



**REMARKS OF DAVID KIRK
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**HOW FAIRFAX IS REPOSITIONING ITSELF IN
THE NEW MEDIA LANDSCAPE**

I am very pleased to address you today on Fairfax Media, the media industry, deregulation, and the dynamics shaping our future.

I want to talk with you today about where we are going, and why, and how we see our future following the enactment of the media reform legislation.

A significant change is in our name – which reflects how we are thinking of our company and its future.

As many of you know, we are now referring to ourselves as Fairfax Media. We are putting a resolution to our shareholders next month to formally change the name of the company from John Fairfax Holdings Limited to Fairfax Media Limited.

Fairfax Media connotes an evolution of fundamental importance – not only in what we do, but how we conceive of our company and our mission in the 21st century.

The emergence of Fairfax Media is a result of our organic and strategic growth, both in print and especially online – and what these mean in a world of convergence, which is driven principally by the internet and digital technologies.

It reflects our aspiration of being a genuinely integrated digital media company.

Let me spend a few moments setting the scene by talking about Fairfax Media in Australia and New Zealand.

By the number of mastheads, we are the largest publisher in Australasia.

With the Sydney Morning Herald and The Age, we have the leading mastheads in Australia.

The Australian Financial Review and Fairfax Business Media are the unparalleled leaders in business publishing.

Our stable of over 60 regional publications is growing, augmented most recently by the acquisition of The Border Mail.

Online, we have the #1 news position in Australia. Our classified sites are first or second in their markets.

Fairfax Media in New Zealand is that country's largest media company. We operate across three broad divisions, newspapers, magazines, and interactive or online services.

We own 67 newspapers, including major mastheads such as the Dominion Post, The Press in Christchurch, the Sunday Star Times and The Independent Financial Review, through to community papers.

We own 13 magazines, including titles such as Cuisine and New Zealand House and Garden.

And our best known online service after Trade Me is Stuff.co.nz

We have exceptional audience reach.

As a diversified media company, Fairfax Media publications, in print and online, reach 4.5 million people per day in Australia, New Zealand and the world.

It is this great strength that can be utilised by advertisers to reach the most attractive audiences.

Trade Me was a breakthrough acquisition for Fairfax, not only because of its fantastic commercial success, but because of its *connectedness* with New Zealand society.

Trade Me is, quite simply, an integral part of the daily life and times, commercial and social, of New Zealand.

There is nothing like it anywhere else in the world – which helps explain the healthy price we paid for it.

But more fundamentally, it has driven our thinking about the need to develop a new brand such as Fairfax Media and the kind of company we want Fairfax Media to be.

Therefore, I want to talk today about Fairfax, in two dimensions. First, the dimension of change and managing change – something that is a daily fact of life for us.

And then I want to talk about the company, and our strategy.

All of us in this room have a stake in these things – for you as journalists and practitioners of a craft that is indispensable to our democracy and the freedoms we cherish, this is a time of concern and challenge.

And it heralds a period of significant change.

On the one hand, this is new; there have not been significant reforms to the media laws in 20 years.

But in another, more enduring sense, managing in a changing environment is about as endemic to media as you can get.

Consider the following raft of factoids:

As of last week, there were an estimated 35 million blogs on the internet, and 42,000 were added in the last 24 hours.

The English version of Wikipedia contains more than 1.4 million articles, with users making 85 million edits – or 14 per page – over the past 4 years.

In 2006, the world will take more than 100 billion photographs – or about 16 per person. More than 90% of the new cameras purchased today are digital.

The online retailer Amazon.com has a total inventory of 2.3 million books, compared with the average of Barnes + Noble stock of 130,000.

Netflix has 25,000 DVDs. Your neighbourhood Blockbuster has about 3,000. Tower Records has filed for bankruptcy.

There are 245,000 Indians working in call centres in India this morning, with great deals for you on credit cards – only slightly less than the total number of people working in Australia's I C T industries.

What do these factoids tell us?

In the media business, it's very straightforward:

There are two iron laws of media: Media always evolves. And audiences always fragment.

This is the way we are.

The jazz great Miles Davis once remarked: "If you're not nervous, you're not paying attention."

Media, and the management of change, are therefore synonymous.

In the beginning, there was the wireless. And now we have wireless back in a big way – except it carries broadband.

If you have studied our industry, its history is a litany of change – of evolution and threat.

Those who follow our industry will recall how cinema was going to kill radio, how television was going to kill cinema ...

how the VCR was going to kill television, how pay TV was going to kill television ...

how DVDs were going to kill cinema, and how satellite radio is going to kill commercial radio ...

how the internet is going to kill newspapers, how ipods are killing radio ...

and how the internet is now killing television.

While television will still be an aggregator of mass audiences for some time to come, that last prediction may actually have some bite for TV today.

Credit Suisse issued a report a couple weeks ago that said, and I quote:

“We are witnessing the biggest change in media consumption attitudes and habits since the advent of TV.”

Here is what they cited as evidence:

In the US, households with internet access watch 4-5 hours less TV per week than those without.

Among 12-24 year olds, the internet is taking up 30% of their media consumption hours, more than any other source.

The web and social networking sites are soaring, and we saw Google swallow YouTube, which has 100 million video downloads *per day*.

In the face of these changes, it is little wonder that the FTAs lobbied the Government so hard for protection from competition. The Government’s acquiescence with Free TV’s requests for protection is much to its discredit.

Media experts confidently predicted in the late 90’s that newspapers would be banished to the memories of senior citizens and museums by the middle of this decade.

Clearly this has not happened.

Even though we have suffered some loss of audience in print,

more people are reading our content in print and online than ever before in our history.

Every industry faces structural changes, be they driven by technology, regulation or consumer tastes.

Recognising trends in consumer behaviour is important – changes which in the short term may not be dramatic in themselves but over a longer period will have a profound effect on your business and its future.

It is this type of change that I spend the vast majority of my time on.

We need to plan for these changes – because changes in our readers' tastes will drive what our advertisers will want, and how information will be received and consumed.

In managing change, it is important to utilise the knowledge and expertise of our people.

I believe the most fundamental asset for any organisation facing change is the right people.

It may be a cliché but it does not make it any less true:

Managing change is managing people – having the right people in the right place at the right time, with all the resources necessary for them to do their jobs effectively.

The capacity to adapt personally and to manage change is an attitude of mind.

It requires intellect, self belief and courage.

To manage change, leaders of organisations have to conceive – and to an extent design – the future they want. And then, not knowing all they would wish, nevertheless set off from the familiar shore and set sail.

The intellect begins the journey but it is emotional strength that completes it.

So with this as a preface, I want to discuss our strategy for our business in a world of structural change for the media – and how and why we will succeed.

Fairfax: Performance, Growth and Opportunity

There are three key priorities we have to ensure we remain the pre-eminent media company in Australasia.

Firstly, we are ensuring that we defend and grow our newspapers.

We are concentrating on the editorial quality of our newspapers to deliver to our audiences the best in news, commentary and opinion.

The Sydney Morning Herald, The Age, The AFR, The Dominion Post, the Press and the Sunday Star Times are agenda-setting newspapers that shape public policy debate in Australia and New Zealand.

The Sydney Morning Herald turned 175 years old in April – the oldest newspaper in Australia, and one of the most respected in the world.

The Age is 152. The Post part of The Dominion Post next year celebrates its 140th birthday.

Our publications did not reach these milestones by accident.

The value of trusted, independent journalism has never been higher.

We are utilising better and smarter marketing to drive circulation and readership and have started to see positive results from this, particularly the growth in circulation experienced by all our major publications over the past year.

We have the fastest growing newspapers in Australia by circulation and readership.

We have also created innovative products for our advertising customers, such as the post-it notes and the super panorama advertisements.

These innovations, combined with the excellent printing facilities we now have available, have increased the offerings we can make to advertisers – offerings that ensure advertisers reach their target markets and provide Fairfax Media with new revenue streams.

We are not naïve about the challenges faced by large metropolitan newspapers with heavy classified loads. But overall, we are bullish on print. In New Zealand, we recently acquired the Rodney Times. We bought The Independent and recast it as the Independent Financial Review, buttressed by superb AFR content. In Australia, we completed our purchase of a great regional paper, The Border Mail.

The other important element in ensuring the viability of newspapers is the same element as faced by every other business. That is, the control of the cost base. Fairfax

has achieved significant cost reductions over the past three years and this will continue.

Change in the ways we think and do things is paramount to improving our operational performance.

The second pillar of our strategy is to build a strong online business.

We have built and acquired very strong digital positions in a number of areas, and as a result, we 100% own and manage the leading overall portfolio of internet sites:

- In Australia, we are the number one in news, dating and holiday rentals
- We are a strong number two in jobs, homes and cars and are improving our positions in these areas on a daily basis
- In New Zealand, we have Trade Me, with its exceptional position in online auctions in that market and growing presence in classifieds.

We have been steadily building our online businesses over several years and have developed a pool of talented people who can take us forward in this high growth industry.

Publishing companies that have not moved as quickly as we have to develop their internet positions now face some very big problems.

Fairfax's management of our exposure to the downside of classified migration at the major metro papers has been crucial to the successful future of the company.

Because we understood the urgency, we turned it into an opportunity.

Publishers in Australia and New Zealand without our scale, and more widely exposed in regional and rural publishing where internet penetration has been slower, have not seen the need to respond and now have a very big problem.

National online news and information and associated national display advertising is gone – no longer up for grabs. We have most of it.

National online classifieds have gone – we have a big share.

What remains are local news and local advertising streams. They are not the most profitable pools and it will cost millions to develop a position with a real risk of no return.

Let's look at Fairfax Media's internet position in a little more detail.

In 2006, our internet revenue grew 75%, and EBITDA was just under \$25 million. This growth is continuing. Trade Me's earnings were \$26 million in local currency in the year to March 06 and will be \$45 million in the year to March 07. A range of

analysts are forecasting that Fairfax Media's internet earnings will amount to around 20% of total earnings in the next 18 months or so.

Let's look one level deeper. The cyclical downturn in NSW and Victoria affected print display advertising revenues in 2006. Growth was just 0.5% or \$2.4 million. However, online display advertising grew by \$15 million. Taken together, we achieved credible growth in display advertising in a down market.

We got more out of a smaller market, we diversified our media platform and we extended our audiences.

As you can see, we have benefitted from our diversification.

The flip side of diversification, however, is integration.

From some quarters, I have seen reports saying that Fairfax would be more valuable if it were broken up.

This is unadulterated rubbish.

A few simple examples will make the point:

- The metro, regional and many of our suburban papers operate as an integrated package when selling to national display, real estate and employment advertisers.
- The digital news and information business is dependent almost entirely on the scale and quality of the metro newspapers for content. The newsrooms are integrated and will only become more so.
- The online classified businesses are in turn integrated with the smh and age.com.au websites from where they drive a large amount of their traffic.
- The online classified sites – Drive, MyCareer and Domain – are co-branded with the metro newspaper advertising sections, each reinforcing the other.
- The New Zealand digital content management system, hosting and technical services (but not of course the content) will all be provided from Australia.
- All the businesses share IT, HR, finance and other corporate services, including procurement.

Fairfax enjoys clear benefits from our scale and diversification, and the value of the integration we have achieved. The dis-synergies of breaking up the company are substantial.

I know of no other company that is as far advanced in this transition as Fairfax Media. When I travel I am repeatedly told by analysts, investors and industry colleagues that we are far more advanced in our management of the changing digital media world than international peers.

Finally, the third pillar of our strategy is to be a great digital media company -- to build a company that creates, commissions, and distributes digital content over multiple platforms.

Broadband will be a key driver of future growth for our company. And we intend for Fairfax to be a prime content provider on broadband to enable us to reach our audiences wherever they are, however they want to receive us.

Achieving this third pillar of our strategy – being a great digital media company – has made us revisit our culture –

not our values of integrity, honesty and independence, but our culture –

and the changes we wanted to make inside the company in order to be true to all the potential captured by the evolution of Fairfax into Fairfax Media.

Given the rapidly changing nature of media markets we need to build a culture that encourages innovation, considered risk-taking, creativity and agility – attributes not always associated with safe old newspaper publishers.

But where the internet and digital technology – where Fairfax Digital and Trade Me have taken us – is the realisation that we need to be collaborative and connected across the natural boundaries of print and digital, editorial and advertising, Sydney and Melbourne, New Zealand and Australia, if we are to build a digital media company that creates, distributes and monetises content across many different media platforms – newspapers, magazines, the internet, mobile phones and anywhere else we can.

So this is our vision, and I have told you this afternoon how we are executing it.

To summarise my thinking on our company and our future:

Our challenge in managing a changing environment is to adapt our publications to it while remaining true to our journalistic values.

We are leaders online, with not only news but blogs, not only with classifieds but with commercial marketplaces, not only with words and pictures but with video, filed by our people from the field and processed by our people in our digital newsrooms.

Most importantly we have the resources and critical mass to significantly originate substantial amounts of news. Other media aggregate information that is provided primarily by us as newspaper publishers.

We set the news agenda. We are a primary source, every morning, for what you hear on radio, and the trigger for television coverage that evening.

I am confident of our ability to understand the changing nature of the environment in which we operate and compete, and to execute the changes that are necessary to grow.

We know where we want to go: We want to build Fairfax Media into a digital media company with strong growth.

As long as we perform strongly, we firmly believe we are well positioned to do that with our company intact and independent.

Our strategy is clear and our resolve is firm.

And we are extremely optimistic about the future of Fairfax Media.

Thank you – and I am happy to take some questions.