

**Southern Cross Broadcasting
Annual General Meeting 2005
10th November 2005**

Managing Director's Address

- Southern Cross Broadcasting has consistently provided superior returns to shareholders over the past ten years.

I would like to reflect briefly on some of our achievements:

- With the acquisition of 2UE and 4BC in 2001 and 4BH in 2003 we created a powerful national radio network.
- Our regional television network was completed with the acquisition of Telecasters in 2001 and Spencer Gulf in 2002
- We successfully moved into the television production and distribution business through the acquisition of Southern Star in 2004 and have made a number of small additions to that business since then

We have grown the business through acquisitions, integration, and by operating our businesses efficiently. We are embracing new technology and adapting our businesses.

The advertising market has been strong over the past three years:

- Growth in the regional television and metropolitan television advertising markets has averaged 9.0% and 8.0% respectively over the past three years and metropolitan radio, 9.2%; and
- Historically, growth in television and radio advertising revenue has typically exceeded the Consumer Price Index.

Let me first talk about our radio operations.

Our Talk Radio Network is the only national commercial Talk network.

- 2UE is one of Sydney's leading radio stations. The station is an opinion-leader in Sydney, and has established a solid, stable ratings position in the affluent 40 plus age group. Over the past 2 years the listeners for News/Talk radio in Sydney have grown by 270,000 people. We are yet to be satisfied with the station's financial performance and are currently implementing operational and meaningful programming changes to further lift ratings and revenue.

- **3AW, which is still comprehensively winning the ratings battle in Melbourne, has consistently led the market over the past ten years. Its sister station, Magic 693 has also contributed well to earnings**
- **In Brisbane we have 4BC and its sister music station, 4BH. The ratings and combined audiences are packaged for advertisers which has led to higher revenue levels and resulted in a healthy profit contribution to the group**
- **In Perth, 6PR completes our Talk Radio Network. We have adjusted the programming mix at 6PR over the last year and have seen a meaningful improvement in revenue and ratings. Our Perth FM music station, 96FM, currently rates Number One in 25-39 demographic and has generated strong profit growth over the past year.**

Over the last three years Australia's five biggest radio markets have met new competition with the introduction of additional commercial FM stations.

To date, these new licences have resulted in fragmentation of the FM market, with little impact on the AM. In an advertising market where ranking is critical, the fragmentation of the FM services has been positive for Southern Cross Broadcasting's AM stations.

Moving now to our metropolitan and regional television operations, which comprise:

- **Channel Nine Adelaide;**
- **Southern Cross Ten in the four aggregated television markets of Queensland, northern and southern NSW and Victoria; and**
- **our stations with predominately Channel Seven originated programs through Tasmania, Darwin, Central Australia and regional South Australia**

These stations reach a combined 8.2 million people.

Our affiliation with all three commercial networks provides an element of hedging against the individual ratings performance of each network; however, our reliance is heaviest on the Ten and Nine networks. There has been considerable discussion of late about the ratings performance of Ten and Nine relative to Seven. There is no

doubt that Seven has experienced a period of overall ratings growth. However,

- The Nine network is still the number one ranked network**
- The Ten network is still the number one ranked network in the 16-39 age demographic, which is an important demographic for television advertisers**

In our own markets, our stations have performed strongly

- Channel Nine Adelaide maintained revenue market share despite the adverse impact of the Athens Olympic Games televised on a competing network and significant ratings competition in the first half of calendar year 2005; and**
- Southern Cross Ten increased its revenue market share in fiscal year 2005. ...**

Ratings will continue to move over the next year, but we are confident that both the networks we rely on most will continue to be highly competitive with their respective target audiences.

Southern Cross Broadcasting's sales teams remained committed to growth in revenue market share. The company's sophisticated sales programs such as those carried out by the Southern Cross Business Development Unit, which analyses and overlays marketing data to assist with the selling process, have a significant influence on revenue, as does our innovative Market Share Plus plan which attracts new advertisers to both our radio and television divisions.

Our recently acquired Southern Star has performed exceptionally well and represents a platform for future long term growth.

Southern Star consists of two parts:

- 1. Southern Star Entertainment, which deals in the production of television programs of various genres, including Drama, Reality Television, Children's programs, animation and light entertainment; and**
- 2. Southern Star International which deals with world-wide sales and distribution of the company's extensive television library.**

We are also pleased with the trading to date of Satellite Music Australia, acquired on 1 July 2005. Satellite Music Australia is the leading supplier of subscription music to PAY TV operators and retail chains. SMA had only two sales people selling their services to

the retail sector. Their selling opportunities will now be greatly enhanced with Southern Cross Broadcasting's sales team which has over 300 people with relationships with almost every meaningful retail outlet in Australia.

Southern Cross Broadcasting has a reputation of restructuring newly acquired businesses and containing costs, but our objective to create value for our shareholders extends well beyond these elements. Looking forward, the following eight points further enhance our position for long term growth:

- 1. There will be no new radio licences for some time. The Government's framework for the introduction of digital radio provides for a moratorium on the issue of new commercial radio licences for a period of six years following the commencement of digital radio services in state capital markets;**
- 2. The introduction of digital radio should enhance the valuation of our AM stations. Digital radio will improve the sound quality provided by our AM stations, such that there will effectively be no difference between AM and FM.**
- 3. There is unlikely to be new competitors in television in the medium term. The Minister has stated the government's position that there was not a compelling case for a fourth free-to-air station at this stage and that the current arrangements were working well and delivering quality services to Australian viewers;**
- 4. We have a long term affiliation agreement with Network Ten;**
- 5. Our digital television capital expenditure requirements will be largely completed in 2007 and we expect our subsequent annual capital expenditure to fall well below depreciation levels;**
- 6. Digital television will create new revenue opportunities on data channels in the longer term;**
- 7. Australian free to air local content requirements provides stability for ongoing demand which is favourable for our television production interests; and**

8. Growth in the Pay TV market, and expected evolution of IPTV will create further demand for content, which Southern Star can benefit.

Over the last two years, we have positioned our company to meet future challenges of a more competitive radio environment, and new or higher costs associated with affiliation fees, regional television localism and digitisation. Our businesses have met these challenges and are now generating significant cash flow. We are on a strong financial footing to capitalise on any acquisition opportunities that may arise.

Southern Cross Broadcasting is an exciting company with energetic, knowledgeable people who possess an innovative attitude