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FAIRFAX MEDIA ACHIEVES PROFIT TURNAROUND

Fairfax Media Limited has recorded a turnaround from a loss in the previous year to a profit after tax of $282.1 million for the year to June 2010.

Key Highlights

- Reported Net Profit After Tax of $282.1 million from a loss of $380.1million in the prior year
- Underlying Net Profit After Tax and Stapled Preference Share dividend was $278.7 million, up 23%
- Underlying continuing business revenue was down 2% to $2.48 billion
- EBITDA increased 7% to $639.1 million
- Reported earnings per share of 11.5 cents versus a loss per share of 21.6 cents last year. On an underlying basis, earnings per share were 11.8 cents, down 5%
- Cash inflow from operating activities increased by 17% to $449.6 million
- Net debt reduced by $347.3 million

The three main contributors to the improved performance are:

- Second half revenue growth
- Greater business efficiency
- Lower interest cost from reduced debt

Directors are to pay a final dividend of 1.4 cents a share fully franked, taking the full year dividend to 2.5 cents (2009: 2.0 cents), and represents a payout ratio of 21.2 per cent on the underlying earnings per share.

Commentary

Chairman of Fairfax Media, Mr Roger Corbett, said the improved financial performance showed the strengths of the Fairfax business.

“The management team has made positive progress from our range of media assets on three fronts - building revenue, making the business more cost effective and reducing debt,” Mr Corbett said.

“As a consequence, Fairfax Media is in better shape to consolidate its position as Australia’s leading media business,” Mr Corbett added.

Chief Executive Officer of Fairfax Media, Mr Brian McCarthy, said the focus over the past twenty months was to better position the group's diverse businesses in a changing media landscape and depressed advertising markets.

"Our strong and stable management has made our businesses more efficient and improved our brands in print, online and broadcasting. We are also well positioned for growth in the mobile applications area," Mr McCarthy said.

"The pleasing second half result particularly demonstrated the hard work and commitment of our management and staff." Mr McCarthy added.

Underlying Financial performance

Full year continuing businesses
(Comparatives exclude the Southern Star business which was sold in January 2009)

- Total revenue down 2% to $2.48 billion
- Total costs down 5% to $1.85 billion
- EBITDA up 7% to $639.1 million
- EBIT up 9% to $525.4 million

Second Half continuing businesses

- Total revenue up 6% to $1.23 billion
- Total costs down 1% to $909.4 million
- EBITDA up 34% to $315.7 million
- EBIT up 48% to $257.1 million

Debt reduction

The strong cash flow combined with other debt reduction initiatives has reduced net debt by $347.3 million to $1.435 billion and comfortably within all debt covenant limits.

Based upon forecast cash flows, capital expenditure and the current levels of undrawn committed facilities, the impact of debt maturities in 2011 and 2012 and the $300 million in Stapled Preference Shares will be fully covered.

Dividend

An interim dividend of 1.1 cents per share was paid in March 2010 and a final dividend of 1.4 cents, fully franked will be paid on 23 September 2010 to shareholders registered on 9 September 2010.

Segment Results

Full Year underlying results (excluding significant and non-recurring items)

	Revenue			EBITDA		
	FY2010 A$'m	FY2009 A$'m	**% Variance**	**FY2010 A$'m**	FY2009 A$'m	**% Variance**
Australian Regional Media	**506.6**	509.6	**(1%)**	**148.0**	151.7	**(2%)**
Online - Fairfax Digital & Trade Me	**212.4**	186.8	**14%**	**111.0**	90.8	**22%**
Australian & NZ Printing	**535.9**	537.7	**-**	**111.0**	108.8	**2%**
Metropolitan Media	**895.6**	923.5	**(3%)**	**102.5**	101.9	**1%**
New Zealand Media	**382.3**	408.9	**(6%)**	**76.0**	84.2	**(10%)**
Specialist Media	**279.7**	298.2	**(6%)**	**67.2**	61.5	**9%**
Broadcasting	**109.5**	106.3	**3%**	**28.7**	24.9	**15%**
Corporate and Other	**15.5**	11.7	**33%**	**(5.3)**	(26.2)	**80%**
Less Internal Printing Sales	**(452.9)**	(440.5)	**3%**	**-**	-	**-**
Continuing Businesses	**2,484.6**	2,542.2	**(2%)**	**639.1**	597.6	**7%**
TV Production & Distribution	**-**	59.8	**n/m**	**-**	7.4	**n/m**
Total	**2,484.6**	2,602.0	**(4%)**	**639.1**	605.0	**6%**

Tough advertising markets, particularly in the early part of the year, affected all business segments.

Management's approach has been to give each of these businesses their best chance to perform well in their markets from a lower cost base.

Tougher economic conditions in New Zealand made it harder for traditional publishing but the New Zealand online businesses prospered. Both Fairfax Digital in Australia and Trade Me in New Zealand recorded growth in revenues and earnings up 14% and 22% respectively.

Broadcasting adds to the Fairfax diversity and converted modest revenue growth into a 15% increase in EBITDA compared with last year, reflecting cost reductions to the relatively fixed cost base.

However, all segments of the business recorded stronger second half performances, as shown in the following table, with total revenues increasing 6% over the previous corresponding period, leading to a 34 % increase in EBITDA.

Second half underlying results (excluding significant and non-recurring items)

	Revenue			EBITDA		
	FY2010 H2 A$'m	FY2009 H2 A$'m	**% Variance**	**FY2010 H2 A$'m**	FY2009 H2 A$'m	**% Variance**
Australian Regional Media	**250.7**	239.2	**5%**	**73.1**	65.8	**11%**
Online - Fairfax Digital & Trade Me	**110.6**	92.6	**19%**	**57.9**	43.1	**34%**
Australian & NZ Printing	**263.9**	254.0	**4%**	**53.4**	50.8	**5%**
Metropolitan Media	**438.2**	408.0	**7%**	**48.2**	26.7	**81%**
New Zealand Media	**186.8**	186.8	**-**	**38.0**	31.6	**20%**
Specialist Media	**137.0**	134.6	**2%**	**30.9**	21.7	**42%**
Broadcasting	**54.1**	50.6	**7%**	**12.9**	10.3	**25%**
Corporate and Other	**8.0**	0.4	**n/m**	**1.3**	(15.0)	**n/m**
Less Internal Printing Sales	**(224.2)**	(210.6)	**7%**	**-**	-	**-**
Total	**1,225.1**	1,155.6	**6%**	**315.7**	235.0	**34%**

Business initiatives

Over the past two years, Fairfax Media has faced several challenges, including a more competitive market for traditional media, a need to monetise online content, a downturn in advertising markets and a balance sheet with high debt levels.

In addressing these challenges our approach has been to build cash flow by taking revenue opportunities while lowering the cost base.

Some initiatives introduced in the past year have been:

- Launch of numerous smart phone and tablet applications such as MyCareer, Domain and the smart edition of the Sydney Morning Herald
- New online initiatives such as nationaltimes.com.au and relaunch of drive.com.au.
- Upgrades and enhancements to afr.com, resulting in subscriber growth
- Rollout of 160 regional newspaper websites
- Commissioning of a new printing press in Christchurch, New Zealand
- Strong management of the cost base, with expenses on a continuing business basis down 5% on the previous period
- Acquisition of findababysitter.com.au and bookit.co.nz
- Better utilisation of print centres via the bringing in-house of previously externally printed publications such as Sunday Life and the TV Guide

Strategy

Fairfax's strategy is an evolution of our existing strategy. The focus of our strategy is now on adapting our business to ensure we are best positioned in the new media environment to capitalise on our strengths and continue to grow the Company.

For the next few years, we have identified three key priorities:

1. Adapting Fairfax Media to being a true multi-platform company
2. Evolving our news products and transforming our metro business model
3. Expanding our positions in growth segments

In terms of the first priority, there are a number of initiatives we will pursue. These include a new organisational structure; greater sharing of editorial content and collaborating across print, online and mobile; more integrated selling; and monetising our content online and on emerging platforms.

In terms of our second key priority, our metro news businesses, taken as a whole, reach more readers than ever before. Nevertheless, we must continually evolve all of our metro news assets so they remain relevant and profitable. This will be achieved by undertaking a series of business efficiency initiatives focused on protecting revenues and reducing costs over time. We will continue to focus on editorial excellence, subscriptions and effective promotions to maintain paid circulation. Over time, the iPhone, iPad and other ereader platforms will enable us to distribute our content to new audiences, or migrate existing audiences from the papers.

In terms of the third priority, to keep pace with the changing media environment, we must continue to establish positions in new growth segments. This comprises investing in both internal and external opportunities.

We will continue to capitalise on the quality and size of our online news audiences to create new revenue streams. In particular, we will continue to invest in online transactional businesses and short-form video to benefit from the rapid growth in that segment.

Current market conditions

Trading for the first seven weeks of the new financial year has been similar to the 2010 second half with revenues more than 5% higher than the corresponding weeks last year.

Revenue growth is being experienced across all the Australian business segments. In New Zealand, publishing revenues remain flat. Trade Me continues its great record of revenue growth.

The Company is taking advantage of the improved trading conditions to invest in product development and business improvement initiatives.

Should current market trends continue, we would anticipate high single digit earnings growth in the first half.

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