

ZON MULTIMÉDIA
SERVIÇOS DE TELECOMUNICAÇÕES E MULTIMÉDIA SGPS, SA

FIRST QUARTER 2010 EARNINGS ANNOUNCEMENT



12 MAY 2010

1. 1Q10 HIGHLIGHTS

STRONG Y.O.Y. GROWTH IN REVENUES AND EBITDA

- Consolidated Revenues grew by 8.2% in 1Q10 to 213.5 million euros compared with 197.4 million euros in 1Q09;
- Very positive quarterly trend in EBITDA reaching 73.3 million euros in 1Q10, up 17% from 1Q09 and 13% from 4Q09. EBITDA margin increased 2.6 p.p. y.o.y. to 34.3% and by 4.2 p.p. when compared with the previous quarter.

ADJUSTED NET INCOME GREW BY 28.8% Y.O.Y. TO 9.3 MILLION EUROS

- Excluding the impact of the sale of a 40% stake in Lisboa TV, which generated a pre-tax capital gain of 16.9 million euros in 1Q09, Net Income increased by 28.8% in 1Q10 to 9.3 million euros compared with an Adjusted Net Income of 7.2 million euros in 1Q09;

OVER 45% PENETRATION OF TRIPLE PLAY SERVICES DRIVING STRONG ARPU PERFORMANCE

- 536.7 thousand customers now subscribe to Triple Play bundles, 45.6% of ZON's cable customers (+57.9% y.o.y.);
- RGUs continued to record impressive growth of 16.6%, reaching 3.632 million at the end of 1Q10 and bringing the average number of services sold per subscriber up to 2.26;
- Blended ARPU increased to 35.2 euro (+7.6% y.o.y), supported by the strong take-up of new services and Triple Play penetration;

CONTINUED MOMENTUM IN BROADBAND AND VOICE SERVICES, WITH VOICE PENETRATION SURPASSING THAT OF INTERNET FOR THE FIRST TIME

- Net Growth in Broadband of 24.7 thousand in 1Q10 to 635.4 thousand (+16.4% y.o.y), with penetration of the cable base reaching 54%;
- Net Growth in Voice services of 62.0 thousand in 1Q10, bringing the total number of subscribers to 646.1 thousand and with penetration of the cable base reaching 54.3%, overtaking Broadband penetration for the first time;

EURODOCSIS 3.0 UPGRADE OF ZON'S HFC NETWORK ALMOST COMPLETE

- Around 2.8 million homes now covered with Eurodocsis 3.0 by the end of 1Q10, thus enabling ZON to provide next generation speeds from 50 Mbps to 200 Mbps to around 90% of its cable footprint.

Table 1.

Highlights of 1Q10 Results	1Q09	1Q10	1Q10 / 1Q09	4Q09	1Q10 / 4Q09
Operational ('000)					
Triple Play Customers	339.9	536.7	57.9%	484.4	10.8%
Triple Play Penetration (%)	28.9%	45.6%	16.7pp	41.0%	4.6pp
Blended ARPU (Euros)	32.7	35.2	7.6%	35.0	0.5%
RGUs ⁽¹⁾	3,116.4	3,632.5	16.6%	3,506.5	3.6%
Basic Subscribers	1,595.4	1,588.4	(0.4%)	1,594.8	(0.4%)
Fixed Broadband	546.1	635.4	16.4%	610.7	4.1%
Fixed Voice	419.4	646.1	54.1%	584.1	10.6%
Mobile	16.0	80.5	n.a.	68.9	16.9%
Financial (Millions of Euros)					
Operating Revenues ⁽²⁾	197.4	213.5	8.2%	215.4	(0.9%)
Pay TV, Broadband and Voice ⁽²⁾	177.7	192.7	8.4%	191.1	0.8%
EBITDA ⁽²⁾	62.6	73.3	17.0%	64.9	13.0%
EBITDA Margin ⁽²⁾	31.7%	34.3%	2.6pp	30.1%	4.2pp
Net Income	19.5	9.3	(52.3%)	3.1	202.7%
Adjusted Net Income ⁽³⁾	7.2	9.3	28.8%	3.1	202.7%
CAPEX	45.7	53.9	17.9%	69.6	(22.6%)

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

(2) Adjustments have been made to 2009 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 and the fact that as from January 2010, ZON no longer received a share of the advertising revenues from SIC Pay TV channels. The cumulative pro-forma adjustments made in 1Q09 resulted in a reduction in revenues of 4.1 million euros, in costs of 2.5 million euros and in EBITDA of 1.6 million euros, and an increase of 1.6 million euros in Other Expenses / (Income), thus not affecting Net Income.

(3) Adjusted Net Income is adjusted for the impact of the pre-tax capital gain of 16.9 million euros due to the sale in 1Q09 of a 40% stake in Lisboa TV.

2. BUSINESS REVIEW

Table 2.

Business Indicators ('000)	1Q09	1Q10	1Q10 / 1Q09	4Q09	1Q10 / 4Q09
Pay TV, Broadband and Voice					
Homes Passed	3,057.8	3,144.0	2.8%	3,116.8	0.9%
Triple Play Customers	339.9	536.7	57.9%	484.4	10.8%
% Triple Play Cable Customers	28.9%	45.6%	16.7pp	41.0%	4.6pp
Basic Subscribers ⁽¹⁾ of which	1,595.4	1,588.4	(0.4%)	1,594.8	(0.4%)
Digital "Funtastic"	539.6	682.0	26.4%	648.1	5.2%
Premium Pay TV	835.3	898.8	7.6%	901.5	(0.3%)
Fixed Broadband	546.1	635.4	16.4%	610.7	4.1%
Fixed Voice	419.4	646.1	54.1%	584.1	10.6%
Mobile ⁽²⁾	16.0	80.5	n.a.	68.9	16.9%
RGUs ⁽³⁾	3,116.4	3,632.5	16.6%	3,506.5	3.6%
RGUs per Subscriber (units)	1.94	2.26	16.3%	2.17	4.1%
Blended ARPU (Euros)	32.7	35.2	7.6%	35.0	0.5%
Net Additions					
Triple Play Customers	64.5	52.3	(18.9%)	48.5	7.9%
Basic Subscribers	(18.2)	(6.4)	n.a.	0.1	n.a.
Digital "Funtastic"	43.7	34.0	(22.3%)	35.0	(2.8%)
Premium Pay TV	(1.9)	(2.7)	n.a.	(13.3)	(79.7%)
Fixed Broadband	27.0	24.7	(8.5%)	16.3	52.0%
Fixed Voice	72.8	62.0	(14.8%)	54.9	12.9%
Mobile	8.8	11.7	32.7%	15.0	(22.0%)
RGUs	134.2	126.0	(6.1%)	121.3	3.9%
Cinema Exhibition					
Revenue per Ticket (Euros)	4.3	4.6	7.1%	4.5	1.6%
Tickets Sold	1,950.1	2,471.6	26.7%	2,300.1	7.5%
Screens (units)	213	213	0.0%	213	0.0%

(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 include Mobile Voice and Mobile Broadband.

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

ZON continues to lead the Triple Play market

By the end of 1Q10, ZON had 536.7 thousand Triple Play customers, representing an increase of 196.8 thousand customers since 1Q09. Measured as a percentage of ZON's cable base, 45.6% of customers were subscribing to Pay TV, Broadband and Voice bundled offers, compared with 28.9% in 1Q09 and just 9.8% in 1Q08. RGU net adds in 1Q10 were 126 thousand, bringing total RGUs to 3.632 million. Each customer at the end of the quarter was subscribing to an average of 2.26 services, which compares with just 1.94 a year before.

This continued enthusiasm with ZON bundled offers demonstrates that customers clearly recognize the superior value of ZON's leading HD TV content offers, innovative next generation broadband solutions and the attractiveness of voice services.

Leadership in Pay TV

ZON is the leading Pay TV operator in Portugal with 1.588 million subscribers and representing an estimated 64% share of the Pay TV market. The most recent data disclosed by the regulator and operators show that the market continues to grow and penetration of first homes now stands close to 61%.

Of ZON's total Pay TV customer base, 1.176 million are cable subscribers that can receive multiple services over the same network. The remaining 412 thousand are satellite based customers that primarily subscribe to Single Play services.

High definition content remains a key differentiating factor of ZON's offer. ZON has by far the most extensive HD channel offer in the market, currently with 13 HD channels in the programming grid, compared with 11 from the next comparable offer in the market. Significant focus is placed on communicating the superior image and sound quality of the ZON HD experience in all its marketing campaigns. During the quarter, ZON further reinforced its offer by establishing partnerships with the generalist FTA channels to simultaneously broadcast a number of UEFA Champions League and UEFA Europa League football matches in both HD and SD.

In addition, further exploiting the superior technological capabilities and coverage of its HFC network, ZON launched a dedicated "true 3D" channel in 1Q10, putting itself at the forefront of TV innovation worldwide. The channel may be viewed by anyone with a 3D enabled television set at home living within the ZON cable footprint. The technology used is "True 3D" thereby enabling spectators to enjoy a seamless 3D experience, similar to that experienced in cinema theatres.

To address a market segment that currently does not subscribe to Pay TV services, in 1Q10 ZON launched an entry-level pay TV offer with 15 channels, for 9.99 euro/month, targeting consumers within the ZON cable footprint. Advertising of the new offer is highly focused, vehicled through mid-morning TV chat shows whereby a friendly ZON entertainment specialist, "Dr ON" explains the features of the offer. The entry-level TV offer was complemented later in the quarter with the launch of entry-level Double and Triple Play offers priced at respectively 14.98 euros (TV + Voice) and 24.98 euros.

The number of customers that subscribe to ZON's higher-end digital Pay TV offer "Funtastic" continues to increase every quarter. By the end of 1Q10, ZON had 682 thousand customers representing 43% of the total customer base and up 26.4% from 1Q09.

In line with ZON's strategic focus on delivering high value content, ZON launched a new premium subscription channel in 1Q10 targeting specific interest groups, "Sport TV Golf", a channel that will broadcast all the relevant golf events, namely US PGA, European PGA, and the Ryder Cup. As regards more sophisticated video and programming functionalities, usage is progressively increasing with the roll-out of HD ZON boxes. By the end of 1Q10, 663 thousand ZON Boxes were installed at customer premises, of which more than half without a PVR. Usage of the videoclub continues to increase as customers become more familiar with the service, although revenues still represent a relatively small proportion of Pay TV revenues. In terms of VoD content, ZON's catalogue was marked by some very successful launches during the quarter. In late March, ZON included "The Twilight Saga: New Moon" in its catalogue on the same day as the DVD was launched in retail outlets and also in March launched "The Hurt Locker", just 4 days after the Oscar ceremony.

635.4 thousand Broadband customers with 54% penetration

Broadband subscribers increased by 24.7 thousand in 1Q10, taking penetration as a percentage of the cable base up to 54%. The proportion of customers subscribing to high bandwidth next generation offers is growing. Just 3 quarters after wideband products became available, 12% of Broadband customers, almost 80 thousand subscribers are taking Broadband services of between 50 and 200 Mbps. ZON leads the market in terms of Next Generation Broadband connections with a 64% market share according to data available at the end of 2009.

Further innovating in terms of high speed residential broadband connections, in 1Q10, ZON launched "ZON HUB", a leading-edge gateway for voice and broadband connections of up to 200 Mbps, enabling high speed wireless connection all around the house. The gateway also has PBX-like features which may easily be adapted to meet the needs of small enterprises.

Fixed voice penetration overtakes broadband for the first time, 646.1 thousand customers in just over 2 years

By the end of 1Q10, ZON had 646.1 thousand fixed voice customers, representing an increase of 226.7 thousand customers since 1Q09 and of 62 thousand customers in 1Q10. Voice customers now represent 54.3% of the cable customer base, overtaking the 54% penetration rate of broadband services. Importantly, ZON is the only major operator to have increased its number of fixed voice customers, in a market that only posted growth due to ZON.

The technological advantages and flexibility of ZON's network in comparison with its main competitors have made it the uncontested innovator in fixed voice functionalities. ZON launched a number of new features placing it on a par with leading international benchmarks, and far ahead of domestic competitors. Amongst the most innovative new features launched are voice-mail to email, follow-me (call redirection to up to 3 telephone numbers), automatic redial, waiting call number view, and selective call-blocking. In addition to the attractiveness of the available features, 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. ZON is the most competitive operator in terms of tariff plans and is the only operator to offer unlimited international fixed calls within its tariff plans, to 30 countries worldwide, appealing to a very significant number of families that communicate regularly with international destinations.

In terms of mobile subscribers, the number of customers continues to increase reaching 80.5 thousand subscribers by the end of 1Q10, compared with 16 thousand at the end of 1Q09 with much of the growth being driven by mobile broadband connections. ZON is also able to provide Triple Play bundles to subscribers in satellite covered areas, due to the launch of a homezone product at the end of 2009.

Continued growth in ARPU led by increasing Triple Play penetration

Blended ARPU posted another quarter of strong y.o.y. growth of 7.6% to 35.2 euros in 1Q10. Multiple-play cable ARPU posted even higher growth of 11% y.o.y. which more than offset the decline in ARPU generated by satellite customers of 6.5%. In 1Q10, ZON announced an average price increase of between 2-3% across the board, in individual services and packages, which became effective as from May 1, 2010.

Upgrade of network to Eurodocis 3.0 almost complete

The upgrade of ZON's network to Next Generation speeds has been almost completed having reached 2.8 million households by the end of 1Q10, around 90% of the cable footprint. With this coverage, ZON is able to provide broadband speeds of up to 200Mbps.

In addition to upgrades to the access network, cell-splitting, and measures taken to optimize management of its transmission network such as the agreement signed with REFER in 4Q09 to hire backbone capacity under a contract valid for 12 years, further investments will be made over the next quarters to reduce network costs and increase operational flexibility. ZON has already started to roll-out own infrastructure to relocate some of its hubs to own sites. This is a trend that is set to continue throughout 2010, leading to some additional one-off CAPEX but that will be more than offset by a significant increase in operational flexibility and Cash Flow improvement going forward.

Audiovisuals and Cinemas

ZON's cinema business recorded a particularly strong performance in 1Q10, posting a 26.7% increase in the number of tickets sold, in comparison with 1Q09 and growth in the average revenue per ticket sold of 7.1%. In 1Q10, 2.47 million spectators went to ZON Lusomundo Cinemas, representing a 53.4% share of the total market according to data provided by ICA (the Portuguese cinema institute). ZON has been at the forefront of technological innovation over the past quarters, be it through digitalization of its cinema screens, be it through the roll-out of 3D projection technology and is targeting to have an average of two 3D projection screens in each of its 30 cinema complexes by the end of 2010. At the end of 1Q10, of 213 screens in total, 138 had already been digitalized and 39 already had digital 3D projection systems, with official data for the end of 2009 showing that ZON had a 77% share of all digital screens in Portugal. ZON Lusomundo Cinemas today is at the leading-edge of technological developments in movie exhibition worldwide, and clearly at the forefront of its European peer group.

The focus on digitalizing the network and thus dramatically improving the image and sound quality of the movies projected, whilst at the same time achieving a significant improvement in operational management and flexibility, has enabled ZON to take advantage of the surge in blockbuster 3D content being launched by major studios, amongst which "Avatar" and "Alice in Wonderland". Both of

these had an important impact on 1Q10 numbers, in addition to other major box-office hits such as "It's Complicated" and "Up in the Air".

On the Audiovisuals front, 1Q10 was also a very good quarter for revenues of the cinema distribution business as it was responsible for distributing many of the blockbuster movies that premiered such as "Alice in Wonderland", "The Princess and the Frog", "How to Train your Dragon", "It's Complicated" and "Shutter Island". Lusomundo is the leading cinema distributor in Portugal with a share of 46.7% of Revenues. In total, 24 movies were launched in 1Q10, 3 of which from Walt Disney, 4 from Paramount, 2 from Universal, and the remainder from various independent producers. Importantly, ZON distributed 4 of the top 5 movies in terms of box-office sales. In terms of DVD sales, within a still challenging market environment, ZON achieved an important increase in market share of both revenues and unit sales to 40.8% and 29.8% respectively, due primarily to its important share of distribution of blockbuster movies and top catalogues from 3 major studios: Disney, Paramount, Warner and from independent studios, including the OSCAR 2010 winner – "The Hurt Locker" – which ZON launched on DVD the week before the awards and for VoD the week after. Revenues from distribution for VoD more than doubled in 1Q10 compared with the previous year and, for the first time, largely surpassed those of DVD sales for rental stores. At the end of 1Q10, ZON Lusomundo released "The Twilight Saga: New Moon" simultaneously on DVD, Blu-Ray and VoD, supported by a strong marketing campaign. The results were extremely positive with excellent growth recorded in sales for all segments when compared with the first movie of the "Twilight" saga.

As regards own channels, a strong performance was recorded in terms of audience in 1Q10 with total audience for the Dreamia channels (a JV with Chello Media for the production of two movie and series channels – Hollywood and MOV and two children's channels – Panda and Panda Biggs) increasing to 5.8% of share at the end of 1Q10, compared with 4.4% in 1Q09. In fact, focusing just on the children's channels, Panda and Panda Biggs are clear market leaders with a 68% share of total children's channel audience in 1Q10, which represent 13.5% of total cable audience.

3. CONSOLIDATED INCOME STATEMENT

Table 3.

Profit and Loss Statement (Millions of Euros)	1Q09	1Q10	1Q10 / 1Q09	4Q09	1Q10 / 4Q09
Operating Revenues	197.4	213.5	8.2%	215.4	(0.9%)
Pay TV, Broadband and Voice	177.7	192.7	8.4%	191.1	0.8%
Audiovisuals	14.3	15.5	8.8%	18.5	(15.8%)
Cinema	12.6	15.7	24.3%	15.1	3.9%
Others and Eliminations	(7.2)	(10.4)	44.7%	(9.2)	12.6%
Operating Costs Excluding D&A	134.8	140.2	4.0%	150.5	(6.9%)
W&S	14.6	14.3	(1.6%)	16.0	(10.5%)
Direct Costs	53.7	61.6	14.7%	64.0	(3.7%)
Commercial Costs ⁽¹⁾	18.7	16.7	(10.4%)	22.2	(24.7%)
Other Operating Costs	47.8	47.5	(0.6%)	48.3	(1.6%)
EBITDA ⁽²⁾	62.6	73.3	17.0%	64.9	13.0%
EBITDA Margin	31.7%	34.3%	2.6pp	30.1%	4.2pp
Depreciation and Amortization	46.0	53.1	15.4%	53.2	(0.2%)
Income From Operations ⁽³⁾	16.7	20.3	21.5%	11.7	73.2%
Other Expenses / (Income)	(1.7)	0.0	n.a.	(1.0)	(100.4%)
Operating Profit (EBIT) ⁽⁴⁾	18.4	20.2	10.3%	12.7	59.7%
Financial Expenses (Income)	(8.7)	8.1	n.a.	7.8	4.4%
Income Before Income Taxes	27.1	12.1	(55.2%)	4.9	148.1%
Income Taxes	(7.0)	(2.4)	n.a.	(1.7)	44.6%
Income From Continued Operations	20.0	9.7	(51.5%)	3.2	201.5%
o.w. Attributable to Minority Shareholders	(0.5)	(0.4)	n.a.	(0.1)	176.3%
Net Income	19.5	9.3	(52.3%)	3.1	202.7%
Adjusted Net Income ⁽⁵⁾	7.2	9.3	28.8%	3.1	202.7%

Note: Adjustments have been made to 2009 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 and the fact that as from January 2010, ZON no longer received a share of the advertising revenues from SIC Pay TV channels. The cumulative pro-forma adjustments made in 1Q09 resulted in a reduction in revenues of 4.1 million euros, in costs of 2.5 million euros and in EBITDA of 1.6 million euros, and an increase of 1.6 million euros in Other Expenses / (Income), thus not affecting Net Income.

(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

(5) Adjusted Net Income is adjusted for the impact of the pre-tax capital gain of 16.9 million euros due to the sale in 1Q09 of a 40% stake in Lisboa TV.

As in previous quarters, in order to make comparisons with previous periods, the 2009 figures presented above were adjusted to better explain ongoing performance. Therefore, adjustments have been made to 2009 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 and the fact that as from January 2010, ZON no longer received a share of the advertising revenues from SIC Pay TV channels. The cumulative pro-forma adjustments

made in 1Q09 resulted in a reduction in revenues of 4.1 million euros, in costs of 2.5 million euros and in EBITDA of 1.6 million euros, and an increase of 1.6 million euros in Other Expenses / (Income), thus not affecting Net Income.

As such, all comparisons and explanations were based on the 2009 pro-forma figures as referred above.

3.1 Operating Revenues

Operating Revenues posted an 8.2% y.o.y. increase in 1Q10, on a comparable basis, to 213.5 million euros. The increase in Consolidated Revenues was led primarily by the 8.4% increase in core Pay TV, Broadband and Voice revenues to 192.7 million euros due to a combination of the 16.7 p.p. growth in Triple Play penetration, the 16.6% increase in RGUs and the 7.6% increase in blended ARPU.

The Cinema and Audiovisuals businesses also posted a significant improvement in 1Q10, increasing y.o.y. 24.3% to 15.7 million euros and 8.8% to 15.5 million euros respectively. The growth in these business lines was very much driven by the hype around new 3D movies and the significant number of blockbuster releases that occurred during 1Q10.

3.2 EBITDA

EBITDA increased by 17% on a comparable basis in 1Q10 to 73.3 million euros, generating a 34.3% margin as a percentage of revenues, compared with 31.7% in 1Q09. Quarterly trends in EBITDA margin are very positive, reflected in a 4.2 pp increase in 1Q10 compared with 4Q09, as a result of a strict cost discipline and focus on profitable growth.

3.3 Consolidated Operating Costs

Wages and Salaries remained relatively flat in 1Q10 compared with 1Q09, posting a marginal decrease of 1.6% to 14.3 million euros. The reduction was primarily due to the synergies from integrating TV Tel and Parfitel Operations that are being implemented, resulting in a lower average FTE headcount (-87 employees).

Direct Costs increased 14.7% in 1Q10 to 61.6 million euros, led primarily by a combination of higher fixed and mobile traffic interconnection charges and telecom capacity requirements due to the significantly higher volume of traffic on the network, higher programming costs related with the introduction of new channels such as TVI24 and some of the new HD channels. In addition, at the Audiovisuals and Cinemas divisions, the higher level of operating activity led to an increase in royalties to be paid to movie producers.

Commercial Costs fell by 10.4% in 1Q10 to 16.7 million euros due to a y.o.y. decline in COGS and in Commissions. The reduction in COGS is mostly due to the fact that in 1Q10 a higher proportion of terminal equipment was rented to customers rather than sold. The lower level of Commissions is the result primarily of a better sales channel mix whereby the weight of the more expensive door-to-door sales channel was reduced.

Other Operating Costs remained flat y.o.y. at 47.5 million euros, compared with 47.8 million euros in 1Q09, a clear sign of the focus on controlling G&A costs.

3.4 Net Income

Net Income was 9.3 million euros in 1Q10, which represented y.o.y. growth of 28.8% adjusted for the impact of a pre-tax capital gain of 16.9 million euros in 1Q09, due to the sale in February 2009 of ZON's 40% stake in Lisboa TV, owner of SIC Notícias, the leading Portuguese news channel.

Depreciation and Amortization in 1Q10 increased 15.4% y.o.y. to 53.1 million euros as a result of a combination of higher operational investment in customer terminal equipment and depreciation of long-term content contracts, reflecting a trend already witnessed in previous quarters. In comparison with 4Q09, this cost item remained almost flat.

Net Financial Expenses in 1Q10 amounted to 8.1 million euros, compared with Net Financial Income of 8.7 million euros in 1Q09. The aggregate result is not directly comparable due to the capital gain recorded in 1Q09 from the sale of ZON's stake in Lisboa TV, as explained above.

Net interest charges fell by 29.7% y.o.y. to 5.7 million euros driven by a reduction in the average level of gross debt over the period and to the generally lower interest rate environment.

Income Taxes amounted to 2.4 million euros in 1Q10, significantly less than the 7 million euros recorded in 1Q09 which was impacted by the tax on the capital gain as described above.

4. CAPEX AND CASH FLOW

4.1 CAPEX

Table 4.

CAPEX (Millions of Euros)	1Q09	1Q10	1Q10 / 1Q09	4Q09	1Q10 / 4Q09
Pay TV, Broadband and Voice Infrastructure	17.7	20.3	14.9%	22.0	(7.5%)
Terminal Equipment	23.3	27.9	20.0%	34.0	(17.9%)
Other	3.9	1.8	(52.6%)	7.4	(75.3%)
"Baseline" CAPEX	44.8	50.1	11.7%	63.4	(21.0%)
Long Term Contracts	0.6	1.0	60.0%	6.2	(83.5%)
Other Non-Recurrent Items	0.3	2.8	n.a.	0.0	n.a.
Total CAPEX	45.7	53.9	17.9%	69.6	(22.6%)

Total CAPEX in 1Q10 was 53.9 million euros. Although 17.9% higher than in 1Q09, this level of total CAPEX represents a decline of 22.6% when compared with the previous quarter.

Baseline CAPEX grew 11.7% in 1Q10 when compared with 1Q09 and fell by 21% against 4Q09, a reduction explained primarily by lower investment in terminal equipment which is capitalized and then depreciated over their average lifetime. Investment in terminal equipment came down in comparison with the previous quarter due to a combination of the higher proportion of less expensive non PVR set-top boxes installed and a more representative level of refurbished equipment being injected back into the logistic chain.

Table 5.

Cash Flow (Millions of Euros)	1Q09	1Q10	1Q10 / 1Q09	4Q09	1Q10 / 4Q09
EBITDA minus CAPEX	18.6	19.5	4.8%	(3.6)	n.a.
Adjustment made to EBITDA	1.6	0.0	n.a.	1.1	(100.0%)
Non-Cash Items Included in EBITDA minus CAPEX ⁽¹⁾	3.5	4.5	27.6%	14.8	(69.7%)
Change in Working Capital	18.2	(22.6)	(224.5%)	22.2	(201.7%)
Operating Cash-Flow	40.3	1.3	(96.7%)	33.5	(96.0%)
Net Interest Paid	(0.4)	(2.3)	n.a.	(9.8)	n.a.
Income Taxes Paid	(0.9)	(0.3)	n.a.	(0.9)	n.a.
Long Term Contracts	(14.8)	(39.8)	169.1%	(16.9)	134.7%
Sale / (Acquisition) of Own Shares	0.0	72.7	n.a.	0.0	n.a.
Dividends	2.2	(0.1)	(105.3%)	0.0	n.a.
Disposals	6.7	6.7	0.0%	0.0	n.a.
Other Cash Movements	(5.4)	0.4	n.a.	0.1	n.a.
Free Cash-Flow	27.6	38.6	39.8%	6.0	n.a.

(1) This caption includes non-cash provisions included in EBITDA and non-cash CAPEX related to the upfront capitalization of long term contracts.

Note: Adjustments have been made to 2009 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 and the fact that as from January 2010, ZON no longer received a share of the advertising revenues from SIC Pay TV channels. The cumulative pro-forma adjustments made in 1Q09 resulted in a reduction in revenues of 4.1 million euros, in costs of 2.5 million euros and in EBITDA of 1.6 million euros, and an increase of 1.6 million euros in Other Expenses / (Income), thus not affecting Net Income.

4.2 Operating Cash Flow

Operating Cash Flow amounted to 1.3 million euros in 1Q10. Although EBITDA minus CAPEX contributed positively with 19.5 million euros, working capital increased by 22.6 million euros. Almost the entire increase in working capital is explained by an increase in VAT of approximately 21.8 million euros, during the quarter related with non-recurrent items. This VAT will be recovered in full over the coming quarters.

4.3 Free Cash Flow

Free Cash Flow increased by 39.8% in 1Q10 to 38.6 million euros. The main impacts on FCF in the quarter were the operating results discussed above combined with a net inflow of 72.7 million euros related with the sale of own shares to Kento (explained in FY09 Earnings Announcement) and an outflow of 39.8 million euros for long-term contracts, the majority of which a front-ended payment related with the Sport TV extension of the Portuguese football broadcasting rights for a further year, thus locking in the contract until the end of 2013.

5. CONSOLIDATED BALANCE SHEET

Table 6.

Balance Sheet (Millions of Euros)	2009	1Q10
Current Assets	436.4	457.3
Cash and Equivalents	177.0	221.9
Accounts Receivable, Net	185.0	166.9
Inventories, Net	39.9	29.1
Taxes Receivable	21.6	23.5
Prepaid Expenses and Other Current Assets	13.0	15.9
Non-current Assets	1,042.8	1,062.8
Investments in Group Companies	1.3	1.0
Intangible Assets, Net	353.8	335.1
Fixed Assets, Net	554.6	571.7
Deferred Taxes	47.9	48.6
Other Non-current Assets	85.3	106.4
Total Assets	1,479.2	1,520.1
Current Liabilities	544.5	440.3
Short Term Debt	246.5	161.4
Accounts Payable	175.9	160.5
Accrued Expenses	74.7	81.1
Deferred Income	3.7	5.3
Taxes Payable	29.8	16.2
Current Provisions and Other Liabilities	13.9	15.8
Non-current Liabilities	745.0	810.6
Medium and Long Term Debt	722.7	781.8
Non-current Provisions and Other Liabilities	22.3	28.8
Total Liabilities	1,289.5	1,250.9
Equity Before Minority Interests	180.4	260.2
Share Capital	3.1	3.1
Own Shares	(87.2)	0.1
Reserves, Retained Earnings and Other	220.5	247.7
Net Income	44.0	9.3
Minority Interests	9.2	8.9
Total Shareholders' Equity	189.7	269.1
Total Liabilities and Shareholders' Equity	1,479.2	1,520.1

5.1 Capital Structure

At 31 March 2010, **Net Financial Debt** stood at 577.2 million euros, representing a decrease of 6.3% in comparison with the end of 2009 as a result of the positive FCF of 38.6 million euros recorded in 1Q10.

ZON's gross bank debt is represented primarily by commercial paper lines, by the loan from the European Investment Bank described in previous announcements and by bond issues secured in 2009. The equity swap agreements in place at the end of 2009 amounting to 84 million euros were unwound with the completion of the sale of own shares to Kento in 1Q10.

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 519 million euros (approximately 89.9% of total Net Financial Debt) with maturities between 2 and 3 years. The hedging operations are booked at fair value on the Balance Sheet.

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 were drawn down in 4Q09, thereby increasing significantly the average maturity of ZON's financial debt and eliminating any foreseeable re-financing needs until mid 2011.

ZON's total Net Financial Debt has an average maturity of 2.36 years with an all-in average cost of around 3.4%.

Net Financial Gearing reduced to 68.2% compared with 76.5% at the end of 2009, and **Net Financial Debt / EBITDA** (last 4 quarters) stands at 2.1x, well below the average of ZON's peer group. Total Net Debt of 720 million euros 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)	2009	1Q10	1Q10 / 2009
Short Term	218.2	128.7	(41.0%)
Bank and Other Loans	212.8	124.7	(41.4%)
Financial Leases	5.4	4.0	(26.2%)
Medium and Long Term	609.2	671.8	10.3%
Bank Loans	596.5	658.2	10.3%
Financial Leases	12.7	13.5	6.6%
Total Debt	827.5	800.5	(3.3%)
Cash, Short Term Investments and Intercompany Loans	211.6	223.2	5.5%
Net Financial Debt	615.8	577.2	(6.3%)
Net Financial Gearing ⁽¹⁾	76.5%	68.2%	(8.3pp)
Net Financial Debt / EBITDA	2.4x	2.1x	n.a.

6. INTERNATIONAL GROWTH – ANGOLA

After the launch of the W7 satellite in 4Q09, ZAP's commercial offers were announced in 1Q10. The service is entirely digital and ZAP has started to sell two main tariff plans: "Max" offering around 50 channels for approximately 30 USD a month and "Premium" offering around 80 channels for approximately 60 USD a month, with key focus placed on the strength of the number of Portuguese speaking channels, HD content and innovative digital box features. When a new customer subscribes to the ZAP service, an upfront payment is made for the satellite dish, set-top box equipment and to cover the installation cost. Monthly fees are pre-paid at any of ZAP's distribution points and agents.

Starting with the beginning of the coming football season in August 2010, ZAP has secured the exclusive distribution of Sport TV Africa that will include the exclusive rights of the Portuguese Football League (Liga Sagres), and other key Portuguese sports competitions.

Further developments will be given out in the coming quarters relating to the evolution of sales activities. ZON will hold a 30% equity stake in this operation in Angola, and its results will be consolidated proportionally.

7. APPENDIX

7.1 APPENDIX I

Table 8.

Business Indicators ('000)	1Q09	2Q09	3Q09	4Q09	1Q10
Pay TV, Broadband and Voice					
Homes Passed	3,057.8	3,074.7	3,082.8	3,116.8	3,144.0
Triple Play Customers	339.9	391.0	435.9	484.4	536.7
% Triple Play Cable Customers	28.9%	33.2%	36.9%	41.0%	45.6%
Basic Subscribers ⁽¹⁾	1,595.4	1,591.4	1,594.7	1,594.8	1,588.4
of which					
Digital "Funtastic"	539.6	574.9	613.1	648.1	682.0
Premium Pay TV	835.3	908.3	914.8	901.5	898.8
Fixed Broadband	546.1	572.6	594.4	610.7	635.4
Fixed Voice	419.4	478.6	529.2	584.1	646.1
Mobile ⁽²⁾⁽³⁾	16.0	33.4	53.9	68.9	80.5
RGUs ⁽³⁾	3,116.4	3,250.8	3,385.3	3,506.5	3,632.5
RGUs per Subscriber (units)	1.94	2.02	2.10	2.17	2.26
Blended ARPU (Euros)	32.7	33.6	34.0	35.0	35.2
Net Additions					
Triple Play Customers	64.5	51.1	44.9	48.5	52.3
Basic Subscribers	(18.2)	(3.9)	3.3	0.1	(6.4)
Digital "Funtastic"	43.7	35.3	38.2	35.0	34.0
Premium Pay TV	(1.9)	73.0	6.5	(13.3)	(2.7)
Fixed Broadband	27.0	26.5	21.9	16.3	24.7
Fixed Voice	72.8	59.2	50.6	54.9	62.0
Mobile	8.8	17.4	20.5	15.0	11.7
RGUs	134.2	134.4	134.5	121.3	126.0
Cinema Exhibition					
Revenue per Ticket (Euros)	4.3	4.4	4.6	4.5	4.6
Tickets Sold	1,950.1	1,729.6	2,228.6	2,300.1	2,471.6
Screens (units)	213	217	213	213	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)

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

(3) Mobile subscribers include Mobile Voice and Mobile Broadband.

(4) Revenue Generating Units correspond to the sum of Pay TV basic customers, plus "Funtastic" Digital, Fixed Broadband, Fixed Voice

7.II APPENDIX II

Table 9.

Profit and Loss Statement (Millions of Euros)	1Q09	2Q09	3Q09	4Q09	1Q10
Operating Revenues	197.4	197.4	203.1	215.4	213.5
Pay TV, Broadband and Voice	177.7	179.2	181.6	191.1	192.7
Audiovisuals	14.3	13.1	16.1	18.5	15.5
Cinema	12.6	11.8	14.9	15.1	15.7
Others and Eliminations	(7.2)	(6.8)	(9.5)	(9.2)	(10.4)
Operating Costs Excluding D&A	134.8	131.6	133.8	150.5	140.2
W&S	14.6	12.9	14.8	16.0	14.3
Direct Costs	53.7	52.7	57.1	64.0	61.6
Commercial Costs ⁽¹⁾	18.7	20.4	19.3	22.2	16.7
Other Operating Costs	47.8	45.6	42.7	48.3	47.5
EBITDA ⁽²⁾	62.6	65.8	69.3	64.9	73.3
EBITDA Margin	31.7%	33.3%	34.1%	30.1%	34.3%
Depreciation and Amortization	46.0	39.8	49.6	53.2	53.1
Income From Operations ⁽³⁾	16.7	25.9	19.7	11.7	20.3
Other Expenses / (Income)	(1.7)	0.9	(0.9)	(1.0)	0.0
Operating Profit (EBIT) ⁽⁴⁾	18.4	25.0	20.7	12.7	20.2
Financial Expenses (Income)	(8.7)	8.7	7.1	7.8	8.1
Income Before Income Taxes	27.1	16.4	13.5	4.9	12.1
Income Taxes	(7.0)	(6.2)	(1.2)	(1.7)	(2.4)
Income From Continued Operations	20.0	10.2	12.3	3.2	9.7
o.w. Attributable to Minority Shareholders	(0.5)	(0.5)	(0.4)	(0.1)	(0.4)
Net Income	19.5	9.6	11.9	3.1	9.3
Total CAPEX	45.7	44.9	53.4	69.6	53.9
Free Cash Flow	27.6	(113.9)	16.9	6.0	38.6
Net Financial Debt	524.9	638.8	621.8	615.8	577.2

Note: Adjustments have been made to 2009 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 and the fact that as from January 2010, ZON no longer received a share of the advertising revenues from SIC Pay TV channels. The cumulative pro-forma adjustments made in 1Q09 resulted in a reduction in revenues of 4.1 million euros, in costs of 2.5 million euros and in EBITDA of 1.6 million euros, and an increase of 1.6 million euros in Other Expenses / (Income), thus not affecting Net Income. For the full year 2009, the adjustments were as follows: reduction of 9.8 million euros in Revenues, of 5.3 million euros in costs, and of 4.4 million euros in EBITDA; an increase of 4.4 million euros in Other Expenses / (Income), thus not affecting Net Income.

(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

(4) EBIT = Income Before Financials and Income Taxes

8. DISCLAIMER

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