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Telefónica

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Executive Chairman of Terra Lycos

terra lycos

Safe harbour

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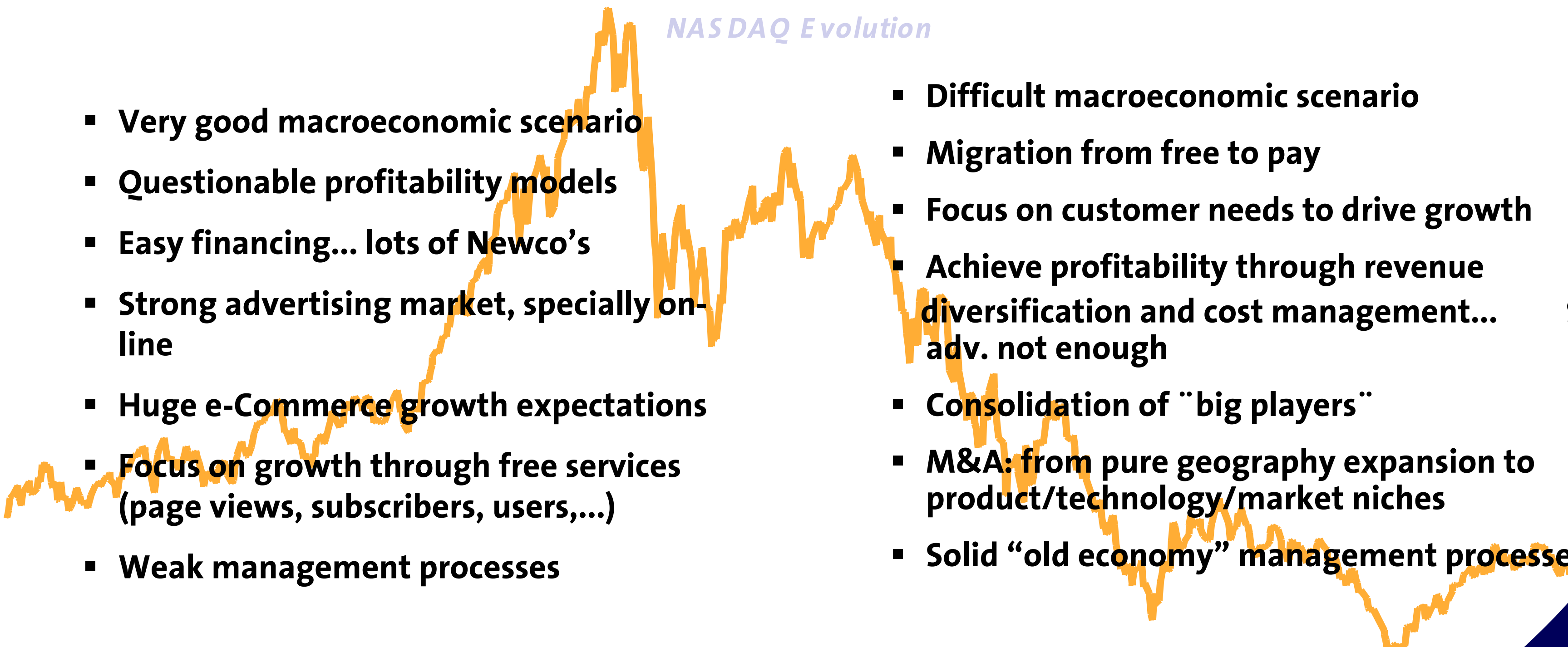
- New Market Environment
- Business Model and Strategy
- Financial Section

New Market Environment

New Market Environment

Market has changed !
New things are happening very fast...



Internet boom	Face reality

Internet boom

- Very good macroeconomic scenario
- Questionable profitability models
- Easy financing... lots of Newco's
- Strong advertising market, specially on-line
- Huge e-Commerce growth expectations
- Focus on growth through free services (page views, subscribers, users,...)
- Weak management processes

Face reality

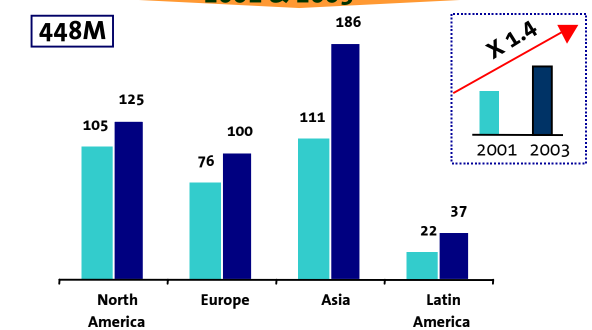
- Difficult macroeconomic scenario
- Migration from free to pay
- Focus on customer needs to drive growth
- Achieve profitability through revenue diversification and cost management... $ adv. not enough
- Consolidation of ¨big players¨
- M&A: from pure geography expansion to product/technology/market niches
- Solid "old economy" management processes

... a new approach is needed to achieve profitability

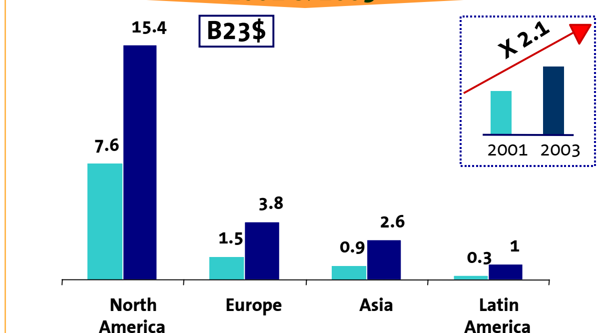
2001-03 Internet market overview

- Internet Population will grow to **448 Million**
- Wireless Internet Population will reach **183 Million**
- Broadband subscribers will reach **58 Million**
- Online Advertising revenue will reach **US$ 23 Billion**
- Wireless Commerce revenue will reach **US$ 80 Billion**
- E commerce revenue will reach **US$ 1,779 Billion**

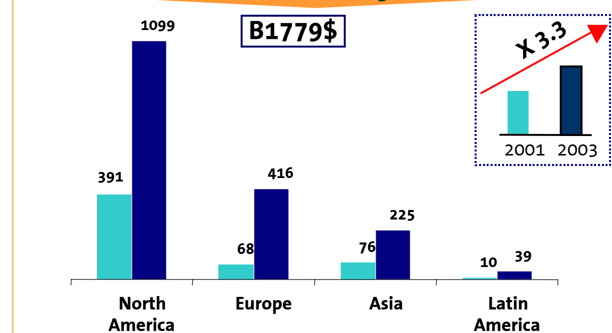
Worldwide Internet Population, 2001 & 2003



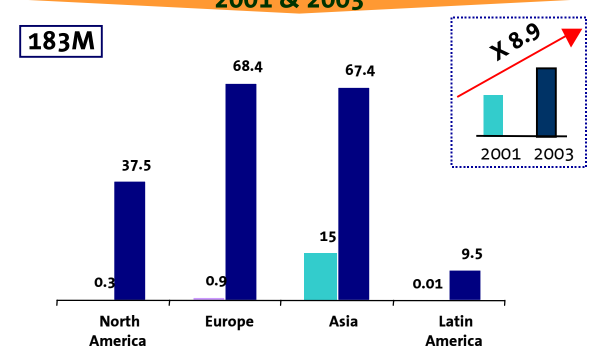
Online Advertising Revenue, 2001 & 2003



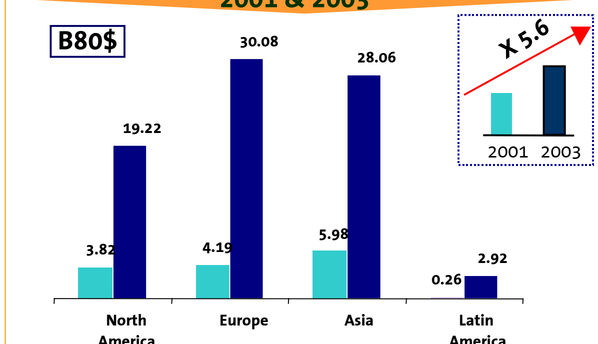
E-Commerce (B2B+B2C) Revenue 2001 & 2003



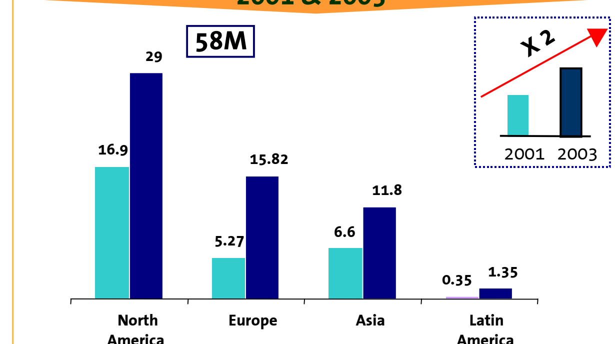
Wireless I-net Users 2001 & 2003



Wireless Commerce* Revenue 2001 & 2003



Broadband Residential Subscribers 2001 & 2003

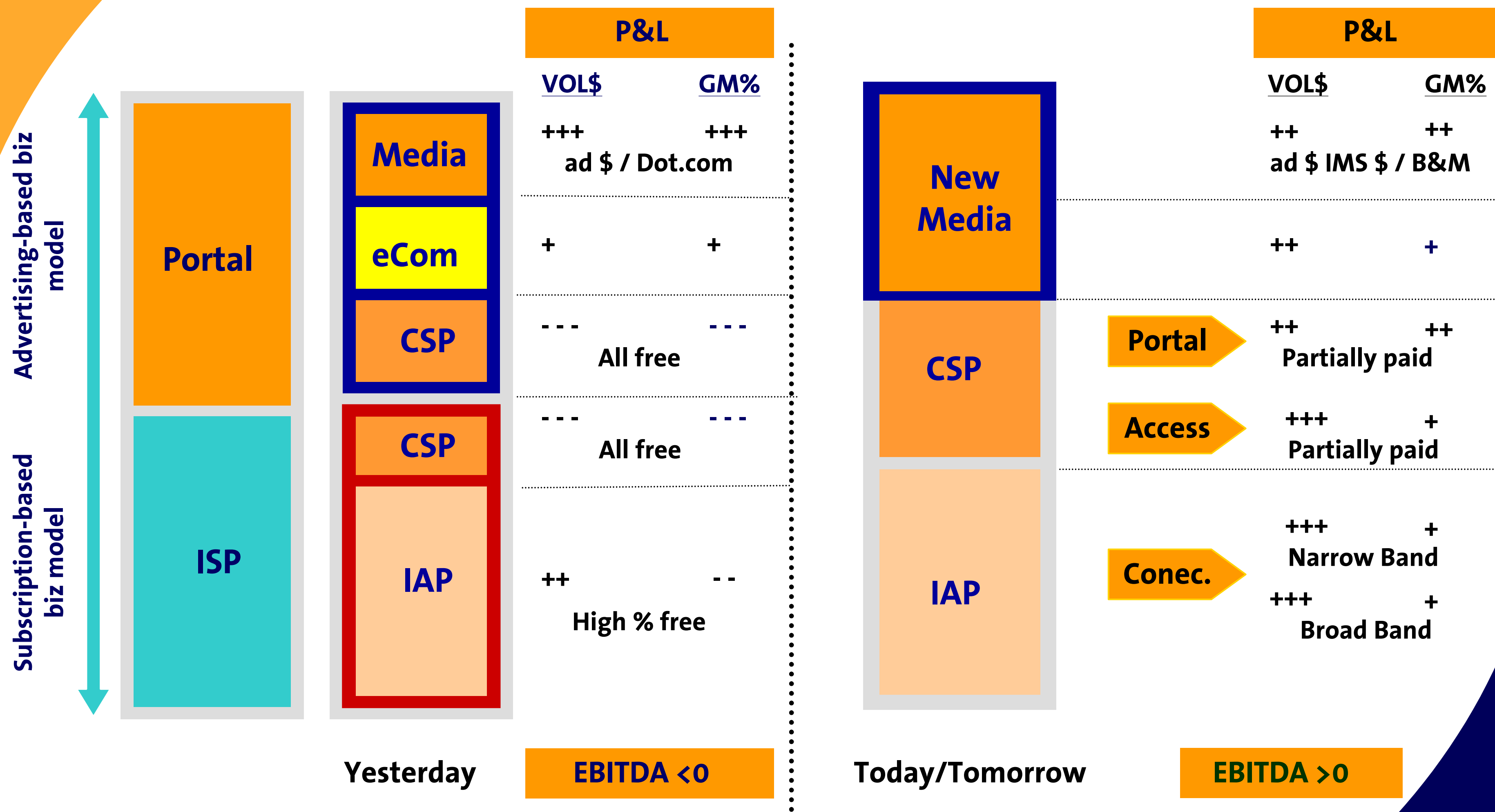


Sources: Emarkter, Ovum and analysts estimates

All numbers showing a very attractive market

Business Model and Strategy

Internet evolution: business model enhancement



ISP: Internet Service Providers, CSP: Communication Service Providers, IAP: Internet Access Provider

From free to pay: achieving profitability

A new approach was needed: leading to our strategy

Our goal is to combine client success, profitability and growth together with being the most visited internet site in the world

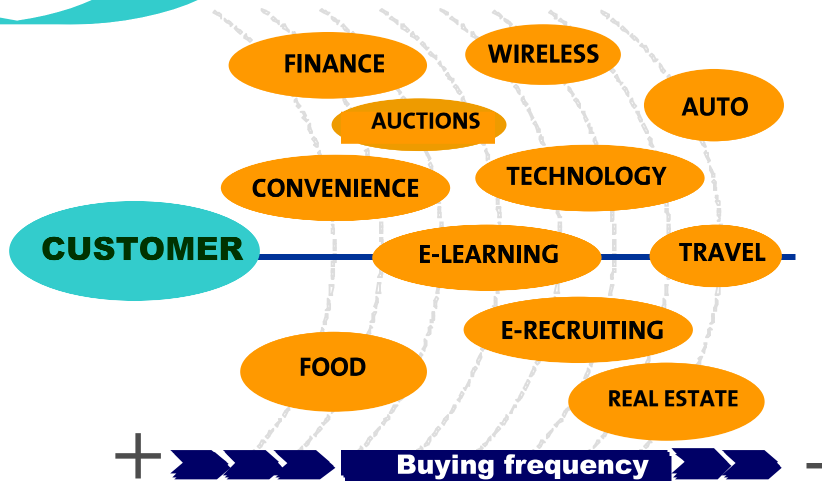
Audience

Traditional Internet	Internet as a Channel

Customers

From just an advertising model to full Integrated Marketing Solutions	From connectivity (IAP) to full added value Comm. & Services Provider (CSP)

- Leverage on Internet continuous growth - users & usage - to drive ad$ up.
- Client driven (CRM) to expand and improve product portfolio and applications to consolidate and penetrate new market segments.
- Migration from free to paid quality services leverage ADSL/BB
- Rigth global and local balance to achieve efficiency: revenues - costs - profitability



Focus on profitability through quality services

Leverage TL users base and strategic partners know-how and infrastructure

Strategy focused on profitability suiting client needs through services and content monetization

Integrated Marketing Solution (IMS):
$ Advertising market focus

- Content Development
  - ➔ Content for promotions
  - ➔ Contextual products
  - ➔ Special content

- Direct Marketing
  - ➔ By mail
  - ➔ Users data bases
  - ➔ Targeted audiences

- Advertising
  - ➔ Rich Media
  - ➔ Multiplattform (Wireless, WAP, PDA)
  - ➔ Off line (TV, press, external advertising)
  - ➔ Marketing tracking (Opinion minders)

- E-commerce
  - ➔ Allied Stores
  - ➔ On line Sales
  - ➔ Catalogue sales

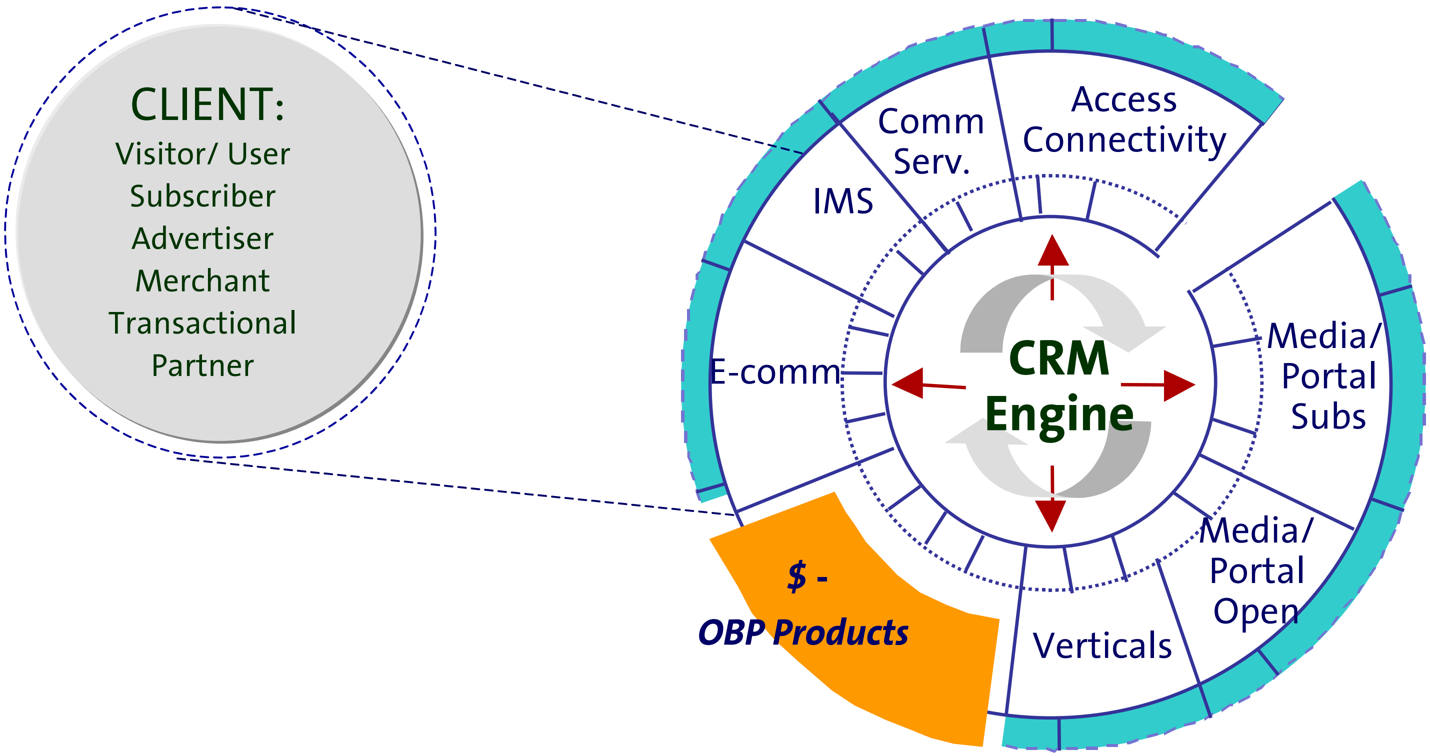
Unilever

- Beauty Channel Content
- Rich Media Campaigns
- Audience Profile:
  - ➔ demographic
  - ➔ psycographic

Satisfying clients through a complete and efficient integrated marketing solutions offer

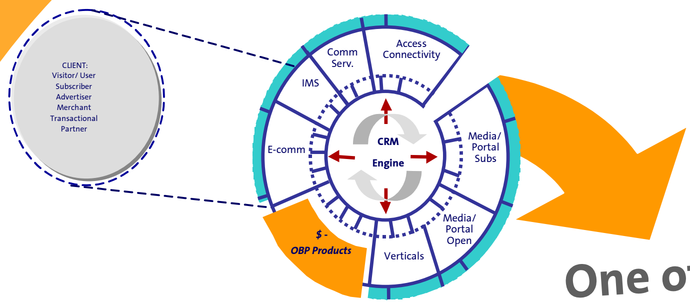
Client driven

- Launching new and redesigned products matching client expectations
- Maximize revenues through OBP Model (products and bundlings)
- Standard process across geographies and Business Units



Ongoing CRM process to know client expectations to deliver right product offering

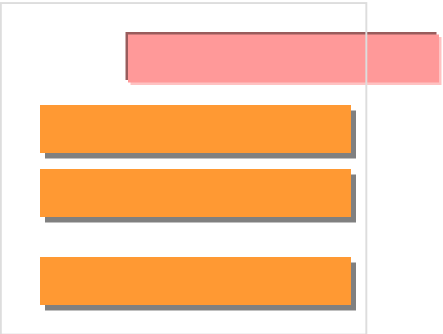
The OBP Model:
evolve from free to paid



One offering strategy across

PROFITABILITY

Open	Basic	Premium	+ Pay Per View/Use
Free Trial	***Subscription Based***	***Subscription Upgrade***	
DESCR. • The content/service is open to every single user	• The content/service is only for TL customers who have signed-up	• The content/service is only for TL users who have signed-up and pay	
GOAL • Facilitate trial to generate traffic and get ad & e-com revenue	• Generate a subscription-based business	• Generate a profitable user relationship (leverage on CRM) and a higher ARPU	



Pay-per-use or Pay-per-view or more subscription or registration across offering

Every service component is designed according to CRM to respond to different levels of service and profitability

An OBP example:
ADSL Plus in Spain

One offering strategy across

Open	Basic	Premium

Free Trial

Subscription-based

€42

CSP

IAP

- VIRTUAL DISK
- DOMAIN
- 5 E-MAIL ADDRESSES
- 10 Mb. PERSONAL PAGES

128 k upstream

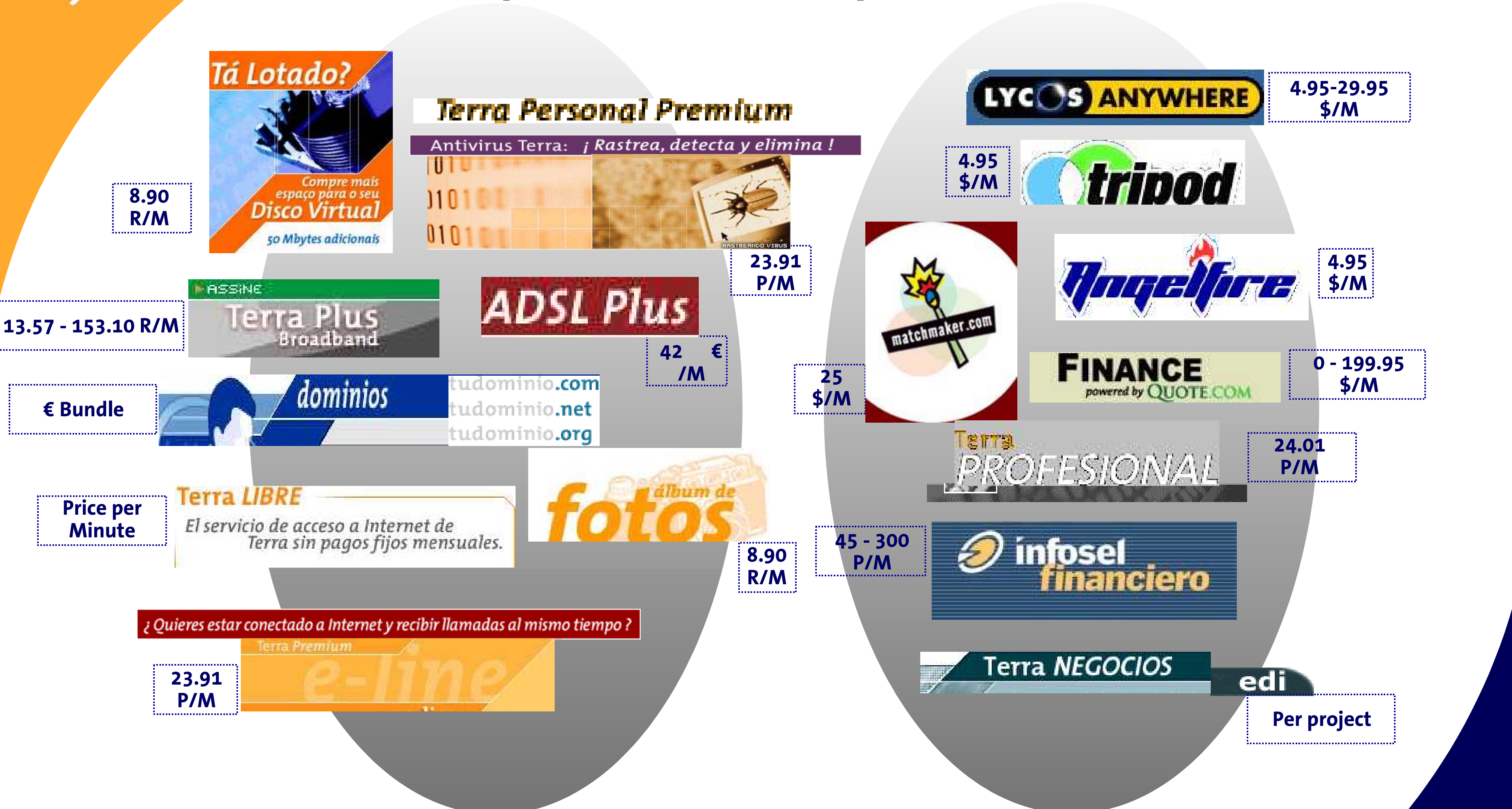
256 k downstream

Subscription upgrade

OTHER CSP's

Voice over IP
Videoconferencing
Dataconferencing
Voice chat
Photo album
Dating
Financial
etc...

OBP products: subscription based examples

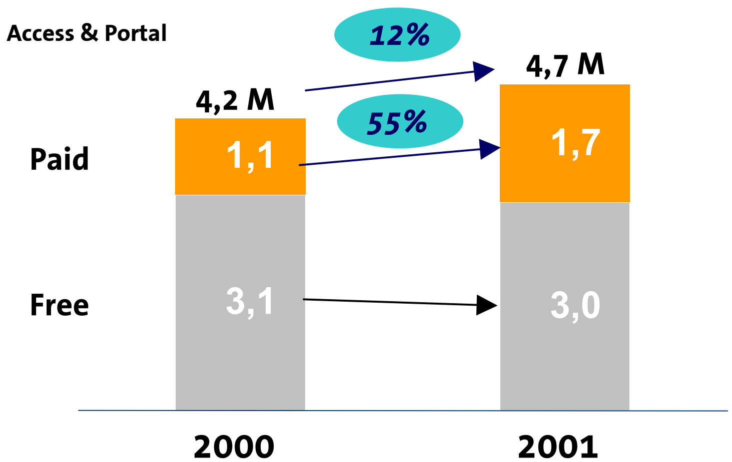


P - Mexican Peso, R - Brazilian Real, € - Spain, $ - USA

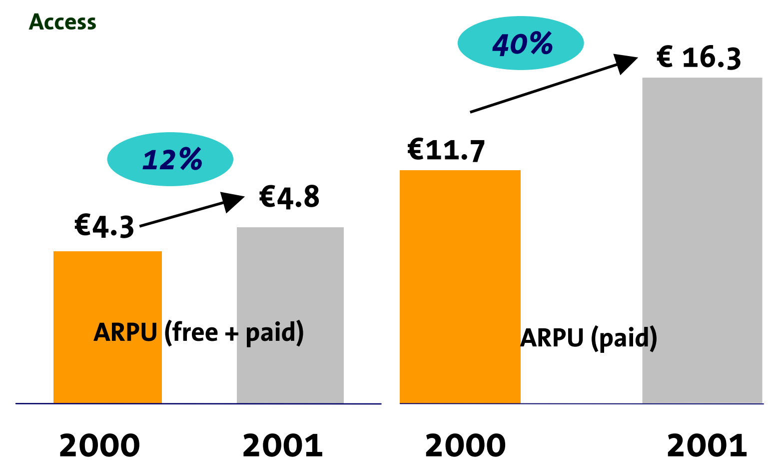
In addition to today's reality, there is a clear and defined product roadmap plan by country (cross selling & globalization)

The OBP Model: 2001 performance

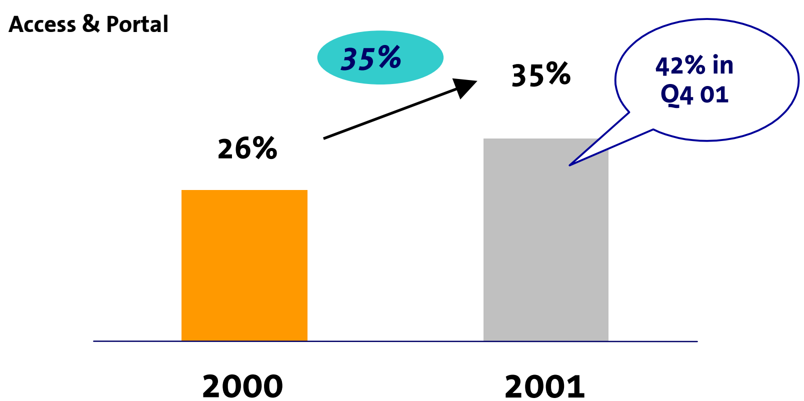
Subscribers Growth



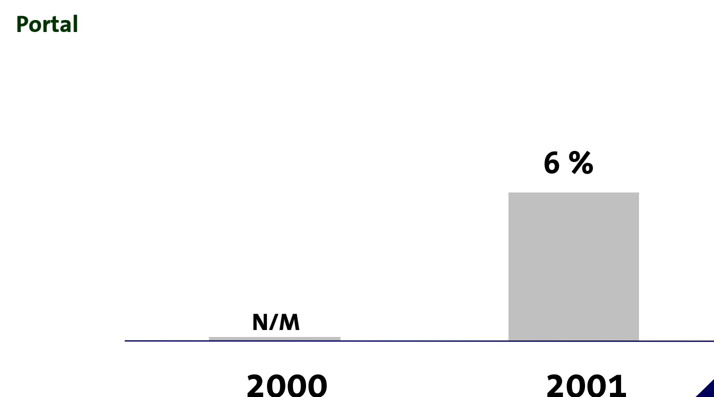
Monthly ARPU Growth



Subscription Paid Revenues (% €)

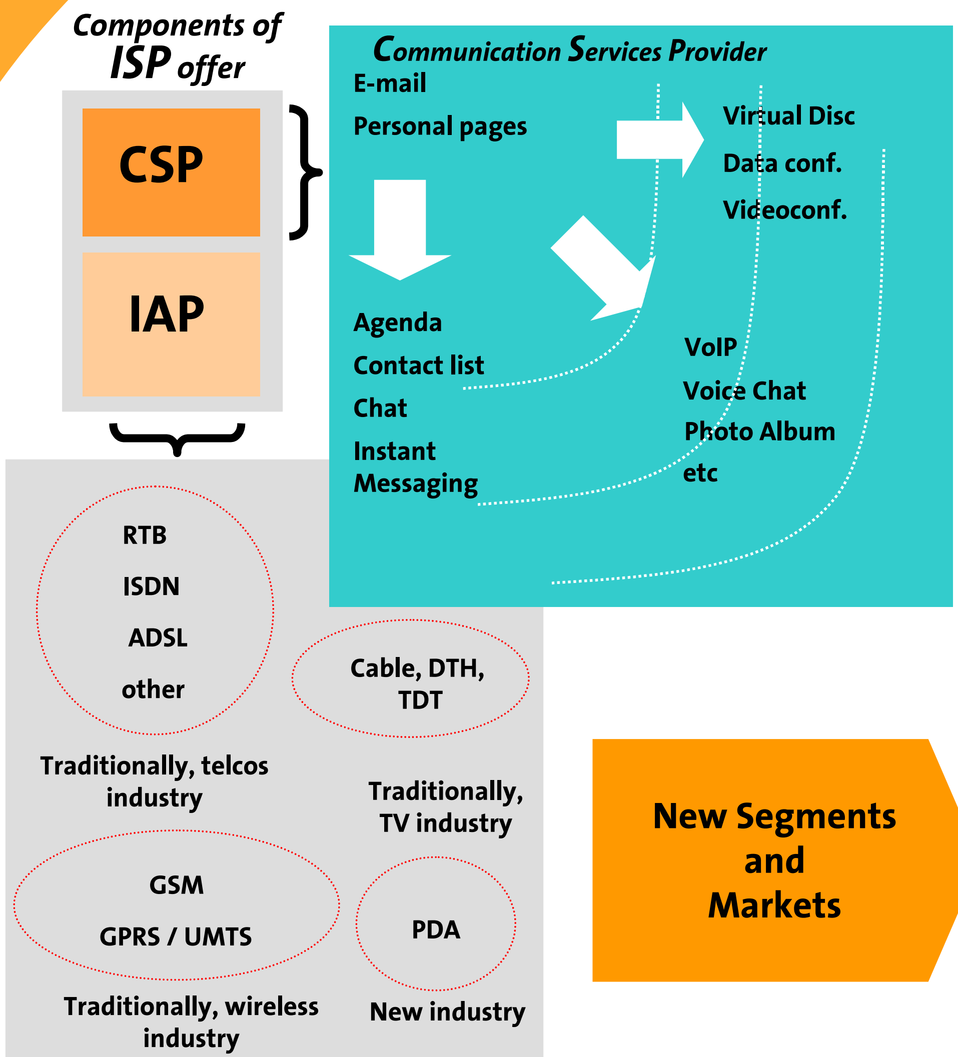


OBP Media Revenues (% €)



OBP Model started paying off

The OBP Model :
2002 access and services priorities



New Access Product Strategy

- Transition from connectivity to "get connected"
- CSP's recurring revenue growth
- Access connectivity bundling with CSP's (NB/BB) and Media (BB) to drive monetization $ up
- Keep improving cost to grow GM %

New Segments and Markets

- SOHO, SME & Corporations
- CSP for U.S. and other non ISP countries

High Innovation & Quality CSP´s to gain, retain and develop clients loyalty

The OBP Model: 2002 media priorities

$ Growth Drivers

$ Advertising
- IMS - Integrated Marketing Solutions deployment
- New advertising formats to increase client´s productivity (Rich Media)
- Sales force productivity to improve sales efficiency

$ OBP User
- Entertainment (games, dating, music)
- Infosavings (finance, auto, education, travel, real estate)
- New Segments (SOHO, SME, Corporate)

Telefonica Group Synergies
- Product innovation leadership to grow customer base
- IP solutions for the Group
- Audience recirculation: Group´s loyalty development
- Content acquisition cost optimization

$ Cost Drivers

$ Efficiency
- Global operational model
- Buy vs. Make
- Central vs. Local

High Innovation & Quality are the critical differentiating success factors

Strategic partners and alliances

Telefónica

BBVA

Bell ActiMedia

LYCOS Europe

SingTel

Mirae

AMADEUS

Welcome to Sumitomo Corporation

Bertelsmann

Unilever

VISA

FOX.com

ebay
The World's Online Marketplace™

CheckM8
Dynamic Web Solutions

IBM®

terra lycos

Strategy empowered through Telefónica Group synergies

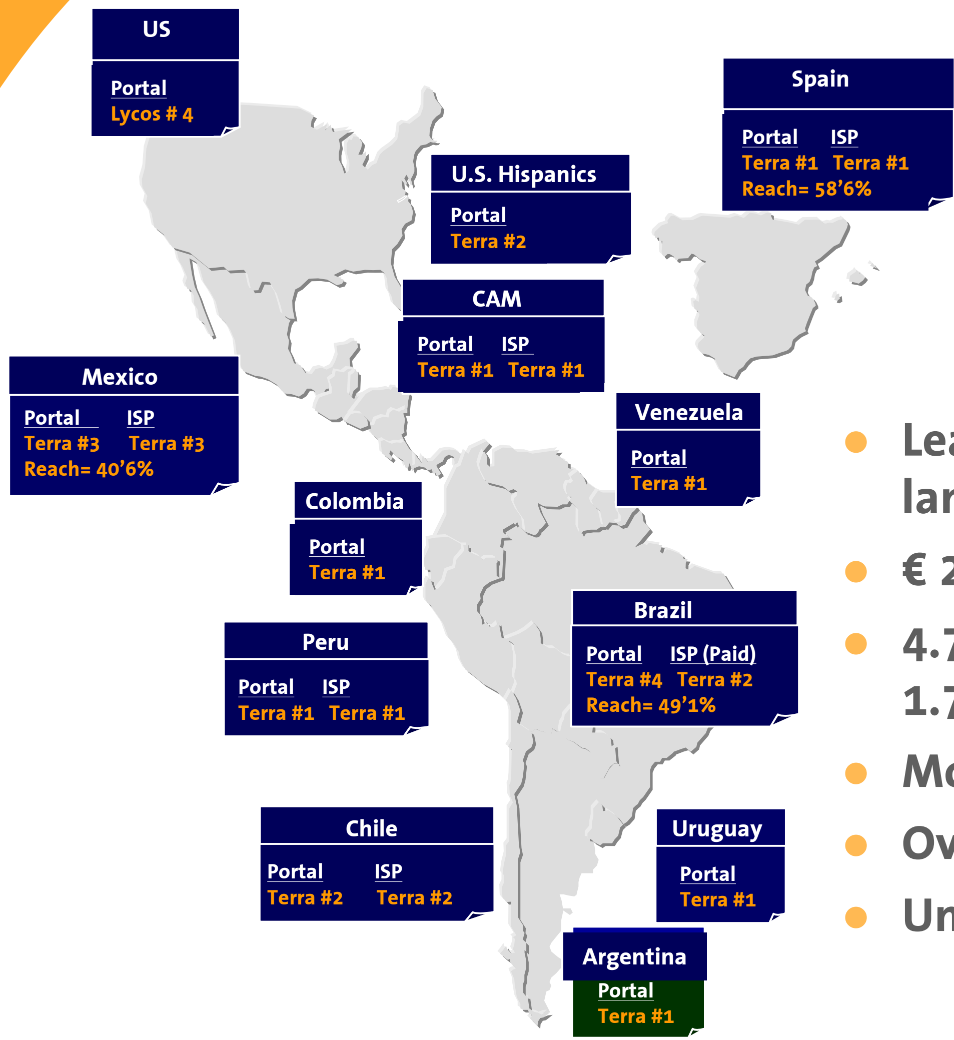
Business Drivers	Access	Communication Services	Content	Sales Force Distr.Channel Cust. Service	Advertising & Marketing	Technology	Shared Services
TRLY as supplier of the Group	Telefónica Wireline in Spain	Telefónica Wireline in Spain; Telefónica Móviles; Telefónica	ADMIRA; Telefónica Móviles; Telefónica	ADMIRA; Telefónica	Telefónica	Telefónica R&D	Telefónica
TRLY as client of the Group	Telefónica Wireline in Spain; Telefónica Data; Telefónica Móviles; emergia	Telefónica	Telefónica; ADMIRA; endemol	Telefónica Wireline in Spain; TPI; ATENTO	Telefónica; TPI	Telefónica R&D	Telefónica

Group synergies providing outstanding growth and cost efficiency opportunities

Telefónica

Financial Section

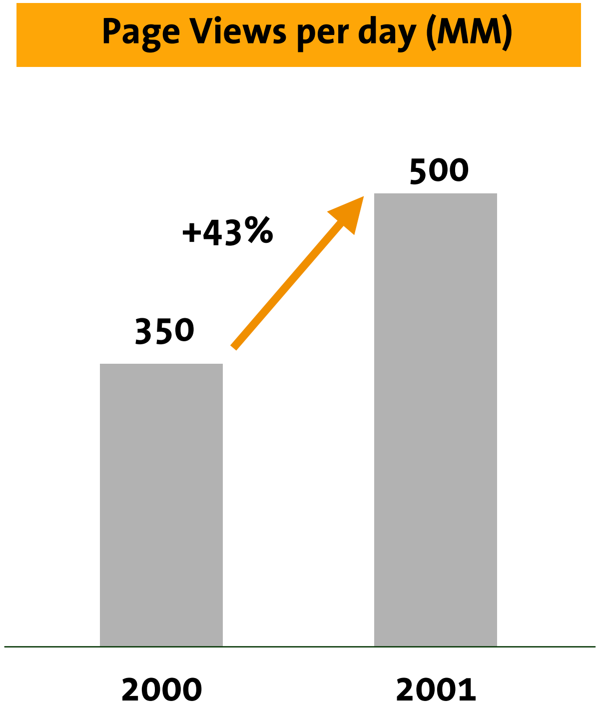
Terra Lycos franchise: I.D.

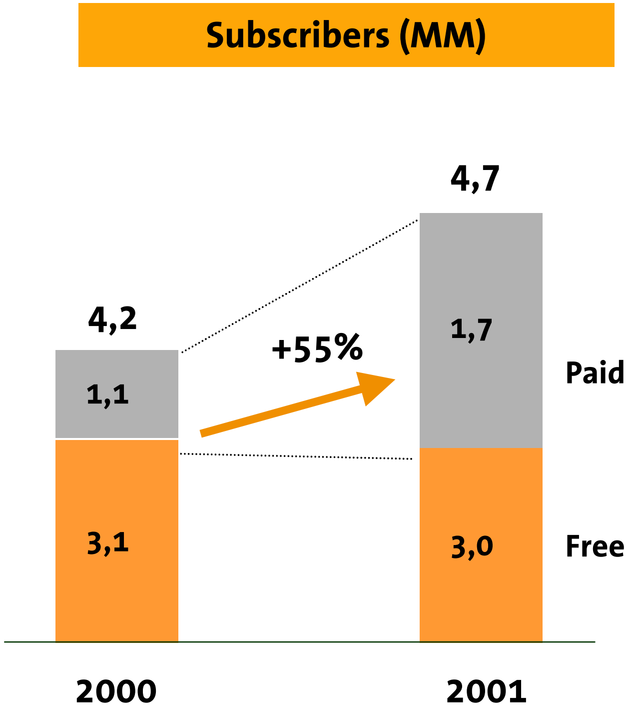


- Leading presence in 43 countries - 20 languages
- € 2.2 billion in cash, no debt
- 4.7 million access & portal subscribers; 1.7 million paid
- More than 111 million unique visitors
- Over 500 million page views per day
- Unique powerful strategic partners

2001
Source: *Mediametrix, Nielsen*

Operational data: strong performance



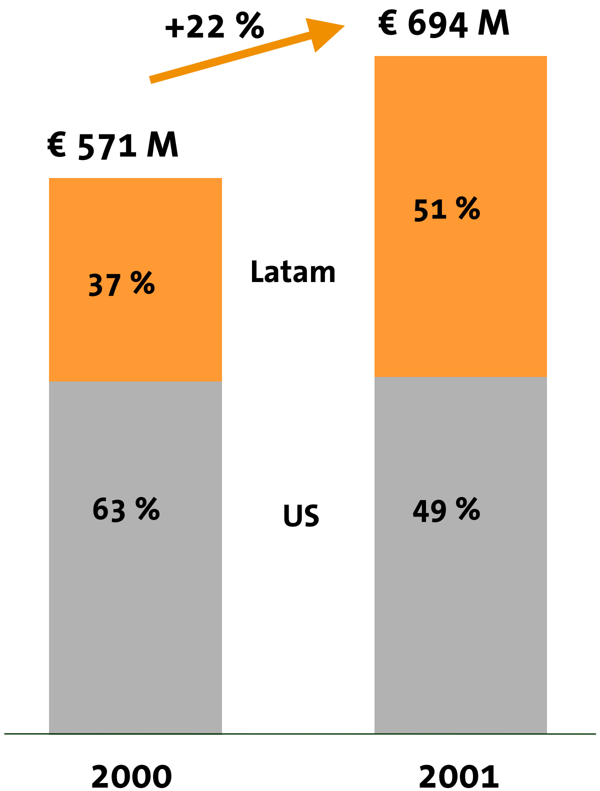


Powerful inventory to support advertising growth

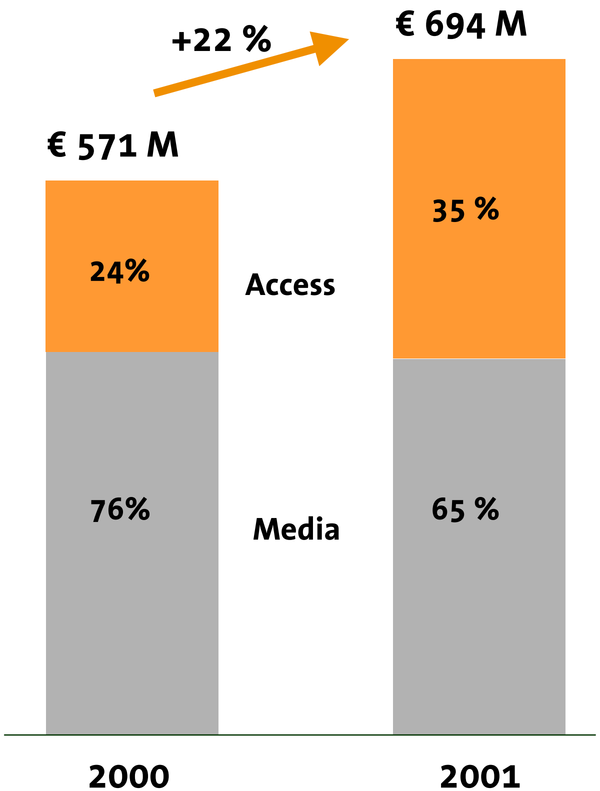
Growth driven by paid Access and Portal subscribers

Revenue performance:
solid geographic and product mix

Revenue by Geographies



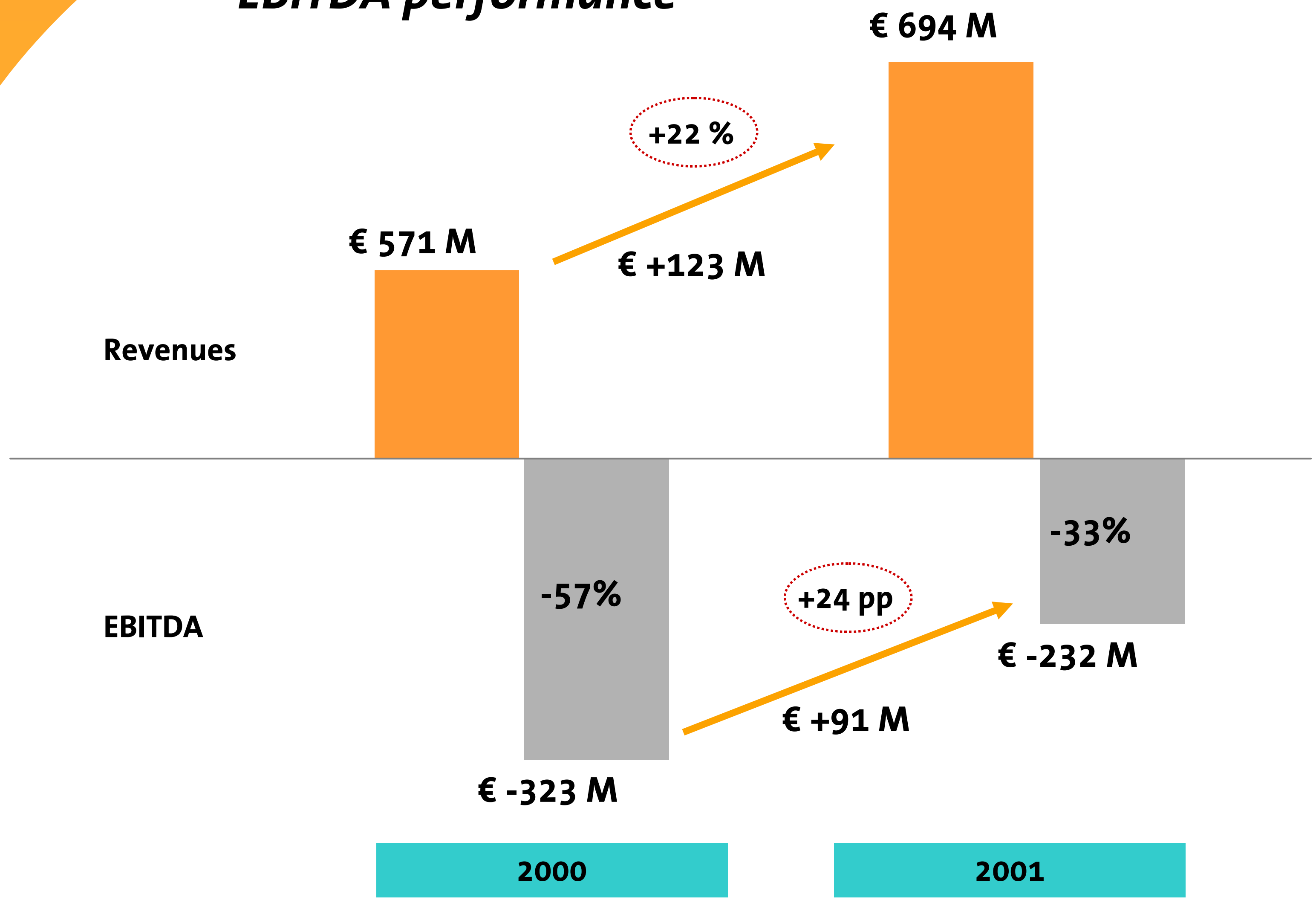
Revenue by Product



Geo-diversification with faster growth in Latam and Spain

Product diversification with access driving growth

Growth and profitability: EBITDA performance



Clear path to profitability

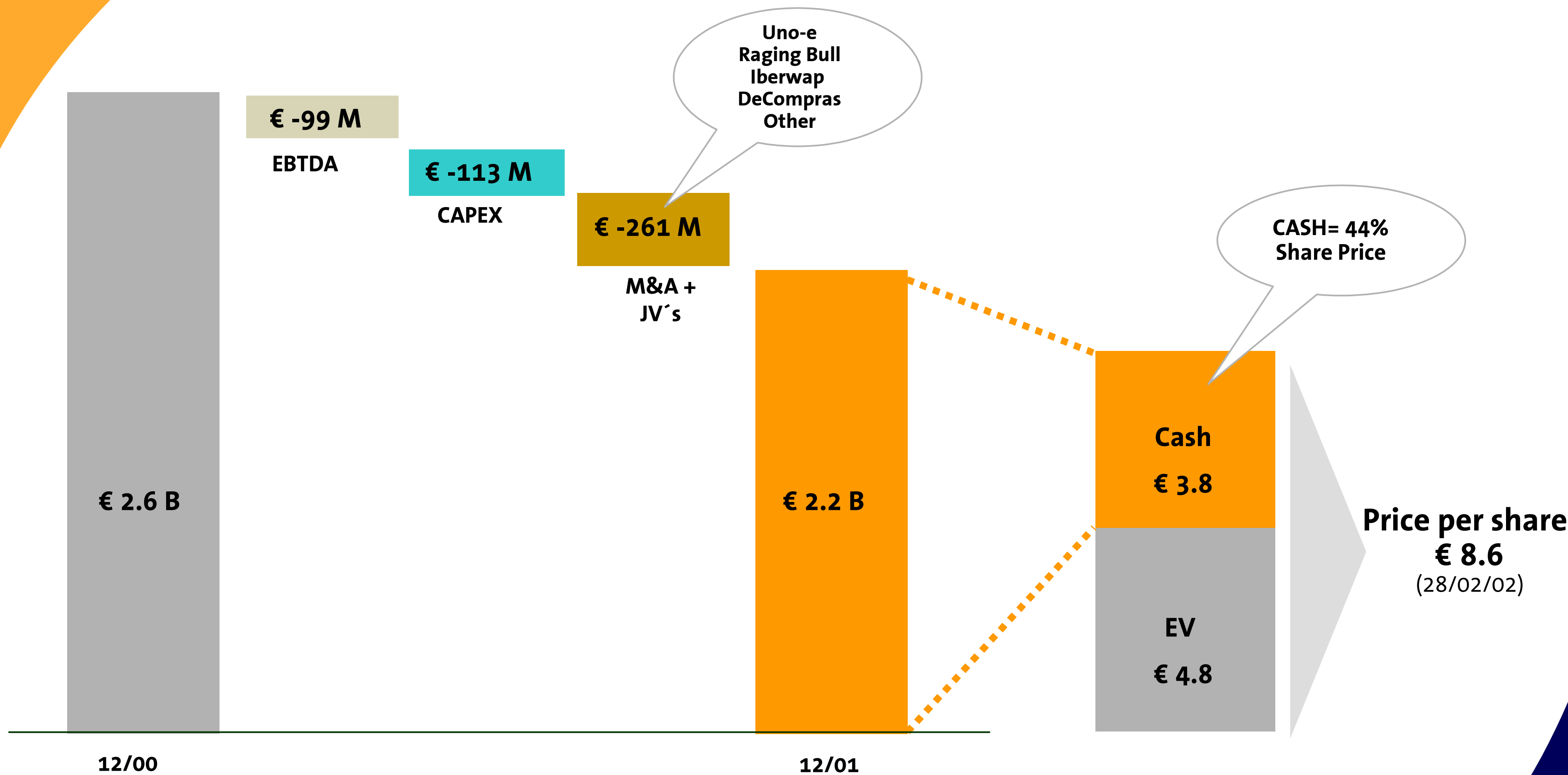
Performance since IPO (11/99): growth and profitability

	1999 [1]	2000	2001	Δ 01/99
Revenues (M€)	78.5	571	694	x 8.8
EBITDA %	-109%	-57%	-33%	+76 bp
Subscribers (M)	0.8	4.2	4.7	x 5.3
Page Views (M/Day)	10	350	500	x50
Countries	8	43	43	+35

(1) Non proforma figures

Numbers showing promising progress towards the future

Use of cash 2001: accurate cash management

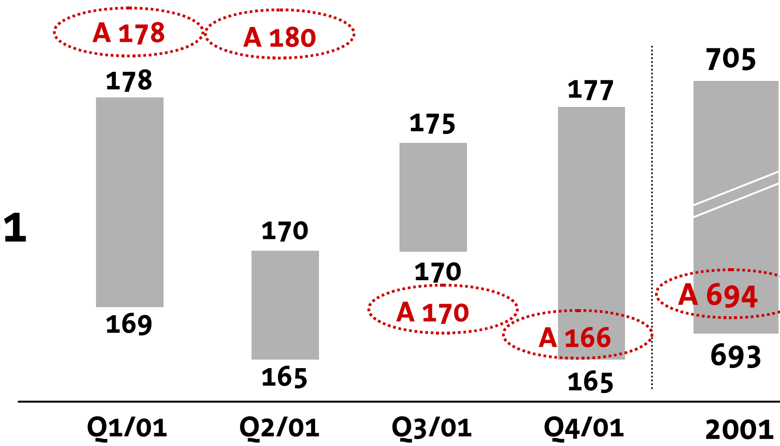


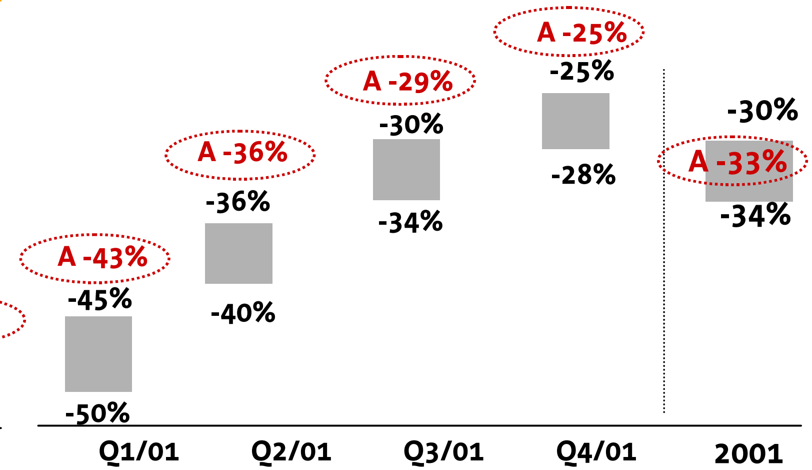
Strong cash position to facilitate future growth opportunities

Stock market guidance

Revenues (Euros M)	EBITDA (%)

2001

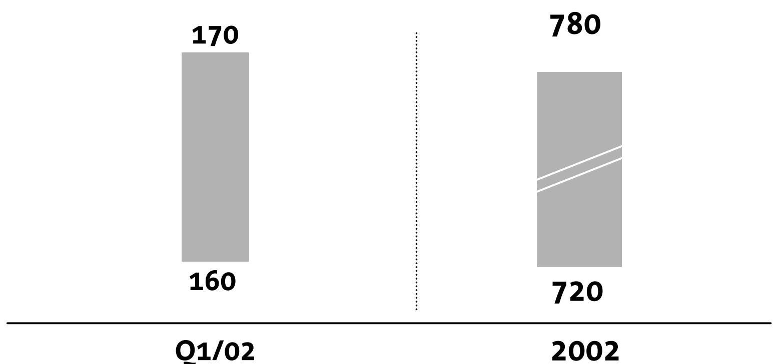


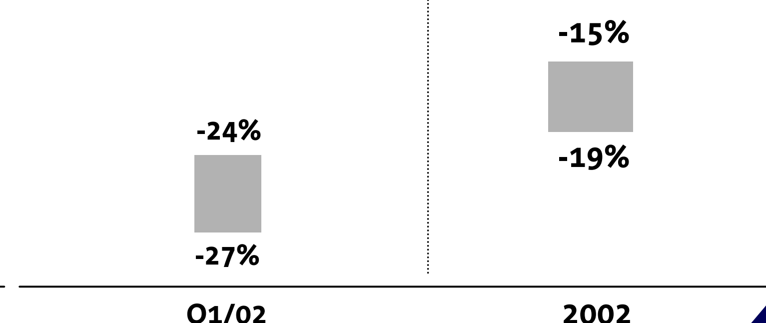


- *Growth not helped by market environment*
- *2001: Achieved market guidance revenues*

- *Improving path to profitability*
- *2001: Achieved market guidance EBITDA*

2002





Committment to continue delivering expectations

Terra Lycos:
The choice, solid fundamentals

- Consistently delivering growth (+22 YoY) and improving profitability (+24pp YoY) in a difficult 2001 market
- New diversified revenue streams (IMS, OBP products, Geographical diversification, multiple market segments)
- Cost management efficiency (€ 103 M cost out in 2001)
- Solid financial position: € 2.2 bn (Dec 01)
- Strong organization: management team and processes
- Global Company with strong local presence
- Telefónica: a unique strategic partner

A key profitable long term player in the industry

terra
lycos