

LYCOS Europe N.V.
interim report 3/2008

for the nine months ending September 30, 2008

LYCOS
meet you there



key figures

		Nine months ending September 30, 2008 (unaudited)	Nine months ending September 30, 2007 (unaudited)	Change
Revenues	in mln EUR	46.9	58.4	(20)%
EBITDA ¹	in mln EUR	(19.9)	(12.9)	(54)%
EBIT ¹	in mln EUR	(23.0)	(36.4)	37%
Net profit/(loss)	in mln EUR	(17.1)	44.1	>(100)%
Shares (total outstanding) ²	number	312,300,000	312,300,000	0%
Earnings/loss per share (diluted and undiluted)	in EUR	(0.05)	0.14	>(100)%
Share price (Xetra)	in EUR	0.33	0.51	(35)%
Cash, cash equivalents and other investments	in mln EUR	139.2	159.9	(13)%
Cash ratio (Cash, cash equivalents and other investments/total liabilities)	number	3.9	4.4	(11)%
Shareholders' equity	in mln EUR	148.8	172.5	(14)%
Equity ratio (Shareholders' equity/total assets)	in percent	80.5	82.7	(3)%
Employees	number	694	732	(5)%
		Three months ending September 30, 2008 (unaudited)	Three months ending September 30, 2007 (unaudited)	Change
Revenues	in mln EUR	13.6	17.2	(21)%
EBITDA ¹	in mln EUR	(9.0)	(5.3)	(70)%
EBIT ¹	in mln EUR	(10.0)	(6.6)	(52)%
Net loss	in mln EUR	(7.4)	(4.6)	(61)%
Shares (total outstanding)	number	312,300,000	312,300,000	0%
Loss per share (diluted and undiluted)	in EUR	(0.02)	(0.01)	(100)%

¹ EBITDA is earnings before interest, taxes, depreciation, amortization and impairment, EBIT is earnings before interest and taxes

² Including treasury shares

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26 Quarterly Financial Information

This report to the shareholders should be read in conjunction with the (consolidated) financial statements and notes thereto. This report contains certain forward-looking statements and information relating to LYCOS Europe based on the beliefs of LYCOS Europe as well as assumptions made by and information currently available to LYCOS Europe. These statements include, but are not limited to, statements about LYCOS Europe's strategies, plans, objectives, expectations, intentions, revenues, expenditures and assumptions as well as other statements contained in this report that are not historical facts. When used in this document, words such as "anticipate", "believe", "estimate", "expect", "intend", "plan" and "project" and similar expressions, as they relate to LYCOS Europe or its management, are intended to identify forward-looking statements. These statements, which reflect LYCOS Europe's current views with respect to future events, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Investors are cautioned that forward-looking statements contained in this section involve both risk and uncertainty. Several important factors cause actual results to differ materially from those anticipated by these statements.

dear shareholders,

In the third quarter, LYCOS Europe devoted special attention to the service quality of its products, making significant improvements here.

In September, for example, the community consumer guide portal “decido” was expanded to include a live shopping scout that selects the day’s best live shopping bargains, including price comparisons.

The news search engine Paperball also underwent a complete relaunch. Its homepage now features an overview of major headlines from LYCOS news, blogs and about 3,000 relevant news sources.

LYCOS Network Europe has also positioned itself clearly in relation to its competitors as a portal provider with distinct content, communications and communities. At the Online Marketing Düsseldorf (OMD) trade fair in September, LYCOS Network Europe presented itself as a Europe-wide networked sales house together with leading partners and high-quality content providers.

Revenues were EUR 46.9 million for the nine months of 2008 compared to EUR 58.4 million in the same period in 2007. The gross margin was 46 percent (54 percent last year) due to the decline in revenues. Ordinary expenses were down EUR 5.3 million thanks to strict cost management, but this could not fully compensate for the revenue decline. The EBITDA for the nine months of 2008 came to EUR (19.9) million compared to EUR (12.9) million in the same period in 2007.

Because of low revenue development and worsening economic climate LYCOS Europe will further tighten the cost management in the fourth quarter.

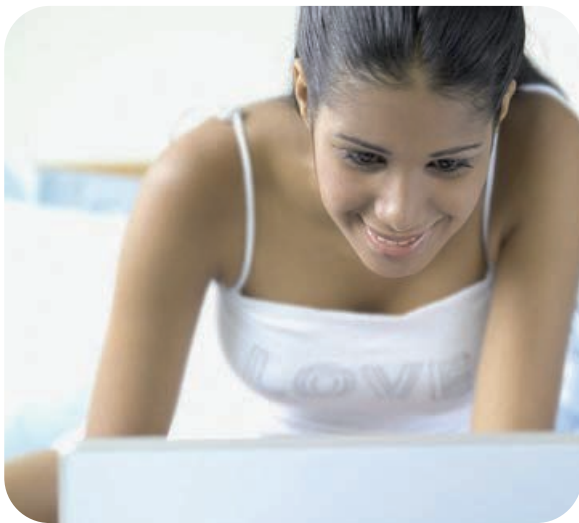
LYCOS Europe expects to conclude the strategic review process as planned in the second half of 2008.

Christoph Mohn



Chief Executive Officer

about lycos europe



LYCOS Europe is one of the leading European portal providers and online advertisers, operating a network of websites in seven languages in Europe and the United States. The company's combination of Portal & Search (e.g., LYCOS Search and LYCOS iQ), Communication & Communities (e.g., LYCOS Mail), Shopping (e.g., decido and BuyCentral) and Web Hosting and Domain Names (e.g., LYCOS Web Hosting and united-domains) addresses a wide range of target groups.

Portal & Search

The third quarter saw the integration of new portal services. Users now have access to a new insurance comparison page, for example, as well as an energy cost calculator that earned the top rating of "Excellent" by the consumer product rating agency Stiftung Warentest. The portals also focused on expanding the entertainment pages. LYCOS Europe users now have access to a variety of new pages about stars plus videos and an improved ticket shop for concerts and other events.

The news search engine Paperball underwent a complete relaunch. The new homepage now features an overview of major headlines from LYCOS news, blogs and about 3,000 relevant news sources.

LYCOS iQ had the stated goal of expanding its image and recognition. In the third and fourth quarter marketing activities in Germany focus to explain the LYCOS iQ product to a broader audience. There were also technical innovations. The registration process was overhauled to simplify user login and the technical performance was further enhanced.

Communication & Communities

LYCOS Chat made final preparations before introducing the initial version of its new chat interface to selected users. The feedback that the VIP chatters provide to the chat team in the coming weeks and months will determine what final changes are made and when the new LYCOS Chat goes live in the various countries.

The third quarter at LOVE@LYCOS was dominated by an expansion of functions. Users are now able to not only send private messages to one another but also view their message history. New in the third quarter, LOVE@LYCOS users can now also configure notification e-mails, which are automatically sent to users when someone visits their profile, leaves a message or sends a friendship request.

LYCOS Mail is working on further personalizing the product. Users logging on to Jubii now see a personal greeting and a personalized homepage with a clear layout. Users also have the option to integrate RSS feeds from any areas that interest them.



Shopping

For the first time, Pangora is offering a comprehensive price comparison for over-the-counter drugs with the introduction of a white-label solution in the OTC pharmaceuticals segment. The new Pangora product catalog contains detailed product information and pictures for 85 percent of the top sellers in the OTC mail order business.

In Great Britain, Pangora began a strategically important partnership in September 2008 by providing a comprehensive white-label solution exclusively for the shopping channel of the leading UK price comparison site www.moneysupermarket.com.

The community consumer guide portal decido (www.decido.de), developed in house by Pangora and launched in Germany in April 2008, has demonstrated its innovative power by introducing a live shopping scout in September 2008.

Web Hosting & Domain Names

The new domain portability service offered in Germany by LYCOS Web Hosting now lets you take domains hosted by other providers and add them to your LYCOS portfolio. This makes things much easier for customers that wish to switch from another hosting provider to LYCOS. There have also been significant improvements to the technical environment of the Virtual Server product group (VDS) offering users immediate performance enhancements.

The marketing mix was adjusted to improve the net operating income. A new general look was finalized to standardize the unit's external communications. The focus is on the LYCOS brand elements, especially the LYCOS Labrador, with the goal of creating a message that stands out from the competitors.

With more than one million registered domain names and nearly 200,000 customers, united-domains AG is one of the market leaders in the industry.

"The entire world of domains" – This is the principle according to which united-domains has increased its focus on extending its product range by including new top-level domains (domain endings) over the past few months. In the third quarter of 2008, six new domain endings were included in united-domain's spectrum, particularly from South America. The introduction of about 30 new domain endings is currently being prepared.

Sales

At the Online Marketing Düsseldorf (OMD) trade fair in September, LYCOS Network Europe presented itself as a Europe-wide networked sales house together with leading partners and high-quality content providers.

LYCOS Network Europe has clearly distinguished itself in relation to its competitors as a portal provider with its own content, communications and communities. In this context, the company presented various options at OMD for interaction between users and marketing companies. Integrated campaigns that not only support exchanges among users but also facilitate communication between brand holders and their target groups are used successfully in the LYCOS iQ, LYCOS Chat and LOVE@LYCOS communities.

LYCOS Network Europe also presented three integration models for the boom market of online video advertising.

Another focus was the LYCOS Precision behavioral targeting portfolio. About five million validated profiles in 40 standard affinities already make it possible to conduct most campaigns with significantly better targeting.

economic development

Market development

The number of Internet users in Europe rose 6 percent in 2007 over the previous year. Germany, Great Britain, France, Italy and Spain together account for 87 percent of all European Internet users. Nearly half of all European Internet users goes online daily, 80 percent via a broadband connection.

The LYCOS Europe Sales Network had approximately 34 million unique users as of September 2008, including distribution partners, compared to 37 million in the same period last year. This constitutes a reach of 22 percent (including distribution partners) in the relevant European markets.

European Internet users spend an average of nearly 12 hours online each week, with nearly a third spending up to 16 hours. The average Internet usage time is expected to increase to 15 hours by 2010, or about 29 percent of the total forecasted media time.

A decline in the use of other media as a result of greater use of the Internet can already be observed. The younger generation in particular already spends more time online than watching TV.

Result analysis

Revenues

LYCOS Europe's revenues for the nine months ending September 30, 2008 were EUR 46.9 million, a decrease of 20 percent compared to the nine months ending September 30, 2007. The main reason was a decrease in advertising revenues of 42 percent, or EUR 8.2 million. Revenues from paid services and shopping remained basically stable at EUR 33.7 million. Paid services and shopping contributed 72 percent, advertising 25 percent and other revenues 3 percent to LYCOS Europe's total revenues in the nine months ending September 30, 2008.

economic development

During the third quarter of 2008, LYCOS Europe revenues decreased by 21 percent to EUR 13.6 million compared to the third quarter of 2007. This is mainly caused by declining advertising revenues of EUR 3.0 million compared to 6.0 million in the second quarter 2007.

EBITDA

During the nine months of 2008, the EBITDA was EUR (19.9) million compared to EUR (12.9) million in the same period in 2007.

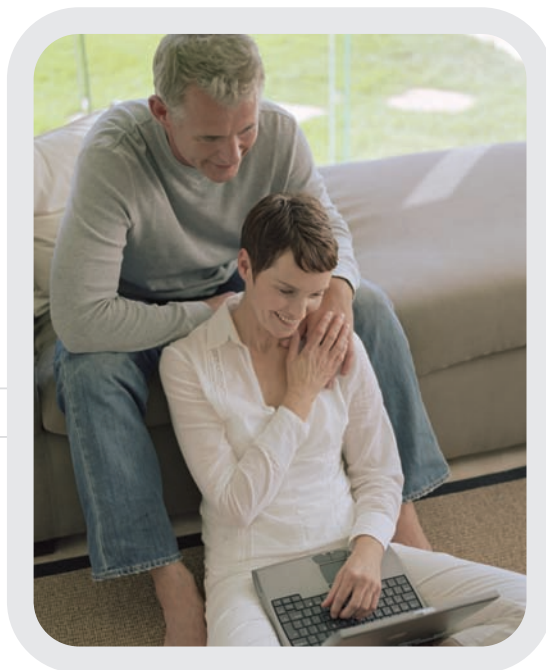
The gross profit of EUR 21.8 million for the nine-month period ending September 30, 2008 decreased by EUR 9.7 million compared to EUR 31.5 million for the reference period in 2007. Total cost of revenues decreased by 7 percent to EUR (25.1) million.

Ordinary expenses were lowered by EUR 5.3 million in total as a result of strict cost management. Ordinary sales and marketing expenses fell by EUR 3.2 million during the nine months ending September 30, 2008. Ordinary research and development costs decreased by EUR 1.6 million compared to 2007. Ordinary general and administration expenses declined by EUR 0.5 million.

The EBITDA of the third quarter 2008 was EUR (9.0) million compared to the EBITDA of EUR (5.3) million in the prior year.

Financial result

The net finance income was EUR 5.7 million compared to EUR 68.4 million generated during the nine months of 2007. Adjusted for the disposal of Seznam.cz, a.s. ("Seznam"), the net finance income of the nine months of 2007 was EUR 3.6 million. The increase of EUR 2.1 million is mainly driven by the interest received on the additional cash from the disposal activities in 2007.



Net result

This results in a net loss of EUR (17.1) million for the nine months ending September 30, 2008, compared to a net profit of EUR 44.1 million in the prior year. The results of the nine months in 2007 were strongly influenced by the disposal of the Swedish Access business and the disposal of Seznam.

Due to the decline in net results, earnings per share decreased to EUR (0.05) for the nine months of 2008 compared to EUR 0.14 for the nine months of 2007.

Balance sheet analysis

Total assets decreased from EUR 205.2 million as of December 31, 2007, to EUR 184.9 million as of September 30, 2008. Cash, cash equivalents and other investments declined to EUR 139.2 million as of September 30, 2008, compared to EUR 157.2 million as of December 31, 2007.

Property, plant and equipment and intangible assets excluding goodwill decreased to EUR 11.6 million as of September 30, 2008. Goodwill was EUR 16.7 million as of September 30, 2008.

economic development

Total liabilities as of September 30, 2008, declined to EUR 36.1 million compared to EUR 38.3 million as of December 31, 2007. This is mainly the result of a general reduction of accounts payables.

The above yields a cash ratio of 3.9 (cash, cash equivalents and other investments divided by total liabilities), showing the strong financial position of LYCOS Europe.

Cash flow analysis

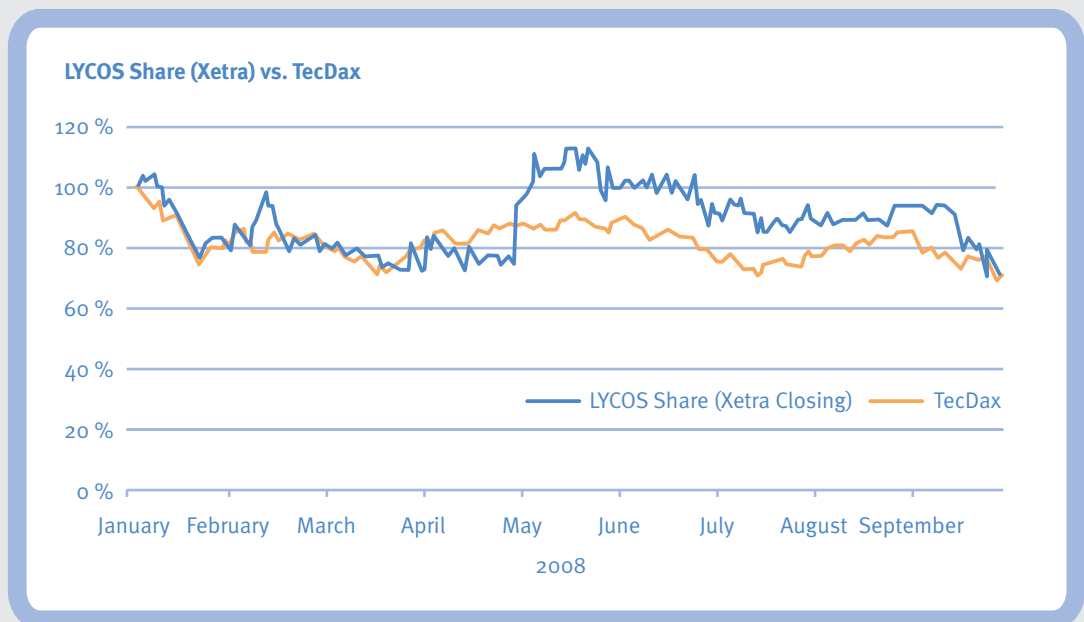
The consolidated cash flow statements comprise movements of cash and cash equivalents with an original maturity under three months. Other investments with an original maturity above three months are classified as short (original maturity 3–12 months) and long-term other investments (original maturity above 12 months) in the balance sheet.

Cash, cash equivalents and other investments were EUR 139.2 million as of September 30, 2008 (EUR 159.9 million in the reference period).

Cash and cash equivalents decreased by EUR 59.5 million to EUR 15.4 million during the nine-month period ending September 30, 2008. Of this, EUR (16.4) million was used in operating activities, which also include EUR (5.0) million used to settle part of the contingent consideration to former mentasys shareholders in the first quarter of 2008. In investing activities, EUR 41.5 million was transferred from cash equivalents to other investments.

share

share



Share price performance

The first nine months of this year were characterized by uncertainty and fear of recession on the international stock markets. The ongoing financial crisis depressed share prices and indexes in national and international financial marketplaces. The Deutscher Aktienindex (DAX) lost 27 percent in the period under review, for example, while TecDax slipped 29 percent and SDax plunged 35 percent.

In this difficult environment, the LYCOS share price's 31 percent loss mirrored that of TecDax. The share started the year at EUR 0.48 and ended the third quarter at EUR 0.33.

The peak in the period under review was EUR 0.54 on May 16, 2008, while the low point was EUR 0.33 on September 30, 2008.

HSBC Trinkaus & Burkhardt took over the designated sponsoring in the third quarter.

share

		January 1 – September 30, 2008
LYCOS share	%	(31)
TecDax	%	(29)
Highest rate (May 16, 2008)	EUR	0.54
Lowest rate (Sep 30, 2008)	EUR	0.33
Closing rate (Sep 30, 2008)	EUR	0.33
Average daily trading volume	Shares	71,321
Market capitalization (Sep 30, 2008)	EUR	103,059,000

Source: Xetra data

Share capital

The Company's share capital consists of AA, AB and B shares, each with a par value of EUR 0.01. The average and absolute number of issued and outstanding shares—including 723,656 treasury shares valued at EUR 7,236.56—was 312,300,000. The number of voting shares outstanding is therefore 311,576,344 as of September 30, 2008. The treasury shares were the result of issuance and acquisition in the context of an indemnification from Spray Ventures in 2002. In addition to the ordinary share capital, the Company has issued stock options to its employees, of which 228,650 are outstanding and exercisable on September 30, 2008.

LYCOS Europe's Legal Shareholder Structure	Number of shares as of September 30, 2008			Number of shares as of September 30, 2007		
		% of voting rights	% of shares		% of voting rights	% of shares
LE Holding Corp. Bertelsmann Internet Holding GmbH / Fireball Internet GmbH / Jahr VVG mbH & Co. KG Christoph Mohn Internet Holding GmbH LYCOS Europe N.V. (treasury shares)	100,000,000	32.1%	32.0%	100,000,000	32.1%	32.0%
Free float	111,576,344	35.8%	35.8%	111,576,344	35.8%	35.8%
Total	312,300,000	100.0%	100.0%	312,300,000	100.0%	100.0%

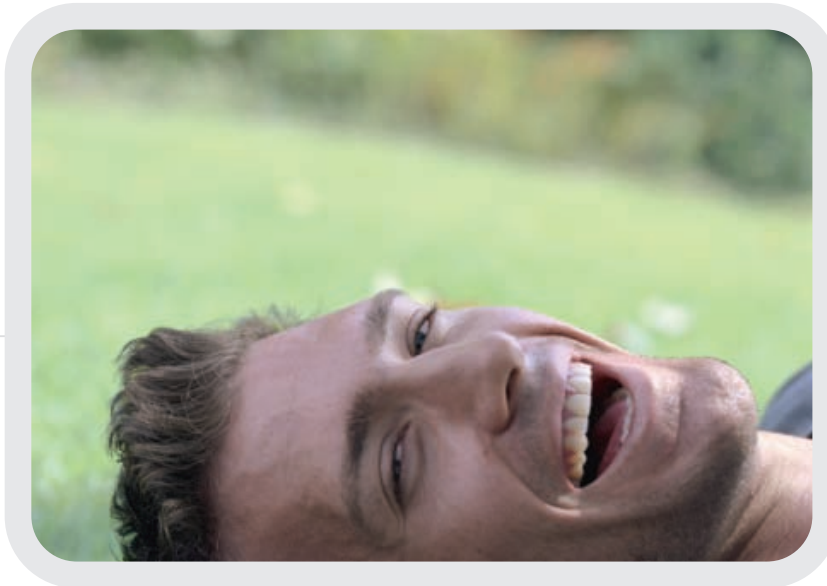
employees

LYCOS Europe had 694 employees at the end of the period under review compared to 687 employees on June 30, 2008.

Most LYCOS Europe employees work at the locations in Germany (57 percent) and Armenia (31 percent). Another 6 percent work in France and an additional 6 percent in Denmark, Italy, the Netherlands and Great Britain.

employees

outlook



The stated product goal remains stabilizing traffic through the product offensive. This, together with the introduction of behavioral targeting (LYCOS Precision), is intended to further enhance the attractiveness of the LYCOS sites to marketing partners.

LYCOS iQ, the intelligent search, crossed the key threshold of one million queries, thereby achieving a size that should ensure dynamic growth—especially through increasing numbers of users. Promotion of the “decido” consumer guide portal will continue.

Cost management will be further tightened in the fourth quarter in light of revenue developments.

Haarlem, the Netherlands
October 28, 2008

The Management Board
LYCOS Europe N.V.

outlook

LYCOS Europe N.V.

unaudited condensed consolidated
interim financial statements

for the period ending September 30, 2008

LYCOS Europe N.V.
 unaudited condensed consolidated interim
 balance sheets

In thousands of euros	Notes	September 30, 2008	December 31, 2007
Assets			
Property, plant and equipment		1,912	2,374
Intangible assets	4	26,407	23,860
Deferred tax assets		215	204
Other investments	5	9,803	9,803
Other non-current assets		396	486
Total non-current assets		38,733	36,727
Cash and cash equivalents	5	15,377	74,868
Other investments	5	114,000	72,500
Accounts receivable and other receivables	6	12,018	13,146
Prepaid expenses and other current assets		4,809	7,976
Total current assets		146,204	168,490
Total assets		184,937	205,217
Shareholders' equity and liabilities			
Share capital		3,123	3,123
Share premium		1,588,534	1,588,076
Treasury shares		(2,052)	(2,052)
Legal reserves		3,483	3,941
Translation reserve		(1,580)	(649)
Accumulated deficit		(1,425,540)	(1,465,594)
Unappropriated result		(17,147)	40,054
Total shareholders' equity attributable to equity holders of the Company		148,821	166,899
Deferred tax liabilities		1,127	1,377
Provisions and other long-term liabilities		6,933	8,564
Total non-current liabilities		8,060	9,941
Accounts payable	6	7,764	9,223
Restructuring provision		591	984
Other short-term liabilities		19,701	18,170
Total current liabilities		28,056	28,377
Total liabilities		36,116	38,318
Total shareholders' equity and liabilities		184,937	205,217

The accompanying notes are an integral part of these
 unaudited condensed consolidated interim financial statements

LYCOS Europe N.V.
 unaudited condensed consolidated interim
 income statements

		Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007	Three months ending Sep. 30, 2008	Three months ending Sep. 30, 2007
In thousands of euros (except share data)					
	Notes				
Advertising		11,597	19,844	3,016	5,957
Paid services and shopping		33,707	34,197	10,171	9,888
Other		1,601	4,342	406	1,379
Total revenues		46,905	58,383	13,593	17,224
Cost of revenues		(25,104)	(26,907)	(8,070)	(8,486)
Gross profit		21,801	31,476	5,523	8,738
Sales and marketing	8	(18,048)	(21,164)	(6,376)	(6,644)
Research and development	8	(11,892)	(13,498)	(3,920)	(4,263)
General and administration	8	(15,390)	(34,909)	(5,365)	(4,603)
Other operating income		542	1,660	188	167
Loss from operations		(22,987)	(36,435)	(9,950)	(6,605)
Finance income		4,833	68,625	1,620	1,664
Finance expense		(91)	(296)	(85)	(8)
Other finance income/(expense)		982	51	984	(96)
Net finance income		5,724	68,380	2,519	1,560
Profit/(loss) before tax		(17,263)	31,945	(7,431)	(5,045)
Income tax		116	623	35	426
Net profit/(loss) from continuing operations		(17,147)	32,568	(7,396)	(4,619)
Profit from discontinued operations (net of income tax)		0	11,501	0	0
Net profit/(loss) for the period attributable to equity holders of the Company		(17,147)	44,069	(7,396)	(4,619)
Basic/diluted profit/(loss) per share (euros) – continued operations		(0.05)	0.10	(0.02)	(0.01)
Basic/diluted profit/(loss) per share (euros)		(0.05)	0.14	(0.02)	(0.01)
Weighted average number of shares outstanding		311,576,344	311,576,344	311,576,344	311,576,344

The accompanying notes are an integral part of these
 unaudited condensed consolidated interim financial statements

LYCOS Europe N.V.
 unaudited condensed consolidated interim
 statements of cash flows

In thousands of euros	Notes	Nine months ending September 30, 2008	Nine months ending September 30, 2007
Continued operations			
Cash flows from operating activities			
Profit/(loss) before tax		(17,263)	31,945
Adjustments for:			
Depreciation, amortization and impairment	4	3,108	23,553
Finance income and expense		(4,742)	(68,299)
Other non cash movements		(4,824)	4,239
Change in accounts receivable		244	2,798
Change in prepaid expenses and other current assets		3,471	(744)
Change in other non-current assets		(273)	278
Change in accounts payable		(1,221)	(2,137)
Change in current liabilities		1,675	(2,079)
Change in other non-current liabilities		(1,860)	(6,594)
Interest received		5,409	4,199
Income tax paid		(135)	(422)
Net cash used in operating activities		(16,411)	(13,263)
Cash flows from investing activities			
Acquisitions of property, plant and equipment and other intangible assets		(1,719)	(4,196)
Development expenditure		169	(1,011)
Transfer from cash equivalents to other investments		(41,500)	(32,456)
Acquisitions of subsidiaries, net of cash acquired		0	(504)
Proceed from sale of subsidiaries and other investments, net of cash		265	65,000
Net cash (used)/provided in investing activities		(42,785)	26,833
Cash flows from financing activities			
Change in short-term debt		(239)	(104)
Net cash used in financing activities		(239)	(104)
Discontinued operations			
Net cash from operating activities		0	2,324
Net cash from investing activities		0	18,613
Net cash from discontinued operations		0	20,937
Effect of exchange rate changes on cash and cash equivalents		(56)	(231)
Change in cash and cash equivalents		(59,491)	34,172
Cash and cash equivalents, beginning of the period		74,868	70,886
Cash and cash equivalents, end of the period		15,377	105,058

The accompanying notes are an integral part of these
 unaudited condensed consolidated interim financial statements

LYCOS Europe N.V.
 unaudited condensed consolidated interim
 statements of shareholders' equity

In thousands of euros (except share data)	Class AA		Class AB		Class B	
	shares		shares		shares	
	No. of shares	EUR	No. of shares	EUR	No. of shares	EUR
Balance as of						
December 31, 2006	62,000,000	620	62,000,000	620	188,300,000	1,883
Movement capitalized development expenses						
Translation loss						
Release due to disposal						
Financial Instruments available-for-sale						
Net profit						
Balance as of						
September 30, 2007	62,000,000	620	62,000,000	620	188,300,000	1,883
Movement capitalized development expenses						
Translation loss						
Financial Instruments available-for-sale						
Net loss						
Balance as of						
December 31, 2007	62,000,000	620	62,000,000	620	188,300,000	1,883
Movement capitalized development expenses						
Translation loss						
Net loss						
Balance as of						
September 30, 2008	62,000,000	620	62,000,000	620	188,300,000	1,883

The accompanying notes are an integral part of these
 unaudited condensed consolidated interim financial statements

Share premium	Legal reserve	Treasury shares	Translation reserve	Other reserves	Accumulated deficit & unappropriated result	Total	
EUR	EUR	No. of shares	EUR	EUR	EUR	EUR	
1,587,049	4,968	(723,656)	(2,052)	1,137	0	(1,465,594)	128,631
(439)	439						0
				(433)			(433)
				(939)			(939)
					1,140		1,140
						44,069	44,069
1,586,610	5,407	(723,656)	(2,052)	(235)	1,140	(1,421,525)	172,468
1,466	(1,466)						0
				(414)			(414)
					(1,140)		(1,140)
						(4,015)	(4,015)
1,588,076	3,941	(723,656)	(2,052)	(649)	0	(1,425,540)	166,899
458	(458)						0
				(931)			(931)
						(17,147)	(17,147)
1,588,534	3,483	(723,656)	(2,052)	(1,580)	0	(1,442,687)	148,821

LYCOS Europe N.V.
notes to the unaudited condensed
consolidated interim financial statements

1. significant accounting policies
2. segment reporting
3. acquisition and disposal of subsidiaries
and financial investments
4. intangible assets
5. cash, cash equivalents and other investments
6. related party transactions
7. contingencies and commitments
8. other operating expenses

1. significant accounting policies

a) The company

LYCOS Europe N.V. (“LYCOS Europe” or the “Company” / ISIN NL0000233195) is one of the leading European Internet destinations operating an international network of websites in seven languages. The Company commenced operations in the year 1997 and the companies existing before 2000 were reorganized as subsidiaries of LYCOS Europe N.V. in January 2000. The registered office of the Company is in Haarlem, the Netherlands (LYCOS Europe N.V., Richard Holkade 36, 2033 PZ Haarlem, the Netherlands).

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the “Group”).

b) Accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting.” They do not include all of the information required for full annual financial statements and should be read in conjunction with the LYCOS Europe consolidated financial statements for the year ending December 31, 2007. LYCOS Europe’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (Official Journal EC L 243 p.1) (“IFRS”).

The preparation of unaudited condensed consolidated interim financial statements in conformity with IFRS requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The accounting policies used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the consolidated financial statements for the year ending December 31, 2007.

2. segment reporting

Segment information is presented in respect of the Group's geographical segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure. Intersegment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical segments	Germany		Sweden (discontinued)		France	
	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007
In thousands of euros						
Revenues	29,471	36,562	0	(45)	5,417	7,337
Revenues from intersegment transactions	10,862	16,675	0	0	83	565
Total revenues	40,333	53,237	0	(45)	5,500	7,902
Net gain/(loss) for the period	(15,226)	(24,402)	0	11,501	(2,998)	(1,222)

	United Kingdom		Denmark		Other regions & eliminations	
	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007
In thousands of euros						
Revenues	4,656	5,893	3,332	4,625	4,029	3,966
Revenues from intersegment transactions	138	306	4	256	(11,087)	(17,802)
Total revenues	4,794	6,199	3,336	4,881	(7,058)	(13,836)
Net gain/(loss) for the period	535	(368)	(2,014)	(1,414)	2,556	59,974

	Less discontinued operations		Continued operations	
	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007	Nine months ending Sep. 30, 2008	Nine months ending Sep. 30, 2007
In thousand Euro				
Revenues	0	45	46,905	58,383
Revenues from intersegment transactions	0	0	0	0
Total revenues	0	45	46,905	58,383
Net gain/(loss) for the period	0	(11,501)	(17,147)	32,568

3. acquisition and disposal of subsidiaries and financial investments

mentasys

On November 15, 2006, Pangora GmbH, an indirect 100 percent subsidiary of LYCOS Europe N.V., completed the purchase of all shares in mentasys GmbH, a German shopping solution specialist. The purchase price was EUR 30.0 million, including a contingent consideration of EUR 14.0 million based on the performance in the years 2007 to 2009. Due to new estimations of the performance in 2008 and 2009, the contingent consideration was adjusted in the second quarter of 2008. The consideration is EUR 11.9 million as of September 30, 2008, of which EUR 5.0 million was paid during the first quarter of 2008.

4. intangible assets

Goodwill is stated at cost less any accumulated impairment losses. Other intangible assets are stated at cost less accumulated amortization, and if applicable, any impairment charge.

During the nine months of 2008, LYCOS Europe replaced certain self-developed products. As a result LYCOS Europe recorded an impairment loss of EUR 109 thousand as of September 30, 2008.

5. cash, cash equivalents and other investments

Cash consists of bank balances and call deposits, cash equivalents consist of short-term deposits with an original and remaining maturity of less than six months and other investments consist of deposits with a maturity of more than 12 months.

6. related party transactions

The Company engages in various related party transactions with both Telefónica SA and Bertelsmann AG and their subsidiaries that include revenue and expense transactions. These transactions are booked on separate accounts and are generally settled within thirty days of the relevant transaction. The billing rates are set at rates that approximate fair value.

7. contingencies and commitments

Minimum lease and rental payments

The Company has entered into operating lease agreements in Armenia, Denmark, France, Germany, Italy, the Netherlands and the United Kingdom.

The future, non-cancelable minimum lease, rental and datacenter-related payments under these commitments are as follows:

In thousands of euros

Due within 2008	1,386
Due after 2008 until 2013	15,158
Due after 2013	334
Total	16,878

Litigation

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. LYCOS Europe is currently not aware of any legal proceeding or claims that the Company believes will have, individually or in the aggregate, a materially adverse effect on the Company's financial position, results of operations or cash flows.

8. other operating expenses

Other operating expenses consist of:

Nine months ending September 30, 2008

In thousands of euros	Ordinary expenses	Restructuring	Impairment	Other amortization	Total
Sales and marketing	(17,318)	(247)	0	(483)	(18,048)
Research and development	(11,323)	(70)	(109)	(390)	(11,892)
General and administration	(14,965)	(304)	0	(121)	(15,390)
Total	(43,606)	(621)	(109)	(994)	(45,330)

Nine months ending September 30, 2007

In thousands of euros	Ordinary expenses	Restructuring	Impairment	Other amortization	Total
Sales and marketing	(20,552)	67	0	(679)	(21,164)
Research and development	(12,883)	(132)	(93)	(390)	(13,498)
General and administration	(15,480)	21	(19,137)	(313)	(34,909)
Total	(48,915)	(44)	(19,230)	(1,382)	(69,571)

Haarlem, the Netherlands

October 28, 2008

The Management Board

LYCOS Europe N.V.

quarterly financial information (unaudited)

In thousands of euros (except per share data)	Quarter ending March 31, 2004	Quarter ending June 30, 2004	Quarter ending September 30, 2004	Quarter ending December 31, 2004
Revenues ³	23,790	23,856	22,838	33,292
EBITDA ^{3,4}	(9,645)	(11,928)	(7,169)	(5,485)
EBIT ^{3,4}	(13,067)	(15,445)	(10,504)	(11,295)
Net loss	(11,913)	(14,404)	(9,049)	(10,110)
Net loss per share basic and diluted in euros	(0.04)	(0.05)	(0.03)	(0.03)

In thousands of euros (except per share data)	Quarter ending March 31, 2005 (restated)	Quarter ending June 30, 2005 (restated)	Quarter ending September 30, 2005 (restated)	Quarter ending December 31, 2005 (restated)
Revenues	18,251	20,022	20,044	20,929
EBITDA ⁴	(6,194)	(6,264)	410	1,709
EBIT ⁴	(8,644)	(8,360)	(1,520)	(166)
Net loss	(8,069)	(8,390)	(2,046)	(1,730)
Net loss per share basic and diluted in euros	(0.03)	(0.03)	(0.01)	(0.01)

In thousands of euros (except per share data)	Quarter ending March 31, 2006	Quarter ending June 30, 2006	Quarter ending September 30, 2006	Quarter ending December 31, 2006
Revenues	18,311	23,273	17,408	23,388
EBITDA ⁴	(834)	777	(3,379)	(1,192)
EBIT ⁴	(2,336)	(718)	(4,853)	(5,231)
Net profit / (net loss)	(2,032)	(242)	9,144	(5,166)
Net profit / (net loss) per share basic and diluted in euros	(0.01)	0.00	0.03	(0.02)

In thousands of euros (except per share data)	Quarter ending March 31, 2007	Quarter ending June 30, 2007	Quarter ending September 30, 2007	Quarter ending December 31, 2007
Revenues	19,959	21,200	17,224	18,331
EBITDA ⁴	(2,320)	(5,272)	(5,290)	(5,273)
EBIT ⁴	(3,847)	(25,983)	(6,605)	(7,532)
Net profit / (net loss)	7,610	41,078	(4,619)	(4,015)
Net profit / (net loss) per share basic and diluted in euros	0.02	0.13	(0.01)	(0.01)

In thousands of euros (except per share data)	Quarter ending March 31, 2008	Quarter ending June 30, 2008	Quarter ending September 30, 2008
Revenues	16,195	17,117	13,593
EBITDA ⁴	(6,225)	(4,697)	(8,957)
EBIT ⁴	(7,341)	(5,696)	(9,950)
Net loss	(5,850)	(3,901)	(7,396)
Net loss per share basic and diluted in euros	(0.02)	(0.01)	(0.02)

³ Not restated

⁴ EBITDA is earnings before interest, taxes, depreciation, amortization and impairment, EBIT is earnings before interest and taxes

LYCOS Europe N.V.

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The interim report for the period ending September 30, 2008, is also available in German and French. In case of doubt, the English version is decisive.