

2005 ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS

Ladies and Gentlemen,

I am pleased to report on a year in which Southern Cross Broadcasting again achieved solid growth in revenue and profitability.

- **Sales Revenue** reached \$535 million, representing an increase of 33% over last year, another record of revenue growth, which has been achieved over the last twelve consecutive years; and
- **Operating profit**, after tax and before specific items and interest on convertible preference shares, increased by 25% to \$58 million.

DIVIDENDS

The fully franked final dividend of 33 cents per share was paid on 14 October 2005.

- This, along with the interim 33 cents paid on 18 March 2005, represents 66 cents per share fully franked, an increase of 10% on the 60 cents paid in the previous year.
- At 66 cents per share, this represents a dividend pay-out ratio of around 80%.

On a share price of \$13.00 at the date of declaring the final dividend, this represents a fully franked income yield of 5.1%.

- This yield compares to the dividend yield on the S&P/ASX 200 Index of 3.87%.
- The amount of dividend paid is consistent with the company's objective of paying a high level of fully franked tax effective income to shareholders.

We have either maintained or increased our dividend every year for the last thirteen years.

Given no unforeseen circumstances, we intend to continue to maintain or increase dividend each year.

The Dividend Reinvestment Plan participation rate was 30.7%, despite the discontinuation of the 2.5% discount, a marginal increase from the 30.2 % for the previous dividend payment,

TOTAL SHAREHOLDER RETURN

I am also pleased to report that over the last two years, Southern Cross Broadcasting has achieved an estimated Total Shareholder Return of approximately 58 %.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The adoption of Australian equivalents to International Financial Reporting Standards (sometimes called IFRS) will be first reflected in the company's financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006.

The company has now transitioned its accounting policies and financial reporting to IFRS. The key areas where accounting policies will change and impact on the financial report are disclosed on pages 81 to 83 in our 2005 Annual Report.

The main financial impact includes:

- The Accounting of our Broadcasting Licences.

We are required to restate our broadcasting licence valuations back to original cost. Because we have not re-valued our licences since 1996, this would result in a write back of the Asset Revaluation Reserve of only \$28.7 million.

The \$28.7 million write back has no impact on retained profits;

- Digital License Fees Rebate

We have deferred the digital licence fees rebate of \$17.2 million (after tax) received over the last five years for matching with future incremental related costs of digital television conversion and roll-out. This will result in a favourable impact on 2006 net profit of \$2.4 million after tax and higher amounts over the following three years;

- Goodwill

The cessation of the accounting policy on goodwill amortisation amounts to \$4.2 million annually. Goodwill will however, be subject to periodic impairment tests. It is unlikely that the impairment test will lead to any write offs in the foreseeable future.

- Share Based Payment

The expensing of share-based payments will cost about \$1.9 million before tax for the 2006 financial year; and

- Convertible Preference Shares

The probable reclassification of the Convertible Preference Shares as a debt instrument will result in the reclassification of dividends paid to CPS holders as interest.

This will only have a short-term effect because all CPS expire on 31 March 2006.

DIGITAL TELEVISION

The Implementation Plan for our rollout of digital television in regional Australia is almost complete.

We are meeting the requirements under the **Government's Regional Equalisation Plan**.

We presently have standard definition digital services on air in 26 of our 30 television markets.

We also have high definition digital transmission on all of our services except for the Central satellite market and Spencer Gulf.

Our **operational infrastructure network**, centralised in Canberra and fully completed in November 2004, is significantly more efficient and cost effective than the analogue structure it replaced.

Our Canberra play-out facility is now responsible for the distribution of all 33 channels for our regional television across Australia.

The traffic and commercial scheduling systems for our regional television are centralised in Canberra, and we also broadcast regional current affairs programs and local news at regular intervals to all markets from this centre.

MARKET CONDITIONS

The 2005 financial year was another solid year for our media operations.

- Like all media companies, we have benefited from the overall strength of the advertising market. The metropolitan television market grew by **8.6%**, regional television by **6.7%** and metropolitan radio by **11.3%** over the prior year.
- On top of this market growth, our television operations increased their share of audience and generated revenue growth above the market average.
- Our Southern Cross Ten network has been particularly strong, achieving ratings and revenue growth in regional markets and absorbing higher costs of step-ups in program affiliation fees and digital transmission.
- With all major new and higher costs fully absorbed, we feel confident that revenue and profit growth will continue for Southern Cross Ten.
- The radio division achieved a particularly strong result with earnings growth of **14%** over the previous year.
- We positioned the company to effectively meet future challenges and to offset new or higher costs associated with:
 - affiliation fees
 - regional television localism
 - digitisation and
 - a more competitive radio environment

SOUTHERN STAR

We are pleased with the acquisition of Southern Star, with an impressive first full year contribution of \$11.4 million before interest, tax and goodwill amortisation.

In the last twelve months we increased our interest in Carnival, a Production House based in the UK to 100%, and we also acquired a 75% interest in Darrall MacQueen, a prominent UK independent children's program producer.

Southern Star has a solid production slate both here and in the UK, and its program sales arm has developed an exciting catalogue of Australia's best television productions.

OUR PERFORMANCE

Our recent acquisitions have helped achieve our strategic objectives of achieving sustainable earnings growth and improvement through the development of both national television and radio networks and diversification into television programme production and distribution.

- Our **potential audience** reach has increased to over 94% of Australia's population.
- We are Australia's largest independent producer and worldwide distributor of television programmes.
- Our **market capitalisation** has increased to around \$1 billion, allowing us to build a stronger and more profitable media group.

10 YEAR PERFORMANCE

Over the ten-year period, we have seen:

- our **profit** after tax increase from \$9.1 million to \$58 million;
- our **share price** increase from \$5.50 cents to \$13.61;
- our **dividends per share** increase from 26 cents to 66 cents

- our **market capitalisation** increase from \$149 million to around \$1 billion;
- our **total assets** increase from \$201 million to \$1,071 million; and
- our **gearing** (debt to equity ratio) improve from 58% to 29%.

Looking back over the last ten years, it can be seen that our success has resulted from the following actions:

- focusing on and building our **core businesses and related activities**;
- **restructuring** and integrating acquisitions very quickly and effectively after acquisition;
- constant and relentless focus on productivity and **cost containment**;
- hiring, training and retaining the **best people** and rewarding them appropriately;
- keeping the company **well positioned** to take advantage of opportunities as they arise;
- developing **training** programmes and management **systems** to improve the performance of our businesses; and
- maintaining a **disciplined** approach to creating value for shareholders.

We are a unique media group whose great strength is our diversity – by medium and by geography.

Our diversified portfolio of media assets protects our metropolitan and regional television and radio networks from the volatility of various sub-markets across Australia.

Our television group is affiliated with all three metropolitan commercial networks.

This diversity minimises the adverse effect that cyclical downturns and rating performances from time to time can have, on revenue and earnings on some media or sub markets. Also our television programme production and distribution operations, both in Australia and overseas, strengthen this diversity.

OUR PROSPECTS

Looking forward to the 2005/06 year, we remain cautiously confident.

- Based on unaudited management accounts, our first quarter earnings for our television and radio operations is up on the previous corresponding quarter. Our television revenue growth was flat, but radio revenue has grown 6%.
- Forward revenue projections for the second quarter ending 31 December 2005 indicate that the first quarter revenue trends have continued.
- Because of a soft and short television advertising market, we expect only marginal revenue growth for our broadcasting division in the first half. This growth reflects very little adverse movement in revenue market share and is consistent with industry trends. Whilst we anticipate achieving a higher growth rate in the second half, with the current data we cannot provide a reliable prediction on advertising market growth for the full year.
- Southern Star is performing well, with a considerable production slate and growing library of titles. Our Endemol/Southern Star joint venture continues to perform strongly, on the back on Big Brother, Deal or No Deal, Strictly Dancing and several other projects.

Coming off a 10% increase in dividend last year, we are optimistic that the company will deliver a modest increase in dividend in the current financial year.

Over the last few years we have incurred considerable capital expenditure predominantly to support the rollout of digital TV in regional areas. Over the next twenty-four months, this expenditure will be largely completed, and a considerable proportion of our operating assets will have been renewed.

Despite this expenditure, we have reduced our debt from \$273 million two years ago, to \$183 million at 30 June 2005, while paying out around 80% of our profits as dividends. With our debt reducing, and in the absence of a major acquisition, we will be focussing on capital management.

Southern Cross Broadcasting is a healthy business with strong performing television and radio assets, along with Southern Star's television program production and distribution business.

- The Board and management have a strong desire to continue to grow organically and by acquisition to create more shareholder value.
- We consider that the promotional attributes of:
 - our media business;
 - our financial strength; and
 - our talented and focused management team

provide a strong platform from which we can continue the growth achieved over past years.

- Any change in media laws will provide opportunities for the company and we will continue to be alert for core, bolt-on and related acquisition opportunities that add value for shareholders.

MANAGEMENT TEAM

The Board is grateful for the effort and dedication of the management team led by Tony Bell over the last 13 years.

- We believe we have assembled one the best broadcast media teams in the country, with a great blend of operating, programming and sales experience.
- Our senior management team has been further augmented with the team from Southern Star, who are not only exceptional television production and distribution executives but are also providing a new perspective across our existing broadcast businesses.
- The management team is by industry standards exceptionally stable, and is uniformly focused on driving revenue and containing costs, thereby increasing productivity and shareholder value.
- We also extend our sincere appreciation to the twelve-hundred plus talented, skilled and dedicated employees spread across Australia.
- Our employees have delivered on the many challenges over the past few years.

The Board acknowledges the important part they have played in the company's success.

COMMUNITY ACTIVITIES

Southern Cross Broadcasting recognises that our **broadcasting licenses and frequencies** are a public resource and accordingly we willingly provide over 600 non-profit community organisations with free advertising time through our television and radio stations worth over 30 millions of dollars. Our most outstanding single community achievement is the Channel 9 Adelaide Telethon which raised over \$1.3 million for 16 charities.

In addition, our media businesses are actively involved in their respective **communities through sponsorships and our employees** often participate and give generously of their time in those community activities.

MEDIA LAWS

The Government has foreshadowed a legislative change to relax restrictions on foreign and cross-media ownership rules. With our diversified portfolio of profitable and efficient media assets, we are both a potential acquirer and a potential target.

We are in a strong financial position and with proven experience, skills and judgement with acquisitions, we have created considerable shareholder value, particularly as a result of our post acquisition restructuring.

GOVERNANCE

The Board is committed to protecting and enhancing shareholder value and adhering to the highest standards of corporate governance and transparency. The Board supports the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. These are set out on pages 88 to 92 of the 2005 Annual Report. More detail of our Corporate Governance Statement, policies, procedures, Board and Committee Charters are available on the company's website.

In relation to recent media focus on directors' and executives' remuneration, I am pleased to report that our Remuneration Report has received overwhelming support from our shareholders.

The short term incentive components of the Managing Director and executives' remuneration are based on key performance indicator hurdles.

Our Executive Performance Plan provides a long term incentive for the Managing Director and our 25 senior executives. The incentives are based solely on a testing performance hurdle of Total Shareholders Return against the S&P/ASX 200 Industrial Index with vesting periods of a minimum of three years.

CLOSING

In closing, I offer my thanks to my fellow directors for their continuing and untiring efforts and to all shareholders for their support and interest in the company's activities.

- We have many shareholders who have maintained their shareholding in the Company since listing. We are delighted that this loyalty has been well rewarded with excellent long term shareholder returns generated by the Board and the management team.
- These returns have not been generated by accident – they are the result of canny acquisitions and tight management.
- We believe that our track record is impressive, but we are not resting on our laurels. The Board and management will together be doing their utmost to continue to grow your investment.

The Board believes that the company is strongly positioned to continue to provide growth for our shareholders.

- Our revenue continues to grow, driven both by the strength of the advertising market and market share improvement of our businesses.
- Our margins are amongst the best in the industry, due to a culture of our staff with tight cost control and the many excellent sales systems and staff performance incentives to deliver revenue.
- We have centralised operations where appropriate, resulting in both capital and operating savings.
- We have a proven track record of growing by acquisition.
- Our gearing is low and is projected to lower further, as we near the end of our digital television capital expenditure program.

- We have a high quality, stable management team and Board

We are still seeking to grow by acquisitions and the Board will continue to seek opportunities for the company to consolidate its growth over the coming years and to enhance shareholders' wealth.

John Dahlsen
Chairman