

Southern Cross Broadcasting
2006 ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS

Ladies and Gentlemen,

The Annual Report detailing the company's performance for the year ended 30 June 2006 has been distributed to shareholders. Extra copies are available from the Company Secretary should they be required.

I am pleased to report on a year in which Southern Cross Broadcasting achieved a solid result in a difficult advertising market environment.

- **Sales Revenue** reached \$544 million, another record revenue over the last thirteen consecutive years;
- **Normalised Profit before interest, tax, depreciation and amortisation** was maintained at around \$111 million;
- **Normalised net profit after tax of \$57.4 million;** and
- **Our operating cost base** within both television and radio has been aggressively reduced to provide a stronger platform for the forthcoming financial year and beyond.

DIVIDENDS

The fully franked final dividend of 34 cents per share was paid on 13 October 2006.

- This, along with the interim 34 cents paid on 31 March 2006, represents 68 cents per share fully franked, an increase of 3% on the 66 cents paid in respect of the previous year.
- At 68 cents per share, this represents a dividend pay-out ratio of around 84%.

On a share price of \$11.54 on the day before declaring the final dividend, this represents a fully franked income yield of 5.9%..

- This yield compares to the dividend yield on the S&P/ASX 200 Index of 4.01%.
- The amount of dividend paid is consistent with the company's objective of paying a high level of tax effective income to shareholders.

We have either maintained or increased our dividend every year for the last fourteen years. Given no unforeseen circumstances, we intend to continue to maintain or increase dividends each year.

The Dividend Reinvestment Plan participation rate in respect of this dividend was 28.7 %, slightly down on the 31.4 % rate for the previous dividend payment.

SHARE BUY BACK

We have announced an on-market buy back of up to 7 million of our ordinary shares, representing 9.8% of the total number of ordinary shares on issue. This buy back is part of our commitment to efficient capital management and to offset the dilution from the issue of 7,665,210 ordinary shares upon conversion of all outstanding preference shares on 31 March 2006.

With the current strength in Southern Cross's share price, we have not bought back any shares since the Share Buy Back announcement.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first full year Australian equivalents to International Financial Reporting Standards ("AIFRS") compliant financial statements prepared by the company.

The key areas where accounting policies have changed under AIFRS are disclosed on pages 71 to 74 in our 2006 Annual Report.

The main financial impact includes:

- our broadcasting licences were restated to original cost resulting in a write back of the Asset Revaluation Reserve of \$28.7 million with no impact on retained profits; and
- deferral of the digital licence fees rebate amounting to \$16.9 million (after tax) for matching with incremental related costs of digital television conversion and roll-out. This will result in a favourable impact on 2007 net profit of approximately \$2.2 million and higher amounts over the next two years.

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 twenty eight of our thirty television markets. We also have at least 1,040 hours per year of high definition television on all of our services, except for the Central satellite market and Spencer Gulf regions.
- Our **operational infrastructure network**, centralised in Canberra, services all 33 channels of our regional television stations across Australia and is significantly more efficient and cost effective than the analogue system. We also broadcast local news to all of our markets, including 498 unique news updates per week to 19 markets and a weekly current affairs program, State Focus for each of our Southern Cross Ten stations.

DIGITAL MEDIA

We will be launching www.mytalk.com.au in the next few weeks. Mytalk is an on-line homepage with postcode driven national and local news, sport and financial information. Mytalk will rely on content sourced from our Australia-wide radio and television services and it will be used as a vehicle to extend our talkback radio to the web. A special feature of the service is the provision of a blogging capability which will give consumers a medium to express their views on national and local issues. Mytalk is an attractive on-line service for advertisers and it will be promoted heavily through the company's extensive media outlets.

MARKET CONDITIONS

The 2006 financial year was a difficult year for our media operations.

- Our television division suffered due to a difficult national market and loss of market share. The Adelaide television market contracted 1.8% and regional television grew 2.6% over the year. Our Ten and Nine affiliated stations experienced a reduction in audience and revenue share.
- The adverse impact on our regional television was minimised to a large extent by the strength of our sales capability (whilst national/agency sales declined 5.7%, our local retail revenue grew 4.3%) and the achievement of significant cost savings through tight cost control and implementation of restructuring at both management and operational levels.
- The radio division achieved a particularly strong result with earnings growth of 19.6% over the previous year.
- We have positioned the company to effectively meet future challenges and to take advantage of an upturn in the advertising market with a significantly reduced operating cost base, the cost savings associated with our Channel Nine Adelaide's loss of AFL broadcast rights, and the benefit from the new terms of the renewed program affiliation agreement with the Nine Network.

SOUTHERN STAR

Southern Star Group has continued to increase its contribution, achieving earnings growth of 14.4%. In the last twelve months, we derived a full year contribution from Carnival, UK and in 2007 we will also get a full year contribution from the recently acquired 75%-owned Darrall MacQueen, a prominent UK independent children's program producer. The 49%-owned Endemol Southern Star joint venture performed strongly with the highly successful Big Brother and Deal or No Deal.

Southern Star has a solid production slate in Australia and also in the UK. It also distributes Australian productions, Home and Away, Hi 5, All Saints and McLeod's Daughters worldwide.

SATELLITE MUSIC AUSTRALIA

We are pleased with the acquisition of Satellite Music Australia which returned around 10% on our investment and should continue to grow with increasing commercial subscribers from Pay television's new digital services.

COMMUNITY ACTIVITIES

Southern Cross Broadcasting recognises that our **broadcasting licenses** and **frequencies** are a public resource and accordingly we are strongly committed to supporting our local communities. We willingly provide over 600 non-profit community organisations with free advertising worth over 30 million dollars.

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

10 YEAR PERFORMANCE

Over the ten-year period, we have seen:

- our **sales revenue** increase from \$88 million to \$544 million;
- our **normalised profit** after tax increase from \$9 million to \$57 million;
- our **share price** increase from \$5.70 cents to \$14.92;
- our **dividends per share** have increased from 26 cents to 68 cents
- our **market capitalisation** increase from \$144 million to around \$1 billion;
- our **total assets** increase from \$201 million to \$1,051 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:

- building on **core businesses and related businesses**;
- **restructuring** and integrating new businesses very quickly and effectively after acquisition;
- constant focus on **cost savings and 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; and

- maintaining a **disciplined** approach to creating value for shareholders.

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

Our diversified portfolio of media assets exposes our metropolitan and regional television and radio networks to the volatility of various sub-markets across Australia. Our television network is affiliated with all three commercial networks. This diversity minimises the adverse effect that cyclical downturns and rating performances can have on revenue and earnings on some media or sub-markets from time to time. Our television programme production and distribution operations, both in Australia and overseas, strengthen this diversity.

OUR PROSPECTS

The advertising market remains very short term and unpredictable in the current financial year.

- The television market is experiencing a downturn in advertising activity, but forward revenue to the end of December shows mild signs of recovery.
- The sluggishness in the advertising market is both cyclical and structural and has been exacerbated by a change in the ratings dynamics which has eliminated the premium for to the highest ranking network and created advertising rate discounting.
- The downturn in the television market is partly offset by our radio network achieving positive revenue growth.
- Based on unaudited management accounts for the first quarter and projected second quarter revenue, we expect our broadcasting revenue to fall by around 3% for the first half.
- With the full benefit of savings from the management and operational restructure in the previous financial year, the Nine Network's cost reduction program and our new Nine program affiliation agreement, we expect our first half EBIT to be marginally below the previous corresponding period.

Looking forward to the expectations for the full 2007 financial year, we remain cautious.

- We expect marginal advertising revenue market growth in the second half. In addition, we should benefit from Network Ten's expected increase in market share following its improved ratings in calendar year 2006. There will also be no recurring costs associated with AFL and Commonwealth Games at Channel Nine Adelaide.
- Our radio division should continue to perform well in the second half following solid ratings from all stations and the cost reduction program at 2UE at the end of the last financial year.
- Southern Star is also performing well, with a considerable production slate (here and in the UK) and a growing library of titles.

There being no unforeseen circumstances, our interim and final dividends will be the same as or marginally above that of the previous corresponding periods.

MEDIA LAWS

The legislation to relax foreign ownership and cross-media ownership rules has now passed through both houses of parliament. The legislation will be effective on the date of proclamation, expected to be in early 2007.

The new legislative regime will result in consolidation of media assets. Whilst there are no reportable events for Southern Cross with an acquisition or sale of assets, we have been active in exploring opportunities to maximise shareholder wealth.

MANAGEMENT TEAM

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

- We believe we have assembled one the best broadcast media teams in the country, with a blend of operating, programming and sales experience.
- Our senior management has been further augmented with the team from Southern Star, who are exceptional television production and distribution executives.
- The management team is stable, and is uniformly focused on driving revenue, containing costs and increasing shareholder value.
- We also extend our sincere appreciation to our talented, skilled and dedicated employees spread across Australia for delivering on the many challenges over the past few years.

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

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 79 to 82 of the 2006 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 component of the Managing Director and senior executive remuneration that is based on testing Total Shareholders Return performance hurdles 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 are delighted that our loyal shareholders have been well rewarded with the shareholder returns generated by the Board and management team.
- These returns have not been generated by accident – they are the overall result of our acquisition program and tight management.
- We believe that our strong track record illustrates our determination to continue to grow your investment.

The Board believes that the company is well positioned to continue to provide positive value for our shareholders.

- With a revised operating cost base, our broadcasting businesses are poised to capitalise on any upturn in the advertising market.
- 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

The company is constantly exploring avenues to maximise shareholder wealth.

John Dahlsen
Chairman

I will now ask our Managing Director, Tony Bell to comment on the company's operations for the year....