

CHEGOU A REDE 929

# LA ZON É MOBILE



## Earnings Announcement

# 9M08

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# 1. Key Operating and Financial Highlights

**Lisbon, Portugal, 9 November 2008:** Today ZON announces unaudited results for the First Nine Months of 2008.

**RGU Growth +16.1% in 9M08**

**510 thousand customers with more than 1 ZON service**

**18% triple play cable penetration**

**Operating Revenues +8.1%**

**EBITDA +8.9%**

**Operating Profit +14%**

## 1.1 – Operational Highlights

<b>Table 1. Key Operational Highlights ('000)</b>	<b>9M07</b>	<b>9M08</b>	<b>9M08 / 9M07</b>
Homes Passed	2,726.0	2,821.2	3.5%
RGUs (1) (units)	2,317.8	2,689.9	16.1%
RGUs (1) per Subscriber (units)	1.52	1.75	14.7%
Basic Subscribers (2) (3)	1,521.0	1,539.1	1.2%
of which			
Digital Extended Basic	356.0	445.9	25.2%
Premium Pay TV	803.0	834.8	4.0%
Broadband Internet	387.0	451.0	16.5%
Voice	53.8	253.9	n.a.
Blended ARPU	30.7	31.8	3.7%

(1) 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.

(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;

- RGU growth of 16.1% to 2.7 million. On average, customers are buying 1.75 services from ZON, up from 1.52 at the end of 9M07, led by strong uptake of broadband and voice services;
- 46% of ZON's cable customers already subscribe to dual or triple play services in 9M08 compared with 37% in 9M07 and triple play penetration increased to 18% from 4.5% in 9M07.
- At the end of 9M08, 45% of ZON's gross adds were coming from triple play packages, "ZON3".
- The number of subscribers to Digital Extended Basic and Premium packages increased by 25.2% (445.9 thousand) and 4% (834.8 thousand) respectively;



- 51 thousand new ZON Boxes installed since launch in May 2008, allowing customers to benefit from enhanced content and functionalities such as up to 200 hours personal video recording in HD, an exciting new electronic programming guide and an increasingly broader range of HD content such as sports and movies;
- ZON's best quarter in Broadband net adds of the past 3 years and very strong growth of voice subscribers (50.7 thousand and 170.5 thousand respectively during 9M08), more than offset a net decline in Pay TV subscribers of 8 thousand in 9M08 due to the more competitive environment which primarily affected ZON in regions where it is not present with a cable offer;
- Blended ARPU for the core Pay TV, Broadband and Voice business increased 3.7% y.o.y. to 31.8 euros per month as a result of ZON's successful strategy to upsell additional services to the existing cable customer base, reflected in the higher average number of RGU's per subscriber.

## Recent Developments

- Launch of "ZON Mobile" on 27 October which will complement existing fixed offers with mobile broadband, homezoning and mobile voice services. The ZON Mobile service is available throughout the whole of Portugal and special advantages for customers that subscribe to more than one ZON service make it a very competitive offer, with per-second billing and no call set-up charge. Discounts ranging between 20% and 60% depending on the level of involvement as a ZON customer.

## 1.2 – Financial Highlights

<b>Table 2. Key Financial Highlights (Millions of Euros)</b>	<b>3Q07</b>	<b>3Q08</b>	<b>3Q08 / 3Q07</b>	<b>9M07</b>	<b>9M08</b>	<b>9M08 / 9M07</b>
Operating Revenues	176.9	193.1	9.2%	527.6	570.4	8.1%
EBITDA <sup>(1)</sup>	56.8	64.0	12.7%	171.0	186.2	8.9%
EBITDA margin	32.1%	33.2%	1.0pp	32.4%	32.6%	0.2pp
Operating Profit (EBIT) <sup>(2)</sup>	23.9	30.5	27.5%	81.9	93.4	14.0%
Net Income	11.5	9.7	(15.1%)	52.1	50.9	(2.4%)
"Baseline" CAPEX	23.4	41.7	78.1%	64.2	96.5	50.4%
Operating Cash-Flow	19.9	31.2	56.8%	94.0	23.1	(75.5%)
Net Financial Debt	75.1	361.1	n.a.	75.1	361.1	n.a.

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

(2) EBIT = Income Before Financials and Income Taxes

- **Operating Revenues increased to 570.4 million euros in 9M08**, representing y.o.y. growth of 8.1% with acceleration in 3Q08 to 9.2% y.o.y.;
- **EBITDA increased to 186.2 million euros in 9M08**, representing y.o.y growth of 8.9% with acceleration in 3Q08 to 12.7% y.o.y.
- **EBITDA margin was 32.6%** compared with 32.4% in 9M07;
- **Net Income was 50.9 million euros**, down from 52.1 million euros in 9M07, despite operating profit being 14% up in 9M08;
- **Baseline CAPEX of 96.5 million euros in 9M08**, representing 16.9% of operating revenues, compared with 64.2 million euros in 9M07;

- **Net Financial Debt** at the end of 9M08 of **361.1 million euros (1.5x Net Financial Debt / EBITDA)**;
- **Continued execution of share buyback programme with 4.16%** own shares purchased at the end of 9M08, out of a total programme of up to 10% of the share capital;

## 2. Business Review

### 2.1 – Operational Highlights

<b>Table 3. Business Indicators ('000)</b>	<b>3Q07</b>	<b>3Q08</b>	<b>3Q08 / 3Q07</b>	<b>9M07</b>	<b>9M08</b>	<b>9M08 / 9M07</b>
<b>Pay TV, Broadband and Voice</b>						
Homes Passed	2,726.0	2,821.2	3.5%	2,726.0	2,821.2	3.5%
Basic Subscribers <sup>(1) (2)</sup>	1,521.0	1,539.1	1.2%	1,521.0	1,539.1	1.2%
of which						
Digital Extended Basic	356.0	445.9	25.2%	356.0	445.9	25.2%
Premium Pay TV	803.0	834.8	4.0%	803.0	834.8	4.0%
Broadband Internet	387.0	451.0	16.5%	387.0	451.0	16.5%
Voice	53.8	253.9	n.a.	53.8	253.9	n.a.
RGUs <sup>(3)</sup> (units)	2,317.8	2,689.9	16.1%	2,317.8	2,689.9	16.1%
RGUs <sup>(3)</sup> per Subscriber (units)	1.52	1.75	14.7%	1.52	1.75	14.7%
Blended ARPU	30.9	32.0	3.5%	30.7	31.8	3.7%
<b>Net Additions</b>						
Basic Subscribers	25.7	(17.9)	(169.7%)	40.7	(8.0)	(119.7%)
Digital Extended Basic	28.5	29.0	1.7%	85.9	63.8	(25.7%)
Premium Pay TV	26.8	13.9	(48.2%)	22.7	(5.8)	(125.5%)
Broadband Internet	6.3	20.2	222.6%	25.4	50.7	99.7%
Voice	29.6	50.1	69.2%	53.8	170.5	216.6%
RGUs	90.1	81.4	(9.7%)	205.9	277.0	34.5%
<b>Cinema Exhibition</b>						
Revenue per Ticket (Euros)	3.9	4.2	7.0%	3.9	4.1	3.4%
Tickets Sold	2,283.6	2,346.1	2.7%	6,100.5	6,054.2	(0.8%)
Screens (units)	178	206	15.7%	178	206	15.7%

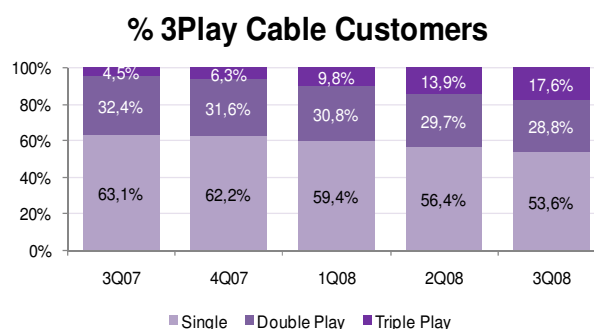
(1) These figures are related to the total number of Pay TV basic customers, including the cable and satellite platforms. ZON Multimedia offers several basic services, based on different technologies, directed to different market segments (residential, real estate and hotels), with a distinct geographical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

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

(3) 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.

### 2.2 – Quadruple Play – Pay TV, Broadband, Fixed and Mobile Voice

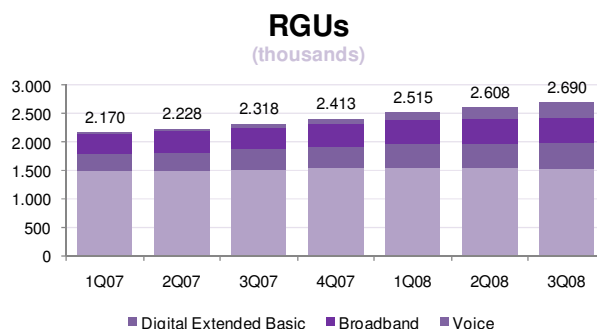
At the forefront of triple play take-up in Portugal, by the end of September 46% of our cable customers were already purchasing more than one of their home communication and entertainment services from ZON. By the end of 9M08, penetration of triple play had increased to 18%, compared with 4.5% in 9M07 and up from 14% in 2Q08 and, most importantly, 45% of new cable TV customers were subscribing to triple play packages "ZON3".







Total RGUs grew to 2,690 thousand, 16.1% higher than in 9M07 representing an increase in RGU per customer from 1.52 in 3Q07 to 1.75 in 3Q08.



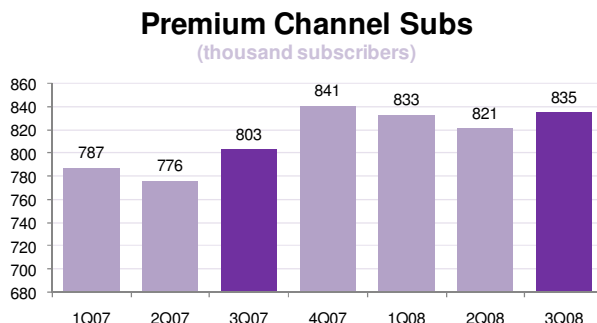
## Pay TV

ZON is committed to being the best choice for customers in terms of content and viewing experience. With a broad and ever increasing range of key quality content in sports, entertainment, news, movies, documentaries and culture, customers have a multitude of choice for the whole family. Throughout 9M08, ZON further reinforced its content offer with a number of exciting new channels, some of which exclusive to ZON subscribers:



High Definition content is core to our strategy. ZON's state-of-the-art cable network enables it to provide the most appealing selection of HD channels in the market and, with the introduction in May of the HD enabled ZON Box, available to both cable and satellite subscribers, ZON has launched a number of exclusive HD channels such as Sport TV1 HD, TVCine 4 HD and Mov HD. In addition, take-up of premium movie channels has increased significantly, led by the appeal of being able to record blockbuster movies in High Definition, thus enabling customers to create their own personal movie library.

The number of customers that subscribed to premium channels increased by 32 thousand over the previous year to 835 thousand, 13 thousand of which to movie channels. A seasonal trend is visible in premium channel subscription as churn tends to increase prior to and during the summer holiday period, with renewed take-up which usually takes place in the build-up to Christmas.

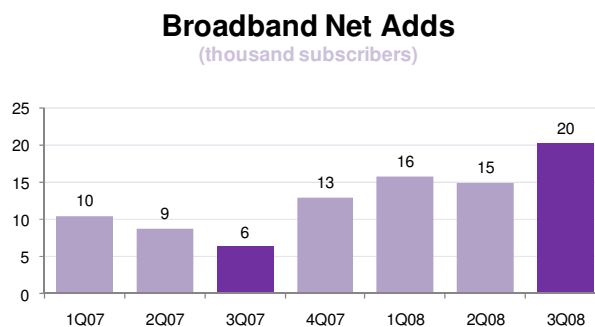


The Pay TV competitive environment increased significantly with the launch of a competing IPTV and DTH triple play offer from the incumbent telecom operator. The negative impact on ZON's Pay TV customer base was felt almost exclusively in areas where ZON does not have a cable footprint, namely less populated and lower GDP per capita regions of Portugal. In these areas ZON currently offers only single play Pay TV solutions through DTH.

During 9M08, the Pay TV customer base reduced by 8.0 thousand to 1,539 thousand, a result of the combination of a net reduction in DTH subscribers and growth in cable subscribers, however a marked decline in the pace of Pay TV customer loss was felt in September and October.

## Broadband

Broadband subscribers continued to grow at an impressive pace of 50.7 thousand net adds in 9M08, recording the best quarterly growth of the past 3 years with 20 thousand net adds in 3Q08. By the end of 9M08, ZON had 451 thousand Broadband subscribers, representing 41% of the cable subscriber base, compared with 36% in 9M07.



Consumers recognize that ZON is the fastest and most reliable Broadband provider in Portugal and at the forefront of development of next generation networks. ZON already offers 30 Mbps to any subscriber on the cable network and will be launching a 100 Mbps commercial offer up until the end of 2008.

Again, the Broadband market in Portugal has been very competitive over recent quarters, the key impacts of which reflected in significant discount pricing and promotions from entry level ADSL and mobile broadband offers. To position itself with a competitive offer for this market segment, in September, ZON launched a 2Mbps entry product with fixed voice pay-as-you-go for €14.99. However gross adds in broadband are coming mostly from 4Mbps and 8 Mbps offers through our “ZON 3” Triple play packages.

## Voice

Uptake of ZON fixed voice services continues to progress at a very strong pace, with 170.5 thousand net adds during 9M08, of which 50.1 thousand in 3Q08. Total voice subscribers at the end of 9M08 were 254 thousand and of these, only 60 thousand (less than 25%) are 2Play customers (TV + Voice) being the remainder 3Play customers (TV + Broadband + Voice). Voice is a key contributor to increase the level of triple play penetration which is core to ZON’s strategy.



Net adds in voice are coming mostly from ZON flat pricing products (€9.99 / month for unlimited fixed calls) with relatively lower uptake from entry level type of voice products.

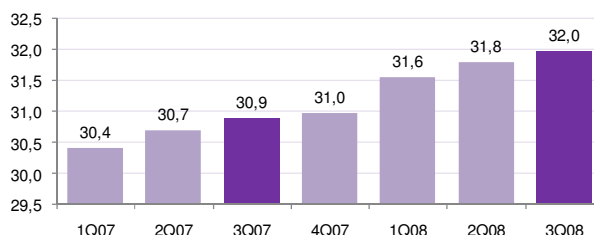
## Blended ARPU

As a result of the increased number of services that customers are subscribing to, and in spite of the more competitive pricing environment for individual services, ZON continues to increase the average level of revenue per subscriber.



In 9M08, blended ARPU increased year on year by 3.7% to 31.8 euros in 9M08 and by 3.5% to 32 euros in 3Q08. With the increased penetration of triple play services, a direct comparison of quarterly evolution in stand-alone ARPU's per product become less relevant given the increasing weight of bundled services.

**Blended ARPU**  
(euros)



## Mobile

Commercial launch of ZON Mobile took place on 27 October with a nationwide marketing campaign however with particular focus on existing ZON customers. ZON's mobile offer will provide customers with a complement to existing TV, Broadband and fixed voice offers and, the greater the number of ZON services subscribed to, the greater the benefit in terms of mobile tariffs. ZON mobile will provide customers three main ranges of services: pure mobile voice (already launched) and mobile broadband and *homezoning* (to be launched in early 2009).



ZON's mobile offer is being sold through lower cost distribution channels such as ZON's own stores, ZON's agents network and online at [www.zon.pt](http://www.zon.pt). The first offers are based on pre-paid voice and sms packages with very simple and competitive pricing, in particular for existing ZON customers. Calls are billed on a per second basis, from the very first second and no set-up cost is charged, and with a single rate to all domestic networks. Customers may choose between two straight forward pricing plans: Z-Simples (minimum monthly recharge of 12.5 euros) and Z-Livre (no monthly recharge obligations):

	Z-Simples	Z-Livre
	Minimum monthly recharge of 12.5 euros	No obligatory recharge
Voice Call	0,0025 €/second	0,0040 €/second
SMS	0,09 €	0,12 €

Prices are extremely competitive for ZON customers with discounts translated into free calls and recharges which can go up to 60%, depending on the number of ZON services subscribed to. In addition, these conditions may be shared with up to 5 subscribers per ZON customer, meaning that an entire family can benefit from discounts of 60%.



## 2.3 – Customer Care

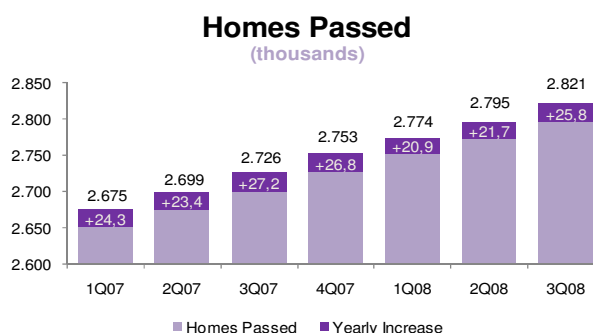
Improvement in customer service standards was identified as a strategic priority for ZON in 2008. As a result, a significant amount of management time and resources have been dedicated to increasing the number and training of call-centre professionals, and to improve technical platforms and overall call-centre related processes and facilities.

In July 2008 new call-centre facilities and software platforms were inaugurated in the north of Portugal (Oporto), bringing state-of-the-art conditions and tools to the 1,200 people that work there, most of which on the Customer Care team. A similar move was made in Lisbon with all 900 call-centre employees moving to a single location.



## 2.4 – Network and Homes Passed

ZON continued to invest in the expansion of its cable network during 9M08, reaching an additional 68.5 thousand new homes (25.8 thousand in 3Q08). As well as accelerating geographic coverage, ZON is further investing to improve bandwidth and efficiency with the deployment of Docsis 3.0 and cell-splitting. A commercial pilot for Docsis 3.0 is already underway in the heart of Lisbon and a 100 Mbps commercial offer will be launched by the end of the year. ZON's commitment to being at the forefront of next generation networks is reflected in the fact that full network coverage with Docsis 3.0 is now likely to be concluded before the end of 2009.



## 2.5 – Cinema Exhibition and Audiovisuals

ZON's cinema division recorded solid performance in 9M08, with Revenues up 6.0% y.o.y. to 36 million euros. The weaker performance recorded in 2Q08, due to the early Easter holiday period, was more than offset in 3Q08 with recovery in Revenues of 52.6% to 14 million euros, helped by blockbuster movies such as "Mamma Mia!" and "Kung Fu Panda". Further reinforcing leadership in technological innovation, another 4 digital movie theatres were opened, one in 3Q08 and the remaining three already in 4Q08, bringing the number of digital screens up to 23, out of a total of 213 (206 at the end of 3Q08).



The audiovisuals division secured exclusive distribution of some of the top movies in Portuguese cinemas during 9M08 (“Mamma Mia”, “Kung Fu Panda”, “Wall.E”) and on the home entertainment front, ZON Lusomundo achieved a market share of 27.8% in 3Q08, by securing the distribution of such blockbusters as “Call Girl”, “The Godfather Pack” and “Bee Movie”. Revenues from this business therefore increased by 2.6% y.o.y. to 44.6 million euros in 9M08, with a strong performance in 3Q08 with revenues up by 8.2% y.o.y..

### 3. Consolidated Income Statement

<b>Table 4. Profit and Loss Statement (Millions of Euros)</b>	<b>3Q07</b>	<b>3Q08</b>	<b>3Q08 / 3Q07</b>	<b>9M07</b>	<b>9M08</b>	<b>9M08 / 9M07</b>
<b>Operating Revenues</b>	<b>176.9</b>	<b>193.1</b>	<b>9.2%</b>	<b>527.6</b>	<b>570.4</b>	<b>8.1%</b>
Pay TV, Broadband and Voice	155.5	170.5	9.6%	466.3	508.1	9.0%
Audiovisuals	14.5	15.7	8.2%	43.4	44.6	2.6%
Cinema	12.4	14.0	12.6%	33.9	36.0	6.0%
Others and Eliminations	(5.6)	(7.1)	26.4%	(16.1)	(18.3)	13.7%
<b>Operating Costs Excluding D&amp;A</b>	<b>120.0</b>	<b>129.1</b>	<b>7.5%</b>	<b>356.6</b>	<b>384.2</b>	<b>7.7%</b>
W&S	10.3	13.1	26.8%	30.2	36.1	19.4%
Direct Costs	54.7	58.4	6.8%	163.2	177.5	8.8%
Programming Costs	38.1	44.8	17.5%	115.0	129.3	12.5%
Other Direct Costs <sup>(1)</sup>	16.5	13.6	(18.0%)	48.2	48.2	(0.0%)
Commercial Costs <sup>(2)</sup>	15.4	15.1	(2.0%)	40.5	42.8	5.9%
Other Operating Costs	39.6	42.5	7.2%	122.7	127.7	4.1%
<b>EBITDA <sup>(3)</sup></b>	<b>56.8</b>	<b>64.0</b>	<b>12.7%</b>	<b>171.0</b>	<b>186.2</b>	<b>8.9%</b>
EBITDA margin	32.1%	33.2%	1.0pp	32.4%	32.6%	0.2pp
Depreciation and Amortization	26.9	35.7	32.9%	81.4	92.1	13.1%
<b>Income From Operations <sup>(4)</sup></b>	<b>29.9</b>	<b>28.3</b>	<b>(5.5%)</b>	<b>89.5</b>	<b>94.1</b>	<b>5.2%</b>
Other Expenses / (Income)	6.0	(2.2)	(136.6%)	7.6	0.8	(90.1%)
<b>Operating Profit (EBIT) <sup>(5)</sup></b>	<b>23.9</b>	<b>30.5</b>	<b>27.5%</b>	<b>81.9</b>	<b>93.4</b>	<b>14.0%</b>
Financial Expenses (Income)	4.8	13.3	177.0%	5.1	17.4	239.4%
<b>Income Before Income Taxes</b>	<b>19.1</b>	<b>17.2</b>	<b>(10.0%)</b>	<b>76.7</b>	<b>75.9</b>	<b>(1.1%)</b>
Income Taxes	(6.8)	(6.7)	(1.8%)	(22.2)	(22.0)	(1.0%)
<b>Income From Continued Operations</b>	<b>12.3</b>	<b>10.5</b>	<b>(14.6%)</b>	<b>54.5</b>	<b>53.9</b>	<b>(1.1%)</b>
o.w. Attributable to Minority Shareholder	(0.8)	(0.7)	(7.7%)	(2.4)	(3.0)	27.4%
<b>Consolidated Net Income</b>	<b>11.5</b>	<b>9.7</b>	<b>(15.1%)</b>	<b>52.1</b>	<b>50.9</b>	<b>(2.4%)</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  $\pm$  work force reduction programme costs  $\pm$  impairment of goodwill  $\pm$  Losses/Gains on disposal of fixed assets  $\pm$  Other costs/income.

(5) EBIT = Income Before Financials and Income Taxes

#### 3.1 – Operating Revenues

Consolidated Revenues grew by 8.1% in 9M08 to 570.4 million euros. Pay TV, Broadband and Voice Revenues increased by 9% in 9M08, supported by strong RGU growth, healthy ARPU evolution and wholesale of content and channels to other operators. The weaker sales performance felt in the cinema and audiovisuals business during 2Q08 was reverted and revenues in 3Q08 at these divisions grew by 12.6% and 8.2% y.o.y. respectively.

### 3.2 – EBITDA

EBITDA reached 186.2 million euros in 9M08, up 8.9% from 171 million euros in 9M07 and representing a 32.6% EBITDA margin. EBITDA in 3Q08 increased 12.7% y.o.y.

Starting in January 2008, ZON has been implementing a number of cost efficiency projects that have already enabled significant savings in areas such as network, IT, customer care and G&A. The impact of these projects may be measured by overall OPEX<sup>1</sup>/RGU which has decreased 6.7% from 14.8 euros per month in 9M07 to 13.9 euros in 9M08. In particular, it is worth highlighting the implementation of the new call centres and the internalization of personnel and administrative functions that were outsourced until 30 June 2008 which generated significant savings.

### 3.3 – Consolidated Operating Costs

**Wages and salaries** were 36.1 million euros in 9M08, 19.4% higher than in 9M07 led primarily by the previously explained internalization of functions (namely personnel and administrative functions), that in the past had been outsourced and the organizational changes resulting post spin-off process. At the end of 9M08, ZON had 1,569 employees, compared with 1,413 at the end of 9M07.

**Direct Costs** increased by 8.8% to 177.5 million euros in 9M08, the most relevant item being programming costs which grew 12.5% y.o.y. to 129.3 million euros due to the increased number of channels included in the TV offerings throughout 9M08 and the growth in the base of premium channel subscribers. Other Direct Costs remained flat at 48.2 million euros. In 3Q08, Other Direct Costs recorded a decline of 2.8 million euros as a result of increased operational efficiencies and interconnection charges.

**Commercial Costs** amounted to 42.8 million euros, up 5.9% from 9M07 led by the higher commercial activity affecting commissions paid and the level of marketing and publicity.

**Other Operating Costs** recorded an increase of 4.1% to 127.7 million euros. Within this cost item the most significant changes were felt in terms of Supplies and External Services mostly due to the increase in customer activations and customer care related costs (+12.5% to 55.5 million euros), and Provisions (+21.7% to 8.9 million euros) mainly as a consequence of the higher number of RGU's (+16.1%).

### 3.4 – Net Income

**Consolidated Net Income** was 50.9 million euros in 9M08, representing a 2.4% decline in 9M07. Although income from operations was up 5.2% from 89.5 million euros in 9M07 to 94.1 million euros in 9M08, the increase in net financial expenses (+8.3 million euros) explains the slight decline of 2.4% in Net Income. Direct comparison between the two periods is distorted by a number of one-off impacts: (i) gains in 2Q07 of 2.2 million euros (pre tax) due to unwinding of equity swaps; (ii) a change to the accounting policy of movie rights at ZON Lusomundo, with a pre-tax negative impact of 1.6 million euros in 9M08.

<sup>1</sup> OPEX related to Pay TV, Broadband and Voice.

**Depreciation and Amortization** in 9M08 was 92.1 million euros, 13.1% higher than the depreciation charges recorded in 9M07. The increase is a result of the depreciation of a higher asset base due to both operational investments during the year, namely the increase in customer terminal equipment CAPEX and to long-term telecom, satellite and content contracts.

**Other Expenses** in 9M08 amounted to 0.8 million euros. This compares with 7.6 million euros in 9M07 which resulted mainly from a loss recorded on disposal of fixed assets of 2.9 million euros (write-off of obsolete assets explained in further detail in ZON's 9M07 earnings release) and a 3.5 million euros charge related with work force reduction costs.

**Net Financial Expenses** in 9M08, increased to 17.4 million euros, compared with 5.1 million in 9M07. The change reflects a combination of: (i) an increase in net interest charges of 8 million euros due to the higher level of average gross debt and the more expensive interest rate environment; (ii) a reduction in gains on financial assets explained by the fact that in 9M07 a gain of 2.2 million euros was generated upon financial settlement of an equity swap agreement and (iii) in 9M08, TVTel and ParfiteL's cumulative negative Net Income of approximately 4 million euros which was recorded as Financial Assets (the acquisition of these companies is still pending approval from the Portuguese Competition Authority).

**Income Taxes** were 22 million euros in 9M08, a reduction of 1% in comparison with 9M07, representing 29% of Net Earnings before Taxes.

**Net Income attributable to minority interests** amounted to 3 million euros; an increase of 27.4% compared with 9M07, and includes mostly earnings attributable to minority shareholders in Cabo TV Madeirense, S.A., Cabo TV Açoreana, S.A. and Pro Share.

## 4. Capex and Cash Flow

### 4.1 – CAPEX

<b>Table 5. CAPEX (Millions of Euros)</b>	<b>3Q07</b>	<b>3Q08</b>	<b>3Q08 / 3Q07</b>	<b>9M07</b>	<b>9M08</b>	<b>9M08 / 9M07</b>
Pay TV, Broadband and Voice Infrastructure	14.6	21.1	44.0%	44.8	49.9	11.2%
Terminal Equipment	4.8	15.5	219.5%	10.5	35.1	233.4%
Other	3.9	5.2	30.9%	8.8	11.6	31.1%
<b>"Baseline" CAPEX</b>	<b>23.4</b>	<b>41.7</b>	<b>78.1%</b>	<b>64.2</b>	<b>96.5</b>	<b>50.4%</b>
Long Term Contracts	0.0	0.0	n.a.	0.0	0.4	n.a.
Other Non-Recurrent Items	0.0	0.8	n.a.	0.0	10.7	n.a.
<b>Total CAPEX</b>	<b>23.4</b>	<b>42.5</b>	<b>81.7%</b>	<b>64.2</b>	<b>107.7</b>	<b>67.7%</b>

**Baseline CAPEX** in 9M08 was 96.5 million Euros, 16.9% of Operating Revenues, representing an increase of 50.4% in relation to 9M07. The higher level of baseline CAPEX is explained mostly by significantly 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. Other Non Recurrent Items in Total Capex relate primarily to the acquisition in 2Q08 of an ERP system from SAP, including licenses and developments and that amounted to 7.5 million euros.

<b>Table 6. Cash Flow (Millions of Euros)</b>	<b>3Q07</b>	<b>3Q08</b>	<b>3Q08 / 3Q07</b>	<b>9M07</b>	<b>9M08</b>	<b>9M08 / 9M07</b>
EBITDA minus CAPEX	33.4	21.5	(35.7%)	106.8	78.6	(26.4%)
Non-Cash Items Included in EBITDA minus CAPEX <sup>(1)</sup>	0.5	3.8	n.a.	0.0	9.4	n.a.
Change in Working Capital	(14.0)	5.9	(142.0%)	(12.9)	(64.9)	n.a.
<b>Operating Cash-Flow</b>	<b>19.9</b>	<b>31.2</b>	<b>56.8%</b>	<b>94.0</b>	<b>23.1</b>	<b>(75.5%)</b>
Net Interest Paid	(3.4)	(0.7)	(79.4%)	(4.6)	(4.1)	(12.4%)
Income Taxes Paid	(1.4)	(1.6)	13.4%	(2.4)	(3.3)	39.0%
Equity Swap Financial Settlements	0.0	0.0	n.a.	2.2	0.0	(100.0%)
Long Term Contracts	(14.3)	(4.0)	(72.1%)	(34.2)	(90.5)	164.5%
Acquisitions of Financial Investments	0.0	(15.7)	n.a.	0.0	(32.4)	n.a.
Acquisition of Own Shares	0.0	(31.9)	n.a.	0.0	(83.4)	n.a.
Dividends Paid	0.0	0.0	n.a.	(95.3)	(153.2)	60.7%
Other Cash Movements	(6.5)	1.0	(115.9%)	(4.2)	6.2	(247.9%)
<b>Free Cash-Flow</b>	<b>(5.7)</b>	<b>(21.6)</b>	<b>279.3%</b>	<b>(44.6)</b>	<b>(337.6)</b>	<b>n.a.</b>

(1) This caption includes non-cash provisions included in EBITDA.

**Operating Cash Flow** was positive by 23.1 million euros in 9M08 representing a decrease of 71 million euros compared with 9M07. The investment in Working Capital of 64.9 million euros during 9M08 reflects the reversal during 1H08 of the negative working capital variation of 72 million euros in 4Q07. In 3Q08, investment in working capital recorded a more normalized level of negative 5.9 million euros and total Operating Cash Flow amounted to 31.2 million euros.

**Free Cash Flow** was negative by 337.6 million euros. The main items contributing to FCF and that explain the variation in Net Debt were: (i) acquisition of own shares within the share buyback programme (83.4 million euros); (ii) dividend payments (153.2 million euros); (iii) cash payments related with long-term commitments recorded on the balance sheet, namely telecom, transponder and content contracts (91.0 million euros); (iv) acquisition of a 20% stake in TVTEL in 1Q08 (16.8 million euros); (v) acquisition in 3Q08 of a 20% stake in Parfitel (5.9 million euros) and 100% of shareholder loans of Parfitel (9.8 million euros). Acquisition of the remaining 80% stakes in both companies is subject to approval of the transaction by the Competition Authority and subsequent execution of a call-option agreement with Caixa Banco de Investimento.

In 3Q08, Operating Free Cash Flow amounted to 31.2 million euros. However total Free Cash Flow was negative (-21.6 million euros) due to the acquisition of own shares (31.9 million euros) and the acquisition of the stake in Parfitel as referred to above.



## 5. Consolidated Balance Sheet

<b>Table 7. Balance Sheet (Millions of Euros)</b>	<b>FY07</b>	<b>1H08</b>	<b>9M08</b>
<b>Current Assets</b>	<b>250.7</b>	<b>403.9</b>	<b>400.7</b>
Cash and Equivalents	66.9	198.2	201.0
Accounts Receivable, Net	108.6	144.6	144.6
Inventories, Net	29.9	29.2	31.2
Taxes Receivable	11.8	15.7	15.4
Prepaid Expenses and Other Current Assets	33.6	16.2	8.6
<b>Non-current Assets</b>	<b>735.3</b>	<b>816.4</b>	<b>958.5</b>
Investments in Group Companies	18.5	7.7	16.9
Intangible Assets, Net	259.7	265.7	430.2
Fixed Assets, Net	347.7	358.8	377.6
Deferred Taxes	76.5	64.1	58.6
Other Non-current Assets	32.9	120.1	75.1
<b>Total Assets</b>	<b>986.1</b>	<b>1,220.3</b>	<b>1,359.2</b>
<b>Current Liabilities</b>	<b>440.1</b>	<b>592.7</b>	<b>629.7</b>
Short Term Debt	124.5	352.2	375.0
Accounts Payable	230.2	140.3	149.6
Accrued Expenses	53.9	68.1	73.6
Deferred Income	6.3	4.5	6.9
Taxes Payable	10.9	16.9	14.5
Current Provisions and Other Liabilities	14.3	10.6	10.1
<b>Non-current Liabilities</b>	<b>160.6</b>	<b>405.6</b>	<b>529.0</b>
Medium and Long Term Debt	139.5	386.5	507.5
Non-current Provisions and Other Liabilities	21.2	19.1	21.5
<b>Total Liabilities</b>	<b>600.7</b>	<b>998.3</b>	<b>1,158.8</b>
Equity Before Minority Interests	375.7	212.8	190.5
Share Capital	3.1	3.1	3.1
Own Shares	0.0	(51.4)	(83.4)
Reserves, Retained Earnings and Other	323.3	220.0	219.9
Net Income	49.3	41.1	50.9
Minority Interests	9.6	9.2	9.9
<b>Total Shareholders' Equity</b>	<b>385.3</b>	<b>221.9</b>	<b>200.4</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>986.1</b>	<b>1,220.3</b>	<b>1,359.2</b>

### 5.1 – Capital Structure

At 30 September, 2008, Net Financial Debt was 361.1 million euros, representing an increase of 21.6 million euros during 3Q08, 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 and by equity swap agreements (amounting to 77.9 million euros) used to fund the share buyback programme, which amounted to 83.4 million euros. Of the existing commercial paper facilities, 200 million euros were renegotiated in October 2008, subsequently increasing the average maturity of our net financial debt to 2.58 years.

Net Gearing (Net Financial Debt / Net Financial Debt + Shareholders' Equity) at the end of 9M08 was 64.3% and Net Financial Debt / EBITDA (last 12 months) reached 1.5x. Total Net Debt incorporates commitments with long term contracts recorded as liabilities on the Balance Sheet, the most relevant of which are long-term telecom, transponder and content contracts.

<b>Table 8. Net Financial Debt (Millions of Euros)</b>	<b>FY07</b>	<b>1H08</b>	<b>9M08</b>
<b>Short Term</b>	<b>85.1</b>	<b>339.2</b>	<b>331.5</b>
Bank and Other Loans	84.5	335.6	327.5
Financial Leases	0.6	3.6	4.0
<b>Medium and Long Term</b>	<b>5.4</b>	<b>259.0</b>	<b>291.1</b>
Bank Loans	3.5	255.9	287.9
Financial Leases	1.9	3.0	3.2
<b>Total Debt</b>	<b>90.4</b>	<b>598.2</b>	<b>622.6</b>
Cash and Short Term Investments	66.9	258.7	261.5
<b>Net Financial Debt</b>	<b>23.5</b>	<b>339.5</b>	<b>361.1</b>
<b>Net Financial Gearing <sup>(1)</sup></b>	<b>5.8%</b>	<b>60.5%</b>	<b>64.3%</b>
<b>Net Financial Debt / EBITDA <sup>(2)</sup></b>	<b>0.1x</b>	<b>1.5x</b>	<b>1.5x</b>

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

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

## 6. Shareholder Remuneration

**Share buyback programme:** In March, ZON started to buy own shares within the previously announced share buyback programme. By the end of September, ZON had purchased a total 12,868,480 shares, representing 4.16% of its share capital, of which 12,161,829 shares were acquired under equity swap agreements established with financial institutions. As such, at 30 September, 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 296,228,348 shares. Detailed announcements are regularly posted regarding the programme and may be found on our website at [www.zon.pt/ir](http://www.zon.pt/ir).



## 7. Disclaimer

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