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|||| LYCOS Europe N.V.  
interim report 2007 ||||

for the six months ended June 30, 2007

# key figures

		Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 (unaudited)	Change
Revenues	in mln EUR	41.2	41.6	(1)%
EBITDA <sup>1</sup>	in mln EUR	(7.6)	(0.1)	> (100)%
EBIT <sup>1</sup>	in mln EUR	(29.8)	(3.1)	> (100)%
Net profit/(loss)	in mln EUR	48.7	(2.3)	> 100%
Shares (average outstanding)	number	312,300,000	312,300,000	0%
Earnings/loss per share (diluted and undiluted)	in EUR	0.16	(0.01)	> 100%
Share price (Frankfurt, Germany)	in EUR	0.72	0.94	(23)%
Cash, cash equivalents and other investments	in mln EUR	168.6	98.1	72%
Cash ratio (Cash, cash equivalents and other investments/total liabilities)	number	4.4	2.8	57%
Shareholders' equity	in mln EUR	175.8	124.2	42%
Equity ratio (Shareholders' equity/total assets)	in percent	82%	78%	5%
Employees	number	721	664	9%

  

		Three months ended June 30, 2007 (unaudited)	Three months ended June 30, 2006 (unaudited)	Change
Revenues	in mln EUR	21.2	23.3	(9)%
EBITDA <sup>1</sup>	in mln EUR	(5.3)	0.8	> (100)%
EBIT <sup>1</sup>	in mln EUR	(26.0)	(0.7)	> (100)%
Net profit/(loss)	in mln EUR	41.1	(0.2)	> 100%
Shares (average outstanding)	number	312,300,000	312,300,000	0%
Earnings/loss per share (diluted and undiluted)	in EUR	0.13	0.00	> 100%

<sup>1</sup> EBIT/EBITDA are non IFRS measurements, please refer to the explanatory notes to the key figures, which are displayed on page 22.

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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# dear shareholders,

The EBITDA of the first six months 2007 amounted to EUR (7.6) million compared to EUR (0.1) million in the reference period in 2006. This was mainly caused by decreasing advertising revenues, additional marketing initiatives for LYCOS iQ, higher expenses in connection with the recent product launches, one-time expenses for switching the data center to an external provider and discontinued merger & acquisition activities. The transaction gain related to the disposal of the investment in Seznam.cz, a.s., amounting to EUR 64.8 million, and the impairment loss, mainly with regard to the Shopping business and the Fireball license with a total amount of EUR 19.2 million, had a significant impact on the net profit of EUR 48.7 million for the first six months of 2007.

The recent product initiatives lead to an increase in unique users in Europe, including distribution partners, from about 31 million in December 2006 to about 36 million in June 2007, which reflects a European reach of about 26 percent taking into account the relevant markets only.

The LYCOS Europe product offensive continued with the launch of user-oriented and competitive products in a quick succession. Under the LYCOS brand, the discussion platform LYCOS iQ “Pro & Contra” was launched in Germany, supplementing LYCOS iQ, the “human search engine”, which is developing well. LYCOS Webhosting’s “Starter Shops” have been implemented to provide LYCOS Webhosting customers with a free and secure e-business starter solution, while the Toolbar Builder offers an extra customer retention service.

The Jubii Web 2.0 communication service was rolled out in six European countries last quarter, following its USA market launch. The new site-building service JubiiPages was launched in Germany in June 2007 and JubiiDate, the new dating service, has debuted in the Netherlands.

I am convinced that LYCOS Europe will improve its market position due to the recently initiated and further continued product offensive.



Christoph Mohn  
Chief Executive Officer

# overview

LYCOS Europe is one of the leading European portal providers and online advertisers operating a network of websites in seven languages in Europe and the USA. The company's combination of Portal & Search (e.g. LYCOS Search and LYCOS iQ), Communication and Communities (e.g. Jubii and JubiiWorld), Shopping (e.g. BuyCentral and eVita) and Webhosting and Domains Names (e.g. LYCOS Webhosting and united-domains) addresses a wide range of target groups.

## Portal & Search

During the second quarter of 2007 several new services in the Portal & Search portfolio were introduced. For example LYCOS iQ, the "human search engine", was expanded in Germany to include the virtual discussion platform LYCOS iQ "Pro & Contra". In order to further strengthen the market position of LYCOS iQ, the current cooperation with the publishing house Gruner & Jahr has been expanded with white label solutions for the online editions of "P.M." under the name "BesserWissen" and "Auto Motor und Sport" under the name "Motor iQ". Additional specialty channels and collaborations bolstered the broad user appeal of the LYCOS Europe portal operations in the first half of 2007.

In the context of focusing on its core competencies, LYCOS Europe sold its German Narrowband (Access) business to Paixas GmbH for a consideration of EUR 0.5 million on May 10, 2007. The transaction included the LYCOS brand Comundo and the Narrowband customers. Negotiations on the potential disposal of the German LYCOS' Broadband (Access) business are still ongoing.

## Communication & Communities

Following its introduction in the USA market in February 2007, the new Web 2.0 communication service Jubii was introduced in Denmark, France, Germany, Italy, the Netherlands and the United Kingdom in the second quarter of this year. As soon as the beta phase will be completed, it will replace the current LYCOS e-mail service. The brand name Jubii will simultaneously be introduced as the new brand of the Communication & Community services of LYCOS Europe.

Jubii is an intuitive and user-friendly all-in-one communication solution that combines the most popular Web 2.0 services with e-mail, telephony, file storage, picture- and videosharing in a secure environment.



JubiiDate, the new flirt community of LYCOS Europe, was launched in the Netherlands in June 2007 and replaced the existing LYCOS dating forum Love@LYCOS.

JubiiPages, launched in Germany in the second quarter of 2007, is a free site-building service with an especially intuitive user interface. JubiiPages is designed primarily for untrained users, regarding e.g. HTML programming, who want to design a website with just a few clicks.

## Shopping

The second quarter of 2007 was characterized by the ongoing migration of the companies Pangora GmbH and mentasys GmbH. Pangora significantly lost Google depending traffic, which had a negative impact on its revenues and results. mentasys was unable to offset these losses and as a result of the yearly impairment test a one-time impairment of EUR 17.6 million was required. Further reference is made to this subject in the chapter economic development.

## Webhosting & Domain Names

The LYCOS Europe subsidiary united-domains AG successfully continued the sale of the two new top-level domains .eu and .mobi alongside with the other top-level domains such as .de and .com, which remain successful.

The LYCOS Webhosting “Starter Shops” were introduced in May 2007 as a free and secure e-business starter solution for its customers. The new service markedly lowers the barriers to getting started in e-business, especially for entrepreneurs and private users who wish to offer their products and services on the Internet, but have hesitated with implementation.

# economic development

## Market development

The European Information and Communication Technology (“ICT”) market remains with 2.9 percent growth on a stable growth level. Even though stable, this growth is below worldwide average growth and United States growth, which however declined compared to prior year. The European growth is expected to continue in the future. One indicator is the percentage of web users compared to the total population, for example in Germany this is expected to increase from 68 percent in 2006 to 85 percent in 2010. The growth potential is similar in other European countries.

LYCOS Europe could increase its unique users to about 36 million (Status: June, including distribution partner). As a result its European reach based on the relevant markets increased by about 3 percent to about 26 percent (including distribution partner).

Furthermore, it is forecasted that the average online time European Internet users spend, will increase from around 11 hours and 20 minutes to about 15 hours per week, which is equivalent to about 29 percent of the overall forecasted media time.

During 2006, about 75 percent of the online ad spend was related to the United Kingdom, Germany and France. This is based on 13 European countries and a total online ad spends of over EUR 8 billion.

## Result analysis

### Revenues

Amounting to EUR 41.2 million for the six months ended June 30, 2007; LYCOS Europe’s revenues decreased by 1 percent compared to the six months ended June 30, 2006 and as such could not compete with the overall market development. This is caused by the decrease in advertising revenues amounting to 24 percent, which equals EUR 4.3 million. In contrary, revenues from paid services and shopping increased by 20 percent, which is due to the consolidation of mentasys, which generated about EUR 4.2 million paid service and shopping revenues in the aforementioned period. Paid services and shopping contributed 59 percent, advertising 34 percent and other revenues 7 percent to LYCOS Europe’s total revenues in the six months ended June 30, 2007.

During the second quarter of 2007, LYCOS Europe generated revenues of EUR 21.2 million, which is a decrease of 9 percent compared to the reference period of 2006. This is mainly caused by the decrease in advertising revenues of 30 percent equaling EUR 3 million. Paid service and shopping revenues increased by 8 percent compared to the three months ended June 30, 2006.

### EBITDA

During the first half of 2007 the EBITDA of EUR (7.6) million decreased significantly compared to the prior year (EUR (0.1) million).

The gross margin of EUR 22.7 million for the six month period ended June 30, 2007 decreased by 15 percent compared to the reference period in 2006 (EUR 26.8 million). The gross margin decrease was the result of a general margin decrease in the Shopping business and an increase in cost of revenues. Total cost of revenues increased by 24 percent (EUR 3.6 million). This is mainly due to the consolidation of mentasys and one time expenses of about EUR 0.8 million, which occurred for preparations to move the data center to an external provider in order to improve overall stability.

Sales and marketing expenses increased by EUR 3.3 million during the six months ended June 30, 2007. This is mainly driven by additional marketing spendings for LYCOS iQ in order to further support the strong growth of this product. Research and development costs increased with EUR 1.6 million comparing the first six months of 2007 to 2006. This relates among others to additional resources required for the launch of new and innovative products. General and administration expenses excluding the below described impairment loss decreased slightly even though discontinued merger & acquisition activities caused additional costs of about EUR 0.8 million.

The increase in the other operating income compared to 2006 mainly relates to the disposal of the German Narrowband (Access) business including the trademark Comundo, which was sold on May 10, 2007 for a consideration of EUR 0.5 million.

The EBITDA of the second quarter 2007 amounted to EUR (5.3) million compared to the EBITDA of EUR 0.8 million in the prior year. This decrease is mainly due to the aforementioned reasons.

### Financial result

The financial result increased to EUR 66.8 million, which is related to the disposal of the available for sale investment in Seznam.cz, a.s. ("Seznam") for a consideration of EUR 65 million and a transaction gain of EUR 64.8 million. Adjusted for this transaction, the financial result increased to EUR 2.0 million compared to EUR 1.0 million generated during the first six months of 2006, which is mainly driven by the transactions related increase in cash, cash equivalents and other investments.

### Net result

Besides the aforementioned effects, discontinued operations and the impairment test had an impact on the net result. The impairment loss amounted to EUR 19.2 million, an amount of EUR 17.6 million thereof relates to the goodwill of the business unit Shopping and EUR 1.5 million relates to the Fireball license. The forecasted cash flows of the unit Shopping take into account the decrease in revenues and EBIT mainly caused by Pango-ras' loss of Google traffic during the prior months.



Discontinued operations, comprising the Swedish Access and Portal business, amounted to EUR 11.5 million in the first half of 2007 and EUR (0.2) million during the reference period in 2006. This results in a net profit of EUR 48.7 million for the six months ended June 30, 2007 compared to a net loss of EUR (2.3) million in the prior year.

In line with the increase in the net results and primarily as a result of the recent divestments the earnings per share ("EPS") increased to EUR 0.16 for the first six months during 2007 compared to EUR (0.01) for the first six months during 2006.

#### **Balance sheet analysis**

Total assets increased from 182.2 million as at December 31, 2006 to 214.5 million as at June 30, 2007. The increase is mainly related to the disposal of the available for sale investment in Seznam. Together with the completion of the disposal of the Swedish Access business, which previously was classified as assets held for sale, cash, cash equivalents and other investments increased to EUR 168.6 million as at June 30, 2007 compared to 93.3 million as at December 31, 2006.

Property, plant and equipment and intangible assets excluding goodwill decreased to EUR 12.3 as at June 30, 2007. LYCOS Europe invested in these assets an amount of EUR 0.8 million during the six month period ending June 30, 2007. Goodwill decreased to EUR 13.2 million as a result of the impairment loss.

Total liabilities as at June 30, 2007 decreased to EUR 38.7 million compared to EUR 53.5 million as at December 31, 2006. This is mainly the result of a revaluation of the earn-out provision for the former shareholder of mentasys GmbH with a decrease of EUR 5.6 million and a general reduction of accounts payables and other short term liabilities.

Both leads to a cash ratio of 4.4 (cash, cash equivalents and other investments divided by total liabilities), showing the good ability of LYCOS Europe to fulfill its current and long term obligations.

#### **Cash flow analysis**

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

Cash and cash equivalents increased by EUR 72.9 million to EUR 143.8 million during the six month period ended June 30, 2007. An amount of EUR (9.2) million thereof was used in operating activities. Cash provided in investing activities amounts to EUR 61.5 million, which is significantly related to the disposal of the investment in Seznam. Net cash provided in discontinued operations of EUR 20.9 million during the first six months of 2007 is related to the completed disposal of the Swedish Access business.

# the share

## **Share Capital**

The Company's share capital consists of AA, AB and B shares, each of it with a par value of EUR 0.01. Average and absolute number of issued and outstanding shares, including 723,656 treasury shares in the amount of EUR 7,236.56, amounted to 312,300,000. The treasury shares were the result of both, issuance of and acquisition in the context of an indemnification from Spray Ventures in the year 2002. In addition to the ordinary share capital, the Company has issued stock options to its employees, of which 770,250 are outstanding and exercisable on June 30, 2007.

## **Shareholder Structure**

LYCOS Europe's legal shareholder structure as at June 30, 2007, is as follows: LE Holding Corp. (32.1 percent), Bertelsmann Internet Holding GmbH / Fireball Internet GmbH / Jahr Vermögensverwaltungs GmbH & Co. KG (20.0 percent), Christoph Mohn Internet Holding GmbH (12.1 percent), LYCOS Europe N.V. [shares held as treasury

shares] (0.2 percent), and Free Float (35.6 percent). As at June 30, 2007, the total number of voting shares outstanding is 311,576,344, which is calculated excluding the treasury shares.

## **Share Price Performance**

LYCOS Europe's share price declined by 19 percent from EUR 0.89 (January 2, 2007) to EUR 0.72 (June 29, 2007). The market capitalization as at June 29, 2007 therefore amounted to EUR 223.3 million. From January 1, 2007 to June 30, 2007, the LYCOS Europe share could not compete with the Technology All Share Index which rose by 20.9 percent in the same period.

## **Annual General Meeting of Shareholders**

At the Annual General Meeting of LYCOS Europe N.V. held on May 24, 2007 in Amsterdam the company's shareholders adopted all resolutions, which were due for voting. In total about 69.8 percent of the 311,576,344 ordinary voting shares were represented.

# employees

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LYCOS Europe had 721 employees at June 30, 2007 compared to 714 employees at December 31, 2006. From all employees 56 percent are located in Germany,

28 percent in Armenia, 7 percent in France and 9 percent in offices located in Denmark, Italy, the Netherlands and the United Kingdom.

# ||||| outlook |||||

The expansion of the new products under the brands LYCOS and Jubii and the ongoing improvements of existing products will continue. This product offensive and the continuing marketing initiative, in order to further facilitate the growth of LYCOS iQ, will result in a similar cost level during the coming months. The increase in revenues is not expected to cover this cost level and therefore, the Company calculates with an operating loss for the second half of 2007.

Haarlem, the Netherlands

July 27, 2007

The Management Board

LYCOS Europe N.V.





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

In thousand Euro	Notes	June 30, 2007	December 31, 2006
<b>Assets</b>			
Property, plant and equipment		2,921	3,335
Intangible assets	3,4	22,545	47,399
Deferred tax assets		194	190
Other investments		4,803	9,951
Other non-current assets		865	1,292
<b>Total non-current assets</b>		<b>31,328</b>	<b>62,167</b>
Cash and cash equivalents		143,835	70,886
Other investments		20,000	12,500
Accounts receivable and other receivables	5	13,347	15,650
Prepaid expenses and other current assets		6,019	6,446
Assets classified as held for sale		0	14,528
<b>Total current assets</b>		<b>183,201</b>	<b>120,010</b>
<b>Total assets</b>		<b>214,529</b>	<b>182,177</b>
<b>Shareholders' equity and liabilities</b>			
Share capital		3,123	3,123
Share premium		1,586,745	1,587,049
Treasury shares		(2,052)	(2,052)
Legal reserve		5,272	4,968
Translation reserve		(394)	1,137
Accumulated deficit		(1,465,594)	(1,467,298)
Unappropriated result		48,688	1,704
<b>Total shareholders' equity attributable to equity holders of the Company</b>		<b>175,788</b>	<b>128,631</b>
Deferred tax liabilities		1,958	2,188
Provisions and other long term liabilities		8,537	14,481
<b>Total non-current liabilities</b>		<b>10,495</b>	<b>16,669</b>
Accounts payable	5	6,771	7,992
Other short term liabilities		21,475	23,793
Liabilities classified as held for sale		0	5,092
<b>Total current liabilities</b>		<b>28,246</b>	<b>36,877</b>
<b>Total liabilities</b>		<b>38,741</b>	<b>53,546</b>
<b>Total shareholders' equity and liabilities</b>		<b>214,529</b>	<b>182,177</b>

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

		Six months ended June 30, 2007	Six months ended June 30, 2006	Three months ended June 30, 2007	Three months ended June 30, 2006
In thousand Euro (except share data)	Notes				
Advertising		13,887	18,200	7,090	10,125
Paid services and shopping		24,309	20,315	12,677	11,709
Other		2,963	3,069	1,433	1,439
<b>Total revenues</b>		<b>41,159</b>	<b>41,584</b>	<b>21,200</b>	<b>23,273</b>
Cost of revenues		(18,421)	(14,833)	(10,459)	(7,809)
<b>Gross profit</b>		<b>22,738</b>	<b>26,751</b>	<b>10,741</b>	<b>15,464</b>
Sales and marketing	7	(14,520)	(11,236)	(7,945)	(6,071)
Research and development	7	(9,235)	(7,611)	(4,996)	(3,863)
General and administration	7	(30,306)	(11,444)	(24,616)	(6,417)
Other operating income		1,493	486	833	169
<b>Loss from operations</b>		<b>(29,830)</b>	<b>(3,054)</b>	<b>(25,983)</b>	<b>(718)</b>
Finance income	3	66,961	1,215	66,286	587
Finance expense		(288)	(30)	(160)	(1)
Other financing income/expenses		147	(136)	(67)	(31)
<b>Net financing income</b>		<b>66,820</b>	<b>1,049</b>	<b>66,059</b>	<b>555</b>
<b>Profit/(loss) before tax</b>		<b>36,990</b>	<b>(2,005)</b>	<b>40,076</b>	<b>(163)</b>
Income tax		197	(35)	96	(29)
<b>Net profit/(loss) from continuing operations</b>		<b>37,187</b>	<b>(2,040)</b>	<b>40,172</b>	<b>(192)</b>
Profit/(loss) from discontinued operations (net of income tax)	3	11,501	(234)	906	(50)
<b>Net profit/(loss) for the period for the period attributable to equity holders of the Company</b>		<b>48,688</b>	<b>(2,274)</b>	<b>41,078</b>	<b>(242)</b>
Basic/diluted profit/(loss) per share (Euro) – continued operations		0.12	(0.01)	0.13	0.00
Basic/diluted profit/(loss) per share (Euro)		0.16	(0.01)	0.13	0.00
Weighted average number of shares outstanding		311.576.344	311.576.344	311.576.344	311.576.344

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

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

In thousand Euro	Notes	Six months ended June 30, 2007	Six months ended June 30, 2006
<b>Continued operations</b>			
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax		36,990	(2,005)
Adjustments for:			
Depreciation and amortization		3,008	2,997
Impairment on intangible assets		19,230	0
Finance income		(66,673)	(1,188)
Other non cash movements		2,933	601
Change in accounts receivable		1,966	919
Change in prepaid expenses and other current assets		(326)	(620)
Change in other non-current assets		269	(391)
Change in accounts payable		(967)	(511)
Change in current liabilities		(1,921)	(1,235)
Change in other non-current liabilities		(6,165)	(756)
Interest received		2,509	1,518
Income tax paid		(39)	(221)
<b>Net cash used in operating activities</b>		<b>(9,186)</b>	<b>(892)</b>
<b>Cash flows from investing activities</b>			
Acquisitions of property, plant and equipment and other intangible assets		(773)	(652)
Development expenditure		301	(539)
Change in short and long term investments		(2,478)	(4,741)
Acquisitions of subsidiaries, net of cash acquired	3	(504)	0
Proceeds from sale of subsidiaries and other investments, net of cash	3	65,000	0
<b>Net cash provided/(used) in investing activities</b>		<b>61,546</b>	<b>(5,932)</b>
<b>Cash flows from financing activities</b>			
Change in short term debt		(98)	(2,940)
<b>Net cash used in financing activities</b>		<b>(98)</b>	<b>(2,940)</b>
<b>Discontinued operations</b>			
Net cash from operating activities		2,400	(2,020)
Net cash from investing activities		18,537	0
<b>Net cash from discontinued operations</b>		<b>20,937</b>	<b>(2,020)</b>
Effect of exchange rate changes on cash and cash equivalents		(250)	25
<b>Change in cash and cash equivalents</b>		<b>72,949</b>	<b>(11,759)</b>
Cash and cash equivalents, beginning of the period		70,886	65,695
<b>Cash and cash equivalents, end of the period</b>		<b>143,835</b>	<b>53,936</b>

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)	Class AA		Class AB		Class B	
	shares		shares		shares	
	No. of shares		No. of shares		No. of shares	
<b>Balance as at December 31, 2005</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>188,300,000</b>	<b>1,883</b>
Movement capitalized development expenses						
Translation gain						
Net loss						
<b>Balance as at June 30, 2006</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>188,300,000</b>	<b>1,883</b>
Movement capitalized development expenses						
Translation gain						
Translation gain disposals						
Net gain						
<b>Balance as at December 31, 2006</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>188,300,000</b>	<b>1,883</b>
Movement capitalized development expenses						
Translation loss						
Translation gain disposals						
Net gain						
<b>Balance as at June 30, 2007</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>188,300,00</b>	<b>1,883</b>

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 & unappropriated result	Total
		No. of shares				
<b>1,589,584</b>	<b>2,433</b>	<b>(723,656)</b>	<b>(2,052)</b>	<b>578</b>	<b>(1,467,298)</b>	<b>126,368</b>
350	(350)					0
				101		101
					(2,274)	(2,274)
<b>1,589,934</b>	<b>2,083</b>	<b>(723,656)</b>	<b>(2,052)</b>	<b>679</b>	<b>(1,469,572)</b>	<b>124,195</b>
(2,885)	2,885					0
				487		487
				(29)		(29)
					3,978	3,978
<b>1,587,049</b>	<b>4,968</b>	<b>(723,656)</b>	<b>(2,052)</b>	<b>1,137</b>	<b>(1,465,594)</b>	<b>128,631</b>
(304)	304					0
				(592)		(592)
				(939)		(939)
					48,688	48,688
<b>1,586,745</b>	<b>5,272</b>	<b>(723,656)</b>	<b>(2,052)</b>	<b>(394)</b>	<b>(1,416,906)</b>	<b>175,788</b>

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

1. significant accounting policies
2. segment reporting
3. acquisition and disposal of subsidiaries  
and financial investments
4. intangible assets
5. related party transactions
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## 1. significant accounting policies

### **a) The Company**

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

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

### **b) Accounting policies**

These unaudited condensed consolidated interim financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the LYCOS Europe consolidated financial statements for the year ended December 31, 2006. LYCOS Europe’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (Official Journal EC L 243 p.1) (“IFRS”).

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

The accounting policies used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the consolidated financial statements for the year ended December 31, 2006.

## 2. segment reporting

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

### Geographical Segments

In thousand Euro	Germany		Sweden (discontinued <sup>2</sup> )		France	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenues	25,663	26,502	(45)	22,524	5,248	6,003
Revenues from intersegment transactions	9,961	12,245	0	1,176	413	613
<b>Total revenues</b>	<b>35,624</b>	<b>38,747</b>	<b>(45)</b>	<b>23,700</b>	<b>5,661</b>	<b>6,616</b>
<b>Net gain / (loss) for the period</b>	<b>(21,179)</b>	<b>1,285</b>	<b>10,506</b>	<b>(309)</b>	<b>(872)</b>	<b>(462)</b>

In thousand Euro	United Kingdom		Denmark		Other regions & eliminations	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenues	4,100	2,673	3,373	4,056	2,775	2,345
Revenues from intersegment transactions	199	189	133	184	(10,706)	(14,407)
<b>Total revenues</b>	<b>4,299</b>	<b>2,862</b>	<b>3,506</b>	<b>4,240</b>	<b>(7,931)</b>	<b>(12,062)</b>
<b>Net gain / (loss) for the period</b>	<b>64</b>	<b>(636)</b>	<b>(505)</b>	<b>(645)</b>	<b>60,674</b>	<b>(1,507)</b>

In thousand Euro	Less discontinued operations		Continued operations	
	Six months ended	Six months ended	Six months ended	Six months ended
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenues	45	(22,519)	41,159	41,584
Revenues from intersegment transactions	0	0	0	0
<b>Total revenues</b>	<b>45</b>	<b>(22,519)</b>	<b>41,159</b>	<b>41,584</b>
<b>Net gain / (loss) for the period</b>	<b>(11,501)</b>	<b>234</b>	<b>37,187</b>	<b>(2,040)</b>

<sup>2</sup> 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. acquisition and disposal of subsidiaries and financial investments

#### united-domains

On January 13, 2004, LYCOS Europe N.V. acquired all shares in united-domains AG, a German company specialized 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 preliminary consideration of EUR 1.7 million was paid in August 2006 and was adjusted in Q1/2007. In the first three months of 2007 an additional amount of EUR 0.5 million was paid, resulting in a total goodwill of EUR 6.3 million.

#### mentasys

On October 6, 2006 Pangora GmbH, a indirect 100 percent subsidiary of LYCOS Europe N.V. announced the acquisition of all shares in mentasys GmbH, a German shopping solution specialist. The purchase price was EUR 30.0 million including a contingent consideration of EUR 14.0 million based on the performance in the years 2007 to 2009. Based on the latest expectations, the provision for this contingent consideration was decreased by EUR 5.6 million to EUR 8.4 million.

#### Swedish business

LYCOS Europe discontinued its Swedish Portal and Access business during 2006. The Swedish Access business was sold on November 23, 2006 for a consideration of SEK 172.0 million (EUR 18.9 million at transaction date). The transaction was completed in January 2007.

In thousand Euro	June 30, 2007	June 30, 2006
<b>Result of discontinued operations</b>		
Revenues	(45)	22,519
Expenses	222	(22,918)
Other	749	0
<b>Result from operating activities</b>	<b>926</b>	<b>(399)</b>
Net financing income	283	1
Income tax expense	0	164
<b>Profit/(loss) after tax but before gain on sale</b>	<b>1,209</b>	<b>(234)</b>
Gain on sale of discontinued operation	10,292	0
<b>Profit/(loss) for the period</b>	<b>11,501</b>	<b>(234)</b>

#### Seznam

On April 2, 2007 LYCOS Europe sold its available for sale investment in Seznam.cz, a.s. for a consideration of EUR 65 million. The transaction gain amounting to EUR 64.8 million is reported in the finance income.

## 4. intangible assets

In the second quarter 2007, LYCOS Europe performed the annual impairment test for goodwill acquired in business combinations. As a result of the impairment test LYCOS Europe recorded an impairment loss at June 30, 2007 of EUR 17.6 million, thereof EUR 15.0 million concerning the goodwill related to mentasys GmbH and EUR 2.6 million related to Pangora SAS.

Furthermore LYCOS tested the Fireball license for impairment, which was driven by indications for impairment in the recent pageview development. As a result Lycos recorded an additional impairment loss of EUR 1.5 million.

## 5. 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. These transactions are booked on separate accounts and are generally settled within thirty days of the relevant transaction. The billing rates are set at rates, which approximate fair value.

## 6. contingencies and commitments

### Minimum Lease and Rental Payments

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

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

In thousand Euro	
Due within 2007	3,487
Due after 2007 until 2012	19,129
Due after 2012	1,246
<b>Total</b>	<b>23,862</b>

The increase of the overall commitments compared to recent periods is related to the ongoing move of the data-center to a new external provider.

**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.

**7. operating expenses**

Operating expenses comprise of:

**Six months ended June 30, 2007**

In thousand Euro	Ordinary expenses	Restructuring	Impairment	Other amortization	Total
Sales and marketing	(14,067)	0	0	(453)	<b>(14,520)</b>
Research and development	(8,882)	0	(93)	(260)	<b>(9,235)</b>
General and administration	(10,905)	1	(19,137)	(265)	<b>(30,306)</b>
<b>Total</b>	<b>(33,854)</b>	<b>1</b>	<b>(19,230)</b>	<b>(978)</b>	<b>(54,061)</b>

**Six months ended June 30, 2006**

In thousand Euro	Ordinary expenses	Restructuring	Impairment	Other amortization	Total
Sales and marketing	(11,105)	0	0	(131)	<b>(11,236)</b>
Research and development	(7,773)	162	0	0	<b>(7,611)</b>
General and administration	(10,960)	(21)	0	(463)	<b>(11,444)</b>
<b>Total</b>	<b>(29,838)</b>	<b>141</b>	<b>0</b>	<b>(594)</b>	<b>(30,291)</b>

**8. subsequent events**

On July 17, 2007 LYCOS Europe executed a new License Agreement with Lycos, Inc. for a consideration of about USD 5.2 million. This perpetual and royalty-free license includes the right to exploit the Lycos as well as the Hotbot, Tripod and Angelfire trademarks in all European countries and Armenia. While executing the new License Agreement, LYCOS Europe and Lycos, Inc. have also settled all outstanding issues.

Haarlem, July 27, 2007  
The Management Board  
LYCOS Europe N.V.

## 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 <sup>3</sup>	23,790	23,856	22,838	33,292
EBITDA <sup>3,4</sup>	(9,645)	(11,928)	(7,169)	(5,485)
EBIT <sup>3,4</sup>	(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)

In thousand Euro (except per share data)	Quarter ended March 31, 2005 (restated)	Quarter ended June 30, 2005 (restated)	Quarter ended September 30, 2005 (restated)	Quarter ended December 31, 2005 (restated)
Revenues	18,251	20,022	20,044	20,929
EBITDA <sup>4</sup>	(6,194)	(6,264)	410	1,709
EBIT <sup>4</sup>	(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)

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

In thousand Euro (except per share data)	Quarter ended March 31, 2007	Quarter ended June 30, 2007
Revenues	19,959	21,200
EBITDA <sup>4</sup>	(2,320)	(5,272)
EBIT <sup>4</sup>	(3,847)	(25,983)
Net profit	7,610	41,078
Net profit per share basic and diluted in Euro	0.02	0.13

<sup>3</sup> Not restated.

<sup>4</sup> EBIT is Earnings Before Interest and Taxes,

EBITDA is Earnings Before Interest, Taxes, Depreciation, Amortization and Impairment.



**LYCOS Europe N.V.**

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LYCOS Europe, Corporate Communications

**Financial information**

LYCOS Europe, Group Accounting and M&A

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The interim report for the period ended  
June 30, 2007, is also available in  
German and French. In case of doubt,  
the English version is decisive.

