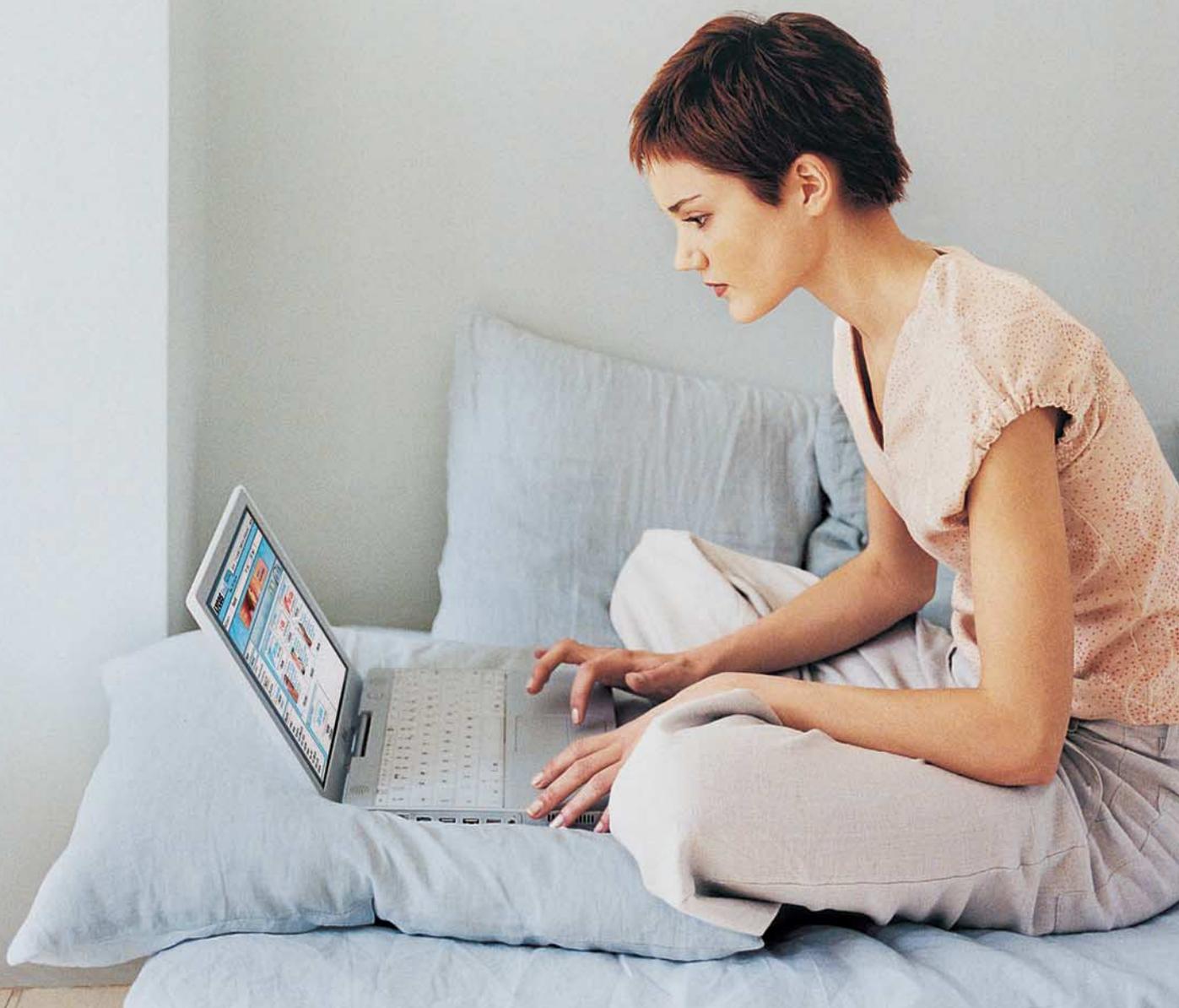


LYCOS EUROPE N.V. // INTERIM REPORT (IFRS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

LYCOS

meet you there



KEY FIGURES

| First nine months 2006 and 2005 | Nine months ended September 30, 2006 (unaudited) | Nine months ended September 30, 2005 (unaudited/ restated⁽¹⁾) | Change |
|---|---|---|---------------|
| In million Euro (except per share data, change and gross margin) | | | |
| Total revenues | 59.0 | 58.3 | 1% |
| Pro forma gross profit ⁽²⁾ | 37.7 | 36.4 | 3% |
| Pro forma gross margin ⁽²⁾ | 64% | 62% | 3% |
| Loss from operations | (7.9) | (18.5) | 57% |
| Net profit/(net loss) | 6.9 | (18.5) | 137% |
| Net profit/(net loss) per share in Euro | 0.02 | (0.06) | 137% |
| EBITDA ⁽³⁾ | (3.4) | (12.0) | 71% |

| Third quarter 2006 and 2005 | Three months ended September 30, 2006 (unaudited) | Three months ended September 30, 2005 (unaudited/ restated⁽¹⁾) | Change |
|---|--|--|---------------|
| In million Euro (except per share data, change and gross margin) | | | |
| Total revenues | 17.4 | 20.0 | (13)% |
| Pro forma gross profit ⁽²⁾ | 10.9 | 13.3 | (18)% |
| Pro forma gross margin ⁽²⁾ | 63% | 66% | (5)% |
| Loss from operations | (4.9) | (1.5) | (219)% |
| Net profit/(net loss) | 9.1 | (2.0) | 547% |
| Net profit/(net loss) per share in Euro | 0.03 | (0.01) | 547% |
| EBITDA ⁽³⁾ | (3.4) | 0.4 | (924)% |

| | September 30, 2006 (unaudited) | September 30, 2005 (unaudited) | Change |
|---|---|---|---------------|
| Number of employees | 663 | 733 | (10)% |
| Cash, cash equivalents and other investments in million Euro | 110.6 | 108.0 | 2% |

(1) Please refer also to the explanations on the financial results, which are displayed on page 10

(2) Gross profit/gross margin excluding restructuring costs

(3) Please refer also to the explanatory notes on the key figures, which are displayed on page 33

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,

In the third quarter of 2006 LYCOS Europe has for the first time achieved a positive net result of EUR 9.1 million which is mainly due to the successful sale of our Swedish portal business of our subsidiary Spray Network AB including a positive one time profit effect of around EUR 14.8 million. LYCOS Europe has achieved a net profit of EUR 6.9 million in the first nine months of 2006, which stands for a growth of 137 percent compared with the first nine months of 2005 of EUR (18.5) million.

Since we intend to divest the Spray access business as well, we have restated the financial statements in line with International Financial Reporting Standards (IFRS). The Swedish portal and access business are in this context classified as discontinued operations. We therefore report an EBIT excluding discontinued operations of EUR (7.9) million vs. EUR (18.5) million in the first nine months 2005, which is an improvement of 57 percent. EBITDA excluding discontinued operations gained 71 percent to EUR (3.4) million in the reporting period 2006 vs. EUR (12.0) million in the first nine months of 2005. Total revenues excluding discontinued operations slightly increased by one percent to EUR 59.0 million (vs. EUR 58.3 million in last year's corresponding period). The gross margin also excluding discontinued operations amounted to an impressive 64 percent, compared to 62 percent last year.

Mainly due to higher consultancy costs in the context of our accelerated merger and acquisition activities as a one time effect as well as due to revenues below expectations caused partly by a weak summer season, LYCOS Europe's operative results for the third quarter of 2006 did not meet our expectations. With a focussed business set-up concentrated on paid services & shopping as well as on online advertising, with numerous new services in the portal area like new Travel and Fashion searches, with a further integration of LYCOS iQ into our general online search as well as sales agreements such as with the largest movie database in the world, the Internet Movie Database (IMDb), we are confident to be able to improve these results in the following months and to deliver a full financial year 2006 with a positive net result.

Following this goal our strategy to focus on profitable growth especially in the paid services & shopping area LYCOS Europe clearly accelerated its activities in the field of mergers and acquisitions in the past months. This led to the sale of the portal business of Spray in Sweden to Aller Svenska AB and to the acquisition of mentasys GmbH in Germany, which is still subject to approval of the German Antitrust Authority.

As aforementioned the sale of the Spray portal area for around EUR 16 million (SEK 150 million) in cash had a significant positive one-time effect on LYCOS Europe's net result in the third quarter 2006 of around EUR 14.8 million. Since the agreement between LYCOS Europe and Aller Svenska AB includes the ongoing supply with diverse web services being developed by LYCOS Europe such as Spray Mail, Spray Chat, Spray Blogs, Spray Hosting and Spray Dating, we will continue to profit from the Swedish online market. In addition to the collaboration for these products both partners agreed upon a co-operation for international online advertising sales. By doing so, spray.se will still be integrated into LYCOS Europe's pan-European sales network.

The planned acquisition of the shopping solution specialist mentasys GmbH, Karlsruhe/Germany, for up to EUR 30.0 million in cash (including a variable performance-based component of up to EUR 14.0 million in the future) is an important investment in our growth strategy in the eCommerce arena.

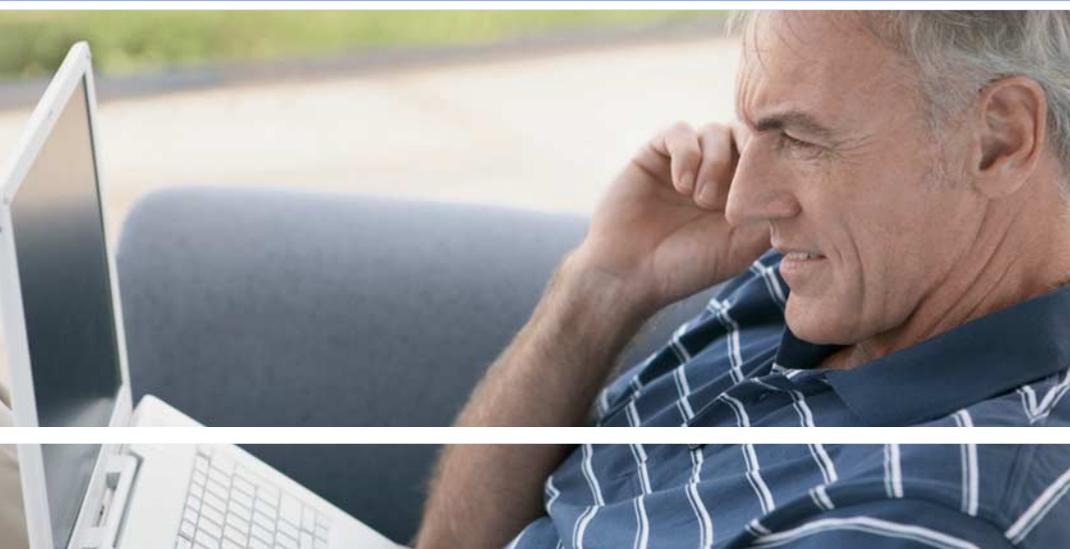
The highly awarded mentasys technology for online guided selling solutions will be combined with LYCOS Europe's existing internationally leading shopping solution provider Pangora. Once the transaction closes, LYCOS Europe will have double the eCommerce development capacities to set the pace for a higher rate of innovations. We regard this transaction not only as a perfect move to leverage our competitiveness especially against international eCommerce players but moreover to play a major role for the future development of the eCommerce industry.

The results and achievements to date indicate clearly that LYCOS Europe N.V. is on the right track to reach its goal of profitability on a net result basis for the full fiscal year 2006. With a combined strategy of organic growth with dispositions and acquisitions we set up a solid foundation for the future of LYCOS Europe.



Christoph Mohn
Chief Executive Officer

2 // OVERVIEW

**PORTAL & COMMUNICATION**

Continuing its “channel extension” approach LYCOS Europe has signed a sales agreement with the Internet Movie Database (IMDb), “Earth’s Biggest Movie Database”, for the European inventory of the IMDb web site. According to the agreement, LYCOS Europe will be the sole agent of sales for IMDb covering Germany, United Kingdom, France, Italy, Spain, the Netherlands, Denmark, Norway and Sweden. The site features cast lists, quotes, trivia, reviews, box-office data, celebrity biographies, and photographs, coverage of film festivals and major events, and streaming trailers. According to Nielsen Netratings this partnership adds about 5 million unique users monthly to the LYCOS Europe network. The total number of “channel” partners rises to 16 herewith including About.com, Map24.com and local partners in Germany, France and United Kingdom.

The successful partnership with About.com was also extended in Q3/2006. About.com, the U.S.-based online source for original consumer information and advice, is a subsidiary of The New York Times Company. According to this sales agreement that was first closed in June 2005, LYCOS Europe acts as a sales agent for the European inventory of About.com covering Germany, United Kingdom, France, Italy, Spain, the Netherlands, Denmark and Sweden. Known as one of the most-visited online consumer information resources About.com regularly attracts millions of users from Europe.

At the same time LYCOS Europe also developed several new services to increase the attractiveness of the online portal for more and more user groups. While wireless Internet access and Voice over IP telephony are a growing success, LYCOS Europe has established itself already as the European market leader in hotspot searches. The

LYCOS Wifi Service includes around 50,000 wifi hotspots in 8,000 cities in 11 European countries. Especially in Germany, United Kingdom and Spain the wifi net is much extended: around 23,000 hotspots alone are based in these three countries.

With the new LYCOS Travel Search e.g. users can now compare the flight offers of various organisers with LYCOS Shopping, and quickly find the cheapest offer. The LYCOS Travel Search is integrated into the offers of LYCOS Shopping and started with a flight search which bundles all offers from partners like Air Berlin, ebookers, Germanwings, Opodo and Weglo. In the following months, the new offer will be expanded into an extensive online travel agency with many booking possibilities. All-inclusive holidays can then be compared online just as easily as hotel offers. The LYCOS Travel Search is looked after by LYCOS Europe's subsidiary Pangora, a service provider for specialized product searches and price comparison in the Internet.

Since September, LYCOS iQ, the human search engine of LYCOS Europe, offers an intelligent toolbar which simplifies Internet searches even more. Complete questions can be put directly into the toolbar on top of the browser page and incoming answers will be signaled immediately. Search terms can be placed within LYCOS iQ or in the classical LYCOS Europe web search. At the same time users can reach their LYCOS iQ link collection directly via the toolbar and can also share it with other users.

In terms of content channels LYCOS Europe added a Women's Channel with categories like Fashion, Beauty, Love & Relationships, Food & Diets, Wellness & Fitness as well as Shopping. A special highlight in this section is the Fashion ,Who-is-Who': Portraits of famous designers, the specialties of their fashion and many of their designs can be reviewed. The new LYCOS Fashion Search, developed by Pangora, helps to find whatever women need in the next season and connects them with the right online shops. Hints for fashion outlets and industrial selling prevent the fashion victims of getting carried away with their shopping experience.

COMMUNITIES

After being updated in terms of fashion and beauty on the LYCOS portal users can follow the trend of self-portrayal on the web and test the success of their new looks directly in the new LYCOS photo voting community „Sexy like us!“. Users above 16 years can upload a short profile with up to five pictures of themselves. Other users can then rate these pictures on a scale from one to ten: hot or not? The top 5 most popular men and women are presented on the start page. Every user can decide if his photos are shown to the whole community and if he or she wants to be contacted by other users or not. After registering for the service users can directly get in touch with each other on the LYCOS Chat, have their own blog on JubiiBlog or start flirting within the services of Love@LYCOS.

The LYCOS Chat, with its lively virtual community of about 5 million registered members Europe's biggest and most modern web chat facility, continues its fight against criminality and especially child abuse on the Internet. Therefore LYCOS Chat has extended its partnership with Innocence in Danger, the international child protection movement. Together we have set up an in-depth information portal under the URL www.sicher-chatten.de for parents and children where they can learn about the do's and don'ts for chatting online.

HOSTING & DOMAIN NAMES

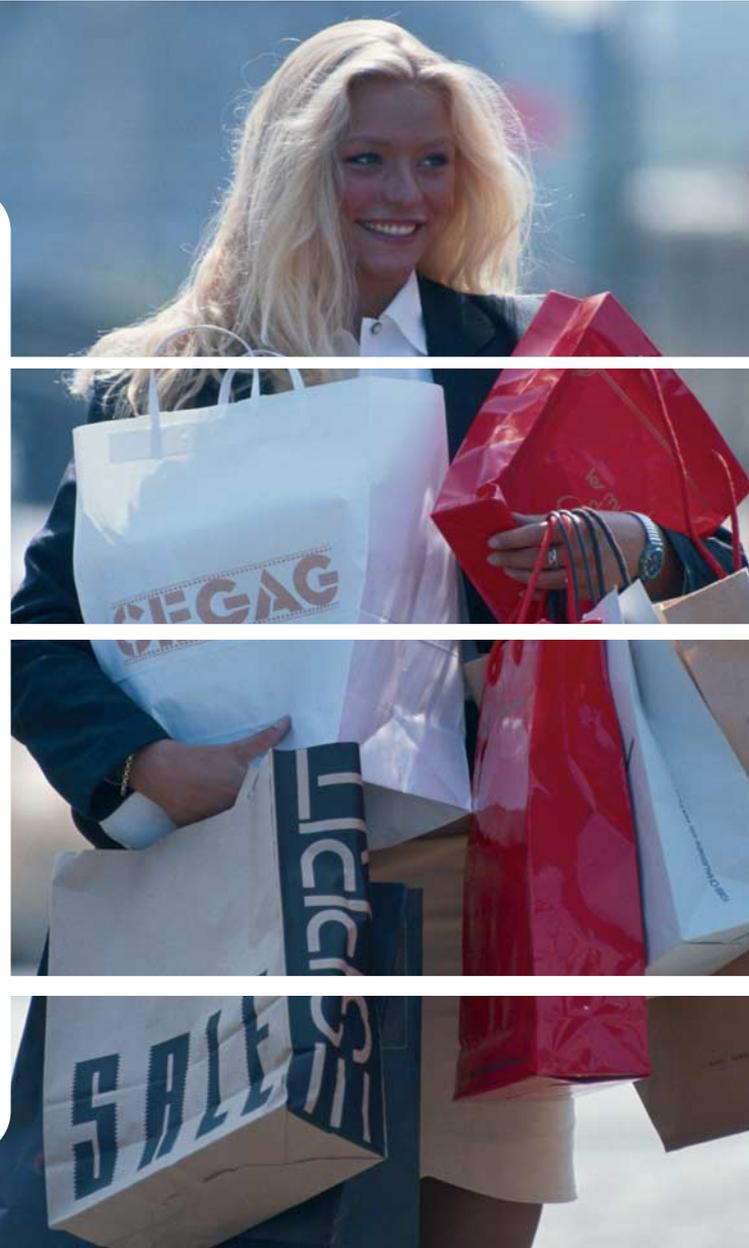
Following several focus group talks LYCOS Web Hosting has optimized its service portfolio in the third quarter of 2006. A small hosting package called Active Start has been added to the services for private users. With a personal domain name, 1,000 MB web space and a monthly bandwidth of 8 GB this package fulfils exactly the needs of private users who want to set up a little extra page or who are just starting to build their online appearance. The package contains many of the professional features that LYCOS Web Hosting is famous for, like a choice of LYCOS OneClickSite tools, a built-in email service for up to 20 accounts, php access and an easy web builder. From back-bedroom businessmen to eBay entrepreneurs and high street shops everybody can start selling on the web with LYCOS eShops, the eCommerce packages from

LYCOS Web Hosting. Without any HTML knowledge anyone can set up a nice, professional online shop within minutes. One thing though bothers online shop owners while getting started with their business: choosing the right online payment solution in terms of trust, security and costs. For its mid-sized and large eShop packages LYCOS Web Hosting has therefore integrated the PayPal payment solution in the third quarter 2006. With this well-known payment solution LYCOS eShop owners can be sure to receive their money and at the same time also offer their customers a secure and affordable payment service.

In the field of domain names LYCOS Europe's hundred percent subsidiary united-domains AG participated in the sunrise period and land rush phase of the new top level domain (TLD) ending ".mobi". While the general registration for the new TLD starts mid October 2006 united-domains already collected several thousands of pre-registrations and expects to build once more on its expertise in the launching phase of such TLDs. In the past the company has already proven to be one of the most successful players on the European market for these important domain launch phases with the very successful launches of .eu- and the so-called Umlaut-domains.

SHOPPING

On October 6, 2006, LYCOS Europe announced the acquisition of shopping solution specialist mentasys, Karlsruhe/Germany, which is subject to approval of the German Antitrust Authority. The acquisition for up to EUR 30.0 million in cash (including a variable performance-based component of up to EUR 14.0 million in the future) will be an important investment in LYCOS Europe's growth strategy in the shopping section. The highly awarded mentasys technology for online guided selling solutions will be combined with LYCOS Europe's existing international shopping solution platform Pangora. The mentasys technology was amongst others awarded with the German Innovation Award, Seal of Excellence, German Internet Prize and others. It helps price comparison sites, online shops and portal partners to significantly increase their traffic and revenues. By connecting sales networks with intelligent product advisors, mentasys is able to offer retailers, manufacturers and portal operators a powerful package of guided selling measures which will now be combined with the LYCOS Europe shopping solution portfolio.





While LYCOS Europe's hundred percent subsidiary Pangora GmbH is a specialist for shopping search technologies with its strengths in the areas of front-end technologies, sales and international business, the newly acquired mentasys brings in its expertise in backend technologies, product advisors and product data. Once the transaction closes, LYCOS Europe will have double the eCommerce development capacities to set the pace for a higher rate of innovations. LYCOS Europe regards the transaction not only as a perfect move to leverage its competitiveness especially against international eCommerce players but moreover to play a major role for the future development of the eCommerce industry.

LYCOS Europe's business unit Shopping has shown its strengths and innovativeness with numerous new developments this quarter. Besides the special searches LYCOS Fashion Search and LYCOS Travel Search for the LYCOS Shopping channel, the business unit Shopping and LYCOS Europe's subsidiary Pangora were very active in the field of international expansion. In August 2006, the successful German shopping portal eVita has also been launched on the French, British and Italian market. At the same time the new Fashion search tool was also implemented on eVita. With this function the user can choose filters like designer, size, color, materials and pricing and search for fashion items very fast and easy. eVita, the former

eCommerce portal of the Deutsche Post AG, belongs to the network of LYCOS Europe since 2002. eVita is known for its user-friendliness, high-quality results and very good transparency in a product offering of about 5 million products in around 800 online shops.

In the same month, LYCOS Europe's leading pan-European price and product comparison website BuyCentral.fr set-up an affiliate program that enables people with an own website to integrate BuyCentral product listings. By this, website owners do have the chance to earn money for every user they refer to BuyCentral.fr. These so-called affiliates can choose which products they feature from around 1.3 million products from about 400 online retailers offered by BuyCentral. This program will enable BuyCentral.fr to further extend its reach amongst French Internet users by tapping into a community of referring sites. The content of the BuyCentral site will be made available to hundreds of distribution partners.

In the UK Pangora has signed a partnership with UK's leading classified directories service Yell.com to create a shopping channel for their UK site. The new channel

will offer price and product comparison tools delivered by Pangora, as well as a "product match" and "category match" service that will display results based on Yell.com searches. If a Yell.com user makes use of the search engine, he will get locally classified listings as well as listings from Pangora's about 1.8 million products sourced from around 700 online retailers. The shopping channel represents Yell.com's first step towards playing a greater role in the UK eCommerce market and the new channel opens a new revenue stream for the company. With around 6 million unique users reach (Nielsen NetRatings, June 2006), Yell.com expands Pangora's reach in the UK market considerably.

Also in Italy Pangora was able to extend its portal portfolio with new partnerships with the local comparison engines Costameno and Techeye. With these partnerships Pangora is able to offer its shop clients a presence in shopping channels of portals like MSN, Repubblica and Mondadori. Herewith Pangora has almost doubled its reach and strengthened its second position in the Italian market in the last 3 months.

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.

The Swedish portal business was sold on September 29, 2006, the Swedish Access business is currently held for sale. Therefore the financial statements were restated for comparative purposes excluding the Swedish operations, which are classified as discontinued operations.

| In thousand Euro | Nine months ended September 30, 2006 (unaudited) | Nine months ended September 30, 2005 (unaudited/ restated) | Three months ended September 30, 2006 (unaudited) | Three months ended September 30, 2005 (unaudited/ restated) |
|---|---|--|--|---|
| Advertising | 25,856 | 27,722 | 7,656 | 9,728 |
| Paid services and shopping | 28,652 | 24,227 | 8,337 | 8,327 |
| Interconnect | 4,346 | 5,368 | 1,388 | 1,675 |
| Licensing and other | 138 | 1,000 | 27 | 314 |
| Total revenues | 58,992 | 58,317 | 17,408 | 20,044 |
| Pro forma cost of revenues | (21,320) | (21,876) | (6,487) | (6,756) |
| Pro forma gross profit | 37,672 | 36,441 | 10,921 | 13,288 |
| Sales and marketing expenses | (17,278) | (17,638) | (6,173) | (5,029) |
| General and administration expenses | (16,296) | (16,127) | (5,336) | (4,752) |
| Research and development expenses | (11,894) | (14,768) | (4,121) | (4,816) |
| Other income | 675 | 500 | 189 | 153 |
| Restructuring charges | 105 | (5,799) | (36) | 31 |
| Amortization of intangibles | (891) | (1,041) | (297) | (347) |
| Impairment of tangible assets | 0 | (92) | 0 | (48) |
| Total operating expenses | (45,579) | (54,965) | (15,774) | (14,808) |
| Loss from operations | (7,907) | (18,524) | (4,853) | (1,520) |
| Net profit/(net loss) for the period | 6,870 | (18,505) | 9,144 | (2,046) |

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 49 percent and Interconnect 7 percent to LYCOS Europe's total revenues in the nine months ended September 30, 2006.

Amounting to EUR 59.0 million for the nine months ended September 30, 2006, LYCOS Europe's revenues increased by 1 percent compared to the nine months ended September 30, 2005.

Advertising revenues for the nine months ended September 30, 2006, decreased by 7 percent compared to the nine months ended September 30, 2005. This decrease is mainly the result of a very weak summer season.

Paid services and shopping for the nine months ended September 30, 2006, increased by 18 percent compared to the nine months ended September 30, 2005. The increase of paid services and shopping is the result of the continuous growth in existing products and the exceptional performance in registered .eu domains since their introduction.

Interconnect revenues for the nine months ended September 30, 2006, decreased by 19 percent compared to the nine months ended September 30, 2005, which is mainly driven by a price drop in the German access market.

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

Revenues for the three months ended September 30, 2006, of EUR 17.4 million, decreased by 13 percent

compared to the same period last year with revenues of EUR 20.0 million.

Cost of Revenues

Cost of revenues decreased from EUR 21.9 million for the nine months ended September 30, 2005, to EUR 21.3 million for the nine months ended September 30, 2006. The gross margin increased during this period by 2 percent points to 64 percent.

The gross margin decreased from 66 percent for the three months ended September 30, 2005 to 63 percent for the three months ended September 30, 2006. The decrease in the gross margin is mainly related to the overall decrease in advertising revenues.

Sales and Marketing

Sales and marketing expenses amounted to EUR 17.3 million for the nine months ended September 30, 2006, which is a decrease of 2 percent compared to sales and marketing expenses of EUR 17.6 million for the nine months ended September 30, 2005.

In the three months ended September 30, 2006, sales and marketing expenses amounted to EUR 6.2 million, which is an increase of 23 percent compared to sales and marketing expenses of EUR 5.0 million for the three months ended September 30, 2005.

General and Administration

General and administrative expenses increased from EUR 16.1 million for the nine months ended September 30, 2005 to EUR 16.3 million for the nine months ended September 30, 2006.

General and administration for the three months ended September 30, 2006, of EUR 5.3 million, increased by 12 percent compared to the same period last year. The increase in these costs is mainly the result of increased merger and acquisition activities during the third quarter.

Research and Development

Cost incurred for research and product development amounted to EUR 11.9 million for the nine months ended September 30, 2006, compared to EUR 14.8 million for the nine months ended September 30, 2005. This decrease of 19 percent is primarily due to the cost reduction program of LYCOS Europe.

In the three months ended September 30, 2006 research and development expensed amounted to EUR 4.1 million, which is a decrease of 14 percent compared to the same period in 2005. This decrease is due to the reasons mentioned above.

Amortization of Intangibles

Amortization expenses amounting to EUR 0.9 million for the nine months ended September 30, 2006 are mainly related to amortization of intangible assets excluding goodwill identified in the purchase price accounting of united-domains AG and Pangora SAS.

Amortization expenses for the three months ended September 30, 2006 amounted to EUR 0.3 million.

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 33 for LYCOS Europe's definition of the EBITDA result.

The EBITDA result amounted to EUR (3.4) million for the nine months ended September 30, 2006, which is an improvement of 71 percent compared to the nine months ended September 30, 2005 (EUR (12.0) million).

The EBITDA result of EUR (3.4) million for the three months ended September 30, 2006 decreased compared to the EBITDA result of EUR 0.4 million for the three months ended September 30, 2005.

Financing

The total amount for cash and cash equivalents and other investments increased from EUR 105.1 million on December 31, 2005, to EUR 110.6 million on September 30, 2006. During the period ended September 30, 2006, LYCOS Europe used EUR 2.2 million cash in operating activities, which is an improvement of 55 percent compared to EUR 5.0 million used during the nine months ended September 30, 2005. In addition, during the period ended September 30, 2006, an amount of EUR 1.0 million was used for the acquisition of property, plant, equipment and other intangible assets. The net cash received for the sale of the Swedish Portal business of LYCOS Europe amounted to EUR 16.1 million.

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 September 30, 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%) including Amber Master Fund SPC.

As at September 30, 2006, the total number of shares outstanding is 311,576,344, excluding the treasury shares.

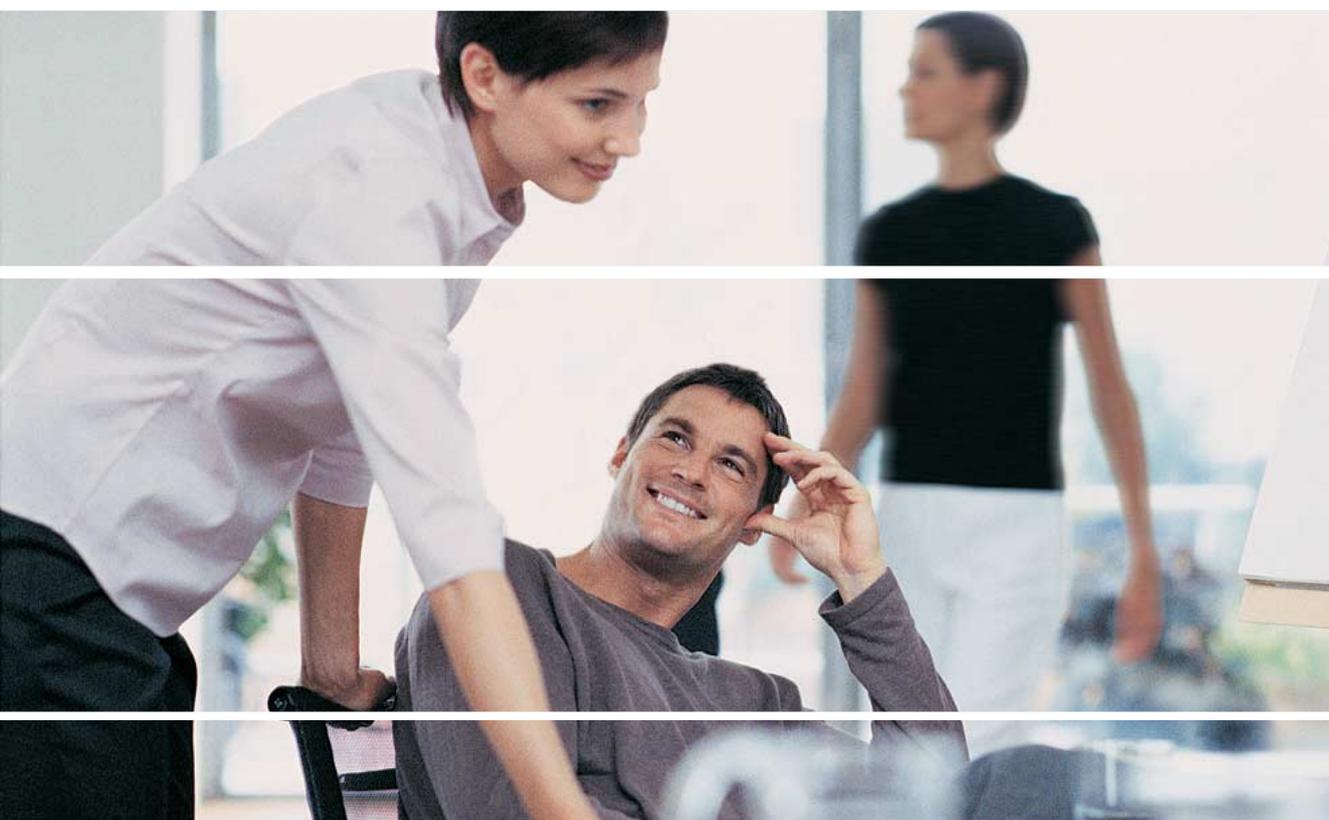
Stock Price Performance

LYCOS Europe's share price faced a non satisfying development in the course of the first nine months of 2006. The share price dropped by 19.5 percent from EUR 1.13 (Frankfurt Stock Exchange, opening price January 2, 2006) to EUR 0.91 (Frankfurt Stock Exchange, closing price September 29, 2006) and therefore could not compete with the Technology All Share Index which rose by 10.6 percent in the same period.



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

5 // EMPLOYEES



LYCOS Europe had 663 employees at September 30, 2006 compared to 688 employees at December 31, 2005. As aforementioned Lycos Europe sold its Swedish Portal business and is in ongoing negotiations about the sale of its Swedish Access business, both businesses mainly driven by its subsidiary Spray Network AB with headquarters in Stockholm/Sweden and a staff of 54 employees, whereof 17 belong to the portal business and are excluded from the LYCOS Europe total number of employees.

Following her announcement in May 2006, Lydia Lux-Schmitt, Chief Financial Officer of LYCOS Europe N.V., left the Company as of September 30, 2006 to accept another position in the private sector. LYCOS Europe will announce the succession at a later point in time.

6 // OUTLOOK

LYCOS Europe is in advanced negotiations concerning the sale of its Swedish access business held under the umbrella of Spray in Stockholm/Sweden.

In the last quarter of the current year LYCOS Europe assumes the acquisition of mentasys GmbH in Karlsruhe/Germany to be closed. We plan to begin with the integration process of mentasys as soon as the German Antitrust Authority has approved the transaction. Especially in the winter season which is traditionally the strongest period for eCommerce LYCOS Europe expects increasing revenues in the paid services & shopping sector as well as the advertising business.

LYCOS Europe is still in the process to explore the possibilities and benefits of extending the scope of license agreements concerning the use of the LYCOS brand with the licensor Lycos, Inc. which is a subsidiary of Korean-based Daum Communications. LYCOS Europe does not plan any provisions for Q4/2006 in the context of these negotiations.

The implementation of an enhanced IT Infrastructure solution, several new product updates and developments within our premium services as well as the combined forces of our shopping subsidiaries Pangora and probably mentasys should secure further growth in the field of paid services and shopping revenues. At the same time we will continue to work on our international product expansion within and across the European borders.

Combined with the past improvements in the LYCOS Europe cost base we are confident to be on track for profitability on a net result basis in the full year 2006.

Haarlem, the Netherlands
October 20, 2006



Christoph Mohn
Chief Executive Officer
LYCOS Europe N.V.

LYCOS EUROPE N.V. //
UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS (IFRS)
FOR THE PERIOD ENDED SEPTEMBER 30, 2006

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

| In thousand Euro | Notes | September 30, 2006 | December 31, 2005 |
|---|-----------|-----------------------|----------------------|
| Assets | | | |
| Property, plant and equipment | 3 | 2,754 | 3,820 |
| Goodwill | 4,5 | 9,492 | 14,255 |
| Other intangible assets | 5 | 8,427 | 13,797 |
| Deferred tax assets | 6 | 187 | 184 |
| Other investments | 7 | 14,946 | 9,939 |
| Other non-current assets | | 1,285 | 2,081 |
| Non-current assets classified as held for sale | 4 | 7,525 | 0 |
| Total non-current assets | | 44,616 | 44,076 |
| Cash and cash equivalents | 7 | 85,884 | 65,695 |
| Other investments | 7 | 9,809 | 29,480 |
| Accounts receivable | 8,9 | 12,499 | 17,154 |
| Prepaid expenses and other current assets | 8 | 8,723 | 15,322 |
| Current assets classified as held for sale | 4 | 6,325 | 0 |
| Total current assets | | 123,240 | 127,651 |
| Total assets | | 167,856 | 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 | | 1,590,083 | 1,589,584 |
| Legal reserves | | 1,934 | 2,433 |
| Treasury shares | | (2,052) | (2,052) |
| Translation reserve | | 676 | 578 |
| Accumulated deficit | | (1,460,428) | (1,467,298) |
| Total shareholders' equity | 10 | 133,336 | 126,368 |
| Deferred revenue | | 780 | 1,878 |
| Deferred tax liabilities | 6 | 133 | 908 |
| Provisions | | 87 | 87 |
| Non-current liabilities classified as held for sale | 4 | 481 | 0 |
| Total non-current liabilities | | 1,481 | 2,873 |
| Short-term debt | | 0 | 2,940 |
| Accounts payable | 9 | 4,657 | 9,994 |
| Restructuring provision | | 1,077 | 1,939 |
| Other short-term liabilities | 12 | 17,594 | 21,634 |
| Deferred revenue | | 7,164 | 5,979 |
| Current liabilities classified as held for sale | 4 | 2,547 | 0 |
| Total current liabilities | | 33,039 | 42,486 |
| Total liabilities | | 34,520 | 45,359 |
| Total shareholders' equity and liabilities | | 167,856 | 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 | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 (restated) | Three months ended Sept. 30, 2006 | Three months ended Sept. 30, 2005 (restated) |
|--|-------|--|--|---|---|
| Continuing operations | | | | | |
| Advertising | | 25,856 | 27,722 | 7,656 | 9,728 |
| Paid services and shopping | | 28,652 | 24,227 | 8,337 | 8,327 |
| Interconnect | | 4,346 | 5,368 | 1,388 | 1,675 |
| Licensing and other | | 138 | 1,000 | 27 | 314 |
| Total revenues | | 58,992 | 58,317 | 17,408 | 20,044 |
| Cost of revenues | | (21,348) | (22,606) | (6,515) | (6,756) |
| Gross profit | | 37,644 | 35,711 | 10,893 | 13,288 |
| Gross profit before highlighted items | | 37,672 | 36,441 | 10,921 | 13,288 |
| Restructuring | | (28) | (730) | (28) | 0 |
| Gross profit | | 37,644 | 35,711 | 10,893 | 13,288 |
| Other operating expenses | 14 | (46,226) | (54,735) | (15,935) | (14,961) |
| Other operating income | | 675 | 500 | 189 | 153 |
| Loss from operations | | (7,907) | (18,524) | (4,853) | (1,520) |
| Loss from operations before highlighted items | | (7,149) | (12,322) | (4,548) | (1,154) |
| Restructuring | | 133 | (5,069) | (8) | 29 |
| Impairment on property, plant and equipment | | 0 | (92) | 0 | (48) |
| Other amortization | | (891) | (1,041) | (297) | (347) |
| Loss from operations | | (7,907) | (18,524) | (4,853) | (1,520) |
| Interest income | | 1,812 | 2,295 | 590 | 654 |
| Interest expense | | (31) | 287 | (1) | 0 |
| Other financing income/expense | | (154) | (657) | (11) | 261 |
| Net financing income | | 1,627 | 1,925 | 578 | 915 |
| Loss before tax | | (6,280) | (16,599) | (4,275) | (605) |
| Income tax | | (34) | (212) | 2 | (30) |
| Net loss from continuing operations | | (6,314) | (16,811) | (4,273) | (635) |
| Discontinued operations | | | | | |
| Profit/(loss) from discontinued operations (net of tax) | | 13,184 | (1,694) | 13,417 | (1,411) |
| Net profit/(net loss) for the period | | 6,870 | (18,505) | 9,144 | (2,046) |
| Basic/diluted profit/(loss) per share (Euro) – continued operation | 15 | (0.02) | (0.05) | (0.01) | 0.00 |
| Basic/diluted profit/(loss) per share (Euro) | 15 | 0.02 | (0.06) | 0.03 | (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

| | Notes | Nine months ended September 30, 2006 | Nine months ended September 30, 2005 (restated) |
|---|----------|---|---|
| In thousand Euro | | | |
| Continued operations | | | |
| Cash flows from operating activities | | | |
| Loss before tax | | (6,280) | (16,599) |
| Adjustments for: | | | |
| Depreciation and amortization | | 4,647 | 6,476 |
| Interest income, net | | (1,783) | (3,095) |
| Other non cash movements | | 174 | 269 |
| Decrease in accounts receivable | | 575 | 1,912 |
| Decrease/(increase) in prepaid expenses and other current assets | | 1,979 | (701) |
| Decrease in prepaid expenses and other non-current assets | | 758 | 644 |
| (Decrease)/increase in accounts payable | | (1,829) | 1,745 |
| (Decrease)/increase in accrued expenses and other current liabilities | | (2,648) | 2,910 |
| Increase in deferred revenue | | 249 | 636 |
| Decrease in other non-current liabilities | | (54) | (1,733) |
| Interest paid | | (33) | 0 |
| Interest received | | 2,050 | 2,508 |
| Income tax (paid)/reimbursed | | (16) | 65 |
| Net cash used in operating activities – continuing operations | | (2,211) | (4,963) |
| Cash flows from investing activities | | | |
| Acquisitions of property, plant and equipment and other intangible assets | | (996) | (1,786) |
| Capitalized development | | (799) | (248) |
| Net change in short and long-term investments | | 14,664 | 12,522 |
| Payments for acquisitions, net of cash | 4 | (1,736) | 0 |
| Net cash provided in investing activities – continuing operations | | 11,133 | 10,488 |
| Cash flows from financing activities | | | |
| Net change in short-term debt | | (2,940) | (79) |
| Net cash provided/(used) in financing activities – continuing operations | | (2,940) | (79) |
| Discontinued operations | | | |
| Net cash from operating activities | | (1,886) | (6,420) |
| Net cash from investing activities | 4 | 16,068 | 0 |
| Net cash from financing activities | | 0 | 0 |
| Net cash from discontinued operations | 4 | 14,182 | (6,420) |
| Effect of exchange rate changes on cash and cash equivalents | | 25 | (30) |
| Increase/(decrease) in cash and cash equivalents | | 20,189 | (1,004) |
| Cash and cash equivalents, beginning of the period | | 65,695 | 72,075 |
| Cash and cash equivalents, end of the period | 7 | 85,884 | 71,071 |

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 | | Class AB shares | | Class B shares | |
|--|-------|-------------------|------------|-------------------|------------|--------------------|--------------|
| | | No. of shares | € | No. of shares | € | No. of 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 September 30, 2005 | | 62,000,000 | 620 | 62,000,000 | 620 | 188,300,000 | 1,883 |
| Movement capitalized development expenses | | | | | | | |
| Translation loss | | | | | | | |
| 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 | | | | | | | |
| Translation gain on disposal | | | | | | | |
| Net loss | | | | | | | |
| Balance as at September 30, 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 |
| 314 | (314) | | | | | 0 | 0 |
| | | | | 559 | | 559 | 559 |
| | | | | | (18,505) | (18,505) | (18,505) |
| 1,589,371 | 2,646 | (723,656) | (2,052) | 731 | (1,465,567) | (1,464,836) | 128,252 |
| 213 | (213) | | | | | 0 | 0 |
| | | | | (153) | | (153) | (153) |
| | | | | | (1,731) | (1,731) | (1,731) |
| 1,589,584 | 2,433 | (723,656) | (2,052) | 578 | (1,467,298) | (1,466,720) | 126,368 |
| 499 | (499) | | | | | 0 | 0 |
| | | | | 69 | | 69 | 69 |
| | | | | 29 | | 29 | 29 |
| | | | | | 6,870 | 6,870 | 6,870 |
| 1,590,083 | 1,934 | (723,656) | (2,052) | 676 | (1,460,428) | (1,459,752) | 133,336 |

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

| | |
|-----|--|
| 1. | Significant accounting policies |
| 2. | Segment reporting |
| 3. | Property, plant and equipment |
| 4. | Acquisition and disposal of subsidiaries |
| 5. | Goodwill & other intangible assets |
| 6. | Income taxes |
| 7. | Cash, cash equivalents and other investments |
| 8. | Trade and other receivables |
| 9. | Related party transactions |
| 10. | Shareholders' equity |
| 11. | Share based payments |
| 12. | Other short-term liabilities |
| 13. | Contingencies & commitments |
| 14. | Other operating expenses |
| 15. | Earnings per share |
| 16. | Subsequent events |

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 October 20, 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).

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.

c) Restatements

The Swedish portal business was sold on September 29, 2006, the Swedish Access business is currently held for sale. Therefore the financial statements were restated for comparative purposes excluding the Swedish operations, which are classified as discontinued operations.

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 (discontinued ⁽⁴⁾) | | France | | United Kingdom | |
|---|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 |
| In thousand Euro | | | | | | | | |
| Revenues | 36,783 | 37,218 | 32,922 | 34,908 | 8,544 | 9,027 | 4,213 | 3,626 |
| Revenues from inter-segment transactions | 18,363 | 17,980 | 1,610 | 5,831 | 695 | 9,047 | 222 | 4,979 |
| Total revenues | 55,146 | 55,198 | 34,532 | 40,739 | 9,239 | 18,074 | 4,435 | 8,605 |
| Net profit/(net loss) for the period | (1,080) | (8,845) | 13,083 | (1,938) | (1,228) | (7,897) | (1,095) | (1,240) |

| | Denmark | | Other regions & Eliminations | | Consolidated | |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 | Nine months ended Sept. 30, 2006 | Nine months ended Sept. 30, 2005 |
| In thousand Euro | | | | | | |
| Revenues | 5,889 | 4,733 | 3,563 | 3,713 | 91,914 | 93,225 |
| Revenues from inter-segment transactions | 204 | 3,010 | (21,094) | (40,847) | 0 | 0 |
| Total revenues | 6,093 | 7,743 | (17,531) | (37,134) | 91,914 | 93,225 |
| Net profit/(net loss) for the period | (1,373) | (1,620) | (1,437) | 3,035 | 6,870 | (18,505) |

(4) The Swedish operating business is presented as discontinued, although Spray Network Services AB, one of the technical service centers of the Company located in Sweden is still continued.

3 // PROPERTY, PLANT AND 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 September 30, 2006 | 18,864 | 3,597 | 22,461 |
| Depreciation and impairment losses | | | |
| Balance as at December 31, 2005 | (19,434) | (2,581) | (22,015) |
| Balance as at September 30, 2006 | (17,425) | (2,282) | (19,707) |
| Carrying amounts | | | |
| Balance as at December 31, 2005 | 2,209 | 1,611 | 3,820 |
| Balance as at September 30, 2006 | 1,439 | 1,315 | 2,754 |

4 // ACQUISITION AND DISPOSAL OF SUBSIDIARIES

united-domains

On January 13, 2004, LYCOS Europe N.V. acquired all shares in united-domains AG, a German company which specializes in worldwide domain registration. In addition to the fixed purchase price of EUR 5.9 million LYCOS Europe N.V. agreed to pay a consideration to the sellers using a formula based upon the number of new .eu domain registrations. The additional consideration of EUR 1.7 million was paid in August 2006 and might be adjusted during 2007. As a result of the payment the goodwill related to this transaction increased by EUR 0.5 million to EUR 5.8 million.

Swedish business

Following the focus on profitable growth LYCOS Europe decided to discontinue its Swedish portal and access business. Therefore the Company sold the Swedish portal business together with the Spray trademark and its legal entity Spray TMH AB on September 29, 2006 for a consideration of SEK 150.0 million (EUR 16.2 million) and is currently in negotiations about the sale of its Swedish access business. The Swedish portal business is presented as discontinued operation with a preliminary gain on sale after deduction of net assets and transaction costs of around EUR 14.8 million. The Swedish access business is presented as held for sale and as such also presented as discontinued operation.

| In thousand Euro | September 30, 2006 | September 30, 2005 |
|---|-----------------------|-----------------------|
| Result of discontinued operations | | |
| Revenues | 32,922 | 34,908 |
| Expenses | (34,838) | (36,547) |
| Result from operating activities | (1,916) | (1,639) |
| Net financing income | 11 | (404) |
| Income tax expense | 248 | 349 |
| Loss after tax but before gain on sale | (1,657) | (1,694) |
| Gain on sale | 14,841 | 0 |
| Tax on gain of sale | 0 | 0 |
| Profit/(loss) for the period | 13,184 | (1,694) |

| In thousand Euro | September 30, 2006 |
|---|-----------------------|
| Non-current assets held for sale | |
| Property, plant & equipment | 45 |
| Goodwill | 5,355 |
| Intangible assets | 2,125 |
| Current assets held for sale | |
| Accounts receivable | 3,835 |
| Other assets | 2,490 |
| Total assets held for sale | 13,850 |

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.

In the second quarter 2006, LYCOS Europe performed the annual impairment test for goodwill acquired in business combinations. The impairment test indicated that no impairment for the period ended September 30, 2006 was required.

| 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 September 30, 2006 | 9,492 | 47,321 | 9,582 | 4,148 | 70,543 |
| Amortization and impairment losses | | | | | |
| Balance as at December 31, 2005 | 0 | (47,481) | (6,350) | (2,612) | (56,443) |
| Balance as at September 30, 2006 | 0 | (41,573) | (7,648) | (3,403) | (52,624) |
| Carrying amounts | | | | | |
| Balance as at December 31, 2005 | 14,255 | 10,261 | 2,433 | 1,103 | 28,052 |
| Balance as at September 30, 2006 | 9,492 | 5,748 | 1,934 | 745 | 17,919 |

6 // INCOME TAXES

Deferred tax assets and liabilities are summarized as follows:

| In thousand Euro | September 30, 2006 | December 31, 2005 |
|---------------------------------------|-----------------------|----------------------|
| Deferred tax assets | | |
| Loss carry-forwards | 182,709 | 179,778 |
| Property, plant and equipment | 1,285 | 1,284 |
| Intangible assets | 6,003 | 8,146 |
| Valuation allowance | (188,930) | (187,805) |
| Netting | (880) | (1,219) |
| Total deferred tax assets | 187 | 184 |
| Deferred tax liabilities | | |
| Property, plant and equipment | 114 | 187 |
| Intangible assets | 899 | 1,940 |
| Netting | (880) | (1,219) |
| Total deferred tax liabilities | 133 | 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 September 30, 2006, and December 31, 2005, the Company's operating tax loss carry forwards amount to approximately EUR 534.2 million and EUR 525.8 million, respectively. On September 30, 2006 an amount of EUR 63.8 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 9.8 million and EUR 12.3 million is restricted in use as at September 30, 2006, and December 31, 2005, respectively. An amount of EUR 4.8 million of the restricted cash is non-current as at September 30, 2006, and December 31, 2005, respectively.

8 // TRADE AND OTHER RECEIVABLES

Trade and other receivables are made up of the following:

| | September 30, | December 31, |
|-------------------------------|----------------------|---------------------|
| In thousand Euro | 2006 | 2005 |
| Accounts receivables | 12,499 | 17,154 |
| VAT receivable | 0 | 312 |
| Rent deposits and prepayments | 303 | 624 |
| Prepaid expenses current | 2,452 | 4,084 |
| Accrued income | 4,152 | 8,223 |
| Other short-term receivables | 1,816 | 2,079 |
| Total | 21,222 | 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 September 30, 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 September 30, 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 September 30, 2006, and December 31, 2005, respectively, and 187,576,344 are outstanding on September 30, 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 September 30, 2006.

| Range of exercise prices (in EUR) | Options outstanding | | |
|-----------------------------------|--|--|---|
| | Number of outstanding options as of September 30, 2006 | Weighted average remaining contractual life (in years) | Weighted average exercise price per share |
| 0.00 – 2.49 | 80,300 | 2.5 | 1.83 |
| 2.50 – 7.49 | 339,450 | 2.2 | 6.16 |
| 7.50 – 17.49 | 146,000 | 1.7 | 15.90 |
| 17.50 – 30.00 | 237,200 | 1.1 | 28.80 |

12 // OTHER SHORT-TERM LIABILITIES

Other short-term liabilities comprise of:

| | September 30, | December 31, |
|---|---------------|---------------|
| In thousand Euro | 2006 | 2005 |
| Accrual for salary and salary related cost | 2,400 | 2,636 |
| Accrual for marketing cost | 2,636 | 4,798 |
| Accrual for professional services | 1,998 | 919 |
| Other accrued expenses | 7,743 | 7,879 |
| Other current liabilities | 2,817 | 5,402 |
| Accrued expenses and other current liabilities | 17,594 | 21,634 |

13 // CONTINGENCIES & COMMITMENTS

Minimum Lease and Rental Payments

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

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

| In thousand Euro | |
|---------------------------|---------------|
| Due within 2006 | 809 |
| Due after 2006 until 2011 | 9,008 |
| Due after 2011 | 2,196 |
| Total | 12,013 |

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 claim 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.

License agreement

LYCOS Europe and Lycos, Inc. have resumed discussions regarding the scope of certain perpetual license agreements, including but not limited to the terms under which LYCOS Europe has licensed the LYCOS brand and certain technology from Lycos, Inc. In the context of these discussions Lycos, Inc. has raised alleged breaches by LYCOS Europe under the relevant license agreements since the year 2000 and demanded monetary compensation. Lycos, Inc. has expressed that failing a settlement, it is prepared to terminate the relevant perpetual license agreements.

LYCOS Europe believes that it is under no obligation to pay any form of damages for past breaches, if any and believes also that Lycos, Inc. has no right to terminate the relevant perpetual license agreements based on the alleged breaches at all. Therefore LYCOS Europe did not record any provision. Currently both parties are discussing this topic face to face.

14 // OTHER OPERATING EXPENSES

Other operating expenses comprise of:

Nine months ended September 30, 2006

| In thousand Euro | Ordinary Expenses | Restructuring | Impairment | Other amortization | Total |
|----------------------------|----------------------|---------------|------------|-----------------------|-----------------|
| Sales and marketing | (17,278) | 3 | 0 | (223) | (17,498) |
| General and administration | (16,296) | (21) | 0 | (668) | (16,985) |
| Research and development | (11,894) | 151 | 0 | 0 | (11,743) |
| Total | (45,468) | 133 | 0 | (891) | (46,226) |

Nine months ended September 30, 2005 (restated)

| In thousand Euro | Ordinary Expenses | Restructuring | Impairment | Other amortization | Total |
|----------------------------|----------------------|----------------|-------------|-----------------------|-----------------|
| Sales and marketing | (17,638) | (1,076) | 0 | (203) | (18,917) |
| General and administration | (16,127) | (418) | (92) | (688) | (17,325) |
| Research and development | (14,768) | (3,575) | 0 | (150) | (18,493) |
| Total | (48,533) | (5,069) | (92) | (1,041) | (54,735) |

15 // EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is similar to basic earnings 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. 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.

| | Nine months ended September 30, 2006 | Nine months ended September 30, 2005 |
|---|---|---|
| Basic/diluted net loss – continued operation (in thousand Euro) | (6,314) | (16,811) |
| Basic/diluted net profit/ (net loss) (in thousand Euro) | 6,870 | (18,505) |
| Weighted average shares | 311,576,344 | 311,576,344 |
| Net loss per share basic and diluted – continued operation | (0.02) | (0.05) |
| Net profit/(net loss) per share basic and diluted | 0.02 | (0.06) |

16 // SUBSEQUENT EVENTS

On October 6, 2006 LYCOS Europe announced the acquisition of the shopping solution specialist mentasys GmbH, Karlsruhe/Germany, for up to EUR 30.0 million in cash (including a variable performance-based component of up to EUR 14.0 million). The transaction is subject to approval of the German Antitrust Authority.

QUARTERLY FINANCIAL INFORMATION

(unaudited)

| | Quarter ended March 31, 2004 | Quarter ended June 30, 2004 | Quarter ended September 30, 2004 | Quarter ended December 31, 2004 |
|---|------------------------------------|-----------------------------------|--|---------------------------------------|
| In thousand Euro (except per share data) | | | | |
| Revenues ⁽⁵⁾ | 23,790 | 23,856 | 22,838 | 33,292 |
| Loss from operations ⁽⁵⁾ | (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 ⁽⁶⁾ | (9,645) | (11,928) | (7,169) | (5,485) |

| | Quarter ended March 31, 2005 (restated) | Quarter ended June 30, 2005 (restated) | Quarter ended September 30, 2005 (restated) | Quarter ended December 31, 2005 (restated) |
|---|--|---|--|---|
| In thousand Euro (except per share data) | | | | |
| Revenues | 18,251 | 20,022 | 20,044 | 20,929 |
| Loss from operations | (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 Euro | (0.03) | (0.03) | (0.01) | (0.01) |
| EBITDA ⁽⁶⁾ | (6,194) | (6,264) | 410 | 1,709 |

| | Quarter ended March 31, 2006 (restated) | Quarter ended June 30, 2006 (restated) | Quarter ended September 30, 2006 |
|--|--|---|--|
| In thousand Euro (except per share data) | | | |
| Revenues | 18,311 | 23,273 | 17,408 |
| Loss from operations | (2,336) | (718) | (4,853) |
| Net profit/(net loss) | (2,032) | (242) | 9,144 |
| Net profit/(net loss) per share basic and diluted in Euro | (0.01) | 0.00 | 0.03 |
| EBITDA ⁽⁶⁾ | (834) | 777 | (3,379) |

(5) Not restated

(6) 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)

