ZON MULTIMÉDIA
SERVIÇOS DE TELECOMUNICAÇÕES E MULTIMÉDIA SGPS, SA

Full Year 2011 Earnings Announcement

ZON
MULTIMEDIA

1. 4Q11 HIGHLIGHTS

Table 1.

Highlights of 4Q11 Results	4Q10	4Q11	4Q11 / 4Q10	2010	2011	2011 / 2010
Operational ('000)						
Triple Play Customers	642.3	**708.7**	10.3%	642.3	**708.7**	10.3%
Triple Play Penetration (%)	55.2%	**60.1%**	5.0pp	55.2%	**60.1%**	5.0pp
RGUs (1)	3,147.4	**3,315.1**	5.3%	3,147.4	**3,315.1**	5.3%
Blended ARPU (Euros)	35.1	**35.5**	1.2%	35.4	**35.7**	0.8%
Financial (Millions of Euros)						
Operating Revenues	221.1	**215.6**	(2.5%)	872.3	**854.8**	(2.0%)
Pay TV, Broadband and Voice	199.4	**193.8**	(2.8%)	785.8	**772.4**	(1.7%)
EBITDA	73.3	**73.6**	0.4%	302.4	**311.2**	2.9%
EBITDA Margin	33.2%	**34.1%**	1.0pp	34.7%	**36.4%**	1.7pp
Net Income	3.9	**5.7**	46.4%	35.4	**34.2**	(3.5%)
EBITDA - CAPEX	(5.2)	**33.1**	n.a.	54.2	**161.4**	197.5%
Free Cash Flow	(7.0)	**30.8**	n.a.	(47.8)	**51.5**	n.a.

(1) Total RGUs reported reflect the sum of Pay TV, Broadband, Fixed Voice and Mobile subscribers.

CONTINUED SOLID OPERATING TRENDS AND OPERATING EFFICIENCY SUPPORT STRONG RGU GROWTH IN 4Q11 AND SIGNIFICANT IMPROVEMENT IN FCF GENERATION

OPERATIONAL HIGHLIGHTS

- Strong RGU growth in 4Q11 with net adds of 58.5 thousand services, by far the best quarter of 2011;
- Triple Play customers increased 10.3% y.o.y. in 4Q11 to 708.7 thousand with penetration of Triple Play services growing to 60.1% of the cable customer base, 5 p.p. higher than in 4Q10;
- Net growth in basic subscribers of 12.8 thousand in 4Q11, driven by growth in the cable customer base of 16 thousand subscribers, the best quarter since 1Q08;
- Continued strong take-up of broadband services with net adds of 14.2 thousand in 4Q11 to 739.2 thousand customers, taking penetration of the cable base up to 62.7%;
- Adoption of high bandwidth services continues to grow with 29% of Internet customers subscribing to 30 Mbps services or higher;
- The best quarter of growth in Fixed Voice services of 2011 with net adds of 39.9 thousand taking total Fixed Voice subscribers to 883.9 thousand, 73.2% of the cable customer base;
- Resilience in Blended ARPU at 35.5 euros, representing an increase of 1.2% in comparison with 4Q10.

FINANCIAL HIGHLIGHTS

- Consolidated Revenues declined by 2.5% y.o.y. in 4Q11 to 215.6 million euros, representing a sequential quarter on quarter improvement in the rate of decline;
- Decline in Revenues offset by growth in EBITDA of 0.4% y.o.y. to 73.6 million euros, representing a 34.1% margin, 1.0 pp higher than 4Q10;
- As predicted, very strong increase in cash generation: EBITDA-CAPEX grew to 33.1 million euros in 4Q11 from negative 5.2 million euros in 4Q10 and FCF increased to 30.8 million euros in 4Q11 compared with negative 7 million euros in 4Q10;
- Net Income amounted to 5.7 million euros in 4Q11, up 46.4% in comparison with 4Q10 and bringing FY2011 to 34.2 million euros, almost flat when compared to FY10, notwithstanding the more pronounced accumulated negative impact of the Angola operations;
- Accumulated FCF for full year 2011 was positive by 51.5 million euros, more than covering the net dividend payments made in 2011 of 49.4 million euros and enabling a reduction in Net Financial Debt of 2.1 million euros to 637.5 million euros;

2. OPERATING REVIEW 4Q11

Table 2.

Business Indicators ('000)	4Q10	4Q11	4Q11 / 4Q10	2010	2011	2011 / 2010
Pay TV, Broadband and Voice						
Homes Passed [1]	3,190.7	**3,152.6**	(1.2%)	3,190.7	**3,152.6**	(1.2%)
RGUs [2]	3,147.4	**3,315.1**	5.3%	3,147.4	**3,315.1**	5.3%
Cable RGUs per Subscriber (units) [3]	2.25	**2.36**	5.1%	2.25	**2.36**	5.1%
Basic Subscribers [4]	1,571.6	**1,567.1**	(0.3%)	1,571.6	**1,567.1**	(0.3%)
o.w. Cable Subscribers	1,163.9	**1,178.4**	1.2%	1,163.9	**1,178.4**	1.2%
Triple Play Customers	642.3	**708.7**	10.3%	642.3	**708.7**	10.3%
% Triple Play Cable Customers	55.2%	**60.1%**	5.0pp	55.2%	**60.1%**	5.0pp
o.w. DTH Subscribers	407.6	**388.7**	(4.6%)	407.6	**388.7**	(4.6%)
Broadband Subscribers	690.2	**739.2**	7.1%	690.2	**739.2**	7.1%
Fixed Voice Subscribers	777.6	**883.9**	13.7%	777.6	**883.9**	13.7%
Mobile Subscribers	107.9	**125.0**	15.8%	107.9	**125.0**	15.8%
Blended ARPU (Euros)	35.1	**35.5**	1.2%	35.4	**35.7**	0.8%
Cinema						
Revenue per Ticket (Euros)	4.7	**4.8**	1.7%	4.7	**4.9**	4.2%
Tickets Sold	2,242.5	**2,260.4**	0.8%	9,100.6	**8,742.2**	(3.9%)
Screens (units)	213	**217**	1.9%	213	**217**	1.9%

(1) The number of homes passed was corrected in 3Q11, consisting of a database cleanup of around 86.5 thousand homes. Data for the previous quarters was not restated.
(2) Total RGUs reported reflect the sum of Pay TV, Broadband, Fixed Voice and Mobile subscribers.
(3) 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.
(4) 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.

Performance of ZON's core Triple Play services was very strong in 4Q11, reflecting the continued resilience of communications and entertainment services despite the harsh economic backdrop. Consumers are proving more conservative in their consumption patterns and in some cases are choosing to move to lower priced bundles however this is being compensated by trading-up from other consumer groups to higher end and more sophisticated TV and next generation services. In addition, there is also a new group of customers who are joining the Pay TV market, driven by the terrestrial analogue switch-off process currently underway in Portugal. Revenues from Triple Play services are showing resilience although with some dilution in ARPUs on the back of the take-up of lower-end Pay TV and bundled services targeting customers affected by the aforementioned analogue switch-off.

Over 60% of cable customers take Triple Play bundles

The number of customers at ZON that took Triple Play services by the end of 2011 was 708.7 thousand, 60.1% of cable subscribers, representing an increase in penetration of 5 percentage points in comparison with 4Q10.

Importantly, the evolution of Basic Subscribers was very positive, posting a net increase of 12.8 thousand subscribers in 4Q11 to 1,567.1 thousand customers. The growth recorded in the quarter was driven by an increase in multiple service cable customer base of 16 thousand subscribers.

The very good performance of our basic subscriber base bears witness to the fact that, despite the difficult economic environment, consumers are not disconnecting services and consider these Triple Play services to be a core part of daily life, supporting a permanent need to remain online and with access to affordable and highly valued sources of entertainment. A significant number of new or existing customers are subscribing to our high-end TV interface and next generation bandwidth solution IRIS. By the end of 4Q11, ZON had around 100 thousand customers taking IRIS high-end bundles, the great majority of which receiving broadband services with speeds equal to or over 30 Mbps. The NDS developed "Snowflake" user interface behind IRIS continues to reap awards worldwide for both design and usability. The innovative features available over the IRIS TV platform are proving a big success with customers, as is the case of Restart TV. The IRIS interface was rolled out to laptops, tablets and smartphones in 4Q11 now enabling remote access to TV programming and EPG functionalities whilst on the go, such as programme recording and access to video club and archives. An additional 37 thousand next generation ZON Boxes were installed and activated during 4Q11 bringing the total number of ZON Boxes installed to close to 1 million and, of these, 10% are IRIS enabled.

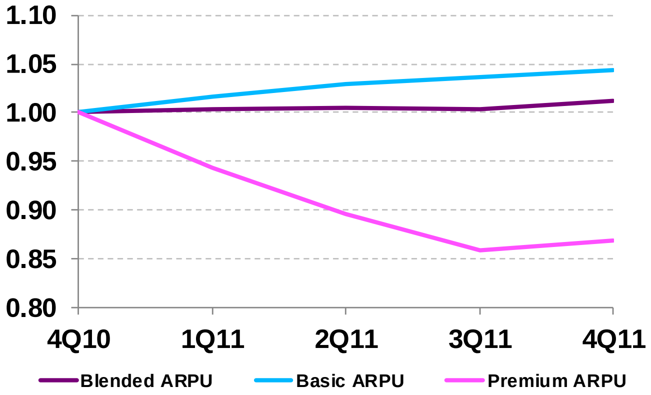
In contrast to the take-up of ZON's high-end IRIS solutions, for the other end of the market spectrum ZON launched a new set of products in the last quarter of 2011 targeting customers faced with the imminent analogue switch-off in the first months of 2012. These customers, previously analogue free-to-air (FTA) viewers, were faced with the need to buy DTT tuners or replace their TV sets in order to receive the existing 4 FTA Portuguese channels over the DTT platform. ZON launched a campaign targeting this segment of the market offering the 4 existing FTA channels, with multi-room distribution, and unlimited Fixed Voice calls for €9.99 a month. In addition, ZON also launched an entry level Triple Play solution including the 4 FTA channels, 12 Mbps broadband and unlimited Fixed Voice calls for €24.99. Take-up of these new offers has been very encouraging. This segment is still expected to drive some additional growth in the Pay TV and Triple Play market during 1Q12 and until the analogue switch-off process has been completed.

Premium channel revenues remained relatively stable in 4Q11 in comparison with the previous quarter, albeit some weakness was felt in terms of premium sports subscriptions towards the end of the quarter. Customers are showing more conservative discretionary spending behaviour and are choosing to cut back on additional premium services. ARPU revenues from premium services in 4Q11 were in line with the previous quarter given that the average number of subscribers throughout the quarter was higher than in 3Q11.

Solid performance in Basic ARPU

ARPU in 4Q11 increased by 1.2% y.o.y. to 35.5 euros compared with 35.1 euros in 4Q10. The solid underlying performance of multiple service bundles together with a more stable pricing environment, albeit affected by ad hoc promotional activity in the build-up to the end of the year, is reflected in a 4.4% y.o.y. increase in basic ARPU levels. However, this increase in basic ARPU levels was diluted by a 13.2% y.o.y. decline in premium ARPU due to the previously discussed weakness in more discretionary premium services, although it is worthwhile noting that 4Q11 showed some recovery vis a vis 3Q11.

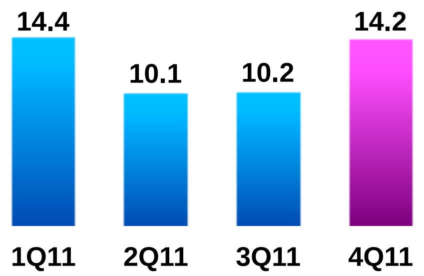
Basic, Premium and Blended ARPU evolution (4Q10 = Base 1)



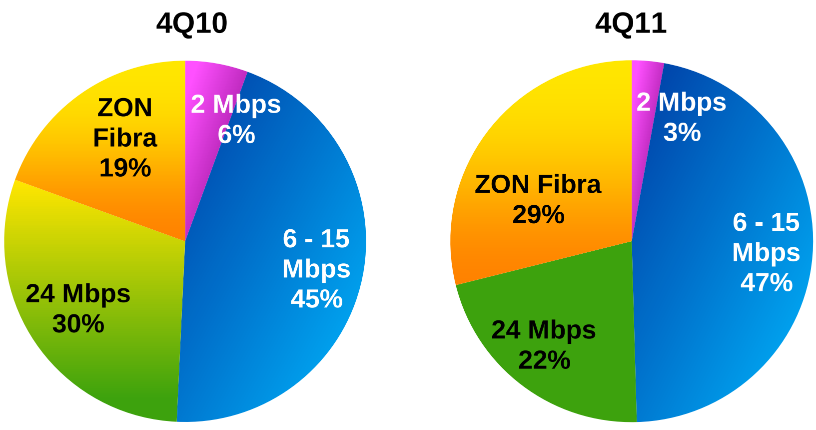
End of year strength in Broadband take-up

Net additions to the Broadband subscriber base grew to 14.2 thousand in 4Q11 picking up from the levels recorded in previous quarters and taking the total number of Broadband subscribers up to 739.2 thousand, an increase of 7.1% in comparison with 4Q10. Penetration of Broadband services as a proportion of the cable base now stands at 62.7%. Of the total Broadband customer base, 29% subscribe to NGN services with speeds equal to or over 30 Mbps and over 50% take Broadband speeds of over 20 Mbps. ZON's strong technological advantage in terms of network capacity effectively enables it to reach almost all of its footprint with very high bandwidth offers going up to 360 Mbps. The following charts provide a breakdown of ZON's Broadband customer base according to bandwidth, showing the strong customer uptake of higher end internet solutions over the past year:

Broadband Net Adds (Thousands)

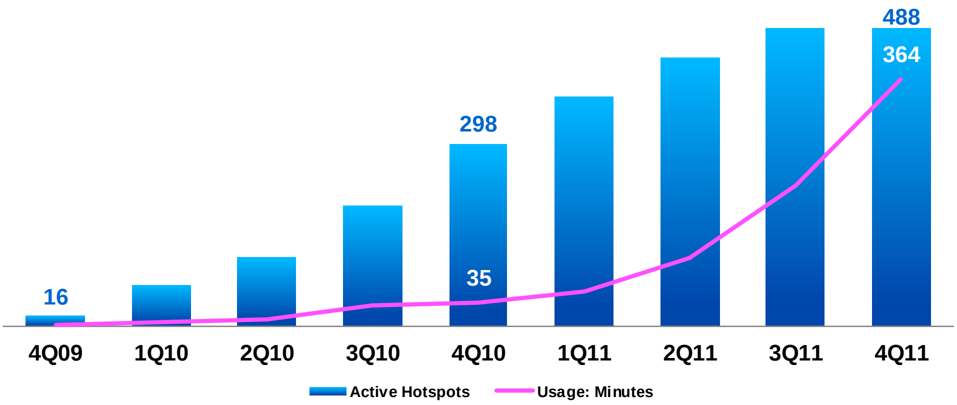


Broadband Customer Base Breakdown (%)



Usage of ZON's free WiFi Network continues to increase significantly quarter on quarter. In 4Q11, the volume of minutes used over the network grew to 364 million compared with just 35 million in 4Q10 and representing a 76% increase from 207 million minutes of usage in 3Q11. The vast majority of minutes being used by ZON Broadband customers, these numbers prove that there is a significant level of utilization of this WiFi feature by ZON customers. The ZON@FON network is therefore a very relevant advantage to provide free WiFi access for ZON Broadband customers, given its very high geographic coverage and density, in particular in main cities.

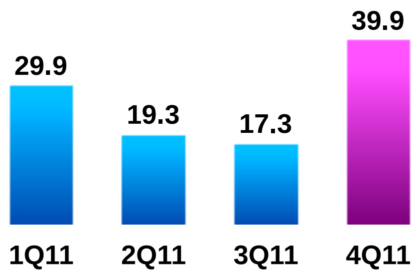
ZON@FON Hotspots and Usage (Thousands, Millions of Minutes)



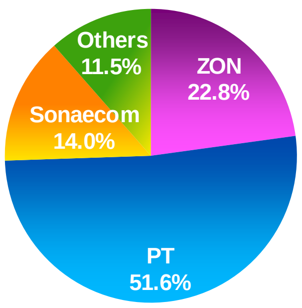
Best quarter of 2011 for Fixed Voice growth

ZON's Fixed Voice customer base recorded the best quarter of the year in terms of growth with net additions of 39.9 thousand subscribers in 4Q11. The total Fixed Voice subscriber base stood at 883.9 thousand subscribers at the end of the year representing a penetration of 73.2% of the cable customer base. The most recent data from the regulator regarding share of the Fixed Voice market shows that ZON's market share continues to grow quarter on quarter, standing at 22.8% at the end of 9M11 compared with 21.2% at the end of 2010 in addition to the fact that ZON remains the only one of the main operators to post growth in Fixed Voice customers.

Fixed Voice Net Adds (Thousands)



Fixed Voice Market Shares 9M11 (%)



ZON’s mobile subscriber base recorded a quarter on quarter decline in 4Q11 to 125.0 thousand subscribers led by a reduction in mobile broadband customers of 11.7 thousand. Some mobile broadband subscribers included in Triple Play bundles are recorded in the base if they have used the service in the past 3 months. In 3Q11, the number of active users increased significantly by 10.5 thousand subscribers due to the holiday period when customers tend to use their mobile broadband connections. During 4Q11, active users came back down to pre-summer levels reflecting the fact that consumers prefer to either use their fixed broadband solutions at home or WiFi solutions when available such as ZON@FON.

Audiovisuals and Cinemas

4Q11 represented a y.o.y. improvement of 0.8% in terms of Cinema tickets sold. For FY11, however, the number of tickets sold decreased by 3.9%, which represented a better performance than the remainder of the market. As a whole, the market experienced a drop in tickets sold of 5.2%, according to recently published data from the Portuguese Institute For Cinema and Audiovisuals, ICA. Therefore, ZON’s share of tickets sold increased from 54.9% to 55.7% during 2011.

In the last quarter of 2011, revenue per ticket climbed 1.7% to 4.8 euros from 4.7 euros in 4Q10. This performance is supported by ZON’s leading position in innovation, with unparalleled levels of digitalization and penetration of 3D projection technology (40% out of a total of 217 screens) in the Portuguese market.

As regards Cinema gross revenues performance, ZON’s relative performance was also stronger in comparison with the rest of the market, actually posting slight growth of 0.6% in FY11 whilst the total market’s gross revenues fell by 2.9%. As a result, ZON’s market share of gross revenues by the end of December had increased to 56.5% in 2011, an improvement on the 54.6% of 2010. The most successful films shown in 2011 were “The Twilight Saga: Breaking Dawn – Part 1”, “Harry Potter and the Deathly Hallows Part 2”; “The Smurfs”; “Pirates of the Caribbean: On Stranger Tides”, and “Fast Five”.

Revenues in the Audiovisuals division grew y.o.y. in 4Q11 by 9.2% to 20.1 million euros, and grew by 14.1% when compared with the previous quarter. For the FY11, Audiovisuals revenues posted a marginal decline of 0.8% to 72.4 million euros.

ZON Lusomundo Audiovisuais maintained its leading position in the distribution of movies for cinema exhibition, VoD viewing and sale of DVD content in Portugal. Of the top 10 films shown in cinemas in 2011, ZON Lusomundo distributed 5 of them, the most successful films being “Pirates of the Caribbean: On Stranger Tides”, “The Twilight Saga: Breaking Dawn – Part 1”, “Fast Five”, “Puss in Boots”, and “Cars 2”. According to ICA, ZON’s share of gross revenues in terms of cinema distribution in 2011 stood at 52.0%, an improvement upon the 51.8% achieved last year.

3. CONSOLIDATED INCOME STATEMENT

Table 3.

Profit and Loss Statement (Millions of Euros)	4Q10	4Q11	4Q11 / 4Q10	2010	2011	2011 / 2010
Operating Revenues	221.1	**215.6**	(2.5%)	872.3	**854.8**	(2.0%)
Pay TV, Broadband and Voice	199.4	**193.8**	(2.8%)	785.8	**772.4**	(1.7%)
Audiovisuals	18.4	**20.1**	9.2%	73.0	**72.4**	(0.8%)
Cinema	15.3	**14.7**	(3.8%)	61.5	**59.2**	(3.7%)
Others and Eliminations	(11.9)	**(12.9)**	8.2%	(48.0)	**(49.2)**	2.5%
Operating Costs Excluding D&A	(147.7)	**(142.0)**	(3.9%)	(570.0)	**(543.6)**	(4.6%)
W&S	(15.5)	**(14.9)**	(4.2%)	(58.3)	**(59.3)**	1.7%
Direct Costs	(63.8)	**(60.8)**	(4.8%)	(251.7)	**(243.9)**	(3.1%)
Commercial Costs (1)	(22.4)	**(21.6)**	(3.7%)	(74.8)	**(62.1)**	(17.0%)
Other Operating Costs	(45.9)	**(44.7)**	(2.6%)	(185.1)	**(178.3)**	(3.7%)
EBITDA (2)	73.3	**73.6**	0.4%	302.4	**311.2**	2.9%
EBITDA Margin	33.2%	**34.1%**	1.0pp	34.7%	**36.4%**	1.7pp
Depreciation and Amortization	(58.9)	**(53.3)**	(9.5%)	(219.6)	**(217.6)**	(0.9%)
Income From Operations (3)	14.4	**20.3**	40.9%	82.8	**93.6**	13.1%
(Other Expenses) / Income	0.5	**0.0**	(94.3%)	(0.6)	**(1.0)**	69.0%
Operating Profit (EBIT) (4)	14.9	**20.3**	36.4%	82.3	**92.7**	12.7%
(Financial Expenses) / Income	(7.1)	**(8.6)**	21.3%	(28.2)	**(32.7)**	15.8%
Equity in Earnings of Affiliate Companies, Net	(2.4)	**(3.2)**	29.2%	(7.9)	**(10.3)**	31.0%
Income Before Income Taxes	5.3	**8.5**	60.0%	46.1	**49.6**	7.6%
Income Taxes	(1.4)	**(2.7)**	93.2%	(9.3)	**(14.8)**	58.2%
Income From Continued Operations	4.0	**5.9**	48.4%	36.8	**34.8**	(5.3%)
o.w. Attributable to Minority Shareholders	(0.1)	**(0.2)**	134.0%	(1.3)	**(0.6)**	(51.8%)
Net Income	3.9	**5.7**	46.4%	35.4	**34.2**	(3.5%)

(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.

3.1 Operating Revenues

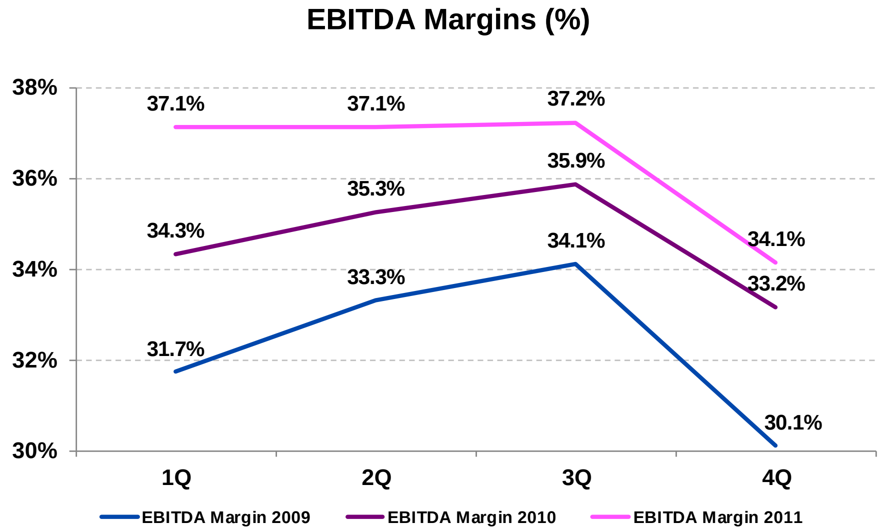
Total Operating Revenues were 215.6 million euros in 4Q11, representing a decline of 2.5% in comparison with 4Q10 however representing an improvement of 0.9% in comparison with the previous quarter. Pay TV, Broadband and Voice Revenues declined by 2.8% y.o.y. to 193.8 million euros and increased by 1.2% compared to 3Q11. Excluding non-ARPU revenues and revenues from premium channel subscriptions, basic ARPU Triple Play revenues increased by 3.5% y.o.y. in 4Q11. Premium revenues from ZON subscribers fell by 13.9% in 4Q11 in comparison with 4Q10, showing some recovery from 3Q11 when premium revenues declined by 15.2% y.o.y.. In terms of q.o.q. evolution, premium revenues remained flat. This positive performance in Basic ARPU Triple Play revenues, reinforces the fact that basic Triple Play services are proving resilient to the economic backdrop and are part of household daily life. More cautious spending patterns are however being displayed by consumers as regards discretionary elements of their monthly bill such as add-on premium channels.

The Audiovisuals division posted a y.o.y. increase in revenues of 9.2% in 4Q11 to 20.1 million euros supported by an improvement in revenues from cinema distribution, and from the Dreamia joint venture. Sales of DVDs continue to post a negative trend thus diluting the positive performance of this business division. Cinema revenues declined by 3.8% in 4Q11 y.o.y. to 14.7 million euros, due to the decrease of non-ticket related revenues.

3.2 EBITDA

EBITDA grew by 0.4% y.o.y. to 73.6 million euros, representing a 1.0 pp increase in margin to 34.1% in 4Q11. In FY2011 EBITDA grew by 2.9% to 311.2 million euros, recording a y.o.y. increase in full year margin of 1.7 p.p. to 36.4%, compared with 34.7% in 2010. The q.o.q. decline in EBITDA recorded in 4Q11 was related with the normal seasonal decline in margins which is felt in the build-up to the end of the year and is explained by the higher level of commercial activity and related costs.

The global improvement in EBITDA y.o.y. highlights the strong focus on cost control and reduction, and is being achieved due to the efforts to achieve further efficiencies in the cost structure and a generally lower churn environment. Total Operating Costs excluding D&A decreased 3.9% y.o.y. to 142 million euros in 4Q11 and by 4.6% in 2011.



3.3 Consolidated Operating Costs

Wages and Salaries recorded a 4.2% decline in 4Q11 to 14.9 million euros however this cost item remained relatively flat for full year 2011 at 59.3 million euros compared to 58.3 million euros in 2010.

Direct Costs in 4Q11 amounted to 60.8 million euros, 4.8% lower than in 4Q10. The decrease in 4Q11 is mostly a result of the lower level of programming costs, due to lower average premium channel subscriptions in the quarter and a reduction in the total costs in certain channels contracted; and also of lower interconnection and advertising shared revenue costs.

Commercial Costs also recorded a significant decline of 3.7% in 4Q11 to 21.6 million euros and of 17% in FY11 in comparison with FY10. This continued reduction in Commercial Costs is a result of a more efficient use of available sales channels, of a less aggressive competitive and promotional environment, driving lower churn and lower sales related costs and of the lower level of commercial activity.

Other Operating Costs declined by 2.6% y.o.y. in 4Q11 to 44.7 million euros and also by 3.7% in FY11 to 178.3 million euros. The main drivers of the decline in this cost aggregate are a reduction of several General and Administrative areas, namely customer service, maintenance and repairs, mainly as a result of the implementation of a number of efficiency improvement measures at the contact center level.

3.4 Net Income

Net Income was 5.7 million euros in 4Q11, 46.4% higher than in 4Q10 and amounted to 34.2 million euros in FY11. Net Income was affected by the negative impact of the Angolan operations, in the amount of 10.2 million euros in FY11 and 8.0 million euros in FY10. Without this impact, Net Income would have posted growth of 2.1% in 2011.

Depreciation and Amortization was significantly lower y.o.y. in 4Q11 at 53.3 million euros, compared with 58.9 million euros in 4Q10 however relatively stable in comparison with 3Q11. D&A in FY11 amounted to 217.6 million euros, representing a decline of 0.9% in comparison with FY2010. D&A is still relatively high due to the significant accelerated CAPEX cycle of the 2008-2010 period.

Net Financial Expenses + Net Equity in Earnings of Affiliate Companies in 4Q11 of 11.8 million euros were 23.3% higher than in 4Q10. In FY2011, Net Financial Expenses grew by 19.2% to 43.0 million euros. The increase y.o.y. in 4Q11 is the result of a small increase in Net Interest which grew from 5.9 million euros in 4Q10 to 6.1 million euros in 4Q11. The Angolan operation, which is equity consolidated, made a more negative contribution to net financial results in 4Q11 of 3.1 million euros due to the very significant increase in commercial activity in the build-up to the end of the year. The operation grew its subscriber base in a very significant way in 4Q11, leading to a hike in commercial and activation related costs, fully accounted for in the quarter but whose corresponding revenues will only be reflected in full in future periods.

Income Taxes in 4Q11 were 2.7 million euros and amounted to 14.8 million euros in FY11, compared with 9.3 million euros in FY2010, representing an effective P&L tax rate of 29.8% for FY2011.

4. CAPEX AND CASH FLOW

4.1 CAPEX

Table 4.

CAPEX (Millions of Euros)	4Q10	4Q11	4Q11 / 4Q10	2010	2011	2011 / 2010
Pay TV, Broadband and Voice Infrastructure	23.7	**23.3**	(1.4%)	88.4	**82.2**	(7.0%)
Terminal Equipment	17.8	**13.0**	(26.6%)	77.3	**50.2**	(35.1%)
Other	3.8	**2.8**	(24.9%)	12.7	**8.2**	(35.6%)
"Baseline" CAPEX	45.2	**39.2**	(13.2%)	178.3	**140.5**	(21.2%)
Long Term Contracts	6.0	**0.0**	(100.0%)	10.9	**0.0**	(100.0%)
Other Non-Recurrent Items	27.3	**1.3**	(95.3%)	58.9	**9.4**	(84.1%)
Total CAPEX	78.5	**40.5**	(48.4%)	248.1	**149.9**	(39.6%)

As promised at the start of 2011, we have significantly reduced the level of CAPEX, having completed the accelerated investment cycle of the previous three years. All major network upgrades have been completed and most of the upgrade to next generation set-top boxes has been done. This investment is set to decline further in 2012 and following years.

Total CAPEX in 2011 was 149.9 million euros, with Baseline recurrent CAPEX amounting to 140.5 million euros. Of this amount, approximately 60% was related to investment in Triple Play infrastructure and just over 35% to customer terminal equipment related investment. Total CAPEX represented over 19% of core Triple Play revenues in 2011 representing a significant decline from the almost 32% recorded in 2010.

Total CAPEX (Millions of Euros)

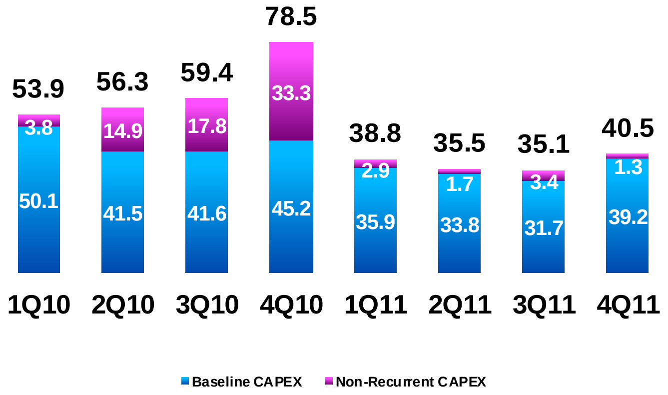


Table 5.

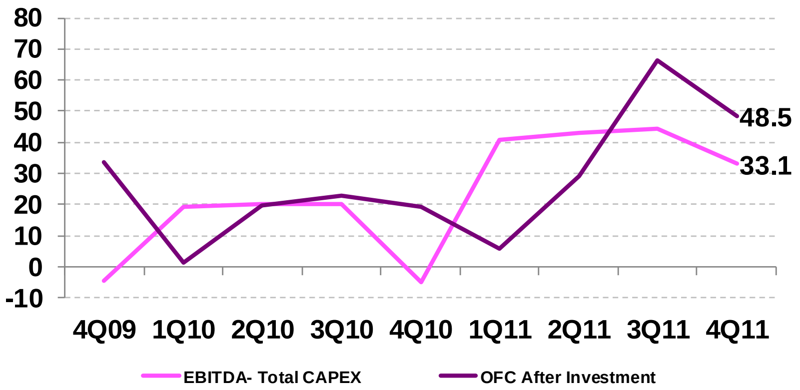
Cash Flow (Millions of Euros)	4Q10	4Q11	4Q11 / 4Q10	2010	2011	2011 / 2010
EBITDA	73.3	**73.6**	0.4%	302.4	**311.2**	2.9%
CAPEX	(78.5)	**(40.5)**	(48.4%)	(248.1)	**(149.9)**	(39.6%)
Baseline CAPEX	(45.2)	**(39.2)**	(13.2%)	(178.3)	**(140.5)**	(21.2%)
Non-Recurrent CAPEX	(33.3)	**(1.3)**	(96.1%)	(69.8)	**(9.4)**	(86.6%)
Non-Cash Items Included in EBITDA-CAPEX(1) and Change in Working Capital	24.3	**15.4**	(36.6%)	8.5	**(11.5)**	n.a.
Operating Cash Flow After Investment	19.1	**48.5**	153.5%	62.7	**149.9**	139.0%
Long Term Contracts	(14.4)	**(10.2)**	(28.9%)	(81.0)	**(65.3)**	(19.4%)
Net Interest Paid and Other Financial Charges	(12.0)	**(3.6)**	(69.7%)	(25.9)	**(21.3)**	(17.5%)
Income Taxes Paid	(2.1)	**(3.9)**	(86.4%)	(10.8)	**(16.5)**	52.8%
Disposals	0.0	**0.0**	n.a.	6.7	**6.7**	0.0%
Other Cash Movements	2.3	**0.0**	n.a.	0.4	**(1.9)**	n.a.
Free Cash-Flow	(7.0)	**30.8**	n.a.	(47.8)	**51.5**	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.

4.2 Operating Cash Flow

EBITDA-CAPEX posted a very significant improvement in 4Q11 to 33.1 million euros from negative 5.2 million euros in 4Q10 led by the positive performance in EBITDA and the aforementioned decline in CAPEX. For FY2011, EBITDA-CAPEX increased almost threefold to 161.4 million euros compared with 54.3 million euros in FY2010. In 4Q11, Operating Cash Flow was positively influenced by a 15.4 million euros change in working capital and as a result, Operating Cash Flow after investment in 4Q11 grew to 48.5 million euros compared with 19.1 million euros in 4Q10. Accumulated Operating Cash Flow after Investment in 2011 posted a very strong increase y.o.y. to 149.9 million euros, from 62.7 million euros in 2010.

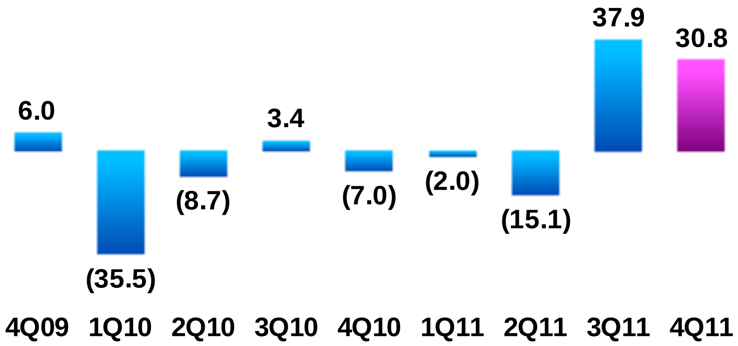
EBITDA - Total CAPEX and OCF After Investment (Millions of Euros)



4.3 Free Cash Flow

Total FCF in 4Q11 increased to 30.8 million euros compared with negative 7 million euros in 4Q10. In FY11 FCF amounted to 51.5 million euros compared with negative 47.8 million euros in 2010. This strong performance is a reflection of the change in momentum in cash generation at ZON led by the continued improvement in operating performance and the fact that we have concluded the accelerated network and customer equipment upgrades of previous years.

Free Cash Flow (Millions of Euros)



Further to the Operating Cash Flow increase already discussed, the other main impacts on FCF generation in 4Q11 were (i) cash payments of Long Term Contracts of 10.2 million euros (65.3 million euros in 2011), (ii) net interest payments of 3.6 million euros (21.3 million in 2011) and (iii) income taxes of 3.9 million euros (16.5 million euros in 2011).

Of the 51.5 million euros of FCF generated in 2011, net dividends of 49.4 million euros were paid out to shareholders in 2Q11 and the remaining 2.1 million euros enabling ZON to reduce the level of Net Financial Debt.

5. CONSOLIDATED BALANCE SHEET

Table 6.

Balance Sheet (Millions of Euros)	2010	2011
Current Assets	531.4	**708.9**
Cash and Equivalents	264.6	**407.4**
Accounts Receivable, Net	188.8	**237.8**
Inventories, Net	58.6	**46.7**
Taxes Receivable	2.8	**5.1**
Prepaid Expenses and Other Current Assets	16.6	**11.9**
Non-current Assets	1,119.3	**1,076.7**
Investments in Group Companies	1.1	**0.5**
Intangible Assets, Net	336.7	**314.7**
Fixed Assets, Net	645.8	**647.1**
Deferred Taxes	51.0	**49.9**
Other Non-current Assets	84.5	**64.5**
Total Assets	1,650.7	**1,785.6**
Current Liabilities	398.7	**789.1**
Short Term Debt	92.6	**500.0**
Accounts Payable	210.5	**207.1**
Accrued Expenses	70.4	**56.5**
Deferred Income	4.1	**3.8**
Taxes Payable	10.8	**17.2**
Current Provisions and Other Liabilities	10.4	**4.6**
Non-current Liabilities	1,001.8	**761.5**
Medium and Long Term Debt	973.0	**729.4**
Non-current Provisions and Other Liabilities	28.8	**32.1**
Total Liabilities	1,400.5	**1,550.6**
Equity Before Minority Interests	240.3	**225.0**
Share Capital	3.1	**3.1**
Own Shares	(0.0)	**(0.6)**
Reserves, Retained Earnings and Other	201.8	**188.3**
Net Income	35.4	**34.2**
Minority Interests	9.9	**10.0**
Total Shareholders' Equity	250.2	**235.0**
Total Liabilities and Shareholders' Equity	1,650.7	**1,785.6**

5.1 Capital Structure

At the end of December 2011, **Net Financial Debt** stood at 637.5 million euros, a decline of 30.8 million compared with 3Q11. The reduction in Net Debt in the quarter was possible due to the positive FCF generation previously explained.

As mentioned in the previous Earnings Announcement, in 3Q11 ZON negotiated further interest rate hedging operations in the amount of 257.5 million euros (157.5 million euros of which came into effect in December 2011). This brought the total of interest rate hedging operations in place at the end of 4Q11 to 434 million euros, approximately 68% of the total Net Financial Debt.

Total financial debt at the end of 4Q11 amounted to 1,107.8 million euros which was offset with a cash and short term investments position on the balance sheet of 470.3 million euros. The all-in average cost of ZON's Net Financial Debt was 4.07% for 2011.

In February 2012, ZON announced that it had secured a fully underwritten Commercial Paper Program with Caixa Geral de Depósitos of 100 million euros maturing in 2015. The new facility will replace an existing similar Commercial Paper Program of 125 million euros that was set to mature during 2012. The negotiation of this new credit facility will further improve the stability of ZON's capital structure, extending the average maturity of ZON's Net Financial Debt. This, together with a significantly improved cash-flow profile, places ZON in a very comfortable position with no additional projected refinancing needs until the end of 2013. With the new facility in place, the average maturity of ZON's financial debt is 2.31 years.

Net Financial Gearing increased to 73.1% at the end of 2011 compared with 71.9% at the end of 2010, and **Net Financial Debt / EBITDA** (last 4 quarters) stands at 2.0x. Total Net Debt of 759.9 million euros also includes commitments with Long Term Contracts recorded as liabilities on the Balance Sheet, of which the most relevant are long-term transponder, telecoms and content contracts.

Table 7.

Net Financial Debt (Millions of Euros)	2010	2011	2011 / 2010
Short Term	45.5	**467.4**	n.a.
Bank and Other Loans	41.4	**462.4**	n.a.
Financial Leases	4.1	**5.0**	20.5%
Medium and Long Term	867.4	**640.4**	(26.2%)
Bank Loans	853.3	**628.6**	(26.3%)
Financial Leases	14.0	**11.7**	(16.4%)
Total Debt	912.9	**1,107.8**	21.4%
Cash, Short Term Investments and Intercompany Loans	273.2	**470.3**	72.1%
Net Financial Debt	639.7	**637.5**	(0.3%)
Net Financial Gearing (1)	71.9%	**73.1%**	1.2pp
Net Financial Debt / EBITDA	2.1x	**2.0x**	n.a.

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

6. INTERNATIONAL GROWTH – ANGOLA

"ZAP", ZON's Pay TV Joint Venture in Angola and Mozambique, posted record growth in customers during the last quarter of 2011, well above all expectations. ZAP is a widely recognized brand in Angola and continues to position itself with a best of breed offer in the territories where it is present. In 4Q11, ZAP's negative financial contribution to ZON's accounts was higher than in the previous quarter due to this much higher volume of customer acquisition costs, with net adds in the quarter almost doubling. These costs were accounted for in full in 4Q11 and will only be translated into revenues over the coming quarters with ongoing customer usage of the service. ZAP is proving a resounding success in the Angolan market.

7. APPENDIX

7.1 APPENDIX I

Table 8.

Business Indicators ('000)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Pay TV, Broadband and Voice								
Homes Passed (1)	3,138.9	3,151.0	3,166.5	3,190.7	3,206.9	3,223.3	3,151.0	**3,152.6**
Basic Subscribers (2)	1,588.4	1,576.9	1,573.1	1,571.6	1,554.4	1,552.8	1,554.2	**1,567.1**
of which								
Fixed Broadband	635.4	650.1	666.4	690.2	704.7	714.8	725.0	**739.2**
Fixed Voice	646.1	692.0	732.3	777.6	807.5	826.8	844.0	**883.9**
Mobile (3)	80.5	92.3	104.7	107.9	114.7	118.4	133.4	**125.0**
Cable Subscribers	1,176.4	1,166.3	1,162.7	1,163.9	1,155.5	1,157.8	1,162.4	**1,178.4**
Triple Play Customers	536.7	571.9	603.5	642.3	666.0	678.5	688.8	**708.7**
% Triple Play Cable Customers	45.6%	49.0%	51.9%	55.2%	57.6%	58.6%	59.3%	**60.1%**
Double Play Customers	200.9	186.3	176.7	165.7	160.7	163.7	169.3	**184.6**
% Double Play Cable Customers	17.1%	16.0%	15.2%	14.2%	13.9%	14.1%	14.6%	**15.7%**
Single Play Customers	438.8	408.1	382.5	356.0	328.8	315.6	304.2	**285.1**
% Single Play Cable Customers	37.3%	35.0%	32.9%	30.6%	28.5%	27.3%	26.2%	**24.2%**
DTH Subscribers	412.1	410.6	410.4	407.6	398.9	395.0	391.9	**388.7**
Premium Sports and Movies Penetration (4)	48.5%	47.3%	45.6%	44.4%	44.1%	41.6%	42.9%	**41.9%**
RGUs (5)	2,950.5	3,011.4	3,076.5	3,147.4	3,181.3	3,212.8	3,256.6	**3,315.1**
Cable RGUs per Subscriber (units) (6)	2.08	2.14	2.19	2.25	2.29	2.31	2.33	**2.36**
Blended ARPU (Euros)	35.2	35.6	35.8	35.1	35.8	35.8	36.0	**35.5**
Net Additions								
Triple Play Customers	52.3	35.2	31.6	38.8	23.8	12.5	10.3	**19.9**
Basic Subscribers	(6.4)	(11.6)	(3.8)	(1.5)	(17.1)	(1.6)	1.4	**12.8**
Fixed Broadband	24.7	14.7	16.3	23.8	14.4	10.1	10.2	**14.2**
Fixed Voice	62.0	45.9	40.3	45.3	29.9	19.3	17.3	**39.9**
Mobile	11.7	11.8	12.3	3.2	6.8	3.7	15.0	**(8.4)**
RGUs	92.0	60.9	65.1	70.8	33.9	31.5	43.8	**58.5**
Cinema								
Revenue per Ticket (Euros)	4.6	4.6	4.8	4.7	4.7	4.9	5.1	**4.8**
Tickets Sold	2,471.6	1,716.6	2,670.0	2,242.5	2,016.5	2,093.6	2,371.7	**2,260.4**
Screens (units)	213	213	213	213	217	217	217	**217**

(1) The number of homes passed was corrected in 3Q11, consisting of a database cleanup of around 86.5 thousand homes. Data for the previous quarters was not restated.
(2) These figures are related to the total number of Pay TV basic customers, including the cable and satellite platforms. ZON Multimedia offers several basic services, based on different technologies, directed to different market segments (residential, real estate and corporate), with a distinct geographical scope (mainland Portugal and the Azores and Madeira islands) and with a variable number of channels.
(3) Mobile subscribers include Mobile Voice and Mobile Broadband.
(4) Includes Sports, Movies and other Premium channels with relevant scale and Subscription VoD services.
(5) Total RGUs reported reflect the sum of Pay TV, Broadband, Fixed Voice and Mobile services.
(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.

7.2 APPENDIX II

Table 9.

Profit and Loss Statement (Millions of Euros)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Operating Revenues	213.5	216.2	221.6	221.1	214.1	211.5	213.7	**215.6**
Pay TV, Broadband and Voice	192.7	197.4	196.3	199.4	195.6	191.6	191.4	**193.8**
Audiovisuals	15.5	19.0	20.1	18.4	17.1	17.7	17.6	**20.1**
Cinema	15.7	12.1	18.5	15.3	13.6	14.4	16.5	**14.7**
Others and Eliminations	(10.4)	(12.3)	(13.3)	(11.9)	(12.1)	(12.2)	(11.9)	**(12.9)**
Operating Costs Excluding D&A	(140.2)	(140.0)	(142.1)	(147.7)	(134.6)	(132.9)	(134.1)	**(142.0)**
W&S	(14.3)	(14.5)	(13.9)	(15.5)	(14.7)	(14.4)	(15.3)	**(14.9)**
Direct Costs	(61.6)	(62.3)	(64.0)	(63.8)	(61.1)	(60.9)	(61.2)	**(60.8)**
Commercial Costs (1)	(16.7)	(17.9)	(17.8)	(22.4)	(15.2)	(12.1)	(13.1)	**(21.6)**
Other Operating Costs	(47.5)	(45.3)	(46.3)	(45.9)	(43.6)	(45.5)	(44.5)	**(44.7)**
EBITDA (2)	73.3	76.2	79.5	73.3	79.5	78.5	79.6	**73.6**
EBITDA Margin	34.3%	35.3%	35.9%	33.2%	37.1%	37.1%	37.2%	**34.1%**
Depreciation and Amortization	(53.1)	(52.1)	(55.4)	(58.9)	(55.6)	(53.3)	(55.5)	**(53.3)**
Income From Operations (3)	20.3	24.1	24.1	14.4	24.0	25.3	24.1	**20.3**
(Other Expenses) / Income	(0.0)	(0.4)	(0.6)	0.5	0.3	(0.9)	(0.4)	**0.0**
Operating Profit (EBIT) (4)	20.2	23.6	23.5	14.9	24.3	24.3	23.7	**20.3**
(Financial Expenses) / Income	(7.2)	(6.7)	(7.2)	(7.1)	(7.5)	(8.1)	(8.5)	**(8.6)**
Equity in Earnings of Affiliate Companies, Net	(0.9)	(1.3)	(3.2)	(2.4)	(2.8)	(2.3)	(2.0)	**(3.2)**
Income Before Income Taxes	12.1	15.6	13.1	5.3	14.0	13.9	13.3	**8.5**
Income Taxes	(2.4)	(1.5)	(4.1)	(1.4)	(3.6)	(4.6)	(3.9)	**(2.7)**
Income From Continued Operations	9.7	14.1	9.0	4.0	10.4	9.2	9.3	**5.9**
o.w. Attributable to Minority Shareholders	(0.4)	(0.5)	(0.4)	(0.1)	(0.2)	(0.0)	(0.2)	**(0.2)**
Net Income	9.3	13.6	8.6	3.9	10.2	9.2	9.1	**5.7**
Baseline CAPEX	50.1	41.5	41.6	45.2	35.9	33.8	31.7	**39.2**
Total CAPEX	53.9	56.3	59.4	78.5	38.8	35.5	35.1	**40.5**
Free Cash Flow	(35.5)	(8.7)	3.4	(7.0)	(2.0)	(15.1)	37.9	**30.8**
Net Financial Debt	577.2	635.7	632.6	639.7	641.7	706.8	668.3	**637.5**

(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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