



AOL Projection Assumptions

Our AOL projections are based upon numerous assumptions about the development of the Internet economy. These assumptions are outlined in the following pages.

U.S. Internet Universe Projections

Crucial to the AOL vision is becoming ubiquitous in the Internet economy, reaching as many households as possible, no matter what the means, whether it be dial-up analog, wireless or wired broadband, stationary or mobile. As such, we have presented a wide view of the development of the online universe over the next eight years, including various points of connection, including competing broadband technologies—cable modem and DSL for the PC, Internet TV, and satellite.

- 1. Dial-up:** We estimate that there are currently 43 million U.S. households with dial-up Internet access, representing roughly 42.1% penetration of slightly over 100 million aggregate households. For the sake of simplicity, we assume that household formation will increase 1% per year through our projection period. Most projections we have seen call for first-time PC purchases to fall over the next two to three years, with PC-enabled households leveling off in the 66–70 million range. Our PC household projections through 2002 are taken from a 1999 Forrester Research report. Thereafter, we are adding a declining number each year, beginning with 2 million in 2003, declining to 1.5 million in 2008, at which point we estimate 74% of U.S. households will be online. Of this amount, 43 million households will be online through their PCs, over 96% of which use standard phone lines. Thus, over 84% of PC households are connected to the Internet.

Over the following five years we expect this ratio could approach 100%, implying: (1) a greater proportion of households with more than one PC in the home, as multiple family members use PCs for diverging uses—business vs. entertainment vs. education; (2) the mass acceptance of cable modem and digital subscriber line technologies, aided by innovations in self-installation and wider pre-packaged advanced-technology modems in the boxes; and (3) multiple access ports on PCs. We eventually expect erosion of the dial-up share of the PC Internet market in favor of broadband, due to downward pressure on monthly access prices, advances in content created for broadband, and the end of exclusive ISP relationships with cable modem ISPs.

- 2. Cable modem:** We project the cable HSD market to grow from less than 2 million subscribers at the end of 1999 to 10.5 million households by 2003, as driven by system upgrades by MSOs. While first-tier MSOs (e.g., Cox, Comcast, Time Warner, and Cablevision) are already approaching fully-upgraded status (70%-plus network two-way capability), other second-tier large aggregators (e.g., Adelphia and Charter) and rural independents are still substantially behind the curve. On a blended basis, we estimate 80% of U.S. cable homes passed will be upgraded by 2003. Our 2003 10.5 million cable HSD subscriber projection assumes national average penetration of 12.5% of upgraded homes passed.
- 3. DSL:** The rollout of DSL, particularly by RBOCs, accelerated in 1999, and is apparently gaining momentum in an effort to keep cable high-speed modems from accumulating a prohibitive lead in the residential market. We estimate that the major local exchange carriers have equipped approximately 40 million lines for DSL, about twice the year-end 1999 goal the industry held at the beginning of the year.



Exhibit 22: Estimated RBOC Deployments at 12/31/99

Carrier	Date Deployment (Mbps/Kbps)	Monthly Price (Per Line/Per Month)	# of Lines Provisioned (in '000)
Ameritech	1.5 Mbps/ 128 Kbps	\$59.95	45,000
Bell Atlantic	640 Kbps/ 90 Kbps	\$49.95	17,000,000
	4.6 Mbps/ 90 Kbps	\$109.95	
	7.1 Mbps/ 680 Kbps	\$189.95	
BellSouth	1.5 Mbps/ 256 Kbps	\$59.95	5,000,000
GTE	768 Kbps/ 128 Kbps	\$49.95	6,100,000
	384 Kbps/ 384 Kbps	\$99.00	
	768 Kbps/ 768 Kbps	\$135.00	
	1.5 Mbps/ 768 Kbps	\$210.00	
SBC/Pacific Bell	384 Kbps/ 128 Kbps	\$49.95	9,800,000
	384 Kbps/ 384 Kbps	\$199.00	
	1.5 Mbps/ 384 Kbps	\$339.00	
US West	256 Kbps/ 256 Kbps	\$49.95	2,200,000
	512 Kbps/ 90 Kbps	\$84.95	
	768 Kbps/ 384 Kbps	\$99.95	
	1 Mbps/ 384 Kbps	\$139.95	
	7 Mbps/ 768 Kbps	\$859.95	
Total			40,145,000

Source: CED Magazine

- Bell Atlantic ended 1999 with approximately 17 million qualified business and residential DSL-ready lines served by 700 central office switches, 100% higher than its previous goal announced in January 1999.
- SBC, whose DSL activities at year-end 1998 consisted mainly of capability installed by its Pacific Bell subsidiary, announced plans last October to commit \$6 billion to upgrade its networks to accommodate a higher speed and to take its DSL service to up to 80% of its household footprint. SBC will also become a CLEC in 30 major U.S. markets, starting in Boston, Miami and Seattle.

We attribute this acceleration to:

- Competitive pressures: Telcos face the possibility that MSOs have achieved an insurmountable lead in gaining subscriber critical mass. Over the past two years, the gap between the cable modem and DSL subscribers has widened from 660,000 (approximately 700,000 to 40,000) at year-end 1998 to roughly 1.6 million (2 million to 400,000). In the commercial market, the RBOCs have allowed CLECs to cherry-pick the choice commercial market.
- Progress toward alleviating technical concerns: There have been technical advances, including the use of splitterless systems and new miniaturized components that



allow the push of DSL services further away from DSL-equipped central offices. Along with the development of voice-over-DSL services, these have made DSL more practical for the home user. Perhaps most importantly, many suppliers have introduced universal serial bus modems, allowing plug-and-play modem set-up, which should dramatically open the retail modem market. US West reports that 92% of its recent subscriber additions are self-installed.

- Growing cooperation and co-branding with independent ISPs (AOL, Prodigy, etc.): AOL has signed DSL line usage agreement with SBC, Bell Atlantic, Ameritech, and GTE, and SBC has chosen Prodigy to be its preferred ISP as part of its DSL footprint expansion. The benefits of an ISP partner include: (1) consumer marketing support—long a weakness of RBOCs; (2) broader and deeper content areas, and (3) a deeper Internet technological knowledge base.
 - Industry consolidation, which has expanded the possible market and created scale economies.
4. **Internet TV:** While interactivity is currently concentrated in the PC, projections call for the TV to take a greater role. For example, Forrester Research estimates that interactive TV will generate \$11 billion in advertising and \$7 billion in commerce by 2004.

Although the a debate persists about the usage and experience differences between the PC and TV (“active versus passive”), there are some persuasive arguments that people are already engaging in convergent behavior. For example, ICR Research Group estimates that nearly 10 million households nationwide have forged a sort of makeshift convergence, in that they sometimes watch television while simultaneously accessing the Internet and that almost 50% of U.S. PC households have the PC and TV in the same room. Programmers, such as ESPN/ABC in its NFL coverage and MTV Networks with its interactive *WebRiot* game show, are beginning to offer enhanced TV programs that offer programs with Web elements.

Much of the initial success of interactive TV can be attributed to its appeal to non-PC owners. However, we envision interactive TV as developing into diverse distribution forms (including cable, DBS, stand-alone, and transmission over the digital broadcast spectrum, although an economic and operating model for the latter form has yet to be developed).

Again, a large component of this growth will come from the cable industry, whose advanced digital set-top boxes will bundle greater video offerings, DOCSIS-compliant Internet access, IP capability, and robust memory and graphics. We expect digital cable penetration to reach 30% of upgraded homes passed by the 2003–2004 time frame, with operating system and software standardization and retail hardware availability (beginning July 2000) being two main catalysts.

We believe it is too early to tell whether the TV or the PC will emerge as the prime mode of convergence. Even so, we do believe interactive TV over cable will find a market, supported by several factors favoring it over the PC—lower hardware costs, projected to fall in the \$200–\$500 range; greater bundling possibilities with other services; and greater ease of use. We also believe the market for stand-alone set-top boxes (e.g., Microsoft’s WebTV) will continue to exist as a major player in interactive TV.


Exhibit 23: Interactive TV Universe Projections

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Digital Cable											
U.S. Households (millions: +1% per Yr)	100.7	101.7	102.7	103.7	104.7	105.8	106.9	107.9	109.0	110.1	111.2
% Cable Penetration of U.S. Households:	98.0%	98.2%	98.4%	98.6%	98.8%	99.0%	99.1%	99.2%	99.3%	99.4%	99.5%
% Upgraded to PC Data	28.0%	45.0%	65.0%	75.0%	80.0%	85.0%	88.0%	91.0%	94.0%	96.0%	98.0%
U.S. Digital-Ready Households	27.6	44.9	65.7	76.7	82.8	89.0	93.2	97.4	101.7	105.1	108.4
% Penetration	3.6%	7.3%	13.0%	20.0%	24.0%	28.0%	31.0%	34.0%	37.0%	39.0%	40.0%
U.S. Digital Cable Households	1.0	3.3	8.5	15.3	19.9	24.9	28.9	33.1	37.6	41.0	43.4
% Internet Capable	0.0%	25.0%	70.0%	90.0%	95.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Internet-Capable Digital Cable Universe	0.0	0.8	6.0	13.8	18.9	24.9	28.9	33.1	37.6	41.0	43.4
Standalone Set-top Internet TV Devices	0.2	0.6	1.2	1.8	2.3	2.8	3.1	3.4	3.6	3.8	3.9
Total Internet TV Universe	1.2	3.9	9.7	17.1	22.2	27.7	32.0	36.5	41.2	44.8	47.3

Source: Credit Lyonnais Securities (USA) estimates

5. **Satellite:** Although technology has been available since 1996, satellite-transmitted high-speed data service take-up has been slow. Jupiter Communications estimates that there were roughly 200,000 U.S. residential satellite Internet subscribers at the end of 1999, and that this number would grow to only 1 million by 2002.

DirecPC from Hughes Network System, which transmits data at an advertised 400 Mbps rate, and competitor Skybridge plan an "Internet in the sky" product in 2001. Hughes revised its pricing scheme to offer two basic tiers: \$29.99 per month for 25 hours and \$49.99 for 100 hours. Each extra hour costs \$1.99. The advantage of satellite is that it bypasses the last-mile bottleneck associated with telephone networks. Through a DirecDuo dish, a DirecPC subscriber can add TV signals on the same dish.

So what are the drawbacks? The most serious is that an upstream transmitter has not yet been developed for satellite receivers, meaning that customers are dependent on a slower, dial-up phone line for return-path transmission. Like cable modem HSD services, shared network access means that heavy usage can slow throughput rates. Another negating factor is the need for an unobstructed southern path from the residence to the satellite. Finally, satellite transmission still requires extra routing steps before signals reach satellite transmitters, which creates latency issues, as does severe weather. Thus, growth of satellite Internet services has been restricted to download-intensive rural residences and small businesses to which broadband is not readily available. We estimate there are roughly 40,000 DirecPC subscribers in the U.S.

Over the next three to five years we could see several deployments of Ka-band geostationary (GEO) satellite systems that would offer 16–27 Mbps capacity bi-directionally. Ka-band satellite supports three times the bandwidth of Ku-band (on which DTH satellite services operate). Several prominent examples include Hughes' Spaceway project, Loral's Cyberstar, and Astrolink (a venture involving Lockheed, TRW, Telespazio and Liberty Media Group). Research firm Satellite Data estimates the parties will invest an aggregate \$50 billion over the next five years. Hughes has committed to investing \$1.4 billion toward the North American launch of Spaceway (total investment for the global service is projected to cost \$4 billion). It hopes to launch Spaceway in 2002, initially to serve North America, and it also plans to transfer its DirecTV and data services there.

6. **Wireless:** Internet access is expected to become far more pervasive in the next five years due to access capabilities of next-generation digital phones from Motorola and Sprint, as well as the introduction of small portable Internet appliances. The latter are projected by International Data Corp. to exceed PC sales in unit volume by 2002.


Exhibit 24: Primary Access U.S. Internet User Universe Projections

(m)								2001E	2002E	
Dial-Up	43.0	49.0	53.2	55.8	55.3	51.5	47.7	43.8	41.5	39.1
Cable Modem	1.7	3.4	5.4	8.6	11.0	13.6	16.1	18.3	20.5	23.3
DSL	0.4	1.0	1.9	3.9	5.7	8.2	10.6	12.2	13.9	15.4
TV	0.8	3.0	6.0	9.0	13.0	17.0	20.0	22.0	24.0	25.0
Satellite	0.0	0.4	1.1	2.4	3.9	5.1	6.0	6.5	6.9	7.3
Other	0.0	0.1	2.0	6.0	10.0	15.0	22.0	30.0	40.0	50.0
Total	45.9	56.8	69.6	85.6	98.8	110.5	122.5	132.8	146.7	160.1

Source: Credit Lyonnais Securities estimates

Several notes about the Internet user projections above:

1. The numbers represent double counting in some cases. Often the means of accessing the Internet are not mutually exclusive, as people want solutions.
2. Thus, Internet via TV and via wireless will probably be complementary rather than replacement services. As a result, customer loyalty should increase, translating into higher ad and e-commerce dollars because of greater eyeball time.

Subscription Revenues

The following exhibit presents our subscription revenues for AOL. As can be seen, we project subscription revenues to increase at an average rate of 16.5% over the calendar 1999–2004 period, with declines thereafter. In the sections that follow, we detail the assumptions underlying our revenue projections.

Exhibit 25: AOL Subscription Revenue Projections

Dial-Up AOL	3,637.6	4,858.2	5,805.1	6,264.3	6,315.8	6,008.9	5,423.5	4,695.2	3,934.1	3,203.2
Dial-Up CompuServe	236.4	357.3	506.6	569.4	584.3	587.0	565.5	526.3	473.9	412.8
Cable AOL Plus	0.0	0.0	64.3	163.9	419.0	811.2	1,162.0	1,470.5	1,690.5	1,839.8
DSL AOL Plus	0.0	16.1	74.0	179.8	303.9	444.6	604.4	743.1	861.5	959.0
Direct PC	0.0	0.0	10.0	33.4	62.8	86.6	101.9	116.0	124.4	129.7
AOL Wireless Handheld	0.0	0.0	8.1	29.2	63.7	117.7	193.3	268.9	328.3	376.9
AOL TV	0.0	0.0	10.8	62.9	152.4	266.1	406.3	565.7	737.7	907.5
Total Subscription Revenues	3,874.0	5,231.7	6,478.8	7,302.8	7,902.0	8,322.2	8,456.9	8,385.8	8,150.4	7,829.0
% Change		35.0%	23.8%	12.7%	8.2%	5.3%	1.6%	-0.8%	-2.8%	-3.9%

Source: Credit Lyonnais Securities estimates

Subscribers—"AOL Anywhere"

At the end of AOL's FY99, the company had 16.5 million domestic AOL and CompuServe members, representing an estimated 37.6% share of the Internet household market. We project this share to increase moderately but consistently over time, as its brand and content enable it gain an early foothold in emerging distribution technologies.

As can be seen in Exhibit 26, we project the company's subscriber base to become increasingly diversified, as it (1) leverages its ownership of Time Warner Cable and, indirectly, AT&T; (2) executes roll-outs of its existing RBOC DSL agreements; and (3) continues to be considered a "must have" for emerging broadband technologies.

As can be seen, we expect the company's existing analog dial-up service via telephone line to remain the largest source of subscribers until 2006, at which point MSOs will be largely finished with their network upgrades. Note that in our projections, we assume that AOL will be affiliated with MSOs passing over 70 million homes by 2003, composed of 20 million from Time Warner Cable, roughly 33 million from AT&T BIS, and the remainder from one or two other major MSOs. We believe the momentum has swung in AOL's favor in gaining



open access (witness AT&T's agreement to negotiate access conditions to independent ISP Mindspring after its exclusivity agreement with Excite@Home expires in 2002). Comcast, with 12.5 million homes passed, has indicated that Open Access will come into effect in a similar time frame. Adelphia Communications offers its branded Powerlink product and in our view would most likely be receptive to AOL. Charter Communications represents a question mark, as Paul Allen's history as a major investor in AOL may offset Charter's current multiple-vendor stance on high-speed access.

In our coverage of MSOs, most of which are @Home affiliates, we project HSD penetration levels in the 15%–18% range in four to five years after launch (2003–2004). Assuming AOL can attain a similar rate (16%) in year five (we anticipate an AOL Plus offering over Time Warner Cable sometime in 2001, the first year after the expected closing of the Time Warner acquisition), AOL could have 10.6 million HSD subscribers by 2007.

On the DSL front, AOL has already obtained agreements with RBOCs (SBC Communications, Ameritech, Bell Atlantic, and GTE) covering 65% of the U.S. With Bell Atlantic thus far being the most aggressive in enabling DSL in its territories, we expect the RBOCs to have 53 million homes with DSL lines by early calendar 2001, and 61.1 million by 2004. Thus far, we have not factored CLEC participation into the equation.

Via a June 1999 agreement, AOL invested \$1.5 billion in DirecTV and will work on advancing the rollout of AOL Plus on DirecPC and AOL TV, including exploring cross-marketing opportunities to the combined companies' subscriber base of 28 million households. Of \$1.5 billion invested, for which AOL received preferred equity securities that automatically convert to GM Hughes shares at a 24% premium, more than \$500 million will go toward supporting AOL Plus via DirecPC through both AOL brands and Hughes retail outlets. Another \$500 million is slated for DirecTV, including marketing costs (and within that, more than \$150 million in marketing to AOL members); roughly \$400 million for the DirecTV/AOL TV platforms; and \$100 million for DirecDuo. Hughes will also give AOL access to its majority-owned Galaxy Latin America DTH subscriber base. Behind the added marketing support—something DirecPC has not yet had—Hughes expects to add 1.2–1.5 million DirecPC subscribers over the next three years.

We believe AOL TV via DirecTV will not pose a significant threat to either cable modem or DSL HSD offerings until Spaceway is demonstrated as an economically attractive value. In our view, a digital/interactive TV customer would want the full broadband experience, which is ill-suited to a narrow-band return path. Even with bi-directional access, we question whether there will be a significant market remaining after cable-modem and DSL take-up. As much of 75% of the U.S. online audience could already be connected via DSL and/or cable-modem by 2003, the earliest we believe a GEO satellite system would be commercially deployed. As such, our projected penetration of the DirecTV subscriber base remains below 20% until FY05.



Exhibit 26: AOL Subscriber Base Projections

	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Total Ending Subscribers										
Dial-Up AOL	17.4	23.1	26.8	28.7	29.0	27.6	25.0	21.9	18.6	15.4
Dial-Up CompuServe	1.7	3.2	4.0	4.4	4.5	4.4	4.2	3.8	3.4	2.9
Cable AOL Plus			0.9	1.5	4.7	7.6	10.6	13.2	15.0	16.6
DSL AOL Plus		0.2	0.8	1.7	2.7	4.0	5.3	6.5	7.6	8.5
AOL Broadband TV			0.2	1.0	2.0	3.4	5.1	7.1	9.3	11.5
AOL Wireless Handheld			0.8	2.0	4.0	7.0	11.0	14.0	16.5	18.5
Direct PC			0.4	1.1	1.9	2.3	2.8	3.2	3.4	3.7
Total Subscribers	19.1	26.5	33.9	40.3	48.7	56.3	64.0	69.6	73.8	77.1
% Change		38.7%	27.7%	19.0%	20.9%	15.6%	13.7%	8.9%	6.0%	4.5%
Composition:										
Dial-Up	100.0%	99.2%	90.9%	82.1%	68.7%	56.9%	45.6%	37.0%	29.8%	23.7%
Cable Modem			2.6%	3.6%	9.7%	13.5%	16.6%	18.9%	20.3%	21.5%
DSL		0.8%	2.3%	4.3%	5.5%	7.1%	8.3%	9.3%	10.4%	11.1%
AOL TV			0.6%	2.5%	4.1%	6.0%	8.0%	10.2%	12.6%	14.9%
AOL Wireless Handheld			2.2%	4.8%	8.1%	12.4%	17.1%	20.0%	22.3%	23.9%
Direct PC			1.3%	2.7%	3.9%	4.2%	4.3%	4.6%	4.6%	4.8%
Total	100.0%									
Internet Universe:										
Dial-Up	43.0	49.0	53.2	55.8	55.3	51.5	47.7	43.8	41.5	39.1
Cable Modem	1.7	3.4	5.4	8.6	11.0	13.6	16.1	18.3	20.5	23.3
DSL	0.4	1.0	1.9	3.9	5.7	8.2	10.6	12.2	13.9	15.4
TV	0.8	3.0	6.0	9.0	13.0	17.0	20.0	22.0	24.0	25.0
Satellite	0.0	0.4	1.1	2.4	3.9	5.1	6.0	6.5	6.9	7.3
Other	0.0	0.1	2.0	6.0	10.0	15.0	22.0	30.0	40.0	50.0
Total	45.9	56.8	69.6	85.6	98.8	110.5	122.5	132.8	146.7	160.1
AOL Subscriber Market Share:										
Dial-Up	44.4%	53.7%	57.9%	59.2%	60.5%	62.1%	61.2%	58.7%	53.0%	46.8%
Cable Modem	0.0%	0.0%	16.5%	16.9%	43.2%	56.1%	65.9%	71.8%	73.4%	71.4%
DSL	0.0%	21.9%	41.3%	45.0%	46.9%	48.3%	50.3%	53.1%	55.1%	55.4%
TV	0.0%	0.0%	3.3%	11.1%	15.4%	20.0%	25.5%	32.3%	38.8%	46.0%
Satellite	0.0%	0.0%	38.9%	46.0%	48.6%	45.7%	46.0%	49.6%	49.5%	51.2%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	41.6%	46.7%	48.6%	47.1%	49.3%	50.9%	52.2%	52.4%	50.3%	48.2%

Source: Credit Lyonnais Securities estimates

Subscription Rates

We believe some downward pricing pressure on access/subscription rates to be inevitable, due to:

1. The ever-growing free access available on the Internet, with free ISPs gaining access first in Europe and now domestically.
2. Growing importance of the Internet in American life, which could introduce regulatory pricing constraints.

However, there are several factors working in favor of AOL's ability to maintain relatively high rates, including:

1. AOL's premium service costs far less than cable TV, local/long distance telephony, and wireless telephony.
2. AOL offers Internet solutions that competitors cannot meet.
3. AOL has been able to maintain its pricing while reducing churn over the past 18 months.

The unknown variable is the business model AOL chooses to take, which will affect timing and speed of pricing erosion. Particularly in light of the Time Warner acquisition, the company could follow either one of two strategies. It could employ Warner's immense content base on an exclusive basis, to support and increase the appeal of a subscription-based proprietary community. Conversely, it could make Time Warner content available to



other ISP content and on Web sites, in hopes of gaining licensing fees and greater traffic and thus advertising revenues on branded Web sites to offset foregone subscription revenues.

We view this decision as analogous to the situation in the TV broadcasting industry, where those with ownership of both TV studios and networks have sought synergies (notably the formation of the ABC Television Entertainment Group by Disney and a similar restructuring by Fox Entertainment). While we see merit in some of Disney's goals (shared costs, incubation for programs to reach syndication), we believe that open market bidding will maximize the fair value of content and best stimulate content creation.

Further, both Steve Case and Gerald Levin support open network access.

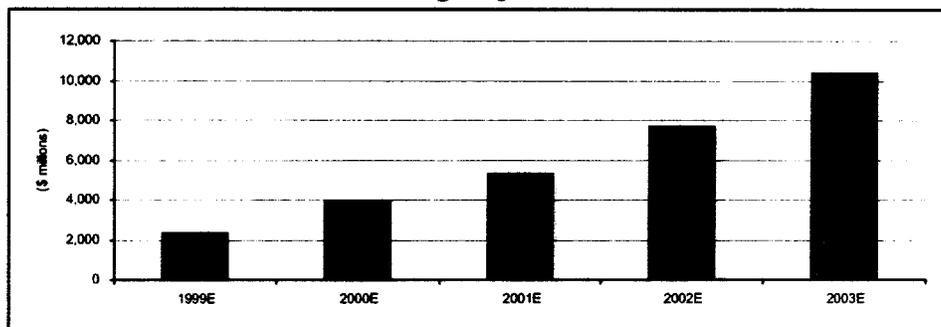
Our AOL projections call for a steady 3% annual decline in subscription rates, from AOL's stated rate above \$20 per month for the dial-up service to the \$17 range per month. We project a similar progression (though not as dramatic) for broadband service.

Advertising and E-Commerce Fees

Advertising

Most research projections call for a dynamic growth in online ad spending for the next 10 years. According to Internet research and consulting firm Forrester Research, online advertising in the U.S. represented a \$1.2 billion medium in 1998. Other sources, including the Internet Advertising Bureau, put the figure closer to \$2 billion and expect online advertising to surpass \$10 billion by 2003, as (1) Internet usage increases, (2) online advertising becomes more integrated with media selling strategies, and (3) designers evolve away from low-response banner ads.

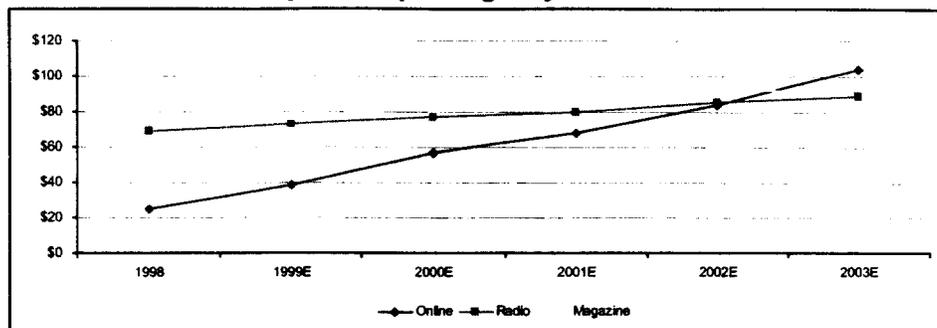
Exhibit 27: U.S. Internet Advertising Projections



Source: Forrester Research



Exhibit 28: U.S. Per Capita Ad Spending Projections



Source: Forrester Research

Using various projections for total Internet users and advertising spending, we can derive projected ad spending per active user estimates. In 1999, average Internet ad spending was about \$4.15 per month per active user. This total is expected to increase to \$6.15 per month and \$8 per month in 2001 and 2003, respectively.

We believe advertising represents the fastest-growing contributor to AOL revenues, growing from an estimated \$580 million in FY99 to a projected \$2.43 billion in FY02 and \$5.37 billion in FY05. Ad revenue should see growth from three sources: (1) growth in general traffic, both through greater subscriptions and a growing presence on the Web via its aol.com and ICQ portals, and more niche product launches; (2) the tremendous benefits from Time Warner's segmented content (e.g., film, TV, music, news, sports) which should garner premium ad rates; and (3) the development of interactive advertising (particularly through target advertisements).

We base our ad revenue projections on the basis of CPMs—in this case cost per thousand page views. Aggregate AOL traffic should exhibit leveraged growth from a consistent broadening of its subscriber base that should benefit from greater functionality and content, (creating stickiness, adding contextual elements to sites, etc.). Thus, even as we project declining subscriber growth (single-digit annual growth beginning in FY05), we project pages viewed on AOL sites to increase at mid-teens-plus rates through at least FY06.

How sustainable is CPM growth? The answer depends in large part on the pervasiveness of the medium itself, as well as the development of compelling interactive advertising with e-commerce capabilities. As a reference, note the consistently increasing value of network advertising in the face of fragmenting audiences, implying that greater fragmentation only increases the value of widely distributed media.

Exhibit 29: AOL Advertising Revenue Projections

	1998	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E
Advertising and E-Commerce Fees:										
Advertising:										
Average AOL Subscribers	16.7	22.8	30.2	37.1	44.5	52.5	60.1	66.8	71.7	75.5
x Average Monthly User Sessions per Average Subscriber	23.3	26.0	28.6	30.1	31.6	33.2	34.5	35.5	36.6	37.7
x Average Page Views per Session	13.5	14.2	14.7	15.3	15.8	16.3	16.8	17.3	17.8	18.3
x 12 = Total Page Views in AOL/CompuServe Subscription Areas	62,952.8	101,053.0	152,960.8	205,107.9	266,171.5	339,595.2	416,779.8	491,384.4	559,742.1	624,778.9
Non-Subscription Areas										
Aggregate Average Monthly Unique Visitors	25.0	34.0	39.1	45.0	48.6	51.5	54.6	57.3	60.2	63.2
x Average Monthly User Sessions per Unique Visitor	9.0	10.0	10.5	11.3	11.9	12.5	13.1	13.8	14.5	15.2
x Average Page Views per Session	7.0	8.0	8.6	9.1	9.5	10.0	10.5	11.0	11.6	12.2
x 12 = Total Page Views in Non-Subscriber Areas	18,900.0	32,640.0	42,565.8	55,510.1	66,095.9	77,242.9	90,270.0	104,498.8	120,970.4	140,038.3
Total AOL Page Views	81,852.8	133,693.0	195,526.6	260,618.0	332,267.4	416,838.2	507,049.8	595,883.2	680,712.4	764,817.2
% Change		63.3%	46.3%	33.3%	27.5%	25.5%	21.6%	17.5%	14.2%	12.4%
x Advertising Revenues Per 1,000 Page Views (+10% Yr)	\$10.65	\$11.99	\$13.18	\$14.24	\$15.38	\$16.61	\$17.44	\$18.31	\$19.23	\$20.19
Total Advertising Revenues	872.1	1,602.5	2,578.9	3,711.1	5,108.9	6,923.3	8,842.7	10,911.5	13,088.1	15,446.5
% Change		83.8%	60.9%	44.0%	37.7%	35.5%	27.7%	23.4%	19.9%	18.0%

Source: Credit Lyonnais Securities estimates



E-commerce

Driven by greater flexibility in making purchases and greater availability of information, acceptance of the Internet for commercial purposes has grown rapidly, and should continue to do so, as long as necessary fulfillment capabilities develop. Consumer use of the Internet in the purchase process is rising quickly. E-commerce grew from \$706 million in 1996 to \$7.8 billion in 1998. Forrester Research projects this figure to reach over \$108 billion by 2003.

Exhibit 30: Forrester Research E-Commerce Projections

Convenience								
Media								
Software	665	1,147	1,720	2,408	2,890	3,179	36.7%	25%
Books	630	1,166	1,749	2,274	2,729	3,002	36.7%	18%
Music	187	374	711	1,279	1,919	2,495	67.9%	20%
Videos	151	301	475	697	976	1,346	54.9%	12%
Total Media	1,633	2,988	4,655	6,658	8,514	10,022	43.7%	19%
Event tickets	115	238	476	952	1,714	2,572	86.2%	19%
Apparel								
General	275	878	1,994	3,881	6,899	11,699	111.7%	5%
Footwear	48	100	172	277	426	643	68.0%	1%
Accessories	207	362	677	819	1,003	1,188	41.3%	3%
Total Apparel	530	1,340	2,843	4,977	8,328	13,510	91.1%	4%
Gifts and Flowers								
Flowers	212	374	510	621	755	906	33.7%	10%
Greetings	36	68	109	161	229	320	54.8%	3%
Specialty Gifts	63	121	191	280	393	544	53.9%	6%
Total Gifts and Flowers	311	563	810	1,062	1,377	1,770	41.6%	6%
Recreation								
Toys	68	158	299	569	930	1,481	85.2%	5%
Sporting Goods	56	137	294	641	1,107	1,918	102.7%	5%
Tools and Garden	63	139	251	416	659	1,021	74.6%	3%
Total Recreation	187	434	844	1,626	2,696	4,420	88.2%	4%
Total Convenience	2,776	5,563	9,828	15,275	22,629	32,294	63.4%	6%
Researched								
Leisure Travel	3,073	7,798	13,950	20,732	26,042	29,447	57.1%	11%
Electronics								
Computer Hardware	1,090	2,404	4,147	6,453	10,088	14,965	68.9%	14%
Consumer Electronics	84	411	977	1,938	3,514	6,132	135.9%	10%
Total Electronics	1,174	2,815	5,124	8,391	13,602	21,097	78.2%	12%
Housewares								
Appliances	17	118	318	672	1,268	2,275	166.3%	6%
Household Goods	83	319	664	1,209	2,064	3,446	110.7%	9%
Total Housewares	100	437	982	1,881	3,332	5,721	124.6%	7%
Total Researched	4,347	11,050	20,056	31,004	42,976	56,265	66.9%	11%
Replenishment								
Food and Beverage	235	513	1,132	2,459	5,009	10,836	115.2%	2%
Health and Beauty	213	509	1,189	2,108	3,833	6,294	96.8%	5%
Miscellaneous	255	517	1,024	1,398	1,822	2,342	55.8%	7%
Total Replenishment	703	1,539	3,345	5,965	10,664	19,472	84.3%	3%
Total U.S. Online Retail	7,826	18,152	33,029	52,244	76,269	108,031	69.0%	6%

Source: Forrester Research

AOL has signed on over 300 retailers in the past few years and channeled over \$2.5 billion in e-commerce sales over the recent holiday shopping season—more than the next biggest sites over the same period combined. During AOL's fiscal 2Q00, 30% of the company's subscriber base made a purchase through AOL channels and/or links.

We believe e-commerce will be driven by (1) growing consumer comfort with this method, (2) the continued expansion of e-tailers affiliated with AOL, and (3) the movement toward



putting e-commerce situations in greater context and targeting, to be made possible by interactive technology and richer content. As an enabler of e-commerce sales and not an e-tailer itself, we believe AOL will be sheltered from the possible shakeout in e-commerce many expect as offline and online selling converges.

In our model, e-commerce revenues are a function of (1) AOL traffic, (2) range and attractiveness of the company's partners, and (3) growing willingness of AOL subscribers to purchase online with heightened security. We project affiliated commerce sites will generate a rapidly growing but decreasing proportion of AOL page views (from an estimated 27% in 1999 to 20% in 2005) and take-rates will increase 100 basis points per year. Holding AOL commissions and average dollar value per transaction relatively constant, we project e-commerce revenues to increase at a compound average rate of 54.2% over the 2000-2005 period (from an estimated \$228 million to \$3.1 billion).

Going through the same exercise as with Internet advertising per active Internet user, total e-commerce revenues per active user in 1999 were an estimated \$34.30 per month. We project this total to increase to \$36.90 per month and \$61 per month in 2001 and 2003, respectively. Clearly, greater familiarity, security and broadband availability will play a central role in the massive growth from 2001-2003.

Exhibit 31: AOL E-Commerce Revenue Projections

E-Commerce Fees:										
Commerce Site Page Views—% of Total Annual Page Views	0.7%	0.8%	0.8%	0.9%	0.9%	1.0%	1.0%	1.1%	1.1%	1.2%
Page Views on Commerce Sites	573.0	1,002.7	1,564.2	2,215.3	2,990.4	3,960.0	5,070.5	6,256.8	7,487.8	8,795.4
x Take Rate (%) Weighted by Quantity Purchased per Purchase	30.0%	31.0%	32.0%	33.0%	34.0%	35.0%	36.0%	37.0%	38.0%	39.0%
= Total E-Commerce Purchases	171.9	310.8	500.5	731.0	1,016.7	1,386.0	1,825.4	2,315.0	2,845.4	3,430.2
x Average Purchase/Download Price	\$26.50	\$27.56	\$28.66	\$29.81	\$31.00	\$32.24	\$33.53	\$34.87	\$36.27	\$37.72
= Total E-Commerce Purchases (\$ millions)	4,555.1	8,566.8	14,346.9	21,791.3	31,520.2	44,666.0	61,206.7	80,729.3	103,193.5	129,379.7
x AOL Commissions (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
= AOL E-Commerce Fees	227.8	428.3	717.3	1,088.6	1,576.0	2,234.3	3,060.3	4,036.5	5,159.7	6,469.0
% Change		88.1%	67.5%	51.9%	44.6%	41.8%	37.0%	31.9%	27.8%	25.4%

Source: Credit Lyonnais Securities estimates

Costs/Expenses

1. Cost of revenues: We are projecting gross margin expansion from a reported 47.1% in the twelve months ended December 31, 1999 to 48.1% this year, gaining 25-100 bps annually thereafter, driven by lower network transport costs and lower input prices.
2. Sales/Marketing: We expect to see opposing forces driving sales/marketing requirements for the next five years:
 - Growing competition from free ISPs, although we believe the poor economics of the free-ISP business model will eventually rationalize the market.
 - Establishing beachheads in gaining subscribers in new distribution channels.
 - The pervasiveness of the AOL and Time Warner brands, which, in isolation, would reduce marketing needs.
 - Cross-promotional opportunities through AOL and Time Warner assets (enumerated elsewhere in this report).

We project that AOL's marketing expenses as a percentage of revenues should decline steadily over the next five years. In all, we project marketing/sales expenses should compound at 16.9% annually over the next five years.



- Product Development: Part of the beauty of the AOL business model is that each incremental service can be launched at a lower startup cost. We project product development costs as a percentage of revenues to decrease from 5.0% in calendar 1999 to 2.0% by 2005.

America Online Projections

Exhibit 32: Internet Universe Projections

U.S. Households (millions; +1% per Yr)	102.2	103.2	104.2	105.3	106.3	107.4	108.5	109.5	110.6	111.7
PC Households (Forrester Research)	53.6	60.1	61.8	64.1	66.5	68.4	70.4	72.2	74.0	75.9
PC Penetration	52.5%	58.3%	59.3%	60.9%	62.5%	63.7%	64.9%	65.9%	66.9%	67.9%
U.S. Population (millions; +1% per Yr)	263.9	266.5	269.2	271.9	274.6	277.4	280.1	282.9	285.8	288.6
Year-End Internet Universe (CLS analysis and NetRatings Data, access % of Population)	115.0	133.3	150.8	168.6	184.0	191.4	198.9	203.7	208.6	213.6
% of Population	43.6%	50.0%	56.0%	62.0%	67.0%	69.0%	71.0%	72.0%	73.0%	74.0%
Dial-Up PC										
% Penetration of U.S. Households	42.1%	47.5%	51.0%	53.0%	52.0%	48.0%	44.0%	40.0%	37.5%	35.0%
Dial-Up Internet Homes Connected	43.0	49.0	53.2	55.8	55.3	51.5	47.7	43.8	41.5	39.1
Cable Modem PC										
% Cable Penetration of U.S. Households:	98.3%	98.5%	98.7%	98.9%	99.1%	99.2%	99.3%	99.4%	99.5%	99.6%
U.S. Cable Homes Passed	100.4	101.6	102.9	104.1	105.4	106.5	107.7	108.9	110.1	111.3
% Upgraded to PC Data	40.0%	60.0%	70.0%	75.0%	80.0%	85.0%	88.0%	91.0%	93.0%	95.0%
HSD-Ready U.S. Cable Homes Passed	40.2	61.0	72.0	78.1	84.3	90.5	94.8	99.1	102.4	105.7
% Penetration	4.2%	5.5%	7.5%	11.0%	13.0%	15.0%	17.0%	18.5%	20.0%	22.0%
Cable Modem PC Homes	1.7	3.4	5.4	8.6	11.0	13.6	16.1	18.3	20.5	23.3
DSL PC										
% DSL Buildout of U.S. Homes	48.5%	55.5%	61.5%	66.5%	71.5%	76.5%	81.5%	85.5%	89.5%	93.5%
U.S. DSL Homes Passed	49.8	57.3	64.1	70.0	76.0	82.1	88.4	93.7	99.0	104.5
% Penetration	0.8%	1.7%	3.0%	5.5%	7.5%	10.0%	12.0%	13.0%	14.0%	14.8%
DSL PC Homes	0.4	1.0	1.9	3.9	5.7	8.2	10.6	12.2	13.9	15.4
TV										
Internet-TV Households (CLS estimates and Next Century Media)	0.8	3.0	6.0	9.0	13.0	17.0	20.0	22.0	24.0	25.0
% of TV Households	1.0%	2.9%	5.8%	8.5%	12.2%	15.8%	18.4%	20.1%	21.7%	22.4%
Satellite-TV										
DBS Universe:		17.0	19.0	20.5	21.5	22.3	22.8	23.3	23.8	24.3
Ending AOL % Penetration of DirectTV Subscribers		2.2%	6.0%	11.5%	18.0%	23.0%	26.5%	28.0%	29.0%	30.0%
Satellite-based Internet Universe		0.36550	1.14000	2.35750	3.87000	5.11750	6.02875	6.51000	6.88750	7.27500
Other (Wireless Phone, Hand-Held Devices)		0.1	2.0	6.0	10.0	15.0	22.0	30.0	40.0	50.0
Total	45.9	56.8	69.6	85.6	98.8	110.5	122.5	132.8	146.7	160.1
Universe:										
Dial-Up	43.0	49.0	53.2	55.8	55.3	51.5	47.7	43.8	41.5	39.1
Cable Modem	1.7	3.4	5.4	8.6	11.0	13.6	16.1	18.3	20.5	23.3
DSL	0.4	1.0	1.9	3.9	5.7	8.2	10.6	12.2	13.9	15.4
TV	0.8	3.0	6.0	9.0	13.0	17.0	20.0	22.0	24.0	25.0
Satellite	0.0	0.4	1.1	2.4	3.9	5.1	6.0	6.5	6.9	7.3
Other	0.0	0.1	2.0	6.0	10.0	15.0	22.0	30.0	40.0	50.0
Total	45.9	56.8	69.6	85.6	98.8	110.5	122.5	132.8	146.7	160.1
Dial-Up	80.2%	81.5%	86.0%	87.1%	83.2%	75.4%	67.8%	60.7%	56.1%	51.5%
Cable Modem	3.2%	5.6%	8.7%	13.4%	16.5%	19.9%	22.9%	25.4%	27.7%	30.7%
DSL	0.7%	1.6%	3.1%	6.0%	8.6%	12.0%	15.1%	16.9%	18.7%	20.3%
% Online Penetration of PC Households	84.1%	88.7%	97.8%	106.5%	108.3%	107.2%	105.8%	103.0%	102.4%	102.5%
AOL Subscriber Market Share:										
Dial-Up	44.4%	53.7%	57.9%	59.2%	60.5%	62.1%	61.2%	58.7%	53.0%	46.8%
Cable Modem	0.0%	0.0%	16.5%	16.9%	43.2%	56.1%	65.9%	71.8%	73.4%	71.4%
DSL	0.0%	21.9%	41.3%	45.0%	46.9%	48.3%	50.3%	53.1%	55.1%	55.4%
TV	0.0%	0.0%	3.3%	11.1%	15.4%	20.0%	25.5%	32.3%	38.8%	46.0%
Satellite	0.0%	0.0%	38.9%	46.0%	48.6%	45.7%	46.0%	49.6%	49.5%	51.2%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	41.6%	46.7%	48.6%	47.1%	49.3%	50.9%	52.2%	52.4%	50.3%	48.2%
Year-End Active Internet Users	68.0	78.8	92.0	106.2	119.6	128.0	136.6	143.8	151.0	158.3
% of Internet Universe	57.4%	59.1%	61.0%	63.0%	65.0%	66.9%	68.7%	70.6%	72.4%	74.1%
Average Active Internet Users	58.0	72.4	85.4	99.1	112.9	123.8	132.3	140.2	147.4	154.7
Average Sessions per Month	16.5	18.0	21.0	23.0	25.0	26.5	28.0	29.0	30.0	31.0
Pages Views Per Session	21.5	24.7	28.4	32.7	36.6	40.3	44.3	48.7	52.6	57.9
Total Page Views (billions)	248.9	386.6	611.7	894.2	1,246.4	1,586.2	1,970.5	2,378.9	2,794.1	3,331.6
% Change		56.6%	58.2%	46.2%	38.7%	27.9%	24.2%	20.7%	17.5%	19.2%

Source: Credit Lyonnais Securities estimates



Exhibit 33: America Online Dial-Up Subscription Revenue Projections

	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E
AOL Portal (Dial-Up)										
Subscribers (millions):										
Beginning	13.000	17.395	23.090	26.781	28.700	28.968	27.595	25.035	21.937	18.639
Gross Additions	5.500	7.000	6.000	5.400	4.860	4.131	3.511	3.160	2.844	2.560
Churn:										
(% of Beginning Subscribers)	8.5%	7.5%	10.0%	13.0%	16.0%	19.0%	22.0%	25.0%	28.0%	31.0%
Subscribers	(1.105)	(1.305)	(2.309)	(3.482)	(4.592)	(5.504)	(6.071)	(6.259)	(6.142)	(5.778)
Net Additions	4.395	5.695	3.691	1.918	0.268	(1.373)	(2.560)	(3.099)	(3.298)	(3.218)
Ending	17.395	23.090	26.781	28.700	28.968	27.595	25.035	21.937	18.639	15.420
% Change		32.7%	16.0%	7.2%	0.9%	-4.7%	-9.3%	-12.4%	-15.0%	-17.3%
Average	15.198	20.243	24.936	27.741	28.834	28.281	26.315	23.486	20.288	17.030
Ending Penetration of Est. PC Household Universe	32.4%	38.4%	43.3%	44.8%	43.6%	40.3%	35.6%	30.4%	25.2%	20.3%
x Average Monthly Subscription Rate	\$19.95	\$20.00	\$19.40	\$18.82	\$18.25	\$17.71	\$17.17	\$16.66	\$16.16	\$15.67
% Change		0.3%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
Core Dial-Up AOL Subscription Revenues	3,837.6	4,858.2	5,805.1	6,264.3	6,315.8	6,008.9	5,423.5	4,695.2	3,934.1	3,203.2
% Change		33.6%	19.5%	7.9%	0.8%	-4.9%	-9.7%	-13.4%	-16.2%	-18.6%
CompuServe:										
Domestic Subscribers:										
Beginning	1.315	1.718	3.212	3.994	4.355	4.478	4.395	4.152	3.804	3.360
Gross Additions	0.600	1.700	1.200	1.000	0.950	0.903	0.812	0.731	0.621	0.528
Churn:										
(% of Beginning Subscribers)	15.0%	12.0%	13.0%	16.0%	19.0%	22.0%	24.0%	26.0%	28.0%	30.0%
Subscribers	(0.197)	(0.206)	(0.418)	(0.639)	(0.827)	(0.985)	(1.055)	(1.080)	(1.065)	(1.008)
Net Additions	0.403	1.494	0.782	0.361	0.123	(0.083)	(0.243)	(0.349)	(0.444)	(0.480)
Ending	1.718	3.212	3.994	4.355	4.478	4.395	4.152	3.804	3.360	2.880
Average	1.516	2.465	3.603	4.175	4.416	4.436	4.274	3.978	3.582	3.120
x Average Monthly Subscription Rate	\$12.99	\$12.08	\$11.72	\$11.37	\$11.03	\$11.03	\$11.03	\$11.03	\$11.03	\$11.03
% Change		-7.0%	-3.0%	-3.0%	-3.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Domestic Dial-Up CompuServe Subscription Revenues	236.4	357.3	506.6	569.4	584.3	587.0	565.5	526.3	473.9	412.8
% Change		51.2%	41.8%	12.4%	2.6%	0.5%	-3.7%	-6.9%	-10.0%	-12.9%

Source: Credit Lyonnais Securities estimates and company reports

Exhibit 34: America Online Cable Modem Subscription Revenue Projections

Broadband AOL PC										
AOL Plus via Cable Modem										
Universe: MSO Cable Modem Homes Passed (Begin 2001 with TW Cable)										
TW Cable		20.5	20.7	20.9	21.1	21.3	21.5	21.8	22.0	
Other Non-ATHM Affiliated Systems		5.0	7.0	20.0	20.2	20.4	20.6	20.8	21.0	
AT&T				33.0	33.3	33.7	34.0	34.3	34.7	
Total U.S. AOL MSO HH Footprint		25.5	27.7	73.9	74.7	75.4	76.2	76.9	77.7	
Percent Upgraded for HSD	60.0%	70.0%	75.0%	80.0%	85.0%	88.0%	91.0%	93.0%	95.0%	
Upgraded MSO Universe		17.9	20.8	59.1	63.5	66.3	69.3	71.5	73.8	
Subscribers										
Beginning		0.0	0.9	1.5	4.7	7.6	10.6	13.2	15.0	
Additions		0.9	0.6	3.3	2.9	3.0	2.6	1.9	1.6	
Ending		0.9	1.5	4.7	7.6	10.6	13.2	15.0	16.6	
Average		0.4	1.2	3.1	6.2	9.1	11.9	14.1	15.8	
% Penetration of Upgraded MSO Homes Passed		5.0%	7.0%	8.0%	12.0%	16.0%	19.0%	21.0%	22.5%	
Average Monthly Subscription Fee (-3% per Year)		\$40.00	\$38.80	\$37.64	\$36.51	\$35.41	\$34.35	\$33.32	\$32.32	
Total Subscription Annual Subscription Payments		214.2	546.4	1,396.6	2,704.0	3,873.4	4,901.5	5,635.1	6,132.7	
x 30% = AOL Plus Cable Modem Revenues		64.3	163.9	419.0	811.2	1,162.0	1,470.5	1,690.5	1,839.8	
% Change			155.1%	155.6%	93.6%	43.2%	26.5%	15.0%	8.8%	

Source: Credit Lyonnais Securities estimates and company reports



Exhibit 35: America Online DSL Subscription Revenue Projections

	1998	1999	2000	2001	2002	2003	2004	2005	2006	
AOL Plus via DSL										
RBOC DSL Deployment (millions of Homes Passed at FYE)										
Ameritech	5.0	7.0	9.0	9.2	9.4	9.6	9.7	9.9	10.1	
GTE	7.0	9.0	9.9	10.2	10.5	10.8	11.1	11.5	11.8	
Bell Atlantic	20.0	23.0	24.2	24.9	25.6	26.4	27.2	28.0	28.8	
SBC	10.7	14.0	14.7	15.1	15.6	16.1	16.5	17.0	17.6	
Total RBOC DSL Footprint	42.7	53.0	57.8	59.4	61.1	62.8	64.6	66.5	68.3	
% Change		24.1%	9.0%	2.8%	2.8%	2.8%	2.8%	2.8%	2.9%	
Subscribers:										
Beginning	0.0	0.2	0.8	1.7	2.7	4.0	5.3	6.5	7.6	
Additions	0.3	0.6	0.9	0.9	1.3	1.4	1.1	1.2	0.9	
Ending	0.214	0.795	1.733	2.673	3.970	5.340	6.461	7.642	8.543	
Average	0.1	0.5	1.3	2.2	3.3	4.7	5.9	7.1	8.1	
% Penetration of DSL Homes Passed	0.312	0.884	1.733	2.762	3.988	5.278	6.476	7.572	8.093	
	0.5%	1.5%	3.0%	4.5%	6.5%	8.5%	10.0%	11.5%	12.5%	
Average Monthly Subscription Fee	\$42.00	\$40.74	\$39.52	\$38.33	\$37.18	\$36.07	\$34.98	\$33.94	\$32.92	
Total Subscription Annual Subscription Payments	53.8	246.5	599.3	1,013.2	1,482.0	2,014.7	2,477.1	2,871.5	3,196.6	
x 30% = AOL Plus DSL Revenues	16.1	74.0	179.8	303.9	444.6	604.4	743.1	861.5	959.0	
% Change		358.2%	143.1%	69.1%	46.3%	35.9%	22.9%	15.9%	11.3%	

Source: Credit Lyonnais Securities estimates and company reports

Exhibit 36: America Online AOL TV Subscription Revenue Projections

	1998	1999	2000	2001	2002	2003	2004	2005	2006	
AOL TV:										
Internet-TV Households (CLS estimates and Next Century Media)										
% of TV Households	0.8%	3.0%	6.0%	9.0%	13.0%	17.0%	20.0%	22.0%	24.0%	25.0%
AOL TV:										
Subscribers:										
Beginning		0.0	0.2	1.0	2.0	3.4	5.1	7.1	9.3	
Additions		0.2	0.8	1.0	1.4	1.7	2.0	2.2	2.2	
Ending		0.2	1.0	2.0	3.4	5.1	7.1	9.3	11.5	
Average		0.1	0.6	1.5	2.7	4.3	6.1	8.2	10.4	
% of Total U.S. Internet-TV Households		3.3%	11.1%	15.4%	20.0%	25.5%	32.3%	38.8%	46.0%	
Average Monthly Subscription Fee		\$30.00	\$29.10	\$28.23	\$27.38	\$26.56	\$25.76	\$24.99	\$24.24	
Total Subscription Annual Subscription Payments		38.0	209.5	508.1	887.1	1,354.5	1,865.8	2,458.9	3,025.1	
x 30% = AOL TV Revenues		10.8	62.9	152.4	266.1	406.3	565.7	737.7	907.5	
% Change			482.0%	142.5%	74.6%	52.7%	39.2%	30.4%	23.0%	

Source: Credit Lyonnais Securities estimates and company reports

Exhibit 37: America Online Wireless/Handheld Device Subscription Revenue Projections

	1998	1999	2000	2001	2002	2003	2004	2005	2006	
AOL Wireless/Handheld										
Wireless/Handheld Internet Households (CLS estimates)										
% of Total Wireless/Handheld Households	0.0%	0.1%	3.1%	8.6%	13.2%	18.3%	24.9%	32.0%	40.4%	47.9%
AOL Wireless/Handheld										
Subscribers:										
Beginning		0.0	0.8	2.0	4.0	7.0	11.0	14.0	16.5	
Additions		0.8	1.2	2.0	3.0	4.0	3.0	2.5	2.0	
Ending		0.8	2.0	4.0	7.0	11.0	14.0	16.5	18.5	
Average		0.4	1.4	3.0	5.5	9.0	12.5	15.2	17.5	
% of Total U.S. Wireless/Handheld Units		37.5%	32.5%	39.5%	46.3%	49.8%	46.5%	41.1%	36.9%	
Average Monthly Subscription Fee		\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	
Total Subscription Annual Subscription Payments		27.0	97.2	212.4	392.4	644.4	896.4	1,094.4	1,256.4	
x 30% = AOL Wireless/Handheld Revenues		8.1	29.2	63.7	117.7	193.3	268.9	328.3	376.9	
% Change			260.0%	118.5%	84.7%	64.2%	39.1%	22.1%	14.8%	

Source: Credit Lyonnais Securities estimates and company reports



Exhibit 38: America Online Subscriber Base Summary Projections

Total Ending Subscribers	17.4	23.1	26.8	28.7	29.0	27.6	25.0	21.9	18.6	15.4
Dial-Up AOL	1.7	3.2	4.0	4.4	4.5	4.4	4.2	3.8	3.4	2.9
Dial-Up CompuServe			0.9	1.5	4.7	7.6	10.6	13.2	15.0	16.6
Cable AOL Plus		0.2	0.8	1.7	2.7	4.0	5.3	6.5	7.6	8.5
DSL AOL Plus			0.2	1.0	2.0	3.4	5.1	7.1	9.3	11.5
AOL Broadband TV			0.8	2.0	4.0	7.0	11.0	14.0	16.5	18.5
AOL Wireless Handheld			0.4	1.1	1.9	2.3	2.8	3.2	3.4	3.7
Direct PC										
Total Subscribers	19.1	26.5	33.9	40.3	48.7	56.3	64.0	69.6	73.8	77.1
% Change		38.7%	27.7%	19.0%	20.9%	15.6%	13.7%	8.9%	6.0%	4.5%
Composition:										
Dial-Up (AOL and CompuServe)	100.0%	99.2%	90.9%	82.1%	68.7%	56.9%	45.6%	37.0%	29.8%	23.7%
Cable Modem			2.6%	3.6%	9.7%	13.5%	16.6%	18.9%	20.3%	21.5%
DSL		0.8%	2.3%	4.3%	5.5%	7.1%	8.3%	9.3%	10.4%	11.1%
AOL TV			0.6%	2.5%	4.1%	6.0%	8.0%	10.2%	12.6%	14.9%
AOL Wireless Handheld			2.2%	4.8%	8.1%	12.4%	17.1%	20.0%	22.3%	23.9%
Direct PC			1.3%	2.7%	3.9%	4.2%	4.3%	4.6%	4.6%	4.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Credit Lyonnais Securities estimates and company reports

Exhibit 39: America Online Advertising Revenue Projections

Advertising and E-Commerce Fees:										
Advertising:										
Average AOL Subscribers	16.7	22.8	30.2	37.1	44.5	52.5	60.1	66.8	71.7	75.5
x Average Monthly User Sessions per Average Subscriber	23.3	26.0	28.6	30.1	31.6	33.2	34.5	35.5	36.6	37.7
x Average Page Views per Session	13.5	14.2	14.7	15.3	15.8	16.3	16.8	17.3	17.8	18.3
x 12 = Total Page Views in AOL/CompuServe Subscription Areas	62,952.8	101,053.0	152,960.8	205,107.9	266,171.5	339,595.2	416,779.8	491,384.4	559,742.1	624,778.9
Non-Subscription Areas										
Aggregate Average Monthly Unique Visitors	25.0	34.0	39.1	45.0	48.6	51.5	54.6	57.3	60.2	63.2
x Average Monthly User Sessions per Unique Visitor	9.0	10.0	10.5	11.3	11.9	12.5	13.1	13.8	14.5	15.2
x Average Page Views per Session	7.0	8.0	8.6	9.1	9.5	10.0	10.5	11.0	11.6	12.2
x 12 = Total Page Views in Non-Subscriber Areas	18,900.0	32,640.0	42,565.8	55,510.1	66,095.9	77,242.9	90,270.0	104,498.8	120,970.4	140,038.3
Total AOL Page Views	81,852.8	133,693.0	195,526.6	260,618.0	332,267.4	416,838.2	507,049.8	595,883.2	680,712.4	764,817.2
% Change		63.3%	46.3%	33.3%	27.5%	25.5%	21.6%	17.5%	14.2%	12.4%
x Advertising Revenues Per 1,000 Page Views (+10% Yr)	\$10.65	\$11.99	\$13.18	\$14.24	\$15.38	\$16.61	\$17.44	\$18.31	\$19.23	\$20.19
Total Advertising Revenues	872.1	1,602.5	2,578.0	3,711.1	5,109.9	6,923.3	8,842.7	10,911.5	13,088.1	15,440.5
% Change		83.8%	60.9%	44.0%	37.7%	35.5%	27.7%	23.4%	19.9%	18.0%

Source: Credit Lyonnais Securities estimates and company reports

Exhibit 40: America Online E-Commerce Fee Projections

E-Commerce Fees:										
Commerce Site Page Views—% of Total Annual Page Views	0.7%	0.8%	0.8%	0.9%	0.9%	1.0%	1.0%	1.1%	1.1%	1.2%
Page Views on Commerce Sites	573.0	1,002.7	1,564.2	2,215.3	2,990.4	3,960.0	5,070.5	6,256.8	7,487.8	8,795.4
x Take Rate (%) Weighted by Quantity Purchased per Purchase	30.0%	31.0%	32.0%	33.0%	34.0%	35.0%	36.0%	37.0%	38.0%	39.0%
= Total E-Commerce Purchases	171.9	310.8	500.5	731.0	1,016.7	1,386.0	1,825.4	2,315.0	2,845.4	3,430.2
x Average Purchase/Download Price	\$26.50	\$27.56	\$28.66	\$29.81	\$31.00	\$32.24	\$33.53	\$34.87	\$36.27	\$37.72
= Total E-Commerce Purchases (\$ millions)	4,555.1	8,566.6	14,346.9	21,791.3	31,520.2	44,686.0	61,206.7	80,729.3	103,193.5	129,379.7
x AOL Commissions (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
= AOL E-Commerce Fees	227.8	428.3	717.3	1,089.6	1,576.0	2,234.3	3,060.3	4,036.5	5,159.7	6,469.0
% Change		88.1%	67.5%	51.9%	44.6%	41.8%	37.0%	31.9%	27.8%	25.4%

Source: Credit Lyonnais Securities estimates and company reports



Exhibit 41: America Online Income Statement Projections

Revenues:										
Subscription										
Dial-Up AOL	3,637.6	4,858.2	5,805.1	6,264.3	6,315.8	6,008.9	5,423.5	4,695.2	3,934.1	3,203.2
Dial-Up CompuServe	236.4	357.3	506.6	569.4	584.3	587.0	565.5	526.3	473.9	412.8
Cable AOL Plus	0.0	0.0	64.3	163.9	419.0	811.2	1,162.0	1,470.5	1,690.5	1,839.8
DSL AOL Plus	0.0	16.1	74.0	179.8	303.9	444.6	604.4	743.1	861.5	959.0
Direct PC	0.0	0.0	10.0	33.4	62.8	86.6	101.9	116.0	124.4	129.7
AOL Wireless Handheld	0.0	0.0	8.1	29.2	63.7	117.7	193.3	268.9	328.3	376.9
AOL TV	0.0	0.0	10.8	62.9	152.4	266.1	406.3	565.7	737.7	907.5
Total Subscription Revenues	3,874.0	5,231.7	6,478.8	7,302.8	7,902.0	8,322.2	8,456.9	8,385.8	8,150.4	7,829.0
% Change		35.0%	23.8%	12.7%	8.2%	5.3%	1.6%	-0.8%	-2.8%	-3.9%
Advertising, E-Commerce Fees and Other Revenues										
Advertising	872.1	1,602.5	2,578.0	3,711.1	5,109.9	6,923.3	8,842.7	10,911.5	13,088.1	15,440.5
E-Commerce	227.8	428.3	717.3	1,089.6	1,576.0	2,234.3	3,060.3	4,036.5	5,159.7	6,469.0
Total Advertising and E-Commerce Fees	1,099.9	2,030.8	3,295.3	4,800.7	6,685.9	9,157.6	11,903.1	14,948.0	18,247.8	21,909.5
Merchandise	153.0	198.9	248.6	298.4	343.1	394.6	434.0	477.4	525.2	577.7
Other	115.2	149.7	187.1	224.5	258.2	297.0	326.7	359.3	395.3	434.8
Total Advertising, E-Commerce Fees and Other Revenues	1,368.0	2,378.4	3,731.1	5,323.6	7,287.2	9,849.1	12,663.7	15,784.8	19,168.2	22,921.9
Enterprise Solutions	476.0	514.1	555.2	599.6	647.6	699.4	755.4	815.8	881.0	951.5
Total Consolidated AOL Revenues	5,718.0	8,125.2	10,765.1	13,226.0	15,838.8	18,870.7	21,876.0	24,986.3	28,199.7	31,702.5
% Change		42.1%	32.5%	22.9%	19.7%	19.2%	15.9%	14.2%	12.9%	12.4%
Costs Structure (Excluding Broadband Revenues)										
Costs of Revenues	(3,025.0)	(4,217.2)	(5,469.2)	(6,591.5)	(7,748.8)	(9,092.9)	(10,406.8)	(11,776.3)	(13,177.6)	(14,704.9)
Gross Profit	2,693.0	3,908.0	5,275.1	6,538.2	7,872.8	9,425.1	10,961.0	12,528.2	14,160.0	15,963.0
% Margin	47.1%	48.1%	49.1%	49.8%	50.4%	50.9%	51.3%	51.5%	51.8%	52.0%
% Change		45.1%	35.0%	23.9%	20.4%	19.7%	16.3%	14.3%	13.0%	12.7%
Other Operating Costs:										
Sales and Marketing	(902.0)	(1,095.8)	(1,319.4)	(1,539.1)	(1,754.5)	(1,966.3)	(2,140.2)	(2,259.5)	(2,304.8)	(2,303.6)
Sales and Marketing per Average Subscriber	(\$53.97)	(\$48.03)	(\$43.71)	(\$41.52)	(\$39.45)	(\$37.47)	(\$35.60)	(\$33.82)	(\$32.13)	(\$30.52)
Product Development	(290.0)	(310.3)	(332.0)	(355.3)	(380.1)	(406.7)	(435.2)	(465.7)	(498.3)	(533.2)
General and Administrative	(498.0)	(597.6)	(687.2)	(756.0)	(816.4)	(881.8)	(952.3)	(1,028.5)	(1,090.2)	(1,155.6)
Amortization of Goodwill and Other Intangibles	(68.0)	(76.8)	(82.4)	(89.0)	(95.7)	(102.4)	(109.0)	(115.7)	(122.4)	(129.0)
Total Operating Costs	(4,763.0)	(6,297.7)	(7,890.2)	(9,330.9)	(10,795.5)	(12,450.1)	(14,043.5)	(15,645.7)	(17,193.2)	(18,826.4)
Operating Income	935.0	1,827.5	2,874.9	3,895.0	5,041.2	6,428.7	7,832.5	9,340.7	11,006.5	12,876.1
% Margin	16.4%	22.5%	26.7%	29.5%	31.8%	34.0%	35.8%	37.4%	39.0%	40.6%
% Change		95.5%	57.3%	35.5%	29.4%	27.4%	22.0%	19.3%	17.8%	17.0%
Depreciation	(248.0)	(329.1)	(445.7)	(531.5)	(607.2)	(675.6)	(738.8)	(798.5)	(856.1)	(912.5)
EBITDA	1,251.0	2,233.4	3,403.0	4,315.6	5,744.2	7,190.7	8,680.4	10,254.9	11,985.0	13,917.7
% Margin	21.9%	27.5%	31.6%	34.1%	36.3%	38.1%	39.7%	41.0%	42.5%	43.9%
% Change		78.5%	52.4%	32.7%	27.2%	25.3%	20.6%	18.1%	16.9%	16.1%
Net Interest Income	28.7	80.2	168.5	302.8	484.9	722.0	1,019.5	1,380.4	1,808.8	2,310.7
Write-Offs	(98.0)	(30.0)								
Merger, Restructuring and Other One-Time Costs	(98.0)									
Gateway Charge	(30.0)									
Settlement Charges										
Acquired In-Process R&D										
Minority Interest	0.0									
Equity in Affiliates	(4.0)									
Gain (Loss) on Investments	729.3									
Other Income	0.0									
Pretax Income	1,961.0	1,997.7	3,043.4	4,197.8	5,526.1	7,142.7	8,852.1	10,721.1	12,815.4	15,186.8
% Margin	27.3%	23.5%	28.3%	31.7%	34.9%	37.9%	40.5%	42.9%	45.4%	47.9%
% Change		22.2%	59.5%	37.9%	31.6%	29.3%	23.9%	21.1%	19.5%	18.5%
Provision for Income Taxes	(573.0)	(744.0)	(1,186.9)	(1,637.1)	(2,155.2)	(2,785.6)	(3,452.3)	(4,181.2)	(4,996.0)	(5,922.8)
Net Income	988.0	1,163.7	1,856.5	2,560.7	3,370.9	4,357.0	5,399.8	6,539.9	7,817.4	9,263.9
% Margin	17.3%	14.3%	17.2%	19.4%	21.3%	23.1%	24.7%	26.2%	27.7%	29.2%
% Change		17.8%	59.5%	37.9%	31.6%	29.3%	23.9%	21.1%	19.5%	18.5%
Per Share:										
Net Income	\$0.39	\$0.47	\$0.74	\$1.03	\$1.35	\$1.75	\$2.16	\$2.62	\$3.13	\$3.71
After-Tax Cash Flow	\$0.51	\$0.63	\$0.96	\$1.27	\$1.63	\$2.06	\$2.50	\$2.99	\$3.52	\$4.13
Free Cash Flow	(\$0.12)	\$0.52	\$0.89	\$1.26	\$1.66	\$2.14	\$2.63	\$3.15	\$3.71	\$4.33
EBITDA Less Interest and Dividends	\$0.38	\$0.76	\$1.22	\$1.68	\$2.21	\$2.86	\$3.55	\$4.30	\$5.13	\$6.08
Average Common Shares Outstanding (millions)	2,554.0	2,496.0	2,496.0	2,496.0	2,496.0	2,496.0	2,496.0	2,496.0	2,496.0	2,496.0

Source: Credit Lyonnais Securities estimates and company reports



Exhibit 42: America Online Margin Analysis

Gross Margin	47.1%	48.1%	49.0%	49.4%	49.7%	49.9%	50.1%	50.1%	50.2%	50.3%
Operating Costs as a % of Revenues										
Sales and Marketing	15.8%	15.5%	15.0%	14.5%	14.0%	13.5%	13.0%	12.5%	12.0%	11.5%
Product Development	5.1%	3.8%	3.1%	2.7%	2.4%	2.2%	2.0%	1.9%	1.8%	1.7%
General and Administrative	8.7%	7.4%	6.4%	5.7%	5.2%	4.7%	4.4%	4.1%	3.9%	3.6%
Total	83.6%	77.5%	73.3%	70.5%	68.2%	66.0%	64.2%	62.6%	61.0%	59.4%
EBITDA Margin	21.9%	27.5%	31.6%	34.1%	36.3%	38.1%	39.7%	41.0%	42.5%	43.9%
Operating Margin	16.4%	22.5%	26.7%	29.5%	31.8%	34.0%	35.8%	37.4%	39.0%	40.6%

Source: Credit Lyonnais Securities estimates and company reports

Exhibit 43: America Online Cash Flow Projections

Net Income (Loss) Applicable to Common	988.0	1,163.7	1,856.5	2,560.7	3,370.9	4,357.0	5,399.8	6,539.9	7,817.4	9,263.9
Depreciation and Amortization	316.0	405.9	528.1	620.5	702.9	778.0	847.9	914.2	978.4	1,041.5
After-Tax Cash Flow	1,304.0	1,569.6	2,384.5	3,181.2	4,073.9	5,135.0	6,247.6	7,454.1	8,795.8	10,305.5
Acquired In-Process R&D										
Non-Cash Restructuring Charges	9.0									
Amortization of Deferred Services Credit	(76.0)									
Non-Cash Compensation	18.0									
Deferred Income Taxes	596.0									
Gain on Sale of Investments	(686.0)									
Change in Net Working Capital (\$21/avg subscriber)	393.0	479.1	633.9	778.4	934.0	1,101.9	1,262.4	1,403.0	1,506.4	1,584.9
Capital Spending	(495.0)	(700.0)	(735.0)	(771.8)	(810.3)	(850.9)	(893.4)	(938.1)	(985.0)	(1,034.2)
Capitalized Product Development Costs	(66.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Sale of Investments	763.0									
Purchase of Investments	(2,470.0)									
Maturity of Investments	36.0									
Cash Used in Acquisitions	(5.0)									
Other	(69.0)									
Issuance of Equity	432.0									
Proceeds from Sale and Leaseback of PP&E	8.0									
Free Cash Flow	(308.0)	1,298.7	2,233.4	3,137.9	4,147.8	5,336.0	6,586.7	7,969.0	9,267.3	10,806.2
Net Debt:										
Beginning		954.0	2,252.7	4,486.1	7,624.0	11,771.6	17,107.6	23,674.3	31,543.3	40,810.5
Ending	954.0	2,252.7	4,486.1	7,624.0	11,771.6	17,107.6	23,674.3	31,543.3	40,810.5	51,616.7
Average		1,603.3	3,369.4	6,055.1	9,697.8	14,439.6	20,390.9	27,808.8	36,176.9	46,213.6

Source: Credit Lyonnais Securities estimates and company reports



Exhibit 44: America Online DCF Valuation

Free Cash Flow	(308)	1,299	2,233	3,138	4,148	5,336	6,567	7,869	9,267	10,806
Add: After-Tax Interest (0 if Net Cash)										
Free Cash Flow to Firm (FCFF)	(308)	1,299	2,233	3,138	4,148	5,336	6,567	7,869	9,267	10,806
% Change		-521.7%	72.0%	40.5%	32.2%	28.7%	23.1%	19.8%	17.8%	16.6%
Assumptions:										
Long-Term Terminal Growth Rate		10.0%								
Proxy Market Return		12.0%								
Historical Beta		1.78								
Assumed Forward Beta		1.17								
Cost of Capital		14.10%								
Terminal		24.4x								
Years to Discount	0	1	2	3	4	5	6	7	8	9
		0	1	2	3	4	5	6	7	8
			0	1	2	3	4	5	6	7
				0	1	2	3	4	5	6
					0	1	2	3	4	5
						0	1	2	3	4
							0	1	2	3
								0	1	2
									0	1
										0
Present Value of FCFF	(308)	1,149	1,749	2,175	2,544	2,896	3,154	3,345	3,496	3,597
		1,299	1,977	2,457	2,874	3,273	3,564	3,780	3,939	4,065
			2,233	2,777	3,248	3,698	4,027	4,271	4,451	4,583
				3,138	3,670	4,179	4,551	4,826	5,030	5,190
					4,148	4,722	5,143	5,454	5,684	5,865
						5,336	5,811	6,163	6,423	6,628
							6,567	6,964	7,258	7,489
								7,869	8,201	8,463
									9,267	9,563
										10,806
Sum of Present Value of FCFF Stream	23,787	27,228	29,300	30,585	31,015	30,360	28,277	24,533	18,830	10,806
Present Value of Terminal Value	95,689	108,129	122,186	138,070	156,019	176,301	199,220	225,119	254,385	287,454
Option Cash	382	382	382	382	382	382	382	382	382	382
Investments										
\$1.5 Billion in DirecTV Preferred (6.4%, convert within 3 yrs 6/03)	1,500	1,500	1,500	1,500	1,725	1,984	2,281	2,624	3,017	3,470
25% China.com @ Mkt Value +20% Yr		860	1,032	1,238	1,486	1,783	2,140	2,568	3,082	3,698
Other Investments @ Mkt +20% Yr		6,300	7,560	9,072	10,886	13,064	15,676	18,812	22,574	27,089
Gateway Investment		620	744	893	1,071	1,286	1,543	1,851	2,222	2,666
80% of AOL Canada	4,431	5,112	5,842	6,689	7,678	8,794	10,025	11,394	12,915	14,608
50% of AOL Europe	11,955	13,632	15,587	17,861	20,467	23,432	26,783	30,557	34,791	39,536
50% of AOL Hong Kong	371	431	497	577	672	787	914	1,061	1,228	1,417
50% of AOL Japan	2,771	3,190	3,680	4,273	4,955	5,750	6,642	7,647	8,763	10,012
50% of AOL Australia	886	1,016	1,169	1,347	1,568	1,817	2,099	2,415	2,772	3,174
50% of AOL Latin America	5,545	6,385	7,336	8,440	9,787	11,353	13,144	15,181	17,474	20,044
NOL		8,200	7,896	7,476	6,923	6,209	5,324	4,252	2,970	1,451
Gross Company Value	147,319	182,984	204,710	228,402	254,635	283,301	314,451	348,394	385,404	425,807
Ending Net Cash (Debt)	954	2,253	4,486	7,624	11,772	17,108	23,674	31,543	40,811	51,617
Net Present Value	148,273	185,237	209,196	238,027	266,407	300,409	338,126	379,938	426,214	477,424
Diluted Shares	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496
NPV per Share	\$59.40	\$74.21	\$83.81	\$94.56	\$106.73	\$120.36	\$135.47	\$152.22	\$170.76	\$191.28
% Change		24.9%	12.9%	12.8%	12.9%	12.8%	12.6%	12.4%	12.2%	12.0%

Source: Credit Lyonnais Securities estimates and company reports

**Exhibit 45: America Online Enterprise Value Calculations**

Diluted Shares	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496
Market Price	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63
Market Capitalization	148,824	148,824	148,824	148,824	148,824	148,824	148,824	148,824	148,824	148,824
Ending Net Debt	(954)	(2,253)	(4,486)	(7,624)	(11,772)	(17,108)	(23,674)	(31,543)	(40,811)	(51,617)
Less:										
\$1.5 Billion in DirecTV Preferred	(1,500)	(1,500)	(1,500)	(1,500)	(1,725)	(1,984)	(2,281)	(2,624)	(3,017)	(3,470)
Other Investments		(6,300)	(7,560)	(9,072)	(10,886)	(13,064)	(15,676)	(18,812)	(22,574)	(27,089)
Net Present Value of International Joint Ventures										
AOL Canada	(4,431)	(5,112)	(5,842)	(6,689)	(7,678)	(8,794)	(10,025)	(11,394)	(12,915)	(14,608)
AOL Europe	(11,955)	(13,632)	(15,587)	(17,861)	(20,467)	(23,432)	(26,783)	(30,557)	(34,791)	(39,536)
AOL Hong Kong	(371)	(431)	(497)	(577)	(672)	(787)	(914)	(1,061)	(1,228)	(1,417)
AOL Japan	(2,771)	(3,190)	(3,680)	(4,273)	(4,955)	(5,750)	(6,642)	(7,647)	(8,763)	(10,012)
AOL Australia	(886)	(1,016)	(1,169)	(1,347)	(1,568)	(1,817)	(2,099)	(2,415)	(2,772)	(3,174)
AOL Latin America	(5,545)	(6,385)	(7,336)	(8,440)	(9,787)	(11,353)	(13,144)	(15,181)	(17,474)	(20,044)
Less: Option Cash	(382)	(382)	(382)	(382)	(382)	(382)	(382)	(382)	(382)	(382)
Enterprise Value	120,028	108,624	100,785	91,059	78,932	64,354	47,203	27,209	4,098	(22,524)
Subscribers	19	27	34	40	49	56	64	70	74	77
EBITDA	935	1,828	2,875	3,895	5,041	6,421	7,833	9,341	11,007	12,876
Revenues	5,718	8,125	10,765	13,226	15,837	18,871	21,876	24,986	28,200	31,702
EV/Subscriber	\$6,280	\$4,097	\$2,977	\$2,261	\$1,622	\$1,144	\$738	\$391	\$56	(\$292)
EV/EBITDA	128.4x	59.4x	35.1x	23.4x	15.7x	10.0x	6.0x	2.9x	0.4x	(1.7x)
EV/Revenues	21.0x	13.4x	9.4x	6.9x	5.0x	3.4x	2.2x	1.1x	0.1x	(0.7x)

Source: Credit Lyonnais Securities estimates and company reports



Consolidated Financial Projections

Exhibits 46–50 display our projections for AOL Time Warner's income statement, cash flow statement, fair trading value, and enterprise value calculations.

Exhibit 46: Pro Forma AOL Time Warner Revenue and EBITDA Projections

Revenues:							
Cable Networks							
TBS News Networks	1,268	1,464	1,648	1,827	2,029	2,258	2,504
TBS Entertainment Networks & Sports	2,674	3,153	3,579	4,000	4,426	4,869	5,353
Total TBS	3,942	4,617	5,227	5,827	6,455	7,126	7,857
HBO	2,169	2,372	2,713	3,093	3,410	3,763	4,154
Total Cable Networks	6,111	6,989	7,940	8,920	9,866	10,889	12,010
Publishing:							
Magazines	3,422	3,690	4,117	4,655	5,026	5,433	5,878
Books	1,241	1,315	1,455	1,622	1,785	1,936	2,100
Total Publishing	4,663	5,005	5,572	6,277	6,811	7,369	7,978
Warner EMI Music	3,834	8,554	9,147	9,872	10,559	11,297	11,987
Filmed Entertainment							
Warner Brothers	6,628	7,061	7,510	8,467	8,948	9,532	10,252
TBS Film & Production	1,447	1,656	1,941	2,066	2,205	2,360	2,535
Total Filmed Entertainment	8,075	8,717	9,451	10,533	11,152	11,892	12,787
WB Network	384	471	581	705	822	947	1,077
Cable TV Systems							
TWX	828	920	1,044	1,197	1,319	1,436	1,559
TWE	4,652	5,208	6,005	6,702	7,337	7,956	8,588
Total Cable TV Systems	5,480	6,128	7,048	7,900	8,656	9,392	10,147
Digital Media							
AOL	1	48	94	217	393	558	779
Intersegment Eliminations (@ Gross Revenue Growth)	(1,109)	(1,493)	(1,655)	(1,841)	(1,993)	(2,156)	(2,331)
TWE/TWX Company Eliminations (@ 10%)							
Total Revenues	27,438	40,089	46,210	53,132	59,100	65,466	72,526
EBITDA:							
Cable Networks							
TBS News Networks	380	465	545	621	710	813	922
TBS Entertainment Networks & Sports	781	872	1,042	1,221	1,382	1,522	1,674
Total TBS	1,161	1,336	1,587	1,842	2,091	2,335	2,596
HBO	556	652	871	1,120	1,299	1,504	1,743
Total Cable Networks	1,717	1,988	2,458	2,962	3,390	3,839	4,339
Publishing:							
Magazines	624	741	1,010	1,319	1,543	1,795	2,079
Books	136	145	284	416	507	581	664
Total Publishing	760	885	1,294	1,735	2,050	2,376	2,742
Warner EMI Music	526	1,247	1,632	1,948	2,178	2,408	2,559
Filmed Entertainment							
Warner Brothers	731	816	1,058	1,289	1,255	1,345	1,469
TBS Film & Production	216	147	174	188	205	223	244
Total Filmed Entertainment	947	963	1,232	1,477	1,460	1,568	1,713
WB Network	(91)	(79)	(44)	31	99	170	243
Cable TV Systems							
TWX	363	419	492	582	653	725	803
TWE	2,137	2,423	2,861	3,264	3,639	3,965	4,323
Total Cable TV Systems	2,500	2,843	3,353	3,846	4,292	4,691	5,126
Digital Media							
AOL	(16)	(22)	(35)	(23)	25	87	177
		2,233	3,403	4,516	5,744	7,199	8,680
Total Gross EBITDA	6,343	10,059	13,293	16,493	19,237	22,338	25,579
Intersegment Eliminations (@ Gross EBITDA Growth)	(10)	(150)	(198)	(246)	(287)	(333)	(381)
Corporate Overhead (+6% per Year)	(163)	(174)	(75)	(80)	(85)	(90)	(95)
Total Reported EBITDA	6,170	9,735	13,020	16,167	18,865	21,915	25,103

Source: Company reports and Credit Lyonnais Securities estimates

**Exhibit 47: Pro Forma AOL Time Warner Income Statement Projections**

Total Revenues	27,438	40,089	46,210	53,132	59,100	65,466	72,526
Total EBITDA (Gross, Pre-Eliminations)	6,343	12,292	16,696	21,009	24,981	29,537	34,260
Depreciation:							
Cable Networks	132	142	152	163	173	184	196
Publishing	81	87	92	97	102	107	112
Warner EMI Music	74	234	241	249	257	265	274
Filmed Entertainment	156	153	164	175	185	196	207
WB Network	1	1	1	1	2	2	2
Cable TV Systems	809	894	978	1,037	1,087	1,134	1,180
Digital Media		1	2	2	2	3	3
AOL		329	446	532	607	676	739
Total Depreciation	1,253	1,842	2,076	2,255	2,415	2,567	2,713
EBITA:							
Cable Networks	1,585	1,847	2,306	2,800	3,216	3,655	4,144
Publishing	679	798	1,202	1,639	1,948	2,269	2,630
Music	452	1,013	1,391	1,699	1,921	2,143	2,284
Filmed Entertainment	791	810	1,068	1,302	1,274	1,372	1,506
WB Network	(92)	(80)	(46)	30	97	169	241
Cable TV Systems	1,691	1,949	2,375	2,809	3,205	3,557	3,945
Digital Media		(23)	(37)	(25)	23	85	174
AOL		1,904	2,957	3,984	5,137	6,523	7,942
Gross EBITA	5,106	8,217	11,217	14,238	16,822	19,772	22,866
Intersegment Eliminations (@ Gross EBITDA Growth)	(103)	(114)	(125)	(138)	(153)	(169)	(187)
Corporate Overhead (+6% per Year)	(163)	(174)	(185)	(197)	(209)	(223)	(237)
Total EBITA	4,840	7,929	10,907	13,903	16,460	19,380	22,443
EMI Goodwill							
Time Warner Goodwill Amortization		(7,102)	(7,102)	(7,102)	(7,102)	(7,102)	(7,102)
Amortization of Intangibles	(1,298)	(1,298)	(1,298)	(1,298)	(1,298)	(1,298)	(1,298)
Operating Income	3,542	1,763	5,910	10,019	13,804	18,179	22,723
EMI Restructuring Costs (\$700 mm over three years)							
Interest, Net (8.25% Avg. Debt)	(1,519)	(1,485)	(1,039)	(317)	666	1,917	3,466
Equity in TBS Affiliates	(47)	10.0	10.0	10.0	10.0	10.0	10
Equity in AOL Affiliates							
Equity in Time Warner Telecom/Road Runner/CDNow	(241)	(201)	(167)	(139)	(116)	(97)	(81)
Equity in TWE Associates	(262)	(238)	(217)	(197)	(179)	(163)	(148)
Total Interest and Other	(2,069)	(2,147)	(1,646)	(876)	381	1,668	3,247
50% Minority in Warner EMI		(547)	(735)	(889)	(999)	(1,108)	(1,178)
Minority Interest	(418)	(452)	(710)	(1,024)	(1,212)	(1,437)	(1,696)
Pretax Income	1,055	(1,382)	2,819	7,231	11,975	17,301	23,096
Taxes [(Pretax + \$500mm + TWX Amortization) x 41%]	(464)	(2,550)	(4,273)	(6,081)	(8,026)	(10,210)	(12,586)
Debt Retirement Costs							
Net Income (loss) before Preferred Dividends	591	(3,932)	(1,454)	1,149	3,948	7,091	10,510
Preferred Dividends							
Summit/KBLCOM/CVI Preferred	(52)	(10)	(10)	(10)	(10)	(10)	(10)
Net Income (Loss) Applicable to Common Shares	539	(3,942)	(1,464)	1,139	3,938	7,081	10,490
Per Share:							
Net Income	\$0.39	(\$0.82)	(\$0.30)	\$0.24	\$0.82	\$1.48	\$2.19
After-Tax Cash Flow	\$2.21	\$1.31	\$1.88	\$2.46	\$3.07	\$3.76	\$4.50
Free Cash Flow	(\$0.08)	\$0.77	\$1.48	\$2.17	\$2.80	\$3.52	\$4.30
EBITDA Less Interest and Dividends	\$3.41	\$1.78	\$2.55	\$3.37	\$4.14	\$5.05	\$6.05
Average Common Shares Outstanding (millions)	1,398	4,800	4,800	4,800	4,800	4,800	4,800

Source: Company reports and Credit Lyonnais Securities estimates

**Exhibit 48: Pro Forma AOL Time Warner Cash Flow Projections**

	1999	2000	2001	2002	2003	2004	2005
Net Income (Loss) Applicable to Common	539	(3,942)	(1,464)	1,139	3,938	7,081	10,490
Depreciation & Amortization	1,253	1,842	2,076	2,255	2,415	2,567	2,713
Amortization of Acquisition Intangibles	1,298	8,400	8,400	8,400	8,400	8,400	8,400
After-Tax Cash Flow	3,089	6,299	9,012	11,794	14,753	18,047	21,603
Non-Cash EMI Restructuring (Assume 40% Cash)		140	140	140			
Equity in Associates, net of distributions	0	0	0	0	0	0	0
Equity in TBS Affiliates	47	(10)	(10)	(10)	(10)	(10)	(10)
Equity in AOL Affiliates							
Equity in TWE Associates	262	238	217	197	179	163	148
Equity in Time Warner Telecom/Road Runner/CDNow	241	201	167	139	116	97	81
Minority Interest	418	452	710	1,024	1,212	1,437	1,696
Non-Cash Interest	4						
Distributions from TWE, Net of Equity in TWE	0	0	0	0	0	0	0
Cash/Tax Differential	(200)	(200)	(200)	(200)	(200)	(200)	(200)
Distribution to Advanca/Newhouse			(300)	(345)	(397)	(456)	(525)
Common Dividends	(174)	(192)	(211)	(232)	(255)	(281)	(309)
Working Capital	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Change in AOL Net Working Capital		479	634	778	934	1,102	1,262
Capitalized AOL Product Development		(50)	(50)	(50)	(50)	(50)	(50)
Management Options Exercised	550						
Repurchase of Shares (\$42/shr)	(1,600)						
Capital Expenditures:							
Publishing	(60)	(63)	(66)	(69)	(73)	(77)	(80)
Warner EMI Music	(97)	(197)	(209)	(221)	(235)	(249)	(264)
Cable TV Systems	(1,625)	(1,948)	(1,225)	(955)	(886)	(869)	(854)
TBS	(120)	(124)	(127)	(131)	(135)	(139)	(143)
HBO - Programming	(20)	(20)	(20)	(20)	(20)	(20)	(20)
WB Network	(1)	(1)	(2)	(2)	(2)	(3)	(4)
Filmed Entertainment & Six Flags	(183)	(153)	(153)	(153)	(153)	(153)	(153)
AOL		(700)	(735)	(772)	(810)	(851)	(893)
Corporate	(15)	(16)	(17)	(17)	(18)	(19)	(20)
Total Capital Expenditures	(2,121)	(3,221)	(2,554)	(2,341)	(2,333)	(2,379)	(2,431)
Net Film Outflow (+10% yr)	(292)	(322)	(354)	(389)	(428)	(471)	(518)
Other Working Capital	200						
Acquisitions	(223)						
Other (Financing, etc.)	(217)						
Free Cash Flow	(116)	3,714	7,102	10,405	13,422	16,898	20,848
Net Debt (Including Borrowings against Future Options)							
Beginning AOL Net Cash		954					
EMI Net Debt Contribution		(1,500)					
EMI Shareholder Payment		(1,300)					
Beginning Net Debt (incl. EMI \$1.3 bn payments 1/2000)	(17,894)	(19,856)	(16,142)	(9,040)	1,366	14,788	31,686
Ending Net Debt	(18,010)	(16,142)	(9,040)	1,366	14,788	31,686	52,334
Average Debt	(17,952)	(17,999)	(12,591)	(3,837)	8,077	23,237	42,010

Source: Company reports and Credit Lyonnais Securities estimates

**Exhibit 49: Estimated Pro Forma AOL Time Warner Fair Trading Value**

	2000	2001	2002	2003	2004	2005	2006
Magazine Publishing (15.5x EBITDA)	9,665	11,478	15,648	20,440	23,911	27,821	32,220
Book Publishing (9.5x EBITDA)	1,296	1,374	2,699	3,956	4,816	5,521	6,306
TWX Cable TV Systems (14.0x EBITDA)	5,053	5,332	6,080	7,083	7,818	8,585	9,501
High Speed Data (12x Yr 2005 EBITDA, disc't'd @ 17.5%)	329	386	454	533	627	750	848
Digital TV(12x Yr 2003 EBITDA, disc't'd @ 17.5%)	267	314	369	434	510	595	648
Recorded Music (11x EBITDA)	5,786	6,857	8,977	10,716	11,978	13,244	14,073
TBS Assets:							
Entertainment Networks							
Core TNT/TBS and Other (@ 16.5x EBITDA)	10,016	10,146	10,920	12,029	12,874	13,549	14,212
Startup Networks (@ 16.5x 2003 EBITDA, discounted @ 12%)	6,793	7,608	8,521	9,544	10,689	11,972	13,409
New Line/Castle Rock (12x EBITDA)	2,592	1,770	2,089	2,260	2,455	2,675	2,926
Total Entertainment	19,401	19,524	21,530	23,833	26,018	28,196	30,547
News:							
Domestic Networks (16x EBITDA)	5,141	5,266	5,403	5,679	5,955	6,230	6,502
CNNi (16x Est. 2005 EBITDA disc't'd @ 13%)	2,726	3,080	3,480	3,933	4,444	5,022	5,675
CNNfn (15x est. 2005 EBITDA, disc't'd @ 13%)	353	399	451	509	575	650	735
CNNsi (15x est. 2005 EBITDA, disc't'd @ 13%)	561	634	716	809	914	1,033	1,167
Total News	8,781	9,378	10,050	10,930	11,889	12,935	14,079
Gross TBS Value	28,181	28,902	31,580	34,763	37,906	41,130	44,626
Time Warner Digital (DCF)	1,534	1,764	2,028	2,333	2,683	3,085	3,548
Sports Teams	540	583	630	680	735	793	857
World Championship Wrestling (@ 12x est. EBITDA \$27 mm)	324	356	392	431	474	522	574
Real Estate, Other	378	408	441	476	514	555	600
n-tv (+20% yr)	138	166	199	239	287	344	413
America Online (See Exhibit 8)		182,984	204,710	228,402	254,635	283,301	314,451
Equity Investments:							
Time Warner Telecom (51% @ FTV)	1,468	1,533	1,792	2,051	2,365	2,708	3,100
CDNow (37% at FTV)	535	630	739	871	1,021	1,194	1,395
Court TV (+15% yr. - 50%)	300	345	397	456	525	603	694
TWE Japan (37.3%) +20% yr.	415	498	597	717	860	1,032	1,238
Road Runner (38%)	1,318	1,467	1,685	1,957	2,293	2,707	3,183
Total Investments	4,036	4,473	5,210	6,051	7,064	8,244	9,610
80% TWE (See Exhibit 7)	37,561	44,362	55,224	65,944	76,330	87,540	100,178
Gross Value	95,089	289,739	334,640	382,481	430,288	482,032	538,452
Less: Ending Debt	(18,010)	(16,142)	(9,040)	1,366	14,788	31,686	52,334
Add: 20% of TWE Net Debt (Cash)	1,216	1,026	522	(238)	(1,129)	(2,166)	(3,368)
Add: 50% Warner EMI Net Debt		1,375	880	186	(725)	(1,808)	(3,036)
Net Estimated Fair Trading Value	78,295	275,999	327,002	383,775	443,221	509,744	584,380
Average Common Shares Outstanding (millions)	1,398	4,800	4,800	4,800	4,800	4,800	4,800
Fair Trading Value per Share	\$55.99	\$57.50	\$68.13	\$79.95	\$92.34	\$106.20	\$121.75

Source: Credit Lyonnais Securities estimates and company reports



Exhibit 50: AOL Time Warner Enterprise Value Calculations

Shares Outstanding (Diluted)	1,398	4,800	4,800	4,800	4,800	4,800	4,800
Market Price	\$84.00	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63	\$59.63
Market Capitalization	117,457	286,200	286,200	286,200	286,200	286,200	286,200
Plus:							
Ending Net Debt	18,010	16,142	9,040	(1,366)	(14,788)	(31,686)	(52,334)
80% Newhouse Cable Minority	4,823	5,485	6,472	7,403	8,292	9,143	10,053
Less Attributable Year-end Net Debt of Minority Interests:							
TWE	(1,216)	(1,026)	(522)	238	1,129	2,166	3,368
EMI		(1,375)	(880)	(166)	725	1,808	3,036
Less Non-Cash Flow Assets:							
TWX	(4,036)	(4,473)	(5,210)	(6,051)	(7,064)	(8,244)	(9,610)
AOL		(47,246)	(52,843)	(59,366)	(67,220)	(76,258)	(86,572)
80% TWE	(3,723)	(4,429)	(5,128)	(5,797)	(6,482)	(7,161)	(7,903)
Adjusted Enterprise Value	131,315	249,277	237,129	221,096	200,794	175,968	146,240
Reported EBITDA	6,170	9,735	13,020	16,167	18,865	21,915	25,103
Less: 20% TWE Minority	(651)	(747)	(932)	(1,123)	(1,239)	(1,377)	(1,534)
Total Attributable AOL Time Warner EBITDA	5,519	8,988	12,087	15,044	17,626	20,539	23,569
Enterprise Value/EBITDA	23.8x	27.7x	19.6x	14.7x	11.4x	8.6x	6.2x

Source: Company reports and Credit Lyonnais Securities estimates



Appendix: AOL International = \$35 Bn in 2001 Attributable NPV

While the U.S. currently represents by far the largest market for Internet services in absolute terms, global proliferation of technology and economic development is projected to somewhat equalize worldwide Internet usage patterns (see Exhibits 51–52 below). As seen in Exhibit 52, North America is projected by the Computer Industry Almanac to represent only 30% of the worldwide online population in 2005, down from a projected 43% this year.

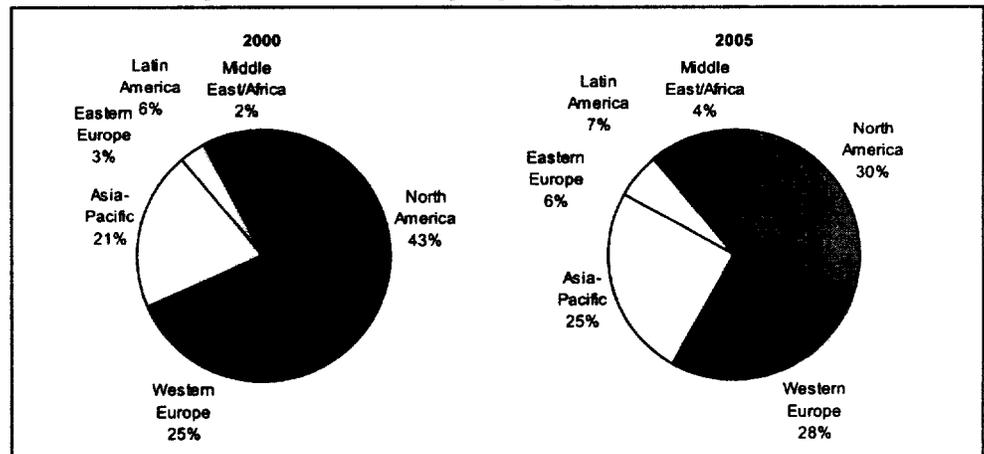
Exhibit 51: Internet Usage in the Top 15 Countries

U.S.	110.8	273	40.6%
Japan	18.2	126	14.4%
U.K.	13.9	59	23.6%
Canada	13.3	31	42.9%
Germany	12.3	82	15.0%
Australia	6.8	19	35.8%
Brazil	6.8	172	4.0%
China	6.3	1247	0.5%
France	5.7	59	9.7%
South Korea	5.7	47	12.1%
Taiwan	4.8	22	21.8%
Italy	4.7	57	8.2%
Sweden	3.9	9	43.3%
Netherlands	2.9	16	18.1%
Spain	2.9	39	7.4%

Total Population data are July 1999 estimates

Source: Computer Industry Almanac, CIA

Exhibit 52: Projected Internet Usage by Region



Source: Computer Industry Almanac

As such, AOL has made accelerating commitments to international ventures in an attempt to duplicate its domestic success, beginning with the March 1995 formation of AOL Europe via a joint venture with Bertelsmann. Exhibit 53 below presents a brief time line of international milestones for AOL.