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Southern Cross Broadcasting Ltd
70 Park Street
South Melbourne, Victoria 3205

Date of lodgement: 08-Mar-2005

Title: Open Briefing. Southern Cross. MD on H1 05 Results & Outlook

Record of interview:

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Southern Cross Broadcasting (Australia) Limited recently reported net profit of $33.3 million, before non-recurring items, for the first half ended December 2005, up 27 percent from $26.1 million in the previous corresponding period. You've said that "advertising conditions remain favourable". What are your earnings expectations for the current second half ending June 2005?

MD Tony Bell
We expect advertising market revenue to grow by around 6 percent in the second half. This is consistent with the industry forecast of steady growth in the 5 to 7 percent range for calendar year 2005. In the absence of unforeseen circumstances, we expect to achieve earnings growth in the second half.

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Southern Cross's revenue from television broadcasting was up 10 percent in the first half, but EBIT rose only 5 percent. Can you detail the primary contributors to the rise in costs?

MD Tony Bell
Our regional television division incurred new and higher costs associated with affiliation fees, transmission of digital services, provision of local news services, which we commenced in the second half of the 2004 fiscal year, and centralisation of operations and distribution.

Affiliation fees increased as a result of an estimated 16 percent increase in the percentage payable on revenue written by our stations in the Queensland and Northern NSW markets. A similar increase was incurred in our Southern NSW and Victorian markets in fiscal year 2004.

As we will have spent around 80 percent of our digital rollout and digitisation capital expenditure by June 30, 2005, the costs associated with providing dual analogue and digital services have also increased. Programming costs for our metropolitan television station, Channel 9 Adelaide, were higher than CPI escalation in the first half and comparable to increases experienced by Network Nine.

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What is the outlook for affiliation fees going forward? Are further significant rises contracted?

MD Tony Bell
By June 30, 2005 we would have borne the stepped up increase in affiliation fees in all of our four markets; Southern NSW and Victoria last financial year and Queensland and Northern NSW in the current year. Thereafter, that is in 2006 and until the maturity date of the long-term agreement, increases are mild and would have minimal financial impact.

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You've indicated that Channel 9 Adelaide increased earnings substantially. To what extent have you completed the turnaround of your Adelaide station? Is there scope to further improve its performance?

MD Tony Bell
The marked increase in Channel 9 Adelaide's earnings over the last 18 months is attributable to strong advertising market conditions, greater market share as a result of Nine's consistently top ratings and manageable programming cost increases. Scope for further improvement in performance is dependent on these three factors.

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What are your expectations for television earnings in the current second half given slower revenue growth and the ongoing impact of higher costs?

MD Tony Bell
We expect moderate growth for television earnings if revenue growth slows to around 5 percent in the second half. By the end of the second half, our television division will have borne most of the impact of higher costs and capital expenditure requirements. Going forward, we will be in a stronger position to take advantage of continuing industry growth.

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Southern Cross has continued to increase its revenue market share in television, but what are the implications for your market share of the recent ratings success of the Seven network, given your primary affiliations are with the Ten and Nine networks?

MD Tony Bell

Over the years, the diversity of our media assets has strengthened our financial position. Whilst we note the Seven network's improved ratings performance, it is difficult for us to predict the ratings impact on revenue market share at this early stage. All three networks are committed to ratings success, and as the ratings year is in such an early phase, the robustness of each network's program schedule is yet to be tested.

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Southern Cross's radio broadcasting revenue was up 11 percent in the first half compared with national metropolitan radio revenue growth of 14 percent. This implies some slippage in your revenue market share. What is the outlook for revenue growth given an increasingly competitive and fragmented radio market?

MD Tony Bell

The national metropolitan radio revenue growth of 13.7 percent reflected both a healthy market and the absorption of the new, high rating Nova group of stations. Our Sydney station 2UE's revenue growth has been less than market growth however, we believe that as Sydney's No. 3 rating radio station, it is a high rating station with very firm foundations for future success. 2UE has a strong line-up of personalities in John Laws, Mike Carlton, John Stanley, Steve Price and Stan Zemanek and the market continues to support the station. With the impending launch of DMG's new FM stations in Sydney, Melbourne and Brisbane, those markets will be further fragmented which should have a positive impact on our Talk Radio network.

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EBIT from radio broadcasting was up 26 percent in the first half to $9.7 million. What is the outlook for radio earnings in the current second half? What scope is there to achieve further cost efficiency in your radio operations given slower revenue growth?

MD Tony Bell

We expect radio market revenue growth in the 5 to 7 percent range in the second half. We will continue to focus on operating cost containment, increased audience and revenue share, including superior sales initiatives. In the absence of unforeseen circumstances, we expect radio earnings growth in the second half.

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The Southern Star film and television production and distribution business contributed EBIT of $1.2 million to the first-half result. To what extent is Southern Star performing in line with your expectations at the time of its acquisition in April 2004?

MD Tony Bell
The EBIT of $1.2 million was after the amortisation of goodwill and also excluded our $1.7 million share of the Endemol joint venture profit. For the first half, Southern Star contributed EBIT of $4.7 million before amortisation of goodwill. We are pleased with the acquisition of Southern Star and its continuing contribution to group profits.

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What is the outlook for the Southern Star business in the current second half?

MD Tony Bell
Southern Star is expected to trade consistently in the second half with a solid production slate and a growing library for international sales. We will benefit from a full six months' contribution from Carnival (Films and Theatre) UK. Our acquisition of the remaining 60 percent of Carnival on December 1, 2004 is also expected to yield operational synergies as it is combined with our other UK operations.

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Cash flow from operations was up 4 percent to $32.6 million in the first half and at the end of December gearing (excluding converting preference shares) had dropped to 35 percent from 41 percent six months earlier. What's the outlook for gearing at the end of June? To what extent would you regard the balance sheet as under-geared?

MD Tony Bell
Because the broadcasting licences were last revalued in 1996, the conventional debt-to-equity method of calculating gearing may not be that relevant. On a debt to market capitalisation basis, our gearing is around 20 percent. Being sensitive to the share price, we cannot reliably estimate gearing at the end of June. Nevertheless, we consider we have a strong balance sheet and a comfortable gearing level and that we are in a position to take advantage of any growth opportunities and capital management initiatives.

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You've forecast relatively high capex of over $50 million in the current year, compared with $27.2 million in the year to June 2004. You've also flagged that this will be the last year of substantial spending relating to the roll-out of digital transmission infrastructure. What's the outlook for capex and annual depreciation charges going forward?

MD Tony Bell
We estimate capex will drop to about $20 million in fiscal year 2006 and to about $10 million in 2007; which is well below the current depreciation charge. As digital transmission assets, in general, have a long estimated useful life of 15 years and the increasing incidence of old analogue equipment being fully depreciated, the increase in annual depreciation charge should be marginal.

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Southern Cross announced a fully franked interim dividend of 33 cents per share, up from 30 cents previously. This is equivalent to a payout ratio of 48 percent. What is the outlook for the final dividend?

MD Tony Bell
The interim dividend of 33 cents represents a payout ratio of 67 percent of profit excluding the net non-recurring gain of $14.99 million. The dividend rate is approved by the Board having regard to a number of relevant factors including the financial position of the company, future outlook and strategy and enhancement of shareholders' wealth.

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What are the potential opportunities for Southern Cross if the Federal Government relaxes cross-media and foreign ownership restrictions as anticipated?

MD Tony Bell
Any change in Australia's cross media and foreign ownership laws may provide opportunities for the company and our shareholders because of our strong financial position with strong advertising conditions, an efficient and effective operating structure, a strong balance sheet, market capitalisation of around $1 billion, comfortable gearing level and an open register.

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Thank you Tony.

For more information about Southern Cross Broadcasting, visit www.southerncrossbroadcasting.com.au or call Tony Bell on (+61 3) 9243 2029

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