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The annual accounts included herein were adopted in the Annual General Meetings of Shareholders of Lycos Europe N.V. held in Amsterdam on 24 May 2007.

04-06-2007

Annual report
for the year ended December 31, 2006

Key Figures

Full Year 2006 and 2005

In million Euro (except per share data, change and gross margin)	Year ended December 31, 2006 (unaudited/ pro forma)	Year ended December 31, 2005 (unaudited/ restated [1])	Change
Total revenues	82.4	79.2	4%
Pro forma gross profit [2]	52.2	50.6	3%
Pro forma gross margin [2]	63%	64%	(2)%
Loss from operations	(13.1)	(18.7)	30%
Net profit /(loss)	1.7	(20.2)	108%
Net profit /(loss) per share in Euro	0.01	(0.06)	108%
EBITDA [3]	(4.6)	(10.3)	55%

Three months ended December 31, 2006 and 2005

In million Euro (except per share data, change and gross margin)	Three months ended December 31, 2006 (unaudited/ pro forma)	Three months ended December 31, 2005 (unaudited/ restated [1])	Change
Total revenues	23.4	20.9	12%
Pro forma gross profit [2]	14.5	14.1	3%
Pro forma gross margin [2]	62%	67%	(9)%
Loss from operations	(5.2)	(0.2)	(3,051)%
Net loss	(5.2)	(1.7)	(206)%
Net loss per share in Euro	(0.02)	(0.01)	(206)%
EBITDA [3]	(1.2)	1.7	170%

	December 31, 2006	December 31, 2005	Change
Number of employees	714	688	4%
Cash, cash equivalents and other investments in million Euro	93.3	105.1	(11)%

[1] Restated by the sale of the Swedish business, please refer also to the ex[illegible]the financial results on page 9.
[2] Gross profit presented excluding restructuring costs and impairment loss.
[3] EBIT/EBITDA are non-defined non-GAAP measurements, please refer to the explanatory notes to the key figures, which are displayed on page 64.

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Report to the shareholders

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

1 Message from the CEO

Dear shareholders,

In 2006 LYCOS Europe reached a major milestone in the Company's history. LYCOS Europe achieved its main financial target to finish this financial year with a positive net income on a full year basis. The net profit for the period amounted to EUR 1.7 million, which is an improvement of 108 percent compared to the net loss of 2005 of EUR (20.2) million. This was mainly realized by the disposal of the Swedish Portal business which resulted in a positive one-time gain of EUR 15.0 million. The disposal of the Swedish Access business, which was approved by the Swedish competition authorities on January 4, 2007, was closed on January 12, 2007 and will be accounted for in the first quarter 2007. These disposals were the result of a strategic decision to achieve a better focus on the paid services and shopping and advertising based section of the Company.

The financial statements of LYCOS Europe were restated in line with the accounting principles of the Company. The Swedish business, which is classified as discontinued operations, was excluded from the operating activities. Lycos achieved to improve on revenues as well as on EBIT compared to the reporting period of the previous year. Total revenues in 2006 (EUR 82.4 million) increased by 4 percent compared to 2005 (EUR 79.2 million) and 2006 EBIT improved by 30 percent (2006: EUR (13.1) million vs. 2005: EUR (18.7) million).

To further strengthen the core businesses of LYCOS Europe the Company decided to invest into its business unit Shopping. With the acquisition of mentasys GmbH, a German shopping solution specialist, a highly awarded technology was added to the LYCOS Europe network.

The combination of the mentasys expertise in backend solutions with the professional front-end technologies of LYCOS Europe's one hundred percent subsidiary Pangora will leverage the competitiveness of this business unit in the international environment. This transaction doubles the shopping related development capacities and innovation rate, which will secure the leading role of LYCOS Europe in the future development of the eCommerce industry.

Furthermore LYCOS Europe continues to invest substantial amounts in the development of new and state-of-the art Internet services by leveraging the high level of creativity and expertise of its employees. Amongst many other new, professional services especially the successful launch of the unique and innovative human search engine, LYCOS iQ, proved the Company's strong position on the market of Internet service providers. The idea to make the knowledge and expertise of thousands and potentially millions of people accessible to the online community will lead to increasing usage figures as well as completely new possibilities for the further development of Internet search engines.

Based on these successes LYCOS Europe sees itself in a good position to increase its revenues going forward. In the year to come the Company will work hard to bring many new and or enhanced products to market and further improve its operating results.

Christoph Mohn
Chief Executive Officer

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2 About LYCOS Europe and Overview 2006

Reach profitable growth by borderless innovative activities based on operational and technological excellence in order to satisfy the shareholders´, customers´ and employees´ interests.

After a year of restructuring and setting up a new company structure in 2005 the activities of LYCOS Europe in 2006 were focused on the renewal, stabilization and improvement of most services as well as on the strengthening of the core businesses.

The Company focused on its strategy to start and develop several new, world class and state-of-the-art products and several product updates. These innovations and further developments are based on the creativity and the technical excellence of the team of LYCOS Europe's product and marketing managers, developers and technical support.

Understanding the whole range of LYCOS Europe services as a portfolio model, the intention is to launch numerous new products of which some are expected to become successful. By this LYCOS Europe believes to secure its position amongst the leading Internet service providers in Europe.

With over 31 million users (including third party sites) LYCOS Europe owns one of the four main launch platforms in Europe and has the critical mass in sales and billing systems to offer hybrid models in the white label business. In order to further grow the user base and make the LYCOS Europe network even more attractive several new partnership agreements were closed in 2006 as well numerous initiatives were launched to make especially the portal pages of LYCOS Europe more attractive.

LYCOS Europe is an innovator who combines strong creative skills with technical excellence
Following its strategy of launching several new, state-of-the-art services per year LYCOS Europe introduced not only a new way of online searching, but also numerous other initiatives to improve the user experience online. By doing so it strengthened its core business units and underlined its leading role on the European Internet market.

LYCOS iQ

Already in the beginning of 2006 LYCOS Europe set a new standard for online searches in Europe. With an innovative new search tool called LYCOS iQ, the Company proved its knowledge about users' actual needs and how to make perfect use of the current Web 2.0 trends. Based on LYCOS Europe's success in the field of online communities this service is a unique combination of a question and answer tool, a link library and a community tool. The service was rolled out in Denmark, France, Germany, Sweden and the United Kingdom.

LYCOS iQ lets users pose complete questions directly to the LYCOS community instead of searching for keywords. The advantage is that users get real and complete answers instead of a list with countless links to websites that only refer to the keyword. The answers are provided by other individuals who have an expertise in that particular field, or suggested from a database of saved responses and relevant bookmarks to other sites that are stored in the LYCOS iQ database.

The idea behind LYCOS iQ is that everybody has a certain knowledge about something that cannot be found anywhere else on the Internet, because it is based on experience. LYCOS iQ is a helpful tool if for example somebody moves to a new city and needs to find a good doctor, a haircutter or the best Italian restaurant.

While the access to LYCOS iQ is free, answers can only be given by registered LYCOS iQ members in order to secure the quality of the service. Users are motivated to share their knowledge by a ranking system, ranging from "Student" to "Einstein", which displays the level of expertise someone has shown in a certain field combined with the activity level as a community member.

The database of LYCOS iQ is also linked with the traditional LYCOS Search so that answers are also suggested to those users who use the traditional keyword search. Thereby also the results of the traditional search become much more relevant.

Since introduction about 130,000 questions have been posted. Throughout the year the service has been further developed e.g. by offering an intelligent browser toolbar and video answers. The toolbar allows asking questions from anywhere in the Internet without going to the LYCOS iQ website. Video answers can make it easier to answer to certain questions because a picture sometimes can be more meaningful than a verbal description.

Shopping

At the same time the Shopping section has seen a lot of new developments. The one hundred percent subsidiary Pangora GmbH, one of the leading providers of product search and comparison technologies in Europe, managed to develop and implement several new services in 2006 like a travel search and a fashion search tool.

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Since the launch of LYCOS Travel Search it is offering already a comprehensive aggregation of flight searches that makes it easy to compare flight availabilities and prices. Information on flights is provided from suppliers like Air Berlin, ebookers, Germanwings, Opodo and Weglo. LYCOS Travel Search can be found in the LYCOS Shopping section.

The LYCOS Fashion Search helps to find the latest must-haves at the best prices online. Moreover, this product presents hints for fashion outlets and industrial selling. The first version of the Fashion Search is running on the shopping portal eVita which belongs to the LYCOS Europe network since 2002.

The European shopping portal LYCOS Shopping was relaunched in the first quarter of 2006 with new features like test reviews and top ten product lists, while shopping portal eVita was rolled out internationally to France, Italy and the United Kingdom in the third quarter of 2006. eVita and BuyCentral, both part of the LYCOS Europe network, started their own affiliate program.

At the same time Pangora was able to extend its range of partnerships throughout Europe with agreements with Axel Springer Verlag in Germany (for the shopping sites of www.welt.de, www.welt-am-sonntag.de, www.morgenpost.de), the German TV station Kabel1 (for www.kabeleins.de) and GelbeSeiten (for local product and shop searches). In France, new partnerships were closed with for example Le Monde (for their shopping site).

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 was able to offer its shop clients a presence in shopping channels of portals like MSN, Repubblica and Mondadori and managed to double its reach.

In order to strengthen and extend this very important business unit LYCOS Europe acquired the shopping solution specialist mentasys GmbH based in Karlsruhe (Germany), which was announced on October 6, 2006. This is an important investment in LYCOS Europe's growth strategy in the Shopping section. While Pangora is a specialist for shopping search technologies who has its strengths in the areas of front-end technologies, sales and international business the newly acquired mentasys brings in its expertise in back-end technologies, product advisors and product data.

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.

With this transaction LYCOS Europe was able to 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.

Communication and Communities invented and developed completely new and innovative versions of its services throughout the year which are expected to be launched in 2007. The goal that LYCOS Europe has set in this context is to bring unique, consumer focused services to market which reflect its high standards in technology and creativity.

In the meantime the business unit Communication and Communities still managed to update and further develop the existing services. A new photo voting community service called "Sexy like us!" was added to the service portfolio in the third quarter 2006. In this community users follow the trend of self-portrayal on the web and test the success of their looks directly in the community.

Users above 16 years can upload a short profile with up to five pictures of themselves. Other users then rate these pictures on a scale from ten to one: hot or not. The Top 5 most popular men and women are presented on the community's 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. The new service has also been integrated with other services like the LYCOS Chat, JubiiBlogs and Love@LYCOS.

At the same time the LYCOS Chat, with its lively virtual community of about 5 million registered members Europe's leading and most modern web chat facility, continued its fight against criminality and especially child abuse on the Internet also in 2006. Therefore LYCOS Chat extended it's its partnership with Innocence in Danger, the international child protection movement. Together both partners have set up a special chat-related information portal for parents and children in Germany at www.sicher-chatten.de.

For the LYCOS Chat it was also a good success in 2006 to win the German portal T-Online and the mobile service Vodafone live! as new partners. LYCOS Europe and T-Online agreed on a long-term cooperation in the field of online communication services. According to this agreement LYCOS Europe started to run the chat service of T-Online in 2006. The about 13 million users of T-Online (source: AGOF Internet facts 2005-II) now have the chance to go directly from their T-Online site into Europe's leading chat run by LYCOS Europe. Here they can take the advantage of about 3,000 functions and about 800 chat rooms.

Also Vodafone live! chose to include our outstanding chat service on their online and mobile portals (www.vodafonelive.de) in the second quarter of 2006. Hereby Vodafone live! users are given the possibility to chat via their mobile devices - be it from mobile to PC or completely remote from mobile to mobile. The service was launched as a premium offer by Vodafone Germany.

For those who like to share their daily life and interests with the world JubiiBlogs have been extended by the feature of video and audio blogging. Bloggers can now record and upload MP3-format audio files and video clips as well as writing posts for their weblogs.

Clips can be created using a digital camera, PC-based audio recording software or a webcam to capture video and sound. In cooperation with a partner company LYCOS Europe offers JubiiBloggers a free program which helps them to edit together images, videos, sounds and text and upload them to their Blogs without any technical know-how. Once posted, the clips are hosted and streamed by LYCOS Europe.

LYCOS Mail

In terms of communication services the whole appearance and usability of LYCOS Mail has been updated in 2006. The improved usability concept includes a better visibility of the most important functions, a deep integration of other LYCOS Europe services like the communities, portal contents and a professional search tool as well as the so called Protek-On-System which includes leading security technologies like „Domain Keys" and „SPF Sender Policy Framework". The 12-steps program includes a complete SSL-encryption (Secure Socket Layer) with highest security standards. Depending on the email service chosen, LYCOS Mail offers between 300 Megabyte (MB) and up to 10 Gigabyte (GB) web space.

Hosting and Domain Names

Especially in the hosting and domain names business LYCOS Europe was able to prove its expertise and high-quality services again in 2006. A milestone was the introduction of the Top Level Domain ".eu" in the second quarter 2006.

With an allocation quota of about 61 percent compared to the number of domains submitted to the EURid on the event of the land rush phase of the new European domain ending on April 7, 2006, LYCOS Europe demonstrated again its expertise in the field of domain registrations. With its subsidiary united-domains AG, an official domain registrar, and its business unit LYCOS Web Hosting the European Internet portal gained a European market share of nearly 9 percent in the first days of the .eu domain.

The next land rush phase of the new Top Level Domain ".mobi" followed in the third quarter 2006. Here, LYCOS Europe's one hundred percent subsidiary united-domains participated in the sunrise period and land rush phase. Before the start of the general registration for this domain in October 2006, united-domains had already collected several thousands of pre-registrations.

The business unit Hosting and Domain Names also introduced some further developments in 2006. The business unit optimized its service portfolio and added a small hosting package called Active Start 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 and professional users who for example 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.

For its mid-sized and large eShop packages LYCOS Web Hosting has 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. 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.

LYCOS Wifi Sniffer

Another successful service of LYCOS Europe is the LYCOS Wifi Sniffer, a hotspot search tool for wireless Internet access. LYCOS Europe has established itself as the European market leader in this field. The LYCOS Wifi Service, supported by LYCOS Europe's partner Spotigo, includes more than 50,000 Wifi hotspots in 8,000 cities in 11 European countries. Thereof about 23,000 hotspots are located in Germany, Spain and the United Kingdom.

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LYCOS Europe offers one of the main launch and marketing platforms in Europe
All the new product developments will continue to secure a large user base. The strategic approach of channel extensions proved to be a successful reach driver in 2006. In total, the number of strategic partners in this field has risen to 16 now including About.com, IMDb.com and Map24 as well as numerous local partners in France, Germany and the United Kingdom.

In the third quarter of 2006 LYCOS Europe was able to sign a deal with the Internet Movie Database (IMDb), "Earth's biggest movie database", for the European inventory of the IMDb website. The sites of IMDb feature cast lists, quotes, trivia, reviews, box office data, biographies and photography and other data regarding celebrities and movies.

LYCOS Europe is the sole agent of sales for IMDb covering Denmark, France, Germany, Italy, Norway, Spain, Sweden, the Netherlands and the United Kingdom. According to Nielsen Netratings this partnership adds about 5 million unique users to the LYCOS network per month.

The successful partnership with About.com was also extended in 2006. About.com, the online source for original consumer information and advice based in the United States, is a subsidiary of The New York Times Company. Known as one of the main consumer information resources About.com is visited by millions of European users every month. 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 Denmark, France, Germany, Italy, Spain, Sweden, the Netherlands and the United Kingdom.

LYCOS Europe focuses on its core competencies
Contrary to the investments in the eCommerce and shopping area LYCOS Europe made the strategic decision to withdraw from the Swedish market and sold its Portal business and its Swedish Access business.

On September 29, 2006, LYCOS Europe sold the Swedish Portal business www.spray.se of its subsidiary Spray to the media company Aller Svenska AB. The agreement between LYCOS Europe and Aller Svenska AB includes the ongoing supply with a wide range of web services being developed by LYCOS Europe such as Spray Mail, Spray Chat, and Spray Hosting in the future. 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.

On November 23, 2006, LYCOS Europe sold its Swedish Access business which operated under the brand Spray to Glocalnet Scandinavia AB. This transaction was approved by the Swedish competition authorities on January 4, 2007 and was closed on January 12, 2007.

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3 Financial Results

The following financial information is presented on a pro forma basis following the presentation requirements of the Company's previous GAAP. This should allow a further understanding of the current financial performance. In comparison to the presentation required according to the International Financial Reporting Standards as adopted by the EU ("IFRS"), extraordinary items (e.g. restructuring costs) are excluded from the functions and are presented in separate line items.

The Swedish Portal business and the Swedish Access business were sold on September 29, 2006, and November 23, 2006, respectively, and are classified as discontinued operations. As at December 31, 2006, the sale of the Swedish Access business was subject to approval of the Swedish competition authorities. Further for comparative purposes the 2005 financial statements have been restated.

In thousand Euro	Year ended December 31, 2006 (unaudited)	Year ended December 31, 2005 (unaudited/restated)	Three months ended December 31, 2006 (unaudited)	Three months ended December 31, 2005 (unaudited/restated)
Revenues				
Advertising	35,658	38,279	9,802	10,557
Paid services and shopping	40,447	32,796	11,795	8,569
Interconnect	5,906	6,893	1,560	1,525
Licensing and other	369	1,278	231	278
Total revenues	**82,380**	**79,246**	**23,388**	**20,929**
Pro forma cost of revenues	(30,199)	(28,669)	(8,879)	(6,793)
Pro forma gross profit	**52,181**	**50,577**	**14,509**	**14,136**
Sales and marketing expenses	(24,198)	(23,603)	(6,920)	(5,965)
General and administrative expenses	(21,525)	(20,393)	(5,229)	(4,266)
Research and development expenses	(16,799)	(18,511)	(4,905)	(3,743)
Other income	852	669	177	169
Restructuring charges	140	(5,805)	35	(6)
Amortization of intangibles	(1,396)	(1,388)	(505)	(347)
Impairment on property, plant and equipment	0	(236)	0	(144)
Impairment on intangible assets	(2,393)	0	(2,393)	0
Total operating expenses	**(65,319)**	**(69,267)**	**(19,740)**	**(14,302)**
Loss from operations	**(13,138)**	**(18,690)**	**(5,231)**	**(166)**
Profit / (loss) from discontinued operations	12,772	(3,917)	(411)	(2,223)
Net profit / (loss) for the period	**1,704**	**(20,236)**	**(5,166)**	**(1,730)**

In the following discussion reference is made to the acquisition of mentasys GmbH on October 6, 2006. For comparison purposes, where presented as adjusted for the acquisition, comparatives are calculated on the basis, as if the acquisition would have had occurred on January 1, 2005.

Revenues
Revenues from paid services and shopping showed good growth rates and LYCOS Europe's enhanced efforts to extend its paid services offer. Advertising revenues contributed with 43 percent, paid services and shopping with 49 percent to LYCOS Europe's total revenues in the period ended December 31, 2006.

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Amounting to EUR 82.4 million for the year ended December 31, 2006, LYCOS Europe's revenues increased by 4 percent compared to the year ended December 31, 2005. Adjusted for mentasys GmbH which was acquired in 2006, revenues increased by 6 percent.

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Advertising revenues for the year ended December 31, 2006, decreased by 7 percent compared to the year ended December 31, 2005.

Paid services and shopping for the year ended December 31, 2006, increased by 23 percent compared to the year ended December 31, 2005. The increase of paid services and shopping is the result of the continuous growth in existing products and the successful launch of .eu domains. Adjusted for the acquisition made in 2006 paid services and shopping revenues increased by 28 percent.

Interconnect revenues for the year ended December 31, 2006, decreased by 14 percent compared to the year ended December 31, 2005. This decrease is mainly driven by the 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 December 31, 2006, of EUR 23.4 million, increased by 12 percent compared to revenues of EUR 20.9 million for the three months ended December 31, 2005. Adjusted for the acquisition of mentasys GmbH, revenues for the three months ended December 31, 2006, increased by 8 percent compared to the three months ended December 31, 2005.

Cost of Revenues
Cost of revenues increased from EUR 28.7 million for the year ended December 31, 2005, to EUR 30.2 million for year ended December 31, 2006.

The gross margin decreased to 62 percent for three months ended December 31, 2006, compared to 68 percent for the three months ended December 31, 2005.

Sales and Marketing
Sales and marketing expenses amounted to EUR 24.2 million for the year ended December 31, 2006, which is an increase of 3 percent compared to sales and marketing expenses of EUR 23.6 million for the year ended December 31, 2005.

In the three months ended December 31, 2006, sales and marketing expenses amounted to EUR 6.9 million compared to EUR 6.0 million for the three months ended December 31, 2005.

General and Administration
General and administrative expenses increased from EUR 20.4 million for the year ended December 31, 2005 to EUR 21.5 million for year ended December 31, 2006. Adjusted for the acquisition made during 2006, general and administrative expenses increased by 4 percent only.

General and administrative expenses for the three months ended December 31, 2006, increased by 23 percent compared to the same period last year.

Research and Development
Costs incurred for research and product development amounted to EUR 16.8 million for year ended December 31, 2006, compared to EUR 18.5 million for the year ended December 31, 2005. This decrease of 9 percent is primarily due to the cost reduction program of LYCOS Europe.

Research and development costs increased from EUR 3.7 million for the three months ended December 31, 2005, to EUR 4.9 million for the three months ended December 31, 2006. This increase reflects the ongoing commitment to deliver new products during 2007 and the additional development capacities for mentasys.

Amortization of Intangibles
Amortization expenses amounting to EUR 1.4 million for the year ended December 31, 2006 are mainly related to amortization of intangible assets excluding goodwill identified in the purchase price accounting of united-domains AG, Pangora SAS and mentasys GmbH.

Amortization expenses for the three months ended December 31, 2006 are amounting to EUR 0.5 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 circumstances of those companies. See page 64 for LYCOS Europe's definition of the EBITDA result.

The EBITDA result amounted to EUR (4.6) million for the year ended December 31, 2006, which is an improvement of 55 percent compared to the year ended December 31, 2005 (EUR (10.3) million).

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The EBITDA result decreased from EUR 1.7 million for the three months ended December 31, 2005, to EUR (1.2) million for the three months ended December 31, 2006.

Financing
The total amount for cash and cash equivalents, short-term and long-term deposits decreased from EUR 105.1 million on December 31, 2005, to EUR 93.3 million on December 31, 2006. During the year ended December 31, 2006, LYCOS Europe used EUR 0.5 million cash in operating activities, which is an improvement of 95 percent compared to EUR 9.7 million used during the year ended December 31, 2005. In addition, during the year ended December 31, 2006, an amount of EUR 2.1 million was used for the acquisition of property, plant, equipment and intangible assets. The net cash received for the sale of the Swedish Portal business of LYCOS Europe amounted to EUR 16.6 million.

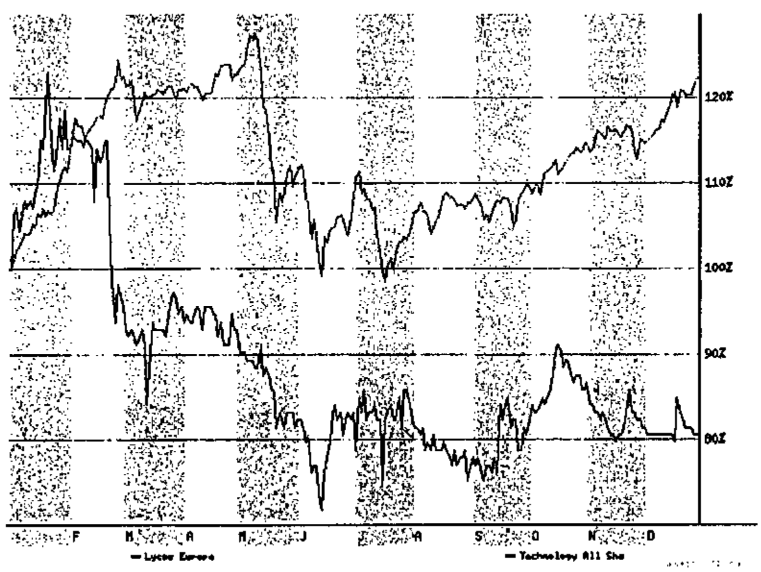
LYCOS Europe focuses on reducing its operating loss and will continue to do so, expecting no additional funding requirement until becoming cash-flow positive.

4 The Share

Shareholder Structure
LYCOS Europe's legal shareholder structure as at December 31, 2006, is as follows: LE Holding Corp. (32.1 percent), Bertelsmann Internet Holding GmbH / Fireball Internet GmbH / Jahr Vermögensverwaltungs GmbH and 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) including Amber Master Fund SPC.

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

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



LYCOS Europe's share price faced a non satisfying development in the course of the year 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 December 29, 2006) and therefore could not compete with the Technology All Share Index which rose by 23.2 percent in the same period.

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5 Employees

LYCOS Europe had 714 employees at the end of 2006 compared to 688 employees at the end of 2005. As aforementioned, LYCOS Europe sold its Swedish Portal and Access business, both businesses mainly driven by its subsidiary Spray Network AB with headquarters in Stockholm/Sweden.

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As at December 31, 2006, the sale of the Swedish Access business was subject to approval by the Swedish competition authorities. 21 employees of the total staff are related to this line of business.

From all employees 55 percent are located in Germany, 27 percent in Armenia, 7 percent in France and 11 percent in offices located in Denmark, Italy, the Netherlands, Sweden and the United Kingdom.

LYCOS Europe has a team of outstanding creative and technical experienced employees. The base is the Company's corporate culture, which is dominated by mutual respect and excitement over future tasks. The Company offers a professional environment for all employees with a focus on the respect for the differences in the cultures. With the necessary resources in place, the employees can reach the goals and utilize their potential. The recognition of the team effort as well as the single performance is of high importance to the Company.

6 Corporate Governance

LYCOS Europe N.V. endorses the importance of good corporate governance, which is understood to include honest and transparent acting on the part of management, correct supervision of this corporate governance and accepting responsibility for the supervision carried out. This section of the Company's annual report provides an outline of its corporate governance structure. LYCOS Europe applies the Dutch Corporate Governance Code, which was published by the Corporate Governance Commission on December 9, 2003, to most points. Deviations are specifically discussed and explained in the subsection entitled "Deviations from the Dutch Corporate Governance Code" below.

LYCOS Europe's Management Board and Supervisory Board are responsible for weighing up the interests of the Company's customers, suppliers, employees and capital providers among with interests of the shareholders. In doing this LYCOS Europe's boards strive to create shareholder value in the long term.

The corporate governance principles LYCOS Europe employs are deposited in the Company's Articles of Association, the By-Laws of its Management Board, the By-Laws of its Supervisory Board and other documents. LYCOS Europe has a written code of business principles and a written whistleblowing policy. All of said documents and other information that LYCOS Europe is required to publish or deposit pursuant to provisions of company law and securities law applicable to the Company are posted on a separate corporate governance section on the Company's website.

During the Company's 2005 Annual General Meeting of Shareholders its corporate governance policy has been discussed and its Management Board and Supervisory Board have given account accordingly. Substantial future changes to LYCOS Europe's corporate governance structure, if any, will be submitted to the General Meeting of Shareholders for discussion.

During 2006 a few changes were made to the Terms of Reference of the Audit Committee. The By-Laws of the Supervisory Board are in the process of being changed as well. Given the minor importance of these changes, they are not further discussed in this report.

Management Board
Role and procedure
Management responsibilities
The management responsibility is vested in the Company's Management Board. This includes among other things responsibility for determining and achieving the Company's objectives, strategy and policies and the development of results. LYCOS Europe's Management Board reports on these matters to its Supervisory Board and to the General Meeting of Shareholders. In discharging its role, LYCOS Europe's Management Board focuses on the Company's interests taking into consideration the interests of its stakeholders. LYCOS Europe's Management Board provides its Supervisory Board with all the information necessary for the exercise of its duties in a timely fashion.

LYCOS Europe's Management Board is responsible for complying with all relevant legislation and regulations, managing the risks associated with the Company's activities and its financing. The Management Board reports on these matters to the Supervisory Board and the Audit Committee and discusses the internal risk management and control systems with these bodies.

Composition and appointment
Christoph Mohn, the Company's Chief Executive Officer ("CEO"), currently is the sole member of the Management Board. Christoph Mohn has been appointed for an indefinite period of time and LYCOS Europe is of the opinion that this cannot be changed unilaterally by the Company into a fixed-term position. New members of the Management Board are expected to be appointed for a term of four years (without prejudice to the possibility of reappointment), provided market circumstances so permit.

Pursuant to the Company's Articles of Association LYCOS Europe's Management Board must consist of one, two or three members who are appointed by the Company's General Meeting of Shareholders. The meeting of holders of LYCOS Europe's class AB shares have the right to make a binding nomination for filling one seat on the Company's Management Board. The person appointed in this seat is referred to as a managing director AB. Christoph Mohn is a managing director AB. The meeting of holders of LYCOS Europe's class AA shares may determine that a second Management Board member must be appointed and if so determined, it will have the right to make a binding nomination with respect to the second seat. The person appointed in that seat would be referred to as a managing director AA. If the meeting of holders of class AA shares has determined that there must be a managing director AA, the meeting of holders of class AB shares may determine that the Management Board shall consist of three managing directors. In that case, the third managing director will neither be a managing director AA nor a managing director AB and in respect of this seat no binding nomination rights exist. A nomination for appointment of a managing director AA or AB prepared by the shareholders of the relevant class will be binding if consisting of at least two candidates. The General Meeting of Shareholders can override the binding nature of such nomination only by a two-thirds majority representing more than one-half of the Company's issued share capital.

In October 2006, Bertelsmann Internet Holding GmbH (BIH) and Christoph Mohn Internet Holding GmbH (CMIH), owning 39,27 percent and 37,73 percent respectively of all class AB shares outstanding and both also holding a number of class B shares, informed the Company of their mutual agreement that (i) with respect to nomination, appointment and removal of the CEO and Supervisory Board members AB, BIH will exercise its voting rights in accordance with instructions given by CMIH; and (ii) with respect to the approval of capital measures such as the issue of share options and convertible loan notes, they will act as if BIH had a veto right.

LYCOS Europe's Management Board must appoint a Chief Financial Officer ("CFO") whether or not from among its members, on the proposal of the CEO. However, if the Management Board consists of three members and provided the person who is neither a managing director AA nor a managing director AB is nominated by the CEO, that person shall be the CFO. During 2006 LYCOS Europe's CFO was not a member of the Management Board and therefore acted under the responsibility of the Management Board. The CFO is among other things responsible for formulating the Company's financial strategy, overseeing and ensuring the integrity of its accounts and its financial reporting.

Mrs. Lydia Lux-Schmitt, who was the Company's CFO but not a member of the Management Board, left the Company as of September 30, 2006. Since then, the functions of the CFO have been temporarily assumed by the CEO.

Remuneration
Amount and composition of the remuneration
LYCOS Europe places a high importance on attracting and retaining qualified directors and personnel, whilst safeguarding and promoting the Company's medium- and long-term interests. The Remuneration Policy for members of the Company's Management Board is reflective thereof. It is designed to support LYCOS Europe's strategy for value creation and shareholder alignment and to strengthen the Company's Management Board members' commitment.

The Remuneration Policy for the members of LYCOS Europe's Management Board includes fixed and variable components. The ownership of shares in the Company's capital by Management Board members is for long-term investment.

An overview of the remuneration of Christoph Mohn, who is currently LYCOS Europe's sole Management Board member, can be found on page 58.

Determination and disclosure of remuneration
LYCOS Europe's current Remuneration Policy that has been discussed and adopted by its 2005 Annual General Meeting of Shareholders can be found on page 68. Subsequently, every material amendment to the Remuneration Policy will also be submitted to the General Meeting of Shareholders.

Conflicts of interest
Any member of LYCOS Europe's Management Board is required to immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company or to the member of the Management Board to the Chairman of the Supervisory Board. Where the Supervisory Board decides that a particular transaction must be treated as a transaction in which a Management Board member has a conflict of interest, it shall also decide on the internal decision-making process to be followed in respect thereof. All transactions in which there are conflicts of interest with a Management Board member are agreed on arm's length conditions. Decisions to engage in transactions in which conflicting interests of a Management Board member are involved, which are of material significance to LYCOS Europe and/or to the Management Board member require the approval of the Supervisory Board. In the event of a conflict of interest between LYCOS Europe and a Management Board member, the Company shall be represented by the person or persons designated for such purpose by the Supervisory Board (which may but need not be the Management Board member concerned), save when one or more other persons were previously designated by the General Meeting of Shareholders for that purpose.

Acknowledging that Christoph Mohn has a personal financial interest in Bertelsmann AG, LYCOS Europe's Supervisory Board closely monitors the Company's dealings with Bertelsmann and its affiliates.

Supervisory Board
Tasks and procedure
LYCOS Europe's Supervisory Board's responsibility is to supervise the policy of the Company's Management Board and the general affairs of LYCOS Europe and its business as well as to assist the Company's Management Board by providing advice. In doing so, the Supervisory Board is guided by the Company's interests and takes into account the relevant interests of its stakeholders. The Supervisory Board is responsible for the quality of its own functioning.

Independence
Composition and appointment
The members of the Supervisory Board are appointed by the General Meeting of Shareholders for a period of four years. As a general rule, LYCOS Europe's Supervisory Board members may serve a maximum of three terms of four years on the Supervisory Board.

LYCOS Europe's Supervisory Board currently consists of six members, being three supervisory directors AA and three supervisory directors AB. The meeting of holders of the Company's class AA shares have the right to make binding nominations for the appointment of supervisory directors AA and the meeting of holders of the Company's class AB shares have the right to make binding nominations for the appointment of supervisory directors AB. A nomination for appointment of a supervisory director AA or AB made up by the shareholders of the relevant class will be binding if consisting of at least two candidates. The General Meeting of Shareholders can override the binding nature of such nomination only by a two-thirds majority representing more than one-half of the issued share capital.

The expertise and composition requirements of LYCOS Europe's Supervisory Board are laid down in a Supervisory Board Profile which is annexed to the By-Laws of the Company's Supervisory Board. The Supervisory Board is responsible for promoting, within the limits of its powers, that the size of LYCOS Europe's Supervisory Board is at all times such that the Supervisory Board as a whole can perform its duties effectively and responsibly and that each individual member of the Company's Supervisory Board is able to make a contribution by his or her specific qualities.

The composition of LYCOS Europe's Supervisory Board is such that its members can act critically and independently of one another, and of the management and any particular interest, acknowledging, however, that under the Company's Articles of Association the meeting of holders of its class AA shares and the meeting of holders of its class AB shares have special nomination rights with respect to the appointment of Supervisory Board members and provided that LYCOS Europe does bear certain characteristics of a joint venture between the holders of its class AA and AB shares justifying that the Company's Supervisory Board members are selected from persons occupying functions (as a director, officer or otherwise) with a holder of class AA or AB shares or parties related thereto.

Under the criteria of the Dutch Corporate Governance Code, only one of LYCOS Europe's Supervisory Board members qualifies as independent. Messrs. Rodriguez-Vina, Rovira de Ossó and Velo Puig-Durán, who are LYCOS Europe's supervisory directors AA, are not independent as they are directors or officers of Telefónica SA, which

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is the parent of the Company that owns LYCOS Europe's class AA shares, representing over 10 percent of the Company's share capital. Mr. Mateu Isturiz, who was a supervisory director AA, was an officer of Telefónica SA until November 2005 and is currently employed by Altadis SA. Mr. Richter, one of LYCOS Europe's supervisory directors AB and the Chairman of the Supervisory Board, was formerly employed with and has a business relationship with Bertelsmann AG, which is the parent of the majority holder of LYCOS Europe's class AB shares, representing over 10 percent of the Company's share capital. Mr. Buch, also a supervisory director AB, is employed with an affiliate of Bertelsmann AG. Mr. Bohnert, who is also a supervisory director AB, is independent, notwithstanding the fact that he was the advisor to a company which in the past was an affiliate of Bertelsmann AG and notwithstanding the fact that he is a partner of a law firm of which other partners do certain work for Bertelsmann AG or its affiliates.

Role of the Chairman of the Supervisory Board and the Company Secretary
The Chairman and Vice Chairman (if any) of LYCOS Europe's Supervisory Board are appointed by the meeting of holders of the Company's class AB shares. The Chairman is not a former member of the Management Board.

The duties of the Chairman of LYCOS Europe's Supervisory Board include preparing the agenda and chairing Supervisory Board meetings, monitoring the satisfactory functioning of the Supervisory Board and its Committees, arranging the adequate provision of information to the Supervisory Board members, ensuring that there is sufficient time for making decisions, being the main contact point on behalf of the Supervisory Board for the Management Board, initiating the evaluation of the functioning of the Supervisory Board and the Management Board and as Chairman ensuring the orderly and efficient conduct of General Meetings of Shareholders. The Chairman of the Supervisory Board is assisted by the Company Secretary who is as such also the secretary of the Supervisory Board.

Composition and role of the Committees of the Supervisory Board
Without prejudice to its own responsibility, LYCOS Europe's Supervisory Board has established an Audit Committee and a Remuneration Committee, each consisting of three members of the Supervisory Board. The task of these Committees primarily is to prepare the decision-making of the Supervisory Board.
In view of the binding nomination rights of the holders of LYCOS Europe's class AA and AB shares regarding appointments to the Company's Supervisory Board and Management Board, the Supervisory Board has not established and does not intend to establish a nomination committee.

Audit Committee
The purpose of the Audit Committee is to assist LYCOS Europe's Supervisory Board on the execution of its supervisory responsibility concerning among other things the Company's performance, policy and procedures in the area of financial administration and financial reporting and internal control systems, the integrity of the financial reports and the evaluation and independence of the Company's external auditor.

The Audit Committee shall decide if and when LYCOS Europe's CEO, its CFO and/or its external auditor should attend its meetings. In addition, independent experts may be invited to attend meetings of the Audit Committee. Each member of the Supervisory Board may attend meetings of the Audit Committee. The Audit Committee may require any of LYCOS Europe's officers or employees, its external legal advisers or its external auditor to attend a meeting of the Audit Committee or to consult with members or advisers of the Audit Committee. When need arises, the external auditor may request the Chairman of the Audit Committee to be allowed to attend a meeting of the Audit Committee.

Remuneration Committee
The purpose of the Remuneration Committee is to assist LYCOS Europe's Supervisory Board with, among other things, resolving on the compensation of the CEO and any other Management Board members, if appointed, and the proposal for and regular review of the remuneration policy.

Conflicts of interests
Any member of LYCOS Europe's Supervisory Board is required to immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company or to the member of the Supervisory Board concerned to the Chairman of the Supervisory Board. Where the Supervisory Board decides that a particular transaction must be treated as a transaction in which a Supervisory Board member has a conflict of interest, it will also decide on the internal decision-making process to be followed in respect thereof. All transactions in which there are conflicts of interest with a Supervisory Board member are agreed on arm's length conditions. Decisions to engage in transactions in which conflicting interests of a Supervisory Board member are involved, which are of material significance to LYCOS Europe and/or to the Supervisory Board member concerned require the approval of the Company's Supervisory Board.

LYCOS Europe's Supervisory Board is also responsible for decision-making concerning the handling of conflicts of interest of members of the Management Board, large shareholders and the external auditor in relation to the Company.

Acknowledging that all members but one of LYCOS Europe's Supervisory Board have a relationship with either Telefónica SA, or affiliates thereof, or Bertelsmann AG, or affiliates thereof, LYCOS Europe's Supervisory Board closely monitors the Company's dealings with Telefónica SA, Bertelsmann AG and their respective affiliates.

Remuneration

The remuneration of the members of the Supervisory Board, if any, is determined by the General Meeting of Shareholders. No shares and/or rights to shares in LYCOS Europe's capital are granted to Supervisory Board members by way of remuneration.

The shareholders and the general meeting of shareholders

Powers

Good corporate governance assumes full participation of shareholders in the decision-making process in the General Meeting of Shareholders. It is in the Company's interest that as many shareholders as possible participate in the decision-making process in the General Meeting of Shareholders and that the General Meeting of Shareholders plays a full role in the system of LYCOS Europe's "checks and balances".

The most important powers of LYCOS Europe's General Meeting of Shareholders are:

- adoption of the Company's Dutch statutory annual accounts;
- approval of dividends;
- granting release from liability to the Company's Management Board and Supervisory Board members;
- appointment, suspension and removal of the Company's Management Board and Supervisory Board members;
- adoption of a policy on remuneration of the Company's Management Board members and determination of the remuneration of its Supervisory Board members;
- appointment and removal of the external auditor;
- approval of decisions of the Company's Management Board on significant changes to LYCOS Europe's identity or character (within the meaning of those terms under Section 2:107a of the Dutch Civil Code) or the identity or character of LYCOS Europe's business, in any case concerning the transfer of (nearly) the Company's entire business, the entering into or terminating of joint ventures which are of fundamental importance to LYCOS Europe and the acquiring or disposing of participations the value of which equals or exceeds one third of the sum of the Company's assets according to its latest adopted consolidated balance sheet;
- delegation to the Company's Management Board of the power to issue shares in the Company's capital, it being understood that the exercise of such delegated power by the Management Board is subject to approval by the Supervisory Board;
- authorization of the Company's Management Board to make LYCOS Europe repurchase shares in its own capital, it being understood that upon authorization the exercise of such power by the Management Board is subject to approval by the Supervisory Board; and
- approval of any amendments to the Company's Articles of Association.

Furthermore, any substantial modification to LYCOS Europe's corporate governance structure and its policy on reserves and dividends will be presented to the General Meeting of Shareholders for discussion.

The right to place an item on the agenda

Shareholders who, alone or jointly, represent at least one percent of the issued capital or a shareholding, alone or jointly, at least worth EUR 50,000,000 according to the official price list of any stock exchange, shall have the right to request to the Management Board or the Supervisory Board that items be placed on the agenda of the General Meeting of Shareholders. These requests will be honored by the Management Board or the Supervisory Board under the conditions: (1) that important company interests do not dictate otherwise; and (2) that the request is received by the CEO or the Chairman of the Supervisory Board in writing at least 60 days before the date of the General Meeting of Shareholders.

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Provision of information
LYCOS Europe informs all shareholders and other parties within the financial market equally and simultaneously about affairs that could influence the share price. The contacts between the Management Board on the one hand and the press, financial analysts and individual investors on the other hand are carefully handled and structured and LYCOS Europe does not carry out any dealings that affect the independence of the analysts with regard to the Company and vice versa.

LYCOS Europe's Management Board and Supervisory Board must provide the General Meeting of Shareholders with all *relevant information that it needs for the exercise of its powers. If, during a General Meeting of* Shareholders, information that could affect the share price is provided or answering shareholders' questions leads to such sensitive information being provided, this information shall be made public immediately.

The audit of the financial reporting and the position of the external auditor
Financial reporting
LYCOS Europe's Management Board is responsible for the quality and completeness of the financial information that is made public. The Company's Supervisory Board must see to it that the Management Board fulfils this responsibility.

Role, appointment, remuneration and assessment of the functioning of the external auditor
LYCOS Europe's external auditor is appointed by the Company's General Meeting of Shareholders each year to audit the annual accounts for the then-current financial year. A nomination for appointment is made by LYCOS Europe's Supervisory Board, for which purpose both the Audit Committee and the Management Board advice the Supervisory Board. The remuneration for the external auditor will forthwith be approved by LYCOS Europe's Supervisory Board on the proposal of the Audit Committee after consultation with the Management Board. The Management Board and the Audit Committee have thoroughly assessed the external auditor in 2005. Their conclusions were satisfactory and discussed in the Supervisory Board.

Relationship and communication of the external auditor with LYCOS Europe's corporate bodies
The external auditor shall in any event attend the meetings of each of the Supervisory Board and the Audit Committee once a year and may request the Chairman of the Audit Committee to attend any further meetings of the Audit Committee if and when he deems appropriate. The external auditor reports his findings concerning the audit of the financial statements to the Management Board, the Supervisory Board and the Audit Committee.

Deviations from the Dutch Corporate Governance Code
As indicated above, LYCOS Europe endorses the importance of good corporate governance and applies the Dutch Corporate Governance Code to most points. Deviation from certain code provisions follows from or is justified by specific aspects of LYCOS Europe's legal structure, shareholder structure, business and other circumstances, including but not limited to the following aspects in which LYCOS Europe differs from most other Dutch listed companies: (i) LYCOS Europe was founded and in certain respects still operates as a joint venture company between two (groups of) large shareholders; and (ii) LYCOS Europe is a company whose registered office is in the Netherlands, but (part of) whose shares are solely listed in the German Prime Standard and on the French Nouveau Marché, and not on any Dutch stock exchange. As a consequence of the latter LYCOS Europe believes there are instances where non-compliance with code provisions specific to the Dutch environment is justified.

Below is an overview of the matters where LYCOS Europe deviates from the best practice provisions of the Dutch Corporate Governance Code (numbers in brackets below refer to the numbers of the relevant code provisions):

- LYCOS Europe's current CEO, Mr. Mohn, has been appointed for an indefinite period of time and the Company believes this cannot be unilaterally changed. Future appointments to the Management Board, however, are expected to be made in accordance with the relevant code provisions. The variable part of Mr. Mohn's remuneration for 2006 has not contained a long-term incentive, based on the long-term alignment of interests between him and LYCOS Europe deriving from his personal investment (through a personal holding) in the Company as a shareholder. Depending on the circumstances, in the event of dismissal, termination payments from LYCOS Europe to Mr. [illegible] exceed one year's salary as Mr. Mohn is retained by a subsidiary of LYCOS Europe under a German law employment contract. Any termination payments will therefore be subject to German law, regulation and practice on termination of employment contracts. (II.1.1; II.2; II.2.7)

- In the event of conflicts of interest between LYCOS Europe and members of its Management Board or Supervisory Board, the Company's Supervisory Board will decide on the internal decision-making process to be followed in respect thereof. This does not necessarily mean that the relevant board member will be excluded from taking part in a discussion and/or decision-making on the relevant subject. Also, LYCOS Europe does not acknowledge that transactions with Bertelsmann or Telefónica or their respective affiliates that are of minor importance to LYCOS Europe must per se be treated as transactions involving conflicts of interests. (II.3.2; II.3.3; III.6.1; III.6.2)
- All of LYCOS Europe's Supervisory Board members but one are selected from persons occupying functions (as a director, officer or otherwise) or being otherwise engaged with a holder of class AA or AB shares or parties related thereto. These Supervisory Board members do therefore not qualify as "independent" within the meaning of the relevant code provisions; however, otherwise said Supervisory Board members meet all criteria for independence set forth in the relevant code provisions (III.2.1; III.2.2; III.3.2; III.5.1; III.5.7)
- Nominations for appointments to LYCOS Europe's Management Board and Supervisory Board are made by the holders of the Company's class AA shares or the holders of its class AB shares. Under the Company's Articles of Association, said classes of shareholders hold the power to make up binding nominations with respect to managing and supervisory directors AA and AB respectively, as discussed in the above subsections of this report in more detail. LYCOS Europe's Supervisory Board is not charged with making such nominations and has not established a nominations committee. (III.5; III.5.13; IV.1.1)
- LYCOS Europe does not require its Management Board and Supervisory Board members to give periodic notice to the Company of changes in their holdings in securities in Dutch listed companies. LYCOS Europe believes the relevant code provisions to be quite specific to the Netherlands and that deviation is justified by the Company's international character. (II.2.6; III.7.3)
- LYCOS Europe does not have an internal auditor function of its own which the Company believes is justified given the size and complexity of its business and the duties and involvement of its external auditors. (V.3.1)

In addition, certain of LYCOS Europe's policies deviate from the formal text of specific provisions of the Dutch Corporate Governance Code where the Company does believe, however, that its policies are in conformity with the spirit of such code provisions. Those differences are apparent from textual differences between certain provisions in the By-Laws of LYCOS Europe's Management Board and Supervisory Board and Committee Terms of Reference on the one hand and best practice provisions in the Dutch Corporate Governance Code on the other. In the case of such differences, the text of said By-Laws and Terms of Reference prevails. LYCOS Europe believes such differences do not require any further explanation in this annual report and such differences are not further discussed herein.

7 Risk Management

The Management Board is of the opinion that the internal risk management and control systems are adequate and effective for a company of the size and maturity of LYCOS Europe.

The German law on Control and Transparency in Corporations (KonTraG) and the Dutch Corporate Governance Code specifies the legal obligations pertaining to corporate risk management. Based on these requirements in Germany and the Netherlands, LYCOS Europe maintains a comprehensive risk management system. The Management Board is responsible to ensure that the Company complies with all relevant legislation and regulations. It reports on and accounts for the internal risk management and control systems to the Audit Committee and the Supervisory Board. The system of risk management and internal control does not only cover the financial controls that are significant for the proper and timely reporting of the financial condition of the Group, but equally covers all the other operations that are significant in the achievement of the business objectives of LYCOS Europe. Within LYCOS Europe, risk management and internal control are an integral part of business management.

Risk management
As part of this program, LYCOS Europe systematically lists significant risks that might affect the Company, quantifies and qualifies their potential effects, and determines the key levers required to influence each risk. Beyond this, certain employees are assigned responsibility for specific and general risks. They are accountable for monitoring potential risks and ensure that the agreed measures [illegible]ted. The summary below should give an overview of significant risks, the Company is exposed to.

Economic environment
LYCOS Europe, as a company in the Internet sector, faces several risks in its competitive environment. This could be risks related to competitors, the overall market, its user behavior and advertising and sales in general. LYCOS Europe therefore controls its economic environment regularly and if necessary is prepared to act in order to avoid possible risks.

Financial risks
Risks in the performance of financial instruments could potentially subject the Company. Financial instruments primarily consist of cash and cash equivalents. Substantially all of the Company's cash and cash equivalents are managed by financial institutions. Additionally the Company is exposed to the payment behavior of its customers. Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in Europe. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses.

IT and Infrastructure
LYCOS Europe maintains a standardized, centralized and partly outsourced IT environment. Due to this, the Company is exposed to several risks related to dependence on single systems and resulting general system failures. LYCOS Europe reduces this risk by, among other things, outsourcing, secure data processing centers, implementation of back-up systems, firewalls, virus scanners, access systems and an extensive operation monitoring.

Legal regulations
LYCOS Europe is exposed to several risks related to legal regulations, such as data protection rules, sales contracts, licenses, and misuse of internal information. The Company therefore maintains its legal department in order to ensure avoidance of these or similar risks.

Personal risks
As an emerging and innovative company operating in the Internet business, LYCOS Europe has to rely on highly qualified employees. In order to reduce related loss of expertise due to fluctuation of qualified personal, incentive programs, performance-based compensation systems and international development possibilities are implemented and offered to the employees.

Product development
Innovative and up-to-date products are a critical success factor for the future development of the Company. Research and development activities play a decisive role in the Internet business. In addition to this, products have to meet quality and safety standards. LYCOS Europe reduces this risk in the overall organizational setup. Product management analyzes user demands and is responsible for future product developments. Each development must pass a tollgate process, where extensive testing is required upfront each roll out.

Internal control
The core policies and procedures that define the Group's internal control environment are communicated amongst others throughout handbooks and policies within the Company. The different tasks of the finance and administrative team are clearly separated.

Billing
The corporate billing department, amongst others, is responsible for improving automatic procedures in order to prevent possible fraud on payments for premium services.

Controlling
The corporate controlling department analyses and provides management of the Group with additional financial and strategic information, e.g. budgets and forecasts. A special focus is set to the control of revenues. On a regular basis sales contracts and related deliveries and recognized revenues are reviewed centrally. In addition cost accounts are subject to a central review. Financial systems are in the responsibility of the corporate controlling department. Procedures and rules were implemented focusing on limitation of risks and authorizations.

External financial reporting
LYCOS Europe prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") and internal accounting guidelines. The Finance departments of all Groups' entities are responsible for issuing their local financial statements and corresponding reports. This information is sent out to the Group's consolidation department using the Group's accounting consolidation system in order to elaborate the Group's consolidated financial statements and the related financial communication. It regularly check the consistency of the financial statements they use to prepare the consolidated statements, together with other financial information submitted to internal and external reporting purposes.

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Internal financial reporting
Management is provided frequently, at least monthly, with financial information to control the operational performance of the Group and each of its subsidiaries. This information together with other financial information is used for operative control and supervision of probable risks.

Procurement
The corporate procurement department is in charge of supervising and processing major European IT-related investments. Each material purchase follows also the four-eye principle.

Treasury
The corporate treasury department is in charge of reviewing the authorization processes for each bank account of the Group and its subsidiaries. Each payment has to be approved by using at least the four-eye principle and therefore requires approvals from two different employees. Monthly cash planning and reporting by the corporate treasury department together with the finance departments of the subsidiaries provides Management with the necessary information to control the cash position of the Group. A cash pooling system transfers on regular basis incoming cash from the subsidiaries to centrally managed accounts. In addition Management is provided with a monthly review and reporting of the Group's account receivables.

These procedures are evaluated and extended regularly to ensure they take account of changing requirements.

Code of conduct
The Company has implemented a set of rules of behavior that employees have to observe in each country. There is also a group-wide code on dealing with price-sensitive information and insider trading. LYCOS Europe continues to work towards its overall objective of embedding risk management into the culture, processes and operations.

8 Outlook

The investments of LYCOS Europe into a centralized business unit structure and its outstanding development team are paying off. With this launch platform in place the Company is ready to increase the number of innovative developments and secure its leading market position.

In 2007 LYCOS Europe will introduce several new state-of-the-art products, mainly in the areas of communication services and communities. We expect to present some developments already in the first half of 2007.

The focus of these new services or enhanced existing services is thereby to increase both, the revenue stream from online advertising as well as from paid services and shopping. Following our strategy both revenue streams have become equally important to the Company. With the latest innovations in place LYCOS Europe expects to make further progress with its operating financial results.

In order to reach better economies of scale from the beginning LYCOS Europe will also go beyond the European borders in 2007 and start offering services in the United States. Therefore the Company will introduce Jubii as its launch brand in the United States.

While this will cause some investment in the beginning LYCOS Europe believes that it also brings a great success in the end. Due to the large American market it will be much easier to reach a critical mass of users with just one English version of a service.

With all these activities LYCOS Europe expects to further improve its basis for continued growth.

Haarlem, the Netherlands
January 26, 2007

Christoph Mohn, CEO

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Consolidated Financial Statements

for the year ended December 31, 2006

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LYCOS Europe N.V. Consolidated Balance Sheets

In thousand Euro	Notes	December 31, 2006	December 31, 2005
ASSETS			
Property, plant and equipment	5	3,335	3,820
Intangible assets	6,7,8	47,399	28,052
Deferred tax assets	24	190	184
Other investments	9	9,951	9,939
Other non-current assets	10	1,292	2,081
Total non-current assets		**62,167**	**44,076**
Cash and cash equivalents	9	70,886	65,695
Other investments	9	12,500	29,480
Accounts receivable and other receivables	11,12	15,650	17,154
Prepaid expenses and other current assets	11	6,446	15,322
Assets classified as held for sale	6	14,528	0
Total current assets		**120,010**	**127,651**
Total assets		**182,177**	**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		1,587,049	1,589,584
Legal reserves		4,968	2,433
Treasury shares		(2,052)	(2,052)
Translation reserve		1,137	578
Accumulated deficit		(1,467,298)	(1,447,062)
Unappropriated result		1,704	(20,236)
Total shareholders' equity attributable to equity holders of the Company	15	**128,631**	**126,368**
Deferred revenue	20	406	1,878
Deferred tax liabilities	24	2,188	908
Provisions	17	14,075	87
Total non-current liabilities		**16,669**	**2,873**
Short-term debt		148	2,940
Accounts payable		7,992	9,994
Restructuring provision	17	830	1,939
Other short-term liabilities	18	17,432	21,634
Deferred revenue	20	5,383	5,979
Liabilities classified as held for sale	6	5,092	0
Total current liabilities		**36,877**	**42,486**
Total liabilities		**53,546**	**45,359**
Total shareholders' equity and liabilities		**182,177**	**171,727**

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LYCOS Europe N.V. Consolidated Income Statements

In thousand Euro (except share data)	Notes	Year ended December 31, 2006	Year ended December 31, 2005 (restated)
Continued operations			
Advertising		35,658	38,279
Paid services and shopping		40,447	32,796
Interconnect		5,906	6,893
Licensing and other		369	1,278
Total revenues		**82,380**	**79,246**
Cost of revenues		(30,219)	(29,405)
Gross profit		**52,161**	**49,841**
Gross profit before highlighted items		**52,181**	**50,577**
Restructuring		(20)	(736)
Gross profit		**52,161**	**49,841**
Other operating expenses	21,22	(66,151)	(69,200)
Other operating income	23	852	669
Loss from operations		**(13,138)**	**(18,690)**
Loss from operations before highlighted items		**(9,509)**	**(11,997)**
Restructuring		160	(5,069)
Impairment on property, plant and equipment		0	(236)
Impairment on intangible assets		(2,393)	0
Other amortization		(1,396)	(1,388)
Loss from operations		**(13,138)**	**(18,690)**
Finance income		2,419	2,779
Finance expense		(63)	324
Other financing income / expense		(265)	(483)
Net financing income		**2,091**	**2,620**
Loss before tax		**(11,047)**	**(16,070)**
Income taxes	24	(21)	(249)
Net loss from continuing operations		**(11,068)**	**(16,319)**
Discontinued operations			
Profit / (loss) from discontinued operations (net of income tax)	6	12,772	(3,917)
Net profit / (net loss) for the period attributable to equity holders of the Company		**1,704**	**(20,236)**
Basic / diluted profit / (loss) per share (Euro) - continued operation	25	(0.04)	(0.05)
Basic / diluted profit / (loss) per share (Euro)	25	0.01	(0.06)
Weighted average number of shares outstanding		311,576,344	311,576,344

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LYCOS Europe N.V. Consolidated Statements of Cash Flows

In thousand Euro	Notes	Year ended December 31, 2006	Year ended December 31, 2005 (restated)
Continued operations			
Cash flows from operating activities			
Loss before tax		(11,047)	(16,070)
Adjustments for:			
Depreciation and amortization		5,977	8,115
Impairment of property, plant and equipment		0	236
Impairment of intangible assets		2,393	0
Finance income		(2,356)	(3,099)
Other non cash movements		667	895
Change in accounts receivable		373	2,663
Change in prepaid expenses and other current assets		3,661	(3,716)
Change in other non-current assets		858	836
Change in accounts payable		317	(1,101)
Change in current liabilities		(1,797)	811
Change in deferred revenue		(1,906)	(812)
Change in other non-cash items		(43)	(1,705)
Interest paid		(12)	0
Interest received		2,563	3,254
Income tax paid		(129)	0
Net cash provided / (used) in operating activities		**(481)**	**(9,693)**
Cash flows from investing activities			
Acquisitions of property, plant and equipment and other intangible assets		(2,145)	(3,092)
Development expenditure		(1,754)	(440)
Change in short and long-term investments		16,816	10,058
Acquisitions of subsidiaries, net of cash acquired		(17,372)	0
Net cash (used) / provided in investing activities		**(4,455)**	**6,526**
Cash flows from financing activities			
Change in short-term debt		(2,792)	2,861
Net cash (used) / provided in financing activities		**(2,792)**	**2,861**
Discontinued operations			
Net cash from operating activities		(3,704)	(5,955)
Net cash from investing activities		16,592	0
Net cash from financing activities		0	0
Net cash from discontinued operations		**12,888**	**(5,955)**
Effect of exchange rate changes on cash and cash equivalents		31	(119)
Increase / (decrease) in cash and cash equivalents		**5,191**	**(6,380)**
Cash and cash equivalents, beginning of the period		65,695	72,075
Cash and cash equivalents, end of the period	9	**70,886**	**65,695**

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LYCOS Europe N.V. Consolidated Statements of Shareholders' Equity

In thousand Euro (except share data)	Notes	Class AA shares		Class AB shares		Class B shares		Share premium	Legal reserve	Treasury shares		Translation reserve	Accumulated deficit
		No. of shares	€	No. of shares	€	No. of shares	€	€	€	No. of shares	€	€	€
Balance as at January 1, 2005		62,000,000	620	62,000,000	620	188,300,000	1,883	1,589,057	2,960	(723,656)	(2,052)	172	(1,401,586)
Movement capitalized development expenses								527	(527)				
Appropriation of the net result of previous year													(45,476)
Translation gain												406	
Net loss													
Balance as at December 31, 2005		62,000,000	620	62,000,000	620	188,300,000	1,883	1,589,584	2,433	(723,656)	(2,052)	578	(1,447,062)
Movement capitalized development expenses								(2,535)	2,535				
Appropriation of the net result of previous year													(20,236)
Translation gain												588	
Translation gain on disposal												(29)	
Net profit													
Balance as at December 31, 2006	15	62,000,000	620	62,000,000	620	188,300,000	1,883	1,587,049	4,968	(723,656)	(2,052)	1,137	(1,467,298)

In thousand Euro (except share data)	Notes	Unappropriated result	Translation reserve, unappropriated result and accumulated deficit	Total
		€	€	€
Balance as at January 1, 2005		(45,476)	(1,446,890)	146,198
Movement capitalized development expenses			0	0
Appropriation of the net result of previous year		45,476	0	0
Translation gain			406	406
Net loss		(20,236)	(20,236)	(20,236)
Balance as at December 31, 2005		(20,236)	(1,466,720)	126,368
Movement capitalized development expenses			0	0
Appropriation of the net result of previous year		20,236	0	0
Translation gain			588	588
Translation gain on disposal			(29)	(29)
Net profit		1,704	1,704	1,704
Balance as at December 31, 2006	15	1,704	(1,464,457)	128,631

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

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1. Significant accounting policies

LYCOS Europe N.V. ("LYCOS Europe" or the "Company" / ISIN NL0000233195) is one of the leading European Internet destinations operating an international network of websites in eight languages. The Company's combination of portal and communication, communities, hosting and 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 consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group"). The financial statements were authorized for issue by the Management Board of the Company on January 26, 2007.

a) Statement of compliance

LYCOS Europe has prepared consolidated financial statements 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").

b) Basis of preparation

The financial statements are presented in Euro, rounded to the nearest thousand. The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires 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.

Judgments and estimates are principally made in the following decision:
- Impairment test
- Determination of earn-out payments
- Deferred taxes

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The consolidated financial statements have been prepared on the historical cost basis.

c) Basis of consolidation

The consolidated financial statements of the Company include all of its controlled subsidiaries. Control exists when the Company has the power directly, or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in a separate component of equity.

e) Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different remaining useful lives, they are accounted for as separate items of property, plant and equipment.
Lease equipment is capitalized where the terms of the lease indicate that the Company maintains substantially all of the risks and rewards of the equipment. Risks and rewards are maintained by the lessee if among others the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Lease equipment, which is classified as a finance lease is stated at the lower of its fair value and present value of the lease payments, net of accumulated amortization, and amortized over the lesser of the estimated useful lives of the equipment or the lease term.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of property, plant and equipment. The estimated useful lives are as follows:

Computers	: 2-3 years
Furniture and fixtures	: 3-10 years
Other property, plant and equipment	: 3-5 years

f) Intangible assets
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since January 1, 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. According to exemptions provided by IFRS 1 the classification and accounting treatment of business combinations that occurred prior to January 1, 2004 have not been reconsidered in preparing the Group's opening IFRS balance sheet at January 1, 2004. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to a group of cash-generating units and is no longer amortized but tested annually for impairment. Goodwill was tested for impairment on June 30, 2006.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as expenses are incurred.

Expenditure on development activities, enhancement of the Company's website and associated systems, is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalized includes direct costs of material and services, payroll costs for employees devoting time to software projects during the application development stage and indirect costs for rent and office computer usage. Other development costs are recognized in the income statement as expenses are incurred. Capitalized development costs are stated at cost less accumulated amortization and impairment losses.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment.

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment. Other intangible assets are amortized from the date they are available for use. The estimated useful lives are as follows:

Licenses and other rights	: 1-10 years
Trademark licenses	: 5-10 years
Capitalized development expenses	: 2 years

g) Impairment
The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication that the carrying amount may not be recoverable.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually. Testing of the recoverable amount will also be performed if there is any indication for impairment. An impairment loss is recognized whenever the carrying amount of an asset or its group of cash-generating units exceeds its recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of group of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the group of cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there is an indication that the recoverable amount may have increased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

h) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Trade and other receivables

Trade and other receivables are stated at their amortized cost using the effective interest method. Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in Europe.

j) Share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

k) Employee benefits

The share option programs of the Group allow Group employees to acquire shares of the Company. No compensation costs for stock options were recognized for stock options granted with an exercise price at or above fair market value as a result of adoption of exemption rules provided in IFRS 1.

l) Financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Deposits with an original maturity date greater than three months are labeled other investments. Deposits with remaining maturities of less than twelve months from the balance sheet date are classified as current assets. Deposits with remaining maturities greater than twelve months from the balance sheet date are classified as non-current assets.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss. Finance income is recognized in the income statement as it accrues, using the effective interest method.

m) Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the amount of the provision is discounted by using a pre-tax rate that reflects current market assessments and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

n) Trade and other payables

Trade and other payables are stated at their amortized cost to settle.

o) Revenue

The Group generates revenues due to rendering of services. Revenues comprise advertising, paid service, shopping, interconnect, licensing and other revenues. The Company recognizes no revenues if there are significant uncertainties regarding recovery of the consideration due or associated costs.

Advertising revenues

Revenues from the sale of advertising are obtained through contracts and payments, which business partners make for prominent placing and advertising space on the Company's websites. Under these contracts, the Company has a fixed or a variable price for a certain number of page impressions or user referrals to other Internet sites. Advertising revenues are recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date or ratably over the period. The stage of completion is assessed by reference to delivered impression compared to contractual agreed upon impressions.

Paid service and shopping revenues

Revenues from paid services and shopping are made up from fees charged to Internet users for the access to certain products of the Company, from commissions on the turnover made by the business partners and generated through the Company's websites, as well as from commissions of the sale of goods on the Internet. Revenues from paid services and shopping are recognized at the time the service is rendered.

Interconnect revenue

Revenues from providing interconnect consist of the portion of the interconnection fees due to the Company. Revenues from providing Internet access are recorded at gross when the Company acts as principal in the transaction and carries the risk of loss for the collection. Only a commission is recorded as revenue from providing Internet access when the criteria as described above are not met. Revenues from providing interconnect are recognized at the time the service is rendered.

Licensing and other revenues

Licensing and other revenues consist of revenues from licensing which are generated from the fees for product licenses and the relevant maintenance and support services. Revenues from licensing and other revenues are recognized at the time the service is rendered.

Barter transactions

Revenues from barter transactions have been valued based upon similar cash transactions according to SIC 31. Advertising revenues from barter transactions are recognized similar to advertising revenues. During the period ended December 31, 2006, and 2005, revenues from barter transactions have been less than 5 percent of total revenues.

p) Government grants

Government grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred or costs of an asset are recognized as other operating income in the income statement.

q) Expenses

Cost of revenues consists of the costs directly associated with the production and usage of the Company's online media properties. These costs primarily consist of costs related to in-house production of content, fees paid for content purchased from third parties, Internet connection charges and license fees, depreciation and amortization related to data center, hosting cost, other network costs and compensation expenses.

Costs other than costs of revenues are allocated using a functional split to Sales and Marketing, General and Administrative and Research and Development expenses.

r) Segment reporting
A segment is a distinguishable component of the Group's business that is engaged in providing products (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In order to identify the Group's reporting segments, the dominant source and nature of an enterprise's risks and returns should be selected. The risks and rates of return of LYCOS Europe N.V. are affected both by differences in geographical areas and business units. Internal reporting of the group is based as well on regional structures and the business unit approach.

Management believes that choosing geographical segments as the primary segment reflects best the current risk approach of the Group. Business units were chosen as the secondary segment.

Geographic segments are determined by the country in which each legal entity is operating. Business segments are split into the business units Portal/Access/Communication/Communities, Hosting and Domain names and Shopping.

s) Discontinued operation
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

2. New accounting pronouncements
The following new IFRS standards and interpretations, which have been adopted by the International Accounting Standards Board and endorsed by the European Commission, have effective dates such that they apply only to annual periods beginning on or after January 1, 2007. The Company therefore is not required to, and did not take such standards into account in the preparation of the Consolidated Financial Statements:

- IFRS 7, "Financial Instruments: Disclosures Amendment to IAS 1 Capital Disclosures";
- Amendment to IAS 39, "Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions";
- Amendments to IAS 39, "Financial Instruments: Recognition and Measurement: The Fair Value Option";
- Amendment to IAS 39 and IFRS 4, "Financial Guarantee Contracts";
- Amendments to IAS 19, "Employee Benefits";
- IFRIC 8, "Scope of IFRS 2".

The Company has determined that the impact of these new standards and interpretations will not be material to its financial condition or results of operations.

3. Group entities

Subsidiaries of LYCOS Europe N.V. included in the consolidated financial statements are as follows (direct and indirect holdings as at December 31, 2006):

Company	Ownership	Country of incorporation	Statutory seat
Aster-Europe ltd.	100 %	United Kingdom	Birmingham
Begonia-Europe ltd.	100 %	United Kingdom	Birmingham
Bottnia Internet Provider AB ("BIP AB")	100 %	Sweden	Stockholm
Chrysanthemum-Europe ltd.	100 %	United Kingdom	Birmingham
Dahlia-Europe ltd.	100 %	United Kingdom	Birmingham
dopoly GmbH	100 %	Germany	Munich
Home SE AB	100 %	Sweden	Stockholm
Ivy-Europe ltd.	100 %	United Kingdom	Birmingham
Jubii A/S	100 %	Denmark	Copenhagen
Jubii IP ltd.	100 %	United Kingdom	London
Jubii LLC	100 %	United States	Wilmington
Jubii Services ltd.	100 %	United Kingdom	London
Lily-Europe ltd.	100 %	United Kingdom	Birmingham
LYCOS cjsc	100 %	Armenia	Yerevan
LYCOS Eastern Europe GmbH	100 %	Germany	Gütersloh
LYCOS Espana Internet Services SL	100 %	Spain	Madrid
LYCOS Europe BV	100 %	Netherlands	Amsterdam
LYCOS Europe GmbH	100 %	Germany	Gütersloh
LYCOS France SARL	100 %	France	Paris
LYCOS Italia Srl	100 %	Italy	Mailand
LYCOS Netherlands BV	100 %	Netherlands	Amsterdam
LYCOS Pro S.L.	100 %	Spain	Madrid
LYCOS UK ltd.	100 %	United Kingdom	London
mentasys GmbH	100 %	Germany	Karlsruhe
Mimosa-Europe ltd.	100 %	United Kingdom	Birmingham
Nectarine-Europe ltd.	100 %	United Kingdom	Birmingham
Odina Sverige AB	100 %	Sweden	Stockholm
Oleander-Europe ltd.	100 %	United Kingdom	Birmingham
Pangora GmbH	100 %	Germany	Munich
Pangora Italia Srl	100 %	Italy	Rome
Pangora LLC	100 %	United States	Wilmington
Pangora SAS	100 %	France	Paris
Peach-Europe ltd.	100 %	United Kingdom	Birmingham
Spray Network AB	100 %	Sweden	Stockholm
Spray Network Services AB	100 %	Sweden	Stockholm
Spray Telecom AB	100 %	Sweden	Stockholm
Spray Telecom Network AB	100 %	Sweden	Stockholm
united-domains AG	100 %	Germany	Munich
YouSmile Geschenke GmbH	100 %	Germany	Karlsruhe

Spray Network GmbH, a 100 percent German subsidiary of Lycos Europe N.V., was liquidated during 2006.

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4. 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

In thousand Euro	Germany		Sweden (discontinued[4])		France		United Kingdom		Denmark		Other regions and eliminations		Less discontinued operations		Continued operations	
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005 restated	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005 restated
Revenues	51,402	49,840	42,195	46,221	12,028	12,156	6,052	5,155	7,810	6,686	5,078	5,406	(42,185)	(46,218)	82,380	79,246
Revenues from intersegment transactions	27,346	27,376	2,049	7,111	904	12,323	437	5,984	215	3,152	(30,951)	(55,946)	0	0	0	0
Total revenues	**78,748**	**77,216**	**44,244**	**53,332**	**12,932**	**24,479**	**6,489**	**11,139**	**8,025**	**9,838**	**(25,873)**	**(50,540)**	**(42,185)**	**(46,218)**	**82,380**	**79,246**
Sum of cost of revenues and operating expenses	(77,483)	(85,501)	(47,102)	(57,379)	(15,801)	(25,530)	(8,411)	(11,247)	(10,352)	(11,985)	18,806	43,524	44,825	50,182	(95,518)	(97,936)
Profit / (loss) from operations	**1,265**	**(8,285)**	**(2,858)**	**(4,047)**	**(2,869)**	**(1,051)**	**(1,922)**	**(108)**	**(2,327)**	**(2,147)**	**(7,067)**	**(7,016)**	**2,640**	**3,964**	**(13,138)**	**(18,690)**
Net financing income	(130)	206	100	(458)	(161)	(215)	35	(32)	(4)	(14)	2,373	2,718	(122)	415	2,091	2,620
Net income tax gain/ (loss)	89	(38)	329	457	15	49	0	0	0	0	(115)	(255)	(339)	(462)	(21)	(249)
Discontinued operations	0	0	14,951	0	0	0	0	0	0	0	0	0	(2,179)	(3,917)	12,772	(3,917)
Net profit / (net loss) for the year	**1,224**	**(8,117)**	**12,522**	**(4,048)**	**(3,015)**	**(1,217)**	**(1,887)**	**(140)**	**(2,331)**	**(2,161)**	**(4,809)**	**(4,553)**	**0**	**0**	**1,704**	**(20,236)**
Thereof depreciation, amortization and impairment loss	(2,939)	(3,041)	(3,224)	(4,253)	(530)	(1,012)	(75)	(107)	(452)	(428)	(3,788)	(1,531)	2,500	2,021	(8,508)	(8,351)

[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.

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In thousand Euro	Germany		Sweden (discontinued [4])		France		United Kingdom		Denmark		Other regions and eliminations		Less discontinued operations		Continued operations	
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005 restated	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005 restated
Segment assets	87,085	66,020	43,212	28,455	4,107	8,716	5,731	9,736	5,152	7,875	36,890	50,925	-	-	182,177	171,727
Segment equity	19,554	10,383	19,572	16,848	(240)	(4,007)	208	1,353	14	829	89,523	100,962	-	-	128,631	126,368
Segment liabilities	67,531	55,637	23,640	11,607	4,347	12,723	5,523	8,383	5,138	7,046	(52,633)	(50,037)	-	-	53,546	45,359
Segment equity and liabilities	87,085	66,020	43,212	28,455	4,107	8,716	5,731	9,736	5,152	7,875	36,890	50,925	-	-	182,177	171,727
Cash flow from operating activities	4,204	(5,245)	(3,222)	208	(2,338)	(38)	(1,848)	(2)	(1,876)	(1,718)	895	(8,853)	3,704	5,955	(481)	(9,693)
Cash flow from investing activities	(9,292)	2,313	16,754	1,576	223	333	39	18	184	469	4,229	1,817	(16,592)	0	(4,455)	6,526
Cash flow from financing activities	0	0	0	0	0	0	0	0	0	0	(2,792)	2,861	0	0	(2,792)	2,861
Capital expenditure	3,473	2,268	4,013	1,546	96	327	17	18	79	460	605	1,695	(3,921)	(1,060)	4,362	5,254

[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.

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Business Segments

In thousand Euro	Portal, Access, Communication and Communities (partly discontinued)		Hosting and Domain names		Shopping		Unallocated and eliminations (restated)		Less discontinued operations		Continued operations (restated)	
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Revenues	87,480	94,656	22,169	16,981	14,916	13,826	0	1	(42,185)	(46,218)	82,380	79,246
Segment assets	127,849	133,915	24,045	21,820	29,986	15,992	297	0	-	-	182,177	171,727
Cash flow from operating activities	(2,278)	(11,349)	135	(376)	(2,643)	(555)	601	(3,368)	3,704	5,955	(481)	(9,693)
Cash flow from investing activities	23,828	4,177	(375)	681	(13,939)	499	2,623	1,169	(16,592)	0	(4,455)	6,526
Cash flow from financing activities	0	0	0	0	0	0	(2,792)	2,861	0	0	(2,792)	2,861
Capital expenditure	3,061	4,097	576	668	718	489	3,928	1,060	(3,921)	(1,060)	4,362	5,254

5. 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 and fixtures	Other property, plant and equipment	Total
Cost				
Balance as at January 1, 2005	**31,915**	**4,471**	**20**	**36,406**
Acquisitions, other	1,127	983	0	2,110
Disposals	(10,818)	(768)	0	(11,586)
Other / transfer	(268)	(476)	(20)	(764)
Effects of movements in foreign exchange rates	(313)	(18)	0	(331)
Balance as at December 31, 2005	**21,643**	**4,192**	**0**	**25,835**
Acquisitions, business combinations	155	98	6	259
Acquisitions, other	1,341	94	0	1,435
Disposals	(1,262)	(1)	0	(1,263)
Transfer to assets held for sale	(1,653)	(584)	0	(2,237)
Other	(167)	(3)	0	(170)
Effects of movements in foreign exchange rates	(1,263)	(8)	0	(1,271)
Balance as at December 31, 2006	**18,794**	**3,788**	**6**	**22,588**
Depreciation and impairment losses				
Balance as at January 1, 2005	**(27,092)**	**(2,621)**	**(6)**	**(29,719)**
Depreciation charge	(3,310)	(697)	6	(4,001)
Impairment losses	0	(236)	0	(236)
Disposals	10,687	687	0	11,374
Other / transfer	1	276	0	277
Effects of movements in foreign exchange rates	280	10	0	290
Balance as at December 31, 2005	**(19,434)**	**(2,581)**	**0**	**(22,015)**
Depreciation charge	(1,512)	(388)	0	(1,900)
Disposals	2,634	107	0	2,741
Transfer to assets held for sale	1,597	508	0	2,105
Other	24	28	0	52
Effects of movements in foreign exchange rates	(228)	(8)	0	(236)
Balance as at December 31, 2006	**(16,919)**	**(2,334)**	**0**	**(19,253)**
Carrying amounts				
Balance as at January 1, 2005	4,823	1,850	14	6,687
Balance as at January 1, 2006	2,209	1,611	0	3,820
Balance as at December 31, 2006	**1,875**	**1,454**	**6**	**3,335**

6. 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.

mentasys
On October 6, 2006, Pangora GmbH, an 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. Preliminary goodwill and other intangible assets including the effects of deferred taxes recognized amounts to EUR 26.4 million and to EUR 3.3 million, respectively. LYCOS Europe obtained control on November 6, 2006, after approval by the Competition Authorities. The Company includes mentasys GmbH in its financial statements as of November 1, 2006.

In thousand Euro	October 31, 2006
Balance sheet of mentasys GmbH	
Long-term assets	5,662
Short-term assets	2,023
Total assets	**7,685**
Total equity	4,142
Total liabilities	3,543
Total liabilities and equity	**7,685**

In thousand Euro	October 31, 2006
Result of mentasys GmbH	
Revenues	4,642
Expenses	(5,230)
Result from operating activities	**(588)**
Net financing income	21
Income tax expense	0
Profit / (loss) for the period	**(567)**

Swedish business
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 (at transaction date EUR 16.2 million) and sold the Swedish Access business on November 23, 2006 for a consideration of SEK 172.0 million (EUR 18.9 million). The sale of the Swedish Access business was subject to approval by the Swedish Competition Authorities on December 31, 2006. Further information is provided in note 26. Both businesses are presented as discontinued operation. The preliminary gain on sale for the portal after deduction of net assets and transaction costs amounts to EUR 15.0 million.

In thousand Euro	December 31, 2006
Assets held for sale	
Property, plant and equipment	45
Intangible assets	7,645
Accounts receivables	3,809
Other assets	3,029
Total Assets	**14,528**

In thousand Euro	December 31, 2006
Liabilities held for sale	
Deferred tax liabilities	409
Accounts payables	2,619
Other short term liabilities	2,064
Total Liabilities	**5,092**

In thousand Euro	December 31, 2006	December 31, 2005
Result of discontinued operations		
Revenues	42,185	46,218
Expenses	(44,825)	(50,182)
Result from operating activities	**(2,640)**	**(3,964)**
Net financing income	122	(415)
Income tax expense	339	462
Loss after tax but before gain on sale	**(2,179)**	**(3,917)**
Gain on sale of discontinued operation	14,951	0
Income tax on gain of sale	0	0
Profit / (loss) for the period	**12,772**	**(3,917)**

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7. Intangible assets

Goodwill is stated at cost less any accumulated impairment losses.

On June 30, 2006, LYCOS Europe performed the annual impairment test for goodwill acquired in business combinations. The impairment test indicated that no impairment was required for the period ended December 31, 2006.

Amortization expenses amounted to EUR 4.2 million and EUR 4.3 million for the period ended December 31, 2006 and December 31, 2005, respectively and are included in all the main expense categories within the income statements.

In thousand Euro	Goodwill	Licenses and other rights	Capitalized development expenses	Purchased software	Total
Cost					
Balance as at January 1, 2005	14,470	56,915	8,343	3,210	82,938
Acquisitions, other	0	1,081	1,410	653	3,144
Disposals	0	(25)	(868)	(73)	(966)
Other / transfer	0	0	0	20	20
Effects of movements in foreign exchange rates	(215)	(229)	(102)	(95)	(641)
Balance as at December 31, 2005	14,255	57,742	8,783	3,715	84,495
Acquisitions, business combinations	26,887	2,800	2,573	32	32,292
Acquisitions, other	0	1,008	1,703	216	2,927
Disposals	0	(5,418)	0	(29)	(5,447)
Transfer to assets held for sale	(5,293)	(5,621)	0	(123)	(11,037)
Other	0	(3)	0	228	225
Effects of movements in foreign exchange rates	0	25	51	3	79
Balance as at December 31, 2006	35,849	50,533	13,110	4,042	103,534
Amortization and impairment losses					
Balance as at January 1, 2005	0	(42,938)	(5,383)	(3,190)	(51,511)
Amortization charge	0	(3,982)	(1,988)	(165)	(6,135)
Disposals	0	20	878	56	954
Other / transfer	0	(655)	0	690	35
Effects of movements in foreign exchange rates	0	74	143	(3)	214
Balance as at December 31, 2005	0	(47,481)	(6,350)	(2,612)	(56,443)
Amortization charge	0	(1,921)	(1,700)	(594)	(4,215)
Impairment charge	0	(2,393)	0	0	(2,393)
Disposals	0	4,902	0	15	4,917
Transfer to assets held for sale	0	2,334	0	13	2,347
Other	0	2	0	(233)	(231)
Effects of movements in foreign exchange rates	0	(22)	(92)	(3)	(117)
Balance as at December 31, 2006	0	(44,579)	(8,142)	(3,414)	(56,135)
Carrying amounts					
Balance as at January 1, 2005	14,470	13,977	2,960	20	31,427
Balance as at January 1, 2006	14,255	10,261	2,433	1,103	28,052
Balance as at December 31, 2006	35,849	5,954	4,968	628	47,399

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8. Impairment testing

Goodwill

Goodwill acquired through business combinations has been allocated to individual cash-generating units or groups of cash-generating units. These cash-generating units are part of a reportable segment as presented in the segment reporting.

The following cash generating units or groups of cash generating units have significant carrying amounts of goodwill:

In thousand Euro	Description	December 31, 2006	December 31, 2005
united domains (Germany)	Subsidiary	5,806	5,276
Pangora group (Europe)	Subsidiary (several)	30,043	3,686
Access (Sweden)	Subsidiary (partly)	0	5,293
Total Goodwill		**35,849**	**14,255**

The recoverable amount of the cash generating units or groups of cash generating units presented above is determined based on value in use calculations using cash flow projections based on the actual operating results, a one-year business plan, market research analysis and management experience. Cash flows are projected for a five-year period taking into account a terminal value based on the performance expected in the fifth year. The carrying amount of each unit is below its recoverable amount.
The table below presents average key assumptions used:

	Key assumption	Discount factor (in percent)
United Domains (Germany)	Revenues (domain name selling)	13.2
Pangora Group (Europe)	Revenues (redirects)	13.2

Other intangible assets

During the year 2006 the page view development of www.fireball.de was an indication to the Company to reassess the recoverable amount of the trademark Fireball. This assessment indicated that the value in use, which equals the recoverable amount, amounted to EUR 1.7 million. The carrying amount of the Fireball trademark was higher than its recoverable amount, which resulted in an impairment loss of EUR 2.4 million.

9. Cash, cash equivalents and other investments

Cash, cash equivalents and other investments are made up of the following:

In thousand Euro	December 31, 2006	December 31, 2005
Cash	45,951	38,435
Cash equivalents	24,935	27,260
Other investments due within one year	12,500	29,480
Other investments due after one year	9,951	9,939
Total	**93,337**	**105,114**

An amount of EUR 9.8 million and EUR 12.3 million is restricted in use as at December 31, 2006, and December 31, 2005, respectively. An amount of EUR 4.8 million of the restricted cash is non-current as at December 31, 2006, and December 31, 2005, respectively.

Cash consist 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.

10. Other non-current assets

Other non-current assets are made up as follows:

In thousand Euro	December 31, 2006	December 31, 2005
Rent deposits	719	1,442
Equity investments	570	570
Other	3	69
Total	**1,292**	**2,081**

For a discussion of equity investments we refer to note 4 to the company financial statements.

11. Accounts receivable and other receivables

Accounts receivable are made up as follows:

In thousand Euro	December 31, 2006	December 31, 2005
Accounts receivable	15,619	17,129
Accounts receivable from related parties	31	25
Total	**15,650**	**17,154**

Prepaid expenses and other current assets are made up of the following:

In thousand Euro	December 31, 2006	December 31, 2005
Rent deposits and prepayments	249	624
Current prepaid expenses	944	4,084
Accrued income	3,521	8,223
Other short-term receivables	1,732	2,391
Total	**6,446**	**15,322**

12. 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 receivables from and liabilities to related parties are as follows:

In thousand Euro	December 31, 2006	December 31, 2005
Due from related parties		
Other trade receivables (Bertelsmann AG)	31	25
Due from related parties	**31**	**25**
Due to related parties		
Other trade payables (Telefónica SA)	53	53
Other trade payables (Bertelsmann AG)	72	92
Due to related parties	**125**	**145**

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The following table summarizes the amount of the transactions of the Company with related parties:

In thousand Euro	Year ended December 31, 2006	Year ended December 31, 2005
Revenues	999	33
Costs	(2,585)	(1,777)
Total, net	**(1,586)**	**(1,744)**

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.

On October 6, 2006, Pangora GmbH, an indirect 100 percent subsidiary of LYCOS Europe N.V., announced the acquisition of all shares in mentasys GmbH. 27 percent of the shares of mentasys GmbH were acquired from Bertelsmann AG for a consideration of EUR 3.8 million.

13. Compensation of key management personnel

The fixed annual salaries and bonuses for 2006 and 2005 of key management personnel were as follows:

In thousand Euro	Fixed annual salary		Bonus	
	2006	2005	2006[5]	2005[6]
Short-term employee benefits	833	967	229	258
Total	**833**	**967**	**229**	**258**

[5] Estimation / accrual based on the result achieved in 2006, finally to be determined and paid in 2007.
[6] Bonus paid in 2006 based on the results achieved in 2005.

Long-term incentive
By way of long-term incentive, key management personnel was granted share option rights in accordance with the options scheme outlined in note 16. Share option rights granted were as follows:

Date of issue	Exercise price in EUR	Outstanding December 31, 2005	Options exercised in 2006	Options cancelled	Outstanding December 31, 2006	Expiry date
March 21, 2000	28.80	145,000	-	-	145,000	October 20, 2007
June 5, 2000	15.90	90,000	-	-	90,000	June 4, 2008
December 20, 2000	6.16	170,000	-	-	170,000	December 19, 2008
Total		**405,000**			**405,000**	

Shares
Christoph Mohn owns 8,333 shares in the Company. Christoph Mohn Internet Holding GmbH (100 percent held by Christoph Mohn) owns 37,730,000 shares in the Company as at December 31, 2006, and December 31, 2005.

Indemnity and insurance
The Company shall indemnify and hold harmless each member of the Management Board in accordance with Article 26.A of the Articles of Association of the Company.

14. Compensation of the Supervisory Board

Remuneration package
No member of the Supervisory Board received remuneration in respect of their function as the Supervisory Board of the Company in 2006 and 2005. Former members of the Supervisory Board did not receive any remuneration in 2006 and 2005.

Options / shares
No share options rights in the Company are granted to or acquired by members of the Supervisory Board.

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No member of the Supervisory Board of LYCOS Europe N.V. holds shares in the Company.

Indemnity and insurance
The Company shall indemnify and hold harmless each member of the Supervisory Board in accordance with Article 26.A of the Articles of Association of the Company.

15. Shareholders' equity

Issued capital
The Company's Class AA and AB shares have been issued in registered form and may only be transferred by a private deed. These registered shares carry special voting and binding nomination rights. Of the shareholders, only holders of Class AA and AB registered shares have also the right to make binding nominations of the Management Board and the Supervisory Board as well as for the positions of Chairman and Deputy Chairman of the Supervisory Board.

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 December 31, 2006, and December 31, 2005. These shares are owned by the LE Holding Corp., a company fully owned by Telefónica SA.

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

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 December 31, 2006, and December 31, 2005, respectively, and 187,576,344 are outstanding on December 31, 2006, and December 31, 2005, respectively.

In fiscal year 2000, the Company issued 28,000,000 Class B shares in an Initial Public Offering. A total of 83.3 million LYCOS Europe shares have been issued in connection with the acquisition of Spray Network. A total of 18.1 million LYCOS Europe shares have been issued in connection with the acquisition of MultiMania. On September 20, 2000, Spray Ventures and Investor Guernsey entered into a share purchase agreement with the Company to acquire a total of 10.0 million shares for a total consideration of EUR 100 million. All these LYCOS Europe shares have been issued in connection with this share purchase agreement to Spray Ventures and Investor Guernsey.

On February 16, 2001, Spray Ventures entered into an agreement with the Company to transfer 24.9 million LYCOS Europe shares (representing a value of EUR 78.7 million) to the Company in settlement of amounts due under the share purchase agreement. These shares have been recorded as treasury shares at the settlement amount within shareholders' equity.

The Company issued 197,862 shares and reissued 147,000 treasury shares during the year ended December 31, 2002, in connection with the exercise of employee stock options.

In October 2002, Spray Ventures transferred 3.2 million LYCOS Europe shares (representing a value of EUR 0.7 million) to the Company as indemnification for arranging the settlement with the previous shareholders of Massmarket AS.

On January 17, 2003, LYCOS Europe's shareholders resolved at an extraordinary general meeting upon the reduction of the Company's issued share capital by canceling 27,277,144 bearer shares held as treasury shares by LYCOS Europe. This resolution was effective on March 22, 2003. LYCOS Europe continues to hold 723,656 of its own shares recorded as treasury shares.

Share premium
The share premium concerns the income from the issuing of shares insofar as this exceeds the nominal value of the shares (income above par).

Legal reserves
The Civil Code of the Netherlands requires legal reserves for capitalization of internal development expenses. These reserves are deducted from the share premium.

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Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company.

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Unappropriated result
The General Meeting of Shareholders will be asked to approve the appropriation of the 2006 profit after tax.

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the amount of EUR 1,704 thousand to increase the other reserves/accumulated deficit.

16. 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. As at December 31, 2006, the minimum exercisable share price amounts to EUR 1.83.

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

	Options outstanding		
Range of exercise prices (in EUR)	Number of outstanding options as of December 31, 2006	Weighted average remaining contractual life (in years)	Weighted average exercise price per share
0.00 - 2.49	78,300	2.2	1.83
2.50 - 7.49	337,650	2.0	6.16
7.50 - 17.49	146,000	1.4	15.90
17.50 - 30.00	237,200	0.8	28.80

	Number of options	Weighted average exercise price per share in Euro
Options outstanding on January 1, 2005	**1,573,650**	**13.85**
Options expired	(156,268)	10.70
Options cancelled	(565,400)	14.87
Options outstanding on December 31, 2005	**851,982**	**13.75**
Options expired	(10,332)	0.58
Options cancelled	(42,500)	7.80
Options outstanding on December 31, 2006	**799,150**	**14.24**

17. Provisions

Provisions recognized are presented below:

	Restructuring	Other
Balance at January 1, 2005	**3,316**	**1,287**
Provisions made during the year 2005	5,866	6
Provisions used during the year 2005	(6,727)	0
Provisions released during the year 2005	(516)	0
Balance at December 31, 2005	**1,939**	**1,293**
Provisions made during the year 2006	195	13,963
Provisions used during the year 2006	(969)	(1,181)
Provisions released during the year 2006	(335)	0
Balance at December 31, 2006	**830**	[illegible]
Non-current	0	14,075
Current	830	0

Other provisions comprise the estimate for the consideration of the former shareholder of [illegible]ns AG, which was included in other short-term liabilities and which was paid during 2006. Please see note 6 for further details.

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18. Other short-term liabilities

Other short-term liabilities comprise:

In thousand Euro	December 31, 2006	December 31, 2005
Accrual for salary and salary related cost	1,862	2,636
Accrual for marketing cost	1,697	4,798
Accrual for professional services	1,203	919
Other accrued expenses	7,940	7,879
Other current liabilities	4,730	5,402
Accrued expenses and other current liabilities	**17,432**	**21,634**

19. 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 and rental payments under these commitments are as follows:

In thousand Euro	
Due within one year	2,405
Due after one through five years	7,781
Due after five years	1,246
Total	**11,432**

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 Search 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 immediately and fiercely denied this claim for past infringements.

According to an assessment of the Company and its advisors, it believes that the chance that a court would uphold a termination notice by Lycos, Inc. on the alleged infringements could be in general considered as small. Therefore LYCOS Europe did not record any provision. Eventually, Lycos, Inc. withdrew its claim letter, under reservation of all rights, and the Company and LYCOS, Inc. entered into negotiations regarding a broader perpetual license agreement. The outcome of these negotiations, which were temporarily adjourned due to a change of management of Lycos, Inc. and recently reopened, is still uncertain.

Indemnity and Insurance
The Company shall indemnify and hold harmless each member of the Management Board and of the Supervisory Board in accordance with Article 26.A of the Articles of Association of the Company. For this purpose amongst others the Company has restricted cash in the amount of EUR 400 thousand as at December 31, 2006.

20. Deferred revenue

Deferred revenues are recognized in the balance sheet when invoices are issued, but services have not been completely delivered. Deferred revenues are recognized in line with the percentage of completion of each contract.

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21. Other operating expenses

Other operating expenses comprise of:

In thousand Euro	Year ended December 31, 2006				
	Ordinary expenses	Restructuring	Impairment	Other amortization	Total
Sales and marketing	(24,198)	3	0	(390)	(24,585)
General and administration	(21,525)	(14)	(2,393)	(920)	(24,852)
Research and development	(16,799)	171	0	(86)	(16,714)
Total	**(62,522)**	**160**	**(2,393)**	**(1,396)**	**(66,151)**

In thousand Euro	Year ended December 31, 2005 (restated)				
	Ordinary expenses	Restructuring	Impairment	Other amortization	Total
Sales and marketing	(23,603)	(1,142)	0	(271)	(25,016)
General and administration	(20,393)	(401)	(236)	(918)	(21,948)
Research and development	(18,511)	(3,526)	0	(199)	(22,236)
Total	**(62,507)**	**(5,069)**	**(236)**	**(1,388)**	**(69,200)**

22. Personnel expenses

Personnel expenses comprise of:

In thousand Euro	Year ended December 31, 2006	Year ended December 31, 2005 (restated)
Wages and salaries	27,040	31,467
Social security payments	4,644	6,099
Total	**31,684**	**37,566**

The Company provides limited defined pension benefits to an officer of the Company. The pension payments are calculated on the basis of years of service and average income (whereby a maximum is set for calculating the pension payments) in the three years prior to retirement. No plan assets exist in connection with this pension obligation.

The Company employed the following employees on a full-time equivalent basis as at December 31, 2006 and as at December 31, 2005, respectively.

	Year ended December 31, 2006	Year ended December 31, 2005
Germany	392	315
Armenia	191	195
France	50	59
Sweden	21	55
The Netherlands	1	1
Other	59	63
Total	**714**	**688**

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23. Other operating income

During 2004, the Company entered into an amendment to the Yahoo! contract that resulted in a one-time payment from Yahoo which partially has been recorded over time as other income.

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24. Income taxes

Income tax expenses / benefits recognized include the following:

In thousand Euro	Year ended December 31, 2006	Year ended December 31, 2005 (restated)
Current income tax expenses	(116)	(103)
Deferred tax benefits	95	(146)
Income tax	(21)	(249)

The income tax expenses differ from the amount computed by using the average statutory rate of the Company and its subsidiaries of 34.0 percent (2005: 34.0 percent) as follows:

In thousand Euro	December 31, 2006	December 31, 2005 (restated)
Expected income tax benefit at the average statutory tax rate	2,958	5,716
Effect of non-deductible and non-taxable charges	(1,698)	(2,735)
Changes in loss carry-forwards, without recognition of deferred taxes	(1,281)	(2,896)
Changes in tax rates	0	(334)
Income tax	(21)	(249)

Deferred tax assets and liabilities are summarized as follows:

In thousand Euro	December 31, 2006	December 31, 2005
Deferred tax assets		
Loss carry-forward	547	660
Property, plant and equipment	374	1,284
Intangible assets	7,339	8,146
Less: Valuation allowance	(6,699)	(8,687)
Netting	(1,371)	(1,219)
Total deferred tax assets	190	184
Deferred tax liabilities		
Property, plant and equipment	429	187
Intangible assets	3,130	1,940
Netting	(1,371)	(1,219)
Total deferred tax liabilities	2,188	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 be realized in the foreseeable future. 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 December 31, 2006, and December 31, 2005, the Company's operating tax loss carry-forwards amount to approximately EUR 566.9 million and EUR 525.8 million, respectively. On December 31, 2006 an amount of EUR 94.1 million thereof is restricted in use until 2009. Further, except for EUR [illegible] million of the loss carry-forwards, all of the remaining loss carry-forwards have an indefinite life.

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25. 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.

	Year ended December 31, 2006	Year ended December 31, 2005
Basic/diluted net loss - continued operation (in thousand Euro)	(11,068)	(16,319)
Basic/diluted net profit / (net loss) (in thousand Euro)	1,704	(20,236)
Weighted average shares	311,576,344	311,576,344
Net loss per share basic and diluted - continued operation	**(0.04)**	**(0.05)**
Net profit / (net loss) per share basic and diluted	**0.01**	**(0.06)**

26. Subsequent events

Sale of Swedish Access business
On November 23, 2006, LYCOS Europe sold its Swedish Access business to Glocalnet Scandinavia AB for a consideration of SEK 172 million (around EUR 19 million). As at December 31, 2006 this disposal was subject to approval of the Swedish competition authorities. On January 4, 2007 this transaction was approved by the Swedish competition authorities and was closed on January 12, 2007.

The Swedish Access business contributes to the revenues of the discontinued operations of the Company with an amount of EUR 39.2 million. As disclosed in note 6, the net amount of assets and liabilities to be transferred to Glocalnet amounted to EUR 9.4 million. The estimated gain of this transaction amounts to EUR 5 to 6 million, which will be considered in the first quarter of 2007.

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Company Financial Statements
(Part 9 BW2 of the Netherlands Civil Code)
LYCOS Europe N.V.

for the year ended December 31, 2006

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LYCOS Europe N.V. Company Balance Sheets
(Before proposed appropriation of result)

In thousand Euro	Notes	December 31, 2006	December 31, 2005
Assets			
Intangible fixed assets			
Goodwill	3	3,686	3,686
Intangible assets, net	3	0	590
Total intangible fixed assets		**3,686**	**4,276**
Tangible fixed assets			
Computers, furniture and fixtures		3	12
Total tangible fixed assets		**3**	**12**
Financial fixed assets			
Participating interest in group companies	4	10,795	0
Other participating interest	4	569	569
Other investments	4,5	9,803	9,802
Total financial fixed assets		**21,167**	**10,371**
Total fixed assets		**24,856**	**14,659**
Current assets			
Due from related parties	6	55,787	40,376
Other receivables		0	885
Other investments	5	1,704	29,480
Cash and cash equivalents	5	58,580	52,406
Total current assets		**116,071**	**123,147**
Total assets		**140,927**	**137,806**
Liabilities and shareholders' equity			
Shareholders' equity			
Issued capital		3,123	3,123
Share premium		1,587,049	1,589,584
Legal reserves		4,968	2,433
Treasury shares		(2,052)	(2,052)
Translation reserve		1,137	578
Accumulated deficit		(1,467,298)	(1,447,062)
Unappropriated result		1,704	(20,236)
Total shareholders' equity	7	**128,631**	**126,368**
Provisions			
Participating interest in group companies	4	0	568
Total provisions		**0**	**568**
Current liabilities			
Short-term debt		85	2,940
Due to related parties	6	10,287	6,808
Accounts payable		365	146
Accrued expenses and other current liabilities		1,559	976
Total current liabilities		**12,296**	**10,870**
Total liabilities and shareholders' equity		**140,927**	**137,806**

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The accompanying notes are an integral part of these company financial statements

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LYCOS Europe N.V. Company Income Statements

In thousand Euro	Notes	Year ended December 31, 2006	Year ended December 31, 2005
Profit/ (loss) from subsidiaries and equity investments	9	1,354	(20,911)
Other income and expenses after taxes		350	675
Net profit / (net loss)		**1,704**	**(20,236)**

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LYCOS Europe N.V. Statement of Shareholders' Equity

In thousand Euro (except share data)	Notes	Issued capital		Share premium	Legal reserves	Treasury shares		Translation reserve	Accumulated deficit	Unappropriated result	Total
		No. of shares	€	€	€	No. of shares	€	€	€	€	€
Balance as at January 1, 2005		**312,300,000**	**3,123**	**1,589,057**	**2,960**	**(723,656)**	**(2,052)**	**172**	**(1,401,586)**	**(45,476)**	**146,198**
Movement capitalized development expenses				527	(527)						0
Appropriation of the net result of previous year									(45,476)	45,476	0
Translation gain								406			406
Net loss										(20,236)	(20,236)
Balance as at December 31, 2005		**312,300,000**	**3,123**	**1,589,584**	**2,433**	**(723,656)**	**(2,052)**	**578**	**(1,447,062)**	**(20,236)**	**126,368**
Movement capitalized development expenses				(2,535)	2,535						0
Appropriation of the net result of previous year									(20,236)	20,236	0
Translation gain								559			559
Net profit										1,704	1,704
Balance as at December 31, 2006	7	**312,300,000**	**3,123**	**1,587,049**	**4,968**	**(723,656)**	**(2,052)**	**1,137**	**(1,467,298)**	**1,704**	**128,631**

The accompanying notes are an integral part of these company financial statements

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Notes to the Company Financial Statements

1. Significant accounting policies
2. Acquisition and disposal of subsidiaries
3. Intangible fixed assets
4. Financial fixed assets
5. Cash, cash equivalents, and other investments
6. Due to / from related parties
7. Shareholders' equity
8. Contingencies and commitments
9. Loss of subsidiaries and equity investments
10. Income taxes
11. Remuneration of the Management Board
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1. Significant accounting policies

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 and communication, communities, hosting and 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).

a. General

The company financial statements are part of the 2006 financial statements of LYCOS Europe N.V. With reference to the company income statement of LYCOS Europe N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

b. Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, LYCOS Europe N.V. makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of LYCOS Europe N.V. are the same as those applied for the consolidated EU-IFRS financial statements. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as EU-IFRS). Please see note 1 in the consolidated financial statements for a description of these principles.

The share in the result of participating interests consists of the share of LYCOS Europe N.V. in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between LYCOS Europe N.V. and its participating interests and mutually between participating interests themselves, are not incorporated insofar as they can be deemed to be unrealized.

2. Acquisition and disposal of subsidiaries

Acquisitions and disposals by the group of subsidiaries of the Company are explained in note 6 of the notes to the consolidated financial statements.

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3. Intangible fixed assets

In thousand Euro	Goodwill	Licenses and other rights	Purchased software	Total
Cost				
Balance as at January 1, 2005	879,553	6,649	1,860	888,062
Balance as at December 31, 2005	879,553	6,649	1,860	888,062
Disposal	0	(5,249)	0	(5,249)
Balance as at December 31, 2006	879,553	1,400	1,860	882,813
Amortization and impairment losses				
Balance as at January 1, 2005	(875,867)	(5,960)	(1,819)	(883,646)
Amortization charge	0	(99)	(41)	(140)
Balance as at December 31, 2005	(875,867)	(6,059)	(1,860)	(883,786)
Amortization charge	0	(74)	0	(74)
Disposal	0	4,733	0	4,733
Balance as at December 31, 2006	(875,867)	(1,400)	(1,860)	(879,127)
Carrying amounts				
Balance as at December 31, 2005	3,686	590	0	4,276
Balance as at December 31, 2006	**3,686**	**0**	**0**	**3,686**

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 was required for the period ended December 31, 2006.

Amortization periods are as disclosed in note 1 of the consolidated financial statements.

4. Financial fixed assets

In thousand Euro	Participating interest in group companies	Other participating interest	Other investments	Total
Balance as at December 31, 2005	**(568)**	**569**	**9,802**	**9,803**
Movements:				
Net change	0	0	1	**1**
Capital contributions	10,683	0	0	**10,683**
Liquidation	(1,248)	0	0	**(1,248)**
Result from subsidiaries and equity investments	1,354	0	0	**1,354**
Disposal	(13)	0	0	**(13)**
Translation gain	587	0	0	**587**
Balance as at December 31, 2006	**10,795**	**569**	**9,803**	**21,167**

The subsidiaries are included against their negative net asset value as the Company has the firm intention to continue to provide such financial support as is necessary to enable its wholly-owned subsidiaries to continue as a going concern.

Subsidiaries included in participating interest in group companies are disclosed in the consolidated financial statements in note 3.

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Other participating interest includes the following equity investments:

Company	Ownership (undiluted)	Country of incorporation	Statutory seat
Seznam.cz, a.s.	30.0 %	Czech Republic	Prague
Best of Media SA (formerly: Best of Micro SA)	11.9 %	France	Nanterre

Investment in Seznam.cz, a.s.

Although the Company owns 30 percent of the share capital in Seznam.cz, a.s. ("Seznam"), the Company can not exercise any influence on Seznam.cz. The Company is not represented in the board of directors, does not participate in policy-making processes, does not have any material transactions with Seznam and does not have any interchange of managerial personnel between the Company and Seznam.

Since acquisition, the Company has accounted for its interest in Seznam as an available-for-sale financial instrument. As the shares do not have a quoted market price in an active market, the variability in the range of reasonable fair value estimates is considered significant and the probabilities of the various estimates within the range can not be reasonably assessed and used in estimating fair value, the shares are measured at cost. The carrying amount of this investment amounts to EUR 69 thousand.

The financial information available to the Company for 2004 and 2005 is presented below.

In thousand Euro	Year ended December 31 2005 (unaudited)	Year ended December 31 2004 (unaudited)
Revenues	25,241	15,580
Net profit for the period	6,668	2,976
Shareholders equity	13,263	6,249

The Company expects a net profit for Seznam.cz for the 12 month period ended December 31, 2006 of EUR 12.9 million.

Investment in Best of Media SA

Since acquisition, the Company has accounted for its interest in Best of Media SA ("Best of Media") as an available-for-sale financial instrument. As the shares do not have a quoted market price in an active market, the variability in the range of reasonable fair value estimates is considered significant and the probabilities of the various estimates within the range can not be reasonably assessed and used in estimating fair value, the shares are measured at cost. The carrying amount of this investment amounts to EUR 500 thousand.

The financial information available to the Company for 2004 and 2005 is presented below.

In thousand Euro	Year ended December 31 2005 (unaudited)	Year ended December 31 2004 (unaudited)
Revenues	2,884	1,805
Net loss for the period	(64)	(80)
Shareholders equity	206	128

The Company expects a net result for Best of Media for the 12 month period ended December 31, 2006 of EUR 0 million.

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5. Cash, cash equivalents and other investments

Cash, cash equivalents and other investments comprise the following:

In thousand Euro	December 31, 2006	December 31, 2005
Cash	26,580	30,177
Cash equivalents	19,500	22,229
Other investments due within one year	12,500	29,480
Other investments due after one year	9,803	9,802
Total	**68,383**	**91,688**

An amount of EUR 9.8 million and EUR 12.3 million is restricted in use as at December 31, 2006, and December 31, 2005, respectively. An amount of EUR 4.8 million of the restricted cash is non-current as at December 31, 2006, and December 31, 2005, respectively.

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.

6. Due to / from related parties

In thousand Euro	December 31, 2006	December 31, 2005
Due from related parties	42,223	27,277
Subordinated loan to related parties	12,617	12,617
Accrued interest on subordinated loan	947	482
Due to related parties	10,287	6,808
Total, net	**45,500**	**33,568**

7. Shareholders' equity

Issued capital

The Company's Class AA and AB shares have been issued in registered form and may only be transferred by a private deed. These registered shares carry special voting and binding nomination rights. Of the shareholders, only holders of Class AA and AB registered shares have also the right to make binding nominations of the Management Board and the Supervisory Board as well as for the positions of Chairman and Deputy Chairman of the Supervisory Board.

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 December 31, 2006, and December 31, 2005. These shares are owned by the LE Holding Corp., a company fully owned by Telefónica SA.

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

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 December 31, 2006, and December 31, 2005, respectively, and 187,576,344 are outstanding on December 31, 2006, and December 31, 2005, respectively.

In fiscal year 2000, the Company issued 28,000,000 Class B shares in an Initial Public Offering. A total of 83.3 million LYCOS Europe shares have been issued in connection with the acquisition of Spray Network. A total of 18.1 million LYCOS Europe shares have been issued in connection with the acquisition of MultiMania. On September 20, 2000, Spray Ventures and Investor Guernsey entered into a share purchase agreement with the Company to acquire a total of 10.0 million shares for a total consideration of EUR [illegible] million. All these LYCOS Europe shares have been issued in connection with this share purchase agreement to Spray Ventures and Investor Guernsey.

On February 16, 2001, Spray Ventures entered into an agreement with the Company to transfer [illegible] million LYCOS Europe shares (representing a value of EUR 78.7 million) to the Company in settlement of amounts due under the share purchase agreement. These shares have been recorded as treasury shares at the settlement

amount within shareholders' equity.

The Company issued 197,862 shares and reissued 147,000 treasury shares during the year ended December 31, 2002, in connection with the exercise of employee stock options.

In October 2002, Spray Ventures transferred 3.2 million LYCOS Europe shares (representing a value of EUR 0.7 million) to the Company as indemnification for arranging the settlement with the previous shareholders of Massmarket AS.

On January 17, 2003, LYCOS Europe's shareholders resolved at an extraordinary general meeting upon the reduction of the Company's issued share capital by canceling 27,277,144 bearer shares held as treasury shares by LYCOS Europe. This resolution was effective on March 22, 2003. LYCOS Europe continues to hold 723,656 of its own shares recorded as treasury shares.

Share premium
The share premium concerns the income from the issuing of shares insofar as this exceeds the nominal value of the shares (income above par).

Legal reserves
The Civil Code of the Netherlands requires legal reserves for capitalization of internal development expenses. These reserves are deducted from the share premium.

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company.

Unappropriated result
The General Meeting of Shareholders will be asked to approve the appropriation of the 2006 profit after tax in the amount of EUR 1,704 thousand to increase the other reserves/accumulated deficit.

Stock options
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. The outstanding and exercisable options are disclosed in note 16 of the consolidated financial statements.

8. Contingencies and commitments

Guarantees
The Company has issued letters of guarantee and support to several of its subsidiaries. Furthermore the Company has issued several guarantees to its suppliers and its subsidiaries suppliers during the ordinary course of its business. Guarantees outstanding as at December 31, 2006 amount to EUR 2.3 million.

Joint and several liability
In accordance with article 403 Book 2 of the Netherlands Civil Code the Company has assumed joint and several liability for all legal transactions carried out by its Dutch group company LYCOS Netherlands B.V.

Fiscal unity
Since January 1, 2002, LYCOS Europe N.V. and LYCOS Netherlands B.V. form a fiscal unity for corporate tax; the standard conditions stipulate that each of the companies is liable for the corporation tax payable by all companies belonging to the fiscal entity.

Indemnity and insurance
The Company shall indemnify and hold harmless each member of the Management Board and of the Supervisory Board in accordance with Article 26.A of the Articles of Association of the Company. For this purpose amongst others the Company has restricted cash in the amount of EUR 400 thousand as at December 31, 2006.

9. Loss from subsidiaries and equity investments

This concerns the share of LYCOS Europe N.V. in the results of its participating interests, of which an amount of EUR 1,354 thousand (2005: EUR (20,911) thousand) concerns group companies.

10. Income taxes

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 December 31, 2006, and December 31, 2005, the Company's operating tax loss carry-forwards amount to approximately EUR 83.1 million. EUR 76.4 million of these loss carry-forwards expires after 2011.

11. Remuneration of the Management Board

Remuneration package

Every year, the Supervisory Board fixes the remuneration package of the members of the Management Board. As at January 1, 2006, Mr. Christoph Mohn's remuneration package was raised by 2.0 percent in line with the Company's overall policy and in compensation of inflation.

Fixed annual salary and short-term incentive (bonus)

Management Board members receive a fixed annual salary that is in line with their position in the Company as soon as they join the Board. The fixed salary is adjusted on January 1 of any year. In addition, an annual performance-based bonus is fixed and reviewed after completion of the annual report for the respective fiscal year by the Supervisory Board. The bonus consists of a target / plan bonus and a total maximum bonus. In 2006, the maximum bonus potential was 36 percent of the annual base salary. The bonus payment is subject to achievement of financial (EBIT result vs. business plan) and strategic (market share development) performance targets. The bonus amount for the fiscal year 2005 was fixed and paid in April 2006. The bonus amount for the fiscal year 2006 has not been determined yet at the time that this report is published and will be established by the Supervisory Board in 2007.

The fixed annual salaries and bonuses for 2006 and 2005 of the Management Board were as follows:

	Fixed annual salary		Bonus	
In Euro	2006	2005	2006[7]	2005[8]
Christoph Mohn	303,795	297,838	To be determined	70,000

[7] Based on the result achieved in 2006 and therefore determinable and payable in 2007. The bonus amount for 2006 is expected to be in the range of EUR 10 thousand to EUR 60 thousand.

[8] Bonus paid in 2006 based on the results achieved in 2005.

Long-term incentive

By way of long-term incentive, Management Board members are granted share option rights in accordance with the options scheme outlined in note 16 of the consolidated financial statements. The options currently held by Christoph Mohn (sole Board member) are listed below:

Date of issue	Exercise price in EUR	Outstanding December 31, 2005	Options exercised in 2006	Options cancelled	Outstanding December 31, 2006	Expiry date
March 21, 2000	28.80	145,000	-	-	145,000	October 20, 2007
June 5, 2000	15.90	40,000	-	-	40,000	June 4, 2008
December 20, 2000	6.16	100,000	-	-	100,000	December 19, 2008
Total		285,000	-	-	285,000	

Apart from the above-mentioned management options, the Management Board does not possess any options on the Company.

Shares

Christoph Mohn owns 8,333 shares in the Company. Christoph Mohn Internet Holding GmbH (100 percent held by Christoph Mohn) owns 37,730,000 shares in the Company as at December 31, 2006, a[illegible]

Total remuneration

The total remuneration (including pension costs and other commitments) of Management Board members amounted to EUR 0.4 million in 2006 (2005: EUR 0.4 million). Former members of the Management Board did

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not receive any remuneration in 2006 and 2005.

Indemnity and insurance
The Company shall indemnify and hold harmless each member of the Management Board in accordance with Article 26.A of the Articles of Association of the Company.

12. Remuneration of the Supervisory Board

Remuneration package
No member of the Supervisory Board received remuneration in respect of their function as member of the Supervisory Board of the Company in 2006 and 2005. Former members of the Supervisory Board did not receive any remuneration in 2006 and 2005.

Options / shares
No share options rights in the Company are granted to or acquired by members of the Supervisory Board. No member of the Supervisory Board of LYCOS Europe N.V. holds shares in the Company.

Indemnity and insurance
The Company shall indemnify and hold harmless each member of the Supervisory Board in accordance with Article 26.A of the Articles of Association of the Company.

Haarlem, the Netherlands
January 26, 2007

Christoph Mohn
Chief Executive Officer

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Other Information

Class AA shares and Class AB shares
The Company's Class AA and AB shares have been issued in registered form and may only be transferred by a private deed. These registered shares carry special voting and binding nomination rights. Of the shareholders, only holders of Class AA and AB registered shares have also the right to make binding nominations of the Management Board and the Supervisory Board as well as for the positions of Chairman and Deputy Chairman of the Supervisory Board.

The Class AA shares are owned by LE Holding Corp., a company fully owned by Telefónica SA.

The Class AB shares are owned by Bertelsmann Internet Holding GmbH (24,347,400), Fireball Internet GmbH (14,260,000) and Christoph Mohn Internet Holding (23,392,600).

Profit appropriation provision
The appropriation of profits takes place in accordance with Article 18 of the Articles of Association. Under this provision the profit for the year as stated in the income statements is at the unrestricted disposal of the General Meeting of Shareholders.

Appropriation of result for the year 2006
The General Meeting of Shareholders will be asked to approve the appropriation of the 2006 profit after tax in the amount of EUR 1,704 thousand to increase the other reserves/accumulated deficit.

Independent Auditor's Report
We refer to the accompanying Independent Auditor's Report as set forth on the following page.

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Independent Auditor's Report

To: The Annual General Meeting of Shareholders of Lycos Europe N.V.

Auditors' report

Report on the financial statements

Introduction

We have audited the accompanying financial statements of Lycos Europe N.V., Haarlem, the Netherlands, as set out on pages 21 to 61. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the income statement, the statement of cash flows and the statement of shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the report to the shareholders in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Lycos Europe N.V. as at 31 December 2006, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Lycos Europe N.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report to the shareholders is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 26 January 2007

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M. Tubbergen RA

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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 [9]	23,790	23,856	22,838	33,292
Loss from operations [9]	(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 [10]	(9,645)	(11,928)	(7,169)	(5,485)

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
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 [10]	(6,194)	(6,264)	410	1,709

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
Loss from operations	(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)
EBITDA [10]	(834)	777	(3,379)	(1,192)

[9] Not restated.

[10] EBITDA is Earnings Before Interest, Taxes, Depreciation, Amortization and Impairment, which is calculated by excluding the depreciation, amortization and impairment 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).

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Report of the Supervisory Board

The Management Board of LYCOS Europe N.V. kept the Supervisory Board well informed about the situation and course of business at the Company during the period under its review, January 1, 2006, to December 31, 2006. The course of business was discussed on the basis of monthly reports containing comparative figures relating to the budget, sales and traffic trends, developments in the regional markets and marketing expenditures. In addition, the Supervisory Board engaged in extensive discussions with the Management Board on fundamental issues of corporate policy and significant business developments and strategy in joint meetings with the Supervisory Board and in regular telephone calls. The Supervisory Board was thus able to conclude that business was being managed properly.

As of September 30, 2006, Lydia Lux-Schmitt, CFO, left LYCOS Europe to pursue other opportunities. The Supervisory Board thanks Mrs. Lux-Schmitt for her contribution to the development of the Company and wishes her all the best in the future.

Activities
LYCOS Europe's Supervisory Board's responsibility is to supervise the policy of the Company's Management Board and the general affairs of LYCOS Europe and its business as well as to assist the Company's Management Board by providing advice. In doing so, LYCOS Europe's Supervisory Board is guided by the Company's interests and takes into account the relevant interests of its stakeholders. LYCOS Europe's Supervisory Board is responsible for the quality of its own functioning. The Supervisory Board was involved in resolutions as and where required by the Company's Articles of Association and By-Laws. We specifically discussed the strategic orientation of the Company and lent it our unreserved support. We also discussed the Company's internal risk management and control systems.

During 2006, the Supervisory Board met four times and adopted several resolutions outside of meetings. Two of its members have been frequently absent at meetings. As part of its efforts in the field of corporate governance the Supervisory Board has decided to meet once a year without the Management Board being present to discuss the functioning of the Supervisory Board and of the members of the Management Board. In 2006, a meeting of this kind took place in November. Furthermore, the Chairman of the Supervisory Board is regularly discussing actual business developments with the CEO.

Audit Committee
During 2006, the Supervisory Board constituted an Audit Committee, which was chaired by Mr. Rovira de Ossó and which further consisted of Mr. Buch and Mr. Richter. A further explanation on the purpose and functioning of the Audit Committee can be found in the Corporate Governance section of this annual report on page 15. During 2006, the Audit Committee met four times. None of the Audit Committee members is designated as such as a "financial expert" within the meaning of that term under the Dutch Corporate Governance Code. The Supervisory Board does believe however that the expertise of the members of the Audit Committee taken together is sufficient for the Supervisory Board to discharge its supervisory duties in financial and audit-related matters.

Remuneration Committee
Also during 2006 the Supervisory Board constituted a Remuneration Committee which is chaired by Mr. Bohnert. Mr. Richter is a member of the Remuneration Committee. Mr. Mateu was a member of the Remuneration Committee until his resignation on March 23, 2006. During 2006, no replacement for Mr. Mateu in the Remuneration Committee was appointed. A further explanation on the purpose and functioning of the Remuneration Committee can be found in the Corporate Governance section of this annual report on page 15. The Remuneration Committee met once in 2006.

Remuneration of Management Board members
In 2006 and in accordance with its standing policies the Supervisory Board has decided to grant a bonus to the CEO, Mr. Mohn, for the fiscal year 2005. This bonus was based on previously determined performance criteria. Furthermore, as at January 1, 2006, Mr. Mohn's remuneration package was raised by 2.0 percent in line with the Company's overall policy and in compensation of inflation. For an overview of Mr. Mohn's remuneration during 2006 and the performance criteria we apply, see page 58 of this annual report.
The relative importance of the variable component of his remuneration is a maximum of 36 percent of his annual base salary or 27 percent of the maximum total remuneration. This ratio was chosen to provide a reasonable high amount and relative incentive for the achievement of the planned short-term business results. For the fiscal year 2005, the bonus made up 24 percent of the base salar[illegible]t of the total annual remuneration. The bonus payment is subject to achievement of financial (EBIT result v[illegible]n) and strategic (market share development) performance targets. These performance criteria[illegible] they reflect the main concerns of our business, i.e. to achieve profitability in the near future and to gain market share to increase short-term revenues and ensure medium-term growth. In addition to the aforementioned salary and bonus components, the Company provides Mr. Mohn with a[illegible]sion plan and an accident insurance. The pension arrangement is based on the Bertelsmann pension plan dated July 1, 1986. Mr. Mohn acquires a claim to 0.8 percent of his pensionable income per year [illegible]

maximum of 20 percent of his average remuneration during the last three years before receiving pension benefits (maximum pensionable income EUR 204,000). His years of previous employment with Bertelsmann (May 1, 1992 until July 31, 1994, and November 1, 1996 until April 30, 1997) are taken into account for the calculation of pension benefits. Provisions for this pension entitlement are made accordingly. For the year ended December 31, 2006 the amount was EUR 0.1 million.

Mr. Mohn's employment contract with LYCOS Europe GmbH under German law establishes a notice period of three months for both parties.

Furthermore, the Supervisory Board, assisted by its Remuneration Committee, has prepared a remuneration policy for the remuneration of members of our Management Board during 2005 and thereafter which has been adopted at our 2005 Annual General Meeting of Shareholders. The Remuneration Policy can be found at page 68.

The consolidated financial statements, notes to the consolidated financial statements and management report of LYCOS Europe N.V. for the fiscal year extending from January 1, 2006, to December 31, 2006, as submitted by the Management Board were prepared in the form of a consolidated report in accordance with IFRS. These financial statements were audited by KPMG Accountants N.V. (Amsterdam) and an unqualified audit opinion was issued. The Supervisory Board has accepted and approved the results of the audit and, subsequent to its own review of the financial statements, the notes to the financial statements and the management report, has no objections to it. The Supervisory Board approves the financial reports as drawn up by the Management Board, and it is therefore deemed approved.

We wish the entire staff and the Management Board of LYCOS Europe N.V. every success for the upcoming business year.

Amsterdam, February 16, 2007
Prof. Dr. Frank Jürgen Richter
Chairman of the Supervisory Board

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Supervisory Board

(During the year ended December 31, 2006)

Prof. Dr. Frank Jürgen Richter (1941, German national)
Chairman of the Supervisory Board for the whole year ended December 31, 2006
Chairman of DELTA entertainment Inc., Los Angeles, Cal.
Member of the Supervisory Board since November 30, 2001, current term ending in 2010

Dr. Dieter Ulrich Bohnert (1948, German national)
Member of the Supervisory Board for the whole year ended December 31, 2006
Senior Partner Heuking Kühn Lüer Wojtek
Member of the Supervisory Board of APO Data-Service GmbH
Member of the Supervisory Board of Schneider Electric GmbH
Member of the Supervisory Board since November 30, 2001, current term ending in 2010

José Fransisco Mateu Isturiz (1954, Spanish national)
Member of the Supervisory Board until March 23, 2006
Senior Vice President Legal and Corporate Affairs Altadis S.A.
Member of the Board of Directors of Amper S.A.

Rolf Eberhard Buch (1965, German national)
Member of the Supervisory Board for the whole year ended December 31, 2006
Chairman of the Executive Board of arvato direct services and Member of the Board of Directors of arvato AG and directorships of arvato affiliates
Member of the Supervisory Board since May 22, 2003, current term ending in 2007

Elias Rodriguez-Vina (1960, Spanish national)
Member of the Supervisory Board since May 24, 2006
Chairman of the Management Board and Chief Executive Officer of Endemol N.V.
Member of the Board of Catalana d' Iniciatives, SRC, S.A.
Member of the Supervisory Board since May 24, 2006, current term ending in 2010

Juan Rovira de Ossó (1955, Spanish national)
Member of the Supervisory Board for the whole year ended December 31, 2006
Since July 2006, Deputy General Manager of Telefonica S.A.
Member of the Board of Banco Inversis Net. S.A. until May 2006
Member of the Board of Geonet Territorial, S.A.
Member of the Supervisory Board of Terra Networks Mexico Holding, S.a. de C.V. and directorships of Terra Networks Mexico affiliates until December 2006
Member of the Board of Directors of Azeler Automoción S.A.
Managing Director of Terra LYCOS Holding, B.V.
Member of the Supervisory Board since November 30, 2001, current term ending in 2010

Luis Velo Puig-Durán (1960, Spanish national)
Member of the Supervisory Board for the whole year ended December 31, 2006
Executive Vice President of Media Projects at Telefónica de España S.A.U.
Member of the Steering Committee of Telefónica de España S.A.U.
Member of the Supervisory Board since May 18, 2005, current term ending in 2008

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Remuneration of Supervisory Board Members

Remuneration package
No member of the Supervisory Board received remuneration in respect of their function as member of the Supervisory Board of the Company.

Options
No share option rights in the Company are granted to or acquired by members of the Supervisory Board.

Shares
No member of the Supervisory Board of LYCOS Europe N.V. holds shares in the Company.

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Remuneration Policy

Set forth below is the policy on remuneration of the members of the Management Board of LYCOS Europe N.V. (also referred to as "we", "our" or "us") as adopted by the Company's Annual General Meeting of Shareholders.

The amount and structure of the remuneration which our Management Board members receive from us for their work shall be such that qualified and expert managers can be recruited and retained.
The remuneration structure, including severance pay, if any, pension costs and other commitments is such that it promotes our interests in the medium- and long-term, does not encourage a Management Board member to act in his own interests with disregard to our interests and does not "reward" failure of Management Board members upon termination of employment or service. The relevant employment market, the development of results and the development of the share price as well as other developments relevant to us, such as those in the market, are factors that should be considered when determining the amount and structure of remuneration.

The members of the Management Board shall receive a fixed salary, which in general is reviewed and potentially adjusted on 1 January of any year. The members of the Management Board are furthermore entitled to variable remuneration consisting of a short-term incentive bonus scheme and the granting of share option rights as long-term incentive. The variable part of the remuneration is designed to support our strategy for valuation creation and shareholder alignment and to strengthen the board members' commitment to us and our objectives.

The bonus scheme shall at least contain elements relating to our financial performance and the Group's strategic development. In addition, special bonuses can be granted if deemed appropriate by the Supervisory Board.

Share options to Management Board members can be granted under our 2000 employee stock option plan (as amended from time to time) which options generally shall be granted for a period of eight years.

Overall, the variable part of the remuneration must be linked to previously-determined, measurable and influenceable targets. However, deviations from this general rule are permitted where the Supervisory Board decides the same is justified by the status of a Management Board member as an employee of us (where applicable), for instance (without limitation) with respect to grants under our 2000 employee stock option plan. The variable part of a Management Board member's remuneration and that person's personal investment in us (if any) taken together must provide for both short-term and long-term elements of incentives.

Members of the Management Board may have the benefit of other periodically paid compensation or benefits in kind. These compensation elements can comprise elements based on historic contractual benefits or compensation elements based on local practices. Typical examples are a company car or an allowance for medical assurance.

The pension policy is that pension arrangements should be in line with local practice in the country of residence of the members of the Management Board and the pension benefits provided should be consistent with those provided by other multinational companies in those countries.

We do not grant advances or guarantees to Management Board members, except within the framework of its usual business operations, on conditions which apply to all employees and with the approval of the Supervisory Board. The granting of loans to Management Board members is not permitted.

The maximum remuneration in the event of dismissal is one year's salary (the fixed remuneration component). However, if the maximum of one year's fixed salary would be manifestly unreasonable for the Management Board member who is dismissed during his first term of office, such board member shall be eligible for a severance pay not exceeding twice the annual salary. In addition, where the Management Board member is retained under an employment contract or is internally promoted from employee to Management Board member we will respect the general rules of law applicable to the employment contract and local practice with respect to termination of employment contracts, which may result in higher termination payments, depending on the situation.

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Glossary

The following explanatory notes are meant to assist the reader of our annual report in comprehending the terms used in this report or are used in connection with the Internet business in general.

Above the fold
The section of a web page that is visible without scrolling.
Access
Connection to the Internet.
Ad impression
A single display or view of an online advertisement such as a banner, box ad, button ad or text link.
Ad server
A high-end computer used to manage and control advertising resources within the advertising network.
Advertising network
A network representing many Web sites in selling advertising, allowing media buyers to reach broad audiences easily through run-of-category and run-of-network buys.
Affiliate
The publisher/salesperson in an affiliate marketing relationship.
b2b
Business that sells products or provides services to other businesses.
b2c
Business that sells products or provides services to the end-user consumers.
Bandwidth
Speed of online data transmission via the Internet. LYCOS Germany and Spray Sweden offer tailor-made broad-band and narrow-band Internet access packages.
Banner ad
A graphical web advertising unit, typically measuring 468 pixels wide and 60 pixels tall or 234 pixels wide and 60 pixels tall (e.g. 468x60; 234 x60).
Blog (Weblog)
A frequent, chronological publication of personal thoughts and web links in the Internet (also known as web log). LYCOS Europe launched a new blog service called "JubiiBlog" in October 2005.
Bookmark
A link stored in a web browser for future reference.
Channel
Content area within an Internet portal that combines latest news of a particular topic, shopping tips and links to related sites (e.g. LYCOS Auto). Channels aggregate distinctive target groups and belong to the most precious online advertising inventory.
Chat
Online conversation with other (personally known or unknown) users in real-time via the Internet. The LYCOS Chat is the biggest chat of its kind in Europe with several millions of users. Yahoo! Europe as well as T-Online are licensees of the LYCOS Chat.
Click-through
The process of clicking through an online advertisement to the advertiser's destination.
Conversion rate
The percentage of visitors who take a desired action.
Community
Group of Internet users that are interested in similar topics. LYCOS Europe is one of the leading providers of community services e.g. with products such as LYCOS Chat, LYCOS Tripod and Jubiiblogs.
Cookie
Information stored on a user's computer by a web site so preferences are remembered on future requests.
CPA
Cost-per-action/acquisition - online advertising payment model in which payment is based solely on qualifying actions such as sales or registrations.
CPC
Cost per click - the cost or cost-equivalent paid per click-through.
CPM
Cost per thousand impressions.
CPO
Cost per opportunity.
Cross media
The idea of using online as well as offline media (TV, radio, print) for your advertising campaign to increase campaign success and brand awareness.
CTR
Click-through rate - the average number of click-throughs per hundred ad impressions, expressed as a percentage.

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Domain name
A domain name locates an organization or other entity on the Internet. For example, the domain name www.lycos-europe.eu locates an Internet address for "lycos-europe.eu" at a particular host server named "www". The "eu" part of the domain name reflects the purpose of the organization or entity (in this example, "European Union") and is called the top-level domain name. The "lycos-europe" part of the domain name defines the organization or entity and together with the top-level is called the second-level domain name.

DSL
Digital subscriber line - it accelerates online data transmission by factor 48 compared to standard ISDN connections. LYCOS Germany and Spray Sweden offer tailor-made DSL-Internet access packages.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

EBT
Earnings before taxes.

eCommerce
Electronic commerce. Term for business transactions on the Internet.

Email
The transmission of computer-based messages over telecommunication technology.

Emoticon
Little smilies generated with the use of your keyboard to quickly add an emotional component to you message e.g. :-) means that you are in a good mood (smiling face).

FAQ
Frequently asked questions - a section of a web site that automates the answering of popular visitor questions.

Freemail
Free, web-based email-service for registered users of an email-provider or Internet portal. LYCOS offers freemail and enhanced premium mail services.

Homepage
The main page of a web site.

Hosting
Hosting (also known as web site hosting and web hosting) is the business of housing, serving and maintaining files for one or more websites.

Hyperlink
Also called an HTML link. Hyper linking is a navigation technique in HTML that allows a user to jump from one location (web page) to another. Hyperlinks can jump a user to different pages within a single web site or jump users between different web sites.

IFRS
International Financial Reporting Standards.

Interstitial
An advertisement that loads between two content pages.

IP address
Internet protocol address - an IP address is a unique number that identifies your computer on a network (like the Internet). This addressing system allows information to be delivered to and from other resources on a network, such as between computers and web servers on the Internet.

ISP
Internet service provider - it provides the localized network infrastructure that allows access to the Internet through telephone lines (modems) or digital data communications technologies like ADSL or DSL. Commercial ISPs have a number of advantages, including fewer busy signals for dial-up service and local access numbers in different parts of the U.S.

Log file
File that records the activity on a web server.

Netiquette
Short for network etiquette, the code of conduct regarding acceptable online behavior.

Newsletter
Periodically issued email for a group of registered users that are particularly interested in a distinctive topic or prefer just-in-time-updates via email over individual online research. On monthly base, LYCOS sends out the LYCOS portal newsletter that either highlights new LYCOS services or a distinctive topic.
Newsletter advertising is highly appreciated, due to targeted delivery among loyal users and tailor-made ad forms.

Page view
Request to load a single HTML page.

Page impression
A single display of a website, regardless how often the same user is counted or how long the user stays on the site.

Pop-under (ad)
An ad that displays in a new browser window behind the current browser window.

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Pop-up (ad)
An ad that displays in a new browser window. Due to new browser software including "pop-up blockers" this advertising format mostly disappeared in favour of other formats such as "content ads".
Portal
A site featuring a suite of commonly used services, serving as a starting point and frequent gateway to the web (web portal) or a niche topic (vertical portal).
Reach
Percentage of users who visit a specific web site on a regular basis compared to the total number of users in a market.
Rich media
New media that offers an enhanced experience relative to older, mainstream formats.
Search engine
A program that indexes documents, then attempts to match documents relevant to the users search requests.
Server
Computers or workstations on a network that handle requests from other computers, or clients, serving them stored data and files or processing power e.g. web servers, mail servers, and file servers.
SMS
Short messaging service - that facilitates written communication among cell phones or between cell phones and online computers. LYCOS SMS and Mobile offers value-for-money SMS packages and a broad range of related mobile tools and services.
Spam
Inappropriate commercial message of extremely low value.
Toolbar
A row of icons on a computer screen, especially in a web browser window that conveniently activate commands or functions when clicked. Toolbars are "online customer retention" tools.
Traffic
The number of visitors a web site receives. The standard timelines for measuring web site traffic are daily, weekly, monthly and yearly.
Unique user
Individual who has visited a web site (or network) at least once during a fixed time frame.
URL
Uniform resource locator - it specifies the location of a resource on the Internet. URLs consist of the access protocol (http), the domain name (www.lycos-europe.com) and optionally the path to a file or resource residing on that server (investor relations).
US-GAAP
United States Generally Accepted Accounting Principles.
VDS
Virtual Dedicated Server (VDS) Technology is a new technology based on the concept of partitions on mainframes and advanced resource scheduling to divide a computer into many virtually isolated servers. A VDS simply put is a server that runs inside another server. Each VDS acts like a dedicated server but shares the same hardware.
Visit
Time span during which a unique visitor stays within the different pages of your site.
Web browser
A software application that allows for the browsing of the World Wide Web.
Web hosting
The business of providing the storage, connectivity and services necessary to serve files for a web site.

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Financial Calendar

April 24, 2007	Interim report for the first three months of 2007
May 24, 2007	Annual General Meeting of Shareholders / Amsterdam, the Netherlands
July 31, 2007	Interim report for the first six months of 2007
October 23, 2007	Interim report for the first nine months of 2007

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The annual report for the year ended December 31, 2006, is also available in German and French. In case of doubt, the English version is decisive.

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