

VTR plc

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Preliminary Results Announcement

VTR plc announces its preliminary results for the year ended 31st August 2004

Highlights:

Results:

- Group profits up 72% to £901,554 (2003: £525,070) before tax and exceptional item
- Group turnover up 6% to £25.3 million (2003: £24.0 million)
- EPS up 106% to 6.35p (2003:3.09p) before exceptional item

Restructuring and exceptional item:

- Fundamental review of business completed creating new operating structure
- Expected cost savings of some £1.75 million per annum
- Exceptional charge of £1,153,384 giving a loss before tax of £251,830 and a loss per share of 4.10p
- New group already showing benefits of restructuring

John Banks, Managing Director, comments, "We believe that the steps we have taken to reorganise the post production facilities will enable the Group to reduce costs while providing a better service to our clients and attracting a larger share of the post production work available."

Philip Lovegrove, Chairman, comments, "I believe that the Group has risen to the challenges presented to it during the year under review. The Board has restructured the Group in a way which will enable its operations to be run more cost effectively and to combine the strengths of its component parts in response to changes in traditional and new media markets."

The new financial year has opened strongly and I look forward to a continuing improved performance in the coming year."

For further information please contact:

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Chairman's statement

I am pleased to report that the Group made a profit, before an exceptional item and taxation, of £901,554 during the year to 31 August 2004 as compared with £525,070 last year. Turnover increased from £23,990,743 to £25,344,737 and earnings per share before the exceptional item to 6.35p (2003: 3.09p).

In my statement to shareholders last year, I highlighted the uncertainty which has dominated the trading prospects in the media industry over the last few years. During the year, conditions continued to be challenging, although indications are that the signs of recovery which were initially erratic, are now gathering pace.

After the exceptional item of £1,153,384, detailed below, the loss before tax was £251,830 (2003: Profit, £525,070). The loss per share was 4.10p (2003: earnings per share, 3.09p)

VTR Media Services Limited and Exceptional Item

As announced on 25 August 2004, your Board recently undertook a fundamental review of the Group's businesses. Although each of the trading subsidiaries had established a strong reputation in its own field, the Board concluded that greater benefits and efficiencies could be derived from merging the companies to form a single operation. From 1 September 2004, the group's post production subsidiaries, Video Tape Recording, blue post production and The Machine Room have traded as divisions of VTR Media Services Limited. In addition, the hive animation merged with Video Tape Recording. Clipstream, which provides the group's new media services, merged with The Machine Room.

VTR Media Services Limited is already showing signs of deriving benefits from the restructuring, both in terms of operational efficiency and through a reduction in costs, while each of the divisions retains its own distinctive branding and continues to operate within its own market niche. The details of the new structure are more fully described in the Managing Director's review.

The costs of the restructuring, which have now been completed and are expected to amount to £1,153,384, comprise the exceptional item in the profit and loss account. The changes are expected to result in savings, through a reduction in staff numbers and other costs, of some £1.75 million per annum. The benefits will start to be realised progressively during the current financial year.

Dividend

The Board does not consider it prudent to declare a dividend for this year, but will keep the matter under review.

Gearing

I am pleased to report a fall in total indebtedness of 12% to £6,239,499 from the £7,102,411 recorded at 31 August 2003. Gearing reduced to 107% at the year end from 113% in 2003.

Capital additions during the year totalled £2.4 million, compared with £3.6 million in the previous year. Budgeted expenditure for the current financial year is set at a similar figure.

Staff

It has been another difficult year so it is all the more appropriate that I should once again extend the warm thanks of the Board to our staff, on whose dedication and professionalism we constantly rely.

Outlook

I believe that your Group has risen to the challenges presented to it during the year under review. The Board has restructured the Group in a way which will enable its operations to be run more cost effectively and to combine the strengths of its component parts in response to changes in traditional and new media markets.

The new financial year has opened strongly and I look forward to a continuing improved performance in the coming year.

Philip Lovegrove
Chairman
8 November 2004

Managing Director's Review

It is pleasing to be able to report that the Group, although trading in markets which continued to be affected by recession, increased its trading profit by more than 70% during the year under review. However, in spite of this partial recovery, your Board instigated a fundamental review of the Group's activities during the summer to identify potential improvements to the way in which its business was conducted.

This review highlighted the fact that increasing competition, rather than cooperation, between the Group's Soho based subsidiaries arising from a duplication of facilities offered and market areas traded in, was working against the best interests of the Group. Each of the four subsidiaries involved had achieved a high degree of recognition in their markets, with a reputation for delivering consistent quality, but their individual strategies were increasingly overlapping. The objective of the review was to seek a way in which these strengths could be used to benefit the Group more as a whole, while preserving the individual characteristics of each business.

To this end, since the start of our new financial year, the main trading activities of the Group have been provided through a new subsidiary, VTR Media Services Limited (VMS) with the former Soho based subsidiaries becoming operating divisions of this new entity. The Machine Room (TMR) and Clipstream, whose activities complemented each other closely and who shared a similar target client base, have been combined into a single division.

Video Tape Recording (VTR), which merged with the hive earlier in the year, will continue to specialise in the post production of television commercials, with its D Cinema division working on the digital post production of feature films and the hive operating as the Group's computer animation division.

blue post production (blue) will concentrate on maintaining its position as a market leader in the provision of post production facilities to the television broadcast, corporate and music sectors.

TMR will continue to specialise in feature film mastering, archive film transfer and restoration, broadcast grading and DVD production. In addition, through its merger with Clipstream, TMR will now be able to offer its clients video asset management, website design, webcasting, video streaming and hosting.

As a result of making the companies divisions of VMS, rather than leaving them as stand alone companies and by involving key personnel in the performance of VMS as a whole, we are already seeing an increasing number of jobs being tendered for and undertaken that require the involvement of more than one division.

The changes outlined above are expected, through a reduction in staff numbers and other costs, to result in savings of some £1.75 million per annum. The one

off cost of this restructuring, which was completed before the end of the period under review, is forecast to be £1,153,384.

The Board sees these changes, and the resulting combination of new marketing opportunities, cost savings and clarity of objectives, as enabling the Group to return in due course to profit levels achieved in the years prior to 2003.

Neither K<POST nor VTR Media Investments will be part of VMS.

Video Tape Recording (VTR)

VTR, which handles high end post-production for commercials, pop promos and feature films, and which forms the business on which the VTR plc Group was founded, was the division which most acutely felt the effects of the recession in the advertising industry last year. Consequently, in recent months, VTR has benefited most from the slow but steady recovery in the advertising market, that now appears to be gathering pace, and a relatively steady flow of D-cinema projects.

In a recent announcement, WPP, the leading advertising services company, which owns JWT, O&M and Y&R reported seeing a “significant improvement in activity particularly when compared to 2001 and 2002”. This growth is also reflected in the advertising revenues at the UK broadcaster ITV, with their fastest rate increase since 2000 during the first six months of the year, up by 4.9%. More recently, in MediaWeek, media agency ZenithOptimedia forecast that growth in European advertising will increase by 4.4% in 2005 and by 5% in 2006.

VTR is undoubtedly still one of the leading lights of the post production facility market and, along with other prestige houses, is fighting to stabilise the discounts on rate card that have dominated across the industry during the recession.

The high level of service, both creative and technical, that VTR continues to offer has ensured the retention of many long standing clients such as Publicis, JWT and Leo Burnett while new clients include the outstandingly successful PWLC (DFS campaigns). Other campaigns worked on during the last twelve months have included: Vauxhall Corsa “Wacky Races” (DLKW), Rimmel, featuring Kate Moss, (JWT) and Radio 5 Live idents (BBC). VTR has also undertaken the design and execution of the film titles for Resident Evil 2.

In May the hive merged with VTR in order to offer a fully integrated post production service while allowing the hive to continue to develop as a boutique facility. This merger gives the hive the ability to work on much larger VFX commercials and film based projects while still maintaining its position as a unique brand within VMS.

The combined entity now offers broadcast and commercial clients high end CGI animation, graphics design and visual effects and works across a wide range of projects. These include channel rebranding, programme sponsorship, channel idents, promos, commercials and children’s series for clients including the BBC, BBC America, BBC Three, ITV, Channel 4, Channel 5, Nickelodeon and the

Disney Channel. Recent projects include work on idents for BBC Talent, ITV Champions League, CSI (Five) and Men in Black (Disney) and titles / graphic factual content for both Horizon and Breast Cancer (BBC). Children's series completed include Smokey Silvers (Disney's Toon Channel) and Razzle-dazzle (BBC Broadcast).

The Digital Cinema division has seen a steady flow of film projects. The work undertaken has included Mike Leigh's Vera Drake, the winner of the Venice Film Festival, Upside of Anger (New Line) and the deliverables for Love Actually (Working Title).

Looking forward to 2004/5, the management of VTR believe that the inception of VMS and the opportunity to work closely with the other divisions will prove to be a significant development in taking VTR forward.

blue post production (blue)

blue, the Group's broadcast television specialist, maintained an excellent position within all sectors of the market served by its award-winning creative team and wide range of facilities.

The company remains at the leading edge of the on-air promo and ident sector with major broadcasters such as the BBC, Channel 4 / E4, Discovery, Turner and Nickelodeon. Projects included Euro 2004 campaign (BBC Broadcast) and Faces of 4 (Channel 4 Creative Services).

blue's success in the broadcast programming sector was maintained with a range of long-form broadcast projects undertaken including: Michael Palin's Himalayas (Prominent TV), Imagine (BBC Arts), Eyes Down (BBC Entertainment), Pompeii – the Last Day (BBC Science & Features) and The Boy Who Plays on the Buddhas of Bamiyan (Seventh Art Productions).

Following the formation of VMS, blue's broadcast heritage will allow the division to provide a natural home for broadcast clients including those who have, in the past, used TMR's editing facilities. blue, conducting all of the Group's broadcast post production activities, will be able to provide clients with a complete in house start-to-finish solution, however complex their requirement.

Work has now started on updating the existing online editing facilities with a view to allowing the division to further its position in the broadcast editing sector by progressing into high definition post production.

During the year under review, blue's commercials team attracted advertising clients including TBWA (Haagen Dazs) and Saatchi & Saatchi (Toyota). Going forward, through improved communication and close collaboration with VTR, the Group will be able to offer commercial clients a range of facilities to meet most creative, technical and budgetary requirements.

Following demand from all areas of blue's client base, 6 additional Avid offline editing suites were built during the year. All have been booked solidly since their opening in May and feed the other areas throughout the facility.

The Machine Room (TMR)

TMR, which specialises in high and standard definition feature film mastering, archive film transfer and restoration, broadcast editing & grading, DVD production and video duplication, experienced another challenging year. The active client base, however, remained extremely varied and included major Hollywood studios, international distributors, broadcasters, producers and film archives for whom they worked on a variety of new and exciting opportunities.

2003/2004's feature film slate featured high profile rushes projects including Vera Drake (Mike Leigh's most recent & critically acclaimed title), The Constant Gardener (Focus Features) and Ella Enchanted (Miramax).

Broadcast post production continued with work undertaken including new series of Bad Girls and Footballers Wives (Shed Productions) as well as documentary programming for such respected industry names as Darlow Smithson, World Productions and Brook Lapping. This work will in future be undertaken by blue.

With its unique combination of the Film Treatment Centre and both wet-gate and high definition telecine, TMR has established a position as industry leader in specialist film restoration and preservation in the archive restoration field. This has enabled the division to win a £1m tender to continue the future-proofing of the BBC's Ektachrome film library. Additional recent investment in the latest restoration software will allow TMR to offer clients one of the best equipped film and tape digital archival remastering services in Europe.

TMR retained its position as a market leader in DVD. In addition to the company's feature film work, more titles were completed for BBC Worldwide (Tweenies), HIT Entertainment (Bob the Builder and Barney) and Chorion/Universal (Noddy), as well as comedy titles such as Absolutely Fabulous. The DVD graphics team worked on titles such as Love Actually for Universal – which led to them giving the department the full DVD production of Thunderbirds.

Clipstream, had a year of consolidation within the media and corporate sector, supplying core services such as video digitisation, online library syndication, website design and content management.

The contract Movietone News awarded Clipstream last year, to build a leading edge website to syndicate 2000 hours of clips and programming, was recently completed. Clipstream have now successfully developed online solutions for clients such as Getty Film Images, Meridian Trust and The Central Office of Information.

Following on from a successful RBS Six Nation website launch, Clipstream were awarded the contract to build and design the forthcoming British and Irish Lions website for the official tour starting in May 2005.

An important development during the year was the grant awarded by the EU to develop an online translation system (eTITLE) using advanced speech to text methods. With guidelines across Europe requiring the majority of programmes to be subtitled, Clipstream are developing a product to increase efficiency and take advantage of this potentially enormous new market. An eTITLE demonstration module was launched at the IBC television conference this year and received excellent reviews, leading to a decision to release a first version of the software, earlier than expected, next year.

The decision to merge TMR and Clipstream as a single division within VMS was taken due to the number of times both companies' services were required by a single client, with that client having the inconvenience of dealing with two suppliers. The division will however have two distinct departments, one concentrating on duplication, archive restoration, mastering and encoding and the other on DVD, video asset management, website design, webcasting, video streaming and our very exciting E-Title project.

Both departments, TMR and TMR Digital, will work extremely closely to utilise sales opportunities, consolidate existing services and maximise the potential arising from the new services. Early indications are of a very positive response from both existing and new clients.

K<POST Ltd

K<POST, VTR's West London based facility had a very good second year.

As well as specialising in TV commercials, vox pops and pitches, the facility worked on a number of 'below the line' TV projects. These campaigns target other areas of advertising such as in-store TV, digital signage & retail TV.

During the year a 'Discreet' Smoke was installed with a second planned for this year. Other plans include the installation of a sound studio which should be operational by the end of 2004.

Commercials worked on during the year included campaigns for Vodafone, B&Q, Liptons, Shell, Persil & HSBC while over 500 commercials were played out.

VTR Media Investments Ltd (VMI)

As a result of market conditions, it was a quiet year for VMI. A number of projects have however progressed including two new facilities in which we hold minority investments, VTR Beirut and VTR North, based in Leeds, which are due to open in the next few months. In addition Music Copyright Solutions Plc, in which we have a 5.69% interest, has recently been admitted to AIM.

Outlook

We believe that the steps we have taken to reorganise the Soho based post production facilities will enable the Group to reduce costs while providing a better

service to our clients and attracting a larger share of the post production work available. This, added to the increasing number of commentators suggesting a pick up in volumes in our traditional markets, gives us the confidence to believe that we are on course to return in time to the profit levels we achieved in the years prior to 2003.

John Banks

Managing Director

8 November 2004

VTR plc
Consolidated Profit and Loss Account
 FOR THE YEAR ENDED 31 AUGUST 2004

	Note	2004 £	2003 £
Turnover	2	25,344,737	23,990,743
Cost of sales		(1,776,293)	(1,839,993)
Gross profit		23,568,444	22,150,750
Administrative expenses		(22,187,884)	(21,061,825)
Operating profit		1,380,560	1,088,925
Exceptional item	4	(1,153,384)	-
Interest receivable		43	3,206
Interest payable and similar charges		(479,049)	(567,061)
(Loss)/profit on ordinary activities before taxation		(251,830)	525,070
Tax on (loss)/profit on ordinary activities	5	(200,310)	(183,774)
Retained (loss)/profit for the year		(452,140)	341,296
Earnings per share before exceptional item	6	6.35p	3.09p
(Loss)/earnings per share after exceptional item	6	(4.10p)	3.09p
Basic diluted earnings per share before exceptional item	6	6.29p	3.09p
Basic diluted (loss)/earnings per share after exceptional item	6	(4.10p)	3.09p

VTR plc
Consolidated Balance Sheet
 AT 31 AUGUST 2004

	2004		2003	
	£	£	£	£
Fixed assets				
Tangible assets		11,808,821		12,827,332
Investments		109,783		111,668
		<u>11,918,604</u>		<u>12,939,000</u>
Current assets				
Stock	27,267		35,033	
Debtors	6,036,815		5,522,293	
Cash at bank and in hand	13,336		11,546	
	<u>6,077,418</u>		<u>5,568,872</u>	
Creditors: amounts falling due within one year				
Bank loans and overdrafts	1,933,621		2,125,346	
Finance lease creditors	1,991,102		2,052,156	
Trade and other creditors	5,052,250		4,337,689	
Corporation tax	284,105		362,723	
	<u>9,261,078</u>		<u>8,877,914</u>	
Net current liabilities		<u>(3,183,660)</u>		<u>(3,309,042)</u>
Total assets less current liabilities		<u>8,734,944</u>		<u>9,629,958</u>
Creditors: amounts falling due after more than one year		<u>(2,658,214)</u>		<u>(2,936,455)</u>
Provisions for liabilities and charges				
Deferred taxation		(232,334)		(396,967)
		<u>5,844,396</u>		<u>6,296,536</u>
Capital and reserves				
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		951,227		1,403,367
Funds attributable to equity shareholders		<u>5,844,396</u>		<u>6,296,536</u>

VTR plc
Consolidated Cash Flow Statement
 FOR THE YEAR ENDED 31 AUGUST 2004

	2004	2003
	£	£
Net cash flow from operating activities	4,136,427	5,046,595
Returns on investments and servicing of finance	(479,006)	(563,855)
Taxation	(443,561)	(597,962)
Capital expenditure and financial investment	(712,647)	(386,636)
Equity dividends paid	-	(386,349)
Cash inflow before financing	2,501,213	3,111,793
Financing	(2,307,698)	(2,718,171)
Increase in cash in the year	193,515	393,622
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the year	193,515	393,622
Cash flow from decrease in debt and lease financing	2,307,698	2,718,171
Change in net debt resulting from cash flows	2,501,213	3,111,793
New finance leases	(1,638,301)	(3,069,187)
Movement in net debt in the year	862,912	42,606
Net debt at 31 August 2003	(7,102,411)	(7,145,017)
Net debt at 31 August 2004	(6,239,499)	(7,102,411)

VTR plc
Notes to the Consolidated Cash Flow Statement
 FOR THE YEAR ENDED 31 AUGUST 2004

Reconciliation of operating profit to net cash inflow from operating activities	2004	2003
	£	
Operating profit	1,380,560	1,088,925
Depreciation	3,399,542	3,364,593
Profit on disposal of tangible fixed assets	(30,083)	(151,229)
Increase in debtors	(514,522)	(262,922)
(Decrease) / increase in creditors	(108,721)	1,017,971
Decrease / (increase) in stock	7,766	(10,743)
Amount written off investments	1,885	-
	4,136,427	5,046,595

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 2004

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 2003. The financial information included in this announcement does not constitute statutory accounts for the years ended 31 August 2003 or 2004 within the meaning of Section 240 of the Companies Act 1985. The statutory accounts of VTR plc for the year ended 31 August 2003 have been filed with the Registrar of Companies for England and Wales and those for the year ended 31 August 2004 will be delivered following publication. The Auditors have reported on those accounts; their reports in each case for the years ended 31 August 2003 and 31 August 2004 were unqualified.
2. Turnover by geographical markets

	2004	2003
	£	£
United Kingdom	24,138,643	22,986,901
Rest of Europe	447,116	524,333
Other	758,978	479,509
	<hr/>	<hr/>
Total	25,344,737	23,990,743
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3. Dividends

No dividend has been declared for the year (2003: Nil).

4. Exceptional item

The exceptional item represents the costs of redundancies and other expenses relating to a fundamental restructuring of the Group.

5. Taxation

The tax rate for the year is higher than the basic tax rate due to taking into consideration expenditure that is not deductible for tax purposes.

6. Earnings per share

Earnings per share before exceptional items is based on earnings of £701,244 (2003: £341,296) and 11,038,550 (2003: 11,038,550) weighted average ordinary 5p shares that were in issue during the year.

(Loss) / earnings per share after exceptional items is based on a loss of £452,140 (2003: profit £341,296) and 11,038,550 (2003: 11,038,550) weighted average ordinary 5p shares that were in issue during the year.

Diluted earnings per share before exceptional items is based on earnings of £701,244 (2003: £341,296) and 11,140,918 (2003: 11,038,550) weighted average ordinary 5p shares that were in issue during the year.

Diluted (loss) / earnings per share after exceptional items is based on a loss of £452,140 (2003: profit £341,296) and 11,038,550 (2003: 11,038,550) weighted average ordinary 5p

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NOTES FOR THE YEAR ENDED 31 AUGUST 2004 (cont'd)

shares that were in issue during the year, as the effect of the issue of ordinary shares in relation to the options would be non-dilutive.

Some options exercise prices were above the market price of the shares at the year end. As a result these options, numbering 331,000 shares (2003: 681,000 shares), are non dilutive and have not been included in the diluted earnings per share calculation.

7. The annual report and accounts for 2004 will be posted to shareholders on 8 December 2004. Further copies will be available after that date on request from The Secretary, VTR plc, 64 Dean Street, London, W1D 4QQ.
8. The Annual General Meeting will be held at noon on 28 January 2005 at 37 Dean Street, London, W1D 4PT.