



VILLAGE ROADSHOW LIMITED

Web Site: www.villageroadshow.com.au

CHAIRMAN'S ADDRESS TO VILLAGE ROADSHOW LIMITED ANNUAL GENERAL MEETING

19 NOVEMBER, 2002

Ladies & Gentlemen, before we get into the detail of the meeting I will first give you a quick review of the year past, a status report on current trading, a picture of the year ahead and finally I will address a few specific important issues.

In this last financial year Village Roadshow recorded a net profit after tax before specific items and discontinued operations of \$73.4m. Including specific items and discontinuing operations, net profit was \$51.1m, marginally down on the previous year.

Your board of directors do not accept these as anything more than a satisfactory achievement in a very difficult external environment dominated by:

1. Downturn in overseas tourism as a result of September 11, the Ansett collapse and now the Bali bombing.
2. New competition in the FM radio market combined with a global downturn in advertising spend.

Despite these challenges the performance of Theme Parks and Radio highlight their fundamental long-term strengths. Each have created quality brands that dominated their markets and are backed by world-class management.

As indicated in the Annual Report the standout division in strict financial performance in the last year was cinema exhibition. A resounding turnaround from the previous year. Admissions surged 19% in continuing territories and reported EBITDA increased 97% to \$82.6m. Our share of underlying EBITDA for continuing operations increased 23% to \$113.8m

Our Austereo Radio Group had a successful year recording a net after tax profit of \$57.7m which exceeded the 2001 proforma result by 12.9%.

Film Distribution also had a near record year.

Film Production profit was lower than budgeted due to the temporary slow down in the volume of films produced. Whilst a broad slate of films is fundamental to our underlying strategy in this business, we all understand that valuable and profitable films do not come out of a sausage factory. There are inevitably periods when careful and sometimes simple cautious creative decisions will slow this throughput of film product.

Still a profit of \$23.7m for this division was respectable and underlines its continuing viability. As we reiterate to the financial market, film production can only be judged and valued over a period of years and not in any one specific year; we have been in this business since the days of *Alvin Purple* and *Mad Max* 30 years ago and are committed for the long haul and plan to commit further funding and people resources as is necessary in this arena of exciting opportunity.

Now let me say a few words about the current trading and immediate future. The new financial year although profitable for cinemas has been somewhat below budget. We see this as a result of a lull in the quality and strength of film releases. However, Christmas releases with the new Bond film, *Harry Potter* and *Lord of the Rings* looks extraordinary.

And *Matrix* next May will be a rocket for the end of the financial year.

Radio, whilst also initially off to a slow start, is now quickly gathering momentum and expects to achieve budget by year end. Audience survey results have been consistently strong in this financial year with our stations regaining #1 10+ share in all markets as of Survey 7, 29 October. It is staggering to remind ourselves of the market dominance Austereo has created and defended successfully over many years. In the under 40-year-old market, Austereo held 45.3%, and it's nearest competitor only 16.4%. Over 6 million Australians listen to our Austereo network.

With the global advertising market turning favourable and this trend now clearly evident in Australia, Austereo should finish the year strongly.

Also, in the perspective of the longer-term value of Austereo, we are confident, in one form or another, that all cross-media ownership restrictions on radio will be dropped.

However, underpinning the immediate value of Austereo is its superb world quality management and sheer creativity.

Moving onto Distribution our line up of releases, climaxing with *Matrix* in May is phenomenal. This will be a record year for Roadshow.

The Theme Parks are also trading to budget and we have high expectations for the summer season.

Finally, and crucially, Village Roadshow Pictures is about to enter a new exciting era. Over Christmas and the New Year we have 2 important releases:

- *Two Weeks Notice*
- *Analyse That*

And in March *Torque*, followed by *Dreamcatcher* in April, the first *Matrix* sequel in May, and the second *Matrix* sequel in November. Next year will be, to quote the Chairman and CEO of AOL Time Warner, our partner and biggest entertainment company in the world, next year will be "THE YEAR OF THE MATRIX."

To give a taste of this excitement we have some trailers and footage for you. Roll 'em.

Even more significant is the momentum we will create in Village Roadshow Pictures through and post the *Matrix* sequels. Right now we are planning the production of some phenomenal film properties including the big budget blockbuster *Troy*, *Taking Lives*, *Cats & Dogs 2*. etc.

So Ladies & Gentlemen, you can hopefully appreciate the scope of opportunity we have in this wonderful and powerful business of film production.

I should mention our new production finance facility is being finalised and we expect to announce this (and explain in some detail) to the market in the near future. I should emphasise that our financing is unique and certain aspects and information on this financing is commercially sensitive and will remain confidential.

This leads us to the company's cash management and balance sheet strategy. Intrinsically we all understand that film production in any short term context of say 12 to 24 months can have significant swings in cash flows. Your board has the responsibility of ensuring we have the cash reserves and balance sheet strength to not only support any possible exigency but also re-invest as further production opportunities arise.

To this end, to ensure we have maximum necessary financial flexibility your board took the decision to suspend the dividend on ordinary shares. This is a move, which I assure all shareholders, will be rewarded through the renewed growth of the capital value of your shares over the next 3 – 5 years. My family and Graham Burke support this decision although we as shareholders know the immediate personal cost of losing this short-term dividend flow. I emphasise that the Board was unanimous in supporting this decision.

The preference share dividend is being paid this year and the future dividend policy subject to future review by the board. I cannot state anything further on this matter at this stage.

There are a few other issues I want to briefly address.

Firstly salaries. We have announced a 20% cut in executive directors' salaries and a realignment of bonuses to reflect the ordinary share price performance of ordinary shares as well as an internal measure of EBITDA or effectively cash flow return on investment. Aligning senior executive salaries to share market performance alone is, of course, potentially distorting. We are confident that we have now achieved a balance of effective incentives and measures of executive director performances and hence bonus compensation.

I reiterate that our external experts advice supported the existing salary/bonus structure, yet your board judged it appropriate to respond to the community's general concern about the level of executive salaries. However in this regard let me make these two points. We are an international company and our very best executives, whether they are managing these magnificent theme parks or our film productions in Hollywood, they rightly expect compensation competitive in terms of the entertainment industry world-wide, not just here in Australia. Secondly, again responding to market concerns we now have no options issued to executive directors apart from Graham Burke...and Graham receives nil value from his options until the share price exceeds \$3, \$4 and \$5 in future years.

Ladies & Gentlemen, Village Roadshow has gone through a rationalisation of businesses and restructure over the past 3 years. We are now on the threshold of a new 5-year era of renewed growth. Let us proceed to the formal business of this meeting and there will of course be opportunity for your questions and general discussion as we proceed.