



ZON MULTIMÉDIA – SERVIÇOS DE TELECOMUNICAÇÕES E MULTIMÉDIA SGPS, SA
RESULTS FOR THE FIRST NINE MONTHS 2009
17 NOVEMBER 2009

1. 9M09 HIGHLIGHTS

CONTINUED STRONG GROWTH IN RGUs. LEADING IN TRIPLE PLAY AND IN THE ROLL-OUT OF NEXT GENERATION SERVICES IN PORTUGAL

Record penetration of Triple Play Services

- o 36.9% penetration of Triple Play services, +19.3pp y.o.y. with 435.9 thousand customers now subscribing to ZON Triple Play bundles;
- o Strong net RGU growth of 403.1 thousand in 9M09, up 45.5% y.o.y and RGU per subscriber growth of 19.9% y.o.y. to 2.10;

Confirmation of reversal of trend in Basic TV Subscribers

- o Positive Pay TV net adds in 3Q09, +3.3 thousand, bringing Basic Subscribers up to 1,594.7 thousand at the end of 9M09;
- o 117.3 thousand new subscribers of ZON's top of the range TV channel offer "Funtastic" with net installation of 326.6 thousand HD ZON Boxes in 9M09 bringing total penetration of ZON Boxes to 26.2%, compared with just 6% in 9M08.

Continued growth in Broadband and Voice Penetration

- o Broadband and Voice net adds of 75.4 thousand and 182.6 thousand respectively in 9M09, and of 21.9 thousand and 50.6 thousand respectively in 3Q09;
- o 50.3% of ZON's Cable customers today subscribe to Broadband services and 44.8% to Voice services;
- o Continuing to lead market innovation with launch of 100Mbps, 200Mbps and 1Gbps "ZON Fibra" bundles driving customer growth and further reinforcing ZON's leadership as a provider of Next Generation Network based Services;
- o Over 1.8 million Portuguese households already covered with Eurodocsis 3.0 by the end of 9M09, 58% of the network.

ARPU growth led by uptake of new services

- o Blended ARPU increased 5.1% in 9M09 to 33.4 euros, and 6.2% in 3Q09 to 34.0 euros.



- o ARPU of cable customers grew by 8.8% in 9M09 and by 11.8% in 3Q09, reflecting the strong uptake of additional services.

STRONG PACE OF REVENUE GROWTH MAINTAINING FOCUS ON COST EFFICIENCY

- o Operating Revenues grew by 7.5% to 605.6 million euros in 9M09, with growth in the Pay TV, Broadband and Voice business of 9.0% led by the increase in RGUs, penetration of Triple Play services and the 5.2% growth in ARPU. In 3Q09, operating revenues grew by 8.0% y.o.y. and growth in the Pay TV, Broadband and Voice business peaked up to 9.8% growth y.o.y.;
- o EBITDA increased 9.0% in 9M09 to 201.0 million euros. EBITDA in 3Q09 posted significantly higher y.o.y. growth of 11.3%. EBITDA margin for 9M09 was 33.2% compared with 32.7% in 9M08;
- o Net Profits of 41.0 million euros, compared with 50.9 million euros in 9M08, reflecting higher depreciation of increased investment in terminal equipment installed to provide customers with higher value added Triple Play services and higher financial costs due to the higher level of Net Debt. In 3Q09 Net Income increased by 21.8% to 11.9 million euros, compared with 9.7 million euros in 3Q08.

Table 1.

Highlights of 9M09 Results	3Q09	3Q09 / 3Q08	9M09	9M09 / 9M08
Operational ('000)				
Triple Play Customers	435.9	125.4%	435.9	125.4%
Triple Play Penetration (%)	36.9%	19.3pp	36.9%	19.3pp
Blended ARPU (Euros)	34.0	6.2%	33.4	5.1%
RGUs ⁽¹⁾	3,385.3	25.9%	3,385.3	25.9%
Basic Subscribers	1,594.7	3.6%	1,594.7	3.6%
Broadband	594.4	31.8%	594.4	31.8%
Fixed Voice	529.2	108.4%	529.2	108.4%
Mobile	53.9	n.a.	53.9	n.a.
Financial (Millions of Euros)				
Operating Revenues ⁽²⁾	205.0	8.0%	605.6	7.5%
Pay TV, Broadband and Voice ⁽²⁾	183.5	9.8%	546.3	9.0%
EBITDA ⁽²⁾	70.2	11.3%	201.0	9.0%
EBITDA Margin	34.3%	1.0pp	33.2%	0.5pp
Net Income	11.9	21.8%	41.0	(19.5%)
CAPEX	53.4	25.6%	144.0	33.8%

(1) Revenue Generating Units correspond to the sum of Pay TV basic customers, plus "Funtastic" Digital, Broadband Internet, Fixed Voice and Mobile customers.

(2) Adjustments have been made to 2008 operating revenue and cost lines to reflect the impact of the renegotiation, in 1Q09, of the SIC content contract, whereby ZON is no longer responsible for the wholesale of the SIC Pay TV channels to other operators. The cumulative pro-forma adjustments made in 2008 resulted in a reduction in revenues of 7.0 million euros, in costs of 5.2 million euros and in EBITDA of 1.8 million euros.



2. BUSINESS REVIEW

Table 2.

Business Indicators ('000)	3Q08	3Q09	3Q09 / 3Q08	9M08	9M09	9M09 / 9M08
Pay TV, Broadband and Voice						
Homes Passed	2,821.2	3,082.8	9.3%	2,821.2	3,082.8	9.3%
Triple Play Customers	193.4	435.9	125.4%	193.4	435.9	125.4%
% Triple Play Cable Customers	17.6%	36.9%	19.3pp	17.6%	36.9%	19.3pp
Basic Subscribers ⁽¹⁾ of which	1,539.1	1,594.7	3.6%	1,539.1	1,594.7	3.6%
Digital "Funtastic"	445.9	613.1	37.5%	445.9	613.1	37.5%
Premium Pay TV	834.8	914.8	9.6%	834.8	914.8	9.6%
Broadband Internet	451.0	594.4	31.8%	451.0	594.4	31.8%
Fixed Voice	253.9	529.2	108.4%	253.9	529.2	108.4%
Mobile ⁽²⁾	0.0	53.9	n.a.	0.0	53.9	n.a.
RGUs ⁽³⁾	2,689.9	3,385.3	25.9%	2,689.9	3,385.3	25.9%
RGUs per Subscriber (units)	1.75	2.10	19.9%	1.75	2.10	19.9%
Blended ARPU (Euros)	32.0	34.0	6.2%	31.8	33.4	5.1%
Net Additions						
Triple Play Customers	40.1	44.9	12.0%	124.7	160.5	28.7%
Basic Subscribers	(17.9)	3.3	n.a.	(8.0)	(18.8)	n.a.
Digital "Funtastic"	29.0	38.2	32.0%	63.8	117.3	83.7%
Premium Pay TV	13.9	6.5	(53.3%)	(5.8)	77.6	n.a.
Broadband Internet	20.2	21.9	8.4%	50.7	75.4	48.6%
Fixed Voice	50.1	50.6	0.9%	170.5	182.6	7.1%
Mobile	0.0	20.5	n.a.	0.0	46.7	n.a.
RGUs	81.4	134.5	65.3%	277.0	403.1	45.5%
Cinema Exhibition						
Revenue per Ticket (Euros)	4.2	4.6	10.4%	4.1	4.4	8.2%
Tickets Sold	2,346.1	2,228.6	(5.0%)	6,054.2	5,908.3	(2.4%)
Screens (units)	206	213	3.4%	206	213	3.4%

(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 corporate), with a distinct geographical scope (mainland Portugal and the Azores and Madeira islands) and with a variable number of channels.

(2) Mobile Subscribers were restated in 2Q09 from 29.7 thousand to 33.4 thousand.

(3) Revenue Generating Units correspond to the sum of Pay TV basic customers, plus "Funtastic" Digital, Broadband Internet, Fixed Voice and Mobile customers.

Continued uptake of ZON Triple Play bundles

By the end of 9M09, 435.9 thousand ZON customers had Triple Play bundles installed, compared with just 193.4 thousand at the end of 9M08, representing 36.9% of cable customers. In addition, 21.2% of ZON cable customers subscribe to Double Play services.



ZON has clearly positioned itself as a leading entertainment and communications provider for Portuguese households, further strengthening that position with the launch of a new signature brand "Zon Fibra" for ultra broadband Triple Play bundles at the beginning of 2H09.

RGU growth of 403.1 thousand in 9M09, the highest of the Portuguese market

In 9M09, total RGUs were 3.385 million, representing an increase of 25.9% compared with 9M08. RGUs per customer increased 19.9% from 1.75 per subscriber in 9M08 to 2.10 in 9M09.

Leadership in Pay TV with confirmation of reversal in trend with positive Pay TV net adds in 3Q09

ZON is the leading Pay TV operator in Portugal with a 68% share of the market, according to the latest data reported by the regulator, ANACOM. ZON's Pay TV subscriber base has remained relatively stable over the past quarters, at around 1.6 million, albeit reflecting a combination of growth in higher revenue generating, multiple service cable customers and a decline in the number of single play satellite customers. In 2Q09, the slightly declining trend in ZON's Pay TV customer base had already begun to slow down significantly and in 3Q09, ZON returned to positive Pay TV net adds of 3.3 thousand, with a combination of net growth in both the cable and satellite customer base. By the end of 3Q09, ZON's total Pay TV subscriber base was 1.595 million subscribers, of which 1.181 million subscribed to cable services and 413 thousand to satellite services, compared with 1.179 million and 412 thousand respectively in 2Q09.

Customers are subscribing more and more to ZON's higher-end Pay TV service "Funtastic" that offers over 110 channels, 11 of which in HD. ZON today has the largest HD channel offer in the market and it was further enriched in 3Q09 with the launch of TVCine HD. At the end of 9M09, 613.1 thousand Pay TV customers were subscribing to the "Funtastic" offer, 37.5% more than in 9M08.

Premium subscriptions recorded a significant increase due primarily to the launch of a number of new channels such as "Brava TV" (classical arts and music channel), and with the inclusion of the TVCine movie channels in one of ZON's leading Triple Play bundles – "ZON Filmes".

New video and programming functionalities are gaining traction amongst customers as can be seen from the significant growth in ZON HD PVR and non PVR set-top boxes installed. By the end of 9M09, 417.7 thousand ZON Boxes had been installed, of which 219 thousand had PVR functionalities.

Usage of the ZON Videoclube, launched in January this year, also continues to increase as customers become more accustomed to the service. Of the total VoD enabled customer base, regular users are generating around 5 euros additional ARPU. An important addition to the catalogue of films resulted from an agreement with Universal to start commercializing its films on the ZON Videoclube platform in 3Q09. The most downloaded films in 3Q09 were "Slumdog Millionaire", "Madagascar 2", and "007 – Quantum of Solace".

Trends in TV viewing are helping to drive the further take-up of Pay TV services in Portugal. Audience of Pay TV channels has been recording a continuous quarterly increase, when



compared with free-to-air channels. In 3Q09, Pay TV channels achieved an 18.3% share of audience representing growth of 30% in comparison with 14.1% in 3Q08.

Reaching 600 thousand Broadband customers with 50.3% penetration

Net adds in Broadband remained high in 3Q09 at 21.9 thousand, compared with 20.2 thousand in 3Q08. Total Broadband customers reached 594.4 thousand at the end of 9M09, an increase of 31.8% in comparison to 9M08 bringing Broadband penetration of the cable base to 50.3%, an additional 9.2pp compared with 9M08.

In October, ZON announced that it had reached 600 thousand fixed Broadband customers, having increased its subscriber base by more than 200 thousand customers since the end of 2007. According to data reported by the Portuguese Telecoms regulator at the end of 2Q09, ZON was the operator that captured the most fixed broadband market share in the last 6 quarters, increasing approximately 6 percentage points to 32.3%. According to company estimates, ZON already leads the fixed broadband market in areas where it has a network. Also according to data reported by ANACOM, ZON leads in terms of overall fixed broadband Internet access traffic with a share of 44.7%, having overtaken its main competitor in 3Q08.

The potential to sell Broadband to existing cable subscribers remains high, however the majority of new Broadband customers, 67%, are new ZON Pay TV customers showing that ZON's superior value proposition is also attracting many customers that were not previously subscribers of ZON's Pay TV service.

ZON Fibra – The new higher-end Triple Play offer

One of the main drivers of ZON's broadband positioning has been the launch of new Triple Play bundles including 50 and 100Mbps internet speeds, representing an extremely important flagship to communicate ZON's competitive advantage in broadband. In 2Q09, ZON launched a new umbrella brand for all next generation services, "Zon Fibra", designed to convey the superior quality, features and capabilities of services provided over the ZON network, already the largest fibre based network in Portugal. ZON Fibra bundles start at 57.9 euros for the 50 Mbps broadband speed, and 64.9 euros for the 100 Mbps (VAT included), and include 110 TV channels, Broadband and Fixed Voice with unlimited calls for fixed domestic networks and for 20 other countries. Further strengthening its competitive advantage in broadband, in 3Q09 ZON became the first operator in Europe and the third worldwide to launch residential broadband offers of 200 Mbps and 1 Gbps over its hybrid fibre coaxial network, already the largest fibre based network in Portugal. These offers are positioned as high-end premium Triple Play bundles at 99.9 euros and 249.9 euros respectively.

Over half a million Fixed Voice customers

By the end of 9M09, ZON had 529.2 thousand Fixed Voice customers, representing an increase of 182.6 thousand customers in 9M09. With penetration reaching 44.8% of the cable base, it is rapidly closing the gap to the level of Broadband penetration of 50.3%. ZON's success in Fixed Voice has been achieved on the back of a very clear value proposition for the consumer, with simple, flat-rate phone tariffs on top of bundles with TV and Broadband packages, designed to meet the needs of various user groups. According to the most recent



Anacom report, ZON is the only operator to have increased its market share in fixed voice services, growing from 6.2% at the end of 2Q08 to 14.0% at the end of 2Q09, with all other operators losing ground.

Strong increase in Mobile subscribers

The number of Mobile subscribers has increased significantly during the course of the past few months, reaching 53.9 thousand at the end of 9M09, with almost half of the growth being achieved in 3Q09 with net adds of 20.5 thousand subscribers. The pace of growth increased as a result of the launch of Net Mobile Zero in June, a new mobile broadband offer whereby fixed broadband customers can purchase a mobile broadband card that includes 100 MB of free mobile internet traffic a month.

Post-paid mobile tariff plans were launched in August, similar to the previously launched pre-paid tariffs of 8 cents per minute to any network. Recognition of ZON's competitive pricing was given by an independent survey comparing 75 different tariff plans in the market (conducted by Proteste and DECO). ZON's offer Z-Super 8 was considered to be the most competitive offer in the market in 3 of the 5 consumer profiles analysed.

On 1 October ZON completed its MVNO with the launch of Fixed Voice and Internet services targeting satellite customers using the mobile network under its MVNO agreement with Vodafone. With these offers, ZON is now able to provide Triple Play solutions to subscribers anywhere in Portugal with prices starting at 34.88 euros / month.

Strong growth in ARPU with cable ARPU showing a highly positive trend

The uptake of additional services by ZON cable customers continues to drive growth in Blended ARPU which increased by 5.1% in 9M09 to 33.4 euros / month. ARPU in 3Q09 reached 34.0 euros, up from 32.0 euros (+6.2%) in 3Q08 and 33.6 euros in 2Q09.

Multiple service cable ARPU recorded growth of 11.8% in 3Q09 y.o.y. compared with a decline of 12.4% in single play DTH ARPU and the premium between cable and satellite ARPU continues to increase. In 3Q09, cable customer ARPU was 44.1% greater than that of a satellite customer, whereas in 3Q08 this premium was just 12.9%. The widening gap in ARPU between the two platforms is explained by the increasing number and value of services subscribed by each cable customer and the higher weight of cable customers in the customer base which more than offsets a more aggressive pricing environment in satellite geographies, leading to an increase in Blended ARPU.

ZON's Next Generation Network already reaches 1.8 million Households with 100Mbps and 200Mbps

ZON's hybrid fibre coaxial network covers over 3 million households in Portugal and is today capable of delivering broadband speeds of up to 200Mbps to 1.8 million households. Trials are underway to deliver speeds of 400Mbps in 2010. In addition, in 3Q09 ZON became the first operator in Europe and the third in the world to commercialize a residential 1Gbps offer. The delivery of these speeds is possible due to the architecture of ZON's hybrid fibre coaxial network



which results from a combination of various upgrade technologies, namely Eurodocsis 3.0, cell-splitting and selective roll-out of FTTH.

ZON's fibre network has a point to multi-point configuration which reaches customer households in a number of ways:

- i. FTTH (fibre to the home) whereby ZON takes a fibre connection all the way to the customer's home. This access is used primarily in cases of new network expansion and in cells with high bandwidth usage ;
- ii. FTTB and FTTLA (fibre to the building and fibre to the last amplifier) whereby fibre is taken up to the last active element of the access network, and is typically used to serve large buildings, in particular in areas where ZON is upgrading its optic network; and
- iii. FTTC (fibre to the cell): whereby fibre connections are extended to the cell and the last connection to customer premises is made over coaxial cable.

Audiovisuals and Cinemas

The cinema business recorded a lower level of ticket sales in 9M09 compared with 9M08, down 2.4% to 5.9 million. However this was offset by an increase in average revenue per ticket to 4.4 euros, representing an improvement of 8.2%. ZON Lusomundo continues the digitalisation of its cinema theatres – the first phase of this process should be concluded in December when 138 of its 213 theatres will be equipped with digital projection systems and of these, 59 with 3D Digital technology, making ZON Lusomundo one of the largest 3D Digital movie operators in Europe. In order to improve the overall efficiency of the theatre portfolio, a few screens and theatre complexes were closed in 3Q09, bringing the total number of screens down to 213 from 217 at the end of 2Q09.

Major blockbusters in 3Q09 included "Ice Age 3 – Dawn of the Dinosaurs", "Harry Potter and the Half-Blood Prince" and "Up!", which contributed to the 5.9% y.o.y. growth of Cinema Exhibition revenues.

Revenues from the Audiovisuals business have declined by 2.4% y.o.y. in 9M09. However, 3Q09 revenues from this business posted a better performance, with growth of 2.7% y.o.y., on the back of a higher number of TVCine subscribers, after the inclusion of these channels in the "ZON Filmes" Triple Play bundles. The Home Video business' trading environment remains challenging, due to the overall economic slowdown and the technology transition process towards HD, as explained in previous Earnings Announcements. At the end of 3Q09, Lusomundo Audiovisuais signed a distribution agreement with Warner Bros to explore its Home Video rights in Portugal for the next 2 years; this additional catalog will enable Lusomundo Audiovisuais to improve efficiencies in the distribution chain. ZON is still the clear leader in this market in all its business segments.



3. CONSOLIDATED INCOME STATEMENT

Table 3.

Profit and Loss Statement (Millions of Euros)	3Q08	3Q09	3Q08 / 3Q09	9M08	9M09	9M09 / 9M08
Operating Revenues	189.8	205.0	8.0%	563.4	605.6	7.5%
Pay TV, Broadband and Voice	167.1	183.5	9.8%	501.2	546.3	9.0%
Audiovisuals	15.7	16.1	2.7%	44.6	43.5	(2.4%)
Cinema	14.0	14.9	5.9%	36.0	39.3	9.2%
Others and Eliminations	(7.1)	(9.5)	33.9%	(18.3)	(23.5)	28.1%
Operating Costs Excluding D&A	126.7	134.8	6.4%	379.0	404.6	6.7%
W&S	13.1	14.8	13.0%	36.1	42.2	17.1%
Direct Costs	56.0	58.0	3.6%	172.4	167.9	(2.6%)
Commercial Costs ⁽¹⁾	15.1	19.3	27.2%	42.8	58.3	36.2%
Other Operating Costs	42.5	42.7	0.6%	127.7	136.1	6.6%
EBITDA ⁽²⁾	63.1	70.2	11.3%	184.4	201.0	9.0%
EBITDA Margin	33.2%	34.3%	1.0pp	32.7%	33.2%	0.5pp
Depreciation and Amortization	35.7	49.6	38.7%	92.1	135.4	47.0%
Income From Operations ⁽³⁾	27.3	20.6	(24.5%)	92.3	65.6	(28.9%)
Other Expenses / (Income)	(3.2)	(0.0)	(99.5%)	(1.1)	1.6	n.a.
Operating Profit (EBIT) ⁽⁴⁾	30.5	20.7	(32.2%)	93.4	64.1	(31.4%)
Financial Expenses (Income)	13.3	7.1	(46.3%)	17.4	7.1	(59.2%)
Income Before Income Taxes	17.2	13.5	(21.4%)	75.9	56.9	(25.0%)
Income Taxes	(6.7)	(1.2)	(82.0%)	(22.0)	(14.5)	(34.3%)
Income From Continued Operations	10.5	12.3	17.3%	53.9	42.5	(21.2%)
o.w. Attributable to Minority Shareholders	(0.7)	(0.4)	(41.4%)	(3.0)	(1.5)	(50.3%)
Net Income	9.7	11.9	21.8%	50.9	41.0	(19.5%)

Note: Adjustments have been made to 2008 operating revenue and cost lines to reflect the impact of the renegotiation, in 1Q09, of the SIC content contract, whereby ZON is no longer responsible for the wholesale of the SIC Pay TV channels to other operators. The cumulative pro-forma adjustments made in 2008 resulted in a reduction in revenues of 7.0 million euros, in costs of 5.2 million euros and in EBITDA of 1.8 million euros.

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

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

(3) 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.

(4) EBIT = Income Before Financials and Income Taxes

In order to make comparisons with previous periods, the 2008 figures presented below were adjusted to better explain the ongoing performance. Therefore, adjustments have been made to 2008 operating revenue and cost lines to reflect the impact of the renegotiation, in 1Q09, of the SIC content contract, whereby ZON is no longer responsible for the wholesale of the SIC Pay TV channels to other operators. The cumulative pro-forma adjustments made in 2008 resulted in a reduction in revenues of 7.0 million euros, in costs of 5.2 million euros and in EBITDA of 1.8 million euros, and an increase of 1.8 million euros in Other Expenses / (Income), thus not affecting Net Income. An additional future impact of the renegotiation of the contract is to be expected as from January 2010 whereby ZON will no longer receive a share of the advertising revenues from SIC Pay TV channels.

As such, all comparisons and explanations were based on the 2008 pro-forma figures as referred above.



3.1 Operating Revenues

Operating Revenues grew 7.5% in 9M09 reflecting strong growth in the core Pay TV, Broadband and Voice business of +9.0% y.o.y. to 546.3 million euros, resulting from underlying growth in Triple Play penetration of +19.3pp, RGUs of 25.9% and Blended ARPU of 5.1%. In 3Q09, Operating Revenues grew 8.0% to 205.0 million euros, with Pay TV Broadband and Voice revenues reaching 183.5 million euros, representing strong y.o.y. growth of 9.8%. Cinema Revenues increased 9.2% y.o.y. to 39.3 million euros, and Audiovisuals posted a marked improvement with y.o.y. revenue growth in 3Q09 improving to positive 2.7% thus reducing the negative year to date growth rate to (2.4)%. Audiovisuals are facing a challenging environment given the structural slowdown in DVD sales which was partially offset by revenues from the movie rights business.

3.2 EBITDA

EBITDA posted a 9.0% increase in 9M09 to 201.0 million euros, generating a 33.2% margin as a percentage of revenues, up from 32.7% in 9M08. Quarterly margin performance is very positive with an improvement from 33.2% in 3Q08 to 34.3% in 3Q09, a y.o.y. increase of 1.0 percentage point.

3.3 Consolidated Operating Costs

Wages and Salaries grew 17.1% in 9M09 to 42.2 million euros, an increase explained by a combination of expenses related with share plans (approved in 4Q08) and the higher average number of employees, which also includes the impact of employees integrated upon acquisition of TVTel and Parfitel operations, as well as the internalization of functions after the spin-off process as disclosed in previous earnings announcements (namely personnel and administrative functions).

Direct Costs were 2.6% lower in 9M09 reaching 167.9 million euros as a result primarily of a decline in programming costs, positively impacted by the previously announced renegotiation of the SIC content contracts in 1Q09, as well as the renegotiation of long term content contracts. An increase in traffic and capacity related costs partially compensated the reduction in programming costs.

Commercial Costs grew by 36.2% in 9M09 to 58.3 million euros, which, as in previous periods reflects the strong commercial activity driving net growth in RGU. In addition, this cost item is affected by costs of goods sold which increased due to higher sales of mobile handsets to the growing base of mobile service subscribers.

Other Operating Costs grew by 6.6% to 136.1 million euros in 9M09. The main drivers of the increase were continued higher customer care and maintenance and repair related costs, due to the increasingly greater number and complexity of services subscribed by customers.



3.4 Net Income

Consolidated Net Income was 41.0 million euros in 9M09, representing a y.o.y. decline of 19.5%. The decline in Net Income is due to the higher level of depreciation driven by customer related CAPEX which increased significantly with the acceleration of roll-out of Triple Play terminal equipment as from 3Q08. The decline is also explained by higher financial charges caused by the higher level of Net Financial Debt. It is worth highlighting that Net Income in 3Q09 was 11.9 million euros, representing y.o.y. growth of 21.8%.

Depreciation and Amortization in 9M09 increased 47.0% y.o.y. to 135.4 million euros as a result of a combination of higher operational investment in customer terminal equipment, depreciation of long-term content contracts and the depreciation of the fair value of assets consolidated with the acquisition in November 2008 of TVTel and Parfitel operations.

Net Financial Expenses in 9M09 were 7.1 million euros, compared with 17.4 million euros in 9M08. Net interest charges increased 31.1% to 20.4 million euros in 9M09, driven by a strong increase in average gross debt over the past year. The increase was partially offset by the lower level of Losses on Financial Assets in 9M09, which declined approximately 4 million euros compared to 9M08, due to the cumulative negative Net Income at TVTel and Parfitel, in 2008, prior to their consolidation in ZON accounts. Net Financial Expenses also included the positive impact of a pre-tax capital gain in 1Q09 of 16.9 million euros resulting from ZON's sale of its 40% stake in Lisboa TV, owner of SIC Notícias, the leading Portuguese news channel, as announced at the end of February.

Income Taxes were 14.5 million euros in 9M09, 34.3% less than in 9M08.



4. CAPEX AND CASH FLOW

4.1 CAPEX

Table 4.

CAPEX (Millions of Euros)	3Q08	3Q09	3Q09 / 3Q08	9M08	9M09	9M09 / 9M08
Pay TV, Broadband and Voice Infrastructure	21.1	25.8	22.5%	49.9	66.5	33.4%
Terminal Equipment	15.5	24.5	57.9%	35.1	68.6	95.7%
Other	5.2	2.4	(52.5%)	11.6	7.2	(37.5%)
"Baseline" CAPEX	41.7	52.7	26.4%	96.5	142.4	47.5%
Long Term Contracts	0.0	0.0	n.a.	0.4	0.6	47.8%
Other Non-Recurrent Items	0.8	0.7	(13.1%)	10.7	1.0	(90.6%)
Total CAPEX	42.5	53.4	25.6%	107.7	144.0	33.8%

Total CAPEX in 9M09 was 144.0 million euros, 23.8% of Operating Revenues, representing an increase of 33.8% in relation to 9M08, explained primarily by a significant investment of 68.6 million euros, in rental based terminal equipment, namely the new ZON boxes which are capitalized and depreciated over their average lifetime. This CAPEX is totally variable and dependent on the pace of RGU growth in the period. Although the total amount is relatively high due to the currently strong growth rates being recorded, the average cost of the boxes has come down over the past year by approximately 37%. In addition, the proportion of customers that install lower cost non-PVR ZON boxes is increasing, thereby lowering the absolute level of investment.

The 33.4% increase in Pay TV, Broadband and Voice Infrastructure, to 66.5 million euros is mostly explained by the upgrade of the network through implementation of Eurodocsis 3.0 and cell splitting.



Table 5.

Cash Flow (Millions of Euros)	3Q08	3Q09	3Q09 / 3Q08	9M08	9M09	9M09 / 9M08
EBITDA minus CAPEX	20.5	16.8	(18.2%)	78.6	57.0	(27.5%)
Adjustment made to EBITDA	(1.0)	0.0	n.a.	(1.8)	0.0	n.a.
Non-Cash Items Included in EBITDA minus CAPEX ⁽¹⁾	3.8	2.6	n.a.	9.4	10.2	8.7%
Change in Working Capital	5.9	14.5	145.9%	(64.9)	(37.7)	(41.8%)
Operating Cash-Flow	31.2	33.9	8.6%	23.1	29.4	27.5%
Net Interest Paid	(0.7)	(2.2)	219.0%	(4.1)	(17.0)	n.a.
Income Taxes Paid	(1.6)	(1.1)	(28.6%)	(3.3)	(3.3)	0.3%
Long Term Contracts	(4.0)	(13.5)	239.2%	(90.5)	(38.4)	(57.6%)
Acquisition of Own Shares	(31.9)	0.0	(100.0%)	(83.4)	0.0	(100.0%)
Dividends	0.0	0.0	n.a.	(153.2)	(45.5)	(70.3%)
Disposals	0.0	0.0	n.a.	0.0	6.7	n.a.
Other Cash Movements	(14.6)	(0.0)	n.a.	(26.2)	(1.2)	n.a.
Free Cash-Flow	(21.6)	16.9	n.a.	(337.6)	(69.3)	(79.5%)

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

Note: Adjustments have been made to 2008 operating revenue and cost lines to reflect the impact of the renegotiation, in 1Q09, of the SIC content contract, whereby ZON is no longer responsible for the wholesale of the SIC Pay TV channels to other operators. The cumulative pro-forma adjustments made in 2008 resulted in a reduction in revenues of 3.7 million euros, in costs of 2.8 million euros and in EBITDA of 0.9 million euros.

4.2 Operating Cash Flow

Operating Cash Flow increased 27.5% to 29.4 million euros in 9M09 as a result of the 9.0% EBITDA increase to 201.0 million euros and notwithstanding the increase in CAPEX of 33.8% to 144.0 million euros and investment in working capital of 37.7 million euros. Change in Working Capital amounted to 14.5 million euros in 3Q09, being positively affected by the partial reversal of non-structural items in 2Q09, as explained in ZON's 1H09 Earnings Announcement.

4.3 Free Cash Flow

Free Cash Flow was negative by 69.3 million euros, compared with negative 337.6 million euros in 9M08. The items that had the greatest impact on Free Cash Flow generation in 9M09, in addition to the Operating Cash Flow items discussed above, were dividend payments of 45.5 million euros in 2Q09, cash payments related to long terms contracts of 38.4 million euros and net interest payment of 17.0 million euros year-to-date.



5. CONSOLIDATED BALANCE SHEET

Table 6.

Balance Sheet (Millions of Euros)	2008	1H09	9M09
Current Assets	295.6	273.9	289.1
Cash and Equivalents	63.4	42.8	64.0
Accounts Receivable, Net	162.8	169.0	152.8
Inventories, Net	31.3	38.2	43.4
Taxes Receivable	25.2	10.4	11.1
Prepaid Expenses and Other Current Assets	12.9	13.6	17.7
Non-current Assets	1,027.5	1,009.3	1,052.0
Investments in Group Companies	6.0	1.4	1.5
Intangible Assets, Net	372.8	339.9	365.6
Fixed Assets, Net	468.0	504.2	526.5
Deferred Taxes	57.7	46.2	45.8
Other Non-current Assets	123.0	117.5	112.6
Total Assets	1,323.1	1,283.2	1,341.1
Current Liabilities	597.4	455.8	502.1
Short Term Debt	317.1	219.7	244.8
Accounts Payable	181.1	151.8	155.2
Accrued Expenses	67.7	58.6	68.1
Deferred Income	5.0	3.8	5.0
Taxes Payable	14.3	8.3	14.8
Current Provisions and Other Liabilities	12.4	13.6	14.2
Non-current Liabilities	533.9	652.0	652.9
Medium and Long Term Debt	510.1	631.5	632.7
Non-current Provisions and Other Liabilities	23.8	20.5	20.2
Total Liabilities	1,131.3	1,107.8	1,155.0
Equity Before Minority Interests	182.7	166.7	177.0
Share Capital	3.1	3.1	3.1
Own Shares	(89.6)	(86.7)	(86.7)
Reserves, Retained Earnings and Other	221.3	221.3	219.7
Net Income	47.9	29.1	41.0
Minority Interests	9.0	8.7	9.1
Total Shareholders' Equity	191.7	175.4	186.1
Total Liabilities and Shareholders' Equity	1,323.1	1,283.2	1,341.1



5.1 Capital Structure

At 30 September 2009, **Net Financial Debt** stood at 621.8 million euros, representing an increase of 12.5% compared with the end of 2008 and a marginal decline from the end of 1H09 of 2.7%. The negative cumulative FCF for the year of 69.3 million euros explains the increase in Consolidated Net Financial Debt during the course of 9M09.

ZON's gross bank debt is represented by commercial paper lines, with an average maturity of 2.15 years and by equity swap agreements used to fund the share buyback programme, with a balance of 83.8 million euros at the end of 9M09. The commercial paper lines are all negotiated at floating interest rates. To protect against future interest rate fluctuations, ZON has negotiated interest rate hedging operations of 450 million euros (approximately 75% of total Net Financial Debt) with maturities of between 2 and 3 years. The hedging operations are booked at fair value on the Balance Sheet. As a result of these interest rate protection mechanisms, ZON was able to fix around 75% of total Net Financial Debt with an all-in average cost of around 4%.

Also, ZON has received formal approval from the European Investment Bank of a 100 million euro long-term facility, with a 6 year maturity, to fund the development of its Next Generation Network, namely the continued development of its fibre based telecommunications infrastructure in order to offer advanced high speed broadband services. In addition, ZON recently secured 2 private placement bond issues, with 3 year maturities, of 70 million euros in total, to take advantage of favourable financing conditions that were offered. With these funds in place, ZON today has a very solid debt position, under very good financial terms. The funds from the European Investment Bank loan and the bond issues will be drawn down in 4Q09, thereby increasing significantly the average maturity of ZON's financial debt and eliminating any foreseeable re-financing need until mid 2011.

Net Financial Gearing (last 4 quarters) increased to 77.0% compared with 74.2% at the end of 2008, and **Net Financial Debt / EBITDA** stands at 2.4x from 2.3x at the end of 2008, well below the average of ZON's peer group. Total Net Debt also includes commitments with Long Term contracts also recorded as liabilities on the Balance Sheet of which the most relevant are long-term telecom, transponder and content contracts.

Table 7.

Net Financial Debt (Millions of Euros)	2008	1H09	9M09	9M09 / 2008
Short Term	287.0	205.2	204.8	(28.6%)
Bank and Other Loans	282.6	200.9	200.1	(29.2%)
Financial Leases	4.5	4.3	4.7	5.7%
Medium and Long Term	389.4	517.9	522.6	34.2%
Bank Loans	385.9	510.0	510.0	32.2%
Financial Leases	3.5	7.9	12.6	256.3%
Total Debt	676.4	723.1	727.4	7.5%
Cash, Short Term Investments and Intercompany Loans	123.9	84.4	105.6	(14.8%)
Net Financial Debt	552.5	638.8	621.8	12.5%
Net Financial Gearing ⁽¹⁾	74.2%	78.5%	77.0%	2.7pp
Net Financial Debt / EBITDA	2.3x	2.5x	2.4x	n.a.

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



6. APPENDIX



APPENDIX I

Table 9.

Business Indicators ('000)	1Q08	2Q08	3Q08	4Q08 *	1Q09	2Q09	3Q09
Pay TV, Broadband and Voice							
Homes Passed	2,773.7	2,795.4	2,821.2	3,040.0	3,057.8	3,074.7	3,082.8
Triple Play Customers	107.3	153.3	193.4	275.4	339.9	391.0	435.9
% Triple Play Cable Customers	9.8%	13.9%	17.6%	23.4%	28.9%	33.2%	36.9%
Basic Subscribers ⁽¹⁾ of which	1,560.5	1,557.0	1,539.1	1,613.5	1,595.4	1,591.4	1,594.7
Digital "Funtastic"	399.8	416.9	445.9	495.8	539.6	574.9	613.1
Premium Pay TV	832.6	820.9	834.8	837.2	835.3	908.3	914.8
Broadband Internet	415.9	430.8	451.0	519.0	546.1	572.6	594.4
Fixed Voice	138.6	203.8	253.9	346.6	419.4	478.6	529.2
Mobile ⁽²⁾	0.0	0.0	0.0	7.2	16.0	33.4	53.9
RGUs ⁽³⁾	2,514.8	2,608.5	2,689.9	2,982.2	3,116.4	3,250.8	3,385.3
RGUs per Subscriber (units)	1.61	1.68	1.75	1.85	1.95	2.02	2.10
Blended ARPU (Euros)	31.6	31.8	32.0	32.4	32.7	33.6	34.0
Net Additions							
Triple Play Customers	38.6	46.0	40.1	64.2	64.5	51.1	44.9
Basic Subscribers	13.4	(3.6)	(17.9)	(14.0)	(18.2)	(3.9)	3.3
Digital "Funtastic"	17.7	17.1	29.0	50.0	43.7	35.3	38.2
Premium Pay TV	(8.0)	(11.7)	13.9	(4.8)	(1.9)	73.0	6.5
Broadband Internet	15.7	14.9	20.2	28.0	27.0	26.5	21.9
Fixed Voice	55.1	65.2	50.1	73.2	72.8	59.2	50.6
Mobile	0.0	0.0	0.0	7.2	8.8	17.4	20.5
RGUs	101.9	93.7	81.4	144.4	134.2	134.4	134.5
Cinema Exhibition							
Revenue per Ticket (Euros)	4.1	4.0	4.2	4.2	4.3	4.4	4.6
Tickets Sold	2,199.5	1,508.6	2,346.1	2,234.8	1,950.1	1,729.6	2,228.6
Screens (units)	200	206	206	213	213	217	213

(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 corporate), with a distinct geographical scope (mainland Portugal and the Azores and Madeira islands) and with a variable number of channels.

(2) Mobile Subscribers were restated in 2Q09 from 29.7 thousand to 33.4 thousand.

(3) Revenue Generating Units correspond to the sum of Pay TV basic customers, plus "Funtastic" Digital, Broadband Internet, Fixed Voice and Mobile customers.

* 4Q08 figures include the acquisitions of TVTel and Parfite Operations.



APPENDIX II

Table 10.

Profit and Loss Statement ⁽¹⁾ (Millions of Euros)	1Q08	2Q08	3Q08	4Q08 [*]	1Q09	2Q09	3Q09
Operating Revenues	187.2	186.4	189.8	202.6	201.5	199.1	205.0
Pay TV, Broadband and Voice	165.6	168.4	167.1	176.5	181.8	180.9	183.5
Audiovisuals	14.9	14.0	15.7	19.1	14.3	13.1	16.1
Cinema	12.8	9.2	14.0	13.3	12.6	11.8	14.9
Others and Eliminations	(6.0)	(5.2)	(7.1)	(6.3)	(7.2)	(6.8)	(9.5)
Operating Costs Excluding D&A	128.4	123.9	126.7	145.1	137.2	132.5	134.8
W&S	11.5	11.5	13.1	16.7	14.6	12.9	14.8
Direct Costs	59.4	56.9	56.0	58.8	56.2	53.7	58.0
Commercial Costs ⁽²⁾	13.2	14.5	15.1	26.3	18.7	20.4	19.3
Other Operating Costs	44.3	41.0	42.5	43.3	47.8	45.6	42.7
EBITDA ⁽³⁾	58.8	62.5	63.1	57.5	64.3	66.5	70.2
EBITDA Margin	31.4%	33.5%	33.2%	28.4%	31.9%	33.4%	34.3%
Depreciation and Amortization	27.0	29.4	35.7	48.4	46.0	39.8	49.6
Income From Operations ⁽⁴⁾	31.9	33.1	27.3	9.2	18.3	26.7	20.6
Other Expenses / (Income)	1.1	0.9	(3.2)	2.6	(0.1)	1.7	(0.0)
Operating Profit (EBIT) ⁽⁵⁾	30.7	32.1	30.5	6.6	18.4	25.0	20.7
Financial Expenses (Income)	1.6	2.5	13.3	8.5	(8.7)	8.7	7.1
Income Before Income Taxes	29.1	29.6	17.2	(1.9)	27.1	16.4	13.5
Income Taxes	(7.4)	(7.9)	(6.7)	(0.5)	(7.0)	(6.2)	(1.2)
Income From Continued Operations	21.7	21.7	10.5	(2.4)	20.0	10.2	12.3
o.w. Attributable to Minority Shareholders	(0.8)	(1.5)	(0.7)	(0.6)	(0.5)	(0.5)	(0.4)
Net Income	20.9	20.3	9.7	(2.9)	19.5	9.6	11.9
Total CAPEX	24.7	40.4	42.5	53.2	45.7	44.9	53.4
Free Cash Flow	(54.4)	(261.6)	(21.6)	(162.5)	27.6	(113.9)	16.9
Net Financial Debt	77.9	339.5	361.1	552.5	524.9	638.8	621.8

(1) Adjustments have been made to 2008 operating revenue and cost lines to reflect the impact of the renegotiation, in 1Q09, of the SIC content contract, whereby ZON is no longer responsible for the wholesale of the SIC Pay TV channels to other operators. The cumulative pro-forma adjustments made in 2008 resulted in a reduction in revenues of 3.7 million euros, in costs of 2.8 million euros and in EBITDA of 0.9 million euros.

(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.

(5) EBIT = Income Before Financials and Income Taxes

* 4Q08 figures include the acquisitions of TVTel and Parfite Operations.



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