fairfaxmedia

JOHN FAIRFAX HOLDINGS LIMITED ANNUAL REPORT 2006

BUILDING A DIGITAL MEDIA COMPANY

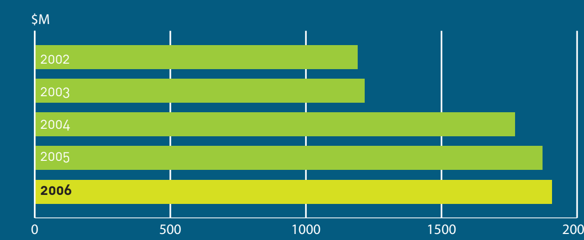
- Diversification of publishing business
- Circulation growth in major mastheads
- Growth of Fairfax Digital
- Acquisition of Trade Me

John Fairfax Holdings Limited ABN 15 008 663 161 www.fxj.com.au

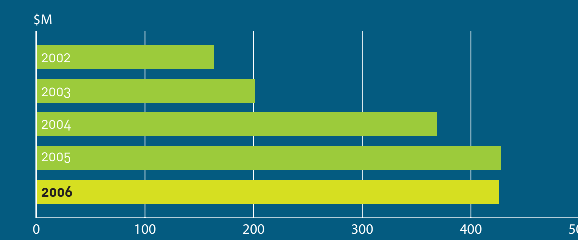
Fairfax is a **diversified media company** reaching **4.5 million people** per day in Australia, NZ and the world.

- Diversification strategy stabilises group earnings
- Strong growth from Australian digital and Trade Me
- Continued growth from New Zealand publishing (in local currency)
- Excellent cost controls
- Strong circulation results

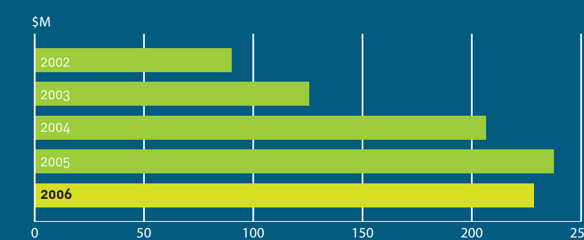
Trading Revenue
Increased 1.8% to $1,907.8 billion



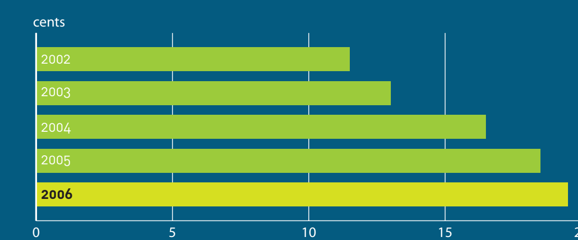
EBIT
Eased 0.4% to $425.5 million



Net Profit after Tax
Decreased 3.8% to $228.5 million



Ordinary Dividends per Share
Increased 5.4% to 19.5 cents per share

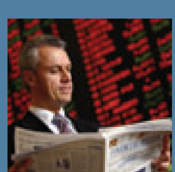


Annual General Meeting: Friday, November 10, 2006 - The Palladium at Crown Level 1, Crown Towers, 8 Whiteman Street, Southbank, Melbourne at 10:30 am.

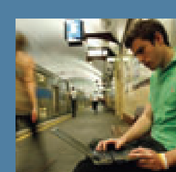
Fairfax Media annual report designed and produced by Text Pacific. Photographs and images by Louie Douvis, Fairfax Business Media

The above graphs exclude the effects of significant items and reflect the underlying trading results of the Company.

Contents:

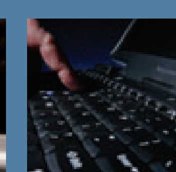
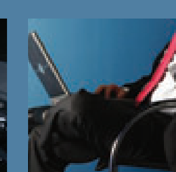
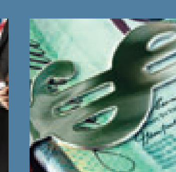











smh.com.au and theage.com.au

Australia's #1 news sites online, with over 3.5 million unique browsers per month

drive.com.au

Contesting the #1 position online with nearly 1 million users per month.

TradeMe

In a nation of 4 million people, 700,000 active users. 675,000 items for sale. Over 65% of domestic page views on the internet in New Zealand are on TradeMe.co.nz

Cuisine Magazine (NZ)

Gold winner in Cannes as Best Media Food Magazine in the world

Good Weekend

With 1.8 million readers every weekend, the most successful weekly magazine in Australia

AFR

268,000 readers every business day, and 180,000 on Saturdays: the most powerful and affluent audience in newspapers in Australia.

The Border Mail

103 years of publication, the community leader in Albury-Wodonga.

Sunday Star Times (NZ)

Over 200,000 sales each Sunday – the biggest selling newspaper in New Zealand.

The Age

Best circulation growth of any metropolitan newspaper in Australia.

Sydney Morning Herald

12 months of circulation growth across all editions weekdays, Saturdays and Sundays

Looking ahead to growth

Chairman Ronald Walker shares his view on the dynamic approach Fairfax Media has taken to the market.

I am pleased to report to you, our shareholders, that Fairfax Media is a stronger, more dynamic and more modern media company than at any time in its history, and that we have an extremely bright future as a leading and growing media company.

We are a different company today, embracing the technological drivers of the 21st century and harnessing them to the quality, independent journalism for which we are known and respected worldwide.

Fairfax Media is evolving into a truly digital media company, with our content available in print and online, on mobile devices and, given the contours of future development of our industry, Fairfax Media will lead the way on other information, entertainment, and commercial platforms.

This has been a year of challenge and achievement. Notwithstanding difficult economic conditions in the principal geographies where we operate, we have still been able to deliver to our shareholders the highest dividend in the history of this company.

Over the past year, your Board, together with our excellent and capable management, led by our CEO, David Kirk, has engaged in a concerted strategy of strategic expansion in new and traditional media. David's first year with us has been one of strong success.

Trade Me, founded and developed by an exceptional entrepreneur, Sam Morgan, is an outstanding acquisition. Trade Me has a position in the market that is unreplicated in any other country, and it will be a generator of significant revenues and profits in the years ahead.

We purchased The Border Mail, one of the most successful and distinguished regional newspapers in the country.

We are moving forward aggressively with our Fairfax Digital businesses in new areas of opportunity.

Fairfax Media will continue to expand its information, commercial and entertainment services.

Our publications across Australia and New Zealand are stronger than ever, and are authoritative, lively and more entertaining publications that are closely connected with the communities they serve.

Our Board is totally focused on shareholder wealth and return on investment. The Fairfax Media Board is working as one, cognisant always of our strategic direction and the role Fairfax Media will play in the future.

With shareholder value paramount, the Board is especially pleased to have declared a final dividend of 11.5 cents per share, fully franked, bringing the total dividends for the year to 19.5 cents, fully franked. This is an increase of 5% over the ordinary dividends paid last year, and represents a payout ratio of 80%, notwithstanding the cyclical downturn in trading conditions that the company experienced.

I am proud to say that Fairfax Media's future is extremely bright, given the unlimited horizons of the digital world of the 21st century.

Last year, I pledged that, during my watch as Chairman, I was committed to enhancing Fairfax's leading position in the industry by building on our achievements over the past several years in which we strengthened our business in Australia and extended it to New Zealand. I said that we want to pursue options for future growth consistent with our commitment to shareholder value.

Over this past year, we have taken important steps along that road.

In this challenging world of information and entertainment services, we face a very exciting future with confidence.

I look forward to seeing you and speaking with you at the Annual General Meeting.

Reading between the lines

The past year has seen significant change within Fairfax Media, new CEO David Kirk talks strategy and answers your questions – where to from here?

Q. Based on this past year, what is the road ahead?

We have performed well in a challenging environment. What is clear is that Fairfax Media is being successfully reshaped for stronger earnings growth in the medium term. Our aim is steady growth in publishing and rapid growth in our internet businesses.

Growth in publishing will be achieved by continued diversification into regional, business and magazine publishing; further alignment of the cost base; and strong circulation and readership that help drive advertising revenues.

We made excellent progress against these objectives over the past year.

In Publishing:

- We have definitely led the news in print and online in Melbourne and Sydney, and often nationally in both Australia and New Zealand.
- We acquired The Border Mail, The Rodney Times, The Independent Financial Review, and launched Travel + Leisure and AFR Smart Investor.
- Growth in publishing costs was firmly under control.
- We had significant circulation and readership gains in all our major mastheads.

And in Digital:

- The rapid growth of our internet businesses is changing the overall growth and earnings profile of the company.
- We have leading positions in news and information, in online personals and holiday accommodation, cars, and we are a strong second in employment and real estate.
- Trade Me is already showing itself to be an excellent acquisition for the company. Trade Me Jobs was just launched and it is already beating our expectations.

> "our values… are the key to the success of our enterprise: integrity, independence, honesty, and commitment to quality journalism." David Kirk

Q. What are Fairfax Media's key strengths?

There are several. First our values, and what we stand for in terms of our role of promoting a free and independent press in a democratic society. Second, our heritage, which has built reservoirs of enormous trust over 175 years. Third, our mastheads and brands, which are renowned for journalism that stands for accuracy, excellence, quality, and integrity. Fourth, our online position, which is one of the strongest of any publishing group in the world. We have digital newsrooms that enable us to leverage our superb journalism over multiple distribution channels.

Fairfax Media also has very strong cash flows, which allows us to pay high dividends and reinvest for growth.

Q. What do you worry about?

Let me tell you first what I don't worry about. I don't lose sleep over the current economic cycles in NSW or New Zealand where the conditions are currently soft. I have faith in the long term growth prospects of both economies. I don't worry about Trade Me and the price we paid for it and how it is performing. It's doing great.

What concerns me most is how we adapt the business – how we move quickly enough – to understand the evolution of our customers' needs, and then adapting our publications and products to those needs.

I also want to be as effective as I can in communicating with the whole organisation, and providing a clear path for us all to move forward together.

Expansion for Fairfax Media NZ

Highlights for Fairfax Media in New Zealand have been two acquisitions, the Rodney Times community newspaper group and the Independent, both previously owned by independent publishers.

The Warkworth-based Rodney group is strategically situated in the New Zealand media scene, based in a burgeoning growth area just north of Auckland. It was owned for three generations by the Cook family.

The Independent was a privately-owned weekly business newspaper and since acquisition has been renamed the Independent Financial Review.

Its acquisition demonstrates Fairfax Media's commitment to, and competency in, quality business journalism. The newspaper has been relaunched and now includes content sourced from the Australian Financial Review. It operates alongside the Fairfax Media BusinessDay daily newspaper publications in New Zealand, and utilises synergies which draw on the best of Australasian business journalism.

Q. And what about the year ahead?

I have consistently stated that the first two objectives of our strategy are to defend and grow our newspaper businesses, and to build the leading portfolio of internet businesses.

There is also a third major objective: developing Fairfax into a genuinely integrated digital media company. How we diversify and build the business is one part of it.

But we are also now referring to ourselves as Fairfax Media.

Fairfax Media is a better name that better reflects not only what we do, but how we conceive of our company and our mission in the 21st century.

Q. Has Fairfax Media been what you expected so far?

There have been no major surprises. I have followed the company for years, and long admired what it stands for and the role it plays in democratic society in Australia and New Zealand. I have had to learn a lot – about the media, the markets, and the guts of the operating businesses, but there have been no major surprises. We have an excellent management team, and we work well together. The Board has been fully supportive, and is focused on the prime longterm issues of growth and shareholder returns.

Q. Why will Fairfax Media be successful?

We will be successful, first, because we have a clear strategy; second, because we have the will and capability to execute it; and third, because we are aligned and committed as an organisation to succeed. We know we have to adapt ourselves to consumer and technological changes, but also that the fundamentals of good journalism and editing, and the integrity that stands behind them, are timeless. We understand that the liveliness and the connectedness of our newspapers with the communities we serve is critical.

Q. Where will the Fairfax Media be in five years?

I'm often asked that question. I believe newspapers will be with us for decades to come. Five years from now, Fairfax will still be a very successful newspaper company, with strong brands and mastheads. It will also be a significantly bigger internet company. We will be distributing our content over more media.

But our values will be unchanged, and they are the key to the success of our enterprise integrity, independence, honesty, and commitment to quality journalism.

As a company, we will be more innovative and risk-taking, and more collaborative.

We will think of ourselves more as a digital media company. I believe we will have more scale, and be more diversified.

So, when people ask if I am optimistic about Fairfax Media's future, I certainly am, and you can see why.

Fairfax Business Media Launches AFR Access

In June this year The Australian Financial Review launched AFR Access (www.afraccess.com) – a new digital toolkit for the retail investor.

"AFR Access is unique. The first of its kind in the world, AFR Access combines a range of renowned information and data sources with unprecedented search technology and portfolio management tools to deliver an incredibly powerful resource for investors across equities, commodities, property and managed funds," says Fairfax Business Media's Publisher, Michael Gill.

The product is the result of over 18 months of development and extensive research by Fairfax Business Media on how it could truly harness the potential of digital technology and deliver an innovative new resource for investors.

AFR Access is a research application rather than a website and has been designed to serve a different purpose to The Australian Financial Review. Our web-based product will complement the strengths and reputation of the newspaper, while offering readers new flexible options of tailoring and interacting with the digital content.

With access to over 20 different sources, including the The Australian Financial Review, Australian Stock Exchange, The Wall Street Journal®, Reuters, IBISWorld, Aspect Huntley, Morningstar and more, AFR Access allows the investor to easily receive the information they want in the one place.

↑ Board of Directors

Mr Ronald Walker AC CBE

Non-Executive Chairman
[Joined the Board 4 February 2003]

Mr Walker has been a prominent businessman in Australia for more than 30 years and was Lord Mayor of Melbourne from 1974 to 1976, having served two terms. He was founder and chairman of one of Australia's largest private chemical companies between 1963 and 1976, was co-founder, director and major shareholder of Hudson Conway Limited, and co-founder and major shareholder of Crown Casino Limited. Mr Walker is an alternate Director of Scarborough Minerals plc. He is Chairman of the Australian Grand Prix Corporation, a Director of the Football Federation Australia Limited, and is a Member of the Formula One Commission in the UK. Mr Walker was Chairman of the Melbourne 2006 Commonwealth Games. He is Chairman of the Microsurgery Foundation and Chairman of the Australian Tissue Engineering Centre.

Mr Mark Burrows

Non-Executive Deputy Chairman
[Joined the Board 22 January 1996]

Mr Burrows is an investment banker, a Managing Director of Lazard LLC and Chairman of Lazard Australia, Deputy Chairman of Brambles Industries Limited, a Director of Burns Philp & Company Limited and Carter Holt Harvey Limited (NZ). Mr Burrows chaired the Companies and Securities Advisory Committee from 1989 to 1994 and was one of the principal participants in the creation of the Australian Securities Commission (now ASIC).

Mr Roger Corbett AM

Non-Executive Director
[Joined the Board 4 February 2003]

Mr Corbett 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. Mr Corbett was appointed Chief Executive Officer of Woolworths Limited in 1999. He is a Member of the Board of the Reserve Bank of Australia.

Mr David Evans

Non-Executive Director
[Joined the Board 22 June 2005]

Mr Evans has over three decades of experience in the television industry in Australia, the US and the UK. He was

Caption from left to right:
Mr Peter Young, Mr David Evans, Mr David Kirk, Mrs Julia King, Mr Ronald Walker, Mr Mark Burrows, Mr Roger Corbett.

recently appointed to the senior executive team at RHI Entertainment, in charge of New Media and Channel Development. Prior to taking up his position at RHI Entertainment, he was President and CEO of Crown Media Holdings, Inc, the owner of Hallmark Channels in the USA. Mr Evans has also served as President and CEO of Tele-Communications International, Inc. and as Executive Vice President of News Corporation, responsible for establishing its DTH service in Latin America. In the 1990s, Mr Evans was President and Chief Operating Officer of Fox Television after working for British Sky Broadcasting. In the 1980s, Mr Evans served seven years as the Chief Executive Officer of GTV Channel Nine in Melbourne.

Mrs Julia King

Non-Executive Director
[Joined the Board 17 July 1995]

Mrs King has had more than 30 years' experience in media marketing and advertising. She was Chief Executive of the LVMH fashion group in Oceania and developed the businesses in this area. Prior to joining LVMH she was the Managing Director of Lintas Advertising. She has been on the Australian Government's Task Force for the restructure of the Wool Industry, the Council of the National Library and the Heide Museum of Modern Art. Mrs King is a director of Servcorp Australian Holdings Pty Limited, Opera Australia, Carla Zampatti Limited and is the Executive Chairman of Retail Cube Limited.

Mr David Kirk

Executive Director and
Chief Executive Officer
[Joined the Board 18 November 2005]

Mr Kirk commenced as CEO of John Fairfax Holdings Limited in October 2005. Prior to joining Fairfax, Mr Kirk was the CEO and Managing Director of PMP Limited, the largest magazine and commercial printing and media services company in Australia. Before this, he was Regional President, Australasia for Norske Skog, the world's largest manufacturer of newsprint and magazine grades of paper. Mr Kirk previously worked for Fletcher Challenge Paper and Fletcher Challenge Energy in senior executive roles in New Zealand and Australia.

Prior to joining Fletcher Challenge, Mr Kirk worked for three years as first Executive Assistant and then Chief Policy Advisor to the Rt. Hon. Jim Bolger, Prime Minister of New Zealand. Apart from the business arena, he represented New Zealand in rugby union from 1983-1987 and captained the All Blacks in 1986 and 1987. In 1987, under his leadership the All Blacks won the inaugural Rugby World Cup. In 1987 he was awarded an MBE for services to rugby. In 1987 he took up a Rhodes Scholarship at Oxford University, studying Philosophy, Politics and Economics. His first degree was in Medicine.

Mr Peter Young

Non-Executive Director
[Joined the Board 16 September 2005]

Mr Young has until recently served as Chairman of Investment Banking for ABN AMRO in Australia and New Zealand. 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. He is the Chair of EFIC, the Federal Government's Export Agency, and is Chairman of Delta Electricity. He is involved in several other community, environmental and artistic activities.

↑ Fairfax Operations

Fairfax NSW

Across the board newspaper circulation gains

SMH celebrates 175 years, and the Illawarra Mercury marks its 150th

Strong growth in regional newspapers

Upgrade at Beresfield printing plant.

Key Information

- The major metropolitan mastheads, The Sydney Morning Herald and The Sun-Herald; regional newspapers The Herald in Newcastle and the Illawarra Mercury in Wollongong
- 22 community titles
- Fairfax General Magazine titles including GoodWeekend, SundayLife, the(sydneymagazine)

Fairfax VIC

Revitalised editorial that sets the agenda

Best circulation and readership performance in Victoria

Outstanding financial result for the community newspapers.

Key Information

- The major metropolitan mastheads The Age and The Sunday Age; regional newspapers The Border Mail in Albury-Wodonga and the Warrnambool Standard;
- 36 community titles
- Fairfax General Magazine titles including GoodWeekend, SundayLife, and theage(melbourne)magazine

Fairfax Business Media

Circulation gains for the AFR

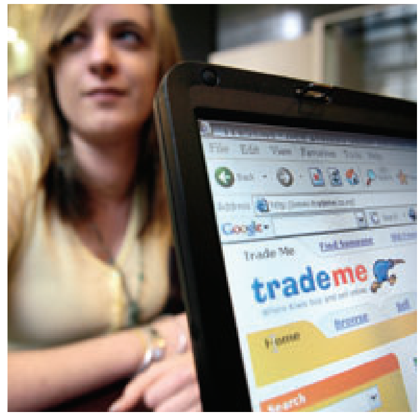
Profit growth through editorial innovation

AFR Smart Investor relaunched with circulation growth

AFR Access launched.

Key Information

- Publishes the pre-eminent business and finance titles in Australia, including The Australian Financial Review, BRW, CFO, MIS, BOSS, AFR Smart Investor, inserted magazines AFR Magazine and AFR Sophisticated Traveller, and afr.com and the new premium afr.access investment tool. Fairfax Business Media readers are the most elite and influential in the country.



Fairfax Digital

Revenue up 76%, and EBIT up 360%

Implementation of digital newsrooms

News and information sites, RSVP and Stayz all #1 in their categories.

Key Information

- Fairfax Digital is Australia's leading provider of online news and classifieds. Comprising around 30 interactive sites which reach over 3.5 million visitors each month, Fairfax Digital provides incisive and constantly updated information on news, finance, business, IT, sport and entertainment – and features the online presence of some of Australia's most prominent media brands such as smh.com.au and theage.com.au.

Fairfax Media (NZ)

Acquisition of Rodney Times and The Independent

Sunday Star-Times largest selling newspaper in NZ

Revenue and profit growth in difficult environment.

Key Information

- New Zealand's largest media company.
- These assets include nine daily newspapers including The Dominion Post and The Press; two national Sunday papers, The Sunday Star-Times and the Sunday News; a stable of magazines, including Cuisine and NZ House and Garden, with particular strength in the lifestyle category; and a news and classifieds internet operation, stuff.co.nz.
- Fairfax New Zealand Ltd also publishes over 60 community newspapers throughout the country.

Trademe.co.nz

65% of all internet traffic in NZ traverses Trademe.co.nz

1.3 million members – a third of the NZ population

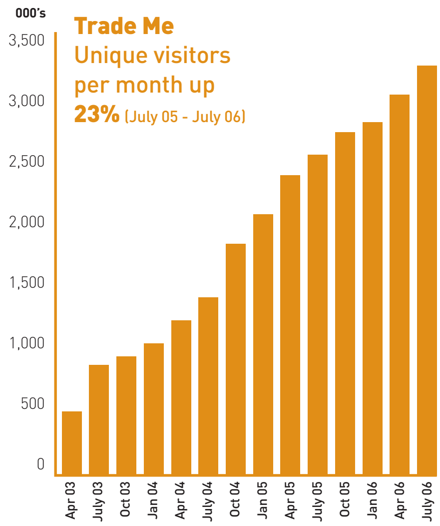
#1 web business in New Zealand.

Key Information

- Trade Me Jobs launched in August 2006
- The Trade Me auctions and advertising site in New Zealand is expected to host over 35 million auctions this year.
- Trade Me has the leading motors and property classified sites, as well as sites for dating, community and rental accommodation.

Trade Me Jobs Goes Live

Trade Me Jobs launched on 8 August 2006 right on target as had been promised when Fairfax Media acquired the online marketplace earlier in the year.



Trade Me Jobs gives employers and recruiters the ability to list their jobs on New Zealand's most visited website. Trade Me's strategy is to reach more people at a fraction of the price of the other online employment services.

The Wellington based team used their skill in website design to create an easy to use site, meeting the needs of the New Zealand market. They then integrated it with the proven Trade Me platform that over 1.3 million Kiwis already belong to.

Recruiters and job seekers have been quick to arrive. In its first week, Trade Me Jobs received more unique visitors than any other New Zealand jobs site.

This success draws on Trade Me's tremendous share of the Kiwi internet market – Trade Me serves over 65% of all domestic pages viewed in New Zealand.

Feedback from the recruitment industry was immediate and overwhelmingly supportive. On day one, Trade Me Jobs already had supply agreements in place with over 40 of the country's leading recruitment firms as well as several leading corporates. Employers have also been quick to list on Trade Me Jobs directly.

Trade Me expects to grow the online job market in two ways – removing price barriers for casual advertisers and bringing passive job seekers to the site.

Lower casual pricing – around a third of the price of the market leaders – is making online advertising affordable for smaller businesses. There is no charge for jobseekers.

Importantly, with more traffic than any other New Zealand website, Trade Me Jobs can connect employers and recruiters with people who aren't actively looking. In a labour market where unemployment is at near record lows, this creates significant opportunities for employers.

This is the third specialist website Trade Me has launched in the past three years – the other two (Motors and Property) – both lead their respective markets.

Trade Me Jobs has steep growth targets, but soon showed its potency, passing 5000 listings within its first three weeks of operation. This is in accord with the remarkable success of Trade Me Motors and Trade Me Property.

In its first 12 months Trade Me Property grew from 1,000 to 25,000 listings and is now consistently the most visited real estate website in New Zealand.

Trade Me Motors, launched in 2004, has more automotive listings than any other New Zealand website, and around 90% of all New Zealand's automotive web traffic.

Building on Over 100 Years of Success

With the acquisition of the Border Mail we have further enhanced our position as the publisher of the most successful and respected media outlets in Australia and New Zealand.

In July, Fairfax Media completed its acquisition of The Border Morning Mail Limited, publisher of leading regional newspaper The Border Mail, by acquiring 100% of the shares of the company, for a net consideration of $155 million.

David Kirk, CEO of Fairfax Media, said:

"Our acquisition of The Border Morning Mail Limited represents further strategic growth for Fairfax Media's regional publishing businesses in Australia. We welcome its staff into our company, and we will work together to continue The Border Mail's vigorous local news reporting and participation in, and commitment to, the greater Albury-Wodonga region and its citizens."

Don Churchill, Managing Director, Victoria, who will have responsibility for The Border Mail, said:

"The Border Mail is a great paper with a proud 103-year history of serving its communities. The business is well managed, has a great team of people and an excellent reputation for independent reporting.

"The Border Mail publishes six days a week with a circulation of 26,500 copies and is distributed throughout a 130 kilometre radius of Albury-Wodonga.

"As one of the most highly awarded regional papers in Australia, it is respected for its contribution to the financial well-being and growth of the greater Albury-Wodonga region.

"This acquisition will significantly strengthen Fairfax Media's regional publishing presence in Victoria. It is part of our growth strategy which has seen acquisitions such as Text Media and the growth of our 36 community papers in Victoria, which now command a weekly readership in excess of 2 million.

"This is a vote of confidence in the future of print and newspapers' unique ability to connect with their communities and is consistent with our strategic plans for ongoing readership and revenue growth."

In a separate transaction, Fairfax Media also acquired 100% of the shares in two Melbourne based companies, The Independent News Pty Limited and its associate Melbourne Community Newspapers Pty Limited, for a total consideration of $15.1 million

Together, these two companies own 5 free weekly community publications with a combined weekly circulation of around 190,000 plus tourism publications and an additional 24.5% equity stake in Border Mail Printing Pty Ltd (BMP) which, together with the 51% share in BMP previously held by BMM, lifts the Fairfax Media stake in BMP to 75.5%.

David Kirk (centre) with Cameron Thompson, Tony Whiting and Robert Mott of The Border Mail.

Fairfax Business Media Now the #1 IT Publisher in Asia-Pacific

Fairfax Business Media (FBM) recently concluded an extensive IT publishing relationship in the Asia Pacific with International Data Group, the world's largest technology media company.

With this transaction, Fairfax becomes the #1 IT publisher in the Pacific and South East Asian region.

The relationship involves Fairfax licensing IDG's global IT content and mastheads for the Singapore, Malaysia and New Zealand markets and acquiring IDG's publishing assets in those markets. In the UK Fairfax sold IDG its UK publishing assets including MIS UK and the Market Base database.

"With this transaction and through our ongoing relationship with IDG, Fairfax Media will continue to develop the world class information service regional CIO's and IT professionals already receive from the two companies," said Michael Gill, publisher and editor in chief, FBM.

"Likewise in New Zealand, Fairfax Media will publish Computerworld, CIO, PC World and NZ Reseller, giving it the most comprehensive suite of products in the local market. We will continue to invest in the dedicated focus on New Zealand's IT sector which IDG has developed over more than two decades."

Fairfax Media moves to One Darling Island Pyrmont and will sell its Melbourne HQ

Fairfax Media will relocate its Sydney headquarters to a new building at One Darling Island, Pyrmont. Fairfax will also sell its property at Spencer Street, Melbourne and is assessing alternative premises for The Age and its operations.

Ronald Walker, Chairman of Fairfax Media, said, "One Darling Island is a new high-tech building for the new diversified Fairfax of the 21st century. We want our staff to have a first class facility in which we can work together as Australasia's leading media company. Similarly, there are also exciting developments ahead for The Age and our headquarters in Melbourne."

Fairfax Digital Wins Website of the Year at PANPA

Fairfax Digital beat a field of online contenders to win website of the year, based on the success of its "FIFA World Cup Germany 2006" site section, a stand-alone extension of news websites smh.com.au and theage.com.au which ran during the World Cup period.

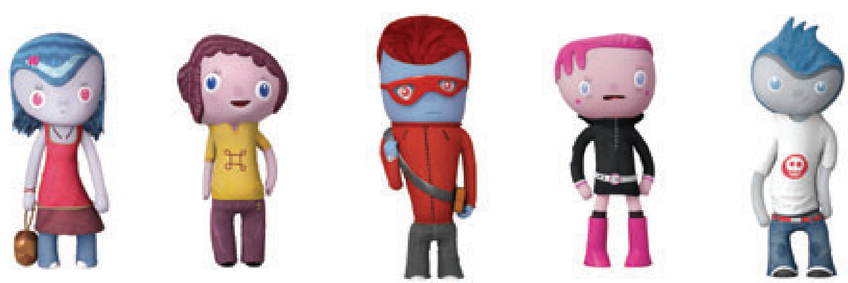
The site incorporated a broad range of compelling and engaging content such as instant match results, interactive charts, expert commentary direct from Germany, photo galleries, a dedicated blog and an interactive citizen journalism page for fans to post comments, video and photographs of their World Cup experiences.

It exceeded all set targets and expectations to deliver a total of over 19 million page impressions, 695,000 unique browsers a week and 690,000 video streams. The sections that proved most popular with users were the Aussie Updates with a total of 8.4 million page impressions and the photo galleries with 4.2 million page impressions.

PANPA judges praised the FIFA World Cup Germany 2006 site section's technical efficiencies, including ease of use and application speed. They further commended the creativity surrounding the site's Citizen Journalism section.

"All Kinds Of Interesting Creatures Read The Sydney Morning Herald"

A new campaign has been launched informing advertisers and media agencies that there's more to the readers of The Sydney Morning Herald than they might have once thought.



The Creatures campaign showcases the interesting lifestyles and opinions that best define those people who read The Sydney Morning Herald.

The campaign features the lives of six 'interesting creatures' – Noteboom, Wilhelmina, Mifamwe, Finbaar, Persephone and Barnaby – all of whom have very different lifestyles and opinions, yet read The Sydney Morning Herald because of the daily inspiration it feeds them.

The campaign is aimed to engage its target audience of key media agencies and staff, with the thematic line:

"All Kinds Of Interesting Creatures Read The Sydney Morning Herald."

Work on the campaign began in late 2005 when readership figures confirmed that the audience of The Sydney Morning Herald, which had predominantly been categorised as an AB publication, spanned wider than this core. It was felt that Sydney Morning Herald readers were more completely defined by their opinions and attitudes as well as the traditional demographic measure. They read The Sydney Morning Herald because they enjoy the varied and intelligent content across its sections and magazines.

The Creatures have a lively home in cyberspace **www.interestingcreatures.com.au**, complete with profiles, their interests and passions, networking and blogs.

Connecting People

RSVP is Australia's most popular dating site.

Launched on St. Valentine's Day 1997, RSVP provides a fun, modern, safe and personal way for singles to meet.

RSVP is committed to helping individuals meet others for friendship and as potential compatible partners, and is proud of the part it has played in many stories of romance. To date, the site has resulted in 943 weddings and 157 babies… and that's just the ones we know of!

RSVP currently has 855,000 member profiles on the site. The site is attracting an average of 950 new members every day. RSVP receives over 100 million page impressions a month, with 30 million RSVP profile pages accessed monthly.

RSVP will celebrate its 10th anniversary on Valentine's Day next year.

RSVP will celebrate its 10th anniversary on Valentine's Day next year.

Mercury Named Paper of the Year

The Illawarra Mercury has been crowned the 2006 PANPA Newspaper of the Year

It is the first time the Mercury has won the award, which attracts entries from newspapers in Australia, New Zealand and Asia.

A stunning achievement for the Mercury, the paper also won two marketing awards: for best branding campaign (its 150th anniversary campaign), and best classified advertising (for its Babies of 2005 publication).

The Mercury also was highly commended in the best circulation strategy category.

Editor Simon Dulhunty said it was a special moment in the history of the Illawarra Mercury as the newspaper celebrated its 150th anniversary.

"It takes a superior newspaper to win the Newspaper Of The Year award – a newspaper that is big, bold and brave, but one that also listens to, and is in touch with, its community.

"The people of the Illawarra are fortunate to have an outstanding newspaper that is produced by highly skilled and dedicated staff at our Wollongong and Shellharbour offices."

The 24 hour newsdesk

smh.com.au and theage.com.au have charged ahead in the past 12 months, cementing the position of the Fairfax Digital team as online leaders in their field.

Fairfax Digital's news and information sites have been at the front of the pack, both in terms of new and engaging content delivery methods and breaking news throughout the day.

This is the integrated news desk in action, combining the work of print and online reporters to ensure that Fairfax's online and print offerings contain relevant and timely information that suits their news consumption habits.

The recent Melbourne 2006 Commonwealth Games and FIFA World Cup Germany 2006 saw the smh.com.au and theage.com.au video production teams cement themselves as key providers of video content to Australians.

Video is just one step being taken in the online evolution of Fairfax. Blogs are now a strong part of both smh.com.au and theage.com.au, as are reader-submitted photographs. Our audience is increasingly helping create the information they are consuming.

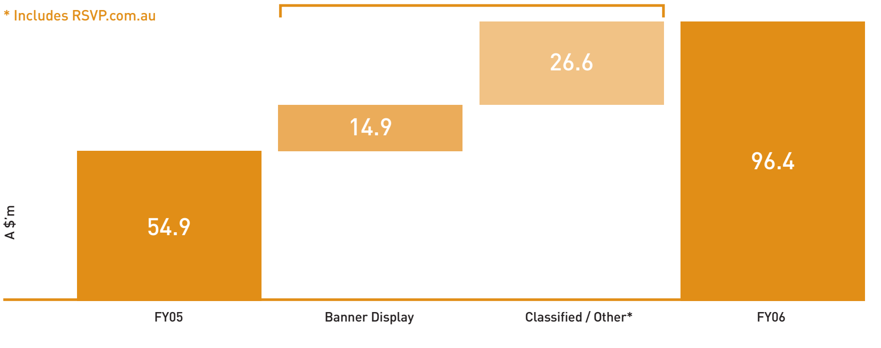
Fairfax Digital enjoys huge traffic performance. Over 19 million page impressions were recorded on our World Cup site section during the month-long sporting event. Commonwealth Games traffic was also impressive, with smh.com.au and theage.com.au doubling forecast unique user figures over the Games period, reaching almost 700,000 individuals.

On the day the Beaconsfield miners walked free, page impressions were up 47 and 35 percent on theage.com.au and smh.com.au respectively, compared to an average weekday.

Fairfax Digital now has content distribution agreements with the four major mobile carriers – 3, Telstra, Optus and Vodafone. Pushing further into mobile, a director of mobile services has been appointed to lead our content delivery development, using experience gained in early adopting countries like Singapore to keep Fairfax Digital in front of the pack.

Advertisers are responding well to our ongoing innovations, with companies from areas such as health, beauty, pharmaceuticals and alcoholic beverages joining the stable of organisations reaching their audience online through Fairfax Digital.

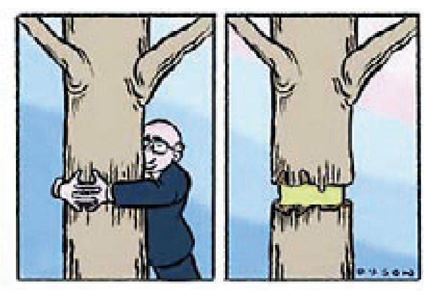
Digital Revenue FY06 vs FY05
Twelve months ended 30 June 2006



↑ Awards: a snapshot

Cream of the Crop

Fairfax Media, journalists, photographers, illustrators, online editors, and sales and advertising teams are recognised for excellence by their peers in Australia, New Zealand and internationally. Some of Fairfax Media's leading award winners in 2006 are listed below.



Walkley Awards

- **Hamish McDonald**, The Sydney Morning Herald
  Best Newspaper Feature Writing
- **Andrew Dyson**, The Age
  Best Cartoon
- **Joe Armao**, The Age
  Best Sports Photograph
- **Amanda Hooton**, Good Weekend
  Best Coverage of Sport
- **Sahlan Hayes**,
  Sydney Morning Herald
  Nikon Walkley Photographic Portrait Award for 2005

Media Federation Awards 2005

- **The Good Weekend**,
  Best Media Owner Proposal

Caxton Awards 2005

- **The Good Weekend**,
  Most Innovative Use of Newspaper Magazines

Melbourne Press Club Quill Awards

- **Christian Catalano**, The Age
  Young Journalist of the Year
- **Dan Silkstone and Royce Millar**,
  The Age RACV Transport Quill
- **Sushi Das**, The Age
  Best Columnist
- **Sandy Scheltema**, The Age
  Best Features Photograph
- **Mark Baker**, The Age
  Best Headlines
- **Bill Farr**, The Age
  Best Page Layout
- **Ron Tandberg**, The Age
  Best Illustration
- **The Age Online**
  Best Online Report
- **Andra Jackson**, The Age
  Best News Report in Print
- **Gary Tippet**, The Age
  Best Feature in Print

Media Connect Award for Best Communications Journalist 2006

- **David Crowe**, The Australian Financial Review

United Nations Media Peace Awards

- **Jason South**, The Age
  Best Photojournalist
- **Karen Kissane**, The Age
  Best Print Award
- **The Sunday Age**,
  Promoting Multicultural Issues, Australian Society of Travel Writers Award
- **Lisa Allen**, The Australian Financial Review

Trade Industry Award 2005

- **Lisa Allen**, The Australian Financial Review

European Union Qantas Journalism Award

- **Tony Boyd**, The Australian Financial Review

Women's Electoral Lobby Award

- **Catherine Fox**, The Australian Financial Review

MediaConnect IT Journalism Awards 2006

- **Emma Connors**, The Australian Financial Review
  Best Feature Writer Award
- **Helen Dancer**
  Best Consumer Technology Journalist

National Press Club of Australia 2006

- **Jill Margo**
  Health Journalist of the Year, and Best Documentary Series in Health
- **Adele Ferguson**, Business Review Weekly, Quill Award for best business story in any medium

Sun Microsystems IT Journalism Awards 2006

- **MIS Australia**, Best Production Team

2005 WebAwards

- **smh.com.au,** Fairfax Digital
  Outstanding Achievement in Website Development (Standard of Excellence)

PANPA

- **smh.com.au**
  website of the year
- **Illawarra Mercury**
  Newspaper of the Year (15,000–50,000 circulation)

FAIRFAX MEDIA NEW ZEALAND

Qantas Print Media Awards

- **THE PRESS**
  Best NZ Newspaper, Best Daily Newspaper over 25,000, Best Newspaper Investigation
- **SUNDAY STAR-TIMES**
  Best Weekly Newspaper
- **Steve Braunias**, Sunday Star-Times
  Qantas Fellow to Wolfsan College, Cambridge
- **Tim Hume**, Sunday Star-Times
  Junior and Senior Newspaper Feature Writer of the Year
- **Tony Wall**, Sunday Star-Times
  Best Reporter

NZ Magazine Publishers Awards

- **Rebecca Hayter**, NZ Boating
  Supreme Award for Editor of the Year

People's Choice NetGuide Web Awards

- **TRADE ME**
  Best Trading Site, Best Online Shopping Site, Site of the Year
- **STUFF**
  Best Media Site

↑ Roster of Publications

Australian Publications

FAIRFAX METROPOLITAN, REGIONAL AND COMMUNITY NEWSPAPERS

Metropolitan Newspapers

- The Sydney Morning Herald
- The Sun-Herald
- The Age
- The Sunday Age

Fairfax Regional Newspapers – New South Wales

- The Newcastle Herald
- Illawarra Mercury
- Hunter Post
- Newcastle/Lake Macquarie Post
- Central Coast Sun Weekly
- Port Stephens Examiner
- Port Stephens Pink Pages
- Maitland Pink Pages
- Wollongong Advertiser
- Shellharbour Advertiser

Fairfax Regional Newspapers – Victoria

- The Border Mail
- The Warrnambool Standard

Fairfax Community Newspapers – New South Wales

- The St George & Sutherland Shire Leader
- Cooks River Valley Times
- Camden Advertiser
- Wollondilly Advertiser
- Fairfield City Champion
- Liverpool City Champion
- Bankstown-Canterbury Torch
- Blacktown City Sun
- Parramatta Sun
- Penrith City Star
- St Mary's Mt Druitt Star
- Hills News
- Northern News
- Northern Beaches Weekender
- South Western Rural Advertiser
- Auburn Review Pictorial
- Western Rural Weekly (Bringelly)
- Homes Pictorial
- Property Focus
- Property Showcase
- Central Coast Homes Pictorial

Fairfax Community Newspapers – Victoria

- Melbourne Weekly Magazine
- Melbourne Weekly Bayside
- Emerald Hill Weekly
- City Weekly
- The Melbourne Times
- Melbourne Times Northern Edition
- Heidelberg Weekly
- Knox Journal

- Maroondah Journal
- Yarra Ranges Journal
- The Journal
- Berwick & District Journal/Pakenham Journal
- Monash Journal
- Whitehorse Weekly
- Macedon Ranges/Sunbury Telegraph
- Werribee Banner
- Moreland Community News
- Moonee Valley Community News
- The Altona Laverton Mail
- The Mail
- Williamstown Advertiser
- North-West Advocate
- The Advocate
- Melton Express Telegraph
- Bacchus Marsh Express Telegraph
- Whittlesea Weekly
- Valley Weekly
- Manningham Weekly
- Peninsular Journal Weekender
- Hume Weekly (Inc. Broadmeadows/ Tullamarine edition)
- Colac & Corangamite Extra
- Frankston/Hastings Independent
- Mornington and Southern Peninsula Mail
- Cranbourne Independent
- Dandenong Independent
- Chelsea, Mordialloc, Mentone Independent

Fairfax General Magazines

- Good Weekend
- Television
- Sunday Life
- the(sydney)magazine
- theage(melbourne)magazine
- Travel + Leisure
- Uncorked
- Drive

FAIRFAX BUSINESS MEDIA

- The Australian Financial Review
- The Australian Financial Review – Weekend Edition
- AFR Access
- afr.com
- AFR Magazine
- AFR Smart Investor
- AFR Sophisticated Traveller
- Asset
- AFR Boss
- BRW
- CFO Australia
- MIS Australia
- MIS NZ
- MIS Asia
- Computerworld
- CIO
- PC World
- NZ Reseller

Fairfax Digital

- smh.com.au
- theage.com.au
- rugbyheaven.com
- realfooty.com.au
- monyemanager.com.au
- tradingroom.com.au
- domain.com.au
- mycareer.com.au
- RSVP.com.au
- stayz.com.au
- drive.com.au
- tradingroom.com.au
- cracker.com.au

New Zealand Publications

Metropolitan Newspapers

- The Dominion Post
- The Christchurch Press
- Waikato Times

Provincial Newspapers

- The Manawatu Standard
- The Marlborough Express
- The Nelson Mail
- The Southland Times
- Taranaki Daily News
- Timaru Herald

National

- Sunday Star-Times
- Independent Financial Review
- Sunday News
- Turf Digest, Best Bets
- New Zealand Truth

Community Newspapers

- Wellingtonian
- Hutt News
- Kapi-Mana News
- Kapiti Observer
- Horowhenua Mail
- Upper Hutt Leader
- Wairarapa News
- Christchurch Mail
- The Northern Outlook
- Central Canterbury News
- Central Districts Farmer
- Feilding Herald
- Rangitikei Mail
- The Tribune
- Kaikoura Star
- Motueka Golden Bay News
- The Nelson Leader
- The Richmond-Waimea Edition
- The Mirror
- Clutha Leader
- Newslink
- Taieri Herald
- Otago Southland Farmer
- The Bay Chronicle
- Central Leader
- Auckland City Harbour News
- Eastern Courier
- East & Bays Courier
- Manukau Courier
- Papakura Courier
- Northern News
- North Harbour News
- North Shore Times
- Norwest Newsbrief
- Western Leader
- Whangarei Leader
- South Taranaki Star
- North Taranaki Midweek
- High Country Herald
- Cambridge Edition
- Franklin County News
- North Waikato News
- Hauraki Herald
- Matamata Chronicle
- East Waikato Country
- Rural Delivery
- Piako Post
- Rotorua Review
- South Waikato News
- Ruapehu Press
- Taupo Times
- Rodney Times
- The Coaster

Fairfax Magazines

- Autocar
- Cuisine
- New Zealand Gardener
- NZ House & Garden
- TV Guide
- Boating New Zealand
- New Zealand Fishing News
- Fish & Game New Zealand
- New Zealand Growing Today
- New Zealand Horse & Pony
- New Zealand Trucking
- Truck & Machinery Trader

New Zealand Digital

- trademe.co.nz
- trademeproperty.co.nz
- trademotors.co.nz
- trademejobs.co.nz
- smaps.co.nz
- findsomeone.co.nz
- oldfriends.co.nz
- stuff.co.nz

↑ Financial Directory

Notes to the Financial Statements

Directors' Report

The directors present their report together with the financial report of John Fairfax Holdings Limited (the Company) and of the consolidated entity, being the Company and its controlled entities for the year ended 30 June 2006 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:

Mr Ronald Walker, AC, CBE

Non-Executive Chairman

Mr Mark Burrows

Non-Executive Deputy Chairman

Mr David Kirk

Executive Director and Chief Executive Officer
Appointed to the Board on 18 November 2005

Mr Roger Corbett, AM

Non-Executive Director

Mr David Evans

Non-Executive Director

Mrs Julia King

Non-Executive Director

Mr Peter Young

Non-Executive Director
Appointed to the Board on 16 September 2005

Mr Dean Wills, AO

Resigned from the Board on 26 August 2005

Mr Frederick Hilmer, AO

Resigned from the Board on 18 November 2005

A profile of each director at the date of this report is included on page 6 and 7 of this report.

Company Secretary

The company secretary, Ms Gail Hambly, was appointed to the position of Group General Counsel and Company Secretary in 1993. Before joining John Fairfax Holdings Limited she practised as a solicitor at a major law firm. She has extensive experience in commercial, media and communication law. Ms Hambly is a member of the Media and Communications Committee for the Law Council of Australia and a member of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia. She holds degrees in Law, Economics, Science and Arts.

Corporate structure

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

Principal activities

The principal activities of the consolidated entity during the course of the financial year were news, information and entertainment publishing and advertising sales in newspaper, magazine and electronic formats.

There were no significant changes in the nature of the consolidated entity during the year.

Consolidated result

The consolidated profit attributable to the consolidated entity for the financial year was $227,453,000 (2005: $263,249,000).

Dividends

A final fully franked dividend of 11.0 cents and a special fully franked dividend of 5.0 cents per ordinary share and debenture in respect of the year ended 30 June 2005 was paid on 11 October 2005. This dividend was shown as approved in the previous annual report.

An interim fully franked dividend of 8 cents per ordinary share and debenture in respect of the year ended 30 June 2006 was paid on 12 April 2006.

Dividends (continued)

Since the end of the financial year, the Board has declared a final fully franked dividend of 11.5 cents per ordinary share and debenture in respect of the year ended 30 June 2006 to be paid on 6 October 2006.

Fully franked PRESSES dividends of $3.7304 and $3.7101 per PRESSES were paid on 13 June 2006 and 12 December 2005 respectively.

Review of operations

A review of the operations of the consolidated entity for the financial year is set out on pages 8 to 15 of this 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:

a) issue of 3,000,000 stapled preference shares on 23 March 2006 to partially fund the acquisition of Trade Me Limited in New Zealand which occurred on 3 April 2006, for a purchase price of NZ$700 million.

b) issue of $200 million in medium term notes on 27 June 2006. Funds raised were used to repay existing debt.

Likely developments and expected results

The Company's prospects and strategic direction are discussed in the Chairman's and Chief Executive Officer's reports on page 2 and 4 of this 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

The Company maintains its established practice of commissioning an independent expert to audit and report annually in respect of environmental compliance. Recommendations resulting from these annual audits and reports have been, or are being, implemented. No material non-compliance with environmental regulation has been identified relating to the current year.

Events after balance date

CONVERSION OF PRESSES

PRESSES were converted into 66,348,490 ordinary shares on 27 July 2006 in accordance with the terms of the PRESSES issue. The final fully franked PRESSES dividend of $0.8921 per share for the period 12 June 2006 to 26 July 2006 was paid on 4 August 2006. The dividend paid totalled $2,230,250.

The PRESSES (FXJPA) were suspended from quotation on the Australian Stock Exchange on 19 July 2006.

ACQUISITION OF ENTITIES INCLUDING THE BORDER MORNING MAIL

The consolidated entity has also gained control over the following entities:

Entity or business acquired	Principal activity	Date of Acquisition	Ownership interest
The Border Morning Mail Limited	Newspaper publishing	25 July 2006	100.0%
Border Mail Printing Pty Limited	Printing facility	25 July 2006	75.5%
Melbourne Community Newspapers Pty Ltd	Newspaper publishing	25 July 2006	100.0%
The Independent News Pty Limited	Newspaper publishing	25 July 2006	100.0%

Consideration paid for the acquisition of Border Morning Mail Limited, including 51% of Border Mail Printing Pty Limited, consisted of $135 million in cash and 4,858,517 ordinary shares at a price of $4.10 per share, for a net consideration of $155 million.

The Independent News Pty Limited, including 24.5% of Border Mail Printing Pty Limited held by Melbourne Community Newspapers Pty Limited, were acquired for a total consideration of $15.1 million.

Events after balance date (continued)

RELOCATION OF THE SYDNEY HEADQUARTERS AND SALE OF SPENCER STREET PREMISES

On 7 September 2006, the Company entered into a lease agreement to relocate the headquarters of the Company from Darling Park to One Darling Island Pyrmont by mid 2007.

The Company also intends to sell its Spencer Street premises in Melbourne during the 2007 financial year.

Remuneration Report

A remuneration report is set out on pages 27 and 35 and forms part of this Directors' Report.

Directors' Interests

The relevant interest of each director in the equity of the Company, as at the date of this report is:

ORDINARY SHARES

	Opening Balance	Acquisitions	Disposals	Closing Balance	Post Year End Acquisitions	Post Year End Disposals	Post Year End Balance
MD Burrows	24,205	9,347	–	33,552	3,379	–	36,931
RC Corbett	13,748	7,305	–	21,053	2,365	–	23,418
D Evans	–	6,456	–	6,456	2,028	–	8,484
FG Hilmer*	148,653	–	–	148,653	–	–	n/a
JM King	32,230	7,106	–	39,336	2,196	–	41,532
DE Kirk	–	100,000	–	100,000	108,108	–	208,108
RJ Walker	312,605	112,186	–	424,791	576,068	–	1,000,859
P Young	–	4,369	–	4,369	2,365	–	6,734
DR Wills*	62,237	3,268	–	65,505	–	–	n/a
TOTAL	593,678	250,037	–	843,715	696,509	–	1,326,066

OPTIONS

	Opening Balance	Acquisitions	Disposals	Closing Balance	Post Year End Acquisitions	Post Year End Disposals	Post Year End Balance
Presses							
FG Hilmer*	180	–	–	180	–	(180)	–
TOTAL	180	–	–	180	–	(180)	–

* In the case of retired directors, the closing balance represents the number of shares at the date the director retired from the board.

All equity transactions with directors and specified senior executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

Director's meetings

The following table shows the number of Board and Committee meetings held during the financial year ended 30 June 2006 and the number attended by each director or Committee member.

			MEETINGS OF COMMITTEES***					
	Directors' Meetings***		Audit & Risk		Nominations		Personnel Policy and Remuneration	
	No. Held	No. Attended	No. Held	No. Attended	No. Held	No. Attended	No. Held	No. Attended
MD Burrows	13	13	5	5	–	–	2	1
RC Corbett	13	13	3	3	–	–	3	3
D Evans	13	12	4	3	–	–	1	1
FG Hilmer*	6	6	2	2	–	–	1	1
JM King	13	13	–	–	–	–	3	3
DE Kirk*	8	8	3	3	–	–	2	2
RJ Walker	13	13	–	–	–	–	3	3
DR Wills**	2	2	2	0	–	–	1	1
P Young	10	9	3	3	–	–	1	1

* FG Hilmer and DE Kirk attended Audit & Risk and Personnel Policy and Remuneration Committee meetings as an invitee of the Committees.
** Mr Wills, up until his retirement, was an ex-officio member of the Audit & Risk and the Personnel Policy and Remuneration Committees.
*** Relating to meetings held, the numbers in the columns refer to the number of meetings held while the director was a member of the Board or the relevant Committee.

Options

The employee share option plan ceased in March 2006 and no options over ordinary shares were granted or unissued ordinary shares under option grants were on issue at 30 June 2006. No options have been granted since the end of the financial year. Details of options issues and movements in options during the financial year are included in Notes 31 and 33 to the financial statements.

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 Indemnity and Access which provides for indemnity 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.

No officers are former auditors

No officer of the Fairfax Group has been a partner of an audit firm or a director of an audit company that is or was an auditor of any entity in the Fairfax Group during the year ended 30 June 2006.

Non-audit services

Under its Charter of Audit Independence the Company may employ the auditor on assignments additional to statutory audit duties where the type of work performed and the fee for service does 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 32 to the financial statements.

The Board of Directors has received advice from the Audit & 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 as required under section 307C of the Corporations Act 2001 is set out on page 26 of this report.

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

Subsidiary company and other contractually required audits required by regulatory or other bodies

- Australia $126,000
- Overseas $151,000

Due diligence services

- Australia $34,000

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.

Mark Burrows
Chairman, Audit and Risk Committee

Sydney, 26 September 2005

David Kirk
Chief Executive Officer and Director

↑ Auditor's Independence Declaration

Auditor's Independence Declaration to the Directors Of John Fairfax Holdings Limited

In relation to our audit of the financial report of John Fairfax Holdings Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirement of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

David Simmonds
Partner

26 September 2006

Remuneration Report ↑

1. Introduction

This report forms part of the Company's 2006 Directors' Report and describes the Fairfax remuneration arrangements for directors and prescribed senior executives. It has been prepared to comply with section 300A of the Corporations Act 2001 and accounting standard AASB 124.

Except for sections 1, 2 and the table in section 5.2, the narrative descriptions and tables contain information required by AASB 124 'Related Party Disclosures'. This information has been audited by Ernst & Young and is included within the scope of the audit report on page 123.

The report also contains details of the equity interests of Fairfax directors and certain senior executives.

2. Personnel Policy and Remuneration Committee (PPRC)

The current members of the PPRC are Julia King (Chairman), Ronald Walker, Roger Corbett, Mark Burrows and David Evans. All are independent directors. The PPRC met three times during the year.

The Committee's primary responsibilities are to:

(a) review and approve Fairfax employee remuneration strategies and frameworks and to oversee the development and implementation of employee remuneration programs, performance management processes and succession planning with the goal of attracting, motivating and retaining high quality people;

(b) review and recommend to the Board for approval the goals and objectives relevant to the remuneration of the CEO, assist the Board to evaluate the performance of the CEO in light of those goals and objectives, and to recommend to the Board the CEO's remuneration based on this evaluation;

(c) review the principles to apply to contractual terms of employment for direct reports to the CEO including base pay, incentives, superannuation arrangements, retention arrangements, termination payments, performance goals and performance based evaluation procedures and succession plans;

(d) make recommendations to the Board regarding directors' fees and review and recommend the aggregate remuneration of non-executive directors to be approved by shareholders.

The CEO, the Director of Organisation Development and the Employment Practices Director regularly attend PPRC meetings but not when their own remuneration arrangements are being discussed.

The Committee commissions reports from independent remuneration experts on market relativities and other matters relating to remuneration practices to assist it with setting appropriate remuneration levels and processes.

3. Remuneration of Non-Executive Directors

Under the Company's Constitution, the aggregate remuneration of non-executive directors is set by resolution of shareholders. The aggregate was last reviewed by shareholders at the 2004 Annual General Meeting and set at $1,500,000 per annum. Within this limit, the Board annually reviews directors' remuneration with advice from the PPRC. The Board also considers survey data on directors' fees paid by comparable companies, and expert advice commissioned from time to time.

Fees to non-executive directors reflect the demands and the responsibilities of each director including service on Board Committees. By resolution of the Board, each non-executive director sacrifices at least 25% per annum of his or her director's fees to the Company's Employee Share Acquisition Plan. Under this Plan, shares are purchased on-market by an independent trustee on behalf of directors, as well as employees who have salary sacrificed to participate in the Plan. Share acquisition dates are pre-set and determined by the trustee.

3. Remuneration of Non-Executive Directors (continued)

At the date of this report the Board has set fees as follows:

	$
Chairman	280,000
Deputy Chairman	150,000
Other Non-Executive Director	100,000
Additional fees:	
Chairman of Audit & Risk Committee	30,000
Member of Audit & Risk Committee	20,000
Chairman of Personnel Policy & Remuneration Committee	30,000
Members of Personnel Policy & Remuneration Committee	20,000

The above fees do not include 9% superannuation payments.

3.1 RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS

The Company makes superannuation contributions on behalf of non-executive directors equivalent to 9% of directors' fees.

The Company has discontinued its previous retirement benefits scheme for non-executive directors. Other than superannuation contributions as outlined above, non-executive directors who did not have five years service on the Board as at 30 June 2004 are not eligible for retirement benefits. Non-executive directors who had served on the Board for at least five years as at 30 June 2004 and who therefore had already qualified for benefits under the previous scheme are, on retirement, entitled to a retirement benefit equivalent to the lesser of:

(a) three times the relevant director's annual directors' fee as at 30 June 2004: or

(b) the maximum allowable without shareholder approval under the Corporations Act and the ASX Listing Rules.

During the financial year, one director, Mr Dean Wills, retired and became eligible for payment of a retirement benefit. Details of the benefit paid to Mr Wills is set out in Section 5.7 of this report.

4. Remuneration of the Chief Executive Officer

The remuneration details for the CEO, are set out in section 5.7 of this report.

Mr David Kirk commenced as CEO on 17 October 2005 and was appointed to the Board on 18 November 2005.

The key terms of Mr Kirk's Executive Services Agreement with the Company include a base salary of $1.2 million per year, and performance bonus of up to 150% of base salary depending on achievement of defined performance criteria set at the beginning of each financial year. As approved by shareholders at the 2005 AGM, one third of the bonus earned by the CEO will be paid in Company shares purchased on market by the Trustee of the Employee Share Plan. These shares vest three years from their issue. In addition, under his employment agreement Mr Kirk is entitled to a one-off special payment of $1.2 million in lieu of benefits forgone from previous employment. Of this amount $400,000 was paid on commencement of employment, a further instalment of $400,000 was paid on 1 July 2006 and the final $400,000 is payable on 1 July 2007. Mr Kirk has salary sacrificed each of the instalments so far paid to him into the Fairfax Employee Share Plan for the purchase of Fairfax shares.

Mr Kirk's employment contract has been posted with the Australian Stock Exchange.

As disclosed in the 2005 Annual Report the former CEO, Mr Hilmer, was paid a retirement allowance of $4.5 million consistent with his employment arrangements and the timing and circumstances of his departure.

5. Remuneration of Senior Executives

The objective of the Company's executive remuneration framework is to align remuneration with the achievement of strategic objectives, the creation of value for shareholders, and to be consistent with market standards.

The PPRC aims to ensure that executive remuneration addresses the following criteria:

- Attract, retain and motivate talented, qualified and experienced people in light of competitive employment markets.
- Align remuneration with achievement of business strategy.
- Align interests of executives and Fairfax shareholders.
- Deliver competitive cost outcomes.
- Comply with regulatory requirements.
- Be transparent and fair.

The framework provides a mix of fixed salary and performance-based incentives. Payment of performance-based incentives is determined by the financial performance of the Company, the financial performance of the business unit relevant to the executive and the performance of the individual executive against objectives set at the beginning of the year.

The PPRC discusses and approves the remuneration packages and any bonus payments to the direct reports of the CEO annually in August. On the recommendation of the CEO it also approves key performance indicators for these executives for the following year.

The executive remuneration framework has the following components:

- A fixed remuneration package which includes base pay, superannuation and other benefits.
- Performance incentives.

The combination comprises the executive's total remuneration.

The fixed component of the remuneration package represents the total cost to the Company and includes all employee benefits and related Fringe Benefits Tax (FBT), for example, motor vehicle, parking and superannuation.

5.1 PERFORMANCE BASED INCENTIVES (BONUS) FOR SENIOR EXECUTIVES

Annual bonus payments for senior executives depend on achievement of annual financial performance criteria for the Group as well as specific strategic and operational criteria. The bonus criteria for the CEO are set each year by the Board.

Each senior executive has a target bonus opportunity depending on the accountabilities of the role and impact on Company or business unit performance. For most senior executives reporting directly to the CEO the on-target bonus opportunity for 2006 was 30% of the executive's fixed pay and the maximum bonus opportunity was 60% of the fixed remuneration package. Generally, the bonus opportunity consists of three components: 30% of the bonus opportunity is based on EBITDA and earnings per share, 30% is based on business unit profit and 40% is based on other KPIs. For corporate executives whose duties are not confined to one business unit, 60% of the bonus opportunity is based on corporate profit.

For the year ended 30 June 2006, the key performance indicators (KPIs) linked to the incentive plans for senior executives were based on Company performance, individual business unit performance and personal objectives. The KPIs required performance in increasing revenue, reducing operating costs and achieving specific targets relating to other key strategic non-financial measures linked to drivers of the Company's performance, including circulation, readership and market position. Specific measures for individuals include EPS, EBITDA, revenue and circulation and readership targets.

The Board sets Company profit targets annually as part of the budget and strategic planning process. Using a profit target ensures reward is linked to achievement of the business plan and value creation for shareholders. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive over performance.

5. Remuneration of Senior Executives (continued)

5.2 EQUITY-BASED INCENTIVES (EBIs)

(a) Pre 2006 Financial Year EBI

Senior executives reporting to the CEO whose roles and skills are critical to the strategy of the Company participate in an EBI scheme.

Under the EBI in place prior to the 2006 financial year, EBIs were payable according to the total shareholder return (TSR) of the Company over a three year period against a comparator group of companies. The maximum reward was 25% of fixed pay plus Bonus payable in shares.

Each year a target EBI amount was determined for each participating executive (the "Allocation"). At the end of three years from the Allocation date the Allocation becomes available to the executive ("Vests") if performance hurdles have been met. If the performance hurdles are not met at the end of the third year the executive loses the Allocation.

The comparator group is the ASX 300 Industrial Accumulation Index ("Comparator"). For each Allocation to vest the Company's TSR over the relevant three year period must outperform the Comparator (the "Hurdle"). Allocations in the EBI Scheme were made in each July 2001, 2002, 2003, 2004 and 2005. Over the performance periods, July 2001–July 2004, July 2002–July 2005 and July 2003–July 2006, the Hurdle was not met and as a result, 2001, 2002 and 2003 Allocations have now been lost.

From 2006, the above plan has been replaced by the new EBI as described below.

(b) New EBI

The PPRC has reviewed the equity incentive scheme and has introduced a new plan to replace the previous EBI. The Company has worked with expert external consultants to review the pre-2006 scheme and propose a new scheme that will more closely align shareholders' interests with the Company's remuneration principles. External consultants have noted limitations of the current scheme due to the cyclical nature of media companies and their market-based measurements and the lack of a comparable Australian peer index.

Under the new EBI, which will apply for the first time for bonuses earned in the 2006 financial year, one third of the annual bonus earned on the achievements of KPIs as detailed in Section 5.1 above will be deferred. The deferred amount will then be remitted to the Trustee of the Employee Share Trust who will purchase shares and allocate the shares inside the Trust to the relevant executive. Each executive's allocated shares will then vest three years after the allocation date.

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

		AIFRS 2006	AIFRS Restated 2005	AGAAP 2004	AGAAP 2003	AGAAP 2002
Underlying operating revenue	$m	**1,907.8**	1,873.4	1,767.7	1,208.9	1,174.8
Net profit before significant items	$m	**234.3**	237.6	207.6	125.5	90.2
Earnings per share before significant items	Cents	**24.5**	25.8	21.4	14.4	11.2
Dividends per share	Cents	**19.5**	23.5	16.5	13.0	11.5
*Total Shareholder Returns (TSR)	%	**(5.70)**	23.20	36.64	(7.71)	(14.34)

* Total shareholder returns comprises share price appreciation and dividends, gross of franking credits, reinvested in the shares (source: Bloomberg)

5.3 RETENTION ARRANGEMENTS

As disclosed in the 2005 Annual Report retention arrangements are in place for two key executives to ensure their retention and successful contribution during the transition to the new CEO. The two key executives and the amounts of the retention are:

G Hambly	$300,000
S Narayan	$300,000

To facilitate this arrangement, ordinary John Fairfax Holdings shares have been purchased for the employee and held in the Employee Share Trust until they vest. The shares will vest over a three year period. Vesting is contingent on the executive continuing to be employed by Fairfax on the date of vesting and also subject to the achievement of pre-set personal KPIs related to each individuals area of responsibility. These KPIs are set by the CEO and PPRC each year. The KPIs are chosen as the most appropriate to drive the successful delivery of business outcomes. The first tranche of 25% of the shares is due to vest on 1 October 2006, the second tranche of 25% is due to vest on 1 October 2007 and the final tranche of 50% is due to vest on 1 October 2008.

5. Remuneration of Senior Executives (continued)

5.4 KEY MANAGEMENT PERSONNEL

The following are the key management personnel in accordance with accounting standards.

Name	Title
Ronald Walker	Independent Chairman
Mark Burrows	Independent Deputy Chairman
Roger Corbett	Independent Director
David Evans	Independent Director
Julia King	Independent Director
David Kirk	Executive Director and Chief Executive Officer
Peter Young	Independent Director
Don Churchill	Managing Director – Victoria
Gail Hambly	Group General Counsel and Company Secretary
James Hooke	Managing Director – NSW
Sankar Narayan	Chief Financial Officer
Joan Withers	CEO Fairfax New Zealand

5.5 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 defined contribution superannuation plans. The defined benefit fund (which is 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.

5.6 EXECUTIVE SERVICES AGREEMENTS

The remuneration and other terms of employment for the specified executives are set out in written agreements. Except for Ms Withers, these service agreements are unlimited in term but may be terminated without cause 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 of these agreements sets out the arrangements for total fixed remuneration, performance-related cash bonus opportunities, superannuation, termination rights and obligations and eligibility to participate in the equity-based incentive program.

As described elsewhere in this report, executive salaries are reviewed annually. The executive service agreements do not require the company to increase base salary, pay incentive bonuses or continue the participant's participation in equity-based incentive programs. The key terms of the contracts for specified executives are set out below.

Name of Executive	Company Notice Period	Employee Notice Period	Termination Provision	Restraint
Don Churchill	12 months	6 months	12 months base salary	– 12 months no solicitation of employees or clients – 6 months no work for a competitor of the Fairfax Group
Gail Hambly	18 months	3 months	18 months base salary	– 12 months no solicitation of employees or clients – 6 months no work for a competitor of the Fairfax Group
James Hooke	12 months	3 months	12 months base salary	– 12 months no solicitation of employees or clients – 12 months no work for a competitor of the Fairfax Group
Sankar Narayan	12 months	4 months	12 months base salary	– 12 months no solicitation of employees or clients – 6 months no work for a competitor of the Fairfax Group
Joan Withers	6 months	6 months	3 year fixed term*	– 12 months no solicitation of employees or clients – 6 months no work for a competitor of the Fairfax Group

* Joan Withers has a 3 year fixed term contract. The contract may be terminated during the Term by either party giving 6 months notice and otherwise the provisions relating to termination without notice set out below will apply.

Note: Base salary means the executive's fixed remuneration. It includes wages, superannuation and benefits but does not include any bonus or incentive payments.

5. Remuneration of Senior Executives (continued)

Termination of employment without notice and without payment in lieu of notice

The Company may terminate the employment of the executive without notice and without payment in lieu of notice in some circumstances. Generally this includes if the executive:

(a) commits an act of serious misconduct;

(b) commits a material breach of the executive service agreement;

(c) is charged with any criminal offence which, in the reasonable opinion of the Company, may embarrass or bring the Fairfax Group into disrepute; or

(d) unreasonably refuses to carry out his or her duties including complying with reasonable, material and lawful directions from the Company.

Termination of employment with notice or with payment in lieu of notice.

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 or payment in lieu required from the Company in these circumstances is set out in the above table.

5.7 REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Remuneration of directors

		SHORT-TERM			POST EMPLOYMENT		LONG-TERM	SHARE-BASED PAYMENT		
		Directors' Fees	Base Salary & Other Benefits	Cash Bonus	Super-annuation	Retirement Benefits	Cash Benefits	Shares*	Total	Performance Related Total
MD Burrows	2006	173,334	–	–	15,600	–	–	–	188,934	
	2005	90,002	–	–	8,100	–	–	–	98,102	
RC Corbett	2006	128,000	–	–	11,520	–	–	–	139,520	
	2005	84,502	–	–	7,605	–	–	–	92,107	
D Evans	2006	125,833	–	–	11,325	–	–	–	137,158	
	2005	–	–	–	–	–	–	–	–	
FG Hilmer [i]	2006	–	590,106	–	47,443	4,500,000	–	–	5,137,549	
	2005	–	1,377,513	–	123,351	–	–	–	1,500,864	
DE Kirk [ii]	2006	–	1,584,957	933,333	70,143	–	171,429	81,897	2,841,759	5%
	2005	–	–	–	–	–	–	–	–	
JM King	2006	122,667	–	–	11,040	–	–	–	133,707	
	2005	86,502	–	–	7,785	–	–	–	94,287	
RJ Walker	2006	270,152	–	–	24,314	–	–	–	294,466	
	2005	82,502	–	–	7,425	–	–	–	89,927	
DR Wills [iii]	2006	62,501	–	–	5,625	495,043	–	–	563,169	
	2005	207,505	–	–	18,675	–	–	–	226,180	
P Young [iv]	2006	110,000	–	–	9,900	–	–	–	119,900	
	2005	–	–	–	–	–	–	–	–	
Total remuneration:										
Directors	**2006**	**992,487**	**2,175,063**	**933,333**	**206,910**	**4,995,043**	**171,429**	**81,897**	**9,556,162**	
	2005	551,013	1,377,513	–	172,941	–	–	–	2,101,467	

* Remuneration includes the fair value of rights to shares, amortised consistent with their vesting period.

(i) FG Hilmer retired on 18 November 2005 from the Board.

(ii) DE Kirk commenced as CEO on 17 October 2005. A bonus of $1.4 million was awarded for the year ended 2006. Mr Kirk's employment agreement provides that in his first year only he is guaranteed a bonus of 100% of base salary. This bonus was paid as 2/3 cash and 1/3 shares (with a 3 year vesting period). In addition, Mr Kirk is entitled to a one-off special compensation of $1.2 million in respect of benefits foregone from previous employment. Of this amount, $400,000 was paid on commencement of employment, a further instalment of $400,000 was paid on 1 July 2006 and the final $400,000 is payable on 1 July 2007 if Mr Kirk is still employed by the company up to that date.

(iii) DR Wills retired from the board on 26 August 2005.

(iv) P Young was appointed to the board on 16 September 2005.

Group totals for 2005 are not the same as disclosed in the 2005 report, as different individuals and different components of remuneration were disclosed in the 2005 financial year.

5. Remuneration of Senior Executives (continued)

5.7 REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (CONTINUED)

Remuneration of the 5 Company & Group executives who received the highest remuneration for the year ended 30 June 2006

				SHORT-TERM		POST EMPLOYMENT		SHARE-BASED PAYMENT			
		Company	Group	Base Salary & Other Benefits	Cash Bonus	Super-annuation	Termin-ation Benefits	Options*	Shares**	Total	Performance Related Total
R Antulov (i)	2006	✓		197,369	–	17,752	352,500	–	14,703	582,324	3%
	2005			–	–	–	–	–	–	–	
G Hambly	2006	✓	✓	370,898	100,000	44,648	–	2,901	168,689	687,136	39%
	2005			361,215	150,000	43,066	–	16,699	48,097	619,077	32%
J Hooke	2006	✓	✓	398,270	84,000	33,938	–	–	37,450	553,658	22%
	2005***			–	–	–	–	–	–	–	
S Narayan	2006	✓	✓	529,824	200,000	46,974	–	–	180,592	957,390	40%
	2005			459,534	200,000	40,782	–	–	31,465	731,781	32%
A Revell (ii)	2006	✓	✓	263,055	–	34,071	640,000	–	–	937,126	0%
	2005			646,486	160,000	56,312	–	3,554	54,208	920,560	23%
J Withers	2006		✓	491,810	114,828	–	–	–	–	606,638	19%
	2005***			–	–	–	–	–	–	–	
Total remuneration:											
Company & Group	**2006**			**2,251,226**	**498,828**	**177,384**	**992,500**	**2,901**	**401,434**	**4,324,272**	
highest paid executives	2005***			1,467,235	510,000	140,160	–	20,253	133,770	2,271,418	

Remuneration of the key management personnel for the year ended 30 June 2006

		SHORT-TERM		POST EMPLOYMENT		SHARE-BASED PAYMENT			
		Base Salary & Other Benefits	Cash Bonus	Super-annuation	Termin-ation Benefits	Options*	Shares**	Total	Performance Related Total
D Churchill	2006	403,426	90,667	33,683	–	–	6,044	533,820	17%
Managing Director – Victoria	2005***	–	–	–	–	–	–	–	
G Hambly	2006	370,898	100,000	44,648	–	2,901	168,689	687,136	39%
Group General Counsel and Company Secretary	2005	361,215	150,000	43,066	–	16,699	48,097	619,077	32%
J Hooke	2006	398,270	84,000	33,938	–	–	37,450	553,658	22%
Managing Director – NSW	2005***	–	–	–	–	–	–	–	
S Narayan	2006	529,824	200,000	46,974	–	–	180,592	957,390	40%
Chief Financial Officer	2005	459,534	200,000	40,782	–	–	31,465	731,781	32%
J Withers	2006	491,810	114,828	–	–	–	–	606,638	19%
CEO Fairfax New Zealand	2005***	–	–	–	–	–	–	–	
Total remuneration:									
key management personnel	**2006**	**2,194,228**	**589,495**	**159,243**	**–**	**2,901**	**392,776**	**3,338,643**	
	2005***	820,749	350,000	83,848	–	16,699	79,562	1,350,858	

* Remuneration includes the fair value of options granted in a previous period, amortised on a consistent basis to vesting period.

** Remuneration includes the fair value of rights to shares, amortised consistent with their vesting period.

*** Prior year comparative numbers are not applicable for executives who are new to their positions: Don Churchill (29 August 2005); James Hooke (29 August 2005); Joan Withers (11July 2005).

(i) R Antulov ceased employment on 31 March 2006.

(ii) A Revell ceased employment on 2 February 2006.

Group totals for 2005 are not the same as disclosed in the 2005 report, as different individuals and different components of remuneration were disclosed in the 2005 financial year.

5. Remuneration of Senior Executives (continued)

5.8 REMUNERATION OPTIONS: GRANTED AND VESTED DURING THE YEAR

During the year there were no options granted (2005: nil). The number of options that vested during the year ended 30 June 2006 is set out in the following table:

Key Management Personnel	Number Vested
G Hambly	300,000

No Directors had options that vested during the year ended 30 June 2006.

5.9 SHARES ISSUED ON EXERCISE OF REMUNERATION OPTIONS

Key Management Personnel	Number of shares issued	Value per share $	Total share value $
G Hambly	300,000	4.36	1,308,000

5.10 OPTION HOLDINGS OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Directors

During the year ended 30 June 2006, there were no options granted to or exercised by directors, nor were there any options held by directors that lapsed during the financial year.

Key Management Personnel

The following table displays options granted, exercised or lapsed during the current year:

						VESTED AT 30 JUNE 2006		
	Balance at beginning of period 1 July 2005	Granted as remuneration	Options exercised	Options expired	Balance at end of period 30 June 2006	Total	Not exercisable	Exercisable
Key Management Personnel								
G Hambly	300,000	–	(300,000)	–	–	–	–	–
Total	300,000	–	(300,000)	–	–	–	–	–

5.11 OPTION VALUES OF KEY MANAGEMENT PERSONNEL

	Total value [$]	Value per share [$]	Options Exercised
Value of options granted	–	–	–
Value of options exercised (at exercised date)	33,000	0.11	300,000
Value of options lapsed	–	–	–
Total	33,000	0.11	300,000

5. Remuneration of Senior Executives (continued)

5.12 LOANS TO DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Directors

During the year ended 30 June 2006 there were no loans to directors (2005: nil).

Key Management Personnel

Period	Balance at beginning of period	Interest not charged	Balance at end of period
2006	–	–	–
2005	100,000	2,747	–

Details of individuals with loans above $100,000 in the reporting period are as follows:

Directors

During the year ended 30 June 2006 there are no loans to directors (2005: nil).

Key Management Personnel

	Period	Balance at beginning of period	Interest not charged	Balance at end of period	Highest Owing in Period
n/a	2006	–	–	–	–
A Revell	2005	100,000	2,747	–	100,000

There are no outstanding loans above $100,000 for the year ended 30 June 2006.

↑ Corporate Governance

The Company has considered the best practice recommendations established in the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations" (ASX Principle) and recorded its compliance with the recommendations in the following table.

	Compliance	2006 Annual Report Page Reference
Principle 1: Lay solid foundations for management oversight		
1.1 Formalise and disclose the functions reserved to the Board and those delegated to management	✓	38
Principle 2: Structure the board to add value		
2.1 A majority of the board should be independent directors	✓	
2.2 The Chairperson should be an independent director	✓	
2.3 The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual	✓	
2.4 The board should establish a nomination committee	✓	
2.5 Provide the information indicated in *Guide to reporting on Principle 2*	✓	38,39
Principle 3: Ethical and responsible decision making		
3.1 Establish a code of conduct to guide the directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:		
3.1.1 The practices necessary to maintain confidence in the Company's integrity		
3.1.2 The responsibility and accountability of individuals for reporting and investigating reports of unethical practices	✓	
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees	✓	
3.3 Provide the information indicated in *Guide to reporting on Principle 3*	✓	39,41
Principle 4: Integrity and financial reporting	✓	
4.1 Require the Chief Executive Officer (or equivalent) to state in writing to the board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards	✓	
4.2 The Board should establish an audit committee	✓	
4.3 Structure the audit committee so that it consists of:		
• only non-executive directors	✓	
• a majority of independent directors	✓	
• an independent chairperson, who is not Chairperson of the Board	✓	
• at least three members	✓	
4.4 The audit committee should have a formal charter	✓	
4.5 Provide the information indicated in *Guide to reporting on Principle 4*	✓	37,39,40

	Compliance	2006 Annual Report Page Reference
Principle 5: 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 management level for that compliance	✓	
5.2 Provide the information indicated in *Guide to reporting on Principle 5*	✓	40,41
Principle 6: Respect for the rights of shareholders		
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓	
6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report	✓	40,41
Principle 7: Recognise and manage risk		
7.1 The Board or appropriate Board committee should establish policies on risk oversight and management	✓	
7.2 The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that:	✓	
7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board	✓	
7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects	1	
7.3 Provide the information indicated in *Guide to reporting on Principle 7*	✓	37,41
Principle 8: Encourage enhanced performance		
8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives.	✓	41
Principle 9: Remunerate fairly and responsibly		
9.1 Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	2	
9.2 The Board should establish a remuneration committee.	✓	
9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	✓	
9.4 Ensure that payment of equity-based executives' remuneration is made in accordance with thresholds set in plans approved by shareholders.	3	
9.5 Provide the information indicated in *Guide to reporting on Principle 9*	✓	27-35
Principle 10: Recognise the legitimate interest of stakeholders		
10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	✓	39

The above disclosure should be read in conjunction with the following:

1) the Company has complied with the Guide to Compliance with the ASX Principle 7: Recognise and Manage Risk prepared by the Group of 100 and endorsed by the ASX Corporate Governance Council;

2) disclosure of remuneration policy and procedures are set out in Remuneration Report on pages [xx-xx] of the Annual Report; and

3) equity-based remuneration is not paid to directors other than the CEO. The terms of the CEO's equity based incentive were approved by shareholders at the 2005 Annual General Meeting. Equity-based remuneration paid to non-director key executives under the Equity Based Incentive Scheme has not been approved by shareholders, as the Board considers it to be part of the total compensation package for those executives and should not be individually segregated for separate approval.

Set out on the following pages are the key corporate governance principles of the Company.

The Board of Directors

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

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 powers and 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;

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

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

(g) approve any issues of securities, and entering into any material finance arrangements, including loans and debt issues;

Membership of the Board and its committees at the date of this report is set out in the table below.

THE BOARD OF DIRECTORS

		COMMITTEE MEMBERSHIP		
Director	Membership Type	Audit & Risk	Nominations	Personnel Policy & Remuneration
RJ Walker	Independent Chairman	–	Member	Member
DE Kirk	CEO	–	–	–
MD Burrows	Independent Deputy Chairman	Chair	Member	Member
RC Corbett	Independent	Member	Member	Member
D Evans	Independent	–	Member	Member
JM King	Independent	–	Member	Chair
P Young	Independent	Member	Member	–

The qualifications and other details of each member of the Board are set out on page 6 and 7 of this report.

Except for the Chief Executive Officer, all directors (including the Chairman) are considered by the Board to be independent, non-executive directors.

The Constitution requires that the Board have a minimum of three directors and maximum of 12 or such lower number as the Board may determine from time to time. The Board has resolved that presently the maximum number of directors is 7.

The Constitution authorises the Board to appoint directors to vacancies and to elect the Chairman. 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.

The Nominations Committee reviews potential Board candidates when necessary. The Committee may seek expert external advice on suitable candidates.

The Board has adopted a formal Charter for the Nominations Committee. Under the Charter, the Committee uses the following principles to recommend candidates and provide advice and other recommendations to the Board:

- A substantial majority of directors and the Chairman should be independent.
- The Board should represent a broad range of expertise consistent with the Company's strategic focus.

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

INDEPENDENT DIRECTORS

Under the Board Charter the majority of the Board and the Chairman must be independent.

Directors have determined that all directors except the Chief Executive Officer are independent on the basis of the following criteria:

a) the director has no material relationship with Fairfax (either directly, or as a partner, shareholder, or executive officer of an organisation that has a material relationship with Fairfax except as a director of the Company);

b) the director is not, and has not been within the previous three years:
   (i) employed by, or a partner in, any firm that in the past three years has been Fairfax's external auditor; or
   (ii) been employed by Fairfax, or a company in the Fairfax Group

c) no immediate family member of the director is, or has in the past three years, been an executive officer of Fairfax or employed by, or a partner of, any firm that has been Fairfax's external auditor within the past three years; and

(d) the director has no interest or other relationship which could or could be reasonably perceived to materially interfere with the director's ability to act in the best interest of the Company.

CODES OF CONDUCT

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

The Company has developed and communicated to all employees, directors and consultants the Fairfax Codes of Conduct. The Codes assist in upholding ethical standards and conducting business in accordance with applicable laws. The Codes also set 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 a common minimum standard of ethical behaviour 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;
- raise employees awareness of acceptable and unacceptable behaviour and provide a means to assist in avoiding any real or perceived misconduct.

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

AUDIT & RISK COMMITTEE

The Board has had an Audit & Risk committee since 1992. The committee operates in accordance with a written charter which sets out its role and functions which are, in summary, 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 economic entity and to monitor the quality and reliability of financial information for the Group. To carry out this role the committee:

- appoints 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 the value of assets;
- ensures accounting records are maintained in accordance with statutory and accounting requirements;
- monitors systems designed to ensure financial statements and other information provided to shareholders is timely, reliable and accurate;
- formulates policy and oversees key finance and treasury functions;
- seeks to ensure there is an appropriate framework for compliance with all legal and regulatory requirements and monitors performance against these requirements;
- reviews the audit process with the external auditor, including in the absence of management to ensure full and frank discussion of audit issues;
- recommends to the Board the appointment and tenure of the Internal Audit Manager, reviews the Internal Audit Manager's performance, approves the internal audit plan, receives summaries of significant reports prepared by internal audit and meets with the Internal Audit Manager (including in the absence of management if considered necessary).

All Audit & Risk Committee members must be non executive directors. Executives may attend on invitation. The Chairman of the Committee is required to have relevant financial expertise and not be the Chairman of the Board.

The Chairman of the Committee may, at the Company's expense, obtain such external expert advice and obtain assistance and information from officers of the Group as is reasonably required from time to time.

CHARTER OF AUDIT INDEPENDENCE

The Board has also adopted a Charter of Audit Independence, a copy of which is available on the Corporate website.

The purpose of this Charter is to provide a framework for the Board and management to aim to ensure that the statutory 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 & Risk Committee and management aimed to set 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.

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

The Company requires rotation of the senior audit partner for the Company at least every five years. The Company's audit partner was last changed for the 2002 year end audit.

The Audit & Risk 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 and to confirm that the auditor has no financial or material business interests in the Company outside of the supply of professional services.

INTEGRITY IN FINANCIAL REPORTING

As well as the principles set out in the Audit and Risk Committee Charter and the Charter of Audit Independence, the Company has implemented a structure to verify and safeguard the integrity of its financial reporting.

The Chief Executive Officer and the Chief Financial Officer provide a written statement to the Board that to the best of their knowledge and belief, the Company's published financial reports present a true and fair view, in all material respects, of the Company's financial condition and that the operational results are in accordance with relevant accounting standards.

This statement to the Board is 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.

DISCLOSURE POLICY

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 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.

The Chief Executive Officer, the Chief Financial Officer, the Director, Corporate Affairs, General Manager Investor Relations and Group General Counsel and 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 communication on behalf of the Company to the 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. The Disclosure Officers are also 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.

All ASX and press releases containing important material information must be approved by a Disclosure Officer and either the Chairman of the Board or the Audit & Risk Committee before release to the market.

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

Company announcements, Annual Reports, Notices of Meetings, analyst and investor briefings, financial results and other information useful to investors such as press releases are placed on the Company's website as soon as practical after release to the ASX.

The Chairman's and the Chief Executive Officer's addresses and the results of resolutions of meetings of shareholders, are also posted on the Corporate Governance section of the Fairfax website.

The external auditor attends the Annual General Meeting and is available to answer shareholder questions about the audit and the audit report.

RISK MANAGEMENT

The Board has set a risk management program (including internal control and compliance).

This policy draws upon guidance endorsed by the ASX Corporate Governance Council and seeks to provide a consistent approach to identifying, assessing, and reporting risks, whether they be related to company performance, reputation, safety, environment, internal control, compliance or other risk areas.

Key aspects of the Company's risk management system are summarised as follows:

- Risk is assessed at least annually and revised periodically for each division through the business planning, budgeting, forecasting, reporting and performance management processes.
- The Board, through the Audit & 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.
- The process for assessing and reporting on risks, internal controls and internal compliance is being standardised, enhanced and formalised across the Group in accordance with available best practice guidance. This is an ongoing process.
- An Executive Risk Committee has been established to oversee the implementation of the Board's risk management policy, including oversight and coordination of risk assessment activities, and coordination of risk reporting.
- The Company has engaged external experts to conduct a regular review of the Fairfax risk management framework (including the process for the identification of key risks across the Company) against better market practice. Improvements to the existing process will be implemented as required after consideration of the outcomes of this review.
- 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.
- Under the direction of the Audit and Risk Committee, Internal Audit conducts a program of internal control reviews over key areas based on their importance to the Company, and provides independent assurance over the internal control assessments undertaken by management.

REMUNERATION

Details of the Company's remuneration policies are set out in the Remuneration Report beginning on page 27.

DIRECTORS' DEALINGS IN COMPANY SHARES

By resolution of the Board, each non-executive director sacrifices at least 25% per annum of his or her director's fees to the Company's Employee Share Acquisition Scheme. Under this Scheme, shares are purchased on-market by an independent trustee on behalf of directors and employees who have salary sacrificed to participate in the Scheme. Share acquisition dates are pre-set and determined by the trustee.

Consistent with the law, directors must not trade directly or indirectly in Fairfax securities while in possession of unpublished price sensitive information.

Price sensitive information is information, usually about the Company or its intentions, which a reasonable person would expect to have a material effect on the price or value of Fairfax securities.

A director must not trade in Fairfax securities without first reviewing the matter with the Company Secretary and notifying the Chairman.

Notwithstanding the above, it is the responsibility of the individual director to reasonably consider whether he or she is in possession of price sensitive information and, when in doubt, the director should not trade, thus minimising the possibility of a perception of improper trading.

A director must notify the Company Secretary of any change in the director's legal or beneficial interest in Company securities so as to ensure compliance with the disclosure requirements of the ASX Listing Rules.

REVIEW OF THE BOARD'S EFFECTIVENESS

The Board conducts a review of its structure, composition and performance annually. The initial formal review was carried out with the assistance of Cameron Ralph Pty Limited and resulted in an ongoing programme of Board renewal and review.

↑ Management Discussion & Analysis Report

The operating results for the 2006 financial year reflect the success of our diversification strategy and strong cost controls.

Sankar Narayan, Chief Financial Officer

OVERVIEW

The operating results for the 2006 financial year reflect the success of our diversification strategy and strong cost controls.

Excellent profit growth from our Australian digital businesses and Trade Me in New Zealand have offset lower earnings from our traditional publishing businesses which were affected by cyclically weaker advertising markets in Sydney and Melbourne and the weakening New Zealand dollar. Underlying earnings before interest and tax of $425.5 million were in-line with the 2005 result.

Excluding significant items, the underlying net profit attributable to ordinary shareholders (including a notional dividend payable on the Stapled Preference Shares issued in March 2006 of $5.8 million) was $228.5 million, a decrease of 3.8% compared to last year. Underlying earnings per share decreased 5.2% to 24.5 cents.

Including significant items, profit after tax was $227.5 million, down 7.1% and earnings per share decreased 8.3% to 24.4 cents.

In summary, the 2006 result is reflective of how the Company is being reshaped. Previously, in weaker advertising markets, earnings reduced substantially. With the diversification and growth now being experienced by our digital businesses, the Company has a broader revenue base where weakness in a particular business can usually be offset by growth in another.

GROUP TRADING

(For comparison purposes, all references exclude significant items and are on an underlying trading basis. The 2005 results have been adjusted for adoption of International Financial Reporting Standards)

Revenues

Group revenues from continuing operations increased 1.8% to $1.91 billion. Revenues from newspapers fell 2.7%, however this was more than offset by growth from sales in the digital and magazines businesses which reported revenue increases of 31%.

Australian publishing revenues fell 1.3% for the year. While the Magazine, Regional and Business Media operations increased revenues, the Metropolitan and Community publications were significantly affected by the weak economies and advertising markets in New South Wales and Victoria.

The Australian Digital businesses increased revenues by a very strong 76% – higher than the overall growth of the internet industry's total advertising revenues – driven by increases across the entire network of classified and news and information sites. Revenues also increased with the acquisition of RSVP and Stayz during the financial year.

In local currency, the New Zealand publishing business increased advertising revenues by 2.0% and circulation revenues were 2.7% higher. Although the economy weakened during the year, the business was successful in increasing advertising revenues across all categories with the exception of Motor Vehicle advertising which was down 4.0%.

Costs

Cost controls across the Group were a highlight of these results.

Australian publishing costs were very well controlled and increased only 0.9% during the year. Excluding amounts expensed as part of the development of new initiatives such as Travel & Leisure magazine and AFR Access, costs were in-line with last year. Cost increases in newsprint, production/distribution, promotions and other costs were offset by reductions in staff costs, reflecting the restructuring initiatives undertaken during the year.

Australian digital costs increased 49%, driven by acquisitions and the additional investment being made in staff and promotional activities to further improve its competitive position in this fast growing segment.

Excluding the impact of acquisitions, New Zealand publishing cost growth was 1.3% (in New Zealand dollars). This is a good outcome considering the inflationary pressures on labour costs being experienced in that market and is indicative of the very strong cost disciplines that are in place.

In total, costs for the Group increased 2.8%.

The Company is currently undertaking a number of business process simplification and streamlining projects to better align the cost base in our publishing business with revenue growth. These projects will improve the operating platform in publishing and result in further cost savings.

Earnings

As highlighted earlier, our diversification strategy and the continued focus on the alignment of the cost base has reduced the earnings volatility of the Group. During a period when our traditional metropolitan markets faced weakened ad market conditions, the Group reported EBITDA of $505.2 million, a reduction of 0.4% compared to the previous year. In previous cyclical downturns, the earnings decline was significant.

Another strong aspect of this year's results is the earnings contribution from the digital business in Australia and Trade Me in New Zealand.

Our Australian digital business increased EBITDA by 270% to $24.3 million (compared to $6.6 million in 2005) with all the web-based businesses increasing in profitability.

	2006 A$m	2005 A$m	Variance %
Profit and Loss			
Group: Reported Trading			
Trading Revenue	1907.8	1873.4	1.8%
Associate Profits & Other*	6.9	5.4	28.2%
Costs	1421.2	1367.4	(3.9%)
EBITDA*	493.5	511.4	(3.5%)
Depreciation	79.8	80.1	0.4%
EBIT*	413.8	431.3	(4.1%)
Group: Underlying Trading			
Trading Revenue	1907.8	1873.4	1.8%
Associate Profits & Other	2.5	1.4	86.8%
Costs	1405.1	1367.4	(2.6%)
EBITDA	505.2	507.4	(0.4%)
Depreciation	79.8	80.1	0.4%
EBIT	425.5	427.3	(0.4%)
Balance Sheet			
Total assets	4,087.2	3,592.8	
Total liabilities	1,950.4	1,424.1	
Total equity	2,136.8	2,168.7	
Free Cashflow			
Cash flows from operating activities	288.2	343.8	
Capital Expenditure	(52.6)	(48.2)	
PRESSES Dividend	–	(18.6)	
Operating cashflow post Capital Expenditure and PRESSES (Free cashflow)	235.6	277.1	

*excludes interest income as per Note 2(b) to the financial statements.

Following the acquisition in April 2006, Trade Me contributed NZ$9.3 million in EBITDA with all areas of this business experiencing significant growth. The growth is expected to continue this current financial year and we are confident that Trade Me will achieve its targeted outcomes.

Significant items

During the year, pre tax significant losses totalling $11.7 million were incurred. This was comprised of major restructuring and redundancy costs of $16.1 million offset by a share of profits from an associate, Australian Associated Press Pty Limited, of $4.4 million following the sale of one of its operating divisions.

BALANCE SHEET, DEBT AND CASH FLOW

A key component of the capital management strategy remains the maintenance of an efficient balance sheet and ensuring shareholder returns are maximised while maintaining investment grade rating. This was evident in 2007 as the Group undertook major initiatives such as the acquisition of Trade Me, driven largely through debt funding and increased dividends paid to shareholders.

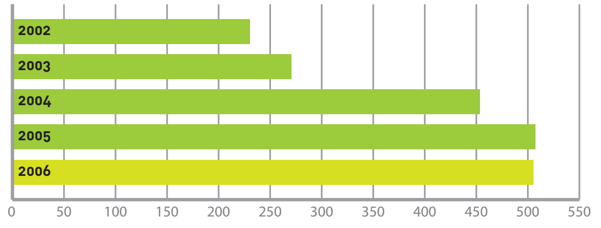
Intangible assets increased by $548.3 million to $2.90 billion. This increase was mainly due to the acquisition of Trade Me and publications such as The Rodney Times and The Independent in New Zealand.

As capital expenditure remains below our depreciation charge, net property, plant and equipment fell $43.3 million. As the Group has completed the major upgrades of its printing facilities in both Sydney and Melbourne, it is anticipated that in the short to medium term capital expenditure will remain at or below depreciation.

Net debt increased by $540.9 million to $1.45 billion. Of this increase, $249.5 million relates to the re-classification under the new accounting standards of the PRESSES from equity in 2005 to debt in 2006. On 27 July 2006, these PRESSES were converted into equity, thereby effectively reducing the net debt levels. The Company has additional borrowings of $150 million post 30 June 2006 relating to the acquisitions of the Border Morning Mail Ltd and the Independent News Pty Ltd.

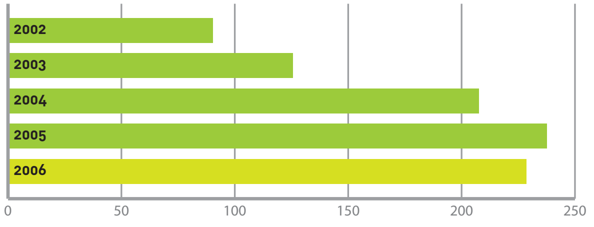
Underlying EBITDA

A$m



Underlying Net Profit

after tax / A$m



In March 2006, the Company issued 3 million Stapled Preference Shares with a total value of $293.2 million. The proceeds from the issue were used to partially fund the NZ$700 million acquisition of Trade Me. Under International Financial Reporting Standards the issue is treated as equity.

We have optimised the balance sheet with higher debt levels to improve shareholder returns. Key debt ratios such as interest cover at 5.1 times and debt to EBITDA (including PRESSES) at 2.93 are well within investment grade ratings.

The cash flow position of the Group remains strong with cash flow per share of 25.4 cents exceeding reported earnings per share of 24.4 cents. This is a reflection of the benefits arising to the Group from our investment in plant and equipment as well as the continuing tight control on working capital. Overall free cash flow was $235.6 million during the year.

DIVIDENDS

Dividends of $222.6 million were proposed and paid during the year, an increase of $53.8 million from last year and an indication of the financial strength of the Group. Dividends were comprised of ordinary dividends of $176.4 million and a special dividend of $46.2 million. A Dividend Reinvestment Plan (DRP) was in operation with the Company issuing 14,137,642 shares under the DRP in 2006.

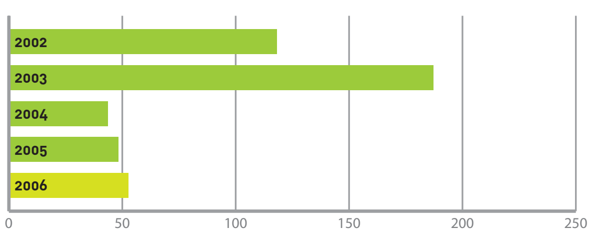
A fully franked final dividend of 11.5 cents per share has been declared taking the total ordinary dividends per share for 2006 to 19.5 cents per share or 5.4% higher than the previous year. The DRP was in operation for the final dividend with a 2.5% discount applied. There was no discount applied to the interim dividend.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As advised last year, the Company transitioned accounting policies and financial reporting from Australian Accounting Standards (AGAAP) to Australian equivalents to International Financial Reporting Standards (AIFRS) for the financial year ended 30 June 2006. The effects on both the restated 2005 financial year Consolidated Income Statement and Balance Sheet are minimal. Note 39 to the Financial Statements sets out in detail the adjustments made.

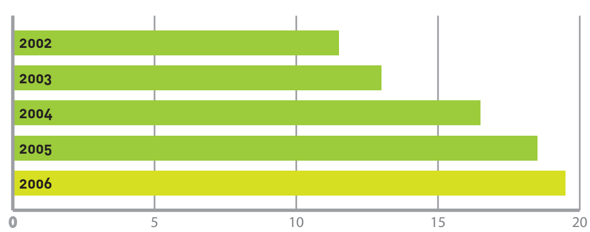
Group Capital Expenditure

A$m



Ordinary Dividends

cents per share



Consolidated Income Statements

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Revenue from operations	2(a)	**1,907,842**	1,873,407	**346,195**	482,093
Other revenue	2(b)	**2,122**	6,840	**26,490**	158,549
Total revenue		**1,909,964**	1,880,247	**372,685**	640,642
Share of net profits of associates and joint ventures	9(c)	**6,919**	2,907	**–**	–
Expenses from continuing operations excluding depreciation, amortisation and finance costs	3(a)	**(1,421,216)**	(1,367,406)	**(84,766)**	(105,121)
Depreciation and amortisation	3(b)	**(79,775)**	(80,083)	**(13,814)**	(9,991)
Finance costs – PRESSES	3(d)	**(18,893)**	–	**(18,893)**	–
Finance costs – other	3(d)	**(80,416)**	(80,974)	**–**	(210,694)
Net profit from continuing operations before income tax expense		**316,583**	354,691	**255,212**	314,836
Income tax (expense)/benefit	5	**(88,512)**	(90,808)	**19,056**	(36,495)
Net profit from continuing operations after income tax expense		**228,071**	263,883	**274,268**	278,341
Net profit attributable to minority interest		**(618)**	(634)	**–**	–
Net profit attributable to members of the Company *		**227,453**	263,249	**274,268**	278,341

	Note	Consolidated 2006	Consolidated Restated 2005
Earnings per share (cents per share)			
Basic earnings per share (cents per share)	25	**24.41**	26.63
Diluted earnings per share (cents per share)	25	**23.84**	26.63

The basic and diluted earnings per share (cents per share) before significant and non-recurring items are shown at note 25.

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000
Net profit attributable to members of the Company*		**227,453**	263,249
Less dividend paid on PRESSES		–	(18,551)
Net profit after significant and non-recurring items		**227,453**	244,698
Significant and non-recurring items, net of tax	4	**6,876**	(7,069)
Net profit before significant and non-recurring items, net of tax		**234,329**	237,629
Less notional SPS dividend	25	**(5,844)**	–
Net profit before significant and non-recurring items and including notional SPS dividend		**228,485**	237,629

The above Income Statements should be read in conjunction with the accompanying notes.

Consolidated Balance Sheets

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
CURRENT ASSETS					
Cash and cash equivalents	35(b)	**52,748**	134,154	**954**	23,813
Trade and other receivables	7	**281,852**	284,061	**6,664**	4,525
Inventories	8	**35,663**	30,195	**–**	–
Derivative assets	14	**15,305**	411	**–**	–
Total current assets		**385,568**	448,821	**7,618**	28,338
NON-CURRENT ASSETS					
Receivables	7	**217**	8,739	**1,578,340**	1,429,258
Investments accounted for using the equity method	9	**16,333**	10,661	**3,046**	–
Available for sale investments	10	**3,175**	–	**–**	–
Held to maturity investments	11	**16,949**	–	**–**	–
Intangible assets	12	**2,899,648**	2,351,357	**25,821**	20,851
Property, plant and equipment	13	**654,257**	697,539	**26,696**	29,618
Derivative assets	14	**15,999**	6,830	**–**	–
Pension asset	15(a)	**10,676**	6,816	**–**	–
Deferred tax assets	16(a)	**78,253**	55,699	**6,646**	4,211
Other financial assets	17	**6,119**	6,321	**409,570**	155,570
Total non-current assets		**3,701,626**	3,143,962	**2,050,119**	1,639,508
Total assets		**4,087,194**	3,592,783	**2,057,737**	1,667,846
CURRENT LIABILITIES					
Payables	18	**201,730**	204,676	**15,616**	22,917
Interest bearing liabilities	19	**610,175**	163,420	**249,536**	–
Derivatives	14	**246**	–	**–**	–
Provisions	20	**79,465**	78,452	**5,234**	8,463
Current tax liabilities		**7,656**	25,805	**7,486**	25,521
Total current liabilities		**899,272**	472,353	**277,872**	56,901
NON-CURRENT LIABILITIES					
Interest bearing liabilities	19	**897,757**	885,019	**–**	–
Derivatives	14	**51,712**	–	**–**	–
Deferred tax liabilities	16(a)	**81,634**	44,718	**2,934**	97
Provisions	20	**17,635**	21,115	**1,137**	154
Other		**2,375**	867	**–**	–
Total non-current liabilities		**1,051,113**	951,719	**4,071**	251
Total liabilities		**1,950,385**	1,424,072	**281,943**	57,152
Net assets		**2,136,809**	2,168,711	**1,775,794**	1,610,694
EQUITY					
Contributed equity	21	**1,541,501**	1,425,547	**1,547,616**	1,425,547
Reserves	22	**(126,824)**	28,089	**595**	595
Retained profits	23	**717,414**	710,975	**227,583**	184,552
Total parent entity interest		**2,132,091**	2,164,611	**1,775,794**	1,610,694
Minority interest	24	**4,718**	4,100	**–**	–
Total equity		**2,136,809**	2,168,711	**1,775,794**	1,610,694

The above Balance Sheets should be read in conjunction with the accompanying notes.

Consolidated Statements of Recognised Income and Expense

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Net profit from continuing operations after income tax expense	**227,453**	263,249	**274,268**	278,341
Amounts recognised directly in equity				
Adjustments on adoption of AIFRS, net of tax				
Retained earnings	**(580)**	–	**(8,615)**	(179)
Foreign currency translation reserve	**(3,059)**	15	**–**	–
Cashflow hedge reserve, net of tax	**(648)**	–	**–**	–
Cashflow hedge reserve, net of tax	**(666)**	–	**–**	–
Net investment hedge reserve, net of tax	**(4,494)**	–	**–**	–
Foreign currency translation reserve, net of tax	**(146,386)**	1,077	**–**	–
Changes in fair value of available for sale assets, net of tax	**(667)**	–	**–**	–
Actuarial gain/(loss) on defined benefit plans, net of tax	**2,911**	(384)	**–**	–
Total	**73,864**	263,957	**265,653**	278,162
Attributable to minority interest	**(618)**	(634)	**–**	–
Total recognised income and expense for the financial year	**73,246**	263,323	**265,653**	278,162

The above Statements of Recognised Income and Expense should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statements

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		**2,114,427**	2,068,565	**4,264**	292,093
Payments to suppliers and employees (inclusive of GST)		**(1,618,203)**	(1,574,643)	**(93,104)**	(129,336)
Redundancy and severance payments		**(20,264)**	(11,526)	**(2,620)**	–
Interest received		**10,795**	7,432	**26,490**	158,549
Dividends and distributions received		**4,972**	2,360	**344,700**	190,000
Finance costs paid – other		**(86,887)**	(85,440)	**–**	(210,694)
Finance costs paid – PRESSES **		**(18,601)**	–	**(18,601)**	–
Net income taxes paid		**(98,054)**	(62,947)	**(55,437)**	(21,502)
Net cash inflows from operating activities	35(a)	**288,185**	343,801	**205,692**	279,110
Cash flows from investing activities					
Payment for purchase of controlled entities, associates and joint ventures (net of cash acquired)		**(663,045)**	(13,563)	**(303,046)**	–
Payment for purchase of businesses, including mastheads		**(14,216)**	(9,697)	**–**	(2)
Proceeds from sale of controlled entities, associates and joint ventures		**–**	7,699	**–**	–
Payment for property, plant and equipment and other assets		**(52,554)**	(48,181)	**(16,099)**	(14,292)
Proceeds from sale of property, plant and equipment		**141**	3,167	**38**	–
Payment for available for sale investments		**(4,128)**	–	–	–
Payment for held to maturity investments		**(16,949)**	–	–	–
Proceeds from sale/liquidation of other financial assets		**47**	95	**–**	–
Loans advanced to controlled entities		**–**	–	**(49,477)**	(114,101)
Other		**–**	680	**–**	170
Net cash outflow from investing activities		**(750,704)**	(59,800)	**(368,584)**	(128,225)
Cash flows from financing activities					
Proceeds from issue of shares	21(a)	**1,913**	441	**1,913**	441
Refund of transaction costs – share issue	21(a)	**–**	1,117	**–**	1,117
Proceeds from issue of SPS (net of costs)	21(b)	**293,167**	–	**299,282**	–
Proceeds from borrowings and other financial liabilities		**735,765**	182,091	**–**	–
Repayment of borrowings and other financial liabilities		**(488,046)**	(233,769)	**–**	–
Transaction costs – debt securities		**(375)**	(6,705)	**–**	–
Dividends paid to shareholders*		**(161,162)**	(102,576)	**(161,162)**	(102,576)
Dividends paid – PRESSES **		**–**	(18,551)	**–**	(18,551)
Net cash inflows/(outflows) from financing activities		**381,262**	(177,952)	**140,033**	(119,569)
Net (decrease)/increase in cash and cash equivalents held		**(81,257)**	106,049	**(22,859)**	31,316
Cash and cash equivalents at beginning of the financial year		**134,154**	28,105	**23,813**	(7,503)
Effect of exchange rate changes on cash and cash equivalents		**(149)**	–	**–**	–
Cash and cash equivalents at end of the financial year	35(b)	**52,748**	134,154	**954**	23,813

* Under the terms of the DRP, $61.460 million (2005: $66.321 million) of dividends were paid via the issue of 14,137,642 ordinary shares (2005: 17,494,932 ordinary shares). A cash dividend payment of $161.162 million (2005: $102.576 million) was made to ordinary shareholders that did not elect to participate in the DRP.

** Under AIFRS, the PRESSES were reclassified as a financial liability and the dividends on the PRESSES reclassified as an interest expense (refer to note 39).

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

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 separate financial statements for John Fairfax Holdings Limited as an individual entity and the consolidated entity consisting of John Fairfax Holdings Limited and its subsidiaries.

(A) BASIS OF PREPARATION

This general purpose financial report for the financial year ended 30 June 2006 has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.
The consolidated entity changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 July 2004 as the date of transition.

The financial statements of John Fairfax Holdings Limited and the Group until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (previous AGAAP). Previous AGAAP differs in certain respects from AIFRS. When preparing the financial report for the financial year ended 30 June 2006, management has amended certain accounting and valuation methods applied in previous AGAAP financial statements to comply with AIFRS. The comparative information has been restated to reflect these adjustments, with the exception of financial instruments (AASB 132 and AASB 139), including derivatives, as permitted under the first time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the 2005 annual financial report. Accordingly, the comparative columns have been presented as restated.

Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Early adoption of standard

The Group has elected to apply AASB 119 Employee Benefits (issued in December 2004) to the annual reporting period beginning 1 July 2004.

Transitional elections

The Group has not taken advantage of any first time transition elections available under AASB 1 apart from the following:

- to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005
- to not apply AASB 3 *Business Combinations* retrospectively to business combinations that occurred before the transition date of 1 July 2004
- to recognise all cumulative defined benefit superannuation plan actuarial gains and losses directly in retained earnings; and
- to apply AASB 2 *Share Based Payment* only to shares and options granted after 7 November 2002 that had not vested on or before 1 January 2005.

The impact of the transition from previous AGAAP to AIFRS on the Group's equity and net profit are reconciled and described in note 39.

Historical cost convention

These financial statements have been prepared on a going concern basis and on the basis of historical cost principles except for derivative financial instruments and certain financial assets 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.

1. Summary of significant accounting policies (continued)

Comparatives

Certain comparative amounts have been reclassified.

(B) PRINCIPLES OF CONSOLIDATION

(i) Controlled entities

The consolidated financial statements incorporate the assets and liabilities of the Company, John Fairfax Holdings Limited, and its controlled entities. John Fairfax Holdings 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 of control. They are de-consolidated from the date that control ceases.

The purchase 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.

Minority interest in the earnings and equity of controlled entities is shown separately in the consolidated income statement 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, after initially being recognised at cost.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses are recognised as revenue 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, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity. The excess of the cost of acquisition over the fair value of the net identifiable assets acquired represents goodwill (refer to note 1(d)(i)).

(D) INTANGIBLES

(i) Goodwill

Goodwill on acquisition represents the excess of purchase consideration, including incidental expenses associated with the acquisition, over the fair value of the Group's share of the identifiable net assets of the acquired. Goodwill on acquisition of subsidiaries and associates/joint ventures are included in intangible assets and investments in associates/joint ventures respectively.

Goodwill is not amortised, instead it is tested for impairment annually, or whenever there is an indication that the carrying value may be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purposes of impairment testing (refer note 1(e)). Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

1. Summary of significant accounting policies (continued)

(D) INTANGIBLES (CONTINUED)

(ii) Other intangible assets

Mastheads and tradenames
The newspaper mastheads and tradenames have been assessed to have indefinite useful lives. Accordingly, they are not amortised, instead they are tested for impairment annually, or whenever there is an indication that the carrying value may be impaired, and are carried at cost less accumulated impairment losses.

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 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.

Computer software
Acquired computer software licences are capitalised as an intangible as are internal and external costs directly incurred in the purchase or development of computer software, 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 3 years.

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

Intangible assets are tested for impairment annually (refer to note 1(e)).

(E) IMPAIRMENT

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or whenever there is an indication that it may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash generating unit is the grouping of assets at the lowest level for which there are separately identifiable cash flows.

At each balance date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

(F) FOREIGN CURRENCY

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).

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 operation 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.

1. Summary of significant accounting policies (continued)

(F) FOREIGN CURRENCY (CONTINUED)

Transactions and balances (continued)

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 fair value reserve in equity.

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

On consolidation, exchange differences arising from the translation on any net investment in foreign entities are taken directly to a separate component of equity, the foreign currency translation reserve.

On disposal of a foreign entity, or borrowings that form part of the net investment are repaid, the deferred cumulative amount of the exchange differences in the foreign currency translation reserve relating to that foreign operation is 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 entity and the amount of the revenue can be reliably measured. Advertising and circulation revenue from the sale of newspapers, magazines and other publications is recognised on publication net of expected returns and pricing adjustments. Revenue from rendering of services is recognised when control of a right to be compensated for the services has been attained and the stage of completion of the service contract can be reliably measured. Stage of completion is measured by reference to the services performed to date as a percentage of total estimated services to be performed for each contract. If a contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred. Online revenue from the sale of advertising is recognised on publication of the advertisement on the website. Revenue from other internet sales depends on the nature of the service and is recognised on a basis that reflects the timing, nature and value of the benefits provided.

Revenue from dividends and distributions from controlled entities are recognised by the Company when they are declared by the controlled entities.

Interest is recognised as it accrues, taking into account the effective yield on the financial asset.

(H) INCOME TAX

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted or substantively enacted at balance date.

The income tax expense or revenue 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 between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Deferred tax assets and liabilities are recognised for temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Income taxes relating to equity items are recognised directly in equity and not in the income statement.

1. Summary of significant accounting policies (continued)

(H) INCOME TAX (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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit and loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity 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 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 statement of cashflow 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

John Fairfax Holdings Limited (the head entity) and its wholly-owned Australian entities have implemented the tax consolidation legislation as of 1 July 2003. Each member in the tax consolidated group continues to account for their own current and deferred tax amounts as if they continued to be a stand alone taxpayer in its own right.

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, John Fairfax Holdings Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate John Fairfax Holdings 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 John Fairfax Holdings Limited under the tax

1. Summary of significant accounting policies (continued)

(H) INCOME TAX (CONTINUED)

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.

(I) LEASES

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 (finance leases) 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.

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.

(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

For the financial year ended 30 June 2005, trade receivables were recognised at original invoice amount less provision for doubtful debts. Debts which were known to be uncollectible were written off. A provision for doubtful debts was established where there was objective evidence that the Group will not be able to collect all amounts due. From 1 July 2005, trade receivables are recognised at amortised cost, which in the case of the Group, is the original invoice amount less an allowance for any uncollectable 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
- in the case of other inventories, cost is assigned by the weighted average cost method.

A provision for diminution in value of inventories exists to cover the estimated decline in value from the effects of storage hazards.

(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 bid 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 12 months of the balance sheet date.

1. Summary of significant accounting policies (continued)

(N) INVESTMENTS AND OTHER FINANCIAL ASSETS

The consolidated entity adopted AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Adjustments have been made to the opening balance sheet at 1 July 2005 to reflect this change in accounting policy for the adoption of AASB 139 and these are shown separately in note 39.

From 1 July 2005, the consolidated entity classified 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 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.

(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 in the balance sheet and measured at amortised cost using the effective interest method.

(iii) Available for sale 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.

(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. 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, 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 either fair value hedges (hedges of the fair value of recognised assets or liabilities or a firm commitment) or cash flow hedges (hedges of highly probable forecast transactions).

1. Summary of significant accounting policies (continued)

(N) INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

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. 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. 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.

The consolidated entity's interest rate swaps and cross currency swaps held for hedging purposes are generally accounted for as cash flow hedges. At 30 June 2006, the consolidated entity had closed out all forward foreign currency contracts held for hedging purposes.

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.

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.

Financial instrument transaction costs
Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial instruments. Under AIFRS such costs are included in the carrying amounts.

(O) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost less accumulated depreciation. 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 20 years
Other production equipment	up to 15 years
Other equipment	up to 40 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet 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.

1. Summary of significant accounting policies (continued)

(P) TRADE AND OTHER PAYABLES

For the financial year ended 30 June 2005, trade payables were carried at cost which was the fair value of consideration to be paid in the future for goods and services received. From 1 July 2005, liabilities for trade payables and other amounts are carried at amortised cost which, in the case of the Group, 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.

(Q) PROVISIONS

Provisions are recognised when an entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to others as a result of past transactions, or past 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.

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

(R) 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.

Preferred reset securities exchangeable for shares are classified as liabilities (refer to note 19, 21(c)). The dividends on these shares are recognised in the income statement as a finance cost.

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

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.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 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.

(S) EMPLOYEE BENEFITS

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

Liabilities for wages and salaries, holiday pay, annual 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 12 months from balance 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 balance date and are measured as the present value of expected future payments to be made in respect of services provided by employees up to balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance 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 shares and options.

There are currently two plans in place to provide these benefits. Information relating to these schemes is set out in note 31.

1. Summary of significant accounting policies (continued)

(S) EMPLOYEE BENEFITS (CONTINUED)

Shares options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in the income statement in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005
The fair value of options granted under the share plans is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the Long Term Incentive Share Plan is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in earnings per share.

(iii) Defined benefit superannuation plans

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

An asset 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 balance 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 Company 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.

1. Summary of significant accounting policies (continued)

(T) CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Preferred reset securities exchangeable for shares are classified as liabilities (refer note 1(r)). Stapled preference shares are classified as equity (refer note 21(b)).

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.

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.

(U) 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.

(V) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. Geographical segments are the consolidated entity's primary reporting format.

1. Summary of significant accounting policies (continued)

(W) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The carrying amounts of certain assets and liabilities are often 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 whether goodwill and intangibles with indefinite useful lives are impaired. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are detailed in note 12.

(ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide 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.

(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 valuer using a binomial model, using the assumptions detailed in note 31.

The Group measures the cost of share-based payments at fair value at the grant date using the Monte Carlo formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 31.

(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 disclosed in note 15.

(v) Held-to-maturity investments

The Group follows the AASB 139 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in AASB 139, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost which would result in a corresponding entry in the fair value reserve in shareholders' equity. Furthermore, the entity would not be able to classify any financial assets as held-to-maturity for the following two financial years.

(X) 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.

Notes to the Financial Statements

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

1. Summary of significant accounting policies (continued)

(Y) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

As at 30 June 2006, the following new Accounting standards or amendments have been published which are not mandatory for 30 June 2006 reporting periods:

UIG 4	*Determining whether an arrangement contains a lease* Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.
UIG 8	*Scope of AASB 2* Implementation of UIG 8 is not expected to change the accounting for any of the Group's current arrangements.
UIG 9	*Reassessment of embedded derivatives* Implementation of UIG 9 is not expected to change the accounting for any of the Group's current arrangements.
AASB 2005-1	*Amendments to Australian Accounting Standards AASB 139 – Cashflow hedge accounting of forecast intra-group transactions* Application of AASB 2005-1 is not expected to change the accounting for any of the Group's current arrangements.
AASB 2005-4	*Amendments to Australian Accounting Standards (AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038) – Fair value option* Application of AASB 2005-4 is not expected to change the accounting for any of the Group's current arrangements.
AASB 2005-6	*Amendments to Australian Accounting Standards AASB 3 – Business combinations involving entities under common control* Application of AASB 2005-6 is not expected to change the accounting for any of the Group's current arrangements.
AASB 2005-9	*Amendments to Australian Accounting Standards (AASB 4, AASB 1023, AASB 139 & AASB 132) – Consequential amendments arising as a result of proposed amendments to IAS 39 and IFRS 4* Application of the revised rules may result in the recognition of financial liabilities in the financial statements of John Fairfax Holdings Limited, under guarantees given pursuant to the deed of cross guarantee (refer note 28) in respect of amounts payable by wholly owned subsidiaries. As assessment of the fair value of these guarantees has not yet been performed.
AASB 2005-10	*Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038) – Consequential amendments arising as a result of the release of AASB 7* Application of AASB 2005-10 is not expected to change the accounting for any of the Group's current arrangements.
AASB 2006-1	*Amendments to Australian Accounting Standards (AASB 121)– Consequential amendments arising as a result of the amendments to AASB 121.* Application of AASB 2006-1 is not expected to change the accounting for any of the Group's current arrangements.
AASB 7	*Financial Instruments: Disclosures* AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

In addition to the above UIG 5, 6 and 7 are not expected to affect the Group's financial statements.

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000

2. Revenue

(A) REVENUE FROM OPERATIONS

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Revenue generated from sales of:				
Newspapers	**1,560,592**	1,603,274	**–**	–
Magazines	**195,064**	177,532	**–**	–
Online and other	**134,908**	74,303	**1,495**	–
Total revenue from sales	**1,890,564**	1,855,109	**1,495**	–
Revenue from rendering of services	**16,254**	17,174	**–**	292,093
Dividend/distribution revenue				
Wholly owned controlled entities	**–**	–	**344,700**	190,000
Other corporations	**1,024**	1,124	**–**	–
Total revenue from operations	**1,907,842**	1,873,407	**346,195**	482,093

(B) OTHER REVENUE

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Interest income				
Wholly owned controlled entities	**–**	–	**23,846**	158,532
Other corporations	**2,122**	4,349	**8**	17
Other income – wholly owned controlled entities	**–**	–	**2,636**	–
Net gain on sale of property, plant and equipment	**–**	2,261	**–**	–
Net gain on sale of other assets	**–**	230	**–**	–
Total other revenue	**2,122**	6,840	**26,490**	158,549
Total revenue	**1,909,964**	1,880,247	**372,685**	640,642

Notes to the Financial Statements

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
3. Expenses				
(A) EXPENSES BY NATURE				
Staff costs excluding staff redundancy costs	**620,064**	605,303	**38,938**	41,068
Newsprint and paper	**242,891**	245,057	**–**	–
Distribution and other production costs	**225,156**	217,566	**5**	6
Promotion and advertising costs	**91,270**	75,969	**63**	66
Staff redundancy costs	**19,518**	5,267	**2,620**	2,048
Rent and outgoings	**37,773**	33,799	**20,851**	17,253
Repairs and maintenance	**21,597**	20,518	**5,022**	4,800
Communication costs	**14,980**	13,340	**2,423**	41
News services	**10,947**	10,246	**87**	60
Computer costs	**12,689**	11,107	**5,833**	5,017
Fringe benefits tax	**7,573**	7,283	**661**	524
Other	**116,758**	121,951	**8,263**	34,238
Total expenses before depreciation, amortisation and finance costs	**1,421,216**	1,367,406	**84,766**	105,121
(B) DEPRECIATION AND AMORTISATION				
Depreciation of freehold property	**3,188**	4,379	**–**	–
Depreciation of plant and equipment	**60,751**	63,603	**5,572**	5,445
Amortisation of leasehold property/buildings	**1,396**	1,282	**–**	–
Amortisation of software	**14,440**	10,819	**8,242**	4,546
Total depreciation and amortisation	**79,775**	80,083	**13,814**	9,991
(C) NET (LOSS)/GAINS				
Net foreign exchange (loss)/gain	**(1,948)**	(764)	**10**	(195)
(D) FINANCE COSTS				
Finance costs				
Wholly owned controlled entities	**–**	–	**–**	210,694
External corporations / persons	**75,627**	76,284	**–**	–
Finance lease	**4,789**	4,690	**–**	–
Total finance costs – other	**80,416**	80,974	**–**	210,694
Finance cost – PRESSES	**18,893**	–	**18,893**	–
Total finance costs	**99,309**	80,974	**18,893**	210,694
(E) DETAILED EXPENSE DISCLOSURES				
Costs of sales	**736,498**	700,647	**–**	–
Operating lease rental expense	**27,869**	23,898	**20,418**	16,785
Superannuation expense				
Defined benefit fund expense	**605**	685	**–**	–
Defined contribution fund expense	**35,762**	34,202	**2,901**	2,576
Share based payments expense	230	416	230	416

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000

4. Significant Items

Profit from continuing operations before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the consolidated entity:

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Share of profits from an associate's, Australian Associated Press Pty Limited, sale of one of its operating divisions	4,380	–	–	–
Major restructure and redundancy programme	(16,080)	–	(1,582)	–
Proceeds from sale of Gordon and Gotch business and associated assets and liabilities sold	–	7,679	–	–
Cost of sale of Gordon and Gotch business and associated assets and liabilities sold	–	(3,640)	–	–
Net significant and non-recurring items before income tax expense	(11,700)	4,039	(1,582)	–
Income tax benefit	4,824	–	475	–
Reversal of over provision of tax	–	3,030	–	–
Net significant and non-recurring items after income tax expense	(6,876)	7,069	(1,107)	–

5. Income Tax Expense

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

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Net profit before income tax expense	316,583	354,691	255,212	314,836
Prima facie income tax at 30% (2005: 30%)	94,975	106,407	76,564	94,451
Tax effect of differences:				
Share of net (profits)/losses of associates and joint ventures	(531)	(827)	–	–
Unrecognised capital losses	–	(918)	–	–
Non deductible depreciation and amortisation	(46)	(78)	–	–
Non assessable dividends	(1,482)	(1,471)	(103,410)	(57,000)
(Over)/under provision in prior financial years	(758)	(1,971)	2,897	(796)
Overseas tax rate and accounting differentials	(5,423)	(7,455)	5,580	–
Non-deductible/(deductible) items	1,941	856	146	(1,001)
Other	(164)	(705)	(833)	841
Income tax expense/(benefit) before significant items	88,512	93,838	(19,056)	36,495
Reversal of over provision of tax	–	(3,030)	–	–
Income tax (benefit)/expense	88,512	90,808	(19,056)	36,495
Current income tax expense	74,905	94,346	(22,599)	38,857
Deferred income tax expense	14,365	(1,567)	646	(1,566)
Under/(over) provided in prior financial years	(758)	(1,971)	2,897	(796)
Income tax expense in the income statement	88,512	90,808	(19,056)	36,495

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000

6. Dividends paid and proposed and finance costs

(A) ORDINARY SHARES

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Interim fully franked dividend:				
2006: 8 cents – paid 12 April 2006 (2005: 7.5 cents – paid 31 March 2005)	**74,669**	69,143	**74,669**	69,143
Final fully franked dividend and special dividend:				
2006: 11 cents (final) – paid 11 October 2005 (2005: 11 cents – paid 21 October 2004)	**101,718**	99,754	**101,718**	99,754
2006: 5 cents (special) – paid 11 October 2005 (2005: nil)	**46,235**	–	**46,235**	–
(B) PREFERRED RESET SECURITIES EXCHANGEABLE FOR SHARES (PRESSES)				
Fully franked PRESSES dividend:				
2006: $3.7304 per share – paid 13 June 2006*	**9,326**	–	**9,326**	–
2006: $3.7101 per share – paid 12 December 2005*	**9,275**	–	**9,275**	–
2005: $3.6493 per share – paid 10 June 2005	**–**	9,123	**–**	9,123
2005: $3.7710 per share – paid 13 December 2004	**–**	9,428	**–**	9,428
Total fully franked dividends paid and finance costs	**241,223**	187,448	**241,223**	187,448

* Under AIFRS, the PRESSES were reclassified as a financial liability and the dividends on the PRESSES reclassified as interest expense from 1 July 2005 under AASB 132 *Financial Instruments: Presentation and Disclosure*. At 30 June 2006, fully franked dividends paid amounted to $222,622,000 and interest expense on PRESSES totalled $18,601,000.

(C) DIVIDENDS PROPOSED AND NOT RECOGNISED AS A LIABILITY

Since balance date the directors have declared a final dividend of 11.5 cents per fully paid ordinary share fully franked to the corporate tax rate of 30%. The aggregate amount of the final dividend to be paid on 6 October 2006 out of the retained profits at 30 June 2006, but not recognised as a liability at the end of the year is expected to be $116 million.

(D) FRANKED DIVIDENDS

	Company 2006 $'000	Company Restated 2005 $'000
Franking account balance as at balance date at 30% (2005: 30%)	**66,167**	110,977
Franking credits that will arise from the payment of income tax payables as at the end of the financial year	**7,486**	25,805
Franking debits that will arise from tax receivable as at balance date	**–**	–
Total franking credits available for subsequent financial years based on a tax rate of 30%	**73,653**	136,782

On a tax-paid basis, the Company's franking account balance is approximately $66 million (2005: $111 million). The impact on the franking account of the dividend declared by the directors since balance date, will be a reduction in the franking account of approximately $50 million.

Notes to the Financial Statements

John Fairfax Holdings Limited and Controlled Entities
For the year ended 30 June 2006

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000

7. Receivables

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Current				
Trade debtors	258,488	261,081	294	316
Provision for doubtful debts	(3,572)	(6,359)	–	–
	254,916	254,722	294	316
Loans and deposits	248	(134)	(59)	(70)
Prepayments	15,593	13,886	3,924	2,542
Other	11,095	15,587	2,505	1,737
Total current receivables	281,852	284,061	6,664	4,525
Non-current				
Loans to related parties	–	–	1,578,340	1,427,578
Deposits	199	6,717	–	648
Prepayments	12	2,022	–	1,032
Other	6	–	–	–
Total non-current receivables	217	8,739	1,578,340	1,429,258

8. Inventories

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Raw materials and stores – at cost	35,434	30,326	–	–
Provision for diminution in value	(104)	(261)	–	–
Total raw materials and stores	35,330	30,065		–
Finished goods – at cost	132	27	–	–
Work in progress – at cost	201	103	–	–
Total inventories	35,663	30,195	–	–

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000

9. Investments accounted for using the equity method

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Shares in associates	(a)	**15,553**	9,796	**3,046**	–
Shares in joint ventures	(b)	**780**	865	**–**	–
Total investments accounted for using the equity method		**16,333**	10,661	**3,046**	–

(A) INTERESTS IN ASSOCIATES

Name of Company	Principal Activity	Place of Incorporation	Ownership interest 2006	Ownership interest 2005
Executive Publishing Network	Magazine Publishing	Australia	30.0%	–
Australian Associated Press Pty Limited	News agency business and information service	Australia	44.7%	44.7%
NGA.net.au	E-commerce: recruitment software	Australia	30.0%	30.0%
Newspaper House Limited	Property ownership	New Zealand	45.5%	45.5%
New Zealand Press Association Limited	News agency business and financial information service	New Zealand	49.2%	49.2%
Times Newspapers Limited	Newspaper Publishing	New Zealand	50.0%	50.0%
Ashburton Guardian Co Limited	Printing facility	New Zealand	25.0%	25.0%
Autobase Limited	E-commerce: online vehicle dealer automotive website	New Zealand	24.7%	–

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000
(i) Carrying amount of investment in associates		
Balance at 1 July 2005	**9,796**	6,931
Investments in associates acquired during the financial year	**3,269**	887
Adjustment for foreign exchange revaluation	**(82)**	2
Share of associates' net profit after income tax expense	**6,079**	2,005
Share of increment in associates' reserves	**–**	–
Dividends received/receivable from associates	**(3,509)**	(29)
Balance at 30 June 2006	**15,553**	9,796
(ii) Share of associates' profits		
Profit before income tax expense	**7,193**	2,880
Income tax expense	**(1,114)**	(875)
Net profit after income tax expense	**6,079**	2,005
(iii) Share of associates' assets and liabilities		
Current assets	**13,074**	19,129
Non-current assets	**15,259**	12,452
Total assets	**28,333**	31,581
Current liabilities	**6,435**	12,346
Non-current liabilities	**1,484**	973
Total liabilities	**7,919**	13,319

9. Investments accounted for using the equity method (continued)

(B) INTEREST IN JOINT VENTURE

Name of Company	Principal Activity	Place of Incorporation	Ownership interest 2006	2005
Text Pacific Pty Limited	Publishing	Australia	50.0%	50.0%

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000
(i) Carrying amount of investment in joint venture		
Balance at 1 July 2005	**865**	1,198
Share of joint venture's net profit after income tax expense	**840**	902
Dividends received/receivable from joint venture	**(925)**	(1,235)
Balance at 30 June 2006	**780**	865
(ii) Share of joint ventures' profits		
Revenues	**9,130**	9,765
Expenses	**(7,946)**	(8,485)
Profit before income tax expense	**1,184**	1,280
Income tax expense	**(344)**	(378)
Net profit after income tax expense	**840**	902
(iii) Share of joint ventures' assets and liabilities		
Current assets	**2,782**	2,069
Non-current assets	**–**	161
Total assets	**2,782**	2,230
Current liabilities	**2,039**	1,365
Non-current liabilities	**–**	–
Total liabilities	**2,039**	1,365

There were no impairment losses relating to the investment in associates or joint venture and no capital commitments or other commitments relating to the associates or joint ventures.

(C) SHARE OF NET PROFITS OF ASSOCIATES AND JOINT VENTURES

	2006	2005
Profit before income tax expense	**8,377**	4,160
Income tax expense	**(1,458)**	(1,253)
Net profit after income tax expense	**6,919**	2,907

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
10. Available for sale investments				
Listed equity securities – at fair value	3,175	–	–	–
Total available for sale investments	3,175	–	–	–

Available for sale investments consist of investments in ordinary shares and have no fixed maturity date. During the financial year, a devaluation of $952,500 was recognised directly in equity.

11. Held to maturity investments

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Bonds	16,949	–	–	–
Total held to maturity investments	16,949	–	–	–

The annuity bonds issued by Paperbonds Limited, which were acquired on 8 March 2006 and are to be held to maturity in September 2015, have a face value of $20,000,000. They are indexed to the consumer price index (CPI) and have an effective interest rate for the financial year ended 30 June 2006 of 5.64%.

12. Intangible assets

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Mastheads and tradenames – at cost	2,200,270	2,258,305	–	201
Software – at cost	45,236	36,806	25,821	20,650
Goodwill	654,142	56,246	–	–
Total intangible assets	2,899,648	2,351,357	25,821	20,851

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	Software $'000	Goodwill $'000	Total $'000
(i) Consolidated					
At 1 July 2004					
Cost		2,233,964	93,034	56,005	2,383,003
Accumulated amortisation and impairment		–	(57,821)	–	(57,821)
Net carrying amount		2,233,964	35,213	56,005	2,325,182
Year ended 30 June 2005					
Balance at beginning of the financial year		2,233,964	35,213	56,005	2,325,182
Additions		9,608	12,412	241	22,261
Acquisition of controlled entities		9,538	–	–	9,538
Impairment charge		–	–	–	–
Amortisation charge	3(b)	–	(10,819)	–	(10,819)
Exchange differences		5,195	–	–	5,195
At 30 June 2005, net of accumulated amortisation and impairment		2,258,305	36,806	56,246	2,351,357

12. Intangible assets (continued)

	Note	Mastheads & tradenames $'000	Software $'000	Goodwill $'000	Total $'000
At 30 June 2005					
Cost		2,258,305	105,446	56,246	2,419,997
Accumulated amortisation and impairment		–	(68,640)	–	(68,640)
Net carrying amount		2,258,305	36,806	56,246	2,351,357
Year ended 30 June 2006					
Balance at beginning of the financial year		2,258,305	36,806	56,246	2,351,357
Additions		9,622	22,492	3,724	35,838
Acquisition of controlled entities		35,263	4,598	623,142	663,003
Impairment charge		–	–	–	–
Amortisation charge	3(b)	–	(14,440)	–	(14,440)
Exchange differences		(102,920)	(4,220)	(28,970)	(136,078)
At 30 June 2006, net of accumulated amortisation and impairment		2,200,270	45,236	654,142	2,899,648
At 30 June 2006					
Cost		2,200,270	128,316	654,142	2,982,728
Accumulated amortisation and impairment		–	(83,080)	–	(83,080)
Net carrying amount		2,200,270	45,236	654,142	2,899,648

(ii) Company

	Note	Mastheads & tradenames $'000	Software $'000	Goodwill $'000	Total $'000
At 1 July 2004					
Cost		199	27,867	–	28,066
Accumulated amortisation and impairment		–	(14,741)	–	(14,741)
Net carrying amount		199	13,126	–	13,325
Year ended 30 June 2005					
Balance at beginning of the financial year		199	13,126	–	13,325
Additions		2	12,070	–	12,072
Acquisition of controlled entities		–	–	–	–
Impairment charge		–	–	–	–
Amortisation charge	3(b)	–	(4,546)	–	(4,546)
Exchange differences		–	–	–	–
At 30 June 2005, net of accumulated amortisation and impairment		201	20,650	–	20,851
At 30 June 2005					
Cost		201	39,937	–	40,138
Accumulated amortisation and impairment		–	(19,287)	–	(19,287)
Net carrying amount		201	20,650	–	20,851

12. Intangible assets (continued)

	Note	Mastheads & tradenames $'000	Software $'000	Goodwill $'000	Total $'000
Year ended 30 June 2006					
Balance at beginning of the financial year		201	20,650	–	20,851
Additions		–	13,413	–	13,413
Acquisition of controlled entities		–	–	–	–
Impairment charge		–	–	–	–
Amortisation charge	3(b)	–	–	–	–
Exchange differences		–	(8,242)	–	(8,242)
Disposal		(201)	–	–	(201)
At 30 June 2006, net of accumulated amortisation and impairment		–	25,821	–	25,821
At 30 June 2006					
Cost		–	53,350	–	53,350
Accumulated amortisation and impairment		–	(27,529)	–	(27,529)
Net carrying amount		–	25,821	–	25,821

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

The recoverable amount of each CGU which includes goodwill or indefinite life intangibles has been reviewed.

The recoverable amount of each CGU is determined based on fair value less costs to sell. These calculations use cashflow projections based on financial budgets approved by the Directors for the twelve months to 30 June 2007, after an adjustment for central overheads and synergy benefits. Management then apply a masthead multiple, based on recent market transactions, independent valuations or directors' assessment, to the CGU's resulting cashflow projection.

(iv) Allocation of goodwill and non-amortising intangibles to CGUs

CGU Group	Consolidated 2006 $'000	Consolidated 2005 $'000
New South Wales General Publications	**652,753**	651,352
Victoria General Publications	**489,472**	489,681
Fairfax Business Media	**177,317**	176,895
Australian Digital and other	**58,486**	758
New Zealand Publishing	**902,584**	995,865
New Zealand Digital	**573,800**	–
Total goodwill and indefinite life intangibles	**2,854,412**	2,314,551

General publications excludes national and specialist publishing.

No goodwill or intangibles are allocated to a CGU in the company.

12. Intangible assets (continued)

(v) Key assumptions used for fair value less costs to sell calculations

The key assumptions on which management has based its cashflow projections when determining the fair value less costs to sell of the CGUs are as follows:

- no significant increase in budgeted gross margin or growth rate from the 30 June 2006 financial year for non-digital CGUs. This is based on past performance and expected efficiency improvements.
- growth rates of between 40% to 55% for digital CGUs.
- masthead multiples ranging between 5 to 12, excluding NZ digital which has applied a 26 multiple based on a recent independent valuation.
- the spot exchange rate prevailing at balance date is used when converting foreign cashflows on foreign mastheads. The exchange rate of .8202 has been applied to New Zealand mastheads for the current financial year.

Due to the fact that Trade Me Limited, which comprises the NZ Digital CGU, was recently acquired (refer note 30(a)) and is a relatively new and emerging business, the recoverable amount of the NZ Digital CGU is also its carrying value at 30 June 2006. If there any are adverse movements in the assumptions applying to digital CGUs, this may result in the CGU's recoverable amount being less than its carrying value.

(vi) Impairment charge

No class of asset or goodwill was impaired and no impairment losses have been reversed during the financial year.

13. Property, plant and equipment

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Freehold land and buildings				
At cost	**184,784**	183,685	**–**	–
Provision for depreciation	**(14,220)**	(11,032)	**–**	–
Total freehold land and buildings	**170,564**	172,653	**–**	–
Leasehold buildings				
At cost	**57,015**	53,654	**473**	–
Provision for depreciation	**(13,643)**	(12,247)	**–**	–
Total leasehold buildings	**43,372**	41,407	**473**	–
Plant and equipment				
At cost	**1,026,976**	998,682	**43,808**	35,080
Provision for depreciation	**(610,144)**	(549,393)	**(23,484)**	(17,912)
Total plant and equipment	**416,832**	449,289	**20,324**	17,168
Capital works in progress – at cost	**23,489**	34,190	**5,899**	12,450
Total property, plant and equipment	**654,257**	697,539	**26,696**	29,618

13. Property, plant and equipment (continued)

Reconciliations

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

(i) Consolidated

	Note	Capital works in progress $'000	Freehold land & buildings $'000	Leasehold buildings $'000	Plant and equipment $'000	Total $'000
At 1 July 2004						
Cost		27,415	189,563	53,373	978,565	1,248,916
Accumulated depreciation and impairment		–	(6,957)	(10,965)	(485,790)	(503,712)
Net carrying amount		27,415	182,606	42,408	492,775	745,204
Year ended 30 June 2005						
Balance at beginning of financial year		27,415	182,606	42,408	492,775	745,204
Additions/capitalisations		6,814	1,455	281	16,986	25,536
Disposals		–	(7,481)	–	(2,842)	(10,323)
Impairment		–	–	–	–	–
Depreciation charge	3(b)	–	(4,379)	(1,282)	(63,603)	(69,264)
Exchange differences		(39)	452	–	5,973	6,386
At 30 June 2005, net of accumulated depreciation and impairment		34,190	172,653	41,407	449,289	697,539
At 30 June 2005						
Cost		34,190	183,685	53,654	998,682	1,270,211
Accumulated depreciation and impairment		–	(11,032)	(12,247)	(549,393)	(572,672)
Net carrying amount		34,190	172,653	41,407	449,289	697,539
Year ended 30 June 2006						
Balance at beginning of financial year		34,190	172,653	41,407	449,289	697,539
Additions/capitalisations		(9,323)	1,099	3,816	31,309	26,901
Disposals		(630)	–	–	(262)	(892)
Acquisition of controlled entities		–	–	–	1,530	1,530
Impairment		–	–	–	–	–
Depreciation charge	3(b)	–	(3,188)	(1,396)	(60,751)	(65,335)
Exchange differences		(748)	–	(455)	(4,283)	(5,486)
At 30 June 2006, net of accumulated depreciation and impairment		23,489	170,564	43,372	416,832	654,257
At 30 June 2006						
Cost		23,489	184,784	57,015	1,026,976	1,292,264
Accumulated depreciation and impairment		–	(14,220)	(13,643)	(610,144)	(638,007)
Net carrying amount		23,489	170,564	43,372	416,832	654,257

13. Property, plant and equipment (continued)

	Note	Capital works in progress $'000	Freehold land & buildings $'000	Leasehold buildings $'000	Plant and equipment $'000	Total $'000
(ii) Company						
At 1 July 2004						
Cost		15,570	–	–	31,770	47,340
Accumulated depreciation and impairment		–	–	–	(12,467)	(12,467)
Net carrying amount		15,570	–	–	19,303	34,873
Year ended 30 June 2005						
At 1 July 2004, net of accumulated depreciation and impairment		15,570	–	–	19,303	34,873
Additions/capitalisations		(3,120)	–	–	3,310	190
Disposals		–	–	–	–	–
Impairment		–	–	–	–	–
Depreciation charge	3(b)	–	–	–	(5,445)	(5,445)
At 30 June 2005, net of accumulated depreciation and impairment		12,450	–	–	17,168	29,618
At 30 June 2005						
Cost		12,450	–	–	35,080	47,530
Accumulated depreciation and impairment		–	–	–	(17,912)	(17,912)
Net carrying amount		12,450	–	–	17,168	29,618
Year ended 30 June 2006						
At 1 July 2005, net of accumulated depreciation and impairment		12,450	–	–	17,168	29,618
Additions/capitalisations		(6,551)	–	473	8,728	2,650
Disposals		–	–	–	–	–
Acquisition of controlled entities		–	–	–	–	–
Impairment		–	–	–	–	–
Depreciation charge	3(b)	–	–	–	(5,572)	(5,572)
At 30 June 2006, net of accumulated depreciation and impairment		5,899	–	473	20,324	26,696
At 30 June 2006						
Cost		5,899	–	473	43,808	50,180
Accumulated depreciation and impairment		–	–	–	(23,484)	(23,484)
Net carrying amount		5,899	–	473	20,324	26,696

14. Derivative financial instruments

	Consolidated 2006 $'000	Consolidated Restated* 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Current assets				
Cross currency swap – fair value hedge	14,642	411	–	–
Interest rate swap – fair value to profit and loss	393	–	–	–
Forward contracts – fair value to profit and loss	270	–	–	–
Total current derivative assets	15,305	411	–	–
Non-current assets				
Interest rate swap – cashflow hedge	134	6,830	–	–
Cross currency swap – net investment hedge	15,865	–	–	–
Total non-current derivative assets	15,999	6,830	–	–
Current liabilities				
Interest rate swap – cashflow hedge	9	–	–	–
Interest rate swap – fair value to profit and loss	236	–	–	–
Forward contracts – fair value to profit and loss	1	–	–	–
Total current derivative liabilities	246	–	–	–
Non-current liabilities				
Cross currency swap – fair value hedge	31,059	–	–	–
Cross currency swap – fair value hedge	20,653	–	–	–
Total non-current derivative liabilities	51,712	–	–	–

* The 2005 derivative balances have not been restated to comply with AASB 132 *Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement* as disclosed in note 1(a).

The Group uses derivative financial instruments to reduce its 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 quarterly 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 changes in fair value recognised in the profit and loss.

The derivatives entered into are vanilla over-the-counter instruments with liquid markets.

14. Derivative financial instruments (continued)

(A) HEDGING ACTIVITIES

(i) Cashflow hedges

At 30 June 2006, the Group held two interest rate swaps designated as hedges of future contracted interest payments on a long term AUD denominated loan. The interest rate swaps are used to hedge unfavourable movements in interest rates.

The terms of these interest rate swaps are as follows:

	Maturity date	Interest rate
Pay fixed receive floating – AUD $75m	12 September 2007	6.00%
Pay fixed receive floating – AUD $20m	19 December 2006	6.09%

At 30 June 2006, the hedges were assessed to be highly effective with an unrealised gain in fair value of $124,000 recognised in equity.

(ii) Fair value hedges

At 30 June 2006, the Group held five cross currency swap agreements designated to changes in the underlying value of USD denominated Senior Notes (refer 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 (excluding Trade Me Limited), as discussed in note (iii) below.

At 30 June 2006, the cross currency swap agreements had a combined value of $16.4 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.

The terms of these cross currency swaps are as follows:

	Maturity date
Pay floating AUD receive fixed USD – USD $120m	19 December 2006
Pay floating AUD receive fixed USD – USD $50m	15 January 2011
Pay floating NZD receive fixed USD – USD $40m	15 January 2011
Pay floating NZD receive fixed USD – USD $90m	15 January 2014
Pay floating NZD receive fixed USD – USD $50m	15 January 2019

(iii) 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 Independent News Limited in June 2003.

At 30 June 2006, the hedges were assessed to be highly effective with an unrealised gain of $15.9 million recognised in equity.

15. Pension asset

SUPERANNUATION PLAN

The Company and certain controlled entities contribute to defined contribution and defined benefit plans, which provide benefits to employees and their dependants on retirement, disability or death.

The superannuation arrangements in Australia are managed in a sub-plan of the Mercer Super Trust, called Fairfax Super. The Trustee of the Trust is Mercer Investment Nominees Limited. The superannuation arrangements in New Zealand are managed in three funds – Fairfax NZ Retirement Fund (formerly Gordon and Gotch (N.Z.) Limited Superannuation Fund) Fairfax New Zealand Superannuation Fund and Fairfax NZ Senior Executive Superannuation Scheme. The Trustees of the Trusts are executives and staff of Fairfax New Zealand Limited. The defined benefit section of the plans is closed to new members and all new members receive accumulation only benefits.

The defined contribution plans receive fixed contributions from Group companies and the Group's legally enforceable obligation is limited to these contributions. The defined benefit plans receive employee contributions and the Group also contributes to the defined benefit plans at rates recommended by the plans' actuaries, which is generally twice the employees' contributions, such that the funds will be adequate to provide for the benefits payable to members on their retirement.

The following sets out details in respect of the defined benefit section only.

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
(A) BALANCE SHEET				
The amounts recognised in the balance sheet are determined as follows:				
Present value of the defined benefit obligation	**(19,424)**	(21,836)	**–**	–
Fair value of defined benefit plan assets	**30,100**	28,652	**–**	–
Net pension asset	**10,676**	6,816	**–**	–
Unrecognised actuarial (losses)/gains	**–**	–	**–**	–
Unrecognised past service costs	**–**	–	**–**	–
Net pension asset in the balance sheet	**10,676**	6,816	**–**	–

The Group companies may at any time, by notice to the Trustees terminate its contributions. The Group companies have a liability to pay the monthly contributions due prior to the effective date of notice, but there is no current requirement for the Group companies to pay any further contributions, irrespective of the financial condition of the plans.

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

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Balance at the beginning of the financial year	**21,836**	19,420	**–**	–
Current service cost	**1,079**	935	**–**	–
Interest cost	**929**	959	**–**	–
Contributions by employees	**824**	541	**–**	–
Actuarial (gains) and losses	**(1,796)**	1,934	**–**	–
Benefits paid	**(2,120)**	(1,701)	**–**	–
Taxes, premiums and expenses paid	**(458)**	(305)		
Transfers (out)/in	**(870)**	53		
Balance at the end of the financial year	**19,424**	21,836	**–**	–

15. Pension asset (continued)

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
(C) RECONCILIATION OF THE FAIR VALUE OF PLAN ASSETS				
Balance at the beginning of the financial year	**28,652**	26,377	**–**	–
Expected return on plan assets	**1,780**	1,673	**–**	–
Actuarial gains	**2,296**	1,382	**–**	–
Contributions by Group companies and employees	**1,277**	1,173	**–**	–
Benefits paid	**(2,120)**	(1,701)	**–**	–
Taxes, premiums & expenses paid	**(915)**	(305)	**–**	–
Transfers (out)/in	**(870)**	53	**–**	–
Balance at the end of the financial year	**30,100**	28,652	**–**	–
(D) AMOUNTS RECOGNISED IN INCOME STATEMENT				
The amounts recognised in the income statement are as follows:				
Current service cost	**1,079**	935	**–**	–
Interest cost	**929**	959	**–**	–
Expected return on plan assets	**(1,780)**	(1,673)	**–**	–
Total included in employee benefits expense	**228**	221	**–**	–
Actual return on plan assets	**4,076**	3,055	**–**	–

(E) CATEGORIES OF PLAN ASSETS

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

	Consolidated 2006 %	Consolidated Restated* 2005 %	Company 2006 %	Company Restated 2005 %
Cash	**10**	11	**–**	–
Australian equities	**24**	24	**–**	–
Overseas equities	**34**	33	**–**	–
Fixed interest securities	**22**	22	**–**	–
Property	**10**	10	**–**	–

(F) PRINCIPAL ACTUARIAL ASSUMPTIONS

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated 2006 %	Consolidated Restated* 2005 %	Company 2006 %	Company Restated 2005 %
Discount rate	**4.7**	4.4	**–**	–
Expected return on plan assets	**6.3**	6.2	**–**	–
Future salary increases	**4.0**	4.0	**–**	–

The expected rate of return on assets has been determined by weighting the expected long term return for each class by the target allocation of assets to each asset class. This resulted in a 6.25% p.a. rate of return, net of tax and expenses (2005: 6.2% p.a).

15. Pension asset (continued)

(G) 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 no more than three yearly intervals and the last actuarial assessment of Fairfax Super was carried out as at 1 July 2004 by Ian Manners, BMath FIAA, of Mercer Human Resource Consulting Pty Ltd. The last actuarial assessments of Fairfax NZ Retirement Fund, Fairfax NZ Senior Executive Superannuation Scheme and Fairfax NZ Senior Executive Superannuation Scheme were carried out as at 31 March 2004, 1 April 2002 and 1 April 2005 respectively by Aon Consulting New Zealand Limited. Fairfax New Zealand Superannuation Fund 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.

Using the funding method described above and particular actuarial assumptions as to the plan's future experience (as detailed below), the actuary recommended in the actuarial review as at 1 July 2004, the payment of employer contributions to the fund of 6% of salaries for employees who are members of the defined benefit section. These contribution rates have been adopted by the Group from 1 July 2004.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2007 are $407,000 (parent entity: $nil).

The economic assumptions used by the actuary to make the funding recommendations for the Australian plans were a long-term investment earning rate of 6.5%p.a. (net of fees and taxes), a salary increase rate of 4% together with an age related promotional scale, and an inflation rate of 4% p.a.

(H) 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 surplus of $7,914,756 at the most recent financial position of the plans, being 1 July 2004. As such, the assets of each of the plans are sufficient to satisfy all benefits that would have vested under the plans in the event of termination of the plans and voluntary or compulsory termination of employment of each employee.

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 (30 June 2005), which would have a material impact on the overall financial position of the defined benefit plan.

(I) HISTORIC SUMMARY

	2006 $'000	2005 $'000
Defined benefit plan obligation	**(19,424)**	(21,836)
Plan assets	**30,100**	28,652
Surplus	**10,676**	6,816
Experience adjustments arising on plan liabilities	**(2,152)**	(1,457)
Experience adjustments arising on plan assets	**(892)**	644

16. 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	
	2006 $'000	Restated 2005 $'000	2006 $'000	Restated 2005 $'000	2006 $'000	Restated 2005 $'000
(i) Consolidated						
Property, plant and equipment	**9,470**	668	**13,086**	(588)	**(3,616)**	1,256
Inventories	**–**	–	**2,535**	2,425	**(2,535)**	(2,425)
Investments	**286**	–	**677**	677	**(391)**	(677)
Intangible assets	**5,853**	2,919	**31,667**	29,660	**(25,814)**	(26,741)
Other financial assets	**16,200**	16,832	**17,357**	12,759	**(1,157)**	4,073
Provisions	**29,157**	29,285	**–**	–	**29,157**	29,285
Payables	**3,568**	4,383	**–**	–	**3,568**	4,383
Other liabilities	**12,990**	201	**12,587**	–	**403**	201
Other	**729**	1,411	**3,725**	(215)	**(2,996)**	1,626
Net deferred tax assets/liabilities	**78,253**	55,699	**81,634**	44,718	**(3,381)**	10,981
(ii) Company						
Property, plant and equipment	**–**	–	**2,729**	3,175	**(2,729)**	(3,175)
Intangible assets	**3,692**	–	**–**	(2,919)	**3,692**	2,919
Other assets	**3**	8	**205**	(5)	**(202)**	13
Employee provisions	**1,911**	2,234	**–**	–	**1,911**	2,234
Accruals	**550**	1,757	**–**	–	**550**	1,757
Other liabilities	**–**	–	**–**	(59)	**–**	59
Other	**490**	212	**–**	(95)	**490**	307
Net deferred tax assets/liabilities	**6,646**	4,211	**2,934**	97	**3,712**	4,114

There are no unrecognised deferred tax assets or liabilities and no unused income tax losses for which no deferred tax asset has been recognised.

16. Deferred tax assets and liabilities (continued)

(B) MOVEMENT IN TEMPORARY DIFFERENCES DURING THE FINANCIAL YEAR

(i) Consolidated

	Balance 2004	Recognised in income	Recognised in equity	Balance 2005	Recognised in income	Recognised in equity	Balance 2006
Property, plant and equipment	4,917	(3,661)	–	1,256	(4,872)	–	**(3,616)**
Inventories	(2,439)	14	–	(2,425)	(110)	–	**(2,535)**
Investments	(677)	–	–	(677)	–	286	**(391)**
Intangible assets	(27,988)	1,247	–	(26,741)	927	–	**(25,814)**
Other financial assets	(1,973)	6,504	(458)	4,073	(5,084)	(146)	**(1,157)**
Provisions	26,799	2,486	–	29,285	(128)	–	**29,157**
Payables	3,565	818	–	4,383	(815)	–	**3,568**
Other liabilities	10,086	(9,885)	–	201	202	–	**403**
Other	716	910	–	1,626	(4,485)	(137)	**(2,996)**
	13,006	(1,567)	(458)	10,981	(14,365)	3	**(3,381)**

(ii) Company

	Balance 2004	Recognised in income	Recognised in equity	Balance 2005	Recognised in income	Recognised in equity	Balance 2006
Property, plant and equipment	(2,692)	(483)	–	(3,175)	446	–	**(2,729)**
Intangible assets	2,276	643	–	2,919	773	–	**3,692**
Other financial assets	(65)	78	–	13	(459)	244	**(202)**
Provisions	1,886	348	–	2,234	(323)	–	**1,911**
Payables	1,143	614	–	1,757	(1,207)	–	**550**
Other liabilities	–	59	–	59	(59)	–	**–**
Other	–	307	–	307	183	–	**490**
	2,548	1,566	–	4,114	(646)	244	**3,712**

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
17. Other financial assets				
Non-current				
Shares in controlled entities – at cost	–	–	409,570	155,570
Shares in unlisted entities	6,119	6,321	–	–
Total non-current other financial assets	6,119	6,321	409,570	155,570
18. Payables				
Trade and other creditors	148,956	147,344	15,616	22,917
Interest payable	6,174	11,577	–	–
Income in advance	46,600	45,755	–	–
Total current payables	201,730	204,676	15,616	22,917

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
19. Interest bearing liabilities					
Current – unsecured					
Bank borrowings	(e)	**185,732**	7,043	**–**	–
Preferred Reset Securities Exchangeable for Shares	21(c)	**249,536**	–	**249,536**	–
Other loans					
Senior notes	(a)	**165,331**	–	**–**	–
Medium term notes	(b)	**–**	150,000	**–**	–
Other	(c)	**6,889**	5,399	**–**	–
Current – secured					
Finance lease liability	(c)	**2,687**	978	**–**	–
Total current interest bearing liabilities		**610,175**	163,420	**249,536**	–
Non-current – unsecured					
Bank borrowings	(e)	**145,000**	95,000	**–**	–
Redeemable Preference Shares	(d)	**148,395**	173,615	**–**	–
Other loans					
Senior notes	(a)	**295,635**	497,789	**–**	–
Medium term notes	(b)	**199,765**	–	**–**	–
Other	(c)	**77,644**	83,218	**–**	–
Non-current – secured					
Finance lease liability	(c)	**31,318**	35,397	**–**	–
Total non-current interest bearing liabilities		**897,757**	885,019	**–**	–

(A) SENIOR NOTES

Senior Notes issued in the US private placement market in December 1996 with a principal of USD$120 million (A$165.3 million) mature on 19 December 2006. As a result, the Senior Notes have been classified as a current financial liability.

The Senior Notes were issued at par with a fixed interest coupon of 7.43% p.a. payable semi-annually in arrears. Interest and principal on the Senior Notes is payable in USD and was swapped into floating rate AUD via a cross-currency swap.

The Company also issued Senior Notes in the US private placement market with a principal value of USD$230 million (A$295.6 million) in January 2004 with a fixed coupon of between 4.74% p.a. and 5.85% p.a payable semi-annually in arrears. The interest and principal on the Senior Notes are payable in USD and were swapped into floating rate NZD and floating rate AUD via a cross-currency swap. This issue of Senior Notes comprises maturities ranging from January 2011 to January 2019. The weighted average maturity of the issue is approximately 8.5 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.

19. Interest bearing liabilities (continued)

(B) MEDIUM TERM NOTES

A Medium Term Note (MTN) program was established in November 1998. MTNs to the value of $150 million were repaid on 15 July 2005. On 27 June 2006, the Company issued $200 million of MTNs with a maturity date of 27 June 2011 and have been classified as a non-current interest bearing liability. The MTNs were issued at a fixed rate of 6.865% p.a.

(C) OTHER LOANS AND FINANCE LEASE LIABILITY

The Chullora printing facility in Sydney is partially financed by a finance lease facility and loans with a final maturity date of September 2015. There is a CPI indexed annuity loan with principal and interest outstanding of $52.2 million (2005: $53.5 million) and a finance lease of $34 million (2005: A$36.3 million), which was entered into in February 1996. There is also principal and interest outstanding of $32.3 million (2005: A$35.1 million) in the form of a fixed rate loan with an established drawdown and repayment schedule.

Lease liabilities are effectively secured, as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

(D) REDEEMABLE PREFERENCE SHARES (RPS)

The Company issued Redeemable Preference Shares in New Zealand in May 2005 with a principal value of NZD$186.5 million (A$148.3 million) with a fixed one year coupon of 8.43%p.a. payable quarterly in arrears at a margin of 1% over the applicable one year swap rate. The Redeemable Preference Shares mature in June 2010. The interest and principal on the Redeemable Preference Shares are payable in NZD and were swapped into one year fixed rate AUD via a cross-currency swap and were partially used to repay the MTNs on 15 July 2005. 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.

(E) BANK BORROWINGS

A bank loan of $95 million established in September 2001 matures on 19 December 2006 and accordingly has been reclassified as a current interest bearing liability. During the financial year, the Company also entered into a bridge facility for $300 million to partially fund the acquisition of Trade Me Limited. This facility is currently drawn to $100 million and matures on 22 March 2007. The interest rate for this facility is the applicable bank bill rate plus a credit margin.

Non-current bank borrowings are detailed at note (f) below.

(F) FINANCING ARRANGEMENTS

A $550 million syndicated bank facility is available to the Group companies until May 2009. At 30 June 2006, $145 million has been drawn (2005: nil) and included in non-current bank borrowings. The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

A NZD$50 million revolving committed cash advance facility is also available to the Group companies until 10 July 2007. At 30 June 2006, this facility was not drawn down (2005: nil).

The Group has sufficient unused committed facilities at balance date to finance maturing current interest bearing liabilities.

The Group has a number of financing facilities which are guaranteed by John Fairfax Holdings Limited and are covered by Deeds of negative pledge.

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
20. Provisions				
Current				
Employee benefits	**75,439**	73,948	**5,179**	7,174
Defamation	**2,482**	2,250	**–**	–
Other	**1,544**	2,254	**55**	1,289
Total current provisions	**79,465**	78,452	**5,234**	8,463
Non-current				
Employee benefits	**10,496**	15,888	**1,137**	154
Other	**7,139**	5,227	**–**	–
Total non-current provisions	**17,635**	21,115	**1,137**	154

Reconciliations

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

	Consolidated Defamation 2006 $'000	Consolidated Other 2005 $'000	Company Defamation 2006 $'000	Company Other 2005 $'000
Current				
Carrying amount at beginning of the financial year	**2,250**	2,254	**–**	1,289
Acquisition of controlled entities	**–**	35	**–**	–
Additional provision	**3,345**	17,253	**–**	2,620
Utilised	**(3,113)**	(17,953)	**–**	(3,854)
Unused amounts reversed	**–**	(45)	**–**	–
Carrying amount at end of the financial year	**2,482**	1,544	**–**	55
Non-current				
Carrying amount at beginning of the financial year	**–**	5,227	–	–
Acquisition of controlled entities	**–**	–	**–**	–
Additional provision	**–**	2,161	**–**	–
Utilised	**–**	(249)	**–**	–
Carrying amount at end of the financial year	**–**	7,139	**–**	–

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
21. Contributed Equity					
Ordinary shares					
939,067,152 ordinary shares fully paid (2005: 924,463,510)	(a)	**1,248,334**	1,183,596	**1,248,334**	1,183,596
Preferred Reset Securities Exchangeable for Shares (PRESSES)					
2,500,000 shares (2005: 2,500,000)	(c), 39(v)(b)	**–**	241,951	**–**	241,951
Stapled Preference Shares (SPS)					
3,000,000 stapled preference shares (2005: nil)	(b)	**293,167**	–	**299,282**	–
Debentures					
281 debentures fully paid (2005: 281)	(d)	*	*	*	*
Total contributed equity		**1,541,501**	1,425,547	**1,547,616**	1,425,547

* Amount is less than $1,000.

RECONCILIATIONS

Reconciliations of each class of contributed equity at the beginning and end of the current financial year are set out below:

	Note	2006 No. of shares	2005 No. of shares	Consolidated 2006 $'000	Consolidated Restated 2005 $'000
Consolidated					
(A) ORDINARY SHARES					
Balance at beginning of the financial year		**924,463,510**	906,856,578	**1,183,596**	1,115,717
Dividend reinvestment plan issue – 12 April 2006		**5,535,530**	–	**21,977**	–
Dividend reinvestment plan issue – 11 October 2005		**8,602,112**	–	**39,483**	–
Dividend reinvestment plan issue – 31 March 2005		**–**	2,439,660	**–**	10,466
Dividend reinvestment plan issue – 21 October 2004		**–**	15,055,272	**–**	55,855
Exercise of options – 30 March 2006	31(c)(ii)	**66,000**	–	**236**	–
Exercise of options – 12 March 2006	31(c)(ii)	**100,000**	–	**369**	–
Exercise of options – 19 September 2005	31(c)(ii)	**60,000**	–	**262**	–
Exercise of options – 19 September 2005	31(c)(ii)	**240,000**	–	**1,046**	–
Exercise of options – 21 June 2005	31(c)(ii)	**–**	48,000	**–**	212
Exercise of options – 7 June 2005	31(c)(ii)	**–**	64,000	**–**	229
Refund of share issue costs		**–**	–	**–**	1,117
Reclassification of share issue costs from equity to debt	39(v)(b)	**–**	–	**1,365**	–
Balance at end of the financial year		**939,067,152**	924,463,510	**1,248,334**	1,183,596

21. Contributed Equity (continued)

	Note	Consolidated 2006 No. of shares	Consolidated Restated 2005 No. of shares	Consolidated 2006 $'000	Consolidated Restated 2005 $'000
(B) STAPLED PREFERENCE SECURITIES (SPS)					
Balance at beginning of the financial year		–	–	–	–
Share issue – 23 March 2006		3,000,000	–	300,000	–
Share issue costs		–	–	(6,833)	–
Balance at end of the financial year		3,000,000	–	293,167	–
(C) PREFERRED RESET SECURITIES EXCHANGEABLE FOR SHARES (PRESSES)					
Balance at beginning of the financial year		2,500,000	2,500,000	241,951	241,951
Reclassification of PRESSES from equity to debt	39(v)(b)	(2,500,000)	–	(241,951)	–
Balance at end of the financial year		–	2,500,000	–	241,951
(D) DEBENTURES					
Balance at beginning of the financial year		281	281	*	*
Balance at end of the financial year		281	281	*	*
Total contributed equity				1,541,501	1,425,547

* Amount is less than $1,000

Company

The Company's movement in contributed equity is the same as the consolidated entity's movements detailed above with the exception of the stapled preference securities (SPS). At 30 June 2006, share issues costs deducted from preference shares issued by the Company as part of the SPS issue were $717,000, bringing the SPS balance at the end of the current financial year for the Company to $299.3 million. The remaining share issue costs of $6.116 million relates to the unsecured notes issued by a controlled entity, Fairfax Group Finance NZ Limited.

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.

Dividend Reinvestment Plan

John Fairfax Holdings Limited introduced a Dividend Reinvestment Plan (DRP) to eligible shareholders during the financial year ended 30 June 2004.

The DRP will apply to the payment of the final dividend for the year ended 30 June 2006 to be paid on 6 October 2006. The last date for the receipt of an election notice for participation in the plan for the final dividend was 11 September 2006.

Under the terms of the DRP eligible shareholders are able to elect to reinvest their dividends in additional Fairfax shares, free of any brokerage or other transaction costs. Shares are issued and/or transferred to DRP participants at a predetermined price, less any discount that the directors may elect to apply from time to time. The DRP issue price in relation to the final dividend for the financial year ended 30 June 2006 will be based on the arithmetic average of the daily volume weighted average sale price of John Fairfax Holdings Limited shares traded on the Australian Stock Exchange during the period 12 September 2006 to 25 September 2006 inclusive, excluding any trades that do not qualify under the terms of the DRP, less a 2.5% discount rounded to the nearest cent.

21. Contributed Equity (continued)

During the financial year ended 30 June 2006, 14,137,642 ordinary shares (2005: 17,494,932 ordinary shares) were issued under the terms of the DRP.

(b) Stapled Preference Securities (SPS)

The SPS (FXJPB), which were issued on 23 March 2006 for a face value of $100 per share, is a stapled security comprising a fully paid SPS Preference Share issued by the Company, John Fairfax Holdings Limited and a fully paid unsecured note issued by Fairfax Group Finance New Zealand Limited, a wholly owned entity of the Company. Holders of the SPS are not entitled to vote.

Distribution payments are at the discretion of directors however distributions, in the form of interest on the notes, are expected to be paid semi-annually in arrears with the first distribution due on 31 October 2006 and rank in preference to ordinary shareholders and equally with preference shareholders. The distribution rate is calculated as the sum of the six month bank bill swap rate and the margin, which is determined by the issuers or adjusted to the step-up margin. Distributions are non-cumulative.

The SPS are perpetual however Fairfax has the right to repurchase the SPS for cash or convert the SPS into a variable number of ordinary shares from April 2011 or earlier in certain circumstances (an assignment event). In the event an assignment event occurs, the SPS are 'unstapled' and the unsecured notes assigned to a wholly owned Fairfax subsidiary. The SPS holders would continue to hold a listed SPS preference share issued by the Company and be entitled to discretionary dividends on the preference shares, which may be franked.

The two securities may not be traded separately prior to an assignment event and such an event does not itself give the Company the right to repurchase or convert the SPS. Holders are never entitled to both interest on the unsecured notes and dividends on the SPS preference shares at the same time.

(c) Preferred Reset Securities Exchangeable for Shares (PRESSES)

The Company issued 2,500,000 PRESSES during the year ended 30 June 2002, each having a face value of $100 for a total of $250 million. PRESSES are fully paid, non-cumulative, non-redeemable reset exchangeable preference shares however from 1 July 2005, the PRESSES have been reclassified as a financial liability under AIFRS.

PRESSES entitle the holder to a fully franked dividend in preference to any dividends paid on ordinary shares and rank in priority to ordinary shares for payment of dividends and for a return of capital on winding up.

On a reset date some or all of the outstanding PRESSES may be exchanged for a number of ordinary shares at the option of holders of PRESSES or the Company. On exchange, each of the PRESSES will exchange for ordinary shares that rank equally in all respects with ordinary shares from the exchange date. Each of the PRESSES will generally exchange for ordinary shares at a 2.5% discount to the weighted average sale price of ordinary shares traded on the ASX during the 20 business days immediately preceding the date of exchange. The number of ordinary shares issued on exchange will vary depending on the ordinary share price prior to exchange.

A non-cumulative dividend is paid semi-annually on the PRESSES. The dividend rate was 7.40% per annum and may be increased or decreased on reset dates. Payment of dividends is at the discretion of directors and is subject to the directors declaring or otherwise resolving to pay a dividend and there being no impediment under the Corporations Act 2001 to that payment.

Conversion of PRESSES subsequent to balance date
Subsequent to the end of the financial year, the PRESSES were converted into 66,348,490 ordinary shares on 27 July 2006 in accordance with the terms of the PRESSES issue. The final fully franked PRESSES dividend of $0.8921 per share for the period 12 June 2006 to 26 July 2006 was paid on 4 August 2006. The dividend paid totalled $2,230,250.

The PRESSES (FXJPA) were suspended from quotation on the Australian Stock Exchange on 19 July 2006.

(d) Debentures

Debenture holders terms and conditions are disclosed in note 1(t).

(e) Options

Information relating to the option plans, including details of options issued, exercised and lapsed during the financial year and outstanding at the end of the financial year, are detailed in note 31.

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
22. Reserves					
Asset revaluation reserve, net of tax	(a)	7,676	7,336	–	–
Foreign currency translation reserve, net of tax	(b)	(129,287)	20,158	–	–
Cashflow hedge reserve, net of tax	(c)	(1,314)	–	–	–
Net investment hedge reserve, net of tax	(d)	(4,494)	–	–	–
Share-based payment reserve, net of tax	(e)	595	595	595	595
Total reserves		(126,824)	28,089	595	595
(a) Asset revaluation reserve					
Balance at beginning of the financial year		7,336	7,336	–	–
Net unrealised (losses) on available for sale investment		(953)	–	–	–
Transfer to retained earnings		(723)	–	–	–
Other		1,730	–	–	–
Tax effect of net loss on available for sale investment		286	–	–	–
Balance at end of the financial year		7,676	7,336	–	–
(b) Foreign currency translation reserve					
Balance at beginning of the financial year		20,158	19,066	–	–
Net exchange differences on currency translation, net of tax		(149,445)	1,092	–	–
Balance at end of the financial year		(129,287)	20,158	–	–
(c) Cashflow hedge reserve					
Balance at beginning of the financial year		–	–	–	–
Application of AASB 132 and 139 at 1 July 2005, net of tax		(648)	–	–	–
Effective portion of changes in value of cashflow hedges		(65)	–	–	–
Tax effect of net changes on cashflow hedges		(601)	–	–	–
Balance at end of the financial year		(1,314)	–	–	–
(d) Net investment hedge reserve					
Balance at beginning of the financial year		–	–	–	–
Application of AASB 132 and 139 at 1 July 2005, net of tax		(13,599)	–	–	–
Effective portion of changes in value of net investment hedges		7,179	–	–	–
Tax effect on net investment hedges		1,926	–	–	–
Balance at end of the financial year		(4,494)	–	–	–
(e) Share-based payment reserve					
Balance at beginning of the financial year		595	179	595	179
Option expense		–	416	–	416
Balance at end of the financial year		595	595	595	595

22. Reserves (continued)

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(n)(iii).

(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) Cash flow 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).

(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).

(e) Share-based payment reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised, as described in note 1(s)(ii).

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
23. Retained Profits					
Balance at beginning of the financial year		**710,975**	679,817	**184,552**	93,838
Adoption adjustment of AIFRS (balance sheet), net of tax		**–**	(44,259)	**–**	(179)
Application of AASB 132 and AASB 139, net of tax		**(580)**	–	**(8,615)**	–
Transfer to/(from) reserves		**(723)**	–	**–**	–
Net profit for the financial year		**227,453**	263,249	**274,268**	278,341
Actuarial gain/(loss) on defined benefit plans, net of tax		**2,911**	(384)	**–**	–
Total available for appropriation		**940,036**	898,423	**450,205**	372,000
Dividends paid	6	**(222,622)**	(187,448)	**(222,622)**	(187,448)
Balance at end of the financial year		**717,414**	710,975	**227,583**	184,552
24. Minority Interest					
Interest in:					
Contributed equity		**3,195**	3,195	**–**	–
Reserves		**905**	905	**–**	–
Retained profits		**618**	–	**–**	–
Balance at end of the financial year		**4,718**	4,100	**–**	–

	Note	Consolidated 2006 ¢ per share	Consolidated Restated 2005 ¢ per share

25. Earnings per share

	Note	Consolidated 2006 ¢ per share	Consolidated Restated 2005 ¢ per share
Basic earnings per share			
After significant and non-recurring items		**24.41**	26.63
Before significant and non-recurring items and including notional SPS *		**24.52**	25.86
Diluted earnings per share			
After significant and non-recurring items		**23.84**	26.63
Before significant and non-recurring items		**24.56**	25.86

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000
Earnings reconciliation – basic			
Net profit attributable to members of the Company		**227,453**	263,249
Less dividend paid on PRESSES	6(b)	**–**	(18,551)
Basic earnings after significant and non-recurring items		**227,453**	244,698
Significant and non-recurring items, net of tax	4	**6,876**	(7,069)
Basic earnings before significant and non-recurring items, net of tax		**234,329**	237,629
Less notional SPS dividend *		**(5,844)**	–
Basic earnings before significant and non-recurring items and including notional SPS dividend *		**228,485**	237,629
Earnings reconciliation – diluted			
Net profit attributable to members of the Company		**227,453**	263,249
Less dividend paid on PRESSES	6(b)	**–**	(18,551)
Diluted earnings after significant and non-recurring items		**227,453**	244,698
Significant and non-recurring items, net of tax	4	**6,876**	(7,069)
Diluted earnings before significant and non-recurring items, net of tax		**234,329**	237,629
Less notional SPS dividend *		**–**	–
Diluted earnings before significant and non-recurring items		**234,329**	237,629

25. Earnings per share (continued)

	Consolidated 2006 Number '000s	Consolidated 2005 Number '000s
Weighted average number of ordinary shares used in calculating basis EPS before and after significant and non-recurring items	**931,650**	918,979
Weighted average number of ordinary shares used in calculating diluted EPS before significant and non-recurring items	**931,650**	918,979
SPS	**22,498**	–
PRESSES	**–**	–
Options	**–**	58
Weighted average number of ordinary shares used in calculating diluted EPS after significant and non-recurring items	**954,148**	919,037

As at 30 June 2006, there are no options on issue at balance date (refer note 31) and the PRESSES are not dilutive. As such they are not included in the diluted EPS calculation before or after significant items.

* The notional SPS dividend represents the dividend to be paid to the SPS holders once the Company declares the dividend.
The first dividend is due to be paid on 31 October 2006 (refer note 21(b)).
At 30 June 2006, the dividend is not a present obligation of the Company and accordingly has not been provided for.
The notional SPS dividend has been calculated by applying the interest rate of 7.1883% to the SPS on issue pro-rated for the period to 30 June 2006.

26. Commitments

OPERATING LEASE COMMITMENTS – GROUP AS LESSEE

The Group has entered into commercial leases on office and warehouse premises, motor vehicles and office equipment. These leases have an average life of 8.2 years (2005: 8.4 years) and a weighted average interest rate of 3.9% (2005: 3.8%).

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Within one year	**26,050**	23,155	**–**	–
Later than one year and not later than five years	**95,160**	82,284	**–**	–
Later than five years	**130,152**	123,188	**–**	–
Total operating lease commitments	**251,362**	228,627	**–**	–

26. Commitments (continued)

FINANCE LEASE COMMITMENTS – GROUP AS LESSEE

The Group has a finance lease for plant and machinery. The lease has an average lease term of 9 years (2005: 10 years) and a weighted average interest rate of 12.5% (2005: 13.7%).

Future minimum lease payments under the finance lease together with the present value of the net minimum lease payments are as follows:

	Note	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Within one year		**5,076**	5,076	**–**	–
Later than one year and not later than five years		**30,454**	20,303	**–**	–
Later than five years		**11,420**	26,647	**–**	–
Minimum lease payments		**46,950**	52,026	**–**	–
Less future finance charges		**(12,945)**	(15,651)	**–**	–
Total finance lease liability		**34,005**	36,375	**–**	–
Classified as:					
Current interest bearing liabilties		**2,687**	978	**–**	–
Non-current interest bearing liabilities		**31,318**	35,397	**–**	–
Total finance lease liability	19(c)	**34,005**	36,375	**–**	–

Contingent rentals under finance lease

A component of the finance lease payments are contingent on movements in the consumer price index. At balance date, the contingent rent payable over the remaining lease term of 9 years is $35.0 million (2005: $37.2 million).

Capital commitments

At 30 June 2006, 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:

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Within one year	**12,407**	7,658	**357**	2,170
Later than one year and not later than five years	**1,232**	–	**–**	–
Later than five years	**2,275**	–	**–**	–
Total capital commitments	**15,914**	7,658	**357**	2,170

27. Contingencies

EARN OUT AGREEMENT – TRADE ME LIMITED

The consolidated entity has entered into an earn out agreement as part of the condition of purchase of Trade Me Limited. Additional cash consideration of up to NZD$50 million (A$41.01 million) will be payable by the consolidated entity if Trade Me Limited achieve specified financial performance criteria.

The amount of the earn-out is based on the Trade Me Group's earnings before interest, tax, depreciation and amortisation (EBITDA) for the 12 months ended 31 March 2007 and, should that financial target not be fully met in that period, the 12 months ended 31 March 2008.

A liability for earn-out has not been recognised at 30 June 2006 as it is subject to a variety of factors including market behaviour, competition, auction volumes and activity and cannot be reliably determined at this stage.

27. Contingencies (continued)

Should the performance criteria be achieved and the earn out paid, the payment will be accounted for as an additional acquisition cost and added to the carrying amount of the investment in Trade Me Limited as goodwill.

GUARANTEES

Under the terms of ASIC Class Order 98/1418 (as amended), the Company and certain controlled entities (refer note 28), have guaranteed any deficiency of funds if any entity to the class order is wound-up. No such deficiency exists at balance date.

DEFAMATION

From time to time, entities in the consolidated entity 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 that are expected to result in a material impact.

28. Controlled entities

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

	Note
John Fairfax Holdings Limited	(a),(c)
CONTROLLED ENTITIES	
AIPD Pty Ltd	
Associated Newspapers Ltd	(a)
ACN 108 417 036 Pty Limited	
Australian Property Monitors Pty Limited	(g)
David Syme & Co Pty Limited	(a)
Debt Retrieval Agency Limited	(b)
Fairfax Business Media Pte Limited	(b)
Fairfax Business Media (South Asia) Pte Limited	(b)
Fairfax Business Information Solutions Pty Limited	(a)
Fairfax Community Newspapers Pty Limited	(a)
Fairfax Corporation Pty Limited	(a)
Fairfax Digital Australia & New Zealand Pty Limited	(a)
Fairfax Digital Limited	(a)
Fairfax EEC Limited	(b)
Fairfax Group Finance New Zealand Limited	(b)
Fairfax New Zealand Finance Limited	(b)
Fairfax New Zealand Holdings Limited	
Fairfax New Zealand Limited	(b)
Fairfax Print Holdings Pty Limited	(a)
Fairfax Printers Pty Limited	(a)
Fairfax Properties Pty Limited	(a)
Fairfax Regional Printers Pty Limited	(a)
Freesurf Publishing Pty Ltd	
Illawarra Newspaper Holdings Pty Limited	(a)
John Fairfax & Sons Ltd	(a)
John Fairfax (UK) Limited	(b)
John Fairfax (US) Limited	(b)
John Fairfax Group Finance Pty Limited	(a)
John Fairfax Limited	(a)
John Fairfax Publications Pty Limited	(a)
Large Publications Pty Ltd	(f)
Lime Digital Pty Limited	
Mistcue Pty Limited	
Metropolis Media Pty Ltd	(a)
Online Services International Limited	(b)
Old Friends Limited	(b)
Newcastle Newspapers Pty Ltd	(a)
Personal Investment Direct Access Pty Limited	
Port Stephens Publishers Pty Ltd	
Port Stephens Publishers Trust	
Propaganda Print Pty Ltd	
Real Estate Publications Australasia Pty Limited	(d)
Real Estate Publications Australasia Trust	(e)
Rydge Publications Pty Ltd	
South Australian Real Estate Press Pty Limited	(a)
Suzannenic Pty Limited	
Stays Pty Limited	
Stays Pty Limited	
Stays Pty Limited	(b)
The Age Company Ltd	(a)
The Age Print Company Pty Ltd	(a)
The Text City Newspaper Company Pty Ltd	
The Text Magazine Company Pty Ltd	
The Text Media Group Limited	(a)
The Text Newspaper Company Pty Ltd	(a)
The Warrnambool Standard Pty Ltd	(a)
Trade Me Limited	(b)
Victorian Lifestyle Property Pty Limited	

(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 August 2001 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.

28. Controlled entities (continued)

(b) All controlled entities are incorporated in Australia except for:

	Country of formation or incorporation	Functional Currency
Debt Retrieval Agency Limited	New Zealand	NZD
Fairfax Business Media Pte Limited	Singapore	SGD
Fairfax Business Media (South Asia) Pte Limited	Singapore	SGD
Fairfax EEC Limited	United Kingdom	GBP
Fairfax Group Finance New Zealand Limited	New Zealand	AUD
Fairfax New Zealand Holdings Limited	New Zealand	NZD
Fairfax New Zealand Limited	New Zealand	NZD
John Fairfax Publications Limited (NZ Branch)	New Zealand	NZD
John Fairfax (UK) Limited	United Kingdom	GBP
John Fairfax (US) Limited	United States	USD
Online Services International Limited	New Zealand	NZD
Old Friends Limited	New Zealand	NZD
Stayz Limited	New Zealand	NZD
Trade Me Limited	New Zealand	NZD

(c) The consolidated entity holds a 100% equity interest (2005: 100% equity interest) in all controlled entities except (e),(f),(g) and (h).

(d) This entity is the trustee company of the Real Estate Publications Trust which the consolidated entity holds a 100% equity interest (2005: 100% equity interest).

(e) The consolidated entity holds a 55% equity interest (2005: 55% equity interest).

(f) The consolidated entity holds a 79% equity interest (2005: 79% equity interest).

(g) The consolidated entity holds a 100% equity interest (2005: 50% equity interest) – refer note 29.

The functional currency of all controlled entities is AUD except for those entities specified in note (b) above.

DEED OF CROSS GUARANTEE

John Fairfax Holdings 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 year ended 30 June 2006 and consolidated balance sheet as at 30 June 2006, comprising the members of the Closed Group after eliminating all transaction between members are set out opposite:

28. Controlled entities (continued)

(A) BALANCE SHEET

	2006 $'000	Restated 2005 $'000
Current assets		
Cash and cash equivalents	**30,705**	128,446
Trade and other receivables	**259,562**	212,627
Inventories	**29,163**	23,462
Derivatives	**15,305**	411
Total current assets	**334,735**	364,946
Non-current assets		
Receivables	**582,154**	578,278
Investments in equity accounted investments	**14,399**	–
Available for sale investments	**3,175**	–
Held to maturity investments	**16,949**	–
Intangible assets	**1,377,986**	1,287,935
Property, plant and equipment	**557,042**	624,592
Derivatives	**15,999**	6,830
Pension asset	**6,831**	4,623
Deferred tax assets	**68,421**	51,904
Other	**975,454**	330,070
Total non-current assets	**3,618,410**	2,884,232
Total assets	**3,953,145**	3,249,178
Current liabilities		
Trade and other payables	**183,735**	150,128
Interest bearing liabilities	**610,175**	163,420
Derivatives	**246**	–
Provisions	**69,883**	54,688
Current tax liabilities	**4,640**	25,435
Total current liabilities	**868,679**	393,671
Non-current liabilities		
Interest bearing liabilities	**897,757**	731,986
Derivatives	**51,712**	–
Deferred tax liabilities	**67,965**	40,883
Provisions	**15,871**	14,731
Total non-current liabilities	**1,033,305**	787,600
Total liabilities	**1,901,984**	1,181,271
Net assets	**2,051,161**	2,067,907
Equity		
Contributed equity	**1,541,501**	1,425,548
Reserves	**(59,060)**	(4,045)
Retained profits	**568,720**	646,404
Total equity	**2,051,161**	2,067,907

(B) INCOME STATEMENT

	2006 $'000	Restated 2005 $'000
Net profit before income tax expense	**218,854**	139,358
Income tax benefit/(expense)	**(57,274)**	(54,035)
Net profit after income tax expense	**161,580**	85,323

29. Acquisition and disposal of controlled entities

The consolidated entity gained control over the following entities in Australia and New Zealand during the financial year:

Entity or business acquired	Principal activity	Date of Acquisition	Ownership Interest
RSVP.com.au Pty Limited	Online dating	8 July 2005	100%
Rodney Times	Newspaper publishing	24 October 2005	*
Stayz Pty Limited	Online holiday accommodation advertising	3 January 2006	100%
Australian Property Monitors Pty Limited	Property sales and auction data specialist	3 January 2006	100%^
The Independent	Newspaper publishing	23 February 2006	**
Trade Me Limited	Online auction site	3 April 2006	100%
Commercial Real Estate.com.au	Online commercial and industrial real estate advertising	4 May 2006	***

* The publishing assets of the Times Media Group were acquired, which included the Rodney Times masthead.
** The publishing assets of The Independent were acquired, including The Independent masthead.
*** The business assets of Commercial Real Estate.com.au were acquired.
^ During the financial year, the consolidated entity acquired the remaining 50% of equity in Australian Property Monitors Pty Limited (APM) which resulted in full control of APM from 3 January 2006. The consolidated entity previously held a 50% ownership.

For additional information refer to note 30.

The consolidated entity did not lose control over any entity (or group of entities) during the financial year.

30. Business Combinations

(A) TRADE ME LIMITED

On 3 April 2006, Fairfax New Zealand Holdings Limited, a wholly-owned subsidiary of John Fairfax Holdings Limited, acquired 100% of the issued capital of Trade Me Limited, a company based in New Zealand which operates an online auction website.

The fair value of the identifiable assets and liabilities of Trade Me Limited as at the date of acquisition were:

	Recognised on acquisition $'000	Carrying amounts recognised by consolidated entity $'000
Fair value of net assets acquired		
Cash and cash equivalents	1,585	1,585
Receivables	591	591
Investments – equity accounted	235	235
Property plant and equipment	888	888
Intangible assets	28,568	513
Total assets	31,867	3,812
Payables	5,100	5,100
Current tax liabilities	(447)	(447)
Provisions	102	102
Total liabilities	4,755	4,755
Fair value of identifiable net assets	27,111	(943)
Goodwill arising on acquisition **	575,960	–
Total identifiable net assets and goodwill	603,071	(943)

30. Business Combinations (continued)

(A) TRADE ME LIMITED (CONTINUED)

	Recognised on acquisition $'000
Consideration	
Purchase consideration	601,845
Costs directly attributable to the acquisition	1,226
Total consideration	603,071
Net cash outflow on acquisition	
Net cash acquired with subsidiary	1,585
Cash paid	(603,071)
Net cash outflow	(601,486)

** Included in the $575.960 million of goodwill are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature, or which do not have a material value. Assets included in this balance consist of customer relationships, order backlog, workforce in place and first mover advantage.

Since acquisition, Trade Me Limited has contributed net profit after income tax expense of $5,103,000.

If the acquisition had occurred on 1 July 2005, consolidated net profit after income tax expense would have been $12,434,000 based on management records.

(B) OTHER ACQUISITIONS DURING THE FINANCIAL YEAR

The consolidated entity gained control over the following entities in Australia and New Zealand during the financial year, none of which were individually significant to the consolidated entity:

Entity or business acquired	Principal activity	Date of Acquisition	Ownership Interest
RSVP.com.au Pty Limited	Online dating	8 July 2005	100%
Rodney Times	Newspaper publishing	24 October 2005	*
Stayz Pty Limited	Online holiday accommodation advertising	3 January 2006	100%
Australian Property Monitors Pty Limited	Property sales and auction data specialist	3 January 2006	100%
The Independent	Newspaper publishing	23 February 2006	**
Commercial Real Estate.com.au	Online commercial and industrial real estate advertising	4 May 2006	***

* The publishing assets of the Times Media Group in New Zealand were acquired, which included the Rodney Times masthead.
** The publishing assets of The Independent in New Zealand were acquired, including The Independent masthead.
*** The business assets of Commercial Real Estate.com.au were acquired.

30. Business Combinations (continued)

The fair value of the identifiable assets and liabilities of the acquisitions detailed in note 30(b) as at the date of acquisition and goodwill are as follows:

	Recognised on acquisition $'000	Carrying amounts recognised by consolidated entity $'000
Fair value of net assets acquired		
Cash and cash equivalents	2,278	2,278
Receivables	3,161	3,161
Inventories	22	22
Property plant and equipment	642	642
Intangible assets	20,626	–
Deferred income tax asset	1,178	159
Total assets	27,907	6,262
Payables	1,386	1,386
Current tax liabilities	1,633	1,633
Provisions	234	234
Deferred tax liability	555	–
Total liabilities	3,808	3,253
Fair value of identifiable net assets	24,099	3,009
Goodwill arising on acquisition **	50,907	–
Total identifiable net assets and goodwill	75,006	3,009
Cost of the combination		
Purchase consideration	72,343	
Costs directly attributable to the acquisition	2,663	
Total consideration	75,006	
Net cash outflow on acquisition		
Net cash acquired with subsidiary	2,278	
Cash paid	(75,006)	
Net cash outflow	(72,728)	

** Included in the $50.907 million goodwill above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature, or which do not have a material value. Assets included in this balance consist of customer relationships, certain brand names, workforce in place and first mover advantages.

Due to the timing of certain business combinations and audits which were incomplete at the date of this report, certain business combinations were determined using provisional information.

31. Employee Benefits

(A) NUMBER OF EMPLOYEES

As at 30 June 2006 the consolidated entity employed 6,468 full time employees (2005: 6,377) and 2,168 part-time and casual employees (2005: 2,249). This includes 2,363 (2005: 2,373) full-time employees and 286 (2004: 275) part-time and casual employees in New Zealand.

(B) EMPLOYEE SHARE/SHARE OPTION PLANS

The Company has four employee share/share option plans at balance date. Information relating to each plan is set out below:

1. **Fairfax Exempt Employee Share Plan**
   This plan is open to all permanent full-time and part-time Australian employees with more than 12 months service with the consolidated entity in Australia. Under this Plan, participants may salary sacrifice up to $1,000 of pre tax salary per annum for 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 pre-fixed dates.
2. **Fairfax Deferred Employee Share Plan**
   This plan is open to all permanent full-time and part-time Australian employees with more than 12 months service with the consolidated entity in Australia. Under this Plan, participants may salary sacrifice a minimum of $3,000 and up to a maximum of 25% of salary per annum for 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 pre-fixed dates.
3. **Long Term Deferred Incentive Plan**
   During the financial year, the long term incentive share plan was replaced with a long term deferred incentive plan which is available to certain permanent full-time and part-time employees of the consolidated entity who are not directors of the Company effective 30 June 2006.

   Under the revised plan, one third of the cash value of each participating employee's annual incentive payment will be allocated in the form of rights to Fairfax shares.The shares will be purchased on market by the Trustee of the Employee Share Plan, allocated to the relevant employee and held in the Trust until they either vest to the employee or are forfeited. The shares will vest if the eligible employee remains employed by the Fairfax Group for three calendar years from the date the rights are allocated. There is no cash settlement alternative. Dividends on the allocated shares are paid directly to the eligible employee and the Company does not have any recourse to dividends paid.
4. **Employee Share Option Plan**
   During the financial year, full-time and part-time employees of the consolidated entity are eligible to participate on invitation from the Company. On and after two years from the date of issue, 40% of options will become conditionally exercisable. On and after the passing of each subsequent year, a further 20% of the options will become conditionally exercisable. Options not exercised within five years of issue will lapse. On exercise, each option is convertible to one ordinary share. The maximum number of employee scheme options approved by shareholders at a general meeting which may be issued at any one time is 4 per cent of the number of ordinary shares of the Company on issue at that date. The number of employee scheme options outstanding, which were issued under the employee option incentive scheme, is equivalent to 0.05% of the ordinary shares on issue at 30 June 2005.

   The Employee Share Option Plan ceased in March 2006 and there were no options held by employees at 30 June 2006 (2005: 5 employees).

31. Employee Benefits (continued)

(C) MOVEMENT IN SHARE OPTIONS DURING THE FINANCIAL YEAR

	Note	2006 Number of options	2006 Weighted average exercise price	2005 Number of options	2005 Weighted average exercise price
Balance at the beginning of the financial year		496,000	4.08	5,325,000	4.10
Granted		–	–	–	–
Exercised	31(c)(ii)	(466,000)	4.11	(112,000)	3.94
Forfeited	31(c)(ii)	(30,000)	3.69	(4,717,000)	4.10
Expired		–	–	–	–
Balance at the end of the financial year		–	–	496,000	4.08
Exercisable at the end of the financial year		–	–	496,000	4.08

The consolidated entity did not grant any share options during the financial years ended 2006 or 2005.

(i) Options held at the beginning of the financial year

Number of options	Grant date	Expiry date	Exercise price
300,000	19 September 2001	19 September 2005	$4.36
130,000	12 March 2001	12 March 2006	$3.69
66,000	30 March 2001	30 March 2006	$3.58

(ii) Options exercised or forfeited during the financial year

Option details and issue date	Grant date	Exercise price	Number of shares issued	Proceeds from shares issued $
Exercised and converted to ordinary shares				
Exercise of options – 30 March 2006	30 March 2001	$3.58	66,000	236,280
Exercise of options – 12 March 2006	12 March 2001	$3.69	100,000	369,000
Exercise of options – 19 September 2005	19 September 2001	$4.36	300,000	1,308,000
Total options exercised			466,000	1,913,280
Forfeited during the financial year				
Forfeiture of options – 12 March 2006	12 March 2001	$3.69	30,000	–

31. Employee Benefits (continued)

The exercise price of options granted in previous years was equivalent to the Company's average market share price on the ASX, at the date the options were issued. At balance date, the Company's closing share price was $3.75 (2005: $4.30).

(iii) Fair values of options and rights over shares

The fair value of options and rights over shares are estimated on grant date using the Black-Scholes and Monte Carlo option pricing models respectively taking into account the terms and conditions upon which they were granted.The inputs to these models used for the financial years are as below:

	2006 Range	2005 Range
Dividend yield	**1.92 – 3.47%**	1.92 – 3.47%
Expected volatility	**10%**	2 – 3.4%
Risk-free discount rate	**4.5 – 5.5%**	4.8 – 6.3%
Expected life of option	**3 yrs**	5 yrs
Option exercise price	**$3.88**	$2.90
Weighted average share price at grant date	**$1.79**	$1.83

The dividend yield reflects the assumption that the current dividend payout will continue with no material anticipated increases. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

32. 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:

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Consolidated 2006 $'000	Company Restated 2005 $'000
Audit services				
Ernst & Young Australia				
Audit and review of financial reports	**785**	695	**785**	695
Affiliates of Ernst & Young Australia				
Audit and review of financial reports	**371**	338	**–**	–
Total audit services	**1,156**	**1,033**	**785**	**695**
Other assurance services				
Ernst & Young Australia				
Regulatory and contractually required audits	**126**	184	**–**	35
Affiliates of Ernst & Young Australia				
Regulatory and contractually required audits	**151**	171	**–**	–
Total other assurance services	**277**	355	**–**	35
Total remuneration for assurance services	**1,433**	1,388	**785**	730
Non assurance services				
Ernst & Young Australia				
Accounting advice	**–**	17	**–**	–
Due diligence	**34**	–	**8**	–
Affiliates of Ernst & Young Australia				
Taxation services	**–**	29	**–**	–
Total non assurance services	**34**	46	**8**	–
Total remuneration of auditors	**1,467**	1,434	**793**	730

33. Director and executive disclosures

(A) DETAILS OF KEY MANAGEMENT PERSONNEL

(i) Directors

The following persons were directors of John Fairfax Holdings Limited during the financial year and up to the date of this report:

RJ Walker	Non Executive Chairman
MD Burrows	Non Executive Deputy Chairman
RC Corbett	Non Executive Director
D Evans	Non Executive Director
FG Hilmer	Chief Executive Officer (resigned 18 November 2005)
DE Kirk	Chief Executive Officer (appointed 17 October 2005)
JM King	Non Executive Director
P Young	Non Executive Director (appointed 16 September 2005)
DR Wills	Non Executive Chairman (resigned 26 August 2005)

(ii) Executives

The following executives were the key management personnel during the financial year:

D Churchill	Managing Director – Victoria
G Hambly	Group General Counsel and Company Secretary
J Hooke	Managing Director – New South Wales
S Narayan	Chief Financial Officer
J Withers	Chief Executive Officer – New Zealand

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

	Consolidated 2006 $	Consolidated Restated 2005 $	Company 2006 $	Company Restated 2005 $
Short-term employee benefits	**6,884,607**	3,099,275	**6,277,969**	3,099,275
Post-employment benefits	**5,361,196**	256,789	**5,361,196**	256,789
Other long-term benefits	**171,429**	–	**171,429**	–
Termination benefits	**–**	–	**–**	–
Share-based payments	**477,573**	96,261	**477,573**	96,261
	12,894,805	3,452,325	**12,288,167**	3,452,325

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These remuneration disclosures, designated as audited, are provided in the Directors' Report on pages 27 to 35.

33. Director and executive disclosures (continued)

(C) EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section 5.2 of the remuneration report on pages 27 to 35.

(ii) Option holdings

Remuneration options: granted and vested during the financial year

During the year there were no options granted (2005: nil). The number of options that vested during the financial year ended 30 June 2006 (2005: nil) is set out in the following table:

	Number of options vested
G Hambly	300,000

Ordinary shares issued on exercise of remuneration options

	Number of shares issued	Value per share $	Total share value $
G Hambly	300,000	4.36	1,308,000

Option holdings of directors and key management personnel

Directors

During the financial year ended 30 June 2006, there were no options issued to or exercised by directors, nor were there any options held by directors that lapsed during the financial year (2005: nil).

Key management personnel

The following table details options granted, exercised or lapsed during the current financial year relating to the key management personnel:

	Balance at beginning of period 1 July 2005	Granted as remuneration	Options exercised	Options expired	Balance at end of period 30 June 2006	Total	Not Exercisable	Exercisable
G Hambly	300,000	–	(300,000)	–	–	–	–	–
Total	**300,000**	**–**	**(300,000)**	**–**	**–**	**–**	**–**	**–**

Option values of key management personnel

	Total value $	Value per share $	Total options exercised
Value of options granted	–	–	–
Value of options exercised (at exercise date)	33,000	0.11	300,000
Value of options lapsed	–	–	–
Total	33,000	0.11	300,000

33. Director and executive disclosures (continued)

(iii) Shareholdings

	Balance 2005	Granted as remuneration	On exercise of option	Net change Other	Balance 2006*	Post year-end acquisitions	Post year-end disposals	Post year-end balance
Directors								
RJ Walker	312,605	–	–	112,186	424,791	576,068	–	1,000,859
MD Burrows	24,205	–	–	9,347	33,552	3,379	–	36,931
RC Corbett	13,748	–	–	7,305	21,053	2,365	–	23,418
D Evans	–	–	–	6,456	6,456	2,028	–	8,484
FG Hilmer*	148,653	–	–	–	148,653	–	–	n/a
JM King	32,230	–	–	7,106	39,336	2,196	–	41,532
DE Kirk	–	–	–	100,000	100,000	108,108	–	208,108
P Young	–	–	–	4,368	4,369	2,365	–	6,734
DR Wills*	62,237	–	–	3,268	65,505	–	–	n/a
Key management personnel								
D Churchill	–	–	–	–	–	–	–	–
G Hambly	96,415	–	300,000	(300,000)	96,415	–	–	96,415
J Hooke	–	–	–	–	–	–	–	–
S Narayan	–	–	–	2,247	2,247	–	–	2,247
J Withers	3,296	–	–	–	3,296	–	–	3,296
Total	693,389	–	300,000	(47,716)	945,673	696,509	–	1,428,024

	Balance 2004	Granted as remuneration	On exercise of option	Net change Other	Balance 2005*
Directors					
RJ Walker	307,316	–	–	5,289	312,605
MD Burrows	19,298	–	–	4,907	24,205
RC Corbett	8,399	–	–	5,349	13,748
FG Hilmer	2,948,653	–	–	(2,800,000)	148,653
JM King	27,590	–	–	4,640	32,230
P Young	–	–	–	–	–
R Carnegie*	24,495	–	–	931	25,426
DM Gonski*	29,298	–	–	5,056	34,354
MA Jackson*	17,672	–	–	1,017	18,689
DR Wills	50,903	–	–	11,334	62,237
J Withers*	–	–	–	3,296	3,296
Specified executives					
B Evans	341	–	–	–	341
P Graham	2,366	–	–	–	2,366
A Revell	12,201	–	–	–	12,201
G Hambly	–	–	–	96,415	96,415
S Narayan	–	–	–	–	–
Total	3,448,532	–	–	(2,661,766)	786,766

* In the case of retired directors, the closing balance represents the number of shares at the date the director retired from the Board

33. Director and executive disclosures (continued)

	Balance 2005	Granted as remuneration	On exercise of option	Net change Other	Balance 2006*	Post year-end acquisitions	Post year-end disposals	Post year-end balance
PRESSES								
Directors								
FG Hilmer*	180	–	–	–	180	–	(180)	–
Total	180	–	–	–	180	–	(180)	–

There were no PRESSES held, acquired or disposed of by key management personnel in the financial year ended 30 June 2006.

	Balance 2004	Granted as remuneration	On exercise of option	Net change Other	Balance 2005*
PRESSES					
Directors					
JM King	128	–	(128)	–	–
DR Wills	180	–	(180)	–	–
FG Hilmer	180	–	–	–	180
Total	488	–	(308)	–	180

There were no PRESSES held, acquired or disposed of in the financial year ended 30 June 2005 by specified executives.

* In the case of retired directors, the closing balance represents the number of shares at the date the director retired from the Board

Stapled Preference Shares (SPS)
There were no SPS held, acquired or disposed of in the financial year ended 30 June 2006 by directors or key management personnel.

(D) RIGHTS OVER SHARE HOLDINGS OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Details of shares provided as remuneration is in section 5.2 of the remuneration report on page 30.

	Opening balance 2005	Granted as remuneration	Net change Other**	Closing balance 2006
Directors				
DE Kirk*	–	–	–	–
Key management personnel				
Don Churchill*	–	–	–	–
Gail Hambly	80,431	105,190	(45,706)	139,915
James Hooke	53,986	26,129	(26,760)	53,355
Sankar Narayan	48,638	113,896	(12,633)	149,901
Joan Withers*	–	–	–	–
Total	183,055	245,215	(85,099)	343,171

* Executives who had no participation in the equity-based incentives (EBI) pre 2006 financial year.

** includes forfeitures

33. Director and executive disclosures (continued)

	Opening balance 2004	Granted as remuneration	Net change Other**	Closing balance 2005
Directors				
No directors had rights over shares in the financial year ended 2005.				
Specified executives				
Brian Evans*	38,704	50,357	–	89,061
Peter Graham*	51,594	42,259	–	93,853
Gail Hambly	45,706	34,725	–	80,431
Sankar Narayan	12,633	36,005		48,638
Alan Revell*	48,357	41,566	–	89,923
Total	196,994	204,912	–	401,906

* The following specified executives ceased employment during the financial year ended 2006 and forfeited rights to share holdings depending on their contracts: Brian Evans (4 November 2005); Peter Graham (1 August 2005); Alan Revell (2 February 2006).

** includes forfeitures

(E) LOANS TO KEY MANAGEMENT PERSONNEL

Details of loans made to directors of John Fairfax Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

(i) Aggregate for key management personnel

	Year	Balance at beginning of year	Interest not charged	Balance at end of year	Highest owing in year
A Revell	2005	100,000	2,747	–	100,000

There were no loans issued to directors or key management personnel during the financial year ended 30 June 2006.

(ii) Individuals with loans above $100,000 during the financial year

There are no outstanding loans above $100,000 for the financial years ended 30 June 2006 and 30 June 2005.

(F) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

A number of directors of John Fairfax Holdings 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 and are considered to be minor in nature. 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 John Fairfax Holdings 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.

34. Related party transactions

(A) ULTIMATE PARENT

John Fairfax Holdings Limited is the ultimate parent company.

(B) CONTROLLED ENTITIES

Interests in controlled entities are set out in note 28 and note 9.

(C) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 33.

(D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties on normal market terms and conditions:

	Year	Sales to related parties $'000	Purchases from related parties $'000	Amount owed by related parties $'000	Amount owed to related parties $'000
Consolidated					
Associates and joint ventures	2006	12	10,340	15	399
	2005	2	7,436	–	831
Company					
Associates and joint ventures	2006	–	201	–	3
	2005	–	129	–	–

John Fairfax Holdings Limited has undertaken transactions with its controlled entities including the issue and receipt of loans and management fees. On consolidation, all such transactions have been eliminated in full.

35. Notes to the Statement of Cash Flows

(A) RECONCILIATION OF NET PROFIT AFTER INCOME TAX EXPENSE TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated 2006 $'000	Consolidated Restated 2005 $'000	Company 2006 $'000	Company Restated 2005 $'000
Net profit for the financial year	**227,453**	263,249	**274,268**	278,341
Non-cash items				
Depreciation and amortisation	**79,775**	80,083	**13,814**	9,991
Amortisation of PRESSES issue costs	**292**	–	**292**	–
Share of profits of associates and joint ventures not received as dividends or distributions	**(2,924)**	(1,642)	**–**	–
Straight-line rent adjustment	**3,920**	(1,411)	**–**	–
Net loss/(gain) on disposal of property, plant and equipment	**168**	(2,261)	**(3)**	–
Net (gain)/loss on disposal of other assets	**–**	(230)	**–**	–
(Gain)/loss on disposal of derivatives	**4,120**	–	**–**	–
Fair value adjustment to derivatives	**188**	–	**–**	–
Net foreign currency (gain)/loss	**(860)**	764	**–**	–
Share based payments	**230**	416	**230**	416
Non-cash superannuation (income)/expense	**(226)**	(282)	**–**	–
Changes in operating assets and liabilities, net of effects from acquisitions				
(Increase)/decrease in trade receivables	**3,315**	(8,889)	**22**	(316)
Decrease in other receivables	**4,502**	21,026	**(53,860)**	(9,519)
(Increase)/decrease in inventories	**(6,066)**	11,884	**–**	–
(Decrease) in payables	**(9,083)**	(55,734)	**(7,377)**	1,238
(Decrease)/increase in provisions	**(6,106)**	3,924	**(2,247)**	3,395
(Decrease)/increase in tax balances	**(10,513)**	32,904	**(19,447)**	(4,436)
Net cash inflow from operating activities	**288,185**	343,801	**205,692**	279,110

(B) RECONCILIATION OF CASH AND CASH EQUIVALENTS

Reconciliation of cash at end of the financial year (as shown in the Statement of Cash Flows) to the related items in the financial statements is as follows:

Cash on hand and at bank	**52,748**	134,154	**954**	23,813
Total cash at end of the financial year	**52,748**	134,154	**954**	23,813

(C) NON-CASH INVESTING AND FINANCING ACTIVITIES

Dividends satisfied by the issue of shares under the dividend reinvestment plan are shown in note 21(a) and options issued to employees under the Employee Share Option Plan for no cash consideration are shown in note 31(b).

36. Financial risk management and financial instrument disclosures

Hedging transactions and derivative financial instruments

The consolidated entity's principal financial instruments, other than derivatives, comprise bank loans, senior notes, preference shares, finance leases, cash and short term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations. The consolidated entity also enters into derivative transactions to manage principally interest rate and currency risks arising from their operations and its sources of finance (refer to note 14) in accordance with a Treasury Policy approved by the Board of John Fairfax Holdings Limited. The consolidated entity does not use derivative instruments for speculative or trading purposes.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

(A) INTEREST RATE RISK

Interest rate risk arises on the consolidated entity's long term borrowings which are denominated in various currencies as well as floating and fixed rates of interest. The consolidated entity manages its interest rate risk through a range of derivative financial instruments, primarily interest rate swaps and cross currency swaps. The objective of entering into these derivatives is to reduce the risk of profitability and cashflow being effected by interest rate risk. The Treasury Policy requires the portion of fixed and variable interest rate risk as well as the maturity of fixed interest rate risk to be maintained within defined limits.

The following table summarises the consolidated entity's exposure to interest rate risks:

Consolidated
30 June 2006

		Fixed interest maturing in					
	Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total	Weighted average effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
Financial assets							
Cash and cash equivalents	52,748	–	–	–	–	52,748	5.7
Trade and other receivables*	–	–	–	–	266,463	266,463	–
Available for sale investments	–	–	–	–	3,175	3,175	–
Held to maturity investments	16,949	–	–	–	–	16,949	5.6
Other financial assets	–	–	–	–	6,119	6,119	–
Derivatives	30,777	393	134	–	–	31,304	5.9
Total financial assets	100,474	393	134	–	275,757	376,758	
Financial liabilities							
Payables	–	–	–	–	201,730	201,730	
Bank borrowings and loans	383,002	3,719	16,910	11,634	–	415,265	7.4
Senior notes	–	165,331	66,838	228,797	–	460,966	7.3
Medium term notes	–	–	199,765	–	–	199,765	6.9
Finance lease liability	34,005	–	–	–	–	34,005	7.2
PRESSES	–	249,536	–	–	–	249,536	7.4
Redeemable preference shares (RPS)	–	–	148,395	–	–	148,395	4.4
Derivatives	51,949	9	–	–	–	51,958	6.2
Total financial liabilities	468,956	418,595	431,908	240,431	201,730	1,761,620	

36. Financial risk management and financial instrument disclosures (continued)

30 June 2005

	Floating interest rate	Fixed interest maturing in: 1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total	Weighted average effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
Financial assets							
Cash and cash equivalents	134,154	–	–	–	–	134,154	5.4
Trade and other receivables	–	–	–	–	276,892	276,892	–
Other financial assets	–	–	–	–	6,321	6,321	–
Derivatives	–	–	–	–	7,241	7,241	–
Total financial assets	134,154	–	–	–	290,454	424,608	
Financial liabilities							
Payables	–	–	–	–	204,676	204,676	–
Bank borrowings and loans	102,043	5,399	–	83,218	–	190,660	6.2
Senior notes	–	–	157,584	340,205	–	497,789	7.1
Medium term notes	–	150,000	–	–	–	150,000	6.4
Finance lease liability	36,375	–	–	–	–	36,375	7.2
Redeemable preference shares (RPS)	–	–	173,615	–	–	173,615	4.4
Derivatives	308,263	100,000	(138,969)	(269,294)	–	–	–
Total financial liabilities	446,681	255,399	192,230	154,129	204,676	1,253,115	

(B) FOREIGN CURRENCY RISK

The consolidated entity enters into a range of derivative financial instruments to manage foreign exchange risk with the objectives of reducing the risk to profitability and cashflow and removing uncertainty in valuation of the income statement. The principal balance sheet risk arises from the issue of senior notes denominated in USD (refer note 19) and the underlying assets and liabilities of the New Zealand business. The exposure to USD payments for principal and interest under this transaction was fully hedged into AUD and NZD by cross currency and interest rate swap transactions.

The consolidated entity also enters into forward foreign exchange contracts to hedge foreign currency denominated payments (principally USD, NZD and EUR) mainly for purchases of capital equipment, newsprint, paper, other materials, and hedging of loan receivables and dividend payments from overseas controlled entities.

The consolidated entity has hedged a NZD loan receivable from its New Zealand controlled entity.

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity at balance date:

	Less than 1 year		1 to 5 years		Weighted average exchange rate	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 %	2005 %
USD	6,184	97	–	350,000	0.7610	0.7378
EUR	2,977	–	–	–	0.5942	–
NZD	–	–	–	(602,426)	–	1.0812

(C) CREDIT RISK

The consolidated entity is exposed to credit risk representing the loss in the event of non-performance by the financial instrument counterparties which are investment grade rated financial institutions. Credit risk is managed through the use of credit ratings and monitoring the usage of predetermined credit limits.

Credit risk arising on receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As at 30 June 2006, the consolidated entity had no significant concentration of credit risk with any single counterparty or group of counterparties.

(D) LIQUIDITY RISK

The Group's objective is to maintain adequate liquidity to meet its financial obligations as and when they fall due through the use of bank overdrafts, bank loans and facilities, preference shares, finance leases and the issue of notes. The consolidated entity's policy is that no more than 30% of the borrowings should mature in any twelve month period.

(E) FAIR VALUE

The carrying amounts and fair values of financial assets and financial liabilities at balance date are:

	Consolidated Carrying value 2006 $'000	Consolidated Fair value 2006 $'000	Consolidated Carrying value 2005 $'000	Consolidated Fair value 2005 $'000
Financial assets				
Cash and cash equivalents	52,748	52,748	134,154	134,154
Receivables	266,464	266,464	276,892	276,892
Derivative assets	31,304	31,304	7,241	7,241
Available for sale investments	3,175	3,175	–	–
Held to maturity investments	16,949	16,949	–	–
Other financial assets	6,119	6,119	6,321	6,321
	376,759	376,759	424,608	424,608
Financial liabilities				
Payables	201,730	201,730	204,676	204,676
Interest bearing liabilities				
- bank borrowings	235,731	235,731	-	-
- bank loans	179,534	177,526	190,660	190,660
- senior notes	460,966	460,966	497,789	497,789
- medium term notes	199,765	200,000	150,000	150,000
- lease liability	34,005	48,134	36,375	52,921
- PRESSES	249,536	250,000	–	–
- Redeemable Preference Shares (RPS)	148,395	152,189	173,615	173,615
Derivatives	51,958	51,958	–	–
	1,761,620	1,778,234	1,253,115	1,269,661

Market values have been used to determine the fair value of listed available for sale investments

The fair value of interest bearing liabilities (excluding PRESSES and RPS) have been calculated by discounting the expected future cashflows by interest rates for liabilities with similar risk profiles. The discount rates applied range from 8.57% to 11.7%. The fair value of PRESSES have been calculated using the face value upon redemption and the fair value of held to maturity investments and RPS have been determined by adjusting for the transaction costs.

The carrying value of all other balances approximate the fair value.

37. Segment Reporting

The economic entity operates predominantly in two geographic segments, Australia and New Zealand.

The economic entity operates in one business segment, publishing. The publishing business comprises news, information and entertainment publishing and advertising sales in newspaper, magazine and electronic formats.

(A) RESULTS BY GEOGRAPHIC SEGMENT

30 June 2006

	Australia $'000	New Zealand $'000	Unallocated $'000	Consolidated entity $'000
Sales to external customers	1,363,026	527,538	–	1,890,564
Total sales revenue	1,363,026	527,538	–	1,890,564
Share of net profits of associates and joint ventures	6,769	150	–	6,919
Other revenues	10,611	6,667	2,122	19,400
Total segment revenue	1,380,406	534,355	2,122	1,916,883
Segment profit from continuing operations before income tax expense	240,443	173,327	2,122	415,892
Unallocated expenses (including PRESSES)	–	–	(99,309)	(99,309)
Net profit from continuing operations before tax	240,443	173,327	(97,187)	316,583
Income tax expense	–	–	(88,512)	(88,512)
Net profit after income tax expense	240,443	173,327	(185,699)	228,071

30 June 2005 (Restated)

	Australia $'000	New Zealand $'000	Unallocated $'000	Consolidated entity $'000
Sales to external customers	1,339,225	515,884	–	1,855,109
Total sales revenue	1,339,225	515,884	–	1,855,109
Share of net profits of associates and joint ventures	2,792	115	–	2,907
Other revenues	9,350	11,439	4,349	25,138
Total segment revenue	1,351,367	527,438	4,349	1,883,154
Segment profit from continuing operations before income tax expense	260,668	170,648	4,349	435,665
Unallocated expenses	–	–	(80,974)	(80,974)
Net profit from continuing operations before tax	260,668	170,648	(76,625)	354,691
Income tax expense	–	–	(90,808)	(90,808)
Net profit after income tax expense	260,668	170,648	(167,433)	263,883

(B) ASSETS AND LIABILITIES BY GEOGRAPHIC SEGMENT

30 June 2006

	Australia $'000	New Zealand $'000	Consolidated entity $'000
Assets			
Segment assets	2,367,903	1,641,038	4,008,941
Unallocated assets	–	–	78,253
Total assets			4,087,194
Liabilities			
Segment liabilities	287,318	65,845	353,163
Unallocated liabilities	–	–	1,597,222
Total liabilities			1,950,385
Net assets			2,136,809

30 June 2005 (Restated)

	Australia $'000	New Zealand $'000	Consolidated entity $'000
Assets			
Segment assets	2,355,134	1,181,950	3,537,084
Unallocated assets	–	–	55,699
Total assets			3,592,783
Liabilities			
Segment liabilities	242,811	62,299	305,110
Unallocated liabilities	–	–	1,118,962
Total liabilities			1,424,072
Net assets			2,168,711

(C) OTHER DETAILED SEGMENT DISCLOSURES

	2006 Australia $'000	2006 New Zealand $'000	2005 Australia $'000	2005 New Zealand $'000
Equity method investments included in segment assets	14,399	8,953	1,953	1,708
Acquisition of property, plant and equipment, intangible assets and other non-current assets	129,787	48,987	625,893	21,822
Depreciation	54,249	68,805	8,619	9,997
Amortisation	15,579	3,640	1,328	–
Non-cash expenses other than depreciation and amortisation	45,162	47,077	10,795	5,112

38. Events subsequent to balance sheet date

CONVERSION OF PRESSES

Refer to note 21(c) for further details.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2006, no other events have occurred since balance date.

ACQUISITION OF ENTITIES

Since the end of the financial year, the consolidated entity also gained control over the following entities in two separate transactions:

Entity or business acquired	Principal activity	Date of Acquisition	Ownership Interest
The Border Morning Mail Limited	Newspaper Publishing	25 July 2006	100%
Border Mail Printing Pty Limited	Printing facility	25 July 2006	75.5%
Melbourne Community Newspapers Pty Ltd	Newspaper Publishing	25 July 2006	100%
The Independent News Pty Limited	Newspaper Publishing	25 July 2006	100%

Consideration paid for the acquisition of Border Morning Mail Limited, including 51% of Border Mail Printing Pty Limited, consisted of $135 million in cash and 4,858,517 ordinary shares at a price of $4.10 per share pursuant to the Scheme of Arrangement, for a net consideration of $155 million.

The Independent News Pty Limited, including 24.5% of Border Mail Printing Pty Limited held by Melbourne Community Newspapers Pty Limited, were acquired for a total cash consideration of $15.1 million.

Due to the short timeframe between the completion of the acquisition and date of this report, additional disclosures are considered impractical by management.

RELOCATION OF SYDNEY HEADQUARTERS TO ONE DARLING ISLAND AND SALE OF SPENCER STREET PREMISES

On 7 September 2006, the Company entered into a lease agreement to relocate the headquarters from Darling Park to One Darling Island, Pyrmont by the middle of 2007. The Company has also decided to sell the Spencer Street building in Melbourne.

39. Transition to Australian equivalents to IFRS

The impacts of transition to AIFRS on the consolidated entity and Company's total equity and net profit after income tax expense are set out below.

(I) RECONCILIATION OF CONSOLIDATED TOTAL EQUITY REPORTED UNDER PREVIOUS AGAAP TO CONSOLIDATED TOTAL EQUITY UNDER AIFRS

	Note	Consolidated 30 June 2005 $'000	Consolidated 1 July 2004 $'000	Company 30 June 2005 $'000	Company 1 July 2004 $'000
Total equity under previous AGAAP (audited)		2,209,182	2,068,748	1,610,694	1,451,506
AIFRS adjustments to retained earnings:					
Derecognition of internally generated intangibles	(a)	(6,874)	(6,874)	–	–
Mastheads and tradenames impairment writedowns, net of foreign currency	(b)	(18,302)	(18,302)	–	–
Writeback of goodwill amortisation	(c)	2,585	226	–	–
Recognition of defined benefit pension asset, net of tax	(d)	4,623	4,725	–	–
Straight-lining of finance leases, net of tax	(e)	16,329	14,673	–	–
Straight-lining of operating leases, net of tax and incentives	(e)	(2,495)	(2,100)	–	–
Recognition of share based payment expense	(f)	(595)	(179)	(595)	(179)
Application of AASB 112 Income Taxes	(g)	(36,352)	(36,352)	–	–
Adjustments to reserves:					
Recognition of share based payment expense	(f)	595	179	595	179
Foreign currency translation movements on above adjustments		15	–	–	–
Total equity under AIFRS		2,168,711	2,024,744	1,610,694	1,451,506

The transition to AIFRS also resulted in the reclassification of certain balances on the balance sheet as described below:

(II) ADJUSTMENTS TO BALANCE SHEET CLASSIFICATIONS AT 1 JULY 2004

	Property, plant & equipment $'000	Intangibles $'000	Provisions (non-current) $'000	Provisions (current) $'000
Consolidated				
Reclassification of software to intangible assets	(35,212)	35,212	–	–
Reclassification of unconditional long service leave from non-current provisions to current provisions	–	–	(17,448)	17,448
Company				
Reclassification of software to intangible assets	(13,126)	13,126	–	–
Reclassification of unconditional long service leave from non-current provisions to current provisions	–	–	(2,858)	2,858

39. Transition to Australian equivalents to IFRS (continued)

(III) RECONCILIATION OF CONSOLIDATED NET PROFIT UNDER PREVIOUS AGAAP TO CONSOLIDATED NET PROFIT UNDER AIFRS

	Note	Consolidated 30 June 2005 $'000	Company 30 June 2005 $'000
Net profit from continuing operations after income tax expense under previous AGAAP (audited)		260,321	278,757
AIFRS adjustments to retained earnings:			
Write back of goodwill amortisation	(c)	2,358	–
Straight-lining of leases	(e)	1,806	–
Straight-lining of operating leases, net of incentives	(e)	(395)	–
Expense of share based payments	(f)	(416)	(416)
Movement in defined benefit plan asset	(d)	282	–
Other		(73)	–
Net profit under AIFRS		263,883	278,341

Reconciliation of cashflow statement
The transition to AIFRS has not resulted in any material adjustments between the cashflow statement presented under AIFRS and previous AGAAP.

NOTES TO THE ABOVE RECONCILIATIONS

(a) De-recognition of internally generated intangible assets

Under previous AGAAP, recognition of internally generated intangible assets on balance sheet was permitted whereas under AIFRS, internally generated intangible assets must meet strict criteria in order to be recognised.

At the date of transition and in accordance with AASB 138 *Intangible Assets*, certain mastheads and trade names have been derecognised. The effect of this is a decrease in intangibles by $6.9m and corresponding decrease in retained earnings at 1 July 2004.

(b) Impairment of non-financial assets

Under AIFRS, the recoverable amount of a non-financial asset is determined as the higher of its net selling price and value in use. Following an assessment of the recoverable amount of the consolidated entity's individual mastheads in accordance with AASB 136 *Impairment of Assets* compared with the impairment testing for groups of assets basis used previously, an impairment write-down adjustment is required. The effect of this is a decrease in intangible assets by $18.3 million and corresponding decrease in retained earnings at 1 July 2004.

(c) Goodwill

Under previous AGAAP, goodwill was amortised over a maximum of 20 years. Under AIFRS, goodwill is no longer amortised but instead is tested for impairment annually to ensure that the carrying amount is not greater than the recoverable amount. As a result, accumulated goodwill amortisation is written back to goodwill.

During the year ended 30 June 2005, additional goodwill was amortised under previous AGAAP. Accordingly, intangible assets increased by $2.6 million representing the write-back of accumulated goodwill amortisation and there was a corresponding decrease in amortisation expense for the year ended 30 June 2005.

(d) Defined benefit plan pension asset

The company and certain controlled entities currently sponsor defined benefit superannuation plans in Australia and New Zealand. Under previous AGAAP, surpluses and/or deficits on the defined benefit superannuation plans were not recognised on the balance sheet and contributions to the plans were recognised as an expense when due and payable. Under AASB 119 *Employee Benefits*, a pension asset (surplus) or liability (deficit) is recognised on the balance sheet and any actuarial gains or losses in the movement of the asset or liability is recognised in retained earnings, as elected by the Company in accordance with AASB 1.

39. Transition to Australian equivalents to IFRS (continued)

The effect of this is the recognition of a new defined benefit plan pension asset on the balance sheet at 1 July 2004 for $6.9 million, which represents the cumulative actuarial gains existing at transition date, an increase in retained earnings of $4.7 million and increase in deferred tax liabilities of $2.2 million.

At 30 June 2005, an actuarial loss on the defined benefit plans resulted in a net decrease in the defined benefit pension asset by $0.1 million and a decrease in retained earnings of $0.4 million. The decrease in the asset was offset by a net increase (including foreign exchange translation loss for the New Zealand pension asset) to reflect the write back of the net contributions and service costs based on actuarial valuations for the period to 30 June 2005. The tax-effect of this adjustment decreased deferred tax liabilities and increased income tax expense for the year to 30 June 2005.

(e) Leases

(i) Finance lease liability
Under previous AGAAP, the minimum lease payments of a finance lease were determined using an implicit interest rate, whereas under AIFRS, a constant periodic interest rate must be applied.

The effect in the consolidated entity is:

- a decrease in the lease liability by $14.6 million and corresponding increase in retained earnings at 1 July 2004. Due to the nature of the finance lease, deferred tax assets have immaterially increased.
- a decrease in the lease liability by $1.7 million and increase in deferred tax assets at 30 June 2005. Interest expense for the year ended 30 June 2005 decreased by $1.7 million.

(ii) Operating leases
Under previous AGAAP, lease payments were recognised in the income statement on an accruals basis reflecting the payment terms of the underlying lease. Under AIFRS, lease payments under leases which contain fixed increases are recognised on a straight line basis over the lease term. Lease incentives are also required to be amortised over the lease term.

The effect in the consolidated entity is:

- an increase in deferred lease liability, net of tax of $2.1 million for lease incentives at 1 July 2004: and
- an increase in the deferred lease liability, net of tax and incentives of $0.4 million and corresponding increase in lease expense at 30 June 2005.

(f) Shared based payments

Under previous AGAAP the Group did not account for performance options or shares issued to employees or directors of the Group. Under AIFRS, the consolidated entity is required to recognise an expense for all share based remuneration, including shares or options issued to employees or directors after 7 November 2002 which had not vested by 1 January 2005. The Company has elected not to apply AASB 2 *Share Based Payments* to its share based payment arrangements granted before 7 November 2002 in accordance with AASB 1.

The effect in the consolidated entity and Company of accounting for share based payment transactions is:

- a decrease in retained earnings of $0.2 million and corresponding increase in the share options reserves at 1 July 2004; and
- an increase in the share options reserve of $0.4 million, a corresponding decrease in retained earnings and increase in the employee benefits expense by $0.4 million for the year ended 30 June 2005.

(g) Deferred tax

The adoption of AIFRS has resulted in a change in accounting policy. Under previous AGAAP, income tax expense was calculated by reference to the accounting profit after allowing for permanent balances ('the income statement approach'). Deferred tax was not recognised in relation to amounts recognised directly in equity. The application of AASB 112 *Income Taxes* has resulted in the recognition of additional deferred tax assets of $0.8 million and deferred tax liabilities of $37.1 million and a decrease to retained earnings of $36.3 million at 1 July 2004.

39. Transition to Australian equivalents to IFRS (continued)

(h) Software classified as intangible assets

Under previous AGAAP, capitalised software and software developments costs were included in, and accounted for, as property, plant and equipment. At the date of transition, capitalised software and software development costs were reclassified in the balance sheet as intangible assets in accordance with AASB 138 *Intangible Assets*. The effect of this in the consolidated entity was to reduce property, plant and equipment by:

- $35.2 million and increase intangible assets by $35.2 million at 1 July 2004; and
- $6.7 million and increase intangible assets by $6.7 million at 30 June 2005.

The effect of this change in the Company was to reduce property, plant and equipment by $13.1 million and increase intangible assets by $13.1 million at 1 July 2004.

There was no effect on total or net assets and in all other respects, the accounting for the asset remains unchanged.

(i) Long service leave classified as current employee benefits provision

Under previous AGAAP, long service leave was classified according to when the benefits were expected to be paid. Under AIFRS, the portion of long service leave which the Company does not have an unconditional right to defer settlement on has been reclassified as a current provision. The effect of this change in the consolidated entity has been to increase current provisions by $17.4 million and decrease non-current provisions by $17.4 million.

The effect of this change in the Company has been to increase current provisions by $2.8 million and decrease non-current provisions by $2.8 million.

(IV) ADOPTION OF AASB 132 AND AASB 139 ON 1 JULY 2005

John Fairfax Holdings Limited has taken the exemption available under AASB 1 *First Time Adoption of Australian International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. The adoption by the Group of AASB 132 and AASB 139 on 1 July 2005 had the following effects:

	Note	Consolidated 1 July 2005 $'000	Company 1 July 2005 $'000
Total equity under AIFRS (excluding AASB 132 and AASB 139)		2,168,711	1,610,694
AIFRS adjustments to retained earnings:			
Fair value of derivative assets and liabilities	(a)	(13,334)	–
Fair value movement of hedged financial liabilities	(c)	26,184	–
Amortisation of transaction costs on PRESSES	(b)	(8,615)	(8,615)
Tax-effect of AASB 139 adjustments above		(4,815)	–
AIFRS adjustments to cashflow hedge reserve:			
Fair value of derivatives, net of tax	(a)	(648)	–
AIFRS adjustments to foreign currency translation reserve:			
Fair value of derivatives, net of tax	(a)	(3,059)	–
AIFRS adjustments to contributed equity:			
Reclassification of PRESSES from equity to debt	(b), 21(c)	(241,951)	(241,951)
Reallocation of share issue costs relating to PRESSES from equity to debt	(b), 21(c)	1,365	1,365
Total equity under AIFRS		1,923,838	1,361,493

The transition to AIFRS also resulted in the reclassification of certain balances on the balance sheet as described on the next page:

39. Transition to Australian equivalents to IFRS (continued)

(V) ADJUSTMENTS TO BALANCE SHEET CLASSIFICATIONS AT 1 JULY 2005

	Contributed equity $'000	Interest Bearing Liabilities $'000
Reclassification of PRESSES from equity to debt	(241,951)	241,951
Reallocation of share issue costs relating to PRESSES from equity to debt	1,365	(1,365)

The above classification adjustment applies equally to both the consolidated entity and Company.

NOTES TO THE ABOVE RECONCILIATIONS

(A) DERIVATIVES AND HEDGING

Under previous AGAAP, derivatives were not recorded on the balance sheet and unrealised gains or losses from re-measurement of derivatives used to hedge foreign exchange or interest rate exposures were excluded from the income statement but disclosed in the notes to the financial statements. In accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, derivatives are now recognised on balance sheet at fair value and derivatives held for hedging purposes are accounted for as fair value or cash flow hedges with changes in the fair value recognised directly in the income statement or equity respectively until the hedged transaction occurs.

The effect of this is to increase derivative assets and derivative liabilities by $20.0 million and $37.7 million respectively at 1 July 2005 with a corresponding decrease in retained earnings of $13.3 million, cashflow hedge reserve of $0.7 million and foreign currency translation reserve of $3.1 million, net of tax. The adjustment is net of previously recognised hedge receivables and payables under AGAAP, which amounted to $3.7 million at 30 June 2005.

(B) RECLASSIFICATION OF PRESSES

Under AGAAP, PRESSES were classified in the balance sheet as an equity instrument. Under AASB 132 *Financial Instruments: Presentation and Disclosure*, PRESSES were reclassified from equity to debt. $1.3 million of transaction costs relating to PRESSES were reallocated at the time of reclassification of the PRESSES to debt (refer note 21(c)). The effect of this was a net decrease from contributed equity by $240.6 million and a corresponding increase in non-current interest bearing liabilities.

Under AASB 139, the PRESSES are measured at amortised cost and transaction costs totalling $9.4 million are amortised over 5 years. At 1 July 2005, $8.6 million of transaction costs were amortised and the effect of this was to increase the PRESSES in non-current interest bearing liabilities of $8.6 million and decrease retained earnings. As such at 1 July 2005, PRESSES (inclusive of amortised transactions costs) were carried at $249.2 million.

As a result of the PRESSES conversion on 27 July 2006 (refer to Note 21(c)), the PRESSES have been reclassified from non-current interest bearing liabilities to current interest bearing liabilities at 1 July 2005.

(C) INTEREST BEARING LIABILITIES – US DEBT NOTES AND REDEEMABLE PREFERENCE SHARES

Under AGAAP, notes and redeemable preference shares (RPS) were recognised at cost and transaction costs capitalised and amortised over the life of those liabilities. Under AASB 139, interest bearing liabilities are recognised at amortised cost and fair valued to the extent the liability is hedged.

The effect of this is a $26.2 million decrease in non-current interest bearing liabilities and increase in retained earnings at 1 July 2005 for the fair value changes in the hedged component of the US debt notes and RPS.

Directors' Declaration

In accordance with a resolution of the directors of John Fairfax Holdings Limited, we state that:

1. In the opinion of the directors:
   (a) the financial report and the additional disclosures included in the Directors' Report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
      (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on the date; and
      (ii) complying with Accounting Standards and Corporations Regulations 2001; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2006.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Mark Burrows
Chairman, Audit and Risk Committee

David Kirk
Chief Executive Officer and Director

Sydney
26 September 2006

Independent audit report to the members of John Fairfax Holdings Limited

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock Exchange 10172

Scope

THE FINANCIAL REPORT, REMUNERATION DISCLOSURES AND DIRECTORS' RESPONSIBILITY

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for John Fairfax Holdings Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" in the directors' report, as permitted by Corporations Regulation 2M.6.04 .

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

AUDIT APPROACH

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independent audit report to the members of John Fairfax Holdings Limited

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock Exchange 10172

INDEPENDENCE

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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 in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

AUDIT OPINION

In our opinion:

1. the financial report of John Fairfax Holdings Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of John Fairfax Holdings Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures that are contained in the directors' report and are identified as being subject to audit, comply with Accounting Standard AASB 124 Related Party Disclosures.

Ernst & Young

D J Simmonds
Partner

Sydney
26 September 2006

TWENTY LARGEST HOLDERS OF SECURITIES AT 31 AUGUST 2006

	Number of securities	%
ORDINARY SHARES (FXJ)		
National Nominees Limited	178,806,499	17.70
JP Morgan Nominees Australia Ltd	153,013,719	15.15
Westpac Custodian Nominees Ltd	126,887,579	12.56
RBC Dexia Investor Services Australia Nominees Pty Ltd	85,110,760	8.42
Citicorp Nominees Pty Ltd	75,757,029	7.50
Cogent Nominees Pty Ltd	38,589,586	3.82
ANZ Nominees Ltd	25,947,828	2.57
UBS Nominees Pty Ltd	22,044,315	2.18
Queensland Investment Corporation	9,243,339	0.91
Australian Reward Investment Alliance	9,155,076	0.91
AMP Life Ltd	8,563,197	0.85
Tasman Asset Management Ltd	7,644,613	0.76
Westpac Financial Services Ltd	6,257,369	0.62
Victorian Workcover Authority	4,706,699	0.47
UBS Wealth Management Australia Nominees Pty Ltd	4,676,414	0.46
Australian Foundation Investment Company Ltd	4,610,308	0.46
Fairfax Employee Share Plans P/L	3,751,772	0.37
Bond Street Custodians Limited	3,468,852	0.34
Cambooya Pty Ltd	3,443,262	0.34
Promina Equities Ltd	3,301,605	0.33
	774,979,821	76.72

Shareholder Information
John Fairfax Holdings Limited

TWENTY LARGEST HOLDERS OF SECURITIES AT 31 AUGUST 2006 (CONTINUED)

	Number of securities	%
STAPLED PREFERENCE SECURITIES (SPS) (FXJPB)		
JP Morgan Nominees Australia Ltd	691,650	23.06
ANZ Nominees Ltd	373,250	12.44
Share Direct Nominess Pty Ltd	203,500	6.78
Westpac Custodian Nominees Ltd	161,760	5.39
National Nominees Ltd	150,522	5.02
Goldman Sachs JB Were Pty Ltd	150,000	5.00
Citicorp Nominees Pty Ltd	143,570	4.79
MLEQ Nominees Pty Ltd	125,000	4.17
RBC Dexia Investor Services Australia Nominees Pty Ltd	123,000	4.10
Invia Custodian Pty Ltd	99,341	3.31
Elise Nominees Pty Ltd	64,303	2.14
Irrewarra Investments Pty Ltd	61,258	2.04
Questor Financial Services Ltd	56,078	1.87
Kaplan Equity Ltd	51,450	1.72
ANZ Executors & Trustee Company Ltd	40,579	1.35
UBS Nominees Pty Ltd	28,761	0.96
Fortis Clearing Nominees P/L	26,861	0.90
Equity Trustees Ltd	25,000	0.83
OHJ Holdings Pty Ltd	23,500	0.78
Merrill Lynch (Australia) Nominees Pty Ltd	22,409	0.75
	2,621,792	87.40

DEBENTURES

National Financial Services Corp.	281	100

OPTIONS

All options were issued to employees of the Company (or its related entities) and are not listed separately.

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as shown in substantial shareholder notices received by the Company as at 31 August 2006 are:

	Ordinary Shares
Maple Brown-Abbott Ltd	104,346,432
UBS Nominees Pty Ltd	87,684,432
Perpetual Limited	93,498,969
Commonwealth Bank of Australia	89,463,693
Lazard Asset Management Pacific Co.	59,152,708
National Australia Bank Limited Group	57,915,868
452 Capital Pty Limited	47,689,625
Portfolio Partners Limited	47,144,759
Perennial Value Management Limited	47,596,409

DISTRIBUTION SCHEDULE OF HOLDINGS AT 31 AUGUST 2006

No. of securities	No. of ordinary shareholders	No. of SPS holders	No. of debenture holders	No. of option holders
1 – 1,000	8,494	460	1	–
1,001 – 5,000	22,039	65	–	–
5,001 – 10,000	6,087	12	–	–
10,001 – 100,000	3,496	19	–	–
100,001 and over	185	8	–	–
Total number of holders	40,301	564	1	–
Number of holders holding less than a marketable parcel	730	–	–	–

VOTING RIGHTS

Voting rights of shareholders are governed by Articles 5.8 and 5.9 of the Company's Articles of Association which provide that every member present personally or by proxy, attorney or representative shall on a show of hands have one vote and on a poll, shall have one vote for every share held. Debentures and options do not carry any voting rights.

Five year performance summary

John Fairfax Holdings Limited and Controlled Entities

		AIFRS 2006	AIFRS Restated 2005	AGAAP 2004	AGAAP 2003	AGAAP 2002
Total revenue	$m	1,909.9	1,880.2	1,783.0	1,226.0	1,197.8
Revenue from operations	$m	1,907.8	1,873.4	1,767.7	1,208.9	1,174.8
Earnings before depreciation, interest and tax (EBITDA)	$m	495.7	515.7	433.0	270.5	188.6
Depreciation	$m	79.8	80.1	85.3	69.2	67.1
Earning before interest and tax	$m	415.9	435.6	347.7	201.3	121.6
Net interest expense	$m	97.1	76.6	71.9	23.5	29.7
Profit before tax	$m	316.6	354.7	275.8	177.8	91.8
Income tax (benefit) / expense	$m	88.5	90.8	(1.0)	52.0	38.2
Net profit attributable to members of the Company	$m	227.5	263.2	276.0	125.5	53.7
Net profit before significant items	$m	234.3	237.6	207.6	125.5	90.2
Total equity	$m	2,136.8	2,168.7	2,068.7	1,781.8	1,344.5
Total assets	$m	4,087.1	3,592.8	3,531.2	3,426.2	2,314.7
Total borrowings	$m	1,507.9	1,048.4	1,117.6	1,219.8	593.4
Number of shares and debentures	m	939.1	924.5	906.9	867.5	735.1
Number of shareholders		40,301	38,089	37,899	45,455	44,731
Number of PRESSES holders		–	5,835	5,984	6,285	6,201
Number of SPS holders		564	–	–	–	–
EBITDA to operating revenue	%	26.0	27.5	24.5	22.4	16.1
Basic earnings per share	cents	24.4	26.6	29.1	14.4	6.2
Basic earnings per share before significant items	cents	24.5	25.8	21.4	14.4	11.2
Operating cash flow per share	cents	30.7	37.2	24.1	29.3	18.5
Dividend per share	cents	19.5	23.5	16.5	13.0	11.5
Dividend payout ratio	%	79.9	88.3	56.7	90.3	185.5
Interest cover based on EBITDA before significant items	Times	5.1	6.5	6.3	11.5	7.8
Gearing	%	70.6	42.2	52.7	67.4	43.6
Return on equity	%	11.0	11.0	13.3	7.0	4.0

Directory

John Fairfax Holdings Limited

ANNUAL GENERAL MEETING

The annual general meeting will be held at 10.30am on Friday, 10 November 2006 at the Crown Towers, Southbank, Melbourne.

FINANCIAL CALENDAR

For Financial Year 2005-2006

Books close for final dividends	10 September 2006
Final dividend mailed	6 October 2006
Stapled Preference Share dividend	31 October 2006
Annual General Meeting	10 November 2006

Estimated for Financial Year 2006-2007

Interim result and dividend announcement	February 2007
Books close for interim dividend	April 2007
Interim dividend mailed	April 2007
Stapled preference share dividend	April 2007
Preliminary final result and dividend announcement	August 2007
Final dividend mailed	October 2007
Stapled preference share dividend	October 2007
Annual general meeting	November 2007

COMPANY SECRETARY

Gail Hambly

REGISTERED OFFICE

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Sydney NSW 2000
Ph: 1300 888 062 (toll free within Australia)
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SHARE REGISTRY

LINK Market Services Limited
Level 12
680 George Street
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Ph: 1300 888 062 (toll free within Australia)
Ph: (02) 8280 7670
Fax: (02) 9287 0303
Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

Directory
John Fairfax Holdings Limited

STOCK EXCHANGE LISTING

The Company's ordinary shares are listed on the Australian Stock Exchange Limited – "FXJ". The Stapled Preference Securities (Fairfax SPS) are listed on the Australian Stock Exchange Limited – "FXJPB".

The NZ redeemable preference shares are listed on the New Zealand Debt Exchange – "FXFFA".

WEBSITE

Corporate information and the Fairfax Annual Report can be found via the Company's website at www.fxj.com.au. The Company's family of websites can also be accessed through www.fairfax.com.au.

IMPORTANT INFORMATION ABOUT THE FAIRFAX ANNUAL REPORT

To obtain a free copy of this report, contact Link Market Services – see contact details on opposite page.

REMOVAL FROM ANNUAL REPORT MAILING LIST

Shareholders who do not wish to receive a copy of the annual report should advise Link Market Services Limited in writing, fax or email to the address, fax or email address set out on the opposite page.

CONSOLIDATION OF SHAREHOLDINGS

Shareholders who wish to consolidate their separate shareholdings into one account should advise the Share Registry in writing.

DIRECT PAYMENT TO SHAREHOLDERS' ACCOUNTS

We encourage shareholders to have their dividends paid directly into their bank accounts in Australia. A Direct Credit form can be downloaded from the Fairfax website:

www.fxj.com.au or obtained from the Share Registry.

To download a Direct Credit form from www.fxj.com.au please click on **Shareholders Information Services** and follow the prompts.

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.

www.fxj.com.au