

**ZON**

MULTIMEDIA



**EARNINGS ANNOUNCEMENT**  
**FIRST QUARTER 2008**

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# 01. Key Operating and Financial Highlights

**Lisbon, Portugal, 7 May 2008:** Today ZON announces unaudited results for the first quarter of 2008.

## OPERATIONAL HIGHLIGHTS:

ZON continued to post strong operational momentum in 1Q08, with impressive performance in key operational drivers:

- **A new consecutive record quarter in terms of RGU growth:** 101.9 thousand net adds in 1Q08, compared with 57.7 thousand in 1Q07 and 94.6 thousand in 4Q07. This performance is particularly positive given the fact that Q1 is always a seasonally weaker quarter than Q4 in terms of commercial activity.
- **Pay TV Customers grew by 13.4 thousand to 1.561 million customers,** reflecting 60% more net additions than in 1Q07.
- **Net additions to the Broadband customer base were 15.7 thousand,** reaching 416 thousand in total and representing 26.7% penetration of the total Pay TV customer base, up from 25% in 1Q07.
- **Voice customers grew by 55 thousand to 139 thousand customers,** with average monthly net additions of 18 thousand customers (compared with 10 thousand average monthly net additions in the previous quarter) and 9% of the Pay TV customer base in comparison with less than 1% in 1Q07.
- **Increase of 15.9% y.o.y. in RGUs to 2,5 million** representing 1.61 RGUs per Pay TV customer compared with 1.46 in 1Q07.
- **Blended ARPU growth of 3.7% to 31.6 euros per subscriber** in 1Q08, compared with 30.4 euros in 1Q07.

<b>Table 1. Key Operational Highlights ('000)</b>	<b>1Q07</b>	<b>4Q07</b>	<b>1Q08</b>	<b>1Q08 / 1Q07</b>	<b>1Q08 / 4Q07</b>
Basic Subscribers Net Additions <sup>(1)</sup>	8.4	26.3	13.4	60.3%	(49.0%)
Digital Extended Basic Net Additions	33.0	25.7	17.7	(46.2%)	(31.1%)
BB Internet Net Additions	10.4	12.9	15.7	50.2%	21.3%
Voice Net Additions	6.0	29.6	55.1	n.a.	85.9%
RGUs Net Additions	57.7	94.6	101.9	76.5%	7.7%
RGUs <sup>(2)</sup>	2,170.1	2,412.9	2,514.8	15.9%	4.2%
RGUs per Subscriber	1.46	1.56	1.61	10.5%	3.3%
Blended ARPU (Euro)	30.4	31.0	31.6	3.7%	1.8%

(1) These figures are related to the total number of Pay TV basic customers, including the cable and satellite platforms. ZON Multimedia offers several basic services, based on different technologies, directed to different market segments (residential, real estate and hotels), with a distinct geographical scope (mainland Portugal and the Azores and Madeira islands) and with a variable number of channels;

(2) Revenue Generating Units correspond to the sum of Pay TV basic customers, plus Pay TV extended basic customers, plus broadband internet customers, plus voice customers.

## FINANCIAL HIGHLIGHTS:

The strong operational momentum in 1Q08 led to solid financial performance:

- **Operating Revenues increased to 188.1 million euros**, representing a y.o.y. growth of 9.1%.
- **EBITDA increased to 58.9 million euros**, representing y.o.y. growth of 8.9% compared with 1Q07.
- **Net Income reached 20.9 million euros**, which compares with 18.5 million euros in 1Q07, representing y.o.y. growth of 12.6%.
- **CAPEX in 1Q08 amounted to 24.7 million euros**, representing 13.2% of operating revenues, compared with 11.9% in 1Q07.
- Excluding financial commitments for long-term telecom contracts and transponders, Net Financial Debt at the end of 1Q08 stood at 77.9 million euros, comparing with 23.5 million euros at the end of 2007.
- 0.45% own shares already purchased at the end of 1Q08 (1% purchased up until the end of April), out of a total share buyback programme of up to 10% of the total share capital.
- 20 eurocent ordinary dividend and 30 eurocent extraordinary dividend for 2007, already approved by the shareholders at the AGM held on 21 April, to be paid on 20 May 2008.

**Table 2. Key Financial Highlights  
(Millions of Euros)**

	1Q07	4Q07	1Q08	1Q08 / 1Q07	1Q08 / 4Q07
Operating Revenues	172.4	188.1	188.1	9.1%	(0.0%)
EBITDA <sup>(1)</sup>	54.1	49.2	58.9	8.9%	19.6%
Income Before Financials and Income Taxes	26.9	(8.1)	30.7	14.3%	n.a.
Net Income	18.5	(3.0)	20.9	12.6%	n.a.
CAPEX	20.5	85.8	24.7	20.7%	(71.2%)
Net Debt <sup>(2)</sup>	5.2	23.5	77.9	n.a.	231.2%

(1) EBITDA = Income From Operations + Depreciation and Amortization;

(2) Net Debt Excluding Transponders and Long Term Telecom Contracts.

## 02. Business Review

### Operational Highlights

<b>Table 3. Business Indicators ('000)</b>	<b>1Q07</b>	<b>4Q07</b>	<b>1Q08</b>	<b>1Q08 / 1Q07</b>	<b>1Q08 / 4Q07</b>
<b>Pay TV, Broadband and Telephony</b>					
Homes Passed <sup>(1)</sup>	2,675.4	2,752.8	2,773.7	3.7%	0.8%
Basic Subscribers <sup>(2) (3)</sup>	1,488.4	1,547.1	1,560.5	4.8%	0.9%
of which					
Digital Extended Basic	303.4	382.1	399.8	31.8%	4.6%
Premium Pay TV	786.9	840.6	832.6	5.8%	(1.0%)
Broadband Internet	372.3	400.2	415.9	11.7%	3.9%
Voice	6.0	83.5	138.6	n.a.	66.0%
RGUs <sup>(4)</sup> (units)	2,170.1	2,412.9	2,514.8	15.9%	4.2%
RGUs <sup>(4)</sup> per Subscriber (units)	1.46	1.56	1.61	10.5%	3.3%
<b>Net Additions</b>					
Basic Subscribers	8.4	26.3	13.4	60.3%	(49.0%)
Digital Extended Basic	33.0	25.7	17.7	(46.2%)	(31.1%)
Premium Pay TV	6.8	37.8	(8.0)	(217.4%)	(121.2%)
Broadband Internet	10.4	12.9	15.7	50.2%	21.3%
Voice	6.0	29.6	55.1	n.a.	85.9%
RGUs	57.7	94.6	101.9	76.5%	7.7%
<b>ARPU (Euros)</b>					
Blended ARPU	30.4	31.0	31.6	3.7%	1.8%
Pay TV ARPU	25.0	25.2	25.6	2.5%	1.6%
Broadband ARPU	21.8	21.3	20.2	(7.4%)	(5.3%)
<b>Cinema Exhibition</b>					
Revenue per Ticket (Euros)	4.1	4.0	4.1	0.2%	0.9%
Tickets Sold	1,763.5	2,092.9	2,199.5	24.7%	5.1%
Screens (units)	191	204	200	4.7%	(2.0%)

(1) In 2Q07, Tv Cabo undertook an internal audit to its database, reducing the number of recorded homes passed by 230 thousand. Considering the impact of this database clean-up, the number of homes passed would have reduced to approximately 2.676 thousand at the end of 1Q07 and to approximately 2.651 thousand at the end of 2006;

(2) These figures are related to the total number of Pay TV basic customers, including the cable and satellite platforms. ZON Multimedia offers several basic services, based on different technologies, directed to different market segments (residential, real estate and hotels), with a distinct geographical scope (mainland Portugal and the Azores and Madeira islands) and with a variable number of channels;

(3) These figures include products in temporary promotions, such as "Try and Buy" promotions;

(4) Revenue Generating Units correspond to the sum of Pay TV basic customers, plus Pay TV extended basic customers, plus broadband internet customers, plus voice customers.

### 3 Play - Pay TV, Broadband and Voice

In line with ZON's strategy to promote 2 Play and 3 Play offers, ZON's customer base is increasing the average number of services subscribed. By the end of 1Q08, on average each

ZON customer subscribed to 1.61 services (RGUs) whereas in 1Q07 this ratio stood at 1.46. In February, ZON launched its first institutional campaign promoting the new ZON name for all its commercial brands, ZON TV Cabo, ZON Netcabo, ZON Lusomundo and ZON Conteúdos. Consumers are becoming increasingly aware of the benefits of subscribing additional communications services from the same operator and by the end of March, 26.7% of ZON's customer base had Pay TV plus Broadband services and an 8.9% had voice services in addition to Pay TV. This compares with 25% and 0.4% respectively at the end of 1Q07.

## **Pay TV**

The Pay TV customer base grew in 1Q08 by 13.4 thousand customers, representing 60.3% more net additions than in 1Q07 and digitally enabled subscribers ("Funtastic Life") continued to grow as a percentage of the Pay TV customer base to 26% compared with 20% in 1Q07. Premium channel penetration was significantly higher, with more than 513 thousand Sport TV subscribers at the end of 1Q08, up by 6% compared with 1Q07. The number of subscribers of other premium channel offers increased by 5% over the same period. However, in comparison with 4Q07, premium channel subscription recorded a decline of 1% due in part to the fact that interest in the Portuguese football league started to decline once the winning club became known, very early on in the year. As regards new channel launches, "Caza e Pesca", a hunting and fishing premium channel, was included in the digital extended offer on 1 April.

In terms of audience, cable channels are increasing their share as a percentage of total TV viewing in Portugal (Free to Air + Cable) which grew from 13.2% in 1Q07 to 13.8% in 1Q08. Cable channel audience as a percentage of total cable audience (includes FTA channels viewed over the cable network) grew to 31.4% compared with 29.2% in 1Q07. Measured as a percentage of the average time spent watching TV per day in Portugal, Cable channels now represent 44% out of total pay TV viewing time (average of 3 hours and 51 minutes), compared with 42% in 1Q07.

Average Pay TV revenue per user was 25.6 euros, up 2.5% from 25 euros in 1Q07.

## **Broadband**

The number of ZON Netcabo customers increased by 15.7 thousand in 1Q08, representing 50.2% more net additions than those achieved in 1Q07. ZON has positioned its offering as the fastest and most reliable broadband Internet offer in Portugal. In January, Broadband speeds for all offers were doubled at no additional charge to the customer, and ZON Netcabo is today the national operator that offers the best internet speed for each price point, being the first player to break the 25MB barrier to offer 30MB to all broadband customers within the cable footprint.

In February, the Portuguese telecom regulator published the results of a study on the speed of Broadband offers in Portugal for the period running from 10 October 2007 to 13 November 2007. Cable players were found to have far superior Broadband speed offers with significantly higher ratios of delivered versus advertised speeds. On average, cable customers achieve speeds between 81% and 88% of the speeds contracted whereas ADSL customers achieve between 32% and 66%. On average, cable Broadband customers achieve speeds that are 38% higher than those of ADSL Broadband customers.

Average Broadband revenue per user was 20.2 euros, down 7.4% from 21.8 euros in 1Q07 as a result mainly of the uptake of new subscribers at entry level price offers, dilution over a higher subscriber base, a shift in customer mix and an increase of traffic limits included in standard Broadband offers.

## **Voice**

During 1Q08, the number of customers that subscribe to ZON's voice services increased by 55 thousand to 139 thousand, representing average monthly net additions of more than 18 thousand. The rapid take-up of voice services was stimulated by a number of specific campaigns, namely the first above-the-line campaign promoting number portability aired during January and February, which helped position ZON as a fixed voice operator, a service which was not previously perceived by customers. In addition, a new "Nights and Weekend" voice tariff plan was launched, offering unlimited traffic to fixed networks between 19h and 9h on weekdays and 24h over the weekend for 6.99 euros. Towards the end of 1Q08, voice services were extended to "Seleção" Pay TV customers, which are those that have the most limited Pay TV offering, and thereby extending the number of eligible voice customers to the entire Pay TV customer base, within the cable footprint.

## **Blended ARPU**

Blended average revenue per user increased, in spite of the strong growth in subscribers, as a result of the increase in RGU per customer to 1.61 in 1Q08 compared with 1.46 in 1Q07 and the good ARPU performance in Pay TV. Blended ARPU in 1Q08 reached 31.6 euros, 3.7% higher than in 1Q07.

## **Network and Homes Passed**

ZON proceeded with the expansion of its cable footprint throughout the quarter, increasing the number of houses passed by 21 thousand to 2.774 million homes. The growth strategy in place and aggressive promotion of services is being supported by significant efforts to improve installation processes and customer servicing.

## **Customer Service**

A number of crucial measures have been implemented or are under development as a means of enhancing customer experience. During 1Q08 a free dial-in number from fixed phones was launched, clearly differentiating ZON from the competition. Customers registered on the "myTVCabo" self-care website grew to 235 thousand, providing ZON with a representative base to further develop self-care measures to be implemented during the course of 2008.

Changes in processes related with billing and other non-technical areas were put in place, together with the development of closer relationships with technical suppliers, in order to improve customer premise installation and maintenance related processes: some of the most relevant measures taken were the digitalization of paperwork, quality checks of the installation done at customer premises whilst the technician is still on site, and quality certification of technical teams.

## **Cinema Exhibition and Audiovisuals**

In the theatrical exhibition arena, box office revenues posted excellent performance in 1Q08 reaching 8.9 million euros, 25% higher than in 1Q07 and representing ticket sales of 2.2 million.

Significant efforts have been made to stimulate sales in the cinema segment and improve business efficiency. The principal reason for the very strong performance in 1Q08 was the fact that it encompassed the entire Easter holiday period, which is always an important driver of box office performance, in addition to the fact that several movies distributed by ZON Lusomundo won, or were nominated for, Academy Awards. Three new digital projection systems were installed in theatres in the North of Portugal, bringing the total number of digital theatres up to 16 out of a total of 200. In January, ZON Lusomundo launched its cinema website [www.zonlusomundo.pt](http://www.zonlusomundo.pt) providing customers with a site where they can browse films being shown, see trailers, buy tickets online and choose seating, in addition to being able to create a personalized “myLusomundo” area, where their personal data can be saved for a future occasion. During the quarter, ZON Lusomundo reinforced its position as the leading theatrical exhibition player with a share of approximately 50%.

ZON Lusomundo’s theatrical distribution business guaranteed exclusive distribution of 4 out of the top 5 box office titles in 1Q08, namely “Asterix at the Olympic Games”, “Atonement”, “Call Girl” and “Charlie Wilson’s War”, increasing its share of film distribution in the quarter to 61.7%, up from 56% at the end of 2007. For home entertainment, ZON Lusomundo guaranteed the sale of 2 out of the top 5 films: “Ratatouille” and “Shrek the Third”, according to GFK Group Market Research statistics, which measure the sales from retailers to consumers, and grew market share to 27.2% in 1Q08 compared with 24.6% in 1Q07.



## 03. Consolidated Income Statement

<b>Table 4. Profit and Loss Statement (Millions of Euros)</b>	<b>1Q07</b>	<b>4Q07</b>	<b>1Q08</b>	<b>1Q08 / 1Q07</b>	<b>1Q08 / 4Q07</b>
<b>Operating Revenues</b>	<b>172.4</b>	<b>188.1</b>	<b>188.1</b>	<b>9.1%</b>	<b>(0.0%)</b>
Pay TV, Broadband and Voice	153.1	163.2	166.5	8.7%	2.0%
Audiovisuals	14.2	18.4	14.9	4.8%	(19.2%)
Cinema	10.0	12.3	12.8	27.6%	4.1%
Others and Eliminations	(4.9)	(5.8)	(6.0)	23.3%	4.4%
<b>Operating Costs Excluding D&amp;A</b>	<b>118.3</b>	<b>138.9</b>	<b>129.2</b>	<b>9.2%</b>	<b>(7.0%)</b>
W&S	10.1	14.1	11.5	14.2%	(18.3%)
Direct Costs	53.5	58.7	60.2	12.6%	2.6%
Programming Costs	38.1	41.2	41.9	10.0%	1.7%
Other Direct Costs <sup>(1)</sup>	15.4	17.5	18.3	19.2%	4.6%
Commercial Costs <sup>(2)</sup>	10.9	20.6	13.2	20.3%	(36.0%)
Other Operating Costs	43.9	45.5	44.3	1.1%	(2.6%)
<b>EBITDA <sup>(3)</sup></b>	<b>54.1</b>	<b>49.2</b>	<b>58.9</b>	<b>8.9%</b>	<b>19.6%</b>
Depreciation and Amortization	26.9	40.6	27.0	0.3%	(33.7%)
<b>Income From Operations <sup>(4)</sup></b>	<b>27.2</b>	<b>8.6</b>	<b>31.9</b>	<b>17.5%</b>	<b>271.2%</b>
<b>Other Expenses / (Income)</b>	<b>0.3</b>	<b>16.7</b>	<b>1.2</b>	<b>n.a.</b>	<b>(92.9%)</b>
Work Force Reduction Costs	0.0	(0.4)	0.2	n.a.	(151.6%)
Net Losses/Gains on Disposal of Fixed Assets	0.2	0.6	0.7	209.0%	14.2%
Net other costs / (Income)	0.0	16.5	0.3	n.a.	(98.2%)
<b>Income Before Financials and Income Taxes</b>	<b>26.9</b>	<b>(8.1)</b>	<b>30.7</b>	<b>14.3%</b>	<b>n.a.</b>
<b>Financial Expenses (Income)</b>	<b>0.8</b>	<b>(1.5)</b>	<b>1.6</b>	<b>n.a.</b>	<b>n.a.</b>
Net Interest Expenses	2.0	2.1	2.2	11.9%	7.7%
Net Foreign Currency Exchange Losses (Gains)	(0.1)	(0.2)	(0.0)	(52.9%)	(86.5%)
Losses (Gains) on Financial Assets	(0.6)	0.0	0.0	(100.0%)	(100.0%)
Equity in Earnings of Affiliate Companies, Net	(0.5)	(1.1)	(0.5)	n.a.	n.a.
Net Other Financial Expenses (Income)	(0.1)	(2.2)	(0.0)	(77.9%)	(99.3%)
<b>Income Before Income Taxes</b>	<b>26.1</b>	<b>(6.6)</b>	<b>29.1</b>	<b>11.3%</b>	<b>n.a.</b>
Income Taxes	(6.8)	4.1	(7.4)	9.3%	(282.5%)
<b>Income From Continued Operations</b>	<b>19.4</b>	<b>(2.6)</b>	<b>21.7</b>	<b>12.0%</b>	<b>n.a.</b>
o.w. Attributable to Minority Shareholders	(0.8)	(0.4)	(0.8)	(0.5%)	95.6%
<b>Consolidated Net Income</b>	<b>18.5</b>	<b>(3.0)</b>	<b>20.9</b>	<b>12.6%</b>	<b>n.a.</b>

(1) Other Direct Costs include primarily telecom costs, audiovisuals and cinema royalties, and advertising share revenue costs;

(2) Commercial costs include commissions, marketing and publicity expenses and costs of equipment sold;

(3) EBITDA = Income From Operations + Depreciation and Amortization;

(4) Income From Operations = Income Before Financials and Income Taxes ± work force reduction programme costs ± impairment of goodwill ± Losses/Gains on disposal of fixed assets ± Other costs/income.

### Operating Revenues

Operating Revenues grew by 9.1% to 188.1 million euros in 1Q08, representing an acceleration in the growth rate from the previous year of 1.9% and Revenues generated by the core Pay TV, Broadband and Voice business grew to 166.5 million euros in 1Q08, 8.7% higher than in 1Q07. The growth in Pay TV, Broadband and Voice was a result of the combination of more customers (+4.8%) and higher ARPU (+3.7%). The other 2 businesses also recorded excellent revenue performance in 1Q08: Cinema revenues increased by 27.6% to 12.8 million euros led by the higher ticket sales and average services sold per visitor; Audiovisuals revenues grew by 4.8% to 14.9 million euros in comparison with 1Q07 driven by the strong share in distribution of box-office hits.

## EBITDA

EBITDA amounted to 58.9 million euros in 1Q08, up 8.9% from 54.1 million euros in 1Q07 and representing a 31.3% margin of Revenues compared with 31.4% in 1Q07. The growth recorded in EBITDA was driven by the increase in Operating Revenues and the effort to contain growth in operating costs notwithstanding the increased commercial activity.

## Consolidated Operating Costs

Consolidated Operating Costs reached 129.2 million euros in 1Q08, 10.9 million euros higher than in 1Q07:

**Wages and salaries** grew by 1.4 million euros (+14.2%) to 11.5 million euros, however declined by 2.6 million euros in relation to 4Q07. The y.o.y. increase in payroll was led by the previously explained internalization of functions, that in the past had been outsourced, and the organizational changes resulting from the spin-off process. The higher staff costs recorded in 4Q07 were due to the accounting, in the quarter, of personnel costs related with the spin-off process.

**Direct Costs** were 60.2 million euros in 1Q08, reflecting an increase of 6.8 million euros over 1Q07. The primary drivers of the higher costs were programming costs, up by 3.8 million euros in comparison with 1Q07, and traffic costs which grew by 1.2 million euros. The level of programming costs is a result of the launch of a number of channels over the past year and the increase in Pay TV and premium sport channel subscribers. As regards traffic costs, these incorporate primarily interconnection costs from provision of fixed voice services, which in 1Q08 already represented 139 thousand customers.

**Commercial Costs** of 13.2 million euros in 1Q08 compare with 10.9 million euros in 1Q07. The increase of 2.3 million euros is primarily a consequence of an increase in marketing and publicity costs and higher commissions paid, both of which a result of the greater commercial effort.

**Other Operating Costs** remained relatively flat at 44.3 million euros in 1Q08 compared with 43.9 million euros in 4Q07. Within this item, due to the higher commercial activity in the quarter, support service related costs were higher by 12% amounting to 16.7 million euros. However, this increase was compensated by lower maintenance and repair costs, which reduced by 13.4% to 5.8 million euros, as a result of the renegotiation of contracts with service providers, under improved financial conditions, during 2007.

## Net Income

**Consolidated Net Income** amounted to 20.9 million euros in 1Q08, as a result of the growth in revenues and EBITDA, compared with 18.5 million euros in 1Q07, representing growth, y.o.y. of 12.6%. The main items affecting Net Income in 1Q08 were as follows:

**Depreciation and Amortization Costs** in 1Q08 were 27 million euros, similar to the depreciation charges recorded in 1Q07 and representing a normalized level of asset depreciation. The decline in comparison with the previous quarter is due to the non-recurrent depreciation charges recorded in 4Q07, explained in detail in ZON's FY2007 Results announcement. Depreciation was also affected by the net effect of the new network contract signed in February: depreciation increased due to the new equipment acquired and recorded on the balance sheet, however this was more than offset by the lower value of the new yearly contract being depreciated over 3 years. The details of the new contract are explained in the Full Year Results Announcement.

**Net Interest Expenses** increased by 12% y.o.y. to 2.2 million euros, on the back of the gradually higher average level of gross debt. These charges include interest payments on long-terms commitments regarding telecommunications contracts and transponders.

**Income Taxes** in 1Q08 increased by 9.3% to 7.4 million euros, led by the increase in profitability during the period.

## 04. Capex and Cash Flow

### CAPEX

<b>Table 5. CAPEX (Millions of Euros)</b>	<b>1Q07</b>	<b>4Q07</b>	<b>1Q08</b>	<b>1Q08 / 1Q07</b>	<b>1Q08 / 4Q07</b>
Pay TV, Broadband and Voice Infrastructure	14.3	23.6	13.7	(3.9%)	(41.8%)
Terminal Equipment	3.4	3.8	7.3	114.1%	91.7%
Other	2.8	7.8	3.3	17.3%	(57.3%)
<b>"Baseline" CAPEX</b>	<b>20.5</b>	<b>35.2</b>	<b>24.3</b>	<b>18.5%</b>	<b>(31.0%)</b>
Transponders	0.0	15.1	0.0	n.a.	(100.0%)
Telecom Contract	0.0	13.8	0.4	n.a.	(96.9%)
Acquisition of TVCabo Dedicated Network Equipment	0.0	21.7	0.0	n.a.	(100.0%)
<b>Total CAPEX</b>	<b>20.5</b>	<b>85.8</b>	<b>24.7</b>	<b>20.7%</b>	<b>(71.2%)</b>

**CAPEX** in 1Q08 reached 24.7 million euros (13% of Operating Revenues), representing an increase of 20.7% in relation to 1Q07, most of which explained by higher investment in terminal equipment to accompany the growth in subscriber numbers.

<b>Table 6. Cash Flow (Millions of Euros)</b>	<b>1Q07</b>	<b>4Q07</b>	<b>1Q08</b>	<b>1Q08 / 1Q07</b>	<b>1Q08 / 4Q07</b>
EBITDA minus CAPEX	33.6	(36.6)	34.2	1.7%	(193.4%)
Non-Cash Items Included in EBITDA minus CAPEX <sup>(1)</sup>	0.0	27.5	(0.7)	n.a.	(102.6%)
Change in Working Capital	18.5	72.0	(31.0)	(267.5%)	(143.0%)
<b>Operating Cash-Flow</b>	<b>52.1</b>	<b>63.0</b>	<b>2.5</b>	<b>(95.3%)</b>	<b>(96.1%)</b>
Interest Paid	(0.4)	0.6	0.7	(275.5%)	19.9%
Income Taxes Paid by Certain Subsidiaries <sup>(2)</sup>	(0.3)	(1.1)	(0.4)	49.7%	(60.6%)
Transponders and Telecom Contracts	(16.5)	(10.9)	(31.5)	91.0%	190.2%
Acquisitions of Financial Investments	0.0	0.0	(16.8)	n.a.	n.a.
Other Cash Movements	(0.7)	0.0	(8.8)	n.a.	n.a.
<b>Free Cash-Flow</b>	<b>34.2</b>	<b>51.6</b>	<b>(54.4)</b>	<b>n.a.</b>	<b>n.a.</b>

(1) This caption includes non-cash provisions included in EBITDA and CAPEX, namely Transponders and Telecom contracts Capex;

(2) This item relates to the income taxes paid by Cabo TV Madeirense and Cabo TV Açoreana.

**Operating Cash Flow** in 1Q08, amounted to 2.5 million euros, representing a significant reduction compared with 1Q07, due to the negative contribution from working capital which increased by 31 million euros. This was due primarily to the payment of outstanding balances resulting from the spin-off process during the course of 1Q08, which had also been one of the reasons for an abnormally positive working capital performance in 4Q07, and to the impact of greater commercial activity. Excluding the effect of working capital variations, EBITDA minus CAPEX increased by 1.7% in 1Q08 to 34.2 million euros compared with 1Q07.

**Free Cash Flow** was affected mainly by the payment of the network equipment acquired at the end of 2007, amounting to 21.7 million euros, acquisition of a 20% stake in TVTEL representing a cash payment of 16.8 million euros (recorded as financial investment), and by 7.3 million euros allocated to the acquisition of own shares during the quarter (recorded in other cash movements). Acquisition of the remaining 80% of TVTEL, is dependent upon receiving approval from the Competition Authority and subsequent execution of a call-option agreement with Caixa Banco de Investimento (details of the transaction were disclosed in the announcement made on 17 January 2008 and which may be viewed on the company website at [www.zon.pt/ir](http://www.zon.pt/ir)).

## 05. Consolidated Balance Sheet

<b>Table 7. Balance Sheet (Millions of Euros)</b>	<b>FY07</b>	<b>1Q08</b>
<b>Current Assets</b>	<b>276.4</b>	<b>325.9</b>
Cash and Equivalents	66.9	114.6
Accounts Receivable, Net	134.3	142.6
Inventories, Net	29.9	32.2
Taxes Receivable	11.8	6.5
Prepaid Expenses and Other Current Assets	33.6	30.1
<b>Non-current Assets</b>	<b>723.6</b>	<b>726.8</b>
Investments in Group Companies	18.5	20.9
Intangible Assets, Net	259.7	269.7
Fixed Assets, Net	347.7	344.6
Deferred Taxes	75.2	69.1
Other Non-current Assets	22.6	22.6
<b>Total Assets</b>	<b>1,000.1</b>	<b>1,052.7</b>
<b>Current Liabilities</b>	<b>450.4</b>	<b>495.2</b>
Short Term Debt	124.5	200.2
Accounts Payable	230.2	189.6
Accrued Expenses	64.2	71.8
Deferred Income	6.3	7.5
Taxes Payable	10.9	7.9
Current Provisions and Other Liabilities	14.3	18.2
<b>Non-current Liabilities</b>	<b>160.6</b>	<b>156.1</b>
Medium and Long Term Debt	139.5	136.0
Non-current Provisions and Other Liabilities	21.2	20.1
<b>Total Liabilities</b>	<b>611.1</b>	<b>651.4</b>
Equity Before Minority Interests	379.4	393.0
Share Capital	3.1	3.1
Own Shares	0.0	(7.3)
Reserves, Retained Earnings and Other	327.4	376.4
Net Income	48.9	20.9
Minority Interests	9.6	8.3
<b>Total Shareholders' Equity</b>	<b>389.0</b>	<b>401.3</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,000.1</b>	<b>1,052.7</b>

### Capital Structure

At 31 March, 2008, Net Debt stood at 221.6 million euros, representing an increase of 12.5% compared with the end of 2007. Adjusting for the effect of commitments related with long-term telecom contracts and transponders, Net Financial Debt was 77.9 million euros, representing an increase of 54.4 million euros during 1Q08, explained by the additional cash required to fund the acquisition of the stake in TVTEL, the acquisition of own shares and the aforementioned negative variation in working capital. Net Gearing (Net Financial Debt / Net Financial Debt + Shareholders' Equity) at the end of 1Q08 was 16.3%, compared with 5.7% at the end of 2007. Net Financial Debt to EBITDA (last 12 months) reached 0.35x, compared with 0.1x at the end of 2007.

<b>Table 8. Net Debt (Millions of Euros)</b>	<b>FY07</b>	<b>1Q08</b>	<b>1Q08 / FY07</b>
<b>Short Term</b>	<b>124.5</b>	<b>200.2</b>	<b>60.8%</b>
Bank Loans	14.0	35.0	150.0%
Shareholder Loans	0.5	0.0	(100.0%)
Other Loans	70.0	150.0	114.3%
Financial Leases	0.6	2.3	299.9%
Long Term Telecom Contracts	27.2	0.5	(98.2%)
Transponders	12.2	12.4	1.8%
<b>Medium and Long Term</b>	<b>139.5</b>	<b>136.0</b>	<b>(2.5%)</b>
Bank Loans	3.5	3.5	0.0%
Financial Leases	1.9	1.7	(8.8%)
Long Term Telecom Contracts	0.5	0.5	(13.8%)
Transponders	133.5	130.3	(2.4%)
<b>Total Debt</b>	<b>264.0</b>	<b>336.2</b>	<b>27.4%</b>
Cash and Short Term Investments	66.9	114.6	71.3%
<b>Net Debt</b>	<b>197.0</b>	<b>221.6</b>	<b>12.5%</b>
<b>Net Financial Debt <sup>(1)</sup></b>	<b>23.5</b>	<b>77.9</b>	<b>231.2%</b>
<b>Net Financial Gearing <sup>(2)</sup></b>	<b>5.7%</b>	<b>16.3%</b>	<b>10.6 p.p.</b>
<b>Net Financial Debt <sup>(1)</sup> / EBITDA</b>	<b>0.1</b>	<b>0.3</b>	<b>n.a.</b>

(1) Net Financial Debt = Net Debt excluding transponders and long term telecom contracts;

(2) Net Financial Gearing = Net Financial Debt / (Net Financial Debt + Total Shareholders' Equity).

## 06. Shareholder Remuneration

**Dividends:** on 21 April, ZON's General Shareholder Meeting approved a 2007 normal dividend of 20 eurocents and an extraordinary dividend of 30 eurocents, to be paid on 20 May. This payment represents 154.5 million euros, a pay-out ratio of more than 3 times Full Year 2007 Net Results.

**Share buyback programme:** in March, ZON started to buy own shares within the previously announced share buyback programme. By the end of March, ZON had purchased 1,389,491 own shares, representing 0.45% of the total share capital. At the end of April, the total number of shares acquired were 3,091,070, representing 1% of the share capital. Detailed announcements were made regarding the programme and may be found on our website at [www.zon.pt/ir](http://www.zon.pt/ir).



## 07. Disclaimer

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