LYCOS Europe N.V. annual report 2007

for the year ended December 31, 2007

LYCOS

meet you there

key figures

Full year 2007 and 2006

		Year ended December 31, 2007	Year ended December 31, 2006	Change
Revenues	in mln EUR	76.7	82.4	(7) %
EBITDA[1]	in mln EUR	(18.2)	(4.6)	>(100) %
EBIT[1]	in mln EUR	(44.0)	(13.1)	>(100) %
Net profit	in mln EUR	40.1	1.7	>100 %
Shares (total outstanding)[2]	number	312,300,000	312,300,000	0 %
Earnings per share (diluted and undiluted)	in EUR	0.13	0.01	>100 %
Share price (Frankfurt, Germany)	in EUR	0.49	0.91	(46) %
Cash, cash equivalents and other investments	in mln EUR	157.2	93.3	68 %
Cash ratio (Cash, cash equivalents and other investments/total liabilities)	number	4.1	1.7	>100 %
Shareholders' equity	in mln EUR	166.9	128.6	30 %
Equity ratio (Shareholders' equity/total assets)	in percent	81	71	14 %
Employees	number	697	714	(2) %

Three months ended December 31, 2007 and 2006

		Three months ended December 31, 2007 (unaudited)	Three months ended December 31, 2006 (unaudited)	Change
Revenues	in mln EUR	18.3	23.4	(22) %
EBITDA[1]	in mln EUR	(5.3)	(1.2)	>(100) %
EBIT[1]	in mln EUR	(7.5)	(5.2)	(44) %
Net loss	in mln EUR	(4.0)	(5.2)	23 %
Shares (total outstanding)[2]	number	312,300,000	312,300,000	0 %
Loss per share (diluted and undiluted)	in EUR	(0.01)	(0.02)	23 %

1 EBITDA is Earnings Before Interest, Taxes, Depreciation, Amortization and Impairment, EBIT is Earnings Before Interest and Taxes.
2 Including Treasury shares

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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.

dear shareholders,

In 2007, LYCOS Europe concentrated on its core business and pooled its strengths in the product development. The operating financial performance of LYCOS Europe, however, was not satisfying. The EBITDA for the year ended December 31, 2007 amounted to EUR (18.2) million compared to EUR (4.6) million in the reference period in 2006. The main reasons are the decreasing advertising revenues followed by the negative margin development arising from the unfavorable revenue mix and a general margin decrease in the Shopping business as well as an increase in cost of revenues partly related to the move to a new data center and additional marketing initiatives, especially for LYCOS iQ.

The increase in the net profit to EUR 40.1 million for 2007 compared to 2006 (EUR 1.7 million) is mainly driven by the disposal of the investments in Seznam.cz, a.s. and Best of Media S.A. with a transaction gain of EUR 64.8 million and EUR 1.2 million, respectively and the disposal of the Swedish Access business (2007: EUR 11.5 milllion). This, together with the completion of the German Internet Access business, leads to further concentration on the core competencies of LYCOS Europe.

In addition, we can point to the positive development of our knowledge platform LYCOS iQ, which two years after its startup is market leading in Germany. Our participation in German/European research projects, such as “THESEUS” and “We know it” show clearly that LYCOS Europe is continuing to expand its technological knowledge.

In 2007, LYCOS Europe was able to further solidify its position as a leading provider of premium hosting in Europe. In particular, the development of united-domains AG stands out as one of the leading domain registrars in Europe. Both sales and results exceeded the levels planned at the start of the year.

The development of the Shopping Unit in 2007 was marked by the integration of the two companies Pangora and mentasys, which essentially was concluded successfully by the end of the year. However, as a result of the loss in Google related traffic, this business unit was subject to a goodwill related impairment loss of EUR 17.6 million.

The sales strategy was sharpened further in 2007, so that the LYCOS Network Europe was able to extend its range clearly in 2007 and also to establish itself increasingly as a sales house not just for companies within the corporate group.

Another positive development was the agreement with Lycos Inc. regarding the use of the Lycos brand rights in Europe. Here we have found a satisfactory solution for the company.

All in all, LYCOS Europe works hard to continue solidifying and expanding the growth fields already acquired and thus to improve its operating result in the future.

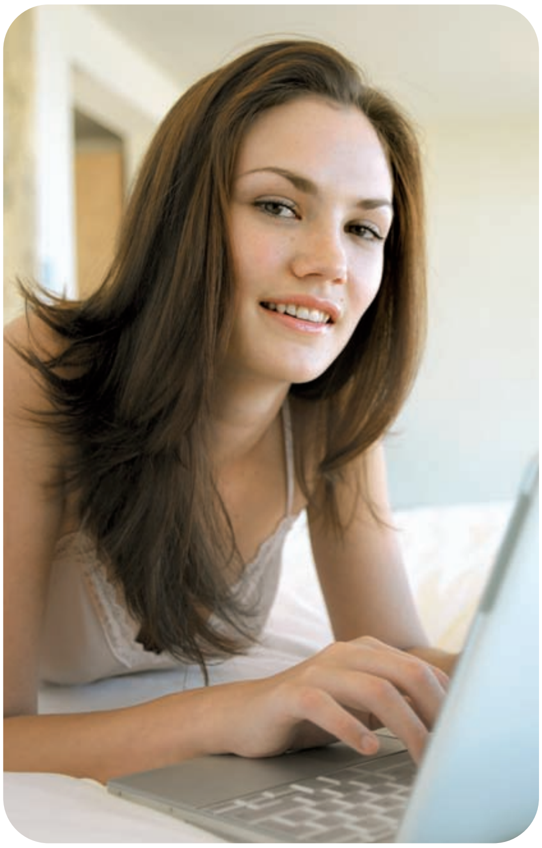
C. Mohn

Christoph Mohn
Chief Executive Officer

about lycos europe

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

The vision of LYCOS Europe is to achieve profitable growth for the Company's shareholders, customers and employees through borderless, innovative activities and outstanding operative and technological performance. The company's focus in 2007 was on product development, especially for LYCOS iQ and LYCOS free products. LYCOS Europe also focused on its core business, for example, by completing the sale of the Swedish and German Internet Access business. Moreover, the disposal of the available for sale financial investments in Seznam.cz, a.s. ("Seznam") and Best of Media S.A. ("BoM") was initiated and completed. The improvement of the operative result will remain a strategic priority in 2008. For this, the Company will concentrate primarily on the areas advertising revenues, shopping, hosting and domains.



Portal & Search

Portal

There have been several new content-related innovations to the German portal in the course of the year, such as the September launch of “QuizDuell”.

The UK portal had a good year, growing traffic above target in the content channels. The original viral channel was relaunched with up-to-date community functionality. The highlight was the sharp growth of the new premium men’s lifestyle channel “XY”. The brand quickly established itself in this competitive space and began to attract considerable interest from advertisers.

The French portal has a new modular channel architecture with 14 revamped channels launched in various topics. JubiiTV was launched in Italy, France and the Netherlands and has since become an engine of traffic in all countries. New film channels with comprehensive movie information, trailers, previews, reviews and DVDs (film.lycos.nl, cinema.lycos.it) were launched in Italy and the Netherlands. The new mobile blog channel mms-ea.lycos.es was launched in Spain. The new games partner todojuegos.com was integrated as a reach partner and games channel.

Search

Germany was the core market of LYCOS iQ in 2007. The service has appeared in a sleek new design with improved features since its relaunch in the second quarter, and many new white-label partnerships have been integrated. The platform's partners include the Gruner & Jahr titles Brigitte, Living at Home, Auto Motor und Sport, P.M. and the widely accessed portals telegate, freenet and T-Online. The "Ask iQ" campaign with integrated communication elements (TV spots, online marketing and PR campaign) supported the expansion to about 500,000 questions and 1.5 million responses. Two years after its launch, LYCOS iQ has about 1.3 million unique visitors per month.

The Federal Ministry of Economics and Technology (BMWi) initiated the THESEUS research program in 2007 with the aim of developing a new, Internet-based knowledge infrastructure. The focus is on semantic technologies that can recognize and classify the significance of specific content rather than determining the content—words, images, sounds—through conventional processes (such as combinations of letters). THESEUS is supported through BMWi funds (promotional reference 01MQ07008). LYCOS Europe has taken on a leadership role in this project. The project name "Alexandria" sets the tone: The idea of this application scenario is to build up an end user-oriented knowledge platform in the spirit of the ancient library of the same name to support users in finding, publishing and distributing content. The initial results, which will be freely available to the public, are expected about 18 months after project launch.

"Jubiipages", a free homepage builder, was launched in the fourth quarter 2007. This service provides drag-and-drop features that allow users to easily create their homepage, even if they have no prior technical experience.

Tripod, one of Europe's largest free hosting platforms, was relaunched in the second quarter of 2007. The focus was on technical development and increased storage space (1 GB per user in all countries). The integration of php5 makes it easy to plug in open-source tools such as the blog software Wordpress. Tripod also supports MySQL, FTP and WebFTP.

Communication & Communities

A central theme in 2007 was the development and implementation of innovative alternative products for e-mail, chat and dating. The original approach of establishing these products under the B2C brand “Jubii” was abandoned in the course of the year, especially after LYCOS Europe signed a new brand licensing agreement with Lycos Inc.

The new LYCOS e-mail product was successfully launched in all countries in 2007 and has been continually developed. The focus was simultaneously on optimizing performance, stability and user-friendliness.

Extensive development and testing was carried out in 2007 for the new alternative product to replace the current LYCOS Chat in 2008. Special attention was again given to features to protect young users. LYCOS Europe has been an industry leader in this endeavor and is also one of the founding members of the “Self-Monitoring Chat”, whose aim is to strengthen the protection of children and youth in Germany’s chat forums.

The dating product “Love@LYCOS” was also totally redeveloped and relaunched in the course of the year.

Shopping

The year 2007 was dominated by the integration of the companies Pangora GmbH (“Pangora”) and mentasys GmbH (“mentasys”). The shop migration was successfully completed by mid-year, after which the merging of the portal business technologies was finalized.

Pangora posted further growth in its shop business, with the number of participating shops throughout Europe rising 12.5 percent in 2007. Here, Pangora was able to show particular success in shop key accounting in Germany: New customers included the full-range retailer Marktkauf Online Shop, the Swiss fashion label Strellson and myby.de, the joint venture of Arcandor and Axel Springer.

Despite the positive developments cited above, Pangora had to absorb significant losses of Google-dependent traffic in the course of 2007, which had a negative impact on revenues and the result. mentasys was not able to offset these losses. The annual impairment test performed in the second quarter led to an one-time impairment charge of EUR 17.6 million.

Web Hosting & Domain Names

LYCOS Web Hosting is one of the leading premium hosting providers in Europe. Following intensive development upgrades of the technical platform, the focus in 2007 was on continually expanding the easy-to-use tools. Customers, for example, have been able to use the popular CMS portal system “Joomla” as a one-click site tool since the first quarter of 2007. Joomla makes it possible for users without programming skills to quickly and easily create high-quality websites with customized designs. The “Toolbar Builder” went live in the second quarter, providing private suppliers and eShop merchants a customized toolbar to support direct marketing and customer retention.

A cooperation agreement has also been signed with the information specialists Telegate 11 88 0 in Germany as a marketing aid for LYCOS eShop merchants.

LYCOS Web Hosting started to accommodate user-generated software development. Independent software developers can send their own script to LYCOS Web Hosting. The script is checked for quality and put into a user-friendly interface by LYCOS developers. Two such features have already been made available: One program allows users to enhance photos and the like, while another provides a zoom feature for customers of LYCOS eShop merchants.

In Germany LYCOS vServer products became even more attractive and powerful in fiscal year 2007. All packages now offer up to 10 GB more storage space and unlimited bandwidth. LYCOS also increased the monthly transfer volume per packet by as much as tenfold. This VDS initiative has made vServer products more competitive and attractive for the customer.

LYCOS Web Hosting introduced a free eShop solution, giving its customers with shared hosting packages a free, no-risk opportunity to get started in online business with up to ten products.

Thanks to a cooperation with the Swedish company Paynova, LYCOS Europe offers all its WebShops an additional convenient and secure payment solution (credit or debit card, online funds transfer, etc.).

The LYCOS Partnershop portals for France, Germany, the Netherlands and the United Kingdom were relaunched in an even clearer, more customer-friendly design. LYCOS offers its partners active support in offline customer acquisition through the Partnershop Reseller package, developed this past year.

united-domains AG is one of the leading domain registrars in Europe. In the period under review, united-domains was able to further grow profitability over previous years with revenues and profits that exceeded forecasts from the beginning of the year.

The company offers two core products: First, customers can select from over 100 different domain endings (top-level domains) using an innovative parallel domain availability search. In addition, customers have the option to manage their domain names, regardless of where they are registered, within a "Portfolio". The Domain Portfolio is thus a personal domain control panel for both private and business customers.

The introduction and successful marketing launch of the new ".mobi" top-level domain for the mobile Internet represents a ground-floor development toward the convergence of mobile phones and the Internet. united-domains customers who successfully register a domain name are also offered a personalized homepage ("my.mobi") that is optimized for mobile phones, smart phones and PDAs.

Sales – LYCOS Network Europe

The sales team greatly honed its marketing expertise in 2007, defining itself as an independent sales house under its own LYCOS Network Europe brand. Growth of the international marketing network rose as expected by about 20 percent to include 35 European partners currently. LYCOS was thus able to sharply enhance its attractiveness as a marketer for national and international advertising campaigns with some 37.8 million unique users now (Status: December 2007 including distribution partners) and will continue to focus on increasing its reach in 2008.

economic development

Market development

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

LYCOS Europe unique users add up to about 37.8 million (Status: December 2007, including distribution partners). As a result its European reach based on the relevant markets amounts to 26.5 percent (including distribution partners).

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

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

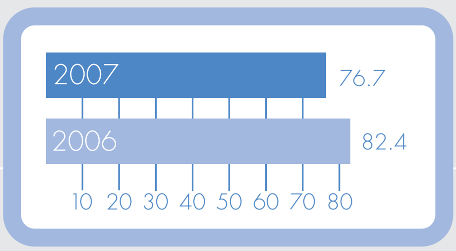
Result analysis

Revenues

LYCOS Europe's revenues for the year ended December 31, 2007 amounted to EUR 76.7 million, which is a decrease of 7 percent compared to the year ended December 31, 2006. This is not in conjunction with the overall market development. Main reason is the decrease in advertising revenues with 25 percent or EUR 8.8 million. Revenues from paid services and shopping increased by 11 percent or to EUR 44.7 million. The increase is mainly due to the consolidation of mentasys. Paid services and shopping contributed 58 percent, advertising 35 percent and other revenues 7 percent to LYCOS Europe's total revenues in the year ended December 31, 2007.

Revenues generated by LYCOS Europe in the fourth quarter of 2007 amounted to EUR 18.3 million, which is a decrease of 22 percent compared to the reference period in 2006. This is mainly caused by the decrease in advertising revenues of 29 percent equaling EUR 2.8 million. Paid service and shopping revenues decreased by 11 percent compared to the three months ended December 31, 2006. Interconnect revenues decreased by 79 percent due to the sale of the German Internet Access business.

Revenues (EUR million)



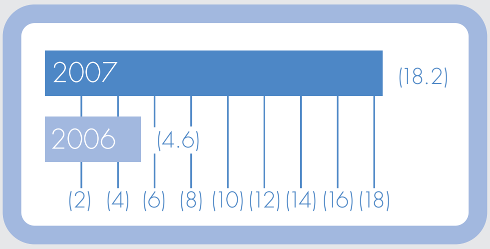
EBITDA

During 2007 the EBITDA of EUR (18.2) million decreased by EUR (13.6) million compared to the same period in 2006 (EUR (4.6) million).

The gross profit of EUR 40.3 million for the year ended December 31, 2007 decreased by 23 percent compared to the reference period in 2006 (EUR 52.2 million). The gross profit decrease was, besides the aforementioned and the negative margin development arising from the unfavorable revenue mix, the result of a general profit decrease in the Shopping business and an increase in cost of revenues, which is partly related to the transfer of the datacenter to an external provider. Total cost of revenues increased by 21 percent to EUR (36.4) million.

Ordinary sales and marketing expenses increased by EUR 2.7 million during the year ended December 31, 2007. This is mainly driven by additional marketing spendings for LYCOS iQ in order to further support the strong growth of this product. Ordinary research and development costs increased by EUR 0.3 million comparing the year 2007 to 2006. This relates among others to additional resources required for the launch of new and innovative products. Ordinary general and administration expenses decreased by EUR 1.6 million.

EBITDA (EUR million)

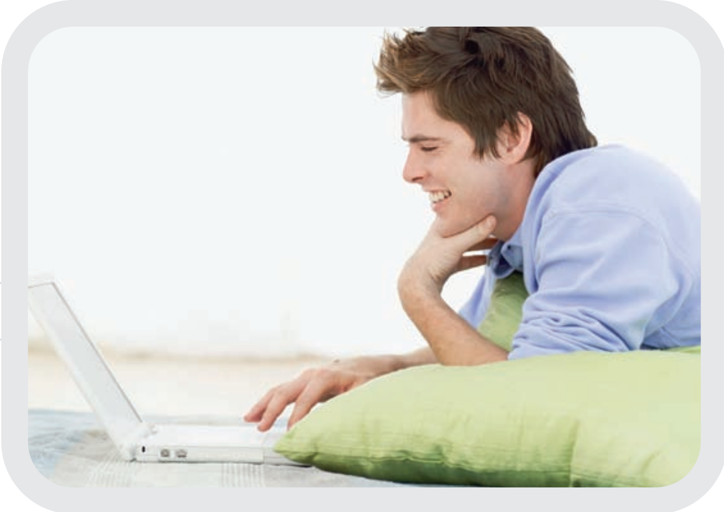


The increase in the other operating income compared to 2006 mainly relates to the disposal of the German Access business.

The EBITDA of EUR (5.3) million in the fourth quarter 2007 decreased compared to the EBITDA of EUR (1.2) million in the prior year. This decrease is mainly due to the aforementioned reasons.

Financial result

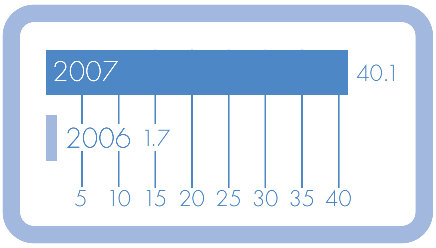
The net finance income increased to EUR 71.8 million, which is due to the disposal of the available for sale investment in Seznam for a consideration of EUR 65 million and a transaction gain of EUR 64.8 million as well as to the disposal of the available for sale investment in BoM for a consideration of EUR 1.7 million and a transaction gain of EUR 1.2 million. Adjusted for these transactions, the net financing income increased to EUR 5.8 million compared to EUR 2.1 million for the year of 2006, which is mainly the interest received on the additional cash from the disposal activities.



Net result

Besides the aforementioned effects, discontinued operations and the impairment test had an impact on the net result. The annual impairment test performed in the second quarter 2007 resulted in an impairment loss of EUR (19.2) million which is mainly related to the shopping business. The net profit from discontinued operations, comprising the Swedish Access and Portal business, amounted to EUR 11.5 million in 2007 compared to EUR 12.8 million in 2006. The above results in a net profit of EUR 40.1 million for the year ended December 31, 2007 compared to a net profit of EUR 1.7 million in the prior year.

Net profit (EUR million)



In line with the increase in the net results and primarily as a result of the recent divestments the earnings per share increased to EUR 0.13 for the financial year 2007 compared to EUR 0.01 for the reference period in 2006.

Balance sheet analysis

Total assets increased from EUR 182.2 million as at December 31, 2006 to EUR 205.2 million as at December 31, 2007. The increase is mainly related to the disposal of the available for sale investments in Seznam and BoM. Together with the completion of the disposal of the German Access business, cash, cash equivalents and other investments increased to EUR 157.2 million as at December 31, 2007 compared to EUR 93.3 million as at December 31, 2006.

Property, plant and equipment and intangible assets excluding goodwill decreased to EUR 13.0 million as at December 31, 2007. Goodwill decreased to EUR 13.2 million mainly as a result of the impairment loss.

Total liabilities as at December 31, 2007 decreased to EUR 38.3 million compared to EUR 53.5 million as at December 31, 2006. This is mainly the result of a decrease of the earn-out provision for the former shareholders of mentasys GmbH of EUR 5.6 million and a general reduction of accounts payables and other short term liabilities.

The above leads to a cash ratio of 4.1 (cash, cash equivalents and other investments divided by total liabilities), showing the strong financial position of LYCOS Europe.

Cash flow analysis

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

Cash and cash equivalents increased by EUR 4.0 million to EUR 74.9 million during the year ended December 31, 2007. An amount of EUR (18.8) million thereof was used in operating activities. Cash provided in investing activities amounts to EUR 2.2 million. Net cash provided in discontinued operations of EUR 20.9 million during the year 2007 is related to the completed disposal of the Swedish Access business.

the share

Share Capital

The Company's share capital consists of AA, AB and B shares, each of it with a par value of EUR 0.01. Average and absolute number of issued and outstanding shares, including 723,656 treasury shares in the amount of EUR 7,236.56, amounted to 312,300,000. The number of voting shares outstanding therefore amounts to 311,576,344 as at December 31, 2007. The treasury shares were the result of both, issuance of and acquisition in the context of an indemnification from Spray Ventures in the year 2002. In addition to the ordinary share capital, the Company has issued stock options to its employees, of which 392,750 are outstanding and exercisable on December 31, 2007. For further information about the share capital, reference is made to note 16 of the consolidated financial statements.

Share Price Performance

LYCOS Europe's share price declined by 45 percent from EUR 0.89 (January 2, 2007) to EUR 0.49 (December 28, 2007). The market capitalization as at December 31, 2007 amounted to EUR 153.0 million. During the financial year 2007, the LYCOS Europe share could not compete with the Technology All Share Index which rose by 23 percent in the same period.

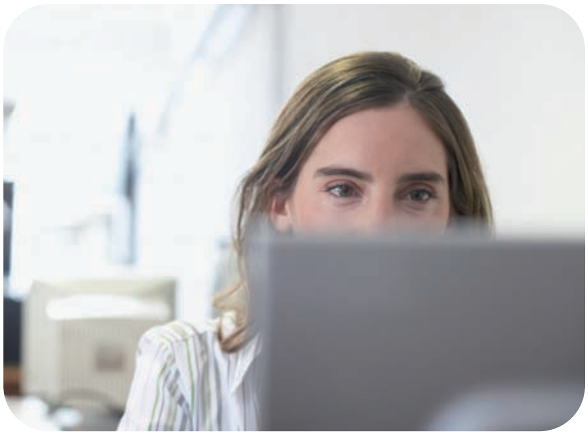
Annual General Meeting of Shareholders

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

LYCOS Europe's Legal Shareholder Structure

	Number of shares as at December 31, 2007	% of voting rights	% of shares	Number of shares as at December 31, 2006	% of voting rights	% of shares
LE Holding Corp.	100,000,000	32.1%	32.0%	100,000,000	32.1%	32.0%
Bertelsmann Internet Holding GmbH / Fireball Internet GmbH / Jahr VVG mbH & Co. KG	62,270,000	20.0%	19.9%	62,270,000	20.0%	19.9%
Christoph Mohn Internet Holding GmbH	37,730,000	12.1%	12.1%	37,730,000	12.1%	12.1%
LYCOS Europe N.V. (treasury shares)	723,656	0.0%	0.2%	723,656	0.0%	0.2%
Free float	111,576,344	35.8%	35.8%	111,576,344	35.8%	35.8%
Total	**312,300,000**	**100.0%**	**100.0%**	**312,300,000**	**100.0%**	**100.0%**

employees



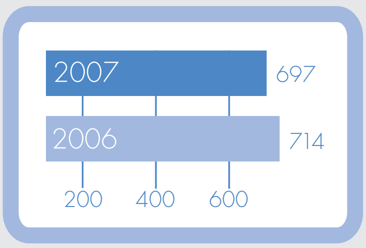
The development of the employees is supported by the Company by, among others, performance interviews and continuous education. Performance interviews include the identification of strengths, areas of improvement and personal needs, which is required for the determination of customized measures and future career steps. 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. Moreover, LYCOS Europe encourages its employees to apply for internal job offerings in diverse areas and countries.

LYCOS Europe had 697 employees at the end of 2007 compared to 714 employees at the end of 2006. From all employees 57 percent are located in Germany, 31 percent in Armenia, 6 percent in France and 6 percent in offices located in Denmark, Italy, the Netherlands and the United Kingdom.

Therefore the company culture is affected by mutual respect and excitement over future tasks, which enables LYCOS Europe to become a dynamic employer, facilitating and inspiring innovations.

The Company attracts and develops excellent individuals that do have a variety of backgrounds, interests and perspectives. The attraction of qualified employees from all over Europe is intensified by exciting projects within the Company, for example in the area of research and development.

Employees



corporate governance

LYCOS Europe 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 and employees 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 anchored 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 corporate information portal.

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.

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.

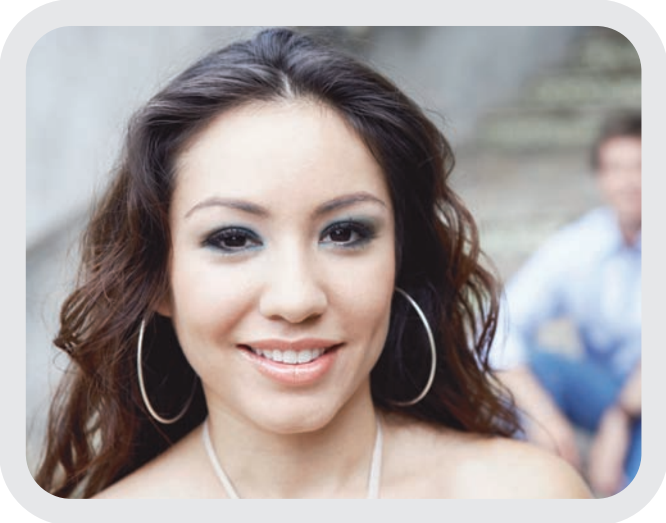
LYCOS Europe's Management Board is responsible for complying with all relevant legislation and regulations, managing the risks associated with the Company's activities and its financing. The Management Board reports on these matters to the Supervisory Board and the Audit Committee and discusses the internal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

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 has 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.

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. Fred Wilsdorf who joined the Company as LYCOS Europe's CFO as of May 1, 2007, 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. Before Fred Wilsdorf joined the Company as of May 1, 2007 the functions of the CFO were 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 78.

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 the Company's corporate information portal. 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 or its affiliates, which 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. 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.

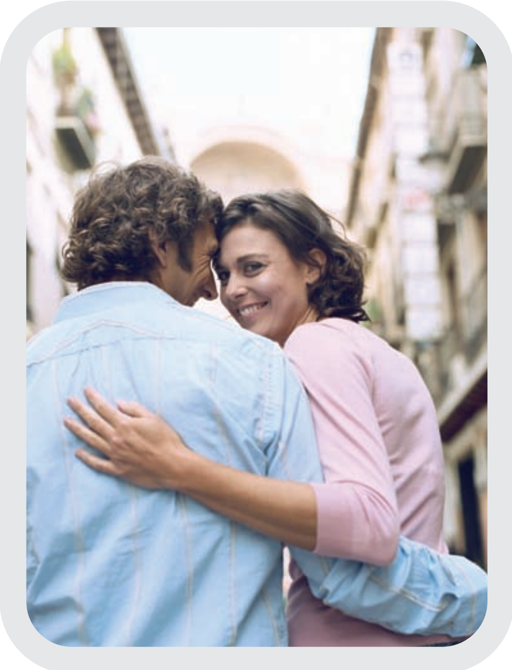
The shareholders and the general meeting of shareholders

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.

The audit of the financial reporting and the position of the external auditor

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.

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 advise 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. Besides the annual assessment, 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 Euronext, 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. The variable part of Mr. Mohn's remuneration for 2007 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. Mohn may 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 sub-

sections 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)
- 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. (III.5.7)

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.

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 Dutch Corporate Governance Codex specifies the legal obligations pertaining to corporate risk management. 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 are implemented. The summary below should give an overview of significant risks, the Company is exposed to.

<u>Economic environment</u>

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.

<u>Financial risks</u>

Risks in the performance of financial instruments could potentially harm the Company. Financial instruments primarily consist of cash, cash equivalents, investments and accounts receivable. The Company's main objective is to ensure the safety of these investments at maturity date. This is achieved by selection of counterparties with a good credit rating and holding a majority of the cash equivalents and deposits mainly with German banks, which are regularly monitored for full coverage by the depositor's guarantee fund. Additionally the Company is exposed to the payment behavior of its customers. Accounts receivables 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 almost completely 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, 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.

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.

Accounting

LYCOS Europe prepares its financial statements in accordance with International Financial Reporting Standards and internal accounting guidelines. The accounting departments of all Groups' entities are responsible for issuing their local financial statements and corresponding reports. This information is delivered to the Group Accounting department where diverse consistency checks are performed before this data is used to prepare the consolidated financial statements of the Company together with related financial information.

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

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. The corporate controlling department analyses furthermore 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 (e.g. SAP R/3) are the responsibility of the corporate controlling department. Procedures and rules were implemented focusing on limitation of risks and authorizations.

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.

outlook

In 2008 the goal is to continue our focus on growth areas consistently. LYCOS Europe will focus on and accentuate the areas of advertising and shopping and thus work hard to turn around the current development in these business areas. The Company believes that the combination of creative product development and the capability for technological innovation will enable LYCOS Europe to differentiate itself from other participants in the market and to generate a sustained competitive advantage. In this context, especially the collaboration of LYCOS Europe in research projects (“THESEUS”, “We know it”) will play an important role.

Haarlem, the Netherlands
January 25, 2008

The Management Board
LYCOS Europe N.V.

LYCOS Europe N.V.

consolidated financial statements

for the year ended december 31, 2007

LYCOS Europe N.V.
consolidated balance sheets

In thousand Euro	Notes	December 31, 2007	December 31, 2006
Assets			
Property, plant and equipment	6	2,374	3,335
Intangible assets	7,8,9	23,860	47,399
Deferred tax assets	25	204	190
Other investments	10	9,803	9,951
Other non-current assets	11	486	1,292
Total non-current assets		**36,727**	**62,167**
Cash and cash equivalents	10	74,868	70,886
Other investments	10	72,500	12,500
Accounts receivable and other receivables	12,13	13,146	15,650
Prepaid expenses and other current assets	12	7,976	6,446
Assets classified as held for sale	7	0	14,528
Total current assets		**168,490**	**120,010**
Total assets		**205,217**	**182,177**
Shareholders' equity and liabilities			
Share capital		3,123	3,123
Share premium		1,588,076	1,587,049
Treasury shares		(2,052)	(2,052)
Legal reserves		3,941	4,968
Translation reserve		(649)	1,137
Accumulated deficit		(1,465,594)	(1,467,298)
Unappropriated result		40,054	1,704
Total shareholders' equity attributable to equity holders of the Company	16	**166,899**	**128,631**
Deferred tax liabilities	25	1,377	2,188
Provisions and other long-term liabilities	18	8,564	14,481
Total non-current liabilities		**9,941**	**16,669**
Accounts payable		9,223	7,992
Restructuring provision	18	984	830
Other short-term liabilities	19	18,170	22,963
Liabilities classified as held for sale	7	0	5,092
Total current liabilities		**28,377**	**36,877**
Total liabilities		**38,318**	**53,546**
Total shareholders' equity and liabilities		**205,217**	**182,177**

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

LYCOS Europe N.V.
consolidated income statements

In thousand Euro (except share data)	Notes	Year ended December 31, 2007	Year ended December 31, 2006
Advertising		26,829	35,658
Paid services and shopping		44,713	40,447
Other		5,172	6,275
Total revenues	4	**76,714**	**82,380**
Cost of revenues	22	(36,418)	(30,219)
Gross profit		**40,296**	**52,161**
Sales and marketing	21,22	(28,020)	(24,585)
Research and development	9,21,22	(19,289)	(16,714)
General and administration	9,21,22	(39,409)	(24,852)
Other operating income	23	2,455	852
Loss from operations		**(43,967)**	**(13,138)**
Finance income	24	71,753	2,419
Finance expense		(296)	(63)
Other finance income / (expense)		306	(265)
Net finance income		**71,763**	**2,091**
Profit/(loss) before tax		**27,796**	**(11,047)**
Income tax	25	757	(21)
Net profit / (net loss) from continuing operations		**28,553**	**(11,068)**
Profit from discontinued operations (net of income tax)	7	11,501	12,772
Net profit for the period attributable to equity holders of the Company		**40,054**	**1,704**
Basic / diluted profit / (loss) per share (Euro) – continued operation	26	0.09	(0.04)
Basic / diluted profit per share (Euro)	26	0.13	0.01
Weighted average number of shares outstanding		311,576,344	311,576,344

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

LYCOS Europe N.V.
consolidated statements of cash flows

In thousand Euro	Notes	Year ended December 31, 2007	Year ended December 31, 2006
Continued operations			
Cash flows from operating activities			
Profit / (loss) before tax		27,796	(11,047)
Adjustments for:			
Depreciation and amortization		5,495	5,977
Impairment of intangible assets		20,317	2,393
Finance income		(71,457)	(2,356)
Other non cash movements		2,099	667
Change in accounts receivable		1,495	373
Change in prepaid expenses and other current assets		(1,806)	3,661
Change in other non-current assets		476	858
Change in accounts payable		2,021	317
Change in other current liabilities		(3,260)	(1,797)
Change in other non-current liabilities		(6,668)	(1,949)
Interest received		5,234	2,551
Income tax paid		(516)	(129)
Net cash used in operating activities		**(18,774)**	**(481)**
Cash flows from investing activities			
Acquisitions of property, plant and equipment and other intangible assets		(3,347)	(2,145)
Development expenditure		(522)	(1,754)
Transfer from cash equivalents to other investments	10	(60,085)	16,816
Acquisitions of subsidiaries, net of cash acquired		(504)	(17,372)
Proceeds from sale of other investments	24	66,680	0
Net cash (used) / provided in investing activities		**2,222**	**(4,455)**
Cash flows from financing activities			
Change in short-term debt		113	(2,792)
Net cash (used) / provided in financing activities		**113**	**(2,792)**
Discontinued operations			
Net cash from operating activities		2,771	(3,704)
Net cash from investing activities		18,166	16,592
Net cash from discontinued operations		**20,937**	**12,888**
Effect of exchange rate changes on cash and cash equivalents		(516)	31
Decrease in cash and cash equivalents		**3,982**	**5,191**
Cash and cash equivalents, beginning of the period		70,886	65,695
Cash and cash equivalents, end of the period	10	**74,868**	**70,886**

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

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	
		No. of shares	EUR	No. of shares	EUR	No. of shares	EUR
Balance as at January 1, 2006		**62,000,000**	**620**	**62,000,000**	**620**	**188,300,000**	**1,883**
Movement capitalized development							
Appropriation of the net result of previous year							
Translation gain							
Release due to disposal							
Net profit							
Balance as at December 31, 2006		**62,000,000**	**620**	**62,000,000**	**620**	**188,300,000**	**1,883**
Movement capitalized development							
Appropriation of the net result of previous year							
Translation loss							
Release due to disposal							
Net profit							
Balance as at December 31, 2007	16	**62,000,000**	**620**	**62,000,000**	**620**	**188,300,000**	**1,883**

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

Share premium	Legal reserve	Treasury shares		Translation reserve	Accumulated deficit	Unappro-priated result	Total
EUR	EUR	No. of shares	EUR	EUR	EUR	EUR	EUR
1,589,584	**2,433**	**(723,656)**	**(2,052)**	**578**	**(1,447,062)**	**(20,236)**	**126,368**
(2,535)	2,535						0
					(20,236)	20,236	0
				588			588
				(29)			(29)
						1,704	1,704
1,587,049	**4,968**	**(723,656)**	**(2,052)**	**1,137**	**(1,467,298)**	**1,704**	**128,631**
1,027	(1,027)						0
					1,704	(1,704)	0
				(847)			(847)
				(939)			(939)
						40,054	40,054
1,588,076	**3,941**	**(723,656)**	**(2,052)**	**(649)**	**(1,465,594)**	**40,054**	**166,899**

LYCOS Europe N.V.
notes to the consolidated financial statements

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 seven languages. The Company commenced operations in the year 1997 and the companies existing before 2000 were reorganized as subsidiaries of LYCOS Europe N.V. in January 2000. The registered office of the Company is in Haarlem, the Netherlands (LYCOS Europe N.V., Richard Holkade 36, 2033 PZ Haarlem, the Netherlands).

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group").

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 decisions:

- 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 retranslation are recognized directly in a separate component of equity, the translation reserve. In the case of a disposal of a subsidiary, the apportionable translation reserve is released and recognized in the income statements.

e) Property, plant and equipment

Property, plant and equipment are 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, 2007.

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 at least annually 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
LYCOS Europe license	: indefinite useful life

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 a 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) Share capital

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).

Treasury shares

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.

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 with an functional currency other than the functional currency of the Company.

j) 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.

k) 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 as 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.

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.

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

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.

l) 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.

m) Revenue

The Group generates revenues due to rendering of services. Revenues comprise advertising, paid service, shopping and other revenues.

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.

Other revenues

Other revenues mainly consist of revenues from interconnection services and licensing and 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, 2007, and 2006, revenues from barter transactions have been less than 5 percent of total revenues.

n) 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.

o) 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 cost and compensation expenses.

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

p) 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 & Search, Communication & Communities, Web Hosting & Domain Names and Shopping.

q) 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

New IFRS standards and interpretations, which have been adopted by the International Accounting Standards Board and endorsed by the European Commission during 2007 with an effective date later than December 31, 2007, which have not been applied in these consolidated financial statements and which are applicable to the Company are as follows:

1. IAS 1 Presentation of Financial Statements introduces a revised presentation of the financial statements. IAS 1, which becomes mandatory for the Company's 2009 financial statements, will require changes to the current presentation of the Company's financial statements. The requirements will be analyzed by management during 2008.

2. IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments. The potential change to the disclosure required by IFRS 8 will be analyzed by management during 2008.

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, 2007):

Company	Ownership	Country of incorporation	Statutory seat
Aster-Europe ltd.	100 %	United Kingdom	Birmingham
Begonia-Europe ltd.	100 %	United Kingdom	Birmingham
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	Mailand
Pangora LLC	100 %	United States	Wilmington
Pangora SAS	100 %	France	Paris
Peach-Europe ltd.	100 %	United Kingdom	Birmingham
Yarps Network AB	100 %	Sweden	Stockholm
Yarps Network Services AB	100 %	Sweden	Stockholm
Yarps Telecom Network AB	100 %	Sweden	Stockholm
united-domains AG	100 %	Germany	Munich
YouSmile Geschenke GmbH	100 %	Germany	Karlsruhe

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 Year ended Dec. 31, 2007	Germany Year ended Dec. 31, 2006	Sweden (discontinued[3]) Year ended Dec. 31, 2007	Sweden (discontinued[3]) Year ended Dec. 31, 2006	France Year ended Dec. 31, 2007	France Year ended Dec. 31, 2006
Revenues	47,862	51,402	(45)	42,195	9,901	12,028
Revenues from intersegment transactions	24,747	27,346	1,269	2,049	718	904
Total revenues	**72,609**	**78,748**	**1,224**	**44,244**	**10,619**	**12,932**
Sum of cost of revenues and operating expenses	(101,477)	(77,483)	(591)	(47,102)	(12,791)	(15,801)
Profit / (loss) from operations	**(28,868)**	**1,265**	**633**	**(2,858)**	**(2,172)**	**(2,869)**
Net finance income	(987)	(130)	754	100	(41)	(161)
Net income tax gain / (loss)	496	89	0	329	15	15
Discontinued operations	0	0	10,292	14,951	0	0
Net profit / (net loss) for the year	**(29,359)**	**1,224**	**11,679**	**12,522**	**(2,198)**	**(3,015)**
Thereof depreciation, amortization and impairment loss	(20,117)	(2,939)	(246)	(3,224)	(190)	(530)

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

In thousand Euro	Germany Year ended Dec. 31, 2007	Germany Year ended Dec. 31, 2006	Sweden (discontinued[3]) Year ended Dec. 31, 2007	Sweden (discontinued[3]) Year ended Dec. 31, 2006	France Year ended Dec. 31, 2007	France Year ended Dec. 31, 2006
Segment assets	**100,789**	**87,085**	**30,696**	**43,212**	**10,470**	**4,107**
Segment equity	9,695	19,554	26,741	19,572	1,595	(240)
Segment liabilities	91,094	67,531	3,955	23,640	8,875	4,347
Segment equity and liabilities	**100,789**	**87,085**	**30,696**	**43,212**	**10,470**	**4,107**
Cash flow from operating activities	(8,750)	4,204	3,649	(3,222)	(1,982)	(2,338)
Cash flow from investing activities	(2,130)	(9,292)	18,166	16,754	(14)	223
Cash flow from financing activities	0	0	0	0	0	0
Capital expenditure	3,888	3,473	0	4,013	33	96

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

	United Kingdom		Denmark		Other regions & eliminations		Less discontinued operations		Continued operations	
	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
	7,645	6,052	6,045	7,810	5,261	5,078	45	(42,185)	76,714	82,380
	359	437	34	215	(27,127)	(30,951)	0	0	0	0
	8,004	**6,489**	**6,079**	**8,025**	**(21,866)**	**(25,873)**	**45**	**(42,185)**	**76,714**	**82,380**
	(8,636)	(8,411)	(8,967)	(10,352)	12,752	18,806	(971)	44,825	(120,681)	(95,518)
	(632)	**(1,922)**	**(2,888)**	**(2,327)**	**(9,114)**	**(7,067)**	**(926)**	**2,640**	**(43,967)**	**(13,138)**
	(6)	35	(8)	(4)	72,334	2,373	(283)	(122)	71,763	2,091
	0	0	0	0	246	(115)	0	(339)	757	(21)
	0	0	0	0	0	0	(10,292)	(14,951)	0	0
	(638)	**(1,887)**	**(2,896)**	**(2,331)**	**63,466**	**(4,809)**	**(11,501)**	**(12,772)**	**28,553**	**(11,068)**
	(45)	(75)	(342)	(452)	(4,872)	(3,788)	0	2,500	(25,812)	(8,508)

	United Kingdom		Denmark		Other regions & eliminations		Less discontinued operations		Continued operations	
	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
	6,643	**5,731**	**11,137**	**5,152**	**45,482**	**36,890**	**0**	**0**	**205,217**	**182,177**
	412	208	243	14	128,213	89,523	0	0	166,899	128,631
	6,231	5,523	10,894	5,138	(82,731)	(52,633)	0	0	38,318	53,546
	6,643	**5,731**	**11,137**	**5,152**	**45,482**	**36,890**	**0**	**0**	**205,217**	**182,177**
	(587)	(1,848)	(2,546)	(1,876)	(5,787)	895	(2,771)	3,704	(18,774)	(481)
	(7)	39	(37)	184	4,410	4,229	(18,166)	(16,592)	2,222	(4,455)
	0	0	0	0	113	(2,792)	0	0	113	(2,792)
	18	17	90	79	3,974	605	0	(3,921)	8,003	4,362

Business Segments	**Portal & Search, Access, Communication & Communities** (partly discontinued)		**Web Hosting & Domain Names**		**Shopping**	
In thousand Euro	Year ended Dec. 31. 2007	Year ended Dec. 31. 2006	Year ended Dec. 31. 2007	Year ended Dec. 31. 2006	Year ended Dec. 31. 2007	Year ended Dec. 31. 2006
Revenues	**34,935**	**87,480**	**24,272**	**22,169**	**17,462**	**14,916**
Segment assets	**122,155**	**127,849**	**38,676**	**24,045**	**44,462**	**29,986**
Cash flow from operating activities	(14,571)	(2,278)	3,811	135	(6,469)	(2,643)
Cash flow from investing activities	20,910	23,828	(512)	(375)	(10)	(13,939)
Cash flow from financing activities	0	0	0	0	0	0
Capital expenditure	4,764	3,061	1,508	576	1,734	718

	Unallocated & eliminations		**Less discontinued operations**		**Continued operations**	
In thousand Euro	Year ended Dec. 31. 2007	Year ended Dec. 31. 2006	Year ended Dec. 31. 2007	Year ended Dec. 31. 2006	Year ended Dec. 31. 2007	Year ended Dec. 31. 2006
Revenues	**0**	**0**	**45**	**(42,185)**	**76,714**	**82,380**
Segment assets	**(76)**	**297**	**0**	**0**	**205,217**	**182,177**
Cash flow from operating activities	1,226	601	(2,771)	3,704	(18,774)	(481)
Cash flow from investing activities	0	2,623	(18,166)	(16,592)	2,222	(4,455)
Cash flow from financing activities	113	(2,792)	0	0	113	(2,792)
Capital expenditure	(3)	3,928	0	(3,921)	8,003	4,362

5. financial risk management

By using its financial instruments, the Company is exposed to credit, liquidity and market risk. This note presents information about the exposure to each of the aforementioned risk categories.

Credit risk

Credit risk is the risk of a financial loss if a customer or party to another financial instrument fails to meet its obligations. 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. An overview of these reserves is given in note 12. The Company's objective is furthermore to ensure the safety of its investments at maturity date. This is achieved by selection of counterparties with a good credit rating and holding a majority of the cash equivalents and deposits mainly with German banks, which are regularly monitored for full coverage by the depositor's guarantee fund.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations if they fall due. LYCOS Europe ensures with biweekly cash forecasts that it has sufficient cash on demand to meet its financial obligations. An overview of the maturity of cash, cash equivalents and each class of the Company's investment is presented in note 10.

Market risk

Market risk is the risk that changes in market prices, e.g. foreign exchange, will affect the income of the Company. The currency risk of LYCOS Europe is mainly related to sales and purchases that are denominated in a currency other than the respective functional currencies of the Company and its subsidiaries, which is primarily the Euro (EUR), but also Armenian Dram (AMD), Danish Kroner (DKK), Great Britain Pounds (GBP), Swedish Kronor (SEK) and U.S. Dollars (USD). LYCOS Europe aims to limit its exposure by avoiding these transactions. For significant contracts, for which such currency risk is unavoidable, the related exposure is hedged by forward contracts.

6. 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, 2006	**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**
Acquisitions, other	1,089	263	0	1,352
Disposals	(2,500)	(898)	0	(3,398)
Other	151	(14)	(6)	131
Effects of movements in foreign exchange rates	(412)	(73)	0	(485)
Balance as at December 31, 2007	**17,122**	**3,066**	**0**	**20,188**
Depreciation and impairment losses				
Balance as at January 1, 2006	**(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)**
Depreciation charge	(1,109)	(325)	0	(1,434)
Disposals	1,969	556	0	2,525
Other	17	(143)	0	(126)
Effects of movements in foreign exchange rates	403	71	0	474
Balance as at December 31, 2007	**(15,639)**	**(2,175)**	**0**	**(17,814)**
Carrying amounts				
Balance as at January 1, 2006	2,209	1,611	0	3,820
Balance as at January 1, 2007	1,875	1,454	6	3,335
Balance as at December 31, 2007	**1,483**	**891**	**0**	**2,374**

7. 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 preliminary consideration of EUR 1.7 million was paid in August 2006 and was adjusted in 2007. In the first three months of 2007 an additional amount of EUR 0.5 million was paid, resulting in a total goodwill of EUR 6.3 million.

mentasys

On November 15, 2006, Pangora GmbH, an indirect 100 percent subsidiary of LYCOS Europe N.V., completed the purchase of all shares in mentasys GmbH, a German shopping solution specialist. The purchase price was EUR 30.0 million including a contingent consideration of EUR 14.0 million based on the performance in the years 2007 to 2009. Based on the latest expectations, the provision for this contingent consideration was decreased by EUR 5.5 million to EUR 8.4 million, resulting in a total goodwill of EUR 5.9 million.

Swedish business

LYCOS Europe discontinued its Swedish Portal and Access business during 2006. Therefore the Company sold the Swedish Portal business together with the Spray trademark 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 (at transaction date EUR 18.9 million). The disposal of the Swedish Access business was completed in January 2007.

In thousand Euro	**December 31, 2007**	**December 31, 2006**
Result of discontinued operations		
Revenues	(45)	42,185
Expenses	222	(44,825)
Other	749	0
Result from operating activities	**926**	**(2,640)**
Net finance income	283	122
Income tax expense	0	339
Profit / (loss) after tax but before gain on sale	**1,209**	**(2,179)**
Gain on sale of discontinued operation	10,292	14,951
Profit for the period	**11,501**	**12,772**

8. intangible assets

Goodwill is stated at cost less any accumulated impairment losses.

On June 30, 2007, LYCOS Europe performed the annual impairment test for goodwill acquired in business combinations. As a result of the impairment test LYCOS Europe recorded an impairment loss of EUR 17.6 million, thereof EUR 15.0 million related to the goodwill of mentasys GmbH and EUR 2.6 million related to the goodwill of Pangora SAS. Regarding goodwill and impairment testing further reference is made in Note 7 and 9.

On July 17, 2007 LYCOS Europe signed a new License Agreement with Lycos, Inc. for a consideration of about USD 5.2 million (at transaction date EUR 3.8 million). This perpetual and royalty-free license includes the right to exploit the Lycos as well as the Hotbot, Tripod and Angelfire trademarks in all European countries and Armenia. The license was recognized as an intangible asset with an indefinite useful life.

Amortization expenses amounted to EUR 4.1 million and EUR 4.2 million for the period ended December 31, 2007 and December 31, 2006, 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, 2006	**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**
Acquisitions, other	504	4,158	1,725	264	6,651
Disposals	0	(1,388)	(3,920)	(36)	(5,344)
Other	(5,544)	5	237	50	(5,252)
Effects of movements in foreign exchange rates	0	(30)	(266)	(21)	(317)
Balance as at December 31, 2007	**30,809**	**53,278**	**10,886**	**4,299**	**99,272**
Amortization and impairment losses					
Balance as at January 1, 2006	**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)**
Amortization charge	0	(1,858)	(1,718)	(485)	(4,061)
Impairment charge	(17,608)	(1,529)	(1,180)	0	(20,317)
Disposals	0	1,007	3,878	7	4,892
Other	0	(68)	39	(49)	(78)
Effects of movements in foreign exchange rates	0	92	178	17	287
Balance as at December 31, 2007	**(17,608)**	**(46,935)**	**(6,945)**	**(3,924)**	**(75,412)**
Carrying amounts					
Balance as at January 1, 2006	14,255	10,261	2,433	1,103	28,052
Balance as at January 1, 2007	35,849	5,954	4,968	628	47,399
Balance as at December 31, 2007	**13,201**	**6,343**	**3,941**	**375**	**23,860**

9. 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, 2007**	**December 31, 2006**
united-domains (Germany)	Subsidiary	6,310	5,806
Pangora Group (Europe)	Subsidiary (several)	6,891	30,043
Total Goodwill		**13,201**	**35,849**

The recoverable amount of the cash generating units or groups of cash generating units presented above is determined based on the fair value less costs to sell and value in use calculations using the discounted cash flow approach. Cash flow projections are based on actual operating results, a one-year business plan, market research, 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 united-domains was below its recoverable amount, whereas the carrying amount of the Pangora group was above its recoverable amount. Therefore the Company recorded an impairment loss at December 31, 2007 of EUR 17.6 million.

The table below presents average key assumptions used:

	Key assumption	**Discount factor** (in percent, post-tax)
united-domains (Germany)	Revenues (domain name selling)	12.5
Pangora Group (Europe)	Revenues (redirects)	12.5

Other intangible assets

During the year 2007 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 recoverable amount amounted to EUR 0.0 million. The carrying amount of the Fireball trademark was higher than its recoverable amount, which resulted in an impairment loss of EUR 1.5 million.

During the year 2007 LYCOS Europe replaced certain self-developed products. Due to a discontinued use, the Company assessed their value in use, which equaled their recoverable amount, and which in total amounted to EUR 0.0 million. Therefore LYCOS Europe recorded an additional impairment loss of EUR 1.2 million as at December 31, 2007.

10. cash, cash equivalents and other investments

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

In thousand Euro	December 31, 2007	December 31, 2006
Cash	12,124	45,951
Cash equivalents	62,744	24,935
Other investments due within one year	72,500	12,500
Other investments due after one year	9,803	9,951
Total	**157,171**	**93,337**

An amount of EUR 7.3 million and EUR 9.8 million is restricted in use as at December 31, 2007, and December 31, 2006, respectively. An amount of EUR 4.8 million of the restricted cash is non-current as at December 31, 2007, and December 31, 2006, 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 other deposits with a maturity of more than 12 months. Interest on short-term deposits is calculated based on fixed interest rates. The interest on long-term deposits is calculated based on fixed and variable interest rates. Fixed interest rate contracts amount to EUR 4.8 million and variable interest rate contracts amount to EUR 5.0 million.

11. other non-current assets

Other non-current assets are made up as follows:

In thousand Euro	December 31, 2007	December 31, 2006
Rent deposits	336	719
Equity investments	134	570
Other	16	3
Total	**486**	**1,292**

Equity investments as at December 31, 2007 consist of the non-operating subsidiary Bottnia Internet Provider AB ("BIP AB") which was reclassified from a full consolidated entity to an available-for-sale financial instrument due to a change in control as a result of a decrease in ownership.

12. accounts receivable and other receivables

Accounts receivable are made up as follows:

In thousand Euro	December 31, 2007	December 31, 2006
Accounts receivable, gross	16,366	19,167
Less allowance for doubtful debt	(3,244)	(3,548)
Accounts receivable from related parties	24	31
Total	**13,146**	**15,650**

The expenses related to doubtful debt recognized in the income statements amounted to EUR 1.1 million and EUR 0.3 million for the period ended December 31, 2007 and December 31, 2006, respectively.

The aging of accounts receivable is as follows:

In thousand Euro	December 31, 2007	December 31, 2006
Accounts receivable not due	5,628	7,713
Accounts receivable 0–30 days overdue	2,738	4,154
Accounts receivable 30–90 days overdue	1,097	974
Accounts receivable more than 90 days overdue	4,828	5,102
Accounts receivables from barter transactions	2,075	1,224
Total	**16,366**	**19,167**

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

In thousand Euro	December 31, 2007	December 31, 2006
Rent deposits and prepayments	141	249
Current prepaid expenses	630	944
Accrued income	2,914	3,521
Other short-term receivables	4,291	1,732
Total	**7,976**	**6,446**

13. related party transactions

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

The receivables from and liabilities to related parties are as follows:

In thousand Euro	December 31, 2007	December 31, 2006
Due from related parties		
Other trade receivables (Bertelsmann AG)	24	31
Due from related parties	**24**	**31**
Due to related parties		
Other trade payables (Telefónica SA)	53	53
Other trade payables (Bertelsmann AG)	2,306	72
Due to related parties	**2,359**	**125**

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

In thousand Euro	Year ended December 31, 2007	Year ended December 31, 2006
Revenues	838	999
Costs	(2,302)	(2,585)
Total, net	**(1,464)**	**(1,586)**

14. compensation of key management personnel

The fixed annual salaries and bonuses for 2007 and 2006 of key management personnel were as follows:

	Fixed annual salary		Bonus	
In thousand Euro	2007	2006	2007[5]	2006[6]
Short-term employee benefits	976	833	189	174
Total	**976**	**833**	**189**	**174**

5 Estimation / accrual based on the result achieved in 2007, finally to be determined and paid in 2008.
6 Bonus paid in 2007 based on the results achieved in 2006.

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 17. Share option rights granted were as follows:

Date of issue	Exercise price in EUR	Outstanding December 31, 2006	Options exercised	Options expired and cancelled	Outstanding December 31, 2007	Expiry date
March 21, 2000	28.80	145,000	–	(145,000)	0	October 20, 2007
June 5, 2000	15.90	90,000	–	(50,000)	40,000	June 4, 2008
December 20, 2000	6.16	170,000	–	(25,000)	145,000	December 19, 2008
Total		**405,000**		**(220,000)**	**185,000**	

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, 2007, and December 31, 2006.

15. compensation 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 2007 and 2006. Former members of the Supervisory Board did not receive any remuneration in 2007 and 2006.

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.

16. shareholders' equity

Issued capital

The Company's Class AA and AB shares have been issued as registered shares. 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, 2007, and December 31, 2006. 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, 2007, and December 31, 2006. These shares are owned by Bertelsmann Internet Holding GmbH (24,347,400), Fireball Internet GmbH (14,260,000) and Christoph Mohn Internet Holding GmbH (23,392,600), 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, 2007, and December 31, 2006, respectively, and 187,576,344 are outstanding on December 31, 2007, and December 31, 2006, respectively.

Unappropriated result

The General Meeting of Shareholders will be asked to approve the appropriation of the 2007 net profit for the period attributable to equity holders of the Company in the amount of EUR 40.054 thousand to the other reserves / accumulated deficit.

17. 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, 2007, the minimum exercisable share price amounts to EUR 1.83.

Options exercisable are equal to options outstanding. All options are vested on December 31, 2007.

		Options outstanding	
Range of exercise prices (in EUR)	**Number of outstanding options as of December 31, 2007**	**Weighted average remaining contractual life (in years)**	**Weighted average exercise price per share**
0.00 – 2.49	70,100	1.7	1.83
2.50 – 7.49	255,650	1.5	6.16
7.50 – 17.49	67,000	0.9	15.90

	Number of options	**Weighted average exercise price per share in Euro**
Options outstanding on January 1, 2006	**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**
Options expired	(237,200)	28.80
Options cancelled	(169,200)	10.50
Options outstanding on December 31, 2007	**392,750**	**7.05**

18. provisions

Provisions recognized are presented below:

In thousand Euro	Restructuring	Other
Balance at January 1, 2006	**1,939**	**3,171**
Provisions made during the year 2006	195	13,963
Provisions used during the year 2006	(969)	(2,653)
Provisions released during the year 2006	(335)	0
Balance at December 31, 2006	**830**	**14,481**
Provisions made during the year 2007	936	25
Provisions used during the year 2007	(652)	(398)
Provisions released during the year 2007	(130)	(5,544)
Balance at December 31, 2007	**984**	**8,564**
Non-current	0	7,719
Current	984	845

The restructuring provision as at December 31, 2007 comprises of EUR 0.2 million which is related to the restructuring program announced in 2004 and EUR 0.8 million which is related to the centralization of the shopping business in Karlsruhe.

Other provisions mainly comprise the estimate for the consideration of the former shareholders of mentasys GmbH. Further reference is made in Note 7 of these consolidated financial statements.

19. other short-term liabilities

Other short-term liabilities comprise:

In thousand Euro	December 31, 2007	December 31, 2006
Accrual for salary and salary related cost	1,489	1,862
Accrual for marketing cost	2,147	1,697
Accrual for professional services	805	1,203
Deferred revenues	3,220	5,383
Other accrued expenses	6,667	7,940
Other short-term debt	261	148
Other current liabilities	3,581	4,730
Accrued expenses and other current liabilities	**18,170**	**22,963**

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

20. 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	5,739
Due after one through five years	16,114
Due after five years	131
Total	**21,984**

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.

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 the Company has contracted a D&O insurance.

21. other operating expenses

Other operating expenses comprise of:

	Year ended December 31, 2007				
In thousand Euro	Ordinary expenses	Restructuring	Impairment	Other amortization	Total
Sales and marketing	(26,943)	(171)	0	(906)	**(28,020)**
Research and development	(17,118)	(563)	(1,088)	(520)	**(19,289)**
General and administration	(19,945)	121	(19,229)	(356)	**(39,409)**
Total	**(64,006)**	**(613)**	**(20,317)**	**(1,782)**	**(86,718)**

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

22. personnel expenses

Personnel expenses comprise of:

In thousand Euro	Year ended December 31, 2007	Year ended December 31, 2006
Wages and salaries	28,948	27,040
Social security payments	4,792	4,644
Total	**33,740**	**31,684**

The Company employed the following employees on a full-time equivalent basis as at December 31, 2007 and as at December 31, 2006, respectively.

	Year ended December 31, 2007	Year ended December 31, 2006
Germany	394	392
Armenia	214	191
France	45	50
Sweden	0	21
The Netherlands	1	1
Other	43	59
Total	**697**	**714**

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.

During 2007 LYCOS Europe sold its German Narrow- and Broadband Internet Access business. The transaction gain of EUR 0.5 million and EUR 0.3 million respectively was recorded as other operating income.

The Company furthermore is part of the THESEUS consortium. THESEUS is a research program initiated by the German Federal Ministry of Economy and Technology ("BMWi"), with the goal of developing a new Internet-based infrastructure in order to better use and utilize the knowledge available on the Internet. THESEUS is funded by the BMWi (promotional reference 01MQ07008). During 2007, LYCOS Europe recognized government grants in the amount of EUR 0.3 million as other income.

24. finance income

The finance income comprises of:

In thousand Euro	Year ended December 31, 2007	Year ended December 31, 2006
Income from disposal of available-for-sale investments	65,980	0
Interest income	5,773	2,419
Finance income	**71,753**	**2,419**

Seznam

On April 2, 2007 LYCOS Europe sold its available-for-sale investment in Seznam for a consideration of EUR 65.0 million. The transaction gain amounting to EUR 64.8 million is reported in the finance income.

Best of Media

On November 11, 2007 LYCOS Europe sold its available-for-sale investment in BoM for a consideration of EUR 1.7 million. The transaction gain amounting to EUR 1.2 million is reported in the finance income.

25. income taxes

Income tax expenses / benefits recognized include the following:

In thousand Euro	Year ended December 31, 2007	Year ended December 31, 2006
Current income tax expenses	(68)	(116)
Deferred tax benefits	825	95
Income tax	**757**	**(21)**

The income tax expenses differ from the amount computed by using the average statutory rate of the Company and its subsidiaries of 30.0 percent (2006: 34.0 percent) as follows:

In thousand Euro	December 31, 2007	December 31, 2006
Expected income tax benefit at the average statutory tax rate	4,104	2,958
Effect of non-deductible and non-taxable charges	9,427	(1,698)
Changes in loss carry-forwards, without recognition of deferred taxes	7,875	(1,281)
Changes in tax rates	(20,649)	0
Income tax	**757**	**(21)**

Deferred tax assets and liabilities are summarized as follows:

In thousand Euro	December 31, 2007	December 31, 2006
Deferred tax assets		
Loss carry-forward	434	547
Property, plant and equipment	106	374
Intangible assets	440	640
Netting	(776)	(1,371)
Total deferred tax assets	**204**	**190**
Deferred tax liabilities		
Property, plant and equipment	216	429
Intangible assets	1,937	3,130
Netting	(776)	(1,371)
Total deferred tax liabilities	**1,377**	**2,188**

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, 2007, and December 31, 2006, the Company's operating tax loss carry-forwards amount to approximately EUR 572.6 million and EUR 566.9 million, respectively. On December 31, 2007 an amount of EUR 56.6 million thereof is restricted in use until 2009. Further, except for EUR 105.0 million of the loss carry-forwards, all of the remaining loss carry-forwards have an indefinite life.

26. 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 are similar to basic earnings per share except that the weighted average of common shares outstanding are 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 earnings per share.

27. subsequent events

LYCOS Europe N.V. has bought certain assets of W2 regime, a French sales house, for a consideration of EUR 0.3 million. The transaction became effective on January 1, 2008.

Haarlem, the Netherlands
January 25, 2008

The Management Board
LYCOS Europe N.V.

Christoph Mohn

Approved by the Supervisory Board of LYCOS Europe N.V.
Haarlem, the Netherlands
February 13, 2008

Prof. Dr. Jürgen Richter
Dr. Dieter Ulrich Bohnert
Rolf Eberhard Buch
Elías Rodriguez-Viña
Juan Rovira de Ossó
Luis Velo Puig-Durán

LYCOS Europe N.V.

company financial statements
(part 9 bw 2 of the netherlands civil code)

for the year ended december 31, 2007

LYCOS Europe N.V.
company balance sheets

(before proposed appropriation of result)

In thousand Euro	Notes	December 31, 2007	December 31, 2006
Assets			
Intangible fixed assets			
Goodwill	3	1,037	3,686
Intangible assets, net	3	3,788	0
Total intangible fixed assets		**4,825**	**3,686**
Tangible fixed assets			
Computers, furniture and fixtures		0	3
Total tangible fixed assets		**0**	**3**
Financial fixed assets			
Participating interest in group companies	4	19,175	10,795
Other participating interest	4	0	569
Other investments	4,5	9,803	9,803
Total financial fixed assets		**28,978**	**21,167**
Total fixed assets		**33,802**	**24,856**
Current assets			
Due from related parties	6	12,105	55,787
Prepaid expenses and other assets		1,212	1,704
Cash and cash equivalents	5	139,152	58,580
Total current assets		**152,469**	**116,071**
Total assets		**186,272**	**140,927**
Liabilities and shareholders' equity			
Shareholders' equity			
Issued capital		3,123	3,123
Share premium		1,588,076	1,587,049
Treasury shares		(2,052)	(2,052)
Legal reserves		3,941	4,968
Translation reserve		(649)	1,137
Accumulated deficit		(1,465,594)	(1,467,298)
Unappropriated result		40,054	1,704
Total shareholders' equity	7	**166,899**	**128,631**
Provisions			
Participating interest in group companies		0	0
Total provisions		**0**	**0**
Current liabilities			
Short-term debt		91	85
Due to related parties	6	17,808	10,287
Accounts payable		313	365
Accrued expenses and other current liabilities		1,161	1,559
Total current liabilities		**19,373**	**12,296**
Total liabilities and shareholders' equity		**186,272**	**140,927**

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

LYCOS Europe N.V.
company income statements

In thousand Euro	Notes	Year ended December 31, 2007	Year ended December 31, 2006
Profit / (loss) from subsidiaries and equity investments	9	(27,496)	1,354
Other income and expenses after taxes		67,550	350
Net profit		**40,054**	**1,704**

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

LYCOS Europe N.V.
statement of shareholders' equity

in thousand Euro (except share data)	Notes	Issued capital		Share premium	Legal reserves
		No. of shares	EUR	EUR	EUR
Balance as at January 1, 2006		**312,300,000**	**3,123**	**1,589,584**	**2,433**
Movement capitalized development expenses				(2,535)	2,535
Appropriation of the net result of previous year					
Translation gain					
Translation gain on disposal					
Net profit					
Balance as at December 31, 2006		**312,300,000**	**3,123**	**1,587,049**	**4,968**
Movement capitalized development expenses				1,027	(1,027)
Appropriation of the net result of previous year					
Translation loss					
Translation gain on disposal					
Net profit					
Balance as at December 31, 2007	7	**312,300,000**	**3,123**	**1,588,076**	**3,941**

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

Treasury shares		Translation reserve	Accumulated deficit	Unappropriated result	Total
No. of shares	EUR	EUR	EUR	EUR	EUR
(723,656)	**(2,052)**	**578**	**(1,447,062)**	**(20,236)**	**126,368**
					0
			(20,236)	20,236	0
		588			588
		(29)			(29)
				1,704	1,704
(723,656)	**(2,052)**	**1,137**	**(1,467,298)**	**1,704**	**128,631**
					0
			1,704	(1,704)	0
		(847)			(847)
		(939)			(939)
				40,054	40,054
(723,656)	**(2,052)**	**(649)**	**(1,465,594)**	**40,054**	**166,899**

LYCOS Europe N.V.

notes to the company financial statements

1. significant accounting policies

The registered office of LYCOS Europe N.V. (“LYCOS Europe” or 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 2007 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 7 of the notes to the consolidated financial statements.

3. intangible fixed assets

In thousand Euro	Goodwill	Licenses and other rights	Purchased software	Total
Cost				
Balance as at January 1, 2006	**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**
Acquisition	0	3,788	0	3,788
Balance as at December 31, 2007	**879,553**	**5,188**	**1,860**	**886,601**
Amortization and impairment losses				
Balance as at January 1, 2006	**(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)**
Impairment charge	(2,649)	0	0	(2,649)
Balance as at December 31, 2007	**(878,516)**	**(1,400)**	**(1,860)**	**(881,776)**
Carrying amounts				
Balance as at December 31, 2006	3,686	0	0	3,686
Balance as at December 31, 2007	**1,037**	**3,788**	**0**	**4,825**

In the second quarter 2007, LYCOS Europe performed the annual impairment test for goodwill acquired in business combinations. As a result of the impairment test the Company recorded an impairment loss of EUR 2.6 million related to the goodwill of Pangora SAS.

The license agreement with Lycos Inc. was recognized as an intangible asset with an indefinite life for an amount of EUR 3.8 million.

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, 2006	**10,795**	**569**	**9,803**	**21,167**
Movements:				
Capital contributions	13,812	0	0	13,812
Dividend payments	(15,126)	0	0	(15,126)
Result from subsidiaries and equity investments	(27,496)	0	0	(27,496)
Disposal	0	(569)	0	(569)
Translation gain	(521)	0	0	(521)
Other	(326)	0	0	(326)
Negative net asset value of subsidiaries	38,037	0	0	38,037
Balance as at December 31, 2007	**19,175**	**0**	**9,803**	**28,978**

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

Other participating interest included the investments in Seznam and BoM, which were disposed during 2007. Further reference is made to note 24 of the consolidated financial statements.

For other investments reference is made to note 10 of the consolidated financial statements.

5. cash, cash equivalents and other investments

Cash, cash equivalents and other investments comprise the following:

In thousand Euro	December 31, 2007	December 31, 2006
Cash	6,752	26,580
Cash equivalents	59,900	19,500
Other investments due within one year	72,500	12,500
Other investments due after one year	9,803	9,803
Total	**148,955**	**68,383**

An amount of EUR 7.3 million and EUR 9.8 million is restricted in use as at December 31, 2007, and December 31, 2006, respectively. An amount of EUR 4.8 million of the restricted cash is non-current as at December 31, 2007, and December 31, 2006, 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, 2007	December 31, 2006
Due from related parties	37,304	42,223
Subordinated loan to related parties	13,117	12,617
Accrued interest on subordinated loan	1,599	947
Due to related parties	(19,686)	(10,287)
Negative net asset value of subsidiaries	(38,037)	0
Total, net	**(5,703)**	**45,500**

7. shareholders' equity

Issued capital

The Company's Class AA and AB shares have been issued as registered shares. 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, 2007, and December 31, 2006. 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, 2007, and December 31, 2006. These shares are owned by Bertelsmann Internet Holding GmbH (24,347,400), Fireball Internet GmbH (14,260,000) and Christoph Mohn Internet Holding GmbH (23,392,600), 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, 2007, and December 31, 2006, respectively, and 187,576,344 are outstanding on December 31, 2007, and December 31, 2006, respectively.

Unappropriated result

The General Meeting of Shareholders will be asked to approve the appropriation of the 2007 profit after tax in the amount of EUR 40,054 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 17 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, 2007 amount to EUR 1.4 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
LYCOS Europe N.V., LYCOS Netherlands B.V. and LYCOS Europe 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.

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.

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. For this purpose, the Company has contracted a D&O insurance.

9. profit / (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 (27.5) million (2006: EUR 1.4 million) concerns to 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, 2007, and December 31, 2006, the Company's operating tax loss carry-forwards amount to approximately EUR 83.4 million and EUR 83.1 million, respectively. EUR 83.4 million of these loss carry-forwards expire 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, 2007, Mr. Christoph Mohn's remuneration package was raised by 2 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 2007, 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 2006 was fixed and paid in April 2007. The bonus amount for the fiscal year 2007 has not been determined yet at the time that this report is published and will be established by the Supervisory Board in 2008.

The fixed annual salaries and bonuses for 2007 and 2006 of the Management Board were as follows:

	Fixed annual salary		Bonus	
In Euro	**2007**	**2006**	**2007**[7]	**2006**[8]
Christoph Mohn	309,871	303,795	To be determined	40,000

7 Based on the result achieved in 2007 and therefore determinable and payable in 2008.
The bonus amount for 2007 is expected to be in the range of EUR 10 thousand to EUR 40 thousand.

8 Bonus paid in 2007 based on the results achieved in 2006.

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 17 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, 2006	Options exercised in 2007	Options expired and cancelled	Outstanding December 31, 2007	Expiry date
March 21, 2000	28.80	145,000	–	145,000	0	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**	**–**	**145,000**	**140,000**	

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, 2007, and December 31, 2006.

Total remuneration

The total remuneration (including pension costs and other commitments) of Management Board members amounted to EUR 0.4 million in 2007 (2006: EUR 0.4 million). Former members of the Management Board did not receive any remuneration in 2007 and 2006.

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 2007 and 2006. Former members of the Supervisory Board did not receive any remuneration in 2007 and 2006.

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.

Haarlem, the Netherlands
January 25, 2008

The Management Board
LYCOS Europe N.V.

Christoph Mohn

Approved by the Supervisory Board of LYCOS Europe N.V.
Haarlem, the Netherlands,
February 13, 2008

Prof. Dr. Jürgen Richter
Dr. Dieter Ulrich Bohnert
Rolf Eberhard Buch
Elías Rodriguez-Viña
Juan Rovira de Ossó
Luis Velo Puig-Durán

other information

Class AA shares and Class AB shares

The Company's Class AA and AB shares have been issued as registered shares. 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 GmbH (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 2007

The General Meeting of Shareholders will be asked to approve the appropriation of the 2007 profit after tax in the amount of EUR 40,054 thousand to 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.

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 2007 financial statements of LYCOS Europe N.V., Haarlem, the Netherlands, as set out on pages 34 to 79. 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 2007, the consolidated income statement, the consolidated statement of cash flows and the consolidated 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 2007, the company income statement and the company statement of shareholders' equity 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 2007, 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 2007, 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, the Netherlands
January 25, 2008

KPMG ACCOUNTANTS N.V.

M. Tubbergen RA

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
EBITDA[9,10]	(9,645)	(11,928)	(7,169)	(5,485)
EBIT[9,10]	(13,067)	(15,445)	(10,504)	(11,295)
Net loss	(11,913)	(14,404)	(9,049)	(10,110)
Net loss per share basic and diluted in Euro	(0.04)	(0.05)	(0.03)	(0.03)

In thousand Euro (except per share data)	Quarter ended March 31, 2005 (restated)	Quarter ended June 30, 2005 (restated)	Quarter ended September 30, 2005 (restated)	Quarter ended December 31, 2005 (restated)
Revenues	18,251	20,022	20,044	20,929
EBITDA[10]	(6,194)	(6,264)	410	1,709
EBIT[10]	(8,644)	(8,360)	(1,520)	(166)
Net loss	(8,069)	(8,390)	(2,046)	(1,730)
Net loss per share basic and diluted in Euro	(0.03)	(0.03)	(0.01)	(0.01)

In thousand Euro (except per share data)	Quarter ended March 31, 2006	Quarter ended June 30, 2006	Quarter ended September 30, 2006	Quarter ended December 31, 2006
Revenues	18,311	23,273	17,408	23,388
EBITDA[10]	(834)	777	(3,379)	(1,192)
EBIT[10]	(2,336)	(718)	(4,853)	(5,231)
Net profit / (net loss)	(2,032)	(242)	9,144	(5,166)
Net profit / (net loss) per share basic and diluted in Euro	(0.01)	0.00	0.03	(0.02)

In thousand Euro (except per share data)	Quarter ended March 31, 2007	Quarter ended June 30, 2007	Quarter ended September 30, 2007	Quarter ended December 31, 2007
Revenues	19,959	21,200	17,224	18,331
EBITDA[10]	(2,320)	(5,272)	(5,290)	(5,273)
EBIT[10]	(3,847)	(25,983)	(6,605)	(7,532)
Net profit / (net loss)	7,610	41,078	(4,619)	(4,015)
Net profit / (net loss) per share basic and diluted in Euro	0.02	0.13	(0.01)	(0.01)

9 Not restated.
10 EBITDA is Earnings Before Interest, Taxes, Depreciation, Amortization and Impairment, EBIT is Earnings Before Interest and Taxes.

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, 2007, to December 31, 2007. 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.

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 2007, the Supervisory Board met four times on a regular basis as well as two times on an extraordinary basis and adopted several resolutions outside of 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 2007, a meeting of this kind took place in September. Furthermore, the Chairman of the Supervisory Board is regularly discussing actual business developments with the CEO.

Audit Committee

During 2007, 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 23. During 2007, 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 2007 the Supervisory Board constituted a Remuneration Committee which is chaired by Mr. Bohnert and which further consists of Mr. Rovira de Ossó and Mr. Richter. 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 23. The Remuneration Committee met once in 2007.

Remuneration of Management Board members

In 2007 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 2006. This bonus was based on previously determined performance criteria. Furthermore, as at January 1, 2007, 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 2007 and the performance criteria we apply, see page 78 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 2006, the bonus made up 13 percent of the base salary or 10 percent of the total annual remuneration. The bonus payment is subject to achievement of financial (EBIT result vs. business plan) and strategic (market share development) performance targets. These performance criteria were chosen as 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 an old-age pension 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 of employment, but a maximum of 20 percent of his average remuneration during the last three years before receiving pension benefits. 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, 2007 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 on the corporate information portal of the Company.

The financial statements included in this annual report were drawn up by the Management Board, and audited by KPMG Accountants N.V., who has given an unqualified opinion. The Supervisory Board has approved the annual report, including the financial statements. The financial statements will be submitted for shareholder approval at the Annual General Meeting of Shareholders. We recommend to our shareholders that they adopt the financial statements.

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

Haarlem, the Netherlands
February 13, 2008

Prof. Dr. Jürgen Richter
Chairman of the Supervisory Board

supervisory board
(during the year ended december 31, 2007)

Prof. Dr. Jürgen Richter (1941, German national)
- Chairman of the Supervisory Board for the whole year ended December 31, 2007
- Chairman of DELTA entertainment Inc., Los Angeles, Cal. until June 30, 2007
- Member Advisory Board Koelnmesse GmbH, Cologne
- 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, 2007
- 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

Rolf Eberhard Buch (1965, German national)
- Member of the Supervisory Board for the whole year ended December 31, 2007
- Chairman of the Executive Board of arvato 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 2011

Elías Rodriguez-Viña (1960, Spanish national)
- Member of the Supervisory Board for the whole year ended December 31, 2007
- Chairman of the Management Board and Chief Executive Officer of Endemol N.V. until July 2007
- 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, 2007
- Deputy General Manager of Telefónica S.A.
- Member of the Board of Geonet Territorial, S.A.
- 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, 2007
- 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, 2004, current term ending in 2008

financial calender

April 29, 2008	Interim report for the first three months of 2008
May 29, 2008	Annual General Meeting of Shareholders / Amsterdam, the Netherlands
August 04, 2008	Interim report for the first six months of 2008
October 28, 2008	Interim report for the first nine months of 2008

publishing information

Concept & Production
LYCOS Europe, Corporate Communications

Financial Information
LYCOS Europe, Corporate Controlling

Design
Bloomoon Communication & Design
www.bloomoon.de

Photography
LYCOS Europe, Getty Images

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The annual report for the year ended December 31, 2007, is also available in German and French. In case of doubt, the English version is decisive.