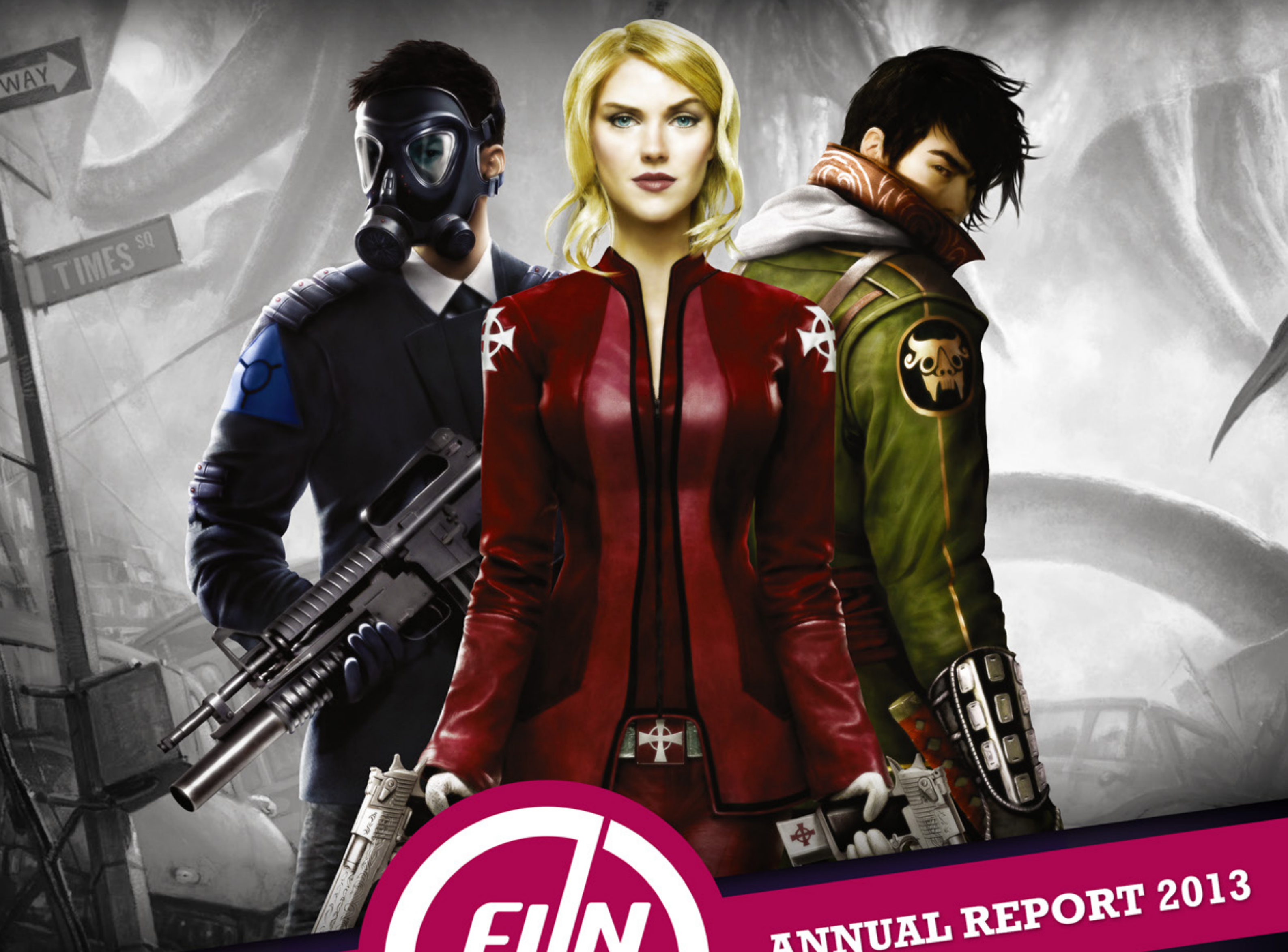

FUNCOM.N.V.

ANNUAL REPORT 2013

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ABOUT FUNCOM

FUNCOM IS AN AWARD-WINNING INDEPENDENT DEVELOPER AND PUBLISHER OF MASSIVELY MULTIPLAYER ONLINE GAMES.

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*', which continue to be important, revenue-generating pillars in Funcom's live portfolio of games.

Funcom has also developed several single-player classics, such as the highly critically acclaimed 'The Longest Journey' and 'Dreamfall'. In the early days, Funcom developed console games such as 'Pocahontas' and 'Casper', and also created numerous ports of existing games to various platforms.

As of the date of the annual report more than 130 talented individuals from several different nationalities are working at Funcom, spread out across studios in Canada, Norway and the United States. This makes Funcom one of the most multi-cultural independent game development studios in the world, and Funcom is after twenty years of operation one of the largest and most influential independent development studios in its segment of the business.

In early 2013, Funcom went through a comprehensive restructuring process which included updating its strategy to fully take advantage of the Company's strengths as well as aligning itself with a competitive landscape and platform mentality that by then had changed significantly.

Today, Funcom's focus is developing, high quality online games for the mid core segment, and the Company aims to produce multiple titles in parallel in the future. These projects have an initial investment range of 3 to 6 million USD and employ smaller, more agile teams working on much shorter production cycles than projects such as '*Age of Conan*' and '*The Secret World*'.

It is Funcom's vision for the future to be able to launch 1-2 games every year, in order to continuously build on the Company's revenue-generating portfolio of games. Funcom is also in the process of making it's '*Dreamworld*' technology cross-platform compatible, and it is the Company's vision that all future Funcom games are available on different platforms. This will allow users to play with their friends on their preferred device, whether it's a computer, a mobile device or a console. It is also the Company's goal for future games to be built around a known brand or established property.

The first game under Funcom's new strategy is '*LEGO® Minifigures Online*'. Based on the hugely popular LEGO Minifigures brand, the game sends players off on great adventures through themed worlds all built in the beloved

and instantly familiar LEGO style. Funcom brought the game into a Closed Beta phase with external testers in December 2013, and development on the game is progressing according to schedule.

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 live games. Launched in July 2012, '*The Secret World*' is the Company's latest massively multiplayer online game, and the game sends players on exciting adventures through real-world locations such as New York, Egypt and New England.

'*Age of Conan*' launched in 2008 and sold more than 1.4 million copies before it went over to a free-to-play business model. Since launch, more than 3.9 million players have signed up to experience '*Age of Conan*' and the game has served more than 240 million hours of entertainment. '*Anarchy Online*', the Company's first MMO, has been in operation for 13 years and is still going strong. Funcom is currently beta testing a new graphics engine for '*Anarchy Online*' which will give the game an exciting face-lift. Members of the '*Anarchy Online*' community are participating in the beta.

All live games continue to expand as the Durham live team continues to create more in-game content and unique events for players to enjoy.

One of the key reasons for Funcom's achievements in the MMO segment is the development of a proprietary technology platform called '*Dreamworld*'. This platform 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 continues to expand and enhance its proprietary '*Dreamworld*' technology simultaneously with all its game production. An important part of the recent development is the support for cross-platform play, and through development on 'LEGO Minifigures Online' the platform already supports games on both iOS and Android, with more platforms looking to be included in the future.

The Company has also proven its skills within the development of free-to-play titles and social games, having delivered 'Fashion Week Live' and 'Pets vs. Monsters' at its Montreal studio. Today, this studio houses the Company's mobile and tablet development team, focusing primarily on work-for-hire projects and various prototype games. The studio is an important part of Funcom's new strategy, and it is the Company's goal for the studio to grow and take on new challenges as it continues to build its technology and knowledge base within the mobile and tablet segment.

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 HAS BEEN A TRULY EXCITING YEAR. FULL OF CHANGES, FULL OF PROGRESS.

There is no doubt that 2013 was a major turning point for us. For the company itself, and for everyone who works here. Early in the year we went through a tough restructuring process that included important changes to how we operate: from the company's overall strategy to how the different teams work dependently and independently of each other in an organization that has clearly defined business area for each of its three studios in Oslo, Montreal and Durham.

Funcom has always been about making great games, a vision we have always maintained as we have evolved and adapted with the industry since those early days back in 1993. Over ten years ago the company stepped into one of the most exciting, challenging and potentially rewarding gaming segments of them all: massively multiplayer online games. From the late nineties through 2012, Funcom developed '*Anarchy Online*', '*Age of Conan*' and eventually '*The Secret World*'. Funcom became synonymous with great online gaming.

Today, Funcom's strategy is developing focused, high quality online games in the mid-core segment, and our goal is making multiple titles in parallel to continuously expand our revenue-generating live portfolio. Where our previous online games operated with budgets in the tens of millions of dollars and teams of several hundred working for many years completing them, projects in the new Funcom strategy have an initial investment range of 3 to 6 million dollars and employ considerably smaller, more agile teams working on much shorter production cycles. Additional investment can then be put into those games and features that prove to be successful, a model that is becoming more and more common in the industry.

As with any development studio which has been around for a while, Funcom has gone through many changes in its over twenty years of operation. It's the nature of the business. Games are right there at the cutting-edge of technology, and change is an important part of the industry.

The past few years are no different. Mobile and tablets have emerged as some of the most important platforms for gaming, adding to the variety of fun gaming experiences available. High-powered titles that previously could only be enjoyed on a console in front of your television at home can now be enjoyed during the course of a ten-minute tram ride to work. My vision for Funcom's proprietary *Dreamworld* technology platform is true cross-platform compatibility. Being able to play online on your PC at home, with your friends, and then being able to pick up where you left off and play the same game on your iPad as you're on the bus heading for work, is going to be tremendously important for many of the games we develop in the future. It also allows us to choose the best platforms for each game, some games fit with a short, fun session, others are better suited for that long night where you forget about time as you venture forth in a fantastic world together with others. With our core technology, fully cross-platform enabled, we can do both, depending on what's best for the game.

'LEGO Minifigures Online' is a big step towards that vision. Players will be able to enjoy it on their PC and on their tablet, and they will be playing on the same server with the same friends, regardless of which platform they're on.

You will be able to bring the world of 'LEGO Minifigures Online' with you everywhere you go.

The cornerstone of our strategy is our proprietary technology platform. '*Dreamworld*' is what will allow us to make our vision come true. With every game Funcom develops, 'Dreamworld' gets better, faster and more adaptable. The 'Dreamworld' technology platform is much more than just a rendering engine; it has everything you need to develop next-generation online games. It has finely-tuned networking technology, billing and database integration and customer service systems. Perhaps most importantly, it also has highly advanced tools for game designers to use, such as the Genesis world-building tool and various tools for creating items, quests, artificial intelligence behavior, scripts, cut scenes and so much more.

It's what makes a Funcom game a Funcom game. It's what makes us able to create better games faster, and because we have a dedicated technology team working in parallel with the game developers, each project directly benefits from the advancements that are being made.

To make all of these great things happen, you need to have great people pushing a great organization forward.

I am really proud of how my team of managers and employees has rallied around our new vision. We have worked side-by-side in defining our new strategy and everyone has stepped up to the plate and embraced their responsibilities within the new Funcom. An important part of our new strategy is the clearly defined business that belongs to each of our three different studios. Oslo is where we house the development of technology and medium-sized online games, Montreal's focus is on developing mobile and tablet games including work-for-hire projects, and our Durham studio is the primary hub for all operation and continued development on our live games.

We love being in the business of making games. We also love being in the business of running successful virtual worlds. This year, '*Anarchy Online*' celebrates its 13th anniversary. That's a really long time in the massively multiplayer online gaming space. '*Age of Conan*' is closing in on four million player registrations, and '*The Secret World*' has proven itself to be a game that continues to attract new players at a very steady pace, as the development team keeps releasing great, new content updates. As of this writing, the team is currently working on the game's ninth major content update that will send players on an exciting adventure through Tokyo.

Our common goal as a company is to continue to develop new games so we can expand this portfolio of online games, and make sure we build thriving communities that we can support for years to come as we develop new, great content for them.

'LEGO Minifigures Online' is going to be an important part of that portfolio, and I am incredibly excited about what the team is building and the pace at which they are doing it. Not only is the game-project on track and on schedule, the feedback we're getting on the game from our focus tests are also positive. DeLevie Group Research conducted a comprehensive focus test with kids in our target group last year, and the results were very good, confirming my belief that this will be a impressive game that we as a company, and gamers, can be proud of.

It has been a year full of change, and these changes have been important in defining the future Funcom. No doubt I speak for everyone at the company when I say that it is a future we are all incredibly excited to be part of!

Ole Schreiner
Chief Executive Officer / Funcom Group

THE SECRET WORLD™

CELEBRATING ITS ONE YEAR ANNIVERSARY IN JULY 2013, **THE SECRET WORLD** HAD A YEAR WHICH SAW THREE MAJOR CONTENT UPDATES RELEASED, SEVERAL UNIQUE IN-GAME EVENTS CREATED AND A STEADY FLOW OF NEW PLAYERS TO THE GAME.

The Secret World is an innovative massively multiplayer online game, which offers deep and creative storylines, free form character progression and challenging content in a modern-day setting. The players join one of three Secret Societies, the Dragon, the Templars or the Illuminati to battle a tide of rising darkness threatening the whole world.

With the change to a Buy-to-Play business model in December 2012, where a premium Membership became optional to the players, 2013 saw a steady influx of new players. Several campaigns on the digital distribution platform Steam and the introduction of *The Secret World: Massive Edition* have also been important tools for selling the game.

In 2013 *The Secret World* got three big content updates, called Issues. All Issues can be bought as Downloadable Content Packs in the in-game Item Shop. Issue #6: The Last Train to Cairo was released in March and featured an Indiana Jones-style adventure set in Egypt, where players could experience hours of new content which included highlights such as time travel and a boss fight on top of a moving train.

Issue #7: A Dream to Kill came out in June and offered an action filled spy thriller in the mountains of Transylvania, full of intrigue, betrayal and hidden secrets finally revealed. Released in November, *Issue #8: The Venetian Agenda*, gave *The Secret World* a completely new type of dynamic content in the form of Scenarios, as well as the fresh Augment System which allows the players even more choices for developing their characters.

In addition to these major content packs the development team also created several special in-game events which

offered brand new content and activities for the players. During *The Secret World*'s one year anniversary celebration in July *The Guardians of Gaia* event gave the players nine huge rampaging Golems to fight all across the world.

The year's Christmas event featured creatures from both recent and ancient myths, such as Krampus and Hel. The players could invade the realm of Niflheim and do battle with the Goddess Hel.
Taking place in the Hollow Earth, *Agartha, The Whispering Tide* is a chain of collaborative events where the whole community joins together to cleanse the infected Earth of the encroaching Filth. The Whispering Tide event has been running for several months and will continue to run until Issue #9 is released and access to the upcoming Tokyo playfield has been opened.

During the whole of 2013 the in-game Item Shop was continuously updated with a host of new items for the players to buy. These items are becoming increasingly important as a source of revenue as players buy new outfits, pets and boosts among many other items. The sale of both content updates and boosts which let players acquire new abilities faster have been particularly successful additions to the in-game store.

A steady flow of new content, unique in-game events and special periods which offer extraordinary bonuses, such as *Golden Weekends*, has caused *The Secret World* to maintain a healthy player base throughout 2013.

The company is encouraged by the game's performance over the last year. *The Secret World* offers fans of the MMO genre a unique game filled with original content, stories and game systems. Funcom is committed to expanding *The Secret World* and to keep offering players a vibrant MMO alternative.

For more information, visit www.thesecretworld.com

AGE OF CONAN

IN 2008 AGE OF CONAN LAUNCHED TO CRITICAL ACCLAIM AND WAS THE THIRD BEST SELLING PC GAME, AND THE NUMBER ONE BEST SELLING NEW MMO THAT YEAR IN NORTH AMERICA AND EUROPE. IN 2011 THE GAME INTRODUCED A FREE-TO-PLAY BUSINESS MODEL WHICH HAS LED MORE THAN 3.9 MILLION PLAYERS TO SIGN UP TO PLAY AGE OF CONAN.

Age of Conan offers a brutal and mature world, capturing the essence and magic of Robert E. Howard's incredible stories about Conan the Barbarian and the world of Hyboria. It combines action based combat with deep character progression, captivating stories and extraordinary content.

These are some of the reasons why the expansive game world has been enjoyed by so many fans throughout the years, who combined have played the game for more than an astonishing 240 million hours!

Since its launch the *Age of Conan* development team has been constantly improving the game and creating new content for the players to enjoy. In 2010 the well received Rise of the Godslayer expansion was launched for *Age of Conan*. The expansion introduced the all new lands of Khitai, filled with new quests, monsters, items and dungeons, as well as the fresh Alternate Advancement system which gave the players a host of new opportunities for character development.

Each year new content is being created and 2013 saw the launch of the all new *Dragon's Spine* adventure zone. This brutal new area is the ancient home of the powerful Serpent Men race, and the massive *Dragon's Spine* mountain range hides many more secrets beneath its jagged peaks.

The Secrets of *Dragon's Spine* update series offers much

new end-game content for the players, including a new storyline, fresh quests, different types of monsters and two new dungeons. More and more content is being added to this zone to continue the adventure further into the depths of the mountains.

In May of 2013 *Age of Conan* celebrated its 5th anniversary and marked the event with a huge in-game event. A number of enormous world bosses roamed the land and masses of players fought them again and again for epic rewards.

During Halloween *Age of Conan* also got a brand new event, where the players had to root out and defeat an invading cult of werewolves. December saw the start of a new chain of events called *The Twelve Portents*. For one week every month the community gets to face off against a different world bosses. Though the event chain started at the end of 2013 it will also run throughout the most of 2014.

Age of Conan keeps a positive cash flow and with its Free-to-Play business model it constantly sees new players wanting to try the game. As with our two other large-scale MMOs, a premium Membership is optional for the players. Most of the game's income comes from its premium Members, but a steady flow of new products to the in-game Item Store contributes significantly to *Age of Conan*'s positive cash flow.

Funcom remains dedicated to the continued development of *Age of Conan*, and fans can look forward to many new adventures in Hyboria in the years to come.

For more information, visit www.ageofconan.com.

Anarchy Online

AFTER TWELVE YEARS AND HUNDREDS OF MILLIONS OF HOURS OF ENTERTAINMENT GIVEN TO ITS PLAYERS, ANARCHY ONLINE IS DOING WELL AND ITS DEVELOPERS ARE BUSY MAKING BOTH NEW CONTENT AND GETTING THE NEW GRAPHICS ENGINE READY FOR THE WHOLE COMMUNITY.

Anarchy Online was released in 2001 and is one of the few massively multiplayer online games from that era still offering its players both an exciting game and continuous updates and improvements.

Set in a unique science fiction world tens of thousands of years into the future on the planet Rubi-ka, where the rebellious Clans are fighting the corporation Omni-Tek, *Anarchy Online* offers a huge and ever expanding game world. Through the years the game's world and game systems have been continuously made bigger and deeper with expansions such as The Notum Wars, Shadowlands, Alien Invasion, Lost Eden and Legacy of the Xan.

The keys behind the game's longevity are both a strong and tightly knit community and incredibly deep game systems which allow the players to develop their characters to great extents. *Anarchy Online* shows that complexity isn't a vice.

The main focus of the development team through 2013 has been working on the game's transition to the new graphics engine. When upgraded with the latest version of Funcom's proprietary *Dreamworld* engine, which is being used by both *Age of Conan* and *The Secret World*, *Anarchy Online* will be both visually improved and modernized.

The new graphics engine gives the game such improvements as better looking and more accurate shadows, more detailed ground textures, improved and

more natural lighting, dynamic grass, smoother object edges, enhanced texture filtering and fresh systems for showing both rain and water.

In December of 2013 Funcom started inviting players from the community to a closed beta server featuring the new graphics engine. The number of players in this closed beta will continue to grow so the developers can improve the game experience as more and more people are added. The closed beta period will last until the open beta begins in 2014, allowing everyone in the community to experience the new graphics engine.

Those on the closed beta server can also enjoy the New Player Experience. This is the new starting area for the game, which improves the way players are introduced to the vast depth and opportunities in *Anarchy Online*. The New Player Experience is scheduled to be made available on the live servers in 2014.

Anarchy Online's Free-to-Play business model, where a premium Membership is optional to the players, keeps the game's cash-flow positive. Though the game's members contribute the majority of *Anarchy Online*'s revenue, the increasing use of purchases through the in-game Item Store helps keep the game profitable.

Funcom is excited to see *Anarchy Online*'s stable performance continuing year after year and is pleased with the great progress on the new graphics engine. The company remains dedicated to continuing the development of this unique game.

For more information, visit www.anarchyonline.com.

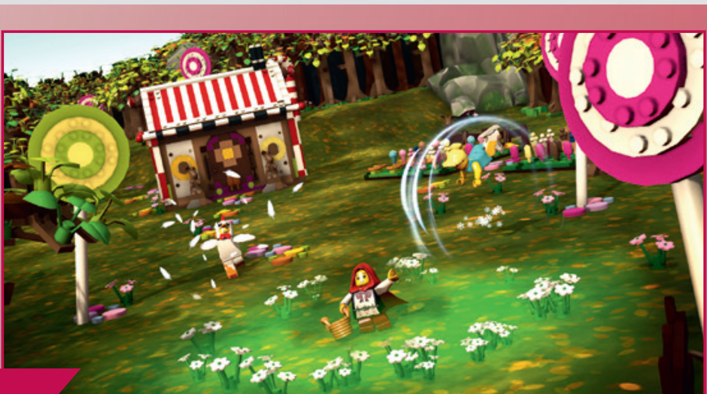
IN THE AUTUMN OF 2014 FUNCOM WILL LAUNCH **LEGO® MINIFIGURES ONLINE**, A FREE-TO-PLAY ONLINE GAME BASED ON THE POPULAR **LEGO® MINIFIGURES** LINE. PRODUCTION IS ON SCHEDULE AND FUNCOM IS EXCITED TO SEE A HUGE ONLINE WORLD TAKE SHAPE, FULL OF MINIFIGURES TO PLAY WITH FOR KIDS OF ALL AGES.

LEGO® Minifigures Online will be playable on both PC and tablet platforms. The game features many LEGO worlds with different themes, and a host of unique minifigures which players can collect and play with.

In June of 2012 Funcom signed a license agreement with the LEGO Group to develop *LEGO® Minifigures Online* , and since then a team of veteran game developers have been working to create a unique online game full of action, adventures, humor and of course minifigures. Funcom is very happy to see how well the development team has been working on the game, as they have reached every milestone set and kept up with an ambitious schedule.

The collectible *LEGO Minifigures* product line is immensely popular throughout the world, and it is these iconic minifigures everyone will be able to play in *LEGO® Minifigures Online*. In the game players can collect and play with all sorts of minifigures, such as the Yeti, the Bumblebee Girl, the Alien Avenger or the Chicken Suit Guy. All minifigures have their own unique abilities, special attacks and roles.

Players can collect minifigures by playing the game and by buying them through the in-game store. Keys to unlock in-game minifigures will also be included in the new series of physical minifigure bags which is set to release around the launch of the game.



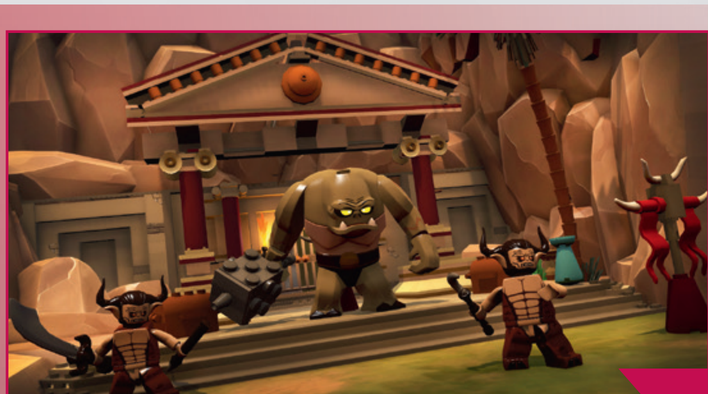
In November 2013 fans from around the world could start signing up for the Closed Beta and in December we started inviting limited amounts of people to playtest the game. As more and more worlds and minifigures are completed they get added to the Closed Beta server, where more and more players can test everything and constantly help us make improvements.

The Open Beta phase for *LEGO® Minifigures Online* will start in June 2014. Anyone will then be able to download and play the game. The full launch of the game will happen during the autumn of 2014.
Funcom is encouraged by the progress of the game and the high quality of content the development team is delivering. The feedback from our target audience through focus tests and through the closed beta process has so far been extremely positive, and we are looking forward to giving LEGO fans of all ages a great online world to play around in *LEGO® Minifigures Online*.

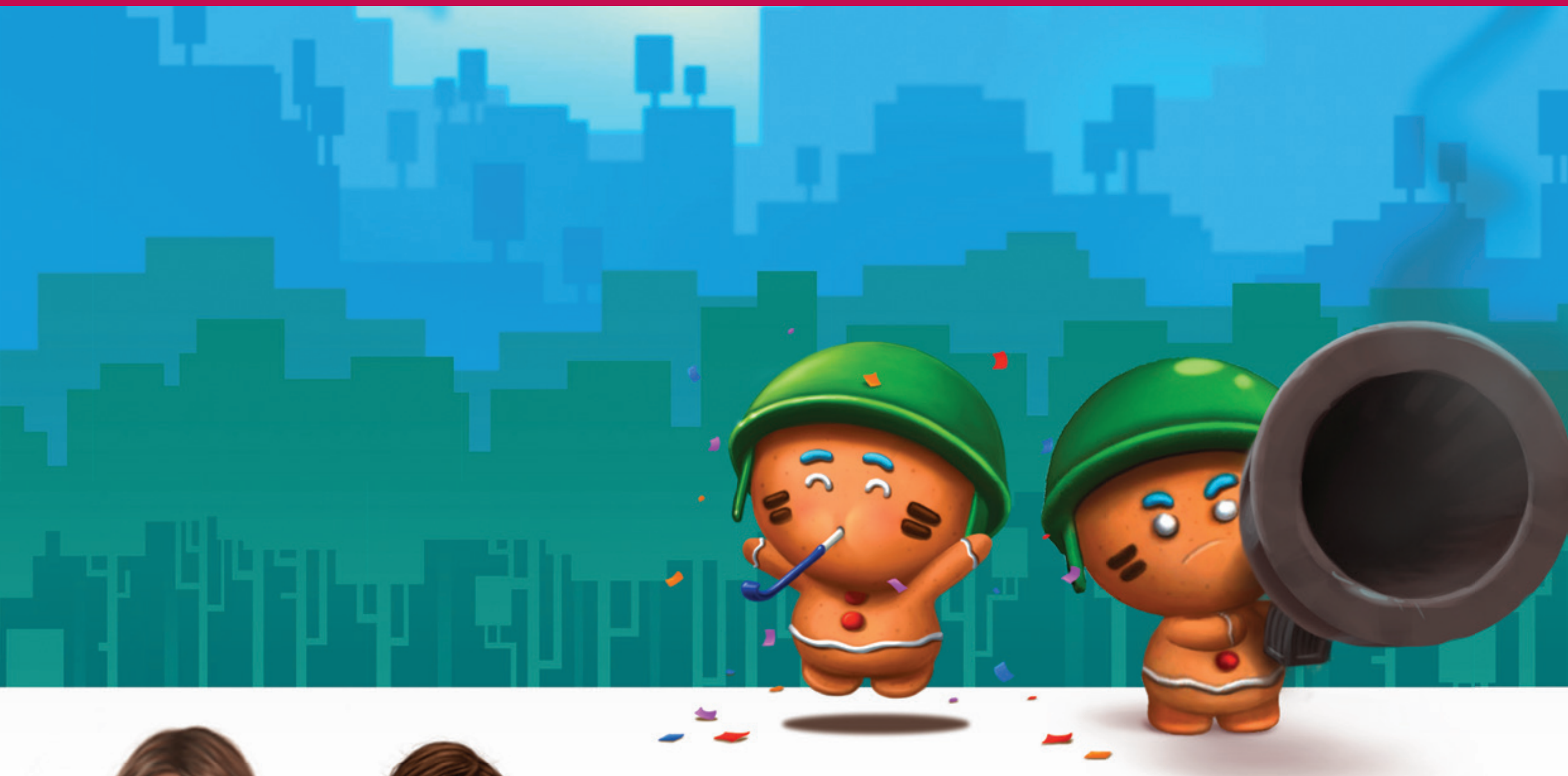
For more information visit http://www.playminifigures.com and http://www.LEGO.com

LEGO, the LEGO logo, the Brick and the Knob configurations and the Minifigure are trademarks of the LEGO Group. © 2013 The LEGO Group. All other trademarks and copyrights are the property of their respective owners. All rights reserved.

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.



MOBILE AND TABLET AND OTHER WORK-FOR-HIRE GAMES



IN 2013, **FUNCOM GAMES CANADA** LAUNCHED ITS MOBILE AND TABLET DIVISION IN MONTREAL FOLLOWED BY THE COMPLETION OF STUDIO RENOVATIONS IN NOVEMBER.

We began expanding into Unity to create technologies for use on iOS, Android, Windows 8, PC and more. This allowed for the creation of a pitch and prototyping team, positioning us to meet publishers' needs for engaging products and the demands of a rapidly growing market. Representatives attending GDC, GDC Next, ADC, Game Connect and Unite gave Funcom Games Canada international exposure. At home, we invested in our developers further with a heavy presence at the Montreal International Game Summit, continuing to push their knowledge and understanding of the games industry.

Funcom Games Canada has been focusing on its collaboration with The LEGO Group on the creation of new family entertainment products. These projects, created for mobile and home computer platforms, strengthen The LEGO Group's position in the digital space and led to deeper exploration of play with LEGO bricks in the virtual world. This close collaboration of iterative development and ideation with the LEGO group further expands the skills and capabilities of the development team to bring LEGO's concepts to life. Capabilities such as: the ability to have real-time multiplayer experiences with cross-device networking, including on PC.

In 2013, Funcom sold the digital intellectual property of its Facebook game '*Fashion Week Live*' to 505 Games. Since its launch in 2012, the game has fostered a large social community and reached the milestone of one million installs on Facebook. With this title, Funcom has proven the ability to develop a high quality social game, and as part of the agreement with 505 Games, Funcom Games Canada continues to assure the continuity of the game by providing development, maintenance and hosting services on a work-for-hire basis.

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 2013 were the upgrading of the core of the technology to support multiple platforms, the test development of the Adobe Flascc platform and the successful implementation of the Android platform. Development on the iOS platform was also initiated and is progressing well. In addition several gameplay and toolchain features were added to support the *Lego Minifigures* game.

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 is to develop, market and carry on business in computer games, here under 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 2013.

Funcom's revenue for 2013 was USD 21,409 thousands compared to USD 23,599 thousands in 2012. The decrease of USD 2,190 thousands is considered reasonable given that on July 3, 2012 the Company launched its large-scale MMO, *The Secret World*, which based on its initial business model normally generates its highest revenues in the launch quarter with gradual decrease thereafter.

The operating costs (excluding impairment) decreased by approximately 50% in comparison to 2012 as a result of the corporate restructuring executed in the first half of the year which led, among other cost savings, to approximately 75% reduction of manpower in comparison to mid 2012 (prior to the start of the cost cutting measures in August 2012).

Thus, the corresponding operating result for 2013 was USD -4,880 thousands compared to USD -59,087 thousands in 2012. Apart from the positive factors stated above, the significant improvement in the operating result is also due to much smaller impairment losses of USD 4,200 thousands reported in 2013 compared to USD 40,545 thousands in 2012. The impairment losses in 2012 resulted from the revised revenue estimates going forward which were caused by lower than expected sales on *The Secret World* and two other games from the free-to-play segment. The lower revenues were caused primarily by less game client sales, less subscription, lower client retention and lower conversion of free-to-play to paying customers. In 2013 the large-scale MMO market experienced increased competition, especially in the second half of the year which led to lower sales from membership and micro transactions. Therefore the Company revised further its projections which caused the value in use of *The Secret World* and the underlying version of the technology at year end to be lower than their net book value and resulted in an impairment loss of USD 4,200 thousands.

As a result of the relatively stable revenues and significantly lower operating costs and impairment charges the Company reported a much smaller net loss for 2013 of USD -4,538 thousands compared to USD -62,215 thousands for 2012. Thus the earnings per share (basic and fully diluted) increased from USD -0.99 at the end of 2012 to USD -0.07 at the end of 2013.

The Equity of the Company at year end is USD -5,561 thousands compared to USD 1,255 thousands in 2012. The decrease is mainly explained by the impairment charge discussed above as well as a foreign exchange translation difference of USD -2,770 thousands reported in Other Comprehensive Income. In the first quarter of 2014 KGJ Investments S.A.,SICAV-SIF (KGJI), Funcom's main shareholder, exercised 10,000,000 warrants and subscribed for the same amount of shares in Funcom N.V. The transaction increased equity by USD 3,700 thousands while the total proceeds of USD 3,700 thousands were used for a partial repayment of the related interest-bearing loan (see Note 29 for details). In April 2014 the Company also successfully completed a draw down on its standby equity facility with YA Global Master and as a result raised USD 1,625 thousands and will issue 2,203,846 new shares in return thus increasing equity by the same USD 1,625 thousands (see Note 29 for details). It is also considered that the revenue potential of the current and future games as well as the cost saving measures undertaken since 4Q12 will improve the profitability of the Company and will lead to an increase of the equity position in 2014. The company also continues to evaluate the current and potential sources of financing, such as further draw downs on the existing standby equity facility as well as other opportunities of raising capital via financial arrangements including equity issuance, which could also lead to an increase in the equity position in 2014.

In 2013 the Company repaid USD 2,000 thousands on the senior, interest bearing loan. A new working capital loan was also secured in the fourth quarter of the year with the first installment of USD 3,000 thousands received in December 2013. The loan agreement provides for two other installments of maximum USD 1,250 thousands each of which could be draw down in the first and the second quarters of 2014 respectively (see Note 29 for further details).

In 2013 the Company restructured the senior, interest-bearing loan with a fair-value at year end of USD 8,000 thousands and the convertible bonds loan with fair value of USD 6,200 thousands at year end. The new terms, among other things, provided for extended maturity of the loans and 50% lower interest rate with interest payable only at conversion/maturity in the case of the convertible loan. Additional cash relief was assured by the exercise of warrants after year end (as mentioned above) since the proceeds were used to repay USD 3,700 thousands of the senior loan thus decreasing interest and capital payments going forward. For full details on the loan restructuring, please, refer to note 25.

The cash position of the Company at year end is USD 2,582 thousands compared to USD 8,048 thousands at the end of 2012. In addition to the cash generated from its live games the Company has at its disposal the installments under the working capital loan (see Note 25 and 29) and the standby equity facility of up to USD 22,000 thousands as an immediate source of financing. Under this facility draw-downs can be made in tranches at the Company's discretion, on average every 20 to 30 days up to the maximum amount of USD 22,000 thousands. In fact, as mentioned above, a first draw down was successfully completed in April 2014 and the company raised USD 1,625 thousands (see note 29).

GOING CONCERN

Overall the financial performance of the Company improved in 2013 as a result of stabilizing sales and significantly reducing operating costs. The positive trend is expected to continue also in 2014 (and after) when Funcom is expected to launch its free-to-play MMO LEGO® Minifigures Online. Events related to the senior and convertible loans provided cash relief with regards to maturity schedules and amounts (see note 25 and 29). The cash position of the Company is expected to improve in 2014 as a result of cash generated from live games, draw-downs on the stand-by equity facility and potential equity or debt financing to be secured in the second half on 2014.

Based on the above assessment the Company has concluded that the funding of its operations for a period of at least one year after the date of the annual report is realistic and achievable. Therefore management is of the opinion that the going concern assumption is justified and consequently the financial statements of the Company have been prepared on a going concern basis. Notwithstanding the above, the Management Board of the Company emphasizes that the above assessments indicate the existence of material uncertainty with regards to the performance of the live games and amounts to be raised as new financing in 2014. Therefore, the actual performance of the Company may deviate significantly from the projections which may cast significant doubt on the entity's ability to continue as a going concern. Please, refer to note 2.1 for further details.

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: PRODUCT AND TECHNOLOGY UPDATE

CORPORATE RESTRUCTURING

In early January 2013 the Company initiated a restructuring process to better align the company to the current market, make the Company more efficient, and enable it to quickly adapt to new business trends. The process was completed in mid May 2013. Currently, the Company operates out of three studios as follows:

- The Montreal studio's strategy is building high-quality games and technology for mobile and tablet platforms on a work-for-hire basis or as own IP.
- The Studio in Oslo focuses on the business area of building high quality, focused MMO's in the mid-core segment (e.g. *LEGO® Minifigures Online*) as well as the development of the Company's proprietary technology *Dreamworld*.
- The Company consolidated the live teams to its Operational hub in North Carolina. The focus of the North Carolina office is to develop and run the existing games, and make the studio ready to operate more games and services both from Funcom's own production line and from others as well.

LIVE GAMES

The bulk of the revenues in 2013 as in 2012 originated from the large-scale MMOs:

At the end of 2012 *The Secret World* was switched to a hybrid, buy-to-play model which was maintained throughout 2013. In addition, the game offered three large content updates and continuous updates of the in-game store items. As a result, the game had a stable number of players and contributed the highest amount of the revenues of the Company.

The other two live MMO's, *Age of Conan* and *Anarchy Online* also provided new content and special events to the players and experienced stable player base and revenues in 2013.

GAMES IN DEVELOPMENT

In 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. This is a licensed game where a normal license deal applies between the Company and LEGO®. Under these circumstances Funcom assumes the investment and development risks and keeps most of the revenues in return.

The development commenced in 3Q12 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 second half of 2014 with an open beta planned for June 2014.

The *LEGO® Minifigures Online* game will be released to market with a free-to-play business model, which is very different from the two previously launched titles *Age of Conan* and *The Secret World* which both had a subscription based business model. As is typical for free-to-play games, *LEGO® Minifigures Online* will focus on membership benefits, as well as sell virtual items and content, and other typical free to play methods of monetizing the game and thus the revenues are expected to build-up gradually throughout the life of the game (as opposed to a large-scale MMO where historically all games released after World of Warcraft have generated significant part of the revenues in the months after release with a gradual decline thereafter).

OTHER:

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. In 2013 Funcom sold the DIP (digital intellectual property) of the game to its partner 505 Games. As outlined in the agreement, Game Media Networks, a company within the Digital Bros Group runs the Fashion Week Live project while Funcom, out of its Montreal studio, assures the continuity of the game by providing development, maintenance and hosting services on a work-for-hire basis.

Throughout 2013 the Montreal studio also worked on two LEGO® work-for-hire projects which reached all milestones and budget.

TECHNOLOGY DEVELOPMENT

In 2013 Funcom continued to upgrade and optimize the Dreamworld Technology game engine which runs the games. In 4Q12 the Company also initiated a project to take the *Dreamworld* technology into the growing and profitable web and tablet markets, allowing Funcom's future games to target these new platforms. The project advanced well in 2013 which will allow the company to launch *LEGO® Minifigures Online* cross-platform (PC, iOS and Android).

FUTURE OUTLOOK

The revenue and profit of Funcom depend 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 its Live games and its new free-to-play MMO *LEGO® Minifigures Online*. 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 be cost effective in developing mid-core focused and cost-effective but high-quality, cross-platform MMO games. Predicting revenues from game concepts is inherently uncertain, but the Company believes that a continued focus on smaller initial development budgets (3 to 6 mUSD), shorter development time, smaller and agile development teams and games built around known brand or other strong intellectual property over time will lead to profitability and growth, even though estimates on individual games are uncertain. *LEGO® Minifigures Online* is the first game to be developed under this strategy. The long term goal is to produce titles in parallel releasing more than one game a year. The industry has changed significantly during the last years and it is the Company's goal to align itself with the market, leverage its technology and know-how and adapt its portfolio of products to address the current needs as well as future changes.

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.

MARKET DEVELOPMENT

The diversification trend in the online games market continued throughout 2013, with a wider range of games being published across all platforms, including PC, tablets, smart phones and consoles. This trend has enabled the launch of games that have smaller initial development budgets, which can then be grown into strong and successful games with additional investment in the period after launch. Games like World of Tanks, League of Legends and Clash of Clans are all good examples of this.

The launch of the new console generation in the last stage of 2013 saw two new high-end consoles being released, the PS4 from Sony and the Xbox One from Microsoft. Both of these consoles are based on a PC centric architecture, and both have a strong focus on online games and open up for direct publishing on their platforms.

Business models have continued to mature, and the singular focus and attention on free-to-play have become a more analytic and eclectic approach, where we see successful games launched within all variants of the business models available. With the addition of the two new consoles as viable platforms for publishing and operating games this will most likely continue to mature.

Customer acquisition costs have increased across most platforms, but especially in the very competitive tablet and smartphone market. This trend is expected to continue for a while, and highlights the need for smart and effective PR, marketing and promotional partnerships to launch a game cost-efficiently.

The investment the Company has done into the *Dreamworld* technology platform is very much in line with the above trends, allowing us to build, launch and operate online games faster and more cost-efficiently than ever before. The *Dreamworld* technology platform now also supports true cross-platform play across both iOS, Android and PC based platforms. The features of the *Dreamworld* technology platform is industry-leading in the area of building, launching and operating online games.

ØKOKRIM CHARGE

In 1Q14 Funcom was charged by Økokrim (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) on suspicion of infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012 with regards to information given to the market (market manipulation) and insufficient maintenance of the required list of persons who are given access to inside information. The Company is cooperating fully with ØKOKRIM. As of the date of the annual report there is insufficient information to allow Funcom to determine reliably the likelihood of whether the charge could result in financial losses or to estimate the amounts of such potential losses. Therefore, no provisions resulting from the charge have been recorded in the financial statements.

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, 2013, the group employed approximately 140 employees (2012: 200 employees).

Sick leave in the group is considered low and 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 all 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 2013, Funcom N.V. had a share capital of USD 3,424 thousands (2012: USD 3,424 thousands) 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 6,724,417 outstanding share options granted to employees and directors in the company at the end of 2013.

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.

The internal risk management and control systems of the Company are regularly analyzed and the Management Board believes them to be adequate for the size and operations of the Company. Any important findings in this regard are discussed 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.

The Management Board and Supervisory Board of Funcom currently consist of men. In the appointment of directors and auditors job profiles are used in which there is no gender distinction. Although the current composition of the Board is not diverse, Management and Supervisory Board actively seek a more diverse composition. In a future replacement of directors or supervisory board members both men and women are invited to apply. In a final stage of a future selection of candidates, the quality of any candidate will prevail.

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. Future payments of dividends are not foreseen and will only be possible if the equity and liquidity position allow payment.

REPORT OF THE MANAGEMENT BOARD

APPLICATION OF PROFIT/LOSS

The Management Board does not propose payment of a dividend. Management proposes to appropriate the loss to retained earnings. Total equity after appropriation of the results for 2013 is USD - 5,561 thousands (2012: 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 25 and 28.

Badhoevedorp, The Netherlands, April 30, 2014

Ole Schreiner

Pieter van Tol

CORPORATE GOVERNANCE – STATEMENTS OF COMPLIANCE

STATEMENT OF COMPLIANCE TO THE DUTCH CORPORATE GOVERNANCE CODE AND THE NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE

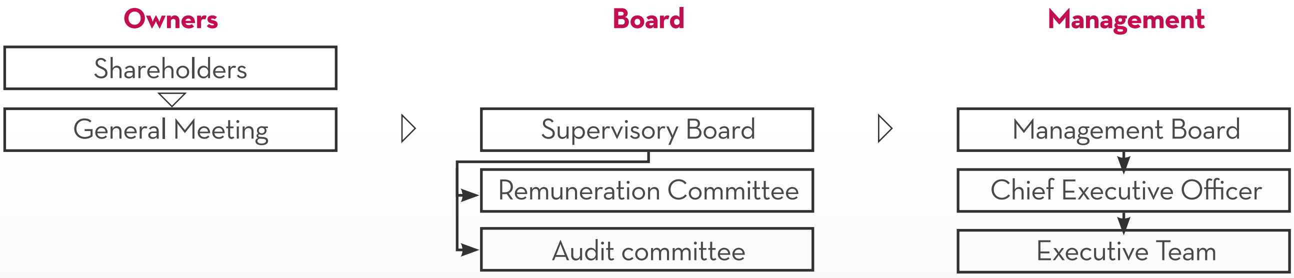
CORPORATE GOVERNANCE IN FUNCOM N.V.:

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:



The General Meeting elects 1 Supervisory Directors 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

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

CORPORATE GOVERNANCE - STATEMENTS OF COMPLIANCE

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 2014.

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

The Equity of the Company at year end is USD -5,561 thousands compared to USD 1,255 thousands at the end of 2012. The decrease is mainly explained by the impairment charge discussed above as well as a foreign exchange translation difference of USD -2,770 thousands reported in Other Comprehensive Income. In the first quarter of 2014 KGJI, Funcom's main shareholder, exercised 10,000,000 warrants and subscribed for the same amount of shares in Funcom N.V. The transaction increased equity by USD 3,700 thousands while the total proceeds of USD 3,700 thousands were used for a partial repayment of the related interest-bearing loan (see Note 29 for details). In April 2014 the Company also successfully completed its first draw down on the standby equity facility with YA Global Master and as a result raised USD 1,625 thousands and issued 2,203,846 shares thus increasing equity by the same USD 1,625 thousands. It is also considered that the revenue potential of the current and future games as well as the cost saving measures undertaken since 4Q12 will improve the profitability of the Company and will lead to an increase of the equity position in 2014. The company also continues to evaluate the current and potential sources of financing, such as the existing standby equity facility as well as other opportunities of raising capital via financial arrangements including equity issuance, which could also lead to an increase in the equity position in 2014.

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 2013, 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 had an ownership stake in Weidema van Tol, a company used by Funcom for legal counsel and tax advice. In 2013 Funcom also incurred transactions with its largest shareholder KGJI. The company is controlled by Kristian Gerhard Jebsen Group Ltd. which in turn is controlled by Mr. Hans Peter Jebsen. For details on the transactions, please, refer to Note 26. A company owned by the Chairman of the Supervisory Board provided consulting services to Funcom as described in the Note 26.
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 Articles of Association, Article 13.3. 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: According to the Articles of Association 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 and will be re-evaluated in the future.

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 as agreed in the annual financial calendar. Ordinarily, the Supervisory Board meets twice a year, normally in Badhoevedorp, The Netherlands and in addition holds 6 to 8 conference calls. Additional meetings/or conference calls 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 2013 the Committee consisted of two Supervisory Board Members. The other Supervisory Board Members are entitled to attend if they so desire. Members: Michel Cassius (Chairman) and Magnus Groneng. In 2013 the Audit Committee had one in-person meeting and one conference call both attended by the Company's Auditor.

- The Remuneration Committee has responsibilities related to developing proposals for the applicable remuneration policies. Members: Alain Tascan (Chairman) and Gerhard Florin (Member). In 2013 the Remuneration Committee had one in-person meeting and two conference calls.

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 maintained internal controls and a system for risk management during 2013. 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 2013 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 2013, the total remuneration to the Supervisory Board was EUR 52,504 (USD 74,104) (2012: EUR 82,500 (USD 106,425)). The annual remuneration of each Supervisory Board member was EUR 12,000 (USD 15,898) prorated in accordance with the months of service (2012: EUR 35,000 (USD 44,744) for the Chairman and EUR 12,000 (USD 15,340) for the other members of the Supervisory Board). EUR 40,504 (USD 55,758) (2012: EUR 30,000 (USD 39,645)) of the fees for 2013 are outstanding at year end.

In 2013 G. Florin Consulting GMBH, a company owned by the Chairman of the Supervisory Board provided consulting services to Funcom for a total remuneration of EUR 23,000 (USD 30,461) which was paid in full by the end of 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.

A company owned by Mr. Florin provided consulting services to Funcom in addition to his appointment as Chairman and member of the Supervisory Board. This was disclosed to the other members of the Supervisory Board and the remuneration was approved by the Supervisory Board. The remuneration for the consulting services is also fully disclosed in the annual report.

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 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

• **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.2.10:** 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. The Supervisory Board is of the opinion that most of the information contained in such contracts can be obtained in general terms from the annual report.

• **Provision III.2.1 and III.2.2f:** Two of the members of the Supervisory Board (Mr. Gladhaug and Mr. Groneng are not considered independent since Mr. Gladhaug is employed by Kristian Gerhard Jebsen Group Ltd. (KGJG) who in turns controls Kristian Gerhard Jebsen Investments S.A. (KGJI) - Funcom's main shareholder who holds more than 10% of the shares of the Company and Mr. Groneng is employed by Jebsen Asset Management AS - also part of the Jebsen Group. However the other three members of the Supervisory Board are considered independent within the meaning of the best practice provision III.2.2.

• **Provision III.2.2b:** In 2013 Funcom N.V. received consulting services from a company owned by the Chairman of Supervisory Board for a total remuneration of EUR 23,000 (USD 30,461). The services were received in the normal course of business and are considered not to be material to the extent of impairing the independence of Mr. Florin.

• **Provision III.3.6:** Funcom N.V. has not developed a retirement schedule and made it generally available. The Supervisory Board has taken upon itself the task of assuring the continuity of the Supervisory Board members.

• **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.6.4:** In 4Q13 Funcom N.V. signed a loan agreement for a working capital loan to be obtained from its main shareholder KGJI. KGJI is controlled by KGJG who also employees two of the Supervisory Board members. The loan agreement was approved unanimously by the Supervisory Board and therefore it is considered that Provision III.6.4 has been properly observed.

• **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 continue evaluating the need of adopting such a policy in the future.

• **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

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 2013 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, 2013, the development during 2013 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, 2014

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 2013. 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 33 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 36.
- 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 pages 27, 33 and 118.
- the statement regarding the composition and functioning of the Board of Management as included on page 29.
- 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 36.
- 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, 2014

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 2013, 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 with an emphasis of matter paragraph in respect of going concern. We have discussed the Annual Report with the Management Board and the auditors prior to its publishing.

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.

The Board of Supervisory Directors, in general, supervises the Management Board in its duty to manage the Company. It performs its duties and activities in accordance with the Articles of Association of the Company, its regulations, which are posted on the Company's website, the applicable law and the Dutch and Norwegian Corporate Governance Codes

THE SUPERVISION OF THE MANAGEMENT BOARD BY THE BOARD OF SUPERVISORY DIRECTORS INCLUDES:

• the achievement of the Company's objectives;
• the corporate strategy and the risks inherent in the business activities;
• the structure and operation of the internal risk management and control systems;
• the financial reporting process;
• compliance with regulations and legislation;
• the Company-shareholders relationship;

ACTIVITIES

In 2013 the Supervisory Board of Directors held two in-person meetings and seven conference calls. During the meetings / calls the Company's financial and operational targets, strategy and accompanying risks were discussed. The main focus during the year was on the following topics:

• corporate restructuring carried out in the first half of 2013 which made the Company more efficient and flexible to respond to market trends
• strategy of the Company going forward within the new corporate structure and alignment with industry trends
• loan restructuring completed in April 2013 and positive impact on the Company's liquidity
• regular assessment of the Company's cash position and opportunities for external funding through equity or debt financing including the utilization of the existing stand-by equity facility
• regular evaluation of the live games performance and the cost structure of the Company and ways to improve profitability
• updates on the progress of the projects under development (e.g. Lego Minifigures Online, cross- platform functionality of the Dreamworld Technology, work-for-hire contracts).

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 2013 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. It was concluded that that the performance of the Supervisory Board, its individual members, the Remuneration Committee and the Audit Committee, respectively, meet the standards set for that purpose as well as the objectives determined in the beginning of 2014 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 2013 financial year the Supervisory Board has also discussed the risks associated with the operation of the 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 2013 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 2013:

GERHARD FLORIN, CHAIRMAN OF THE SUPERVISORY BOARD

(born 1959, male, German, 2-nd 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, 1-st 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, 1-st 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 holds 50,000 share options and 0 shares 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 main shareholder of Funcom. N.V.

MAGNUS GRØNENG
(born 1981, male, Norwegian, 1-st term, member since 24 April 2013)
Mr. Grøneng has background as management consultant in McKinsey & Company. 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 50,000 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 main 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 2013 focused on the remuneration of the Management Board and the allocation of options. The Audit Committee consisted of Mr. Cassius (chairman) and Mr. Grøneng (member) and their work in 2013 focused on the accounting policies, risk management and control as well as supervision of the preparation of financials.

The Management Board and Supervisory Board of Funcom currently consist of men. In the appointment of directors and auditors job profiles are used in which there is no gender distinction. Although the current composition of the Board is not diverse, Management and Supervisory Board actively seek a more diverse composition. In a future replacement of directors or supervisory board members both men and women are invited to apply. In a final stage of a future selection of candidates, the quality of any candidate will prevail.

Badhoevedorp, The Netherlands, April 30, 2014

The Supervisory Board of Directors in Funcom N.V.

Gerhard Florin, Chairman

Alain Tascan, Vice-Chairman

Michel Cassius

Ole Gladhaug

Magnus Grøneng


THE

CONSOLIDATED FINANCIAL STATEMENTS:

FUNCOM N.V.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31

IN THOUSANDS OF US DOLLARS	NOTE	2013	2012
Continuing operations			
Revenue	4,5	21 409	23 599
Personnel expenses	6,17	-8 123	-13 152
General and administrative expenses	7	-6 398	-17 453
Depreciation, amortization and impairment losses	11,12	-9 912	-49 375
Other operating expenses	8	-1 857	-2 706
Operating expenses		-26 289	-82 686
Operating result		-4 880	-59 087
Share of result from equity-accounted entities	21	-135	-33
Finance income	9	3 184	1 628
Finance expenses	9	-2 549	-4 607
Result before income tax		-4 380	-62 099
Income tax (expense) / income	10	-158	-116
Result from continuing operations		-4 538	-62 215
RESULT FOR THE PERIOD		**-4 538**	**-62 215**
Other comprehensive income			
Exchange differences on translating foreign operations		2 214	-1 285
Exchange differences on intercompany loans part of net investment in a foreign entity		-4 984	1 289
Other comprehensive income for the year, net of tax		-2 770	4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-7 308**	**-62 211**

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

FUNCOM N.V.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31

IN THOUSANDS OF US DOLLARS	NOTE	2013	2012
Result for the period attributable to:			
Equity holders of Funcom N.V.		-4 538	-62 215
		-4 538	-62 215
Total comprehensive income attributable to:			
Equity holders of Funcom N.V.		-7 308	-62 211
		-7 308	-62 211
Earnings per share *			
From continuing operations			
Basic earnings per share (US dollars)	23	(0,07)	(0,99)
Diluted earnings per share (US dollars)		(0,07)	(0,99)

** 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	2013	2012
ASSETS			
Non-current assets			
Deferred tax asset	10		232
Intangible assets	4.11	9 305	13 729
Equipment	12	544	810
Investments in equity-accounted entities	21	306	460
Long term receivables	25	19	487
Total non-current assets		10 174	15 718
Current assets			
Trade receivables	13.25	2 195	2 723
Prepayments and other receivables	14	4 590	6 793
Income tax receivable	10	31	
Cash and cash equivalentss	15	2 582	8 048
Total current assets		9 398	17 564
TOTAL ASSETS		**19 572**	**33 282**

CONSOLIDATED FINANCIAL STATEMENTS:

FUNCOM N.V.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

IN THOUSANDS OF US DOLLARS	NOTE	2013	2012
EQUITY AND LIABILITIES			
Equity			
Share capital	16	3 424	3 424
Reserves	16	146 933	149 211
Retained earnings (Accumulated deficit)	16	-155 918	-151 380
Total equity		-5 561	1 255
Non-current liabilities			
Loans and borrowings	25,26	12 044	4 728
Deferred tax liabilities	10	67	55
Total non-current liabilities		12 111	4 783
Current liabilities			
Trade payables	25	483	405
Deferred income	19	3 873	7 968
Income tax liability	10		134
Provisions	18		29
Loans and borrowings	25	7 137	12 870
Other short term liabilities	20	1 529	5 838
Total current liabilities		13 022	27 244
Total liabilities		25 133	32 027
TOTAL EQUITY AND LIABILITIES		**19 572**	**33 282**

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	2013	2012
Cash flows from operating activities			
Profit (loss) before income tax		-4 380	-62 099
Adjustments for:			
Depreciation, amortization and impairment losses	11,12	9 912	49 375
Share-based payments	6,16,17	491	815
Share of result from equity-accounted entities	21	135	33
Interest income/expense		1 805	1 377
Effect of exchange rate fluctuations		-569	555
Change in provision	18	-29	-371
Change in trade and other receivables		2 996	-2 710
Change in trade payables		51	-651
Change in other current assets and liabilities		-8 137	12 213
Cash generated from operations		2 276	-1 463
Interest received		47	189
Interest paid		-1 322	-1 566
Income tax and other taxes paid		-74	40
Net cash from operating activities		928	-2 800
Cash flows from investing activities			
Purchase of equipment	12	-103	-377
Investment in intangible assets	11	-5 383	-13 426
Loan from a joint-venture		416	-850
Net cash used in investing activities		-5 070	-14 653
Cash flows from financing activities			
Net proceeds from issue of share capital	16		10 953
Proceeds from borrowings	25,26	5 211	2 698
Repayment of borrowings	25,26	-4 269	-7 932
Net cash from financing activities		943	5 719
Net increase in cash and cash equivalents		-3 199	-11 733
Effect of exchange rate fluctuations		-2 266	355
Cash and cash equivalents at beginning of period	15,25	8 048	19 428
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**15,25**	**2 582**	**8 048**

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, 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 comprehensive income for the year				4			4
Total comprehensive income for the 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 elements					-1 080		-1 080
Equity as at December 31, 2012	**3 424**	**142 016**	**4 450**	**135**	**2 610**	**-151 380**	**1 255**
EQUITY AS AT JANUARY 1, 2013:	**3 424**	**142 016**	**4 450**	**135**	**2 610**	**-151 380**	**1 255**
Profit or loss for the year						-4 538	-4 538
Exchange differences on translating foreign operations				2 214			2 214
Exchange differences on intercompany loans part of net investment in a foreign entity				-4 984			-4 984
Other comprehensive income for the year				-2 770			-2 770
Total comprehensive income for the year				**-2 770**		**-4 538**	**-7 308**
Share-based payments			491				491
Issued share capital							
Equity as at December 31, 2013	**3 424**	**142 016**	**4 941**	**-2 635**	**2 610**	**-155 918**	**-5 561**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Funcom N.V. (or the "Company") is a limited liability 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, 2013, 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, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Going concern assessment

The Management Board upon preparing and finalizing the 2013 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of the annual report.

Based on the above assessment, the Company has concluded that funding of its operations for the above mentioned period is realistic and achievable. In arriving at this conclusion the following main items and assumptions have been taken into account:

- improved financial performance of the Company in 2013 as a result of stable sales and significantly reduced operating costs (EBITDA (earnings before interest, tax, depreciation and amortization) increased from negative USD -9,712 thousands in 2012 to positive USD 5,032 thousands in 2013).
- the stable performance of the Live games is expected to continue during the above mentioned period and beyond
- cross-platform launch in the second half of 2014 of the Company's newest MMO LEGO® Minifigures Online based on the popular Lego® Minifigures brand; thus a new source of revenue will be added to the Live games portfolio
- reduction of debt by USD 3,700 thousands in the first quarter of 2014 as a result of exercise of warrants (see note 25 and 29); as a result the capital repayment due in July 2015 is reduced from USD 4,000 thousands to USD 300 thousands and quarterly interest payments are reduced by USD 296 thousands annually; freed cash can be used in operations.
- availability of a stand-by equity facility where draw-downs can be made in tranches at the Company's discretion, on average every 20 to 30 days up to the maximum amount of the facility of USD 22,000 thousands; a first draw down was successfully completed in April 2014 - as a result the company raised USD 1,625 thousands and will issue 2,203,846 new shares (see note 29)
- availability of two draw-downs of USD 1,250 thousands each under the working capital loan (see note 25 and 29)
- cash position of the company at year end of USD 2,582 thousands
- the company incurred a net loss of USD 4,538 thousand during the year ended 31 December 2013 and, as of that date, the company's equity was USD 5,561 thousand negative

Certain potential sources of cash inflows have not been directly included in the going concern assessment but Funcom's management acknowledges the possibility of:

- raising capital in the second half of 2014 by means of market transactions such as equity issuance or non-dilutive (debt) financing or a combination thereof.
- obtaining additional proceeds from exercise of warrants or conversion of bonds which could lead to further decrease of debt for a maximum amount of USD 8,050 thousands since as of the date of the annual report 5,000,000 warrants and 62 convertible bonds are still outstanding (see note 25).

Notwithstanding the above, the Management Board of the Company emphasizes that the actual performance of the Company is largely affected by its ability to generate

sufficient cash inflows from both sales and new financing. Given the dependency on the positive outcome of these factors there is a material uncertainly which may cast significant doubt about the Company's ability to continue as a going concern.
Overall, based on the outcome of this assessment, management is of the opinion that the going concern assumption is justified and consequently the financial statements of the Company have been prepared on a going concern basis. Notwithstanding their belief and confidence that Funcom will be able to continue as a going concern, the Management Board emphasizes that the actual cash flows for various reasons may ultimately deviate from the projections in which case the going concern of the Company may be at risk.

2.2 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. In 2013 the functional currency of one of the Company's subsidiaries changed from Canadian dollar to Norwegian kroner. The subsidiary's main cash expenditures are related to game development (labor and overhead) and after the downsizing of the Canadian studio in 2013 the currency that mainly influences those expenditures became the Norwegian kroner. The change in functional currency was accounted for prospectively using the exchange rate at the time of change.

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 with significant effect on the financial statement 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	Title	Date of issue	Applicable to accounting periods commencing on
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
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2013
Amendments to IFRS 1	Amendments for government loan with a below-market rate of interest when transitioning to IFRSs	March 2012	1 January 2013
Annual improvements	Annual improvements to IFRSs 2009-2011 cycle	May 2012	1 January 2013

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 2013.

Management anticipates that these Standards will be adopted in the Group's financial statements for the period beginning 1 January 2014 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
Amendments to IFRS 10, IFRS 12 and IAS 27	*Amendments for investment entities*	October 2012	1 January 2014
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 IAS 32	*Offsetting Financial Assets and Financial Liabilities*	December 2011	1 January 2014
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*	November 2013	1 July 2014
Annual improvements	*Annual improvements to IFRSs 2010-2012 cycle*	December 2013	1 July 2014
Annual improvements	*Annual improvements to IFRSs 2011-2012 cycle*	December 2013	1 July 2014
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*	May 2013	1 January 2014
Amendments to IAS 39	*Novations of Derivatives and Continuation for Hedge Accounting*	June 2013	1 January 2014
IFRS 14	*Regulatory Deferral Accounts*	January 2014	1 January 2016
IFRIC 21	*Levies*	May 2013	1 January 2014
IFRS 9[1]	*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

1- The standard/revised standard/amendment has as at the date of issue of these financial statements not yet been adopted by the EU

2.3 Basis of consolidation

SUBSIDIARIES
Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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.

2.4 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.

2.5 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. Revenue 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 work-for hire contracts is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the outcome of a transaction can be estimated reliably (e.g. the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably). When the outcome of the transaction involving the rendering of services cannot be estimated reliably, the revenue is recognized only to the extent of the expenses recognized that are recoverable.

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.

2.6 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.

2.7 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.

2.8 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 consideration transferred 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.

2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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 reorganization, 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 are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.16 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.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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 financia 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.

2.22 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.

2.23 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 2.5, 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
As of year end the Company has 15,000,000 outstanding warrants classified as equity. 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. In 2013 the Company established a mobile and tablet team in the Montreal studio which engages in the development of games for these platforms as well as other games on a work-for-hire basis (e.g. Fashion Week Live - game for Facebook). The activities of the new team generate revenues and expenses for which discrete financial information is available and the operating results are regularly reviewed. Therefore these activities meet the criteria for a reportable operating segment. 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
- mobile and tablet games and other WFH - which includes game development for mobile and tablet platforms and other work-for hire games.

The three segments 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 sometimes accompanied by large-scale, global marketing campaigns in traditional gamer media channels and sometime in general press. In the case where the large-scale MMO uses a mixed business model the approach to marketing and launch of the game will be more staged and continuous.
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.
2) Distribution. Most game distribution will be online only, with a possibility of retail distribution in certain markets for the large-scale MMO's. There can be various ways of packaging and presenting the digital clients, with models ranging from pure client sales to premium packages containing a lot of the different elements and benefits available in a free-to-play games, to a pure free-to-play client download.

3) Technology. Funcom use its *Dreamworld* technology platform for most of the games it's developing and operating, with various focus being put on graphics, features and performance depending on the game.

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 sometimes charge a significant price for the initial game client; at launch, typically around USD 50. Thereafter they typically use free or monthly memberships in addition to an in-game store as revenue models. 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, memberships and possibly advertising as revenue models.

6) Ownership of Digital Intellectual Property (DIP). Funcom is the owner of the DIP for the games operated / developed in the three segments which means that the Company fully assumes the investment and development risk as well as the risk to successfully market and operate the game. As a result, the Company keeps all or most of the revenues in return (depending on whether the game is based on own, internally developed brand or is a licensed game). In contrast, Funcom does not own the DIP for the two work-for-hire games that were developed in 2013 out of the Montreal studio. As is typical for WFH deals, the Company does not bear the investment, marketing and operating risks for such games and as a result the revenue potential is based on a cost plus preliminary determined mark-up basis.

CONSOLIDATED FINANCIAL STATEMENTS:

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 4,200 thousands made in 2013 relate to the Large-scale MMOs segment. In 2012 impairment charges of USD 38,000 thousands related to the Large-scale MMOs segment and USD 2,545 thousands - to the free-to-play segment.

	REVENUE FROM EXTERNAL CUSTOMERS PERIOD ENDED DEC. 31,		SEGMENT PROFIT PERIOD ENDED DEC. 31,	
	2013	**2012**	**2013**	**2012**
Large-scale MMO's	18,540	20,108	9,970	5,365
Free-to-play MMO games	539	3,491	271	2,375
Mobile and tablet games and other WFH	2,330		1,188	
Total	**21,409**	**23,599**	**11,429**	**7,740**
General and administrative expenses			-6,398	-17,453
Depreciation, amortization and impairment charges			-9,912	-49,375
Share of results from equity-accounted entities			-135	-33
Net financial items			635	-2,979
PROFIT (LOSS) BEFORE TAX (FROM CONTINUING OPERATIONS)			**-4,380**	**-62,099**

SEGMENT ASSETS	2013	2012
Large-scale MMO's reportable assets	9,123	13,525
Free-to-play MMO games reportable assets		
Total assets for reportable segments	**9,123**	**13,525**
Other non-current assets	1,051	2,193
Current assets	9,398	17,564
Consolidated total assets	**19,572**	**33,282**

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

	Large-scale MMO's	Free-to-play MMO's
Investments in intangible assets 2013	5,383	
Investments in intangible assets 2012	13,649	508

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	2013		2012	
	REVENUE	NON-CURRENT ASSETS**	REVENUE	NON-CURRENT ASSETS**
The Nederlands*				
Switzerland	11,893	9,213	11,629	13,620
Luxembourg	6,198		7,559	
Norway	619	80	3,301	135
Canada	2,687	407	1,104	506
USA		148		251
Other	13		6	27
TOTAL	**21,409**	**9,848**	**23,599**	**14,539**

** 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 2013 the royalties from a distributor recognized in revenue amounted to USD 2,918 thousands and represent 14 per cent of total revenue. In 2012 royalties recognized in revenues from Funcom's partner for The Secret World game amounted to USD 2,514 thousands and represented 10 per cent of the total revenues for 2012.

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

5. REVENUE

IN THOUSANDS OF US DOLLARS	2013	%	2012	%
Revenues online games	17,888	83,6%	22,844	96,8%
Revenues offline games	232	1,1%	146	0,6%
Work for hire	2,330	10,9%		
Other	959	4,5%	609	2,6%
Total revenue	**21,409**		**23,599**	

IN THOUSANDS OF US DOLLARS	2013	%	2012	%
Rendering of services	14,329	66,9%	18,666	79,1%
Royalties	3,791	17,7%	4,324	18,3%
Work for hire	2,330	10,9%		
Other	959	4,5%	609	2,6%
Total revenue	**21,409**		**23,599**	

CONSOLIDATED FINANCIAL STATEMENTS:

6. PERSONNEL EXPENSES

IN THOUSANDS OF US DOLLARS	2013	2012
Salaries	6,228	9,304
Social security contributions	504	624
Contributions to defined contribution plans	71	142
Expenses for share option program	491	815
Other personnel expenses	829	2,267
Total personnel expenses	**8,123**	**13,152**

Average number of employees:	**2013**	**2012**
Europe	47	62
North America	100	171
Asia	21	35
Total	**168**	**268**

7. GENERAL AND ADMINISTRATIVE EXPENSES

IN THOUSANDS OF US DOLLARS	2013	2012
Travel and marketing	1,196	9,170
Consultants	1,236	3,376
Rent of premises and other office costs	1,290	1,198
Royalties	858	1,557
Investor relations	187	295
IT, hardware and software	266	371
Other	1,364	1,486
Total general and administrative expenses	**6,398**	**17,453**

8. OTHER OPERATING EXPENSES

IN THOUSANDS OF US DOLLARS	2013	2012
Commissions	531	793
Hosting and bandwidth costs for online services	1,326	1,913
Total general and administrative expenses	**1,857**	**2,706**

9. FINANCE INCOME AND EXPENSES

IN THOUSANDS OF US DOLLARS	2013	2012
Interest income	47	189
Net foreign exchange gain	2,911	1,439
Other financial income	225	
Finance income	**3,184**	**1,628**
Interest expense	-1,928	-2,907
Net foreign exchange loss	-472	-962
Other financial expenses	-149	-738
Finance expenses	**-2,549**	**-4,607**

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

10. INCOME TAX EXPENSE

IN THOUSANDS OF US DOLLARS	2013	2012
Result before income tax	**-4380**	**-62 099**
Tax according to the average tax rate in Switzerland Luxembourg, Canada, USA, Norway and China	357	7 434
Tax effect of non-deductible expenses	-249	-479
Tax effect of non-taxable income	691	8
Utilisation of losses carried forward	171	
Deferred tax asset related to carry forward tax losses not recognised	-1128	-7 079
Income tax (expense) / income	**-158**	**-116**

IN THOUSANDS OF US DOLLARS	2013	2012
Current period	4	-46
Deferred tax expense		
Origination and reversal of temporary differences	-162	-70
Income tax expense from continuing operations	-158	-116
Total income tax income (expense)	**-158**	**-116**

The Group has not recognized any income tax directly in equity. The income tax rate in Norway changes from 28% to 27% with effect from 2014. Deferred tax has been calculated using the tax rate enacted at the reporting date, i.e. 27%. Current tax for the Norwegian subsidiaries has been calculated based on the applicable rate for 2013, i.e. 28%.

IN THOUSANDS OF US DOLLARS	2013	2012
Deferred tax liability/tax asset		
Deferred tax liability	-67	-55
Deferred tax asset		233
Deferred tax asset, net	**-67**	**179**
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	276	904
Provisions	-770	0
Tax losses carried forward	427	0
Total deferred tax effect of tax increasing temporary differences	**-67**	**904**
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	25 685	18 532
Equipment and intangible assets	260	232
Provisions/receivables	84	
Total deferred tax effect of tax reducing temporary differences	**26 029**	**18 764**
Deferred tax asset (net) not recognized in the balance sheet:	26 029	17 682
Recognized deferred tax asset, net	**-67**	**178**
Reconciliation of deferred tax asset, net:		
Opening balance	178	261
Change according to statement of income	-162	-70
Exchange differences etc.	-83	-13
Deferred tax asset, net, at year-end	**-67**	**178**

The Group has unrecognized tax losses of USD 214,278 thousands as of December 31, 2013 (2012: USD 170,186 thousands) which expire as follows:

EXPIRE YEAR	2013	2012
2014	215	209
2015	93 762	91 358
2016	2 849	2 776
2017	4 783	4 661
2018	14 495	14 124
2019	47 494	46 277
2020	10 492	
2029		96
2031	671	1 665
2032	918	987
Indefinite	38,599	8 033
Total tax losses	**214,278**	**170 186**

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.

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.

It is considered that the revenue potential of the current and future games as well as the cost saving measures undertaken since 4Q12 will help revert the Company to profitability. However it is also acknowledged that predicting the performance of the Company's live games and games under development is inherently uncertain and often subject to unexpected shifts in consumers' tastes and interest in entertainment products. Thus the company's performance expectations, even though based on all currently available facts and information cannot be considered convincing evidence that sufficient future tax profit may be available. Since the criteria under IAS 12.35 have not been met the Company did not recognized deferred tax asset for the available tax losses carried forward.

11. INTANGIBLE ASSETS

IN THOUSANDS OF US DOLLARS	DEVELOPMENT COSTS	SOFTWARE	TOTAL
Cost			
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**
Balance at January 1, 2013	119 854	1 378	121 232
Acquisitions, internally developed	6 347		6 347
Other acqusitions		99	99
Disposals			
Government grant	-350		-350
Translation difference		-118	-118
BALANCE AT DECEMBER 31, 2013	**125 851**	**1 359**	**127 211**
Accumulated amortization and impairment losses			
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**
Accumulated amortization and impairment losses			
Balance at January 1, 2013	106 329	1 174	107 504
Amortization for the year	6 199	105	6 304
Impairment losses (reversal of losses)	4 200		4 200
Disposals			
Translation difference		-103	-103
BALANCE AT DECEMBER 31, 2013	**116 728**	**1 177**	**117 905**
Carrying amount at Jan. 1, 2012	**49 627**	**252**	**49 880**
Carrying amount at Dec. 31, 2012	**13 525**	**204**	**13 729**
Carrying amount at Jan. 1, 2013	**13 525**	**204**	**13 729**
Carrying amount at Dec. 31, 2013	**9 123**	**182**	**9 305**

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 thousands of US dollars

	2013			2012		
CLASS	**UNDER DEVELOPMENT**	**IN USE**	**TOTAL**	**UNDER DEVELOPMENT**	**IN USE**	**TOTAL**
Development costs	3 463	5 660	9 123	761	12 764	13 525
Software		182	182		204	204
TOTAL	**3 463**	**5 842**	**9 305**	**761**	**12 968**	**13 729**

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 2013 were USD 88 thousands (2012: USD 201 thousands). Amortization and depreciation included in capitalized development costs for 2013 were USD 831 thousands (2012: USD 2,048 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 14 per cent for *Age of Conan* (2012: 12 per cent), 14 per cent for *The Secret World* (2012: 12 per cent) and 15 per cent for Lego® Minifigures (2012: 13 per cent). The *Dreamworld* Technology was allocated to *The Secret World*, Lego® Minifigures and *Age of Conan* based on a 10/85/5 ratio (2012: 55/40/5) 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	-54	57
The Secret World	-71	74
Lego Minifigures	-917	966

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	125	-125
The Secret World	131	-131
Lego Minifigures	1368	-1368

This analysis assumes that all other variables remain constant.

RESEARCH AND DEVELOPMENT

In 2013 the Group expensed USD 322 thousands in research and development (2012: USD 115 thousands).

INEFFICIENCY

The Group did not expense any costs related to inefficiencies in 2013 or 2012.

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 three major content expansions. Most of the game's income comes from its premium Members, but a steady flow of new products to the in-game Item Store contributes significantly to *Age of Conan*'s positive cash flow.

The performance of the game remained stable in 2013 and the impairment test performed at the end of the year demonstrated that the recoverable amount of the cash-generating unit *Age of Conan* exceeds its carrying amount by USD 2,000 thousands. Due to the high uncertainty in predicting cash flows from games (as explained above) management concluded that the excess of the recoverable amount over the carrying amount might be of a temporary nature rather than a result of an increased asset service potential. This view was supported by the fact that no external or internal favorable effects have taken place (or are expected to take place in the near future) regarding the gaming industry and market or the way the game is used that could indicate that the performance of the assets is or will be better than expected. Therefore, there is no satisfactory indication that the impairment loss recognized in prior periods have decreased and no reversal of impairment loss was recorded in 2013.

The carrying amount of *Age of Conan* is USD 247 thousands on December 31, 2013 (2012: USD 1,338 thousands). As at December 31, 2013 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 (2012: USD 24,934).The initial cost at launch of the game was 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 led to a steady influx of new players.

In 2013 *The Secret World* got three big content updates (issues), several special in-game events and continuous supply of in-game shop items which helped maintaining a healthy player base throughout the year. However, the increased competition in the second half of the year led to decrease in sales from membership and micro transactions. Therefore the Company revised its future cash flow projections which caused the value in use of the game and the underlying technology at year end to be lower than their net book value. As a result Funcom recognized an impairment loss of USD 4,200 thousands related to the cash generating unit *The Secret World* (2012: USD 38,000 thousands) which includes USD 200 thousands allocated to the underlying version of the *Dreamworld* Technology (2012: USD 6,810 thousands allocated to the *Dreamworld* Technology).

The carrying amount of *The Secret World* is USD 2,519 thousands on December 31, 2013 (2012: USD 8,377 thousands).
As at December 31, 2013 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 44,306 thousands (2012: USD 40,106 thousands including 97 % 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 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 Open Beta phase for *LEGO® Minifigures Online* will start in June 2014 while the full launch is scheduled for the autumn of 2014.

The carrying amount of Lego Minifigures is USD 3,462 thousands on December 31, 2013 (2012: USD 761 thousands).

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.

- Support of multiple platforms

The carrying amount of the *Dreamworld* Technology is USD 2,894 thousands on December 31, 2013 (2012: USD 3,049 thousands). The initial cost of the technology was 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 2013 USD 831 thousands had been capitalized (2012: USD 2,048 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 of December 31, 2013 the accumulated amount of the impairment losses is USD 9,350 thousands (2012: USD 9,150 thousands).

In 2013, Funcom sold the digital intellectual property of its Facebook game 'Fashion Week Live' to 505 Games. The game was part of the Free-to-play MMO games segment and its carrying value was nil as of January 31, 2013.

12. EQUIPMENT

IN THOUSANDS OF US DOLLARS	COMPUTERS	FURNITURE	TOTAL
Cost			
Balance at January 1, 2012	10 308	2 324	12 632
Acquisitions	322	50	372
Disposals			
Translation difference	213	55	268
BALANCE AT DECEMBER 31, 2012	**10 843**	**2 429**	**13 273**
Balance at January 1, 2013	10 843	2 429	13 273
Acquisitions	20	87	107
Disposals			
Translation difference	-296	-169	-465
BALANCE AT DECEMBER 31, 2013	**10 566**	**2 347**	**12 914**
Accumulated amortization and impairment losses			
Balance at January 1, 2012	9 860	756	10 618
Disposals			
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**
Balance at January 1, 2013	10 439	2 024	12 465
Disposals			
Impairment charges			
Depreciation for the year	226	107	333
Translation difference	-277	-148	-425
BALANCE AT DECEMBER 31, 2013	**10 387**	**1 982**	**12 373**
Carrying amount at Jan. 1, 2012	**448**	**1 568**	**2016**
Carrying amount at Dec. 31, 2012	**405**	**405**	**810**
Carrying amount at Jan. 1, 2013	**405**	**405**	**810**
Carrying amount at Dec. 31, 2013	**179**	**365**	**544**
Method of depreciation	**Straight line**	**Straight line**	
Estimated useful lives	**3 years**	**5 years**	

On January 10, 2013 Funcom Group announced the start of a restructuring process which was completed in the second quarter of the year. The restructuring plan included, among others, downsizing of studios. The plan therefore represented 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 was equal to the amount by which the carrying amount of the assets exceeded their value in use. No impairment on equipment was recorded in 2013.

13. TRADE RECEIVABLES

IN THOUSANDS OF US DOLLARS	2013	2012
Trade receivables	2 195	2 723
Allowances for doubtful debt	0	0
Trade receivables, net	**2 195**	**2 723**

Refer to note 25 (currency risk) for further details.

14. PREPAYMENTS AND OTHER RECEIVABLES

IN THOUSANDS OF US DOLLARS	2013	2012
Accrued multi-media tax credits and other government grants	3 112	4 591
Receivable from an equity-accounted entity	797	1 312
Other prepayments	681	890
Total	**4 590**	**6 793**

Tax credits receivable represent approximately 90% of the actual amount claimed (USD 3,454 thousands). The Company estimates that there is a very high probability of collecting the full amount claimed based on tax credits collection history. The amount of multimedia tax credits recognized in revenue is USD 779 thousands after capitalizing USD 216 thousands in reduction of intangible assets development costs (2012: USD 1,183 thousands after capitalizing USD 1,352 thousands).

15. CASH AND CASH EQUIVALENTS

IN THOUSANDS OF US DOLLARS	2013	2012
Cash at bank and in hand	2 582	8 048
Cash and cash equivalents in the statement of financial position	2 582	8 048
Restricted cash included in Cash at bank and in hand	**151**	**173**

In 2013 USD 151 thousands restricted cash (2012: USD 173 thousands) relates to cash at a separate account for tax deducted from salaries.

16. EQUITY

SHARE-CAPITAL AND SHARE PREMIUM

	NUMBER OF ORDINARY SHARES	
IN THOUSANDS OF US DOLLARS	2013	2012
Outstanding at January 1	66 496 918	53 907 375
Issued against payment in cash		6 166 247
Issued as a result of conversion of bonds (Note 25)		6 423 296
Outstanding at December 31 - fully paid	**66 496 918**	**66 496 918**
Nominal value of the share-capital at December 31 (EUR)	2 659 877	2 659 877

At December 31, 2013, the authorized share capital comprised of 250 million ordinary shares (2012: 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 2013:

SHARES:
In 2013 there were no transactions with shares of Funcom N.V.

OPTIONS:
In 2013 there was no exercise of options by employees or members of the Management and Supervisory Boards.

On April 24, 2013, Funcom held an Extraordinary Meeting of Shareholders 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 June 24, 2013, the Company issued 3,666,000 options as a part of the Group's options program. With regards 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, 2013, Funcom held its Annual General Meeting where, the Company issued 150,000 options to members of the Supervisory Board and 250,000 options to members of the Management Board.
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 members of the Management Board 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 for all the granted options is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

OTHER:
In April 2013, as a result of the restructuring of the senior, interest-bearing loan the Company issued 10,000,000 warrants to the lender giving right to subscribe for an equal number of ordinary shares in Funcom N.V. at a price of USD 0.37 per share. These new warrants are in addition to the 5,000,000 warrants issued previously to the lender. The exercise price of the existing warrants was revised to be USD 0.37 per share (2012: USD 1.67). As of December 31, 2013 none of the warrants (total of 15,000,000) have been exercised (see Note 25 and Note 29 for further details). The expiry date of all the warrants is December 30, 2015.

In April 2013, as part of the restructuring of the convertible bonds loan the conversion price was revised to USD 0.37 (2012: USD 1.37). Thus, the 62 bonds outstanding as of December 31, 2013 can be converted to 16,756,757 ordinary shares of Funcom N.V. (2012: 4,525,547 shares). In addition, the interest on the bonds is accrued starting April 25, 2013 until the earlier of conversion or maturity on December 22, 2015 and can be paid in cash or shares at the option of the bondholder. The conversion price with regards to the accrued interest is USD 0.37 (see Note 25 for further details).

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 regards 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 USD 336 thousands of the share capital and USD 9,543 thousands of the share premium reserve and a decrease of USD 1,080 thousands 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.

TRANSLATION RESERVE

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

DIVIDENDS

The Group did not pay any dividends in 2013 or 2012. No dividends relating to year 2013 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 2013 was USD 71 thousands (2012: USD 142 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, 2013	15 000 000	AGM 2014
Total number of options authorized	41 250 000	

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)

Grant date mm/dd/yyyy	Total grants	Vested in 2009	Vested in 2010	Vested in 2011	Vested in 2012	Vested in 2013	Vested in 2014	Vested in 2015	Vested in 2016
2/27/2008	433 500	264 917	144 500	24 083					
12/19/2008	850 000	333 333	333 333	183 333					
3/12/2009	2 088 300		1 218 175	696 100	174 025				
2/10/2010	78 500			47 972	26 167	4 361			
5/18/2010	321 500			161 347	157 167	2 986			
8/1/2010	1 428 000			634 667	476 000	317 333			
12/29/2010	150 000			50 000	83 333	16 667			
6/27/2011	450 000				241 667	141 667	66 667		
8/12/2011	1 768 000				785 778	589 333	392 889		
1/12/2012	200 000					81 944	66 667	51 389	
6/27/2012	100 000					50 000	50 000		
8/24/2012	200 000					88 889	66 667	44 444	
9/20/2012	1 934 000					805 833	644 667	483 500	
4/24/2013	100 000						50 000	50 000	
6/24/2013	3 666 000						1 833 000	1 222 000	611 000
6/27/2013	400 000						200 000	158 333	41 667
Sum	14 167 800	598 250	1 696 008	1 797 503	1 944 136	2 099 014	3 370 556	2 009 667	652 667

CONSOLIDATED FINANCIAL STATEMENTS:

LIST OF OUTSTANDING OPTIONS:	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (USD)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (USD)
	2013	**2013**	**2012**	**2012**
Outstanding options on January 1	4 671 847	0.74	5 529 550	0.89
Options granted	4 166 000	0.30	2 434 000	0.66
Options with extended expiry period			n/a	n/a
Options exercised			-2 166 247	0.68
Options terminated	-1 963 430	0.74	-757 600	1.33
Options expired	-150 000	0.93	-367 856	0.7
OUTSTANDING OPTIONS ON DEC 31	**6 724 417**	**0.46**	**4 671 847**	**0.81**

LIST OF OUTSTANDING OPTIONS:			NUMBER OF OPTIONS	FAIR VALUE PER OPTION
	2013	**2013**	**2012**	**2012**
Vested (exercisable) options	1,658,889	0.77	1,157,250	1.02
Weighted Average Fair Value of Options Granted during the period	4 166 000	0.13	2 434 000	0.25

Out of the 6,724,417 outstanding options on December 31, 2013 (2012: 4,671,847), 1,658,889 options were vested/exercisable (2012: 1,157,250). No options were exercised in 2013 ; the options exercised in 2012 resulted in 2,166,247 new shares at USD 0.65 on average.

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

		OPTION	
EXPIRY DAY	EXERCISE PRICE	2013	2012
August 10, 2013	USD 0.70	-	17 444
November 18, 2013	USD 0.87	-	6 569
December 27, 2013	USD 1.12	-	150 000
February 1, 2014	USD 0.57	284 083	605 500
June 29, 2014	USD 0.77	33 333	33 333
December 27, 2014	USD 2.65	50 000	100 000
February 12, 2015	USD 1.10	821 000	1 575 000
July 12, 2015	USD 2.41	50 000	50 000
October 24, 2015	USD 0.25	100 000	-
December 27, 2015	USD 0.30	150 000	-
February 24, 2016	USD 0.45	200 000	200 000
March 20, 2016	USD 0.36	1 337 000	1 934 000
December 24, 2016	USD 0.31	3 449 000	-
December 27, 2016	USD 0.30	250 000	-
SUM		**6 724 417**	**4 671 847**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was USD 0.13 per option (2012: USD 0.25). The significant inputs into the model were a weighted average share price of USD 0.25 - 0.31 (2012: USD 0.40 - 2.91) at the grant date, the exercise prices shown above, volatility of 83.67% - 85.64% (2012: 73,1% - 82,6%), dividend yield 0 % (2012: 0 %), an expected option life of 2.5 – 3.5 years (2012: 2.5 – 3.5 years), an expected annual turnover rate of 7 % (2012: 7 %) and an annual risk free rate of 1.21% - 1.67% (2012: 1,06% – 1,42%).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 2013

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		50 000	
Magnus Grøneng	400	50 000	
Management Board			
Ole Schreiner	25 017	545 000	CEO of Funcom N.V.
Pieter van Tol	33 334	133 333	

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	

18. PROVISIONS

IN THOUSANDS OF US DOLLARS	2013 ONEROUS CONTRACTS	2012 TOTAL
Balance at January 1, 2013	29	29
Provisions made during the year		
Provisions used during the year	-29	-29
Provisions reversed during the year		
Exchange rate differences		
BALANCE AT DECEMBER 31, 2013	**0**	**0**

The provisions for onerous contracts related to empty office premises and was fully used in 2013.

19. DEFERRED INCOME

The amount consists mainly of subscription prepayments from subscribers.

20. OTHER SHORT TERM LIABILITIES

N THOUSANDS OF US DOLLARS	2013	2012
Taxes and social security payable	357	385
Accrued expenses	1 172	5 453
TOTAL	**1 529**	**5 838**

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 -135 thousands (2012: USD -33 thousands).

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

At the end of 2013 Funcom recognized USD 100 thousands (2012: nil) impairment loss on its investment in MMORPG Technologies INC entity since the commercial activities of that company decreased significantly in 2013.

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, 2012**			
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**
Reporting date	**December 31, 2013**			
Current assets		350	1 678	2 028
Non-current assets		103		103
Total assets		453	1 678	2 131
Current liabilities		212	1 205	1 417
Non-current liabilities				
Total liabilities		212	1 205	1 417
Income		1 261	1 115	2 376
Expenses		-1 252	-1 321	-2 574
Profit/loss		9	-206	-198
Funcom's share:		4	-103	-100
less amortization of fair value adjustment		-35		-35
SHARE OF RESULT 2013:		**-32**	**-103**	**-135**

22. LEASES

Non-cancellable operating lease rentals are payable as follows:

IN THOUSANDS OF US DOLLARS	2013	2012
Less than one year	537	814
Between one and five years	2,122	1,130
More than five years	487	795
Total	3,146	2,739

The Group leases office premises in Canada, Norway, USA, China, Switzerland, and Luxembourg. These leases typically run for a maximum of 5 to 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, 2013, USD 559 thousands was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2012: USD 1,198 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 -4,538 thousands (2012: USD -62,215 thousands) divided by the weighted average number of ordinary shares outstanding 66,496,918 (2012: 63,043,501).

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 2013, 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.

	2013	2012
Profit /(loss) for the period attributable to the equity holders of Funcom (USD thousands)	-4 538	-62 215
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	-4 538	-62 215
Issued ordinary shares as of January 1	66 497	53 907
Effect of new shares issued and options exercised		9 137
Weighted average number of shares at December 31	66 497	63 044
BASIC EARNINGS PER SHARE	**(0,07)**	**(0,99)**
BASIC EARNINGS PER SHARE - CONTINUING OPERATIONS	**(0,07)**	**(0,99)**
Weighted average number of shares at December 31, basic	66 497	63 044
Effect of share options on issue		
Weighted average number of shares at December 31, diluted	66 497	63 044
DILUTED EARNINGS PER SHARE	**(0,07)**	**(0,99)**
DILUTED EARNINGS PER SHARE - CONTINUING OPERATIONS	**(0,07)**	**(0,99)**

24. CONTINGENT LIABILITIES

As of December 31, 2013 the group has a contingent liability related to the ØKOKRIM charge disclosed in Note 29. There were no contingent liabilities in 2012.

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 2013	CARRYING AMOUNT 2012
Loans and receivables*	6 529	9 257
Cash and Cash equivalents	2 582	8 048
	9 112	**17 305**

* Includes trade receivables of USD 2,195 thousands (2012: USD 2,723 thousands), long-term receivables of USD 19 thousands (2012: USD 487 thousands) which relates to a long term deposit on operational leases, multimedia tax credits of USD 3,112 thousands (2012: USD 4,591 thousands), a receivable on an equity-accounted entity of USD 797 thousands (2012: USD 1,312 thousands), income tax receivable for USD 31 thousands (2012: nil) and other accruals, deposits and advances for a total of USD 375 thousands (2012: nil). Tax credits receivable represent approximately 90% of the actual amount claimed (USD 3,454 thousands). The Company estimates that there is a very high probability of collecting the full amount claimed based on tax credits collection history. In addition, the tax credits are payable to the Company by the Ministry of Revenue of Quebec, Canada which as a government body has a stable credit rating. The amount of multimedia tax credits recognized in revenue is USD 779 thousands after capitalizing USD 216 thousands in reduction of intangible assets development costs (2012: USD 1,183 thousands after capitalizing USD 1,352 thousands).

The trade receivables are primarily receivable from credit card service providers for which no publicly available credit ratings are available. However, based on long-term relationship with these providers it is considered that there is a very low risk of non-collection.

Cash and cash equivalents are held with European and North American banks which have stable credit ratings according to Moody's and Standard & Poor's. As of year-end a subsidiary of the Company has a bank guarantee of USD 104 thousands which will expire in October 2014.

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

IN THOUSANDS OF US DOLLARS	CARRYING AMOUNT 2013	CARRYING AMOUNT 2012
North America	759	357
Europe	1 436	2 366
	2 195	**2 723**

Receivables on credit card service providers amount to USD 1,191 thousands of the trade receivables carrying amount at December 31, 2013 (2012: USD 1,600 thousands).

IMPAIRMENT LOSSES

The aging of trade receivables at the reporting date was:

IN THOUSANDS OF US DOLLARS	GROSS 2013	IMPAIRMENT 2013	GROSS 2012	IMPAIRMENT 2012
Not past due	1 386		2 009	
Past due 0-30 days	22		396	
Past due 31-120 days	399		95	
More than 120 days	387		223	
OUTSTANDING OPTIONS ON DEC 31	**2 195**		**2 723**	

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

IN THOUSANDS OF US DOLLARS	2013	2012
Balance at January 1	0	6
Reversal of allowance		
Utilized during the year	0	-6
Translation difference		
Balance December 31	**0**	**0**

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	Thereafter
As at December 31, 2013							
Trade payables and current loans and borrowings	7 619	7 619	518	7 102			
Other short-term liabilities	1 529	1 529	1 529				
Non-current loans and borrowings	12 044	13 359			13 252		106
Total	21 192	22 507	2 047	7 102	13 252		106
As at December 31, 2012							
Trade paybles and current loans and borrowings	13 276	13 838	3 438	10 400			
Other short-term liabilities	5 838	5 838	5 838				
Non-current loans and borrowings	4 727	6 331			6 275	56	
Total	23 841	26 007	9 276	10 400	6 275	56	

Trade payables equal USD 483 thousands (2012: USD 405 thousands). Current loans and borrowings consist of USD 250 thousands (2012: USD 250 thousands) due to a business partner, USD 1,315 thousands (2012: USD 1,003 thousands) due to an equity-accounted entity, USD 1,572 thousands (2012: USD 1,375 thousands) of bank borrowings and USD 4,000 thousands (2012: USD 9,837 thousands) interest-bearing loan due to KGJ Investments S.A., SICAV-SIF (KGJI).

OTHER SHORT-TERM LIABILITIES:

Other short-term liabilities consist of USD 356 thousands sales tax and social security payable (2012: USD 385 thousands) and operational accrued expenses of USD 1,173 thousands (2012: USD 5,453 thousands).

CURRENT LOANS AND BORROWINGS:

The interest bearing loan included in Current loans and borrowings at the amount of USD 4,000 thousands is the short-term portion of a loan due to KGJI (2012: USD 9,837 thousands) with a due date December 30, 2014. The long-term portion of the loan with a carrying amount of USD 3,984 thousands (USD 4,000 thousands contractual cash flow obligation) has a maturity date of July 31, 2015 and is included in Long term debt. At the end of 2012 the full carrying amount of USD 9,837 thousands was included in Other payables since the maturity date was December 29, 2013 in accordance with the loan agreement. In April 2013 the loan was restructured which led to change in maturity dates and amounts. The total cash flow obligation and the interest rate remained with no change. Please, refer to Fair values below and note 29 for additional information with regards to the interest bearing loan.

NON-CURRENT LOANS AND BORROWINGS:
Non-current loans and borrowings consist of USD 52 thousands non-interest bearing reimbursable government contribution (2012: USD 131 thousands), USD 4,902 thousands convertible bonds (2012: USD 4,597 thousands), USD 3,984 thousands interest bearing loan due to KGJI (2012: nil) (see paragraph above), USD 3,000 thousands working capital loan (2012: nil) and a rental deposit of USD 106 thousands (2012: nil).

Convertible bonds - carrying amount USD 4,902 thousands (2012: USD 4,597 thousands)
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 USD 336 thousands of the share capital and USD 9,543 thousands of the share premium reserve and a decrease of USD 1,080 thousands of the conversion rights reserve, reflected in the consolidated statement of changes in equity. As of December 31, 2013 62 bonds are still outstanding.
The convertible bonds loan was also restructured in April 2013. The agreed new terms include maturity date December 22, 2015, conversion price of USD 0.37 per share and interest rate of 5% with no payment before maturity or conversion when all accrued interest becomes due in either cash or shares of Funcom N.V. at the option of the bondholder; the conversion price with regards to the accrued interest is also USD 0.37 per share.

Working capital loan - carrying amount USD 3,000 thousands (2012: nil)
In December 2013 the Company received USD 3,000 thousands as a first installment under a working capital loan agreement with KGJI. The agreement provides for other two installments of up to USD 1,250 thousands each to be received in the first and the second quarter of 2014. The loan bears an annual interest rate of 8% and matures on January 31, 2015.
The rental deposit of USD 106 thousands included in Long term debt relates to office space sublet which occurred as a result of the company reorganization carried out in 2013.

The management analyzed the debt repayment schedules and the impact on the Company's liquidity. The analysis included the current cash position and the cash generation potential of the Company's live games and games expected to launch in 2014 as well as opportunities to raise capital from the remaining installments of the working capital loan and the draw downs on the standby equity facility (see note 29). Management also considered the fact that as a result of exercise of warrants in the first quarter of 2014 the amount due on the senior loan in 2015 decreased by USD 3,700 thousands with additional cash relief to be provided by reduced interest payments on the same loan (see note 29). Funcom's management also acknowledges the possibility of raising capital in the second half of 2014 by means of market transactions such as equity issuance or non-dilutive (debt) financing or a combination thereof as well as the possibility of obtaining additional proceeds from exercise of warrants or conversion of bonds which could lead to further decrease of debt for a maximum amount of USD 8,050 thousands since as of the date of the annual report 5,000,000 warrants and 62 convertible bonds are still outstanding. 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:

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	Total:
As at December 31, 2013						
Trade and other receivables	1 016	722	1	4 761	29	6 529
Cash and cash equivalents	1 176	384	367	555	101	2 582
Other short-term liabilites	-365	-43	-765	-356		-1 529
Trade payables and current loans and borrowings	-4 517	-13	-66	-2 989	-34	-7 619
Net balance sheet exposure	**-2 690**	**1 050**	**-463**	**1 971**	**96**	**-37**
As at December 31, 2012						
Trade and other receivables	1 431	791	518	6 353	165	9 258
Cash and cash equivalents	1 990	2 118	2 835	190	915	8 048
Other short-term liabilites	-699	-165	-4 388	-586		-5 838
Trade payables and current loans and borrowings	-10 336	-23	-114	-2 804		-13 276
Net balance sheet exposure	**-7 614**	**2 721**	**-1 149**	**3 153**	**1 080**	**-1 808**

The following exchange rates applied during the year:

REPORTING RATE	AVERAGE RATE		SPOT RATE AT DECEMBER 31	
	2013	**2012**	**2013**	**2012**
EUR	1.324	1.278	1.377	1.322
NOK	0.170	0.174	0.163	0.179
CAD	0.980	0.999	0.935	1.003

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, 2013		
EUR		-92
NOK	-5 179	41
CAD		-44
December 31, 2012		
EUR		-253
NOK		-284
CAD	-5 054	-328

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 a loan from KGJI issued in 2010, convertible bonds issued in 2011 as detailed below and a working capital loan received in 2013. 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.

IN THOUSANDS OF US DOLLARS	2013	2012
Loans and borrowings	-1 572	-1 375
Cash and cash equivalents	2 582	8 048
Net exposed to interest risk	**1 010**	**6 673**
100 bp increase in interest rate	9	60
100 bp decrease in interest rate	-9	-60

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, 2013 there are no derivative financial liabilities (2012: nil).

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. The fair value of the non-current borrowings at variable interest rates do not differ materially from the valuation at amortized cost.

IN THOUSANDS OF US DOLLARS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	2013	2013	2012	2012
Loans and receivables	6 529	6 529	9 257	9 257
Cash and cash equivalents	2 582	2 582	8 048	8 048
Trade payables and current loans and borrowings	7 619	7 619	13 276	13 838
Other short term liabilities	1 529	1 529	5 838	5 838
Non-current loans and borrowings	12 044	13 359	4 727	6 331

The fair values of the financial assets and financial liabilities included in the table above are within level 3 in the fair value hierarchy. This means that most inputs are based on unobservable data. The fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

WORKING CAPITAL LOAN - CARRYING AMOUNT USD 3,000 THOUSANDS (2012: NIL)

In December 2013 the Company received USD 3,000 thousands as a first installment under a working capital loan agreement with KGJI. The agreement provides for two other two installments of up to USD 1,250 thousands each to be received in the first and the second quarter of 2014. The loan bears an annual interest rate of 8% and matures on January 31, 2015. The fair value of the loan as of December 31, 2013 is equal to its carrying value of USD 3,000 thousands (2012: nil).

CONVERTIBLE BONDS - CARRYING AMOUNT USD 4,902 THOUSANDS (2012: USD 4,597 THOUSANDS)

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 initially 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 initially 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 is being 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 USD 336 thousands of the share capital and USD 9,543 thousands of the share premium reserve and a decrease of USD 1,080 thousands of the conversion rights reserve, reflected in the consolidated statement of changes in equity. As of December 31, 2013 62 bonds were still outstanding.

The convertible bonds loan was restructured in April 2013. The agreed new terms include maturity date December 22, 2015, conversion price of USD 0.37 per share and interest rate of 5% with no interest payment before maturity or conversion when all accrued interest becomes due in either cash or shares of Funcom N.V. at the option of the bondholder; the conversion price with regards to the accrued interest is also USD 0.37 per share. The discounted present value of the cash flows under the new terms of the loan were more than 10% different from the discounted present value of the remaining cash flow of the original loan. Therefore it was concluded that the new terms were substantially different from the old ones and therefore the restructuring of the convertible loan led to an extinguishment of the loan under the old terms and recognition of a new loan under the new terms. The difference between the carrying amount of the existing loan and the amount of the loan recognized in the books under the new terms (the new loan) was recorded as Other finance income of USD 225 thousands (2012: nil) (see note 9). For the purpose of recognizing the new loan Funcom applied an interest rate of 18% (discount rate), which is the interest rate of a similar liability but without the conversion feature. The fair value of the loan as of December 31 2013 is USD 6,200 thousands and its carrying amount - USD 4,902 thousands (2012: USD 6,200 thousands and USD 4,597 thousands respectively).

SENIOR INTEREST BEARING LOAN - CARRYING AMOUNT USD 7,984 THOUSANDS (2012: USD 9,869 THOUSANDS)

On December 29, 2010, Funcom entered into a loan agreement with Stelt Holding N.V., a company controlled by Kristian Gerhard Jebsen Group Ltd. Subsequently the lender transferred the loan to KGJI, also controlled by Kristian Gerhard Jebsen Group Ltd (Kristian Gerhard Jebsen Group Ltd is controlled by Mr. Hans Peter Jebsen). The principal amount of the loan was 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 the lender to acquire an equal number of ordinary shares in Funcom at an exercise price of 10 NOK each. The warrants were transferrable and with an expiration 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. 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 USD 1.67 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) if the loan is repaid prior to its maturity date in December 2013. This change increased 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 2013 was USD 40 thousands (2012: USD 120 thousands).

In April 2013 the loan was restructured which led to change in maturity dates and amounts. The total cash flow obligation and the interest rate remained with no change. The new maturity dates were set as follows: USD 2,000 thousands due on December 29, 2013, USD 4,000 thousands due on December 30, 2014 and the remaining USD 4,000 thousands due in July 31, 2015. In addition, Funcom issued 10,000,000 new warrants to the lender giving right to subscribe for an equal number of ordinary shares in Funcom N.V. at a price of USD 0.37 per share. The exercise price of the existing warrants was also revised to be USD 0.37 per share (2012: USD 1.67). As of December 31, 2013 none of the warrants (total of 15,000,000) have been exercised (see Note 29 for further details). The expiry date of all the warrants is December 30, 2015.
The discounted present value of the cash flows under the new terms of the loan are less than 10% different from the discounted present value of the remaining cash flow of the original loan. Therefore the restructuring did not lead to extinguishment of the original loan and no gain or loss resulted

from the change in the loan terms.
The fair value of the loan as of December 31, 2013, after repayment of USD 2,000 thousands is USD 8,000 thousands and its carrying amount - USD 7,984 thousands (2012: USD 10,400 thousands and USD 9,869 thousands respectively). Please, refer to note 29 for additional information with regards to the interest bearing loan.

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 Supervisory and Management Boards, its executive officers and shareholders.

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	2013	2012
Purchase of services	582	1 981
Revenue from services	128	203
Receivables as at Dec, 31	1 075	1 668
Liabilities as at Dec, 31	1 411	1 034

REMUNERATION TO THE SUPERVISORY BOARD
On June 27, 2013, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 12,000 (USD 15,898) per member for all members (2012: On June 27, 2012, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 35,000 (USD 44,744) for the Chairman EUR 12,000 (USD 15,340) for other members).

IN THOUSANDS OF USD DOLLARS		TOTAL REMUNERATION IS COMPOSED OF:	
Supervisory Board member	Total remuneration USD	Board free USD	Share based USD
2013			
Gerhard Florin (chairman)	27	17	10
Alain Tascan (vice-chairman)	43	17	26
Michel Cassius	22	17	5
Ole Gladhaug	14	12	2
Magnus Grøneng	14	12	2
Total	**120**	**74**	**45**
2012			
Gerhard Florin (chairman)	91	45	46
Alain Tascan (vice-chairman)	16	8	8
Michel Cassius	31	15	16
Torleif Ahlsand (vice-chairman)	46	23	23
Claus Højbjerg Andersen	31	15	16
Total	**213**	**106**	**107**

Supervisory Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Total number of shares held / controlled at year end
2013				
Gerhard Florin (chairman) (1)	100 000		100 000	
Alain Tascan (vice-chairman)			50 000	
Michel Cassius	50 000		50 000	50 000
Ole Gladhaug	50 000		50 000	
Magnus Grøneng	50 000		50 000	400
Total	**250 000**		**300 000**	**50 400**
2012				
Gerhard Florin (chairman) (1)			100 000	
Alain Tascan (vice-chairman)	50 000		50 000	
Michel Cassius		25 000	50 000	50 000
Torleif Ahlsand (vice-chairman)		200 000	n/a	n/a
Claus Højbjerg Andersen	50 000	25 000	n/a	n/a
Total	**100 000**	**250 000**	**200 000**	**50 000**

n/a - not a Supervisory Board member at year end

(1) Supervisory Board member Gerhard Florin also provided consulting services to the Company in 2013 and was paid USD 33 thousands (2012: nil).

REMUNERATION TO THE MANAGEMENT GROUP (INCLUDES MEMBERS OF THE SUPERVISORY BOARD, MANAGEMENT BOARD AND EXECUTIVE MANAGEMENT:

IN THOUSANDS OF US DOLLARS	2013	2012
Salaries and benefits in kind (short-term employee benefits)	977	2,372
Share-based payments	211	344
Pension plan contributions	13	20
Total remuneration	**1,201**	**2,736**

REMUNERATION TO THE MANAGEMENT BOARD

Management Board member	Total remuneration	Remuneration	Bonus	Severance	Pension cost	Share based
		TOTAL REMUNERATION IS COMPOSED OF:				
2013						
Ole Schreiner - CEO	327	280			3	43
Pieter Van Tol (1)	84	57			7	20
Total	**411**	**337**			**10**	**63**
2012						
Ole Schreiner - CEO half year	358	235	85			38
Pieter Van Tol (1)	74	57			7	10
Trond Aas - CEO half year	635	140	70	344		82
Frank Sagnier	205	170				35
Total	**1 273**	**602**	**154**	**344**	**7**	**165**

Management Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Total number of shares held / controlled at year end
2013				
Ole Schreiner - CEO	200 000	0	545 000	25 017
Pieter Van Tol (1)	50 000	0	133 333	33 334
Total	**250 000**	**0**	**678 333**	**58 351**
2012				
Ole Schreiner - CEO half year	200 000	109 017	345 000	109 017
Pieter Van Tol (1)	50 000	33 334	83 333	33 334
Trond Aas - CEO half year	150 000	400 000	0	0
Frank Sagnier		66 667	0	0
Total	**400 000**	**609 018**	**428 333**	**142 351**

(1)
In 2013 Management Board member Pieter van Tol had an interest in Weidema van Tol and Temmes Management Services B.V.: A fee of USD 46 thousands for legal advice in 2013 (2012: USD 351 thousands) has been paid to Weidema van Tol - a company in which Pieter van Tol has an interest. Pieter van Tol also had an interest in Temmes Management Services B.V. – which has been paid a fee of USD 18 thousands in 2013 (2012: USD 21 thousands). As at year end 2013 the outstanding amount between the Group and Weidema van Tol amounted to USD 3 thousands (2012: USD 3 thousands), and between the Company and Temmes Management Services B.V. the amount was nil (2012: nil). The services rendered from both these companies were on market terms.

TRANSACTIONS WITH SHAREHOLDERS

Mr. Hans Peter Jebsen, the largest shareholder of Funcom N.V. controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls KGJ Investments S.A.,SICAV-SIF (KGJI). Mr. Hans Peter Jebsen also controls the company Tom Dahl AS. The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies KGJI and Ton Dahl were 18.25% as of December 31, 2013. The following transactions took place in 2013 between Funcom Group and companies controlled by Mr. Jebsen:

- In April 2013 as part of the restructuring of an interest-bearing loan, whose lender is KGJI, the Company issued to KGJI 10,000,000 warrants giving right to subscribe for an equal number of ordinary shares in Funcom N.V. at a price of USD 0.37 per share. These new warrants are in addition to the 5,000,000 warrants already held by KGJI in relation to the same loan. The exercise price of the existing warrants was also revised to be USD 0.37 per share (2012: USD 1.67). As of December 31, 2013 none of the warrants (total of 15,000,000) have been exercised (see Note 29 for further details). The expiry date of all the warrants is December 30, 2015. The restructuring of the loan also led to change in maturity dates and amounts. The total cash flow obligation and the interest rate (8% annually) remained with no change. The new maturity dates were set as follows: USD 2,000 thousands due on December 29, 2013, USD 4,000 thousands due on December 30, 2014 and the remaining USD 4,000 thousands due in July 31, 2015. The fair value of the loan as of December 31, 2013, after repayment of USD 2,000 thousands is USD 8,000 thousands and its carrying amount - USD 7,984 thousands (2012: USD 10,400 thousands and USD 9869 thousands respectively). The interest paid to KGJI in 2013 in relation to this loan is USD 1,010 thousands.

- KGJI also holds 60 convertible bonds issued by Funcom N.V. (see note 25) with a total face value of USD 6,000 thousands. The convertible bond loan was also restructured in April 2013 and the new terms adopted are as follows: maturity date December 22, 2015 (previously December 22, 2014), conversion price of USD 0.37 per share (previously 1.37 USD per share) and interest rate of 5% with no interest payment before maturity or conversion when all accrued interest becomes due in either cash or shares of Funcom N.V. at the option of the bondholder; the conversion price with regards to the accrued interest is also USD 0.37 per share (previously the annual interest rate was 10% payable quarterly). The fair value of the 60 bonds held by KGJI as of December 31 2013 is USD 6,000 thousands and its carrying amount - USD 4,744 thousands (2012: USD 6,000 thousands and USD 4,449 thousands respectively). The interest paid to KGJI in 2013 in relation to the bonds for the period before the loan restructuring is USD 212 thousands. The amount of accrued interest as of year-end is USD 216 thousands.

- KGJI granted a new working capital loan to the Company at the end of 2013. In December 2013 the Company received USD 3,000 thousands as a first installment under the loan agreement. The agreement provides for other two installments of up to USD 1,250 thousands each to be received in the first and the second quarter of 2014. The loan bears an annual interest rate of 8% and matures on January 31, 2015. The fair value of the loan as of December 31, 2013 is equal to its carrying value of USD 3,000 thousands (2012: nil). See note 29 for further details.

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 %
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 Company also manages its capital to ensure that it will be able to continue as a going concern. This includes a regular review of cash flow forecasts and, if deemed appropriate, subsequent attraction of funds through execution of equity and/or debt transactions. In doing so, the Supervisory Board's strategy is to achieve a capital structure which takes into account the best interests of all stakeholders. Funcom's capital structure includes cash and cash equivalents, equity and (convertible) debt.

In addition, 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 program in order to stimulate continued growth and further development of the Group's business.

The Company is not subject to externally imposed capital requirements. 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. Staring January 1, 2015 a new EU VAT regulation becomes effective where electronic services will be taxed in the country where the customer is established rather than where the service provider is located. This change in regulation will create VAT exposure in different EU states and will also increase the overall amount of VAT to be remitted given the difference in VAT rates in each state. 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 90% of the actual amount claimed.

Financial risk

Funcom has a history of operating losses mainly as a result of the significant investments made in the Company's games and proprietary game engine Dreamworld technology. As a result, the Company has also accumulated a material amount of debt with maturities in 2014 and 2015. The Company's strategy going forward is to focus on mid-core MMO games with smaller initial, development budgets and shorter production time. The long term goal is to produce titles in parallel releasing more than one game a year. The strategy is expected to restore the profitability and the liquidity of the Company. However, until these goals are achieved the performance of the Company will be affected by its ability to raise external financing in the form of equity issuance or non-dilutive debt instruments. The timing and amount of such financing will depend on market conditions as well as the Company's overall performance which could affect the investors' confidence and willingness to invest in the Company (refer to Going concern assessment in the Report of the Management Board).

Compliance risk

Funcom is a public company with shares traded on Oslo Stock exchange. Therefore the Company has the obligation to comply with strict securities trading rules and regulations applicable in Norway and The Netherlands. Failure to comply could lead to penalties and other sanctions (refer to ØKOKRIM charge in the Events after the reporting period)

29. EVENTS AFTER THE REPORTING PERIOD

In relation to the disclosure of related party transactions with shareholders in Note 26 as well as the disclosure of information related to loans in Note 25 the following transactions took place after the reporting period:

- KGJI exercised 10,000,000 warrants for a total consideration of USD 3,700 thousands. In return, the company issued 10,000,000 new shares to KGJI. As a result of the transaction the equity of the company increased by USD 3,700 thousands. The total consideration was used to repay a portion of the interest bearing loan to KGJI which had a fair value of USD 8,000 thousands at year-end. The repayment decreased the amount due to KGJI on July 31, 2015 (remaining amount to be paid on that date is USD 300 thousands). Another installment of USD 4,000 thousands is due on December 30, 2014. The total balance due on the loan after the exercise of warrants is USD 4,300 thousands.

- Funcom received from KGJI the second installment of USD 1,250 thousands of the working capital loan.

In January 2013, the Company issued 316,028 shares in relation to exercise of options. The issued shares were paid in cash at

EUR 0.32 per share (USD 0.44). Gross proceeds amounted to EUR 101,567 (USD 138,726). As a result of the transaction the equity of the Company increased by USD 139 thousands.

In January 2014 ØKOKRIM (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) charged Funcom on suspicion of infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012 with regards to information given to the market (market manipulation) and maintenance of the required list of persons who are given access to inside information. As of the date of this quarterly report there is no sufficient information to allow Funcom to determine reliably the likelihood of whether the charge could result in financial losses or to estimate the amounts of such losses. Therefore, no provisions resulting from the charge have been recorded in the financial statements.

In April 2014 the Company successfully completed its first draw down on the standby equity facility with YA Global Master and as a result raised USD 1,625 thousands and issued 2,203,846 shares thus increasing equity by the same USD 1,625 thousands. The agreement with YA Global Master was concluded in May 2012 and represents an equity financing mechanism where Funcom at its discretion can draw down funds in tranches on average every 20 to 30 days in exchange for issuing new shares to YA Global Master.

FINANCIAL STATEMENTS OF PARENT COMPANY:

FUNCOM N.V.
COMPANY PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31

IN THOUSANDS OF US DOLLARS	NOTE	2013	2012
Results from participating interest after tax	2, 3	-5 414	-60 344
Other income and expenses after tax		876	-1 871
NET RESULT FROM ORDINARY ACTIVITIES AFTER TAXATION		**-4 538**	**-62 215**

STATEMENT OF FINANCIAL POSITION
AFTER APPROPRIATION OF RESULT

IN THOUSANDS OF US DOLLARS	NOTE	31. DEC. 2013	31. DEC. 2012
Investments in and receivables from group companies	1,2	9 477	15 682
Investments in and receivable from equity-accounted entities	3	306	460
FINANCIAL FIXED ASSETS		**9 783**	**16 142**
Prepayments and other receivables		30	17
Cash and cash equivalents		854	111
TOTAL CURRENT ASSETS		**884**	**128**
TOTAL ASSETS		**10 667**	**16 270**
Issued capital	5	3 662	3 515
Share premium	6	146 959	146 468
Legal reserves	7	9 123	13 660
Other reserves	8	-165,306	-162 388
TOTAL EQUITY		**-5 561**	**1 255**
Loans and borrowings		11 885	4 597
Other financial liabilities			
TOTAL NON-CURRENT LIABILITIES		**11 885**	**4 597**
Accrued expenses		296	526
Provisions	10		
Other current liabilities	4	4 047	9 892
TOTAL CURRENT LIABILITIES		**4 343**	**10 418**
TOTAL EQUITY AND LIABILITIES		**10 667**	**16 270**

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 investments in subsidiaries and equity accounted entities which are valued at net asset value rather than at cost or fair value. 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 RECEIVABLE FOM GROUP COMPANIES

IN THOUSANDS OF US DOLLARS	2013	2012
Receivables non-current	57 556	56 169
Shares	-48 079	-40 487
TOTAL	**9 477**	**15 682**

2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2013:

Significant subsidiaries	Country of incorporation	Ownership interest in % 2013	2012
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	2013	2012
Balance at 01.01	-40 487	19 206
Exchange difference	-2 751	4
Result of the year	-5 278	-60 311
Change in participation		
Other movements	437	614
BALANCE 31.12	**-48 079**	**-40 487**

3. INVESTMENTS IN AND RECEIVABLES FROM EQUITY-ACCOUNTED ENTITIES

IN THOUSANDS OF US DOLLARS	2013	2012
Receivables current		
Shares	306	460
TOTAL	**306**	**460**

IN THOUSANDS OF US DOLLARS	2013	2012
Balance at 01.01	460	473
Change in participation		
Exchange difference	-19	20
Result of the year	-135	-33
Other movements		
BALANCE 31.12	**306**	**460**

The Company holds 50 % of MMORPG Technologies INC, Canada and 42 % of Stunlock Studios AB, Sweden as of December 31, 2013.

4. OTHER CURRENT LIABILITIES

Other current liabilities in 2013 include USD 47 thousands payments to service providers and USD 4,000 thousands is the amount due to KGJI on the interest bearing loan with maturity on December 30, 2014 (see note 15 Transactions with shareholders). Other current liabilities in 2012 included USD 55 thousands payments to service providers and USD 9,837 thousands due to KGJI.

5. ISSUED CAPITAL

IN THOUSANDS OF US DOLLARS	2013	2012
Balance at 01.01	3 515	2 791
Exchange	147	76
Addition share-capital		648
BALANCE 31.12	**3,662**	**3 515**

The share-capital was translated into US dollars at the December 31, 2013 exchange rate of EUR/USD 1.3766 (2012: 1.3215).

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

- January 1: 66,496,918
- December 31: 66,496,918

At December 31, 2013, the authorized share capital comprised of 250 million ordinary shares (2012:250 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.

FINANCIAL STATEMENTS OF PARENT COMPANY:

SHARE-CAPITAL AND SHARE PREMIUM

	NUMBER OF ORDINARY SHARES	
	2013	2012
Outstanding at January 1	66 496 918	53 907 375
Issued against payment in cash		6 166 247
Issued as a result of conversion of bonds (Note 25)		6 423 296
Outstanding at Dec. 31 - fully paid	66 496 918	66 496 918
NOMINAL VALUE OF THE SHARE-CAPITAL AT DECEMBER 31 (EUR)	**2 659 877**	**2 659 877**

EVENTS IN 2013:

SHARES:
In 2013 there were no transactions with shares of Funcom N.V.

OPTIONS:
In 2013 there was no exercise of options by employees or members of the Management and Supervisory Boards.

On April 24, 2013, Funcom held an Extraordinary Meeting of Shareholders 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 June 24, 2013, the Company issued 3,666,000 options as a part of the Group's options program. With regards 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, 2013, Funcom held its Annual General Meeting where, the Company issued 150,000 options to members of the Supervisory Board and 250,000 options to members of the Management Board.
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 members of the Management Board 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 for all the granted options is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

OTHER:
In April 2013, as a result of the restructuring of the senior, interest-bearing loan the Company issued 10,000,000 warrants to the lender giving right to subscribe for an equal number of ordinary shares in Funcom N.V. at a price of USD 0.37 per share. These new warrants are in addition to the 5,000,000 warrants issued previously to the lender. The exercise price of the existing warrants was revised to be USD 0.37 per share (2012: USD 1.67). As of December 31, 2013 none of the warrants (total of 15,000,000) have been exercised (see Note 25 for further details). The expiry date of all the warrants is December 30, 2015.

In April 2013, as part of the restructuring of the convertible bonds loan the conversion price was revised to USD 0.37 (2012: USD 1.37). Thus, the 62 bonds outstanding as of December 31, 2013 can be converted to 16,756,757 ordinary shares of Funcom N.V. (2012: 4,525,547 shares). In addition, the interest on the bonds is accrued starting April 25, 2013 until the earlier of conversion or maturity on December 22, 2015 and can be paid in cash or shares at the option of the bondholder. The conversion price with regards to the accrued interest is USD 0.37 (see Note 25 for further details).

Please, refer to note 29 for additional information.

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 USD 336 thousands of the share capital and USD 9,543 thousands of the share premium reserve and a decrease of USD 1,080 thousands 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.

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 2013 or 2012. No dividends relating to year 2013 have been proposed.

6. SHARE PREMIUM

IN THOUSANDS OF US DOLLARS	2013	2012
Balance at 01.01	146 468	125 487
Share based payments	491	815
Addition share premium		20 165
Other		
BALANCE 31.12	**146 959**	**146 468**

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	2013	2012
Balance at 01.01	-162 388	-135 994
Exchange effect on share-capital	-147	-77
Exchange effect on subsidiaries	-2 770	4
Movement to legal reserves	4 537	36 974
Reclassification of warrants to equity		
Bonds conversion feature		-1 080
This year's result	-4 538	-62 215
Other movements		
BALANCE 31.12	**-165,306**	**-162 388**

9. SHARE BASED PAYMENTS

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

10. PROVISIONS

IN THOUSANDS OF US DOLLARS	2013	2012
Balance at January 1	0	-331
Utilized		325
Aging of claims		
Exchange		6
BALANCE AT DECEMBER 31	**0**	**0**

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 2013 was 1 (2012:1).

12. REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD

IN THOUSANDS OF USD DOLLARS		Total remuneration is composed of:				
Management Board member	Total remuneration	Remuneration	Bonus	Severance	Pension cost	Share based
2013						
Ole Schreiner - CEO	327	280			3	43
Pieter Van Tol (1)	84	57			7	20
Total	**411**	**337**			**10**	**63**
2012						
Ole Schreiner - CEO half year	358	235	85			38
Pieter Van Tol (1)	74	57			7	10
Trond Aas - CEO half year	635	140	70	344		82
Frank Sagnier	205	170				35
Total	**1 273**	**602**	**154**	**344**	**7**	**165**

Management Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Total number of shares held / controlled at year end
2013				
Ole Schreiner - CEO	200 000	0	545 000	25 017
Pieter Van Tol (1)	50 000	0	133 333	33 334
Total	**250 000**	**0**	**678 333**	**58 351**
2012				
Ole Schreiner - CEO half year	200 000	109 017	345 000	109 017
Pieter Van Tol (1)	50 000	33 334	83 333	33 334
Trond Aas - CEO half year	150 000	400 000	0	0
Frank Sagnier		66 667	0	0
Total	**400 000**	**609 018**	**428 333**	**142 351**

The following tables show the details of the stock incentives of the individual members of the Management Board:

	Year issued	Outstand Dec 31,2012	In 2013 Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Ole Schreiner	2010	-	-	-	-	-	-	0,57	01/02/2014	01/08/2011
	2010	-	-	-	-	-	-	0,57	01/02/2014	01/09/2011
	2010	-	-	-	-	-	-	0,57	01/02/2014	01/10/2011
	2010	-	-	-	-	-	-	0,57	01/02/2014	01/11/2011
	2010	-	-	-	-	-	-	0,57	01/02/2014	01/12/2011
	2010	-	-	-	-	-	-	0,57	01/02/2014	01/01/2012
	2010	-	-	-	-	-	-	0,57	01/02/2014	01/02/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/03/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/04/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/05/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/06/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/07/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/08/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/09/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/10/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/11/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/12/2012
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/01/2013
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/02/2013
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/03/2013
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/04/2013
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/05/2013
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/06/2013
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/07/2013
	2010	2 500	-	-	-	-	2 500	0,57	01/02/2014	01/08/2013

Continue

	Year issued	Outstand Dec 31,2012	In 2013 Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Ole Schreiner	2011	33 333	-	-	-	-	33 333	1,10	12/02/2015	12/08/2012
(continued)	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/09/2012
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/10/2012
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/11/2012
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/12/2012
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/01/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/02/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/03/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/04/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/05/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/06/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/07/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/08/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/09/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/10/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/11/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/12/2013
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/01/2014
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/02/2014
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/03/2014
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/04/2014
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/05/2014
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/06/2014
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/07/2014
	2011	2 778	-	-	-	-	2 778	1,10	12/02/2015	12/08/2014

Continue

	Year issued	Outstand Dec 31,2012	In 2013 Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Ole Schreiner	2012	66 667	-	-	-	-	66 667	0,45	24/02/2016	24/08/2013
(continued)	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/09/2013
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/10/2013
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/11/2013
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/12/2013
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/01/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/02/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/03/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/04/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/05/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/06/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/07/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/08/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/09/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/10/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/11/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/12/2014
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/01/2015
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/02/2015
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/03/2015
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/04/2015
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/05/2015
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/06/2015
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/07/2015
	2012	5 556	-	-	-	-	5 556	0,45	24/02/2016	24/08/2015

Continue

	Year issued	Outstand Dec 31,2012	In 2013 Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Ole Schreiner	2013	-	66 667	-	-	-	66 667	0,30	27/12/2016	27/06/2014
(continued)	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/07/2014
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/08/2014
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/09/2014
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/10/2014
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/11/2014
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/12/2014
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/01/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/02/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/03/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/04/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/05/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/06/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/07/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/08/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/09/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/10/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/11/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/12/2015
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/01/2016
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/02/2016
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/03/2016
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/04/2016
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/05/2016
	2013	-	5 556	-	-	-	5 556	0,30	27/12/2016	27/06/2016
Total		345 000					545 000			
Vested		69 445					211 667			

	Year issued	Outstand Dec 31,2012	In 2013 Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Pieter van Tol	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/01/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/02/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/03/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/04/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/05/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/06/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/07/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/08/2012
	2010	1389	-	-	-	-	2500	0,77	29/06/2014	29/09/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/10/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/11/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/12/2012
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/01/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	01/03/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/03/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/04/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/05/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/06/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/07/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/08/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/09/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/10/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/11/2013
	2010	1389	-	-	-	-	1389	0,77	29/06/2014	29/12/2013

Continue

			In 2013							
	Year issued	Outstand Dec 31,2012	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Pieter van Tol	2012	16 667	-	-	-	-	16 667	2,41	12/07/2015	12/01/2013
(continued)	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/02/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/03/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/04/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/05/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/06/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/07/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/08/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/09/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/10/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/11/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/12/2013
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/01/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/02/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/03/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/04/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/05/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/06/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/07/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/08/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/09/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/10/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/11/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/12/2014
	2012	1389	-	-	-	-	1389	2,41	12/07/2015	12/01/2015

Continue

	Year issued	Outstand Dec 31,2012	In 2013 Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Pieter van Tol	2013	-	16 667	-	-	-	16 667	0,30	27/12/2016	27/06/2014
(continued)	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/07/2014
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/08/2014
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/09/2014
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/10/2014
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/11/2014
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/12/2014
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/01/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/02/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/03/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/04/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/05/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/06/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/07/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/08/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/09/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/10/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/11/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/12/2015
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/01/2016
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/02/2016
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/03/2016
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/04/2016
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/05/2016
	2013	-	1389	-	-	-	1389	0,30	27/12/2016	27/06/2016
Total		83 333					133 333			
Vested		16 666					65 278			

LOANS

The company does not provide any loans to members of the Management 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 is made by the Chairman of the Remuneration Committee.

On June 27, 2013, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 12,000 (USD 15.898) per member for all members (2012: On June 27, 2012, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 35,000 (USD 44,744) for the Chairman and EUR 12,000 (USD 15,340) for other members).

IN THOUSANDS OF USD DOLLARS		TOTAL REMUNERATION IS COMPOSED OF:	
Supervisory Board member	Total remuneration USD	Board free USD	Share based USD
2013			
Gerhard Florin (chairman)	27	17	10
Alain Tascan (vice-chairman)	43	17	26
Michel Cassius	22	17	5
Ole Gladhaug	14	12	2
Magnus Grøneng	14	12	2
Total	**120**	**74**	**45**
2012			
Gerhard Florin (chairman)	91	45	46
Alain Tascan (vice-chairman)	16	8	8
Michel Cassius	31	15	16
Torleif Ahlsand (vice-chairman)	46	23	23
Claus Højbjerg Andersen	31	15	16
Total	**213**	**106**	**107**

Supervisory Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Total number of shares held / controlled at year end
2013				
Gerhard Florin (chairman) (1)	100 000		100 000	
Alain Tascan (vice-chairman)			50 000	
Michel Cassius	50 000		50 000	50 000
Ole Gladhaug	50 000		50 000	
Magnus Grøneng	50 000		50 000	400
Total	**250 000**		**300 000**	**50 400**
2012				
Gerhard Florin (chairman) (1)			100 000	
Alain Tascan (vice-chairman)	50 000		50 000	
Michel Cassius		25 000	50 000	50 000
Torleif Ahlsand (vice-chairman)		200 000	n/a	n/a
Claus Højbjerg Andersen	50 000	25 000	n/a	n/a
Total	**100 000**	**250 000**	**200 000**	**50 000**

n/a - not a Supervisory Board member at year end

The following tables show the details of the stock incentives of the individual members of the Supervisory Board:

			In 2013							
	Year of issuance	Outstand Dec 31,2012	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting
Gerhard Florin	2011	50 000	-	-	-	-50 000	-	1,12	27/12/2013	27/06/2012
	2011	50 000	-	-	-	-50 000	-	1,12	27/12/2013	27/06/2013
	2013	-	50 000	-	-	-	50 000	0,30	27/12/2015	27/06/2014
	2013	-	50 000	-	-	-	50 000	0,30	27/12/2015	27/06/2015
Total		100 000					100 000			
Vested		50 000					-			

Expired options are pending approval for extension at the 2014 AGM.

			In 2013							
	Year of issuance	Outstand Dec 31,2012	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting
Alain Tascan	2012	25 000	-	-	-	-	25 000	2,65	27/12/2014	27/06/2013
	2012	25 000	-	-	-	-	25 000	2,65	27/12/2014	27/06/2014
Total		50 000					50 000			
Vested		-					25 000			

			In 2013							
	Year of issuance	Outstand Dec 31,2012	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting
Michel Cassius	2011	25 000	-	-	-	-25 000	-	1,12	27/12/2013	27/06/2012
	2011	25 000	-	-	-	-25 000	-	1,12	27/12/2013	27/06/2013
	2013	-	25 000	-	-	-	25 000	0,30	27/12/2015	27/06/2014
	2013	-	25 000	-	-	-	25 000	0,30	27/12/2015	27/06/2015
Total		50 000					50 000			
Vested		25 000					-			

Expired options are pending approval for extension at the 2014 AGM.

			In 2013							
	Year of issuance	Outstand Dec 31,2012	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting
Ole Gladhaug	2013	-	25 000	-	-	-	25 000	0,25	24/10/2015	24/04/2014
	2013	-	25 000	-	-	-	25 000	0,25	24/10/2015	24/04/2015
Total		-					50 000			
Vested		-					-			

	Year of issuance	Outstand Dec 31,2012	Granted (In 2013)	Extended (In 2013)	Exercised (In 2013)	Forfeited /Expired	Outstand Dec 31,2013	Exercise price USD	Expiry date	Vesting date
Magnus Grøneng	2013	-	25 000	-	-	-	25 000	0,25	24/10/2015	24/04/2014
	2013	-	25 000	-	-	-	25 000	0,25	24/10/2015	24/04/2015
Total		-					50 000			
Vested		-					-			

14. AUDIT FEES

The Group's auditors received a total fee of USD 55,942 (2012: USD 41,595). The fee is distributed within these services and is not including VAT;

•statutory audit services	55,942
•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 0 (2012: USD 13,632), Mazars Switzerland of USD 0 (2012: USD 31,773) and BDO in Oslo, Norway of USD 104,061 (2012: USD 66,265).

15. TRANSACTIONS WITH RELATED PARTIES

IDENTIFICATION OF RELATED PARTIES

The Company has a related party relationship with its subsidiaries (see note 2), equity-accounted entities (see note 3) members of the Supervisory and Management Boards (see notes 12 and 13 for remuneration) and shareholders.

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	2013	2012
Purchase of services	582	1 981
Revenue from services	128	203
Receivables as at Dec, 31	1 075	1 668
Liabilities as at Dec, 31	1 411	1 034

TRANSACTIONS WITH SUPERVISORY AND MANAGEMENT BOARD MEMBERS:
Supervisory Board member Gerhard Florin also provided consulting services to the Company in 2013 and was paid USD 33 thousands (2012: nil).

A fee of USD 46 thousands for legal advice in 2013 (2012: USD 351 thousands) has been paid to Weidema van Tol - a company in which Pieter van Tol had an interest. Pieter van Tol also had an interest in Temmes Management Services B.V. – which has been paid a fee of USD 18 thousands in 2013 (2012: USD 21 thousands). As at year end 2013 the outstanding amount between the Group and Weidema van Tol amounted to USD 3 thousands (2012: USD 3 thousands), and between the Company and Temmes Management Services B.V. the amount was nil (2012: nil). The services rendered from both these companies were on market terms.

TRANSACTIONS WITH SHAREHOLDERS:
Mr. Hans Peter Jebsen, the largest shareholder of Funcom N.V. controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls KGJ Investments S.A.,SICAV-SIF (KGJI). Mr. Hans Peter Jebsen also controls the company Tom Dahl AS. The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies KGJI and Ton Dahl were 18.25% as of December 31, 2013. The following transactions took place in 2013 between Funcom Group and companies controlled by Mr. Jebsen:

- In April 2013 as part of the restructuring of an interest-bearing loan, whose lender is KGJI, the Company issued to KGJI 10,000,000 warrants giving right to subscribe for an equal number of ordinary shares in Funcom N.V. at a price of USD 0.37 per share. These new warrants are in addition to the 5,000,000 warrants already held by KGJI in relation to the same loan. The exercise price of the existing warrants was also revised to be USD 0.37 per share (2012: USD 1.67). As of December 31, 2013 none of the warrants (total of 15,000,000) have been exercised (see Note 29 for further details). The expiry date of all the warrants is December 30, 2015. The restructuring of the loan also led to change in maturity dates and amounts. The total cash flow obligation and the interest rate (8% annually) remained with no change. The new maturity dates were set as follows: USD 2,000 thousands due on December 29, 2013, USD 4,000 thousands due on December 30, 2014 and the remaining USD 4,000 thousands due on July 31, 2015. The fair value of the loan as of December 31, 2013, after repayment of USD 2,000 thousands is USD 8,000 thousands and its carrying amount - USD 7,984 thousands (2012: USD 10,400 thousands and USD 9,869 thousands respectively). The interest paid to KGJI in 2013 in relation to this loan is USD 1,010 thousands.

- KGJI also holds 60 convertible bonds issued by Funcom N.V. (see note 25) with a total face value of USD 6,000 thousands. The convertible bond loan was also restructured in April 2013 and the new terms adopted are as follows: maturity date December 22, 2015 (previously December 22, 2014), conversion price of USD 0.37 per share (previously 1.37 USD per share) and interest rate of 5% with no interest payment before maturity or conversion when all accrued interest becomes due in either cash or shares of Funcom N.V. at the option of the bondholder; the conversion price with regards to the accrued interest is also USD 0.37 per share (previously the annual interest rate was 10% payable quarterly). The fair value of the 60 bonds held by KGJI as of December 31 2013 is USD 6,000 thousands and its carrying amount - USD 4,744 thousands (2012: USD 6,000 thousands and USD 4,449 thousands respectively). The interest paid to KGJI in 2013 in relation to the bonds for the period before the loan restructuring is USD 212 thousands. The amount of accrued interest as of year-end is USD 216 thousands.

- KGJI granted a new working capital loan to the Company at the end of 2013. In December 2013 the Company received USD 3,000 thousands as a first installment under the loan agreement. The agreement provides for other two installments of up to USD 1,250 thousands each to be received in the first and the second quarter of 2014. The loan bears an annual interest rate of 8% and matures on January 31, 2015. The fair value of the loan as of December 31, 2013 is equal to its carrying value of USD 3,000 thousands (2012: nil). See note 29 for further details.

BADHOEVEDORP, APRIL 30, 2014

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

In relation to the disclosure of related party transactions with shareholders in Note 26 as well as the disclosure of information related to loans in Note 25 the following transactions took place after the reporting period:

- KGJI exercised 10,000,000 warrants for a total consideration of USD 3,700 thousands. In return, the company issued 10,000,000 new shares to KGJI. As a result of the transaction the equity of the company increased by USD 3,700 thousands. The total consideration was used to repay a portion of the interest bearing loan to KGJI which had a fair value of USD 8,000 thousands at year-end. The repayment decreased the amount due to KGJI on July 31, 2015 (remaining amount to be paid on that date is USD 300 thousands). Another installment of USD 4,000 thousands is due on December 30, 2014. The total balance due on the loan after the exercise of warrants is USD 4,300 thousands.

- Funcom received from KGJI the second installment of USD 1,250 thousands of the working capital loan.

In January 2013, the Company issued 316,028 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.32 per share (USD 0.44). Gross proceeds amounted to EUR 101,567 (USD 138,726). As a result of the transaction the equity of the Company increased by USD 139 thousands.

In January 2014 ØKOKRIM (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) charged Funcom on suspicion of infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012 with regards to information given to the market (market manipulation) and maintenance of the required list of persons who are given access to inside information. As of the date of this quarterly report there is no sufficient information to allow Funcom to determine reliably the likelihood of whether the charge could result in financial losses or to estimate the amounts of such losses. Therefore, no provisions resulting from the charge have been recorded in the financial statements.

In April 2014 the Company successfully completed its first draw down on the standby equity facility with YA Global Master and as a result raised USD 1,625 thousands and issued 2,203,846 shares thus increasing equity by the same USD 1,625 thousands. The agreement with YA Global Master was concluded in May 2012 and represents an equity financing mechanism where Funcom at its discretion can draw down funds in tranches on average every 20 to 30 days in exchange for issuing new shares to YA Global Master.

INDEPENDENT AUDITOR'S REPORT

To: the shareholders of Funcom N.V.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2013 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 2013, 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 2013, 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 account-ing 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 2013 and of 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 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

EMPHASIS OF MATTER

We draw attention to note 2.1 to the financial statements which indicates that the company incurred a net loss of USD 4.538 thousand during the year ended 31 December 2013 and, as of that date, the company's equity amounts to USD 5.561 thousand negative. These conditions, along with other matters as set forth in note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Our opinion is not qualified in respect of this matter.

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 2014

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

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 April 2014.

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 2014

FUNCOM N.V. WILL PUBLISH ITS FINANCIAL STATEMENTS ON THE FOLLOWING DATES IN 2014:

• **February 28**	**- Q4 2013**
• **May28**	**- Q1 2014**
• **August 27**	**- Q2 2014**
• **November 19**	**- Q3 2014**

Annual general meeting: June 27, 2014.

The dates are subject to change.

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