

PBL closer to setting up print centre

Neil Shoebridge

Printing and distribution group PMP's chances of retaining key printing contracts with ACP Magazines are fading.

Industry sources said ACP's owner, PBL Media, was highly likely to dump PMP and its other printers — Michael Hannan's Independent Print Media Group and CHAMP Private Equity's Blue Star — and set up its own printing operation, a move that was flagged in *The Australian Financial Review* last week.

ACP and PBL Media executives were not available for comment. They are understood to have been considering the move for about two

KEY POINTS

- It pays external printers more than \$100 million a year.
- Its executives believe it can do the job cheaper in-house.
- News of the plan has hurt the share price of its main contractor, PMP.

years and started work on a feasibility study last year.

PMP and PBL Media had been negotiating new printing contracts over the past nine months, but sources close to the talks said PBL's plan to establish its printing operation was not a negotiating tactic.

"The fall in printing equipment

and technology costs in recent years has made the idea more plausible," said one source.

"PBL Media executives are increasingly thinking they can print the ACP magazines cheaper and at a better quality in-house." (PBL Media is 75 per cent-owned by private equity firm CVC Asia Pacific and 25 per cent by James Packer's Consolidated Media Holdings).

ACP's 85 magazines, which have combined annual sales of 114 million copies, are printed in Sydney and Melbourne. It was not clear if printing centres would be set up in both cities.

The magazine group spends more than \$100 million a year on printing. The bulk of that work is handled by

PMP, which added to its ACP business with the \$80 million purchase of Times Printers in November last year.

In the December 2007 half, PMP generated 83 per cent of its earnings from printing magazines and retailers' catalogues. Revenue from its printing division rose 7.5 per cent to \$380.9 million but its earnings before interest and tax fell 7.7 per cent to \$39.9 million.

PMP's shares have slipped from \$1.41 to \$1.34 since the *AFR* revealed PBL Media was considering establishing a printing operation.

The feasibility study has been directed by PBL Media general manager, operations, John Rowsthorne, who reports to chief executive Ian

Law. Mr Law and Mr Rowsthorne worked together at West Australian Newspapers and led its \$210 million investment in printing presses in the Perth suburb of Herdsman.

Printing industry executives estimated PBL Media would need to spend about \$50 million to set up a printing operation capable of handling the ACP magazines.

Although PBL Media is carrying more than \$4 billion of debt, it has spent more than \$600 million on acquisitions since CVC took a 50 per cent stake in early 2007 (it later moved to 75 per cent).

The list of acquisitions included Ticketek, the management rights to Sydney's Acer Arena and regional television network NBN.

'Hundreds of millions' at stake for Murdoch

Neil Chenoweth

A California judge has warned that Rupert Murdoch's failure to appear as a witness in an industrial espionage case against a technology subsidiary of News Corporation, NDS Group, could add hundreds of millions of dollars to the size of any damages awarded by the jury.

The judge, David Carter, issued the warning on Wednesday, repeating comments he made last week when United States satellite broadcaster Echostar Communications Corporation opened its case in the Central District Court of California. Echostar claims NDS hacked the NagraStar smartcards that decrypt Echostar's pay TV signal and gave the source codes to satellite pirates over the internet.

NDS, 72 per cent-owned by News, makes rival smartcards that secure News's global satellite network. NDS denies the charge and has made a counter-claim that Echostar and NagraStar illegally obtained 26,000 pages of NDS documents from a stolen hard drive.

Judge Carter spoke to lawyers three times without the jury present to urge Mr Murdoch's appearance, after two NDS engineers, David Mortinson and Zvi Shkedy, described how they hacked the NagraStar cards and then travelled secretly to the US twice in late 1998 to test their hack.

NDS says it hired the "best two

hackers in the world", Christopher Tarnovsky and Oliver Kommerling, only to combat piracy.

Echostar claims NDS gave the NagraStar source codes to Mr Tarnovsky, who posted them on a Canadian pirate website in December 2000. Mr Shkedy said he gave the codes to Mr Kommerling.

In a British tax case in 2006, former News counsel Arthur Siskind testified that in the early 1990s, while NDS was legally a British company, it was run out of Israel and also by the office of the chairman in News Corp's headquarters in New York.

Judge Carter warned that if a jury found against either side, liability could be decided by how high up the management chain the decisions went, noting Echostar had led its chief executive, Charlie Ergen, as its first witness.

"Mr Ergen couldn't wait to get up on the stand and testify, and you might find, although NDS might disagree, that he was a very credible witness — I make no value judgement," Judge Carter said.

"In listening to this trial, I'm concerned that Mr Mortinson epitomises some of the difficulties involved. He is an engineer who has described to the jury his efforts, but he's not management.

"Let me talk to NDS for a moment and explain a precarious position both sides may find themselves in. This case involves



NDS employed Christopher Tarnovsky and another man, Oliver Kommerling . . . 'the best two hackers in the world'.

Photo: FRANOIS PILET

zero to . . . I don't know, maybe a billion dollars, I don't know what the range is yet, or more . . . We have these rather innocuous people up there, and we don't have management people.

It is important for Rupert Murdoch to 'look the jury in the eye'.

"You may tactically be leaving yourself in a position where there's a certain assumption amongst jurors — and you can't read their mind — that leadership starts at the top, and

it's hard to believe with billions and billions of dollars and this industry in flux that the top of the ladder didn't know."

Judge Carter said it was important for NDS chief executive Abe Peled, News Corp's Mr Murdoch, and for Andre Kudelski, whose Swiss firm Kudelski Corporation owns half of NagraStar, to "look the jury in the eye" to deny any knowledge of the claims or counter-claims against their companies.

"Here's why it's important: the worst position for either of you is that liability is found and you're into this punitive phase. If you get to

the punitive phase, and any one of these jurors assumes that the top of the organisation had any information concerning this or had information and didn't act upon it, I can promise you that most jurors are going to drive those punitive damages up as they get towards the top of the pyramid. And that's the danger. That could be hundreds of millions of dollars.

"So do you have to produce Rupert Murdoch? Absolutely not. Mr Peled? Absolutely not. Do they ever have to produce Mr Kudelski? Absolutely not. But if they don't, the adverse inference is so strong that your case would be over."

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