

P I N E W O O D  S H E P P E R T O N

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Interim Report 2004

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Highlights

Record six month performance

Turnover for the half year from continuing operations up 10.3% at £20.4m (2003: £18.5m)

Operating profit from continuing operations, before exceptional initial public offering ('IPO') related costs, up 15.8% at £6.7m (2003: £5.8m)

Pro forma profit for the period up 31.6% at £3.8m (2003: £2.9m) – fully diluted pro forma EPS 8.1p (2003: 6.2p)

Construction about to commence on two projects and studio enhancement planning applications submitted

Successful IPO raised £46.9m through institutional placing

New £60m revolving credit facility arranged

Chief Executive's review

Introduction

I am pleased to report Pinewood Shepperton's maiden set of results as a publicly quoted company, following its successful admission to the London Stock Exchange on 12 May 2004, which raised £46.9m through a placing with institutional shareholders.

The first half of 2004 marked an important chapter in the history of the Company, during which we advanced our strategic growth objectives, improved our financial performance and successfully completed an IPO on the London Stock Exchange.

Operating Review

Pinewood Shepperton is the leading European provider of studio and related services to the film and television industries. Its facilities support film production, filmed television and studio television recording, post production sound services and media related businesses.

The core business sectors are:

Film Stage Services

Pinewood Shepperton derives income from its 34 stages and ancillary studio facilities, such as production offices, workshops and consumables.

Turnover was £11.3m, 10.3% ahead of the comparable period for 2003. Notwithstanding the weakness of the US dollar to date, there was an increase in studio facilities' sales, which derived principally from the number of large productions based at Pinewood and Shepperton, notably *Charlie and the Chocolate Factory*, *Intimidation Game* and the fourth Harry Potter film. In addition, since April 2004, the Company has also benefited from the rights to revenues generated from the hiring of the 007 stage.

Television and Sound Services

Turnover was £6.0m, up 16.9% over the comparable period in 2003, reflecting a strong first half, most notably in sound post production.

Pinewood Television's two digital television studios played host during the half-year to *The Weakest Link* and *My Family*, and the recently commissioned series *Everything I Know About Men*. Pinewood Television



continues to enhance its reputation as a leading provider of digital television studio facilities to major broadcast and independent production customers.

The sound post production business offers 13 dedicated audio mixing and recording theatres mainly to the film industry. Increased turnover during the first half was generated from major productions including *Troy* and *Thunderbirds*. Other areas, including optical transfer and foreign language versioning, performed in line with the comparable period for 2003.

Our post production facilities continue to be enhanced, with benefits seen from the Group's recent investment in a state of the art digital mixing desk for our Korda Theatre at Shepperton. We will continue the programme of targeted investments to retain our market leading position in the provision of audio post production facilities.



Media Park Income

During the six months to 30 June 2004 income was in line with the same period in 2003, at £3.1m. Demand for these facilities at Pinewood and Shepperton from media businesses remains strong.

Fiscal Regime

In March 2004, the Chancellor announced the key terms of a successor relief to Section 48 Finance (No 2) Act 1997, the terms of which are due to expire on 1 July 2005. Representations have been made to Government by the film industry in relation to the implementation of the proposed new relief, and we await further guidance on its proposals, but welcome the Government's clearly stated intention of ongoing support to the British Film Industry.

Section 42 Finance (No. 2) Act 1992, provides particularly valuable benefits to many of our customers, and remains in place.

Discontinued Operations

As described in the Listing Particulars, on 29 April 2004 the Company disposed of its 51% interest in Silver Lining Productions Limited.

Financial review

for the six months ended 30 June 2004

Trading

Turnover from continuing operations was £20.4m, 10.3% higher than the comparable period for 2003.

Profitability

Gross margin from continuing operations, before exceptional IPO related costs, as a percentage of turnover increased by 1.8% to 47.9%, compared to the same period for 2003.

Operating profit margin from continuing operations, before exceptional IPO related costs, improved by 1.5% to 33.1%, due primarily to increased turnover in Film Stage Services and Television and Sound Services.

Operating profit from continuing operations, before exceptional IPO related costs, was £6.7m, compared to £5.8m for the same period in 2003.

Profit on ordinary activities before taxation, after aggregate exceptional IPO related costs of £2.1m, was £1.6m compared to £0.9m for the same period in 2003.

Initial Public Offering and Refinancing Costs

During the period the Company incurred £2.1m in aggregate of exceptional IPO related costs which were charged to the profit and loss account, and £3.1m of equity raising costs which were charged to the share premium account. In addition, £0.7m of debt raising costs were capitalised and will be amortised over the five-year life of the revolving credit facility.

Pro forma Results

Taking account of the capital structure post the IPO, the pro forma profit for the period was £3.8m (2003 – £2.9m), with fully diluted EPS 8.1p (2003 – 6.2p).



Cash Flow and Debt

On the date of the IPO £43m was drawn from the Company's new £60m revolving credit facility. At 30 June 2004, the Company's net debt was £40.9m. The business is cash generative as demonstrated by the high level of conversion of earnings to operating cash flow. These strong cash flow characteristics enable the Company to operate on negative working capital.

Taxation

The interim results of Pinewood Shepperton disclose an effective tax rate of 29%. This reflects the impact of certain one-off exceptional items associated with the initial public offering and related reorganisation of the Company's capital structure.

For the full year, the Company anticipates an effective tax rate of circa 31%, allowing for the impact of certain disallowable expenditure.

Dividend

As signalled in the Company's Listing Particulars, the first dividend recommended will be the final dividend in respect of the year ending 31 December 2004. Going forward, the annual dividend will be split one-third and two-thirds respectively to interim and final payments.

Current Trading and Outlook

Pinewood Shepperton performed slightly ahead of expectations for the first half of 2004 reflecting strong sales of studios facilities. In the second half to date the Company is performing in line with expectations across all business lines, and the Directors view the Company's prospects for the current financial year with confidence.

We are about to commence construction on two new projects; the underwater filming stage at Pinewood Studios and the extension to the eastern workshops at Shepperton Studios.

In May 2004 we submitted separate outline planning applications for the enhancement of both Pinewood Studios and Shepperton Studios, which would lead to a significant increase in the studios' facilities over the next ten years.

Group profit and loss account

for the six months ended 30 June 2004

	Notes	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2003 Audited £000	Six months ended 29 June 2003 Unaudited £000
Turnover				
Continuing operations	2	20,364	37,438	18,455
Discontinued operations		132	431	294
		20,496	37,869	18,749
Cost of sales		(10,744)	(20,434)	(10,238)
Gross profit				
Continuing operations		9,759	17,367	8,505
Discontinued operations		(7)	68	6
		9,752	17,435	8,511
Selling and distribution expenses		(1,137)	(2,406)	(1,082)
Administrative expenses		(1,982)	(4,094)	(1,809)
Operating profit before exceptional costs				
Continuing operations		6,749	11,393	5,828
Discontinued operations		(116)	(458)	(208)
		6,633	10,935	5,620
Exceptional costs – continuing operations	4	(1,517)	–	–
Group operating profit		5,116	10,935	5,620
Loss on sale of operations – discontinued operations	3	(7)	–	–
Interest receivable		17	22	7
Interest payable and similar charges		(2,913)	(7,321)	(3,765)
Amortisation of loan issue costs		(25)	(1,008)	(1,008)
Exceptional interest payable and similar charges	4	(555)	–	–
Total interest payable and similar charges		(3,493)	(8,329)	(4,773)
Profit on ordinary activities before taxation		1,633	2,628	854
Taxation		(467)	(881)	(264)
		1,166	1,747	590
Minority interest		91	118	23
Retained profit for the period		1,257	1,865	613
Earnings per share	5			
Basic		9.4p	180.3p	59.3p
Diluted		9.2p	155.5p	51.2p
Pro forma earnings per share	6			
Basic		8.3p	12.1p	6.3p
Diluted		8.1p	11.9p	6.2p

Group statement of total recognised gains and losses

for the six months ended 30 June 2004

	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2003 Audited £000	Six months ended 29 June 2003 Unaudited £000
Profit for the period	1,257	1,865	613
Exchange differences	(15)	(40)	(8)
Total recognised gains relating to the period	1,242	1,825	605

Group balance sheet

at 30 June 2004

	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2003 Audited £000	Six months ended 29 June 2003 Unaudited £000
Notes			
Fixed assets			
Tangible fixed assets	96,645	97,849	98,237
Current assets			
Stocks	346	366	330
Debtors	5,471	4,235	4,916
Cash at bank and in hand	–	114	1,741
	5,817	4,715	6,987
Creditors: amounts falling due within one year	(11,644)	(11,421)	(12,462)
Net current liabilities	(5,827)	(6,706)	(5,475)
Total assets less current liabilities	90,818	91,143	92,762
Creditors: amounts falling due after more than one year	(39,297)	(88,436)	(91,389)
Provisions for liabilities and charges	(2,571)	(2,589)	(2,381)
Minority interest	–	650	556
	48,950	768	(452)
Capital and reserves			
Called up share capital	3,060	238	238
Share premium account	44,925	807	807
Merger reserve	348	348	348
Profit and loss account	617	(625)	(1,845)
Equity shareholders' funds	48,950	768	(452)

Group statement of cash flows

for the six months ended 30 June 2004

	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2003 Audited £000	Six months ended 29 June 2003 Unaudited £000
Net cash inflow from operating activities	6,256	16,184	7,417
Returns on investments and servicing of finance	(4,343)	(6,400)	(2,143)
Taxation	(359)	(659)	50
Capital expenditure	(1,296)	(3,033)	(1,533)
Net cash disposed of with subsidiary undertaking	(281)	–	–
Net cash inflow before financing	(23)	6,092	3,791
Financing			
Issue of ordinary share capital	50,000	–	–
Share issue costs	(3,104)	–	–
Increase in loans	40,000	140	67
Repayment of capital element of finance leases	(106)	(349)	(173)
Repayment of loans	(88,536)	(6,597)	(2,772)
Net cash outflow from financing	(1,746)	(6,806)	(2,878)
(Decrease)/increase in cash	(1,769)	(714)	913
Reconciliation of operating profit to net cash inflow from operating activities			
	Six months ended 30 June 2004 Unaudited £000	Year ended 31 Dec 2003 Audited £000	Six months ended 29 June 2003 Unaudited £000
Operating profit	5,116	10,935	5,620
Depreciation	1,857	3,619	1,616
Decrease/(increase) in stocks	20	(36)	–
(Increase)/decrease in debtors	(1,236)	72	(609)
Increase in creditors	499	1,594	790
	6,256	16,184	7,417

Group statement of cash flows

for the six months ended 30 June 2004

continued

Reconciliation of net cash flow to movement in net debt

	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2003 Audited £000	Six months ended 29 June 2003 Unaudited £000
(Decrease)/increase in cash	(1,769)	(714)	913
Cash inflow from increase in loans	(40,124)	(140)	(67)
Issue costs of new long term loans	728	-	-
Repayment of capital element of finance leases	106	349	173
Repayment of long term loans	88,536	6,597	2,772
Changes in net debt resulting from cash flows	47,477	6,092	3,791
Non-cash movements	756	(2,008)	(1,265)
Movement in net debt	48,233	4,084	2,526
Net debt at beginning of period	(89,178)	(93,262)	(93,262)
Net debt at end of period	(40,945)	(89,178)	(90,736)

Notes to the financial statements

at 30 June 2004

1. Accounting policies

The unaudited interim financial information has been prepared on the basis of the accounting policies set out in the Group's financial statements for the year ended 31 December 2003.

2. Turnover and sector analysis

Turnover represents amounts received or receivable in the period stated net of value added tax.

The Group's continuing operations represent the provision of media services for film and television production arising primarily in the United Kingdom.

Revenues from these activities can be further analysed as follows:

	Continuing £000	Discontinued £000	Total £000
Six months ended 30 June 2004			
Film stage services	11,259	-	11,259
Television and sound services	6,010	-	6,010
Media park income	3,095	-	3,095
Silver Lining Productions	-	132	132
	20,364	132	20,496
Year ended 31 December 2003			
Film stage services	21,511	-	21,511
Television and sound services	9,694	-	9,694
Media park income	6,233	-	6,233
Silver Lining Productions	-	431	431
	37,438	431	37,869
Six months ended 29 June 2003			
Film stage services	10,211	-	10,211
Television and sound services	5,143	-	5,143
Media park income	3,101	-	3,101
Silver Lining Productions	-	294	294
	18,455	294	18,749

3. Discontinued activities

Discontinued activities relate to the Company's 51% owned subsidiary, Silver Lining Productions Limited, which was disposed of on 29 April 2004 for cash consideration of £51.

4. Initial public offering and refinancing costs

During the period the Company incurred costs in connection with its listing on the London Stock Exchange, and the refinancing of its banking facilities. £3,104,000 of costs were directly attributable to the raising of equity and have been charged to the share premium account; £728,000 of costs were incurred in arranging and executing the Company's new £60,000,000 revolving credit facility, which has been capitalised and is being amortised over the five year term of the facility; £1,517,000 of costs have been disclosed as exceptional and expensed to the profit and loss account, being costs related to, but not directly attributable to the Initial Public Offering; £555,000 of costs relating specifically to the cancellation of the Company's then existing swap agreements have been disclosed in the profit and loss account as exceptional interest payable.

Notes to the financial statements

continued

5. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on earnings of £1,257,000 (2003: £613,000) and on 13,336,000 (2003: 1,035,000) ordinary shares, being the weighted average number of ordinary shares in issue during the period after excluding issued share options.

The diluted earnings per ordinary share is based on earnings of £1,257,000 (2003: £613,000) and on 13,699,000 (2003: 1,197,000) ordinary shares, calculated as follows:

	Six months ended 30 June 2004 £000	Year ended 31 December 2003 £000	Six months ended 29 June 2003 £000
Basic weighted average number of shares	13,336	1,035	1,035
Dilutive potential ordinary shares:			
Employee share options	263	28	25
Warrants	100	137	137
	13,699	1,200	1,197

6. Pro forma profit and loss and earnings per share

	Notes	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2003 Audited £000	Six months ended 29 June 2003 Unaudited £000
Profit for the period		1,257	1,865	613
Exceptional costs	4	1,517	-	-
Exceptional interest payable	4	555	-	-
Interest payable and similar charges added back		1,600	4,708	2,462
Amortisation of loan issue costs (deducted)/added back		(195)	568	788
Taxation deduction on adjustments		(932)	(1,583)	(975)
Pro forma profit for the period		3,802	5,558	2,888

The pro forma profit for the period is prepared on the basis that the Company's capital structure immediately following its initial public offering had been in place for the entire period. Consequently, it reflects an adjusted position for interest and amortisation of loan issue costs, in addition to tax on these adjustments. Additionally, exceptional costs associated with the initial public offering and bank refinancing, and related tax, have been excluded for the purposes of calculating pro forma profit for the period.

The calculation of pro forma basic earnings per ordinary share is based on earnings of £3,802,000 (2003: £2,888,000) and on 45,813,000 (2003: 45,813,000) ordinary shares, being the number of ordinary shares in issue at 30 June 2004, after excluding share options.

Notes to the financial statements

continued

6. Pro forma profit and loss and earnings per share continued

The pro forma diluted earnings per ordinary share is based on earnings of £3,802,000 (2003: £2,888,000) and on 46,855,000 (2003: 46,855,000) ordinary shares, calculated as follows:

	thousands
Basic weighted average number of shares	45,813
Dilutive potential ordinary shares:	
Employee share options	1,042
	46,855

7. Share capital

Authorised

	Six months ended 30 June 2004 £	Year ended 31 December 2003 £	Six months ended 29 June 2003 £
Ordinary shares of 10p each	7,000,000	-	-
Ordinary shares of £1 each	-	150,000	150,000
A Ordinary shares of 10p each	-	88,946	88,946
B Ordinary shares of 10p each	-	13,549	13,549
C Ordinary shares of £1 each	-	54,450	54,450
	7,000,000	306,945	306,945

Allotted, called up and fully paid

	No.	Six months ended 30 June 2004 £	No.	Year ended 31 December 2003 and Six months ended 29 June 2003 £
Ordinary shares of 10p each	45,813,118	4,581,312	-	-
Ordinary shares of £1 each	-	-	150,000	150,000
A Ordinary shares of 10p each	-	-	749,059	74,906
B Ordinary shares of 10p each	-	-	135,494	13,549
	45,813,118	4,581,312	1,034,553	238,455

Notes to the financial statements

continued

8. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Total £000
At 31 December 2003	238	807	348	(625)	768
Profit for the period	-	-	-	1,257	1,257
Exchange differences	-	-	-	(15)	(15)
New shares issued	2,822	47,222	-	-	50,044
Share issue costs	-	(3,104)	-	-	(3,104)
At 30 June 2004	3,060	44,925	348	617	48,950

9. Publication of non-statutory accounts

The financial information contained in this statement does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial statements for the year ended 31 December 2003, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Independent review report

to the members of

Pinewood Shepperton plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2004 which comprises the Group profit and loss account, the Group balance sheet, the Group statement of cash flows, the Group statement of total recognised gains and losses, and the related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed.

A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

Ernst & Young LLP
London

Company details

Directors

Michael Ian Grade	<i>Chairman</i>
Ivan Patrick Dunleavy	<i>Chief Executive</i>
Patrick Francis Garner FCA	<i>Finance Director</i>
Stephen Richard Jaggs	<i>Managing Director</i>
Bryan Adrian Falconer Burn FCA	<i>Non-executive Director</i>
Nigel Patrick Hall FCA	<i>Non-executive Director</i>

Company Secretary

Nigel Wolfin ACA

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