

# UBS Investment Research

## Portuguese Media

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### Up for another round?

#### ■ Earnings momentum

Portuguese media companies delivered good results surprises throughout 2003, led mainly by cost restructuring. Looking into 2004, we expect earnings momentum to remain strong, driven by a better economic outlook (ad-spend forecasted to grow +5% this year), as well as by a weaker US\$.

#### ■ Improved operational leverage

Given the improved operational leverage, and in light of a better environment, we have revised upwards our estimates for PT Multimedia and Impresa. We are now forecasting PT Multimedia to deliver 2004E EBITDA of €210 million (c40% increase to our previous estimate) and €58.5 million for Impresa (+20% increase).

#### ■ Valuation support

Similarly, we have also revised our valuation models. Based on DCF analyses, we raise our price target on PTM to €20.8 ps (was €15) and on Impresa to €4.7 ps (was €3.5). Our target prices still imply a discount to European peers at estimated fair value.

#### ■ Room for further outperformance

On 20.6x 2004 estimated earnings, Portuguese media still trades at a discount to Europe. Despite its 25% outperformance to the European sector over the last 12-months, positive earnings momentum, still attractive relative valuations and other exceptional events (including the Euro2004 football cup) should provide room for further outperformance.

Table 1: Portuguese Media

Company	Price (€)	Target (€)	Upside/(Downside)	Rating	----- 2005E -----			----- 2003-2006E CAGR -----		
					Adj. PE	EV/EBITDA	EV/OpFCF	Revenues	EBITDA	EPS Adj.
PT Multimedia	17.3	20.8	20.2%	Buy 2	19.9x	10.6x	16.9x	9.6%	29.8%	20.4%
Impresa	4.2	4.7	12.4%	Neutral 2	18.2x	11.0x	13.3x	6.1%	18.0%	81.1%

Source: UBS estimates

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## Investment summary

Iberian media companies experienced sharp re-ratings in 2003. The strong performances in Portugal – PT Multimedia and Impresa were up 59% and 130% respectively over the last 12 months – were remarkable in light of the depressed economic environment.

In these two cases, we believe specific drivers were behind each of the strong performances:

- **PT Multimedia's** focus on improving operating margins of its pay-TV operation (TV Cabo) highlighted to the market the previously unleashed free-cash-flow capacity of this operation that represents over 90% of PT Multimedia's value.
- Two years of an intense cost-restructuring programme have positioned **Impresa** to fully reap the benefits of an upswing in the Portuguese advertising market. Fast margin recovery at its free-to-air TV business (SIC) was further helped by an uplift in TV advertising prices driven by regulatory changes that limited the total supply of advertising airtime in Portugal.

Table 2: Iberian Media performance

Index	----- Absolute performance -----					----- Performance relative to Eurotop300 -----				
	-1m	-3m	-6m	-9m	-12m	-1m	-3m	-6m	-9m	-12m
FTSE EU Media & Entertainment	9.7%	11.0%	14.5%	26.6%	30.7%	5.9%	3.0%	0.7%	5.4%	2.8%
FTSE Spanish Media & Entertainment	18.3%	38.7%	48.7%	114.1%	131.6%	14.2%	28.7%	30.8%	78.2%	82.2%
FTSE Portuguese Media & Entertainment	15.4%	19.5%	25.4%	38.6%	64.4%	11.4%	10.9%	10.3%	15.4%	29.3%
DJ Spanish Media	19.1%	39.3%	49.5%	122.4%	138.6%	15.0%	29.2%	31.5%	85.2%	87.7%
DJ Portuguese Media	14.6%	19.5%	20.6%	32.1%	58.7%	10.6%	10.8%	6.1%	10.0%	24.9%
<b>UBS sector index</b>										
All Pan European Media Stocks	10.0%	10.5%	14.5%	27.1%	33.5%	6.2%	2.5%	0.7%	5.8%	5.1%
European Broadcasting	10.2%	15.4%	21.3%	33.3%	52.2%	6.4%	7.0%	6.7%	10.9%	19.7%
European Publishing	9.1%	7.5%	8.3%	20.0%	19.3%	5.3%	-0.3%	-4.7%	-0.1%	-6.1%
<b>Companies</b>										
PT Multimedia	14.6%	19.5%	20.6%	32.1%	58.7%	10.6%	10.8%	6.0%	10.0%	24.9%
Impresa	22.6%	20.1%	85.0%	130.8%	130.8%	18.3%	11.4%	62.7%	92.2%	81.6%
Grupo Prisa	14.8%	38.1%	43.9%	94.8%	104.2%	10.9%	28.0%	26.6%	62.2%	60.6%
Recoletos	6.3%	0.3%	11.4%	31.7%	51.0%	2.6%	-7.0%	-2.1%	9.6%	18.8%
Sogecable	26.0%	56.3%	71.9%	262.6%	237.2%	21.6%	45.0%	51.2%	201.9%	165.3%
TPI	10.5%	12.1%	17.8%	27.4%	61.0%	6.7%	3.9%	3.6%	6.1%	26.7%

Source: Datastream, UBS estimates. Based on share prices as of close 29 January 2004

While we acknowledge that the strong performance in 2003 should create concerns over further potential upside, we nevertheless believe that this positive momentum is likely to extend throughout 2004. We believe this is likely to be driven by:

- **Advertising growth:** We expect Portuguese economic recovery to come through in 2004, which should therefore support advertising growth (we estimate +5% y/y in 2004). Moreover, the uplift in TV ad prices initiated last year should, in our view, feed through to subsequent price increases in other sub-segments of advertising (notably press advertising which was still falling by some 2.8% y/y by H1 03).
- **Earnings momentum:** The pick-up in advertising coupled with the enhanced operational leverage made available by previous cost containments should feed through to continuing margin expansion by the Portuguese media companies. Moreover, specifically in the case of Impresa, further operating gains could be made available by US dollar weakness. Some 46% of SIC's programming costs (or 15% of Impresa's total cash cost base) are carried out in US dollars. UBS currently estimates that the US\$/€ exchange rate may reach 1.4 by the end of 2004. We estimate that US\$ weakness in 2004 could allow for further costs savings opportunities for Impresa of between €3-6 million, which go directly into the EBITDA level.
- **Improving sector valuations:** UBS has recently raised its stance on European Media on the back of an expected pick-up in advertising. This provides scopes for earnings upgrades, which should subsequently support a re-rating of the sector. To a certain extent, the "early" re-rating of the Portuguese media sector in 2003 reached a ceiling because companies' multiples began to look stretched relative to the European sector. Outperformance of the European sector may therefore provide support for further outperformance of the Portuguese sector.
- **Corporate activity potential:** News agencies (e.g. Reuters) report that PT Multimedia would still be interested in seeking corporate movements involving its newspapers and radio division Lusomundo Media. We also believe that Impresa remains interested in further diversifying its activities to also include radio. Potential corporate movements by one of these two companies could further improve momentum on the domestic sector, as it would help to highlight current corporate valuations. Moreover, the forthcoming IPO of Media Capital (scheduled for May/June 2004) should further attract attention to the Portuguese Media sector.

We forecast advertising growth of 5% in 2004

Operational leverage and US dollar exposure

European Media performance should provide support for further performance of the Portuguese sector

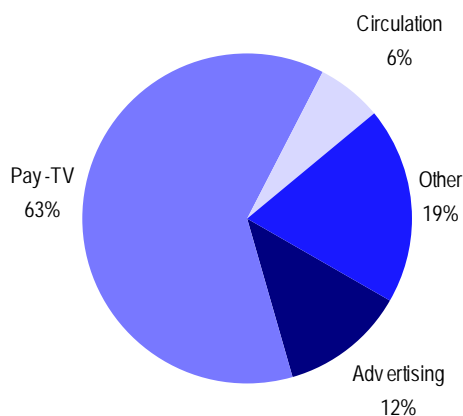
On medium-term growth potential we favour PT Multimedia, which we forecast should post 2003-06E EBIT CAGR of 56%. Although on a stand-alone basis valuation multiples may already look fair (20.4x 2004E PE), we believe that on a relative basis it should find support vis-à-vis BSKyB. At our new €20.8/share price target (was €15) PT Multimedia (pay-TV only) would be trading at 22.6x 2004E EV/EBIT, a 5% discount to BSKyB on our price target. We upgrade our rating for PT Multimedia to Buy 2 from Neutral 2 previously.

On potential near-term positive surprises from operational leverage (advertising is 65% of total group revenues) and US dollar exposure (15% of the total cash cost base is US dollar related) we would favour Impresa. At our new €4.7/share price target (was €3.5) the company would trade at 11.6x 2005E EV/EBITDA for a 20.5% 2003-05E EBITDA CAGR. On our estimate at current levels, the stocks still offers a 12% absolute return potential.

## Leverage to advertising pick-up

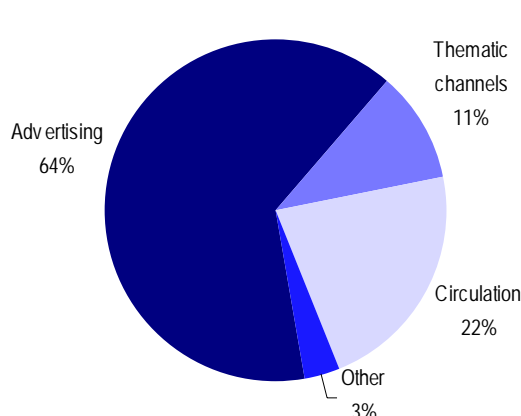
Our sector stance currently favours highly operationally geared stocks over defensives. The main driver on this area is therefore the weight of advertising on total group revenues.

Chart 1: PT Multimedia – Revenues split (9M03)



Source: PT Multimedia

Chart 2: Impresa – Revenue split (9M03)



Source: Impresa

In Portugal, the highest operationally geared company is Impresa, where advertising currently represents 64% of total group revenues. This high exposure translated into group EBITDA margins to sharply increase to 12.2% in 9M03 versus 0.8% in 9M02. Considering a 7.7% y/y increase in revenues for 2004, we estimate that EBITDA margins will further expand to 20.5% in 2004FY.

**Impresa offers the highest operational leverage to advertising**

PT Multimedia on the other hand has a much lower exposure to advertising (12%), which comes mainly through its newspapers and radio division Lusomundo Media. Nevertheless, operational leverage is also available (although at lower degree) at its pay-TV operation TV Cabo, as it operates a cable network unlike its European peers BSkyb and Sogecable, which operate exclusively through satellite.

ARPU expansion (6.9% 2002-04E CAGR) through increases in the pay-to-basic ratio (71.8% at third quarter 2003) and the introduction of new services, coupled with subscriber growth (9.6% 2002-04E CAGR) and the subsequent dilution of its fixed cost base should therefore allow for continued margin expansion over the next couple of years. We consequently estimate group EBITDA margin to increase to 27.3% in 2004FY versus an estimated 19.2% in 2003FY and 12.8% in 2002FY.

**Margin expansion on PT Multimedia available through dilution of its fixed cost base**

## US dollar currency

The weak dollar should, in our view, also be one of the main themes dominating the Media sector's performance in the first half of 2004. While the Portuguese media companies have no revenues derived from the dollar, Impresa on the other hand may strongly benefit from further dollar weakness in 2004.

We estimate that out of SIC's total € 70 million programming costs in 2003E, some €32 million were purchased in US dollars. According to Impresa, and given that the TV channel closes its programming grid for the year by September, such purchases would have been carried at an average exchange rate of US\$/€1.13. This means that the total value of US dollar denominated content was equivalent to US\$36 million in 2003.

Approximately 45% of TV programming costs for Impresa are purchased in US dollars

Simplistically assuming that contents' price remains unchanged in 2004, we carried out an exercise of the potential savings that could be attainable for Impresa in 2004, depending on the evolution of the US\$/€ exchange rate in 2004.

**Table 3: Impresa – SIC TV channel potential savings on programming costs**

US\$/€ exchange rate	Potential savings in 2004E
1.25	€3.07m
1.30	€4.18m
1.35	€5.21m
1.40	€6.17m

Source: UBS estimates

The range of potential savings (€3-6 million) is quite significant as they represent 5% to 10% of the consolidated group EBITDA that we estimate for 2004FY (€58.5 million). Since our revised estimates are €3.5 million above the company's current guidance, we are already partially accounting for potential earnings surprises.

Potential currency gains represent 5-10% of 2004E group EBITDA

As for PT Multimedia's pay-TV operation (TV Cabo), the programming costs exposure to the US dollar is practically negligible nowadays. In the past this exposure was higher as the content for the movie channels was purchased from Portusat, a company 60% owned by Brazilian broadcaster Globo and 40% by Impresa's TV channel SIC. Globo would acquire movie contents in the US and afterwards sell it to Portusat.

Last year however, PT Multimedia terminated the contract with Portusat and started to purchase its movies content from its own subsidiary, Lusomundo Audiovisuals. Lusomundo Audiovisuals is one of the largest content distributors in Portugal, holding the distribution rights of over 3,200 movie titles through strategic agreements with the major Hollywood studios.

We believe that potential currency gains at PT Multimedia are now mainly available through Lusomundo Audiovisuals

Therefore, currency impacts for PT Multimedia are reflected mainly on Lusomundo Audiovisuals results. Our revised estimates for PT Multimedia also partially encompass the potential FX gains that could take place this year. We forecast Lusomundo Audiovisual's EBITDA margin to increase to 13.2% in 2004FY (or €15.6 million) from an expected 11.1% in 2003FY (or €12.8 million).

# Advertising market

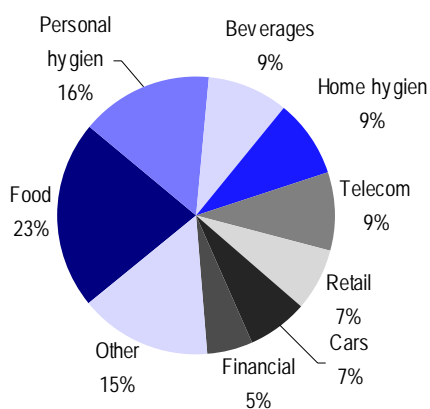
## TV leads the market recovery

Following the peak in advertising expenditure reached in 2000 (c.€660 million), the Portuguese market experienced two years of continuous drops (-6.6% in 2001 and -8.8% in 2002).

Besides the economic slowdown, which culminated in the country entering a recession in 2003 (we estimate a 0.8% GDP contraction in 03), the advertising downturn was also strongly influenced by the extensive cut in telecom ad spending. By 1H2000 telecom spending accounted for as much as 20% of the Portuguese advertising market. In 2003, it represented less than 10% of the TV advertising segment alone.

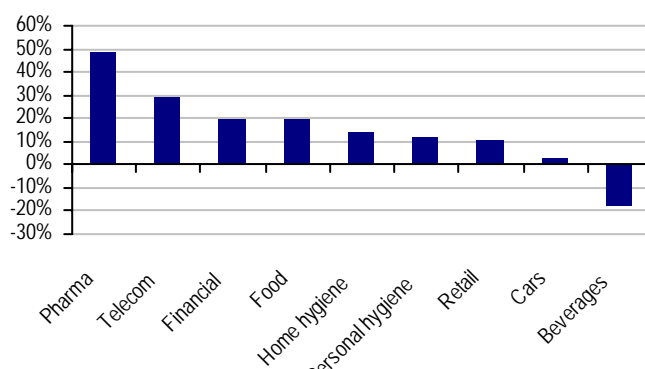
**Portuguese advertising market downturn influenced by extensive cuts in telecom ad spending**

**Chart 3: TV ad-spend – breakdown by source (2003)**



Source: Impresa.  
Note: Based on TV ad-spend throughout the January-October 2003 period

**Chart 4: TV ad-spend – Evolution by source (2003)**



Source: Impresa  
Note: Data refers to y/y growth in TV ad-spend in the year-to- October 2003 period

Changes in the regulatory framework of Portuguese free-to-air television introduced last year translated into a reduction of the total supply of advertising airtime available in the country – the Portuguese government reduced airtime of the state-owned TV channel RTP to 6 minutes/hour from 7.5 minutes previously. TV advertising price increases consequently started to come through even ahead of a structural recovery in advertising volumes.

**Changes in free-to-air TV regulation pushed through initiation of an early price recovery in TV advertising...**

Coupled with an improvement in ad-spend by some of the key sectors like food products, personal hygiene and telecoms, the price increases translated into TV advertising growth reaching 8.4% y/y already by August 2003.

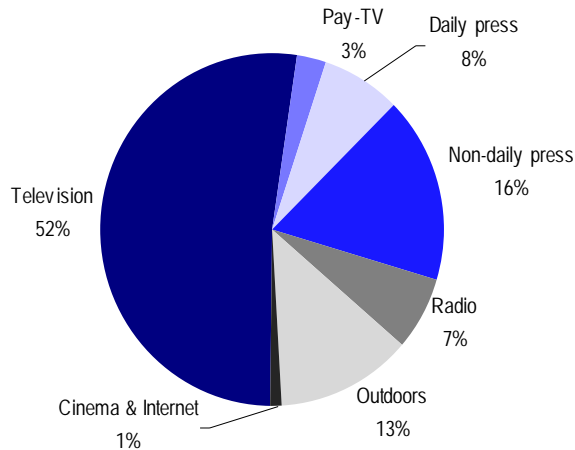
Other advertising segments (such as daily and non-daily press) on the other hand were not yet experiencing a rebound. By August 2003, daily press advertising was still falling 15.2% y/y while non-daily press advertising was broadly flat (+0.7% y/y). We believe however that a rebound of these other segments should also come through in the near future, as the price increases in TV should provide room for other advertising segments to test new price levels.

**...which we believe might extend to other advertising segments in the future**

Moreover, further price increases in TV advertising may also become available in the future. A further reduction in RTP's advertising airtime to 4.5 minutes/hour may be implemented in 2004, if the two private channels fulfil certain programming guidelines.

Further changes in free-to-air TV regulation may still be implemented in 2004

Chart 5: Portuguese ad-spend breakdown (1H03)



Source: Impresa

Nevertheless, since TV still takes a disproportionate amount of the total advertising cake (52%) in Portugal, this segment's recovery has already pulled market-aggregated figures to post a positive performance in 2003. We estimate the total Portuguese advertising to have consequently grown 3.5% y/y in 2003.

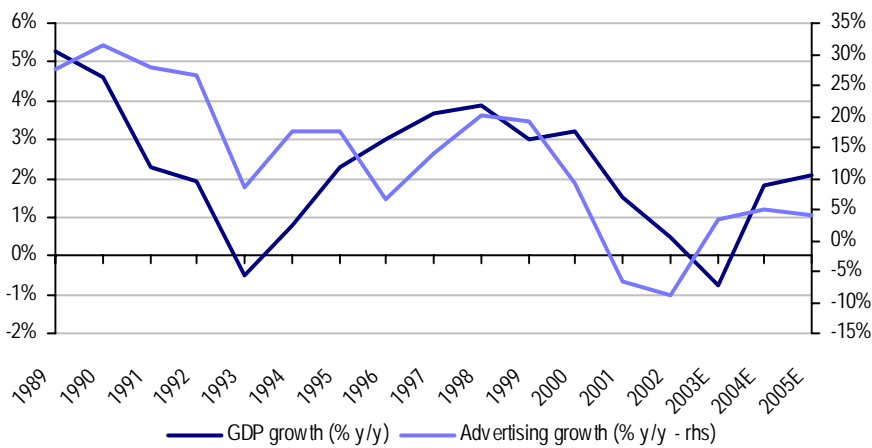
### 2004 should be even better

With improved structural conditions, we expect Portuguese advertising growth to accelerate in 2004 to an overall +5% y/y. This, in our view, should be further supported by:

We estimate +5% advertising growth for Portugal in 2004

- A general pick-up in corporate spending consequential to the forecasted economic recovery;
- A specific pick-up in ad-spending by food retailers ahead of increased competition expected to come through in 2005. These should come as a result of new regulation liberalising openings for new retail areas in Portugal, which had been frozen over the last couple of years.
- The extraordinary boost to advertising stemming from the Euro 2004 football cup and the "Rock in Rio Lisboa" musical event.

Chart 6: Portuguese advertising vs GDP growth



Source: UBS estimates

### Structural growth potential

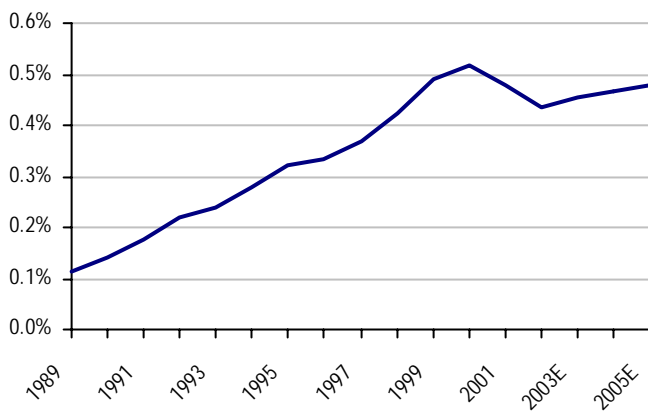
Over the nineties, the advertising market in Portugal posted stronger-than-average growth rates, driven not only by strong economic growth, but also other structural factors:

- The government's privatisation process reduced the monopolistic conditions of key advertising sectors (eg, banks).
- Concentration in the domestic retail market led to the emergence of two large domestic retailers, Modelo Continente and Jerónimo Martins.
- The deregulation of key sectors such as telecoms and utilities.
- The euro has diminished, if not removed entirely, domestic barriers and introduced competition within the Portuguese corporate culture and economy.

As a result of the structural changes, even during the 1993 economic recession (when GDP contracted 0.5% y/y), the advertising market in Portugal grew by 8.4%. This decoupling from macroeconomic trends was, in our view, was also due to the fact that throughout the nineties, the Portuguese advertising market remained structurally underdeveloped. Even after posting an average growth of 19.7% per year during the nineties, by 1999 Portuguese advertising spend represented only 0.49% of the country's GDP.

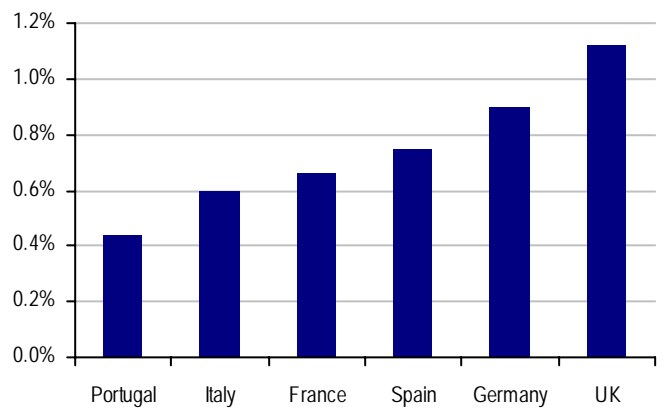
**Structural changes in the country throughout the nineties led Portuguese ad-market to post above-average growth rates**

Chart 7: Portuguese ad-spend as % of GDP



Source: UBS estimates

Chart 8: Advertising spend as a percentage of GDP (2002)



Source: Impresa, UBS estimates

By the year 2000, internet euphoria and strong advertising expenditures by telecom companies (incumbents as well as nascent alternative carriers) and internet start-ups fuelled an “abnormal” acceleration in advertising growth. Advertising as a percentage of GDP jumped to 0.52%. The already well known burst of the internet bubble and the global economic slowdown that followed, led companies to spend the following two years cutting advertising budgets, among other costs.

After 2000, companies started extensive cuts in advertising budgets

However, the key question going forward is whether or not the Portuguese advertising market would have already found its level of structural balance. A comparison of the advertising weight of GDP in Portugal to other European countries (chart 6) suggests that this is not the case.

The two years of contraction in ad spending brought the advertising weight of GDP in Portugal back down to 0.44%. This represents a significant gap other western European economies such as Italy and France in which ad-spend is estimated to represent 0.60% and 0.66% of GDP respectively.

Therefore further structural growth of the Portuguese market should, according to this comparison, be still available. But this structural growth potential would, of course, be dependable on the pace of consumer spending growth.

## Valuations

Despite the strong performances over the last 12 months, we believe that the Portuguese media stocks can still offer further upside potential. Positive momentum on the Media sector is likely to allow for sector average multiples to further expand. This, coupled with our expectations of strong earnings momentum in 2004 should provide support for relative multiples valuations.

Nevertheless our reference valuation methodology for the Portuguese companies is a DCF analysis. UBS' Media team is currently considering as reference assumptions for the sector's valuations an 8.5% discount rate and terminal growth of 3%. We have adjusted our DCF analysis to become more in line with these reference values, but considered a slightly higher terminal growth (3.5%).

Valuations are based on DCF analyses, considering 8.5% discount rate and 3.5% terminal growth

We have opted to take this more aggressive assumption due the relatively stronger pricing power that the Portuguese companies are likely to have in their domestic markets in the longer run (other things being equal). PT Multimedia so far maintains its dominant position in the Portuguese pay-TV market (84.5% market of subscribers). Impresa's free-to-air TV channel SIC has in 2003 regained audience leadership in free-to-air TV (30.3% versus TVI with 28.6%) while the regulatory changes implemented last year have extended the pricing power of both private TV channels (SIC and TVI). To exemplify, we estimate by 2001 SIC's power ratio was at 1.08. We estimate that this had increased up to 1.49 by October 2003. Besides, considering long-term inflation of 2%, the 3.5% growth assumption implies real long-term growth of 1.5%.

The caveat on these new assumptions is that should Portuguese macroeconomic recovery fail to come through, equity risk premiums could rapidly increase. This would most probably get reflected into both lower long-term expectations as well as higher discounts. Moreover, assumed discount rates are also linked to interest rates evolution and the outlook for 2005 is still considerably uncertain.

### PT Multimedia

For our valuation of PT Multimedia we continue to apply a SOP approach, valuing the pay-TV business (TV Cabo) through a DCF analysis and Lusomundo (Media + Audiovisuals) through relative multiples. These methodologies lead us to estimate full enterprise values of €3,056 million for TV Cabo and €216 million for Lusomundo (considering a 9.5x 2004E EBITDA multiple). Considering our estimate of 2004YE net debt of €6 million we reach an equity value of €3,266 million or €20.8 per share.

Table 4: PT Multimedia – Sum-of-the-parts valuation

€ million	EV	% ownership	Attributed to PTM	% total	Comments
TV Cabo	3,056	100%	3,056	93%	DCF
Lusomundo	216	100%	216	7%	9.5x 2004E EV/EBITDA
Total EV			3,272		
Net debt			6		
Equity value			3,266		
Per share (€)			20.8		
Current share price (€)			17.3		
% upside			20.2%		

Source: UBS estimates

We currently estimate that by 2009, TV Cabo would be able to deliver EBITDA of €350.9 million (or a 42.5% margin). Considering the current effective corporate tax rate of 27.5% and an estimated normalised capex of €75 million, we estimate an unlevered free-cash-flow potential of €199 million. As described above, our DCF analysis is now considering as reference assumptions an 8.5% discount rate and 3.5% terminal growth, leading to terminal value NPV of €2,444 million. We estimate the present value of the 2004-2009E unlevered FCF stream at €612 million. This leads to a total EV for TV Cabo of €3,056 million.

**We estimate an unlevered free-cash-flow potential of €199 million from TV Cabo by 2009**

#### Cross-checking with BSkyB

We have then compared the results of our TV Cabo valuation against our current valuation of BSkyB in order to cross-checked if the implied multiples would be reasonable or not. Assuming that our valuation of Lusomundo is correct and considering it as a peripheral asset, we estimate that at current prices PT Multimedia (pay-TV only) would be trading at an implied 2004E EV/EBIT of 19.6x. This implies a current 8.5% premium to BSkyB, which makes the valuation of PT Multimedia to already look stretched vis-à-vis its European comparable.

Table 5: PT Multimedia – Pay-TV underlying valuation

Cable valuation (EUR m)	2003E	2004E	2005E	2006E
Market cap	2,713	2,713	2,713	2,713
+ Net debt	94	6	-96	-228
- Peripheral	216	216	216	216
+ Minorities	73	73	73	73
Enterprise value	2,664	2,576	2,475	2,343
Revenues	439	509	570	631
EBITDA	129	193	234	265
EBIT	73	132	167	196
Subscribers (Cable + DTH)	1,437	1,569	1,659	1,768
Multiples				
EV/Revenues	6.1x	5.1x	4.3x	3.7x
EV/EBITDA	20.6x	13.3x	10.6x	8.8x
EV/EBIT	36.4x	19.5x	14.8x	12.0x
EV/Sub	1,853	1,642	1,492	1,325

Source: UBS estimates; based on share prices as of close 29 January 2004

However, we have also compared the implied multiples of PT Multimedia (pay-TV only) at our new price target (€20.8) against the implied multiples of BSKyB at target. As the reference “blue sky” pay-TV operator in the European sector, we believe it’s reasonable to consider our fair valuation of BSKyB also as a reference to our estimated fair valuation of PT Multimedia.

**New target implies PT Multimedia (pay-TV only) trading at 5% discount to BSKyB at target**

Considering both companies at target, PT Multimedia would be trading at an implied 2004E EV/EBIT of 22.6x, which implies a 5% discount to BSKyB at target. We believe this discount to be reasonable despite the much lower liquidity of PTM shares. In our view, such liquidity discounts tend to be counterweighted by the fact that TV Cabo is in many ways unique in the European sector given its dominance in the domestic market.

**Table 6: PTM (pay-TV only) versus BSKyB at targets**

PTM (pay-TV only) @ target	2003E	2004E	2005E
EV/Revenues	7.0x	5.9x	5.1x
EV/EBITDA	23.7x	15.4x	12.3x
EV/EBIT	41.9x	22.6x	17.3x
<b>BSkyB @ target</b>			
EV/Revenues	3.9x	5.1x	4.5x
EV/EBITDA	22.5x	21.2x	15.3x
EV/EBIT	27.1x	23.9x	16.8x
<b>Premium/(Discount) on:</b>			
EV/Revenues	80%	16%	12%
EV/EBITDA	5%	-27%	-20%
EV/EBIT	55%	-5%	3%

Source: UBS estimates

We have also carried out a sensitivity analysis on the valuation of PT Multimedia, assuming different long-term growth and discount rate assumptions on the DCF valuation of TV Cabo. We believe this to be important not only to assess how much further upside potential could there be in PT Multimedia’s valuation, but also to assess the potential downside should structural conditions (or expectations) negatively change in the future.

**Table 7: PT Multimedia – Valuation sensitivity to TV Cabo’s DCF**

		----- Discount rate -----						
		7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
FCF "g"	1.0%	18.1	16.8	15.6	14.6	13.8	13.0	12.3
	1.5%	19.1	17.6	16.4	15.3	14.3	13.5	12.7
	2.0%	20.4	18.7	17.2	16.0	14.9	14.0	13.2
	2.5%	21.9	19.9	18.2	16.8	15.6	14.6	13.7
	3.0%	23.7	21.3	19.4	17.8	16.5	15.3	14.3
	3.5%	26.0	23.1	20.8	19.0	17.4	16.1	15.0
	4.0%	28.9	25.3	22.55	20.3	18.5	17.0	15.7
	4.5%	32.8	28.2	24.7	22.0	19.9	18.1	16.6
	5.0%	38.3	32.0	27.5	24.1	21.5	19.4	17.7

Source: UBS estimates

## Impresa

On Impresa, our valuation is based on DCF analyses for each of the constituent parts of the company (TV, magazines and newspapers), considering the same set of base assumptions. Given our standardised DCF assumptions, the remaining key variable in the constituents' valuations becomes the estimated free-cash-flow potentials that will serve as the basis for the terminal value calculations.

On SIC (TV) we estimate a terminal free-cash-flow potential of €34 million. Assuming 2004-10E CAGR sales of 4.3%, this implies a terminal FCF margin of 16.4% that compares with a 15.7% margin we currently estimate for 2004.

On the magazines and newspapers divisions we estimate terminal FCF potentials of €11.6 million and €8.1 million respectively. We believe these to be fairly conservative assumptions as, assuming 2004-10E CAGR sales of 3.1%, they imply FCF margins of 11.7% (for magazines) and 12.3% (for newspapers). These compare to currently estimated FCF margins of 11.8% for the magazines division and 13.3% for the newspapers division in 2004.

**Table 8: Impresa - DCF-based sum-of-the-parts valuation**

€ million	EV (100%)	% ownership	Attributable to Impresa	Implies
TV	506.6	51.0%	258.4	14.2x 2004E EBITDA
Magazines	173.9	50.0%	87.0	13.1x 2004E EBITDA
Newspapers	123.3	100.0%	123.3	11.7x 2004E EBITDA
<b>Total Impresa</b>	<b>803.8</b>		<b>468.7</b>	
Group Net debt (2004E)			(112.6)	
Debt not attrib. to Impresa			28.7	
Stock options debt			(5.0)	
Peripherals			15.0	
<b>Impresa Equity Value</b>			<b>394.7</b>	
<b>Per share (€)</b>			<b>4.70</b>	

Source: UBS estimates

We reach full EV valuations of €506.6 million for TV, €173.9 for magazines and €123.3 million for newspapers. Adjusting these values for the respective ownerships of Impresa in each of the divisions, we estimate a full equity value for the company of €394.7 million or €4.7 per share.

### Cross-checking with the sector

Similarly to our valuation of PT Multimedia we have also carried out comparisons of our DCF-based SOP to marked-to-market SOP valuations in order to cross-check the results.

For the TV business we have applied a 12.6x 2004E EBITDA multiple based on the European broadcasters weighted average multiple. For the magazines and newspapers business, we have applied the publishers' average 2004E EV/EBITDA multiple of 9.0x. These lead to an estimated equity value for Impresa of €3.66 per share, which is considerably lower than our DCF-base valuation.

DCF-based SOP leads to equity value of €4.7 per Impresa share

We compared results of our DCF-based SOP with marked-to-market SOP approaches

**Table 9: Impresa – Marked to-market sum-of-the parts valuation**

€ million	EV (100%)	% ownership	Attributable to Impresa	Comment
TV	445.4	51.0%	227.1	12.6x 2004E EBITDA
Magazines	119.7	50.0%	59.9	9.0x 2004E EBITDA
Newspapers	94.3	100.0%	94.3	9.0x 2004E EBITDA
<b>Total Impresa</b>	<b>659.4</b>		<b>381.3</b>	
Group Net debt (2004E)			(112.6)	
Debt not attrib. to Impresa			28.7	
Stock options debt			(5.0)	
Peripherals			15.0	
<b>Impresa Equity Value</b>			<b>307.4</b>	
<b>Per share (€)</b>			<b>3.66</b>	

Source: UBS estimates, Based on share prices as of close 28 January 2004

Alternatively we have also exercised a SOP valuation considering the implied sector average multiples with the companies under our coverage at their target prices. This methodology would lead to an estimated equity value of €4.08 per share, still below our DCF-based valuation.

**Table 10: Impresa – SOP valuation marked to EU Media sector multiples at UBS targets**

€ million	EV (100%)	% ownership	Attributable to Impresa	Comment
TV	497.4	51.0%	253.7	14.0x 2004E EBITDA
Magazines	126.6	50.0%	63.3	9.5x 2004E EBITDA
Newspapers	99.8	100.0%	99.8	9.5x 2004E EBITDA
<b>Total Impresa</b>	<b>723.8</b>		<b>416.8</b>	
Group Net debt (2004E)			(112.6)	
Debt not attrib. to Impresa			28.7	
Stock options debt			(5.0)	
Peripherals			15.0	
<b>Impresa Equity Value</b>			<b>342.8</b>	
<b>Per share (€)</b>			<b>4.08</b>	

Source: UBS estimates

Why then we consider our DCF-based valuation to set our new price target for Impresa? Because marked-to-market valuation approaches may not properly reflect the potential earnings upgrades that could still come through from Impresa's high operational leverage. Also because such valuation approaches reflect current momentum and therefore may not properly reflect the full extent of a sector recovery and the subsequent expansion of multiples.

Therefore, while we acknowledge that our new price target is to a good extent "aggressive", we have opted for this approach in light of our positive stance on the Media sector.

We have also exercised a sensitivity analysis of our DCF-based SOP valuation of Impresa to highlight the significant impacts on valuation that changes in the DCF main assumptions would cause.

**Table 11: Impresa – Sensitivity analysis of DCF-based sum-of-the-parts valuation**

		----- Discount rate -----						
		7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
FCF "g"	1.0%	3.9	3.6	3.3	3.1	2.9	2.7	2.5
	1.5%	4.2	3.8	3.5	3.2	3.0	2.8	2.6
	2.0%	4.5	4.1	3.7	3.4	3.2	2.9	2.7
	2.5%	4.9	4.4	4.0	3.7	3.4	3.1	2.9
	3.0%	5.4	4.8	4.3	3.9	3.6	3.3	3.0
	3.5%	6.1	5.3	4.7	4.2	3.8	3.5	3.2
	4.0%	6.9	5.9	5.2	4.6	4.1	3.7	3.4
	4.5%	7.9	6.7	5.8	5.0	4.5	4.0	3.6
	5.0%	9.5	7.7	6.5	5.6	4.9	4.4	3.9

Source: UBS estimates

## Risks

Despite our positive stance on the Portuguese media companies, there are a number of risks on the investment cases of these that we believe should also be carefully weighted for. Given the Media sector's high-beta nature, valuation of the companies can be considerably affected if these risks materialise or even if just the market's perception (or the probability of occurrence) over them increases. Hence why we have included sensitivity analyses of the DCF valuations of the companies.

We have split our risks section into two main classes, general risks and company-specific risk. Among the general risks we highlight the following:

- **Liquidity:** The large ownership of core shareholders on the Portuguese stocks (over 50% in both cases) considerably tightens liquidity of the Portuguese companies. This creates difficulties for minority shareholders to exit the stocks in periods of market downturn. With a market cap of €350 million, Impresa's effective free float currently amounts to c.€105 million. Despite its much higher market cap (€2.7 billion), we estimate PT Multimedia's effective free float to currently amount to 22.1% - 54.05% owned by Portugal Telecom, 9.28% BES, 9.74% BTA and 2.64% BPI. That translates into a considerably lower tradable market cap of c.€605 million.
- **Long-term growth:** Advertising is cyclical. Although the low weight of advertising as a proportion of GDP in Portugal denotes structural growth potential, there is always risk in assuming growth rates higher than long-term inflation expectations. We nevertheless highlight that this is more of an issue for Impresa, as advertising represents only 12% of PT Multimedia's revenues. On PT Multimedia, we believe that long-term risks derive from the uncertainty as to whether or not the company would be able to increase prices above inflation after the pay-TV market reaches maturity.
- **Discount rates:** In our view, the very low interest rate environment is feeding through to lower discount rates, as WACC calculations consider lower risk free rates as well as lower equity risk premiums. Upward movements in interest rates can therefore largely impact DCF valuations of the companies, given the large weight of the terminal values in the overall valuations. On our DCF valuation of Impresa, terminal values of the constituents represent 70% of their full enterprise value. On PT Multimedia, 80% of TV Cabo's valuation is terminal value.

## Company specific risks:

Specifically on PT Multimedia, we detect the following risks:

- **Regulatory environment:** TV Cabo has been holding a dominant position in the pay-TV market, with its main competitors grasping altogether only a 15.5% market share. So far this has not been a problem as the market is in fact fully liberalised – nine licenses were awarded in 1994, but other licensees have simply chosen not to start their cable operations. However, Canadian CSII, which controls Portugal's second pay-TV operator Cabovisão, was reported (by Reuters) to have entered financial distress. Besides creating doubts over the future of Cabovisão's operations, this also limits the competitiveness of the company, providing room for TV Cabo to further increase its market share. Although we believe that, in the short term, a withdrawal of the second operator would be beneficial for PT Multimedia; in the longer run we believe this could be a potential threat. The regulator could try to impose stricter control over PT Multimedia's pay-TV business if a practical monopolistic situation is achieved.
- **ARPU expansion:** It is also important to note that our current ARPU growth estimates are significantly driven by introduction of new services, most especially broadband Internet through cable modems. This segment competes closely with the ADSL offers of fixed-line telecom operators and pricing schemes of the two products are therefore very similar. However Portugal Telecom's fixed line competitors have been strongly criticising, among other issues, the wholesale prices of ADSL practised by Portugal Telecom to the alternative operators. Consequently ANACOM (Portuguese telecom regulator) has recently obliged PT to reduce ADSL wholesale monthly fees to €16 per line from €17.52 previously. Additionally the activation fee was reduced from €70 to € 38. Alternative operators nevertheless continue to exert pressure on the regulator. In our view, this presents a risk for PT Multimedia because further price pressure on ADSL could force PT Multimedia to push down the price of its cable modem offer in order to maintain competitiveness. This would damage part of the ARPU expansion story, as currently broadband ARPU amounts to €29.9 versus pay-TV ARPU of €19.9.
- **License renewal:** Officially, the pay-TV license awarded by ANACOM to TV Cabo expires in 2009. Although the company (and ourselves) attributes a high probability that the license gets renewed after 2009, there is always some risk that this does not happen. This possibility risks the entire terminal valuation of TV Cabo. It is also worth noting that in 2003 PT Multimedia also changed the depreciation period of its network assets. Previously the assets were depreciated according to the number of years left until the end of the license, but now they are depreciated throughout an estimated useful life of 20 years. The Tax Authority nevertheless approved this change in the depreciation policy.
- The limited liquidity levels of the Portuguese stocks vis-à-vis their peer group tends to create above-average volatility of the share prices. Hence why we set a "2" predictability level on our ratings.

## Impresa

On Impresa we highlight the following specific risks:

- **Leveraged balance sheet:** Despite the €20 million capital increase carried out in October 2003, Impresa's balance sheet remains stretched. We estimate the company to have reached 2003 year-end with a net debt position of €149 million, which implies a net debt to equity ratio of 127%. Given that all of Impresa's debt is at floating rates, company's earnings are also particularly vulnerable to interest rate movements. Moreover, we also forecast that the company's cash-flow generation will take some time to reduce debt to more comfortable levels. We forecast net to come down to €112.6 million by 2004 year-end.
- **Large dependency on advertising recovery:** Should the Portuguese economic recovery fail to come through, advertising growth could also deteriorate after the one-off effects stemming from the Euro cup and "Rock in Rio" events. In this scenario, the company's high operational leverage would play against the currently forecasted margin recovery.

## Earnings estimates

Throughout 2003, the Portuguese companies provided positive results surprises. The completion of Impresa's cost cutting programme, coupled with the early recovery in TV advertising led the company to report stronger-than-expected margin recovery. Meanwhile, cost containment and healthy top-line growth at PT Multimedia's TV Cabo allowed the company to exceed original margin expansion expectations and set even higher targets.

In light of the results surprises and the expected improvement in domestic macroeconomic conditions we are upgrading our estimates for the Portuguese media companies.

On PT Multimedia, the main driver behind our earnings upgrades comes from TV Cabo, which delivered faster-than-expected margin expansion. Considering the new company target of reaching 40% EBITDA margin by 4Q04, we are raising our 2004E EBITDA to €193.5 million, which implies an expected 38% margin for the full-year. Our revenues estimates on the other hand remain broadly unchanged, as the earnings surprise essentially came through cost containment.

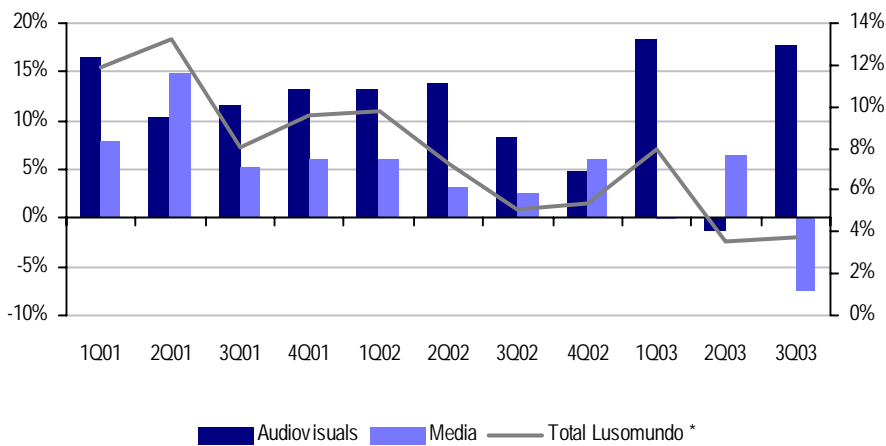
**Table 12: PT Multimedia - changes to profit & loss estimates**

€ million	----- New estimates -----			----- Previous estimates -----			----- % change -----		
	2003E	2004E	2005E	2003E	2004E	2005E	2003E	2004E	2005E
TV Cabo	438.6	509.2	570.0	429.1	501.0	591.9	2.2%	1.6%	-3.7%
Lusomundo	250.4	260.8	268.8	258.8	273.1	288.1	-3.2%	-4.5%	-6.7%
<b>Total operating revenues</b>	<b>689.1</b>	<b>769.9</b>	<b>838.8</b>	<b>687.9</b>	<b>774.1</b>	<b>879.9</b>	<b>0.2%</b>	<b>-0.5%</b>	<b>-4.7%</b>
TV Cabo	129.4	193.5	233.7	97.4	128.2	162.7	32.8%	50.9%	43.6%
Lusomundo	8.9	22.7	27.8	18.4	26.5	33.1	-51.9%	-14.2%	-16.1%
Other adjustments	(6.1)	(6.0)	(6.5)	(0.3)	(0.0)	(0.0)			
<b>Total EBITDA</b>	<b>132.2</b>	<b>210.2</b>	<b>255.0</b>	<b>115.6</b>	<b>154.7</b>	<b>195.8</b>	<b>14.4%</b>	<b>35.9%</b>	<b>30.2%</b>
<b>% margin</b>	<b>19.2%</b>	<b>27.3%</b>	<b>30.4%</b>	<b>16.8%</b>	<b>20.0%</b>	<b>22.3%</b>	<b>14.2%</b>	<b>36.6%</b>	<b>36.6%</b>
EBIT	51.2	123.8	163.2	18.9	55.8	91.9	171.1%	122.1%	77.5%
<b>% margin</b>	<b>7.4%</b>	<b>16.1%</b>	<b>19.5%</b>	<b>2.7%</b>	<b>7.2%</b>	<b>10.4%</b>			
Pretax profit	(22.8)	121.5	167.7	7.1	50.8	91.3	n.m.	139.4%	83.6%
Taxes	40.5	(3.2)	(46.1)	(4.5)	(4.8)	(4.8)	n.m.	n.m.	n.m.
Minority interests	1.3	1.4	1.6	1.3	1.4	1.6	0.0%	0.0%	0.0%
<b>Reported net profit</b>	<b>19.0</b>	<b>119.8</b>	<b>123.1</b>	<b>3.9</b>	<b>47.4</b>	<b>88.1</b>	<b>n.m.</b>	<b>152.5%</b>	<b>39.7%</b>
<b>UBS net profit pre goodwill</b>	<b>32.5</b>	<b>133.3</b>	<b>136.6</b>	<b>17.4</b>	<b>60.9</b>	<b>101.6</b>	<b>86.8%</b>	<b>118.7%</b>	<b>34.4%</b>

Source: UBS estimates

On the other hand we are downgrading our estimates for Lusomundo (Audiovisuals + Media). Our previous expectations were assuming sharp margin recovery (from 2002 EBITDA margin of 4.3% to 7.1% in 2003E) driven by the operational leverage that the Media business would offer in the event of an upturn in the advertising market.

Chart 9: Lusomundo – EBITDA margins quarterly evolution

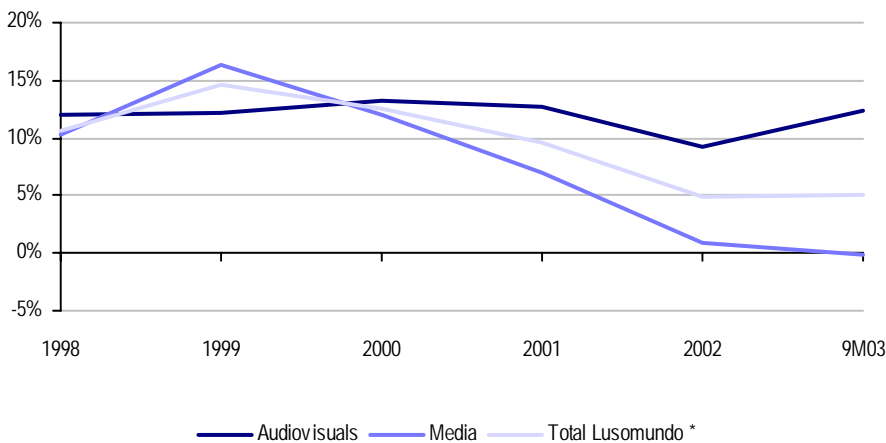


Source: PT Multimedia, UBS estimates. \* Historic margins are adjusted for the exclusion of press distribution company that was removed from the full consolidation perimeter in 2003.

However, press advertising has not accompanied the recovery experienced on the TV market in 2003. Newspapers advertising for Impresa were dropping 11.9% y/y by 9M03 while advertising revenues for Lusomundo were dropping 8.5% y/y in the same period.

Moreover, our previous expectations of margin improvement (namely at Lusomundo Media) were largely based on cost cutting. In 9M03 however, Lusomundo Media’s total costs were increasing by 5.7% y/y, offsetting the margin improvements taking place at Lusomundo Audiovisuals.

Chart 10: Lusomundo – EBITDA margins evolution



Source: Lusomundo, PT Multimedia, UBS estimates. \* Historic margins are adjusted for the exclusion of press distribution company that was removed from the full consolidation perimeter in 2003.

Therefore, in our view, even if cost cutting takes place going forward, the company’s delay on this process will limit the potential operational leverage gains that it could otherwise extract from an improving advertising market.

## Impresa

Similarly to PT Multimedia (on the pay-TV side), the main changes in our estimates for Impresa are a result of better-than-expected results of the cost restructuring measures implemented. Our revenues estimate for the company remain broadly unchanged.

**Table 13: Impresa – changes to profit & loss estimates**

€ million	----- New estimates -----			----- Previous estimates -----			----- % change -----		
	2003E	2004E	2005E	2003E	2004E	2005E	2003E	2004E	2005E
TV	142.8	156.1	167.3	141.2	155.9	166.4	1.1%	0.1%	0.5%
Magazines	74.5	79.2	82.1	70.9	73.9	76.5	5.1%	7.2%	7.4%
Newspapers	50.2	52.8	54.8	51.9	55.3	58.2	-3.4%	-4.5%	-5.8%
Intercompany sales	(3.2)	(3.4)	(3.5)	(3.2)	(3.3)	(3.4)	-0.2%	2.0%	2.0%
<b>Total operating revenues</b>	<b>264.2</b>	<b>284.7</b>	<b>300.7</b>	<b>260.8</b>	<b>281.7</b>	<b>297.7</b>	<b>1.3%</b>	<b>1.0%</b>	<b>1.0%</b>
TV	23.3	35.7	38.4	18.0	25.1	32.1	29.5%	41.9%	19.9%
Magazines	11.7	13.3	14.3	13.3	14.1	14.5	-12.5%	-5.8%	-1.0%
Newspapers	8.0	10.5	11.3	7.5	9.4	10.6	7.2%	12.1%	6.7%
Other adjustments	0.3	(1.0)	(1.2)	(0.0)	0.0	0.0			
<b>Total EBITDA</b>	<b>43.3</b>	<b>58.5</b>	<b>62.8</b>	<b>38.8</b>	<b>48.6</b>	<b>57.1</b>	<b>11.5%</b>	<b>20.3%</b>	<b>10.1%</b>
<b>% margin</b>	<b>16.4%</b>	<b>20.5%</b>	<b>20.9%</b>	<b>14.9%</b>	<b>17.3%</b>	<b>19.2%</b>			
EBIT	7.4	23.5	28.5	5.0	15.3	23.9	47.5%	53.2%	19.2%
<b>% margin</b>	<b>2.8%</b>	<b>8.2%</b>	<b>9.5%</b>	<b>1.9%</b>	<b>5.4%</b>	<b>8.0%</b>			
Pretax profit	(1.6)	19.8	27.7	(3.2)	7.5	16.9	-51.7%	164.0%	63.6%
Taxes	0.0	(4.0)	(7.6)	0.0	(0.8)	(4.2)		428.1%	79.9%
Minority interests	(4.0)	(9.7)	(11.5)	(2.7)	(5.7)	(8.7)	51.3%	70.3%	31.6%
<b>Reported net profit</b>	<b>(5.6)</b>	<b>6.2</b>	<b>8.6</b>	<b>(5.9)</b>	<b>1.1</b>	<b>4.0</b>	<b>-5.0%</b>	<b>478.3%</b>	<b>116.1%</b>
<b>UBS net profit pre goodwill</b>	<b>3.7</b>	<b>14.9</b>	<b>19.3</b>	<b>4.0</b>	<b>10.9</b>	<b>13.8</b>	<b>-7.3%</b>	<b>36.4%</b>	<b>39.7%</b>

Source: UBS estimates

We expect the high operating leverage of Impresa's broadcasting activities to deliver even stronger results going forward. While taking a more conservative stance on the magazines division (on the back of strong competition levels currently in place in this segment) we also upgraded our estimate for the newspapers division. Despite continued weakness in press advertising in 9M03, Impresa's newspapers EBITDA nearly doubled in the period (from €3 million in 9M02 to €5 million).

## ■ Statement of Risk

The media sector is mostly affected by consumer spend and the advertising cycle which are inherently difficult to predict. Therefore, future earnings forecasts and underlying valuations of the media companies may be subject to abrupt changes.

#### ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

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### Global ratings: Definitions and allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage <sup>1</sup>	IB services <sup>2</sup>
<b>Buy 1</b>	FSR is > 10% above the MRA, higher degree of predictability	<b>Buy 2</b>	FSR is > 10% above the MRA, lower degree of predictability	<b>Buy</b>	38%	35%
<b>Neutral 1</b>	FSR is between -10% and 10% of the MRA, higher degree of predictability	<b>Neutral 2</b>	FSR is between -10% and 10% of the MRA, lower degree of predictability	<b>Hold/Neutral</b>	51%	32%
<b>Reduce 1</b>	FSR is > 10% below the MRA, higher degree of predictability	<b>Reduce 2</b>	FSR is > 10% below the MRA, lower degree of predictability	<b>Sell</b>	11%	26%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 31 December 2003.

### KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

**Predictability Level** The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Rating/Return Divergence (RRD)** This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

### EXCEPTIONS AND SPECIAL CASES

**US Closed-End Fund ratings and definitions are:** Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

### Companies mentioned

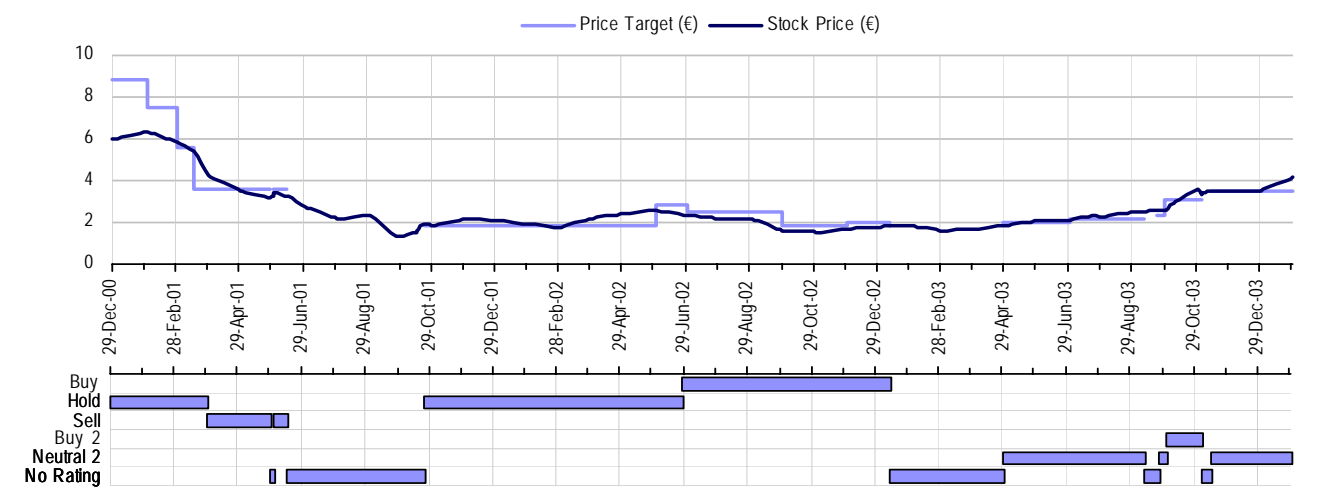
Company Name	Reuters	Rating	Price
<b>BSkyB</b>	BSY.L	Buy 1	749p
<b>Impresa</b>	IPRN.IN	Neutral 2	€4.18
<b>Portugal Telecom<sup>3,7,10</sup></b>	PTCO.IN	Neutral 2	€8.55
<b>PT Multimedia</b>	PTMN.IN	Buy 2	€17.30

Price(s) as of 29 January 2004. Source: UBS.

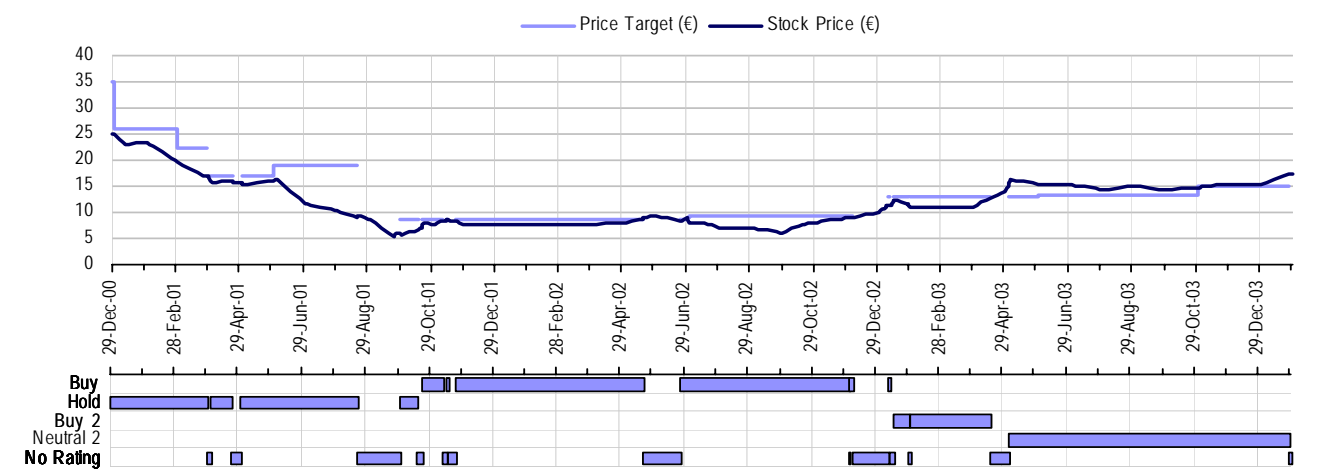
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10. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

**Impresa (€)**



**PT Multimedia (€)**



Source: UBS; as of 29 January 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'Global ratings: Definitions and allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

## Global Disclaimer

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