meet its financial commitments as and when they fall due.

To help reduce this risk the Group:

- has a liquidity policy which targets a minimum level of committed facilities and cash relative to EBITDA;
- has readily accessible funding arrangements in place; and
- staggers maturities of financial instruments.

Refer to Note 19(B) for details of the Group's unused credit facilities at 29 June 2014.

The contractual maturity of the Group's fixed and floating rate derivatives, other financial assets and other financial liabilities are shown in the tables below. The amounts represent the future undiscounted principal and interest cash flows and therefore may not equate to the values disclosed in the balance sheet.

| **As at 29 June 2014** | **(NOMINAL CASH FLOWS)** | | | |
|---|---|---|---|---|
| | **1 YEAR OR LESS $'000** | **1 TO 2 YEARS $'000** | **2 TO 5 YEARS $'000** | **MORE THAN 5 YEARS $'000** |
| **Financial liabilities *** | | | | |
| Payables | **(218,052)** | **–** | **–** | **–** |
| Bank borrowings and loans | **(10,153)** | **(144,842)** | **–** | **–** |
| Notes and bonds | **(126,273)** | **(26,213)** | **(78,886)** | **–** |
| Finance lease liability | **(9,848)** | **(2,533)** | **–** | **–** |
| **Derivatives – inflows *** | | | | |
| Cross currency swaps – foreign leg (fixed) ** | **118,304** | **26,264** | **78,886** | **–** |
| Forward foreign currency contracts | **4,169** | **–** | **–** | **–** |
| **Derivatives – outflows *** | | | | |
| Cross currency swaps – AUD leg (fixed) ** | **(6,149)** | **(6,149)** | **(88,411)** | **–** |
| Cross currency swaps – AUD leg (variable) ** | **(125,043)** | **–** | **–** | **–** |
| Cross currency swaps – NZD leg (variable) ** | **(938)** | **(29,341)** | **–** | **–** |
| Interest rate swaps *** | **(4,706)** | **(126,177)** | **–** | **–** |
| Forward foreign currency contracts | **(4,112)** | **–** | **–** | **–** |

| **As at 30 June 2013** | (NOMINAL CASH FLOWS) | | | |
|---|---|---|---|---|
| | 1 YEAR OR LESS $'000 | 1 TO 2 YEARS $'000 | 2 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 |
| **Financial liabilities *** | | | | |
| Payables | (235,919) | – | – | – |
| Bank borrowings and loans | (9,101) | (133,366) | (516) | – |
| Notes and bonds | (276,057) | (122,009) | (108,390) | – |
| Finance lease liability | (9,453) | (9,848) | (2,533) | – |
| **Derivatives – inflows *** | | | | |
| Cross currency swaps – foreign leg (fixed) ** | 248,714 | 122,009 | 108,443 | – |
| Cross currency swaps – foreign leg (variable) ** | 27,388 | – | – | – |
| Forward foreign currency contracts | 28,203 | – | – | – |
| **Derivatives – outflows *** | | | | |
| Cross currency swaps – AUD leg (fixed) ** | (43,221) | (6,149) | (94,560) | – |
| Cross currency swaps – AUD leg (variable) ** | (58,491) | (125,059) | – | – |
| Cross currency swaps – NZD leg (variable) ** | (224,510) | (892) | (26,742) | – |
| Interest rate swaps *** | (4,275) | (4,275) | (127,138) | – |
| Forward foreign currency contracts | (25,937) | – | – | – |
| Put option | (6,436) | – | – | – |

* For floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last repricing date.

** Contractual amounts to be exchanged representing gross cash flows to be exchanged.

*** Net amount for interest rate swaps for which net cash flows are exchanged.

# NOTES TO THE FINANCIAL STATEMENTS



## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

### (E) FAIR VALUE

The carrying amounts and fair values of financial assets and financial liabilities at reporting date are:

| | CARRYING VALUE 2014 $'000 | FAIR VALUE 2014 $'000 | CARRYING VALUE 2013 $'000 | FAIR VALUE 2013 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **452,687** | **452,687** | 533,531 | 533,531 |
| Receivables | **276,406** | **276,406** | 287,457 | 287,457 |
| Derivative assets | **1,764** | **1,764** | 18,833 | 18,833 |
| Available for sale investments | **2,488** | **2,488** | 1,929 | 1,929 |
| Other financial assets | **6,227** | **6,227** | 10,608 | 10,608 |
| | **739,572** | **739,572** | 852,358 | 852,358 |
| **Financial liabilities** | | | | |
| Payables | **218,052** | **218,052** | 235,919 | 235,919 |
| Interest bearing liabilities: | | | | |
| Bank borrowings | **141,874** | **143,220** | 129,552 | 131,003 |
| Senior notes | **207,359** | **207,386** | 498,208 | 498,848 |
| Finance lease liability | **6,014** | **10,859** | 10,452 | 17,929 |
| Derivative liabilities | **35,235** | **35,235** | 74,917 | 74,917 |
| | **608,534** | **614,752** | 949,048 | 958,616 |

Market values have been used to determine the fair value of listed available for sale investments.

The fair value of the senior notes and lease liabilities have been calculated by discounting the future cash flows by interest rates for liabilities with similar risk profiles. The discount rates applied range from 5.57% to 13.29% (2013: 1.93% to 13.29%).

The carrying value of all other balances approximate their fair value.

The Group uses various methods in estimating fair value. The methods comprise:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value of assets and liabilities held at fair value, as well as the methods used to estimate the fair value, are summarised in the table below:

| **As at 29 June 2014** | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Assets at fair value** | | | | |
| Derivative assets | – | **1,764** | – | **1,764** |
| Available for sale investments | **2,488** | – | – | **2,488** |
| Assets held for sale | | | | |
| Freehold land and buildings | – | – | **29,963** | **29,963** |
| | **2,488** | **1,764** | **29,963** | **34,215** |
| **Liabilities at fair value** | | | | |
| Derivative liabilities | – | **35,235** | – | **35,235** |
| | – | **35,235** | – | **35,235** |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 34. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

| As at 30 June 2013 | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | – | 18,833 | – | 18,833 |
| Available for sale investments | 1,929 | – | – | 1,929 |
| | 1,929 | 18,833 | – | 20,762 |
| **Financial liabilities** | | | | |
| Derivative liabilities | – | 74,917 | – | 74,917 |
| | – | 74,917 | – | 74,917 |

Held for sale freehold land and buildings are carried at the Directors' determination of fair value which takes into account latest independent valuations and evidence of fair value from disposal negotiations. The key assumptions in determining the valuation of the properties are the estimated weighted average yield and costs of dismantling plant and equipment where relevant. Significant movement in these assumptions in isolation would result in a higher or lower fair value of the properties.

## 35. SEGMENT REPORTING

### (A) DESCRIPTION OF SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors, CEO and CFO in assessing performance and in determining the allocation of resources.

During the 2013 financial year, the Printing Operations division was restructured to form part of corporate services. As a result, Printing Operations is no longer a reportable segment and its results have been allocated to the Australian Metro Media, Australian Community Media and the New Zealand Media segments.

In the 2014 financial year, the Group has implemented changes to the structure of the organisation which has resulted in a reclassification within its reportable segments. NSW community and ACT publications have been moved from Australian Metro Media to Australian Community Media.

The Group is organised into five reportable segments based on aggregated operating segments determined by similar product and services provided, economic characteristics and geographical considerations.

The prior year financial information has been restated under the new reportable segments.

On 21 December 2012, the Group disposed of its remaining 51% interest in Trade Me Group Ltd. The Group disposed of the US Agricultural Media business on 14 November 2012. The US Agricultural Media business was part of the Australian Community Media reportable segment. On 6 December 2013, the Group disposed of the Stayz business which was part of the Australian Metro Media segment.

| REPORTABLE SEGMENT | PRODUCTS AND SERVICES |
|---|---|
| Australian Community Media | Newspaper publishing and online for all Australian regional, community and agricultural media. |
| Australian Metro Media | Metropolitan news, sport, lifestyle and business media across various platforms including print, online, tablet and mobile. Also includes classifieds for metropolitan publications and transactional businesses. |
| New Zealand Media | Newspaper, magazine and general publishing and online for all New Zealand media. |
| Radio | Metropolitan radio networks in Australia. |
| Other | Comprises corporate and other entities not included in the segments above. |
| Trade Me (discontinued operations) | Transactional businesses of Trade Me in New Zealand. |

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 35. SEGMENT REPORTING (CONTINUED)

### (B) RESULTS BY OPERATING SEGMENT

The segment information provided to the Board of Directors, CEO and CFO for the reportable segments for the period ended 29 June 2014 and 30 June 2013 is as follows:

| | SEGMENT REVENUE $'000 | INTERSEGMENT REVENUE $'000 | REVENUE FROM EXTERNAL CUSTOMERS $'000 | SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES $'000 | UNDERLYING EBIT $'000 |
|---|---|---|---|---|---|
| **29 June 2014** | | | | | |
| Australian Community Media | **586,569** | **(89)** | **586,480** | **2,266** | **112,714** |
| Australian Metro Media | **804,088** | **(895)** | **803,193** | **3,780** | **63,536** |
| New Zealand Media | **362,672** | **(6)** | **362,666** | **–** | **59,752** |
| Radio | **103,955** | **(130)** | **103,825** | **(3)** | **10,718** |
| Other | **9,602** | **451** | **10,053** | **1,964** | **(27,491)** |
| **Total for the Group** | **1,866,886** | **(669)** | **1,866,217** | **8,007** | **219,229** |

| | SEGMENT REVENUE $'000 | INTERSEGMENT REVENUE $'000 | REVENUE FROM EXTERNAL CUSTOMERS $'000 | SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES $'000 | UNDERLYING EBIT $'000 |
|---|---|---|---|---|---|
| **30 June 2013** | | | | | |
| Australian Community Media | 687,658 | (2,428) | 685,230 | 2,367 | 145,009 |
| Australian Metro Media | 894,001 | (9,548) | 884,453 | (2,527) | 36,891 |
| New Zealand Media | 337,585 | 55 | 337,640 | – | 49,510 |
| Radio | 110,762 | (273) | 110,489 | 55 | 16,052 |
| Other | (3,856) | – | (3,856) | (2,134) | (26,963) |
| **Total for continuing operations** | 2,026,150 | (12,194) | 2,013,956 | (2,239) | 220,499 |
| Trade Me (discontinued operations) | 60,187 | – | 60,187 | – | 41,650 |
| **Total for the Group** | 2,086,337 | (12,194) | 2,074,143 | (2,239) | 262,149 |

### (C) OTHER SEGMENT INFORMATION

#### (i) Segment revenue

Segment revenue reconciles to total revenue and income as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Total segment revenue from external customers for continuing operations | **1,866,217** | 2,013,956 |
| Interest income | **14,874** | 11,604 |
| Gains on sale of controlled entities | **106,477** | 19,830 |
| **Total revenue and income** | **1,987,568** | 2,045,390 |

Transactions between operating segments relating to management charges are on third party terms.

The consolidated entity operates predominantly in two geographic segments, Australia and New Zealand. The amount of its revenue from external customers in Australia is $1,622.7 million (2013: $1,686.1 million) and the amount of revenue from external customers in New Zealand is $364.9 million (2013: $359.3 million). Segment revenues are allocated based on the country in which the customer is located.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 35. SEGMENT REPORTING (CONTINUED)

### (ii) Segment result – EBIT

The Board of Directors, CEO and CFO assess the performance of the operating segments based on a measure of underlying EBIT. This measurement basis excludes the effects of significant items from the operating segments such as restructuring costs and goodwill, masthead or radio licence impairments when the impairment is the result of an isolated, significant event. Gains on the sale of controlled entities have been excluded from the reportable segment results.

Interest income and expenditure are not allocated to segments, as this type of activity is driven by the centralised treasury function, which manages the cash position of the Group.

A reconciliation of underlying EBIT to operating profit/(loss) before income tax is provided as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Underlying EBIT for continuing operations** | **219,229** | 220,499 |
| Interest income | **14,874** | 11,604 |
| Finance costs | **(25,302)** | (66,571) |
| Gains on sale of controlled entities in other revenue and income | **106,477** | 19,830 |
| Impairment of mastheads, goodwill, licences and customer relationships | **–** | (418,655) |
| Impairment of investments, inventories and property, plant and equipment | **(23,890)** | (37,189) |
| Restructuring and redundancy charges | **(24,019)** | (4,458) |
| **Reported net profit/(loss) before tax** | **267,369** | (274,940) |

A summary of significant items by operating segments is provided for the period ended 29 June 2014 and 30 June 2013.

| | IMPAIRMENT OF MASTHEADS, GOODWILL, LICENCES AND CUSTOMER RELATIONSHIPS $'000 | IMPAIRMENT OF INVESTMENTS, INVENTORIES AND PROPERTY, PLANT AND EQUIPMENT $'000 | RESTRUCTURING AND REDUNDANCY CHARGES $'000 | GAIN ON SALE OF CONTROLLED ENTITIES $'000 | TOTAL $'000 |
|---|---|---|---|---|---|
| **29 June 2014** | | | | | |
| Australian Community Media | **–** | **440** | **–** | **–** | **440** |
| Australian Metro Media | **–** | **15,058** | **–** | **–** | **15,058** |
| New Zealand Media | **–** | **5,539** | **5,589** | **–** | **11,128** |
| Other | **–** | **2,853** | **18,430** | **(106,477)** | **(85,194)** |
| **Consolidated entity** | **–** | **23,890** | **24,019** | **(106,477)** | **(58,568)** |
| **30 June 2013** | | | | | |
| Australian Community Media | 406,055 | – | 2,844 | – | 408,899 |
| Australian Metro Media | 5,000 | 36,832 | – | – | 41,832 |
| Radio | 7,600 | – | – | – | 7,600 |
| Other | – | 357 | 1,614 | (19,830) | (17,859) |
| **Consolidated entity** | 418,655 | 37,189 | 4,458 | (19,830) | 440,472 |

### (iii) Segment assets

Information provided to the Board of Directors, CEO and CFO in respect of assets and liabilities is presented on a group basis consistent with the consolidated financial statements.

The total of non-current assets other than financial instruments, deferred tax assets and employment benefit assets (there are no rights arising under insurance contracts) located in Australia is $1,608.4 million (2013: $1,773.0 million) and the total of these non-current assets located in New Zealand is $204.2 million (2013: $227.4 million). Segment assets are allocated to countries based on where the assets are located.

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## 36. PARENT ENTITY INFORMATION

The following disclosures relate to Fairfax Media Limited as an individual entity, being the ultimate parent entity of the Fairfax Media group.

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| **Financial position of parent entity** | | |
| Current assets | **1,492,947** | 1,419,568 |
| Total assets | **1,900,484** | 1,829,633 |
| Current liabilities | **13,395** | 12,912 |
| Total liabilities | **13,395** | 13,438 |
| | | |
| **Total equity of parent entity** | | |
| Contributed equity | **4,646,525** | 4,646,248 |
| General reserve | **(722)** | (722) |
| Acquisition reserve | **(10,672)** | (10,672) |
| Share-based payment reserve | **11,231** | 8,799 |
| Retained losses | **(2,759,273)** | (2,827,458) |
| **Total equity** | **1,887,089** | 1,816,195 |
| | | |
| **Result of parent entity** | | |
| Profit/(loss) for the period | **138,744** | (180,630) |
| Other comprehensive income | **–** | – |
| **Total comprehensive income for the period** | **138,744** | (180,630) |

Fairfax Media Limited has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries within the Closed Group. Further details regarding the deed are set out in Note 27.

### OPERATING LEASE COMMITMENTS – PARENT ENTITY AS LESSEE

In the prior year, Fairfax Media Limited had a commercial lease on office premises.

Future minimum rentals payable under non-cancellable operating leases as at the period end are as follows:

| | 29 JUNE 2014 $'000 | 30 JUNE 2013 $'000 |
|---|---|---|
| Within one year | **–** | 109 |
| Later than one year and not later than five years | **–** | – |
| Later than five years | **–** | – |
| **Total operating lease commitments** | **–** | 109 |

## 37. EVENTS SUBSEQUENT TO REPORTING DATE

The Group completed an agreement to merge RSVP.com.au Pty Limited with 3H Group Pty Ltd on 1 July 2014. Following the merger, the Group will hold a 58% interest in RSVP.com.au Pty Limited. The Group will no longer consolidate this entity as it does not control the financial and operating policies of the entity. The investment will be accounted for using the equity method.

On 10 July, the Group entered into an agreement to acquire All Homes Pty Ltd and All Data Australia Pty Ltd subject to regulatory approval. Total consideration is expected to be $50 million.

On 10 July, the Group repaid US$105 million (A$125 million) of senior notes.

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Fairfax Media Limited, we state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the consolidated entity's financial position as at 29 June 2014 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

   (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1;

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

   (d) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 27 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

2. This declaration has been made after receiving the declarations required to be made to the Directors from the Chief Executive Officer and the Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 29 June 2014.

On behalf of the Board

**Roger Corbett, AO**
Chairman

**Greg Hywood**
Chief Executive Officer and Managing Director

14 August 2014

# INDEPENDENT AUDITOR'S REPORT

EY
Building a better working world

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

## Independent auditor's report to the members Fairfax Media Limited

### Report on the financial report

We have audited the accompanying financial report of Fairfax Media Limited, which comprises the consolidated balance sheet as at 29 June 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included by reference in the directors' report.

# INDEPENDENT AUDITOR'S REPORT

Building a better working world

### *Opinion*

In our opinion:

a. the financial report of Fairfax Media Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 29 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## *Report on the remuneration report*

We have audited the Remuneration Report included in pages 12 to 33 of the directors' report for the year ended 29 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion, the Remuneration Report of Fairfax Media Limited for the year ended 29 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young.

Ernst & Young

Douglas

Douglas Bain
Partner
Sydney
14 August 2014

# FIVE YEAR PERFORMANCE SUMMARY

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES

| | | | | RESTATED* | AS REPORTED | | |
|---|---|---|---|---|---|---|---|
| | | 2014 | 2013 | 2012 | 2012 | 2011 | 2010 |
| **Income Statement** | | | | | | | |
| Total revenue | $m | **1,987.6** | 2,045.4 | 2,224.9 | 2,339.2 | 2,476.5 | 2,490.3 |
| Revenues from operations | $m | **1,856.8** | 2,010.5 | 2,199.9 | 2,310.9 | 2,463.4 | 2,476.8 |
| Earnings/(loss) before depreciation, interest and tax (EBITDA) | $m | **371.3** | (119.2) | (2,644.6) | (2,558.6) | (80.7) | 639.1 |
| Depreciation | $m | **93.5** | 100.8 | 103.5 | 107.5 | 114.4 | 113.6 |
| Earnings/(loss) before interest and tax | $m | **277.8** | (220.0) | (2,748.1) | (2,666.1) | (195.0) | 525.4 |
| Net interest expense | $m | **10.4** | 55.0 | 109.7 | 111.7 | 108.0 | 128.0 |
| Profit/(loss) before tax | $m | **267.4** | (274.9) | (2,857.8) | (2,777.8) | (303.1) | 397.5 |
| Income tax expense/(benefit) | $m | **42.2** | 37.9 | (73.0) | (52.0) | 86.6 | 115.1 |
| Net profit/(loss) attributable to members of the Company | $m | **224.4** | (16.4) | (2,732.4) | (2,732.4) | (390.9) | 282.1 |
| Net profit before significant items | $m | **157.8** | 128.0 | 205.4 | 205.4 | 283.8 | 290.5 |
| **Balance Sheet** | | | | | | | |
| Total equity | $m | **1,990.7** | 1,816.2 | 2,042.7 | 2,042.7 | 4,438.7 | 5,306.7 |
| Total assets | $m | **2,781.5** | 3,016.7 | 4,006.6 | 4,006.6 | 6,700.6 | 7,394.1 |
| Total borrowings | $m | **355.2** | 638.2 | 1,207.4 | 1,207.4 | 1,532.0 | 1,478.5 |
| **Statistical Analysis** | | | | | | | |
| Number of shares and debentures | m | **2,352.0** | 2,352.0 | 2,352.0 | 2,352.0 | 2,352.0 | 2,352.0 |
| Number of shareholders | | **30,071** | 34,805 | 35,174 | 35,174 | 37,974 | 43,231 |
| Number of SPS holders | | **–** | – | – | – | – | 1,516 |
| EBITDA to operating revenue | % | **20.0** | (5.9) | (120.2) | (110.7) | (3.3) | 25.8 |
| EBIT to operating revenue | % | **15.0** | (10.9) | (124.9) | (115.4) | (7.9) | 21.2 |
| Basic earnings/(loss) per share | cents | **9.5** | (0.7) | (116.2) | (116.2) | (17.0) | 11.5 |
| Basic earnings per share before significant items | cents | **6.7** | 5.4 | 8.7 | 8.7 | 11.6 | 11.8 |
| Operating cash flow per share | cents | **7.3** | 7.9 | 11.4 | 11.4 | 18.3 | 19.1 |
| Dividend per share | cents | **4.0** | 2.0 | 3.0 | 3.0 | 3.0 | 2.5 |
| Dividend payout ratio | % | **42.1** | – | – | – | – | 21.7 |
| Interest cover based on EBITDA before significant items | Times | **30.0** | 5.8 | 3.8 | 4.5 | 5.6 | 5.0 |
| Gearing | % | **17.8** | 35.1 | 59.1 | 59.1 | 34.5 | 27.9 |
| Return on equity | % | **7.9** | 7.0 | 10.1 | 10.1 | 6.4 | 5.5 |
| Market price per share | $ | **0.93** | 0.50 | 0.58 | 0.58 | 0.98 | 1.36 |
| Market capitalisation | $m | **2,175.6** | 1,164.2 | 1,364.1 | 1,364.1 | 2,304.9 | 3,198.7 |
| Number of full-time employees | | **6,410** | 7,043 | 8,416 | 8,416 | 8,806 | 8,778 |
| Number of part-time and casual employees | | **1,211** | 1,384 | 1,748 | 1,748 | 1,825 | 1,801 |

* 2012 'Restated' figures reflect adjustments made to the 2012 'As Reported' as a result of applying the discontinued operations standard AASB 5. For further details of discontinued operations, refer to Note 5 of the 2014 financial statements where the standard was applied.

# DIRECTORY

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 29 JUNE 2014

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 10.30am on Thursday, 6 November 2014 at the RACV club, Level 17, 501 Bourke Street, Melbourne.

## FINANCIAL CALENDAR 2015

| | |
|---|---|
| Interim result | February 2015 |
| Preliminary final result | August 2015 |
| Annual General Meeting | November 2015 |

## COMPANY SECRETARY

Gail Hambly

## REGISTERED OFFICE

1 Darling Island Road,
Pyrmont NSW 2009
Ph: +61 2 9282 2833
Fax: +61 2 9282 1633

## SHARE REGISTRY

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Ph: 1300 888 062 (toll free within Australia)
Ph: +61 2 8280 7670
Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

## SECURITIES EXCHANGE LISTING

The Company's ordinary shares are listed on the Australian Securities Exchange as FXJ.

## WEBSITE

Corporate information and the Fairfax annual report can be found via the Company's website at www.fairfaxmedia.com.au. The Company's family of websites can be accessed through this site.

## HOW TO OBTAIN THE FAIRFAX ANNUAL REPORT

A soft copy of the annual report is available at www.fairfaxmedia.com.au. To obtain a hard copy of the report, contact Link Market Services – see contact details under Share Registry.

## CONSOLIDATION OF SHAREHOLDERS

Shareholders who wish to consolidate their separate shareholdings into one account should advise the Share Registry in writing.

## DIRECT PAYMENT TO SHAREHOLDERS' ACCOUNTS

The Company pays dividends by direct credit to shareholders' bank accounts. The Company no longer issues cheques except in exceptional circumstances. A direct credit form can be obtained from the Share Registry. Payments are electronically credited on the dividend date and confirmed by a mailed payment advice. Shareholders are advised to notify the Share Registry (although it is not obligatory) of their tax file number so that dividends can be paid without tax being withheld.

Fairfax Media
Independent. Always.

FAIRFAX MEDIA LIMITED

GPO 506
Sydney NSW 2001

Sydney offices
1 Darling Island Road
Pyrmont NSW 2009

Telephone 02 9282 2833

www.fairfaxmedia.com.au