

FAIRFAX MEDIA LIMITED ANNUAL GENERAL MEETING CHAIRMAN'S SPEECH

MELBOURNE, 24 October 2012: Fairfax Media Limited [ASX:FXJ]

Ladies and gentlemen, whether you are in the room in Melbourne or watching via the webcast, welcome to the Fairfax Media Limited 2012 Annual General Meeting.

I am Roger Corbett, the Chairman of the Board of Directors of Fairfax Media.

It is my pleasure to introduce to you the members of the Board and the senior executives on the stage.

Starting on my left, may I introduce:

Jack Cowin; Sandra McPhee; Peter Young; Brian Cassell our Chief Financial Officer; our Chief Executive Officer Greg Hywood; Company Secretary Gail Hambly; Linda Nicholls; Sam Morgan; Michael Anderson; and at the end James Millar.

I would now like to make my formal comments as Chairman.

I am sure that as you came to the meeting this morning, you were immensely disappointed with the Fairfax Media share price, and also that your Directors had to record a \$2.7 billion writedown in the value of the company's intangible assets at the end of the financial year.

2012 turned out to be a particularly difficult year for Fairfax, as it was for the media sector in Australia and worldwide.

At the time of the 2011 AGM last November, revenues were tracking around 5% down. At the time the expectations of your Board and management, and the market generally, was that this trend would continue.

However, from late in the third quarter we saw significant deterioration in revenues, particularly advertising revenues from the discretionary retail, finance and property sectors. All were adversely impacted by the severe cyclical conditions facing parts of the Australian economy, particularly in Sydney and Melbourne.

At the same time your company was facing clear and anticipated structural impacts as sales and marketing dollars increasingly migrate online, and audiences change the way that they engage with media.

These changes provide immense opportunity for growth of our digital businesses over the long term, but on the downside the loss of revenue caused to traditional media businesses in the short term is significant.

As a consequence your company faced increasingly changed circumstances late in the third quarter. Despite this, the company produced an underlying operating EBITDA of \$506 million. While down from 2011, in the circumstances this was a sound performance.

Reflecting on some of the positives of the year, a particular highlight was digital revenue growth of 20%. Amongst any and all digital advertising businesses, our yields grew strongly as advertisers increasingly recognise the value of eyeballs from target demographics – the demographics that Fairfax sites attract.

Over the last decade, growth in Fairfax's digital audience has underpinned total audience growth of 50%. More than 6 million Australians are now frequent visitors to Fairfax websites.

smh.com.au and theage.com.au are both leading news media sites in the country.

The tablet Apps for these newspapers – which were only launched last year – now attract more than 96,000 readers each day. Fairfax publications now have more readers than ever before and we are managing the transition of audiences to digital better than almost any newspaper company in the world.

While times are challenging, we know that a key element of our response to structural change must involve a commitment to growth and innovation. We are investing in growth across our digital businesses.

We were also pleased with the performance of our Regional business. Despite some weakness in real estate and employment markets in some geographies and a challenging national advertising market, total revenue was down just 2.4% – and local revenue remained strong.

As I noted earlier, several factors contributed to the difficult trading conditions experienced during the 2012 financial year. It is extremely difficult to assess how much of the weakness is cyclical and how much relates to structural change.

However, your Board and management believe that it is prudent to make decisions on the assumption that a significant proportion of current weakness in the trading environment relates to structural change.

An important element of the Board's response to the trading environment was the completion of a strategic review into how best to maximise value for shareholders in the face of fast-changing market conditions.

This substantial project was completed during the financial year, and it was a major piece of work with many Fairfax people participating. Completed over several months, we engaged external advisers from Bain & Co, McKinsey & Company, and UBS to work with management and the Board on an examination of options available to the company.

We considered whether value could be generated by breaking up Fairfax Media through a series of asset sales, a demerger of the Metro Media business into a separately listed entity, or continuing to operate an integrated media business.

Following detailed analysis, the break-up and demerger options were ruled out.

The analysis showed that it was the wrong time to break up our business. Pursuit of this option would not have added to shareholder value, and would undermine future value creation.

A demerger of Metro, the analysis shows, would actually destroy value for shareholders. Considerable restructuring costs would be incurred to give effect to the demerger, while the freestanding Metro business would require substantial cash reserves to support business restructuring. At the same time, the remaining Fairfax Media business would be left with reduced debt capacity. A separation of the Metro business would result in the loss of synergy benefits that we achieve through operating our integrated portfolio of businesses, and would also lead to negative synergies between the two entities.

The review found that maintaining an integrated multi-platform strategy would deliver the best returns for shareholders. This model best positions Fairfax to respond to changes in advertising and audience trends, it provides diversified earnings and cross-group synergy benefits, and positions Fairfax Media for the future.

In order to get the best out of the integrated model in a predominantly digital future we committed to a program of organisational transformation. Greg Hywood will speak in detail about the changes that are taking place across the business in his address later this morning – that's the Fairfax of the Future Plan with its substantial reduction in group-wide costs as we re-engineer the way we do business, and reduce corporate overheads.

Significant restructuring has already occurred with projected annual savings now being in excess of \$235 million, which represents a major restructuring in how Fairfax does business.

Importantly, looking to the future, we have committed to strategic initiatives that will transform the Metro business model to address future structural shifts and provide flexibility to move the business to a digital-only model if that is what is required.

In response to the operating environment, and following the very successful float of Trade Me in December 2011, the Board elected to strengthen the balance sheet by further reducing debt. This was achieved through a sell down of a further 15% of Trade Me. Combined with other initiatives undertaken during the year, this resulted in a reduction of net debt of \$574 million. Net debt was reduced to \$914 million, including Trade Me debt, which represents 1.8x underlying operating EBITDA. In relative terms, this is a strong position.

With the strategic review completed, the Board remains focused on stabilising earnings, the transformation of the business to reflect structural change, and positioning Fairfax for future growth. In Greg Hywood's address, he will share further detail of these opportunities.

As I noted in my opening remarks, we are acutely aware of shareholder anxiety over the state of the Fairfax Media share price. It is a very real concern that is shared by your Board. However, following the strategic review, everyone at Fairfax is working to make sure the cost base of the business better suits the global media environment we now face.

This means that we are prepared and able to ride out a tough cyclical environment – and structural change – and also means that our profits will rise appropriately when conditions improve. Your Board believes that this is the best possible strategy and the right setting to ensure future business prosperity and growth.

However, let there be no doubt, we will continue to examine all alternatives to optimise shareholder value, and we rule nothing out. We remain opportunistic and flexible with respect to value-enhancing transactions.

I will now discuss another matter that received detailed attention from the Board as trading conditions worsened during the second half of the financial year – the carrying value of intangible assets.

Each reporting period the Board has an obligation to assess the carrying value of our intangible assets such as goodwill, mastheads, licences and customer relationships. These assets are carried on the balance sheet at the lower of their acquisition cost or fair value.

The process of assessing carrying value is stipulated in the accounting standards, and the substantial write down that we recorded at year end was carefully considered by the Board in accordance with the standards and in conjunction with our auditors.

There is great complexity in the way carrying values must be calculated. Your Board used the best available internal and external inputs to calculate and validate our assumptions. In essence, the calculation is the present value of each business's future cash flows.

The key drivers of the \$2.7 billion impairment were lower expectations for business cashflows in the first year of the projection period and over the medium term together with the application of a higher discount rate to reflect risk with the uncertain global economic environment and the speed of technological change.

These assumptions were required because we, like the rest of the world, saw the outlook worsen considerably over the course of the second half of the 2012 financial year and into the early weeks of the current year as the cyclical downturn became more pronounced.

Our confidence in a sustained improvement in market conditions in the near future reduced. With no evidence at June of a macro economic recovery in the medium term, we had no choice but to reflect prevailing conditions in the calculations.

Our consideration of published reports on the outlook of the media industry over the next few years supported our views on the outlook for the industry, and therefore our businesses.

These significant changes in key parameters drove the size of the impairment charge that the company recorded.

Having made the assessment of carrying value at June, the directors will continue to assess carrying value at the end of each subsequent reporting period.

Economic conditions and projections of future cash flows at each future reporting date will influence the then outcomes of the Board's assessment which may differ from the conclusions reached this year. Indeed, there could be further impairments, or should there be an indication that previously recognised impairment losses for some classes of intangibles no longer exists, these impairment losses will be reversed.

I would now like to make some comments about our remuneration report for 2012 – a year where the emphasis that we placed on cost targets in determining executive remuneration outcomes represented a necessary response to the extraordinary challenges we faced across large parts of our business during the year.

When the proxy votes are displayed shortly, shareholders will see that, of proxies received prior to the meeting, 81% of votes cast support the remuneration report. However, your Directors are conscious of constructive suggestions that have been made for the future. These will be considered when developing our salary and incentive structures for future years.

It is your Board's intention to introduce both a gateway and clawback provisions in the company's Short Term Incentive program.

We will continue to offer a Long Term Incentive plan that recognises growth in the value of the company, but only where shareholders have enjoyed that growth.

Turning now to the future, and let me assure you – we have a very clear vision for our business.

Our success in acquiring and growing digital businesses, and building massive online media audiences, gives us the basis for real confidence that digital delivery and new revenue opportunities are achievable and fundamental to our future.

The digital space gives newspapers great new opportunity to deliver timely information throughout the day, with compelling video and audio that was not previously available to newspapers.

While the digital era challenges many business models, it also provides great opportunity. At Fairfax, we are focused on making the changes we need to our structures and costs to deliver the benefits of these opportunities.

Our news websites, digital transaction websites and apps are amongst the most successful in Australia and maybe amongst the best in the world. While the pace of change is breath-taking for many, we are at the front of the pack and the take-up amongst our growing audiences is very gratifying.

As ways of digital interaction increase – so do our opportunities to derive value for you, our shareholders. We believe we have very good reason to be confident about this fast-growing part of our business.

In closing these particular remarks, I would like to acknowledge the significant contribution of my fellow Board members. Each and every one of them has skills and experience that have been of immense benefit to the company in this challenging environment.

I would like to acknowledge the very important contribution made by Bob Savage who retired from the Board at the end of June after five years of service. We thank Bob for his great contribution.

I would also like to acknowledge the contribution of Brian Cassell, who joined Rural Press in 1992 and will soon retire as CFO of Fairfax. We have appreciated Brian's loyal, professional and dedicated service over his long period of service to the group. We are very pleased that he has agreed to stay on for a period to assist with a smooth transition, and to work on a number of key projects.

We have recently announced that David Housego has been appointed as CFO beginning 3 December. David joins us with outstanding credentials.

I would also like to acknowledge our dedicated management team and the personnel that make up the Fairfax team across Australia, New Zealand and the USA. These have been difficult times for us all, and I acknowledge their hard work, loyalty and dedication.

In conclusion, as I have stated, this is an era of dramatic change. It's not unlike the time – about a century ago – when the transport sector was revolutionised by the petrol engine. But with great change comes enormous opportunity. While a substantial price has been paid in our traditional print business, at Fairfax we are confident that we are well positioned to be a leading media company in a predominantly digital future. We are committed to succeeding in this environment, and to delivering benefits to our shareholders.

I would now like to introduce Greg Hywood, your Chief Executive Officer who, in the opinion of your Board, has done an outstanding job of leading your company through these challenging times.