SOUTHERN CROSS AUSTEREO
absolutely engaging

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SOUTHERN CROSS AUSTEREO EXECUTES LONG TERM CONTRACT WITH AUSTRALIAN TRAFFIC NETWORK

Overview

Southern Cross Media Group Limited (ASX:SXL) (**SCA**) has entered into a long-term contract with Australian Traffic Network (**ATN**) for it to provide traffic reports for broadcast on SCA radio stations. SCA will receive payment from ATN in return for its stations broadcasting advertising tags (provided by ATN) attached to news and traffic reports.

ATN has been SCA's provider of traffic reports for over 10 years. This new contract will commence with effect from 1 February 2016.

SCA's CEO, Grant Blackley, said "We are delighted to have entered into a long-term arrangement with ATN for them to continue to provide traffic and information reports in metro and regional markets. The arrangement fits with our focus on localism in radio.

"The new contract has enabled SCA to accelerate its capital management initiatives by utilising the initial up-front cash payment for debt reduction. This completes our balance sheet repair process, enables SCA to resume paying full cash dividends and provides a stronger balance sheet for the future."

Key terms of the new contract are outlined below.

- 20 year contract extension with ATN, with an option for ATN to extend by 10 years.
- $207 million[1] contract value, crystallising long-term value for traffic and news radio inventory and reducing contract volatility.
- $100 million up-front cash payment to SCA on 9 February 2016.
- Additional annual recurring payment to SCA from 1 February 2017 of $2.75 million, indexed annually by the lower of CPI and 2.5%. This payment will continue if the contract continues beyond the initial 20 years.
- ATN will continue to provide advertising attached to news and traffic reports, equating to approximately 3% of total metro radio inventory and 0.5% of regional radio inventory.

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[1] Assumes 30 year contract with inflation forecast at 2% per annum

- The most recent contract commenced in 2011 and would have expired in October 2016. That contract would have delivered EBITDA of approximately $6 million for the remaining five months of FY2016.

Use of proceeds and improved balance sheet metrics

- The $100 million up-front cash payment will be used by SCA to reduce leverage and financing costs and to provide future balance sheet flexibility:
  - $50 million will be used to reduce and cancel senior debt, reducing the current facility limit to $505 million[2].
  - $50 million will be used to reduce debt but will be available for redraw, providing balance sheet flexibility.
- The above $100 million prepayment of debt will reduce net debt to approximately $375 million.
- Leverage ratio, pro-forma for $100 million up-front cash payment, will be reduced to 2.0 - 2.1 times[3].
- The dividend reinvestment plan will be suspended and full cash dividends will resume with the interim dividend for FY2016. The interim dividend is expected to be in line with existing payout policy.

A summary of the accounting principles for the new contract is provided in Appendix 1.

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[2] $650 million facility limit at 30 June 2015 was previously reduced by $95 million in November 2015
[3] Leverage ratio estimates based on H1 EBITDA guidance of $87 - $89 million provided at AGM (29 October 2015) and with forecast net debt at 31 December 2015 pro-forma for $100 million up-front cash payment

APPENDIX 1 – ACCOUNTING AND TAX PRINCIPLES

Initial payment

- The $100 million up-front payment will be recorded on the balance sheet under 'Deferred Income' and will be released to the Income Statement - spread over a 30 year period. This treatment will match the receipt of future broadcasting services, airtime and traffic management services that SCA is required to provide over the life of the contract.

Recurring income

- The annual recurring payments from 1 February 2017 will be recognised in the income statement in the period in which they are earned.