07 JUNE 2010

ZON MULTIMEDIA

COMPANY REPORT

TELECOMMUNICATIONS

ANALYST: ANA SOFIA LAGARELHOS

Focusing the strategy on *Triple Play*...

... Keeping an eye on the competition

■ **We value the price-target of ZON Multimédia at €5.38 per share, reflecting an upside of 70.77%, a BUY recommendation.**

■ Although the Portuguese telecommunications market is becoming more and more competitive, **Zon Multimédia maintains a strong position in the sector.** The success of its operations is mainly driven by the leadership in triple play as well as in pay TV market, practicing competitive prices and focusing on contents offers, which would ensure the growth of the business. Its extensive cable network in the country, strengthened with the upgrade of its network with EURODOCSIS 3.0, represents a competitive advantage against its competitors.

■ **Isabel dos Santos, through Kento Holding Limited, acquired 10% stake of ZON capital in January 2010**, which reinforced the shareholders core of ZON and definitely established the partnership to launch the pay TV service in Angola. In a country with strong growth potential on telecoms sector and with low competition, makes Angola a market very attractive to ZON, where its competitive advantage of contents offer and the local partnership with Isabel dos Santos ensure a high potential to grow.

■ **ZON also leaders the cinema and audiovisuals market**, where the digital 3D technology, the partnerships with film production studios, the VoD distribution as well as the distribution of contents to pay TV channels are the key drivers for the business success.

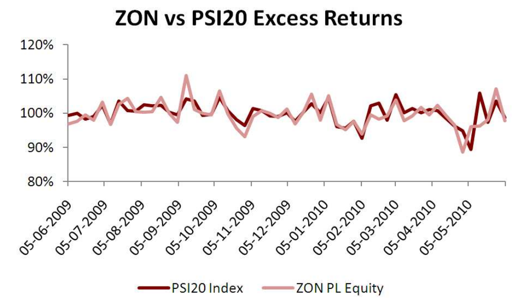
■ **We believe the merger with Sonaecom would bring benefits to ZON**, which would reinforce its position on the market and generate synergies in €404.5 mn, reflecting an upside of 9.7% in the price target of ZON.

Recommendation:	BUY
Price Target FY10:	**5.38 €**
Upside	*70.77%*
Price (as of 7-Jun-10)	**3.15 €**

Reuters: ZON.LS, Bloomberg: ZON PL

52-week range (€)	3.15-3.39
Market Cap (€m)	973.665
Outstanding Shares (m)	309
Free float	24.7%

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2009	2010E	2011E
Revenues	823.0	857.2	886.4
EBITDA	267.0	285.7	300.5
EBITDA margin	32.4%	33.3%	33.9%
Net Profit	44.0	45.6	61.7
EPS	0.15	0.14	0.19
Net Debt	615.9	670.5	706.1
Capex	213.6	215.7	198.4
Total Assets	1.479	1.453	1.403
Total Shareholder's Equity	189,6	190,0	190,7
Total Liabilities	1.289	1.262	1.212

Source: Company data and Nova Equity Research

Table of Contents

Company Overview

ZON Multimedia, initially formerly known as PT Multimedia, was founded in 1999 under the control of Portugal Telecom Group. In the end of 2007, the company became an independent entity with a new name and a new corporate strategy after the failure of the takeover launched from Sonaecom over PT.

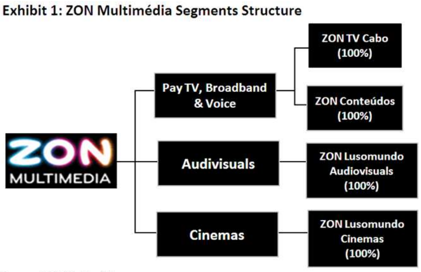
ZON Multimedia is the Portugal's leading pay-TV operator and top provider of bundled TV, Internet and telephone services. Its intentions to continue growing are not limited to national borders. In fact, ZON started to develop operations in the African continent through Finstar, a joint venture with SOCIP, launching a new satellite pay TV in Angola under the brand ZAP, on 15th February 2010.

Company Description

ZON Multimedia group, the major Portuguese cable operator, operates the in telecommunications sector. The group's principal activity is centred on providing three main services: pay TV, broadband internet and fixed voice, through cable (HFC[1] and fiber-optic) and satellite (DTH[2]) platforms.

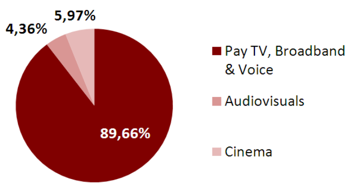
Since the spin-off of ZON Multimedia from its former parent company, ZON had continued to grow and expanded its business focusing its strategy in bundled offers. In the fourth quarter of 2008 expanded its business to mobile services, acting as a mobile virtual network operator (MVNO), offering competitive voice tariff plans and mobile broadband services. Furthermore, the company strengthened its market leadership on pay TV not only through acquisitions (TVTel and operations of Partifel, increasing its cable network as well as the number of subscribers, and Teliz Holding B.V., representing a strategic operation to enter in African continent) but also by investing in important partnerships (joint venture with Sport TV, Dremia Holding B.V.) which fortify its contents' distribution. Moreover, ZON also plays an important role in the entertainment sector, being the market leader in both cinema and audiovisuals business. Therefore, the company operates under the brands ZON TV Cabo, ZON Lusomundo Cinemas, ZON Lusomundo Audiovisuais and ZON Conteúdos, being structured into three core areas, which can be seen on the left (exhibit 1). The segment that most contributes to the group's revenues is the telecommunications one with 89.66%, providing pay TV, broadband and voice services. Also audiovisuals and cinema exhibition segments contribute to the success of the group, representing 4.36% and 5.97%of total revenues (exhibit 2).

Exhibit 1: ZON Multimédia Segments Structure



Source: ZON Multimédia

Exhibit 2: ZON Multimedia - Business Areas



Calculated as % of Revenues
Source: Company data 2009

[1] Hybrid fibre-coaxial – It is an upgrade of cable network, which combines optical fibre and coaxial cable.
[2] Direct to Home – It is a mode of television transmission through satellite platform.

Shareholder Structure

Exhibit 3: Shareholder Structure

Caixa Geral de Depósitos	11,7%
Kento Holding Limited	10,0%
Banco BPI, S.A.	9,1%
Telefónica, S.A.	5,5%
Espírito Santo Irmãos	5,0%
Cofina, SGPS, S.A.	4,9%
Joaquim Alves Ferreira de Oliveira	4,8%
Fundação José Berardo	4,3%
Ongoing Strategy Investments, SGPS, S.A.	3,2%
Banco Espírito Santo, S.A.	2,9%
Cinveste, SGPS, SA	2,8%
Grupo Visabeira, SGPS, S.A.	2,2%
Grupo SGC, SGPS, S.A.	2,0%
ESAF - Espírito Santo Fundos de Investimento Mobiliário, SA	2,0%
BES Vida - Companhia de Seguros, S. A.	1,9%
Credit Suisse Group AG	1,8%
Metalgest – Sociedade de Gestão, SGPS, S.A.	1,3%
Free Float	24,7%
	100,0%

Source: Company data

The major shareholders of the group are Grupo Banco Espírito Santo (11.74%, which includes the Espírito Santo Irmãos, Banco Espírito Santo, Espírito Santo Fundos de Investimento Imobiliário and BES Vida – Companhia de Seguros), Grupo Caixa Geral de Depósitos (11.71%), Kento Holding Limited (10%) and Banco BPI (9.09%).

The current shareholder structure is recent since the acquisition of 10% stake on ZON capital by Isabel dos Santos, through Kento Holding Limited, was approved on 29th January of this year. The agreement concerned the purchase of three parcels of the company. ZON sold its own shares for 5.3 euros, a total of 4.53% group's share capital, representing 74 millions of euros. In addition, the Caixa Geral de Depósitos and Cinveste also agreed to sell 2.5% and 2.97% to Kento Holding Limited. The transaction was performed with a premium of 26.4% compared to the price of the previous session.

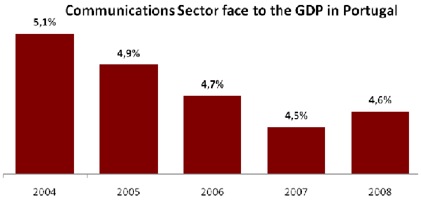
ZON Multimedia, since it became an independent entity, had included in its three years' business plan (2007-2010) a program to repurchase shares up to 10% with the aim of reducing ZON' capital. However, the radical changes in worldwide financial markets during 2008 forced the company to revise its funding strategy, implementing a more conservative net financial debt approach and suspending the repurchase of shares in 2009. Meanwhile, the entrance of Kento as a company shareholder would add value to ZON, strengthening the opportunity to expand its business into African continent. Furthermore, the Group of Isabel dos Santos has an important role as an industrial investor with an extensive experience in telecommunications sector in Angola. As a result, the entrance of Isabel dos Santos to ZON' capital would represent not only a key factor for the expansion of the company into African continent but also a strategic reinforcement in the shareholders core of ZON.

After the spin-off from its parent company, the shareholder structure of ZON became broader, where the main shareholders represent 30% of total capital. However, it had not weakened the company decisions making. Indeed, ZON benefits from a strategic structure composed by 30% of financial institutions and among current shareholders some are also current business partners. ZON has recently formed a joint venture with SOCIP, a company 100% owned by Isabel dos Santos, and at 19th April, two new non-executive members entered to ZON board of directors representing the holding of Isabel dos Santos. Moreover, the control of Sport TV is done by both Rodrigo da Costa and Joaquim Oliveira, since ZON Conteúdos holds a joint venture with Sportinveste Media, owning 50% of the company' control.

Portuguese Telecommunication Sector

The economic crisis is having repercussions in consumption habits and in the confidence index in about three quarters of Portuguese consumers, according to the recent study "Radar Crisis" published by GfK Metrics in the end of 2009. However, the Portuguese still maintain high levels of telecoms service consumption, 86% for mobile phones and 53% for the internet. Indeed, we are becoming increasingly dependent on telecoms services, facing it as a basic consumption need. As a result, despite the turmoil in the global markets, the Portuguese telecoms sector proved to be one of the sectors less affected by the crisis, showing sustainable results and positive growth in several segments. According to ANACOM this sector, which has been losing weight in GDP, increased to 4.6% in 2008 (exhibit 4), having Portugal one of the highest ratios in EU for total revenues as a percentage of GDP. Moreover, the investment in electronic communications totalled €1.19 billion, increasing 52% when compared to the previous year.

Exhibit 4: Revenues of the Electronic Communications Sector face to the GDP in Portugal

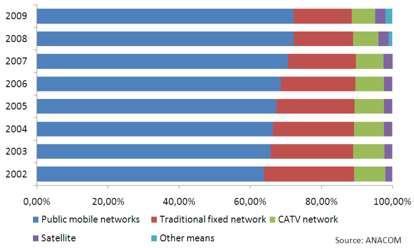


Source: Anuário Sector das Comunicações 2009, ANACOM

__The spin-off of PTM from PT altered the telecoms market structure, raising the competition between operators__

Over the last years the Portuguese telecommunication sector has changed mainly driven by technological developments and structural changes. In 2000, the liberalization of electronic communication services allowed the entry of new operators and, consequently, the emergence of new services. However, it was the spin-off of PT Multimédia from Portugal Telecom which increasingly affected the telecoms market structure, raising the competition between operators. Nowadays, the telecom market is characterized by a competitive mobile sector, a growing broadband customer base, the progress in digital TV services and strong investments in Next Generation Networks (NGN) supported by the government. At the same time, new and diversified offers as well as better quality of services are emerging, contributing to the end of the era of the TV or broadband pure play.

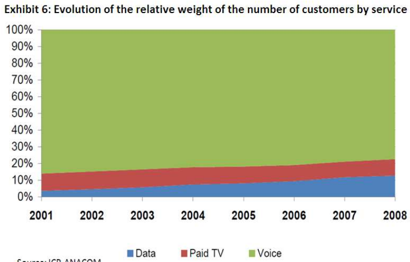
Exhibit 5: Evolution of the number of customers by access network



Source: ANACOM

In the Portuguese telecom sector the principal operators are Portugal Telecom, ZON Multimedia, Sonaecom, Cabovisão and Vodafone, being the mobile networks, traditional fixed networks and cable TV distribution the principal accesses of electronic communications services (exhibit 5). The electronic communications services, which are voice, data and pay TV services, can be offered through a variety of access mentioned above; being the voice services the one with more weight of the total subscribers. However, this weight has been decreasing slowly (exhibit 6). On the other hand, the data services (mobile and fixed) are the ones with the highest growth, increasing 19% on average per year, achieving in the end of 2008 13% of total subscribers. Lastly, also the pay TV services record a considerable growth about 16%, being responsible for 10% of total subscribers.

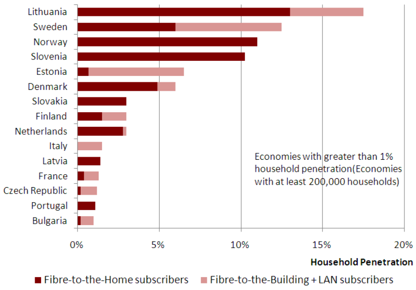
Exhibit 6: Evolution of the relative weight of the number of customers by service



Source: ICP-ANACOM

The structure of the current scenario described above will probably change in a near future given the investments with NGN's implementation, which are considered a priority to overcome the economic crisis in Portugal. Indeed, in January 2009, the Portuguese government signed a protocol with four of the main operators, where the Government agreed to adopt the necessary legislative measures to remove barriers to investment in NGN and promote incentives to the investment in infrastructures, providing operators a credit line worth €800 mn. In turn, the operators assumed to invest €1 bn to reach 1.5 mn users in 2009. This strong and fast deployment of fibre infrastructure contributed for Portugal to be one of the European countries with the fastest growth, according to FTTH Council Europe and, for the first time, broke into the ranking of countries with more than 1% households penetration; a ranking where neither German nor United Kingdom appear (exhibit 7).

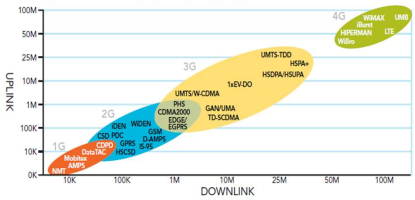
Exhibit 7: Economies with the Highest Penetration of Fibre-to-the-Home / Building + LAN (Feb 2010)



Source: FTTH Council Europe and IDATE February 2010

The mobile infrastructures are also being developed, allowing greater mobile broadband speeds at least 100-150 Mbps per second in the future (exhibit 8). Actually, the first network is already in the market since December 2009, launched by TeliaSonera, and there are a number of other networks expected to be launched very soon (exhibit 9). In Portugal, the main competitor of ZON, PT, announced recently that it will develop during the next two years pilot projects Long Term Evolution (LTE), also known as 4G, being available to all customers in the early 2012. This new technology will allow greater efficiency and performance in access to mobile broadband services as well as higher rates of data transfer, supporting richer and interactive applications.

Exhibit 8: Evolution of Mobile Networks



Source: Ciena

Exhibit 9: Companies that announced the launch of 4G networks

Company	Country	Date
TeliaSonera	Sweden and Oslo	Dec 2009
Verizon	US	2010
AT&T	US	2011
NTT DoCoMo	Japan	2011
TMN	Portugal	2012
Tele2 and Telenor (through partnership)	Sweden	2013

Source: Companies data

Furthermore, 26th April 2012 is the deadline for the switch off the analogue technologies. The transaction to digital technologies aspire to transform the telecommunications sector, not only by strengthening the television distribution in terms of diversity and quality, but also improving the efficiency of spectrum use, allowing the development of a wide range of applications and services.

Pay TV Market

Company business description

ZON strategic focus on triple play offers...

... is a success with 45.6% on cable subscriber's penetration rate

The strategic focus of ZON Multimedia is centred on offering triple play services, with the ambition to sell additional services to its pay TV subscribers, under both cable and satellite platforms. The group is the market leader on providing triple play offers (which includes pay TV, broadband and fixed voice services), with a market share of 47% in the end of 2009, which shows the success of ZON's strategy. At this moment, the adherence to bundled offers is increasing and 45.6% of cable subscribers of the company have already subscribed to those services. The leadership position on triple play offers is strongly driven by pay TV services, where the company is a leader with 62.5% in 1Q10, according to ANACOM. With a customer base over than 1.5 million and more than 3 million cabled houses, the company is accomplishing the substantial developments registered on pay TV market. The success in this area depends tightly on strengthening the television service diversity and quality as well as the content offers, which are exactly the main drivers where ZON is investing on. Actually, the company launched in 2008 new set top boxes similar to MEO offered from PT with similar functions, allowing the distribution of high definition contents, videoclub offers, new programming and video systems and pause live TV, rejuvenating this communication channel.

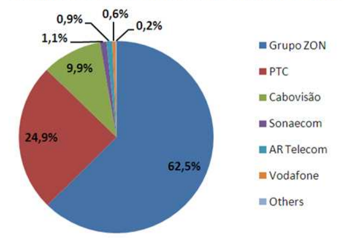
Interactive functions and high definitions contents as well as videoclub offers give life to pay TV ZON offers, rejuvenating this communication channel

Apart from investing on national market, in 2009 ZON took the first steps in a broader strategy to develop operations in the African continent through a joint venture owned 30% by ZON and 70% by SOCIP. The satellite pay TV service was launched in Angola on 15th February under the brand ZAP.

Pay TV Market Overview and Future Perspectives

The Portuguese pay TV market is composed of three main players, which operate through different technologies. ZON Multimedia is the leading operator with 62.5% of market share and provides pay TV services through cable (HFC and fiber-optic) and satellite (DTH) platforms. In addition, there are other two players with significant shares: PT Comunicações (24.9%) and Cabovisão (9.9%). In order to better understand the structure of this market, in the table below is present a match between the operators and the infrastructures used.

Exhibit 10: Pay TV Subscribers Market Share 1Q10



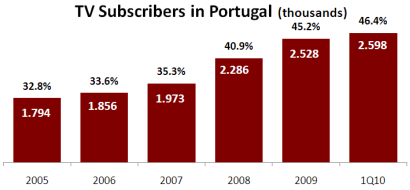
Source: ANACOM

Exhibit 11:

Infrastructure	Market Leader (market share) *	Other Companies
Cable TV- Hybrid Fibre-Coaxial (HFC)	Zon Multimedia (80,6%)	Cabovisão (19,3%)
Satellite TV- Direct to Home (DTH)	Zon Multimedia (79,1%)	PT (20,9%)
Internet Protocol television (IPTV) and Digital Video Broadcasting-Terrestrial (DVB-T)	PT (85%)	AR Telecom, Sonaecom, Vodafone
Optic Fibre (FTTH/B)	PT	Sonaecom and ZON (ex-TVTel)

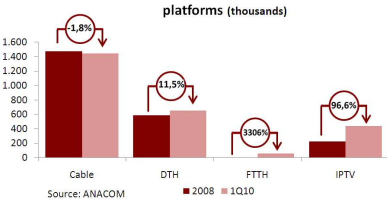
* Values of 2008
Source: ANACOM

Exhibit 12: Penetration and Number of Pay TV Subscribers in Portugal (thousands)



Source: ANACOM

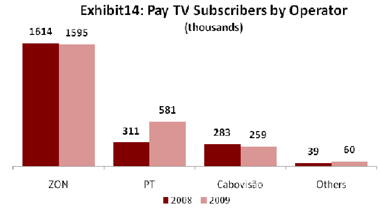
Exhibit 13: Number of pay TV subscribers by platforms (thousands)



Source: ANACOM

During 2009 and 1Q10, the number of Portuguese pay TV subscribers grew 13.65%, achieving 2.5 million of customers and, consequently, a penetration rate in total households about 46.4% (exhibit 12). The growth on the pay TV market was mainly driven by the increase of IPTV subscribers, which were attracted by MEO offers (IPTV service provided by PT). In addition, also the DTH subscribers increased, growing 11.5% (exhibit 13). On the other hand, the cable has been losing subscribers since 2007, decreasing 1.81% in 1Q10 compared to 2008, which reflects a decline in both ZON and Cabovisão subscribers (exhibit 14). Through the pay TV market trends described above, we noticed that although Cabovisão represents 9.9% of total subscribers, the market is becoming dominated by two operators: ZON and PT, where the possibility of a duopoly becomes more real.

Exhibit14: Pay TV Subscribers by Operator (thousands)

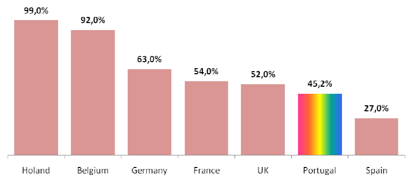


Source: ANACOM, Companies data

The increase of competition allowed a more dynamic market environment

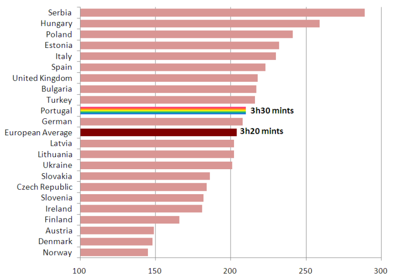
The Portuguese pay TV market is becoming more complex over the years, due to several changes in terms of structure, technology developments as well as by the increase of innovation and quality on services provided. In fact, at the same time that the subscribers have a variety of choices, the companies gain on offering more services through bundled offers, selling additional services and reducing the churn rate. Consequently, the increase of competition allowed a more dynamic market environment. In reality, the pay TV market became more competitive with the spin-off of PTM from PT, where a new entity (ZON) began to be a considerable competitor against the historical incumbent. Therefore, while PT continued to offer its services over the cooper network, ZON provided services in the retail market-based cable network. Moreover, while PT is fighting to increase its market share, entering recently on pay TV market (through the development of new technologies - FTTH[3] and IPTV), ZON also gained competitive advantages on increasing its presence in national market through acquisitions of TVTel, Bragatel and Pluricanais in 2008, as well as on investing in upgrade of its cable network (HFC).

Exhibit 15:Pay TV Penetration in total households 2009



Source: ZON Multimédia and ANACOM

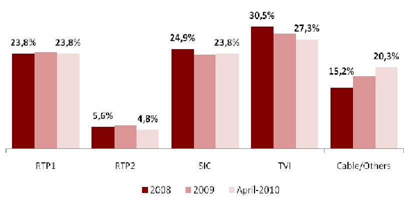
Exhibit 16: 2007 Average daily viewing TV time per individual, in minutes



Source: Eurodata TV Worldwide

Regarding to the potential growth on pay TV in Portugal, we believe that this market still has a lot of space to grow, since the penetration rate of pay TV does not even cover half of households with TV, being below some European countries(exhibit 15).Moreover, according with INE, almost all households have a TV set (99%). In addition, following a study published by *Eurodata TV Worldwide* in 2007 the Portuguese are the people who watch more television compared to European countries (exhibit 16). Furthermore besides the fact that the time spent watching TV has increased (the Portuguese increased the consumption of TV in 6.2 minutes during 2008), the audiences of pay TV has been raising while the free to air channels has been losing share (exhibit 17). Therefore, following the trends above described we believe that in 10 years Portugal will conquer a pay TV penetration rate around 70% following the developments in European countries.

Exhibit 17: Portuguese Share of TV Audience

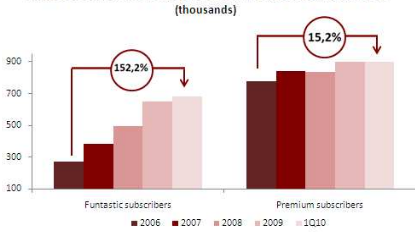


Source: MediaMonitor/Marktest Audimetria

The prices and the contents are considered the main value drives of pay TV

Despite the economic crisis, the number of channels continues to grow in Europe as well as in Portugal. More than 245 new channels were launched in Europe, which summed 7200 European television channels at the end of 2009. Indeed, the contents along with the prices are the main drivers in the consumer's mind when they choose a pay TV operator. Actually, according to ANACOM[4], ZON has been chosen by offering the best channels while PT has been conquering costumers through lower prices and strong customer service. Indeed, during these last three years, ZON did not stop investing in new contents, extending the number of channels to its packages or even launching new ones, such as the recently one *Economic TV*. Consequently, there is an upward trend to subscribe

Exhibit 18: Funtastic and Premium Subscribers of ZON (thousands)

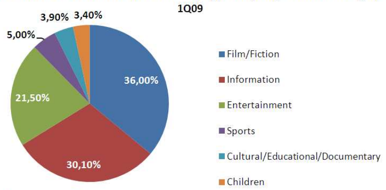


Source: Company data

[3] Fibre-to-the-home – is a form of fibre optic communication delivery in which the fibre extends from the central office to the subscriber's living or working space.
[4] *Inquérito ao Consumidor dos Serviços de Comunicações Electrónicas 2008*

funtastic package (exhibit 18), which is the best one with the largest number of channels. Moreover, although the generalist channels are those with higher share of audiences, the consumption of thematic channels is increasing, being the film/fiction, information, entertainment and sports the most requested (exhibit 19). ZON is aware of market trends and has a diversified contents offer, benefiting from a competitive advantage in this business, since it has its own movies channels (TV Cine) as well as a strategic partnerships with Sportinveste Media (Sport TV) and with Chello Media (Hollywood, MOV, Panda e Panda Kids). Some of these channels are *premium* channels (such as TV Cine and Sport TV), which follows an increase trend in terms of subscribers, acting more and more as key drives of the pay TV service (exhibit 18). Besides the diversification of its content offers, ZON is also investing on new technologies, being at the forefront on TV innovation with the launch of a 3D channel *(True 3D)* (exhibit 20).

Exhibit 19: Demand Structure by type of program in Portugal, 1Q09



Source: MediaMonitor/Marktest

Exhibit 20: The First 3D Channels

Company	Market	Date of commercial launch
Direct TV	US	2010
ESPN (Sport channels of Walt Disney)	US	2010
BSkyB*	US	2010 (World Cup in June)
Joint venture with Discovery, Sony and	US	2011

*BSkyB was first to announce the launch of the channel (end of 2009)

As mentioned before, the prices are one of the main drivers of pay TV. However, the adherence to pay TV as a stand-alone service is decreasing, being the choice of triple play services also a key in this subject. Each operator provides a diversity of packages and presents the information in different ways, which makes difficult, or even impossible, to compare a multiplicity of offers. Nevertheless, if we centre our attention on the consumer profile focused on pay TV service, we can realize that ZON has the most complete package, after Clix, with the advantage of not being the most expensive (exhibit 21). Moreover, ZON has an extensive cable network essentially spread on more populated areas and satellite coverage in other areas of the country, being this factor considered as a short term competitive advantage for the company. Nevertheless, we believe that this advantage will disappear as PT is expanding its FTTH network.

Exhibit 21: Triple Play Packages focused on TV channels

Operator	Package	Channels	Package Price (€)*
Sonaecom	TvTotal	120	59,97
ZON	Fast HD	118	52,99
Cabovisão	Nitro60Mb	100	64,15
PT	Meo Total 20Plus 1	100	49,9
Vodafone	Pack TV Plus	92	48,9
AR Telecom	Plus 20Mb 2	47	47

* Monthly fees 10 May 2010
1 - The first monthly fee is offered
2 - Promotional campaingn: 39€ in the first 12 monthly fee
Source: Companies sites

In 4.3 million Portuguese cable households, ZON has more than 3.1 million cable households...

... benefiting from a short competitive advantage in terms of national coverage

However, ZON has been losing customers since the beginning of 2009 what can be explained by the launch of MEO in April 2008 accomplished with competitive prices, aggressive sales force and marketing campaigns. Indeed, although ZON is present on the ranking of the top ten advertisers in Portugal in 2009, PT occupies a better position with publicity investments around €103 mn, according to the ranking Media Monitor of Marktest (exhibit 22). Although PT is gaining market share on pay TV services we believe that this increase will stop when both companies achieve a similar market share, where the contents offered and the prices will be the differentiator factors. Therefore, we present below a table with our expectations about the pay TV market shares evolution. In relation to Cabovisão, the company has been losing share for the two main players on the market and, consequently decreased its revenues on 12.4% in 1Q10. Although the company is investing on digital TV, focusing on customer retention and promotion strategies, we believe that Cabovisão will continue to follow a declining trend in the market share, mainly driven by the market growth.

Exhibit 22: Ranking of the top ten advertisers in Portugal in 2009

Advertiser	Investment (€mn)
1. Lóréal Portugal	200,7
2. Modelo Continente	164,4
3. Procter & Gamble	149,4
4. Unilever - JM	144,7
5. Reckitt.Benckiser	116,6
6. Portugal Telecom	102,8
7. Vodafone	98,5
8. Pingo Doce	79,9
9. TMN	74,5
10. ZON	76,2

Source: Marktest

Exhibit 23: Pay TV Market Share

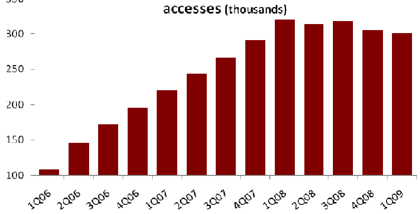
Pay TV Market Share	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
ZON	72,3%	64,4%	62,6%	60,8%	58,8%	56,8%	54,7%	44,0%
PT	13,6%	23,0%	25,1%	27,2%	29,3%	31,4%	33,5%	44,0%
Cabovisão	12,4%	10,2%	9,9%	9,4%	9,2%	9,0%	8,7%	7,7%
Sonaecom	0,5%	1,0%	1,0%	1,2%	1,3%	1,4%	1,6%	2,7%
Others	1,1%	1,4%	1,4%	1,4%	1,4%	1,5%	1,5%	1,7%
	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: ANACOM and Nova Equity Research

The launch of MEO accomplished with aggressive marketing campaigns is the main reason behind the decline of ZON subscribers

According to ANACOM[5], MEO offers presented the highest average customer satisfaction among all TV services available in the market, while ZON recorded the lowest indexes; which may help to explain the reason why ZON subscribers decreased. In reality, PT has a strong brand, rising to the 373th position in 2010 (from the 472th position last year) among the 500 most valuable brands in the world, with a brand value of 2.5 billion dollars, according to *Brand Finance*[6]. Moreover, PT is located in the 41th position on top 500 telecoms brands, representing a strong competitor. However, according to the same study of ANACOM, ZON has improving its customer service, registering the highest positive changes in all variables[7] used to measure the several brands of TV customer satisfaction, of which complains and satisfaction variables recorded the best improvements. Moreover, according to *Complains and Requests for Information* report published by ANACOM in 2Q09, ZON was the TV operator which received the lowest number of complains in the market.

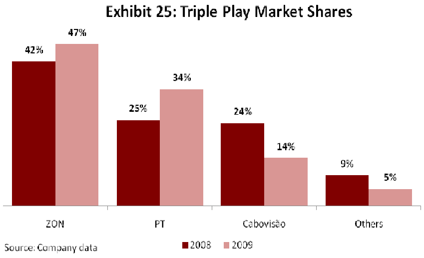
Exhibit 24: Evolution on the number of unbundled accesses (thousands)



Source: ANACOM

According to ANACOM the unbundled accesses are decreasing (exhibit 24) and according to the study previously mentioned, the customer loyalty has been increasing and ZON had registered the highest raise compared with other national operators. This fact can be explained through the success of triple play offers. Therefore, ZON is the leader on triple play market with 47% of market share in the end of 2009, achieving in 1Q10 a cable penetration rate of 45.6%.

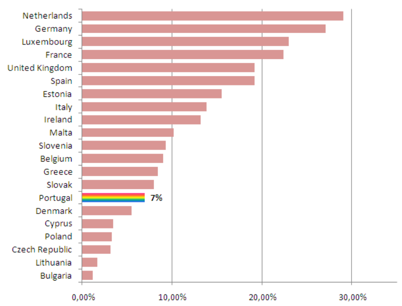
Exhibit 25: Triple Play Market Shares



Source: Company data

This strategic operation has also been taken by its main competitor PT, which had also increased its market share on this market (34%), on the contrary to Cabovisão, which has been losing share (14%) (exhibit 25). Actually, more often the telecoms operators are looking at television as a customer-retention tool, where triple play bundles attract and keep subscribers. Moreover, besides contributing to decrease the churn, the operators also took advantage by selling additional services. Therefore, the triple play offers are been viewed as key factors for the evolution of pay TV industry. In reality, Portugal still has a high potential of growth since the penetration rate on total population represents only 7% (exhibit 26). As a result, we believe that ZON will continue to have success on this business, attracting not only the cable subscribers but also the satellite customers using the mobile network under its MVNO agreement with Vodafone.

Exhibit 26: Bundled offers subscribers as % of population in EU*
July 2009

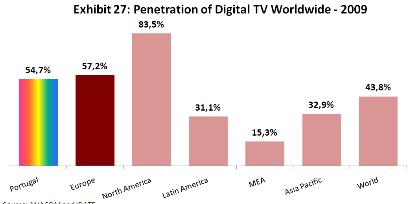


*Double, triple and quadruple play offers
Source: European Comission, Progress report on the single European electronic communications market in 2009 (15th report)

[5] *Relatório ESCI Portugal 2008 – Índice Nacional de Satisfação do Cliente*
[6] *Brand Finance* is a consultant in brand strategy and evaluation of intangible assets
[7] The variables incorporated in the valuation model are seven: image, expectations, quality, value, satisfaction, complains and loyalty.

High-Definition TV (HD) is currently a source of differentiation, which has increased ARPU of pay TV operators, through the delivery boxes. The HD contents in Portugal and worldwide are growing rapidly, being Portugal with a rate slightly lower than Europe (exhibit 27). We believe that Portugal will continue to increase its growth rate in a near future, mainly driven by the extinction of TV terrestrial analogic system. However, as free-to-air channels will be available to everyone with an improved quality as the same time that operators will fill the market with more channels with HD contents, we believe that sooner or later this key factor of pay TV will no longer be a differentiation factor, but instead a required one. Meanwhile, through the installation of boxes the consumers can also enjoy from interactivity functions, which is a differentiation factor.

Exhibit 27: Penetration of Digital TV Worldwide - 2009

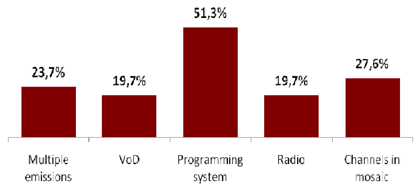


Source: ANACOM and IDATE

VoD services are becoming a new source of revenues

Video on Demand (VoD) is another application of the box, which adds value to pay TV market. Pay TV operators are gradually implementing solutions to meet viewers' need for flexibility and personalization at the same time as video consumption becomes increasingly independent of TV schedule. Indeed, according to Obercom[8], 19.7% of Portuguese digital customers have already used this service (exhibit 28). Although the number of subscribers of this service is still shy, we expect a grow trend, becoming a new source of revenues for ZON in a near future. Therefore, the quality of services required by customers together with the emerging functionalities and new forms of entertainment, represents an opportunity for ZON to increase the number of boxes installed, which already represents a considerable part of its total subscribers (41.7%) (exhibit 29).

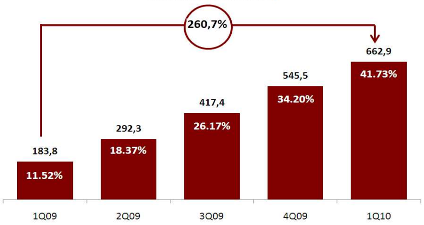
Exhibit 28: TV digital services penetration rate on total of individuals with TV Digital



Source: Obercom Televisão Digital em Portugal: Nova tecnologia, novos usos? 2009

In conclusion, apart from additional services, the pay TV market is driven by two main factors: contents and prices. Although there is a strong competitive environment on the Portuguese pay TV market and the threat of high quality competition offered by PT, we believe that ZON will continue to have success on this business, by retaining its subscribers and conquering those ones that do not have pay TV yet, which is in fact where triple play will play a main role.

Exhibit 29: Penetration and Number of ZON Boxes Installed (thousands)



Source: Company data

Angolan Pay TV Market:

The launch of the pay TV in Angolan market represents the first international operation of ZON

The launch of ZAP, the satellite pay TV service of Finstar in the Angolan market, represents the first international operation of ZON. In 2009, during the process of establishing the joint venture between ZON and SOCIP, Isabel dos Santos expressed her intention to take a position on ZON's capital, which definitely established the partnership to launch the pay TV service in Angola.

Exhibit 30:

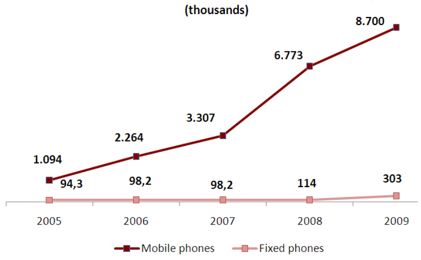
The Angolan Market	
Population	17.500.000
# Households	3.400.000
Penetration of TV sets of total households	12%
Pay TV subscribers	195.000
Penetration of pay TV subscribers of total population	1,1%
Penetration of pay TV subscribers of total households with TV set	66,1%

Source: Screen Digest

Angola is a country with more than 17 mn people, where only 12% of total 3.4 mn households have a TV set. However, it presents one of the highest penetration rates of pay TV among African countries (66%), emphasising a high income

[8] Obercom - *Televisão Digital em Portugal: Nova tecnologia, novos usos?* 2009

Exhibit 31: # of Mobile and Fixed Phones in Angola
(thousands)



Source: Teleco

Exhibit 32: Basic Package of Pay TV operators in Angola

Company	Price	Contents
ZAP	USD30	50 Cnannels
TV Cabo Angola	USD30	46 Channels
Multichoice	USD30	35 Channels

Source: Companies data

Exhibit 33: Pay TV Montly Prices in Angola

Source: Companies data

disparity: those who benefits from a TV set also afford the pay TV service, while the rest of population do not have access even to a TV set. Therefore, as the upper class already enjoys from this service, the growth potential of the market resides on the growth of the middle class. Moreover, the growth recorded on mobile business is a good indicator of the telecoms sector expansion, where 50% of population already enjoys from mobile services (exhibit 31). In addition, the telecoms market follows an upward trend, since the Angolan Government has invested in the implementation of infrastructures. Apart from the expansion of the sector, the low competition in the market (mainly driven by high administrative costs and reduced infrastructure) is still evident, representing a good opportunity for ZAP to enter in this country. The main competitors of ZAP are the South African Multichoice, and the regional TV Cabo Angola, a company owned by Grupo Visabeira. The Multichoice is the leader on the pay TV in Sub-Saharan Africa with a considerable market share (180k subscribers), through satellite platform. The TV Cabo Angola is a cable operator with 10k subscribers, which offers pay TV and internet services mainly in Luanda and currently is expanding its business to other provinces of the country.

Through an initial investment of €3.3mn and the launch of the satellite W7, on 24 November 2009, ZAP implemented a business model in Angola similar to one that ZON currently manages in its Portuguese DTH operations in terms of content offer, terminal equipment used and conditional access systems. ZAP has launched two initial commercial offers, a basic package with 50 channels and an 80 channels premium package with competitive prices (exhibit 32 and 33). The first one is available by USD30 (€23.7) and the second one by USD60 (€47.5), where the monthly fees are pre-paid and all the equipment is bought by the client and not rented, removing the credit risk associated with the business.

ZAP has a competitive advantage in contents business

The strategy of ZAP is centred on the contents offer, with key focus placed on the strength of the number of Portuguese speaking channels and HD content in addition to innovative digital box features. As ZON has strategic partnerships in the contents industry in Portugal, ZAP benefits from a competitive advantage in the business against the competition. In fact, the company aims at conquering the Angolan market through the sale of movie channels TV Cine produced by ZON as well as channels produced by joint ventures, such as Sport TV, Hollywood, MOV, Panda and Panda Biggs. Moreover, ZON announced in the conference call 1Q10 that ZAP will have the exclusive distribution of Sport TV Africa, from August 2010 onwards, to transmit the Portuguese football league, which again places the company in an advantage position. In addition, according to ERC (*Entidade Reguladora para a Comunicação Social)* Sport TV made a request to be approved as a new channel, which will have thematic TV programs at sport's level with an international coverage targeted to PALOP countries,

Exhibit 34:

STRENGTHS & OPPORTUNITIES of ZAP

- Local partnership with Isabel dos Santos
- Competitive advantage in the distribution of contents (Sport TV exclusive)
- ZON has a wide experience in pay TV segment
- Competitive prices
- It is a pre-paid service (low operating risk in the country)
- Satellite platform requires lower investments than cable
- The satellite W7 broadcasts the entire Southern African continent

WEAKNESSES & THREATS of ZAP

- Low penetration TV sets of total households
- Slow growth of the middle class
- ZAP provides only one service, Multichoice and Infrasat can benefit from cross selling

Source: Nova Equity Research

specially focused to Angolan market. Although, it was not announced or confirmed by the company, the Sport TV Internacional and Sport TV Angola are registered in *Instituto Nacional da Propriedade Industrial* since 2008, which make us believe that can be a strong hint of the launch of a new channel.

In conclusion, the development of operations in a country with a high potential on telecoms sector and with low competition, makes Angola a market very attractive to ZAP, where its competitive advantage of contents offer plays a crucial role to business success. We also believe that in the future ZON will expand its business to other African countries, such as Mozambique, Congo and South Africa, since the satellite W7 broadcasts the entire Southern African continent.

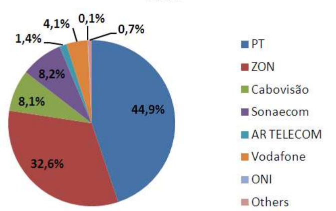
Fixed Broadband Market

Company business description

Higher broadband internet speeds incorporated in bundled offers is the reason behind the growth of ZON on broadband market

ZON has also a considerable presence in the broadband market, occupying the second position. In order to increase the download speeds to its customers and transform its cable network in a more competitive infrastructure (Hybrid Fiber Coaxial), the company invested in NGN, installing the Eurodocsis 3.0 technology in October 2008. The upgrade to NGN network allowed to launch residential offers of 200 Mbps and 1Gbps, covering in the end of 1Q10 90% of its cable network. New tests are being done to upgrade the download speeds up to 400Mbps, becoming available in the end of 2010 to its entire cable network. Zon has conquered new customers by offering high speed broadband solutions incorporated in bundled offers.

Exhibit 35: Fixed Broadband Internet Market Shares 1Q10



Source: ANACOM

Fixed Broadband Market Overview and Future Perspectives

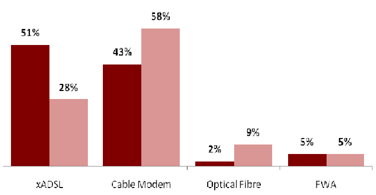
The Portuguese fixed broadband market is composed by four main players with considerable market shares: PT (44.5%), ZON (32.2%), Sonaecom (9.2%) and Cabovisão(8%).Bellow we present a summary with the fixed broadband operators as well as the speeds offered, to a better understanding of the market structure.

Exhibit 36: Fixed Broadband Offers in Portugal

Operator	Technology	Commercial Offer	
		Download	Upload
ZON MULTIMEDIA	HFC and Fiber-optic	2Mbps, 5Mbps, 10Mbps, 20Mbps 50Mbps, 100Mbps, 200Mbps, 1Gb	128Kbps-1Mpbs 3Mpbs-10Mpbs; 1Gb
PT	ADSL and Fiber-optic	4Mbps, 8Mbps,12Mbps, 24Mbps 20Mbps, 100Mbps	1024Kbps 2Mbps-10Mbps
SONAECOM	ADSL and Fiber-optic	24Mpbs 30Mbps, 50Mbps, 100Mbps	1024Kbps 3Mbps-10Mbps
CABOVISÃO	HFC and Fiber-optic	3Mbps, 10Mbps, 30Mbps 60Mbps, 120Mbps	256Kbps-1024Kbps 3Mbps-6Mbps

Source: Companies data

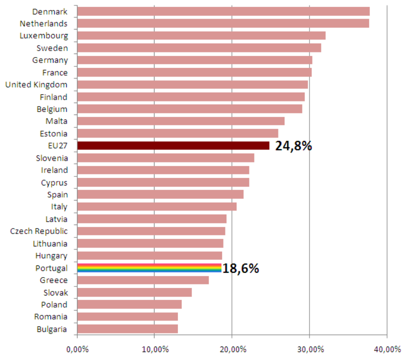
Exhibit 37: Broadband Offers available in Portugal



Source: ANACOM

In Portugal, as well as in Europe, the structure of broadband market has experienced large changes in recent years in terms of technology and transmission of speeds as well as dynamic bundled offers, which contributed to its growth. While PT has increased its market share on ADSL and FTTH markets, through the expansion of MEO offers, ZON continues to ensure the leadership position on the cable market, reinforced with the upgrade of its network and also with Bragatel,

Exhibit 38: Fixed Broadband Penetration rate - Jan2010

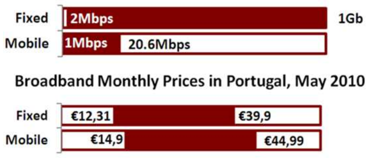


Source: European Comission, Progress report on the single European electronic communications market in 2009 (15th report)

Pluricanais and TVTel acquisitions. These trends are responsible by changes on internet access through different platforms, where ADSL is losing share (exhibit 37). Other factor inherent to the increase of fixed broadband is correlated with the number of broadband offers integrated in multiple play packages.

However, although the fixed broadband penetration is increasing, the rate is still below the EU average (exhibit 38). Actually, only 18.6% of Portuguese population has access to internet when compared with 24.8% in European countries. The low number of computers in the country can help to explain this difference. Indeed, according to OECD, 49.8% of Portuguese households had access to a computer in the end of 2008, which is a lower number than registered in European countries (69%). In addition, the fixed broadband penetration rate has experienced a decline in the level of growth, which probably is associated with the launch of mobile broadband offers, which provide flexibility (does not require adherence to other services), mobility and ease of installation. However, we believe that mobile services act more as a complementary technology, instead of a substitute one, since data use takes up more capacity on a network than voice and currently mobile networks have limits on their data consumption. It could be enough for occasional use, but is a barrier to download movies and music. Moreover, the fixed network allows higher speeds, is more stable and is less costly (exhibit 39).

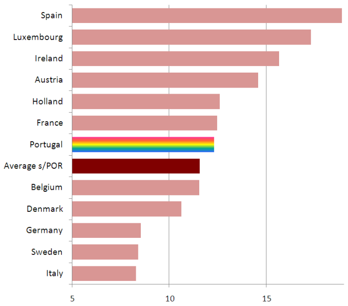
Exhibit 39:
Broadband Speeds in Portugal, May 2010



Source: Companies data

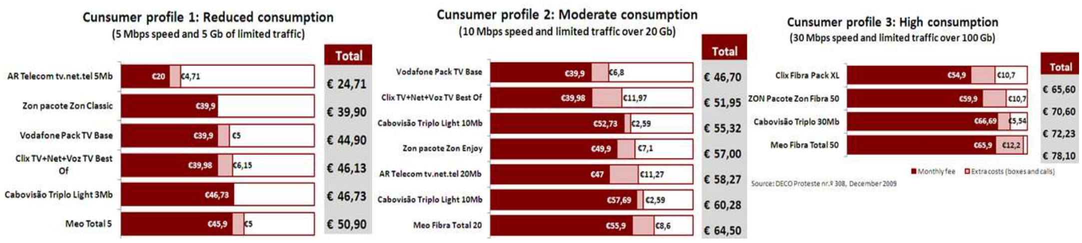
The level of prices can also work as a barrier to adhere the service and if we compare Portugal with Europe we realize that we have higher prices (exhibit 40). Nevertheless, as prices have followed a declining trend over the years as the technology is being developed, we expect the number of access to rise. In addition, according to data from *European Media Scope*, Portugal is one of the European countries that most use the internet. Therefore, a decline of prices along with higher internet speeds and a growing trend in the number of computers in the country, lead us to believe that Portugal has a high growth potential in this business. Moreover, the increase of competition is already producing results on that sense, by filling the market with a diversity of offers at competitive prices. ZON is one of the operators that provide the most attractive packages, incorporating on bundled offers high speed fixed broadband services (according to a study published by *DECO* in December 2009-exhibit 41).

Exhibit 40: Minimum broadband monthly fee - June 2008 (€ VAT excluded)



Source: ANACOM

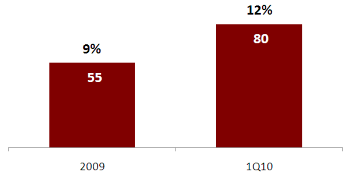
Exhibit 41: Triple Play Packages focused on fixed broadband speeds



Zon is the leader on Next Generation Broadband connections with 64% of market share

According to ANACOM, apart from the prices, the selection of the operator of fixed internet is also influenced by the fact that the client is already a customer of that operator in other services. This fact benefits ZON, since it is the leader on providing bundled offers. The success of the company on this business can be also proved through cable broadband penetration rate, which already corresponds to 54%. In addition, after only 3 quarters of being launched, 12% of broadband customers are taking *wideband* products, enjoying from high speed broadband internet over 50 Mbps (exhibit 42). Additionally, ZON leads the market in terms of Next Generation Broadband connections with a 64% market share in the end of 2009. The fast upgrade of ZON network with NGN technology along with reduced implementation cost compared to fiber optic technology, provides ZON a competitive advantage, benefiting the company from a higher number of cabled houses and subscribers with high speeds broadband. Moreover, although we are aware that the capacity speeds of fibre will surpasses the eurodocsis 3.0 technology in the future, we believe that this fact will only occur when the emerging applications (mainly driven by contents) require superior speeds. ZON already offers 100Mbps to 90% of its network as well as provides 200Mbs and 1Gb in some country regions, which along with its strategic partnerships in the contents industry, is a competitive advantage against its competitors. As a result, we believe that ZON will continue to have success on this business, reaching a penetration broadband rate on cable base of 63%.

Exhibit 42: Penetration and Broadband Subscribers of ZON with NGN (thousands)



*Broadband subscribers over 50Mbps
Source: Company data

Fixed Voice Market

Company business description

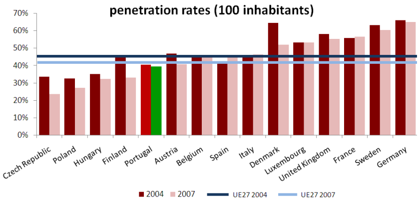
ZON creates value on triple play offers by adding fixed voice services

ZON is also supporting its growth in the fixed voice market mainly due to the addition of simple and flat phone tariffs on top bundles with TV and broadband packages. ZON has already conquered the third position in the market in 2009 with 11.10% of market share and during the 1Q10 continued to grow, having more than 646 thousands fixed voice subscribers and a 54.3% of basic cable penetration rate.

Fixed Voice Market Overview and Future Perspectives

The traditional market of fixed voice services has declined over the years, since 2000, presenting Portugal a penetration rate even lower than Europe (exhibit 43). The substitution of fixed services to mobile ones is considered one of the factors responsible for this decline. According to ANACOM[9] the majority of Portuguese population that do not use fixed telephone services (45%) is justified by the use of a mobile phone, where the mobility factor and lower prices seems to be key factors. However, in 2009 this trend was contradicted by the increase

Exhibit 43: International Comparison of access penetration rates (100 inhabitants)

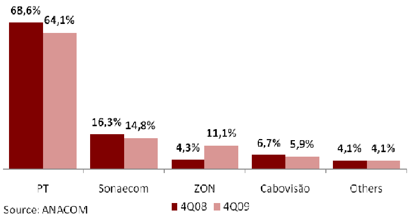


Source: ANACOM

[9] Inquérito ao Consumo Dos Serviços de Comunicações Electrónicas: ICP-ANACOM, December 2008

of fixed telephone subscribers, mainly boosted by the raise of VoIP services, which registered a growth of 63.5% in 2009 compared to 2008. Actually, consumers are returning to the fixed voice market, attracted by strong value propositions that include voice as part of bundled offers. We consider that ZON has been responsible for this new stage of fixed telecommunications since it was the one that grew more (6.3%) while the traditional incumbent and other main competitors were losing market share (exhibit 44). We expect that this market will continue to grow and ZON will continue to increase its fixed voice subscribers through bundled offers strategy, achieving a penetration rate of 63%. Indeed, the success of the company is quite visible since in 1Q10 voice subscribers represented 54.3% of the cable customer base, overtaking for the first time the penetration rate of broadband services.

Exhibit 44: Fixed Voice Market Shares



Source: ANACOM

Mobile Market

Company business description

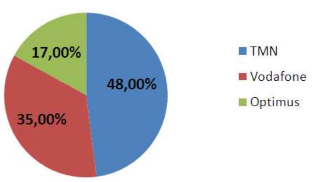
The group continues to follow the market telecoms trends on extending its services to mobile offers, having signed a 5 years contract with Vodafone group in the end of 2008 for the launch of a mobile virtual network operator (MVNO). In fact, the company transformed its triple play offers in quadruple play, providing mobile voice, mobile broadband and *homezoning* services, extending multiple play offers also to satellite subscribers.

Through MVNO the satellite subscribers also have access to multiple play offers

Mobile Market Overview and Future Perspectives

The Portuguese mobile market has been presenting a stable structure over the years, where two mobile virtual network operators (MVNO) recently entered the market, the CTT in November of 2007 and ZON one year later. Nowadays the national mobile market is composed by three network operators, which are also the main players, TMN (48%), Vodafone (35%) and Sonaecom (17%), and two service providers CTT (using TMN network) and ZON (using Vodafone network).

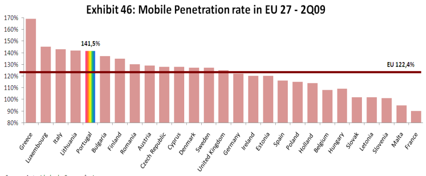
Exhibit 45: Mobile Market Shares 2008



Source: Autoridade da Concorrência

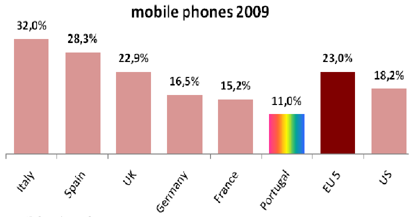
The mobile market has registered an increase in mobile subscribers as well as in active users in the last years, being Portugal one of the European countries with a penetration rate higher than the average (exhibit 46), where 10% of mobile customers have more than one SIM card. The development of UMTS (3G) network is one factor that can explain this growth trend. The reasons are quite simple, while the mobile networks are becoming more developed and complex, more data services are available to mobile consumers. At the same time that Portuguese people are increasing their willingness to use internet on mobile phones, the operators are reducing the price of Smartphones in order to increase the penetration of these mobile phones and create consumption habits.However, it still present low values (exhibit 47). Therefore, at the same time that mobile

Exhibit 46: Mobile Penetration rate in EU 27 - 2Q09



Source: Autoridade da Concorrência

Exhibit 47: Smartphones penetration rate on mobile phones 2009

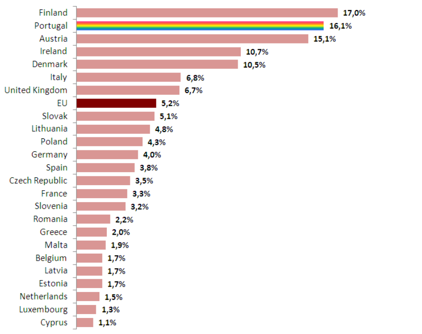


Source: IDC and comScore

internet already represents more than 20% of operators revenues, the number of 3G subscribers is increasing, achieving about 4.32 millions in the end of 2008, and consequently reflecting a 29% penetration rate on total mobile customers.

The Portuguese mobile penetration rate was also boosted by the implementation of Government initiatives (*e-escola*, *e-professores* and *e-portunidades*), which allowed the acquisition of portable computers and broadband internet access at reduced prices. In addition, the operators are adding value to bundled offers, including mobile broadband services, in order to attract customers.

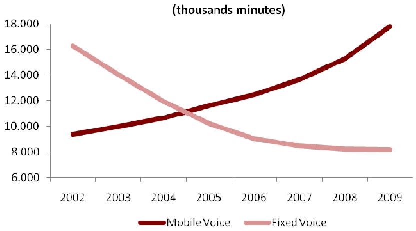
Exhibit 48: Mobile Broadband Penetration rate in EU - Jan2010



Source: European Comission, Progress report on the single European electronic communications market in 2009 (15th report)

All these events contributed to boost the mobile broadband penetration rate, increasing to 16.1% compared to 12.1% in last year, surpassing the EU average and becoming the second country with the highest rate (exhibit 48). As a result, we consider that there is a huge growth potential in this market. Although ZON mobile operation is recent, we believe that ZON will continue to increase mobile subscribers, even in a slow way. Even though there is the possibility to obtain mobile services as a stand-alone service, the strategy of ZON to face the competitive environment on this business is centred on offering mobile services incorporated in quadruple play offers. Moreover, in order to create consumption habits ZON is offering to its customers the mobile broadband 100Mbps for free. In addition, there are geographic areas in the country that ZON do not provide internet access through cable platform, since the implementation of the infrastructure would be too expensive with negative margins. Therefore, through the mobile network ZON can supply those areas conquering satellite subscribers on selling additional services.

Exhibit 49: Volume of traffic of voice service
(thousands minutes)



Source: ANACOM

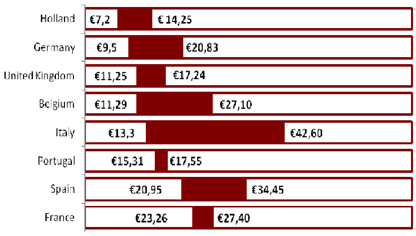
Apart from the take-off of mobile broadband, the call volumes and voice traffic have also contributed to maintain the dynamic environment in national mobile market, representing 72% of total mobile revenues. Although the mobile calls are more expensive than the fixed ones, the consumers are adding value to mobility, preferring a more expensive service (exhibit 49). The Portuguese mobile voice market has a strong competitive environment and although we believe in the potential growth of ZON, we consider that it will not be easy to conquer customers in this segment as in the other ones. This will be a challenge mainly because the competitors are in the market for more than ten years, benefiting from a market experience, knowhow and a large network of customers. However, the first steps were already taken with success, since ZON decided to enter the market as a MVNO rather than make huge investments on the development of its own mobile network and expensive spectrum licenses.

A large network of customers and competitive prices are the keys to succeed in mobile voice market

On the contrary to other services, the mobile voice services do not benefit from being included in bundled offers, since customers see this service as an independent one. For a new entrant, the difficulties on growing in this business are increased by the emergence of tariff plans (*Moche-TMN, Extreme-Vodafone, Tag-Optimus*) implemented by the main operators that allow unlimited calls and written messages between subscribers with the same tariff plan. Therefore, there is one main driver that strongly affects the customer decision for an operator, since generally customers prefer to subscribe to large operators benefiting from a greater number of contacts at a lower price. As a result, in order to attract customers ZON has implemented competitive tariff plans with low prices. According to a recent study published by DECO[10], ZON offers the best tariff (*Z-Super 8*) in the market in 3 of 5 profiles analysed. Furthermore, following its competitors (*TMN Leve, Vodafone Vita Light Total, Optimus Livre Total*), ZON has also implemented tariffs by second (*Z-Simples*), which allow to collect higher revenues than the traditional tariffs if customers talk more than 32 seconds per call. In Portugal, there is a wide range of tariffs within each operator, but the same does not occur with prices (exhibit 50,51), which also acts as a competition barrier. The price plays an important role in this business and although Portugal has been presenting a declining trend, it continues to offer higher prices than some European countries. Even moderate user never pays less than €10 a month in Portugal. This can be explained by termination rates[11] (exhibit 52). Indeed, Portugal is one of the European countries with the highest termination rates, which acts as a strong barrier to competition. ANACOM will combat the imbalance tariff mobile market through the fall in prices of terminations to €0.035 until April of 2011which will lead Portugal to be among the nine lowest prices at European level. Therefore, a reduction about 46% may have a direct benefit from the prices paid by consumers. As a result, this event will bring advantages to ZON and Sonaecom, while TMN and Vodafone are against because these tariffs are one of the main sources of revenues for them. Furthermore, the implementation of strategic tariff plans is also acting as a retention tool of subscribers, contributing to decrease the churn and increase the customer loyalty, becoming more difficult for ZON to attract customers. According to ANACOM[12] Portugal is one of the countries that less change of operator. In 2008, only 1.1% of Portuguese subscribers had changed. In addition, the cost of change and research also limit the transfer of customers to another operator, mainly because the majority of mobile phones are blocked to a mobile network and the customer' family and friends belong to the same network.

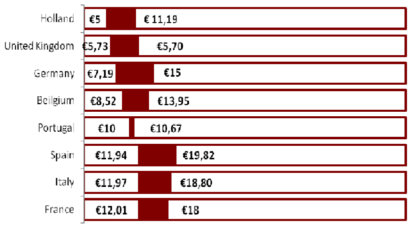
In conclusion, the mobile market is a growing market and we expect that ZON will also contribute to its expansion, conquering mobile broadband and voice subscribers.

Exhibit 50: Mobile Tariff Prices - National Profile



Source: DECO Proteste nr.º 305, September 2009

Exhibit 51: Mobile Tariff Prices - Light Profile



Source: DECO Proteste nr.º 305, September 2009

Exhibit 52: Mobile Termination Rates in Europe - Jan10

Country	Price (€)
1. Cyprus	0,0195
2. Sweden	0,0295
3. Austria	0,0326
4. Poland	0,0357
5. Lithuania	0,0417
6. Belgium	0,0445
7. France	0,0450
8. Hungary	0,0470
9. Slovenia	0,0495
15. Portugal	0,0650

Source: Diário Económico, 14th May 2010

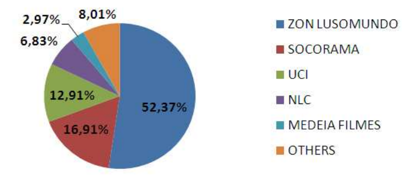
10 Associação Portuguesa para a Defesa do Consumidor, *Mapa Nacional das Chamadas e SMS com fraca concorrência*, PROTESTE n.º 305, September 2009

11 The termination rates consist on tariffs that operators pay to each other to end the call in a different operator.

12 *Inquérito ao Consumo das Comunicações Electrónicas 2008*

Cinemas Market

Exhibit 53: Cinema Exhibition Market Shares 2009*

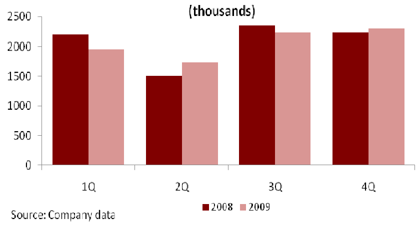


* Calculated as a % of total spectators

Source: ICA

ZON Multimedia is the leader in cinema business with 213 screens spread in Portugal and 52.37% market share of total spectators in the end of 2009 (exhibit 53). Last year, for the first time since 2005, the company registered a decline in the number of tickets sold (exhibit 54). The highest fall occurred in the first semester, which among other factors can be explained by the suspension for three months of the promotional campaign entitled *myZONcard*[13] ordered by Competition Authority. Medea Movies presented a complaint arguing that the campaign was a barrier to competition. After the suspension period, the campaign continued to run and until the moment there was no decision of Competition Authority.

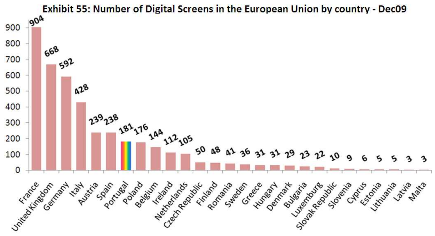
Exhibit 54: # Tickets Sold ZON Lusomundo



Source: Company data

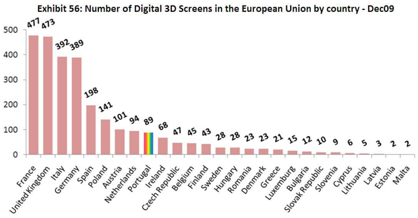
The financial crisis occurred in the last two years was the main event responsible for the decline in the number of tickets sold in the market, affecting the families' purchasing power. In addition, according to ASSOFT and BSA[14] the software piracy in Portugal rose to 54% during 2009, which surpasses the average of the European countries (43%). These high rates of piracy include illegal download of movies, being one of the main reasons behind the downward trend in the number of tickets sold. Indeed, according to Obercom report[15] around 53% of internet users performs download of movies, which 87% are the recent ones, causing a decrease in cinema spectators. However, the number of tickets sold by ZON started to recover throughout the year, registering the company a growth of 10.4% in cinema revenues. This excellent performance was mainly driven by the focus on digitalizing the network, improving dramatically the image and sound quality of the movies, in addition to the increase on 3D movies projected. In reality, this new way of watching a movie not only attracted more spectators, but also increased the average ticket prices. Therefore, we believe that in the current scenario with download sites increasingly and film piracy allowing users to see recently launched films, the 3D play the important role to bring the public back to the cinema. In that sense, ZON has added value to the entertainment Portuguese industry, being the pioneer in innovation on investing on a digitalization project of its screens. With 138 digital screens, of which 39 with digital 3D technology, ZON occupies the 7th and 9th position in the ranking of countries with the largest digital and 3D network, being in a prominent position compared to European countries (exhibit 55, 56). As a result, we believe that ZON will continue its excellent performance in cinema business, ensuring its position of leadership on the Portuguese cinema exhibition market.

Exhibit 55: Number of Digital Screens in the European Union by country - Dec09



Source: Focus 2010 - European Audiovisual Observatory

Exhibit 56: Number of Digital 3D Screens in the European Union by country - Dec09



Source: Focus 2010 - European Audiovisual Observatory

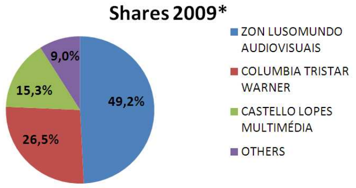
[13] MyZONcard is a promotional campaign of ZON Lusomundo that consists on offering to its ZON TV Cabo subscribers a loyalty card which allows them to benefit from discounts in the price of the cinema ticket or in the cinema bar products.

[14] Associação Portuguesa de Software and Business Software Alliance Global Software Piracy (7th Report-2009)

[15] *A Internet em Portugal 2009*

Audiovisuals Market

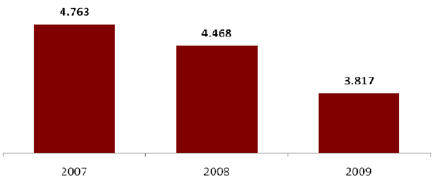
Exhibit 57: Cinema Audiovisuals Market Shares 2009*



* Calculated as a % of total spectators

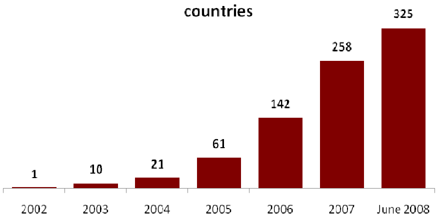
Source: ICA

Exhibit 58: # DVD Distribution in Portugal



Source: GAC - Inspecção Geral das Actividades Culturais

Exhibit 59: # of VoD Services in 24 European countries



Source: European Audiovisual Observatory

ZON has the leadership in audiovisuals business with 49.2% of market share, followed by Columbia Tristar Warner and Castello Lopes Multimédia among others (exhibit 57). The success of ZON in this business is recognized worldwide, strengthening its position with the nomination in 1Q09 as the *Best European Distributor* by Cartoon Movie. The audiovisuals segment is responsible for the supply of cinema contents, playing an important role in the success of cinema business. ZON has not only considerable partnerships with film production studios recognized in worldwide, such as Walt Disney, Paramount/Dreamworks and Universal, but also important contracts with the most prestigious brands of film distribution, publishing and video distribution, which represents a key factor to ensure the leadership position of ZON in the market. Although the company is facing a challenging market environment regarding to DVDs sales, which have been decreasing (exhibit 58), ZON is adding value to its services with a new way of watching videos at home, following the footsteps of European countries (exhibit 59). In fact, ZON revenues from distribution of VoD more than doubled in 1Q10 compared to 1Q09, surpassing for the first time those of DVD sales for rental stores. Apart from the purchase and management of the movie's broadcasting rights and the cinema sale of movie distribution, audiovisuals segment is also responsible for supplying contents to TV channels of ZON, which are available in premium packages (TV Cine). We consider the premium channels as a key driver of pay TV, attracting the consumption of thematic contents in detriment of generalist channels of free-to-air TV. Furthermore, besides Sport TV (which is one of the greatest drivers in increasing the consumption of pay TV) and TV Cine, Dremia channels (a joint-venture with Chello Media for the production of Hollywood, MOV, Panda and Panda Biggs) had strength Zon competitive advantage on contents. Indeed, Dremia channels registered an increase 5.8% of share compared to 4.4% in 1Q09. In conclusion, we believe that ZON will continue to lead in audiovisuals segment, where the partnerships with film production studios, the VoD distribution as well as the distribution of contents to pay TV channels are considered key drivers for the success of the company.

Valuation

The valuation of ZON Multimedia was evaluated through Discounted Cash Flow model (DFC), obtaining a price target of €5.38/share, which represents an upside potential about 70.77% taking into account the ZON last price on 4th June 2010.

The price target of the company was calculated using the DCF model which includes a 9 year forecast period and a continuing value after 2019. We opted for a long forecast period with the aim of reducing the weight of the continuing value in the total enterprise value. The DFC approach can be divided into two main parts: the estimation of the company future cash flows and afterwards the application of the appropriate discount rate (WACC - Weighted Average Cost of Capital) in other to achieve the enterprise value. For this reason, we estimated ZON future revenues dividing the company into its three main business areas: telecommunications, audiovisuals and cinemas. In relation to costs we have used consolidated results, since detailed information was not available. Therefore, we obtained a price target of €5.38/share for 2010 through dividing the equity value of €1.662,7mn by the number of shares (309 mn).

Exhibit 60: Zon's valuation

FREE CASH FLOW (€mn)	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
EBIT	76,7	97,3	118,6	138,6	160,2	181,6	282,7
Other Profits	16,9	(1,1)	(1,1)	(1,1)	(1,1)	(1,1)	(1,1)
Hypothetical Operating Taxes	(24,4)	(25,5)	(31,1)	(36,4)	(42,2)	(47,8)	(74,6)
Minority Interests	(1,7)	(1,7)	(1,7)	(1,7)	(1,7)	(1,7)	(1,7)
NOPLAT	**67,5**	**69,1**	**84,7**	**99,4**	**115,3**	**131,0**	**205,3**
Depreciation and Amortization	188,6	187,3	181,3	178,8	171,5	166,6	156,2
Gross Cash Flow	**256,0**	**256,4**	**266,0**	**278,2**	**286,8**	**297,5**	**361,5**
Increase in NWC	22,8	27,3	10,1	6,6	4,0	4,5	5,9
Net Capital Expenditures	247,9	215,8	198,5	191,5	184,8	183,9	178,6
Other Invested Capital	(56,3)	11,8	5,3	13,6	14,6	14,5	13,9
Cashflow from Investments	**214,4**	**254,9**	**213,9**	**211,7**	**203,4**	**202,9**	**198,4**
FREE CASH FLOW	**41,6**	**1,5**	**52,1**	**66,5**	**83,4**	**94,7**	**163,1**
Discount Factor		100%	93%	87%	81%	75%	52%
Discounted FCF		**1,5**	**48,5**	**57,6**	**67,2**	**71,0**	**85,3**

PV of Discounted FCF	26,8%	663,6
PV of Terminal Value	73,2%	1.811,4
Enterprise Value	**100,0%**	**2.475,0**
Net Debt (Dec2010)		812,3
Equity		1.662,7
Number of Shares (mn)		309
Price Target Eur/sh (FY10E)		5,38
Current Price		3,15
Upside (Downside)		70,77%

Source: Company data and Nova Equity Research

Exhibit 61:

DCF Assumptions in Zon Valutation	
Risk Free Rate	2,72%
Market Premium	6,30%
Levered Beta	0,98
Cost of Equity	**8,89%**
Cost of Debt	5,63%
Corporate Tax Rate	26,50%
After-tax Cost of Debt	**4,14%**
Leverage	30,00%
WACC	**7,47%**
Real Perpetuity Growth Rate	0,80%
Long-term Inflation Rate	1,82%
Perpetuity Growth Rate	**2,63%**

Source: Nova Equity Research

Discounted Cash Flow Assumptions

In order to discount the free cash flow it is necessary to apply the appropriated discount rate. WACC is the most adequate since it is the overall required return on the company as a whole. The main assumptions considered are:

■ A **cost of debt** of 5.63%, which results from the market spread adjusted to the level of the company' rating plus the risk free rate. As ZON does not have international rating classification, we assumed that the company will have a rating similar to its comparables (BBB).

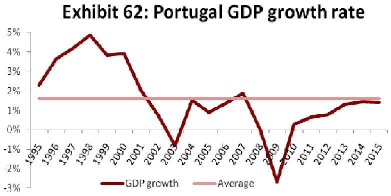
■ Through the CAPM approach we can obtain the **cost of equity** of 8.89%, where:

▪ The **risk free rate** selected was 2.72%, using the 10year German Government Bonds. The market premium used was 6.30%.

▪ Regarding **beta** estimation, first of all, we selected a group of comparable companies and regressed each company stock returns against the value weighted and well diversify portfolio MSCI World index. Afterwards, taking into account each company' capital structure, we unlevered all the betas and estimated their average, achieving the unlevered industry beta. Finally we applied ZON's capital structure as well as the tax rate of the company (26.5%), and achieved a levered beta of 0.98. We decided to choose a diversified index because when measuring beta versus a local index, we are not measuring market wide systematic risk, but rather a company's sensitivity to a particular industry, since most countries are heavily weighted in only a few industries.

■ It is common to estimate the perpetuity growth rate through the growth rate of GDP plus the inflation predicted. However, in our base scenario we assumed a conservative growth with a **real growth rate** of 0.8%, since the environment where the company operates it is very competitive. Nevertheless, we believe this rate reflects the company potential future growth. Moreover, later in this report we analyse the sensibility of the price target to growth rate changes.

Exhibit 62: Portugal GDP growth rate



Source: FMI - World Economic Database, April 2010

All the calculations were done in nominal terms, taking into account the expected inflation rate for Portugal according with *FMI*:

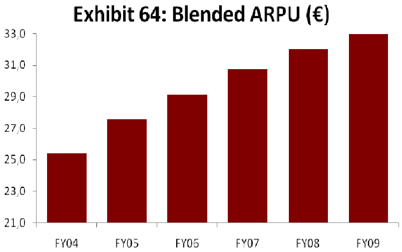
Exhibit 63: Inflation Rate

	2010E	2011E	2012E	2013E	2014E	2015E
Inflation Rate	0,841%	1,088%	1,441%	1,588%	1,724%	1,819%

Source: World Economic Outlook Database – April 2010

Main Estimates

Exhibit 64: Blended ARPU (€)



Source: Company data

ZON Multimédia had maintained a strong competitive position in the Portuguese telecommunications sector, mainly due to its success as market leader on pay TV services as well as in bundled offers, its considerable geographical coverage in Portugal and the upgrade of HFC network offering higher internet speeds. In addition, a stable pay TV customer base and a high expansion of broadband and voice cable penetration rate have contributed to strengthen the company operational results, being key elements on ARPU growth (exhibit 64).

In order to estimate the company's results we followed the strategy of ZON, taking into account not only the evolution of technology platforms but also the major players on the market, not forgetting also the consumer's behaviour. The table bellow presents the main highlights.

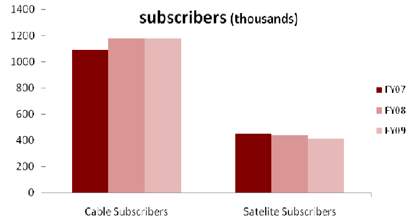
Exhibit 65:

	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E	CAGR 09-19
Revenues (€ mn)	**777**	**823**	**857**	**886**	**922**	**959**	**1002**	**1232**	4,1%
Pay TV, Broadband & Voice	688	738	768	793	824	856	892	1080	3,9%
Audiovisuals & Cinemas	88	85	89	93	98	103	109	151	5,9%
RGU (thousands) (1)	2.982	3.507	3.612	3.720	3.794	3.870	3.948	4.252	1,9%
Blended ARPU (€) (2)	31,99	33,80	34,81	35,86	36,86	37,89	38,96	43,52	2,6%
EBITDA (€ mn)	244	267	286	300	318	332	348	439	5,1%
EBITDA margin	31,48%	32,44%	33,33%	33,90%	34,48%	34,61%	34,77%	35,64%	

(1) Revenue Generating Unit
(2) Average revenue per user
Source: Company data and Nova Equity Research

Pay TV market: stable growth in national market

Exhibit 66: Evolution of ZON basic subscribers (thousands)



Source: Company data

Although ZON has been losing market share for its main competitor, PT, the pay TV customer's base of the company has remained relatively stable over the past quarters. If we separate cable from satellite subscribers, on the graph on the left, it is easier to understand the evolution of consumer's structure. Although PT is growing in the pay TV market through its competitive service MEO, we believe that ZON will continue to increase its customer base, even with a slower growth. Moreover, the company focus its strategy on multiple play offers will continue to ensure the number of subscribers, since it reinforces the costumer's loyalty. Due to this, we estimated an increasing trend for cable subscribers. Although the satellite subscribers present a declining trend, we estimated a growing trend, where the net additions become less negative until reaches positive values. We believe that ZON has an advantage on providing this service since there are geographic areas that are not covered by cable or any other platform. Furthermore, through its recent mobile network under its MVNO agreement with Vodafone, it is possible to extend triple play offers in these areas to satellite subscribers.

Exhibit 67:

Pay TV	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E	CAGR 09-19
Revenues (€ mn)	598	611	624	640	658	682	811	3,09%
Subscribers ('000)	1594	1597	1602	1609	1617	1635	1728	0,81%
Cable Subscribers	1180	1189	1199	1209	1218	1236	1312	1,07%
Satelite Subscribers	414	408	403	400	398	399	415	0,03%
Funtastic Subscribers	648	665	682	700	718	741	852	2,77%
Premium	902	910	921	933	946	965	1062	1,66%
Digital Subscribers	648	799	881	965	1051	1145	1555	9,14%
Net Additions ('000)								
Cable Subscribers	4	9	10	10	10	18	16	
Satelite Subscribers	-24	-6	-4	-3	-2	0	3	

Source: Company data and Nova Equity Research

Broadband and Voice Markets

The growth in the fixed broadband and fixed voice markets have also contributed to a stronger ARPU. Indeed, higher broadband speeds and flat-rate phone tariffs on top of bundled offers resulted in a substantial increase of subscribers. Therefore, we believe that the company will continue to grow in these businesses, where the broadband cable penetration rate will be equal to the fixed voice. Although the mobile market is very concentrated and competitive, we also estimated an upward trend in the mobile business.

Exhibit 68:

Fixed Broadband	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E	CAGR 09-19
Revenues (€ mn)	103	111	117	125	132	140	168	5,05%
Subscribers ('000)	611	647	667	688	709	729	825	3,06%
Net Additions ('000)	92	37	19	21	21	20	19	
Cable Penetration Rate	51,8%	54,4%	55,6%	56,9%	58,2%	59,0%	62,9%	

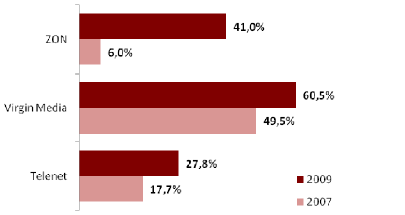
Fixed Voice	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E	CAGR 09-19
Revenues (€ mn)	27	31	33	35	37	39	54	7,30%
Subscribers ('000)	584	654	674	694	709	729	825	3,51%
Net Additions ('000)	238	70	20	20	15	20	19	
Cable Penetration Rate	49,5%	55,0%	56,2%	57,4%	58,2%	59,0%	62,9%	

Mobile	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E	CAGR 09-19
Revenues (€ mn)	10	15	20	25	28	31	48	16,51%
Subscribers ('000)	69	96	125	150	166	174	222	12,40%
Net Additions ('000)	62	28	29	25	15	8	11	
Cable Penetration Rate	5,8%	8,1%	10,5%	12,5%	13,6%	14,1%	16,9%	

Source: Company data and Nova Equity Research

Strong RGU and high ARPU growth

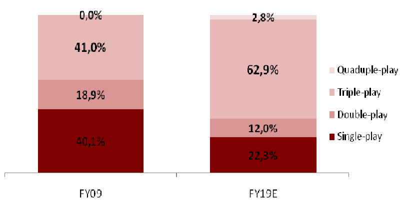
Exhibit 69: Triple Play Penetration (%)



Source: Company data

Although we predicted a stable growth of ZON in the pay TV national market, we believe that the company has a strong potential to grow in other business. Actually, the success of its strategic focus on displaying multiple play offers speaks for itself. The penetration rate of triple play services on cable subscribers of ZON is one of the highest among European cable companies (41%) and also has recorded a quickly growth (exhibit 69, 70), which is reflected in a sustainable growth of RGU and consequently, in an accelerated ARPU growth. Therefore, we expect a positive trend in the evolution of these operational performance indicators.

Exhibit 70: Bundled Offers Evolution (FY09-FY2019E)



Source: Company data and Equity Research

Furthermore, we also expect a continuing positive evolution of triple play on cable customers, against a decreasing trend in double play and single play offers. In addition, as the mobile market is very competitive, we believe that ZON will create value through providing mobile offers especially to its satellite subscribers.

Exhibit 71:

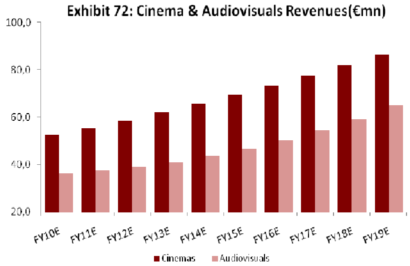
Bundled Offers*	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
Single-play	50,0%	40,1%	35,7%	31,1%	30,2%	28,6%	27,7%	22,3%
Double-play	26,6%	18,9%	16,2%	13,0%	12,4%	12,3%	12,3%	12,0%
Triple-play	23,4%	41,0%	47,9%	55,6%	56,9%	58,2%	59,0%	62,9%
Quaduple-play	0,0%	0,0%	0,2%	0,3%	0,6%	0,9%	1,1%	2,8%
	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

*Single play includes only pay TV; Double-play includes pay TV and broadband internet or pay TV and fixed voice; Triple-play includes pay TV, broadband internet and fixed voice

Source: Company data and Nova Equity Research

Audiovisuals & Cinemas: a mature business

Exhibit 72: Cinema & Audiovisuals Revenues(€mn)

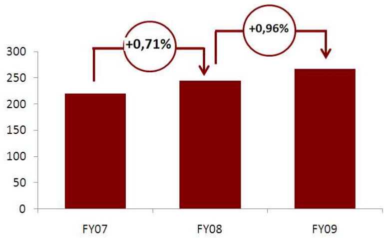


Source: Company data

We expect that ZON will continue to have a leadership position in both businesses with around 50% of market share, where we consider that there is not much room to grow. We believe that the viewing of 3D movies will increase the cinema exhibition revenues in 2010, assuming a constant trend in the upcoming years. In addition, we considered the VoD as the main grow driver for audiovisuals revenues which will positively surpass the opposite effect that the DVD distribution is presenting.

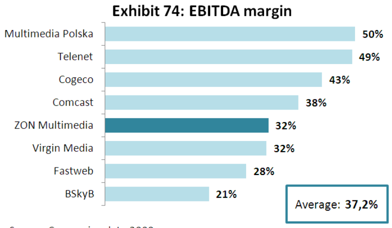
EBITDA Margin

Exhibit 73: EBITDA Evolution (€mn)



Source: Company data

Exhibit 74: EBITDA margin



Source: Companies data 2009

Taking into consideration the operational performance of ZON, we can realize that the company has improving its EBITDA margin since 2007 (exhibit 73). However, if we take into account the company' peer group we also recognize that ZON presents one of the lowers EBITDA margin. This fact can be explained by the considerable investments that ZON had made on improving its infrastructures (exhibit 74). In addition, the company is also present in entertainment market through its audiovisuals and cinema business segments, which present lower EBITDA margins than the telecommunications sector. However, with the aim of improving its operational efficiency, the company has emphasised as one of its objectives the reduction of operational costs. Indeed, was announced on the conference call 1Q10 the focus in 2010 would be profitability, even if at the expense of some growth. For the upcoming years, we believe that the EBITDA will grow mainly through the growth business of fixed broadband and fixed voice (driven by multiple play offers) and also through the revenues generated by the sale of value added services, such as Video on Demand (VoD).

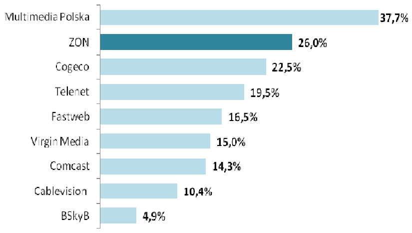
Exhibit 75:

	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
EBITDA (€ mn)	244	267	286	300	318	332	348	439
EBITDA margin	**31,48%**	**32,44%**	**33,33%**	**33,90%**	**34,48%**	**34,61%**	**34,77%**	**35,64%**

Source: Company data and Nova Equity Research

Capex

Exhibit 76: CAPEX/Revenues (%)



Source: Companies data 2009

In 2008, besides of continue to expand its cable network, ZON also started to improve the architecture of its hybrid fibre coaxial network which results from a combination of various upgrade technologies, namely EURODOCSIS 3.0, cell-spitting and selective roll-out of FTTH. In addition, the launch of new ZON boxes in 2008 represented a significant investment in rental base equipment with a considerable impact on capex and consequently in company' cash flows. In 2009, the company continued to follow its strategy, raising the amount of capex for the same reasons, which corresponded to an increase of about 42% since 2007. On the graph on the left, we can realize that ZON presents high capex values among its comparables (exhibit 76). Moreover, in order to improve its access network the company signed a 12 years contract with REFER in the last year, benefiting from backbone infrastructure capacity. In 1Q10, ZON was able to offer next generation speeds to over 90% of its cable network and it is expectable a full coverage in the end of the year. Therefore, we believe that in 2010 the amount of capex will remain high. For the upcoming years we expect a reduction in infrastructure and terminal equipment, decreasing the capex to constant values. The company' target for capex is centred on 15% of revenues, which are considered to be a normal level that still allows the company to grow.

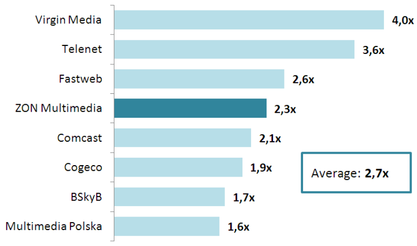
Exhibit 77:

€ million	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
Capex	160,8	213,6	215,7	198,5	191,5	184,8	183,9	178,59
As % of Revenues	21%	26%	25%	22%	21%	19%	18%	15%

Source: Company data and Nova Equity Research

Net Financial Debt

Exhibit 78: Net Debt/EBITDA (x)



Source: Companies data 2009

According to the net financial debt reported by the company, which excludes the long term telecom, transponder and content contracts, ZON presents a conservative net financial debt to EBITDA (2.3x) in comparison with its peer group (exhibit 78). We expect that the net financial debt to EBITDA will remain at 2.3x, which would allow the company to face its financial needs. Moreover, if we add the rental contracts for telecom capacity, we expect that the net debt to EBITDA will be in accordance with level of debt targeted, which was set to be between 2.5 and 3 times EBITDA.

Exhibit 79:

Net Financial Debt (€mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
Net Debt (1)	703,2	757,7	812,3	847,9	887,8	917,6	930,4	945,7
Net Financial Debt (2)	552,3	615,9	670,5	706,1	746,0	775,8	788,6	803,9
Net Debt to EBITDA	2,9x	2,8x	2,8x	2,8x	2,8x	2,8x	2,7x	2,7x
Net Financial Debt to EBITDA	**2,3x**	**2,3x**	**2,3x**	**2,3x**	**2,3x**	**2,3x**	**2,3x**	**2,3x**

(2) includs rental contracts for telecom capacity
(2) excluds rental contracts for telecom capacity
Source: Company data and Nova Equity Research

Shareholders Remuneration

ZON Multimedia has been applying an aggressive dividend policy, since the distribution of dividends has exceeded the net income. Note that the dividend dimension in 2007 is related with the promises made to shareholders when the company was still part of the PT universe. For the upcoming years we expect the preservation of a generous remuneration policy with a payout of 100% and trending to levels of 80% in line with previous years.

Exhibit: 80

DPS & Payout	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
Dividends per share	0,5	0,16	0,16	0,15	0,21	0,21	0,25	0,29	0,49
Payout	316%	103%	112%	100%	100%	80%	80%	80%	80%

Source: Company data and Nova Equity Research

Comparables – Relative Valuation

In order to complement our analysis and ZON valuation, we also looked into the worldwide telecommunications market and selected some companies similar to ZON. As the telecommunications segment of ZON represents around 90% of the company business, we decided to choose a group of comparables that has the core business focus on telecoms sector.

Exhibit 81: Sector Peers

	Market Cap. (€mn)	EV/Revenues (x) 2010	EV/EBITDA (x) 2010	Net Debt/EBITDA (x) 2010	EBITDA margin 2010
BSkyB	9903,6	2,0	5,6	1,7	20,6%
Virgin Media	5.305	2,4	6,3	4,0	35,7%
Telenet	1612,5	3,5	7,0	3,6	50,1%
Fastweb	1031,2	1,3	4,2	3,3	23,2%
Comcast	750,0	2,1	5,5	2,1	38,4%
Cogeco	50563,2	2,1	5,3	1,9	43,0%
Multimedia Polska	1302,1	3,0	6,0	1,6	49,6%
Average	-	2,3	5,7	2,6	37,2%
Portugal Telecom	7680,9	2,0	5,6	2,4	35,2%
ZON Consensus	973,7	2,0	6,0	2,9	32,6%
ZON Multimedia	973,7	2,9	8,6	2,3	33,3%

Source: Company data and Nova Equity Research

Through the table above and taking into consideration EV/Revenues multiple and EV/EBITDA, we realize that ZON is traded at a premium, since presents a higher multiple values than its comparables. In addition, the company EBITDA margin is lower than the other companies, which can be explained looking into the strategy of the company. Indeed, in recent years, ZON has been making high efforts on investing in its network infrastructure, conquering new customers as well as selling additional services to its initial subscribers, focusing its strategy on offering triple play services. Therefore, we cannot forget that there are many effects that contribute to define each company strategy, which consequently have a huge impact on each company multiples.

Sensitivity Analysis

In the construction of our model we determined a set of assumptions in order to achieve a price target of the company. However, in a so concentrated market where the competition is high, the market behaviour becomes more difficult to predict, increasing the uncertainty. Therefore, the emergence of a sensitivity analysis becomes crucial in the sense that besides of help to build confidence in the model by studding the uncertainties that are often associated with parameters in the model, makes possible to metric how a change in the main assumptions causes a change in the dynamic behaviour of the ZON price target. As a result, in the tables presented afterwards, the impact on the final valuation on making changes on perpetuity growth rate and WACC values, capex and EBITDA margin values is analysed.

■ Sensitivity analysis to WACC and Perpetuity Growth Rate

Exhibit 82: Sensitivity analysis to WACC and Perpetuity Growth Rate

€ per share		Perpetuity Growth Rate				
		1,63%	2,13%	2,63%	3,13%	3,63%
WACC	6,97%	5,05	5,65	6,38	7,30	8,50
	7,47%	4,32	4,80	**5,38**	6,80	6,97
	7,97%	3,71	4,09	4,56	5,10	5,79

Source: Nova Equity Research

Through the analyse above we can conclude that if we change the perpetuity growth rate in a range between 1.63% and 3.63% and consequently vary the WACC [6.97%-7.97%], the ZON price target presents a potential growth about 58% when compared with the best scenario (€8.5) and a downside growth about 45% when contrasted with the less optimistic scenario (€3.71).

■ Sensitivity analysis to Capex

We considered the capex a key factor for the development of a telecommunication company. As a result, we also conducted a simple analysis in order to be aware of the impact of capex changes on ZON valuation.

Exhibit 83: Sensitivity analysis to Capex

Capex	-2%	-1%	0%	1%	2%
Target Price (€)	7,27	6,33	**5,38**	4,43	3,49

Source: Nova Equity Research

We conclude that a change of 1% in capex, which is not a significant change, increases the price target to €6.33, representing a potential growth of 18%.

■ Sensitivity analysis to EBITDA Margin

With the aim of analysing the operational efficiency of ZON, we also did a sensitive analysis to EBITDA margin, where we realize that if the company increases its EBITDA margin in 1%, this growth signifies a potential impact on target price of 8.4%.

Exhibit 84: Sensitivity analysis to EBITDA Margin

EBITDA margin	-2%	-1%	0%	1%	2%
Target Price (€)	4,47	4,93	**5,38**	5,83	6,29

Source: Nova Equity Research

M&A: ZON and Sonaecom

A possible merger between ZON Multimedia and Sonaecom is on the market mouth since March 2008, one year later after the failure of the takeover launched from Sonaecom over PT. On recent news, this subject emerged again after Telefónica raise its offer to €6.500mn (from the initial offer of €5.700mn), in order to acquire the PT participation on Brasicel, which is the owner of Vivo in 60%. In fact, Telefónica already stated that it will sell its 10% stake on PT capital if PT accepts its offer. Therefore, this scenario brought up again the share prices of both companies, reflecting the market positive expectations regarding this merger.

Shareholder Structure

Exhibit 85:

Common Shareholders for both companies	ZON	PT
Caixa Geral de Depósitos	11,7%	7,3%
Grupo Espirito Santo	11,7%	8,0%
Telefónica, S.A.	5,5%	10,0%
Controlinveste/Joaquim de Oliveira	4,8%	2,3%
Ongoing Strategy Investments	3,2%	6,7%
Grupo Visabeira	2,2%	2,0%

Source: Companies data

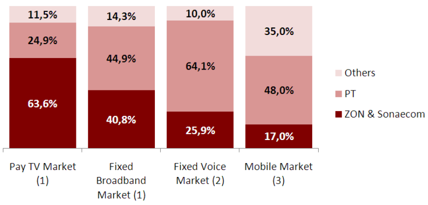
The shareholders structure of ZON is considered the highest barrier for the execution of this transaction. Actually, despite of some changes occurred with the spin-off of ZON (the oldest PTM) from PT, several shareholders remain common to both companies: CGD and Grupo Banco Espírito Santo with 11.7% and 11.74% on ZON' capital (both had vote against the Sonaecom IPO over PT), as well as Controlinvest/Joaquim de Oliveira (4.84%), Ongoing (3.16%) and Visabeira Group (2.15%) (exhibit 85). Therefore, this fact could be the greatest force to block the consolidation since ZON would become a stronger competitor strengthened within mobile business. However, we believe that the entrance of Isabel dos Santos to ZON capital (10%) in the beginning of the year in addition to the possibility of Sonae SGPS to enter in Angolan market through a partnership with her, would generate a positive vote for the consolidation. We also believe that if Telefónica sells its stake on PT capital, it would also be favourable to the merger. Additionally, both BPI (9.09%) and José Berardo (5.63%) had already stated is agreement in the consolidation.

Although Paulo Azevedo had demonstrated the willingness to negotiate without preconditions and without imposing a control position on the new company, we believe that some conditions would be made. In fact, Sonae SGPS owns Sonecom in 53.16% and had already declared that was not willing to sell it. Therefore, it would become the biggest shareholder of the new entity with a considerable position, while ZON would take the control position.

Synergies and Value Creation

We believe that the consolidation would bring considerable synergies to both parts. ZON would benefit from the mobile business of Optimus, which has a considerable market share (17%), as well as would strengthen its corporate business, which is the segment where ZON has a weaker presence. The company would also increase its network of optic fibre through the backbone of

Exhibit 86: Market Shares in M&A Scenario



(1) 1Q10 market shares, ANACOM
(2) 4Q09 market shares, ANACOM
(3) 4Q08 market shares, Autoridade da Concorrência

Sonaecom. On the other hand, Sonaecom, which only have 1% market share on pay TV market, would gain a strong presence in this business since ZON occupies the leadership position. Moreover, both companies would create a much stronger competitor against PT through the broadband business since both parts would have together a market share of 40.8% (exhibit 86).

Negative effects:

■ Sonaecom would have to cancel out the contract with Vodafone, which consisted on sharing their fibre networks. With this action, Sonaecom would have access to additional 200 homes passed without expend additional capex. Consequently, Sonaecom would not obtain revenues from those potential clients.

■ Sonaecom provides services to its clients mainly through DSL platform, using PT network, but also by FTTH platform through its own network. We believe that with a consolidation the Competition Authority would not allow an operator to have DSL, cable and FTHH networks. Therefore, we assumed that FTTH subscribers would remain in the same operator (since the offers would be the same), while DSL clients would have two options: or would remain in the company and opt for installation of FTTH or eurodocsis 3.0 tecnology, or would leave the company for the competition. Therefore, two negative effects were estimated:

■ The new company would lose some DSL clients for the competition since the competitors present competitive double plays offers (Fixed broadband and voice), which matches exactly with DSL client profile of Sonaecom. Although we assumed that the new company will launch this offers to retain the customer base, we considered that 20% of DSL would leave the company following the market trend.

■ We estimated the costs of upgrade the DSL clients to networks of the new company (FTTH and eurodocsis 3.0) in €17mn.

■ We also computed integration costs as well as legal and administrative costs.

Positive effects:

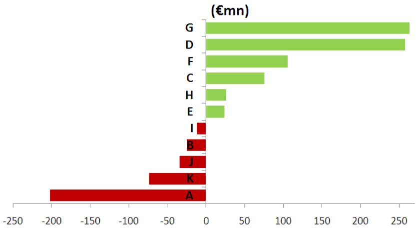
■ As the new company would benefit from the cable and FTTH network of ZON and also from the FTTH network of Sonaecom, there is no more need to support the LLU rental fees payments to have access to PT network.

■ ZON plays an important role in the distribution of contents, which would allow costs saving, since ZON would incorporate Sonaecom offers.

■ As ZON would benefit from mobile network of Sonaecom, the virtual mobile contract that has with Vodafone would be cancelled out generating costs synergies. Although, the disclosures of such contracts are not known, we assumed an EBITDA of 0% and incorporated the 81k ZON mobile clients on Optimus customer base.

■ The convergence of networks would reduced the marketing costs, outsourcing and personal costs.

Exhibit 87: Negative and Positive Synergies of the M&A (€mn)



Source: Nova Equity Research

Exhibit 88: NPV of Synergies

(€mn)	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2019
EBITDA	**72,5**	**79,7**	**67,5**	**56,0**	**49,8**	**46,1**	**40,6**
- (A) Loosing Vodafone FTTH partnership	0,0	-2,8	-10,9	-17,7	-20,4	-21,0	-23,5
- (B) Loosing double-play clients	-4,4	-6,0	-3,1	-2,8	-2,1	-1,9	-1,7
- (C) IPTV sinergies (Contents)	3,6	4,1	6,0	6,8	7,3	7,5	7,9
- (D) LLU Rental Savings	51,9	45,9	36,9	30,8	25,7	21,7	17,7
-(E) MVNO EBITDA improvment	0,5	1,1	1,1	1,5	1,9	2,2	2,8
- (F) Marketing Costs Savings	10,0	10,0	10,0	10,0	10,0	10,0	10,0
- (G) Outsourcing Cost Savings	25,0	25,0	25,0	25,0	25,0	25,0	25,0
- (H) Personnel Costs Savings	2,5	2,5	2,5	2,5	2,5	2,5	2,5
- (I) Upgrading Clients to NGN	-16,6	0,0	0,0	0,0	0,0	0,0	0,0
Implementation	**-120,0**	**-15,0**	**-10,0**	**-5,0**	**0,0**	**0,0**	**0,0**
- (J) Integration Costs	-20,0	-15,0	-10,0	-5,0	0,0	0,0	0,0
- (K) Legal and Administrative Fees	-100,0	0,0	0,0	0,0	0,0	0,0	0,0
Total Merger Costs/Benefits	**-47,5**	**64,7**	**57,5**	**51,0**	**49,8**	**46,1**	**40,6**
Total Merger Costs/Benefits *(1-tax)	-34,9	47,6	42,3	37,5	36,6	33,8	29,9
DCF	-34,9	44,3	36,6	30,2	27,4	23,6	15,6
Terminal Value	207,7						
NPV of Sinergies	404,5						

Source: Nova Equity Research

Exhibit 89:

M&A Valuation	Zon	Sonaecom
Wacc	7,47%	7,52%
Sinergies WACC	**7,48%**	
Equity	1.662,94	632,68
Sinergies	161,36	243,18
Equity + Synergies	1.824,30	875,86
Value of New Company	**2.700,16**	
Ownership	68%	32%

Source: Companies data and Nova Equity Research

After applying the tax rate and the discount factor, we estimated that the merger between ZON and Sonaecom would generate synergies in €404.5 mn. The discount factor was applied taken into account the combined WACC of both companies through the market capitalization (exhibit 89). Subsequently, we estimated the value of the new company in €2.700mn, which includes the market capitalization of both companies and the NPV of synergies. Therefore, through an exchange ratio based on market capitalization, the upside potential in the price target of ZON is 9.7%, reflecting the positive effects of the merger.

Exhibit 90:

Top Shareholders	
Sonae SGPS	17,19%
France Télécom	6,49%
CGD	7,91%
BES	7,93%
Kento Holding	6,76%
BPI	6,14%

Source: Nova Equity Research

As already mentioned Sonae SGP would become the biggest shareholder of the new company with a considerable position on 18% (exhibit 90). However, we believe that this subject would be solved through negotiations, not being considered an obstacle to the merger.

Financial Statements

Exhibit 92: Consolidated Income Statement

Consolidated Income Statement (€mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
Total Revenues	**776,6**	**823,0**	**857,2**	**886,4**	**921,7**	**959,0**	**1.001,5**	**1.231,5**
Pay TV, Broadband and Voice	688,2	737,8	768,1	793,4	824,0	855,9	892,3	1.080,1
Audiovisuals	40,1	35,9	36,5	37,5	39,0	41,1	43,6	64,9
Cinemas	48,0	49,2	52,6	55,4	58,6	62,0	65,6	86,5
Others and Eliminations	0,2	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Operating Costs	**532,1**	**556,1**	**571,5**	**585,9**	**603,9**	**627,1**	**653,3**	**792,6**
Personnel Costs	52,7	58,2	60,1	62,0	64,4	67,0	69,7	85,3
Direct Costs	239,2	232,8	238,2	242,0	247,2	256,8	267,7	324,0
Costs of Product Sold	9,5	15,4	15,4	15,9	16,5	17,1	17,8	21,6
Marketing and Publicity	26,7	25,7	26,8	27,7	28,8	30,0	31,3	38,5
Support Services	57,4	63,1	67,2	69,5	72,3	75,2	78,5	96,6
Suppliers and External Services	130,1	139,5	142,4	147,3	153,2	159,4	166,4	204,6
Other Operating Costs	16,5	21,3	21,5	21,5	21,5	21,7	21,8	22,0
EBITDA	**244,5**	**267,0**	**285,7**	**300,5**	**317,8**	**331,9**	**348,3**	**438,9**
Depreciation and Amortization	140,4	188,6	187,3	181,3	178,8	171,5	166,6	156,2
Income From Operations	**104,0**	**78,4**	**98,4**	**119,2**	**139,0**	**160,4**	**181,7**	**282,7**
Other Expenses / (Income)	4,1	1,7	1,0	0,6	0,4	0,2	0,1	0,0
Operating Profit (EBIT)	**100,0**	**76,7**	**97,3**	**118,6**	**138,6**	**160,2**	**181,6**	**282,7**
Net Financial Expenses (Income)	**25,9**	**14,9**	**33,1**	**32,5**	**32,8**	**33,3**	**33,8**	**34,3**
Financial Expenses	25,0	31,8	32,0	31,4	31,7	32,2	32,7	33,2
Other expenses	0,9	-16,9	1,1	1,1	1,1	1,1	1,1	1,1
Income Before Income Taxes	**74,1**	**61,8**	**64,2**	**86,1**	**105,8**	**126,9**	**147,8**	**248,4**
Income Taxes	-22,5	-16,1	-17,0	-22,8	-28,0	-33,6	-39,2	-65,8
Income before Minority Shareholders	**51,6**	**45,7**	**47,2**	**63,3**	**77,8**	**93,3**	**108,6**	**182,6**
Losses (income) attributable to Minority Shareholders	-3,6	-1,7	-1,7	-1,7	-1,7	-1,7	-1,7	-1,7
Consolidated Net Income	**47,9**	**44,0**	**45,6**	**61,7**	**76,1**	**91,6**	**107,0**	**180,9**

Source: Company data and Nova Equity Research

Exhibit 93: Consolidated Balance Sheet

Consolidated Balance Sheet (€mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
Current Assets	**295,6**	**436,4**	**370,3**	**298,7**	**304,3**	**318,2**	**333,5**	**408,9**
Cash and Equivalents	63,4	177,0	92,1	6,4	0,3	1,8	3,1	2,8
Accounts Receivable - Clients	116,3	114,0	124,3	133,0	138,3	143,9	150,2	184,7
Accounts Receivable - Others	46,5	71,0	77,2	79,8	83,0	86,3	90,1	110,8
Inventories	31,3	39,9	43,0	44,4	46,1	47,9	50,0	60,5
Other Current Assets	38,1	34,5	33,7	35,1	36,7	38,3	40,1	50,1
Non-current Assets	**1.027,5**	**1.042,8**	**1.082,7**	**1.104,7**	**1.133,2**	**1.163,3**	**1.197,7**	**1.359,7**
Accounts Receivable - Others	99,8	62,4	65,2	67,4	70,0	72,9	76,1	93,6
Investments in Group Companies	6,0	1,3	3,5	3,5	3,5	3,5	3,5	3,5
Fixed Assets available for sale	22,2	21,8	21,8	21,8	21,8	21,8	21,8	21,8
Intangible Assets	372,8	353,8	366,2	373,7	379,2	385,0	392,6	440,9
Tangible Assets	468,0	554,6	570,6	580,3	587,4	595,0	604,7	667,1
Deferred Taxes	57,7	47,9	54,4	57,1	70,1	84,1	97,9	131,7
Other Non-current Assets	1,0	1,1	1,1	1,1	1,1	1,1	1,1	1,1
Total Assets	**1.323,1**	**1.479,2**	**1.453,0**	**1.403,5**	**1.437,4**	**1.481,6**	**1.531,2**	**1.768,5**
Current Liabilities	**597,4**	**544,6**	**479,9**	**464,2**	**465,0**	**469,6**	**475,6**	**498,7**
Short Term Debt	317,1	246,5	190,1	170,3	163,1	156,3	149,4	104,3
Accounts Payable - Suppliers	139,9	138,3	141,9	144,4	147,6	153,3	159,9	193,5
Accounts Payable - Others	41,2	37,6	38,0	38,7	39,6	41,1	42,8	51,8
Accrued Expenses	67,7	74,7	72,9	73,1	76,0	79,1	82,6	101,5
Deferred Income	5,0	3,7	3,8	3,9	3,9	4,1	4,3	5,2
Taxes Payable	14,3	29,8	19,3	19,9	20,7	21,6	22,5	27,7
Current Provisions	12,4	13,9	14,0	14,0	14,1	14,2	14,2	14,6
Non-current Liabilities	**533,9**	**745,0**	**783,0**	**748,5**	**766,5**	**787,7**	**809,9**	**874,7**
Medium and Long Term Debt	510,1	722,7	760,4	726,0	743,0	763,1	784,1	844,2
Other non Current Liabilities	23,8	22,3	22,6	22,5	23,5	24,6	25,8	30,5
Total Liabilities	**1.131,3**	**1.289,5**	**1.262,9**	**1.212,8**	**1.231,5**	**1.257,3**	**1.285,6**	**1.373,3**
Equity Before Minority Interests	**182,7**	**180,4**	**180,8**	**181,5**	**196,7**	**215,0**	**236,4**	**386,0**
Share Capital	3,1	3,1	3,1	3,1	3,1	3,1	3,1	3,1
Own Shares	-89,6	-87,2	-87,2	-87,2	-87,2	-87,2	-87,2	-87,2
Legal Reserves	3,6	3,6	3,6	3,6	3,6	3,6	3,6	3,6
Reserves and Retained Earnings	217,8	217,0	215,9	200,4	201,2	204,0	210,0	285,6
Net Income	47,9	44,0	45,6	61,7	76,1	91,6	107,0	180,9
Minority Interests	9,0	9,2	9,2	9,2	9,2	9,2	9,2	9,2
Total Shareholders' Equity	**191,7**	**189,6**	**190,1**	**190,7**	**205,9**	**224,3**	**245,6**	**395,2**
Total Liabilities and Shareholders' Equity	**1.323,1**	**1.479,2**	**1.453,0**	**1.403,5**	**1.437,4**	**1.481,6**	**1.531,2**	**1.768,5**

Source: Company data and Nova Equity Research

Exhibit 94: Consolidated Cash Flow Statement

Consolidated Cash Flow Statement (€mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY19E
Net Income	47,9	44,0	45,6	61,7	76,1	91,6	107,0	180,9
Depreciation and Amortization	140,4	188,6	187,3	181,3	178,8	171,5	166,6	156,2
Change in operating assets	-34,9	-30,9	-20,2	-13,4	-10,9	-11,5	-13,0	-15,4
Change in Operating liabilities	-47,0	9,1	-6,4	3,8	5,0	8,2	9,4	10,5
Cash Flow from Operating Liabilities	**106,4**	**210,7**	**206,3**	**233,4**	**249,0**	**259,9**	**269,9**	**332,2**
Capital Expenditures	-372,5	-247,9	-215,8	-198,5	-191,5	-184,8	-183,9	-178,6
Other financial investments	-73,5	47,7	-10,0	-5,5	-16,5	-17,7	-18,0	-18,1
Other Cash Flows from financing activities	14,5	7,0	-1,4	0,1	4,0	4,2	4,9	5,2
Cash Flow from Investing Activities	**-431,6**	**-193,2**	**-227,2**	**-203,9**	**-204,1**	**-198,4**	**-197,1**	**-191,6**
Increase in Equity	-241,52	-46,10	-45,10	-61,03	-60,88	-73,31	-85,57	-144,73
Increase in Debt	563,2	142,1	-18,8	-54,1	9,8	13,4	14,0	-2,9
Cash Flows from Financing Activities	**321,7**	**96,0**	**-63,9**	**-115,2**	**-51,1**	**-59,9**	**-71,6**	**-147,6**
Change in cash	-3,5	113,5	-84,9	-85,7	-6,2	1,6	1,2	-7,0
Initial cash	66,9	63,4	177,0	92,1	6,4	0,3	1,8	9,8
Ending cash	**63,4**	**177,0**	**92,1**	**6,4**	**0,3**	**1,8**	**3,1**	**2,8**

Source: Company data and Nova Equity Research

Disclosures and Disclaimer

Research Recommendations

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

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