

# Telefónica

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Fernando Madeira  
Chief Executive Officer, Terra Latam

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Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website.

All right, hi folks. My name is Fernando Madeira and I am the CEO of the biggest Internet company in Latin America. Latin America on these days has 220 million Internet users and they are double at the end of 2015 so big opportunity in Latin America at all. But more than 220 million Internet users, they are heavy users, they are Internet savvy users and also super addicted to Internet. I call them digital Latino, right.

So when you look at the digital Latino you see that 96% of those 220 million Internet users access Internet daily. 80% more than four times a day, that's a huge opportunity when you see how the people is interacting with Internet in Latin America. Let's take Brazil as an example. As mentioned by Santiago before, we have our shining star and Brazil is a shining star even globally in terms of Internet adoption and usage.

We Brazilians surf 41 hours monthly, that's a lot, it's the highest number in the world in the last six years, consistently. And we have the highest social network penetration usage. So, 86% of the total 220 million Internet users in Latin America use a lot of social networks equal in Brazil. So again, it's a huge opportunity to increase and create a company like we have in Latin America.

But there are some important trends also. Most, more than those numbers are trends behind it. And if you look at those four major trends, you have social on top of that. Not only the usage of social networks but also everything is social. We as Latinos are pretty much social people so we love to chat and hang with each other, interact.

And those behaviors that are social are migrating into the Internet also so everything must be socialized and rated and comment. That's why Facebook is growing so fast in Latin America on these days. Again, if you look at live, live is something real important for us because if you have, take a look at mobile phones, for example in Brazil we have 200 mobile phones right now. We have more mobile phones than Brazilians in the country.

So you can access information anywhere or anytime. So live and broadcast live events is pretty much important, everybody wants to know what's happening right now. And video and music there are particular applications for Internet. Everybody wants to watch videos and listen to music on the Internet. Just to give you an example, if you look at the upper class and the upper medium class in Brazil, we watch more videos online than the traditional television, that's a big shift.

So in this environment Terra is the leading digital media company in Latin America. We have been able to identify those trends earlier and surf the right waves. So, 70 million people, monthly access our sites through 17 different countries in Latin America, including the US. So it's a lot of people and created a very nice environment for our products.

Those 70 million people take us globally. If you look at the rank of the most visited sites in the world you're going to see that Terra is the number 31. So even being Latin

America, with this 220 million Internet users and 70 million audience that you have, you can be global.

So we are ahead of some powerhouse media companies like Disney, MTV, ESPN all those companies have fewer audience online than us. Even if you look at Comcast or Netflix, new digital media companies, they have fewer audience than us. And even compared to the powerhouse media companies in Brazil or Mexico, like Global TV and Televisa TV, fewer audience, so this is Terra as audience. But how you did that, how you create such a global company in terms of audience?

It's pretty much simple strategy. First, starts with the people, people is in the core of our business, so we give them what they want and they want and they need premium content, that's what we do. Quality highly content, delivered for free in most of the cases. And then they want again, video and music as I showed to you before. So we have Terra TV, our video platform and Sonora, our music platform, delivered in very different kind of screens and mobile phones and computers and so on. I'm going to show you later on.

And especially social, we integrate 20 different kind of social networks, especially twitter or Facebook inside of content and allowing people to share our content through their social networks. So this environment create a very nice opportunity for brands, so that's the way you do money because in the end of the day we have to deliver some money for this front row here.

And what do you do, we do advertisements. So we create a very powerful digital environment so we are able to take the top 500 and more than 150,000 small and medium business companies in Latin America and take their brands and advertise their campaigns with those 70 million people, in different screens, again, mobile phones, mobile market and all those things.

But you have also some premium services and premium features that people can buy and pay for that, pay in subscription, so we have a strategy that you call Freemium, free advertising in premium subscription. But we are super obsessive about screens. Everybody here has a mobile phone in their pocket, somebody has some iPad. So that's our obsession right now, we wanted to deliver all the content, all the videos, all the music that you surf in any kind of different screens.

So obviously mobile phones and the computers are there but if you look at those new Internet TV ready devices as well Blu-Rays, you're going to see that for example Latin America with \$200, I can buy a Blu-Ray, connect on my TV and start to watch Terra TV, listen to music on Sonora and also accessing the last events of hard news that we broadcast.

And even not so common screens like car dashboards, the French car maker, Citroen, has done a special limited version for the C3 model, that comes with Sonora with our products. So people, you know, can just turn on the radio and start to listen to our

music, our Sonora music inside of the car. So that's our strategy, we want to have our content, our products delivered to any kind of screen attached to the Internet.

So let's talk about products a little bit. First, is Terra TV, we launched Terra TV back in 2000, so were the first, one of the first premium video content platform in the world. We have today 12 million eyeballs that watch free movies, TV series from major studios globally, like Disney, like ABC, Turner, Fox, Warner, you name it, we have 150 different agreements globally and local bringing to the people movies and TV series for free.

But we also have a premium part in these services, its online rental services that we launched in last December, so people can also have new releases of movies that just were in the theaters. So people can, in Latin America, watch Inception, Tron, Toy Story 3, you name it, with our services. So I would like to show you a little quick video demonstration about Terra TV just to give and idea of what is exactly Terra TV.

(VIDEO PLAYING)

So 12 million eyeballs, that is important. But also the way that you are producing and delivering this content. We have this business model, free and premium that is a combination of a kind of Hulu-Netflix, it's unique in the world, there is no other kind of company and product like that, that is offering free video and premium page video like we have.

So let's talk about Sonora, I told you about music and if you share the same passion about music that Latin American people have, so we launched Sonora in 2007. It was the first legal music surf platform in Latin America. And also have free and premium data. So, 6 million listeners on these days and Latin America can listen to 4 million songs, by free, from Youtube to Luciano Pavarotti, from Lady Gaga to Gilberto Gil from Mariachi, Mexican music to tango, so it's a huge catalog of music that you have. All the majors are there with us.

And it's for free so just go on the Terra again and start to listen, no application needed, again. All those things delivered on different kind of mobile phones and also have the premium part, so if somebody wants to have the song for their own, burn a CD, they can subscribe to our services for less than EUR4 per month and download, starting 10 download songs per month. All songs are DRM free so we endure everyone with the song. So let's see a quick video again about Sonora, so as I mention to you guys.

(VIDEO PLAYING)

Tonight for example, talking about 360, we are broadcasting live for whole South America people, the last concert of U2 World Tour 360. So people that are in the webcast right now in South America can, 9.30 p.m. Brazil local time, just go to [www.terra](http://www.terra) in the countries, and start to listen the concert live and for free. Here in London that's not possible, you all blocked, but I'm going to have Valbuena once again

explain the numbers at the dinner, so who needs the Bono box if you have Valbuena, right.

And finally content. 70 million people, it's something that you do, it is organized hard news, organizing information for people to access virtually anywhere in time. But there is something that is pretty cool for us, that is the live events especially for sports, we cover any kind of sports live.

Nearly 10,000 live events we broadcast yearly and there is something special for us, that is the Olympic Games. Olympic Games is such a thing that we have an exclusive for Latin America. With the first time that you broadcast live video it was in Beijing for Summer Olympic games and we're going to do the same for next year here in London, 2012.

So, people in Latin America could watch live the entire Summer Olympic Games, with 13 channels simultaneously. So if you like swimming, at Terra you can go, just pop up the swimming event, watch it live. If you like basketball you have at the same time a basketball game, pop up another window and so on. So you can watch 13 simultaneously event from the Summer Olympic Games, in tablets in computers, once again, and also for free. High definition, anytime, anywhere you want. So this is our content part.

But it is not a matter just, just a matter to do a freaking cool products or a nice company, I mean you have to add value to the Telefónica at the end of the day right, so something that you do it is adding value as a company by itself. I mean we are a pretty solid company. We have roughly EUR300 million per year income revenues. Our online advertising business is growing 35-40% a year. And also we are a positive cash flow company since 2006. So no worries for the front row here.

We add money for Telefónica at the end of the day. But more than that we add product, so you've seen Terra TV briefly, Sonora briefly and also are a part of the content. So what do you do, in less than a year and a half we have been starting to work closely to all movie stars in Telefónica operations in Latin America.

Understanding better the customers that Telefónica have and how you can repack, pack better our content, our products and deliver a unique offering to those customers. So, in less than a year and a half we've just scratched the surface. So we have 0.5 million Telefónica customers already on Sonora prime, for example, we deliver more than 7 million pieces of content daily through SMS. And in coming next month we're going to have more and more products like that.

So if you invite me again on the next investor day I hope to show you a slide with millions of customers because that's what we're going to do. I mean, good products, huge distribution channel, good customer base trying to understand them better and mixing those products and offering a unique offering.

Finally, innovation, we are an internet company we keep the innovation spirit inside of the group. So not only what we do but also how we do it. So I'm part of a lot of boards and strategic committees in the group trying to keep this different kind of speech that we have about internet inside of the Telco mindset. And I think that we are doing pretty well, right now Julio Linares and the other two guys, I mean there's a lot of innovation and internet spirit inside of Telefónica on these days.

Talking about innovation, we've just been named as one of the top-five most innovative company by Fast Company, last February, so it is pretty something. Because it's not only about to be original, I think that Terra and other assets of Telefónica can not only be regional it can be global so it means that we can be more than the regional Latin America company and can be a global player.

So finally, growth, I mean it is what is most important. We have done quite well but how are you going to grow more and more. So we are going to keep focusing on our three products, Terra TV, music of Sonora and our content.

But we want, again, obsessive about screen, I want to deliver this anywhere in time, with any screen attached to IP. Delivering right content instantaneously for any kind of person in Latin America and outside of Latin America and we proved that to monetize Internet companies we need both, both business models, advertising and premium services by subscription, it's our Freemium.

All of those things would be impossible without a great team. We have the best talent people of all internet in Terra right now. They are so proud about what they are doing. We share the same passion, that is to transform internet in a better place, to be entertained and informed. And that's what we do, so this is Terra and so sorry to download a lot of content in just 15 minutes, but that's what we do. Thanks. I hope that you have enjoyed it as much as I did, thanks so much.

Have fun and take care.