Funcom N.V.

Annual Report

2016

Contents

About Funcom

Funcom® is an award-winning independent developer and publisher of computer and console games.

Funcom N.V. (the Company) was founded in 1993 and during the 24 years that have followed since then, the Company has developed and published over 27 game titles across several genres and gaming platforms. The most recently release game was *Conan Exiles*, launched on 31 January 2017 very successfully and recouping its development costs after just a week. Previous notable games are the online MMOs *The Secret World®, Age of Conan* and *Anarchy Online®,* which despite their respective ages continue to be important, contribution-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 October 2015, Funcom released *The Park*®, its first single-player game in over ten years.

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 100 talented individuals are working at its studios in Oslo and North Carolina.

Today, Funcom is a company in a renewed growth path and in the last stages of changing to the new strategy first put forth in late 2015:

- Developing small and innovative games, focused on trying new concepts, experimenting with new technology and platforms, and utilizing our IPs while keeping the investment level low.

- Developing larger games, focused on genres or game types where we can create products of higher production value than the competition, using our own or 3rd party IPs and drawing from the innovation and experimentation of the smaller products to lower the risk overall.

- Leveraging and growing the internal IPs such as *Anarchy Online, The Longest Journey* and *The Secret World* for both internal and 3rd party licensing.

It is Funcom's vision for 2017 and onwards to be able to launch at minimum one game per year and each studio have a game in development at all times. As part of this strategy, market segments and platforms will be constantly evaluated as the trends in the gaming industry change very quickly and new opportunities are emerging such as *eSports, VR* and *AR*, among others.

Under this strategy that started to be adopted during 2015 there have been three games released. *The Park*®, released on October 2015 and *Hide & Shriek*™*,* released on October 2016 were both small and experimental games. *Conan Exiles*, released on 31 January 2017, is a larger game in the open-world survival genre. *Conan Exiles* will see a first console release during Q3 2017 and a full launch with the second console release in Q1 2018.

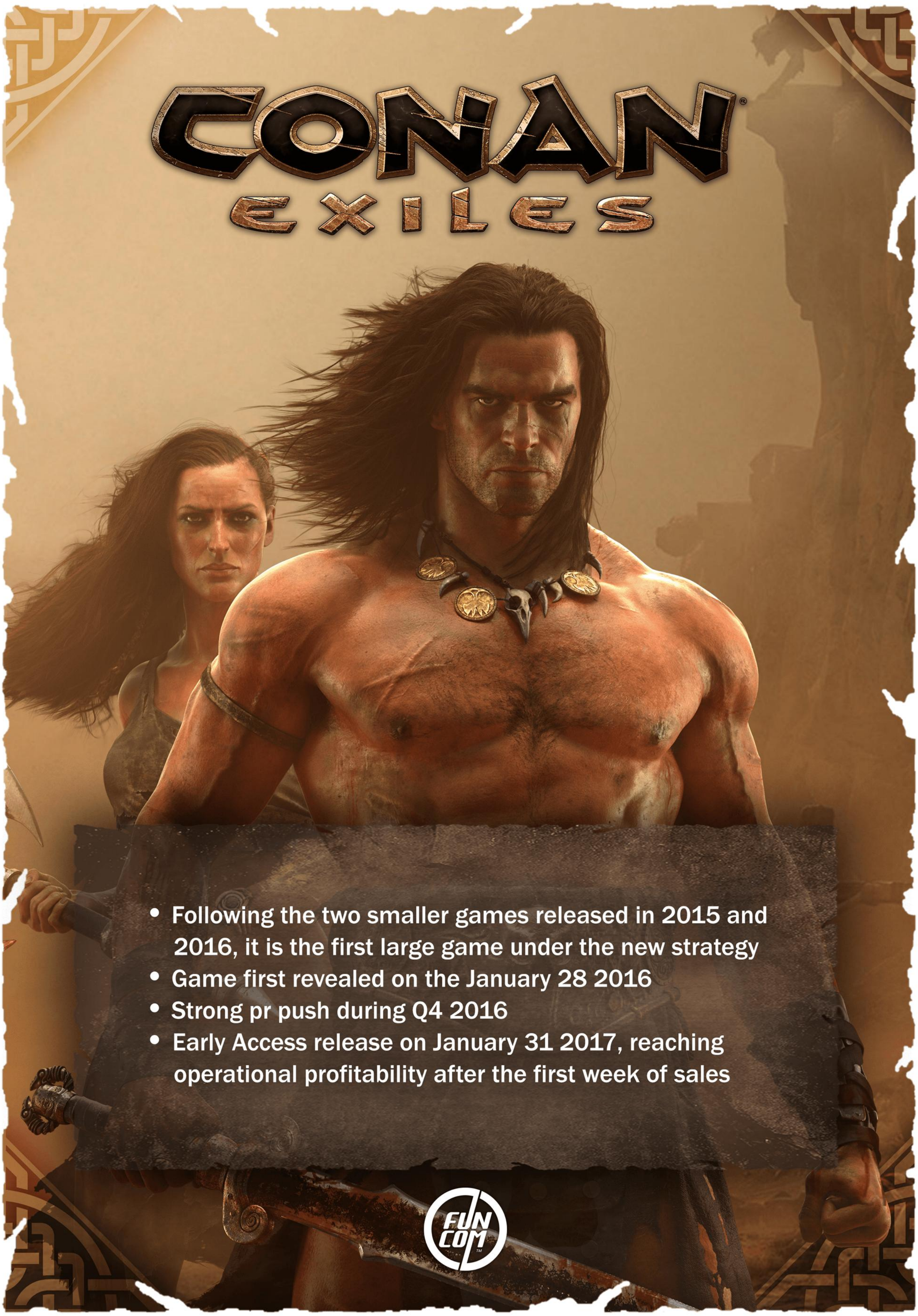
Funcom has two highly skilled team of developers situated in the Research Triangle Park, North Carolina, USA and Oslo, Norway. In 2016 the Oslo studio focused solely on the production of *Conan Exiles* and the North Carolina studio on the maintenance of the older MMOs and relaunch of *The Secret World.*

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 four million players have signed up to experience *Age of Conan*. *Anarchy Online*, the Company's first MMO, has been in operation for 15 years and is still going strong. *The Secret World* is Funcom's largest MMO and is being relaunched as *Secret World Legends* with a new positioning and with a Free to Play (F2P) business model to attract new players and broaden the target audience.

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

For more information, visit www.funcom.com.

Active game portfolio




SECRET WORLD™
LEGENDS
• During 2016 the team was mostly focused on the transformation of the game in preparation of the relaunch
• Several game updates and promotional packages were done throughout the year
• Relaunch of "The Secret World" as "Secret World Legends" was announced on March 29 2017
• The relaunch is scheduled to happen in the first half of 2017
FUN COM

OTHER GAMES

- ***Age of Conan***
  - *Age of Conan* received several updates, most notably a major revamp of the Free to Play system, introduction of membership rewards and daily login bonuses, addition of The Pitmaster's Arena and Slithering Chaos raid instance, and a revamp to the in-game store.

- ***Anarchy Online***
  - During 2016 *Anarchy Online* saw the release of a new starting experience – The Reck, in addition the in-game store saw a massive revamp, and finally *Anarchy Online* was released on the Steam platform on February 22 2017.

- **LEGO *Minifigures Online***
  - LEGO® *Minifigures Online's* license agreement with LEGO expired on October 1 2016 and the game's operations were terminated.

- ***The Park***
  - *The Park* launched successfully on Xbox One and PlayStation 4 on May 3 2016 and the project has met all its goals.

- ***Hide & Shriek***
  - *Hide & Shriek* was first revealed on September 29 2016 with subsequent launch on October 25 2016. This was the second of the smaller types of games developed under the new strategy.
  - Similar to how *The Park* was a project to bring the Funcom Oslo team up to speed with Unreal Engine 4 and shorter development cycles, *Hide & Shriek* had the same objectives but for the team in Funcom Inc. in North Carolina.
  - In addition, this game allowed Funcom to obtain experience in localizing a game in 11 languages and bring a game to the attention of Streamers/Youtubers, experience which was very relevant for the *Conan Exiles* Early Access launch in January 2017.

- ***The Longest Journey®***
  - Dreamfall Chapters, developed by Red Thread Games on a license from Funcom, released its fifth and final episode. Development of Xbox One and PlayStation 4 versions in progress and is planned to be released during the second quarter of 2017.

THE DREAMWORLD TECHNOLOGY

The trademarked *Dreamworld Technology*® platform is the technological foundation on which the company's MMOs are 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 both online and offline games. *Dreamworld Technology* eases the development and deployment process of such products. 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.

Core components of the *Dreamworld Technology* platform include a flexible and powerful build and versioning system, an extensive data handling backend allowing our teams to work on extremely large datasets, as well as custom feature support in 3rd party engine extensions.

Key developments in 2016 were focused on moving away from writing and maintaining a complete game engine and migrating towards developing a production framework compatible with 3rd party engines, such as Unreal Engine 4. This has enabled us to benefit from the extensive feature list of 3rd party engines while also retaining and developing further our unique technology feature set.

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 December 23, 2004 (*Staatsblad* 2004, 747), as most recently amended on December 22, 2016 (*Staatsblad* 2016, 559).

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, hereunder massively multiplayer online games, online role playing games and related games on electronic devices of different kinds. The objectives of the Company further include to take and grant licenses and other industrial property interests, assume commitments in the name of any enterprise within the same 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, cost of maintenance and support of live games, overall reach and sales of products, lifetime retention and revenues per customers, and lifetime of the 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 Company and its subsidiaries (together referred to as the 'Group') – please refer to note 26

Review of Funcom's financial position and financial results for 2016

Funcom's revenue for 2016 was USD 7,322 thousand compared to USD 10,238 thousand in 2015. The overall decrease of USD 2,916 thousand is due to the natural decline in revenues from its ageing Live Games *Anarchy Online*, *Age of Conan* and *The Secret World*.

The operating costs (excluding impairment) decreased by approximately 30% in comparison to 2015 as a result of the continued restructuring of the Company and other cost savings measures. Because of this, the corresponding operating result for 2016 was USD -1,580 thousand compared to USD -6,179 thousand in 2015. Funcom performed four quarterly impairment tests in 2016, and found no indicators to adjust down its game values. Therefore, no impairment was recorded in 2016. The management will continue to monitor the value of Funcom's assets and inform the market of any material changes.

As a result of the above, the Company reported a net loss for 2016 of USD -1,695 thousand compared to USD -6,789 thousand for 2015. Thus the earnings per share (basic and fully diluted) increased from USD -0.07 at the end of 2015 to USD -0.01 at the end of 2016.

The Equity of the Company at year-end increased to USD 3,773 thousand compared to USD -9,561 thousand in 2015. The increase was mainly due to a private placement through which Funcom issued 95,970 thousand shares for USD 6,011 thousand equity injection, a subsequent offering through which Funcom issued 15,000 thousand shares for USD 954 thousand equity injection, a warrant exercise through which Funcom issued 1,565 thousand shares for USD 157 thousand, two restructures of debt instruments which increased the equity by USD 350 thousand, and three conversions of debt instruments into shares which increased the equity by USD 7,769 thousand.

The process of restructuring the Company and taking cost saving measures was mostly complete during 2016, with only the liquidation of the entity Funcom Games Canada remaining. Meanwhile, after the successful early access launch of *Conan Exiles*, the Management Board expects the operating costs to increase during 2017, and this corresponds to expected revenue increase.

In April 2016, the remaining working capital loan of USD 3,950 thousand with KGJ Investment SA Sicav-SIF (KGJI) and the convertible loan of USD 4,000 thousand with KGJI were combined into a new convertible loan of USD 7,950 thousand. In May 2016, USD 7,700 of the new convertible loan was converted into Funcom shares at USD 0.18 per share. KGJI subsequently requested to convert the remaining loan balance of USD 250 thousand into Funcom shares on the loan maturity date of December 31 2016 at USD 0.1036 per share. Effective 2016 year-end, there was no outstanding convertible loan, considering that notice for conversion thereof was given; conversion took place beginning January 2017.

In July 2016, the holders of USD 6,200 thousand convertible bond agreed to modify the convertible bond by postponing the maturity date from 15 December 2016 to 31 December 2018, by decreasing the fixed interest rate from 5% to 3.5% per annum, by increasing the number of bonds from 62 to 6,200,000, by decreasing the face value of each bond from USD 100 thousand each to USD 1 each, and by decreasing the conversion price from USD 0.24 per share to USD 0.1036 per share in accordance with the convertible bond agreement. In December 2016, USD 180 thousand (plus accrued interest) of the convertible bond was converted into 1,761,010 new shares. As of December 31 2016, the bonds have a carrying amount of USD 6,830 thousand, of which USD 3,500 thousand has been converted in April 2017.

The cash position of the Company at year-end was USD 3,710 thousand compared to USD 616 thousand at the end of 2015. The increase was mainly due to the successfully private placement and its subsequent offering, and the conversion of warrants into shares.

Going concern

The Management Board, upon preparing and finalizing the 2016 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 successful early access launch of *Conan Exiles* has been taken into account. As of December 31, 2016, the only outstanding financial debt instrument of the Company is the Convertible Bond, with a carrying amount of USD 6,830 thousand and a year-end balance due of USD 6,899 thousand (of which USD 3,500 thousand has been converted in April 2017), and a maturity date on December 31, 2018.

Notwithstanding the above, the Management Board of the Company emphasizes that the actual performance of the Company is affected by its ability to generate sufficient cash inflows, especially from sales. Considering the financial situation of the Company as of December 31 2016, there is no material uncertainty 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.

Financial instruments

The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant positions in other currencies than US dollars, for example Norwegian Krone. The Group does not invest in equity or debt securities. Please refer to note 24 and 27 for further information on financial instruments and risk management.

Main Developments: product and technology update

Corporate restructuring

Following on the restructuring process that started in early 2013, the Company continued to assess regularly its business and to better align the Company's costs to its current and future revenues during 2016, focusing on the net contribution delivered by its live games and managing its investment in new games.

In parallel, Funcom is also analyzing and simplifying its internal structure and processes in order to reduce the high structural costs not related to the development, production, publishing and support of games. Funcom SARL, Funcom GMBH and Funcom Sales GMBH have been fully liquidated.

At the extraordinary meeting on 5 October 2016, Mr. Michel Cassius resigned from his position of Chairman of the Supervisory Board. Mr. Ole Gladhaug was appointed as the Chairman of the Supervisory Board; Mr. Fredrik Malmberg, Mr. Egil Kvannli and Mr. Magnus Grøneng were appointed as new members of the Supervisory Board.

Games in operation during 2016

In 2016, like in 2015, the bulk of Funcom's revenues originated from the MMO games, with *The Secret World* being the largest contributor of said revenue.

The other non MMO games *The Park, The Longest Journey* and *Hide & Shriek* also contributed to the revenue albeit in a smaller fashion.

Several steps were taken during 2016 to slow the natural decline in revenues from the MMO games, out of which the most significant are the updates to the shops and membership structures of *Anarchy Online, Age of Conan* and *The Secret World.*

In addition, *The Secret World* started its transformation in preparation for a relaunch in 2017 that is expected to increase its revenues and prolong the longevity of the product.

LEGO® *Minifigures Online's* license agreement with LEGO expired on 1st October 2016 and the game's operations were terminated.

Games in development during 2016

During 2016 a new game, *Hide & Shriek*, was developed and released. *Hide & Shriek* was released at the end of October 2016 and was the second game to be developed and released under the new Company strategy, in the *smaller* games category.
Similar to how *The Park* was a project to bring the Funcom Oslo team up to speed with Unreal Engine 4 and shorter development cycles, *Hide & Shriek* had the same objectives but for the team in Funcom Inc. in North Carolina. In addition, this game allowed Funcom to obtain experience in localizing a game in 11 languages and bring a game to the attention of Streamers/YouTubers, experience which was very relevant for the *Conan Exiles* Early Access launch in January 2017.

The Park was developed for, and successfully launched, on the Xbox One and PlayStation 4 platforms.

Conan Exiles was in full production at the Funcom Oslo studio throughout 2016 and was successfully released in Early Access on the Steam platform on January 31st 2017. The project became operationally profitable after the first week of sales and it is the Funcom game that has recouped its investment fastest in modern history.

Technology Development

In 2016 Funcom continued to take its *Dreamworld Technology*™ in the new direction, migrating it from being a complete game engine package towards being a production and runtime framework that integrates into 3rd party engines, such as Unreal Engine 4. This has allowed us to benefit from the wide feature list of 3rd party engines, while still retaining and improving upon our unique data handling system, build handling system, as well custom client feature set.

Future outlook

The revenue and profit of Funcom depend on the performance of its existing games 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 *Conan Exiles*, with *Secret World Legends*™ and its older live games continuing to bring solid revenues.

The Company intends to perform the following activities that may have a significant impact on the revenues for the financial year 2017 and beyond:

- Q2 2017 – Relaunch of *The Secret World* as *Secret World Legends*
- Q3 2017 – Launch of *Conan Exiles* on the Xbox One Game Preview program together with the release of a large content update to game. Summer seasonal sales for all products
- Q4 2017 – Halloween and Christmas seasonal sales for all products
- Q1 2018 – Full release of *Conan Exiles* for PC, Xbox One and Playstation 4

For all our games the Company will continue to tweak and optimize the retention and monetization mechanics. 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 high-quality, cross-platform online games.

Predicting revenues from game concepts is inherently uncertain, but the Company believes that the new strategy of developing *smaller* and *larger* products, with shorter development cycles and heavier focus on innovation and experimentation with the smaller games, the fruits of which will be incorporated into the larger products, will continue to be successful as it's already proving to be during 2017. The gaming industry is very difficult to predict as new trends arise constantly and consumer behaviour can change in a dramatic fashion very quickly and as such any revenue forecasts carry a high degree of uncertainty. We encourage our shareholders to take these and other inherent risks in this industry into careful consideration when evaluating the future outlook for the Company.

Funcom does not expect to make significant investments in tangible fixed assets during the next couple of years. Significant investments will mainly relate to software development, game design and graphics investments.

Market development

The global games market produces, publishes and distributes interactive content to its users worldwide. Just as the movie- and music industry, the games industry directs its focus towards production, publication and distribution of intellectual property rights. The company encourages all its shareholders to look at the market development reports regularly produced by companies focused on the gaming market such as Superdata (www.superdataresearch.com) and NewZoo (www.newzoo.com). According to these reports, the global gaming market continues to be healthy and have significant year-on-year growth.

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, 2016, the group employed 103 employees compared to 99 at the end of 2015.

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. When recruiting, the Funcom 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 continue to 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 2016, Funcom N.V. had a share capital of USD 11,808 thousand (2015: USD 4,802 thousand) consisting of 249,281,922 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 10,343,472 outstanding share options granted to employees and directors in the Company at the end of 2016 (2015: 7,136,019).

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 less than 30% 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 of governance. 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 defence 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 males. 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, the Management and Supervisory Board seek a more diverse composition. In any future replacement of Directors or Supervisory Board members both men and women are invited to apply. In the final stage of the 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.

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 2016 is USD 3,773 thousand (2015: USD -9,561 thousand).

Events after the reporting period

After the reporting period there have been subsequent events that are detailed in note 28 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 24 and 27.

Badhoevedorp, the Netherlands, April 20, 2017

Rui Casais, CEO, Chairman of the Management Board
Christian Olsthoorn, CFO, Managing Director

Corporate governance

Funcom's corporate governance policy

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.nues.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.

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.

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

1. Implementation and reporting on corporate governance

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 2014, but considers the ethical guidelines to cover most of the relevant topics.

Departures from the recommendation: The Company will consider developing separate guidelines for corporate social responsibility.

2. Business

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.

Departures from the recommendation: None

3. Equity and dividends

Equity

The equity of the Company improved from USD -9,561 thousand at the end of 2015 to USD 3,773 thousand at the end of 2016. It is considered that the revenue potential of the current and future games as well as the continuation of the cost saving measures will improve the profitability of the Company and will lead to a further increase of the equity position.

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. This policy will be regularly evaluated as appropriate according to the development of the Company.

Mandates granted to the Supervisory Board
Mandates granted to the board of Directors concerning the issued capital are restricted to defined purposes and limited in time to the next GM.

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 2016, 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 those described in Note 25 in the Notes to the Consolidated Financial Statements.

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 General Meeting (GM), 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 the law applicable to Dutch list companies, the notification must be given at least 42 days before – not including the date of the meeting. In this respect, the Netherlands being the home state of Funcom N.V., the Company follows the Dutch law. Notification will be distributed at least 42 days in advance, and posted on the Company's website.

Participation
The shares listed on Oslo Stock Exchange are registered in the name of DnB Bank ASA (Funcom's VPS Registrar). 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.

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

According to the Articles of Association GMs 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. However, the Company will continue to 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 Supervisory Board - 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.

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.

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.

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. 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.

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; furthermore he (or she) will refraid from deliberating on and adopting of the resolutions in relation to that matter.

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 Board's self-evaluation
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 maintains internal controls and a system for risk management. Funcom has corporate values and ethical guidelines.

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 may be less detailed than expected in the Norwegian 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 is made by the Chairman of the Remuneration Committee.

Departures from the recommendation:
The Company will from time to time consider granting share options to members of its Supervisory Board. The Company views share options as an important tool for remuneration of Supervisory Board Members, e.g., to be able to have a board composition that reflects the global nature of its business.

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

Departures from the recommendation:
The allocation of options to executive personnel is determined on a case by case basis and is not made specifically dependent on the realization of certain targets that are determined in advance. This practice promotes an extremely dynamic business, in terms of both products and management responsibilities, which is appropriate for the fast changing nature of the business environment.

13. Information and communications

The annual report and accounts - periodic reporting
The Company endeavors to present 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 currently presents its accounts on a quarterly basis. The Financial Calendar is published on the Company's website and on 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 Dutch 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 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 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.

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.

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.

Departures from the Dutch Corporate Governance Code:

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

- Provision II.2.4: The options become exercisable before the lapse of the three year time period set out in the Dutch Corporate Governance Code. Funcom has an option program for the members of the Management Board where one third of the options vest each year during three years following the grant date. The options are in principle only vested if the member of the Management Board is still employed with Funcom on the date that the options vest. The allocation of options to members of the Management Board is not made specifically dependent on the realization of certain targets that are determined in advance. The allocation of options to the members of the Management Board – as part of their remuneration – is subject to the approval of the General Meeting.
- 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.3.6: Funcom has not developed a retirement schedule and made it generally available, , but the Supervisory Board monitors the situation closely and makes sure there is continuity and ongoing improvement in Funcom management. The Company aims to develop a more structured guideline.
- Provision III.5.14: Funcom has decided not to establish a Selection & Appointment Committee. The Supervisory Board has taken these tasks upon itself.
- Provision III.7.1: Funcom has reserved the right to grant options to members of the Supervisory Board. Funcom 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.

- Provision IV.3.10: The voting results of the general meeting are communicated on the website of the Oslo Stock Exchange and on the website of Funcom on the day of the general meeting. The minutes of a general meeting are posted on the website of Funcom shortly thereafter. Votes at general meetings are in principle cast through proxy holders based on voting instructions from 'the VPS Registrar and the outcome of voting is limited to those clear voting instructions. As a result hereof shareholders are not provided a period for commenting on draft minutes.
- Provision IV.3.13: Funcom will continue to evaluate the need fora policy on bilateral contracts with the shareholders.
- Provision V.2.1: The auditor is always on standby to attend the Annual General Meeting depending on shareholder attendance.
- Provision V.3: Funcom has not assigned a specific internal auditor.

Responsibility Statement

In accordance with best practice II.1.5 of the Dutch corporate governance code of December 2016, 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 2016 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies whose financial information it consolidates; and
- The Report of the Management Board gives a true and fair view of the position as per December 31, 2016, the development during 2016 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 20, 2017

Rui Casais, CEO, Chairman of the Management Board
Christian Olsthoorn, CFO, Member of the Management Board

Corporate Governance Declaration

This declaration is in accordance with article 2a of the decree on additional requirements for annual reports as amended on October 13, 2015 ("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 2016. 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 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 "Report of the Supervisory Board".
- 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 Dutch Corporate Governance Code and the Norwegian Code of Practice for Corporate Governance".
- the statement regarding the composition and functioning of the Management Board, as incorporated in the "Report of the Supervisory Board".
- the statement relating to the composition and functioning of the Supervisory Board and its Committees, as incorporated in the "Report of the Supervisory Board"
- The provisions of the Norwegian Code of Practice for Corporate Governance largely follow requirements as indicated in the EU take over directive.

Badhoevedorp, April 20, 2017

Rui Casais, CEO, Chairman of the Management Board
Christian Olsthoorn, CFO, Member of the Management Board

Report of the Supervisory Board of Directors

Annual report

We, the members of the Supervisory board of Funcom N.V., hereby present you with the Annual Report for 2016, including the annual financial statements that were drawn up by the Management Board. The annual financial statements have been examined by the external auditors of BDO Audit & Assurance B.V. who intend to issue an unqualified audit opinion. We have reviewed and 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 Board 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 Supervisory Board, 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 Supervisory Board includes:

- evaluating and defining the corporate strategy and assess the risks inherent in the business activities
- evaluation of the structure and operation of the internal risk management and control systems
- monitoring the financial reporting process
- ensuring compliance with regulations and legislation
- monitoring the Company's IR activities
- monitoring the financial situation of the Company and decide on any related actions

Activities

In 2016 the Supervisory Board of Directors held 8 (eight) in-person and conference call meetings. During the meetings / calls the Company's financial and operational status and objectives, strategy and accompanying risks were discussed. The main focus during the year has been on the following topics:

- regular evaluation of the Live Games performance *(Anarchy Online, Age of Conan, The Secret World*, LEGO *Minifigures Online, The Park*), progress of the projects that were under development in 2016 (e.g. *Hide & Shriek*, cross-platform functionality of the *Dreamworld* Technology, *Conan Exiles*) as well as planning of new projects
- regular evaluation of the cost structure of the Company and ways to improve net contribution and overall profitability
- regular assessment of the Company's cash position and financing strategy, including executing the private placement in May 2016 and subsequent offering in August 2016
- corporate restructuring that started in the first half of 2013 and has continued in 2016 with the objective to make the Company more efficient, profitable and flexible to respond to market trends
- overall strategy of the Company going forward within the new and more lean corporate structure and alignment with industry trends

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 that 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 2016 financial year the Supervisory Board has discussed 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 2016. 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.

In the course of the 2016 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 its corporate strategy.

Mr Michel Cassius left the Supervisory Board on October 5th, 2016. On the same date, Ole Gladhaug, Egil Kvannli, Fredrik Malmberg and Magnus Grøneng joined the Supervisory Board. Mr Gladhaug and Mr Grøneng have been members of the Supervisory Board in earlier periods, from April 2013 until August 2015. Mr. Kvannli and Mr. Malmberg are currently in their first term. Ole Gladhaug joined the board as Chairman. Both Mr Gladhaug and Mr Grøneng are representing the largest shareholder in Funcom, the Kristian Gerhard Jebsen Group, and are hence not considered independent board members.

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.

On November 1st, 2016, the Supervisory Board decided to form an Audit Committee and a Remuneration Committee, both with two members of the Supervisory Board.

The established remuneration policy has been followed during 2016. 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 2.1.7 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 2016:

Ole Gladhaug, Chairman of the Supervisory Board
(born 1954, male, Norwegian, 3rd term, member from April 24, 2013 until August 12, 2015, and since October 5, 2016)
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 200,000 share options and 0 shares in the Company. 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.

Alain Tascan, Vice-Chairman of the Supervisory Board
(born 1967, male, Canadian, 3rd term, member since June 27, 2012)
Mr. Tascan is presently CEO of Umi Mobile, Inc., a mobile gaming company based in Canada. 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 350,000 share options in the Company and 0 shares.

Magnus Grøneng,
(born 1981, male, Norwegian, 3rd term, member from April 24, 2013 until August 12, 2015, and since October 5, 2016)
Mr. Grøneng has background as management consultant in McKinsey & Company. Prior to joining Jebsen Asset Management (subsidiary of the Kristian Gerhard Jebsen Group, KGJG), he served as Business Development Manager in Kebony ASA. Mr. Grøneng holds an MSc degree from the Norwegian University of Science and Technology and the University of Karlsruhe in Germany. Mr Grøneng holds 440 shares in the Company and 100,000 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.

Fredrik Malmberg
(born 1962, male, Swedish and American citizen, 1st term, member since October 5, 2016)
Mr. Malmberg has a background as a successful entrepreneur in film and television, publishing, tabletop and video games industries. Mr. Malmberg pioneered trans-media thinking and migrated into the Film industry as an Executive Producer on Heavy Gear and Mutant Chronicles. Malmberg facilitated the financing and purchase of the Conan the Barbarian character and the Robert E. Howard library on behalf of Paradox Entertainment in 2002, and a second time when he purchased it for Cabinet Holdings, Inc. (US) in 2015, where he is President & CEO. He was furthermore co-founder and board member of Paradox Entertainment (1999-2013) and Target Games (1980-1999), both Swedish entities in the gaming industry. Mr. Malmberg holds 100,000 share options in the Company and 0 shares.

Egil Kvannli
(born 1972, male, Norwegian, 1st term, member since October 5, 2016)
Mr. Kvannli has a background as Chief Financial Officer. Mr. Kvannli holds a Bachelor-degree for Business and Administration, BI of the Norwegian School of Management of Stavanger, Norway and Bishops University, Quebec, Canada. From 2011 Mr. Kvannli works for Quickflange AS, a Norwegian entity and from September 2015 he fulfils the role of Chief Executive Officer. Before August 2015 Mr. Kvannli fulfilled the role of Chief Financial Officer at Quickflange AS (2011-2015), Fabricom GDF Suez (2010-2011), Sevan Marine ASA (2005-2008), all Norwegian entities. Mr. Kvannli also acted as VP Finance for REC Site Services Pte Ltd. (2008-2010), a Singapore entity. Mr. Kvannli furthermore worked for MISWACO in Norway and in Houston, United States of America (1997-2005) the last two and a half last years as Financial Director for Scandinavia. Mr. Kvannli holds 100,000 share options in the Company and 0 shares.

The Management Board and Supervisory Board of Funcom currently consist of men. In the appointment of directors and auditors, professionals' backgrounds are evaluated and there is no gender distinction. Although the current composition of the Board is not diverse in terms of gender, Management and Supervisory Board would welcome a more diverse composition. In a future replacement of directors or supervisory board candidates, the quality of any candidate will prevail.

Badhoevedorp, the Netherlands, April 20, 2017

The Supervisory Board of Directors in Funcom N.V.

Ole Gladhaug, Chairman

Alain Tascan

Magnus Grøneng

Fredrik Malmberg

Egil Kvannli

Funcom N.V.
Consolidated Statement of Comprehensive Income
for the year ended December 31

In thousands of US dollars	**Note**	**2016**	**2015**
Continuing operations			
Revenue	4,5	7,322	10,238
Personnel expenses	6,17	-3,419	-5,253
General and administrative expenses	7	-3,234	-3,741
Depreciation, amortization and impairment losses	11,12	-1,811	-6,571
Other operating expenses	8	-438	-852
Operating expenses		-8,902	-16,417
Operating result		-1,580	-6,179
Share of result from equity-accounted entities	20		-173
Finance income	9	653	1,433
Finance expenses	9	-1,834	-1,911
Result before income tax		-2,761	-6,829
Income tax (expense) / income	10	1,066	40
Result from continuing operations		-1,695	-6,789
Result for the period		**-1,695**	**-6,789**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		-357	3,256
Exchange differences on intercompany loans part of net investment in a foreign entity			-4,671
Other comprehensive income for the year, net of tax		-357	-1,415
Total comprehensive income for the year		**-2,052**	**-8,204**

Funcom N.V.
Consolidated Statement of Comprehensive Income
for the year ended December 31

In thousands of US dollars	**Note**	**2016**	**2015**
Result for the period attributable to:			
Equity holders of Funcom N.V.		-2,625	-6,789
		-2,625	**-6,789**
Total comprehensive income attributable to:			
Equity holders of Funcom N.V.		-2,982	-8,204
		-2,982	**-8,204**
Earnings per share *			
From continuing operations			
Basic earnings per share (US dollars)	22	(0.01)	(0.07)
Diluted earnings per share (US dollars)		(0.01)	(0.07)

* 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**	**2016**	**2015**
ASSETS			
Non-current assets			
Intangible assets	4,11	6,617	4,394
Equipment	12	4	100
Long term receivables	24	19	65
Deferred tax assets	10	1,069	
Total non-current assets		7,709	4,559
Current assets			
Trade receivables	13,24	628	1,443
Prepayments and other receivables	14,24	466	506
Cash and cash equivalents	15	3,709	616
Total current assets		4,803	2,565
Total assets		**12,512**	**7,124**

Funcom N.V.
Consolidated Statement of Financial Position
As at December 31

In thousands of US dollars	**Note**	**2016**	**2015**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	11,808	4,802
Reserves	16	165,128	157,105
Retained earnings (Accumulated deficit)	16	-173,163	-171,468
Total equity		3,773	-9,561
Non-current liabilities			
Loans and borrowings	24,25	7,019	3,434
Deferred tax liabilities	10	1	25
Total non-current liabilities		7,020	3,459
Current liabilities			
Trade payables	24	251	263
Deferred income	18	605	1,037
Income tax liability	10		8
Loans and borrowings	24	48	10,150
Other short term liabilities	19	815	1,769
Total current liabilities		1,719	13,226
Total liabilities		8,739	16,685
Total equity and liabilities		**12,512**	**7,124**

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**	**2016**	**2015**
Cash flows from operating activities			
Profit (loss) before income tax		-2,761	-6,829
Adjustments for:			
Depreciation, amortization and impairment losses	11,12	1,811	6,571
Share-based payments	6,16,17	146	814
Share of result from equity-accounted entities	20		173
Interest income/expense		395	1,207
Change in provision	19		111
Change in trade and other receivables		920	74
Change in trade payables		-11	-412
Change in other current assets and liabilities		232	-273
Cash generated from operations		732	1,436
Interest received		3	10
Interest paid		-481	-291
Income tax and other taxes paid		-3	40
Net cash from operating activities		251	1,195
Cash flows from investing activities			
Purchase of equipment	12		21
Investment in intangible assets	11	-4,304	-3,433
Loan from a joint-venture			11
Net cash used in investing activities		-4,304	-3,401
Cash flows from financing activities			
Net proceeds from issue of share capital	16	7,122	411
Repayment of borrowings	24		-23
Net cash from financing activities		7,122	388
Net increase in cash and cash equivalents		3,070	-1,817
Cash and cash equivalents at beginning of period	24	616	3,705
Cash and cash equivalents at end of period before exchange effect	24	**3,686**	**1,888**
Effect of exchange rate fluctuations		23	-1,272
Cash and cash equivalents at end of period after exchange effect	24	**3,710**	**616**

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	Trans-lation reserve	Warrants and conversion rights reserve	Retained earnings	Attributable to owners of the parent
Equity as at January 1, 2015:	**4.723**	**153.181**	**7.225**	**-3.968**	**760**	**-164.679**	**-2.756**
Profit or loss for the year						-6.789	-6.789
Other comprehensive income for the year				-1.415			-1.415
Total comprehensive income for the year				**-1.415**		**-6.789**	**-8.204**
Share-based payments expense			814				814
Drawdowns on standby equity facility	79	332					411
Exercise of warrants							
Granting of warrants					173		173
Exercise of employee options							
Equity portion of new convertible loan							
Reclassification of warrants and convertible bonds equity element					-760		
Equity as at December 31, 2015	**4.802**	**153.513**	**8.040**	**-5.383**	**173**	**-171.468**	**-9.562**
Equity as at January 1, 2016:	**4.802**	**153.513**	**8.040**	**-5.383**	**173**	**-171.468**	**-9.562**
Profit or loss for the year						-1.695	-1.695
Other comprehensive income (Note 34)				-357			-357
Total comprehensive income for the year				**-357**		**-1.695**	**-2.052**
Share-based payments expense			146				146
Drawdowns on standby equity facility							
Exercise of warrants					-87		-87
Granting of warrants							
Issue of new shares	7.006	7.971					14.977
Equity portion of new convertible loan		350					350
Reclassification of warrants and convertible bonds equity element							
Equity as at December 31, 2016	**11.808**	**161.834**	**8.186**	**-5.740**	**86**	**-173.163**	**3.773**

1. Corporate Information

Funcom N.V. (or the "Company") is a limited liability company registered in the Netherlands (Chamber of Commerce number: 28073705). 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, 2016, 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 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.

The consolidated financial statements were authorized for issue by the Supervisory Board on April 20, 2017.

2. Summary of significant accounting policies

2.1 Going concern assessment

Upon preparing and finalizing the 2016 financial statements, the Management Board 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. With more than 480,000 units sold worldwide during the first 28 days after launch at a (gross) selling price of USD 30 per unit, the successful early access launch of *Conan Exiles* has been taken into account in arriving at this conclusion. The only outstanding financial instrument, the convertible loan of USD 6,899 thousand (of which USD 3,500 thousand has been converted in April 2017), has December 31, 2018 as the maturity date.

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, especially from sales. Given the dependency on the positive outcome of these factors there is an uncertainly which may cast 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.

Basis of measurement

The consolidated financial statements have been prepared on an 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.

Standards and Interpretations affecting amounts reported in the current period

The following new and revised IFRSs and IFRIC interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*	November 2013	1 February 2015
Annual improvements	*Annual improvements to IFRSs 2010-2012 cycle*	December 2013	1 February 2015
Annual improvements	*Annual improvements to IFRSs 2012-2014 cycle*	September 2014	1 January 2016
IFRS 14[1]	*Regulatory Deferral Accounts*	January 2014	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28[2]	*Investment entities: Applying the Consolidation Exemption*	Dec 2014	1 January 2016
Amendments to IAS 27	*Equity Method in Separate Financial Statements*	August 2014	1 January 2016
Amendments to IAS 16 and IAS 41	*Bearer Plants*	June 2014	1 January 2016
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*	May 2014	1 January 2016
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*	May 2014	1 January 2016
Amendments to IAS 1	*Disclosure initiative*	Dec 2014	1 January 2016

Standards and Interpretations in issue but not yet adopted

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 2016.

The Management Board anticipates that these Standards and Interpretations will be adopted in the Group's financial statements for the period beginning 1 January 2017 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. The directors have reviewed IFRS 15 Revenue from Contracts with Customers with applicable date of 1 January 2018. The Management Board is of the opinion that IFRS 15 will not have a significant impact on Funcom current revenue recognition policy. The Management Board has not yet considered the extent of the potential impact of the adoption of the other new and revised/amended Standards and Interpretations.

[1] The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 9	*Financial Instruments*	July 2014	1 January 2018
IFRS 15	*Revenue from Contracts with Customers*	May 2014	1 January 2018
Clarification to IFRS 15[2]	*Revenue from Contracts with Customers*	April 2016	1 January 2018
IFRS 16[2]	*Leases*	January 2016	1 January 2019
Amendments to IAS 12[2]	*Recognition of Deferred Tax Assets for Unrealised Losses*	January 2016	1 Januar 2017
Amendments to IAS 7[2]	*Disclosure Initiative*	January 2016	1 Januar 2017
Amendments to IFRS 2[2]	*Classification and Measurement of Share-based Payment Transactions*	June 2016	1 January 2018
Amendments to IFRS 4[2]	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	September 2016	1 January 2018
Annual improvements[2]	*Annual improvements to IFRSs 2014-2016 cycle*	December 2016	1 January 2018/1 January 2017
Amendmends to IAS 40	*Transfers of Investment Property*	December 2016	1 January 2018
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*	December 2016	1 January 2018
Amendments to IFRS 10 and IAS 28[2]	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	September 2014	Deferred indefinitely

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 acquisition 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

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

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 recycled through 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), as well as sales through third-party distribution platforms, are recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated customer life, normally 1 – 2 months. 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 arrangements/discounts is charged against revenue to the extent Funcom has a legal or constructive obligation for such arrangements.

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.

<u>Government grants</u>

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 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.

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, according to the diminishing balance method. 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.

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.

Trademarks and licenses
Trademarks 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

Lease 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 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 the Norwegian kroner. The Group evaluates its currency risk on an ongoing basis, see note 24. The Group does not invest in equity or debt securities.

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.

All non-derivative financial assets in the Statement of Financial Position are classified as loans and receivables at amortized cost using the effective interest method. 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.

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.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.11 Investments in equity-accounted entities

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

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

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

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

2.12 Trade receivables and other receivables

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

2.13 Cash and cash equivalents

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

2.14 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial 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 in 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 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, the reversal is recognized through profit or loss in the Statement of 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 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").

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 to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

2.15 Equity

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

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

2.16 Employee benefits

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

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

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

Share-based payment transactions
The share option program allows management and key personnel to acquire shares in the Company. The plan is an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. The grant date fair value of options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period). The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions as set forth in the share option program. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. At each reporting date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

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

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

2.19 Contingent liabilities and assets
Contingent liabilities are:

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

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

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

2.20 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 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 may vary from the estimate.

Impairment of trade receivables
When determining the recoverability of trade receivables Management Board'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 Norwegian subsidiary besides the parent company.

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

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.

4. Segment information

The Group reports segment information in accordance with IFRS 8 Operating Segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The reportable operating segments of the group are defined as:

- online games – such as *Anarchy Online*, *The Secret World* and *Age of Conan* that uses Internet connectivity for players to play with each other online
- offline games – such as *The Park*, *Dreamfall* and *The Longest Journey* that do not use Internet connectivity and are solo experienced played alone

The two segments differ mainly in the following ways:

1) Payment model. Offline games charge solely the purchase of the product. Online games can charge for the sale of the product and in addition have regular subscription and in game sales / microtransactions charges.
2) Maintenance and infrastructure. Online games have a technological infrastructure to connect all the players engaging in the game through the internet, a structure which has different and very often extensive technical and hardware requirements and requires a team to keep it running both on the technical side and on the customer support side. Offline games have no such requirements on maintenance and once they are finished have no recurring maintenance costs.

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 online games. 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.

No impairment charge of games were recorded in 2016. In 2015 impairment charges of USD 3,647 thousand were related to the online games segment.

Segment information

	Revenue from external customers January - December		Segment profit (loss) *) January - December	
	2016	**2015**	**2016**	**2015**
Online games	5,953	8,980	2,486	3,571
Offline games	943	796	553	102
Other activities	426	462	-37	-52
Total	7,322	10,238	3,002	3,621
General and administrative expenses			-2,771	-3,227
Depreciation, amortization and impairment charges			-1,811	-6,571
Share of result from equity-accounted entities				-173
Net financial items			-1,181	-478
Profit (loss) before tax (from continuing operations)			**-2,761**	**-6,828**

*) Generally, segment profit (loss) 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.
*) Other activities refer to Funcom Games Canada subleasing activities. Segment profit (loss) is measured as revenue earned less original rental expenses.

	Online games	Offline games
Segment assets as at 31 December 2015	4,306	-
Segment assets as at 31 December 2016	6,252	

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

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.

	2016		2015	
In thousands of US dollars	Revenue	Non-current assets **)	Revenue	Non-current assets **)
The Netherlands *)	32		90	
Switzerland			4,842	
Luxembourg			15	
Norway	6,738	6,617	4,834	4,386
Canada	552		457	81
USA		3		28
Other				
Total	**7,322**	**6,620**	**10,238**	**4,494**

*) 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 2016 the royalties from distributors recognized in revenue amounted to USD 2,328 thousand and represent 32 per cent of total revenue. In 2015 the royalties from distributors recognized in revenue amounted to USD 2,461 thousand and represented 24 per cent of total revenue.

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

5. Revenue

Revenue *In thousands of US dollars*	2016	%	2015	%
Revenues online games	5,953	81.3 %	8,980	87.7 %
Revenues offline games	943	12.9 %	796	7.8 %
Other	426	5.8 %	462	4.5 %
Total revenue	**7,322**		**10,238**	

Revenue *In thousands of US dollars*	2016	%	2015	%
Rendering of services	4,568	62.4 %	7,315	71.4 %
Royalties	2,328	31.8 %	2,461	24.0 %
Other	426	5.8 %	462	4.5 %
Total revenue	**7,322**		**10,238**	

6. Personnel expenses

In thousands of US dollars	2016	2015
Salaries	2,748	3,697
Social Security Contributions	188	316
Contributions to defined contribution plans	45	59
Expenses for share option program	146	820
Other Personnel expenses	292	362
Total Personnel Expenses	**3,419**	**5,253**

Average Number of employees:	**2016**	**2015**
Europe	49	47
North America	52	54
Asia	1	1
Total	**101**	**102**

7. General and administrative expenses

In thousands of US dollars	**2016**	**2015**
Travel & marketing	444	528
Consultants	1,032	1,302
Rent of premises and other office costs	886	909
Royalties	151	100
Investor relations	200	121
IT, hardware and software	210	328
Other	310	453
Total general and administrative expenses	**3,233**	**3,741**

8. Other operating expenses

In thousands of US dollars	**2016**	**2015**
Commissions	166	272
Hosting and bandwidth costs for online services	272	579
Total other operating expenses	**438**	**851**

Commissions are fees paid to credit card service providers. Funcom uses such providers for sales through its own platform. The commissions usually have fixed amounts and variable amounts. Variable amounts are related to number of transactions.

9. Finance income and expenses

In thousands of US dollars	**2016**	**2015**
Interest income	3	8
Net foreign exchange gain	650	1,410
Other financial income		15
Finance income	**653**	**1,433**
Interest expense	-569	-2,828
Net foreign exchange loss	-877	934
Other finance expenses	-389	-17
Finance expenses	**-1,834**	**-1,911**

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

10. Income tax expense

In thousands of US dollars	**2016**	**2015**
Result before income tax	-2.761	-6.829
Tax according to the average tax rate in Switzerland, Luxembourg, Canada, USA, Norway and China	1.140	8.487
Tax effect of non-deductible expenses	2	-136
Recognition of previously unrecognised deferred tax assets	1.069	
Utilisation of losses carried forward		5.392
Deferred tax asset related to carry forward tax losses not recognised	-1.145	-13.703
Income tax (expense) / income	**1.066**	**40**

In thousands of US dollars	**2016**	**2015**
Current period tax expense	-3	37
Adjustments for prior periods		
	-3	37
Deferred tax expense		
Origination and reversal of temporary differences	178	4
Change in tax rate		
Recognition of previously unrecognized tax losses	891	
Derecognition of recognized tax losses		
Income tax expense from continuing operations	1.066	40
Total income tax income (expense)	**1.066**	**40**

The Group has not recognized any income tax directly in equity. The income tax rate in Norway changed from 27% to 25% with effect from January 1, 2016, and from 25% to 24% with effect from January 1, 2017. Deferred tax has been calculated using the tax rate of 24% for 2016 and 25% for 2015. Current tax for the Norwegian subsidiaries was calculated based on the applicable rate for 2016, i.e. 25% and applicable rate for 2015, i.e. 27%.

Deferred tax asset/ tax liability	**2016**	**2015**
Deferred tax liability	-1	-25
Deferred tax asset	1.069	
Deferred tax asset, net	**1.068**	**-25**
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	-1	-25
Provisions		
Tax losses carried forward		
Total deferred tax effect of tax increasing temporary differences	**-1**	**-25**
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	3.464	21.473
Equipment and intangible assets	120	1.108
Provisions/receivables	145	19
Total deferred tax effect of tax reducing temporary differences	**3.729**	**22.600**
Deferred tax asset (net) not recognized in the balance sheet:	2.659	22.600
Recognized deferred tax asset, net	**1.069**	**-25**
Reconciliation of deferred tax asset, net:		
Opening balance	-25	-20
Change according to statement of income	1.069	-5
Exchange differences etc.	24	
Deferred tax asset, net, at year-end	**1.068**	**-25**

The Group has unrecognized tax losses of USD 14,473 thousand as of December 31, 2016 (2015: USD 112,835 thousand) which expire as follows:

In thousands of US dollars

Expire year	2016	2015
2016		2.559
2017		4.298
2018		13.027
2019		42.676
2020	668	11.159
2021	1.193	22.308
2022		
2023	9.601	9.601
2024	381	381
2032		426
2033	440	
2035	59	
Indefinite	5.132	6.400
Total tax losses	**14.473**	**112.835**

The tax losses carried forward related to Funcom N.V. are generated from holding and financing activities and may only be offset against future profits from similar activities. Future trading profits may consequently not be utilised against such tax losses. Tax losses for Funcom N.V. expire after 9 years.

The actual corporate income tax return for Funcom N.V. for 2015 was USD 381 thousand. This is restated in the comparitive figures of unrecognized tax losses.

In 2016 and prior years Funcom S.a.r.l., Funcom GmbH, Funcom Sales GmbH, Sweet Robot GmbH and Sweet Robot AS have been fully liquidated or disposed. As a result, the total unrecognized tax losses decreased with USD 122,254 thousand.

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 Norwegian subsidiary. 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.

After the successful early access launch of *Conan Exiles* in January 2017, the revenue already generated and to be generated in 2017 is expected to be sufficient to recover the accumulated tax loss in Funcom Oslo AS. Since the criteria under IAS 12.35 have been met, the Company has recognized the accumulated tax loss of Funcom Oslo AS as deferred tax assets for the year ended December 31, 2016.

11. Intangible assets

In thousands of US dollars	**Development costs**	**Software**	**Trademarks & licenses**	**Total**
Cost				
Balance at January 1, 2015	131.777	1.169		**132.946**
Acquisitions, internally developed	3.309			**3.309**
Other acqusitions		20	173	**193**
Government grant				
Translation difference		-173		**-173**
Balance at December 31, 2015	**135.086**	**1.016**	**173**	**136.275**
Cost				
Balance at January 1, 2016	135.086	1.016	173	**136.275**
Acquisitions, internally developed	4.082			**4.082**
Other acqusitions		329		**329**
Disposals	-20.767			**-20.767**
Translation difference				
Balance at December 31, 2016	**118.401**	**1.346**	**173**	**119.920**
Accumulated amortization and impairment losses				
Balance at January 1, 2015	124.519	1.048		**125.567**
Amortization for the year	2.786	43		**2.829**
Impairment losses (reversal of losses)	3.647			**3.647**
Translation difference		-162		**-162**
Balance at December 31, 2015	**130.952**	**929**		**131.881**
Accumulated amortization and impairment losses				
Balance at January 1, 2016	130.952	929		**131.881**
Amortization for the year	1.772	54		**1.826**
Amortization of disposals	-20.766			**-20.766**
Translation difference	364	-1		**363**
Balance at December 31, 2016	**112.322**	**982**		**113.304**
Carrying amount at Jan. 1, 2015	**7.258**	**122**		**7.380**
Carrying amount at Dec. 31, 2015	**4.134**	**88**	**173**	**4.395**
Carrying amount at Jan. 1, 2016	**4.134**	**88**	**173**	**4.395**
Carrying amount at Dec. 31, 2016	**6.079**	**364**	**173**	**6.616**
Method of amortization	Straight line	Straight line		
Estimated useful lives	5 years	5 years		

For 2016 ending balances, the table above includes only games that still have book values. For games whose costs have been completely amortized and impaired, the cost, amortization and impairment are removed from the table in 2016 under the rows 'Disposal' and 'Amortization of disposals'.

Age of Conan has been fully amortized, and it has been removed from 2016 ending balances in the above table. However, *Age of Conan* is still operational and generates revenues.

On December 17, 2015, the Company granted Conan Properties International LLC three million one hundred and thirty thousand (3,130,000) warrants to asquire an equal number of shares of the Company. The purchase price is USD 0.10, and the exercise period is from June 17, 2016 to December 17, 2020. In exchange, the Company was exempted advance payment and minimum guarantee for use of Conan licensed property to develop licensed products. Since a valuation of the license fee is relatively unreliable, a valuation of the warrants is used. As a result, an amount of USD 173 thousand has been added to the cost of intangible assets under the category of trademarks and licenses.

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

	2016			2015		
Class	**Under development**	**In use**	**Total**	**Under development**	**In use**	**Total**
Development costs		6,080	**6,080**		4,133	**4,133**
Software		364	**364**		88	**88**
Trademarks and licenses		173	**173**		173	**173**
TOTAL		6,617	**6,617**		4,394	**4,394**

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 2016 were USD 76 thousand (2015: USD 61 thousand). Amortization and depreciation included in capitalized development costs for 2016 were USD 1,647 thousand (2015: USD 2,693 thousand).

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 14.0 per cent for *Age of Conan* (2015: 15.5 per cent), and 14.0 per cent for *The Secret World* (2015: 15.5 per cent). The Dreamworld Technology was allocated to *Conan Exiles,* smaller games such as *The Park* and *Hide and Shriek,* and investment in future games based on a 60/25/15 ratio (2015: *The Secret World*, *LEGO® Minifigures Online*, and investment in future games based on a 10/85/5 ratio) 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 and sales of virtual goods. 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 third 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	-24	24
The Secret World	-130	133
Conan Exiles	-311	320

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	78	-78
The Secret World	384	-384
Conan Exiles	1,010	-1,010

This analysis assumes that all other variables remain constant.

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 and several content patches. 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 2016 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. 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 favourable 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 has decreased and no reversal of impairment loss was recorded in 2016.

The carrying amount of *Age of Conan* is USD 569 thousand on December 31, 2016 (2015: USD 577 thousand). As at December 31, 2016 the accumulated impairment charge for the cash generating unit *Age of Conan,* is USD 24,700 thousand (2015: 24,700 USD thousand). 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 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 2016 *The Secret World* released several game updates and promotional packages. During 2016 the team was mostly focused on the transformation of the game in preparation of the relaunch.

The performance of the game remained stable in 2016 and the impairment test performed at the end of the year demonstrated that the recoverable amount of the cash-generating unit *The Secret World* exceeds its carrying amount. 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 favourable 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 has decreased and no reversal of impairment loss was recorded in 2016.

The carrying amount of *The Secret World* is USD 1,428 thousand on December 31, 2016 (2015: USD 1,882 thousand). As at December 31, 2016 the accumulated impairment charge for the cash generating unit *The Secret World*, is USD 36,276 thousand (2015: USD 36,276 thousand). 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, 2012.

Large scale MMO LEGO® *Minifigures Online*
In June 2012 Funcom signed a license agreement with the LEGO Group to develop a massively multiplayer online game based on the hugely popular LEGO® *Minifigures line* of collectible play materials for the PC and tablet platforms. In October 2014, Funcom released LEGO® *Minifigures Online*. LEGO® *Minifigures Online* began amortizing in Q4 2014.

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 visit locations such as Medieval world, Space world, Pirate world and Mythology world, where they 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 was a prominent part of the LEGO® *Minifigures Online* experience which already has millions of unique visitors every month.

The revenues generated by LEGO® *Minifigures Online* did not meet the internal forecasts. The company has therefore fully written off the underlying assets and recorded in 2015 an impairment charge of USD 3,157 thousand. In September 2016 the license agreement with the LEGO Group was terminated.

Open-world Survival Game Conan Exiles
In December 2015 Funcom signed a new license deal with Conan Properties International LLC. As a result of the deal and based on the 'Conan the Barbarian' brand, the open-world survival game *Conan Exiles* was in full production in 2016 and was successfully released in Early Access on the Steam platform in January 2017. The company will continue to work on the game to ensure a positive reception of the game before the full launch.

Conan Exiles is an open-world survival game set in the brutal lands of Conan the Barbarian, the world's greatest fantasy hero. The game can be played on private and public servers, either in multiplayer or local single-player. In the world of *Conan Exiles*, survival is more than tracking down food and water. Journey through a vast, seamless world filled with the ruins of ancient civilizations, uncovering its dark history and buried secrets as you seek to conquer and dominate the exiled lands.

Funcom started capitalizing Conan Exiles in 2016. The carrying amount of *Conan Exiles* is USD 2,487 thousand on December 31, 2016 (2015: nil). There was no amortization or impairment recorded in 2016 since the game did not generate revenue before its release in 2017.

Dreamworld Technology
The Dreamworld Technology is Funcom's proprietary game development technology.

The *Dreamworld Technology*® platform is the technological foundation on which *The Park, Conan Exiles* amongst other projects, are built. This proprietary platform provides Funcom with a unique competitive advantage by enabling more flexible, faster and more predictable development and deployment of upcoming games. The technology is being developed to integrate with 3rd party engines, allowing our development teams to have access to the broad feature list of existing world class engines while also benefitting from our unique technology feature set. Use of the *Dreamworld Technology* will ensure synergies between the development projects of Funcom, significantly reduce the technology risks and development costs of the new projects, as well as provide unique differentiating features to our products.

Core components of the *Dreamworld Technology* platform include a flexible and powerful build and versioning system, an extensive data handling backend allowing our teams to work on extremely large datasets, as well as custom feature support in 3rd party engine extensions, ranging from advanced visual effects to database and user account systems.

The carrying amount of the *Dreamworld Technology* is USD 1,768 thousand on December 31, 2016 (2015: USD 1,847 thousand). 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,* LEGO® *Minifigures Online,* and *Conan Exiles*. In 2016 USD 77 thousand had been capitalized (2015: USD 341 thousand).

Parts of the impairment losses made to *Age of Conan*, *The Secret World* and LEGO® *Minifigures Online* – included in the amounts mentioned above for these games - are allocated to The *Dreamworld Technology*. As of December 31, 2016 the accumulated amount of the impairment losses is USD 10,504 thousand (2015: USD 10,504 thousand).

12. Equipment

In thousands of US dollars	Computers	Furniture	Total:
Cost			
Balance at January 1, 2015	10.066	2.129	**12.195**
Acquisitions			
Disposals			
Translation difference	-412	-335	**-747**
Balance at December 31, 2015	**9.654**	**1.794**	**11.448**
Balance at January 1, 2016	9.654	1.794	**11.448**
Acquisitions			
Disposals			
Translation difference	54	53	**108**
Balance at December 31, 2016	**9.708**	**1.847**	**11.555**
Accumulated depreciation and impairment losses			
Balance at January 1, 2015			
Disposals	10.035	1.905	**11.940**
Impairment charges			
Depreciation for the year			
Translation difference	22	97	**119**
	-409	-303	**-712**
Balance at December 31, 2015	**9.648**	**1.699**	**11.347**
Balance at January 1, 2016	9.648	1.699	**11.347**
Disposals			
Impairment charges		28	**28**
Depreciation for the year	6	59	**65**
Translation difference	54	57	**111**
Balance at December 31, 2016	**9.708**	**1.843**	**11.551**
Carrying amount at Jan. 1, 2015	**31**	**224**	**254**
Carrying amount at Dec. 31, 2015	**6**	**95**	**100**
Carrying amount at Jan. 1, 2016	**6**	**95**	**100**
Carrying amount at Dec. 31, 2016	**-**	**4**	**4**
Method of depreciation	Straight line	Straight line	
Estimated useful lives	3 years	5 years	

13. Trade receivables

In thousands of US dollars	**2016**	**2015**
Trade receivables	628	1,443
Allowances for doubtful debt		
Trade receivables, net	**628**	**1,443**

Refer to note 24 (currency risk) for further details.

14. Prepayments and other receivables

In thousands of US dollars	**2016**	**2015**
Accrued multi-media tax credits and other government grants	223	180
Other prepayments	243	326
Total	**466**	**506**

2015 year-end balance of credits and grants was received in 2016. 2016 year-end balance of USD 223 thousand is related to government grant to Funcom Oslo AS, and the Company expects to receive it in the second half of 2017.

The government grant that Funcom Oslo AS receives is the SkatteFUNN R&D tax incentive scheme, a government program designed to stimulate research and development in Norwegian trade and industry. The incentive is a tax credit and comes in the form of a possible deduction from a company's payable corporate tax. Funcom applied for, and were approved an ongoing project called DreamWorld support for third-party tools. The main objective of this project is to upgrade Funcom's proprietary DreamWorld technology to allow the core areas of the platform to integrate seamlessly with any third party engine. This will strengthen our technological competitive advantage in the industry.

15. Cash and cash equivalents

In thousands of US dollars	**2016**	**2015**
Cash at bank and in hand	3,709	616
Cash and cash equivalents in the statement of financial position	**3,709**	**616**
Restricted cash included in Cash at bank and in hand	124	107

In 2016 USD 124 thousand restricted cash (2015: USD 107 thousand) relates to cash at a separate account for tax deducted from salaries.

16. Equity

Share Capital and Share Premium

	2016	**2015**
Outstanding at January 1	**92,208,134**	**90,444,823**
Issues against payment in cash	157,073,788	1,763,311
Outstanding at December 31 - Fully Paid	**249,281,922**	**92,208,134**
Nominal value of the share-capital at December 31 (EUR)	9,971,277	3,688,325

At December 31, 2016, the authorized share capital comprised of 750 million ordinary shares (2015: 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 2016

Shares:
In May 2016, USD 7,700 thousand of Funcom convertible loan was converted into 42,777,778 Funcom shares at the price of USD 0.18 per share.

In May 2016, Funcom also issued 95,970,000 shares at NOK 0.55 per share through a private placement. The net proceeds amounted to USD 6,011 thousand.

In June 2016, Funcom issued 1,565,000 shares after the exercise of the same number of warrants out of the 3,130,000 warrants that were initially granted to Conan Properties International LLC. The exercise of warrants was made at a price of USD 0.10 per share, and Funcom received cash proceeds of USD 157 thousand.

Following the private placement in May 2016, Funcom issued in August 2016 at NOK 0.55 per share 15,000,000 shares through a subsequent offering. The net proceeds amounted to USD 954 thousand.

In December 2016, USD 180 thousand of the convertible bond plus accrued interest was converted into 1,761,010 Funcom shares at a price of USD 0.1036 per share.

Options:
On February 25, 2015 the company issued 400,000 options to a Managing Officer as part of the Group’s options program.

On June 30, 2016 Funcom held its Annual General Meeting where the company issued 4,980,000 options to its employees and 300,000 options to members of the Supervisory Board.

On October 11, 2016 Funcom issued 500,000 options to four new members of the Supervisory Board.

Warrants:
In June 2016, Funcom issued 1,565,000 shares after the exercise of the same number of warrants out of the 3,130,000 warrants that were initially granted to Conan Properties International LLC.

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 2016.

Events in 2015

Shares:
On May 25, 2012 Funcom announced that the Company had entered into a standby equity agreement with YA Global Master. The agreement is an equity financing mechanism where Funcom at its discretion can draw down funds in tranches in exchange for issuing new shares to YA Global Master. During 2014 one drawdown took place under this agreement and accordingly in April 2015 1,763,311 shares were issued.

Options:
On January 30, 2015 the company issued 300,000 options to a Managing Officer as part of the Group’s options program. On June 18, 2015 the company issued 250,000 options to a Managing Officer as part of the Group’s options program.

On June 26, 2015 Funcom held its Annual General Meeting where the company authorized 30,000,000 options for issue. The Annual General Meeting also authorized some grants to members of the Supervisory Board, further to which on June 26, 2015 the company issued in total 500,000 options to members of the Supervisory Board.

Warrants:
On December 17, 2015, the Company granted to Conan Properties International LLC three million one hundred and thirty thousand (3,130,000) warrants to purchase shares of the Company. The purchase price is USD 0.10, and the exercise period is from June 17, 2016 to December 17, 2020. In exchange, the Company was exempted advance payment and minimum guarantee for use of Conan licensed property to develop licensed products. Since a valuation of the license fee is relatively unreliable, a valuation of the warrants is used instead. As a result, an amount of USD 173 thousand has been added to the equity under the share premium account.

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 2015.

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 2016 was USD 45 thousand (2015: USD 59 thousand).

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 share issuances (for options and other purposes) have been authorized by the shareholders meeting:

Time of authorization	**Number of shares issuances 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**	GM 2012
June 27, 2012	**10,000,000**	GM 2013
June 27, 2013	**15,000,000**	GM 2014
June 27, 2014	**33,000,000**	GM 2015
June 26, 2015	**30,000,000**	GM 2016
February 25, 2016	**140,000,000**	GM 2017
June 30, 2016	**140,000,000**	GM 2017
Total number of options authorized	**384,250,000**	

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 2008**	**Vested in 2009**	**Vested in 2010**	**Vested in 2011**	**Vested in 2012**	**Vested in 2013**	**Vested in 2014**	**Vested in 2015**	**Vested in 2016**	**Vested in 2017**	**Vested in 2018**	**Vested in 2019**
3/1/2007	585,200	195,066	195,067	195,067									
6/14/2007	260,000	86,666	86,667	86,667									
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			
6/26/2014	2,092,000								1,045,910	697,328	348,762		
6/27/2014	1,100,000								849,996	166,667	83,337		
10/30/2014	250,000								250,000				
1/30/2015	300,000									191,663	100,003	8,334	
6/18/2015	250,000									250,000			
6/26/2015	500,000									500,000			
2/25/2016	400,000										244,443	133,333	22,224
6/30/2016	5,280,000										2,789,829	1,660,058	830,113
10/11/2016	500,000										500,000		
Sum	**25,685,000**	**281,732**	**879,984**	**1,977,742**	**1,797,503**	**1,944,136**	**2,099,014**	**3,370,556**	**4,155,573**	**2,458,325**	**4,066,374**	**1,801,725**	**852,337**

List of outstanding options:	**Number of options**	**Weighted average exercise price (USD)**	**Number of options**	**Weighted average exercise price (USD)**
	2016	**2016**	**2015**	**2015**
Outstanding options on January 1	8,458,073	0.57	8,030,154	0.60
Outstanding options on January 1 Adjusted *(1)*	7,136,019	0.42	8,098,211	0.60
Options granted	6,180,000	0.13	1,050,000	0.26
Options exercised				
Options terminated	-391,409	0.37	-309,170	0.50
Options expired	-2,581,138	0.48	-380,968	0.41
Outstanding options on Dec 31	**10,343,472**	**0.23**	**8,458,073**	**0.57**

List of outstanding options:

	2016	**2016**	**2015**	**2015**
Vested (exercisable) options	**3,969,058**	**0.39**	**5,810,522**	**0.84**
Weighted Average Fair Value of Options Granted during the period	**6,180,000**	**0.13**	**1,050,000**	**0.26**

(1) the opening balance of options outstanding has been adjusted to reflect revised figures. The adjustment has no material impact on the financial statements.

Out of the 10,343,469 (2015: 8,458,073) outstanding options on December 31, 2016, 3,969,058 (2015: 5,810,522) options were vested/exercisable. No options were exercised in 2016 (2015: No options were exercised).

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

			Options	
Expiry day	**Exercise price**		**2016**	**2015**
3/20/2016	USD	0.36		109,448
6/27/2016	USD	1.12		150,000
8/12/2016	USD	1.10		722,666
12/24/2016	USD	0.31		25,000
1/12/2017	USD	2.41		100,000
5/31/2017	USD	2.54		18,057
6/27/2017	USD	2.65	50,000	50,000
8/24/2017	USD	0.45	200,000	200,000
9/20/2017	USD	0.36	317,133	494,568
4/24/2018	USD	0.25		100,000
6/24/2018	USD	0.31	1,380,336	1,900,670
6/27/2018	USD	0.30	200,000	400,000
6/26/2019	USD	0.81	1,316,000	1,787,664
6/27/2019	USD	0.80	500,000	1,100,000
10/30/2019	USD	0.71		250,000
1/30/2020	USD	0.25	300,000	300,000
6/18/2020	USD	0.28		250,000
6/26/2020	USD	0.25	100,000	500,000
2/25/2021	USD	0.18	400,000	
6/30/2021	USD	0.13	5,080,000	
10/11/2021	USD	0.16	500,000	
Sum			**10,343,469**	**8,458,073**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was USD 0.09 per option (2014: USD 0.16). The significant inputs into the model were a weighted average share price of USD 0.12-0.18 (2015: USD 0.23-0.24) at the grant date, the exercise prices shown above, volatility of 101.2%-119.84% (2015: 95.61%-108.75% dividend yield 0% (2015: 0%), an expected option life of 3.249-5.0 years (2015: 3.249-5.0 years), an expected annual turnover rate of 7% (2015: 7%) and an annual risk free rate of 0.48%-0.78% (2015: 0.67%-0.96% 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 2016

Name	Number of shares	Number of options	Comments
Supervisory board			
Ole Gladhaug		200,000	
Alain Tascan		350,000	
Egil Kvannli		100,000	
Fredrik Per Malmberg		100,000	
Magnus Groneng	440	100,000	
Management Board			
Rui Casais	100,000	1,096,664	CEO of Funcom NV; 396,664 options are from before 2015 as employee

At the end of 2015

Name	Number of shares	Number of options	Comments
Supervisory board			
Michel Cassius	15,034	900,000	Chairman
Alain Tascan	-	250,000	
Management Board			
Rui Casais	38,731	771,664	CEO of Funcom NV; 471,664 options are from before 2015 as employee

18. Deferred income

The amount consists mainly of subscription prepayments from subscribers.

19. Other short term liabilities

In thousands of US dollars	2016	2015
Taxes and social security payable	369	437
Accrued expenses	446	1,333
Total	**815**	**1,770**

20. Investments in equity-accounted entities

During 2015 Funcom disposed its investment in the associated company Stunlock Studios AB, Sweden, whose principal activity is the development of online computer games. At the end of 2014, Funcom owned a 33% interest in the shares of Stunlock Studios AB. Funcom realized a loss of USD 173 thousand through the disposal.

Funcom owned a 50% share in the Canadian company MMORPG Technologies INC, whose principal activity was the development of online computer games. Another party owned the remaining 50%. This company was considered a joint venture for Funcom. As indicated in the 2014 annual report, the company was in the process of being liquidated and there was no active activity in 2015. At the end of 2015, the company was fully liquidated.

21. Leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2016	2015
Less than one year	850	476
Between one and five years	2,118	1,624
More than five years	162	288
Total	**3,129**	**2,388**

The Group leases office premises in Canada, Norway, USA, and China. 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, 2016, USD 453 thousand was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2015: USD 416 thousand). As of year-end the Company has no outstanding obligations under finance leases.

22. 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 -1,695 thousand (2015: USD -6,789 thousand) divided by the weighted average number of ordinary shares outstanding 249,281,922 (2015: 91,662,232).

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 2016 and 2015, 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.

In thousands of USD

	2016	2015
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands)	-1,695	-6,789
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	-1,695	-6,789
Issued ordinary shares as of January 1	92,208	90,445
Effect of new shares issued and options exercised	88,083	1,217
Weighted average number of shares at December 31	180,291	91,662
Basic earnings per share	**(0.01)**	**(0.07)**
Basic earnings per share - continuing operations	**(0.01)**	**(0.07)**
Weighted average number of shares at December 31, basic	180,291	91,662
Effect of share options on issue		
Weighted average number of shares at December 31, diluted	180,291	91,662
Diluted earnings per share	**(0.01)**	**(0.07)**
Diluted earnings per share - continuing operations	**(0.01)**	**(0.07)**

23. Contingent liabilities

As of December 31, 2016 the group had no contingent liabilities.

24. 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 and Norwegian Kroner. Management has determined that US dollar is the appropriate presentation currency. The Group invoices all non-EU customers in US dollar and Russian rubble, 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 **2016**	Carrying amount **2015**
Loans and receivables*	1,113	2,014
Cash and Cash equivalents	3,709	616
	4,822	**2,630**

* Includes trade receivables of USD 628 thousand (2015: USD 1,443 thousand), long-term receivables of USD 19 thousand (2015: USD 65 thousand) which relates to a long term deposit on operational leases, nil multimedia tax credits (2015: USD 180 thousand), and other accruals, deposits and advances for a total of USD 466 thousand (2015: 326 thousand). All multimedia tax credits receivables have been received. 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.

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

In thousands of US dollars

	Carrying amount 2016	**Carrying amount 2015**
North America		
Europe	628	1,443
	628	1,443

Receivables on credit card service providers amount to USD 431 thousand of the trade receivables carrying amount at December 31, 2016 (2015: USD 1,227 thousand).

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars

	Gross	Impairment	Gross	Impairment
	2016	2016	2015	2015
Not past due	587		1.442	
Past due 0-30 days	8			
Past due 31-120 days	26		1	
More than 120 days	7			
	628		1.443	

The group recorded no impairment losses for receivables in 2016 (2015: nil).

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

As at December 31, 2016

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	Year 2	Year 3	Thereafter
Trade payables and current loans and borrowings	-299	-251	-251				
Other short-term liabilities	-815	-815	-815				
Non-current loans and borrowings	-7,019	-6,889			-6,889		
	-8,133	**-7,955**	**-1,066**		**-6,889**		

As at December 31, 2015

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	Year 2	Year 3	Thereafter
Trade payables and current loans and borrowings	-10,413	-10,413	-263	-10,150			
Other short-term liabilities	-1,770	-1,770	-722	-22	-4	-849	-173
Non-current loans and borrowings	-3,434	-4,048			-4,000		-48
	-15,616	**-16,231**	**-985**	**-10,172**	**-4,004**	**-849**	**-222**

Trade Payables and Current Loans and Borrowings:

Trade Payables and Current Loans and Borrowings mainly consist of Trade payables equal to USD 251 thousand (2015: USD 263 thousand).

Other short-term liabilities:

Other short-term liabilities mainly consist of USD 351 thousand sales tax and social security payable (2015: USD 437 thousand) and operational accrued expenses of USD 446 thousand (2015: USD 1,333 thousand).

Non-current loans and borrowings:

Non-current loans and borrowings consist of USD 6,830 thousand convertible bond due on December 31, 2018, and a rental deposit of USD 50 thousand (2015: 48 thousand).

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. As of December 31, 2015 sixty two bonds (total USD 6,200 thousand) issued on December 22, 2011 are still outstanding. Due to amendments and transactions during 2016, 6,899,194 bonds are outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of December 31, 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2016 the bonds have a carrying amount of USD 6,830 thousand (2015: USD 6,200 thousand).

Working capital loan - nil (2015: 3,950 thousand)
Convertible loan- nil (2015: carrying amount USD 3,385 thousand; face value USD 4,000 thousand)

On April 13, 2016, KGJ Investments SA Sicav-SIF and the Company signed an agreement to combine the USD 3,950 thousand working capital loan (maturity date December 15, 2016 and 8% interest rate) and the USD 4,000 thousand convertible loan (maturity date June 27, 2017, 5% interest rate and USD 0.86 conversion price) into a new convertible loan of USD 7,950 thousand with maturity date of June 30, 2019, interest rate of 6%, and conversion price of USD 0.18 per share. By the end of 2016, the new convertible loan has been converted into Funcom shares.

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 2017. 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 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 US dollar and Norwegian kroner. The significant cash positions in Norwegian kroner are perceived by the management as a natural hedge against the operational expenses in these currencies.

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

In thousands of US dollars

As at December 31, 2016	**USD**	**EURO**	**NOK**	**CAD**	**OTHER**	**Total:**
Trade and other receivables	431	165			33	628
Cash and cash equivalents	220	204	3,342	39	44	3,849
Trade payables and current loans and borrowings	-57	-81	-113		-1	-252
Net balance sheet exposure	594	288	3,229	39	76	4,226

As at December 31, 2015	**USD**	**EURO**	**NOK**	**CAD**	**OTHER**	**Total:**
Trade and other receivables	730	635	1		77	1,443
Cash and cash equivalents	103	19	159	81	253	616
Trade payables and current loans and borrowings	-10,320	-35	-30		-28	-10,413
Net balance sheet exposure	-9,486	618	130	82	302	-8,354

The following exchange rates applied during the year:

	Reporting rate			
	Average rate		**Spot rate at December 31**	
	2016	**2015**	**2016**	**2015**
EUR	1.107	1.115	1.0516	1.091
NOK	0.119	0.123	0.116	0.114
CAD	0.754	0.796	0.7437	0.721
CNY	0.151	0.161	0.144	0.154

Sensitivity analysis

A 10 percent weakening of the US dollars compared to EUR, NOK, CAD and CNY 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

	Profit or Loss
December 31, 2016	
EUR	-29
NOK	-323
CAD	-4
CNY	
December 31, 2015	
EUR	-62
NOK	-13
CAD	-8
CNY	-3

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 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 convertible bonds issued in 2011. 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

	2016	2015
Loans and borrowings		
Cash and cash equivalents	3,848	616
Net exposed to interest risk	3,848	616
100 bp increase in interest rate	38	6
100 bp decrease in interest rate	-38	-6

Classes of financial instruments

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

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 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Trade and other Receivables	628	628	1,443	1,443
Cash and cash equivalents	3,848	3,848	616	616
Trade paybles and current loans and borrowings	-299	-299	-10,413	-10,413
Other short term liabilities	-814	-814	-1,770	-1,770
Non-current loans and borrowings	-7,019	-7,019	-3,434	-3,434

All 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.

Convertible bonds - carrying amount USD 6,830 thousand (2015: USD 6,200 thousand)

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. As of December 31, 2015 sixty two bonds issued on December 22, 2011 were still outstanding. Due to amendments and transactions during 2016, 6,899,194 bonds are outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of December 31, 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2016 the bonds have a carrying amount of USD 6,830 thousand (2015: USD 6,200 thousand).

Working capital loan - nil (2015: 3,950 thousand)

Convertible loan- nil (2015: carrying amount USD 3,385 thousand; face value USD 4,000 thousand)

On April 13, 2016, KGJ Investments and the Company signed an agreement to combine the USD 3,950 thousand working capital loan (maturity date December 15, 2016 and 8% interest rate) and the USD 4,000 thousand convertible loan (maturity date June 27, 2017, 5% interest rate and USD 0.86 conversion price) into a new convertible loan of USD 7,950 thousand with maturity date of June 30, 2019, interest rate of 6%, and conversion price of USD 0.18 per share. By the end of 2016, the new convertible loan has been converted into Funcom shares.

25. Transactions with related parties

Identification of related parties

The Group has a related party relationship with its subsidiaries (see note 26), members of the Supervisory and Management Boards, its executive officers and shareholders.

Remuneration to the Supervisory Board

On June 30, 2016, the General Meeting approved annual remuneration to the Chairman of the Supervisory Board of EUR 27,000 (2015 EUR 27,000) and EUR 18,000 (2015: EUR 18,000) for all other members of the supervisory board.

Supervisory Board member	Total remune-ration TUSD	Total remuneration is composed of: Board fee TUSD	Share based TUSD
2016			
Ole Gladhaug (1)	12	7	5
Michel Cassius (2)	56	23	33
Alain Tascan	32	20	12
Magnus Grøneng (4)	7	5	2
Fredrik Malmberg (5)	7	5	2
Egil Kvannli (5)	7	5	2
Total:	**121**	**65**	**56**
2015			
Michel Cassius (2)	83	16	67
Alain Tascan	48	20	28
Gerhard Florin (3)	59	15	44
Ole Gladhaug (1)	41	12	29
Magnus Grøneng (4)	41	12	29
Total:	**271**	**75**	**196**

Supervisory Board member	Number of options granted during the year	Number of options exercised durng the year	Total number of options held / controlled at year end	Number of shares held / controlled at year end (incl. related parties)
2016				
Ole Gladhaug	200,000		200,000	
Alain Tascan	100,000		350,000	
Magnus Grøneng	100,000		100,000	440
Fredrik Malmberg	100,000		100,000	
Egil Kvannli	100,000		100,000	
	600,000	**-**	**850,000**	**440**
2015				
Michel Cassius	450,000		900,000	49,034
Alain Tascan	100,000		250,000	
Ole Gladhaug	100,000			
Magnus Grøneng	100,000			400
Total:	**750,000**	**-**	**1,150,000**	**49,434**

(1) Ole Gladhaug resigned from the Supervisory Board on August 11, 2015, and re-joined the Supervisory Board as the Chairman on October 5, 2016.

(2) Michel Cassius became the Chairman of the Supervisory Board on June 26, 2015, and he resigned from the Supervisory Board on October 5, 2016.

(3) Gerhard Florin is no longer a Supervisory Board Member as of June 26, 2015.

(4) Magnus Grøneng resigned from the Supervisory Board on August 11, 2015, and re-joined the Supervisory Board on October 5, 2016.

(5) Fredrik Malmberg and Egil Kvannli joined the Supervisory Board on October 5, 2016.

Remuneration to the Management Group (includes members of the Supervisory Board, Management Board and executive management):

In thousands of US dollars	**2016**	**2015**
Salaries and benefits in kind (short-term employee benefits)	331	375
Share-based payments	111	343
Pension plan contributions	5	2
Total remuneration	**447**	**720**

Remuneration to the Management Board:

In thousands of US dollars

Management Board member	Total remune-ration	Remune-ration	Bonus	Severance	Pension cost	Share based
2016						
Rui Casais	325	211	55		5	54
Total:	**325**	**211**	**55**		**5**	**54**
2015						
Michel Cassius (1)	191	119				73
Rui Casais (2)	257	181			2	74
Total:	**449**	**300**			**2**	**147**

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	Number of shares held / controlled at year end
2016				
Rui Casais	400,000		1,096,664	100,000
Total:	**400,000**	**0**	**1,096,664**	**100,000**
2015				
Michel Cassius (1)	450,000		900,000	34,000
Rui Casais (2)	300,000		771,664	38,731
Total:	**750,000**	**0**	**1,671,664**	**72,731**

(1) Michel Cassius departed from the Management Board on May 12, 2015.

(2) Rui Casais' appointment to the Management Board was confirmed on January 30, 2015 after being temporarily mandated to join the Management Board by the Supervisory Board in 2014.

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). The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies he controls were 25.92% as of December 31, 2016 (2015: 26.77%). The following transactions took place in 2016 between Funcom Group and companies controlled by Mr. Jebsen:

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. As of December 31, 2015 sixty two bonds (total USD 6,200 thousand) issued on December 22, 2011 were still outstanding. On July 27, 2016, bond interest accrued up to February 26, 2016 in the amount of USD 879 thousand was converted into additional bond. There were also amendments to the bond terms in 2016. As a result, 6,899,194 bonds are outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of December 31, 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2016 the bonds have a carrying amount of USD 6,830 thousand (2015: USD 6,200 thousand) and an actual balance due of USD 6,899 thousand (2015: USD 6,200 thousand).

In November 2013 the Company negotiated a working capital loan with KGJI, Funcom’s largest shareholder and creditor with 8 percent annual interest rate and initial maturity in January 2015. The first instalment of USD 3,000 thousand was received in December 2013 and the second one of USD 1,250 thousand in 1Q14. The last instalment of USD 1,250 thousand was drawn by the Company in September 2014. USD 1,550 thousand was restructured into the new convertible loan in August 2014. As of December 31, 2015 the working capital loan has a balance of USD 3,950 thousand and is due on December 15, 2016.

On August 26, 2014, Funcom entered into an interest bearing convertible loan agreement with KGJI to restructure USD 2,450 thousand of the existing interest bearing loan and USD 1,550 thousand of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on June 27, 2017. The conversion price is 0.86 USD per share. As of December 31, 2015 the loan has a carrying amount of USD 3,385 thousand and an actual balance due of USD 4,000 thousand.

On April 13, 2016, KGJ Investments and the Company signed an agreement to combine the USD 3,950 thousand working capital loan (maturity date December 15, 2016 and 8% interest rate) and the USD 4,000 thousand convertible loan (maturity date June 27, 2017, 5% interest rate and USD 0.86 conversion price) into a new convertible loan of USD 7,950 thousand with maturity date of June 30, 2019, interest rate of 6%, and conversion price of USD 0.18 per share. By the end of 2016, the new convertible loan has been converted into Funcom shares, out of which USD 7,700 thousand of the loan was converted at USD 0.18 per share, and USD 250 thousand of the loan was converted at USD 0.1036 per share.

26. Group entities

Group entities
The Company is the ultimate parent company to 4 wholly owned subsidiaries.

Significant subsidiaries	Country of incorporation	Principal Activity	Ownership	interest in %
Funcom Games Canada Inc.	Canada	The development of computer games	100	100
Funcom Inc.	United States	The development of computer games	100	100
Funcom Oslo AS	Norway	The development and operation of games and technology	100	100
Funcom Games Beijing Ltd	China	The development of computer games	100	100

27. 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 online games. If some of these online games 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 games may be, to a high degree, dependent on favourable 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 online games 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 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 games in the same genre as Funcom's games in development and operation worldwide. Hence, consumers have and will have a number of options to choose from. Through the history of online games, the market has never accommodated many top-selling products at any one time. Even though the number of serious competitors to Funcom in the multiplayer online game 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 fulfil 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 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 online game, 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 these games 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 online games 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 endeavours 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 online games may be subject to hacking activities. Any hacking activity may affect Funcom's ability to operate its games, which will affect Funcom's ability to gain revenues.

Risks related to the Internet
Funcom's online games 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 the Company's games is likely to suffer.

Contracts
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 rubble, while EU customers are invoiced in Euro, British pound and Polish zloty. Normally, the Group's cash position in Norwegian kroner is significant compared to its total assets. The majority of the operational expenses is denominated in Norwegian kroner and is perceived by the management as a natural hedge against the large position in Norwegian kroner. See note 24 for further information.

Tax exposure
The Company is incorporated in the Netherlands with subsidiaries in Canada, Norway, China, 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. Per January 1, 2015 a new EU VAT regulation became 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 created 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 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.

Financial risk

Funcom has a history of operating losses mainly as a result of the significant investments made in the Company's games. As a result, the Company has also a convertible debt (convertible bond) with maturity in 2018. The Company's strategy of producing smaller and experimental games in addition to larger and more revenue driven games is meant to increase the number of game releases to provide multiple revenue streams and restore the profitability and the liquidity of the Company. Initial indications from the launch of Conan Exiles in Q1 2017 confirm that this strategy is starting to succeed and the company hopes that it will continue to do so going forward. The Company's overall performance is largely dependent on the revenues from existing and future games and investors should refer to the Going concern assessment in the Report of the Management Board for a more thorough assessment.

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.

28. Events after the reporting period

On January 9, 2017 the Company has issued 2,413,127 new shares to KGJ Investment S.A. SICAV-SIF following the conversion of the remaining USD 250,000 under the Restated and Amended Convertible Loan Agreement dated 13 April 2016 (as amended from time to time) (the "Convertible Loan"). After this transaction, no balance remains under the Convertible Loan, and the only remaining financial liability of the Company relates to the Ten per cent Senior Unsecured Convertible Bond Issue 2011/2014 (as amended from time to time).

On January 19, 2017 and on February 3, 2017, respectively 500,000 and 1,065,000 warrants were exercised giving rights to subscribe for the same amount of share at a price of USD 0.10 per share. In consequence, a total of 1,565,000 new shares in Funcom N.V. were issued.

The *Conan Exiles* game was released on January 31, 2017 in Early Access on the Steam platform. More than 320,000 units[3] worldwide were sold during the first week. All of the costs directly related to this game[4] were recouped and the project is since then operationally profitable.

On March 29 2017, the Company held an extraordinary meeting. As a result of the meeting, Rui Casais, CEO and Managing Director of Funcom NV, was appointed Chairman of the Board of Managing Directors effective March 30 2017; Christian Olsthoorn, CFO of Funcom N.V., was appointed Managing Director effective March 30, 2017.

On March 31 2017, KGJ Investments S.A. SICAV-SIF ("KGJI"), Funcom's largest shareholder and controlled by Mr. Hans Peter Jebsen, sold 20,000,000 shares in Funcom, representing 7.88% of the share capital. The shares were sold at a price of NOK 2.84 per share. After the transaction, KGJI and other companies, directly or indirectly controlled by Mr. Hans Peter Jebsen, hold 47,232,367 shares equal to 18.60% of Funcom's share capital. Furthermore, KGJI has notified Funcom on April 7, 2017 of conversion of 3.5 mill bonds (each denominated with 1 USD) and accrued interest the 10 per cent Senior Unsecured Convertible Bond Issue 2011/2014 (as amended from time to time) (the "Convertible Bond") to 34,675,480 new shares. Upon such conversion, companies controlled directly or indirectly by Mr. Hans Peter Jebsen have a total shareholding in Funcom of ~28.4%, which represents an increase from the ~26.47% shareholding prior to the share sale and bond conversion. Shares from conversion were issued on April 11 2017.

[3] These units pertain to "net sales", after removal of refunds and chargebacks.
[4] Direct costs are considered to be those related to salaries, social security and equipment for the development, technology and marketing teams, external PR & Marketing expenses and other external consulting or licensing expenses directly attributable to the project.

Company Financial Statements Funcom N.V.

Statement of Financial Position

Before appropriation of result

In thousands of US dollars	**Note**	**31. Dec. 2016**	**31. Dec. 2015**
Investments in and receivables from group companies	1,2	7.930	4.981
Financial fixed assets		**7.930**	**4.981**
Prepayments and other receivables		30	15
Cash and cash equivalents	3	2.894	23
Total current assets		**2.924**	**38**
Total assets		**10.854**	**5.019**
Issued capital	5	10.486	4.022
Share premium	6	170.021	161.554
Legal reserves	7	6.252	4.133
Other reserves	8	-180.692	-114.332
Result after taxation		-2.294	-64.939
Total equity		**3.773**	**-9.561**
Loans and borrowings	4	6.830	3.385
Total non-current liabilities		**6.830**	**3.385**
Accrued expenses		110	874
Other current liabilities	4	141	10.321
Total current liabilities		**251**	**11.195**
Total equity and liabilities		**10.854**	**5.019**

Statement of Comprehensive Income

For the year ended December 31

In thousands of US dollars	Note	2016	2015
Revenue	9	32	167
Personnel expenses	10	-157	-387
General and administrative expenses	11	-1,213	-458
Depreciation	12		-4,098
		-1,369	-4,943
Operating result		-1,338	-4,776
Financial income	13	592	1,966
Financial expenses	14	-1,548	-62,129
Result before income tax		-2,294	-64,939
Income tax expense			
Result for the period		**-2,294**	**-64,939**
Results from participating interest after tax	2	599	58,150
Consolidated results after taxation		**-1,695**	**-6,789**

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 and the firm pronouncements in the Dutch Accounting Standards as issued by the Dutch Accounting Standards Board. 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.

For the accounting policies for the company balance sheet and income statement, reference is made to the notes to the consolidated balance sheet and income statement.

1. Investments in and Receivables from Group Companies

In thousands of US dollars	2016	2015
Receivables non-current	3.149	1.132
Investments in subsidiaries	4.781	3.849
	7.930	4.981

2. Investments in subsidiary companies

The Company holds the following investments in subsidiary companies at December 31, 2016:

Significant subsidiaries	**Country of incorporation**	**Ownership interest in %**	
		2016	**2015**
Funcom GmbH*	Switzerland	Not applicable	100.00
Funcom Sales GmbH*	Switzerland	Not applicable	100.00
Funcom Games Canada Inc	Canada	100.00	100.00
Funcom S.à r.l.*	Luxembourg	Not applicable	100.00
Funcom Inc.	United States	100.00	100.00
Funcom Oslo AS	Norway	100.00	100.00
Funcom Games Beijing Ltd	China	100.00	100.00

* Funcom GmbH, Funcom Sales GmbH, and Funcom S.à r.l. were fully liquidated by the end of 2016.

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

In thousands of US dollars

	2016	2015
Balance at 01.01	4.981	8.336
Translation results	-357	3.268
Result of participations	1.237	58.150
Intercompany loans	2.655	-64.746
Write-off intercompany loans	-638	
Other movements	52	-27
Balance 31.12	**7.930**	**4.981**

Investments in and receivables from equity-accounted entities

In thousands of US dollars	2016	2015
Shares	Not applicable	Not applicable

	2016	2015
Balance at 01.01	-	195
Change in participation		-195
Exchange difference		
Result of the year		
Other Movements		
Balance 31.12	-	**0**

As of December 31, 2015, MMORPG Technologies INC has been fully liquidated and the Company has disposed its investment in Stunlock Studios AB.

3. Cash and cash equivalents

For both 2016 (USD 2,894 thousand) and 2015 (USD 23 thousand), cash and cash equivalents are bank balances without restriction for the use.

4. Liabilities

Other current liabilities in 2016 of USD 141 thousand do not include any loan, and are related to Funcom NV's regular business operations. Other current liabilities in 2015 include USD 6,200 thousand due to KGJI on a convertible bond due December 15, 2016, USD 3,950 thousand due to KGJI on a working capital loan due December 15,2016 and USD 171 thousand from Funcom NV's regular business operations.

Non-current liabilities in 2016 of USD 6,830 thousand are a convertible bond due December 31, 2018. Non-current liabilities in 2015 of USD 3,385 thousand are a convertible bond.

5. Issued capital

In thousands of US dollars

	2016	2015
Balance at 01.01	4,022	4,856
Addition share-capital	7,006	79
Translation result opening share capital	-144	-888
Exchange difference on new share issue	-398	-24
Balance 31.12	**10,486**	**4,022**

The share-capital was translated into US dollars at the December 31, 2016 exchange rate of EUR/USD 1.0516 (2015: 1.0906). The issued capital for these standalone accounts is not equal to that of the group accounts, due to differences in the translation of foreign currency under the respective accounting frameworks, Dutch corporate law demands that share capital is converted into presentation currency on the last day of the reporting period, whereas the group balance is translated at the historical rate in line with IFRS requirements.

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

- January 1: 92,208,134
- December 31: 249,281,922

At December 31, 2016, the authorized share capital comprised of 750 million ordinary shares (2015: 250 million). The nominal value of the shares is Euro 0.04. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

Share-capital and share premium

	Number of ordinary shares	
	2016	2015
Outstanding at January 1	92,208,134	90,444,823
Issued against payment in cash	112,535,000	1,763,311
Issued as a result of conversion of debts (Note 25)	44,538,788	
Outstanding at December 31 - fully paid	**249,281,922**	**92,208,134**
Nominal value of the share-capital at December 31 (EUR)	9,971,277	3,688,325

Events in 2016:

Shares:
In May 2016, Funcom issued 95,970 thousand shares from a private placement. In August 2016, Funcom issued 15,000 thousand shares from a subsequent offering. In June 2016, Funcom also issued 1,565 thousand shares through a warrant exercise.

In May 2016, USD 7,700 thousand convertible loan was converted into 42,777,778 shares at USD 0.18 per share. In December 2016, USD 180 thousand convertible bond plus accrued interest was converted into 1,761,010 shares at USD 0.1036 per share.

Options:
On February 25, 2016 the company issued 400,000 options to a Managing Officer as part of the Group's options program.

On June 30, 2016 Funcom held its Annual General Meeting where the company authorized 140,000,000 options for issue. On the same date, the company issued 300,000 options to members of the Supervisory Board and 4,980,000 options to its employees.

On October 11, 2016 the company issued 500,000 options to members of the Supervisory Board further to their appointment as part of the Group's options program.

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

Dividends:
The Company did not pay any dividends in 2016.

Events in 2015:

Shares:
On May 25, 2012 Funcom announced that the Company had entered into a standby equity agreement with YA Global Master. The agreement is an equity financing mechanism where Funcom at its discretion can draw down funds in tranches in exchange for issuing new shares to YA Global Master. During 2015 the last drawdown took place under this agreement and accordingly in April 2015 1,763,311 shares were issued.

Options:
On January 30, 2015 the company issued 300,000 options to a Managing Officer further to his appointment as part of the Group's options program.

On June 18, 2015 the company issued 250,000 options to a Managing Officer further to his appointment as part of the Group's options program.

On June 26, 2015 Funcom held its Annual General Meeting where the company authorized 30,000,000 options for issue. Annual General Meeting also authorized some grants to members of the Supervisory Board, further to which the company issued in total 500,000 options to members of the Supervisory Board.

Other:

In November 2013 the Company negotiated new loan financing (working capital loan) with KGJ Investments SA Sicav-SIF (KGJI), Funcom's largest shareholder and creditor, in the amount of USD 5,500 Thousand. The first instalment of USD 3,000 thousand was received in December 2013 and the second one of USD 1,250 thousand - in 1Q14. The last instalment of USD 1,250 thousand was received in 3Q14. USD 1,550 thousand was restructured into the new convertible loan in 3Q14. The balance of the working capital loan stands at USD 3,950 thousand.

On August 26, 2014, Funcom entered into an interest bearing convertible loan agreement with KGJI. The Annual General Meeting of the Company's shareholders held on June 27, 2014 approved an offer from KGJI to restructure USD 2,450 thousand of the existing interest bearing loan and USD 1,550 thousand of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on 27June 2017. The conversion price is 0.86 USD per share. The new convertible loan is due on June 27, 2017 which is an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan was executed successfully in August 2014. As of December 31, 2015 the loan has a carrying amount of USD 3,385 (2014: USD 3,049) thousand and an actual balance due of USD 4,000 thousand. USD 1,056 thousand of this loan is considered equity and has been treated accordingly.

Translation reserve:

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

Dividends:

The Company did not pay any dividends in 2015.

6. Share premium

In thousands of US dollars

	2016	2015
Balance at 01.01	161,554	160,408
Share based payments	146	814
Addition to share premium	8,234	332
Other	87	
Balance 31.12	**170,021**	**161,554**

7. Legal reserves

Legal reserves are not distributable to shareholders. The legal reserves relate to capitalized development costs (USD 6,252 thousand; 2015: USD 4,133 thousand).

In thousands of US dollars

	2016	2015
Balance at 01.01	4,306	7,257
Game capitalization	4,082	3,482
Game amortization	-1,772	-6,433
Exchange effect on game values	-364	
Balance at 31.12	6,252	4,306

8. Other reserves

In thousands of US dollars

	2016	2015
Balance at 01.01	-179,271	-175,276
Exchange effect on share-capital	1	912
Exchange effect on subsidiaries	12	-1,415
Movement to legal reserves	-1,946	3,124
Result from participating interest after tax	599	58,150
Warrants	-87	173
Balance at 31.12	-180,692	-114,332
Result after taxation	-2,294	-64,939

Funcom does not distribute any dividend either in 2015 or 2016. All results after taxation go to other reserves.

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

9. Revenue

In 2016, some Funcom games were sold through Apple, and Funcom NV received royalty income of USD 32 thousand. Royalty income is recognized immediately upon receipt. Please see consolidated notes for more revenue recognition policy.

In 2015, besides royalty income of USD 90 thousand, Funcom NV also generated USD 77 thousand for its management services to Funcom Swiss entities. Since Swiss entities were liquidated, there was no more revenue for management fees in 2016.

10. Personnel expenses

Personnel expenses were related to remuneration to members of the Supervisory Board (2016: USD 64 thousand; 2015 USD 96 thousand) and their share option cost (2016: USD 92 thousand; 2015: USD 291 thousand). Please refer to Note 16 for more details.

There was no employee in Funcom N.V. for 2016 or 2015.

11. General and administrative expenses

General and administrative expenses are mainly for corporate initiatives, such as share issues. They can be classified into the following categories:

In thousands of USD

	2016	2015
Audit fees	133	93
Legal services	517	160
Investor relations	239	139
Consulting fees	194	308
Intercompany transactions	67	-465
Other	63	223
Total	1,213	458

12. Depreciation

Funcom NV does not have fixed assets in 2016, so there is no depreciation. Some games were booked under Funcom NV in 2015, and 2015 depreciation amount was related to game depreciation. With games booked in another Funcom company, there will be no future depreciation if there are no new fixes assets. General and administrative expenses are mainly for corporate initiatives, such as share issues.

13. Financial income

Financial income consists mainly of intercompany loan interest and foreign exchange gain.

In thousands of USD	2016	2015
Intercompany interest income	144	1,904
Foreign exchange gain	448	7
Other		15
Total	592	1,926

14. Financial expenses

Financial expenses consist mainly of loan interest and foreign exchange loss.

In thousands of USD	2016	2015
Loan interest	640	1,895
Foreign exchange loss	442	450
Intercompany write-off	211	59,547
Other	394	237
Total	1,687	62,129

2016 and 2015 have intercompany write-offs since Funcom NV was liquidating some subsidiaries.

15. Remuneration of the members of the Management Board

Management Board member	Total remune-ration	Remune-ration	Bonus	Severance	Pension cost	Share based
2016						
Rui Casais	325	211	55		5	54
Total:	**325**	**211**	**55**		**5**	**54**
2015						
Michel Cassius (1)	191	119				73
Rui Casais (2)	257	181			2	74
Total:	**449**	**300**			**2**	**147**

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	Number of shares held / controlled at year end
2016				
Rui Casais	400.000		1.096.664	100.000
Total:	**400.000**	**0**	**1.096.664**	**100.000**
2015				
Michel Cassius (1)	450.000		900.000	34.000
Rui Casais (2)	300.000		771.664	38.731
Total:	**750.000**	**0**	**1.671.664**	**72.731**

(1) Michel Cassius departed from the Management Board on May 12, 2015.

(2) Rui Casais' appointment to the Management Board was confirmed on January 30, 2015 after being temporarily mandated to join the Management Board by the Supervisory Board in 2014.

The following table shows the details of the stock incentives of the individual member of the Management Board:

	Year Issued	**Outstanding Dec 31,2015**	**Granted**	**Expired**	**Exercised**	**Outstanding Dec 31 2016**	**Exercise Price USD**	**Expiry Date**	**Vesting Date**
Rui Casais	2011	75,000		75,000		0	0.76	12/08/2016	Various
	2012	66,664				66,664	0.25	20/09/2017	Various
	2013	130,000				130,000	0.21	24/06/2018	Various
	2014	200,000				200,000	0.56	26/06/2019	Various
	2015	300,000				300,000	0.22	30/01/2020	Various
	2016		400,000			400,000	0.18	25/02/2021	Various
	Total	**771,664**			**Total**	**1,096,664**			
	Vested	**353,603**			**Vested**	**554,991**			

<u>Loans</u>

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

16. Remuneration of the members of the Supervisory Board

The General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Supervisory Board. In 2016, the total remuneration to the Supervisory Board was EUR 58,986 (USD 63,425) (2015: EUR 66,370 (USD 78,547)). The annual remuneration was EUR 27,000 (USD 28,244) (2015: EUR 27,000 (USD 31,953)) for the Chairman, and was EUR 18,000 (USD 18,929) (2015: EUR 18,000 (USD 21,302)) for each of other members, prorated in accordance with the months of service. EUR 58,986 (2015: EUR 34,810) of the fees for 2016 are outstanding at year end.

Supervisory Board member	Total remune-ration USD	Total remuneration is composed of: Board fee USD	Share based USD
2016			
Ole Gladhaug (1)	12	7	5
Michel Cassius (2)	56	23	33
Alain Tascan	32	20	12
Magnus Grøneng (4)	7	5	2
Fredrik Malmberg (5)	7	5	2
Egil Kvannli (5)	7	5	2
Total:	**121**	**65**	**56**
2015			
Michel Cassius (2)	83	16	67
Alain Tascan	48	20	28
Gerhard Florin (3)	59	15	44
Ole Gladhaug (1)	41	12	29
Magnus Grøneng (4)	41	12	29
Total:	**271**	**75**	**196**

Supervisory Board member	Number of options granted during the year	Number of options exercised durng the year	Total number of options held / controlled at year end	Number of shares held / controlled at year end (incl. related parties)
2016				
Ole Gladhaug	200,000		200,000	
Alain Tascan	100,000		350,000	
Magnus Grøneng	100,000		100,000	440
Fredrik Malmberg	100,000		100,000	
Egil Kvannli	100,000		100,000	
	600,000	**-**	**850,000**	**440**
2015				
Michel Cassius	450,000		900,000	49,034
Alain Tascan	100,000		250,000	
Ole Gladhaug	100,000			
Magnus Grøneng	100,000			400
Total:	**750,000**	**-**	**1,150,000**	**49,434**

(1) Ole Gladhaug resigned from the Supervisory Board on August 11, 2015, and re-joined the Supervisory Board as the Chairman on October 5, 2016.

(2) Michel Cassius became the Chairman of the Supervisory Board on June 26, 2015, and he resigned from the Supervisory Board on October 5, 2016.

(3) Gerhard Florin is no longer a Supervisory Board Member as of June 26, 2015.

(4) Magnus Grøneng resigned from the Supervisory Board on August 11, 2015, and re-joined the Supervisory Board on October 5, 2016.

(5) Fredrik Malmberg and Egil Kvannli joined the Supervisory Board on October 5, 2016.

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

			In 2016							
	Year of issuance	Outstand Dec 31, 2015	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2016	Exercise price USD	Expiry date	Vesting
Alain Tascan	2012	25,000	-	-	-	-	25,000	2.65	27/12/2017	27/06/2013
	2012	25,000	-	-	-	-	25,000	2.65	27/12/2017	27/06/2014
	2014	100,000	-	-	-	-	100,000	0.66	27/06/2019	27/06/2015
	2015	100,000	-	-	-	-	100,000	0.24	26/06/2020	26/06/2016
	2016		100,000				100,000	0.13	30/06/2021	30/06/2017
	Total	**250,000**					**350,000**			
	Vested	**150,000**					**250,000**			

			In 2016							
	Year of issuance	Outstand Dec 31, 2015	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2016	Exercise price USD	Expiry date	Vesting
Ole Gladhaug	2016	0	200,000	-	-	-	200,000	0.16	11/10/2021	11/10/2017
	Total	**0**					**200,000**			
	Vested	**0**					**0**			

			In 2016							
	Year of issuance	Outstand Dec 31, 2015	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2016	Exercise price USD	Expiry date	Vesting
Magnus Grøneng	2016	0	100,000	-	-	-	100,000	0.16	11/10/2021	11/10/2017
	Total	**0**					**100,000**			
	Vested	**0**					**0**			

			In 2016							
	Year of issuance	Outstand Dec 31, 2015	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2016	Exercise price USD	Expiry date	Vesting
Fredrik Malmberg	2016	0	100,000	-	-	-	100,000	0.16	11/10/2021	11/10/2017
	Total	**0**					**100,000**			
	Vested	**0**					**0**			

			In 2016							
	Year of issuance	Outstand Dec 31, 2015	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2016	Exercise price USD	Expiry date	Vesting
Egil Kvannli	2016	0	100,000	-	-	-	100,000	0.16	11/10/2021	11/10/2017
	Total	**0**					**100,000**			
	Vested	**0**					**0**			

	Year of issuance	Outstand Dec 31, 2015	In 2016 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2016	Exercise price USD	Expiry date	Vesting
Michel Cassius	2011	25,000	-	-	-	-25,000		0.78	27/06/2016	27/06/2012
	2011	25,000	-	-	-	-25,000		0.78	27/06/2016	27/06/2013
	2013	25,000	-	-	-	-25,000		0.25	27/06/2018	27/06/2014
	2013	25,000	-	-	-	-25,000		0.25	27/06/2018	27/06/2015
	2014	100,000	-	-	-	-100,000		0.66	27/06/2019	27/06/2015
	2014	250,000	-	-	-	-250,000		0.62	30/10/2019	30/10/2015
	2015	250,000		-	-	-250,000		0.24	18/06/2020	18/06/2016
	2015	250,000		-	-	-250,000		0.24	26/06/2020	26/06/2016
	2016		200,000			-200,000		0.13	30/06/2021	30/06/2017
	Total	**900,000**					**0**			
	Vested	**450,000**					**0**			

17. Transactions with Related parties

<u>Identification of related parties</u>
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.

<u>Transactions with subsidiaries and equity-accounted entities:</u>
There have been no transactions between Group companies and between the Group and equity-accounted entities.

As indicated in Note 20, the Group disposed its interest in one equity-accounted entity in 2015, and the other equity-accounted entity had been fully liquidated by December 31, 2015.

<u>Transactions with Supervisory and Management Board members:</u>
No Supervisory Board member was paid fees for consulting services in 2016 (2015: nil).

<u>Transactions with shareholders:</u>
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). The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies he controls were 25.92% as of December 31, 2016 (2015: 26.77%).

Convertible bonds - carrying amount USD 6,899 thousand (2015: USD 6,200 *thousand)*
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. As of December 31, 2015 sixty two bonds issued on December 22, 2011 are still outstanding. On July 27, 2016, bond interest accrued up to February 26, 2016 in the amount of USD 879 thousand was converted into additional bond. There were also amendments to the bond terms in 2016. As a result, 6,899,194 bonds are outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of December 31, 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder.

As of December 31, 2016 the bonds have a carrying amount of USD 6,830 thousand (2015: USD 6,200 thousand). KGJI is the majority holder of these convertible bonds with a principal amount of USD 6,851 thousand.

On March 31 2017, KGJ Investments S.A. SICAV-SIF (“KGJI”), Funcom’s largest shareholder and controlled by Mr. Hans Peter Jebsen, sold 20,000,000 shares in Funcom, representing 7.88% of the share capital. The shares were sold at a price of NOK 2.84 per share. After the transaction, KGJI and other companies, directly or indirectly controlled by Mr. Hans Peter Jebsen, hold 47,232,367 shares equal to 18.60% of Funcom’s share capital. Furthermore, KGJI has notified Funcom on April 7, 2017 of conversion of 3.5 mill bonds (each denominated with 1 USD) and accrued interest the 10 per cent Senior Unsecured Convertible Bond Issue 2011/2014 (as amended from time to time) (the "Convertible Bond") to 34,675,480 new shares. Upon such conversion, companies controlled directly or indirectly by Mr. Hans Peter Jebsen have a total shareholding in Funcom of ~28.4%, which represents an increase from the ~26.47% shareholding prior to the share sale and bond conversion. Shares from conversion were issued on April 11 2017.

Working capital loan - carrying amount nil (2015: USD 3,950 *thousand)*
In November 2013 the Company negotiated a working capital loan with KGJI, Funcom’s largest shareholder and creditor with 8 percent annual interest rate and initial maturity in January 2015. The first instalment of USD 3,000 thousand was received in December 2013 and the second one of USD 1,250 thousand in 1Q14. The last instalment of USD 1,250 thousand was drawn by the Company in September 2014. USD 1,550 thousand was restructured into the new convertible loan in August 2014. As of December 31, 2015 the working capital loan has a balance of USD 3,950 thousand.

Convertible loan- carrying amount nil (2015: 3,385 thousand)
In August 2014, Funcom restructured USD 2,450 thousand of the existing interest bearing loan and USD 1,550 thousand of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on June 27, 2017. As of December 31, 2015 the loan has a carrying amount of USD 3,385 thousand and an actual balance due of USD 4,000 *thousand*.

On April 13, 2016, KGJ Investments and the Company signed an agreement to combine the USD 3,950 thousand working capital loan (maturity date December 15, 2016 and 8% interest rate) and the USD 4,000 thousand convertible loan (maturity date June 27, 2017, 5% interest rate and USD 0.86 conversion price) into a new convertible loan of USD 7,950 thousand with maturity date of June 30, 2019, interest rate of 6%, and conversion price of USD 0.18 per share. By the end of 2016, the new convertible loan has been converted into Funcom shares, out of which USD 7,700 thousand of the loan was converted at USD 0.18 per share, and USD 250 thousand of the loan was converted at USD 0.1036 per share.

Events after the reporting date

On January 9, 2017 the Company has issued 2,413,127 new shares to KGJ Investment S.A. SICAV-SIF following the conversion of the remaining USD 250,000 under the Restated and Amended Convertible Loan Agreement dated 13 April 2016 (as amended from time to time) (the "Convertible Loan"). After this transaction, no balance remains under the Convertible Loan, and the only remaining financial liability of the Company relates to the Ten per cent Senior Unsecured Convertible Bond Issue 2011/2014 (as amended from time to time).

On January 19, 2017 and on February 3, 2017, respectively 500,000 and 1,065,000 warrants were exercised giving rights to subscribe for the same amount of share at a price of USD 0.10 per share. In consequence, a total of 1,565,000 new shares in Funcom N.V. were issued.

The *Conan Exiles* game was released on January 31, 2017 in Early Access on the Steam platform. More than 320,000 units[5] worldwide were sold during the first week. All of the costs directly related to this game[6] were recouped and the project is since then operationally profitable.

On March 29 2017, the Company held an extraordinary meeting. As a result of the meeting, Rui Casais, CEO and Managing Director of Funcom NV, was appointed Chairman of the Board of Managing Directors effective March 30 2017; Christian Olsthoorn, CFO of Funcom N.V., was appointed Managing Director effective March 30, 2017.

Badhoevedorp, April 20, 2017

The Supervisory Board of Directors in Funcom N.V.

Ole Gladhaug, Chairman
Alain Tascan
Magnus Slåttekjær Grøneng
Fredrik Malmberg
Egil Kvannli

The Board of Managing Directors in Funcom N.V.

Rui Casais, Chairman
Christian Olsthoorn

[5] These units pertain to "net sales", after removal of refunds and chargebacks.
[6] Direct costs are considered to be those related to salaries, social security and equipment for the development, technology and marketing teams, external PR & Marketing expenses and other external consulting or licensing expenses directly attributable to the project.

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 part of the profit for the year that is not retained by way of reserve 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 the other reserves.

Independent auditor's report

To: the shareholders and Supervisory Board of **Funcom N.V.**

A. Report on the audit of the financial statements 2016

Our opinion

We have audited the financial statements 2016 of Funcom N.V., based in Katwijk. The financial statements include the consolidated financial statements and the company financial statements.

WE HAVE AUDITED	OUR OPINION
The consolidated financial statements which comprise: 1. the consolidated statement of financial position as at 31 December 2016; 2. the following consolidated statements for 2016: statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended; and 3. the notes comprising a summary of the significant accounting policies and other explanatory information.	In our opinion the enclosed consolidated financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2016 and of its result and its cash flows for 2016 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.
The company financial statements which comprise: 1. the company balance sheet as at 31 December 2016; 2. the company profit and loss account for 2016; and 3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	In our opinion the enclosed company financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Funcom N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

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

Materiality
Based on our professional judgment we determined the materiality for the financial statements as a whole at USD 107,000. The materiality has been calculated with reference to a benchmark of revenues (representing 1.5% of reported revenues) which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of USD 5,350, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit
Funcom N.V. is head of a group of entities. The financial information of this group is included in the consolidated financial statements of Funcom N.V.

Our group audit mainly focused on significant group entities. We consider a component significant when:

- it is of individual financial significance to the group; or
- the component, due to its specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the group financial statements.

To this extend we:

- performed audit procedures ourselves at group entities Funcom N.V., Funcom Inc. and Funcom Oslo AS;
- performed review procedures or specific audit procedures at other group entities.

We ensured that audit teams both at group and at components level have the appropriate skills and competences which are needed to perform the audit of a company developing, marketing and carrying on business in games. We thereto included specialists in the areas of tax, IT-audit and corporate finance in our team.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INTANGIBLE ASSETS	OUR AUDIT APPROACH
As at 31 December 2016 the book value of the intangibles Funcom N.V. held amounted USD 6.6m in the form of capitalized development costs of USD 6.1m, software of USD 0.4m and trademark and licences of USD 0.2m (refer to note 11 of the consolidated financial statements). The book value of the intangibles together with the inherent judgements required to be made when performing an impairment review have resulted in us considering this a key audit matter.	We challenged the Board of Directors' assumptions used in the impairment model for capitalized development costs and other intangibles, described in note 11 of the consolidated financial statements, including specifically the cash flow projections, discount rate, perpetuity growth rates and sensitivities used. We performed back-testing procedures to assess the appropriateness of the estimates of last year and we reviewed the expected future cash flows with projections, business plans and actuals realized in the period after balance sheet date, before completion of the audit. Furthermore, we tested the mathematical accuracy of the impairment model and assessed the adequacy of the related disclosures in the financial statements.

REVENUE RECOGNITION	OUR AUDIT APPROACH
The following revenue stream are recognized in the consolidated financial statements of Funcom N.V.: - Sale of games and in-game items; - Sale of Funcom points; - Subscription for games; - Royalty income and - Rental income. The group's disclosures about revenue recognition are included in note 2.5 and 5 of the consolidated financial statements. Because a risk of fraud in revenue recognition is a presumed risk in our audit based on audit requirements, combined with the fact that revenue is the key business driver for this company, we consider revenue to be a key audit matter.	We reviewed the group's revenue recognition policy to ensure the policy is in accordance with IAS 18. Given the complexity of this audit matter we increased the involvement of senior audit staff, with focus on procedures designed to assess whether revenues have been recognized in the correct accounting period and deferred revenues are accurate. We also verified the appropriateness of the disclosures including the segment analysis. Our audit procedures included, amongst others, evaluating controls relating to management's process for revenue recognition, including the timing of revenue recognition, the recognition on gross or net basis, calculation of deferred revenue and reconciliation of the recorded revenue in the operating system to the recognized revenue in the financial administration. We have checked the mathematical accuracy of the (deferred) revenue of each game and considered the implications of identified errors and changes in estimates. We performed testing on a sample of contracts, confirming that amounts recognized in revenue are consistent with the contract or external

confirmations, invoices raised and cash received.
In addition, we performed substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculations.

These procedures included challenging the appropriateness of management's assumptions and estimates and agreeing input data, including accrued royalty income and deferred revenue to post year end royalty statements, where available.

GOING CONCERN	OUR AUDIT APPROACH
Market conditions are vital for the company to act as a going concern. The going concern assessment is based on estimates of future performance, and is fundamental to assessing the suitability of the basis adopted for the preparation of the financial statements. The calculations supporting the assessment require the Management Board to make highly subjective judgements and has therefore been identified as a key audit matter.	The calculations supporting the assessment require the Board of Directors to make highly subjective judgements. We have therefore spent significant audit effort, including the time of senior members of our audit team, in assessing the appropriateness of this assumption. Our audit of the going concern assessment has focused on: - Review of (any modifications to) group's financing facilities, being the arrangements with KGJ Investments. - Review of the willingness of the large shareholder to support the company throughout the financial year. - Review of the group's cash flow forecasts for a period of not less than 12 months from the date of signing this auditor's report. - Evaluate and challenge the company's judgements in respect of estimates of future risk exposures, success of new games, finance- and cash flow developments. - Review of post-balance sheet events. Specifically the cash flows from the new game Conan Exiles.

B. Report on other information included in the annual report

Next to the financial statements and our opinion thereon, the annual report consists of other information, including:

- the introduction to the company on page 3;
- the active game portfolio on page 5;
- the Dreamworld Technology on page 8;
- the report of the Management Board on page 9;
- the corporate governance report on page 15;
- the responsibility statement on page 22;
- the corporate governance declaration on page 23;
- the report of the Supervisory Board of Directors on page 24;
- the other information on page 92;
- the annexes on page 100.

Based on the procedures as mentioned below, we believe the other information:

- is consistent with the financial statements and contains no material deficiencies;
- includes all information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information and based on our knowledge and understanding obtained from the audit of the financial statements or otherwise, we have considered if the other information contains material deficiencies.

With these procedures, we have complied with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. These procedures do not have the same scope as our audit procedures on the financial statements.

Management is responsible for the preparation of the other information including the preparation of the management board report and the other information on page 92 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Funcom N.V. on 18 November 2014 as of the audit for year 2014 and have operated as statutory auditor ever since that date. We have been reappointed in the annual meeting of shareholders held on 30 June 2016.

D. Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from errors or fraud and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not to expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amstelveen, 20 April 2017

For and on behalf of BDO Audit & Assurance B.V.,

sgd.
E.H.B. Schrijver RA

Annex I: 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 March 21, 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: https://www.kvk.nl/english/

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, the Chief Financial Officer and the Executive Vice President of Business Operations 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 rumours or speculation about such matters. The Netherlands is the home Member State of Funcom N.V., and Norway is the host state of Funcom N.V. In consequence, both the listing regulations from the Netherlands (https://www.afm.nl/en/professionals/) and from Norway (https://www.oslobors.no/ob_eng/Oslo-Boers/Regulations) are applicable to the listed securities of Funcom N.V.

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 N.V. is or has been followed by third party analyst firms. Any opinions, estimates or forecasts regarding the performance of Funcom NV.'s made by these analyst firms are theirs alone and do not represent opinions, forecasts or predictions of Funcom N.V. or its management. Funcom N.V. does not imply its endorsement of or concurrence with such information, conclusions or recommendations. Funcom N.V. does not pay for any research to be prepared. However, the Company may pay a distribution fee in order to have these reports released to the general public.

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.

Closed periods

As a principle rule, the execution of transactions on securities of the Company is not allowed for employees during a period of twenty-one calendar days directly preceding the publication of the half-year report, or quarterly and annual reports, or announcement of a(n) (interim) dividend.

Annex II: Financial Calendar for Funcom 2017

Funcom N.V. will publish its financial statements on the following dates in 2017:

- February 27 - Q4 2016
- March 29 - Extraordinary General Meeting
- April 20 - 2016 Annual Report
- May 16 - Q1 2017
- August 31 - Q2 2017
- November 14 - Q3 2017

Annual general meeting: June 27, 2017.

The dates are subject to change.

Annex III: Contact details

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