ZON MULTIMÉDIA

SERVIÇOS DE TELECOMUNICAÇÕES E MULTIMÉDIA SGPS, SA

First Nine Months 2010 Earnings Announcement

ZON MULTIMEDIA

22 OCTOBER 2010

1.HIGHLIGHTS of 9M10

Table 1.

Highlights of 9M10 Results	9M09	9M10	9M09 / 9M10
Operational ('000)			
Triple Play Customers	435.9	**603.5**	38.4%
Triple Play Penetration (%)	36.9%	**51.9%**	15.0pp
RGUs (1)	2,772.2	**3,076.5**	11.0%
Blended ARPU (Euros)	33.4	**35.6**	6.4%
Financial (Millions of Euros)			
Operating Revenues (2)	597.9	**651.3**	8.9%
EBITDA (2)	197.7	**229.1**	15.9%
EBITDA Margin (2)	33.1%	**35.2%**	2.1pp
Adjusted Net Income (3)	28.7	**31.6**	10.0%

(1) As from this quarter, total RGUs have been restated to present a comparable aggregate with its cable peer group. As such, total RGUs reported reflect the sum of Pay TV, Broadband, Fixed Voice and Mobile subscribers.

(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 9M09 resulted in a reduction in revenues of 7.7 million euros, in costs of 4.4 million euros and in EBITDA of 3.3 million euros, and an increase of 3.3 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.

ONE OF THE HIGHEST LEVELS OF TURNOVER AND EBITDA GROWTH OF THE SECTOR

- Operating Revenue growth of 8.9% y.o.y. to 651.3 million euros
- EBITDA growth of 15.9% to 229.1 million euros, generating a margin of 35.2% of Revenues, up 2.1 p.p. y.o.y.
- Adjusted Net Income growth of 10% to 31.6 million euros

CONTINUING ROBUST OPERATING PERFORMANCE

- RGU growth of 11% y.o.y.
- 51.9% of the cable base now subscribe to Triple Play bundles, 15.2% to Double Play bundles
- Focus on up selling and value of customer base, resulting in ARPU growth of 6.4% to 35.6 euros
- Continued resilience of Basic subscriber base

STRONG NETWORK CAPEX PROGRAMME REACHING A PEAK IN 2010

- Level of Recurrent CAPEX posting sequential quarter on quarter declines with already high penetration of HD set-top boxes and completion of Eurodocsis 3.0 upgrade;
- Non-Recurrent network investment, “ZON-IN”, to be completed almost entirely in 2010

POSITIVE FCF MOMENTUM ON THE BACK OF NEAR TERM COMPLETION OF ACCELERATED INVESTMENT PROGRAMME

2. OPERATING REVIEW 9M10

Table 2.

Business Indicators ('000)	3Q09	3Q10	3Q10 / 3Q09	9M09	9M10	9M10 / 9M09
Triple Play						
Homes Passed	3,082.8	**3,166.5**	2.7%	3,082.8	**3,166.5**	2.7%
RGUs [(1)]	2,772.2	**3,075.6**	10.9%	2,772.2	**3,075.6**	10.9%
Cable RGUs per Subscriber (units) [(2)]	1.95	**2.19**	12.3%	1.95	**2.19**	12.3%
Basic Subscribers [(3)]	1,594.7	**1,573.1**	(1.4%)	1,594.7	**1,573.1**	(1.4%)
o.w. Cable Subscribers	1,181.5	**1,162.7**	(1.6%)	1,181.5	**1,162.7**	(1.6%)
Triple Play Customers	435.9	**603.5**	38.4%	435.9	**603.5**	38.4%
% Triple Play Cable Customers	36.9%	**51.9%**	15.0pp	36.9%	**51.9%**	15.0pp
o.w. DTH Subscribers	413.2	**410.4**	(0.7%)	413.2	**410.4**	(0.7%)
Broadband Subscribers	594.4	**666.4**	12.1%	594.4	**666.4**	12.1%
Fixed Voice Subscribers	529.2	**732.3**	38.4%	529.2	**732.3**	38.4%
Mobile Subscribers	53.9	**104.7**	94.2%	53.9	**104.7**	94.2%
Blended ARPU (Euros)	34.0	**35.8**	5.4%	33.4	**35.6**	6.4%
Cinema Exhibition						
Revenue per Ticket (Euros)	4.6	**4.8**	5.2%	4.4	**4.7**	6.1%
Tickets Sold	2,228.6	**2,670.0**	19.8%	5,908.3	**6,858.2**	16.1%
Screens (units)	213	**213**	0.0%	213	**213**	0.0%

(1) As from this quarter, total RGUs have been restated to present a comparable aggregate with its cable peer group. As such, total RGUs reported reflect the sum of Pay TV, Broadband, Fixed Voice and Mobile subscribers.

(2) Cable RGUs per Subscriber correspond to the sum of Cable Pay TV, Broadband and Voice Subscribers, divided by the number of Cable Pay TV Customers.

(3) 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.

More than half of ZON's cable customers take Triple Play bundles – 51.9%

Triple Play penetration continues to grow quarter on quarter, reaching 51.9% at the end of 9M10 – 603.5 thousand customers - and representing growth of 2.9 p.p. in the quarter. ZON is one of the leading Triple Play providers across the European cable landscape and clearly the operator that is posting the strongest pace of growth in bundled services. At the end of 9M10, total RGUs amounted to 3.077 million representing growth of 11% compared with 9M09 and an additional 2.2% in 3Q10. As such, RGUs per cable subscriber increased to 2.19, from 1.95 in 9M09.

Cable Customer Breakdown by Profile (%)

The market environment remains competitive and, over recent months, promotional activity has picked up with a number of campaigns targeting acquisition of new customers until the end of the year. Despite the competitive environment, namely promotional activity from the #2 player in the market, ZON has managed to defend its basic subscriber base through continued product and marketing innovation and technological leadership in core services.

Triple Play penetration driving strong ARPU performance

The growth in the average number of services taken by each subscriber is proving a solid driver of revenue growth reflected in the quarter on quarter increase in ARPU. In 3Q10, ARPU reached 35.8 euros, up 5.4% from 3Q09 and up 0.5% in comparison with the previous quarter.

Protection of the Pay TV leadership accompanied by strong growth in digital services

ZON continues to sustain its effective leadership in Pay TV with a customer base of 1.573 million subscribers, posting a marginal decline of 3.8 thousand in comparison with the previous quarter, thus proving its resilience to both the competition in 3Q10 and to the challenging macroeconomic situation.

The best HD content in the market

HD remains at the heart of ZON's content strategy – in 3Q10, ZON further reinforced its unchallenged leadership in HD content with the launch of two more HD channels, "Fashion TV HD" and "Sport TV Liga Inglesa HD" (English Premier League), bringing the total number of HD channels up to 17, significantly ahead of other offers in the market.

Strong growth in digital service penetration

Digitalization of the Pay TV customer base has been an area of particular focus for management as it enables ZON to provide a more interesting and interactive TV viewing experience, translating into higher levels of customer satisfaction. By the end of 9M10, the proportion of the subscriber base that was receiving digital services was 80.9%, representing an increase of 13.4pp from 9M09. The pace of deployment of additional HD set top boxes, "ZON Boxes", is declining quarter on quarter, due to the fact that penetration is already quite high therefore growth is inevitably slowing down. The number of HD digital set top boxes installed increased by 72.8 thousand, in 3Q10, compared with 125.1 thousand ZON

Boxes in 3Q09 and with 79.9 thousand boxes in 2Q10. The total number of ZON Boxes already installed was 815.6 thousand at the end of 3Q10, 70% of the digital subscriber base, albeit a small proportion of these customers had more than one box installed. Of the total ZON Boxes installed as of 9M10, more than half were non PVR devices.

The largest NGN operator in Portugal – 60% market share

At the end of 3Q10, 666.4 thousand customers were subscribing to broadband services from ZON taking penetration of the cable base up to 57.3%. Due to ZON's superior network coverage with NGN capabilities, take-up of ultra broadband speeds by ZON customers is the highest of the market, with 113 thousand subscribing to "ZON Fibra" offers by the end of 3Q10, already more than 16% of ZON's total Broadband subscriber base. According to the most up to date information from the regulator for the 1H10, ZON has an implied nationwide share of NGN Internet connections of around 60%, more than all other operators put together.
ZON recently announced that it had reached over 200 thousand hotspots in Portugal through its ZON@FON WiFi service, making Portugal one of the countries with the best free WiFi coverage in Europe and providing ZON customers with access to the largest WiFi community in the world with over 2 million hotspots through FON partners. This network is created by a huge WiFi community supported by own users. The network in Portugal is exclusive to ZON Internet customers that have compatible equipment, namely the "ZON Hub" router and as a result, increases the value proposition of ZON's Internet service.

A study published by ANACOM in November brought additional recognition of ZON's leadership status in Broadband technology. The study identifies ZON as the leading Broadband operator in Portugal in terms of real Internet speeds. According to the independent study conducted by ANACOM in partnership with Qmetrics and Ericsson, to determine the "Quality of Internet speeds" in Portugal, ZON is the operator that delivers the closest to maximum rated speeds – 80.6% of the maximum download speed and 84% of the maximum upload speed, by far the best result amongst all other operators.

Continued growth in Fixed Voice

ZON's Fixed Voice customer base continues to post impressive growth, with an additional 40.3 thousand customers in 3Q10, taking the total number of voice customers to 732.3 thousand and representing penetration of the cable base of 63.0%. ZON has been the only Fixed Voice operator to be posting relevant growth in the Portuguese market – during the first half of the year the total market grew by 116 thousand customers, of which 108 thousand were ZON customers. ZON is the second largest Fixed Voice player in the Portuguese Market since 4Q09.

Mobile showing robust trends

ZON's mobile operation is showing positive results with almost 105 thousand customers at the end of 3Q10, nearly double the number of subscribers at the end of 3Q09 with the greatest growth coming from mobile broadband. Our mobile service appeals to customers due to a very attractive offer if already a ZON Triple Play customer, however they are viewed as a mobility complement.

Best Results ever in Customer Service and Distribution Channels

Over the past 3 years, ZON has dedicated significant time, effort and resources to improve the global levels of customer service and satisfaction. We are now reaping the rewards of this investment, on many fronts. Important independent recognition of the improving standards of customer service was achieved in September with ANACOM's publication of a report on the level of complaints recorded per operator and in which ZON stands out as having one of the best global performances of the sector and far ahead of its largest competitor in terms of Pay TV and Broadband, and at a par in terms of Fixed Voice complaints. DECO (the Portuguese Consumer Association) also recently announced that ZON was the operator with the least number of complaints recorded, relative to the size of the customer base, and when compared with its direct competitors.

In July, ZON announced that it been certified by the APCC (The Portuguese Call Centre Association), an association which monitors that the highest standards of execution and operational control are being employed in call centres. ZON's certification was achieved at all levels of its call centre activity – inbound, outbound and after-sales calls.

ZON is also making material progress in optimizing its distribution channels. The number of own shops has now stabilized at 45 and now represents a significantly higher proportion of the sales mix, as is the case of the "service to sales" channel, whereby, when a problem placed by a customer to the ZON support line is successfully resolved, the operator then takes the opportunity to promote other ZON services. In contrast, more expensive channels, such as door-to-door sales, are beginning to represent a lower proportion of sales and as this sales force is almost entirely outsourced, albeit under ZON's direct supervision and management, it can therefore be scaled back to adjust the cost structure.

Importantly, this transformation in sales mix, together with the greater efficiency and lower level of complaints are translating into important and sustainable declines in operating costs.

Major CAPEX projects to peak in 2010 – migration of primary network almost complete and network GPON ready.

ZON has been making significant investments over the past two years to position its network at the forefront of next generation technology. The investment to upgrade the entire network with Eurodocsis 3.0 is now complete and 2.8 million homes are already able to receive broadband speeds of up to 200 Mbps, and technical pilots of 400 Mbps are already being rolled out.

Another important driver of network upgrade has been the investment in cell splitting, a process whereby the capacity available in each cell is multiplied by taking fibre connections closer to the end customer, thus reducing the number of households connected in each cell. The choice to split a cell is taken depending on the level of broadband traffic and penetration of next generation services in a particular cell, and is therefore only done if there are a sufficiently relevant number of high traffic users generating higher levels of ARPU. This success-driven approach to network investment is an important advantage of ZON's HFC network infrastructure in comparison with other technologies which typically have to make very heavy upfront investments and then wait for customers to subscribe to their services.

Finally, ZON's network investments over the past year have been impacted by a number of non-recurrent projects, namely investment in an own data centre (until now leased from the incumbent operator), which took place mostly in 1Q10 and 2Q10, and "ZON-IN", a project to ensure network independence from the incumbent operator through migration of hubs onto own insfrastucture, and roll-out of fibre in the primary network. The time to completion of this project accelerated significantly during 2Q10 and 3Q10 and, as such, by the end of the year, the majority of the project will have been completed. Over 1.8 thousand kms of fibre cable have been deployed with this project, with an average of 96 fibres per cable, and therefore almost 175 thousand kms of optic fibre. Whilst deploying this extensive and capillary optic network, additional capacity was deployed at a very low marginal cost which will also enable ZON to become a reseller of connectivity for the business and wholesale markets. The upfront investment required to develop this project will be more than recovered in the next 3-4 years with the improvement in operational flexibility and the reduction in yearly payments related with telecom infrastructure costs, currently contracted from the incumbent operator, in addition to the revenue upside from reselling connectivity.

In conclusion, by the end of this year, ZON will have almost completed the investment in an upgraded, GPON-ready, and independent infrastructure covering almost 80% of all first households in Portugal and with more than enough capacity and scalability to accommodate the continuing broadband growth requirements of the foreseeable future.

Audiovisuals and Cinemas

ZON's cinema exhibition business continues to post record results, with the number of tickets sold in 3Q10 reaching 2.67 million, an increase of 19.8% compared with 3Q09 and of 56% when compared to the previous quarter.

Total Cinema Revenues grew by 24.5% to 18.5 million euros in 3Q10 led by the afore mentioned growth in tickets sales and by the higher average revenue per ticket sold of 4.8 euros compared with 4.6 in 3Q09.

This record performance is supported by positive growth in the overall market however ZON has grown more than the remaining operators due to its leading position in terms of technological innovation. Almost all of ZON's 213 cinema screens are digitalized and 66 screens have 3D projection systems - at least two 3D screens per multiplexer - putting ZON at a significant advantage to its main competitors given the increasing number of movies being produced in 3D, and spectator enthusiasm for this format. The number of tickets sold for 3D movies in 3Q10 represented 31% of tickets sold overall. This generates an additional revenue uplift given that a 3D movie commands a premium ticket price when compared to a movie in standard digital format – 39% of box-office revenues came from 3D movies in 3Q10.

The most successful movies in 3Q10 were, "Shrek Forever After","Twilight Saga: The Eclipse", "Toy Story 3", "Inception" and "The Expendables".

The Audiovisuals business also posted extremely positive growth in revenues of 24.6% to 20.1 million euros in 3Q10 led by a particularly strong performance of the movie distribution business, which helped to more than compensate a decline in revenues from DVD distribution, a structural trend felt across the market in general. ZON's share of movie distribution has also had a solid performance given that it was responsible for distributing many of the blockbuster movies that premiered in the period. Of the top 10 blockbuster films premiered in 3Q10, ZON Lusomundo distributed 5 of them, and of the top 10 in 9M10, ZON Lusomundo distributed 9. The most successful films distributed in 3Q10 were "Shrek Forever After", "Toy Story 3", "The Last Airbender", "The Sorcerer's Apprentice" and "The Expendables".

At Dreamia, ZON's 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), the first nine months of 2010 have been marked by a strong performance in terms of audience shares. The Dreamia channels have increased their share to 5.3% of the total at the end of 9M10, which compares with 4.9% at the end of 9M09. The children's channels continue to clearly lead their market segment, with 58.3% share of total children's channel audience in 9M10, which in turn represents 13.9% of total cable audience.

3. CONSOLIDATED INCOME STATEMENT

Table 3.

Profit and Loss Statement (Millions of Euros)	3Q09	3Q10	3Q10 / 3Q09	9M09	9M10	9M10 / 9M09
Operating Revenues	203.1	**221.6**	9.1%	597.9	**651.3**	8.9%
Pay TV, Broadband and Voice	181.6	**196.3**	8.1%	538.6	**586.6**	8.9%
Audiovisuals	16.1	**20.1**	24.6%	43.5	**54.6**	25.4%
Cinema	14.9	**18.5**	24.5%	39.3	**46.2**	17.7%
Others and Eliminations	(9.5)	**(13.3)**	40.1%	(23.5)	**(36.1)**	53.9%
Operating Costs Excluding D&A	133.8	**142.1**	6.2%	400.2	**422.2**	5.5%
W&S	14.8	**13.9**	(5.9%)	42.2	**42.7**	1.2%
Direct Costs	57.1	**64.0**	12.2%	163.5	**187.9**	14.9%
Commercial Costs (1)	19.3	**17.8**	(7.4%)	58.3	**52.4**	(10.1%)
Other Operating Costs	42.7	**46.3**	8.5%	136.1	**139.2**	2.3%
EBITDA (2)	69.3	**79.5**	14.7%	197.7	**229.1**	15.9%
EBITDA Margin	34.1%	**35.9%**	1.8pp	33.1%	**35.2%**	2.1pp
Depreciation and Amortization	49.6	**55.4**	11.8%	135.4	**160.6**	18.7%
Income From Operations (3)	19.7	**24.1**	22.1%	62.3	**68.4**	9.8%
Other Expenses / (Income)	(0.9)	**0.6**	n.a.	(1.7)	**1.1**	n.a.
Operating Profit (EBIT) (4)	20.7	**23.5**	13.5%	64.1	**67.4**	5.1%
Financial Expenses (Income)	7.1	**10.4**	45.6%	7.1	**26.6**	n.a.
Income Before Income Taxes	13.5	**13.1**	(3.4%)	56.9	**40.8**	(28.4%)
Income Taxes	(1.2)	**(4.1)**	235.6%	(14.5)	**(8.0)**	(44.9%)
Income From Continued Operations	12.3	**9.0**	(26.9%)	42.5	**32.8**	(22.7%)
o.w. Attributable to Minority Shareholders	(0.4)	**(0.4)**	(15.9%)	(1.5)	**(1.3)**	(16.9%)
Net Income	11.9	**8.6**	(27.3%)	41.0	**31.6**	(22.9%)
Adjusted Net Income (5)	11.9	**8.6**	(27.3%)	28.7	**31.6**	10.0%

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 9M09 resulted in a reduction in revenues of 7.7 million euros, in costs of 4.4 million euros and in EBITDA of 3.3 million euros, and an increase of 3.3 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 9M09 resulted in a reduction in revenues of 7.7 million euros, in costs of 4.4 million euros and in EBITDA of 3.3 million euros, and an increase of 3.3 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.

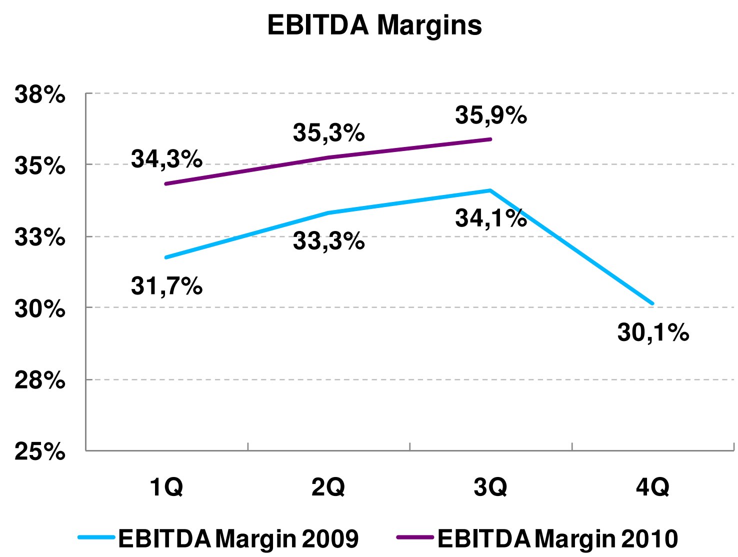
3.1 Operating Revenues

Operating Revenues grew by 9.1% in 3Q10 to 221.6 million euros compared with 3Q09, led by an 8.1% increase in core Pay TV, BB and Voice Revenues to 196.3 million euros, a 24.6% increase in Audiovisuals and a 24.5% increase in Cinema revenues. The increase in Triple Play revenues is the result of continued growth in penetration of multiple service offers with Triple Play penetration reaching 51.9%, compared with 36.9% in 3Q09, an 11% increase in RGUs and a 5.4% increase in ARPU in 3Q10 when compared with 3Q09. The Cinema and Audiovisuals business saw strong improvement in Revenues led by the much higher level of tickets sold, the increasing weight of premium 3D movie tickets and ZON's strong market position in terms of movie distribution and exhibition.

Operating Revenues in 9M10 posted an accumulated increase of 8.9% to 651.3 million euros, comprised of an 8.9% increase in Triple Play revenues, a 25.4% increase in Audiovisuals and a 17.7% increase in Cinema revenues.

3.2 EBITDA

EBITDA increased in 3Q10 by 14.7% on a comparable basis to 79.5 million euros, representing a 35.9% margin as a percentage of revenues, compared with 34.1% in 3Q09. EBITDA margin has been posting very positive quarterly trends, up between 1.8 and 2.6 pp from the same quarters in 2009. ZON has been able to deliver continued improvements in EBITDA margins every quarter due to the strong growth in Revenues discussed above and continued efforts to improve operating efficiency and achieve savings in the global cost structure.



3.3 Consolidated Operating Costs

Wages and Salaries fell by 5.9% in 3Q10 compared with 3Q09, and by 4.3% compared with the previous quarter. However, the decline compared with 2Q10 was mostly due to the accounting of the new employee share plans. For the full 9M10, wages and salaries were 42.7 million euros, representing a slight increase explained by marginal salary increases at lower ends of the salary scale and a reduction in headcount at our cinema business which was possible due to the digitalization process of all our theatres.

Direct Costs increased 12.2% in 3Q10 to 64 million euros, and by 2.9% compared with 2Q10. The cost areas that most contributed to the increase y.o.y. were the slightly higher level of programming costs due to the introduction of a number of new TV channels and, most significantly, to the increased operating activity in the cinema and audiovisuals area of the business which dictated a higher level of royalty charges payable to producers. Direct costs related with interconnection fees also had a relevant contribution to the y.o.y. change as a result of the increasing levels of voice traffic and also charges associated with the MVNO.

Commercial Costs posted a good performance in 3Q10 with a 7.4% reduction to 17.8 million euros. Almost all the cost drivers within this item fell in comparison with 3Q09, however the most relevant contribution was felt in sales commissions related costs. A lot of focus is being placed on optimizing the weight of the different sales channels, namely by increasing the importance of reactive distribution channels such as inbound telemarketing and of sales through own stores and reducing the weight of more expensive door-to-door sales channels. Accumulated commercial costs in 9M10 were 52.4 million euros, down by 10.1% from 9M09, the primary drivers of the reduction being lower commissions paid.

Other Operating Costs posted a y.o.y. increase of 8.5% to 46.3 million euros, and of just 2.3% in comparison with 2Q10. The increase in comparison with 3Q09 is driven mainly by a 1.8 million euro increase in support service costs, which was due to the increased level of activity related with reverse logistics (as a result of the efforts to increase the proportion of equipment that is reinjected into the distribution network), and increased capacity of call-centres. An analysis of recent q.o.q. trends of this cost item shows that it has been relatively stable.

3.4 Net Income

Net Income was 8.6 million euros in 3Q10, compared with 11.9 million euros in 3Q09. In 9M10, Net Income adjusted for the sale in February 2009 of ZON's 40% stake in Lisboa TV, increased by 10% to 31.6 million euros. The decline in 3Q10 is the result primarily of an increase in net financial expenses, as explained below.

Depreciation and Amortization recorded a significant increase in 3Q10 to 55.4 million euros in comparison with 3Q09, as a result of the accelerated roll-out of terminal equipment over the past two years which appears as CAPEX and is now flowing through the P&L as depreciation. Although depreciation of this item remains at high levels (roughly 34% of depreciation in 9M10), additional investment in terminal equipment is now coming down on a quarterly basis.

Net Financial Expenses in 3Q10 amounted to 10.4 million euros, compared with 7.1 million euros in 3Q09. Net Interest charges in the quarter were 6.9 million euros. The increase in Net Financial expenses in 3Q10 was mainly due to the equity consolidation of ZON's stake in its' Angolan operation, "ZAP", still in a start-up phase, which represented a negative contribution of 3.1 million euros in 3Q10 and cumulative impact in 9M10 of 5.4 milllion euros. This negative Net Income impact is to be expected until the business starts to breakeven. Albeit, this does not represent an equivalent cash outflow, as can be seen from the cash flow table (Table 5.). This is a greenfield operation which represented so far an immaterial equity investment.

Income Taxes amounted to 4.1 million euros in 3Q10, representing an important increase when compared to 3Q09 and to the previous quarter. In the previous quarter income tax charges had been positively impacted by the increase in corporate tax rate on deferred taxes and by tax benefits for research and development and Next Generation Networks, and therefore are not comparable. In 3Q10 the effective income tax rate was negatively affected by the impact of the consolidation of the Angolan operation, which is not tax deductible.

4. CAPEX AND CASH FLOW

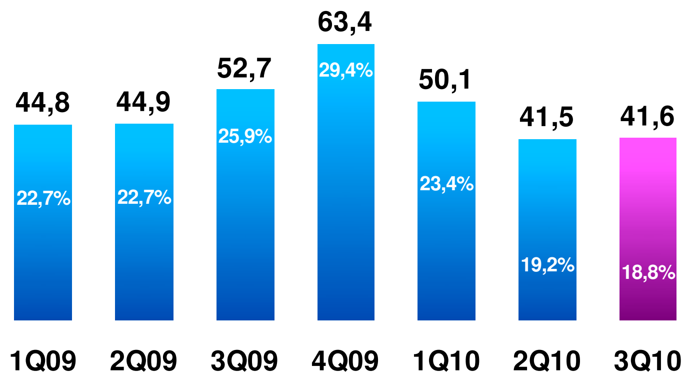
4.1 CAPEX

Table 4.

CAPEX (Millions of Euros)	3Q09	3Q10	3Q10 / 3Q09	9M09	9M10	9M10 / 9M09
Pay TV, Broadband and Voice Infrastructure	25.8	**23.3**	(9.8%)	66.5	**64.7**	(2.7%)
Terminal Equipment	24.5	**14.9**	(39.2%)	68.6	**59.5**	(13.2%)
Other	2.4	**3.5**	42.4%	7.2	**8.9**	22.9%
"Baseline" CAPEX	52.7	**41.6**	(21.0%)	142.4	**133.1**	(6.5%)
Long Term Contracts	0.0	**2.8**	n.a.	0.6	**4.9**	n.a.
Other Non-Recurrent Items	0.7	**15.0**	n.a.	1.0	**31.6**	n.a.
Total CAPEX	53.4	**59.4**	11.2%	144.0	**169.6**	17.7%

Baseline CAPEX in 3Q10 was 41.6 million euros, down 21% in comparison with 3Q09 reflecting a sequential decline quarter on quarter. The main CAPEX item coming down is the level of investment in terminal equipment which was 15 million euros in 3Q10 compared with 24.5 million euros in 3Q09 and 16.8 million euros in 2Q10. The reduction in terminal equipment CAPEX is due to (i) the fact that the level of HD set top penetration is already quite high and (ii) the successful refurbishment and reinjection of terminal equipment into the distribution chain which is translating into very encouraging CAPEX savings. Infrastructure investment in the core Pay TV, BB and Voice business of 64.7 million euros is related with the Eurodocsis 3.0 investments done mostly in the earlier part of the year and to continued cell splitting.

Baseline CAPEX (Millions of Euros)
Baseline CAPEX / Revenues (%)



The higher total CAPEX figure in 9M10 of 169.6 million euros, is the result of significant **Non-Recurrent CAPEX** related with front-ended network investments, namely a new data centre which became operational in 2Q10 and the "ZON-IN" project in which ZON is investing to ensure network independence by deploying own fibre along the primary network and relocating hubs onto own infrastructure. This upfront investment is projected to be close to completion by the end of 2010 and will replace almost entirely the current cash costs associated with the telecom infrastructure contract with the incumbent operator which is scheduled to expire in December 2010. The total investment in “ZON-IN” will be approximately 40-45 million euros and will create significant annual savings on the long term telecom contract lease payments. Pay back on the project is expected in 3-4 years. The lease contract will be maintained for residual parts of our network going forward.

Table 5.

Cash Flow (Millions of Euros)	3Q09	3Q10	3Q10 / 3Q09	9M09	9M10	9M10 / 9M09
EBITDA	70.2	**79.5**	13.2%	201.0	**229.1**	13.9%
CAPEX	(53.4)	**(59.4)**	11.2%	(144.0)	**(169.6)**	17.7%
Baseline CAPEX	52.7	**41.6**	(21.0%)	142.4	**133.1**	(6.5%)
Non-Recurrent CAPEX	0.7	**17.8**	n.a.	1.6	**36.5**	n.a.
Non-Cash Items Included in EBITDA minus CAPEX (1)	2.6	**9.2**	247.4%	10.2	**14.7**	44.6%
Change in Working Capital	14.5	**(6.5)**	n.a.	(37.7)	**(30.6)**	(19.0%)
Operating Cash Flow After Investment	33.9	**22.8**	(32.8%)	29.4	**43.6**	48.2%
Long Term Contracts	(13.5)	**(12.6)**	(6.9%)	(38.4)	**(66.6)**	n.a.
Net Interest Paid	(2.2)	**(1.1)**	(49.8%)	(17.0)	**(13.9)**	(18.4%)
Income Taxes Paid	(1.1)	**(5.5)**	n.a.	(3.3)	**(8.7)**	160.5%
Disposals	0.0	**0.0**	n.a.	6.7	**6.7**	(0.0%)
Other Cash Movements	(0.0)	**(0.1)**	n.a.	(1.2)	**(0.4)**	(64.4%)
Free Cash-Flow	16.9	**3.5**	n.a.	(23.8)	**(39.2)**	n.a.

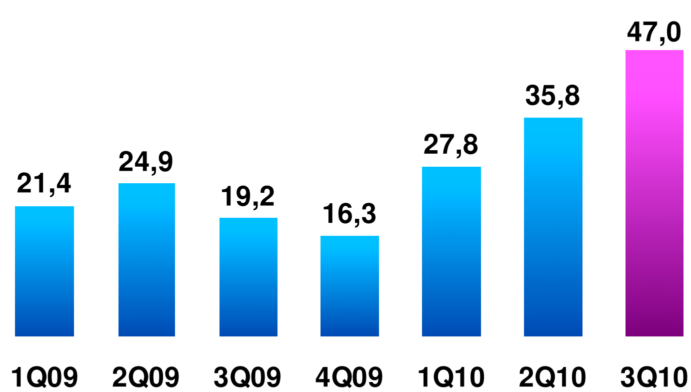
(1) This caption includes non-cash provisions included in EBITDA and non-cash CAPEX related to the upfront capitalization of long term contracts.

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 9M09 resulted in a reduction in revenues of 7.7 million euros, in costs of 4.4 million euros and in EBITDA of 3.3 million euros, and an increase of 3.3 million euros in Other Expenses / (Income), thus not affecting Net Income.

4.2 Operating Cash Flow

Operating Cash Flow was impacted by a mix of contrasting effects. On one hand, EBITDA was 14.7% higher than in 3Q10 at 79.5 million euros and Recurrent CAPEX fell by 21% to 41.6 million euros, thus generating EBITDA – Baseline CAPEX (including Non-Cash Items) of 47.0 million euros, 145% higher than in 3Q09.

EBITDA – Baseline CAPEX (Millions of Euros)



However, Operating Cash Flow was negatively affected by the impact of (i) the previously discussed non-recurrent investments in the “ZON-IN” project and Data Centre and by (ii) an increase in investment in Working Capital in 3Q10 caused by a peak in inventory levels of terminal equipment as a result of the substantial increase in the refurbishment of used equipment, due to the higher than expected success of this initiative. The higher levels of inventories will decrease over time to more normalized levels.

4.3 Free Cash Flow

Cumulative FCF in 9M10 was negatively impacted by an increase in payments for long terms contracts to 66 million euros, the majority of which a front-ended payment related with the Sport TV extension of the Portuguese Football League rights for a further year, thus locking in the contract until the end of the 2012-2013 season.

5. CONSOLIDATED BALANCE SHEET

Table 6.

Balance Sheet (Millions of Euros)	2009	9M10
Current Assets	436.4	**359.9**
Cash and Equivalents	177.0	**93.2**
Accounts Receivable, Net	185.0	**190.2**
Inventories, Net	39.9	**54.0**
Taxes Receivable	21.6	**2.7**
Prepaid Expenses and Other Current Assets	13.0	**19.8**
Non-current Assets	1,042.8	**1,103.5**
Investments in Group Companies	1.3	**1.3**
Intangible Assets, Net	353.8	**352.4**
Fixed Assets, Net	554.6	**611.7**
Deferred Taxes	47.9	**50.8**
Other Non-current Assets	85.3	**87.4**
Total Assets	1,479.2	**1,463.4**
Current Liabilities	544.5	**395.7**
Short Term Debt	246.5	**113.4**
Accounts Payable	175.9	**176.2**
Accrued Expenses	74.7	**79.8**
Deferred Income	3.7	**4.7**
Taxes Payable	29.8	**11.1**
Current Provisions and Other Liabilities	13.9	**10.5**
Non-current Liabilities	745.0	**823.0**
Medium and Long Term Debt	722.7	**792.3**
Non-current Provisions and Other Liabilities	22.3	**30.7**
Total Liabilities	1,289.5	**1,218.8**
Equity Before Minority Interests	180.4	**234.8**
Share Capital	3.1	**3.1**
Own Shares	(87.2)	**(0.0)**
Reserves, Retained Earnings and Other	220.5	**200.2**
Net Income	44.0	**31.6**
Minority Interests	9.2	**9.8**
Total Shareholders' Equity	189.7	**244.6**
Total Liabilities and Shareholders' Equity	1,479.2	**1,463.4**

5.1 Capital Structure

At the end of September 2010, **Net Financial Debt** stood at 632.6 million euros, a decrease of 0.5% in comparison with the end of 2Q10.

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 and 2010.

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 514.3 million euros (approximately 81.3% 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. Already in October, ZON secured a new bond issue in the amount of 133 million euros with a 4-year maturity, on very favourable terms, thereby significantly increasing the average maturity of ZON's financial debt and pushing forward any foreseeable re-financing needs until mid-2012.

At the end of 9M10, ZON's total Net Financial Debt has an average maturity of 2.16 years with an all-in average cost of around 3.45%.

Net Financial Gearing reduced to 72.1% 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 of cable companies. Total Net Debt of 746.9 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	9M10	9M10 / 2009
Short Term	218.2	62.8	(71.2%)
Bank and Other Loans	212.8	55.4	(74.0%)
Financial Leases	5.4	7.4	37.4%
Medium and Long Term	609.2	684.1	12.3%
Bank Loans	596.5	673.5	12.9%
Financial Leases	12.7	10.6	(16.6%)
Total Debt	827.5	746.9	(9.7%)
Cash, Short Term Investments and Intercompany Loans	211.6	114.3	(46.0%)
Net Financial Debt	615.8	632.6	2.7%
Net Financial Gearing (1)	76.5%	72.1%	(4.3pp)
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 began to record a marked development in terms of commercial activity primarily stimulated by the launch, in mid-August, of Sport TV Africa that includes the exclusive rights of the Portuguese Football League (Liga ZON Sagres), and other key Portuguese sports competitions exclusively on the "ZAP" network.

In parallel ZAP has been able to secure a very strong content offering in other areas, having close to 100 TV Channels already available, with a clear predominance in Portuguese language channels. With this content offer, ZAP is building a position as the content leader in Angola.

A lot of focus is still being placed on increasing the distribution and retail network and deployment of own stores, with close to 150 Points of Sale already deployed, and early results in terms of customer take-up are proving very encouraging.

7. APPENDIX

7.I APPENDIX I

Table 8.

Business Indicators ('000)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
Triple Play							
Homes Passed	3,057.8	3,074.7	3,082.8	3,116.8	3,138.9	3,151.0	3,166.5
Basic Subscribers [1]	1,595.4	1,591.4	1,594.7	1,594.8	1,588.4	1,576.9	1,573.1
of which							
Fixed Broadband	546.1	572.6	594.4	610.7	635.4	650.1	666.4
Fixed Voice	419.4	478.6	529.2	584.1	646.1	692.0	732.3
Mobile [2][3]	16.0	33.4	53.9	68.9	80.5	92.3	104.7
Cable Subscribers	1,175.9	1,179.0	1,181.5	1,180.4	1,176.4	1,166.3	1,162.7
Triple Play Customers	339.8	391.0	435.9	484.4	536.7	571.9	603.5
% Triple Play Cable Customers	28.9%	33.2%	36.9%	41.0%	45.6%	49.0%	51.9%
Double Play Customers	283.2	267.8	250.6	223.2	200.9	186.3	176.7
% Double Play Cable Customers	24.1%	22.7%	21.2%	18.9%	17.1%	16.0%	15.2%
Single Play Customers	552.7	520.2	495.0	472.8	438.8	408.1	382.5
% Single Play Cable Customers	47.0%	44.1%	41.9%	40.1%	37.3%	35.0%	32.9%
DTH Subscribers	419.4	412.4	413.2	414.4	412.1	410.6	410.4
Premium Sports and Movies Penetration [4]	46.1%	50.5%	50.9%	50.1%	48.5%	47.3%	45.6%
RGUs [5]	2,576.8	2,675.9	2,772.2	2,858.5	2,950.5	3,011.4	3,076.5
Cable RGUs per Subscriber (units) [6]	1.82	1.89	1.95	2.01	2.08	2.14	2.19
Blended ARPU (Euros)	32.7	33.6	34.0	35.0	35.2	35.6	35.8
Net Additions							
Triple Play Customers	64.5	51.1	44.9	48.5	52.3	35.2	31.6
Basic Subscribers	(18.2)	(3.9)	3.3	0.1	(6.4)	(11.6)	(3.8)
Fixed Broadband	27.0	26.5	21.9	16.3	24.7	14.7	16.3
Fixed Voice	72.8	59.2	50.6	54.9	62.0	45.9	40.3
Mobile	8.8	17.4	20.5	15.0	11.7	11.8	12.3
RGUs	90.5	99.1	96.2	86.3	92.0	60.9	65.1
Cinema Exhibition							
Revenue per Ticket (Euros)	4.3	4.4	4.6	4.5	4.6	4.6	4.8
Tickets Sold	1,950.1	1,729.6	2,228.6	2,300.1	2,471.6	1,716.6	2,670.0
Screens (units)	213	217	213	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) Includes Sports, Movies and other Premium channels with relevant scale.

(5) As from this quarter, total RGUs have been restated to present a comparable aggregate with its cable peer group. As such, total RGUs reported reflect the sum of Pay TV, Broadband, Fixed Voice and Mobile subscribers.

(6) Cable RGUs per Subscriber correspond to the sum of Cable Pay TV, Broadband and Voice Subscribers, divided by the number of Cable Pay TV Customers.

7.II APPENDIX II

Table 9.

Profit and Loss Statement (Millions of Euros)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
Operating Revenues	197.4	197.4	203.1	215.4	213.5	216.2	**221.6**
Pay TV, Broadband and Voice	177.7	179.2	181.6	191.1	192.7	197.6	**196.3**
Audiovisuals	14.3	13.1	16.1	18.5	15.5	19.0	**20.1**
Cinema	12.6	11.8	14.9	15.1	15.7	12.1	**18.5**
Others and Eliminations	(7.2)	(6.8)	(9.5)	(9.2)	(10.4)	(12.4)	**(13.3)**
Operating Costs Excluding D&A	134.8	131.6	133.8	150.5	140.2	140.0	**142.1**
W&S	14.6	12.9	14.8	16.0	14.3	14.5	**13.9**
Direct Costs	53.7	52.7	57.1	64.0	61.6	62.3	**64.0**
Commercial Costs (1)	18.7	20.4	19.3	22.2	16.7	17.9	**17.8**
Other Operating Costs	47.8	45.6	42.7	48.3	47.5	45.3	**46.3**
EBITDA (2)	62.6	65.8	69.3	64.9	73.3	76.2	**79.5**
EBITDA Margin	31.7%	33.3%	34.1%	30.1%	34.3%	35.3%	**35.9%**
Depreciation and Amortization	46.0	39.8	49.6	53.2	53.1	52.1	**55.4**
Income From Operations (3)	16.7	25.9	19.7	11.7	20.3	24.1	**24.1**
Other Expenses / (Income)	(1.7)	0.9	(0.9)	(1.0)	0.0	0.4	**0.6**
Operating Profit (EBIT) (4)	18.4	25.0	20.7	12.7	20.2	23.6	**23.5**
Financial Expenses (Income)	(8.7)	8.7	7.1	7.8	8.1	8.0	**10.4**
Income Before Income Taxes	27.1	16.4	13.5	4.9	12.1	15.6	**13.1**
Income Taxes	(7.0)	(6.2)	(1.2)	(1.7)	(2.4)	(1.5)	**(4.1)**
Income From Continued Operations	20.0	10.2	12.3	3.2	9.7	14.1	**9.0**
o.w. Attributable to Minority Shareholders	(0.5)	(0.5)	(0.4)	(0.1)	(0.4)	(0.5)	**(0.4)**
Net Income	19.5	9.6	11.9	3.1	9.3	13.6	**8.6**
Baseline CAPEX	44.8	44.9	52.7	63.4	50.1	41.5	**41.6**
Total CAPEX	45.7	44.9	53.4	69.6	53.9	56.3	**59.4**
Free Cash Flow	25.5	(66.2)	16.9	6.0	(34.0)	(8.7)	**3.5**
Net Financial Debt	524.9	638.8	621.8	615.8	577.2	635.7	**632.6**

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 9M09 resulted in a reduction in revenues of 7.7 million euros, in costs of 4.4 million euros and in EBITDA of 3.3 million euros, and an increase of 3.3 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 disposal of fixed assets ± Other costs/income;

(4) EBIT = Income Before Financials and Income Taxes .

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9. ENQUIRIES

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