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Lycos Europe N.V. | Interim Report

for the six-month period ended June 30, 2004



# key figures

## First Six Months 2004/2003

In million Euro (except per share data, change and gross margin)	Six months ended June 30, 2004 (unaudited)	Six months ended June 30, 2003 (unaudited)	Change
Total revenues	47.6	42.4	12%
Gross profit	19.7	13.9	41%
Gross margin	41%	33%	
Operating loss	(28.5)	(30.9)	(8)%
Net loss	(26.3)	(27.2)	(3)%
Net loss per share in Euro	(0.08)	(0.09)	(3)%
EBITDA (*)	(21.6)	(20.5)	5%

## Second Quarter 2004/2003

In million Euro (except per share data, change and gross margin)	Three months ended June 30, 2004 (unaudited)	Three months ended June 30, 2003 (unaudited)	Change
Total revenues	23.9	21.6	11%
Gross profit	10.3	7.5	37%
Gross margin	43%	35%	
Operating loss	(15.4)	(14.7)	5%
Net loss	(14.4)	(12.5)	15%
Net loss per share in Euro	(0.05)	(0.04)	15%
EBITDA (*)	(11.9)	(9.6)	24%

	June 30, 2004 (unaudited)	June 30, 2003 (unaudited)	Change
Page views per quarter	7.0 billion	8.3 billion	(16)%
Number of employees	861	903	(5)%
Cash, cash equivalents and deposits in million Euro	146.5	195.7	(25)%

(\*) Please refer also to the explanatory notes to the key figures and to Lycos Europe's methodology to compute EBITDA, which are displayed on page 34



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## dear shareholders,

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

## focus on paid services and shopping is paying off

In February 2003, Lycos Europe performed a strategic shift by defining an additional key focus area: paid services and shopping. At the same time, Lycos Europe announced its new strategic target of generating EUR 100 million in revenues from paid services and shopping within three to five years, representing about 30 to 40 percent of total revenues at that time. Only one year later, this new focus has already paid off. After a longer period of decreasing revenues, Lycos Europe succeeded in coming back to a growth path and increasing its revenues in the first six months of 2004. This was due to the very positive development of the new focus area.

In line with its new strategic focus, Lycos Europe is concentrating its development capacities on four newly defined core businesses since January 1, 2004. In the second quarter of 2004, Lycos Europe succeeded in strengthening these business units through product innovations and cooperations. In the communication business, Lycos Europe was the first major portal to offer a 1 GB mail service to its premium users. For its German access business, Lycos Europe introduced an innovative tariff system featuring the Lycos best price-guarantee. For its communities Lycos Chat and Love@Lycos, Lycos Europe entered into cooperations with Yahoo! Europe and Meetic, while Pangora, Lycos Europe's shopping platform, signed cooperation agreements with Bild.T-Online and Wanadoo.



### Portal & Communication

In May 2004, only three months after the introduction of its DSL offer in Germany, Lycos Europe launched an innovative broadband tariff system and introduced the Lycos best price-guarantee for all Lycos DSL tariffs. Lycos best price refers to the offers of Lycos Europe's main competitors T-Online, 1&1, AOL, and freenet. With its best price offer, Lycos Europe guarantees that its DSL customers always benefit from the lowest tariff by under-bidding or at least equalizing the relevant tariffs of its main competitors. This leads to a high degree of transparency in the German broadband market which is characterized by a multitude of complex tariff systems making it difficult for the users to find out the best offer. The convenience of the Lycos best price-strategy thus strengthens Lycos Europe's position in the German DSL market.

The launch of the Lycos best price-guarantee was backed by major marketing campaigns on TV and in print and online media. The intense marketing efforts have led to a higher awareness of the Lycos brand thus not only promoting Lycos Europe's broadband offer but the company's entire range of products. At the same time, Lycos Europe initiated a new order process and created a new login and landing site for its DSL offer. All measures proved to be very successful boosting the number of new DSL customers. Since Lycos Europe's DSL customers

can make use of the comprehensive offer of the Lycos network, Lycos Europe considers its broadband offer a suitable platform for its premium hosting and communication products and its domain selling business.

Even though Lycos Europe originally intended to increase its broadband user base by 50 percent by the end of the summer, this target has almost been achieved already in late June 2004. This success was mainly due to Lycos Europe's best price-strategy and the accompanying marketing efforts.

With effect from July 1, 2004, Lycos Europe and Espotting Media, a paid placement service provider, terminated their pan-European cooperation agreement which had been signed in July 2002. The agreement governed the incorporation of sponsored links into a dedicated area of Lycos Europe's portal service and was initially intended to run for three years. Lycos Europe and Espotting Media will continue to cooperate under new and reduced conditions until such time as Lycos Europe sells the online inventory concerned to another buyer. The cooperation arrangement generated approximately EUR 5.8 million in sales each year for Lycos Europe. In order to compensate for the premature termination of the contract, Espotting Media will make a one-off payment of EUR 2.1 million to Lycos Europe that will be recorded as other operating income in the third quarter of 2004.



In line with its strategy to focus on paid services, Lycos Europe strengthened its premium offer of Lycos Mail, with its multi million user base in Europe Lycos Europe's central communication product. In May 2004, Lycos Europe was the first major portal to provide a 1 GB service to its mail users. Lycos Mail Personal 1GB is free of advertising and is protected by state-of-the art spam and virus filters. The service does not use spyware and users' privacy is guaranteed as Lycos Europe will not build up user profiles by reading emails or storing deleted emails. Lycos Europe's privacy protection offers one of the most secure and encrypted ways of accessing email. Customers can use four separate protocols (webmail, Outlook/WebDav, POP and IMAP). They can also choose their own personal domain name, e.g. yourname@choice.de. The launch of Lycos Mail Personal 1GB was another important step in establishing Lycos Europe as providing specialist products that are world class and led to a remarkable and positive press coverage throughout Europe with headlines like "Lycos wins email race" (The Times, May 18, 2004) and "Lycos Europe beats Google to market with 1GB mail" (Reuters, May 18, 2004). The combination of storage capacity and customer protection will spearhead Lycos Europe's drive to provide high-value subscription services and attract new customers. Apart from its premium mail, Lycos Europe continues to offer one of the leading free mail services in Europe that has been awarded several times.

### Communities

In May 2004, Lycos Europe and Yahoo! Europe started their cooperation on the Lycos Europe web chat service, one of Lycos Europe's priority products, as part of the strategic cooperation agreement both companies entered into in December 2003. Lycos Chat is one of the leading web chat services in Europe and has been recognized in several international product tests all over Europe. The new chat service is co-branded and is provided and maintained by Lycos Europe. Yahoo's European active web chat users are being switched to Lycos Europe's chat platform, nearly doubling the size of the chat community. This will significantly strengthen Lycos Europe's position in the chat market that has been strongly consolidating after the closure of the MSN chat. The chat cooperation is part of a long-term agreement between Lycos Europe, Yahoo! Europe and Overture Services, a wholly-owned subsidiary of Yahoo! Inc. In line with its commercial search relationship with Overture Services, Lycos Europe features Overture's sponsored links across its European network. Besides, Pangora, Lycos Europe's shopping technology, powers Yahoo! Europe's shopping platforms in Germany and in the United Kingdom.

Also in May 2004, Lycos Europe and Meetic, the European leader in dating services, signed a two-year co-operation agreement. Lycos Europe has positioned Meetic as its premium dating partner on top of its own dating-platform Love@Lycos by integrating the Meetic database as an additional service for Love@Lycos. Search queries within

the dating-service Love@Lycos also show consistent profiles of the Meetic database additionally to the Love@Lycos search results. These search results are marked as so called “sponsored links” and provide highly relevant results to the users. This premium dating service was launched in Denmark, France, Germany, Italy, the Netherlands, Spain, Sweden, and United Kingdom. The integration of Meetic enables Lycos Europe to offer an attractive value-added service to its users. Meetic’s focus on serious dating perfectly supplements Lycos Europe’s own dating-platform Love@Lycos, which is mainly positioned as a fun and flirting community.

#### Webhosting & Domains

With the launch of its new hosting package “Power Pack” in April 2004, Lycos Europe extended its range of hosting products. The new package aims at professionals, i.e. small and medium enterprises, and demanding private users. Main product features are unlimited bandwidth and disk space.

In April 2004, Lycos Europe launched the Lycos Partner-shop, a new reseller network in the Netherlands. Partners sell Lycos Europe’s premium hosting products through a store provided by Lycos Europe and, in return, receive a commission. This partner network will not be limited to hosting products only but will cover all Lycos premium services.

#### Shopping & Search

In June 2004, Pangora, the market leader for shopping platforms for large-scale portals in Germany and a fully owned subsidiary of Lycos Europe, entered into cooperation with Bild.T-Online. Pangora now provides its product search according to relevancy to Bild.T-Online. Through this agreement, Pangora succeeded in enhancing its position as market leader in Germany.

In order to accelerate Pangora’s internationalization, an agreement with Wanadoo, the leading portal in France, was signed in June 2004. Pangora now powers Wanadoo’s and Voilà’s shopping platforms in France. Within three months, Pangora quadrupled its reach in France to more than 1.1 million unique users (Nielsen Netratings, April 2004). With its new portal partner, Pangora has now reached the number two position in the French online shopping market. The cooperation with Wanadoo thus significantly re-enforced Lycos Europe’s position in France, where Lycos Europe had already acquired Buy-Central in January 2004.

Across Europe, Pangora now powers the shopping channels of 37 portals, amongst them AOL, Fireball, Lycos, Tiscali, T-Online, Wanadoo and Yahoo! Europe. In five European countries, Pangora bundles the offerings of more than 1,000 online shops with more than 7.5 million products.

## financial results

During the six months ended June 30, 2004, Lycos Europe succeeded in reducing further its dependency on the advertising business. Revenues from paid services and shopping showed substantial growth rates and mirrored Lycos Europe's enhanced efforts to extend its paid services offer. Paid services and shopping contributed 29 percent and interconnect 25 percent to Lycos Europe's total revenues in the six months ended June 30, 2004.

### Pro forma

During the year 2003, Lycos Europe sold Norsk Familie-økonomi (previously called Lycos Norway AS). Additionally during the six months ended June 30, 2004, Lycos Europe acquired united-domains AG, a German company which specializes in worldwide domain registration, and Buy-Central S.A.S., a French company operating shopping platforms in France and Italy. The following table presents selected financial information for Lycos Europe for the six months ended June 30, 2004, as well as for the six months ended June 30, 2003, on an unaudited pro forma basis, as if the disposal and acquisitions during the years 2003 and 2004 would have occurred on January 1, 2003.

In thousand Euro (except share data)	Pro forma Six months ended June 30, 2004 (unaudited)	Pro forma Six months ended June 30, 2003 (unaudited)	Change
Revenues	47,830	42,975	11%
Gross profit	19,799	13,741	44%
Gross margin	41%	32%	
Net loss	(26,106)	(26,137)	(0)%
Net loss per share basic and diluted in Euro	(0.08)	(0.08)	(0)%
EBITDA	(21,362)	(19,777)	8%

<b>Revenues</b>			
	<b>Actuals Six months ended June 30, 2004</b>	<b>Actuals Six months ended June 30, 2003</b>	<b>Change</b>
In thousand Euro	(unaudited)	(unaudited)	
Advertising	20,783	21,182	(2)%
Paid services and shopping	13,936	9,718	43%
Interconnect	11,982	10,810	11%
Licensing and other	945	659	43%
<b>Total revenues</b>	<b>47,646</b>	<b>42,369</b>	<b>12%</b>

	<b>Pro forma Six months ended June 30, 2004</b>	<b>Pro forma Six months ended June 30, 2003</b>	<b>Change</b>
In thousand Euro	(unaudited)	(unaudited)	
Advertising	20,783	21,219	(2)%
Paid services and shopping	14,086	10,221	38%
Interconnect	11,982	10,810	11%
Licensing and other	979	725	35%
<b>Total revenues</b>	<b>47,830</b>	<b>42,975</b>	<b>11%</b>

With revenues of EUR 47.6 million for the six months ended June 30, 2004, Lycos Europe's revenues increased by 12 percent compared to the six months ended June 30, 2003. Adjusted for the group companies, which were sold in 2003 and acquired in 2004, revenues increased by 11 percent.

As a result of the continued difficulty in the market for online advertising, Lycos Europe's advertising revenues for the six months ended June 30, 2004, decreased by 2 percent, compared to the six months ended June 30, 2003.

Paid services and shopping for the six months ended June 30, 2004, increased by 43 percent compared to the six months ended June 30, 2003. The increase of paid services and shopping is the result of both the continuous growth in existing products and of recently introduced paid services. Adjusted for the sale of Norsk Familieøkonomi and the acquisitions of united-domains and Buy-Central paid services and shopping revenues increased by 38 percent.

Interconnect revenues for the six months ended June 30, 2004, increased by 11 percent compared to the six months ended June 30, 2003. Interconnect revenues increased due to the growth of the DSL user base.

Revenues for the three months ended June 30, 2004, of EUR 23.9 million, increased by 11 percent compared to revenues of EUR 21.6 million for the three months ended June 30, 2003. Adjusted for the group companies, which were sold in 2003 and acquired in 2004, pro forma revenues for the three months ended June 30, 2004, increased by 8 percent compared to the three months ended June 30, 2003.

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

#### **Cost of Revenues**

Even though revenues increased by 12 percent, cost of revenues decreased from EUR 28.4 million for the six months ended June 30, 2003, to EUR 28.0 million for the six months ended June 30, 2004, as a result of continuous cost reduction efforts. Thus the gross margin improved by 8 percent points from 33 percent for the six months ended June 30, 2003, to 41 percent for the six months ended June 30, 2004. Adjusted for the sale of Norsk Familieøkonomi and the acquisitions of united-domains and BuyCentral, cost of revenues improved by 4 percent.

The gross margin increased to 43 percent for the three months ended June 30, 2004, compared to 35 percent for the three months ended June 30, 2003. The pro forma margin increased to 43 percent for the three months ended June 30, 2004, compared to 34 percent for the three months ended June 30, 2003.

#### **Sales and Marketing**

Sales and marketing expenses amounted to EUR 19.7 million for the six months ended June 30, 2004, which is an increase of 24 percent compared to the six months ended June 30, 2003. The increase was due to additional marketing efforts with the focus on growth of premium services and DSL interconnection services.

In the three months ended June 30, 2004, sales and marketing expenses amounted to EUR 11.0 million compared to EUR 8.3 million for the three months ended June 30, 2003. This increase of 33 percent was mainly due to a campaign to push the Lycos DSL-services in Germany.

#### **General and Administrative**

General and administrative expenses remained stable at EUR 15.5 million for the six months ended June 30, 2003, and for the six months ended June 30, 2004.

General and administrative expenses for the three months ended June 30, 2004, increased by 12 percent compared to the same period last year, mainly caused by costs incurred in the companies that were acquired in 2004 and additional recordings of the provision for allowance for doubtful accounts receivable.

#### **Research and Development**

Cost incurred for research and product development amounted to EUR 11.7 million for the six months ended June 30, 2004, compared to EUR 13.0 million for the six months ended June 30, 2003. This decrease of 9 percent is primarily due to Lycos Europe's focus on the reduction of costs by performing most of the development work

internally and the shift of research and development efforts from Lycos Europe's western European locations to Armenia resulting in lower salary expenses.

Research and development cost decreased from EUR 6.3 million for the three months ended June 30, 2003, to EUR 5.9 million for the three months ended June 30, 2004. This decrease of 7 percent was due to the reasons mentioned above.

#### **Restructuring Charges**

On November 10, 2003, Lycos Europe announced a far reaching program aimed at increasing its competitiveness on the market. As a result, Lycos Europe incurred EUR 3.1 million of restructuring costs in the last quarter of 2003, and additional costs of EUR 0.7 million in the six months ended June 30, 2004 (EUR 0.2 million for the three months ended June 30, 2004), which were mainly incurred in its Danish subsidiary.

#### **Amortization of Intangibles**

As a result of the adoption of SFAS 142 on January 1, 2002, Lycos Europe performed an impairment review in the second quarter of 2004, which was focused on goodwill as well as on intangible assets other than goodwill. The impairment review performed in the second quarter of 2003 and 2004 did not indicate that an additional impairment was required in the years 2003 and 2004. During the six months ended June 30, 2004, a preliminary amount of EUR 7.0 million was recorded as goodwill and a preliminary additional amount of EUR 1.2 million was recorded as other intangibles, both resulting from the acquisitions of united-domains AG and BuyCentral S.A.S.

#### **EBITDA**

EBITDA is not a measure recognized by US-GAAP. This and similar measures are used by different companies

for differing purposes and are often calculated in ways that reflect the unique situations of those companies. See page 34 for Lycos Europe's definition of the EBITDA result.

The EBITDA result amounted to EUR (21.6) million for the six months ended June 30, 2004, compared to EUR (20.5) million for the six months ended June 30, 2003. Adjusted for the group companies, which were sold in 2003 and acquired in 2004, EBITDA decreased by 8 percent.

The EBITDA result decreased from EUR (9.6) million for the three months ended June 30, 2003, to EUR (11.9) million for the three months ended June 30, 2004, mainly due to additional marketing efforts with the focus on growth of premium services.

#### **Financing**

The total amount for cash and cash equivalents, short-term and long-term deposits decreased from EUR 175.2 million on December 31, 2003, to EUR 146.5 million on June 30, 2004. During the six-month period ended June 30, 2004, Lycos Europe used EUR 16.5 million cash in operating activities and an amount of EUR 4.0 million was used for the acquisition of long-term assets, including an engagement of 10.39 percent in Best of Micro, the former owners of BuyCentral S.A.S., as an equity investment.

The payments for the acquisitions of united-domains AG and BuyCentral S.A.S, net of cash acquired amounted to EUR 7.8 million. The actual cash and cash equivalents amount, EUR 58.4 million on June 30, 2004, increased partially as an amount of EUR 8.8 million was disinvested from deposits to cash and cash equivalents. Lycos Europe focuses on reducing its operating losses and will continue to do so, expecting no additional funding requirement until becoming cash-flow positive.

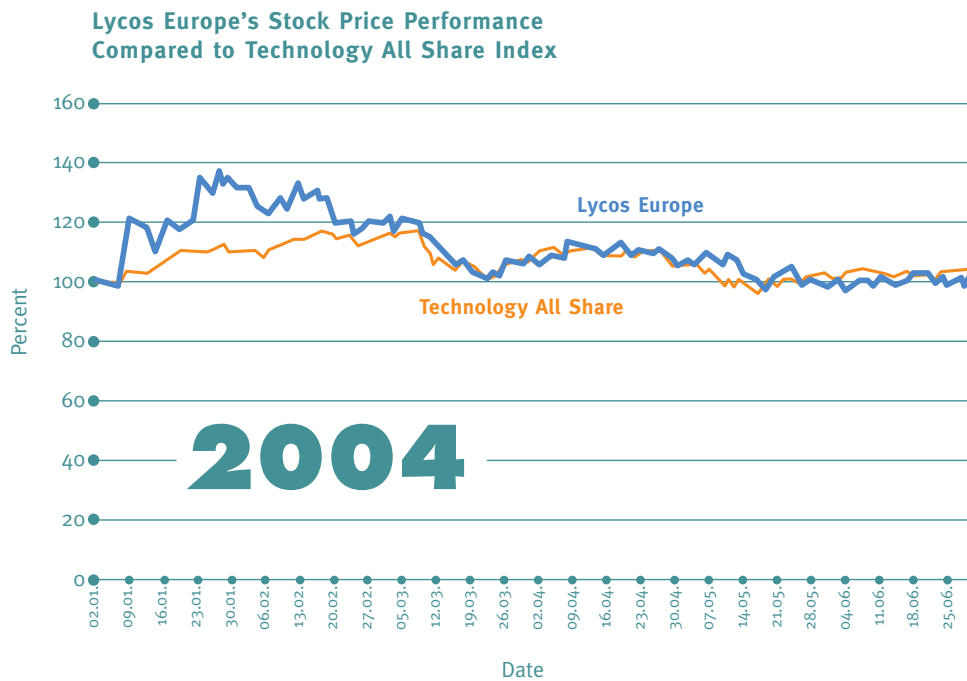
## shareholder structure

Lycos Europe's legal shareholder structure as of June 30, 2004, is as follows: TerraLycos (32.1%), Bertelsmann Internet Holding GmbH / Fireball Internet GmbH / Jahr Vermögensverwaltungs GmbH & Co. KG (20.0%), Christoph Mohn Internet Holding GmbH (12.1%), Lycos Europe N.V. [shares held as treasury shares] (0.2%), and Free Float (35.6%, including Talpa Capital B.V., a company controlled by the Dutch financial investor John H. H. de Mol).

As of June 30, 2004, the total number of shares outstanding is 311,576,344, excluding the treasury shares.

## stock price performance

In the first six months of 2004, Lycos Europe's stock price rose from EUR 0.83 on January 2, 2004, to EUR 0.86 on June 30, 2004, an increase of almost four percent. Volatility was significantly higher in the first quarter of 2004, when Lycos Europe's stock price clearly outperformed the Technology All Share Index for most of the quarter. In the second quarter of 2004, Lycos Europe's share price performance aligned with the development of the Technology All Share Index.





## outlook

The expansion of new revenue streams has successfully reduced Lycos Europe's dependency on the highly volatile advertising business. In the first six months of 2004, paid services and shopping showed substantial growth due to the sound development of existing products, the launch of new premium services and the fast and successful integration of Lycos Europe's acquisitions. Lycos Europe is thus confident of achieving its strategic target of increasing its revenues from paid services and shopping to EUR 100 million within two to four years, representing about 30 to 40 percent of total revenues at that time.

Despite of the positive development of its paid services and shopping business, Lycos Europe intends to build up its advertising revenues significantly. Since there is still no sign of any short-term upturn of the advertising market, Lycos Europe will concentrate on the two most important drivers for the advertising business: inventory and reach. Reach means the number of internet users that use Lycos Europe's sites at least once a month compared to all internet users in a country. In the last two years, Lycos Europe had to cope with a decrease in reach in almost all countries. In the first six months of 2004, this negative trend was accelerated by the elimination of some products that did not generate revenues (e.g. free

SMS in the United Kingdom, viral games). Other product changes were triggered by the enhanced strictness of youth protection policies (e.g. erotic picture search, erotic sites on Tripod). This simplification of its product portfolio enabled Lycos Europe to further cut costs but, at the same time, also caused a decrease in reach. Lycos Europe expects these one-time effects to be finished and will now focus on increasing its reach through intensified marketing measures and distribution agreements.

Because of the very positive development of its focus area paid services and shopping, Lycos Europe expects its total revenues to grow significantly in 2004 compared to the previous year. Due to the increased investments in paid services, Lycos Europe's financial results will not fully reflect the strong growth in revenues. On an annual basis, Lycos Europe nevertheless expects a further improvement of its financial results compared to last year.

Haarlem, the Netherlands

July 22, 2004

Christoph Mohn, CEO

**unaudited condensed consolidated  
interim financial statements**



## US-GAAP

## Lycos Europe N.V.

## unaudited condensed consolidated interim statements of operations

In thousand Euro (except per share data)	Three months ended June 30, 2004	Three months ended June 30, 2003
<b>Revenues</b>		
Advertising	10,585	11,263
Paid services and shopping	7,112	4,966
Interconnect	5,678	5,101
Licensing and other	481	251
<b>Total revenues</b>	<b>23,856</b>	<b>21,581</b>
Cost of revenues	(13,585)	(14,082)
<b>Gross profit</b>	<b>10,271</b>	<b>7,499</b>
<b>Operating expenses</b>		
Sales and marketing	(11,023)	(8,274)
General and administrative	(8,220)	(7,332)
Research and development	(5,863)	(6,337)
Restructuring charges	(246)	–
Amortization of intangibles	(364)	(263)
<b>Total operating expenses</b>	<b>(25,716)</b>	<b>(22,206)</b>
<b>Operating loss</b>	<b>(15,445)</b>	<b>(14,707)</b>
<b>Other income (expense)</b>		
Interest income	912	1,707
Interest expense	(16)	(45)
Other income, net	161	552
<b>Total other income</b>	<b>1,057</b>	<b>2,214</b>
<b>Net loss before taxes</b>	<b>(14,388)</b>	<b>(12,493)</b>
Income tax expenses	(16)	8
<b>Net loss</b>	<b>(14,404)</b>	<b>(12,485)</b>
Net loss per share basic and diluted in Euro	(0.05)	(0.04)
Weighted average number of shares outstanding	311,576,344	311,576,344

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

## US-GAAP

## Lycos Europe N.V.

## unaudited condensed consolidated interim statements of operations

In thousand Euro (except per share data)	Six months ended June 30, 2004	Six months ended June 30, 2003
<b>Revenues</b>		
Advertising	20,783	21,182
Paid services and shopping	13,936	9,718
Interconnect	11,982	10,810
Licensing and other	945	659
<b>Total revenues</b>	<b>47,646</b>	<b>42,369</b>
Cost of revenues	(27,985)	(28,438)
<b>Gross profit</b>	<b>19,661</b>	<b>13,931</b>
<b>Operating expenses</b>		
Sales and marketing	(19,694)	(15,837)
General and administrative	(15,472)	(15,500)
Research and development	(11,726)	(12,954)
Restructuring charges	(712)	–
Amortization of intangibles	(569)	(544)
<b>Total operating expenses</b>	<b>(48,173)</b>	<b>(44,835)</b>
<b>Operating loss</b>	<b>(28,512)</b>	<b>(30,904)</b>
<b>Other income (expense)</b>		
Interest income	2,376	3,487
Interest expense	(35)	(80)
Other income (expense), net	(108)	268
<b>Total other income</b>	<b>2,233</b>	<b>3,675</b>
<b>Net loss before taxes</b>	<b>(26,279)</b>	<b>(27,229)</b>
Income tax expenses	(38)	(5)
<b>Net loss</b>	<b>(26,317)</b>	<b>(27,234)</b>
Net loss per share basic and diluted in Euro	(0.08)	(0.09)
Weighted average number of shares outstanding	311,576,344	311,576,344

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

## US-GAAP

**Lycos Europe N.V.**  
**unaudited condensed consolidated interim balance sheet**

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
In thousand Euro	(unaudited)	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	58,376	78,330
Short-term deposits	47,100	62,500
Accounts receivable, net	20,159	16,953
Due from related parties	232	345
Prepaid expenses and other current assets	10,768	13,345
<b>Total current assets</b>	<b>136,635</b>	<b>171,473</b>
Long-term deposits	40,994	34,403
Property and equipment, net	11,196	13,953
Goodwill, net	6,981	–
Intangible assets, net	12,841	12,196
Prepaid expenses and other non current assets	1,988	1,442
<b>Total assets</b>	<b>210,635</b>	<b>233,467</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short-term debt	13	685
Due to related parties	90	368
Accounts payable	12,577	10,314
Accrued expenses and other current liabilities	21,325	19,945
Deferred revenue	8,099	8,317
<b>Total current liabilities</b>	<b>42,104</b>	<b>39,629</b>
Other liabilities	154	165
Deferred revenue	2,887	2,005
<b>Total liabilities</b>	<b>45,145</b>	<b>41,799</b>
Commitments and contingencies		
<b>Shareholders' equity</b>		
Class AA registered shares	620	620
Class AB registered shares	620	620
Class B ordinary bearer shares	1,883	1,883
Additional paid-in capital	1,610,191	1,610,191
Treasury shares at cost	(2,052)	(2,052)
Accumulated deficit	(1,446,128)	(1,419,811)
Other comprehensive income	356	217
<b>Total shareholders' equity</b>	<b>165,490</b>	<b>191,668</b>
<b>Total liabilities and shareholders' equity</b>	<b>210,635</b>	<b>233,467</b>

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

## US-GAAP

## Lycos Europe N.V.

## unaudited condensed consolidated interim statements of cash flows

In thousand Euro	Six months ended June 30, 2004	Six months ended June 30, 2003
<b>Cash flows from operating activities</b>		
Net loss	(26,317)	(27,234)
<b>Adjustments to reconcile net loss to net cash used in operating activities</b>		
Depreciation and amortization	6,939	10,415
Gain on sale of subsidiaries	–	(1,549)
Other	30	215
<b>Changes in operating assets and liabilities</b>		
(Increase)/decrease in accounts receivable	(2,338)	5,019
Decrease in prepaid expenses and other current assets	2,890	4,715
Increase in prepaid expenses and other non current assets	(46)	(596)
Net change in related party operating accounts	(231)	887
Increase/(decrease) in accounts payable	1,410	(3,348)
Increase/(decrease) in accrued expenses and other current liabilities	503	(3,760)
Increase/(decrease) in deferred revenue	644	(2,685)
Decrease in non current liabilities	(11)	(169)
<b>Total adjustments</b>	<b>9,790</b>	<b>9,144</b>
<b>Net cash used in operating activities</b>	<b>(16,527)</b>	<b>(18,090)</b>
<b>Cash flows from investing activities</b>		
Purchases of long-lived assets	(3,983)	(4,684)
Net change in short and long term deposits	8,809	(53,245)
Payments for acquisitions, net of cash acquired	(7,767)	–
Proceeds from sale of subsidiaries, net of cash	–	(860)
<b>Net cash used in investing activities</b>	<b>(2,941)</b>	<b>(58,789)</b>
<b>Cash flows from financing activities</b>		
Decrease in short-term debt	(672)	(34)
<b>Net cash provided used in financing activities</b>	<b>(672)</b>	<b>(34)</b>
Effect of exchange rate changes on cash and cash equivalents	186	(168)
<b>Net change in cash and cash equivalents</b>	<b>(19,954)</b>	<b>(77,081)</b>
Cash and cash equivalents, beginning of the period	78,330	134,768
<b>Cash and cash equivalents, end of the period</b>	<b>58,376</b>	<b>57,687</b>

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

## US-GAAP

## Lycos Europe N.V.

## unaudited condensed consolidated interim statements of shareholders' equity

In thousand (except share data)	Class AA shares		Class AB shares		Class B shares	
	No. of shares	Amount €	No. of shares	Amount €	No. of shares	Amount €
<b>Balance as of December 31, 2002</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>215,577,144</b>	<b>2,156</b>
Cancellation of treasury shares					(27,277,144)	(273)
Translation gain						
Net loss						
<b>Balance as of June 30, 2003</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>188,300,000</b>	<b>1,883</b>
Translation loss						
Net loss						
<b>Balance as of December 31, 2003</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>188,300,000</b>	<b>1,883</b>
Translation loss						
Net loss						
<b>Balance as of June 30, 2004</b>	<b>62,000,000</b>	<b>620</b>	<b>62,000,000</b>	<b>620</b>	<b>188,300,000</b>	<b>1,883</b>

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

Additional paid-in capital	Treasury shares		Accumulated deficit	Other compr. income	Total compr. income	Total
	€	No. of shares				
<b>1,687,298</b>	<b>(28,000,800)</b>	<b>(79,432)</b>	<b>(1,363,685)</b>	<b>191</b>	<b>(1,363,494)</b>	<b>247,768</b>
(77,107)	27,277,144	77,380				–
				224	224	224
			(27,234)		(27,234)	(27,234)
<b>1,610,191</b>	<b>(723,656)</b>	<b>(2,052)</b>	<b>(1,390,919)</b>	<b>415</b>	<b>(1,390,504)</b>	<b>220,758</b>
				(198)	(198)	(198)
			(28,892)		(28,892)	(28,892)
<b>1,610,191</b>	<b>(723,656)</b>	<b>(2,052)</b>	<b>(1,419,811)</b>	<b>217</b>	<b>(1,419,594)</b>	<b>191,668</b>
				139	139	139
			(26,317)		(26,317)	(26,317)
<b>1,610,191</b>	<b>(723,656)</b>	<b>(2,052)</b>	<b>(1,446,128)</b>	<b>356</b>	<b>(1,445,772)</b>	<b>165,490</b>

## **Lycos Europe N.V. Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

### **The Company**

Lycos Europe (Prime Standard: LCY / Nouveau Marché: 5770) is one of the leading European internet destinations operating a pan-European network of websites in eight languages. The Company's combination of portal & communication, communities, webhosting & domains, and shopping & search addresses a wide range of target groups. The Lycos Europe Network provides an attractive medium not only for consumers but also for advertisers and e-commerce partners throughout Europe. Every month, about 20 million users visit the Lycos sites in Europe. Today, Lycos Europe generates more than 2.0 billion page views each month. With a network of websites covering Austria, Denmark, France, Germany, Great Britain, Italy, the Netherlands, Spain, Sweden and Switzerland, Lycos Europe has a large geographical reach in Europe.

### **Basis of Presentation**

The accompanying unaudited condensed consolidated interim financial statements of Lycos Europe N.V. ("Lycos Europe" or the "Company") as of and for the three and six months ended June 30, 2004, have been prepared in accordance with United States generally accepted accounting principles ("US-GAAP") for interim financial information. Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. In the opinion of management, the accompanying financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows of the interim periods presented. All such adjustments are of a normal recurring nature. Certain reclassifications have been made to the financial statement presentation of prior periods to conform such presentation to the current period presentation. The results of operations for any interim period are not necessarily indicative of results for the full financial year. The accompanying unaudited condensed interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report for the full year ended December 31, 2003, filed with Deutsche Börse in Frankfurt.

### **Summary of Significant Accounting Policies**

#### **Principles of Consolidation**

The unaudited condensed consolidated interim financial statements include the accounts of Lycos Europe N.V. and all of its majority-owned subsidiaries all of which are 100 percent owned. All significant intercompany transactions have been eliminated in the consolidation. Investments in entities in which the Company can exercise significant influence, but are less than majority owned and not otherwise controlled by the Company, are accounted for under the equity method.

### Revenue Recognition

The Company generates its revenues from:

- Advertising
- Paid services and shopping
- Interconnect
- Licensing and other

Revenues from the sale of advertising (advertising) are obtained through short-term contracts and payments, which business partners make for long-term prominent placing and advertising space on the Company's websites. Under these contracts, the Company guarantees for a fixed or a variable price a certain number of page impressions (accesses to internet pages which show advertising) or user referrals to other internet sites. Revenues on advertising contracts are recognized ratably over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and that the collection of the resulting receivables is probable. Company obligations typically include guarantees of minimum number of "impressions" or times that an advertisement appears in pages viewed by users of the Company's online properties.

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 from the sale of goods on the internet. Revenues from shopping are recognized at the time the service is rendered, if there are no substantial commitments on the part of the Company remaining and the collection of the resulting receivable is probable.

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 (kick back fee) is recorded as revenue from providing internet access when the criteria as described above are not met. Revenues are recognized when the services are performed.

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 are recognized at the time the service is rendered, if there are no substantial commitments on the part of the Company remaining and the collection of the resulting receivable is probable. Fees from maintenance and support for the products of the Company, including the revenue, which is obtained in connection with the initial license fees, are deferred and recorded as revenue proportionately over the support period.

Revenues from barter transactions are accounted for in accordance to Emerging Issues Task Force ("EITF") 99-17, "Accounting for Advertising Barter Transactions". In accordance with EITF 99-17, barter transactions have been valued based upon similar cash transactions, which have occurred within six months prior to the date of the barter transaction. Advertising revenues from barter transactions are recognized during the period, during which the advertisements are displayed. During the six months ended June 30, 2004, and 2003, revenues from barter transactions have been less than 5 percent of total revenues.

### **Cash and Cash Equivalents, Short and Long-Term Deposits**

The Company invests its excess cash in debt instruments of high-quality banks and high quality other corporate issuers. All highly liquid instruments with an original maturity date of three months or less are considered cash and cash equivalents. Instruments with an original maturity date greater than three months are labeled deposits. Deposits with original maturities of less than twelve months from the balance sheet date are considered short-term deposits. Deposits with original maturities greater than twelve months from the balance sheet date are considered long-term deposits.

### **Goodwill and Other Intangibles**

Purchased intangible assets with definite useful lives are capitalized and amortized on a straight-line basis over their estimated useful lives. For identifiable internally developed intangible assets, only the direct external costs incurred in generating these assets are capitalized and amortized on a straight-line basis over their useful life. The Company reviews its intangible assets with estimable useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount of its asset may not be recoverable.

The Company evaluates goodwill and indefinite lived intangible assets for impairment on an annual basis between annual test dates if events or changes in circumstances indicate that the asset may be impaired. Prior to the adoption of SFAS 142, goodwill, which represents the excess of purchase price over the fair value of net assets acquired, was amortized on a straight-line basis over the expected periods to be benefited, and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of capital.

The carrying values of long-lived assets such as properties, plant, and equipment, and purchased intangibles subject to amortization are reviewed for possible impairment on each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the carrying amount of any long-lived asset may be impaired, an evaluation of recoverability would be performed whereby the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to fair value is required. The remaining useful life of the assets is evaluated accordingly. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

### **Unconsolidated Investments**

The Company's investments in less than 20 percent owned affiliates, where the Company cannot exercise significant influence, are accounted for using the cost method.

### **Use of Estimates**

The preparation of unaudited condensed consolidated financial statements in conformity with US-GAAP requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements as well as on revenues and expenses during the reporting period. The actual amounts may differ from these estimates.

**Recent Accounting Pronouncements**

In July 2002, the FASB issued Statement 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 replaces previous accounting guidance provided by EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to exit an Activity, and requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of SFAS 146 are applicable prospectively to exit or disposal activities initiated after December 31, 2002. The Company has adopted the provisions of SFAS 146 on January 1, 2003, which did not have a material impact on the Company's Financial Statements.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (the Interpretation), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The Interpretation also requires the recognition of a liability by a guarantor at the inception of certain guarantees. The Interpretation requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee; if the guarantee was issued with a premium payment; or as part of a transaction with multiple elements. As noted above, the Company has adopted the disclosure requirements of the Interpretation and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. To date, the Company has not entered into or modified guarantees subsequent to its last fiscal year end.

In December 2002, the FASB issued SFAS 148 "Accounting for Stock-Based Compensation – Transition and Disclosure", which amends FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of Statement 123 to improve the clarity and prominence of disclosures about the pro forma effects of using the fair value based method of accounting for stock-based compensation for all companies regardless of the accounting method used by requiring that the data be presented more prominently and in a more user-friendly format in the footnotes to the financial statements. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. Lycos Europe N.V. has adopted the disclosure requirements of SFAS 148 as per December 15, 2002.

The Company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock issued to Employees", under which no compensation cost for stock options is recognized for stock options granted with an exercise price at or above fair market value. Had compensation expense for the Company's and its subsidiaries stock-based compensation plan been determined based upon fair values at the grant dates for awards under those plans in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS 148 "Accounting for Stock-Based Compensation – Transition and Disclosure", the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below.

	Three months ended June 30, 2004 (unaudited)	Three months ended June 30, 2003 (unaudited)
In thousand Euro (except per share data)		
<b>Net loss</b>		
As reported	(14,404)	(12,485)
Compensation expenses	(364)	176
<b>Pro forma</b>	<b>(14,768)</b>	<b>(12,309)</b>

**Loss per share in Euro**

As reported	(0.05)	(0.04)
Pro forma	(0.05)	(0.04)

	Six months ended June 30, 2004 (unaudited)	Six months ended June 30, 2003 (unaudited)
In thousand Euro (except per share data)		
<b>Net loss</b>		
As reported	(26,317)	(27,234)
Compensation expenses	(728)	(1,095)
<b>Pro forma</b>	<b>(27,045)</b>	<b>(28,329)</b>

**Loss per share in Euro**

As reported	(0.08)	(0.09)
Pro forma	(0.09)	(0.09)

In December 2002, the EITF reached a final consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables". EITF 00-21 addresses certain aspects of the accounting of revenue arrangements with multiple deliverables by a vendor. EITF 00-21 outlines an approach to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. The consensus reached in the Issue is effective for Lycos Europe N.V. in its financial statements beginning July 1, 2003. The adoption of EITF 00-21 did not have a material impact on Lycos Europe N.V.'s consolidated financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51" ("FIN 46"), which gives guidance to consolidation rules to certain variable interest entities. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to variable interest entities created before

February 1, 2003, in the first fiscal year or interim period beginning after December 15, 2003. Certain disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN 46 had no impact on Lycos Europe N.V.'s consolidated financial position or results of operations because Lycos Europe N.V. currently holds no significant variable interests in any variable interest entities.

On April 30, 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities (the Statement)". The Statement amends and clarifies financial accounting and reporting for derivative instruments and hedging activities under Statement 133. The Statement amends Statement 133 to clarify the definition of a derivative, expand the nature of exemptions from Statement 133, clarify the application of hedge accounting when using certain instruments, clarify the application of paragraph 13 of Statement 133 to embedded derivative instruments in which the underlying is an interest rate, and modify the cash flow presentation of derivative instruments that contain financing elements. This Statement is effective for financial instruments entered into or modified after June 30, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. Lycos Europe N.V. did not enter or modify financial instruments after June 30, 2003, and adopted the Statement on July 1, 2003. The adoption of the Statement did not have a significant impact on the financial statements of Lycos Europe N.V.

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". The Statement requires companies to classify as liabilities (or assets in some circumstance) three classes of freestanding financial instruments that embody obligations for the company. Generally, the Statement is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning for the first interim period beginning after June 15, 2003. Lycos Europe N.V. adopted the provisions of the Statement on July 1, 2003. Lycos Europe N.V. did not enter into any financial instruments within the scope of the Statement during June 2003. In addition, Lycos Europe N.V. did not see any effect as a result of adopting the provisions of the Statement on July 1, 2003.

## Cash and Cash Equivalents, Short and Long-Term Deposits

Cash and cash equivalents, short and long-term deposits are made up of the following:

	June 30, 2004	December 31, 2003
In thousand Euro	(unaudited)	
Cash and cash equivalents	58,376	78,330
Deposits due within one year	47,100	62,500
Long term deposits :		
- due after one year through five years	36,191	29,600
- due after five years	4,803	4,803
<b>Total</b>	<b>146,470</b>	<b>175,233</b>

An amount of EUR 12.3 million and EUR 8.1 million included in long term deposits is restricted in use as per June 30, 2004, and December 31, 2003, respectively.

## Accounts Receivable

Accounts receivable net are made up of the following:

	June 30, 2004	December 31, 2003
In thousand Euro	(unaudited)	
Accounts receivable	26,831	23,128
Less: Allowance for doubtful accounts receivable	(6,672)	(6,175)
<b>Accounts receivable, net</b>	<b>20,159</b>	<b>16,953</b>

The provision for allowance for doubtful accounts receivable recorded in the Unaudited Condensed Consolidated Interim Financial Statements of Operations amounted to EUR 1.0 million and EUR 0.3 million for the six-month period ended June 30, 2004, and June 30, 2003, respectively. In the Unaudited Condensed Consolidated Interim Financial Statements of Operations, these costs are included in the General and Administrative expenses category.

## Prepaid Expenses and Other Current Assets

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

	June 30, 2004	December 31, 2003
In thousand Euro	(unaudited)	
VAT receivable	1,658	3,014
Rent deposits and prepayments	1,252	1,806
Prepaid expenses	3,194	2,603
Accrued income	2,423	2,477
Other short term receivables	2,241	3,445
<b>Prepaid expenses and other current assets</b>	<b>10,768</b>	<b>13,345</b>

## Acquisitions and Disposals

On June 20, 2003, Lycos Europe N.V. sold its Norwegian subsidiary, Norsk Familieøkonomi AS (previously called Lycos Norway AS) in a Management Buyout for a consideration of EUR 1 million. Norsk Familieøkonomi is a membership-based shopping club that distributes multiple services like insurance, electricity, telephony and banking at low cost to its members.

On January 13, 2004, Lycos Europe N.V. acquired all shares in united-domains AG, a German company which specializes in worldwide domain registration. The purchase price was EUR 5.9 million, resulting in preliminary goodwill of EUR 4.0 million and preliminary other intangibles of EUR 1.2 million. Lycos Europe N.V. also agreed to pay a conditional consideration to the sellers using a formula based upon the number of new domain registrations for new domain extensions at the moment these new domain extensions are being registered. The contingent consideration will be recorded when the contingency is resolved and the consideration is

issued. Total revenues, net result and total assets of united-domains for the year ended and as of December 31, 2003, were EUR 3.5 million, EUR 0.2 million and EUR 1.0 million respectively.

On January 30, 2004, Lycos Europe N.V. acquired all shares in BuyCentral S.A.S., a French company operating shopping platforms in France and Italy. BuyCentral S.A.S. aggregates data of online sellable goods and services and makes them searchable on its own websites or on third parties' websites. The purchase price was EUR 3.0 million, resulting in preliminary goodwill of EUR 3.0 million. Lycos Europe N.V. also agreed to pay conditional consideration to the sellers at the beginning of 2005, using a formula based upon the gross margin to be achieved by BuyCentral in 2004. This contingent consideration will be recorded when the contingency is resolved and the consideration is issued. Total revenues, net result and total assets of BuyCentral for the year ended and as of December 31, 2003, were EUR 1.4 million, EUR 0.1 million and EUR 1.2 million respectively.

## Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are made up as follows:

	June 30, 2004	December 31, 2003
In thousand Euro	(unaudited)	
Provision for salary and salary related cost	4,681	3,908
Provision for marketing cost	3,918	2,024
Provision for professional services	857	1,145
Restructuring provision	539	2,027
Other current liabilities	5,309	4,718
Other accrued expenses	6,021	6,123
<b>Accrued expenses and other current liabilities</b>	<b>21,325</b>	<b>19,945</b>

## Restructuring Charges

In November 2003, Lycos Europe announced to focus on its core products and to implement profit centers which resulted in a far-reaching program aimed at boosting Lycos Europe's competitiveness in the market. Part of the program was a reduction of headcount and related costs.

The development of the restructuring provision during the six months ended June 30, 2004, was as follows:

In thousand Euro	
<b>Restructuring provision as per December 31, 2003</b>	<b>2,027</b>
Restructuring charge (*)	712
Payments (*)	(2,200)
<b>Restructuring provision as per June 30, 2004 (*)</b>	<b>539</b>

(\*) unaudited

Included in the restructuring provision are, amongst others, termination benefits for 15 and 95 employees as per June 30, 2004, and December 31, 2003, respectively.

## Goodwill and Intangible Assets

The impairment review Lycos Europe performed in the second quarter of 2004, focused on goodwill and intangible assets other than goodwill. The impairment review performed in the second quarter of 2004 did not indicate that an additional impairment was required in the year 2004. As of June 30, 2004, a preliminary amount of EUR 7.0 million was recorded as goodwill and a preliminary additional amount of EUR 1.2 million was recorded as other intangibles, both resulting from the acquisitions of united-domains AG and BuyCentral S.A.S. (see note on acquisition made earlier in this document).

Amortization expenses, which amounted to EUR 2.7 million for the six months ended June 30, 2004, are included in all the main expense categories within the statements of operations. In line with the provisions of SFAS No. 142, the Company ceased the amortization of goodwill and certain intangibles with indefinite life on January 1, 2002.

The Goodwill is recorded at costs less accumulated impairment, as follows:

In thousand Euro, as of June 30, 2004	Gross values (unaudited)	Accumulated impairment	Net values (unaudited)
Goodwill	6,981	–	6,981
<b>Goodwill</b>	<b>6,981</b>	<b>–</b>	<b>6,981</b>

The intangible assets are recorded at costs less accumulated amortization, as follows:

In thousand Euro, as of June 30, 2004	Gross values (unaudited)	Accumulated amortization	Net values (unaudited)
Licenses and other rights	51,225	(41,762)	9,463
Capitalized development expenses	9,960	(7,199)	2,761
Purchased software	2,975	(2,358)	617
<b>Intangible assets</b>	<b>64,160</b>	<b>(51,319)</b>	<b>12,841</b>

In thousand Euro, as of December 31, 2003	Gross values	Accumulated amortization	Net values
Licenses and other rights	50,510	(41,475)	9,035
Capitalized development expenses	8,831	(6,568)	2,263
Purchased software	2,605	(1,707)	898
<b>Intangible assets</b>	<b>61,946</b>	<b>(49,750)</b>	<b>12,196</b>

Aggregated Amortization Expenses:

In thousand Euro	Three months ended June 30, 2004 (unaudited)	Three months ended June 30, 2003 (unaudited)
Aggregated amortization expenses	1,513	1,331

	<b>Six months ended June 30, 2004</b>	<b>Six months ended June 30, 2003</b>
In thousand Euro	(unaudited)	(unaudited)
Aggregated amortization expenses	2,719	2,798

Estimated Amortization Expenses:

	In thousand Euro (unaudited)
For the financial year until December 31,	
Remaining 6-months 2004	1,948
2005	2,694
2006	1,508
2007	1,226
2008	917

## Related Party Transactions

The Company engages in various related party transactions with both TerraLycos and Bertelsmann, which include revenue and expense transactions. The billing rates are set at rates, which are believed to approximate fair value.

## Loss per Share

Because of the net losses incurred by the Company for all periods presented, the inclusion of outstanding options in the calculation of weighted average common shares would be anti-dilutive, and therefore there is no difference between basic and diluted loss per share.

## Income Taxes

In view of the fact that in all reporting periods since its formation the Company has incurred considerable losses, the Company considers that valuation allowances are necessary for all deferred tax assets to the extent to which they are in excess of the future taxable differences. Consequently, no material income tax benefit is shown in the unaudited condensed consolidated interim statement of operations for the six months ended June 30, 2004.

## Employees

On June 30, 2004, Lycos Europe employed 861 employees compared to 903 employees on June 30, 2003.

## Stock Option Plan

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 8 years.

As of June 30, 2004, the total number of options granted and outstanding to the employees was 1,866,382 Lycos Europe options. No options have been granted during the six-month period ended June 30, 2004.

Range of exercise prices (in EUR)	Options outstanding		
	Number of outstanding options as of June 30, 2004 (*)	Weighted average remaining contractual life (in years) (*)	Weighted average exercise price per share (*)
0.00 – 2.50	265,832	4.0	1.86
2.50 – 7.50	646,850	4.5	6.16
7.50 – 17.50	397,400	2.7	14.17
17.50 – 30.00	556,300	3.3	28.80
	<b>1,866,382</b>	<b>3.7</b>	<b>14.00</b>

(\*) unaudited

Range of exercise prices (in EUR)	Options exercisable	
	Number of exercisable options as of June 30, 2004 (*)	Weighted average exercise price per share (*)
0.00 – 2.50	191,865	1.87
2.50 – 7.50	431,233	6.16
7.50 – 17.50	397,400	14.17
17.50 – 30.00	556,300	28.80
	<b>1,576,798</b>	<b>15.64</b>

(\*) unaudited

The development of the option program during the six-month period ended June 30, 2004, is presented below:

	Number of options	Weighted average exercise price per share in Euro
Options outstanding on December 31, 2003	2,190,482	14.60
Options cancelled (*)	(324,100)	(18.03)
Options outstanding on June 30, 2004 (*)	<b>1,866,382</b>	<b>14.00</b>

(\*) unaudited

## Segment Information

Revenues are attributed to geographic regions on the basis of the language and target audience to which the relevant website is directed and with which the corresponding revenues are generated. Revenue is attributed to

individual countries according to the international online property that generated the revenue. This segmentation is consistent with the data made available to the Company's management to assess performance and make decisions. The Company does not allocate any operating or other costs to its geographic regions or business segments, as management does not use this information to measure the performance of the geographic regions and business segments. Management does not believe that allocation of these expenses is material in evaluating segment performance.

Revenues from the geographic regions are made up as follows:

	<b>Three months ended June 30, 2004</b>	<b>Three months ended June 30, 2003</b>
In thousand Euro	(unaudited)	(unaudited)
Germany	7,661	6,062
Sweden	6,854	5,622
France	3,054	2,588
United Kingdom	2,276	2,329
Other countries	4,011	4,980
<b>Total</b>	<b>23,856</b>	<b>21,581</b>

	<b>Six months ended June 30, 2004</b>	<b>Six months ended June 30, 2003</b>
In thousand Euro	(unaudited)	(unaudited)
Germany	15,869	12,257
Sweden	13,772	11,132
France	5,797	4,882
United Kingdom	4,586	4,240
Other countries	7,622	9,858
<b>Total</b>	<b>47,646</b>	<b>42,369</b>

Revenues from the business segments are made up as follows:

	<b>Three months ended June 30, 2004</b>	<b>Three months ended June 30, 2003</b>
In thousand Euro	(unaudited)	(unaudited)
Advertising	10,585	11,263
Paid services and shopping	7,112	4,966
Interconnect	5,678	5,101
Licensing and other	481	251
<b>Total</b>	<b>23,856</b>	<b>21,581</b>

	<b>Six months ended June 30, 2004</b>	<b>Six months ended June 30, 2003</b>
In thousand Euro	(unaudited)	(unaudited)
Advertising	20,783	21,182
Paid services and shopping	13,936	9,718
Interconnect	11,982	10,810
Licensing and other	945	659
<b>Total</b>	<b>47,646</b>	<b>42,369</b>

## Commitments and Contingencies

### Minimum Lease and Rental Payments

The Company has entered into lease agreements in Armenia, Denmark, France, Germany, Great Britain, Italy, the Netherlands, Spain and Sweden.

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

For the financial year until December 31,	In thousand Euro (unaudited)
Remaining 6-months 2004	2,382
2005	4,155
2006	3,505
2007	2,817
2008	2,248
Thereafter	7,472
<b>Total</b>	<b>22,579</b>

Lycos Europe N.V. agreed to pay a conditional consideration to the previous owners of united-domains AG, using a formula based upon the number of new domain registrations for new domain extensions at the moment these new domain extensions are being registered. The contingent consideration will be recorded when the contingency is resolved and the consideration is issued.

Lycos Europe N.V. agreed to pay a conditional consideration to the previous owners of BuyCentral S.A.S. at the beginning of 2005, using a formula based upon the gross margin to be achieved by BuyCentral in 2004. This contingent consideration will be recorded when the contingency is resolved and the consideration is issued.

### Litigation

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

## Subsequent Events

With effect from July 1, 2004, Lycos Europe and Espotting Media, a paid placement service provider, terminated their pan-European cooperation agreement which had been signed in July 2002. The agreement governed the incorporation of sponsored links into a dedicated area of Lycos Europe's portal service and was initially intended to run for three years. Lycos Europe and Espotting Media will continue to cooperate under new and reduced conditions until such time as Lycos Europe sells the online inventory concerned to another buyer. The cooperation arrangement generated about EUR 5.8 million in sales each year for Lycos Europe. In order to compensate for the premature termination of the contract, Espotting Media will make a one-off payment of EUR 2.1 million to Lycos Europe that will be recorded as other operating income in the third quarter of 2004.

## Directors

Luis Velo Puig-Durán, General Manager of Contents at Terra Networks, S.A., was appointed Supervisory Director at the Annual General Meeting held on May 18, 2004. At the same time, Pedro Javier Martinez Diez, Joaquin Agut Bonsfills and Burkhard Schmidt voluntarily resigned from Lycos Europe's Supervisory Board. The number of Supervisory Directors thus reduced from eight to six.

## Directors' Holding as of June 30, 2004

### Supervisory Board Members

#### Options

No stock 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 held shares in the Company.

### Management Board of Directors

#### Options

Christoph Mohn (who is the sole Director of Lycos Europe) owns 285,000 stock options in the Company.

#### Shares

Christoph Mohn owns 8,333 shares in the Company and owns 100 percent in Christoph Mohn Internet Holding GmbH that owns 37,730,000 shares in the Company on June 30, 2004.

The Executive Board

Haarlem, July 22, 2004

Lycos Europe N.V.

## Quarterly Financial Information

(unaudited)

In thousand Euro (except per share data)	Quarter ended March 31, 2002 (3)	Quarter ended June 30, 2002	Quarter ended September 30, 2002	Quarter ended December 31, 2002	Year ended December 31, 2002
Revenues	32,101	30,005	27,166	28,772	118,044
Operating loss	(23,231)	(29,143)	(31,574)	(6,381)	(90,329)
Net loss before cumulative effect of accounting change	(19,284)	(27,461)	(30,378)	(1,450)	(78,573)
Net loss	(119,678)	(27,461)	(30,378)	(1,450)	(178,967)
Net loss per share basic and diluted before cumulative effect of accounting change in Euro(1)	(0.06)	(0.09)	(0.10)	(0.00)	(0.25)
Net loss per share basic and diluted in Euro (1)	(0.38)	(0.09)	(0.10)	(0.00)	(0.57)
EBITDA (2)	(17,351)	(22,441)	(15,651)	1,541	(53,902)

In thousand Euro (except per share data)	Quarter ended March 31, 2003	Quarter ended June 30, 2003	Quarter ended September 30, 2003	Quarter ended December 31, 2003	Year ended December 31, 2003
Revenues	20,788	21,581	19,396	23,253	85,018
Operating loss	(16,197)	(14,707)	(14,366)	(17,032)	(62,302)
Net loss	(14,749)	(12,485)	(12,562)	(16,330)	(56,126)
Net loss per share basic and diluted in Euro (1)	(0.05)	(0.04)	(0.04)	(0.05)	(0.18)
EBITDA (2)	(10,865)	(9,624)	(8,150)	(11,820)	(40,459)

In thousand Euro (except per share data)	Quarter ended March 31, 2004	Quarter ended June 30, 2004
Revenues	23,790	23,856
Operating loss	(13,067)	(15,445)
Net loss	(11,913)	(14,404)
Net loss per share basic and diluted in Euro (1)	(0.04)	(0.05)
EBITDA (2)	(9,645)	(11,928)

(1) The sum of net loss per share does not equal earnings per share for the year due to equivalent share calculations, which are impacted by the timing (weighting) of the shares issued.

(2) EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization, which is calculated by excluding the depreciation and amortization from the Company's operating loss. The Company considers EBITDA an important indicator of the performance of its business including the ability to provide cash flows to fund capital expenditures. EBITDA, however should not be considered an alternative to operating result or net result as an indicator of the performance of the Company, or as an alternative to cash flows provided by (used in) operating activities as a measure of liquidity, in each case determined in accordance with accounting principles generally accepted in the United States ("US-GAAP").

(3) The cumulative effect of the accounting change has been presented in the financial results for three months ended March 31, 2002, in accordance with FASB Statement No. 3, "Reporting Accounting changes in Interim Financial Statements".



**Lycos Europe N.V.**

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**Investor Relations**

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The interim report for the period from  
January 1, 2004, to June 30, 2004,  
is also available in German and French.  
In case of doubt, the English version  
is decisive.

[www.lycos-europe.com](http://www.lycos-europe.com)