Fairfax Media Limited
Tax Contribution Report
for the year ended 26 June 2016

Chief Financial Officer's Introduction

I am pleased to present the Tax Contribution Report for Fairfax Media Limited for 2016. Fairfax Media has followed the recommendations of the Board of Taxation's Tax Transparency Code in preparing this report.

Fairfax Media fully supports the principles set out in the Code, and welcomes the opportunity to provide details of the contribution Fairfax Media makes to Australian society through the taxes it pays. We recognise that our tax contributions are important to public finances and the social programs they are required to fund.

We have a Tax Corporate Governance framework which has been approved by the Board Audit and Risk Committee outlining that we should manage our taxes in compliance with tax laws and our core values. We engage with the Australian Taxation Office (ATO) in a proactive and positive manner through open and transparent dialogue.

Across our business operations we maintain a strong focus on environmental and corporate social responsibility (CSR). By driving conversations that matter and creating connections that count in the communities we serve, Fairfax uses its trusted voice to deliver a powerful public good. Our journalism makes communities stronger – more civil, more open and transparent. We hold governments and the powerful up to public scrutiny and to account.

In this way, our core values resonate clearly with the principles of the Code. Fairfax has a strong commitment to tax transparency and compliance and attaches great importance to the principles of being transparent with respect to its tax strategy and compliance.

David Housego
Chief Financial Officer

Tax Policy, Strategy and Governance

Fairfax approaches tax in a manner that is principled, transparent and sustainable in the long term. Fairfax has a Board approved Tax Corporate Governance framework governing its tax strategy. Fairfax's Board does not sanction or support any activities which seek to aggressively structure Fairfax's tax affairs. Our tax governance framework includes the following key principles:

- *Tax risk management and governance*
  - Subject to oversight by the Board, the conduct of Fairfax's tax affairs and the management of tax risk are delegated to an internal team of tax professionals. Key tax positions are also reviewed by independent external consultants.
  - The tax team operates in partnership with Fairfax's finance team and business units to identify tax obligations and ensure compliance with tax law. Key tax risks are escalated to the Chief Financial Officer and, subject to the significance of the transaction, the Board.
  - Fairfax is committed to ensuring compliance with its statutory obligations. Fairfax actively considers the implications of tax risk on its wider corporate reputation.
- *Principles of tax planning*
  - Fairfax does not shift or accumulate profits in low or zero-tax jurisdictions.
  - Fairfax's Board does not sanction or support any activities which seek to aggressively structure Fairfax's tax affairs.
  - Fairfax manages its tax affairs in a proactive manner that seeks to maximise shareholder value, whilst operating in accordance with the Governance framework.
  - Where Fairfax takes an uncertain position in relation to a major transaction or business initiative, it will seek an opinion from an independent external advisor to support its position. In keeping with the tax governance framework, such uncertain positions arise from the complexity of tax law and multinational business models rather than the pursuit of tax advantages.
- *Accepted level of tax risk*
  - Fairfax's Board has mandated that a low level of risk will be tolerated in taxation matters.
  - Taxes are managed with the objective that all tax liabilities properly due under the law are correctly recorded, accounted for and paid.
- *Dealings with tax authorities*
  - Fairfax values its good relations with revenue authorities, especially the Australian Taxation Office (ATO) and the New Zealand Inland Revenue Department (IRD), and is committed to full disclosure to revenue authorities.
  - At all times Fairfax seeks to have transparent and co-operative relationships with the tax authorities wherever it operates.

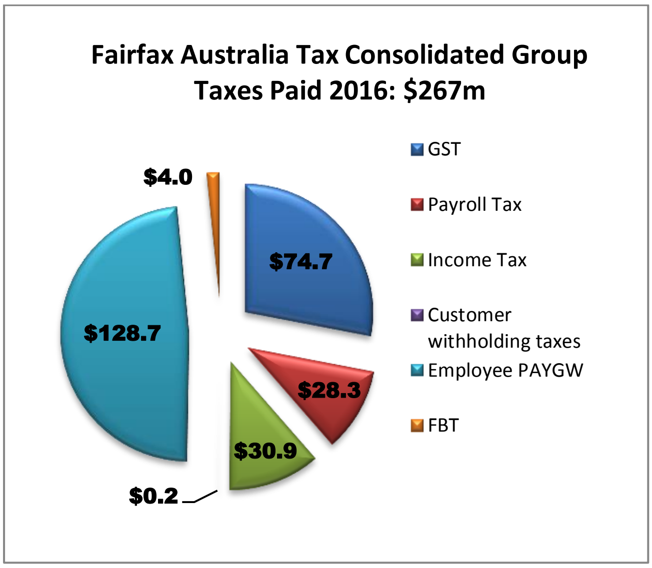
Tax Contribution Analysis

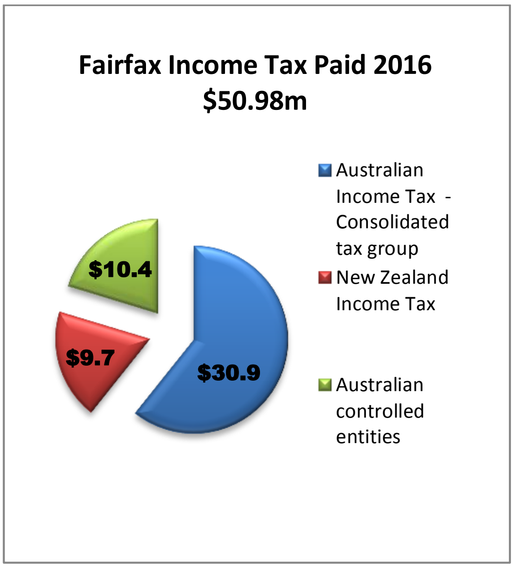
The table set out below provides an analysis of the total cash taxes paid/remitted by Fairfax in the 2016 financial year to the Australian and New Zealand tax authorities (both federal and state). Fairfax's wholly owned operations exist solely in these two countries.

The table discloses corporate income tax paid by Australian controlled entities to illustrate how the corporate income tax figure reconciles to the net income taxes paid figure disclosed in the consolidated cash flow statement in the Fairfax Media Annual Report (refer page 64 of the 2016 Annual Report). The table also details other taxes paid/remitted by the Fairfax Media tax consolidated group to the relevant tax authorities in the 2016 financial year.

Category	Corporate Income Tax	GST	Fringe Benefits Tax	Employer Payroll Tax	Employee PAYGW	Customer Withholding	Total Tax Contribution
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Australian tax consolidated group	30.94	74.73	4.0	28.26	128.69	0.20	**266.86**
New Zealand controlled entities	9.62	27.3	1.3	-	35.4	1.3	**74.9**
TOTAL	**40.57**	**102.03**	**5.35**	**28.26**	**164.09**	**1.48**	**341.8**

Note: Australian controlled entities	10.42
TOTAL (per cashflow)	50.98





The chart on the left illustrates the various taxes paid and the relative contribution of each to the total tax contribution of the Fairfax Media Australian tax consolidated group for the year ended 26 June 2016.

The chart on the right shows the break-up of the total cash income taxes paid by Fairfax Media Limited and its controlled entities for the year ended 26 June 2016.

International Related Party Dealings

Fairfax's operations are carried out by a number of controlled entities in Australia and New Zealand. These entities are listed in full in the 2016 Annual Report.

Under Australian tax law, Fairfax's Australian corporate entities are organised into a tax consolidated group, the Fairfax Media Limited tax consolidated group. A small number of partly owned Australian corporate entities fall outside this tax consolidated group and are taxed on a stand-alone basis.

Fairfax's New Zealand operations are conducted through separate legal entities established in New Zealand, and are subject to tax in New Zealand. Each of these entities is taxed on a stand-alone basis, and no election to form a tax consolidated group in New Zealand has been made.

Fairfax had a number of international related party dealings with its New Zealand subsidiaries in the 2016 financial year, which include the following key categories:

- *Head Office Support* - to support its New Zealand operations, Fairfax in Australia provides management services to Fairfax New Zealand Limited and its subsidiaries. These services include taxation, legal, company secretarial, HR management and strategic support;
- *Software Systems and IT Support* – Fairfax in Australia provides information technology infrastructure support and software application systems support to Fairfax New Zealand Limited and its subsidiaries;
- *Editorial Production and Sub-editing Operations* – Editorial design, sub-editing and production operations for Australian publications were conducted centrally in New Zealand and provided to various Australian operating entities; and
- *Access Fee* - Fairfax Media Operations Pty Ltd, a New Zealand company, provides Fairfax Digital Australia & New Zealand Pty Ltd, an Australian company, with access to its IT platform and technical support.

Fairfax's related party dealings reflect arms' length pricing in accordance with Australia's transfer pricing requirements, New Zealand transfer pricing requirements and OECD guidelines.

Reconciliation of Accounting Profit to Income Tax Expense

The income tax expense (ITE) disclosed in the Fairfax Media Annual Report is calculated based on International Financial Reporting Standards (IFRS). In any financial year, there are likely to be differences between the ITE presented in the financial statements to the total cash tax payments made to revenue authorities during that same financial year.

This is due to a number of factors, such as the timing of corporate tax instalment payments, and differences between the tax and accounting treatment of various income and expense items. The ITE for Fairfax is also reduced by the R&D tax offset available in Australia.

These differences are illustrated in the two tables set out below. The first table contains the calculation of ITE for Fairfax for accounts purposes disclosed in the consolidated income statement in the Annual Report (refer Note 25 at page 119 of the Annual Report). The second table set out below contains a reconciliation of ITE per the Fairfax consolidated income statement to income tax paid in the 2016 financial year per the consolidated cash flow statement.

Fairfax Media Limited and Controlled Entities	26 June 2016 $'000
Net profit/(loss) before income tax expense	(910,373)
Prima facie income tax at 30%	(273,112)
Tax effect of differences:	
Share of net (profit)/loss from associates and JVs	(1,003)
Capital gains not taxable	(623)
Non-assessable external dividends (unfranked portion)	824
Adjustments in respect of current income tax of previous years*	(572)
Temporary differences not recognised on intangible and other asset write-offs	244,914
Other	2,386
Income tax expense/(benefit)	**(27,186)**

* the adjustment includes $2.8m of prior year R&D claims finalised in the current year

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

Current income tax expense	32,701
Deferred income tax expense	(59,315)
Adjustments in respect of current income tax previous years	(572)
Income tax expense/(benefit) in the income statement	**(27,186)**

Reconciliation of Income Tax Expense to Income Tax Paid

				26-Jun-16 $'000
	Aust	**NZ**	**Other**	**Total**
Income tax expense/(benefit)	(27,326)	133	7	(27,186)
Timing differences recognised in deferred tax	51,657	8,033	(7)	59,683
Prior year tax instalments paid in FY16	17,032	1,454		18,486
Tax Paid per Cash Flow Statement	**41,363**	**9,620**	**(0)**	**50,983**

Effective Tax Rate

We consider that the most meaningful representation of Fairfax's effective tax rate (ETR) is illustrated where the ETR is calculated based on underlying earnings before tax, rather than the statutory profit/loss before tax. Fairfax reported a loss for statutory accounts purposes and an income tax benefit for 2016. The accounting loss was largely driven by significant items being impairments of assets. Impairments are accounting adjustments which do not have a tax impact.

Our effective corporate income tax rate on total underlying earnings was 29.28%.

A reconciliation of Fairfax's statutory to underlying performance is set out on page 59 of the Annual Report. Fairfax's net profit before tax on underlying earnings for 2016 was $202.1m. ITE on those underlying earnings was $59.17m.

The effective tax rate is impacted by the fact that the corporate tax rate applicable to NZ income (28%) is less than the Australian rate.

Our effective corporate income tax rate on Australian underlying earnings was 27.9%.

Fairfax's net profit before tax on Australian underlying earnings for 2016 was $151.7m. ITE on those underlying earnings was $42.4m. This ETR is less than the statutory rate of 30% primarily due to the impact of the Research and Development (R&D) tax incentive.