

# ZON OPTIMUS®

1Q14

RESULTS PRESENTATION



08 May 2014

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# 1Q14 Highlights

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- **Merger process well underway with teams focused on ramping up commercial deployment and restructuring operations;**
- **Very strong growth in convergent residential base reaching 556 thousand RGUs;**
- **Post-paid mobile net adds of 129 thousand led by convergent bundles more than offset lower pre-paid subs driving net growth in mobile base of 1% yoy;**
- **500 thousand IRIS customers with record quarterly net adds of 61 thousand;**
- **Imposed remedies still affecting fixed access customer base in 1Q14, driving lower average subscriber numbers yoy;**
- **Revenues declined by 4.1% to 337 million euros but core Telco wireline Residential revenues only down by 2.6%; EBITDA down by 5.9% yoy to 129.9 million euros, although increasing by 9.8% in comparison with the previous quarter;**
- **Sequential improvement in Net Income to 25 million euros, from negative 13 million euros in 4Q13 with lower restructuring/merger related costs.**

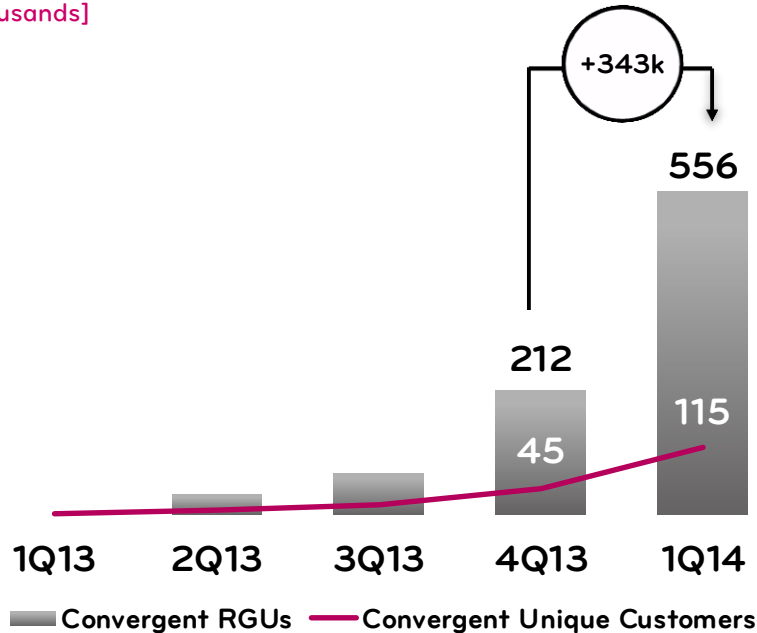
# 1Q14 OPERATING REVIEW

# Acceleration in Convergence

Leveraging strength in fixed market

## Convergent RGUs and Unique Customers

[Thousands]



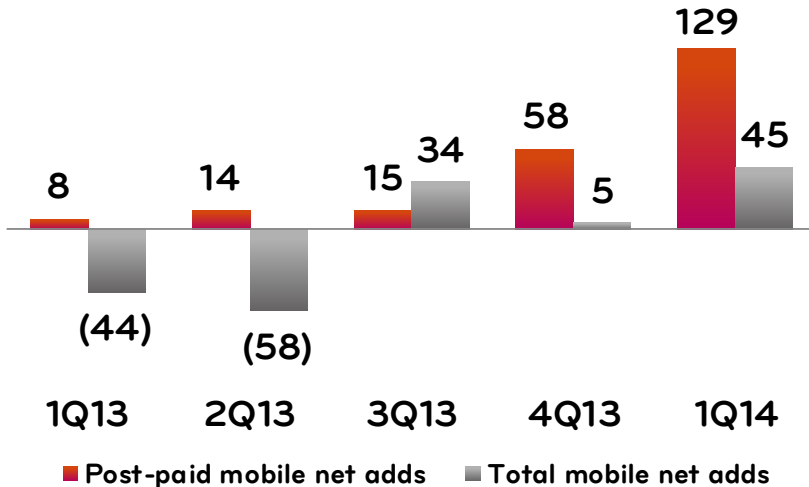
- 343 thousand convergent RGU net adds in 1Q14
- 10% of fixed base convergent, just 5 months after ZON4i launch
- 5.1 RGUs sold per convergent sub
- 90% of ZON4i are upgrades from ZON fixed offers
- Only 54% previous IRIS subs

# Convergence driving post-paid mobile

More than offsetting loss in personal mobile

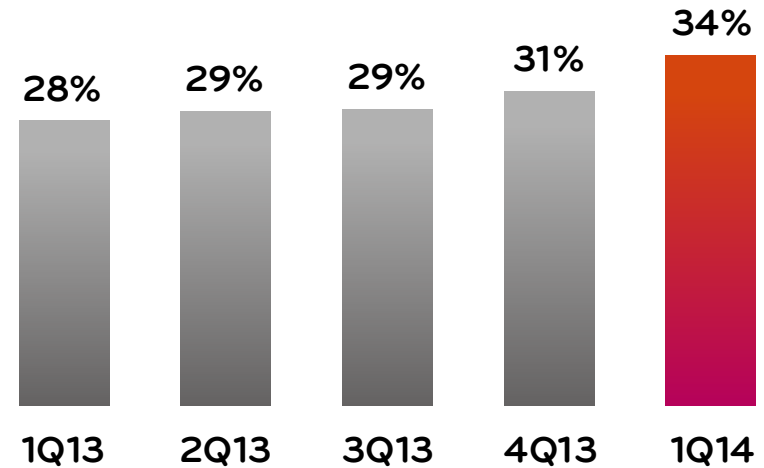
Total and Post-Paid Mobile Net Adds

[Thousands]



Post-Paid Mobile Subscribers as % of Total Mobile

Subscribers [%]



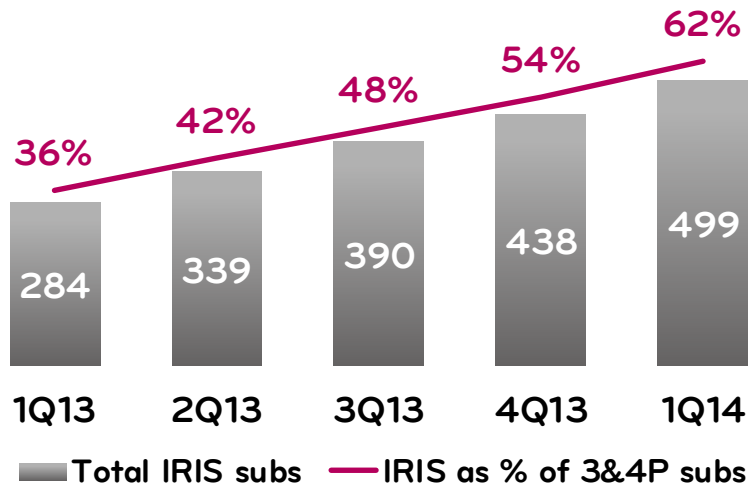
- 129 thousand net adds in post-paid mobile
- Post-paid voice subscribers with even higher net adds of 147 thousand partially offset by a net decline in post-paid mobile broadband cards of 18 thousand

# Record IRIS net adds to 500 thousand

Reinforcing competitive strength in Pay TV

## IRIS Subscribers and Penetration of 3&4P

Customer Base [Thousands, %]



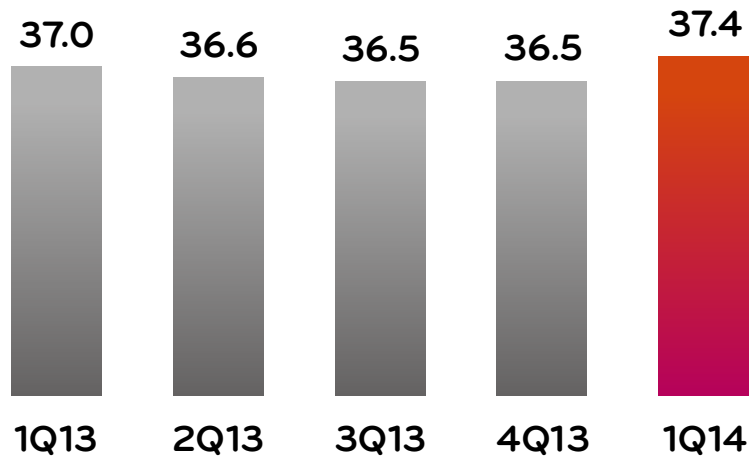
- Best quarter ever of IRIS take up with 61 thousand net adds
- 62% of 3&4P customer base have IRIS
- Very high customer usage:
  - 99% use Timewarp and Restart
  - 75% use them every day, at least twice

# Resilience in Residential and Mobile ARPU

Support from Convergence and post-paid mobile growth

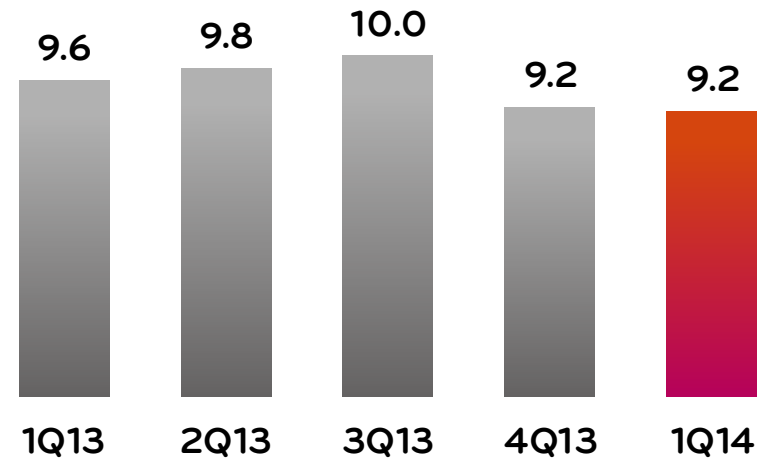
## ARPU per Unique Subscriber with Fixed Access

[Euros]



## ARPU per Mobile Subscriber

[Euros]

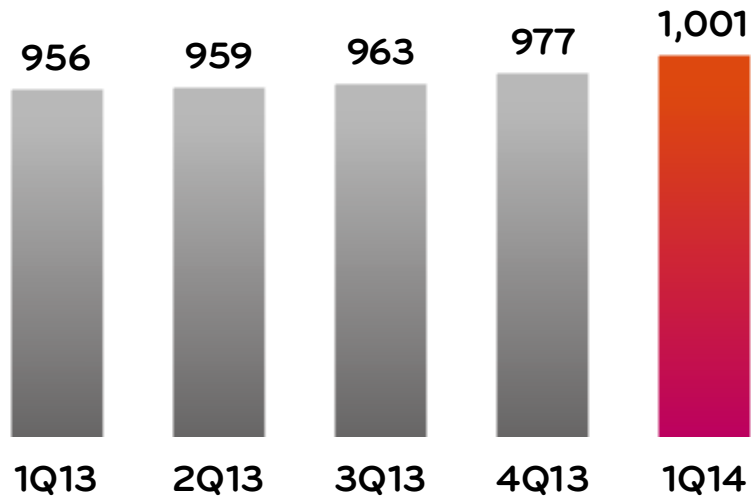




# 1 million RGU milestone reached in Business

## Business RGUs

[Thousands]

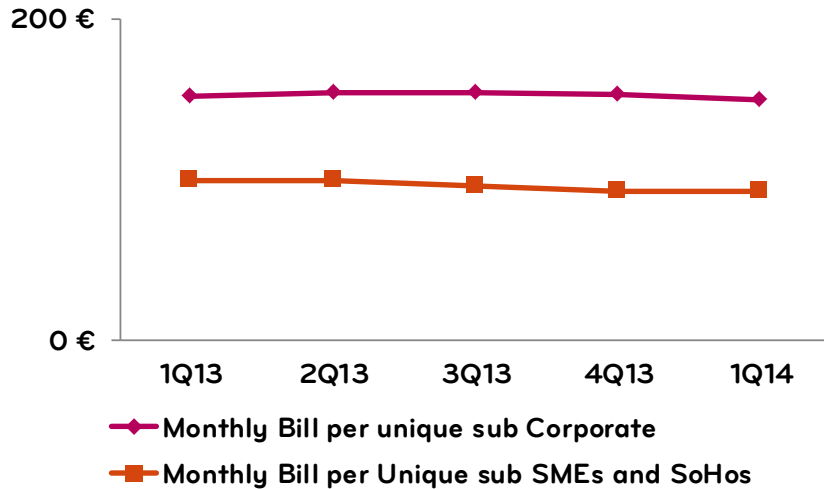


- Pick-up in quarterly RGU net adds to 23.2 thousand with positive performance in mobile RGUs through convergence, up 18.6 thousand in 1Q14
- Corporate segment very successful in tendering for new customers supported by strong integrated value proposition
- Wholesale business posting positive yoy growth with important agreements captured

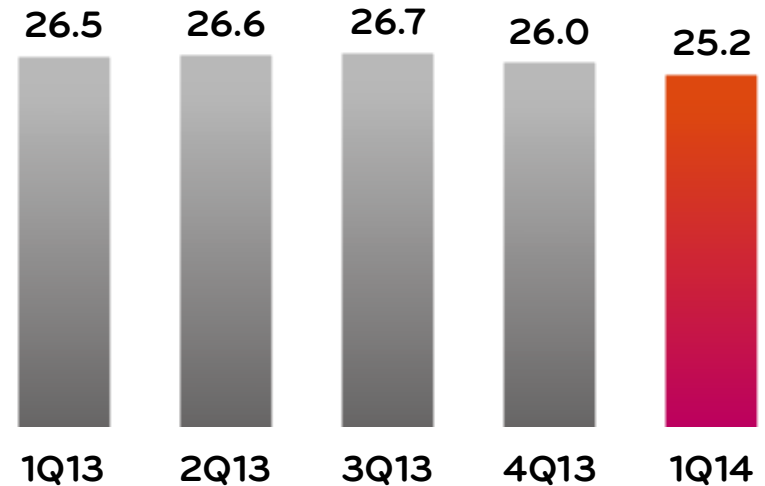
# Average revenues in Business showing resilience

Supported by increased Convergence

Monthly Bill per Unique Corporate, SME and SoHo subscribers [Euros]



ARPU per Business RGU [Euros]



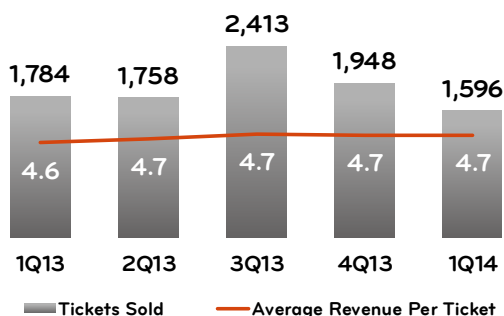
- Solid growth in Customer Revenues in the Corporate segment, following the capture of some large Corporate telecom accounts
- Despite increased RGU upsell and cross-sell providing support, Customer Revenues in SMEs and SoHo segment under pressure due to market repricing and impact in ARPU per RGU

# Easter and less blockbusters impact performance

ZON OPTIMUS Cinema and Audiovisuals performance ahead of the market

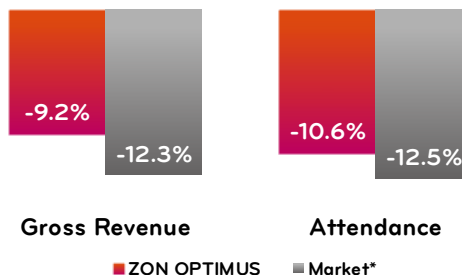
## Cinema tickets sold and revenue

per ticket [Thousands, Euros]



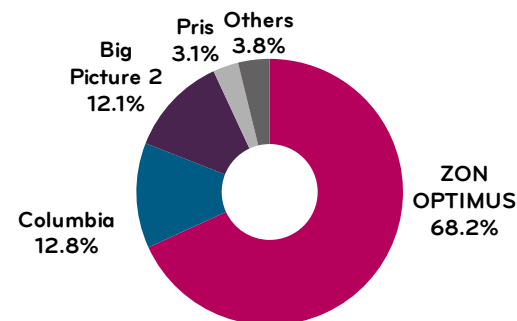
## 1Q14 Performance of Gross

Revenues and Attendance [%]



## Cinema Gross Revenues by

Distributor in 1Q14 [%]



- ZON OPTIMUS ticket sales fell by 10.6% due primarily to the fact that the Easter holidays, a seasonally strong period for movie going, was in 2Q this year, compared with 1Q in 2013. YTD April 2014 ticket sales are up by 2.3%
- First IMAX screen opened in June 2013 – spectators already reached 100 thousand
- In 1Q14, Audiovisuals revenues declined mostly due to a weaker quarter for homevideo and VoD revenues
- Of the top 10 box office hits, ZON OPTIMUS distributed 7, maintaining its significant leadership in market share

# Good operating results in 1Q14

ZAP continues to perform very well



- Continued strong operational and financial performance in ZAP
- Increased presence with expansion of sales channels – total of 28 own stores in Angola and 7 in Mozambique. Latest additions in Zaire province and Lunda Norte in Angola and Nampula in Mozambique
- Significant increase in financial contribution to ZON OPTIMUS net results – ZON OPTIMUS' stake in equity in affiliate companies grew to 3.9 million euros in 1Q14 compared with 1.1 million euros in 1Q13

# 1Q14 FINANCIAL REVIEW

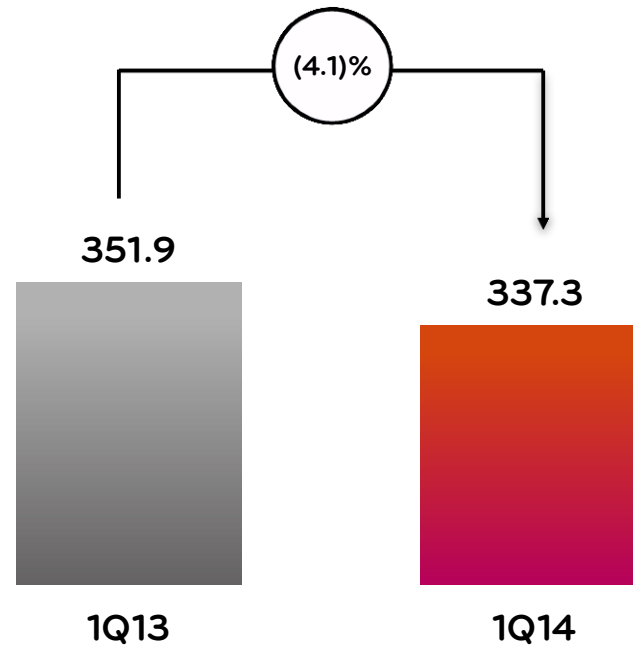
# Total Revenues

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## Consolidated Operating Revenues

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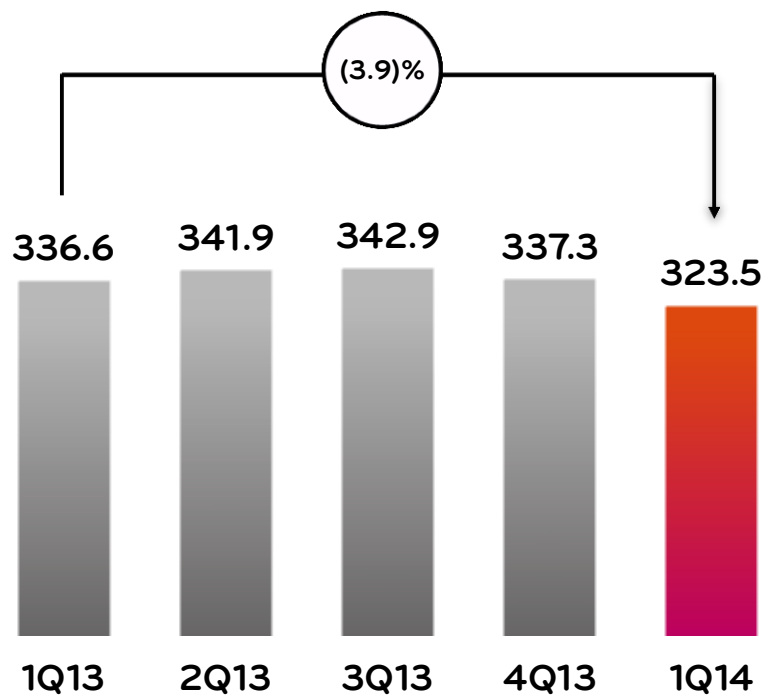
[Millions of Euros]



# Telco Revenues

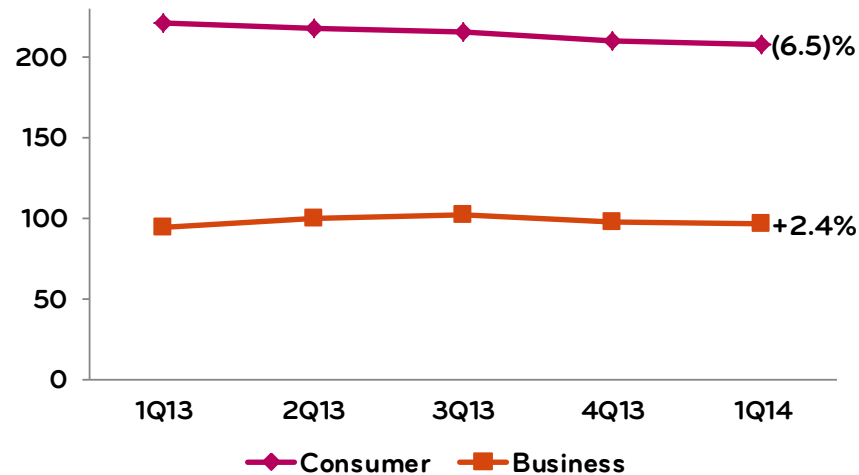
## Telco Operating Revenues

[Millions of Euros]



## Telco Revenue Segments

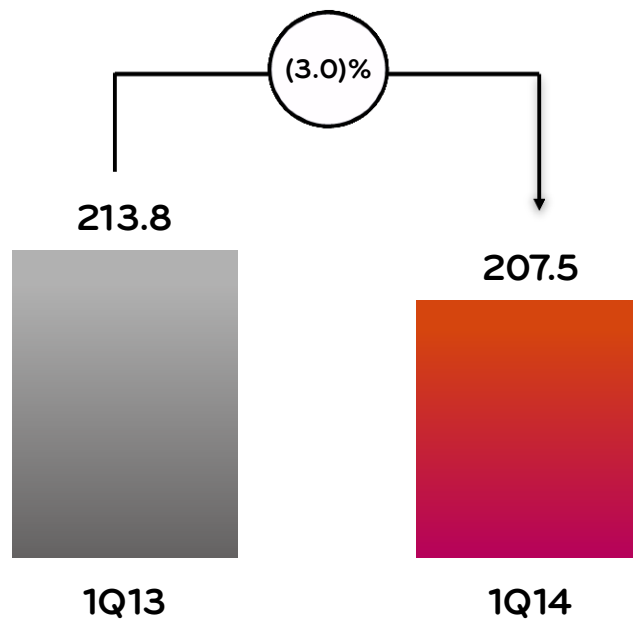
[Millions of Euros]



# Cost focus

## Consolidated Operating Costs

[Millions of Euros]



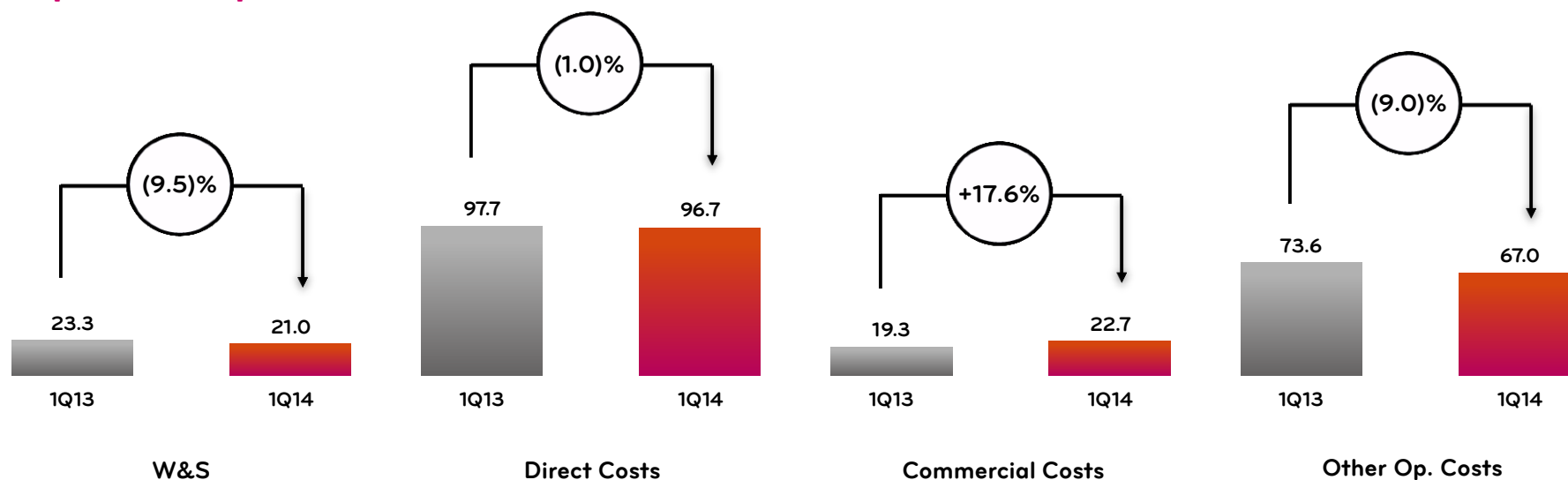
- OPEX fell by 3.0% in 1Q14 to 207.5 million euros and posted a decline of 12.8% in comparison with 4Q13



# Cost focus

## Operating Costs

[Millions of Euros]

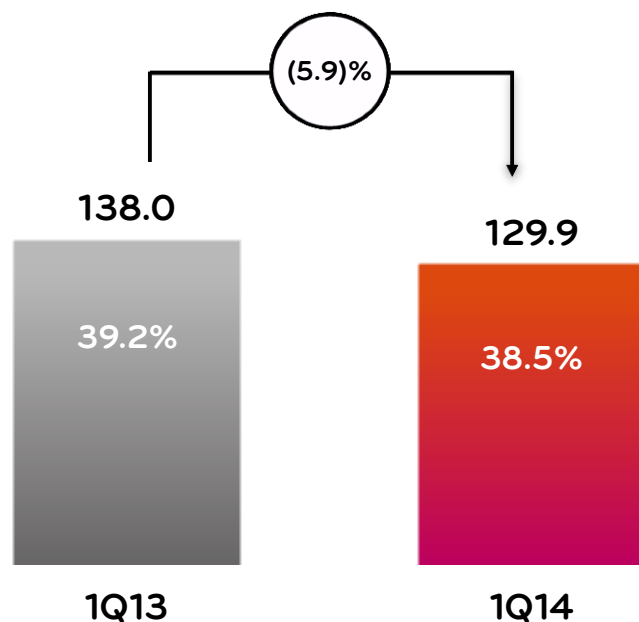


Operating Costs (millions of euros)	1Q14	Δ %	Drivers
W&S	21.0	(9.5%)	Wages and Salaries fell by 9.5% to 21.0 million euros in 1Q14 as a result mainly of a lower average level of headcount at the telco division in comparison with 1Q13, down by 11%. The majority of the projected headcount optimization resulting from the merger process has already occurred and this will continue to be reflected in yoy savings in this cost line
Direct Costs	96.7	(1.0%)	Direct Costs recorded a 1% decline to 96.7 million euros, which reflects a combination of significantly lower yoy programming and capacity related costs of 8% and 18% respectively due to savings already achieved with the merger, namely the integration of previous OPTIMUS Pay TV and fixed customers onto the ZON OPTIMUS fixed network and an increase in traffic costs of 16% due to the greater level of mass calling services and increased payments related with advertising revenue sharing models in place
Commercial Costs	22.7	17.6%	Commercial Costs increased by 17.6% in 1Q14 to 22.7 million euros although they were 31.6% lower than in 4Q13 which is always a period of strong commercial activity in the build-up to Christmas. The yoy increase was mainly driven by a higher level of handset sales and commissions due to the increased commercial push
Other Operating Costs	67.0	(9.0%)	Other Operating Costs fell by 9% yoy to 67 million euros due to a combination of effects with the most relevant impacts due to a decline in Supplies and External Services and a reduction in the level of provisions. License related costs, included in this aggregate, increased by 22.5% in 1Q14 to 5.7 million euros which is mostly explained by a 0.75 million euros increase in spectrum fee and a 0.6 million euros quarterly charge related with the cinema tax imposed on television operators

# EBITDA

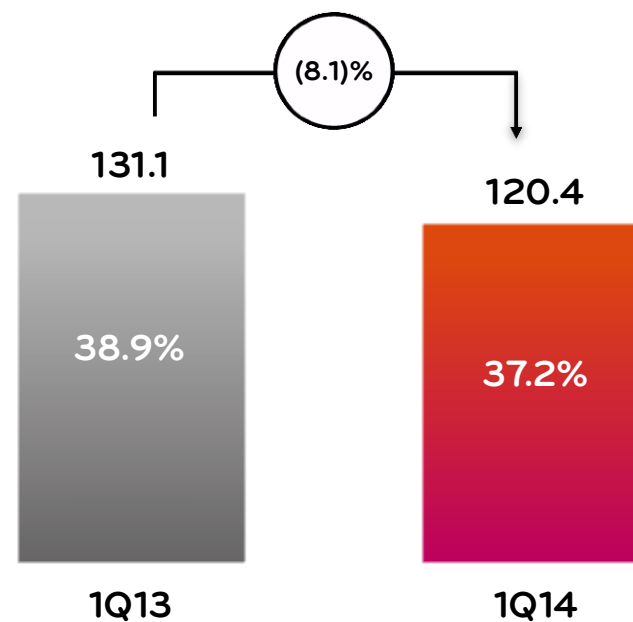
## Group EBITDA

[Millions of Euros]



## Telco EBITDA

[Millions of Euros]

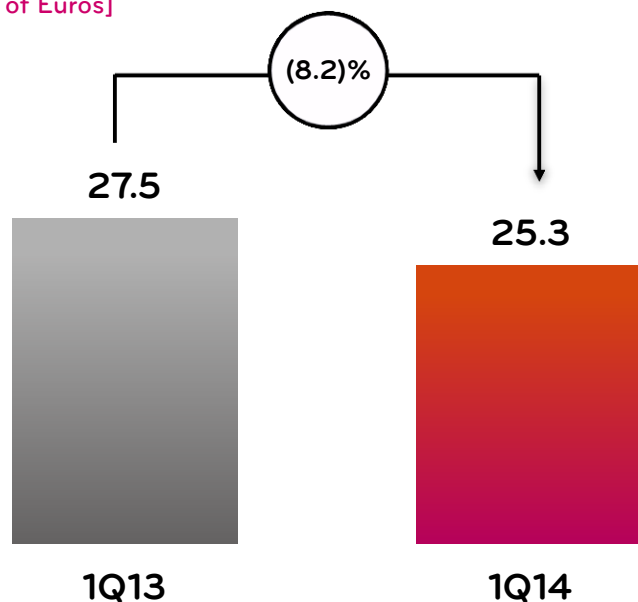


- The Group EBITDA margin declined by 0.7pp yoy to 38.5% in 1Q14, posting a 5.3 p.p. increase in comparison with 4Q13, with the decrease in revenues and service margins not being offset by OPEX reduction
- Including the contribution from the 30% stake in ZAP, Consolidated EBITDA would have fallen 3.9% yoy in 1Q14 to 135.3 million euros
- EBITDA from the Audiovisuals and Cinema divisions grew by 36.3% yoy to 9.5 million euros in 1Q14

# Net Income

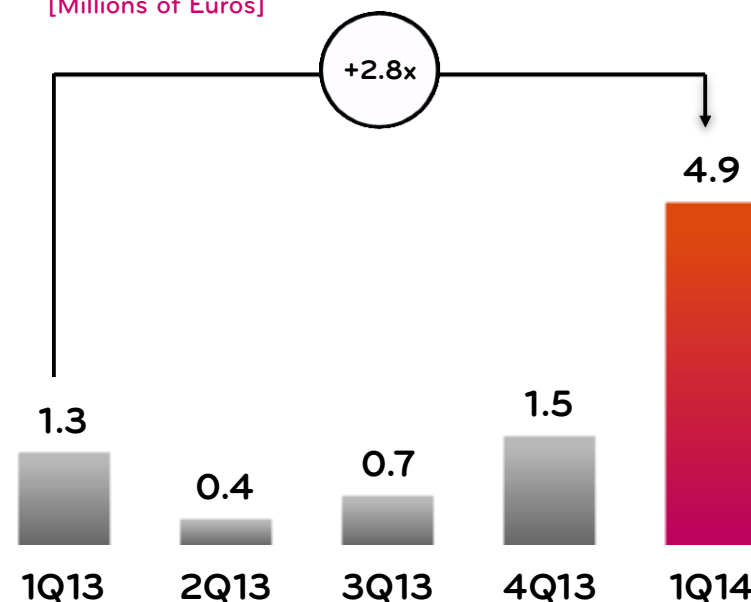
## Net Income

[Millions of Euros]



## Equity in Earnings of Affiliate Companies

[Millions of Euros]

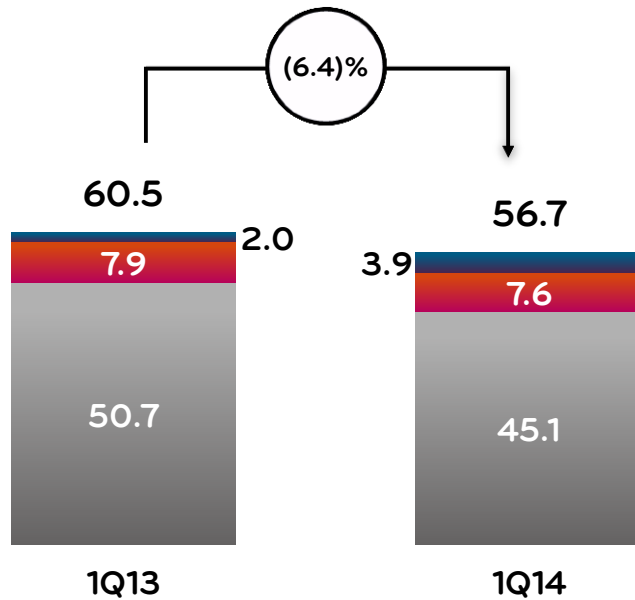


(millions of euros)	1Q14	Δ %	Drivers
Equity in Earnings of Affiliate Companies, Net	4.9	277.5%	Equity in affiliate companies posted another very positive increase in contribution growing to 4.9 million euros in 1Q14 compared with 1.3 million in 1Q13, on the back of the very strong financial contribution of the international JV, ZAP, and also of the contribution of SportTV which reverted from a negative Net Income in 1Q13
D&A	(83.9)	(3.7)%	D&A posted a yoy decline of 3.7% to 83.9 million euros, with no material change compared with previous periods
Other Expenses	(2.8)	n.a.	Other Expenses of 2.8 million euros were significantly lower in 1Q14 than in 4Q13 and a significant part relates to non-recurrent merger related costs. New brand will only be launched in 2Q14
Net Financial Expenses	(15.2)	(9.1)%	Net Financial Expenses fell by 9.1% to 15.2 million euros in 1Q14 compared with 16.7 million euros in 1Q13 as a result of the lower average level of gross debt and the lower average cost of the new debt contracted in 4Q13
Income Taxes	(7.3)	(3.2)%	Income Tax provision amounted to 7.3 million euros in 1Q14, representing a 3.2% decline in comparison with 1Q13

# Total CAPEX declined by 6.4% yoy

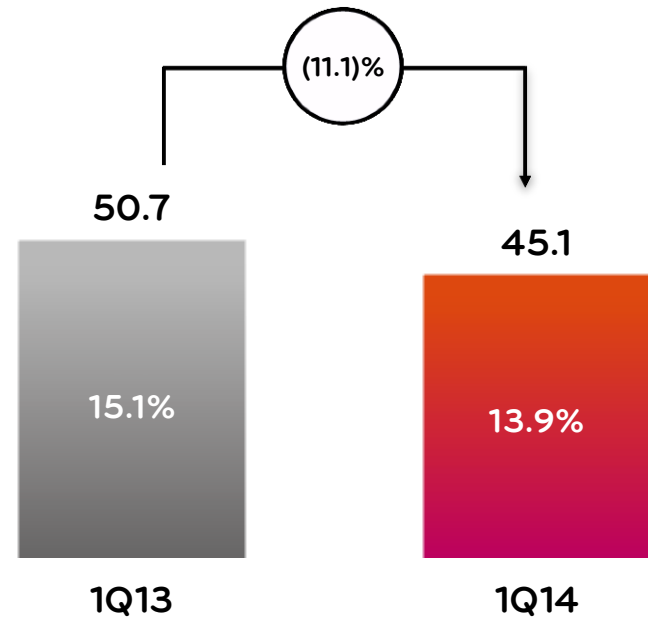
## Total CAPEX

[Millions of Euros]



## Recurrent Telco CAPEX, % of Telco Revenues

[Millions of Euros, %]



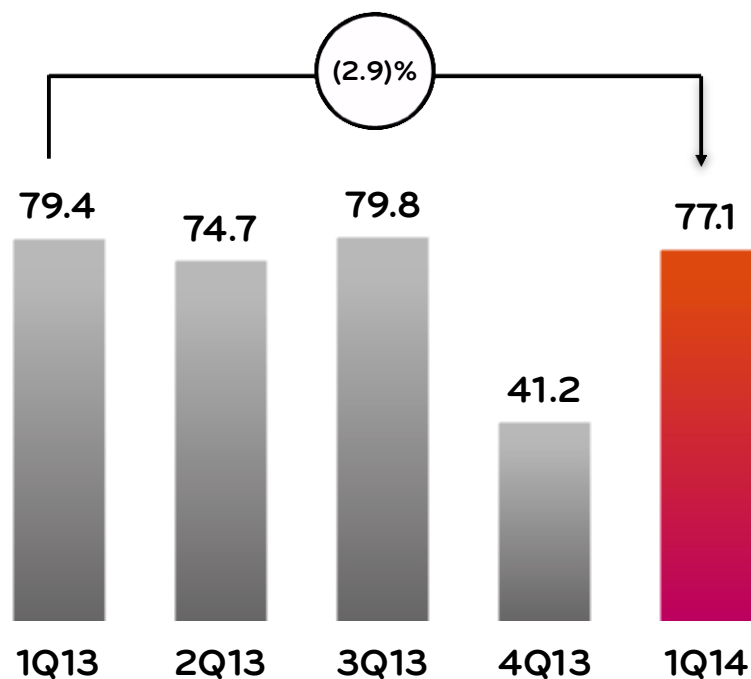
■ Recurrent Telco ■ Audiovisuals and Cinema ■ Non-Recurrent

- Recurrent Telco CAPEX in 1Q14 was 45.1 million euros, down by 11.1% yoy and representing 13.9% of Telco Operating Revenues, which compares with 15.1% in 1Q13
- Total CAPEX posted a decline of 6.4% to 56.7 million euros
- CAPEX will trend higher as the new network deployment and integration projects start to materialize in the coming quarters

# Free Cash Flow

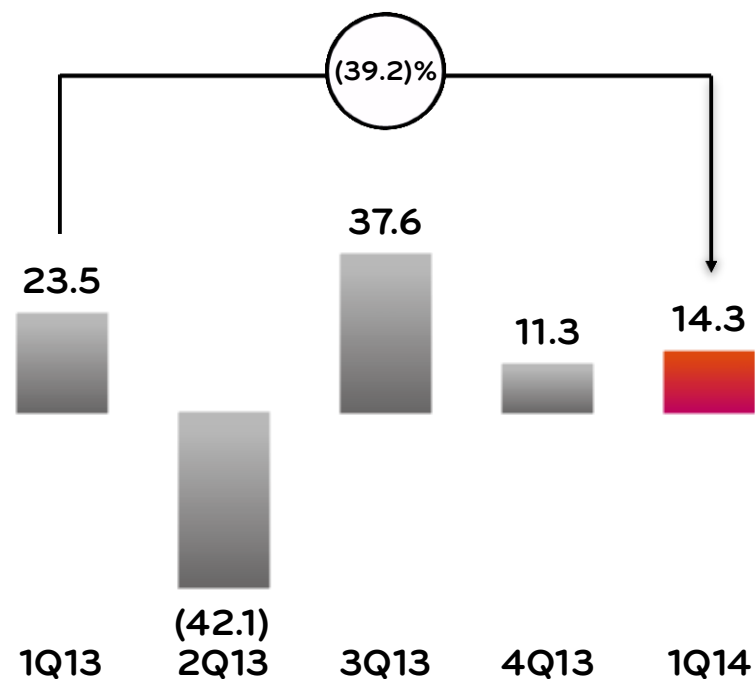
## EBITDA – Recurrent CAPEX

[Millions of Euros]



## Free Cash Flow

[Millions of Euros]

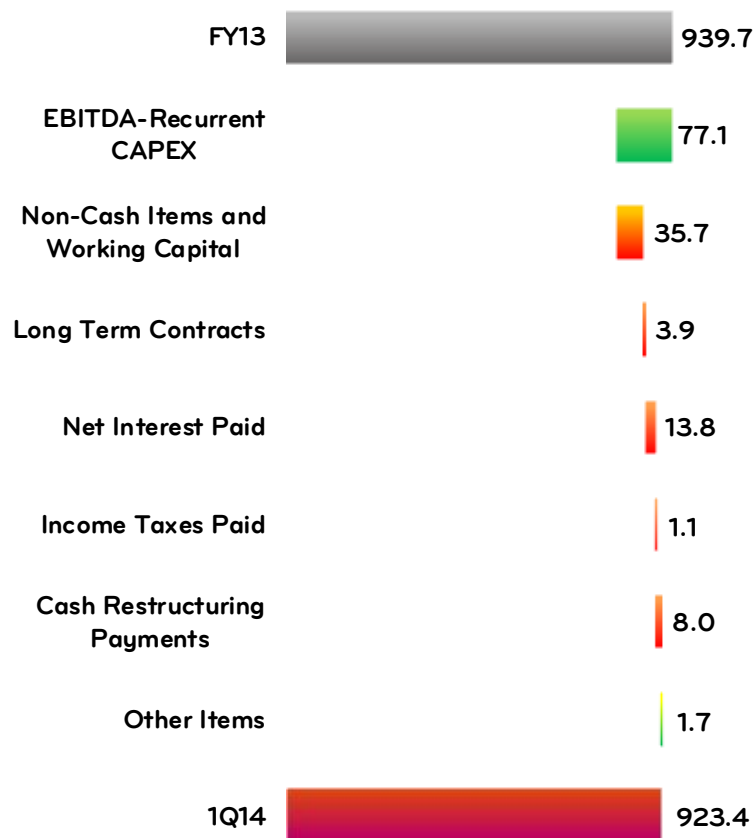


- Improving quarterly trend of EBITDA – Recurrent CAPEX
- YoY decline of Free Cash Flow impacted by cash payments related to the restructuring / merger process

# Solid Capital Structure, deleveraging to 1.7x Net Financial Debt / EBITDA

## Change in Net Financial Debt

[Millions of Euros]



- Net Financial Debt of 923.4 million euros at the end of 1Q14
- Total liquidity position of 346.6 million euros, including unused credit facilities of 320 million euros
- Funded until 1Q15
- Net Financial Debt / EBITDA of 1.7x
- Average cost of debt of 5.37% at the end of 1Q14
- 1.8 years average maturity

## Wrap-up

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- **Integration process going well and commercial ramp-up accelerating fast; New brand and positioning to be launched during 2Q14;**
- **Still in early months of strategy execution and well on track to deliver market share growth targets, with strategic operating levers being put in place;**
- **Very strong performance in convergence, a key pillar for consolidating growth targets;**
- **Continuous focus on benchmark efficiency and cost control.**

# Contacts

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