

PORTUGUESE MEDIA

Everything Has Its Price

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- We are reassessing our view on Portuguese media stocks after the companies' recent downgrades in earnings guidance due to a sluggish advertising market, which has been hit by the weaker macroeconomic environment and the consequent slowdown in private consumption. There have also been some shifts in audience share, which could have a significant impact on valuations.
- In terms of TV audiences, Media Capital (via its TVI unit) has consistently raised its share since 1Q05. Highly successful soap operas and reality shows have been the main drivers of this increase, which has largely impacted prime time, but also all-day, audience shares. On the other hand, 2005 has been a dreadful year for Impresa (via its SIC TV unit). SIC has suffered consecutive audience declines since 1Q05 and was relegated to the number three spot behind RTP (the State-owned channel) in October, something that had not happened for a long time.
- After reviewing our estimates for the advertising market and for Impresa and Media Capital, we conclude that 2006F will be a tougher-than-expected year in terms of advertising growth. However, we expect a strong recovery from 2007F, mainly because the bigger dips than expected in 2005E-06F should set a low comparative base. We expect the Portuguese economy to recover from 2H06F and this pick-up should be reflected in the advertising market in 2007F.
- For Impresa, we believe that the worst of the audience share losses will be over in 4Q05E and that its share should recover in 2006F largely thanks to the recent appointment of Francisco Penim as programming director, given his strong reputation and track record. We also believe Impresa will be the main beneficiary of upcoming one-off events slated for 2006 – Rock in Rio and the World Cup. On top of that, Impresa is now trading 14% below our new target price (based on conservative assumptions) and, therefore, we think it is time to Buy. We are nudging our target price up to €5.40/share from €5.30/share previously, leaving a potential upside of 14%. We believe that catalysts such as a recovery in audience share (expected in 1Q06F) and the company's Investor Day (slated for November 28) should provide momentum.
- Although Media Capital's momentum is good in terms of audiences, we believe the risk is on the downside, as SIC is likely to fight back to regain market share. At the same time, we think the share price will be determined, not by fundamentals, but by the present value of the offer (€7.00/share) Prisa could make for Media Capital's minorities in two years' time. We therefore maintain our Underweight rating.

Portuguese Media Companies

| Company | Market Cap (€mn) | Recommendation | Current Price (€) | Target Price (€) | Upside/(Downside) Potential (%) | 2006F EV/EBITDA (x) | 2006F P/E (x) |
|---------------|------------------|----------------|-------------------|------------------|---------------------------------|---------------------|---------------|
| Impresa | 395 | Buy | 4.74 | 5.40 | 14.0 | 9.5 | 15.3 |
| Media Capital | 564 | Underweight | 6.69 | 6.00 | -10.0 | 12.3 | 28.3 |

Source: Banco Santander de Negócios Portugal estimates and forecasts.

SO FAR IN 2005

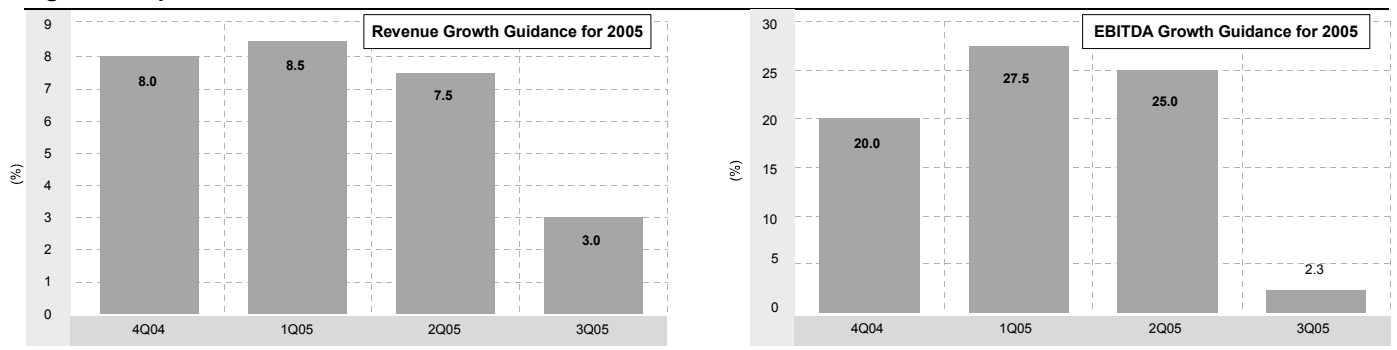
LOWER GUIDANCE SINCE THE BEGINNING OF THE YEAR

Since the beginning of the year, Portuguese media companies have lowered their earnings guidance for FY2005. Indeed, worse-than-expected economic conditions in Portugal, particularly at the private consumption level, have impacted advertising spend across all media sectors this year. At the beginning of this year, we were working on the assumption that private consumption would grow by 3.6% in 2005E and by 3.7% 2006F. After the measures taken by the government to bring the budget deficit down (via VAT and income tax increases), Portuguese households have started to cut back on spending, and media companies have felt the pressure in the advertising market. We are now working on the assumption that private consumption will grow by just 2.2% in 2005E and by 1.5% in 2006F.

At end-3Q05, **Impresa** reduced its 2005 guidance to +3% from the +8% expected at the start of the year in total revenues and to +2.3% from +20% in EBITDA.

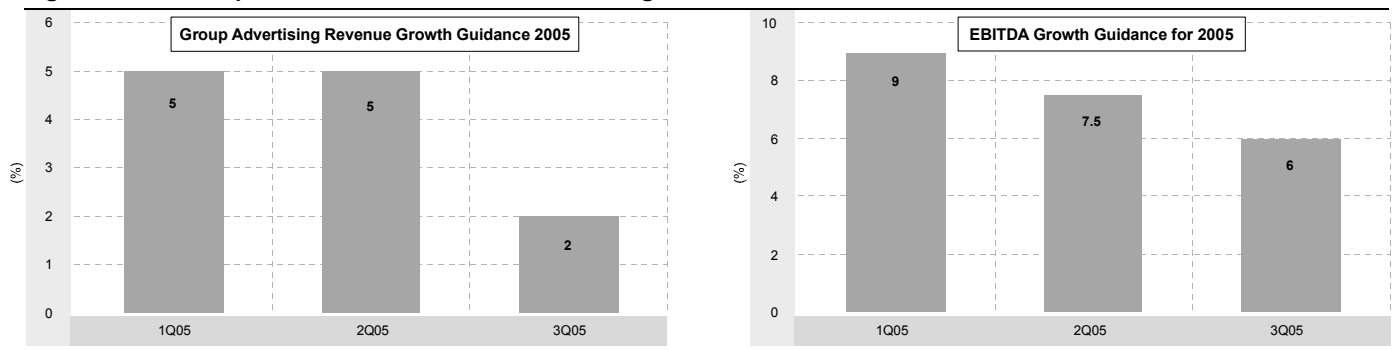
Media Capital also lowered its guidance on the advertising market's expected growth in 2005 to 1%-3% from 4%-6%.

Figure 1. Impresa – 2005 Guidance on Revenue and EBITDA Growth



Source: Company data.

Figure 2. Media Capital – 2005 Guidance on Advertising Revenue and EBITDA Growth



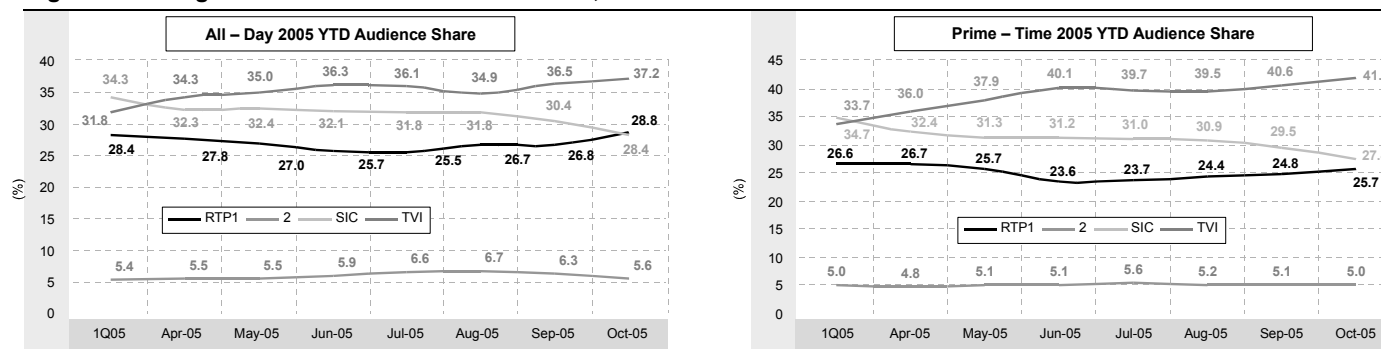
Source: Company data.



SHIFTS IN AUDIENCE SHARE

TV audiences have also seen big changes in the course of 2005. Media Capital/TVI has consistently increased its share of the TV business, while RTP (the State-owned channel) has recouped some lost ground – all largely at the expense of Impresa/SIC.

Figure 3. Portuguese TV Market – Audience Share, YTD



Source: Company data.

TVI's main strength has been three successful soap operas that run consecutively from 6-11pm (ie, prime time and access to prime time), with a break for news and other programmes that do not last more than an hour and a half. Football has also provided some significant audience share gains in 2005, as TVI was able to secure the screening of some major Portuguese championship matches.

RTP has gained strength, mainly in all-day programming rather than in prime time and access to prime time. A successful afternoon Brazilian soap opera has played an important role.

For **SIC**, a series of bad programming calls and an apparent inability to fight competition in key time schedules led to a collapse in audience share, making it the third player in all-day audiences – something which was deemed impossible not so long ago. This poor performance has already led to the resignation of Manuel Fonseca, who has been replaced by the highly reputed Francisco Penim as SIC's managing director for programming.

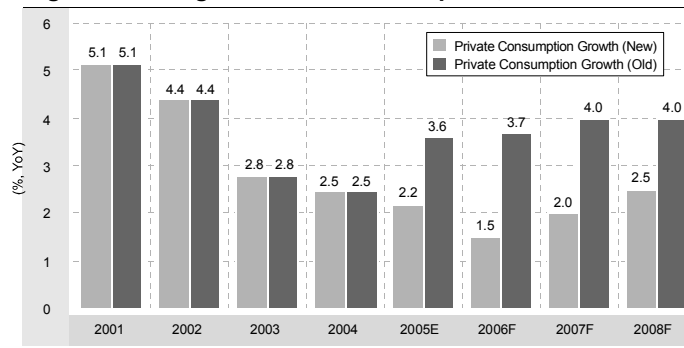
Market shares at Channel **2** have been more or less stable since the beginning of the year, proving itself as a cult channel with a loyal audience.

LOOKING AHEAD

WHAT'S NEXT IN THE PORTUGUESE ADVERTISING MARKET?

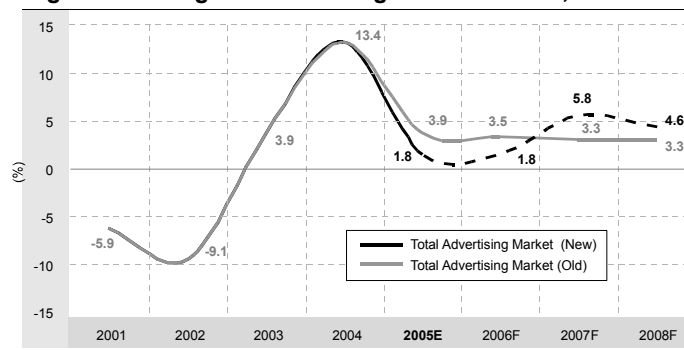
Since the beginning of the year, we have alerted investors to the potential slowdown in the Portuguese advertising market. Nevertheless, this deceleration has been even greater than we forecast, mainly because of the weaker-than-expected economy. We are now working on the assumption that private consumption should grow by just 2.2% in 2005E and 1.5% in 2006F versus our previous model of 3.6% in 2005E and 3.7% in 2006F.

Figure 4. Portugal – Private Consumption, 2001-08F



Source: BoP and Banco Santander Negocios Portugal estimates and forecasts.

Figure 5. Portugal – Advertising Market Growth, 2001-08F



Source: APAP and Banco Santander de Negocios estimates and forecasts.

Reflecting our new macroeconomic assumptions, we now estimate that the advertising market will only grow by 1.8% in 2005E and 2006F (see Figure 5 above). However, we now expect a stronger recovery in subsequent years, following the likely bigger dip than previously expected in the advertising market's growth in 2005E-08F. We believe the advertising market could grow by 5.8% in 2007F and 4.6% in 2008F, helped by the low comparative base set by the falls in 2005E-06F and the expected recovery in the Portuguese economy from 2007F. Figure 6 below shows our forecasts of lower absolute levels in 2005E-06F than before, although we now estimate higher growth rates from 2007F onwards.

Figure 6. Advertising Market – Absolute Values: New vs Old Estimates, 2003-08F

| (€ mn) | 2003A | 2004A | 2005E | 2006F | 2007F | 2008F |
|--------------------------|-------|-------|-------|-------|-------|-------|
| Advertising market (new) | 585.5 | 664.0 | 676.0 | 688.1 | 727.9 | 761.7 |
| Advertising market (old) | 585.5 | 664.0 | 690.1 | 714.4 | 737.8 | 762.5 |
| % difference | 0.0 | 0.0 | -2.0 | -3.7 | -1.4 | -0.1 |

Source: APAP and Banco Santander de Negocios estimates and forecasts.



2006: Rock-in-Rio and the World Cup

We should not forget the one-off events that are slated for 2006, including *Rock in Rio* and the football World Cup. We believe these two events could provide advertisers with extra spending power and, therefore, should cushion the impact of the expected slowdown in private consumption in 2006F. We believe the World Cup effect is fairly obvious, although the impact on individual media companies will not be clear until early 2006F, when we should find out who gets the big matches.

For *Rock in Rio*, it is important to understand the scope of its range – it is a three-day music festival with an expected attendance of 500,000 people. SIC holds the broadcasting rights for the event and has a deal whereby it offers the official event sponsors advertising time at cheap rates. We think the advertising deal will be more lucrative than the potential benefits from higher viewing figures, as it should mean that all the official sponsors' advertising in the run-up to the event will be directed solely to SIC's FTA national TV channel. In 2004, *Rock in Rio* sponsors opted to advertise only on SIC and we believe they will do so again in 2006F. SIC is only planning to broadcast the actual event on its cable channel, which is unlikely to make any difference to its audience share numbers. So, while all the non-TV media should benefit from extra advertising prior to the festival, in TV, only SIC should reap the benefits of *Rock in Rio*.

WHAT WILL HAPPEN TO AUDIENCES?

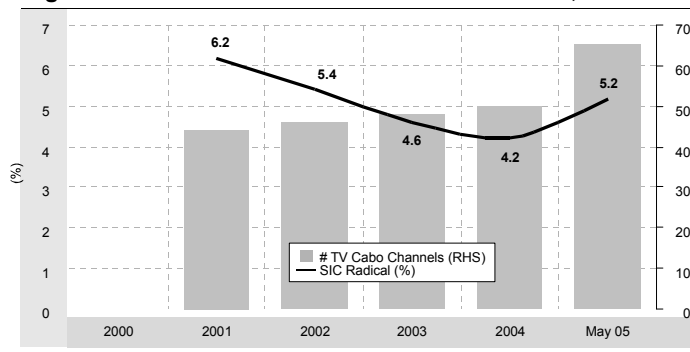
Besides market growth, the other key driver is audience market share, where the normal balance has shifted in the course of 2005. The big question, in our opinion, is: where will SIC stand going forward?

Impresa: The Penim Effect

Some have been quite quick in reacting to SIC's audience share losses and have penalised Impresa's share price. However, we believe it is unlikely that SIC's audience share will remain at the current low levels, and we expect a recovery in the short to medium term.

In October, Impresa brought Francisco Penim over from SIC Radical to replace Manuel Fonseca as SIC's managing programming director. Mr Penim is a highly reputed TV professional who established his reputation at SIC Radical (one of SIC's thematic cable channels). Audience ratings at SIC Radical have performed well, particularly if we adjust for the increase in the number of channels offered by the main cable network in Portugal, TV Cabo. Mr Penim is also bringing other strong professionals on board, namely Teresa Guilherme, who was linked to SIC in the past and produced content that typically delivered 30% plus audience shares. So, from a management credibility, professionalism and effectiveness point of view, we believe that SIC is now being served by some of the best professionals in the business, which should boost audience levels.

Figure 7. SIC Radical – Trend in Audience Share, 2000-05



Source: Impresa.

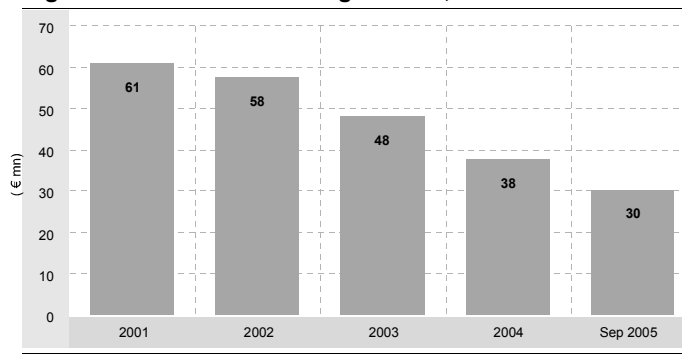
The new programming strategy to re-gain audiences is based on rejuvenating all-day programming, starting early in the day and ending late. The goal is clear: to become the audience leader in the 15-34 year segment by putting more emphasis on entertainment/game shows, national fiction (ie, soap operas, which have made TVI the market leader) and comedy (in which SIC has consistently made good choices in 2005). It is no coincidence that Mr Penim has been chosen as head of programming for SIC; SIC Radical (where he was the former head of programming) was also aimed at the 15-34 age group and it had the highest viewing figures in that segment.

As far as the entertainment/game show segment is concerned, we believe the key issues will be football and reality shows. We think it will be crucial for SIC to secure the rights for the 2006-07 national football league, the 2006 World Cup and even the Champions League, which are all currently being negotiated and the outcome should be known at the end of 2005E or beginning of 2006F. For reality shows and national fiction, SIC can now count on the expertise of content producer Teresa Guilherme. Comedy has been one of SIC's strong points; *Malucos do Riso* has consistently delivered prime-time audience shares of over 30%, and we have no reason to believe this will change going forward.

Note that our P&L estimates already take into account the potentially higher cost of the new programming strategy. We have factored in a 3% rise in TV costs in 2006F versus 2005, which included a €3.5mn one-off charge for job cuts. Stripping out that one-off item, costs would grow by 6% YoY in 2006F including the extra expenses related to winning the football broadcasting rights and increasing national fiction content. In absolute terms, we are estimating a €7.5mn rise in TV costs in 2006F. The national league could cost around €4mn/year (TVI paid €7.6mn for two years' broadcasting rights), the World Cup some €2mn (four Euro 2004 Championship games cost SIC €1.8mn) and we are allowing another €1mn for miscellaneous increases, including the potential impact of the euro/US dollar exchange rate in 2006F. Note that our audience share estimates are conservative and do not reflect the full positive impact football might have: we are assuming the full costs, but not the full benefits.

We should also bear in mind that SIC has made a huge effort over the past five years to improve working capital by reducing its inventory of programmes (ie, those it has never aired). The broadcasting of these programmes has reduced inventories, but has also contributed to the fall in audience share. So, the new programming director will have more freedom than past directors to choose the programmes he thinks appropriate, as he will not have to cope with streamlining the programming stock.

Figure 8. SIC – Stock of Programmes, 2001-05



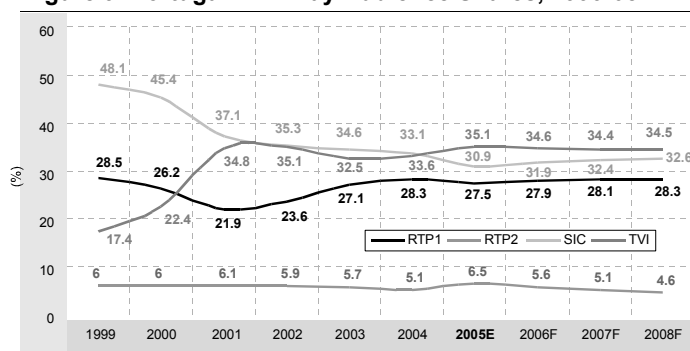
Source: Impresa.



Media Capital: Downside Risk

For Media Capital, we believe the risk is on the downside from current levels. In 2005, TVI has been handed an exceptional combination of two positive factors: (1) the lack of strong opposition by SIC; and (2) a succession of good programming bets, all market leaders with more than 40% audience shares. The success has been led by soap operas (*Ninguém como tu*, *Mundo Meu* and *Morangos com Açúcar*), reality shows (*Celebrity Farm* and *1ª Companhia*) and football. Although we believe TVI's programming management has been excellent, we also believe that it could prove difficult to replace these programmes, which are coming to an end. In the case of the soap operas, *Ninguém como tu* (*Nobody like You*) ends in December 2005 and *Mundo Meu* (*My World*) in 1Q06. *Celebrity Farm* is no longer on air and the replacement reality show, *1ª Companhia*, is already in its second season (which typically have lower audiences). Despite the new programmes, we believe TVI will hold onto its leadership position, but by a narrower margin, as SIC is likely to fight back to regain market share. Even so, the benefits for SIC are unlikely to be seen until towards year-end, at best, and probably not until January-February 2006F.

Figure 9. Portugal – All-Day Audience Shares, 1999-08F



Source: Impresa, Media Capital and BSNP estimates and forecasts.

OTHER BUSINESSES

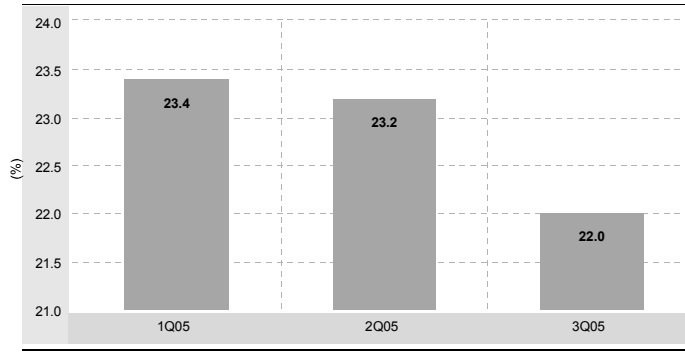
Impresa

Apart from TV, Impresa's other businesses are newspapers and magazines. The three key drivers of these businesses are circulation revenues, advertising and add-on products. As regards advertising, we believe the slowdown in the advertising market will have a deeper effect on newspapers and magazines than on TV, as advertisers typically tend to concentrate their efforts in a medium with a broader reach when the market slows down. As for circulation, with no new big launches expected in newspapers or magazines, we estimate that circulation revenues will remain basically flat over the next couple of years, with decreases in circulation being offset by price increases in line with inflation. For add-ons, this has been a very good year, particularly for Impresa's magazines and newspapers. So, we believe it will be tough to replicate the success seen in 2005E, as interesting new products will probably become harder to find.

Media Capital

Media Capital's other businesses are radio, outdoor and other advertising (mainly magazine and ISPs). As with the case of newspapers and magazines, radio advertising tends to suffer more than TV in times of economic slowdown. Also, Media Capital Radio has been losing market share in 2005, which we have already factored into our new estimates. We expect Media Capital to launch a radio news station in 2006F, as its new majority shareholder, Prisa, has stressed its experience and success in managing news stations in each country where it operates.

Figure 10. Media Capital – Radio Audience Shares, 1Q05-3Q05



Source: Media Capital.

Outdoor advertising has been Media Capital's worst performing unit YTD, particularly compared with the initial estimates. The slowdown has been compounded by a difficult year owing to elections. Election years tend to harm outdoor advertising companies, as political campaigns increase the number of outdoor ads and create 'noise' that reduces the effectiveness of this type of advertising, sometimes to the point of 'drowning out' other outdoor advertising. Going forward, the business should improve in relative terms in 2006F given the poor 2005 numbers, but the improvement is unlikely to be large.

The 'other advertising' segment should deliver a similar performance in magazines as its competitors (no significant market share gains in circulation are envisaged) and ISP advertising is likely to remain weak.



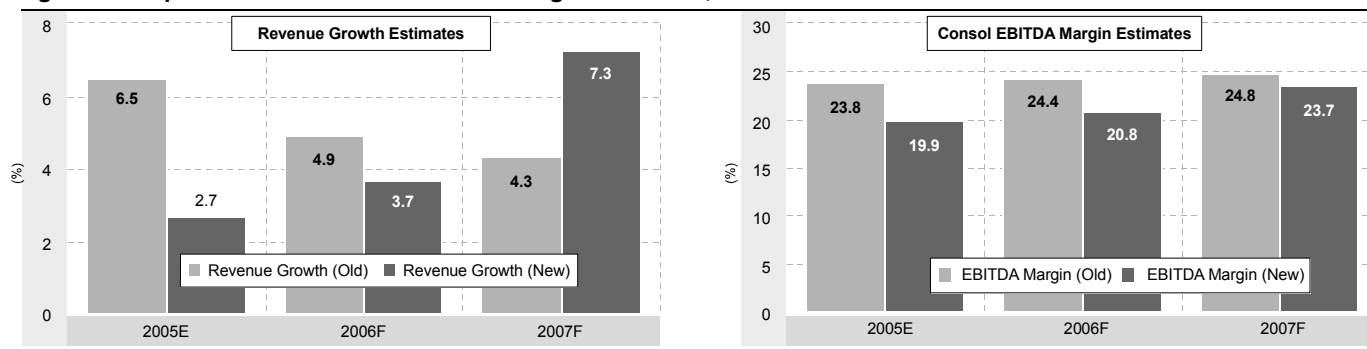
NEW ESTIMATES

We have revised most of our numbers for 2005E and 2006F downwards and upgraded our estimates going forward to account for a stronger recovery in the advertising market.

Impresa

Overall, we have reduced our consolidated revenue estimates for 2005E and 2006F and upgraded those for 2007F and subsequent years to better reflect the advertising cycle. TV is obviously the main contributor to this upgrade. In terms of EBITDA margin, we have opted for the same stance, although we are now assuming Impresa that will have a poorer performance in 2007F and narrower margins. Consequently, whereas before we were expecting EBITDA margins of 23.8%, 24.4% and 24.8% in 2005E, 2006F and 2007F, respectively, we now expect 19.9%, 20.8% and 23.7%, respectively (see graphs below for more details).

Figure 11. Impresa – Revenue and EBITDA Margin Estimates, 2005E-07F

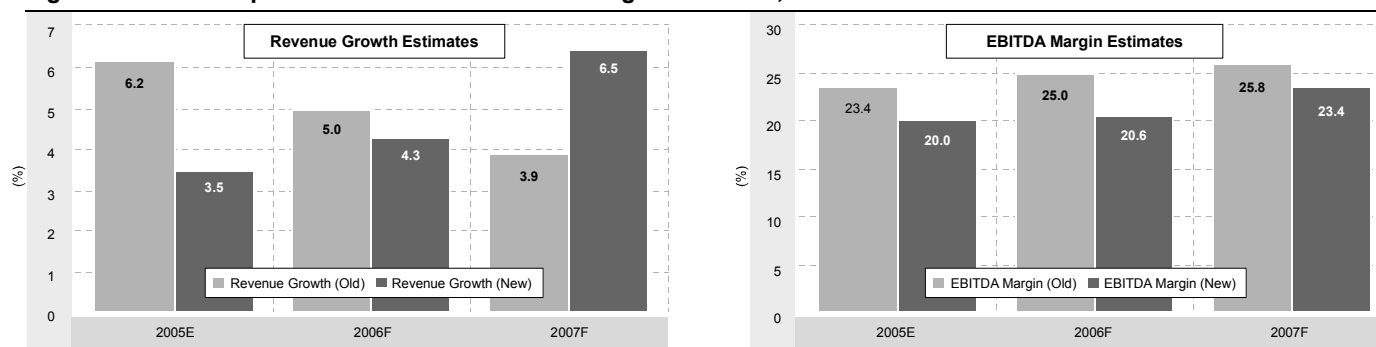


Source: Banco Santander de Negócios Portugal estimates and forecasts.

Media Capital

Consolidated revenues at Media Capital should follow the same trend as at Impresa, which implies a downgrade with respect to our previous numbers for 2005E and 2006F, while our estimate for 2007F is now more aggressive, although our new EBITDA margin estimates are lower. Note that, given the advertising market slowdown, we believe that audience share will become increasingly important and, therefore, we expect the companies to become more aggressive in terms of content, which would clearly be reflected on the cost side. This is the main reason why overall EBITDA margins are lower than in our previous estimates, even though 2007F revenue growth is stronger (see graphs below for more details).

Figure 12. Media Capital – Revenue and EBITDA Margin Estimates, 2005E-07F



Source: Banco Santander de Negócios Portugal estimates and forecasts.

VALUATIONS

NEW ESTIMATES = NEW VALUATIONS

Impresa

We are slightly raising our valuation of Impresa to €5.40/share from €5.30/share on the back of our new estimates for 2006F net debt, versus the actual 2004 figure previously used. Although we have lowered our estimates for all the divisions, this reduction in net debt is explained by cash flow generation, which runs at around €38mn/year, plus the use of balance sheet cash. Our new target price of €5.40/share yields a potential upside of 14%, which leads us to upgrade our recommendation on Impresa to Buy from Underweight.

Figure 13. Impresa – SOTP Valuation, 2006F

| (€ mn) | New Valuation | Implied 2006F EV/EBITDA (x) | Old Valuation | % Change |
|-------------------------------|---------------|--------------------------------|---------------|--------------|
| TV | 469 | 11.2 | 532 | -11.8 |
| Newspapers | 133 | 9.2 | 144 | -7.6 |
| Magazines | 35 | 7.8 | 50 | -30 |
| Other | -27 | 8.4 | -38 | NM |
| Total EV | 610 | 10.6 | 687 | -11.2 |
| Net debt* | 155 | – | 245 | -37 |
| Total equity value | 455 | – | 443 | 2.7 |
| Number of shares (mn) | 84 | – | 84 | – |
| Target price (€/share) | 5.40 | – | 5.30 | 2.0 |

(*) Net debt reflects 2006F estimate in new valuation and actual YE2004 figure in old valuation.
Source: Banco Santander de Negócios Portugal estimates and forecasts.

Figure 14. Impresa – Analysis of Sensitivity to Audience Share and TV EBITDA Margin, 2006F

| (€/Share) | | TV EBITDA Margin (%) | | | | |
|---------------------------|-------------|----------------------|------|-------------|------|------|
| | | 22.5 | 23.5 | 24.5 | 25.5 | 26.5 |
| Audience Share (%) | 29.9 | 5.33 | 5.35 | 5.37 | 5.39 | 5.41 |
| | 30.9 | 5.35 | 5.37 | 5.39 | 5.41 | 5.43 |
| | 31.9 | 5.37 | 5.39 | 5.41 | 5.43 | 5.45 |
| | 32.9 | 5.39 | 5.41 | 5.43 | 5.45 | 5.47 |
| | 33.9 | 5.41 | 5.43 | 5.45 | 5.47 | 5.49 |

Source: Banco Santander de Negócios Portugal forecasts.

Figure 14 above shows an analysis of the sensitivity of our target price to audience shares and the EBITDA margin in TV in 2006F (with all else being equal). The differences are not material and, therefore, even if we get it wrong as far as audiences and EBITDA margins are concerned, we still see upside in the stock. However, we would stress that, for the TV unit, we are assuming all the costs associated with increase programming quality, but are not factoring in all the potential gains. Consequently, we would advise investors that the risk to our estimates is clearly on the upside.

Media Capital

Our valuation of Media Capital's TV unit is now higher, reflecting higher sustainable audience shares, which should offset the advertising market's slowdown. Bear in mind that, although we estimate a decline from current audience figures, our estimates of overall audience shares are now higher and we are assuming that TVI will sustain its leadership position. Our new valuation of the other divisions reflects our updated estimates for 2006F. This fine-tuning is behind the 3.4% increase in our target price to €6.00/share for Media Capital.



Figure 15. Media Capital – SOTP Valuation, 2006F

| (€ mn) | New Valuation | Implied 2006FV/EBITDA (x) | Old Valuation | Change (%) |
|-------------------------------|---------------|---------------------------|---------------|-------------|
| TV | 512 | 10.3 | 498 | 2.8 |
| Radio | 31 | 36.7 | 39 | -15.5 |
| Outdoor | 18 | 13.6 | 35 | -48 |
| Other | -13 | 3.5 | 12 | NM |
| Total EV | 547 | 11.4 | 601 | -9.0 |
| Net debt* | 43 | | 119 | -64 |
| Total equity value | 504 | | 482 | 4.6 |
| Number of shares (mn) | 84.5 | | 82.8 | 2.1 |
| Target price (€/share) | 6.00 | | 5.80 | 3.4 |

(*) Net debt reflects 2006F estimate in new valuation and actual YE2004 figure in old valuation.

Source: Banco Santander de Negócios Portugal estimates and forecasts.

Relative Valuations

Figure 16. European Free-to-Air-TV Players – Market Multiples, 2005E-06F

| | Price (LC) | Market Cap (€ mn) | EV/EBITDA (x) | | Adj P/E (x) | | P/CF (x) | |
|-------------------------|------------|-------------------|---------------|------------|-------------|-------------|-------------|-------------|
| | | | 2005E | 2006F | 2005E | 2006F | 2005E | 2006F |
| Mediaset | 8.96 | 10,584 | 8.6 | 7.6 | 16.5 | 14.9 | 14.1 | 13.5 |
| TF1 | 21.07 | 4,527 | 9.8 | 10.1 | 20.2 | 21.1 | 13.2 | 13.5 |
| M6 | 21.50 | 2,836 | 8.8 | 8.5 | 19.4 | 18.7 | 12.2 | 11.7 |
| RTL | 62.10 | 9,612 | 10.0 | 8.7 | 16.2 | 18.6 | 11.7 | 12.2 |
| ProSiebenSAT1 | 15.00 | 3,006 | 8.7 | 7.6 | 17.1 | 15.3 | 14.7 | 13.2 |
| ITV | 1.64 | 6,718 | 9.9 | 9.6 | 15.0 | 15.5 | 14.4 | 14.1 |
| Impresa | 4.74 | 395 | 11.1 | 9.5 | 16.4 | 15.3 | 11.9 | 11.2 |
| Media Capital | 6.69 | 564 | 13.8 | 12.3 | 33 | 28.3 | 19.5 | 17.5 |
| Antena 3 | 17.65 | 3,922 | 11.4 | 9.1 | 18.0 | 14.1 | 15.9 | 12.7 |
| Telecinco | 20.20 | 4,982 | 10.9 | 9.3 | 17.0 | 14.8 | 16.3 | 14.3 |
| Average | | | 10.3 | 9.2 | 18.9 | 17.6 | 14.4 | 13.4 |
| Weighted Average | | | 9.8 | 8.8 | 17.2 | 16.7 | 13.9 | 13.2 |
| IPR Premium/(Discount) | | | 13.6 | 8.1 | -4.4 | -8.2 | -14.5 | -15.4 |
| MCP Premium/(Discount) | | | 41.2 | 39.9 | 92.4 | 69.8 | 40.0 | 32.1 |

Note: Prices as of November 23, 2005

Source: JCF, Santander Investment Bolsa and Banco Santander de Negócios Portugal estimates and forecasts.

Impresa is currently trading at an average 4% discount to the sector in terms of multiples, while Media Capital is trading at an average 51% premium to the sector. This reinforces our view that Impresa looks attractive on relative valuation grounds.

RECOMMENDATIONS

IMPRESA

We are changing our recommendation on Impresa to Buy from Underweight on the back of:

- (1) The expected recovery in audience shares. The current share price is discounting an audience share below 30% *ad aeternum* for a company that has averaged an all-day audience share of 39% since 1999. We consider this discount to be excessive.
- (2) Management's track record. The new programming director is one of the most highly reputed professionals in the business and we believe he is the right person to get SIC out of the hole it is in.
- (3) Valuation case. We believe that, trading at €4.74/share, all the bad news has already been discounted in Impresa's share price. Our target price offers a 14% upside from current levels.

The catalysts we see for Impresa are as follows:

- (1) The Investor Day slated for November 29, 2005. This venue is likely to be used to present the new programming director and to address the main issues and strategies regarding audience share recovery.
- (2) Audience share recovery. We believe that the end of key programmes on competing channels, namely *Ninguém como tu* (ending in the first week of December) and *Mundo Meu* (ending in January 2006), will mark the start of audience share recovery for Impresa.

MEDIA CAPITAL

We are maintaining our Underweight recommendation for Media Capital, although we have slightly upgraded our target price. We believe that Media Capital's share price will remain roughly stable at €6.55-7.00/share going forward, as the possibility of a full bid for the minority interests (at €7.05/share) will hang over the stock for the next two years. We reiterate our Underweight rating given our view that, fundamentally and from a technical viewpoint, the stock is fully valued and has no room to go from here in terms of share price. Expect Media Capital's liquidity to decline going forward. In our view, the stock would only merit a price of above €7.05/share if the advertising market and/or audience share growth were much higher than we are currently estimating. According to our numbers and all else being equal (eg, the EBITDA margin), TVI would have to maintain an audience share of 42% going forward to justify a fair value of €7.00/share, which we see as unlikely.



FINANCIALS

Figure 17. Impresa – P&L Account and Balance Sheet, 2001-07F

| P&L (€ mn) | 2001 | 2002 | 2003 | 2004 | 2005E | 2006F | 2007F |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Television | 144.4 | 130.3 | 144.7 | 164.9 | 163.5 | 170.8 | 186.1 |
| Newspapers | 58.0 | 50.6 | 50.8 | 56.9 | 61.2 | 62.7 | 65.9 |
| Magazines | 75.4 | 72.8 | 74.5 | 39.8 | 43.0 | 44.1 | 45.7 |
| Other | 22.6 | -3.0 | -4.3 | -2.8 | -2.0 | -2.0 | -2.0 |
| Total revenues | 300.4 | 250.7 | 265.8 | 258.8 | 265.7 | 275.5 | 295.7 |
| % change | – | -16.6 | 6.0 | -2.6 | 2.7 | 3.7 | 7.3 |
| Operating expenses | -314.7 | -238.4 | -224.8 | -201.0 | -212.9 | -218.1 | -225.5 |
| % change | – | -24.3 | -5.7 | -10.6 | 6.0 | 2.4 | 3.4 |
| EBITDA, Television | -21.9 | -3.5 | 25.8 | 42.4 | 38.2 | 41.8 | 52.3 |
| EBITDA, Newspapers | 4.9 | 4.2 | 8.5 | 13.4 | 13.4 | 14.4 | 16.1 |
| EBITDA, Magazines | 5.8 | 13.2 | 10.4 | 5.6 | 4.5 | 4.5 | 4.9 |
| EBITDA, Other | -3.2 | -1.6 | -3.7 | -3.7 | -3.3 | -3.2 | -3.2 |
| Consolidated EBITDA | -14.3 | 12.3 | 40.9 | 57.8 | 52.8 | 57.4 | 70.2 |
| % change | – | NM | NM | 41.3 | -8.6 | 8.7 | 22.2 |
| Depreciation and amort | -30.0 | -22.3 | -22.2 | -16.6 | -9.0 | -9.2 | -9.6 |
| Goodwill amortisation | 0.0 | -9.9 | -11.0 | -10.3 | 0.0 | 0.0 | 0.0 |
| EBIT | -44.3 | -19.8 | 7.7 | 30.9 | 43.8 | 48.2 | 60.6 |
| % change | – | NM | NM | NM | 41.8 | 10.2 | 25.6 |
| Net financial result | -21.5 | -21.0 | -10.0 | -9.1 | -9.6 | -11.3 | -9.2 |
| Extraordinary items | -17.0 | 0.3 | 0.7 | 2.3 | 0.0 | 0.0 | 0.0 |
| EBT | -82.8 | -40.5 | -1.6 | 24.1 | 34.2 | 36.9 | 51.4 |
| Tax | 13.5 | 2.3 | -5.4 | -7.3 | -9.4 | -10.2 | -14.1 |
| Tax rate (%) | 16.3 | 5.7 | -348.0 | 30.1 | 27.5 | 27.5 | 27.5 |
| Minority interests | 16.9 | 10.1 | -3.1 | -10.6 | -0.9 | -1.1 | -1.3 |
| Net income | -52.4 | -28.1 | -10.1 | 6.2 | 23.9 | 25.7 | 36.0 |
| % change | – | -46.5 | -64.0 | NM | NM | 7.6 | 40.1 |
| Cash flow | -22.5 | 4.1 | 23.1 | 33.2 | 32.9 | 34.9 | 45.6 |
| % change | – | NM | NM | 43.7 | -0.7 | 6.0 | 30.6 |
| Balance Sheet (€ mn) | 2001 | 2002 | 2003 | 2004 | 2005E | 2006F | 2007F |
| Fixed assets | 249.7 | 263.3 | 240.1 | 192.1 | 325.1 | 328.3 | 332.0 |
| Working capital | 43.6 | 33.5 | 47.4 | 32.8 | 34.3 | 36.8 | 41.0 |
| Shareholders' equity | 138.5 | 100.6 | 111.4 | 126.4 | 136.1 | 162.9 | 192.4 |
| Capex | – | 48.0 | 4.6 | 5.6 | 12.0 | 12.4 | 13.3 |
| Net financial debt | 146.2 | 147.8 | 149.1 | 79.5 | 192.9 | 155.4 | 128.8 |
| Financial gearing (%) | 105.6 | 146.9 | 133.9 | 62.9 | 141.7 | 95.4 | 66.9 |

Note: Accounts prepared under Portuguese GAAP until 2004, estimates from 2005E prepared under IFRS.
Source: Company data and Banco Santander de Negócios Portugal estimates and forecasts.

Figure 18. Media Capital – P&L Account and Balance Sheet, 2001-07F

| P&L (€ mn) | 2001 | 2002 | 2003 | 2004 | 2005E | 2006F | 2007F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Television | 140.1 | 153.5 | 135.3 | 149.2 | 159.3 | 165.1 | 176.3 |
| Radio | 21.0 | 16.6 | 12.5 | 14.6 | 15.3 | 15.3 | 16.8 |
| Outdoor advertising | 20.0 | 15.3 | 15.5 | 19.3 | 17.5 | 18.2 | 20.2 |
| Other | 17.0 | 32.0 | 36.5 | 35.4 | 34.2 | 33.5 | 33.9 |
| Total revenues | 198.1 | 217.4 | 199.8 | 218.6 | 226.3 | 232.1 | 247.2 |
| % change | – | 9.7 | -8.1 | 9.4 | 3.5 | 2.6 | 6.5 |
| Operating expenses | -164.9 | -176.5 | -163.0 | -172.5 | -180.9 | -183.9 | -190.0 |
| % change | – | 7.0 | -7.6 | 5.8 | 4.9 | 1.6 | 3.3 |
| EBITDA, Television | 30.9 | 35.2 | 38.9 | 43.4 | 48.0 | 49.7 | 55.2 |
| EBITDA, Radio | NA | 4.9 | 1.1 | 2.2 | 1.3 | 0.8 | 1.8 |
| EBITDA, Outdoors | NA | 0.6 | 1.5 | 3.4 | 0.9 | 1.3 | 2.6 |
| EBITDA, Other | NA | 0.2 | -4.7 | -2.9 | -4.9 | -3.6 | -2.5 |
| Consolidated EBITDA | 33.2 | 40.9 | 36.8 | 46.1 | 45.4 | 48.2 | 57.2 |
| % change | – | 23.2 | -10.1 | 25.4 | -1.6 | 6.2 | 18.6 |
| Depreciation and amort | -31.6 | -30.3 | -23.7 | -17.9 | -11.7 | -12.1 | -12.9 |
| Goodwill amortisation | -8.2 | -8.2 | -8.8 | -10.6 | 0.0 | 0.0 | 0.0 |
| EBIT | -6.6 | 2.4 | 4.3 | 17.6 | 33.7 | 36.1 | 44.2 |
| % change | – | NM | 78.4 | NM | 91.7 | 7.2 | 22.4 |
| Net financial result | -18.9 | -18.6 | -25.1 | -17.1 | -10.0 | -8.7 | -7.7 |
| Extraordinary items | -1.3 | 1.4 | -22.5 | -1.6 | 0.0 | 0.0 | 0.0 |
| EBT | -26.8 | -14.8 | -43.3 | -1.2 | 23.7 | 27.5 | 36.6 |
| Tax | 1.0 | 10.3 | -1.0 | -5.7 | -6.5 | -7.6 | -10.1 |
| Tax rate (%) | NM | NM | NM | NM | NM | 27.5 | 27.5 |
| Minority interests | -1.0 | -1.8 | -0.1 | -0.4 | -0.4 | -0.4 | -0.4 |
| Net income | -26.8 | -6.3 | -44.4 | -7.3 | 16.7 | 19.5 | 26.1 |
| % change | – | -76.5 | NM | NM | NM | 16.5 | 33.9 |
| Cash flow | 13.0 | 32.2 | -11.9 | 21.2 | 28.4 | 31.5 | 39.0 |
| % change | – | 147.7 | NM | NM | 33.7 | 11.1 | 23.7 |
| Balance Sheet (€ mn) | 2001 | 2002 | 2003 | 2004 | 2005E | 2006F | 2007F |
| Fixed assets | 217.0 | 214.7 | 184.4 | 216.0 | 213.4 | 210.6 | 215.0 |
| Working capital | -44.5 | -42.0 | -32.0 | -27.5 | -25.7 | -24.7 | -24.1 |
| Shareholders' equity | 18.3 | 14.9 | -16.3 | 107.0 | 124.1 | 144.0 | 164.7 |
| Capex | 45.0 | 26.0 | 21.0 | 46.4 | 9.1 | 9.3 | 17.3 |
| Net financial debt | 182.1 | 206.9 | 205.4 | 119.3 | 71.9 | 42.7 | 21.0 |
| Financial gearing (%) | NM | NM | NM | 111.5 | 57.9 | 29.7 | 12.7 |

Note: Accounts prepared under Portuguese GAAP until 2004, estimates from 2005E prepared under IFRS.
Source: Company data and Banco Santander de Negócios Portugal estimates and forecasts.

ANALYST CERTIFICATION: I, Marcos Heitor, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been promised compensation either directly or indirectly for expressing the recommendations in this report.

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Key to Investment Codes¹

| | |
|--------------------|--------------------------|
| Buy | Upside of more than 15%. |
| Hold | Upside of 10%-15%. |
| Underweight | Upside of less than 10%. |

Note: New investment code criteria were implemented on January 1, 2005. Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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