ZON MULTIMÉDIA

SERVIÇOS DE TELECOMUNICAÇÕES E MULTIMÉDIA SGPS, SA

First Half 2010 Earnings Announcement

29 July 2010

1.HIGHLIGHTS of 2Q10

Table 1.

Highlights of 2Q10 Results	2Q09	2Q10	2Q10 / 2Q09
Operational ('000)			
Triple Play Customers	391.0	571.9	46.3%
Triple Play Penetration (%)	33.2%	49.0%	15.9pp
RGUs (1)	3,250.8	3,693.7	13.6%
Blended ARPU (Euros)	33.6	35.6	6.2%
Financial (Millions of Euros)			
Operating Revenues (2)	197.4	216.2	9.5%
EBITDA (2)	65.8	76.2	15.9%
EBITDA Margin (2)	33.3%	35.3%	1.9pp
Net Income	9.6	13.6	41.7%

(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 2Q09 resulted in a reduction in revenues of 1.7 million euros, in costs of 1 million euros and in EBITDA of 0.8 million euros, and an increase of 0.8 million euros in Other Expenses / (Income), thus not affecting Net Income.

FOCUS ON PROFITABLE GROWTH

- Revenues increased by 9.5% y.o.y. in 2Q10 to 216.2 million euros;
- EBITDA grew by 15.9% in 2Q10 to 76.2 million euros, representing an EBITDA margin of 35.3%;
- Net Income increased by 41.7% in 2Q10 to 13.6 million euros.

ALMOST 50% PENETRATION OF TRIPLE PLAY SERVICES, DRIVING STRONG ARPU GROWTH

- 571.9 thousand customers now buy Triple Play bundles, 49.0% of ZON's cable customer base (+46.3% y.o.y.);
- Blended ARPU increased to 35.6 euro (+6.2% y.o.y), led by the continued strong take-up of new services and Triple Play penetration.

LEADERSHIP IN NEXT GENERATION SERVICES SUPPORTED BY INVESTMENT IN TECHNOLOGICAL INNOVATION, NETWORK INDEPENDENCE AND EFFICIENCY

- 100 thousand ZON fibre subscribers reached in July 2010;
- Eurodocsis 3.0 upgrade of ZON's HFC network practically complete; Over 2.8 million households able to receive high speed broadband of up to 200 Mbps;
- Launch of ZON data centre in 2Q10 and start of project to relocate ZON hubs onto own infrastructure.

2. OPERATING REVIEW 1H10

Table 2.

Business Indicators ('000)	2Q09	2Q10	2Q10 / 2Q09	1H09	1H10	1H10 / 1H09
Pay TV, Broadband and Voice						
Homes Passed	3,074.7	**3,170.0**	3.1%	3,074.7	**3,170.0**	3.1%
RGUs (1)	3,250.8	**3,693.7**	13.6%	3,250.8	**3,693.7**	13.6%
RGUs per Subscriber (units)	2.02	**2.31**	14.7%	2.02	**2.31**	14.7%
Basic Subscribers (2)	1,591.4	**1,576.9**	(0.9%)	1,591.4	**1,576.9**	(0.9%)
o.w. Cable Subscribers	1,179.0	**1,166.3**	(1.1%)	1,179.0	**1,166.3**	(1.1%)
Triple Play Customers	391.0	**571.9**	46.3%	391.0	**571.9**	46.3%
% Triple Play Cable Customers	33.2%	**49.0%**	15.9pp	33.2%	**49.0%**	15.9pp
Double Play Customers	267.8	**186.3**	(30.4%)	267.8	**186.3**	(30.4%)
% Double Play Cable Customers	22.7%	**16.0%**	(6.7pp)	22.7%	**16.0%**	(6.7pp)
Single Play Customers	520.2	**408.1**	(21.6%)	520.2	**408.1**	(21.6%)
% Single Play Cable Customers	44.1%	**35.0%**	(9.1pp)	44.1%	**35.0%**	(9.1pp)
o.w. DTH Subscribers	412.4	**410.6**	(0.4%)	412.4	**410.6**	(0.4%)
Blended ARPU (Euros)	33.6	**35.6**	6.2%	33.1	**35.4**	6.9%
Cinema Exhibition						
Revenue per Ticket (Euros)	4.4	**4.6**	5.0%	4.3	**4.6**	6.0%
Tickets Sold	1,729.6	**1,716.6**	(0.8%)	3,679.7	**4,188.2**	13.8%
Screens (units)	217	**213**	(1.8%)	217	**213**	(1.8%)

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

Triple Play continues to be a key driver of growth and profitability

Almost 1 out of 2 cable customers subscribe to Triple Play bundles. By the end of 1H10, 571.9 thousand customers were taking Triple Play services, 49% of the cable customer base and representing growth of 180.9 thousand (+46.3%) in comparison with 1H09.

ZON's customer base has been migrating more and more to multiple play bundles, the most relevant of which are Triple Play offers whose penetration of the cable customer base has been increasing rapidly quarter on quarter. On the contrary, Single Play penetration has been declining as a percentage of the cable base every quarter, now representing just 35% compared with over 50% just two years ago. The remaining customers are opting for Double Play solutions (TV + Voice and TV + Broadband) which today represent around 16% of the cable customer base.

On average, each ZON customer is taking significantly more services, 2.31 RGUs per sub, up from 2.02 a year before and bringing the total number of RGUs to 3,693.7 (+13.6% yoy).

ZON has successfully defended its customer base of almost 1.6 million pay TV subscribers. The market remains very competitive and characterized by still relatively aggressive levels of promotional activity. However, within this challenging competitive environment, ZON has focused on acquiring and retaining higher quality customers which translate into higher levels of profitability and return on investment for the company. The marginal slowdown in subscriber growth in 2Q10 was also due to the across the board price increase of 2-3%, but has been more than compensated by a significant improvement in profitability due to higher ARPU and also to a more efficient approach to customer acquisition. Average subscriber acquisition costs are coming down, led by a more rational sales-mix between the various sales channels. In particular, the proportion of sales made through more effective and less expensive distribution channels has increased significantly and, in some instances, overtaken the weight of sales over more expensive and typically more volatile door-to-door sales channels, that also tend to generate more churn. In addition, efforts are being taken to ensure that reactive sales channels are leveraged by taking advantage of contacts made to in-coming customer-care platforms.

The best HD offer with a leading position in content and at the forefront of innovation

High definition remains an important differentiating factor in the ZON Pay TV offer, which today already has 15 channels being broadcast in HD, the largest offer in the Portuguese market. Particular focus was given to ZON's sports HD offer during the World Cup in June and July with a campaign dedicated to communicating ZON's position as the operator with the most comprehensive and best quality HD offer in the market. An additional 3 HD channels were launched in 2Q10, one of which, a dedicated financial news channel "Económico TV HD" – exclusive to ZON, in addition to "Nat Geo Wild HD" and "Discovery Showcase HD".

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. In 2Q10, this channel exclusively broadcast two friendly matches of the Portuguese team in preparation for the World Cup, in 3D.

Further raising the profile of ZON's brand positioning, in the past weeks, ZON became a joint primary sponsor of the Portuguese premier football league, together with Sagres, the leading beer brand in Portugal. The premier league will now be called "Liga ZON Sagres".

With this sponsorship, ZON aims to reinforce its leadership in the Pay TV market by supporting a sport that motivates thousands to go to stadiums and always ranks at the top of TV audiences. Brand awareness is set to increase significantly with this initiative, leveraging ZON's innovative positioning in terms of the high definition and 3D viewing experience.

As regards the entry level Pay TV product launched at the beginning of the year, it has had good progress in terms of subscriber take-up, with around 20 thousand subscribers after six months, by end 2Q10. The marketing of the new tariff plans was very selective, with campaigns being directed to morning or afternoon FTA TV shows, focusing on market segments that currently do not receive Pay TV services and therefore reducing the potential for customers downgrading from higher value propositions.

The proportion of customers that now receive digital services continues to increase. By the end of 1H10, 740 thousand ZON HD Boxes had been installed, thereby enabling an ever increasing number of customers to benefit from a digital HD experience and numerous functionalities launched over the Pay TV platform. Further efforts to reduce the average cost of terminal equipment installed on customer premises were taken, both through continued renegotiation of purchasing terms and through an increase in the level of equipment that is refurbished and injected back into the system.

Further enhancing its offer, in 2Q10 ZON launched a number of Internet based widgets adapted for its cable TV platform, allowing customers to access useful functionalities and information with one push of a button on the TV control, whilst simultaneously watching a TV broadcast. Amongst the first widgets to be launched were “Mundial” with continuous World Cup updates, “Quiosque” with news updates and headlines, “Photo” providing access to pictures on the Picasa or Flickr platforms, in addition to widgets with weather updates (Accuweather), TV programming guides and entertainment quizzes. The new widgets have proven extremely popular: over 270 thousand ZON Boxes accessed the service in the first month, with over 5.5 million clicks spread over 23 hours of use.

ZON’s VoD platform, currently with a library of over 3 thousand titles, continues to post very interesting quarterly progress, albeit representing a relatively small proportion of total customer revenues. On average, each film downloaded represents additional revenue of 3 euros. New content and functionalities being launched and many more in the pipeline, are set to stimulate additional VoD usage and subsequently generate incremental TV revenue.

The largest next generation network operator in Portugal

ZON’s clear advantage in terms of next generation network coverage and widespread technological superiority is reflected in its results: as from July, 100 thousand customers, 15% of the broadband customer base, currently take offers higher than 50 Mbps. According to data published by the regulator for the end of 1Q10, ZON’s implied market share of Next Generation services was already 59% implying that all other broadband operators together had less NGN subscribers than ZON. In total, the number of broadband subscribers increased by 13.6% to 650.1 thousand, representing a 56% penetration rate of the cable base.

In 2Q10, ZON launched an upgraded “ZON HUB”, its leading-edge gateway for voice and broadband connections of up to 200 Mbps, that enables high speed wireless connectivity all around the house, in addition to providing PBX-like features adaptable to the needs of small enterprises.

On the WiFi front, ZON’s customer supported solution, “ZON FON” is proving to be a huge success. There are already more than 100 thousand access points across the country, providing the most extensive wireless networks in Portugal, and free access to all ZON broadband users. Customers can also access almost 2 million international access points supported by FON’s partner network as is the case of British Telecom in the UK. The next generation ZON HUB now integrates ZON FON hotspot technology, thus providing an easy platform for ZON FON’s WiFi network to expand significantly in coming quarters.

Also in 1H10 ZON launched an Internet Protection system, in partnership with F-Secure, one of the leading computer safety companies in the world. For a 1.99 euros monthly fee, the service provides an integrated security solution, sharable with 3 home computers, including antivirus, anti-spyware, anti-spam, firewall and parental control functionalities.

Continued growth in fixed voice uptake

The number of customers taking ZON’s fixed voice services continues to increase, reaching 692 thousand by the end of 1H10 and representing 58% of the cable subscriber base. In July 2010, the 700 thousand customer mark had already been reached. Traffic profiles remain very strong, supported by the strength of attractive tariff plans that include unlimited fixed line traffic to 30 international destinations.

The market power of this offer led other main competitors to also launch similar tariff plans during the quarter.

Previously, the total fixed voice market was stagnant. After the ZON Fixed Voice service was launched and indeed for the past 6 quarters, the number of total subscribers has actually inverted the negative trend of previous years, with ZON being the only relevant fixed voice operator posting a significant contribution to net market growth.

Progressive growth in mobile

Subscribers of ZON's mobile voice and broadband service increased to 92.3 thousand by the end of 1H10, almost three times more than at the end of 1H09. In terms of mobile broadband, a new tariff structure was introduced whereby subscribers are allowed unlimited traffic and time usage of their mobile broadband card at no additional charge, with full or reduced levels of mobility. The advantage of the new tariff plans is that they reduce the uncertainty associated with monthly bills, thus eliminating barriers to entry for more price sensitive customer segments. In addition, a new entry level tariff of 12.90 euros per month was launched, ideal for moderate usage patterns.

Strong ARPU performance reflecting strategic focus on value of customer base

Blended ARPU continues to record strong growth. In 1H10, ARPU increased by 7% to 35.4 euros, reflecting the value associated with ZON's strategy to upsell new services and Triple Play bundles. In addition, ZON led the market with its announced price increase of between 2-3% across the board which became effective as from 1 May 2010. In ZON's higher revenue generating, multiple-play cable customer base, ARPU grew by 7.5% to 38.8 euros in 2Q10, compared with an increase of 0.8% in its DTH customer base.

Upgrade of network to Eurodocis 3.0 practically complete, cell splitting and backhaul roll-out underway

ZON's Eurodocsis 3.0 upgrade is practically complete, thus enabling delivery of very high broadband speeds of up to 200 Mbps to almost the entire cable footprint. In 2Q10, ZON successfully migrated all its systems to a single data centre, located in own infrastructure thus enabling greater systems optimization, flexibility and cost rationalization without interrupting current operations.

ZON is progressing with the rollout of own network infrastructure to relocate hubs onto its own sites. Of a total of around 40 sites spread across Portugal, around 10% have already been successfully moved to own infrastructure and negotiations are underway regarding contracts with key suppliers to enable the relocation of remaining sites over the course of the next two years, while at the same time ZON is discussing the terms of a partial renewal of the current infrastructure contract with the incumbent operator which expires on 31 December 2010. The upfront investment required to develop this project is more than compensated in the medium term with the clear improvement in operational flexibility and the reduction in cash-outflow associated with telecom infrastructure costs, currently contracted from the incumbent operator.

Audiovisuals and Cinemas

1H10 was the best ever semester for ZON's cinema exhibition business. By the end of 1H10, all of ZON's cinema screens had been digitalized and 3D projection technology was present in over 60, an average of more than 2 3D screens per theatre. Given that the number of 3D movies launched is increasing significantly, ZON is able to exhibit more than one 3D movie at a time in the same cinema theatre, putting it at a significant advantage to its main competitors.

In 1H10, 26% of tickets sold by ZON were for 3D movies. The total market grew by 7.3% 1H10 compared with 1H09, representing an additional 532,450 tickets. ZON was responsible for 95% of this growth, 508,216 tickets, with the rest of the market remaining flat and main competitors losing market share. Overall, the number of cinema tickets sold at ZON in 1H10 was 13.8% higher than in 1H09, reaching almost 4.2 million, and representing an increase in market share of 3.1 pp to 53.7% from 50,6% in 1H09.

1Q10 was marked by some very successful movies in terms of box-office sales, namely “Avatar”, “Alice in Wonderland”, “It’s Complicated” and “Up in the Air”, however sales fell-off slightly in 2Q10 due to comparatively lower number of blockbuster movies. ZON’s y.o.y. increase was greater than that of the total market due to its significant head-start in terms of technological innovation, thus enabling it to show content that others players don’t have the capacity to show. As a result, ZON continues to gain market share in attendances and revenues, without the need for investment in new sites.

On the Audiovisuals front, 1H10 was also very positive for revenues and share evolution as ZON was responsible for distributing many of the blockbuster movies that premiered in the period. Of the films distributed in 1H10, only 10 exceeded the 200 thousand spectator threshold and of these, 8 were distributed by ZON. Some of the main box office hits distributed by ZON in 1Q10 were “Alice in Wonderland”, “The Princess and the Frog”, “How to Train your Dragon”, “It’s Complicated” and “Shutter Island”. 2Q10 was marked by the launch of movies such as “Law Abiding Citizen”, “Iron Man 2”, “Robin Hood”, “Prince of Persia: Sands of Time” and “Eclipse, the Twilight Saga”. The new movie for the Twilight Saga, launched on 30 June, was the best opening day ever for an independent movie in Portugal, with over 50 thousand spectators.

As regards own channels, a strong performance was recorded in terms of audience in 1H10 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 a share of 5.4% out of the total at the end of 1H10, compared with 4.7% in 1H09. As regards the children’s channels, Panda and Panda Biggs, they are clear market leaders in their segment with a 61.7% share of total children’s channel audience in 1H10, which in turn represents 13.7% of total cable audience.

3. CONSOLIDATED INCOME STATEMENT

Table 3.

Profit and Loss Statement (Millions of Euros)	2Q09	2Q10	2Q10 / 2Q09	1H09	1H10	1H10 / 1H09
Operating Revenues	197.4	**216.2**	9.5%	394.8	**429.7**	8.8%
Pay TV, Broadband and Voice	179.2	**197.6**	10.2%	356.9	**390.2**	9.3%
Audiovisuals	13.1	**19.0**	44.6%	27.4	**34.5**	25.9%
Cinema	11.8	**12.1**	2.3%	24.4	**27.8**	13.6%
Others and Eliminations	(6.8)	**(12.4)**	83.2%	(14.0)	**(22.8)**	63.4%
Operating Costs Excluding D&A	131.6	**140.0**	6.4%	266.4	**280.1**	5.2%
W&S	12.9	**14.5**	12.5%	27.5	**28.8**	5.0%
Direct Costs	52.7	**62.3**	18.1%	106.4	**123.8**	16.4%
Commercial Costs (1)	20.4	**17.9**	(12.4%)	39.1	**34.6**	(11.4%)
Other Operating Costs	45.6	**45.3**	(0.6%)	93.4	**92.9**	(0.6%)
EBITDA (2)	65.8	**76.2**	15.9%	128.4	**149.5**	16.5%
EBITDA Margin	33.3%	**35.3%**	1.9pp	32.5%	**34.8%**	2.3pp
Depreciation and Amortization	39.8	**52.1**	30.9%	85.8	**105.2**	22.6%
Income From Operations (3)	25.9	**24.1**	(7.2%)	42.6	**44.3**	4.1%
Other Expenses / (Income)	0.9	**0.4**	(52.2%)	(0.8)	**0.4**	(154.0%)
Operating Profit (EBIT) (4)	25.0	**23.6**	(5.5%)	43.4	**43.9**	1.1%
Financial Expenses (Income)	8.7	**8.0**	(7.5%)	(0.0)	**16.2**	n.a.
Income Before Income Taxes	16.4	**15.6**	(4.5%)	43.4	**27.7**	(36.1%)
Income Taxes	(6.2)	**(1.5)**	(75.6%)	(13.3)	**(3.9)**	(70.4%)
Income From Continued Operations	10.2	**14.1**	39.0%	30.2	**23.8**	(21.0%)
o.w. Attributable to Minority Shareholders	(0.5)	**(0.5)**	(10.3%)	(1.1)	**(0.9)**	(17.3%)
Net Income	9.6	**13.6**	41.7%	29.1	**22.9**	(21.2%)
Adjusted Net Income	9.6	**13.6**	41.7%	16.8	**22.9**	36.2%

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 1H09 resulted in a reduction in revenues of 5.8 million euros, in costs of 3.4 million euros and in EBITDA of 2.4 million euros, and an increase of 2.4 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 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 1H09 resulted in a reduction in revenues of 5.8 million euros, in costs of 3.4 million euros and in EBITDA of 2.4 million euros, and an increase of 2.4 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 8.8% y.o.y. increase in 1H10, to 429.7 million euros, with progressive acceleration in revenue growth quarter on quarter. Whereas in 1Q10, Operating Revenues grew by 8.2% yoy, growth in 2Q10 accelerated to 9.5% y.o.y.. The increase in revenues was led by a 9.3% increase in core Pay TV, Broadband and Voice revenues to 390.2 million euros in 1H10, resulting from a 15.9pp increase in Triple Play penetration, a 13.6% increase in RGUs and a 6.9% increase in Blended ARPU.

The Audiovisuals and Cinema businesses also posted significant improvement in 1H10, increasing y.o.y. 25.9% to 34.5 million euros and 13.6% to 27.8 million euros respectively. ZON's strong performance in these areas was driven by its important share of cinema exhibition and movie distribution, in particular stimulated by consumer enthusiasm for 3D content. The revenues from the Audiovisuals division are also positively impacted by the consolidation, in 2Q10, of the revenues from the new Dreamia joint-venture (50 / 50).

3.2 EBITDA

EBITDA increased 16.5% on a comparable basis in 1H10 to 149.5 million euros, generating a 34.8% margin as a percentage of revenues, compared with 32.5% in 1H09 and also recording very positive quarterly trends. In 1Q10, EBITDA posted y.o.y. growth of 17% and of 15.9% in 2Q10.

This continued improvement in profitability is the result of a company wide effort to be more efficient and optimize the overall cost structure. Some measures were discussed previously in the operating review, in particular the effort to promote a more efficient sales channel mix.

3.3 Consolidated Operating Costs

Wages and Salaries increased by 5% y.o.y. in 1H10 to 28.8 million euros, albeit keeping a relatively stable quarterly trend.

Direct Costs increased 16.4% in 1H10 to 123.8 million euros, due to the combination of higher fixed and particularly mobile traffic driving increased interconnection charges and telecom capacity requirements. In addition, programming costs increased due to the introduction of new channels such as TVI24 and some of the new HD channels. Direct costs are also impacted by the increased operating activity in the cinema and audiovisuals area of the business which dictated a higher level of royalty charges payable to producers in 1H10 compared with the previous year.

Commercial Costs fell by 11.4% in 1H10 to 34.6 million euros. The most significant contribution to the decline in commercial costs was the lower level of sales commissions recorded, due namely to the focus on rationalizing sales distribution channels, thus reducing the weight of more expensive and typically more volatile door-to-door sales channels.

Other Operating Costs were relatively flat y.o.y. posting a 0.6% decline to 92.9 million euros, a clear sign of cost discipline in general and administrative areas.

3.4 Net Income

Net Income was 22.9 million euros in 1H10. Quarterly Net Income performance was very positive, posting acceleration from y.o.y growth in 1Q10 of 28.8% (adjusted for the sale in February 2009 of ZON's 40% stake in Lisboa TV) to y.o.y. growth of 41.7% in 2Q10.

Depreciation and Amortization, as witnessed in previous periods, recorded a significant y.o.y. increase. In 1H10, D&A increased 22.6% y.o.y. to 105.2 million euros due to the higher operational investment in customer terminal equipment. On a quarterly basis, D&A remained relatively flat in 2Q10 when compared with 1Q10.

Net Financial Expenses in 1H10 amounted to 16.2 million euros, compared with zero net financial results in 1H09. These two periods are not directly comparable due to the capital gain recorded in 1Q09 from the sale of ZON's stake in Lisboa TV, which generated a pre-tax capital gain of 16.9 million euros. Net interest charges fell by 21% y.o.y. to 11.6 million euros due to a reduction in the average level of gross debt over the period and to the generally lower interest rate environment. It is also worth highlighting that the equity consolidation of the Net Income from our participation in an Angolan operation is negatively impacting this cost line by approximately 2.3 million euros in 1H10.

Income Taxes amounted to 3.9 million euros in 1H10, down significantly from the 13.3 million euros recorded in 1H09 which was impacted by the pre-tax capital gain of 16.9 million euros due to the sale of ZON's 40% stake in Lisboa TV as mentioned above. Income tax charge on the P&L was positively affected by the impact of the increase in corporate tax rate on deferred taxes and by a tax benefit for research and development and Next Generation Networks.

4. CAPEX AND CASH FLOW

4.1 CAPEX

Table 4.

CAPEX (Millions of Euros)	2Q09	2Q10	2Q10 / 2Q09	1H09	1H10	1H10 / 1H09
Pay TV, Broadband and Voice Infrastructure	23.0	**21.1**	(8.4%)	40.7	**41.4**	1.7%
Terminal Equipment	20.9	**16.8**	(19.8%)	44.2	**44.7**	1.1%
Other	0.9	**3.6**	282.8%	4.8	**5.4**	12.9%
"Baseline" CAPEX	44.9	**41.5**	(7.6%)	89.7	**91.5**	2.0%
Long Term Contracts	0.0	**1.0**	n.a.	0.6	**2.1**	219.5%
Other Non-Recurrent Items	0.0	**13.8**	n.a.	0.3	**16.6**	n.a.
Total CAPEX	44.9	**56.3**	25.4%	90.6	**110.2**	21.6%

Total CAPEX in 1H10 was 110.2 million euros, representing a 21.6% increase in comparison with 1H09. Baseline CAPEX was relatively flat in 1H10 when compared with the previous year and was in fact 7.6% lower y.o.y. in 2Q10, and 17.2% lower than in 1Q10. The more contained levels of baseline CAPEX are primarily a result of efforts to reduce the cost of terminal equipment installed, which is capitalized and then depreciated over their average lifetime, and also of a higher level of refurbishment of equipment injected back into the logistic chain.

Higher levels of Other Non-recurrent CAPEX of 16.6 million euros in 1H10, compared with 0.3 million euros in 1H09, was the result primarily of a one-off investment in the new ZON data centre which became operational in 2Q10 and investment made to relocate hubs onto own sites, a project that will extend throughout 2010 and into 2011, and will partially replace the current infrastructure contract with the incumbent that will expire in December 2010.

Table 5.

Cash Flow (Millions of Euros)	2Q09	2Q10	2Q10 / 2Q09	1H09	1H10	1H10 / 1H09
EBITDA minus CAPEX	21.6	**19.9**	(7.9%)	40.2	**39.4**	(2.0%)
Adjustment made to EBITDA	0.8	**0.0**	(100.0%)	2.4	**0.0**	(100.0%)
Non-Cash Items Included in EBITDA minus CAPEX(1)	4.0	**1.1**	(73.5%)	7.5	**5.6**	(26.3%)
Change in Working Capital	(70.4)	**(1.5)**	(97.9%)	(52.2)	**(24.1)**	(53.8%)
Operating Cash-Flow	(44.7)	**19.5**	(143.7%)	(4.5)	**20.8**	n.a.
Net Interest Paid	(14.3)	**(10.4)**	(27.2%)	(14.8)	**(12.8)**	(13.7%)
Income Taxes Paid	(1.3)	**(2.9)**	116.5%	(2.2)	**(3.2)**	46.6%
Long Term Contracts	(10.0)	**(14.2)**	41.5%	(24.8)	**(54.0)**	117.5%
Sale / (Acquisition) of Own Shares	0.0	**0.0**	n.a.	0.0	**72.7**	n.a.
Dividends	(47.7)	**(49.8)**	4.4%	(45.5)	**(49.9)**	9.6%
Disposals	0.0	**(0.0)**	n.a.	6.7	**6.7**	(0.0%)
Other Cash Movements	4.2	**(0.7)**	(116.6%)	(1.2)	**(0.3)**	(76.2%)
Free Cash-Flow	(113.9)	**(58.5)**	(48.6%)	(86.2)	**(19.9)**	(77.0%)

(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 operatorsto 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 1H09 resulted in a reduction in revenues of 5.8 million euros, in costs of 3.4 million euros and in EBITDA of 2.4 million euros, and an increase of 2.4 million euros in Other Expenses / (Income), thus not affecting Net Income.

4.2 Operating Cash Flow

Operating Cash Flow posted a strong improvement in 1H10 to 20.8 million euros, which compares with negative Operating Cash Flow of 4.5 million euros in 1H09, an improvement explained by the higher levels of EBITDA-CAPEX and by a marked improvement in working capital levels, which posted a marked q.o.q. improvement from a negative contribution of 22.6 million euros in 1Q10 to negative 1.5 million euros in 2Q10. The turnaround in performance between quarters was mostly due to the anticipated reversal of a non-recurrent increase in VAT of approximately 17 million euros which had impacted working capital in 1Q10.

4.3 Free Cash Flow

Free Cash Flow generation improved by 77% in 1H10 to negative 19.9 million euros, compared with negative 86.2 million euros in 1H09, on the back of improved Operating Cash Flow performance as explained above, lower interest payments and a cash intake of 72.7 million euros related with the sale of own shares to Kento in 1Q10. Items contributing negatively to cash flow generation were an increase in payments for long terms contracts to 54 million euros, 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, in addition to a 9.6% increase in dividend payments to 49.9 million euros.

5. CONSOLIDATED BALANCE SHEET

Table 6.

Balance Sheet (Millions of Euros)	2009	1H10
Current Assets	436.4	**357.4**
Cash and Equivalents	177.0	**127.2**
Accounts Receivable, Net	185.0	**170.4**
Inventories, Net	39.9	**34.8**
Taxes Receivable	21.6	**4.9**
Prepaid Expenses and Other Current Assets	13.0	**20.0**
Non-current Assets	1,042.8	**1,074.6**
Investments in Group Companies	1.3	**1.0**
Intangible Assets, Net	353.8	**318.1**
Fixed Assets, Net	554.6	**592.9**
Deferred Taxes	47.9	**50.9**
Other Non-current Assets	85.3	**111.7**
Total Assets	1,479.2	**1,432.0**
Current Liabilities	544.5	**346.2**
Short Term Debt	246.5	**73.1**
Accounts Payable	175.9	**169.5**
Accrued Expenses	74.7	**74.7**
Deferred Income	3.7	**5.0**
Taxes Payable	29.8	**13.4**
Current Provisions and Other Liabilities	13.9	**10.6**
Non-current Liabilities	745.0	**850.0**
Medium and Long Term Debt	722.7	**821.5**
Non-current Provisions and Other Liabilities	22.3	**28.5**
Total Liabilities	1,289.5	**1,196.2**
Equity Before Minority Interests	180.4	**226.3**
Share Capital	3.1	**3.1**
Own Shares	(87.2)	**0.1**
Reserves, Retained Earnings and Other	220.5	**200.2**
Net Income	44.0	**22.9**
Minority Interests	9.2	**9.4**
Total Shareholders' Equity	189.7	**235.7**
Total Liabilities and Shareholders' Equity	1,479.2	**1,432.0**

5.1 Capital Structure

At the end of June 2010, **Net Financial Debt** stood at 635.7 million euros, representing a 3.2% increase in comparison with the end of 2009, as a result of the negative Free Cash Flow explained above.

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 515.8 million euros (approximately 81.1% 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 2.39 years with an all-in average cost of around 3.46%.

Net Financial Gearing reduced to 72.9% compared with 76.5% at the end of 2009, and **Net Financial Debt / EBITDA** (last 4 quarters) stands at 2.2x, well below the average of ZON's peer group. Total Net Debt of 763.6 million euros also includes commitments with Long Term contracts 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	1H10	1H10 / 2009
Short Term	218.2	**49.0**	(77.6%)
Bank and Other Loans	212.8	**44.8**	(79.0%)
Financial Leases	5.4	**4.2**	(22.0%)
Medium and Long Term	609.2	**714.6**	17.3%
Bank Loans	596.5	**701.2**	17.5%
Financial Leases	12.7	**13.4**	5.7%
Total Debt	827.5	**763.6**	(7.7%)
Cash, Short Term Investments and Intercompany Loans	211.6	**127.9**	(39.6%)
Net Financial Debt	615.8	**635.7**	3.2%
Net Financial Gearing (1)	76.5%	**72.9%**	(3.5pp)
Net Financial Debt / EBITDA	2.3x	**2.2x**	n.a.

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

6. INTERNATIONAL GROWTH – ANGOLA

ZON's Pay TV joint venture in Angola, "ZAP", was launched at the end of 1Q10, albeit still with a relatively light distribution network and market presence. Work is currently focused on increasing ZAP's commercial presence in Angola with efforts being placed on expanding the distribution platform and deployment of own stores.

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 ZON Sagres), and other key Portuguese sports competitions. With the exclusive launch of this key content, ZAP will effectively launch the communication and marketing efforts together with the launch of channels from household names like, Sony / AXN, FOX, Panda, Hollywood, SIC Notícias, TVI Internacional, Económico TV and ZAP Novelas (a soap opera channel produced by ZON).

7. APPENDIX

7.I APPENDIX I

Table 8.

Business Indicators ('000)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Pay TV, Broadband and Voice						
Homes Passed	3,057.8	3,074.7	3,082.8	3,116.8	3,144.0	**3,170.0**
Basic Subscribers (1)	1,595.4	1,591.4	1,594.7	1,594.8	1,588.4	**1,576.9**
of which						
Digital "Funtastic"	539.6	574.9	613.1	648.1	682.0	**682.3**
Premium Pay TV	835.3	908.3	914.8	901.5	898.8	**859.2**
Fixed Broadband	546.1	572.6	594.4	610.7	635.4	**650.1**
Fixed Voice	419.4	478.6	529.2	584.1	646.1	**692.0**
Mobile (2)(3)	16.0	33.4	53.9	68.9	80.5	**92.3**
Cable Subscribers	1,175.9	1,179.0	1,181.5	1,180.4	1,176.4	**1,166.3**
Triple Play Customers	339.8	391.0	435.9	484.4	536.7	**571.9**
% Triple Play Cable Customers	28.9%	33.2%	36.9%	41.0%	45.6%	**49.0%**
Double Play Customers	283.1	267.8	250.6	223.2	200.9	**186.3**
% Double Play Cable Customers	24.1%	22.7%	21.2%	18.9%	17.1%	**16.0%**
Single Play Customers	552.7	520.2	495.0	472.8	438.8	**408.1**
% Single Play Cable Customers	47.0%	44.1%	41.9%	40.1%	37.3%	**35.0%**
DTH Subscribers	419.4	412.4	413.2	414.4	412.1	**410.6**
RGUs (4)	3,116.4	3,250.8	3,385.3	3,506.5	3,632.5	**3,693.7**
RGUs per Subscriber (units)	1.94	2.02	2.10	2.17	2.26	**2.31**
Blended ARPU (Euros)	32.7	33.6	34.0	35.0	35.2	**35.6**
Net Additions						
Triple Play Customers	64.5	51.1	44.9	48.5	52.3	**35.2**
Basic Subscribers	(18.2)	(3.9)	3.3	0.1	(6.4)	**(11.6)**
Digital "Funtastic"	43.7	35.3	38.2	35.0	34.0	**0.3**
Premium Pay TV	(1.9)	73.0	6.5	(13.3)	(2.7)	**(39.6)**
Fixed Broadband	27.0	26.5	21.9	16.3	24.7	**14.7**
Fixed Voice	72.8	59.2	50.6	54.9	62.0	**45.9**
Mobile	8.8	17.4	20.5	15.0	11.7	**11.8**
RGUs	134.2	134.4	134.5	121.3	126.0	**61.2**
Cinema Exhibition						
Revenue per Ticket (Euros)	4.3	4.4	4.6	4.5	4.6	**4.6**
Tickets Sold	1,950.1	1,729.6	2,228.6	2,300.1	2,471.6	**1,716.6**
Screens (units)	213	217	213	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) and with a variable number of channels.

(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 and Mobile customers.

7.II APPENDIX II

Table 9.

Profit and Loss Statement (Millions of Euros)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Operating Revenues	197.4	197.4	203.1	215.4	213.5	**216.2**
Pay TV, Broadband and Voice	177.7	179.2	181.6	191.1	192.7	**197.6**
Audiovisuals	14.3	13.1	16.1	18.5	15.5	**19.0**
Cinema	12.6	11.8	14.9	15.1	15.7	**12.1**
Others and Eliminations	(7.2)	(6.8)	(9.5)	(9.2)	(10.4)	**(12.4)**
Operating Costs Excluding D&A	134.8	131.6	133.8	150.5	140.2	**140.0**
W&S	14.6	12.9	14.8	16.0	14.3	**14.5**
Direct Costs	53.7	52.7	57.1	64.0	61.6	**62.3**
Commercial Costs (1)	18.7	20.4	19.3	22.2	16.7	**17.9**
Other Operating Costs	47.8	45.6	42.7	48.3	47.5	**45.3**
EBITDA (2)	62.6	65.8	69.3	64.9	73.3	**76.2**
EBITDA Margin	31.7%	33.3%	34.1%	30.1%	34.3%	**35.3%**
Depreciation and Amortization	46.0	39.8	49.6	53.2	53.1	**52.1**
Income From Operations (3)	16.7	25.9	19.7	11.7	20.3	**24.1**
Other Expenses / (Income)	(1.7)	0.9	(0.9)	(1.0)	0.0	**0.4**
Operating Profit (EBIT) (4)	18.4	25.0	20.7	12.7	20.2	**23.6**
Financial Expenses (Income)	(8.7)	8.7	7.1	7.8	8.1	**8.0**
Income Before Income Taxes	27.1	16.4	13.5	4.9	12.1	**15.6**
Income Taxes	(7.0)	(6.2)	(1.2)	(1.7)	(2.4)	**(1.5)**
Income From Continued Operations	20.0	10.2	12.3	3.2	9.7	**14.1**
o.w. Attributable to Minority Shareholders	(0.5)	(0.5)	(0.4)	(0.1)	(0.4)	**(0.5)**
Net Income	19.5	9.6	11.9	3.1	9.3	**13.6**
Baseline CAPEX	44.8	44.9	52.7	63.4	50.1	**41.5**
Total CAPEX	45.7	44.9	53.4	69.6	53.9	**56.3**
Free Cash Flow	27.6	(113.9)	16.9	6.0	38.6	**(58.5)**
Net Financial Debt	524.9	638.8	621.8	615.8	577.2	**635.7**

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

(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 .

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