



The Australia/New Zealand Specialist

AUSTRALIA

FXJ AU Neutral
Price 2 Aug 10 A\$1.50

Volatility index High

12-month target A\$ 1.71

12-month TSR % +16.4

Valuation A\$ 1.71

- None

GICS sector Media

Market cap A\$m 3,516

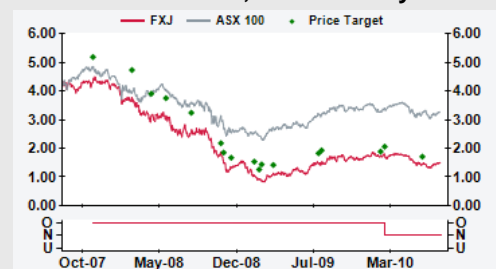
30-day avg turnover A\$m 12.2

Number shares on issue m 2,352

Investment fundamentals

Year end 30 Jun		2009A	2010E	2011E	2012E
Sales revenue	m	2,602.0	2,498.5	2,670.3	2,768.8
EBIT	m	487.7	508.1	631.9	674.5
Reported profit	m	-380.1	273.7	358.8	392.0
Adjusted profit	m	226.7	262.5	347.6	380.7
Gross cashflow	m	358.6	390.3	480.1	518.0
CFPS	¢	17.7	16.6	20.4	22.0
CFPS growth	%	-42.0	-6.1	23.0	7.9
PGCFPS	x	8.5	9.0	7.3	6.8
PGCFPS rel	x	0.83	0.93	0.92	0.91
EPS adj	¢	11.5	11.2	14.8	16.2
EPS adj growth	%	-49.7	-2.8	32.4	9.5
PER adj	x	13.0	13.4	10.1	9.2
PER rel	x	0.78	0.93	0.89	0.89
Total DPS	¢	1.8	2.1	3.0	4.9
Total div yield	%	1.2	1.4	2.0	3.2
Franking	%	75	36	75	75
ROA	%	6.1	6.8	8.5	9.0
ROE	%	4.6	5.2	6.6	6.9
EV/EBITDA	x	8.4	8.2	6.8	6.4
Net debt/equity	%	36.7	31.0	23.4	16.4
P/BV	x	0.7	0.7	0.7	0.6

FXJ AU vs ASX 100, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2010
(all figures in AUD unless noted)

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Fairfax Media

FXJ without metro newspapers?

Event

- We consider the value of FXJ in the event that it distributes its main mastheads, *The Sydney Morning Herald* and *The Age* not via the print product, but electronically.
- In addition, we note that the 2H10/FY10 result is to be released on 27 August.
- We estimate 2H10 EBITDA of \$301m, an increase of 28% over the pcp. This gives rise to 2H10 adjusted EPS of 5.1 cps versus 2.7 cps in the pcp.

Impact

- As reported in the press, we believe FXJ is considering the specifics of how the value of the company would change were it to eliminate most or all newsprint editions and move to a purely on-line distribution model for The SMH and The Age.
- **In short, a purely on-line distribution model could be significantly accretive, by as much as 25+%, under certain scenarios.** Naturally, there are significant assumptions that would have to be tested before the company went down that track – we are not naively advocating a change this material in the short term.
- However, on a three-five year basis, we believe there is no doubt the next stage of the shift on-line will accelerate markedly.

Earnings and target price revision

- No material changes to EPS.
- Target valuation remains \$1.71 per share.

Price catalyst

- 12-month price target: A\$1.71 based on a Sum of Parts methodology.
- Catalyst: FY10 result – details of restructure likely to be released

Action and recommendation

- Whilst we are maintaining a Neutral rating, this is under review pending further details of changes arising from the restructuring plan and greater clarity into the momentum of the ad market.

Analysis

- In our FXJ note *At the Crossroads* (15 June 2010), we reported that the board had engaged management consultants to perform a review of the FXJ five year strategic plan compiled by Brian McCarthy (CEO). We understand the plan includes a proposal to combine the editor in chief for both the print and online versions of key mastheads. We expect details of the plan will be released in conjunction with the FY10 results.
- Nevertheless, we believe that a more far-reaching examination of the FXJ business cannot be ruled out, including the elimination of newsprint altogether in *The Sydney Morning Herald* and *The Age* which we examine below.

Fairfax without newsprint in *The Sydney Morning Herald* and *The Age*?

- Metro publishing, as disclosed in the accounts, comprises two key mastheads *The Sydney Morning Herald* and *The Age* as well as suburban newspapers. Excluding the suburban newspapers, FY10 revenue from *The Sydney Morning Herald* and *The Age* (including *The Sun Herald* and *The Sunday Age*) is around \$600m, we believe, with costs of \$550m leaving EBITDA of \$50m.

Fig 1 SMH and Age to generate approximately \$50 million of FY10 EBITDA

\$m	FY10E	FY11E	FY12E
Revenue			
SMH, Age	600	648	669
Suburban	299	323	333
Total metro revenue	899	971	1,002
% chg on pcp	-2.6%	8.0%	3.2%
Costs			
SMH, Age	550	562	576
Suburban	242	247	254
Total metro cost base	792	809	830
% chg on pcp	-3.6%	2.2%	2.5%
EBITDA			
SMH, Age	50	86	93
Suburban	57	76	80
Total metro EBITDA	107	162	172
% chg on pcp	5.0%	51.3%	6.5%

Source: Company data, Macquarie Research, August 2010

- But what if the key Sydney and Melbourne mastheads were distributed electronically, via iPad, computer, smart-phone etc?
- Of the \$550m cost base, around 75% is in printing and distribution, which if eliminated in an on-line world would bring total expenses to \$138m.
- If FXJ were then able to hold both cover price and advertising revenue steady, this would be almost a tenfold increase in earnings to a considerable ~\$462m EBITDA. Of course, this probably wouldn't happen – advertising on-line goes for a fraction of the cost of advertising in print – between 20% and 50%.
- But if FXJ were to retain only 20% of advertising revenue under this new model, FY10 EBITDA would be \$103m – already a significant increase over the current year estimate of \$50 million – with the metrics getting even better as a greater percentage of advertising revenue is retained (see Fig 2).
- The biggest impediment right now is simply the lack of an installed base for e-readers (whether iPad or other).
- However, these economics beg some very significant questions. Would FXJ be better off giving away 100,000 e-readers (which at \$500 each would be \$50m) to seed the migration process? What sort of deal could be done with rival publishers such as NWS to cut print and production costs? Should the process begin with some editions of the print paper, or some sections? At the very least, they call into question all but the most essential of print capex.

Fig 2 If FXJ retains 20% of print advertising revenue online, we estimate FY10 EBITDA from the SMH and the Age is \$103m – double our current FY10 estimate of \$50m

Print adv revenue	% ad rev retained	Online adv revenue	Circ revenue	Total revenue	Cost base	FY10 EBITDA
450	20%	90	150	240	138	103
450	30%	135	150	285	138	148
450	40%	180	150	330	138	193
450	50%	225	150	375	138	238
450	60%	270	150	420	138	283
450	70%	315	150	465	138	328
450	80%	360	150	510	138	373
450	90%	405	150	555	138	418
450	100%	450	150	600	138	463

Source: Macquarie Research, August 2010

- The point is such a move is likely, but not in its entirety on day one – a seismic structural shift like this will take time for FXJ to convince both advertisers and consumers alike of its merits.
- The first step towards implementing this model is only likely to occur after initial figures of e-reader penetration hit a specific target, say 10,000, at which point FXJ would be in a position to review elements of its print and distribution cost structure with a view to removing some print runs/truck rolls/shifts etc.
- Along the way it may be that NWS also joins the party – although it should be said that NWS main agenda does not seem to be helping Fairfax.
- The other significant challenge for FXJ is to work its advertisers around to matching the print prices for advertising for the on-line product. The iPad is an interesting test case; if advertisers are happy to pay as much for iPad eyeballs (on the Herald application as it stands today) then the pure on-line model would have a chance.

Valuation impact of eliminating newsprint at *The SMH* and *The Age*

- For the purposes of our current valuation, we have ascribed a multiple of 8.5x to FY11 earnings of \$162m. At a valuation of \$1.71, this means these papers are worth \$1.4 billion.

Fig 3 FXJ current valuation - \$1.71 per share

FXJ Valuation	EBITDA	Multiple	Valuation
Sum of the parts	FY11	x	\$m
Sydney and Melbourne Publishing	161.9	8.5	1376.3
Australian regional publishing	170.5	7.5	1278.9
Aust. printing	106.5	6.5	692.1
Specialist pubs	77.9	7.5	584.4
Online	114.5	10.0	1145.0
NZ publishing	103.0	6.5	669.3
Broadcasting	31.8	7.5	238.2
Corporate & other	-13.5	7.0	-94.5
Target Enterprise Value			5889.7
Less: Net Debt (inc. SPS)			1868.7
Equity Value			4021.0
EFPOWA			2352.0
Value per share			\$ 1.71

Source: Macquarie Research, July 2010

- In order to illustrate the potential valuation impact of eliminating newsprint for digital distribution, we have extended our scenario analysis in Fig 2 to FY11.
- We then continue to assume that the current advertising revenue to circulation revenue split is 75-25, with a 75% reduction in the cost base by eliminating newsprint and distribution. See Fig 4 below for results.

- For example, if 50% of current advertising revenue is retained in the online migration, we estimate our FXJ valuation would increase 37% from \$1.71 per share to \$2.35 per share.

Fig 4 At 50% advertising revenue retained, our valuation increases by 37% to \$2.35

% ad rev retained	FY11 EBITDA	Multiple	EV SMH, Age	EV ex. metros	Total EV	Net debt	Equity value	EFPOWA	Value per share
20%	119	8.5x	1,010	5,158	6,167	1,869	4,299	2,352	\$ 1.83
30%	167	8.5x	1,423	5,158	6,581	1,869	4,712	2,352	\$ 2.00
40%	216	8.5x	1,836	5,158	6,994	1,869	5,125	2,352	\$ 2.18
50%	265	8.5x	2,249	5,158	7,407	1,869	5,539	2,352	\$ 2.35
60%	313	8.5x	2,663	5,158	7,820	1,869	5,952	2,352	\$ 2.53
70%	362	8.5x	3,076	5,158	8,234	1,869	6,365	2,352	\$ 2.71
80%	410	8.5x	3,489	5,158	8,647	1,869	6,778	2,352	\$ 2.88
90%	459	8.5x	3,902	5,158	9,060	1,869	7,192	2,352	\$ 3.06
100%	508	8.5x	4,316	5,158	9,473	1,869	7,605	2,352	\$ 3.23

Source: Macquarie Research, August 2010

- Clearly, a lot of work will have to be done with advertisers to keep upward pressure on advertising rates, especially on-line and even more particularly on the new readers (Samsung's product will be out within the month, which will mean that FXJ will need an application that works on Google's Android operating system).

2H10 preview

- Turning to the more immediate numbers, our 2H10 EBITDA estimate of \$301 million is underpinned by 2H10 revenue growth of 7.2% and a relatively flat 2% increase in the cost base, with Australian and NZ publishing the main contributors – all are expected to record revenue growth in the range of 6-8% (see Fig 5).

Sydney Melbourne Metro publishing

- We are forecasting 2H10 metro revenue growth of 8.3% with the cyclical advertising uptick in Australia well in train, though this is somewhat lower than the 19% revenue increase of metro free to air TV revenue for the same period. The 2H10 EBITDA number of \$53m (almost double the pcp) will be driven by operating leverage, as management operates off a much leaner fixed cost base.

Regional and NZ publishing

- We expect both Regional Australian publishing and NZ publishing will also record strong EBITDA growth rates of 15% and 28% respectively during 2H10. This is predicated on revenue increases of 6% and 6.8% respectively, demonstrating the operating leverage that significant costs cuts should also provide to these businesses.
- As regional assets tend to be more resilient to downturns in the economy, so the growth they will exhibit on the uptick should be more muted than their metro counterparts – thus the lower revenue growth rate we have ascribed to the regional segment. With NZ, we have factored in a lower growth rate than Australian metro publishing revenue as we expect the NZ advertising recovery will be a longer more protracted process.

Online

- We are forecasting revenue growth of 9% in 2H10 for online as the business continues to ramp up and find new avenues of growth such as the recent change to FXJ websites to embed auto-play videos into online articles (thus creating more ad impression opportunities).
- While longer-term structural issues still exist, the iPad and e-readers present a positive for ad yields in what has been a tough time for print businesses globally. How the online and print products integrate going forward will be watched closely, as advertising dollars online continue to be sub standard compared with higher print yields.

Radio

- We are forecasting revenue growth of 5% in 2H10, compared with data from Commercial Radio Australia suggesting metro radio revenue growth was 6.5% during the six months ended 30 June 2010 with 2UE, 3AW and Magic 1278 all posting lower ratings during the period.

Fig 5 2H10E EBITDA of \$301 million, a 28% increase on the pcp

	2H09A	2H10E	% chg	FY09	FY10	%chg	FY11	%chg
Revenue								
Metro media	408.0	441.7	8.3%	923.5	899.1	-2.6%	971.4	8.0%
Regional media (Australia)	239.2	253.6	6.0%	509.6	509.5	0.0%	540.0	6.0%
Printing (Australia & NZ)	42.6	44.7	5.0%	96.1	88.0	-8.4%	93.3	6.0%
Specialist media	134.6	141.3	5.0%	298.2	284.0	-4.8%	303.9	7.0%
Online	92.6	100.7	8.8%	186.7	202.5	8.4%	224.2	10.7%
New Zealand media	186.2	198.9	6.8%	410.1	394.4	-3.8%	411.8	4.4%
Broadcasting	50.6	53.1	5.0%	106.3	108.5	2.1%	112.9	4.0%
Corporate and other	0.3	5.0	nmf	11.6	12.5	7.8%	12.9	3.0%
Total continuing revenue	1,154.1	1,239.0	7.4%	2,542.1	2,498.5	-1.7%	2,670.3	6.9%
Discontinued operations	1.6	-	(100.0)%	59.9	-	-	-	-
Total revenue	1,155.7	1,239.0	7.2%	2,602.0	2,498.5	-4.0%	2,670.3	6.9%
Expenses								
Metro media	381.3	388.9	2.0%	821.6	792.0	-3.6%	809.5	2.2%
Regional media (Australia)	173.4	177.7	2.5%	357.9	358.7	0.2%	369.5	3.0%
Printing (Australia & NZ)	(1.3)	1.4	nmf	0.3	(12.9)	nmf	(13.2)	2.0%
Specialist media	112.9	115.2	2.0%	236.7	221.6	-6.4%	226.0	2.0%
Online	49.5	53.3	7.7%	95.9	101.9	6.2%	109.7	7.6%
New Zealand media	147.7	149.7	1.4%	312.9	307.2	-1.8%	308.8	0.5%
Broadcasting	40.3	40.7	1.0%	81.4	80.3	-1.3%	81.1	1.0%
Corporate and other	15.3	11.5	(24.8)%	37.8	25.6	-32.3%	26.4	3.0%
Total continuing expenses	919.1	938.4	2.1%	1,944.6	1,874.5	-3.6%	1,917.8	2.3%
Discontinued operations	1.6	-	(100.0)%	52.5	-	-100.0%	-	-
Total expenses	920.7	938.4	1.9%	1,997.1	1,874.5	-6.1%	1,917.8	2.3%
EBITDA								
Metro media	26.7	52.7	97.5%	101.9	107.0	5.0%	161.9	51.3%
Regional media (Australia)	65.8	75.8	15.2%	151.7	150.7	-0.6%	170.5	13.1%
Printing (Australia & NZ)	43.9	43.3	(1.3)%	95.8	100.9	5.4%	106.5	5.5%
Specialist media	21.7	26.2	20.6%	61.5	62.5	1.6%	77.9	24.7%
Online	43.1	47.4	10.0%	90.8	100.6	10.7%	114.5	13.9%
New Zealand media	38.5	49.2	27.8%	97.2	87.2	-10.2%	103.0	18.1%
Broadcasting	10.3	12.4	20.7%	24.9	28.2	13.4%	31.8	12.5%
Corporate and other	(15.0)	(6.5)	(56.7)%	(26.2)	(13.1)	-50.0%	(13.5)	3.0%
Total continuing EBITDA	235.0	300.6	27.9%	597.6	624.1	4.4%	752.6	20.6%
Discontinued operations	-	-	nmf	7.4	-	-	-	-
Total reported EBITDA	235.0	300.6	27.9%	605.0	624.1	3.2%	752.6	20.6%
D&A	60.9	60.9	-	117.2	116.0	-1.1%	120.6	4.0%
Recurring EBIT	174.2	238.7	37.1%	485.7	506.4	4.3%	630.2	24.5%
Non-recurring	(122.9)	-	(100.0)%	(664.3)	-	-	-	-
Equity accounted associates	(0.1)	1.0	nmf	2.1	1.7	-17.1%	1.7	0.0%
Total reported EBIT	51.2	239.7	368.3%	(176.6)	508.1	-387.7%	631.9	24.4%
Net interest	74.1	66.4	(10.5)%	174.9	129.6	-25.9%	126.4	-2.5%
Net profit before tax	(22.9)	173.3	nmf	(351.4)	378.5	-207.7%	505.5	33.6%
Tax								
Recurring	16.7	48.3	189.6%	71.6	104.2	45.6%	146.1	40.3%
Non-recurring	(23.4)	-	(100.0)%	(41.9)	-	-	-	-
Total tax expense/(benefit)	(6.7)	48.3	nmf	29.7	104.2	251.0%	146.1	40.3%
Net profit	(16.2)	125.1	nmf	(381.1)	274.3	-172.0%	359.4	31.0%
Minority interest	(1.5)	0.2	nmf	(1.0)	0.6	-157.8%	0.6	0.0%
Reported NPAT	(14.8)	124.9	nmf	(380.1)	273.7	-172.0%	358.8	31.1%
Non recurring NPAT	(99.6)	-	(100.0)%	(622.4)	-	-	-	-
SPS dividend	5.4	5.9	10.0%	15.7	11.2	-28.4%	11.2	0.0%
Adjusted NPAT	79.4	119.0	49.8%	226.7	262.5	15.8%	347.6	32.4%
Adjusted EPS	2.7	5.1	nmf	12.4	11.2	-9.8%	14.8	32.4%
Reported EPS	3.2	5.1	nmf	(21.6)	11.2	-151.7%	14.8	32.4%

Source: Company data, Macquarie Research, July 2010

Fairfax Media (ASX: FXJ AU)									
Year End 30 June		1H/09A	2H/09A	1H10A	2H10E	2009A	2010E	2011E	2012E
Profit & Loss									
Sales									
+ Sales Revenue	\$m	1,446.4	1,155.7	1,259.5	1,239.0	2,602.0	2,498.5	2,670.3	2,723.1
+ Other Revenue	\$m	-	-	-	-	-	-	-	-
Total Revenue	\$m	1,446.4	1,155.7	1,259.5	1,239.0	2,602.0	2,498.5	2,670.3	2,723.1
Operating Costs	\$m	1,076.4	920.7	936.0	938.4	1,997.1	1,874.5	1,917.8	1,944.7
Operating Surplus	\$m	370.0	235.0	323.4	300.6	605.0	624.1	752.6	778.4
- Depreciation	\$m	56.4	60.9	55.1	60.9	117.2	116.0	120.6	122.9
- Amortisation	\$m	-	-	-	-	-	-	-	-
EBIT consolidated	\$m	311.5	174.2	267.6	238.7	485.7	506.4	630.2	653.7
EBIT non-recurring	\$m	(541.4)	(122.9)	-	-	(664.3)	-	-	-
Share of associates profits	\$m	2.1	(0.1)	0.7	1.0	2.1	1.7	1.7	1.7
Total EBIT	\$m	(227.8)	51.2	268.3	239.7	(176.6)	508.1	631.9	655.4
- Interest Expense	\$m	100.7	74.1	63.2	66.4	174.9	129.6	126.4	122.3
+ Interest Income	\$m	-	-	-	-	-	-	-	-
Pretax Profit	\$m	(328.5)	(22.9)	205.1	173.3	(351.4)	378.5	505.5	533.1
Tax ordinary	\$m	54.9	16.7	55.9	48.3	71.6	104.2	146.1	157.0
Tax non-recurring	\$m	(18.5)	(23.4)	-	-	(41.9)	-	-	-
Total tax expense	\$m	36.4	(6.7)	55.9	48.3	29.7	104.2	146.1	157.0
Net Profit	\$m	(364.9)	(16.2)	149.2	125.1	(381.1)	274.3	359.4	376.0
- Minority Interests	\$m	0.4	(1.5)	0.4	0.2	(1.0)	0.6	0.6	0.6
Reported NPAT	\$m	(365.3)	(14.8)	148.8	124.9	(380.1)	273.7	358.8	375.4
- Preference dividends (PRESSES, SPS)	\$m	10.3	5.4	5.3	5.9	15.7	11.2	11.2	11.2
+ NRIs, net of tax	\$m	(522.9)	(99.6)	-	-	(622.4)	-	-	-
Adjusted NPAT	\$m	147.3	79.4	143.5	119.0	226.7	262.5	347.6	364.2
Gross Cashflow	\$m	214.4	144.2	204.3	186.0	358.6	390.3	480.1	499.0
EPS (adj)	€	9.7	2.7	6.1	5.1	12.4	11.2	14.8	15.5
EPS Growth	%	-0.3	-0.8	-0.4	0.9	-47.1%	-9.8%	32.4%	4.8%
DPS	€	2.0	0.0	1.1	1.0	2.0	2.1	3.0	4.0
Franking	%	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Dividend yield	%					1.3	1.4	2.0	2.6
Year End 30 June		1H/09A	2H/09A	1H10A	2H10E	2009A	2010E	2011E	2012E
Cashflow Analysis									
EBDIT	\$m	370.0	235.0	323.4	300.6	605.0	624.1	752.6	778.4
- Increase in Working Capital	\$m	-48.3	-67.8	41.8	-36.3	-116.1	5.4	7.4	4.4
- Net Interest Paid	\$m	96.8	81.5	54.7	66.4	178.3	121.1	126.4	122.3
- Tax Paid	\$m	52.4	17.4	3.8	48.3	69.9	52.1	146.1	157.0
+ Other	\$m	-63.8	-24.2	2.6	0.0	-88.0	2.6	0.0	0.0
Net Cash from Operating Activities	\$m	205.2	179.7	225.8	222.3	384.9	448.1	472.7	494.6
+ Proceeds from Sale of PP&E	\$m	13.5	2.9	1.0	0.0	16.4	1.0	0.0	0.0
+ Proceeds from Sale of Investments	\$m	37.8	70.6	2.6	0.0	108.4	2.6	0.0	0.0
- Capex	\$m	54.5	51.7	56.3	55.0	106.3	111.3	90.0	90.0
- Acquisitions and Investments	\$m	56.1	9.8	6.7	0.0	65.9	6.7	0.0	0.0
+ Other	\$m	0.0	-18.2	13.8	0.0	-18.2	13.8	0.0	0.0
Net Cash Used in Investing	\$m	-59.3	-6.2	-45.6	-55.0	-65.5	-100.6	-90.0	-90.0
- Dividends Paid	\$m	150.6	40.9	7.2	25.9	191.5	33.1	60.6	69.5
+ Equity Movements (inc. DRP)	\$m	-11.6	611.7	0.0	-148.5	600.1	-148.5	0.0	0.0
+ Debt Movements	\$m	-13.4	-742.1	-122.3	-52.0	-755.5	-174.3	-181.3	-185.8
+ Other	\$m	-2.6	0.7	0.0	0.0	-1.9	0.0	0.0	0.0
Net Cash in Financing	\$m	-178.2	-170.6	-129.5	-226.4	-348.7	-355.9	-241.9	-255.3
+ Net Exchange Rate Difference	\$m	5.0	-0.4	-0.9	0.0	4.6	-0.9	0.0	0.0
Net Cash Movement	\$m	-27.3	2.6	49.7	-59.1	-24.7	-9.3	140.7	149.3
Key Ratios									
- EBIT Interest Cover	x					2.8	3.9	5.0	5.3
- Operating Margin	%					23.3	25.0	28.2	28.6
- Pre-tax Margin	%					(13.5)	15.1	18.9	19.6
- Effective Tax Rate	%					(8.4)	27.5	28.9	29.5
- Payout Ratio	%					16.2	18.9	20.0	25.5
Year End 30 June		Balance Sheet				2009A	2010E	2011E	2012E
Trading Information									
Share Price	\$1.50	Cash				69.1	59.8	200.6	277.0
EFPOWA	2,352.0	Current Assets				509.6	556.8	728.0	827.7
Market Capitalisation (\$m)	3,516.2	Investments				46.7	43.5	43.5	43.5
		Fixed Assets				863.7	838.0	807.3	792.7
		Intangibles				2,554.4	2,330.3	2,330.3	2,330.3
		Other Assets				284.2	-	-	-
		Total Assets				7,595.2	7,323.6	7,464.2	7,549.3
		Short Term Debt				183.6	252.7	252.7	252.7
		Current Liabilities				641.9	733.8	756.9	774.5
		Long Term Debt				1,724.7	1,389.7	1,208.4	1,102.2
		Other Liabilities				167.8	46.9	58.7	64.4
		Total Liabilities				2,583.4	2,218.4	2,071.9	1,989.1
		Net Assets				5,011.8	5,105.2	5,392.2	5,560.2
		Minority Interests				9.4	9.6	9.6	9.6
		Shareholders Funds				5,011.8	5,105.2	5,392.2	5,560.2

Source: Company data, Macquarie Research, August 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	64.29%	54.41%	45.63%	65.08%	50.26%	(for US coverage by MCUSA, 4.58% of stocks covered are investment banking clients)
Neutral	35.16%	17.15%	38.24%	47.91%	30.69%	35.16%	(for US coverage by MCUSA, 5.56% of stocks covered are investment banking clients)
Underperform	14.29%	18.56%	7.35%	6.46%	4.23%	14.58%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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