



*internet*

## Terra-Lycos Group. Consolidated Results

(figures in millions of euros)

	january-december		
	2002	2001	% Change
Operating revenues	600.0	690.0	(13.1)
Other operating revenues	20.2	1.1	n.s.
Work on fixed assets <sup>1</sup>	1.7	2.5	(33.3)
Operating expenses	(741.5)	(930.0)	(20.3)
Other operating expenses	(22.1)	(23.6)	(6.6)
<b>EBITDA</b>	<b>(141.7)</b>	<b>(260.0)</b>	<b>(45.5)</b>
Amortization/Depreciation	(142.7)	(157.4)	(9.3)
<b>Operating income</b>	<b>(284.4)</b>	<b>(417.5)</b>	<b>(31.9)</b>
Income associated companies	(148.9)	(181.7)	(18.1)
Financial income	63.5	126.3	(49.7)
Amortization Goodwill	(252.6)	(383.5)	(34.1)
Extraordinary income	(1,046.3)	(74.9)	n.s.
<b>Income before taxes</b>	<b>(1,668.7)</b>	<b>(931.3)</b>	<b>79.2</b>
Tax provision	(342.6)	363.4	c.s.
<b>Income prior to minority shareholders</b>	<b>(2,011.3)</b>	<b>(567.9)</b>	<b>254.1</b>
Income from minority shareholders	2.4	1.6	48.8
<b>Net profit (loss)</b>	<b>(2,008.9)</b>	<b>(566.3)</b>	<b>254.7</b>

(1) Includes work in progress

## Profitability and global Vocation

Terra Lycos has consolidated its position throughout 2002 as one of the most important Internet companies, with global ambitions and clear objectives aimed towards profitability. The evolution of the company's income in different operational areas has been accompanied by efficient cost control, thanks to the continuous improvement of working processes. This has made it possible to also continuously improve efficiency, and therefore reduce operating costs.

Terra Lycos applied a new organisational model for the creation and development of products aimed at making best use of its position as a global company. The company created the Unit for Global Operations, designed to reach growth objectives and profitability, which brought together all of the existing global functions connected with product management but which were in the hands of different Managerial areas. This organisational model makes it possible to create growth with the launching of new products and savings on costs and investment due to the international presence of Terra Lycos.

Terra Lycos ended the year as one of the companies in the sector with a good position in terms of liquidity, allowing it to finance its operations and take on new business opportunities with the aim of maintaining profitable growth. An appropriate cash management allowed the Company to close the year with close to 1.751 billion euros.

At the start of February 2003, Telefónica and Terra Lycos signed a new collaboration agreement. This

new strategic alliance, offering long-term reinforcement of Terra Lycos' operational model by adapting itself to the current market situation, makes use of the complementary situation between Telefónica's fixed operators and Terra Lycos in all markets where both are present. This agreement implies a new model for working relations based on an alignment of strategies and making use of both Companies' strengths to foster market growth. In this way, the agreement supports the medium and long-term growth of Terra Lycos' profits and strengthens its relations with the rest of the Telefónica Group.

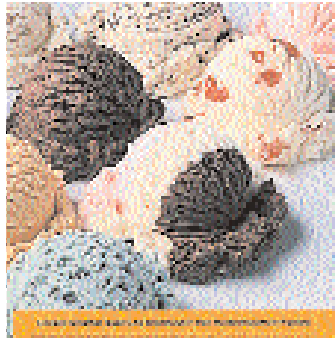
As a result, Terra Lycos is guaranteed to generate a minimum annual value equivalent to 78.5 million euros, obtained from the difference between the income from services offered under the Framework Agreement and costs and investments directly associated with it. This alliance has been signed for 6 years and includes the possibility of successive and automatic annual renewal.

At the end of the financial year Terra Lycos wrote down assets for 1.428 billion euros in order to adapt the value of investments carried out in the past to the current market situation. This initiative, which meant using transparency and traditional accounting practices, together with the alliance reached with Telefónica, strengthens Terra Lycos's business model with a view to the future.

## Innovative Products

In order to consolidate its position as the leading gateway in Spain and Latin America, and as one of the leading Internet companies in the USA and Europe, Terra Lycos applies innovation in the devel-

In 2002, Terra launched its food channel with the most complete gastronomic range available over the Internet



**Terra Lycos ended 2002 with 3.1 million pay subscriptions, 88% more than in 2001, maintaining its positive development towards charging for services**

opment of its products and value-added services and in their application on a global scale.

The Company has pioneered the evolution of traditional access business towards a model which offers global solutions, thanks to the incorporation of value-added communications services. The CSP (Communication Service Provider) strategy is aimed at offering more effective services to communication users, regardless of their physical location and the devices they use.

One important development during the year was the launch of the paid *e-mail* service in Brazil, offering anti-virus and *anti-spam* filters, to more than 480,000 clients, as well as the launching of the Virtual Photo Album in Spain, after having been launched in Brazil previously.

This process of constantly striving for innovation has allowed Terra Lycos to maintain its positive evolution throughout 2002 towards the charging of services through the O.B.P. model (Open, Basic, Premium). This positive development allowed 2002 to come to a close with 3.1 million pay clients, 88% more than in 2001.

Another important feature of 2002, together with the success of Terra Lycos in making the transition towards charging for services and content, was the consolidation of the company's move to Broadband services. This meant that at the end of the year the company had 378,000 ADSL clients, 62% more than in 2001. Through Broadband, Terra Lycos offers its clients high-speed, high-quality Internet connection together with associated communication and multimedia content services.

The launching of innovative products has gone hand-in-hand with Terra Lycos' bid to strengthen strategic commercial links with leading organisations and companies in other sectors. For example, one particularly important feature was the launch, together with the BBVA Group and VISA, of a new range of cards for Internet operations; the agreement reached with the «El Corte Inglés» department stores in Spain to create a «point of reference» gateway in collaboration with Spain's Ministry of Agriculture, Fisheries and Food, or the agreement reached with IBM to offer a new instant messaging service.

### Complete Marketing Solutions

Terra Lycos offers its users a complete service for access, contents and communication services which is unique in the market, with the aim of offering a better network experience.

Throughout 2002, the Company offered its users products to make the most of the interactive and creative Internet experience. This included special coverage of the 2002 Football World Cup through Terra's gateways in Latin America and Spain, through a service with interactive and multimedia components designed for Broadband users. This allowed the more than 20 million Latin American users of Terra's gateway to follow the competition thanks to a faster connection and greater capacity, with interactive multimedia contents.

In 2002, Terra Lycos also consolidated its efforts to offer companies complete marketing services, allowing advertisers to have access to a highly segmented general public and to obtain maximum efficiency from Internet as an advertising medium.



*In 2002, it is worth mentioning the launch in Brazil of the pay e-mail service offering anti-virus and anti-spam filters with more than 480,000 clients*

An important feature was the implementation of the Check M8 technology making it possible to carry out advanced publicity campaigns tailored to the customer's needs, together with products such as Arcadia, an instrument allowing advertisers to not only identify their clients, but also to personalise the service offered to them. Terra Lycos also offers direct marketing services to advertisers, making it possible for them to obtain more specific information about potential clients.

One example is an all-inclusive offer which allowed VISA to promote its credit cards through a campaign in Terra's portals in Latin America, obtaining a far higher response rate than the average obtained in the market, becoming one of the continent's most successful online advertising campaigns.

### **Human Team**

At Terra Lycos, we have a multinational and multicultural workforce focused on efficiency processes and parameters by applying the best traditional business practices, using the «Six Sigma» quality method. The Company works towards the objective of offering our clients a valued service, establishing a relationship based on confidence in order to detect and understand their real needs better.

In 2002, the Company extended its training possibilities for employees, aimed at a continual process of supporting the existing talent and knowledge within the Company. Together with the «Six Sigma» quality control method, more than 171 online courses have been made available for employees and other programmes have been set

up to develop abilities and information, both at managerial level and for the highest-ranking Directors.

### **Grupo Terra Lycos Results**

Terra Lycos ended the year by writing down assets to a value of 1.428 million euros, in order to adapt the value of past investments to the current market situation, in a transparent operation using conservative accountancy methods.

The writedown process of the goodwill fund amounted to 857 million euros, of which 81% corresponds to the acquisition of Lycos and the rest to other acquisitions. In line with this process, 453 million euros were recovered, corresponding to fiscal credits. The other restructuring processes correspond to other asset areas, accounting for a total of 1,428 million euros.

This restructuring, which did not produce any cash outlays, caused a net loss for the financial year 2002 of 2,009 million euros.

The EBITDA at the end of 2002 amounted to -141.7 million euros, an improvement of 45.5% over the previous year, or 118.3 million euros. The EBITDA margin for the financial year was -23.6%, an improvement of 14 percentage points over the previous year.