

06 JANUARY 2010

**ZON MULTIMEDIA**

TELECOMMUNICATIONS

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**COMPANY REPORT****Fighting for Leadership...***Window of opportunity for defining clients...*

- We are initiating our coverage of Zon Multimedia with a price target of €5.90 per share and a BUY recommendation.
- We envisage the company will continue to report a strong set of results boosted by its **core business**. Although a tough fight with PT is evident, we are confident about the success of its up sell strategy. We believe the company will manage to progressively grow in terms of RGU and consequently in ARPU levels. Currently, the company owns 67% market share in the Pay-TV market and a 37% 3Play penetration over its cable client base. 3Play penetration and digital TV are expected to continuously grow at full speed.
- **Telecoms market trend:** the bundled offers. Portugal has penetration ratios below the European average, benefiting Zon with its multiple play strategy. Also, the short-term competitive advantage of Zon in the technological field allows it to grab and define its future client base.
- **Medium-term margin expansion:** the stabilization of the client bases and consequent softening in the competitive environment will allow the increase in EBITDA Margins.
- **Consolidation with Sonaecom:** seems to continue to be a hot topic. We believe it would be beneficial for the company, and would allow the incorporation of a mobile segment and the achievement of €362.0m synergies.
- **Significant growth potential in Angola:** the entrance of Isabel dos Santos in Zon's capital gives investors more confidence in the feasibility of this business as well as in the company itself. A robust potential of the country and no relevant competition should reflect a considerable value added for Zon.

**Recommendation:** BUY**Price Target FY10:** 5.90 €

Upside 34.0%

**Price (as of 6-Jan-10)** 4.40 €

Reuters: ZON.LS, Bloomberg: ZON PL

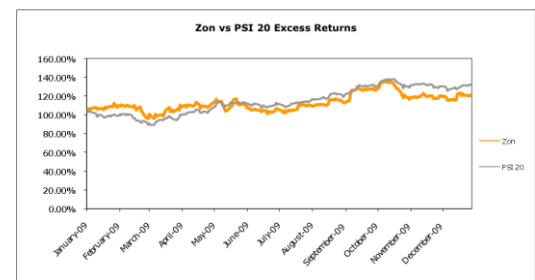
52-week range (€) 3.58-5.01

Market Cap (€m) 1360.64

Outstanding Shares (m) 309.097

Free Float 23.4%

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2008	2009E	2010E
Revenues	773.0	825.6	895.4
EBITDA	235.5	223.1	289.1
EBITDA Margin	30.5%	31.9%	32.3%
Depreciation	140.4	187.4	189.9
EBIT	95.1	75.6	99.2
Net Financial Results	-25.9	-29.6	-33.9
Income Taxes	-22.5	-12.2	-17.3
Net Income	43.1	31.8	46.1
Net Debt	552.6	631.4	722.7
Capex	160.8	191.7	209.3
EPS	0.16	0.10	0.15
Total Assets	1.323	1.239	1.289
Total Shareholder's Equity	192	195	200
Total Liabilities	1.131	1.045	1.090

Source: Company data for historical figures and Nova Equity Research Team for estimates

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## Company overview

ZON Multimedia is the main cable operator in Portugal and the leader in the Pay-TV business. The company was initially called PT Multimedia, an entity founded in July 1999 as part of the Portugal Telecom (PT) Group.

On 7 November 2007 the company underwent a friendly Spin-Off from its parent company, becoming an independent entity. Following the emergence of a new business strategy and entity, the shareholders approved the creation of a new corporate name and brand- ZON (ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A.).

**Zon Multimedia became an independent entity after the Spin-off from its parent company PT in 2007**

## Company description

Zon Multimedia is composed of three main business areas, as we can see in the following chart:

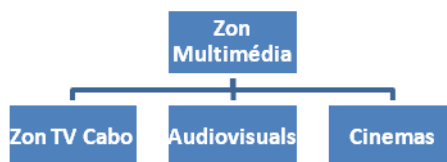
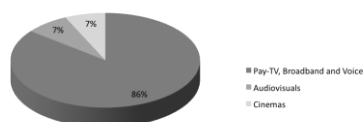


Chart I: Breakdown by business



Source: Company data

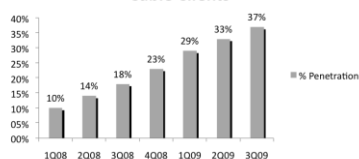
Zon TVCabo, responsible for the telecommunication segment, is the largest segment of the group, with over 85% of the total revenues, as can be verify in the chart on the left. The Audiovisuals and Cinemas segments, although with relatively low weights (7% of the total revenues) play a crucial role in the strategic and synergies fields.

## Zon TVCabo

The main business of Zon TVCabo is the Pay-TV service, where the company is a natural winner. For some years Zon TVCabo only provided stand-alone Pay-TV services as it was included in the PT Group, which was responsible for the offer of other telecoms services. However, after the spin-off from this group, Zon became aware of the new market trends and the importance of providing more complete and attractive offers and decided to widen its business to the fixed voice and broadband services. The company initiated its offer of multiple play bundles through which it intended to expand its business. The main focus of Zon has been the 3Play packages, which include Pay-TV, fixed voice and broadband services. Currently, Zon Multimedia is the largest Triple Play operator in Portugal with 36.6% penetration of its cable subscriber base, which can prove the success of its up sell strategy (see chart II).

**Zon TVCabo is the main segment of the company with an 85% stake of the total revenues**

Chart II: Zon 3Play Penetration over Cable Clients



Source: Company data

With over 1.6 million customers and more than 3 million homes passed, it is the leader in the Portuguese Pay-TV market in which it has around 67% of market share, and is one of the largest European operators. The company is currently investing in the expansion of its digital grid and its cable and satellite platform as a way of increasing the variety and number of channels.

In May 2008 the company launched a new Zon Box, responding to the new Pay-TV service of PT, Meo, commercialized in April 2008 and the new market needs. The consumer demand for more sophisticated Pay-TV services led to the need for new functionalities that have completely revolutionized the way TV was initially seen. Meo brought a new approach to the market, which was immediately followed by Zon through these boxes. The Zon Boxes have different features, which allow completely new experiences for clients. Now it is possible to have a digital recorder, capable of recording up to 200 hours as well as controlling the broadcast. Other functionalities such as Video-on-Demand, Electronic Programming Guide (EPG), mosaics, search pages, among many other functionalities, are available with this equipment. Both cable and satellite subscribers can possess these boxes, which are also compatible with High Definition Technology. These boxes have been competing in a tough way with the ones of Meo as both present quite similar characteristics.

In Broadband Internet Zon stands out as the 2<sup>nd</sup> largest provider in the market with more than 600 thousand clients and a penetration ratio of 50.3% of the cable customers. Currently Zon is the only player in the market capable of providing speeds of up to 200 Mbps to 1.8 million households due to its Next Generation Network (NGN) EURODOCIS 3.0. This hybrid fibre-coaxial network is also expected to provide speeds of 100 Mbps to its entire network by the end of 2009 as well as reach 400 Mbps by 2012.

Moreover, fixed telephony was introduced in 2007 as a way of complementing the company's offers. Zon has been able to increase its market share in this service, reaching more than 500 thousand subscribers, which reflects the success of the company's strategy. The company was also the only operator that raised its market share in this service, currently affected by the fixed-mobile substitution effect. Nowadays, this service represents a penetration ratio of around 45% of the cable base.

At the end of 2008 Zon placed its emphasis on expansion to the mobile business with the introduction of mobile voice (Zon Mobile) and mobile broadband. These services are supported by a Mobile Virtual Network Operator (MVNO) and allow the company to expand its offer from Triple Play to Quadruple Play bundles.

***Zon is already the second largest provider of Broadband Internet***

***The MVNO has allowed the offer of Mobile services***

## Audiovisuals

The Audiovisuals segment is responsible for the supply of contents and works in partnership with the most prestigious names in film distribution, publishing and video distribution. The company manages the movies' broadcast rights and trades the films in the Portuguese market. It is also in charge of producing and distributing Premium channels as well as managing their advertising space. Zon also has participations in TV Channels owners' companies, namely a 50% stake in Sport TV and 100% in the TV Cine Channels.

***Audiovisuals segment allows a competitive advantage over its competitors***

This segment gives a significant competitive advantage over the competitors as it guarantees the control and management of some of the most seen channels, Sport TV and TV Cine. Anacom<sup>1</sup> recently assessed the main drivers when choosing a Pay-TV service of Zon and 21% of the respondents consider the channel availability to be crucial for this choice. This segment also allows for Zon some diversification in the revenues as it balances both sides of the content/delivery equation.

## Cinemas

The Cinemas division is in charge of the management of 213 cinema theatres in 32 complexes. The company is positioned as a market leader, which has been possible due to its emphasis on the new functionalities and trends of this business. Zon was the pioneer in 3D digital platforms in the cinema. This segment is supported by the Audiovisuals one, which supplies the contents needed for the functioning of the Cinema business, reflecting, as the previous segment, a safer position for the overall entity.

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<sup>1</sup> *Inquérito ao consumo dos serviços de comunicações electrónicas* in December 2008

## Shareholder Structure

**Table I: Current Shareholder Structure**

Shareholder	Stake
Caixa Geral de Depósitos	17,5%
Banco BPI	8,9%
Cineste	5,6%
Telefónica	5,5%
Espírito Santo Irmãos	5,0%
Cofina	4,9%
Joaquim Oliveira	4,8%
Fundação José Berardo	4,3%
Ongoing Strategy Investments	3,2%
Banco Espírito Santo	2,9%
Grupo Visabeira	2,2%
Grupo SGC	2,0%
Espírito Santo Fundos de Investimento Mobiliário	2,0%
BES Visa- Companhia de Seguros	1,9%
Metalgest- Sociedade de Gestão	1,3%
Zon own shares	4,5%
Free Float	23,4%

Source: Company data

ZON's shareholder structure can be seen on the left. Although it is composed of many shareholders, it is possible to highlight three main ones: Caixa Geral de Depósitos (17.5%), Grupo Espírito Santo (including the Espírito Santo Irmãos, Banco Espírito Santo, ES Fundos de Investimento Imobiliário and BES Vida, with 11.7%) and Banco BPI (8.94%).

The recent announcement of a future acquisition of a 10% stake by Isabel dos Santos through Kento Holding Limited sent positive signs for Zon. The purchase by the entrepreneur allows two important scenarios for the company: the inclusion of a new shareholder of reference and consequent strengthening of the shareholder structure, as well as the reinforcement of the partnership with Angola. This last scenario presents an excellent opportunity to Zon as the company is currently launching a Pay-TV service over Satellite in this country, which has an enormous growth potential. Notwithstanding, the shareholders will have to approve in general assembly the sale of the 4.5% stake in own shares in January 2010. However, we do not consider there will be any opposition to this operation as the main shareholders have already approved the entrance of this entrepreneur in Zon's capital: CGD, BPI, Cofina and Joaquim Oliveira. Also, the CEO of Zon, Rodrigo Costa, said that "every shareholder that is interested in the company will accept this operation".

Regarding a possible consolidation with Sonaecom we can verify that the current shareholder structure does not make this operation easy. We can see that there are some shareholders in common with Portugal Telecom, who would probably not see this operation from a positive perspective. A consolidation would lead to the creation of a stronger and more complete company, which would also include the mobile business. As a consequence, Telefonica, Grupo BES, Grupo Visabeira and Ongoing are likely to be against this operation. They represent 22.5% in total. Moreover, Cofina also announced in September 2009 it was in opposition to a possible consolidation. The company does not see any benefit in changing the current successful strategy of Zon. From a different perspective we see Banco BPI and José Berardo that have already manifested in favour of a consolidation. Both together have a 13.3% stake of the company. As a result, the main shareholder of the company, CGD, would have a crucial role in the decision about the operation as this would require approval by two thirds in a general assembly. If CGD approved the operation, the conditions implied would be essential to the remaining shareholders' decision. Paulo de Azevedo, Sonaecom's CEO, has already announced he would be willing to concede the control of the future company, which will probably reflect good conditions for Zon, making this operation feasible.

**Table II: Shareholder Structure with Kento**

Shareholder	Stake
Caixa Geral de Depósitos	15,0%
Kento	10,0%
Banco BPI	8,9%
Telefónica	5,5%
Espírito Santo Irmãos	5,0%
Cofina	4,9%
Joaquim Oliveira	4,8%
Fundação José Berardo	4,3%
Ongoing Strategy Investments	3,2%
Cinest	2,8%
Banco Espírito Santo	2,9%
Grupo Visabeira	2,2%
Grupo SGC	2,0%
Espírito Santo Fundos de Investimento Mobiliário	2,0%
BES Visa- Companhia de Seguros	1,9%
Metalgest- Sociedade de Gestão	1,3%
Free Float	23,4%

Source: Company data and Nova Equity Research Team

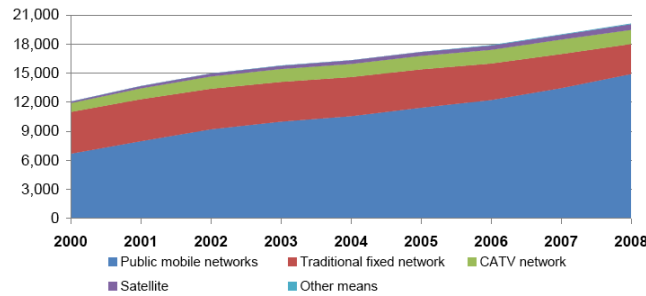
***Although it does not seem an easy task we believe there are conditions for a consolidation with Sonaecom***

## Portuguese Telecoms Sector

***An incredible development in the Portuguese telecoms market has been visible***

The Telecommunication Sector has been experiencing dramatic expansion and development over the last couple of years. A constant effort in innovating and improving the electronic communications has been proving to be a main concern to the Portuguese Government.

**Chart III: Evolution of number of clients by access network**



Source: Company data

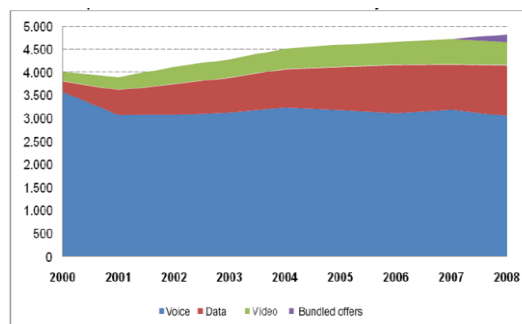
Unit: Thousand Clients

The competitive environment also manifested incredible modifications after the Spin-off of PT Multimedia from PT in 2007. The emergence of a new entity, ZON Multimedia led the reappearance of new corporate strategies (mainly PT and ZON), which have been aggressively applied in order to gain a market position in such a complex and attractive sector.

***The bundled offers have completely revolutionized the telecoms market***

Moreover, a new trend has been visible in the international and national markets: the provision of multiple play bundles. These packages include more than one service and are characterized by their attractive prices. They have been used as a strategy to combat the churn, attract clients to more services and also invite new ones, who now have easier access to the electronic communications. This tendency has led to the unbundlers' loss of market share and as a result, the market has been increasingly becoming a duopoly between Zon and the incumbent operator PT.

**Chart IV: Evolution of the number of clients by type of offer**



Source: Company data

Unit: Thousand Clients

***The market is becoming more and more a duopoly between Zon and PT***

In our base case we expect this duopoly to significantly affect the competitive environment in the future. A high degree of rivalry between PT and Zon is foreseen. The companies will not be able to considerably increase prices as this is known to be an important factor. Anacom has recently assessed the main reasons for choosing a communication service and the price stands in the first position for the internet service and in the second one for the fixed-voice and Pay-TV services<sup>2</sup>. As a consequence, a continuous fight between these two main operators is expected, although in a softer way when the client bases define. Moreover, constant development in the technological field is also predictable as this sector is mainly led by constant innovation, which in a medium/long-term defines the success of the companies.

***The Government has been emphasising the NGN as a way of developing the country***

From a technological perspective, in 2008 the Government approved some political, regulatory and financial measures to promote and develop the New Generation Networks (NGN). Of these, we highlight the NGN investors' access to credit of at least 800 million as well as the creation of incentives for investing in these networks. The commitment of the Government to the improvement of this sector is evident, it being considered one of the crucial factors for the economic and social development of Portugal. Moreover, it is also seen as a way of speeding up the recovery from the economic crisis we have been experiencing as these NGN will allow more efficient communications and consequently, greater efficiency in the economic entities. From these initiatives to expand and make fibre-optic networks available to 1.5 million Portuguese, a continuing fight can be anticipated in this area, which will certainly lead to an overall change in the sector and competitive environment.

## **New Generation Networks (NGN)**

***The technological issue has been on the top-line of the sector's debate***

The telecommunications sector has been the subject of a continuing discussion regarding different technologies deployed in the supply of telecoms services. It seems to be essential to choose the right technology as it will clearly define the future and success of each company. Thus, we will briefly describe the two main technologies in order to understand this sector and its future tendency:

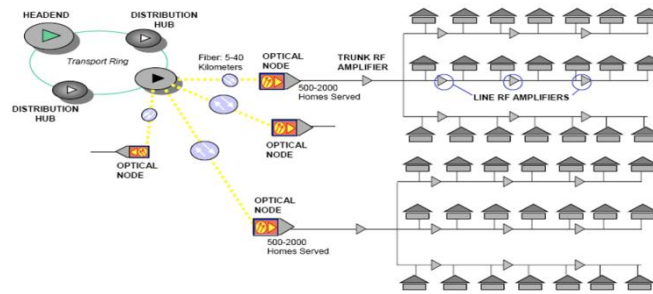
- Hybrid Fibre-Coaxial (HFC): mainly deployed by Cable operators (Zon Multimedia and Cabovisão)
- Fibre-Optic (FTTH): mainly deployed by incumbent operators (PT) and others (Sonaecom)

On one hand, we have the Docsis technology, which has been the main form the cable companies have been employing in their **Hybrid Fibre-Coaxial** network.

<sup>2</sup> *Inquérito ao consumo dos serviços de comunicações electrónicas* in December 2008

This technology uses a combination of fibre optic cable and coaxial cable to deliver telecoms services such as video, Internet, and voice. The fibre optic cable extends the cable HFC network to a neighbourhood and then the fibre is linked to an optical node and the sign is converted from optical to electrical, as can be seen below.

**Chart V: Hybrid Fibre-Coaxial technology process**



Source: Wikipedia

From there, the signal is dispatched to the coaxial cable through radio frequencies, where trunk and line amplifiers are used to ensure the signal is able to reach the houses in good conditions. Then, the cable modems or set-top boxes receive the signal, which means the quality of the service will mostly depend on the performance of the amplifiers.

On the other hand, we have the **Fibre-Optic** technology. This technology uses a glass or plastic fibre to carry light along its length. This light forms an electromagnetic carrier wave that is modulated to transmit information. It is believed to be the most capable form to transmit data over longer distances and at higher bandwidths. Moreover, it does not need any amplifier to reach the final destination, which is why this technology is seen as more reliable than the previous one.

**Chart VI: Fibre-Optic technology process**

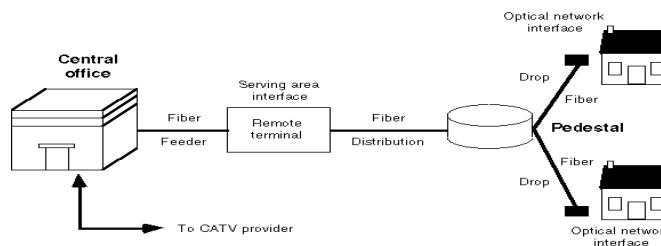


Figure 3.6

Source: Wikipedia

In the specific case of Zon, it can be seen that the company has different forms of access to final consumers, which is dependent on the localization. Although Zon also has a FTTH (Fibre to the Home) technology in the acquired TV Tel network, covering over 100 thousand households in Lisbon, the main access is by FTTB (Fibre to the Building) and FTTLA (Fibre to the last amplifier). These FTTB and FTTLA are deployed in the cells with high broadband penetration, as a way of assuring the quality of the signal. In addition, Zon also offers FTTC (Fibre to the Cell) to the remaining cells of the network. This implies the provision of fibre network until the curb and coaxial cable to the home.

Bearing this in mind, we envisage that the speeds that will be available in the near future will be subject to the localization of the client and the penetration of the services. It is also important to mention that some limitations can arise from a consumer perspective. Nowadays the terminal equipment used by the customers is only capable of supplying speeds from 10 to 100 Mbps. There are very few prepared to reach a 1 Gbps. Zon is currently able to offer New Generating services, that is, speeds of at least 50 Mbps to 1.0 million households. However, it is not possible to assure the total reliability of the overall network as the final quality will be subject to the value of the signal sent by the amplifiers and the features of each access, as previously stated. Even so, we believe the failure in the speed delivery will not be significant and, from a residential point of view, we do not believe this issue will have a considerable weight when deciding the service, as the final speeds will be sufficient to satisfy this segment.

Below we will present a comparative assessment of both technologies as a way of better understanding the potentialities and limitations of them.

**Chart VII: Main features of HFC and Fibre-Optic technologies**

	Hybrid Fibre-Coaxial (Zon)	Fibre-Optic (PT)
Current Max capacity	200 Mbps (100k houses with 1Gbps)	100 Mbps
Coverage of NGN by the end of 2009	2.8 million	1 million
Time to Deploy	Fast	Slower
Max Capacity prospected (Medium Term)	400 Mbps	1 Gbps
Up-Front Cost (approximately per client)	Low (15 Euros)	High (1000 Euros)
Reliability	Lower	High
Operating Costs (w/ amplifier)	High	Low

Source: Company data and Nova Equity Research Team

It is important to mention that their real potential is not sufficiently proved and, consequently, the data presented here only reflects the studies and prospects available. Even so, we can verify that Zon currently has a considerable comparative advantage in the technological field. The company is able to offer higher speeds at a much lower up-front cost. Also, the deployment is significantly faster than the Fibre-Optic. However, taking into account what is presently known, the technology of PT will clearly surpass the Docsis 3.0 either in terms of speeds and operational costs in a medium-long term.

***Zon has an opportunity to define its client base due to its short-term competitive advantage***

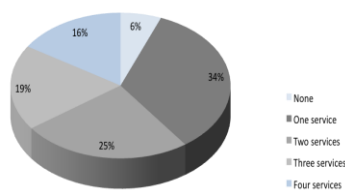
## Multiple Play Bundles

**The Multiple Play bundles have allowed the subscription of different services at attractive prices**

As previously stated, the telecoms market has been witnessing a completely new approach in the available offers. Nowadays, it is not so common to subscribe to a single electronic communication service. The increasingly competitive and hostile strategies applied in this sector have led to the need to attract new clients as well as fight the churn. By subscribing to more services, the customers feel more committed to the company and become less prone to cancel the services. Additionally, these bundles are offered at quite attractive prices, which means that in many cases it turns out to be more profitable to purchase a multiple play package than a stand-alone one. Thus, in an overall perspective it has become more advantageous both to the clients, who now have access to more services at better prices, and to the companies, which are able to attract new clients and easily combat the churn.

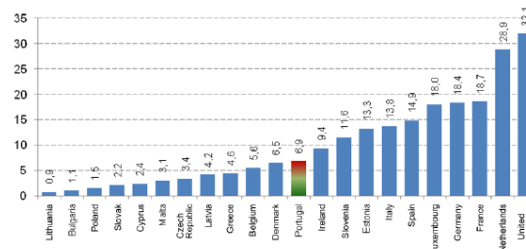
In this scenario, the emphasis on the multiple play bundles has been significant. The penetration ratios of these packages has been steadily growing, with Portugal reaching a figure of 6.9% in this ratio in 2008, as we can see below. Still, we are able to verify that there is room for growth in this segment. The average of the EU 27 is 10%, which is significantly above the Portuguese average. In addition, in the left graph we can see that there are still a considerable number of Portuguese consumers that do not subscribe to any service or only subscribe to one.

Chart VIII: Number of Services Subscribed in 2008



Source: Anacom

Chart IX: Penetration of bundled offers in EU 27 in 2008



Source: Anacom

## Pay-TV Market

The Pay-TV service appeared in Portugal in 1994 through a cable network distribution. This primary service was characterized by a free regime and regional delivery. Nowadays, the offer is much more complex with the appearance and development of different technologies. From these, one can highlight:

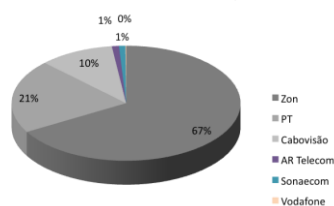
- Cable TV- Hybrid Fibre-Coaxial (HFC): Zon Multimedia and Cabovisão
- Satellite TV- Direct to Home (DTH): Zon, PT, Cabovisão

- Internet Protocol television (IPTV) and Digital Video Broadcasting — Terrestrial (DVB-T): PT, Sonaecom, AR Telecom
- Optic Fibre (FTTH): PT, Sonaecom

As has occurred in the telecoms sector as a whole, the Pay-TV segment has also changed significantly in recent years. This market was formerly composed of two main operators: the dominant operator- TV Cabo from PT Multimedia- with a market share of 80% (in 2006) and Cabovisão, with a 15% market position. Nonetheless, the scenario was severely modified with the Spin-off of PT Multimedia from its parent-company PT. The creation of Zon TVCabo together with the new market trends led to PT's awareness of the importance of providing all telecommunications services. The new multiple play packages seemed to be the future in the sector and in a residential segment the driver when choosing a package was clearly the Pay-TV. In this context PT launched its Pay-TV service, Meo, which completely revolutionized the Pay-TV market.

We have also been witnessing the emergence of a duopoly market between PT and Zon. The aggressive fight for leadership between these two main players has been visible, which has been decreasing the weight of other Pay-TV operators in this segment. In 2008 Zon reinforced its market share with the acquisition of TVTel, Bragatel and Pluricanais. The chart in the left shows the Market Share of the Pay-TV market in the 3Q09.

Chart X: Market Share in 3Q09

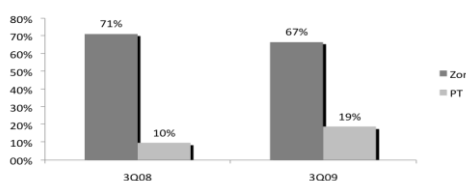


Source: Anacom

Since the entrance of Meo in the market, there have been intensive advertising campaigns and the consequent awareness of the development and innovation, which significantly boosted the clients of this segment. In the 3Q09 this segment reached 2.4 million subscribers and a 44% penetration of Portuguese households. This increase in Pay-TV subscribers has been mainly driven by the new offers of IPTV as well as DTH.

Meanwhile, a reduction trend in the Cable Subscribers has been seen with PT gaining ground with its IPTV service. PT achieved 21% of market share after only 18 months of its Pay-TV service launch, which reflects the decrease in Zon's market share in this segment as we can see in chart XI.

Chart XI: Evolution of Zon and PT Market Shares in Pay-TV (3Q08-3Q09)



Source: Anacom

***Price and contents seem to be the most important factors when subscribing a Pay-TV service***

Bearing in mind these trends we had forecasted this market, where we took into account two different perspectives: its potential organic growth and future distribution for the different operators, which will be a reflection of the main decision factors when choosing a Pay-TV service. In recent years, the channels availability has been a crucial factor, as we can verify in a recent study of Anacom, which states the contents of Zon to be the reason for 21% of its client choice. Meanwhile, from a PT perspective the low prices seem to be the crucial reason, with 26.8%. Consequently, we consider the contents and prices to be essential factors in the future. Currently, the tough fight between the main operators has been leading to similar prices and contents as these companies have perceived their importance for the final decision. Moreover, the quality of the service provided to the customer and a strong management team, capable of anticipating the necessities of the clients, will clearly define the medium-long term success of these players.

When analysing the potential growth of this market we assessed the evolution of it in Europe. Portugal has a Pay-TV penetration ratio of Households below some benchmark European countries. It is possible to verify a penetration ratio of around 50% in the UK and 80% in Belgium, compared to the Portuguese 44%. In addition, if we analyse the Portuguese population profile we can verify that this potential has become more evident. In a recent study of Anacom, it can be seen that the Portuguese population is one of the populations that watches the most TV in Europe. In addition, the 38% of the Portuguese population who do not have access to Pay-TV in Portugal identify the high prices charged as the main explanation for this. This is a good indicator of the potential of this service in the Portuguese population, who increasingly have access to different offers at attractive prices.

Bearing this in mind, we believe Portugal will be able to reach a penetration ratio of 65% of the households by 2018. We gauge that the negative trend in the cable market share will continue until PT and Zon market shares match each other. We have taken into account the goals outlined by PT for the following years. Zeinal Bava, CEO of PT, announced it would become a market leader in the Pay-TV segment by the end of 2012. Although we believe in the potential of Zon both in terms of technology and management, we consider it will be difficult to stop the increase in the number of Meo subscribers as this service has been proving to be excellent. In August 2009 Anacom<sup>3</sup> analysed the satisfaction of the Portuguese in the communication sector and concluded that the internet and Pay-TV services of PT are the ones with more satisfaction. From a European Consumer Satisfaction Index (ECSI) model Meo has reached a figure of 7.15 (1/10) while Zon 6.65 (1/10),

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<sup>3</sup> *Índice Nacional de Satisfação do Cliente 2008*

***The high-quality of PT will be a threat to the company***

which is a sizeable difference. This index is computed taking into account the four main factors: the image, the consumer expectation, the perceived quality and price/quality relationship. We have also to bear in mind the quality of the management and brand of PT, which was considered the 41<sup>st</sup> most valuable telecoms brand in the world in September 2009 by Brand Finance, being the only Portuguese company to be mentioned. This proves the strength of the company and the potential to successfully accomplish the goals proposed in its strategy.

It is also important to mention that in 2008 Anacom verified that Cable TV, in which Zon has a major position, was the third service with most complaints. This means we are likely to see some clients seeking new offers in this service. Also, if we take a look at a recent study of Anacom<sup>4</sup> that assesses the key aspects when choosing a Pay-TV service we can verify that 23% of the respondents that chose Zon stated that it was the only operator to cover their area, which is a clear indicator of the potential of another competitor such as PT in this service.

***Still room for Zon in the Pay-TV market***

Although we envisage that PT will significantly increase its market share, we believe Zon will also be able to slightly increase its client base, which is justifiable by the high growth potential of this market and an increase in its satellite clients. With the MVNO obtained in 2008, Zon is now capable of offering 3Play packages to the zones in which it has no cable distribution. This is an excellent strategy to apply in the satellite Pay-TV distribution, which is currently experiencing a negative trend in its clients. With this agreement Zon saw an opportunity to attract new clients as well as to combat the churn. Moreover, we do not believe the difference in the Docsis 3.0 technology to be sufficiently significant for Zon's loss of clients. Both companies can offer high definition channels as well as offer as many Pay-TV services as the customer wants, without interfering with the quality of internet and voice services. As a consequence, we do not expect this service to be driven by technological factors. The market is expected to be distributed as below:

**Table III: Pay-TV market estimates**

Pay-TV Market (000's)	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2018E
Zon	1.547	1.525	1.639	1.677	1.704	1.722	1.745	1.744
PT	21	312	538	655	810	980	1.122	1.744
Cabovisão	299	285	220	223	224	208	187	190
Sonaecom	19	30	24	26	28	30	31	4
Others	128	127	24	39	28	30	31	0
<b>Total Subscribers</b>	<b>2.014</b>	<b>2.279</b>	<b>2.447</b>	<b>2.620</b>	<b>2.794</b>	<b>2.969</b>	<b>3.116</b>	<b>3.710</b>
<b>Penetration of Households</b>	<b>36,0%</b>	<b>40,7%</b>	<b>43,6%</b>	<b>46,6%</b>	<b>49,6%</b>	<b>52,6%</b>	<b>55,1%</b>	<b>65,0%</b>

Source: Company data and Nova Equity Research

<sup>4</sup> *Inquérito aos consumidores residenciais* in December 2008

**Table IV: Digital TV Penetration 2008**

Finland	100%
Iceland	98%
UK	88%
Norway	72%
France	70%
Ireland	64%
Cyprus	64%
Spain	64%
Sweden	64%
Malta	63%

Source: Anacom

It is also important to take a look at the potential of Digital TV, as this is a segment of the Pay-TV market that is not significantly developed in Portugal and that will allow a considerable increase in the ARPU<sup>5</sup> of the company. We can see in the table IV on the left the penetration of this service in many European countries. Due to the lack of data we do not have this figure for Portugal. However, we can verify that in 2008 the percentage of digital TV in the cable client base of Zon was 32.5%, which is a low value in comparison with the other countries. Consequently, we expect the ARPU levels to be boosted by this service, which clearly reflects an opportunity for the company.

Going forward, we believe the market will still be driven by the Pay-TV service. Also, the evolution of the demand for high speeds of internet is developing at a slow pace, making us believe there will not be a change in this area in the following years. In addition, the residential segment we consider the Docsis 3.0 technology to have sufficient capacity to satisfy their clients.

### Fixed Broadband Market

The internet market has been growing at an incredible pace over the last couple of years. Nowadays, all kinds of information are available on the internet as we have been witnessing the emergence of an internet era. This service is becoming increasingly important for the majority of the population, especially the younger generation, who use it on a daily basis and who reflect the future potential of this market.

On the table V we can see the market share of the different operators in the **fixed internet service** in the 3Q09.

It can also be seen that ZON Multimedia has been increasing its market share in this segment, which can mainly be justified by the success of its Multiple Play strategy as well as by the acquisitions of TV Tel, Bragatel and Pluricanal in 2008 (chart XII).

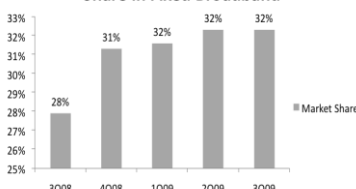
In the 3<sup>rd</sup> quarter of 2009 there were 1.84 million subscribers of fixed internet, of which 1.81 million were already using a broadband service. In a YoY basis the fixed internet subscribers grew 12% (3Q09/3Q08).

The fixed broadband achieved a penetration ratio of 17.6% of the Portuguese population in July 2009, which is significantly below the average of EU 27 (23.8%).

**Table V: Market Share 3Q09**

PT	43,3%
<b>Zon</b>	<b>32,3%</b>
Sonaecom	10,4%
Cabovisão	8,0%
Vodafone	3,8%
AR Telecom	1,5%
Outros	0,7%

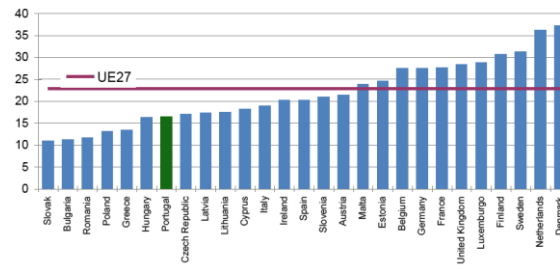
Source: Anacom

**Chart XII: Evolution of Zon's Market Share in Fixed Broadband**

Source: Anacom

<sup>5</sup> Average Revenue Per User

**Chart XIII: Fixed broadband penetration in EU 27 in 2008**



Source: Anacom

This low penetration is explained by the new offers of mobile broadband internet that has been catching the attention of the consumers. The younger generation who live alone have been one of the main causes of this effect, as they have demonstrated greater use of mobile devices. Also, one of the main reasons not to subscribe to the fixed broadband internet service is the lack of PCs. In a recent study of the European Commission we can confirm that "... The Correlation between PC rate... and Internet Rate is almost linear (Pearson equals 0.97). It can thus be said that the lack of PCs is an obstacle to Internet Access...".<sup>6</sup> In March 2008 the penetration of PCs in the household in Portugal was only 39%, compared to the EU 27 average of 57%. Additionally, the prices charged are also referred to as a barrier to adhesion. As we can see in the graph on the left, the prices in Portugal are above the average, which leads us to conclude they may decrease in the following years, leading to the adhesion of more clients.

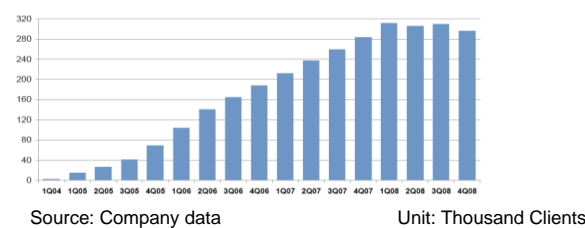
**Table VI: Fixed broadband prices**

Country	Minimum Price	
	Price	Ranking
Germany	8.53	4
Austria	14.58	10
Belgium	11.56	6
Denmark	10.62	5
Spain	18.90	13
France	12.46	8
Netherlands	12.61	9
Ireland	15.66	11
Italy	8.29	2
Luxembourg	17.30	12
Portugal	12.31	7
United Kingdom	0.00	1
Sweden	8.41	3
Total/Average Portugal excluded	11.58	
% deviation of Portugal versus average	6.4%	
% deviation of Portugal versus average	6.4%	

Source: Anacom

Furthermore, as previously stated in the multiple bundles section, there is still significant potential in terms of growth in the multiple play packages. As the current market driver is definitely the Pay-TV service, we believe Zon will considerably increase its clients in two different ways: by the slight increase in its client Pay-TV base and by the growth of fixed broadband penetration in its client base. The company has already achieved a penetration of 50.3% (3Q09) in this ratio, which we consider to be below its potential of 65%. Also, as we can verify in the chart below, the unbundled broadband accesses have been presenting a negative trend, reflecting the new tendency of the telecoms market for multiple play packages and an excellent opportunity for Zon.

**Chart XIV: Unbundled broadband accesses**



Source: Company data

Unit: Thousand Clients

<sup>6</sup> European Commission, E-Communications Household Survey, April 2007

## Fixed Voice Market

In contrast with the other services, the fixed voice service has been presenting a negative trend in recent years. This service has been affected by a fixed-mobile substitution effect, which has been significantly decreasing its penetration. Nowadays almost everyone has a mobile phone. Currently this service has a 140.4% penetration in the Portuguese population, which makes a fixed voice service more dispensable due to the additional costs the client incurs in having both services. Moreover, the price of the mobile service has been getting cheaper and cheaper and therefore it makes no sense for the consumers to subscribe to two different services without any additional benefits. In a recent study of Anacom<sup>7</sup> one can verify that 45% of the current mobile voice clients had fixed-voice service in the past. However, the lack of mobility/convenience, the mandatory subscription as well as the prices charged were the main reasons for the cancellation of this service. This fixed-mobile substitution effect has been visible all over the world with significant reductions in the penetration ratios. Although Portugal decreased its penetration to 38.9% in 2008, it had a lower decline than the average of EU 27, which is mainly explained by the success of the new offers of fixed voice in multiple packages bundles.

***Zon's successful up sell strategy will allow it to continuously grab clients in this market***

Currently Zon has a penetration of 44.8% of its client base, which is approaching the penetration in the fixed broadband internet. This figure reflects the success of its 3Play - it was the only operator to increase its market share in this service over the last period. Going forward, we believe the penetration of this service will almost match the fixed broadband one with a 60% figure. The company has been placing emphasis on these packages and the advantage of choosing two or more services is clear. Consequently, we gauge Zon will be able to maintain these attractive packages in the future, which we believe will lead to an approximation between the penetration of this service and the fixed broadband one.

## Mobile Market

In Portugal the **mobile voice service** was only supplied by entities that have a specific licence as the use of the frequencies depends on individual rights of their use.

However, in February 2007, a new regulation appeared propelling the use of Mobile Virtual Network Operator (MVNO), which brought a different approach to this market. From this moment on it was also possible to offer mobile voice services through the use of the radio frequencies of the already existing operators. Currently, the existing MVNOs are offered by CTT and Zon.

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<sup>7</sup> Índice Nacional de Satisfação do Cliente 2008

Since November 2008 Zon has been willing to offer a mobile voice service through the network of its competitor Vodafone. Although we do not have sufficient data to deeply assess the potential of this service we are able to verify that the MVNO of Zon's is the only one that charges this service by the second and it also offers attractive tariffs. This aspect is quite important as this market already had a high penetration of 140.4% in 2008, which reflects its maturity. As a result, only an aggressive strategy could lead to the attraction of clients in this market.

When analysing the potential of Zon in this market we have to take a look at the termination rates, which will clearly influence the future pricing and success of Zon in this Market. These rates consist of the payment a certain operator has to make to a competitor each time the former calls the latter. These rates are subject to a European Regulation, which has been the subject of a continuing debate. The European regulators have been trying to push these rates to lower levels so that the competitive environment can continue to improve. In an overall scenario, this regulation would make the main players worse off at the same time as the smaller ones would benefit. From a smaller company view this fact is explained by the lower costs it would have to pay to the competitors that would clearly surpass the lower revenues from clients and competitors. As a result, we believe the most probable scenario in this market is the effective decrease in these termination rates, which would reflect a better situation in terms of revenues for Zon.

Due to the lack of information in this market, we assessed the MVNO already in existence in Europe so that we could better analyse the evolution of the subscribers of this service. We found out that in France, the MVNO has reached a 5.10% market share in December 2008 after three and a half years of its launch, which gave us an idea of the potential of Zon.

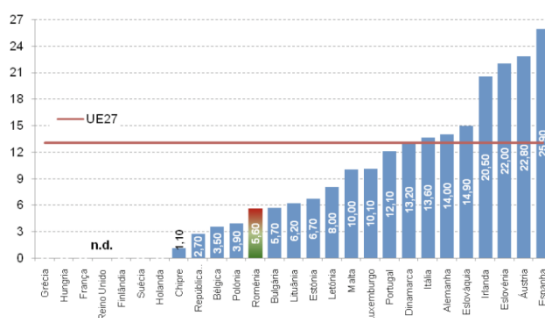
***No convergence in the mobile voice and the fixed services is expected***

Even so, we considered a conservative perspective regarding the mobile voice as we do not believe in the convergence of the mobile voice service with the fixed ones. We envisage this service will not be propelled by the multiple play bundles. The mobile phone is expected to continue to be a personal item, and so it does not make sense for it to be purchased in a global package, which is the main strategy of the company. Moreover, if we take a look at the prices of competitors we can verify that currently the main players in this market offer really attractive prices. We can highlight Tag from Optimus, Extreme from Vodafone and Moche from TMN who already offer free calls within their networks. Zon still has a small network, which means it is only profitable if its clients call outside the network. As a result, it ends up being difficult for Zon to attract market share in this mature market. Even so, we believe the company will continue to slightly increase this client base due to the marketing efforts and aggressive strategy in terms of price.

In addition, the 3Play packages for the satellite customers use the mobile voice to offer fixed voice services, also constituting a source of growth in this segment.

Regarding **mobile broadband**, a service that has been steadily growing and with still potential for growth. We can observe a 12.1% penetration in the Portuguese population, which is below the EU27 average as one can verify in the chart below.

**Chart XV: Mobile broadband penetration in EU 27 in 2008**



Source: Anacom

Responding to the enormous success of mobile broadband and the possible convergence of this service with the fixed one, Zon proceeded to MVNO with Vodafone, as previously stated. This MVNO has also been allowing Zon to offer mobile broadband in the multiple play packages as well as on a stand-alone basis. In such a complex market, where fixed-mobile broadband convergence has also been visible, Zon was able to expand its business to mobile and, consequently, assure its offer of 4Play bundles. We believe the huge potential of the MVNO of Zon will be focused on this market. If we look at other cable operators around the world we can see that these packages have been having considerable success. France Telecom, which also owns Orange; PCCW, the incumbent player of Hong-Kong and Roger Communications, the largest cable operator of Canada have already been success stories in this field. Also, the US Cable operators are offering this type of bundles, which reflects the success seen in this convergence. Bearing in mind the continuing room for growth in this market, reflected in the low penetration, we can expect this bundled strategy to significantly increase the mobile broadband clients of the company. Currently, Zon offers 100 MB mobile broadband for free as well as quite attractive prices either in the packages or the stand-alone service. According to DECO and Protest, Zon has one of the most competitive prices within a range of 75 tariffs analysed. Its tariff of Z- Super 8 is effectively the most competitive for three of five profiles of customers. In addition, it can be regarded as easy to switch from a competitor mobile broadband service to one of Zon as the customer is only charged a 4 euro commission.

As the mobile voice, also the MVNO has allowed Zon to offer mobile broadband to satellite subscribers, being able to offer them 3Play packages.

***Although we opted by a conservative approach we envisage a significant potential for 4Play offers***

## Valuation

### *Valuation through a DCF approach for a 9 year period*

We valued ZON using the Discounted Cash Flow methodology (DCF) for a 9 year period. This approach consists of forecasting the future cash flows of the company and discounting them to their present values. For that, we divided ZON into its three main businesses: telecommunications, audiovisuals and cinema. We firstly estimated the revenues for each division and, afterwards, we computed the costs on a consolidated basis due to the lack of data for each segment. We reached an enterprise value of approximately €2.55 billion for the YE2010. After, we subtracted the expected net debt of €722.7 million as for YE2010, achieving a price target of €5.90.

**Table VII: Zon's valuation**

<b>Cash Flow Statement (€ mn)</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2018E</b>
<b>EBIT</b>	<b>75,6</b>	<b>99,2</b>	<b>126,5</b>	<b>164,8</b>	<b>198,0</b>	<b>222,4</b>	<b>287,5</b>
(+) D&A	187,4	189,9	182,5	170,7	156,4	144,9	132,7
(-) Tax	12,2	17,3	23,5	32,8	40,7	46,5	61,3
<b>Operating Cash Flow</b>	<b>250,9</b>	<b>271,8</b>	<b>285,4</b>	<b>302,7</b>	<b>313,7</b>	<b>320,8</b>	<b>358,8</b>
(-) Working Capital	2,0	8,6	15,4	16,1	17,4	14,6	6,2
(-) CAPEX	191,7	209,3	196,2	186,2	171,4	154,8	156,8
<b>Free Cash Flow</b>	<b>57,2</b>	<b>53,8</b>	<b>73,8</b>	<b>100,4</b>	<b>124,9</b>	<b>151,3</b>	<b>195,8</b>
<b>Discount Factor</b>		100,0%	92,4%	85,4%	79,0%	73,0%	53,3%
<b>Discounted FCF</b>		<b>53,8</b>	<b>68,2</b>	<b>85,8</b>	<b>98,6</b>	<b>110,4</b>	<b>103,9</b>
Sum of DFCF		845,7					
Terminal Value		182,2					
PV of Terminal Value		1708,7					
<b>Enterprise Value</b>		<b>2554,4</b>					
Net Debt (YE09E)		722,7					
<b>Equity (Dec10)</b>		<b>1822,6</b>					
<b>Price Target Eur/sh</b>		<b>5,90</b>					
Current Price		4,40					
<b>Upside</b>		<b>34,0%</b>					

Source: Company data and Nova Equity Research Team

## Discounted Cash Flow assumptions

The discounted rate used was the Weighted Average Cost of Capital (WACC), which reflects the required return on the firm. On the table on the left we can verify the main assumptions for our DCF. The **risk-free rate** chosen was 3.37% a reflection of the 10-year bond rate issued by the German government. Also, the **market-premium** selected was 5.75%.

In order to estimate Zon's **beta** we assessed the levered betas of the comparables of the company based on the general European index, DJ Euro Stoxx 600. Then, we unlevered the betas in accordance with each capital structure and computed their average, reaching a value of 0.88. Assuming the Debt/Equity target of Zon as well as the applicable tax income for the company, 26.5%, we achieved a value of

**Table VIII: DCF Assumptions**

<b>DCF Assumptions</b>	<b>Consolidated</b>
<b>Cost of Equity</b>	<b>9,55%</b>
Risk- Free Rate	3,37%
Market Premium	5,75%
Levered Beta	1,07
<b>After-tax Cost of Debt</b>	<b>3,68%</b>
Cost of Debt	5,00%
Corporate Tax Rate	26,5%
Leverage	30,0%
<b>WACC</b>	<b>8,2%</b>
<b>Perpetuity Growth Rate</b>	<b>2,51%</b>
Real perpetuity growth rate	0,50%
Long-term Inflation Rate	2,00%

Source: Nova Equity Research Team

1.07 for the levered beta of the company. The Debt/Equity ratio for Zon was calculated through the analysis of the past data of the company and the assessment of the comparables' capital structure.

For the **cost of debt** we assumed a value of 5.0%, which was calculated based on the historical data together with the future perspectives of the business and company guidance.

We assumed a **real growth rate** for the company of 0.5%, which we consider to be a conservative one but still reflecting the potential for growth of the company.

## Main Estimates

In our base case we have opted to analyse Zon through a conservative approach. Although we have been witnessing constant rumours in this sector, especially with Zon, we believe a more realistic view is preferable as it will reflect better the real potential of the company. Thus, in our base analysis we will only consider the current characteristics and conditions in which the company is inserted. Later on, we will proceed to an assessment of some probable scenarios in the telecoms sector that would have an impact on Zon's price target.

Before assessing the different estimates of our base case we found it would be interesting to take a look at Zon's SWOT analysis so that we can have an overall idea of the company and market as well as the basis for our assessment.

**Table IX: Zon's SWOT analysis**

SWOT Analysis	
<b>Strengths</b> First mover advantage Currently has a higher coverage of the market Fast speed network (Eurodocsis 3.0) Multiple Play bundles at attractive prices	<b>Weaknesses</b> Network: Lower capacity than Fibre optic based Customer service
<b>Opportunities</b> Penetration of fixed Broadband significantly below the EU average Multiple play Bundles can increase fixed voice penetration More RGU, which will increase ARPU Growth in Mobile Broadband Internet with 4Play packages	<b>Threats</b> Deployment of fibre optic networks in a fast and aggressive way High-quality of competition, namely PT High levels of debt due to Capex

Source: Nova Equity Research Team

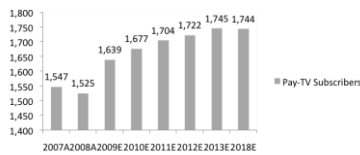
Bearing this in mind, we will present below the main estimates for our analysis.

## Pay-TV: little room for growth

After the launch of PT's Meo in 2007, a tough period in terms of net adds in the basic subscriber base of Zon was experienced. The company faced six consecutive quarters of negative values in this rubric. However, in the 3Q09 Zon managed to invert this tendency, presenting a positive value of 3.3k net adds. In

addition, a slowing down in the growth rate of Meo's subscribers was also visible, which leads us to believe the toughest period in the business has already passed. As we could previously verify in the Pay-TV market assessment, there is still potential in this segment. Even so, we prefer to take a more conservative approach due to the severely competitive environment and high quality of the service offered by Zon's main competitor PT. As a result, we expect Zon to attract more subscribers although at a slower rate than Meo, leading to a loss in its market share. We believe the aggressive fight between Zon and PT will continue and, going forward, we expect PT to match Zon's market share.

Chart XVII: Evolution of Pay-TV Subscribers



Source: Company data and Nova Equity Research Team

Table X: Expected evolution in the Pay-TV market

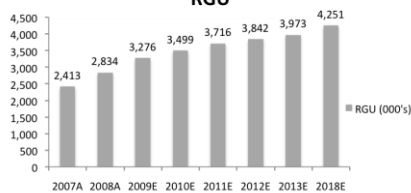
Pay-TV Market Share	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2018E
Zon	76,8%	66,9%	67,0%	64,0%	61,0%	58,0%	56,0%	47,0%
PT	1,0%	13,7%	22,0%	25,0%	29,0%	33,0%	36,0%	47,0%
Cabovisão	14,9%	12,5%	9,0%	8,5%	8,0%	7,0%	6,0%	5,0%
Sonaeocom	0,9%	1,3%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
Others	6,3%	5,6%	1,0%	1,5%	1,0%	1,0%	1,0%	0,0%
<b>Total Market</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: Company data and Nova Equity Research Team

## At an incredible pace on RGU

Although significant growth in the Pay-TV subscribers of Zon is not expected, we still believe the company has a huge potential in the other services offered. Through its multiple play packages, the company has been able to significantly increase the RGU, as we can see on the left chart. This increase has been occurring at a considerable pace and we gauge it will continue in the following years due to the potential of these markets, as we have previously seen. The company has been proving to be quite efficient in attracting the current Pay-TV subscribers to new services, through its multiple play bundles. We can see on the chart II the rapid growth in 3Play penetration of Zon, which is a clear indicator of the success of its up sell strategy. The key performance indicators (KPI) are presented below.

Chart XVIII: Expected evolution of RGU



Source: Company data and Nova Equity Research Team

Table XI: Zon's Key Performance Indicators

KPI (€ mn, 000's)	2009E	2010E	2011E	2012E	2013E	2018E
<b>Pay-TV (Cable and Satellite)</b>						
Revenues	592	627	648	670	680	692
Total Subscribers	1.639	1.677	1.704	1.722	1.745	1.744
Cable Subscribers	1.163	1.196	1.219	1.231	1.249	1.243
Satellite Subscribers	476	481	486	491	496	501
Net adds	-362	-443	-458	-473	-473	-502
Digital Subscribers	395	430	475	505	537	622
Digital to Cable client base	34%	36%	39%	41%	43%	50%
<b>Fixed Broadband</b>						
Revenues	112	139	159	178	194	278
Subscribers	621	674	724	744	756	808
Net adds	142	53	49	20	12	10
Fixed broadband to Cable client base	53%	56%	59%	60%	61%	65%
<b>Fixed Voice</b>						
Revenues	20	24	28	31	31	32
Subscribers	551	603	651	670	692	746
Net adds	224	51	48	19	22	10
Fixed Voice to Cable client base	47%	50%	53%	54%	55%	60%
<b>Mobile</b>						
Revenues	8,9	14,8	20,8	26,0	31,2	42,6
Subscribers	69	115	162	202	243	332
Net Adds	62	46	47	40	41	16
<b>RGU<sup>(1)</sup></b>	<b>3.276</b>	<b>3.499</b>	<b>3.716</b>	<b>3.842</b>	<b>3.973</b>	<b>4.251</b>
<b>Blended ARPU (€)<sup>(2)</sup></b>	<b>34,2</b>	<b>35,9</b>	<b>37,3</b>	<b>38,5</b>	<b>39,2</b>	<b>41,0</b>

Source: Nova Equity Research Team

(1) RGU- Revenue Generating Units

(2) ARPU- Average Revenue per User

## Stable Audiovisuals and Cinemas businesses

We assumed the Audiovisuals business to have a slight potential for growth. We believe in the success of the Video-on-demand, which in our view will be the main driver for the increase in this business revenue. Even so, we assumed a conservative scenario. Also in the Cinemas, a conservative approach was made as we do not expect a significant growth potential in this business. The past data led us to conclude there is not a considerable growth trend in this market and so no real growth is envisaged.

## EBITDA Margin expansion

When assessing the EBITDA Margin we are able to verify that Zon presents a lower figure compared to the average of its comparables. In our opinion this reflects the huge investment the company has been making in attracting new customers as well as developing its network. The competitive environment has been requiring an effort in terms of margins, which in our view will be compensated in the future. This effort allowed Zon to catch up with a high 3Play penetration, a crucial factor in the medium/long term due to the lower propensity to churn as well as the inherent profitability. Even so, we do not expect the company will be able to reach the average EBITDA Margin of its comparables (37.4%) as the tough fight with PT is likely to continue (table XII). Moreover, we have to bear in mind that 15% of Zon's revenues come from Audiovisuals and Cinemas

Table XII: Cable Margins

### Cable Margins 2008

BSkyB	21,0%
Comcast	38,3%
Cogeco	43,1%
Virgin Media	32,0%
Telenet	49,0%
Multimedia Polska	50,0%
Fastweb	28,0%
<b>Average</b>	<b>37,4%</b>
Zon Multimedia	32,0%

Source: Company data

businesses, which have lower margins than the telecommunication industry. As a result, a 36% EBITDA Margin is expected for Zon.

**Table XIII: EBITDA Margin estimates**

	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2018E
<b>EBITDA Margin</b>	30,8%	31,9%	32,3%	32,6%	33,5%	34,2%	34,4%	36,0%

Source: Company data and Nova Equity Research Team

## Capex

The Capex of the company has been reaching quite high values, which is justified by the huge investment in the company's network upgrade, Eurodocis 3.0, and by its expansion. Moreover, the increasing demand for the set-boxes of Zon has been also requiring a considerable investment in terminal equipment.

Going forward, we predict that this rubric will continue at high figures. Although the company stated in its strategic plan it would spend around Eur 120m/year or 11/12% of the total revenues we consider this value quite low. As we previously stated, the technology employed by Zon has a lower capacity than the fibre-optic one, which in our view will imply a constant improvement of Docsis 3.0 to face these strong competitors, especially PT. The demand for set-boxes is also expected to continue at a considerable pace until 2012. As a result, a 13% of the total revenues is expected to face these needs, which is in-line with the comparables of this business.

**Table XIV: Capex estimates**

	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2018E
<b>Capex</b>	160,8	191,7	209,3	196,2	186,2	171,4	154,8	156,8
As a % Revenues	20,7%	22,6%	22,6%	20,0%	18,0%	16,0%	14,0%	13,0%

Source: Company data and Nova Equity Research Team

## Financing

Following the expected investment in Capex, we also gauge the Net Debt of the company will increase. Zon currently has a Net Debt/EBITDA ratio of 2.5x, which is within the company's target of 2.5x and 3x. Going forward, we believe this ratio will increase to 2.75x, reflecting the future need for financing due to the network upgrade and the continuing fight with its main competitor PT, which will certainly imply additional efforts on this front.

**Table XV: Net debt estimates**

	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2018E
<b>Net debt</b>	552,6	631,4	722,7	787,7	855,5	921,5	954,9	1155,4
Net debt to EBITDA	2,31x	2,40x	2,50x	2,55x	2,55x	2,60x	2,60x	2,75x

Source: Company data and Nova Equity Research Team

## Comparables

We have also analyzed the comparables of Zon as a way of better understanding the company and its future potential and limitations. We found the following companies that are quite analogous to Zon either in terms of risk or growth profile. Based on these we conducted a deeper assessment of our valuation.

**Table XVI: Relative valuation**

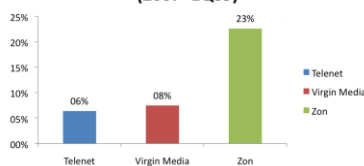
	EV/Revenues (x)		EV/EBITDA (x)		Net Debt/EBITDA (x)		EBITDA Margin 2009E
	2009E	2010E	2009E	2010E	2009E	2010E	
BSkyB	2,20	2,09	6,16	5,89	1,67	1,40	21%
Comcast Corporation	3,73	3,49	7,26	6,90	2,38	1,90	38%
Cogeco	6,25	5,91	10,98	10,14	1,94	1,90	43%
Telenet	3,73	3,49	7,26	6,90	4,50	3,10	49%
Multimedia Polska	2,57	2,36	5,18	4,69	1,24	1,10	50%
Virgin Media	2,90	2,70	8,20	7,40	4,20	3,70	32%
Fastweb	1,61	1,55	5,30	4,96	2,98	2,20	28%
<b>Average</b>	<b>3,28</b>	<b>3,08</b>	<b>7,2</b>	<b>6,7</b>	<b>2,7</b>	<b>2,2</b>	<b>37,4%</b>
Portugal Telecom	2,20	2,09	6,2	5,9	2,6	2,3	37,6%
Zon Consensus	2,6	2,5	8,2	7,8	3,16	2,5	31,9%
<b>ZON Multimedia</b>	<b>3,1</b>	<b>2,9</b>	<b>9,2</b>	<b>8,4</b>	<b>2,40</b>	<b>2,5</b>	<b>31,9%</b>

Source: Company data and Nova Equity Research Team

***EV/EBITDA multiple does not incorporate some factors that define the real value of the company***

If we look at the EV/Revenues multiples we can see Zon is almost in-line with the average of its comparables. However, if we analyse the EV/EBITDA multiples, we can verify that Zon trades at a considerable premium to its peers. Even so, we believe the multiples should not be analysed on a stand-alone basis, but framed upon the group's growth strategy. As a result, we also considered it necessary to look at other ratio: 3Play Penetration. This ratio assumes a crucial role in our analysis as we consider it will reflect some other important factors that affect the future value of the company. If we consider a simple approach to this theme, we can verify that the more services subscribed the less likely a client is to churn. Moreover, this will imply a reduction in the commercial costs per subscriber and consequently the EBITDA margin. Zon has one of the highest penetration ratios of the European cable companies (37%), above its comparables, which is not reflected in the EV/EBITDA multiple. We can also verify in the left graph the rhythm at which the company has been growing in this 3Play penetration, reflecting once more the successful up-sell strategy of Zon. Additionally, the lower EBITDA margins of Zon are explained by the huge effort made to attract clients in the last period as well as a rapid technologic change. The severe competitive environment experienced in the Portuguese telecoms market has led to intensive investment in terms of clients, which currently does not allow the company to reach the sector standards in this rubric. All in all, we reiterate our opinion that the market is not accurately assessing the potential of Zon. The company has been achieving incredible figures in its 3Play penetration, reflected in higher RGU and consequently ARPU, which is not reproduced in the EV/EBITDA multiple.

**Chart XIX: 3 Play Penetration Growth (2007- 1Q09)**



Source: Company data

## Sensitivity Analysis

The severe competitiveness we have been witnessing in the Portuguese telecoms market makes the future prospects quite unpredictable. Constant developments in terms of technology, strategies and trends have been visible, which make it essential to deeply assess the estimates of our base case. Although we have always opted for a conservative approach, it is interesting to take a look at possible deviations from our estimates. As a result, we believe it would be important to make a sensitivity analysis of the main assumptions of our model so that investors could have a better perception of their possible impacts on our price target.

Below we can verify the variations in the WACC rate as well as the perpetuity real growth rate as these variables have a tremendous impact on the price target.

**Table XVII: Sensitivity analysis to WACC and Perpetuity Growth Rate**

€ per share		Perpetuity Growth Rate				
		1,5%	2,0%	2,5%	3,0%	3,5%
WACC	7,7%	5,58	6,10	6,72	7,47	8,40
	8,2%	4,96	5,39	5,90	6,2	7,23
	8,7%	4,43	4,79	5,21	5,7	6,29

Source: Nova Equity Research Team

Moreover, deviations from our estimates for Capex can also be visible. The necessity to upgrade the Docsis 3.0 network as well as the demand for Zon boxes are the main sources for this possible variation. As we can see below this variable has a significant impact.

**Table XVIII: Sensitivity analysis to Capex**

Capex	-2%	-1%	0%	1%	2%
Price target	7,81	6,85	5,9	4,94	3,99

Source: Nova Equity Research Team

Finally, a sensitivity analysis can be seen for the EBITDA Margin. The development in the competitive environment and especially the tough competition with PT will be the mainly deciding factor in this rubric.

**Table XIX: Sensitivity analysis to Ebitda Margin**

EBITDA Margin	-2%	-1%	0%	1%	2%
Price target	5,14	5,52	5,90	6,24	6,61

Source: Nova Equity Research Team

## Hot Topics

### 1. Consolidation with Sonaecom

***A consolidation with Sonaecom would be beneficial for the company***

After a failed attempt of Sonaecom to take over its larger rival Portugal Telecom in 2007 we have been witnessing constant speculation of possible mergers or acquisitions in the telecoms market. Although we do not believe in a convergence of mobile-fixed services we do consider a notable industrial logic in this scenario. In a constantly changing market and where a huge investment is required we do believe it would be positive to the company to proceed with this operation. ZON is always looking for opportunities that strengthen its portfolio and this scenario could bring a stronger and more complete entity. Both companies compete fiercely for broadband customers and could share network and operating costs. In addition, the cable network of ZON could be expanded and a reinforcement of the mobile service could bring an added value for the company. It could also allow a lower need of leverage.

Regarding the costs synergies one can highlight the reduction in terms of marketing and administrative expenses as well as in investment in network expansion. Moreover, we do not consider any revenues synergies. Although we believe some cross-selling between ZON and Sonaecom customers would be possible, we prefer to assume a more conservative scenario where no revenues synergies would arise. There is also no point in the Portuguese Competition Authorities (AdC) intervention as we believe there is no considerable significance for it to act as the businesses of both companies are complementary, not affecting the consumer. Moreover, the takeover bid of Sonaecom to PT in 2007 could also be relevant, since no intervention was made.

Reinforcing our opinion, we can verify the increase of 3.55% in the price of ZON when the rumours appeared on 14 September 2009, which clearly reflects the value added investors see in this consolidation.

#### **... But who will benefit from these synergies?**

In our opinion, the consolidation scenario is likely to occur in the following year. Even so, we opted for a conservative scenario, not including the possible value of this operation in our price target. When assessing the possible value of this consolidation we must bear in mind the main question that arises from this situation: How will the synergies be split between both parties? Here, we have to take into account the negotiation power of each company which would clearly define the final output of this operation. In our view, Zon will have a higher negotiation power as Sonaecom is more interested in this operation. Sonaecom has been decreasing its market share in the fixed business as the new trends of

the market have been arising: the offer of bundled services. The company does not have a strong strategy in this field and is also a smaller entity, which in this sector reflects a competitive disadvantage. Additionally, Paulo de Azevedo has also announced Sonaecom would be willing to give up the control of the future company, which once more reinforces the positive value seen by this company in the consolidation. Although we consider Zon would also benefit from this operation there is no considerable need as the company is also able to offer mobile services through its MVNO. Conversely, from Sonaecom's perspective, the survival of its fixed business could be assured with a merger with Zon as this segment is becoming more and more a duopoly.

Below we will assess the likely impact of this operation on Zon's price target. We assumed synergies of 2% of the combined costs as well as a 1.5% in Capex. We have also estimated the integration costs this operation would require.

**Table XX: Estimates for a consolidation with Sonaecom**

**Consolidation of Zon with Sonaecom synergies' estimates (€ mn)**

	2010E	2011E	2012E	2013E	2014E	2018E
<b>Operating Costs synergies (%)</b>	<b>1,0%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>
<b>Total Operating Costs</b>	<b>1.388</b>	<b>1.427</b>	<b>1.457</b>	<b>1.492</b>	<b>1.529</b>	<b>1.609</b>
Zon Operating Costs	606	639	664	679	700	728
Sonaecom Operating Costs	782	788	794	812	829	881
<b>Operating Costs savings</b>	<b>14</b>	<b>29</b>	<b>29</b>	<b>30</b>	<b>31</b>	<b>32</b>
Tax (26.5%)	4	8	8	8	8	9
<b>Operating Costs savings after taxes (1)</b>	<b>10,2</b>	<b>21,0</b>	<b>21,4</b>	<b>21,9</b>	<b>22,5</b>	<b>23,7</b>
<b>Integration Costs (2)</b>	<b>21</b>	<b>10</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>0</b>
<b>Capex synergies (%)</b>	<b>1,0%</b>	<b>1,5%</b>	<b>1,5%</b>	<b>1,5%</b>	<b>1,5%</b>	<b>1,5%</b>
<b>Total Capex</b>	<b>345</b>	<b>327</b>	<b>316</b>	<b>301</b>	<b>282</b>	<b>281</b>
Zon Capex	209	196	186	171	154	156
Sonaecom Capex	136	131	130	130	128	126
<b>Capex savings (3)</b>	<b>3,4</b>	<b>4,9</b>	<b>4,7</b>	<b>4,5</b>	<b>4,2</b>	<b>4,2</b>
<b>Total Synergies (1)-(2)+(3)</b>	<b>-6,9</b>	<b>15,9</b>	<b>21,2</b>	<b>23,9</b>	<b>26,7</b>	<b>27,9</b>
<b>Discount factor</b>	100,0%	92,5%	85,6%	79,2%	73,3%	53,7%
<b>PV of Cash Flows</b>	-7	15	18	19	20	15
<b>Sum of Cash Flows</b>	131,2					
<b>Terminal Value</b>	230,8					
<b>NPV Synergies</b>	<b>362,0</b>					

Source: Nova Equity Research Team

*This consolidation would allow synergies of €362m*

**Table XXI: WACC Assumptions**

WACC Assumptions	Zon	Sonaecom	Combined
% of Market Cap	66%	34%	
Current WACC	8.2%	7.9%	
Current g	2.5%	2%	
<b>Combined g</b>			<b>2,3%</b>
<b>Combined WACC</b>			<b>8,09%</b>

Source: Nova Equity Research team

After reaching the NPV of the synergies we assessed two different scenarios for their division. In the first one we assumed the split of the NPV of the synergies by both companies in a proportional way, that is, according to their market capitalization. On the left we can also verify the WACC and perpetuity growth rate assumptions for the combined company.

**Table XXII: Scenario 1**

**Scenario 1: At market capitalization**

<b>Exchange ratio</b>	
Zon	66%
Sonaecom	34%
Total synergies attributable to Zon	238,9
Total synergies attributable to Sonaecom	123,1
Price target YE2010 base case	5,9
<b>Price target of Zon with consolidation YE2010</b>	<b>6,67</b>
Potencial upside	13,1%

Source: Nova Equity Research team

In the second one, we opted to analyse it in a more realistic manner. We assumed Zon would have a higher benefit from this operation, reflecting the superior negotiation power of the company, as previously referred. The upside potential would be 14.7%, which shows the significant potential of this consolidation.

**Table XXIII: Scenario 2**

**Scenario 2: At Nova Equity Research Team**

<b>Exchange ratio</b>	
Zon	75%
Sonaecom	25%
Total synergies attributable to Zon	271,5
Total synergies attributable to Sonaecom	90,5
Price target YE2010 base case	5,9
<b>Price target of Zon with consolidation YE2010</b>	<b>6,77</b>
Potencial upside	14,7%

Source: Nova Equity Research team

**Scenario 2 reflects a more realistic situation where a 14.7% potential would be possible**

## 2. Angola: the first internationalization experience

ZON announced on 30 June 2009 it was studying the possibility of entering the Pay-TV business in the Angolan market on a satellite basis. This business would be similar to the Portuguese one, both in terms of equipment and contents. Although there is no certainty about the future of this business, there are some factors that make us believe it will go ahead. First of all, the company has already announced its Joint-Venture with Ms. Isabel dos Santos for the introduction of this operation. Secondly, the recent acquisition of a 10% stake of Zon by Ms. Isabel dos Santos has reinforced the relationship with the local entrepreneur as well as increased the commitment between both parties.

Although Zon has a minority stake of 30% in this Joint-Venture, we believe this business has a significant growth potential in the medium/long term. Angola has been showing enormous growth rates over the last years. In 2007 Angola was

***A robust growth potential is expected for Angola***

the country with the highest growth rate of the world (35%), according to FMI. In addition, if we assess the Angolan market we can verify that there is only one supplier of Pay-TV, MultipleChoice. This company is responsible for the provision of satellite services for several African countries. MultiChoice still has a low penetration of its service as the Angolan client base is only 180k. Bearing in mind the population of Angola is composed of 18.5 million inhabitants, and more specifically its capital, Luanda, composed of 5 million, we can confirm the considerable potential of this country.

It is also important to verify that this Pay-TV service has the same characteristics as the Portuguese one, which will allow Zon to take advantage of the provision of the service itself as well as the sale of contents. Also, the prices charged by Multichoice are slightly higher than the similar service in Portugal. The cheapest package costs Usd 30 (Euros 20.8) while the Zon one costs Euros 19.9, which means Zon is completely able to compete with Multichoice.

This Pay-TV service is expected to be operational within the first and second quarter of 2010 as the Satellite is already prepared to function. Although little data is available to deeply assess this scenario, the overall conditions lead us to conclude this business will certainly succeed and create value for Zon. The partnership with a local enterprise gives a significant advantage and stability for the business. Moreover, the rapid growth of the economy and the low competition in this segment also reflect an excellent opportunity for the company.

The introduction of this service in Angola could also lead to new opportunities in the African continent. Zon's CEO, Mr Rodrigo Costa, has already announced he was analysing with Ms. Isabel dos Santos the expansion of this service to other African countries, since the satellite signal will be available in an extensive territory.

**3. And the contents row with PT will cease to be an issue...**

We have also been witnessing constant accusations between ZON and PT regarding the ownership of contents in the Pay-TV business.

PT, through its CEO, Zeinal Bava, has been showing enormous dissatisfaction with the contents approach of the telecoms market. PT accuses ZON of hampering access to its contents as well as providing them at a non competitive price. For PT it is a matter of offering more competitive products, as this company pays one-third of its contents (€34 million- €4 millions for the cinemas and €30 millions for sports) to ZON, the main competitor in the business. The amount paid reaches 1.8% of the total costs in the domestic operations, which represents a

considerable value. At the current moment PT states that the programming costs increase in a more intense way than the revenues per new subscriber.

This accusation arises because Zon, through Zon Conteúdos, has a participation of 50% in Sportv TV, a 100% stake in the TV Cine channels and exclusivity in others like TVI24 and TV Cine HD. These channels are the one of the most seen in Portugal, especially Sport TV, which leads to the indispensability of their acquisition.

Even so, we consider this issue will lose significance because of the inherent conditions of payment. This scenario will be modified once the company reaches 750/800 thousand customers, since at that time the costs will not be charged by client. At the end of September 2009 PT had already reached a figure of 505 thousand Pay-TV subscribers and we envisage a value of 810 thousands for 2011. From this time on, the company will achieve considerable negotiation power and an economy of scale will appear. PT will be able to increasingly reduce the cost per subscriber as its client base continues to increase, making this issue less relevant.

# Financial Statements

**Table XXIV: Consolidated Income Statement**

<b>Income Statement (€ mn)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2018E</b>
<b>Operating Revenues</b>	<b>715,7</b>	<b>773,0</b>	<b>825,6</b>	<b>895,4</b>	<b>948,4</b>	<b>1000,2</b>	<b>1035,9</b>	<b>1069,2</b>	<b>1166,1</b>
Pay-TV, Broadband and Voice	629,5	684,6	741,8	805,6	855,5	904,5	936,7	966,4	1044,9
Audiovisuals	40,0	63,7	61,0	64,3	67,5	70,9	74,4	78,1	94,7
Cinema	45,8	49,3	53,8	56,0	57,8	59,0	60,1	61,3	66,4
Others & Eliminations	0,4	-24,6	-31,0	-30,6	-32,4	-34,2	-35,4	-36,5	-39,8
<b>Operating Costs</b>	<b>526,3</b>	<b>537,5</b>	<b>562,5</b>	<b>606,3</b>	<b>639,5</b>	<b>664,7</b>	<b>681,4</b>	<b>701,9</b>	<b>746,0</b>
Personnel Costs	44,3	52,7	62,9	73,1	82,6	86,6	89,9	92,9	105,3
Directs Costs	221,9	239,2	215,4	230,9	245,4	258,5	267,4	275,7	286,7
Costs of Products sold	15,3	9,5	12,1	13,4	14,6	15,9	16,8	17,8	21,4
Marketing and Publicity	22,9	26,7	34,2	37,0	39,2	36,2	32,1	33,2	37,4
Support Services	58,5	57,4	69,5	72,6	75,0	76,9	78,7	80,4	85,1
Supplies and External Services	118,4	130,1	151,5	160,8	163,2	170,0	175,1	180,0	186,1
Other Operating Costs	45,0	22,0	16,9	18,4	19,5	20,5	21,3	21,9	23,9
<b>EBITDA</b>	<b>189,4</b>	<b>235,5</b>	<b>263,1</b>	<b>289,1</b>	<b>308,9</b>	<b>335,5</b>	<b>354,4</b>	<b>367,3</b>	<b>420,2</b>
<b>EBITDA Margin</b>	<b>26,5%</b>	<b>30,5%</b>	<b>31,9%</b>	<b>32,3%</b>	<b>32,6%</b>	<b>33,5%</b>	<b>34,2%</b>	<b>34,4%</b>	<b>36,0%</b>
Depreciation	115,3	140,4	187,4	189,9	182,5	170,7	156,4	144,9	132,7
<b>EBIT</b>	<b>74,1</b>	<b>95,1</b>	<b>75,6</b>	<b>99,2</b>	<b>126,5</b>	<b>164,8</b>	<b>198,0</b>	<b>222,4</b>	<b>287,5</b>
Net Financial Results	-3,7	-25,9	-29,6	-33,9	-37,8	-41,1	-44,4	-46,9	-56,1
<b>EBT</b>	<b>70,4</b>	<b>69,2</b>	<b>46,0</b>	<b>65,4</b>	<b>88,7</b>	<b>123,7</b>	<b>153,6</b>	<b>175,5</b>	<b>231,4</b>
Income Taxes	-18,3	-22,5	-12,2	-17,3	-23,5	-32,8	-40,7	-46,5	-61,3
<b>EBM</b>	<b>52,1</b>	<b>46,7</b>	<b>33,8</b>	<b>48,1</b>	<b>65,2</b>	<b>90,9</b>	<b>112,9</b>	<b>129,0</b>	<b>170,1</b>
Minority Interests	-2,8	-3,6	-2,0	-2,0	-2,0	-2,0	-2,0	-2,0	-2,0
<b>Net Income</b>	<b>49,3</b>	<b>43,1</b>	<b>31,8</b>	<b>46,1</b>	<b>63,2</b>	<b>88,9</b>	<b>110,9</b>	<b>127,0</b>	<b>168,1</b>

Source: Company data and Nova Equity Research Team

Table XXV: Consolidated Balance Sheet

Balance Sheet (€ mn)	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2018E
<b>Current Assets</b>	<b>251</b>	<b>296</b>	<b>246</b>	<b>274</b>	<b>304</b>	<b>387</b>	<b>464</b>	<b>503</b>	<b>645</b>
Cash and Equivalents	67	63	1	1	8	61	116	136	224
Accounts Receivable- Clients	86	116	127	139	147	155	160	166	181
Accounts Receivable- Others	23	46	47	50	52	55	56	58	61
Inventories	30	31	40	44	48	52	55	58	70
Tax Receivable	12	25	17	24	33	47	58	67	88
Prepaid Expenses	33	13	14	16	16	17	18	18	21
Other Current Assets	0	0	0	0	0	0	0	0	0
<b>Non-Current Assets</b>	<b>735</b>	<b>1.027</b>	<b>994</b>	<b>1.016</b>	<b>1.032</b>	<b>1.049</b>	<b>1.065</b>	<b>1.076</b>	<b>1.188</b>
Accounts Receivable- Others	10	100	62	65	67	68	69	71	77
Investments in Group Companies	19	6	6	6	6	6	6	6	6
Fixed Assets available for Sale	23	22	22	22	22	22	22	22	22
Total Assets	607	841	845	865	878	894	909	919	1.024
Deferred Taxes	76	58	58	58	58	58	58	58	58
Other Non-current Assets	0	1	1	1	1	1	1	1	1
<b>Total Assets</b>	<b>986</b>	<b>1.323</b>	<b>1.239</b>	<b>1.289</b>	<b>1.336</b>	<b>1.435</b>	<b>1.529</b>	<b>1.580</b>	<b>1.833</b>
<b>Current Liabilities</b>	<b>440</b>	<b>597</b>	<b>389</b>	<b>343</b>	<b>318</b>	<b>331</b>	<b>337</b>	<b>341</b>	<b>360</b>
Short Term Debt	125	317	99	34	0	0	0	0	0
Accounts Payable- Suppliers	194	140	140	150	156	164	170	175	183
Accounts Payable- Others	36	41	49	54	50	48	44	40	40
Accrued Expenses	54	68	68	71	75	82	84	87	95
Deferred Income	6	5	5	6	6	7	7	7	8
Taxes Payable	11	14	16	17	18	19	20	20	22
Current Provisions	14	12	12	12	12	12	12	12	12
Other Current Liabilities	0	0	0	0	0	0	0	0	0
<b>Non-Current Liabilities</b>	<b>161</b>	<b>534</b>	<b>655</b>	<b>747</b>	<b>812</b>	<b>880</b>	<b>946</b>	<b>980</b>	<b>1.181</b>
Medium and Long Term Debt	139	510	631	723	788	856	922	955	1.155
Non-current Provisions	5	5	5	5	6	6	6	6	6
Other Liabilities	16	19	19	19	19	19	19	19	19
<b>Total Liabilities</b>	<b>601</b>	<b>1.131</b>	<b>1.045</b>	<b>1.090</b>	<b>1.130</b>	<b>1.212</b>	<b>1.283</b>	<b>1.321</b>	<b>1.541</b>
Share Capital	3	3	3	3	3	3	3	3	3
Own Shares	0	-90	-90	-90	-90	-90	-90	-90	-90
Legal Reserves	4	4	4	4	4	4	4	4	4
Reserves and Retained Earnings	318	214	237	227	217	209	209	205	198
Net Income	52	52	32	46	63	89	111	127	168
<b>Equity before Minority Interests</b>	<b>376</b>	<b>183</b>	<b>186</b>	<b>191</b>	<b>197</b>	<b>215</b>	<b>237</b>	<b>249</b>	<b>283</b>
Minority Interests	10	9	9	9	9	9	9	9	9
<b>Total Shareholder's Equity</b>	<b>385</b>	<b>192</b>	<b>195</b>	<b>200</b>	<b>206</b>	<b>224</b>	<b>246</b>	<b>259</b>	<b>292</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>986</b>	<b>1.323</b>	<b>1.239</b>	<b>1.289</b>	<b>1.336</b>	<b>1.435</b>	<b>1.529</b>	<b>1.580</b>	<b>1.833</b>

Source: Company data and Nova Equity Research Team

## Disclosures and Disclaimer

### Research Recommendations

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<b>Buy</b>	Expected total return (including dividends) of more than 15% over a 12-month period.
<b>Hold</b>	Expected total return (including dividends) between 0% and 15% over a 12-month period.
<b>Sell</b>	Expected negative total return (including dividends) over a 12-month period.

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