

# VTR plc

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VTR plc announces its preliminary results for the year to 31 August 2003. The highlights are:-

- Turnover up 7% to £23,990,743
- Profit before tax of £525,070
- Gearing down from 120% to 113%
- Improvement in trading in second half

Making the announcement Chairman Philip Lovegrove said:

“Given the market conditions that existed during the year under review, the results reflect a considerable achievement by the businesses in remaining competitive in their individual markets and justify your Board’s long term commitment to widening the base of the Group’s activities”

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## CHAIRMAN'S STATEMENT

In my statement which accompanied the interim results for the six months to 28 February 2003, I stated that, after a disappointing few months, all our companies were reporting a modest improvement in trading. I am pleased to say that this trend continued during the second six months with the Group making a profit before tax for the year ended 31 August 2003 of £525,070. This compares with last year's profit before tax, and an exceptional item, of £2,753,545 and a loss after the exceptional item of £1,319,506. It also represents a pleasing outcome against the half year when we reported a profit before tax of £53,881.

Turnover increased during the year to £23,990,743 from £22,343,326. This was due mainly to income earned by new profit centres, including K<POST, our Knightsbridge based facility which has just completed a successful first full year of operation, and D-Cinema offset by a reduction in turnover in some of the traditional areas as a result of the downturn in our markets. Profits fell however due to the additional costs of operating the new profit centres and the effect of price competition on margins.

Earnings per share were 3.09p compared with a loss per share of 19.45p last year.

### Overview

I believe that, given the market conditions that existed during the year under review, the results reflect a considerable achievement by our businesses in remaining competitive in their individual markets and justify your Board's long term commitment to widening the base of the Group's activities.

Despite the severity of the recession in advertising and media, the Group has, over the past two years, continued to invest in new equipment and new profit centres. The major ones include K<POST and D-Cinema, within The Machine Room and Video Tape Recording, as well as additional profit centres in both blue and the hive.

Considerable work has been undertaken to maintain the development of Clipstream, the Group's information technology division. This subsidiary has made solid progress this year in expanding its range to embrace new and exciting services directed at the large corporate market and I am pleased to announce that Cadbury Schweppes plc recently became Clipstream's first major non-media client. Although this progress has not resulted in a positive contribution to these results the Company now has a firm base from which to proceed to profitability.

### Gearing

I am pleased to report that, in spite of the difficult trading conditions in the earlier part of the year, gearing has fallen to 113% compared with 120% last August and 126% at the end of February. Cash generated in the year amounted to £393,622, compared with an outflow last year of £587,974. Interest paid is covered 1.9 times by earnings (2002: 5.7 times).

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Capital additions during the year totalled £3.6 million. Capital expenditure for the current year is budgeted at £2.5 million.

## Dividend

In the light of the fragile nature of the economic recovery your Board has decided it would not be prudent to declare a dividend this year. As I stated at the half year the payment of future dividends will be subject to results and the outlook for the media sector as a whole.

## Staff

Once again we are indebted to our skilled, dedicated and professional staff for their efforts and support in these challenging times. They are the assets upon which the future success of your Group will be built.

## Prospects

The first two months of the year have seen a continuation of the recent improvement in your Company's trading and the Board hope that this heralds the first steps of a return to the levels of profitability we have achieved in the past. Few Chairmen in the media industry will be rash enough to make forecasts or pronouncements on the prospects of their company for the coming year; I am able to report, however, that the Group is well placed, with our increasingly broad base of activities, to take advantage of the upturn in the economy when it occurs.

**Philip Lovegrove**  
**Chairman**  
**29 October 2003**

## MANAGING DIRECTOR'S REVIEW

This has been a year when, in spite of very strong performances from some of the subsidiaries, elements of the Group were finally affected by the recession in the media industry in general and advertising in particular. Group turnover increased compared to last year, principally due to the additional contribution from our new profit centres, but the additional costs of operating these and the reduced margins achieved in our traditional areas combined adversely to affect profitability.

Nevertheless it is encouraging to report an improvement in both turnover and profits in the second six months.

Clipstream, our information technology subsidiary, which continued to encounter delays in the decision making process of its clients, spent the year establishing itself as one of the market leaders for services such as video digitisation, online library syndication, website design and content management.

### **Video Tape Recording Ltd**

Video Tape Recording Ltd ('VTR') which specialises in the post-production of TV commercials, pop promos and feature films, had a very disappointing year largely due to the well-publicised recession in the economy and subsequent slowdown in the advertising market. Despite the slump, VTR remained relatively busy with the volume of commercials running at similar levels to previous years. However, hourly rates were hit by agency cut backs and increased price competition.

Nevertheless, VTR continues to maintain its position as one of the UK's top facilities counting amongst its clients every major advertising agency.

Over 1,000 television commercials were worked on during the year. Highlights included the 3.5 minute commercial for Orange - one of the longest spots ever transmitted in the UK - during the 'Big Brother' final, as well as campaigns for Direct Line, AOL, Smirnoff, Vodafone, Andrex, McDonald's, 118 118, Vauxhall, Renault, Asda and MFI .

VTR's new D-Cinema Division was launched in April in response to the growing demand for digital post-production on feature films. Based around the Thomson Specter Virtual DataCine and employing the talents of VTR's renowned telecine team, this department is developing into a world class facility. The list of features worked on during the last few months included, 'The Mother' (BBC/Renaissance), 'Wondrous Oblivion' (APT Films), 'Festival Express' (Festival Express Prods.), 'Ella Enchanted' (Miramax) and 'Deep Blue' for the BBC.

Screen International magazine reports that the UK film industry's gross revenues are likely to top \$1 billion this year, up from \$660 million in 2001 and \$696 million in 2002. The film studios are all busy and as a result the D-Cinema Division has bookings until Easter 2004.

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## **K<POST Ltd**

K<POST, the Group's Knightsbridge based post production facility has had a very successful first year's trading. Originally set up to specialise in tape copying, test commercials and presentation reels the service has evolved to include playouts and 888 sub-titling, which offers closed captions to the hard of hearing.

Future plans include the installation of a Discreet 'Smoke', which will be up and running in October 2003, and a new Avid editing system. Both are being installed in response to the high level of demand for commercials work.

Campaigns worked on during the year include Vodafone, Boots, Shell, Baileys, Kellogg's and B & Q.

## **blue post production ltd**

blue post production ltd ('blue') had a very good year during which it maintained its position as market leader in the provision of post production facilities to the television broadcast and music sectors. In February, blue was voted, for the second time in four years, Best Post Production House by Broadcast magazine. During the period under review the company continued to grow its client base.

Broadcast credits included Hoover Street Revival, The Other Boleyn, Imagine, The Many Lives of Richard Attenborough and Changing Rooms, aired on BBC1, As If and Ancient Egyptians for Channel 4 and The Moscow Siege aired on Discovery.

Revenue from television commercials increased significantly with major agencies such as TBWA (Whiskas, Nivea and Hutchinson), Clemmow Hornby Inge (Typhoo Sponsorship for GMTV) Roose & Partners (Carphone Warehouse) and Saatchi & Saatchi increasing the amount of work post produced within the facility. A major reason for this success is attributable to the efforts of the new staff who joined the production team last year which in turn led to a second Flame being installed from May 2003.

The number of stings, idents and promos for various Broadcast Channels also continued to increase as did commissions for titles sequences. Title sequences included: The Bill (ITV Network), Holiday Airport (LWT for ITV Network), Inside The Mind of Tony Blair (LWT for Channel 4) and Facelift Diaries (Granada for ITV Network).

## **The Machine Room Limited**

The Machine Room ('TMR'), which specialises in high and standard definition ('HD' and 'SD') feature film mastering, archive film transfer and restoration, broadcast editing & grading, DVD production and video duplication, had a difficult year's trading but still managed to produce a

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profit, albeit reduced from the level of last year. During the year TMR continued to serve an extremely varied client base including major Hollywood studios, international distributors, broadcasters, producers and film archives while the efforts of the sales team produced a number of new and exciting opportunities.

In spite of strong price competition in its core areas, TMR successfully re-established its feature film daily rushes service with the introduction of specialist sales and technical staff. In conjunction with VTR's D-Cinema operation, which has promoted a far closer working relationship between the companies, the VTR Group can now offer an unparalleled end-to-end feature film post production service. The combination of facilities offered by TMR, including TMR's recently-added HD Smoke, and VTR has attracted the major players in the film industry.

Feature film projects worked on included the UK's first film-to-HD rushes transfers (Ella Enchanted for Miramax) in addition to a number of HD mastering projects. TMR remains one of a small number of UK facilities to offer telecine, editing and duplication in HD, which is considered one of the company's major growth areas.

TMR's broadcast programming reputation continued to grow with the company carrying out full post production on high profile series such as Bad Girls and Footballer's Wives and documentaries such as Churchill.

With its unique combination of the Film Treatment Centre and both wet-gate and high definition telecine, TMR is recognised internationally as the UK industry leader in specialist film restoration and preservation. TMR furthered this reputation by working with Clipstream to introduce major libraries and content owners to the commercial opportunities arising from making their material accessible to clients via the Internet. TMR holds and duplicates material from a number of videotape libraries on behalf of clients whose online presence is created and administered by Clipstream.

TMR remains a market leader in DVD and its production facilities continue to attract a wide variety of work. Sales efforts this year resulted in a greatly broadened client base as a result of which, in addition to the company's historical feature film work, TMR has established a position as the UK's leading producer of children's programming DVDs with titles completed for BBC Worldwide (Tweenies), Hit Entertainment (Bob the Builder and Barney) and Chorion/Universal (Noddy). The DVD graphics team, which joined TMR at the beginning of the year from the hive, has enabled the company to secure a large number of high profile titles by offering an end-to-end DVD production service in conjunction with the company's post production facilities.

### **the hive animation ltd**

the hive animation ltd ('the hive') the group's computer animation division improved profits marginally, a good performance in a difficult year. The company now employs a team of 25 animators, designers and composers using a combination of Maya, Lightwave, XSI, Flame, Combustion and After Effects.

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Recently the team was strengthened by the appointment of the Company's first Creative Director, Phil Hurrell, who during 18 years in the industry has helped design and create idents for BBC 2, ITV1, ITV2 and The Discovery Channel as well as the BBC 1 Balloon Campaign.

The year saw the hive continue to widen its client base with work on commercials for agencies such as McCanns (XBOX), Euro RSCG (Voltaren), Banks Hoggins O'Shea (Toilet Duck) and MWO (AOL) and for broadcasters such as Flextech, Intro and Bloomberg TV. Additionally the company has worked on high-resolution still poses for the promotion of the new Harry Potter computer games for Electronic Arts and on a promotion for the Disney Channel which has been nominated for a Promax award.

Recent credits for the 2D department include Magic Bullet (BBC), UBC (English and Pockett ) and Johnson and Johnson (Lowe and Partners).

During the year the hive installed its first Flame suite to further expand the company's range of services and such has been the response from our clients that we have recently had to hire a second machine.

### **Clipstream Ltd**

Information technology company, Clipstream Ltd, spent the year establishing itself as a market leader within the media and corporate sectors for video digitisation, online library syndication, website design and content management.

In the last twelve months, the film library archive sector has seen a surge in the need to access film clips online. A contributing factor was undoubtedly the launch of Pathé News Online website in January 2003. The success of the site has driven archive users to demand an online alternative to traditional methods.

In July 2003, Movietone News awarded Clipstream the contract to build a leading edge website to syndicate its clips and programming. This will include digitisation of all 2000 hours of material for viewing within the website, a complete re-design of the existing website, online ordering of clips and programmes and state of the art search capability across all footage. The project is one of the biggest to be awarded within the film/library archive sector and is due for completion by June 2004.

Clipstream's film archive and digitisation clients include: World Backgrounds, Getty Films Images, Framepool, Vodafone, Adidas, Henderson's, Movietone News, Walt Disney, BUFVC and FOCAL International.

Web design has become an integral part of Clipstream's services, whether as part of a content management system or a new website launch. Manchester United took advantage of our website design skills and new technology, Hyper CD, to produce 500,000 CD's to drive customers to their new website, [www.MU.tv](http://www.MU.tv). The RBS Six Nation Committee signed Clipstream to a three year

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contract to design, build and provide ongoing services for their official website [www.6nations.net](http://www.6nations.net).

Web design and Hyper CD clients include: Chorion, MTV Europe, Six Nations Rugby, Manchester United and Biggles Films.

Content management is another area that is expected to grow in the coming financial year. Clients are beginning to realise the benefits of managing all assets centrally and how easily they can move video, text, graphics, and documents globally within their organisations. This delivers enormous cost savings across organisations due to non-duplication and speeds up complicated workflow processes. A landmark in Clipstream's development during the year was the expansion of its content management services outside the media sector by the addition of Cadbury Schweppes as a client. This relationship is developing positively and discussions are being held with a number of additional corporates from a wide range of sectors.

Content management clients include: COI, Walt Disney, Cadbury Schweppes, Sony Music and MTV Europe.

### **Outlook**

Most advertising industry experts remain cautious about the future although there appears to be some signs of a recovery driven in particular by the improving American market. WPP reported like-for-like revenue growth of more than 2% in July following a flat performance in the first six months of the year whilst French advertising group Publicis, which owns agencies such as Saatchi & Saatchi and Leo Burnett, has reported an increase in revenues for the first time in a year and a half. Next year there will also be the expected boost from the Olympic games and European football championships.

The timing of the recovery in advertising will affect the performance of Video Tape Recording over the coming months but our other post production facilities which operate in the general media market have a much wider catchment area and are expected to trade strongly.

**John Banks**  
**Managing Director**  
**29 October 2003**

**VTR plc**  
**Consolidated Profit and Loss Account**  
FOR THE YEAR ENDED 31 AUGUST 2003

|   | Note | 2003<br>£         | 2002<br>£          |
|---|------|-------------------|--------------------|
| Turnover  | 2    | 23,990,743        | 22,343,326         |
| Cost of sales   |      | (1,839,993)       | (969,424)          |
| <b>Gross profit</b>   |      | <b>22,150,750</b> | <b>21,373,902</b>  |
| Administrative expenses                                     |      | (21,061,825)      | (18,040,073)       |
| <b>Operating profit</b>                                     |      | <b>1,088,925</b>  | <b>3,333,829</b>   |
| Exceptional item  | 5    | -                 | (4,073,051)        |
| Interest receivable   |      | 3,206             | 499                |
| Interest payable and similar charges                        |      | (567,061)         | (580,784)          |
| <b>Profit/(loss) on ordinary activities before taxation</b> |      | <b>525,070</b>    | <b>(1,319,507)</b> |
| Tax on profit on ordinary activities                        |      | (183,774)         | (826,063)          |
| <b>Profit/(loss) on ordinary activities after taxation</b>  |      | <b>341,296</b>    | <b>(2,145,570)</b> |
| Dividends   | 3    | -                 | (628,977)          |
| <b>Retained profit/(loss) for the year</b>                  |      | <b>341,296</b>    | <b>(2,774,547)</b> |
| <b>Earnings per share</b>                                   | 4    | <b>3.09p</b>      | <b>(19.45p)</b>    |
| <b>Basic diluted earnings per share</b>                     | 4    | <b>3.09p</b>      | <b>(19.45p)</b>    |

## VTR plc Consolidated Balance Sheet AT 31 AUGUST 2003

|  | 2003      |                    | 2002      |                    |
|--|-----------|--------------------|-----------|--------------------|
|  | £         | £                  | £         | £                  |
| <b>Fixed assets</b>  |           |                    |           |                    |
| Tangible assets  |           | 12,827,332         |           | 12,584,873         |
| Investments  |           | 111,668            |           | 111,668            |
|  |           | <u>12,939,000</u>  |           | <u>12,696,541</u>  |
| <b>Current assets</b>  |           |                    |           |                    |
| Stock  | 35,033    |                    | 24,290    |                    |
| Debtors  | 5,522,293 |                    | 5,259,371 |                    |
| Cash at bank and in hand                                       | 11,546    |                    | 7,092     |                    |
|  |           | <u>5,568,872</u>   |           | <u>5,290,753</u>   |
| <b>Creditors: amounts falling due within one year</b>          |           |                    |           |                    |
| Bank loans and overdrafts                                      | 2,125,346 |                    | 2,514,514 |                    |
| Finance lease creditors  | 2,052,156 |                    | 2,017,586 |                    |
| Trade and other creditors                                      | 4,337,689 |                    | 3,319,718 |                    |
| Corporation tax  | 362,723   |                    | 862,244   |                    |
| Dividends  | -         |                    | 386,349   |                    |
|  |           | <u>8,877,914</u>   |           | <u>9,100,411</u>   |
| <b>Net current liabilities</b>                                 |           | <u>(3,309,042)</u> |           | <u>(3,809,658)</u> |
| <b>Total assets less current liabilities</b>                   |           | <u>9,629,958</u>   |           | <u>8,886,883</u>   |
| <b>Creditors: amounts falling due after more than one year</b> |           | <u>(2,936,455)</u> |           | <u>(2,620,009)</u> |
| <b>Provisions for liabilities and charges</b>                  |           |                    |           |                    |
| Deferred taxation  |           | <u>(396,967)</u>   |           | <u>(311,634)</u>   |
|  |           | <u>6,296,536</u>   |           | <u>5,955,240</u>   |
| <b>Capital and reserves</b>                                    |           |                    |           |                    |
| Share capital  |           | 551,928            |           | 551,928            |
| Share premium account  |           | 4,071,241          |           | 4,071,241          |
| Capital redemption reserve                                     |           | 270,000            |           | 270,000            |
| Profit and loss account  |           | 1,403,367          |           | 1,062,071          |
| <b>Funds attributable to equity shareholders</b>               |           | <u>6,296,536</u>   |           | <u>5,955,240</u>   |

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## VTR plc Consolidated Cash Flow Statement FOR THE YEAR ENDED 31 AUGUST 2003

|  | 2003<br>£          | 2002<br>£   |
|--|--------------------|-------------|
| Net cash flow from operating activities                        | 5,046,595          | 5,791,274   |
| Returns on investments and servicing of finance                | (563,855)          | (580,285)   |
| Taxation   | (597,962)          | (1,024,340) |
| Capital expenditure and financial investment                   | (386,636)          | (1,228,934) |
| Equity dividends paid  | (386,349)          | (628,627)   |
|  | <hr/>              | <hr/>       |
| <b>Cash inflow before financing</b>                            | <b>3,111,793</b>   | 2,329,088   |
| Financing  | (2,718,171)        | (2,917,062) |
|  | <hr/>              | <hr/>       |
| <b>Increase/(decrease) in cash in the year</b>                 | <b>393,622</b>     | (587,974)   |
|  | <hr/>              | <hr/>       |
| <b>Reconciliation of net cash flow to movement in net debt</b> |                    |             |
| Increase/(decrease in cash in the year)                        | 393,622            | (587,974)   |
| Cash flow from decrease in debt and lease financing            | 2,718,171          | 2,923,812   |
|  | <hr/>              | <hr/>       |
| <b>Change in net debt resulting from cash flows</b>            | <b>3,111,793</b>   | 2,335,838   |
| New finance leases   | (3,069,187)        | (2,493,293) |
|  | <hr/>              | <hr/>       |
| <b>Decrease/(increase) in net debt in the year</b>             | <b>42,606</b>      | (157,455)   |
| Net debt at 1 September 2002                                   | (7,145,017)        | (6,987,562) |
|  | <hr/>              | <hr/>       |
| <b>Net debt at 31 August 2003</b>                              | <b>(7,102,411)</b> | (7,145,017) |
|  | <hr/>              | <hr/>       |

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### Notes to the Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 AUGUST 2003

|  | 2003<br>£        | 2002<br>£        |
|--|------------------|------------------|
| <b>Reconciliation of operating profit to net cash inflow from operating activities</b> |                  |                  |
| Operating profit   | 1,088,925        | 3,333,829        |
| Depreciation   | 3,364,593        | 3,205,945        |
| Profit on disposal of tangible fixed assets  | (151,229)        | (321,706)        |
| Increase in debtors  | (262,922)        | (88,583)         |
| Increase/(decrease) in creditors   | 1,017,971        | (350,102)        |
| (Increase)/decrease in stock   | (10,743)         | 11,889           |
|  | <u>5,046,595</u> | <u>5,791,274</u> |

### Statement of Total Recognised Gains and Losses

No separate Statement of Total Recognised Gains and Losses has been presented as all such material gains and losses have been dealt with in the profit and loss account.

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### NOTES FOR THE YEAR ENDED 31 AUGUST 2003

1. The results have been prepared on the basis of the accounting policies set out in the Group accounts for the year ended 31 August 2002. The financial information included in this announcement does not constitute statutory accounts for the years ended 31 August 2002 or 2003 within the meaning of Section 240 of the Companies Act 1985. The statutory accounts of VTR plc for the year ended 31 August 2002 have been filed with the Registrar of Companies for England and Wales and those for the year ended 31 August 2003 will be delivered following publication. The Auditors have reported on those accounts; their reports in each case for the years ended 31 August 2002 and 31 August 2003 were unqualified.

2. Turnover by geographical markets

|                | <b>2003</b><br>£  | 2002<br>£  |
|----------------|-------------------|------------|
| United Kingdom | <b>22,986,901</b> | 21,400,529 |
| Rest of Europe | <b>524,333</b>    | 215,383    |
| Other          | <b>479,509</b>    | 727,414    |
|                | <hr/>             | <hr/>      |
| Total          | <b>23,990,743</b> | 22,343,326 |
|                | <hr/>             | <hr/>      |

3. Dividends

|   | <b>2003</b><br>£ | 2002<br>£ |
|---|------------------|-----------|
| Interim per ordinary share of 5p each – 0.0p (2002: 2.2p) | -                | 242,628   |
| Final per ordinary share of 5p each - 0.0p (2002: 3.5p)   | -                | 386,349   |
|   | <hr/>            | <hr/>     |
|   | -                | 628,977   |
|   | <hr/>            | <hr/>     |

4. Earnings per share and basic diluted earnings per share are calculated on the profit of £341,296 (2002 loss: £2,145,570) and 11,033,550 (2002: 11,033,098) weighted average ordinary 5p shares that were in issue during the year.

The options exercise prices were above the market price of the shares at the year end. As a result the options, numbering 381,000 shares (2002: 331,000 shares), are non dilutive and have not been included in the basic diluted earnings per share calculation.

5. The exceptional item in 2002 represents the write down and provision against investments. The majority of the charge is the provision against the £2,720,000 PrimeEnt Loan Stock and the write off of the 22,666,666 PrimeEnt shares.

6. The annual report and accounts for 2003 will be posted to shareholders on 30 November 2003. Further copies will be available after that date on request from the Secretary, VTR plc, 64 Dean Street, London, W1D 4QQ.

7. The Annual General Meeting will be held at noon on 30 January 2004 at 37 Dean Street, London, W1D 4PT.