

***Southern Cross Broadcasting
Annual General Meeting 2006
16th November 2006***

Managing Director's Address

Southern Cross Broadcasting is a strong diverse media group with radio and television networks covering a potential 94% of Australia's population and a television production and distribution business producing and selling television programs for the Australian and worldwide markets.

The company delivered a solid result in 2006. In a very challenging advertising market, EBITDA declined by less than 1%, dividend per share was up 3% and we have aggressively reduced the operating cost base within both television and radio to provide a stronger platform for 2007 and beyond.

Over recent years we have grown the company through acquisitions, integration, and by operating our businesses effectively and efficiently. We are introducing new technology and extending our businesses to provide attractive online services.

After three consecutive years of strong growth, the advertising market softened in 2006 and remained that way in the first half of the current financial year. The advertising market is undergoing both a cyclical and structural change as it accommodates new media outlets. We are well positioned with our reduced operating cost base to take advantage of any uplift in the advertising market.

Our News/Talk radio network is the only national commercial Talk network.

- 2UE is an opinion-leader in the highly competitive Sydney market. Of the 10 commercial radio stations, 2UE rates number three and has established a solid, stable ratings position with the affluent 40 plus age group. We have re-invigorated the important breakfast shift by pairing veteran broadcaster Mike Carlton with well known Sydney identity – Peter FitzSimons and we now have evidence that the program is gaining in popularity. We have also restructured 2UE, reducing the cost base by around \$2.5 million and we believe the business is now better structured for success than at any time over the past five years.
- 3AW continues to be the most listened to talk radio station in Australia and has been the top rating station in Melbourne, over the past ten years. The breakfast program's ratings are 41% greater than our nearest rival and the morning program's ratings are 52% greater than our nearest rival. During the year, 3AW swapped frequency with our music station Magic, resulting in 3AW having lower level interference and enabling more people to listen to 3AW in more places across Melbourne.
- In Brisbane we have 4BC and sister music station, 4BH. The two stations combined audiences are packaged for advertisers, which has produced an increase in revenue and delivered a higher profit contribution to the group. In 2006, earnings increased by an impressive 40%.

- In Perth, 6PR completes our Talk Radio Network. 6PR's ratings have stabilised over the past year and the station is well positioned for continued success.
- We also have 96FM in Perth, which is our only FM station. Five years ago we shifted the target audience of the station to appeal to the most sought after consumer group for advertisers – the 25 to 39 age demographic, and on a combined basis, our Perth stations generated 30% profit growth in the past year.

Digital radio transmission is expected to commence in around two years. This will significantly improve the sound quality of our broadcasting services and should enhance the value of our radio assets.

Our metropolitan and regional television operations 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 programs through Tasmania, Darwin, Central Australia and regional South Australia

These stations reach a combined 8.3 million people.

Our affiliation with all three commercial networks provides hedging against the individual ratings performance of each network to a certain extent. However, our reliance is heaviest on the Ten and Nine networks.

There has been a shift in the ratings dynamics of the commercial networks which has adversely impacted industry revenue. As there is now no clear ratings leader, the premium the top rating station attracted has been eliminated and aggressive advertising rate discounting has ensued.

The ratings performance of the networks this calendar year has a direct influence on revenue share with major advertising media buyers for 2007. Southern Cross's affiliated stations follow the same trends as our metropolitan program providers.

- The Nine and Seven networks will end the year very close in audience share for calendar 2006; and
- The Ten network has increased audience share with its target demographic retaining its dominance over the 16-39 age group. Ten's revenue market share should increase to align with its ratings share.

In our regional markets of Queensland, NSW and Victoria, our ratings share for "all people" is up 4.3% and in Tasmania we are up 8.3%. This performance will be very positive for our advertising share negotiations with major advertising agencies for calendar 2007.

Whilst our television division has been adversely impacted by the difficult national advertising market, this has been partly offset by local retail revenue growth. We have also reduced our operating cost base of our television division and, in particular, we expect Channel Nine Adelaide to benefit from the cost savings associated with the

loss of the AFL broadcasting rights and the new terms of the renewed program supply agreement.

Southern Cross Broadcasting's sales teams and sophisticated sales programs and inventory management systems 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.

Southern Star has again performed exceptionally well and represents an attractive platform for solid returns.

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;
2. Southern Star International which deals with world-wide sales and distribution of the company's extensive television library;
3. By volume, Southern Star is in the top 20 television production businesses in the UK, the sixth largest distributor of television programs outside the US in the world, and is the largest independent television producer in Australia;
4. Southern Star exported over \$63m in television programs over the past twelve months and employed over 1000 people in productions worldwide.
5. In production, Southern Star currently has: Love My Way, Dangerous, Forensic Investigators, Sea Princesses, Blue Water High, Bottle Top Bill, Hotel Babylon, Whistle Blowers, Meerkat Manor and other documentary and children's programs; and
6. Through Endemol/Southern Star we produce Big Brother, Deal or No Deal, Ready Steady Cook and a number of programs for the Foxtel and Austar Pay TV channels. We also have two new shows for the Nine Network which includes the US and UK hit show – One Verses One Hundred.

Satellite Music Australia, acquired on 1 July 2005, has performed to expectations. SMA is the leading supplier of subscription music to PAY TV operators and retail chains. SMA will continue to grow its revenue with the increase in subscription to Pay Television's new digital services and access to Southern Cross sales team relationships with almost every meaningful retail outlet in the country.

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, we believe the company is strongly positioned for long term growth:

- 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;
- The introduction of digital radio should enhance the valuation of our AM stations. Digital radio will improve the sound quality provided by our radio

broadcasting services. Whilst digital radio will ultimately totally replace the analogue AM and FM modes, the penetration of digital radio receivers will take many years with broadcasters simulcasting in analogue and digital throughout the migratory period.

- 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;
- We have long term affiliation agreements with all three commercial television networks;
- Our digital television capital expenditure requirements are largely completed and will be fully completed in 2008;
- Digital television will create new revenue opportunities on data channels in the longer term;
- Australian free to air local content requirements provides stability for ongoing demand which is favourable for our television production interests; and
- Growth in the Pay TV market, and expected evolution of IPTV will create further demand for content, which Southern Star can benefit.

The company is also developing a new digital media business - Southern Cross View. Southern Cross View will bring together the company's digital content assets, including the soon to be launched portal www.mytalk.com.au which will consist of content from Southern Cross's radio and television networks and Southern Star's current online offerings. Encompassing online, mobile, datacasting, and other forms of digital technology, Southern Cross View will be charged with developing and bringing to market content specifically developed for multiple platforms as well as providing support and development capabilities for the existing online content developed by Southern Star. It will also consider a range of other content opportunities.

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 on a strong financial footing.

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