

Fairfax Media Limited

Australian Securities Exchange: FXJ

Industry: Publishing: Newspapers

Meeting Date: November 10, 2009

Record Date: November 8, 2009

Lead Analyst

Bridget Murphy, bmurphy@glasslewis.com

2009 ANNUAL MEETING

Proposal	Issue	Board	GL&Co.
1.00	Accounts and Reports	Non-Voting	Non-Voting
2.00	Re-elect Roger Corbett	For	For
3.00	Elect Steve Harris	Against	Against
4.00	Elect Stephen Mayne	Against	Against
5.00	Elect Gerard Noonan	Against	Against
6.00	Remuneration Report	For	Against

NOTE

Except as noted A\$1.00 = US\$0.8064 (exchange rate as of June 28, 2009)

Company Profile

ADDRESS / STOCK

1 Darling Island Road Pyrmont, 2009 Australia
 www.fxj.com.au
 Phone: +61 2 9282 2833
 Fax: +61 2 9282 1633

Quote Symbol: FXJ
 Exchange: Australian Securities Exchange
 SEDOL: 6467074
 ISIN: AU000000FXJ5
 Benchmark Index: ASX 300

Industry: Publishing: Newspapers
 Employees: 9,800

Auditor: Ernst & Young

COMPANY DESCRIPTION

Fairfax Media Limited Formerly known as John Fairfax Holdings Limited. The Group's principal activities are publishing news, information and entertainment and advertising sales in newspaper, magazine and online formats, broadcasting and film and television production and distribution. It operates in Australia and New Zealand. In Australia, mastheads include The Sydney Morning Herald, The Age, The Australian Financial Review, The Canberra Times, BRW, The Sun-Herald, and The Land. Its New Zealand mastheads include The Dominion Post, The Press, The Sunday Star-Times, TV Guide, NZ House and Garden, and Cuisine.

MARKET INFORMATION / STATISTICS

Currency:	AUD
Price Close (as of 10/16/09):	1.73
52 Week High:	2.08
52 Week Low:	0.80
No. of Shares Outstanding:	2,352m
Market Capitalization:	4,034m
Enterprise Value:	6,201m

INCOME STATEMENT (LTM)

As of Jun 2009	(millions - AUD except per share data)
Revenue:	2,599
Net Income:	-396
EPS:	-0.19

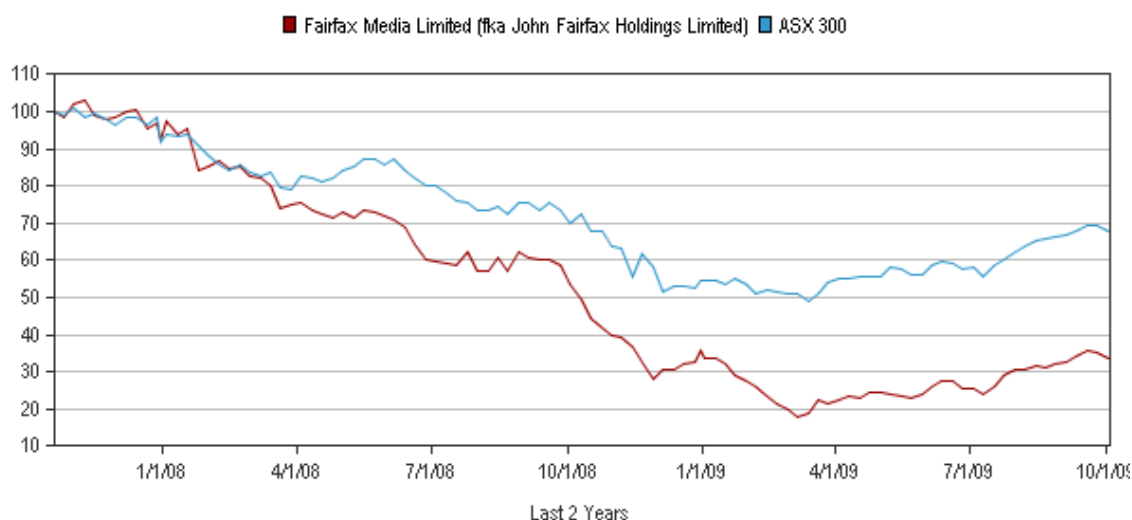
MARKET PERFORMANCE

1 Year Stock Performance:	-11.26%
3 Year Stock Performance:	-59.40%
5 Year Stock Performance:	-54.06%

BALANCE SHEET

As of Jun 2009	(millions - AUD)
Total Assets:	7,480.30
Total Liabilities:	2,468.51
Total Common Equity:	4,709.18

INDEXED STOCK PRICE



Source: Thomson Financial and Glass, Lewis & Co., LLC

Voting Results from Last Annual Meeting (November 13, 2008)

Source: ASX dated November 13, 2009

AS PERCENTAGE OF SHARES OUTSTANDING

No.	Proposal	Votes				Total	CGI GLC Recommendation
		For	Against	Abstain	Discretionary		
2.00	Re-elect Peter Young	64.77%	0.16%	0.13%	0.98%	66.04%	For
3.00	Remuneration Report	60.26%	4.57%	0.26%	0.97%	66.06%	For

AS PERCENTAGE OF VOTES LODGED

No.	Proposal	Votes				CGI GLC Recommendation
		For	Against	Abstain	Discretionary	
2.00	Re-elect Peter Young	98.07%	0.24%	0.20%	1.49%	For
3.00	Remuneration Report	91.23%	6.91%	0.39%	1.46%	For

Remuneration Details

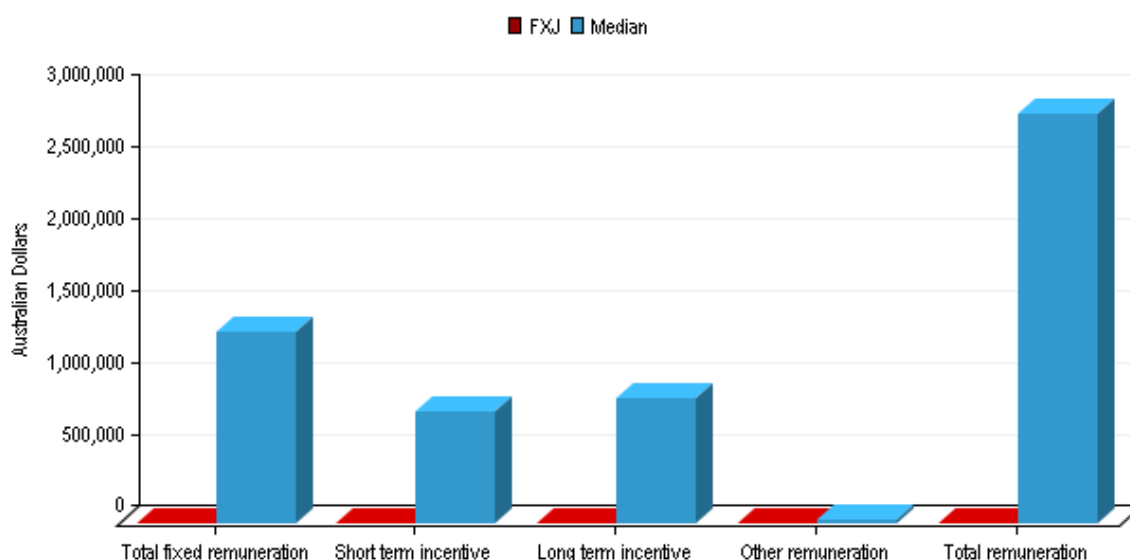
For Financial Year to June 30, 2009

NON-EXECUTIVE DIRECTORS

NEDs' fees + superannuation but excluding retirement benefits	Fairfax Media Limited	Median for ASX 50-100
Chairman	A\$366,240	A\$328,750
Median remuneration for other NEDs	A\$174,400	A\$133,750
Aggregate remuneration for NEDs	A\$1,597,940	
Total remuneration cap approved by shareholders	A\$2,000,000	
Notes	Retirement benefits have been frozen since 2004	

CEO REMUNERATION

	Fairfax Media Limited	Median for ASX 50-100
CEO - date of appointment	December, 2008	
Total fixed remuneration	N/A	A\$1,345,179
Short term incentive	N/A	A\$787,850
Long term incentive	N/A	A\$878,287
Other remuneration	N/A	A\$31,958
Total value of remuneration	N/A	A\$2,865,993
Notes	CEO not in position for full financial year	



Source: Guerdon Associates®

Shareholders will receive and consider the Company's financial statements and directors' and auditor's reports for the financial year ended June 28, 2009.

CGI Glass Lewis' Analysis

We believe that all of the necessary financial statements and reports are present in the Company's annual report. We note that, in the opinion of Ernst & Young, the Company's independent auditor, the financial statements and reports have been properly prepared in accordance with the generally accepted accounting principles in Australia.

This is a non-voting proposal.

BOARD OF DIRECTORS

Name	Up	GLC Classification	Committees			Term Start	Years on Board	Attended at least 75% of Meetings
			Audit	Rem	Nom			
Roger C. Corbett	✓	Independent ¹	C	✓		2003	6	Yes
David Evans		Independent		✓	✓	2005	4	Yes
John B. Fairfax		Affiliated ²		✓		2007	2	Yes
Nicholas J. Fairfax		Affiliated ³	✓		✓	2007	2	Yes
Steve Harris	✓	Outsider ⁴				-	-	N/A
Stephen Mayne	✓	Outsider ⁵				-	-	N/A
Brian K. McCarthy		Insider ⁶				2008	1	Yes
Gerard Noonan	✓	Outsider ⁷				-	-	N/A
Robert M. Savage		Independent	✓			2007	2	Yes
Peter F. Young		Independent ⁸	✓	C		2005	4	Yes
% Independent		40%	75%	75%	50%			

C = Chair

1. Chairman (from October 13, 2009). Deputy chairman from August-October 2009.
2. Chairman of a company that beneficially owns 9.89% of the Company's issued ordinary shares.
3. Director and son of the chairman (John B. Fairfax) of a company that beneficially owns 9.89% of the Company's issued shares.
4. Self nominated candidate. Not currently on the board.
5. Self nominated candidate. Not currently on the board.
6. MD/CEO (from December 10, 2008). Former deputy CEO and CEO, Australia from May 2007-December 2009.
7. Self nominated candidate. Not currently on the board.
8. Senior advisor of an entity which received fees of A\$5.8million (US\$4.67million) for a 3 for 5 rights issue in financial year 2009.

Four candidates are standing for election as directors. Under Australian Securities Exchange Listing Rules, each director, other than the managing director, must retire by rotation at the first annual general meeting of shareholders ("AGM") after each three years of board service, but may seek re-election by shareholders. Additionally, any director, other than the managing director, appointed by the board subsequent to the last AGM must stand for election by shareholders at the next AGM.

Candidate and chairman elect Corbett retires by rotation at this year's AGM and, being eligible, offers himself for re-election.

Candidates Harris, Mayne and Noonan have nominated themselves for election to the board for the first time; the current board does not support their election.

Current independent non-executive chairman Ronald Walker and current independent non-executive director ("NED") Julia King will respectively retire prior to and at this year's AGM and are consequently omitted from the above board table.

Leaving aside the three self-nominated candidates, the Company's board of directors will then comprise seven persons, namely an independent non-executive chairman, three other independent NEDs, two affiliated NEDs and one executive director.

Both the Company and CGI Glass Lewis classify NEDs John B. Fairfax and his son, Nicholas

Fairfax, as affiliated because they represent the interests of 9.89% shareholder, Marinya Media Pty Limited ("Marinya").

We have also reviewed the independence status of Peter Young, as he was the chairman of investment banking for ABN AMRO Group (Australia and New Zealand) and head of telecommunications, media & technology client management for Asia Pacific during financial year 2009. During this time the Company entered into "an arms length transaction" with ABN AMRO as a part of a 3 for 5 rights issue. As a result, the Company paid ABN AMRO A\$5.8 million (US\$4.7 million) in related fees. We note that ABN AMRO has since been acquired by the Royal Bank of Scotland, and Mr. Young is no longer an employee of this company. Given that this relationship has now ended, we continue to classify Mr. Young as independent.

With an independent chairman and a majority of independent directors, the board structure meets both Australian Council of Superannuation Investors ("ACSI") and Investment & Financial Services Association ("IFSA") guidelines.

We bring the following issues to the attention of shareholders:

CEO and Chairman Succession

The board has undergone significant top-end changes during the year. In December 2008, former CEO David Kirk stepped down and was replaced in this position by Brian McCarthy. Mr. McCarthy had been named deputy CEO and CEO Australia in May 2007 and is the former MD/CEO of Rural Press, the John B. Fairfax controlled company acquired by the Company, with that acquisition resulting in the substantial shareholding of Marinya in the Company.

Recently, in a well-publicised move, Marinya announced it would not support the re-election of incumbent chairman Ronald Walker, who had stated that he would retire from the board at the 2010 AGM. In a press release dated September 17, 2009, John B. and Nicholas Fairfax stated the following:

"Mr. Walker is well aware of significant shareholder dissatisfaction with his tenure as Chairman. Marinya, for one, cannot see how Mr. Walker's stated intention to delay his retirement assists the company or its shareholders...After years of under-performance, Fairfax Media has a new management team, a streamlined cost base and is poised to re-build some of the shareholder value that has been destroyed."

Despite a press release dated September 18 on behalf of the independent NEDs, indicating that they unanimously supported Mr. Walker, the chairman announced his resignation shortly after the Fairfax notice. In a statement released September 28, the independent directors countered the Fairfax claim that Mr. Walker had entered into undue risk through debt-funded acquisitions in saying that all directors had unanimously voted in favour of the acquisitions, implying that both Marinya nominees were equally responsible. The independent NEDs publicly disputed other claims in the Marinya notice and concluded that then deputy chairman Mr. Roger Corbett would survey shareholders and name a new chairman *"amicably and quickly."*

More recently, on October 13, 2009, the Company announced in a press release that the board had *"unanimously resolved to elect Mr. Corbett as its new chairman"* with effect from Mr. Walker's retirement. It had been widely speculated that Mr. Corbett would ascend to this role, as his experience as deputy chairman of this Company, and a director for both the Reserve Bank of Australia and Wal-Mart made him the most likely candidate. Mr. Corbett also served as the CEO of

major ASX-listed company Woolworths from 1999-2006.

We see no reason to oppose Mr. Corbett's nomination this year. As stated above, he has been elected with the full support of the board, including the Marinya representatives, and has a track record of accountability on other public company boards.

Other Board Issues

Marinya, with under 10% of the equity, is over-represented with two of the seven directors (nearly 30% of the board) of this otherwise widely-held Company. We believe Marinya's representation should be reduced proportionately to reflect its shareholding, (i.e. one director).

One of those representatives, affiliated NED Nicholas Fairfax, serves on the audit committee. That does not meet ACSI or IFSA guidelines, which specify that an audit committee should consist solely of independent NEDs. CGI Glass Lewis also takes the view that only independent NEDs should serve on a company's audit committee. We will normally recommend against the re-election of an affiliated NED who serves as an audit committee member. Since, however, Nicholas Fairfax is not up for election at this year's AGM, we will monitor this issue going forward.

As a result of the board changes, the nominations committee will consist of only two directors following this year's AGM, independent NED David Evans and affiliated NED Nicholas Fairfax. We urge the board to name additional independent NEDs to this committee so that it is comprised of a majority of independent directors and chaired by an independent NED, as specified by ACSI, IFSA and CGI Glass Lewis guidelines. This key governance committee and its composition are of particular importance in this period of high board activity.

Shrinking the Board

CGI Glass Lewis is highly critical of this board for shrinking its size to eight members in the face of the candidacy of the three external candidates for election to the board. Such action by the agents of shareholders, the board, prevents their principals, the shareholders, from electing all candidates if that was their wish and can only be interpreted as designed to diminish the chances of the external candidates.

Need for Board Renewal

In the Company's ASX announcement of October 13, 2009, the outgoing chairman is quoted as saying that "*Board renewal is now in progress*" and the explanatory notes for this Proposal further say:

"[The directors] believe that the most effective process for board renewal is for the board to complete a full review of the skills required for the board and, following that analysis, to consider the most appropriate candidates with skills to fill those requirements."

CGI Glass Lewis agrees that renewal is needed and that, certainly in the first instance, the existing board should be given the opportunity to set that process in place. We concur with the board's rationale that it should first undertake a thorough review to determine the requisite and lacking skills before looking for candidates to fill vacant positions.

At the same time, given the events of the recent past and even earlier in time, we believe that shareholders need to take a close interest in that renewal process and in the board's performance in that process. We believe shareholders should clearly tell the board that they expect the process to be

accomplished promptly and transparently, culminating in a meaningful report by the board to shareholders outlining the outcome of its review and recommendations for the board's ongoing composition.

Current Board Candidates

CGI Glass Lewis generally does not support individuals who offer themselves for election to the board without the support of the board unless we believe that the appointment of the external candidate would provide for a more independent and effective board or otherwise be in the best interests of shareholders. Given the expressed intention of the board to review the skills required for the board and to consider appropriate candidates, we do not believe shareholders should support the self-nominated candidates at this time.

It follows from the foregoing that we believe that, at this AGM, the existing board should be returned and the external candidates should pursue their candidacies with the current board as part of the renewal review process.

On that basis and, as discussed above, we believe shareholders should vote against candidates **HARRIS HARRIS, MAYNE** and **NOONAN**.

Accordingly, we recommend that, at this AGM, shareholders vote:

AGAINST: Harris, Mayne and Noonan

FOR: Corbett

Note

The explanatory notes explain the conduct of the election of directors at this AGM as follows:

"As there are four candidates standing for two available board positions, if more than two candidates receive more "for" votes than "against" votes, only the two candidates who received the greatest number of votes "for" will be elected to the board.

No candidate can be elected with less than 50% of the votes cast in his favour.

The chairman intends to vote undirected proxies held by him in favour of the re-election of Mr. Corbett. He intends to vote undirected proxies he holds against the election of Messrs Harris, Mayne and Noonan."

Proposal 3.00: Elect Steve Harris

AGAINST

Please see analysis in Proposal 2.

Proposal 4.00: Elect Stephen Mayne

AGAINST

Please see analysis in Proposal 2.

Proposal 5.00: Elect Gerard Noonan

AGAINST

Please see analysis in Proposal 2.

This proposal seeks shareholder approval to adopt the remuneration report for the financial year ended June 30, 2009.

Listed Australian companies are required to prepare a directors' remuneration report and present it for shareholder approval. The report sets out the board's remuneration policy for its employees, executives and directors. This resolution is solely advisory and does not bind the Company.

We note that, for financial year 2009, remuneration for the Company's executives comprised:

- Base salary (including statutory superannuation);
- A short-term incentive ("STI") consisting of annual cash awards;
- The value of amortised performance rights under a long-term incentive plan ("LTIP"); and
- Other non-monetary benefits.

Termination Arrangements for CEO

CEO Brian McCarthy was appointed December 10, 2008, having previously served as deputy CEO and CEO Australia from May 2007. Mr. McCarthy's contract provides for base salary, a performance bonus and a long-term incentive opportunity. The terms of this agreement are set out in a draft executive service agreement, but the final sign-off has been delayed until clarification of the taxation department of shares allocated under employee share plans following the changes announced in the 2009 Federal Budget.

The Company may terminate the CEO's contract on 12 months' notice and the CEO may terminate the contract on 6 months' notice. The contract may be terminated without cause by written notice by either party or by payment in lieu of notice.

Short-Term Incentive

The Company has an STI, which is delivered in the form of cash. The CEO is eligible for an annual bonus of up to 100% of base salary and superannuation (A\$1.5 million with effect from October 1, 2009) per year, subject to the satisfaction of certain performance criteria.

Other senior executives are eligible for individualised target bonuses, typically of up to 50% of fixed pay and based on Company EBITDA and earnings per share ("EPS") targets (20%), specific business unit financial performance targets (60%) and other key performance indicators ("KPIs") (20%). For the CEO, 67% of the bonus is based on Company financial targets and 33% is based KPIs.

For financial year 2009, KPIs required performance in increasing revenue, reducing operating costs and achieving specific targets relating to other key strategic non-financial measures linked to drivers of the Company's performance, including circulation, readership and market position. Specific measures for individuals include EPS, EBITDA, revenue, circulation, readership targets and market position.

Retention Award

In 2005, two key executives, Sankar Narayan and Gail Hambly, entered into agreements for retention payments of A\$300,000 (US\$241,920) each, payable in shares, associated with the recruitment and transition to the former CEO. The awards vested in tranches, with the final tranche vesting on October 1, 2008.

Long-Term Incentive

The Company introduced a new long-term equity-based scheme in August 2007. Previously, LTIs consisted of deferring a portion of the annual bonus into Company shares for a three-year holding period.

Details of the current plan are as follows:

Plan Title:	Long Term Equity Based Incentive Scheme ("Long Term EBIS")
Participants:	Key executives
Awards:	Performance rights (zero exercise price options)
Administrator:	Personnel policy and remuneration committee
Performance Targets:	Awards are based equally on two metrics, total shareholder return ("TSR") relative to a comparator group comprised of the S&P/ASX300 Consumer Discretionary Index and compound growth in earnings per share ("EPS"), in both cases over three years.
Vesting Provisions:	Awards will vest according to the following schedule:
	<i>TSR Award:</i> No portion of an award will vest for performance below the median of the comparator group. For performance at the median, 50% of an award will vest. For performance in the upper quartile, 100% will vest. Between these points, awards will vest on a straight line basis.
	<i>EPS Award:</i> No awards vest if compound EPS growth is less than 7%. When EPS growth is 7%, 25% of awards vest with the remaining awards vesting pro rata with 100% vesting when EPS growth is 10% or greater.
Re-testing:	Awards are tested at the end of year three, and may be re-tested at the end of year four
Terms:	Awards may vest only after the three-year performance period has lapsed
Plan Limits:	Shares are bought on market
Individual Limits:	The CEO is eligible for performance-based share awards of up to 100% of his fixed pay
Change of Control:	The board has discretion as to vesting of awards in the event of a change of control
Hedging Policy:	Executives are prohibited from entering into any hedging arrangements on unvested securities

Notes:	This plan is currently suspended pending review of the revised tax treatment of employee share plans as a consequence of announcements made in the 2009 Federal Budget
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CGI Glass Lewis' Analysis

As shown on page 4 of this report, the remuneration levels of the chairman and non-executive directors are in line with the median of the Company's market cap peers.

Given that the CEO has not been in his current position for a full year, it is difficult to ascertain his remuneration level as compared to his peers. However, we note that his fixed pay level of A\$1.5 million (US\$1.2 million) is within a reasonable range as compared to the market cap peer group. In all, for 2009, the CEO received fixed remuneration of A\$1,363,839 (US\$1,099,800), STI remuneration of A\$298,220 (US\$240,485) and LTI remuneration of an amortised figure of A\$407,408 (US\$328,534). The total remuneration received by the CEO in 2009 was A\$2,069,467 (US\$1,668,818).

Save as indicated below, the remuneration report provides good disclosure of remuneration policy and structure.

We bring the following issue to the attention of shareholders:

- Former CEO David Kirk received a termination payment during FY2009 of A\$4,122,808 (US\$3,324,632). The remuneration report provides no explanation for this substantial one-off payment.

This concern is sufficiently material that we cannot recommend that shareholders support the remuneration report at this time. We are troubled by this "golden parachute," particularly without explanation and during a year in which profit after tax dropped from positive A\$386,878 (US\$311,978) in 2008 to a loss of A\$380,050 (US\$306,472) in 2009. While we understand that Mr. Kirk stepped down as CEO mid-year, we also believe he is responsible for the long-term financial health of the Company, having served as CEO over a three year period. Particularly in the absence of an explanation for this payment, we cannot recommend that shareholders endorse it by approving this remuneration report.

We await the details of the Company's revised remuneration structure once the relevant legislation has been passed and its implications for remuneration policy and structure have been assessed along with the advice of the Company's remuneration consultant.

Accordingly, we recommend that shareholders vote **AGAINST** this proposal.

Disclosure

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