

**COMMUNICATION OF RELEVANT FACT****TERRA NETWORKS, S.A.**

TERRA NETWORKS, S.A., pursuant to the provisions of article 82 of the Spanish Stock Market Act, hereby communicates the following

**RELEVANT FACT**

In the early morning of July 31<sup>st</sup> (Madrid time), TERRA NETWORKS, S.A. (hereinafter, TERRA) and the Korean company DAUM COMMUNICATIONS Corp. have signed an agreement by which the former sells to the latter the entire stock of LYCOS, Inc. (hereinafter, LYCOS), a TERRA subsidiary, in execution of the resolutions approving the operation adopted by the Boards of Directors of those companies and following the conclusion of a competitive sale process undertaken at the instance of TERRA and headed by the investment bank Lehman Brothers who acted as financial advisor to TERRA.

The operation is set within the strategy of TERRA of strengthening its presence in geographical areas in which the Telefónica Group has significant operations and in the Spanish and Portuguese speaking market, both of which are regarded as a target market for the Telefónica Group, all this being in accordance with the communiqué made by virtue of the appropriate Relevant Fact of April 29, 2004 and in the latest Shareholders General Meeting.

Prior to the sale, LYCOS will be transferring to TERRA, among other assets, the shares it holds in Terra Networks USA, LLP (subsidiary concerned with operating the portal for Spanish speaking people in the United States), its stake in Lycos Europe, N.V., and other investments.

The book value of the assets to be received by TERRA prior to the sale is initially estimated at around 435 million USD. The initial price of the sale of LYCOS, following execution of the transfer, comes to 105 million USD. On the basis of the book values of the aforementioned assets at July 2004 and the current exchange rate, it is initially estimated that the sale that is described could represent a book profit before tax of around 20 million euros, though the final figures will be those resulting from the balance sheet closed on the date of the sale.

The sale of LYCOS, whose revenue represented around 16% of the total for the TERRA Group in 2003, is going to imply a fall in the expected earnings for the current accounting year. Nevertheless, the operation is not going to alter the Group's forecasts of generating a positive EBITDA in the accounting year 2004.

The execution of the sale and, as a consequence, the effective transfer of the stock, are, in accordance with the signed agreement, subject to the obtaining of any administrative authorisations that might be necessary, and in particular, to its express approval by the

US authorities for the Defence of Competition or tacit approval once a period of 30 days has passed without any opposition.

José F. Mateu Isturiz  
General Counsel and Secretary of the Board of Terra Networks, S.A.