FUNCOM N.V. | ANNUAL REPORT 2012

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About Funcom

Funcom is a world leading independent developer and publisher of massively multiplayer online games (MMOGs).

Funcom was founded in 1993 and during the twenty years that have followed since then the company has developed and published over 25 game titles across several genres and gaming platforms. Most notable of these are the online games *The Secret World*, *Age of Conan* and *Anarchy Online*, as well as the adventure games *The Longest Journey* and *Dreamfall*.

There are currently nearly 120 talented individuals from dozens of different nationalities working at Funcom, spread out across studios in Canada, Norway the United States and China. This makes Funcom one of the most multi-cultural game development studios in the world, and Funcom is after twenty years of operation one of the largest and most influential independent game development studios in the business.

The company is currently working on completing the upcoming massively multiplayer online game with the Lego *Minifigures* brand. Based on the hugely popular *Minifigures* franchise, the game sends players off on great adventures through themed worlds all built in the beloved and instantly familiar LEGO® style. Block by block and piece by piece, Funcom is currently working towards bringing the game into its first beta phase during the first half of 2014. The development of the LEGO *Minifigures* game is an important part of Funcom's new corporate strategy of building more focused, high quality games that have a high degree of community and player interaction and require less time and cost to bring to market.

Funcom has a highly skilled live services team situated at its Durham, North Carolina studio, which primary task is to support, expand and enhance the company's three major live games *The Secret World*, *Age of Conan* and *Anarchy Online*. Launching in July 2012, *The Secret World* is the company's latest massively multiplayer online game, and the game has received both critical and public acclaim for its unique take on the classic MMO formula. In late 2012 the game moved to a buy-to-play business model, which proved successful with server activities increasing significantly following the move.

Age of Conan launched in 2008 and has since then sold more than 1.5 million copies and the game is estimated to have generated over 125 million USD to Funcom and its partners. Following the move to a free-to-play business model, more than 3.2 million players have signed up to play in the virtual Hyboria to date. *Anarchy Online*, the company's first MMO, has been in operation for more than 11 years and has served over 225 million hours of entertainment thanks to the more than two million gamers who have set foot on the virtual world of Rubi-ka.

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 and all its associated tools gives the developers the flexibility and power needed to create some of the most advanced virtual worlds on the market. After years of continuous development and upgrades, Dreamworld has become one of the most powerful game engines available.

The company has also proven itself in the free-to-play and social games market, having successfully developed and delivered *Fashion Week Live* and *Pets vs. Monsters* at its Montreal studio. *Fashion Week Live* provided hundreds of thousands of Facebook fashionistas with hours of entertainment throughout 2012, and *Pets vs. Monsters* has proven that Funcom can develop high quality massively multiplayer online games for a younger audience.

Funcom has also established a mobile and tablet development team at the Montreal studio, and the team is currently busy working on two new LEGO® titles for those platforms. The company is also pursuing work-for-hire opportunities for the Montreal studio.

Funcom is a publicly listed company on the Oslo Stock Exchange under the ticker 'Funcom'.

For more information, visit www.funcom.com.

Letter from the CEO

It is a pleasure for me to be able to sit down and pen my very first CEO letter, just a little over nine months after stepping into the role.

I assumed the position as the head of the Funcom Group in July 2012 during one of the most critical and exciting moments in the company's history. We had just released our third and biggest massively multiplayer online game yet; *The Secret World* was the most elaborate project the company had ever undertaken and after years of production we had finally polished it off, tied the bow and handed it over to our fans. It was also a challenging time. We had high expectations for *The Secret World* and even though we pulled off a smooth, technically successful launch, the game simply did not live up to the pre-launch sales indications.

That took us by surprise, and for me personally, it meant that my new job suddenly became very different from how I had envisioned it was going to be when I first took the company reins. Still I was absolutely determined to see this through and turn the situation around, and without any delay, it was time for us to roll up our sleeves and face the challenges.

One of my main priorities was continuing the work we had started on mapping out the future course for the company, planning the implementation of the new company strategy of building more focused and more cost-effective high quality games. As we had announced just a few months earlier, following the launch of *The Secret World* Funcom would move away from the big-budget productions that had largely dominated the latter half of the company's now twenty year long history. It signaled a significant course-change for Funcom, but it was a change we felt very comfortable with having already built up the technology, knowledge and expertise developing smaller-scale games such as *Pets vs. Monsters* and *Fashion Week Live*.

When your business is in an industry which so intensely moves on the very cutting-edge of art, science and technology, being able to adapt and change course becomes crucial. Funcom has reinvented itself many times and that is perhaps the most important reason why we have been able to keep creating unique gaming experiences that have been enjoyed by millions of people all over the world. Where many other companies regrettably have had to close their doors, Funcom has endured for over twenty years and it should come as no surprise that we plan to stick around for many years to come.

One of the key ingredients for our success and our longevity is our own proprietary Dreamworld technology platform. In 2012 the company continued to advance the tools and the core technology as we worked on finalizing *The Secret World*, and today Dreamworld represents some of the best the industry has to offer in terms of speed, flexibility and power. We consider it the ultimate platform for developing massively multiplayer online games and we are continuously adapting and enhancing it to fit the requirements of the new games we put into production. Right now we are in the process of creating a Flash engine for Dreamworld which will allow us to put high-quality, Dreamworld powered games right into people's browsers. That is an incredibly exciting achievement. During the second half of 2012, our team also adapted the Dreamworld technology to the highly specialized needs of our new MMO based on the LEGO® *Minifigures* brand, a game which represents the very essence of our new company strategy of building more focused, more cost-efficient high quality games.

The fact that we are able to quickly adapt our technology is part of the reason why progress on the LEGO® *Minifigures* game is tracking so well. In just six months after development began, we have gone from drawings on the whiteboard to actually being able to jump into the game to explore pirate and medieval themed worlds, discover the immensely enjoyable minifigures, battle enemies and watch it all unfold in colorful, highly animated graphics that stays true to the spirit of LEGO®. I am very excited about the project and the promise it holds for Funcom's future and our ability to deliver games in line with our new strategy. Funcom has established a centralized live team at our North Carolina studio which will continue to support, enhance and expand our three major live games *The Secret World*, *Age of Conan* and *Anarchy Online*. We also announced that we have established a mobile and tablet development team at our Montreal studio which is already hard at work building two new LEGO® titles. With Funcom's long history developing rich and groundbreaking games for a variety of platforms, I believe we have a unique edge going into mobile and tablet development, an edge many of the developers who have only operated in that segment often lack. Going forward, Funcom will pursue more opportunities in the work-for-hire space as part of our efforts of building a stronger revenue model for the company while we develop new technology and enable ourselves to build internal games that are in line with our new strategy. We are also pursuing opportunities within the live services space, where our long-term goal for the future is building an additional, sustainable business for the company on the back of our industry-leading technology, tools and expertise in the field of live game operations.

I am incredibly proud of what my team of managers and employees across our studios has accomplished in our work towards creating a new and exciting future for Funcom. In 2013 we celebrate twenty years in the business. This is undoubtedly an exciting time, not only for those of us who have the pleasure of working at Funcom, but also for those of you who keenly follow our developments whether you play our games or watch from the sideline. We remain steadfast in our vision of pursuing excellence within the field of game development, and the new, revitalized Funcom will continue to deliver quality entertainment for years to come.

Ole Schreiner

Chief Executive Officer,

The Funcom Group

The Secret World

Launched in July 2012, *The Secret World* introduced a modern-day setting and freeform gameplay systems which innovated on the established formulas of the massively multiplayer genre.

The Secret World is a unique massively multiplayer online game set in the real, modern-day world, where players get to shape their character exactly the way they want without the confinements of classes or levels. Infused with magical powers soon discovered when entering the game, players are asked to join one of three secret societies -- the Illuminati, the Templars or the Dragon -- and join in a fight against each other as well as against the darkness encroaching on our world.

Using Funcom's proprietary *Dreamworld* engine, *The Secret World* is the company's third generation massively multiplayer online game and was developed by former members of the *Age of Conan* team, the *Dreamfall* team and the *Anarchy Online* team. Prior to launch, more than 1.5 million people had registered their interest in participating in the beta test for *The Secret World*, and all the way up to launch the game maintained the position as one of the top three most anticipated MMOs in development.

The press attention for *The Secret World* was significant prior to launch, and the game was featured on the holiday cover of PC Gamer US in 2011. Through a series of press events during its development process, the game repeatedly saw positive previews from gaming magazines and websites around the world.

Following one of these press events, Videogamer.com heralded the game as *"... one of the most distinctive MMOs of the last 10 years."* Media outlets such as G4TV, MMORPG.com and Rock, Paper, Shotgun singled out *The Secret World* as one of the most anticipated games of 2012.

In April 2012, Funcom kicked off an impressive social media campaign for the game called *The Secret War*. The campaign included a full-fledged browser game where players from all over the world had to recruit their friends and actively take part in securing influence for their secret society on a world map that was constantly changing by the second based on player interaction. More than 250.000 players took part in the pre-launch social media campaign, with nearly two million unique visitors checking in on the campaign in just three weeks. The campaign allowed players to take part in the faction conflict in *The Secret World* even before the game's launch, and saw significant player engagement both inside and outside of the game's community.

The Secret World launched in July 2012 and immediately saw very positive reviews in the gaming press. Hyper Magazine gave the game a 9/10 score, saying *"... this could be the most important MMO since 'World of Warcraft'"*. NowGamer awarded the game a 8.3 score, praising the game's excellent graphics saying the *"... DirectX 11 visuals challenge the limits of what we would credit an MMO as capable of achieving."* The reactions from players were very positive, and the game still maintains a 8.2 user score on MetaCritic.com and it is also the second highest rated released game on MMORPG.com, just behind the hugely successful *Guild Wars 2*.

The Secret World did not live up to Funcom's sales expectations despite very positive indications prior to launch. Despite the lack of sales success, Funcom declared early after launch that the company would continue to support and expand the game and work towards bringing more players into the game through specific development and marketing activities.

Following launch, the development team immediately went to work on a comprehensive post-launch update plan that revolved around the release of Issues, story-driven content updates which would introduce more of the high-quality experiences players had come to expect. In just six months during 2012 the team released an impressive five issues altogether, firmly establishing *The Secret World*'s position as one of the most dynamic and quickly expanding MMOs available.

In December 2012, in an effort to bring more players into the game, Funcom moved *The Secret World* over to a Buy-to-Play business model to further increase the game's revenue potential. The move was an immediate success, with overall sales increasing by more than 30% and activity on the servers increasing fourfold. The game received significant attention during the move, also thanks to Funcom's *End of Days* themed PR and social media campaign that conceded with the apocalyptic craze that was so prevalent in late 2012.

Funcom continues to focus on enhancing and expanding *The Secret World* and it will remain an important part of the company's core business in 2013.

For more information, visit www.thesecretworld.com

Age of Conan: Hyborian Adventures

Launched in May 2008, Age of Conan quickly became a success in retail, and the game has sold more than 1.5 million copies worldwide. After moving to a Free-to-Play business model, more than 3.2 million players have signed up to play in the virtual Hyboria.

Age of Conan became an immediate success when it launched in May 2008. In North America and Europe, *Age of Conan* became the third best-selling PC game that year, only beaten by World of Warcraft and Spore, and in the weeks after launch it topped the charts in 17 countries. This showed the significant interest in the market for the game, further highlighted by the fact that the *Age of Conan* website received more than 15 million unique visitors during 2008.

The sales success of the game illustrates Funcom's ability to market and deliver games with great appeal. In 2010, Funcom released the first retail expansion for *Age of Conan* titled Rise of the Godslayer. The expansion was very well received by both players and the press, and maintains a Metacritic score of 83 and a user score of 8.5 on the same website. The expansion added a tremendous amount of new content to the game in shape of new Asian-themed landscapes, powerful mounts such as the tiger and wolf, new monsters and all new quests.

In 2011, *Age of Conan* moved to a Free-to-Play business model. This move revitalized the game and introduced it to a brand new audience, which resulted in significantly increased activity levels on the servers with a fourfold increase of players during the third quarter of the year. Since moving to Free-to-Play, more than 3.2 million players have signed up to play in the virtual Hyboria, and *Age of Conan* continues to attract new and returning barbarians every day.

2012 was a very stable year for *Age of Conan*. Several updates were made to the game which introduced new content and systems which were well-received by its audience. Funcom kept working to streamline and expand the in-game store which continues to provide the company with significant revenue, and the Free-to-Play model has been constantly improved to better serve the company, the game and its players. In the fourth quarter of 2012 Funcom released the much anticipated Secrets of Dragon's Spine content update which added a whole new desert themed region and dungeons for veteran players.

Despite a continually competitive space, performance on *Age of Conan* continued to be stable and the project remained cash-flow positive. The new centralized live team at Funcom's North Carolina studio will ensure that the game continues to receive a continuous flow of updates and improvements to the game to keep players entertained and the project cash-flow positive.

Age of Conan continues to see gameplay and technology improvements as part of the continued optimization and enhancement done to the company's proprietary Dreamworld technology platform. With *Age of Conan* sharing this same technology platform with *The Secret World*, the game has been able to benefit from the advancements done to Dreamworld as part of the development and post-launch additions done to *The Secret World*.

In 2012, Universal Studios and Paradox Entertainment announced that a new Conan film will enter production in 2013 and that the film will star the original Conan star Arnold Schwarzenegger. Funcom worked closely with Paradox Entertainment and Lionsgate on the 2011 Conan the Barbarian film and introduced a wealth of new content to the *Age of Conan* game that tied in with the picture. The company aims to repeat that success with the new, upcoming Conan film.

For more information, visit www.ageofconan.com.

Anarchy Online

Launched in 2001, *Anarchy Online* is a pioneer in the massively multiplayer online game and was one of the first science fiction themed games in its genre. Players actively participate in the conflict raging between the Rebel and Omni-Tek factions, a conflict set on the alien world of Rubi-ka more than twenty thousand years into the future.

Anarchy Online is synonymous with depth and breadth. From its both numerous and enormous landscapes to its complex progression systems which provides players with almost unlimited choices in character advancement, *Anarchy Online* is an MMO that players can lose themselves in for months and even years. Even an astounding 11 years after its original launch, many of Rubi-ka's original settlers still inhabit the alien world, and new players continue to join every day.

Anarchy Online and its many content updates have won numerous awards, including *Best Massively Multiplayer Game* by PC Gamer (March 2002), *Expansion Pack of the Year* by Computer Gaming World (2002) for *Notum Wars*, and nine Editor's Choice Awards for the massive *Shadowlands* expansion.
One of the reasons *Anarchy Online* keeps going strong an amazing 11 years after its original launch, is much thanks to its close knit community and focus on player-developer interaction. The game also features a vast amount of in-game content spread out over 400 zones and more than 400 square kilometers of playable area. *Anarchy Online* is also known for its deep game-specific mechanics that are very different and very unique from many of its competitors. There are three distinct progression systems in *Anarchy Online* featuring 290 combined levels, 83 character skills, and thousands of items that adds to the game's incredible depth.

The game has pioneered the use of innovative business models throughout the years, such as digital download in 2002, the Free-to-Play hybrid model in 2004, and in-game advertisement in 2005. Currently, *Anarchy Online* enjoys a *Free-to-Play* business model with a browser-based item shop. While subscriptions still continue to generate the bulk of revenue for the project, increased focused on the item shop has brought in additional revenue in 2012.

In 2012, *Anarchy Online* was updated with a new browser-based in-game trading system. In addition, substantial work was completed on the new player experience and the new graphics engine which is currently in the internal beta phase. *Anarchy Online* also completed a full migration to new server hardware in order to considerably extend the lifespan of the game on a technical level. The team's focus moving forward is the new graphics engine which will greatly improve the visual quality of the game. Funcom released several screenshots and short video clips of the new graphics engine to the community in 2012, and feedback has been very positive across the board. The new player experience which will be introduced in 2013 will help draw more players into the game and improve conversion from free players to subscribers.

Anarchy Online remains cash-flow positive and the company is greatly encouraged by the game's long-term performance in the MMO space. More than two million players have set foot on Rubi-ka, and the game has served over 225 million hours of entertainment. *Anarchy Online* is undoubtedly an important part of Funcom's twenty year long history, and the company remains committed to putting focus and resources into making the experience even more enjoyable for both new and existing players.

For more information, visit www.anarchy-online.com.


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Lego Minifigures

In June 2012 Funcom signed a license agreement with the LEGO Group to develop a massively multiplayer online game based on the hugely popular LEGO® *Minifigures* line of collectible play materials for the PC and tablet platforms.

In 2012 Funcom announced that following the launch of *The Secret World*, its third large-scale MMO, the company would explore a different direction and pursue a new strategy of building more focused and more cost-effective games. An important part of that strategy was the signing of a license agreement with the LEGO Group to develop an MMO based on their hugely popular LEGO® *Minifigures* franchise, a production that would be in line with the new company's new development strategy.

After signing the license agreement in June 2012, a core team of highly experienced developers immediately went to work on customizing Funcom's proprietary Dreamworld technology for use in the game. In the months that followed the team made amazing strides in the development of the game and in just a few months the team had completed a fully playable alpha version of the game. Thanks to Funcom's robust internal development tools and a streamlined and highly efficient collaborative process with the LEGO Group, the team has been able to create LEGO themed content at a very impressive pace.

LEGO *Minifigures* are the inhabitants of an unimaginable number of spectacular creations put together by both kids and grown-ups all over the world. Whether it is a knight in shining armor, a brave firefighter or just an oddball in a gorilla suit, these figures breathe life into elaborately constructed cities, castles and even space stations in homes everywhere. The LEGO Group produced 340 million minifigures in 2012 (including minifigures not part of the LEGO *Minifigures* collectibles).

The game sets players off on a grand adventure through themed worlds that are built -- brick by brick, piece by piece - using LEGO materials. Players will visit locations such as Medieval world, Space world, Pirate world and Mythology world, where they will battle enemies, collect bricks and develop their characters. Players take control of up to several different *Minifigures* such as the DJ who drops sound speakers on his enemies or Grandma Visitor who can summon a forest on top of enemies and have the big, bad wolf show up to protect her!

Funcom and the LEGO Group will work together to make the game available to consumers in their online channels and will be coordinating activities to provide a broad and enhanced experience for the product line. The game will be a prominent part of the LEGO *Minifigures* online experience which already has millions of unique visitors every month.

Funcom look forward to revealing more exciting information about this exciting game in 2013.
For more information, visit www.lego.com/minifigures.

About the LEGO Group: The LEGO Group (www.LEGO.com) is a privately held, family-owned company, based in Billund, Denmark. It was founded in 1932 and today the group is one of the world's leading manufacturers of play materials for children. The company is committed to the development of children's creative and imaginative abilities through its products, which can be purchased in more than 130 countries.

Visit www.LEGO.com.

Fashion Week Live

The only fashion game on Facebook created by real fashion experts!

In February 2011 Funcom announced that it had joined forces with 505 Games, IMG and Creative Director Pat McGrath to create the first interactive online entertainment platform for fashion lovers. *Fashion Week* is a world-renowned brand and for Funcom this constituted a significant increase in its commitment to the rapidly expanding Facebook and social gaming market. Developed for Facebook, *Fashion Week Live* allow users to collaborate across many facets of the fashion industry, from design, styling, modeling, makeup artistry, photography, show production and more.

Design a model, travel the world, pick out the most stylish clothes and build your career in the fashion industry. Buy the latest real world fashion brands, products and create your own styles and share them online. The game has been developed in exclusive partnership with eight amazing brands, such as DKNY, Nicholas K, BCBG, Mara Hoffman, Nicole Miller and more.

Since it was made available on Facebook in early 2012, *Fashion Week Live* has fostered a large social community and reached the milestone of one million installs on Facebook.

For more information, visit www.fashionweeklive.com.

Pets vs. Monsters

Exciting massively multiplayer Free-to-Play online game for kids.

Set in a light-hearted and fun fantasy setting, the world of *Pets vs. Monsters* is being invaded by monsters which players must chase down and put a stop to. Kids team up with their real friends and favorite pets to battle hundreds of different monsters. Together they can explore exciting and mysterious worlds, collect great treasure, customize their character and find new and powerful pets to help them in the battle against evil.

Pets vs. Monsters was first announced in 2009 and has since then gone through several phases of public beta testing. New content and features has been added to the game over time, improvements players have been able to experience for themselves as part of the ongoing public testing. Over the course of the development process, Funcom has made significant strides in the development of its *FunWorld* technology platform which the game is built on.

In 2012, *Pets vs. Monsters* was fully integrated into Facebook, enabling an additional source of visibility and revenue to the game. The team has established a self-sustained increase of players based on the new virility mechanics within Facebook, and a new VIP program that leverages the new Facebook subscription methods was incorporated. In 2012 the team also continued to do several system improvements, bug fixes and content additions, and Funcom was able to increase the number of installs and also boosted premium purchasing through exposure on Miniclip.

For more information, visit www.petsvsmonsters.com.

The Dreamworld Technology

The trademarked Dreamworld Technology platform is the technological foundation on which Age of Conan, The Secret World and future flagship games such as the MMO based on the LEGO® Minifigures brand will be built. This proprietary technology platform provides Funcom with a unique competitive advantage by enabling more flexible, faster and more predictable development and deployment of upcoming games.

A key part of Funcom's strategy has been to develop a proprietary technology platform for online games. Dreamworld eases the development and deployment process for future online games. This enables the company to develop faster prototypes and early versions of new games using limited staff, to test new game concepts' feasibility before committing more resources to the projects. Having a proprietary technology base also enables the company to specialize and develop unique features for its games. In addition to powering Funcom's large scale MMOs *Age of Conan* and *The Secret World*, Dreamworld can also be used to develop small and medium games such as the upcoming MMO based on the LEGO® *Minifigures* brand.

Key components of the Dreamworld technology platform include the flexible and powerful world-creation software, *Genesis*, the scripting system, the gameplay and combat systems, the effects and cinematics system, content creation tools, and the powerful graphics module of the game. Dreamworld has for *The Secret World* been a key enabler in creating what is considered one of the most advanced MMOs in operation. Funcom continues its strong development focus on the Dreamworld technology platform on both the aforementioned areas as well as bringing the client module to more gaming platforms besides PC.

Key developments in 2012 were the stabilization and tuning of the server and client systems in preparation for the launch of *The Secret World*, improvements to the production pipeline of the technology, reducing the development cost and speeding up iteration time for content producers and the start of the multiplatform effort to bring the engine to new platforms such as tablets. Funcom is in the process of developing a Flash engine for Dreamworld, which will allow the company to bring high quality, Dreamworld powered games right into people's browsers.

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 27.

REVIEW OF FUNCOM'S FINANCIAL POSITION AND FINANCIAL RESULTS FOR 2012.

Funcom's revenue for 2012 was USD 23,599 thousands compared to USD 15,519 thousands in 2011. The increase is mainly due to the launch of Funcom's latest MMO game *The Secret World*. The corresponding operating result for 2012 was USD -59,087 thousands compared to USD -13,312 thousands in 2011. The significant decrease is mainly due to impairment losses of USD 40,545 compared to only USD 2,121 in 2011. The impairment losses resulted from the revised revenue estimates going forward which were caused by lower than expected sales on three of the Company's games (for details, please, refer to note 11 below). The lower revenues were cause primarily by less game client sales, subscription, client retention and conversion of free-to-play to paying customers. The impairment losses also had a negative impact on the earnings per share and equity at the end of 2012. Fully diluted basic earnings per share were USD -0.99 compared to USD -0.30 in 2011. Funcom's equity stood at USD 1,255 thousands at year-end 2012, compared to USD 42,918 thousands at year-end 2011. The group had cash at the end of 2012 of USD 8,048 thousands compared to USD 19,428 thousands at the end of 2011.

In Q1 2012, the Company secured a standby equity facility of up to USD 22,000 thousands. The facility ensures financial flexibility for Funcom and can be drawn-down in tranches at the company's discretion.

In Q2 2012, the Company completed a private share placement of 4,000 thousand shares and raised NOK 60,000 thousands (USD 10,000 thousand) in order to strengthen the launch and post-launch marketing for *The Secret World*.

In 2011, the Company completed a private placement of USD 15,000 thousands principal amount of senior unsecured convertible bonds due in 2014. During 2012 bonds amounting to approximately USD 8,800 thousands have been converted into shares of Funcom N.V. This, as well as the repayment of USD 7,932 of bank loans in the second half of 2012 led to a significant reduction of the interest bearing debt.

In August 2012, the Company initiated cost cut initiatives which, among other, lead to 50% reduction in headcount with additional 25% anticipated in Q1 2013. In January 2013, the Company also announced a formal restructuring plan which is expected to be completed by the end of April 2013. The full positive effect from these measures on the cash position of the Company will materialize in Q3 2013.

In addition, in Q1 2013 the Company reached an agreement with KGJ Investments S.A. (KGJI) to restructure both the 10 MUSD loan and the convertible bond loan. This will allow the Company to complete the restructuring process and to secure working capital for current and mid-term projects.

In summary, the financial position of the Company weakened in 2012 due to lower than expected sales from *The Secret World* and *Fashion Week Live* as well as large build-up and marketing costs preceding the launch of these two games. In accordance with IAS 1 the Management Board considered the positive impact of the above mentioned remedy measures as well as the revenue potential of the current projects (please, refer to Product & Technology development below). The management also evaluated the debt repayment schedules and the current and potential sources of financing such as the equity facility and the loan restructuring plan discussed above in addition to the opportunities of raising additional capital via financial arrangements including equity and tax credits financing. Based on these factors the Management Board concluded that the solvency and liquidity of the Company support the view that Funcom is financially stable and it is therefore appropriate to prepare the 2012 annual accounts on a going concern basis and in accordance with the IFRS.

This position is based on various assumptions; including cost structure, revenue projections, credit opportunities, timeline on the game developments amongst other factors. The Management Board will continue to evaluate the assumptions on a continuous basis and will inform the market of any future pervasive and material changes.

Going forward, Funcom will continue to invest into its existing games and new games as well as in the development of the newly created work for hire and online services departments with research and development consisting 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 Canadian dollar. The Group does not invest in equity or debt securities. Please refer to note 25 and 28 for further information on financial instruments and risk management.

MAIN DEVELOPMENTS

The bulk of the revenues in 2012 as in 2011 originated from large-scale MMOs, in particular *The Secret World* and *Age of Conan* games. During Q1 2012 and Q2 2012 revenues were in a slow decline. Revenues increased significantly during Q3 2012 following the launch of *The Secret World*. Revenues remained high in Q4 2012 partly due to the switch to buy-to-play business model for *The Secret World*. So far in 2013 revenues are in a slow decline.

The development of *The Secret World*, the Company's largest MMOG, was completed in 2012 and the game was launched on July 3, 2012. Despite of the positive press and gamers' response and feedback prior to launch the sales from the game were much lower than the initial estimates and the scenarios communicated in 2011. As a result and with the objective of making the Company cash-flow positive Funcom initiated cost cutting measures in August 2012 and a formal restructuring plan in Q1 2013. In addition, in December 2012 Funcom switched to a new, buy-to-play business model for *The Secret World* which increased overall sales from the game by 30% and quadrupled activity in the games. The revised sales estimates going forward lead to an impairment loss of USD 38,000 thousands recognized in 2012. In Q3 2012 the Company also retained ABG Sundal Collier and GP Bullhound to undertake a broad review of the strategic options available, which now is in progress. The restructuring plan is part of this process. Funcom will provide further update on the development of these processes when relevant.

At the end Q2 2012 Funcom signed a deal with LEGO for the development of a free-to-play online game based on their highly successful Lego® *Minifigures* brand. The development commenced in Q3 2012 and is carried out by an experienced team of long-term Funcom game developers located in the studio in Oslo. As of the date of the annual report the team has met successfully all milestones and the game is scheduled for release in the first half of 2014.

In the free-to-play segment in 2012 the Company, along with its partners IMG and 505 Games, successfully completed the development and launch of *Fashion Week Live*, a Facebook game based on the Fashion Week brand. The game gained popularity with 500,000 players per month and more than 1,000,000 installs. However, revenues remained lower than the initial estimates which lead to an impairment loss of USD 1,475 thousands recognized in Q4 2012. Subsequently to year-end Funcom signed an agreement for the sale of the DIP (digital intellectual property) of the game to 505 Games. As outlined in the agreement Game Media Networks, a company within the Digital Bros Group, will run the *Fashion Week Live* project while Funcom will assure the continuity of the game by providing development, maintenance and hosting services on a work-for-hire basis.

It has taken longer time than originally expected to monetize *Pets vs. Monsters*. The Company has also revised its revenue projections from the game, which lead to an impairment loss recognized in 2012 of USD 1,070 thousands.

As mentioned above, in 2012 Funcom recognized total impairment losses of USD 40,545 thousands on three of its games which negatively impacted the EBIT and the equity of the Company. The equity to assets ratio decreased to 4% (55 % in 2011). Funcom expects the profitability of the Company to improve going forward as a result of cost savings and revenues generated from the newly established work-for-hire and online services departments as well as the launch of the Lego® *Minifigures* game. This in result will increase equity and improve the equity to assets ratio.

MARKET DEVELOPMENT

The trends that started in 2011 continued to strengthen in the online gaming market in 2012, with a wider diversification in online gaming experiences. This year saw the release of the highest number of high-profile MMO's in many years, with Diablo III, *The Secret World* and Guild Wars II all releasing within two months of each other, closely followed by the latest expansion to market leader, World of Warcraft. In addition TERA released earlier in 2012, and the free-to-play segment grew rapidly with the focused, mid-sized games like Leage of Legends and World of Tanks being the current market leaders.

The move towards free-to-play as the prevalent business model for online games continued, with both Star Wars: The Old Republic from EA, TERA from Bluehole, as well as *The Secret World* moving to a free-to-play hybrid model within months of release.

Major shifts towards tablet and mobile as one of the fastest rising platforms in online, persistent games also brought new opportunities and new stars, including Clash of Clans from the Finnish developer Supercell, and Rage of Bahamut from Japanese developer Cygames. This move towards tablet and mobile have taken over from the growth of Facebook games, which have stagnated and shrunk in 2012.

The Company expects this diversifications in platforms and game size to continue, and evaluates the opportunities provided by our industry strength Dreamworld technology platform continuously.

PRODUCT & TECHNOLOGY DEVELOPMENT

During the year, Funcom successfully completed the development and launch of *The Secret World* and *Fashion Week Live* and met all production milestones of the new Lego® *Minifigures* game currently in development. After the launch of *The Secret World* the Company also delivered five major content updates and switched to a buy-to-play business model for the game.

In addition, the Company continued to deliver updates and new features for its other main titles *Age of Conan* and *Anarchy Online* as well as further upgraded and optimized the Dream World Technology game engine which runs the games. The focus of the three Funcom studios going forward is:

- to further develop and run the Company's existing games out of the North Carolina studio and to make the studio ready to operate more games and services both from Funcom's own production line and from others as well. In Q4 2012 Funcom actively started seeking opportunities within the "Online Services" business area.

- the Montreal studio's new strategy will be building high-quality games and technology for mobile and tablet platforms. In January 2013 the studio began working on two mobile and tablet titles on a work for hire basis.

- The Studio in Oslo will continue to focus on the LEGO® *Minifigures* game and the business area of building high quality, focused MMO's in the mid-core segment.

In addition, in Q4 2012 the Company has initiated a project to bring the Dream World Technology game engine into the web and tablet markets, allowing Funcom's future games such as the LEGO® *Minifigures* game to target these new platforms.

FUTURE OUTLOOK

The revenue and profit of Funcom depends on the performance of its existing and future games, in combination with the cost performance of the company. The Company believes the largest potential value drivers of the Company to be *The Secret World* and its new free-to-play MMO based on the LEGO® *Minifigures* line as well as the mobile and tablet games to be developed by the newly established division.

In addition, the Company believes that the technology platform *Dreamworld Technology* will continue to provide a competitive edge going forward, as it will enable the Company to remain cost effective in development of more focused and cost-effective but high-quality MMO games. Predicting revenues from game concepts is inherently uncertain, but the Company believes that a continued focus on high quality, high production value game concepts in its different genres over time will lead to profitability and growth, even though estimates on individual games are uncertain.

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, 2012, the group employed approximately 200 employees (2011: 377 employees).

Sick leave in the group is considered low and amounts to 1.49 %. 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 equal opportunity of employment to 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 2012, Funcom N.V. had a share capital of USD 3,424 thousands (see Equity section in the Consolidated statement of financial position) consisting of 66,496,918 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 4,671,847 outstanding share options granted to employees and directors in the company at the end of 2012. In the Annual General Meeting held in June 2012, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board was authorized for a period of 12 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 30.

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 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 also during 2012. In 2012 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 take-over 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 2012 is USD 1,255 thousands.

EVENTS AFTER THE REPORTING PERIOD

After the reporting period there have been subsequent events that are detailed in note 29 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 28.

Badhoevedorp, The Netherlands, April 30, 2013

Ole Schreiner

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 Selskapsledelse*), 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.

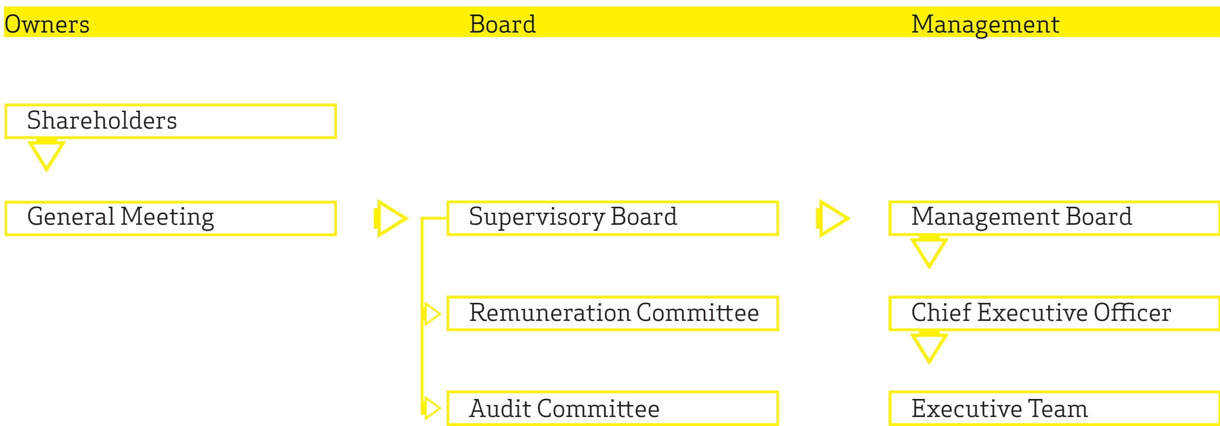
For the Dutch Corporate Governance Code Funcom will present the best practice clauses where it does not comply and explain the rationale for this.

OVERVIEW AND OUTLINE OF FUNCOM'S CORPORATE GOVERNANCE:
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.



The General Meeting elects minimum one Supervisory Director on the proposal of the Supervisory Board. The number 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 Governance

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 23 October 2012 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. The Company has not yet established separate guidelines for corporate social responsibility as implemented in the code of practice in October 2010, but considers the ethical guidelines to cover most of the relevant topics.

Departures from the recommendation: The Company will consider to develop separate guidelines for corporate social responsibility in the course of 2013.

2. BUSINESS

The business of Funcom N.V. is defined in the Company's Articles of Association which – inter alia – 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 2012, consolidated equity came to USD 1,255 thousands, accounting for 4 per cent of total assets. This is a significant decrease in comparison to 2011 and is mainly a result of 40,545 thousands of impairment charge (see note 12 below for details) taken in 2012. In January 2013 Funcom initiated a restructuring plan that will result in significant cost savings upon completion. In addition, the Company is currently in development of a new MMOG and has established new work-for-hire and online services divisions. These measures are expected to improve the profitability of the company going forward which in result will bring the equity to a more satisfactory level.

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.

Mandates granted to the board of Directors

Mandates granted to the board of Directors concerning the issued capital or treasury shares are 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 2012, 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 26 in the Notes to the Consolidated Financial Statements. Management Board member 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 (Vice-) Chairman of 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 and Management Board regulations can be found at **www.funcom.com**

Pre-emption rights

A decision to waive the pre-emption rights of existing shareholders will be justified. Where the Supervisory Board resolves to carry out an increase in the share capital and limits or excludes the pre-emption rights of existing shareholders on the basis of a mandate granted by a General Meeting the justification will be publicly disclosed in a stock exchange announcement issued in connection with the increase in share capital.

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 Europe, the USA and other relevant jurisdictions.

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 2 weeks' notice must be given to call a general meeting. Based on Dutch law the notification must be given at least 42 days before – not including the date of the meeting. In this respect Funcom follows Dutch law. Notification will be distributed at least 42 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 Bank ASA).

The representatives of neither the Supervisory 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 Supervisory Board. This is a departure from the recommendation for independent chairing of meetings.
- The representatives of neither the Supervisory Board nor the auditor are generally present at AGM's. The auditor is always on standby to attend the AGM depending on shareholder attendance.

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 Supervisory 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 Supervisory Board shall justify such recommendations.

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

Due to the fact that Funcom N.V. 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:
Gerhard Florin (Chairman), Alain Tascan (Vice-Chairman), Michel Cassius, Ole Gladhaug and Magnus Groneng.

The General Meeting elects at a minimum one member of the Supervisory Board further to a proposal from the Supervisory Board. Decisions on the composition of the Supervisory 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 Supervisory Board as a whole is capable of dealing with Supervisory Board work and the Company's main business activities. According to the Company's Articles of Association, there shall be at a minimum one member 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: Ole Schreiner (Managing Director and CEO) and Pieter van Tol (Managing Director).

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

Departures from the recommendation:
Funcom N.V. does not have a Corporate Assembly as it is a Dutch company.

9. THE WORK OF THE BOARD OF DIRECTORS

Board responsibilities

The Supervisory Board produces an annual plan for its work. The Supervisory Board has issued instructions for its own work through 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 Supervisory Board approves the Company's plans and budgets. Items of major strategic or financial importance for the Company are items approved by the Supervisory Board. The Supervisory Board is responsible for hiring the CEO and defining his or her work instructions as well as setting his or her wage. The Supervisory 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 Supervisory Board.

Financial reporting

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

Notification of meetings and discussion of items

The Supervisory Board schedules regular meetings and/ or conference calls each year at the same time as they agree on the next year's financial calendar. Ordinarily, the Supervisory Board meets 6-8 times a year, normally in Badhoevedorp, The Netherlands and/ or holds conference calls. 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 Supervisory 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 Supervisory Board. The Supervisory Board Members are free to consult the Company's senior executives as needed.

The Supervisory Board draws up and establishes an annual plan, including themes for the Supervisory 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 Supervisory Board personally, this matter will be chaired by some other member of the Supervisory 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.

- The Audit Committee has responsibilities related to financial reporting, the independent auditor, internal audits and risk management. In 2012 the Committee consisted of two shareholder-elected Supervisory Board Members. The other Supervisory Board Members are entitled to attend if they so desire. Members: Claus Højbjerg Andersen (until December 21, 2012) (Chairman) and Michel Cassius.

- The Remuneration Committee has responsibilities related to developing proposals for the applicable remuneration policies. Members: Alain Tascan (Chairman) and Gerhard Florin (Member).

The Board's self-evaluation
In April 2013 the Chairman of the Supervisory Board presented an evaluation of the Supervisory Board's duties and working methods. The Supervisory 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 2012. 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 2012 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

The 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 2012, the total remuneration to the Supervisory Board came to EUR 82,500 (2011: EUR 88,500). The remuneration of the Chairman of the Supervisory Board was EUR 35,000 (2011: EUR 35,000) and the other Supervisory Board members' remuneration was EUR 12,000 (2011: EUR 12,000 except for the Vice-Chairman of the Supervisory Board whose remuneration was 35,000). EUR 30,000 (2011: 88,500) of the fees for 2012 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 Supervisory 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 General meeting. 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.

Departures from the recommendation: The allocation of options to executive personnel is not made specifically dependent on the realization of certain targets, that are determined in advance.

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 certain 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. TAKEOVERS

There are no defense mechanisms against take-over 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 Management Board will not seek to hinder or obstruct take-over bids for the Company's activities or shares. Any agreement with a bidder that acts to limit the company's ability to arrange other bids for the company's shares will only be entered into where it is self-evident that such an agreement is in the common interest of the company and its shareholders. If an offer is made for the Company's shares, the Management Board will arrange for a valuation from an independent expert, and the Company's Supervisory Board will issue a statement making a recommendation as to whether shareholders should or should not accept the offer.

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 discussion with the auditor and management prior to the Supervisory Board's discussion of the financial statements. The auditor is always present or participates in a conference call during the Supervisory Board 's discussions of the annual accounts. In that connection, the Supervisory 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 Supervisory Board arranges annual meetings and / or conference calls with the auditor to discuss a report from the auditor that addresses the Company's accounting principles, risk areas and internal control routines. At least one meeting / conference call 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 exception of:

- Provision II.2.4: The options become exercisable before the lapse of the three year time period set out in the Dutch Corporate Governance Code. Funcom has an option program for the members of the Management Board where one third of the options vest each year during three years following the grant date. The options are in principle 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. The allocation of options to the members of the Management Board – as part of their remuneration – is subject to the approval of the General Meeting of Shareholders.

- 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.2.7: Some of the provisions of the relevant general terms – as they apply with respect to the different categories of option holders – were changed in 2012.

- Provision II.2.8: The severance pay of Mr. Trond Aas, CEO and management board member until 2 July 2012, slightly exceeded the fixed component of his annual salary. The severance pay was subject to certain conditions being met. In light of the conditions associated with the severance pay the Supervisory Board considered the deviation from the best practice provision acceptable and not deviating in any significant way from industry standards.

- Provision II.2.10: 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. The Supervisory Board in principle does not have the right to make adjustments to the value of the options granted to members of the Management Board.

- Provision II.2.11: The Supervisory Board in principle does not have the right to cancel the options, or other variable components of the remuneration of the members of the Management Board.

- Provision II.2.12, 2.13 and 2.15: 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 is still in the process of evaluating the implications of compliance with this best practice provision.

- 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.5.14: 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.7.1: 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 17 for further details.

- Provision IV 3.1: Meetings with analysts, presentations to (institutional) investors and press conferences are generally announced on the website of Funcom. The presentations are in principle placed on the website after the event in question has taken place, but there are no technical means for shareholders to participate in these presentations by means of telephone conference, webcast or otherwise.

- 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 will review and most likely adopt such a policy in the course of the 2013 financial year.

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

- Provision V.3: Funcom N.V. has not assigned a specific internal auditor. The audit committee will continue to 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 2012 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, 2012, the development during 2012 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

Badhoevedorp, April 30, 2013

Ole Schreiner
Managing Director and CEO

Pieter van Tol
Managing Director

Corporate Governance Declaration

This declaration is in accordance with article 2a of the decree on additional requirements for annual reports as amended on 1 January 2010 ("Vaststellingsbesluit nadere voorschriften inhoud jaarverslag" (hereinafter the 'Decree'). For the statements in this declaration as stipulated in articles 3, 3a and 3b of the Decree reference is made to the relevant pages in the Annual Report 2012. The following statements are deemed to be included and repeated herein:

- the statement relating to the compliance with the principles and best practices of the Dutch Corporate Governance Code (hereinafter the "Code"), including the motivated deviation of the compliance of the Code, to be found on page 34 of the Annual Report in the chapter 'Statement of compliance to the Dutch Corporate Governance Code and the Norwegian Code of Practice for Corporate Governance;
- the statement concerning the most important characteristics of the control and risk management systems in relation to the process of the financial accounting of the company and the Group as included in the Annual Report in the Supervisory Board report on page 38
- the statement about the functioning of the General Meeting of Shareholders and the most important powers thereof as well as the rights of shareholders and how these may be executed, as described in the chapter Statement of compliance to the Norwegian Code of practice for corporate governance and statement of compliance with the Dutch Corporate Governance and the investor relations policy on page 28, 34 and 102
- the statement regarding the composition and functioning of the Board of Management as included on page 30
- the statement relating to the composition and functioning of the Supervisory Board and its Committees, as incorporated in the "Report of the Supervisory Board" on page 38
- The provisions of the Norwegian Code of Practice for Corporate Governance largely follow requirements as indicated in the EU take over directive.

Badhoevedorp, April 30, 2013

Ole Scheiner 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 2012, 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 and the auditors prior to publishing the report.

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

RESULTS AND STRATEGIC POSITION

Funcom's revenue for 2012 was USD 23,599 thousands compared to USD 15,519 thousands in 2011. The increase is mainly due to the launch of Funcom's latest MMO game *The Secret World*. The corresponding operating result for 2012 was USD -59,087 thousands compared to USD -13,312 thousands in 2011. The significant decrease is mainly due to impairment losses of USD 40,545 compared to only USD 2,121 in 2011. The impairment losses also had a negative impact on the earnings per share and equity at the end of 2012. Fully diluted basic earnings per share were USD -0.99 compared to USD -0.30 in 2011. Funcom's equity stood at USD 1,255 thousands at year-end 2012, compared to USD 42,918 thousands at year-end 2011. The group had cash at the end of 2012 of USD 8,048 thousands compared to USD 19,428 thousands at the end of 2011.

In Q1 2012, the Company secured a standby equity facility of up USD 22,000 thousands. The facility ensures financial flexibility for Funcom and can be drawn-down in tranches at the company's discretion.

In Q2 2012, the Company completed a private share placement of 4,000 thousand shares and raised NOK 60,000 thousands (USD 10,000 thousand) in order to strengthen the launch and post-launch marketing for *The Secret World*.

In 2011, the Company completed a private placement of USD 15,000 thousands principal amount of senior unsecured convertible bonds due in 2014. During 2012 bonds amounting to approximately USD 8,800 thousands have been converted into shares of Funcom N.V. This, as well as the repayment of USD 7,932 of bank loans in the second half of 2012 led to a significant reduction of the interest bearing debt.

In August 2012, the Company initiated cost cut initiatives which among other lead to 50% reduction in headcount with additional 25% anticipated in Q1 2013. In January 2013, the Company also announced a formal restructuring plan which is expected to complete by the end of April 2013. The full positive effect from these measures on the cash position of the Company will materialize in Q3 2013.

In addition, in Q1 2013 the Company reached an agreement with KGJ Investments S.A. (KGJI) to restructure both the 10 MUSD loan and the convertible bond loan. This will allow the Company to complete the restructuring process and to secure working capital for current and mid-term projects.

The development of *The Secret World*, the Company's largest MMOG, was completed in 2012 and the game was launched on July 3, 2012. Despite of the positive press and gamers' response and feedback prior to launch the sales from the game were much lower than the initial estimates and the scenarios communicated in 2011. As a result and with the objective of making the Company cash-flow positive Funcom initiated cost cutting measures in August 2012 and a formal restructuring plan in Q1 2013.

In Q3 2012 the Company also retained ABG Sundal Collier and GP Bullhound to undertake a broad review of the strategic options available, which now is in process. The restructuring plan is part of this process.

Funcom will provide further update on the development of these processes when relevant.

The Supervisory Board is responsible for supervising the policy pursued by the Management Board and the general course of affairs of the Company and the business enterprises which it operates. The Supervisory Board assists the Management Board with advice relating to the general policy aspects connected with the activities of the Company. In this context the Supervisory Board is inter alia responsible for monitoring and advising the Management Board, supervising the Company's strategy, and monitoring the functioning of internal risk management and control systems. The Supervisory Board supervises 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. All this is in accordance with the Company's articles of association and applicable law. During the 2012 financial year the Supervisory Board has discussed both its own functioning, that of its individual members and that of the Remuneration Committee and the Audit Committee and finds that the performance of each the Supervisory Board, its individual members, the Remuneration Committee and the Audit Committee, respectively, meet the standards set for that purpose. The Supervisory Board has furthermore discussed the overall composition of the Supervisory Board and competencies of its individual members. The Supervisory Board has in addition discussed the composition and functioning of the Management Board and its individual members and continues to have full confidence in the Management Board's current composition and capabilities of the individual Managing Directors. In the course of the 2012 financial year the Supervisory Board has also discussed the Company's strategy and risks associated with the operation of its business. To that end the Management Board has presented the Supervisory Board with its assessment of the functioning of the Company's internal risk management and control systems. The Supervisory Board is of the opinion that the current risk management and control systems are adequate and that the Management Board has furthermore not suggested any amendments thereto. During the year the Supervisory Board 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 2012 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 Supervisory Board is of the opinion that it is presently constituted in compliance with best practice provision III.2.1 of the Dutch Corporate Governance Code, with the understanding that – as indicated below – only two of its members cannot be considered as independent.

The following professionals served on the Supervisory Board as at year-end, 2012:

Gerhard Florin, Chairman of the Supervisory Board
(born 1959, male, German,
1st term, member since 27 June 2011)
Dr. Florin presently works as an independent contractor. In that capacity he currently serves as board member for: King.com based in London; InnoGames based in Hamburg; and Kobojo based in Paris. From 2006 to 2010 Dr. Florin served as an Executive Vice President and General Manager of Publishing of Electronic Arts Inc., being responsible for their worldwide publishing business. From 1996 to 2006, Dr. Florin held various positions in Electronic Arts in Germany and UK. Prior to that he worked at BMG, the global music division of Bertelsmann AG, and served as a Consultant of McKinsey. Dr. Florin holds Master's and Ph.D. degrees in Economics from the University of Augsburg, Germany. Dr. Florin holds 100,000 share options in the company and 0 shares.

Alain Tascan, Vice-Chairman of the Supervisory Board
(born 1967, male, Canadian,
1st term, member since 27 June 2012)
Mr. Tascan presently works as an entrepreneur in the multimedia and gaming industry. Mr. Tascan was a

co-founder of Ubisoft in Montreal and a founder of EA Montreal which he managed for seven years. He also created Ubisoft's licensing group that partners with the major Hollywood studios. Previously, Mr. Tascan also held executive positions in the media industry in France at companies such as Radio France International and Telerama. Currently, Mr. Tascan works as an entrepreneur in the multimedia and gaming industry. Mr Tascan holds a Master degree in Economics from the University of Nice-Sophia Antipolis and a post-graduate degree in cultural management from the Institut Superieur de Management Culturel de Paris. Mr. Tascan holds 50,000 share options in the company and 0 shares.

Michel Cassius,
(born 1957, male, French,
4th term, member since 30 November 2006)
Mr Cassius is co-founder and Director of YoYo Games Ltd, a startup 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 MMOG's in Europe. Mr. Cassius holds 50,000 shares and 50,000 share options in the Company.

The following professionals were elected in April 2013 to serve on the Supervisory Board:

Ole Gladhaug
(born 1954, male, Norwegian,
1st term, member since 24 April 2013)
Mr. Gladhaug has held senior executive positions within the shipping, oil services, banking and asset management industries. Prior to joining the Kristian Gerhard Jebsen Group (KGJG), Mr. Gladhaug served 7 years as CFO of Smedvig ASA (now part of Seadrill). Mr. Gladhaug joined KGJG in 2002 as CFO and member of the Group's executive team, and is now Executive Vice President in the Group and Chairman of its subsidiary Jebsen Asset Management. Mr. Gladhaug has served as a non-executive director on a number of boards within banking, insurance, asset management and other industries. He holds a business and administration degree from the Norwegian School of Economics and a political science degree from the University of Bergen. Mr. Gladhaug does not hold shares or share options in the Company. Mr. Gladhaug is not viewed as independent since he is employed by KGJG, a company controlled by Mr. H.P. Jebsen, the majority shareholder of Funcom. N.V.

Magnus Grøneng
(born 1981, male, Norwegian,
1st term, member since 24 April 2013)
Mr. Grøneng has background as management consultant in McKinsey & Company (2006-2009) where he served clients within the oil and gas, technology and banking sectors in Europe. Prior to joining Jebsen Asset Management (subsidiary of the Kristian Gerhard Jebsen Group), he served as Business Development Manager in Kebony ASA, a Norwegian growth company. Mr. Grøneng holds a MSc degree from the Norwegian University of Science and Technology and the University of Karlsruhe in Germany. Mr Grøneng holds 400 shares in the Company and 0 share options.Mr. Grøneng is not viewed as independent since he is employed by a subsidiary of KGJG, a company controlled by Mr. H.P. Jebsen, the majority shareholder of Funcom. N.V.

The Supervisory Board has a Remuneration Committee and an Audit Committee. The Remuneration Committee consists of Mr. Tascan (chairman) and Mr. Florin(member) and their work in 2012 focused on the remuneration of the Management Board and the allocation of options. The Audit Committee consisted of Mr. Claus Højbjerg Andersen (member until December 21, 2012) and Mr. Cassius (member) and their work in 2012 focused on the accounting policies, risk management and control as well as approval of financials as the main agenda points.

Funcom is an equal opportunities employer and the Company is very proud of its gender, culturally, ethnically and religiously diverse workforce which consist of more than 120 employees from over 20 different countries. The Company will continue to promote and maintain diversity in all parts of the organization including the Supervisory Board. It is Funcom's intent to make concrete efforts to achieve gender balance among members of the Supervisory board with a minimum 40% female representation every time a new member is selected in the future and at latest by January 1, 2020.

Badhoevedorp, The Netherlands, April 30, 2013

The Supervisory Board of Directors in Funcom N.V.

Gerhard Florin, Chairman

Alain Tascan, Vice-Chairman

Michel Cassius

Ole Gladhaug

Magnus Grøneng

Funcom N.V.
Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2012	2011
Continuing operations			
Revenue	4,5	23,599	15,519
Personnel expenses	6,17	-13,152	-9,443
General and administrative expenses	7	-17,453	-8,801
Depreciation, amortization and impairment losses	11,12	-49,375	-7,829
Other operating expenses	8	-2,706	-2,758
Operating expenses		-82,686	-28,831
Operating result		-59,087	-13,312
Share of result from equity-accounted entities	21	-33	-17
Finance income	9	1,628	10,526
Finance expenses	9	-4,607	-13,408
Result before income tax		-62,099	-16,210
Income tax (expense) / income	10	-116	-85
Result from continuing operations		-62,215	-16,295
Result for the period		-62,215	-16,295
Other comprehensive income			
Exchange differences on translating foreign operations		-1,285	765
Exchange differences on intercompany loans part of net investment in a foreign entity		1,289	-245
Other			13
Other comprehensive income for the year, net of tax		4	533
Total comprehensive income for the year		**-62,211**	**-15,762**

Funcom N.V.
Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2012	2011
Result for the period attributable to:			
Equity holders of Funcom N.V.		-62,215	-16,295
		-62,215	**-16,295**
Total comprehensive income attributable to:			
Equity holders of Funcom N.V.		-62,211	-15,762
		-62,211	**-15,762**
Earnings per share *	23		
From continuing operations			
Basic earnings per share (US dollars)		(0.99)	(0.30)
Diluted earnings per share (US dollars)		(0.99)	(0.30)

* Based on result for the period

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	2012	2011
ASSETS			
Non-current assets			
Deferred tax asset	10	232	558
Intangible assets	4,11	13,729	49,879
Equipment	12	810	2,016
Investments in equity-accounted entities	21	460	473
Long term receivables	25	487	447
Total non-current assets		15,718	53,373
Current assets			
Trade receivables	13,25	2,723	1 353
Prepayments and other receivables	14	6,793	4 173
Cash and cash equivalents	15	8,048	19 428
Total current assets		17,564	24,953
Total assets		**33,282**	**78,327**

Funcom N.V. Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	Note	2012	2011
EQUITY AND LIABILITIES			
Equity			
Share capital		3,424	2,777
Reserves		149,211	129,306
Retained earnings		-151,380	-89,165
Equity attributable to equity holders of Funcom		1,255	42,918
Total equity	16	1,255	42,918
Non-current liabilities			
Loans and borrowings	25,26	4,728	22,104
Deferred tax liabilities	10	55	297
Total non-current liabilities		4,783	22,401
Current liabilities			
Trade payables	25	405	1,034
Deferred income	19	7,968	1,060
Income tax liability	10	134	78
Provisions	18	29	399
Loans and borrowings	25	12,870	6,719
Other short term liabilities	20	5,838	3,718
Total current liabilities		27,244	13,008
Total liabilities		32,027	35,409
Total equity and liabilities		**33,282**	**78,327**

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	2012	2011
Cash flows from operating activities			
Profit (loss) before income tax		-62,099	-16,210
Adjustments for:			
Depreciation, amortization and impairment losses	11.12	49,375	7,829
Share-based payments	6.16.17	815	703
Share of result from equity-accounted entities	21	33	17
Interest income/expense		1,377	688
Effect of exchange rate fluctuations		555	359
Change in provision		-371	-47
Change in fair value warrants and interest not payable			1,269
Change in trade and other receivables		-2,710	-67
Change in trade payables		-651	-308
Change in other current assets and liabilities		12,213	72
Cash generated from operations		**-1,463**	**-5,693**
Interest received		189	81
Interest paid		-1,566	-769
Income tax and other taxes paid		40	-5
Net cash from operating activities		-2,800	-6,386
Cash flows from investing activities			
Purchase of equipment	12	-377	-547
Investment in intangible assets	11	-13,426	-17,814
Loan from a joint-venture		-850	110
Net cash used in investing activities		-14,653	-18,251
Cash flows from financing activities			
Net proceeds from issue of share capital	16	10,953	480
Proceeds from borrowings	25.26	2,698	21,163
Repayment of borrowings	25.26	-7,932	
Net cash from financing activities		5,719	21,643
Net increase in cash and cash equivalents		-11,733	-2,994
Effect of exchange rate fluctuations		355	-270
Cash and cash equivalents at beginning of period	**15.25**	19,428	22,693
Cash and cash equivalents at end of period	**15.25**	8,048	19,428

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

In thousands of US dollars	Share capital	Share premium	Equity-settled employee benefits reserve	Translation reserve	Warrants and conversion rights reserve	Retained earnings	Attributable to owners of the parent
Equity as at January 1, 2011:	**2,742**	**121,391**	**2,931**	**-389**		**-72,870**	**53,806**
Profit or loss for the year						-16,295	**-16,295**
Exchange differences on translating foreign operations				765			**765**
Exchange differences on intercompany loans part of net investment in a foreign entity				-245			**-245**
Other		13					**13**
Other comprehensive income f.t.year		13		520			**534**
Total comprehensive income f.t.year		**13**		**520**		**-16,295**	**-15,762**
Share-based payments			703				703
Issued share capital	34	446					480
Reclassification of warrants and convertible bonds equity element					3,690		3,690
Other							
Equity as at December 31, 2011	**2,777**	**121,850**	**3,634**	**131**	**3,690**	**-89,165**	**42,918**
Equity as at January 1, 2012:	**2,777**	**121,850**	**3,634**	**131**	**3,690**	**-89,165**	**42,918**
Profit or loss for the year						-62,215	-62,215
Exchange differences on translating foreign operations				-1,285			-1,285
Exchange differences on intercompany loans part of net investment in a foreign entity				1,289			1,289
Other							
Other comprehensive income f.t.year				4			4
Total comprehensive income f.t.year				**4**		**-62,215**	**-62,211**
Share-based payments			815				815
Issued share capital	647	20,166					20,813
Reclassification of warrants and convertible bonds equity element					-1,080		-1,080
Other							
Equity as at December 31, 2012	**3,424**	**142,016**	**4,450**	**135**	**2,610**	**-151,380**	**1,255**

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 Keplerstraat 34, Badhoevedorp 1171 CD The Netherlands. 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, 2012, 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 30, 2013.

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.

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 application 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 3.

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.

Adoption of new and revised International Financial Reporting Standards and Interpretations

The following new and revised or amended Standards have been adopted in these financial statements in the current period. 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. There are no new or revised Interpretations that will have an impact on the Group's financial statements in the current or future periods.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendments to IFRS 1	First-time adoption of IFRSs after period of severe hyperinflation and Removal of fixed dates for first-time adopters	December 2010	1 July 2011
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets	December 2010	1 January 2012
Amendment to IFRS 7	Disclosures - transfers of financial assets	October 2010	1 July 2011

At the date of authorisation of these financial statements, the following Standards and Interpretations had been issued by the IASB but were not effective for the financial year ended 31 December 2012.

Management anticipates that these Standards will be adopted in the Group's financial statements for the period beginning 1 January 2013 or later. Effective dates are as applicable for IFRSs as adopted by the European Union as these in some cases may deviate from the effective dates as issued by the IASB. Management considers that the impact of the adoption of these new and revised/amended Standards and Interpretations will not have material effects on the financial reporting, Standards and Interpretations that are clearly not relevant for the Group's financial statements have not been included in the below schedule.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 10	Consolidated Financial Statements	May 2011	1 January 2014
IFRS 11	Joint Arrangements	May 2011	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	May 2011	1 January 2014
IFRS 13	Fair Value Measurement	May 2011	1 January 2013
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	June 2011	1 July 2012
IAS 19 (as revised in 2011)	Employee Benefits	June 2011	1 January 2013
IAS 27 (as revised in 2011)	Separate Financial Statements	May 2011	1 January 2014
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures	May 2011	1 January 2014
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2013
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2014
Amendments to IFRS 1	Amendments for government loan with a below-market rate of interest when transitioning to IFRSs	March 2012	1 January 2013
Amendments to IFRS 10, 11 and 12	Amendments to transitional guidance	June 2012	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27	Amendments for investment entities	October 2012	1 January 2014
Improvements to IFRSs (Various Standards and Interpretations)	Improvements to IFRSs	May 2012	1 January 2013
IFRS 9	Financial Instruments	November 2009 and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011)	IASB mandatory date 1 January 2015 postponed by the EU

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 presentation 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 and discounts.

Subscription income is generated when customers purchase upfront access time for the Group's products 'The Secret World', '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.

Per copy sales of new games, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated customer life. Revenues from sales of in-game items / micro-transactions and points are recognized at the time of sale. 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.

Per copy sales of new games are recognized immediately when delivery has taken place. Per copy sales of expansion packs for existing games are accrued over the period of the expected average subscription period for the game.

The company enters into multiple-element revenue arrangements where it provides combinations of game software and subscription or subscription and in-game items. The Company accounts for revenues from each item separately following the revenue recognition policies above.

Per copy royalties on sales are recognized as the licensees report unit sales. Revenues from license and royalty agreements with a minimum non-refundable guaranteed advance is also recognized as the royalty accrues. Should the Company's estimated total royalties to be generated under the agreement fall below the non-refundable guaranteed amount, the difference will be recognized as revenue immediately. If publishers cancel software license agreements during the product's development stage, non-refundable advances or minimum guaranteed royalty fees are recognized as revenue.

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.

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 reliably;
- 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 Canadian dollar and the Norwegian kroner. The Group evaluates its currency risk on an ongoing basis, see note 25.The Group does not invest in equity or debt securities.

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

Derivative financial assets and derivative financial liabilities are classified as at fair value through profit or loss. Warrants, where the holder is entitled to acquire shares in the Company and which do not meet the requirements for being classified as equity, are classified as derivative financial liabilities in the Statement of Financial Position. Changes in fair value are taken through profit or loss.

2.11 Investments in equity-accounted entities

Associates are those entities, in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in associates and jointly controlled entities are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the entity.

2.12 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.

2.13 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.

2.14 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 Ioss 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.

2.15 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.

2.16 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 behavior), 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.

2.17 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.
Borrowing costs directly attributable to qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Generally, this relates to the development of games. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Convertible bonds that may be converted into common shares of Funcom N.V. at a fixed price in the functional currency of the Company are recognized as follows: On initial recognition the principal amount is split into two components, the loan component and the conversion option component, each recognized at fair value. The conversion option is presented as equity, and is not subsequently re-measured. The loan component is measured subsequently at amortized cost and classified as a liability.

2.18 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.

2.19 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.

2.20 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.

2.21 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.

2.22 Segments

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. 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 11 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.

Impairment of trade receivables
When determining the recoverability of trade receivables management's judgment may be based on factors involving uncertainty such as interpretations of complex agreements.

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.

Warrants
The Company issued 5 million warrants to subscribe for shares in the company for USD 1.67 per share, which as at 31 December 2010 did not meet the definition of equity. The warrants were reclassified to equity on 27 June 2011, following changes in the agreement terms, and measured at their fair value as at that date. The equity component is not subsequently re-measured. The Group used valuation techniques that included inputs that were not based on observable market data to estimate the fair value. See note 25 for further details about the key assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis for these assumptions.

Management believes that the chosen valuation techniques and assumptions are appropriate in determining the fair value.

4. SEGMENT INFORMATION

The Group reports segment information in accordance with IFRS 8 Operating Segments. 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. The reportable operating segments of the group are defined as;

- large-scale MMO games - like *The Secret World* and *Age of Conan*
- 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 MMO 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 may make adjustments to 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 free or 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. 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. Impairment charges of USD 38,000 thousand made in 2012 relate to the Large-scale MMOs segment and USD 2,545 thousands - to the free-to-play segment. In 2011, USD 2,121 thousands of impairment charges were related to the free-to-play segment.

In thousands of US dollars	Revenue from external customers Period ended December 31 2012	2011	Segment profit Period ended December 31 2012	2011
Large-scale MMO's	20,108	13,813	5,365	2,242
Free-to-play MMO games	3,491	1,706	2,375	1,074
Total	**23,599**	**15,519**	**7,740**	**3,316**
General administrative expenses			-17,453	-8,798
Depreciation, amortization and impairment charges			-49,375	-7,829
Net financial items			-3,011	-2,899
Profit (loss) before tax (from continuing operations)			**-62,099**	**-16,210**

Segment assets

In thousands of US dollars	2012	2011
Large-scale MMO's reportable assets	13,525	46,664
Free-to-play MMO's reportable assets		2,963
Total assets for reportable segments	13,525	49,627
Other non-current assets	2,193	3,746
Current assets	17,564	24,953
Consolidated total assets	**33,282**	**78,327**

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

In thousands of US dollars	Large-scale MMOs	Free-to-play MMOs
Investments in intangible assets 2012	13,649	508
Investments in intangible assets 2011	14,649	2,732

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	2012		2011	
	Revenue	Non-current assets (**)	Revenue	Non-current assets (**)
The Netherlands *)				
Switzerland	11,629	13,620	8, 758	45,494
Luxembourg	7,559		6,725	922
Norway	3,301	135	37	3,551
Canada	1,104	506		1,746
USA		251		161
Other	6	27		21
Total	**23,599**	**14,539**	**15,519**	**51,895**

*) 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. In 2012 royalties recognized in revenues from Funcom's partner for The Secret World game amounted to USD 2,514 thousands and represents 10 per cent of the total revenues for 2012. In 2011 no customers exceeded 10 per cent of total revenues. Non-current assets are attributed to a country based on the geographical location of the assets.
the geographical location of the assets.

Non-current assets are attributed to a country based on the geographical location of the assets.

5. REVENUE

In thousands of US dollars	2012	%	2011	%
Revenues online games	22,844	96.8%	15,112	97.4 %
Revenues offline games	146	0.6 %	234	1.5 %
Other	609	2.6%	173	1.1 %
Total revenue	**23,599**		**15,519**	
Rendering of services	18,666	79.1 %	14,707	94.8 %
Royalties	4,324	18.3 %	774	5.0 %
Other	609	2.6 %	37	0.2 %
Total revenue	**23,599**		**15,519**	

6. PERSONNEL EXPENSES

In thousands of US dollars	2012	2011
Salaries	9,304	5,935
Social security contributions	624	1,037
Contributions to defined contribution plans	142	81
Expenses for share option program	815	703
Other personnel expenses	2,267	1,687
Total personnel expenses	**13,152**	**9,443**

Average number of employees:	2012	2011
Europe	62	101
North America	171	168
Asia	35	43
Total	**268**	**311**

7. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2012	2011
Travel & marketing	9,170	3,118
Consultants	3,376	1,728
Rent of premises and other office costs	1,198	1,531
Royalties	1,557	770
Investor relations	295	170
IT, hardware and software	371	521
Other	1,486	963
Total general and administrative expenses	**17,453**	**8,801**

8. OTHER OPERATING EXPENSES

In thousands of US dollars	2012	2011
Commissions	793	555
Hosting and bandwidth costs for online services	1,913	2,193
Sales and distribution costs		10
Total other operating expenses	**2,706**	**2,758**

9. FINANCE INCOME AND EXPENSES

In thousands of US dollars	2012	2011
Interest income	189	87
Net foreign exchange gain	1,439	9,653
Other financial income		36
Change in fair value financial derivatives		750
Finance income	**1,628**	**10,526**
Interest expense	-2,907	-1,193
Net foreign exchange loss	-962	-10,540
Other finance expenses	-738	-50
Change in fair value financial derivatives		-1,625
Finance expenses	**-4,607**	**-13,408**

The above financial items all relate to assets and liabilities carried at amortized cost except financial derivtives which are measured at fair value (relates to comparative figures for 2011 only).

10. INCOME TAX EXPENSE

In thousands of US dollars	2012	2011
Result before income tax	-62,099	-16,210
Tax according to the average tax rate in Switzerland, Luxembourg, Canada, USA, China and Norway	7,434	1,561
Tax effect of non-deductible expenses	-479	-471
Tax effect of non-taxable income	8	147
Withholding tax and capital asset tax		-8
Deferred tax asset related to carry forward tax losses not recognised	-7,079	-1,314
Income tax (expense) / income	**-116**	**-85**

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

Current period	-46	-38
	-46	-38
Deferred tax expense		
Origination and reversal of temporary differences	-70	-46
Income tax expense from continuing operations	-116	-85
Total income tax income (expense)	**-116**	**-85**

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

DEFFERED TAX LIABILITY/TAX ASSET

In thousands of US dollars	2012	2011
Deferred tax liability	-55	-297
Deferred tax asset	233	558
Deferred tax asset, net	**178**	**261**
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	904	1,082
Total deferred tax effect of tax increasing temporary differences	**904**	**1,082**
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	18,532	9,827
Equipment and intangible assets	232	609
Total deferred tax effect of tax reducing temporary differences	**18,764**	**10,436**
Deferred tax asset (net) not recognized in the balance sheet:	17,682	9,093
Recognized deferred tax asset, net	**178**	**261**
Reconciliation of deferred tax asset, net:		
Opening balance	261	319
Change according to statement of income	-70	-46
Exchange differences etc.	-13	-12
Deferred tax asset, net, at year-end	**178**	**261**

The Group has tax losses of USD 170,186 thousands as at December 31, 2012 (2011: USD 112,040 thousands) which expire as follows:

In thousands of US dollars Expire year	2012	2011
2011		
2012		
2013		
2014	209	204
2015	91,358	88,836
2016	2,776	2,699
2017	4,661	4,532
2018	14,124	13,382
2019	46,277	
2029	96	93
2031	1,665	1,626
2032	987	
Indefinite	8,033	668
Total tax losses	**170,186**	**112,040**

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.

11. INTANGIBLE ASSETS

In thousand of dollars	Development	Software costs	Total
Cost			
Balance at January 1, 2011	88,316	1,177	89,492
Acquisitions, internally developed	19,346		19,346
Other acqusitions		49	49
Disposals			
Government grant	-1,964		-1,964
Translation difference		-11	-11
Balance at December 31, 2011	**105,697**	**1,215**	**106,912**
Balance at January 1, 2012	105,697	1,215	106,912
Acquisitions, internally developed	15,540		15,540
Other acqusitions		74	74
Disposals			
Government grant	-1,383		-1,383
Translation difference		89	89
Balance at December 31, 2012	**119,854**	**1,378**	**121,232**
Accumulated amortization and impairment losses			
Balance at January 1, 2011	46,950	850	47,800
Amortization for the year	6,999	133	7,132
Impairment losses (reversal of losses)	2,121		2,121
Disposals			
Translation difference		-20	-20
Balance at December 31, 2011	**56,070**	**963**	**57,033**
Balance at January 1, 2012	56,070	963	57,033
Amortization for the year	9,714	132	9,846
Impairment losses (reversal of losses)	40,545		40,545
Disposals			
Translation difference		79	79
Balance at December 31, 2012	**106,329**	**1,174**	**107,504**
Carrying amount at Jan. 1, 2011	**41,365**	**328**	**41,694**
Carrying amount at Dec. 31, 2011	**49,627**	**252**	**49,879**
Carrying amount at Jan. 1, 2012	**49,627**	**252**	**49,879**
Carrying amount at Dec. 31, 2012	**13,525**	**204**	**13,729**

The received government grant mainly relates to multimedia tax credits accrued in Funcom Games Canada Inc and government grant received from Verdikt (a program under the Norwegian Research Council) and support from The Norwegian Film Fund.

The following values of intangible assets are under development and in use.

In thousand of dollars	2012			2011		
Class	Under development	In use	Total	Under development	In use	Total
Development costs	761	12,764	13,525	34,779	14,848	49,627
Software		204	204		252	252
TOTAL	**761**	**12,968**	**13,729**	**34,779**	**15,100**	**49,879**

Capitalization of amortization and depreciation
The Group capitalized borrowing costs and amortization and depreciation on assets used in development of games as an integral part of the book value of the games. Borrowing costs included in capitalized development costs for 2012 were USD 201 thousands (2011: USD 248). Amortization and depreciation included in capitalized development costs for 2012 were USD 2,048 thousands (2011: USD 2,024 thousands).

Calculation of recoverable amounts
When calculating the recoverable amount (value in use) 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 negative growth rate for subsequent years. For assets that are under development and not yet available for use, the cash flow projections include an estimate of further cash outflows that are expected to be incurred before the asset is ready for use.

The cash flows are discounted using a pre-tax rate of 12 per cent for Age of Conan (2011: 12 per cent), 12 per cent for The Secret World (2011: 13 per cent) and 13 per cent for Lego® Minifigures (2011: n/a). The Dreamworld Technology was allocated to The Secret World, Lego® Minifigures and Age of Conan based on a 55/40/5 ratio (2011: 90/10 allocation to The Secret World and Age of Conan) respectively when performing the year end 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 with high certainty the cash flows from games is difficult. Both the reach of the games and the revenues generated from the games depend to a high degree 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. Management determined budgeted numbers of players based on the actual customer base for the games in operation, market information obtained as well as 3rd party sales estimates, and its own expectations of customer development. This estimate represents management's best estimate, but is subject to a relatively high degree of uncertainty; especially for games not launched and for games to be launched in the free-to-play segment where Funcom has limited experience.

Sensitivity analysis
One percent change of the discount rate would have the following effect on the recoverable amounts of the cash generating units:

In thousands of US dollars	Increase (decrease) of recoverable amount	
Cash generating unit	1 percent increase	1 percent decrease
Age of Conan: Hyborian Adventures	-24	24
The Secret World	-306	324
Lego Minifigures	-406	432

Five percent change in the estimated net cash flows expected to be realized by the cash generating units would have the following effect on their recoverable amounts:

In thousands of US dollars	Increase (decrease) of recoverable amount	
Cash generating unit	5 percent increase	5 percent decrease
Age of Conan: Hyborian Adventures	79	-79
The Secret World	487	-487
Lego Minifigures	403	-403

This analysis assumes that all other variables remain constant.

Research and development
In 2012 the Group expensed USD 115 thousands in research and development (2011: USD 131 thousands).

Inefficiency
The Group did not expense any costs related to inefficiencies in 2012 or 2011.

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. Since launch Funcom has introduced a new hybrid business model for the game and has released two major content expansions while the third one, Secret of the Dragon's Spine, became available in Q4 2012.

The performance of the game remained stable in 2012 and the impairment test performed at the end of the year demonstrated that the recoverable amount of the cash-generating unit *Age of Conan* approximates its carrying amount and no further impairment loss or reversal of previously recognized impairment loss are required.

The carrying amount of *Age of Conan* is USD 1,338 on December 31, 2012 (2011: USD 4,585 thousands). As at December 31, 2012 the accumulated impairment charge for the cash generating unit *Age of Conan*, which includes 3% of the impairment losses allocated to the *Dreamworld Technology*, is USD 24,934 (2011: USD 24,934).The initial cost at launch of the game will be fully amortized in 2013. 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*
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 game play 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 strives to make the game appeal to several different gaming audiences – including non-MMO gamers.

The game was launched on July 3, 2012. Despite of the positive press and gamers' response and feedback prior to launch the sales from the game were much lower than the initial estimates and the scenarios communicated in 2011. As a result, Funcom initiated cost cutting measures in August 2012 and switched to a new, buy-to-play business model for *The Secret World* which increased sales from the game by 30% and quadrupled gamers' activities. The company also expects the positive effect from the new business model to continue in the future by improving players' retention and new players' acquisition. However expected revenues will remain below the originally estimated levels mainly due to lower than expected game client sales, subscription sales and clients' retention. Therefore Funcom revised the estimated cash flows related to the cash generating unit *The Secret World* which lead to an impairment loss of USD 38,000 thousands recognized in 2012 (the impairment loss includes USD 6,810 thousands allocated to the *Dreamworld Technology*).

The carrying amount of *The Secret World* is USD 8,377 thousands on December 31, 2012 (2011: USD 33,108 thousands). As at December 31, 2012 the accumulated impairment charge for the cash generating unit *The Secret World*, which includes 97% of the impairment losses allocated to the *Dreamworld Technology*, is USD 40,106 thousands (2011: USD 2,106 thousands including 90 % of the *Dreamworld Technology* allocated to the cash generating unit).

The initial cost at launch of the game will be fully amortized in 2017. 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. *The Secret World* has been amortized since its launch on July 3, 2013.

Large scale MMO *Lego Minifigures*

In June 2012 Funcom signed a license agreement with the LEGO Group to develop a massively multiplayer online game based on the hugely popular LEGO® *Minifigures* line of collectible play materials for the PC and tablet platforms.

Currently in development, the game sets players off on a grand adventure through themed worlds that are built -- brick by brick, piece by piece -- using LEGO® materials. Players will visit locations such as Medieval world, Space world, Pirate world and Mythology world, where they will battle enemies, collect bricks and develop their characters. Funcom and the LEGO Group will work together to make the game available to consumers in their online channels. The game will be a prominent part of the LEGO® *Minifigures* online experience which already has millions of unique visitors every month.

The carrying amount of Lego *Minifigures* is USD 761 thousands on December 31, 2012 (2011: USD nil).

Lego *Minifigures* 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, intelligent in-game patching 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 Content 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.

- Powerful scripting and event creation system to deliver unique and engaging experiences.

The carrying amount of the *Dreamworld Technology* is USD 3,049 thousands on December 31, 2012 (2011: USD 8,723 thousands). The initial cost of the technology will be fully amortized in 2013. 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. Part of the amortization has been capitalized as development cost for *The Secret World* and Lego® *Minifigures*. In 2012 USD 2,048 thousands had been capitalized (2011: USD 1,696 thousands).

Parts of the impairment losses 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 2012 the accumulated amount of the impairment losses is USD 9,150 thousands (2011: USD 2,340 thousands).

Other games
Fashion Week Live, an interactive online entertainment platform for fashion lovers developed for Facebook was launched in 2012. However, due to much slower monetization than originally estimated, caused mainly by less sales of in-game items and lower generation of advertising revenue, the cash flows related to the game were revised and led to a write-off of USD 1,475 thousands. The carrying amount of the game is USD 0 thousands on December 31, 2012 (2011: USD 1,423 thousands).

The impairment test performed in 2012 also led to a write-off of USD 1,070 thousands related to the game Pets vs Monsters within the free-to-play segment as a result of revised revenue projections mainly caused by lower than expected conversion of free-to-play to paying subscribers. The carrying amount of the game is USD 0 thousands on December 31, 2012 (2011: USD 1,540 thousands).

12. EQUIPMENT

In thousands of US dollars	Computers	Furniture	Total
Cost			
Balance at January 1, 2011	9,997	1,574	11,572
Acquisitions	356	779	1,135
Translation difference	-45	-29	-75
Balance at December 31, 2011	**10,308**	**2,324**	**12,632**
Balance at January 1, 2012	10,308	2,324	12,632
Acquisitions	322	50	372
Translation difference	213	55	268
Balance at December 31, 2012	**10,843**	**2,429**	**13,272**
Accumulated depreciation and impairment losses			
Balance at January 1, 2011	9,678	384	10,063
Depreciation for the year	221	379	600
Translation difference	-39	-6	-45
Balance at December 31, 2011	**9,860**	**756**	**10,618**
Balance at January 1, 2012	9,860	756	10,618
Impairment charges	55	812	868
Depreciation for the year	313	445	758
Translation difference	210	12	222
Balance at December 31, 2012	**10,439**	**2,024**	**12,465**
Carrying amount at Jan. 1, 2011	**319**	**1,190**	**1,509**
Carrying amount at Dec. 31, 2011	**448**	**1,568**	**2,016**
Carrying amount at Jan. 1, 2011	**448**	**1,568**	**2,016**
Carrying amount at Dec. 31, 2011	**405**	**405**	**810**
Method of depreciation		Straight line	Straight line
Estimated useful lives		3 years	3 years

On January 10, 2013 Funcom Group announced the start of a restructuring process and subsequently determined and is currently implementing the details of the restructuring plan (see note 29).The restructuring plan includes, among others, downsizing of studios. The plan therefore represents an indication of impairment for office furniture and equipment and leasehold improvements and an impairment charge of USD 868 thousands was recorded in 2012 in accordance with IAS 36.12 (f). The impairment loss is equal to the amount by which the carrying amount of the assets exceeds their value in use.

13. TRADE RECEIVABLES

In thousands of US dollars	2012	2011
Trade receivables	2,723	1,359
Allowances for impairment		6
Trade receivables, net	2,723	1,353

As of December 31, 2012 trade receivables consisted of 1,377 thousands in USD and 791 thousands in EURO and a balance of USD 555 thousands relates to other currencies. The respective numbers for 2011 were USD 717 thousands in USD and USD 490 thousands in EURO and a balance of USD 146 thousands relates to other currencies.

14. PREPAYMENTS AND OTHER RECEIVABLES

In thousands of US dollars	2012	2011
Accrued multi-media tax credits and other government grants	4,591	2,939
Receivable from an equity-accounted entity	1,312	465
Other prepayments	890	769
Total	**6,793**	**4,173**

Tax credits receivable represent approximately 92% of the actual amount claimed.

15. CASH AND CASH EQUIVALENTS

In thousands of US dollars	2012	2011
Cash at bank and in hand	8,048	19,428
Cash and cash equivalents in the statement of financial position	**8,048**	**19,428**
Restricted cash included in Cash at bank and in hand	173	14,756

In 2012 USD 173 thousands (2011: USD 256 thousands) restricted cash relates to cash at a separate account for tax deducted from salaries.
The USD 14 500 thousands of restricted cash in 2011 were the proceeds from the issuance of 150 convertible bonds (see note 25). The proceeds were released for use in operations on January 12, 2012 when the loan agreement was approved by the shareholders at the Extraordinary General Meeting.

In addition, in 2011 the Company was also required to maintain a deposit of USD 2.5 million with a Canadian bank for the use of one of the credit facilities with a fair market value of USD 6 million (see note 25). The credit facility was repaid in Q4 2012 and the Company has no longer the obligation of maintaining the deposit.

16. EQUITY

Share-capital and share premium

Number of ordinary shares	2012	2011
Outstanding at January 1	53,907,375	53,287,991
Issued against payment in cash	6,166,247	619,384
Issued as a result of conversion of bonds (Note 25)	6,423,296	
Outstanding at December 31 - fully paid	66,496,918	53,907,375
Nominal value of the share-capital at December 31 (EUR)	2,659,877	2,156,295

At December 31, 2012, the authorized share capital comprised of 250 million ordinary shares (2011: 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.

Events in 2012:

Shares:
In January 2012, the Company issued 852,728 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.50 per share (USD 0.64). Gross proceeds amounted to EUR 428,549 (USD 545,371).

In March 2012, the Company issued 484,123 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.52 per share (USD 0.70). Gross proceeds amounted to EUR 253,872 (USD 340,976).

In June 2012, the Company issued 455,925 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.46 per share (USD 0.57). Gross proceeds amounted to EUR 209,539 (USD 261,358).

In June 2012, the Company issued 4,000,000 shares as a result of a private share placement. The issued shares were paid in cash at EUR 1.90 per share (USD 2.38). Gross proceeds amounted to EUR 7,599,393 (USD 9,507,600).

In July 2012, the Company issued 373,471 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.64 per share (USD 0.80). Gross proceeds amounted to EUR 238,019 (USD 298,967).

Options:
On January 12, 2012 Funcom held an Extraordinary Meeting of Shareholders where the Company issued 200,000 options to members of the Management Board. In addition on August 24, 2012 Funcom held an Extraordinary meeting of Shareholders where the Company issued 200,000 options to members of the Management Board. One-third of the total number of options granted vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 27, 2012, Funcom held its Annual General Meeting where, the Company issued 100,000 options to members of the Supervisory Board. Half of the options granted to the members of the Supervisory Board vest annually in the two years following the grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On Sept. 20, 2012, the Company issued 1,934,000 options as a part of the Group's options program. With regard to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

Other:
On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of USD 1.37 per share. By the end of Q3 2012, 88 bonds were converted into 6,423,296 common shares which resulted in an increase of 336 TUSD of the share capital and 9,543 TUSD of the share premium reserve and a decrease of 1,080 TUSD of the conversion rights reserve, reflected in the consolidated statement of changes in equity. As of December 31, 2012 sixty two bonds are still outstanding.

Events in 2011:

Shares:
In March 2011, the Company issued 226,800 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.50 per share (USD 0.70). Gross proceeds amounted to EUR 113,039 (USD 157,613).

In July 2011, the Company issued 111,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.51 per share (USD 0.73). Gross proceeds amounted to EUR 56,154 (USD 80,777).

In October 2011, the Company issued 21,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.47 per share (USD 0.63). Gross proceeds amounted to EUR 9,835 (USD 13,208).

In November 2011, the Company issued 260,584 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.52 per share (USD 0.71). Gross proceeds amounted to EUR 135,133 (USD 185,245).

Options:
On August 12, 2011, the Company issued 1,768,000 options as a part of the Group's options program. With regard to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 27, 2011, Funcom held its Annual General Meeting where, the Company issued 250,000 options to members of the Supervisory Board and 200,000 options to a member of the Management Board as a part of the Group's options program. Half of the of the options granted to the members of the Supervisory Board vest annually in the two years following the grant. One third of the options granted to the member of Management Board vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

Other:
On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of USD 1.37 per share.

Under the Dutch Act on Financial Supervision (Wet op het financieel toezicht), shareholdings of 5 % or more in a Dutch issuing institution must in principle 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 directly or indirectly controlled more than 5 % of the Company's total share capital on January 1, 2013:

- Mr. H.P. Jebsen
- NVP General Partner II ApS

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 2012 or 2011. No dividends relating to year 2012 have been proposed.

17. 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 2012 was USD 142 thousands (2011: USD 81 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
May 18, 2010	3,000,000	May 18, 2011
June 27, 2011	8,000,000	AGM 2012
June 27, 2012	10,000,000	AGM 2013
June 27, 2012	10,000,000	December 22, 2014
Total number of options authorized	**36,250,000**	

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 following 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 2009	Vested in 2010	Vested in 2011	Vested in 2012	Vested in 2013	Vested in 2014
February 27, 2008	433,500	264,917	144,500	24,083			
December 19, 2008	850,000	333,333	333,333	183,333			
March 12, 2009	2,088,300		1,218,175	696,100	174,025		
February 10, 2010	78,500			47,972	26,167	4,361	
May 18, 2010	321,500			161,347	157,167	2,986	
August 01, 2010	1,428,000			634,667	476,000	317,333	
December 29, 2010	150,000			50,000	50,000	50,000	
June 27, 2011	450,000				191,667	191,667	66,667
August 12, 2011	1,768,000				785,778	589,333	392,889
January 12, 2012	200,000					66,667	66,667
June 27, 2012	100,000					50,000	50,000
August 24, 2012	200,000					88,889	66,667
September 20, 2012	1,934,000					805,833	644,667
Sum	**10,001,800**	**598,250**	**1,696,008**	**1,797,503**	**1,860,803**	**2,167,069**	**1,287,556**

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 prise (NOK)**	**Number of options**	**Weighted average exercise prise (NOK)**
	2012	2012	2011	2011
Outstanding options on January 1	5,529,550	4,9	4,073,542	4,36
Options granted	2,434,00	3,7	2,218,000	6,75
Options with extended expiry period			765,191	
Options exercised	-2,166,247	3,8	-619,383	3,96
Options terminated	-757,600	7,1	-425,400	9,96
Options expired	-367,856	3,9	-482,400	12,07
Outstanding options on December 31	**4,671,847**	**4,54**	**5,529,550**	**4,94**

List of outstanding options	**Number of options**	**Fair value options**	**Number of exercise prise (NOK)**	**Fair value per option**
	2012	2012	2011	2011
Vested (exercisable) options	1,157,250	5,70	2,206,553	3,67
Weighted Average Fair Value of Options during the perion	**2,434,000**	**1,40**	**2,218,000**	**2,45**

Out of the 4,671,847 outstanding options at December 31, 2012 (2011: 5,529,550), 1,157,250 options were exercisable (2011: 2,206,553). Options exercised in 2012 resulted in 2,166,247 new shares at NOK 3.95 on average (2011: 619,383 new shares at NOK 3,96 on average).

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

Expiry day	Exercise price	Shares 2012	Shares 2011
June 19, 2011	NOK 2.85	-	-
September 1, 2011	NOK 25.34	-	-
April 18, 2012	NOK 5.30	-	-
June 19, 2012	NOK 2.85	-	496,667
September 12, 2012	NOK 3.94	-	1,057,133
November 18, 2012	NOK 5.30	-	200,000
August 10, 2013	NOK 4.29	17,444	78,500
November 18, 2013	NOK 5.30	6,569	21,500
December 27, 2013	NOK 6.85	150,000	250,000
February 1, 2014	NOK 3.48	605,500	1,307,750
June 29, 2014	NOK 4.72	33,333	150,000
December 27, 2014	NOK 16.22	100,000	200,000
February 12, 2015	NOK 6.73	1,575,000	1,768,000
July 12, 2015	NOK 14.73	50,000	-
February 24, 2016	NOK 2.78	200,000	-
March 20, 2016	NOK 2.23	1,934,000	-
Sum		**4,671,847**	**5,529,550**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was NOK 1,4 per option (2011: NOK 2.45). The significant inputs into the model were a weighted average share price of NOK 2.23 – 16.22 (2011: NOK 6.73-6.85) at the grant date, the exercise prices shown above, volatility of 73,1% - 82,6 % (2011: 61% - 64%), dividend yield 0 % (2011: 0 %), an expected option life of 2.5 – 3.5 years (2011: 2.9-3.4 years), an expected annual turnover rate of 7 % (2011: 7 %) and an annual risk free rate of 1,06% – 1,42 % (2011: 1.8 % – 2.6 %).The volatility measured is based on the variation in daily share prices for Funcom.

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

At the end of 2012

Name	Number of shares	Number of options	Comments
Supervisory board			
Gerhard Florin	-	100,000	Mr. Florin - Chairman of the Supervisory Board controls G. Florin Consulting GMBH, which holds 100,000 options to subscribe for shares in the Company.
Alain Tascan		50,000	
Michel Cassius	50,000	50,000	
Ole Gladhaug	-	-	
Magnus Grøneng	400	-	
Management board			
Ole Schreiner	109,017	345,000	CEO of Funcom N.V.
Pieter van Tol	33,334	83,333	

At the end of 2011

Name	Number of shares	Number of options	Comments
Supervisory board			
Gerhard Florin	-	100,000	Mr. Florin - Chairman of the Supervisory Board controls G. Florin Consulting GMBH, which holds 100,000 options to subscribe for shares in the Company.
Thorleif Ahlsand	300,000	200,000	Mr. Ahlsand - Vice-chairman of the Supervisory Board - holds 200,000 of the shares through his company Brownske Bevegelser AS. Brownske Bevegelser AS also holds one bond of USD 100,000, with a right to convert it into a total of 72,992 shares in Funcom N.V. at USD 1.37 per share. Mr. Ahlsand is a partner of Northzon Ventures, which holds 5,449,175 shares in the Company
Michel Cassius	50,000	100,000	
Claus HøjbergAndersen	-	-	Mr. Højbjerg Andersen is a partner of Nordic Venture Partners, which holds 5,208,325 shares and 50,000 options to subscribe for shares in the Company
Management board			
Frank Sagnier	168 000	200 000	
Trond Arne Aas	1 457 825	580 000	Mr. Aas is the CEO of Funcom N.V. and member of the Managment Board of Funcom N.V. 754,500 of the shares are held by Arminius AS, a company controlled by Mr. Aas.
Pieter van Tol	33 833	66 667	

18. PROVISIONS

In thousands of US dollars	Tax on capital Contracts	Onerous	Total
Balance at January 1, 2012	331	69	400
Provisions made during the year			
Provisions used during the year	-325	-40	-365
Provisions reversed during the year			
Exchange rate differences	-6		-6
Balance at December 31, 2012	**0**	**29**	**29**

In 2011 the Company was in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities. The dispute was resolved in 2012 and resulted in a payment of USD 325 thousands.

The provisions for onerous contracts relate to empty office premises and is expected to be fully used during the 2013 financial year.

19. DEFERRED INCOME

The amount consists mainly of subscription prepayments from subscribers.

20. OTHER SHORT TERM LIABILITIES

The amount mainly consists of:

- vacation pay accrued
- taxes and social security relating to salary payments
- accrual of other regular operating expenses
- amount due to a partner until fulfillment of a contractual obligation

21. INVESTMENTS IN EQUITY-ACCOUNTED ENTITIES

Funcom owns a 42 % interest in the shares in the Swedish company Stunlock Studios AB. This company is considered an associated company for Funcom.

Funcom owns a 50% share in the Canadian company MMORPG Technologies INC. Another party owns the remaining 50%. This company is considered a joint venture for Funcom.

The Company's share of loss in its equity-accounted entities for the year was USD - 33 thousands (2011: USD -17 thousands).

The Company has not received any dividends from any equity-accounted entities.

Summary of financial information for equity-accounted entities, not adjusted for the percentage ownership held by the Company:

In thousands of US dollars	Stunlock Studios AB	MMORPG Technologies INC	Total
Country	Sweden	Canada	
Ownership in %	42	50	

Reporting date	December 31, 2011	December 31, 2011	Total
Current assets	199	982	1,180
Non-current assets	327	155	481
Total assets	525	1,136	1,662
Current liabilities	142	672	815
Non-current liabilities		49	49
Total liabilities	142	721	864
Income	453	3,417	3,870
Expenses	-446	-3,289	-3,735
Profit/loss	7	128	135
Funcom's share:	3	64	67
less amortization of fair value adjustment	-84		-84
Share of result 2011:	**-81**	**64**	**-17**

Reporting date	December 31, 2012	December 31, 2012	Total
Current assets	318	2,207	2,525
Non-current assets	269	32	301
Total assets	587	2,239	2,826
Current liabilities	164	1,772	1,936
Non-current liabilities			
Total liabilities	164	1,772	1,936
Income	953	3,200	4,153
Expenses	-937	-3,116	-4,053
Profit/loss	16	84	100
Funcom's share:	7	42	49
less amortization of fair value adjustment	-82		-82
Share of result 2012:	**-75**	**42**	**-33**

22. LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2012	2011
Less than one year	814	1,653
Between one and five years	1,130	1,158
More than five years	795	1,044
Total	**2,739**	**3,855**

The Group leases office premises in Canada, Norway, USA, China, Switzerland, and Luxembourg. These leases typically run for a maximum of 10 years with an option to renew when they expire. Lease payments are normally index regulated every year according to the consumption price index.

During the year ended December 31, 2012, USD 1,198 thousands was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2011: USD 1,531 thousands).
As of year-end the Company has no outstanding obligations under finance leases.

23. 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 -62,295 thousands (2011: USD -16,295 thousands) divided by the weighted average number of ordinary shares outstanding 63,043,501 (2011: 53,561,206).

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 and the conversion feature of the warrants and the convertible bonds. As the Company made losses in 2012 and 2011, the dilutive effect of share options and the conversion feature of convertible bonds are anti-dilutive, i.e. would reduce losses per share. This effect is thus not included in the calculation of diluted earnings (losses) per share.

	2012	2011
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands)	-62,215	-16,295
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	-62,215	-16,295
Issued ordinary shares as of January 1	53,907	53,288
Effect of new shares issued and options exercised	9,137	273
Weighted average number of shares at December 31	63.044	53,561
Basic earnings per share	**(0.99)**	**(0.30)**
Basic earnings per share - continuing operations	**(0.99)**	**(0.30)**
Weighted average number of shares at December 31, basic	63,044	53,561
Effect of share options on issue		
Weighted average number of shares at December 31, diluted	63,044	53,561
Diluted earnings per share	**(0.99)**	**(0.30)**
Diluted earnings per share - continuing operations	**(0.99)**	**(0.30)**

24. CONTINGENT LIABILITIES

As of December 31, 2012 the group has no contingent liabilities (2011: 0 USD).

25. 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 2012	Carrying amount 2011
Loans and receivables*	9,257	5,225
Cash and Cash equivalents	8,048	19,428
	17,305	**24,653**

* Includes trade receivables of 2,723 thousands (2011: USD 1,353 thousands), long-term receivables of USD 631 (2011: USD 447 thousands) which relates to long term deposits on operational leases, multimedia tax credits of USD 4,591 thousands (2011: USD 2,939 thousands) and a receivable on an equity-accounted entity of USD 1,312 thousands (2011: USD 456). Tax credits receivable represent approximately 92% of the actual amount claimed.

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

In thousands of US dollars	Carrying amount 2012	Carrying amount 2011
North America	357	123
Europe	2,366	1,230
	2,723	**1,353**

Receivables on credit card service providers amount to USD 1,600 thousands of the trade receivables carrying amount at December 31, 2012 (2011: USD 532 thousands).

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	2,009		800	
Past due 0-30 days	396		156	
Past due 31-120 days	95		106	
More than 120 days	223		297	6
	2,723		**1,359**	**6**

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

In thousands of US dollars	2012	2011
Balance at January 1	6	1,020
Reversal of allowance		-200
Utilized during the year	-6	-814
Translation difference		
Balance at December 31	**0**	**6**

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 that give rise to contractual cash outflows.

In thousands of US dollars	Carrying amount	Contractual cash flows	6 months or less	6-12 months	Year 2	Year 3
As at December 31, 2012						
Trade and other payables	12,871	13,433	3,033	10,400		
Long term debt	4,727	6,331			6,275	56
	17,599	**19,764**	**3,033**	**10,400**	**6,275**	**56**
As at December 31, 2011						
Trade and other payables	8,003	8,103	1,640	6,463		
Long term debt	22 104	31,268	1,150	1,169	12,375	16,575
	30,106	**39,371**	**2,790**	**7,632**	**12,375**	**16,575**

Other payables consist of USD 250 thousands (2011: USD 250 thousands) due to a business partner, USD 1,003 thousands (2011: USD 0) due to an equity-accounted entity, USD 1,375 thousands (2011: 6,670) of bank borrowings and USD 9,837 thousands interest-bearing loan due to KGJ Investments S.A., SICAV-SIF (KGJI). The bank borrowings bearing interest of 6% represent a demand facility secured by tax credits with a book value of USD 2,442 thousands at the end of December 31, 2011, a guarantee covering 66.7% of the amount and a letter of guarantee for USD 300 thousands. The interest bearing debt of USD 9,837 thousands relates to the loan agreement with Stelt Holding N.V. (2011: 9,326) with an annual fixed interest rate of 8 per cent and due date December 29, 2013. Mr. Hans Peter Jebsen controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls the companies Stelt Holding N.V. and KGJI. As part of an internal reorganization within the Jebsen Group, the interest bearing debt agreement was transferred on December 5 2012 from Stelt Holding N.V. to KGJI. Please, refer to note 29 below for additional information with regards to the interest bearing loan.

Long term debt consists of USD 131 thousands non-interest bearing reimbursable government contribution (2011: 205 thousands) and USD 4,597 thousands convertible bonds (2011: 12,572). On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousands (total USD 15,000 thousands) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. By the end of Q3 2012, 88 bonds were converted into 6,423,296 common shares which resulted in an increase of 336 TUSD of the share capital and 9,543 TUSD of the share premium reserve and a decrease of 1,080 TUSD of the conversion rights reserve, reflected in the consolidated statement of changes in equity. As of December 31, 2012 sixty two bonds are still outstanding.

The management analyzed the debt repayment schedules and the impact on the Company's liquidity. The analysis included the current and potential sources of financing such as the equity facility the Company entered into in January 2012 (see Report of the Management Board) and the loan restructuring plan (see note 29) in addition to the opportunities of raising additional capital via financial arrangements including equity and tax credits financing. As a result, the management concluded that the solvency and liquidity of the Company indicate that Funcom is able to meet its current and long-term obligations. However, this position is based on various assumptions; including cost structure, revenue projections, credit opportunities, timeline on the game developments amongst other factors. The management will continue to evaluate the assumptions on a continuous basis and will inform the market of any future pervasive and material changes.

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, Canadian dollar or Norwegian kroner exchange rate compared to the US dollar could significantly influence the Group's Statement of Comprehensive Income. Even if management were to implement an active hedging policy, a currency related risk, which may have an impact on the Statement of Comprehensive Income, would still exist. The majority of the operational expenses are currently denominated in Canadian dollar and Norwegian kroner. The significant cash positions in Canadian dollar and Norwegian kroner are perceived by the management as a natural hedge against the operational expenses in these currencies.

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

In thousands of US dollars	USD	EURO	NOK	CAD	OTHER
As at December 31, 2012					
Trade and other receivables	1,431	791	518	6,353	165
Cash and cash equivalents	1,990	2,118	2,835	190	915
Trade and other payables	-10,335	-23	-114	-2,399	
Net balance sheet exposure	**-6,914**	**2,886**	**3,239**	**4,144**	**1080**
As at December 31, 2011					
Trade and other receivables	916	490	376	3,417	26
Cash and cash equivalents	14,973	475	668	3,218	94
Trade and other payables	-467	-170	-365	-6,962	-39
Net balance sheet exposure	**15,422**	**795**	**679**	**-327**	**81**

The following exchange rates applied during the year:

In thousands of US dollars	2012		2011	
Reporting rate	Average rate		Spot rate at December 31	
	2012	2011	2012	2011
EUR 1	1,278	1,395	1,322	1,295
NOK 1	0,174	0,170	0,179	0,167
CAD 1	0,999	1,008	1,003	0,980

Sensitivity analysis

A 10 percent weakening of the US dollars compared to EUR, NOK and CAD would have increased (decreased) equity and profit and loss by the amounts shown below. The analysis includes only outstanding foreign currency (non-US dollar) denominated monetary items and adjusts their translation at the period end for a 10 per cent change in foreign currency rates. This analysis assumes that all other variables, e.g. interest rates, remain constant.

In thousands of US dollars	Equity	Profit or loss
December 31, 2012		
EUR		-253
NOK		-284
CAD	-5,054	-363
December 31, 2011		
EUR		-86
NOK	-2 ,844	-2,844
CAD		-621

A 10 percent 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. The equity effect is attributable to inter-company loans that are net investments. The sensitivity is based on the assumption of a 10% strengthening of the US dollar against local currency on the reporting date.

Interest rate risk

At the reporting date the Group's fixed rate financial instruments comprise the loan from Stelt Holding N.V. issued in 2010 and convertible bonds issued in 2011 as detailed below. The interest rate is fixed over the loan term.

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.

	2012	2011
Loans and borrowings	-12,871	-6,719
Cash and cash equivalents	8,048	19,428
Net exposed to interest risk	-4,823	12,709
100 bp increase in interest rate	-43	115
100 bp decrease in interest rate	43	-115

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

All non-derivative financial liabilities are measured at amortized cost. As at December 31, 2012 there are no derivative financial liabilities.

Fair values
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. The carrying amount is therefore found to reflect their fair value. Non-current borrowings at variable interest rates are on market terms and the difference between fair value and amortized cost is not material.

In thousands of US dollars	Carrying amount 2012	Fair value 2012	Carrying amount 2011	Fair value 2011
Loans and receivables	9,257	9,257	5,225	5,225
Cash and cash equivalents	8,048	8,048	19,428	19,428
Trade and other payables	12,871	13,433	-8,003	-8,003
Long term debt	4,727	6,331	-22,104	-22,811

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. The interest is payable semi-annually starting 22 June 2012. It was determined that the convertible bonds represent a compound financial instrument in accordance with IAS 32. Funcom recognized a liability of USD 12,572 thousand in the Statement of Financial Position. This is the fair value of the liability, applying an interest rate of 16% (discount rate), which is the interest rate of a similar liability that does not have a conversion feature. An equity component of USD 1,840 thousand was also recognized in the Statement of Financial Position as a residual amount after deducting the fair value of the financial liability from the proceeds from the bonds as a whole. The liability will be subsequently measured at amortized cost.

By the end of Q3 2012, 88 bonds were converted into 6,423,296 common shares which resulted in an increase of 336 TUSD of the share capital and 9,543 TUSD of the share premium reserve and a decrease of 1,080 TUSD of the conversion rights reserve, reflected in the consolidated statement of changes in equity. As of December 31, 2012 sixty two bonds are still outstanding. Please, refer to note 29 below for additional information with regards to the convertible bonds.

On December 29, 2010, Funcom entered into a loan agreement with Stelt Holding N.V. The principal amount of the loan is USD 10 million with a fixed interest rate of 8 % per annum. The Company also issued 5 million warrants in connection with the debt issue, entitling Stelt Holding N.V. to acquire an equal number of ordinary shares in Funcom at an exercise price of 10 NOK each. The warrants are transferrable and expire 3 years and 3 months after the grant.

At initial recognition the principal amount borrowed from Stelt Holding N.V. was split into two components, the loan component and the warrants component, each recognized at fair value. The warrants were presented as financial liabilities at fair value through profit or loss as the criteria for classifying these instruments as equity were not satisfied as at December 31, 2010. In order to determine the fair market value of the two components the Company applied an interest rate of 12% (discount rate), which is the interest rate of a similar liability but without the warrants.

After the initial recognition, the loan component is measured at amortized cost. The warrants were classified as financial liabilities (derivative) until June 27, 2011 and measured at fair value through profit or loss in the Company's financial statements. The change in fair value of this item amounting to USD 875 thousand (a loss of USD 1,625 thousand in the first quarter of 2011 and a gain of USD 750 thousand in the second quarter of 2011) is included in financial items in the income statement. The change in the fair value of the warrants is largely due to a change in the share price of Funcom, and a change of the US dollar against the Norwegian krone. This significant effect on the income statement for the first six months has no cash impact, currently or in the future, as the warrants – if exercised - will be settled in equity instruments (Funcom shares). Following the June 27, 2011 annual general meeting the exercise price of the warrants were changed with effect from the same date from 10 NOK to 1.67 USD each. As a consequence of this conversion of the exercise price to the Company's functional currency, the book value (fair value) of the warrants at June 27, 2011 (USD 1,850 thousand) were reclassified from long-term liabilities to equity. In addition, in 2011 the redemption price of the loan was increased to 104 per cent (or USD 10,4 millions). This change increases the interest expense by USD 40 thousands quarterly for the remaining term of the loan, starting the third quarter of 2011. The additional interest expense in 2012 was USD 120 thousands (2011: 80).

Mr. Hans Peter Jebsen controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls the companies Stelt Holding N.V. and KGJI. As part of an internal reorganization within the Jebsen Group, the interest bearing debt agreement was transferred on 5 December 2012 from Stelt Holding N.V. to KGJI. Please, refer to note 29 below for additional information with regards to the interest bearing loan.
KGJI is currently the Company's largest shareholder.

26. TRANSACTIONS WITH RELATED PARTIES

Identification of related parties
The Group has a related party relationship with its subsidiaries (see note 27), equity-accounted entities (see note 21), members of the Board and with its executive officers.

Transactions with subsidiaries and equity-accounted entities
There have been transactions between Group companies and between the Group and equity-accounted entities. These transactions have been carried out on arm's length basis.

Transactions with equity-accounted entities:

In thousands of US dollars	2012	2011
Purchase of services	1,981	2,819
Revenue from services	203	180
Receivables as at Dec, 31	1,668	650
Liabilities as at Dec, 31	1,034	19

Remuneration to the Supervisory Board
On June 27, 2012, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 35,000 for the Chairman EUR 12,000 for other members. The remuneration for the year 2012 amounted to USD 106 thousands (2011: USD 123 thousands).

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 member of the Management Board and Frank Sagnier, member of the Management Board for part of 2012.

Remuneration to the Management Group
Overview of remuneration to management:

In thousands of US dollars	2012	2011
Salaries and benefits in kind (short-term employee benefits)	2,265	1,583
Share-based payments	237	170
Pension plan contributions	20	14
Total remuneration	**2,522**	**1,767**

Trond Aas, CEO of the Group for the first half of the year, received in 2012 a total remuneration of USD 140,066 (2011: USD 291,836), severance payment of USD 343,753 (2011: 0) and bonus of USD 69,627 (2011: 73,389). He was also awarded a total of 150,000 share options in 2012 (2011: 0 share options). In 2012 a total of 400,000 options were exercised (2011: 0). The total allocated share options in Funcom N.V. comprised of 0 as at December 31, 2012 (2011: 580,000).

Ole Schreiner, CEO of the Group for the second half of the year, received in 2012 a total remuneration of USD 235,799 (2011: USD 182,500) and bonus of USD 84,535 (2011: 0). He was also awarded a total of 200,000 share options in 2012 (2011: 100,000 share options). In 2012 a total of 109,017 options were exercised (2011: 0). The total allocated share options in Funcom N.V. comprised of 345,000 as at December 31, 2012 (2011: 256,800).

Frank Sagnier, Management Board member until September 2012, received in 2012 a total remuneration of USD 170 thousand (2011: USD 196 thousand). He was also awarded a total of 0 share options in 2012 (2011: 200,000 share options). In 2012 a total of 66,667 options were exercised (2011: 25,000). The total allocated share options in Funcom N.V. comprised of 0 options as at December 31, 2012 (2011: 200,000).

Shares owned by members of the Supervisory Board and the Management Board

Ole Schreiner (CEO) held directly 109,017 shares as of December 31, 2012 (2011: 43,400). Michel Cassius, a member of the Supervisory Board, controls 50,000 shares in Funcom (2011: 50,000). Pieter van Tol, a member of the Management Board controls 33,334 shares in Funcom (2011: 33,833).

Loans to employees

At December 31, 2012, a loan of USD 0 (2011: USD 50,000) was outstanding to an employee. The loan in 2011 beared 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 received in 2012 a total remuneration of USD 71,438 (2011: USD 67,660). He was also awarded a total of 50,000 share options in 2012 (2011: 0). In 2012 a total of 33,334 options were exercised (2011: a total of 16,667). The total allocated share options in Funcom N.V. comprised of 83,333 as at December 31, 2012 (2011: 66,667). A fee of USD 351,179 for legal advice in 2012 (2011: USD 177,400) 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 21,000 in 2012 (2011: USD 7,860). As at year end 2012 the outstanding amount between the Group and Weidema van Tol amounted to USD 3,019 (2011: USD 27,318), and between the Company and Temmes Management Services B.V. the amount was 0 (2011: USD 0). The services rendered from both these companies were on market terms.

In 2012 Funcom also incurred interest charges of USD 1,400 thousands (2011: USD 800 thousands) on a loan and convertible bonds payable to KGJI. KGJI is the majority shareholder of Funcom N.V. The company is controlled by Kristian Gerhard Jebsen Group Ltd. which in turn is controlled by Mr. Hans Peter Jebsen. For details on the loans, please refer to Note 25.

27. GROUP ENTITIES

Group entities

The Company is the ultimate parent company to 9 wholly owned subsidiaries.

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2012	2011
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH	Switzerland	100.00	100.00
Sweet Robot GmbH*	Switzerland	95.00	95.00
Funcom Games Canada Inc	Canada	100.00	100.00
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	100.00
Funcom Games Beijing Ltd	China	100.00	100,00

* Funcom GmbH holds 1 share equal to the remaining 5 % of the outstanding shares. Currently in liquidation.

28. 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

Launch risks

Funcom is well aware of both the launch risks of MMOGs as the games ramp up from having no players to hundreds of thousands of players in weeks, and the challenge in creating game experiences and game worlds that appeal for year after year.

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 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 and operation worldwide. Hence, consumers have and 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 development of technology and games.

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. Normally, 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 25 for further information.

Tax exposure
The Company is incorporated in the Netherlands with subsidiaries in Canada, Norway, Switzerland, China, Luxembourg and the USA. 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 to 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 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 10.

Tax credits
The Company receives significant amounts in tax credit – the largest element being Multimedia Tax Credit (MTC) for its subsidiary in Canada. The Company's calculation of MTC to be received may deviate from what is actually obtained. The regulations for tax credits are complex and involve professional judgment in assessing the amount estimated to be received. Tax credits receivable included in the Consolidated Statement of Financial Position represent approximately 92% of the actual amount claimed.

29. EVENTS AFTER THE REPORTING PERIOD

On January 10, 2013 Funcom announced the start of a restructuring process and subsequently determined and is currently implementing the details of the restructuring plan. No restructuring provisions were recorded in 2012 as no constructive obligations to restructure were created prior to year end (IAS 37.72). The restructuring plan includes, among others, downsizing of personnel and closure of studios. The plan therefore represents an indication of impairment for office equipment and leasehold improvements and an impairment charge was recorded in 2012 in accordance with IAS 36.12 (f) (see note 5 above).

In February 2013 the Company reached an agreement with its major creditor KGJ Investments S.A. (KGJI S.A.) for the restructuring of the interest bearing loan with face value of 10,400 TUSD and maturity December 29, 2013. The repayment of the loan has been postponed until July 2015 with repayment in four installments. In addition, KGJI S.A. will be issued 10 million warrants to obtain shares in Funcom N.V. The exercise price of these and the existing 5 million warrants held by KGJI S.A. in relation to the same loan will be 0.37 USD per share. The exercise period for all warrants is December 30, 2015. If exercised, the proceeds will be used to repay the outstanding loan. The interest rate and interest payment terms remain with no changes (8% annual interest, payable quarterly). The loan amendments were approved by the shareholders at the EGM held on April 24, 2013.

In February 2013 the Company also reached an agreement with KGJI S.A. for the restructuring of the convertible bond loan (see note 9). The agreed new terms include maturity date December 22, 2015, conversion price of 0.37 USD per share and interest rate of 5% with no payment before maturity when all accrued interest will become due in either cash or shares of Funcom N.V. at the option of the bondholder. The loan amendments were approved by the shareholders at the EGM held on April 24, 2013 and by the bondholders at the bondholder meeting held on April 25, 2013.

Funcom N.V.
Company Profit and Loss

for the year ended December 31

In thousands of US dollars	Note	2012	2011
Results from participating interest after tax	2,3	-60,344	-14,971
Other income and expenses after tax		-1,871	-1,324
Net result from ordinary activities after taxation		**-62,215**	**-16,295**

Statement of Financial Position

after appropriation of result

In thousands of US dollars	Note	Dec. 31, 2012	Dec. 31, 2011
Investments in and receivables from group companies	1,2	15,682	50,642
Investments in and receivable from equity-accounted entities	3	460	544
Financial fixed assets		**16,142**	**51,186**
Prepayments and other receivables		17	
Cash and cash equivalents		111	14,507
Total current assets		128	14,507
Total assets		**16,270**	**65,693**
Issued capital	5	3,515	2,792
Share premium	6	146,468	125,487
Legal reserves	7	13,660	50,633
Other reserves	8	-162,388	-135,994
Total equity		**1,255**	**42,918**
Loans and borrowings		4,597	21,903
Other financial liabilities			
Total non-current liabilities		**4,597**	**21,903**
Accrued expenses		526	428
Provisions	10		331
Other current liabilities	4	9,892	113
Total current liabilities		10,418	872
Total equity and liabilities		**16,270**	**65,693**

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	2012	2011
Receivables non-current	56,169	31,436
Shares	-40,487	19,206
	15,682	**50,642**

2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2012:

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2012	2011
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH	Switzerland	100.00	100.00
Sweet Robot GmbH*	Switzerland	95.00	95.00
Funcom Games Canada Inc	Canada	100.00	100.00
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	100.00
Funcom Games Beijing Ltd	China	100.00	100,00

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

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

In thousands of US dollars	2012	2011
Balance at 01.01	19,206	32,574
Exchange difference	4	520
Result of the year	-60,311	-14,954
Change in participation		400
Other movements	614	666
Balance 31.12	**-40,487**	**19,206**

3. INVESTMENTS IN AND RECEIVABLES FROM EQUITY-ACCOUNTED ENTITIES

In thousands of US dollars	2012	2011
Receivables current		71
Shares	460	473
	460	**544**
Balance at 01.01	473	459
Change in participation		
Exchange difference	20	31
Result of the year	-33	-17
Other movements		
Balance 31.12	**460**	**473**

The Company holds 50 % of MMORPG Technologies INC, Canada and 42 % of Stunlock Studios AB, Sweden as of December 31, 2012.

4. OTHER CURRENT LIABILITIES

Other current liabilities in 2012 include USD 55 thousands payments to service providers (2011: USD 113 thousands) and USD 9,837 thousands related to the loan agreement with Stelt Holding N.V. (2011: 9,326) with an annual fixed interest rate of 8 per cent and due date December 29, 2013. Mr. Hans Peter Jebsen controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls the companies Stelt Holding N.V. and KGJI. As part of an internal reorganization within the Jebsen Group, the interest bearing debt agreement was transferred on 5 December 2012 from Stelt Holding N.V. to KGJI. Please, refer to events after the end of the reporting period below for additional information.

5. ISSUED CAPITAL

In thousands of US dollars	2012	2011
Balance at 01.01	2,791	2,843
Exchange	76	-86
Addition share-capital	648	34
Balance 31.12	**3,515**	**2,791**

The share-capital was translated into US dollars at the December 31, 2012 exchange rate of EUR/USD 1.3215.

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

- January 1, 53,907,375
- December 31, 66,496,918

At December 31, 2012, the authorized share capital comprised of 250 million ordinary shares (2011:250 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.

Share-capital and share premium	Number of ordinary shares	
	2012	2011
Outstanding at January 1	53,907,375	53,287,991
Issued against payment in cash	6,166,247	619,384
Issued as a result of conversion of bonds (Note 25)	6,423,296	
Outstanding at December 31 - fully paid	**66,496,918**	**53,907,375**
Nominal value of the share-capital at December 31 (EUR)	2,659,877	2,156,295

Events in 2012:

Shares

In January 2012, the Company issued 852,728 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.50 per share (USD 0.64). Gross proceeds amounted to EUR 428,549 (USD 545,371).

In February 2012, the Company issued 484,123 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.52 per share (USD 0.70). Gross proceeds amounted to EUR 253,872 (USD 340,976).

In June 2012, the Company issued 455,925 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.46 per share (USD 0.57). Gross proceeds amounted to EUR 209,539 (USD 261,358).

In June 2012, the Company issued 4,000,000 shares as a result of a private share placement. The issued shares were paid in cash at EUR 1.90 per share (USD 2.38). Gross proceeds amounted to EUR 7,599,393 (USD 9,507,600).

In July 2012, the Company issued 373,471 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.64 per share (USD 0.80). Gross proceeds amounted to EUR 238,019 (USD 298,967).

Options

On January 12, 2012 Funcom held an Extraordinary Meeting of Shareholders where the Company issued 200,000 options to members of the Management Board. In addition on August 24, 2012 Funcom held an Extraordinary meeting of Shareholders where the Company issued 200,000 options to members of the Management Board. One-third of the total number of options granted vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 27, 2012, Funcom held its Annual General Meeting where, the Company issued 100,000 options to members of the Supervisory Board. Half of the of the options granted to the members of the Supervisory Board vest annually in the two years following the grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On Sept. 20, 2012, the Company issued 1,934,000 options as a part of the Group's options program. With regard to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

Other

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of USD 1.37 per share. By the end of Q3 2012, 88 bonds were converted into 6,423,296 common shares which resulted in an increase of 336 TUSD of the share capital and 9,543 TUSD of the share premium reserve and a decrease of 1,080 TUSD of the conversion rights reserve, reflected in the consolidated statement of changes in equity. As of December 31, 2012 sixty two bonds are still outstanding.

Events in 2011:

Shares
In March 2011, the Company issued 226,800 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.50 per share (USD 0.70). Gross proceeds amounted to EUR 113,039 (USD 157,613).

In July 2011, the Company issued 111,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.51 per share (USD 0.73). Gross proceeds amounted to EUR 56,154 (USD 80,777).

In October 2011, the Company issued 21,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.47 per share (USD 0.63). Gross proceeds amounted to EUR 9,835 (USD 13,208).

In November 2011, the Company issued 260,584 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.52 per share (USD 0.71). Gross proceeds amounted to EUR 135,133 (USD 185,245).

Options
On August 12, 2011, the Company issued 1,768,000 options as a part of the Group's options program. . With regard to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 27, 2011, Funcom held its Annual General Meeting where, the Company issued 250,000 options to members of the Supervisory Board and 200,000 options to a member of the Management Board as a part of the Group's options program. Half of the options granted to the members of the Supervisory Board vest annually in the two years following the grant. One third of the options granted to the member of Management Board vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

Other
On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of USD 1.37 per share.

Under the Dutch Act on Financial Supervision (Wet op het financieel toezicht), shareholdings of 5 % or more in a Dutch issuing institution must in principle 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 directly or indirectly controlled more than 5 % of the Company's total share capital on January 1, 2013:

- Mr. H.P. Jebsen
- NVP General Partner II ApS

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 2012 or 2011. No dividends relating to year 2012 have been proposed.

6. SHARE PREMIUM

In thousands of US dollars	2012	2011
Balance at 01.01	125,487	124,323
Share based payments	815	704
Change in provision for capital duty		13
Addition share premium	20,165	447
Other		
Balance 31.12	**146,468**	**125,487**

7. LEGAL RESERVES

Legal reserves are not distributable to shareholders. The legal reserve relates to capitalized development costs and translation reserve.

8. OTHER RESERVES

In thousands of US dollars	2012	2011
Balance at 01.01	-135,994	-114,726
Exchange effect on share-capital	-77	85
Exchange effect on subsidiaries	4	520
Movement to legal reserves	36,974	-9,268
Reclassification of warrants to equity		1,850
Bonds conversion feature	-1,080	1,840
This year's result	-62,215	-16,295
Other movements		
Balance at 31.12	**-162,388**	**-135,994**

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	2012	2011
Balance at January 1	-331	-344
Interest calculation	325	
Aging of claims		5
Exchange	6	8
Balance at December 31	**0**	**-331**

In 2011 the Company was in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities. The dispute was resolved in 2012 and resulted in a payment of USD 325 thousands.

11. EMPLOYEES

The average number of employees in Funcom N.V. for 2012 was 1 (2011: 1).

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.

The total remuneration of the members of the Managing Board amounted to USD 1,044 thousands(2011: USD 629 thousands). The remuneration of the individual members of the Managing Board was as follows:

Trond Aas, CEO of the Group for the first half of the year, who was also a member of the Management Board, received in 2012 a total remuneration of USD 140 thousands (2011: USD 292 thousands), severance payment of USD 344 thousands (2011: 0) and bonus of USD 70 thousands (2011: 73 thousands). The cost for share-based payment amounted to USD 82 thousands (2011: USD 30 thousands).

Ole Schreiner, CEO of the Group for the second half of the year, who is also a member of the Management Board, received in 2012 a total remuneration of USD 235 thousands (2011: USD 183 thousands) and bonus of USD 85 thousands (2011: 0).The cost for share-based payment amounted to USD 38 thousands (2011: USD 27 thousands).

Pieter van Tol received in 2012 a total remuneration of USD 71 thousands (2011: 68 thousands). The cost for share-based payment amounted to USD 10 thousands (2011: USD 11 thousands).

Frank Sagnier received in 2012 a total remuneration of USD 170 thousand (2011: 196). The cost for share-based payment amounted to USD 35 thousands (2011: USD 18 thousands).

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

Member Year of issuance	Outstanding on Dec. 31, 2010	In 2012 Granted	 Exercised	 Forfeited/ Expired	Outstanding on Dec. 31, 2012	Exercise price	Expiry date	Vesting date
Ole Schreiner								
Stock options								
2010	30,000	-	-30,000	-	-	3,48	02.01.14	08.01.11
2010	2,500	-	-2,500	-	-	3,48	02.01.14	09.01.11
2010	2,500	-	-2,500	-	-	3,48	02.01.14	10.01.11
2010	2,500	-	-2,500	-	-	3,48	02.01.14	11.01.11
2010	2,500	-	-2,500	-	-	3,48	02.01.14	12.01.11
2010	2,500	-	-2,500	-	-	3,48	02.01.14	01.01.12
2010	2,500	-	-2,500	-	-	3,48	02.01.14	02.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	03.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	04.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	05.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	06.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	07.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	08.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	09.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	10.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	11.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	12.01.12
2010	2,500	-	-	-	2,500	3,48	02.01.14	01.01.13
2010	2,500	-	-	-	2,500	3,48	02.01.14	02.01.13
2010	2,500	-	-	-	2,500	3,48	02.01.14	03.01.13
2010	2,500	-	-	-	2,500	3,48	02.01.14	04.01.13
2010	2,500	-	-	-	2,500	3,48	02.01.14	05.01.13
2010	2,500	-	-	-	2,500	3,48	02.01.14	06.01.13
2010	2,500	-	-	-	2,500	3,48	02.01.14	07.01.13
2010	2,500	-	-	-	2,500	3,48	02.01.14	08.01.13

Overview of stock options

Member Year of issuance	Outstanding on Dec. 31, 2010	In 2012 Granted	Exercised	Forfeited/ Expired	Outstanding on Dec. 31, 2012	Exercise price	Expiry date	Vesting date
Ole Schreiner								
2011	33 333	-	-	-	33 333	6,73	12.02.15	12.08.12
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.09.12
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.10.12
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.11.12
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.12.12
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.01.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.02.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.03.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.04.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.05.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.06.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.07.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.08.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.09.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.10.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.11.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.12.13
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.01.14
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.02.14
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.03.14
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.04.14
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.05.14
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.06.14
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.07.14
2011	2 778	-	-	-	2 778	6,73	12.02.15	12.08.14
2012	-	66 667	-	-	66 667	2,78	24.02.16	24.08.13
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.09.13
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.10.13
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.11.13
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.12.13
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.01.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.02.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.03.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.04.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.05.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.06.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.07.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.08.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.09.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.10.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.11.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.12.14
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.01.15
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.02.15
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.03.15
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.04.15
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.05.15
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.06.15
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.07.15
2012	-	5 556	-	-	5 556	2,78	24.02.16	24.08.15
Total	**190 000**				**345 000**			
of which is vested	69 444				69 445			

Overview of stock options

Member Year of issuance	Outstanding on Dec. 31, 2010	In 2012 Granted	 Exercised	 Forfeited/ Expired	Outstanding on Dec. 31, 2012	Exercise price	Expiry date	Vesting date
Pieter van Tol								
Stock options								
2010	16 667	-	-16 667	-	0	4,72	29.06.14	29.12.11
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.01.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.02.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.03.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.04.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.05.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.06.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.07.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.08.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.09.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.10.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.11.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.12.12
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.01.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	01.03.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.03.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.04.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.05.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.06.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.07.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.08.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.09.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.10.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.11.13
2010	1 389	-	-	-	1 389	4,72	29.06.14	29.12.13
2012	- 1	6 667	-	-	16 667	14,73	12.07.15	12.01.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.02.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.03.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.04.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.05.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.06.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.07.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.08.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.09.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.10.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.11.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.12.13
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.01.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.02.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.03.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.04.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.05.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.06.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.07.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.08.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.09.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.10.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.11.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.12.14
2012	-	1 389	-	-	1 389	14,73	12.07.15	12.01.15
Total	**50 000**				**83 333**			
of which is vested	16 666				16 666			

Shares
At year end 2012 the members of the Managing Board including related parties held 142,351 shares (year end 2011: 1,659,658).

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 2012, the total remuneration to the Supervisory Board came to EUR 83 thousands (USD 106 thousands) (2011: EUR 89 thousands – USD 123 thousands).

The remuneration of the Chairman of the Supervisory Board was EUR 35 thousands (2011: EUR 35 thousands), the remuneration of the Vice-Chairman of the Supervisory Board was EUR 23,5 thousands (2011: EUR 35 thousands when annualized), and the remuneration of the other Supervisory Board members was EUR 24 thousands in total (2011: EUR 36 thousands in total, being EUR 12 thousands per member on an annual basis for 2012 and 2011). Remuneration of EUR 30 thousands for 2012 is outstanding at the end of the year (2011: EUR 71 thousands).

The remuneration of the individual members of the Supervisory Board for 2012 was as follows:

	Board fee in €	Share-based payment in NOK
Gerhard Florin (chairman)	35,000	261,671
Torleif Ahlsand (vice-chairman)	17,500	130,835
Alain Tascan (vice-chairman)	6,000	44,858
Claus Højbjerg Andersen	12,000	89,716
Michel Cassius	12,000	89,716
Total	**82,500**	**616,795**

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

Overview of stock options

Member Year of issuance	Outstanding Dec. 31, 201	Granted	Extended	Outstanding Dec. 31, 2012	Exercise price	Expiry date
Gerhard Florin						
Stock options						
2011	50,000	-	-	50,000	NOK 6.85	27-12-13
2011	50,000	-	-	50,000	NOK 6.85	27-12-13
Total	**100,000**			**100,000**		
Of which vested	-			50,000		
Alain Tascan						
Stock options						
2012	-	25,000	-	25,000	NOK 16.22	27-12-14
2012	-	25,000	-	25,000	NOK 16.22	27-12-14
Total	**50,000**			**50,000**		
Of which vested						
Michel Cassius						
Stock options						
2010	25,000	-		-	NOK 5.30	18-11-12
2010	25,000	-	-	-	NOK 5.30	18-11-12
2011	25,000	-	-	25,000	NOK 6.85	27-12-13
2011	25,000	-	-	25,000	NOK 6.85	27-12-13
Total	**100,000**			**50,000**	**100,000**	
Of which vested	25,000			25,000		

14. AUDIT FEES

The Group's auditors received a total fee of USD 41, 595 (2011: USD 86,231). The fee is distributed within these services and is not including VAT;

▪ statutory audit services	41,595
▪ further assurance services	0
▪ tax advisory services	0
▪ other non-audit services	0

The group also paid audit fees for assurance services to Mazars China of USD 13,632 (2011: 0), Mazars Switzerland of USD 31,773 (2011: 0) and BDO in Oslo, Norway of 66,265 (2011: 120,728)

15. TRANSACTIONS WITH RELATED PARTIES

A fee of USD 351,179 for legal advice in 2012 (2011: USD 177,400) 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 21,000 in 2012 (2011: USD 7,860). As at year end 2012 the outstanding amount between the Group and Weidema van Tol amounted to USD 3,019 (2011: USD 27,318), and between the Company and Temmes Management Services B.V. the amount was 0 (2011: USD 0). The services rendered from both these companies were on market terms.

In 2012 Funcom also incurred interest charges of USD 1,400 thousands (2011: USD 800 thousands) on a loan and convertible bonds payable to KGJI. KGJI is the majority shareholder of Funcom N.V. The company is controlled by Kristian Gerhard Jebsen Group Ltd. which in turn is controlled by Mr. Hans Peter Jebsen.

Badhoevedorp, April 30, 2013

The Supervisory Board of Directors in Funcom N.V.

Gerhard Florin, Chairman

Alain Tascan, Vice-Chairman

Michel Cassius

Ole Gladhaug

Magnus Grøneng

The Managing Directors of Funcom N.V.

Ole Schreiner

Pieter van Tol

Other information

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

Subject to the provisions of Article 33 of the Company's articles of association, any profit for the year is at the disposal of the shareholders in general meeting.

PROPOSED APPROPRIATION OF THE RESULT FOR THE YEAR

The Supervisory Board proposes to allocate the result for the year to uncovered losses.

EVENTS AFTER THE REPORTING DATE

On January 10, 2013 Funcom announced the start of a restructuring process and subsequently determined and is currently implementing the details of the restructuring plan. No restructuring provisions were recorded in 2012 as no constructive obligations to restructure were created prior to year end (IAS 37.72). The restructuring plan includes, among others, downsizing of personnel and closure of studios. The plan therefore represents an indication of impairment for office equipment and leasehold improvements and an impairment charge was recorded in 2012 in accordance with IAS 36.12 (f) (see note 5 above).

In February 2013 the Company reached an agreement with its major creditor KGJ Investments S.A. (KGJI S.A.) for the restructuring of the interest bearing loan with face value of 10,400 TUSD and maturity December 29, 2013. The repayment of the loan has been postponed until July 2015 with repayment in four installments. In addition, KGJI S.A. will be issued 10 million warrants to obtain shares in Funcom N.V. The exercise price of these and the existing 5 million warrants held by KGJI S.A. in relation to the same loan will be 0.37 USD per share. The exercise period for all warrants is December 30, 2015. If exercised, the proceeds will be used to repay the outstanding loan. The interest rate and interest payment terms remain with no changes (8% annual interest, payable quarterly). The loan amendments were approved by the shareholders at the EGM held on April 24, 2013.

In February 2013 the Company also reached an agreement with KGJI S.A. for the restructuring of the convertible bond loan (see note 9). The agreed new terms include maturity date December 22, 2015, conversion price of 0.37 USD per share and interest rate of 5% with no payment before maturity when all accrued interest will become due in either cash or shares of Funcom N.V. at the option of the bondholder. The loan amendments were approved by the shareholders at the EGM held on April 24, 2013 and by the bondholders at the bondholder meeting held on April 25, 2013.

INDEPENDENT AUDITOR'S REPORT

To: the shareholders of Funcom N.V.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2012 of Funcom N.V., Katwijk. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2012, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Directors' report, in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2012, its result and its cash flows 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 Dutch 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 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 30 April 2013

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. The most recent evaluation took place in March 2012.

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 2013

Funcom N.V. will publish its financial statements on the following dates in 2013:

- February 28 - Q4 2012
- May 24 - Q1 2013
- August 30 - Q2 2013
- November 20 - Q3 2013

Annual general meeting: June 27, 2013.

The dates are subject to change.

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