



Internet

Terra has 1.3 million subscribers to its access services and 434 million pages visited monthly at its portals.

Since its birth in December 1998, Terra has become the most important Internet access and service provider (portals and e-commerce platforms) for the home market and SOHO (small office-home office) in the Spanish- and Portuguese speaking worlds. By the end of 1999, Terra had more than 1.3 million subscribers of its Internet access services and 434 million pages were browsed each month using its portals.

In December 1998, Telefónica de España decided to segregate its assets in the Internet business and channel them into a new company created specially for this purpose, which soon became known as Terra Networks.

In 1999, Terra, with the help of Telefónica, embarked upon a campaign to acquire Telefónica's Internet business corresponding to affiliates and other leading Internet access and portal companies in

Spain and Latin America. This approach led to the acquisition of private groups such as Olé (the main portal company in Spain), ZAZ (the second most important Internet company in Brazil), Infovía (Guatemala) and Infosel (one of the two largest Internet companies in Mexico). It also acquired from Telefónica's subsidiaries in Latin America, the company CTC Internet (Chile) and Internet assets belonging to Telefónica de Perú. Mention must also be made of the agreement signed with IDT, aimed at penetrating the Hispanic market in the United States and launching the Terra portal in that market in January 2000.

Terra is now a multinational company, present in Spain, Brazil, Mexico, the United States, Chile, Argentina, Peru and Guatemala and is the leading Internet company in the Latin American market as a whole.

Telefónica's Internet project, which took shape with the creation of Terra, has become a unique project in the market given its differentiating characteristics:

- A great market opportunity, given the potential for greater penetration of Internet in the area and the scarcity of content and pages in Spanish and Portuguese on the Internet.

Development of the ISP customer profolio of the Terra Group.

Pro forma data

	1999	1998	% change
Spain	659,000	49,500	1245%
Brazil	346,000	143,000	142%
Mexico	82,000	29,500	183%
Chile	118,000	25,000	372%
Peru	62,000	--	--
Guatemala	6,000	5,000	20%
USA	44,000	--	--
TOTAL	1,317,000	252,000	423%

- A multinational management company formed by the Internet pioneers in each country and professionals from the world of telecommunications.
- Local management with local content and local responses to the demands of our customers, combined with the power of a multinational.
- A unique business model that is present along the entire Internet value chain: access, portal/content and e-commerce.
- A successful policy of organic growth and acquisitions

As a result, Terra received tremendous market support when it was listed on the Stock Exchange, a reaction that was unprecedented on the Spanish market. The confidence of the markets in the future of Terra was confirmed by the 360% revaluation of the retail price of shares on 31 December, only one and a half months after the company was listed on the stock exchange. The highly positive performance of shares at the beginning of the year 2000 has made Terra one of the most important companies in Spain in terms of stock exchange capitalisation and one of the leaders in the world of Internet, accompanied by its high volumes of trading; as a result, it was indexed on the IBEX-35.

Market opportunity

Terra's potential market includes more than 20 countries with a population of 550 million Spanish and Portuguese speakers. The penetration of Internet in these countries is currently very low, although the number of users is expected to grow significantly in the coming years.

With its presence in these markets, Telefónica opens the door to 52 million potential customers. Terra has the possibility of benefiting from Telefónica's support in terms of both the development and management of communications business (access to Internet) and in content production and distribution capacities (portal).

A large proportion of content on the Internet is in English; only 4% appears in Spanish and Portuguese. This offers a great opportunity to Terra, given the unsatisfied demand for content in Spanish and Portuguese.

Business Model

Terra obtains its revenues from two main areas of activity: Internet access and portals.

Development of pages served per month by Terra Group portals, expressed in millions.

Pro forma data

	Dec. 1999	Dec. 1998	Var. %
España (www.terra.es)	89	15	493%
Brazil (www.terra.com.br)	267	168	59%
Mexico (www.terra.com.mx)	67	11	509%
Argentina (www.terra.com.ar)	3	0	--%
Chile (www.terra.cl)	7	0	--
Peru (www.terra.com.pe)	1	0	--
TOTAL	434	194	124%

Note: The United States portal (www.terra.com) was launched on January 7, 2000.

Internet access: revenues from subscriptions collected from customers and from traffic agreements with the owners of the IP network.

The joint strategy of both free Internet access and payment methods tailored to the characteristics of each country (regulatory and competitive environment, and level of development of Internet) was successfully applied in 1999. The rapid response to market movements, such as the launch of the free TeleLine service in June 1999, has led to an increase in the number of users; by the end of 1999, there were 501,000 users of this service. Free Internet Access has already started to reach Latin America. In fact, Terra, in response to market trends, already offers this service in a number of countries, including Brazil, Mexico or Chile.

Terra also aims to become a leading Internet communications service provider ("Content Service Provider"), regardless of the means used (fixed or mobile telephony, cable, satellite, etc). Regardless of the communications business in which Telefónica is involved, Terra will always be present to bring its users into contact with the world of Internet.

Portal: the main sources of revenues from portal operations are currently advertising and, albeit to a lesser extent, e-commerce. Internet

has become an attractive medium for advertisers. Although advertising costs on the Internet currently account for a small fraction of total advertising expenses, advertising expenses in markets in which Terra operates are expected to increase by 100% per year over the next four years.

Commercial transactions are another feature of the Internet that has offered Terra a great opportunity for growth. The e-commerce market in Spain and Latin America is expected to grow by an average of 59% per year over the next two years, much higher than the growth expected in the United States.

In terms of e-commerce, important alliances have been concluded with leading companies such as El Corte Inglés (software), Amadeus (travel), Mexicana de Aviación (air tickets), Servicaixa (entertainment ticket sales), etc. A new company called Uno-e has been created in association with BBVA; this company distributes financial products across the Internet and has signed an agreement with the British group First-e for the formation of the UnoFirst Group.

In terms of content, alliances have also been entered into with leading local providers, such as Grupo Reforma in Mexico and Grupo Estado de Sao Paulo in Brazil, and contracts have been signed with content providers such as Disney, MTV Latino, Reuters, EFE and Uproar, to name but a few.

Estimated advertising expenses in markets where Terra operates will increase by 100% per year over the next four years



Terra has made convergence between telecommunications operators, media groups and Internet companies a reality.

Management

Terra's management policy is based on the concept of "think global, act local", understood as the handling of global directives in brands, content and services tailored to meet local needs, and deployed by a local management team.

Terra has managed to attract a team of experts in Internet access, portals, e-commerce and areas critical to the development of the business. It is worth pointing out that only 13% of Terra's employees at 31 December were based in Spain.

The birth of Terra has made the convergence of telecommunications operators, media groups and Internet companies a reality, generating value for Telefónica's shareholders.



