TERRA NETWORKS, S.A.
and Subsidiaries

Consolidated Financial Statements
for 2003 compared with those for 2002
together with 2003 Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of
Terra Networks, S.A.:

1. We have audited the consolidated financial statements of TERRA NETWORKS, S.A. and SUBSIDIARIES ("the Group") comprising the consolidated balance sheet as of December 31, 2003, and the related consolidated statement of operations and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made. Our work did not include an examination of the 2003 financial statements of Terra Networks España, S.A. and Lycos Europe, N.V., which were effectively wholly-owned and 32.1% owned, respectively, by Terra Networks, S.A. as of December 31, 2003, and whose assets and losses before taxes represented 2.1% and 10.2%, in the case of Lycos Europe N.V., and 3.1% and (10.2)%, in the case of Terra Networks España, S.A., and whose net sales represented 33.87%, in the case of Terra Networks España, S.A., of the related consolidated figures as of December 31, 2003. The aforementioned financial statements of Terra Networks España, S.A. and Lycos Europe, N.V. were audited by other auditors (BDO Audiberia Auditores, S.L. and KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, respectively) and our opinion as expressed in this report on the consolidated financial statements of Terra Networks, S.A. is based, with respect to the ownership interests in Terra Networks España, S.A. and Lycos Europe, N.V., solely on the reports of the aforementioned auditors.
2. As required by Spanish corporate law, for comparison purposes the Parent Company's directors present, in addition to the 2003 figures for each item in the consolidated balance sheet and consolidated statements of operations and of changes in financial position, the figures for 2002. Our opinion refers only to the 2003 consolidated financial statements. Our auditors' report dated February 26, 2003, on the 2002 consolidated financial statements contained an unqualified opinion.

3. As indicated in Note 1, the Group engages mainly in various lines of business relating to the use of the Internet and has incurred losses since inception through December 31, 2003. The business plan prepared by Company management for the next four years envisages the obtainment of income in 2005, provided that certain trends and assumptions are borne out. On the basis of this plan and the results forecast for the next ten years, as of December 31, 2003, the Group has maintained a balance of €289,764 thousand under the "Long-Term Investments" caption, relating to prepaid income taxes and tax assets for tax losses incurred in 2001 and prior years (Notes 4-1 and 15). In view of the nature of any business plan, which is based on future expectations, significant differences may arise between the projected and actual results. Management of Terra Networks, S.A. intends to update the plan every year and, in any case, whenever the evolution of the business calls for this. The financial position as of December 31, 2003, amply covers the cash needs envisaged in the aforementioned plan for 2004.

4. The Company is part of a group of companies whose Parent Company is Telefónica, S.A. Of the Terra Group's consolidated net sales and consolidated operating expenses for 2003, 24% and 25%, respectively, arose as a result of consolidated transactions with companies in the aforementioned Group (see Note 16) and, consequently, the business activity of Terra Networks, S.A. and Subsidiaries is influenced by these transactions.

5. In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present, in all material respects, a true and fair view of the net worth and financial position of Terra Networks, S.A. and Subsidiaries as of December 31, 2003, and of the results of their operations and of the funds obtained and applied by them in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

6. The accompanying consolidated management report for 2003 contains the explanations which the directors of Terra Networks, S.A. consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the management report is consistent with that contained in the consolidated financial statements for 2003. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the consolidated companies' accounting records.

DELOITTE & TOUCHE ESPAÑA, S.L.
Registered in ROAC under no. S0692

Javier Acevedo Jiménez de Castro

February 25, 2004

TERRA NETWORKS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002

ASSETS	Thousands of Euros 12/31/03	12/31/02
DUE FROM STOCKHOLDERS FOR UNCALLED CAPITAL (Notes 4-a and 11)	-	**291.857**
FIXED AND OTHER NONCURRENT ASSETS		
Start-up expenses (Note 7)	**892**	**1.466**
Intangible assets (Note 8)-	**80.267**	**57.086**
Research and development expenses	-	155
Rights on leased assets	14.338	-
Intellectual property	22.324	23.052
Computer software	94.456	78.627
Intangible assets in progress	2.699	3.977
Other intangible assets	128.131	112.482
Allowances	(14.078)	(19.377)
Accumulated amortization	(167.603)	(141.830)
Property and equipment (Note 9)-	**38.301**	**54.759**
Land and structures	14.736	18.312
Plant and machinery	15.163	8.782
Computer hardware	123.974	131.956
Furniture	12.241	14.120
Advances and construction in progress	151	214
Other tangible fixed assets	3.045	8.147
Allowances	(17.042)	(29.233)
Accumulated depreciation	(113.967)	(97.539)
Long-term investments-	**546.311**	**514.864**
Investments in companies accounted for by the equity method (Note 6)	68.634	134.863
Other investments (Note 10)	264.096	93.785
Loans to associated companies (Note 14)	16.029	11.902
Other loans	187	297
Long-term deposits and guarantees given	1.722	1.839
Taxes receivable (Note 15)	295.795	291.634
Other long-term investments (Notes 4-a and 11)	-	71.400
Allowance for investments in companies accounted for by the equity method (Note 6)	(3.974)	(4.789)
Investment valuation allowances (Note 10)	(83.906)	(78.653)
Other investment valuation allowances (Note 14)	(12.272)	(7.414)
Long-term treasury stock (Note 11)	**126.262**	**1.858**
Total fixed and other noncurrent assets	**792.033**	**630.033**
CONSOLIDATION GOODWILL (Notes 4-a and 5)	**422.095**	**627.189**
DEFERRED CHARGES	**5.818**	**10.369**
CURRENT ASSETS		
Inventories	**603**	**415**
Accounts receivable-	**142.647**	**147.363**
Trade receivables for sales and services	50.995	37.403
Receivable from Telefónica Group companies (Note 13)	57.417	60.545
Receivable from associated companies (Note 14)	1.837	2.870
Taxes receivable (Note 15)	29.741	45.450
Other accounts receivable	2.657	1.095
Short-term investments-	**1.590.584**	**1.734.663**
Loans to Telefónica Group companies (Note 13)	1.365.431	1.362.299
Loans to associated companies (Note 14)	-	181
Other short-term investments (Note 4-h)	225.153	372.183
Cash	**8.937**	**26.425**
Accrual accounts	**24.501**	**29.194**
Total current assets	**1.767.272**	**1.938.060**
TOTAL ASSETS	**2.987.218**	**3.497.508**

STOCKHOLDERS' EQUITY AND LIABILITIES	Thousands of Euros 12/31/03	12/31/02
STOCKHOLDERS' EQUITY (Note 11)		
Capital stock	1.202.936	1.216.321
Additional paid-in capital	5.126.134	5.491.533
Reserves of the Parent Company:		
Unrestricted reserves	6	6
Reserves for retired capital stock	39.596	26.211
Reserves for treasury stock	126.262	1.858
Prior years' income (losses)	(703.941)	111.320
Reserves at fully consolidated companies	(2.289.662)	(1.127.157)
Reserves at companies accounted for by the equity method	(208.092)	(185.451)
Consolidation translation differences	(399.988)	(334.884)
Loss for the year attributable to the Parent Company	(172.710)	(2.008.870)
Total stockholders' equity	**2.720.541**	**3.190.887**
MINORITY INTERESTS (Note 12)	**2.961**	-
NEGATIVE CONSOLIDATION GOODWILL (Note 4-a)	**6.615**	**7.587**
DEFERRED REVENUES	**1.000**	**485**
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 4-h)	**22.896**	**27.375**
LONG-TERM PAYABLES TO GROUP COMPANIES (Note 13)	**26.192**	-
LONG-TERM DEBT	**694**	**6.116**
LONG-TERM DEFERRED TAX LIABILITY (NOTE 15)	**3.020**	**2.744**
CURRENT LIABILITIES		
Payable to credit institutions (Note 8)	7.163	-
Payable to Telefónica Group companies (Note 13)	38.202	34.855
Payable to associated companies (Note 14)	3.105	3.478
Trade accounts payable	98.155	118.879
Other nontrade payables:		
Taxes payable (Note 15)	14.497	12.480
Other nontrade payables	32.157	34.738
Accrual accounts	10.020	57.884
Total current liabilities	**203.299**	**262.314**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	**2.987.218**	**3.497.508**

The accompanying Notes 1 to 22 are an integral part of the consolidated balance sheet as of December 31, 2003.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

TERRA NETWORKS, S.A. AND SUBSIDIARIES

2003 AND 2002 CONSOLIDATED STATEMENTS OF OPERATIONS

DEBIT	Thousands of Euros 2003	Thousands of Euros 2002	CREDIT	Thousands of Euros 2003	Thousands of Euros 2002
EXPENSES:			**REVENUES:**		
Inventory variation	-	3.839	Net sales:		
Procurements:			Net sales to Telefónica Group companies (Note 16)	130.615	53.651
Purchases from Telefónica Group companies (Note 16)	142.555	160.122	Net sales and services to associated companies	8.905	32.454
Purchases from associated companies	400	361	Net sales and services to third parties	405.571	530.841
Other purchases and work performed by other companies	122.881	129.297	Capitalized expenses of Group work on fixed assets	910	1.656
Personnel expenses (Note 16)	119.653	165.433	Other operating revenues from Telefónica Group companies (Note 16)	281	1.989
Depreciation and amortization expense	78.742	142.718	Other operating revenues	345	1.200
Variation in operating allowances	7.709	21.613	**Total operating revenues (Note 16)**	**546.627**	**621.791**
Other operating expenses:					
Outside services provided by Telefónica Group companies (Note 16)	26.572	12.596			
Outside services provided by associated companies	152	87			
Outside services and other operating expenses (Note 16)	166.189	270.137			
Total operating expenses	**664.853**	**906.203**	**Operating loss**	**118.226**	**284.412**
Operating income	**-**	**-**			
			Revenues from equity investments	837	-
			Revenues from investments in and loans to Telefónica Group companies (Note 16)	35.021	48.989
			Revenues from investments in and loans to associated companies	-	313
Interest on debts	3.899	3.977	Financial revenues from investment securities and loans	27.810	21.037
Exchange losses	2.442	7.864	Exchange gains	3.657	8.973
Other financial and similar expenses	4.029	7.467	Other financial and similar revenues	788	3.540
Financial income	**57.743**	**63.544**	**Financial loss**	**-**	**-**
Share in losses of companies accounted for by the equity method (Note 6)	34.734	148.902			
Amortization of consolidation goodwill (Note 5)	83.269	254.157	Reversal of negative consolidation goodwill	972	1.602
Income from ordinary activities	**-**	**-**	**Loss on ordinary activities**	**177.514**	**622.325**
Variation in investment valuation allowances (Note 10)	-	33.488			
Variation in tangible fixed asset and intangible asset allowances	-	54.199			
Losses on long-term investments	144	2.866	Gains on the disposal of long-term investments (Note 2)	10.908	19.734
Extraordinary expenses and losses (Note 16)	18.364	994.935	Other extraordinary revenues (Note 16)	12.134	19.422
Extraordinary income	**4.534**	**-**	**Extraordinary loss**	**-**	**1.046.332**
Income before taxes and minority interests	**-**	**-**	**Loss before taxes and minority interests**	**172.980**	**1.668.657**
Corporate income tax (Note 15)	266	342.625			
			Loss attributed to minority interests (Note 12)	536	2.412
Net income for the year	**-**	**-**	**Loss for the year**	**172.710**	**2.008.870**

The accompanying Notes 1 to 22 are an integral part of the 2003 consolidated statement of operations.

(21) CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

APPLICATION OF FUNDS	Thousands of Euros 2003	Thousands of Euros 2002	SOURCE OF FUNDS	Thousands of Euros 2003	Thousands of Euros 2002
Funds applied in operations	-	77.286	Funds obtained from operations	277	-
Additions to start-up expenses	169	69	Stock options exercised under ESOP	6.814	3.756
Intangible asset additions	63.952	21.303	Disposal of treasury stock	1.722	-
Property and equipment additions	16.449	21.729	Retirements of start-up expenses	81	-
Acquisitions of subsidiaries	15.385	76.577	Retirements of intangible assets	1.070	4.542
Additions to other long-term investments	6.208	12.857	Retirements of property and equipment	282	4.567
Tax assets written off, net	-	5.018	Retirements of subsidiaries	184	8.232
Additions to deferred charges	-	3.991	Retirements of other long-term investments	121	8.844
Conversion to capital of short-term payables	8.751	10.898	Tax assets realized, net	757	-
Deferred revenues	-	3.732	Retirements of deferred charges	3.007	-
Provision for contingencies and expenses recorded	-	21.039	Transfers to short term	26.490	517
Long-term debt	489	606	Provision for contingencies and expenses released	4.745	-
Minority interests	-	1.150	Minority interests	3.496	-
Variations due to translation differences	52.836	79.404	Deferred revenues	538	-
			Variations in working capital due to inclusion of companies	2.882	-
TOTAL FUNDS APPLIED	**164.239**	**335.659**	**TOTAL FUNDS OBTAINED**	**52.466**	**30.458**
FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED			**FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED**	**111.773**	**305.201**

VARIATION IN WORKING CAPITAL	Thousands of Euros 2003 Increase	2003 Decrease	2002 Increase	2002 Decrease
Inventories	188	-	-	1.919
Accounts receivable	-	4.716	-	32.614
Short-term investments	-	144.079	-	454.725
Cash	-	17.488	25.689	-
Accrual accounts	-	4.693	-	10.825
Current liabilities	59.015	-	169.193	-
TOTAL	**59.203**	**170.976**	**194.882**	**500.083**
VARIATION IN WORKING CAPITAL	**111.773**		**305.201**	

Terra Networks, S.A.
and Subsidiaries

2003 Consolidated Financial Statements
compared with those for 2002,
together with the 2003 Auditors' Report

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

TERRA NETWORKS, S.A.

AND SUBSIDIARIES

NOTES TO 2003 CONSOLIDATED FINANCIAL STATEMENTS

(1) DESCRIPTION OF THE TERRA NETWORKS GROUP

Terra Networks, S.A. ("the Parent Company") was incorporated for an indefinite period of time in Madrid on December 4, 1998, under its original name of Telefónica Comunicaciones Interactivas, S.A. The Parent Company changed its corporate name to Telefónica Interactiva, S.A. on February 17, 1999, and to Terra Networks, S.A. on September 7, 1999.

Its registered office is at Calle Nicaragua, 54, Barcelona.

Its corporate purpose is the provision and operation of Spanish and international telecommunications services, the provision of related content production services for on-line access, interactive services, and the provision and operation of current and future information and communications services and technologies, subject in all cases to the applicable legislation and to the prior obtainment, where necessary, of such administrative or other authorizations or licenses as might be required. The Parent Company may also engage in the design, development, manufacture and marketing of supplementary equipment and systems for the functioning of said communications and in the provision of services relating to project coordination and management and to the installation, maintenance, operation, management, administration and marketing of, and counseling on, communications systems.

All the business activities composing the corporate purpose may be carried on in Spain and abroad, and the Parent Company may perform them directly or through interests in the business activities of other companies with a similar corporate purpose, either by promoting the foundation or formation of such companies or by acquiring holdings in their capital.

In order to carry on its business activities, Terra Networks, S.A. has incorporated or acquired subsidiaries in most of the countries in which it provides its services. Specifically, as of December 31, 2003, the Terra Networks, S.A. and Subsidiaries Group ("the Terra Lycos Group") was providing services through direct or indirect holdings in Spain, France, Italy, Germany, the U.K., the Netherlands, Austria, Switzerland, Denmark, Sweden, Belgium, , the U.S., Mexico, Brazil, Guatemala, Argentina, Peru, Chile, Colombia, Venezuela, Uruguay, El Salvador, Costa Rica, Honduras, Nicaragua, Panama, the Dominican Republic, Puerto Rico, China, Singapore, Taiwan, the Philippines, Malaysia, India, Indonesia, Southeast Asia and Thailand (see Exhibit I). The holdings in France, Italy, Germany, the U.K., the Netherlands, Austria, Switzerland, Denmark, Sweden, Belgium, China, Singapore, Taiwan, the Philippines, Malaysia, India, Indonesia, Southeast Asia and Thailand arose as a result of the merger with Lycos, Inc., which was approved by the Board of Directors of Terra Networks, S.A. on May 16, 2000; the European holdings, other than those in Spain, are owned through Lycos Europe N.V., a subsidiary of Lycos, Inc., and the Asian holdings are owned through Lycos Asia Limited.

Alliances with Bertelsmann AG and Telefónica S.A.

On May 16, 2000, Terra Networks, S.A., Telefónica, S.A., Lycos, Inc. y Bertelsmann AG entered into agreements for cooperation in the access to the new content of the Terra Lycos Group and joint marketing campaigns. Under the agreement, Bertelsmann AG would make payments amounting to US$ 325 million for the products and services acquired from the Terra Lycos Group for the two years following the merger between Terra Networks, S.A. and Lycos, Inc. The agreement also established that Bertelsmann AG would make payments totaling US$ 675 million for the products and services acquired from the Terra Lycos Group for the three years following the second anniversary of the merger between the aforementioned companies, and Telefónica S.A. undertook to acquire goods and services from the Terra Lycos Group during that period for the amount of the purchases not made by Bertelsmann AG, up to US$ 675 million. On February 12, 2003, Terra Networks, S.A. and Telefónica, S.A. entered into a Framework Strategic Alliance Agreement to replace the strategic agreement of May 16, 2000. Also, all the former signatories of the aforementioned agreement entered into a new preferential interest agreement which will enable them to continue to explore opportunities for the mutual provision of on-line communications, development and content services.

The new agreement between Terra Networks, S.A. and Telefónica, S.A. was entered into in response to, on the one hand, the changes in the Internet businesses and, in particular, the development of broadband technology and, on the other, the need to adapt the range of products and services offered by the Terra Lycos Group under the agreement dated May 16, 2000, to the aforementioned new market conditions and to the specific needs of the Telefónica Group in the markets in which it operates.

As reflected by a study carried out by an independent appraiser at the request of the Parent Company's Board of Directors, the capacity of the new strategic alliance agreement to create value for the Terra Lycos Group and its stockholders is at least equal to that of the agreement that it replaces. The alliance makes maximum use of the capacity of the Telefónica Group, as a connectivity and broad and narrow band Internet access provider, and of the Terra Lycos Group, as a portal, aggregator, provider and manager of wireline telephony Internet content and services in the residential, SOHO and, when so agreed, SME market. The framework agreement defines a new model for relations between the two companies that will make it possible to make better use of their respective capabilities to promote their growth on the Internet, in order to harness synergies and create value for the two Groups, generating a minimum value of €78.5 million annually for the Terra Lycos Group throughout the term of the agreement. This amount is the difference between the revenues arising from the services provided under the framework agreement and the costs and investments directly associated therewith. The term of the agreement is six years, extendible for successive 12-month periods (see Note 16).

In compliance with the terms of the Framework Strategic Alliance Agreement, in 2003 the annual minimum value was generated for the Terra Lycos Group.

Tender offer

On June 19, 2003, the Spanish National Securities Market Commission ("CNMV") authorized Telefónica S.A. to submit a tender offer for all the Terra Networks, S.A. shares listed and traded on the Spanish computerized trading system (continuous market) and on Nasdaq (National Association of Securities Dealers Automated Quotations, U.S.A.), after Telefónica, S.A.[1] had submitted the mandatory application for authorization and the information memorandum for the launch of a tender offer, pursuant to the applicable legislation.

The tender offer, as described in the related information memorandum registered with the CNMV on June 19, 2003, was instrumented as an acquisition in cash, the consideration being €5.25 per share of Terra Networks, S.A. The tender offer was subject to the acquisition by Telefónica, S.A. of a number of Terra Networks, S.A. shares which, together with those already owned by Telefónica and frozen until the date of publication of the results of the tender offer, accounted for at least 75% of the capital stock of Terra Networks, S.A. at the date of publication of the results of the tender offer. Also, Telefónica, S.A. expressly reserved the right to waive this condition on the date of expiration of the tender offer acceptance period (July 23, 2003).

On June 26, 2003, the Board of Directors of Terra Networks, S.A., in accordance with the opinion issued by the investment banks Citigroup and Lehman Brothers, deemed that the tender offer for all the shares of Terra Networks, S.A. to be fair and reasonable for the stockholders. Also, in keeping with this positive assessment, the Board of

[1] Resolution adopted at the meeting of the Board of Directors of Telefónica, S.A. on May 28, 2003.

Directors indicated its willingness to accept the tender offer for the 2,420,468 shares formerly held by Lycos, Inc. The directors who individually owned Terra Networks, S.A. shares and the director appointed by BBVA also indicated their willingness to accept the offer.

On July 25, 2003, the CNMV notified the Parent Company that the tender offer launched by Telefónica, S.A. for 370,675,587 shares of Terra Networks, S.A. had been accepted for 202,092,043 shares, representing 54.52% of the shares for which the tender offer was launched, and 33.60% of the capital stock of Terra Networks, S.A.

Also on July 25, 2003, Telefónica S.A. confirmed through a relevant fact disclosure, its decision to waive the minimum limit to which the tender offer had been restricted, following which the direct holding represented 71.97% of the total capital stock of Terra Networks, S.A.

Acquisition of treasury stock

On December 16, 2003, the Board of Directors of Terra Networks, S.A., pursuant to the powers granted to it by the Stockholders' Meetings of June 8, 2000 and April 2, 2003, approved the acquisition by Terra Networks, S.A. of 26,525,732 shares of Terra Networks, S.A. owned by Citibank, NA, as the agent bank for the Stock Option Plans established by the Company on the integration of Lycos, Inc. These shares represent 4.41% of the capital stock of Terra Networks S.A. The shares were acquired at the prices at which Citibank, NA had acquired the Lycos Inc shares to cover the latter company's Stock Option Plans for its employees at the date of their acquisition.

These shares were acquired in order to be able to recognize the new tax asset arising in 2004 and, possibly, in subsequent years. This was achieved through the inclusion of Terra Networks, S.A. in the Telefónica consolidated Tax Group in 2004, since, once the acquisition had been made, Telefónica, S.A.'s ownership interest accounted for 75.29% of the effective capital stock of Terra Networks, S.A. (capital stock less treasury stock).

Terra Networks, S.A. stockholders

Terra Networks, S.A. is listed on the Spanish continuous market (in the special securities trading segment known as the "New Market") and, consequently, on the four Spanish Stock Exchanges, in addition to the New York Stock Exchange (NASDAQ). At its meeting of December 11, 2003, the Technical Advisory Committee of the Ibex Indexes resolved, in accordance with the Technical Standards for the Composition and Calculation of the Ibex 35 indexes, to exclude the Terra Networks (TRR) securities from the Index, effective January 2, 2004.

As of December 31, 2003 and 2002, the Terra Networks, S.A. stockholders were as follows:

Stockholder	Percentage of Ownership	
	12/31/03	12/31/02
Telefónica, S.A.	71.97 (*)	38.58
Citibank, NA	-	4.59
Other stockholders	28.03	56.83
Total	**100.00**	**100.00**

(*) Telefónica, S.A.'s effective ownership percentage (capital less treasury stock) is 75.29%.

The purpose of the percentage of Ownership of Citibank, N.A. in 2002 was to provide coverage for the Stock Option Plan for Lycos, Inc. As of December 31, 2003, the item "Other stockholders" includes other holdings such as treasury stock (4.41%), or the holdings of Banco Zaragozano (1.16%) and Caja de Ahorros y Pensiones de Barcelona (1.15%) which purpose is to provide coverage for the Stock Option Plan for the Terra Lycos Group's employees (see Notes 11, 18-a and 18-b) and, if these options were not exercised, the shares will be retired.

Asset write-downs

Whenever circumstances arise which are likely to lead to significant variances with respect to business projections and, in any case, in the last quarter of the each year, the Company reviews its subsidiaries' business plans and, on the basis of quantitative and qualitative factors, evaluates whether it is necessary to write down the value of their goodwill and other intangible assets used in their operations. When factors making it necessary to perform write-downs are identified, the Company determines the amount thereof by comparing the book value of the goodwill and other intangible assets with their market value. The Company calculates the market value mainly using the discounted cash flows method, i.e. taking the present value of the estimated future cash flows. At the end of 2003 and 2002 the objective of these analyses based on the estimated future value that each of the businesses and countries will generate, was to determine the recovery of the goodwill, recognized tax assets, and other fixed assets in the consolidated balance sheet of the Terra Lycos Group, in accordance with the accounting principle of prudence in valuation. Additionally, in 2002 an independent appraiser was commissioned to conduct a study in relation to the goodwill associated with the acquisition of Lycos, Inc. (which represented at that date approximately 50% of the total) and the goodwill associated with the alliance between Bertelsmann AG and Telefónica S.A.

As a result of these studies, in accordance with the accounting principle of prudence in valuation, as of December 31, 2003, consolidation goodwill amounting to €6,452 thousand was written off. As of December 31, 2002, goodwill amounting to €856,657 thousand was written off and capitalized tax credits amounting to €384,530 thousand were reversed. Also, as of December 31, 2002, €56,622 thousand of preopening expenses were written down and tangible fixed asset and intangible asset allowances of €32,573 thousand and €21,648 thousand, respectively, were recorded.

Environmental matters

Because of the activities in which the Terra Lycos Group engages, it has no liabilities, expenses, assets, or allowances and contingencies of an environmental nature which could be material in relation to the Group's net worth, financial position and consolidated results. Accordingly, specific details are not included in these notes to the consolidated financial statements with respect to information relating to environmental matters.

In view of the business activities carried on by the Terra Lycos Group, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its consolidated net worth, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to consolidated financial statements.

(2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) *True and fair view-*

These consolidated financial statements, which were prepared by the Parent Company's directors from the accounting records of Terra Networks, S.A. and its subsidiaries, are presented in accordance with the Spanish National Chart of Accounts and Royal Decree 1815/1991 approving the rules for the preparation of consolidated financial statements, and, accordingly, give a true and fair view of the net worth, financial position and results of operations of the Parent Company and its subsidiaries. The financial statements of the subsidiaries were prepared by each company's directors in accordance with Spanish accounting principles and standards and with the applicable legislation in the countries in which these companies are located.

The 2003 consolidated financial statements will be submitted for approval by the Parent Company's Stockholders' Meeting, and it is considered that they will be approved without any changes.

The consolidated financial statements for 2002 were approved by the Stockholders' Meeting of Terra Networks, S.A. on April 2, 2003.

The figures in the accompanying consolidated balance sheets, consolidated statements of operations and notes to consolidated financial statements are expressed in thousands of euros unless otherwise stated.

b) Consolidation principles-

The companies over which effective control is exercised by virtue of ownership of a majority of the voting rights in their representation and decision-making bodies were fully consolidated; those in which there is significant influence but not ownership of a majority of the voting rights or joint management with third parties are accounted for by the equity method.

In 2003 all the subsidiaries (see Exhibit I) were fully consolidated, except for Red Universal de Marketing y Bookings Online, S.A., A tu hora, S.A., Corporación Real Time Team, S.L., Azeler Automoción, S.A., Iniciativas Residenciales en Internet, S.A. and the associated companies of Lycos, Inc. (Lycos Europe N.V., Lycos Asia Limited, Lycos Korea, Inc. and Lycos Ventures LP), which are accounted for by the equity method, since in the case of these companies, although control over their governing bodies is not exercised and a majority of the voting rights is not owned, there is a lasting relationship in which influence is exercised over their management.

In 2003 the consumer finance business line of Finanzia Banco de Crédito, S.A. was integrated into Uno-e Bank, S.A., through a capital increase at Uno-e Bank, S.A. on April 23, 2003, following which the holding of Terra Networks, S.A. stood at 33%. Additionally, under the liquidity agreement signed between Terra Networks, S.A. and BBVA on January 10, 2003, once the integration took place, Terra Networks, S.A. would have the right to sell its holding in Uno-e Bank, S.A. to BBVA at a guaranteed value of €148.5 million, if certain objectives were not met. Accordingly, the net amount of the goodwill on the transaction and the value of the holding, totaling €148.5 million, was reclassified in full to the "Other Investments" caption in the accompanying balance sheet (see Notes 5 and 6).

As of December 31, 2003, all Lycos, Inc.'s minority interests, including most notably those in Fast Search & Transfer ASA and Autobytel, Inc., over whose management a significant influence is not exercised, were recorded at market value, which gave rise to a credit of €21,211 thousand to the "Financial Revenues from Investment Securities and Loans" caption in the accompanying consolidated statement of operations.

In 2002 all the subsidiaries (see Exhibit I) were fully consolidated, except for Red Universal de Marketing y Bookings Online, S.A., A tu hora, S.A., Corporación Real Time Team, S.L., Uno-e Bank, S.A., Azeler Automoción, S.A., OneTravel.com, Inc., Terra Mobile, S.A., Iniciativas Residenciales en Internet, S.A. and the associated companies of Lycos, Inc. (Lycos Japan K.K., Lycos Asia Limited, Lycos Korea, Inc., Lycos Europe N.V., Sympatico Lycos, Inc., Lycos Ventures LP, Fast Search & Transfer ASA and Autobytel, Inc.), which were accounted for by the equity method, since in the case of these companies, although control over their governing bodies is not exercised and a majority of the voting rights is not owned, there is a lasting relationship in which influence is exercised over their management.

Additionally, there are inactive companies, whose effect on the consolidated financial statements is scantly material and which were not included in the scope of consolidation, and other companies in which the Parent Company owns holdings of less than 6%, which are included in the consolidated balance sheet under the "Other Investments" caption at historical cost. The related investment valuation allowances were recorded where necessary (see Note 10).

All material balances and transactions between the consolidated companies were eliminated in consolidation.

The equity of the minority stockholders in the net worth and results of the fully consolidated subsidiaries is recorded under the "Minority Interests" caption on the liability side of the consolidated balance sheet and the "Loss Attributed to Minority Interests" caption in the consolidated statement of operations, respectively.

The result of accounting for the investments in associated companies by the equity method is reflected under the "Investments Accounted for by the Equity Method" caption on the asset side of the consolidated balance sheet and the "Share in Losses of Companies Accounted for by the Equity Method" caption in the consolidated statement of operations, respectively.

In accordance with standard practice in Spain, the accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies to the Parent Company's accounts, since it is considered that these reserves will be used as self-financing resources by the respective consolidated companies.

c) Comparative information-

One Travel.com, Inc., which was 39.6% indirectly owned by Terra Networks S.A. as of December 31, 2002, was accounted for by the equity method in 2002, pursuant to, inter alia, Article 11 of Royal Decree 1815 approving the rules for the preparation of consolidated financial statements. This holding was fully consolidated on April 18, 2003, the date on which a majority of the voting rights in this company was obtained (see Note 6).

As described in Note 2-b, following the integration of the consumer finance business line of Finanzia Banco de Crédito, S.A. into Uno-e Bank, S.A. through a capital increase at the latter company on April 23, 2003, the holding owned by Terra Networks, S.A. stood at 33%. Additionally, under the liquidity agreement signed between Terra Networks, S.A. and BBVA on January 10, 2003, once the integration took place, Terra Networks, S.A. would have the right to sell its holding in Uno-e Bank, S.A. to BBVA at a guaranteed value of €148.5 million, if certain objectives were not met. Accordingly, the net amount of the goodwill on the transaction and the value of the holding, totaling €148.5 million, was reclassified in full to the "Other Investments" caption in the accompanying balance sheet.

Various minority interests of Lycos, Inc. (mainly in Fast Search & Transfer ASA and Autobytel, Inc.) are classified in the "Other Investments" caption, since control was not exercised over their governing bodies, a majority of the voting rights was held, there was no lasting relationship with them and influence was not exercised over their management. In 2003, the value of these investments on the consolidated statement of operations was reclassified from the "Variation in Investment Valuation Allowances" caption to the "Financial Revenues from Investment Securities and Loans" caption.

d) Scope of consolidation-

The consolidated Terra Lycos Group companies and information thereon are described in Exhibit I.

The main changes in the scope of consolidation in 2003 and 2002 were as follows (in chronological order):

d.1.) Subsidiaries-

- OneTravel.com, Inc.-

On April 18, 2003, the Terra Lycos Group acquired a majority of voting rights in this company, increasing its holding from 39.6% as of December 31, 2002, to 52.07%. In August 2003 the Terra Lycos Group concluded the share purchase agreements by virtue of which its holding in the capital stock of OneTravel.com, Inc., was increased from 52.07% to 54.15%. The effective amount disbursed in 2003 was €3.3 million.

- Terra Networks Latam E.T.V.E, S.L.-

In December 2003 a corporate reorganization was carried out through the contribution by Terra Networks, S.A. to Terra Networks Latam, S.L. (a wholly-owned subsidiary) of the former's holdings in 2003 in certain foreign companies located in Latin America, at their net book value. The Latin American holdings were also reorganized within the Group, involving their sale to various Terra Lycos Group companies by Terra Networks Latam E.T.V.E., S.L. at their net book values (see Exhibit I).

- Capital increases without changes in percentages of ownership-

The detail of the capital increases at the Group's foreign subsidiaries in 2003 is as follows (amounts in thousands of U.S. dollars):

Company	Capital Increase through Conversion of Debt to Capital Stock	Capital Increase through Fully Subscribed Monetary Contribution
T.N Guatemala, S.A.	-	1,450
T.N. Brasil, S.A.	26,500	-
T.N. México Holding, S.A. de C.V.	4,008 (*)	7,000
T.N. Argentina, S.A.	8,653	2,850
T.N. Venezuela, S.A.	-	400
T.N. Colombia Holding S.A.	-	5,300

(*) Amount in thousands of euros.

The detail of the capital increases at the Group's foreign subsidiaries in 2002 is as follows (amounts in thousands of U.S. dollars):

Company	Capital Increase through Conversion of Debt into Capital Stock	Capital Increase through Fully Subscribed Monetary Contribution
T.N Guatemala, S.A.	-	1,100
T.N. Perú, S.A.	4,976	-
T.N. México Holding, S.A. de C.V.	-	34,500
T.N. Chile Holding Ltda.	-	1,700
T.N. Venezuela, S.A.	-	3,125
T.N. Colombia Holding S.A.	-	7,700

Additionally, in 2003 Terra Networks Uruguay, S.A., Terra Global Management, Inc., and Bumeran Participaciones, S.L. were dissolved and liquidated.

d.2) Associated companies-

- Uno-e Bank, S.A.-

Pursuant to the agreements entered into in February 2000 by Telefónica, S.A. and Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), in August 2001 Terra Networks, S.A. acquired a 49% holding in Uno-e Bank, S.A. for €160,434 thousand.

On May 15, 2002, Terra Networks, S.A. and BBVA (BBVA) signed a memorandum of understanding to integrate the consumer finance line of business of Finanzia Banco de Crédito, S.A. (a wholly-owned investee of BBVA) and Uno-e Bank, S.A. The agreement relating to this integration was subject to a legal, financial and business review, and to the relevant internal and administrative authorizations. Following the integration process, the holdings of Terra Networks, S.A. and the BBVA Group in Uno-e Bank, S.A. would stand at 33% and 67%, respectively.

On the same date (May 15, 2002), BBVA and Terra Networks, S.A. signed a liquidity agreement which established certain liquidity mechanisms (call and put options) relating to the Uno-e Bank S.A. shares owned by Terra Networks, S.A., which would be modified if a definitive agreement were to be reached on the integration of the consumer finance business lines of Finanzia Banco de Crédito, S.A. and Uno-e Bank, S.A. According to the modified terms, BBVA would lose its right to purchase and Terra Networks, S.A. would maintain its right to sell but only at the market value determined by an investment bank.

On January 10, 2003, Terra Networks, S.A. and BBVA entered into an agreement for the integration of the consumer finance line of business of Finanzia Banco de Crédito, S.A. and Uno-e Bank, S.A., in terms more suited to their respective interests than those established in the memorandum of understanding of May 15, 2002, which was then rendered void. The definitive agreement was subject to the related internal and administrative authorizations, which had to be granted before June 30, 2003, as a condition for the formalization and execution of the integration transaction.

On that same date (January 10, 2003), BBVA and Terra Networks, S.A. entered into a liquidity agreement that would replace that dated May 15, 2002, once the aforementioned integration had taken place. This agreement establishes the following liquidity mechanism (put options) relating to the Uno-e Bank, S.A. shares owned by Terra Networks, S.A.: Terra Networks, S.A. has the right to sell to BBVA, and BBVA is obliged to acquire, Terra Networks, S.A.'s holding in Uno-e Bank, S.A. between April 1, 2005 and September 30, 2007, at its market value, established as the higher of the two following values: (i) that determined by an investment bank; and (ii) that obtained by multiplying the income after taxes of Uno-e Bank, S.A. by the PER of BBVA, multiplied by the percentage of ownership of Terra Networks, S.A. that it is intended to sell as of that date.

Also, the exercise price of the aforementioned option may not be lower than €148.5 million if Uno-e Bank, S.A. does not achieve the net ordinary revenue and pre-tax income targets set for 2005 and 2006 in the aforementioned liquidity agreement.

In compliance with the terms of the aforementioned Agreement of January 10, 2003, and after obtaining the necessary authorizations, on April 23, 2003, BBVA and Terra Networks, S.A., at the Special Stockholders' Meeting of Uno-e Bank, S.A., unanimously approved a capital increase at Uno-e Bank, S.A. to be subscribed in full by Finanzia Banco de Crédito, S.A., through the nonmonetary contribution of the consumer finance business line of the latter, whose Special Stockholders' Meeting held on the same date approved the contribution and the subscription in full of the capital increase. This capital increase was recorded in a public deed dated June 19, 2003 and registered in the Mercantile Register on July 16, 2003.

This capital increase entailed the integration of the consumer finance business line of Finanzia Banco de Crédito, S.A. into Uno-e Bank, S.A., following which the holdings of the BBVA Group and Terra Networks, S.A. in Uno-eBank, S.A. stood at 67% and 33%, respectively.

- Terra Mobile, S.A.-

In June 2003 Terra Mobile, S.A. increased capital by €40 million to restore its net worth equilibrium. Terra Networks, S.A. contributed €8 million in cash in this increase. Subsequently, Terra Networks, S.A. sold its holding in the company for €1 to Telefónica Móviles, S.A., making the latter the sole shareholder of Terra Mobile. The sale gave rise to a gain of €10,526 thousand, since Terra Networks had recorded an allowance for the investment value at the negative underlying book value of Terra Mobile, S.A. This gain is recorded under the "Gains on the Disposal of Long-Term Investments" caption in the accompanying 2003 consolidated statement of operations.

- Lycos Korea, Inc.-

In August 2002 Lycos, Inc. sold its holding in Lycos Korea, Inc., and entered into a strategic agreement with Lycos Korea, Inc. which grants the latter the use under a license of the Lycos brand name and of certain Lycos products. The gain obtained on the sale amounted to €10,616 thousand.

- Sympatico Lycos, Inc.-

In September 2002 Lycos, Inc. formalized the sale of its minority holding in the Canadian company Sympatico Lycos, Inc., and entered into a strategic agreement with Sympatico Lycos, Inc. which grants the latter the use under a license of the Lycos brand name and of certain Lycos products. The gain obtained on the sale of the aforementioned holding amounted to €8,493 thousand.

- Lycos Japan, K.K.-

In December 2002 the holding in Lycos Japan, K.K. was sold in full, giving rise to a loss of €2,465 thousand.

- Capital increases–

The detail of the capital increases at associated Terra Lycos Group companies in 2003 is as follows (amounts in thousands of euros):

Company	Capital Increase through Conversion of Debt into Capital	Capital Increase through Fully Subscribed Monetary Contribution
Terra Mobile, S.A.	-	8,000
Inversis Networks, S.A.	-	2,539

The detail of the capital increases at associated companies of the Terra Lycos Group in 2002 is as follows (amounts in thousands of euros):

Company	Capital Increase through Conversion of Debt into Capital	Capital Increase through Fully Subscribed Monetary Contribution
Terra Mobile, S.A.	6,029	27,500
Uno-e Bank, S.A.	-	29,400
Inversis Networks, S.A.	-	1,707
One Travel.com, Inc.	8,021	2,292
Emplaza, S.A.	-	1,351
Iniciativas Residenciales en Internet, S.A.	-	2,404
Azeler Automoción, S.A.	-	990

(3) ALLOCATION OF LOSS

The Parent Company's directors propose that the loss for 2003 be allocated in full to "Accumulated Losses".

(4) VALUATION STANDARDS

The main valuation methods applied by the Parent Company in preparing the accompanying consolidated financial statements were as follows:

a) Consolidation goodwill-

Consolidation goodwill relates to the positive difference between the amounts paid to acquire the subsidiaries and the value of the proportional part of their equity at the acquisition date, net of value adjustments and allowances recorded before the date of first-time consolidation and prior to uniformity adjustments.

Pursuant to Royal Decree 1815/1991 regulating the rules for the consolidation and integration of companies, the difference arising in first-time consolidation between the acquisition cost recorded by the acquiring company and the equity of the acquired company is recorded under the "Consolidation Goodwill" caption on the asset side of the consolidated balance sheet. The recoverability of the goodwill depends on the fulfillment of the future business plans prepared by the Group. In view of the nature of any business plan, which is based on future expectations, significant differences may arise between the projected and actual results.

- *Amortization and write-down of goodwill*

The Parent Company amortizes goodwill systematically over the period in which it will contribute to the obtainment of revenues.

The amortization period is ten years, except for the portion of goodwill assigned to the agreement entered into by Bertelsmann AG, Telefónica, S.A. and Terra Networks, S.A., which will be recovered in proportion to the term of the agreement.

At each year-end, studies are made of the subsidiaries' business plans, based on the new circumstances in the market in general and in the Internet industry in particular. The objective of these analyses is to determine the recovery of the goodwill, recognized tax assets, and of other fixed assets on the consolidated balance sheet of the Terra Lycos Group, on the basis of the estimates of the future value that each of the businesses and countries will generate, in accordance with the accounting principle of prudence in valuation.

As a result of these studies, and in accordance with the accounting principle of prudence, the unamortized consolidation goodwill was written down by €6,452 thousand as of December 31, 2003 (see Notes 5 and 16) and by €856,657 thousand as of December 31, 2002.

The goodwill generated in 2003 amounted to €3,730 thousand, arising from the increases in the holding in OneTravel.com, Inc. €83,269 thousand of amortization of consolidation goodwill were charged to the 2003 consolidated statement of operations (see Note 5).

The goodwill arising from the acquisitions made in 2002 amounted to €3,523 thousand. The charge to the 2002 consolidated statement of operations in connection with the €254,157 thousand of amortization of consolidation goodwill were charged to the 2002 consolidated statement of operations (see Note 5).

- *Goodwill arising from the acquisition of Lycos, Inc.*

For the purposes of calculating the goodwill arising from the acquisition of Lycos, Inc., the acquisition cost recorded in the individual financial statements of Terra Networks, S.A. (capital increase of 302,031,974 shares issued at a par value of €11 each plus the expenses relating to the transaction) was broken down in two different tranches:

1.- New shares of Terra Networks, S.A. issued, subscribed and paid in full, to cover the current shares of Lycos, Inc. (239,491,725 shares issued at a par value of €11 each plus the expenses associated with the transaction). These shares issued by Terra Networks, S.A. covered 111,391,500 shares of Lycos, Inc. at an exchange ratio of 2.15.

2.- New shares of Terra Networks, S.A. issued, subscribed and paid in full, to cover the shares of Lycos, Inc. issued and subscribed relating to the aforementioned company's employees' stock option plans (62,540,249 shares issued at a value of €11 each). Until December 2003 these shares were deposited at Citibank, NA under a share deposit agreement (see Note 11). These shares issued by Terra Networks, S.A. covered 29,088,488 Lycos, Inc. shares at a share exchange ratio of 2.15.

For accounting purposes, a distinction was drawn between:

2A.- Shares that cover options of employees of Lycos, Inc. with an exercise price equal to or greater than €11 (44,664,894 shares).

2B.- Shares that cover options of employees of Lycos, Inc. with an exercise price less than €11 (17,875,355 shares).

The different accounting treatment of the differences between the acquisition price recorded in the 2A and 2B tranches and the acquired company's equity is detailed below:

2A.- Shares that cover options of employees of Lycos, Inc. with an exercise price equal to or greater than €11 (44,664,894 shares).

This asset, valued at €11 per share and recorded under the "Long-Term Investments" caption in the individual financial statements of Terra Networks, S.A., was reclassified for the purposes of the consolidated financial statements to the "Due from Stockholders for Uncalled Capital" caption on the asset side of the consolidated balance sheet for an initial amount of €491,314 thousand. As the employees exercised the options covered by these shares, the balance of the "Due from Stockholders for Uncalled Capital" caption was reduced, and the positive difference between the exercise price paid by the employee and €11 was recorded in the accompanying consolidated financial statements under the "Negative Consolidation Goodwill" caption on the liability side of the consolidated balance sheet. This difference is being allocated to income over the remaining period over which the goodwill which initially arose in the transaction is being amortized, up to a maximum of ten years from the acquisition date (October 27, 2000).

2B.- Shares that cover options of employees of Lycos, Inc. with an exercise price of less than €11 17,875,355 shares).

This asset, recorded under the "Long-Term Investments" caption in the individual financial statements of Terra Networks, S.A., was initially reclassified for the purposes of the consolidated financial statements to the "Due from Stockholders for Uncalled Capital" caption on the asset side of the consolidated balance sheet for the effective exercise price of the options (€83,474 thousand), and the difference of €113,153 thousand between this price and €11 was recorded as additional goodwill. This goodwill will is being allocated to income on a straight-line basis over a maximum period of ten years. As the employees exercised the options covered by these shares, the balance of the "Due from Stockholders for Uncalled Capital" caption was reduced.

On October 27, 2000, Terra Networks, S.A. and Citibank NA (the custodian of the options - see Note 11) entered into a contract to regulate all matters relating to the Stock Option Plans on Terra Networks, S.A. shares. Under this contract, Terra Networks, S.A. will be able to take possession of the shares held by the Agent Bank, for €11 per share, for their subsequent delivery to the beneficiaries of the plans once the latter exercise their options. If after the option exercise period has expired certain options have not been exercised, Terra Networks, S.A., in accordance with the resolutions of the Company's Stockholders' Meetings of June 8, 2000 and April 2, 2003, will have to acquire the excess shares and then retire them. Accordingly, the shares issued by Terra Networks, S.A. on which the related purchase options are not exercised will be retired with the concomitant effect on the financial statements due to the reduction of its capital stock and additional paid-in capital.

On December 16, 2003, the Board of Directors of Terra Networks, S.A., using the powers granted to it by the Stockholders' Meetings of June 8, 2000 and April 2, 2003, approved the acquisition by Terra Networks, S.A. of the 26,525,732 shares of Terra Networks, S.A. held by Citibank, NA, as the agent bank for the option plans which were assumed by Terra Networks, S.A. when Lycos, Inc. was integrated, that were still covering these option plans. For accounting purposes, this entailed the reclassification of the amounts at which these shares were valued from the "Due from Stockholders for Uncalled Capital" (for options still open) and "Other Long-Term Investments" (for expired or cancelled options) accounts to the "Treasury Stock" account.

As of December 31, 2003, there were 7,253,534 shares covering the options of Lycos, Inc. employees that will not be exercised (either because their option exercise period has expired or because the employees to whom these options were granted are no longer at the company) and which as of that date formed part of the capital stock and additional paid-in capital of Terra Networks, S.A. These shares must be presented by the Board of Directors of Terra Networks S.A. to the Stockholders' Meeting for their retirement. Also, as of December 31, 2003, there were 19,272,198 shares covering the options of Lycos, Inc. employees which have not yet been exercised and which as of that date formed part of capital stock and additional paid-in capital. The balancing item of €126,262 thousand is recorded under the "Treasury Stock" caption.

Note 18-b shows the detail of the variations in the options under the Lycos, Inc. employee stock option plan.

b) Transactions between consolidated companies-

All reciprocal receivables and payables between the consolidated companies, as well as the transactions giving rise to reciprocal expenses and revenues for them, were eliminated in consolidation. The results on intercompany transactions are eliminated and deferred until they have been realized vis-à-vis non-Group companies.

c) Uniformity of items in the individual financial statements of the consolidated companies-

In general, assets and liabilities and revenues and expenses of the companies included in the scope of consolidation are valued using uniform methods. However, in the specific case of the different methods that give rise to material variations, such methods were made uniform in consolidation by adapting them to the methods applied by the Parent Company.

d) Translation of the financial statements of consolidated foreign companies-

The financial statements of the Terra Lycos Group subsidiaries abroad were translated to euros at the exchange rates ruling at year-end, except for:

1. Capital stock and reserves, which were translated at historical exchange rates.
2. Goodwill arising at the Parent Company on the acquisition of a foreign holding, either directly or through a portfolio company in the country concerned, which, together with the related amortization, was translated at the historical exchange rates.
3. Income statement items, which were translated at the average exchange rates for the year. The amortization of goodwill of the Parent Company was translated at historical exchange rates, as described above.

The exchange difference arising from application of these procedures is included under the "Stockholders' Equity - Translation Differences" caption in the accompanying consolidated balance sheet, net of the portion of said difference relating to minority interests, which is recorded under the "Minority Interests" caption on the liability side of the accompanying consolidated balance sheet.

e) ***Start-up expenses-***

Start-up expenses, which comprise incorporation, preopening and capital increase expenses, are recorded at cost.

They relate mainly to expenses associated with the public offerings and initial public offerings, such as lawyers' fees, public deed and registration expenses, security underwriting and placement fees, etc., and advertising expenses incurred in launching the Terra brand name and publicizing the aforementioned public offerings.

The Terra Lycos Group amortizes start-up expenses on a straight-line basis over five years. As described in Note 1 and based on the annual review of future earnings expectations obtained from the business plans, in 2002, in accordance with the accounting principle of prudence in valuation, substantially all the unamortized start-up expenses as of December 31, 2002, were written off, giving rise to a charge of €56,622 thousand to the consolidated statement of operations, which is recorded under the "Other Extraordinary Expenses" caption.

€910 thousand and €26,256 thousand of amortization of start-up expenses were charged to the consolidated statement of operations in 2003 and 2002, respectively (see Note 7).

f) ***Intangible assets-***

The intangible assets relate mainly to rights on leased assets, intellectual property, computer software and other intangible rights.

The rights under financial lease contracts are recorded at the cost of the related assets, and the total debt for lease payments plus the amount of the purchase option are recorded as a liability. The difference between the two amounts, which represents the interest expenses on the transaction, is recorded as a deferred expense and is allocated to income each year by the interest method. The rights under the contracts currently in force, which relate mainly to computer hardware, are being amortized on a straight-line basis over the useful life of the hardware.

Intellectual property is recorded at the amounts paid for the acquisition from third parties of title to, or the right to use, trademarks, and is amortized on a straight-line basis over five years.

Computer software is recorded at cost only when it will foreseeably be used over several years, in which case it is amortized on a straight-line basis over three years. Software maintenance expenses are expensed currently.

The “Other Intangible Assets” caption includes intangible rights relating to the acquisition of franchises and customer rosters from third parties, which are amortized on a straight-line basis over three and five years, as well as rights acquired under long-term service and content contracts, which are amortized on a straight-line basis over the contract term, and rights of use of Internet capacity.

The contribution of the intangible assets to the generation of future income is analyzed annually and allowances are recorded to cover the negative difference, if any, between the present value of the estimated future flows and the net book value of the assets. In 2002 provisions for the decline in value of intangible assets totaling €21,648 thousand were recorded (see Note 8).

€43,055 thousand and €72,956 thousand of amortization of intangible assets were charged to the consolidated statement of operations in 2003 and 2002, respectively (see Note 8).

g) Property and equipment-

Property and equipment are carried at cost.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Upkeep and maintenance expenses are expensed currently.

The contribution of property and equipment to the generation of future income is analyzed annually and allowances are recorded to cover the negative difference, if any, between the present value of the estimated future flows and the net book value of the assets. In 2002 provisions for the decline in value of property and equipment totaling €32,573 thousand were recorded (see Note 9).

The Group depreciates its property and equipment by the straight-line method at annual rates based on the following years of estimated useful life:

	Years of Estimated Useful Life
Structures	5-8
Plant	5-10
Furniture	6-11
Computer hardware	2-5
Other tangible fixed assets	4-6
Other fixtures	10

€34,777 thousand and €43,506 thousand of depreciation of property and equipment were charged to the 2003 and 2002 consolidated statements of operations, respectively (see Note 9).

h) Long- and short-term investments-

Nonconsolidated shareholdings and shareholdings accounted for by the equity method are recorded in the consolidated balance sheet at the lower of cost or market.

The market value was determined as follows:

1. Listed securities:

   The market value was taken to be the lower of the average market price in the last quarter or market price at year-end.

2. Unlisted securities and companies accounted for by the equity method:

   The market value was taken to be the underlying book value of the investments adjusted by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at year-end.

As mentioned in Note 2, the investment in Uno-e Bank, S.A. is valued at the guaranteed amount of €148.5 million based on the capital increase at this company, following which the final holding of Terra Networks, S.A. was 33% and it acquired the right to sell it to BBVA for the aforementioned amount.

Unrealized losses (cost higher than market value or underlying book value at year-end) are recorded under the "Investment Valuation Allowances " caption up to the limit of cost. Should unrealized losses exceed cost, reducing the cost value to zero, the overprovision is reclassified for the purposes of the consolidated balance to the liability "Provisions for Contingencies and Expenses" caption.

The "Loans to Telefónica Group Companies" caption includes mainly short-term investments of cash surpluses in Telefónica y Finanzas, S.A. by Terra Networks, S.A.

and various Terra Lycos Group companies, which earn interest at market rates (see Note 13) which as of December 31, 2003 and 2002, amounted to €1,365,307 thousand and €1,362, 299 thousand, respectively.

The "Other Short-Term Investments" caption includes mainly the investments of Lycos, Inc. in monetary assets in the form of deposits at various financial institutions in U.S. dollars, which earn interest at market rates. These short-term investments amounted to US$ 274,689 thousand and US$ 378,806 thousand as of December 31, 2003 and 2002, the equivalent euro value being €217,491 thousand and €361,214 thousand as of December 31, 2003 and 2002, respectively.

i) Classification of receivables and payables-

In the accompanying consolidated balance sheets, receivables and payables maturing in under 12 months from year-end are classified as short-term items and those maturing at over 12 months as long-term items.

j) Inventories-

Inventories are valued at the lower of cost or market. Obsolete, defective or slow-moving inventories have been reduced to realizable value. Allowances for the decline in value of inventories are recorded on the basis of the loss in value and turnover and also when promotional sales are made at a price below the acquisition or production cost.

k) Treasury stock-

Treasury stock is valued at the lower of cost, comprising the total amount paid for its acquisition, or market. The market value is taken to be the lower of underlying book value, the average market price in the last quarter of the year or the year-end market price.

The amount reflected in the "Treasury Stock" account arose mainly as a result, as described in Notes 1 and 2-a, of the reclassifications from the "Due from Stockholders for Uncalled Capital" and "Other Long-Term Investments" accounts due to the acquisition by Terra Networks, S.A. of 26,525,732 shares of Terra Networks, S.A. held by Citibank, NA as the agent bank for the stock option plans assumed by the Company as a result of the integration of Lycos Inc. Additionally, Lycos, Inc. acquired 18,920 shares for a total amount of €1 thousand as a result of former agreements between Lycos, Inc. and CMGI Group, corresponding to stocks options granted to the Lycos employees in the initial stage of the company. As a result, as of December 31, 2003, there were 26,544,652 shares of treasury stock representing 4.41% of capital stock.

An adjustment of €165,521 thousand was made to the value of the treasury stock due to the difference between the acquisition price of these shares and their underlying book value, and this amount was charged to "Additional paid-in capital" since these shares are not for unrestricted use (see Note 11). Terra Networks, S.A. continues to guarantee coverage of the options plans, since these shares were acquired exclusively to be delivered to its employees or to be sold on their behalf when they exercise their options or, pursuant to the resolutions of the Stockholders' Meetings of June 8, 2000 and April 2, 2003, to be retired if the options are not exercised before they mature.

The Company recorded the related restricted reserve pursuant to Article 79.3 of the revised Corporations Law (see Note 11-c).

l) Corporate income tax-

This caption relates to both Spanish corporate income tax and the similar taxes to which the foreign Terra Lycos Group companies are subject.

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, net of tax relief and tax credits, excluding tax withholdings and prepayments.

The Parent Company recognizes tax assets for accounting purposes after analysis of the budgets and business plans which support their recovery in a period of less than ten years, which, under current accounting legislation, is the maximum period for recognizing tax assets for tax loss carryforwards.

In 2003 and 2002 the Company, in accordance with the accounting principle of prudence in valuation, did not record the tax assets relating to the losses of these years. In 2002 it reversed the tax assets recorded in prior years since, based on the current business plans, their recoverability within the next ten years was not reasonably assured (see Note 15).

m) Foreign currency transactions-

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.

Exchange differences arising on adjustment to year-end exchange rates of fixed income securities and receivables and payables denominated in foreign currencies are classified by maturity and currency, and for this purpose currencies which, although different, are officially convertible are grouped together.

Exchange losses are recorded as financial expenses in the year in which they are incurred.

The positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the consolidated balance sheet, unless exchange losses in a given group have been charged to income in prior years or in the current year, in which case the net positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years or in the current year.

n) Recognition of revenues and expenses-

Revenues and expenses are recognized when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. However, in accordance with the accounting principle of prudence, the Group only records realized income at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known.

Certain Terra Group companies, mainly Terra Networks España, S.A. and Terra Networks Brasil, S.A., have entered into agreements with Telefónica Group companies for the sale of software package licenses and for the associated maintenance and support services. The software packages consist of applications that enable the Telefónica Group companies to include more features in their broad and narrow band retail Internet access services for residential and business customers.

The revenues from the sale of the aforementioned software licenses and initial charges are recorded when the licenses are delivered and title to them is transferred, since the associated costs have already been incurred by the delivery date. The software maintenance and support revenues are recorded when the services are provided (pursuant to the agreement, on a monthly basis). The main transactions with Telefónica Group companies are disclosed in Note 16.

For transactions in which the subsidiary One Travel.com. Inc (which operates as an on-line travel agency) bills the end customer for the total amount of the fare including taxes, assumes the risk of credit or default on the part of the end customer and has a minimum purchase commitment with its main supplier or is authorized to establish the definitive price to be paid by the end customer, the "Net Sales and Services" caption includes the full amount billed. The "Other Purchases and Work Performed by Other Companies" caption includes the full cost of the products sold. This company has been fully consolidated since April 2003, and €31,193 thousand and €27,437 thousand were recorded under the "Net Sales" and "Other Purchases and Work Performed by Other Companies" captions, respectively.

(5) CONSOLIDATION GOODWILL

The variations in 2003 and 2002 in this caption in the accompanying consolidated balance sheet were as follows:

	Thousands of Euros						
	Balance at 01/01/03	Addi-tions	Retirements / Transfers	Amorti-Zation	Write-downs	Translation Differences	Balance at 12/31/03
Terra Networks Brasil, S.A.	107,048	-	-	(16,465)	-	-	90,583
Subsidiaries of Terra Networks Brasil, S.A.	4,505	-	(1,083)	(1,883)	-	200	1,739
Terra Networks Guatemala, S.A.	2,009	-	-	(305)	-	-	1,704
Terra Networks Chile, S.A.	24,206	-	-	(3,541)	-	(9)	20,656
Lycos, Inc.	98,639	-	(2,216)	(13,335)	-	(5,153)	77,935
Strategic alliance with Telefónica, S.A.	256,666	-	-	(42,778)	-	-	213,888
Ifigenia Plus, S.L.	7,445	-	-	(993)	(6,452)	-	-
One Travel.com, Inc.	-	3,730	13,784	(2,039)	-	115	15,590
Goodwill arising at fully or proportionally consolidated companies	500,518	3,730	10,485	(81,339)	(6,452)	(4,847)	422,095
Goodwill arising at companies accounted for by the equity method	126,671	-	(124,741)	(1,930)	-	-	-
Total	**627,189**	**3,730**	**(114,256)**	**(83,269)**	**(6,452)**	**(4,847)**	**422,095**

	Thousands of Euros						
	Balance at 01/01/02	Addi-tions	Retirements / Transfers	Amorti-Zation	Write-downs	Translation Differences	Balance at 12/31/02
Ordenamiento de Links Especializados, S.L.	6,301	-	-	(868)	(5,433)	-	-
Terra Networks Brasil, S.A.	123,516	-	-	(16,468)	-	-	107,048
Subsidiaries of Terra Networks Brasil, S.A.	9,262	-	-	(2,372)	-	(2,385)	4,505
Terra Networks Guatemala, S.A.	2,309	-	-	(300)	-	-	2,009
Terra Networks Argentina, S.A.	2,661	-	-	(337)	(2,324)	-	-
Terra Networks México Holding, S.A. de C.V.	148,238	-	-	(18,765)	(129,473)	-	-
Terra Networks México, S.A. de C.V.	842	-	-	(842)	-	-	-
Subsidiaries of Terra Networks México, S.A. de C.V.	764	-	-	(764)	-	-	-
Terra Networks Chile, S.A.	27,746	-	-	(3,540)	-	-	24,206
Lycos, Inc.	996,930	-	(5,219)	(119,523)	(696,448)	(77,101)	98,639
Bertelsmann/Telefónica strategic alliance	328,333	-	-	(71,667)	-	-	256,666
Terra Networks Venezuela, S.A.	3,246	-	-	(391)	(2,855)	-	-
Terra Networks Colombia Holding, S.A.	16,612	-	-	(1,935)	(14,677)	-	-
Ifigenia Plus, S.L.	8,438	-	-	(993)	-	-	7,445
Bumeran Participaciones, S.L.	4,496	279	-	(697)	(4,078)	-	-
Goodwill arising at fully or proportionally consolidated companies	1,679,694	279	(5,219)	(239,462)	(855,288)	(79,486)	500,518
Goodwill arising at companies accounted for by the equity method	139,491	3,244	-	(14,695)	(1,369)	-	126,671
Total	**1,819,185**	**3,523**	**(5,219)**	**(254,157)**	**(856,657)**	**(79,486)**	**627,189**

The additions to goodwill in 2003 and 2002 arose as a result of the acquisitions of holdings in the various Terra Lycos Group companies (see Exhibit I). The amortization relates to the period from the date of acquisition of the holdings through December 31, 2003 and 2002, respectively.

The "Transfers" column for 2003, as described in Note 2-d, includes €110,957 thousand relating to the reclassification of the full amount the goodwill of Uno-e Bank, S.A. to the "Other Investments" caption in the accompanying consolidated balance sheet.

As indicated in Notes 1 and 4-a, as of December 31, 2003 and 2002, the unamortized balance of the goodwill was written down by €6,452 thousand and €856,657 thousand, respectively, and these amounts were recorded with a charge to the "Extraordinary Expenses and Losses" caption in the accompanying consolidated statements of operations (see Note 16).

(6) INVESTMENTS IN COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD

The variations in 2003 and 2002 in this caption in the consolidated balance sheet and in the related allowances for decline in value were as follows:

	Thousands of Euros						
	Balance at 01/01/03	Additions	Retire-ments	Share in Income (Losses)	Trans-Fers	Translation Differences	Balance at 12/31/03
CIERV, S.L.	-	-	-	(1,268)	1,268	-	-
De remate.com, Inc.	4,789	-	-		-	(814)	3,975
OneTravel.com, Inc.	3,702	2,730	-	(126)	(5,795)	(511)	-
Uno-e Bank, S.A.	39,929	-	-	(2,383)	(37,546)	-	-
Azeler Automoción, S.A.	1,136	-	-	(546)	-	-	590
Rumbo, S.A.	-	-	-	(2,947)	2,947	-	-
Terra Mobile	-	8,000	(8,000)	-	-	-	-
A Tu Hora, S.A.	1,897	-	-	(1,897)	-	-	-
Lycos Asia Limited	-	-	-	(8,069)	7,210	859	-
Lycos Korea, Inc.	-			1,213	(1,093)	(120)	-
Lycos Europe N.V.	79,779	-	-	(17,632)	-	(208)	61,939
Lycos Ventures LP	1,732	12	(174)	(71)	10	(270)	1,239
Iniciativas Residenciales en Internet, S.A.	1,899	-	-	(1,008)	-	-	891
Investments in companies accounted for by the equity method	**134,863**	**10,742**	**(8,174)**	**(34,734)**	**(32,999)**	**(1,064)**	**68,634**
Allowances	**(4,789)**	**-**	**-**	**-**	**-**	**815**	**(3,974)**

	Thousands of Euros							
	Balance at 01/01/02	Additions	Retirements	Share in Income (Losses)	Transfers	Other Variations	Translation Differences	Balance at 12/31/02
CIERV, S.L.	-	-	-	(3,804)	3,804	-	-	-
De remate.com, Inc.	5,644	-	-	-	-	-	(855)	4,789
OneTravel.com, Inc.	-	10,313	-	(696)	(3,873)	-	(2,042)	3,702
Terra Mobile, S.A.	-	33,529	-	(46,648)	13,016	-	103	-
Uno-e Bank, S.A.	22,472	29,398	-	(11,941)	-	-	-	39,929
Azeler Automoción, S.A.	2,771	990	-	(2,614)	(11)	-	-	1,136
Emplaza, S.A.	691	1,244	-	-	-	(1,935)	-	-
Rumbo, S.A.	2,067	-	-	(2,317)	250	-	-	-
A Tu Hora, S.A.	3,245	-	-	(1,348)	-	-	-	1,897
Lycos Japan K.K.	1,894	10,324	(6,184)	(5,932)	-	-	(102)	-
Lycos Asia Limited	-	-	-	(6,788)	6,097	-	691	-
Lycos Korea, Inc.	-	-	-	(1,466)	1,317	-	149	-
Lycos Europe N.V.	189,334	-	-	(60,097)	-	(50,200)	742	79,779
Sympatico Lycos, Inc.	-	103	-	(103)	-	-	-	-
Lycos Ventures LP	4,490	308	-	(2,624)	-	-	(442)	1,732
Autobytel, Inc.	17,840	-	-	(808)	-	(16,069)	(963)	-
Fast Search & Transfer ASA	24,547	-	-	234	-	(23,456)	(1,325)	-
Iniciativas Residenciales en Internet, S.A.	-	2,404	-	(1,950)	1,445	-	-	1,899
Investments in companies accounted for by the equity method	**274,995**	**88,613**	**(6,184)**	**(148,902)**	**22,045**	**(91,660)**	**(4,044)**	**134,863**
Allowances	**(5,644)**	**-**	**-**	**-**	**-**	**-**	**855**	**(4,789)**

In 2003 the "Transfers" column, as explained in Note 2-b, includes the reclassification of the investment in Uno-e Bank, S.A., together with the related goodwill, to the "Other Investments" caption in the accompanying consolidated balance sheet.

Also, in 2003 and 2002 the "Transfers" column includes the reclassification of the accounts payable by the companies accounted for by the equity method to the long-term "Provisions for Contingencies and Expenses" caption on the liability side of the consolidated balance sheet (see Note 4-h).

In 2002 the "Other Variations" column includes the reclassification to the "Other Investments" caption of the cost of the minority holdings owned by Lycos, Inc. in Fast Search & Transfer ASA and Autobytel, Inc., which instead of being accounted for by the equity method were recorded at their market value (see Note 2-b).

On January 17, 2003, the Stockholders' Meeting of Lycos Europe, N.V. resolved to retire 27,277,144 shares of treasury stock. As a result of this transaction, the Terra Lycos Group's ownership interest in Lycos Europe, N.V. increased from 29.5% to 32.1%.

(7) START-UP EXPENSES

The variations in this caption in 2003 and 2002 were as follows:

	Thousands of Euros
Balance at January 1, 2002	**85,838**
Inclusion of companies	69
Translation differences	(1,563)
Amortization	(26,256)
Write-downs	(56,622)
Balance at December 31, 2002	**1,466**
Inclusion of companies	488
Exclusion of companies	(81)
Translation differences	(71)
Amortization	(910)
Balance at December 31, 2003	**892**

The "Inclusion of Companies" caption includes the balances of the subsidiaries as of the date on which they were included in consolidation.

The "Translation Differences" caption reflects the effect of exchange rate fluctuations on the beginning balances and the monetary adjustments that certain companies made to their balances to cater for the effect of inflation, in accordance with accounting practices in their respective countries.

As indicated in Note 4-e, in accordance with the annual review of the business plans and based on the accounting principle of prudence, as of December 31, 2002, the unamortized preopening expenses were written down by €56,622 thousand.

(8) INTANGIBLE ASSETS

The detail of the balances of the "Intangible Assets" caption and of the variations therein in 2003 and 2002 is as follows:

	Thousands of Euros						
	Balance at 01/01/03	Additions or Provisions	Retirements	Transfers	Exclusion of Companies	Translation Differences	Balance at 12/31/03
Research and development expenses	155	-	-	(155)	-	-	-
Rights on leased assets	-	14,029	(11)	320			14,338
Intellectual property	23,052	156	-	811	(190)	(1,505)	22,324
Computer software	78,627	14,683	(1,270)	6,672	(431)	(3,825)	94,456
Intangible assets in progress	3,977	3,080	(585)	(3,661)	-	(112)	2,699
Other intangible assets	112,482	32,004	(846)	(611)	-	(14,898)	128,131
Allowances	(19,377)	-	791	1,441	-	3,067	(14,078)
Accumulated amortization	(141,830)	(43,055)	1,178	(1,127)	294	16,937	(167,603)
Total, net	**57,086**	**20,897**	**(743)**	**3,690**	**(327)**	**(336)**	**80,267**

	Thousands of Euros						
	Balance at 01/01/02	Additions or Provisions	Retirements	Transfers	Inclusion of Companies	Translation Differences	Balance at 12/31/02
Research and development expenses	155	45	(45)	-	-	-	155
Intellectual property	26,209	569	(30)	1,509	-	(5,205)	23,052
Computer software	85,006	11,714	(15,205)	3,255	345	(6,488)	78,627
Intangible assets in progress	2,979	4,305	(104)	(3,044)	-	(159)	3,977
Other intangible assets	203,674	4,388	(54,939)	(1,779)	-	(38,862)	112,482
Allowances	(22)	(21,648)	22	-	-	2,271	(19,377)
Accumulated amortization	(159,904)	(72,956)	65,781	(2,037)	(63)	27,349	(141,830)
Total, net	**158,907**	**(73,583)**	**(4,520)**	**(2,096)**	**282**	**(21,094)**	**57,086**

Additions under the "Other Intangible Assets" caption in 2003 include the acquisition of rights of use of Internet capacity.

Additionally, in 2003 Lycos, Inc. converted operating lease contracts, amounting to €14,029 thousand, into capital lease contracts. This transaction was financed through a cash outlay of €3,755 thousand and initial financing of €10,274 thousand from credit institutions. As of December 31, 2003, this financing made up the full balance (€7,163 thousand) of the "Payable to Credit Institutions" caption in the accompanying consolidated balance sheet.

The "Inclusion of Companies" column includes the balances of the subsidiaries as of the date on which they were included in consolidation.

The "Translation Differences" column reflects the effect of exchange rate fluctuations on the beginning balances and the monetary adjustments that certain companies made to their balances to cater for the effect of inflation, in accordance with accounting practices in their respective countries.

In 2003 and 2002 the main additions to intangible assets related to acquisitions made by various Terra Lycos Group subsidiaries in Mexico, Brazil, Spain and the U.S., mainly under long-term content supply contracts and software licenses.

In 2002, based on a study of the capacity of the various subsidiaries to generate future income (see Note 4-f), provisions for the decline in value of intangible assets totaling €21,648 thousand were recorded.

(9) PROPERTY AND EQUIPMENT

The detail of the balances of the "Property and Equipment" caption and of the variations therein in 2003 and 2002 is as follows:

	Thousands of Euros						
	Balance at 01/01/03	Additions or Provisions	Retirements	Transfers	Exclusion of Companies	Translation Differences	Balance at 12/31/03
Land and structures	18,312	203	(349)	108	-	(3,538)	14,736
Plant and machinery	8,782	2,196	(12)	4,447	(17)	(233)	15,163
Computer hardware	131,956	13,510	(8,655)	504	(150)	(13,191)	123,974
Furniture	14,120	316	(121)	46	(34)	(2,086)	12,241
Construction in progress	214	154	(49)	(146)	-	(22)	151
Other tangible fixed assets	8,147	70	(93)	(4,951)	(14)	(114)	3,045
Allowances	(29,233)	-	2,149	3,223	-	6,819	(17,042)
Accumulated depreciation	(97,539)	(34,777)	6,945	(323)	118	11,609	(113,967)
Total, net	**54,759**	**(18,328)**	**(185)**	**2,908**	**(97)**	**(756)**	**38,301**

	Thousands of Euros						
	Balance at 01/01/02	Additions or Provisions	Retirements	Transfers	Inclusion of Companies	Translation Differences	Balance at 12/31/02
Land and structures	18,888	2,964	(2,000)	2,148	-	(3,688)	18,312
Plant and machinery	9,919	268	(30)	(475)	-	(900)	8,782
Computer hardware	154,325	13,635	(9,336)	3,088	38	(29,794)	131,956
Furniture	15,640	1,843	(1,131)	605	20	(2,857)	14,120
Construction in progress	3,232	205	(346)	(2,385)	-	(492)	214
Other tangible fixed assets	7,377	2,752	(337)	(311)	14	(1,348)	8,147
Allowances	-	(32,573)	-	-	-	3,340	(29,233)
Accumulated depreciation	(81,163)	(43,506)	8,613	(1,091)	(10)	19,618	(97,539)
Total, net	**128,218**	**(54,412)**	**(4,567)**	**1,579**	**62**	**(16,121)**	**54,759**

In 2003 and 2002 the most significant investments in property and equipment related to those made by the Terra Lycos Group subsidiaries in Spain, Mexico, Brazil, and the U.S., mainly in computer hardware.

The "Inclusion of Companies" column includes the balances of the subsidiaries as of the date on which they were included in consolidation.

The "Translation Differences" column reflects the effect of exchange rate fluctuations on the beginning balances and the monetary adjustments that certain companies made to their balances to cater for the effect of inflation, in accordance with accounting practices in their respective countries.

In 2002, based on a study of the capacity of the various subsidiaries to generate future income (see Note 4-g), provisions for the decline in value of property and equipment totaling €32,573 thousand were recorded.

(10) OTHER INVESTMENTS

The detail of the balances of the "Long-Term Investments – Other Investments" caption, of the related investment valuation allowances and of the variations therein in 2003 and 2002, is as follows:

Thousands of Euros	Other Investments	Allowances	Net
Balance at January 1, 2002	**50,193**	**(39,795)**	**10,398**
Additions or provisions	1,735	(33,488)	(31,753)
Retirements	(17,538)	17,436	(102)
Transfers	71,460	(33,383)	38,077
Translation differences	(12,065)	10,577	(1,488)
Balance at December 31, 2002	**93,785**	**(78,653)**	**15,132**
Additions or provisions	2,623	18,177	20,800
Retirements	(8,355)	8,405	50
Transfers	189,772	(41,326)	148,446
Translation differences	(13,729)	9,491	(4,238)
Balance at December 31, 2003	**264,096**	**(83,906)**	**180,190**

As indicated in Notes 5 and 6, the "Transfers" account in 2003 relates mainly to the reclassification of the full amount of the investment in Uno-e Bank, S.A. from the "Consolidation Goodwill" and "Investments in Companies Accounted for by the Equity Method", for a net amount of €148,500 thousand.

The "Additions" in 2003 and 2002 relate mainly to additional investments in Inversis Networks, S.A. amounting to €2,539 thousand and €1,707 thousand, respectively.

As indicated in Note 6, the "Transfers" account in 2002 includes a reclassification from the "Investments in Companies Accounted for by the Equity Method" of the cost of the minority interests of Lycos, Inc. in the listed companies Fast Search & Transfer ASA and Autobytel, Inc., which instead of being accounted for by the equity method were recorded at their market value. The period provision recorded to the investment valuation allowance in 2002 related mainly to these two investments.

(11) STOCKHOLDERS' EQUITY

The variations in equity accounts in 2003 and 2002 were as follows:

	Thousands of Euros							
	Capital Stock	Additional Paid-in Capital	Reserves	Accumulated Losses	Reserves at Consoli-dated Companies	Translation Differences	Loss for the Year	Total
Balance at January 1, 2002	**1,242,532**	**5,635,694**	**2,193**	**9,951**	**(645,270)**	**(122,010)**	**(566,298)**	**5,556,792**
Allocation of loss	-	-	-	101,040	(667,338)	-	566,298	-
Capital reduction	(26,211)	(117,950)	-	-	-	-	-	(144,161)
Restricted reserve for retired capital	-	(26,211)	26,211	-	-	-	-	-
Other transfers	-	-	(329)	329	-	-	-	-
Loss for the year	-	-	-	-	-	-	(2,008,870)	(2,008,870)
Consolidation of foreign subsidiaries	-	-	-	-	-	(212,874)	-	(212,874)
Balance at December 31, 2002	**1,216,321**	**5,491,533**	**28,075**	**111,320**	**(1,312,608)**	**(334,884)**	**(2,008,870)**	**3,190,887**
Allocation of loss	-	-	-	(804,072)	(1,204,798)	-	2,008,870	-
Capital reduction	(13,385)	(60,231)	-	-	-	-	-	(73,616)
Restricted reserve for retired capital	-	(13,385)	13,385	-	-	-	-	-
Treasury stock value adjustment	-	(165,521)	-	6,741	-	-	-	(158,780)
Restricted reserve for treasury stock	-	(126,262)	126,262	-	-	-	-	-
Variation in the scope of consolidation	-	-	-	(19,652)	19,652	-	-	-
Other transfers	-	-	(1,858)	1,722	-	136	-	-
Loss for the year	-	-	-	-	-	-	(172,710)	(172,710)
Consolidation of foreign subsidiaries						(65,240)	-	(65,240)
Balance at December 31, 2003	**1,202,936**	**5,126,134**	**165,864**	**(703,941)**	**(2,497,754)**	**(399,988)**	**(172,710)**	**2,720,541**

(1) The "Reserves" column includes the "Unrestricted Reserves", "Reserves for Redeemed Capital Stock" and "Reserves for Treasury Stock" captions in the accompanying consolidated balance sheet.

(2) The "Reserves at Consolidated Companies" column includes the "Reserves at Fully Consolidated Companies" and "Reserves at Companies Accounted for by the Equity Method" captions in the accompanying consolidated balance sheet.

a) Capital stock-

2003

The Parent Company's capital stock as of December 31, 2003, consisted of 601,467,915 fully subscribed and paid registered shares of €2 par value each.

On June 5, 2003, a capital reduction of €13,385 thousand was executed in a public deed through the retirement of 6,692,344 shares of treasury stock of €2 par value each, pursuant to a resolution adopted by the Stockholders' Meeting on April 2, 2003. These shares were left over from the Lycos, Inc. employee stock option plans. As of that date these purchase options on Terra Networks, S.A. shares were recorded under the "Other Long-Term Investments" caption. The capital retirement reduced the balances of the "Capital Stock", "Additional Paid-in Capital", "Long-Term Investments" and "Consolidation Goodwill" captions by €13,385 thousand, €60,231 thousand, €71,400 thousand and €2,216 thousand, respectively.

As of December 31, 2003, the Company held 26,544,652 shares of treasury stock acquired from Citibank, NA by virtue of the resolution of the Board of Directors of December 16, 2003, using the powers granted to it by the Stockholders' Meetings of June 8, 2000 and April 2, 2003 (see Note 1). These shares are covering the stock option plan for employees of Lycos, Inc. and must be retired if the stock options are not exercised. They represent 4.41% of the capital stock, are valued at €4,76 and amount to €126,262 thousand, and this amount is recorded under the "Treasury Stock" caption on the asset side of the accompanying consolidated balance sheet.

2002

The Parent Company's capital stock as of December 31, 2002, consisted of 608,160,259 fully subscribed and paid shares of €nominativas 2 par value each.

In July 2002 capital was reduced by €26,211 thousand through the retirement of 13,105,586 shares of treasury stock of €2 par value each, thereby complying with the resolution adopted by the Stockholders' Meeting on April 9, 2002. As of December 31, 2001, these shares had been deposited at Citibank, NA to cover purchase option rights under the stock option plan for employees of Lycos, Inc. that had been cancelled. As of that date these purchase options on Terra Networks, S.A. shares were recorded under the "Other Long-Term Investments" caption. The capital retirement reduced the balances of the "Capital Stock", "Additional Paid-in Capital", "Long-Term Investments" and "Consolidation Goodwill" captions by €26,211 thousand, €117,950 thousand, €138,942 thousand and €5,219 thousand, respectively.

b) Legal reserve-

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount.

Except as mentioned above, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. Since the Parent Company incurred losses in 2003, no appropriation was made to the legal reserve as of December 31, 2003.

c) Reserve for treasury stock-

In 2003 the Parent Company eliminated the reserve for treasury stock of €1,858 thousand, which covered the 2,420,468 owned by Lycos, Inc. since, as described in Note 1, on June 26, 2003, the Board of Directors of Terra Networks, S.A. indicated its willingness to accept the tender offer of Telefónica, S.A. for these shares.

In accordance with Article 79.3 of the revised Spanish Corporations Law, the Parent Company has recorded a restricted reserve of €126,262 thousand for a total of 26,544,652 shares of treasury stock.

d) Reserve for retired capital-

Pursuant to Article 167 of the revised Corporations Law, the Parent Company recorded a restricted reserve of €39,596 thousand for the amount of the par value of the shares retired in 2002 and 2003 in order to avoid its creditors having the right to contest the aforementioned capital reduction.

e) Reserves at consolidated companies-

In 2003 the holding in Uno-e Bank, S.A. was excluded from consolidation, reducing the reserves at fully consolidated companies by €19,652 thousand, and this amount was reclassified to the accumulated losses of the Parent Company. Additionally, the sale of Terra Mobile, S.A. reduced the reserves by €100,907 thousand, and this amount was reclassified to the reserves of Terra Networks Asociadas, S.L., which owned the holding. The dissolution of Bumeran Participaciones S.L. reduced the reserves of Terra Networks Asociadas S.L., the company which owned the holding, by €13,756 thousand. Also, the dissolution of Terra Networks Uruguay, S.A. and Terra Global Management, Inc. reduced reserves by €5,578 thousand, which were reclassified to the reserves of Terra Networks Latam E.T.V.E., S.L., the company which owned these holdings (see Note 11-g).

f) Translation differences-

The translation differences relate to the effect of exchange rate fluctuations on the net assets of the companies located abroad and the effect of the adjustment for inflation on the assets contributed by the companies at which this accounting practice is applied. These effects reduced the accumulated assets by €399,988 thousand as of December 31, 2003, and by €334,884 thousand as of December 31, 2002, as a result of the consolidation of the various subsidiaries composing the Group.

The year-end exchange rate method was used to calculate the translation differences (see Note 4-d).

g) Contribution of the Group companies to consolidated reserves and losses-

The detail of the contribution of the Terra Lycos Group companies to consolidated reserves and losses as of December 31, 2003 and 2002, is as follows:

	Thousands of Euros			
	Loss (Income)		Negative (Positive) Reserves	
	12/31/03	12/31/02	12/31/03	12/31/02
Terra Networks, S.A. (Parent Company)	44,075	804,072	538,077	(139,395)
Fully or proportionally consolidated companies:				
T.N. España, S.A.	831	82,631	232,985	150,354
Ordenamiento de Links Especializados, S.L.	-	1	1,552	1,551
Terra Lycos Intangibles, S.A.	95	136	5,118	4,982
Lycos, Inc.	48,678	568,929	692,830	123,901
T.N Guatemala, S.A.	1,930	2,481	10,320	7,839
T.N. Perú, S.A.	1,479	20,761	45,652	24,891
T.N. USA, Inc. and subsidiaries	-	44,858	230,010	185,152
T.N. Argentina, S.A.	1,540	12,085	50,166	38,081
T.N. México Holding, S.A. de C.V. and subsidiaries	24,303	177,721	380,645	202,924
Telefónica Interactiva Brasil, S.A. and subsidiaries	8,774	86,241	392,004	305,763
T.N. Chile Holding Ltda. and subsidiary	6,015	10,407	52,607	42,200
T.N. Venezuela, S.A.	859	7,191	17,042	9,851
T.N. Colombia Holding S.A. and subsidiary	2,662	30,766	44,599	13,833
T.N. Uruguay, S.A.	-	1,157	-	4,216
Ifigenia Plus, S.L.	520	3,214	3,827	613
T.N. Global Management, Inc.	-	217	-	(12)
T.N. Caribe, S.A.	137	551	1,387	836
Maptel Networks, S.A.	803	687	531	(156)
Bumeran Participaciones, S.L. and subsidiaries	-	5,937	-	7,819
Terra Networks Latam E.T.V.E., S.L.	(859)	(6,317)	(739)	-
Terra Networks Asociadas, S.L.	(7,467)	11,387	126,050	-
OneTravel.com, Inc.	2,689 (*)	696 (*)	3,076	2,380
Emplaza, S.A. (in liquidation)	-	1,362	3,886	2,524
Educaterra, S.L.	1,038	-	-	-
Companies accounted for by the equity method:				
Uno-e Bank, S.A.	2,383	11,941	-	7,711
Azeler Automoción, S.A.	546	2,614	4,062	1,448
A Tu Hora, S.A.	1,897	1,348	4,527	3,179
Rumbo S.A.	2,947	2,317	6,410	4,093
Centro de Investigación y Experimentación de la Realidad Virtual, S.L.	1,268	3,804	11,472	7,668
De remate.com, Inc.	-	-	8,036	8,036
Terra Mobile, S.A.	-	46,648	-	54,259
Lycos Asia Limited	8,069	6,788	12,966	6,178
Lycos Europe N.V.	17,632	60,097	145,086	84,989
Lycos Ventures LP	71	2,624	8,129	5,505
Lycos Korea, Inc.	(1,213)	1,466	1,466	-
Sympatico Lycos, Inc.	-	103	103	-
Iniciativas Residenciales en Internet, S.A.	1,008	1,949	1,949	-
TOTAL	**172,710**	**2,008,870**	**3,035,831**	**1,173,213**

(*) Including €126 thousand and €696 thousand in 2003 and 2002, respectively, generated when the company was accounted for by the equity method.

h) Stock option plans-

The "Stockholders' Equity" caption includes the effect of the increase in capital stock and additional paid-in capital relating to the shares issued to cover the stock option plans for Terra Networks, S.A. employees in progress at that date.

As of December 31, 2003, the detail of the shares issued to cover these stock option plans was as follows:

Total number of shares issued at December 31, 2003	**601,467,915**
Shares of treasury stock covering cancelled stock option rights of Lycos, Inc. employees	7,253,534
Shares of treasury stock covering stock option rights not yet exercised by Lycos, Inc. Employees	19,272,198
Total excluding shares covering stock options of Lycos, Inc. employees	**574,942,183**
Shares issued to cover stock option plans of Terra Networks, S.A. (Note 18-a)	13,945,556
Total excluding shares covering stock option plans	**560,996,627**

As described in Note 4-a, on October 27, 2000, Terra Networks, S.A. and Citibank NA (the custodian of the options) entered into a contract to regulate all matters relating to the stock option plans on Terra Networks, S.A. shares for Lycos, Inc. employees.

On December 16, 2003, the Board of Directors of Terra Networks, S.A., exercising the powers granted to it by the Stockholders' Meetings of June 8, 2000 and April 2, 2003, approved the acquisition by Terra Networks, S.A. of 26,525,732 Terra Networks, S.A. shares owned by Citibank, NA as the agent bank for the stock option plans assumed by the Company as a result of integration of Lycos Inc. These shares continue to cover the stock option plans for Lycos, Inc. employees in progress at that date and are recorded under the "Treasury Stock" caption on the asset side of the accompanying consolidated balance sheet (see Note 4 k).

If after the option exercise period has expired certain options have not been exercised, Terra Networks, S.A. will have to retire the surplus shares. Accordingly, the shares issued by Terra Networks, S.A. on which the related purchase options are not exercised must be presented to the Stockholders' Meeting of Terra Networks, S.A. for their retirement, with the concomitant effect on the financial statements due to the reduction of capital stock and additional paid-in capital.

Of the 26,525,732 shares acquired from Citibank, NA, as of December 31, 2003, there were 7,253,534 shares covering purchase option rights under the aforementioned stock option plan of Lycos, Inc. employees that had been cancelled (either because the option exercise period had expired or because the beneficiaries of the rights were no longer at the company). The Board of Directors will propose to the Stockholders' Meeting that the Company retired the mentioned 7,253,534 shares. This capital retirement will reduce the balances of the "Capital Stock", "Additional Paid-in Capital", "Treasury Stock" and "Consolidation Goodwill" captions by €14,507 thousand, €21,930 thousand, €34,527 thousand and €1,910 thousand, respectively, in the Consolidated financial statements as of December 31, 2003.

(12) MINORITY INTERESTS

These relate to the equity of minority interests in the net worth and results for the year of the fully consolidated subsidiaries. Exhibit I contains a detail of the various Terra Lycos Group companies, including the percentages of direct and indirect ownership and their net worth at 2003 year-end.

The variations in 2003 and 2002 in this caption in the accompanying consolidated balance sheet were as follows:

	Thousands of Euros					
Company	Balance at 01/01/03	Loss for the Year	Capital Increases	Other Variations	Translation Differences	Balance at 12/31/03
One Travel.com, Inc.	-	(536)	3,496	-	1	2,961
Total	**-**	**(536)**	**3,496**	**-**	**1**	**2,961**

	Thousands of Euros					
Company	Balance at 01/01/02	Loss for The Year	Capital Increases	Other Variations	Translation Differences	Balance at 12/31/02
T.N. Colombia, S.A.	793	(827)	-	-	34	-
Bumeran Participaciones, S.L.	2,735	(1,435)	-	(1,300)	-	-
Emplaza, S.A.	-	(150)	150	-	-	-
Total	**3,528**	**(2,412)**	**150**	**(1,300)**	**34**	**-**

(13) BALANCES WITH TELEFÓNICA GROUP COMPANIES

The detail as of December 31, 2003 and 2002, of the balances arising from transactions with Telefónica Group companies is as follows:

	Thousands of Euros			
December 31, 2003	Short-Term Investments	Short-Term Receivables	Long-Term Payables	Short-Term Payables
Telefónica Finanzas, S.A.	1,365,307	-	-	1
Telefónica, S.A.	-	12,155	26,183	1,273
Telefónica Data España S.A.	-	904	-	14,336
Telefónica Investigación y Desarrollo, S.A.	-	7	-	2,094
Telefónica de España, S.A.	-	23,316	-	4,870
Telefónica Móviles, S.A.	-	3,364	-	2,068
Telefónica Procesos y Tecnología de la Información, S.A.	-	-	-	998
Atento España, S.A.	-	1	-	959
Zeleris España, S.A.	-	-	-	771
CTC Chile, S.A.	-	5,056	-	1,302
CTC Mundo, S.A.	-	419	-	-
Assist Telefónica, S.A.	-	1,355	-	-
Telecomunicaciones de Sao Paulo, S.A.	-	1,927	-	476
Telefónica Móviles México	-	895	-	5
Telefónica Data Brasil	-	-	-	1,561
Atento Do Brasil Ltda.	-	-	-	662
Telefónica Data USA, Inc.	-	2	-	457
Telefónica Empresas Perú, S.A.	-	-	-	969
Telefónica del Perú, S.A.	-	3,541	-	536
Other Telefónica Group companies	124	-	9	4,864
Total	**1,365,431**	**57,417**	**26,192**	**38,202**

December 31, 2002	Thousands of Euros Short-Term Investments	Short-Term Receivables	Short-Term Payables
Telefónica Finanzas, S.A.	1,362,299	-	-
Telefónica, S.A.	-	2,853	2,562
Telefónica Data España S.A.	-	93	3,789
Telefónica de España, S.A.	-	44,319	12,110
Telefónica Móviles España, S.A.	-	1,103	4,714
Atento Teleservicios España, S.A.	-	325	656
Zeleris España, S.A.	-	-	875
CTC Chile, S.A.	-	3,214	1,099
CTC Mundo, S.A.	-	117	-
Telecomunicaciones de Sao Paulo, S.A.	-	1,091	828
Assist Telefónica, S.A.	-	856	-
Telefónica Data Brasil, S.A.	-	-	1,001
Atento Do Brasil, Ltda.	-	-	670
Telefónica Data USA, Inc.	-	863	2,024
Telefónica del Perú, S.A.	-	1,537	633
Other Telefónica Group companies	-	4,174	3,894
Total	**1,362,299**	**60,545**	**34,855**

The balances with Telefonía Finanzas, S.A. (Telfisa) relate to the current accounts held by various Spanish Terra Group companies at that entity. The current account balances earn interest at market rates (the average interest rates in 2003 and 2002 were 2.57% and 3.33%, respectively).

The balances included under the "Short-Term Receivables" and "Short-Term Payables" captions as of December 31, 2003, include mainly the outstanding balances arising from the transactions performed under the Framework Strategic Alliance Agreement entered into with Telefónica, S.A. The other balances with Telefónica Group companies relate to the transactions carried out in the course of ordinary business activities, as described in Note 16.

(14) BALANCES WITH ASSOCIATED COMPANIES

The detail of the accounts receivable from and payable to associated companies as of December 31, 2003 and 2002, is as follows:

	Thousands of Euros			
December 31, 2003	Long-Term Loans	Short-Term Loans	Short-Term Receivables	Short-Term Payables
Red Universal de Marketing y Bookings Online, S.A.	3,757	-	463	194
A Tu Hora, S.A.	-	-	-	2,877
Lycos Asia Limited	12,272	-	-	-
Lycos Europe, N.V.	-	-	-	32
Aremate.com, Inc.	-	-	884	-
Iniciativas Residenciales en Internet, S.A.	-	-	358	2
Other	-	-	132	-
Total	**16,029**	**-**	**1,837**	**3,105**

	Thousands of Euros			
December 31, 2002	Long-Term Loans	Short-Term Loans	Short-Term Receivables	Short-Term Payables
Red Universal de Marketing y Bookings Online, S.A.	1,890	-	1,409	153
A Tu Hora, S.A.	-	181	-	2,875
Lycos Asia Limited	10,012	-	-	-
Lycos Europe, N.V.	-	-	91	-
Aremate.com, Inc.	-	-	764	-
Iniciativas Residenciales en Internet, S.A.	-		562	-
Other	-	-	44	450
Total	**11,902**	**181**	**2,870**	**3,478**

The loans granted to the associated company Lycos Asia Limited earn interest at market rates and had been fully provisioned as of December 31, 2003, under the "Other Investment Valuation Allowances" caption in the accompanying consolidated balance sheet. The loans granted to Red Universal de Marketing y Bookings Online, S.A. are participating loans (earning floating interest rates subject to fulfillment of the condition precedent that the company obtain certain results).

(15) TAX MATTERS

a) Taxes receivable and payable-

The detail of the "Taxes Receivable" and "Taxes Payable" captions in the accompanying consolidated balance sheets as of December 31, 2003 and 2002, is as follows:

	Thousands of Euros	
December 31, 2003	Long Term	Short Term
Taxes receivable		
Tax loss carryforwards	233,925	-
Prepaid income taxes	55,839	-
VAT refundable by the Spanish Treasury	4,457	2,935
Tax withholdings and prepayments	-	17,937
Local taxes	-	32
Foreign taxes	1,574	8,837
Total	**295,795**	**29,741**
Taxes payable		
Long-term deferred taxes	2,423	-
Personal income tax withholdings	-	1,433
Accrued social security taxes payable	-	771
VAT payable to the Spanish Treasury	-	1,090
Local taxes	-	2,209
Foreign taxes	597	8,731
Total	**3,020**	**14,497**

December 31, 2002	Thousands of Euros	
	Long Term	Short Term
Taxes receivable		
Tax loss carryfowards	233,925	-
Prepaid income taxes	55,839	-
VAT refundable by the Spanish Treasury	-	8,070
Tax withholdings and prepayments	-	26,164
Local taxes	-	162
Foreign taxes	1,870	11,054
Total	**291,634**	**45,450**
Taxes payable		
Long-term deferred taxes	2,545	-
Personal income tax withholdings	-	4,337
Accrued social security taxes payable	-	549
VAT payable to the Spanish Treasury	-	456
Local taxes	-	43
Foreign taxes	199	7,095
Total	**2,744**	**12,480**

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, although they are generally the last four years. The Company's directors do not expect any material liabilities to arise for the Company in the event of a tax audit of the open years.

The variations, by company, in 2003 and 2002 in the tax assets recorded by the Terra Lycos Group under the "Tax Loss Carryforwards" caption in the consolidated balance sheet were as follows:

December 31, 2003	Thousands of Euros			
	Tax Losses Incurred in Prior Years	Reversal of Tax Loss Carry-forwards	Translation Differences	Total
Terra Networks, S.A.	231,170	-	-	231,170
Ifigenia Plus, S.L.	66	-	-	66
Terra Networks Chile Holding, S.A. and subsidiary	2,689	-	-	2,689
	233,925	**-**	**-**	**233,925**

December 31, 2002	Thousands of Euros Tax Losses Incurred in Prior Years	Reversal of Tax Loss Carry-forwards	Translation Differences	Total
Terra Networks, S.A.	550,047	(318,877)	-	231,170
Terra Networks España, S.A.	25,955	(25,955)	-	-
Ifigenia Plus, S.L.	66	-	-	66
Terra Networks México Holding, S.A. de C.V. and subsidiaries	41,698	(38,922)	(2,776)	-
Terra Networks Chile Holding, S.A. and subsidiary	3,678	-	(989)	2,689
	621,444	**(383,754)**	**(3,765)**	**233,925**

The deferred tax asset for tax loss carryforwards recognized by the Company as of December 31, 2003, will be allocated to income as and when the companies that generated it obtain taxable income, which per the Terra Lycos Group's business plan will occur within ten years from the first year in which income is generated, which, under current accounting legislation, is the maximum period for recognizing tax assets for tax loss carryforwards. Similarly, the deferred tax liabilities will be reversed as and when Terra Networks, S.A. reverses the investment valuation allowance as a result of the obtainment of income by its subsidiaries.

b) Corporate income tax-

The corporate income tax of each of the Terra Lycos Group companies is calculated on the basis of income per books determined by application of generally accepted accounting principles, which does not necessarily coincide with taxable income.

The corporate income tax legislation in force in the countries in which the Terra Lycos Group companies are taxed provides that, in certain circumstances, tax losses incurred in prior years may be carried forward for offset against the taxable income obtained in subsequent years. Specifically, the last years for offset of the main tax losses incurred by the Terra Lycos Group companies are as follows:

1. Under the legislation currently in force in Spain, following the amendments introduced by Law 24/2001 on Tax, Administrative, Labor and Social Security Measures, the tax losses incurred in a given year may be carried forward for offset against the income obtained in the 15 years following the first year in which income is obtained.
2. In Mexico, tax losses may be carried forward for offset for a period of ten years from the year in which they were incurred.

3. In Brazil and Chile there is no deadline for the offset of tax losses, although in Brazil the amount of the losses offset may not exceed 30% of the total taxable income.
4. In Peru and Argentina, tax losses may be carried forward for offset for four and five years, respectively, from the year in which they were incurred.
5. In the U.S., tax losses can be carried forward for offset for 20 years from the year in which they were incurred.

The breakdown of the net balance of the "Corporate Income Tax" caption in the accompanying 2003 and 2002 consolidated statements of operations is as follows:

	Thousands of Euros	
	12/31/03	12/31/02
Reversal of tax assets	-	(384,530)
Reversal of deferred taxes in consolidation	-	42,450
Deferred income taxes	(28)	(266)
Tax incurred abroad	290	-
	262	(342,346)
Other items (net balance)	4	(279)
Corporate income tax	**266**	**(342,625)**

In 2003, based on the annual study performed, it was concluded that the recoverability of the tax assets recognized was reasonably assured. In 2002, as a result of an analysis of the recoverability of the tax assets, Terra Networks España, S.A. and Terra Networks México, S.A. de C.V. eliminated from their balance sheets the tax assets that they had recognized. In addition, Terra Networks, S.A. adjusted its tax asset by €318,877 thousand as of December 31, 2002.

The aforementioned analysis of the recoverability of the tax assets focused on analyzing the impact on Terra Networks, S.A. (the Parent Company) of the future earnings expectations of the subsidiaries and, consequently, on the possible reversal of the investment valuation allowance recorded in the Parent Company's individual financial statements.

These future earnings expectations were obtained from the business plans of the subsidiaries, which were also used in the analysis of the recoverability of goodwill, as described in Note 1.

c) Application of the consolidated tax regime

On July 2, 2001, the Spanish tax authorities approved the application by the Terra Lycos Group of the consolidated corporate income tax regime from 2001 onwards.

Accordingly, since 2001 the companies resident in Spain that meet the requirements provided for in Articles 78 *et seq.* of Corporate Income Tax Law 43/1995 have been taxed under the consolidated tax regime as Tax Group no. 111/01, of which Terra Networks, S.A. is the Parent Company. This Tax Group will be dissolved in 2004 (see Note 15-d).

The Tax Group was comprised 12 companies in 2003, the most noteworthy of which in terms of volume of business were: Terra Networks S.A., Terra Networks España, S.A. and Terra Networks Latam, E.T.V.E., S.L.

d) Inclusion in the Telefónica consolidated Tax Group

As described in Note 1, on December 16, 2003, the Board of Directors of Terra Networks, S.A., exercising the powers granted to it by the Stockholders' Meetings of June 8, 2000 and April 2, 2003, approved the acquisition by Terra Networks, S.A. of 26,525,732 Terra shares owned by Citibank, NA as the agent bank for the stock option plans assumed by the Company when Lycos, Inc. was integrated.

These shares were acquired in order to be able to recognize the new tax asset arising in 2004 and, possibly, in subsequent years. This was achieved through the inclusion of Terra Networks, S.A. in the Telefónica consolidated Tax Group in 2004 since, once the acquisition had been made, the Telefónica, S.A. ownership interest accounted for 75.29% of the effective capital stock of Terra Networks, S.A. (capital stock less treasury stock). The inclusion of Terra Networks, S.A. in the Telefónica, S.A. Consolidated Group will enable the new tax asset that will be generated from January 1, 2004, to be used earlier, since the related tax losses can be offset against the taxable income earned by the Telefónica, S.A. Consolidated Group. The tax assets generated prior to 2004 by the present Terra Networks, S.A. Consolidated Group are not transferable and can only be offset against the taxable income generated by the Terra Networks, S.A. Consolidated Group companies.

As a result of the acquisition by Telefónica S.A. of an effective ownership interest of over 75% in Terra Networks, S.A., the Company considers that, pursuant to Corporate Income Tax Law 43/1995, for tax purposes it will no longer be the Parent Company of its Spanish subsidiaries and, accordingly, Tax Group no. 111/01 will be dissolved in 2004, making 2003 the last year in which it will be taxable under the consolidated tax regime as an independent Group.

(16) REVENUES AND EXPENSES

Revenues-

The operating revenues relate mainly to the following items:

1. *Internet service provider and communications revenues*. These relate to the revenues from subscriptions mainly to provide Internet access to the residential and SOHO markets and support services and technical assistance to users. They also include the revenues for induced traffic and interconnection received from telecommunications operators in certain countries and revenues from charges for technical assistance and user support. These revenues account for 40% of the total operating revenues. In 2003 3% of the revenues in this connection related to the Framework Strategic Alliance Agreement entered into with Telefónica, S.A.

2. *Portal advertising and e-commerce revenues*. The advertising revenues relate mostly to revenues received on the basis of a price based on the number of insertions, clicks or any advertising format in the Terra Lycos Group's portals, pursuant to the agreements to sponsor portal areas based on a fixed amount. They also include the revenues arising from e-commerce transactions made through the Terra Lycos Group's portals. These revenues account for 26% of the total operating revenues. In 2003 11% of the revenues in this connection related to the Framework Strategic Alliance Agreement entered into with Telefónica, S.A.
   The e-commerce revenues include the amount invoiced for on-line travel sales (mainly air fares, and hotel and cruise bookings). One Travel.com. Inc, which is an on-line travel agency, bills the end customer for the total amount of the fare, including taxes, assumes the risk of credit or default on the part of the end customer, and has a minimum purchase commitment to its main supplier or is authorized to establish the definitive price to be paid by the end customer. In 2003 22% of the revenues in this connection related to on-line travel sales.

3. Communications *services, portal and content sale revenues*. These include the revenues from subscriptions to value added and communications services and the sale of associated software package licenses. They also include revenues from subscriptions to portal services and content and from the sale of associated software package licenses. These services are provided directly to the end customer or through corporations which distribute them to the end customers. These revenues represent 22% of the total operating revenues. In 2003 53% of the revenues earned in this connection related to the Framework Strategic Alliance Agreement entered into with Telefónica, S.A.

4. *Corporate services revenues*. These relate to services rendered to companies such as connection services, development of applications, web developing, advisory services, b2b e-commerce, and corporate financial information in the case of Terra Networks México, S.A. de C.V. These revenues account for 11% of the total

operating revenues. In 2003 30% of the revenues in this connection related to the Framework Strategic Alliance Agreement entered into with Telefónica, S.A.

5. *Other services*. These relate to revenues from sales of modems and connection kits. These revenues account for 2% of the total operating revenues. In 2003 there are not significant revenues in this connection related to the Framework Strategic Alliance Agreement entered into with Telefónica, S.A.

The detail, by geographical market (taken to be the country in the which the Terra Lycos Group service provider is located), of the "Total Operating Revenues" caption in the accompanying consolidated statement of operations is as follows:

	Thousands of Euros	
Country	2003	2002
Spain	207,392	204,510
U.S.A.	126,296	226,629
Brazil	140,714	108,579
Mexico	35,005	49,876
Chile	26,441	23,149
Guatemala	2,206	2,666
Peru	6,909	4,321
Argentina	657	504
Venezuela	279	720
Colombia	713	696
Uruguay	-	105
Caribbean	15	36
	546,627	**621,791**

Note: Terra intercompany sales were eliminated from the amounts contributed by each country to the total consolidated revenues.

Transactions with Telefónica Group companies-

The Terra Lycos Group's main transactions with the Telefónica Group are based on the Framework Strategic Alliance Agreement dated February 12, 2003 (see Note 1). The main features of the Framework Agreement are as follows:

a) Strengthening of the Terra Lycos Group as:

- The exclusive provider of essential portal elements, brand user and aggregator of the broad and narrow band Internet content and services targeted at the residential, SOHO and, when so agreed, SME market segments, for the Telefónica Group companies' connectivity and ISP services.
- Preferential provider of audit, consulting, management and maintenance services for the country portals of the Telefónica Group companies.
- Exclusive provider of Telefónica Group employee on-line training services.

- Preferential provider of on-line integral marketing services with the Telefónica Group companies.

b) Guaranteed minimum volume of purchases of on-line advertising space of the Terra Lycos Group companies for the Telefónica Group companies.

c) Exclusive acquisition of connectivity and wholesale Internet access services by Terra Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions.

d) Outsourcing by Terra Lycos Group companies to Telefónica Group companies of all or part of the services and/or operation of the Internet access elements for the provision of ISP services to its residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.

e) Exclusive acquisition by Terra Lycos Group companies from Telefónica Group companies of the advanced broad and narrow band network and platform services required to construct the range of services to be offered to residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.

The Framework Agreement guarantees the generation for the Terra Lycos Group of a minimum value throughout the term of the Agreement of €78.5 million per year. This amount is the difference between the operating revenues arising from the services provided under the Framework Agreement and the costs and investments directly associated therewith (whether variable or fixed, exclusive or shared, excluding in all cases the Terra Lycos Group's existing overheads), together with cost savings. The Framework Agreement defines a new model of relationships between the two companies which puts to better use their respective capabilities to promote their growth on the Internet. This Framework Agreement will run for six years through December 31, 2008, and will be automatically renewed annually, unless notice of termination is expressly given by the parties concerned.

In compliance with the terms of the Framework Strategic Alliance Agreement, in 2003 the aforementioned annual minimum value was generated for the Terra Lycos Group.

Following is a description of the main transactions with Telefónica Group companies, included or otherwise in the scope of the Framework Strategic Alliance Agreement:

- Communications services from the Telefónica Data Group, relating mainly to the Spanish and international Internet traffic required to provide services to ISP customers and to make the portal more visible.

- Communications services from Telefónica de España, S.A., relating mainly to the narrow and broad band access infrastructures required to configure the marketed ISP services.

- Teleoperation and telemarketing services from the Atento Group.

- Sale of software package licenses and provision of the associated maintenance and support services to Telefónica de España, under an agreement between Terra Networks España, S.A. and Telefónica de España, S.A. The software packages consist of applications that enable Telefónica de España, S.A. to add more features to its narrow and broad band retail ISP services, and services for residential and business customers.

- Sale of software package licenses, including the customer access management program of Terra Networks Brasil, to Assist Telefónica, S.A.

- Portal services between Terra Networks Brasil, S.A. and Assist Telefónica, S.A.

- On-line training services between Educaterra, S.L. and Telefónica Group companies.

- Consulting, management and maintenance of the Telefónica Group's corporate portals.

- Public advertising services. These relate to the revenues received mainly on the basis of a price based on the number of insertions in Terra's portals, pursuant to the agreements to sponsor portal areas based on a fixed amount.

The Terra Lycos Group's transactions as of December 31, 2003 and 2002, with Telefónica Group companies were as follows:

Revenues

Company	Thousands of Euros	
	2003	2002
Telefónica Data España, S.A.	600	232
Telefónica de España, S.A.	62,655	43,048
CTC Chile, S.A.	1,906	1,098
CTC Mundo, S.A.	222	142
Telefónica Empresas Chile, S.A.	903	383
Telefónica, S.A.	18,427	315
Teleinformática y Comunicaciones, S.A.	48	27
Telefónica Móviles España, S.A.	2,212	444
Telefónica de Argentina, S.A.	252	149
Telecomunicaciones de Sao Paulo, S.A.	7,783	1,610
Assist Telefónica, S.A.	27,244	1,511
Telefónica Solución de Informática y Comunicaciones de España, S.A.	827	658
Other Telefónica Group companies	7,536	4,034
Total net sales to Telefónica Group companies	**130,615**	**53,651**
Telefónica Data USA, S.A.	-	1,116
Other Telefónica Group companies	281	873
Total other operating revenues received from Telefónica Group companies	**281**	**1,989**
Total operating revenues received from Telefónica Group companies	**130,896**	**55,640**
Telefónica Finanzas, S.A.	34,569	48,969
Other Telefónica Group companies	452	20
Total financial revenues received from Telefónica Group Companies	**35,021**	**48,989**

Expenses

Company	Thousands of Euros 2003	2002
Telefónica Data España, S.A.	13,315	20,353
Telefónica de España, S.A.	69,137	87,967
Atento Teleservicios España, S.A.U.	3,565	4,618
Endemol Entertainment Uk, Plc.	-	194
Atento do Brasil, Ltda.	9,673	10,018
Telefónica Data Brasil, S.A.	23,125	18,586
CTC Chile, S.A.	2,362	1,574
CTC Mundo, S.A.	2,179	1,552
Telefónica Empresas Chile, S.A.	2,896	3,255
Telefónica Móviles España, S.A.	786	877
Teleatento del Perú, S.A.C.	382	410
Telefónica Centroamérica Guatemala Holding, S.A.	867	682
Telefónica empresas Perú, S.A.	573	160
Telefónica Data USA, Inc.	4,170	1,081
Other Telefónica Group companies	9,525	8,795
Total purchases from Telefónica Group companies	**142,555**	**160,122**
Telefónica Investigación y Desarrollo, S.A.	3	226
Telefónica de España, S.A.	6,302	4,020
Telefónica, S.A.	2,653	662
Telefónica Data España, S.A.	5,038	426
Zeleris España, S.A.U.	3,335	-
CTC Chile, S.A.	1,004	964
Atento Chile, S.A.	57	128
Telefónica Móviles España, S.A.	458	380
Telefónica de Argentina, S.A.	32	24
Telesp, S.A.	653	1,214
Atento México, S.A. de C.V.	1,488	1,890
Telefónica Móviles México, S.A. de C.V	2,760	-
Other Telefónica Group companies	2,789	2,662
Total outside services received from Telefónica Group companies	**26,572**	**12,596**
Total	**169,127**	**172,718**

Travel revenues-

The detail of the revenues from online travel sales of One Travel.com, Inc. as of December 31, 2003, is as follows (in thousands of euros):

	2003
Air fares	25,902
Hotels	1,649
Cruises	1,644
Other	1,998
Total	**31,193**

Personnel expenses-

The detail of the personnel expenses in the years ended December 31, 2003 and 2002, is as follows:

	Thousands of Euros	
	2003	2002
Wages and salaries	95,760	135,186
Social security costs	10,731	9,426
Other employee welfare expenses	13,162	20,821
Total	**119,653**	**165,433**

The "Social Security Costs" and "Other Employee Welfare Expenses" captions include the contributions to the external pension fund, which are made on the basis of a percentage of each employee's total earnings.

Average headcount-

The Terra Lycos Group had an average of 2,300 and 2,807 employees in the years ended December 31, 2003 and 2002, respectively, and the year-end headcounts in 2003 and 2002 were 2,255 and 2,494, respectively.

Outside services and other operating expenses-

The detail of this caption for the years ended December 31, 2003 and 2002, is as follows:

	Thousands of Euros	
	2003	2002
Advertising, publicity, public relations and outside marketing expenses	68,495	139,621
Independent professional services	23,191	31,314
Rent and royalties	26,803	41,695
Travel expenses	4,591	7,199
Taxes other than income tax	9,867	8,723
Other operating expenses	33,242	41,585
Total	**166,189**	**270,137**

Extraordinary revenues and income-

The detail of the extraordinary revenues and income for 2003 and 2002, is as follows:

	Thousands of Euros	
	2003	2002
Gain on shares sold in the tender offer launched by Telefónica, S.A. (Note 1)	10,985	-
Other	1,149	19,422
Total	12,134	19,422

As described in Note 1, on June 26, 2003, the Board of Directors announced its acceptance of the tender offer launched by Telefónica, S.A. for the 2,420,468 shares of Terra Networks, S.A. held by Lycos, Inc. The gain on the sale of these shares amounted to €10,985 thousand.

Extraordinary expenses and losses-

The detail of the extraordinary expenses and losses for 2003 and 2002, is as follows:

	Thousands of Euros	
	2003	2002
Write-down of goodwill (Note 5)	6,452	856,657
Write-down of preopening expenses (Note 7)	-	56,622
Extraordinary loss due to accounting for Lycos Europe by the equity method (Note 6)	-	50,200
Early termination of contracts	2,177	1,452
Provision for contingencies	-	8,326
Labor force restructuring costs	597	9,062
Losses on property and equipment and intangible assets	800	6,981
Prior years' expenses and losses	3,776	1,485
Other extraordinary expenses	4,562	4,150
Total	**18,364**	**994,935**

(17) DIRECTORS' COMPENSATION AND OTHER BENEFITS

In the years ended December 31, 2003 and 2002, the detail of compensation and other benefits paid to the Board members and recorded in the accompanying consolidated statements of operations amounted is as follows:

	Thousands of Euros	
	2003	2002
Executive directors' salaries	1,945	2,210
Board of Directors remuneration	706	867
Committee meeting attendance fees	40	32
Total	**2,691**	**3,109**

As described in Note 18, the executive Board members of the Terra Lycos Group hold during 2003 8,717,026 purchase options on Terra Networks, S.A. shares, derived from the stock option plans of Terra Networks, S.A. and Lycos, Inc. In 2003 there were no variations with respect to 2002 in the number of options assigned or in their exercise price, the average weighted exercise price being €18.40 as of December 31, 2003.

As of December 31, 2003 and 2002, there were no other commitments to the directors.

The information presented below is required mainly as a result of the recent legal reforms affecting the Corporations Law and the Securities Market Law:

1) The directors who own equity interests in companies engaging in an identical, similar or complementary activity are as follows:

Board member	Ownership Interest in	% of Ownership	Line of Business	Functions Perfomed or office held
D. Angel Vilá	Telefónica, S.A.	< 0,01	Telecommunications	General Manager of Corporate Development
	Antena 3 TV, S.A.	< 0,01	Content Provider	-
D. Enrique Used Aznar	Amper, S.A.	0,39	Telecommunications	Chairman
	Telefónica, S.A.	< 0,01	Telecommunications	Board Member
Telefónica Data Corp, S.A. (D. Antonio Viana-Baptista)	Telefónica, S.A.	< 0,01	Telecommunications	Board Member
	Telefónica Móviles, S.A.	< 0,01	Mobile Telecommunications	Chairman
	Portugal Telecom SGPS, S.A.	< 0,01	Telecommunications	Board Member
	PT Multimedia	< 0,01	Internet	-
	Telecom Italia	< 0,01	Telecommunications	-
	Hellenic Telecom	< 0,01	Telecommunications	-

2) No director discharges, on his own account or for the account of others, an activity that is identical, similar or complementary to, the activity that constitutes the corporate purpose of the Company except the following directors and within the terms herein described:

D. Antonio Viana-Baptista acting on behalf of the Board Member Telefónica DataCorp, S.A.

Activity Performed	Type of activity	Company	Functions Perfomed or office held
Board Member	Account of others	Telefónica, S.A.	Board Member
		Telefónica Móviles, S.A.	Chairman
		Telefónica de Argentina, S.A.	Board Member
Board Member	Account of others	Telecomunicaciones de Sao Paulo, S.A.	Board Member
		Brasilcel, N.V.	Board Member
		Telecomunicaciones Móviles España, S.A.	Board Member
		CTC, S.A.	Board Member
Board Member	Account of others	Portugal Telecom SGPS, S.A.	Board Member

D. Enrique Used Aznar

Activity Performed	Type of activity	Company	Functions Perfomed or office held
Board Member	Account of others	Amper, S.A.	Chairman
		Telefónica, S.A.	Board Member
		Telefónica del Perú, S.A.	Board Member
		Telecomunicaciones de Sao Paulo, S.A.	Board Member

D. Luis Bassat Coen

Activity Performed	Type of activity	Company	Functions Perfomed or office held
Board Member	Account of others	Telefónica, Publicidad e Información, S.A. Grupo Bassat, Ogilvy	Board Member Board Member

D. Carlos Fernández-Prida Méndez-Núñez

Activity Performed	Type of activity	Company	Functions Perfomed or office held
Board Member	Account of others	Telefónica de Argentina, S.A.	Board Member

D. Joaquim Agut Bonsfills

Activity Performed	Type of activity	Company	Functions Perfomed or office held
Board Member	Account of others	Endemol Interactive	Board Member

(18) COMMITMENTS AND CONTINGENCIES

a) Terra Networks, S.A. Stock Option Plan-

The Terra Networks, S.A. Stock Option Plan was approved by the Stockholders' Meeting on October 1, 1999, and implemented by Board of Directors' resolutions adopted on October 18 and December 1, 1999.

The Plan provides for, through the exercise of the stock options by their holders, the ownership by the employees and executives of the Terra Lycos Group companies of a portion of the capital stock of Terra Networks, S.A. up to a maximum of 14,000,000 shares.

In order to establish the necessary coverage for the Plan, on October 5, 1999, Banco Zaragozano, S.A., Caja de Ahorros y Pensiones de Barcelona and Terra Networks, S.A. entered into a contract under which these entities granted to Terra Networks, S.A. an irrevocable call option on 14,000,000 issued shares, which may be exercised at any time prior to April 30, 2004. These shares were subscribed in full by the aforementioned banks (see Note 1).

The approval and implementation of this compensation system were notified to the Spanish National Securities Market Commission (CNMV) and were made public through the complete information memorandum verified and registered in the CNMV Official Register on October 29, 1999, and in the Prospectus presented to the Securities and Exchange Commission (SEC) in the U.S.

On December 1, 1999 and June 8, 2000, the Board of Directors, exercising the powers granted to it by the Stockholders' Meeting, implemented the First Phase of the Plan by granting options to employees of the Terra Lycos Group. The main features of these options are as follows:

1. Each of the stock options under the Plan entitles the employee to acquire one share of Terra Networks, S.A. at an exercise price of €11.81 per share.

2. The duration of the Plan is four years and three months (therefore ending on February 28, 2004), and the options may be exercised at a rate of one-third of those granted each year from the second year onwards.

3. The exercise of the options is conditional upon the beneficiary remaining a Terra Lycos Group employee.

In 2001 the Board of Directors implemented the Second Phase of the Terra Networks, S.A. Stock Option Plan, which was approved pursuant to a resolution of the Stockholders' Meeting of June 8, 2000, and launched pursuant to a resolution of the Board of Directors dated December 22, 2000, which authorized the launch of a Second Phase of the Stock Option Plan, at the recommendation of the Appointments and Compensation Committee following a proposal by the Chairman, through the assignment of options to executives and employees who were already beneficiaries of the Stock Option Plan, in addition to the assignment of options to new employees who had joined the Terra Lycos Group.

The main features established by the Board of Directors for this assignment were as follows:

1. Each of the stock options under the Plan entitles the holder to acquire one share of Terra Networks, S.A. at an exercise price of €19.78 per share.

2. The duration of the Plan was modified by a resolution adopted by the Stockholders' Meeting on June 8, 2000, and was set at six years with a two-year grace period. The options can be exercised at a rate of one-quarter of those granted each year from the third year through the sixth year.

3. The exercise of the options is conditional upon the beneficiary remaining a Terra Lycos Group employee.

4. Options were granted to one director and four general managers and persons of similar category, and this was duly notified to the CNMV on December 29, 2000.

On February 21, 2001, the Board of Directors resolved to modify the resolution adopted on December 22, 2000, in respect of the duration and method of accrual of the stock options. Accordingly, the period for the exercise of the options assigned was set at five years, and the options may be exercised at a rate of one-quarter each year from the end of the first year.

In 2001, at the recommendation of the Appointments and Compensation Committee, the Board of Directors approved, each quarter (specifically at its meetings on May 10, July 25 and November 6), the assignment of options to new Company employees, and set the exercise price at the market price of the shares during the related quarter and with the same terms and conditions as regards exercise period and duration as those envisaged for the Second Phase of the Plan.

On June 7, 2001, the Stockholders' Meeting of Terra Networks, S.A. resolved to partially modify the resolution relating to the Stock Option Plan which was ratified and approved by the Stockholders' Meeting on June 8, 2000, as regards the extension of the Stock Option Plan to Company executives and directors, and extended the option exercise period to ten years from that in which they were granted, stipulating that a portion of the options could be exercised each year during this period. As of the date of preparation of these consolidated financial statements, the Board of Directors had not implemented the extension of the duration of the options.

In 2002 the Board of Directors approved the assignment of options to new Company employees, and set the exercise price at the market price of the shares during the related quarter and with the same terms and conditions as regards exercise period and duration as those envisaged for the Second Phase of the Plan. In addition, on February 25, 2002, the assignment of further options was approved by the Board of Directors.

In June 2002 it was decided to confine assignments of options to new hires, and that options could be assigned from that date onwards to professional categories 1 and 2.

As of December 31, 2003, options on 6,438,696 shares had been assigned to Terra Lycos Group employees, executives and directors, of which 1,555,554 relate to the First Phase of the Plan and the remainder to the Second Phase. The average stock option exercise price is €14.70.

As of December 31, 2003, the Terra Lycos Group's executives and directors held 1,185,252 stock options under the Terra Networks, S.A. Stock Option Plan, the average price being €15,7319.03.

The information on the options under the Terra Networks, S.A. Stock Option Plan not yet exercised as of December 31, 2003, is as follows:

Range of Prices in the Year	No. of Options not yet Exercised	Weighted Average Price in the Year
€3.89 – €4.87	148,250	4.09
€5.08 – €9.86	1,136,450	7.75
€10.14 – €13.00	1,907,754	11.79
€15.30 – €19.78	3,246,242	19.32
Total outstanding options at 12/31/03	**6,438,696**	**14.70**

b) Terra Networks, S.A. Stock Option Plan resulting from the assumption of the Stock Option Plans of Lycos, Inc.-

Under the agreements entered into for the acquisition of Lycos, Inc., it was agreed to exchange options on the shares of Lycos, Inc. for options on the shares of Terra Networks, S.A. On June 8, 2000, the Stockholders' Meeting of Terra Networks, S.A. resolved to assume the Stock Option Plans of Lycos, Inc., provided that the two companies merged.

On October 25, 2000, the Board of Directors of Terra Networks, S.A. approved (i) the exchange of options on Lycos, Inc. shares existing prior to the conclusion of the transaction for options on Terra Networks, S.A. shares; (ii) the transfer to Citibank NA (Agent Bank) of all the options on Lycos, Inc. shares so that they could be exercised early; and (iii) the entering into of a contract between Terra Networks, S.A. and the Agent Bank in connection with the new Terra Networks, S.A. Stock Option Plan.

As a result of the exchange of Lycos, Inc. stock options for Terra Networks, S.A. stock options, the employees, executives and directors of Lycos, Inc. received purchase options on 62,540,249 shares of Terra Networks, S.A. owned by the Agent Bank.

On June 7, 2001, the Stockholders' Meeting of Terra Networks, S.A. resolved to partially modify the resolution relating to the Stock Option Plan, which was ratified and approved by the Stockholders' Meeting on June 8, 2000, as regards the obligations arising from the assumption of the Lycos, Inc. stock options by Terra Networks, S.A., following the exchange of shares between the latter and Lycos, Inc., which may be covered with Terra Networks, S.A. shares held by Citibank, NA, as a result of the exchange of Lycos, Inc. shares held by Citibank, NA to cover the stock options of the employees and executives of Lycos, Inc.

As described in Note 1, on December 16, 2003, the Board of Directors of Terra Networks, S.A., exercising the powers granted to it by the Stockholders' Meetings of June 8, 2000 and April 2, 2003, approved the acquisition by Terra Networks, S.A. of

26,525,732 shares of Terra Networks, S.A. held by Citibank, NA as the agent bank for the stock option plans assumed by the Company as a result of the integration of Lycos, Inc. These shares continue to cover the Lycos Inc. employee Stock Option Plans at that date.

As of December 31, 2003, the employees, executives and directors of Lycos, Inc. had exercised 16,216,587 options, and a commitment to exercise 19,272,198 options at an average exercise price of US$ 20.77 had been made.

As of December 31, 2003, the executives and directors held stock option rights, derived from the Lycos, Inc. Stock Option Plans set up prior to the acquisition of Lycos, Inc. by Terra Networks, S.A., on 9,090,776 Terra Networks, S.A. shares, the weighted average exercise price of which is US$ 23.05.

Also, as of December 31, 2003, the members of the Board of Directors during 2003 who hold or have held executive posts at the Terra Lycos Group held 8,717,026 purchase options on Terra Networks, S.A. shares derived from the Terra Networks, S.A. and Lycos, Inc. Stock Option Plans, the weighted average exercise price of which is €18.40.

The detail of the variations in the options under the Lycos, Inc. Stock Option Plan as of December 31, 2003, is as follows:

Options	Number of Options	Total Exercise Price (Thousands of U.S. Dollars)	Weighted Average Price in the Year (U.S. Dollars)
Exercise price under €11	17,875,355	69,205	3.87
Exercise price over €11	44,664,894	892,510	19.98
Total options initially issued	**62,540,249**	**961,715**	**15.38**
Exercise price under €11	14,009,345	45,706	3.26
Exercise price over €11	2,207,242	33,089	14.99
Total options exercised	**16,216,587**	**78,795**	**4.85**
Exercise price under €11	1,843,461	10,648	5.78
Exercise price over €11	17,954,469	343,293	19.12
Total options cancelled and Redeemed	**19,797,930**	**353,941**	**17.88**
Exercise price under €11	643,332	4,284	6.66
Exercise price over €11	6,610,202	124,357	18.81
Total options cancelled and not yet redeemed	**7,253,534**	**128,641**	**17.73**
Exercise price under €11	1,379,217	8,566	6.21
Exercise price over €11	17,892,981	391,770	21.89
Total outstanding options at 12/31/03	**19,272,198**	**400,367**	**20.77**

c) Litigation in progress-

1. Complaint filed by IDT against Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.

International Discount Telecomunications Corporation (IDT) filed a complaint at the New Jersey Courts in the U.S. against Telefónica, S.A., against Terra Networks, S.A., against Terra Networks U.S.A., Inc. and against "Lycos, Inc."

The complaint is based on the purported breach of the Joint Venture agreement entered into in October 1999 by IDT and Terra Networks, S.A. and failure to comply with the obligations arising from this termination agreement, on the alleged fraud in relation to and breach of the rules governing the issue of securities (Federal Securities Exchange Act) and, lastly, on the alleged fraudulent concealment of information.

The quantum of this lawsuit is currently indeterminate, without prejudice to the possibility of the plaintiff's claim for damages being specified and quantified in the course of the proceeding.

In May 2002, the Court of New Jersey decided to partially dismiss the complaint in relation to the purported breach of certain aspects of the Joint Venture agreement, and as a result of this decision, Terra Networks, U.S.A., Inc. was no longer included in the proceeding.

Subsequently, IDT inserted a new claim in the complaint, alleging that Telefónica, S.A. would be liable, as a controlling entity, for the fraud claimed against Terra Networks, S.A. in its negotiations with IDT, that led to the termination agreement. Telefónica, S.A. has filed objections against this claim which are currently before the Court. The defendants have filed an answer to the complaint and, in turn, Terra Networks S.A. has filed a counterclaim against it.

On July 2, 2003, in light of the evidence taken, Terra Networks, S.A., Lycos, Inc. and Telefónica, S.A. filed pleadings seeking summary trial to determine the claims and have others dismissed. In turn, IDT has petitioned to have the counterclaim filed by Terra Networks, S.A. dismissed.

The Company, based on the opinion of its legal counsel, considers that it has a sound defense against the claims filed against it and, accordingly, Terra Networks S.A. is confident that the outcome for Terra Networks, S.A. of the litigation arising from IDT's complaint should not de adverse.

2. Bumeran Participaciones, S.R.L. (liquidated company)

The minority stockholders of Bumeran Participaciones, S.R.L. (liquidated company) have filed complaints contesting the resolution adopted at the Stockholders' Meeting of December 18, 2002, to dissolve the company and appoint a liquidator.

They are seeking to have the courts set aside the aforementioned resolution to dissolve Bumeran Participaciones, S.R.L. having petitioned the court, unsuccessfully, to stay the resolution as an injunctive measure.

To date, the following litigious events have occurred:

- Initiation of the arbitration requested by Master Equities (a minority stockholder of Bumeran Participaciones, S.R.L.).

- On October 21, 2003, Terra Networks, S.A. had notice of a new request for arbitration by the other minority stockholders of Bumeran Participaciones, S.R.L. (Lorne Consultants, S.A., Regent Equities, S.A., Pablo Larguia y Century Equities, S.A.) being heard by the same arbitrator.

The quantum for both arbitrations is US$ 4.2 million.

- Proceeding to contest the resolutions adopted on December 18, 2002, by the Stockholders' Meeting of Bumeran Participaciones, S.R.L., which is being conducted at Majadahonda Court of First Instance 1.

- Proceeding to contest the resolutions adopted on November 26, 2002 by the Board of Directors of the aforementioned company.

On October 21, 2003, this party applied for joinder of the two proceedings, in view of the close connection between them.

The quantum of these two proceedings is indeterminate.

The two arbitrations and the proceedings contesting the resolutions of the Stockholders' Meeting and of the Board of Directors are all in progress.

The Company, based on the opinion of its legal counsel, is confident that the outcome of the lawsuit should not be adverse for Terra Networks, S.A.

3. Collective lawsuits filed by stockholders of Terra Networks, S.A. in the United States, in connection with the admission to listing of Terra

Terra Networks, S.A. has been summonsed to appear as a defendant in five complaints filed in the U.S. involving Terra Networks, S.A. and certain of its directors and executives who worked for the Company during the period of time when the Initial Public Offering was launched in the U.S. in 1999.

The five lawsuits filed against Terra Networks, S.A. are part of the more than one thousand complaints filed in the U.S. in 2000 and 2001 in connection with approximately three hundred IPOs. These complaints, challenging the allotments made under the IPOs, allege, principally, that the security placement institutions allotted shares to privileged customers in these IPOs, which had awakened great interest in the potential investors and for which the closing price on the first day was expected to be high. These complaints allege that in exchange for allotting shares to them, these customers agreed to buy shares on the secondary market at a predetermined price in order to keep the market value of the shares artificially high, and that the placement institutions received from their customers inflated fees or remuneration of another kind that could be deemed to be unlawful or unauthorized or to otherwise contravene SEC and NASD rules.

Also, the directors and executives of Terra Networks, S.A. negotiated and signed an agreement with the plaintiffs whereby the latter agreed to exclude the individual defendants from the proceedings, without prejudice to the possibility of including them once again if the plaintiffs found grounds for doing so.

In July 2002 Terra Networks, S.A. and other defendant securities issuers jointly filed a petition to have the joined claim dismissed. This petition was rejected by the judge on February 19, 2003.

The plaintiffs, the securities issuers (including Terra Networks, S.A.) and their insurance companies have finalized the terms of an agreement which mainly establishes that the insurance companies undertake to guarantee the availability of a certain sum of money on condition that the plaintiffs do not again collect the same sum from the placement institutions. The settlement does not resolve the dispute between the plaintiffs and the security placement institutions.

The Company, based on the opinion of its legal counsel, is confident that the aforementioned settlement will ultimately be ratified by the Court, and if otherwise, the Company considers that it has a sound defense against the claims filed against it and, accordingly, Terra Networks, S.A. is confident that the outcome of the litigation should not be adverse for Terra Networks, S.A.

4. Collective lawsuits filed by stockholders of Terra Networks, S.A in the U.S. in connection with the tender offer by Telefónica, S.A. for Terra Networks, S.A.

On May 29, 2003, two class actions were filed at the Supreme Court of the State of New York by stockholders of Terra Networks S.A. against Telefónica S.A., Terra Networks S.A. and certain former and current directors of Terra Networks S.A.

These actions mainly allege that the price offered to the stockholders of Terra Networks, S.A. is not consistent with the intrinsic value of the Company's shares, and request that the tender offer not be approved or, alternatively, that the stockholders be compensated.

The litigation process has been inactive since the complaints were filed.

The Company, based on the opinion of its legal counsel, considers that it has a sound defense in terms of both the form and the substance of the claims filed against it and, accordingly, is confident that the outcome of the litigation should not be adverse for Terra Networks, S.A.

5. Riaz Valani, Tabreez Verjee, Michael Downing and Global Asset Capital against Lycos, Inc.

On July 17, 2003, former stockholders of IMDI (the former owner of the Sonique product) filed a complaint against Lycos, Inc. and IMDI at the San Francisco State Court alleging breach of contract, willful interference and unfair practices in connection with the payment under the agreement for the acquisition of IMDI/Lycos, Inc. several years ago. The plaintiffs claim that Lycos, Inc. and IMDI did not measure the popularity of Sonique using a specific calculation which, according to the terms of the agreement, could have amounted to US$ 15 million. The claim seeks damages of an indeterminate quantum. Lycos, Inc. has replied to the claim denying the allegations made and intends to present a strong defense.

The Company, based on the opinion of its legal counsel, is confident that the outcome of the litigation should not be adverse for Terra Networks, S.A.

6. Lycos, Inc. against Overture Services, Inc.

Lycos Inc. has filed a complaint against Overture Services Inc. -which is being processed by the Massachusetts District Court- claiming that Overture Services Inc. has breached certain contractual agreements such those relating to nontransfer of contract, confidentiality and payment, under the Integration and Distribution agreement entered into by the parties on September 30, 2001, whereby Overture was acquired by Yahoo!.Inc., which is a direct competitor of Lycos Inc. The claim is for an indeterminate quantum.

In turn, Overture Services Inc. has filed a counterclaim against Lycos, Inc. alleging that it was the latter that had not fulfilled the terms of the contract, breaching the principles of good faith.

The Company, based on the opinion of its legal counsel, is confident that the outcome of the litigation should not be adverse for Terra Networks, S.A.

(19) PAYMENTS TO AUDITORS

The payments made in 2003 and 2002 to the various member firms of the Deloitte & Touche International Organization, to which Deloitte & Touche España, S.L., the auditors of the Terra Lycos consolidated Group, belongs, amounted to €1,390 thousand and €1,294 thousand, respectively.

The detail of the foregoing amounts is as follows:

	Thousands of Euros	
	12/31/03	12/31/02
Audit of financial statements	823	787
Other audit services	429	276
Work additional to or other than audit services	138	231
Total	1,390	1,294

The payments made to other auditors in 2003 and 2002 amounted to €578 thousand and €34 thousand, the detail being as follows:

	Thousands of Euros	
	12/31/03	12/31/02
Audit of financial statements	42	34
Other audit services	11	-
Work additional to or other than audit services	525	-
Total	578	34

These fees include the amounts paid in connection with the fully consolidated Spanish and foreign Terra Lycos Group companies.

(20) SUBSEQUENT EVENTS

a) Changes in the Board of Directors-

On January 27, 2004, the Board of Directors of Terra Networks, S.A accepted the resignation of Mr. Edward M. Philip from the Board of Directors of Terra Networks, S.A.

On February 24, 2004, the Board of Directors of Terra Networks, S.A accepted the resignation of Mr. Joaquim Agut Bonsfills and Mr. Luis Ramón Arrieta Durana from the Board of Directors of Terra Networks, S.A.

b) Lycos, Inc. labor force restructuring plan-

In February 2004 Lycos, Inc. restructured its business, entailing a labor force reduction that affected 118 employees, with an approximate cost for severance payments of US$ 3,547. This amount, together with the other costs associated with said restructuring, such as that relating to the termination of contracts, will be recorded in the 2004 statement of operations.

SUSTITUIR ESTA HOJA POR LA NOTA 21 CUADRO DE FINANCIACIÓN

The reconciliation of the consolidated loss for the year to the funds obtained from operations is as follows:

Thousands of Euros	2003	2002
Loss for the year	(172,710)	(2,008,870)
Add:		
Start-up expense amortization expense	910	26,256
Intangible asset amortization expense	43,055	72,956
Property and equipment depreciation expense	34,777	43,506
Write-down of start-up expenses	-	56,622
Consolidation goodwill amortization expense	83,269	254,157
Write-down of consolidation goodwill	6,452	856,657
Share in losses of companies accounted for by the equity Method	34,734	148,902
Variation in allowances for property and equipment and intangible assets	-	54,199
Variation in long-term investment valuation allowances	-	33,488
Variation in other long-term investment valuation allowances	(10,525)	-
Extraordinary loss on accounting for Lycos Europe by the equity method	-	50,200
Period provision for contingencies and expenses	-	1,526
Tax asset generated in the year due to tax loss carryforwards	-	342,346
Less:		
Reversal of negative consolidation goodwill	(972)	(1,602)
Write-down of negative consolidation goodwill	-	(3,714)
Variation in long-term investment valuation allowances	-	(1,503)
Variation in financial investments	(18,177)	-
Loss attributed to minority interests	(536)	(2,412)
Funds applied in (obtained from) operations	**277**	**(77,286)**

(22) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

EXHIBIT I: consolidated companies

Company, Line of Business and Address	Percentage of Direct and Indirect Ownership	Thousands of Euros Capital at 12/31/03	Net Worth at 12/31/03
Terra Lycos Intangibles, S.A. (formerly Terra Interactiva de Contenidos, S.A.) ISP Paseo de la Castellana, 92. Madrid	100%	660	13,954
Terra Lycos, S.A. (formerly Terra Networks Intangibles, S.A.) ISP Paseo de la Castellana, 92. Madrid	100%	60	55
Terra Lycos Holding, B.V. Marketing of software licenses Koningslaan 34 1075 AD Amsterdam, Netherlands	100%	18	(**)
Uno-e Bank, S.A. On-line banking Julián Camarillo, 4, Edificio C, 28037 Madrid	33%	80,317	11,462
Terra Networks España, S.A. ISP Vía Dos Castillas, 33, Pozuelo de Alarcón, Madrid	100%	8,119	(401,414)
Ordenamiento de Links Especializados, S.L. (OLE) Internet search engine Nicaragua, 54, Barcelona	100% Indirectly through TN España	6,003	(1,945)
OLE de Contenidos Interactivos, S.A. (in liquidation) Dissemination of information Paseo de la Castellana, 210. Madrid	100% Indirectly through OLE	90	19
ADQ Advertising Quality, S.L. (in liquidation) Advertising services using IT media Paseo de la Castellana, 210. Madrid	100% Indirectly through OLE	12	3
CIERV, S.L. Design of communications products Vía Dos Castillas, 33, Pozuelo de Alarcón, Madrid	100%	6	(*)
Corporación Real Time Team, S.L. Design, advertising and consulting on the Internet Claudio Coello, 32, 1ext, Madrid	100% 12.04% indirectly through CIERV, S.L and 87.96% through Terra Networks.	18	(**)
Lycos, Inc (formerly Lycos Virginia, Inc.) (1) Internet portal 100 Fifth Avenue, Waltham, EEUU	100%	1,366	426,984
Quote LLC Financial services 850 N. Shoreline Blvd, Mountain View, EEUU	100% Indirectly through Lycos	(*)	(38,236)

Company, Line of Business and Address	Percentage of Direct and Indirect Ownership	Thousands of Euros Capital at 12/31/03	Thousands of Euros Net Worth at 12/31/03
Lycos Business Trust I (formerly Lycos Securities Co.) Investment company 100 Fifth Avenue, Waltham, U.S.A.	100% Indirectly through Lycos	(*)	(392,170)
Lycos Business Trust II (formerly Lycos Securities Co. II) Investment company 100 Fifth Avenue, Waltham, U.S.A.	100% Indirectly through Lycos	(*)	288,148
Lycos Asia Limited Internet portal 31 Exeter Road #14-00, Singapore	50% Indirectly through Lycos	50,589	(9,990)
Lycos Intangibles LLC Internet in general 237, 2nd Floor, Republic Street, Valleta, Malta	100% Indirectly through Lycos	(*)	(*)
Lycos Europe, N.V. Internet portal Richard Holkade 30-34, Haarlem, Netherlands	32.1% Indirectly through Lycos	3,123	193,200
Wired Digital, Inc. Information services 660 Third Street, 4th Floor, San Francisco, U.S.A.	100% Indirectly through Lycos	(*)	(32,753)
Wired Ventures, Inc. Internet in general 660 Third Street, 4th Floor, San Francisco, U.S.A.	100% Indirectly through Lycos	(*)	(*)
Wired Japan, YK Internet in general 660 Third Street, 4th Floor, San Francisco, U.S.A.	100% Indirectly through Lycos	(*)	(*)
Lycos Americas I, Inc. Internet in general 100 Fifth Avenue, Waltham, U.S.A.	100% Indirectly through Lycos	(*)	(*)
Lycos Americas II, Inc. Internet in general 100 Fifth Avenue, Waltham, U.S.A.	100% Indirectly through Lycos	(*)	(*)
Lycos De Argentina, S.R.L. Internet in general 100 Fifth Avenue, Waltham, U.S.A.	100% Indirectly through Lycos	(*)	(*)
Lycos(Australia) Pty Limited Internet in general 100 Fifth Avenue, Waltham, U.S.A.	100% Indirectly through Lycos	(*)	(*)
Tripod(Australia) Pty Limited Internet in general 100 Fifth Avenue, Waltham, EEUU	100% Indirectly through Lycos	(*)	(*)

(1) Consolidated data.
(*) Less than €1,000.
(**) Data not available as of the date of preparation of the consolidated financial statements.
TN: Terra Networks.
ISP: Internet service provider.

Company, Line of Business and Address	Percentage of Direct and Indirect Ownership	Thousands of Euros Capital at 12/31/03	 Net Worth at 12/31/03
Terra Lycos Ventures, LP Internet in general Two Gateway Center, Suite 1750, Pittsburgh PA	13.2% Indirectly through Lycos	(*)	8,143
Terra Lycos Triangle Partners, LLC Internet in general Two Gateway Center, Suite 1750, Pittsburgh PA	70% Indirectly through Lycos	(*)	(290)
Terra Networks USA, Inc and subsidiaries (1) Internet portal 1201 Brickell Avenue Suite 700 Miami, Fl 33131	100% Indirectly through Lycos	(*)	(143,571)
Deremate.com, Inc. Internet content and e-commerce 1018 Centre Road, Wilmington, Delaware, U.S.A.	29.5% Indirectly through Terra USA	248	3,080
Terra Networks Latam E.T.V.E, S.L. (formerly Terra Networks Asociadas Extranjeras, S.L.) Foreign securities management Paseo de la Castellana, 92. Madrid	100%	57,095	113,736
Telefónica Interactiva Brasil, Ltda (1) Portfolio company Rua de Consolaçao, 247, 6º Sao Paulo, Brazil	99.99% Indirectly through TN Latam	534,510	99,337
Terra Networks Brasil, S.A. (1) ISP and portal Rua General João Manoel,90, Porto Alegre, Rio Grande do Sul, Brazil	100% 59.16% indirectly through TI Brasil	246,372	25,813
Africanet Proveedora de Acesso e Informaçoes, Ltda. ISP Rua Timbiras, 138, loja 03 Belo Horizonte, Minas Gerais, Brazil	99.99% Indirectly through TN Brasil	307	49
Mago Informaçoes e Dados, Ltda. ISP Rua Timbiras, 138 loja 03, Belo Horizonte, Mina Gerais, Brazil	99.99% Indirectly through TN Brasil	1,922	35
Voyager Informática, Ltda. ISP Rua General João Manoel, 90, Porto Alegre, Rio Grande do Sul, Brazil	99.99% Indirectly through TN Brasil	104	22
Manchester Informática, Ltda. ISP Rua Abiail do Amaral Carneiro, 191, loja 03/04, Vitoria, Espirito Santo, Brazil	99% Indirectly through TN Brasil	739	165

(1) Consolidated data.
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Company, Line of Business and Address	Percentage of Direct and Indirect Ownership	Thousands of Euros Capital at 12/31/03	 Net Worth at 12/31/03
Pensatron Informática, Ltda. ISP Rua Boulevard 28 setembro 389, sala 416/417, Rio de Janeiro, Brazil	99.99% Indirectly through TN Brasil	10	97
Netmarket Informática, Ltda.. ISP Rua General João Manoel, 90, Porto Alegre, Rio Grande do Sul, Brazil	99.99% Indirectly through TN Brasil	72	11
Easyway Integradora Sistemas, Ltda. ISP Rua Alfonso Cavalcanti, 54, Porto Alegre, Rio Grande do Sul, Brazil	99.97% Indirectly through TN Brasil	1,152	76
Missoes Informática, Ltda. ISP Rua General João Manoel, 90, 8º andar , Porto Alegre, Rio Grande do Sul, Brazil	99.99% Indirectly through TN Brasil	232	35
DW Net Internet, Ltda. ISP Rod. Antonio Heil, 635, Brusque, Santa Catarina, Brazil	99.93% Indirectly through TN Brasil	56	28
Terra Sorocaba, Ltda. ISP Rua Riachuelo, 290, Sorocaba, São Paulo, Brazil	100% Indirectly through TN Brasil	476	16
Santa Helena Servicos de Informatica e Comunicaciones, Ltda. ISP Rua Luiz Viana Filho, s/nº, Salvador, Bahia, Brazil	99% Indirectly through TN Brasil	2,624	(14)
Waves Networks e Prestaçao de serviços de Internet, S/A. ISP Av. Das Nações Unidas, 12901 12º andar, São Paulo, São Paulo, Brazil	60% Indirectly through TN Brasil	3	(661)
Fortaleza Networks e Prestaçao de Serviços de Internet, S/A. ISP Rua Osvaldo Cruz, 01 sala 1707, Fortaleza, Brazil	80% Indirectly through TN Brasil	68	(886)
Terra Networks México Holding, S.A. de C.V. (formerly Terra Networks México, S.A. de C.V) (1) Portfolio company Antonio L. Rodríguez 1884, Monterrey, Nuevo León, Mexico	100% Indirectly through TN Latam	91,196	(19,729)

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Company, Line of Business and Address	Percentage of Direct and Indirect Ownership	Thousands of Euros Capital at 12/31/03	Thousands of Euros Net Worth at 12/31/03
Terra Networks México, S.A. de C.V (formerly Información Selectiva, S.A.) ISP and portal Col. Sta. María Monterrey, Nuevo León	99.99% Indirectly through TN México Holding	3,193	(5,128)
Terra Infosel, S.A. de C.V (formerly Guadalajara Teleport, S.A. de C.V) ISP and Internet services Guadalajara, Mexico	100% Indirectly through TN México Holding	213	19
Terra Negocios, S.A. de C.V. (formerly Interdata Infosel, S.A. de C.V.) e-commerce services Monterrey, Mexico	100% Indirectly through TN México Holding	21	1,038
Terra de Compras S.A. (formerly Comunicación Internet, S.A. de C.V.) e-commerce services Monterrey, Mexico	99.99% Indirectly through TN México	98	94
Infoshare Inc. Infosel Financiero services New York, U.S.A.	100% Indirectly through TN México	213	(36)
Tecnología y S.V.A. S.A. Internet services Monterrey, Mexico	99.99% Indirectly through TN México Holding	56	56
Internet Queretaro, S.A. Internet services Queretaro, Mexico	99.99% Indirectly through TN México Holding	56	56
Terra Networks Chile Holding Limitada, S.A. (1) Portfolio company Av.Vitacura, 2736. Santiago de Chile	99.99% Indirectly through TN Latam	95,180	30,623
Terra Networks Chile, S.A. ISP and portal Av.Vitacura, 2736. Santiago de Chile	100% Indirectly through TN Chile Holding	39,082	2,392
Terra Networks Colombia Holding, S.A. (1) Portfolio company Avda. 100, 7-33. Santa Fe de Bogotá, Colombia	99.99% Indirectly through TN Latam	98	(8,018)
Terra Networks Colombia, S.A. Portal and Internet in general Avda. 100, 7-33. Santa Fe de Bogotá, Colombia	68% Indirectly through TN Colombia Holding	2,057	(876)
Terra Networks Argentina, S.A. ISP and portal Av. Aleandro N. Alem, 712, Piso 11, Ciudad de Buenos Aires	99.99% Indirectly through TN Latam	47,531	(71)

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Company, Line of Business and Address	Percentage of Direct and Indirect Ownership	Thousands of Euros Capital at 12/31/03	Thousands of Euros Net Worth at 12/31/03
Terra Networks Perú, S.A. ISP and portal Los Sauces, 374, Torre Roja, San Isidro, Lima, Peru	99.99% Indirectly through TN Latam	2,540	5,109
Terra Networks Venezuela, S.A. ISP and portal Av. Francisco de Miranda, Centro Plaza, Torre A, Piso 11, Los Palos Grandes, Caracas, Venezuela	100% Indirectly through TN Latam	1,366	(1,509)
Terra Networks Guatemala, S.A. (1) ISP and portal Diagonal 6, Edificio Las Margaritas II, Guatemala	100% Indirectly through TN Latam	12,221	(193)
Terra Networks El Salvador, S.A. de C. V. Portal and Internet in general 63 Ave. Sur y Alameda Roosvelt, Centro Financiero Gigante Torre de San Salvador	99.99% Indirectly through TN Guatemala	1,689	88
Terra Networks Honduras, S.A. Portal and Internet in general 14 Av. Circunvalación N.O, San Pedro Sula-Cortez	99.99% Indirectly through TN Guatemala	28	9
Terra Networks Costa Rica, S.A. Portal and Internet in general Escurridabat, Edificio Domus Plaza, 2ª Planta Ofician # 2, San José, Costa Rica	99.99% Indirectly through TN Guatemala	210	112
Terra Networks Nicaragua, S.A. Portal and Internet in general Nicaragua	99.99% Indirectly through TN Guatemala	(*)	(*)
Terra Networks Panamá, S.A. Portal and Internet in general C/Harry Eno y Piloto, Posada Edificio El Educador, Coopeduc, Bethania, Panama	99.99% Indirectly through TN Guatemala	0	(1,909)
Terra Networks Caribe, S.A. Internet portal Avenida Winston Churchill, Plaza Fernandez II, Local 18 B 3er. Nivel Ensanche Paraíso Santo Domingo, Dominican Republic	99.98% Indirectly through TN Guatemala	1,292	(250)
Terra Networks Serviços de Acceso a Internet e Trading, Lda. Av. Arriaga, 73, 2ºandar, sala 212, Freguería da Sé, Concelho de Funchal Portugal	100% Indirectly through TN Latam	6	(1)
Terra Networks Maroc, S.A.R.L. 332, Boulevard Brahim Roudani, Casablanca Morocco	100% Indirectly through TN Latam	6	(**)

(1) Consolidated data.
(*) Less than €1,000.
(**) Data not available as of the date of preparation of the consolidated financial statements.
TN: Terra Networks.
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Company, Line of Business and Address	Percentage of Direct and Indirect Ownership	Thousands of Euros Capital at 12/31/03	Thousands of Euros Net Worth at 12/31/03
Terra Networks Asociadas, S.L. Portfolio company Paseo de la Castellana, 92. Madrid	100%	6,114	(1,163)
Ifigenia Plus, S.L. Education and culture portal Alonso Martínez, 3. Madrid	100% Indirectly through TN Asociadas	144	(1,378)
Educaterra, S.L. Education portal Vía Dos Castillas, 33. Pozuelo de Alarcón, Madrid	100% Indirectly through TN Asociadas	63	(3,424)
Maptel Networks, S.A.U. Digital cartography design Plaza Santa María Soledad Torres Acosta, 1 5ª Planta, 28004 Madrid	100% Indirectly through TN Asociadas	1,503	15
Emplaza, S.A. (company undergoing liquidation) Intranet development portal Centro Europa Empresarial C/Rozabella, 8 28230 Las Rozas, Madrid	80% Indirectly through TN Asociadas	1,196	0
Red Universal de Marketing y Bookings Online, S.A. (1) Travel booking portal Proción, 1-3. 28023 Madrid	50% Indirectly through TN Asociadas	9,000	(4,047)
Azeler Automoción, S.A. (1) Motoring portal Vía Dos Castillas, 33. Pozuelo de Alarcón, Madrid	50% Indirectly through TN Asociadas	1,804	1,180
Iniciativas Residenciales en Internet, S.A. Real estate portal Paseo de Recoletos, 10 Ala Norte 1ª Planta, Madrid	50% Indirectly through TN Asociadas	1,424	1,783
A Tu Hora, S.A. e-commerce Calle Isla Graciosa, 7. 28700 San Sebastián de los Reyes, Madrid.	50% Indirectly through TN Asociadas	7,182	3,679
OneTravel.com, Inc. (1) Travel booking portal 258 Main Street, 3rd floor, East Greenville, U.S.A.	54.15% Indirectly through TN Asociadas	10	6,576
11th Hour Vacations, Inc. Travel booking portal 15 Century Drive Greenville, South Caroline, U.S.A.	100% Indirectly through Onetravel.com	1	(221)
Inversis Networks, S.A IT and telematic systems and applications Calle Deyanira, 57. 28022 Madrid	9.13% Indirectly through TN Asociadas	69,047	33,080

(1) Consolidated data.
(*) Less than €1,000.
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TN: Terra Networks.
ISP: Internet service provider.

The data on the capital and reserves of the subsidiaries which are not the parent companies of their subgroups were translated to thousands of euros at the exchange rates as of December 31, 2003. The 2003 results were translated to thousands of euros at the cumulative average exchange rates as of December 31, 2003 .

(1) Consolidated data.
(*) Less than €1,000.
(**) Data not available as of the date of preparation of the consolidated financial statements.
TN: Terra Networks.
ISP: Internet service provider.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

TERRA NETWORKS GROUP

2003 MANAGEMENT REPORT

Introduction

The adverse macroeconomic situation affected the business performance of the Terra Lycos Group in 2003, although in recent months the new technologies industry appears to have revived to some extent. In the face of these difficulties the Terra Lycos Group boosted its most profitable and recurring revenue sources, backed by cost cutting and the centralization of production.

In 2003 the Terra Lycos Group continued to set its sights firmly on growth in its Internet access business, while it also increased its range of value-added services, both as regards communications (CSPs), such as its new messenger services and security (antispam, antivirus, firewall) kits, and content and portal services, such as Mundo ADSL, financial information subscription services and on-line dating.

As of December 31, 2003 the Terra Lycos Group had 5 million subscribers paying for Internet access and value-added services. Growth in this line of business has helped to make up for (i) the stagnancy of the on-line advertising market; (ii) the slow takeoff of the e-business in Spain and Latin America; (iii) the adverse impact of exchange rates on revenues; and (iv) the short-term drop in revenues due to the replacement of the agreement with Bertelsmann by the Strategic Alliance with the Telefónica Group.

The Framework Strategic Alliance Agreement with the Telefónica Group, entered into in February 2003 and effective January 1, 2003, defines a new, strengthened model for relations between the two companies for a term of six years, harnessing better their respective capabilities, while also fostering the growth and leadership of both companies in the Internet business. In 2003 the Telefónica Group met its commitments under the Strategic Alliance, which helped it to strengthen its supply to on-line customers and enabled the Terra Lycos Group to enhance its competitive position, to rationalize its production structure and raise its margins. The Alliance produced revenues of €101 million in 2003 and also created value (defined as the difference between revenues gained from the services provided and the costs and investments directly associated with such services) of €78.5 million, the minimum guaranteed amount for each of the six years of the term of the Alliance.

Also, the business performance was affected by certain organizational changes initiated in 2002, such as the centralization of the development of products, services and systems for customers. The new structure has given rise to cost savings, due to the centralization of certain transactions and engineering work and has contributed to improving the launch of new, enhanced products at a global level. Furthermore, the management of all the Latin American countries was grouped together in a single unit in order to maximize commercial synergies and minimize costs in the region and maintain the leadership position attained.

Business performance and results

1.- Revenues

The total revenues generated by the Terra Lycos Group in 2003 amounted to €547 million, down 12% from the 2002 figure. Excluding the adverse impact of the exchange rates of certain currencies with respect to the euro, the currency in which the Terra Lycos Group consolidates its financial statements, revenues in 2003 would have amounted to €621 million, which is on a par with the €622 million reported in 2002.

Revenues are generated by the following four business lines:

1.1.- Access and communication services

This line of business generated revenues of €216 million in 2003, accounting for 40% of total operating revenues and, in constant euro terms, represents growth of 9% with respect to the proceeding year.

As of December 31, 2003, pay access subscribers totaled 1.7 million, up 20% on 2002 year-end, of whom 63% related to Brazil and 21% to Spain. Noteworthy as regards access was the increase in and improvement of broadband (ADSL) access services in both Spain and the Latin American countries, particularly Brazil. As of 2003 year-end, ADSL access customers totaled 644,000, 70% more than at the end of 2002, of whom 61% related to Brazil and 26% to Spain.

In Spain a salient feature of the year was the launch of ADSL Home and ADSL a tu medida (customized broadband), with prices, features and service times that supplement the existing "ADSL Plus" premium 24-hour product. With this measure the Company aims to reach more market segments and promote residential Internet use. In the narrow band segment, various flat rate options were also launched, such as those for 24-hour, evening and night users.

In Brazil the pay access business performed particularly well in a scenario of free access market growth, in which the Terra Lycos Group does not operate directly. In Brazil, the Group remains market leader in the broadband market with a market share of close to 50%.

1.2.- Advertising and e-commerce

This business line contributed revenues of €143 million in 2003, 26% of the total operating revenues which, in constant euro terms represented a drop of 40% with respect to 2002. This business line was hit particularly hard by the fact that the agreement with Bertelsmann was not renewed and by the sluggish online advertising scenario.

The Terra Lycos Group has continued to focus on providing integral marketing services, which made it possible for it to forge stronger ties with customers and to give advertisers access to a highly segmented public and to maximize the effectiveness of the Internet as an advertising medium.

In October 2003, Lycos entered into a three-year agreement with Google Inc. to include the sponsored advertisements system (Google Adwords) in certain Terra Lycos web pages (the agreement covers the Lycos Search, HotBot, Sidesearch and Terra.com web sites).

1.3.- Communications, portal and content sale services

This line of business contributed revenues of €119 million in 2003, 22% of total operating revenues which, in constant euro terms, represented growth of 101% with respect to 2002. These revenues include services provided to residential customers at home, professionals SMEs, either directly or through corporations, such as Bancomer in Mexico and, primarily, the Telefónica Group, through the Strategic Alliance, from which 53% of total revenues in this line are obtained.

Customers for value-added services, known as OBP (Open, Basic, and Premium) customers, totaled 3.4 million as of December 31, 2003, of whom 2.3 million are customers arising from the Alliance with Telefónica.

This business line is being strengthened by the launch of new products and services in the Communication, content, Marketing and Tools areas, and by the improvements being made to the existing areas. These products and services include most notably the following:

⇒ Terra Messenger: a new real-time messenger service, affording Terra users the possibility of instant communication with each other and with Messenger users from other platforms;
⇒ Mundo ADSL: launched jointly by Terra and Telefónica, this product is designed to meet a broad range of communication, training and leisure needs, tailored to the requirements of customers;
⇒ Wireless Internet: a service for all broadband customers, broadening the range of high speed products using the new WiFi technology;
⇒ Redesign of the Matchmaker environment, an online dating portal;
⇒ Redesign of the InSite Search Engine marketing site;
⇒ Relaunch of the Quote.com, a financial site.

1.4.- Other services for SMEs and companies and other revenues

These two business lines contributed revenues of €68 million in 2003, accounting for 12% of total operating revenues which, in constant euro terms, represented growth of 45% with respect to 2002. The Strategic Alliance with the Telefónica Group contributed 26% of these revenues, through the provision of e-learning services and several Internet and technology consulting projects.

2.- EBITDA

The Terra Lycos Group continued to monitor and rationalize expenses in 2003, which contributed to the progressive and continued improvement of operating results before taxes, depreciation, amortization and leases (EBITDA) throughout the year, signfying that the target set for the whole year was met and positive EBITDA was achieved in the fourth quarter. The Company's EBITDA in 2003 were a loss off €-29.4 million, and the EBITDA margin on income was -5%. Therefore, the EBITDA for 2003 was a €91 million better than in 2002.
In 2003 a significant personnel restructuring process took place in the U.S., Mexico and Venezuela, helping to reduce the average labor force from 2,807 in 2002 to 2,300 in 2003. The average labor force at 2003 year-end was 2,255, as compared with 2,494 at 2002 year-end.

3.- Main investments

Lycos Europe

Lycos Europe is Europe's leading portal, with 25 million sole users per month and a presence in ten countries. It ended 2003 with revenues of €85 million. The forging of new agreements, its expense containment policy and the rationalization and restructuring processes carried out in previous years enabled the Company to increase its income for the year by 69%. Lycos Europe started 2004 by reinforcing its strategy of focusing on key products, reducing costs and seeking to balance its revenues to generate a high proportion of these revenues through pay services. Through this line the Company acquired United Domains and Buy Central to supplement its range of value-added services for companies and other users. At year-end the price of Lycos Europe shares had risen by 129% with respect to the beginning of the year.

Uno-e

Uno-e ended 2003 with a positive operating margin of €359 thousand, following the integration of the consumer finance line of business of Finanzia. The changes in the price strategy led to a reduction in the volume of deposits gained, which was partly offset by the strong growth in off-balance sheet products. Consumer financing grew by 9% and delinquency was strictly controlled. These results were achieved in a year of considerable organizational change, with the aforementioned integration, and place Uno-e in an excellent position to face up to the coming years.

One Travel

Gross sales rose by 20% with respect to 2002 to $106 million in a year in which the Iraq war and SARS had an adverse effect on demand in this industry. EBITDA improved by 50%, due to the increase in sales and the containment of overheads, despite the industry's narrowing margins caused by the aggressive strategies of airlines in a bid to recover sales and cushion the effect of the aforementioned circumstances. The consolidation of this company (acquisition of a majority stake in April 2003) gave Terra Lycos additional revenues of €31 million in 2003.

4.- Cash

Attention should also be drawn to the improvement in cash management. Cash consumption in 2003 was reduced substantially to €101 million, as compared to the €338 million consumed in 2002. As of December 31, 2003, the Terra Lycos Group had cash and liquid financial investments of €1,594 million, which enabled it to retain its privileged position in the industry in terms of liquidity.

Research and development

As part of its technological strategy to develop products and services for the Internet, the Terra Lycos Group places special emphasis on its research and development program, for which it is closely backed by prestigious companies in the industry, such as Telefónica I+D.

In 2003 the Terra Lycos Group became actively involved in the European Celtic (Cooperation for a European sustained Leadership in Telecommunications) initiatives program, in its line of action for the development of applications and services and in proposals for the Sixth European Union Framework Programme, which is addressing the possibility of creating virtual communities that will provide a new generation of real-time multimedia communications services.

The Terra Lycos Group maintains a firm commitment to the monitoring, active involvement and promotion of open source development initiatives focused on developing real-time communication services, through open cooperation environments for software development.

Within the context of solutions for SMEs, projects were performed for the introduction of information technologies focusing specifically on communications and e-commerce as tools to raise the productivity and increase the business opportunities of these fundamental elements of the world's economy.

In the multimedia and entertainment services fields, the development of advanced on-line games platforms and systems for the management of rights on digital contents were areas on which the research and development program very significant focused very closely in 2003.

As a general rule, the aforementioned development work is carried out in strict compliance with a methodology aimed at the development of "Seis Sigma" quality products and services.

Management team changes

At the Board meeting held on January 29, 2003, the shareholders Luis Bassat Coen and Luis Badía Almirall were appointed by cooptation to fill the vacancies left by the resignations of Jesús María Zabalza Lotina and Alejandro Junco de la Vega Elizondo.

Subsequently, at the Board meeting held on March 25, 2003, the shareholder J. Alfonso Bustamante Bustamante was appointed by cooptation to full the vacancy left by the resignation of Johannes Hendrikus Hubert De Mol.

At the Board meeting of October 29, 2003, Robert J. Davis resigned from his office as director.

At the Board meeting held on December 16, 2003, Joaquim Agut Bonsfills tendered his resignation as the Company's Executive Chairman and Joaquín Faura Batlle, as a director, was appointed by cooptation to full the vacancy due to the resignation of Robert J. Davis. Also at the meeting in question, the Board resolved to appoint Joaquín Faura Batlle as the Company's new Executive Chairman to replace Joaquim Agut.

On January 27, 2004, the Board of Directors of Terra Networks, S.A accepted the resignation of Edward M. Philip as a director of Terra Networks, S.A.

On February 24, 2004, the Board of Directors of Terra Networks, S.A accepted the resignation of Mr. Joaquim Agut Bonsfills and Mr. Luis Ramón Arrieta Durana from the Board of Directors of Terra Networks, S.A.

Tender offer of Telefónica, S.A. for Terra Networks, S.A. shares and exclusion from the IBEX 35 Index

On May 28, 2003, Telefónica, S.A. submitted a tender offer for all the shares of Terra Networks, S.A. that were listed for trading and traded both on the Spanish and U.S. Nasdaq markets.

The tender offer was subject to the acquisition by Telefónica, S.A. of a given number of Terra Networks, S.A. shares which, together with those already owned by Telefónica and frozen until the date of publication of the results of the tender offer, accounted for at least 75% of the capital stock of Terra Networks, S.A. at the date of publication of the results of the tender offer. Also, Telefónica, S.A. expressly reserved the right to waive this condition on the date of expiration of the tender offer acceptance period (July 23, 2003).

The tender offer launched by Telefónica, S.A. was accepted by 54.52% of the stockholders holding the shares on which the offer was targeted, representing 33.60% of the capital stock of Terra Networks, S.A., which, added to the ownership interest already held by Telefónica, S.A. in the capital stock of Terra Networks, S.A, gave Telefónica, S.A. a stake of 71.97% in the Company.

On July 25, 2003, Telefónica, S.A. confirmed through a relevant fact disclosure, its decision to waive the minimum limit to which the tender offer had been restricted. Consequently, the resulting direct holding represented 71.97% of the total capital stock of Terra Networks, S.A.

Also, in view of the reduced liquidity of Terra Networks, S.A. shares in the Spanish market, at its meeting on December 11, 2003, the Technical Advisory Committee of the Ibex Indexes resolved, in accordance with the Technical Standards for the Composition and Calculation of the Ibex 35 indexes, to exclude the Terra Networks (TRR) securities from the Index, effective January 2, 2004.

Treasury stock

On June 26, 2003, the Board of Directors of Terra Networks, S.A. indicated its willingness to accept the tender offer for the acquisition of shares launched by Telefónica, S.A. for the 2,420,468 shares of treasury stock held by Lycos, Inc. as of December 31, 2002, for an amount of €1,858 thousand.

On December 16, 2003, the Board of Directors of Terra Networks, S.A., exercising the powers granted to it by the Stockholders' Meetings of June 8, 2000 and April 2, 2003, approved the acquisition by Terra Networks, S.A. of 26,525,732 shares of Terra Networks, S.A. owned by Citibank, NA, as the agent bank for the Stock Option Plans established by the Company on the integration of Lycos, Inc. The shares were acquired at the prices at which Citibank, NA had acquired the Lycos Inc shares to cover the latter company's Stock Option Plans for its employees at the date of their acquisition.

Additionally, in December 2003 Lycos, Inc. acquired 18,920 shares for a total amount of €1 thousand as a result of the former agreements between Lycos Inc. and the CMGI Group relating to the coverage of the stock options granted to Lycos Inc. employees in the initial stage of the Plan.

The value adjustment to the treasury stock was made because of the difference between the acquisition price of the shares and their underlying book value, and this amount was recorded with a charge of €165,521 thousand, to "Additional Paid-in Capital", since these shares are restricted as to their use, as they are specifically earmarked for assignment to the employees or for sale on their behalf when they exercise their options or, pursuant to the resolutions of the Stockholders' Meetings of June 8, 2000 and April 2, 2003, they must be retired if the options are not exercised before the related exercise period expires.

Accordingly, the total number of shares of treasury stock held as of December 31, 2003, was 26,544,652, representing 4.41% of capital stock and valued at €4.76 per share. This amount is recorded under the "Treasury Stock" caption, on the asset side of the accompanying balance sheet at a total amount of €126,262 thousand.

In accordance with Article 79.3 of the revised Spanish Corporations Law, the Company has recorded the relevant restricted reserve.

Events subsequent to year-end

On February 11, 2004, Lycos, Inc. reduced its labor force by 118 employees as a result of the reorganization of its product and service portfolio and the outsourcing of its media sales force to 24/7 Real Media Inc., with which it has entered into an agreement for media sales and Ad-serving (advertisement placement) and analysis services.