

LYCOS EUROPE N.V.

EXPLANATORY NOTES TO NEW STRATEGY FOR BUSINESS UNITS

attachment to the agenda for the
extraordinary general meeting of shareholders
to be held on 12 December 2008

1. Previous announcements

- 1.1 On 29 April 2008 Lycos Europe N.V. (the "Company") announced that it had initiated a strategic review to evaluate its options and that it had retained the services of Dresdner Kleinwort as an adviser in this regard.
- 1.2 On 29 May 2008 the Company announced that it was going to enter into discussions with a number of interested parties.
- 1.3 In its 28 October 2008 announcement, the Company has repeated that it expects to conclude its strategic review process in the second half of the year 2008.

2. Reasons for strategic review

- 2.1 The aim of the Company has been to achieve profitable growth for the Company's shareholders, customers and employees through borderless, innovative activities and outstanding operative and technological performance.
- 2.2 The Company is in a loss making position, despite the fact that cost savings programmes have been conducted, which however did not yield the desired effect.
- 2.3 In light of (i) the loss making position of the Company's operations, (ii) the ongoing consolidation in the sector and (iii) the fact that, despite cost saving programmes and after further review and discussions, the management did not see the possibility to achieve profitability for the Company in the foreseeable future, the Company has decided to conduct a strategic review, the aim of which was to determine what would be the best way forward for the Company and its stakeholders. As part of this review the possibilities for changing the shareholder base or shareholder structure were investigated as well as the possibilities for a sale of the business as a whole, a sale of separate business units or assets, restructuring and partial liquidation of the business.

3. The Company's business units

3.1 Business units

In conducting the strategic review, the Company has distinguished the following business units:

- (A) European Portal business ("European Portal Business");
- (B) Danish Portal business ("Danish Portal Business");
- (C) Webhosting business ("Webhosting Business");
- (D) Shopping business ("Shopping Business"); and
- (E) Domain business ("Domain Business").

A brief description of the activities of each of these business units is given below.

3.2 European Portal Business and Danish Portal Business

The European Portal Business operates a network of owned and affiliated networks in Europe. The total sales network, including partner sites, attracts about 45 million unique users across Europe. The European Portal Business is the fourth largest portal in the UK and the sixth largest in Germany and France. The Danish Portal Business, conducted by Jubii AS, is one of the leading portals in Denmark and ranks among the top 5 players with all its service and product offerings. The most substantial part of the Company's consolidated losses are attributable to the European Portal Business. The Danish portal is loss making. The European Portal Business employs approximately 530 employees. Many of these employees not only perform activities for the European Portal Business, but also for the Danish Portal Business, the Webhosting Business and the Shopping Business. The Danish Portal Business employs approximately 20 employees.

3.3 Webhosting Business

The Webhosting Business offers premium hosting services across seven European countries. The Webhosting Business has a good market position in the UK, Germany, France and the Netherlands. The Webhosting Business is loss-making. It employs approximately 20 employees.

3.4 Shopping business

The Shopping Business is a leading player in the online shopping market and is positioned among the top 5 players in Europe. Pangora, which is part of the Shopping Business, delivers white label shopping solutions to leading shopping portals. Apart from this white label shopping business, the Shopping Business also operates its own shopping sites. In April 2008 the Shopping Business has launched "Decido", its own new price comparison shopping portal, which has led to strong traffic and redirect performance. Nonetheless, the Shopping Business is still loss-making; it employs approximately 100 employees.

3.5 Domain Business

The Domain Business is conducted under the name of United Domains. The Domain Business is one the top 5 registrars in Germany. It manages more than 100 different top level domains for its customers. In addition, the Domain Business offers domain management software. The Domain Business is profitable and employs approximately 60 employees.

3.6 Connections between business units

The European Portal Business provides technology and administrative services to the Danish Portal Business, the Webhosting Business and the Shopping Business. Many of the Company's group arrangements have been entered into by the European Portal Business, also for the benefit of the other business units. Only the Domain Business operates mainly on a stand alone basis.

4. Strategic review

4.1 For the strategic review process the Company has retained the services of Dresdner Kleinwort Investment Banking ("DKIB").

4.2 DKIB has performed a market survey. For that purpose, DKIB has approached over 100 parties to discuss such parties' interest in an acquisition of the Company as a whole or in certain parts. For that purpose DKIB and the Company have provided information and

conducted discussions with a number of parties, but only to the extent such parties had entered into a confidentiality and standstill agreement with the Company.

4.3 The conclusion from DKIB's market survey are as follows:

- (A) there is limited interest to acquire the Company as a whole. The valuations given by parties that are prepared to consider an acquisition of the Company as a whole are low, particularly in comparison to the Company's cash reserves;
- (B) there is an interest in the market to acquire the Domain Business, the Shopping Business and the Danish Portal Business; and
- (C) there is no significant interest in the market to acquire the European Portal Business and the Webhosting Business.

5. **Alternatives to sale: restructuring and liquidation**

5.1 Scenarios for the restructuring of several of the business units have been evaluated. Scenarios for restructuring of the Domain Business and the Danish Portal Business have not been evaluated, since there appeared to be sufficient interest in the market to acquire these units and therefore it would not be necessary to take restructuring measures in these units. For the purpose of evaluating the restructuring scenarios, as well as to evaluate the implications of a break-up scenario for the Company, the Company has retained the services of a reputable strategic adviser.

5.2 The conclusion of the restructuring evaluation is that it will be very difficult for the European Portal Business and the Webhosting Business to become profitable. Therefore, liquidation of these business units is the best available option. In the context of liquidation, the Company aims to minimize the liquidation costs by selling assets of these business units to the extent possible.

5.3 As a result of the liquidation of the European Portal Business and the Webhosting Business the Company will initially incur substantial costs, however, at the same time, the Company's consolidated losses are expected to decrease substantially, which will lead to a substantial decrease of the Company's cash burn.

6. **Financial evaluation of different scenarios**

6.1 On the basis of the valuations given by, on the one hand, parties interested to acquire the Company as a whole (including its existing cash reserves) and, on the other hand, parties that wish to acquire certain parts of the business, and taking into account the costs of liquidation and restructuring, it can be concluded that a sale of the Domains Business, the Shopping Business and the Danish Portal Business and liquidation of the European Portal and Webhosting Businesses, is the most attractive option available for the Company's shareholders.

7. **Proposals to EGM**

7.1 As a result of this strategic review process the Management Board and the Supervisory Board of LYCOS came to the conclusion that the best available option of the company is to (i) strive for a sale of its Domains, Shopping and Danish Portal businesses and (ii) to discontinue the European Portal Business and the Webhosting Business.

Where applicable all of the above measures are subject to the rights of the works council.

7.2 In the context of the new strategy the Company has evaluated the need to maintain its cash reserves. Based on that evaluation and conditional upon the new strategy being

approved, the Company proposes to distribute an amount of EUR 50 mio to its shareholders.

- 7.3 In the event the new strategy is approved by the Company's shareholders meeting, the Company intends to continue to assess to what extent cash reserves, which are in light of the new strategy no longer needed by the Company's business, can be distributed. In order to enable the management to distribute such cash reserves and/or proceeds without the need to call a shareholders' meeting, the management and supervisory boards of the Company propose to the EGM (i) to amend the Company's articles of association, as further set out in the agenda and (ii) to amend the Company's dividend policy to read as follows:

In connection with the revised strategy for the business units, it is intended that cash currently available in the Company and cash generated as a result of effectuation of the new strategy for the business units, is distributed to the shareholders if and when, and each time insofar as, the Management Board, with the approval of the Supervisory Board, determines that the relevant amounts of cash are not or no longer needed for the Company's business or to ensure the Company will be able to continue to pay its debts.

- 7.4 In accordance with article 37 paragraph 2 of the Company's articles of association, this new policy is put to the general meeting of shareholders for discussion only.

8. **Next steps**

- 8.1 In the event the proposals above are approved by the Company's extraordinary general meeting of shareholders on 12 December 2008, the Company will proceed as follows:
- (A) the Company will work on the divestment of the Domain Business, the Shopping Business and the Danish Portal Business;
 - (B) the Company will work on the liquidation of the European Portal Business and the Webhosting Business;
 - (C) The Company will distribute an amount of EUR 50 mio to its shareholders. This means a distribution of EUR 0.1605 per share. The Distribution will take place end of December 2008;
 - (D) The Company will continue to assess to what extent cash reserves and proceeds from divestments can be distributed to the shareholders;
 - (E) in the next annual general meeting of shareholders, the Company will give account of the progress made on the approved strategy and of any further measures of implementation needed at that time.
