

Looking for a strong 1H04

■ Advertising on an upward trend

We have recently roadshowed with Impresa, which presented a positive outlook for advertising in 2004. While visibility has largely improved (sustained by the sports and music events taking place in Portugal this year), advertising growth could reach approximately 10% y/y in 1H04 and 7-8% y/y in 2004FY.

■ Margin improvements to continue in 2004

Impresa reported strong margin improvements in its TV and newspapers operations in 2003. We nevertheless expect further margin improvements to come through in all of Impresa's divisions in 2004, led by a growing advertising market and remaining operational benefits stemming from the restructuring programme completed in 2003.

■ Upgrading to Buy 2 (from Neutral 2)

Moreover, we believe that the potential for near-term positive earnings surprises remains open, given the company's high operational leverage (advertising revenues represent 65% of the group's total). We upgrade our rating to Buy 2 from Neutral 2.

■ Valuation: €4.9/share on DCF based SOP

We are also revising our DCF-based SOP valuation of Impresa, based on the company's mid-term EBITDA margin targets of >25% for TV, 18-20% for magazines and 22-23% for newspapers, presented on the roadshow. We are consequently adjusting our price target upwards to €4.9/share from €4.7 previously.

Highlights (€m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	251	266	284	300	315
EBIT	(30)	8	24	29	34
Net income (UBS)	(18)	0	16	19	22
EPS (UBS, €)	(0.23)	0.00	0.19	0.23	0.26
Net DPS (UBS, €)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	1.2	2.9	8.5	9.6	10.8
ROIC (EBIT) %	-	2.9	9.1	11.6	14.4
EV/EBITDA x	-	15.3	13.0	11.6	10.3
PE (UBS) x	-	>100	21.8	17.4	15.4
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of €4.04 on 02 Apr 2004

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Portugal

Broadcasting

Rating Buy 2

Prior: Neutral 2

Price target €4.90/US\$6.06

Prior: €4.70/US\$5.81

Price €4.04/US\$4.94

RIC: IPRN.IN BBG: IPR PL

5 April 2004

Trading data (local/US\$)

52-wk. range	€4.39-1.65/US\$5.62-1.77
Market cap.	€0.34bn/US\$0.42bn
Shares o/s	84m (ORD)
Free float	30%
Avg. daily volume ('000)	193
Avg. daily value (€m)	0.8

Balance sheet data 12/04E

Shareholders' equity	€0.10bn
P/BV (UBS)	2.7x
Net cash (debt)	(€0.11bn)

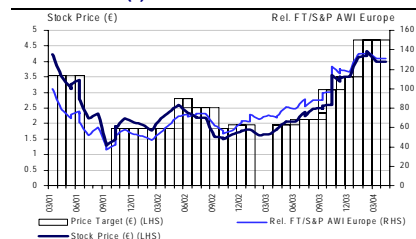
Forecast returns

Forecast price appreciation	+21.3%
Forecast dividend yield	0.0%
Forecast stock return	+21.3%
Market return assumption	7.1%
Forecast excess return	+14.2%

EPS (UBS, €)

	12/03	12/04E	Cons.	Prior
Q1	(0.07)	(0.02)	-	(0.05)
Q2	0.04	0.08	-	0.09
Q3	(0.03)	0.03	-	0.05
Q4	0.05	0.10	-	0.12
FY	0.00	0.19	0.21	0.18

Performance (€)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7

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We have recently roadshowed with Impresa, following its 2003FY results announcement on 11th March. The company has presented a recap of 2003FY results and also presented its expectations for 2004.

In summary, 2003 was marked by the sharp margin recoveries achieved in the TV and newspapers divisions resulting from the restructuring programme carried out over the last 2 years. Moreover, results of the TV operation (SIC) also benefited from the recovery in TV ad-spend driven by the changes in free-to-air TV regulation (that led to price increases) as well as volume recovery. TV EBITDA margins in 2003FY consequently saw a sharp upswing, reaching 17.9% in 2003 (or €25.9m) against a negative 2.6% margin in 2002 (-€3.4m).

Newspapers also performed well, with EBITDA margins increasing to 16.6% in 2003 (€8.4m) versus 8.2% (€4.2m) in 2002. In this case however, the restructuring essentially drove the good results, as advertising revenues for the division actually dropped nearly 10% y/y in 2003. On the other hand, the magazines division had EBITDA margin dropping to 13.9% (€10.4m) in 2003, from 18.1% (€13.2m) in 2002. The margin drop was driven by launchings of new magazine titles (as well as the re-launching of some titles) and a strong push in alternative marketing promotions (i.e. add-ons like books, DVDs etc) made necessary by stronger competition in this segment.

Overall, 2003FY results came out broadly in line with our estimates. When adjusted for one-off restructuring charges of €2.9m, group EBITDA reached €43.7m in line with our €43.3m estimate. At bottom line, the deviation (€10.2m net losses vs €5.6m expected) was led by the €5.5m tax charge. This unexpected tax charge was a result of two factors. First, in 2003 the magazines division started to pay taxes (€2m). Second, the implemented reduction in the base corporate tax rate (to 25% from 30%) forced Impresa to re-write downwards the amount of tax credits in its books.

With regards to 2004, the outlook remains positive. The extraordinary events taking place this year (the Euro cup, the Rock in Rio music festival as well as the Olympics) are sustaining ad-spend recovery. This, coupled to the company's high operational leverage (ad-revenues represent 65% of the group's total) and remaining benefits from the restructuring programme, should lead to margin improvements in all of Impresa's divisions.

While advertising could grow approximately 10% y/y in 1H04, Impresa is expecting TV EBITDA margins to increase to 23% in 2004FY. Similarly, newspapers and magazines EBITDA margins are expected to increase to c.22% and c.15% respectively.

Following 2003 results, we have slightly adjusted our 2004 estimates (less than 1% change in 2004 EBITDA). We have also revised our DCF-based sum-of-parts valuations based on the company's mid-term EBITDA margin targets of >25% for TV, 18-20% for magazines and 22-23% for newspapers. We consequently increase our price target for Impresa to €4.9 per share (was €4.7) and upgrade our rating to Buy 2 (from Neutral 2). We believe that with an improving advertising market, the potential for near-term positive earnings surprises remains open, given the company's high operational leverage.

Table 1: Impresa – 2003FY results summary and 2004E expectations

€ million	2003E	2003A	% diff	----- 2004E -----	
				UBS	Impresa
TV	142.8	144.7	1.4%	156.1	157.0
Magazines	74.5	74.5	0.1%	79.0	78.5
Newspapers	50.2	50.7	1.2%	53.1	54.0
Intercompany sales	(3.2)	(4.3)	33.7%	(4.0)	(5.5)
Total operating revenues	264.2	265.7	0.6%	284.2	284.0
TV	23.3	25.8	10.9%	35.7	36.5
Magazines	11.7	10.4	-11.2%	12.6	12.2
Newspapers	8.0	8.4	5.1%	11.1	11.8
Other adjustments	0.3	(3.7)	n.m.	(1.1)	(2.3)
Total EBITDA	43.3	40.9	-5.5%	58.4	58.2
% margin	16.4%	15.4%		20.5%	20.5%
EBIT	7.4	7.7	4.0%	24.1	
% margin	2.8%	2.9%		8.5%	
Pretax profit/(loss)	(1.6)	(1.6)	3.9%	19.8	
Taxes	0.0	(5.5)	n.m.	(4.0)	
Minority interests	(4.0)	(3.1)	-23.0%	(9.7)	
Reported net profit	(5.6)	(10.2)	82.1%	6.2	
UBS net profit pre goodwill	3.7	0.0	n.m.	15.6	

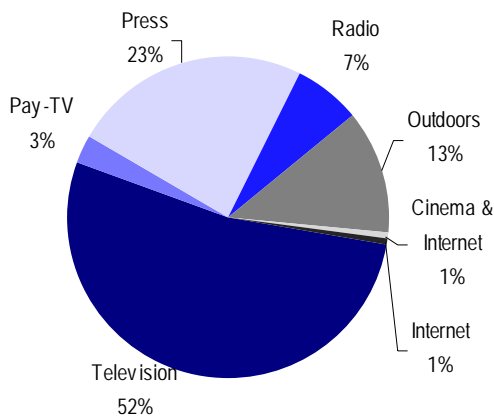
Source: Impresa, UBS estimates

Advertising outlook for 2004

Advertising expenditure continues on an upward trend, driven by a mixture of price increases (led by the segment TV and the new free-to-air regulation introduced last year), the Euro cup and the “Rock in Rio” music festival.

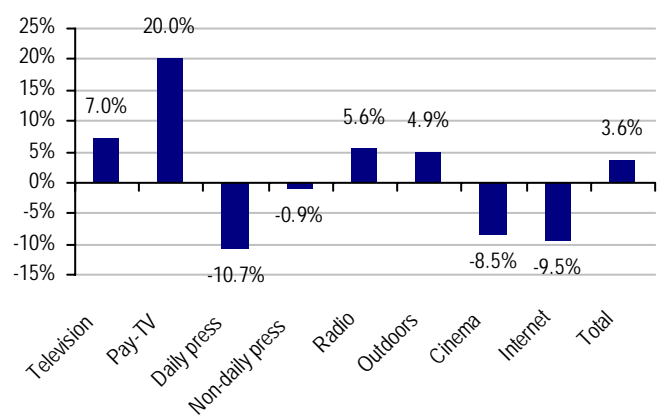
More important perhaps is the fact that visibility is now, according to Impresa, much better than it was last year. For instance, TV advertising space for May and June are already fully booked. In the specific case of Impresa, the company is also benefiting from the fact that its TV channel SIC will be the exclusive broadcaster of the “Rock in Rio” music festival.

Chart 1: Portuguese ad-spend split (2003)



Source: APAP/Deloitte/TempoOMD

Chart 2: Ad-spend evolution by sub-sector (2003/2002)



Source: APAP/Deloitte/TempoOMD

According to Impresa, advertising revenues grew approximately 10% in January and February and such growth rate is likely to be maintained throughout 1H04.

A slowdown in advertising growth during the second half of the year is naturally expected (as the one-off events are over) but Impresa is nevertheless optimistic that growth rates may remain at 4-5% y/y in 2H04. This is led by the following:

- **Privatisations pipeline:** The Portuguese government is now reassessing its agenda of privatisations, namely on EDP, REN (the Portuguese electricity transmission company) and GALP (the Portuguese oil and energy company). These privatisation tranches could take place between 2H04 and 1H05 and are likely to contain significant offers to retail investors, which should consequently drive significant advertising expenditures.
- **Delayed advertising campaigns:** Advertising related to the football and rock events (i.e. from sponsors and product categories that directly benefit from such events) is currently taking up most of the advertising space available in the country (namely on TV). Consequently, other regular advertisers are transferring significant part of their advertising campaigns to the second half of the year, where there is larger supply of advertising air space.
- **UMTS launch:** After several years of systematic delays, the commercial launching of UMTS is finally expected to come through in 2H04. This is likely to translate into a significant pick-up in telecom ad-spend, which has been considerably contained over the past three years. For example, by 1H2000 telecom spending accounted for as much as 20% of the Portuguese advertising market, while it currently represents less than 10%.

Overall, this means that the Portuguese advertising market could grow 7-8% in 2004. This compares to our current estimate of a c.5% advertising growth in 2004.

Other main highlights from the roadshow:

- With regards to the mid-term outlook, Impresa believes the following EBITDA margins are achievable: over 25% in TV; 22-24% in newspapers and; 18%-20% in magazines. At a consolidated level, these divisional margin targets should translate into an overall mid-term EBITDA margin target for the group of 22-23%.
- Expansion into other media segments: Impresa continues to seek opportunities to expand into radio, as it believes that synergies would be available through the sharing of content with its TV channel. The company also does not discard the possibility of analysing an expansion into the daily newspapers segment in the future (namely on the sport segment). In the newspapers area, Impresa is currently present only on the freesheet and weekly newspapers segments.
- Paper costs are still dropping 4-4.5% in 1H04 as European producers are preferring to cut prices instead of losing market share for US and Canadian companies (which currently benefit from a weak US dollar vs the euro).
- Advertising on Impresa's main newspaper title ("Espresso") had a strong year start, growing nearly 9% y/y so far. Moreover, a positive switch on the qualitative front also marked the pick-up, as advertisements went straight into full colour format. Should this positive trend continue, Impresa may have to analyse investing in a new printing machine, which could translate into an extra capex of €8m.
- Net debt (€149m at the end of 2003) could see a reduction in excess of €30m in 2004.

Valuation

We are revising our valuation for Impresa, following 2003FY results and the slight revision in our estimates. Our valuation remains based on DCF analyses for each of the constituent parts of the company (TV, magazines and newspapers), considering the same set of base assumptions (8.5% discount rate and 3.5% terminal growth) applied in our last sector revision ("Up for another round" from 2 February).

Given our standardised DCF assumptions, the remaining key variable in the constituents' valuations becomes the estimated free-cashflow 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% (implies a 25.5% EBITDA margin target) 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 €9.3 million respectively. These imply EBITDA margin targets of 18% for the magazines divisions and 21.7% for the newspapers division. We believe these to be fairly conservative assumptions as, assuming

2004-10E CAGR sales of 3.2%, they imply FCF margins of 11.8% (for magazines) and 14% (for newspapers). These compare to currently estimated FCF margins of 11% for the magazines division and 13.9% for the newspapers division in 2004.

Table 2: DCF-based sum-of-the-parts valuation

€ million	EV (100%)	% ownership	Attrib. To Impresa	Comment
TV	507.2	51.0%	258.7	Implies 14.2x 2004E EBITDA
Magazines	173.4	50.0%	86.7	Implies 13.7x 2004E EBITDA
Newspapers	139.0	100.0%	139.0	Implies 11.1x 2004E EBITDA
Total Impresa	819.6		484.4	
Group Net debt (2004E)			(109.5)	
Debt not attrib. to Impresa			29.4	
Stock options debt			(5.1)	
Peripherals			15.0	
Impresa Equity Value			414.2	
Per share (€)			4.9	

Source: UBS estimates

We nevertheless acknowledge that on marked-to-market approaches, the valuation of Impresa would already look stretched. Considering current European average 2004E EV/EBITDA multiples of 10.9x for broadcasters and 8.3x for publishers, we would reach a value for Impresa of €3.2 per share.

Alternatively, considering the implied sector average multiples with the companies under our coverage at their target prices – 13.9x 2004E EV/EBITDA for broadcasters and 8.9x for publishers – we would reach a value for Impresa of €4.1 per share.

Why then we consider our DCF-based valuation to set our new price target for Impresa? Because marked-to-marked 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. At our new €4.9/share price target (was €4.7) the company would trade at 12.8x 2005E EV/EBITDA for a 24% 2003-05E EBITDA CAGR.

■ Impresa

Following the departure of Lusomundo, Impresa stands as the only pure media play in the Iberian Peninsula. It has interests in free- to-air TV (SIC), pay-TV (thematic channels), print media publishing (newspapers and magazines) and distribution (VASP), and portals (SIC online). Impresa is the premier diversified media group in Portugal with strong market shares in the most important divisions of the Portuguese advertising market, namely television (52% of the Portuguese advertising 'cake'), and magazines and newspapers (a further 27% share).

■ 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 Impresa 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.

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Global ratings: Definitions and allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	41%	36%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	50%	31%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	9%	31%

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 March 2004.

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.

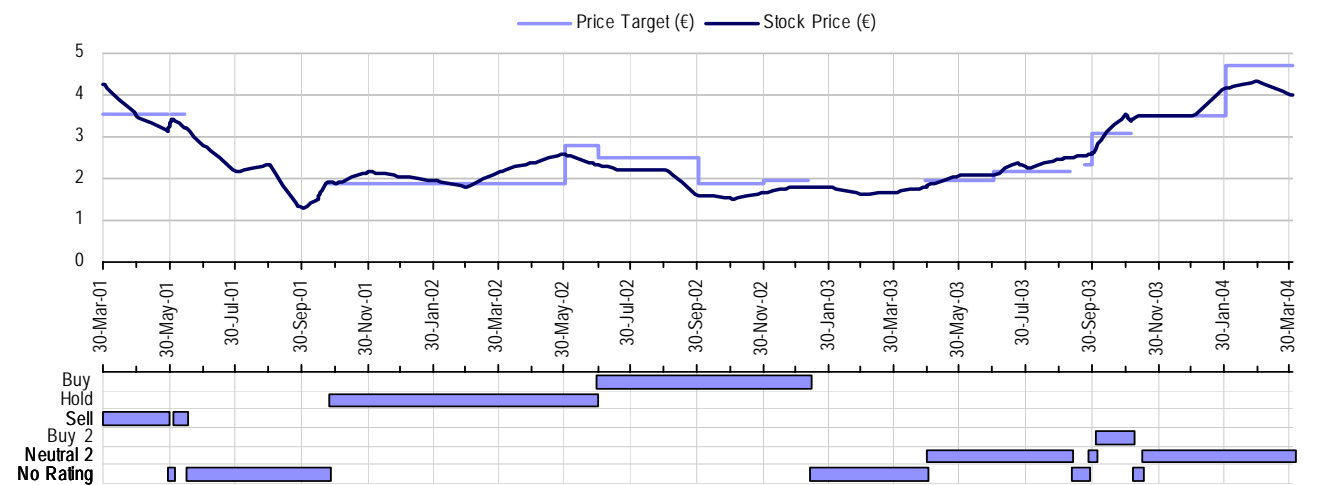
Companies mentioned

Company Name	Reuters	Rating	Price
Impresa	IPRN.IN	Buy 2	€4.00

Price(s) as of 1 April 2004. Source: UBS.

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

Impresa (€)



Source: UBS; as of 1 April 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.

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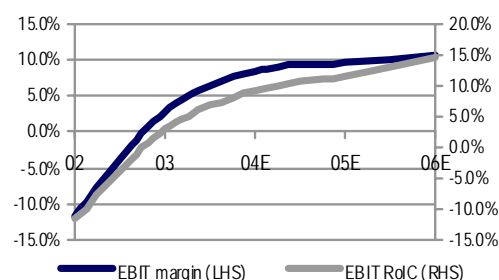


Impresa (euro)

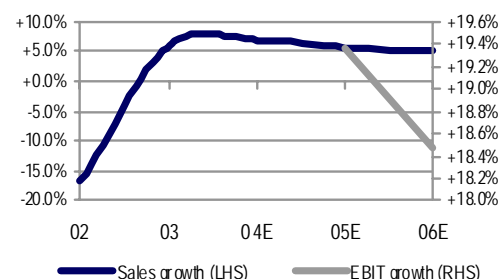
Per share (€)	12/02	12/03	12/04E	12/05E	12/06E
EPS	(0.23)	0.00	0.19	0.23	0.26
CEPS	0.09	0.27	0.48	0.51	0.54
Net DPS	0.00	0.00	0.00	0.00	0.00
BVPS	1.14	1.33	1.48	1.66	1.97
Profit & loss (€ m)					
Sales	251	266	284	300	315
EBITDA	2	34	50	54	59
EBIT	(30)	8	24	29	34
Pre-tax profit	(40)	(2)	18	28	35
Net income (UBS adj.)	(18)	0	16	19	22
Cash flow (€ m)					
EBIT	(30)	8	24	29	34
Depreciation & amortisation	31	27	26	25	25
Change in NWC	2	(38)	2	(2)	(2)
Other (operating)	21	10	8	6	3
Operational cash flow	25	7	59	58	61
Tax paid	2	(5)	(4)	(8)	(10)
Capital expenditure	(61)	(31)	(10)	(11)	(12)
Net interest	(11)	(10)	(6)	(1)	(1)
Dividends paid	0	(2)	(3)	(5)	0
Net (acquisitions) / disposals	(3)	44	10	10	0
Other items	5	14	(7)	(9)	(7)
Change in net debt	(42)	16	40	36	31
Operating free cash flow (OpFCF) (€ m)					
Core EBITDA	16	41	58	63	68
Less: Maintenance capex	(11)	(11)	(10)	(11)	(12)
Less: Maintenance NWC	(2)	(2)	(1)	(2)	(2)
OpFCF	3	28	47	51	54
Balance sheet (€ m)					
Net tangible fixed assets	180	167	161	158	155
Net intangible fixed assets	83	73	63	52	41
Net working capital	(5)	33	31	33	35
Total invested capital (IC)	258	273	255	242	231
Financial & other fixed assets	7	3	3	3	3
Net cash / (debt)	(165)	(149)	(109)	(74)	(42)
Provisions	0	0	0	0	0
Minority interests	(13)	(16)	(25)	(37)	(51)
Shareholders' funds	88	96	99	103	114
Profitability					
EBITDA margin	0.7%	12.9%	17.5%	18.0%	18.8%
EBIT margin	(11.8%)	2.9%	8.5%	9.6%	10.8%
EBIT RoIC	NM	2.9%	9.1%	11.6%	14.4%
Net RoE	NM	0.0%	16.0%	19.4%	20.4%
Interest cover (EBIT)	NM	0.8x	4.1x	38.1x	28.7x
Dividend cover (net)	NA	NA	NA	NA	NA
Productivity					
Labour % sales	26.3%	26.4%	23.0%	22.5%	21.9%
Depreciation % sales	12.5%	10.0%	9.0%	8.4%	8.0%
Capex % sales	24.3%	11.5%	3.3%	3.5%	3.8%
Invested capital turnover	1.0x	1.0x	1.1x	1.2x	1.3x
Tax rate	NM	NM	21.7%	27.5%	27.5%
Net debt / total equity	164.2%	133.9%	88.2%	52.8%	25.7%
Momentum					
Sales growth	-16.7%	+6.0%	+7.0%	+5.7%	+5.0%
EBIT growth	NM	NM	>+200%	+19.4%	+18.5%
Net earnings growth	NM	NM	>+200%	+25.2%	+13.4%
Dividend growth	NM	NM	NM	NM	NM
Value*					
Market capitalisation (€ m)	154	186	339	339	339
Plus: Core net debt / (cash)	152	157	129	92	58
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	306	306	306	306	306
Less: Non-core assets	(20)	(25)	(15)	(5)	(5)
Enterprise value (EV, avg)	591	624	759	732	698
EV/Sales (core)	3.13x	2.35x	2.67x	2.44x	2.21x
EV/EBITDA (core)	37.9x	15.3x	13.0x	11.6x	10.3x
EV/EBIT (core)	NM	81.3x	31.5x	25.4x	20.5x
EV/OpFCF	>100x	22.0x	16.0x	14.4x	12.8x
EV/Invested capital	2.3x	2.3x	2.9x	2.9x	3.0x
P/CE	22.5x	8.6x	8.4x	8.0x	7.5x
P/E	NM	>100x	21.8x	17.4x	15.4x
Dividend yield (net)	0.00%	0.00%	0.00%	0.00%	0.00%
P/BV (average)	1.8x	1.8x	2.7x	2.4x	2.1x

Following the departure of Lusomundo, Impresa stands as the only pure media play in the Iberian Peninsula. It has interests in free-to-air TV (SIC), pay-TV (thematic channels), print media publishing (newspapers and magazines) and distribution (VASP), and portals (SIC online). Impresa is the premier diversified media group in Portugal with strong market shares in the most important divisions of the Portuguese advertising market, namely television (52% of the Portuguese advertising 'cake'), and magazines and newspapers (a further 27% share).

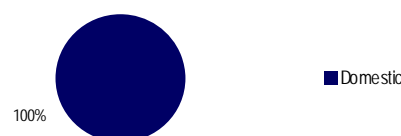
Profitability (EBIT margins & RoIC)



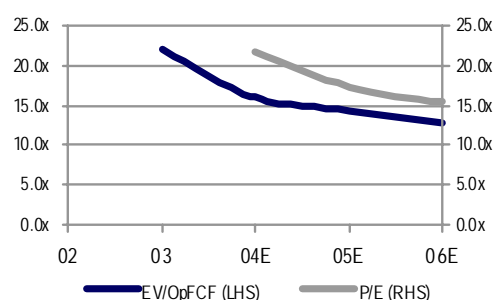
Momentum (Sales & EBIT growth)



Geographic exposure (Sales)



Value (EV/OpFCF & P/E)



Source: UBS estimates, * Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of €4.04 on 02/04/2004