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Stock Rating
Overweight-V

Industry View
In-Line

Fairfax Media

Cost Savings Help Underwrite Our F2009 Estimates

Conclusion: To be clear, FXJ is a cyclical company, facing an advertising downturn in its major Australian and NZ newspaper markets over the next 12 months. The outlook remains challenging. But to its credit, we have seen some constructive moves in the last week: 1) today's cost saving initiatives which target a A\$50m EBITDA improvement by F2010E; and, 2) last week's small non-core asset sale - Carnival TV (A\$48m cash). We consider the cost saving initiatives as POSITIVE for shareholders. We have anticipated significant job cuts at FXJ's newspaper operations for some time, especially at its Sydney and Melbourne metros. The urgency for such a restructuring has become more acute this year, in part because of the cyclical downturn, but more so because of the structural problems experienced by major newspaper publishers worldwide. This is primarily due to the rapid growth of the internet as a vehicle for classified advertising and the subsequent reduction in revenues (and profitability) for newspapers. Put simply, newspapers' revenues have been going down while their cost base has been going up. FXJ's staff costs accounted for 45% of total costs in F2008, so jobs cuts were the obvious place to start – see page 3.

Earnings & Valuation Impact: Our estimates remained unchanged - we are still looking for EBITDA of A\$860m in F2009E (+4% yoy) and EPS of 25.3c (+1% yoy). But we have altered the composition – costs down (-1% \$25m), revenue down (-1% \$25m). **Importantly we believe the risk profile surrounding our F2009 estimates has reduced somewhat – which is positive.** Investors should have confidence the cost savings will be delivered – under the direction of Mr Brian McCarthy CEO of Australian Publishing. Whilst our estimates remain unchanged, we do explore what the EPS impact (+5% to +9%) and Valuation impact (+20c to +30c/share) would be, if the announced changes were considered truly incremental to the existing growth trajectory – see page 4.

Key Ratios and Statistics

Reuters: FXJ.AX Bloomberg: FXJ AU

Australia Media

Price target	A\$3.50
Shr price, close (Aug 26, 2008)	A\$2.98
52-Week Range	A\$4.99-2.57
Sh out, dil, curr (mn)	1,514
Mkt cap, curr (mn)	A\$4,510
EV, curr (mn)	A\$7,046

Fiscal Year ending	06/08	06/09e	06/10e	06/11e
ModelWare EPS (A\$)	0.25	0.25	0.26	0.26
Prior ModelWare EPS (A\$)	0.25	0.25	0.26	0.25
Revenue, net (A\$ mn)	2,883	2,961	3,011	3,056
ModelWare net inc (A\$ mn)	379	382	389	393
P/E	11.7	11.8	11.6	11.5
Div yld (%)	6.8	6.8	6.9	7.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
e = Morgan Stanley Research estimates

Recent Reports

Title	Date
Fairfax Media: Should FXJ Consider a Capital Raising to Lower Leverage? Andrew McLeod / Ben Holgate	Aug 22, 2008
Fairfax Media: Hypothetical: What if Mr JB Fairfax became Chairman of the Board? Andrew McLeod / Ben Holgate	Jun 30, 2008
Fairfax Media: Asset Disposals Could Improve ROE and Support a Higher P/E Andrew McLeod / Ben Holgate	Feb 22, 2008
SEEK Limited: Hypothetical – Why Newspaper Competitors Might Run the Numbers on SEK Andrew McLeod / Ben Holgate	Aug 20, 2008
APN News & Media: Lack of Internet Hurts – Should APN Have Acquired Trade Me? Andrew McLeod / Ben Holgate	Aug 13, 2008

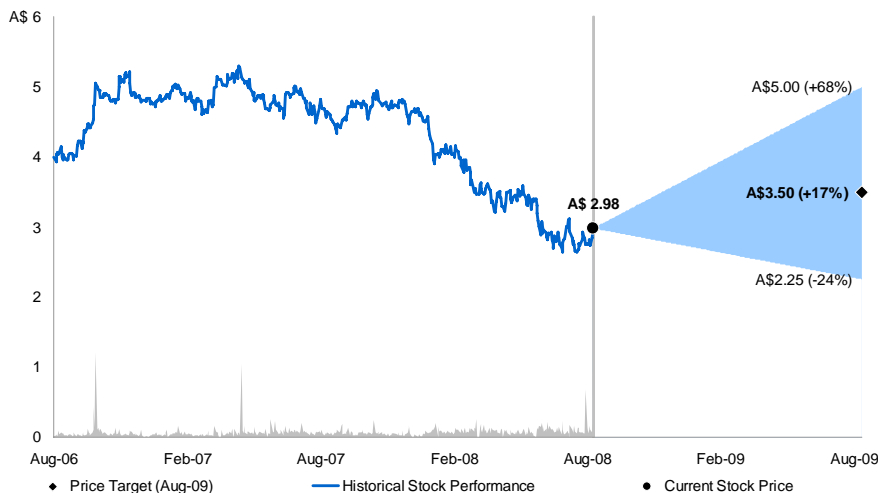
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Risk-Reward Snapshot: Fairfax Media (FXJ, \$2.98, Overweight-V, PT \$3.50)

Risk-Reward View: Risk/Reward More Attractive Than Media Peers



Investment Thesis

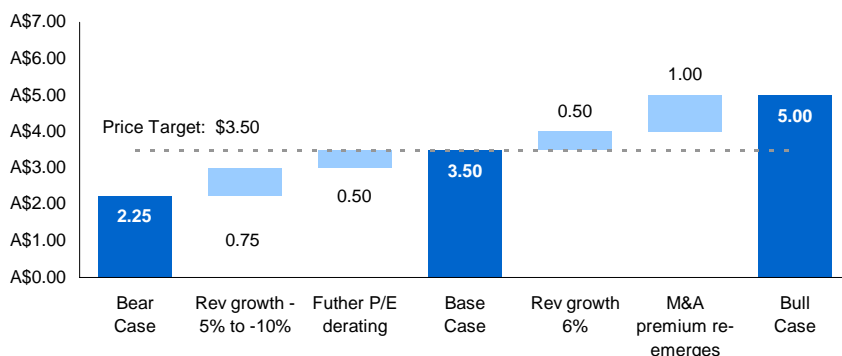
- FXJ remains our preferred Australian Media stock on a 12-18 month view.
- For perspective, our current ratings on its major Australian media peers are: Seven Network (Underweight), Ten Network (Underweight), West Australian Newspapers (Underweight), APN News & Media (Underweight) and Seek Limited (Underweight).
- What differentiates FXJ from its peers, in our view, is that we still expect some positive Revenue (+2% yoy), EBITDA (+3% yoy) and EPS growth (+1% yoy) in F2009E notwithstanding the advertising slowdown; and, it has the most advanced Internet strategy of the peer group. Also, there are strategic options which, if enacted, could add value for shareholders – such as asset sales, Board changes, etc., which we have written about.

Price Target \$3.50	Our price target is derived from our Base Case.	
Bull Case \$5.00	16.6x Bull Case F2009E EPS	No Advertising Slowdown. Revenue growth increases to 6% in F2009E with Bull Case EPS of 30.1c. Higher P/E multiple reflects increased possibility of corporate activity. A return to stable credit markets could see some M&A premium return to the stock.
Base Case \$3.50	13.8x Base Case F2009E EPS	Mild Advertising Slowdown. Revenue growth is 2% in F2009E, aided by recent acquisitions. EBITDA +4% aided by cost cutting initiatives. Base Case EPS 25.3c. Target P/E multiple selected of 13.8x represents a 10% premium to the broader market.
Bear Case \$2.25	11.3x Bear Case F2009E EPS	Severe Advertising Slowdown. Revenue growth in core Australian and New Zealand newspaper businesses falls -5% to -10% in F2009E. Bear Case EPS is 20.0c in F2009E. Lower target P/E multiple reflects added uncertainty of prolonged bear market.

Key Value Drivers

- To improve ROE and warrant a higher sustainable P/E we believe the Board should consider further non-strategic asset sales, withdrawing capital from underperforming areas, and pay down current debt levels, which we consider too high (see our FXJ report 22 August 2008).
- FXJ Board changes are possible, but not factored into our earnings, valuation or rating. But if this were to transpire, our conclusion is it would likely be positive for the stock price (see our FXJ report 30 June 2008).

Bear to Bull: Ad Revenue in F2009E the Key Factor to Share Price



Potential Catalysts

- Variation in the advertising cycle.
- Variance in operating cost outlook.
- Loss or gain of market share.
- Return of M&A activity to the sector, with an improved credit environment.

Source: Morgan Stanley, FactSet

Cost Cuts of A\$50m - that should do it for the next 18-24 months

In an email to staff that was subsequently published on various media websites, FXJ CEO Mr David Kirk described the retrenchments as “a far-reaching program, designed to comprehensively restructure and reposition the business for years to come”. Key details are:

- The job cuts will create A\$50m in annual cost savings. FXJ will achieve A\$25m of this in F2009, in addition to already identified synergy cost savings of A\$23m from the Rural Press (RUP) merger and A\$8m from the SBC radio merger this financial year. FXJ expects to reap the full benefit of the job cuts in F2010.
- About 550 employees are to be retrenched in Australia and NZ, which equates to about 5% of current staff costs (A\$952m in F2008).
- About 30% of sacked staff to come from newspaper editorial.
- Of those, 190 staff to be axed from NZ and 360 from Australia.
- FXJ Deputy CEO Mr Brian McCarthy said that of the Australian retrenchments, “the vast majority” would be in the Sydney and Melbourne metropolitan newspapers (*The Sydney Morning Herald* and *The Age*, respectively). Most of the cuts would come from sub-editing but there would also be some from writing staff. He said the impact on Australian regional newspapers would be “quite minimal overall”.
- FXJ plans to merge the staff rosters of its Sydney metro newspapers, *The Sydney Morning Herald* (Mon to Fri) and *The Sun-Herald* (Sunday), into a 7-day a week operation. The company did this with its Melbourne metro newspapers, *The Age* and *The Sunday Age*, some years ago and so has been on the cards for Sydney for a while.
- FXJ also plans to outsource sub-editing and other editorial production tasks “for some sections and special reports” in both Sydney and Melbourne. APN began a similar outsource program for sub-editing in C2007.
- Mr McCarthy added that 90 of the 360 Australian retrenchments would come from corporate and group services. We had expected that following the RUP merger in May 2007 FXJ would identify layers of middle management that might be culled within the broader newspaper operations.
- CFO Mr Sankar Nayaran said that of the A\$50m in cost savings, A\$10m (or 20%) would be in NZ and \$40m (or 80%) in Australia, even though NZ made up one-third of the head count reduction.
- FXJ will incur a one-off charge of A\$50m to carry out the redundancies. Most of this will be booked in 1H F2009 and the company will treat the amount as a significant item.
- FXJ's high-growth digital business have been spared job cuts at this stage.
- Senior executives and board directors will have their base salaries frozen in F2009.

CEO Mr David Kirk said he did not expect industrial action from either the journalists' or printers' unions. However, the company had not commenced discussions about the retrenchments with unions until yesterday (Tuesday 26 August). In our opinion, any protracted strike action by unions has the potential to adversely affect FXJ's revenue at its Sydney and Melbourne metro newspapers. Journalists at FXJ's metro newspapers historically have a higher rate of union membership than their counterparts at the newspapers of FXJ's main rival, News Limited.

Bottom line: We have anticipated significant job cuts at FXJ's newspaper operations for some time, especially at its Sydney and Melbourne metros. The urgency for such a restructuring has become more acute this year, in part because of the cyclical downturn, but more so because of the structural problems experienced by major newspaper publishers worldwide. This is primarily due to the rapid growth of the internet as a vehicle for classified advertising and the subsequent reduction in revenues for newspapers. Put simply, newspapers' revenues have been going down while their cost base has been going up. FXJ's staff costs accounted for 45% of total costs in F2008, so jobs cuts were the obvious place to start. We don't expect this to be the final cut, it will be the focus for next 12-24 months, but we expect such programs will become recurring as structural trends continue for foreseeable future.

Earnings Impact

For illustrative purposes, if today's announced costs cuts were taken at face value and treated as 100% incremental, then we estimate the **impact to FXJ NPAT/EPS would be between +5% to +9%** for the next three years:

F2009E: NPAT +A\$17.5m, EPS +1.2c => +5%

F2010E: NPAT +A\$28.0m, EPS +1.9c => +7%

F2011E: NPAT +A\$35.0m, EPS +2.3c => +9%

This would assume the A\$50m annualized EBITDA improvement is spread to A\$25m in F2009E (which is FXJ guidance), rising to A\$40m in F2010E (MS estimate) and then reaching A\$50m in F2011E (MS estimate). Then taxing those EBITDA gains at 30% tax rate, to derive the NPAT and EPS impacts above. The 1H F2009 redundancy charge of -A\$50m is treated as a NRI and taken below the line.

But as described earlier, because we already anticipated redundancies and cost cuts, in the order of A\$5-A\$10m per annum for the next 3 years, we have not made material changes to our estimates. Key elements:

- **Australian Metros -16% EBITDA for F2009E** to A\$147m vs. A\$174m in pcp. This is after benefit of A\$17m of today's cost cuts in F2009E.
- **NZ Newspapers -12% EBITDA for F2009E** to A\$145m vs. A\$164m in pcp. This is after benefits from A\$8m of today's cost cut initiatives in F2009E.
- Regional Newspapers +6% EBITDA growth for F2009E to A\$218m vs. A\$206m in pcp.
- Specialist Publications +3% EBITDA growth for F2009E to A\$91m vs. A\$86m in pcp. Printing +3% EBITDA A\$75m vs A\$73m.
- Internet Division +29% EBITDA forecast for F2009E to A\$147m vs. A\$114m in pcp.
- Radio Division +80% EBITDA for F2009E to A\$30m vs. A\$20m in pcp. Benefit of full 12 months.
- TV Production EBITDA A\$16m
- Corporate Overheads negative A\$10m.

Bottom line: No change to our FXJ F2009 estimates, we still forecast total FXJ EBITDA A\$860m (+4% yoy). But in composition Rev growth lowered from 3% to 2% and Operating Cost increase from 3% to 2%. All of the change has occurred in the Aust Metro and NZ Divisions. F2009 EPS estimate remains 25.3c (+1% yoy).

Valuation Impact

For illustrative purposes, if the cost saving initiatives and A\$50m EBITDA improvement announced today were treated as 100% incremental and were to be incorporated into our modeling we estimate the valuation uplift would in the order of **20c-30c/FXJ share**. We base this upon three different approaches:

1. **Capitalising the incremental EBITDA approach = 26c/FXJ share.** FXJ shares are currently trading on 8x EBITDA. If we were to apply the same capitalization multiple to cost savings worth A\$50m EBITDA on an annualized basis, this would increase EV A\$400m equating to A\$0.26/FXJ share.
2. **Applying P/E to incremental EPS = 22c/FXJ share.** After taxing the EBITDA savings, we would estimate an incremental NPAT lift of A\$17.5m in F2009E and A\$35m in F2010E, after taxing at full 30% corporate tax rate. With 1514m shares on issue this means a proforma lift to EPS of 1c in F2009- and 2c in 2010E. To which, if FXJ's current P/E of 10x is applied implied share price lift of 20c/FXJ share.
3. **DCF valuation lift = 27c/FXJ share.** If we take the bottom line cash flows with a trajectory: -A\$32.5m in F2009E, +A\$28.0m in F2010E, +A\$35.0m in F2011E and growing approach 3%pa thereafter, and we use a discount rate of 8.6% - which is the same as FXJ's WACC our DCF value of these changes in A\$0.35/FXJ share. But, given some uncertainty around timing of cost savings etc, some risk (albeit small in our view) that the cost targets are not met, we think it is appropriate to use a higher discount rate of 10.0%. On that basis DCF lift is A\$0.27/FXJ share.

Bottom line: For the purposes of our own financial modeling, as stated earlier, we have not materially altered our aggregate EBITDA, EPS or FCF/share estimates for the period F2009-F2011E. Therefore our valuation is unchanged. Our fundamental value range is A\$3.21-A\$3.82/FXJ share, and our Price Target A\$3.50/share (unchanged). Having said that, we do believe the risk profile surrounding our F2009 estimates has reduced somewhat – which is positive. Investors should have confidence these numbers will be delivered – under the direction of Mr Brian McCarthy CEO of Australian Publishing (ex-RUP CEO).

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Fairfax Media

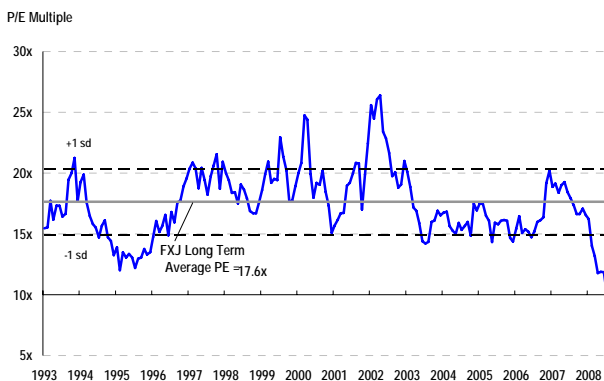
Valuation Update

Our fundamental valuation range A\$3.21-A\$3.82/FXJ share, and our price target of A\$3.50/FXJ share (unchanged) sits around the midpoint of that range.

Reduction is due to earnings revisions, and consistent with updated valuation work on FXJ and its Media peers, whereby we are applying lower target multiples and higher discount rates to reflect where we currently sit in the economic/ad cycle with lower growth prospects going forward.

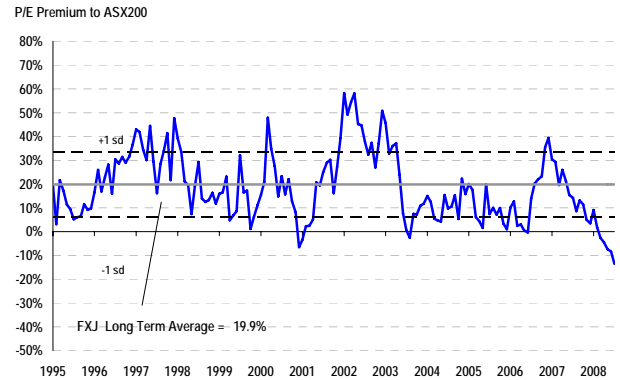
- **Our P/E valuation is A\$3.21/share.** Based on our F2009E EPS of A\$0.253 and an Australian F2009E market P/E multiple of 11.5x, plus a 10% premium, representing the low end of FXJ's historical range.
- **Our sum-of-parts valuation is A\$3.82/share at June 30, 2009.** This encompasses a target 8.0x trading EV/EBITDA multiple purely for FXJ's core Australian metro titles (*SMH, The Age*) with no associated Internet rights (which are valued separately), to reflect structural challenges facing these assets. We apply 11x to NZ Digital; 11x to Australian Digital; 10x to the Australian regional newspapers; 11x Business Publications (i.e., *AFR*), 9x to FXJ's NZ-based papers and 10x for RUP.
- **Our DCF valuation is A\$3.47/share.** Our DCF model assumes a WACC of 10.5% and a terminal growth rate of 3.0%. The implied terminal EBITDA multiple in F2016E is 9.9x. It is important to highlight that the beta applied of 1.10 sits in the middle of our Australian media universe, which ranges from 0.95-1.20.

Exhibit 1 FXJ: P/E Multiple Rolling 12mths Forward



Source: Datastream, Morgan Stanley Research.

Exhibit 2 FXJ: Prospective P/E Relative to Australian Market



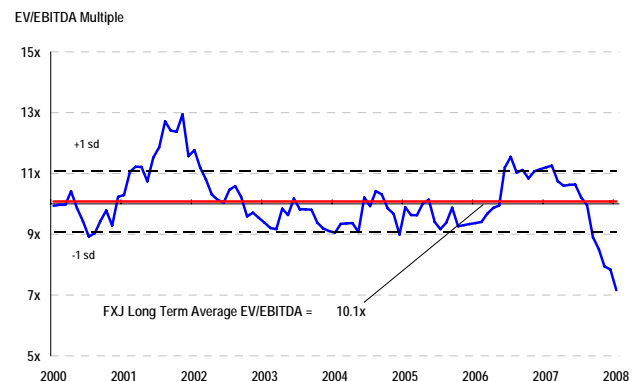
Source: Datastream, Morgan Stanley Research

Exhibit 3 FXJ: Fundamental P/E Valuation

Market Multiple F2009E	11.5x	10.4x	11.5x	12.7x	13.8x	15.0x
Fundamental P/E Applied		90%	100%	110%	120%	130%
PE Relative to All Ind.						
F2009E	\$0.233	2.42	2.68	2.95	3.22	3.49
F2009E	\$0.243	2.52	2.80	3.08	3.36	3.64
FXJ EPS	\$0.253	2.62	2.91	3.21	3.50	3.79
	\$0.263	2.73	3.03	3.33	3.63	3.94
	\$0.273	2.83	3.14	3.46	3.77	4.09

Source: Morgan Stanley Research estimates

Exhibit 4 FXJ: EV/EBITDA Valuation



Source: Morgan Stanley Research estimates

Risks to our price target include a variation in the advertising cycle from our Base Case, a cover price war versus, loss of market share to competitors (online and print), any variance in the operating cost outlook and any M&A activity.

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Exhibit 5

FXJ Income Statement (F2000 - F2015E)

Year end 30 June	unit	F2000	F2001	F2002	F2003	F2004	F2005	F2006	F2007	F2008	F2009E	F2010E	F2011E	F2012E	F2013E	F2014E	F2015E
SALES REVENUE																	
Australian Publishing	A\$m	1266	1225	1122	1184	1254	1307	1277	1326	1350	1318	1310	1302	1226	1219	1214	1202
Rural Press	A\$m								100	613	605	604	607	580	579	577	574
New Zealand Publishing	A\$m					478	525	521	508	507	467	468	466	442	454	455	456
SBC Radio	A\$m								67	117	123	129	132	137	143	148	
Australian Digital	A\$m	55	51	36	26	40	55	96	133	185	226	260	286	308	323	339	356
New Zealand Digital	A\$m							12	49	70	89	111	133	150	163	174	182
Southern Star TV Production	A\$m								88	130	127	124	122	120	117	115	
Southern Star TV Production (Associates)	A\$m								4	4	4	5	5	5	5	5	
Discontinued	A\$m	11	14	10	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL OPERATING REVENUE	A\$m	1332	1290	1167	1210	1772	1887	1906	2116.2	2883	2957	3007	3052	2964	2999	3023	3038
Change on pcp	%	18%	-3%	-10%	4%	46%	6.5%	1.0%	11.0%	36.2%	2.5%	1.7%	1.5%	-2.9%	1.2%	0.8%	0.5%
Non operational revenues	A\$m	76	46	30	7	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL REVENUES	A\$m	1409	1336	1197	1217	1772	1887	1906	2116	2883	2957	3007	3052	2964	2999	3023	3038
OPERATING COSTS																	
Australian Publishing	A\$m	-849	-896	-878	-912	-945	-982	-982	-1032	-1036	-1012	-1004	-1011	-1007	-1010	-1013	-1014
Rural Press	A\$m								-67	-411	-390	-400	-392	-400	-407	-413	-417
New Zealand Publishing	A\$m					-336	-349	-345	-345	-343	-322	-326	-331	-334	-338	-341	-345
SBC Radio	A\$m								-47	-87	-91	-96	-98	-102	-107	-112	
Australian Digital	A\$m	-93	-87	-59	-28	-37	-48	-72	-96	-130	-156	-172	-181	-188	-196	-201	-207
New Zealand Digital	A\$m							-4	-5	-9	-12	-16	-19	-21	-22	-23	-23
Southern Star TV Production	A\$m								-76	-117	-121	-126	-130	-135	-139	-144	
TOTAL OPERATING COSTS	A\$m	-942	-982	-937	-940	-1318	-1379	-1404	-1545	-2051	-2097	-2130	-2155	-2178	-2209	-2238	-2263
Change on pcp	%	16%	4%	-5%	0%	40%	4.6%	1.8%	10.1%	32.8%	2.2%	1.6%	1.2%	1.1%	1.4%	1.3%	1.1%
EBITDA - total	A\$m	390.3	307.8	230.6	270.5	453.5	508.3	502.6	570.9	831.7	860.1	876.9	897.2	786.1	790.3	785.6	774.9
EBITDA - Australian Publishing	A\$m	428	343	253	272	308	325	295	294	314	306	306	291	219	209	201	189
EBITDA - Rural Press	A\$m								33	202	215	204	215	180	172	164	156
EBITDA - New Zealand Publishing	A\$m					142	176	175	163	164	145	141	136	108	116	114	111
EBITDA - SBC Radio	A\$m								20	30	32	34	34	35	35	36	
EBITDA - Australian Digital	A\$m	-38	-35	-23	-2	3	7	24	37	54	70	88	105	120	128	138	149
EBITDA - New Zealand Digital	A\$m							8	44	61	77	95	114	129	141	151	158
EBITDA - Southern Star TV Production	A\$m								13	12	6	-1	-8	-15	-22	-29	
EBITDA - Southern Star TV Production (Assoc)	A\$m								4	4	4	5	5	5	5	5	
Change on pcp	%	21%	-21%	-25%	17%	68%	12%	-1%	14%	46%	3%	2%	2%	-12%	1%	-1%	-1%
Depreciation & Amortisation	A\$m	-65.8	-66.5	-68.4	-69.2	-85.4	-82.4	-79.7	-94.0	-109.1	-113.8	-118.2	-121.1	-124.0	-126.9	-129.8	-132.7
EBIT - total operational	A\$m	324.5	201.3	162.2	201.3	368.2	425.9	422.9	477.0	722.7	746.4	758.7	776.1	662.1	663.3	655.8	642.1
Change on pcp	%	27%	-38%	-19%	24%	83%	16%	-0.7%	13%	52%	3%	2%	2%	-15%	0%	-1%	-2%
Net bank interest	A\$m	-47.6	-43.8	-29.7	-23.5	-71.9	-78.4	-78.3	-111.2	-186.9	-198.5	-194.2	-189.0	-183.4	-178.4	-174.3	-170.3
Net bond interest (PRESSES)	A\$m								-18.9								
Total Net Interest	A\$m								-97.2	-111.2	-186.9	-198.5	-194.2	-189.0	-183.4	-178.4	-174.3
Net Profit Before Tax	A\$m	276.9	157.5	132.4	177.8	296.3	347.5	325.7	365.8	535.8	547.8	564.5	587.2	478.6	484.9	481.4	471.9
Tax	A\$m	-101.2	-72.6	-43.5	-52.1	-87.9	-94.1	-93.3	-97.3	-139.3	-147.9	-158.1	-176.2	-143.6	-145.5	-144.4	-141.6
Net Profit After Tax	A\$m	175.7	84.9	88.9	125.7	208.4	253.4	232.4	268.5	396.5	399.9	406.5	411.0	335.0	339.4	337.0	330.3
Minority Interests	A\$m	0.3	0.0	0.0	-0.2	-0.8	-0.7	-0.6	-1.1	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.8
NPAT (pre-NRI)	A\$m	176.0	84.9	88.9	125.5	207.6	252.7	231.7	267.4	395.9	399.3	405.8	410.3	334.4	338.7	336.3	329.6
NRI - gross	A\$m	8.7	-7.9	-41.9	0.0	-20.5	0.0	-11.7	-25.0	-12.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRI - tax effect	A\$m	8.7	9.8	5.4	0.0	88.9	0.0	4.8	20.7	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRI - net	A\$m	17.4	1.9	-36.6	0.0	68.4	0.0	-6.9	-4.3	-8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net profit	A\$m	193.4	86.8	52.4	125.5	276.0	252.7	224.9	263.1	387.3	399.3	405.8	410.3	334.4	338.7	336.3	329.6
Analytical adjustments:																	
Add-back: Goodwill amortisation	A\$m	-1.1	-1.3	-1.3	0.0	0.0	0.0										
Subtract: PRESSES dividend	A\$m			-8.0	-16.6	-18.4	-18.5										
Subtract: SPS dividend	A\$m							-5.8	-16.7	-17.2	-17.2	-17.2	-17.2	-17.2	-17.2	-17.2	-17.2
NPAT (pre-NRI) available for ordinary FXJ s'holders	A\$m	177.1	86.2	82.2	108.9	189.2	234.2	225.9	250.7	378.7	382.1	388.6	393.2	317.2	321.6	319.1	312.4
Change on pcp	%		-51%	-5%	32%	74%	24%	-4%	11%	51%	1%	2%	1%	-19%	1%	-1%	-2%
Weighted average shares		728.8	731.3	735.0	734.9	886.5	919.0	931.7	1082.1	1505.8	1513.5	1513.5	1513.5	1513.5	1513.5	1513.5	1513.5
Change on pcp	%		0%	1%	0%	21%	4%	1%	16%	39%	1%	0%	0%	0%	0%	0%	0%
EPS - Reported (€)		26.5	11.9	7.1	17.1	31.1	27.5	24.1	24.3	25.7	26.4	26.8	27.1	22.1	22.4	22.2	21.8
EPS - Pre-NRI, Pre-Presses/SPS (€)		24.2	11.6	12.1	17.1	23.4	27.5	24.9	24.7	26.3	26.4	26.8	27.1	22.1	22.4	22.2	21.8
EPS - Pre-NRI, Post-Presses/SPS (€)		24.2	11.6	11.0	14.8	21.3	25.5	24.2	23.2	25.2	25.2	25.7	26.0	21.0	21.2	21.1	20.6
Modelware EPS (pre NRI, post PRESSES/SPS) (€)		24.2	11.6	11.0	14.8	21.3	25.5	24.2	23.2	25.2	25.2	25.7	26.0	21.0	21.2	21.1	20.6
Change on pcp	%	40%	-52%	-5%	35%	44%	19%	-5%	-4%	9%	0%	2%	1%	-19%	1%	-1%	-2%
DPS (€)		11.5	11.5	12.5	13.0	16.5	23.5	22.1	20.0	20.0	20.2	20.5	20.8	16.8	17.0	16.9	16.5

Source: Company Data, Morgan Stanley Research (E) estimates.

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Fairfax Media

Exhibit 6

FXJ Cash Flow Statement (F2000 - F2015E)

Year end 30 June	unit	F2000	F2001	F2002	F2003	F2004	F2005	F2006	F2007	F2008	F2009E	F2010E	F2011E	F2012E	F2013E	F2014E	F2015E
Operating Activities																	
Receipts from customers	A\$m	1302	1411	1318	1337.1	1926.6	2068.6	2114.4	2325.8	3193							
Payments to suppliers and employees	A\$m	-960	-1141	-1045	-1060.1	-1551.8	-1574.6	-1618.2	-1782.7	-2461.6							
	A\$m	342	269	273	277	375	494	496	543	731							
EBITDA - reported	A\$m	390	308	231	270	454	508	503	571	818.34							
EBITDA - success as a proxy for cash flow (% diffe	A\$m	14%	14%	-16%	-2%	21%	3%	1%	5%								
EBITDA - forecasts	A\$m										860.1	876.9	897.2	786.1	790.3	785.6	774.9
Working capital - change in acc receivable	A\$m										-72.2	-9.8	-8.7	17.0	-6.8	-4.6	-2.8
Working capital - change in accs payable	A\$m										62.8	6.3	4.6	4.3	5.8	5.4	4.7
Working capital - change in inventory	A\$m										-21.0	-1.1	-0.8	-0.7	-1.0	-0.9	-0.8
Working capital (incr.)/decr.	A\$m										-30.5	-4.5	-4.8	20.6	-2.0	-0.2	1.1
											829.7	872.4	892.4	806.7	788.3	785.4	776.0
Net Interest	A\$m	-42.9	-44.0	-31.1	-23.2	-66.7	-78.0	-94.7	-91.0	-184.3	-198.5	-194.2	-189.0	-183.4	-178.4	-174.3	-170.3
Corporate Bonds (SPS) coupon	A\$m										-17.2	-17.2	-17.2	-17.2	-17.2	-17.2	-17.2
Total finance charges	A\$m	-42.9	-44.0	-31.1	-23.2	-66.7	-78.0	-94.7	-91.0	-184.3	-215.7	-211.4	-206.1	-200.6	-195.6	-191.5	-187.4
Cash taxes paid	A\$m	-86.7	-108.7	-95.2	17.6	-76.0	-62.9	-98.1	-89.1	-136.2	-147.9	-158.1	-176.2	-143.6	-145.5	-144.4	-141.6
Other cash items - dividends rec'd	A\$m	109.1	41.0	0.4	0.5	3.5	2.4	5.0	2.0	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash items - redundancy paymts	A\$m	-4.2	-1.3	-11.2	-17.6	-16.9	-11.5	-20.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Cash flow	A\$m	317.5	156.5	135.8	254.4	218.7	343.8	288.2	364.9	419.7	466.1	503.0	510.1	462.5	447.2	449.5	447.0
Investing Activities																	
Payments for Property, Plant & Equipment	A\$m	-97.0	-216.9	-118.2	-187.2	-43.7	-48.2	-52.6	-88.7	-115.4	-115.0	-120.8	-124.4	-128.1	-131.9	-135.9	-140.0
Payments for Investments	A\$m	-11.0	-5.5	-0.2	-4.6	-0.6	-4.9	-21.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments for Controlled Entities	A\$m	-15.5	-2.4	0.0	0.0	-65.5	-8.7	-663.0	-574.2	-594.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments for Mastheads	A\$m	-5.8	-2.9	-6.4	-938.7	-0.4	-9.7	-14.2	-7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans to other entities	A\$m	-1.8	-4.6	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of PPE	A\$m	1.9	7.7	0.6	5.8	4.6	3.2	0.1	64.6	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of Investments	A\$m	0.0	0.4	1.0	1.9	1.1	7.8	0.0	-1.1	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of Controlled Entities	A\$m	0.0	24.0	12.4	0.0	0.0	0.0	0.0	23.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans repaid	A\$m	0.0	0.0	0.0	0.3	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Investing Activities	A\$m	-129.2	-200.2	-105.9	-1122.4	-104.2	-59.8	-750.7	-583.6	-698.7	-115.0	-120.8	-124.4	-128.1	-131.9	-135.9	-140.0
Financing Activities																	
Proceeds from Share Issues	A\$m	4.4	9.0	242.6	366.6	76.3	0.4	295.1	0.0	91.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return of Share Capital	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt drawn/(repaid)	A\$m	-133.4	116.8	-181.0	626.4	-97.0	-51.7	247.7	709.4	202.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Repayment of Borrowing	A\$m	-292.6	-37.7	-311.0	-40.5	-647.2	-233.8	-488.0	-547.5	-150.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Proceeds from Borrowing	A\$m	159.2	154.6	0.0	666.9	550.2	182.1	735.8	1256.9	352.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid - Ord shares	A\$m	-80.2	-84.1	-92.8	-104.8	-83.3	-121.1	-161.2	-176.3	-268.8	-305.7	-310.9	-314.5	-253.8	-257.2	-255.3	-249.9
Other items (Financing)	A\$m	11.6	0.0	0.0	-7.9	-1.8	-5.6	-0.4	-0.4	-14.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing Activities	A\$m	-197.6	41.7	-31.2	880.2	-105.9	-178.0	381.3	532.7	11.0	-305.7	-310.9	-314.5	-253.8	-257.2	-255.3	-249.9
											731.392						
Net change in cash	A\$m	-9.3	-2.0	-1.2	12.1	8.7	106.0	-81.3	314.0	-268.0	45.4	71.3	71.2	80.7	58.0	58.3	57.1
Cash at beginning of year	A\$m	19.8	10.6	8.5	7.3	19.4	28.1	134.1	52.3	366.3	93.9	139.2	210.5	281.7	362.4	420.4	478.7
Other (incl. Exch rate adjs)	A\$m							-0.6	542.6	-4.4							
Cash at end of year	A\$m	10.6	8.5	7.3	19.4	28.1	134.1	52.3	366.3	93.9	139.2	210.5	281.7	362.4	420.4	478.7	535.8

Source: Company Data, Morgan Stanley Research (E) estimates

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Fairfax Media

Exhibit 7

FXJ Balance Sheet (F2000 - F2015E)

Year end 30 June	unit	F2000	F2001	F2002	F2003	F2004	F2005	F2006	F2007	F2008	F2009E	F2010E	F2011E	F2012E	F2013E	F2014E	F2015E
Cash & Cash Eq.	A\$m	11	9	7	19	28	134	53	366	94	139	211	282	362	420	479	536
Receivables	A\$m	209	227	196	257	271	284	282	409	499	571	581	590	573	580	584	587
Inventories	A\$m	19	25	27	41	42	30	36	49	45	66	67	68	68	69	70	71
Other	A\$m			51	1	8	0	15	1	17	17	17	17	17	17	17	17
Current Assets	A\$m	239	260	281	319.1	348	449	386	824	655	794	876	957	1021	1087	1151	1211
Receivables	A\$m	14	5	3	2	3	9	0	1	4	4	4	4	4	4	4	4
Investments	A\$m	45	19	12	42	33	24	36	36	64	64	64	64	64	64	64	64
- Associates	A\$m	35	4	3	6	8	11	16	0	0	0	0	0	0	0	0	0
- Other	A\$m	9	14	9	35	25	13	20	36	64	64	64	64	64	64	64	64
Property, Plant & Equipment	A\$m	520	652	705	820	780	698	654	860	875	880	882	886	890	895	901	908
Intangibles	A\$m	1277	1278	1259	2204	2315	2351	2900	6131	6493	6493	6493	6493	6493	6493	6493	6493
- Mastheads	A\$m	1251	1254	1259	2204	2315	2351	2900	6131	6493	6493	6493	6493	6493	6493	6493	6493
- Goodwill	A\$m	26	24	0	0	0	0	0	0	0	0	0	0	0	0	0	0
- Other	A\$m	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	A\$m	59	58	55	39	52	63	95	148	203	203	203	203	203	203	203	203
- Future Tax Benefit / (Liability)	A\$m	59	58	55	39	52	63	95	148	203	203	203	203	203	203	203	203
Non Current Assets	A\$m	1914	2012	2034	3107	3183	3144	3686	7176	7638	7643	7645	7648	7652	7657	7664	7671
TOTAL ASSETS	A\$m	2153	2272	2315	3426	3531	3593	4071	8001	8293	8436	8521	8605	8673	8744	8814	8882
Accounts Payable	A\$m	205	159	179	279	255	205	202	290	330	393	399	404	408	414	419	424
- Trade Creditors	A\$m	198	152	179	279	255	205	202	290	330	393	399	404	408	414	419	424
- Other	A\$m	7	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Borrowings	A\$m	5	308	5	646	43	163	610	12	16	16	16	16	16	16	16	16
- Interest Bearing Debt	A\$m	5	308	5	646	43	163	610	12	16	16	16	16	16	16	16	16
- Convertible Notes	A\$m	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
- Lease Liabilities	A\$m	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions	A\$m	87	94	87	50	51	78	85	147	160	160	160	160	160	160	160	160
Other	A\$m	60	5	0	0	0	26	8	32	6	6	6	6	6	6	6	6
Current Liabilities	A\$m	358	565	271	974	349	472	905	481	512	575	581	586	590	596	601	606
Borrowings	A\$m	618	466	607	575	1074	885	934	2428	2496	2496	2496	2496	2496	2496	2496	2496
- Interest Bearing Debt	A\$m	618	466	588	574	1074	885	898	2428	2496	2496	2496	2496	2496	2496	2496	2496
- Convertible Notes	A\$m	0	0	0	0	0	0	36	0	0	0	0	0	0	0	0	0
- Lease Liabilities	A\$m	0	0	19	1	0	0	0	0	0	0	0	0	0	0	0	0
Provisions	A\$m	89	99	92	96	39	67	96	131	319	319	319	319	319	319	319	319
- PDIT	A\$m	47	57	57	60	2	45	82	90	149	149	149	149	149	149	149	149
- Other	A\$m	42	36	36	35	37	22	14	41	171	171	171	171	171	171	171	171
Non Current Liabilities	A\$m	707	566	699	671	1113	952	1030	2559	2816	2816	2816	2816	2816	2816	2816	2816
TOTAL LIABILITIES	A\$m	1064	1131	970	1644	1462	1424	1935	3040	3328	3391	3397	3401	3406	3412	3417	3422
NET ASSETS	A\$m	1089	1141	1344	1782	2069	2169	2137	4961	4965	5046	5124	5203	5268	5333	5397	5460
Ordinary Shareholders Funds	A\$m	1089	1141	1344	1777	2064	2165	2132	4948	4954	5031	5108	5187	5251	5315	5379	5441
- Contributed Capital	A\$m	619	628	871	1229	1358	1426	1542	4184	4318	4318	4318	4318	4318	4318	4318	4318
- Reserves	A\$m	5	5	5	7	26	28	-127	16	-186	-186	-186	-186	-186	-186	-186	-186
- Accumulated Surplus/(Deficit)	A\$m	464	508	469	541	680	711	717	748	822	898	976	1055	1118	1183	1246	1309
Outside Equity Interests	A\$m	0	0	0	4	5	4	5	13	11	12	12	13	14	14	15	16
TOTAL SHAREHOLDERS EQUITY	A\$m	1089	1141	1344	1782	2069	2169	2137	4961	4965	5042	5121	5200	5264	5329	5394	5457

Source: Company Data, Morgan Stanley Research (E) estimates

Company Description

Fairfax Media is a publishing company with operations in Australia and New Zealand. The company has newspaper publishing operations in metropolitan and regional markets, largely on the East Coast of Australia and across New Zealand. In 2006, FXJ bought 100% of New Zealand Online auction site, TradeMe. Other businesses include online classified sites attached to key mastheads and TradeMe, and magazine publishing.


Australia Media

Industry View: In-Line

Despite recent share price underperformance and the industry's valuation premium dissipating, EPS revision risk remains relatively high and skewed to the downside for this cyclical industry.

MSCI Country: Australia

Asia Strategist's Recommended Weight: 18.5%
MSCI Asia/Pac All Country Ex Jp Weight: 27.9%

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of July 31, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	Total IBC	% of % of Rating Category
Overweight/Buy	909	42%	290	45%	32%
Equal-weight/Hold	913	42%	270	42%	30%
Underweight/Sell	348	16%	83	13%	24%
Total	2,170		643		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

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Industry Coverage: Australia Media

Company (Ticker)	Rating (as of)	Price (08/26/2008)
Andrew McLeod		
APN News & Media Ltd. (APN.AX)	U (08/17/2005)	A\$3.3
Austereo Limited (AEO.AX)	O (08/28/2007)	A\$1.54
Fairfax Media (FXJ.AX)	O-V (07/14/2006)	A\$2.98
Seven Network Limited (SEV.AX)	U (02/27/2008)	A\$8.11
Ten Network Holdings (TEN.AX)	U (06/21/2007)	A\$1.66
West Australian Newspapers (WAN.AX)	U (10/07/2005)	A\$8.78

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