

## CEO Staff Message | Important Update about Fairfax of the Future

All,

This morning I announced significant changes to our company. Many people were able to be there in person or watch the announcement on the intranet webcast, although I understand that some people may have had technical issues with the webcast. A video will be available on the company intranet later today. To ensure everyone has the same information and is fully informed I thought it made sense to provide you with an email version of my presentation. I expect you will have questions and you need answers. The Executive Leadership Team will be working within all their own businesses to ensure you know how these changes will affect you. Please do not hesitate to talk to them.

Regards,

Greg Hywood

Presentation:

Good morning everyone,

Thank you for making the effort to be here. Some of you may have seen our ASX announcements this morning detailing significant changes in our company – I want to take you through them before we talk to anyone else.

This is an historic day for Fairfax Media. We are making the biggest changes to the business ever made and none of us under-estimates the enormity of them.

We are determining our future by decisively moving us along on the journey from print to digital.

While some of the decisions that we are announcing today were very hard to make – others were exciting because of what they will unlock and problems they will solve. All are necessary, all are inevitable – and we will not, and have not, shied away from making them. We know there is no choice.

You will have heard and read that various people have views about how best to run this company. These include calls for a break up of Fairfax Media, or possibly even the total shutdown of our Metro business. We do not agree with them, but, we do have to make sweeping changes and we have been working on them for some time.

Very significant change must happen and must happen now. We will not abdicate our responsibility to secure the future of the company.

Today's decisions will affect every level of the company. They will in one way or another affect everyone in the company. We would all wish it could be otherwise.

We must do what it takes to ensure we remain the leading independent media company and a key voice in our markets.

Fairfax Media will come through the massive structural change in the media over the past 20 years – while many others have not. And to survive we must run a profitable business.

Let me get into the detail.

It will be no surprise to anybody that our big metropolitan publications are at the heart of huge structural changes - changes well understood in the global media environment.

Be you The Sydney Morning Herald, The Age, The New York Times, The Boston Globe, The Times, The Guardian... we have all experienced huge one-way changes in reader and advertiser habits.

The advantage The SMH and The Age have is that unlike most of their counterparts they have translated a healthy

print audience into a far larger and even healthier digital audience. Between our mastheads every month we attract 7 million high-quality unique users. That is up 25 per cent in 5 years. Some 65 per cent of all SMH and Age readers now access the journalism through digital means – online, tablet, smartphone or smart TV. We are the market leaders in our digital platforms.

We have the readers. We have the audiences. The changes today are ensuring we have the business model and cost base to match – and to ensure the entirety of our business is in the shape it must be.

As you may be aware, the conjunction of structural and cyclical forces has been compressing revenues into our mastheads and as we announced a week ago, have caused significant declines in earnings that have undermined shareholder value and caused group EBITDA multiple compression.

For the past 12 months, we have worked hard to boost Metro revenue. But even with major cost cutting and embracing significant change the Metro business will not remain profitable with its current legacy cost base. So now is the time to act.

Readers' behaviours have changed and will not change back.

Let me make it clear – the pressures on Metro – are not because the editorial is not good enough, or the sales team has missed opportunities, or that cost control has been less than rigorous. We are confronting a “perfect storm” of structural and cyclical forces – and it is global.

And the Metro business has to stand alone as a profitable business. We will not cross subsidise it with the earnings of our other divisions. The actions we are taking today are designed to ensure it doesn't occur.

As I have said – today's changes are massively accelerating the Metro's move to a digital future – a flexible future that will only feature print if readers want it and are prepared to pay for it.

I will now take you through the decisions – in summary they include a significant restructure of the business, further cost cutting and steps to strengthen our balance sheet:

Specifically this will include:

The SMH and The Age will be moving to the user-friendly Australian Financial Review format size, with the new formats to be launched on Monday, 4 March 2013. But while the size is changing, there will be no change to our commitment to independent journalism. I am sure most of you are aware that many quality mastheads around the world have already moved to this format – The Times, The Independent and the Boston Herald to name a few.

We are also changing the way we deliver our journalism – with a significant restructure of our Metro editorial teams to achieve greater integration across print, digital and mobile platforms, and better sharing across geographies. And...

Having already created the largest digital news audience in Australia, we are introducing digital subscriptions to our Metro mastheads by the first quarter of 2013. We'll be smart about this, introducing a “metered” model with a base level of free access. Plans and pricing details will be announced by the end of this year.

The changes to the format of our newspapers will enable us to close Chullora and Tullamarine print centres by the middle of 2014, with cost savings of \$44 million annually and that is what we will be proposing. The days of the huge printing plants built for our legacy print classified business are well and truly over.

We are accelerating the Fairfax of the Future program to achieve the \$170 million in annual savings – that we have previously announced – in two years, not three. With the introduction of additional cost saving initiatives that we have now identified, the target for cost savings has been revised up to \$235 million.

There will be redundancies – including those already announced in Fairfax of the Future and the changes announced today – 1900 people will be leaving the company over the next three years.

Moving now to a balance sheet initiatives – already this morning we have sold down a further 15 per cent of TradeMe, realising proceeds of around \$160 million. This sell-down further strengthens the Fairfax balance sheet during a period of restructure costs, and means that the company's net debt (excluding debt held at a Trade Me) is now less than \$800 million.

During the day today and over coming days the people in the business leading the areas affected by these changes will take you through the operational detail of the timings and how they will occur.

We will meet with employees and the unions. Meetings have been scheduled for staff consultation with management in Sydney and Melbourne and our other centres.

The period ahead will be difficult as we work through the hard task of the redundancies. But we will deal openly and fairly with all concerned, and see this through.

In closing... as I said today is an historic day for Fairfax Media. The decisions we are announcing today will undoubtedly change the business – and while it will be hard – it will change the business for the better. While people will undoubtedly have strong views about the changes – I urge people to think twice before challenging the changes. In the current environment, these changes give the company the greatest chance to be a profitable and sustainable business in the future.

We must all do what it takes to ensure we remain the leading independent media company and a key voice in our markets.