FAIRFAX MEDIA ANNUAL REPORT 2017

# All eyes on

INFORMATION | MARKETPLACES | ENTERTAINMENT

Fairfax Media


All eyes on
FAIRFAX MEDIA'S
INFORMATION BRANDS,
MARKETPLACES AND
ENTERTAINMENT.

# AUSTRALIANS AND NEW ZEALANDERS LOVE FAIRFAX MEDIA'S QUALITY INDEPENDENT JOURNALISM, DEEPLY ENGAGING CONTENT AND RICH EXPERIENCES.

Every day millions of people go to our quality journalism and content, interact with our platforms and enjoy our great experiences and entertainment.

We have been capturing people's attention for 186 years.

Our business is at the heart of conversations that matter and creating connections that count.

We are the trusted source, informing and enriching with our newspapers, websites, radio stations, events and dynamic digital venues for commerce and information.

Our journalists perform their jobs with independence, insight and integrity.

Everyone in our business is passionate. Our customers and audiences are at the centre of everything we do.

Great minds are at work at Fairfax Media. We are at the forefront of the contemporary media environment, driving innovation. We are growing shareholder value by engaging audiences, communities and businesses, sparking big ideas and monetising a range of business models.

Fairfax Media's thriving, modern, diversified portfolio – spanning media, marketing services, real estate services, data, entertainment, and beyond – sustains the important work we do in the communities we serve.

**INDEPENDENT. ALWAYS.**

Fairfax Media


# 2017: A SNAPSHOT

## INFORMATION

### AUSTRALIAN METRO MEDIA

#### LEADING METROPOLITAN NEWSPAPERS, DIGITAL MEDIA AND EVENTS

Australia's number one masthead *The Sydney Morning Herald*, *The Age*, *The Australian Financial Review*, other titles, digital assets and events, leverage high-quality content to build and maintain engaged multiplatform audiences. Paid digital subscribers for the *SMH*, *The Age* and the *Financial Review* reached around 236,000 and support a growing digital subscription revenue base. Cost initiatives largely offset continuing print advertising declines. New product development and technology innovation underpin Metro's next-generation publishing model.

| -9% | +21% | +26% |
|---|---|---|
| TOTAL REVENUE | DIGITAL SUBSCRIPTION REVENUE | EBITDA |

### AUSTRALIAN COMMUNITY MEDIA

#### LEADING RURAL AND REGIONAL NEWSPAPERS, DIGITAL MEDIA AND EVENTS

The modern and efficiently operated network of more than 150 mastheads and events maintained high penetration and engagement with local communities. Continued efficiency and optimisation of business groups is maximising cash flow generation. Upskilling of editorial and sales teams is delivering increased monetisation of digital audiences, growth in digital advertising revenue, and a stronger position as a provider of digital marketing services and solutions for local businesses.

| -11% | -9% | -19% |
|---|---|---|
| TOTAL REVENUE | OPERATING COSTS | EBITDA |

### NEW ZEALAND MEDIA

#### LEADING NZ NEWSPAPERS, DIGITAL MEDIA AND EVENTS

Leading local digital brand Stuff maintained strong momentum, fuelling 29% digital revenue growth. A strong membership strategy built around Stuff and hyper-local website Neighbourly is driving audience, data and engagement. Neighbourly grew members 55% to 470,000. Significant progress was made in reducing costs, while diversifying revenue with investment in digital, events and acquisitions. The New Zealand Commerce Commission's refusal to authorise the Fairfax NZ/NZME merger is the subject of a High Court appeal.

| -7% | +29% | -8% |
|---|---|---|
| TOTAL REVENUE | DIGITAL REVENUE | EBITDA |


## MARKETPLACES

### DOMAIN GROUP

**REAL ESTATE MEDIA AND SERVICES**

Domain is increasingly powered by digital earnings, with 82% of EBITDA from digital and non-print sources. Core digital audience strength is being leveraged across products and services spanning all facets of Australian property, complementary businesses and transactional services. Significant investment has driven performance and facilitated the extension of the business beyond listings to include data, utilities connections, mortgage broking, home improvement and maintenance. Domain has achieved the scale of revenue, earnings and audience it needs to operate on a stand-alone basis.

| +8% | +19% | -6% |
|---|---|---|
| TOTAL REVENUE | DIGITAL REVENUE | EBITDA |

## ENTERTAINMENT

### STAN

**AUSTRALIA'S LEADING LOCAL SVOD SERVICE**

Stan is leveraging its world-class differentiated subscription video on demand (SVOD) content underpinned by its exclusive SHOWTIME output deal, best of global studios and networks, and original local productions. Sales of several local productions into international markets has enabled Stan to accelerate its plans for original productions. Assisted by mass market consumer reach through Fairfax and Nine Entertainment assets, the jointly-owned investment is achieving ongoing subscriber momentum, with active subscribers approaching 800,000 and growing.

| ~800K | +150% | +25% |
|---|---|---|
| ACTIVE SUBSCRIBERS | SUBSCRIPTION REVENUE | OPERATING COSTS |

### MACQUARIE MEDIA

**LEADING NATIONAL NEWS, TALK, SPORT & MUSIC RADIO NETWORK**

Fairfax has a 54.5% investment in ASX-listed radio broadcaster Macquarie Media, which operates a national radio network with the number one stations in Sydney (2GB) and Melbourne (3AW). The merger of the former Fairfax Radio Network and Macquarie Radio Network has delivered cost and operational synergies, created a cost-efficient national sales and programming footprint with new advertiser opportunities, and network sales upside from leadership positions in key markets. Content syndication is driving audience share and revenue upside.

| -1% | #1 | +26% |
|---|---|---|
| TOTAL REVENUE | STATIONS IN SYDNEY AND MELBOURNE | EBITDA |


Participants running in City2Surf 2016

# CHAIRMAN'S REPORT

NICK FALLOON

**FAIRFAX MEDIA IS AT THE FOREFRONT OF MODERN MEDIA. WE ARE COMMITTED TO DELIVERING ON OUR STRATEGY TO BUILD SHAREHOLDER VALUE BY OPERATING OUR LEADING DIVERSIFIED PORTFOLIO OF INFORMATION BRANDS, MARKETPLACES AND ENTERTAINMENT ASSETS.**

At the outset I would like to thank you for your investment in Fairfax. Your Company is achieving its multi-year transformation program. We have significantly reduced costs, simplified operations and embraced innovation by generating a mix of revenues from digital, newspapers, property services, marketing, radio, events, entertainment and more, connecting with 70% of Australians and 90% of New Zealanders.

Fairfax recognised that, to thrive in the new media world, we had to stay ahead of the change that was sweeping through media companies globally. Not adapting was not an option.

In the 2017 financial year, Fairfax delivered total Group revenue of $1,732.6 million, which was 5% lower than the prior year. This is a reflection of continued challenges in the print advertising environment, cyclical weakness in key metropolitan real estate listings for much of the year, somewhat offset by strong digital subscription growth and solid yield uplift from Domain Group.

Group expenses decreased 6% to $1,460.9 million, a reflection of sustained cost discipline and efficiency, notwithstanding continued investment to grow, particularly in Domain.

Fairfax delivered underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of $271.1 million in the 2017 financial year for continuing businesses, which was 4% lower than the $283.3 million in the prior year. Earnings before interest and tax (EBIT) of $230.3 million for continuing businesses was 8% higher. Earnings per share (EPS) of 6.2 cents compares with 5.7 cents in the prior year. The Company will pay total dividends for the year of 4 cents per share, consistent with the prior year.

Underlying net profit after tax of $142.6 million for continuing businesses compares with $132.5 million in the prior year. After taking into account significant items, the Company reported a net profit after tax of $83.9 million. The result includes a total significant items loss after tax of $58.7 million, which includes non-cash impairments relating to publishing, as well as write-downs of other assets and restructuring and redundancy charges. The Company maintained a solid balance sheet, finishing the year with net debt of $118 million.

## DIGITAL POWERHOUSE

We are the leading digital publisher in Australia and New Zealand, reaching a combined audience of around 13 million. This strong digital position is a reflection of a strategic decision to move with consumer trends and embrace modern technologies to deliver quality, independent journalism, compelling content and engaging experiences. Our mastheads provide attractive, brand-safe environments for advertisers.

Domain's performance is increasingly powered by digital earnings, with 82% of EBITDA from digital sources in the 2017 financial year. Domain's success is the result of a deliberate first-to-mobile product strategy to capitalise on the migration of audiences to mobile. This has catapulted the business to within near reach of the major competitor on measures of agents and listings. Domain now operates with dedicated management capability and resources.

Quality digital audiences underpin *The Sydney Morning Herald*'s leadership as Australia's most-read masthead across all platforms, *The Age*'s strength in Victoria, *The Australian Financial Review*'s place as Australia's premier financial masthead, and the local positions of *Brisbane Times* and *WAToday*.

Our digitally-driven newsrooms operate around the clock to deliver valuable news and information to their audiences, through increasingly deeper and richer storytelling.

Fairfax's network of more than 150 Australian rural and regional mastheads is increasingly monetising digital audiences, growing digital advertising revenue and continuing to strengthen its position as a provider of digital marketing services and solutions for local businesses. During the year, digital audiences continued to grow.

Stuff.co.nz's audience position as New Zealand's leading local website benefited from a strong membership strategy built around Stuff and hyper-local website Neighbourly, which is driving audience, data and engagement, allowing for better and more targeted advertising solutions for clients.

The 50%-owned subscription video on demand (SVOD) business, Stan, is the centrepiece of Fairfax's portfolio of digital ventures assets.

## STRATEGIC DRIVERS

During the year, your Company delivered against our strategic priorities and opportunities outlined in the 2016 Annual Report. We focused on driving shareholder value across Domain, Publishing and Investments.

Our objectives remain:

- Growing by building on core strengths and maximising opportunities;
- Transforming through cost efficiency and business model innovation;
- Building value through strategic decision-making and portfolio management.

In his report to you, Chief Executive Officer Greg Hywood has detailed the Company's performance highlights when measured against these objectives.

During the year, the Board determined that Domain was ready to take the next step in its evolution by becoming a separate ASX-listed company, with Fairfax to retain majority 60% ownership. This intention was flagged in February 2017 and is subject to satisfactory regulatory outcomes and a shareholder vote at an extraordinary general meeting (EGM).

**DOMAIN IS READY TO TAKE THE NEXT STEP IN ITS EVOLUTION BY BECOMING A SEPARATE ASX-LISTED COMPANY**

Fairfax has invested in and supported Domain, leveraging its core digital audience strength across a range of products and services spanning all facets of Australian property, including through the expansion into complementary businesses and transactional services. Significant investment has driven performance and facilitated the extension of the business beyond listings to include data, utilities connections, mortgage broking, home improvement and maintenance.

The separation of Domain further reshapes the Fairfax portfolio by adopting a more flexible corporate structure to maximise shareholder value. Under the separation, shareholders will retain their existing Fairfax shares and receive new Domain shares, allowing them to own a direct interest in one of Australia's leading real estate media and services companies. The Domain separation will be detailed in a Scheme booklet including an Independent Expert's Report, which is expected to be available in late September.

Our Australian Metro Media, Australian Community Media and New Zealand Media publishing businesses have each made considerable progress in transforming to become modern, cost-efficient and sustainable across digital and print, in response to consumer trends in their respective markets. Publishing cash flows have been invested to grow businesses, as well as substantially de-risking the transition to digitally-driven futures. Standout examples of the success of this strategy are Domain and Stan, and there are early promising signs from new car lead-generation model in Drive, and New Zealand internet service provider Stuff Fibre, which launched in September 2016.

Australian Metro Media's next-generation publishing model was fast-tracked during the year with new talent and capability brought in to further reshape the business. This involved resetting the publishing cost base as well as making significant enhancements to the product suite to deliver better commercial and customer outcomes. The approach was taken of how you would create the modern SMH, *The Age* and *Financial Review* from the ground up, while retaining their editorial strength, powerful brands and large audiences. While this involved a number of editorial redundancies, our newsrooms remain strong with hundreds of journalists working at scale.

Australian Community Media maintained cost efficiency during the year while driving digital growth and exploring other strategic opportunities. In addition to the more than $60 million of annualised cost savings delivered in the 2016 financial year, the business pursued further measures to simplify its operating structure and increase efficiencies, with a focus on maximising cash flows.

New Zealand Media made significant progress in reducing costs, while implementing a strategy of diversifying its revenue base with investment in digital, events and acquisitions. Market-leading product innovation was a key driver of audience engagement and supported monetisation through new advertising channels and businesses, including programmatic advertising exchange KPEX, Stuff Fibre and events.

In May 2017, the New Zealand Commerce Commission (NZCC) declined to authorise the proposed merger of Fairfax NZ with NZME, which was announced in May 2016. The NZCC's decision was disappointing.

The regulator failed to grasp the commercial realities of modern media and the opportunity of allowing two local media companies to gain the scale and resources necessary to aggressively compete against market-dominating global search and social giants, now and into the future. This decision is the subject of a High Court appeal.

**$142.6M**

**UNDERLYING NET PROFIT AFTER TAX**

**4¢**

**TOTAL DIVIDENDS PER SHARE (PARTIALLY FRANKED)**

**$118.0M**

**NET DEBT AS AT 25 JUNE 2017**

Significant value was created through strategic decision-making and active portfolio management during the year. This included investment in high-growth digital opportunities and joint ventures for increased capability and capacity, and realisation of value through strategic divestments. Examples include ongoing investment in Stan and Drive, our local joint venture with global digital news leader *HuffPost*, our 54.5% investment in ASX-listed radio broadcaster Macquarie Media Limited and the sale of Tenderlink in October 2016, which delivered a 2.4x return on original investment including dividends.

## OUR COMPANY

Your Board and the Company's management have been unrelenting in their efforts to create and unlock shareholder value, and drive efficiency and innovation, while maintaining the immense value at the core of Fairfax: a proud 186-year history of editorial independence and integrity.

In May 2017, the Company received separate indicative and non-binding proposals from funds affiliated with Hellman & Friedman LLC and a consortium including TPG Group and Ontario Teachers' Pension Plan Board together with its affiliates.

The Board determined that it was in the best interests of shareholders to grant both parties access to confidential due diligence to explore whether a whole of company proposal, at a price and on terms the Board would recommend, was available. Following the conclusion of this process in June 2017, the Board did not receive a binding offer from either party, and accordingly ceased discussions.

The Board believes that Fairfax shareholders should be the beneficiaries of the value to be unlocked from the Company's unique combination of assets and strategies being implemented. Your Board believes that Fairfax is well positioned to continue to deliver solid returns for shareholders into the medium and long-term future. The CEO's report provides further detail on the strategies and opportunities for each of our businesses.

During the year the Company continued to lobby the Australian Government to modernise media ownership law by abolishing the reach rules and the two-out-of-three rule. This initiative gained industry-wide support, which was an important milestone. The government is attempting to progress these long-overdue reforms through Parliament.

The Board and I look forward to holding the Company's 2017 Annual General Meeting in Sydney on 2 November 2017. The EGM relating to the Domain separation is expected to be held in conjunction. Agendas for these meetings will be detailed in formal notices of meeting.

I would like to take this opportunity to thank each of my fellow Board members for the contributions they make to Fairfax, particularly at this important time for the Company and the industry. In March 2017 Mickie Rosen joined the Board, bringing to us her extensive operational, strategic, and investment experience at the intersection of media and technology. Mickie's global experience and expertise is proving highly valuable to the Board and the Company.

On behalf of the Board, I would like to acknowledge all of the people who contribute to making Fairfax a great company. Reshaping Fairfax from a traditional media company to a leader in the contemporary media environment is testament to the astute leadership of Greg Hywood; the smart, strategic decision-making culture he has fostered; and the impressive skills, passion and commitment of all our people who do the important work they do. The communities we serve are all the better for it.

**Nick Falloon**
Chairman


# ALL EYES ON *Information*

Fairfax is the leading digital publisher in Australia and New Zealand. Its trusted brands, and quality, independent journalism, content and events attract valuable, large-scale audiences. Market-leading positions of *The Sydney Morning Herald* and Stuff.co.nz underpin a sustainable and increasingly digitally-driven portfolio of news, business, sport and lifestyle assets which connect marketers to our multi-platform audiences.

stuff | The Sydney Morning Herald | THE LAND

Team New Zealand win America's Cup 2017 (Photo: Clive Mason/Getty Images)

# CEO'S REPORT

GREG HYWOOD

**FAIRFAX MEDIA DELIVERED STABLE EARNINGS DURING THE 2017 FINANCIAL YEAR. ACROSS THE COMPANY WE WORKED TO MAXIMISE THE VALUE OF OUR EXTENSIVE DIGITAL AND PRINT ASSETS BY DRIVING INNOVATION AND COST EFFICIENCY. PUBLISHING CASH FLOWS HAVE BEEN SUCCESSFULLY INVESTED TO DE-RISK THE DIGITAL TRANSITION, CREATE NEW GROWTH BUSINESSES AND CONTINUE THE MARCH OF DOMAIN.**

By the end of calendar 2017 we expect Domain will be a separate ASX-listed entity. Achieving this important milestone has been made possible by Fairfax having established Domain as a real estate media and services powerhouse with the scale of revenue, earnings and audience necessary to succeed as a stand-alone entity. Fairfax will retain a 60% controlling shareholding.

Domain will remain a core and key strategic asset of Fairfax, along with the increasingly sustainable cash-generating publishing businesses and value-creating investments.

Following the Domain separation, Fairfax will continue to thrive as a high-value, broadly-based, digital-rich business of powerful information brands, marketplaces and entertainment assets. Our valuable networks are trusted by our readers and advertisers and known for quality content in this era of 'fake news'.

We remain focused on our strategy to grow shareholder value by leveraging our award-winning journalism and content to engage audiences, communities and businesses. We have been successful in monetising these audiences across a range of business models, with digital now contributing 25% of total Group revenue.

During the year, the Company continued to actively manage its portfolio and drive value from each of its strategically valuable and well-positioned businesses. This included:

- Investing to grow and strengthen Domain, delivering strong growth in digital revenue;
- Rapidly progressing Australian Metro Media's next-generation publishing model while concurrently achieving an uplift in EBITDA through cost initiatives;
- Driving further commercial benefits from the cash-generating Australian Community Media;
- Further monetising New Zealand Media's leading digital brands and audience position;
- Driving growth in Australia's leading SVOD service Stan; and
- Benefiting from 54.5%-owned Macquarie Media's market-leading audience positions.

In my report below I have detailed the progress we have made in driving shareholder value across Domain, Publishing and Investments.

## DOMAIN GROUP

During the year, Domain delivered a very pleasing 19% uplift in digital revenue, despite a challenging environment for real estate listings in the first half. Print revenues were particularly affected. The strong digital performance was underpinned by increased use of premium products, yield gains, and strong growth in Developers and Commercial categories.

The Residential business has achieved high uptake by agents, providing a platform for future growth from geographic expansion, premium product usage and yield increases.

Domain Media's compelling editorial content is attracting quality audiences. This strong position is not yet fully reflected in revenue, with opportunity for upside.

Commercial Real Estate is strengthening its uptake by agents through revitalised digital and print products. Audience momentum provides the opportunity for significant further growth, particularly in Victoria and Queensland.

Domain's agent services and products are used by a third of all real estate agents. We see upside from subscriber and yield growth driven by a full-service offering. We also see opportunity to grow new transactional revenues together with agents.

Domain's strong foundation of national market presence (with near parity of agents and listings) is a key driver of its performance, attracting a large, high-quality national audience.

First-to-market innovation underpins Domain's superior user experience. This has driven mobile app downloads. Domain's mobile advantage is critical to driving commercial success with the majority of leads delivered by mobile.

Domain is maximising the value of its core audience and extending its reach and revenue through new adjacencies, aiming to capture the significant opportunities in the broader property ecosystem. During the year this included expanding into mortgage broking with Domain Loan Finder in conjunction with leading home loan platform Lendi. This builds on other investments in utilities connections business Compare & Connect, home improvement and maintenance business Oneflare, and 'open for inspection' check-in management system Homepass.

During the year, despite some cyclical weakness in the first half, Fairfax continued to invest in Domain's staff, technology and marketing to capitalise on long-term growth opportunities.

We are confident in the outlook for Domain, which has the scale of audience, customers and earnings it needs to deliver future growth for both Fairfax and its new shareholders.

## GROUP PUBLISHING

Five years ago we realised that we would have to radically change our publishing businesses to meet the changing consumer behaviours around media. In those five years we have had to make some tough decisions. They have been the right calls. Our three publishing businesses have made significant progress in transforming to more sustainable models. This includes a stronger emphasis on innovative 24/7 digital offerings. We have created new businesses, addressed legacy costs, developed new publishing offerings, invested in the capability of our people and built our audiences to the highest levels in the company's 186-year history.

**THE MODEL WE HAVE DEVELOPED INVOLVES AN UNRIVALLED SUITE OF NEW DIGITAL PRODUCTS WITH DEEPER AND MORE ENGAGING NEWS AND INFORMATION EXPERIENCES**

And we are pleased to say that, despite the myriad challenges and an extraordinary transformation, our publishing businesses have remained profitable.

Our publishing businesses have large-scale, high-quality multi-platform audiences at their core. These audiences and data are instrumental in growing businesses such as Domain, Stan and Stuff Fibre. Additionally, we leverage audience strength and rich editorial content to successfully deliver events spanning food and wine, sport, parenting, arts and entertainment and business.

Each of our publishing businesses are shaping their futures in response to their own market environments.

During the year we announced the next step for our Metro titles – including *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review* – securing our journalism for the foreseeable future. As flagged in my Report last year, we considered a number of options. The model we have developed involves an unrivalled suite of new digital products with deeper and more engaging news and information experiences for our audiences. We are sustaining a commercially successful print proposition, in line with consumer and advertiser demands.

Metro's new model involves investing in the product development, journalism and content required to guarantee the future of our mastheads to deliver better commercial and customer outcomes, as well as fundamentally resetting the publishing cost base. New, simplified technology, processes and teams supporting publishing will operate at a fraction of the cost of maintaining legacy systems.

Cost discipline was maintained during the year for Metro, with its publishing costs down 12%, supporting a 26% increase in EBITDA to $49 million. Cost-saving initiatives implemented late in the second half are expected to support a further $30 million in annualised cost-saving in the 2018 financial year.

During the year, the SMH, *The Age* and the *Financial Review* continued to grow and engage digital audiences, with around 236,000 digital subscribers, delivering 21% year-on-year digital subscription revenue growth. All three titles delivered year-on-year growth.

Metro now incorporates Life Media and Events assets to take advantage of technological innovation and align with the overarching Metro publishing strategy and strong natural audience and commercial links. Metro also includes a separate diversified digital publishing portfolio with local staff contributing Australian content and leveraging global content from leading digital-only media groups in the United States, the centrepiece of which is our joint venture with *HuffPost*, along with the Allure Media network of mastheads.

Australian Community Media's network of rural and regional mastheads continued to achieve high penetration of local communities and strong audience engagement. Continued cost efficiency saw expenses down 9%, driven by the benefits of ongoing restructuring and consolidation.

Regional audiences of scale, together with a strong local sales force, provide the opportunity for the development of new advertising and commercial solutions for clients. The business is pursuing further simplification of its operating structure and increasing efficiencies to maximise cash flows.

Our New Zealand publishing business maintained cost discipline and reduced operating costs by 6%, while continuing to invest in the diversification of its increasingly digitally-driven revenue base.

Digital revenue growth of 29% benefited from Stuff.co.nz 's continued strong momentum, with audiences increasing 11% to 2.1 million and impressive growth from Neighbourly, which reached a monthly audience of 810,000 and achieved profitability in the second half. Stuff remains NZ's leading local website and benefits from market-leading product innovation.

**$271.1M**

**UNDERLYING EBITDA**

**25%**

**DIGITAL AS % OF TOTAL REVENUE**

**$261M**

**CASHFLOW FROM TRADING**

It provides a platform to monetise audiences through new products and businesses, such as Stuff Fibre and KPEX.

As the Chairman noted, the New Zealand Commerce Commission decided to block the proposed merger of Fairfax NZ and NZME in May 2017. During the whole of the year-long NZCC process our business continued to develop a stand-alone strategy to ensure its sustainability and efficiently deliver our journalism to local communities.

## BUILDING VALUE

During the year we continued to focus on creating value through investment in high-growth digital opportunities and portfolio management. This has included the realisation of value through strategic divestments such as the sale of Tenderlink in September 2016 which together with dividends received from the business delivered a 2.4x return on original investment.

We have invested via partnerships and joint ventures for increased capability and capacity. This included the 54.5%-owned Macquarie Media radio business, 50%-owned SVOD platform Stan, dating sites RSVP and Oasis Active, weather services business Weatherzone, and automotive news and review site Drive which has a new car lead-generation model.

Macquarie Media continues to deliver large-scale national audiences with unrivalled ratings performances from 2GB in Sydney and 3AW in Melbourne. This ratings success is driven by Macquarie's extraordinary on-air talent and a great depth of programming expertise and experience. The merger of Fairfax Radio Network with Macquarie two years ago created a culture of cost efficiency, which is reflected in EBITDA growth of 26% for the year and margin expansion from 18% to 23%.

Australia's leading local SVOD platform Stan has delivered pleasing performance over the past two years, benefiting from the large audiences and marketing inventory of Fairfax and Nine as joint shareholders. Underpinning the success of Stan are exclusive rights to CBS's SHOWTIME content in Australia, and a range of rights to other studios, as well as original local productions.

Stan's differentiated content offering is reflected in its impressive audience momentum, approaching 800,000 active subscribers and growing.

## DRIVING OUR FUTURE

We are confident our strategies across our portfolio will maximise shareholder value:

- Domain is set to become a listed entity with upside opportunity;
- The publishing businesses are embracing innovation and transitioning to modern and sustainable models;
- Value is being built through investments in growth businesses and portfolio management.

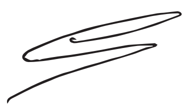
Fairfax is in enviable shape. Our businesses have distinct strategies to deliver performance well into the future. Key to it all is our people and culture. We have a strong team prepared to make all the necessary decisions to drive performance.

The progress we have made in the past year, and continue to make, is a credit to the talents, hard work and commitment of our people. We have a track record of leading change and doing everything it takes to drive the commercial success of our business in order to sustain the important contribution that we make in Australian and New Zealand communities.

Quality, independent journalism delivers a public good through its relentless questioning of powerful institutions and individuals. Our communities are better off as a result of it. They depend on our quality journalism's role in an open, transparent and democratic society.

Thank you to everyone who has contributed to making Fairfax a shining example, locally and globally, of a media company leading innovation in all aspects of what we do.

Everyone at Fairfax is energised by the immense opportunities ahead.



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

# ALL EYES ON Marketplaces

Domain's real estate media and services business includes Australia's #1 property app and is the centrepiece of a broader portfolio of digitally-driven transactions businesses, spanning real estate listings and services, cars, jobs, dating and more. Domain is now ready to operate as a stand-alone business having built a strong platform to service the property ecosystem, expand and grow new revenue.

Domain

On location at Domain-sponsored show *The Block* 2016

CORPORATE SOCIAL

# RESPONSIBILITY & SUSTAINABILITY

**FAIRFAX MEDIA'S COMMERCIAL SUCCESS AND FINANCIAL PERFORMANCE IS VITALLY IMPORTANT TO THE COMPANY'S ABILITY TO PROVIDE MEANINGFUL BENEFITS TO THE COMMUNITIES WE SERVE THROUGHOUT AUSTRALIA AND NEW ZEALAND.**

Across our business we maintain a strong focus on environmental and corporate social responsibility (CSR).

We play an active role in supporting local communities. We utilise our position as a community leader to support and amplify initiatives and causes which are aligned to business objectives.

We do this through sponsorships, collaborations and fundraising campaigns as well as providing promotional exposure across our extensive network of media assets.

By driving conversations that matter and creating connections that count in the communities we serve, Fairfax also uses its trusted voice to deliver a powerful public good.

Quality, independent journalism makes communities stronger – more civil, more open and transparent.

We hold governments and the powerful up to public scrutiny and to account.

At Fairfax, we strive to be accurate and fair-minded in our reporting.

We have established internal processes which aim to ensure this happens. We actively support and fund media industry self-regulation.

Our CSR and sustainability strategy considers risks and the interests of our customers, employees, shareholders and communities, as well as social and environmental aspects of our business activities and the impact on long-term financial viability.

By integrating CSR and sustainability into core business processes and stakeholder management, Fairfax can achieve the ultimate goal of creating both social and corporate value. Fairfax runs a combination of centralised and decentralised CSR and sustainability programs to ensure maximum benefits to our local communities, our customers and our employees. These programs are reviewed annually and performance is tracked, measured and reported on.

There are five strategic pillars in our CSR and sustainability strategy:

1 Environment
2 Editorial Integrity
3 Community
4 People & Culture
5 Financial Viability and Sustainability

# 1 | ENVIRONMENT

Fairfax has a program of monitoring, measuring and reporting on the effectiveness of sustainable business practices across our business portfolio and assets. We have set targets to measure the impact of our business activities on the communities and environments in which we operate.

We are committed to a continuous improvement program in relation to our environmental performance and are working towards achieving ISO 14001 compliance by 2020.

The Board People and Culture Committee is charged with the oversight of environmental reporting and performance in line with the Committee's Charter.

Fairfax has not received or been subject to any environmental breaches, improvement notices, fines or non-compliances from any regulatory bodies in 2017. There were no environmental accidents as a result of the Company's business operations.

Fairfax continues to work closely with its suppliers and the printing and publishing community to reduce its impact on the environment and to monitor compliance to agreed supply standards.

Fairfax is a co-signatory to the sixth National Environmental Sustainability Agreement (NESA) between all governments and publishers in Australia. This sixth agreement was launched in September 2015 by the then Minister for the Environment.

The NESA continues the proud collaboration of the past 24 years between all Government entities and the Australian publishing industry, which has delivered Australian newsprint recycling rates among the highest in the world as well as many other enviable environmental outcomes.

Fairfax's printing division is a member of NewsMediaWorks' Environmental Advisory Group which advocates to advance newsprint recycling, improve product stewardship and promote sustainability.

In 2011, the Company set a carbon reduction target of 20% to 25% reduction by 2020 measured against the 2011 base performance. Since then, Fairfax has achieved a carbon reduction in excess of 51%. The Company is committed to further reductions.

Fairfax has delivered improved performance against reported 2020 energy and carbon emissions reduction targets, detailed below.

Fairfax's Environmental Policy sets out the Company's commitment to managing and improving environmental performance across all business activities.

The Company has established an Environmental Impacts and Aspects register, which has identified four key areas of focus:

- Energy consumption;
- Waste to landfill;
- Fleet emissions; and
- Water consumption.

The Company, in conjunction with its facilities management provider, has undertaken baseline assessments and tracking across a spectrum of sustainability metrics, including energy, water, solid waste and greenhouse gas emissions to measure progress towards sustainability and financial goals and to meet mandatory reporting requirements.

Based on assessments conducted in 2011, Fairfax has set targets against the following environmental performance indicators:

- **Electricity:** a 20% reduction in electricity consumption by 2020;
- **Office waste:** a 50% reduction in office waste to landfill by 2020;
- **Events waste:** a 100% reduction in waste generated at Fairfax Events to landfill by 2020;
- **Print waste:** a 20% reduction in printed waste by 2020;
- **Water reduction:** a 20% reduction in water usage by 2020 at print sites; and
- **Fleet emissions:** a 30% reduction in fleet emissions by 2020.

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| T $CO_2$-e (NGERS) | 84,976 | 79,174 | 68,929 | 50,141 | 41,416 |
| YEAR-ON-YEAR PERFORMANCE (%) | | -7% | -13% | -27% | -17% |
| PERFORMANCE C.F. 2011-12 (%) | | | | | -51% |

Photograph of Great Barrier Reef featured in Fairfax's 'Saving the Reef' public interest journalism (Photo: Jason South)

'Saving the Reef' pictures diver on the Great Barrier Reef off Port Douglas (Photo: Jason South)

In the 2017 financial year, Fairfax achieved the following results:

- **Electricity:** 8.5% decrease in electricity consumption;
- **Office waste:** 22.4% diversion from landfill across Australian operations;
- **Events waste:** 74.7% of all waste at events diverted from landfill (this excludes the City2Surf event where data is not available);
- **Print waste:** 680-tonne reduction in the amount of waste generated, primarily driven by print volumes;
- **Water reduction:** 15% reduction year-on-year in water usage at print sites in Australia;
- **Fleet emissions:** 17.4% reduction year-on-year in metro vehicle fleet.

A new waste stream segregation program, which provides bins on office floors to allow for the separation of waste and recycling, was introduced across Australian offices in 2017.

Fairfax undertakes environmental auditing of its key facilities and operations based on site risk profiles and energy utilisation. Since 2011 there have been 14 key facilities across Fairfax subject to comprehensive environmental compliance audits using ISO 14001 standards. Audits are designed in consultation with an external provider to ensure compliance with local, state and federal government requirements. To date, the audits have not identified any significant environmental non-compliance.

An ongoing annual audit program is scheduled and approved by the Board's People and Culture Committee.

Fairfax is continuing the consolidation of property and printing assets across owned and leased premises in Australia and New Zealand to reduce floor space, energy consumption and property running and maintenance costs.

Across Fairfax's printing network, all print site managers have key performance indicators set around environmental performance including printed waste, compliance, energy, water, waste to landfill and recycling.

All capital expenditure includes environmental considerations relating to energy consumption, efficiency and waste generation.

During the 2017 financial year, one Fairfax print site adopted new chemical-free plate-processing technology. This new technology reduces water usage, waste and provides more environmentally conscious methods for the disposal of processing chemicals. Plans to adopt this technology across all Fairfax print sites are being developed.

Fairfax performs a vital role in educating, informing and raising awareness in the community about important sustainability and environmental issues. Our journalism fosters greater understanding and community awareness of environmental and sustainability concerns.

*The Sydney Morning Herald* and *The Age*'s multi-award-winning multimedia feature 'Saving the Reef' is an example of how our quality, independent journalism sparks public interest and influences the social agenda.

The six-chapter series highlights the significant human and environmental impacts on the UNESCO World Heritage listed, Great Barrier Reef.

During the year, the 'Saving the Reef' series was recognised for its digitally innovative storytelling, receiving a Society of Publishers in Asia award for Excellence in Journalistic Innovation and an award for excellence from the International Society for News Design.

## 2 | EDITORIAL INTEGRITY

Fairfax has a proud 186-year history of providing quality, independent journalism. Our journalists pursue the truth without fear or favour.

All our journalists operate with a robust code of ethics. We maintain an uncompromising approach to media ethics and integrity, with our "Independent. Always." editorial position celebrating our point of difference and competitive advantage as a news media organisation.

Fairfax's multi-award-winning journalism is recognised for its powerful role in influencing change and the social agenda, sparking public interest and debate and serving as a source of timely and reliable information for its audiences and communities.

Some examples of editorial integrity in action include:

**China's Operation Australia:** A six-month investigation by Fairfax Media and the ABC's Four Corners into the Chinese Communist Party's efforts to cultivate links to, and influence, Australia's politicians, academics and cultural life.

**Phoebe's fall:** Fairfax Media's ground-breaking six-part podcast series was a reinvestigation of the circumstances of Phoebe Handsjuk's brutal death. The series won a string of national and international awards and resulted in a review into the Coroner's Act by the Victorian Government.

**Aveo investigation:** This joint Fairfax Media-Four Corners (ABC) investigation focused on the business practices of retirement village operator Aveo and told the stories of former and current residents. The investigation prompted a federal inquiry into the retirement village sector.

**Gun City:** Fairfax Media developed a three-part investigative series on illegal gun ownership and the spate of shootings across Melbourne, Victoria. The series contributed to the growing debate around national security and resulted in the first national gun amnesty since the Port Arthur massacre.

**The Foam and The Fury:** The *Newcastle Herald* investigation into the Williamtown RAAF base contamination scandal won a Walkley Award in 2016. The ongoing series has uncovered the devastating health and financial effects on residents living in the "red zone" where toxic firefighting chemicals have leached from the RAAF base into the groundwater.

**Medical mesh:** *Newcastle Herald* journalist Joanne McCarthy's investigation 'Pelvic Mesh: Suffer in Silence' has helped spark a Senate inquiry by revealing allegations of experimental surgery, questionable research and regulatory failure in a global catastrophe that could cost $20 billion in compensation to women left with permanent injuries.

**Royal Commission into Institutional Responses to Child Sexual Abuse:** The *Newcastle Herald* and *The Courier* in Ballarat continue to lead coverage of child sexual abuse in the church. The ground-breaking work of Joanne McCarthy was officially recognised by royal commission chair Peter McClellan at the Newcastle hearings, while *The Courier*'s Melissa Cunningham won the Melbourne Press Club's 2017 Quill Award for regional journalism and was nominated for a 2016 Walkley.

**CPA Australia:** *The Australian Financial Review*'s journalistic purpose of holding those in power to account was demonstrated through the sustained attention that Rear Window columnist Joe Aston gave the professional services body CPA Australia. Aston, backed by further news reporting, exposed serious governance issues and extracted substantial disclosure on CPA remuneration, which led to the body's chairman and CEO standing down.

**Private Business, Public Failure:** A *Stuff Circuit* investigation into New Zealand's prison system examined why so many Kiwis are behind bars, analysing the biggest controversies in the prison system and exposing concerning new problems. The special six-part documentary series used high-quality multimedia storytelling – including 360-degree videos, data journalism, and unique story art – to canvass the issues.

Gwyneth Jones told Fairfax about her claims against a retirement village operator (Photo: Penny Stephens)

# 3 | COMMUNITY

Fairfax supports and makes a positive contribution to the hundreds of communities in which we operate. We do this in many different ways, each unique to the role we play in that community. This may include fundraising, advocacy, championing local and community issues and providing both financial and in-kind support of charitable and worthwhile causes.

An example of championing important community issues through our journalism includes *The Land*'s 'Glove Box Guide to Mental Health', which supports farmers and rural families by providing information on where and how to get help, and showcases positive initiatives taking place across the state.

The guide's fifth edition was launched with the support of the Rural Adversity Mental Health Program and the Centre for Rural and Remote Mental Health.

Another example is the multimedia special 'Love Her Body' by *The Canberra Times* which featured positive female role models talking about body image and how perceptions of the perfect body are affecting young women. This feature ran across multiple mastheads including *The Sun-Herald* and *The Sunday Age* and coincided with International Women's Day.

Our newspapers, websites and other platforms play an important role in working with our charity partners to amplify good causes via our media network. Such initiatives generate exposure worth many millions of dollars.

During the year, our Australian network of rural and regional newspapers and websites collectively contributed more than $2.3 million in cash and in-kind support to assist numerous charities, sporting clubs, projects and programs. Fairfax's 54.5%-owned radio business Macquarie Media also supports national and local not-for-profit organisations through its involvement

in community-based activities, sponsorships and community service announcement airtime.

Fairfax partners with numerous organisations and events nationally including the prestigious Australian of the Year Awards, the Sydney Festival, Melbourne Festival, Brisbane Festival, Art Gallery of New South Wales and the Melbourne and Sydney film and writers' festivals.

Fairfax is a foundation sponsor of the Australian Science Media Centre (AusSMC), which is an independent, not-for-profit service aimed at better informing public debate on major science issues. Fairfax has provided the AusSMC with financial and in-kind support since the organisation was established in 2005. The AusSMC works for the benefit of the broader community by fostering stronger links between the media and the scientific community to encourage the dissemination of evidence-based science information.

Fairfax continues to sponsor the Tech Girls Movement, encouraging school-age girls to develop a passion for STEM (Science, Technology, Engineering, Mathematics) education and careers. More than 500 girls across Australia participated in

**Images left to right:** Stuff.co.nz led a crowdfunding campaign to save public access to Awaroa Beach (Photo: Alden Williams); Ulverstone West Rotary volunteers buy groceries for Fairfax-supported 'Mission Possible' (Photo: Cordell Richardson); Track and field Paralympian Madison de Rozario takes part in 'Love Her Body' - Fairfax's positive body image multimedia special (Photo: Karleen Minney)

the annual tech girl superhero competition where they pitched ideas and built apps designed to "make the world a better place".

Fairfax is the initiator of the 'Creative Spirit' program in New Zealand, which since 2005 has grown to include a network of companies providing employment opportunities for people with disabilities across many industries as well as campaigning to change the conversation around diversity in employment. The Co-Op initiative launched this year with the aim of creating opportunities for people wanting to follow their passion. It was supported by the New Zealand Deaf Aotearoa organisation which helps people in the deaf community find employment. Fairfax in New Zealand partnered with the advocacy group during Sign Language Week to promote inclusive environments where deaf people can work alongside hearing colleagues. In December 2016, Fairfax's Auckland office set up a cafe staffed by deaf baristas to serve coffee and educate staff about accessible employment.

Fairfax New Zealand has led special editorial campaigns to advocate for positive outcomes for local communities. One example is Stuff's #buythisbeachnz campaign which captured the hearts of the nation to crowdfund the money required to buy a beach to ensure public access to it. With Stuff's support, NZ$2 million was raised. The NZ government stepped in with an eleventh hour offer, making the campaign a success.

The *Nelson Mail* and Stuff also led a campaign to eradicate wasps in the Nelson-Tasman region. Known as the "wasp capital" of New Zealand, the pests have a devastating effect on the ecosystem and pose a danger to people. By partnering with the NZ Department of Conservation and local conservation groups, the 'Wasp Wipeout' campaign saw wasps successfully eradicated from the region towards the end of summer 2017.

Fairfax encourages its employees to be generous to their community by being an active participant in it. This includes volunteering for community causes such as the Stars of Dancing local fundraiser event for Cancer Council NSW, and mentoring participants in the 12-week Tech Girls competition. The Company's workplace-giving program More than Words, established in 2005, also provides a way for staff to make charitable donations using their pre-tax salary.

*The Examiner* in Launceston regularly connects with its local community in Tasmania through the Community Barbecue Roadshow, which raises money for the town's Rotary clubs to disperse back into the community. *The Examiner*, together with *The Advocate* in Burnie also unites for a six-week 'Mission Possible' campaign – partnering with City Mission to gather canned goods. This year the 'Mission Possible' campaign gathered more than 20,000 items for local communities.

Fairfax plays an active role in its local communities through its events businesses, which enrich and enhance the communities in which we operate by staging a variety of lifestyle, sport and entertainment events and festivals throughout Australia and New Zealand, attracting millions of participants. In the 2017 financial year, our events businesses in Australia and New Zealand helped raise more than $6.5 million and NZ$300,000, respectively, for charity and community initiatives by facilitating and promoting fundraising by participants at sporting events via Everydayhero, and encouraging fundraising at our food events. Working with OzHarvest, Fairfax has raised enough money to create 100,000 meals for those in need across Australia.

In New Zealand, the annual Round the Bays fun run in Auckland has raised approximately NZ$2 million for charitable causes and initiatives over 13 years. House & Garden House Tours is operated in support of the NZ Breast Cancer Foundation and assisted by Fairfax with a NZ$50,000 cash donation and NZ$100,000 media campaign.

# 4 | PEOPLE AND CULTURE

The Company has identified its people and culture as being critically important in delivering its business objectives, as well as attracting and retaining high quality staff. This includes promoting gender diversity, equality and inclusiveness in our workplace in all respects.

More information on how Fairfax creates a fair and inclusive workplace can be found in the Corporate Governance section of this report.

Fairfax is committed to providing its people with the skills and technology to allow them to thrive. Our culture encourages people to be customer-focused, agile and innovative – and to work collaboratively.

As the business transformation takes place, some areas of the business have reduced headcount, while others have hired staff and invested.

Our culture and values are embedded and reinforced across all areas of the business, including in our performance management approach and processes, digital Learning Hub, development programs, as well as recognition and reward programs to acknowledge success and achievement.

We continue to provide a formal company-wide Mentoring Program, now in its fifth year. Through connecting our people and encouraging the sharing of skills and experiences, the program fosters professional and personal growth across our business. In 2017 the program received 593 applications across Australia and New Zealand, which resulted in over 297 matches.

## SAFETY

Fairfax prioritises the health, safety and security of its people. We aim to achieve zero harm. In FY17, the Group Lost Time Injury Frequency Rate (LTIFR) was 1.41. While the LTIFR was not zero, we have continued to improve workers' compensation claims, reduce the number of significant incidents, and work proactively to help staff return to work. Improved policies and procedures and better communication, training and education measures have contributed to the reduction.

We are focused on a continuous improvement program relating to safety. This was reflected by the launch of an improved internal safety reporting and information platform, SafetyNet, in August 2016. This system was a significant improvement in that it provided a more streamlined incident reporting system. In addition, Fairfax continues to focus on training, compliance, audits and risk assessments to drive our safety performance. In FY17 there were no penalties issued by an authority relating to safety breaches or non-compliances.

The Company implemented several security-related initiatives in 2016, including a 24-hour security hotline for employees and their families; the appointment of a National Security Director; security reviews and upgrades to security at key facilities; the appointment of an International Travel Safety and Security Manager; training programs for staff in evacuation, lockdown and active shooter scenarios; and the introduction of a security escalation procedure linked to Government Threat Levels in relation to potential terrorist attacks.

## DIVERSITY

Fairfax is committed to creating a workplace that is fair and inclusive and reflects the diversity of the communities in which we operate. Fairfax values, respects and encourages diversity of Board members, employees, customers and suppliers. The Company believes diversity includes but is not limited to age, gender, race, ethnicity, religion, or sexuality. Accordingly, Fairfax adopted Diversity and Inclusion Guidelines to establish the framework within which it will promote diversity and inclusion.


Moya Dodd, chair of FIFA's Women's Football Taskforce, was named overall winner of the 100 Women of Influence in 2016 (Photo: Nic Walker)

This included the requirement for the People and Culture Committee to endorse measurable objectives for the year and to annually review the objectives and progress.

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

Across all levels of Fairfax we are committed to pursuing diversity, equality and inclusiveness for all employees. The Company has set a target of achieving 35% of women in senior management positions across the business by 2018. To support this, changes were made including updating recruitment and promotion processes and introducing frameworks for identification, assessment and development of high-performing talent, as well as a review of talent and succession programs. In 2017, women comprised 30% of senior management roles.

Fairfax's *The Australian Financial Review* 100 Women of Influence Awards has operated since 2011. The program is focused on increasing the visibility of women's leadership in Australia.

Former Matilda's vice-captain and first female vice-president of The Asian Football Confederation, Moya Dodd, was named the 2016 overall winner of the 100 Women of Influence as well as the Arts, Culture and Sport category winner. Fairfax also runs the 60 Women of Influence Awards in New Zealand. In 2016, former chief executive of Microsoft New Zealand, Helen Robinson, was named the award overall winner and the winner of the Board and Management category. Both awards have had a profound influence in business and community by raising gender diversity to the top of the agenda. Fairfax also holds a Women of Influence program for its employees.

Fairfax is also part of the Male Champions of Change (MCC) Institute established in 2010 by Elizabeth Broderick, the former Sex Discrimination Commissioner. The MCC works with influential leaders to take action on gender inequality. Fairfax CEO Greg Hywood joined the MCC as a Champion in 2016 and has set about enacting meaningful change across Fairfax. The MCC includes around 130 leaders across Australia.

### STAFF WELFARE

Fairfax offers independent, confidential 24/7 support and external assistance and counselling services to all employees across Australia and New Zealand and their immediate families. This past year, 289 staff and their families accessed the Employee Assistance Program (EAP).

The Fairfax Foundation, established in 1959 with an independent charter, provides support to current and former Fairfax employees and their dependants. During the 2017 financial year, the foundation provided $446,642 in financial grants, loans and other benefits to eligible recipients, including during times of crisis.

To recognise the significance of domestic violence in our communities and the need to support affected employees, Fairfax introduced a Domestic Violence Awareness Program in 2016 and a Domestic & Family Violence Policy in 2017.

The program focused on four key areas – policy, education, awareness and accreditation – to equip and support Fairfax staff affected by domestic violence. The Domestic & Family Violence Policy outlines measures in place to support and assist employees.

## 5 | FINANCIAL VIABILITY AND SUSTAINABILITY

Being financially sustainable is necessary to serve shareholders' interests and fulfil our corporate purpose: to grow shareholder value by engaging audiences, communities and businesses through compelling journalism and services, monetised across a range of business models.

During the past five years, Fairfax has made significant progress in increasing the financial viability of its business, including through cost efficiency, product innovation, and investing in digital businesses such as Domain and Stan.

Together this is having the impact of diversifying revenue beyond traditional publishing, maximising cash flow generation, and increasing the financial sustainability of the Group.

Fairfax will continue its work to keep pace with ongoing shifts in consumer and advertiser behaviours, while developing new revenue streams and a sustainable publishing model to continue supporting the important work we do.

ALL EYES ON

# Entertainment

Fairfax Media entertains, informs and enriches people's lives through its portfolio of entertainment assets. These include investments in Australia's leading local subscription video on demand platform Stan, and Macquarie Media radio network, which has the number one stations in Sydney and Melbourne.

Stan.

Cast of hit TV show *Younger* on Stan

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## FINANCIAL STATEMENTS



## ASX INFORMATION

# BOARD OF DIRECTORS

NICK FALLOON
NON-EXECUTIVE DIRECTOR, CHAIRMAN

APPOINTED TO THE BOARD 1 MAY 2015

Mr Falloon was appointed Chairman of the Board in September 2015. Mr Falloon has had 30 years experience in the media industry, 19 years working for the Packer owned media interests from 1982 until 2001.

Mr Falloon served as Chief Executive Officer of Publishing and Broadcasting Limited (PBL) from 1998 to 2001 and before that as Chief Executive Officer of PBL Enterprises and Group Financial Director of PBL. The PBL experiences provided a strong background in television, pay TV, magazines, radio and the internet. From 2002 Mr Falloon spent nine years as Executive Chairman and CEO of Ten Network Holdings. Mr Falloon holds a Bachelor of Management Studies (BMS) from Waikato University in New Zealand.

PATRICK ALLAWAY
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD 15 APRIL 2016

Mr Allaway has 30 years experience in the global finance industry across capital markets, corporate advisory, derivatives, risk management, mergers & acquisitions, corporate and project finance, private equity and funds management. Mr Allaway commenced his career in investment banking with Citibank in New York, Sydney and London and with Swiss Bank Corporation in Zurich and London. Since 2006 he has been Chairman and co-founder of Saltbush Capital Markets, a privately owned corporate advisory and funds management business. Mr Allaway is also presently a Non-Executive Director of Metcash Limited, Woolworths South Africa (WHL), David Jones and The Country Road Group. He has a Bachelor of Arts/Law from the University of Sydney. Mr Allaway is a former Non-Executive Director of Macquarie Goodman Group.

**Other Current Australian and Other Listed Company Directorships:**
Woolworths Holdings Limited South Africa (appointed 1 December 2014)
Metcash Limited (appointed 7 November 2012)

JACK COWIN
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD 19 JULY 2012

Mr Cowin is the Founder and Executive Chairman of Competitive Foods Australia, a business that has grown from a single food service outlet to one that employs more than 16,000 staff throughout Australia. Mr Cowin moved to Australia from Canada to establish his business. In addition to operating 400 restaurants in Australia, the company operates five manufacturing facilities producing frozen value-added meat products as well as processing fresh vegetables. It exports to 29 countries.

Mr Cowin is also Chairman and largest shareholder of Domino's Pizza Enterprises Ltd, a listed public company, Director and the largest shareholder of BridgeClimb.

**Other Current Australian Listed Company Directorships:**
Domino's Pizza Enterprises Limited (appointed 20 March 2014)

**Former Australian Listed Company Directorships in Last 3 Years:**
Chandler Macleod Group (resigned 7 April 2015)
Ten Network Holdings Limited (resigned 16 December 2015)

# BOARD OF DIRECTORS

GREG HYWOOD
EXECUTIVE DIRECTOR

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

Mr Hywood was appointed to the Board of Directors in October 2010 and to the position of Chief Executive and Managing Director on 7 February 2011. In March 2015, Mr Hywood was appointed to the Board of Macquarie Media Limited, a publicly listed Australian media company operating radio stations. Mr Hywood has enjoyed a long career in the media and government. A Walkley Award winning journalist, he held a number of senior management positions at Fairfax including Publisher and Editor-in-Chief of each of *The Australian Financial Review*, *The Sydney Morning Herald*/*Sun Herald* and *The Age*. Mr Hywood was Executive Director in the Victorian Premier's Department between 2004 and 2006, Chief Executive of Tourism Victoria from 2006 to 2010 and a Director of The Victorian Major Events Company from 2006 until June 2016.

**Other Current Australian Listed Company Directorships:**
Macquarie Media Limited (appointed 31 March 2015)

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SANDRA MCPHEE, AM
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD 26 FEBRUARY 2010

Ms McPhee was appointed to the Board of Directors on 26 February 2010. She is a Director of Kathmandu Limited and The NSW Public Service Commission Advisory Board. Her previous Directorships include AGL Energy Limited, Scentre Group (previously Westfield Retail Trust), Tourism Australia, Australia Post, Coles Group Limited, Perpetual Limited and South Australia Water. Prior to becoming a Non-Executive Director, Ms McPhee held senior executive positions in a range of consumer oriented industries including retail, tourism and aviation.

**Other Current Australian Listed Company Directorships:**
Kathmandu Holdings Limited (appointed 16 October 2009)

**Former Australian Listed Company Directorships in Last 3 Years:**
Scentre Group (resigned 7 May 2015)
RE1 Limited and RE2 Limited (Westfield Retail Trust) (resigned 1 July 2014)
Tourism Australia (resigned 30 June 2015)
AGL Energy Limited (resigned 30 June 2016)

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JAMES MILLAR, AM
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD 1 JULY 2012

Mr Millar is the former Chief Executive Officer of Ernst & Young (EY) in the Oceania Region and was a Director on their Global Board. Mr Millar commenced his career in the Insolvency and Reconstruction practice at EY, conducting some of the largest corporate workouts of the early 1990's. He has qualifications in both business and accounting. Mr Millar is a Non-Executive Director of Mirvac Limited, Slater & Gordon Limited and Macquarie Media Limited. He is Chairman of both the Export Finance and Insurance Corporation and Forestry Corporation of NSW. He is a former Chairman of Fantastic Holdings Limited and The Smith Family and a former Director of Helloworld Limited.

**Other Current Australian Listed Company Directorships:**
Mirvac Limited (appointed 19 November 2009)
Macquarie Media Limited (appointed 31 March 2015)
Slater & Gordon Limited (appointed 1 December 2015)

**Former Australian Listed Company Directorships in Last 3 Years:**
Fantastic Holdings Limited (resigned 30 June 2014)
Helloworld Limited (resigned 22 January 2016)

# BOARD OF DIRECTORS

LINDA NICHOLLS, AO
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD 26 FEBRUARY 2010

Mrs Nicholls has more than 30 years' experience as a senior executive and company director in Australia, New Zealand and the United States. She is currently the Chair of Japara Healthcare and a director of Medibank Private and Inghams Group Limited.

Mrs Nicholls holds a Bachelor of Arts in Economics from Cornell University and a Masters of Business Administration from Harvard Business School, where she was formerly Trustee and Vice President of The Harvard Business School Alumni Board.

**Other Current Australian Listed Company Directorships:**
Japara Healthcare (appointed 19 March 2014)
Medibank Private (appointed March 2014)
Inghams Group Limited (appointed 7 October 2016)

**Former Australian Listed Company Directorships in Last 3 Years:**
Sigma Pharmaceuticals (resigned 9 December 2015)
Pacific Brands Group (resigned 15 July 2016)

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MICKIE ROSEN
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD 1 MARCH 2017

Ms Rosen has over 25 years of operational, strategic, and investment experience at the intersection of media and technology. She has worked for both large established companies and early stage start-ups. She currently advises a range of companies globally, is a Senior Advisor to Boston Consulting Group, and is a Director of Pandora Media in the USA.

In her most recent operational role, Ms Rosen served as Senior Vice-President of Yahoo's Global Media and Commerce division. Prior to Yahoo!, she was a partner with Fuse Capital, a digital media venture capital firm, and was the head of entertainment for Fox Interactive Media where she led strategic initiatives in digital, including serving as a lead on envisioning, structuring, and negotiating the creation of Hulu. She has also held executive roles with The Walt Disney Company and leading movie information and ticketing company, Fandango. Ms Rosen built the foundation of her career at McKinsey & Company and holds a Masters of Business Administration from Harvard Business School.

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TODD SAMPSON
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD 29 MAY 2014

Mr Sampson is a Non-Executive Director to the Board of Qantas Airways Limited. He has an MBA and has spent nearly 20 years working as a strategic advisor with a diverse range of expertise including marketing, communication, digital transformation, new media, reputational risk and corporate turnaround. Both News Limited and the Australian Financial Review ranked him as one of Australia's most influential executives. He is also a writer, producer and host on a number of TV shows including Gruen Planet, The Project and the award winning documentary Redesign My Brain.

**Other Current Australian Listed Company Directorships:**
Qantas Airways Limited (appointed March 2015)

# DIRECTORS' REPORT

The Board of Directors presents its report together with the financial report of Fairfax Media Limited (the Company) and of the consolidated entity, being the Company and its controlled entities for the period ended 25 June 2017 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.

### NICK FALLOON
NON-EXECUTIVE DIRECTOR

### PATRICK ALLAWAY
NON-EXECUTIVE DIRECTOR

### JACK COWIN
NON-EXECUTIVE DIRECTOR

### GREGORY HYWOOD
CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

### SANDRA MCPHEE, AM
NON-EXECUTIVE DIRECTOR

### JAMES MILLAR, AM
NON-EXECUTIVE DIRECTOR

### LINDA NICHOLLS, AO
NON-EXECUTIVE DIRECTOR

### MICKIE ROSEN
NON-EXECUTIVE DIRECTOR
Appointed 1 March 2017

### TODD SAMPSON
NON-EXECUTIVE DIRECTOR

### MICHAEL ANDERSON
NON-EXECUTIVE DIRECTOR
Resigned 5 August 2016

# DIRECTORS' REPORT

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

## COMPANY SECRETARY

Gail Hambly is Group General Counsel and Company Secretary of Fairfax Media Limited. She is responsible for legal services and regulatory matters across the Group as well as Government Relations, Communications and Internal Audit functions. She is a member of the Media and Communications Committee and the Privacy Committee for the Law Council of Australia, and a member of the Advisory Board for the Centre of Media and Communications Law at the Melbourne Law School. She holds degrees in Law, Economics and Science.

## CORPORATE STRUCTURE

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

## PRINCIPAL ACTIVITIES

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

The principal activities were the publishing of news, information and entertainment, advertising sales in print and digital formats, and radio broadcasting. The Group operates or holds investments in a number of digital businesses.

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

## CONSOLIDATED RESULT

The profit attributable to the consolidated entity for the financial year was $83,911,000 (2016 Loss: $772,576,000).

## DIVIDENDS

An interim partially franked dividend of 2.0 cents per ordinary share and debenture was paid on 22 March 2017 in respect of the half year ended 25 December 2016.

Since the end of the financial year, the Board has declared a fully franked dividend of 2.0 cents per ordinary share and debenture in respect of the year ended 25 June 2017. This dividend is payable on 12 September 2017.

## REVIEW OF OPERATIONS

Revenue and income for the Group was lower than the prior year at $1,749 million (2016: $1,838 million). After significant items of $59 million loss (2016: $905 million) the Group generated a net profit after tax attributable to members of $83.9 million (2016 Loss: $772.6 million). Earnings per share increased to a profit of 3.6 cents (2016: loss of 33.3 cents).

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

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

On 31 October 2016, the Group sold its Tenderlink business to Dun & Bradstreet Australia .

On 19 January 2017, the Group sold Radio 2CH Pty Limited to Oceania Capital Partners.

Subsequent to the reporting date, the Group repaid US$69.0 million (A$82.1 million) of Senior Notes..

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

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

# DIRECTORS' REPORT

## ENVIRONMENTAL REGULATION AND PERFORMANCE

No material non-compliance with environmental regulation has been identified relating to the 2017 financial year.

The Company reported to the Department of Climate Change on the total carbon emissions of the Group generated in the 2016 financial year under the National Greenhouse and Energy Reporting legislation. The Group's main source of carbon emissions overall was from electricity consumption at its larger sites and total scope 1 and 2 emissions reported was 41,416 (FY15: 50,141) tonnes $CO_2$-e.

## REMUNERATION REPORT

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

## DIRECTORS' INTERESTS

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

## DIRECTORS' MEETINGS

The following table shows the number of Board and Committee meetings held during the financial year ended 25 June 2017 and the number attended by each Director or Committee member.

| | MEETINGS* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | BOARD MEETING | | AUDIT AND RISK | | NOMINATIONS | | PEOPLE AND CULTURE | |
| | NO. HELD | NO. ATTENDED | NO. HELD | NO. ATTENDED | NO. HELD | NO. ATTENDED | NO. HELD | NO. ATTENDED |
| G Hywood** | 13 | 13 | 4 | 4 | - | - | 4 | 4 |
| P Allaway | 13 | 12 | 4 | 4 | - | - | - | - |
| M Anderson | 1 | 1 | - | - | - | - | - | - |
| J Cowin | 13 | 13 | - | - | - | - | 2 | 1 |
| N Falloon | 13 | 13 | 4 | 4 | 1 | 1 | 4 | 4 |
| S McPhee, AM | 13 | 13 | - | - | - | - | 4 | 4 |
| J Millar, AM | 13 | 13 | 4 | 4 | 1 | 1 | - | - |
| L Nicholls, AO*** | 13 | 12 | 4 | 3 | 1 | 1 | - | - |
| M Rosen | 7 | 7 | - | - | - | - | - | - |
| T Sampson**** | 13 | 9 | - | - | - | - | 2 | 1 |

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

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

*** Mrs Nicholls was absent due to illness for one Board meeting and one Audit and Risk Committee meeting.

**** Mr Sampson missed four unscheduled Board meetings called at short notice in the days between 11 and 17 May 2017 when he was on leave and unable to attend in person or electronically.

Mr Cowin resigned from the People and Culture Committee on 8 December 2016.

Mr Sampson was appointed to the People and Culture Committee from 8 December 2016.

Mr Anderson resigned from the Board on 5 August 2016.

Ms Rosen was appointed to the Board on 1 March 2017.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

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

# DIRECTORS' REPORT

## MODIFICATION OF AUDITOR ROTATION

On 20 May 2016, at the recommendation of the Audit and Risk Committee, the Directors granted an extension of the Group's audit partner for a further two years as permitted under the Corporations Act 2001. The initial period of five years expired in June 2015 and the extension is subject to an annual performance assessment by the Chair of the Audit Committee.

The Audit and Risk Committee is satisfied that the extension is consistent with maintaining the quality of the audit provided to the Company and would not give rise to a conflict of interest for the reasons set out below:

1. Extending the time period of the Lead Partner only, with the existing Independent Review Partner role providing oversight on audit quality and independence, will both maintain independence and ensure the preservation of knowledge on the engagement.
2. The existing independence and service metrics in place are sufficient to ensure that auditor independence would not be diminished by such an extension.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No indemnification payment has been made to Ernst & Young during or since the financial year.

## NO OFFICERS ARE FORMER AUDITORS

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

## NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor, Ernst & Young, for non-audit services provided during the financial year are set out below. Details of amounts paid or payable for audit services are set out in Note 27 to the financial statements.

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

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

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

Subsidiary companies, other audits and other assurance services required by contract or regulatory or other bodies:

- Australia $436,638
- Overseas $65,355

Non-assurance services:

- Australia $62,853

## ROUNDING

The Company is of a kind referred to in Corporations Instrument 2016/191, 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.

**Nick Falloon**
Chairman

16 August 2017

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

16 August 2017

# AUDITOR'S INDEPENDENCE DECLARATION

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

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

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

As lead auditor for the audit of Fairfax Media Limited for the financial year ended 25 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Fairfax Media Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Douglas Bain
Partner
16 August 2017

# REMUNERATION REPORT

Dear Shareholders,

On behalf of the Board, I am pleased to present Fairfax Media's Remuneration Report for Financial Year 2017 (FY17).

Fairfax's underlying earnings before interest, tax, depreciation and amortisation (EBITDA) were $271.1 million (excluding significant items). This is slightly lower than last year.

The Chairman and the Chief Executive Officer have outlined in their respective reports how Fairfax is continuing to drive shareholder value while adapting to the changing media environment. Highlights across the portfolio include:

- Fairfax is the leading digital publisher in Australia and New Zealand, reaching a combined audience of around 13 million;
- Domain increased digital revenue by 19%, despite a challenging environment for real estate listings in the first half. Preparation is underway for the proposed separation and ASX listing of Domain;
- Metro publishing EBITDA increased 26%, driven by continued focus on cost reduction;
- New Zealand publishing delivered a solid performance, with digital revenue growth of 29%;
- Australian Community Media continued to drive operational efficiencies and cash flows;
- Stan continued to build momentum, with active subscribers approaching 800,000 and growing; and
- Macquarie Media Limited (in which Fairfax has a 54.5% interest) maintained strong audience positions, particularly via its leading radio stations in Melbourne (3AW) and Sydney (2GB).

**Executive Incentive Plan**

For FY17 a new incentive plan for executives was introduced. The new plan was overwhelmingly supported by shareholders at the 2016 Annual General Meeting. Incentives remain heavily weighted towards achieving long-term growth, with a small portion based on the delivery of shorter term objectives.

All incentives for Executive Key Management Personnel (Executive KMP) continue to be delivered entirely through equity. The new plan provides a combination of long term performance rights and annual deferred performance shares. All incentives are subject to the achievement of performance hurdles.

**Short Term Incentive:** In FY17 for Executive KMP the incentive was focused on the achievement of Group and Divisional EBITDA targets. Short term incentive payments to Executive KMP were modest, which was the result of delivering lower than targeted Group EBITDA. The Group EBITDA target represented half of the overall short term incentive opportunity. Details of the objectives and outcomes are set out later in the Remuneration Report.

**Long Term Incentives:** The 2015 allocation under the previous Transformation Incentive Plan (TIP) is due to vest following FY17 year end. The performance hurdle for this allocation was absolute total shareholder return (Absolute TSR). The compound annual growth rate (CAGR) for Absolute TSR over the four year period from 1 July 2013 to 30 June 2016 was 25.4%. This exceeded the growth targets and full vesting is due to occur. Over the four year period Fairfax's market capitalisation has increased by 119% and full vesting of the options reflects management's achievements of the objectives outlined in the plan.

**Other Remuneration Outcomes for FY17**

In FY17 the only Executive KMP who received an increase in base pay was the CFO. Executive KMP continued to invest 10% of annual base pay into Fairfax shares.

Director base pay remained unchanged in FY17.

On behalf of the Board, I would like to thank our executives for delivering the strategic priorities of the business to drive long-term performance.

The Board recommends the Remuneration Report to you and asks that you vote in favour of it at the 2017 Annual General Meeting.

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

# REMUNERATION REPORT (AUDITED)

## 1. INTRODUCTION

This report forms part of the Company's FY17 Directors' Report and sets out the Fairfax Group's remuneration arrangements for Key Management Personnel (KMP) in accordance with the requirements of the Corporations Act 2001 and its regulations. KMP comprises of Directors and members of the senior executive team who have authority and responsibility for planning, directing and controlling the activities of the Fairfax Group.

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

TABLE 1

| | ROLE |
|---|---|
| NON-EXECUTIVE DIRECTORS | |
| Nick Falloon | Non-Executive Chairman |
| Patrick Allaway | Non-Executive Director |
| Michael Anderson[1] | Non-Executive Director |
| Jack Cowin | Non-Executive Director |
| Sandra McPhee | Non-Executive Director |
| James Millar | Non-Executive Director |
| Linda Nicholls | Non-Executive Director |
| Mickie Rosen[2] | Non-Executive Director |
| Todd Sampson | Non-Executive Director |
| EXECUTIVE DIRECTOR | |
| Greg Hywood | Chief Executive Officer and Managing Director |
| OTHER EXECUTIVES | |
| David Housego | Chief Financial Officer |
| Gail Hambly | Group General Counsel/Company Secretary |

(1) Michael Anderson resigned from the Board on 5 August 2016.

(2) Mickie Rosen was appointed to the Board on 1 March 2017.

## 2. REMUNERATION FRAMEWORK FOR 2017

The Company's remuneration principles and framework set out below were established in 2013 and received shareholder approval in 2014, 2015 and 2016.

### 2.1 REMUNERATION PRINCIPLES AND FRAMEWORK

#### FAIRFAX MEDIA EXECUTIVE REMUNERATION FRAMEWORK

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

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

**Fixed Remuneration Package**

- Set to attract and retain high calibre talent to drive the Company's strategy.
- Has regard to the scope of the individual's role, level of knowledge and experience, and the market (including Fairfax's competitors).
- For 2017, Executive KMP continued to voluntarily invest 10% of their annual fixed remuneration into Fairfax shares.
- As a further retention mechanism, if the Executive KMP member is still employed at the end of a 2 year period, then Fairfax will provide one additional bonus share for every five shares purchased by the executive through the voluntary share investment plan.

**Performance Based Incentives – New Fairfax Executive Incentive Plan**

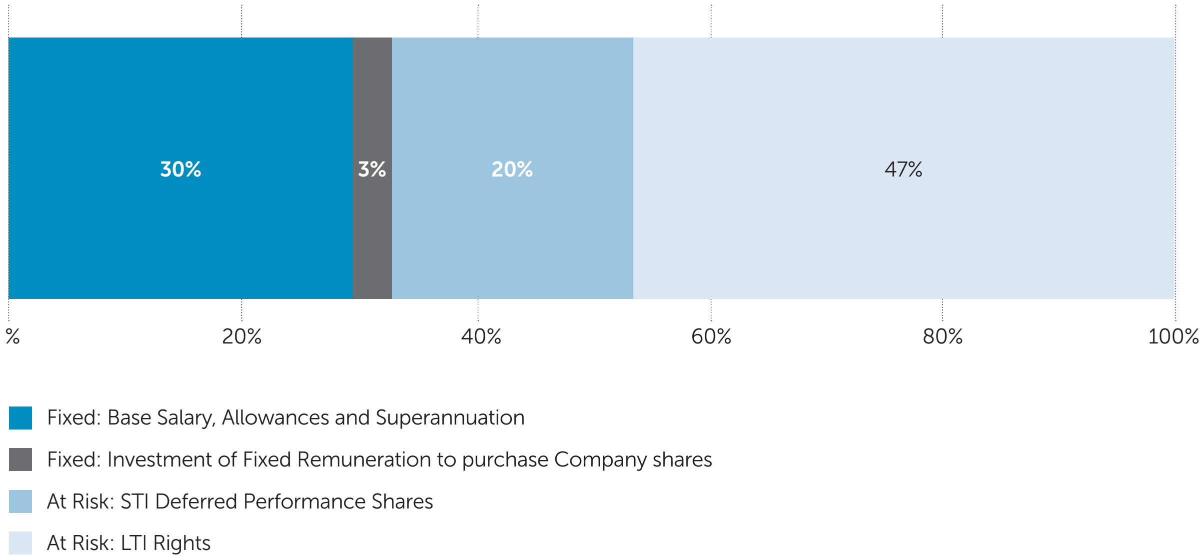
- A new Executive Incentive Plan (EIP) was implemented for FY17 following a comprehensive review of the Company's executive incentive arrangements by the Board, and shareholder approval at the 2016 Annual General Meeting. This replaced the Transformation Incentive Plan (TIP).
- The EIP includes a Short Term Incentive (STI) and Long Term Incentive (LTI) opportunity which is designed to drive the delivery of the next phase of the Company's strategy to continue to transform the publishing business, accelerate the growth in the existing businesses, and invest in new strategic opportunities for future growth.
- The EIP was designed to reward senior executives if they achieved the strategic short term and long term goals for the Company over a three year period.
- Under the STI, a proportion of deferred performance shares are granted if specific annual business metric targets, linked to the strategic objectives of the Company, are achieved. Metrics are measurable and are weighted and tailored according to each executive's responsibilities.
- Any performance shares earned are deferred so that executives do not become entitled to the equity until a later time. This further aligns the executive reward with shareholder interests, and also promotes and rewards longer term service by the executives.
- Under the LTI, performance rights (Rights) are allocated to executives based on the value of Fairfax shares determined over a 60 trading day volume weighted above average price (VWAP) up to and including 30 June 2016. The Rights are exercisable only if challenging performance hurdles are achieved at the end of the 3 year vesting period. For the FY17 allocation, seventy percent is tested against two independent relative total shareholder return (Relative TSR) performance hurdles and the remaining 30% against strategic hurdles. There is no retesting of the performance hurdles if the required targets are not achieved.

# REMUNERATION REPORT (AUDITED)

## 2.2 REMUNERATION AT RISK

The Board considers that a significant proportion of executive remuneration should be 'at risk', and linked to Fairfax's short and long term strategy and performance.  Executive KMP have a maximum incentive (STI and LTI) opportunity of 200% of their fixed remuneration. This means that 67% of their total remuneration is at risk.  The following diagram provides the Executive KMP remuneration mix for FY17 at maximum opportunity.

EXECUTIVE KMP



## 3. REMUNERATION GOVERNANCE

The Board's objective is to align Fairfax's executive remuneration strategy with Company performance and shareholder interests.

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

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

The members of the P&CC during 2017 were:

- Sandra McPhee (Chair);
- Michael Anderson (until 5 August 2016);
- Jack Cowin (until 8 December 2016);
- Nick Falloon (from 23 June 2016, prior to this date attended Committee meetings as an invitee); and
- Todd Sampson (from 8 December 2016).

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

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

The Committee engages independent remuneration consultants to provide assistance and information as required. There were no remuneration recommendations provided to the Committee by consultants in 2017.

## 4. LINKING FY17 EXECUTIVE REMUNERATION TO PERFORMANCE

The remuneration structure aligns executive rewards with shareholder returns over the medium and longer term and provides an appropriate incentive to deliver on the Company strategy. The Company continues to focus on the core strategy to create shareholder value and a sustainable future. Highlights of FY17 achievements include:

- Digital revenue growth in Domain of 19%. Preparation is underway for the proposed separation and ASX listing of Domain;
- Publishing businesses remained profitable, with costs continuing to decrease;
- Metro publishing EBITDA increased 26%, driven by continued cost reductions. The technology, processes and teams supporting Metro publishing are being rebuilt;
- Australian Community Media's operating structure is being further simplified, with a focus on efficiencies to maximise cash flow;
- Stan subscriptions approaching 800,000 active subscriptions;
- Macquarie Media Limited continues to have the number one radio stations in Sydney and Melbourne; and
- New Zealand publishing has delivered a solid performance, with strong digital revenue growth of 29%.

Management continued to make decisions during the year to drive long-term growth and sustainability. In FY17 Executive KMP short term incentives were based on:

- 85%: Group and divisional EBITDA performance targets;
- 10%: Revenue growth in Life Media and Events; and
- 5%: Growth in Stan subscriptions.

For the 2017 financial year short term incentive payments to Executive KMP were modest as a result of lower than targeted Group EBITDA performance, which represented half of the overall short term incentive opportunity. Further detail can be found in section 5.2 (A).

The performance period for the FY15 Transformation Incentive Plan long term options ended on 30 June 2017. The performance hurdle (Absolute TSR CAGR) was achieved at maximum level of performance over the four year period and therefore 100% of the allocation is due to vest. For the executive to exercise any vested option an exercise price of $0.82 per share is payable. Further detail can be found in section 6.

The financial performance of the Company in key shareholder value measures over the past five years is shown in section 12.

## 5. EXECUTIVE INCENTIVE PLAN FOR FY17 (EIP)

During the 2016 financial year, the Board conducted a comprehensive review of the executive remuneration arrangements including the Transformation Incentive Plan (TIP) that was introduced from FY14 and operated for FY14, FY15 and FY16. The TIP was devised at a time of considerable media market disruption. The TIP structure was, in the view of the Board, the most effective incentive plan to drive the delivery of the Company's multi-year transformation strategy. Over three years of the TIP, the management team has driven shareholder value by reducing the Company's dependence on print media, achieving new and material cost savings, expanding profitable digital products, and successfully growing key businesses including Domain.

Following a review of the TIP, the Directors determined that it had achieved its goals and a new incentive plan was required. The new Fairfax Executive Incentive Plan (EIP) has replaced the TIP from the 2017 financial year.

The EIP includes Short Term Incentive (STI) and Long Term Incentive (LTI). It is designed to drive the delivery of the next phase of the Company's strategy to continue to transform the publishing businesses, accelerate the growth businesses, and build value through strategic decision making and portfolio management.

To ensure alignment with shareholders, both the STI and LTI are awarded in equity using a face value methodology to make the equity allocations. The LTI is measured over a three-year period with no re-test. Any STI earned cannot be accessed for a period of 1 - 2 years.

The EIP is heavily weighted towards achieving medium to long term growth, is based on objective measurable goals, and aligns with growth in shareholder value.

The Board is confident that the new incentive arrangement aligns the executive rewards with our shareholder interests over the medium to long term and provides an appropriate vehicle to deliver our strategy.

The EIP was overwhelmingly supported by shareholders at the 2016 Annual General Meeting, approving the CEO participation in the plan, and granting the Rights and Performance Shares for the FY17 plan.

### 5.1. EIP OUTLINE

The following table sets out how the EIP operated during FY17.

TABLE 2

| DETAIL OF EXECUTIVE INCENTIVE PLAN | |
|---|---|
| **ELIGIBLE PARTICIPANTS** | |
| Who participates? | Senior executives whose roles and skills are critical to the strategy of the Group are eligible to participate in the EIP.<br>Executive KMP maximum incentive opportunity 200% of fixed remuneration, that comprises:<br>• Short Term Incentive: 60% (maximum performance); and<br>• Long Term Incentive: 140% (maximum performance). |
| **SHORT TERM INCENTIVE** | |
| What is the STI? | It is an annual incentive arrangement for senior executives with an emphasis on the achievement of annual financial and non-financial performance criteria for the Group.<br>Any incentive earned by Executive KMP is awarded entirely in an allocation of deferred performance shares. |
| What are the performance measures? | Measurable objectives are set annually by the Board and are linked to the strategy. These measures (targets, mix and weighting) are set prior to the commencement of the financial year. The measures are a balance of financial and non-financial, heavily weighted towards financial measures.<br>For Executive KMP, the majority of the FY17 opportunity was tied to the financial measure of EBITDA performance for the Group and individual business units. A smaller weighting was tied to the revenue and strategic measures. |

# REMUNERATION REPORT (AUDITED)

DETAIL OF EXECUTIVE INCENTIVE PLAN CONT'D

| | |
|---|---|
| What is the performance period? | One year. |
| How is performance assessed? | At the end of the financial year, actual performance is assessed against the measures set at the beginning of the year. |
| How is the allocation of deferred performance shares determined? | The actual number of deferred performance shares granted is dependent on the executives' STI performance outcome for the year and the Volume Weighted Average Price (VWAP) of the Company share price in the 5 days commencing on the day after the August 2017 results announcement. |
| What is the deferral period? | Half (50%) of any performance shares granted following testing are deferred for 1 year and the remaining 50% for 2 years. |
| Board Discretion | The Board retains discretion on overall performance outcomes. The Board has the ability to apply its discretion should it consider the need to reward or retain executives for achievement of key measures in the strategy. |
| **LONG TERM INCENTIVE** | |
| What is the LTI and who participates? | The LTI aims to reward executives for creating growth in shareholder value.<br><br>Executives whose roles and skills are critical to the strategy of the Company are eligible to participate in the LTI. |
| How is the LTI grant determined? | Executives in the LTI receive an allocation of Performance Rights (Rights), for nil consideration. Each Right entitles the executive to one ordinary share in the company subject to achievement of the performance hurdles.<br><br>The number of Rights to which an executive is entitled depends on the participant's role and responsibilities. Allocations are set at a fixed percentage of the executive's fixed remuneration at the time they participate in the LTI scheme.<br><br>The Rights are issued at face value determined over a volume weighted average price (VWAP) of the Company shares traded over 60 trading days up to and including 30 June 2016 ($0.8669). This coincides with the start of the performance period. However, the Board may exercise its discretion to award a lower number of Rights than the maximum if it believes it is appropriate due to market conditions.<br><br>No dividends or voting rights are attached to unvested Rights. |
| What is the performance period? | 3 years – The performance period for the FY17 allocation commences on 1 July 2016 and ends on 30 June 2019.<br><br>There is no re-testing of the performance conditions. If a performance hurdle has not been achieved at the end of the period, then the Rights will lapse. |
| What are the performance hurdles? | For FY17 there are three (3) independent performance hurdles:<br><br>1. 35% of the allocation has a Relative TSR performance hurdle with an S&P ASX 200 Index comparator group.<br><br>2. 35% of the allocation has a Relative TSR performance hurdle with an S&P ASX300 Media Index comparator group.<br><br>3. 30% of the allocation has a performance hurdle based on strategic measures which for FY17 is based on the performance of the Domain business.<br><br>Due to the commercial sensitivity of the Domain measure, it will not be disclosed to the market at the current time, but will be disclosed after the test period has finished. |

# REMUNERATION REPORT (AUDITED)

DETAIL OF EXECUTIVE INCENTIVE PLAN CONT'D

| | |
|---|---|
| What are the performance hurdles (cont'd)? | For each of the above Relative TSR hurdles, the percentage of Performance Rights that vest at the end of the performance period will be determined by reference to the following table:<br><br>FAIRFAX RELATIVE TSR RANK — PERCENTAGE OF RIGHTS THAT VESTS<br>Below 51st percentile — Nil<br>At the 51st percentile — 50% of allocation<br>Between the 51st to 75th percentile — Straight line prorata vesting<br>At or above the 75th percentile — 100%<br><br>The Board has chosen the two Relative TSR comparator groups as it believes these two measures together will be a reflection of the Company's performance against the market generally and also against its industry peers facing similar structural change. The Domain measure has been chosen as Domain's growth is a key part of the Company's strategy.<br><br>The Board retains discretion to deem the performance hurdles not met if vesting would otherwise only occur as a result of extraneous factors that do not, in the reasonable opinion of the Board, reflect true Company performance. |
| How are the Rights settled on vesting? | In the event that the performance and service conditions are satisfied and the Rights vest, the Board may at its discretion settle the Rights by either:<br>• the purchase of shares on market;<br>• the issue of new shares; or<br>• a cash payment to executives in lieu of an allocation of Company shares. |
| GENERAL | |
| Is there an ability to claw back awards under the EIP? | Yes. The Board has the discretion to claw back awards made under the EIP to ensure that participants do not unfairly benefit, including in the event of fraud, dishonesty or a breach of obligation to the Company.<br><br>In addition, the Board may also claw back awards in the case of material risk or where financial information becomes available after awards are granted, which suggests that the initial grant was not justified. |
| Is there a restriction on executives hedging awards under the EIP? | Yes. The rules prohibit employees from creating any encumbrance on unvested awards. All executives must operate under the Fairfax Security Trading Policy. |
| What happens in a change of control? | In the event of a takeover bid or other transaction, event or state of affairs that in the Board's opinion is likely to result in a change in control of the Company, the Board has discretion to determine that vesting of some or the entire EIP should be accelerated.<br><br>If the Board needs to exercise its discretion regarding a change of control event it would be guided by the time remaining before the set vesting test date, whether the performance hurdles were applied at the date of the likely change of control, the vesting test would be achieved, and be in the best interest of shareholders. |

# REMUNERATION REPORT (AUDITED)

DETAIL OF EXECUTIVE INCENTIVE PLAN CONT'D

| | |
|---|---|
| What happens if the executive ceases employment? | **Resignation or termination for cause**<br><br>Where an executive resigns or their employment is terminated for cause such as misconduct or poor performance all unvested Rights and Performance Shares will lapse or be forfeited, unless the Board determines otherwise.<br><br>**Cessation for other reasons**<br><br>Where employment ceases for any other reason, for instance a mutual agreement, the unvested Rights and Performance Shares will remain on foot and continue to be subject to the original performance hurdles (in the case of Rights) and the relevant deferral period (in the case of Performance Shares), as though they had not ceased employment.<br><br>However, the Board retains discretion to determine to lapse or forfeit all or any (for example, up to a pro rata portion based on how much of the Performance Period or relevant deferral period remains) of the unvested Rights and Performance Shares.<br><br>The Rights that remain on foot will be tested in the normal course following the end of the relevant Performance Period, and the Performance Shares will remain subject to dealing restrictions until the end of the relevant deferral period.<br><br>**Vested but unexercised Rights**<br><br>If an executive ceases employment in circumstances where there are vested Rights that have not yet been exercised:<br><br>• in the case of termination for cause, the vested but unexercised Rights will be forfeited; or<br><br>• the Rights will ordinarily remain on foot in other circumstances, and will only be exercisable up to the first anniversary of the cessation date. If the Rights remain unexercised after that date, they will be forfeited. |

## 5.2 FY17 OUTCOMES UNDER THE EXECUTIVE INCENTIVE PLAN

### (A) FY17 SHORT TERM INCENTIVE PLAN OUTCOME

In 2017 the majority of Executive KMP short term incentive (STI) opportunity was tied to the financial milestones of EBITDA and revenue targets and a smaller portion comprised of a non-financial milestone to drive performance of key business outcomes in our joint venture business Stan.

The outcomes of the 2017 STI payments are modest. This reflects decisions made by management during the year which prioritised longer term growth and sustainability. As a result, Group EBITDA was marginally lower than the targeted performance; however, some of the targeted divisional EBITDA outcomes were achieved.

The average outcomes for Executive KMP were 21% of maximum opportunity. The table below represents the dollar value earned by each Executive KMP. The amount of deferred performance shares to be granted will be determined based on the volume weighted average price (VWAP) of Company shares in the five trading days commencing on the day after the August 2017 results announcement.

TABLE 3

| EXECUTIVE KMP | ON-TARGET STI OPPORTUNITY | MAXIMUM STI OPPORTUNITY | INCENTIVE EARNED | INCENTIVE FORFEITED | % OF INCENTIVE EARNED | % OF INCENTIVE FORFEITED |
|---|---|---|---|---|---|---|
| Greg Hywood | $480,000 | $960,000 | $190,930 | $769,070 | 20% | 80% |
| David Housego[(1)] | $285,000 | $570,000 | $142,500 | $427,500 | 25% | 75% |
| Gail Hambly | $187,500 | $375,000 | $74,582 | $300,418 | 20% | 80% |
| **Total** | **$952,500** | **$1,905,000** | **$408,012** | **$1,496,988** | **21%** | **79%** |

(1) In order to retain the CFO, the Board put in place a retention arrangement, guaranteeing a component of the CFO's STI payment for FY17. This was considered to be in the best interest of shareholders given the desire for a stable leadership team during a period of significant change and during the proposed separation of Domain.

Note - the figures set out above are the dollar values. For Executive KMP any short term incentive earned is awarded in deferred performance shares.

### B) FY17 LONG TERM INCENTIVE RIGHTS ALLOCATION

No Rights were available to vest under the FY17 LTI allocation during FY17 as the allocation has not reached the end of the performance period.

# REMUNERATION REPORT (AUDITED)

## 6. LONG TERM OPTION GRANTS FROM THE TRANSFORMATION INCENTIVE PLAN (TIP) PRIOR TO 2017

Prior to FY17, the Company operated the TIP for the 2014 to 2016 financial years as a mechanism to incentivise executives on the delivery of key transformation goals over a 3 to 4 year period. As part of the TIP, each year executives received a grant of long term Options that are assessed against an Absolute TSR (CAGR) performance hurdle over a 3-4 year period for any Options to vest and become exercisable on payment of the exercise price.

Set out in the following table are details of the active Option grants under the TIP, with the applicable performance period and Absolute TSR targets required for vesting.

TABLE 4

| | | | PERFORMANCE HURDLE – ABSOLUTE TSR | | | |
|---|---|---|---|---|---|---|
| GRANT YEAR | PERFORMANCE PERIOD | RE-TEST DATES | THRESHOLD PERFORMANCE | TARGET PERFORMANCE | STRETCH PERFORMANCE | PERFORMANCE ACHIEVED |
| 2015 | 1 July 2013 – 30 June 2017 | N/A | 15% CAGR | 20% CAGR | 25% CAGR | 25.4% CAGR |
| 2016 | 1 July 2015 – 30 June 2018 | 31 Dec 2018 and 30 June 2019 | 12.5% CAGR | 16% CAGR | 20% CAGR | Performance testing window not yet complete |

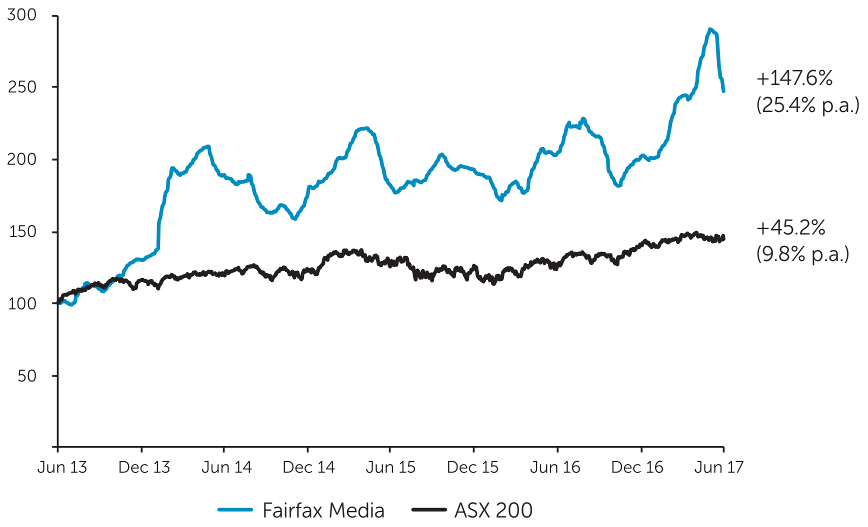
Note – Absolute TSR performance provided by Orient Capital Pty Ltd.

### (A) 2015 GRANT

The FY15 Long Term Options performance period commenced on 1 July 2013 and expired on 30 June 2017. The performance hurdle for this allocation was Absolute TSR. The CAGR for Absolute TSR over the four year period was 25.4%. This exceeded the stretch target and therefore the allocation is due to fully vest. For the executive to exercise any vested Option an exercise price of $0.82 per share is payable.

Fairfax has delivered total shareholder returns of 147.6% since 30 June 2013.

SHAREHOLDER RETURNS INCLUDING DIVIDENDS[1,2]




Source: IRESS, data as at 30 June 2017.

(1) Measured against the ASX 200 accumulation index which includes dividends.

(2) Assumes dividends re-invested at the closing price on the ex-dividend date.

Table 5 below sets out the number of options available to Executive KMP relating to the FY15 grant that are due to vest and the number (if any) due to be forfeited:

TABLE 5

| EXECUTIVE KMP | TOTAL NUMBER OF OPTIONS AVAILABLE | OPTIONS DUE TO VEST[1] | OPTIONS DUE TO BE FORFEITED | VEST % | FORFEIT % |
|---|---|---|---|---|---|
| Greg Hywood | 9,333,332 | 9,333,332 | 0 | 100% | 0% |
| David Housego | 4,812,500 | 4,812,500 | 0 | 100% | 0% |
| Gail Hambly | 3,645,833 | 3,645,833 | 0 | 100% | 0% |
| **Total** | **17,791,665** | **17,791,665** | **0** | **100%** | **0%** |

(1) An exercise price of $0.82 per share is payable on exercising any vested option.

Note – Absolute TSR performance provided by Orient Capital Pty Ltd.

### (B) 2016 GRANT

No Options were available to vest under the FY16 TIP Long Term Options grant during FY17, the grant has not reached the end of initial performance period.

## 7. EXECUTIVE SERVICE AGREEMENTS

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

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

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

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

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

TABLE 6

| NAME OF EXECUTIVE | COMPANY TERMINATION NOTICE PERIOD | EMPLOYEE TERMINATION NOTICE PERIOD | POST-EMPLOYMENT RESTRAINT |
|---|---|---|---|
| Greg Hywood | 12 months | 6 months | • 12 month no solicitation of employees or clients<br>• 6 months no work for a competitor of the Fairfax Group |
| David Housego | 12 months | 4 months | • 12 month no solicitation of employees or clients<br>• 6 months no work for a competitor of the Fairfax Group |
| Gail Hambly | 18 months | 3 months | • 12 month no solicitation of employees or clients<br>• 6 months no work for a competitor of the Fairfax Group |

## 8. EXECUTIVE KMP REMUNERATION AND EQUITY GRANTED IN FY17

### (A) REMUNERATION OF EXECUTIVE KMP

Tabled below sets out details of Executive KMP remuneration during FY17 (AUD$).

TABLE 7

| | | BASE SALARY, & OTHER BENEFITS[2] | CASH BONUS | SUPER-ANNUATION | LONG SERVICE LEAVE EXPENSE | TOTAL EXCLUDING SHARES/ RIGHTS | VALUE OF SHARES/ RIGHTS[3] | TOTAL INCLUDING SHARES/ RIGHTS |
|---|---|---|---|---|---|---|---|---|
| G. Hywood – Chief Executive Officer | **2017** | **1,575,000** | **-** | **25,000** | **39,149** | **1,639,149** | **744,576** | **2,383,725** |
| | 2016 | 1,575,000 | - | 25,000 | 32,982 | 1,632,982 | 1,102,069 | 2,735,051 |
| D. Housego – Chief Financial Officer[1] | **2017** | **858,345** | **-** | **34,615** | **16,355** | **909,315** | **433,615** | **1,342,930** |
| | 2016 | 769,151 | - | 35,000 | 10,812 | 814,963 | 570,625 | 1,385,588 |
| G. Hambly – Group General Counsel & Company Secretary | **2017** | **554,324** | **-** | **70,676** | **10,600** | **635,600** | **290,849** | **926,449** |
| | 2016 | 554,308 | - | 70,692 | 6,565 | 631,565 | 430,707 | 1,062,272 |
| **TOTAL** | **2017** | **2,987,669** | **-** | **130,291** | **66,104** | **3,184,064** | **1,469,040** | **4,653,104** |
| | 2016 | 2,898,459 | - | 130,692 | 50,359 | 3,079,510 | 2,103,401 | 5,182,911 |

(1) D. Housego fixed remuneration was increased from $825,000 to $950,000 effective 3 October 2016.

(2) Executive KMP voluntary invest 10% of their fixed annual remuneration to purchase Company shares on a post-tax basis.

(3) Amount includes the accounting expense recognised during the year for the rights to shares and options issued but not yet vested.

### (B) EQUITY GRANTED TO EXECUTIVE KMP DURING FY17

TABLE 8

| | EQUITY AWARD[1] | PERFORMANCE CONDITIONS[2] | NUMBER OF OPTIONS/SHARES GRANTED[1] | FAIR VALUE PER RIGHT/ SHARES[3] | MAXIMUM VALUE OF GRANT[4] |
|---|---|---|---|---|---|
| G Hywood – Chief Executive Officer | Rights | Relative TSR Strategic Measure | 2,583,919 | $0.62 | $1,602,030 |
| | Performance Shares | Financial & Strategic Objectives | n/a | n/a | $190,930 |
| | | | | | **$1,792,960** |
| D Housego – Chief Financial Officer | Rights | Relative TSR Strategic Measure | 1,534,202 | $0.62 | $951,205 |
| | Performance Shares | Financial & Strategic Objectives | n/a | n/a | $142,500 |
| | | | | | **$1,093,705** |
| G Hambly – Group General Counsel & Company Secretary | Rights | Relative TSR Strategic Measure | 1,009,343 | $0.62 | $625,793 |
| | Performance Shares | Financial & Strategic Objectives | n/a | n/a | $74,582 |
| | | | | | **$700,375** |

(1) The Performance Share grants made to executives for 2017 are subject to the terms summarised in section 5.1 and will not be known until after the Company results announcement in August 2017, in line with the plan rules.

(2) Performance Shares and Rights are subject to performance hurdles that are outlined in section 5.1. Rights to Performance Shares and Rights lapse where the applicable performance conditions are not satisfied on testing. As the Performance Shares and Rights only vest on satisfaction of performance conditions which are to be tested in future years, the FY17 Performance Shares and Rights have not yet been forfeited or vested.

(3) Represents the fair value of the instrument calculated by independent consultants Orient Capital Pty Ltd using Monte Carlo simulation methodology for accounting purposes. However the Board determined that allocations would be based on the market price of Fairfax shares determined by the volume weighted average price (VWAP) of Company shares traded on the ASX over the 60 trading days up to and including 30 June 2016. This resulted in an allocation price of $0.8669 in turn resulting to a lower number of rights allocated to KMP than would have been received if the "fair value" had been used.

(4) The maximum value of the grant has been estimated based on the fair value per instrument. The minimum total value of the grant is nil (this assumes none of the applicable performance conditions are met).

## 9. EXECUTIVE KMP SHAREHOLDINGS

Executive KMP equity holdings as at 25 June 2017 are set out below:

### (A) SHARES HELD BY EXECUTIVE KMP

TABLE 9

| EXECUTIVE KMP | BALANCE AT 26 JUNE 2016 | ACQUISITIONS[1] | DISPOSALS | BALANCE AT 25 JUNE 2017 |
|---|---|---|---|---|
| G. Hywood | 669,194 | 101,384 | - | 770,578 |
| D. Housego | 112,280 | 52,276 | - | 164,556 |
| G. Hambly | 26,826 | 39,596 | - | 66,422 |
| **Total** | **808,300** | **193,256** | **-** | **1,001,556** |

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

### (B) RIGHTS OVER SHARES HELD BY EXECUTIVE KMP

TABLE 10

| EXECUTIVE KMP | BALANCE AT 26 JUNE 2016[1] | GRANTED AS REMUNERATION[2] | EXERCISED DURING THE YEAR | FORFEITED DURING THE YEAR | OTHER MOVEMENT[3] | CLOSING BALANCE AT 25 JUNE 2017[1] |
|---|---|---|---|---|---|---|
| G. Hywood | 18,145,990 | 2,583,919 | - | - | (8,000,000) | 12,729,909 |
| D. Housego | 9,154,714 | 1,534,202 | - | - | (4,125,000) | 6,563,916 |
| G. Hambly | 7,025,513 | 1,009,343 | - | - | (3,125,000) | 4,909,856 |
| **Total** | **34,326,217** | **5,127,464** | **-** | **-** | **(15,250,000)** | **24,203,681** |

(1) FY15 TIP grant of long term options are due to vest as outlined in section 6(A).

(2) FY17 EIP long term incentive Rights allocated on 24 February 2017.

(3) The Board resolved to vest and cash settle the entire FY14 TIP options grant following above stretch performance on testing of the Absolute TSR performance hurdle over the 3 year testing period. The Board used its discretion to settle the options by a cash payment in lieu of an allocation of Company shares. The cash settlement amount per option was $0.35 which was based on the vesting price of $0.93 less the exercise price per option of $0.58.

## 10. REMUNERATION OF NON-EXECUTIVE DIRECTORS

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

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

TABLE 11

| | $ |
|---|---|
| Chairman of the Board* | 364,000 |
| Other Non-Executive Director | 135,000 |
| Chair of Audit and Risk Committee | 48,000 |
| Members of Audit and Risk Committee | 36,000 |
| Chair of People and Culture Committee | 36,000 |
| Members of People and Culture Committee | 24,000 |
| Chair of the Nominations Committee | 0 |
| Members of Nominations Committee | 0 |

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

The fees above do not include statutory superannuation payments.

The Board of Directors has a policy that Directors must accumulate a portfolio of Fairfax shares (valued at time of purchase) to the value of 25% of the Director's annual fees per year for four years.

Since early May the Chairman has been heavily involved with the CEO, management team, advisors, private equity and other external parties in relation to the approach from private equity and the proposed separation of Domain. This has required his involvement on virtually a full time basis significantly higher than the normal responsibilities associated with the role of Chairman in such a transaction. In recognition of the high level of internal and external involvement required from the Chairman, a monthly fee of $30,000, above the current Chairman fees, has been endorsed by the Board (excluding the Chairman). No payments under this proposal were made during the reporting period.

### 10.1 RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS

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

# REMUNERATION REPORT (AUDITED)

## 10.2 NON-EXECUTIVE DIRECTORS' FEES

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

TABLE 12

| NON-EXECUTIVE DIRECTOR | | NON-EXECUTIVE DIRECTORS FEES | SUPERANNUATION | TOTAL |
|---|---|---|---|---|
| P. Allaway[1] | **2017** | **171,000** | **14,276** | **185,276** |
| | 2016 | 29,077 | 2,762 | 31,839 |
| M. Anderson[2] | **2017** | **18,346** | **1,743** | **20,089** |
| | 2016 | 154,220 | 14,651 | 168,871 |
| R. Corbett[3] | 2016 | 50,308 | 4,779 | 55,087 |
| J. Cowin[4] | **2017** | **145,352** | **13,808** | **159,160** |
| | 2016 | 154,220 | 14,651 | 168,871 |
| N. Falloon | **2017** | **364,737** | **33,843** | **398,580** |
| | 2016 | 343,021 | 32,587 | 375,608 |
| J. Millar | **2017** | **171,000** | **16,245** | **187,245** |
| | 2016 | 165,981 | 15,768 | 181,749 |
| S. McPhee | **2017** | **171,000** | **16,245** | **187,245** |
| | 2016 | 165,981 | 15,768 | 181,749 |
| L. Nicholls | **2017** | **183,000** | **17,385** | **200,385** |
| | 2016 | 177,744 | 16,886 | 194,630 |
| M. Rosen[5] | **2017** | **45,692** | **4,341** | **50,033** |
| T. Sampson[6] | **2017** | **148,648** | **14,122** | **162,770** |
| | 2016 | 130,698 | 12,416 | 143,114 |
| P. Young[7] | 2016 | 123,888 | 12,019 | 135,907 |
| **Directors** | **2017** | **1,418,775** | **132,008** | **1,550,783** |
| | 2016 | 1,495,138 | 142,287 | 1,637,425 |

(1) P. Allaway joined the Audit & Risk Committee on 20 May 2016.

(2) M. Anderson retired from the Board on 5 August 2016.

(3) R. Corbett resigned from the Board on 31 August 2015.

(4) J. Cowin left the People & Culture Committee on 8 December 2016.

(5) M. Rosen was appointed to the Board on 1 March 2017.

(6) T. Sampson joined the People & Culture Committee on 8 December 2016.

(7) P. Young resigned from the Board on 4 April 2016.

# REMUNERATION REPORT (AUDITED)

## 10.3 NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS

Non-Executive Director equity holdings disclosure as at 25 June 2017 is set out below:

TABLE 13

| NON-EXECUTIVE DIRECTOR | BALANCE AT 26 JUNE 2016 | ACQUISITIONS | DISPOSAL | BALANCE AT 25 JUNE 2017 |
|---|---|---|---|---|
| P. Allaway | 120,000 | - | - | 120,000 |
| M. Anderson(1) | 44,378 | 12,597 | (52,442) | 4,533 |
| J. Cowin | 3,000,000 | - | - | 3,000,000 |
| N. Falloon | 430,738 | 46,911 | - | 477,649 |
| J. Millar | 100,000 | 100,000 | - | 200,000 |
| S. McPhee | 196,123 | 13,638 | - | 209,761 |
| L. Nicholls | 195,871 | 25,966 | - | 221,837 |
| M. Rosen(2) | - | - | - | - |
| T. Sampson | 41,278 | 19,805 | - | 61,083 |
| **Total** | **4,128,388** | **218,917** | **(52,442)** | **4,294,863** |

(1) M. Anderson retired from the Board on 5 August 2016.

(2) M. Rosen was appointed to the Board on 1 March 2017.

## 11. LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans made to Directors of Fairfax Media Limited or to other KMP, including their personally related parties, during FY17 (2016: nil).

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

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

TABLE 14

| | | 2017 | 2016 | 2015 | 2014 | 2013(1) |
|---|---|---|---|---|---|---|
| Underlying operating revenue | $m | 1,733 | 1,831 | 1,853 | 1,866 | 2,074 |
| Underlying net profit after tax * | $m | 142.6 | 132.5 | 143.6 | 157.8 | 128.0 |
| Earnings per share excluding significant items | Cents | 6.2 | 5.7 | 6.1 | 6.7 | 5.4 |
| Dividends per share | Cents | 4.0 | 4.0 | 4.0 | 4.0 | 2.0 |
| Total Shareholder Returns (TSR) ** | % | 39.1 | 13.6 | (0.7) | 97.5 | (3.4) |
| Share Price (at financial year end date) | $ | 1.22 | 0.91 | 0.85 | 0.93 | 0.50 |

* Underlying net profit after tax restated to be underlying net profit attributable to members of the Company.

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

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

# CORPORATE GOVERNANCE

Fairfax has adopted a corporate governance framework that is consistent with the ASX Corporate Governance Council Principles and Recommendations (ASX Recommendations).

The key corporate governance practices of the Fairfax Group are set out below including summaries of the Policy on Market Disclosure and Shareholder Communications, Risk Management Policy and Securities Trading Policy. The Fairfax Constitution, Board Charter, Board Committee Charters, Code of Conduct and Diversity Guidelines are available at http://www.fairfaxmedia.com.au/Company/corporate-governance.

## BOARD OF DIRECTORS

### COMPOSITION OF THE BOARD

Membership of the Board and its Committees during FY17 is set out below.

| | | COMMITTEE MEMBERSHIP | | |
|---|---|---|---|---|
| DIRECTOR | POSITION | AUDIT AND RISK | NOMINATIONS | PEOPLE AND CULTURE |
| N Falloon | Independent Chairman | Member | Chair | Member |
| G Hywood | CEO/Managing Director | – | – | – |
| P Allaway | Independent | Member | – | – |
| J Cowin | Independent | – | – | Member(1) |
| S McPhee AM | Independent | – | – | Chair |
| J Millar AM | Independent | Member | Member | – |
| L Nicholls AO | Independent | Chair | Member | – |
| M Rosen(2) | Independent | - | - | - |
| T Sampson | Independent | – | – | Member(3) |
| M Anderson(4) | Independent | – | – | Member |

(1) Resigned as a Member on 8 December 2016.

(2) Appointed as a Director on 1 March 2017.

(3) Appointed as a Member on 8 December 2016.

(4) Retired as a Director on 5 August 2016.

The qualifications, experience, term of office and other details of each member of the Board are set out on pages 21 to 23.

The number of Board and Committee meetings held during FY17 and each Director's attendance at these meetings are set out in the Directors' Report on page 26.

# CORPORATE GOVERNANCE

## INDEPENDENCE OF DIRECTORS

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

Directors are required to bring views and judgement to Board decisions independent of management and free of any business or other circumstances that might interfere with their independent judgement in the best interests of the Company and its shareholders.

The Board has determined that all Directors except the Chief Executive Officer (CEO) are independent. In assessing whether a Director is independent, the Board has considered Directors' obligations to shareholders, the requirements of applicable laws and regulations, criteria set out in the Board Charter and the ASX Recommendations. The Board makes its decisions on a case-by-case basis and determines whether particular factors or prior relationships might reasonably be seen to interfere, with the Director's capacity to bring independent judgement to bear on issues before the Board and to act in the best interests of Fairfax and its shareholders generally. Where appropriate, external advice is sought to assist the Board's assessment.

Patrick Allaway, via his corporate advisory and funds management business, Saltbush Capital Markets, provided services to the Fairfax Group over the three years prior to his appointment to the Board in April 2016. Payment for these services was on arms length commercial terms:

- FY16 - $27,500;
- FY15 - $310,750;
- FY14 - $115,500.

This consultancy relationship has terminated prior to his appointment and Mr Allaway no longer has any relationship with the Fairfax Group other than as a Director. Notwithstanding this prior commercial relationship, the Board considers Mr Allaway to be an independent Director because the nature of his consultancy was to provide independent advice. The Board does not view this prior relationship as one which interferes with Mr Allaway's capacity to bring independent judgement to bear on issues before the Board or his capacity to bring independent judgement to issues before the Board or to act in the best interests of the Fairfax Group and its shareholders.

## ROLE OF THE BOARD

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

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

(a) setting the strategic direction of the Fairfax Group to create value for shareholders;

(b) approving performance targets for the Fairfax Group and monitoring the achievement of those targets;

(c) providing overall policy guidance and monitoring processes aimed to ensure that corporate governance and risk management are in place and followed;

(d) monitoring compliance with regulatory obligations and ethical standards;

(e) setting and monitoring the Fairfax Group's programs for succession planning and key executive development;

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

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

(h) setting the appointment, tenure and conditions of employment of the CEO; and

(i) approval of public statements which reflect significant issues of Fairfax policy, finance, strategy or business outcomes.

### DELEGATION TO SENIOR MANAGEMENT

Subject to the Board's reserved powers and to the authorities delegated to the Board Committees, the Board has delegated to the CEO responsibility for the management and operation of the Fairfax Group. The CEO is responsible for the day-to-day operations, financial performance and administration of the Fairfax Group within the powers authorised to him from time-to-time by the Board. The CEO may further delegate within the delegations specified by the Board. The CEO is accountable to the Board for the exercise of those delegated powers.

### DIRECTOR APPOINTMENT, ROTATION AND SUCCESSION PLANNING

The Company's Constitution authorises the Board to appoint Directors to fill casual vacancies and to elect the Chair. Any Director appointed by the Board must stand for election at the next Annual General Meeting of shareholders.

One third of Directors (excluding the CEO and any Director appointed to fill a casual vacancy, and rounded down to the nearest whole number) must retire at every Annual General Meeting. In addition, no Director (other than the CEO) may remain in office for more than three years or beyond the third Annual General Meeting following appointment without retiring and being re-elected by shareholders.

The Company provides shareholders with information that is material to a shareholder's decision regarding whether to elect or re-elect a Director.

The Nominations Committee assists the Board to identify potential candidates for appointment to the Board, as required.

As part of the process for identifying potential Director candidates, the Board undertakes background checks. Where appropriate, the Board seeks external advice on suitable candidates.

All new Directors receive an appointment letter setting out the terms of their appointment including details of their role, Committee memberships (if any), re-election requirements and their expected time commitments.

### DIRECTOR INDUCTION AND CONTINUING EDUCATION

The Company provides an induction program for all new Directors. As part of this program, a comprehensive induction pack is provided containing materials to enable the Directors to understand their rights, duties and responsibilities as a Director of the Company. Meetings between key management and the new Director are scheduled so that the Director has an opportunity to further develop his or her understanding of the Company's businesses, key issues, strategy and operations.

The Board's development activities aim to provide regular updates on each of the Fairfax Group's significant activities and industry trends. Regular presentations are made by senior management and, where appropriate external experts.

### ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

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

## BOARD COMMITTEES

### NOMINATIONS COMMITTEE

The Board Nominations Committee operates under a formal Charter.

The primary responsibilities of the Committee include:

- to make recommendations to the Board from time to time for changes that the Committee believes to be desirable to the size or composition of the Board;
- to identify individuals believed to be qualified to become Board members and to recommend such candidates to the Board. In nominating candidates, the Committee shall take into consideration such factors as it deems appropriate. These factors may include judgement, skill, diversity, the candidates independence as measured against the criteria set out in the Board Charter, experience with businesses and other organisations of comparable size and nature, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and any Committees of the Board;
- to identify Board members qualified to fill vacancies on any Committee of the Board (including the Nominations Committee) and to recommend that the Board appoint the identified member or members to the respective Committee;
- to recommend to the Chairman of the Board the appropriate process for evaluation of the performance of each director and the Board as a whole; and
- any other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the nomination of Board and Committee members, or corporate governance.

The Committee is comprised solely of independent Non-Executive Directors.

## AUDIT AND RISK COMMITTEE

The Audit and Risk Committee operates in accordance with a Charter which sets out its role and functions.

The primary responsibilities of the Committee include to:

- recommend to the Board the appointment of the external auditor, review its performance independence and effectiveness, approve the auditors' fees arrangements and enforce the company's Charter of Audit Independence;
- ensure that appropriate systems of control are in place to effectively safeguard the value of the Company's assets;
- ensure accounting records are maintained in accordance with statutory and accounting requirements;
- formulate policy for Board approval and oversee the key finance and treasury functions;
- formulate and oversee an effective business risk plan;
- ensure that appropriate policies and procedures are in place with the goal to ensure compliance with all regulatory requirements;
- monitor the entity's compliance with all regulatory and ethical requirements;
- identify and monitor current and emerging corporate social responsibility trends, risks and opportunities and ensuring that the Board is kept up to date with market and investor expectations on corporate social responsibility activities;
- oversee the Group's compliance with corporate governance and legal requirements in relation to corporate social responsibility issues and related reporting;
- ensure there is an appropriate framework for compliance with all legal and Australian Securities Exchange requirements;
- review the external audit process with the external auditor including in the absence of management;
- review the performance of internal audit and have input into the performance review and remuneration of the Internal Audit Manager;
- recommend to the Board the appointment and dismissal of the Internal Audit Manager;
- review and approve the internal audit plan;
- receive internal audit summaries of significant reports prepared by internal audit;
- meet with the Internal Audit Manager, including in the absence of management if considered necessary; and
- deal with such matters as the Committee deems necessary to carry out the functions set out above.

Under its Charter, all members of the Committee must be Non-Executive Directors. The Chair of the Committee is required to be independent and have relevant financial expertise and may not be the Chair of the Board.

## PEOPLE AND CULTURE COMMITTEE

The Board People and Culture Committee, operates under a formal People and Culture Committee Charter.

The primary responsibilities of the Committee are to:

- oversee the development and implementation of the human resources strategy with reference to the appropriate resources, policies and procedures that are in place or being developed to support the achievement of the Company's strategy;
- promote a safe working culture;
- drive high performance in executives and management by providing effective policies and programs (including remuneration) having regard to the creation of value for shareholders and the external market;
- undertake the appropriate performance management, development planning and succession management programs to enable talented, motivated and engaged people to be available to achieve the Company strategy;
- oversee the direction for the Fairfax Group's commitment to building a sustainable future for the Fairfax Group which includes operating its business sustainably (financially and otherwise), responsibly and ethically;
- comply with the relevant listing rules, legal and regulatory body requirements, and good governance practices; and
- report to shareholders in line with required legislation and standards.

Under its Charter all members of the Committee must be independent Non-Executive Directors.

# CORPORATE GOVERNANCE

## COMPANY SECRETARY

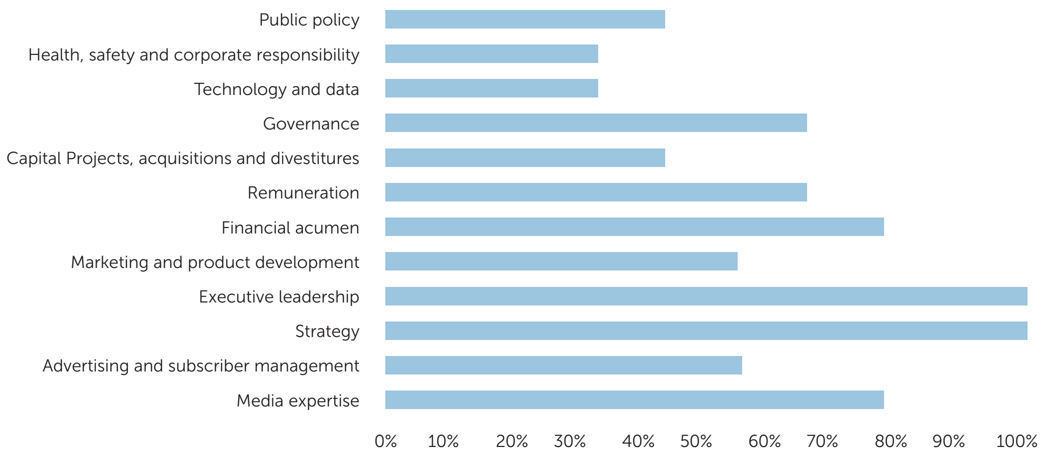
The Company Secretary is accountable to the Board through the Chairman on all matters relating to the proper functioning of the Board. The qualifications and experience of the Company Secretary are set out on page 25.

## PERFORMANCE EVALUATION

### BOARD SKILLS

The Board benefits from the combination of the different skills, experiences and expertise that Directors bring to the Board and the insights that result from this diversity.

The following chart summarises the skills, attributes and experience of the Company's Directors. Percentages are determined as at the date of this report.




**Media Expertise:** Expertise and experience in the media industry at a senior level.

**Advertising and subscriber management:** Expertise and experience at a senior level in advertising, advertising sales and subscriber and customer management.

**Strategy:** Expertise in the development and implementation of strategic plans and risk management to deliver investor returns over time.

**Executive leadership:** Experienced and successful leadership at a senior executive level of large organisations.

**Marketing and product development:** Expertise and senior executive experience in marketing and new media marketing metrics and tools.

**Financial acumen:** Expertise in understanding financial accounting and reporting, corporate finance and internal financial controls, including an ability to probe the adequacies of financial and risk controls.

**Remuneration:** Experience in remuneration design to drive business success.

**Capital projects, acquisitions and divestitures:** Experience in evaluating and implementing projects involving large-scale financial commitments, investment horizons and major transactions.

**Governance:** Knowledge and experience of high standards of corporate governance, including ASX Listing Rules and practices.

**Technology and data:** Expertise and experience in the adoption of new technology and technology projects and in the use of data and data analytics to drive successful sales, marketing and business development.

**Health, safety and corporate responsibility:** Expertise related to workplace health and safety, environmental, community and social responsibility.

**Public policy:** Experience in public and regulatory policy, including how it affects corporations.

### EVALUATION OF BOARD, COMMITTEES AND DIRECTORS

The Board conducts a review of its structure, composition and performance annually. Performance evaluations of all individual Directors, the Board and each Committee, as well as governance processes that support the Board's work, are reviewed on a regular basis. This review process may include discussions between the Chairman and each Director individually and the Board together, and the Board may seek external advice to assist in the review process from time-to-time.

Performance reviews of the Board, its Committees and Directors were conducted in FY17. As part of this review, the Chairman conducted discussions with each member of the Board individually and the Board together regarding the performance of the Board and its Committees and Board succession plans.

### SENIOR EXECUTIVES

Fairfax's senior executives are employed under individual employment contracts setting out the terms of their employment.

Senior management performance reviews are undertaken each year. The executive's performance is measured against his or her KPIs set at the beginning of the year. The CEO undertakes performance reviews with each of his direct reports. The CEO's performance review is undertaken by the Chairman in consultation with the Board. In accordance with this process, performance evaluations were conducted during FY17.

# CORPORATE GOVERNANCE

## REMUNERATION

Information about the Company's remuneration policies and practices for Non-Executive Directors, the CEO and other senior executives, and their remuneration during FY17, are set out in the Remuneration Report on pages 29 to 48.

## RISK MANAGEMENT AND INTEGRITY OF FINANCIAL REPORTING

### RISK MANAGEMENT FRAMEWORK

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

The risk management process seeks to provide a consistent approach to identifying, assessing, and reporting risks, including those related to Company performance, reputation, safety, environment, internal control, compliance and other risk areas.

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

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

- the Board, with the support of the Audit and Risk Committee, annually assesses the risk management framework to satisfy itself that it continues to be sound;
- risks are assessed at least annually and revised periodically for each division through the business planning, budgeting, forecasting, reporting, internal audit and performance management processes;
- the Board, through the Audit and Risk Committee, receives regular reports from management (and independent advisers where appropriate) on key risk areas such as treasury, health, safety and environment, regulatory compliance, taxation, finance and internal audit and the effectiveness of the risk management system;
- formal risk assessments are required as part of business case approvals for projects or initiatives of a significant nature. Project teams are responsible for managing the risks identified and all material projects are further monitored by the senior management group; and
- under the direction of the Audit and Risk Committee, Internal Audit conducts a program of internal process control reviews over key areas, based on the materiality of the process to the Fairfax Group. Internal Audit also provides assurance over the internal control assessments undertaken by management.

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

During FY17, the Board assessed the risk management framework and is satisfied that it continues to be sound.

### INTERNAL AUDIT

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

### MATERIAL RISKS

The Company assesses material exposure to economic, environmental and social sustainability risks on an annual basis and determines how they are to be managed.

Like all media companies globally, the Company is subject to the ongoing structural shift away from print advertising and fragmentation of the advertising market.

Fairfax has taken strategic action to transform its business in the face of these challenges. The Company addresses the issues of financial, social and environmental sustainability in its Sustainability Report beginning on page 11.

# CORPORATE GOVERNANCE

DECLARATIONS FROM THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

The Board receives written declarations from the CEO and the Chief Financial Officer (CFO) in relation to the half-year and full-year that in their opinion:

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

(b) the financial statements and associated notes gives a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Company in accordance with Australian Accounting Standards and the Corporation Act 2001, and is free of material misstatements, including omissions;

(c) the financial records of the Company have been kept so as to be sufficient to enable a financial report to be prepared and audited, and other records and registers required by the Corporations Act 2001 have been properly kept and are up-to-date; and

(d) that the statements made above are founded on a sound system of financial risk management and internal compliance and control, which is operating effectively.

These declarations to the Board are underpinned by the requirement for appropriate senior executives to provide a signed letter of representation addressed to the CEO and CFO 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 Fairfax Group.

## CHARTER OF AUDIT INDEPENDENCE

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

## CODE OF CONDUCT

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

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

The Fairfax Code of Conduct aims to:

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

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

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

# CORPORATE GOVERNANCE

## MARKET DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

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

### MARKET DISCLOSURE

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

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

The CEO, CFO and Group General Counsel/Company Secretary are designated Disclosure Officers. They are responsible for reviewing potential disclosures and, in consultation with the Chairman and the Board, deciding what information is disclosed.

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

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

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

### SHAREHOLDER COMMUNICATIONS

The Company actively encourages timely and ongoing shareholder communications and operates an investor relationships program that facilitates two-way communications with investors.

To ensure ready access for shareholders to information about the Company, Company announcements, Annual Reports, analyst and investor briefings, financial results and other information useful to investors such as press releases are placed on the Company's website at www.fairfaxmedia.com.au as soon as practicable after their release to the ASX (where release is required). Several years' worth of historical financial information is available on the website. Webcasts and recordings of results announcements and investor briefings can be accessed on the website for a period of time.

The full text of Notices of Meetings and the accompanying explanatory materials are posted on the website for each Annual General Meeting. The Chair's and the CEO's addresses, proxy counts and results of shareholder resolutions at the meeting are also posted on the website as soon as practicable after their release to the ASX.

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

Shareholders are also able to send communications to, and receive communications from, Fairfax and its share registry electronically.

## TRADING IN COMPANY SECURITIES

Fairfax has adopted a Securities Trading Policy, which regulates dealings in Fairfax securities by Directors and senior employees to ensure that trading only occurs when the market is fully informed. The Policy sets out blackout periods when no trading is to be undertaken by Directors and senior employees and a process for authorisation of trading at other teims.

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

# CORPORATE GOVERNANCE

## DIVERSITY

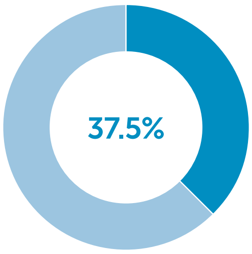
Fairfax is committed to creating a workplace that is fair and inclusive and reflects the diversity of the communities in which we operate. Fairfax values, respects and encourages diversity of Board members, employees, customers and suppliers. The Company believes diversity includes but is not limited to age, gender, race, ethnicity, religion, or sexuality. Accordingly, Fairfax has adopted Diversity and Inclusion Guidelines to establish the framework within which it will promote diversity and inclusion, including the requirement for the People and Culture Committee to endorse measurable objectives for the year and to annually review the objectives and progress towards achieving them.

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

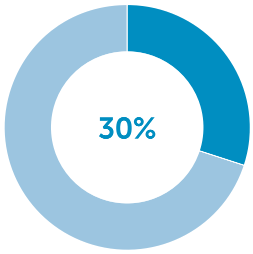
Encouraging diversity and inclusion broadens the pool for the recruitment of talented employees, enhances retention and supports innovation. Increasing the focus on high quality employees supports the Company to improve its financial performance and achieve its strategic objectives.

Last year, the Company set a new target of achieving 35% of females in senior management positions by 2018. The representation of females at a senior level has marginally declined over the past year.

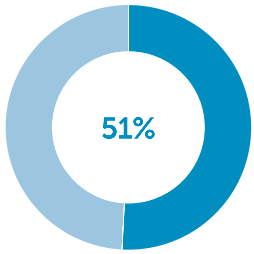
The Company's workforce gender demographics were:




PROPORTION OF WOMEN WHO ARE NON-EXECUTIVE DIRECTORS ON THE BOARD




PROPORTION OF WOMEN WHO ARE IN SENIOR MANAGEMENT




PROPORTION OF WOMEN ACROSS ORGANISATION

Fairfax continues to focus on gender diversity, and in 2016 Greg Hywood (CEO) joined the Male Champions of Change (MCC) Institute, established in 2010 by Elizabeth Broderick, the former Sex Discrimination Commissioner. The movement for gender equality has historically been a struggle for women by women. Engaging influential men to step up beside women to take action on gender inequality presents an untapped opportunity. The CEO will continue to be an advocate and champion for redefining the role men play in taking action on gender inequality at Fairfax.

Recognising the significance of domestic violence in our communities and the need to support all affected employees, Fairfax introduced a Domestic Violence Awareness Program in 2016 and a Domestic & Family Violence Policy in 2017. The program focused on four key areas: policy, education, awareness and accreditation. The policy outlines measures in place to support and assist employees in the workplace. This is in addition to the support provided by the Employee Assistance Program (EAP), The Fairfax Media Helpline (FMHelp) and The Fairfax Foundation during times of crisis.

The Company continues to run the annual Fairfax Women of Influence Awards launched in 2013. The award recognises and celebrates exceptional women from right across Fairfax who use their influence to achieve great things. In 2016, the awards comprisd of five categories: agenda setter, emerging leader, customer centric leader, leadership champion, and innovation champion. The judging panel included members of the Board Executive team. The program continues to raise the leadership profiles of females across the business.

Fairfax has continued in its efforts to have a senior female included in all panels for senior executive roles and at least one female candidate in the shortlist for senior roles.

A number of employment terms are in place to positively impact on women's participation in the workforce, such as flexible working arrangements. The Company has submitted and is compliant with the Workplace Gender Equality Act 2012 report in Australia.

This Corporate Governance Statement is current as at 16 August 2017 and has been approved by the Board of Fairfax.

## OUR APPROACH TO TAX

Fairfax is committed to managing taxes in a sustainable manner with regard to the commercial and social imperatives of our business and stakeholders. The Company operates under a Board approved Tax Corporate Governance framework which is designed to ensure taxes are managed in compliance with tax law. The Board does not sanction or support any activities which seek to aggressively structure the Company's tax affairs.

Fairfax has committed to the adoption of the principles contained in the Board of Taxation's Voluntary Tax Transparency Code for FY17. In accordance with this Code, the Company will publish details of the taxes it pays in its Tax Paid Report, on its website http://www.fairfaxmedia.com.au/company/corporate-governance, as soon as the report is available.

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## TRADING OVERVIEW

For the financial year 2017, Fairfax Media Group reported an underlying net profit (excluding significant items) of $142.6 million. Underlying operating earnings before interest, tax, depreciation and amortisation (EBITDA) of $271.1 million was 4.3% below last year.

Domain Group EBITDA of $113.1 million was 6% lower, reflecting our strategic decision to continue to invest in Domain through a period of constrained listings cycle in H1. Domain delivered 19% growth in digital revenue. The transition to a digital business weighed on print revenue which declined 13% for the year.

Domain's operating expenses increased 17% for the year, and 9% excluding the impact of acquisitions and one-offs. Digital expenses increased 34% (19% excluding costs associated with our early-stage utilities connections businesses and one-offs). This reflected continued investment in staff, technology and product. Print expenses declined 6% which reflects the implementation of efficiencies, somewhat offset by investment in Domain's new magazine format.

The Australian Metro Media segment revenue declined 9% with publishing advertising revenue down 17%. Overall circulation revenue was stable, benefiting from strong growth in paid digital subscriptions. Other revenue declined 9% reflecting the sale of Tenderlink and lower growth from Events. After three years of rapid expansion, Events is focused on consolidating its portfolio and optimising for profitability.

The 12% reduction in Metro publishing costs for the year reflected an acceleration in cost-out in the H2. The 14% cost improvement in H2 was partly attributable to early benefits from the Australian Metro Publishing restructure announced in April 2017.

Australian Community Media revenue declined 11%. Advertising revenue was down 12% reflecting 2% growth in agriculture-related advertising, offset by weakness in national and classifieds advertising. Circulation revenue declined 11%, reflecting lower retail volumes.

ACM's cost improvement of 9% reflected the achievement of the remaining transformation benefits and continued cost savings initiatives.

New Zealand Media total revenue (in local currency) was down 7% with digital revenue growth of 29%. Print advertising was impacted by weakness in retail, motors and leisure categories. Circulation revenue declined 5% for the year with stabilisation in H2 reflecting improvements in yield.

New Zealand's ongoing cost management delivered a 6% reduction in operating expenses, notwithstanding further investment in digital, underpinning stable margins.

Stuff is New Zealand's leading local website with an audience of 2.1 million, which has increased 11% year-on-year. This strong audience position is further bolstered by social platform Neighbourly's 810,000 monthly audience. Neighbourly achieved profitability in H2.

Fairfax's 54.5% shareholding in the ASX-listed Macquarie Media Limited made a solid EBITDA contribution of $31.5 million. Macquarie Media revenue was down 1%, which was broadly consistent with the market. Cost and operational synergies, together with licence fee relief in H2, delivered 26% uplift in EBITDA and improvement in EBITDA margin from 18% to 23%.

## FINANCIAL POSITION

Underlying operating earnings before interest and tax (EBIT) of $230.3 million was 8% above last year. Depreciation and amortisation decreased 42% for continuing businesses to $40.7 million.

The 2017 financial year recorded significant items amounting to a loss net of tax totalling $58.7 million for the Group. This included impairment of intangibles, plant and equipment of $28.9 million, and restructuring and redundancy costs of $32.8 million. The majority of these expenses relate to the publishing businesses, in particular Australian Metro Media and Australian Community Media.

Non-controlling interest of $13.6 million for continuing businesses included the 45.5% of Macquarie Media Limited that Fairfax does not own, as well as minority interests in the Domain agent ownership model including MMP.

Net cash inflow from operating activities was $192.7 million which increased $64.9 million year-on-year benefiting from a reduction in redundancy payments of $29.8 million and income taxes paid of $22.6 million. Net cash outflow included capital expenditure of $106.6 million and dividends paid of $103.7 million. Cash and cash equivalents increased $31.8 million

Net debt was $118.0 million at 25 June 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## RECONCILIATION OF STATUTORY TO UNDERLYING PERFORMANCE

| | NOTES | AS REPORTED | | SIGNIFICANT ITEMS (iii) | | TRADING PERFORMANCE EXCLUDING SIGNIFICANT ITEMS | |
|---|---|---|---|---|---|---|---|
| | | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
| Total revenue | (i) | **1,742,656** | 1,830,511 | **10,060** | - | **1,732,596** | 1,830,511 |
| Associate profits | | **(614)** | 1,575 | **-** | - | **(614)** | 1,575 |
| Expenses | | **(1,545,481)** | (2,763,808) | **(84,552)** | (1,215,045) | **(1,460,929)** | (1,548,763) |
| OPERATING EBITDA | | **196,561** | (931,722) | **(74,492)** | (1,215,045) | **271,053** | 283,323 |
| Depreciation and amortisation | | **(40,718)** | (70,102) | **-** | - | **(40,718)** | (70,102) |
| EBIT | | **155,843** | (1,001,824) | **(74,492)** | (1,215,045) | **230,335** | 213,221 |
| Net finance costs | (ii) | **(9,834)** | (11,117) | **-** | - | **(9,834)** | (11,117) |
| **Net profit/(loss) before tax** | | **146,009** | (1,012,941) | **(74,492)** | (1,215,045) | **220,501** | 202,104 |
| Tax (expense)/benefit | | **(48,857)** | 250,642 | **15,481** | 309,808 | **(64,338)** | (59,166) |
| **Net profit/(loss) after tax** | | **97,152** | (762,299) | **(59,011)** | (905,237) | **156,163** | 142,938 |
| Net (profit)/loss attributable to non-controlling interest | | **(13,241)** | (10,277) | **360** | 156 | **(13,601)** | (10,433) |
| **Net profit/(loss) attributable to members of the Company** | | **83,911** | (772,576) | **(58,651)** | (905,081) | **142,562** | 132,505 |
| **Earnings per share (cents)** | | **3.6** | (33.3) | | | **6.2** | 5.7 |

Notes:

(i) Revenue from ordinary activities excluding interest income.

(ii) Finance costs less interest income.

(iii) Significant items are those items of such a nature or size that separate disclosure will assist users to understand the accounts. Refer to Note 4 for further details of the significant items which relate to impairments, restructuring and redundancy charges and gains and losses on controlled entities and investments.

## RECONCILIATION OF STATUTORY TO UNDERLYING PERFORMANCE

| | **25 JUNE 2017 $'000's** | 26 JUNE 2016 $'000's |
|---|---|---|
| Cash Flow from trading activities | **261,339** | 245,417 |
| Redundancy Payments | **(33,476)** | (63,325) |
| Interest and divdends received | **7,843** | 15,991 |
| Finance costs and income paid | **(43,048)** | (70,374) |
| **Net cash flow from operating activities** | **192,658** | 127,709 |

# CONSOLIDATED INCOME STATEMENT

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 |
|---|---|---|---|
| Revenue from operations | 2(A) | **1,713,800** | 1,810,771 |
| Other revenue and income | 2(B) | **35,030** | 26,880 |
| TOTAL REVENUE AND INCOME | | **1,748,830** | 1,837,651 |
| Share of net (loss)/profits of associates and joint ventures | 8(C) | **(614)** | 1,575 |
| Expenses from operations excluding impairment, depreciation, amortisation and finance costs | 3(A) | **(1,511,357)** | (1,610,721) |
| Depreciation and amortisation | 3(B) | **(40,718)** | (70,102) |
| Impairment of intangibles, investments, property, plant and equipment and other assets | | **(34,124)** | (1,153,087) |
| Finance costs | 3(C) | **(16,008)** | (18,257) |
| **Net profit/(loss) from operations before income tax expense** | | **146,009** | (1,012,941) |
| Income tax (expense)/benefit | 25 | **(48,857)** | 250,642 |
| **Net profit/(loss) from operations after income tax expense** | | **97,152** | (762,299) |
| **Net profit/(loss) is attributable to:** | | | |
| Non-controlling interest | | **13,241** | 10,277 |
| Owners of the parent | | **83,911** | (772,576) |
| | | **97,152** | (762,299) |
| **Earnings per share (cents per share)** | | | |
| Basic earnings per share (cents per share) | 20 | **3.6** | (33.3) |
| Diluted earnings per share (cents per share) | 20 | **3.6** | (33.3) |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 |
|---|---|---|---|
| Net profit/(loss) after income tax expense | | **97,152** | (762,299) |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that may be reclassified to profit or loss: | | | |
| Changes in fair value of available for sale financial assets | | **482** | (729) |
| Changes in fair value of cash flow hedges | | **(821)** | 691 |
| Changes in value of net investment hedges | | **-** | (1,071) |
| Exchange differences on translation of foreign operations | | **1,637** | 18,828 |
| Income tax relating to these items | 25 | **671** | 849 |
| Items that will not be reclassified to profit or loss: | | | |
| Actuarial gain/(loss) on defined benefit plans | | **505** | (651) |
| Income tax relating to these items | 25 | **(151)** | 187 |
| **Other comprehensive income for the period, net of tax** | | **2,323** | 18,104 |
| **Total comprehensive income for the period** | | **99,475** | (744,195) |
| **Total comprehensive income is attributable to:** | | | |
| Non-controlling interest | | **13,241** | 10,277 |
| Owners of the parent | | **86,234** | (754,472) |
| | | **99,475** | (744,195) |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES AS AT 25 JUNE 2017

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 RESTATED* $'000 | 28 JUNE 2015 RESTATED* $'000 |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 29(B) | **112,921** | 81,110 | 342,830 |
| Trade and other receivables | 10 | **299,041** | 339,484 | 314,719 |
| Inventories | 11 | **25,101** | 29,620 | 26,333 |
| Derivative assets | 16 | **9,238** | - | - |
| Assets held for sale | 7(A) | **8,444** | 14,804 | 70,947 |
| Income tax receivable | | **-** | 4,879 | 3,528 |
| Other financial assets | | **-** | - | 1,384 |
| **Total current assets** | | **454,745** | 469,897 | 759,741 |
| NON-CURRENT ASSETS | | | | |
| Receivables | 10 | **7,897** | 3,126 | 822 |
| Investments accounted for using the equity method | 8 | **48,654** | 70,977 | 95,831 |
| Available for sale investments | | **2,399** | 2,246 | 2,276 |
| Intangible assets | 9 | **824,735** | 809,638 | 1,700,291 |
| Property, plant and equipment | 14 | **177,681** | 150,335 | 330,189 |
| Derivative assets | 16 | **-** | 15,152 | 16,902 |
| Deferred tax assets | 25 | **46,552** | 41,299 | - |
| Pension assets | | **1,428** | 892 | 1,429 |
| Other financial assets | 24 | **95,742** | 59,387 | 16,625 |
| **Total non-current assets** | | **1,205,088** | 1,153,052 | 2,164,365 |
| **Total assets** | | **1,659,833** | 1,622,949 | 2,924,106 |
| CURRENT LIABILITIES | | | | |
| Payables | 12 | **233,452** | 250,774 | 244,730 |
| Interest bearing liabilities | 15 | **94,538** | - | 27,101 |
| Derivative liabilities | 16 | **169** | - | 3,912 |
| Liabilities directly associated with held for sale assets | 7(B) | **248** | 456 | 187 |
| Provisions | 13 | **104,008** | 111,471 | 136,716 |
| Current tax liabilities | | **21,706** | 4,271 | 22,038 |
| **Total current liabilities** | | **454,121** | 366,972 | 434,684 |
| NON-CURRENT LIABILITIES | | | | |
| Interest bearing liabilities | 15 | **144,910** | 179,312 | 255,858 |
| Derivative liabilities | 16 | **-** | 4,015 | 7,137 |
| Provisions | 13 | **59,491** | 53,391 | 51,949 |
| Deferred tax liabilities | 25 | **23,502** | 20,502 | 260,078 |
| Pension liabilities | | **-** | 2 | - |
| Other non-current liabilities | | **87** | 6,364 | 11,339 |
| **Total non-current liabilities** | | **227,990** | 263,586 | 586,361 |
| **Total liabilities** | | **682,111** | 630,558 | 1,021,045 |
| **NET ASSETS** | | **977,722** | 992,391 | 1,903,061 |
| EQUITY | | | | |
| Contributed equity | 18 | **4,605,326** | 4,597,340 | 4,650,798 |
| Reserves | 18 | **31,118** | 33,744 | 21,034 |
| Retained losses | | **(3,793,032)** | (3,761,899) | (2,888,132) |
| **Total parent entity interest** | | **843,412** | 869,185 | 1,783,700 |
| Non-controlling interest | | **134,310** | 123,206 | 119,361 |
| **TOTAL EQUITY** | | **977,722** | 992,391 | 1,903,061 |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers (inclusive of GST) | | **1,945,036** | 2,000,756 |
| Payments to suppliers and employees (inclusive of GST) | | **(1,683,697)** | (1,755,339) |
| Redundancy payments | | **(33,476)** | (63,325) |
| Interest received | | **1,414** | 5,536 |
| Dividends and distributions received | | **6,429** | 10,455 |
| Finance costs paid | | **(14,625)** | (19,390) |
| Net income taxes paid | | **(28,423)** | (50,984) |
| **Net cash inflow from operating activities** | 29(A) | **192,658** | 127,709 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payment for purchase of controlled entities, associates and joint ventures (net of cash acquired) | | **(12,203)** | (43,880) |
| Payment for purchase of businesses | | **(1,150)** | (2,183) |
| Payment for property, plant, equipment and software | | **(106,579)** | (94,954) |
| Proceeds from sale of property, plant and equipment | | **10,128** | 68,527 |
| Proceeds from sale of controlled entities, associates and joint ventures net of transaction fees and cash disposed | | **28,736** | 3,644 |
| Loans advanced to other parties | | **(35,500)** | (36,700) |
| Loans repaid by other parties | | **-** | 1,412 |
| **Net cash outflow from investing activities** | | **(116,568)** | (104,134) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings and other financial liabilities | | **79,773** | 50,390 |
| Repayment of borrowings and other financial liabilities | | **(18,440)** | (160,243) |
| Payment for on market buy-back | | **-** | (73,912) |
| Payment for shares acquired by share trust | | **(1,707)** | (1,524) |
| Dividends paid to shareholders | 19 | **(91,980)** | (93,522) |
| Dividends paid to non-controlling interests in subsidiaries | | **(11,696)** | (7,629) |
| **Net cash outflow from investing activities** | | **(44,050)** | (286,440) |
| NET DECREASE/(INCREASE) IN CASH AND CASH EQUIVALENTS HELD | | **32,040** | (262,865) |
| Cash and cash equivalents at beginning of the financial year | | **81,110** | 342,830 |
| Reclassification to held for sale | 7(A) | **(62)** | (250) |
| Effect of exchange rate changes on cash and cash equivalents | | **(167)** | 1,395 |
| **Cash and cash equivalents at end of the financial year** | 29(B) | **112,921** | 81,110 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | | RESERVES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CONTRIBUTED EQUITY (NOTE 18) $'000 | ASSET REVALUATION RESERVE (NOTE 18) $'000 | ACQUISITION RESERVE (NOTE 18) $'000 | FOREIGN CURRENCY TRANSLATION RESERVE (NOTE 18) $000 | CASHFLOW HEDGE RESERVE (NOTE 18) $000 | NET INVESTMENT HEDGE RESERVE (NOTE 18) $000 | SHARE-BASED PAYMENT RESERVE (NOTE 18) $000 | GENERAL RESERVE (NOTE 18) $000 | TOTAL RESERVES $000 | RETAINED LOSSES $000 | NON-CONTROLLING INTEREST $000 | TOTAL EQUITY $000 |
| BALANCE AT 26 JUNE 2016 | **4,597,340** | **(34)** | **157,829** | **(106,923)** | **(1,687)** | **(18,072)** | **9,468** | **(6,837)** | **33,744** | **(3,761,899)** | **123,206** | **992,391** |
| Profit for the period | - | - | - | - | - | - | - | - | - | 83,911 | 13,241 | 97,152 |
| Other comprehensive income | | 336 | - | 1,637 | (4) | - | - | - | 1,969 | 354 | - | 2,323 |
| **Total comprehensive income for the period** | **-** | **336** | **-** | **1,637** | **(4)** | **-** | **-** | **-** | **1,969** | **84,265** | **13,241** | **99,475** |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | | | |
| Shares acquired by share trust | (1,192) | - | - | - | - | - | - | - | - | - | - | (1,192) |
| Dividends paid to shareholders | - | - | - | - | - | - | - | - | - | (91,980) | - | (91,980) |
| Dividends paid to non-controlling interests in subsidiaries | - | - | - | - | - | - | - | - | - | - | (11,696) | (11,696) |
| Non-controlling interest arising on business | - | - | - | - | - | - | - | - | - | - | 4,737 | 4,737 |
| Recognition of non-controlling interest in subsidiaries | - | - | (3,945) | - | - | - | - | - | (3,945) | - | 5,896 | 1,951 |
| Derecognition of non-controlling interest in subsidiaries | - | - | 1,074 | - | - | - | - | - | 1,074 | - | (1,074) | - |
| Release of shares from escrow | 4,930 | - | - | - | - | - | - | - | - | - | - | 4,930 |
| Release of employee incentive shares | 4,248 | - | - | - | - | - | (5,056) | - | (5,056) | (23,418) | - | (24,226) |
| Share-based payments, net of tax | - | - | - | - | - | - | 3,332 | - | 3,332 | - | - | 3,332 |
| **Total transactions with owners** | **7,986** | **-** | **(2,871)** | **-** | **-** | **-** | **(1,724)** | **-** | **(4,595)** | **(115,398)** | **(2,137)** | **(114,144)** |
| BALANCE AT 25 JUNE 2017 | **4,605,326** | **302** | **154,958** | **(105,286)** | **(1,691)** | **(18,072)** | **7,744** | **(6,837)** | **31,118** | **(3,793,032)** | **134,310** | **977,722** |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | | RESERVES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CONTRIBUTED EQUITY (NOTE 18) $'000 | ASSET REVALUATION RESERVE (NOTE 18) $'000 | ACQUISITION RESERVE (NOTE 18) $'000 | FOREIGN CURRENCY TRANSLATION RESERVE (NOTE 18) $000 | CASHFLOW HEDGE RESERVE (NOTE 18) $000 | NET INVESTMENT HEDGE RESERVE (NOTE 18) $000 | SHARE-BASED PAYMENT RESERVE (NOTE 18) $000 | GENERAL RESERVE (NOTE 18) $000 | TOTAL RESERVES $000 | RETAINED LOSSES RESTATED* $000 | NON-CONTROLLING INTEREST $000 | TOTAL EQUITY RESTATED* $000 |
| BALANCE AT 28 JUNE 2015 | **4,650,798** | **477** | **158,336** | **(125,751)** | **(2,672)** | **(17,338)** | **14,819** | **(6,837)** | **21,034** | **(2,888,132)** | **119,361** | **1,903,061** |
| (Loss)/profit for the period | - | - | - | - | - | - | - | - | - | (772,576) | 10,277 | (762,299) |
| Other comprehensive income | - | (511) | - | 18,828 | 985 | (734) | - | - | 18,568 | (464) | - | 18,104 |
| **Total comprehensive income for the period** | - | **(511)** | **-** | **18,828** | **985** | **(734)** | **-** | **-** | **18,568** | **(773,040)** | **10,277** | **(744,195)** |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | | | |
| Shares acquired and cancelled as part of on market buy-back | (73,912) | - | - | - | - | - | - | - | - | - | - | (73,912) |
| Shares acquired by share trust | (1,067) | - | - | - | - | - | - | - | - | - | - | (1,067) |
| Dividends paid to shareholders | - | - | - | - | - | - | - | - | - | (93,522) | - | (93,522) |
| Dividends paid to non-controlling interests in subsidiaries | - | - | - | - | - | - | - | - | - | - | (7,629) | (7,629) |
| Acquisition of non-controlling interest | - | - | (40) | - | - | - | - | - | (40) | - | (18) | (58) |
| Non-controlling interest arising on business combination | - | - | - | - | - | - | - | - | - | - | 748 | 748 |
| Recognition of non-controlling interest in subsidiaries | - | - | (467) | - | - | - | - | - | (467) | - | 467 | - |
| Release of shares from escrow | 4,930 | - | - | - | - | - | - | - | - | - | - | 4,930 |
| Release of employee incentive shares | 16,591 | - | - | - | - | - | (9,386) | - | (9,386) | (7,205) | - | - |
| Share-based payments, net of tax | - | - | - | - | - | - | 4,035 | - | 4,035 | - | - | 4,035 |
| **Total transactions with owners** | **(53,458)** | **-** | **(507)** | **-** | **-** | **-** | **(5,351)** | **-** | **(5,858)** | **(100,727)** | **(6,432)** | **(166,475)** |
| BALANCE AT 26 JUNE 2016 | **4,597,340** | **(34)** | **157,829** | **(106,923)** | **(1,687)** | **(18,072)** | **9,468** | **(6,837)** | **33,744** | **(3,761,899)** | **123,206** | **992,391** |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

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

# NOTES TO THE FINANCIAL STATEMENTS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fairfax Media Limited is a for profit company limited by ordinary shares which are publicly traded on the Australian Securities Exchange. The financial report includes the consolidated entity consisting of Fairfax Media Limited and its controlled entities.

### (A) BASIS OF PREPARATION

This financial report is for the period 27 June 2016 to 25 June 2017 (2016: the period 29 June 2015 to 26 June 2016). Reference in this report to 'a year' is to the period ended 25 June 2017 or 26 June 2016 respectively, unless otherwise stated. The financial report is a general-purpose financial report. It has been prepared:

- in accordance with the requirements of the Corporations Act 2001; Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board; the financial report also complies with International Financial Reporting Standards (IFRS) as issued by the Accounting Standards Board;
- the financial report also complies with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board;
- on a historical cost basis, except for those assets and liabilities disclosed in Note 17(E) which are measured at fair value; and
- the company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

### (B) SIGNIFICANT JUDGEMENTS AND ESTIMATES

The carrying amounts of certain assets and liabilities are determined based on estimates and assumptions of future events. The key estimates and assumptions which are material to the financial report are found in the following notes:

- Note 6: Business combinations, acquisition and disposal of controlled entities
- Note 8: Investments accounted for using the equity method
- Note 9: Intangible assets
- Note 13: Provisions
- Note 24: Other financial assets
- Note 25: Taxation
- Note 26: Employee entitlements

### (C) SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

During the current financial year, the financial position and performance of the group was particularly affected by the following events and transactions:

- On 31 October 2016, the Group sold its Tenderlink business to Dun & Bradstreet Australia (Refer to Note 6).
- On 19 January 2017, the Group sold Radio 2CH Pty Limited to Oceania Capital Partners (Refer to Note 6).

For a detailed discussion about the Group's performance and financial position please refer to the Management Discussion and Analysis.

### (D) CHANGE OF ACCOUNTING POLICY

Through historical business combinations, arising both pre and post the transition to IFRS, the Group has recognised a number of indefinite life assets which include mastheads and radio licenses. In accounting for these transactions, management applied a common accounting policy for the determination of deferred taxes on indefinite life assets considering them to be non-depreciable, and accordingly a related deferred tax liability was not recognised.

On identification of divergent practice arising the matter was taken to IFRS Interpretation Committee (IFRIC). IFRIC acknowledged the diversity in practice and in November 2016 IFRIC issued a final agenda decision clarifying that indefinite life assets are subject to consumption by the entity, it is just that the entity cannot reliably predict the time period over which the asset will be consumed. IFRIC therefore concluded that the assumption of sale could not be presumed in calculating the deferred tax on indefinite life intangibles and the normal principles of AASB 112 needed to be applied.

As a consequence of this decision the Company has amended its accounting policy to comply with the revised guidance and have determined that the manner of recovery for the majority of the Group's indefinite life intangibles is held for use. The impact of the restatement is to as follows:

| | 26 JUNE 2016 REPORTED $'000 | AMENDMENT $'000 | 26 JUNE 2016 RESTATED $'000 |
|---|---|---|---|
| STATEMENT OF FINANCIAL POSITION | | | |
| Intangible assets | 754,282 | 55,356 | **809,638** |
| Deferred tax assets | 117,854 | (76,555) | **41,299** |
| Deferred tax liabilities | - | 20,502 | **20,502** |
| Retained losses | (3,720,198) | (41,701) | **(3,761,899)** |
| STATEMENT OF COMPREHENSIVE INCOME | | | |
| Impairment of intangibles, investments, property, plant and equipment and other assets | (1,050,518) | (102,569) | **(1,153,087)** |
| Income tax benefit | 27,186 | 223,456 | **250,642** |
| Net loss from operations after income tax expense | (883,186) | 120,887 | **(762,299)** |
| EARNINGS PER SHARE | | | |
| Basic earnings per share | (38.5) | 5.2 | **(33.3)** |
| Diluted earnings per share | (38.2) | 4.9 | **(33.3)** |

| | 28 JUNE 2015 REPORTED $'000 | AMENDMENT $'000 | 28 JUNE 2015 RESTATED $'000 |
|---|---|---|---|
| STATEMENT OF FINANCIAL POSITION | | | |
| Intangible assets | 1,542,366 | 157,925 | **1,700,291** |
| Deferred tax assets | 60,436 | (60,436) | **-** |
| Deferred tax liabilities | - | 260,078 | **260,078** |
| Retained losses | (2,725,543) | (162,589) | **(2,888,132)** |

The accounting policy changes did not have an impact on other comprehensive income or the Group's operating, investing or financing cashflows.

All other accounting policies are consistent with the previous financial year.

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

## 2. REVENUES

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|---|
| (A) REVENUE FROM OPERATIONS | | | |
| Total revenue from sale of goods * | | **452,603** | 478,310 |
| Total revenue from services | | **1,261,197** | 1,332,461 |
| **Total revenue from operations** | | **1,713,800** | 1,810,771 |
| (B) OTHER REVENUE AND INCOME | | | |
| Interest income | | **6,174** | 7,140 |
| Gains on sale of property, plant and equipment | | **847** | 4,234 |
| Gains on sale of intangibles | | **34** | 2,904 |
| Gains on sale of controlled entities and investments | | **7,316** | - |
| Gain on investment at fair value | 6(A) | **2,744** | - |
| Lease revenue | | **14,592** | 9,718 |
| Other | | **3,323** | 2,884 |
| **Total other revenue and income** | | **35,030** | 26,880 |
| **Total revenue and income** | | **1,748,830** | 1,837,651 |

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

### ACCOUNTING POLICY

Revenue from advertising, circulation and subscription for newspapers, magazines and other publications is recognised on the publication date. Revenue from the provision of advertising on websites is recognised in the period the advertisements are placed or when the impression occurs. Revenue from the provision of property listings on websites is recognised over the period the listing is placed or the period until the agent withdraws the listing (eg. on sale or rental). Revenue from radio advertising is recognised when the programme is aired. Revenue from commission is recognised on an accruals basis in accordance with the substance of the relevant agreement. Amounts disclosed as revenue are net of commissions, rebates, discounts and returns which are recognised when they can be reliably measured.

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

## 3. EXPENSES

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| (A) EXPENSES BEFORE IMPAIRMENT, DEPRECIATION, AMORTISATION AND FINANCE COSTS | | |
| Staff costs excluding staff redundancy costs | **670,743** | 718,055 |
| Redundancy costs | **31,575** | 35,659 |
| Newsprint and paper | **92,450** | 106,824 |
| Distribution costs | **129,512** | 138,602 |
| Production costs | **154,909** | 151,470 |
| Promotion and advertising costs | **96,247** | 99,429 |
| Rent and outgoings | **62,199** | 60,100 |
| Repairs and maintenance | **24,198** | 26,297 |
| Outsourced services | **25,739** | 27,542 |
| Communication costs | **15,637** | 18,357 |
| Maintenance and other computer costs | **47,421** | 43,563 |
| Fringe benefits tax, travel and entertainment | **22,239** | 26,007 |
| Other | **138,488** | 158,816 |
| **Total expenses before impairment, depreciation, amortisation and finance costs** | **1,511,357** | 1,610,721 |
| (B) DEPRECIATION AND AMORTISATION | | |
| Depreciation of freehold property | **2,012** | 5,163 |
| Depreciation of plant and equipment | **14,850** | 36,198 |
| Depreciation of leasehold property | **2,744** | 4,237 |
| Amortisation of software | **16,297** | 17,318 |
| Amortisation of customer relationships and tradenames | **4,815** | 7,186 |
| **Total depreciation and amortisation** | **40,718** | 70,102 |
| (C) FINANCE COSTS | | |
| External parties borrowing costs | **16,217** | 17,212 |
| Finance lease | **-** | 1,208 |
| Hedge ineffectiveness | **(209)** | (163) |
| **Total finance costs** | **16,008** | 18,257 |
| (D) OTHER EXPENSE DISCLOSURES | | |
| Operating lease rental expense | **52,648** | 49,198 |
| Defined contribution superannuation expense | **48,175** | 50,409 |
| Share-based payment expense | **4,760** | 5,755 |

### ACCOUNTING POLICY

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.

## 4. SIGNIFICANT ITEMS

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

| | 25 JUNE 2017 $'000 | 26 JUNE 2016 RESTATED* $'000 |
|---|---|---|
| IMPAIRMENT OF INTANGIBLES, INVESTMENTS, AND PROPERTY, PLANT AND EQUIPMENT - COMPRISING: | | |
| Impairment of intangibles, property, plant and equipment and other assets due to CGU testing (i) | **(15,843)** | (1,091,650) |
| Impairment of intangibles, investments, and property, plant and equipment (ii) | **(17,829)** | (60,666) |
| Income tax benefit | **4,743** | 291,440 |
| **Impairment of intangibles, investments, and property, plant and equipment, net of tax** | **(28,929)** | (860,876) |
| RESTRUCTURING AND REDUNDANCY – COMPRISING: | | |
| Restructuring and redundancy charges | **(43,754)** | (62,729) |
| Income tax benefit | **10,940** | 18,368 |
| **Restructuring and redundancy, net of tax** | **(32,814)** | (44,361) |
| GAINS AND LOSSES ON CONTROLLED ENTITIES AND INVESTMENTS - COMPRISING: | | |
| Gain on sale of controlled entities and investments disclosed in other revenue and income | **7,316** | - |
| Gain on investment at fair value disclosed in other revenue and income | **2,744** | - |
| Loss on disposal of controlled entities disclosed in other expenses | **(267)** | - |
| Loss on recognition of put option over subsidiary shares (iii) | **(7,800)** | - |
| Income tax benefit | **80** | - |
| **Gains on controlled entities and investments, net of tax** | **2,073** | - |
| OTHER SIGNIFICANT ITEMS - COMPRISING: | | |
| Other significant items (iv) | **941** | - |
| Income tax expense | **(282)** | - |
| **Other, net of tax** | **659** | - |
| **Net significant items after income tax** | **(59,011)** | (905,237) |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

(i) Cash Generating Unit (CGU) impairment testing resulted in impairments of $15.8 million for for Australian Regional Media.

The asset classes impaired through this testing are as follows:

- Intangibles $14.7 million; and
- Property, plant and equipment $1.1 million.

(ii) Impairments to other intangible assets of $2.9 million, property plant and equipment of $0.4 million and equity accounted investments of $14.4 million were recognised due to the following:

- decisions to exit certain businesses and properties during the period; and
- deterioration in the longer term forecasts of certain businesses due to current period forecasts not being achieved and/or declines in markets in which they operate.

These changes led to a re-assessment of the carrying value of the relevant assets to ensure the carrying value does not exceed the assets recoverable amount. Where the recoverable amount was determined to be less than the carrying value an impairment charge has been recognised in the period.

(iii) Fairfax has granted a put option to the remaining shareholder over their ownership interest in a consolidated entity. The holder of the put option has the right to "put" their shares to Fairfax at any time. The purchase consideration payable under the put option is based on the fair value of the shareholding as determined by an independent valuer. The put option is immediately exerciseable and has therefore been classified as a current liability as at 25 June 2017. Should the put option be exercised at the current time, the Group has estimated the potential payment under the put option would be $7.8 million. The estimate of the put option fair value includes a number of judgements and estimates and therefore the fair value and potential timing of any payment (should it be exercised) may vary. As a result of the recognition of the put option the associated non-controlling interest on the investment was derecognised.

(iv) Other significant items consists of retrospective ACMA licence fee reduction for the year ended 26 June 2016 for the Macquarie Media Group.

## ACCOUNTING POLICY

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

## 5. SEGMENT REPORTING

### (A) DESCRIPTION OF SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors, CEO and CFO in assessing performance and in determining the allocation of resources.

| REPORTABLE SEGMENT | PRODUCTS AND SERVICES |
|---|---|
| Domain Group | Real estate media and services business - providing residential, commercial and rural property marketing solutions and search tools, plus information for buyers, investors, sellers, renters and agents Australia-wide. |
| Metropolitan Media | Metropolitan news, sport, lifestyle and business media across various platforms including print, online, tablet and mobile. Also includes classifieds for metropolitan publications, digitally focused assets and transactional businesses. |
| Australian Community Media | Newspaper publishing and online for all Australian regional, community and agricultural media. |
| New Zealand Media | Newspaper, magazine and general publishing and online for all New Zealand media. |
| Radio | Metropolitan radio networks in Australia. |
| Other | Comprises corporate and other entities not included in the segments above. |

### (B) RESULTS BY OPERATING SEGMENT

The segment information provided to the Board of Directors, CEO and CFO for the reportable segments for the period ended 25 June 2017 and 26 June 2016 is as follows:

| | SEGMENT REVENUE $'000 | INTERSEGMENT REVENUE $'000 | **REVENUE FROM EXTERNAL CUSTOMERS $'000** | SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES $'000 | **UNDERLYING EBIT $'000** |
|---|---|---|---|---|---|
| 25 JUNE 2017 | | | | | |
| Domain Group | 320,328 | - | **320,328** | (1,206) | **96,377** |
| Metropolitan Media | 522,162 | - | **522,162** | 134 | **44,116** |
| Australian Community Media | 428,168 | - | **428,168** | 1,391 | **67,535** |
| New Zealand Media | 310,625 | - | **310,625** | 71 | **41,916** |
| Radio | 136,981 | - | **136,981** | 207 | **28,204** |
| Other | 14,332 | - | **14,332** | (1,211) | **(47,813)** |
| **Total for the Group** | 1,732,596 | - | **1,732,596** | (614) | **230,335** |

| | SEGMENT REVENUE $'000 | INTERSEGMENT REVENUE $'000 | **REVENUE FROM EXTERNAL CUSTOMERS $'000** | SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES $'000 | **UNDERLYING EBIT $'000** |
|---|---|---|---|---|---|
| 26 JUNE 2016 | | | | | |
| Domain Group | 296,589 | (257) | **296,332** | (625) | **107,846** |
| Metropolitan Media | 574,134 | - | **574,134** | 421 | **13,835** |
| Australian Community Media | 485,130 | (3) | **485,127** | 1,784 | **74,354** |
| New Zealand Media | 322,564 | (4) | **322,560** | (1,175) | **43,404** |
| Radio | 138,565 | - | **138,565** | (3) | **22,356** |
| Other | 13,793 | - | **13,793** | 1,173 | **(48,574)** |
| **Total for the Group** | 1,830,775 | (264) | **1,830,511** | 1,575 | **213,221** |

## (C) OTHER SEGMENT INFORMATION

### (i) SEGMENT REVENUE

Segment revenue reconciles to total revenue and income as follows:

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| Total segment revenue from external customers | **1,732,596** | 1,830,511 |
| Interest income | **6,174** | 7,140 |
| Gains on controlled entities and investments | **10,060** | - |
| **Total revenue and income** | **1,748,830** | 1,837,651 |

Transactions between operating segments relating to management charges are on third party terms.

The consolidated entity operates predominantly in two geographic segments, Australia and New Zealand. The amount of its revenue from external customers in Australia is $1,422.9 million (2016: $1,505.6 million) and the amount of revenue from external customers in New Zealand is $309.7 million (2016: $324.9 million). Segment revenues are allocated based on the country in which the customer is located.

### (ii) SEGMENT RESULT - EBIT

The Board of Directors, CEO and CFO assess the performance of the operating segments based on a measure of underlying EBIT.

A reconciliation of underlying EBIT to operating profit before income tax is provided as follows:

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 |
|---|---|---|
| UNDERLYING EBIT | **230,335** | 213,221 |
| Interest income | **6,174** | 7,140 |
| Finance costs | **(16,008)** | (18,257) |
| Gains on controlled entities and investments in other revenue and income | **10,060** | - |
| Loss on disposal of controlled entities disclosed in other expenses | **(267)** | - |
| Loss on revalution of put option over subsidiary shares in other expenses | **(7,800)** | - |
| Impairment of intangibles, property, plant and equipment and other assets | **(33,672)** | (1,152,316) |
| Restructuring and redundancy charges | **(43,754)** | (62,729) |
| Other | **941** | - |
| **Reported net profit/(loss) before tax** | **146,009** | (1,012,941) |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

A summary of significant items by operating segments is provided for the period ended 25 June 2017 and 26 June 2016.

| | IMPAIRMENT OF INTANGIBLES, INVESTMENTS AND PROPERTY, PLANT AND EQUIPMENT RESTATED* $'000 | RESTRUCTURING AND REDUNDANCY CHARGES $'000 | GAIN ON LOSSES ON CONTROLLED ENTITIES AND INVESTMENTS $'000 | OTHER $'000 | **TOTAL RESTATED* $'000** |
|---|---|---|---|---|---|
| 25 JUNE 2017 | | | | | |
| Domain Group | - | - | | - | **-** |
| Metropolitan Media | (13,513) | - | (1,812) | - | **(15,325)** |
| Australian Community Media | (15,843) | - | 1,215 | - | **(14,628)** |
| New Zealand Media | (442) | - | 2,744 | - | **2,302** |
| Radio | (866) | (937) | (267) | 941 | **(1,129)** |
| Other | (3,008) | (42,817) | 113 | - | **(45,712)** |
| **Consolidated entity** | (33,672) | (43,754) | 1,993 | 941 | **(74,492)** |
| 26 JUNE 2016 | | | | | |
| Domain Group | - | - | - | - | **-** |
| Metropolitan Media | (514,514) | - | - | - | **(514,514)** |
| Australian Community Media | (521,428) | - | - | - | **(521,428)** |
| New Zealand Media | (101,266) | - | - | - | **(101,266)** |
| Radio | (489) | (375) | - | - | **(864)** |
| Other | (14,619) | (62,354) | - | - | **(76,973)** |
| **Consolidated entity** | (1,152,316) | (62,729) | - | - | **(1,215,045)** |

(iii) SEGMENT ASSETS

Information provided to the Board of Directors, CEO and CFO in respect of assets and liabilities is presented on a group basis consistent with the consolidated financial statements.

The total of non-current assets other than financial instruments, deferred tax assets and employment benefit assets (there are no rights arising under insurance contracts) located in Australia is $869.3 million (2016: $862.7 million) and the total of these non-current assets located in New Zealand is $192.1 million (2016: $173.6 million). Segment assets are allocated to countries based on where the assets are located.

## ACCOUNTING POLICY

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenue and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to assess performance, make resource allocation decisions and for which discrete financial information is available.

Information about other business activities and operating segments that are below the quantitative criteria as prescribed by AASB 8 are combined and disclosed in a separate category for "Other segments".

## 6. BUSINESS COMBINATIONS, ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

### (A) ACQUISITIONS

The Group gained control over the following entities during the year:

| ENTITY OR BUSINESS ACQUIRED | PRINCIPAL ACTIVITY | DATE OF ACQUISITION | OWNERSHIP INTEREST |
|---|---|---|---|
| Thought World Pty Ltd (i) | Utility comparison and connection service | 6 July 2016 | 50% |
| Neighbourly Limited (ii) | Private neighbourhood website service | 1 December 2016 | 70% |

(i) Following the incorporation of Residential Connections Pty Ltd, the business assets of Thought World Pty Ltd were acquired.

(ii) The Group previously owned 45% of Neighbourly Limited (New Zealand). On 1 December 2016 an additional 25% ownership interest was acquired and the Group gained control of Neighbourly Limited. The initial equity interest was remeasured to fair value resulting in a gain of $2.7m recognised within Other Revenue and Income in Note 2.

The fair values of the identifiable assets and liabilities acquired are detailed below.

| | RECOGNISED ON ACQUISITION $'000 |
|---|---|
| VALUE OF NET ASSETS ACQUIRED | |
| Receivables | 663 |
| Intangible assets | 2,340 |
| Other assets | 393 |
| **Total assets** | **3,396** |
| Payables | (952) |
| Other liabilities | (304) |
| **Total liabilities** | **(1,256)** |
| VALUE OF IDENTIFIABLE NET ASSETS | 2,140 |
| Fair value of original equity accounted investment | (7,105) |
| Non-controlling interest recognised on acquisition | (4,737) |
| Goodwill arising on acquisition | 16,749 |
| **Total identifiable net assets and goodwill attributable to the Group** | **7,047** |
| PURCHASE CONSIDERATION | |
| Cash paid | 5,097 |
| Shares issued, at fair value | 1,950 |
| **Total purchase consideration** | **7,047** |
| NET CASH OUTFLOW ON ACQUISITION | |
| Net cash acquired with subsidiary | - |
| Cash paid | (5,097) |
| **Net cash outflow** | **(5,097)** |

As a result of these acquisitions, the consolidated income statement includes revenue and net profit before tax for the period ended 25 June 2017 of $13.0 million and $1.3 million respectively. Had the acquisitions occurred at the beginning of the reporting period, the consolidated income statement would have included revenue and net profit before tax of $14.6 million and $1.7 million respectively.

Goodwill of $16.7 million includes the acquired workforces and future growth opportunities.

AASB 3 Business Combinations allows a measurement period after a business combination to provide the acquirer a reasonable time to obtain the information necessary to identify and measure all of the various components of the business combination as of the acquisition date. The period cannot exceed one year from the acquisition date.

### ACCOUNTING POLICY

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be a liability is recognised in accordance with AASB 139 in the income statement.

## (B) DISPOSALS

The Group gained control over the following entities during the year:

| ENTITY OR BUSINESS DISPOSED | PRINCIPAL ACTIVITY | DATE OF DISPOSAL | OWNERSHIP INTEREST |
|---|---|---|---|
| Fairfax Media Operations Limited | Tender notification service provider | 31 October 2016 | 100% |
| Radio 2CH Pty Limited | Radio broadcaster | 19 January 2017 | 55% |

For the above entities, the major classes of assets and liabilities disposed were as follows:

| | $'000 |
|---|---|
| Cash and cash equivalents | 1,449 |
| Trade and other receivables | 1,617 |
| Intangible assets | 20,033 |
| Property, plant and equipment | 2,125 |
| Deferred tax assets | 150 |
| **Total assets** | **25,374** |
| Payables | 5,277 |
| Provisions | 359 |
| Deferred tax liabilities | 157 |
| **Total liabilities** | **5,793** |
| **Net assets** | **19,581** |
| SALE CONSIDERATION | |
| Cash received | **23,809** |
| Deferred cash consideration | **2,000** |
| **Total sale consideration** | **25,809** |
| Disposal costs | (507) |
| **Gains on sale of controlled entities** | **5,721** |

## 7. ASSETS AND LIABILITIES HELD FOR SALE

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| (A) ASSETS HELD FOR SALE | | |
| Property, plant and equipment | **5,738** | 10,118 |
| Satellite Music Australia Pty Limited business | | |
| Intangible assets | **1,788** | - |
| Other assets | **918** | - |
| Radio 2CH Pty Limited business | | |
| Intangible assets | **-** | 4,003 |
| Property, plant and equipment | **-** | 70 |
| Other assets | **-** | 613 |
| **Total assets held for sale** | **8,444** | 14,804 |
| (B) LIABILITIES DIRECTLY ASSOCIATED WITH HELD FOR SALE ASSETS | | |
| Satellite Music Australia Pty Limited business | | |
| Other liabilities | **248** | - |
| Radio 2CH Pty Limited business | | |
| Other liabilities | **-** | 456 |
| **Total liabilities directly associated with held for sale assets** | **248** | 456 |

### PROPERTY, PLANT AND EQUIPMENT

Assets held for sale comprise properties in Australia and New Zealand that are being actively marketed and for which the sale is highly probable. During 2017, 11 properties previously held for sale were sold.

Prior to being transferred to held for sale, the properties are remeasured at the lower of carrying amount and fair value less costs to sell.

### RADIO 2CH PTY LIMITED BUSINESS

On 19 January 2017, the sale of Radio 2CH Pty Limited was completed.

### ACCOUNTING POLICY

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

## 8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|---|
| Shares in associates | (A) | **35,025** | 49,132 |
| Shares in joint ventures | (B) | **13,629** | 21,845 |
| **Total investments accounted for using the equity method** | | **48,654** | 70,977 |

### (A) INTERESTS IN ASSOCIATES

| NAME OF COMPANY | PRINCIPAL ACTIVITY | PLACE OF INCORPORATION | OWNERSHIP INTEREST **25 JUNE 2017** | OWNERSHIP INTEREST 26 JUNE 2016 |
|---|---|---|---|---|
| Australian Associated Press Pty Ltd | News agency business and information service | Australia | **47.0%** | 47.0% |
| Healthshare Pty Ltd | Information technology tools for healthcare practitioners and consumers | Australia | **28.2%** | 28.2% |
| Kin Community ANZ Pty Limited (i) (ii) | Digital media publisher | Australia | **50.0%** | - |
| Nabo Community Pty Ltd | Local community social network | Australia | **23.7%** | 25.2% |
| Oneflare Pty Ltd | Home services marketplace | Australia | **35.0%** | 35.0% |
| RSVP.com.au Pty Limited (ii) | Online dating services | Australia | **57.5%** | 57.5% |
| Skoolbo Pty Ltd | Online education provider | Singapore | **18.5%** | 20.0% |

(i) This investment was acquired on 31 August 2016.

(ii) The Group does not have control of this company as it is not exposed, or has rights, to variable returns from its involvement with the investee and does not have the ability to affect those returns through its power over the investee.

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| (i) SHARE OF ASSOCIATES' PROFITS | | |
| Revenue | **19,853** | 47,099 |
| Profit before income tax expense | **150** | 1,941 |
| Income tax expense | **(116)** | (109) |
| **Net profit after income tax expense** | **34** | 1,832 |
| (ii) SHARE OF ASSOCIATES' ASSETS AND LIABILITIES | | |
| Current assets | **26,037** | 30,202 |
| Non-current assets | **38,872** | 37,832 |
| **Total assets** | **64,909** | 68,034 |
| Current liabilities | **9,457** | 12,231 |
| Non-current liabilities | **2,929** | 2,582 |
| **Total liabilities** | **12,386** | 14,813 |

## (B) INTERESTS IN JOINT VENTURES

| NAME OF COMPANY | PRINCIPAL ACTIVITY | PLACE OF INCORPORATION | OWNERSHIP INTEREST **25 JUNE 2017** | OWNERSHIP INTEREST 26 JUNE 2016 |
|---|---|---|---|---|
| Adzuna Australia Pty Ltd (iii) | Job advertisements search engine | Australia | **46.4%** | 46.4% |
| Future Foresight Group Pty Ltd | Weather safety and risk information provider | South Africa | **50.0%** | 50.0% |
| Gippsland Regional Publications Partnership | Newspaper publishing and printing | Australia | **50.0%** | 50.0% |
| Homepass Pty Ltd (iii) | Open for inspection platform | Australia | **33.8%** | 33.8% |
| Neighbourly Limited (iv) | Private neighbourhood website service | New Zealand | **70.0%** | 45.0% |
| Stan Entertainment Pty Ltd | Provider of subscription video on demand | Australia | **50.0%** | 50.0% |
| The Huffington Post Australia Pty Ltd | Online news website | Australia | **49.0%** | 49.0% |
| Torch Publishing Company Pty Ltd (v) | Newspaper publishing and printing | Australia | **-** | 50.0% |

(iii) This investment is classified as a joint venture, rather than an associate, as all significant decisions require unanimous consent.

(iv) Control was obtained on 1 December 2016 when the Group acquired an additional 25% ownership interest. The results of the entity have been consolidated from this date.

(v) This investment was disposed on 27 September 2016.

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| (I) SHARE OF JOINT VENTURES' LOSSES | | |
| Revenues | **13,664** | 14,790 |
| Expenses | **(14,361)** | (15,077) |
| **Loss before income tax expense** | **(697)** | (287) |
| Income tax benefit | **49** | 30 |
| **Net loss after income tax expense** | **(648)** | (257) |
| (II) SHARE OF JOINT VENTURES' ASSETS AND LIABILITIES | | |
| Current assets | **83,872** | 49,578 |
| Non-current assets | **17,080** | 70,485 |
| **Total assets** | **100,952** | 120,063 |
| Current liabilities | **40,052** | 40,271 |
| Non-current liabilities | **142,711** | 108,212 |
| **Total liabilities** | **182,763** | 148,483 |

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

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| (Loss)/profit before income tax expense | **(547)** | 1,654 |
| Income tax expense | **(67)** | (79) |
| **Net (loss)/profit after income tax expense** | **(614)** | 1,575 |

The Group's cumulative share of losses of associates and joint ventures not recognised is $76.5 million. The Group's current year share of losses of associates and joint ventures not recognised is $36.3 million (2016: $38.2 million). These losses are not recognised as the carrying value of these investments is nil.

### ACCOUNTING POLICY

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

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

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

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

#### IMPAIRMENT OF ASSETS

Investments accounted for using the equity method are tested for impairment at each reporting date where there is an indication that the asset may be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

## 9. INTANGIBLE ASSETS

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 |
|---|---|---|
| Mastheads and tradenames | **230,585** | 241,901 |
| Goodwill | **375,036** | 379,114 |
| Radio licences | **108,066** | 108,066 |
| Software | **61,987** | 27,432 |
| Customer relationships | **49,061** | 53,125 |
| **Total intangible assets** | **824,735** | 809,638 |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

### ACCOUNTING POLICY

#### MASTHEADS AND TRADENAMES

The Group's mastheads and tradenames operate in established markets with limited licence conditions and are expected to continue to complement the Group's new media initiatives. On this basis, the Directors have determined that the majority of mastheads and tradenames have indefinite useful lives as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. These assets are not amortised but are tested for impairment annually. Tradenames that have been assessed to have a definite useful life and are amortised using a straight-line method over twenty years.

#### GOODWILL

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill is not amortised but is tested for impairment annually.

#### RADIO LICENCES

Radio licences consist of commercial radio licences held by the consolidated entity under the provisions of the Broadcasting Services Act 1992 and have been assessed as having indefinite useful lives as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. These assets are not amortised but are tested for impairment annually.

#### SOFTWARE, DATABASES AND WEBSITES

Internal and external costs directly incurred in the purchase or development of software or databases are capitalised as intangible assets, including subsequent upgrades and enhancements, when it is probable that they will generate future economic benefits attributable to the Group. Software licences and databases are amortised on a straight-line basis over their useful lives, which are between three and six years.

Internal and external costs directly incurred in the development of websites are capitalised as intangible assets and amortised on a straight-line basis over their useful lives, which are between two and four years.

#### CUSTOMER RELATIONSHIPS

Customer relationships purchased in a business combination are amortised on a straight-line basis over their useful lives, which are between two and thirteen years.

#### IMPAIRMENT OF ASSETS

Intangibles are tested for impairment where there is an indication that the asset may be impaired. Goodwill and other indefinite life assets are further tested at least annually in June each year. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment whenever there is an indication of a potential reversal and at least annually.

## RECONCILIATIONS

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

| | NOTE | MASTHEADS & TRADENAMES $'000 | GOODWILL RESTATED* $'000 | RADIO LICENCES $'000 | SOFTWARE $'000 | CUSTOMER RELATIONSHIPS $'000 | **TOTAL RESTATED* $'000** |
|---|---|---|---|---|---|---|---|
| PERIOD ENDED 26 JUNE 2016 | | | | | | | |
| Balance at beginning of the financial year | | 986,343 | 488,729 | 112,069 | 53,649 | 59,501 | **1,700,291** |
| Additions | | - | - | - | 41,282 | 122 | **41,404** |
| Capitalisations from works in progress | 14 | - | - | - | 494 | - | **494** |
| Disposals | | - | - | - | (1,031) | - | **(1,031)** |
| Assets classified as held for sale | | - | - | (4,003) | - | - | **(4,003)** |
| Acquisition through business combinations | | - | 4,566 | - | 181 | 1,880 | **6,627** |
| Adjustments through purchase price accounting | | - | 792 | - | - | - | **792** |
| Amortisation | 3(B) | (663) | - | - | (17,318) | (6,523) | **(24,504)** |
| Impairment | | (754,154) | (115,389) | - | (50,658) | (1,899) | **(922,100)** |
| Exchange differences | | 10,375 | 416 | - | 833 | 44 | **11,668** |
| **At 26 June 2016, net of accumulated amortisation and impairment** | | 241,901 | 379,114 | 108,066 | 27,432 | 53,125 | **809,638** |
| AT 26 JUNE 2016 | | | | | | | |
| Cost | | 3,837,034 | 1,987,022 | 137,729 | 272,294 | 69,642 | **6,303,721** |
| Accumulated amortisation and impairment | | (3,595,133) | (1,607,908) | (29,663) | (244,862) | (16,517) | **(5,494,083)** |
| **Net carrying amount** | | 241,901 | 379,114 | 108,066 | 27,432 | 53,125 | **809,638** |

| | NOTE | MASTHEADS & TRADENAMES $'000 | GOODWILL RESTATED* $'000 | RADIO LICENCES $'000 | SOFTWARE $'000 | CUSTOMER RELATIONSHIPS $'000 | **TOTAL RESTATED* $'000** |
|---|---|---|---|---|---|---|---|
| PERIOD ENDED 25 JUNE 2017 | | | | | | | |
| Balance at beginning of the financial year | | 241,901 | 379,114 | 108,066 | 27,432 | 53,125 | **809,638** |
| Additions | | - | - | - | 51,319 | - | **51,319** |
| Disposals | | - | - | - | (57) | - | **(57)** |
| Disposal of controlled entities | | (484) | (15,641) | - | (184) | (583) | **(16,892)** |
| Assets classified as held for sale | | - | (1,788) | - | - | - | **(1,788)** |
| Acquisition through business combinations | | 9 | 16,749 | - | 1,506 | 825 | **19,089** |
| Amortisation | 3(B) | (371) | - | - | (16,297) | (4,444) | **(21,112)** |
| Impairment | | (11,270) | (3,381) | - | (1,968) | - | **(16,619)** |
| Exchange differences | | 800 | (17) | - | 236 | 138 | **1,157** |
| **At 25 June 2017, net of accumulated amortisation and impairment** | | 230,585 | 375,036 | 108,066 | 61,987 | 49,061 | **824,735** |
| AS AT 25 JUNE 2017 | | | | | | | |
| Cost | | 3,832,916 | 1,986,203 | 137,729 | 262,334 | 68,608 | **6,287,790** |
| Accumulated amortisation and impairment | | (3,602,331) | (1,611,167) | (29,663) | (200,347) | (19,547) | **(5,463,055)** |
| **Net carrying amount** | | 230,585 | 375,036 | 108,066 | 61,987 | 49,061 | **824,735** |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

### (i) INDEFINITE LIVED INTANGIBLE ASSETS: IMPAIRMENT TESTING

Goodwill and intangible assets with indefinite useful lives have been allocated to the following cash generating units (CGUs) for impairment testing purposes. In the prior year, Domain Group was created as a CGU as a result of it being reported as a separate segment as detailed in Note 5 and so a reallocation of assets between Metropolitan Media and Domain was performed.

AT 25 JUNE 2017

| | OPERATING SEGMENT | GOODWILL $'000 | LICENCES, MASTHEADS AND TRADENAMES $'000 | **TOTAL $'000** |
|---|---|---|---|---|
| ALLOCATION TO CGU GROUPS | | | | |
| Domain Group | Domain Group | 214,941 | 19,910 | **234,851** |
| Metropolitan Media | Metropolitan Media | - | 40,000 | **40,000** |
| Australian Digital Transactions | Metropolitan Media | 15,579 | 5 | **15,584** |
| Australian Regional Media | Australian Community Media | 10,618 | 37,354 | **47,972** |
| Agricultural Media | Australian Community Media | 8,787 | 29,289 | **38,076** |
| Radio | Radio | 110,677 | 108,066 | **218,743** |
| New Zealand Media | New Zealand Media | 14,434 | 104,027 | **118,461** |
| **Total goodwill, licences, mastheads and tradenames** | | 375,036 | 338,651 | **713,687** |

AT 26 JUNE 2016

| | OPERATING SEGMENT | GOODWILL $'000 | LICENCES, MASTHEADS AND TRADENAMES $'000 | **TOTAL $'000** |
|---|---|---|---|---|
| ALLOCATION TO CGU GROUPS | | | | |
| Domain Group | Domain Group | 212,569 | 20,270 | **232,839** |
| Metropolitan Media | Metropolitan Media | - | 40,000 | **40,000** |
| Australian Digital Transactions | Metropolitan Media | 31,294 | 503 | **31,797** |
| Australian Regional Media | Australian Community Media | 13,999 | 48,624 | **62,623** |
| Agricultural Media | Australian Community Media | 8,787 | 29,289 | **38,076** |
| Radio | Radio | 112,465 | 108,066 | **220,531** |
| New Zealand Media | New Zealand Media | - | 103,215 | **103,215** |
| **Total goodwill, licences, mastheads and tradenames** | | 379,114 | 349,967 | **729,081** |

The recoverable amount of a CGU is determined based on value in use calculations, using a discounted cash flow methodology which requires the use of assumptions. The calculations use cash flow projections based on the annual budget approved by the Board and adjusted cash flow forecasts for up to three years. Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated below.

The cash flow projections are based on the following key assumptions:

| KEY | APPROACH |
|---|---|
| Year 1 cash flows | Based on board approved annual budget. |
| Year 2 - 3 cash flows | • A revenue decline has been assumed for the publishing businesses as management expect a cyclical downturn and structural change to continue. Assumptions have been made in line with past performance and management's expectation of market development.<br>• Revenue growth is assumed in the digital businesses based on market maturity - these assumptions are in line with industry trends and management's expectation of market development.<br>• Expenses expected to decline slightly with continued investment in the growth areas of the business. |
| Long term growth rate | • These rates are consistent with industry forecasts specific to the industry in which the CGU operates. |
| Discount rate | • Reflects current market assessment of the time value of money and the risks specific to the relevant segments and countries in which the CGU operates. |

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

The long term growth rates and post tax discount rates used in the current and prior year calculations are:

PERIOD ENDED 25 JUNE 2017

| | DOMAIN GROUP | METROPOLITAN MEDIA | AUSTRALIAN DIGITAL TRANSACTIONS | AUSTRALIAN REGIONAL MEDIA | AGRICULTURAL MEDIA | RADIO | NZ MEDIA |
|---|---|---|---|---|---|---|---|
| Long term growth rate | 2.5% | - | 3.5% | - | - | 2.5% | - |
| Discount rate | 12.0% | 11.3% | 11.2% | 11.3% | 11.3% | 13.0% | 11.9% |

PERIOD ENDED 26 JUNE 2016

| | DOMAIN GROUP | METROPOLITAN MEDIA | AUSTRALIAN DIGITAL TRANSACTIONS | AUSTRALIAN REGIONAL MEDIA | AGRICULTURAL MEDIA | RADIO | NZ MEDIA |
|---|---|---|---|---|---|---|---|
| Long term growth rate | 2.5% | - | 3.5% | - | - | 2.5% | - |
| Discount rate | 12.3% | 11.1% | 11.5% | 11.1% | 11.1% | 14.0% | 11.6% |

Impairment testing as outlined above resulted in the following:

- Australian Regional Media CGU Group - $19.9 million masthead and goodwill impairments and $5.2 million reversal of masthead impairments

The Australian Regional Media businesses are significantly more exposed to print revenues and therefore acceleration in structural print revenue declines cannot be mitigated or offset by digital growth. These changes have had a significant impact over the three-year projection period as well as on the terminal value resulting in a net impairment to mastheads and goodwill of $14.7 million and property, plant and equipment of $1.1 million.

(ii) RECOVERABLE VALUE OF IMPAIRED CGU'S

The recoverable amount of the Australian Regional Media CGU is $106.6 million based on value in use calculations.

(iii) IMPACT OF A REASONABLY POSSIBLE CHANGE IN KEY ASSUMPTIONS

The calculations are sensitive to changes in key assumptions as set out below:

Australian Regional Media

- Discount rate – increase from 11.3% to 11.8% would result in an impairment of $3.0 million
- Year one cash flow forecasts – reduction of 5% would result in an impairment of $6.1 million
- Terminal cash flow forecasts – reduction of 5% would result in an impairment of $3.9 million
- Terminal growth rates – reduction of 2.5% would result in an impairment of $10.4 million

No headroom exists for the Metropolitan Media, Agricultural Media, New Zealand Media and Radio CGUs. Any increase to the discount rate or reduction to the cash flow forecasts or terminal growth rate would result in an impairment.

For the Australian Digital Transactions and Domain CGUs, adjusting the cashflow forecasts and discount rate for the above key assumptions would not result in an impairment therefore management has concluded that no reasonable possible change in the key assumptions would result in an impairment in respect of these CGUs.

## 10. RECEIVABLES

| | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|
| CURRENT | | |
| Trade debtors* | 253,702 | 296,860 |
| Provision for doubtful debts | (7,105) | (8,275) |
| | 246,597 | 288,585 |
| Prepayments | 17,003 | 19,614 |
| Other | 35,441 | 31,285 |
| **Total current receivables** | 299,041 | 339,484 |
| NON-CURRENT | | |
| Other | 7,897 | 3,126 |
| **Total non-current receivables** | 7,897 | 3,126 |

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

### IMPAIRED TRADE DEBTORS

As at 25 June 2017, trade debtors of the Group with a nominal value of $7.1 million (2016: $8.3 million) were impaired and provided for. No individual amount within the provision for doubtful debts is material. Refer to Note 17(C) for the factors considered in determining whether trade debtors are impaired.

An analysis of trade debtors that are not considered impaired is as follows:

| | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|
| Not past due | 175,759 | 204,386 |
| Past due 0 - 30 days | 57,328 | 56,982 |
| Past due 31 - 60 days | 7,446 | 14,029 |
| Past 60 days | 6,064 | 13,188 |
| | 246,597 | 288,585 |

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

Movements in the provision for doubtful debts are as follows:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | 8,275 | 8,862 |
| Additional provisions | 583 | 945 |
| Receivables written off as uncollectible | (1,770) | (1,616) |
| Other | 17 | 84 |
| **Balance at the end of the financial year** | 7,105 | 8,275 |

### ACCOUNTING POLICY

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

## 11. INVENTORIES

| | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|
| Raw materials and stores - at net realisable value | **17,444** | 22,007 |
| Finished goods - at cost | **7,601** | 7,463 |
| Work in progress - at cost | **56** | 150 |
| **Total inventories** | **25,101** | 29,620 |

During the year, newsprint and paper expense (excluding cartage) of $91.7 million (2016: $105.9 million) was recognised in the income statement.

During the year, no write down (2016: nil) to net realisable value on raw materials and stores was recognised within other expenses in the income statement.

### ACCOUNTING POLICY

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

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

## 12. PAYABLES

| | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|
| Trade and other payables * | **165,258** | 190,724 |
| Income in advance | **56,811** | 57,548 |
| Obligation under put option | **7,800** | - |
| Interest payable | **3,583** | 2,502 |
| **Total current payables** | **233,452** | 250,774 |

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

### OBLIGATION UNDER PUT OPTION

Fairfax has granted a put option to the remaining shareholder over their ownership interest in a consolidated entity. The holder of the put option has the right to "put" their shares to Fairfax at any time. The purchase consideration payable under the put option is based on the fair value of the shareholding as determined by an independent valuer. The put option is immediately exerciseable and has therefore been classified as a current liability as at 25 June 2017. Should the put option be exercised at the current time, the Group has estimated the potential payment under the put option would be $7.8 million. The estimate of the put option fair value includes a number of judgements and estimates and therefore the fair value and potential timing of any payment (should it be exercised) may vary.

### ACCOUNTING POLICY

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

## 13. PROVISIONS

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| CURRENT | | |
| Employee benefits | **81,161** | 85,335 |
| Restructuring and redundancy | **11,599** | 13,521 |
| Property | **6,542** | 5,567 |
| Other | **4,706** | 7,048 |
| **Total current provisions** | **104,008** | 111,471 |
| NON-CURRENT | | |
| Employee benefits | **8,326** | 9,037 |
| Property | **51,165** | 44,354 |
| **Total non-current provisions** | **59,491** | 53,391 |

### RECONCILIATION

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

| | PROPERTY $'000 | RESTRUCTURING AND REDUNDANCY $'000 | OTHER $'000 |
|---|---|---|---|
| PERIOD ENDED 25 JUNE 2017 | | | |
| Balance at beginning of the financial year | 49,921 | 13,521 | 7,048 |
| Additional provision | 15,397 | 31,554 | 2,448 |
| Utilised | (7,615) | (33,476) | (4,790) |
| Exchange differences | 4 | - | - |
| **Balance at end of the financial year** | **57,707** | **11,599** | **4,706** |
| AT 25 JUNE 2017 | | | |
| Current | 6,542 | 11,599 | 4,706 |
| Non-current | 51,165 | - | - |
| **Total provisions, excluding employee benefits** | **57,707** | **11,599** | **4,706** |

## ACCOUNTING POLICY

### PROVISIONS

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

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

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

### (i) EMPLOYEE BENEFITS

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

The employee benefit liability expected to be settled within twelve months from reporting date is recognised in current liabilities. The non-current provision relates to entitlements, including long service leave, which are expected to be payable after twelve months from reporting date and, where material, are measured as the present value of expected future payments to be made in respect of services, employee departures and periods of service. Expected future payments are discounted using market yields at reporting date on corporate 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.

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

### (ii) RESTRUCTURE AND REDUNDANCY

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

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.

### (iii) PROPERTY

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

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

### (iv) OTHER

Other provisions includes defamation and various other costs relating to the business.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| FREEHOLD LAND AND BUILDINGS | | |
| At cost | **145,987** | 157,778 |
| Accumulated depreciation and impairment | **(75,040)** | (76,841) |
| **Total freehold land and buildings** | **70,947** | 80,937 |
| LEASEHOLD IMPROVEMENTS | | |
| At cost | **83,846** | 63,811 |
| Accumulated depreciation and impairment | **(47,007)** | (44,120) |
| **Total leasehold buildings** | **36,839** | 19,691 |
| PLANT AND EQUIPMENT | | |
| At cost | **448,481** | 454,139 |
| Accumulated depreciation and impairment | **(403,662)** | (414,600) |
| **Total plant and equipment** | **44,819** | 39,539 |
| CAPITAL WORKS IN PROGRESS | | |
| At cost | **30,145** | 15,237 |
| Accumulated impairment | **(5,069)** | (5,069) |
| **Total capital works in progress** | **25,076** | 10,168 |
| | | |
| **Total property, plant and equipment** | **177,681** | 150,335 |

## RECONCILIATIONS

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

| | NOTE | CAPITAL WORKS IN PROGRESS $'000 | FREEHOLD LAND & BUILDINGS $'000 | LEASEHOLD BUILDING AND IMPROVEMENTS $'000 | PLANT & EQUIPMENT $'000 | **TOTAL $'000** |
|---|---|---|---|---|---|---|
| AT 28 JUNE 2015 | | | | | | |
| Cost | | 20,286 | 169,358 | 57,661 | 497,360 | **744,665** |
| Accumulated depreciation and impairment | | - | (25,670) | (18,487) | (370,319) | **(414,476)** |
| **Net carrying amount** | | 20,286 | 143,688 | 39,174 | 127,041 | **330,189** |
| PERIOD ENDED 26 JUNE 2016 | | | | | | |
| Balance at beginning of financial year | | 20,286 | 143,688 | 39,174 | 127,041 | **330,189** |
| Additions/capitalisations | | (5,776) | 2,123 | 5,679 | 54,921 | **56,947** |
| Capitalisation to software | 9 | (494) | - | - | - | **(494)** |
| Disposals | | - | (154) | - | (708) | **(862)** |
| Acquisition through business combinations | | - | - | - | 184 | **184** |
| Depreciation | 3(B) | - | (5,163) | (4,237) | (36,198) | **(45,598)** |
| Assets classified as held for sale | | - | (7,891) | - | (346) | **(8,237)** |
| Impairment | | (5,059) | (53,489) | (21,079) | (106,517) | **(186,144)** |
| Exchange differences | | 1,211 | 1,823 | 154 | 1,162 | **4,350** |
| **At 26 June 2016, net of accumulated depreciation and impairment** | | 10,168 | 80,937 | 19,691 | 39,539 | **150,335** |

| | NOTE | CAPITAL WORKS IN PROGRESS $'000 | FREEHOLD LAND & BUILDINGS $'000 | LEASEHOLD BUILDING AND IMPROVEMENTS $000 | PLANT & EQUIPMENT $'000 | **TOTAL $'000** |
|---|---|---|---|---|---|---|
| AT 26 JUNE 2016 | | | | | | |
| Cost | | 15,237 | 157,778 | 63,811 | 454,139 | **690,965** |
| Accumulated depreciation and impairment | | (5,069) | (76,841) | (44,120) | (414,600) | **(540,630)** |
| **Net carrying amount** | | 10,168 | 80,937 | 19,691 | 39,539 | **150,335** |
| PERIOD ENDED 25 JUNE 2017 | | | | | | |
| Balance at beginning of financial year | | 10,168 | 80,937 | 19,691 | 39,539 | **150,335** |
| Additions/capitalisations | | 14,973 | 2,560 | 21,137 | 16,094 | **54,764** |
| Disposals | | - | (272) | (771) | (1,026) | **(2,069)** |
| Acquisition through business | | - | - | - | 27 | **27** |
| Disposal of controlled entities | | (315) | - | - | (200) | **(515)** |
| Depreciation | 3(B) | - | (2,012) | (2,744) | (14,850) | **(19,606)** |
| Assets classified as held for sale | | - | (4,452) | - | - | **(4,452)** |
| Reclasses between asset categories | | - | (6,131) | - | 6,131 | **-** |
| Impairment/reversal of impairment | | - | 123 | (566) | (1,080) | **(1,523)** |
| Exchange differences | | 250 | 194 | 92 | 184 | **720** |
| **At 25 June 2017, net of accumulated depreciation and impairment** | | 25,076 | 70,947 | 36,839 | 44,819 | **177,681** |
| AT 25 JUNE 2017 | | | | | | |
| Cost | | 30,145 | 145,987 | 83,846 | 448,481 | **708,459** |
| Accumulated depreciation and impairment | | (5,069) | (75,040) | (47,007) | (403,662) | **(530,778)** |
| **Net carrying amount** | | 25,076 | 70,947 | 36,839 | 44,819 | **177,681** |

During the current year, a net impairment charge of $1.5 million (2016: $186.1 million) was recorded on property, plant and equipment. Cash generating unit (CGU) impairment testing as referred to in Notes 4 and 9 amounts to $1.1 million of this impairment. The remaining balance of impairment of $0.4 million primarily relates to freehold land and buildings and plant and equipment at various sites.
The impairment was recognised following a review of the fair value less costs to sell.

## ACCOUNTING POLICY

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

### RECOVERABLE AMOUNT

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

### DEPRECIATION AND AMORTISATION

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

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

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

## 15. INTEREST BEARING LIABILITIES

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|---|
| CURRENT INTEREST BEARING LIABILITIES - UNSECURED | | | |
| Bank borrowings | | **3,003** | - |
| Other loans | | | |
| Senior notes | (C) | **91,535** | - |
| **Total current interest bearing liabilities** | | **94,538** | - |
| NON-CURRENT INTEREST BEARING LIABILITIES - UNSECURED | | | |
| Bank borrowings | (B) | **144,910** | 86,452 |
| Other loans | | | |
| Senior notes | (C) | **-** | 92,860 |
| **Total non-current interest bearing liabilities** | | **144,910** | 179,312 |
| NET DEBT | | | |
| Cash and cash equivalents | 29(B) | **(112,921)** | (81,110) |
| Current interest bearing liabilities | | **94,538** | - |
| Non-current interest bearing liabilities | | **144,910** | 179,312 |
| Derivative financial instruments liabilities * | | **(8,560)** | (9,470) |
| **Net debt** | | **117,967** | 88,732 |

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

### (A) FINANCING ARRANGEMENTS

The Group net debt, taking into account all debt related derivative financial instruments, was $118.0 million as at 25 June 2017 (2016: net debt of $88.7 million).

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

### (B) BANK BORROWINGS

A $325.0 million syndicated bank facility (2016: $325.0 million) is available to the Group with maturities in July 2018 and July 2019. At 25 June 2017, $105.0 million was drawn (2016: $30.0 million). The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

A $50.0 million revolving cash advance facility is available to Macquarie Media Limited until March 2019. At 25 June 2017, $40.8 million was drawn (2016: $40.8 million). The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

A NZ$40.0 million revolving cash advance facility is available to the Group until July 2018. At 25 June 2017, nil was drawn (2016: NZ$15.0 million). The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

## (C) SENIOR NOTES

The Group issued senior notes in the US private placement market with a principal value of US$230 million (A$289.8 million) in January 2004 with a fixed coupon of between 4.7% p.a. and 5.9% p.a. payable semi-annually in arrears. The interest and principal on the senior notes are payable in US dollars and were swapped into floating rate New Zealand dollars and floating rate Australian dollars via cross currency swaps. This issue of senior notes comprises maturities ranging from January 2011 to January 2019. The US$230 million of senior notes were all repaid by January 2016.

The Group issued further senior notes in the US private placement market with a principal value of US$250 million (A$308.2 million) in July 2007 comprising maturities ranging from July 2013 to July 2017. At 25 June 2017 the maturity of the remaining issued note is approximately 1 month, with all senior notes repaid by July 2017. The issued note includes fixed and floating rate coupons, paying 7.5% p.a. semi-annually in arrears. The interest and principal on the senior notes are payable in US dollars and were swapped into fixed and floating rate Australian dollars via cross currency swaps. An additional 1.0% p.a. step up margin is payable on the coupons, effective from 10 July 2009.

### ACCOUNTING POLICY

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.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| CURRENT ASSETS | | |
| Cross currency swap - cash flow hedge | **9,238** | - |
| **Total current derivative assets** | **9,238** | - |
| NON-CURRENT ASSETS | | |
| Cross currency swap - cash flow hedge | **-** | 15,152 |
| **Total non-current derivative assets** | **-** | 15,152 |
| CURRENT LIABILITIES | | |
| Interest rate swap - cash flow hedge | **169** | - |
| **Total current derivative liabilities** | **169** | - |
| NON-CURRENT LIABILITIES | | |
| Interest rate swap - cash flow hedge | **-** | 4,015 |
| **Total non-current derivative liabilities** | **-** | 4,015 |

The Group is exposed to interest rate risk on interest bearing assets and liabilities, as well as foreign exchange risk on USD denominated senior notes. The Group uses derivative financial instruments to reduce exposure to these risks.

The Group:

- formally designates hedging instruments against an underlying exposure;
- formally documents the risk management objectives and strategies for undertaking hedge transactions; and
- assess at inception and on a semi-annual basis thereafter, as to whether the derivative financial instruments used in the hedging transactions are effective at offsetting the risks they are designed to hedge.

Value changes in the derivatives are generally offset by changes in the fair value of the cash flows of the underlying exposure.

Any derivatives not formally designated as part of a hedging relationship are fair valued with any changes in fair value recognised in the income statement.

The derivatives entered into are generally highly liquid instruments entered into in the "over the counter" market.

### HEDGING ACTIVITIES

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

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

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.

## CASH FLOW HEDGES - INTEREST RATE AND CROSS CURRENCY SWAPS

At 25 June 2017, the Group held cross currency swaps designated as hedges of future contracted interest payments on the USD denominated senior notes issued in July 2007. The cross currency swaps are being used to hedge a combination of future movements in interest rates and foreign currency exchange rates.

At 25 June 2017, the notional principal amounts and period of expiry of the swaps for each counterparty are as follows:

| | | INTEREST RATE | | |
|---|---|---|---|---|
| | MATURITY DATE | 2017 | 2016 | PAYMENT TERMS |
| Pay fixed, receive floating-AUD$59.5m | 10/7/17 | 7.52% | 7.52% | Interest receivable settles semi-annually and interest payable each 90 days. These dates coincide with the interest payable dates on the underlying senior notes. |
| Pay fixed, receive floating-AUD$22.6m | 10/7/17 | 7.46% | 7.46% | |

At 25 June 2017, the above hedges were assessed to be highly effective with a combined unrealised loss in fair value of $0.8 million (2016: $0.7 million gain) recognised in equity for the period. During the period no material ineffectiveness (2016: no material ineffectiveness) was recognised in the income statement attributable to the cash flow hedges.

### ACCOUNTING POLICY

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

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

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

## 17. FINANCIAL AND CAPITAL RISK MANAGEMENT

### FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, other than derivatives, comprise cash, short term deposits, bills of exchange and bank loans. The main purpose of these financial instruments is to manage liquidity and to raise finance for the Group's operations. The Group has various other financial instruments, such as trade and other receivables and trade and other payables, which arise directly from its operations.

The Group uses derivatives in accordance with Board approved policies to reduce the Group's exposure to fluctuations in interest rates and foreign exchange rates. These derivatives create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative instruments that the Group uses to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps;
- forward foreign currency contracts; and
- forward rate agreements.

The Group's risk management activities for interest rate and foreign exchange exposures are carried out centrally by Fairfax Media Group Treasury department. The Group Treasury department operates under policies as approved by the Board. The Group Treasury department operates in co-operation with the Group's operating units so as to maximise the benefits associated with centralised management of Group risk factors.

### CAPITAL RISK MANAGEMENT

The capital structure of Group entities is monitored using net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio. The ratio is calculated as net debt divided by underlying EBITDA. Net debt is calculated as total interest bearing liabilities less cash and cash equivalents. Where interest bearing liabilities are denominated in a currency other than the Australian dollar functional currency, and the liability is hedged into an Australian dollar obligation, the liability is measured for financial covenant purposes as the hedged Australian dollar amount.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, buy back shareholder equity, issue new shares or sell assets to reduce debt. The Group reviews the capital structure to ensure:

- sufficient finance capacity for the business is maintained at a reasonable cost;
- sufficient funds are available for the business to implement its capital expenditure and business acquisition strategies; and
- all financial covenants are complied with.

Where excess funds arise with respect to the funds required to enact the Group's business strategies, consideration is given to increased dividends or buy back of shareholder equity.

## RISK FACTORS

The key financial risk factors, including market risk, that arise from the Group's activities, including the Group's policies for managing these risks are outlined below.

### (A) INTEREST RATE RISK

Interest rate risk refers to the risks that the value of a financial instrument or future cash flows associated with the instrument will fluctuate due to movements in market interest rates.

Interest rate risk arises from interest bearing financial assets and liabilities that the Group utilises. Non-derivative interest bearing assets are predominantly short term liquid assets. The Group's borrowings which have a variable interest rate attached give rise to cash flow interest rate risk.

The Group's risk management policy for interest rate risk seeks to reduce the effects of interest rate movements on its asset and liability portfolio. The Group seeks to maintain a mix of foreign and local currency fixed rate and variable rate debt,  as well as a mix of long term debt versus short term debt. The Group primarily enters into interest rate swap, interest rate option and cross currency agreements to manage these risks.

The Group designates which of its financial assets and financial liabilities are exposed to a fair value or cash flow interest rate risk, such as financial assets and liabilities with a fixed interest rate or financial assets and financial liabilities with a floating interest rate that is reset as market rates change.

Over the counter derivative contracts are carried at fair value, which are estimated using valuation techniques based wherever possible on assumptions supported by observable market prices or rates prevailing at the reporting date. For other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices.

Refer to Note 16 for further details of the Group's derivative financial instruments and details of hedging activities.

At reporting date, the Group had the following mix of financial assets and financial liabilities exposed to interest rate risks:

AS AT 25 JUNE 2017

| | FLOATING RATE $'000 | FIXED RATE $'000 | NON-INTEREST BEARING $'000 | TOTAL $'000 |
|---|---|---|---|---|
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | 112,921 | - | - | 112,921 |
| Trade and other receivables | - | - | 289,935 | 289,935 |
| Available for sale investments | - | - | 2,399 | 2,399 |
| Other financial assets | 92,987 | - | 2,755 | 95,742 |
| Derivatives | - | - | 9,238 | 9,238 |
| **Total financial assets** | **205,908** | **-** | **304,327** | **510,235** |
| FINANCIAL LIABILITIES | | | | |
| Payables | - | - | 233,452 | 233,452 |
| Interest bearing liabilities: | | | | |
| Bank borrowings and loans | 147,913 | - | - | 147,913 |
| Senior notes | - | 91,535 | - | 91,535 |
| Total interest bearing liabilities | 147,913 | 91,535 | - | 239,448 |
| Derivatives | - | 169 | - | 169 |
| **Total financial liabilities** | **147,913** | **91,704** | **233,452** | **473,069** |
| Total interest bearing liabilities | 147,913 | 91,535 | - | 239,448 |
| Notional principal hedged | - | (91,535) | - | (91,535) |
| **Net exposure to cash flow interest rate risk *** | **147,913** | **-** | **-** | **147,913** |

AS AT 26 JUNE 2016

| | FLOATING RATE $'000 | FIXED RATE $'000 | NON-INTEREST BEARING $'000 | TOTAL $'000 |
|---|---|---|---|---|
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | 81,110 | - | - | 81,110 |
| Trade and other receivables | - | - | 322,996 | 322,996 |
| Available for sale investments | - | - | 2,246 | 2,246 |
| Other financial assets | 59,387 | - | - | 59,387 |
| Derivatives | - | - | 15,152 | 15,152 |
| **Total financial assets** | **140,497** | **-** | **340,394** | **480,891** |
| FINANCIAL LIABILITIES | | | | |
| Payables | - | - | 250,774 | 250,774 |
| Interest bearing liabilities: | | | | |
| Bank borrowings and loans | 86,452 | - | - | 86,452 |
| Senior notes | - | 92,860 | - | 92,860 |
| Total interest bearing liabilities | 86,452 | 92,860 | - | 179,312 |
| Derivatives | - | 4,015 | - | 4,015 |
| **Total financial liabilities** | **86,452** | **96,875** | **250,774** | **434,101** |
| Total interest bearing liabilities | 86,452 | 92,860 | - | 179,312 |
| Notional principal hedged | - | (92,860) | - | (92,860) |
| **Net exposure to cash flow interest rate risk *** | **86,452** | **-** | **-** | **86,452** |

* For floating rate instruments, this represents the unhedged portion. For fixed rate instruments, this represents amounts hedged to floating.

## SENSITIVITY ANALYSIS

The Group performs sensitivity analysis to determine the effect on net profit and equity after income tax if interest rates at reporting date had been 30% higher or lower with all other variables held constant, taking into account all underlying exposures and related hedges. Based on the sensitivity analysis the impact to the Group's post tax profit would be $0.4 million (2016: $0.3 million).

## (B) FOREIGN CURRENCY RISK

Foreign currency risk refers to the risk that the value or the cash flows arising from a financial commitment, or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's foreign currency exchange risk arises primarily from:

- borrowings denominated in foreign currency; and
- firm commitments and/or highly probable forecast transactions for receipts and payments settled in foreign currencies and prices dependent on foreign currencies respectively.

The Group is exposed to foreign exchange risk from various currency exposures, primarily with respect to:

- United States Dollars; and
- New Zealand Dollars.

The Group hedges the currency risk on foreign currency borrowings by entering into cross currency swaps, which have the economic effect of converting foreign currency borrowings to local currency borrowings.

Forward foreign exchange contracts are used to hedge the Group's known non-debt related foreign currency risks. These contracts generally have maturities of less than twelve months after the reporting date and consequently the net fair value of the gains and losses on these contracts will be transferred from the cash flow hedging reserve to the income statement at various dates during this period when the underlying exposure impacts earnings. The derivative contracts are carried at fair value, being the market value as quoted in an active market.

The Group's risk management policy for foreign exchange is to only hedge known or highly probable future transactions. The policy only permits hedging of the Group's underlying foreign exchange exposures.

Benefits or costs arising from currency hedges for revenue and expense transactions that are designated and documented in a hedge relationship are brought to account in the income statement over the lives of the hedge transactions depending on the effectiveness testing outcomes and when the underlying exposure impacts earnings. For transactions entered into that hedge specific capital or borrowing commitments, any cost or benefit resulting from the hedge forms part of the initial asset or liability carrying value.

When entered into, the Group formally designates and documents the financial instrument as a hedge of the underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. The Group formally assesses both at the inception and at least semi-annually thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument's change in fair value is immediately recognised in the income statement and this is mainly attributable to financial instruments in a fair value hedge relationship. Derivatives entered into and not documented in a hedge relationship are revalued with the changes in fair value recognised in the income statement. All of the Group's derivatives are straight forward over the counter instruments with liquid markets.

Refer to Note 16 for further details of the Group's derivative financial instruments and details of hedging activities.

### SENSITIVITY ANALYSIS

The Group performs sensitivity analysis to determine the effect on net profit and equity after income tax if foreign exchange rates at reporting date had been 15% higher or lower with all other variables held constant, taking into account all underlying exposures and related hedges. Based on the sensitivity analysis the impact to the Group's post tax profit would be immaterial (2016: $0.1 million) and the Group's equity would be immaterial (2016: $0.5 million).

## (C) CREDIT RISK

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Group to make a financial loss. The Group has exposure to credit risk on all financial assets included in the Group's balance sheet. To help manage this risk, the Group:

- has a policy for establishing credit limits for the entities it deals with;
- may require collateral where appropriate; and
- manages exposures to individual entities it either transacts with or enters into derivative contracts with (through a system of credit limits).

The Group is exposed to credit risk on financial instruments and derivatives. For credit purposes, there is only a credit risk where the contracting entity is liable to pay the Group in the event of a closeout. The Group has policies that limit the amount of credit exposure to any financial institution. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Group's policy requirements. At 25 June 2017 counterparty credit risk was limited to financial institutions with S&P credit ratings ranging from A- to AA-.

The Group's credit risk is mainly concentrated across a number of customers and financial institutions. The Group does not have any significant credit risk exposure to a single or group of customers or individual institutions.

Financial assets are considered impaired where there is objective evidence that the Group will not be able to collect all amounts due according to the original trade and other receivable terms. Factors considered when determining if an impairment exists include ageing and timing of expected receipts and the credit worthiness of counterparties. A provision for doubtful debts is created for the difference between the assets carrying value and the present value of estimated future cash flows. The Group's trading terms do not generally include the requirement for customers to provide collateral as security for financial assets.

Refer to Note 10 for an ageing analysis of trade receivables and the movement in the provision for doubtful debts. All other financial assets are not impaired and are not past due. Based on the credit history of these classes, it is expected that these amounts will be received when due.

## (D) LIQUIDITY RISK

Liquidity risk is the risk that the Group cannot meet its financial commitments as and when they fall due.

To help reduce this risk the Group:

- has a liquidity policy which targets a minimum level of committed facilities and cash relative to EBITDA;
- has readily accessible funding arrangements in place; and
- staggers maturities of financial instruments.

Refer to Note 15(B) for details of the Group's unused credit facilities at 25 June 2017.

The contractual maturity of the Group's fixed and floating rate derivatives, other financial assets and other financial liabilities are shown in the tables below. The amounts represent the future undiscounted principal and interest cash flows and therefore may not equate to the values disclosed in the balance sheet.

AS AT 25 JUNE 2017

| | (NOMINAL CASH FLOWS) | | | |
|---|---|---|---|---|
| | 1 YEAR OR LESS $'000 | 1 TO 2 YEARS $'000 | 2 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 |
| FINANCIAL LIABILITIES* | | | | |
| Payables | (233,452) | - | - | - |
| Bank borrowings and loans (including interest) | (8,709) | (45,833) | (105,106) | - |
| Notes and bonds (including interest) | (91,687) | - | - | - |
| DERIVATIVES - INFLOWS* | | | | |
| Cross currency swaps - foreign leg (fixed)** | 91,687 | - | - | - |
| DERIVATIVES - OUTFLOWS* | | | | |
| Cross currency swaps - AUD leg (fixed)** | (82,262) | - | - | - |

AS AT 26 JUNE 2016

| | (NOMINAL CASH FLOWS) | | | |
|---|---|---|---|---|
| | 1 YEAR OR LESS $'000 | 1 TO 2 YEARS $'000 | 2 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 |
| FINANCIAL LIABILITIES* | | | | |
| Payables | (250,774) | - | - | - |
| Bank borrowings and loans (including interest) | (3,399) | (6,055) | (87,368) | - |
| Notes and bonds (including interest) | (6,916) | (92,646) | - | - |
| DERIVATIVES - INFLOWS* | | | | |
| Cross currency swaps - foreign leg (fixed)** | 6,916 | 92,646 | - | - |
| DERIVATIVES - OUTFLOWS* | | | | |
| Cross currency swaps - AUD leg (fixed)** | (6,149) | (82,262) | - | - |

* For floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last repricing date.

** Contractual amounts to be exchanged representing gross cash flows to be exchanged.

## (E) FAIR VALUE

The carrying amounts and fair values of financial assets and financial liabilities at reporting date are the same with the exception of the following:

| | **CARRYING VALUE 2017 $'000** | **FAIR VALUE 2017 $'000** | CARRYING VALUE 2016 $'000 | FAIR VALUE 2016 $'000 |
|---|---|---|---|---|
| INTEREST BEARING LIABILITIES | | | | |
| Bank borrowings | **147,913** | **148,794** | 86,452 | 87,747 |
| Senior notes | **91,535** | **91,545** | 92,860 | 93,000 |

Exchange traded listed share prices have been used to determine the fair value of listed available for sale investments.

The fair value of the senior notes have been calculated by discounting the future cash flows by interest rates for liabilities with similar risk profiles. The discount rates applied range from 7.46% to 7.52% (2016: 7.46% to 7.52%).

Market values have been used to determine the fair value of listed available for sale investments. The carrying value of all other balances approximate their fair value.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3) as follows:

- Freehold land and buildings - determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of active market prices of transactions for properties of similar nature, location and condition.
- Shares in unlisted entities - determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset based of the investment.
- Payables - represents the value of the put option held by the Group to acquire the remaining interest in a subsidiary (refer to Note 12). The put option has been valued with reference to comparable companies using an EBITDA multiple approach and recent transactions .

The fair value of assets and liabilities held at fair value, as well as the methods used to estimate the fair value, are summarised in the table below:

AS AT 25 JUNE 2017

| | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| ASSETS AT FAIR VALUE | | | | |
| Derivative assets | - | 9,238 | - | 9,238 |
| Available for sale investments | 2,399 | - | - | 2,399 |
| Assets held for sale | | | | |
| Property, plant and equipment | - | - | 5,738 | 5,738 |
| Shares in unlisted entities | - | - | 2,755 | 2,755 |
| | **2,399** | **9,238** | **8,493** | **20,130** |
| LIABILITIES AT FAIR VALUE | | | | |
| Payables | - | - | 7,800 | 7,800 |
| Derivative liabilities | - | 169 | - | 169 |
| | **-** | **169** | **7,800** | **7,969** |

AS AT 26 JUNE 2016

| | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| ASSETS AT FAIR VALUE | | | | |
| Derivative assets | - | 15,152 | - | 15,152 |
| Available for sale investments | 2,246 | - | - | 2,246 |
| Assets held for sale | | | | |
| Property, plant and equipment | - | - | 10,118 | 10,118 |
| Shares in unlisted entities | - | - | 3,763 | 3,763 |
| | **2,246** | **15,152** | **13,881** | **31,279** |
| LIABILITIES AT FAIR VALUE | | | | |
| Derivative liabilities | - | 4,015 | - | 4,015 |
| | **-** | **4,015** | **-** | **4,015** |

## 18. EQUITY

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|---|
| ORDINARY SHARES | | | |
| 2,299,475,546 ordinary shares authorised and fully paid (2016: 2,299,475,546) | (A) | **4,608,045** | 4,603,115 |
| UNVESTED EMPLOYEE INCENTIVE SHARES | | | |
| 2,073,765 unvested employee incentive shares (2016: 3,446,917) | (B) | **(2,719)** | (5,775) |
| DEBENTURES | | | |
| 281 debentures fully paid (2016: 281) | (C) | * | * |
| **Total contributed equity** | | **4,605,326** | 4,597,340 |

* Amount is less than $1000.

### RECONCILIATIONS

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

| | **25 JUNE 2017 NO. OF SHARES** | 26 JUNE 2016 NO. OF SHARES | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|---|---|
| (A) ORDINARY SHARES (i) | | | | |
| Balance at beginning of the financial year | **2,299,475,546** | 2,383,370,791 | **4,603,115** | 4,672,097 |
| Shares acquired and cancelled as part of on market buyback | **-** | (83,895,245) | **-** | (73,912) |
| Release of shares from escrow | **-** | - | **4,930** | 4,930 |
| **Balance at end of the financial year** | **2,299,475,546** | 2,299,475,546 | **4,608,045** | 4,603,115 |
| (B) UNVESTED EMPLOYEE INCENTIVE SHARES | | | | |
| Balance at beginning of the financial year | **3,446,917** | 11,407,603 | **(5,775)** | (21,299) |
| Shares acquired | **1,672,000** | 1,834,000 | **(1,192)** | (1,067) |
| Release of shares | **(3,045,152)** | (9,794,686) | **4,248** | 16,591 |
| **Balance at end of the financial year** | **2,073,765** | 3,446,917 | **(2,719)** | (5,775) |
| (C) DEBENTURES | | | | |
| Balance at beginning of the financial year | **281** | 281 | * | * |
| **Balance at end of the financial year** | **281** | 281 | * | * |
| **Total contributed equity** | | | **4,605,326** | 4,597,340 |

* Amount is less than $1000.

(i) 57,916,616 ordinary shares issued on 20 February 2015 are subject to the following voluntary escrow arrangements:

- 28,958,321 ordinary shares were held in escrow from the date of issue and were released on 1 July 2016.
- 9,652,765 ordinary shares were held in escrow from the date of issue and were released on 1 January 2016.
- 9,652,765 ordinary shares were held in escrow from the date of issue and were released on 1 January 2017.
- 9,652,765 ordinary shares will be held in escrow from the date of issue and will be released (either in whole or part), at the earliest, on 1 January 2018.

## ACCOUNTING POLICY

### (A) ORDINARY SHARES

Ordinary shares are classified as equity and 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.

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.

### (B) UNVESTED EMPLOYEE INCENTIVE SHARES

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

### (C) DEBENTURES

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.

## RESERVES

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|---|
| Asset revaluation reserve, net of tax | (A) | **302** | (34) |
| Foreign currency translation reserve, net of tax | (B) | **(105,286)** | (106,923) |
| Cashflow hedge reserve, net of tax | (C) | **(1,691)** | (1,687) |
| Net investment hedge reserve, net of tax | (D) | **(18,072)** | (18,072) |
| Share-based payment reserve, net of tax | (E) | **7,744** | 9,468 |
| Acquisition reserve | (F) | **154,958** | 157,829 |
| General reserve | (G) | **(6,837)** | (6,837) |
| **Total reserves** | | **31,118** | 33,744 |
| (A) ASSET REVALUATION RESERVE | | | |
| Balance at beginning of the financial year | | **(34)** | 477 |
| Revaluation of available for sale investments | | **482** | (729) |
| Tax effect on available for sale investments | | **(146)** | 218 |
| **Balance at end of the financial year** | | **302** | (34) |

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.

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|---|
| (B) FOREIGN CURRENCY TRANSLATION RESERVE | | | |
| Balance at beginning of the financial year | | **(106,923)** | (125,751) |
| Exchange differences on currency translation | | **1,637** | 18,828 |
| **Balance at end of the financial year** | | **(105,286)** | (106,923) |

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 30(B).

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|---|
| (C) CASHFLOW HEDGE RESERVE | | | |
| Balance at beginning of the financial year | | **(1,687)** | (2,672) |
| Gains arising during the year on interest rate and cross currency swaps | | **(821)** | 691 |
| Tax effect of net changes on cashflow hedges | | **817** | 294 |
| **Balance at end of the financial year** | | **(1,691)** | (1,687) |

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 16.

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|---|
| (D) NET INVESTMENT HEDGE RESERVE | | | |
| Balance at beginning of the financial year | | **(18,072)** | (17,338) |
| Effective portion of changes in value of net investment hedges | | **-** | (1,071) |
| Tax effect on net investment hedges | | **-** | 337 |
| **Balance at end of the financial year** | | **(18,072)** | (18,072) |

The net investment hedge reserve is used to record gains and losses on a hedging instruments in a fair value hedge.

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|---|
| (E) SHARE-BASED PAYMENT RESERVE | | | |
| Balance at beginning of the financial year | | **9,468** | 14,819 |
| Release of employee incentive shares * | | **(5,056)** | (9,386) |
| Share-based payment expense | | **4,760** | 5,755 |
| Tax effect on share-based payment expense | | **(1,428)** | (1,720) |
| **Balance at end of the financial year** | | **7,744** | 9,468 |

* During the year the Board resolved to vest and cash settle the entire FY14 TRP options grant following above target performance of the Absolute TSR hurdle. The amount paid under the scheme was in excess of the amount held in the reserve. As market based hurdles are not remeasured following grant date, an additional amount of $23.4m was recorded in Retained Earnings.

The share-based payment reserve is used to recognise the fair value of shares issued but not vested and transfers to fund the acquisition of Share Trust shares, as described in Note 26.

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|---|
| (F) ACQUISITION RESERVE | | | |
| Balance at beginning of the financial year | | **157,829** | 158,336 |
| Recognition of non-controlling interest following issue of shares in subsidiaries | | **(3,945)** | (467) |
| Derecognition of non-controlling interest in subsidiaries following recognition of put option | | **1,074** | - |
| Acquisition of non-controlling interest | | **-** | (40) |
| **Balance at end of the financial year** | | **154,958** | 157,829 |

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

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|---|
| (G) GENERAL RESERVE | | | |
| Balance at beginning of the financial year | | **(6,837)** | (6,837) |
| **Balance at end of the financial year** | | **(6,837)** | (6,837) |

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

## NON-CONTROLLING INTERESTS

Macquarie Media Limited has a non-controlling interest of 45.5%. At 25 June 2017, the non-controlling interest share of profit after tax was $8.1 million (2016: $6.1 million) and share of equity was $122.7 million (2016: $116.3 million).

## 19. DIVIDENDS PAID AND PROPOSED

| | **CONSOLIDATED 25 JUNE 2017 $'000** | CONSOLIDATED 26 JUNE 2016 $'000 | **COMPANY 25 JUNE 2017 $'000** | COMPANY 26 JUNE 2016 $'000 |
|---|---|---|---|---|
| (A) ORDINARY SHARES | | | | |
| Interim 2017 dividend: partly franked 2.0 cents - paid 22 March 2017 | **45,990** | 45,990 | **45,990** | 45,990 |
| (2016: partly franked dividend 2.0 cents - paid 18 March 2016) | | | | |
| 2016 dividend: partly franked 2.0 cents - paid 6 September 2016 | **45,990** | 47,532 | **45,990** | 47,532 |
| (2015: partly franked dividend 2.0 cents - paid 8 September 2015) | | | | |
| **Total dividends paid** | **91,980** | 93,522 | **91,980** | 93,522 |

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

Since reporting date the Directors have declared a dividend of 2.0 cents per fully paid ordinary share, fully franked at the corporate tax rate of 30%. The aggregate amount of the dividend to be paid on 12 September 2017 out of profits, but not recognised as a liability at the end of the year, is expected to be $46.0 million.

### (C) FRANKED DIVIDENDS

| | **COMPANY 2017 $'000** | COMPANY 2016 $'000 |
|---|---|---|
| Franking account balance as at reporting date at 30% (2016: 30%) | **16,189** | 23,404 |
| Franking credits that will arise from the payment of income tax payable balances as at the end of the financial year | **9,402** | 1,527 |
| **Total franking credits available for subsequent financial years based on a tax rate of 30%** | **25,591** | 24,931 |

On a tax-paid basis, the Company's franking account balance is approximately $16.2 million (2016: $23.4 million). The impact on the franking account of the dividend declared by the Directors since reporting date will be a reduction in the franking account to approximately $5.9 million.

## 20. EARNINGS PER SHARE

| | **25 JUNE 2017 ¢ PER SHARE** | 26 JUNE 2016 RESTATED* ¢ PER SHARE |
|---|---|---|
| BASIC EARNINGS PER SHARE | | |
| Net profit/(loss) attributable to owners of the parent | **3.6** | (33.3) |
| DILUTED EARNINGS PER SHARE | | |
| Net profit/(loss) attributable to owners of the parent | **3.6** | (33.3) |

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| EARNINGS RECONCILIATION - BASIC | | |
| Net profit/(loss) attributable to owners of the parent | **83,911** | (772,576) |
| EARNINGS RECONCILIATION - DILUTED | | |
| Net profit/(loss) attributable to owners of the parent | **83,911** | (772,576) |

| | **25 JUNE 2017 NUMBER '000** | 26 JUNE 2016 NUMBER '000 |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic EPS | **2,299,476** | 2,322,869 |
| Weighted average number of ordinary shares used in calculating diluted EPS | **2,313,520** | 2,339,575 |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

### ACCOUNTING POLICY

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 and debentures, by the weighted average number of ordinary shares and debentures 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.

## 21. COMMITMENTS

### OPERATING LEASE COMMITMENTS - GROUP AS LESSEE

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

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

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| Within one year | **54,952** | 53,750 |
| Later than one year and not later than five years | **206,082** | 181,401 |
| Later than five years | **283,835** | 260,627 |
| **Total operating lease commitments** | **544,869** | 495,778 |

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

### OPERATING LEASE COMMITMENTS - GROUP AS LESSOR

The Group has entered into commercial subleases on office premises.

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

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| Within one year | **16,508** | 13,207 |
| Later than one year and not later than five years | **38,728** | 22,656 |
| Later than five years | **260** | 407 |
| **Total operating lease commitments** | **55,496** | 36,270 |

### CAPITAL COMMITMENTS

At 25 June 2017, 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:

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| Within one year | **603** | 11,294 |
| Later than one year and not later than five years | **-** | - |
| Later than five years | **-** | - |
| **Total capital commitments** | **603** | 11,294 |

### ACCOUNTING POLICY

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.

## 22. CONTINGENCIES

### GUARANTEES

Under the terms of ASIC Corporations Instrument 2016/785, 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 reporting date.

### DEFAMATION

From time to time, entities in the Group are sued for defamation and similar matters in the ordinary course of business. At the date of this report, there were no legal actions against the consolidated entity, other than those recognised at Note 13, that are expected to result in a material impact.

## 23. EVENTS SUBSEQUENT TO REPORTING DATE

On July 10, the Group repaid US$69.0 million (A$82.1 million) of Senior Notes.

## 24. OTHER FINANCIAL ASSETS

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| CURRENT | | |
| Loan receivable | **-** | - |
| **Total current other financial assets** | **-** | - |
| NON-CURRENT | | |
| Shares in unlisted entities | **2,755** | 3,763 |
| Loan to joint venture - Stan Entertainment | **92,987** | 55,624 |
| **Total non-current other financial assets** | **95,742** | 59,387 |

The Group assesses, at each reporting date, whether there is objective evidence that the Stan loan receivable is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the loan receivable has an impact on the estimated future cash flows of the loan receivable that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other observable data indicating that there is a measurable decrease in the estimated future cash flows. As at 25 June 2017, the Directors have assessed the recoverability of the loan receivable with reference to an independent third party valuation of the debtor and determined the loan receivable is recoverable. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

### ACCOUNTING POLICY

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

## 25. TAXATION

### CONSOLIDATED INCOME STATEMENT

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

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 |
|---|---|---|
| Net profit/(loss) before income tax expense | **146,009** | (1,012,941) |
| Prima facie income tax at 30% (2016: 30%) | **43,803** | (303,882) |
| Tax effect of differences: | | |
| Share of net profits of associates and joint ventures | **(12)** | (1,003) |
| Capital gains not taxable | **(2,963)** | (623) |
| Non-assessable external dividends | **-** | 824 |
| Adjustments in respect of current income tax of previous years | **(371)** | (572) |
| Temporary differences not recognised on intangible and other asset write-offs | **5,348** | 52,228 |
| Non-deductible items | **3,056** | 520 |
| Other | **(4)** | 1,866 |
| **Income tax expense/(benefit)** | **48,857** | (250,642) |

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

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| Current income tax expense | **52,869** | 32,703 |
| Deferred income tax benefit | **(3,641)** | (282,773) |
| Adjustments in respect of current income tax of previous years | **(371)** | (572) |
| **Income tax expense/(benefit) in the income statement** | **48,857** | (250,642) |

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| Unrealised (loss)/gain on available for sale financial assets | **(146)** | 218 |
| Net (loss)/gain on actuarial gains and losses | **(151)** | 187 |
| Net gain on revaluation of cash flow hedges | **817** | 294 |
| Net gain on hedge of net investment | **-** | 337 |
| **Income tax on items of other comprehensive income** | **520** | 1,036 |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

# NOTES TO THE FINANCIAL STATEMENTS: OTHER

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

## RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | ASSETS | | LIABILITIES | | NET | |
|---|---|---|---|---|---|---|
| | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 | **25 JUNE 2017 $'000** | 26 JUNE 2016 RESTATED* $'000 |
| Property, plant and equipment | **68,518** | 70,078 | **8,071** | 2,440 | **60,447** | 67,638 |
| Inventories | **-** | 1 | **763** | 680 | **(763)** | (679) |
| Investments | **(120)** | 45 | **2,338** | 2,546 | **(2,458)** | (2,501) |
| Intangible assets | **5,975** | 6,283 | **117,225** | 123,166 | **(111,250)** | (116,883) |
| Other assets | **12,028** | 12,669 | **1,217** | 2,756 | **10,811** | 9,913 |
| Provisions | **45,652** | 42,987 | **-** | - | **45,652** | 42,987 |
| Payables | **10,054** | 11,971 | **30** | 30 | **10,024** | 11,941 |
| Other liabilities | **8,172** | 6,525 | **-** | - | **8,172** | 6,525 |
| Tax losses | **-** | - | **-** | - | **-** | - |
| Other | **1,441** | 2,464 | **(974)** | 608 | **2,415** | 1,856 |
| **Gross deferred tax assets/ liabilities** | **151,720** | 153,023 | **128,670** | 132,226 | **23,050** | 20,797 |
| Set-off of deferred tax assets/liabilities | **(105,168)** | (111,724) | **(105,168)** | (111,724) | **-** | - |
| **Net deferred tax assets/ liabilities** | **46,552** | 41,299 | **23,502** | 20,502 | **23,050** | 20,797 |

## MOVEMENT IN TEMPORARY DIFFERENCES DURING THE FINANCIAL YEAR

| | BALANCE 26 JUNE 2016 RESTATED* $'000 | RECOGNISED ON ACQUISITION $'000 | RECOGNISED IN INCOME $'000 | RECOGNISED IN EQUITY $'000 | BALANCES DISPOSED $'000 | **BALANCE 25 JUNE 2017 $'000** |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 67,638 | - | (7,031) | - | (160) | **60,447** |
| Inventories | (679) | - | (84) | - | - | **(763)** |
| Investments | (2,437) | - | 125 | (146) | - | **(2,458)** |
| Intangible assets | (116,885) | - | 7,812 | 252 | (2,429) | **(111,250)** |
| Other assets | 9,913 | - | 86 | 818 | (6) | **10,811** |
| Provisions | 42,987 | - | 2,708 | - | (43) | **45,652** |
| Payables | 11,941 | - | (1,895) | - | (22) | **10,024** |
| Other liabilities | 6,525 | - | 1,647 | - | - | **8,172** |
| Tax losses | - | 510 | (510) | - | - | **-** |
| Other | 1,793 | - | 783 | (161) | - | **2,415** |
| | 20,796 | 510 | 3,641 | 763 | (2,660) | **23,050** |

| | BALANCE 28 JUNE 2015 RESTATED* $'000 | RECOGNISED ON ACQUISITION $'000 | RECOGNISED IN INCOME RESTATED* $'000 | RECOGNISED IN EQUITY $'000 | BALANCES DISPOSED $'000 | **BALANCE 26 JUNE 2016 $'000** |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 1,862 | - | 65,776 | - | - | **67,638** |
| Inventories | (767) | - | 88 | - | - | **(679)** |
| Investments | (163) | - | (2,492) | 218 | - | **(2,437)** |
| Intangible assets | (341,538) | (1,416) | 226,068 | - | - | **(116,886)** |
| Other assets | 7,301 | - | 3,408 | (796) | - | **9,913** |
| Provisions | 52,847 | - | (9,860) | - | - | **42,987** |
| Payables | 12,753 | - | (812) | - | - | **11,941** |
| Other liabilities | 6,019 | - | 506 | - | - | **6,525** |
| Tax losses | - | - | - | - | - | **-** |
| Other | 1,605 | - | 91 | 99 | - | **1,795** |
| | (260,081) | (1,416) | 282,773 | (479) | - | **20,797** |

## TAX LOSSES AND FUTURE DEDUCTIBLE TEMPORARY DIFFERENCES

The Group has realised Australian capital losses for which no deferred tax asset is recognised on the balance sheet of $353.2 million (2016: $319.1 million) which are available indefinitely for offset against future capital gains subject to continuing to meet relevant statutory tests.

The Group has deductible temporary differences for which no deferred tax asset is recognised on the balance sheet of $463.3 million (2016: $966.5 million).

## FUTURE ASSESSABLE TEMPORARY DIFFERENCES

At 25 June 2017, there are no material unrecognised future assessable temporary differences associated with the Group's investments in associates or joint ventures, as the Group has no material liability should the associates or joint ventures retained earnings be distributed (2016: Nil).

## ACCOUNTING POLICY

### INCOME TAX AND OTHER TAXES

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

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

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

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

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

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

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

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

## TAX CONSOLIDATION – AUSTRALIA

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

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

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Fairfax Media Limited for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits transferred to Fairfax Media Limited under the tax consolidation legislation.

Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. The amounts receivable/payable under the tax funding arrangements are due upon demand from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

## 26. EMPLOYEE ENTITLEMENTS

### (A) NUMBER OF EMPLOYEES

As at 25 June 2017 the Group employed 5,122 full-time employees (2016: 5,515) and 658 part-time and casual employees (2016: 717). This includes 1,205 (2016: 1,197) full-time employees and 107 (2016: 88) part-time and casual employees in New Zealand.

### (B) EMPLOYEE SHARE PLANS

The Company had three employee share plans during the period. The terms of each plan are set out below:

1. FAIRFAX EXEMPT EMPLOYEE SHARE PLAN

This plan is open to all Australian employees with at least twelve months service with the consolidated entity in Australia, whose adjusted taxable income is $180,000 per annum or less. Under this Plan, participants may salary sacrifice up to $1,000 of pre tax salary per annum for the purchase of issued Fairfax shares at the market price on the open market of the ASX. The shares are purchased by an independent trustee company on predetermined dates.

2. FAIRFAX DEFERRED EMPLOYEE SHARE PLAN

This plan is open to all Australian employees with at least twelve months service with the consolidated entity in Australia. Under this Plan, participants may salary sacrifice a minimum of $1,000 and up to a maximum of $5,000 of salary per annum for the purchase of issued Fairfax shares at the market price on the open market of the ASX. The shares are purchased by an independent trustee company on predetermined dates. Participants must nominate a 'lock' period of either 3, 5 or 7 years during which their shares must remain in the plan, unless they leave the consolidated entity in Australia.

3. LONG TERM EQUITY BASED INCENTIVE SCHEME

The long term incentive plan is available to certain permanent employees of the consolidated entity.

**2017 Financial Year**

For 2017, participants in the plan were granted performance rights following the release of the 2017 half year results. The rights have a vesting hurdle of relative total shareholder return and strategic non-market hurdles over three years from issue with no retest. No dividends are payable to participants on the unvested rights. Participants are also entitled to receive performance shares for no consideration subject to achievement of certain performance hurdles. Half of the shares granted are deferred for one year and the other half are deferred for two years. Participants must remain employed during the deferral period or the shares will be forfeited.

**2015 & 2016 Financial Year**

For 2015 & 2016, participants in the plan were granted options following the AGM with the exercise price set at the share price around the time of issue. The options have a vesting hurdle of absolute total shareholder return over three years from issue with a retest in the fourth year. No dividends are payable to participants on the unvested options.

Participants are also entitled to receive performance shares for no consideration subject to achievement of certain performance hurdles. Half of the shares granted are deferred for one year and the other half are deferred for two years. Participants must remain employed during the deferral period or the shares will be forfeited.

For further details refer to the Remuneration Report.

### ACCOUNTING POLICY

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

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

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

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

Shares purchased, but which have not yet vested to the employee as at reporting date are offset against contributed equity of the Group (refer to Note 18).

# NOTES TO THE FINANCIAL STATEMENTS: OTHER

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

## 27. 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:

| | 25 JUNE 2017 $ | 26 JUNE 2016 $ |
|---|---|---|
| AUDIT SERVICES | | |
| Ernst & Young Australia | | |
| Audit and review of financial reports | 1,745,487 | 1,466,388 |
| Affiliates of Ernst & Young Australia | | |
| Audit and review of financial reports | 211,267 | 198,833 |
| **Total audit services** | **1,956,754** | 1,665,221 |
| OTHER ASSURANCE SERVICES | | |
| Ernst & Young Australia | | |
| Regulatory and contractually required audits | 127,529 | 155,825 |
| Other | 308,929 | 10,918 |
| Affiliates of Ernst & Young Australia | | |
| Regulatory and contractually required audits | 65,365 | 63,601 |
| **Total other assurance services** | **501,823** | 230,344 |
| **Total remuneration for assurance services** | **2,458,577** | 1,895,565 |
| NON ASSURANCE SERVICES | | |
| Ernst & Young Australia | | |
| Other services | 62,853 | 26,000 |
| **Total non assurance services** | **62,853** | 26,000 |
| **Total remuneration of auditors** | **2,521,430** | 1,921,565 |

## 28. RELATED PARTIES AND ENTITIES

### (A) ULTIMATE PARENT

Fairfax Media Limited is the ultimate parent company.

### (B) CONTROLLED ENTITIES

Interests in controlled entities are set out in (F) in this Note.

### (C) KEY MANAGEMENT PERSONNEL

TRANSACTIONS WITH DIRECTOR-RELATED ENTITIES

A number of Directors of Fairfax Media Limited also hold directorships with other corporations which provide and receive goods or services to and from the Fairfax Group in the ordinary course of business on normal terms and conditions. None of these Directors derive any direct personal benefit from the transactions between the Fairfax Group and these corporations.

Transactions were entered into during the financial year with the Directors of Fairfax Media Limited and its controlled entities or with Director-related entities, which:

- occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the Director or Director-related entity at arm's length in the same circumstances;
- do not have the potential to adversely affect decisions about the allocation of scarce resources or discharge the responsibility of the Directors; or
- are minor or domestic in nature.

COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| Short-term employee benefits | **2,988** | 2,899 |
| Post-employment benefits | **130** | 131 |
| Other long-term benefits | **66** | 50 |
| Termination benefits | **-** | - |
| Share-based payment | **1,649** | 2,103 |
| **Total compensation paid to key management personnel** | **4,833** | 5,183 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

INTERESTS HELD BY KEY MANAGEMENT PERSONNEL UNDER THE SENIOR EXECUTIVE PLAN

Share options and performance rights held by key management personnel under the Senior Executive Plan to purchase ordinary shares have the following expiry dates and exercise prices:

| ISSUE DATE | EXPIRY DATE | EXERCISE PRICE $ | **25 JUNE 2017 NUMBER OUSTANDING** | 26 JUNE 2016 NUMBER OUTSTANDING |
|---|---|---|---|---|
| 2015 (Options) | (i) | 0.82 | **8,895,832** | 8,895,832 |
| 2016 (Options) | (i) | 0.88 | **8,895,832** | 8,895,832 |
| 2017 (Performance Rights) | | - | **5,127,464** | - |
| **Total** | | | **22,919,128** | 17,791,664 |

(i) Share options expire three years from the date that the options vest. Refer to details of Transformation Incentive Plan in Section 5 of the Remuneration Report.

# NOTES TO THE FINANCIAL STATEMENTS: OTHER

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

## (D) TRANSACTIONS WITH RELATED PARTIES

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

| | SALES TO RELATED PARTIES $'000 | PURCHASES FROM RELATED PARTIES $'000 | AMOUNT OWED BY RELATED PARTIES $'000 | AMOUNT OWED TO RELATED PARTIES $'000 |
|---|---|---|---|---|
| ASSOCIATES | | | | |
| 25 June 2017 | 101 | 13,460 | 66 | 56 |
| 26 June 2016 | 134 | 30,134 | 10 | 14 |
| JOINT VENTURES | | | | |
| 25 June 2017 | 829 | 4,274 | 95,889 | - |
| 26 June 2016 | 1,246 | 9,510 | 56,311 | - |

## (E) PARENT ENTITY INFORMATION

The following disclosures relate to Fairfax Media Limited as an individual entity, being the ultimate parent entity of the Fairfax Media group.

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| FINANCIAL POSITION OF PARENT ENTITY | | |
| Current assets | **382,478** | 372,480 |
| Total assets | **1,101,478** | 1,092,241 |
| Current liabilities | **13,133** | 13,504 |
| Total liabilities | **13,133** | 18,434 |
| TOTAL EQUITY OF PARENT ENTITY | | |
| Contributed equity | **4,605,326** | 4,597,340 |
| General reserve | **(722)** | (722) |
| Acquisition reserve | **(10,672)** | (10,672) |
| Share-based payment reserve | **7,744** | 9,468 |
| Retained losses | **(3,513,331)** | (3,521,607) |
| **Total equity** | **1,088,345** | 1,073,807 |
| RESULT OF PARENT ENTITY | | |
| Profit/(loss) for the period | **122,389** | (700,119) |
| Other comprehensive income | **-** | - |
| **Total comprehensive income for the period** | **122,389** | (700,119) |

Fairfax Media Limited has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries within the Closed Group. Further details regarding the deed are set out in (G) in this Note.

## (F) CONTROLLED ENTITIES

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

| | NOTES | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2017 % | 2016 % |
|---|---|---|---|---|
| Fairfax Media Limited | (a) | Australia | | |
| **CONTROLLED ENTITIES** | | | | |
| Agricultural Publishers Pty Limited | (a) | Australia | 100 | 100 |
| All Homes Pty Limited | (a) | Australia | 100 | 100 |
| Beevo Pty Ltd | | Australia | 50 | 50 |
| Bodypass Trading Pty Ltd | | Australia | 100 | 100 |
| Commerce Australia Pty Ltd | (a) | Australia | 100 | 100 |
| Commercial Real Estate Media Pty Limited | | Australia | 100 | 100 |
| Domain Holdings Pty Limited | | Australia | 100 | 100 |
| Fairfax Community Newspapers Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Corporation Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Digital Australia & New Zealand Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Digital Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Entertainment Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Media Group Finance Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Media Management Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Media Publications Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax New Zealand Limited | | New Zealand | 100 | 100 |
| Fairfax Print Holdings Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Printers Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Regional Media (Tasmania) Pty Limited | (a) | Australia | 100 | 100 |
| Fairfax Regional Printers Pty Limited | (a) | Australia | 100 | 100 |
| Fibre Communications Limited | | New Zealand | 51 | 51 |
| Harbour Radio Pty Ltd | | Australia | 55 | 55 |
| John Fairfax & Sons Pty Limited | (a) | Australia | 100 | 100 |
| John Fairfax Pty Limited | (a) | Australia | 100 | 100 |
| Macquarie Media Limited | | Australia | 55 | 55 |
| Macquarie Media Operations Pty Limited | | Australia | 55 | 55 |
| Macquarie Media Syndication Pty Limited | | Australia | 55 | 55 |
| Media Development Partners Pty Ltd | | Australia | 100 | 100 |
| Metro Media Publishing Pty Ltd | | Australia | 92 | 92 |

# NOTES TO THE FINANCIAL STATEMENTS: OTHER

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | NOTES | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2017 % | 2016 % |
|---|---|---|---|---|
| Metro Media Services Pty Ltd | (a) | Australia | 100 | 100 |
| Milton Ulladulla Publishing Co. Pty Ltd | (a) | Australia | 100 | 100 |
| MMP (DVH) Pty Ltd | | Australia | 63 | 63 |
| MMP (Melbourne Times) Pty Ltd | | Australia | 90 | 90 |
| MMP Bayside Pty Ltd | | Australia | 78 | 78 |
| MMP Holdings Pty Ltd | (a) | Australia | 100 | 100 |
| MMP Star Pty Ltd | | Australia | 67 | 67 |
| Mountain Press Pty Ltd | (a) | Australia | 100 | 100 |
| Neighbourly Limited | | New Zealand | 70 | 45 |
| New South Wales Real Estate Media Pty Limited | | Australia | 100 | 100 |
| Newcastle Newspapers Pty Ltd | (a) | Australia | 100 | 100 |
| North Australian News Pty Ltd | (a) | Australia | 100 | 100 |
| Port Stephens Publishers Trust | | Australia | 100 | 100 |
| Property Data Solutions Pty Ltd | (a) | Australia | 100 | 100 |
| Queensland Community Newspapers Pty Ltd | (a) | Australia | 100 | 100 |
| Radio 2UE Sydney Pty Ltd | | Australia | 55 | 55 |
| Radio 3AW Melbourne Pty Limited | | Australia | 55 | 55 |
| Regional Printers Pty Limited | (a) | Australia | 100 | 100 |
| Regional Publishers (Western Victoria) Pty Limited | (a) | Australia | 100 | 100 |
| Regional Publishers Pty Ltd | (a) | Australia | 100 | 100 |
| Residential Connections Pty Ltd | | Australia | 50 | 50 |
| Review Property Pty Ltd | | Australia | 50 | 50 |
| Rural Press Printing (Victoria) Pty Limited | (a) | Australia | 100 | 100 |
| Rural Press Printing Pty Limited | (a) | Australia | 100 | 100 |
| Rural Press Pty Limited | (a) | Australia | 100 | 100 |
| Rural Press Queensland Pty Ltd | (a) | Australia | 100 | 100 |
| Rural Press Regional Media (WA) Pty Limited | (a) | Australia | 100 | 100 |
| Rural Publishers Pty Limited | (a) | Australia | 100 | 100 |
| S.A. Regional Media Pty Limited | (a) | Australia | 100 | 100 |
| Stock Journal Publishers Pty Ltd | (a) | Australia | 100 | 100 |
| The Advocate Newspaper Proprietary Limited | (a) | Australia | 100 | 100 |
| The Age Company Pty Limited | (a) | Australia | 100 | 100 |
| The Border Morning Mail Pty Limited | (a) | Australia | 100 | 100 |
| The Federal Capital Press of Australia Pty Limited | (a) | Australia | 100 | 100 |
| The Wagga Daily Advertiser Pty Ltd | (a) | Australia | 100 | 100 |
| The Warrnambool Standard Pty Ltd | (a) | Australia | 100 | 100 |
| The Weather Company Pty Limited | | Australia | 75 | 75 |
| Western Australian Primary Industry Press Pty Ltd | (a) | Australia | 100 | 100 |

(a) The Company and the controlled entities incorporated within Australia are party to Corporations Instrument 2016/785 issued by the Australian Securities & Investment Commission. These entities have entered into a Deed of Cross Guarantee dated June 2007 (as varied from time to time) under which each entity guarantees the debts of the others. These companies represent a 'Closed Group' for the purposes of the Corporations Instrument and there are no other members of the 'Extended Closed Group'. Under the Corporations Instrument, these entities have been relieved from the requirements of the Corporations Act 2001 with regard to the preparation, audit and publication of accounts.

## (G) DEED OF CROSS GUARANTEE

Fairfax Media Limited and certain wholly-owned entities (the 'Closed Group') identified at (F) in this Note are parties to a Deed of Cross Guarantee under ASIC Corporations Instrument 2016/785. Pursuant to the requirements of that Corporations Instrument, a summarised consolidated income statement for the period ended 25 June 2017 and consolidated balance sheet as at 25 June 2017, comprising the members of the Closed Group after eliminating all transactions between members are set out below:

### BALANCE SHEET

| | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | **65,392** | 42,144 |
| Trade and other receivables | **212,263** | 252,803 |
| Inventories | **19,785** | 24,093 |
| Income tax receivable | **-** | 624 |
| Assets held for sale | **4,052** | 7,890 |
| Derivative assets | **9,238** | - |
| **Total current assets** | **310,730** | 327,554 |
| NON-CURRENT ASSETS | | |
| Receivables | **6,817** | 2,228 |
| Investments accounted for using the equity method | **43,397** | 43,903 |
| Available for sale investments | **373** | 8 |
| Intangible assets | **487,815** | 504,746 |
| Property, plant and equipment | **104,601** | 84,176 |
| Derivative assets | **-** | 15,152 |
| Deferred tax assets | **114,036** | 109,892 |
| Pension assets | **1,320** | 784 |
| Other financial assets | **304,330** | 850,856 |
| **Total non-current assets** | **1,062,689** | 1,611,745 |
| **Total assets** | **1,373,419** | 1,939,299 |
| CURRENT LIABILITIES | | |
| Payables | **183,493** | 9,115 |
| Interest bearing liabilities | **91,535** | - |
| Derivative liabilities | **7,969** | - |
| Provisions | **85,238** | 88,200 |
| Current tax liabilities | **5,163** | - |
| **Total current liabilities** | **373,398** | 97,315 |

# NOTES TO THE FINANCIAL STATEMENTS: OTHER

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES FOR THE PERIOD ENDED 25 JUNE 2017

| | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|
| NON-CURRENT LIABILITIES | | |
| Interest bearing liabilities | **104,119** | 121,565 |
| Derivative liabilities | **-** | 4,015 |
| Provisions | **52,403** | 51,012 |
| Pension liabilities | **-** | 2 |
| Other non-current liabilities | **87** | 6,364 |
| **Total non-current liabilities** | **156,609** | 182,958 |
| **Total liabilities** | **530,007** | 280,273 |
| **Net assets** | **843,412** | 1,659,026 |
| EQUITY | | |
| Contributed equity | **4,605,326** | 4,597,340 |
| Reserves | **(235,044)** | (184,367) |
| Retained losses | **(3,526,870)** | (2,753,947) |
| **Total equity** | **843,412** | 1,659,026 |

## INCOME STATEMENT

| | 25 JUNE 2017 $'000 | 26 JUNE 2016 $'000 |
|---|---|---|
| Total revenue | **1,182,710** | 1,289,009 |
| Share of net (losses)/profits of associates and joint ventures | **(1,155)** | 3,025 |
| Expenses before finance costs | **(1,842,767)** | (2,155,122) |
| Finance costs | **(12,613)** | (15,658) |
| **Net profit/(loss) from operations before income tax expense** | **(673,825)** | (878,746) |
| Income tax (expense)/benefit | **(18,903)** | 42,508 |
| **Net profit/(loss) from operations after income tax expense** | **(692,728)** | (836,238) |

## 29. NOTES TO THE CASH FLOW STATEMENT

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

| | NOTE | 25 JUNE 2017 $'000 | 26 JUNE 2016 RESTATED* $'000 |
|---|---|---|---|
| Net profit/(loss) for the period | | **97,152** | (762,299) |
| NON-CASH ITEMS | | | |
| Depreciation and amortisation | 3(B) | **40,718** | 70,102 |
| Impairment of property, plant and equipment, intangibles and investments | | **34,124** | 1,153,087 |
| Amortisation of borrowing costs | | **544** | 606 |
| Share of losses of associates and joint ventures not received as dividends | | **5,487** | 8,684 |
| Straight-line rent adjustment | | **(105)** | (105) |
| Net gain on disposal of property, plant and equipment | | **(497)** | (3,938) |
| Net gain on disposal of investments and other assets | | **(9,876)** | (2,997) |
| Fair value adjustment to derivatives | | **7,591** | (163) |
| Net foreign currency losses/(gains) | | **(187)** | 217 |
| Share-based payment expense | | **4,760** | 5,755 |
| Non-cash superannuation expense | | **(31)** | (33) |
| Other non-operating gains | | **(6,891)** | (4,721) |
| CHANGES IN OPERATING ASSETS AND LIABILITIES, NET OF EFFECTS FROM ACQUISITIONS | | | |
| Decrease/(increase) in trade receivables | | **40,545** | (10,515) |
| Increase in other receivables | | **(1,705)** | (8,940) |
| Decrease/(increase) in inventories | | **4,547** | (2,948) |
| Increase in other assets | | **(278)** | (2,708) |
| (Decrease)/increase in payables | | **(18,175)** | 14,614 |
| Decrease in provisions | | **(1,208)** | (24,363) |
| Increase/(decrease) in tax balances | | **20,713** | (301,626) |
| Decrease in equity balances | | **(24,570)** | - |
| **Net cash inflow from operating activities** | | **192,658** | 127,709 |

## (B) RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

| | NOTE | **25 JUNE 2017 $'000** | 26 JUNE 2016 $'000 |
|---|---|---|---|
| Cash on hand and at bank | | **112,921** | 81,110 |
| **Total cash at end of the financial year** | | **112,921** | 81,110 |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

### ACCOUNTING POLICY

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.

## 30. SUMMARY OF SIGNIFICANT OTHER 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 is for the consolidated entity, consisting of Fairfax Media Limited and its controlled entities. Fairfax Media Limited was incorporated in Australia.

### (A) PRINCIPLES OF CONSOLIDATION

(i) CONTROLLED ENTITIES

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 6). Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated.

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

### (B) FOREIGN CURRENCY

(i) CURRENCY OF PRESENTATION

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

(ii) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are generally recognised in the income statement. These are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges, until the entity is disposed. Tax charges and credits attributable to exchange differences on borrowings are also recognised in equity.

Non-monetary items that are measured at fair value in a foreign currency (i.e. available for sale financial assets) are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are included in the asset revaluation reserve in equity.

(iii) GROUP ENTITIES

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

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

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

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

## (C) GOODS AND SERVICES TAX (GST)

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

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

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

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

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

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

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

(i) CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

New standards and interpretations that are applicable for the first time for the June 2017 year end report are:

- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

These standards have introduced new disclosures but did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

(ii) ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for 25 June 2017 reporting periods. The Group has elected not to early adopt these new standards or amendments in the financial statements. They include:

**AASB 9 Financial Instruments**

Effective 1 January 2018, the Group must apply from FY19. Under AASB 9, all equity investments except those accounted for under the equity method are required to be measured at fair value. Equity investments that do not have a readily determinable fair value may, as a practical expedient, be measured at cost, adjusted for changes in observable prices minus impairment. The Group has yet to fully assess the impact the AASB 9 will have on the financial statements, when applied in future periods.

**AASB 15 Revenue from Contracts with Customers**

Effective 1 January 2018, the Group must apply from FY19. AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. The Group is also undertaking a comprehensive review of the implementation impacts of AASB 15. The Group has not reached a determination as to the impacts of these accounting standards.

**AASB 16 Leases**

Effective 1 January 2019, the Group must apply from FY20. AASB 16 requires all leases that have a term of over 12 months to be recognised on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognised as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognised as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). The Group has yet to fully assess the impact the AASB 16 will have on the financial statements, when applied in future periods.

For other standards and interpretations that have been issued but are not yet effective, the Group has yet to fully assess the impact the changes will have on the financial statements, when applied in future periods.

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Fairfax Media Limited, we state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the consolidated entity's financial position as at 25 June 2017 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

   (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1;

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

   (d) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

2. This declaration has been made after receiving the declarations required to be made to the Directors from the Chief Executive Officer and the Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 25 June 2017.

On behalf of the Board

**Nick Falloon**
Chairman

16 August 2017

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

16 August 2017

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRFAX MEDIA LIMITED

Building a better working world

200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Fairfax Media Limited

**Report on the Audit of the Financial Report**

**Opinion**

We have audited the financial report of Fairfax Media Limited (collectively the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 25 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated financial position of the Group as at 25 June 2017 and of its consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional* Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Impairment of intangible assets

| Why significant | How our audit addressed the key audit matter |
|---|---|
| Given the continued decline in revenue of the Group's traditional print businesses and the flat revenue trend in the radio business, the goodwill and other indefinite life intangible assets allocated to the Metropolitan Media, Australian Regional Media, Agricultural Media, New Zealand Media and Radio cash generating units ("CGUs") or CGU groups are highly susceptible to impairment.<br>As disclosed in Note 9 to the financial statements, the directors have assessed goodwill and other intangible assets for impairment at balance date. This resulted in impairment charges of $15.8 million being recognised in respect of the Australian Regional Media CGU group.<br>The assessment of the recoverable amount of CGUs for the purpose of impairment testing incorporates significant judgement in respect of factors such as industry conditions, forecast cash flows, growth and decline rates, discount rates and terminal growth rates. | Our audit procedures included the following:<br>▸ assessed whether the methodology used by the directors met the requirements of Australian Accounting Standard - *AASB136 Impairment of Assets*;<br>▸ tested the mathematical accuracy of the cash flow models;<br>▸ assessed the Group's cash flow forecasts including consideration of the historical accuracy of previous estimates;<br>▸ assessed the discount rates, growth and decline rates and the terminal growth rates applied, with involvement from our valuation specialists;<br>▸ evaluated the sensitivity analysis performed by the Group focusing on the CGUs where a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and therefore indicate impairments may be required; and<br>▸ evaluated the adequacy of the disclosures relating to intangible assets in the financial report, including those made with respect to judgements and estimates. |

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### 2. Impairment of equity accounted investments

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As at 25 June 2017 the Group's statement of financial position includes equity accounted investments of $48.7 million.<br>As many of these investments are early stage digital ventures, impairment charges may be required where decisions are made to exit the ventures, there is deterioration in the longer term forecasts of businesses due to current period forecasts not being achieved and/or declines in markets in which they operate.<br>As disclosed in Note 8 to the financial statements, the directors have assessed the recoverable amount of these assets where indicators of impairment were identified. This resulted in impairment charges of $14.4 million being recognised.<br>The assessment of the recoverable amount of equity accounted investments incorporates significant judgement in respect of factors such as expected business performance and earnings multiples. | Our audit procedures included the following:<br>► evaluated the directors assessment of the indicators of impairment for equity accounted investments;<br>► For those investments tested for impairment, we assessed whether the methodology applied by the Group met the requirements of Australian Accounting Standard – *AASB 136 Impairment of Assets*;<br>► assessed the directors assumptions and estimates to determine the recoverable amount of the assets, including forecasted revenue, earnings multiples and recent investments made by third parties where appropriate; and<br>► evaluated the adequacy of the disclosures in the financial report relating to the valuation of equity accounted investments, including those made with respect to judgements and estimates. |

### 3. Impairment of related party loan receivable

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As at 25 June 2017 the Group's statement of financial position includes a non-current related party loan receivable of $93.0 million due from the equity accounted investee Stan Entertainment Pty Ltd.<br>Given the start-up nature of the debtor, assessing the recoverability of the loan requires the directors to scrutinize the business plan, performance and forecasts to consider the value of the business of the investee. This is an inherently uncertain process.<br>As disclosed in Note 24 to the financial statements, the directors have assessed the recoverability of the loan receivable by obtaining an independent valuation of the investee. | Our audit procedures included the following:<br>► assessed whether the loan receivable met the recognition criteria of Australian Accounting Standard – *AASB 139 Financial Instruments: Recognition and Measurement*;<br>► evaluated the directors assessment of the recoverability of the related party loan receivable with reference to an independent third party valuation of the investee;<br>► considered the appropriateness of the valuation methodology applied and the competence of the independent valuer utilised;<br>► assessed the basis of the cash flow forecasts in light of current business performance and future expectations; |

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| Why significant | How our audit addressed the key audit matter |
|---|---|
| | ▸ assessed the discount rate, subscriber attrition rate, subscriber and revenue growth rates and the terminal growth rate applied, with involvement from our valuation specialists; and<br>▸ evaluated the adequacy of the disclosures in the report relating to the valuation of the loan receivable, including those made with respect to judgements and estimates. |

**Information Other than the Financial Report and Auditor's Report Thereon**

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

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if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Audit of the Remuneration Report**

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 29 to 48 of the directors' report for the year ended 25 June 2017.

In our opinion, the Remuneration Report of Fairfax Media Limited for the year ended 25 June 2017, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Douglas Bain
Partner
Sydney
16 August 2017

# FIVE YEAR PERFORMANCE SUMMARY

FAIRFAX MEDIA LIMITED AND CONTROLLED ENTITIES

| | | | | RESTATED* | | |
|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2015 | 2014 ** | 2013 ** |
| INCOME STATEMENT | | | | | | |
| Total revenue | $m | 1,748.8 | 1,837.7 | 1,878.1 | 1,987.6 | 2,045.4 |
| Revenues from operations | $m | 1,713.8 | 1,810.8 | 1,838.6 | 1,856.8 | 2,010.5 |
| Earnings/(loss) before depreciation, interest and tax (EBITDA) | $m | 196.6 | (829.2) | 202.4 | 371.3 | (119.2) |
| Depreciation and amortisation | $m | 40.7 | 70.1 | 65.0 | 93.5 | 100.8 |
| Earnings/(loss) before interest and tax | $m | 155.8 | (899.3) | 137.4 | 277.8 | (220.0) |
| Net interest expense | $m | 9.8 | 11.1 | 16.3 | 10.4 | 55.0 |
| Profit/(loss) before tax | $m | 146.0 | (910.4) | 121.1 | 267.4 | (274.9) |
| Income tax expense/(benefit) | $m | 48.9 | (27.2) | 33.9 | 42.2 | 37.9 |
| Net profit/(loss) attributable to members of the Company | $m | 83.9 | (893.5) | 83.2 | 224.4 | (16.4) |
| Net profit before significant items | $m | 142.6 | 132.5 | 143.6 | 157.8 | 128.0 |
| BALANCE SHEET | | | | | | |
| Total equity | $m | 977.7 | 1,034.1 | 2,065.5 | 1,990.7 | 1,816.2 |
| Total assets | $m | 1,659.8 | 1,644.1 | 2,826.6 | 2,781.5 | 3,016.7 |
| Total borrowings | $m | 239.4 | 179.3 | 283.0 | 355.2 | 638.2 |
| STATISTICAL ANALYSIS | | | | | | |
| Number of shares and debentures | m | 2,299.5 | 2,299.5 | 2,383.4 | 2,352.0 | 2,352.0 |
| Number of shareholders | | 24,768 | 27,194 | 28,120 | 30,071 | 34,805 |
| EBITDA to operating revenue | % | 11.5 | (45.8) | 11.0 | 20.0 | (5.9) |
| EBIT to operating revenue | % | 9.1 | (49.7) | 7.5 | 15.0 | (10.9) |
| Basic earnings/(loss) per share | cents | 3.6 | (38.5) | 3.5 | 9.5 | (0.7) |
| Basic earnings per share before significant items | cents | 6.2 | 5.7 | 6.1 | 6.7 | 5.4 |
| Operating cash flow per share | cents | 8.4 | 5.6 | 8.6 | 7.3 | 7.9 |
| Dividend per share | cents | 4.0 | 4.0 | 4.0 | 4.0 | 2.0 |
| Dividend payout ratio | % | 111.1 | (10.4) | 114.3 | 42.1 | - |
| Interest cover based on EBITDA before significant items | Times | 27.6 | 25.5 | 17.8 | 30.0 | 5.8 |
| Gearing | % | 24.5 | 17.3 | 13.7 | 17.8 | 35.1 |
| Return on equity | % | 14.6 | 12.8 | 7.0 | 7.9 | 7.0 |
| Market price per share | $ | 1.22 | 0.91 | 0.85 | 0.93 | 0.50 |
| Market capitalisation | $m | 2,805.4 | 2,081.0 | 2,025.9 | 2,175.6 | 1,164.2 |
| Number of full-time employees | | 5,122 | 5,515 | 6,169 | 6,410 | 7,043 |
| Number of part-time and casual employees | | 658 | 717 | 1,010 | 1,211 | 1,384 |

* Certain numbers shown here do not correspond to the 2016 year end financial statements and reflect adjustments due to a change of accounting policy as detailed in Note 1.

** The 2013 and 2014 numbers have not been restated due to the change of accounting policy as detailed in Note 1.

# SHAREHOLDER INFORMATION

FAIRFAX MEDIA LIMITED

## TWENTY LARGEST HOLDERS OF SECURITIES AT 11 AUGUST 2017

| | NUMBER OF SECURITIES | % |
|---|---|---|
| ORDINARY SHARES (FXJ) | | |
| HSBC Custody Nominees | **667,642,092** | 29.03 |
| Citicorp Nominees Pty Limited | **404,924,838** | 17.61 |
| JP Morgan Nominees Australia | **391,786,143** | 17.04 |
| National Nominees Limited | **186,644,008** | 8.12 |
| BNP Paribas Noms Pty Limited | **64,683,036** | 2.71 |
| BNP Paribas Nominees Pty Limited | **55,426,252** | 2.41 |
| UBS Nominees Pty Ltd | **52,644,899** | 2.29 |
| HSBC Custody Nominees | **33,329,887** | 1.45 |
| RBC Investor Services | **33,122,939** | 1.44 |
| Citicorp Nominees Pty Limited | **32,560,038** | 1.42 |
| BNP Paribas Nominees Pty Limited | **20,782,000** | .90 |
| HSBC Custody Nominees | **19,637,519** | .85 |
| National Nominees Limited | **13,982,085** | .61 |
| HSBC Custody Nominees | **13,824,796** | .60 |
| SBN Nominees Pty Limited | **8,445,000** | .37 |
| AMP Life Limited | **6,965,820** | .30 |
| Kirant Investments Pty Ltd | **5,610,894** | .24 |
| Wilmar Enterprises Pty Ltd | **5,000,000** | .22 |
| RBC Investor Services | **4,568,450** | .20 |
| Pacific Custodians Pty Limited | **3,839,956** | .17 |
| | **2,025,420,652** | 88.08 |

## DEBENTURES

| | NUMBER OF SECURITIES | % |
|---|---|---|
| National Financial Services Corp. | **281** | 100 |

## OPTIONS

There were no options exercisable at the end of the financial year.

# SHAREHOLDER INFORMATION

FAIRFAX MEDIA LIMITED

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as shown in substantial shareholder notices received by the Company as at 11 August 2017 are:

| | ORDINARY SHARES |
|---|---|
| Ausbil Investment Management | **178,558,749** |
| Legg Mason Global Asset Management | **139,560,053** |
| BlackRock Group | **115,067,926** |

## DISTRIBUTION OF HOLDINGS AT 11 AUGUST 2017

| | NO. OF ORDINARY SHAREHOLDERS | NO. OF DEBENTURE SHAREHOLDERS |
|---|---|---|
| NO. OF SECURITIES | | |
| 1 – 1,000 | **7,653** | 1 |
| 1,001 – 5,000 | **9,788** | – |
| 5,001 – 10,000 | **3,443** | – |
| 10,001 – 100,000 | **3,755** | – |
| 100,001 and over | **287** | – |
| **Total number of holders** | **24,926** | 1 |
| **Number of holders holding less than a marketable parcel** | **4,141** | – |

## VOTING RIGHTS

Voting rights of ordinary shareholders are governed by Rules 5.8 and 5.9 of the Company's Constitution 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 do not carry any voting rights.

# DIRECTORY

FAIRFAX MEDIA LIMITED

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 10:30 am on Thursday, 2 November 2017:
Ground Floor
Domain Offices
55 Pyrmont Street
Pyrmont
New South Wales 2009

## FINANCIAL CALENDAR 2018

| | |
|---|---|
| Interim result | February 2018 |
| Preliminary final result | August 2018 |
| Annual General Meeting | November 2018 |

## COMPANY SECRETARY

Gail Hambly

## REGISTERED OFFICE

1 Darling Island Road
Pyrmont NSW 2009

**Phone:** +61 2 9282 2833
**Fax:** +61 2 9282 1633

## SHARE REGISTRY

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000

**Phone:** 1300 888 062 (toll free within Australia)
**Fax:** +61 2 9287 0303

**Email:** registrars@linkmarketservices.com.au
**Website:** www.linkmarketservices.com.au

## SECURITIES EXCHANGE LISTING

The Company's ordinary shares are listed on the Australian Securities Exchange as FXJ.

## WEBSITE

Corporate information and the Fairfax annual report can be found via the Company's website at **www.fairfaxmedia.com.au**. The Company's family of websites can be accessed through **www.fairfaxmedia.com.au**

## HOW TO OBTAIN THE FAIRFAX ANNUAL REPORT

The Company writes to all shareholders offering them the opportunity to "opt-in" to receive a hard copy of future annual reports, a shareholder will be notified at the time that notices of the annual general meetings are mailed to shareholders in future, that the Company's annual report is available at **www.fairfaxmedia.com.au**. The Company supports the use of electronic communications in seeking to protect the environment by minimising unnecessary paper usage as part of its environment strategy.

## CONSOLIDATION OF SHAREHOLDINGS

Shareholders who wish to consolidate their separate shareholdings into one account should advise the Share Registry in writing via post or email.

## DIRECT PAYMENT TO SHAREHOLDERS' ACCOUNTS

The Company pays dividends by direct credit to shareholders' bank accounts. The Company no longer issues cheques except in exceptional circumstances. A direct credit form can be obtained from the Share Registry.

Payments are electronically credited on the dividend date and confirmed by a mailed payment advice either by post or email. Shareholders are advised to notify the Share Registry (although it is not obligatory) of their tax file number so that dividends can be paid without tax being withheld.

FAIRFAX IS AT THE HEART OF CONVERSATIONS THAT MATTER AND CREATING CONNECTIONS THAT COUNT.

**INDEPENDENT. ALWAYS.**

All eyes on Fairfax Media

FAIRFAX MEDIA LIMITED
GPO 506 SYDNEY NSW 2001 | 1 DARLING ISLAND ROAD PYRMONT NSW 2009 | T: +61 2 9282 2833

WWW.FAIRFAXMEDIA.COM.AU
@FAIRFAXMEDIA