TERRA NETWORKS, S.A.

Financial Statements for 2002 together with Auditors' Report

Translation of a report and 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.

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 Financial Statements

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

1. We have audited the financial statements of TERRA NETWORKS, S.A. comprising the balance sheet as of December 31, 2002, and the related statement of operations and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the 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 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 2002 financial statements of Terra Networks España, S.A., a wholly-owned investee of Terra Networks, S.A. whose loss for the year, which was recorded as a provision for contingencies and expenses at Terra Networks, S.A, represents 13.2% of the latter's loss. The aforementioned financial statements of Terra Networks España, S.A. were audited by BDO Audiberia Auditores, S.L. and our opinion as expressed in this report on the financial statements of Terra Networks, S.A. is based, with respect to the ownership interest in Terra Networks España, S.A., solely on the report of the aforementioned auditors.

2. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2002 figures for each item in the balance sheet and statements of operations and of changes in financial position, the figures for 2001. For the purpose of comparing the balance sheets for 2002 and 2001, the significant decrease in the Company´s assets recorded in 2002 as a result of the write-down of goodwill, tax assets and start-up expenses made in 2002 should be taken into account (see Note 1). Our opinion refers only to the 2002 financial statements. Our auditors' report dated February 26, 2002, on the 2001 financial statements contained an unqualified opinion.

3. Since the Company is the head of a group and meets certain requirements, it is obliged under current legislation to prepare separate consolidated financial statements, on which we issued our auditors' report on this same date containing an unqualified opinion. The effect of consolidation, which was performed on the basis of the individual accounting records of the companies composing the Terra Group, with respect to the individual financial statements referred to above, was to decrease the assets and the loss for the year by €263,751 thousand and €192,785 thousand, respectively, and to increase the reserves by €261,386 thousand. The effect of consolidation with respect to the individual financial statements as of the aforementioned date is described in Note 4-d to the financial statements referred to above.

4. As indicated in Note 1, in 2002 there were substantial variances in the results of a significant number of subsidiaries with respect to those forecast in the budget for 2002 and in the Group's business plans in force as of that date. At 2002 year-end Terra Networks, S.A. performed a study of the evolution of the Group companies' business plans, based on the new market circumstances in general and on the Internet industry in particular, in order to determine the recoverability of the goodwill, the capitalized tax assets and other fixed assets in the balance sheet. Based on the findings of these studies and on the conclusions in the reports of third parties prepared at the request of the Company's Board of Directors, goodwill, tax assets and start-up expenses were written down by €312,992 thousand, €312,869 thousand and €40,679 thousand, respectively (see Note 1).

   The Group's new business plan prepared by Company management envisages the obtainment of net income in 2005. Based on the results projected for the coming ten years in the aforementioned plan, the Company has maintained a balance under the "Long-Term Investments" caption which as of December 31, 2002, amounted to €287,009 thousand, relating to prepaid income taxes and tax assets for tax losses incurred in 2001 and prior years, which it expects to offset over the next ten years, as indicated in Notes 4-e and 10. In view of the nature of any business plan, which is based on future expectations, significant differences might 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, 2002, amply covers the cash needs envisaged in the aforementioned plan for 2003

5. In our opinion, based on our audit and on the report of BDO Audiberia Auditores, S.L., the financial statements for 2002 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. as of December 31, 2002, and of the results of its operations and of the funds obtained and applied by it 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 management report for 2002 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 2002. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE & TOUCHE ESPAÑA, S.L.
Registered in R.O.A.C. under nº: S0692

Javier Acevedo Jiménez de Castro

February 26, 2003

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 19). In the event of a discrepancy, the Spanish-language version prevails.

TERRA NETWORKS, S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

(Thousands of Euros)

ASSETS	31/12/02	12/31/01	STOCKHOLDERS' EQUITY AND LIABILITIES	31/12/02	31/12//01
FIXED AND OTHER NONCURRENT ASSETS:			**STOCKHOLDERS' EQUITY (Note 9):**		
Start-up expenses (Note 5)	**-**	**57.900**	Capital stock	1.216.321	1.242.532
Intangible assets, net (Note 6)	**14.757**	**27.246**	Additional paid-in capital	5.491.533	5.635.694
Research and development expenses	156	156	Other reserves	26.216	5
Intellectual property	10.350	8.330	Accumulated losses	(1.410.129)	(573.059)
Computer software	33.348	42.023	Loss for the year	(2.201.655)	(837.070)
Intangible assets in progress	2.469	-			
Other intangible assets	1.278	18.755	**Total stockholders' equity**	**3.122.286**	**5.468.102**
Accumulated amortization	(32.844)	(42.018)			
Property and equipment, net (Note 7)	**5.964**	**7.805**			
Computer hardware	8.412	6.780			
Furniture	1.073	1.026	**DEFERRED REVENUES**	**11.359**	**357**
Other tangible fixed assets	5.739	3.655			
Accumulated depreciation	(9.260)	(3.656)			
Long-term investments (Note 8)	**1.764.503**	**3.920.981**			
Investments in Group and associated companies	4.099.904	4.858.768	**PROVISIONS FOR CONTINGENCIES AND**		
Loans to Group and associated companies (Note 11)	1.890	298.127	**EXPENSES (Note 8)**	**403.278**	**141.026**
Long-term deposits and guarantees given	810	810			
Taxes receivable (Note 10)	287.009	599.878			
Investment valuation allowances	(2.625.110)	(1.836.602)			
Total fixed and other noncurrent assets	**1.785.224**	**4.013.932**			
CURRENT ASSETS:			**CURRENT LIABILITIES:**		
Accounts receivable-	**97.680**	**103.539**	Payable to Group companies (Note 11)	168.783	93.931
Receivable from Group companies (Note 11)	96.737	98.440	Trade accounts payable	27.864	35.091
Other accounts receivable	943	5.099	Taxes payable (Note 10)	3.728	439
Taxes receivable (Note 10)	**26.462**	**23.785**	Other nontrade payables	3.085	3.963
Short-term investments (Note 11)	**1.848.102**	**1.620.651**	Accrual accounts	28.290	20.387
Cash	**9**	**4**	**Total current liabilities**	**231.750**	**153.811**
Accrual accounts	**11.196**	**1.385**			
Total current assets	**1.983.449**	**1.749.364**	**TOTAL STOCKHOLDERS' EQUITY**		
TOTAL ASSETS	**3.768.673**	**5.763.296**	**AND LIABILITIES**	**3.768.673**	**5.763.296**

The accompanying Notes 1 to 19 are an integral part of the balance sheet as of December 31, 2002.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 19). In the event of a discrepancy, the Spanish-language version prevails.

TERRA NETWORKS, S.A.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(Thousands of Euros)

DEBIT	2002	2001	CREDIT	2002	2001
EXPENSES:			**REVENUES:**		
Procurements	198	7.334	Net sales and services	44.702	38.546
Personnel expenses (Note 12)	16.997	21.676		**44.702**	**38.546**
Depreciation and amortization expense	39.987	46.348			
Advertising and publicity	13.714	6.550			
Rent	3.870	3.062			
Professional services	8.623	13.261			
Other operating expenses	16.674	12.531			
	100.063	**110.763**			
Operating income	**-**	**-**	**Operating loss**	**55.361**	**72.217**
			Financial revenues from investments in Group companies (Note 11)	48.661	87.841
Financial expenses on other debts	1.842	2.402	Financial revenues from investments in other companies	248	114
Exchange losses	12.582	9.810	Exchange gains	12.505	38.070
Financial income	**46.990**	**113.813**	**Financial loss**	**-**	**-**
Income from ordinary activities	**-**	**41.596**	**Loss on ordinary activities**	**8.371**	**-**
Variation in control portfolio allowances (Note 8)	1.519.076	1.185.777			
Extraordinary expenses and losses (Note 13)	362.259	40.707	Other extraordinary revenues	920	320
Extraordinary income	**-**	**-**	**Extraordinary loss**	**1.880.415**	**1.226.164**
Income before taxes	**-**	**-**	**Loss before taxes**	**1.888.786**	**1.184.568**
Corporate Income Tax (Note 10)	312.869		Corporate income tax	**-**	347.498
Net income for the year	**-**	**-**	**Loss for the year**	**2.201.655**	**837.070**

The accompanying Notes 1 to 19 are an integral part of the statement of operations as of December 31, 2002.

(18) STATEMENTS OF CHANGES IN FINANCIAL POSITION

APPLICATION OF FUNDS	Thousands of Euros 2002	2001	SOURCE OF FUNDS	Thousands of Euros 2002	2001
Start-up expenses	-	401	Funds obtained from operations	23.948	68.556
Fixed asset additions:			Fixed asset disposals:		
*Intangible assets	7.525	8.950	*Intangible assets	1.195	3.985
*Property and equipment	2.704	4.220	*Property and equipment	598	6.829
*Investments in Group and associated companies	134.799	359.431	*Investments in Group and associated companies	7.587	28
Provisions for contingencies and expenses	21.000	-	Loans to Group and associated companies	-	94.451
Loans to Group and associated companies	106.186	131.151	Transfer to short term of long-term loans	393.847	15.494
Net transfer of long-term investments	9.817	-	Deferred revenues	11.002	357
Transfer to long-term of short-term loans	-	371.522			
Deposits and guarantees		107			
TOTAL FUNDS APPLIED	**282.031**	**875.782**	**TOTAL FUNDS OBTAINED**	**438.177**	**189.700**
FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED	**156.146**	**-**	**FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED**	**-**	**686.082**

	Thousands of Euros			
	Increase		Decrease	
VARIATION IN WORKING CAPITAL	2002	2001	2002	2001
Accounts receivable	-	51.167	5.859	-
Taxes receivable	2.677	8.471	-	-
Short-term investments	227.451	-	-	720.844
Cash	5	-	-	477
Accrual accounts	9.811	309	-	-
Current liabilities	-	-	77.939	24.708
TOTAL	**239.944**	**59.947**	**83.798**	**746.029**
VARIATION IN WORKING CAPITAL	**156.146**			**686.082**

Terra Networks, S.A.

Financial Statements
for the Year Ended December 31, 2002
together with Auditors' Report

Translation of reports and financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 19). In the event of a discrepancy, the Spanish-language version prevails.

Translation of financial statements originally issued in Spanish and prepared
in accordance with generally accepted accounting principles in Spain (see Note 19).
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TERRA NETWORKS, S.A.

NOTES TO 2002 FINANCIAL STATEMENTS

(1) COMPANY DESCRIPTION

Terra Networks, S.A. ("the 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 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 authorizations or licenses as might be required.

The 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 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 subsidiaries in most of the countries in which it provides its services. Specifically, as of December 31, 2002, the Terra Lycos Group had direct or indirect holdings in Spain, France, Italy, Germany, the U.K., the Netherlands, Belgium, Austria, Switzerland, Denmark, Norway, Sweden, Finland, Portugal, Czech Republic, Mexico, Brazil, the U.S., Guatemala, Argentina, Peru, Chile, Colombia, Venezuela, El Salvador, Uruguay, Costa Rica, Honduras, Nicaragua, Panama, Dominican Republic, China, Singapore, Hong Kong, Taiwan, the Philippines, Indonesia, Malaysia, India and Thailand. The holdings in France, Italy, Germany, the U.K., the Netherlands, Austria, Switzerland, Denmark, Norway, Sweden, Belgium, Finland, Czech Republic, Hong Kong, China, Singapore, Taiwan, the Philippines, Indonesia, Malaysia, India and Thailand arose as a result of the merger with Lycos, Inc. (formerly Lycos Virginia, Inc.), which was approved by the Board of Directors of Terra Networks, S.A. on May 16, 2000. The European companies are owned through Lycos Europe, N.V., a subsidiary of Lycos, Inc.

The agreements entered into on May 16, 2000, by Terra Networks, S.A., Telefónica, S.A., Lycos, Inc. and Bertelsmann AG for the acquisition of Lycos, Inc. included an agreement for cooperation relating to access to the new content of the Terra Lycos Group and joint marketing campaigns. The agreement stipulated that Bertelsmann AG would make payments of US$ 325 million for the products and services purchased from the Terra Lycos Group in the first two years following the merger of Terra Networks, S.A. and Lycos, Inc. The agreement also stated that Bertelsmann AG would make certain payments up to a total amount of US$ 675 million for the products and services purchased from the Group in the first three years following the second anniversary of the merger of Terra Networks, S.A. and Lycos, Inc., and Telefónica, S.A. undertook to purchase goods and services from the Group during that period for the amount of the purchases not made by Bertelsmann AG, up to a total amount of US$ 675 million.

On February 12, 2003, Terra Networks, S.A. and Telefónica, S.A. have entered into a Framework Strategic Alliance Agreement to replace the afore-mentioned Strategic Agreement. Also, all the parties have entered into a preferential interest agreement that will make it possible to continue to explore opportunities for mutually providing communications, development and content services in the on-line market.

The new contract between Terra Networks, S.A. and Telefónica, S.A. was entered into in response, on the one hand, to the changes in the Internet businesses and, in particular, the development of broad band technology and, on the other, to 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 ability 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 which it replaces. The Framework Agreements 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 new agreement establishes a new relationship model between the companies that better exploits their respective capabilities in order to boost their growth in the Internet, with the aim of taking advantage of the synergies and creating value for both companies. As a result of this alliance, the Terra Lycos Group is guaranteed the generation of at least €78.5 million per year in value, calculated as the difference between the operating revenues arising from the services provided under the Framework Agreement and the costs and investments directly associated therewith. The term of the new agreement is six years, and it is expected to be renewed on an annual basis thereafter (see Note 17).

During 2002 the Terra Lycos Group’s business model has been evolving progressively to adapt to circumstances in the market in general, and in the Internet industry in particular. One of the most noteworthy aspects to be taken into account when analyzing the growth and development of Terra Networks, S.A. in 2002 is the negative macroeconomic situation in the countries in which it is present. To the negative consequences of this situation for the Company in terms of revenues must be added the additional negative impact of the exchange rates of certain currencies (basically the U.S. dollar and the Brazilian real) on the statement of operations. Added to this negative macroeconomic scenario in 2002 was the worsening in the crisis of online advertising and the Internet market. The political and social instability being experienced by certain of the main countries in which the Terra Lycos Group is present, in particular Brazil, Argentina and Venezuela, is also noteworthy. As a consequence, most of the Terra Lycos Group’s subsidiaries have obtained negative deviations in their net results compared to those budgeted for 2002.

The Company performs on-going business reviews and, based on quantitative and qualitative measures, assesses the need to record impairment losses on goodwill and other intangibles used in operations when impairment indicators are identified. When impairment indicators are identified, the Company determines the amount of the impairment charge by comparing the carrying value of goodwill and certain other intangible assets to their fair value. The Company determines fair value based on a discounted cash flow methodology, which is calculated as the present value of the expected future cash flows. At 2002 year-end, these analyses, based on the estimated future value that each of the businesses and countries will generate, were performed in order to determine the recovery of the goodwill, capitalized tax assets, and of other fixed assets in the balance sheet of Terra Networks, S.A., in accordance with the accounting principle of prudence in valuation. Additionally, an independent appraiser has been requested to prepare a study in relation to the goodwill associated with the acquisition of Lycos, Inc. (which represents approximately 50% of the total).

As a result of this study, in accordance with the accounting principle of prudence in valuation, as of December 31, 2002 start-up costs amounting to €40,679 thousand and goodwill amounting to €312,992 thousand were written down and capitalized tax credits amounting to €312,869 thousand were reversed (see Notes 5, 8 and 10).

Terra Networks, S.A. is listed on the Spanish and New York (NASDAQ) Stock Exchanges. As of December 31, 2002 and 2001, its stockholders were as follows:

Stockholder	Percentage of Ownership	
	12/31/02	12/31/01
Telefónica, S.A.	38.58	37.03
Citibank, NA	4.59	7.80
Other stockholders	56.83	55.17
Total	**100.00**	**100.00**

The purpose of the holdings owned by Citibank, NA and of the other minority interests of Banco Zaragozano (1.15%) and Caja de Ahorros y Pensiones de Barcelona (1.15%) was to enable the financial institutions acting as agents in the Stock Option Plan for Terra Networks, S.A.'s employees (see Notes 15-a and b) to have ownership interests in the capital stock of Terra Networks, S.A.

As of December 31, 2002, Lycos, Inc. (100% owned by Terra Networks, S.A.) held a total of 2,420,468 shares of Terra Networks, S.A., representing 0.398% of its capital stock as of that date.

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

(2) BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

a) True and fair view-

The accompanying financial statements, which were prepared by the Company's directors from the accounting records of Terra Networks, S.A., are presented in accordance with the Spanish National Chart of Accounts and, accordingly, give a true and fair view of the Company's net worth, financial position and results of operations.

The 2002 financial statements will be submitted for approval by the Stockholders' Meeting, and it is considered that they will be approved without any changes. The 2001 financial statements were approved by the Stockholders' Meeting on April 9, 2002.

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

b) Accounting policies-

The financial statements as of December 31, 2002 were prepared by applying the Spanish generally accepted accounting principles and valuation methods described in

Note 4. All obligatory accounting principles with a significant effect on the financial statements were applied in their preparation.

(3) ALLOCATION OF LOSS

The Company's directors propose that the loss for 2002 be allocated in full to "Accumulated Losses".

(4) VALUATION STANDARDS

The main valuation methods applied by the Company in preparing its financial statements, in accordance with the Spanish National Chart of Accounts, were as follows:

a) 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 of shares, 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 of shares.

The Company amortizes start-up expenses on a straight-line basis over five years. As indicated in Note 1, based on the annual analysis of the income expected to be generated in the future per the business plans, in 2002, according to the accounting principle of prudence in valuation, all the unamortized start-up expenses as of December 31, 2002 were written off, which is recorded under the "Other Extraordinary Expenses" caption (see Note 13).

€17,221 thousand of amortization of start-up expenses were charged to the 2002 statement of operations (see Note 5).

b) Intangible assets-

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.

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

The "Other Intangible Assets" caption includes the rights acquired under long-term contracts for services and content. These rights are amortized on a straight-line basis over the related contract term.

€17,898 thousand of amortization of intangible assets were charged to the 2002 statement of operations (see Note 6).

c) 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 Company 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
Plant	10
Furniture	5
Computer hardware	3
Other tangible fixed assets	4-6
Other fixtures	10

€4,868 thousand of depreciation of property and equipment were charged to the 2002 statement of operations (see Note 7).

d) Long-term investments-

The investments in Group and associated companies are recorded at the lower of cost or underlying book value of the holdings, adjusted by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the date of subsequent valuation.

Unrealized losses (cost higher than market or fair 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 value of the latter to zero, the overprovision is reclassified for balance-sheet purposes to the liability "Provisions for Contingencies and Expenses” caption. €1,519,076 thousand were recorded in this connection with a charge to 2002 statement of operations (see Note 8).

The “Investment Valuation Allowances” account in 2002 also includes €103,648 thousand which were recorded in order to include in the individual financial statements the amortization of goodwill recorded in the consolidated financial statements.

As indicated in Note 1, based on the annual analysis of the income expected to be generated in the future per the business plans, in 2002, according to the accounting principle of prudence in valuation, €312,992 thousand related to the goodwill generated in the acquisition of Lycos, Inc. were written off and recorded under the “Other Extraordinary Expenses” caption (see Note 13).

As a general rule, and pursuant to current accounting legislation, the Company amortizes goodwill over ten years. Under current legislation the Company is not required to prepare consolidated financial statements because it is consolidated in a higher group, the parent company of which is governed by Spanish legislation. However, the Company prepares separate consolidated financial statements. The effect on the accompanying financial statements of fully consolidating the majority holdings and of accounting for the other holdings by the equity method is as follows:

	Thousands of Euros
	Increase (Decrease)
Assets	(263,751)
Stockholders’ equity	68,601
Revenues	577,089
Loss for the year	(192,785)

e) Corporate income tax-

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.

In 1999, 2000 and 2001 the Company recorded the tax asset for the tax losses incurred in these years, since it considered their recoverability to be reasonably assured on the basis of the business plan then in force.

As indicated in Note 1 and based on the annual analysis of the income expected to be generated in the future, in 2002 the Company, in accordance with the accounting principle of prudence in valuation, did not record the tax assets relating to the 2002 losses, and partially reversed those tax assets recorded in prior years which are not reasonably recoverable within the next ten fiscal years, according to the current business plans (see Note 10).

f) 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 losses are recorded as financial expenses in the year in which they arise.

The positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the 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.

g) 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 Company only records realized income at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known.

(5) START-UP EXPENSES

The variations in this caption in 2002 were as follows:

	Thousands of Euros
Balance at 12/31/01	57,900
Amortization	(17,221)
Write-downs	(40,679)
Balance at 12/31/02	**-**

As indicated in Note 4-a, based on the annual analysis of the income expected to be generated in the future per the business plans, in 2002, according to the accounting principle of prudence in valuation, all the unamortized start-up expenses as of

December 31, 2002 amounting to €40,679 thousand were written off and recorded under the "Other Extraordinary Expenses" caption (see Note 13).

(6) INTANGIBLE ASSETS

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

	Thousands of Euros				
	Balance at 12/31/01	Additions	Retirements	Transfers	Balance at 12/31/02
Research and development expenses	156	-	-	-	156
Intellectual property	8,330	515	-	1,505	10,350
Computer software	42,023	2,935	(11,525)	(85)	33,348
Intangible assets in progress	-	2,754	-	(285)	2,469
Other intangible assets	18,755	1,321	(18,749)	(49)	1,278
Accumulated amortization	(42,018)	(17,898)	29,079	(2,007)	(32,844)
Total intangible assets, net	**27,246**	**(10,373)**	**(1,195)**	**(921)**	**14,757**

The additions to the "Intellectual Property" caption relate mainly to the acquisition by Terra Networks, S.A. of title to trademarks and domains in various countries.

The additions to the "Computer Software" caption include the acquisition of the right to use various licenses.

The additions to the "Intangible Assets in Progress" caption relate to the investment in the development of a new games platform, whereas the "Other Intangible Assets" caption includes capitalized content additions.

The retirements from "Other Intangible Assets" and "Computer Software" relate to retirements of content, licenses and computer applications that had been capitalized in prior years and that in 2002 became fully amortized.

(7) PROPERTY AND EQUIPMENT

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

	Thousands of Euros				
	Balance at 12/31/01	Additions	Retirements	Transfers	Balance at 12/31/02
Computer hardware	6,780	281	(411)	1,762	8,412
Furniture	1,026	149	(16)	(86)	1,073
Other tangible fixed assets	3,655	2,274	(262)	72	5,739
Accumulated depreciation	(3,656)	(4,868)	91	(827)	(9,260)
Total tangible fixed assets, net	**7,805**	**(2,164)**	**(598)**	**921**	**5,964**

The "Other Tangible Fixed Assets" caption includes additions due to investments made in the building in which the Company carries on its business activities.

(8) LONG-TERM INVESTMENTS

The detail of the "Long-Term Investments" caption and of the variations therein in 2002 is as follows:

	Thousands of Euros					
	Balance at 12/31/01	Additions	Retirements	Transfers	Write-offs	Balance at 12/31/02
Investments in Group and associated companies	4,858,768	134,799	(151,842)	(741,821)	-	4,099,904
Loans to Group and associated companies (Note 11)	298,12	106,186	-	(402,423)	-	1,890
Long-term deposits and guarantees	810	-	-	-	-	810
Taxes receivable (Note 10)	599,87	-	(312,869)	-	-	287,009
Investment valuation allowances for Group and associated companies	(1,836,602)	(1,519,076)	100	1,043,460	(312,992)	(2,625,110)
Total long-term investments, net	**3,920,981**	**(1,278,091)**	**(464,611)**	**(100,784**	**(312,992)**	**(1,764,503)**

The additions to the "Investments in Group and Associated Companies" caption include US$ 43,590 thousand of capital increases through the conversion of debt at foreign subsidiaries and US$ 86,339 thousand of capital increases subscribed by Terra Networks, S.A. through monetary contributions at foreign subsidiaries.

The "Transfers" column includes reclassifications to short term of "Loans to Group and Associated Companies" amounting to €393,847 thousand, since they are due as of December 31, 2002, long-term loans to investees that were converted into capital amounting to €7,416 thousand, transfers of debt to short-term that were converted into capital amounting to €10,971 thousand and the reclassification of €283,252 thousand of balances payable to the "Provisions for Contingencies and Expenses" caption on the liability side of the balance sheet. As of December 31, 2002, the balance of the

“Provisions for Contingencies and Expenses” caption includes €403,278 thousand in this connection.

In 2002 Terra Networks, S.A. contributed investments in Latin American companies to Terra Networks Latam, S.L. for the total net amount of the investment valuation allowance of €449,803 thousand. Also, the Company contributed investments in subsidiaries in which it has an ownership interest of less than 50% to Terra Networks Asociadas, S.L. for the total net amount of the investment valuation allowance of €60,514 thousand. The two contributions are also reflected in the “Transfers” column.

As explained in Note 1, at 2002 year-end an exhaustive analysis was carried out of the evolution of the subsidiaries’ business plans, based on the new market circumstances in general and on the Internet industry in particular, in order to determine the recoverability of the goodwill and tax assets capitalized based on the estimated future generation of value of each of the businesses and countries, in accordance with the accounting principle of prudence in valuation. Based on this analysis, as of December 31, 2002, part of the goodwill of Lycos, Inc. amounting to €312,992 thousand was written down and this amount was recorded with a charge to the “Extraordinary Expenses” caption in the accompanying statement of operations (see Note 13).

Also, based on the same study of the recoverability of the Company’s goodwill and tax assets, as of December 31, 2002, capitalized tax assets amounting to €312,869 thousand were reversed (see Note 10).

The detail of the direct investments in Group and associated companies as of December 31, 2002, is as follows (amounts in thousands of euros):

Company, Line of Business and Address	% of Direct and Indirect Ownership	Gross Book Value	Net Worth at 12/31/02	Accumulated Allowance (*)
Terra Lycos Intangibles, S.A (formerly Terra Interactiva de Contenidos, S.A.) Provision of Internet services Vía de las Dos Castillas, 33. Pozuelo de Alarcón. Madrid	100%	19,293	14,075	(5,218)
Terra Networks España, S.A. (formerly Telefónica Servicios y Contenidos por la Red, S.A.) ISP and portal Avda. de las Dos Castillas, 7. Pozuelo de Alarcón. Madrid	100%	76,469	(396,512)	(472,981)
Terra Lycos, S.A. (formerly Terra Networks Intangibles, S.A.) Provision of Internet services Gran Via, 28, Madrid	100%	60	53	(7)
Lycos, Inc. Internet portal 100 Fifth Avenue, Waltham, U.S.A.	100%	3,240,185	567,546	(2,057,099)
Uno-e Bank, S.A. On-line bank Capitán Haya, 1 Madrid	49%	189,832	81,487	(37,019)
Cierv, S.L. Design of communications products Almirante, 16 Madrid	100%	10,077	(**)	(10,077)
Corporación Real Time Team, S.L. Design, programming, advertising and consulting on the Internet Almirante 16, Madrid	35.16% 12.04% indirectly through CIERV	12,398	(**)	(19,163)
Terra Networks LATAM, S.L. (formerly Terra Networks Asociadas Extranjeras, S.L.) Holding of foreign securities Gran Vía 28, Madrid	100%	491,056	113,151	(377,904)
Terra Lycos Holding, B.V. Portfolio company Koningslaan 43 1075 AD Amsterdam, Netherlands	100%	18	(**)	0
Terra Networks Asociadas, S.L. Portfolio company Vía de las Dos Castillas, 33. Pozuelo de Alarcón. Madrid	100%	60,516	11,596	(48,920)
Total Group and associated companies		**4,099,904**		**(3,028,388)**

(*) Including provisions for contingencies and expenses.

(**) Data not available as of the date of preparation of the financial statements.

The accumulated investment valuation allowance was recorded mainly as a result of the losses incurred by the companies from the date of their acquisition through December 31, 2002, and includes the allowance for the amortization of the goodwill recorded in the consolidated financial statements.

The main additions, incorporations, disposals and transfers of companies in 2002 are described below:

Terra Networks España, S.A.-

In 2002 Terra Networks, S.A. granted loans totaling €137 million to this subsidiary. Terra Networks España, S.A. currently provides Internet access and portal services in Spain.

Terra Networks Brasil, S.A.-

Terra Networks Brasil, S.A. has majority holdings in various Internet companies. It engages mainly in the provision of Internet access, the marketing of software developed by third parties, the provision of services related to access networks and the performance of business activities as an Internet portal.

In March 2002 the holdings in Terra Networks Brasil, S.A. and Telefónica Interactiva Brasil, Ltda. owned by Terra Networks, S.A. were contributed to Terra Networks Latam, S.L. for a net amount of €167,393 thousand.

Terra Networks Guatemala, S.A.-

Terra Networks Guatemala, S.A. has holdings in Terra Networks El Salvador, S.A. de C.V., Terra Networks Costa Rica, S.A. de C.V., Terra Networks Honduras, S.A. de C.V., Terra Networks Nicaragua, S.A. de C.V. and Terra Networks Panamá, S.A., which engage in the development of the Internet business in their respective countries.

In 2002 Terra Networks Guatemala, S.A. increased capital by €1,208 thousand, and the increase was subscribed in full by Terra Networks, S.A.

In December 2002 the holding in Terra Networks Guatemala, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €3,807 thousand.

Terra Networks Argentina, S.A.-

In April 2002 the holding in Terra Networks Argentina, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €6,882 thousand.

Red Universal de Marketing y Bookings Online, S.A.-

In June 2002 the holding in Rumbo owned by Terra Networks, S.A. was contributed to Terra Networks Asociados, S.L. for a net amount of €1,490 thousand.

Terra Networks Perú, S.A.-

In 2002 Terra Networks Perú, S.A. increased capital by €4,976 thousand by converting a debt to Terra Networks, S.A. into capital.

In 2002 the holding in Terra Networks Perú, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €30,087 thousand.

Terra Networks México S.A. de C.V.-

In 2002 Terra Networks México Holding S.A. de C.V. increased capital by €36,945 thousand, and the increase was subscribed in full by Terra Networks, S.A.

In 2002 the holding in Terra Networks México Holding S.A. de C.V. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €153,233 thousand.

Terra Networks Chile, S.A.-

In 2002 Terra Networks Chile Holding Ltda increased capital by €1,696 thousand, and the increase was subscribed in full by Terra Networks, S.A.

Subsequently, also in 2002 the holding in Terra Networks Chile Holding, Ltda. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €51,498 thousand.

Inversis Networks, S.A.-

The corporate purpose of this company is the acquisition, development, research, operation and marketing of IT and telematics equipment, systems and applications, and the preparation, development and management of business projects for the distribution of products and the provision of services over the Internet, IT and telematics networks and communications networks in general.

In 2002 Inversis Networks, S.A. increased capital. Terra Networks, S.A. subscribed to €1,283 thousand of the increase, thereby maintaining its percentage of ownership of 9.1%.

In June 2002 the holding in Inversis Networks, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €2,737 thousand.

Terra Networks Venezuela S.A.-

In 2002 Terra Networks Venezuela, S.A. carried out a capital increase of €3,381 thousand, which was fully subscribed by Terra Networks, S.A.

In 2002 the holding in Terra Networks Venezuela, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €13,153 thousand.

Terra Networks Colombia Holding, S.A.-

In 2002 Terra Networks Colombia Holding, S.A. carried out capital increases for a total amount of €8,123 thousand, which were fully subscribed by Terra Networks, S.A.

In 2002 the holding in Terra Networks Colombia Holding, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €22,619 thousand.

Terra Networks Uruguay, S.A.-

In April 2002 the holding in Terra Networks Uruguay, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €895 thousand.

Terra Networks Caribe, S.A.-

In April 2002 the holding in Terra Networks Caribe, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Latam, S.L. for a net amount of €192 thousand.

A Tu Hora, S.A.-

In June 2002 the holding in A Tu Hora, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €2,144 thousand.

Terra Mobile, S.A.-

In 2002 Terra Mobile, S.A. increased capital by €33,529 thousand through the conversion of loans granted by Terra Networks, S.A.

In June 2002 the holding in Terra Mobile, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €25,062 thousand.

OneTravel.com, Inc.-

In 2002 Terra Networks, S.A. increased this company's capital stock by €2,292 thousand and converted long-term debt amounting to €8,021 thousand into capital. The two transactions increased the percentage of ownership from 27.73% to 39.6%.

In April 2002 the holding in Onetravel.com, Inc. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €18,088 thousand.

Bumeran Participaciones, S.L.-

In 2002 capital was increased by a total amount of €3.4 million, and the increases were subscribed in full by Terra Networks, S.A., thereby increasing its percentage of ownership to 84%.

In 2002 the holding in Bumeran Participaciones, S.L. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €3,620 thousand.

Maptel Networks, S.A.-

In June 2002 the holding in Maptel Networks, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €1,300 thousand.

Azeler Automoción, S.A.-

In 2002 Azeler Automoción, S.A. carried out a capital increase, of which Terra Networks, S.A. subscribed to €990 thousand, thereby maintaining its ownership interest of 50%.

In June 2002 the holding in Azeler Automoción, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €3,514 thousand.

Uno-e Bank, S.A.-

In 2002 the capital increases carried out were 49% subscribed by Terra Networks, S.A., increasing its ownership interest in this company to €29.4 million.

Iniciativas Residenciales en Internet, S.A.-

In 2002 Iniciativas Residenciales en Internet, S.A. carried out capital increases. Terra Networks, S.A. subscribed 50% of the capital increases, increasing its ownership interest in this company by €2,404 thousand.

In 2002 the holding in Iniciativas Residenciales en Internet, S.A. owned by Terra Networks, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €2,404 thousand.

Ifigenia Plus, S.L.

The contribution of the holding in Ifigenia Plus, S.L. by Terra Networks España, S.A. to Terra Networks, S.A. for an amount equal to its then net book value (€10,112 thousand) was formalized in January 2002.

In December 2002 Terra Networks, S.A.'s holding in this company and the related investment valuation allowance were contributed to Terra Networks Asociadas, S.L. for a gross amount of €10,112 thousand. This holding has been fully provisioned.

Emplaza, S.A.

In 2002 Terra Networks, S.A. formalized a capital increase of €1,351 thousand at this company, increasing its percentage of ownership from 50% to 80%.

In 2002 Terra Networks, S.A.'s ownership interest in Emplaza, S.A. was contributed to Terra Networks Asociadas, S.L. for a net amount of €752 thousand.

(9) STOCKHOLDERS' EQUITY

The variations in equity accounts in 2002 were as follows:

	Thousands of Euros					
	Capital Stock	Additional Paid-in Capital	Reserves	Accum-ulated Losses	Loss for the Year	Total
Balance at December 31, 2001	**1,242,53**	**5,635,694**	**5**	**(573,059)**	**(837,070**	**5,468,10**
Capital reduction	(26,211)	(117,950)	-	-	-	(144,161)
Transfers	-	(26,211)	26	-	-	-
Allocation of loss	-	-	-	(837,070)	837,07	-
Loss for the year	-	-	-	-	(2,201,655)	(2,201,655
Balance at December 31, 2002	**1,216,32**	**5,491,533**	**26**	**(1,410,129)**	**(2,201,655)**	**3,122,286**

a) Capital stock-

As of December 31, 2002, the Company's capital stock consisted of 608,160,259 fully subscribed and paid shares of €2 par value each. Out of this total, 34,610,673 of the shares were issued to cover purchase options under the Stock Option Plan for employees of Lycos, Inc. when this company was acquired in October 27, 2000.

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. which had been cancelled. The capital retirement gave rise to reductions of the balances of the "Capital Stock", "Additional Paid-in Capital" and "Long-Term Investments" captions of €26,211 thousand, €117,950 thousand and €144,161 thousand, respectively.

As of December 31, 2002, 6,692,344 shares deposited at Citibank, NA covering purchase option rights under the aforementioned Stock Option Plan that had been cancelled (either because their exercise periods had expired or because the employees to whom they had been granted had left the Group) had net yet been retired. These purchase option rights on Terra Networks, S.A. shares are recorded under the "Long Term Investments" caption. Pursuant to the resolutions adopted by the Stockholders' Meeting on June 7, 2001, these shares will be submitted, after they have been acquired, by the Board of Directors to the Stockholders' Meeting so that the latter can approve their retirement (see Note 17). The effect that this retirement would have on the Company's financial statements as of December 31, 2002, would be to reduce the balances of the "Capital Stock", "Additional Paid-in Capital" and "Long-Term Investments" captions by €13,385 thousand, €60,231 thousand and €73,616 thousand, respectively.

Also, as of December 31, 2002, 27,918,329 shares were covering options of employees of Lycos, Inc. that had not yet been exercised and which as of that date were included in the capital stock and additional paid-in capital figures. The balancing entry of €307,102 is recorded under the "Long Term Investments" caption on the asset side of the accompanying balance sheet.

Accordingly, the detail of the shares issued as of December 31, 2002, is as follows:

Total number of shares issued as of December 31, 2002	**608,160,259**
Shares covering cancelled stock option rights	6,692,344
Shares covering outstanding stock option rights	27,918,329
Total excluding shares covering stock options of Lycos, Inc. employees	**573,549,586**
Shares issued to cover stock option rights related with Terra Networks, S.A.	13,980,406
Total shares excluding shares issued to cover stock option rights	**559,569,180**

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 Company incurred losses in 2002, no appropriation was made to the legal reserve as of December 31, 2002.

c) Reserve for retired capital-

Pursuant to Article 167 of the revised Corporations Law, the Company recorded a restricted reserve for the amount (€26,211 thousand) of the par value of the shares retired in 2002 in order to avoid its creditors having the right of opposition to the aforementioned capital reduction.

(10) TAX MATTERS

Corporate income tax 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.

Under current tax legislation, and following the modifications introduced by Law 24/2001 on Tax, Administrative, Labor and Social Security Measures, the tax loss of a given year can be carried forward for offset against the taxable income of the fifteen years following that in which income was first reported. At 2002 year-end the Company had recorded an account receivable of €287,009 thousand in recognition of the tax asset relating to tax losses incurred in prior years.

The Company performed an analysis of the recoverability of the capitalized tax assets, which focused on analyzing the impact that the future earnings expectations of the dependent companies will have on Terra Networks, S.A. and, in particular, on the reversal of the investment valuation allowance recorded in the Company's individual financial statements.

These future earnings expectations were obtained from the projections and business plans used in the analysis of the recoverability of goodwill.

As a result of an analysis of the recoverability of its tax assets, the Company reversed €312,869 thousand of tax assets recognized in prior years, and this amount was recorded as an expense under the "Corporate Income Tax" caption in the accompanying statement of operations (see Note 1).

The detail of the tax loss carryforwards as of December 31, 2002, is as follows:

Thousands of Euros	Tax Losses
1999	94,185
2000	534,072
2001	1,010,025
2002	1,177,609
Total	**2,815,891**

The reconciliation as of December 31, 2002, of the loss for the year to the tax base for corporate income tax purposes, and the final reconciliation of the loss for the year to the tax base for 2001 following the filing of the tax return are as follows:

Thousands of Euros	2002	2001
Loss for the year before taxes	1,888,786	1,184,569
Permanent differences	(419,645)	(149,238)
Timing differences	(237,726)	(25,306)
Tax loss	**1,177,609**	**1,010,025**

Terra Networks S.A.'s current business plan envisages the obtainment of sufficient taxable income to enable the aforementioned account receivable to be offset.

The detail of the "Taxes Receivable" and "Taxes Payable" accounts in the accompanying balance sheet as of December 31, 2002, is as follows:

	Thousands of Euros	
	Long Term	Short Term
Taxes receivable:		
Withholdings on income from movable capital	-	25,949
Prepaid income taxes	55,839	-
Offset of losses	231,170	-
VAT refundable	-	506
Other taxes receivable	-	7
Total	**287,009**	**26,462**
Taxes payable:		
Social security taxes	-	376
Other taxes payable	-	3,352
Total	-	**3,728**

The prepaid income tax of €55,839 thousand relates to timing differences arising as a result of the difference between the loss per books and the tax loss. These differences are due basically to the investment valuation allowance recorded in order to reflect in the financial statements the unrealized losses exceeding cost (See Note 4-d).

The Company has the last four fiscal years open for review by the tax inspection authorities for all the taxes applicable to it. The Company's directors do not expect any additional material liabilities to arise for the Company in the event of a tax audit of the open years.

In July 2, 2001, the Spanish Tax Authorities granted the Terra Lycos Group the benefit of the Consolidated Tax Regime for fiscal years 2001 onwards.

Therefore, from tax year 2001 companies resident in Spain that meet the requirements set forth in Article 78 *et seq.* of Corporate Income tax Law 43/1995, dated December 27, will be taxed under the Consolidated Tax regime, described in Chapter VII of Title VIII of the aforementioned Law, with Tax Group Identification Number 111/01, of which Terra Networks, S.A. will be the parent company

For year 2002, the number of companies being taxed under the Consolidated Tax regimen will be thirteen, among which the most relevant ones included are the following: Terra Networks, S.A.; Terra Networks Latam, S.L. and Terra Networks España, S.A.

(11) GROUP COMPANIES

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

	Thousands of Euros			
	Long-Term Investments	Short-Term Investments	Receivable from Group Companies	Payable to Group Companies
Telefonía y Finanzas, S.A. (Telfisa)	-	1,350,609	-	-
Terra Networks Perú, S.A.	-	-	2,658	522
Terra Networks Brasil, S.A.	-	36,712	17,845	2,961
Terra Networks Guatemala, S.A.	-	-	852	260
Aremate.com	-	-	764	-
Terra Lycos Intangibles, S.A.	-	-	348	13,536
Terra Networks Colombia, S.A.	-	-	714	289
Terra Networks México, S.A. de C.V.	-	-	14,171	1,452
Terra Networks Colombia Holding, S.A.	-	-	1,728	-
Terra Networks Uruguay, S.A.	-	286	292	-
Ordenamiento de Links Especializados, S.L.	-	3,005	46	48
Terra Networks España, S.A.	-	430,478	15,373	16,483
Azeler	-	-	92	-
Irisa, S.A.	-	-	334	-
Lycos, Inc.	-	-	8,660	97,788
Terra Networks Chile S.A.	-	-	4,181	2,293
Terra Networks Operations S.A.	-	-	6,020	18,839
Ifigenia Plus, S.L.	-	5,240	593	17
Terra Networks USA, LLC.	-	-	5,049	587
Terra Networks Argentina S.A.	-	8,251	3,767	3,632
Terra Networks Caribe, S.A.	-	-	92	191
Terra Networks LATAM, S.L.	-	9,230	6,125	44
Direcciona Networks, S.A.	-	-	134	15
Maptel Networks, S.A.	-	1,871	233	-
Rumbo, S.A.	1,890	-	1,134	18
Educaterra, S.L.	-	472	155	-
Emplaza	-	1,328	29	44
Terra Venezuela, S.A.	-		73	-
Terra Asociadas, S.L.	-	439	-	-
A Tu Hora, S.A.	-	181	-	2,875
Terra Portal Services, Inc.	-	-	-	1,003
Terra Global Management, Inc.	-	-	-	1,744
Bumeran Participadas, S.L.	-	-	954	-
Other Group and associated companies	-	-	4,321	4,142
Total	**1,890**	**1,848,102**	**96,737**	**168,783**

The “Long-Term Investments” and “Short-Term Investments” captions include the loans and credits granted at long and short term, respectively, to subsidiaries, the main features of which are as follows:

Company	Currency	Principal	Maturity	Interest Rate	Equivalent Value in Thousands of Euros
Long term:					
Rumbo	Euros	400,000	12/31/06	0%	400
Rumbo	Euros	1,490,085	05/09/07	0%	1,490
Total long term loans to Group and associated companies					**1,890**
Short term:					
Telefónica y Finanzas, S.A. (Telfisa)	Euros	1,350,609	N/A	3.33%	1,351,609
Terra Networks España, S.A.	Euros	213,426,464	11/30/03	0%	213,426
Terra Networks España, S.A.	Euros	12,020,242	11/30/03	0%	12,021
Terra Networks España, S.A.	Euros	48,080,968	11/30/03	0%	48,081
Terra Networks España, S.A.	Euros	10,499,328	11/30/03	0%	10,499
Terra Networks España, S.A.	Euros	30,500,000	11/30/03	0%	30,500
Terra Networks España, S.A.	Euros	48,000,000	11/30/03	0%	48,000
Terra Networks España, S.A.	Euros	10,000,000	11/30/03	0%	10,000
Terra Networks España, S.A.	Euros	12,000,000	11/30/03	0%	12,000
Terra Networks España, S.A.	Euros	5,000,000	11/30/03	0%	5,000
Terra Networks España, S.A.	Euros	17,,500,000	11/30/03	0%	17,500
Terra Networks España, S.A.	Euros	3,000,000	11/30/03	0%	3,000
Terra Networks España, S.A.	Euros	11,000,000	11/30/03	0%	11,000
Olé, S.A.	Euros	3,005,061	11/30/03	0%	3,005
Ifigenia Plus, S.L.	Euros	5,236,202	11/30/03	0%	5,236
T.N. Argentina, S.A.	U.S. dollars	8,653,013	11/30/03	0%	8,251
T.N. Uruguay, S.A.	U.S. dollars	300,000	11/30/03	0%	286
T.N. Brasil, S.A.	U.S. dollars	38,500,000	11/30/03	0%	36,712
T.N. Latam, S.L.	Euros	9,230,000	11/30/03	0%	9,230
T.N. Asociadas, S.L.	Euros	439,000	11/30/03	0%	439
Maptel Networks, S.L.	Euros	1,871,000	11/30/03	0%	1,871
Emplaza, S.L.	Euros	1,328,000	11/30/03	0%	1,328
Educaterra, S.L.	Euros	472,000	11/30/03	0%	472
A Tu Hora, S.A.	Euros	175,000	11/30/03	4.83%	175
Accrued interest					13,013
Total short-term loans to Group and associated companies					**1,848,102**

The loans and credits granted to Spanish companies are participating loans, which do not bear interest until these companies start to generate income, except for the loan to A Tu Hora, S.A., which earns interest at 4.83%.

The balances with Telefónica Finanzas relate to the Company's current account at that company, which earns interest at market rates.

The financial revenues earned in the year on the aforementioned loans and credits amounted to €48,661 thousand. This amount was recorded under the "Financial Revenues from Investments in Group Companies" caption in the accompanying statement of operations.

(12) PERSONNEL EXPENSES

The detail of the "Personnel Expenses" caption as of December 31, 2002, is as follows:

	Thousands of Euros
Wages and salaries	14,388
Severance costs	188
Social security costs	1,422
Contributions to pension plans	210
Other employee welfare expenses	799
Total	**16,997**

The average number of employees, by category, in the period ended December 31, 2002, was as follows:

Category	Average No. of Employees
Executive Vice Presidents	8
Senior Vice Presidents	3
Vice Presidents	10
Senior managers	22
Managers	40
Graduates	62
Clerical staff	25
Total	**170**

(13) EXTRAORDINARY EXPENSES AND LOSSES

The detail of the extraordinary expenses and losses as of December 31, 2002, is as follows:

	Thousands of Euros
Goodwill Impairment (Note 8)	312,992
Write-down of start-up costs (Note 5)	40,679
Provision for contingencies	7,490
Other extraordinary expenses	1,098
Total	**362,259**

The 2002 statement of operations does not include any amount for severance costs relating to directors, senior executives and labor force reduction plans.

(14) DIRECTORS' COMPENSATION AND OTHER BENEFITS

In the year ended December 31, 2002, the compensation and other benefits paid to the Board members amounted to €3,109 thousand, and this amount was recorded in the accompanying statement of operations.

Note 15 contains a description of the Terra Networks, S.A. stock options assigned to certain directors and of other commitments to the directors.

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

(15) COMMITMENTS

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, 1999, 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 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 purchase option on 14,000,000 issued shares, which may be exercised at any time prior to April 30, 2004.

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, pursuant to 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 holder to acquire one share of Terra Networks, S.A. at an exercise price of €11.81 per share.

2. Duration of four years and three months, 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 adopted by the Stockholders' Meeting on June 8, 2000, and launched pursuant to a resolution adopted on December 22, 2000, 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 senior executives, one director and four general managers and persons of a 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 executives and directors, and extended the option exercise period to ten years from that in which the options 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 financial statements, the Board of Directors had not implemented the extension of the duration of the options.

In 2002, at the recommendation of the Appointments and Compensation Committee, the Board of Directors approved, each quarter (specifically at its meetings on January 30, July 25 and September 26) 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, 2002, options on 8,900,502 shares had been assigned to Terra Lycos Group employees, executives and directors, of which 1,870,221 relate to the First Phase of the Plan and the remainder to the Second Phase. The weighted average stock option exercise price is €14.86.

As of December 31, 2002, the Terra Lycos Group's executives and directors held 1,365,215 stock options under the Terra Networks, S.A. Stock Option Plan, the weighted average price of which is €18.81.

The information on the options under the Terra Networks, S.A. Stock Option Plan not yet exercised as of December 31, 2002, is as follows:

Range of prices in the year	No. of Options Not Yet Exercised	Weighted Average Price in the Year
€5.22 – €9.92	2,175,400	€7.85
€9.93 – €14.63	2,640,621	€11.90
€14.64 – €19.34	244,000	€16.34
€19.35 – €24.05	3,219,581	€19.80
€24.06 – €28.81	620,900	€25.74
Total outstanding options at 12/31/02	**8,900,502**	**€14.86**

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

Under the agreements entered into with 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 acquire 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 to 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 exercise of the options on Lycos, Inc. shares by the Agent Bank, the latter subscribed to 29,088,488 shares of Lycos, Inc. which, pursuant to the resolutions adopted by the Stockholders' Meeting of Lycos Inc. on October 27, 2000, were converted into 29,088,488 shares of Lycos, Inc. and contributed in the exchange, together with the other shares of Lycos, Inc.

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 acquisition 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 of December 31, 2002, the employees, executives and directors of Lycos, Inc. had exercised 14,823,990 options, and 27,918,329 options had been committed at a weighted average exercise price of US$ 19.15.

As of December 31, 2002, 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 owned by the Agent Bank, the weighted average exercise price of which is US$ 23.05.

As of December 31, 2002, the members of the Board of Directors 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 €25.81.

The detail of the variations in the options under the Lycos, Inc. Stock Option Plan as of December 31, 2002, is as follows:

Options	Number of Options	Total Exercise Price (Thousands of U.S. Dollars)	Weighted Average Price in the Year (U.S. Dollars)	Book Value (Thousands of Euros)
Exercise price less than €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 less than €11	12,616,748	40,056	3.17	
Exercise price over €11	2,207,242	33,089	14.99	
Total options exercised	**14,823,990**	**73,145**	**4.93**	
Exercise price less than €11	1,307,267	7,596	5.81	
Exercise price over €11	11,798,319	230,467	19.53	
Total options cancelled and redeemed	**13,105,586**	**238,063**	**18.17**	
Exercise price less than €11	536,194	3,052	5.69	
Exercise price over €11	6,156,150	112,826	18.33	
Total options cancelled	**6,692,344**	**115,878**	**17.31**	**71,400**
Exercise price less than €11	3,415,146	18,500	5.42	
Exercise price over €11	24,503,183	516,127	21.06	
Total outstanding options at 12/31/ 02	**27,918,329**	**534,627**	**19.15**	**291,857**

c) Litigation in progress-

Collective lawsuits filed by stockholders of Terra Networks, S.A.

Terra Networks, S.A. has been ordered to appear as the defendant in five lawsuits 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 that 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 awards made in the IPOs, allege, principally, that the security placement institutions assigned 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 assigning shares to these customers, the customers agreed to buy shares on the secondary market at a predetermined price in order to maintain 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 contravene in any other way the rules of the SEC and NASD.

In July 2002 Terra Networks, S.A. and other securities issuers against which claims had been filed, jointly filed a petition to have the joined claim dismissed.

Also, the directors and executives of Terra Networks, S.A. have negotiated and signed an agreement with the plaintiffs whereby the latter agree to exclude the individual defendants from the proceedings, without prejudice to the possibility of including them once again prior to September 30, 2003, if the plaintiffs find grounds for doing so. This agreement was approved by the courts through a court order dated October 9, 2002.

The law firm defending Terra Networks, S.A. considers that Terra Networks, S.A. and the directors and executives against whom the complaints were filed have sound grounds against the complaints, and has been instructed to conduct a robust defense on behalf of Terra Networks, S.A. Based on the analysis of the complaints performed by the law firm through 2002 year-end, the firm considers that there are significant legal defects or weaknesses in the complaints that have been filed and that if the actions brought against Terra Networks, S.A. are not stayed, an application will be filed to have substantially all of them dismissed.

Terra Networks, S.A. is confident that the courts will not find against it and, if they do, it considers that the decisions should not have a material adverse effect on its financial position and results of operations.

Request for arbitration filed at the Madrid Civil and Commercial Arbitration Court

In the first quarter of 2001 Cierv Nueva, S.L. and its stockholders filed a request for arbitration against Terra Networks, S.A. at the Madrid Civil and Commercial Arbitration Court.

The objective of the claimants was for Terra Networks, S.A. to acquire from them all the shares (2,157) they owned of Corporación Real Time Team, S.L. (CRTT, S.L.), of which they were the majority stockholders.

On December 18, 2001, the Madrid Civil and Commercial Arbitration Court issued an Arbitral Award whereby Terra Networks, S.A. was obliged to acquire the aforementioned shares from the claimants, although for a price significantly lower (more than 50%) than that asked for by the claimants.

On January 22, 2002, Terra Networks, S.A. filed an appeal against this Arbitral Award that was upheld by the Madrid Provincial Appeal Court.

On September 5, 2002, Madrid Court of First Instance no. 63 directed Terra Networks, S.A. to pay €21,941,749.94 of principal (as established in the Arbitral Award) and €6,398,313.94 of interest, expenses and costs, without prejudice to the subsequent taxation of costs.

On September 9, 2002, Terra Networks, S.A. paid €27,726,000.52 into the Court of First Instance, after it had been clarified that the aforementioned amount was the correct one as established in the Arbitral Award.

As a result of the insolvency of the Teknoland Group companies, numerous labor-related claims have been filed by the employees of these companies at certain labor courts in Madrid. In these proceedings, the claims against Terra Networks, S.A., CIERV, S.L. and Terra Lycos, S.A. were extended.

Madrid Labor Courts nos. 15, 16, 28 and 35 have found Terra Networks, S.A., Terra Lycos, S.A. and Cierv, S.L. not liable for the claims filed by the employees of the various Teknoland Group companies and have lifted “legal veil”, since they considered Cierv Nueva, S.L., as the party responsible for the situation of insolvency, to be liable for payment of the salaries, from which it is reasonable to infer that Terra Networks, S.A., Terra Lycos, S.A. and Cierv, S.L. will be found not liable in other judgments to be handed down.

Complaint filed by IDT

On January 31, 2002, International Discount Telecommunications Corporation (IDT) filed a lawsuit at the New Jersey Courts in the U.S. against Terra Networks, S.A., Telefónica, S.A., Terra Networks, USA, Inc. and Lycos, Inc.

In April 2000 Terra Networks, S.A. and IDT had entered into an agreement to terminate a joint venture agreement.

In this complaint, IDT claims mainly the following in relation to Terra Networks, S.A.: (i) alleged failure to comply with the obligations assumed under the termination agreement whereby IDT acquired a given number of shares; (ii) alleged concealment from IDT of the negotiations relating to the acquisition of Lycos during the negotiation of the termination agreement; and (iii) alleged breach of the joint venture agreement.

In May 2002 the Court partially rejected the petition filed by the defendants to have the complaint dismissed. The defendants requested that this court decision be reconsidered, and the Court found in favor of Terra Networks, S.A. On October 1, 2002, the Court modified its decision of May 2002, and extended its dismissal of the complaints to the charges whereby IDT was alleging breach of the joint venture agreement.

Also, in July 2002 IDT replaced its complaint with a second, modified complaint, in which it included a new claim alleging that Telefónica, S.A. would be liable, as the controlling party, for the fraud alleged against Terra Networks, S.A. in its negotiations with IDT that led to the signing of the termination agreement. Telefónica, S.A. has filed objections against this claim that are currently before the Court.

The law firm advising Terra Networks, S.A. considers that the defendants have a sound defense against the claims filed against them. Terra Networks, S.A. is confident that the courts will not find against it or, if they do, the decision should not have a material adverse effect on its financial position and results of operations.

(16) PAYMENTS TO AUDITORS

The payments made by Terra Networks, S.A. in 2002 to the various member firms of the Deloitte & Touche International Organization, to which Deloitte & Touche España, S.L., the Company's auditors, belongs, amounted to €536 thousand.

The detail of the foregoing amount is as follows:

	Thousands of Euros
Audit of financial statements	201
Other audit services	269
Work additional to or other than audit services	66
Total	536

The payments made by the por el Terra Lycos consolidated Group in 2002 to the various member firms of the Deloitte & Touche International Organization, to which

Deloitte & Touche España, S.L., the auditors of the consolidated Group, belongs, amounted to €1,294 thousand.

The detail of the foregoing amount is as follows:

	Thousands of Euros
Audit of financial statements	787
Other audit services	276
Work additional to or other than audit services	231
Total	1,294

The additional work relates mainly to tax advisory services and the performance of due diligence reviews during the year.

The payments made to other auditors of the Terra Lycos Group in 2002 amounted to €34 thousand, the detail being as follows:

	Thousands of Euros
Audit of financial statements	34
Other audit services	-
Work additional to or other than audit services	-
Total	34

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

(17) SUBSEQUENT EVENTS

a) Acquisition of treasury stock-

As of the date of preparation of these financial statements, Terra Networks, S.A. acquired 6,692,344 shares of treasury stock from Citibank, NA. The Board of Directors will propose to the Stockholders' Meeting that these shares, which were deposited at Citibank, NA and cover purchase option rights under the Stock Option Plan for Lycos, Inc. employees that have been cancelled, be retired.

b) Uno-e Bank, S.A.-

On May 15, 2002, Terra Networks, S.A. and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) entered into a memorandum of understanding to integrate the consumer finance lines 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 legal, financial and business review, and to the relevant internal and administrative authorizations. When the integration takes place, Terra Networks, S.A. and the BBVA Groups will have ownership interests of 33% and 67%, respectively, in Uno-e Bank, S.A.

On that same date (May 15, 2002), BBVA and Terra Networks, S.A. entered into a liquidity agreement in which they established the following liquidity mechanisms (purchase and sale options) relating to the Uno-e Bank, S.A. shares owned by Terra Networks, S.A.:

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 May 15, 2004 and May 15, 2006, at the higher of the following prices: (i) the market value as determined by an investment bank; and (ii) the price paid by Terra Networks, S.A. to acquire its ownership interest (€189.4 million).

b) BBVA has the right to acquire from Terra Networks, S.A., and Terra Networks, S.A. is obliged to sell, Terra Networks, S.A.'s holding in Uno-e Bank, S.A. between May 15, 2004 and May 15, 2006, at the higher of the following prices: (i) the market value as determined by an investment bank; and (ii) the price paid by Terra Networks, S.A. to acquire its ownership interest (€189.4 million), plus annual interest at rate of 4.70%.

If a definitive agreement were reached regarding the aforementioned integration of the consumer finance lines of business of Finanzia Banco de Crédito, S.A. and Uno-e Bank, S.A., the liquidity mechanisms would be modified. BBVA would lose its right of purchase and Terra Networks, S.A. would retain its right of sale, but only at the market value as determined by an investment bank.

On January 10, 2003, Terra Networks, S.A. and BBVA entered into an agreement to integrate the consumer finance lines of business of Finanzia Banco de Crédito, S.A. and Uno-e Bank, S.A., in terms that were more in keeping with their respective interests than those provided for in the memorandum of understanding dated May 15, 2002. Accordingly, the memorandum of understanding was rendered null and void, and the definitive agreement was made conditional upon the relevant internal and administrative authorizations, which must be secured prior to June 30, 2003, as a condition for the formalization and performance of the integration. After the integration takes place, Terra Networks, S.A. and the BBVA Group will have ownership interests of 33% and 67%, respectively.

On that same date (January 10, 2003), BBVA and Terra Networks, S.A. entered into a liquidity agreement that will replace that dated May 15, 2002, once the aforementioned integration has taken place. This agreement establishes the following liquidity mechanism (sale 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 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 addition, in connection with the aforementioned business integration, on January 10, 2003, Terra Networks, S.A. and BBVA entered into an advertising agreement whereby BBVA undertakes to buy advertising slots in the Terra Lycos Group's portals for an annual net amount of €6,000 thousand and for a period of five years from the date on which the aforementioned integration takes place.

c) Framework Strategic Alliance Agreement between Terra Networks, S.A. and Telefónica, S.A.-

On February 12, 2003, Terra Networks, S.A. and Telefónica, S.A. have entered into a Framework Strategic Alliance Agreement to replace the Strategic Agreement dated May 16, 2000, to which Bertelsmann AG and Lycos, Inc. were also parties.

Also, Terra Networks, S.A., Lycos, Inc., Telefónica, S.A. and Bertelsmann AG have entered into a preferential interest agreement that will make it possible to continue to explore opportunities for mutually providing communications, development and content services in the on-line market.

The new contract between Terra Networks, S.A. and Telefónica, S.A. was entered into in response, on the one hand, to the changes in the Internet businesses and, in particular, the development of broadband technology and, on the other, to 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.

The Framework Agreement 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 aim of the Framework Agreement is to harness synergies and create value for the two Groups.

The Framework Agreement will have a term of six years that expires on December 31, 2008, and is impliedly renewable for one-year periods unless either of the parties expressly gives notice of termination.

The main features of the Framework Agreement are summarized as follows:

- 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.
- Guaranteed minimum volume of acquisitions of Terra Lycos Group on-line advertising space by Telefónica Group companies.
- 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.
- 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.
- 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. 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, (variable or fixed, exclusive or shared costs and investments); excluding in all cases the Terra Lycos Group's existing overheads and cost savings. The Framework Agreement defines a new relationship between the two Companies that makes better use of their respective capacities to strengthen their Internet growth.

d) Changes in the Board of Directors-

On January 29, 2003, the Board of Directors of Terra Networks, S.A. resolved, inter alia, following a report by the Board's Appointments and Compensation Committee, to appoint by co-optation the stockholders Luis Bassat and Luis Badía as members of the Board of Directors. Luis Bassat and Luis Badía accepted their appointments, which serve to fill the vacancies left by the resignations from the Board of Jesús María Zabalza Lotina and Alejandro Junco de la Vega Elizondo.

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

Thousands of Euros	2002
Loss for the year	(2,201,655
Depreciation and amortization expense	39,9
Variation in long-term investment valuation allowances	1,519,06
Write-down of start-up expenses	40,679
Goodwill impairment	312,99
Tax asset arising in the year	312,86
Funds obtained from operations	**23,948**

(19) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

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

TERRA NETWORKS

2002 MANAGEMENT REPORT

Introduction

During 2002 the Terra Lycos Group's business model has been evolving progressively to adapt to circumstances in the market in general, and in the Internet industry in particular. One of the most noteworthy aspects to be taken into account when analyzing the growth and development of Terra Networks, S.A. in 2002 is the negative macroeconomic situation in the countries in which it is present. To the negative consequences of this situation for the Company in terms of revenues must be added the additional negative impact of the exchange rates of certain currencies (basically the U.S. dollar and the Brazilian real) on the statement of operations. Added to this negative macroeconomic scenario in 2002 was the worsening in the crisis of online advertising and the Internet market. The political and social instability being experienced by certain of the main countries in which the Terra Lycos Group is present, in particular Brazil, Argentina and Venezuela, is also noteworthy. As a consequence, most of the Terra Lycos Group's subsidiaries have obtained negative deviations in their net results compared to those budgeted for 2002.

The Company performs on-going business reviews and, based on quantitative and qualitative measures, assesses the need to record impairment losses on goodwill and other intangibles used in operations when impairment indicators are identified. When impairment indicators are identified, the Company determines the amount of the impairment charge by comparing the carrying value of goodwill and certain other intangible assets to their fair value. The Company determines fair value based on a discounted cash flow methodology, which is calculated as the present value of the expected future cash flows. At 2002 year-end, these analyses, based on the estimated future value that each of the businesses and countries will generate, were performed in order to determine the recovery of the goodwill, capitalized tax assets, and of other fixed assets in the balance sheet of Terra Networks, S.A., in accordance with the accounting principle of prudence in valuation. Additionally, an independent appraiser has been requested to prepare a study in relation to the goodwill associated with the acquisition of Lycos, Inc. (which represents approximately 50% of the total).

As a result of this study, in accordance with the accounting principle of prudence in valuation, as of December 31, 2002 start-up costs amounting to €40,679 thousand and goodwill amounting to €312,992 thousand were written down and capitalized tax credits amounting to €312,869 thousand were reversed.

Despite all this, if 2001 was a year in which the Terra Lycos Group cemented its position as one of the most visited Internet networks in the U.S., Europe, Latin America and Asia, 2002 posed a major challenge to the Group, which managed to maintain its privileged position in the industry through innovation and the development of new services, and by projecting an image of a consolidated brand, holding its own among the major Internet players worldwide.

In 2002 the Terra Lycos Group continued to implement the strategy initiated in 2001 of gradually expanding the OBP (Open, Basic, Premium) model in all its business lines and the geographical areas in which it operates. By focusing on innovation, the Terra Lycos Group moved ahead towards paid services and content, so that its revenues from subscriptions included more than access fees. Communication services and portal subscriptions thus contributed to the diversification of the Terra Lycos Group's sources of revenues.

Also noteworthy was the fact that the Terra Lycos Group pioneered the move from the traditional business of access towards a model offering global solutions through the addition of value-added communication services. The objective of the CSP (Communication Service Provider) strategy is to offer more powerful services which allow users to communicate from anywhere, regardless of the device they are using.

In the media business, the Terra Lycos Group decided to focus its attention on the provision of integral marketing services which, together with the sale of online advertising, enable it to maintain a more solid relationship with its customers and to harness the full potential of its sales force. At the same time they allow advertisers to reach a highly segmented audience and to make the best use of the Internet as an advertising support.

In this context, noteworthy are two significant initiatives carried out in 2002. First, the implementation of the CheckM8 media technology to achieve a greater advertising impact. This improved integrated marketing solution considerably shortens the time taken to create an online advertisement, enabling the customers to gain rapidly from high-impact messaging and to achieve better customization. Secondly, the acquisition of GetRelevant (a direct marketing service provider) in October 2002 added a powerful line of products to the Terra Lycos Group's services and provided direct access to a qualified audience to achieve higher conversion rates.

The Terra Lycos Group decided to create the "Lycos Enterprise Services" in May 2002, expanding its business to new business segments and units to which it has begun offering hosting, navigation and functionality resources for commercial web sites. This business, which began to provide services to small companies, was shortly thereafter (in August 2002) extended to corporate customers, providing them with services for the creation of audiovisual content, ranging from the designing of programs through production and distribution.

The Terra Lycos Group operates in 42 countries. In June 2002 and December 2002 the shareholdings in Lycos Korea and Lycos Japan, respectively, were sold off. However, in each case agreements were reached with strategic partners (Lycos Korea and Lycos Japan-Rakuten, respectively), to maintain the Group's presence in these countries. Lastly, 2002 also saw the sale of the holding in the Canadian subsidiary, Sympatico Lycos.

New organizational structure

In the second half of 2002 the Terra Lycos Group created a new business unit, known as Global Operations, to develop enhanced products, services and systems for its customers, grouping together under the same management the global functions relating to product management. This was done to improve and speed up the launch of its products globally, without compromising on the corporate policy of conserving local color in each case.

Global Operations was thus structured to include all the units involved in the complete process of conception, development and production of platforms, products and services. As a result, the composition of the Global Operations Department included a Marketing Services Unit, various Global Product Manager Units and two Technology Units, one for Operations/MIS and the other for Engineering.

Also in the second half of 2002, the Latin American countries were grouped into four geographical units under a new organizational structure: Brazil, Southern Region (Chile, Peru, Argentina and Uruguay), Mexico and Central Region (Central America, Colombia, the Dominican Republic and Venezuela). The major objectives of each unit are to maximize growth and the EBITDA figure, obtain and maintain a leading position in the market and develop an organization which provides services in the respective local markets.

Each geographical unit is responsible for the operations statement of the related country, for the local products which supplement those provided by Global Operations, and for local customer management.

Business strategy and model

With profitability as its main objective in 2002, the Terra Lycos Group forged ahead with its strategy already implemented in 2001 of migrating from free services to value-added pay services, through the OBP (Open, Basic and Premium) model. Under this strategy, the OBP model was gradually expanded in all the Group's business lines and geographical areas in which it operates, diversifying its revenues towards paid subscriptions, to include more than traditional access subscriptions. Communication services and portal subscriptions have been added on as new sources of revenues.

The Terra Lycos Group's business model has changed over the years to suit prevailing market conditions in general and the Internet industry in particular, with the aim of achieving profits. A case in point is the access business, which in 2001 had already abandoned its strategy of fostering free access and gradually turned its attention to pay access, offering value-added services and products and focusing on differentiated quality services for which it can charge its customers.

In the access business, as in 2001, the Terra Lycos Group continued to focus on broad band, its efforts in this direction materializing mainly as ADSL services in Latin America and Spain. The Terra Lycos Group offers its customers high-speed broadband connection to the Internet together with the related communication services and media content.

Additionally, in order to strengthen the vertical integration of content, reach a wider audience and increase user loyalty with value-added services and content, in 2002 the Terra Lycos Group forged certain significant strategic and commercial alliances, noteworthy among which were the following:

⇒ FOXSports (alliance for the joint creation of a powerful sports site);
⇒ MovieTickets (agreement for the creation of a co-branded movie ticket transaction site on Lycos Entertainment);
⇒ BBVA Group (for the launch of a secure e-commerce system on the Internet).

At this point it is worth mentioning the launch of vertical channels offering value-added services through strategic alliances with leading companies in their respective industries. Especially important was the launch of:

⇒ Educaterra (vertical portal offering on-line educational services to Spanish speakers, which began operating in Argentina, Colombia, Chile, Spain, Mexico, Peru, Venezuela and the U.S.);
⇒ Rumbo (vertical travel portal launched in Peru in July 2002 and in Colombia and Venezuela in September 2002, expanding its presence in the Latin American market).

In 2002 the Terra Lycos Group was especially active in the launch of new products and services in line with its strategy of targeting pay products to ultimately achieve profitability. Noteworthy among the communications services launched were the following:

⇒ Lycos Mail Plus (a paid e-mail service which provides a wide range of enhancements for users who demand more than can be provided by free e-mail);
⇒ Terra Mail Premium (unified messaging service launched in Mexico);
⇒ Lycos Premium Communities and Lycos Business Intranets (for small businesses, groups, clubs and teams).

New content services launched included notably:

⇒ Lycos Music (enhanced music service located at the eponymous site);
⇒ Gamesville on Demand (which has become the first portal to launch a subscription gaming platform);
⇒ Virtual photo album for Spain.

Also significant were the marketing services, search engines and diverse tools launched, which included the following:

⇒ Domain Registration Services (Lycos has created its own domain site where users can register domain names using the Lycos network);
⇒ Lycos Search 6.0 (which incorporated significant enhancements to the previous search engine);
⇒ Mi Terra (which enables users to personalize their home page);
⇒ Lycos Insite AdBuyer (integrated platform for advertising and paid-placement services).

The following products were also launched in 2002 by the Terra Lycos Group:

⇒ Terra Plus (new access product with more advantages and the best tools, meant for residential and SOHO users),
⇒ Radio Terra (the first radio to offer CD-quality music through the Internet),
⇒ Canal Alimentación.

Lastly, mention should be made of the increasingly selective operations performed under the Terra Lycos Group's mergers and acquisitions strategy. Among these operations was the acquisition in October 2002 of GetRelevant, an online provider of direct marketing services which, with its imposing array of direct marketing products, has boosted the products already offered by the Terra Lycos Group. GetRelevant has provided online customer acquisition technology, enabling Terra Lycos Group's advertising customers to reach a qualified audience to achieve higher conversion rates.

Notwithstanding its strategy of selective acquisitions, the Group is constantly aware of all potential business opportunities, bearing in mind its total liquidity of €1,800 million available as of December 31, 2002, which will enable it to acquire businesses of real strategic value for the Terra Lycos Group.

Changes in the management team

On January 30, 2002, Jesús María Zabalza Lotina replaced Isidro Fainé Casas on the Board of Directors. Carlos Fernández-Prida was appointed to the Board on April 9, 2002, while Jesús María Zabalza Lotina stepped down as member of the Board on June 25, 2002. Subsequent to 2002 year-end, two new independent directors, Luis Badía and Luis Bassat, were appointed to the Board of Directors of the Controlling Company, replacing Jesús María Zabalza and Alejandro Junco de la Vega.

In the second half of 2002, the Terra Lycos Group organization was restructured, leading to a number of changes in the management team. Among those who left the Terra Lycos Group, mention should be made of Antonio García-Urgelés, until then Executive Vice President for Latin America and Spain, and Julián de Cabo, Country Manager for Spain. Silvia de Jesús took over the position of Executive Vice President for Latin America, while

Inés Leopoldo took over as Executive Vice President for Spain. Lastly, Javier Martínez took over as Executive Vice President of Global Operations.

Research and development

The Terra Lycos Group is actively involved in creating and implementing new services and systems in collaboration with leading market suppliers, and also collaborates closely with Telefónica Investigación y Desarrollo, S.A. (TIDSA) on the exploration and development of new technological solutions which duly comply with market, fair trade and regulatory requirements.

The Terra Lycos Group is aware of the advantages of including in its research and development program the opportunities presented to it by its subsidiaries, and takes great interest in those arising in the different units' specific areas of expertise. The Terra Lycos Group strives constantly to improve its existing services and systems and to develop new services which add value to and enrich the Group's family of products.

The time taken to develop and launch new services varies based on the complexity of the service. A service with a moderate level of complexity is estimated to take about 16 to 18 weeks to complete.

In 2002 the Terra Lycos Group developed an online gaming platform (MPG) with functionalities, business and management modules that are unique in the online leisure products market. The differential developments and add-ons created a product destined to lead the digital entertainment industry. This product (Terra Games MPG) was developed in 18 months.

Each development goes through a formal process consisting of various phases beginning with definition of the service and ending with its verification and validation, in order to guarantee its quality once it is included in the Terra Lycos Group's product catalog.

The services are generally developed globally for all the countries where the Terra Lycos Group is present, and adapted locally during the process of implementation in each country.