**ASX / MEDIA RELEASE**
**FOR IMMEDIATE RELEASE**
**23 APRIL 2010**

## NOTICE OF GENERAL MEETING, ON-MARKET BUY-BACK AND CHANGE TO CONSTITUTION

**SYDNEY: Consolidated Media Holdings Limited (CMH) (ASX: CMJ)** announces today that it will be putting two resolutions to a general meeting of its shareholders at 10am on Friday 28 May 2010, at the Hyde Park Room, Sheraton on the Park, 161 Elizabeth Street Sydney NSW (**General Meeting**).

At the General Meeting shareholders will be asked to consider resolutions to approve:

- the adoption of a new constitution; and
- an on-market buy-back of up to 73,770,492 shares by utilising cash which is surplus to the requirements of CMH.

A copy of the Notice of General Meeting and Explanatory Notes (**Notice**) is attached to this announcement.

The Notice includes an independent valuation of CMH that has been prepared by Deloitte Corporate Finance Pty Limited.

A copy of the Notice will be mailed to shareholders by no later than Thursday 29 April 2010.

A copy of the Notice (including the Independent Expert's Report), along with the existing and proposed constitutions and other relevant investor information (as described in the Notice), is available on the CMH website at www.cmh.com.au.

**ENDS**
**COPIES OF RELEASES**

Copies of previous media and ASX announcements issued by CMH are available at CMH's website at www.cmh.com.au

CONSOLIDATED MEDIA HOLDINGS

# Notice of General Meeting

**Notice is given that a General Meeting of the Shareholders of Consolidated Media Holdings Limited will be held at the Hyde Park Room, Sheraton on the Park, 161 Elizabeth Street, Sydney NSW 2000 at 10am on Friday 28 May 2010**

Consolidated Media Holdings Limited
ABN 52 009 071 167

This booklet contains the Notice of General Meeting and Explanatory Notes for the Company. Also enclosed within the booklet at **Attachment A** is a tax letter for Shareholders prepared by Ernst & Young, and at **Attachment B** is an Independent Expert's Report prepared by Deloitte Corporate Finance Pty Limited. This is an important document and it requires your immediate attention. It should be read in its entirety. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

# Contents

**01 Notice of General Meeting**
**01 Business**
**02 Explanatory Notes**
**02 New Company Constitution**
02 Background
02 Material Differences Between the New Constitution and Existing Constitution
06 Recommendation of Directors
**07 On-Market Buy-Back**
07 Background
08 Outline of the 2010 Buy-Back Program
09 Reasons for the Buy-Back Resolution
09 Independent Expert's Valuation
09 Directors' Recommendation
10 Advantages and Disadvantages of the 2010 Buy-Back Program
10 Implications of the 2010 Buy-Back Program on the Company
12 Other Material Considerations
**14 Voting**
14 Majorities Required
14 How to Vote
14 Voting in person or by attorney
14 Voting by proxy
14 Entitlement to Vote
**15 How to find the location of the General Meeting**
**16 Definitions**
**Attachment A**
**Attachment B**

CONSOLIDATED MEDIA HOLDINGS

# Notice of General Meeting

Consolidated Media Holdings Limited
ABN 52 009 071 167

Notice is hereby given that a general meeting of Shareholders of Consolidated Media Holdings Limited ABN 52 009 071 167 (**Company**) will be held as follows:

**Date:** Friday 28 May 2010
**Time:** 10am Sydney time
**Place:** The Hyde Park Room, Sheraton on the Park, 161 Elizabeth Street, Sydney NSW 2000

This Notice of General Meeting should be read in conjunction with the accompanying Explanatory Notes (together, the **Notice**). A proxy form accompanies this Notice.

## BUSINESS

### 1. ADOPTION OF NEW CONSTITUTION

To consider and, if thought fit, pass the following resolution as a **special resolution**:

*That the constitution tabled at the meeting and signed by the chairman of the Company for the purposes of identification is adopted as the constitution of the Company to the exclusion and in replacement of the existing memorandum and articles of association, which are repealed.*

### 2. ON-MARKET BUY-BACK APPROVAL

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*That the Company authorises and approves for the purposes of section 257C of the Corporations Act 2001 and for all other purposes the on-market buy-back of up to 73,770,492 of its issued ordinary shares during the 12 month period from the date of the General Meeting on the terms detailed in the Explanatory Notes which accompany this Notice of General Meeting.*

By order of the Board

**Louise Arthur**
Company Secretary

23 April 2010

# New Company Constitution

## BACKGROUND

The Board proposes that the Company adopt a new constitution (**New Constitution**), replacing the existing memorandum and articles of association (**Existing Constitution**).

Since adoption of the Company's Existing Constitution more than fifteen years ago in 1994, there have been a number of significant amendments to Australian corporations legislation and to the Listing Rules.

As a result of these amendments, parts of the Company's Existing Constitution are inconsistent with the current requirements of the Corporations Act (previously known as the Corporations Law) and the Listing Rules, and as a consequence some of the Existing Constitution's provisions are redundant and outdated.

In addition to the amendments to the corporations legislation and the Listing Rules, there have also been many developments in corporate governance principles and general corporate practice since the Existing Constitution was first adopted in 1994. The Company intends to include these principles and practices in the New Constitution.

In looking to make changes to its Existing Constitution, the Company has broadly two options available to it:

1. The Company can amend the Existing Constitution (resulting in a large number of small amendments); or
2. The Company can replace the Existing Constitution in full by adopting a brand new constitution.

Given the age of the Existing Constitution, the numerous small changes that would be required and the desire of the Board to ensure the New Constitution is in line with best practices, the Board recommends that the New Constitution be adopted.

Importantly, the structure and effect of the proposed New Constitution will not be materially different from the Existing Constitution. The material provisions of the New Constitution are outlined below. Where possible, we have indicated where the material change from the Existing Constitution to the New Constitution is due to aligning the New Constitution with the requirements under the Corporations Act and Listing Rules.

Please note that the summary only refers to material differences between the Existing Constitution and the New Constitution. It does not refer to all of the differences between the two constitutions.

A copy of the New Constitution and the Existing Constitution will be available on the Company's website at www.cmh.com.au and a hard or soft copy of one or both can be obtained at any time prior to the meeting for no charge by contacting the Company's Company Secretary on (612) 9282 8000 or constitution@cmh.com.au.

A copy of the New Constitution, signed by the Executive Chairman for the purposes of identification, will be tabled at the General Meeting.

## MATERIAL DIFFERENCES BETWEEN THE NEW CONSTITUTION AND EXISTING CONSTITUTION

### Repeal of the Memorandum of Association

On 1 July 1998, the then Corporations Law was amended by the *Company Law Review Act 1998* (**CLRA**). As a result of those amendments, the Company's Existing Constitution – its memorandum and articles of association – are now collectively called the 'constitution'.

The Corporations Act provides that a company's internal management may be governed either by 'replaceable rules' set out in the Corporations Act, or by a constitution. In the case of a company that existed before CLRA (as is the case for the Company), the memorandum and articles of association are taken to form the constitution (unless and until a new constitution is adopted).

It is no longer necessary under the Corporations Act for a company's constitution to deal with some of the matters that were previously set out in a memorandum of association. This means that some of the provisions of the Existing Constitution do not need to be included in the New Constitution – for instance, the name of the Company and its initial subscribers, and the amount of authorised capital of the Company and its division into shares with a specified nominal or par value.

Accordingly, the New Constitution does not contain those provisions that are no longer necessary due to the changes implemented by CLRA.

### Share capital

CLRA also made significant changes to the provisions of the then Corporations Law concerning share capital. In particular, CLRA:

a) abolished the concepts of par value, authorised and nominal capital, issuing shares at a premium or a discount, a share premium account and a capital redemption reserve; and

b) removed the need for a company's constitution to authorise a number of changes to the capital of a company including increasing or reducing the authorised capital or initiating a buy-back or a subdivision or consolidation of capital.

The Existing Constitution did not reflect these changes introduced by the CLRA. The New Constitution reflects these changes.

Under the New Constitution, a special resolution of the Company will not be required for the Company to undertake an equal reduction of capital. This reflects the position that, since CLRA, a special resolution is no longer required by the Corporations Act for equal reductions.

The New Constitution includes the flexibility to issue cumulative or non-cumulative preference shares, although there are no current plans to issue such securities.

### Forfeiture provisions

The New Constitution will update the provisions concerning the forfeiture of partly paid shares following the non-payment of a call, and the redemption of forfeited shares, to refer to and reflect the currently applicable provisions of the Corporations Act.

This provision is updated in accordance with the Corporations Act. As the Company does not have any partly paid shares on issue at the date of this Explanatory Note, the provision does not presently have any practical effect on the Company.

**Members' Meetings**
CLRA also amended the provisions of the then Corporations Law dealing with the calling and holding of members' meetings, the contents of proxies and the requirements for lodgement of proxies. Further changes to the provisions relating to notices of meeting and the appointment of proxies were subsequently introduced into the Corporations Act by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (**CLERP 9 Act**).

*Notices of meeting*
The Existing Constitution contains notice provisions that are out-of-date with contemporary practice and new technologies. In addition, the Corporations Act now:

a) requires that at least 28 days notice be given of general meetings of the Company. Prior to 1 July 1998, only 21 days notice was required for a general meeting at which a special resolution was to be considered and only 14 days notice was required for any other general meeting; and

b) enables companies to give notices and reports to members by a range of electronic means, including (for example) by sending a notice of meeting by email or sending an email advising that the notice of meeting is available for viewing or downloading from a company's website. The New Constitution incorporates provisions that allow the Company to serve notice using the range of methods now permitted by the Corporations Act, and that deem service to occur on the date of electronic transmission or electronic notification of the notice.

The New Constitution also changes the provisions for service of notice in other respects, including by allowing for service by courier, deeming the date of service by facsimile transmission to be the date on which the transmission is sent and removing outdated provisions concerning the giving of notice by publication. The New Constitution also deems notice sent by a permitted method to have been served notwithstanding the death of a member.

Where a general meeting is adjourned for 30 days or more, the New Constitution will require notice of the adjourned meeting to be given as if it were an original general meeting.

*Proxies, representatives and voting rights*
In line with the provisions of the Corporations Act, the Company believes that it is in the best interests of Shareholders and the Company that Shareholders be given a variety of options – including the use of any new technologies – by which to lodge valid proxy instructions.

The Corporations Act now:

a) provides that a member entitled to cast more than one vote at a meeting may appoint two proxies and where the member fails to specify the proportion of votes each proxy may exercise, each proxy may exercise half of the votes (disregarding any fractions of votes). The New Constitution reflects this rule. In contrast, the Existing Constitution provides that the appointment is of no effect unless each proxy is appointed to represent a specified proportion of the member's voting rights. The New Constitution also recognises that the proxy may be a body corporate;

b) prohibits directors from stipulating what will constitute a valid form of proxy and does not require proxy appointments to be in writing. Instead, a form of proxy will be valid if it contains the information prescribed by section 250A of the Corporations Act. The New Constitution does not maintain the requirement that proxy appointments be in writing;

c) deems a company to have received a proxy appointment when the appointment is received at a fax number at the Company's registered office (or any other fax number specified in the notice of meeting); and

d) enables a company to allow proxy appointments to be authenticated by the appointing member in a way permitted by the Corporations Regulations and to be lodged by electronic means made available by the Company. In contrast, before the CLERP 9 Act, proxy appointments needed to be signed by the appointing member and there was some ambiguity as to whether they could be lodged electronically. The Corporations Regulations specify requirements for the authentication of proxy appointments by electronic means (such as email or through an online facility).

The New Constitution adopts the Corporations Act provisions relating to proxies.

In addition to the Corporations Act provisions, and to reflect developments in corporate practice, the New Constitution also differs from the Existing Constitution in the following respects in relation to proxy appointments:

a) where a member lodges a proxy appointment that does not name the proxy in whose favour it is given, the New Constitution will allow the chairperson to act as proxy or to complete the proxy appointment by inserting the name of a director or a secretary to act as proxy; and

b) unless otherwise provided in the instrument appointing the proxy or attorney, the New Constitution will have the effect that the appointment of a proxy or attorney will be taken to confer authority to vote on motions moved at the meeting but not referred to in the notice of meeting (including, for example, a motion for amendment of a proposed resolution or that a proposed resolution not be put, and any procedural motion – such as a motion for adjournment of the meeting).

In relation to the voting rights of holders of partly paid shares, the New Constitution clarifies that amounts paid on partly paid shares in advance of a call are not to be taken as paid up for the purposes of determining the voting rights of the holders of partly paid shares. As outlined earlier in these Explanatory Notes, this does not presently have any practical effect as the Company does not have any partly paid shares on issue at the date of these Explanatory Notes.

## New Company Constitution (Continued)

**Conduct of meetings**
The Corporations Act now permits members with at least 5 per cent of the votes that may be cast at a general meeting to demand a poll. Before CLRA commenced, it was necessary for members to hold at least 10 per cent of the votes to be entitled to call a poll. Under the New Constitution a poll may be demanded by either the chairperson; at least five members entitled to vote on the resolution or members with at least 5 per cent of the votes that may be cast on the resolution.

In addition, the New Constitution reflects the position under the Corporations Act that a poll may be demanded before a vote is taken, before the voting results on a show of hands are declared or immediately after the voting results on a show of hands are declared.

The Corporations Act also now enables meetings of members to be held at two or more venues using any technology that gives the members as a whole a reasonable opportunity to participate, should the directors choose to avail themselves of this provision. The New Constitution reflects this position.

In light of common corporate practice and legislative developments, the New Constitution also includes various provisions relating to the conduct of meetings of members that are not contained in, or that differ from, the Existing Constitution but are now considered appropriate. In particular, the New Constitution:

a) confirms the chairperson's power to determine the general conduct of each general meeting of the Company (including the procedures to be adopted at the meeting);

b) reinforces the voting exclusion requirements of the Corporations Act and the Listing Rules (which, in broad terms, apply where a member has a personal interest in, or is associated with a person who has a personal interest in, the outcome of a particular resolution), including by providing that a member is not entitled to vote on a resolution where the Corporations Act or Listing Rules have the effect that the member's vote on that resolution must be disregarded and that any vote purportedly cast by a member contrary to these requirements will not be counted;

c) confirms that a personal representative or trustee or administrator of a deceased member (or a member who has become mentally or physically incapacitated) may exercise the member's rights at general meetings of the Company;

d) confirms that the chairperson may elect to vacate the chair for any part of a general meeting in favour of any person nominated by the chairperson, and provides that the nominee will have all the powers of the chairperson for the relevant part of the meeting;

e) provides that a decision of a general meeting may not be impeached or invalidated on the ground that a person voting at the meeting was not entitled to do so;

f) provides that a poll cannot be demanded on any resolution concerning the election of the chairperson, as permitted by the Corporations Act and allows the chairperson to decide questions of the adjournment or postponement of the meeting without a vote of the shareholders present; and

g) permits the chairperson's power to adopt procedures for the proper and orderly conduct of the meeting and gives the chairperson the power to delegate his or her powers to refuse a person admission to, or to ask a person to leave, a meeting to any person the chairperson thinks fit.

**Sale of non-marketable parcels of Shares**
Consistent with the constitutions of many listed companies (and reflecting the provisions in the Existing Constitution), the New Constitution will, subject to certain restrictions, enable the Company to invoke a procedure under which Ordinary Shares held by members who hold less than a 'marketable parcel' of shares (known as a 'non-marketable parcel') may be sold by the Company on their behalf, unless the member gives notice to the Company by a specified date that they wish to keep their shares. The procedure may only be invoked once in any 12 month period.

Under the ASTC Settlement Rules, a non-marketable parcel of quoted Ordinary Shares is currently a parcel worth less than A$500 (based on the closing price of the Ordinary Shares). As at 31 March 2010, approximately 20 per cent of the Company's registered holders (or approximately 9,000 shareholders) held 'non-marketable' parcels of shares in the Company, or just over 1 per cent of the total Shares on issue.

If the Company wishes to invoke the procedure for the sale of non-marketable parcels of Ordinary Shares set out in the New Constitution (**Procedure**), the Company would be required to give notice to each member (or to each member whose shares are not held in a CHESS holding) who holds a non-marketable parcel of Ordinary Shares. Each member would then have at least six weeks from the date of service of the notice (**Relevant Period**) to notify the Company that the member wishes to keep its Ordinary Shares. If a member does not notify the company within the Relevant Period that the member wishes to keep its Ordinary Shares, then the Company may sell the Ordinary Shares at a price the directors consider is the best price reasonably available for and on behalf of the member but only if the member's holding remains a non-marketable parcel at the end of the Relevant Period.

For non-marketable parcels created by transfers of the Company's shares that occur after the date of adoption of the New Constitution, the Company may sell those parcels without providing for a facility for the holders to retain their parcels. In addition, the directors may remove or change the relevant members' rights to vote or receive dividends in respect of those parcels. Withheld dividends will be paid to former holders on completion of the sale of their non-marketable parcels, against deliver of satisfactory proof of title.

In each case, the proceeds of the sale (less any unpaid calls and interests) would be paid to the relevant member or as the member directs. Subject to the Corporations Act, the Company or the purchaser will bear any costs of sale.

**Transfer of Shares**

The New Constitution will not retain the provision in the Existing Constitution that permits the Company to close its transfer books and register of members for up to 30 days in each year. This provision is considered unnecessary given that trading and settlement of the Company's shares occurs electronically through the CHESS system and that the record date for determining members' entitlements to vote at a meeting, or to participate in a corporate action, are now determined in accordance with specific provisions of the Corporations Regulations and the ASTC Settlement Rules.

The New Constitution provides that the Directors may refuse to register a transfer of quoted securities in the circumstances permitted or required by the Listing Rules.

**Nomination of Directors**

Since adoption of the Existing Constitution more than fifteen years ago in 1994, ASX has changed the default deadline for depositing notices of nomination for the election as a director with a listed company from 30 business days before the general meeting at which directors are to be elected, to at least 35 business days before the meeting.

This change reflected the increased notice period for general meetings of public listed companies after 1 July 1998.

The New Constitution extends the time by which nominations must be given to the Company to at least 35 but no more than 90 business days before the meeting. This will avoid nominations being received late in the nomination period which can result in substantial costs being incurred to prepare and send supplementary notices to Shareholders.

**Directors' remuneration**

The New Constitution reflects the provisions of the Corporations Act in that it provides that the Company may provide remuneration to the executive and non-executive Directors in any non-cash form (including, for example, by provision of shares under a share plan introduced by the Company), provided that, in the case of the non-executive Directors, the total value of their remuneration in aggregate must not exceed the cap approved by shareholders from time to time.

The cap on non-executive Director remuneration was set by Company Shareholders at $1 million at the Company's Annual General Meeting in 2003 (**Directors Remuneration Cap**).

In the year ended 30 June 2009, the Company paid its current independent non-executive directors – Mr Christopher Corrigan, Mrs Rowena Danziger, Mr Geoffrey Dixon and Mr Christopher Mackay – aggregate director fees and superannuation of $421,900, well within the Directors Remuneration Cap.

The Directors Remuneration Cap includes fees paid to the independent non-executive directors for their participation on the Board's sub-committees.

The non-independent non-executive directors – Mr James Packer, Mr Ashok Jacob, Mr Guy Jalland, Mr Peter Gammell and Mr Ryan Stokes – do not receive fees from the Company.

With the exception of the Executive Chairman (Mr Alexander), the directors do not receive any non-cash benefits from the Company and as announced to the market in April 2009 the Company has no present intention of introducing any form of long term incentive or share arrangement for its executives or directors. Mr Alexander receives non-cash benefits (but not shares) under his employment arrangements with the Company, as outlined each year in the Company's Annual Report.

**Directors' interests**

Since the commencement of the *Corporate Law Economic Reform Program Act 1999* (**CLERPA**) on 13 March 2000, directors of public companies have been subject to a statutory obligation to disclose any material personal interest in a matter that relates to the affairs of the company, with limited exceptions.

Given the introduction of this statutory duty of disclosure, it is considered unnecessary for the directors to be subject to separate, and to some extent inconsistent, additional disclosure obligations under the general law and the constitution. Accordingly, the New Constitution does not impose separate disclosure obligations on the directors.

Where the Corporations Act so requires, directors having an interest in a matter being considered at a directors' meeting will be prohibited from being present at that meeting whilst the matter is being considered or voting on the matter (and from being counted in a quorum in relation to consideration of that matter). Where the Corporations Act does not prevent a director from voting on a matter in which they have an interest, the director will be able to vote on the matter.

The New Constitution will ensure that a vote passed by a meeting of directors or a committee is not invalidated by:

- a defect in the appointment of a director or committee member; or
- if a director or committee member was not entitled to vote,

provided the circumstances were known to the directors or committee at the time.

The New Constitution will also ensure that a director may be or become a director or other officer of, or otherwise be interested in, any related body corporate of the Company or any other body corporate promoted by the Company or in which the Company has an interest (**Related Entities**), and that the director will be entitled to keep any remuneration or other benefits received by the director as a result of such office or interest.

Relevantly, at the date of these Explanatory Notes, those directors who are also directors of Related Entities, did not receive any remuneration as a result of holding their office at the Related Entities.

## New Company Constitution (Continued)

**Delegation**
CLERPA introduced a statutory provision that permits the directors of a company to delegate their powers to any person unless the Company's constitution provides otherwise. The New Constitution provides that the Directors have the broad delegation powers now permitted by the Corporations Act.

**Directors' meetings and resolutions**
The Corporations Act permits directors of a company to call and hold directors' meetings using any technology consented to by all directors of the company and allows each director to give a standing consent for this purpose. The New Constitution reflects this position.

**Indemnities**
The Directors consider it appropriate for the Company to change the scope of the indemnities currently given to officers to reflect the extent of indemnification permitted by the Corporations Act. Under the New Constitution the Company would indemnify current and former directors and company secretaries of the Company, to the extent permitted by law, against liability (other than for legal costs) incurred in their capacity as an officer of the Company (including where proceedings are withdrawn or settled), and against reasonable legal costs incurred in defending an action for a liability allegedly incurred as an officer of the Company. However, in both cases, the indemnities are provided on the basis that the officer is found not to have a liability for which they could not be indemnified (eg. defending or resisting criminal proceedings in which they are found guilty or where the Court denies relief).

The New Constitution will also ensure that the Company may advance amounts to a current or former officer to assist them to fund their legal costs in defending proceedings brought against them in their capacity as a current or former officer, before the outcome of the proceedings (and their entitlement to indemnification) is known. Once the outcome is known, amounts advanced to the officer will be repayable if the officer would not be entitled to indemnification for the relevant legal costs.

The New Constitution will also permit the Company to enter into a deed with any person to give effect to the rights conferred by the New Constitution on such terms as the Directors think fit provided they are not more favourable to the person than permitted under the New Constitution.

**Dividends**
As a result of CLRA, the Corporations Act currently permits a company (by its directors) to either declare a dividend or to determine that any dividend is to be paid, whether final or interim, and to fix the amount, time and method of payment of that dividend without having to first obtain shareholder approval in general meeting before making payment of a final dividend. The New Constitution allows the Board to determine to pay any interim or final dividend and to fix a time for payment.

The New Constitution also enables the Directors to revoke or amend a decision to pay a dividend, before the date scheduled for payment, as now permitted by the Corporations Act.

In line with the practice of many other listed companies, the New Constitution will ensure that the Company may pay dividends and other amounts payable to a shareholder not only by cheque but by electronic funds transfer (or other electronic means) to an account with a bank or other financial institution nominated by a shareholder (or a joint holder) and acceptable to the Company, or by any other means determined by the Directors (rather than only by cheque).

Dividends or other payments made by a permitted method will be made at the risk of the relevant shareholder (or joint holders) under the New Constitution.

The New Constitution includes provisions reflecting the position under the Corporations Act that a person is not entitled to a dividend on a Share if a call has been made on the share and is due and unpaid.

Unclaimed money may, if the directors decide, be reinvested in shares in the Company or acquired on market.

**Miscellaneous**
The New Constitution includes the standard or 'boilerplate' interpretation provisions of a kind commonly included in company constitutions.

To the extent permitted by law, the New Constitution will displace the 'replaceable rules' under the Corporations Act in their entirety.

The New Constitution contains an Appendix 15A rule. The effect of this rule is that the Listing Rules (as amended) prevail over the rules contained in the New Constitution to the extent any inconsistency between them arises.

The terminology in the New Constitution has been updated to reflect current terminology in the Corporations Act and Listing Rules, and references in the Existing Constitution to superseded provisions of the law or listing rules have been updated to refer to the currently applicable provisions.

### Recommendation of Directors

The directors unanimously recommend that Shareholders vote in favour of Resolution 1.

## On-Market Buy-Back

### 2.1 BACKGROUND

**a) Overview**

This section sets out information that is material for Shareholders to decide on how to vote on Resolution 2 which in these Explanatory Notes is referred to as the Buy-Back Resolution, including:

— outline of the 2010 Buy-Back Program (**section 2.2**);

— reasons for the Buy-Back Resolution (**section 2.3**);

— the Independent Expert's Valuation (**section 2.4**);

— the Directors' Recommendation (**section 2.5**);

— the advantages and disadvantages of the 2010 Buy-Back Program (**section 2.6**);

— the implications of the 2010 Buy-Back Program on the Company (**section 2.7**); and

— other material information, including Directors' interests (**section 2.8**).

The Company has assessed the capital management alternatives available to it in order to satisfactorily return its surplus cash balance of $225 million (**Surplus Cash**) to Shareholders.

The outcome of this assessment is that a further on-market share buy-back is deemed by the Company to be an efficient, flexible and value accretive means by which to return the Surplus Cash.

As the Company implemented an on-market share buy-back of approximately 10 per cent of its shares on issue within the previous 12 months (commencing in September and completing on 1 December 2009 – referred to as the 2009 Buy-Back Program in **section 2.1(b)**), any additional on-market buy-back requires shareholder approval under the Corporations Act.

If Shareholders resolve to approve the Buy-Back Resolution, the Company will fund any Shares bought back solely with its Surplus Cash and, subject to trading conditions at the time, the 2010 Buy-Back Program will commence in June 2010.

**b) 2009 Buy-Back Program**

On 26 August 2009, the Company announced an on-market buy-back program to purchase up to 10 per cent of the Company's issued capital in accordance with section 257B(4) of the Corporations Act.

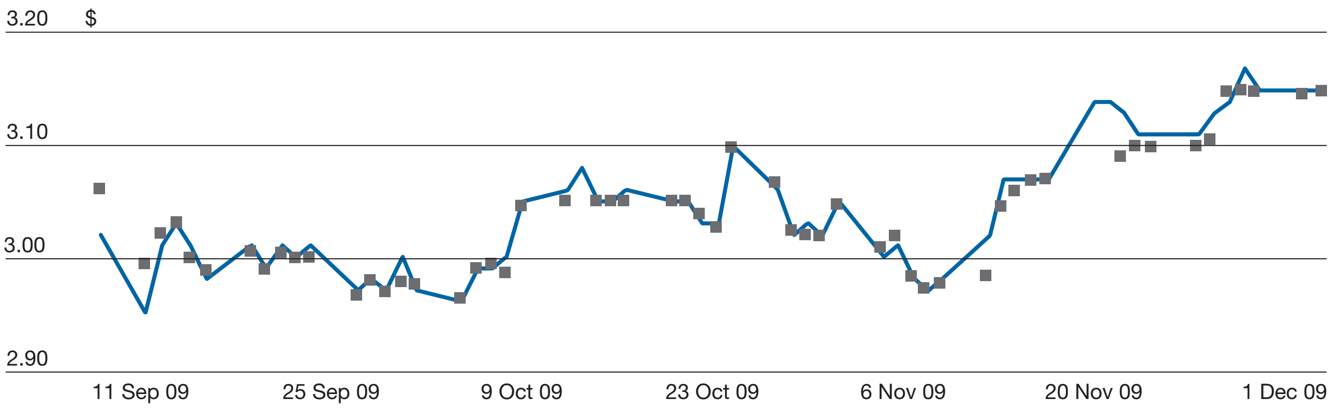
Section 257B of the Corporations Act permits a company to undertake an on-market buy-back for not more than 10 per cent of the smallest number of votes attaching to the Company's Shares at any time during the previous 12 months, without the requirement for shareholder approval.

As the 2009 Buy-Back Program did not exceed the 10 per cent limit set out in the Corporations Act, the Company was not required to seek the approval of Shareholders for the 2009 Buy-Back Program.

The 2009 Buy-Back Program concluded on 1 December 2009. At the completion of the 2009 Buy-Back Program, the Company had bought back 68,967,692 Shares for a total consideration of $210,339,937.46 (or an average price of approximately $3.05 per Share, plus brokerage and other costs).

Provided below is a graph illustrating the closing market price of the Company's Shares (ASX:CMJ) (the blue line) against the daily volume weighted average price paid by the Company under the 2009 Buy-Back Program (the grey dots).

**2009 Buy-Back Program: daily closing market price of the Company's Shares versus buy-back daily VWAP**



## On-Market Buy-Back (Continued)

**c) 2010 Buy-Back Program and the Company's Capital Management Policy**

As a consequence of the sale of non-core assets last year (largely, the Company's investment property at Park Street and the Company's shareholding in SEEK), as at 31 December 2009 the Company held approximately $307.1 million in cash on deposit. At the date of this Notice, and following the payment of the interim dividend on Friday 16 April 2010, the Company holds a cash balance of $251.5 million (out of which the Surplus Cash is proposed to be allocated to the 2010 Buy-Back Program).

The 2010 Buy-Back Program is consistent with the Company's stated capital management policy that the Company will not retain a large cash balance in the absence of identifiable acquisition opportunities.

Although the Company will remain opportunistic in relation to acquisition opportunities, the Company has not identified any suitable acquisitions at this time. The last material investment made by the Company was its participation in the SEEK Placement in April 2009.

Accordingly, and consistent with the Company's capital management policy, consideration has been given to how best to utilise the Company's Surplus Cash in a manner that will benefit Shareholders as a whole. A number of alternatives have been considered and an on-market buy-back of Shares at an appropriate value has been determined as the most appropriate option for the Company and its Shareholders.

An on-market buy-back involves the Company buying Shares in the ordinary course of trading at the prevailing market price on the ASX in the same way as any other market transaction. The usual rules for settlement of transactions which occur on-market on the ASX will apply (i.e. if a Shareholder sells into the buy-back, they will receive funds from the Company on a T+3 basis).

All Shares bought back by the Company are cancelled.

Shareholders are being asked to consider, and if they think fit, approve by way of ordinary resolution the ability for the Company to repurchase up to 73,770,492 Shares (**Buy-Back Cap**) to be funded by utilising the Surplus Cash.

The Buy-Back Cap has been determined by dividing the amount of the Surplus Cash by $3.05, which was the average price per Share paid by the Company to successfully implement the 2009 Buy-Back Program and is rounded to two decimal places. It should be noted that the Company cannot give any assurance as to the likely average price per Share to be paid by the Company in the 2010 Buy-Back Program and $3.05 per Share is a reference price only. It is likely that the Company will repurchase Shares at prices below or above $3.05 per Share and that less than 73,770,492 Shares could be bought back under the 2010 Buy-Back Program.

If the 2010 Buy-Back Program is successfully implemented, it is forecast that the Company will remain debt free and, after paying any expenses including brokerage incurred in implementing the 2010 Buy-Back Program, it will have approximately $25 million in cash to fund its ongoing working capital requirements. Further, the Company expects to continue to receive dividends and distributions from its investments in FOXTEL and Premier Media Group.

As the price of the Company's Shares may fluctuate over time, the Company cannot give any assurance as to how many Shares it will be able to buy back under the 2010 Buy-Back Program. However it is important for Shareholders to note:

i) The maximum number of Shares to be repurchased in the 2010 Buy-Back Program is limited to the Buy-Back Cap (73,770,492 Shares). In the event that the average buy-back price for the 2010 Buy-Back Program is less than $3.05 per Share and 73,770,492 Shares are bought back, then the Company will likely have additional cash on hand once the 2010 Buy-Back Program is completed.

ii) The Company is limited in the maximum price it can pay to buy back Shares under the 2010 Buy-Back Program on a daily basis. ASX Listing Rule 7.33 requires the price for an on-market buy-back of Shares not to be more than 5 per cent above the average of the closing market prices for ordinary shares calculated over the last 5 days when trades occurred on ASX before the day on which the on-market buy-back is to be made.

**d) No buy-back election required**

The Buy-Back Resolution seeks approval from Shareholders for the Company to conduct the 2010 Buy-Back Program.

Importantly, if Shareholders approve the 2010 Buy-Back Program, they are not obliged to sell their Shares on ASX and potentially participate in that program.

It will be a matter for Shareholders to determine with reference to their own individual circumstances (and after taking independent advice, if appropriate) whether they want to sell their Shares on the ASX and, if so, the price at which they are prepared to sell their Shares.

### 2.2 OUTLINE OF 2010 BUY-BACK PROGRAM

**a) Overview of process**

The implementation of an on-market buy-back is regulated by both ASIC and the ASX. In particular and as mentioned at **section 2.1(c)(ii)**, ASX Listing Rule 7.33 prescribes that the buy-back price must not be more than 5 per cent above the average of the closing market prices for ordinary Shares in the Company over the previous 5 trading days before the buy-back. Historical Share price information for the Company is provided in **section 2.8(a)**, and is available on the Company's website at www.cmh.com.au.

The Company must announce on the ASX the period during which Shares may be bought back, the maximum number of Shares intended to be bought back and any other information that would affect a Shareholder's decision to sell Shares. The Company is also required to give daily notices containing details of the Shares that have been bought back.

**b) Number of Shares to be bought back**

The maximum number of Shares that the Company will buy back under the 2010 Buy-Back Program is the Buy-Back Cap (see **section 2.1(c)** for further details). Since an on-market buy-back involves shares being acquired at the market price of shares at that time, it is not possible to anticipate the value (and therefore the number) of Shares that may actually be bought back and cancelled. This will depend on a range of factors and the Company reserves the right not to buy back any Shares at all.

However, the Company proposes to spend only up to $225 million on Shares repurchased under the 2010 Buy-Back Program, so whether the Buy-Back Cap is achieved or not will depend on prevailing Share prices and how many Shares are available for purchase on ASX at prices that are acceptable to the Company.

**c) Who may participate?**
Any Shareholder who sells their Shares on ASX may be participating in the 2010 Buy-Back Program if, at that time, the Company is buying back Shares in the ordinary course of trading on the ASX.

**d) Timing**
Subject to the Buy-Back Resolution being passed, the Company proposes to commence the 2010 Buy-Back Program in June 2010 and to implement that program during the 12 month period following the Shareholders approving the Buy-Back Resolution subject to not buying back Shares during any blackout period under the Company's Securities Trading Policy. That policy is available for inspection on the Company's website (www.cmh.com.au). The next blackout period under the Securities Trading Policy commences on 1 July 2010 and ends on the date when the Company lodges with ASX its preliminary final results for the year ended 30 June 2010, which is presently expected to be in the third week of August 2010.

In accordance with section 257A of the Corporations Act, a copy of the Notice has been lodged with ASIC. Details of the 2010 Buy-Back Program have been lodged with ASX as required by Listing Rule 3.8A.

### 2.3 REASONS FOR THE BUY-BACK RESOLUTION

As outlined at **section 2.1**, where a company wishes to acquire more than 10 per cent of its total shares on issue within a 12 month period, it must first obtain the approval of its shareholders to do so.

Accordingly, pursuant to the Buy-Back Resolution, the Company is seeking Shareholder approval to buy back up to 73,770,492 Shares under the 2010 Buy-Back Program. If approval is granted the Company will be authorised to buy back up to 73,770,492 Shares over the course of 12 months following the date when the Buy-Back Resolution is passed.

### 2.4 INDEPENDENT EXPERT'S VALUATION

In order to assist Shareholders in considering the Buy-Back Resolution, the Company has requested Deloitte to prepare an independent valuation of the Shares of the Company. Shareholders should note that the independent valuation is not a valuation by the Directors of the Company.

A complete copy of the Independent Expert's Report is attached to this Notice at **Attachment B**. Shareholders should read the Independent Expert's Report in full, including the limitations and reliance on information disclosures in the Independent Expert's Report.

In summary, Deloitte has concluded in the Independent Expert's Report that the Company's Share has a low value of $3.33 and a high value of $3.73.

In deciding how to vote on the Buy-Back Resolution and, if it is passed, whether a Shareholder should sell his or her Shares on the ASX (and thus potentially sell his or her Shares into the 2010 Buy-Back Program), Shareholders should give consideration to the Independent Expert's Report, in addition to the other matters set out in this Notice and their own individual circumstances and any independent financial advice they might obtain.

### 2.5 DIRECTORS' RECOMMENDATION

The Directors of the Company are referred to in the table in **section 2.8(f)**.

Messrs Packer, Jacob and Jalland are each executives of CPH and CPH nominees on the Board of the Company. CPH has a voting power over 45.3 per cent of the Shares of the Company, or 281,175,931 Shares.

Messrs Gammell and Stokes have been nominated as Directors to the Board by Seven which has a voting power over 22.1 per cent of the Shares of the Company, or 137,312,402 Shares.

In the event that CPH and Seven do not sell any of their Shares on ASX and potentially into the 2010 Buy-Back Program, both CPH and Seven will see their shareholding interest and voting power in the Company increase (as indeed will all Shareholders who do not to sell their Shares on ASX and potentially into the 2010 Buy-Back Program).

As there is the possibility that CPH and Seven may see their shareholding interest and voting power in the Company increase, the CPH and Seven nominee directors on the Board of the Company – Messrs Packer, Jacob, Jalland, Gammell and Stokes – have advised the Board that they do not consider themselves justified in making a recommendation to Shareholders about the Buy-Back Resolution. Further, the Board has determined that none of these directors will be involved in implementing the 2010 Buy-Back Program if Shareholders approve the Buy-Back Resolution and the Company seeks to buy back Shares on-market pursuant to that authority.

The Company has delegated the responsibility for administering the 2010 Buy-Back Program to a Committee comprising any two of the Chairman of the Audit, Risk & Governance Committee, the Executive Chairman, the Company Secretary and the Chief Financial Officer.

The Executive Chairman Mr John Alexander and the Independent Directors – Mrs Danziger and Messrs Corrigan, Dixon and Mackay – (the **Recommending Directors**) recommend that Shareholders vote in favour of the Buy-Back Resolution.

The recommendation has been made following consideration by the Recommending Directors of the advantages and disadvantages associated with the 2010 Buy-Back Program (see **section 2.6** for further details) and after also taking into account the following:

i) In the absence of an appropriate investment or acquisition opportunity the Company can utilise the Surplus Cash as follows:
   - it can retain the Surplus Cash;
   - it can return it to Shareholders through either a special dividend, an equal access off-market buy-back or a pro-rata reduction or return of capital; or
   - with Shareholder approval, it can seek to implement an on-market buy-back under the 2010 Buy-Back Program.

ii) Retaining the Surplus Cash is contrary to the Company's capital management policy and, in the opinion of the Recommending Directors, is an inefficient use of the Surplus Cash in the absence of any foreseeable investment or acquisition opportunity.

iii) Paying a special dividend, implementing an off-market buy-back or implementing a pro-rata reduction or return of capital would likely result in Shareholders receiving an unfranked dividend for tax purposes.

iv) Implementing a pro-rata reduction or return of capital is not considered to be an efficient mechanism to return the Surplus Cash to Shareholders. These mechanisms or the payment of a special dividend also do not allow Shareholders the choice as to whether they participate.

v) Implementing an equal access off-market buy-back is not considered to be an efficient mechanism to return the Surplus Cash to Shareholders as it reduces flexibility when compared to an on-market buy-back and is less attractive from a cost and complexity perspective.

## On-Market Buy-Back (Continued)

Although the Recommending Directors recommend that Shareholders vote in favour of, and approve, the Buy-Back Resolution, they make no recommendation to Shareholders as to whether they should sell their Shares on the ASX and potentially into the 2010 Buy-Back Program. Such a decision is a matter for each Shareholder to determine having regard to their own individual circumstances and, if appropriate or required, after taking into account professional and financial advice and the contents of these Explanatory Notes, including the Independent Expert's Report.

### 2.6 ADVANTAGES AND DISADVANTAGES OF THE 2010 BUY-BACK PROGRAM

**a) Advantages**

The potential advantages of the 2010 Buy-Back Program include the following:

— the 2010 Buy-Back Program is an appropriate use of cash in the absence of an appropriate investment or acquisition opportunity. It also reduces uncertainty for all Shareholders in relation to the use of the Surplus Cash (whether or not they participate in the buy-back);

— by reducing the number of Shares on issue, the Company expects the 2010 Buy-Back Program to be value per Share accretive, earnings per Share (**EPS**) accretive and, depending on the price at which Shares are bought back, cashflow per Share accretive. See **section 2.7(c)** for further details;

— voluntary participation – Shareholders are free to choose whether they wish to sell into the 2010 Buy-Back Program or retain their Shares;

— purchases on-market can be tailored by the Company to changing market conditions;

— the Company has the flexibility to adjust the volume of Shares bought back (subject to the Buy-Back Cap) and can stop buying back Shares on-market at any time;

— implementation of an on-market buy-back is simple;

— an on-market buy-back is an effective and efficient means of returning surplus capital to Shareholders and if implemented should result in a more efficient capital structure for the Company;

— subject to market conditions, the 2010 Buy-Back Program is likely to add materially to demand on market for the Company's Shares, whilst it is active; and

— the 2010 Buy-Back Program should not result in Shareholders receiving an unfranked dividend for tax purposes.

**b) Disadvantages**

The Recommending Directors consider that the advantages of 2010 Buy-Back Program outweigh the disadvantages. However, Shareholders may not agree with their view. The Recommending Directors note that Shareholders who wish to sell their Shares on-market have no assurance as to the price, volume or timing of sales as these factors will depend on market dynamics.

The Recommending Directors have identified the following potential disadvantages of the 2010 Buy-Back Program:

— a buy-back is likely to decrease the Company's ASX free-float and may reduce ASX trading volumes and liquidity in the Company's Shares;

— the Company's weighting in S&P/ASX indices will likely decrease and the Company could be excluded from S&P/ASX indices as a result of its reduced free-float. This means that fund managers that include the Company as part of the S&P/ASX 200 in their portfolio may sell their Shares;

— if the 2010 Buy-Back Program is implemented and CPH and Seven do not participate in that program, then their respective interests in the remaining Shares will increase in the manner set out in **section 2.7(d)** from the current levels of 45.3 per cent and 22.1 per cent respectively;

— in the event the Company implements the 2010 Buy-Back Program there would be a reduction in available cash levels and the ability of the Company to use that cash for acquisitions or other corporate purposes. No acquisitions have been identified at the date of this Notice and in the event such an opportunity were to be identified, the Company would be able to cease buying back Shares; and

— if the Company implements the 2010 Buy-Back Program, and CPH and Seven do not dispose of any of their Shares, the Company might become subject to the benchmark franking rules, and as a consequence have less flexibility in regards to the franking levels attached to future dividends paid within an income year, than is currently available to the Company under the tax law. This is likely to result in the Company being unable to frank any dividends to be paid during the year ending 30 June 2011.

### 2.7 IMPLICATIONS OF THE 2010 BUY-BACK PROGRAM ON THE COMPANY

**a) Outlook for the Company**

As disclosed in the Company's half year results for the six months ended 31 December 2009, the consolidated net profit after tax (**NPAT**) of the Company for the first half of fiscal 2010 was $346.2 million.

As at 31 December 2009, the Company held $307.1 million in cash and had no bank debt.

At the date of this Notice, and following the payment of the interim dividend on Friday, 16 April 2010, the Company holds a cash balance of $251.5 million.

**b) The Directors are confident that even if the 2010 Buy-Back Program is fully implemented the Company will have sufficient remaining cash reserves to meet the Company's financial needs and obligations for the future. The 2010 Buy-Back Program does not materially prejudice the Company's ability to pay its creditors.**

The Company will fund the 2010 Buy-Back Program from Surplus Cash that is part of the Company's available cash on deposit. No debt will be incurred in completing the 2010 Buy-Back Program.

In accordance with the Company's existing accounting policy and Australian equivalents to International Financial Reporting Standards (**Accounting Standards**), the cost of the share buy-back will be recorded in a reserve account called the Share Buy-Back Reserve. The sole purpose of this reserve is to record the cost of share buy-backs. Costs include the purchase price of the shares bought, plus any costs directly attributable to the share buy-back, including brokerage fees paid.

The pro forma consolidated balance sheet for the Company as at 31 December 2009, set out over, reflects the impact of the 2010 Buy-Back Program on the 31 December 2009 balance sheet should the full amount of the Surplus Cash be spent. For simplicity, some of the balance sheet categories required by Accounting Standards that are not affected by the 2010 Buy-Back Program have been combined. Similarly, the notes to the balance sheet required by the Accounting Standards have not been included.

| Pro forma Balance Sheet | Consolidated | | |
|---|---|---|---|
| | As reported 31 December 2009 $'million | Pro forma adjustment $'million | Pro forma 31 December 2009 $'million |
| **Current assets** | | | |
| Cash and cash equivalents | 307.1 | (225.0) | 82.1 |
| Other Current Assets | 3.7 | — | 3.7 |
| **Total current assets** | **310.8** | **(225.0)** | **85.8** |
| **Non-current assets** | | | |
| Investments in associates accounted for using the equity method | 285.1 | — | 285.1 |
| Deferred income tax asset | 0.5 | — | 0.5 |
| **Total non-current assets** | **285.6** | **—** | **285.6** |
| **Total assets** | **596.3** | **(225.0)** | **371.3** |
| **Liabilities** | | | |
| Trade and other payables | 48.2 | — | 48.2 |
| Interest bearing liabilities | 0.2 | — | 0.2 |
| Provisions | 0.4 | — | 0.4 |
| Total liabilities | 48.8 | — | 48.8 |
| **Net assets** | **547.6** | **(225.0)** | **322.6** |
| **Equity** | | | |
| Issued capital | 55.1 | — | 55.1 |
| Reserves | (210.9) | (225.0) | (435.9) |
| Retained earnings | 703.4 | — | 703.4 |
| **Total equity** | **547.6** | **(225.0)** | **322.6** |

### c) Impact on the Company's net asset value and EPS

The precise impact on financial metrics such as EPS, net tangible assets per Share (**NTA**) and cashflow per Share of the 2010 Buy-Back Program cannot be determined until the program is completed and will depend on the price paid for and the number and timing of any Shares bought back by the Company.

A brief description of how these financial metrics are affected follows:

**EPS:** Earnings will reduce as a result of the interest revenue forgone. Similarly, the number of Shares will reduce by the number of the Shares bought-back. It is expected that the 2010 Buy-Back Program will be EPS accretive.

**NTA:** The net assets presented in the Company's balance sheet will reduce to the extent of the cost of the 2010 Buy-Back Program. Although the reduced net asset value will be applied to a reduced number of Shares, it is likely that the Company's NTA will decrease. This situation arises because the company's investments in associates are carried based on historical cost, which is a relatively low value compared to their fair value. If the full number of Shares allowed under the Buy-Back Cap were to be purchased, and based on the pro forma 31 December 2009 balance sheet included above, NTA would reduce from $0.88 to $0.59.

**Value per Share:** The fundamental value of the company will reduce by the amount of cash (plus associated costs, including brokerage) returned to Shareholders via the 2010 Buy-Back Program. This will be applied to a lower number of Shares (i.e. the number of Shares following the implementation of the 2010 Buy-Back Program). However, Shares will not be bought back under the 2010 Buy-Back Program unless the Company is satisfied that the buy-back is value accretive for the remaining Shareholders.

### d) Impact of 2010 Buy-Back Program of the Company

Any Shares bought back will be cancelled in accordance with the requirements of the Corporations Act.

As at the date of this Notice, the Company has 620,709,233 Shares on issue.

If the Company is successful in buying back 73,770,492 Shares the total number of Shares on issue will be reduced to 546,938,741 Shares.

The 5 day volume weighted average price (**VWAP**) for Shares sold on the ASX in the period to Thursday 22 April 2010 was $3.11 per Share and is rounded to two decimal places. If the Company fully utilises the Surplus Cash to buy back the maximum number of Shares for an average price of $3.11 per Share then 72,347,267 Shares will be bought back and cancelled and the Company will then have 548,361,966 Shares on issue.

The closing price of Shares traded on ASX on Thursday 22 April 2010 was $3.09 per Share. If the Company fully utilises the Surplus Cash to buy back the maximum number of Shares for an average price of $3.09 per Share then 72,815,534 Shares will be bought back and cancelled and the Company will then have 547,893,699 Shares on issue.

These examples are given for illustrative purposes only. The Company can give no assurance as to the number of Shares, if any, that it will buy back under the 2010 Buy-Back Program or the price it will need to pay to buy back Shares.

## On-Market Buy-Back (Continued)

There is no compulsion on any Shareholder to sell their Shares on the ASX and potentially into the 2010 Buy-Back Program. Some Shareholders may choose to sell some or all or none of their Shares on ASX. At this stage it is therefore not possible to ascertain what changes will result to the total number of Shares on issue of the Company as this will depend on how many Shares the Company is able to buy back under the 2010 Buy-Back Program.

As at the date of this Notice, CPH has a relevant interest in 45.3 per cent of the Company's Shares and Seven has a relevant interest in 22.1 per cent of the Company's Shares.

For illustrative purposes only, if the Company were to buy back the number of Shares under the 2010 Buy-Back Program referred to in the table below, CPH's and Seven's shareholding interests in the Company will increase as a percentage of the total Shares then on issue, as referred to in the table below, assuming neither CPH nor Seven acquire or dispose of any Shares.

| | Current – no Shares bought back | 73,770,492 Shares bought back [1] | 72,347,267 Shares bought back [2] | 72,815,534 Shares bought back [3] |
|---|---|---|---|---|
| CPH | 45.3% | 51.4% | 51.3% | 51.3% |
| Seven | 22.1% | 25.1% | 25.0% | 25.1% |

1 Based on the Buy-Back Cap.
2 Based on the number of Shares bought back implied by using all of the Surplus Cash and an average price per Share of $3.11 being the 5 day VWAP as at 22 April 2010 and is rounded to two decimal places.
3 Based on the number of Shares bought back implied by using all of the Surplus Cash and an average price per Share of $3.09 being the last close as at 22 April 2010.

Similarly, if any other Shareholder decides not to sell its Shares on ASX during the buy-back period (and thus potentially into the buy-back), the Shareholder will see its percentage holding or voting power in the Company increase as bought back Shares are cancelled by the Company in accordance with the Corporations Act.

**e) Impact on inclusion of the Company in S&P/ASX indices**
The Company is presently included in the Standard & Poor's ASX 200 index (S&P/ASX200).

Eligibility for inclusion in, or exclusion from, S&P/ASX indices is at the discretion of the Standard & Poor's Australian Index Committee and is based on criteria which include (among other criteria):

— the size of a company's free-float market capitalisation; and
— a stock's liquidity relative to the liquidity of its peers.

Standard & Poor's generally requires a minimum free-float of 30 per cent of total issued ordinary shares (**Minimum Free-Float**).

A company's free-float is that portion of shares on the register that are readily tradable. For some stocks, including the Company's, a portion of the shares is deemed unavailable to investors and includes shares held by a control group (in the case of the Company, the shares held by CPH and Seven).

A company's weighting in S&P/ASX indices is generally based on the size of the company's free-float relative to the weightings assigned to other companies included in an index.

The Company's free-float market capitalisation will likely be reduced if Shares are bought back under the 2010 Buy-Back Program. Any Buy-Back Program may therefore decrease the Company's weighting within S&P/ASX indices and could result in the exclusion of the Company from S&P/ASX indices.

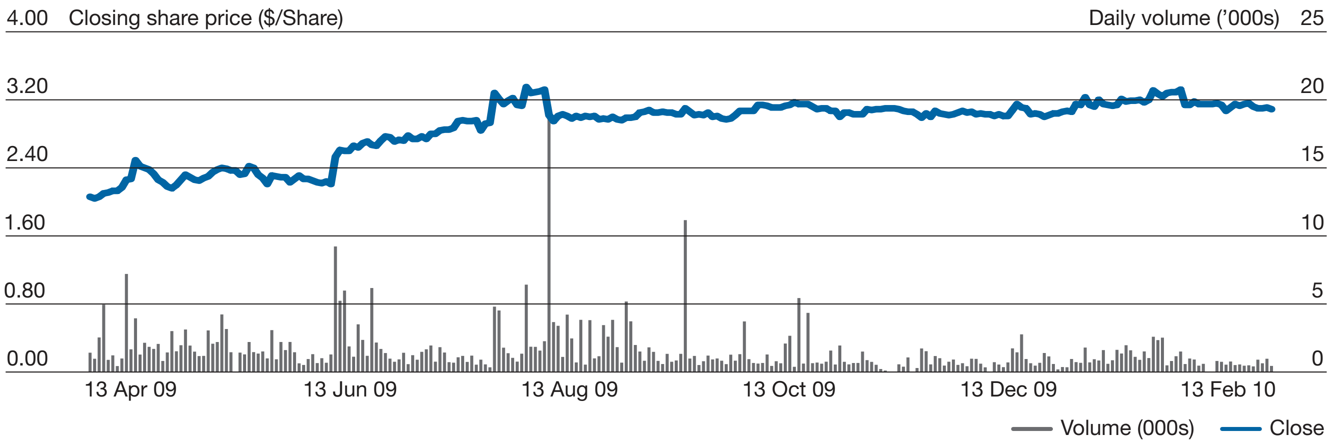
The Company presently has a free-float only slightly over the Minimum Free-Float.

However, given the Company's current shareholding structure (with more than 67 per cent of the Shares held by the two largest shareholders), any material reduction in the free-float (for instance, as a result of a buy-back, or a purchase by a substantial shareholder) could result in the Company being excluded from the S&P/ASX 200 Index.

### 2.8 OTHER MATERIAL CONSIDERATIONS

**a) Historical Share price information**
The closing price of the Company's Shares on the ASX on Thursday 22 April 2010 was $3.09 per Share. The Company's lowest and highest market sale prices on the ASX during the last 12 months (which includes the 2009 Buy-Back Program that took place during the period from 11 September 2009 to 1 December 2009) was $2.01 per Share and $3.44 per Share, respectively. Over the same period the VWAP of the Company's Shares was approximately $2.83 per Share. The graph over shows the daily closing market price of the Shares and volumes of trades during the last 12 months.

**Daily closing market price of the Company's Shares and daily trading volume April 2009 – April 2010**




**b) Australian income tax considerations**
A letter addressing the Australian income tax considerations that may be relevant to Shareholders is included with this Notice at **Attachment A**.

**c) Effect on participating Shareholders' voting and dividend rights**
Once a buy-back agreement is entered into in respect of Shares, by operation of the Corporations Act, the rights attaching to those Shares are suspended and immediately after the registration of the transfer of Shares bought back by the Company, the Shares are cancelled.

**d) Intentions with regard to the business/assets**
Although a successful implementation of the 2010 Buy-Back Program will result in the Surplus Cash being utilised to pay for Shares that are bought back and then cancelled, the Company does not intend that the 2010 Buy-Back Program will have any impact on the Company's business, investments or employees.

The Company will continue to maintain and support its investments in FOXTEL and Premier Media Group and to maintain a small head office staff with an appropriate level of corporate overhead costs.

**e) Intentions if the Buy-Back Resolution is not passed or 2010 Buy-Back Program is not successful**
In the event that the 2010 Buy-Back Program is not successful, the Directors will need to reconsider another mechanism to utilise the Surplus Cash and whether a new capital management policy should be adopted.

**f) Directors' interests in Shares**
The voting interests of each Director in Shares as at the date of this Notice are as follows:

| Director | No. of Shares |
|---|---|
| John Henry Alexander | 425,500 |
| James Douglas Packer | 281,175,931 |
| Christopher Darcy Corrigan | Nil |
| Rowena Danziger | 22,876 |
| Geoffrey James Dixon | Nil |
| Peter Joshua Thomas Gammell | Nil |
| Ashok Jacob | Nil |
| Guy Jalland | Nil |
| Christopher John Mackay | 100 |
| Ryan Kerry Stokes | Nil |
| Michael Roy Johnston (Alternate) | Nil |

The Directors are entitled to sell their Shares on ASX and potentially participate in the 2010 Buy-Back Program (should it be approved) in the same manner as other Shareholders.

**g) Other material information**
The Directors are not aware of any information about the Company that is material to a decision by a Shareholder on how to vote on the Buy-Back Resolution and which:

— is not set out or referred to in this Notice; or

— has not otherwise been made available publicly by the Company.

The Company is a "disclosing entity" for the purposes of the Corporations Act and as such is subject to periodic reporting and continuous disclosure obligations.

Publicly disclosed information about all listed entities, including the Company, is available on the ASX website (www.asx.com.au). Publicly disclosed information about the Company is also available on the Company's website (www.cmh.com.au).

**h) Material changes in financial position**
Within the knowledge of the Directors there has been no material change in the financial position of the Company since the reviewed financial statements of the Company dated 31 December 2009, that were lodged with the ASX on 23 February 2010, except as disclosed elsewhere in this Notice.

## Voting

### 3.1 MAJORITIES REQUIRED

For the resolution to adopt the new Constitution to be passed, it must be approved by at least 75 per cent of the votes cast on that resolution.

For the Buy-Back Resolution to be passed, it must be approved by at least 50 per cent of the votes cast on the resolution.

### 3.2 HOW TO VOTE

Shareholders can vote in one of two ways:

a) by attending the General Meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or

b) by appointing a proxy to attend the General Meeting and vote on their behalf by:

   i) using the proxy form enclosed with this Notice;

   ii) recording their proxy voting instructions on the internet at www.investorvote.com.au. To access this facility, Shareholders will need their holder identification number (**HIN**) or security holder reference number (**SRN**) and postcode which are printed on the proxy form enclosed with this Notice; or

   iii) Shareholders who wish to vote only part of their holding, or to split their vote, will need to lodge a paper proxy form.

Instructions on how to appoint a proxy are set out below and are detailed on the back of the proxy form enclosed with this Notice.

### 3.3 VOTING IN PERSON OR BY ATTORNEY

Shareholders are asked to arrive at the venue from 9am to allow for registration for the General Meeting. To help facilitate registration for the General Meeting, please bring the proxy form enclosed with this Notice.

Individuals attending the General Meeting as corporate representatives must present satisfactory evidence of his or her appointment to attend on the company's behalf, unless previously lodged with the Company or the Company's Share Registry (the **Share Registry**). Attorneys should bring with them original or certified copies of the power of attorney under which they have been authorised to attend and vote at the General Meeting, unless previously lodged with the Company or the Share Registry.

### 3.4 VOTING BY PROXY

— A Shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Each proxy will have the right to vote and also to speak at the General Meeting.

— The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the Shareholder's votes that each proxy may exercise, each proxy may exercise half of the votes. However, neither proxy may vote on a show of hands.

— A proxy need not be a Shareholder.

— If a proxy is not directed how to vote on an item of business, the proxy may vote or abstain from voting, as that person thinks fit.

— If a proxy is instructed to abstain from voting on an item of business, that person is directed not to vote on the Shareholder's behalf on the poll, and the Shares the subject of the proxy appointment will not be counted in computing the required majority.

— Shareholders who return their proxy form with a direction how to vote but do not nominate the identity of the proxy will be taken to have appointed the Chairman of the General Meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the General Meeting, the Chairman of the General Meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the Chairman of the General Meeting, the Company Secretary or any Director of the Company which do not contain a direction will be used to support each of the resolutions proposed to be passed at the General Meeting.

— Completed proxy forms should be sent to the Share Registry using the envelope enclosed with this Notice.

To be effective:

a) Proxy forms must be:

   i) sent to the Share Registry (using the envelope enclosed with this Notice) or hand delivered to **452 Johnston Street, Abbotsford, Victoria 3067**;

   ii) faxed to the Share Registry on **1800 783 447** from within Australia or **+613 9473 2555** from overseas; or

   iii) sent to the Company's registered office at Level 2, 54 Park Street, Sydney NSW 2000 (to the attention of the Company Secretary); or

b) Electronic proxy voting instructions must be recorded on the Internet at www.investorvote.com.au, so that they are received by **no later than 10am (Sydney time), Wednesday 26 May 2010**. Custodians should visit www.intermediaryonline.com to submit voting intentions. Proxy forms or proxy voting instructions received after 10am (Sydney time), Wednesday 26 May 2010 will be invalid.

c) The proxy form must be signed by the Shareholder or the Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointer's attorney, a certified copy of the power of attorney, or the power itself, must be received by the Share Registry at either of the postal addresses listed above, or by fax, **before 10am Wednesday 26 May 2010**. If faxed, the power of attorney must be certified.

### 3.5 ENTITLEMENT TO VOTE

In accordance with section 1074E(2)(g)(i) of the Corporations Act and regulation 7.11.37 of the *Corporations Regulations 2001*, the Company has determined that for the purposes of the General Meeting all Shares in the Company shall be taken to be held by the persons who held them as registered Shareholders at 7pm, Sydney time on Wednesday, 26 May 2010 (**Entitlement Time**). All holders of Shares in the Company as at the Entitlement Time are entitled to attend and vote at the meeting outlined above.

## How to find the location of the General Meeting

You can use the map below to find the nearest transport routes to the location of the General Meeting – the Hyde Park Room, Sheraton on the Park, 161 Elizabeth Street, Sydney NSW 2000.

**BY TRAIN**

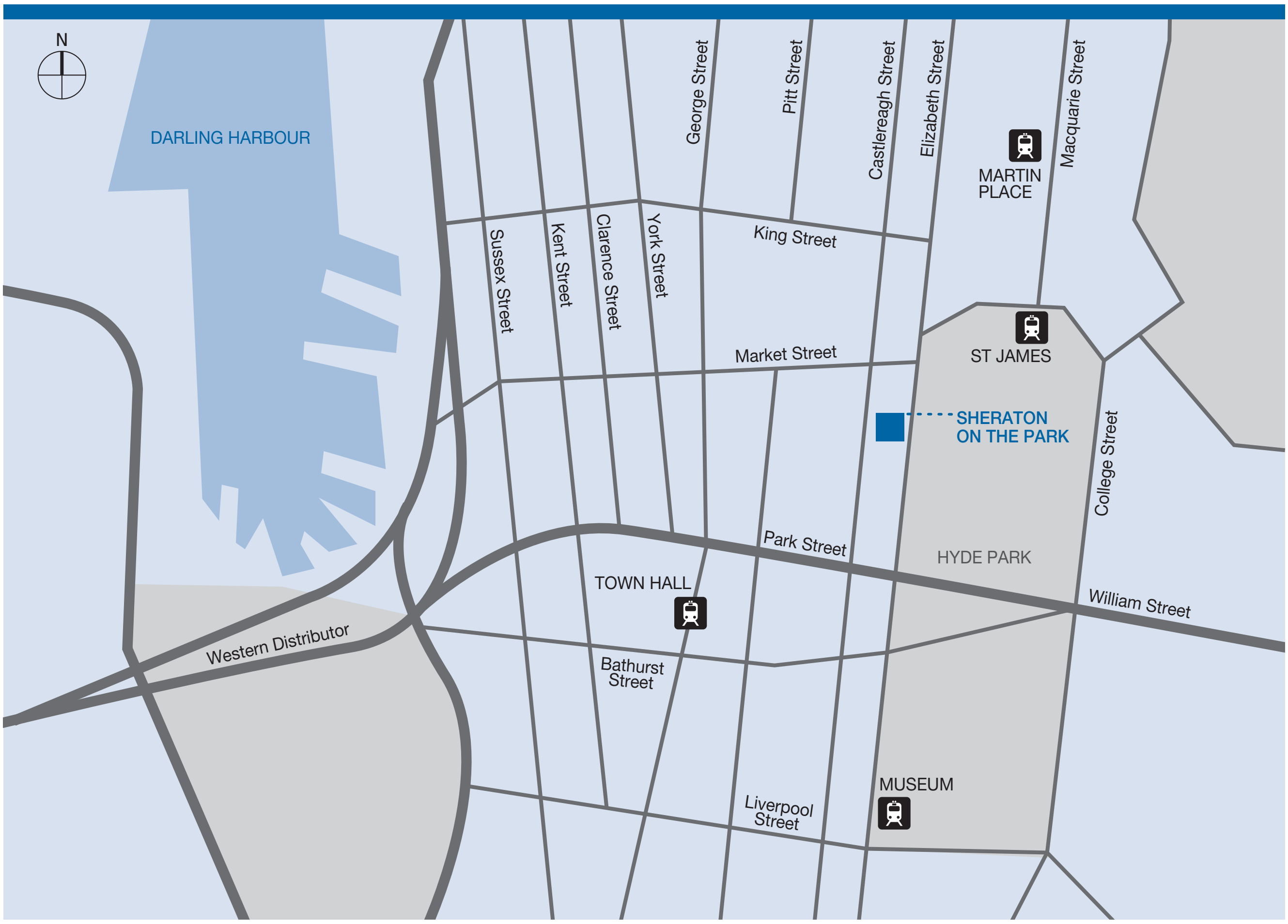
Both Town Hall Station and St James Station are a short walk to the Sheraton on the Park.

**BY CAR**

There are various car parks located around the Sheraton on the Park. Please note however that parking can be limited in the Sydney city centre.

**BY TAXI**

The Sheraton on the Park is highly frequented by taxi cabs and has a taxi rank at the entrance to the venue on Elizabeth Street.



## Definitions

**IN THIS DOCUMENT:**

**$ or cents** means Australian currency unless otherwise specified.

**2009 Buy-Back Program** means the on-market buy-back program undertaken by the Company in 2009.

**2010 Buy-Back Program** means the on-market buy-back program proposed to be commenced by the Company in 2010.

**ASIC** means the Australian Securities and Investments Commission.

**Associate** has the meaning given to it in section 12 of the Corporations Act as if section 12(1) of that Act included a reference to this document and the Company was the designated body.

**ASX** means ASX Limited ABN 98 008 624 691.

**Buy-Back Cap** means 73,770,492 Shares.

**Buy-Back Resolution** means the resolution to approve the 2010 Buy-Back Program set out in the Notice of Meeting.

**Board** means the board of directors of the Company as at the date of this Notice.

**Business Day** means a day on which banks are open for business excluding Saturdays, Sundays and public holidays in Sydney, Australia.

**Company** means Consolidated Media Holdings Limited ABN 52 009 071 167.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**CPH** means Consolidated Press Holdings Limited (and its Associates, including without limitation, Mr James Packer).

**Director** means a director of the Company as at the date of this Notice.

**FOXTEL** means FOXTEL Management Pty Limited and its Associates.

**General Meeting** means the meeting of Shareholders convened by the Board to consider and vote on the Buy-Back Resolution and the resolution to adopt a new Constitution.

**Listing Rules** means the Official Listing Rules of the ASX.

**Notice or Notice of Meeting** means this notice of meeting and explanatory notes.

**Premier Media Group** means Premier Media Group Pty Limited and its Associates.

**Seven** means Seven Network Limited (and as required, its Associates).

**Shares** means fully paid ordinary shares issued in the Company.

**Shareholder** means a person who is registered as a holder of Shares.

**Surplus Cash** means $225 million.

**Total Shares** means 620,709,233 issued shares of the Company.

**VWAP** means volume-weighted average price, which is the market value of securities traded divided by the market volume of those securities traded over a particular time frame.

# Attachment A

## Tax letter for shareholders

16 April 2010

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

23 April 2010

The Directors
Consolidated Media Holdings Limited
Level 2
54 - 58 Park Street
SYDNEY NSW 2000

# Tax Letter for Shareholders

Dear Directors

We have been requested by Consolidated Media Holdings Limited (CMH) to prepare a tax letter for inclusion in the Notice of Meeting provided to Shareholders in relation to the consideration of the proposed 2010 on-market buy-back.

The information in this letter will only apply in the event that the required percentage of Shareholders vote in favour of the on-market buy-back resolution at the CMH General Meeting on 28 May 2010.

## 1. Introduction

The purpose of this tax letter is to provide a guide as to the potential Australian income tax implications that may be applicable to CMH Shareholders if they choose to sell their CMH shares during the period of the 2010 on-market buy-back, should Shareholders approve the on-market buy-back resolution. This letter is not intended to provide an exhaustive or definitive statement as to all the possible tax outcomes for CMH Shareholders.

Specifically, this letter sets out the likely Australian income tax implications for CMH Shareholders if they sell their CMH shares on the Australian Stock Exchange (ASX) and thus potentially into the 2010 on-market buy-back.

The information contained in this tax letter is provided in relation to:

- Australian residents who hold their CMH shares on capital account for income tax purposes and does not apply to Australian residents who hold their CMH shares on revenue account (for example, CMH Shareholders who are share traders) or temporary residents for the purposes of the income tax law; and

- Foreign residents who hold their CMH shares on capital account, and do not hold their CMH shares through an Australian branch or permanent establishment.

The information contained in this letter is based on the *Income Tax Assessment Act 1936* (the 1936 Act), the *Income Tax Assessment Act 1997* (the 1997 Act), applicable case law and published Australian Taxation Office (ATO) rulings, determinations and administrative practice at the date of this letter. Any changes in the tax law or interpretation of the tax law subsequent to the date of this letter may alter the information contained in this tax letter.

## 2. Australian Income Tax Implications

The income tax implications for CMH Shareholders who sell their Shares on the ASX and thus potentially into the 2010 on-market buy-back should be the same as for any other on-market sale of their CMH shares.

*Australian Resident Shareholders*

Capital Gains Tax (CGT) event A1 should occur for CMH Shareholders when they dispose of their CMH shares under the 2010 on-market buy-back. The event should happen at the time the Shareholder enters into a contract for the disposal of their CMH shares or otherwise when the change of ownership of their CMH shares occurs.

The proceeds of disposal in respect of their CMH shares should be the amount they receive for the sale of their shares. The shareholders should derive a capital gain if the proceeds of disposal exceed the cost base of their shares.

CMH Shareholders who are individuals, complying superannuation funds or trusts, and who acquired their shares at least 12 months before the date of disposal under the buy-back, may be entitled to apply the CGT discount rule in respect of any capital gain that is derived on disposal of their shares.

CMH Shareholders should incur a capital loss if the proceeds of disposal of their shares are less than the reduced cost base of their shares.

If the disposal of their CMH shares occurs as part of the 2010 on-market buy-back, no part of the proceeds received for the disposal of their shares should be considered to be a dividend.

*Foreign Resident Shareholders*

Foreign resident shareholders who hold their CMH shares on capital account should not be subject to CGT on the disposal of their shares under the 2010 on-market buy-back.

If the disposal of their CMH shares occurs as part of the 2010 on-market buy-back, no part of the proceeds received for the disposal of their shares should be considered to be a dividend.

## 3. Disclaimer

Tax laws are complicated and there could be implications for CMH Shareholders in addition to those described above. The above information is general in nature and the individual circumstances of each Shareholder may affect the tax implications of the investment of that Shareholder. CMH Shareholders should seek appropriate independent professional advice that considers the tax implications in respect of their own specific circumstances.

We disclaim all liability to any Shareholder or other party for all costs, loss, damage and liability that the Shareholder or other party may suffer or incur arising from or relating to or in any way connected with the contents of this letter or the provision of this letter to the Shareholder or other party or the reliance on this letter by the Shareholder or other party.

* * * *

We consent to the inclusion of this tax letter in the Notice of Meeting provided to CMH Shareholders. This consent has not been withdrawn at the date of this letter.

Yours sincerely

Ernst & Young

Ernst & Young

# Attachment B

Consolidated Media Holdings Limited
Independent expert's report and Financial Services Guide

16 April 2010

# Consolidated Media Holdings Limited

## Independent expert's report and Financial Services Guide

23 April 2010

Deloitte.

# Financial Services Guide

## What is a Financial Services Guide?

**This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.**

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

## What financial services are we licensed to provide?

We are authorised to provide general financial product advice or to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes and government debentures, stocks or bonds.

## Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

## How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

## Associations and relationships

We are ultimately owned by the Deloitte member firm in Australia (Deloitte Australia). Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

We and Deloitte Australia (and other entities related to Deloitte Australia):

- do not have any formal associations or relationships with any entities that are issuers of financial products; and
- may provide professional services to issuers of financial products in the ordinary course of business.

## What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

| | |
|---|---|
| The Complaints Officer | Financial Ombudsman Service |
| PO Box N250 | GPO Box 3 |
| Grosvenor Place | Melbourne VIC 3001 |
| Sydney NSW 1220 | info@fos.org.au |
| complaints@deloitte.com.au | www.fos.org.au |
| Fax: +61 2 9255 8434 | Tel: 1300 780 808 |
| | Fax: +61 3 9613 6399 |

## What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

10 February 2010

Deloitte Corporate Finance Pty Limited, ABN 19 003 883 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

Deloitte Corporate Finance Pty Limited
A.B.N. 19 003 833 127
AFSL 241457

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Directors
Consolidated Media Holdings Limited
2nd Floor
54 Park Street
Sydney NSW 2000

23 April 2010

Dear Directors

# Independent expert's report

## Introduction

Consolidated Media Holdings Limited (CMJ or the Company) is a holding company listed on the Australian Securities Exchange (ASX) with interests in media assets. The Company has a 50% interest in Premier Media Group Pty Limited (PMG), giving it a 50% interest in subscription television content provider Fox Sports (Fox Sports)[1], and a 25% interest in subscription television business Foxtel (Foxtel)[2]. CMJ also holds a 0.1% interest in PBL Media Holdings Pty Limited (PBL Media) (collectively with the interest in PMG and Foxtel 'the CMJ Investments'). In this document, references to PMG are to PMG excluding Foxtel.

This independent expert's report (IER) is in relation to CMJ's proposal to undertake an on-market buy-back of up to 73,770,492 or 11.9% of the ordinary shares from shareholders of CMJ (Shareholders) (the Proposed Buy-back), subject to Shareholder approval at a general meeting of the Company[3].

The Australian Securities & Investments Commission (ASIC) recommends that, if a company proposes to buy-back a significant percentage of issued shares, shareholders should be provided with an IER containing a valuation of the shares.

Accordingly, the directors of CMJ (Directors) have requested Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) prepare an IER:

- valuing the ordinary shares of CMJ (CMJ Shares or Share), on a control basis whereby an entity owns 100% of the Company
- setting out other factors we may consider relevant to a Shareholder's consideration of the Proposed Buy-back.

[1] Fox Sports includes the Fox Sports channels, Fuel TV and How To channels.
[2] The interest in Foxtel is held through Sky Cable Pty Limited, which is wholly owned by PMG.
[3] Section 257C(1) of the Corporations Act 2001 (Cth) requires that the terms of the buy-back must be approved before it is entered into by a resolution passed at a general meeting of the company or conditional on such approval.

## Purpose of the report

While there is no legal requirement for the preparation of an IER, the Directors have requested that Deloitte Corporate Finance prepare an IER to assist Shareholders in their consideration of whether to:

- approve the Proposed Buy-back
- participate in the Proposed Buy-back.

Our report is to be included with the notice of meeting (Notice of Meeting) and explanatory notes (Explanatory Notes) to be provided to Shareholders for the purposes of the general meeting of the Company to consider the Proposed Buy-back.

## Basis of evaluation

ASIC Regulatory Guide 110 'Share buy-backs' (RG 110) contains the following recommendation:

> *"If a company proposes to buy-back a significant percentage of shares or the holdings of a major shareholder, it should consider providing:*
>
> - *a report by its independent directors about whether shareholders should vote in favour of the buy-back, particularly regarding how much the company is paying for the shares; and*
> - *an independent expert's report with a valuation of the shares."*

RG 110 does not offer specific guidance on how the directors or the expert is to form an opinion or the factors to consider in forming such an opinion.

Whilst this is not a change of control transaction, RG 110 does provide the following in relation to a change in control:

> *"A buy-back will not breach the takeovers prohibition in s606 if it is carried out in accordance with the buy-back provisions: s611, item 19. However, we* [ASIC] *may apply to the Takeovers Panel for a declaration of unacceptable circumstances if we consider the buy-back is unreasonable having regard to:*
>
> *(a) its effect on the control of the company or another company;*
>
> *(b) whether there was equal opportunity for shareholders to participate in the benefits; and*
>
> *(c) whether the disclosure and other procedural aspects of the buy-back would have substantially satisfied the requirements for a takeover in Ch 6 (regardless of whether they satisfy the requirements of the buy-back provisions).*

As RG 110 provides limited specific guidance, we have considered the Corporations Act 2001 (Cth) (the Corporations Act), ASX Listing Rules, other ASIC Regulatory Guides, and common market practice in our approach with respect to the evaluation of the Proposed Buy-back.

Our evaluation assumes a hypothetical change of control transaction whereby an entity acquires 100% of the Company. The valuation has been undertaken without reflecting the impact of the Proposed Buy-back on the value of the CMJ Shares as there is no way of knowing the number of CMJ Shares that will be acquired, and the price that will be paid for those shares during the period of the Proposed Buy-back[4].

[4] The Directors have discretion in relation to the number of share to be purchased, and the price that will be paid for them under the Proposed Buy-back, subject to the requirements of the ASX Listing Rules.

## Individual circumstances

We have evaluated the Proposed Buy-back for Shareholders as a whole and have not considered the effect of the Proposed Buy-back on the particular circumstances of individual Shareholders. Due to their particular circumstances, individual shareholders may place a different emphasis on various aspects of the Proposed Buy-back from the one adopted in this report. We recommend Shareholders consider consulting an independent adviser who will have regard to their individual circumstances in determining whether to approve or participate in the Proposed Buy-back.

## Limitations and reliance on information

The report has been prepared at the request of the Directors and is to be included with the Notice of Meeting and Explanatory Notes to be provided to Shareholders. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Notice of Meeting and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

Deloitte Corporate Finance has relied on publicly disseminated information in relation to CMJ, Foxtel and PMG in the preparation of this report (the details of which are set out in Appendix 6). We have not been provided with access to company records or information by Foxtel and PMG. Deloitte Corporate Finance has reasonable grounds to believe that the information provided to us and used by us is not materially inaccurate. However, Deloitte Corporate Finance has not audited, verified or reviewed this information in accordance with standards issued by the Auditing and Assurance Standards Board (or equivalent body).

Due to the limited nature of the information available to us in relation to Foxtel and PMG, we may not have had access to, or been made aware of, all information that may be relevant to our evaluation. Accordingly, the conclusions reached in our report could differ to those we would reach had we had full access to the information and management of Foxtel and PMG.

Further details of the limitations of and reliance on this report are set out in Section 2.3 of our detailed report.

## Summary and conclusion

### Fair market value of a CMJ Share on a control basis

We have estimated the fair market value of CMJ on a control basis by aggregating the estimated fair market value of the CMJ Investments on a sum of the parts basis, adding cash and deducting the capitalised value of corporate costs of CMJ.

Our estimate of the fair market value of a CMJ Share is in the range of $3.33 to $3.73 as set out in the following table.

**Table 1: Summary: Deloitte Corporate Finance assessed fair market value of a CMJ Share**

| | Section | Units | Low value | High value |
|---|---|---|---|---|
| Estimated fair market value: | | | | |
| Foxtel (25%) | 6.2.8 | $'million | 1,031.9 | 1,148.8 |
| PMG (50%) | 6.3.8 | $'million | 802.1 | 930.0 |
| PBL Media (0.1%) | 6.4 | $'million | - | 1.0 |
| Add: cash | 6.6 | $'million | 251.5 | 251.5 |
| Less: corporate costs | 6.5 | $'million | (18.0) | (19.0) |
| **100% equity value of CMJ (on a control basis)** | | $'million | **2,067.5** | **2,312.3** |
| Number of shares on issue | 4.5 | 'million | 620.7 | 620.7 |
| **Value of a CMJ Share (on a control basis)** | | **$** | **3.33** | **3.73** |

Source: Deloitte Corporate Finance analysis

The assessed value range of a CMJ Share of $3.33 to $3.73 implies a premium of 6.9% to 19.7% to the five day volume weighted average price (VWAP) of the shares as at 12 April 2010.

The level of premium implied by our valuation (which is on a control basis) to the share trading history appears reasonable having regard to the nature of the underlying investments and the holding company nature of CMJ.

### *Capitalisation of maintainable earnings*

We have estimated the fair market value of Foxtel and PMG using the capitalisation of maintainable earnings approach as our primary valuation approach. This method estimates fair market value by capitalising future maintainable earnings using an appropriate multiple, adding any surplus assets, deducting net debt and applying a premium for control.

We have used the capitalisation of maintainable earnings approach as our primary valuation approach rather than the discounted cash flow (DCF) method as we did not have access to long term cash flow forecasts for the Foxtel and PMG businesses due to confidentiality restrictions contained in their shareholders' agreements.

We set out below a summary of our valuation of the investments in Foxtel and PMG using the capitalisation of maintainable earnings approach.

**Table 2: Valuation of Foxtel and PMG using a capitalisation of maintainable earnings approach**

| | | Foxtel | | PMG | |
|---|---|---|---|---|---|
| | Units | Low | High | Low | High |
| Maintainable earnings (EBITDA) | $'million | 480.0 | 480.0 | 155.0 | 155.0 |
| EBITDA multiple (on a minority basis) | times (x) | 9.0 | 9.5 | 9.0 | 10.0 |
| **Enterprise value** | **$'million** | 4,320.0 | 4,560.0 | 1,395.0 | 1,550.0 |
| Less: debt | $'million | (730.8) | (730.8) | - | - |
| **Equity value (on a minority basis)** | **$'million** | 3,589.2 | 3,829.2 | 1,395.0 | 1,550.0 |
| Add: premium for significant influence / joint control | | 15.0% | 20.0% | 15.0% | 20.0% |
| **Equity value (on a control basis)** | **$'million** | 4,127.6 | 4,595.0 | 1,604.3 | 1,860.0 |
| **Value of CMJ's interest** | **$'million** | 1,031.9 | 1,148.8 | 802.1 | 930.0 |

Source: Deloitte Corporate Finance analysis
Note: EBITDA = earnings before interest, tax, depreciation and amortisation.

In selecting the multiples for Foxtel and PMG, we have had regard to:

- earnings multiples derived from share market prices of comparable listed companies
- prices achieved in mergers and acquisitions of comparable companies
- the growth expectations for Foxtel and PMG relative to those of comparable companies.

Our reasons for adopting the selected multiples are set out in Section 6.2.2 for Foxtel and Section 6.3.2 for PMG.

The 25% indirect interest in Foxtel held by CMJ does not constitute control, but does provide CMJ with the ability to exercise significant influence over Foxtel's strategic direction and operations. It also enables CMJ to prevent its co-investees from undertaking any major decisions without its consent. Having regard to the arrangements between the shareholders, we consider it appropriate to apply a premium for significant influence of between 15% and 20% in respect of CMJ's interest in Foxtel.

CMJ and News Corporation Limited (News Limited) each have an effective 50% interest in PMG. Each shareholder is entitled to appoint three directors to the PMG Board. A unanimous vote is required for all decisions concerning PMG.

The 50% indirect interest in PMG held by CMJ allows CMJ to exercise joint control of the investment. Neither CMJ nor News Limited is able to undertake any major decisions without the co-operation of its co-investee. Having regard to the arrangements between the shareholders, we consider it appropriate to apply a premium for joint control of between 15% and 20% in respect of CMJ's interest in PMG.

### *Valuation cross checks*

As a cross check to the valuation ranges established for CMJ's interests in Foxtel and PMG, we have undertaken a high level analysis to enable us to consider the set of assumptions that would be required under the DCF method to support our valuation range. We have also considered recent trading in CMJ shares. Both our high level DCF analysis and share trading analysis provide support for the valuation ranges selected.

## Other factors relevant to a Shareholder's consideration of whether to approve or participate in the Proposed Buy-back

Shareholders may be faced with different considerations in relation to the decision to:

- approve the Proposed Buy-back and
- participate in the Proposed Buy-back.

While we deal with each separately, the considerations are not unrelated.

## Approval of the Proposed Buy-back

The following factors may influence a Shareholder's consideration of whether or not to approve the Proposed Buy-back.

### *Effect of the Proposed Buy-back on control*

The effect of the Proposed Buy-back on the control of the Company will not be known until it has been completed as the Company is not obliged to pay a particular price or to acquire the maximum number of shares under the Proposed Buy-back.

Consolidated Press Holdings Limited Group (CPH) currently owns 45.3% of CMJ Shares. Its ownership interest may increase to over 50% under certain circumstances, including if:

- CPH does not elect to participate in the Proposed Buy-back
- the Company buys back more than 58.5 million or 9.4% of CMJ Shares.

Should this occur, shareholders other than CPH will lose their collective ability to out vote CPH on an ordinary resolution and it will not be possible for another party to gain control of the Company without CPH selling at least some of its shares. However, given the size of CPH's existing ownership interest there would be little, if any, practical impact on the level of control exercised by CPH if it increased its ownership interest beyond the 50% level for the following reasons:

- it is possible for CPH to increase its shareholding in CMJ by 3% every six months without needing to make a full takeover offer; hence CPH could increase its shareholding above 50% within a twelve month period. CPH is currently restricted in its ability to increase its shareholding in CMJ until June 2010 under the Corporations Act
- in practice it already has a level of control over CMJ with a 45.3% interest in CMJ and three out of ten directors on the Board being its appointees.

A further consequence of the Proposed Buy-back is that Seven Network Limited (Seven) may increase its shareholding above 25% if it does not elect to sell any of its shares into the buy-back[5]. The 25% threshold would provide Seven with the ability to prevent the passing of a special resolution. A special resolution is required for, amongst other things, changing the rights attaching to shares or for a selective buy-back.

---

[5] As at the date of this report, Seven holds a 22.1% interest in CMJ.

Seven has entered into a standstill agreement that prevents it from acquiring additional CMJ Shares until September 2010.

### *The effect of the Proposed Buy-back on a full takeover offer from a party other than CPH or Seven in the future*

The Proposed Buy-back is unlikely to significantly alter the prospect of a successful takeover in the future as any bidder will require the co-operation of CPH and Seven under the current shareholding structure regardless of whether or not the Proposed Buy-back proceeds.

### *The effect of the Proposed Buy-back on the Company's financial position and prospects*

The Company has no debt, is cash flow positive and will not need to borrow money to fund the Proposed Buy-back. The Company will however have less cash available to it to pursue any acquisition opportunities.

Neither Foxtel nor PMG has any foreseeable requirement for capital as each business is currently generating significant operating cash flow. The Proposed Buy-back would not have any effect on their operations.

Further, the Directors have concluded that there are currently no better uses, including acquisition opportunities, for the capital to be used to fund the Proposed Buy-back.

### *Alternative ways of returning capital*

If the Proposed Buy-back is approved, Shareholders will be able to choose if they wish to participate in the buy-back having regard to their individual circumstances, including any tax implications. The Proposed Buy-back therefore provides Shareholders with greater flexibility than would a return of capital or a special dividend. The Company does not have sufficient franking credits to enable it to return the maximum amount that is proposed under the buy-back by way of a fully franked dividend.

Further, the Proposed Buy-back is simpler to implement than other forms of capital return such as off-market buy-backs and pro-rata capital returns.

### *Impact on inclusion of the Company in S&P/ASX 200 index*

Eligibility for inclusion in, or exclusion from, the S&P/ASX 200 index is at the discretion of the Standard & Poor's Australian Index Committee and is based on criteria which include (among other criteria) the requirement for a public float of at least 30%.

There is therefore a risk that CMJ may be excluded from the S&P/ASX 200 index if the Proposed Buy-back proceeds. If this occurs, index fund managers may exclude CMJ from their portfolio holdings and the Company may receive less coverage from analysts. This may have adverse consequences for trading liquidity and CMJ's share price.

However, even in the absence of the Proposed Buy-back, it is possible that CMJ may be excluded from the index at a future time should the substantial shareholders (CPH and Seven) or another substantial holder collectively increase their shareholding in CMJ from the current level of 67.4% above the 70% threshold.

## Participation in the Proposed Buy-back

In addition to the matters referred to above, there are a number of other matters that may be relevant to a Shareholder's consideration of whether or not to participate in the Proposed Buy-back.

### *Possibility of achieving greater value in the future*

In considering whether to participate in the Proposed Buy-back, Shareholders should consider whether there is a reasonable prospect of being able to achieve greater value by holding the CMJ Shares rather than accepting the price available during the period of the Proposed Buy-back.

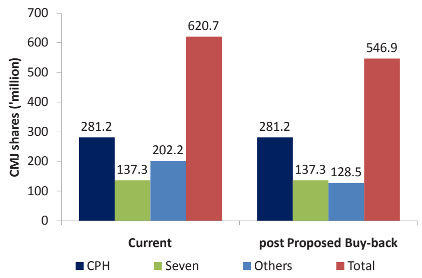
There is a risk that the CMJ Share price may fall below levels achieved prior to the announcement of the Proposed Buy-back.

### *Reduction in the free float*

If the Proposed Buy-back is approved, the shares affected will be transferred to the Company and cancelled in accordance with the Corporations Act. Upon completion of the Proposed Buy-back and subsequent cancellation of the shares, the total issued capital of CMJ may be reduced by up to 73.8 million ordinary shares from 620.7 million to 546.9 million shares.

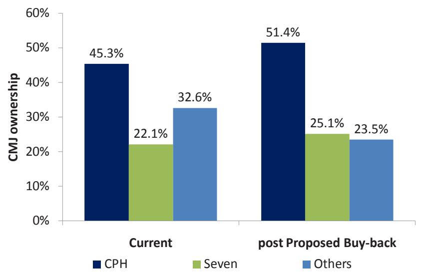
The figures below set out the impact of the Proposed Buy-back based on the total issued capital, the free-float and the significant shareholdings of CPH and Seven, assuming that the maximum number of shares is acquired under the Proposed Buy-back and CPH and Seven do not participate in the Proposed Buy-back .

**Figure 1: CMJ shareholding, pre and post Proposed Buy-back**




Source: Deloitte Corporate Finance analysis

**Figure 2: CMJ ownership, pre and post Proposed Buy-back**




Source: Deloitte Corporate Finance analysis

Assuming the Proposed Buy-back is approved and CPH and Seven do not participate in the Proposed Buy-back, the shareholding of CPH and Seven could increase from 45.3% to 51.4% and 22.1% to 25.1% respectively, as set out in Figure 2. The 'free-float' of CMJ Shares (calculated as those shares held by shareholders not regarded as strategic shareholders) would reduce to 23.5% as at the date of this report.

For the purposes of the shareholding calculations above, we have assumed that CPH and Seven do not participate in the Proposed Buy-back. Under the terms of the Proposed Buy-back, each Shareholder's request will be dealt with on a 'first come, first served' basis and CPH and Seven may elect to sell their shares into the buy-back.

The reduction in the free-float and potential effect upon trading liquidity, may limit the stock's attractiveness to institutional investors as it may affect their ability to readily realise large parcels of shares without impacting the share price. This may have the potential to cause a downward re-rating of the CMJ Shares by these investors.

### *Shareholders may wish to retain their exposure to the underlying assets*

The Company's investments in Foxtel and PMG provide Shareholders with exposure to an asset class in which there are a limited number of assets of a similar nature in Australia.

Furthermore, CMJ may have the opportunity to increase its shareholding in these businesses in future if any of the existing shareholders wish to sell their shares.

### *Earnings per share*

The earnings of the Company will reduce because of the utilisation of the available cash resources in the Proposed Buy-back, which will decrease interest income. The Company's earnings from Foxtel and PMG will not be impacted in any way by the Proposed Buy-back.

The Directors of CMJ expect the Proposed Buy-back to be accretive to earnings per share (EPS).

### *Accretive effect on value of the Proposed Buy-back*

If the price paid for CMJ Shares during the period of the Proposed Buy-back is less than our valuation range, then this would be accretive to underlying value on a control basis. This benefit may be somewhat offset for minority shareholders by other factors including reduced trading liquidity in the shares.

## Other matters for consideration

### *Possible change in the company's tax status*

CMJ may lose its listed public company status for franking account purposes if 20 or fewer persons (when traced through interposed entities) control or are able to control 75% or more of the voting power in the Company. If this occurs, CMJ would no longer be exempt from the operation of the benchmark franking rule.

The benchmark franking rule provides that all frankable distributions made by a private company during an income year must be franked to the same extent – the benchmark franking percentage. As a result, the Company may not be able to utilise its franking credits in the most effective manner if it wishes to avoid its franking account being in deficit at the end of an income year.

### *Taxation considerations for shareholders*

Shareholders who participate in the Proposed Buy-back will be taxed as if they sold their shares under an 'ordinary sale' to a third party.

## Other factors

Deloitte Corporate Finance does not make any recommendation as to whether Shareholders should either approve or participate in the Proposed Buy-back. These decisions are matters for individual Shareholders having regard to their views on the Company's prospects and market conditions and their particular circumstances, including their tax and risk profile.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

M. Pittorino

**Mark Pittorino**
Director

**Tapan Parekh**
Director

*Note: all amounts stated in this report are in Australian dollars ($) unless otherwise stated, and may be subject to rounding.*

# Contents


| | | |
|---|---|---|
| **1** | **Terms of the Proposed Buy-back** | **13** |
| 1.1 | Summary | 13 |
| 1.2 | Conditions precedent | 13 |
| **2** | **Scope of the report** | **14** |
| 2.1 | Purpose of the report | 14 |
| 2.2 | Basis of evaluation | 14 |
| 2.3 | Limitations and reliance on information | 15 |
| **3** | **Pay television industry in Australia** | **16** |
| 3.1 | Industry overview | 16 |
| 3.2 | Key measures for the Pay TV industry | 16 |
| 3.3 | Regulatory environment | 19 |
| 3.4 | Key demand drivers | 21 |
| 3.5 | Critical success factors | 22 |
| 3.6 | Pay TV providers in Australia | 22 |
| 3.7 | Future expectations | 23 |
| **4** | **Profile of CMJ** | **25** |
| 4.1 | Company history | 25 |
| 4.2 | Legal structure | 26 |
| 4.3 | Foxtel | 27 |
| 4.4 | Premier Media Group | 32 |
| 4.5 | Capital structure and shareholders | 36 |
| 4.6 | Share price performance | 36 |
| 4.7 | Financial performance | 37 |
| 4.8 | Financial position | 41 |
| 4.9 | Debt Profile | 42 |
| **5** | **Valuation methodology** | **43** |
| 5.1 | Valuation methodologies | 43 |
| 5.2 | Selection of valuation methodologies | 44 |
| **6** | **Valuation of CMJ** | **45** |
| 6.1 | Introduction | 45 |
| 6.2 | CMJ's interest in Foxtel | 46 |
| 6.3 | CMJ's interest in PMG | 58 |

6.4 CMJ’s 0.1% interest in PBL Media 64
6.5 Corporate costs 65
6.6 Net cash 65
6.7 Number of CMJ securities outstanding 65
6.8 Valuation: sum of the parts method 65
6.9 Analysis of recent share trading 66

**Appendices**
Appendix 1: Glossary 68
Appendix 2: Discount rate 71
Appendix 3: Comparable entities 80
Appendix 4: Comparable transactions 87
Appendix 5: Control premium studies 90
Appendix 6: Sources of information 92
Appendix 7: Qualifications, declarations and consents 93

# 1 Terms of the Proposed Buy-back

## 1.1 Summary

This IER is in relation to CMJ's proposal to undertake an on-market buyback of up to 73,770,492 ordinary shares from Shareholders, subject to Shareholder approval at a general meeting of the Company to be held on 28 May 2010. Full details of the Proposed Buy-back are contained in the Notice of Meeting and Explanatory Notes. This report, which is to be included with the Notice of Meeting and Explanatory Notes, has been prepared in order to assist Shareholders with their consideration of whether to:

- approve the Proposed Buy-back
- and if approved, participate in the Proposed Buy-back.

Whilst CMJ has discretion as to the volume of the CMJ Shares it will buy, subject to the maximum number approved, and the prices it will pay for CMJ Shares under the Proposed Buy-back, it is required to comply with ASX Listing Rule 7.33 which provides that the price offered can be no more than 5% above the average market price for CMJ Shares over the five previous trading days.

## 1.2 Conditions precedent

Whilst there are no conditions attached to the Proposed Buy-back other than Shareholder approval, the Proposed Buy-back has to comply with certain requirements under the ASX Listing Rules, including a minimum number of on market trades in the Company's shares over the three months preceding the Proposed Buy-back and the limitations on the price which the Company may pay for the CMJ Shares. Details of these requirements are set out in the Notice of Meeting and Explanatory Memorandum accompanying this report.

# 2 Scope of the report

## 2.1 Purpose of the report

While there is no legal requirement for the preparation of an IER, the Directors have requested that Deloitte Corporate Finance prepare an IER to assist Shareholders in their consideration of whether to:

- approve the Proposed Buy-back
- participate in the Proposed Buy-back.

The Directors have set out their reasons for the Proposed Buy-back and the information that they consider material to a Shareholder's decision whether to approve and/or participate in the Proposed Buy-back in the Explanatory Notes to the Notice of general Meeting. Our report is included with the Notice of Meeting and Explanatory Notes.

## 2.2 Basis of evaluation

ASIC Regulatory Guide 110 'Share buy-backs' contains the following recommendation:

> *"If a company proposes to buy back a significant percentage of shares or the holdings of a major shareholder, it should consider providing:*
>
> - *a report by its independent directors about whether shareholders should vote in favour of the buy-back, particularly regarding how much the company is paying for the shares; and*
> - *an independent expert's report with a valuation of the shares."*

RG 110 does not offer specific guidance on how the directors or the expert is to form an opinion or the factors to consider in forming such an opinion.

Whilst this is not a change of control transaction, RG 110 does provide the following in relation to a change in control:

> *"A buy-back will not breach the takeovers prohibition in s606 if it is carried out in accordance with the buy-back provisions: s611, item 19. However, we* [ASIC] *may apply to the Takeovers Panel for a declaration of unacceptable circumstances if we consider the buy-back is unreasonable having regard to:*
>
> *(a) its effect on the control of the company or another company;*
>
> *(b) whether there was equal opportunity for shareholders to participate in the benefits; and*
>
> *(c) whether the disclosure and other procedural aspects of the buy-back would have substantially satisfied the requirements for a takeover in Ch 6 (regardless of whether they satisfy the requirements of the buy-back provisions).*

As RG 110 provides limited specific guidance, we have considered the Corporations Act, ASX Listing Rules, other ASIC Regulatory Guides, and common market practice in our approach with respect to the evaluation of the Proposed Buy-back.

We have undertaken the following analysis in order to assist Shareholders in their evaluation of how to vote in relation to the Proposed Buy-back:

- estimated the fair market value of a CMJ Share on a control basis
- analysed other factors relevant to a Shareholder's consideration of the Proposed Buy-back.

Our valuation has been prepared on a control basis to provide Shareholders with an estimate of the fair market value of a CMJ Share on a control basis assuming an entity owns 100% of the Company. Our valuation is undertaken without reflecting the impact of the Buy-back on the value of the CMJ Shares as there is no way of knowing the number of CMJ Shares that will be acquired and the price that will be paid for those shares during the period of the Proposed Buy-back[6].

### 2.2.1 Definition of fair market value

We have defined fair market value as the amount at which a CMJ Share would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell.

Special purchasers may be willing to pay higher prices due to particular circumstances, for example, to reduce or eliminate competition, to ensure a source of material supply or sales, or due to expected cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of a CMJ Share has not been premised on the existence of a special purchaser.

### 2.2.2 Individual circumstances

We have evaluated the Proposed Buy-back for Shareholders as a whole and have not considered the effect of the Proposed Buy-back on the particular circumstances of individual Shareholders. Due to their particular circumstances, individual shareholders may place a different emphasis on various aspects of the Proposed Buy-back from the one adopted in this report. We recommend Shareholders consider consulting an independent adviser who will have regard to their individual circumstances in determining whether to approve or participate in the Proposed Buy-back.

## 2.3 Limitations and reliance on information

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 7.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

Our procedures and enquiries do not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board or equivalent body.

[6] The Directors have discretion in relation to the number of, and the price that will be paid for, shares under the Proposed Buy-back, subject to the requirements of the ASX Listing Rules.

# 3 Pay television industry in Australia

CMJ has investments in the Australian pay television (Pay TV) industry via its 25% interest in Foxtel and 50% shareholding in PMG.

## 3.1 Industry overview

Television is a dominant force in Australian mass media with an average of 2.4 televisions per household[7]. The Australian free-to-air (FTA) television (analogue and digital[8]) and Pay TV industries are expected to generate revenues of $3.9 billion[9] and $3.2 billion[10], respectively in the financial year ending 30 June 2010 (FY10).

Australian FTA television is delivered on a broadcast basis by terrestrial infrastructure while Pay TV is delivered by satellite and cable. The FTA television network has close to 99.7%[11] penetration in Australian households compared to approximately 30% for Pay TV[12].

The Pay TV industry primarily comprises of Foxtel (metropolitan) and Austar United Communications Limited (Austar) (regional) with a small number of Pay TV providers such as Neighbourhood Cable, TransACT and SelecTV serving regional areas and niche viewer interests.

At present, over 86% of Pay TV revenues are generated through subscriber fees and the balance is substantially derived from advertising revenue[13]. Subscriber fees levied depend on the level of services and channels required, with fees generally in the range from $50 to $150 per month.

The Pay TV industry is in a growth phase of its development[14]. This is measured by key indicators for the Pay TV industry, including subscriber numbers, household penetration rates, churn rates and average revenue per user (ARPU) as set out in Section 3.2 below. Growth in the Pay TV industry is also driven by changes in technology (for example high definition (HD) set-top boxes and digital personal video recorder (PVR) services), enhanced services (including movies-on-demand and other personal recorder features such as pausing and replaying live television) and the bundling of Pay TV services with telephony and/or broadband internet services.

## 3.2 Key measures for the Pay TV industry

The following factors are key measures for the Australian Pay TV industry:

- subscriber growth

---

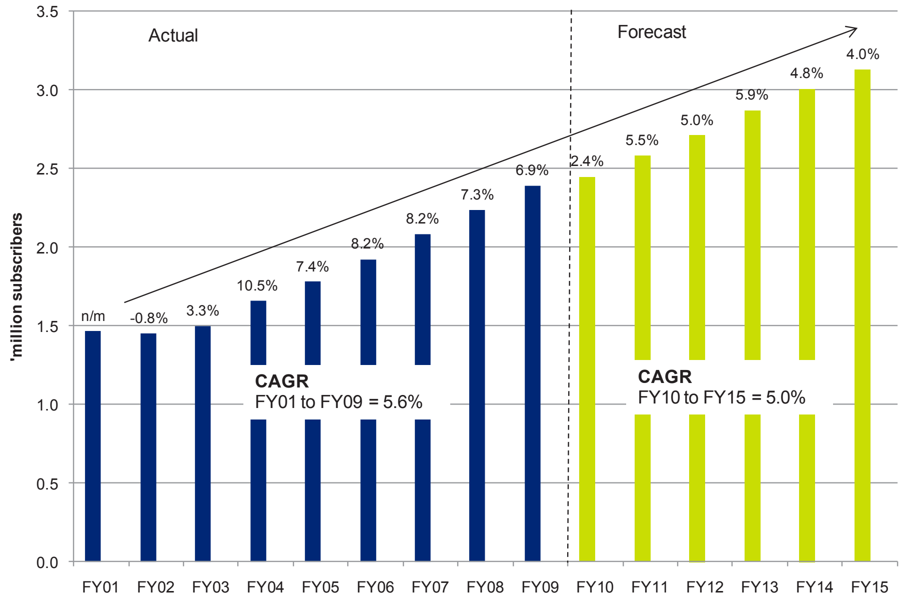
[7] Broadcasting and Pay TV report dated March 2009, Paul Budde Communication Pty Limited, (Buddecomm Broadcasting Report).
[8] It is currently anticipated that all FTA television broadcasters will complete the switch from analogue to digital-only transmission by the end of 2013.
[9] PwC Australian Entertainment & Media Outlook 2008-2012.
[10] IBISWorld industry report on Pay Television in Australia dated February 2010 (IBISWorld Pay TV Report).
[11] FreeTVAustralia industry report titled '2009 Year In Review' and dated June 2009. Penetration refers to the number of Australian households with a FTA television set.
[12] Department of Broadband, Communications and the Digital Economy anti-siphoning discussion paper, August, 2009.
[13] IBISWorld Pay TV Report.
[14] Ibid.

- household penetration rate
- customer churn rate
- ARPU
- advertising revenue.

### 3.2.1 Subscriber growth

The number of subscribers to Pay TV in Australia has increased each year since FY02, and is expected to continue to increase to FY15.

**Figure 3: Subscribers of Pay TV in Australia (actual and forecast – financial year)**




Source: IBISWorld Pay TV report

Note: CAGR = compound annual growth rate

### 3.2.2 Household penetration rate

The household penetration rate for Pay TV has increased from approximately 5% in 1996 to about 19% in June 2002, and is expected to reach 30% in 2010. The Australian household penetration rate for Pay TV is much lower than in other developed countries, for example 87% of households in the United States of America (US) and 45% of British households have Pay TV[15]. The US and British industries were established a number of years before the Australian industry. A further explanation for the higher penetration rates is the lower-priced entry level for Pay TV and the comparative quality of FTA television available in these countries.

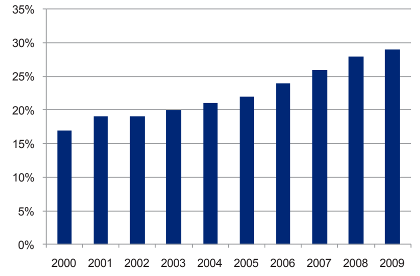
[15] Buddecom Broadcasting Report.

### 3.2.3 Customer churn

The churn rate records the number of customers who unsubscribe from a service, compared to the number of existing subscribers. Industry churn rates in Australia have decreased from approximately 25% in 2000 to between 12% and 13% in 2009.

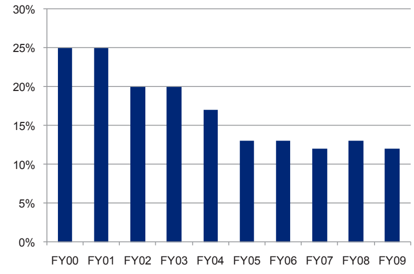
The following figures illustrate the historical Australian household penetration rate and the historical Australian customer churn rate for Pay TV.

**Figure 4: Household penetration rate in Australia (calendar year)**




Source: Buddecom Broadcasting Report

**Figure 5: Pay TV churn rate in Australia (financial year)**

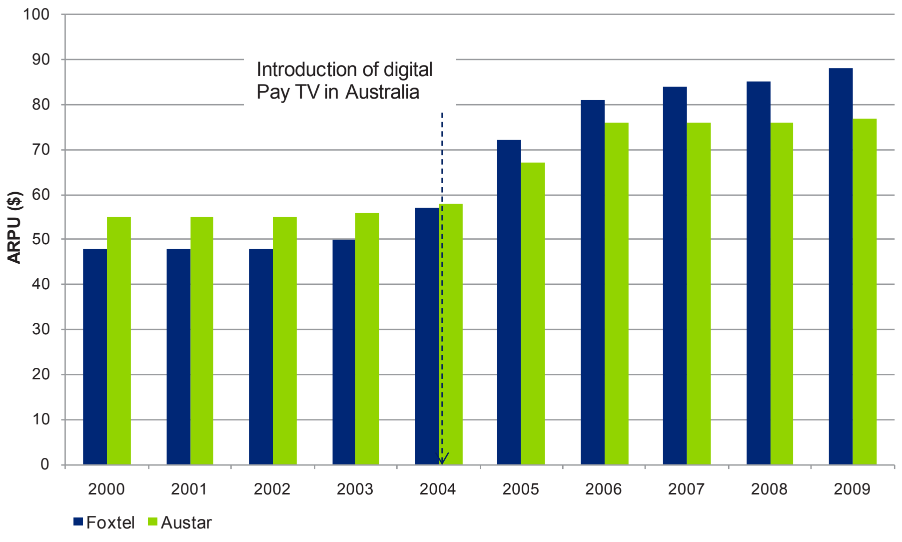



Source: Buddecom Broadcasting Report

### 3.2.4 ARPU

ARPU is a common measure used in the Pay TV industry and is calculated as residential subscription revenue for the period divided by the average number of residential television subscribers and the number of months in the period. It provides an indication of the average spend per month per household on Pay TV. The introduction of digital services in 2005 has resulted in a marked increase in ARPU for Pay TV providers in Australia.

**Figure 6: Historical ARPU for the two largest Pay TV providers in Australia (calendar year)**




Source: Buddecom Broadcasting Report

### 3.2.5 Advertising revenue

Advertising revenue is forecast to grow as a result of increased subscriber numbers, better audience measurement systems and the ability for advertisers to target niche customer markets through Pay TV programming. In 2009, Pay TV advertising revenue in Australia was estimated to be approximately $300 million[16].

Whilst generally speaking, Pay TV has been and continues to be less reliant on advertising revenues than FTA, this aspect of revenue generation is likely to experience reasonable growth given the increasing subscriber numbers to Pay TV and operator efforts to gain a greater share of the advertising dollar from other mediums such as FTA television and newspaper.

## 3.3 Regulatory environment

The Australian television broadcast and Pay TV industries are regulated by the Australian Government. There are limits to ownership and control and to the transmission rights of major sporting events.

Relevant legislation includes the anti-siphoning (and anti-hoarding) provisions which are set out below.

### 3.3.1 Anti-siphoning (and anti-hoarding) provisions

The Australian Communications and Media Authority (ACMA) is responsible for monitoring and investigating the operation of the anti-siphoning scheme[17].

The anti-siphoning provisions contained in section 115 of the Broadcasting Services Act 1992 (the Act), empowers the Minister for Broadband, Communications and the Digital Economy (the Minister), to list events that should be available on FTA television.

The anti-siphoning provisions were introduced in 1994 to ensure that events of national importance and cultural significance were made freely available to the Australian public. In particular, Pay TV licensees were prevented from acquiring a right to televise a listed event until a right is offered first to the Australian Broadcasting Corporation (ABC) or the Special Broadcasting Service Corporation (SBS) or to commercial FTA broadcasters reaching more than 50% of the Australian population. The provisions aim to give FTA broadcasters priority over Pay TV licensees in acquiring rights to listed events.

The most recent anti-siphoning list took effect on 1 January 2006 and expires on 31 December 2010 and comprises domestic and international sporting events in 12 categories including cricket, tennis, golf, motor sports and the football codes.

The Minister may remove an event from the anti-siphoning list in certain circumstances, for example, where FTA broadcasters have had a real opportunity to acquire the right to televise an event but have not done so within a reasonable time.

Anti-hoarding provisions require commercial television licensees who acquire the right to televise a designated event, but who do not propose to fully use that right, to offer the unused portion to the ABC and SBS for a nominal charge within a specified offer time.

---

[16] Buddecom Broadcasting Report.

[17] The ACMA also has a much wider remit which empowers it to regulate the media and communications industry in Australia on behalf of the Australian Government.

Events are automatically de-listed 12 weeks before they commence. This has been designed to improve the operation of the scheme by streamlining Pay TV access to listed events where FTA television broadcasters do not intend to purchase the broadcasting rights. According to the Australian Subscription Television and Radio Association (ASTRA), approximately 77%[18] of the available sport events on the anti-siphoning list were not shown by FTA networks between 2006 and 2009. These events included Wimbledon in 2009 (the Nine Network provided limited coverage only) and the 2008 Beijing Olympics, where many events were not broadcast live.

The emergence of new media rights in the coverage of sporting events and the announcement of the Australian Government's $43 billion National Broadband Network (NBN) has prompted discussion as to whether the anti-siphoning provisions should be extended to include new media platforms. The establishment of the NBN will enable Australians to view high quality, live streaming video over the internet. At present, internet protocol television (IPTV) and internet video content of sporting events are not considered a 'broadcasting service' under the Act and as such are not regulated by the Act. Sporting content published on mobile phones is also not specifically regulated by the Act. Further, the provision of sporting content via internet video hosted on international websites is not regulated by Australian law. Further discussion on new media is set out in Section 3.6.2.

In August 2009, the Australian Government conducted a review of the anti-siphoning provisions and released a discussion paper *'Sport on television: A review of the anti-siphoning scheme in the contemporary digital environment'*. Comments were sought from the public regarding the effectiveness of the scheme, the rationale for including events on the anti-siphoning list and the rules governing the coverage of those events on FTA digital multi-channels.

Over 330 submissions were received by October 2009, with the Department of Broadband, Communications and the Digital Economy (DBDCE) expected to table a report of the review in parliament in due course.

### 3.3.2 Other legislation

On 14 September 2006, legislation that makes up the Federal Government's media reform package was introduced in Federal Parliament. The legislation was subsequently passed by Parliament on 18 October 2006 and commenced 4 April 2007. The three key pieces of the media reform package are:

- Broadcasting Services Amendment (Media Ownership) Act 2006
- Broadcasting Legislation Amendment (Digital Television) Act 2006
- Communications Legislation Amendment (Enforcement Powers) Act 2006.

The most pivotal changes stemming from these reforms were:

- the removal of all restrictions on foreign media ownership in both the Foreign Acquisitions and Takeovers Act 1975 and the Broadcasting Services Act 1992 (the Act) although media was retained as a 'sensitive sector' under the Foreign Investment Policy (i.e. any proposal by foreign interests to directly invest within the Australian media sector needs to be approved by the Federal Treasurer with the exception of portfolio investments)

[18] Sport on television: a review of the anti-siphoning scheme in the contemporary digital environment, October 2009, ASTRA.

- the easing of restrictions on cross media ownership subject to the following two safeguards:
  - there remain no fewer than five independent players in metropolitan markets and no fewer than four independent players in regional markets
  - a prohibition on owning more than two out of three types of business, being a commercial television licence, radio licence or newspaper, in the same market
- a relaxation of the restrictions relating to multi-channelling by FTA television operators, whereby existing commercial broadcasters are now permitted to augment their current offering with a HD digital multi-channel from 2007 and a standard definition multi-channel from early 2009.

To ensure that the levels of competition and regional coverage were not compromised as a result of the reforms, the Federal Government maintained the role of the Australian Competition and Consumer Commission (ACCC) and provided additional regulatory powers to ACMA. In addition, on 1 January 2008, the Government introduced protections for regional news and local coverage through two additional broadcasting licence conditions which impose minimum levels of content on matters of local significance.

More recently, in order to protect Australian content on commercial television, the Federal Government announced on 7 February 2010 its intention to rebate licence fees paid by FTA networks to the Government (currently 9% of gross advertising revenues) by 33% in 2010 and 50% in 2011.

## 3.4 Key demand drivers

The Pay TV industry is particularly affected by the following demand drivers:

- **real household disposable income**: subscriber growth (and to a lesser extent churn) is sensitive to this driver, which is in turn sensitive to changes in labour market growth, interest rate and tax changes, as well as increases in other household costs such as the price of petrol
- **programming exclusively offered by Pay TV operators (including the number of channels)**: sport, movie and family channels are important in winning and retaining subscribers. In particular, premium sporting events are a major driver of subscriber numbers for Pay TV
- **bundling of services with telephony and broadband internet services**: as more users activate broadband services in their homes, the demand for 'bundled options' becomes more attractive with one provider providing all services at a 'discounted price'. The provision of bundling in Australia has been limited to date
- **population and demographic trends:** the specific population and demographic characteristics that affect the industry include population growth rates, age structure, educational qualifications, and occupation and leisure patterns. Variations in these characteristics affect the level of premium subscription packages as well as the level and type of advertising in the Pay TV industry
- **product innovation:** the introduction of high definition services and personal video recorders (PVRs) such as IQ and IQ2, which allow subscribers to download "catch up" TV, are likely to be drivers of demand in the future as households seek to improve the quality of the viewing experience and seek more choice and convenience in relation to content.

## 3.5 Critical success factors

The critical success factors for the Pay TV industry include:

- **ability to attract and maintain a dedicated audience:** the establishment and maintenance of a dedicated audience and the broadcaster's ability to constantly monitor changes in this audience's tastes and adjust the mix of programming accordingly
- **ability to produce and access premium exclusive content:** access to sports rights and international production from US studios is critical
- **ability to quickly adopt new technology:** technology is advancing rapidly and Pay TV providers are increasingly competing on the basis of the convenience of technologies such as the useability of electronic program guides (EPG) and PVRs
- **highly skilled workforce:** a sales force adept at marketing Pay TV together with experienced content writers and on-television media personalities contribute to the success of a Pay TV provider.

Rolling out Pay TV across Australia is expensive and substantial capital investment into infrastructure has been required to enable the provision of Pay TV services into households.

Furthermore, Pay TV providers are required to invest significant capital expenditure into the upgrade of set-top boxes to cope with ever changing technology which require high processing speeds and extensive memory (onboard hard drives).

## 3.6 Pay TV providers in Australia

### 3.6.1 Market overview

Foxtel is the largest Pay TV provider in the industry controlling the bulk of programming through ownership or distribution agreements and has the largest number of subscribers which it reaches either via cable or satellite. Foxtel's subscriber base is centred in metropolitan areas.

Austar is the major supplier of Pay TV to regional and rural areas, mainly through satellite services[19]. Foxtel and Austar compete in only a limited number of markets. Other small players in the industry include Neighbourhood Cable, TransACT and SelecTV.

Some of the smaller players, for example, SelecTV, are not able to access the Fox Sports channels produced by PMG or channels such as Showcase produced by Foxtel.

Telstra and Optus Vision Pty Limited (Optus)[20] act as distributors of Foxtel's offerings.

### 3.6.2 Other competition

Australia's media landscape is experiencing a period of transformation driven by advances in communications technology that are redefining how media is produced and consumed as well as other initiatives such as digital switchover and the NBN.

[19] Buddecomm Broadcasting Report.
[20] In 2002 there was a major consolidation in the Pay TV industry when Foxtel and Optus formed a programming alliance. Optus effectively became a distributor of Foxtel offerings, receiving a commission for signing up Foxtel users. Optus is no longer actively seeking Pay TV customers.

FTA TV is currently the most direct competition to Pay TV. The anticipated switch over from analogue to digital TV signals between 2010 and 2013 and the introduction of multi-channelling, whereby the various FTA television networks are able to broadcast more than one channel, may result in households being less inclined to subscribe to Pay TV if there is sufficient television programming for their needs. Whilst these new digital FTA television channels may not be direct competitors to Pay TV's premium offerings, they have the potential to deter or delay consumers from switching to Pay TV.

Apart from FTA TV, competition to Pay TV is increasing from the delivery of media and entertainment content via new transmission mechanisms, particularly the internet and IPTV networks and to a lesser extent 3G networks.

The construction of a NBN, which will deliver accessibility to ultra high speed internet services to approximately 98% of the population, will provide households the ability to access high quality video and TV over the internet. The internet is already increasingly being used to provide IPTV[21] and video content to subscribers. TPG and iiNet Limited (iiNet), two internet service providers (ISPs) in the Australian market, provide a number of television channels to subscribers of their broadband services.

Major initiatives of the FTA television networks in Australia include:

- ABC has launched iview, a free internet broadcasting service which offers full screen video, streamed on demand and at a high resolution for over 100 television programs
- the Seven Network has launched PLUS7, which offers full video streaming of full length episodes as already seen on Channel Seven, 7TWO and other related partners. The Seven Network is negotiating online rights to publish more television programs and is currently offering 25 programs for viewers to watch online
- Channel Ten publishes full episodes of previously aired television shows for viewers to 'catch up'
- SBS publish videos of past television episodes for some programs.

High speed broadband internet also raises the possibility of content providers being able to offer their programs directly to consumers, with revenue being derived either through subscriptions or the sale of on-line advertising. By way of example, YouTube is providing live streaming of all games during the current Indian Premier League cricket season.

3G networks enable sports videos and other content to be transmitted to mobile phones on a streaming or on-demand basis. Optus, for example, streamed Channel Seven's match coverage of the Tennis Australian Open 2010 to 3G mobile customers for free. Telstra provides access to Foxtel channels via its 3G network.

Whilst the success of such innovation is unknown, Pay TV does face an increasing number of competitive threats, which in the absence of regulation, secured access to content and innovation by Pay TV itself, may limit growth.

## 3.7 Future expectations

Historical revenue growth in the Pay TV industry has been strong due to a substantial increase in subscribers, introduction of digital services at a higher subscription price and value-added services.

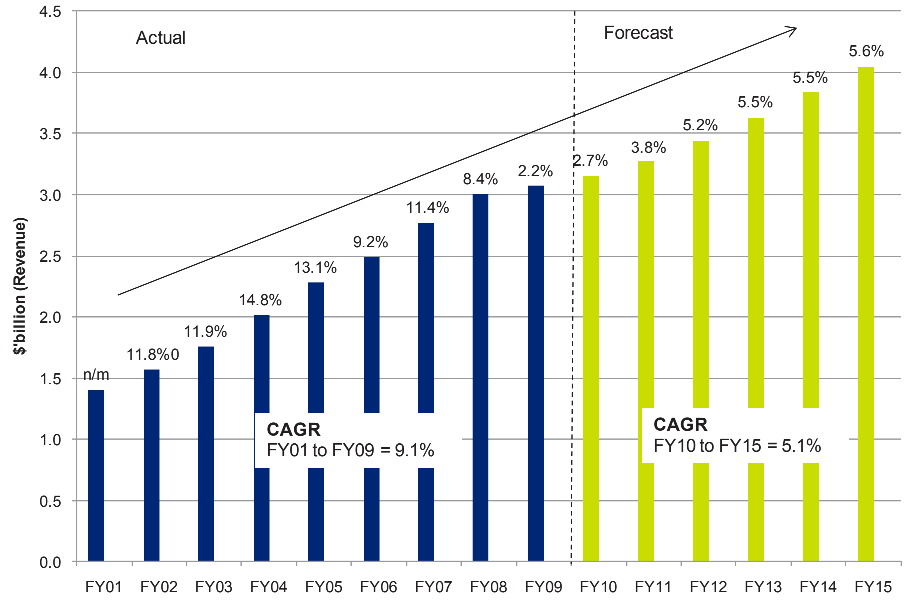
[21] The IPTV signal is broadcast to a television or a set-top box via a broadband network.

At least in the short term, Pay TV is expected to experience more subdued growth mainly due to a less favourable economic environment and increased competition from FTA television digital channels.

Annual growth levels between 5% and 6% p.a. from FY12 to FY15 is expected to be driven by increasing Pay TV subscriber numbers and the take up of value-added services (such as multi-room, HD and interactive offerings) which increase average revenue per subscriber. Growth in metropolitan areas is likely to be higher than in regional areas.

Figure 7 below sets out the historical and projected revenue (which includes both subscription fees and advertising revenue) and compound average growth rate (CAGR) from FY01 to FY15 for the Pay TV industry.

**Figure 7: Pay TV industry revenue growth (historical and forecast – financial year)**




Source: IBISWorld Pay TV Report

The introduction of new digital multi channels by the FTA broadcasters is not expected to have a significant impact in the medium term on the Pay TV industry.

Over the outlook period to FY15, the Pay TV industry is expected to achieve a household penetration rate of 43%, which is equivalent to what a number of western countries achieved by FY00[22]. The lower penetration rate in Australia is viewed as being partly due to the relatively less mature industry in Australia, the comparatively higher quality of Australian FTA television and the anti-siphoning provisions which have to date prevented Pay TV participants from accessing exclusive premium sport content.

[22] IBISWorld Pay TV report.

# 4 Profile of CMJ

## 4.1 Company history

CMJ has undergone significant change since changing its name from Publishing and Broadcasting Limited (PBL) in November 2007, after PBL separated its media and gaming interests into two listed companies, CMJ and Crown Limited respectively. An overview of CMJ's history is provided in Figure 8 below.

**Figure 8: CMJ (and PBL pre November 2007) company history**

| | |
|---|---|
| **1960** | • Sir Frank Packer acquired GTV-9, giving Australia its first television network, Nine Network |
| **1994** | • Nine Network and Australian Consolidated Press Limited (established in 1933) merged to form PBL, a commercial television production and broadcaster, magazine publishing and distribution company |
| **1998** | • PBL acquired a 25% interest in Foxtel for $157 million in November |
| **1999** | • PBL merged with Crown Limited, a gaming and entertainment business |
| | • PBL exercised its option to acquire a 50% stake in Sports Investments Australia Pty Limited (Fox Sports) from News Limited |
| **2003** | • PBL acquired a 25% interest in online recruitment company, SEEK Limited (Seek) |
| **2004** | • Fox Sports was renamed PMG to recognise the range of channels produced |
| **2006** | • PBL entered into binding agreements to recapitalise its media businesses, including ACP Magazines Limited and Nine Network, which were transferred to a new company, PBL Media, in which PBL held a 50% economic interest |
| **2007** | • in May, PBL announced its intention to separate the business into two companies, CMJ and Crown Limited via two schemes of arrangement. The CMJ assets included interests in Foxtel (25%), PMG (50%), Seek (27%) and PBL Media (50%) |
| | • PBL announced on 17 July, it had sold ticketing and events business Ticketek (acquired in 1999) and Sydney Superdome Pty Limited (acquired in 2004), which holds a lease for the Acer Arena, to PBL Media |
| | • PBL completed the sale of a further 25% of PBL Media to Red Earth Holdings B.V. (owned and controlled by funds advised by CVC Capital Partners and CVC Asia Pacific) on 10 September |
| | • the schemes of arrangement for the PBL demerger were approved on 28 November |
| | • PBL changed its name to 'Consolidated Media Holdings' on 30 November |
| | • the Company commenced share trading on ASX with ticker "CMJ" on 3 December 2007 on a deferred settlement basis |
| **2008** | • in January, Lachlan Murdoch's private company, Illyria Pty Ltd and CPH proposed to acquire 100% of CMJ. The indicative proposal was ultimately withdrawn in April with Illyria Pty Ltd announcing it was not in a position to proceed with the proposal |
| | • in December, CMJ's remaining 25% shareholding in PBL Media was diluted to less than 0.1% after CMJ did not partake in a new equity injection |
| **2009** | • in July, Seven became a substantial shareholder, acquiring a number of shares to take it to a 19.9% stake in CMJ |
| | • sale of CMJ's Park Street investment property in Sydney to AMP Capital Investors for $50 million occurred in August |
| | • on 26 August, CMJ sold its entire shareholding in Seek for $440.6 million |
| | • CMJ also announced on 26 August, an on-market share buy-back for up to 10% of its issued capital within a 12-month period |
| | • a stand-still agreement was signed between CMJ and Seven in September whereby no additional CMJ Shares would be purchased by Seven within the next 12 months in exchange for Seven obtaining two CMJ board seats. Due to the on-market share buy-back announced in August, Seven's shareholding increased to 22.12% in December |
| | • in December, CMJ completed the on-market buy-back announced on 26 August. |

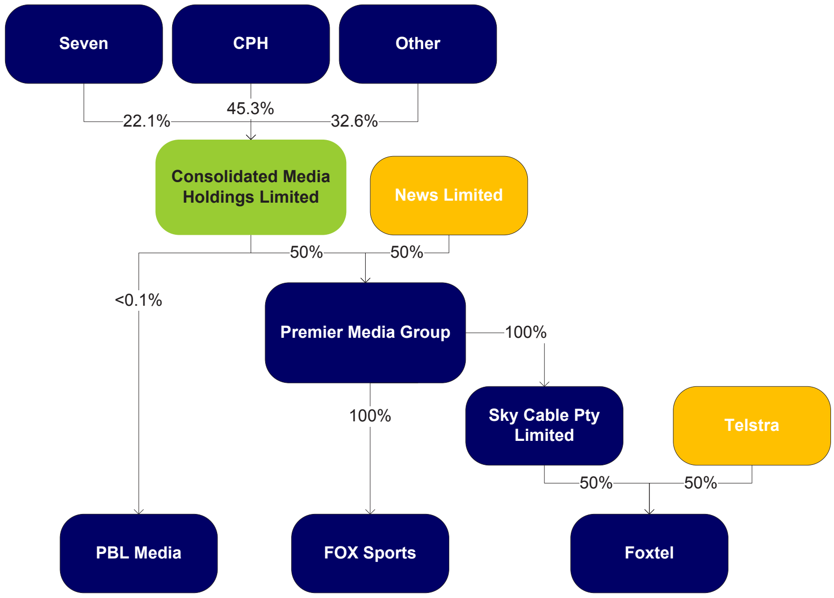
Source: ASX announcements, PBL Scheme Booklet (October 2007), PBL annual reports, CMJ company website

As at the date of this report, CMJ's key assets include a 25% interest in Foxtel and a 50% shareholding in PMG. Brief descriptions of Foxtel and PMG are provided in Section 4.3 and Section 4.4.

## 4.2 Legal structure

A simplified legal structure of the CMJ group and related entities has been presented in Figure 9 below.

**Figure 9: CMJ group structure**




Source: CMJ

We note the following in relation to the above legal structure:

- CMJ holds an economic interest of 50% in PMG. The other 50% is held by News Limited
- CMJ holds an economic interest of 25% in Foxtel through Sky Cable Pty Limited. The remaining 75% of Foxtel is held by Telstra (50%) and News Limited (25%).

PMG and Foxtel shareholders are subject to the following restrictions regarding disposing their interests:

- **Foxtel –** "no shareholder may dispose of its interest in Foxtel without the consent of the other shareholders"[23]
- **PMG –** "the shareholders of PMG are prohibited from disposing of any of their shares in PMG..., subject to 'intra-group' exceptions which apply to News (Limited), PBL (CMJ) and their controlling shareholders."[24]

[23] PBL Demerger Scheme Booklet (October 2007).
[24] Ibid.

## 4.3 Foxtel

### 4.3.1 Overview

Foxtel is Australia's largest Pay TV provider with approximately 1.62 million direct and wholesale subscribers as at 31 December 2009[25]. Foxtel is available to households and businesses in metropolitan areas including Sydney, Newcastle, Canberra, Melbourne, Adelaide, Perth (including regional Western Australia), Brisbane and the Gold Coast, with Pay TV content delivered by either the Telstra cable network or via satellite. Foxtel provides customers with more than 150 channels covering news, sport, general entertainment, movies, documentaries, music and children's programming. Viewers can select from a number of packages which provide access to bundled channels.

Foxtel's headquarters in North Ryde in Sydney serve as its television centre. The North Ryde premises provide facilities for television studios, broadcast operations and cable and satellite transmission. Foxtel also operates a national customer service call centre based in Melbourne.

The business employs over 1,900 people in total, with an additional 1,400 workers indirectly engaged in sales and installation services across Australia.

A brief company history of Foxtel is provided below:

- Foxtel was introduced to Australia in October 1995 and began distributing 20 channels via cable. This increased to 31 channels by March 1999 with the launch of satellite distribution
- the Foxtel-Optus Content Supply Agreement was approved by the ACCC in November 2002, enabling the sharing of Foxtel content to Optus cable television subscribers. Foxtel's programming offering expanded to 45 channels and Foxtel entered into a resale agreement with Telstra, allowing Telstra branded products to be bundled with Foxtel Pay TV services
- Foxtel digital services commenced in March 2004 and over 130 channels were made available to subscribers. Foxtel Digital introduced enhanced services for subscribers such as interactive news, sports, weather, interactive voting, games applications and 'On Demand' programming
- in March 2005, Foxtel launched a PVR, Foxtel iQ
- by June 2005, Foxtel Digital reached one million subscribers[26]. Since January 2007 all Foxtel subscriptions are offered only through the digital platform (as opposed to the older analogue transmission)
- Foxtel Live2Air, a live broadcast service, commenced in August 2006, offering 24 Foxtel channels on Virgin Blue flights within Australia
- Foxtel Mobile, launched in October 2006, offers 33 channels for viewing on Telstra NextG mobiles

[25] Foxtel company website.
[26] PBL annual report 2005.

- Foxtel HD first commenced in June 2008, with five channels comprising BBC HD, Discovery HD, National Geographic Channel HD, FOX SPORTS HD and ESPN HD, in addition to Foxtel Box Office HD movies on demand. The new Foxtel iQ2 PVR with a larger disk drive and HD functionality was introduced at the same time. Today, Foxtel HD provides customers with 15 channels in HD
- Foxtel Next Generation services were launched in November 2009, providing the following enhanced services:
  - 30 additional channels, including eight time-shift channels that run two hours behind the original program schedule
  - iSuggest, which delivers a visual recommendation service for a range of Foxtel content
  - 'Record me' enables an upcoming featured program to be selected and recorded automatically by the iQ recorder
  - Foxtel Download, a service which allows customers to access 38 Foxtel channels via their computer.

Foxtel has content agreements with major studios and producers including Twentieth Century Fox, Buena Vista International, Mark Burnett Productions, CBS, NBC Universal, Granada and BBC. In May 2006, a long term content deal with Twentieth Century Fox Television Distribution (Fox) was announced with Foxtel sharing first-run rights to new Fox series with Network Ten Holdings Limited (Ten) from July 2007[27]. The deal allows Foxtel to have an exclusive window to premiere selected Fox series first, with Ten broadcasting the series after the agreed period has lapsed.

Foxtel has cable and satellite digital retransmission agreements with all of the major FTA television networks, whereby Foxtel subscribers can view FTA programming through Foxtel's EPG and utilise the full recording functionality of the Foxtel iQ PVR[28].

The business incurred significant capital expenditure in 2008 and 2009 with the accelerated rollout of 600,000 Foxtel iQ and iQ2 personal digital recorders in the period leading up to and following the launch of Foxtel HD services in June 2008.

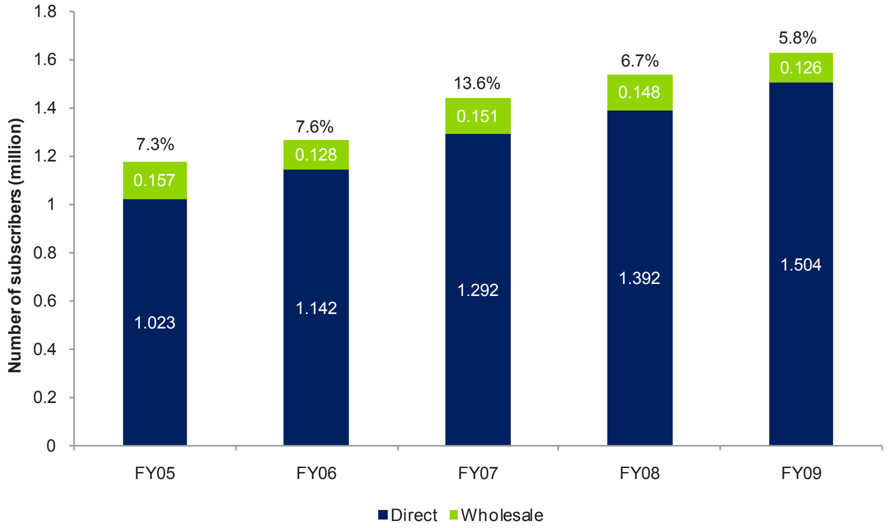
A new Foxtel website was unveiled in March 2009 providing full screen video, recommendations on programming, user account management and an online television guide. In addition, the Remote Record feature enables subscribers to program their Foxtel iQ or iQ2 from anywhere in the world via the internet. Following the Foxtel Next Generation services release in November 2009, a new broadband service is expected to be launched in the second half of 2010[29].

[27] Foxtel company website.
[28] Ibid.
[29] Ibid.

### 4.3.2 Subscribers

At 30 June 2009, there were 1,504,000 direct subscribers to Foxtel[30] (including Foxtel subscribers via Telstra), and 126,000 wholesale customers (which include Foxtel services provided by other operators like Optus cable television). The growth in total Foxtel subscriptions from FY05 is illustrated in Figure 10 below.

**Figure 10: Foxtel subscribers and year-on-year subscriber growth**




Source: PBL and CMJ annual reports, Deloitte Corporate Finance analysis

At the end of December 2009 (a six month period) there were 1,516,000 direct subscribers and 106,000 wholesale customers[31].

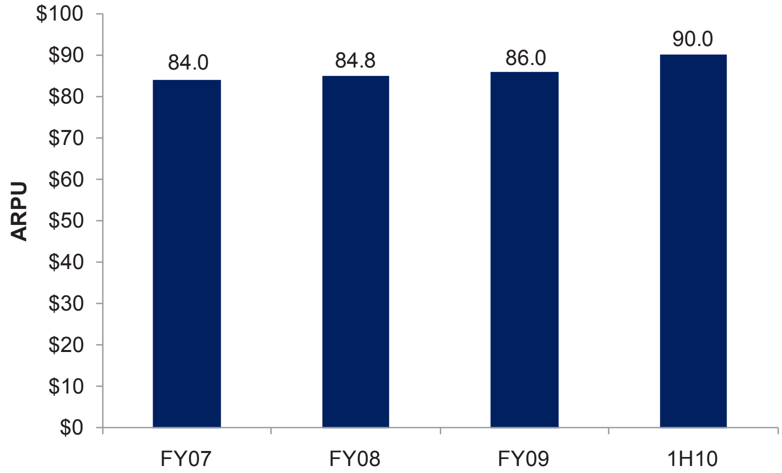
The introduction of Foxtel iQ in March 2005 resulted in 10% of direct subscribers taking up Foxtel iQ in FY06. The enhanced services offered by the digital platform and the functionality of Foxtel iQ steadily attracted direct subscribers as take-up of Foxtel iQ increased to 16% in FY07, 25% in FY08, 43% in FY09 and 55% by 31 December 2009. Foxtel's Multi-room, which allows customers to view different Foxtel channels on different televisions at the same time, had a take-up of 31% of subscribers at 31 December 2009.

Following the launch of Foxtel HD in June 2008, there were 125,000 HD subscribers by FY09 (8.3% of direct subscribers). This increased to approximately 197,000 HD subscribers (13% of direct subscribers) as at 31 December 2009. The rollout of Foxtel iQ and the relatively large proportion of subscribers (approximately 40%) opting for the highest programming package, helped Foxtel's ARPU increase to $90 per month by 31 December 2009[32].

---

[30] Foxtel company website.
[31] Ibid.
[32] CMJ 1H10 ASX media release.

Figure 11: Foxtel ARPU



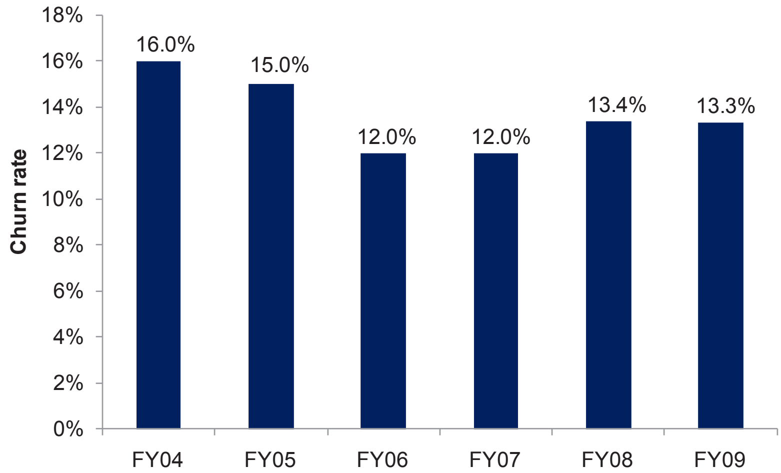

Source: Foxtel company website

The number of wholesale subscribers has declined in recent years, largely as a result of Optus no longer actively marketing Pay TV content to its customers.

### 4.3.3 Churn rate

Foxtel announced its subscriber churn rate was less than 12% for FY07 which was one of the lowest churn rates of Pay TV providers anywhere in the world[33]. The churn rate increased slightly to 13.4% in FY08 and remained steady at 13.3% for FY09.

Figure 12: Foxtel churn rate




Source: PBL and CMJ annual reports

[33] Foxtel company website.

### 4.3.4 Advertising and production

Foxtel generates revenue from Pay TV advertising and is a shareholder in Multi Channel Network Pty Limited (MCN), an advertising sales company for Foxtel and Austar formed in March 1997. MCN is the only company in Australia offering interactive television advertising[34], and represents over 40 Foxtel channels and features across 30 websites. MCN is owned by Foxtel, Austar, PMG and XYZnetworks Pty Limited (XYZnetworks)[35].

Foxtel obtains program content by paying licence fees, acquiring programming rights or producing its own programs to distribute to subscribers. Channels aired on Foxtel are produced by Foxtel itself, joint ventures in which Foxtel is a participant (such as XYZnetworks or Main Event Television Pty Limited), the FTA television networks or third parties (such as Fox Sports, BBC, ESPN or Discovery Networks).

[34] MCN company website.
[35] XYZnetworks is jointly owned by Foxtel and Austar.

### 4.3.5 Competitive position of Foxtel

Table 3 below sets out the strengths, weaknesses, opportunities and threats (SWOT) for Foxtel.

**Table 3: Foxtel SWOT analysis**

| Strengths | Weaknesses |
|---|---|
| • large subscriber base across all Australian metropolitan areas with strong viewing share in the television market<br>• resilience of revenue and subscriber base in light of recent economic weaknesses<br>• premium product offering with over 150 channels<br>• increasing ARPU with a significant proportion of subscribers on the 'Platinum' package, the highest package option<br>• low churn rate<br>• ownership of a number of channels and ability to source content from various studios and producers<br>• the role out of IQ boxes, which also act as PVRs, and the ability to provide more choice and convenience in relation to the viewing of content | • large capital requirements of Pay TV operators<br>• ownership of part of the subscriber base by Telstra and the ability to market competing services to these customers |
| **Threats** | **Opportunities** |
| • slowdown in the growth of the Pay TV industry in Australia<br>• expansion of FTA television and more aggressive push by rivals, i.e. SelecTV<br>• technology developments which make access to programming content easier, eg IPTV<br>• regulatory changes which impact upon the program offering and requirements | • increasing market penetration as consumer confidence returns<br>• increasing share of television advertising spend as penetration and viewer share increases<br>• provision of additional services with higher margins<br>• reduction in the anti-siphoning list or list altered in favour of Pay TV operators |

Source: Deloitte Corporate Finance analysis

## 4.4 Premier Media Group

A producer and broadcaster, PMG owns and operates nine television channels which it provides to Australian Pay TV distributors, Foxtel and Austar. It also provides mobile content to telecommunications companies and other online partners.

PMG offers services in the following three areas:

- subscription television
- commercial venues
- digital content.

PMG also receives revenue from advertisers who wish to broadcast commercials on any of the PMG suite of channels.

### 4.4.1 Subscription television

PMG earns the majority of its revenue by charging a fee to Pay TV providers, such as Foxtel and Austar, based on the number of subscribers to its channels. PMG has contracts in place with both Foxtel and Austar.

PMG produces the Fox Sports channels, and the Fuel TV and How To channels for distribution on Pay TV. Brief descriptions of each of these channels are set out below.

#### *Fox Sports channels*

PMG provides coverage of sports in standard definition (SD) and HD for television viewing via six sports channels and one news channel, namely:

- Fox Sports 1
- Fox Sports 1 HD
- Fox Sports 2
- Fox Sports 2 HD
- Fox Sports 3
- Fox Sports 3 HD
- Fox Sports news channel.

The six Fox Sports channels deliver 24 hour sports viewing, and the dedicated Fox Sports news channel delivers sporting news from both Australia and overseas.

Fox Sports covers a variety of sports, including:

- every game of the Australian Football League (AFL)
- every game of the National Rugby League (NRL)
- live and exclusive coverage of the Rugby Super 14 (rugby union)
- Australian overseas cricket tours
- live and exclusive coverage of the KFC Twenty20 and Ford Ranger Cup (cricket)
- live and exclusive coverage of the Hyundai A-league (football)
- live and exclusive coverage of the Barclays Premier League (English football)
- Socceroos games (except World Cup games)
- tennis grand slams and ATP Masters Series (tennis)
- all four golf majors and Australian masters (golf)
- live coverage of the USPGA, European tour and USLPGA (golf)
- live coverage of the Superbike world championship (motorbike racing).

Fox Sports has secured the rights to major sporting events till at least 2011[36] (e.g. AFL – 2011, NRL – 2012, A-League – 2013, Super Rugby – 2015).

#### *Fuel TV channel*

Fuel TV is a 24 hour channel dedicated to competitive and non-competitive action sports. The target audience for Fuel TV is young males, as the channel showcases board sports, impact sports, motor sports and lifestyle programming.

[36] Communications Media and Entertainment Research, Strategy outlook for 2010 Part 2: Goldman Sachs JB Were, 20 January 2010 and Fox Sports media release dated 22 April 2010.

*How to channel*

The How To channel is dedicated to giving viewers a 'hands on' insight to a range of areas, including travel, home renovations, design, weekend projects, gardening and handy tips.

### 4.4.2 Commercial venues

PMG provides television content to licensed premises through its wholly owned subsidiary, Fox Sports Venues (FSV). FSV distributes this service via satellite to licensed venues across Australia, including hotels, clubs, bars and restaurants. Users pay a monthly fee to PMG for the service.

There are a variety of packages available to licensed venues, including:

- Fox Sports digital service – the standard package, which includes sports, news, fashion, comedy and lifestyle channels
- Fox Sports premium package – provides over 60 channels for viewing, including the three Fox Sports channels and other sports and music channels
- Fox Sports HD package – in addition to the Fox Sports premium package, customers receive four HD channels, including Fox Sports 1 HD, Fox Sports 2 HD, Fox Sports 3 HD and ESPN HD
- café/restaurant package – features over 20 channels to provide customers a varied choice of entertainment. This package includes two 24 hour sports channels, ESPN and Fuel TV, and two 24 hours sports news channels – Fox Sports News and Eurosportnews.

Users can also 'pay per view' for special events, such as the 2010 Vancouver winter Olympics, and specific boxing matches. FSV has also introduced a loyalty program for its pay per view users, which entitles users to a discount.

### 4.4.3 Digital content

*Fox Sports Digital*

Fox Sports Digital is the digital media division of the company. It effectively represents the distribution of Fox Sports content through devices other than the television (e.g. mobile phones or computers).

The website www.foxsports.com.au is a general sports website which covers a variety of sports, including AFL, cricket, rugby league, rugby union, tennis and golf.

Fox Sports Digital offers a range of video, text and statistical content for television, mobile phone and online delivery, on which a range of long form video sports can be viewed. The Fox Sports News Mobile TV provides 24 hour sports news to Telstra, 3 and Vodafone mobile telephone customers.

### *Fox Sports Stats*

Fox Sports Stats (FSS) was established in 2006 as a separate business unit to deliver the most up to date and comprehensive data and statistics from Australian sports. FSS provides sports statistics, data and media services for all Fox Sports channels. FSS also produces and provides statistics for a range of third party sporting organisations, broadcasters, mobile telephony carriers, online publishers, print and radio outlets.

Sport statistics are available by subscription only.

## 4.4.4 Advertising

PMG sells advertising space on the television channels they produce via MCN. Advertising time and yield varies based on the type of sport being televised.

## 4.4.5 Competitive position of PMG

Table 4 below sets out a SWOT analysis for PMG.

**Table 4: PMG SWOT analysis**

| Strengths | Weaknesses |
|---|---|
| • contracts with Foxtel and Austar<br>• number of Foxtel and Austar customers subscribing to Fox Sports package<br>• quality and breadth of content offering, including exclusive and on demand content<br>• experienced management team and workforce<br>• demand for exclusive sport remains strong<br>• expiry profile of key agreements to broadcast cricket, football, rugby league, rugby union and AFL is well spread out over time<br>• ability of customers to watch sporting events with less interruption from advertising | • ownership of subscriber base, which belong to Foxtel, Austar and wholesale providers of Foxtel and Austar<br>• dependence on Foxtel and Austar to market Pay TV<br>• profits exposed to foreign currency fluctuations as certain revenues and costs are denominated in US dollars |
| **Threats** | **Opportunities** |
| • slowdown in the growth trajectory of Pay TV<br>• entry of new competitors into the market, including telecommunication companies<br>• ongoing competition for sporting rights driving sports cost inflation<br>• technology developments may enable competitors to provide content via delivery platforms other than Pay TV | • increase in the subscriber base as Foxtel and Austar increase their market penetration<br>• increasing revenue from advertising as subscriber base grows<br>• expansion into new media delivery platforms, such as IPTV and mobile phones<br>• provision of additional channels<br>• increased exploitation of archive rights to broadcast sporting events<br>• reduction in the anti-siphoning list or list altered making more content available for Fox Sports |

Source: Deloitte Corporate Finance analysis

## 4.5 Capital structure and shareholders

As at the date of this report, CMJ had 620.7 million ordinary shares on issue. The following table summarises the substantial shareholders of CMJ and their respective shareholdings.

**Table 5: CMJ substantial shareholders as at 12 April 2010**

| | Number of shares held (000's) | Percentage of total issued shares |
|---|---|---|
| CPH | 281,176 | 45.3% |
| Seven and/or its associates | 137,312 | 22.1% |
| **Substantial shareholders** | **418,488** | **67.4%** |
| Other shareholders | 202,221 | 32.6% |
| **Total shareholders** | **620,709** | **100.0%** |

Source: Bloomberg

## 4.6 Share price performance

A summary of CMJ's share price performance is provided in Table 6 below.

**Table 6: Recent trading performance of CMJ**

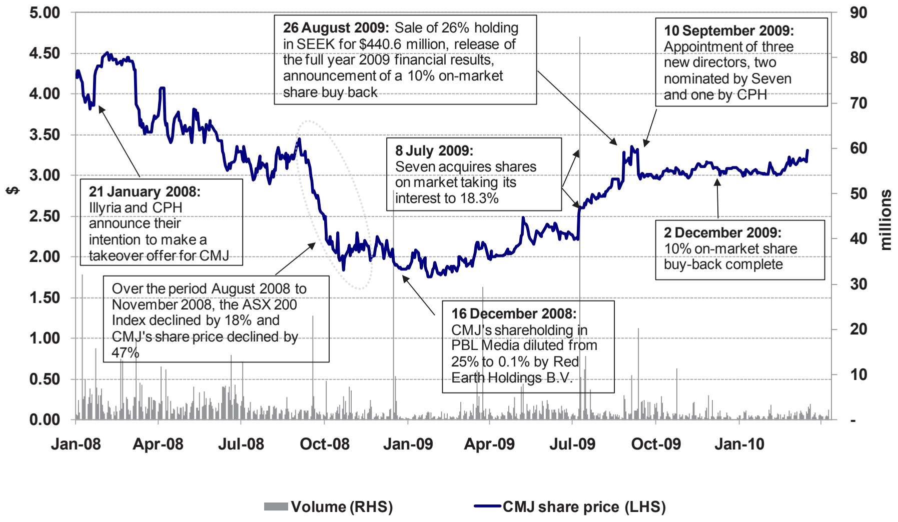
| | Low ($) | High ($) | VWAP ($) | Average daily volume ('million) |
|---|---|---|---|---|
| Over 1 week period to 12 April 2010 | 3.10 | 3.16 | 3.12 | 1.0 |
| Over 1 month period to 12 April 2010 | 3.10 | 3.30 | 3.21 | 1.3 |
| Over 3 month period to 12 April 2010 | 3.01 | 3.30 | 3.14 | 1.1 |
| Over 6 month period to 12 April 2010 | 2.97 | 3.30 | 3.11 | 1.2 |
| Since announcement of FY10 half-year results (23 February 2010) | 3.10 | 3.30 | 3.20 | 1.3 |

Source: Bloomberg

The CMJ share price has fluctuated in response to the release of financial reports, analysts' forecasts, changes in market sentiment, the sale of investments, the acquisition of CMJ shares by Seven Network and the CMJ buy-back announced in August 2009.

A summary of CMJ's share price movements and trading volumes over the period from 1 January 2008 to 12 April 2010 is presented graphically in the figure below.

**Figure 13: Recent CMJ share price and volume**




Source: Bloomberg, Deloitte Corporate Finance analysis

Notes:

1. RHS: right hand side
2. LHS: left hand side

Since 1 January 2008, the share price for CMJ has traded between a low of $1.76 in January 2009, and a high of $4.51 in February 2008.

An on-market share buyback occurred between September and December 2009, where CMJ bought back 68,967,692 shares for a total consideration of $210.3 million (the average price was $3.05 per share, with the highest price paid of $3.15 per share on 25 November 2009 and the lowest price paid of $2.94 per share on 5 November 2009).

The shares of CMJ have been generally liquid with total turnover for the three month period following completion of the most recent buy-back in December 2009 of approximately 12.1 % of the total outstanding securities and average daily volume of 1.2 million securities.

## 4.7 Financial performance

CMJ's core operations comprise its investments in Foxtel and PMG. The Company's business operations have changed significantly over the last few years (as set out in Section 4.1). In August 2009, CMJ disposed of its last remaining non-core material investments with the sale of Seek and the Park Street investment property.

Whilst we present a summary of the statutory accounts below, we have focused our analysis on the financial performance of the Company's core investments, Foxtel and PMG.

**Table 7: CMJ historical financial performance**

| | Actual FY08 audited ($'million) | Actual FY09 audited ($'million) | Actual 1H10 reviewed ($'million) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 0.7 | 1.4 | 0.7 |
| Other income | 876.0 | 346.5 | - |
| Other expenses | (29.2) | (12.3) | (10.0) |
| Share of profits of associates and joint venture entities | 108.7 | 90.8 | 41.8 |
| **EBITDA** | **956.2** | **426.4** | **32.5** |
| Depreciation | (0.7) | (0.9) | (0.2) |
| Amortisation | (0.1) | (0.1) | (0.0) |
| **EBIT** | **955.4** | **425.4** | **32.3** |
| Net interest | 3.5 | 4.5 | 5.1 |
| **Profit/(loss) from continuing operations before tax** | **958.9** | **429.9** | **37.4** |
| Income tax benefit/(expense) | 37.1 | 0.2 | - |
| **Profit after income tax from continuing operations** | **996.0** | **430.1** | **37.4** |
| **Discontinued operations** | | | |
| Profit/(loss) from discontinued operations after tax | 5,087.9 | (3.1) | 308.9 |
| **Profit/(loss) for the year** | **6,083.9** | **427.0** | **346.3** |
| Profit attributable to minority interests | - | - | - |
| **Profit/(loss) attributable to members of CMJ** | **6,083.9** | **427.0** | **346.3** |

Source: CMJ annual reports

CMJ equity accounts its investments in Foxtel and PMG recognising that it has significant influence, but not control over these two entities. CMJ's share of profits for FY08, FY09 and the six months ended 31 December 2009 (1H10) for the two investments are set out in Table 8 below.

**Table 8: CMJ's share of profit after tax of associates (equity accounted)**

| | Actual FY08 ($'million) | Actual FY09 ($'million) | Actual 1H10 ($'million) |
|---|---|---|---|
| Foxtel (25% interest) | 32.1 | 24.8 | 17.0 |
| PMG (50% interest) | 54.9 | 52.8 | 24.8 |
| **Share of profit after tax of associates** | **87.0** | **77.6** | **41.8** |

Source: CMJ annual reports

We detail below the historical financial performance of Foxtel and PMG.

### *Foxtel*

Foxtel's historical financial performance in FY08, FY09 and 1H10 is set out in the following table:

**Table 9: Foxtel historical financial performance**

| | Actual FY08 ($'million) | Actual FY09 ($'million) | Actual 1H10 ($'million) |
|---|---|---|---|
| Subscriptions | 1,430.0 | 1,560.0 | 838.2 |
| Other | 230.0 | 280.0 | 151.2 |
| **Total revenue** | **1,660.0** | **1,840.0** | **989.4** |
| **EBITDA** | **351.0** | **406.0** | **238.0** |
| Profit before tax | 157.0 | 135.0 | 90.0 |

Source: CMJ ASX announcements and annual reports

We make the following comments in relation to Foxtel historical financial performance:

- Foxtel derives the vast majority of its revenue from user subscription fees, which are charged to customers on a monthly basis. Customers are usually locked into a minimum contract period of between 12 months and 24 months
- subscription revenue for 1H10 increased 10% over the same period last year. FY09 subscription revenue of $1.6 billion was up 9% over FY08 due to the increase in take-up of Foxtel iQ (75% of new subscribers ordered a Foxtel iQ), Multi-room services and more subscribers opting for the higher priced 'Platinum' package
- other income, which includes amongst other things advertising revenue and connection fees, continues to grow
- operating expenses include programming costs, transmission costs (via satellite transponders and access to the Telstra's cable network), customer acquisition costs, ongoing service and maintenance and corporate costs
- FY09 EBITDA of $406 million represents a 16% increase over the FY08 result. 1H10 EBITDA of $238 million is an uplift of 21% over the first half of FY09. Over the last five to six years, Foxtel has been able to improve its programming margins (subscription revenues less programming expenses) by improving the terms of its content supply arrangements, increasing the number of channels that it produces and achieving economies of scale as subscriber numbers have increased
- depreciation and amortisation expenses increased in FY09 as a result of the Foxtel iQ rollout and Foxtel HD launch
- profit before tax for 1H10 is $90 million, a 22.4% increase from the same period last year.

In mid-2007 the board of Foxtel announced a guideline (subject to annual review) to refinance debt with the objective of maintaining a debt to EBITDA ratio of approximately three times (Refinancing Guideline). Amounts raised by the debt refinancing would be distributed to shareholders along with free cash flow. CMJ received $65 million in distributions from Foxtel in FY08, $25 million in July 2008 and another $25 million in July 2009. Whilst debt levels are still lower than the Refinancing Guideline, in May 2008, CMJ announced that the Foxtel board had decided that it would not use debt to increase distributions to shareholders until capital markets improve.

### *PMG*

The following table sets out the historical financial performance of PMG in FY08, FY09 and 1H10:

**Table 10: PMG historical financial performance**

| | Actual FY08 ($'million) | Actual FY09 ($'million) | Actual 1H10 ($'million) |
|---|---|---|---|
| Subscriptions | 267.0 | 315.0 | 158.6 |
| Advertising | 63.0 | 64.0 | 28.3 |
| Other | 52.0 | 55.0 | 28.9 |
| **Total revenue** | **382.0** | **434.0** | **215.8** |
| | | | |
| **EBITDA** | **133.0** | **152.0** | **69.7** |
| Profit before tax | 134.0 | 144.0 | n/a |

Source: CMJ ASX announcements

We make the following comments in relation to PMG's historical financial performance:

- PMG's subscription revenue of $315 million increased 18% in FY09 over the $267 million in FY08, due to the increase in Foxtel and Austar subscribers and favourable US dollar exchange rates (as a result of the nature of the agreements with Foxtel). In comparison, advertising and other revenue remained flat from FY08 to FY09
- PMG's operating expenses comprise mainly programming expenses with sales, marketing and corporate costs accounting for the remainder of expenditure
- EBITDA of $69.7 million for 1H10 is a 14.5% reduction from the corresponding period in the prior year. The company is expecting stronger EBITDA in the second half of the year. Fluctuations in EBITDA within a financial year are a consequence of the timing of major sporting events as expenses are recorded in the income statement at the time of the broadcast of an event, whereas subscription revenues are spread more evenly throughout the year. FY09 EBITDA of $152 million is a 14.3% increase from the prior year's EBITDA of $133 million.

CMJ received distributions of $10 million from PMG during 1H10, $45 million of distributions in FY09 and another $45 million in FY08.

### *Corporate costs*

CMJ's ongoing focus is to reduce corporate costs as announced by the Company to the ASX on 23 February 2010. Corporate costs of $3.1 million for 1H10 are 47.3% lower than the same period last year.

**Table 11: CMJ Corporate costs**

| | Actual FY08 ($'million) | Actual FY09 ($'million) | Actual 1H10 ($'million) |
|---|---|---|---|
| Corporate costs | 28.2 | 11.5 | 3.1 |

Source: CMJ annual reports

## 4.8 Financial position

The audited balance sheet of CMJ as at 30 June 2009 and the unaudited balance sheet as at 31 December 2009 are summarised in the table below.

**Table 12: CMJ Financial position**

| | June 2009 audited ($'million) | December 2009 unaudited ($'million) |
|---|---|---|
| Cash and cash equivalents | 37.5 | 307.1 |
| Trade and other receivables | 1.4 | 2.8 |
| Current tax receivable | 0.8 | 0.8 |
| Prepayments | 0.3 | 0.1 |
| Assets held for sale | 49.7 | - |
| **Total current assets** | **89.7** | **310.8** |
| | | |
| Investments in associates accounted for using the equity method | 380.3 | 285.1 |
| Plant and equipment | 6.6 | 0.0 |
| Deferred tax assets | 0.5 | 0.5 |
| **Total non-current assets** | **387.4** | **285.6** |
| **Total assets** | **477.1** | **596.4** |
| | | |
| Trade and other payables | 19.9 | 48.2 |
| Interest bearing liabilities | 0.2 | 0.2 |
| Provisions | 0.4 | 0.4 |
| **Total current liabilities** | **20.5** | **48.8** |
| | | |
| Provisions | 0.1 | 0.1 |
| **Total non-current liabilities** | **0.1** | **0.1** |
| **Total liabilities** | **20.6** | **48.9** |
| | | |
| **Net assets** | **456.5** | **547.5** |

Source: CMJ 2009 annual report, CMJ Appendix 4D half year information as at 31 December 2009

We make the following commentary regarding CMJ's financial position as at 31 December 2009:

- cash of $307.1 million arose largely as a result of the sale of the investment in Seek and the Park Street investment property during 1H10. Some of these funds were used by the Company to execute an on-market share buy-back from September to December 2009. CMJ bought back 68,967,692 shares for a total consideration of $210.9 million during this time. As at 23 February 2010, CMJ advised the market that it had cash on deposit of approximately $304 million
- investments in associates at December 2009 of $285.1 million comprised of CMJ's equity accounted investments:
    - 25% interest in Foxtel of $122.6 million
    - 50% holding in PMG of $162.5 million
- trade and other payables of $48.2 million mostly relate to advances from PMG
- there are no other significant assets or liabilities in the Company's balance sheet.

## 4.9 Debt Profile

Foxtel had interest bearing debt of $730.8 million[37] at 30 June 2009. Neither PMG nor CMJ has any material interest bearing debt with external financiers.

[37] According to CMJ's 2009 annual report, Foxtel reported debt equivalent to 1.8 x EBITDA. The reported EBITDA in FY09 was $406 million.

# 5 Valuation methodology

## 5.1 Valuation methodologies

To estimate the fair market value of the shares in CMJ, we have considered common market practice and the valuation methodologies recommended by RG 111, which deals with the content of independent expert's reports.

### Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

### DCF methods

DCF methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. DCF methods are commonly used to value early stage companies or projects with a finite life.

### Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

## 5.2 Selection of valuation methodologies

We have estimated the fair market value of CMJ by aggregating the estimated fair market value of the CMJ Investments on a sum of the parts basis, adding cash and deducting the capitalised value of corporate costs of CMJ. CMJ has no material interest bearing debt at the corporate level.

We consider the DCF method to be the most suitable methodology to value businesses such as Foxtel and PMG as both companies are in a growth stage and because Foxtel has fluctuating capital expenditure requirements.

Notwithstanding this preference, we have used the capitalisation of maintainable earnings approach as our primary basis of valuation as we were unable to gain access to long term cash flow forecasts for Foxtel and PMG because there are agreements between CMJ, Telstra and News Limited governing the confidentiality of information. As we did not have access to management prepared long term cash flow forecasts for Foxtel and PMG, we have undertaken our own high level analysis to enable us to consider the assumptions that are required under the DCF method to support our valuation range under the capitalisation of maintainable earnings approach.

The capitalisation of earnings approach is considered an appropriate basis of valuation in the circumstances for the following reasons:

- Foxtel and PMG have shown a consistent pattern of historical earnings which is expected to continue in the future
- there is an adequate number of publicly listed companies with operations sufficiently similar to those of Foxtel to enable a meaningful comparison and analysis
- it is possible to reference PMG to Foxtel given the inter-relationship between the businesses
- Foxtel and PMG do not have a finite lifespan.

In addition, we have considered the recent share price trading history of CMJ as a cross check to our valuation.

# 6 Valuation of CMJ

## 6.1 Introduction

Deloitte Corporate Finance has assessed the fair market value of a CMJ Share, on a control basis whereby an entity owns 100% of the Company, to be in the range of $3.33 to $3.73.

For the purpose of our opinion fair market value is defined as the amount at which the shares would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

Our valuation assumes a hypothetical change of control transaction and is undertaken without reflecting the impact of the Proposed Buy-back on the value of the CMJ Shares as there is no way of knowing the number of CMJ Shares that will be acquired, and the price that will be paid for those shares during the period of the Proposed Buy-back.

The sum of the parts method (refer to Section 5.2) estimates the market value of a company by separately valuing each asset of the company.

To value CMJ requires an estimate of the value of:

- CMJ's interest in Foxtel (Section 6.2)
- CMJ's interest in PMG (Section 6.3)
- CMJ's interest in PBL Media (Section 6.4)
- CMJ's corporate costs (Section 6.5)
- other assets and liabilities owned by CMJ (Section 6.6).

For the reasons discussed in Section 5.2, in estimating the fair market value of CMJ's investment in Foxtel and PMG, we have used the capitalisation of maintainable earnings approach as our primary valuation approach. We have also undertaken a high level analysis to enable us to consider the assumptions that are required under the DCF method to support our valuation range under the capitalisation of maintainable earnings approach.

### *Capitalisation of maintainable earnings*

The capitalisation of maintainable earnings method estimates fair market value by capitalising future maintainable earnings using an appropriate multiple which encapsulates the growth prospects and risks attaching to future earnings. To value CMJ's interests in Foxtel and PMG using the capitalisation of maintainable earnings method requires the determination of the following:

- an estimate of future maintainable earnings
- an appropriate earnings multiple
- the value of any surplus assets
- the level of net debt outstanding
- any premiums or discounts appropriate to apply to the fair market value of Foxtel and PMG or CMJ's interests in Foxtel and PMG.

Our consideration of each of these factors for Foxtel and PMG is presented in Section 6.2 and 6.3 respectively.

### *High level analysis under the DCF method*

The DCF approach estimates fair market value by discounting a company's future cash flows to their net present value.

In determining the assumptions that are required under the DCF method to support the value of CMJ's interest in Foxtel and PMG under the capitalisation of maintainable earnings method, we have considered:

- future cash flows
- an appropriate discount rate to be applied to the cash flows
- an estimate of the terminal value
- the value of any surplus assets
- the level of net debt outstanding
- consideration of any premiums or discounts appropriate to apply to the fair market value of CMJ's interest in Foxtel and PMG.

Our high level analysis for Foxtel and PMG is presented in Section 6.2.7 and 6.3.7 respectively.

# 6.2 CMJ's interest in Foxtel

We have assessed the current fair market value of CMJ's 25% interest in Foxtel to be in the range of $1,031.9 million to $1,148.8 million.

## 6.2.1 Future maintainable earnings

Future maintainable earnings represents the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an appropriate measure of earnings for Foxtel because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or NPAT. This allows a better comparison with earnings multiples of other companies.

We have estimated Foxtel's future maintainable EBITDA to be $480 million based on our consideration of the following:

- historical earnings for FY08 and FY09 and 1H10:

**Table 13: Foxtel historical financial performance**

| | Actual FY08 | Actual FY09 | Actual 1H10 |
|---|---|---|---|
| **EBITDA ($'million)** | **351.0** | **406.0** | **238.0** |
| EBITDA margin (%) | 20.6% | 22.1% | 24.1% |

Source: CMJ ASX announcements and annual reports

- the consensus EBITDA forecast for Foxtel for FY10 of $479 million. The forecasts of the various analysts that follow CMJ for FY10, range from $477 million to $481 million

- the relative stability of subscriber revenue from month to month, partly as a result of contractual arrangements between Foxtel and individual subscribers, and the ability of management to control and manage expenditure, including the cost associated with program content.

### 6.2.2 Earnings multiple

We have selected an earnings multiple in the range of 9.0x to 9.5x EBITDA to apply to our selected future maintainable earnings. In selecting these earnings multiples we have considered:

- earnings multiples derived from share market prices of comparable listed companies
- prices achieved in mergers and acquisitions of comparable companies
- Foxtel's growth expectations, as discussed below.

The earnings multiples and prices achieved in mergers and acquisitions of comparable companies are discussed separately below.

#### *Market trading multiples*

The share market valuations of listed comparable companies provide evidence of the earnings multiple that Foxtel might attract if it was listed on a stock exchange. The share price of a listed company represents the fair market value of a minority interest in that company.

In analysing companies comparable to Foxtel we have considered Australian and international Pay TV providers, Pay TV providers that also offer broader products and services and general media companies in Australia. These companies, together with their earnings multiples, are summarised in the following table.

Table 14: Earnings trading multiples

| Company Name | Country/ sector | EV ($'million)[1] | EBITDA multiple 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| **Local Pay TV providers** | | | | | |
| Austar | Australia | 2,244.1 | 10.5x | 9.1x | 8.1x |
| **International Pay TV providers** | | | | | |
| DirecTV | US | 41,375.7 | 7.2x | 6.3x | 5.7x |
| British Sky Broadcasting Group (BSkyB) | UK | 20,793.1 | 11.3x | 10.7x | 9.3x |
| DISH Network Corp (DISH) | US | 15,077.5 | 5.2x | 5.1x | 4.7x |
| Sky Network Television Limited (Sky Network) | NZ | 1,905.9 | 9.5x | 8.6x | 7.7x |
| ***Average – international*** | | | ***8.3x*** | ***7.7x*** | ***6.8x*** |
| ***Median – international*** | | | ***8.4x*** | ***7.4x*** | ***6.7x*** |
| **Broader Pay TV providers** | | | | | |
| Comcast Corp (Comcast) | US | 86,713.2 | 5.9x | 5.7x | 5.5x |
| Time Warner Cable Inc (Time Warner) | US | 43,173.7 | 6.2x | 6.0x | 5.8x |
| Liberty Global Inc (Liberty Global) | US | 32,743.6 | 6.4x | 6.9x | 6.6x |
| Cablevision Systems Corp[2] (Cablevision) | US | 20,220.1 | 6.9x | 7.3x | 7.0x |
| Mediacom Communications Corporation (Mediacom) | US | 3,971.2 | 6.9x | 6.7x | 6.4x |
| Cogeco Cable Inc (Cogeco) | Canada | 2,967.2 | 5.3x | 5.4x | 5.1x |
| Astral Media Inc (Astral) | Canada | 2,816.5 | 8.7x | 8.5x | 8.1x |
| Corus Entertainment Inc[2] (Corus) | Canada | 2,411.6 | 5.1x | 8.5x | 7.9x |
| ***Average – broader*** | | | ***6.4x*** | ***6.9x*** | ***6.5x*** |
| ***Median – broader*** | | | ***6.3x*** | ***6.8x*** | ***6.5x*** |
| **General Australian Media** | | | | | |
| Fairfax Media Limited (Fairfax) | print | 5,809.1 | 4.9x | 9.4x | 8.2x |
| Ten | FTA | 2,252.7 | 14.9x | 11.4x | 8.9x |
| APN News & Media Limited (APN) | print | 2,119.5 | 10.1x | 7.9x | 7.1x |
| WAN | print | 2,026.6 | 11.8x | 11.4x | 10.1x |
| Southern Cross Media Group | FTA, radio, print | 1,222.6 | 8.8x | 8.9x | 7.7x |
| Austereo Group Limited | radio | 836.2 | 9.6x | 9.5x | 8.8x |
| Prime Media Group Limited | FTA | 480.0 | 8.2x | 8.4x | 7.3x |
| ***Average – general media*** | | | ***9.8x*** | ***9.5x*** | ***8.3x*** |
| ***Median – general media*** | | | ***9.6x*** | ***9.4x*** | ***8.2x*** |

Source: Deloitte Corporate Finance analysis, Bloomberg, broker reports, company annual reports
Notes: n/a: not available, n/m: not meaningful, UK = United Kingdom, NZ = New Zealand

1. EV = enterprise value, converted to $ on 12 April 2010
2. EBITDA has been adjusted to include depreciation or amortisation of capitalised programming and production costs for FY09. However, amortisation adjustments were not available for FY10 and FY11 estimates.

Further details regarding the calculation of the earnings multiples are provided in Appendix 3.

General comments regarding these comparable companies and the related EBITDA multiples are listed below:

- enterprise values were calculated by summing the total of the net borrowings at each company's most recent reporting date and the market capitalisation at 12 April 2010. Historical (FY09) earnings have been taken from the last annual report and have been adjusted for abnormal and non-recurring items
- current (FY10) and forecast (FY11) earnings are based on an average of estimates sourced from brokers' reports as at 12 April 2010
- some of the comparable companies are considerably larger than Foxtel. In general, larger companies have higher earnings multiples than smaller companies
- earnings multiples based on listed securities represent multiples deriving from trading of minority parcels of shares and therefore do not generally incorporate any premium for significant influence or control

  <u>Local and international Pay TV providers</u>

- we have placed greater weight on the local (Australian) and international Pay TV providers as these companies have more similar operations to Foxtel. The broader Pay TV providers have more diverse operations and, together with the general Australian media providers, are confronted with different risks and opportunities than companies which solely undertake Pay TV operations
- Austar and Sky Network, which operate in regional Australia and New Zealand, respectively, are the most comparable to Foxtel in terms of business operations, size and nature of the markets served, competitive environment, regulatory environment, products offered, growth profile and geographic reach
- the multiples of Austar and Sky Network are higher than the international and broader Pay TV service providers (except for BSkyB) as there are lower Pay TV penetration rates in Australia and New Zealand compared to US and Canadian markets. The opportunity to continue to increase market penetration leads to a higher earnings multiple for Austar and Sky Network as they are perceived to have higher future growth prospects than other international operators. This level of market penetration may be explained by the date of commencement of Pay TV and the level of competition in each market:
  - Pay TV commenced in the US market in 1951. The US has very high market penetration rates. Factors that have contributed to this result include the comparative cost of Pay TV and the quality of content provided by FTA television networks. National networks such as NBC are only available through Pay TV. Generally, FTA television networks in the US are limited to channels broadcasting to local communities
    - DirecTV is the one of the largest providers of Pay TV services in the US, with approximately one-fifth of the US market. It provides over 1,500 television channels, of which over 500 are in HD. Pay TV services are bundled with US telecommunication providers, AT&T, Verizon and Qwest, which between them, cover 90 million households across the US. DirecTV's ARPU in FY09 was US$85.48 per month, with a churn rate of 18.4%

- DISH has an approximate market penetration rate of 15% with 14.1 million subscribers. DISH previously provided Pay TV services through AT&T. There was a negative impact on subscriber numbers when this relationship ended in January 2009. DISH's ARPU was US$70.04 per month in FY09, with a churn rate of 19.7%. DISH has reported operational inefficiencies and 'signal theft', which may partly explain the lower ARPU and higher churn rate when compared to DirecTV

  - the UK industry is more comparable to the Australian and New Zealand Pay TV industries than the US industry because of the number of FTA television channels available. Pay TV was introduced to the UK market in 1966. BSkyB is the largest provider of Pay TV services in the UK market. It offers a similar number of channels and services to Foxtel, such as Sky+ and a box office pay per view option. Like Foxtel, BSkyB derives the majority of its revenue (approximately 86%) from subscriptions and advertising (approximately 5%), with the remainder derived from BSkyB's internet and voice offerings ('Sky Broadband' and 'Sky Talk'). Pay TV services are bundled together with these additional offerings and can also be purchased via Virgin Media (wholesale platform)
  - Pay TV was introduced to NZ in 1990 with a current market penetration rate of approximately 46%. Sky Network is the predominant Pay TV provider in the NZ market
  - Pay TV was introduced in Australia in 1995 and has a current penetration rate of around 30%. The Pay TV industry is dominated by two providers, Foxtel and Austar who operate in metropolitan and regional areas respectively. The quality and variety of the content offered by FTA television broadcasters and the anti-siphoning regulations have also contributed to the lower market penetration rate in Australia

<u>Broader Pay TV companies</u>

- unlike Foxtel the US based companies provide Pay TV in conjunction with other internet based services, such as broadband and voice over internet protocol (VOIP). Similar to Foxtel, advertising revenue comprises a small component of overall revenue. We note the following about the major US service providers:
  - Comcast and Time Warner, who are two large Pay TV providers in the US market, derive approximately 55% to 60% of their revenue from Pay TV services
  - Cablevision derives an even smaller proportion of its revenue from Pay TV services (compared to Comcast and Time Warner), with some of its income coming from programming revenue
  - Liberty Global, whilst based in the US, provides Pay TV services to a number of different international markets (approximately 14 countries across Asia and Europe)
- we note the following in relation to the Canadian service providers:
  - Cogeco operates only in Ontario (Canada) and in Portugal, which are relatively small markets
  - Astral and Corus produce FTA television, Pay TV and radio services, and are therefore quite diversified when compared to Foxtel. A significant portion of these providers' revenues relates to advertising.

### *Mergers and acquisitions multiples*

The price achieved in mergers or acquisitions of comparable companies provides evidence of an appropriate earnings multiple for valuation purposes. The acquisition price of a company represents the market value of a controlling interest in that company. The difference between the market value of a controlling interest and a minority interest is referred to as a premium for control. Appendix 4 provides empirical data and evidence available in respect of control premiums in Australia.

We have not identified any recent transactions involving companies directly comparable to Foxtel in terms of operations, size, growth, risks, opportunities and geographical reach. We have therefore considered a broad range of transactions involving companies in the Pay TV sector, which are summarised in the following table.

**Table 15: Comparable transaction multiples**

| Date | Target | Country | % acquired | EV[1] ($'million) | Implied EBITDA multiple[2] | Control premium[3] |
|---|---|---|---|---|---|---|
| Mar 10 | Kabel Deutschland GmbH | Germany | 33% | 6,857 | 8.1x | n/a |
| Nov 09 | CanalSatelite Digital SL | Spain | 21% | 3,816 | 10.3x | n/a |
| Dec 09 | ZON Multimedia - Servicos de Telecomunicacoes e Multimedia SGPS SA | Portugal | 10% | 3,949 | 10.0x | n/a |
| May 08 | Time Warner | US | 86% | 53,515 | 9.0x | n/a |
| Jan 08 | Sky Deutschland AG | Germany | 15% | 3,609 | 25.7x | 44.9% |
| Dec 07 | Sogecable SA | Spain | 50% | 7,929 | 11.6x | 7.3% |
| May 07 | Cablevision | US | 100% | 27,244 | 11.5x | n/a[4] |
| | **Average** | | | | **12.3x** | |
| | **Median** | | | | **10.3x** | |

Source: Mergermarket, Deloitte Corporate Finance analysis

n/a = not available.

Notes:
1. in calculating EV net debt is taken as at the date of the most recently available financial statements relative to the announcement date
2. Based on last reported EBITDA prior to the transaction date
3. Based on the share price one month prior to the announcement date
4. Transaction lapsed.

Specific details regarding the above transactions are provided in Appendix 4. We make the following observations about the transactions and related EBITDA multiples:

- where transactions involved the acquisition of a majority interest in the target company, the implied EBITDA multiples incorporate a premium for control
- certain comparable transactions involve companies that are larger than Foxtel and which operate in markets that have different growth expectations and competitive environments to the Australian market. In general, larger companies have higher earnings multiples than smaller companies
- the acquisition of Sky Deutschland AG by News Limited in January 2008 was part of a strategic move by News Limited to expand its operations into Germany. At the time of the transaction, the Pay TV industry in Germany had a low penetration rate (approximately 9%). From a strategic point of view, it was the only independent Pay

TV provider in Western Europe and was considered the predominant player in the German Pay TV industry, with over 4 million subscribers at the time of the transaction. At the time of the transaction, analysts identified the potential for synergies as a result of the company's integration into News Limited's global media operations and were forecasting EBITDA to more than double in FY08, which may explain the very high multiple paid.

We note that Liberty Global Inc. acquired a further 17% interest in Austar (taking its total interest above 50%) in December 2005. The EBITDA multiple implied by the transaction was 8.8 times historic earnings. We have placed limited reliance on this transaction as market conditions have changed significantly since 2005.

### *Selected multiple*

We have selected a multiple to apply to Foxtel in the range of 9.0 to 9.5 x EBITDA on a minority interest basis, after considering the following factors:

- the current and forecast EBITDA trading multiples for Austar, the only comparable listed Australian Pay TV provider, of 9.1x current EBITDA and 8.1x forecast EBITDA
- the current and forecast EBITDA trading multiples for Sky Network, a listed NZ Pay TV provider, of 8.6x current EBITDA and 7.7x forecast EBITDA
- the average current and forecast EBITDA trading multiples for general Australian media companies of 9.5x current EBITDA and 8.3x forecast EBITDA respectively.
- Foxtel's future maintainable earnings (see Section 6.2.1) and its future earnings growth prospects relative to Austar and Sky Network (see Section 6.2.2), given its current market penetration, metropolitan subscriber base, cost structure and recent performance. Foxtel has a significantly larger subscriber base and has enjoyed a higher sales and ARPU growth rate than these two companies over the past three years. Accordingly, we would expect Foxtel to attract a higher earnings multiple than either Austar or Sky Network
- the risks that Foxtel faces including:
  - the impact of increased competition in the Australian market as FTA television networks continue to introduce new content via multi-channels
  - the possibility of changes in the regulatory environment in Australia, particularly the scope of the anti-siphoning list which could be favourable or unfavourable
  - the possible emergence of competing technologies with the development of the NBN
  - the potential for loss of key sporting content as existing contractual arrangements expire

As we consider Austar, Sky Network and BSkyB to be the most comparable companies to Foxtel, we have undertaken further analysis of key operating indicators (KPI's) for these companies, as set out below:

**Table 16: KPI's based on information to 31 December 2009**

| | Country | Three year sales growth (%)[1] | EBITDA margin (%)[2] | Number of subscribers ('000) | Churn (%) | ARPU ($) | Penetration (%) |
|---|---|---|---|---|---|---|---|
| Foxtel | Australia | 45% | 22% | 1,620.0 | 13.3% | $90.0 | 30% |
| BSkyB | UK | 18% | 21% | 9,700.0 | 9.6% | $73.1 | 55%[3] |
| Sky Network | NZ | 16% | 38% | 784.9 | 13.8% | $54.1 | 47%[3] |
| Austar | Australia | 34% | 32% | 741.6 | 15.5% | $82.9 | 29%[3] |

Source: CMJ ASX announcements, broker reports and company financial statements

Notes:
1. Three year sales growth to 30 June 2009 for Foxtel, BSkyB and Sky Network; 3 year growth to 31 December 2009 for Austar
2. EBITDA/total revenue
3. Broker report.

We observe the following in relation to the above KPI's for the comparable companies:

- Foxtel achieved higher sales growth than Austar, Sky Network and BSkyB over the previous three financial years. Foxtel had two year revenue growth of 30% and three year revenue growth of 45%, mostly due to the increased take up by existing subscribers of Foxtel iQ, the multi-room offering and HD channels (which are all higher priced options for the customer, thus also resulting in increased ARPU for Foxtel).We would expect the higher sales growth trend to continue in the medium term for the following reasons:
  - the prospects for Sky Network's subscriber growth are likely to be more subdued as New Zealand's economy is expected to recover at a slower pace than that of Australia. Similarly, the recent economic performance in regional Australia (where Austar operates) may increase the likelihood of potential customers deferring discretionary spending in the short to medium in these areas. Metropolitan Australia is also expected to have higher population and housing construction growth than regional Australia[38]
  - the proposed regulatory changes in the UK may force BSkyB to resell premium content to its wholesalers (such as Virgin Media) at 18% below the current wholesale rate which would reduce future sales growth. HD and bundled subscriber growth is expected to continue
  - Sky Network and BSkyB have been operating for a longer period and have a significantly higher market penetration rate. Foxtel and Austar may have greater growth potential with more opportunity to increase their relatively lower penetration rates

  The introduction of digital FTA television in Australia may slow the rate of new subscribers, at least in the short term

[38] Australian Bureau of Statistics, Population Projections Australia, Release 3222.0, 2006 to 2101, September 2008.

- while Foxtel has a lower EBITDA margin than either Austar or Sky Network, its absolute EBITDA growth has been greater over the last three years as a result of the introduction of services such as Foxtel iQ, the Multi room offering and HD viewing (through Foxtel iQ2) which provide incremental earnings growth
- as Foxtel and Austar increase their penetration rates in Australia, it is likely that both businesses may be able to increase margins as the incremental cost of providing services to subscribers reduces. Foxtel, in particular, is likely to benefit from potential subscriber number increases as it produces a number of its own channels and therefore has a greater fixed cost base. Furthermore, Foxtel may achieve economies of scale through programming costs, once subscriber numbers increase beyond certain thresholds
- Foxtel has had a lower churn rate than either Austar or Sky Network. This together with its ability to generate a higher ARPU should also contribute to its earnings growth. Foxtel was able to increase ARPU by around 6% in the six months to December 2009, while Austar was able to achieve less than half that growth.

We note that the analysts that follow CMJ are projecting strong growth in Foxtel's revenue and EBITDA over the period to 30 June 2012. The projected growth in EBITDA can be attributed to expected increases in subscriber numbers, ARPU and the ability to leverage off a partially fixed cost base.

As noted above, in selecting our earnings multiple range, we have had particular regard to Austar, Sky Network and BSkyB as they are the most comparable companies in terms of markets served, competitive position, business operations, products offered and growth profiles. The other international Pay TV providers have generally been established for longer periods and operate in markets where there is greater competition and less favourable growth opportunities, and this is likely reflected in the comparatively lower earnings multiples.

We have placed limited reliance on the transaction multiples because of the dispersion of markets in which they operate, the different penetration rates and the timing of the transactions, the majority of which took place prior to or during the global financial crisis. However, we note that, notwithstanding the different markets in which they operate, the two most recent transactions for the acquisition of minority interests implied historical EBITDA multiples of around 10x, which is broadly consistent with the historical EBITDA trading multiples observed for Austar and Sky Network.

### 6.2.3 Surplus assets

Surplus assets are those assets owned by a company that are surplus to its main operating activities, such as unused property, loans or investments. Such assets should be valued separately from the main operating activities of the company, after adjusting operating results to remove the income or expense provided by the surplus assets.

We have been unable to identify any significant surplus assets for Foxtel.

### 6.2.4 Net debt

As at 30 June 2009, Foxtel reported debt of $730.8 million. We have assumed that the current debt level remains unchanged from the 30 June 2009 balance.

### 6.2.5 Premium for control and minority and marketability discounts

Earnings multiples derived from market trading represent holdings for a minority or portfolio holding. They do not take account of the benefits that may flow to investors that have either a significant or controlling shareholding.

The Foxtel business is an alliance between CMJ, News Limited and Telstra. CMJ and News Limited each have a 25% indirect interest in the Foxtel business, via Sky Cable Pty Limited, an entity owned by PMG, which is in turn owned as to 50% by CMJ and 50% by News Limited. Telstra holds the remaining 50% interest in Foxtel.

The Foxtel board comprises nine directors. Two are appointed by CMJ, two by News Limited, and four by Telstra. The ninth director is the Chief Executive Officer, who is not entitled to a vote. Resolutions of the board are made by majority vote, but require an affirmative vote from at least one director appointed by each of CMJ, News Limited and Telstra. No shareholder may dispose of its interest in Foxtel without the consent of the other shareholders.

The 25% indirect interest in Foxtel held by CMJ does not confer control, but does provide CMJ with the ability to exercise significant influence over Foxtel's strategic direction and operations. It also enables CMJ to prevent its co-investees from undertaking any major decisions without its consent. Having regard to the arrangements between the shareholders, we have allowed for a premium for significant influence of between 15% and 20% in respect of the interest in Foxtel.

We make no allowance for a marketability discount in our valuation of Foxtel as we are of the opinion that Foxtel would be an easily saleable asset and it is likely that there would be multiple buyers for CMJ's interest for the following reasons:

- the strategic nature of the asset
- the market leading position that Foxtel holds in Australia
- its ability to generate significant cash flow and dividends for its shareholders
- the potential for growth in market penetration and growth in future earnings.

### 6.2.6 Valuation of Foxtel: capitalisation of maintainable earnings

The value of CMJ's 25% equity interest in Foxtel derived from the capitalisation of maintainable earnings method is summarised below.

**Table 17: Summary – capitalisation of maintainable earnings method**

| | | Foxtel | |
|---|---|---|---|
| | Units | Low | High |
| Maintainable earnings (EBITDA) | $'million | 480.0 | 480.0 |
| EBITDA multiple (on a minority basis) | times (x) | 9.0 | 9.5 |
| **Enterprise value** | **$'million** | **4,320.0** | **4,560.0** |
| Less: debt | $'million | (730.8) | (730.8) |
| **Equity value (on a minority basis)** | **$'million** | **3,589.2** | **3,829.2** |
| Add: premium for significant influence | | 15.0% | 20.0% |
| **Equity value (on a control basis)** | **$'million** | **4,127.6** | **4,595.0** |
| **Value of CMJ's 25% interest** | **$'million** | **1,031.9** | **1,148.8** |

Source: Deloitte Corporate Finance analysis

### 6.2.7 Cross check - high level analysis under the DCF method

In order to assess the reasonableness of our assessed fair market value of CMJ's 25% interest in Foxtel, we have undertaken a high level analysis to enable us to consider the assumptions that are required under the DCF method to support our valuation range under the capitalisation of maintainable earnings approach.

As we have access to public information only, we have prepared a high level DCF analysis using information set out in Appendix 6. In particular, we had regard to the following information:

- information relating to the Pay TV industry in Australia and overseas
- historical financial information for Foxtel for FY08, FY09 and 1H10
- historical subscriber growth and ARPU
- historical EBITDA margins and growth
- the broker reports of the various analysts that follow CMJ, Telstra or News Limited.

The following set of assumptions collectively applied under the DCF method would support our valuation range under the capitalisation of maintainable earnings method:

- an increase in the number of Foxtel subscribers from 1.6 million at 31 December 2009 to 1.9 million subscribers by FY14, implying a CAGR of approximately 3%, and an implied market penetration rate of 34% in FY14
- an increase in advertising revenue in line with subscriber revenue growth
- a CAGR in ARPU of 1.2% between FY10 and FY14 from a base of $90 per month

- an increase in the EBITDA margin from 24.8% in FY10 to around 31.6% by FY14. The increase in margin is dependent upon existing subscribers upgrading to higher margin products and Foxtel leveraging off its partly fixed cost base
- a long-term inflation rate of 2.5%, which is consistent with the Reserve Bank of Australia's expectations of the inflation rate
- a long term growth rate of 5%
- a nominal after tax discount rate in the range of 11.0% to 11.5% (as discussed in detail at Appendix 2)
- an adjustment to discount the DCF value which reflects the value of Foxtel on a 100% control basis to make it consistent with the valuation of CMJ's interest on a significant influence basis.

The assumptions that are required under the DCF method to support our valuation range under the capitalisation of maintainable earnings method do not appear unreasonable having regard to our analysis of the local and international Pay TV industries and our discussions with CMJ management.

### 6.2.8 Valuation of CMJ's interest in Foxtel: conclusion

Our valuation of CMJ's 25% interest in Foxtel derived from the capitalisation of future maintainable earnings method is summarised in the following table:

**Table 18: CMJ's 25% interest in Foxtel**

| | Section | Low value ($'million) | High value ($'million) |
|---|---|---|---|
| Deloitte assessed value of CMJ's 25% interest in Foxtel | 6.2.6 | 1,031.9 | 1,148.8 |

Source: Deloitte Corporate Finance analysis

Our high level analysis under the DCF method provides support for our valuation range.

## 6.3 CMJ's interest in PMG

We have assessed the current fair market value of CMJ's 50% interest in PMG to be in the range of $802.1 million to $930.0 million.

### 6.3.1 Future maintainable earnings

Future maintainable earnings represents the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an appropriate measure of earnings for PMG as EBITDA allows a better comparison with earnings multiples of other companies.

We have estimated future maintainable EBITDA to be $155.0 million based on our consideration of the following:

- historical earnings for FY08, FY09 and 1H10, as set out in Table 19 below.

**Table 19: PMG historical financial performance**

| | Actual FY08 | Actual FY09 | Actual 1H10 |
|---|---|---|---|
| **EBITDA ($'million)** | **133.0** | **152.0** | **69.7** |
| EBITDA margin (%) | 34.6 | 35.0 | 32.3 |

Source: CMJ ASX announcements and annual reports

- the consensus EBITDA forecast for PMG for FY10 of $152 million. The forecasts of the various analysts that follow CMJ range from $143.5 million to $158 million
- the EBITDA margin for the six months to December 2009 of 32.3% is lower than the full year forecast because of the timing of production costs related to major sporting events
- the relative stability of subscription revenue from month to month, partly as a result of the nature of the contractual arrangements with Foxtel, Austar and other Australian Pay TV providers and the stability of the number of subscribers to those platforms from which PMG generates fees.

### 6.3.2 Earnings multiple

We have selected an earnings multiple in the range of 9.0x to 10.0x EBITDA to apply to our selected future maintainable earnings. In selecting these earnings multiples we have considered:

- earnings multiples derived from share market prices of comparable listed companies
- our selected EBITDA multiple for Foxtel
- prices achieved in mergers and acquisitions of comparable companies
- PMG's growth expectations, as discussed below in Section 6.3.2.

The earnings multiples and prices achieved in mergers and acquisitions of comparable companies are discussed separately below.

### *Market trading multiples*

PMG faces similar risks and opportunities to the Pay TV platform providers. As PMG's revenue is largely dependent on Foxtel and Austar subscriber numbers, it is exposed to many of the same risks, drivers and opportunities to which Pay TV providers are exposed and which are discussed in our valuation for Foxtel in Section 6.2 of our report.

Accordingly, in analysing companies comparable to PMG we have considered our selected multiple for Foxtel and the local and international Pay TV providers, Pay TV providers that also offer broader products and services and general media providers set out in Table 14. We have also had regard to listed companies producing programming content for television and new media.

We set out below the earnings multiples of these listed production companies and, for the avoidance of repetition, average multiples observed for local and international Pay TV providers, the broader Pay TV providers and the general Australian media sector (refer Table 14).

**Table 20: Earnings trading multiples**

| Company Name | EV ($'million)[1] | EBITDA multiple 2009[2] | 2010 | 2011 |
|---|---|---|---|---|
| **Production companies** | | | | |
| Viacom Inc (Viacom) | 30,628 | 8.6x | 8.2x | 7.7x |
| CBS Corp (CBS) | 17,831 | 9.1x | 7.4x | 6.9x |
| Discovery Communications Inc (Discovery) | 12,959 | 10.0x | 7.5x | 6.9x |
| Dreamworks Animation SKG Inc (Dreamworks) | 3,564 | 16.8x | 10.0x | 10.0x |
| **Average production companies** | | **11.1x** | **8.3x** | **7.9x** |
| **Average Local Pay TV providers (refer Table 14)** | | 10.5x | 9.1x | 8.1x |
| **Average International Pay TV providers (refer Table 14)** | | 8.3x | 7.7x | 6.8x |
| **Average Broader Pay TV providers (refer Table 14)** | | 6.4x | 6.9x | 6.5x |
| **Average General Australian Media (refer Table 14)** | | 9.8x | 9.5x | 8.3x |

Source: Deloitte Corporate Finance analysis, Bloomberg, broker reports, company annual reports

Notes:

1. Enterprise value converted to $ on 12 April 2010
2. To calculate the EBITDA multiple, EBITDA of production companies has been adjusted to include depreciation or amortisation of capitalised programming and production costs, consistent with broker estimates for FY10 and FY11

Further details regarding the calculation of the earnings multiples are provided in Appendix 3.

General comments regarding these comparable companies and the related EBITDA multiples are listed below:

- enterprise values were calculated by summing the total of the net borrowings at each company's most recent reporting date and the market capitalisation at 12 April 2010. Historical earnings have been taken from the last annual report and have been adjusted for abnormal and non-recurring items
- current (FY10) and forecast (FY11) EBITDA multiples are based on broker consensus estimates at 12 April 2010
- most of the comparable companies are considerably larger than PMG. In general, larger companies have higher earnings multiples than smaller companies
- earnings multiples based on listed securities represent multiples deriving from trading of minority parcels of shares and therefore do not generally incorporate any premium for significant influence or control

We note the following in relation to the selected production companies in Table 20:

- Viacom produces television channels (approximately 40% of FY09 revenue) and various motion pictures (approximately 40% of FY09 revenue). Viacom is likely to be more affected by changes in global economic conditions than PMG because of the greater proportion of revenue it derives from advertising revenue and because of its exposure to audience acceptance of its motion pictures. The majority of revenue is derived from the mature US market
- CBS is a large diversified media company which produces television content and motion pictures, and is an operator of several Pay TV channels in the US (approximately 65% of total revenue) and is also involved in publishing, local broadcasting and outdoor advertising. The Pay TV component of the business is relatively small. CBS operates predominantly in the mature US market
- Discovery is one of the world's largest non-fiction media companies, providing original and purchased programming across multiple genre and distribution platforms in more than 170 countries. In FY09, 66% of revenue was generated in the mature US markets
- Dreamworks develops and produces animated films which are distributed in the US and internationally. Earnings may fluctuate from year to year as a result of the timing of theatrical releases and audience acceptance for each animated film produced. Animated film production time is significant, sometimes taking up to three to four years per film. Dreamworks is reliant on the release of a limited number of films each year, and unexpected delays can materially affect financial results.

Whilst we have had regard to the above production companies and their earnings multiples, we note that all of the selected production companies produce content which has a limited life and bears the risk of audience acceptance of replacement content. PMG produces predominantly sporting content where demand continues year on year. PMG is not required to determine new subject ideas for each sporting season.

As PMG's main source of revenue is based on subscriber numbers of the Pay TV providers, in selecting an EBITDA multiple for PMG we had particular regard to:

- our selected earnings multiple for Foxtel
- the trading multiple of Austar, which has the most similar growth profile to PMG of the listed comparable companies.

Analysts following CMJ are projecting similar growth in PMG's revenue and EBITDA to Foxtel, over the period to 30 June 2012. The projected growth in EBITDA can be attributed predominantly to the expected increases in subscriber numbers of Foxtel and Austar (PMG's primary customers).

### *Merger and acquisition multiples*

We have not identified any recent transactions involving companies directly comparable to PMG in terms of operations, size, growth, risks, opportunities and geographical reach. We have therefore considered a broad range of transactions involving companies in the production and programming sector, which are summarised in the following table.

**Table 21: Comparable transaction multiples**

| Date | Target | Country | % acquired | Deal value ($'million) | Implied EBITDA multiple[1] | Control premium[2] |
|---|---|---|---|---|---|---|
| May 08 | Zodiak Television AB | Sweden | 100% | 278 | 9.2x[4] | 64.6% |
| May 08 | Tinopolis Plc | UK | 100% | 70 | 10.2x | 40.6% |
| Sep 07 | Beyond International Limited | Australia | 89% | 63 | 8.8x | n/m[3] |
| Dec 06 | DirecTV | US | 41% | 36,712 | 8.8x[4] | n/a |
| | ***Average*** | | | | ***9.2x*** | |
| | ***Median*** | | | | ***9.0x*** | |

Source: Mergermarket, Deloitte Corporate Finance analysis

n/a = not available n/m = not meaningful

Notes:

1. in calculating EV net debt is taken as at the date of the most recently available financial statements relative to the announcement date
2. based on trading prices one month prior to the announcement date
3. transaction lapsed
4. broker estimates of forward EBITDA have been used to calculate transaction multiples because the companies were expecting substantial increases in earnings subsequent to the transaction.

Specific details regarding the above companies are provided in Appendix 4. General comments regarding the comparable transaction multiples in Table 21 are listed below:

- most of the above transactions involved the acquisition of a majority interest in the target company and the implied multiples therefore incorporate a premium for control
- other than the DirecTV transaction, the comparable companies are considerably smaller than PMG
- DirecTV predominantly services the Pay TV industries in the US and South America. The US market has significantly higher Pay TV penetration rates and different operating and regulatory environments
- the transaction involving Beyond International Limited (Beyond International) did not proceed at the indicated price. Beyond International has a high reliance on a limited number of programs.

### *Selected multiple*

We have selected a multiple to apply to PMG of 9.0x to 10.0x EBITDA on a minority interest basis, after considering the following factors:

- Austar's current EBITDA multiple of 9.1x and the forecast 2011 EBITDA multiple of 8.1x
- our selected multiple of 9.0x to 9.5x EBITDA for Foxtel as the revenue drivers of PMG are similar to that of Foxtel, where revenue is predominantly driven by subscriber numbers
- PMG's future maintainable earnings (see Section 6.3.1) and future earnings growth prospects
- PMG's contractual relationships with Australian domestic Pay TV providers, particularly Foxtel and Austar, which broadcast the Fox Sports channels to its subscribers, and PMG's ability to leverage these relationships without incurring incremental capital expenditure. The Fox Sports 1 and Fox Sports 2 agreement with Foxtel has no set termination date. We have considered Foxtel and Austar's historical performance and growth prospects in Section 6.2.2
- the risks that PMG faces including:
    - the possibility of changes in the regulatory environment in Australia, particularly the scope of the anti-siphoning list
    - the impact of increased competition on subscriber growth in the Australian Pay TV industry
    - the potential for loss of key sporting rights

Our selected multiple range recognises PMG's leading market position, the Australian public demand for high quality sporting content, the contractual relationships with both Foxtel and Austar and the level of capital expenditure required by PMG. It also allows for the risk of loss of key sporting contractual rights and alternative technologies providing a mechanism for the delivery of key sporting events.

We have placed limited reliance on the transaction multiples because of the dispersion of markets in which they operate and the timing of the transactions, which took place prior to or during the global financial crisis.

## 6.3.3 Surplus assets

We have been unable to identify any significant surplus assets for PMG.

## 6.3.4 Net debt

PMG does not have any external interest bearing debt.

## 6.3.5 Premium for control and minority and marketability discounts

The 50% indirect interest in PMG held by CMJ allows CMJ to exercise joint control of PMG. Neither CMJ nor News Limited is able to undertake any major decisions without the co-operation of its co-investee. Having regard to the arrangements between the shareholders, we have allowed for a premium for joint control of between 15% and 20% in respect of CMJ's interest in PMG.

We make no allowance for a marketability discount in our valuation of PMG as we are of the opinion that PMG would be an easily saleable asset and it is likely that there would be multiple buyers for CMJ's interest for the following reasons:

- the strategic nature of the asset and PMG's relationships with Foxtel and Austar
- the dominant position that PMG holds in providing sporting content to the Pay TV industry in Australia
- its ability to generate significant cash flow and dividends for its shareholders
- the longer term potential for growth in future earnings as the Foxtel and Austar subscriber base grows.

### 6.3.6 Valuation of PMG: capitalisation of maintainable earnings

The value of CMJ's 50% interest in PMG derived from the capitalisation of maintainable earnings method is summarised below.

**Table 22: Summary – capitalisation of maintainable earnings method**

| | | PMG | |
|---|---|---|---|
| | Units | Low | High |
| Maintainable earnings (EBITDA) | $'million | 155.0 | 155.0 |
| EBITDA multiple (on a minority basis) | times (x) | 9.0 | 10.0 |
| **Enterprise value** | **$'million** | **1,395.0** | **1,550.0** |
| Less: debt | $'million | - | - |
| **Equity value (on a minority basis)** | **$'million** | **1,395.0** | **1,550.0** |
| Add: premium for joint control | | 15.0% | 20.0% |
| **Equity value (on a control basis)** | **$'million** | **1,604.3** | **1,860.0** |
| **Value of CMJ's 50% interest** | **$'million** | **802.1** | **930.0** |

Source: Deloitte Corporate Finance analysis

### 6.3.7 Cross check - high level analysis under the DCF method

In order to assess the reasonableness of our assessed fair market value of CMJ's 50% interest in PMG, we have undertaken a high level analysis under the DCF method to enable us to consider the assumptions that are required to support our valuation range under the capitalisation of maintainable earnings approach.

As we have access to public information only, we have prepared a high level DCF analysis using information set out in Appendix 6. In particular, we had regard to the following information:

- information relating to the Pay TV industry in Australia and overseas
- historical financial information for PMG for FY08, FY09 and 1H10
- historical subscription and advertising revenue growth
- historical EBITDA margins and growth
- the broker reports of the various analysts that follow CMJ or News Limited.

The following set of assumptions collectively applied under the DCF method would support our valuation range under the capitalisation of maintainable earnings method:

- subscription revenue growth of approximately 4% per annum to allow for price increases and growth of the subscriber base of Foxtel and Austar over the period to FY14. The subscription base growth assumptions reconcile with those considered in the cross check of our valuation for Foxtel
- an increase in advertising revenue in line with subscriber revenue growth
- an increase in the EBITDA margin from 35.8% in FY10 to approximately 41.0% in FY14. The increase in the margin is dependent upon increasing subscriber numbers and PMG leveraging off its partly fixed cost base
- a long-term inflation rate of 2.5%, which is consistent with the Reserve Bank of Australia's expectations of the inflation rate
- a long term growth rate of 5.0%
- a nominal after tax discount rate in the range of 11.0% to 11.5% (as discussed in detail at Appendix 2)
- an adjustment to discount the DCF value which reflects the value of PMG on a 100% control basis to make it consistent with the valuation of CMJ's interest on a joint control basis.

The assumptions that are required under the DCF method to support our valuation range under the capitalisation of maintainable earnings method do not appear unreasonable having regard to our analysis of the local and international Pay TV industries and our discussions with CMJ management.

### 6.3.8 Valuation of CMJ's interest in PMG: conclusion

Our valuation of CMJ's 50% interest in PMG derived from the capitalisation of future maintainable earnings method is summarised in the following table:

**Table 23: CMJ's 50% interest in PMG**

| | Section | Low value ($'million) | High value ($'million) |
|---|---|---|---|
| Deloitte assessed value of CMJ's 50% interest in PMG | 6.3.6 | 802.1 | 930.0 |

Source: Deloitte Corporate Finance analysis

Our high level analysis under the DCF method provides support for our valuation range.

## 6.4 CMJ's 0.1% interest in PBL Media

As at the date of this report, CMJ continued to hold a 0.1% interest in PBL Media. PBL Media is a privately held company in respect of which CMJ has no board representation and/or right to financial information other than that afforded to a minority shareholder under the Corporations Act. Therefore we have only limited access to financial information sourced from ASIC. Based on a review of PBL Media's financial accounts as at 30 June 2009 and the growth in the enterprise values of general media companies in Australia from 30 June 2009 to 31 December 2009, we have attributed a value of between $0 and $1 million to the investment.

Such a value reflects the value of the optionality inherent in CMJ's interest in PBL Media and the possibility that the enterprise value at some point in the future may exceed the net debt of the company.

## 6.5 Corporate costs

In the event of a change of control transaction whereby an entity acquires 100% of the Company, it is likely that corporate costs would be reduced. We have determined the capitalised value of corporate costs at between $18 million and $19 million on the basis of ongoing corporate costs of approximately $2 million per annum and a capitalisation multiple of between 9.0 and 9.5 times corporate costs. The multiple range selected is in line with the multiples used in our valuation of Foxtel and PMG.

## 6.6 Net cash

CMJ had a net cash position of approximately $251.5 million at 22 April 2010.

## 6.7 Number of CMJ securities outstanding

As at the date of this report, CMJ had 620.709 million shares on issue.

## 6.8 Valuation: sum of the parts method

Our estimate of the fair market value of a CMJ Share is in the range of $3.33 to $3.73 as set out in the following table.

**Table 24: Valuation summary: Sum of the parts method**

| | Section | Units | Low value | High value |
|---|---|---|---|---|
| Estimated fair market value: | | | | |
| Foxtel (25%) | | $'million | 1,031.9 | 1,148.8 |
| PMG (50%) | | $'million | 802.1 | 930.0 |
| PBL Media (0.1%) | | $'million | - | 1.0 |
| Add: cash | | $'million | 251.5 | 251.5 |
| Less: corporate costs | | | (18.0) | (19.0) |
| **100% equity value of CMJ (on a control basis)** | | $'million | **2,067.5** | **2,312.3** |
| Number of shares on issue | | 'million | 620.7 | 620.7 |
| **Value of a CMJ share (on a control basis)** | | **$** | **3.33** | **3.73** |

Source: Deloitte Corporate Finance analysis

The assessed value range of a CMJ Share of $3.33 to $3.73 implies a premium of 6.9% to 19.7% to the five day VWAP of the shares to 12 April 2010.

## 6.9 Analysis of recent share trading

In order to assess the reasonableness of our estimate of the fair market value of a CMJ Share, we have compared our assessed fair market value to recent trading in CMJ Shares.

The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities (on a minority basis).

We believe that the share price is an appropriate measure of the fair market value of CMJ's Shares (on a minority basis) for the following reasons:

- CMJ's half year results for 1H10 were released to the market on 23 February 2010 providing a recent update regarding CMJ's financial performance
- CMJ is an ASX 200 listed company having significant coverage from research analysts including Deutsche Bank Securities, JP Morgan, Macquarie Research and RBS Securities
- over the three month period ended 12 April 2010, 11.9% or (73.8 million) of the average number of CMJ's shares on issue has changed hands
- there has not been significant price volatility in the recent trading of CMJ's securities that would limit the applicability of this approach.

### *Historical price performance*

We have considered the VWAP of CMJ's shares in the six months between 12 October 2009 and 12 April 2010 and compared this to our estimate of the fair market value of a CMJ Share.

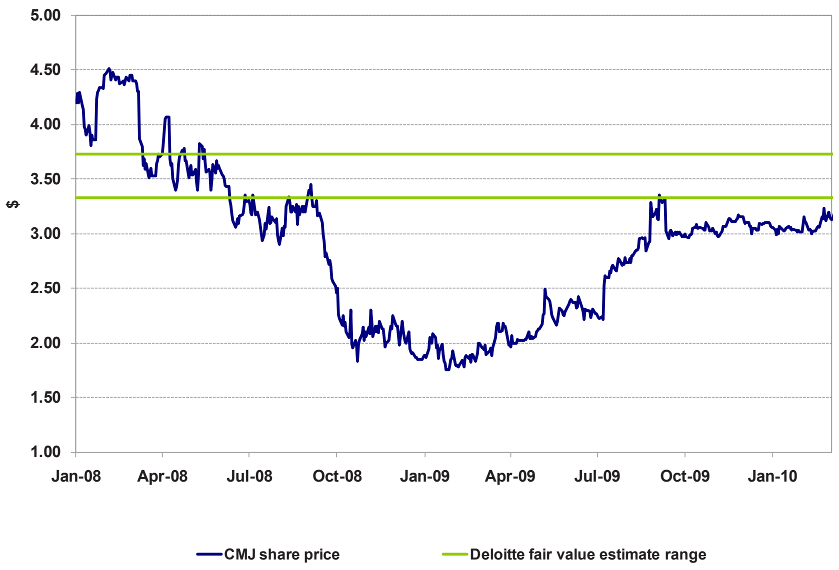
**Table 25: Recent VWAP of CMJ's shares**

| | VWAP ($) |
|---|---|
| Over 1 week period to 12 April 2010 | 3.12 |
| Over 1 month period to 12 April 2010 | 3.21 |
| Over 3 month period to 12 April 2010 | 3.14 |
| Over 6 month period to 12 April 2010 | 3.11 |
| Since announcement of FY10 half-year results (23 February 2010) | 3.20 |

Source: Bloomberg, Deloitte Corporate Finance analysis

The historical trading performance of CMJ's shares has also been compared to our estimate of fair value in the graph below.

**Figure 14: Historical trading performance of CMJ's shares**




Source: Bloomberg, Deloitte Corporate Finance analysis

## *Conclusion*

The above analysis which reflects share trading in minority parcels of shares, broadly supports our estimated fair market value range of a CMJ Share on a control basis whereby an entity owns 100% of the Company of $3.33 to $3.73 per security.

The level of premium implied by our valuation (which is on a control basis) to the share trading history appears reasonable having regard to the nature of the underlying investments and the holding company nature of CMJ.

# Appendix 1: Glossary

| Reference | Definition |
|---|---|
| 1H10 | Six months ending 31 December 2009 (i.e. first half of the financial year ending 30 June 2010) |
| $ | Australian dollars |
| ABC | Australian Broadcasting Corporation |
| Act, the | Broadcasting Services Act 1992 |
| ACCC | Australian Competition and Consumer Commission |
| ACMA | Australian Communications and Media Authority |
| AFL | Australian Football League |
| AGSM | Australian Graduate School of Management |
| APN | APN News & Media Limited |
| ARPU | Average revenue per subscriber or user |
| ASIC | Australian Securities & Investments Commission |
| ASTRA | Australian Subscription Television and Radio Association |
| Astral | Astral Media Inc |
| ASX | Australian Securities Exchange |
| ASX Listing Rules, the | Listing Rule 3.8A, Listing Rule 7.29, Listing Rule 7.33 and Appendix 3C |
| Austar | Austar United Communications Limited |
| $\alpha$ | Specific company risk premium |
| $\beta$ | Beta estimate |
| BSkyB | British Sky Broadcasting Group |
| Beyond International | Beyond International Limited |
| Cablevision | Cablevision Systems Corp |
| CAPM | Capital Asset Pricing Model |
| CAGR | Compound annual growth rate |
| CBS | CBS Corp |
| CFO | Chief Financial Officer |
| Cogeco | Cogeco Cable Inc |
| Company, the | Consolidated Media Holdings Limited |
| Corus | Corus Entertainment Inc |
| CMJ | Consolidated Media Holdings Limited |
| CMJ Investments, the | 25% interest in Foxtel, 50% interest in PMG and 0.1% interest in PBL Media |
| CMJ Share/s | Ordinary shares of CMJ |
| Comcast | Comcast Corp |
| Corporations Act, the | Corporations Act 2001 (Cth) |
| CPH | Consolidated Press Holdings Limited Group |
| Damodaran | Aswath Damodaran |
| DBDCE | Department of Broadband, Communications and the Digital Economy |
| DCF | Discounted cash flow |
| Deloitte Corporate Finance | Deloitte Corporate Finance Pty Limited |
| Directors | Directors of CMJ |

| Reference | Definition |
|---|---|
| Discovery | Discovery Communications Inc |
| DISH | DISH Network Corp |
| Dreamworks | Dreamworks Inc |
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| EMRP | Equity market risk premium |
| EPG | Electronic program guide |
| EPS | Earnings per share |
| EV | Enterprise value |
| Explanatory Notes | Explanatory notes to be provided to Shareholders for the purposes of the general meeting of the Company to consider the Proposed Buy-back |
| Fairfax | Fairfax Media Limited |
| Fox | Twentieth Century Fox Television Distribution |
| Fox Sports | Subscription television content provider operated by PMG |
| Foxtel | Foxtel |
| FSS | Fox Sports Stats |
| FSV | Fox Sports Venues |
| FTA | Free-to-air |
| FY | Financial year |
| HD | High definition |
| IER | Independent expert's report |
| iiNet | iiNet Limited |
| IPTV | Internet protocol television |
| ISP | Internet service provider |
| Ke | Cost of equity |
| Kd | Cost of debt |
| Liberty Global | Liberty Global Inc |
| MCN | Multi Channel Network Pty Limited |
| Mediacom | Mediacom Communications Corporation |
| Minister, the | Minister for Broadband, Communications and the Digital Economy |
| Morningstar | Morningstar Inc |
| NBN | National Broadband Network |
| NZ | New Zealand |
| News Limited | News Corporation Limited |
| Nine Network | Nine Network Australia Pty Limited |
| Notice of Meeting | Notice of the general meeting of the Company to consider the Proposed Buy-back |
| NPAT | Net profit after tax |
| NRL | National Rugby League |
| Optus | Optus Vision Pty Limited |
| Pay TV | Pay television |
| PBL | Publishing and Broadcasting Limited |
| PBL Media | PBL Media Holdings Pty Limited |

| Reference | Definition |
|---|---|
| PMG | Premier Media Group Pty Limited |
| Proposed Buy-back, the | CMJ's on-market buy-back of up to 73,770,492 ordinary shares from shareholders |
| PVR | Personal video recorder |
| Refinancing guideline | Guideline stipulating the target gearing level for Foxtel |
| Rf | Risk free rate |
| RG 110 | ASIC Regulatory Guide 110 'Share buy-backs' |
| SBS | Special Broadcasting Service Corporation |
| SD | Standard definition |
| Seek | SEEK Limited |
| Seven | Seven Network Limited |
| Shareholders | Shareholders of CMJ |
| Sky Network | Sky Network Television Limited |
| SWOT | Strengths, weaknesses, opportunities and threats |
| Ten | Ten Network Holdings Limited |
| Telstra | Telstra Corporation Limited |
| Time Warner | Time Warner Cable Inc |
| UK | United Kingdom |
| US | United States of America |
| Viacom | Viacom Inc |
| VOIP | Voice over internet protocol |
| VWAP | Volume weighted average price |
| WACC | Weighted average cost of capital |
| XYZnetworks | XYZnetworks Pty Limited |

# Appendix 2: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued.

Selecting an appropriate discount rate is a matter of judgement having regard to relevant available market pricing data and the risks and circumstances specific to the asset or business being valued.

Whilst the discount rate is in practice normally estimated based on a fundamental ground up analysis using one of the available models for estimating the cost of capital (such as the Capital Asset Pricing Model (CAPM)), market participants often use less precise methods for determining the cost of capital such as hurdle rates or target internal rates of return and often do not distinguish between investment type or region or variances over economic cycles.

Since our definition of fair market value is premised on the estimated value that a knowledgeable willing buyer would attribute to the asset or business, our selection of an appropriate discount rate needs to consider that buyers incorporate other alternatives to the typical CAPM approach in estimating the cost of capital.

For ungeared cash flows, discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the WACC.

The WACC can be derived using the following formula:

$$\boxed{WACC = \left( \frac{E}{V} * K_e \right) + \left( \frac{D}{V} * K_d (1 - t_c) \right)}$$

The components of the formula are:

| | | |
|---|---|---|
| $K_e$ | = | cost of equity capital |
| $K_d$ | = | cost of debt |
| $t_c$ | = | corporate tax rate |
| E/V | = | proportion of enterprise funded by equity |
| D/V | = | proportion of enterprise funded by debt |

The adjustment of $K_d$ by (1- $t_c$) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%, in line with the Australian corporate tax rate.

## Cost of equity capital ($K_e$)

The cost of equity, $K_e$, is the rate of return that investors require to make an equity investment in a firm.

We have used the CAPM to estimate the $K_e$ for Foxtel and PMG. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:

$$\boxed{K_e = R_f + \beta(R_m - R_f) + a}$$

The components of the formula are:

| | | |
|---|---|---|
| $K_e$ | = | required return on equity |

$R_f$ = the risk free rate of return

$R_m$ = the expected return on the market portfolio

$\beta$ = beta, the systematic risk of a stock

$\alpha$ = specific company risk premium

Each of the components in the above equation is discussed below.

## Risk free rate ($R_f$)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term zero-coupon government bond rate.

Since there is no zero-coupon government bond issued by the Australian Government, we have utilised the zero coupon bond yield calculated by Bloomberg, which excludes the coupon payments from the 10-year Australian Government Bond. In determining $R_f$ we have taken the five-day average of the zero coupon 10-year Australian Government Bond yield for the period of 6 April 2010 to 12 April 2010 of 5.97%. The 10-year bond rate is a widely used and accepted benchmark for the risk free rate in Australia. This rate represents a nominal rate and thus includes inflation.

## Equity market risk premium (EMRP)

The EMRP ($R_m - R_f$) represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. The size of the EMRP is dictated by the risk aversion of investors – the lower (higher) an investor's risk aversion, the smaller (larger) the equity risk premium.

The EMRP is not readily observable in the market and therefore represents an estimate based on available data. There are generally two main approaches used to estimate the EMRP, the historical approach and the prospective approach, neither of which is theoretically more correct or without limitations. The former approach relies on historical share market returns relative to the returns on a risk free security; the latter is a forward looking approach which derives an estimated EMRP based on current share market values and assumptions regarding future dividends and growth.

In evaluating the EMRP, we have considered both the historically observed and prospective estimates of EMRP.

### *Historical approach*

The historical approach is applied by comparing the historical returns on equities against the returns on risk free assets such as Government bonds, or in some cases, Treasury bills. The historical EMRP has the benefit of being capable of estimation from reliable data; however, it is possible that historical returns achieved on stocks were different from those that were expected by investors when making investment decisions in the past and thus the use of historical market returns to estimate the EMRP would be inappropriate.

It is also likely that the EMRP is not constant over time as investors' perceptions of the relative riskiness of investing in equities change. Investor perceptions will be influenced by several factors such as current economic conditions, inflation, interest rates and market trends. The historical risk premium assumes the EMRP is unaffected by any variation in these factors in the short to medium term.

Historical estimates are sensitive to the following:

- the time period chosen for measuring the average
- the use of arithmetic or geometric averaging for historical data
- selection of an appropriate benchmark risk free rate
- the impact of franking tax credits
- exclusion or inclusion of extreme observations.

The EMRP is highly sensitive to the different choices associated with the measurement period, risk free rate and averaging approach used and as a result estimates of the EMRP can vary substantially.

We have considered the most recent studies undertaken by the Centre for Research in Finance at the Australian Graduate School of Management (AGSM), Morningstar Inc (Morningstar), ABN AMRO/London Business School and Aswath Damodaran (Damodaran). These studies generally calculate the EMRP to be in the range of 5% to 8%.

### *Prospective approach*

The prospective approach is a forward looking approach that is current, market driven and does not rely on historical information. It attempts to estimate a forward looking premium based on either surveys or an implied premium approach.

The survey approach is based on investors, managers and academics providing their long term expectations of equity returns. Survey evidence suggests that the EMRP is generally expected to be in the range of 6% to 8%.

The implied approach is based on either expected future cash flows or observed bond default spreads and therefore changes over time as share prices, earnings, inflation and interest rates change. The implied premium may be calculated from the market's total capitalisation and the level of expected future earnings and growth.

### *Selected EMRP*

We have considered both the historically observed EMRP and the prospective approaches as a guideline in determining the appropriate EMRP to use in this report. Australian studies on the historical risk premium approach generally indicate that the EMRP would be in the range of 5% to 8%.

In recent years it has been common market practice in Australia in expert's reports and regulatory decisions to adopt an EMRP of 6%.

The recent severe decline worldwide in equity values and the difficulty companies are experiencing in raising equity capital may be indicative of investors demanding a greater risk premium. In addition, current prospective measures appear to indicate an increase in the EMRP.

Having considered the various approaches and their limitations, we consider an EMRP of 6.5% to be appropriate.

## Beta estimate (β)

### *Description*

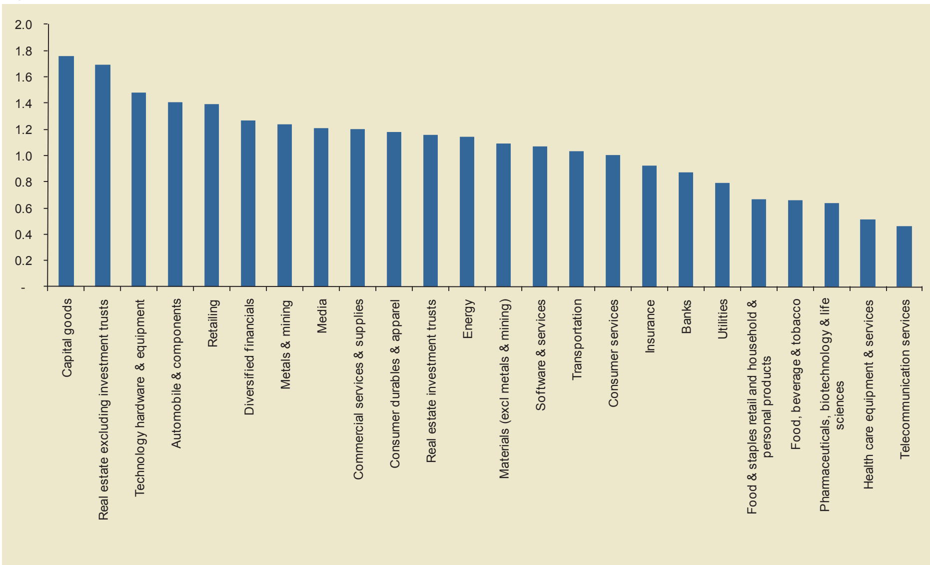
The beta coefficient measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. Systematic risk, as separate from specific risk as discussed below, measures the extent to which the return on the business or investment is correlated to market returns. A beta of one indicates that an equity investor can expect to earn the market return (i.e. the risk free rate plus the EMRP) from this investment (assuming no specific risks). A beta of greater than one indicates greater market related risk than average (and therefore higher required returns), while a beta of less than one indicates less risk than average (and therefore lower required returns).

Betas will primarily be affected by three factors which include:

- the degree of operating leverage employed by the firm. Companies with a relatively high fixed cost base will be more exposed to economic cycles and therefore have higher systematic risk compared to those with a more variable cost base
- the degree of financial leverage employed by a firm. Equity investors will demand a higher return to compensate for increased systematic risk associated with higher levels of debt
- correlation of revenues and cash flows to economic cycles. Companies that are more exposed to economic cycles (such as retailers), will generally have higher levels of systemic risk (i.e. higher betas) relative to companies that are less exposed to economic cycles (such as regulated utilities).

The betas of various Australian industries listed on the ASX are reproduced below and provide an example of the relative industry betas for a developed market.

**Figure 15: Betas for various industries (as at 31 December 2009)**




Source: AGSM Risk Management Service

The differences are related to the business risks associated with the industry. For example, the above diagram indicates transportation companies are more correlated to overall market returns with a beta close to one whereas telecommunications and other infrastructure companies (in particularly those that are regulated) typically have betas lower than one.

The geared or equity beta can be estimated by regressing the returns of the business or investment against the returns of an index used as a representation of the market portfolio, over a reasonable time period. However, there are a number of issues that arise in measuring historical betas that can result in differences, sometimes significant, in the betas observed depending on the time period utilised, the benchmark index and the source of the beta estimate. It is often preferable to have regard to sector averages or a pool of comparable companies rather than any single company's beta estimate due to the above measurement difficulties.

### *Market evidence - Foxtel*

In estimating an appropriate beta for Foxtel we have considered the betas of listed companies that are comparable to Foxtel. These betas, which are presented below, have been calculated based on weekly returns, over a two year period and monthly returns, over a four year period, compared to a relevant domestic index. Descriptions of the comparable companies are provided in Appendix 3.

**Table 26: Analysis of betas for listed companies with comparable operations to Foxtel**

| | | | Net debt / EV[1] | | Levered Beta | | Unlevered Beta[2] | |
|---|---|---|---|---|---|---|---|---|
| Company | Country | Enterprise value (EV) ($'million) | 2 Year average | 4 Year average | 2 year local | 4 year local | 2 year local | 4 year local |
| **Local Pay TV** | | | | | | | | |
| Austar | Australia | 2,244.1 | 35.7% | 28.2% | 0.75 | 0.97 | 0.54 | 0.76 |
| **International Pay TV** | | | | | | | | |
| DirecTV | US | 41,375.7 | 11.4% | 8.6% | 0.93 | 0.94 | 0.86 | 0.89 |
| BSkyB | UK | 20,793.1 | 14.5% | 14.5% | 0.88 | 0.88 | 0.78 | 0.79 |
| DISH | US | 15,077.5 | 33.6% | 27.9% | 1.26 | 1.37 | 0.95 | 1.10 |
| Sky Network | NZ | 1,905.9 | 17.4% | 17.5% | 1.05 | 1.05 | 0.92 | 0.92 |
| ***Average*** | | ***19,788.1*** | ***19.3%*** | ***17.1%*** | ***1.03*** | ***1.06*** | ***0.88*** | ***0.92*** |
| **Diversified Pay TV** | | | | | | | | |
| Comcast | US | 86,713.2 | 38.4% | 33.1% | 1.13 | 0.94 | 0.80 | 0.71 |
| Time Warner | US | 43,173.7 | 55.1% | 49.6% | 0.67 | 0.74 | 0.37 | 0.45 |
| Liberty Global | US | 32,743.6 | 66.5% | 59.1% | 1.49 | 1.38 | 0.65 | 0.71 |
| Cablevision | US | 20,220.1 | 65.5% | 61.6% | 1.42 | 1.44 | 0.64 | 0.70 |
| Mediacom | US | 3,971.2 | 89.7% | 86.7% | 1.75 | 1.49 | 0.26 | 0.28 |
| Cogeco | Canada | 2,967.2 | 38.4% | 39.7% | 0.68 | 0.76 | 0.49 | 0.53 |
| Astral | Canada | 2,816.5 | 29.6% | 17.8% | 0.79 | 0.67 | 0.62 | 0.59 |
| Corus | Canada | 2,411.6 | 31.7% | 28.3% | 0.65 | 0.85 | 0.50 | 0.68 |
| ***Average*** | | ***24,377.1*** | ***51.9%*** | ***47.0%*** | ***1.07*** | ***1.03*** | ***54.1%*** | ***58.3%*** |
| ***Average - overall*** | | ***21,262.6*** | ***40.6%*** | ***36.4%*** | ***1.03*** | ***1.04*** | ***0.64*** | ***0.70*** |
| ***Median – overall*** | | ***15,077.5*** | ***35.7%*** | ***28.3%*** | ***0.93*** | ***0.94*** | ***0.64*** | ***0.71*** |

Source: Bloomberg and Deloitte Corporate Finance analysis

Notes:

1. enterprise value converted as at 12April 2010
2. beta has been unlevered using the Hamada equation using net debt / equity value over the estimation period.

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax position of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table above may not be the same as those of Foxtel. The levered beta is often adjusted for the effect of the capital structure and tax position. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

### *Selected beta (β) - Foxtel*

In selecting an appropriate beta for Foxtel we have considered the following:

- the average unlevered beta for Austar using weekly returns over a two year period and monthly returns over a four year period are 0.54 and 0.76, respectively. The Pay TV industry in Australia is in the growth phase of its life cycle and therefore we have placed greater emphasis on the four year observed betas for the comparable companies
- the average unlevered beta for international Pay TV providers using weekly returns over a two year period and monthly returns over a four year period are 0.88 and 0.92, respectively. The international Pay TV providers have different regulations, a higher penetration rate, lower costs of entry and more competitors (except for Sky Network in NZ) when compared to the Australian Pay TV industry
- the unlevered beta for CMJ using weekly returns over a two year period of 0.80. Monthly returns over a four year period were not considered relevant as the Company previously held gaming and non-related media assets which have since been sold.

Having regard to the above we have assumed an unlevered beta in the range of 0.85 to 0.90 for Foxtel. Using the unlevered beta range, a corporate tax rate of 30% and gearing level of 20% (see below), we have calculated a relevered beta for Foxtel in the range of 1.00 to 1.06. For the purpose of our calculation of the cost of equity, we have selected a levered beta of 1.00 to 1.05 for Foxtel.

### *Market evidence - PMG*

In estimating an appropriate beta for PMG we have considered the betas of listed production, programming and distribution companies comparable to PMG in addition to the listed Pay TV companies comparable to Foxtel. The betas of the listed production, programming and distribution companies which are presented below, have been calculated based on weekly returns, over a two year period and monthly returns, over a four year period, compared to a relevant domestic index.

Descriptions of the comparable companies are provided in Appendix 3.

**Table 27: Analysis of betas for listed companies with comparable operations to PMG**

| | | | Net debt / EV[1] | | Levered Beta | | Unlevered Beta[2] | |
|---|---|---|---|---|---|---|---|---|
| Company | Country | EV ($'million) | 2 Year average | 4 Year average | 2 year local | 4 year local | 2 year local | 4 year local |
| Viacom | US | 30,628.3 | 32.4% | 27.7% | 1.24 | 1.19 | 0.94 | 0.96 |
| CBS | US | 17,831.4 | 49.0% | 38.9% | 1.88 | 1.86 | 1.16 | 1.31 |
| Discovery | US | 12,959.2 | 34.8% | 22.0% | 1.09 | 1.00 | 0.81 | 0.85 |
| DreamWorks | US | 3,564.1 | -% | -% | 0.89 | 1.08 | 0.89 | 1.08 |
| ***Average*** | | ***16,245.8*** | ***38.7%*** | ***29.5%*** | ***1.28*** | ***1.28*** | ***0.95*** | ***1.05*** |
| ***Median*** | | ***15,395.3*** | ***34.8%*** | ***27.7%*** | ***1.16*** | ***1.14*** | ***0.92*** | ***1.02*** |

Source: Bloomberg and Deloitte Corporate Finance analysis

Notes:

1. enterprise value converted as at 12 April 2010
2. beta has been unlevered using the Hamada equation using net debt / equity value over the estimation period.

The capital structure and tax position of the entities in the table above may not be the same as those of PMG. The levered beta is often adjusted for the effect of the capital structure and tax position. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

### *Selected beta (β) - PMG*

In selecting an appropriate beta for PMG we have considered the following:

- the revenue drivers of PMG are similar to that of Foxtel, where revenue is predominantly driven by subscriber numbers
- the average unlevered beta for the production, programming and distribution companies that are comparable to PMG using monthly returns over a four year period is 1.05
- we have had regard to our selected unlevered beta range for Foxtel, of 0.85 to 0.90 above.

Having regard to the above we have assumed an unlevered beta in the range of 0.85 to 0.90 for PMG. Using the unlevered beta range, a corporate tax rate of 30% and a gearing level of 25% (see below), we have calculated a relevered beta range of 1.05 to 1.11. For the purpose of our calculation of the cost of equity, we have selected a levered beta of 1.05 to 1.10 for PMG.

### Specific company risk premium (α)

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as:

- company size
- depth and quality of management
- reliance on one key individual or a few key members of management
- reliance on key customers
- reliance on key suppliers
- product diversity (limits on potential customers)
- geographic diversity
- labour relations, quality of personnel (union/non-union)
- capital structure, amount of leverage
- existence of contingent liabilities.

The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).

We have not applied a specific company risk premium to either Foxtel or PMG.

### Dividend imputation

Dividends paid by Australian corporations may be franked, unfranked, or partly franked. A franked dividend is one that is paid out of company profits which have borne tax at the company rate, currently 30%. Where the shareholder is an Australian resident individual or complying superannuation fund, it will generally be entitled to a tax credit (called an imputation credit) in respect of the tax paid by the company on the profits out of which the dividend was paid. If the recipient of the dividend is another company, the dividend will give rise to a credit in that company's franking account thereby increasing the potential of the company to pay a franked dividend at a later stage.

We have not adjusted the cost of capital or the projected cash flows for the impact of dividend imputation due to the diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Determining the value of franking credits requires an understanding of shareholders' personal tax profiles to determine the ability of shareholders to use franking credits to offset personal income. Furthermore, the observed EMRP already includes the value that shareholders ascribe to franking credits in the market as a whole. In our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive.

## Conclusion on cost of equity

Based on the above factors we arrive at a cost of equity, $K_e$, as follows:

**Table 28: $K_e$ applied to valuation of Foxtel and PMG**

| | Foxtel | | PMG | |
|---|---|---|---|---|
| Input | Low | High | Low | High |
| Risk free rate (%) | 6.0% | 6.0% | 6.0% | 6.0% |
| EMRP (%) | 6.5% | 6.5% | 6.5% | 6.5% |
| Beta | 1.00 | 1.05 | 1.05 | 1.10 |
| **$K_e$ – calculated** | **12.5%** | **12.8%** | **12.8%** | **13.1%** |

Source: Deloitte Corporate Finance analysis

## Cost of debt capital ($K_d$)

We have estimated the pre-tax cost of debt for Foxtel and PMG to be 8.5% after consideration of the following:

- CMJ's credit rating of BBB+
- Austar's senior debt facility's weighted average interest rate margin of 1.54% over the BBSW for the financial year ended 31 December 2009
- the strong cash flows generated by Foxtel and PMG
- current credit spreads for BBB rated borrowers, which are in the range of 2.5% to 3.7% over the risk free rate for maturities of between one and seven years respectively, implying a cost of debt of 6.9% to 9.3%
- our selected level of gearing as discussed below.

## Gearing

Selecting an appropriate gearing level[39] for valuation purposes requires subjective judgement having regard to the quality of cash flows of the business and the nature of the industry. In considering the appropriate level of gearing to apply to Foxtel and PMG, we have had regard to the debt levels of comparable companies set out in Table 26 and Table 27 above.

Accordingly, we have applied a gearing level of 20% to the valuation of Foxtel and a gearing level of 25% to the valuation of PMG.

[39] Debt to EV ratio

## Calculation of WACC

Based on the above, we have assessed the nominal post-tax WACC for Foxtel and PMG to be:

**Table 29: WACC applied to valuation of Foxtel and PMG**

| | Foxtel | | PMG | |
|---|---|---|---|---|
| | Low | High | Low | High |
| Cost of equity capital | 12.5% | 12.8% | 12.8% | 13.1% |
| Cost of debt capital | 8.5% | 8.5% | 8.5% | 8.5% |
| Gearing level | 20.0% | 20.0% | 25.0% | 25.0% |
| Tax rate | 30.0% | 30.0% | 30.0% | 30.0% |
| **WACC** | **11.2%** | **11.4%** | **11.1%** | **11.3%** |
| **Selected WACC** | **11.0%** | **11.5%** | **11.0%** | **11.5%** |

Source: Deloitte Corporate Finance analysis

# Appendix 3: Comparable entities

The following table provides an analysis of companies with comparable activities to Foxtel and PMG:

**Table 30: Earnings multiples – market trading**

| | | | | | Sales growth | | EBITDA growth | | EBITDA multiple | |
|---|---|---|---|---|---|---|---|---|---|---|
| Company Name | Country | Year end | EV ($'million)[1] | EBITDA Margin 2009 | 3 year historical | 4 year historical | 3 year historical | 4 year historical | 2010[2] | 2011[2] |
| **Local Pay TV providers** | | | | | | | | | | |
| Austar | Australia | 31-Dec | 2,244.1 | 31.8% | 34.2% | 48.6% | 44.0% | 64.5% | 9.1x | 8.1x |
| **International Pay TV providers** | | | | | | | | | | |
| DirecTV | US | 31-Dec | 41,375.7 | 24.6% | 40.9% | 59.8% | 55.0% | 256.4% | 6.3x | 5.7x |
| BSkyB | UK | 30-Jun | 20,793.1 | 20.7% | 17.6% | 22.4% | -0.6% | 7.8% | 10.7x | 9.3x |
| DISH | US | 31-Dec | 15,077.5 | 23.0% | 14.5% | 34.7% | 11.1% | 33.4% | 5.1x | 4.7x |
| Sky Network | NZ | 30-Jun | 1,905.9 | 37.8% | 15.8% | n/a | -9.4% | n/a | 8.6x | 7.7x |
| ***Average international*** | | | | ***26.5%*** | ***22.2%*** | ***39.0%*** | ***14.1%*** | ***99.2%*** | ***7.7x*** | ***6.8x*** |
| ***Median international*** | | | | ***23.8%*** | ***16.7%*** | ***34.7%*** | ***5.3%*** | ***33.4%*** | ***7.4x*** | ***6.7x*** |
| **Broader Pay TV providers** | | | | | | | | | | |
| Comcast | US | 31-Dec | 86,713.2 | 38.4% | 38.1% | 65.5% | 40.0% | 65.7% | 5.7x | 5.5x |
| Time Warner | US | 31-Dec | 43,173.7 | 36.3% | 46.4% | 83.5% | 45.8% | 72.7% | 6.0x | 5.8x |
| Liberty Global | US | 31-Dec | 32,743.6 | 42.9% | 64.7% | 139.0% | 102.0% | 170.1% | 6.9x | 6.6x |
| Cablevision | US | 31-Dec | 20,220.1 | 35.2% | 28.6% | 46.6% | 41.9% | 59.8% | 7.3x | 7.0x |
| Mediacom | US | 31-Dec | 3,971.2 | 36.6% | 16.3% | 29.6% | 17.2% | 28.2% | 6.7x | 6.4x |
| Cogeco | Canada | 31-Aug | 2,967.2 | 43.1% | 97.4% | 141.0% | 108.3% | 152.9% | 5.4x | 5.1x |
| Astral | Canada | 31-Aug | 2,816.5 | 33.2% | 52.7% | 80.8% | 57.5% | 90.9% | 8.5x | 8.1x |
| Corus | Canada | 31-Aug | 2,411.6 | 55.5% | 9.2% | 26.7% | 16.9% | 36.9% | 8.5x | 7.9x |
| ***Average broader*** | | | | ***40.1%*** | ***44.2%*** | ***76.6%*** | ***53.7%*** | ***84.6%*** | ***6.9x*** | ***6.5x*** |
| ***Median broader*** | | | | ***37.5%*** | ***42.2%*** | ***73.1%*** | ***43.9%*** | ***69.2%*** | ***6.8x*** | ***6.5x*** |

| Company Name | Country/Sector | Year end | EV ($'million)[1] | EBITDA Margin 2009 | Sales growth 3 year historical | Sales growth 4 year historical | EBITDA growth 3 year historical | EBITDA growth 4 year historical | EBITDA multiple 2010[2] | EBITDA multiple 2011[2] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Production companies** | | | | | | | | | | |
| Viacom | US | 31-Dec | 30,628.3 | 24.2% | 15.6% | 38.2% | 1.4% | 22.4% | 8.2x | 7.7x |
| CBS | US | 31-Dec | 17,831.4 | 14.0% | -12.4% | -10.1% | -43.4% | -42.8% | 7.4x | 6.9x |
| Discovery | US | 31-Dec | 12,959.2 | 34.2% | 392.6% | 393.8% | 1,963.6% | 1,481.8% | 7.5x | 6.9x |
| Dreamworks | US | 31-Dec | 3,564.1 | 27.1% | 77.0% | 53.0% | 2,852.0% | 56.2% | 10.0x | 10.0x |
| ***Average production*** | | | | ***24.9%*** | ***118.2%*** | ***118.7%*** | ***1193.4%*** | ***379.4%*** | ***8.3x*** | ***7.9x*** |
| ***Median production*** | | | | ***25.6%*** | ***46.3%*** | ***45.6%*** | ***982.5%*** | ***39.3%*** | ***7.9x*** | ***7.3x*** |
| **General Australian Media** | | | | | | | | | | |
| Fairfax | Print | 28-Jun | 5,809.1 | 45.2% | 36.3% | 38.8% | 135.1% | 134.0% | 9.4x | 8.2x |
| Ten | FTA | 31-Aug | 2,252.7 | 16.8% | 1.4% | -5.4% | -39.3% | -55.5% | 11.4x | 8.9x |
| APN | Print | 31-Dec | 2,119.5 | 20.3% | -20.3% | -23.0% | -30.9% | -37.0% | 7.9x | 7.1x |
| West Australian Newspapers Holdings | Print | 30-Jun | 2,026.6 | 41.3% | 5.8% | 12.4% | -9.8% | 12.5% | 11.4x | 10.1x |
| Southern Cross Media Group | FTA, radio, print | 30-Jun | 1,222.6 | 26.3% | 193.8% | n/a | 60.4% | n/a | 8.9x | 7.7x |
| Austereo Group Limited | Radio | 30-Jun | 836.2 | 33.8% | 8.3% | 2.9% | 26.9% | 27.2% | 9.5x | 8.8x |
| Prime Media Group Limited | FTA | 30-Jun | 480.0 | 21.1% | 37.2% | 54.6% | -18.4% | -10.2% | 8.4x | 7.3x |
| ***Average general media*** | | | | ***29.3%*** | ***37.5%*** | ***13.4%*** | ***17.7%*** | ***11.8%*** | ***9.5x*** | ***8.3x*** |
| ***Median general media*** | | | | ***26.3%*** | ***8.3%*** | ***7.7%*** | ***-9.8%*** | ***1.1%*** | ***9.4x*** | ***8.2x*** |

Source: Bloomberg, Deloitte Corporate Finance analysis

Notes: n/a: not applicable n/m: non-meaningful

1. In calculating EV net debt is taken as at the most recently available financial statements, market capitalisation and EV converted as at 12 April 2010
2. Calculated as EV over EBITDA

We provide the descriptions for each of the above comparables as follows:

## Local Pay TV providers

### *Austar*

Austar was established in 1995 and operates subscription television services in Australia, offering over 120 channels and 13 HD channels to 741,647 subscribers as at 31 December 2009. Austar offers digital satellite services to customers in regional and rural areas with a 29.2% penetration rate of its coverage area. The MyStar digital video recorder was launched in February 2008, with Austar's HD offering commencing in November 2009. The MySky digital video recorder is taken up by 22% of residential subscribers and 32% of subscribers have taken up the Multi-room offering. Pay TV represented 96.4% of FY09 revenue and advertising represented 1.7% of FY09 revenue. The company also provides dial-up Internet and mobile phone services.

## International Pay TV providers

### *DirecTV*

DirecTV delivers satellite based Pay TV services to customers in the US, Brazil, Mexico and other countries in Latin America. The company launched in 1994 and currently has more than 18.5 million customers in the US representing 87% of FY09 revenue, and 6.5 million customers in Latin America representing 13% of FY09 revenue. In the US, DirecTV is the largest provider of direct-to-home digital television services with 19% market penetration. The company offers more than 2,000 video and audio channels including over 500 in HD. DirecTV has relationships with telecommunications companies AT&T, Verizon and Qwest where broadband internet and telephone services can be bundled with DirecTV Pay TV services.

### *BSkyB*

BSkyB was launched in the UK in 1989 and operates 'Sky TV', a multi-channel Pay TV service in the UK and Ireland. Sky TV is currently provided to over 9.4 million households, offering access to over 150 Sky distributed channels. Customers are also able to receive access to over 330 FTA and radio channels. The company launched HD in May 2006 with 58% of subscribers in FY09 taking up the 'Sky+' HD box. Pay TV represented 82% of FY09 revenue, 6% was derived from advertising, 4% from installation and 8% from other services including Sky Bet, Sky Broadband, Sky Talk (telephony) and Sky Anytime on mobile phones. In FY09, 16% of Sky customers had taken up a bundled offering which includes Sky TV, Sky Broadband and Sky Talk services.

### *DISH*

DISH commenced offering DISH Network Pay TV services in March 1996. The company distributes over 2,500 video and music channels however a subscriber generally receives the local channels available in their area. As at 31 December 2009, DISH had 14.1 million subscribers representing a penetration rate of 15% of all US Pay TV subscribers. The company's distribution relationship with telecommunications company AT&T ended in January 2009, which had accounted for 17% of gross subscriber acquisitions in FY08. Litigation with TiVo is ongoing, with the US District Court partially granting TiVo's motion for contempt in September 2009 after finding DISH's digital video recorder infringes TiVo's intellectual property. There is a possibility DISH may be required to remove the majority of its digital video recorders in use and cease distribution of set-top boxes with digital video recorder functionality as a result of the ongoing litigation.

### *Sky Network*

Sky Network operates as a provider of multi-channel, Pay TV and FTA television services in NZ with 784,900 total subscribers as at 31 December 2009, representing a NZ market penetration rate of 46.9%. Sky Network is the predominant Pay TV provider in NZ and offers a range of sports, movies, music, on-demand and general content across more than 100 channels. Sky Network was founded in 1987 and is scheduled to transition all remaining subscribers on the analogue UHF network to its digital 'MySky' network by March 2010. Sky Network introduced its 'MySky' standard definition set-top box in December 2005 and launched the 'MySky' HD decoder in August 2008 which 58% of subscribers have now taken up. Pay TV represented 89.1% of FY09 revenue and advertising represented 8.5% of FY09 revenue.

## Broader Pay TV providers

### *Comcast*

Comcast is a cable service provider based in the US. The company predominately provides Pay TV services (supplying over 39 states in the US), and has interests in telecommunication operations providing high-speed data and phone services. As at 31 December 2009, the company provided Pay TV services to approximately 23.6 million subscribers.

### *Time Warner*

Time Warner is a cable service provider based in the US. The company operates a cable network in New York State, the Carolinas, Ohio, southern California, and Texas and predominately provides video services to residential and commercial customers. Data and voice services are also provided. As at 31 December 2009, the company was servicing approximately 14.6 million customers.

### *Liberty Global*

Liberty Global is an international cable operator, offering advanced video, telephone and broadband internet services in 14 countries principally located in Europe, Japan, Chile and Australia.

Liberty Global's operations also include significant media and programming businesses such as Chellomedia in Europe, as well as interest in content businesses in each of the regional markets.

The company provides services to over 16.6 million customers, of which 7.5 million were digital cable television subscribers (September 2009).

### *Cablevision*

Cablevision is a cable service provider based in the US. The company predominately provides Pay TV services, offering a range of entertainment channels such as CNN, MTV and HBO and has interests in telecommunication and newspaper operations. As at 31 December 2009, the company provided basic video services to approximately 3.1 million subscribers around New York City.

### *Mediacom*

Mediacom is a cable service provider based in the US. The company predominately provides Pay TV services to smaller cities and towns in the US, and has interests in telecommunication operations providing high-speed data and phone services. As at 31 December 2009, the company provided basic Pay TV services to approximately 1.2 million subscribers.

### Cogeco

Cogeco is a major cable telecommunications company in Canada with shares listed on the Toronto Stock Exchange. Cogeco offers analogue and digital television services, internet and telephony services in Ontario and Quebec in Canada, and in Portugal.

### Astral

Astral is a Canadian media company, which provides specialty and Pay TV, radio, outdoor advertising and interactive media. The company owns and operates (in conjunction with a variety of partners), 20 television services. The company is also Canada's largest radio broadcaster, with 82 licensed radio stations across eight provinces in Canada.

### Corus

Corus is a media and entertainment company based in Canada with interests in television and radio broadcasting and production. The company operates 52 radio stations in high-growth urban centres of Canada as well as pay and conventional television broadcasting assets, specialty television networks and animated production facilities. During the year ended 31 December 2009, the company generated over 65% of revenue from its television operations.

## Production companies

### Viacom

Viacom is a global entertainment company which produces a variety of television channels (such as MTV and Nickelodeon), motion pictures (Paramount), and other digital media such as the Internet, mobile and video game platforms. Viacom has two reporting segments, its Media Networks area and the Filmed Entertainment area. The Media Networks segment derives revenue principally from advertising sales. The Filmed Entertainment segment produces, finances and distributes motion pictures, with revenue derived from the theatrical release and distribution of motion pictures, sale of home entertainment products such as DVDs, and licensing of motion pictures to television (both FTA television and Pay TV) networks.

### CBS

CBS is a mass media company with operations in the following segments: Entertainment (54%), Cable Networks (10%), Publishing (6%), Local Broadcasting (18%) and Outdoor (13%). The Entertainment segment produces and syndicates television shows, produces and distributes motion pictures and prepares the online content for the company website, cbs.com. The Cable Networks segment is composed of Showtime Network and CBS College Sports Network, the company's Pay TV service for television programs and college athletics.

### Discovery

Discovery specialises in the production of non-fiction media, and reaches more than 1.5 billion cumulative subscribers in over 180 countries. The company offers over 100 worldwide networks, including the Discovery Channel, Planet Green and Animal Planet, provides consumer and educational products and services and owns a diversified portfolio of digital media services.

### *Dreamworks*

Dreamworks develops and produces family entertainment, including animated feature films, television specials and series, live entertainment properties, online virtual worlds and related consumer products for international audiences. The company has released 18 animated feature films, which are the major source of revenue for Dreamworks. The company bears all development and production costs, however distribution of the films is undertaken by Paramount Pictures, which is responsible for advertising, publicising, promoting and distributing films.

Dreamsworks' films are initially distributed via cinema. Films are eventually distributed to the Pay TV and FTA television networks (on a worldwide basis) for a license fee, whereby the exhibitor will pay Dreamworks a fee each time the film is shown during the agreed license period. Production costs are capitalised and amortised by Dreamworks. These costs are incurred to develop and produce films, and primarily consist of the animators' salaries, equipment and other direct operating costs relating to production.

## General Australian media

### *Fairfax*

Fairfax is an Australian based diversified media company which primarily engages in publishing of news, information and entertainment, advertising sales in newspaper, magazine and online formats, and radio broadcasting. Fairfax's revenues are primarily generated through circulation sales, printing and the sale of advertising in its publications.

### *Ten*

Ten is an ASX listed media company with businesses in commercial television (through Network Ten) and out-of-home advertising (the Eye Group). Network Ten operates two FTA television channels, Channel 10 and ONE, in the Australian metropolitan markets of Sydney, Melbourne, Brisbane, Adelaide and Perth. ONE is Australia's only FTA 24 hour digital sports channel, and is available in both standard definition and HD.

### *APN*

APN is an Australian based news and media company which operates predominantly in Australia and NZ. APN publishes and prints regional newspapers and other publications (including directories and other specialist publications). APN also specialises in various outdoor advertising categories.

### *West Australian Newspapers Holdings Limited*

West Australian Newspapers Holdings Limited is an Australian based provider of newspaper and digital publishing, commercial printing, and radio broadcasting services. It publishes The West Australian daily and weekend newspaper, various magazines, thewest.com.au website and 23 regional newspapers and magazines. The company also operates a radio network which covers half of Western Australia.

### *Southern Cross Media Group*

Southern Cross Media Group, previously Macquarie Media Group, invests in a range of media assets which provide FTA broadcasting, comprising commercial radio and television broadcast licences held throughout regional Australia. Southern Cross also operates community newspapers located in the US.

### *Austereo Group Limited*

Austereo Group Limited operates three national radio networks in Australia; the Today network, Triple M as well as digital radio brands including Radar Radio, with stations in all mainland Australian capital cities, as well as joint ventures in Newcastle and Canberra. The company is also involved in offshore markets, including Malaysia and the UK.

### *Prime Media Group Limited (Prime)*

Prime primarily operates regional FTA commercial television and radio stations; outside broadcast production; film exhibition under the Moonlight Cinema brand and television program production throughout Australia

# Appendix 4: Comparable transactions

The following table provides an analysis of comparable transactions relevant to the Proposed Buy-back.

**Table 31: Earnings multiples – mergers and acquisitions**

| Announcement date | Completion date | Target | Target country | Acquirer | Enterprise value ($'million)[1] | % acquired | Implied EV/ EBITDA | Control premium[2] |
|---|---|---|---|---|---|---|---|---|
| **Pay TV** | | | | | | | | |
| Feb 10 | Mar 10 | Kabel Deutschland GmbH | Germany | Initial Public Offering | 6,857 | 33% | 8.1x | n/a |
| Nov 09 | Pending | CanalSatelite Digital SL | Spain | Telefonica SA | 3,816 | 21% | 10.3x | n/a |
| Dec 09 | Feb 10 | ZON Multimedia - Servicos de Telecomunicacoes e Multimedia SGPS SA | Portugal | Kento Holding Limited | 3,949 | 10% | 10.0x | n/a |
| May 08 | Feb 09 | Time Warner | US | Time Warner (shareholders) | 53,515 | 86% | 9.0x | n/a |
| Jan 08 | Jan 08 | Sky Deutschland AG | Germany | News Limited | 3,609 | 15% | 25.7x | 44.9% |
| Dec 07 | May 08 | Sogecable SA | Spain | Promotora de Informaciones SA | 7,929 | 50% | 11.6x | 7.3% |
| May 07 | Lapsed | Cablevision | US | Dolan Family (Private Individuals) | 27,244 | 100%[3] | 11.5x | n/m |
| | | ***Average*** | | | | | ***12.3x*** | |
| **Production and programming** | | | | | | | | |
| May 08 | Jul 08 | Zodiak Television AB | Sweden | Goldcup D 3924 AB | 278 | 100% | 9.2x[4] | 64.6% |
| May 08 | Jul 08 | Tinopolis Plc | UK | Red Dragon Acquisitions Limited | 70 | 100% | 10.2x | 40.6% |
| Sep 07 | Lapsed | Beyond International | Australia | Mariner Financial Limited | 63 | 89%[3] | 8.8x | n/m |
| Dec 06 | Feb 08 | DirecTV | US | Liberty Media Corporation | 36,712 | 41% | 8.8x[4] | n/a |
| | | ***Average*** | | | | | **9.2x** | |
| | | **Overall average** | | | | | **11.2x** | |

Source: Bloomberg, Mergermarket, Deloitte Corporate Finance analysis

Notes: n/a = not available n/m = not meaningful
1. in calculating EV net debt is taken as at the date of the most recently available financial statements relative to the announcement date
2. based on one month prior to the announcement date
3. transaction lapsed
4. forward EBITDA broker estimates used.

We provide the descriptions for each of the above comparable transactions as follows:

## Pay TV

### *Kabel Deutschland GmbH*

In February 2010, Kabel Deutschland GmbH, one of Germany's largest cable television companies, announced an initial public offering to sell 33% of the company after rejecting a private equity purchase offer. It is understood that the current owner, Providence Equity Partners, is hoping to achieve a higher price in the public domain. Kabel Deutschland has 8.9 million customers and operates in 13 out of 16 German states. The company also offers broadband internet and telephone services.

### *CanalSatelite Digital SL*

In November 2009, Telefonica SA, a Spain based telecommunications operator, agreed to acquire a 21% interest in CanalSatelite Digital SL, a Spain based Pay TV business. CanalSatelite Digital SL's business was thought to complement Telefonica SA's Pay TV operations and provide a platform for further expansion in this sector. This deal has not been completed and requires approval from regulatory authorities amongst other conditions.

### *ZON Multimedia - Servicos de Telecomunicacoes e Multimedia SGPS SA*

In December 2009, Kento Holding Limited, an Angolian based holding company agreed to acquire a 10% interest in ZON Multimedia-Servicos de Telecomunicacoes e Multimedia SGPS SA (ZON Multimedia), a listed Portuguese based cable television and multimedia company. ZON Multimedia's products include cable and satellite television, internet broadband access, fixed and mobile voice telecommunication, cable television advertising, and cinema exhibition and distribution services in Portugal. The majority of revenue is derived from cable television and internet broadband access. The transaction was completed in February 2010.

### *Time Warner*

In May 2008, Time Warner Inc, a US based media and entertainment group, agreed to divest its 86% interest in Time Warner, a US based cable services operator, to the shareholders of Time Warner Inc. The divesture is thought to allow greater financial and operational flexibility for Time Warner Inc and Time Warner. The transaction was completed in February 2009.

### *Sky Deutschland AG*

In January 2008, News Limited, a US based media and entertainment company, acquired a 15% interest in Sky Deutschland AG, a German Pay TV provider. This transaction is in-line with News Limited's strategy to expand into the German Pay TV industry.

### *Sogecable SA*

In December 2007, Promotora de Informaciones S.A., a Spanish communications group, agreed to acquire the remaining equity that it does not already own in Sogecable SA, a Spanish Pay TV business. Sogecable SA also generates a small portion of its revenue from film and television production. The transaction was completed in May 2008.

### *Cablevision*

During May 2007, the Dolan Family signed an agreement to acquire all the outstanding common stock of Cablevision, a US based Pay TV provider. Cablevision also has interests in cable programming, newspaper publishing, entertainment and telecommunications businesses. The transaction has subsequently lapsed.

## Production and programming

### *Zodiak Television AB*

During May 2008, Goldcup D 3924 AB, a Sweden based investment vehicle controlled by De Agostini Communications SpA agreed to acquire Zodiak Television AB, a Swedish company involved in the development, production and sales of television programs. Zodiak Television AB is a suitable geographic and business fit for De Agostini Communications SpA which has interests in the media and communications sector. The transaction was completed during July 2008.

### *Tinopolis Plc*

During May 2008, Red Dragon Acquisitions Limited, a UK based company formed by the private equity firm Vitruvian Partners, agreed to acquire Tinopolis Plc, a UK based television production company. The transaction will provide opportunities for growth within the sports and Welsh language division for Tinopolis Plc. It was completed during July 2008.

### *Beyond International*

During September 2007, Mariner Financial Limited, an Australia based financial services group, agreed to acquire an 89% stake in Beyond International, the Australian based company focused on television program production and the distribution of feature films, television programs and DVDs. The transaction lapsed during December 2007, with the Beyond International board withdrawing their recommendation and entering into a confidentiality agreement with Destra Corporation Limited to conduct due diligence.

### *DirecTV*

During December 2006, Liberty Media Corporation, a US based holding company with interests in video programming and other internet and communications related businesses, agreed to acquire a 38.6% interest in DirecTV. DirecTV provides approximately 2,000 video and audio channels, servicing over 25 million customers in the US and Latin America. The transaction was completed during February 2008, a 41% interest was acquired.

# Appendix 5: Control premium studies

We summarise below the empirical data and evidence available in respect of control premiums.

## Deloitte Corporate Finance study

We have conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 25 September 2009. Our mergers and acquisitions data was sourced from Bloomberg and various other databases and yielded 460 transactions that were completed during the period under review.

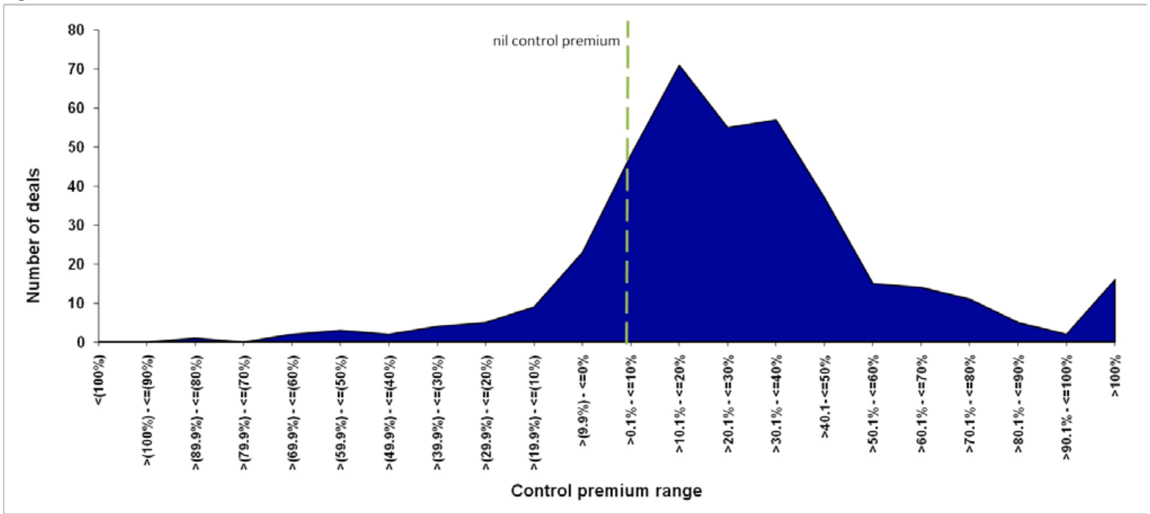
We excluded 80 transactions from our analysis where there was insufficient data. As a result, our data set was refined to 380 transactions where an acquiring company increased its shareholding in a target company from a minority interest to a majority stake or acquired a majority stake in the target company.

We assessed the premiums by comparing the offer price to the closing trading price of the target company one month prior to the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the day prior to the date of the offer.

### *Summary of findings*

As the following figure shows, premiums paid in Australian transactions between 1 January 2000 and 25 September 2009 are widely distributed with a long 'tail' of transactions with high premiums.

**Figure 16: Distribution of data**




Source: Deloitte Corporate Finance analysis

The following table details our findings.

**Table 32: Premium analysis - findings**

| | Control premiums |
|---|---|
| Average | 29% |
| Median | 25% |
| Upper quartile | 41% |
| Lower quartile | 10% |

Source: Deloitte Corporate Finance analysis

Many of the observed control premiums below 20% are likely to have been instances where the market has either been provided with information or anticipated a takeover offer in advance of the offer being announced. Accordingly, the pre-bid share trading price may already reflect some price appreciation in advance of a bid being received, which creates a downward bias on some of the observed control premiums in our study.

Many of the observed control premiums above 40% are likely to have been influenced by the following factors which create an upward bias on some of the observed control premiums in our study:

- some acquirers are prepared to pay above fair market value to realise 'special purchaser' value which is only available to a very few buyers. Such 'special purchaser' value would include the ability to access very high levels of synergistic benefits in the form of cost and revenue synergies or the ability to gain a significant strategic benefit
- abnormally high control premiums are often paid in contested takeovers where there are multiple bidders for a target company. In such cases, bidders may be prepared to pay away a greater proportion of their synergy benefits from a transaction than in a non-contested situation
- some of the observations of very high premiums are for relatively small listed companies where there is typically less trading liquidity in their shares and they are not closely followed by major broking analysts. In such situations, the traded price is more likely to trade at a deeper discount to fair market value on a control basis.

Accordingly, the observed control premiums to share trading prices for such stocks will tend to be higher. As such, we consider the control premium range of 20% to 40% to be representative of general market practice.

# Appendix 6: Sources of information

In preparing this report we have had access to the following principal sources of information:

- FY08 and FY09 annual report for CMJ and 1H10 accounts
- PBL scheme booklet and Crown Limited demerger scheme booklet
- annual reports for comparable companies
- company websites for CMJ, Foxtel, the CMJ Investments and comparable companies
- publicly available information on Foxtel, PMG, the comparable companies and market transactions published by ASIC, Thompson research, Bloomberg Financial markets, SDC Platinum and Mergermarket
- IBISWorld company and industry reports
- the Buddecom Broadcasting report
- other publicly available information, media releases, ASX announcements and brokers reports on CMJ, Foxtel, PMG, the comparable companies and the Pay TV industry in Australia.

In addition, we have had discussions and correspondence with certain directors and executives in relation to the above information and to current operations and prospects.

# Appendix 7: Qualifications, declarations and consents

The report has been prepared at the request of the Directors and forms part of the Explanatory Memorandum which is attached to the Notice of Meeting to be sent to Shareholders to approve the Proposed Buy-back. Accordingly, it has been prepared only for the benefit of the Shareholders in their consideration of the Proposed Buy-back and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting, deciding to approve or participate in the Proposed Buy-back.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to the value of the ordinary shares of CMJ, on a control basis and other factors that may be relevant to a shareholder's consideration of the Proposed Buy-back. Deloitte Corporate Finance consents to the form and context in which this report appears in the Explanatory Memorandum.

Deloitte Corporate Finance has relied on publicly disseminated information in relation to CMJ, Foxtel, PMG and PBL Media in the preparation of this report (the details of which are set out in Appendix 6). We have had no access to company records and information from Foxtel and PMG. Deloitte Corporate Finance has reasonable grounds to believe that the information provided to us and used by us is not materially inaccurate. However, Deloitte Corporate Finance has not audited, verified or reviewed this information in accordance with standards issued by the Auditing and Assurance Standards Board (or equivalent body).

Deloitte Corporate Finance issued drafts of our report to CMJ's management for confirmation of factual accuracy. As part of that process, CMJ's management were asked to confirm that Appendix 6 – Sources of Information – contains a reference to all material company information relating to CMJ that is publicly available and which may be relevant to our valuation or report.

In recognition that Deloitte Corporate Finance may rely on publicly available information distributed by CMJ and its officers, employees, agents or advisors, CMJ has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which CMJ may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information distributed by CMJ and its officers, employees, agents or advisors or the failure by CMJ and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Buy-back.

Due to the limited nature of the information available to us in relation to Foxtel and PMG, we may not have had access to or been made aware of all information that may be relevant to our work. Accordingly the conclusions reached in our valuation could differ to those we would reach had we had full access to the information and management of Foxtel and PMG.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that we have prepared the prospective financial information for CMJ included in this report on a reasonable basis.

In relation to the prospective financial information, actual results may be different from the prospective financial information of CMJ referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion or assurance as to whether the assumptions or the projections in the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Mark Pittorino, B Comm, M App Fin, CA, Tapan Parekh, BBus, MCom, CA, F Fin, Darryl Dorfan, B.Com, CA and Carene Lee, B Comm/BBus, CA, G Dip App Fin. Mark and Tapan are Directors, Darryl is an Associate Director and Carene is a Manager of Deloitte Corporate Finance. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the Proposed Buy-back which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee of $200,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Buy-back.

Deloitte Corporate Finance consents to it being named in the Explanatory Notes to the Notice of Meeting in the form and context in which it is so named.

# CONSOLIDATED MEDIA HOLDINGS

## Directors

John Henry Alexander
Executive Chairman

James Douglas Packer
Deputy Chairman

Christopher Darcy Corrigan
Non Executive Director

Rowena Danziger
Non Executive Director

Geoffrey James Dixon
Non Executive Director

Peter Joshua Thomas Gammell
Non Executive Director

Ashok Jacob
Non Executive Director

Guy Jalland
Non Executive Director

Christopher John Mackay
Non Executive Director

Ryan Kerry Stokes
Non Executive Director

## Executives

Trent James Whitney
Chief Financial Officer

Louise Anne Mary Arthur
Legal Counsel / Company Secretary

## Registered Office

Level 2
54 Park Street
Sydney NSW 2000 Australia

| | |
|---|---|
| Telephone | (+612) 9282 8000 |
| Facsimile | (+612) 9282 8828 |
| Email | contact@cmh.com.au |

## Website

Visit our website at www.cmh.com.au
for media releases and financial information.

## Auditor

Ernst & Young
680 George Street
Sydney NSW 2000

## Share Registry

Computershare Investor Services Pty Limited
GPO BOX 2975
Melbourne Victoria 3001 Australia

| | |
|---|---|
| Telephone | 1300 850 505 (within Australia)<br>(+613) 9415 4000 (from overseas) |
| Facsimile | (+613) 9473 2500 |
| Email | web.queries@computershare.com.au |
| Website | www.computershare.com |