FUNCOM
ANNUAL REPORT 2009

Contents

About Funcom

Funcom is a world leading independent developer and publisher of MMO (Massively Multiplayer Online) games.

Funcom was founded in 1993 and has since then developed and published over 25 game titles across several gaming platforms. Most notable of these games are the MMOs *Age of Conan* – the 3rd best-selling PC-game of 2008, and the pioneer-MMO *Anarchy Online*, as well as the award winning adventure games *The Longest Journey* and *Dreamfall*.

There are currently around 300 talented individuals from over 35 different nationalities working at Funcom, spread out across offices in Norway, China, Switzerland, Luxembourg, Canada and the US. This makes Funcom one of the most multi-cultural game development studios in the world, and Funcom is one of the largest and most influential independent MMO development studios in the industry.

Funcom is also one of the most experienced developers of massively multiplayer online games in the world, having launched critically acclaimed titles such as *Age of Conan* and *Anarchy Online*. The latter has provided more than 200 million hours of entertainment or more than 8 million days of playtime thanks to almost two million gamers who have set foot on the virtual world of Rubi-ka. The former was released in May 2008 and has shipped over 1.4 million copies, making it the best selling new MMO of 2008. One of the key reasons for Funcom's achievements in the MMO segment is the development of a proprietary MMO engine called *DreamWorld*. This engine gives the developers the flexibility and power needed to create some of the most advanced virtual worlds on the market.

The company is currently in the process of developing several game titles such as the expansion pack to *Age of Conan*, the new modern-day MMO *The Secret World*, as well as several free-to-play projects. *Age of Conan* is currently available in retail, as a digital download and as a free trial. *Anarchy Online* can be played free of charge, with an optional subscription model available.

Funcom became a publicly listed company on the Oslo Stock Exchange in 2005.

More information about Funcom can be found on www.funcom.com

Letter from the CEO

Funcom enters 2010 in a solid position to compete globally in the Massively Multiplayer Online Game (MMO) segment in the upcoming years. With two large-scale MMOs in operation and one new large-scale MMO in development, and several initiatives in the free-to-play MMO market, we think the Company is well positioned to capitalize on the continued growth of online gaming and the transition to more networked and interactive online entertainment.

2009 proved to be a challenging year for the gaming industry. And it was not only the recession that hit the industry, but also a significant shift in the industry away from packaged goods towards digital content and the rise of new gaming platforms like Facebook and iPhone. Many of the large companies in the gaming industry struggled in 2009, with large losses and continued downsizing characterizing the year. The smaller companies that were well placed in the new segments, however, saw spectacular growth and profitability.

The large-scale MMO segment was almost a quiet patch in all this turbulence. Well-executed MMOs continued to sell well, and the Aion game from NC Soft disproved the speculation that large-scale MMOs in a modern market invariably would have shorter gamer retention than previously.

In the free-to-play part of the MMO-market, growth continued unhindered. The segment is evolving into a large and attractive business segment in its own right.

The focus of Funcom in 2009 was threefold: developing new games in both the large-scale and free-to-play MMO segments, improving and expanding existing games and reducing the costs of its development and operations.

The new large-scale MMO of the Company, *The Secret World*, progressed well, and is currently in a playable and testable state. The PR initiatives executed for the game resulted in broad, global coverage, and 300,000 gamers have already signed up for the community that follows the development of the game. The Company also launched the limited beta of its first free-to-play game concept during 2009 and will follow up with several rounds of beta tests during the first half of 2010. The company is optimistic about the opportunity of smaller, more casual oriented MMOs, and is already working on new game concepts in this market.

The Company made numerous extensions and enhancements to its *Age of Conan* game during 2009, with the goal of extending subscriber retention and prepare the game for launch in Korea. Feedback from gamers and press on these improvements has been positive and the game won the award of 'Most improved MMO in 2009' from the highly respected MMORPG.com. However, the subscriber retention of the game still remained below expectation and the revenues were lower than anticipated. As a consequence, the Company had to make an impairment charge to the balance sheet item of the game and also to focus strongly on cost reduction. To reduce the costs of the development and operations and to attract talent in North America, the Company established a Company in Montreal, Canada. The Company also expanded its operations in Beijing, China significantly. Both these initiatives will contribute to significantly reduce the development costs of the Company. The Company also launched other significant cost reduction initiatives in 2009, some of them unfortunately also involving headcount reductions and the use of forced leave.

In 2010, the Company will continue to progress on the development of *The Secret World* and expects to see a continued build-up in expectations and community for the game as more and more information about the game will be released through PR-initiatives. The Company also expects to launch both the free-to-play MMO *Pets vs. Monsters* during 2010 and to launch other, smaller, casual game initiatives. And the Company will continue its focus on enhancing the *Age of Conan* game. The cost reduction initiative will be continued with a larger share of the development of new games being conducted in lower cost countries.

We believe that Funcom, with its best-seller MMO, *Age of Conan*, with its uniquely long experience from MMO-development and with a new, lower cost-base, will be in a strong position to grow and develop as a Company in the coming years, and we look forward to continuing the work towards this goal in 2010.

Best regards

Trond Arne Aas
Chief Executive Officer,
Funcom N.V.

Age of Conan: Hyborian Adventures

Launching in May 2008, *Age of Conan* quickly became a smash hit in retail, shipping in over 1,2 million copies around the world during the launch, and pre-selling more than any other original PC game in history. In North America and Europe, *Age of Conan* became the third best-selling PC Game of 2008, only beaten by *World of Warcraft* and *Spore*.

In the weeks after launch, *Age of Conan* simultaneously topped the charts in 17 countries, even on some all-format lists. This showed the huge craving in the market for brutal barbarian MMO fun, further highlighted by the fact that 15 million unique visitors came to the *Age of Conan* website during 2008. The sales success of the game illustrates Funcom's ability to market and deliver games with great appeal, and the many insights gained from the project are already being implemented into upcoming games, including the *Rise of the Godslayer* expansion pack.

After the initial sales success of *Age of Conan*, however, it became apparent that customer retention was not as high as anticipated. This resulted in a lower subscriber base, and lower revenues, than expected. The Company has made two reductions in intangible assets on the balance sheet, one in 2008 and one in 2009, to account for this. The Company has, however, continued to invest in the game to address the game-play issues that resulted in the lower than anticipated retention. The Company has also, as announced, reduced costs to adjust to the lower revenues.

Funcom conducted a string of marketing initiatives in 2009 to create attention for the *Age of Conan* game. Amongst others, a free trial initiative across all territories during spring resulted in higher activity levels on the game servers, and the communities strengthened as new players found their way into the game. Later in the year, Funcom launched the Unlimited Free Trial initiative that increased the number of new players testing the game. In July, Funcom launched a major re-evaluation campaign aimed at bringing former players back into the game by providing them with free game time. The Company will continue similar marketing campaigns through 2010 and beyond.

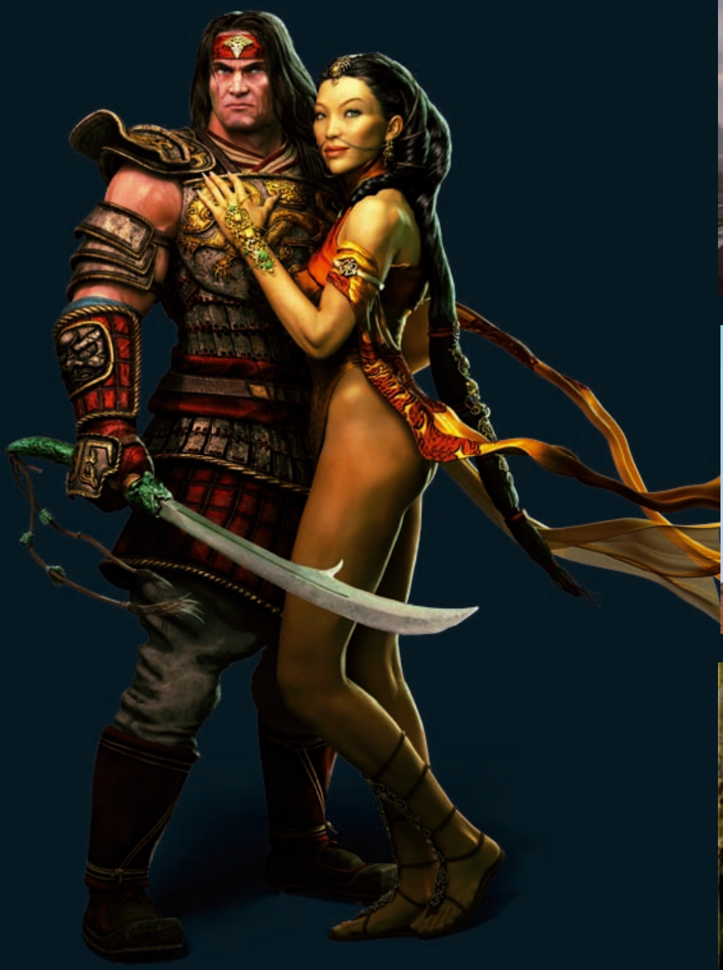
Several free updates were launched for *Age of Conan* in 2009. In June, Funcom launched the biggest update yet, introducing a complete revision of systems and the Role Playing system. Highly anticipated and requested by the community, the revision helped improve and enhance the gameplay throughout the game. The team also introduced several new areas to be explored, as well as new rewards to find and enemies to fight. In terms of content and features, *Age of Conan* grew tremendously throughout the year and the feedback from press and players has been largely positive.

In August, Funcom revealed the first expansion for the game called *Rise of the Godslayer*. The expansion sends players into new lands in the Far East, and introduces a wealth of new content such as quests, areas, enemies and rewards. Several new gameplay features are also introduced, such as the Alternate Advancement system, the Faction system and new mounts. The expansion has received significant PR attention and is one of the most anticipated expansions in development.

Throughout 2009, Funcom has been working closely with Korean publisher Neowiz on the Korean launch of the game. The two companies have localized the game to the Korean market and will introduce new features deemed necessary for launch in Korea. A successful beta test was held in December.

Age of Conan remains one of the major massively multiplayer games on the market today, and Funcom is dedicated to supporting the game and expanding it through future free updates and expansion packs.

For more information on *Age of Conan* please refer to Letter from the CEO and visit www.ageofconan.com.



Anarchy Online

Launched in 2001, *Anarchy Online* was the world's first science fiction massively multiplayer online game.

In the game, players travel to the world of Rubi-ka over twenty thousand years into the future, where conflicts rage between the Rebel and Omni-Tek factions. Players can socialize with each other or battle each other, or they can head out into the wild to hunt the alien wildlife. Several booster packs and expansion packs to *Anarchy Online* have been launched during the years, including Shadowlands, Alien Invasion and Lost Eden. The development team is currently working on a new render engine.

Funcom's successful partnership with Massive Inc. continues to monetize the free-to-play customer base through in-game advertising. In addition, the expansion of the 'paid points' system (the payment mechanism introduced in 2007 that allows users to purchase special credits that can be used through the Company's billing system or in the game itself to purchase special individual social items) has allowed the Company to offer more options and items for players to purchase, including exclusive limited availability seasonal items that provide incentives for ongoing participation in the game.

Anarchy Online continued to perform well in 2009, maintaining a relatively stable player-base and attracting new players every day. The team has focused on releasing several free updates that have improved and added to the gameplay. The team has also been working on a new rendering engine that will have a significant visual impact once it is launched. The work on this rendering engine is developing well, with internal playable builds looking very promising. The team is also working on improving some of the graphical assets as a part of improving and enhancing the visual appeal of the game.

With *Anarchy Online*'s long-term performance in the competitive MMO-marketplace, Funcom continues to put focus and resources into the game.

For more information on *Anarchy Online* please visit www.anarchy-online.com.


Follow
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The Secret World

Dark Days Are Coming...

An ancient evil stirs. Deadly creatures from myth and legend are crawling out of the hidden places. The Earth is in mortal peril. *The secret world* is about to open up.

The fate of the world hangs in the balance. Regular people have been chosen to take up arms in the coming battle between the forces of light and the forces of darkness. Future warriors and champions of Gaia granted superhuman powers, their occult training is about to begin.

The Secret World is a modern-day massively multiplayer online game. The game mixes intense combat with a deep role-playing system, and sends players on a journey across the world to locations such as New York, London and Seoul. Conspiracies, myths and urban legends make up this unique universe that emphasizes story-telling, exploration, combat and character customization and development.

Using Funcom's proprietary DreamWorld engine, *The Secret World* is the company's third generation massively multiplayer online game and is being developed by former members of the *Age of Conan* team, the Dreamfall team and the *Anarchy Online* team. The development team reached several important milestones in 2009, focusing primarily on working towards a vertical slice that includes character creation, Role Playing Games systems, exploration, combat and quests.

Funcom executed several important public relations initiatives in 2009 through which the company revealed the first cinematic videos as well as new details on the game. In September, the company revealed the three secret societies that have a significant role in the game. The company also presented the first in-game footage to the press in September, generating positive buzz and significant attention in media channels across the globe.

Also in September, Funcom launched a significant community building initiative by releasing an online initiation test that would evaluate the user's personality and suggest what secret society to join. By the end of 2009, over 200.000 gamers from all over the world had taken the test and become a signed member of the game's community. At GDC in March 2010, in San Francisco, the Company showed in-game footage to the world press for the first time, resulting in broad global coverage and generally positive feedback.

The Secret World is positioning itself to become one of the most unique and most anticipated MMOs in development. However estimates on future revenues and cash flows are subject to a high degree of uncertainty – refer to note 12 in this annual report.

Funcom will be increasing the public relations focus on *The Secret World* in 2010, with further releases of in-game footage and other initiatives.

For more information on *The Secret World* please visit www.darkdaysarecoming.com

Free-To-Play Massively Multiplayer Online Games

In 2008 and 2009 the casual and free-to-play gaming genre has grown significantly in size, and the genre has expanded the reach of the online games considerably.

With its appeal to wider demographics, the casual and free-to-play market is expected to continue its growth. Developed by smaller teams who are able to iterate at a faster pace due to the size and scope of the projects, casual games represent an exciting genre that Funcom has started to explore through several game initiatives.

All the new free-to-play games will utilize Funcom's established, and proven, online infrastructure, giving Funcom an advantage to new entrants in the market. The upcoming games are also playable from internet browsers, meaning small install, easy entry, and access to both Mac and PC users. Funcom aims to emerge as a leading independent developer of free-to-play MMO games, and these games will complete and strengthen the company's portfolio.

Funcom's most prominent free-to-play MMO production in 2009 was undoubtedly *Pets vs. Monsters*; a game aimed at the 6 to 12 years old demographic. The game is set in a fantastical universe that spans across several worlds such as a pirate world, a sci-fi world, and more. Players adventure through these worlds mounted on pets like magical bears, wolves and lions while battling enemies and collecting rewards. The game was officially revealed in December, and it entered into its first phase of beta testing in the same month. Feedback has so far been positive, and Funcom will be launching new beta phases in 2010.

In 2009, the company also announced the prototype development of an extreme sports online game titled *Board with the World*. The first version of the game will focus on snowboarding, giving the player the chance to snowboard with players from all over the world. The game will also focus on social aspects and aims to integrate different media and culture content such as videos, music and fashion. Funcom has received a grant from the Norwegian Film Fund to develop the first prototype of the game.

The company also established an internal Facebook team in 2009 that is currently working on different concepts for social media games for the Facebook platform. Funcom will continue to work on these projects as well as pursue new opportunities in the area of free-to-play MMOs in 2010.

For more information on *Pets vs. Monsters* please visit www.petsvsmonsters.com.


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NGSMOUTH

The Dreamworld Technology

The trademarked *DreamWorld Technology* game engine is the technological foundation on which *Age of Conan*, *The Secret World* and future MMO flagship games will be built. This proprietary MMO engine provides Funcom with a unique competitive advantage by enabling more flexible, faster and more predictable development and deployment of upcoming MMO games.

A key part of Funcom's strategy has been to develop a proprietary MMO engine. The DreamWorld engine eases the development and deployment process for future online games. This will enable the Company to faster develop prototypes and early versions of new games using limited staff, to test new game concepts' feasibility before committing large resources to the projects. Having a proprietary technology base also enables the company to specialize and develop unique features for its games.

Key components of the DreamWorld game engine include the flexible and powerful world-creation software, Genesis, the scripting software, SCRY, the animation and combat systems, tools, and the powerful graphics module of the game. *The DreamWorld Technology* has for *Age of Conan* been a key enabler in creating what is often considered the most advanced MMO in operation. Funcom continues its strong development focus on the DreamWorld game engine and currently has around 30 programmers working with the technology.

Report of the Management Board

This chapter of the annual report amongst other matters, contains certain statements that are made pursuant to Section 2a of the Dutch Governmental Decree setting further regulations concerning the contents of the report of the Board of Managing Directors (Vaststellingsbesluit nadere voorschriften inhoud jaarverslag) of 23 December 2004 (Staatsblad 2004, 747), as most recently amended on 10 December 2009 (Staatsblad 2009, 545).

FUNCOM'S BUSINESS ACTIVITIES

The operational objective of the company, as stated in article 2 of the Articles of Association shall be to develop, market and carry on business in computer games, hereunder massively multiplayer online games, online role playing games and related games on electronic devices of different kinds. The objectives of the company further include to take and grant licenses and other industrial property interests, assume commitments in the name of any enterprise with which it may be associated within a group of companies, to take financial interests in such enterprises and to take any other action, such as but not limited to the granting of securities or the undertaking of obligations on behalf of third parties, which in the broadest sense of the term, may be related or contribute to the aforesaid objectives.

The key criteria for the overall performance of the company are; cost of development of new products, reach and sales of products and lifetime of products.

The financial objective of the company is to maximize the return on investment to the shareholders.

LEGAL STRUCTURE

For an overview of the legal structure of the Group – please refer to note 28.

REVIEW OF FUNCOM'S FINANCIAL POSITION AND FINANCIAL RESULTS FOR 2009

Funcom's revenue for 2009 was USD 23,876 thousands compared to USD 39,925 thousands in 2008, when adjusted for the revenues related to Plutolife, the mobile subsidiary that was sold in 2008. The corresponding operating result for 2009 was USD –10,798 thousands compared to USD –26,707 thousands in 2008. Fully diluted basic earnings per share were USD –0.16 compared to USD –0.64 in 2008. Funcom's equity stood at USD 53,370 thousands at year-end 2009, compared to USD 58,353 thousands at year-end 2008. The group had cash at the end of 2009 of USD 30,948 thousands compared to USD 39,396 thousands at the end of 2008.

The Company has a defined investment program, including continued investments in *Age of Conan* and new MMOs, and considers the financial resources to be sufficient to complete and launch the MMOs in development. The equity to assets ratio is above 80 % and the company has low interest-bearing debt.

Funcom's accounts have been prepared on a going concern basis, and the Funcom group follows IFRS reporting. Going forward, Funcom will continue to invest into its existing games and new games, and the company should be sufficiently financed to complete the projects that are in production. The company's research and development consists primarily of software development, game design and graphics investments.

FINANCIAL INSTRUMENTS

The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant positions in other currencies than US dollars, for example Norwegian kroner. The Group does not invest in equity or debt securities. Please refer to note 26 and 29 for further information.

MAIN DEVELOPMENTS

The bulk of the revenues in 2009 originated with large-scale MMOs, in particular the *Age of Conan* game. The subscriber base of the game was relatively stable during the first 8 months of the year, with some growth during the summer. During the fall, the game lost subscribers and this led to a decline in subscription revenues. In the opinion of the Company, the loss of subscribers was due to the launch of large competitor products during the fall. Due to the decline in revenues from the *Age of Conan* game, the Group made an impairment charge of USD 9,300 thousands related to the game in Q3 2009.

The development of *The Secret World*, the Company's next large-scale MMO progressed well in 2009. Significant PR-initiatives during the year established a sizeable community of gamer following the development of the game.

In the free-to-play segment, the Company entered the limited open beta phase with its first product offering, *Pets vs. Monsters*. The Company also has several other initiatives in early stages of development.

MARKET DEVELOPMENT

The online gaming segment continued expanding during 2009. In the large-scale MMO segment, World of Warcraft maintained its dominant position. But Aion, a major new MMO from NCSoft, performed well during the year, both in terms of sales and in terms of customer retention, securing a large and loyal following to the game.

The free-to-play MMO segment experienced a faster pace of change during 2009 as companies in the segment scrambled to adjust to and utilize the new power of Facebook for both recruiting and maintaining players in their MMOs and MMO-hybrids. The most notable company in this space was the Company Zynga, with hybrid-MMO-games where the game play itself takes place in single player instances, but where the virality and self-expression functions of Facebook are utilized to create huge online communities surrounding the games. Zynga experienced spectacular growth as it both drove and benefited from the growth of the new Facebook gaming market.

PRODUCT & TECHNOLOGY DEVELOPMENT

During the year, Funcom made significant development progress with its titles *Age of Conan* and *The Secret World* in addition to its free-to-play MMO initiatives. The launch of *Age of Conan* has given proof that Funcom has the competency and capacity to launch complex, large-scale MMOs to a world market. In addition, Funcom has maintained a relatively stable player base on its existing MMO *Anarchy Online*.

Funcom's key technology platform, *the DreamWorld Technology*, which is the basis for *Age of Conan*, *The Secret World* and future large-scale MMOs, has during the past year been significantly upgraded, and is considered a strong competitive asset for the company.

FUTURE OUTLOOK

Funcom has during the past few years restructured the company and built a new platform for future growth and profitability. The Board expects, however, a reduction in revenues in 2010 compared to 2009 due to lower revenues from *Age of Conan*. The largest short term potential for the Company is the continued development and improvement of the *Age of Conan* game. In the longer term, the largest upside potential lies with the game *The Secret World*, which is the Company's next large-scale MMO. Large-scale MMOs, if successful, have a very significant upside potential in terms of revenues and profitability. Funcom does not expect to make significant investments in fixed assets during the next couple of years. Significant investments will mainly relate to software development, game design and graphics investments.

INTERNAL & EXTERNAL ENVIRONMENT

Funcom recognizes that its key assets are its employees and is committed to maintain a stimulating working environment that offers the opportunity for both personal- and professional development. This is also necessary to continue to attract and retain highly qualified employees within the gaming industry. As of December 31, 2009, the group employed 317 employees (2008: 302 employees) excluding Customer Service personnel. The number of employees is expected to be somewhat lower in 2010.

Sick leave in the group is stable and amounts to 3.1 %. No serious work-related incidents or accidents have occurred or have been reported during the year. The working environment is considered good, and the company does not carry out activities that significantly pollute the environment. The Group welcomes applications for employment from all sectors of the community and strives to promote equality of opportunity in employment for all.

SHAREHOLDERS AND CAPITAL

The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will ensure that information is communicated to the market equally and that the information provides an accurate view of the status of the company in material respects on an ongoing basis. The share capital of Funcom N.V. comprises of one class of ordinary shares. Each share confers the right to cast one vote. At the end of 2009, Funcom N.V. had a share capital of USD 2,719 thousands consisting of 52,832,125 shares with a nominal value of EUR 0.04 per share. There are no restrictions in relation to the transfer of shares in the capital of Funcom N.V.

There are 3,315,439 outstanding share options granted to employees and directors in the company at the end of 2009.

In an Extraordinary General Meeting in December 2008, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board were authorized for a period of 18 months from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

GENERAL MEETING OF SHAREHOLDERS

It is a legal requirement that shares in Funcom N.V. that are to be admitted to listing on the Oslo Stock Exchange are registered with the VPS (Verdipapirsentralen).

In order to facilitate registration with the VPS, the shares that are listed on Oslo Stock Exchange are registered in the name of DnB NOR Bank ASA (Funcom's VPS Registrar). The VPS Registrar registers interest in the shares in the VPS (in Norwegian: depotbevis). Therefore, not the shares themselves, but the interests in the shares issued by the VPS Registrar are registered in the VPS and are listed on Oslo Stock Exchange. The VPS Registrar is registered as the legal owner of the shares in the shareholders' register that Funcom N.V. maintains pursuant to Dutch law. The VPS Registrar, or its designee, will hold the shares issued to investors as nominee on behalf of each investor. The VPS Registrar provides for the registration of each investor's depositary ownership in the shares in the VPS on the investor's individual VPS account.

The depositary ownership of the investors is registered in the VPS under the category of a "share" and the depositary ownership is listed and traded on Oslo Stock Exchange. Investors who purchase shares (although recorded as owners of the shares in the VPS) have no direct shareholder rights in Funcom N.V. Each share registered with the VPS represents evidence of depositary ownership of one share. The shares registered with the VPS are freely transferable, with delivery and settlement through the VPS system.

The VPS Registrar or its designee shall only vote the shares it holds, or issue a proxy to vote on such shares, in accordance with each investor's instructions. Funcom N.V. will pay dividends directly to the VPS Registrar, that has undertaken, in turn, to distribute the dividends to the investors in accordance with contractual arrangements on that point. On average more than half of the issued share capital of Funcom N.V. is represented at a general meeting, generally represented through proxy.

CORPORATE GOVERNANCE

The Management Board believes that Funcom N.V. adheres to good practices in the field of financial reporting, governance and control, equal treatment of shareholders and other areas in the governance area. The Supervisory Board plays an independent role in relation to the Management Board. All shares have equal rights and shareholders have equal access to all material information published by Funcom via the Oslo Stock Exchange and the company's web-site www.funcom.com, including financial reports, presentations, share information and presentation of the Supervisory Board.

In terms of internal risk management and control systems, the company has made enhancements during 2009. In 2009 Funcom proceeded with a risk analysis and discussed it with the Supervisory Board.

The Company has also set up an internal control structure that includes plans and budgets, segregation of duties as well as authorization schemes. This has been discussed with the Supervisory Board. During the year the Company did not receive or discover indications that the controls were not effective considering the size of the Company. During the year it performed certain monitoring procedures such as high level reviews and comparisons to plans and budgets and this has confirmed the Company's view. Funcom's management will maintain focus on the internal control structure and processes and perform evaluations on regular intervals. Management believes that the internal control structures in place are adequate for Funcom's purposes.

There are no defense mechanisms against takeover bids in the Company's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the Company.

DIVIDENDS

Funcom is investing its capital in the development of existing as well as future games and also values the flexibility to be able to pursue strategic opportunities if they should arise. The Company will therefore retain its surplus cash in the Company.

APPLICATION OF PROFIT/LOSS

The Management Board does not propose payment of a dividend. Total equity after appropriation of the results for 2009 is USD 53,370 thousands.

EVENTS AFTER THE REPORTING PERIOD

After the reporting period there have been two subsequent events that are detailed in note 30 in the Notes to the Consolidated Financial Statements in this Annual Report.

MANAGEMENT STATEMENT

The Management Board of Funcom hereby confirms that these financial statements give a true and fair view of the situation as per reporting date and of the course of the business during the year. The significant risks that the Company faces are described in note 29.

Zurich, April 13, 2010

Trond Arne Aas

Pieter van Tol

Statement of compliance to the Dutch Corporate Governance Code and the Norwegian Code of Practice for Corporate Governance

CORPORATE GOVERNANCE IN FUNCOM N.V.:

Funcom aspires to generate value for its owners through profitable and sustainable business practices. Good corporate governance and management will ensure the greatest possible value creation at the same time as Group resources will be used in an efficient and sustainable manner. The added value will benefit shareholders, employees and the gaming community. Funcom is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations as well as Dutch legislation.

Funcom's key principles of corporate governance have been based upon the Dutch Corporate Governance Code (De Nederlandse Corporate Governance Code), that can be found on www.commissiecorporategovernance.nl. and the Norwegian Code of Practice for Corporate Governance (Eierstyring og Selskaps-ledelse), that can be found on www.ncgb.no. The Oslo Stock Exchange requires listed companies to publish an annual statement listing all corporate governance recommendations and presenting compliance with the recommendations or explaining why the Company has chosen an alternative approach to the specific recommendation.

For the Dutch Corporate Governance Code Funcom will present the best practice clauses where it does not comply and explain the rationale for this.

OVERVIEW AND OUTLINE OF FUNCOM'S CORPORATE GOVERNANCE:

Funcom has been governed by a Management Board and a Supervisory Board since 2005.

This form of corporate governance, which separates the powers of management from those of supervision, is considered to offer the most balanced framework governing the exercise of power.

The Supervisory Board oversees the efficient operation of the Company and reports to the shareholders. Appointment of the managing directors is done by the General Meeting further to a proposal from the Supervisory Board. The Supervisory Board appoints one of the managing directors as chairman of the Management Board.

The Supervisory Board is supported by two special committees, which were established to implement its principles of corporate governance.

The general principles of Funcom's executive remuneration policy have been presented to the Remuneration Committee of the Supervisory Board.

Owners	Board	Management
Shareholders		
General Meeting	Supervisory Board	Management Board
	Remuneration Committee	Chief Executive Officer
		Executive Team
	Audit Committee	
The General Meeting elects 4-7 Supervisory Directors on the proposal of the Supervisory Board. The numbers of Supervisory Directors shall be determined by the General Meeting.	Ultimate responsibility for the strategy of the Company. Advice and oversight of management.	Executive management.

The Audit Committee and the Remuneration Committee are elected by the Supervisory Board from its midst.

Statement of compliance to the Norwegian Code of Practice for Corporate Governancee

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

The Company has drawn up a separate policy for corporate governance, and the Board has decided to follow both the Norwegian Code of Practice for Corporate Governance dated 21 October 2009 and the Dutch Corporate Governance Code of December 2008.

The Company has drawn up its own Corporate Code of Ethics and Value Platform. Compliance with and the follow up of the Code of Ethics have been subject to internal processes.

Departures from the recommendation: None

2. BUSINESS

The business of Funcom N.V. is defined in the Company's Articles of Association which states that Funcom shall develop, market and carry on business in computer games, hereunder massively multiplayer online games, online role playing games and related games on electronic devices of different kinds.

The Company has clear objectives and strategies for its business as described in the Management Board Report. This report also includes reference to the business activities clause from the Articles of Association.

The Company's Articles of Association can be found on the Company's website at www.funcom.com

Departures from the recommendation: None

3. EQUITY AND DIVIDENDS

Equity

At 31 December 2009, consolidated equity came to USD 53,370, accounting for 81.64% of total assets. This is considered satisfactory. Funcom will maintain an equity ratio appropriate to its long-term growth targets.

Dividend policy

Further to the proposal of the Management Board, the Supervisory Board determines what portion of the profits shall be retained by way of reserve. The portion of the profit that remains thereafter shall be at the disposal of the General Meeting. In view of the Company's planned expansion of its business, the Company is not planning to pay dividends in the medium term future. This policy will be regularly evaluated as appropriate according to the development of the Company. The dividend policy is disclosed in the Report from the Management Board in the 2009 Annual Report.

Mandates granted to the board of Directors

Mandates granted to the board of Directors will from the AGM to be held in 2010 be restricted to defined purposes and limited in time to the next AGM.

Departures from the recommendation: None

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Class of shares

The Articles of Association do not impose any restrictions on voting rights. All shares have equal rights.

Transactions between related parties

Funcom's Supervisory Board is committed to treating all the Company's shareholders equally. In 2009, there were no transactions between the Company and its shareholders, Supervisory Board Members, Management Board Members, executives, or those close to them, which might be described as significant transactions, except the ones described in Note 27 in the Notes to the Consolidated Financial Statements. Pieter van Tol has an ownership stake in Weidema van Tol, a Company used by Funcom for legal counsel and tax advice. The Supervisory Board will pay particular attention to obtaining independent valuations for any material transactions between the Company and its close associates.

The Company has implemented guidelines to ensure that members of the Supervisory Board and the Management Board notify the Supervisory Board if they have any material direct or indirect interest in any transaction entered into by the company. These guidelines can be found in the Supervisory Board Regulations Article 4.1, and the Management Board Regulations, Article 4.2 and 4.3. The Supervisory Board Regulations can be found at www.funcom.com

Departures from the recommendation: None

5. FREELY NEGOTIABLE SHARES

Shares in Funcom are freely negotiable. The Articles of Association do not impose any restrictions on transfer of shares. Funcom is listed on the Oslo Stock Exchange, and works actively to attract the interest of potential new shareholders. Good liquidity in the Company's shares is important for the Company to be seen as an attractive investment and thereby achieve a low cost of capital. Executives in Funcom meet regularly with current and potential investors in Norway, Europe and the USA.

Departures from the recommendation: None

6. GENERAL MEETINGS

By virtue of the Annual General Meeting (AGM), the shareholders are guaranteed participation in the Group's supreme governing body.

Notification

The Norwegian Public Companies Act stipulates that at least 21 days' notice must be given to call a general meeting. Based on Dutch law the notification must be given at least 15 days before – not including the date of the meeting. In this respect Funcom follows Dutch law. Notification will be distributed at least 15 days in advance, and posted on the Company's website.

Participation

As there is only one material legal shareholder of Funcom N.V., being Funcom N.V.'s VPS Registrar, the company has not implemented the recommendations regarding proxies. Beneficiary shareholders (depotbevis holders) are required to exercise their voting rights and/or be granted the right to attend a general meeting in person through Funcom N.V.'s VPS Registrar (DnB Nor Bank ASA).

The representatives of neither the Board nor the auditor are generally present at AGM's. The auditor is always on standby to attend the AGM depending on shareholder attendance.

Agenda and execution

The agenda is set by the Supervisory Board and/or the Management Board. For the Annual General Meeting of Shareholders the main items are specified in § 22 of the Articles of Association

Departures from the recommendation:
Due to the size of the Company there are two departures. These will be re-evaluated in the future according to the development of the Company.

- AGMs in Funcom are to be chaired by the Chairman of the Supervisory Board or the vice-chairman of the Board. This is a departure from the recommendation for independent chairing of meetings.
- The representatives of neither the Board nor the auditor are generally present at AGM's. The auditor is always on standby to attend the AGM depending ding on shareholder attendance.
- Notification for General Meetings are given according to Dutch law – which might be less than 21 days before the meeting.

7. NOMINATION COMMITTEE

Departures from the recommendation:
The Company does not have a Nomination Committee, as such a committee is not deemed to be relevant given the Company's current size. The Company will, however, re-evaluate this policy according to its development in the future. The Board shall carry out the duties of proposing the candidates for election to the Supervisory Board and to the corporate assembly (to the extent this exists) and the fees to be paid to members of these bodies. The Board shall justify such recommendations.

8. CORPORATE ASSEMBLY AND THE BOARD OF DIRECTORS – COMPOSITION AND INDEPENDENCE

Due to the fact that Funcom is a Dutch company, the Company has a two-tier board structure, comprised of a non-executive Supervisory Board that advises and supervises the Management Board, which is responsible for the daily management of the Company.

The members of the Supervisory Board are: Torleif Ahlsand (Chairman), Michel Cassius (Vice-chairman), Hans Peter Jebsen, Claus Højbjerg Andersen and Frank Sagnier.

The General Meeting elects the four to seven members of the Board. Decisions on the composition of the Board require a simple majority. Supervisory Board Members shall retire no later than at the AGM held after a period of two years following their appointment. Supervisory Board Members can immediately be re-elected. It is essential that the Board as a whole is capable of dealing with Board work and the Company's main business activities. According to the Company's Articles of Association, there shall be at least four members of the Supervisory Board. All Supervisory Board members are independent of the company's executive personnel and its main business connections. At least two members of the board are independent of the company's main shareholders.

The members of the Management Board are: Trond Arne Aas (Managing Director and CEO) and Pieter van Tol (Managing Director).

In general all board members attend the board meetings. Board members are encouraged to own shares in the Company.

Departures from the recommendation:

Funcom does not have a Corporate Assembly as it is a Dutch company.

9. THE WORK OF THE BOARD OF DIRECTORS

Board responsibilities

The board of directors produces an annual plan for its work. The Board has issued instructions for its own work as well as for the Management Board through separate regulations. The Supervisory Board's main tasks include participating in developing and adopting the Company's strategy, performing the relevant control functions and serving as an advisory body for the executive management. The Board adopts the Company's plans and budgets. Items of major strategic or financial importance for the Company are items processed by the Board. The Board is responsible for hiring the CEO and defining his or her work instructions as well as setting his or her wages. The Board has a deputy chairman for the purpose of chairing the board in the event that the chairman cannot or should not lead the work of the Board.

Financial reporting

The Supervisory Board receives regular financial reports on the Company's economic and financial status.

Notification of meetings and discussion of items

The Board schedules regular meetings each year at the same time as they agree on the next year's financial calendar. Ordinarily, the Board meets 6 – 8 times a year, normally in Zurich. Additional meetings may be convened on an ad hoc basis.

All Supervisory Board members receive regular information about the Company's operational and financial progress in advance of the scheduled Board meetings. The Supervisory Board members also regularly receive operations reports. The Company's business plan, strategy and risks are regularly reviewed and evaluated by the Board. The Supervisory Board Members are free to consult the Company's senior executives as needed.

The Board draws up and establishes an annual plan, including themes for the Board meetings. Ordinarily, the Chairman of the Supervisory Board proposes the agenda for each Supervisory Board meeting. Besides the Supervisory Board Members, Supervisory Board meetings may be attended by the CEO if requested by the Supervisory Board. Other participants are summoned as needed.

The Board approves decisions of particular importance to the Company including the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments, and the approval of business acquisitions and disposals.

Conflicts of interest

In a situation involving the Chairman of the Board personally, this matter will be chaired by some other member of the board.

Use of Board Committees

Currently, the Company has an Audit Committee and a Remuneration Committee. This is detailed in the Annual Report in the Report of the Supervisory Board of Directors.

- The Audit Committee has responsibilities related to financial reporting, the independent auditor, internal audits and risk management. The Committee consists of two shareholder-elected Supervisory Board Members. The other Supervisory Board Members are entitled to attend if they so desire.
  Members: Claus Højbjerg Andersen (Chairman) and Michel Cassius.
- The Remuneration Committee has responsibilities related to developing proposals for the applicable remuneration policy and execution of the Management Board and the Supervisory Board. Members: Hans Peter Jebsen (Chairman) and Torleif Ahlsand (Member).

The Board's self-evaluation

In 2009 the Chairman of the Board presented an evaluation of the Board's duties and working methods. The Board's working methods and interaction are discussed on an ongoing basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.

Departures from the recommendation: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Company's internal control and system for risk management has improved over the course of 2009. Funcom has corporate values and ethical guidelines. The Supervisory Board has been presented with an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

The Supervisory Board Report in the Annual report for 2009 provides an account of the main features of the Company's internal control and risk management systems.

Departures from the recommendation:

The Company's management has set up a system of internal controls which it considers to be effective and efficient for the size of the company. The system the company has set up is less detailed than probably imagined in the Norwegian Corporate Governance Code and consequently management is not in a position to declare that the internal risk and control systems are adequate and effective as required by this Corporate Governance Code. The Company considers the internal control relating to financial reporting to be at a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so.

11. REMUNERATION OF THE BOARD OF DIRECTORS

A General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Chairman of the Remuneration Committee. In 2009, the total remuneration to the Supervisory Board came to EUR 83,000. The Chairman of the Supervisory Board's remuneration was EUR 35,000 and the other Supervisory Board members' remuneration was EUR 12,000. The fees for 2009 are outstanding by the end of the year.

Departures from the recommendation:

The Company will from time to time consider granting share options to members of its Supervisory Board. This deviates from the recommendations of the Norwegian Code of Practice for Corporate Governance. The Company views share options as an important tool for remuneration of board members, e.g., to be able to have a board composition that reflects the global nature of its business.

12. REMUNERATION OF EXECUTIVE PERSONNEL

Guidelines

The Supervisory Board sets the terms of employment of the members of the Management Board. Each year, the Supervisory Board undertakes a thorough review of salary and other remuneration to the CEO as well as for other members of the Management Board. The Remuneration Policy is reviewed on an annual basis by the Remuneration Committee of the Supervisory Board.

The option program and the allocation of options to the Management Board and Supervisory Board are decided upon by the AGM. The structure of the incentive system for the other members of corporate executive management is determined by the Supervisory Board and presented to the AGM for information purposes. In total, the Company has 135 executives, managers and board members who are covered by the options program.

Departures from the recommendation: None.

13. INFORMATION AND COMMUNICATIONS

The annual report and accounts – periodic reporting

The Company normally presents provisional annual accounts in February. Complete accounts, the Report from the Supervisory Board and the Annual Report are made available to shareholders and other stakeholders before the end of April. Beyond this, the Company presents its accounts on a quarterly basis. The Financial Calendar is published on the Company's website and at the Oslo Stock Exchange's website. In addition financial and Company information can be found at the Dutch Chamber of Commerce and at the AFM register. The website of the chamber of commerce is: www.kvk.nl and the website of the AFM is: www.afm.nl. All shareholders are treated equally as a matter of course.

Other market information

Open investor presentations are conducted in connection with the Company's annual and quarterly reports. The CEO reviews the results and comments on products, markets and the prospects for the future. The Company's CFO also participates in these presentations.

The presentations made for investors in connection with the annual and quarterly reports are available on the Company's website. Beyond that, the Company conducts an ongoing dialogue with and makes presentations to analysts and investors.

It is considered essential to keep owners and investors informed about the Company's progress and economic and financial status. Importance is also attached to ensuring that the same information is released to the entire equity market simultaneously. Care is taken to maintain an impartial distribution of information when dealing with shareholders and analysts.

The Board has stipulated special guidelines for the Company's contact with shareholders outside the general meeting in its Investor Relations policy which can be found on the Company's website.

Departures from the recommendation: None

14. TAKE-OVERS

There are no defense mechanisms against takeover bids in the Company's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the Company.

The board of directors will not seek to hinder or obstruct take-over bids for the company's activities or shares unless there are particular reasons for this.

Departures from the recommendation: None.

15. AUDITOR

The auditor's relationship with the Board

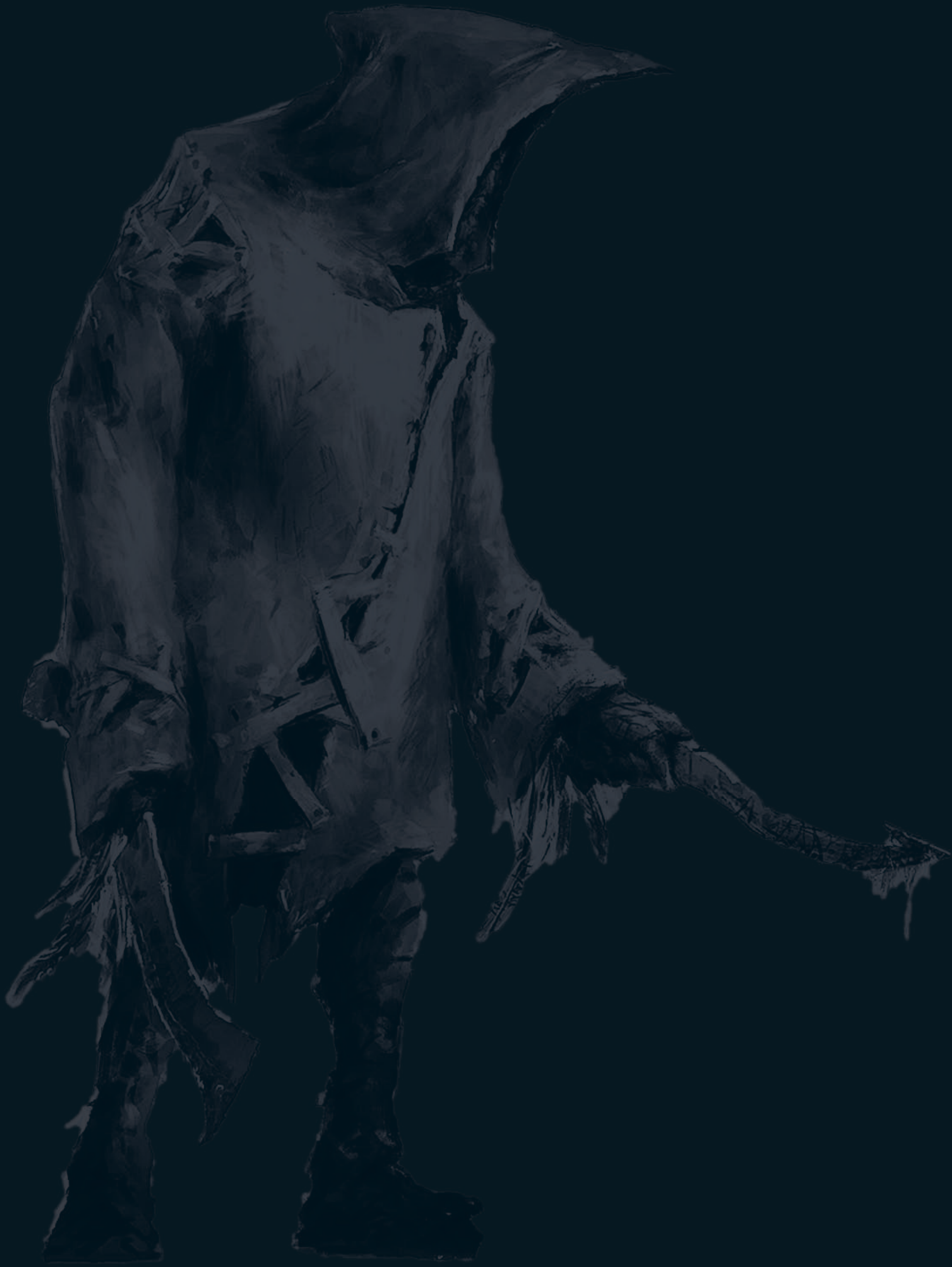
An outline of the work planned by the auditor is presented for the audit committee on an annual basis. The Chairman of the Audit Committee conducts a separate meeting with the auditor and management prior to the Board's discussion of the financial statements. The auditor is always present during the Board's discussions of the annual accounts. In that connection, the Board is briefed on the financial statements and items of special concern to the auditor, including any points of contention between the auditor and management. The Board arranges annual meetings with the auditor to review a report from the auditor that addresses the Company's accounting principles, risk areas and internal control routines. At least one meeting a year will be held between the auditor and the representatives from the Supervisory Board without the presence of the CEO or other executive managers.

The auditor has submitted to the Supervisory Board a written statement on fulfillment of the Statutory Audit Independence and Objectivity requirement, in conformity with the Auditing and Auditors Act.

The auditor's relationship to management

The Supervisory Board has discussed guidelines for the business relationship between the auditor and the Company.

Departures from the recommendation: None.



Statement of compliance with the Dutch Corporate Governance Code

Funcom's adopted code and practices are in compliance with the Dutch Corporate Governance code, with the exceptions of

- **Provision II.2.4:**
  Options for the Management Board are conditional on the continued employment of a member of the Management Board in Funcom. The options become unconditional before the lapse of the three year time period set out in the Dutch Corporate Governance Code. Funcom has an option program where one third of the options vest each year in three years following the grant date. The options are only vested if the member of the Management Board is still employed with Funcom on the date that the options vest. The allocation of options to members of the Management Board is not made specifically dependent on the realization of certain targets, that are determined in advance.

- **Provision II.2.6:**
  The exercise price for all options is the average volume weighted price on the Oslo Stock Exchange on the five trading days preceding and the five trading days following the date when the options are granted.

- **Provision II.2.8:**
  Mr. Trond Aas' severance pay slightly exceeds the fixed component of his annual salary. The severance pay is subject to certain conditions being met. In light of the conditions associated with the severance pay the Supervisory Board considers the deviation from the best practice provision acceptable and not deviating in any significant way from industry standards.

- **Provision II.2.12 and 2.13:**
  A remuneration report is not made public on the website of Funcom. The Supervisory Board is of the opinion that the information suggested to be included can be obtained in general terms from the annual report.

- **Provision II.2.14:**
  Funcom has in the past not published details of the contracts concluded with the members of the Management Board. Funcom intends to comply with this best practice provision as from 2010.

- **Provision III.2:**
  In the current composition of the Supervisory Board, two of the members do not meet the requirements that would qualify them as independent. They are each associated with a company that holds more than 10 % of the shares in Funcom N.V. The composition of the Supervisory Board will be reviewed again in 2010.

- **Provision III.3.3:**
  Funcom N.V. is in the process of setting-up a suitable introduction program for its Supervisory Board members and expects to implement this introduction program in the course of the 2010 financial year.

- **Provision III.3.6:**
  Funcom N.V. has not developed a retirement schedule and made it generally available, as this could be viewed as a signal of major shifts in ownership relating to key shareholders in Funcom N.V.

- **Provision III.5:**
  Funcom N.V. has decided not to establish a Selection & Appointment Committee. The Supervisory Board has taken these tasks upon itself. The Company has established an Audit Committee and a Remuneration Committee.

- **Provision III.7:**
  Funcom N.V. has reserved the right to grant options to members of the Supervisory Board. Funcom N.V. views share options as an important tool for remuneration of the members of the Supervisory Board, e.g., to enable a board composition which reflects the global nature of its business. Reference is made to note 18 for further details.

- **Provision IV.1.7:**
  Funcom N.V. does not determine a registration date for the exercise of the voting rights and the rights relating to meetings. Funcom intends to comply with this best practice provision as from 2010.

- **Provision IV.3.7:**
  As from 2010 Funcom intends to explicitly indicate for each agenda item whether it entails a mere discussion on the subject or includes a vote on the subject.

- **Provision IV.3.10:**
  The minutes of a general meeting are generally posted on the website of Funcom and on the website of the Oslo Stock Exchange on the day of the general meeting

- **Provision IV 3.13:**
  Funcom does not have a policy on bilateral contact with the shareholders but endeavors to establish such a regulation in the course of the 2010 financial year.

- **Provision V.2.1:**
  The auditor is always on standby to attend the Annual General Meeting depending on shareholder attendance.

- **Provision V.2.3:**
  Funcom N.V. plans to conduct a thorough assessment of the functioning of the external auditor as set forth in this best practice provision in the course of the 2010 financial year.

- **Provision V.3:**
  Funcom N.V. has not assigned a specific internal auditor. The Management Board will review whether an internal auditor will be engaged going forward.

Responsibility Statement

In accordance with best practice II.1.5 of the Dutch corporate governance code of December 2008, the Managing Board confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the company's financial condition and the results of the company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

With reference to section 5.25c, paragraph 2c of the Financial Markets Supervision Act, the Board of Management states that, to the best of its knowledge:

- The annual financial statements of 2009 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies who's financial information it consolidates; and
- The Report of the Management Board gives a true and fair view of the position as per December 31, 2009, the development during 2009 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

Zurich, April 13, 2010

Trond Arne Aas
Managing Director and CEO

Pieter van Tol
Managing Director

Report of the Supervisory Board of Directors

ANNUAL REPORT

We hereby present you with the Annual Report for 2009, including the annual financial statements as were drawn up by the Management Board. The annual financial statements have been examined by the external auditors Mazars Paardekooper Hoffman Accountants N.V. who intend to issue an unqualified audit opinion. We have discussed the Annual Report with the Management Board in the presence of the auditors.

We submit the financial statements to the Annual General Meeting of Shareholders, and propose that the shareholders adopt them and discharge the Managing Board from all liability in respect of its managerial activities and the Supervisory Board from all liability in respect of its supervision of the Managing Board. The appropriation of the result for the year as approved by the Supervisory Board is presented in the section "Other Information" in this report.

RESULTS AND STRATEGIC POSITION

Funcom's revenue for 2009 was USD 23,876 thousands compared to USD 39,925 thousands in 2008, when adjusted for the revenues related to Plutolife, the mobile subsidiary that was sold in 2008. The corresponding operating result for 2009 was USD −10,798 thousands compared to USD −26,707 thousands in 2008. Fully diluted earnings per share were USD −0.16 compared to USD −0.64 in 2008. Funcom's equity stood at USD 53,370 thousands at year-end 2009, compared to USD 58,353 thousands at year-end 2008. The group had cash at the end of 2009 of USD 30,948 thousands compared to USD 39,396 thousands at the end of 2008.

In 2009 Funcom continued to invest heavily in *Age of Conan* for both continuously upgrading the game and adding content as well as in its upcoming first expansion *Rise of the Godslayer*. In addition, Funcom's Korean Partner, Neowiz, entered the Closed Beta phase for *Age of Conan* in Korea during Q4 with favorable feedback from testers. The bulk of the revenues in 2009 originated from *Age of Conan*.

Funcom's free-to-play game-initiatives progressed well in 2009. *Pets vs. Monsters* entered closed beta in Q4 as planned. The game will be progressively opened to more players over time. The timing for this will depend on feedback during the beta-phases. Several other free-to-play MMO's, including one for Facebook, is in its early, or somewhat later concept phases.

The Secret World, Funcom's next large-scale MMO is progressing well. The game's team size was around 90 people at the year end of 2009. *The Secret World* will use the next version of the proprietary *DreamWorld Technology* that was developed for *Age of Conan* as the core game engine, which will reduce the technical risk of the project significantly.

The Supervisory Board is responsible for monitoring and advising the Management Board, adopting the Company's strategy, and performing the requisite control functions. The Supervisory Board sets the objectives for financial structure and adopts the Company's plans and budgets. The Supervisory Board approves items of major strategic and/or financial importance for the Company. The Supervisory Board has discussed both its own functioning and that of its individual members and finds that the current structure and processes in place are satisfactory. It has also discussed the composition and functioning of the Management Board and has full confidence in its current composition. The Supervisory Board has furthermore been presented with a risk overview for the Company and believes that the risk level in Funcom is acceptable. During the year it has regularly had discussions with the Management Board regarding corporate strategy.

REQUIRED EXPERTISE AND BACKGROUND OF THE SUPERVISORY BOARD:

- Knowledge and experience in the financial, legal, economic, organizational and marketing fields.
- Experience in managing or supervising the management of a listed company.
- Knowledge of, experience in and affinity with the gaming industry.
- Knowledge of and experience with working in an international environment.
- The ability, also in terms of available time, to monitor and stimulate the general course of affairs within the company in a prompt and effective manner and to provide the CEO and the Management Board with advice relating to the formulation and execution of the company policy.
- No conflicts of interests at the time of appointment.

The Remuneration Committee has presented its annual remuneration report for 2009 to the rest of the Supervisory Board. The established remuneration policy has been followed during the year. There are no planned changes to the remuneration policy. The total remuneration of the Management Board consists of the following elements:

- A fixed element: annual salary and vacation allowance.
- A variable element: options and bonus
- Pension and other benefits

The Company's complete remuneration policy can be found on www.funcom.com.

The following professionals served on the Supervisory Board year-end, 2009:

Torleif Ahlsand, Chairman of the Supervisory Board
(born 1966, male, Norwegian, 3rd term, member since 2005) Mr. Ahlsand is a General Partner in Northzone Ventures that controls 5.449.175 shares in the Company, and is hence not viewed as independent. Torleif Ahlsand also controls 100,000 shares in Funcom through his company Brownske Bevegelser AS and holds 100.000 share options in the company. Prior to Northzone, Mr. Ahlsand was VP Corporate Finance in Handelsbanken Securities and a corporate development executive in Orkla ASA. Mr. Ahlsand also has a professional technical background as a research scientist at CERN outside Geneva and as a telecommunications engineer in NERA Telecom. Mr. Ahlsand holds a M.Sc. degree in Electrical Engineering and Computer Science from NTNU (1991) and an MBA with Honors from IMD in Switzerland (1997).

Michel Cassius,
(born 1957, male, French, 2nd term, member since 2006) Mr. Cassius is CEO of Gekko.com, a private internet company based in London. Mr. Cassius is also co-founder and Director of YoYo Games Ltd, a start up company which launched www.yoyogames.com in 2007, a user generated casual gaming site. In the past, Mr. Cassius has served as the European Managing Director of Fun Technologies and as Senior Director of Microsoft's Xbox business in EMEA where he managed the publishing and Xbox Live businesses and launched the Xbox 360. He previously spent seven years at Electronic Arts, where he led EA.com, Electronic Art's online gaming business in Europe and launched Ultima Online, one of the first MMO's in Europe. Mr. Cassius holds 16,000 shares and 66,667 share options in the Company.

Hans Peter Jebsen,
(born 1957, male, Norwegian, 3rd term, member since 2005) Mr. Jebsen has several years experience from the shipping industry in the US, South East Asia and Europe. He holds a number of board positions in shipping companies. Mr. Jebsen lives in Oslo, Norway and is not viewed as independent as he and his affiliates hold 12.058.075 shares in the Company through Stelt Holding N.V. and Tom Dahl AS. Please refer to note 27. Mr. Jebsen holds 50,000 share options in the Company.

Frank Sagnier,
(born 1962, male, French, 1st term, member since 2008) Mr. Sagnier is the CEO of Power Challenge Holding Ltd, an online sports game company. He previously worked for Double Fusion, an in-game advertising specialist as European Managing Director for two years. He spent the previous 8 years as Vice-President for Electronic Arts Europe in different roles such as Marketing, Third Party Publishing and Online Publishing. Mr. Sagnier holds 50,000 share options in the Company.

Claus Højbjerg Andersen,
(born 1965, male Danish, 2nd term, member since 2005) Mr. Højbjerg Andersen is a General Partner in Nordic Venture Partners that holds 5,208,325 shares. Mr. Højbjerg Andersen holds 50.000 share options in the Company. He has been with Nordic Venture Partners since the start in early 2000 and has over the years focused mostly on enterprise software and internet related investments. Prior to joining Nordic Venture Partners he had an international career in the financial industry in the areas of asset management, research and sale through working for Danske Capital (Copenhagen), Nordea (Luxembourg) and Enskilda Securities (London). Mr. Højbjerg Andersen holds a B.Comm. degree in Credit and Finance from Copenhagen Business School.

The Supervisory Board has a Remuneration Committee and an Audit Committee. The Remuneration Committee consists of Mr. Jebsen (chairman) and Mr. Ahlsand (member) and has conducted 2 meetings during 2009 with remuneration of the Management Board and the allocation of options as the main agenda points. The Audit Committee consists at year end 2009 of Mr. Højbjerg Andersen (chairman) and Mr. Cassius (member). The committee has conducted 5 meetings during 2009 with accounting policies, risk management and control as well as approval of financials as the main agenda points.

Zurich, April 13, 2010

The Supervisory Board of Directors in Funcom N.V.

Torleif Ahlsand, Chairman

Michel Cassius, Vice-Chairman

Hans Peter Jebsen

Frank Sagnier

Claus Højbjerg Andersen

Funcom N.V.
Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2009	2008	2007*
Continuing operations				
Revenue	5,6	23,876	39,925	4,621
Personnel expenses	7,18	-7,863	-14,491	-5,045
General and administrative expenses	8,23	-8,916	-13,676	-3,686
Depreciation, amortization and impairment losses	3,12,13	-14,923	-29,436	-1,233
Other operating expenses	9	-2,972	-9,030	-1,385
Operating expenses		-34,674	-66,632	-11,349
Operating result		-10,798	-26,707	-6,728
Finance income	10	2,948	2,373	8,196
Finance expenses	10	-230	-5,633	-469
Result before income tax		-8,080	-29,967	999
Income tax (expense) / income	11	-406	-4,152	1,681
Profit (loss) from continuing operations		-8,486	-34,119	2,680
Discontinued Operations				
Profit (loss) from discontinued operation net of tax	22		264	-516
Profit (loss) for the period		-8,486	-33,855	2,164
Other comprehensive income				
Exchange differences on translating foreign operations		28	-925	668
Exchange differences on intercompany loans part of net investment in a foreign entity		2,672		
Other		60	76	
Other comprehensive income for the year, net of tax		2,760	-849	668
Total comprehensive income for the year:		-5,726	-34,704	2,832

Funcom N.V. Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2009	2008	2007*
Profit (loss) for the period attributable to:				
Equity holders of Funcom N.V.		-8,486	-33,798	2,318
Non-controlling interests			-57	-154
		-8,486	-33,855	2,164
Total comprehensive income attributable to:				
Equity holders of Funcom N.V.		-5,726	-34,627	2,947
Non-controlling interests			-77	-115
		-5,726	-34,704	2,832
Earnings per share **	24			
From continuing and discontinued operations				
Basic earnings per share (US dollars)		(0,16)	(0,64)	0.05
Diluted earnings per share (US dollars)		(0,16)	(0,64)	0.04
From continuing operations				
Basic earnings per share (US dollars)		(0,16)	(0,66)	0.06
Diluted earnings per share (US dollars)		(0,16)	(0,66)	0.06

* Certain comparatives were reclassified to conform to the current period's presentation.
** Based on profit (loss) for the period and profit (loss) from continuing operations

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

Funcom N.V.
Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	Note	2009	2008
ASSETS			
NON-CURRENT ASSETS			
Deferred tax asset	11	300	300
Intangible assets	3,12	30,848	27,123
Equipment	13	886	2,222
Long term receivables	26	508	372
Total non-current assets		32,542	30,018
CURRENT ASSETS			
Trade receivables	14,26	1,239	3,028
Prepayments and other receivables	15	638	1,404
Cash and cash equivalents	16	30,948	39,396
Total current assets		32,826	43,827
Total assets		65,368	73,845

Funcom N.V. Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	Note	2009	2008
EQUITY			
Share capital		2,719	2,719
Reserves		123,227	122,396
Retained earnings		-72,576	-66,761
Equity attributable to equity holders of Funcom		53,370	58,353
Total equity	17	53,370	58,353
NON-CURRENT LIABILITIES			
Loans and borrowings	26		1,037
Deferred tax liabilities	11	50	50
Total non-current liablities		50	1,087
CURRENT LIABILITIES			
Trade payables	26	960	338
Deferred income	20	4,384	1,854
Income tax liability	11	179	272
Provisions	19	2,351	5,480
Other short term liabilities	21	4,075	6,460
Total current liabilities		11,948	14,404
Total liabilities		11,998	15,492
Total equity and liabilities		65,368	73,845

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

Funcom N.V. Consolidated Statement of Cash Flows

for the year ended December 31

In thousands of US dollars	Note	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before income tax		-8,080	-29,968
Adjustments for:			
Depreciation, amortization and impairment losses	12,13	14,923	29,436
Share-based payments	17,18	743	661
Finance income/expense		-506	-1,601
Effect of exchange rate fluctuations		-350	3,717
Profit (loss) from discontinued operation net of tax	22		-242
Change in trade and other receivables		2,617	-1,341
Change in trade payables		587	-469
Change in other current assets and liabilities		-2,066	7,765
Cash generated from operations		7,868	7,957
Interest received		715	1,945
Interest paid		-209	-344
Income tax and other taxes paid		-525	-5
Net cash from operating activities		7,849	9,553
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	13	-142	-1,116
Investment in intangible assets	12	-16,889	-14,569
Change in long term receivables		-59	
Disposal of discontinued operations	22		1,329
Net cash from investing activities		-17,090	-14,356
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of share capital	17		40
Payment of finance lease liabilities		-2,187	-3,680
Net cash from financing activities		-2,187	-3,640
Net increase in cash and cash equivalents		-11,427	-8,443
Effect of exchange rate fluctuations		2,979	-4,527
Cash and cash equivalents at beginning of period	16,26	39,396	52,366
Cash and cash equivalents at end of period	16,26	30,948	39,396

The accompanying notes are an integral part of the consolidated financial statements.

Funcom N.V.
Consolidated Statement of Changes in Equity

for the year ended December 31

	Share Capital	Share premium	Equity-settled employee benefits reserve	Translation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
Equity as at January 1, 2008	2,716	120,919	749	814	-33,113	92,085	62	92,147
Profit (loss) for the year					-33,798	-33,798	-57	-33,855
Other comprehensive income for the year		31		-916	56	-829	-20	-849
Total comprehensive income for the year		31		-916	-33,742	-34,627	-77	-34,704
Share-based payments			855			855	15	870
Issued share capital	3	36				39		39
Other		-65		-29	94			
Equity as at December 31, 2008	2,719	120,922	1,604	-131	-66,761	58,353		58,353
Equity as at January 1, 2009	2,719	120,922	1,604	-131	-66,761	58,353		58,353
Profit (loss) for the year					-8,486	-8,486		-8,486
Other comprehensive income for the year		60		28	2,672	2,760		2,760
Total comprehensive income for the year		60		28	-5,815	-5,726		-5,726
Share-based payments			743			743		743
Issued share capital								
Other								
Equity as at December 31, 2009	2,719	120,982	2,347	-103	-72,576	53,370		53,370

The accompanying notes are an integral part of the consolidated financial statements.

Funcom N.V.
Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Funcom N.V. (or the "Company") is a limited company registered in The Netherlands. The Company is incorporated in Katwijk, The Netherlands. The Group's head office is in Lavaterstrasse 45, 8002 Zurich, Switzerland. The Company is listed on the Oslo Stock Exchange under the ticker "FUNCOM"

The consolidated financial statements of the Company as at and for the year ended December 31, 2009, comprise the Company and its subsidiaries (together referred to as the "Group").

The objectives of the Group as stated in the Articles of Association of the Company, are to develop, market and carry on business in computer games, hereunder massively multi player online games, online role playing games and related games on electronic devices of different kinds, to take and grant licenses and other industrial property interests, assume commitments in the name of any enterprises with which it may be associated within a group of companies, to take financial interests in such enterprises and to take any other action, such as but not limited to the granting of securities or the undertaking of obligations on behalf of third parties, which in the broadest sense of the term, may be related or contribute to the aforesaid objectives.

An abridged Company Income statement is presented in accordance with section 402 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Supervisory Board on April 13, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

All amounts are in thousands of US dollars unless stated otherwise. There may be some minor rounding differences or the total may deviate from the total of the individual amounts. This is due to the rounding to whole thousands of individual amounts.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRIC) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

Presentation and functional currency

The consolidated financial statements are presented in US dollars (USD), which is the Company's functional currency, rounded to thousands. It is expected that US dollars will remain as the main currency in the Group's economic environment, due to a majority of US dollars revenues.

The functional currency of the Swiss subsidiary Funcom GmbH is set to Norwegian kroner (NOK), effective from January 1, 2009. The previous functional currency was US dollar. The change in functional currency is due to NOK emerging as the dominating currency for the transactions of Funcom GMBH.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis unless otherwise stated in these accounting policies.

Estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are 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.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The Group adopted revised IAS 1 and the new IFRS 8 as of January 1, 2009.

Adoption of new and revised standards

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. The changes relate to presentation and disclosures and have not had an impact on the recognition and measurement of assets and liabilities.

IAS 1 (as revised in 2007) Presentation of Financial Statements	IAS 1(2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
IFRS 8 Operating Segments	IFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group's reportable segments (see note 5).
Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IAS 23 amendment	Borrowing Costs	March 2007	January 1,2009
IFRS 2 amendment	Share-based payment: Vesting Conditions and Cancellations	January 2008	January 1, 2009
IAS 32 and IAS 1 amendment	Puttable Financial Instruments and Obligations Arising on Liquidation	February 2008	January 1, 2009
IFRS 1 and IAS 27 amendment	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate	May 2008	January 1, 2009
IAS 39 amendment	Reclassification of Financial Assets: Effective Date and Transition	November 2008	July 1, 2008
Various	Improvements to IFRSs	May 2008	January 1, 2009[1]
IFRIC 9 and IAS 39 amendment	Embedded derivatives	March 2009	January 1, 2009
IFRIC 11 (later replaced by amendment to IFRS 2)	IFRS 2 – Group and treasury Share Transactions	November 2006	March 1, 2008
IFRIC 13	Customer Loyalty Programmes	June 2007	January 1, 2009
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions	July 2007	January 1, 2009

[1] The implementation dates for the various improvements vary, the earliest mandatory date is January 1, 2009

Certain interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. The adoption of these interpretations has not led to changes in the Group's accounting policies. The Group has not adopted any standards or interpretations in advance of their effective dates.

At the date of authorization of these financial statements, the following Standards and Interpretations had been issued by the IASB but were not effective for the financial year ended December 31, 2009:

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 3 revised	Business Combination	January 2008	July 1, 2009
IAS 27 revised	Consolidated and Seperate Financial Statements	January 2008	July 1,2009
IAS 39 amendment	Financial Instruments: Recognition and Measurement: Eligible Hedged Items	July 2008	July 1, 2009
IFRS 2 amendment[2]	Group Cash-settled Share-based Payment Transactions	June 2009	January 1, 2010
IFRS 1 amendment	First Time Adoption of IFRS	November 2008	January 1, 2010
IFRS 1 amendment[2]	Additional Exemptions for first-time Adopters	July 2009	January 1, 2010
Various[2]	Improvements to IFRS	April 2009	January 1, 2010[3]
IFRIC 12	Service Concession Arrangements	November 2006	March 29, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 2008	July 1, 2009
IFRIC 15	Agreements for the Construction of Real Estate	July 2008	January 1, 2010
IFRIC 17	Distributions of Non-Cash Assets to Owners	November 2008	November 1, 2009
IFRIC 18	Transfers of Assets from Customers	January 2009	November 1, 2009

The directors anticipate that these Standards and Interpretations will be adopted in the Group's financial statements for the period beginning January 1, 2010. Effective dates are as applicable for IFRSs as adopted by the European Union as these in some cases will deviate from the effective dates as issued by the IASB. The directors have not yet considered the potential impact of the adoption of these new and revised/ amended Standards and Interpretations.

The following Standards and Interpretations have a later date of mandatory adoption. The directors have not yet considered the potential impact of the adoption of these new and amended/revised Standards and Interpretations.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IAS 32 amendment	Classification of Rights Issue	October 2009	February 1, 2010
Amendment of IFRS 1[2]	Limited Exemption from comparative IFRS 7 Disclosures for First-Time Adopters	January 2010	July 1, 2010
IFRIC 19[2]	Extinguishing Finan-cial Liabilities with Equity Instruments	November 2009	July 1, 2010
Amendment to IFRIC 14[2]	Prepayments of a Minimum Funding Requirement	November 2009	January 1, 2011
Revised IAS 24[2]	Related Party Disclosures	November 2009	January 1, 2011
IFRS 9[2]	Financial Instruments	November 2009	January 1, 2013

[2] As at the date of the issue of the financial statements, these standards and interpretations listed above were not endorsed by the EU

[3] The implementation dates for the various improvements vary, the earliest mandatory date is January 1, 2010

2.2 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. 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. Control normally exists when the Group owns, either directly or indirectly, more than 50% of the shares in another entity. Subsidiaries are included in the consolidated financial statements from the date the control effectively commences until the date control ceases.

The purchase method is applied when accounting for business combinations.

Inter-company transactions

Inter-company balances and unrealized income and expenses arising from intra-group transactions are eliminated in full. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Group's share in the investment. Unrealized losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

2.3 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate at the reporting date. Non-monetary assets and liabilities in foreign currencies that are stated at historical cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated at the exchange rate at the date the values were determined. All foreign exchange gains and losses arising on translation are recognized in the Statement of Comprehensive Income.

Foreign operations

Financial statements of consolidated entities are prepared in their respective functional currencies and translated into US dollars (the Group's reporting currency) as of year end. Assets and liabilities of the foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated at rates approximating the exchange rates at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations are recognized directly in Other Comprehensive Income, and accumulated in equity in the translation reserve.

If a loan is made to a foreign operation and the loan in substance forms part of the Group's investment in the foreign operation, foreign exchange differences arising on the loan are also recognized in Other Comprehensive Income. On disposal of a foreign operation, exchange differences recognized in equity are recognized in profit or loss as part of the gain or loss on disposal.

2.4 Income recognition

Revenue from operations

Revenues from online games are currently the Group's significant source of revenue.

Revenue is recognized when it is probable that the economic benefits of a transaction will flow to the entity, the revenue can be measured reliably and the associated costs are identified and can be measured reliably. Revenue is measured at the fair value of consideration received or receivable, net of value added tax, discounts, and returns.

Subscription income is generated when customers purchase upfront access time for the Group's products *Age of Conan* and *Anarchy Online*. Subscription income is mainly collected from credit cards and is recognized gross of credit card charges. Revenue from subscriptions is recognized over the subscription period which is from the date of subscription purchase until subscription end, normally 1–12 months. At the reporting date, revenue not recognized in the Statement of Comprehensive Income is recognized as deferred revenue and presented in the statement of financial position as a liability.

Revenues from license and royalty agreements with a minimum non-refundable guaranteed advance is recognized at the delivery of the product. Per copy royalties on sales that exceed the guaranteed minimum amount are recognized as the licensees report unit sales. If publishers cancel software license agreements during the product's development stage, non-refundable advances or minimum guaranteed royalty fees are recognized as revenue. A provision for expected returns and price protection arrangements/discounts is charged against revenue to the extent Funcom has a legal or constructive obligation for such arrangements.

Revenue from contracts involving work performed by the Group with contingent deliverables is recognized in the Statement of Comprehensive Income when the outcome of a transaction can be estimated reliably. The outcome of a transaction can normally not be estimated reliably until the contracts are fulfilled. Until recognition in the Statement of Comprehensive Income of such revenue can take place, revenue is recognized as deferred revenue and presented in the Statement of Financial Position as a liability.

Revenue from the sale of goods is recognized in the Statement of Comprehensive Income when the significant risks and rewards of ownership have been transferred to the buyer, which is normally when delivery has taken place. Revenue is reduced by expected returns or price protection/discounts.

Government grants

Subsidies from the authorities are not recognized until there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Subsidies that compensate the Group for the costs of an asset are recognized as a deduction from the asset that the subsidy is intended to cover, and are recognized in the Statement of Comprehensive Income over the useful life of the asset through a reduced amortization or depreciation charge. Grants that compensate the Group for expenses incurred are recognized in the Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognized.

Finance income

Finance income comprises interest receivable on funds invested and foreign currency gains. Interest income is recognized in the Statement of Comprehensive Income as accrued, using the effective interest method.

2.5 Expenses

Expenses include both expenses and losses. Expenses are recognized in the Statement of Comprehensive Income when they arise, i.e. when a decrease in a future benefit gives rise to a decrease in an asset, or an increase in a liability that can be measured reliably. Expenses are measured at the fair value of the amount paid or payable.

Operating lease payments

Leases where substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments are recognized in the Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives received are recognized in the Statement of Comprehensive Income as an integral part of the total lease expense.

Finance expenses

Finance expenses comprise interest payable on borrowings and foreign currency losses. Interest expense is calculated using the effective interest method.

2.6 Income tax

The income tax expense consists of current and deferred tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items recognized in Other Comprehensive Income or equity, in which case income tax is also recognized in Other Comprehensive Income or equity.

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

Deferred tax is recognized using the 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. Deferred tax/tax assets are calculated on all taxable temporary differences, with the exception of:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized only when it is probable that an entity will have sufficient profits for tax purposes to utilize the tax asset. At each reporting date, the Group carries out a review of its unrecognized deferred tax assets and the value of the deferred tax assets it has recognized. Unrecognized deferred tax assets from previous periods are recognized to the extent that it has become probable that an entity can utilize the deferred tax asset. Similarly, an entity will reduce its deferred tax assets to the extent that it is no longer probable that the related tax benefit can be utilized.

Deferred tax assets and liabilities are recognized at their nominal value and classified as non-current assets and liabilities in the Statement of Financial Position.

2.7 Intangible assets

Intangible assets are recognized in the Statement of Financial Position if it is probable that the future economic benefits that are attributable to an intangible asset will flow to the Group, and the asset's cost can be reliably estimated.

The Group does not have any intangible assets with indefinite useful lives. Amortization methods, useful lives and any residual values are reassessed at each reporting date.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Goodwill
Goodwill arises on acquisition of subsidiaries and associates. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition is recognized immediately in the Statement of Comprehensive Income.

Goodwill is measured at cost less any accumulated impairment losses. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

Research and development
Costs relating to research are recognized as an expense when incurred.

Expenses relating to development, such as labour cost, material costs and other directly attributable costs are recognized as an expense when they are incurred unless the following criteria are met:

- the product or process is clearly defined and the cost elements can be identified and measured re liably;
- the technical solution for the product has been demonstrated;
- the product or process will be sold or used in the Company's operations;
- the asset will generate future economic benefits; and
- sufficient technical, financial and other resources for completing the project are present.

When all the above criteria are met, subsequent costs relating to development will be capitalized. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Development costs are amortized from the date that the assets are available for use, normally over 5 years. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use.

Inefficiencies are tracked on a regular basis and identified inefficiencies related to an internally generated intangible asset will be expensed when identified. In addition an overall evaluation is performed by the end of each financial year.

Technology
Technology acquired by the Group is stated at cost less accumulated amortization and impairment losses. Amortization is recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives, normally 5 years.

Patents and licenses
Patents and licenses that are acquired by the Group are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in the Statement of Comprehensive Income on a straight- line basis over the estimated useful life, normally 5 years. Amortization starts when the acquired assets are available for use.

Software
Costs to purchase new computer software programs are recognized in the Statement of Financial Position as an intangible asset provided the software does not form an integral part of the related hardware, in which case it is recognized as part of the related equipment. Software is stated at cost less accumulated amortization and impairment losses. Software is amortized using the straight-line method over the estimated useful life, normally 3–5 years.

2.8 Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. When assets are sold, the gross carrying amount and accumulated depreciation and impairment losses are derecognized, and any gain or loss on the sale is recognized in the Statement of Comprehensive Income.

The cost of equipment includes the purchase price, any duties/taxes and directly attributable costs required to get the asset ready for use.

Where parts of an item of equipment have different useful lives, they are accounted for as separate items of equipment.

Subsequent costs
The cost of replacing a part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost can be measured reliably. All other costs are recognized in the Statement of Comprehensive Income as incurred.

Depreciation

Depreciation is charged to the Statement of Comprehensive Income using the straight-line method over the estimated useful life of the item of equipment. Estimated useful lives are as follows:

Computers	3 years
Office equipment	5 years

The useful lives and depreciation method are assessed at each reporting date. The same applies to the residual value, if not insignificant.

Financial leases

Leases agreements through which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Financial lease payments are recognized in the Statement of Financial Position as a reduction in the liability and in the Statement of Comprehensive Income as interest expense on the related liability.

2.9 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. This condition is met only when the sale is highly probable and the non-current asset (or disposal group) is available for sale immediately and in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification as held for sale. Non-current assets (and disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2.10 Financial instruments

The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant positions in other currencies than US dollars, for example Norwegian kroner and the Canadian dollar. The Group evaluates its currency risk on an ongoing basis, see note 26. The Group does not invest in equity or debt securities.

All financial assets in the Statement of Financial Position are classified as loans and receivables at amortized cost. All financial liabilities are classified as other financial liabilities at amortized cost.

2.11 Trade receivables and other receivables

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses. The interest element is disregarded if it is insignificant.

2.12 Cash and cash equivalents

Cash includes cash in hand and at bank. Cash equivalents comprise call deposits with a term of less than 90 days from the date of acquisition.

2.13 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited the Statement of Comprehensive Income.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized through profit or loss in the Statement of Comprehensive Income. For available-for-sale financial assets that are equity securities, the reversal is recognized in Other Comprehensive Income.

Non-financial assets
The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the profit and loss statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

2.14 Equity

Share capital
Ordinary shares are classified as equity. Transaction costs relating to an equity transaction are recognized directly in equity (share premium) after deducting tax expenses. Only transaction costs directly linked to the equity transaction are recognized directly in equity.

Repurchase of share capital (treasury shares)
When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Dividends
Dividends are recognized as a liability in the period in which they are declared.

2.15 Employee benefits

Defined contribution plan
The Group has established defined contribution pension plans according to the mandatory arrangements applicable in the entities' country of incorporation. Obligations for contributions to defined contribution pension plans are recognized as an expense in the Statement of Comprehensive Income when they are due.

Defined benefit plans
The Group does not have any defined benefit plans.

Profit-sharing and bonus plans
A provision is recognized for an undiscounted amount expected to be paid under bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions
The share option program allows management and key personnel to acquire shares in the Company. The plan is an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. The grant date fair value of options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period).

The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions as set forth in the share option program. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. At each reporting date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

2.16 Loans and borrowings

Loans and borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortized cost using the effective interest method.

2.17 Provisions

Provisions are recognized when, and only when, the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed on each reporting date and their level reflects the best estimate of the liability. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.18 Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses. The interest element is disregarded if it is insignificant

2.19 Contingent liabilities and assets

Contingent liabilities are:
(i) possible obligations resulting from past events whose existence depends on future events,
(ii) obligations that are not recognized because it is not probable that they will lead to an outflow of resources, or
(iii) obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the consolidated financial statements apart from contingent liabilities which are assumed in a business combination. Contingent liabilities are disclosed, with the exception of contingent liabilities where an outflow of benefits is only remote.

A contingent asset is not recognized in the consolidated financial statements, but is disclosed when an inflow of benefits is considered more likely than not.

2.20 Discontinued operations

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 Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative period.

2.21 Segments

As of January 1, 2009 the Group determines and presents operating segments based on the information that internally is provided to the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment profit is measured as revenue earned less personnel costs and other operating costs. General and administrative costs, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments.

In the segment reporting, intra-group balances and transactions between group entities within a single segment are eliminated in determining reportable amounts for each segment.

3. ADDITIONAL DISCLOSURES REGARDING IMPAIRMENT CHARGES

After reviewing the 2008 annual report Funcom became aware that certain disclosures to the financial statements should have been made more distinct. This relates to the breakdown of the impairment charge to intangible assets of USD 19,000 thousands and a description of the circumstances that led to the impairment charges.

Age of Conan has been impaired both in 2008 and 2009 due to a negative development in the customer base and revised estimates for future cash flows resulting from this. The Group consider the main reasons for this development to be a lack of long-term affinity for the game combined with the market situation. This impacted the estimates for *The Secret World* in 2008. In order to further differentiate the product from the main competitors it was considered necessary to make changes to the game concept. Due to this change, elements of the game under development were discarded and additional development costs incurred. As a result an impairment charge was recognized.

Total impairment charges made to the cash generating unit (CGU) *Age of Conan* for the year 2009 (2008) are as follows: USD 9,300 thousands (2008: USD 12,286 thousands to development cost and in addition USD 1,962 thousands charged to *the DreamWorld Technology*).

Total impairment charges made to the cash generating unit (CGU) *The Secret World* for the year 2009 (2008) are as follows: USD 0 thousands (2008: USD 2,660 thousands to development cost and in addition USD 1,962 thousands charged to *the DreamWorld Technology*).

4. ACCOUNTING ESTIMATES, JUDGMENTS AND ESTIMATION UNCERTAINTY

Accounting estimates and judgments

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Development costs and technology

The Group has significant capitalized values of development costs and technology. An asset can only be recognized if certain specific criteria are met. During a development project there will be judgment involved in assessing when the research phase ends and the development phase commences.

Intangible assets should be tested for impairment when there is an indicator that the asset may be impaired. The impairment tests include management's estimates and judgments about future cash flows and discount rates applied that could lead to a significant impact on the Group's future results. See note 12 for more information.

Useful life of intangible fixed assets

The useful life of the company's games is subject to reassessment at each year end. The estimated useful life is subject to uncertainty and judgment and the actual outcome may differ significantly from the initial estimate.

Revenue recognition and provisions for sales returns

The Group recognizes, as explained in note 2.4, revenue from sale of goods and revenue from license and royalty agreements generally on delivery of the product. The amount is reduced by a provision for subsequent expected returns and price protection arrangements/discounts. The provision for sales returns is based on expected returns of the game at year-end for which the Company may be required to reimburse the distributor. The determination of the amount is based on estimates of the outflow of economic benefits required to settle the obligation and will in addition to uncertainties related to the level of returns also depend on timing of the returns. Actual rates of return and price protection may vary from the estimate.

Deferred tax

The Group's tax losses have arisen primarily in the Swiss subsidiaries.

The Group's temporary differences between the carrying value and the tax base of assets are primarily located in the Swiss and Norwegian subsidiaries.

In evaluating the Group's ability to utilize the deferred tax assets, all available positive and negative evidence have been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment and the final outcome may differ significantly from the estimate, consequently impacting income tax expense in future periods.

5. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. The reportable operating segments of the group are defined as:

- large-scale MMOs – like *Age of Conan* and *The Secret World*

- free-to-play MMO games – which includes the games under the Company's free-to-play game initiative

The large-scale MMO segment and the free-to-play segment differ in several and important ways:

1) PR and Marketing. Large-scale MMOs are typically marketed for years before their launch. PR is conducted through media channels that appeal to the traditional gamers – online gaming sites, gaming magazines and gaming TV-channels. A large community/following for the game is usually created long before the launch of the game. The launch phase of the game is accompanied by large-scale, global marketing campaigns in traditional gamer media channels and sometime in general press.

Free to play MMOs typically follow a very different marketing process. The games typically progress through an extended launch period, where online beta-phases are gradually extended. The publisher tweaks and corrects the game during these phases and only starts marketing once the game is proven to appeal to customers. PR is less important in the process, and rarely is a large community developed before the launch of the game. Also, traditional gamer segments might be uninterested in free-to-play MMOs as they might target very different segments, like children or non-gamers.

2) Distribution. Large-scale MMOs are distributed through retail and through digital sales. Retails sales during the launch phase still constitutes a major portion of the sales of game clients. This is different from free-to-play MMOs which are typically distributed digitally only with a free-to-play section of the game already from the launch of the game.

3) Technology. The technology used for large-scale MMOs is usually very complex and advanced with features like AI, spectacular graphics performance, detailed graphical representation of the world etc. These large games also typically have large installs on the users PCs – typically several GB of data. In contrast, most free-to-play MMOs use a simpler technology, with more focus on a broad potential install base than on high-end performance, features and visuals. Funcom used *the DreamWorld Technology* for its large-scale MMOs, and has used a Java based technology for its first free-to-play MMO.

4) End-users. Large-scale MMOs typically target the traditional gamer segment. Free-to-play MMOs can also address this market, but often focus on other segments, like children, young boys or girls, non-gamers etc.

5) Payment model. Large-scale MMOs typically charge a significant price for the initial game client. At launch, typically around 50 USD. Thereafter they typically use monthly subscriptions as payment methods for their players. Free-to-play MMOs are always free-to-play, i.e. no fee for the initial game client. These free-to-play gamers are then up-sold in-game to become customers. Free-to-play games typically use sales of virtual items and content, subscriptions and advertising as methods of monetizing the products.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Subscription income and revenues from sale of clients are the main sources of revenues for the large-scale MMO segment – currently being the only segment generating revenues. Segment profit is measured as revenue earned less personnel costs and other operating costs. General and administrative cost, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments. All impairment charges made in 2009 and 2008 relate to the large-scale MMO segment.

	Revenue from external customers Period ended December 31			Segment profit Period ended December 31		
In thousands of US dollars	2009	2008	2007	2009	2008	2007
Large-scale MMOs	23,787	39,905	3,478	12,952	16,386	-2,055
Free-to-play MMO games						
Unallocated	89	20	1,143	89	20	246
Total	23,876	39,925	4,621	13,040	16,406	-1,809
General and administrative expenses				-8,916	-13,676	-3,686
Depreciation, amortization and impairment charges				-14,923	-29,436	-1,233
Net financial items				2,718	-3,260	7,727
Profit (loss) before tax (from continuing operations)				-8,080	-29,967	999

Segment assets

In thousands of US dollars	2009	2008
Large-scale MMOs reportable assets	28,112	25,733
Free-to-play MMOs reportable assets	2,219	685
Total assets for reportable segments	30,331	26,417
Other non-current assets	2,211	3,601
Current assets	32,826	43,827
Consolidated total assets	65,368	73,845

Segment assets only include the book value of the games. No other assets are allocated to the segments.

In thousands of US dollars	Large-scale MMOs	Free-to-play MMOs
Investments in intangible assets 2009	16,143	1,662
Investments in intangible assets 2008	16,390	685

Geographical information

The Group operates in a number of geographical areas. Presented below is a table that divides the Group's revenue and non-current assets into these main geographical areas.

In thousands of US dollars	2009		2008		2007
	Revenue	Non-current assets **)	Revenue	Non-current assets **)	Revenue
The Netherlands *)					
Switzerland	15,171	28,153	27,225	27,464	3,052
Luxembourg	8,705		12,700		1,569
Norway		3,351		1,613	
USA		133		268	
Other		96			
Total	23,876	31,734	39,925	29,345	4,621

*) country of domicile
**) non-current assets not including financial items and deferred tax asset

Revenue is attributed to a country based on the location of the selling entity. No single external customer amounts to 10% or more of the Group's revenues. Co-publishers are not considered "customer" in this context since the Group does not sell products or services to the Co-publisher. Co-publishing agreements are typically risk and revenue sharing agreements where both parties contribute marketing, PR and infrastructure to reach the customer, which are buyers of the Group`s games. The Company controls the relationship to the customer through online contracts. Non-current assets are attributed to a country based on the geographical location of the assets.

6. REVENUE

In thousands of US dollars	2009	%	2008	%	2007	%
Revenues online games	23,464	98.3 %	39,580	99.1 %	3,478	75.3 %
Revenues offline games	323	1.4 %	309	0.8 %	1,143	24.7 %
Other	89	0.4 %	36	0.1 %		0.0 %
Total revenue	23,876		39,925		4,621	

7. PERSONNEL EXPENSES

In thousands of US dollars	2009	2008	2007
Salaries	5,340	10,668	4,471
Social security contributions	429	1,061	511
Contributions to defined contribution plans	268	320	43
Expenses for share option program	743	661	445
Other personnel expenses	1,083	1,781	814
Discontinued operations			-1,239
Total personnel expenses	7,863	14,491	5,046

Average number of employees:	2009	2008	2007
Europe	248	234	191
North America	59	107	38
Asia	42	28	22
Total	349	369	251

8. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2009	2008	2007
Travel & marketing	3,323	6,494	1,986
Consultants	1,450	1,687	1,061
Rent of premises and other office costs	1,520	2,021	965
Royalties	1,462	2,849	
Investor relations	173	125	182
IT, hardware and software	459	322	175
Other	528	178	
Discontinued operations			-683
Total general and administrative expenses	8,916	13,676	3,686

9. OTHER OPERATING EXPENSES

In thousands of US dollars	2009	2008	2007
Commissions	431	1,099	653
Hosting and bandwidth costs for online services	2,513	7,862	1,239
Sales and distribution costs	28	69	177
Discontinued operations			-683
Total other operating expenses	2,972	9,030	1,385

10. FINANCE INCOME AND EXPENSES

In thousands of US dollars	2009	2008	2007
Interest income	715	1,945	1,919
Net foreign exchange gain	2,233	427	6,297
Discontinued operations			-20
Finance income	2,948	2,373	8,196
Interest expense	-209	-316	-77
Net foreign exchange loss	-21	-5,317	-453
Other finance expenses			-61
Discontinued operations			123
Finance expenses	-230	-5,633	-469

The above financial items all relate to assets and liabilities carried at amortized cost.

11. INCOME TAX EXPENSE

The following components are included in the Group's tax expense:

In thousands of US dollars	2009	2008	2007
Current period	-424	-60	-13
Adjustments for prior periods	0	0	0
	-424	-60	-13
Deferred tax expense			
Origination and reversal of temporary differences	18	-3,373	2,246
Change in tax rate			-232
Derecognition of recognized tax losses		-719	
	18	-4,092	2,013
Income tax expense excluding tax on sale of discontinued operations	-406	-4,152	2,001
Income tax expense from continuing operations	-406	-4,152	2,001
Income tax from discontinued operation (exluding gain on sale)			-320
	-406	-4,152	1,681
Income tax on gain on sale of discontinued operations			
Total income tax income (expense)	-406	-4,152	1,681

In thousands of US dollars	2009	2008	2007
Result before income tax	-8,080	-29,967	999
Tax according to the average tax rate in Switzerland, Luxembourg, Canada, USA and Norway	-1,743	2,857	1,908
Tax effect of non-deductible expenses	-195	18	5
Withholding tax and capital asset tax	-251		
Utilization of losses carried forward	146		
Derecognition of deferred tax asset		-4,259	
Deferred tax asset related to carry forward tax losses not recognised	1,638	-2,768	
Tax effect of change in tax rate	-1		-232
Income tax (expense) / income	-406	-4,152	1,681

The Group has not recognized any income tax directly in equity.

DEFERRED TAX LIABILITY/TAX ASSET

In thousands of US dollars	2009	2008
Deferred tax liability	-50	-50
Deferred tax asset	300	300
Deferred tax asset, net	250	250
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	4,486	-877
Provisions		
Tax allocation reserve		
Tax losses carried forward		
Total deferred tax effect of tax increasing temporary differences	4,486	-877
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	8,256	8,142
Equipment and intangible assets	109	
Provisions/receivables	7	
Other temporary differences		
Total deferred tax effect of tax reducing temporary differences	8,372	8,142
Deferred tax asset not recognized in the balance sheet:	12,608	7,015
Recognized deferred tax asset, net	250	250
Reconciliation of deferred tax asset, net:		
Opening balance	250	4,509
Net tax liability in sold company		-384
Change according to statement of income	18	-4,092
Exchange differences etc.	-18	217
Deferred tax asset, net, at year-end	250	250

Carry forward tax losses originating from Norway do not expire under current tax legislation. The Group has tax losses of USD 83,392 thousands as at December 31, 2009 (2008: USD 85,409 thousands) which expire as follows:

In thousands of US dollars Expire year	2009	2008
2009		4,230
2010		1,018
2011		392
2012		
2013		
2014	187	184
2015	80,834	79,585
2016	2,371	
Indefinite		
Total tax losses	83,392	85,409

The Group's tax losses and negative differences between the book value and the value for tax purposes of assets, which form the basis for the deferred tax assets, are primarily located in the Swiss subsidiaries. The management has discussed to which extent the Group will be able to utilize the deferred tax asset. In evaluating the Group's ability to utilize the deferred tax assets, all available positive and negative evidence have been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income. As to how the legal structure has been set up and based on the tax regulations in Switzerland the Group does not expect taxable income in these companies in the foreseeable future. This has no implication on the Group's ability to continue as a going concern.

According to IAS 12 when an entity has a history of recent losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

12. INTANGIBLE ASSETS

In thousands of US dollars	Goodwill	Development cost	Technology	Patents and licences	Software	Total
Cost						
Balance at January 1, 2008	694	38,858	1,664	75	711	42,002
Acquisitions, internally developed		17,075				17,075
Other acqusitions					118	118
Disposals				-75		-75
Government grant						
Discontinued operations	-694		-1,664		-3	-2,361
Translation difference		-351			-189	-540
Balance at December 31, 2008		55,582			637	56,218
Balance at January 1, 2009		55,582			637	56,218
Acquisitions, internally developed		18,155				18,155
Other acqusitions					321	321
Disposals					-2	-2
Government grant		-350				-350
Translation difference					157	157
Balance at December 31, 2009		73,386			1,113	74,498
Accumulated amortization and impairment losses						
Balance at January 1, 2008		5,406	669		230	6,305
Amortization for the year		4,275			146	4,421
Impairment losses		19,000				19,000
Disposals						
Discontinued operations			-669		-1	-670
Translation difference		123			-83	40
Balance at December 31, 2008		28,804			292	29,096
Balance at January 1, 2009		28,804			292	29,096
Amortization for the year		4,952			204	5,156
Impairment losses		9,300				9,300
Disposals					-2	-2
Translation difference					101	101
Balance at December 31, 2009		43,056			595	43,651
Carrying amount at Jan. 1, 2008	694	33,452	995	75	481	35,697
Carrying amount at Dec. 31, 2008		26,778			345	27,123
Carrying amount at Jan. 1, 2009		26,778			345	27,123
Carrying amount at Dec. 31, 2009		30,331			518	30,848
Method of amortization		Straight line			Straight line	
Estimated useful lives		5 years			5 years	

The following values of intangible assets are under development and in use.
In thousands of US dollars

	2009			2008		
Class	Under development	In use	Total	Under development	In use	Total
Goodwill						
Development costs	16,119	14,211	30,331	11,120	15,658	26,778
Technology						
Software		518	518		345	345
Patents and licenses						
Total	16,119	14,729	30,848	11,120	16,003	27,123

Capitalization of amortization and depreciation

The Group capitalized amortization and depreciation on assets used in development of games as an integral part of the book value of the games. Amortization and depreciation included in capitalized development costs for 2009 were USD 1,151 thousands (2008: USD 950 thousands).

Calculation of recoverable amounts

When calculating the recoverable amount from cash generating units the Group uses a discounted 3 years pre-tax cash flow projection, based on the most recent budgets reflecting the latest information that influences the expected performance of the assets. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections using a growth rate for subsequent years.

The cash flows are discounted using a pre-tax rate of 14 % for *Age of Conan* (2008: 14 %) and 17 % for *The Secret World* (2008: 18 %). *The DreamWorld Technology* was allocated to each of the mentioned games on a 50/50 basis when performing the impairment test, reflecting the use of the technology in generating cash flows from the games.

The revenue of the Company is driven by the revenues generated by the games the Company operates. Some key drivers of these revenues are the number of players in each game and the revenues generated from these players through game client sales, subscription revenues, sales of virtual goods and in-game advertising. Different revenue-generating mechanisms are used to varying degrees in different games.

Main cost components for the company include the cost of developing new games and updates to games, marketing costs and operational costs of live games like hosting and bandwidth, operations and customer service.

Predicting cash flow from games with high certainty is difficult. Both the reach of the games and the revenues generated from the games depends on the appeal and quality of the games – since they are entertainment products and need to resonate with consumer preferences in addition to being well executed. If the discount rate for *Age of Conan* were decreased by 1 % the impairment charges would have been reduced by USD 250 thousands. If the estimated revenue were set 10 % higher, the impairment charges would have been reduced by USD 4,838 thousands. If the expected customer base of *The Secret World* in the launch year was set to 25,000 higher, the impairment charge of USD 4,620 thousands made to this game would be full reversed.

Management determined budgeted numbers of players based on the actual customer base, market information obtained as well as 3rd party sales budgets, and its own expectations of customer development. This estimate is subject to a high degree of uncertainty; e.g. for *Age of Conan* where customer numbers will be influenced by the launch in Asia and the launch of the expansion pack *Rise of the Godslayer* in 2010.

Research and development

In 2009 the Group expensed USD 297 thousands in research and development. (2008: USD 830 thousands).

Inefficiency

The Group did not expense any costs related to inefficiencies in 2009, 2008 or 2007.

Further information on intangible assets that are material to the financial statements

Large-scale MMO Age of Conan: Hyborian Adventures

The massively multiplayer online game *Age of Conan: Hyborian Adventures* takes place in a world based on author Robert E. Howard's classic fantasy hero Conan – a strong brand name on the basis of being one of the most read comic books in the Western World as well as the subject of several books and movies. Funcom acquired as from June 6, 2003 a 10 year exclusive right for the use of the Conan brand for MMO games on all current and future platforms. Later Funcom extended this right until 2023. Funcom is currently working on *Rise of the Godslayer*, the first expansion for the game launching in the first half of 2010.

Despite the launch success of *Age of Conan* in 2008, the game did not develop as expected during 2008 and 2009. *Age of Conan* has therefore been impaired both in 2008 and 2009 due to a negative development in revenues and revised estimates for future cash flows resulting from this. The Group considers the main reasons for this development to be a lack of long-term affinity for the game combined with the market situation.

The carrying amount of *Age of Conan* is USD 9,195 thousands on December 31, 2009 (2008: USD 15,429 thousands). The accumulated impairment charge as at December 31, 2009 was USD 23,548 thousands (2008: USD 14,248 thousands). The initial cost at launch of the game will be fully amortized in 3,5 years. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use. *Age of Conan* has been amortized since its launch on May 20, 2008.

Large-scale MMO The Secret World

Currently in production, *The Secret World* is a massively multiplayer online game. The game is built around an original intellectual property developed by Funcom, and features exciting online gameplay in our own modern-day world. Building on legends, conspiracies and urban myths of the real world, *The Secret World* features a universe of unprecedented depth. By utilizing a modern-day setting, Funcom hopes that the game will appeal to several different gaming audiences – even non-MMO gamers.

In order to further differentiate the game from the main competitors it was considered necessary to make changes to the game concept. Due to this change, elements of the game under development were discarded and additional development costs incurred. As a result an impairment charge was recognized in 2008.

The carrying amount of *The Secret World* is USD 13,772 thousands on December 31, 2009 (2008: USD 6,509 thousands). The accumulated impairment charge as at December 31, 2009 was USD 4,620 thousands (2008: USD 4,620 thousands).

The Secret World is not yet amortized.

DreamWorld Technology

The DreamWorld Technology is Funcom's proprietary MMO development technology.

The DreamWorld Technology is tailored and optimized for creating world class MMOs. The technology has a highly modular structure in which new and upgraded technology modules and components can be integrated into the technology base.

The flexible and modular architecture of *the DreamWorld Technology* uncouples technology from the game production process and shortens the lead time to prototype. Furthermore, the technology is optimized for online distribution through its mini client, peer-to-peer distribution and multi version features. Use of *the DreamWorld Technology* will ensure synergies between the development projects of Funcom, as well as significantly reduce the technology risks and development costs of the new projects. Key technical features include:

- Content on demand. Enables Funcom to tailor the gaming experience to individual players. The load driven game experience based on Automatic Con tent Generation (ACG) and instantiations add to the scalability of the technology. Funcom is world leading in this field, and the dynamic content systems will be further developed in *Age of Conan*. Content on demand enables unique game play features.

- Flexible network code. Enables dynamic amount of content in the game world, depending on number of players, as well as reduces total server load through inter- and intra server load balancing.

- Flexible game code. Enables reuse of large part of game code for new games, while at the same time providing new features fast and cost-effective.

- Dynamic sound system. World leading system for dynamically adapting audio to player actions and positions, including real-time occlusion, Doppler effects, sound rendering based on rendering, and more.

- Powerful game development software (tools). A suite of very powerful game tools enables designers to make tailored game content quickly and ensures quick iterations of game play development.

- State-of-the-art graphics engine. The MMO optimized graphics rendering and effects offer spectacular and unparalleled realistic world representation. One standout feature of the engine is the sophisticated infinite layer animation system, blending many levels of animation on top of each other.

- Artificial Intelligence. Funcom's artificial intelligence system is industry leading, and enables a new level of realism in the behavior of non playing game characters.

The carrying amount of *the DreamWorld Technology* is USD 5,017 on December 31, 2009 (2008: USD 3,924 thousands). The initial cost of the technology will be fully amortized in 3,5 years. Improvements and/or additions to the technology are amortized separately over the expected useful lives of these elements of the asset, normally five years. *The DreamWorld Technology* has been amortized since the launch of *Age of Conan* in May 2008.

Parts of the impairment charges made to *Age of Conan* and *The Secret World* – included in the amounts mentioned above for these games – are allocated to *The DreamWorld Technology*. As per December 2009 the accumulated amount is USD 3,924 thousands (2008: USD 3,924 thousands).

Pets vs. Monsters

Pets vs. Monsters is a casual MMO game aimed at the 8 to 12 years old demographic. The game is set in a fantastic universe that spans across several dimensions such as a pirate world, a sci-fi world, and more. Players adventure through these worlds mounted on pets such as the bear, the wolf and the cat while battling enemies and collecting rewards. The game was officially revealed in December 2009, and it entered into its first phase of beta in the same month. Feedback has so far been very positive, and Funcom will be launching new beta phases in 2010.

The carrying amount of *Pets vs. Monsters* is USD 2,222 thousands on December 31, 2009 (2008: USD 685 thousands). *Pets vs. Monsters* is not yet amortized.

Other games

The carrying amount of other games in the category development costs amounts to USD 125 thousands on December 31, 2009 (2008: USD 914 thousands).

13. EQUIPMENT

In thousands of US dollars	Computers	Furniture	Computers leased	Total
Cost				
Balance at January 1, 2008	2,191	334	2,789	5,314
Acquisitions	1,005	111	3,717	4,833
Disposals				
Discontinued operation	-74			-74
Translation difference	-592	-94		-686
Balance at December 31, 2008	2,530	351	6,506	9,387
Balance at January 1, 2009	2,530	351	6,506	9,387
Acquisitions	142			142
Disposals	-356			-356
Discontinued operation				
Translation difference	536	60		596
Balance at December 31, 2009	2,852	410	6,506	9,769
Accumulated depreciation and impairment losses				
Balance at January 1, 2008	740	125	284	1,148
Disposals				
Discontinued operation	-64			-64
Impairment charges			1,900	1,900
Depreciation for the year	927	69	3,572	4,568
Translation difference	-345	-43		-388
Balance at December 31, 2008	1,259	150	5,756	7,164
Balance at January 1, 2009	1,259	150	5,756	7,164
Disposals	-220			-220
Discontinued operation				
Impairment charges				
Depreciation for the year	789	79	750	1,618
Translation difference	281	40		321
Balance at December 31, 2009	2,109	268	6,506	8,882
Carrying amount at Jan. 1, 2008	1,451	210	2,505	4,166
Carrying amount at Dec. 31, 2008	1,271	201	750	2,222
Carrying amount at Jan. 1, 2009	1,271	201	750	2,222
Carrying amount at Dec. 31, 2009	744	142		886
Method of depreciation	Straight line	Straight line	Straight line	
Estimated useful lives	3 years	5 years	3 years	

Inactive leased servers have been tested for impairment and written down to what is considered their recoverable amount. This is based on the fair value less costs to sell as at the balance sheet date.

14. TRADE RECEIVABLES

In thousands of US dollars	2009	2008
Trade receivables	2,234	3,066
Allowances for impairment	995	38
Trade receivables, net	1,239	3,028

As of December 31, 2009 trade receivables consisted of, USD 570 thousands in USD, USD 655 thousands in EURO and a balance of USD 14 thousands relates to other currencies. The respective numbers for 2008 were USD 1,392 thousands in USD, USD 1,582 thousands in EURO and USD 54 thousands in other currencies.

The impairment allowance made in 2009 relates to a claim that has been disputed by a business partner. Funcom has made a provision of more that 80% of the claim. The receivable will be subject to a closer review of the parties' legal positions and an evaluation of the impact on the business relationship with respect to this.

15. PREPAYMENTS AND OTHER RECEIVABLES

At December 31, 2009, prepayments and other receivables consist mainly of ordinary operational prepayments (2008: the amount includes a receivable related to the sale of the shares in Plutolife AS in addition to ordinary operational prepayments).

16. CASH AND CASH EQUIVALENTS

In thousands of US dollars	2009	2008
Cash at the bank and in hand	30,948	39,396
Short-term bank deposits	0	0
Cash and cash equivalents in the statement of financial position	30,948	39,396
Restricted cash	490	636

Restricted cash relates to cash at a separate account for tax deducted from salaries.

17. EQUITY

SHARE-CAPITAL AND SHARE PREMIUM

Number of ordinary shares	2009	2008
Outstanding at January 1	52,832,125	52,769,625
Issued against payment in cash		62,500
Outstanding at December 31 – fully paid	52,832,125	52,832,125
Nominal value of the share-capital at December 31 (EUR)	2,113,285	2,113,285

At December 31, 2009, the authorized share capital comprised of 250 million ordinary shares (2008: 250 million). The nominal value of the shares is Euro 0.04.The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

The share capital is translated into US dollars using historic rates. All issued shares are fully paid. The Group does not hold any of the Company's own shares.

On February 26, 2008 the Company issued additional 443,500 options as a part of the Group's options program. The options vest with 33.33 % each 1 year, 2 years and 3 years from grant. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

In September 2008 the Company issued 62,500 shares from options. The issued shares were paid in cash at EUR 0.49 per share (USD 0.69). Gross proceeds amounted to EUR 30,625 (USD 40,114) Total number of issued shares after this transaction was 52,832,125.

On December 19, 2008 Funcom held an Extraordinary General Meeting where, pursuant to Section 4.1 of Funcom N.V.'s articles of association, the Board of Supervisory Directors were authorized to issue new shares in Funcom N.V. up to a maximum of 10 % of the issued capital of Funcom N.V. as per the date of the Meeting and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.3 of the Funcom N.V.'s articles of association authorized to limit or exclude the preemptive rights of the shareholders of Funcom N.V. in relation to each or any issuance of shares, or granting of rights to acquire shares, in the capital of Funcom N.V. This designation of the Board of Supervisory Directors is also valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.9 and 4.1 of Funcom N.V.'s articles of association, authorized to issue up to a maximum 3,000,000 (three million) rights to acquire shares in the capital of Funcom N.V. and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting. This authorization has been fully utilized.

Lastly, in this extraordinary general meeting, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board were authorized for a period of 18 months from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

On December 19, 2008 the Company issued additional 550,000 options as a part of the Group's options program. The options vest with 33.33 % each 1 year, 2 years and 3 years from grant. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

On December 19, 2008 the Company issued additional 300,000 options as a part of the Group's options program. 25 % of the options vest on May 21, 2009, and the remaining options vest on May 21, 2010. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

On March 5, 2009 the Company issued additional 2,088,300 options as a part of the Group's options program. The options vest with 33.33 % each 1 year, 2 years and 3 years from grant. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5 % or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders *) had disclosed that they owned more than 5 % of the Company's total share capital on January 1, 2010:

- Stelt Holding N.V. (22.62 %)
- Northzone IV K/S (10.32 %)
- Nordic Venture Partners (9.86 %)

*) there are two additional registrations but according to Funcom's records, these no longer hold 5 % or more of the shares in the Company.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Dividends

The Group did not pay any dividends in 2009 and 2008. No dividends relating to year 2009 have been proposed.

18. EMPLOYEE BENEFITS

Defined contribution plans

The Group has established defined contribution pension plans in some of its subsidiaries. The premium paid relating to these schemes in 2009 was USD 268 thousands (2008 – 2007: USD 320 thousands – USD 249 thousands).

Share based payments

The Group has three option programs that entitle 1) management and key personnel, 2) members of the Management Board and 3) members of the Supervisory Board to purchase shares in Funcom N.V., the parent company of the Group.

Option program in Funcom N.V.

The following options have been authorized by the shareholders meeting

Time of authorization	Number of options authorized	Expiry of authorization
May 10, 2005	1,250,000	May 10, 2008
November 30, 2006	1,000,000	November 30, 2008
December 19, 2008	3,000,000	December 19, 2010
Total number of options authorized	5,250,000	

For share options granted in 2009 and 2008, the exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior to and 5 trade days after the date of grant. Options are conditional on the employee remaining an employee or director of the Company on the date of exercise. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The below table shows the vesting period for each grant: (for outstanding options see separate table below)

Granted	Numbers granted	Vested in 2008	Vested in 2009	Vested in 2010	Vested in 2011	Vested in 2012
March 01, 2007	845,200	281,734	281,733	281,733		
June 14, 2007	260,000	86,668	86,666	86,666		
February 27, 2008	433,500		144,500	144,500	144,500	
December 19, 2008	300,000		75,000	225,000		
December 19, 2008	550,000		183,333	183,333	183,333	
March 05, 2009	2,088,300			696,100	696,100	696,100

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

List of outstanding options:	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2009	2009	2008	2008
Outstanding options on January 1	1,716,568	1.87	1,358,200	2.76
Options granted	2,088,300	0.65	1,283,500	1.48
Options exercised	0		62,500	0.49
Options terminated	203,100	2.68	122,400	3.69
Options expired	318,229	4.02	740,232	1.49
Outstanding options on December 31	3,315,439	1.07	1,716,568	1.87
Vested (exercisable) options	601,561	2.36	0	
Weighted Average Fair Value of Options Granted during the period	2,088,300	0.25	1,283,500	0.55

Out of the 3,315,439 outstanding options at December 31, 2009 (2008: 1,716,568), 283,332 were exercisable (2008: 0). Options exercised in 2009 resulted in 0 new shares (2008: 62,500 shares issued at USD 0.49 each).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price	Shares 2009	2008
September 01, 2009	NOK 17.78 – 35.77		367,429
June 19, 2010	NOK 2.85	183,333	183,333
September 01, 2010	NOK 17.78 – 35.77	318,231	367,431
September 05, 2010	NOK 3.8	677,100	
November 21, 2010	NOK 2.85	300,000	300,000
June 19, 2011	NOK 2.85	183,333	183,333
September 01, 2011	NOK 25.34	115,908	131,708
September 05, 2011	NOK 3.8	667,100	
June 19, 2012	NOK 2.85	183,333	183,333
September 05, 2012	NOK 3.8	677,100	
		3,315,439	1,716,568

Out of the outstanding options with an exercise price in the range between NOK 17.78 and 35.77, 152,334 options have an exercise price of NOK 17.78, 115,895 of NOK 25.34 and 50,000 of NOK 35.77.

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 1.43 NOK per option (2008: NOK 10.45). The significant inputs into the model were a weighted average share price of NOK 3.8 (2008: 13.18), at the grant date, the exercise price shown above, volatility of 75 % (2008: 72 %), dividend yield 0 % (2008: 0 %), an expected option life of 1 – 3.5 years, an expected annual turnover rate of 7 % and an annual risk free rate of 2.3 % (2008: 3.7 %). The volatility measured is based on the variation in daily share prices for Funcom over the last 3 years.

The following managers/directors possess options and/or own shares (directly or indirectly):

Name	Number of shares	Number of options	Comments
Supervisory board			
Torleif Ahlsand	100,000	100,000	Mr. Ahlsand – chairman of the Supervisory Board – is a partner of Northzone Ventures which owns 5.449.175 shares in the Company. Mr. Ahlsand owns 100 000 shares through his company Brownske Bevegelser AS
Michel Cassius	16,000	66,667	Mr. Cassius is a member of the supervisory board.
Hans Peter Jebsen	12,058,075	50,000	Mr. Jebsen and affiliates control 12.058.075 shares in the Company through Stelt Hol ding N.V. and Tom Dahl AS
Claus Højbjerg Andersen	0	50,000	Mr. Højbjerg Andersen is a partner of Nordic Venture Partners, which owns 5.208.325 shares in the Company
Frank Sagnier	0	50,000	Mr. Sagnier is a member of the supervisory board.
Management			
Trond Arne Aas	1,437,825	559,167	Mr. Aas is the CEO of Funcom N.V. and member of the Managment Board of Funcom N.V. 900.000 of the shares are owned by Arminius AS, a company controlled by Mr. Aas
Pieter van Tol	500	50,000	Mr. van Tol is a member of the Management Board of Funcom N.V. The shares are owned by Temmes Financial Services Ltd. a Company controlled by Mr. van Tol

19. PROVISIONS

In thousands of US dollars	Sales returns	Tax on capital increases	Onerous contracts	Total
Balance at January 1, 2009	2,508	628	2,344	5,480
Provisions made during the year		28	372	400
Provisions used during the year			-1,544	–1,544
Provisions reversed during the year	-1,758	-88	-150	-1,996
Exchange rate differences		11		11
Balance at December 31, 2009	750	579	1,022	2,351

The Company is in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities. The potential cost of this disallowance to the Company is around USD 579 thousands (including interest) (2008: USD 628 thousands). The Company believes it has arguments to dispute the capital duty liabilities and has filed formal appeals with the Dutch Supreme court. The Company is awaiting response from the Dutch Supreme court and cannot estimate the outcome of the proceedings at this time.

In 2008 the Group made provisions related to the service elements of non-cancellable lease contracts for servers that were not in use as at December 31, 2008. In 2009 further servers have been retired and additional provisions have been made. The provision has been made based on contractual obligations regarding the servers. In 2009 the Group has also made provisions for lease contracts relating to empty office premises. The provisions have been made based on an evaluation of the possibilities for subleasing office space and terms set by landlords for returning empty premises.

The provision for sales returns relates to an estimated and possible obligation for return of games sold and future price protection. The provision is based on data from a business partner. The liability will be subject to a closer review of the parties' legal positions and an evaluation of the impact on the business relationship with respect to this.

All provisions are expected to be fully used during the 2010 financial year.

20. DEFERRED INCOME

The amount consists of subscription prepayments from subscribers. In addition, a significant portion of the deferred income relates to prepayments of royalty income. In case of a dispute or a termination of the royalty contract, this part of the deferred income might be claimed by the business partner. Funcom considers the risk for such an event to occur to be remote.

21. OTHER SHORT TERM LIABILITIES

The amount mainly consists of:

- vacation pay accrued in Funcom Oslo AS
- finance lease liability (see note 23)
- taxes and social security relating to salary payments
- accrual of other regular operating expenses.

22. DISCONTINUED OPERATIONS

In July 2008, the Group sold its entire Mobile operations; this business area was not a discontinued operation or classified as held for sale as at December 31, 2007 and the comparative Statement of Comprehensive Income has been re-presented to show the discontinued operations separately from continuing operations.

Results of discontinued operations

In thousands of US dollars	2009	2008
Revenue	1,455	2,274
Expenses	-1,669	-3,007
Results from operating activities	-214	-733
Financial items	-28	-103
Income tax		320
Results from operating activities, net of income tax	-242	-516
Gain on sale of discontinued operation	506	
Income tax on gain on sale of discontinued operation		
Profit (loss) for the period	264	-516
Basic earnings (loss) per share (USD)	0.01	-0.01
Diluted earnings (loss) per share (USD)	0.00	-0.01
Cash flows from (used in) discontinued operations		
Net cash used in operating activities	-104	-144
Net cash from investing activities		-100
Net cash from financing activities	58	158
Net cash from (used in) discontinued operation	-46	-86

The effect in 2008 of disposal on the financial position of the Group was:

In thousands of US dollars	2008
Deferred tax assets	-384
Goodwill and other intangible assets	-1,520
Equipment	-15
Trade and other receivables	-597
Cash and cash equivalents	0
Long term liabilities	140
Trade and other payables	701
Net assets and liabilities	-1,675
Consideration received, satisfied in cash	1,329
Cash disposed of	0
Net cash inflow	1,329

23. LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2009	2008	2007
Less than one year	1,926	1,844	1,599
Between one and five years	5,435	6,270	5,570
More than five years	0	0	0
Total	7,361	8,114	7,169

The Group leases office premises in Switzerland, Canada, Norway, USA, China and Luxembourg. These leases typically run for a maximum of 5 years with an option to renew when they expire. Lease payments are index regulated every year according to the consumption price index.

During the year ended December 31, 2009, USD 1,786 thousands was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2008 – 2007: USD 1,485 thousands – USD 1,202 thousands).

Non-cancellable finance lease payments are payable as follows:

In thousands of US dollars	2009	2008
Less than one year	1,059	7,254
Between one and five years		2,602
Total	1,059	9,856
Less amount representing interest	-22	-541
Present value of future minimum lease payments	1,037	9,315
Representing	**2009**	**2008**
Amounts due in less than one year	1,037	6,997
Amounts due in between one and five years		2,318

The financial lease payments relate to server parks established for the purpose of hosting *Age of Conan*.

24. EARNINGS PER SHARE

The basic earnings per share are calculated as the ratio of the result for the period attributable to the equity holders of Funcom N.V. of USD –8,486 thousands divided by the weighted average number of ordinary shares outstanding 52,832,125 (2008: 52,785,378).

When calculating the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted for all the dilution effects relating to share options.

	2009	2008	2007
Profit / (loss) for the period attributable to the equity holders of Funcom (TUSD)	-8,486	-33,798	2,318
Profit / (loss) for the period attributable to the equity holders of Funcom (TUSD) – continuing operations	-8,486	-34,119	2,680
Issued ordinary shares as of January 1	52,832	52,770	47,745
Effect of shares issued			2,163
Effect of options excercised		16	179
Weighted average number of shares at December 31	52,832	52,785	50,087
Basic earnings per share	(0.16)	(0.64)	0.05
Basic earnings per share – continuing operations	(0.16)	(0.65)	0.05
Weighted average number of shares at December 31, basic	52,832	52,785	50,087
Effect of share options on issue		29	1,913
Weighted average number of shares at December 31, diluted	52,832	52,814	52,000
Diluted earnings per share	(0.16)	(0.64)	0.04
Diluted earnings per share – continuing operations	(0.16)	(0.65)	0.05

25. CONTINGENT LIABILITIES

As of December 31, 2009 the group has no contingent liabilities.

26. FINANCIAL INSTRUMENTS

The Group is exposed to foreign currency risk on sales, purchases and cash and cash equivalents denominated in other currency than the US dollar. The currencies giving rise to risk in respect of the Group's presentation currency are primarily Euro, Swiss franc, Norwegian Kroner and the Canadian dollar. Management has determined that US dollar is the appropriate presentation currency. The Group invoices all non-EU customers in US dollar and Russian ruble, while EU customers are invoiced in Euro, British pound and Polish zloty.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of US dollars	Carrying amount 2009	Carrying amount 2008
Loans and receivables*	1,889	4,804
Cash and Cash equivalents	30,948	39,396
	32,837	44,200

* Includes long term receivables of USD 508 thousands which relates to long term deposits on operational leases. (2008: USD 372 thousands)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

In thousands of US dollars	Carrying amount 2009	Carrying amount 2008
North America		100
Europe	1,239	2,922
Other regions		6
	1,239	3,028

Receivables on credit card service providers amount to USD 923 thousands of the trade receivables carrying amount at December 31, 2009 (2008: USD 2,840 thousands).

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	913		2,943	0
Past due 0-30 days	238		10	0
Past due 31-120 days	40		75	0
More than 120 days	1,043	995	38	38
	2,234	995	3,066	38

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

In thousands of US dollars	2009	2008
Balance at 1 January	38	
Impairment loss recognized	950	38
Translation difference	7	
Balance at 31 December	995	38

The impairment allowance made in 2009 relates to a claim that has been disputed by a business partner. Funcom has made a provision of more that 80 % of the claim. The receivable will be subject to a closer review of the parties' legal positions and an evaluation of the impact on the business relationship with respect to this.

Liquidity risk

The group manages liquidity by maintaining adequate reserves and banking facilities. Forecast and actual cash flows are monitored on a continuous basis. The following are the contractual maturities of non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements. The Group has no derivative financial liabilities.

As at December 31, 2009 In thousands of US dollars	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years
Trade and other payables	2,216	-2,241	-2,241		
Long term debt					
	2,216	-2,241	-2,241		

As at December 31, 2008 In thousands of US dollars	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1–2 years
Trade and other payables	7,514	-7,597	-7,023	-575	
Long term debt	1,037	-1,110			-1,110
	8,551	-8,707	-7,023	-575	-1,110

The long term debt as at December 31, 2008 consists mainly of financial lease payments due more than 1 year from the reporting date.

Currency risk

The Group is exposed to foreign currency risk on sales, purchases and cash and cash equivalents denominated in other currency than United States dollars. Large variations in Euro or Norwegian kroner exchange rate compared to US dollars could significantly influence the Group's Statement of Comprehensive Income. Even if management would implement an active hedging policy, a currency related risk, which may have an impact on the Statement of Comprehensive Income, would still exist. At present, the Group's cash position in Norwegian kroner and Canadian dollar is significant compared to its total assets denominated in US dollars. The majority of the operational expenses is currently denominated in Norwegian kroner and is perceived by the management as a natural hedge against the large position in Norwegian kroner.

The Group's exposure to foreign currency risk was as follows based on carrying amounts:

As at December 31, 2009 In thousands of US dollars	USD	EURO	NOK	CAD	OTHER
Trade and other receivables	622	660	593		15
Cash and cash equivalents	5,386	2,222	14,925	8,253	162
Trade and other payables	-1,257	-58	-887	-14	
Net balance sheet exposure	4,752	2,824	14,631	8,239	177

As at December 31, 2008 In thousands of US dollars	USD	EURO	NOK	CAD	OTHER
Trade and other receivables	2,504	1,811	463		25
Cash and cash equivalents	11,022	2,158	25,985		231
Trade and other payables	-3,407	-2,188	-2,810		-147
Net balance sheet exposure	10,119	1,781	23,639		109

The following exchange rates applied during the year:

Reporting rate	Average rate at December 31		Spot rate at December 31	
	2009	2008	2009	2008
EUR 1	1.389	1.454	1.433	1.410
NOK 1	0.158	0.179	0.172	0.142
CAD 1	0.941		0.953	

Sensitivity analysis
A 10 % weakening of the US dollars compared to NOK and EUR would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, e.g. interest rates, remain constant.

In thousands of US dollars	Equity	Profit or Loss
December 31, 2009		
EUR	66	38
NOK	-1,291	1,094
CAD	76	76
December 31, 2008		
EUR	258	247
NOK	1,830	1,139
CAD	n/a	n/a

A 10 % strengthening of the US dollars against the above currencies at December 31, would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk
At the reporting date the Group had no fixed rate financial instruments.

Sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rate at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In thousands of US dollars	2009	2008	2007
Long term financial leasing		1,037	1,618
Short term financial leasing	1,037	2,940	974
Cash and cash equivalents	30,948	39,396	52,366
Net exposed to interest risk	29,911	35,419	49,774
100bp increase in interest rate	269	343	444
100bp decrease in interest rate	-269	-343	-444

Fair values
Fair values versus carrying amount
The fair values of financial assets and liabilities, compared with the carrying amounts shown in the statement of financial position are estimated to be similar to their carrying value. For trade and other payables, bank overdrafts, trade receivables and other financial current assets and liabilities, the discount factor is not significant due to the short-term nature of the items. Non-current borrowings are on market terms and the difference between fair value and amortized cost is not material.

In thousands of US dollars	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
Loans and receivables	1,891	1,891	4,803	4,803
Cash and cash equivalents	30,948	30,948	39,396	39,396
Trade and other payables	-2,216	-2,216	-8,551	-8,551

27. TRANSACTIONS WITH RELATED PARTIES

Identification of related parties

The Group has a related party relationship with its subsidiaries (see note 28), members of the Board and with its executive officers.

Transactions with subsidiaries

There have been intercompany transactions between Group companies, and these transactions have been carried out on arm's length basis.

Remuneration to the Supervisory Board

On December 19, 2008, the General Meeting approved remuneration to the Supervisory Board for the year 2009 amounting to EUR 35,000 for the Chairman and EUR 12,000 for members. The remuneration for the year 2008 amounted to USD 77,533.

Remuneration to the Management Board

See below for information of remuneration paid to the CEO of the Group, who is also a member of the Management Board. Also see below information of remuneration paid to Pieter van Tol, also a Management Board member.

Remuneration to the Management Group

Overview of remuneration to management:

In thousands of US dollars	2009	2008	2007
Salaries and benefits in kind (short-term employee benefits)	1,677	1,608	2,224
Share-based payments	345	461	456
Pension plan contributions	26	37	43
Total remuneration	2,048	2,106	2,723

The CEO of the Group received in 2009 a total remuneration including pension of USD 287,820 (2008 – 2007: USD 231,052 – USD 286,851), he was also awarded a total of 0 share options in 2009 (2008: 500,000 at an exercise price of NOK 2.85). In 2009 a total of 0 options were exercised. The total allocated share options in Funcom N.V. comprised of 559,167 as at December 31, 2009 (2008: 1,695,200).

Shares owned by members of the Supervisory Board and the CEO

CEO Trond Aas had 1 437 825 shares directly and indirectly as of December 31, 2009 (2008: 1 437 825). Chairman of the Supervisory Board, Torleif Ahlsand, controls 100,000 shares in Funcom through his company Brownske Bevegelser AS. Hans Peter Jebsen, a member of the Supervisory Board and his closely related parties indirectly control 107,550 Funcom shares. Hans Peter Jebsen also indirectly controls 49 % of Stelt Holding N.V., which owns 11,950,525 Funcom shares. Michel Cassius, a member of the Supervisory Board and his closely related parties control 16,000 Funcom shares. Pieter van Tol, a member of the Management Board controls 500 shares. No other members of the Board have shares in Funcom.

Loans to employees

At December 31, 2009, a loan of USD 25,350 (2008: USD 27,167) was outstanding to an employee. The loan bears no interest and a calculated interest is reported to the tax authority as a taxable benefit.

Transactions with other related parties

Management Board member Pieter van Tol has received in 2009 a total remuneration including pension of USD 55,676 (2008 – 2007: USD 5,638 – USD 11,782). He was also awarded a total of 0 share options in 2009 (2008: 50,000 at an exercise price of NOK 2.85). In 2009 a total of 0 options were exercised. The total allocated share options in Funcom N.V. comprised of 50,000 as at December 31, 2009 (2008: 50,000). A fee of USD 110,226 for legal advice in 2009 (2008 – 2007: USD 220,497 – USD 226,850) has been paid to Weidema van Tol – a company in which Pieter van Tol has an interest. Pieter van Tol also has an interest in Temmes Management Services B.V. – which has been paid a fee of USD 5,955 in 2009 (2008 – 2007: USD 69,176 – USD 35,929). As at year end 2009 the outstanding amount between the Group and Weidema van Tol amounted to USD 9,023 (2008: USD 2,403), and between the Company and Temmes Management Services B.V. the amount was 0 (2008: USD 15,605). The services rendered from both these companies were on market terms.

28. GROUP ENTITIES

Group entities

The Company is the ultimate parent company to 8 wholly owned subsidiaries.

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2009	2008
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH	Switzerland	100.00	100.00
Funcom Beijing GmbH*	Switzerland	95.00	95.00
Funcom Games Canada Inc	Canada	100.00	N/A
Funcom S.a.r.l.	Luxembourg	100.00	100.00
Funcom Inc	United States	100.00	100.00
Funcom Oslo AS	Norway	100.00	100.00
Sweet Robot AS	Norway	100.00	N/A

* Funcom GmbH holds 1 share equal to 5 % of the outstanding shares.

29. CAPITAL MANAGEMENT AND RISK FACTORS

Capital management

The Supervisory Board policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Supervisory Board monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests.

The Supervisory Board is of the opinion that options to subscribe for shares in the Company are an effective incentive for the Funcom Group's employees and board members. The Company has therefore established a share incentive programme in order to stimulate continued growth and further development of the Group's business.

There were no changes in the group's approach to capital management during the year.

Risk factors

Management has discussed the various risks in Funcom and the implications of these risks. The risks described below do not constitute a full list of the risks the Company is exposed to. Additional risk factors may also impair the Company's operations.

REVENUE RISKS

Dependence on performance of individual games

Funcom's future income may be highly influenced by the performance of individual MMOs. If some of these MMOs attain low revenue numbers there may be a negative impact on future cash flows and the valuation of Funcom. Furthermore, the games in development are intended to be funding sources for the development of new titles, and lower cash inflows than expected could also have an indirect effect in terms of reduced revenues, earnings and cash flows from other games and the future funding requirements of the Company.

Dependence on the attractiveness of the licensed brands

The success of the new games is dependent on the attractiveness of the brands used for the games. The developments of these brands are often influenced by factors outside of Funcom's control and this may positively or negatively affect the performance of Funcom's games.

Dependence on consumer satisfaction

The commercial success of Funcom's games is to a high degree dependent on consumer satisfaction. Consumer satisfaction is dependent on the perceived fun factor, quality of service of the support and error correction services. Even though the Company strives to ensure high consumer satisfaction there is a risk that the consumers will be unsatisfied with Funcom products, the support and the number of bugs and errors in the products. Consumer satisfaction may also be affected by the gaming community related to the game.

Rating risks

Funcom is, as a developer of mature games, exposed to the risk that rating agencies in the various markets will set the allowed age level to play the Funcom games too high or too low and thereby potentially limiting the addressable market. Rating agencies may also change their rating policies, or fine Funcom for rating breaches, although Funcom always strives to adhere to rating regulations. Funcom may also receive the attention of special interest organizations focusing on the gaming industry, both through PR campaigns and through legal procedures. Actions of disloyal employees or outside parties by introducing unknown and controversial material into the games of the Company may constitute a risk for penalties or other actions from rating agencies.

Reviews

The commercial success of Funcom's MMOs may be, to a high degree, dependent on favorable reviews by the major gaming publications and sites. Should Funcom fail to meet the expectations this may have a negative effect in the review scores of its game and thereby potentially on the sales potential of the games.

DEVELOPMENT RISKS

Delay of product releases

For the current development projects, Funcom has a strong focus on making plans, analyzing risks, estimating time needed in each project phase and measuring progress. There is, however, an inherent development timeline risk in all software development, including in MMO game software development, and there is no assurance that development schedules will be held. If Funcom does not manage to release their games at the planned dates, the development budgets of the games may increase. There is also a risk that competitors will gain a foothold in the market at the expense of Funcom or that the games will be less competitive when launched due to advances of competitors, making users less willing to spend additional time and money on new games from Funcom.

Unsuccessful projects under development

Currently, there is a number of MMOs in development worldwide. Hence, consumers will have a number of options to choose between. Through the history of MMOs, the market has never accommodated many top-selling products at any one time. Even though the number of serious competitors to Funcom in the large-scale MMO-space, developers with the necessary skills, experience, and technological and financial resources in place, is limited, there is a risk that one or more of Funcom's games could be unsuccessful.

Difficulties in recruiting and loss of key employees

Funcom is dependent on the ability to recruit, motivate and retain highly skilled technical, managerial and marketing personnel. Funcom may experience difficulties in recruiting, motivating and retaining the necessary expertise and key employees, or may need to pay higher compensation, which could adversely affect operating results. Further, it should be taken into consideration that work permits can be difficult to obtain. Also there is a risk of losing vital information if key employees, for various reasons, leave Funcom.

External parties

Funcom's success depends also partly on the ability of the Company's partners to effectively fulfill their commitments. Funcom has partners in the areas of hosting and server administration, billing, publishing, sales and distribution, hardware as well as other areas such as co-development of free-to-play MMOs.

Difficulties in enforcing the Company's intellectual property and proprietary rights

Funcom's success depends on its proprietary game technology. Funcom relies on a combination of trade secret, copyright and trademark laws, non-disclosure agreements and contractual provisions to protect its proprietary rights. International copyright and trademark laws protect Funcom's technology. Existing trade secrets and copyright laws afford only limited protection, and unauthorized parties may attempt to copy aspects of Funcom's proprietary rights or to obtain and use information and technology that Funcom regards as proprietary. In addition, the laws of some foreign jurisdictions do not protect Funcom's proprietary rights in the same manner and to the same extent as the laws of the US, Switzerland and Norway do. There can be no assurance that the steps taken by Funcom to protect its proprietary rights will be adequate.

Intellectual Property Rights of others

Funcom operates in a competitive industry. Technology is evolving at a fast pace and innovating companies develop solutions in relatively close technological proximity.

This poses the risk that the Company could inadvertently encroach upon the protected rights of others, including rights protected by patents. This is the nature of the industry in which Funcom operates. Funcom is aware of the fact that there may be patents potentially forming basis of infringement claims. US patents and/or litigation in the US are particularly worrisome because there are a large number of US software patents in existence. There is also to a greater extent a culture for opportunistic patent litigation in the US. Infringement on copyrights, design rights and trademark law could surface as well. There is always an inherent risk of substantial claims related to infringement of intellectual property rights. Such claims could also have a negative impact on the various contracts of the company because infringement of intellectual property rights is likely to be construed as a material breach of contract.

TECHNICAL RISKS

Technological risks

The successful operation of an MMO depends on a large number of complicated hardware and software components that need to work successfully together. Any errors, bugs or viruses in any software may harm the operation of the MMOs and thus have an adverse effect on Funcom's ability to gain revenues. Similarly any errors, power failures, shortcuts etc. in any hardware component may harm the operation of the MMOs and thus have an adverse effect on Funcom's ability to gain revenues. Further, the games Funcom develop may not perform equally well on all PC configurations – impacting sales negatively. Although Funcom endeavors to reduce the technological risks before a game launch and during the operations of a game, these risks will always be present to some degree at launch.

Hacking

Funcom's MMOs may be subject to hacking activities. Any hacking activity may affect Funcom's ability to operate its MMOs, which will affect Funcom's ability to gain revenues.

Risks related to the Internet

Funcom's MMOs are operated on the Internet. Funcom's revenues are therefore dependent on the continued and uninterrupted operation of the Internet. Any adverse incident, hereunder but not limited to bugs, viruses, worms, etc. affecting the Internet may affect Funcom's ability to gain revenues.

Theft or loss of source code

Funcom's source code is stored in a fireproof safe, but is also available to employees working on the Company's games. Should all or parts of the source code be stolen or lost, this may affect Funcom's ability to gain revenues or reduce its technological edge in the market.

ECONOMIC RISKS

Macroeconomic fluctuations

Funcom is exposed to the economic cycle, since changes in the general economic situation could affect demand for Funcom's products. Computer games are used for entertainment and therefore the demand may decline during recession when disposable income decreases.

Variability of operating results etc.

Funcom's operating results may vary from month to month. Funcom's operating result may be hard to forecast due to unpredictable demand for its products, the competitive environment, other general economic and market conditions and unanticipated difficulties in pursuing Funcom's business strategy.

Changes in the gaming industry in general

The market for Funcom's products and services is competitive and trend oriented. Failure of Funcom to maintain competitive products and services offering could have a material adverse effect on Funcom. If the generally expected market growth fails to materialize, the profitability of MMOs is likely to suffer.

Contracts

Non-Swiss and non-Norwegian law governs several of Funcom's agreements. In addition, dispute resolution is set to venues in different places in Europe and the US. This may increase the legal risk and increase the costs in connection with the enforcement of any specific agreement.

International operations

Operations in international markets are subject to risks inherent in international business activities, including in particular general economic conditions in each such country, overlapping differing tax structures, managing an organization spread over various jurisdictions, currency fluctuations, and unexpected changes in regulatory requirements and complying with a variety of foreign laws and regulations.

Currency fluctuations
Because a considerable share of Funcom's business is conducted in currencies other than its functional currency, Funcom will be exposed to volatility associated with foreign currency exchange rates. Funcom invoices all non-EU customers in US dollar and Russian ruble, while EU customers are invoiced in Euro, British pound and Polish zloty. At present, the Group's cash position in Norwegian kroner and Canadian dollar is significant compared to its total assets. The majority of the operational expenses is denominated in Norwegian kroner and Canadian dollar and is perceived by the management as a natural hedge against the large position in Norwegian kroner and Canadian dollar. See note 26 for further information.

Tax exposure
The Company is incorporated in the Netherlands with subsidiaries in Norway, Switzerland, Luxembourg, Canada and the USA. The Group also has a representative office in China. The overall tax charge will depend on where profits are accumulated and taxed since these countries have different tax systems and tax rates. The Funcom Group is today taxed under a number of different legal systems with different laws for tax residency, tax credits and tax exemption rules. Consequently, the Funcom Group is exposed to changes of tax policies and changes of tax legislations, proactively and/or retroactively. The Company is of the view that it reports profits and losses in accordance with tax rules applicable to the Funcom Group. The tax authorities in the jurisdictions where the Funcom Group operates are not bound by the judgment of the Company, and there can be no assurance that they will agree with it. If one or more of the relevant tax authorities challenges the Company's view, this may result in an increased overall tax charge.

Sales tax exposure
The Group generates sales transactions from potentially all over the world. Because of this, the Group is exposed to different sales tax, including VAT issues. Should the group fail to comply with the different regulations it might lead to real cash costs, including irrecoverable VAT, penalties, and interest.

Deferred tax asset
The Group's tax losses are primarily located in the Swiss companies.

The Group's negative differences between the book value and the value for tax purposes of assets, which form the basis for the deferred tax assets, are primarily located in the Norwegian subsidiary.

The management has discussed to which extent the Group will be able to utilize the deferred tax asset, and has adjusted the amount in the statement of financial position accordingly.

In evaluating the Group's ability to utilize the deferred tax assets, all available positive and negative evidence has been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates Funcom management are using to run the underlying businesses. See note 11.

30. EVENTS AFTER THE REPORTING PERIOD
On January 7, 2010, Funcom hired Miguel Caron as new CEO for Funcom Games Canada INC.

On February 10, 2010, 78,500 options to acquire shares in the Company were granted to Mr. Miguel Caron – CEO of Funcom Games Canada INC. One third of the options vest each of the three years subsequent to the date of grant. The exercise of these options is subject to the Standard Terms under the Share Incentive Program of Funcom N.V. The exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior and 5 trade days after the date of grant.

There have been no material events other than as described above between December 31, 2009 and the date of authorization that would require adjustments of the consolidated financial statements or disclosure.

Funcom N.V.
Company Profit and Loss

For the year ending December 31, 2009

In thousands of US dollars	2009	2008
Results from participating interest after tax	-8.729	-34.218
Other income and expenses after tax	243	362
Net result from ordinary activities after taxation	-8.486	-33.856

Statement of Financial Position

After appropriation of result

In thousands of US dollars	Note	12/31/09	12/31/08
Investment in and receivables from group companies	1.2	54,058	58,158
Financial fixed assets		54,058	58,158
Prepayments and other receivables		3	740
Cash and cash equivalents		21	181
Total current assets		23	921
Total assets		54,081	59,079
Issued capital	5	3,029	2,979
Share premium	6	123,329	121,895
Legal reserves	7	30,228	26,647
Other reserves	8	-103,216	-93,168
Total equity		53,370	58,353
Accrued expenses		107	76
Provisions	10	579	628
Other current liabilities	3	25	22
Total current liabilities		710	726
Total equity and liabilities		54,081	59,079

Notes to the Company Financial Statements

PRINCIPLES OF VALUATIONS FOR THE FINANCIAL STATEMENTS

The company financial statements for Funcom N.V. have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code. The valuation of assets and liabilities and the calculation of the net result conform with the accounting principles applied in the consolidated annual accounts, except for participations which are valued at net asset value rather than at cost. This means that Funcom N.V.'s shareholders' equity and net result are the same as in the consolidated accounts.

An abridged Company Income statement is presented in accordance with section 402 of Book 2 of the Netherlands Civil Code.

1. INVESTMENT IN AND RECEIVABLES FROM GROUP COMPANIES

In thousands of US dollars	2009	2008
Receivables non-current	22,230	16,918
Shares	31,828	41,240
	54,058	58,158

2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2009:

Significant subsidiaries	Country of incorporation	Ownership interest in % 2009	2008
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH	Switzerland	100.00	100.00
Funcom Beijing GmbH*	Switzerland	95.00	95.00
Funcom Games Canada Inc	Canada	100.00	N/A
Funcom S.a.r.l.	Luxembourg	100.00	100,00
Funcom Inc	United States	100.00	100,00
Funcom Oslo AS	Norway	100.00	100,00
Sweet Robot AS	Norway	100.00	N/A

* Funcom GmbH holds 1 share equal to 5 % of the outstanding shares.

The movement in investments in subsidiary companies can be summarized as follows:

In thousands of US dollars	2009	2008
Balance at 01.01	41,240	76,484
Exchange difference	2,700	-916
Result of the year	-8,729	-34,218
Change in participation	-4,246	
Other movements	863	-110
Balance 31.12	31,828	41,240

3. OTHER CURRENT LIABILITIES

Other current liabilities in 2009 and 2008 relate to service providers.

4. ISSUED CAPITAL

The number of outstanding ordinary shares with a nominal value of Euro 0.04 was on

- January 1 52,832,125
- December 31 52,832,125

At December 31, 2009, the authorized share capital comprised of 250 million ordinary shares (2008: 250 million). The nominal value of the shares is Euro 0.04.The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

The share-capital was translated into US dollars at the December 31, 2009 exchange rate of EUR/USD 1.433.

Options

On March 1, 2007 585,200 options were allocated, and on June 14, 2007 260,000 options were allocated.

For the options granted in 2007 (845,200), the exercise period is from March 1, 2008 to June 1, 2010 with 1/3 of the options each year. The option holders lose the option if the employment with the Company ceases.

On February 26, 2008 the Company issued additional 443,500 options as a part of the Group's options program. The options vest with 33.33 % each 1 year, 2 years and 3 years from grant. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

On December 19, 2008 the Company issued additional 550,000 options as a part of the Group's options program. The options vest with 33.33 % each 1 year, 2 years and 3 years from grant. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

On December 19, 2008 the Company issued additional 300,000 options as a part of the Group's options program. 25 % of the options vest on May 21, 2009, and the remaining options vest on May 21, 2010. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

On March 5, 2009 the Company issued additional 2,088,300 options as a part of the Group's options program. The options vest with 33.33 % each 1 year, 2 years and 3 years from grant. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

Total authorized options at December 31, 2009 amounted to 0 (2008: 3,000,000). On December 31, 2009, the number of outstanding options allocated to directors, managers and other key personnel amounted to 3,315,439 shares (2008: 1,716,568).

Share issuances

In September 2008 the Company issued 62,500 shares from options. The issued shares were paid in cash at EUR 0.49 per share (USD 0.69). Gross proceeds amounted to EUR 30,625 (USD 40,114). Total number of issued shares after this transaction was 52,832,125.

On December 19, 2008 Funcom held an Extraordinary General Meeting where, pursuant to Section 4.1 of Funcom N.V.'s articles of association, the Board of Supervisory Directors were authorized to issue new shares in Funcom N.V. up to a maximum of 10 % of the issued capital of Funcom N.V. as per the date of the Meeting and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, designate (aanwijzen), pursuant to Section 4.9 and 4.1 of Funcom N.V.'s articles of association, authorized to issue up to a maximum 3,000,000 (three million) rights to acquire shares in the capital of Funcom N.V. and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.3 of the Funcom N.V.'s articles of association authorized to limit or exclude the pre-emptive rights of the shareholders of Funcom N.V. in relation to each or any issuance of shares, or granting of rights to acquire shares, in the capital of Funcom N.V. This designation of the Board of Supervisory Directors is also valid for 2 years from the date of the Meeting.

Lastly, in this extraordinary general meeting, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Board of Managing Directors were authorized for a period of 18 months from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5 % or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders *) had disclosed that they owned more than 5 % of the Company's total share capital on January 1, 2010:

- Stelt Holding N.V. (22.62 %)
- Northzone IV K/S (10.32 %)
- Nordic Venture Partners (9.86 %)

*) there are two additional registrations but according to Funcom's records, these no longer hold 5 % or more of the shares in the Company.

5. SHARE CAPITAL

In thousands of US dollars	2009	2008
Balance at January 01	2,979	3,109
Exchange	50	-134
Addition share-capital		4
Balance December 31	3,029	2,979

6. SHARE PREMIUM

In thousands of US dollars	2009	2008
Balance at January 01	121,895	120,916
Share based payments	743	855
Change in provision for capital duty	60	87
Addition share premium		36
Other	631	
Balance December 31	123,329	121,895

7. LEGAL RESERVES

Legal reserves are non distributable to shareholders.

8. OTHER RESERVES

In thousands of US dollars	2009	2008
Balance at January 01	-93,168	-131,876
Exchange effect on share-capital	-50	134
Exchange effect on subsidiaries	2,700	-916
Movement to legal reserves	-3,581	73,289
This year's result	-8,486	-33,856
Other movements	-631	57
Balance at December 31	-103,216	-93,168

9. SHARE BASED PAYMENTS

The options allocated are expensed as share based payment in the subsidiary where the option holders are employed.

10. PROVISIONS

Dutch capital duty	2009	2008
Balance at January 1	-628	-715
Interest calculation	-28	-37
Aging of claims	88	75
Exchange	-11	49
Balance at December 31	-579	-628

The Company is in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities. The potential cost of this disallowance to the Company is around USD 579 thousands (including interest) (2008: USD 628 thousands). The Company believes it has arguments to dispute the capital duty liabilities and has filed formal appeals with the Dutch Supreme court. The Company is awaiting response from the Dutch Supreme court and cannot estimate the outcome of the proceedings at this time.

11. EMPLOYEES

The average number of employees in Funcom N.V. for 2009 was 1 (2008: 0).

12. REMUNERATION OF THE MEMBERS OF THE MANAGING BOARD

Total remuneration

The remuneration to the members of the Managing Board is determined by the remuneration committee within the framework of the remuneration policy as approved by the shareholders meeting on July 16, 2007. More details about the remuneration policy are included in the remuneration report.

The total remuneration (including pension expenditures and other commitments) of the members of the Managing Board amounted to USD 343,496 (2008: USD 385,407). The remuneration of the individual members of the Managing Board was as follows:

The CEO of the Group, who is also a member of the Management Board, received in 2009 a total remuneration including pensions of USD 287,820 (2008 – 2007: USD 231,052 – USD 286,851).

Pieter van Tol received in 2009 a total remuneration including pensions of USD 55,676.

Outstanding and exercised stock incentives

The following table shows the stock incentives of the individual members of the members of the Managing Board:

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2008	In 2009			Outstanding on Dec. 31, 2008	Exercise price	Expiry date
			Granted	Exercised	Forfeited/ Expired			
Trond Arne Aas								
Stock options	2007	9,167			9,167		NOK 17.78	9/1/09
	2007	9,167				9,167	NOK 17.78	9/1/10
	2007	50,000			50,000		NOK 35.77	9/1/09
	2007	50,000				50,000	NOK 35.77	9/1/10
	2008	166,666				166,666	NOK 2.85	6/19/10
	2008	166,666				166,666	NOK 2.85	6/19/11
	2008	166,666				166,666	NOK 2.85	6/19/12
Total		618,332			59,167	559,165		
Of which vested						166,666		
Pieter van Tol								
Stock options	2008		16,666			16,666	NOK 2.85	6/19/10
	2008		16,667			16,667	NOK 2.85	6/19/11
	2008		16,667			16,667	NOK 2.85	6/19/12
Total			50,000			50,000		
Of which vested						16,666		

Shares

At year end 2009 the members of the Managing Board including related parties held 1,438,325 shares (year end 2008: 1,438,325).

Loans

The company does not provide any loans to members of the Managing Board.

13. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

A General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Chairman of the Remuneration Committee. In 2009, the total remuneration to the Supervisory Board came to EUR 83,000 (USD 118,967) (2008: EUR 55,000 – USD 77,533). The Chairman of the Supervisory Board's remuneration was EUR 35,000 and the other Supervisory Board members' remuneration was EUR 12,000. The fees for 2009 are outstanding by the end of the year.

The remuneration of the individual members of the Supervisory Board for 2009 was as follows:

	in €
Torleif Ahlsand (chairman)	35,000
Hans Peter Jebsen	12,000
Claus Højbjerg Andersen	12,000
Michel Cassius	12,000
Frank Sagnier	12,000
Total	83,000

Stock options

The following table outlines the conditions for the options granted to the Supervisory Board members:

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2008	In 2009 Granted	Exercised	Forfeited/ Expired	Outstanding on Dec. 31, 2009	Exercise price	Expiry date
Torleif Ahlsand								
Stock options	2008		25,000			25,000	NOK 2.85	11/21/10
	2008		75,000			75,000	NOK 2.85	11/21/10
Total			100,000			100,000		
Of which vested						25,000		
Michel Cassius								
Stock options	2007	16,667			16,667	0	NOK 35.77	1/9/09
	2007	16,667				16,667	NOK 35.77	1/9/10
	2008	12,500				12,500	NOK 2.85	11/21/10
	2008	37,500				37,500	NOK 2.85	11/21/10
Total		83,334			16,667	66,667		
Of which vested						29,167		
Frank Sagnier								
Stock options	2008		12,500			12,500	NOK 2.85	11/21/10
	2008		37,500			37,500	NOK 2.85	11/21/10
Total			50,000			50,000		
Of which vested						12,500		
Claus Højbjerg Andersen								
Stock options	2008		12,500			12,500	NOK 2.85	11/21/10
	2008		37,500			37,500	NOK 2.85	11/21/10
Total			50,000			50,000		
Of which vested						12,500		
Hans Peter Jebsen								
Stock options	2008		12,500			12,500	NOK 2.85	11/21/10
	2008		37,500			37,500	NOK 2.85	11/21/10
Total			50,000			50,000		
Of which vested						12,500		

14. AUDIT FEES

The Group's auditors received a total fee of USD 66,729 (2008 – 2007: USD 53,277 – USD 55,440). The fee is distributed within these services and is not including VAT;

▪ statutory audit services	66,729
▪ further assurance services	0
▪ tax advisory services	0
▪ other non-audit services	0

15. TRANSACTIONS WITH RELATED PARTIES

Management Board member Pieter van Tol has received in 2009 a total remuneration including pension of USD 55,676 (2008 – 2007: USD 5,638 – USD 11,782). He was also awarded a total of 0 share options in 2009 (2008: 50,000 at an exercise price of NOK 2.85). In 2009 a total of 0 options were exercised. The total allocated share options in Funcom N.V. comprised of 50,000 as at December 31, 2009.(2008: 50,000). A fee of USD 92,555 for legal advice in 2009 (2008 – 2007: USD 133,620 – USD 141,652) has been paid to Weidema van Tol – a company in which Pieter van Tol has an interest. Pieter van Tol also has an interest in Temmes Management Services B.V. – which has been paid a fee of USD 0 in 2009 (2008 – 2007: USD 0 – USD 0). As at year end 2009 the outstanding amount between the Group and Weidema van Tol amounted to USD 9,023 (2008: USD 2,403), and between the Company and Temmes Management Services B.V. the amount was 0 (2008: USD 0). For the services rendered from both these companies the Group did not pay above market price.

Zurich, April 13, 2010

The Supervisory Board of Directors in Funcom N.V.

Torleif Ahlsand, Chairman

Michel Cassius, Vice-Chairman

Hans Peter Jebsen

Frank Sagnier

Claus Højbjerg Andersen

The Managing Directors of Funcom N.V.

Trond Arne Aas

Pieter van Tol

Funcom N.V.
Other information

STATUTORY ARRANGEMENT IN RESPECT OF THE APPROPRIATION OF THE RESULT FOR THE YEAR

In accordance with Article 34.1 of the Company's statutes, the result for the year is at the disposal of the shareholders in general meeting.

PROPOSED APPROPRIATION OF THE RESULT FOR THE YEAR

The Supervisory directors propose to allocate the loss for the year to uncovered losses.

EVENTS AFTER THE REPORTING DATE

On January 7, 2010, Funcom hired Miguel Caron as new CEO for Funcom Games Canada INC.

On February 10, 2010, 78,500 options to acquire shares were granted to Mr. Miguel Caron – CEO of Funcom Games Canada INC. One third of the options are vested each of the three years subsequent to the date of grant. The exercise of these options is subject to the Standard Terms under the Share Incentive Program of Funcom N.V. The exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior and 5 trade days after the date of grant.

There have been no material events other than as described above between December 31, 2009 and the date of authorization that would require adjustments of the consolidated financial statements or disclosure.

To: the shareholders of Funcom N.V.

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2009 of Funcom N.V., Katwijk. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income , the statement of changes in equity and the statement of cash flows 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 2009, the company profit and loss account for the year then ended and the notes.

MANAGEMENT'S RESPONSIBILITY

The Management Board 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 directors´ report 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 our 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 company'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 company'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.

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Mazars Paardekooper Hoffman Accountants N.V.
With its registered office in Rotterdam (KvK Rotterdam nr. 24402415).
016186/005SvS/DK

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 Funcom N.V. as at 31 December 2009, 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 Funcom N.V. as at 31 December 2009, 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 REQUIREMENTS

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

Amsterdam, 13 April 2010

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

w.s. drs. R.C.H.M. Horsmans RA RV

Investor Relations Policy for Funcom N.V.

Funcom is committed to providing the financial markets with precise, relevant, timely and consistent information on matters that are of material significance for the valuation of securities issued by the Company whenever Funcom is the appropriate source for such information. Funcom strives to ensure that the information it provides to the financial markets gives market players the best possible basis to establish a precise picture of the Company's financial condition and factors that may affect its future value creation.

This IR policy was approved by the Funcom Supervisory Board on 21 March 2007. The policy has since been revisited and approved by the Supervisory Board in February 2008, February 2009 and December 2009.

EQUAL TREATMENT

Funcom uses the Oslo Stock Exchange company message system to ensure the simultaneous release of price sensitive information to the financial markets. The Company's web site is the principal source of other information on Funcom for the financial markets. In addition financial and Company information can be found at the Dutch Chamber of Commerce in the Netherlands. The website: www.kvk.nl

Funcom applies a consistent policy to the release of information regardless of whether the contents are of a positive or negative character.

SPOKESPEOPLE FOR THE COMPANY

The Management Board and the Chief Financial Officer are the Company's spokesmen for contact with the financial markets.

PUBLICATION OF PRICE SENSITIVE INFORMATION

Funcom routinely and promptly publishes information in respect of material contracts and investment spending and any other material changes or events that might have an effect on the Company's share price once the decision in question has been taken at the appropriate level in the group and, where relevant, agreement has been reached with the appropriate third party. It is the Company's policy not to comment on rumors or speculation about such matters.

GUIDANCE

Funcom does not provide guidance on quantitative targets for the Company's future turnover, earnings, return on equity or cash flow. Following the close of each quarter, the Company publishes the Company's view on general market conditions in the industry in which it operates.

RELATIONSHIP WITH INVESTMENT ANALYSTS, EARNINGS FORECASTS AND MARKET EXPECTATIONS

Funcom routinely monitors the research reports and forecasts published about the Company. If Funcom becomes aware of a significant positive or negative discrepancy between the development of the Company's turnover or earnings and the level of expectations in the financial markets for the current financial year, as expressed by earnings forecasts, it will advise the market of the discrepancy by issuing a stock exchange announcement.

The Company may agree to review research reports prior to their publication, but its comments will be limited to correcting errors of fact and any errors in the presentation of information that the Company has itself released to the market through stock exchange announcements or by publication on its web site. Funcom will not make any comment on earnings forecasts or any other form of evaluation produced by investment analysts or investors.

Funcom does not distribute research or reports on the Company produced by third parties, and will only inform potential investors of all of the investment banks that routinely follow the Company.

SILENT PERIOD

For a period of four weeks prior to the publication of each interim quarterly report, Funcom will minimize its contact with investment analysts, investors and journalists. This policy has been adopted to minimize the risk of any unequal treatment of different parties in the market.

Financial Calendar for Funcom 2010

Funcom N.V. will publish its financial statements on the following dates in 2010:	
▪ February 19	- Q4 2009
▪ May 21	- Q1 2010
▪ August 27	- Q2 2010
▪ November 12	- Q3 2010
Annual general meeting: May 18, 2010	

The dates are subject to change.

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