# Second Investor Conference

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Telefónica

terra lycos

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Executive Chairman of Terra Lycos

# Safe harbour

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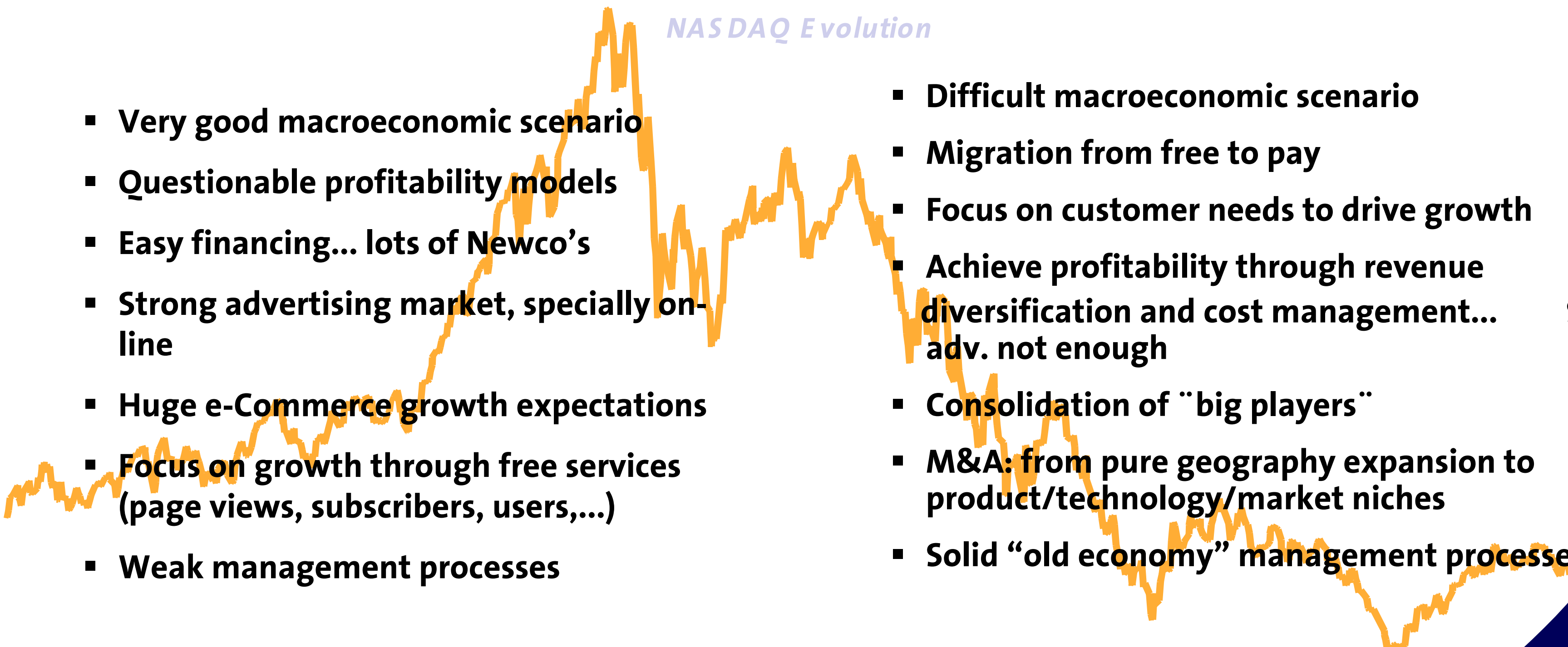
- New Market Environment
- Business Model and Strategy
- Financial Section

# 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**

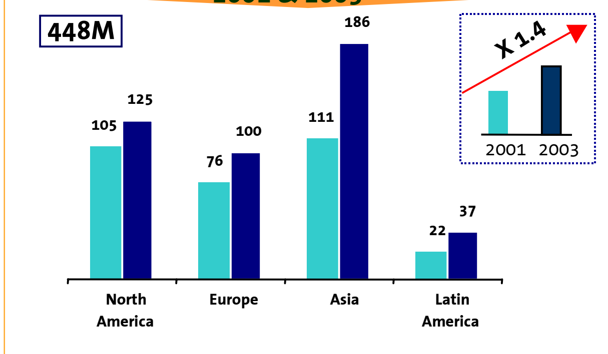
- Difficult macroeconomic scenario
- Migration from free to pay
- Focus on customer needs to drive growth
- Achieve profitability through revenue diversification and cost management… $ adv. not enough
- Consolidation of ¨big players¨
- M&A: from pure geography expansion to product/technology/market niches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

*… a new approach is needed to achieve profitability*

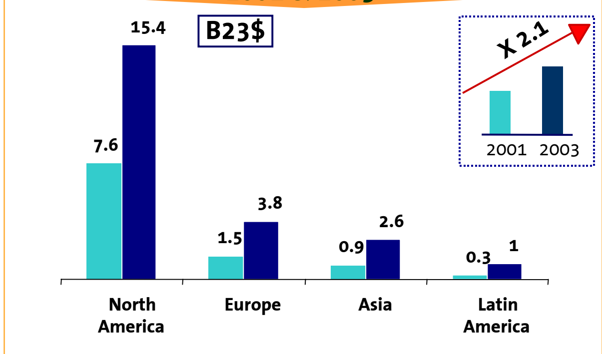
# 2001-03 Internet market overview

- 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**

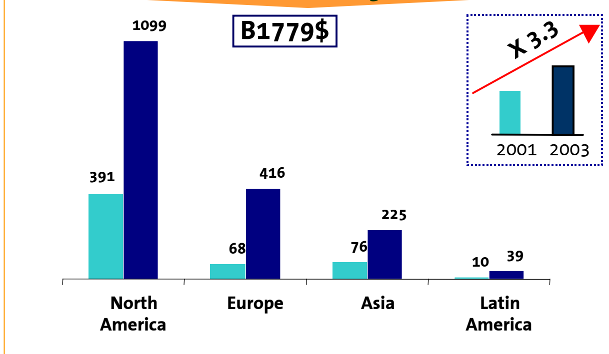
**Worldwide Internet Population, 2001 & 2003**



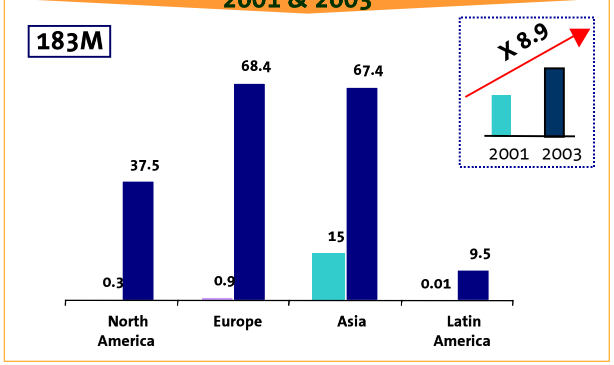

**Online Advertising Revenue, 2001 & 2003**



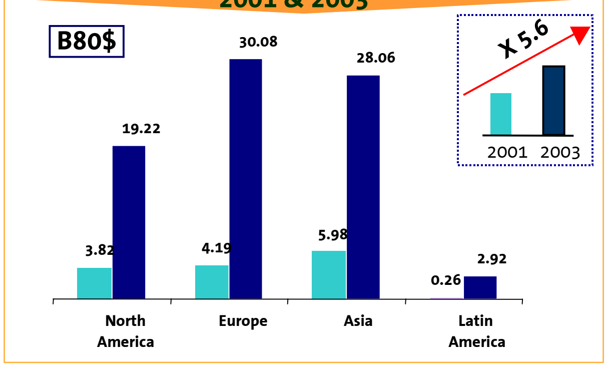

**E-Commerce (B2B+B2C) Revenue 2001 & 2003**



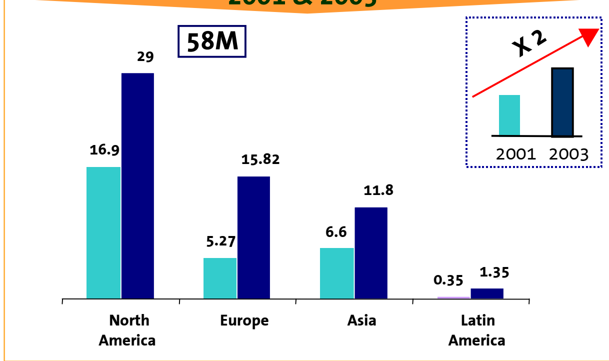

**Wireless I-net Users 2001 & 2003**




**Wireless Commerce* Revenue 2001 & 2003**




**Broadband Residential Subscribers 2001 & 2003**

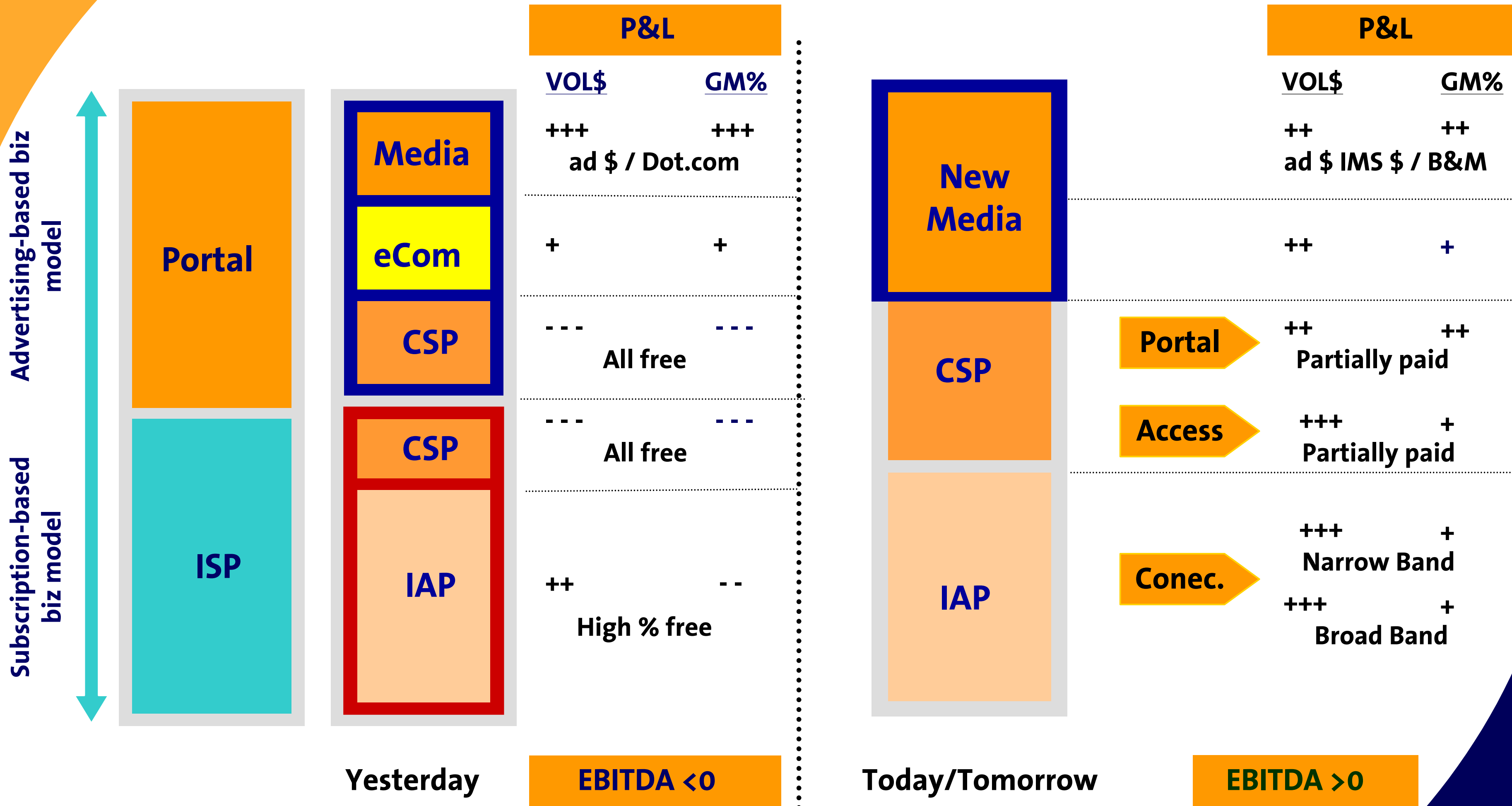



Sources: Emarkter, Ovum and analysts estimates

***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**

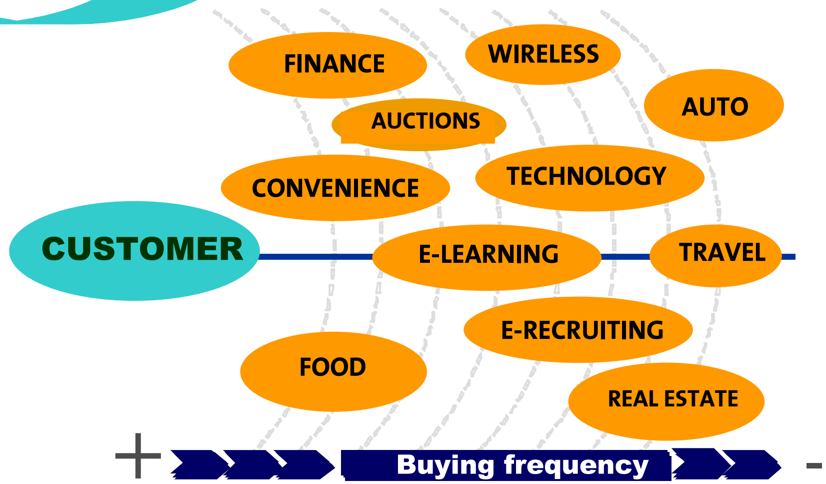
Audience

| 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

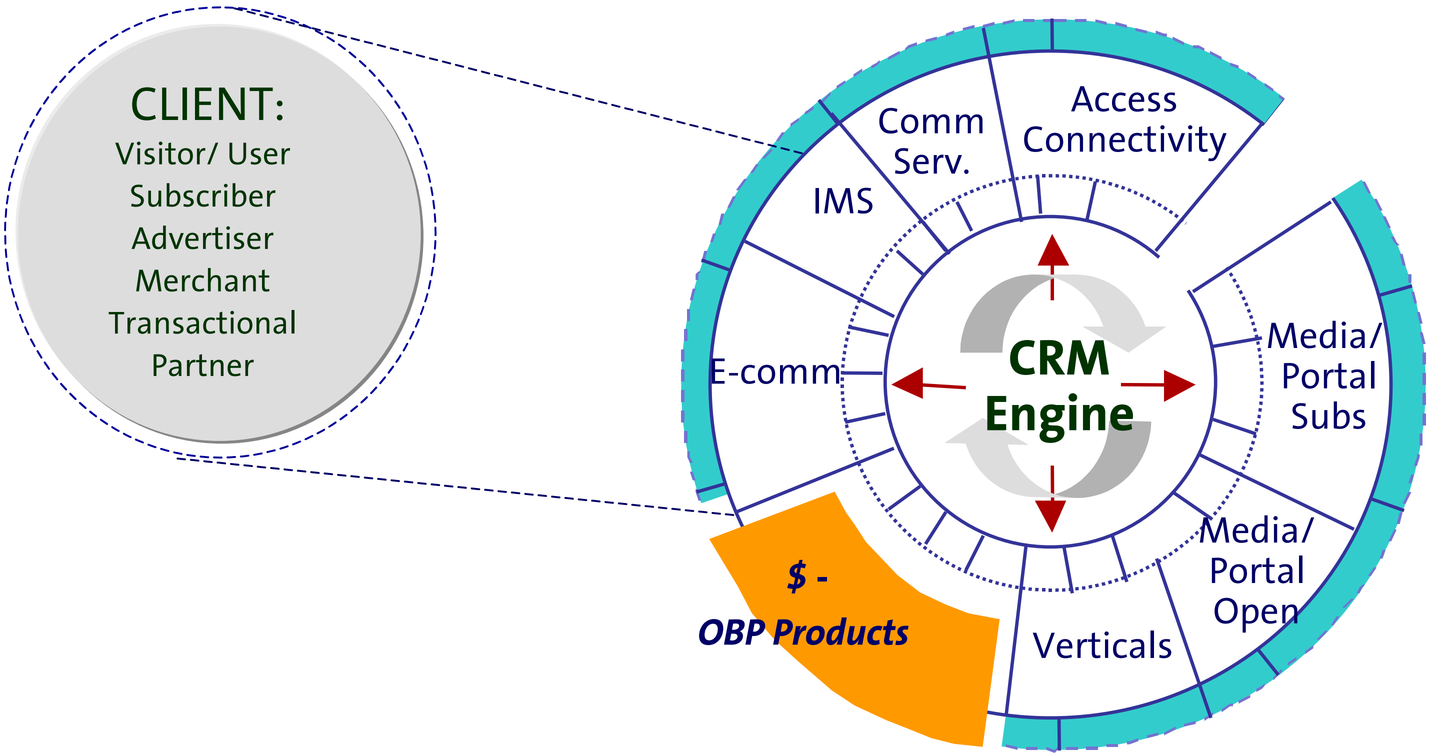
Unilever

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

***Satisfying clients through a complete and efficient integrated marketing solutions offer***

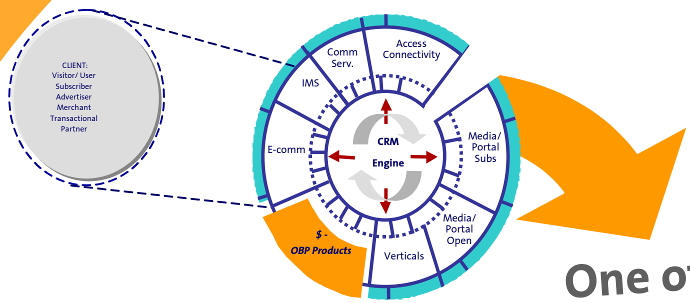
# *Client driven*

- 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

128 k upstream

256 k downstream

VIRTUAL DISK

DOMAIN

5 E-MAIL ADDRESSES

10 Mb. PERSONAL PAGES


*Subscription upgrade*

**OTHER CSP's**

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

# OBP products: subscription based examples

Tá Lotado? Compre mais espaço para o seu Disco Virtual 50 Mbytes adicionais — 8.90 R/M

Terra Personal Premium — Antivirus Terra: ¡ Rastrea, detecta y elimina ! — 23.91 P/M

ASSINE Terra Plus Broadband — 13.57 - 153.10 R/M

ADSL Plus — 42 € /M

dominios tudominio.com tudominio.net tudominio.org — € Bundle

Terra LIBRE El servicio de acceso a Internet de Terra sin pagos fijos mensuales. — Price per Minute

álbum de fotos — 8.90 R/M

¿ Quieres estar conectado a Internet y recibir llamadas al mismo tiempo ? Terra Premium e-line — 23.91 P/M

LYCOS ANYWHERE — 4.95-29.95 $/M

tripod — 4.95 $/M

Angelfire — 4.95 $/M

matchmaker.com — 25 $/M

FINANCE powered by QUOTE.COM — 0 - 199.95 $/M

Terra PROFESIONAL — 24.01 P/M

infosel financiero — 45 - 300 P/M

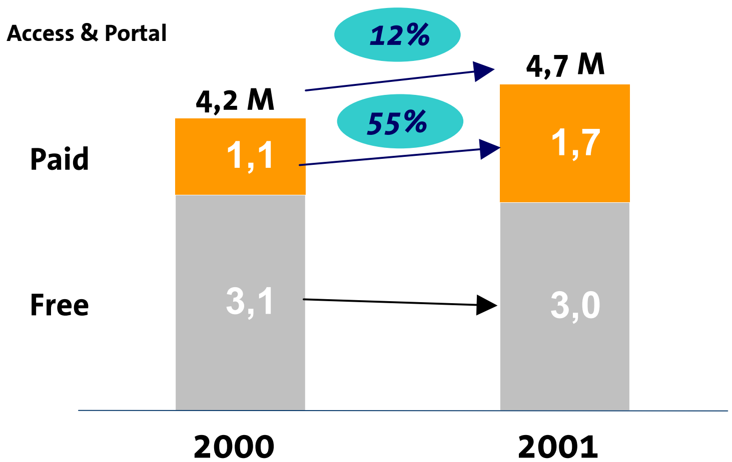
Terra NEGOCIOS edi — Per project

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

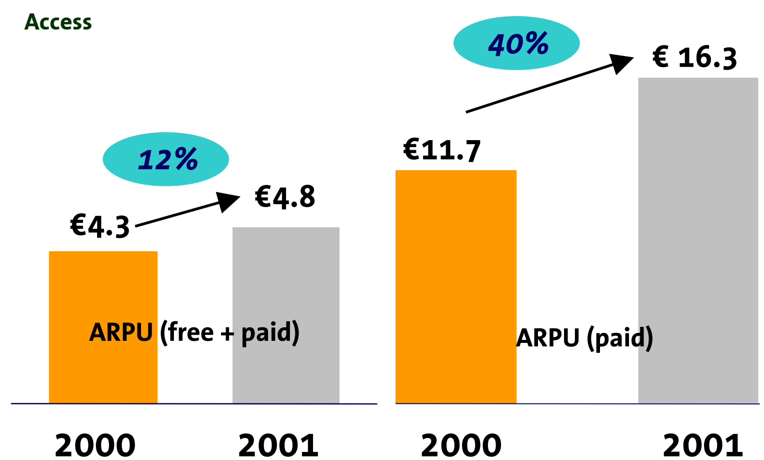
***In addition to today's reality, there is a clear and defined product roadmap plan by country (cross selling & globalization)***

# The OBP Model:
# 2001 performance

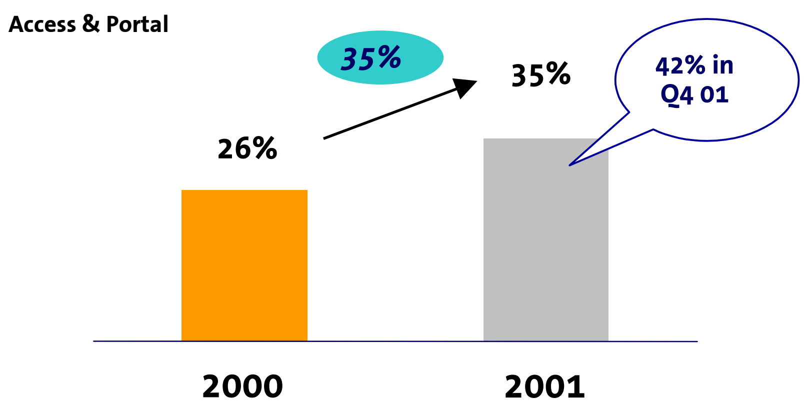
## Subscribers Growth



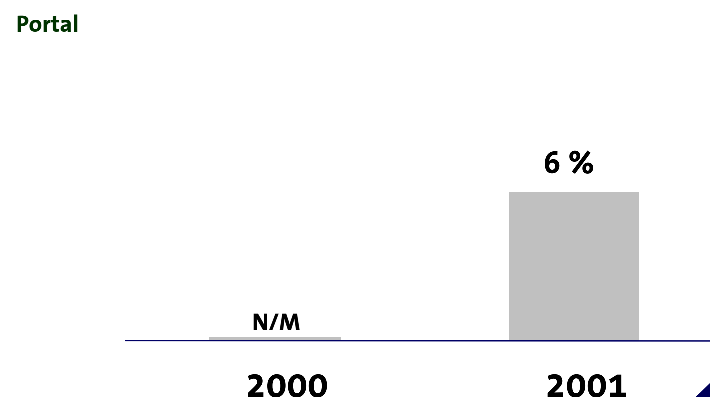

## Monthly ARPU Growth




## Subscription Paid Revenues (% €)

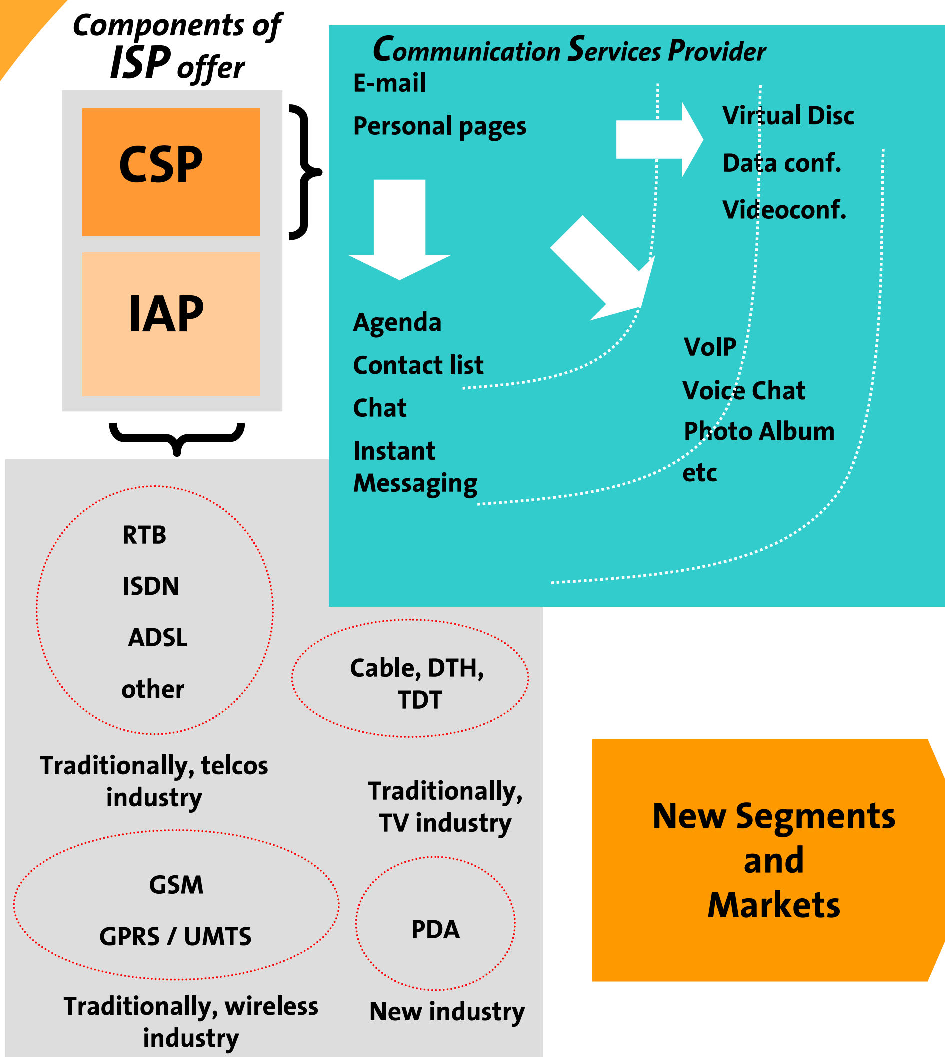



## OBP Media Revenues (% €)




***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

**$ Cost Drivers**

- Content acquisition cost optimization

**$ Efficiency**

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

***High Innovation & Quality are the critical differentiating success factors***

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# 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™
IBM®
CheckM8
Dynamic Web Solutions



Telefónica

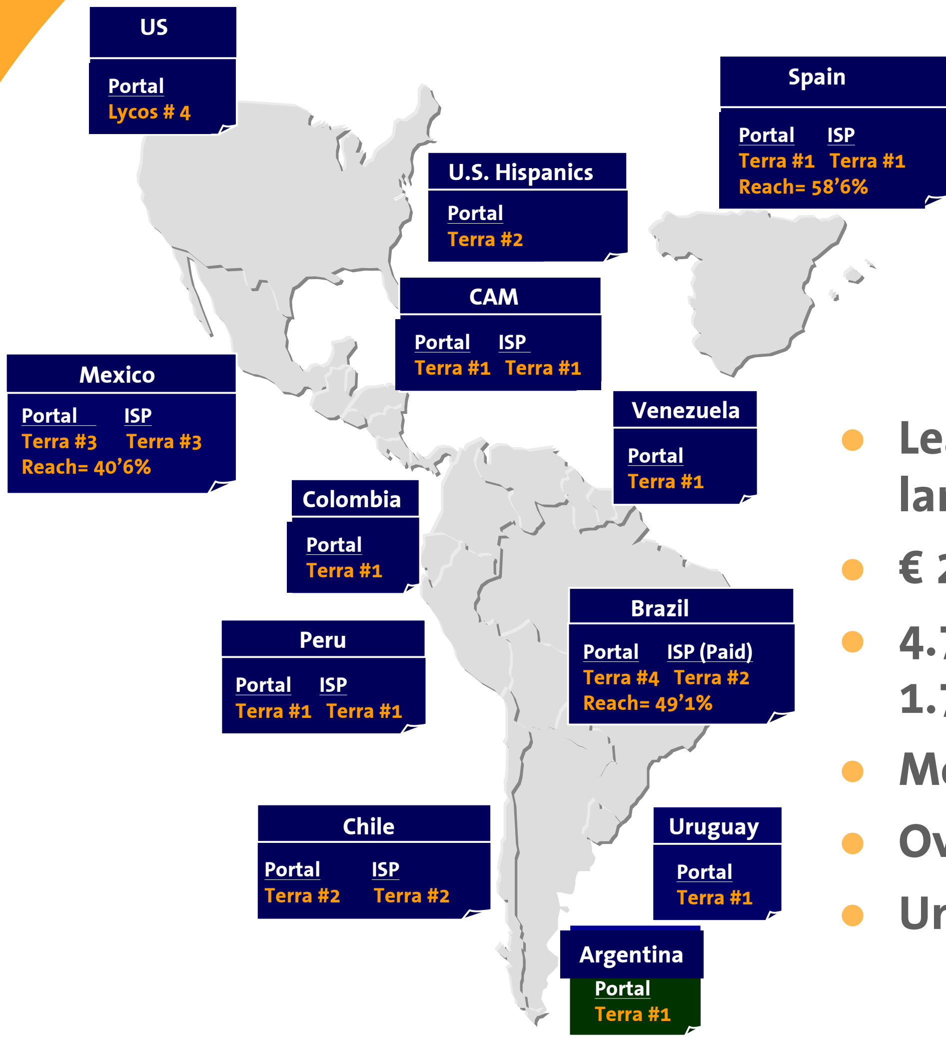
# Strategy empowered through Telefónica Group synergies

| 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<br>Telefónica Móviles<br>Telefónica | ADMIRA<br>Telefónica Móviles<br>Telefónica | ADMIRA<br>Telefónica | Telefónica | Telefónica R&D | Telefónica |
| TRLY as client of the Group | Telefónica Wireline in Spain<br>Telefónica Data<br>Telefónica Móviles<br>emergia | Telefónica | Telefónica<br>ADMIRA<br>endemol | Telefónica Wireline in Spain<br>TPI<br>ATENTO: | Telefónica<br>TPI | Telefónica R&D | Telefónica |

***Group synergies providing outstanding growth and cost efficiency opportunities***

# Financial Section

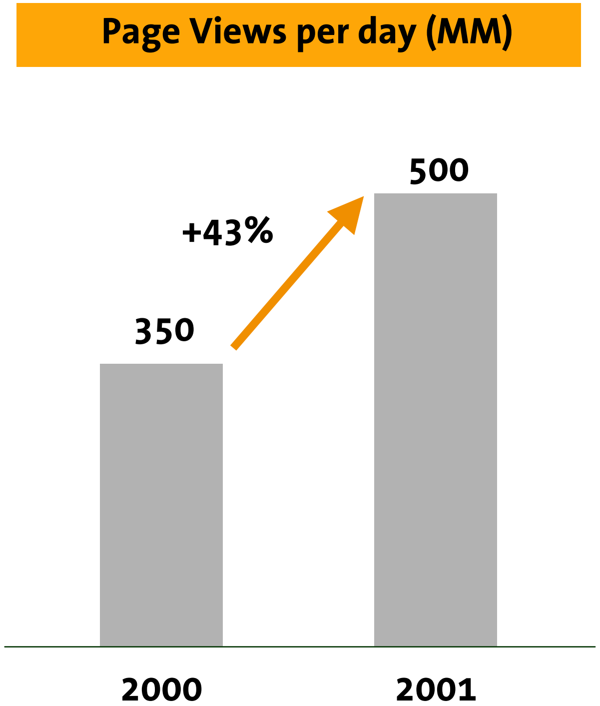
# Terra Lycos franchise: I.D.

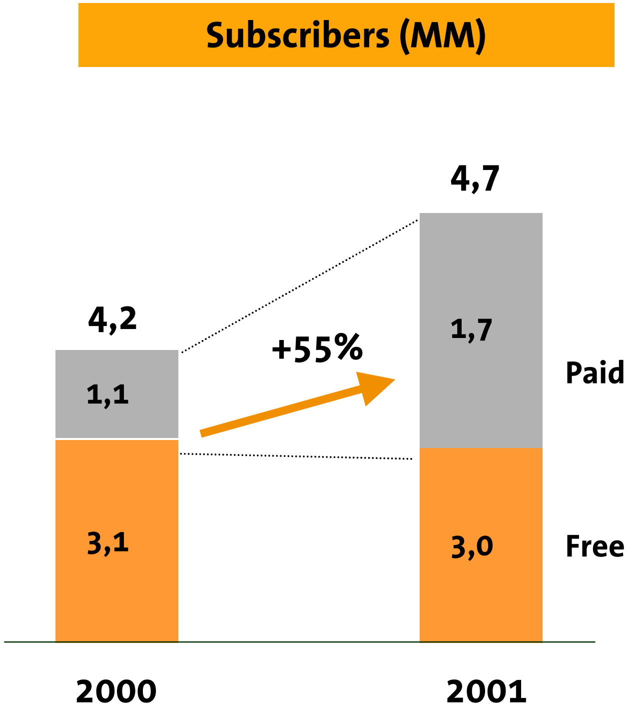



- Leading presence in 43 countries - 20 languages
- € 2.2 billion in cash, no debt
- 4.7 million access & portal subscribers; 1.7 million paid
- More than 111 million unique visitors
- Over 500 million page views per day
- Unique powerful strategic partners

*2001*
Source: *Mediametrix, Nielsen*

# Operational data: strong performance



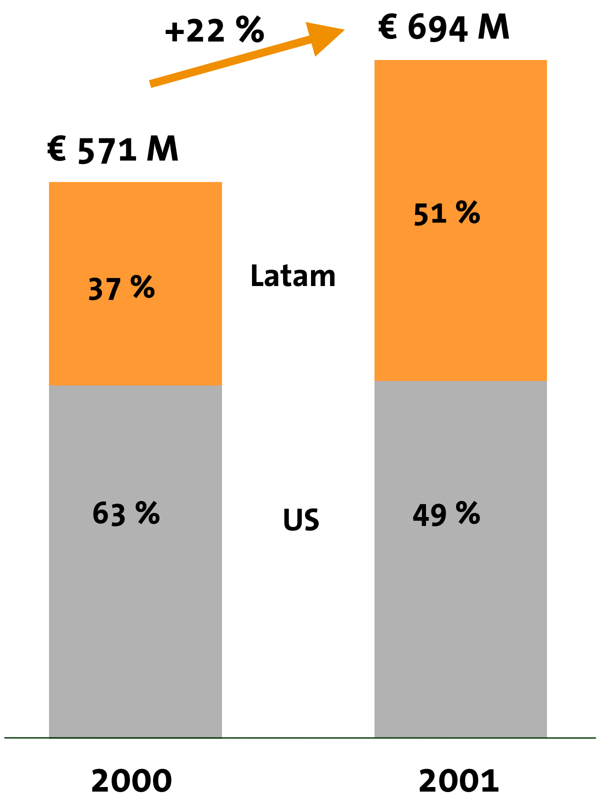




*Powerful inventory to support advertising growth*

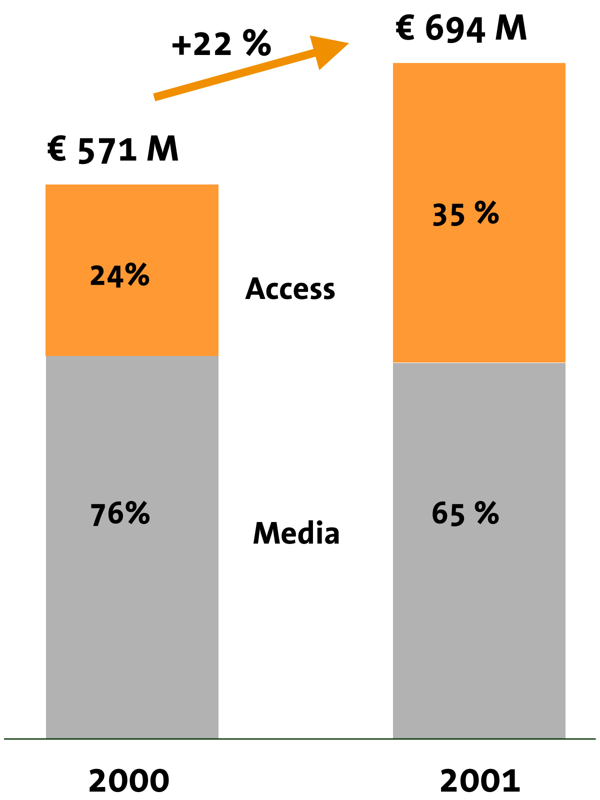
*Growth driven by paid Access and Portal subscribers*

# Revenue performance: solid geographic and product mix

**Revenue by Geographies**



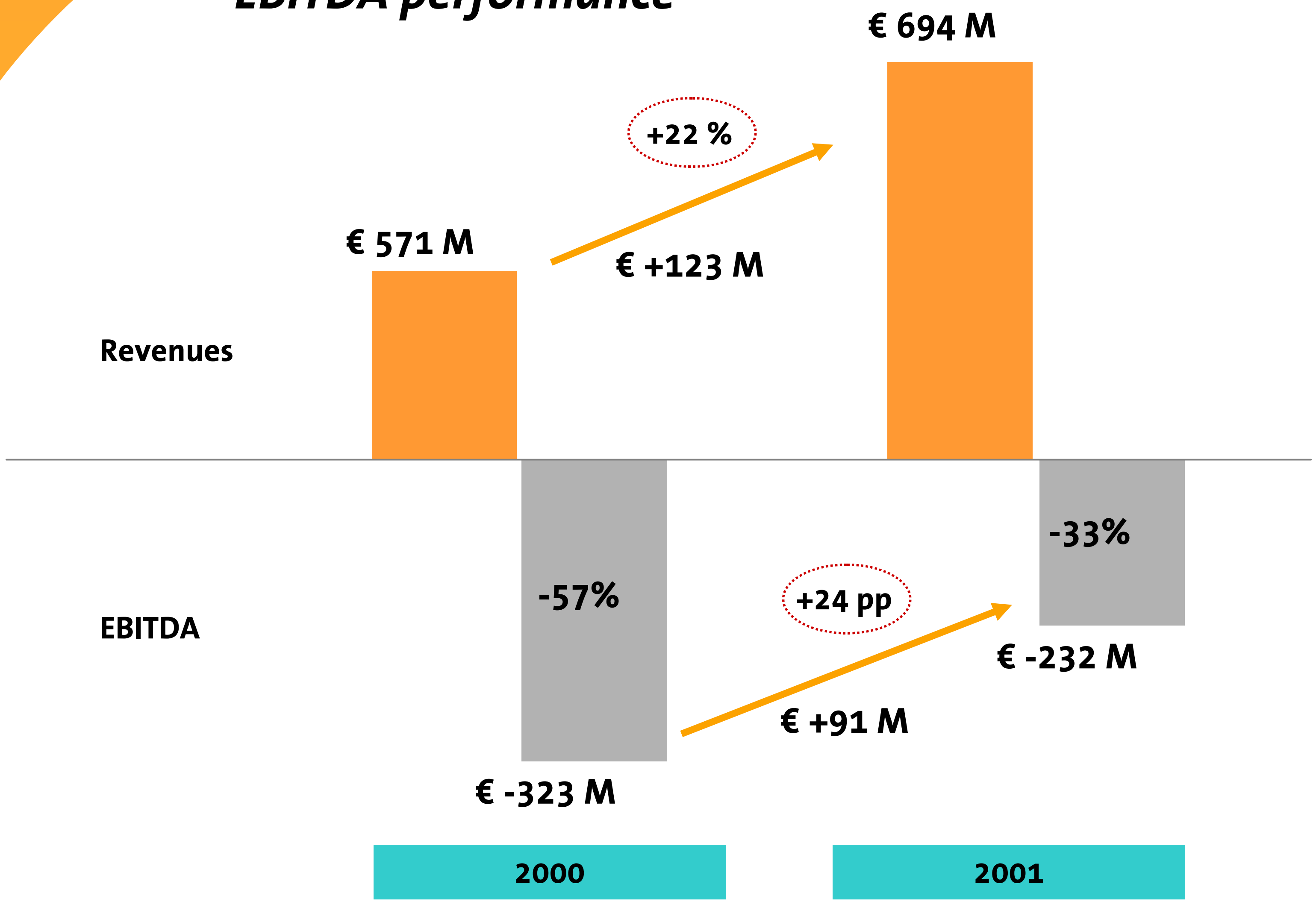

**Revenue by Product**




*Geo-diversification with faster growth in Latam and Spain*

*Product diversification with access driving growth*

# *Growth and profitability: EBITDA performance*




*Clear path to profitability*

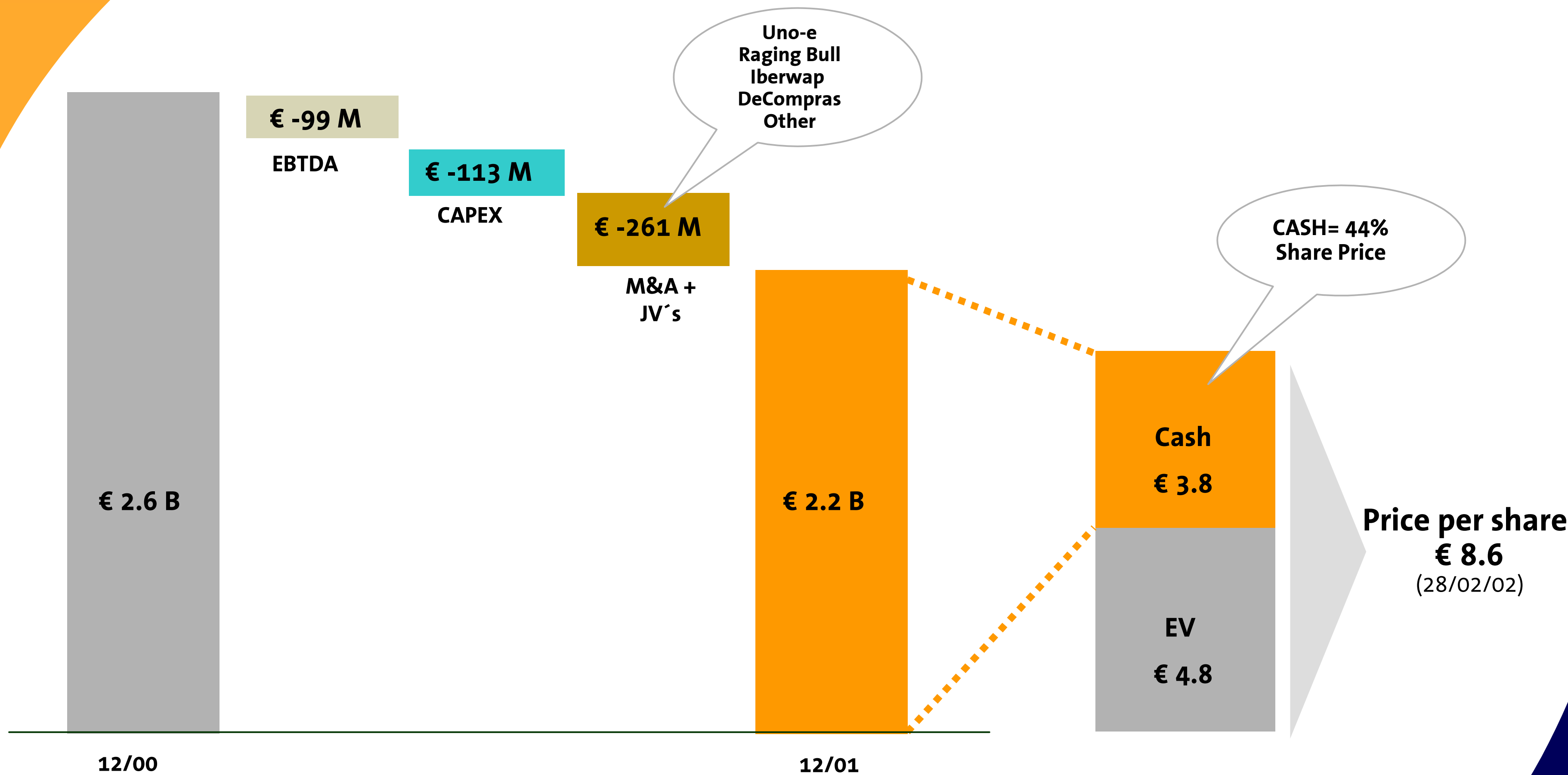
# *Performance since IPO (11/99): growth and profitability*

| | 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*

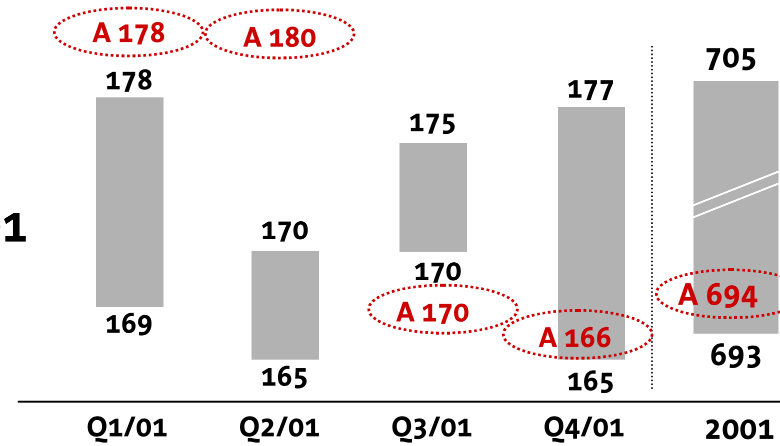


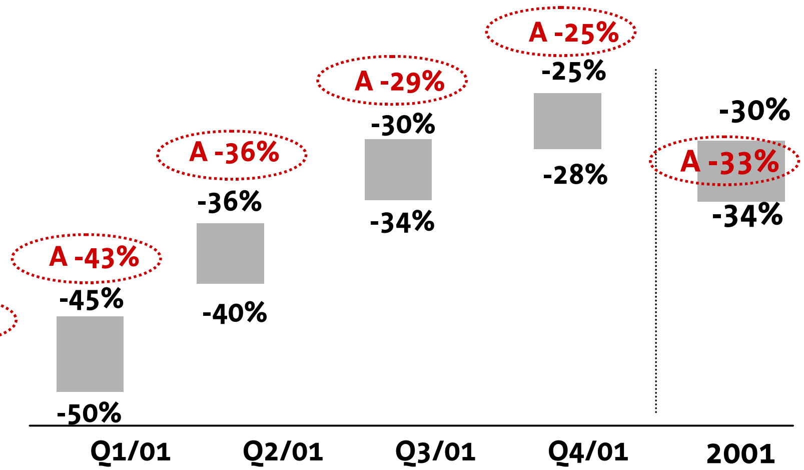

***Strong cash position to facilitate future growth opportunities***

# Stock market guidance

**Revenues** (Euros M) | **EBITDA** (%)

**2001**

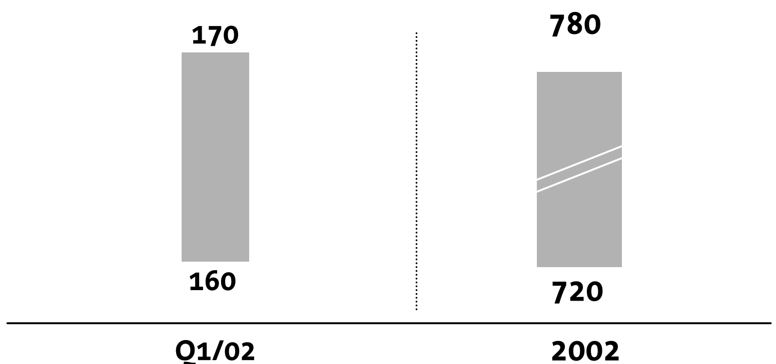


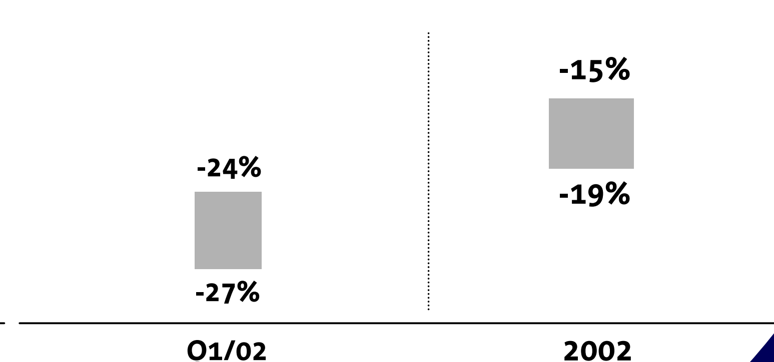




- *Growth not helped by market environment*
- *2001: Achieved market guidance revenues*

- *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