ZON MULTIMEDIA

Earnings Announcement
First Half 2008

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01. Key Operating and Financial Highlights

Lisbon, Portugal, 30 July 2008: Today ZON announces unaudited results for the First Half of 2008.

OPERATIONAL HIGHLIGHTS:

ZON continues to post strong operational momentum in 1H08, with impressive performance in key operational drivers. Executing the strategy announced at the beginning of the year, ZON is actively promoting the uptake of Triple Play bundles, additional services and functionalities:

- **14% penetration of Triple Play services,** with over 153 thousand cable Pay TV customers already subscribing to both Broadband and Voice Services;

- **Record time to launch the new "ZON Box" in May 2008,** a new TV set-top box for cable and satellite customers, enabled with PVR (Personal Video Recorder), a revamped EPG (Electronic Programming Guide) and HD (High Definition) channel viewing; more than 20 thousand boxes activated by the end of June;

- **RGU growth of 195.6 thousand (17.1% higher y.o.y.) in 1H08** (93.7 thousand in 2Q08), compared with 115.8 thousand in 1H07. **RGUs per subscriber grew to 1.68** compared with 1.49 in 1H07 reflecting ZON's efforts to up-sell additional services to the customer base;

- **Blended ARPU increased to 31.7 euros**, representing growth of 3.7% from 30.6 euros in 1H07, driven mostly by the increase in RGU's per subscriber;

- Despite the increased competitive environment, **ZON achieved solid growth of its Pay TV subscriber base of 9.9 thousand in 1H08,** with positive results in 1Q08 (+13.4 thousand) and neutral performance in 2Q08 (-3.6 thousand); market data shows that the Portuguese Pay TV sector continues to post healthy growth rates quarter on quarter;

- **Strong net adds in Broadband of 30.6 thousand in 1H08 (14.9 thousand in 2Q08)**, reaching a total of 430.8 thousand customers at the end of June, supported by the fastest and most competitive offer in the market at each pricing level, enabling ZON to become the fastest growing company in the Broadband segment;

- **Acceleration of voice customer growth** to more than 20 thousand customers per month, reaching 203.8 thousand by the end of June and anticipating year-end targets by almost 6 months;

During 1H08, ZON completed several key steps to separate from its previous parent company, namely (1) implementation of a new and separate ERP system from SAP; (2) finalized the acquisition of 50% of Pro Share which is now fully consolidated the subsidiary for general and administrative functions; and (3) agreed to migrate all IT application outsourcing services to a new independent vendor. Finally, a number of cost efficiency measures were implemented in areas such as IT, customer care and logistics, which will later positively impact profitability margins.

Table 1. Key Operational Highlights ('000)	2Q07	1Q08	2Q08	2Q08 / 2Q07	2Q08 / 1Q08	1H07	1H08	1H08 / 1H07
Basic Subscribers Net Additions (1)	6.7	13.4	(3.6)	(153.4%)	(126.5%)	15.0	9.9	(34.3%)
Digital Extended Basic Net Additions	24.5	17.7	17.1	(30.1%)	(3.6%)	57.4	34.8	(39.3%)
Broadband Internet Net Additions	8.7	15.7	14.9	70.8%	(4.9%)	19.2	30.6	59.6%
Voice Net Additions	18.2	55.1	65.2	257.6%	18.4%	24.2	120.3	n.a.
RGUs Net Additions	58.1	101.9	93.7	61.3%	(8.1%)	115.8	195.6	68.9%
RGUs (2)	2,228.2	2,514.8	2,608.5	17.1%	3.7%	2,228.2	2,608.5	17.1%
RGUs per Subscriber	1.49	1.61	1.68	12.4%	4.0%	1.49	1.68	12.4%
Blended ARPU (Euro)	30.7	31.6	31.8	3.6%	0.8%	30.6	31.7	3.7%

(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:

ZON delivered another semester of strong financial performance:

- **Operating Revenues increased to 377.3 million euros in 1H08**, representing y.o.y. growth of 7.6% (in 2Q08, revenues were up by 6.1% y.o.y.);

- **EBITDA increased to 122.2 million euros in 1H08**, representing y.o.y. growth of 7.1% compared with 1H07 (in 2Q08, EBITDA increased by 5.4% y.o.y.);

- **EBITDA margin was stable at 32.4%** in comparison with 1H07, and **increased by 2.1 percentage points** q.o.q **to 33.5%;**

- **Net Income reached 41.1 million euros**, which compares with 40.6 million euros in 1H07, representing y.o.y. growth of 1.2%, despite one-off gains in 2Q07 of 2.2 million euros (pre tax) due to unwinding of equity swaps and a change to the accounting policy of movie rights at ZON Lusomundo, with a negative pre tax impact of 1.6 million euros in 2Q08. Adjusting for these one-off items, net income would have grown 8.4%, above EBITDA growth;

- **CAPEX in 1H08 amounted to 65.1 million euros**, representing 17.3% of operating revenues, compared with 11.6% in 1H07;

- Excluding financial commitments for long-term telecom contracts and transponders, **Net Financial Debt at the end of 1H08 stood at 339.5 million euros (1.5x Net Financial Debt / EBITDA)**, comparing with 69.3 million euros at the end of 1H07;

- **Continued execution of share buyback programme with 2.27%** own shares already purchased at the end of 1H08, out of a total programme of up to 10% of the total share capital;

Table 2. Key Financial Highlights (Millions of Euros)	**2Q07**	**1Q08**	**2Q08**	**2Q08 / 2Q07**	**2Q08 / 1Q08**	**1H07**	**1H08**	**1H08 / 1H07**
Operating Revenues	178.3	188.1	189.2	6.1%	0.6%	350.7	377.3	7.6%
EBITDA (1)	60.1	58.9	63.3	5.4%	7.5%	114.1	122.2	7.1%
EBITDA margin	33.7%	31.3%	33.5%	(0.2pp)	2.1pp	32.5%	32.4%	(0.2pp)
Income Before Financials and Income Taxes	31.1	30.7	32.1	3.4%	4.5%	58.0	62.9	8.5%
Net Income	22.1	20.9	20.3	(8.3%)	(2.9%)	40.6	41.1	1.2%
CAPEX	20.3	24.7	40.4	99.1%	63.2%	40.8	65.1	59.7%
Net Financial Debt (2)	69.3	77.9	339.5	n.a.	n.a.	69.3	339.5	n.a.

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

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

02. Business Review

Operational Highlights

Table 3. Business Indicators ('000)	2Q07	1Q08	2Q08	2Q08 / 2Q07	2Q08 / 1Q08	1H07	1H08	1H08 / 1H07
Pay TV, Broadband and Voice								
Homes Passed (1)	2,698.8	2,773.7	2,795.4	3.6%	0.8%	2,698.8	2,795.4	3.6%
Basic Subscribers (2) (3)	1,495.1	1,560.5	1,557.0	4.1%	(0.2%)	1,495.1	1,557.0	4.1%
of which								
Digital Extended Basic	327.8	399.8	416.9	27.2%	4.3%	327.8	416.9	27.2%
Premium Pay TV	775.9	832.6	820.9	5.8%	(1.4%)	775.9	820.9	5.8%
Broadband Internet	381.1	415.9	430.8	13.1%	3.6%	381.1	430.8	13.1%
Voice	24.2	138.6	203.8	n.a.	47.1%	24.2	203.8	n.a.
RGUs (4) (units)	2,228.2	2,514.8	2,608.5	17.1%	3.7%	2,228.2	2,608.5	17.1%
RGUs (4) per Subscriber (units)	1.49	1.61	1.68	12.4%	4.0%	1.49	1.68	12.4%
Net Additions								
Basic Subscribers	6.7	13.4	(3.6)	(153.4%)	(126.5%)	15.0	9.9	(34.3%)
Digital Extended Basic	24.5	17.7	17.1	(30.1%)	(3.6%)	57.4	34.8	(39.3%)
Premium Pay TV	(11.0)	(8.0)	(17.4)	58.5%	116.0%	(4.1)	(25.4)	n.a.
Broadband Internet	8.7	15.7	14.9	70.8%	(4.9%)	19.2	30.6	59.6%
Voice	18.2	55.1	65.2	257.6%	18.4%	24.2	120.3	n.a.
RGUs	58.1	101.9	93.7	61.3%	(8.1%)	115.8	195.6	68.9%
ARPU (Euros)								
Blended ARPU	30.7	31.6	31.8	3.6%	0.8%	30.6	31.7	3.7%
Pay TV ARPU	25.0	25.6	25.5	2.0%	(0.6%)	25.0	25.6	2.3%
Broadband ARPU	22.1	20.2	20.0	(9.3%)	(0.8%)	21.9	20.1	(8.4%)
Cinema Exhibition								
Revenue per Ticket (Euros)	3.9	4.1	4.0	1.7%	(2.1%)	4.0	4.0	1.3%
Tickets Sold	2,053.5	2,199.5	1,508.6	(26.5%)	(31.4%)	3,816.9	3,708.1	(2.9%)
Screens (units)	188	200.0	206	9.6%	3.0%	188	206	9.6%

(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.

Triple Play - Pay TV, Broadband and Voice

In May, ZON launched a range of “ZON3” bundles combining Pay TV, Internet and Voice services, further stimulating uptake of triple play services: by the end of June, 14% of ZON cable customers were already triple play customers, compared with only 6% at the end of 2007. In 1H08, 32% of gross adds were Triple Play customers, increasing to 35% in 2Q08.

On average each ZON customer subscribed to 1.68 services (RGUs) whereas in 1H07 this ratio stood at 1.49.

Pay TV

ZON launched its new “ZON Box”, a TV powerbox, at the end of May, providing enhanced features and functionalities such as HD viewing, pause live TV, PVR (personal video recorder) and a new EPG (electronic programming guide). ZON’s Pay TV service offers a significant advantage versus competing offers as it provides a true multi-room viewing experience – the basic pay TV service may be broadcast to various rooms in the house through distribution of the analogue signal. In addition, the new ZON set-top box is currently the only one in the market capable of providing enhanced functionalities and features to both cable and satellite customers. Take up of the new box has been significant with 20 thousand boxes activated since its launch.

Always striving to deliver a more exciting viewer experience, ZON launched 3 new HD channels – Sport TV1 HD, MOV HD and National Geographic HD, the first two exclusive to ZON Pay TV customers. A third Sport TV premium channel was also launched at the end of 1H08, broadcasting a wider range of sporting events and particularly targeting youth and female audiences. 5 new channels were included in the basic Pay TV offer during 2Q08 (E!, Entertainment, Boomerang, MVM and France 24, along with MOV which was previously only available to “Funtastic Life” customers). The total number of channels now included in the digitally extended offer “Funtastic Life” is now 80, representing by far the most comprehensive and competitive Pay TV offer available.

Also on the content front, ZON announced an important exclusive agreement in June. Sport TV (the 50%/50% JV with Controlinveste Group) signed a contract securing TV broadcasting rights of the football matches within the Portuguese Professional Football Leagues. This contract is valid for the next four sports’ seasons (2008/2012) and will be crucial to the continued growth of Sport TV. In full compliance with Portuguese television law, Sport TV resold one weekly match for free-to-air transmission to RTP (the Portuguese state owned FTA channel) for the next two seasons. However, it will retain the right-of-first-choice, guaranteeing exclusive broadcasting of the most important matches, namely the key matches between the top three clubs. In addition, Sport TV will retain the HD television rights for the Portuguese League matches. Together with this new contract, ZON agreed to finance Sport TV for the acquisition of the Portuguese Football League rights with an impact on ZON’s Consolidated Net Debt of 50 million euros.

During 1H08, ZON’s Pay TV customer base grew by 9.9 thousand customers to 1,557 thousand. Despite the significant increase in the competitive dynamics during 2Q08, marked by the nationwide re-launch of a competing Triple Play offer in 2Q08, net adds were only marginally negative in 2Q08, by 3.6 thousand. With the launch of the new “ZON Box”, albeit only towards the end of 2Q08, ZON today has one of the most attractive Pay TV offers in the market and therefore expects to continue to capture a relevant part of the market growth going forward, in line with the strategic objectives presented in January 2008.

Premium channel subscriptions declined by 20 thousand subscribers in 1H08 to 821 thousand, due to the seasonal disconnection of Sport TV subscribers at the end of the Portuguese Football Championship. However, the number of subscribers was 5.8% higher than at the end of 1H07. Pay TV ARPU therefore increased by 2.3% to 25.6 euros per customer in 1H08, when compared with 25 euros in 1H07.

Broadband

ZON has been actively marketing its broadband services as the fastest and most reliable Internet provider in Portugal and has been, for the past few quarters, the operator that has captured the largest share of growth in the fixed broadband market in Portugal. ZON is the only provider currently able to provide 30 Mbps to any customer within its cable footprint.

During 2Q08, ZON extended unlimited downloads to all its broadband tariff plans higher than 20 euros per month. With this offer, as well as further reinforcing its position as the leading Internet provider in Portugal, ZON simplifies its billing relationship with customers due to the introduction of less variable pricing schemes. ZON is currently rolling out technical pilots with “real clients” to provide 100 Mbps download speeds supported by deployment of Docsis 3.0. A test site is already installed and operational at ZON’s new flagship store located next to corporate head-offices in the centre of Lisbon.

ZON increased its broadband customer base by 30.6 thousand customers in 1H08 (14.9 thousand in 2Q08) compared to 19.2 thousand net adds in 1H07. By the end of June, ZON had 431 thousand broadband customers, 39.2% of the cable customer base which compares with 35.6% at the end of 1H07. ARPU generated by broadband services was 20.1 euros in 1H08, down from 21.9 euros in 1H07, a decline explained mostly by the combination of increased competition in the Portuguese broadband market, namely with the introduction of higher traffic limits in flat-rate tariff plans and recent introduction of unlimited traffic, reducing the level of additional traffic charges on a customer’s monthly bill and of the greater weight of lower tariff plans in the total customer base.

Voice

The pace of growth in voice customers continued to increase throughout 1H08 to 20 thousand per month, generating net adds of more than 120 thousand customers (65 thousand in 2Q08 alone, contributing to the strongest quarter in terms of voice additions so far). By the end of June, ZON had clearly surpassed expectations, reaching 204 thousand voice customers, representing 18.5% of cable Pay TV customers. This growth is particularly significant in a market segment that has been declining in terms of subscriber growth for the past years. Voice is a key contributor to increase the level of Triple Play penetration, which is one of the fundamental pillars of ZON’s strategy.

Business

Towards the end of 2Q08, ZON launched a range of tariffs specifically targeting SOHOs, small enterprises (typically with less than 15 employees) and the hotel and restaurant industry. With the “VozPro” Voice offer and the “NetPro” Internet offer ZON provides today a very competitive range of integrated communications solutions for this segment. Some organizational changes were implemented to better serve this market segment, amongst which the creation of a dedicated door-to-door sales team, already operating in Lisbon and Oporto and later to cover the rest of the country.

Mobile

In February ZON announced that it had reached a network utilization agreement with Vodafone to enable the launch of a Mobile Virtual Network Operator. “ZON-Mobile”, to be launched in 2008, will include mobile broadband and homezoning products, as well as mobile voice, and will enable ZON to up-sell mobility services to its entire customer base, operating under the 929 prefix.

Blended ARPU

Blended average revenue per user increased to 31.7 euros, up 3.7% from 30.6 euros in 1H07, driven by the higher average number of services sold to each customer. Although the market environment has become increasingly competitive, rather than compete on price, ZON's key focus is to continuously deliver more value to customers, such as enhanced content and features, higher broadband speeds and superior customer service. The new ZON Box introduced late in 2Q08 will provide a basis for an ARPU increase since it is provided under a rental agreement whereby the customer pays an additional monthly fee of 5 euros (including VAT), during a minimum loyalty period of 24 months. The launch of additional services such as VoD (Video on Demand) in 2H08 is likely to deliver additional uplift to blended ARPU going forward.

Network and Homes Passed

ZON increased the number of houses passed by its cable network by 42 thousand during 1H08 (22 thousand in 2Q08). A number of technical developments were required during 1H08 in order to provide support for the launch of the innovative commercial features already mentioned, such as the launch of the ZON Box for both cable and satellite customers, the 30 Mbps Internet offer, the launch of HD channels, the upgrade of the network to accompany the rate of growth in the voice customer base and the deployment of a new transponder to enable viewing of HD channels over the satellite network. Some of the key network developments implemented were upgrades to the fibre component in the access network, replacement of obsolete network equipment, progressive deployment of Docsis 3.0 in pilot areas and cell splitting.

Customer Service

A number of initiatives to improve service quality and efficiency were implemented during 1H08 or are currently being deployed. 1Q08 was marked by the launch of a free dial-in number for fixed lines and the launch of a self-care online platform "MyZON" which already had 275.000 registrations by the end of June. Amongst some of the main customer care initiatives implemented in 2Q08 were the launch of an internal programme to increase the level of response to billing queries (leading to an increase in the successful response rate from 44% to 90%) and a clarification in billing processes focused on simplifying the content and improving the readability of the final bill. In addition, "MyZON" for mobile telephones was launched together with an SMS information service, further increasing the weight of self-care at ZON.

Cinema Exhibition and Audiovisuals

In the theatrical exhibition arena, revenues recorded a slight increase in 1H08 to 22 million euros compared with 21.5 million euros in 1H07. The cinema business had recorded a very strong 1Q08 due to the early Easter holiday period which then led to lower box office sales in 2Q08 a decline which was further accentuated by the comparatively lower number of blockbuster movies than in 1Q08. During 1H08, two additional theatres were opened, increasing the total number to 206, 16 of which enabled with digital projection systems. The ZON Lusomundo cinema website www.zonlusomundo.pt, launched in 1Q08, is recording very positive results.

The theatrical distribution business also posted an uneven distribution in revenues between 1Q08 and 2Q08, again due to the early Easter holiday period. Somewhat rebalancing this negative effect, ZON Lusomundo secured exclusive distribution of a number of top box office titles in 2Q08 - "Indiana Jones", "Iron Man", "Sex and the City", "The Incredible Hulk" and "Donkey Xote", compared with "Asterix at the Olympic Games", "Atonement", "Call Girl" and "Charlie Wilson's

War” in 1Q08. On the home entertainment front, ZON Lusomundo guaranteed the sale of top box office hits such as “Ratatouille”, “Shrek the Third” (1Q08) and “Bee Movie”, “National Treasure Book of Secrets”, “The Golden Compass”, “Enchanted” and “Cloverfield”.

03. Consolidated Income Statement

Table 4. Profit and Loss Statement (Millions of Euros)	2Q07	1Q08	2Q08	2Q08 / 2Q07	2Q08 / 1Q08	1H07	1H08	1H08 / 1H07
Operating Revenues	**178.3**	**188.1**	**189.2**	**6.1%**	**0.6%**	**350.7**	**377.3**	**7.6%**
Pay TV, Broadband and Voice	155.5	166.5	171.2	10.1%	2.8%	310.8	337.7	8.6%
Audiovisuals	14.7	14.9	14.0	(4.9%)	(5.6%)	28.9	28.9	(0.2%)
Cinema	11.5	12.8	9.2	(19.9%)	(28.1%)	21.5	22.0	2.2%
Others and Eliminations	(3.4)	(6.0)	(5.2)	51.9%	(13.0%)	(10.5)	(11.2)	6.9%
Operating Costs Excluding D&A	**118.2**	**129.2**	**125.9**	**6.5%**	**(2.6%)**	**236.6**	**255.1**	**7.8%**
W&S	9.8	11.5	11.5	17.0%	(0.1%)	19.9	23.0	15.6%
Direct Costs	55.9	60.2	58.9	5.4%	(2.2%)	108.5	119.1	9.8%
Programming Costs	38.8	41.9	42.6	9.9%	1.6%	76.8	84.5	9.9%
Other Direct Costs (1)	17.1	18.3	16.3	(4.8%)	(10.8%)	31.7	34.6	9.4%
Commercial Costs (2)	13.2	13.2	14.5	9.8%	10.5%	25.0	27.7	10.7%
Other Operating Costs	39.3	44.3	41.0	4.3%	(7.6%)	83.1	85.3	2.6%
EBITDA (3)	**60.1**	**58.9**	**63.3**	**5.4%**	**7.5%**	**114.1**	**122.2**	**7.1%**
EBITDA margin	33.7%	31.3%	33.5%	(0.2pp)	2.1pp	32.5%	32.4%	(0.2pp)
Depreciation and Amortization	27.7	27.0	29.4	6.3%	9.0%	54.5	56.3	3.3%
Income From Operations (4)	**32.4**	**31.9**	**33.9**	**4.6%**	**6.2%**	**59.6**	**65.8**	**10.5%**
Other Expenses / (Income)	**1.3**	**1.2**	**1.8**	**33.2%**	**48.0%**	**1.6**	**3.0**	**83.0%**
Work Force Reduction Costs	0.2	0.2	0.3	51.0%	28.3%	0.2	0.5	128.7%
Net Losses/Gains on Disposal of Fixed Assets	0.1	0.7	(0.2)	n.a.	(136.3%)	0.3	0.4	32.5%
Net other costs / (Income)	1.0	0.3	1.7	67.6%	477.4%	1.1	2.1	89.7%
Income Before Financials and Income Taxes	**31.1**	**30.7**	**32.1**	**3.4%**	**4.5%**	**58.0**	**62.9**	**8.5%**
Financial Expenses (Income)	**(0.4)**	**1.6**	**2.5**	**n.a.**	**52.4%**	**0.3**	**4.1**	**n.a.**
Net Interest Expenses	2.6	2.2	5.5	110.8%	147.3%	4.6	7.8	68.1%
Net Foreign Currency Exchange Losses (Gains)	(0.0)	(0.0)	(0.0)	(99.2%)	(98.6%)	(0.1)	(0.0)	(73.1%)
Losses (Gains) on Financial Assets	(2.2)	0.0	(0.7)	(69.5%)	n.a.	(2.7)	(0.7)	(75.8%)
Equity in Earnings of Affiliate Companies, Net	(0.8)	(0.5)	(2.7)	223.0%	n.a.	(1.4)	(3.3)	135.6%
Net Other Financial Expenses (Income)	0.0	(0.0)	0.4	n.a.	n.a.	(0.0)	0.4	n.a.
Income Before Income Taxes	**31.5**	**29.1**	**29.6**	**(5.9%)**	**1.8%**	**57.6**	**58.7**	**1.9%**
Income Taxes	(8.7)	(7.4)	(7.9)	(8.4%)	7.1%	(15.4)	(15.3)	(0.7%)
Income From Continued Operations	**22.8**	**21.7**	**21.7**	**(4.9%)**	**0.0%**	**42.2**	**43.4**	**2.9%**
o.w. Attributable to Minority Shareholders	(0.7)	(0.8)	(1.5)	97.4%	73.5%	(1.6)	(2.3)	45.2%
Consolidated Net Income	**22.1**	**20.9**	**20.3**	**(8.3%)**	**(2.9%)**	**40.6**	**41.1**	**1.2%**

(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

Consolidated Operating Revenues grew by 7.6% to 377.3 million euros in 1H08 and Revenues generated by the core Pay TV, Broadband and Voice business grew to 337.7 million euros, 8.6% higher than in 1H07. The marginally lower rate of y.o.y. growth of total Operating Revenues in 2Q08 versus1Q08, was explained mostly by the weaker revenue performance of the Audiovisuals and Cinema business, due to the exceptionally early Easter Holiday period, which fell in March.

Pay TV, Broadband and Voice Revenues continue to post strong growth rates on the back of a significantly higher number of customers (+4.1%), of the number of services that each customer subscribes to (RGU per subscriber increased 12.4%) and the increase in blended ARPU (3.7%).

EBITDA

EBITDA reached 122.2 million euros in 1H08, up 7.1% from 114.1 million euros in 1H07 and representing a 32.4% EBITDA margin. The increase in EBITDA was achieved despite the increased costs associated with the higher commercial activity of recent quarters to attract and retain customers, to launch a new corporate brand and image and to improve the level of customer service. Significant efforts have also been made to become a more efficient organization through a number of improvements in areas such as business processes, information systems and the renegotiation of service provider and telecom related contracts.

Consolidated Operating Costs

Wages and salaries were 23 million euros in 1H08, 15.6% higher than in 1H07. The increase in personnel related costs 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.

Direct Costs increased by 9.8% to 119.1 million euros in 1H08, the most relevant being programming costs which grew 9.9% y.o.y. to 84.5 million euros, a natural consequence of the increase in premium channel subscribers, of the launch of new premium channels, like Sport TV3 and Caza e Pesca, and the launch of a significant number of new channels such as E!Entertainement Boomerang, MVM, and France 24. The remaining increase in Direct Costs is explained by the increase in traffic costs to 3.1 million euros in 1H08 (337 thousand euros in 1H07) as a result of the growth in voice customers to 203.8 thousand (24.2 thousand at the end of 1H07).

Commercial Costs amounted to 27.7 million euros, up 10.7% from 1H07, led primarily by the increase in sales commissions, representing over 50% of commercial costs, due to the increased activity of the past months.

Other Operating Costs recorded an increase of 2.6% to 85.3 million euros. Within this cost item the most significant changes were felt in terms of Support Services (+8% to 29.7 million euros) and Supplies and External Services (+7.6% to 36.4 million euros), both of which a result of the increase in customer activations and customer care related costs. Partially compensating these increases, maintenance and repair costs were lower by 23.1% in 1H08 (9.8 million euros), benefiting from the renegotiation of contracts with service providers in previous quarters.

Net Income

Consolidated Net Income was 41.1 million euros in 1H08, representing an increase of 1.2% over 1H07, despite one-off gains in 2Q07 of 2.2 million euros (pre tax) due to unwinding of equity swaps and a change to the accounting policy of movie rights at ZON Lusomundo, with a pre tax negative impact of 1.6 million euros in 2Q08. Adjusting for these one-off items, net income would have grown 8.4%, above EBITDA growth. Net income growth was led mostly by higher operating profitability (EBITDA) and was achieved despite a significant increase in financial charges and depreciation. The main items affecting Net Income in 1H08 were as follows:

Depreciation and Amortization Costs in 1H08 were 56.3 million euros, 3.3% higher than the depreciation charges recorded in 1H07. With the new network contract, depreciation rose with the 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[1].

Net Other Costs in 1H08 were 2.1 million euros, compared with 1.1 million in 1H07 due to the change of the accounting policy of movie rights (1.6 million euros).

[1] The details of the new contract were explained in the Full Year 2007 Results Announcement.

Net Financial Charges in 1H08, increased to 4.1 million euros, compared with 0.3 million in 1H07. The change reflects a combination of: (i) higher net interest charges (+68.1%) amounting to 7.8 million euros due to higher average gross debt as a result of the balance sheet re-leveraging; (ii) a reduction in gains on financial assets of 75.8% explained by the fact that in 1H07 a gain of 2.2 million euros was generated upon financial settlement of an equity swap agreement;

Income Taxes remained relatively stable at 15.3 million euros in 1H08, down 0.7% in comparison with 1H07, representing 26% of Net Earnings before Taxes.

Net Income attributable to minority interests amounted to 2.3 million euros; an increase of 45.2% compared with 1H07, and includes mostly earnings attributable to minority shareholders in Cabo TV Madeirense, S.A., Cabo TV Açoreana, S.A. and Pro Share.

04. Capex and Cash Flow

CAPEX

Table 5. CAPEX (Millions of Euros)	2Q07	1Q08	2Q08	2Q08 / 2Q07	2Q08 / 1Q08	1H07	1H08	1H08 / 1H07
Pay TV, Broadband and Voice Infrastructure	15.9	13.4	15.4	(3.5%)	14.5%	30.2	28.8	(4.7%)
Terminal Equipment	2.3	7.3	12.3	n.a.	69.8%	5.7	19.6	245.3%
Other	2.1	3.3	3.1	50.0%	(7.3%)	4.9	6.4	31.9%
"Baseline" CAPEX	**20.3**	**24.0**	**30.8**	**51.9%**	**28.2%**	**40.8**	**54.8**	34.4%
Transponders	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.
Telecom Contract	0.0	0.4	0.0	n.a.	(100.0%)	0.0	0.4	n.a.
Other Non-Recurrent Items	0.0	0.3	9.6	n.a.	n.a.	0.0	9.9	n.a.
Total CAPEX	**20.3**	**24.7**	**40.4**	**99.1%**	**63.2%**	**40.8**	**65.1**	59.7%

Baseline CAPEX in 1H08 reached 54.8 million euros, 14.5% of Operating Revenues, representing an increase of 34.4% in relation to 1H07. The higher level of capital expenditure is explained mostly by higher investment in terminal equipment, namely the new ZON boxes which are capitalized and depreciated over an average period of 3 years and also Triple Play terminal equipment to accompany growth in subscriber numbers. Total CAPEX in 1H08 was impacted by a number of non-recurrent items (9.9 million euros). The most relevant of these was the acquisition of a separate ERP system from SAP, including licenses and developments (which amounted to 7.5 million euros) to enable ZON to become completely separate from its previous parent company. In addition to this acquisition, ZON agreed to terminate the IT application outsourcing contract with the IT subsidiary of its previous parent company, effective 31 December 2008, starting 2009 with a new independent IT outsourcing supplier.

Table 6. Cash Flow (Millions of Euros)	2Q07	1Q08	2Q08	2Q08 / 2Q07	2Q08 / 1Q08	1H07	1H08	1H08 / 1H07
EBITDA minus CAPEX	39.8	34.2	22.9	(42.4%)	(32.9%)	73.4	57.1	(22.2%)
Non-Cash Items Included in EBITDA minus CAPEX(1)	0.0	(0.7)	(0.1)	n.a.	(91.5%)	0.0	(0.8)	n.a.
Change in Working Capital	(17.8)	(31.0)	(33.5)	88.3%	8.0%	0.7	(64.4)	n.a.
Operating Cash-Flow	**22.0**	**2.5**	**(10.6)**	**(148.1%)**	**n.a.**	**74.1**	**(8.1)**	(111.0%)
Content Rights Payment	0.0	0.0	(50.0)	n.a.	n.a.	0.0	(50.0)	n.a.
Interest Paid	(0.8)	0.7	(4.1)	387.6%	.a.	(1.2)	(3.4)	172.5%
Income Taxes Paid	(0.7)	(0.4)	(1.3)	85.6%	189.3%	(1.0)	(1.7)	74.8%
Equity Swap Financial Settlements	2.2	0.0	0.0	(100.0%)	n.a.	2.2	0.0	(100.0%)
Transponders and Telecom Contracts	(3.4)	(31.5)	(5.0)	46.2%	(84.1%)	(19.9)	(36.5)	83.3%
Acquisitions of Financial Investments	0.0	(16.8)	0.0	n.a.	(100.0%)	0.0	(16.8)	n.a.
Acquisition of Own Shares	0.0	(7.3)	(44.1)	n.a.	n.a.	0.0	(51.4)	n.a.
Dividends Paid	(95.3)	0.0	(153.2)	60.7%	n.a.	(95.3)	(153.2)	60.7%
Other Cash Movements	3.0	(1.5)	6.7	124.6%	n.a.	2.3	5.2	129.2%
Free Cash-Flow	**(73.1)**	**(54.4)**	**(261.6)**	**258.0%**	**n.a.**	**(38.9)**	**(316.0)**	n.a.

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

Operating Cash Flow[2] was negative by 8.1 million euros in 1H08 representing a deterioration of 82.3 million euros compared with 1H07. Although EBITDA increased by 8.1 million euros, this was offset by an increase in CAPEX of 24.3 million euros and greater investment in working capital of 65.2 million euros (0.7 million in 1H07). The investment in working capital in 1H08 was primarily a result of the reversal of the negative working capital variation recorded in 4Q07 (72 million euros).

[2] EBITDA – CAPEX – Change in Working Capital

Free Cash Flow was negative by 316 million euros. The main items contributing to FCF and that explain the variation in Net Debt were: (i) the aforementioned negative operating cash flow (-8.1 million euros); (ii) payments related with Telecom and Transponder contracts (36.5 million euros) most of which were made in 1Q08; (iii) as previously mentioned, the financing of Sport TV for the acquisition of the Portuguese Football League rights (50 million euros); (iv) acquisition of own shares within the share buyback programme (51.4 million euros, of which 44.1 million euros in 2Q08); (v) dividend payments (153.2 million euros); (vi) acquisition of a 20% stake in TVTEL in 1Q08 (16.8 million euros). Acquisition of the remaining 80% stake is subject to approval of the transaction by the Competition Authority and subsequent execution of a call-option agreement with Caixa Banco de Investimento.

05. Consolidated Balance Sheet

Table 7. Balance Sheet (Millions of Euros)	FY07	1H08
Current Assets	**250.7**	**445.5**
Cash and Equivalents	66.9	198.2
Accounts Receivable, Net	108.6	186.2
Inventories, Net	29.9	29.2
Taxes Receivable	11.8	15.7
Prepaid Expenses and Other Current Assets	33.6	16.2
Non-current Assets	**735.3**	**774.8**
Investments in Group Companies	18.5	7.7
Intangible Assets, Net	259.7	265.7
Fixed Assets, Net	347.7	358.8
Deferred Taxes	76.5	64.1
Other Non-current Assets	32.9	78.5
Total Assets	**986.1**	**1,220.3**
Current Liabilities	**440.1**	**592.7**
Short Term Debt	124.5	352.2
Accounts Payable	230.2	140.3
Accrued Expenses	53.9	68.1
Deferred Income	6.3	4.5
Taxes Payable	10.9	16.9
Current Provisions and Other Liabilities	14.3	10.6
Non-current Liabilities	**160.6**	**405.6**
Medium and Long Term Debt	139.5	386.5
Non-current Provisions and Other Liabilities	21.2	19.1
Total Liabilities	**600.7**	**998.3**
Equity Before Minority Interests	375.7	212.8
Share Capital	3.1	3.1
Own Shares	0.0	(51.4)
Reserves, Retained Earnings and Other	323.3	220.0
Net Income	49.3	41.1
Minority Interests	9.6	9.2
Total Shareholders' Equity	**385.3**	**221.9**
Total Liabilities and Shareholders' Equity	**986.1**	**1,220.3**

Capital Structure

At 30 June, 2008, Net Debt stood at 480.1 million euros, representing an increase of 283 million euros during 1H08. Adjusting for the effect of commitments related with long-term telecom contracts and transponders, Net Financial Debt was 339.5 million euros, representing an increase of 316 million euros during 1H08, explained in the Free Cash Flow section above (table 6). Financial debt is represented primarily by commercial paper with maturities ranging between 1, 2, 3 and 5 years (average of 2 years) and by equity swap agreements (amounting to 45.9 million euros) used to fund the share buyback programme, which amounted to 51.4 million euros. Net Gearing (Net Financial Debt / Net Financial Debt + Shareholders' Equity) at the end of 1H08 was

60.5%, compared with 5.8% at the end of 2007. Net Financial Debt to EBITDA (last 12 months) reached 1.5x, compared with 0.1x at the end of 2007.

Table 8. Net Debt (Millions of Euros)	**FY07**	**1H08**
Short Term	**124.5**	**352.2**
Bank Loans	14.0	325.1
Shareholder Loans	0.5	0.0
Other Loans	70.0	10.5
Financial Leases	0.6	3.6
Long Term Telecom Contracts	27.2	0.4
Transponders	12.2	12.6
Medium and Long Term	**139.5**	**386.5**
Bank Loans	3.5	255.9
Financial Leases	1.9	3.0
Long Term Telecom Contracts	0.5	0.5
Transponders	133.5	127.1
Total Debt	**264.0**	**738.7**
Cash and Short Term Investments	66.9	258.7
Net Debt	**197.0**	**480.1**
Net Financial Debt (1)	**23.5**	**339.5**
Net Financial Gearing (2)	**5.8%**	**60.5%**
Net Financial Debt (1) / EBITDA (3)	**0.1x**	**1.5x**

(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).

(3) In this calculation the last 12 months EBITDA is used.

06. Shareholder Remuneration

Dividends: On 21 April 2008, ZON's General Shareholder Meeting approved a 2007 normal dividend of 20 eurocents and an extraordinary dividend of 30 eurocents, which were paid on 20 May. This payment represented 153.2 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 June, ZON had purchased a total 7,006,698 shares, representing 2.27% of its share capital, of which 6,300,047 shares were acquired under equity swap agreements established with financial institutions. As such, at 30 June, ZON's total share capital was represented by 309,096,828 shares, and the total number of shares representing ZON's voting rights amounted to 302,090,130 shares. Detailed announcements are regularly posted regarding the programme and may be found on our website at www.zon.pt/ir.

07. Subsequent Events

On 24 July, ZON announced that its subsidiary, ZON TVCabo had signed an amendment to the sale and purchase agreement of a controlling position in the share capital of Bragatel, Pluricanal Leiria and Pluricanal Santarém, under which they set the overall enterprise value (EV) at 48 million euros. The enterprise value (EV) was indexed to EBITDA at 31 March 2008 (last twelve months) of 4.94 million euros, defined after the Due Diligence. Therefore, the implied valuation multiple (EV/EBITDA) for this transaction is 9.7x, renegotiated from the original valuation of 12x.

The transaction value (EV) implies an acquisition price for 100% of the equity value of 35.3 million euros, the purchase of shareholder loans of 9.8 million euros, and consolidated net debt of the three companies of 2.9 million euros. With the setting of the final acquisition price, the sale and purchase became effective.

The three companies have together a total of 31.2 thousand cable customers and cover 178 thousand houses with their network.

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