



26 August 2008

MESSAGE TO ALL STAFF FROM DAVID KIRK AND BRIAN McCARTHY

To All Staff

We are announcing today a major restructure of corporate and group services and significant initiatives to improve the overall productivity and performance of many of our businesses.

Media markets continue to change rapidly but, notwithstanding our positive performance in adapting to these changes in our industry, to continue to succeed we need to continue to change.

These initiatives are a logical next step in the way we manage our business in response to the structural changes going on around us. This is a far-reaching program, designed to comprehensively restructure and reposition the business for years to come. We wanted to make a major change today across the company in order to accelerate our building of a strong and dynamic integrated media business.

We are reducing employee levels and devolving to operating businesses much of the corporate and group services. We are also streamlining reporting lines and initiating new ways of working to improve the efficiency of our publishing businesses in Australia and New Zealand. The number of employee redundancies involved across Australia and New Zealand is approximately 550, across many areas of the business. Approximately 30% of the redundancies affect editorial staff in Australia and New Zealand (and for New Zealand this includes staff already affected by the previously announced editorial project in subediting). Another 180 employees will be reassigned in the restructuring set out below.

Corporate and Group Services

The corporate changes we are making in Australia will simplify our structure, increase business unit accountability and control of support services and focus corporate on high-value or longer-term activities and governance.

A period of centralisation of business support services has resulted in a significant upgrading of the quality and effectiveness of our IT, Finance and Legal functions. This has put us in a good position to now partially return these functions to the operating businesses in order to improve responsiveness and better align resources with needs.

Resources and capabilities in HR, IT, Finance and Legal necessary to guide Group-wide programs and provide support for public company governance will be retained at the Group level. These include a small Convergence Development team and essential HR services, both of which will report to David Kirk.

A range of financial and legal services will also continue to report to the Corporate Office.

The Executive Leadership Team will be re-formed and take a more pro-active role in determining the agenda and providing leadership and decision-making for important group-wide activities.



As part of wide-ranging controls for discretionary costs, both the base salaries of the Executive Leadership Team Members, and the fees paid to the Board of Directors, will be frozen for the 2009 financial year.

The senior executives in Corporate and Group Services, Sankar Narayan, Linda Price and Gail Hambly, will be meeting with managers and staff in their respective areas to explain the details of the changes, next steps and any new reporting lines, and initiate a process for discussion with each person involved in this restructure to discuss reassignment or redundancy.

Australian Publishing and Printing

After a year in which new operating management has been put in place and significant synergies achieved, the time is right to take the next step in forming a truly integrated publishing business.

Metropolitan Publishing in Sydney. We are introducing changes and efficiencies in most areas of the business, including editorial, publishing services, marketing and newspaper sales, the contact centres, and the editorial library.

In addition, there will be a restructure for The Sydney Morning Herald and The Sun-Herald, bringing both papers under a 7-day roster to remove duplication. Editorial production processes are to be streamlined, with the production of some sections and special reports outsourced. However, the content creation and selection will remain under the control of their editors. The changes are to be implemented over the next three months by the senior editorial team, led by the Chief Executive and Publisher.

Under the new editorial structure, an Editor-in-Chief will be appointed. For the implementation, Group Executive Editor Phil McLean will be seconded to this role. SMH Editor Alan Oakley and Sun- Herald Editor Simon Dulhunty will remain in their current positions. It is anticipated that a permanent appointment to the Editor-in-Chief position will be made by July 2009.

Metropolitan Publishing in Melbourne. There will be reviews of operating, production and support processes in all areas, including editorial, to ensure optimal employment of staff and technology, and including outsourcing of elements that will not impact our quality position. As a result of this program, a number of positions will likely be declared redundant.

There will also be a wide range of initiatives to significantly reduce costs in all departments across the business including deferral of wage reviews for senior management, a review of our marketing spend, reduction of discretionary spending and a review of our distribution framework.

The process of change will be led by the Chief Executive and Publisher and will be implemented within a three month period through a review of each part of the business by each department head with appropriate consultation.

In Community and Regional Newspapers, NSW, a range of business improvement initiatives will be launched. Included are initiatives in classifieds, sales, newspaper production, branch and business unit management and back-office services.

In Web Printing, efficiencies in production schedules will be reviewed at Chullora.



In Regional Victoria and South Australia, pre press and production departments will be better aligned to increase efficiency and productivity.

In the coming days, senior executives and managers will begin discussing these changes with those affected and, as appropriate, consulting with the unions involved, with implementation over the coming weeks.

New Zealand Publishing

The New Zealand publishing business also has a number of initiatives in train which are capitalising on the investment that has been made in systems, technology and improvements in operating processes.

A previously announced project to centralise some sub editing functions while still retaining key subbing skills at the mastheads is near completion and will result in head count reduction of around 30 FTEs.

In addition the business has reacted to the softening economy and has had in place a non replacement policy for all but the most essential staff that has resulted in an FTE reduction of around 30 between March and the end of July.

A number of projects are now being progressed within the operating divisions which will further enhance operating efficiency and reflect the benefits delivered by the Genera system implementation and closer attention to productivity enhancement. In total all of the initiatives above will result in a head count reduction in New Zealand of around 160 FTEs.

In the coming days, senior executives and managers will begin discussing these changes with those affected and, as appropriate, consulting with the unions involved, with implementation over the coming weeks.

Conclusion

There will be criticism from some, inside and outside the company, that these changes, particularly in editorial, will compromise quality and critical mass in the metro mastheads and their mission. We reject that. This initiative has been carefully constructed by the publishers with full regard for the integrity of their mastheads. Our newspapers will remain true to their heritage and their values of quality and excellence.

This is a far-reaching program, designed to comprehensively restructure and reposition the business for years to come.

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.

David Kirk
CEO

Brian McCarthy
Deputy CEO