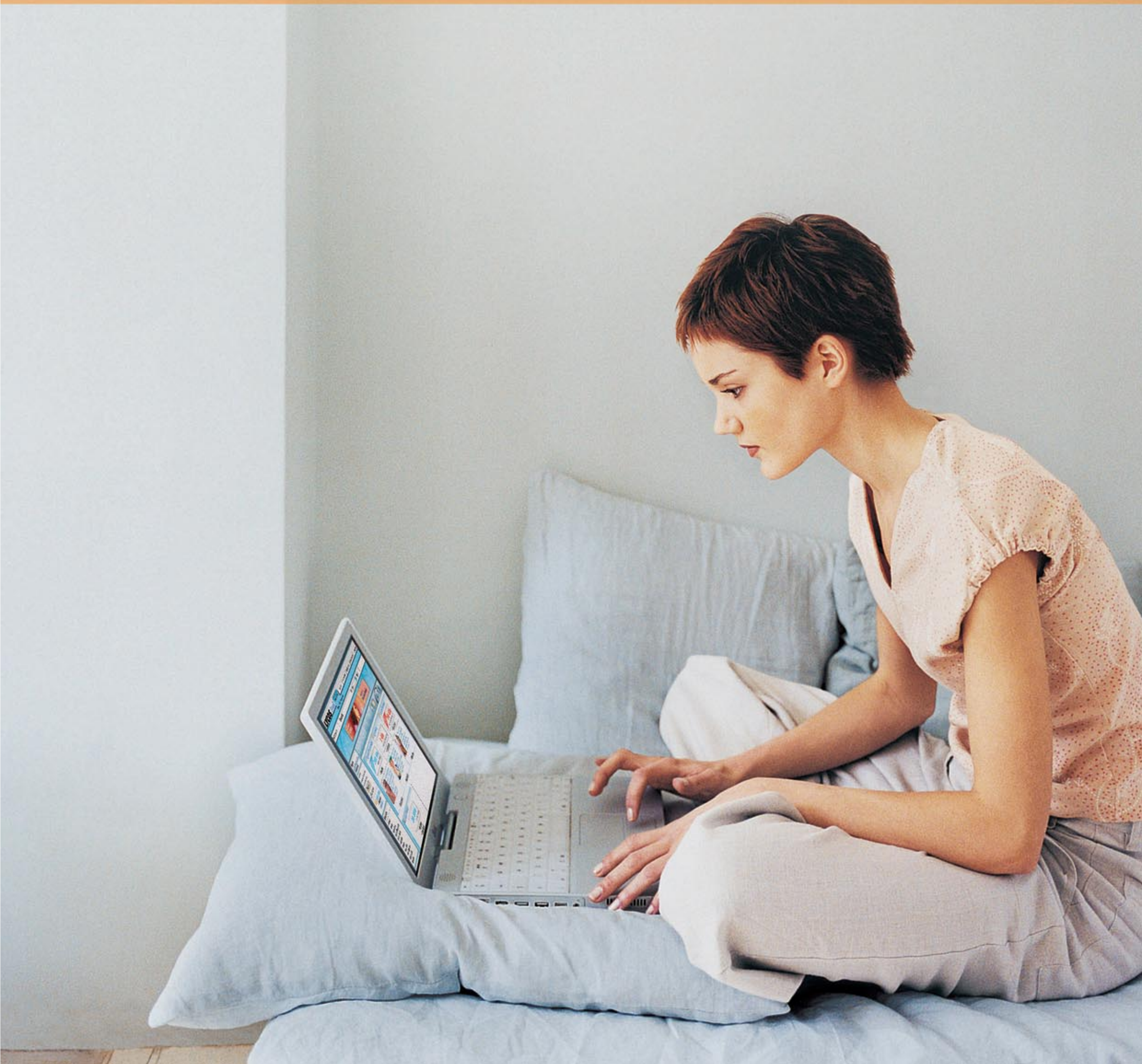
LYCOS EUROPE N.V. // INTERIM REPORT (IFRS)

FOR THE THREE MONTHS ENDED MARCH 31, 2006

LYCOS
meet you there



KEY FIGURES

First three months 2006 and 2005

In million Euro (except per share data, change and gross margin)	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)	Change
Total revenues	29.9	30.0	0%
Pro forma gross profit[1]	14.7	15.2	(3)%
Pro forma gross margin[1]	49%	51%	(3)%
Loss from operations	(2.6)	(8.6)	70%
Net loss	(2.0)	(8.1)	75%
Net loss per share in Euro	(0.01)	(0.03)	75%
EBITDA[2]	(0.5)	(5.7)	92%

	March 31, 2006 (unaudited)	March 31, 2005 (unaudited)	Change
Number of employees	658	825	(20)%
Cash, cash equivalents and other investments in million Euro	93.7	114.8	(18)%

(1) Gross profit / gross margin excluding restructuring costs and impairment loss

(2) Please refer also to the explanatory notes to the key figures, which are displayed on page 28

This report to the shareholders should be read in conjunction with the unaudited condensed consolidated interim financial statements and notes thereto. This report contains certain forward-looking statements and information relating to LYCOS Europe that are 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.

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1 // MESSAGE FROM THE CEO

DEAR SHAREHOLDERS,

the first quarter of 2006 has been in line with the prospected financial guidance and therefore mirrors our internal expectations on the way to profitability on a full year basis. With total revenues of EUR 29.9 million LYCOS Europe runs on the same revenue level as in the reference period of 2005 (Q1/2005: EUR 30.0 million). Taking a look on the result side, LYCOS Europe again achieved to improve its costbase to a very large extent. The EBITDA result of EUR (0.5) million reflects an improvement of 92 percent compared with last year's first quarter of EUR (5.7) million. Net loss for the first three months of 2006 also diminished substantially by 75 percent to EUR (2.0) million (vs. EUR (8.1) million in Q1/2005).

The positive direction of our financial results is also backed by product development and new trend-setting products coming out of the LYCOS Europe laboratories. The best example for this is the launch of our new search engine LYCOS iQ in the first quarter of the current year. Within only two and a half months LYCOS Europe launched this "human search engine" in five European countries. The launch of LYCOS iQ, which has already been awarded with the "German Innovation Award" by the German Association of Mid-Sized Businesses stands as a synonym for our new product development claims. Our product strategy clearly aims at differentiation whilst coming up with new ideas, features and products more rapidly than before. LYCOS Europe's intention to participate in "Quaero" will open up a new opportunity in an even broader European context. The "Quaero" program was initiated by the French and German government in order to develop a completely new search technology which is multimedia-based and multilingual.

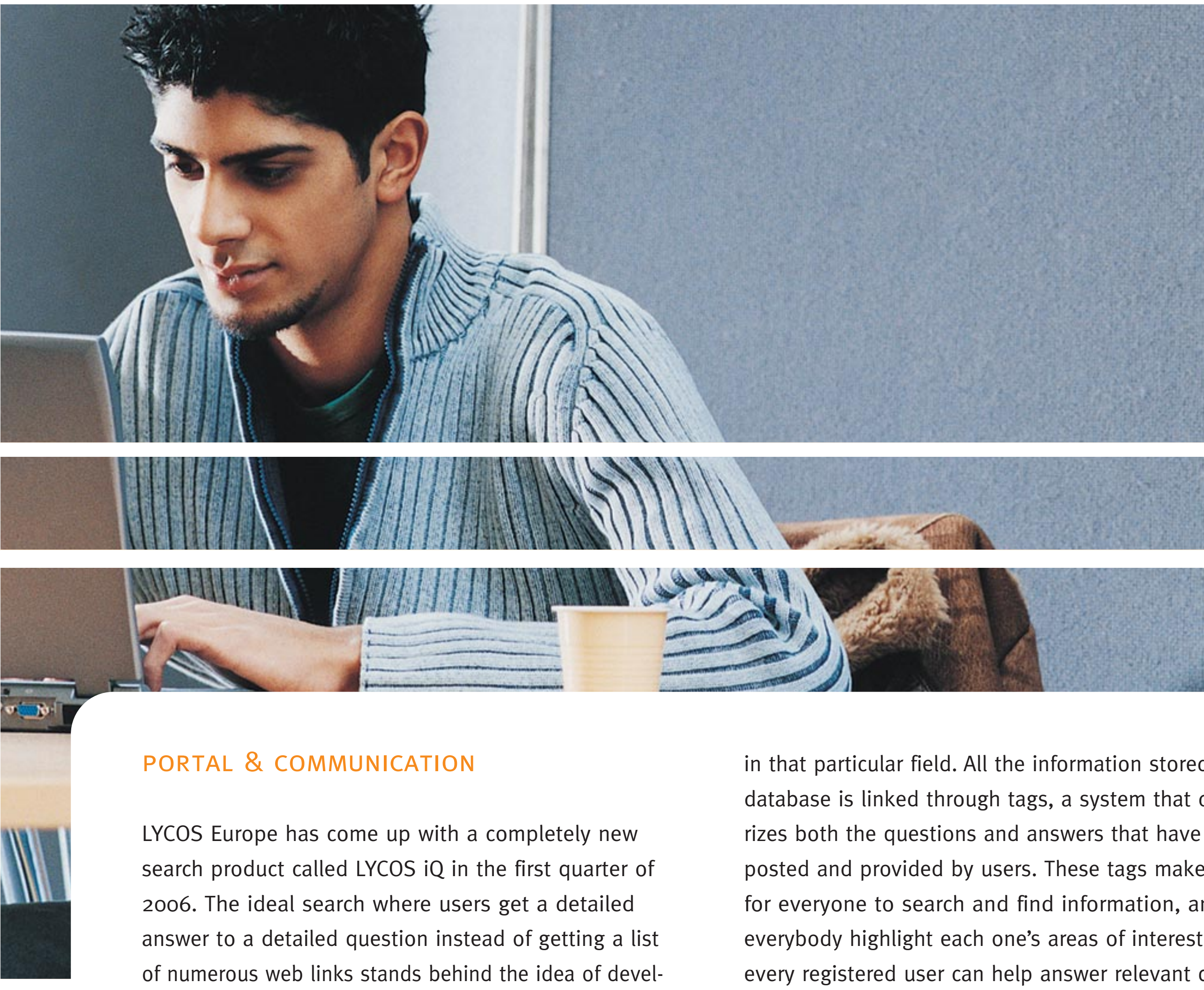
I am confident that we will set this pace and innovative strength not only within our product development but within all other areas of our organization. Be it in the sales business with new advertising solutions and new co-operation partners; be it in our marketing activities with new effective means to promote our products; be it in our communications to transport the new products and set-up to a wider public; be it within our portals with highly interesting contents; be it on the customer care side with a much enhanced service to our users and customers.

This will be accompanied by an ongoing improvement of our financial situation so that the company as a whole will create more value to our shareholders, customers and employees of LYCOS Europe.

C. Mohn

Christoph Mohn
Chief Executive Officer

2 // OVERVIEW



PORTAL & COMMUNICATION

LYCOS Europe has come up with a completely new search product called LYCOS iQ in the first quarter of 2006. The ideal search where users get a detailed answer to a detailed question instead of getting a list of numerous web links stands behind the idea of developing LYCOS iQ. Described as a "human search engine", it lets web users pose questions directly to the LYCOS community. Answers are then suggested from a database of saved responses, from relevant bookmarks to other sites that are stored in the LYCOS iQ database or, most helpfully, by other individuals who have expertise in that particular field. All the information stored in the database is linked through tags, a system that categorizes both the questions and answers that have been posted and provided by users. These tags make it easy for everyone to search and find information, and let everybody highlight each one's areas of interest so that every registered user can help answer relevant queries. LYCOS iQ is free to access. It is not needed to become a LYCOS Europe member to use it, although a user needs to be registered in order to answer questions. Users are ranked according to the quality and quantity of the answers they provide, as well as the bookmarks they add to the database, with the ranking system "ExpertRank" ranging from “student” to “Einstein”. This combination of a question and answers tool, a link library and a community tool is unique on the web and leads to a highly differentiated search experience compared to classical searches based purely on mathematical algorithms. LYCOS iQ was launched in Germany (http://iq.lycos.de”), the UK (http://iq.lycos.co.uk), France (http://iq.lycos.fr), Sweden (http://iq.spray.se) and Denmark (http://iq.jubii.dk) and has led to an increased usage of the LYCOS search. In Germany, LYCOS iQ was already awarded with the “German Innovation Award” of the German Association of Mid-Sized Businesses.

Shortly after the first introduction of LYCOS iQ in Germany, LYCOS Europe’s search engine “Fireball” (www.fireball.de) experienced a completely new look and feel. Fireball is one of the most renowned German search engines. It now offers highly relevant search results combined with a dynamic but minimalistic design, also integrating the LYCOS iQ answers as well as yellow pages services in co-operation with “GoYellow”.

LYCOS DSL in Germany started a completely new Internet telephony service in March 2006. For a very attractive and competitive flat fee of EUR 9.95 per month LYCOS broadband access customers are now able to make their private or business phone calls via their Internet connection lines instead of fix telephony ones. Within the launch period, more than 50 percent of all new LYCOS DSL subscribers also chose LYCOS Internet telephony as their preferred telephony solution. The Swedish access business of LYCOS Europe still faces high market pressure with price reductions, churn of narrowband customers and a market consolidation in general. In order to increase the growth of the access user base especially and reduce the narrowband churn direct marketing activities are intensified.

The LYCOS WiFi Sniffer, a freeware software for the detection of Internet access hotspots just on-the-go via the users’ own laptops, now covers around 10,000 hotspots in Germany. The Spanish version of the LYCOS WiFi Sniffer had been launched in 2005 – and was now rewarded as one of the most innovative inventions of the year by the renowned Spanish quality magazine “Actualidad Economica” in March 2006.

COMMUNITIES

The LYCOS Chat, with its lively virtual community of about 5 million registered members Europe’s biggest and most modern web chat facility, was technically migrated onto a new enhanced platform during the course of the first quarter of 2006. Due to higher demands for scalability following the intensified white labelling of the LYCOS Chat, the back end solution was migrated to a new technical platform solution in the course of the fourth quarter of 2005 and first quarter of 2006. The new solution which has no effect to the users’ front end offers more flexibility when it comes to integrating new business partners to the LYCOS Chat. Since February 2006 the German T-Online Chat is integrated onto the new LYCOS Chat platform, following Yahoo! Europe as a licensee of the LYCOS chat in all of the European Yahoo! destinations. T-Online is Germany's biggest portal with more than 14 million unique users per month.

Together with the international child protection organisation "Innocence in Danger" LYCOS Europe launched the German information portal www.sicher-chatten.de in March 2006. This site offers detailed information about chat security and targets both children as well as parents. LYCOS Europe is a close partner of "Innocence in Danger" since 2005, both partners are constantly working together on improved child protection measures especially within web chats.

HOSTING & DOMAIN NAMES

There were two main events in the first three months of 2006 that the business unit Hosting & Domain Names focussed on: On the one hand there was the international launch of the LYCOS eShops and on the other hand there was the preparation for the so-called "land rush period" of new European .EU domain with its foregoing sunrise period.

Whilst the LYCOS eShops have developed successfully in Germany already this online shopping service has also been released in the UK, France, the Netherlands and Sweden at the beginning of 2006. As well in the media as from the customers the LYCOS eShops have received very positive feedback so far. LYCOS eShops offer easy-to-use templates that support users to get their personal online shop started just in minutes – and customers do not even need to know about HTML programming to set up an online shop.

In the preparation of the "land rush period" of the new .EU domain ending LYCOS Europe focussed on taking advantage of the long lasting in-house domain expertise as well as evaluating the right strategy to be able to convert as many .EU domain applications as possible. LYCOS Europe's business unit Hosting & Domain Names and LYCOS Europe's one hundred percent subsidiary united-domains AG were closely working together on making this unique market expansion a success for the company. united-domains is one of 1,600 official domain registrars at the launch of .EU and has proven to be a trustworthy and professional domain expert especially for businesses with a huge need not only for domain names but also on consultancy. Since last year united-domains has been very active in informing and advising business as well as private customers in terms of .EU registrations.

The distribution of LYCOS Web Hosting, LYCOS Premium Mail and LYCOS DSL products has been supported by the LYCOS Partnershops, the reseller programme of LYCOS Europe, since 2004. Thanks to a new partnership with telecommunication company Talkline, German resellers of LYCOS Europe products are also capable for selling mobile phones and telephony contracts since the beginning of 2006. Therefore an online Talkline-Shop was integrated into the existing LYCOS Partnershops.

SHOPPING

LYCOS Europe's one hundred percent subsidiary Pangora, an internationally leading supplier for product search solutions, came up with a new product and price comparison solutions for German publisher Axel Springer AG in January 2006. Shortly after these services went live on the online portals of the quality papers "Die Welt" (www.welt.de) and "Welt am Sonntag" (www.welt-am-sonntag.de) a new shopping marketplace for the daily newspaper "Berliner Morgenpost" (www.morgenpost.de) was launched. This service helps online users with profound information for around 2.5 million products from around 1,000 online shops. In total the Pangora search engine bundles around 10,500 product categories and makes the complete retailer portfolio searchable and comparable. The partnership with "Die Welt, "Welt am Sonntag" and "Berliner Morgenpost" lead to an extension of Pangora's leading market position in Germany.

LYCOS Europe's price comparison portal eVITA (www.evita.de) which was also developed by Pangora introduced a lucrative affiliate program for professional and semi professional external webmasters in the first quarter of 2006. eVITA provides co-operating website owners with dynamic advertising formats as well as xml feeds besides classic banners and text links. Distribution partners are being rewarded with a provision ranging from eight to 15 Eurocents per user whenever they achive to move an Internet user via eVITA to an online shop.

The LYCOS Shopping channel experienced a complete relaunch in February 2006. Additional services such as user opinions, test reports, top ten product rankings and many more were integrated to help the users to easily find their way to the most relevant product. Users themselves can now comment on each of the about 2.7 million searchable products and by this help others to find the best offers.

3 // FINANCIAL RESULTS

The following financial information is presented on a pro forma basis following the requirements of the Company's previous GAAP. This should allow a better understanding of the current financial performance. In comparison to the presentation required according to IFRS, extraordinary items, e.g. restructuring costs are excluded from the functions and are presented in a separate line item.

In thousand Euro	**Three months ended March 31, 2006** (unaudited)	**Three months ended March 31, 2005** (unaudited)
Advertising	8,614	8,686
Paid services and shopping	11,493	10,083
Interconnect	9,685	10,907
Licensing and other	75	334
Total revenues	**29,867**	**30,010**
Pro forma cost of revenues	(15,165)	(14,791)
Pro forma gross profit	**14,702**	**15,219**
Sales and marketing expenses	(6,400)	(7,927)
General and administration expenses	(6,486)	(8,082)
Research and development expenses	(4,228)	(5,396)
Other income	317	173
Restructuring charges	145	(1,784)
Amortization of intangibles	(640)	(790)
Total operating expenses	**(17,292)**	**(23,806)**
Loss from operations	**(2,590)**	**(8,587)**
Net loss for the period	**(2,032)**	**(8,069)**

Revenues
Revenues from paid services and shopping showed good growth rates and mirrored LYCOS Europe's enhanced efforts to extend its paid services offer. Paid services and shopping contributed 38 percent and Interconnect 32 percent to LYCOS Europe's total revenues in the three months ended March 31, 2006.

Amounting to EUR 29.9 million for the three months ended March 31, 2006, LYCOS Europe's revenues remained stable compared to the three months ended March 31, 2005.

Advertising revenues for the three months ended March 31, 2006, decreased by 1 percent compared to the three months ended March 31, 2005.

Paid services and shopping for the three months ended March 31, 2006, increased by 14 percent compared to the three months ended March 31, 2005. The increase of paid services and shopping is the result of the continuous growth in existing products.

Interconnect revenues for the three months ended March 31, 2006, decreased by 11 percent compared to the three months ended March 31, 2005, which is mainly driven by the overall decreased usage of narrowband products and a major price drop in the access market.

Barter revenues represented less than 5 percent of net group revenues during those periods.

Cost of Revenues
Cost of revenues increased from EUR 14.8 million for the three months ended March 31, 2005, to EUR 15.2 million for the three months ended March 31, 2006.

Sales and Marketing
Sales and marketing expenses amounted to EUR 6.4 million for the three months ended March 31, 2006, which is a decrease of 19 percent compared to sales and marketing expenses of EUR 7.9 million for the three months ended March 31, 2005.

General and Administrative
General and administrative expenses decreased from EUR 8.1 million for the three months ended March 31, 2005 to EUR 6.5 million for the three months ended March 31, 2006.

Research and Development
Cost incurred for research and product development amounted to EUR 4.3 million for the three months ended March 31, 2006, compared to EUR 5.4 million for the three months ended March 31, 2005. This decrease of 22 percent is primarily due to the cost reduction program of LYCOS Europe.

Amortization of Intangibles
Amortization expenses amounting to EUR 0.6 million for the three months ended March 31, 2006 are mainly related to amortization of intangible assets excluding goodwill identified in the purchase price accounting of united-domains AG, Pangora SAS and Spray Telecom Network AB.

EBITDA
EBITDA is not a measure recognized by IFRS. This and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the unique situations of those companies. See page 28 for LYCOS Europe's definition of the EBITDA result.

The EBITDA result amounted to EUR (0.5) million for the three months ended March 31, 2006, which is an improvement of 92 percent compared to the three months ended March 31, 2005 (EUR (5.7) million).

Financing
The total amount for cash and cash equivalents, short-term and long-term deposits decreased from EUR 105.1 million on December 31, 2005, to EUR 93.7 million on March 31, 2006. During the period ended March 31, 2006, LYCOS Europe used EUR 7.7 million cash in operating activities; a significant amount thereof was related to prepayments for the .EU registration process. In addition, during the period ended March 31, 2006, an amount of EUR 0.8 million was used for the acquisition of long-term assets.

LYCOS Europe focuses on reducing its operating losses and will continue to do so, expecting no additional funding requirement until becoming cash-flow positive.

4 // THE SHARE

Shareholder Structure
LYCOS Europe's legal shareholder structure as at March 31, 2006, is as follows: LE Holding Corp. (32.1%), Bertelsmann Internet Holding GmbH / Fireball Internet GmbH / Jahr Vermögensverwaltungs GmbH & Co. KG (20.0%), Christoph Mohn Internet Holding GmbH (12.1%), LYCOS Europe N.V. [shares held as treasury shares] (0.2%), and Free Float (35.6%).

As at March 31, 2006, the total number of shares outstanding is 311,576,344, excluding the treasury shares.

Stock Price Performance
LYCOS Europe's share price faced a non satisfying development in the course of the first three months of 2006. The share price dropped by 3.5 percent from EUR 1.13 (Frankfurt Stock Exchange, opening price January 2, 2006) to EUR 1.08 (Frankfurt Stock Exchange, closing price March 31, 2006) and therefore could not compete with the Technology All Share Index which rose by 21.7 percent in the same period.

LYCOS Europe's Stock Price Performance Compared to Technology All Share Index

5 // EMPLOYEES

LYCOS Europe had 658 employees at March 31, 2006 compared to 688 employees at December 31, 2005.

6 // OUTLOOK

LYCOS Europe's financial results of the second quarter of 2006 will to a large extent be influenced by the pan-European introduction of the new .EU domains beginning April 7, 2006. LYCOS Europe has prepared all the appropriate tools in order to convert as many applications into registrations as possible. The first internal projections sound very optimistic. With an allocation quota of more than 60 percent in the first days of the so-called "land rush period" and more than 100 thousand registered .EU domains the expected rates within the LYCOS Europe domain network exceeded the internal assumptions to a large extent. Furthermore, the shopping business of LYCOS Europe will show an improved development in the coming quarter due to new partnerships and enhanced products. Yet, the Company does not see significant improvements for the access business in Sweden so that churn rates in the narrowband customer base and an ongoing pressure on access tariffs will still negatively impact the second quarter 2006. The management is confident, that these negative effects will be compensated by the above mentioned positive developments in the domain and in the shopping business.

Haarlem, The Netherlands
April 24, 2006

Christoph Mohn
Chief Executive Officer

LYCOS EUROPE N.V. // UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (IFRS)

FOR THE PERIOD ENDED MARCH 31, 2006

LYCOS EUROPE N.V. // UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

In thousand Euro	Notes	March 31, 2006	December 31, 2005
Assets			
Property, plant and equipment	3	3,397	3,820
Goodwill	4,5	14,231	14,255
Other intangible assets	5	12,844	13,797
Deferred tax assets	6	180	184
Other investments	7	9,950	9,939
Other non-current assets		2,005	2,081
Total non-current assets		**42,607**	**44,076**
Cash and cash equivalents	7	56,973	65,695
Other investments	7	26,748	29,480
Accounts receivable	8,9	15,852	17,154
Prepaid expenses and other current assets	8	18,237	15,322
Total current assets		**117,810**	**127,651**
Total assets		**160,417**	**171,727**
Shareholders' equity and liabilities			
Class AA registered shares		620	620
Class AB registered shares		620	620
Class B ordinary bearer shares		1,883	1,883
Share premium		1,589,712	1,589,584
Legal reserves		2,305	2,433
Treasury shares		(2,052)	(2,052)
Translation reserve		491	578
Accumulated deficit		(1,469,330)	(1,467,298)
Total shareholders' equity	10	**124,249**	**126,368**
Deferred revenue		1,520	1,878
Deferred tax liabilities	6	810	908
Provisions		87	87
Total non-current liabilities		**2,417**	**2,873**
Short-term debt		0	2,940
Accounts payable	9	6,925	9,994
Restructuring provision		1,438	1,939
Other short-term liabilities	12	18,609	21,634
Deferred revenue		6,779	5,979
Total current liabilities		**33,751**	**42,486**
Total liabilities		**36,168**	**45,359**
Total shareholders' equity and liabilities		**160,417**	**171,727**

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

In thousand Euro (except share data)	Notes	Three months ended March 31, 2006	Three months ended March 31, 2005
Advertising		8,614	8,686
Paid services and shopping		11,493	10,083
Interconnect		9,685	10,907
Licensing and other		75	334
Total revenues		**29,867**	**30,010**
Cost of revenues		(15,165)	(15,396)
Gross profit		**14,702**	**14,614**
Gross profit before highlighted items		**14,702**	**15,219**
Restructuring		0	(605)
Gross profit		**14,702**	**14,614**
Other operating expenses	14	(17,609)	(23,374)
Other operating income		317	173
Loss from operations		**(2,590)**	**(8,587)**
Loss from operations before highlighted items		**(2,095)**	**(6,618)**
Restructuring		145	(1,179)
Other amortization		(640)	(790)
Loss from operations		**(2,590)**	**(8,587)**
Interest income		628	916
Interest expense		(29)	(15)
Other financing income / expense		(105)	(265)
Net financing income		**494**	**636**
Loss before tax		**(2,096)**	**(7,951)**
Income tax		64	(118)
Net loss for the period		**(2,032)**	**(8,069)**
Basic / diluted loss per share (Euro)	15	(0.01)	(0.03)
Weighted average number of shares outstanding		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 thousand Euro	Notes	Three months ended March 31, 2006	Three months ended March 31, 2005
Cash flows from operating activities			
Loss before tax		(2,096)	(7,951)
Adjustments for:			
Depreciation and amortization		2,136	2,934
Interest income, net		(599)	(901)
Other non cash movements		157	600
Decrease in accounts receivable		1,151	580
Increase in prepaid expenses and other current assets		(2,999)	(521)
Decrease in prepaid expenses and other non-current assets		45	512
Decrease in accounts payable		(2,925)	(1,264)
Decrease in accrued expenses and other current liabilities		(3,198)	(1,445)
Increase in deferred revenue		449	1,756
Decrease in other non-current liabilities		(95)	(600)
Interest received		543	478
Income tax paid		(219)	(6)
Net cash used in operating activities		**(7,650)**	**(5,828)**
Cash flows from investing activities			
Purchases of property, plant & equipment and other intangible assets		(809)	(958)
Net change in short- and long-term deposits		2,697	26,488
Payments for acquisitions, net of cash acquired		0	0
Net cash provided in investing activities		**1,888**	**25,530**
Cash flows from financing activities			
Net change in short-term debt		(2,940)	(71)
Net cash provided / (used) in financing activities		**(2,940)**	**(71)**
Effect of exchange rate changes on cash and cash equivalents		(20)	61
Increase / (decrease) in cash and cash equivalents		**(8,722)**	**19,692**
Cash and cash equivalents, beginning of the period		65,695	72,075
Cash and cash equivalents, end of the period	7	**56,973**	**91,767**

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 thousand Euro (except share data)	Notes	Class AA shares No. of shares	Class AA shares €	Class AB shares No. of shares	Class AB shares €	Class B shares No. of shares	Class B shares €
Balance as at December 31, 2004		**62,000,000**	**620**	**62,000,000**	**620**	**188,300,000**	**1,883**
Movement capitalized development expenses							
Translation gain							
Net loss							
Balance as at March 31, 2005		**62,000,000**	**620**	**62,000,000**	**620**	**188,300,000**	**1,883**
Movement capitalized development expenses							
Translation gain							
Net loss							
Balance as at December 31, 2005		**62,000,000**	**620**	**62,000,000**	**620**	**188,300,000**	**1,883**
Movement capitalized development expenses							
Translation gain							
Net loss							
Balance as at March 31, 2006	10	**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	Accumulated deficit	Translation reserve and accumulated deficit	Total
		No. of shares					
€	€		€	€	€	€	€
1,589,057	**2,960**	**(723,656)**	**(2,052)**	**172**	**(1,447,062)**	**(1,446,890)**	**146,198**
67	(67)					0	0
				261		261	261
					(8,069)	(8,069)	(8,069)
1,589,124	**2,893**	**(723,656)**	**(2,052)**	**433**	**(1,455,131)**	**(1,454,698)**	**138,390**
460	(460)					0	0
				145		145	145
					(12,167)	(12,167)	(12,167)
1,589,584	**2,433**	**(723,656)**	**(2,052)**	**578**	**(1,467,298)**	**(1,466,720)**	**126,368**
128	(128)					0	0
				(87)		(87)	(87)
					(2,032)	(2,032)	(2,032)
1,589,712	**2,305**	**(723,656)**	**(2,052)**	**491**	**(1,469,330)**	**(1,468,839)**	**124,249**

LYCOS EUROPE N.V. NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 a pan-European network of websites in eight languages. The Company's combination of portal & communication, communities, hosting & domain names, and shopping addresses a wide range of target groups. 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 unaudited condensed consolidated interim financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. These unaudited condensed consolidated interim financial statements were authorized by the management board of the Company on April 24, 2006.

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 IFRS consolidated financial statements for the year ended December 31, 2005. LYCOS Europe's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as required 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).

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 ended December 31, 2005.

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. The secondary segment, the business segment, is based on the business unit structure of the Company. 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**		**France**		**United Kingdom**	
In thousand Euro	Three months ended Mar. 31, 2006	Three months ended Mar. 31, 2005	Three months ended Mar. 31, 2006	Three months ended Mar. 31, 2005	Three months ended Mar. 31, 2006	Three months ended Mar. 31, 2005	Three months ended Mar. 31, 2006	Three months ended Mar. 31, 2005
Revenues	11,834	12,152	11,561	11,759	2,487	2,542	1,376	965
Revenues from inter-segment transactions	4,482	5,889	669	1,882	546	3,183	150	2,173
Total revenues	**16,316**	**18,041**	**12,230**	**13,641**	**3,033**	**5,725**	**1,526**	**3,138**
Net loss for the period	**(225)**	**(4,847)**	**(168)**	**(578)**	**(399)**	**(1,950)**	**(57)**	**(298)**

	Denmark		**Other regions & Eliminations**		**Consolidated**	
In thousand Euro	Three months ended Mar. 31, 2006	Three months ended Mar. 31, 2005	Three months ended Mar. 31, 2006	Three months ended Mar. 31, 2005	Three months ended Mar. 31, 2006	Three months ended Mar. 31, 2005
Revenues	2,005	1,574	604	1,018	29,867	30,010
Revenues from inter-segment transactions	121	1,217	(5,968)	(14,344)	0	0
Total revenues	**2,126**	**2,791**	**(5,364)**	**(13,326)**	**29,867**	**30,010**
Net loss for the period	**(79)**	**(787)**	**(1,104)**	**391**	**(2,032)**	**(8,069)**

3 // PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and if applicable any impairment charge, including equipment under capital lease. They comprise of:

In thousand Euro	Computers	Furniture & Fixtures	Total
Cost			
Balance as at December 31, 2005	21,643	4,192	**25,835**
Balance as at March 31, 2006	20,925	4,184	**25,109**
Depreciation and impairment losses			
Balance as at December 31, 2005	(19,434)	(2,581)	**(22,015)**
Balance as at March 31, 2006	(19,042)	(2,670)	**(21,712)**
Carrying amounts			
Balance as at December 31, 2005	2,209	1,611	**3,820**
Balance as at March 31, 2006	**1,883**	**1,514**	**3,397**

4 // ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the acquisition of united-domains AG in 2004, LYCOS Europe N.V. agreed to pay a consideration to the sellers using a formula based upon the number of new .EU domain registrations. This consideration is recorded as other short term liability with the amount of EUR 1.2 million and is expected to be paid during the third quarter 2006. Due to exceptional performance in registered .EU domains until the preparation of these unaudited condensed consolidated interim financial statements, this consideration is expected to increase, which will be considered as soon as the final amount is agreed on.

5 // GOODWILL & OTHER 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.

LYCOS Europe will perform the annual impairment test for goodwill acquired in business combinations during the second quarter 2006.

In thousand Euro	Goodwill	Licenses and other rights	Capitalized development expenses	Purchased software	Total
Cost					
Balance as at December 31, 2005	14,255	57,742	8,783	3,715	**84,495**
Balance as at March 31, 2006	14,231	57,307	9,054	4,725	**85,317**
Amortization and impairment losses					
Balance as at December 31, 2005	0	(47,481)	(6,350)	(2,612)	**(56,443)**
Balance as at March 31, 2006	0	(47,787)	(6,749)	(3,706)	**(58,242)**
Carrying amounts					
Balance as at December 31, 2005	14,255	10,261	2,433	1,103	**28,052**
Balance as at March 31, 2006	**14,231**	**9,520**	**2,305**	**1,019**	**27,075**

Spray Telecom Network AB was acquired by Spray Network AB, a Swedish subsidiary of LYCOS Europe N.V. Goodwill accounted for in the purchase price accounting is booked in the functional currency SEK of Spray Network AB. Above displayed movements of goodwill are related to exchange rate differences.

6 // INCOME TAXES

Deferred tax assets and liabilities are summarized as follows:

In thousand Euro	March 31, 2006	December 31, 2005
Deferred tax assets		
Loss carry-forwards	182,013	179,778
Property, plant and equipment	1,283	1,284
Intangible assets	5,970	8,146
Valuation allowance	(187,999)	(187,805)
Netting	(1,087)	(1,219)
Total deferred tax assets	**180**	**184**
Deferred tax liabilities		
Property, plant and equipment	137	187
Intangible assets	1,760	1,940
Netting	(1,087)	(1,219)
Total deferred tax liabilities	**810**	**908**

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. On March 31, 2006, and December 31, 2005, the Company's operating tax loss carry forwards amount to approximately EUR 533.1 million and EUR 525.8 million, respectively. On March 31, 2006 an amount of EUR 68.5 million thereof is restricted in use until 2009. Substantially all of the loss carry forwards have an indefinite life.

7 // 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 three months and other investments consist of bonds and deposits.

An amount of EUR 9.5 million and EUR 12.3 million is restricted in use as at March 31, 2006, and December 31, 2005, respectively. An amount of EUR 4.8 million of the restricted cash is non-current as at March 31, 2006, and December 31, 2005, respectively.

8 // TRADE AND OTHER RECEIVABLES

Trade and other receivables are made up of the following:

In thousand Euro	**March 31, 2006**	**December 31, 2005**
Accounts receivables	15,852	17,154
VAT receivable	377	312
Rent deposits and prepayments	492	624
Prepaid expenses current	3,446	4,084
Accrued income	6,875	8,223
Other short-term receivables	7,047	2,079
Total	**34,089**	**32,476**

9 // RELATED PARTY TRANSACTIONS

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

The LYCOS tradename is being licensed from a third party by LYCOS, Inc. Following the disposal of LYCOS, Inc. by Terra Networks SA (merged with Telefónica SA), LYCOS Europe N.V. is currently in negotiations as it relates to the licensing of the LYCOS tradename.

10 // SHAREHOLDERS' EQUITY

The Class AA shares have a par value of EUR 0.01. Of the 250,000,000 shares authorized, 62,000,000 are issued and outstanding on March 31, 2006, and December 31, 2005. These shares are owned by the LE Holding Corp., a company fully owned by Telefónica SA.

The Class AB shares have a par value of EUR 0.01. Of the 250,000,000 shares authorized, 62,000,000 are issued and outstanding on March 31, 2006, and December 31, 2005. These shares are owned by Bertelsmann Internet Holding GmbH (24,347,400), Fireball Internet GmbH (14,260,000) and Christoph Mohn Internet Holding GmbH (23,392,600).

The Class B shares have a par value of EUR 0.01. Of the 500,000,000 shares authorized, 188,300,000 are issued on March 31, 2006, and December 31, 2005, respectively, and 187,576,344 are outstanding on March 31, 2006, and December 31, 2005, respectively.

The Company's equity is presented in detail in the unaudited condensed consolidated interim statements of shareholders' equity.

11 // SHARE BASED PAYMENTS

In fiscal year 2000, the Company approved a stock option plan ("the Plan"). Under the terms of the Plan, the Company may grant up to 10 million options to purchase shares of the Company. Options are generally granted for a period of eight years.

These options were granted to the employees as an additional incentive to the usual salary payments. Intention of the management was to achieve a higher identification of the employees with the Company.

Options exercisable are equal to options outstanding. Vesting is not restricted on March 31, 2006.

	Options outstanding		
Range of exercise prices (in EUR)	**Number of outstanding options as of March 31, 2006**	**Weighted average remaining contractual life (in years)**	**Weighted average exercise price per share**
0.00 – 2.50	102,100	3.0	1.83
2.50 – 7.50	341,850	2.7	6.16
7.50 – 17.50	146,000	2.2	15.90
17.50 – 30.00	242,200	1.6	28.80

12 // OTHER SHORT-TERM LIABILITIES

Other short-term liabilities comprise of:

In thousand Euro	March 31, 2006	December 31, 2005
Accrual for salary and salary related cost	2,644	2,636
Accrual for marketing cost	2,158	4,798
Accrual for professional services	984	919
Other accrued expenses	7,892	7,879
Other current liabilities	4,931	5,402
Accrued expenses and other current liabilities	**18,609**	**21,634**

13 // CONTINGENCIES & COMMITMENTS

Minimum Lease and Rental Payments

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

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

In thousand Euro	
Due within 2006	2,496
Due after 2006 until 2011	8,659
Due after 2011	1,982
Total	**13,137**

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.

14 // OTHER OPERATING EXPENSES

Other operating expenses comprise of:

	Three months ended March 31, 2006			
In thousand Euro	Ordinary Expenses	Restructuring	Other amortization	Total
Sales and marketing	(6,400)	0	(344)	**(6,744)**
General and administrative	(6,486)	(21)	(296)	**(6,803)**
Research and development	(4,228)	166	0	**(4,062)**
Total	**(17,114)**	**145**	**(640)**	**(17,609)**

	Three months ended March 31, 2005			
In thousand Euro	Ordinary Expenses	Restructuring	Other amortization	Total
Sales and marketing	(7,927)	(302)	(444)	**(8,673)**
General and administrative	(8,082)	(274)	(296)	**(8,652)**
Research and development	(5,396)	(603)	(50)	**(6,049)**
Total	**(21,405)**	**(1,179)**	**(790)**	**(23,374)**

15 // LOSS PER SHARE

Basic net loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net loss per share is similar to basic net loss per share except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares resulting from options and other potentially dilutive instruments had been issued. Because of the net losses for all periods presented, the inclusion of options in the calculation of weighted average common shares is anti-dilutive and therefore, there is no difference between basic and diluted earning per share.

	Three months ended March 31, 2006	Three months ended March 31, 2005
Basic / diluted net loss (in thousand Euro)	(2,032)	(8,069)
Weighted average shares	311,576,344	311,576,344
Net loss per share basic and diluted	**(0.01)**	**(0.03)**

QUARTERLY FINANCIAL INFORMATION

(unaudited)

In thousand Euro (except per share data)	Quarter ended March 31, 2004	Quarter ended June 30, 2004	Quarter ended September 30, 2004	Quarter ended December 31, 2004
Revenues	23,790	23,856	22,838	33,292
Operating loss	(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 Euro	(0.04)	(0.05)	(0.03)	(0.03)
EBITDA(1)	(9,645)	(11,928)	(7,169)	(5,485)

In thousand Euro (except per share data)	Quarter ended March 31, 2005	Quarter ended June 30, 2005	Quarter ended September 30, 2005	Quarter ended December 31, 2005
Revenues	30,010	31,479	31,736	32,239
Operating loss	(8,587)	(8,657)	(2,919)	(2,491)
Net loss	(8,069)	(8,390)	(2,047)	(1,730)
Net loss per share basic and diluted in Euro	(0.03)	(0.03)	(0.01)	(0.01)
EBITDA(1)	(5,653)	(6,086)	(514)	(28)

In thousand Euro (except per share data)	Quarter ended March 31, 2006
Revenues	29,867
Operating loss	(2,590)
Net loss	(2,032)
Net loss per share basic and diluted in Euro	(0.01)
EBITDA(1)	(454)

(1) EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization, which is calculated by excluding the depreciation and amortization from the Company's operating loss. The Company considers EBITDA an important indicator of the performance of its business including the ability to provide cash flows to fund capital expenditures. EBITDA, however, should not be considered an alternative to operating result or net result as an indicator of the performance of the Company, or as an alternative to cash flows provided by (used in) operating activities as a measure of liquidity, in each case determined in accordance with International Financial Reporting standards (IFRS).

LYCOS Europe N.V.
Richard Holkade 36
2033 PZ Haarlem
The Netherlands

Concept & Production
LYCOS Europe, Corporate Communications

Financial Information
LYCOS Europe, Corporate Controlling

Investor Relations
Phone: +49 (0)52 41 / 80 7 10 00
Fax: +49 (0)52 41 / 80 67 10 55
E-mail: investor.relations@lycos-europe.com
Web: www.lycos-europe.com

The interim report for the period ended March 31, 2006, is also available in German and French. In case of doubt, the English version is decisive.