FUNCOM®

2019
ANNUAL REPORT

Contents

Letter from the CEO

"2019 is the year with most releases in Funcom's history, with a total of 10 game and DLC releases spread around four hardware platforms, 23 online stores and global retail distribution. It's also been a year where the games industry has been showing signs of shifts in business models and trends, with the Epic Game Store growing in popularity, several game subscriptions services changing the dynamics around game sales and in-game monetization models such as loot boxes being under pressure from legislators.

Combined with the very large number of games being released into the market, this makes for a competitive situation that leads to games requiring more than ever unique competitive advantages, larger budgets or a dose of luck in order to become visible and succeed.

This has been felt in our publishing initiatives overall, with some of them like Conan Unconquered not generating as much attention as we originally hoped for. The multi-platform approach we take on other games such as Mutant Year Zero: Road to Eden, Moons of Madness and Conan Chop Chop helps to alleviate some of this risk by making the games available on as many platforms as possible at launch, but it also carries a technical and process cost, which impact the time needed to get the games to market.

In the middle of these many publishing activities, Conan Exiles has been our bedrock. We've continued actively developing it and released five DLCs in the year, released it to millions of players as part of the Sony PS+ service, and have seen a very positive trend in the player numbers and activity of the game. Conan Exiles proves that the core of Funcom in creating and operating persistent online worlds is what we're best at, and it's something we're taking to heart both for the game and for the future internal projects.

The biggest, most exciting and most ambitious of our projects is without a doubt the DUNE open world survival game we're working on, after having secured the exclusive rights for PC and Console games with this fantastic IP. It's a game that is still a few years away and will be a more ambitious and robust version of Conan Exiles set in the DUNE universe, designed to be a game as a service from the outset.

Finally, towards the end of the year we saw Tencent come in and become our largest shareholder by purchasing the shares from the previous largest shareholder, and later at the beginning of 2020 put in an offer to purchase all shares in the Company. Tencent shows strong interest for our plans and wants to support us in making the next generation of survival and other persistent online games and has been a great partner and shareholder. They have placed a fair offer to all shareholders to sell their shares while committing to supporting the execution of the company's plans with both funding and industry expertise.

It's exciting to see everything that is happening and it's my firm belief that this path will lead to great games with great successes!"

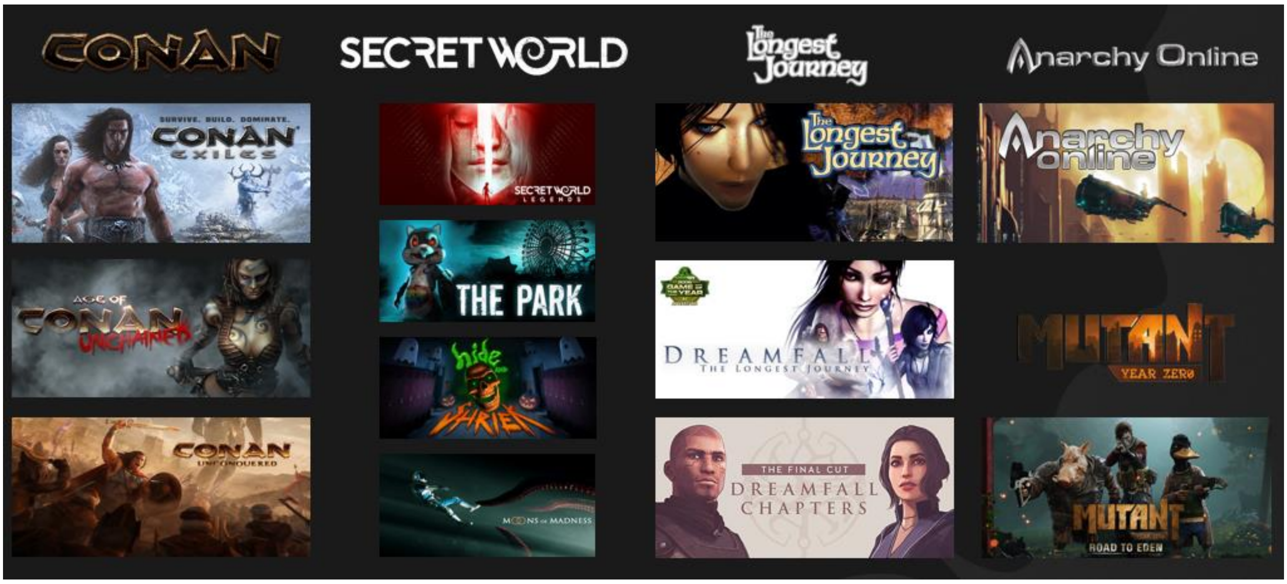
Rui Casais
Chief Executive Officer

About Funcom

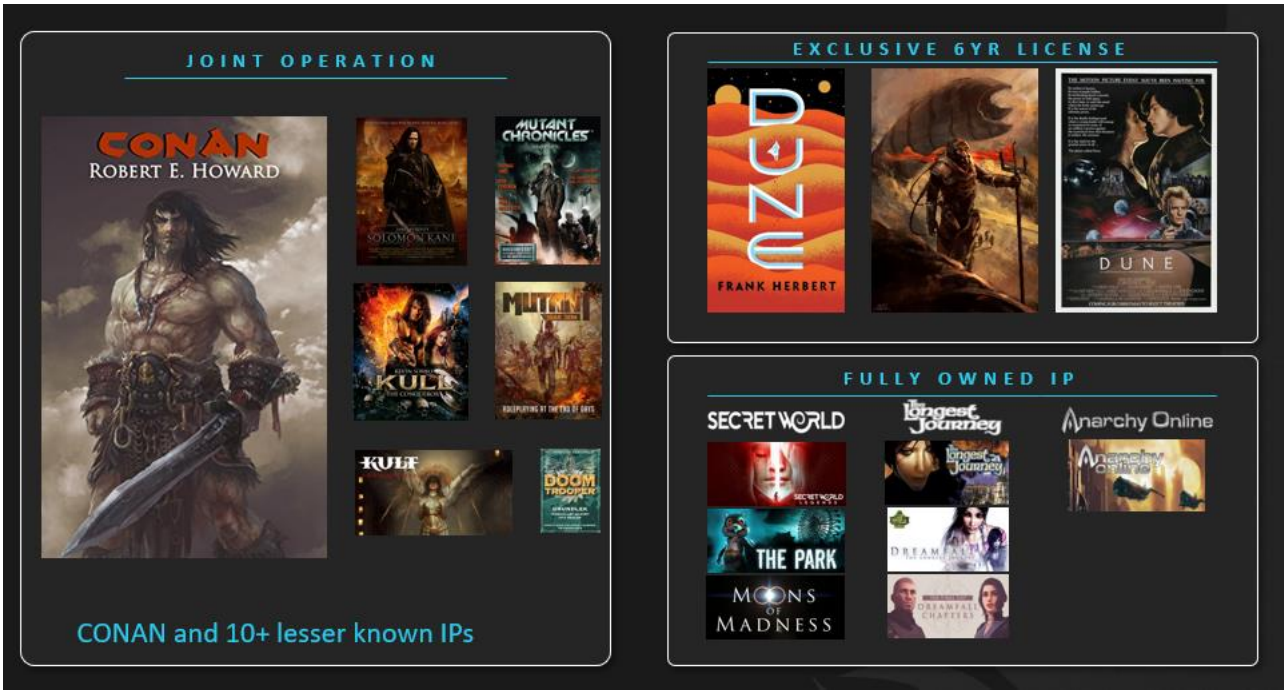
Funcom® is an independent developer and publisher of computer and console games.

Funcom SE (the Company or Funcom) was founded in 1993 and listed on the Oslo Stock Exchange in 2005. The Company has developed and published around 30 game titles across several genres and gaming platforms.

The Company holds a broad portfolio of released games



and controls some great IPs well suited for games



Conan® Exiles launched into Early Access on PC in 2017, recouping its development costs after just a week. This was followed by the full release of *Conan Exiles* in May 2018 on PC, Xbox One and PlayStation 4 to great success, with the game selling over 1.4 million units between Early Access launch and two weeks after full release. *Conan Exiles* continues the strong 'games as a service' performance with the longevity of the game highlighted by the number of users growing year on year, December '19 being the third best average number PC player month since the January 2017 launch and revenues in Q4 2019 being higher than in Q4 2018. In 2018 Funcom also published *Mutant Year Zero®: Road to Eden* made by Swedish developer The Bearded Ladies, solidifying its reputation as a publisher of externally developed games.

In 2019 the Company increased its published games portfolio with the launch of *Conan Unconquered* in May 2019 developed by US based Petroglyph and *Moons of Madness®* launch at Halloween 2019 by Norwegian developer Rock Pocket Games. Previous notable and still active games include the online MMOs *Secret World Legends® (relaunched in 2017), Age of Conan®* and *Anarchy Online®.* Today, around 190 talented individuals are employed at the Company's studios in Oslo, North Carolina and Portugal at the time of release of the annual report.

The launch of *Conan Exiles* in 2017 marked the successful execution of the strategic turnaround initiated in 2015. Key objectives were securing short development time bringing all games fast to the market, working on multiple games and revenue generating activities in parallel and doubling the addressable markets by launching games on console in addition to PC.

In 2017 further strategic initiatives were made by adding publishing of externally developed games and acquiring intellectual property rights. This created more revenue streams at a lower risk, leading to more predictable cash flows and financials and a more stable base from which to grow. In early 2018 the Company secured control over its main Intellectual Property, *Conan the Barbarian®*, through the creation of Heroic Signatures, a joint operation together with Cabinet Entertainment containing the rights for interactive entertainment products utilizing *Conan* and a number of other IPs.

In 2019 a six-year exclusive partnership to make games based on the *DUNE* IP, one of the world's best-known science fiction universes, was announced. Legendary Entertainment and Warner Brothers are working to release a *DUNE* Hollywood blockbuster in December 2020. Funcom will invest heavily into a *DUNE* open world game, that will build on the success and learnings from *Conan Exiles.*

The four main revenue streams are as follows

- **Games in operation & back catalogue**: the portfolio of games in operation includes *Conan Exiles*, *Secret World Legends, Age of Conan, Anarchy Online* and *Moons of Madness.* These games are actively developed, new content is added, and events are held to support engagement. The back catalogue includes *Mutant Year Zero, Conan Unconquered* and other smaller games that are monetized without any ongoing development work or cost. With frequent new releases we aim to increase the portfolio of operational games, increasing the stable base cash flow.

- **New internally developed games:** with a minimum of two games in development internally at all times. The Company's IPs and competence in Online games and RPGs are leveraged for this purpose.

- **New publishing games:** the Company is building a network of trusted developers to partner up to co-develop and/or publish games and bring them to market utilizing its internal resources that the external developers do not typically have themselves, such as Marketing, Sales, Community management, Online operations, Motion Capture, Localization, Quality

Assurance and Customer Service and Technology and porting to console expertise. The goal is to have two to three such externally developed products launched annually.

- **Intellectual property licenses:** Generation of activity, games and revenue from IP. This includes the interactive IP licenses held through Heroic Signatures DA acquired in February 2018, including *Conan the Barbarian*, *Mutant Year Zero*, *Solomon Kane* and other IPs, as well as our own IP portfolio comprising *The Longest Journey, Anarchy Online* and *The Secret World*.

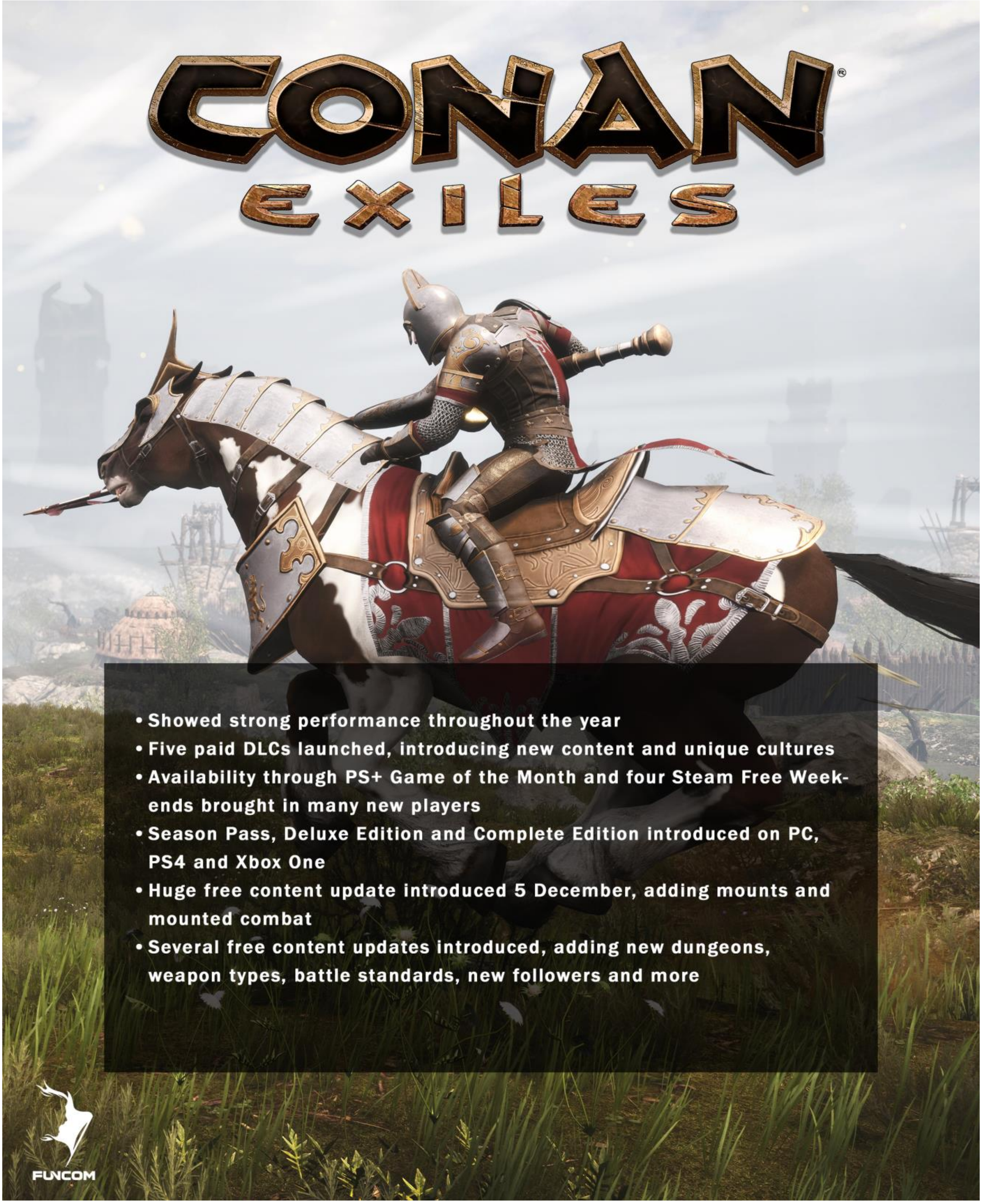
The Company carefully considers what niches to compete in and seeks niches that are too small for the largest industry players to focus on and too difficult for small indie companies to compete in. The company's main niche, open-world multiplayer games requires a highly technically skilled organization to deliver on challenging multi-player elements which represents a significant entry barrier. Funcom has developed these skills over several years working on MMO games. Combining game development plans and niches the Company aims to get a quick recoup of its investments while maintaining a good chance of breakthrough success for each game.

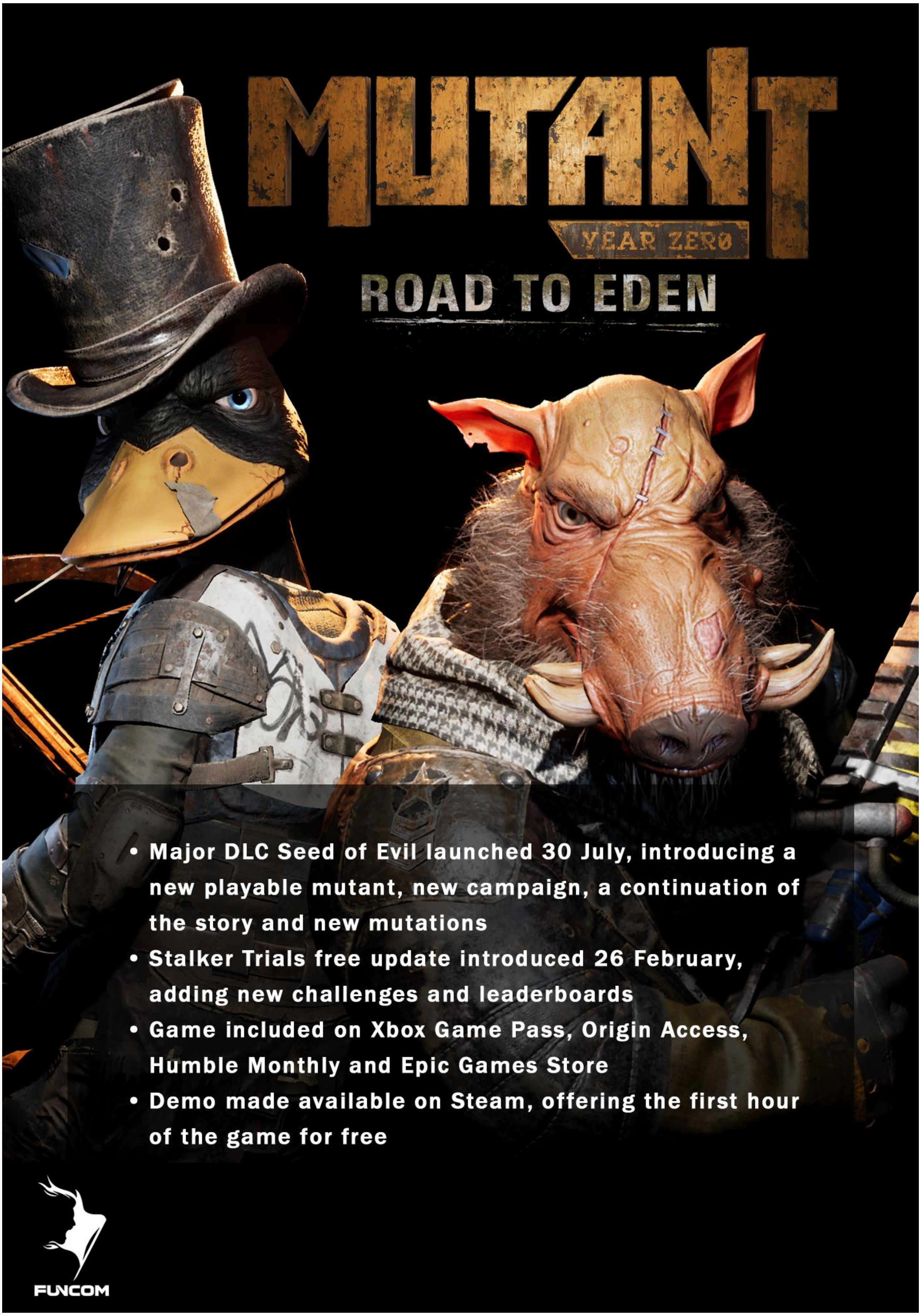
The Company will focus on the PC and Console digital markets. Physical retail distribution of the Company's games will be done when relevant and executed in conjunction with distribution partners. Geographically, the Company secures global distribution, handling digital distribution in North America and Europe directly, and selectively working with partners for other important markets.
Funcom will continue to leverage the internal Technology's team know-how and competence gained during the creation of the *DreamWorld Technology*® to maintain a modern technological platform that all of the Company's projects, internal or external, can leverage to obtain a key competitive advantage in the market.

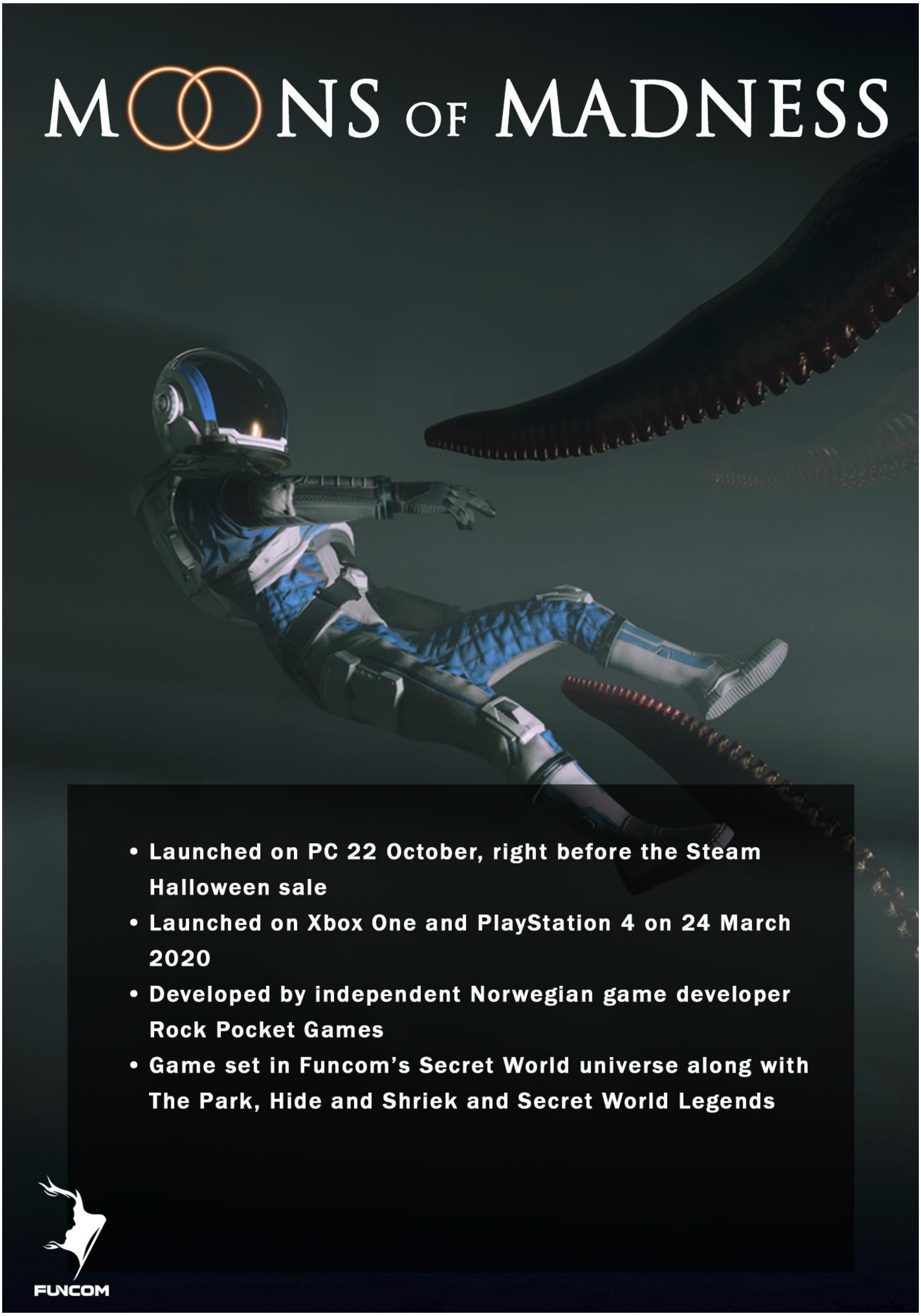
The Company's strategy is designed to reduce the Company's overall risk exposure, control costs through careful investment decisions and budgeting, increase the financial stability by having more revenue sources and increase the odds of a break-out success by having more game releases and focusing the internal development resources on the opportunities with the biggest upside.

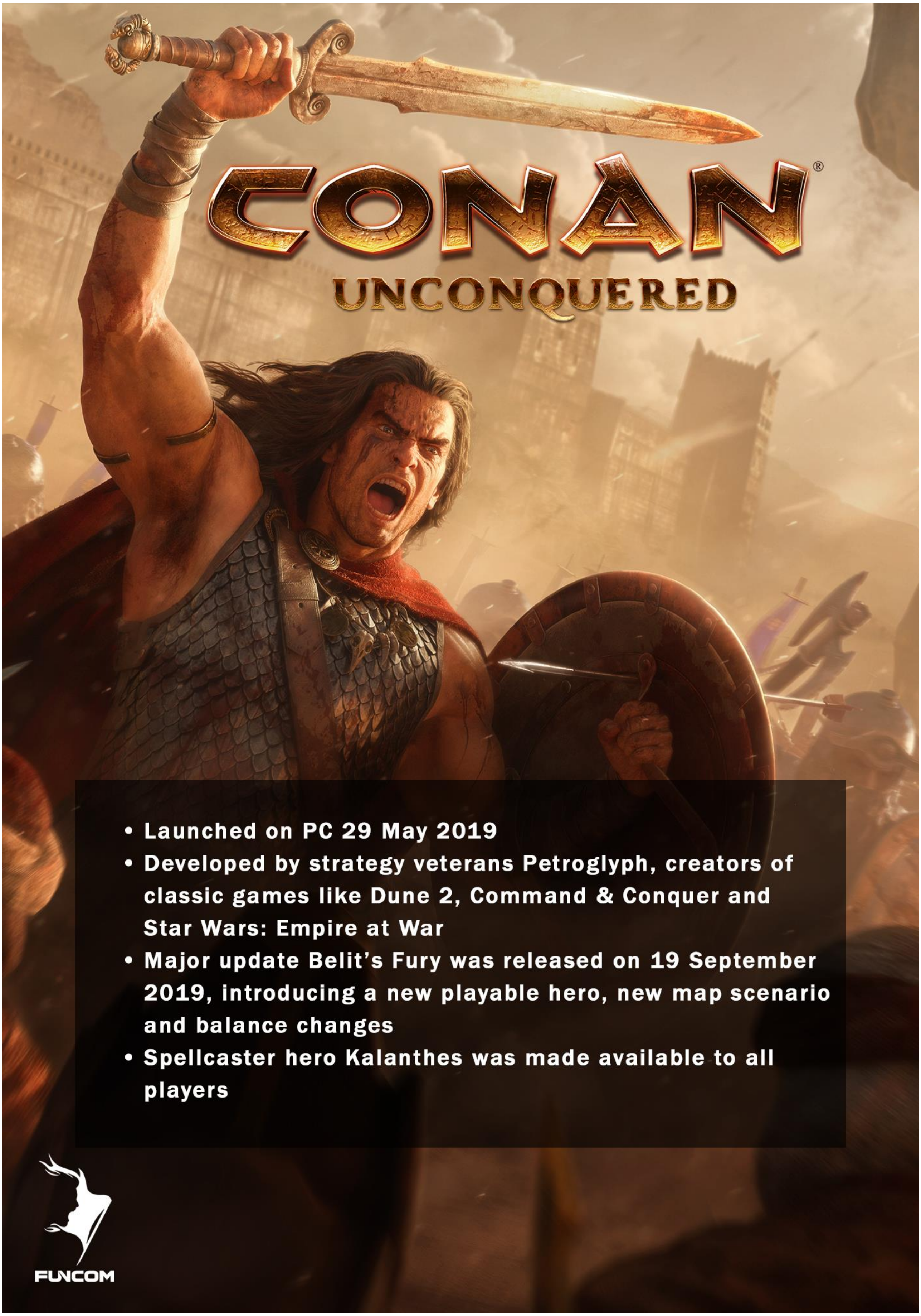
For more information, visit www.funcom.com.

Recent game launches




MUTANT
YEAR ZERO
ROAD TO EDEN
• Major DLC Seed of Evil launched 30 July, introducing a new playable mutant, new campaign, a continuation of the story and new mutations
• Stalker Trials free update introduced 26 February, adding new challenges and leaderboards
• Game included on Xbox Game Pass, Origin Access, Humble Monthly and Epic Games Store
• Demo made available on Steam, offering the first hour of the game for free
FUNCOM


MOONS OF MADNESS
• Launched on PC 22 October, right before the Steam Halloween sale
• Launched on Xbox One and PlayStation 4 on 24 March 2020
• Developed by independent Norwegian game developer Rock Pocket Games
• Game set in Funcom's Secret World universe along with The Park, Hide and Shriek and Secret World Legends
FUNCOM


CONAN
UNCONQUERED
• Launched on PC 29 May 2019
• Developed by strategy veterans Petroglyph, creators of classic games like Dune 2, Command & Conquer and Star Wars: Empire at War
• Major update Belit's Fury was released on 19 September 2019, introducing a new playable hero, new map scenario and balance changes
• Spellcaster hero Kalanthes was made available to all players
FUNCOM

Other games

Age of Conan
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. *Age of Conan's* largest update in 2018 was the new Saga of Blood server. Players competed for new rewards by stacking up kills in player-versus-player combat. New leaderboards were also created.

Anarchy Online
The sci-fi MMO launched in 2001 and *Anarchy Online* still has a fan base and continues to generate revenues. A new progression server for members was introduced in 2019.

The Park® / Hide & Shriek®
Smaller games set in the *Secret World Legends* universe. They were Funcom's first games made in the Unreal 4 engine and gave the company valuable experience for future projects. Released in 2015 and 2016. A version of *The Park* was released on the Nintendo Switch platform in Q4 2019.

The Longest Journey®
The Longest Journey, Dreamfall: The Longest Journey (released 1999 and 2006) and Dreamfall Chapters developed by Red Thread Games on a license from Funcom (released 2014-17), all take place in this universe and continue to generate revenue.

The Dreamworld Technology

The trademarked *Dreamworld Technology* platform is the technological foundation on which the company's games 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 and to test new game concepts' feasibility before committing more resources to the projects. Having a proprietary technology base that builds and expands on over the shelf solutions like Unreal Engine 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, secure server technology, as well as custom feature support for the Unreal Engine.

Key developments on the core technology front in 2019 include:

- Development of a set of live services, aimed at allowing Funcom to decouple its games from functionality provided by specific platforms or storefronts;
- Development of the in-house automated testing framework;
- Initial development of a new internal system for writing efficient and parallelizable game logic; and
- Initial development of a new scalable server system for Unreal Engine 4.

Report of the Management Board

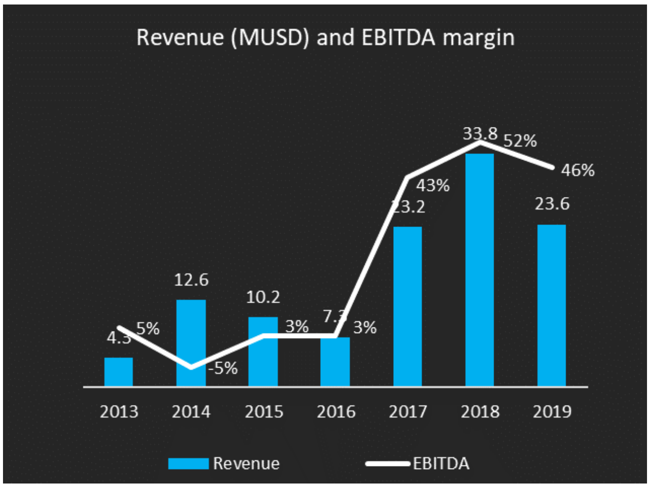
This chapter of the annual report amongst other matters, contains certain statements that are made pursuant to Section 2a of the Dutch Governmental Decree setting further regulations concerning the contents of the report of the Board of Managing Directors (*Vaststellingsbesluit nadere voorschriften inhoud jaarverslag*) of 23 December 2004 (*Staatsblad* 2004, 747), as most recently amended on 29 August 2017 (*Staatsblad* 2017, 747).

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. Funcom has development studios in Oslo in Norway, North Carolina in US and Lisbon in Portugal.

The financial objective of the Company is to maximize the return on investment to the shareholders by securing sustainable long-term profitability and sufficient funding. Key drivers are establishing and maintaining a high number of diversified revenue streams while maintaining development cost and risk by limiting the game development time, leveraging third party developers and promote internal and external monetization of intellectual property.

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 24.

Review of Funcom's financial position and financial results for 2019
The company has just completed its three most profitable years to date in terms of EBITDA margin, with 2019 being the second-best year. The below graph illustrates the successful execution of the strategic turnaround initiated in 2015 and expanded in 2017.



Funcom's 2019 revenue was USD 26 620 thousand, which is lower than 2018 revenue of USD 33 776 thousand, as the publishing games have not been able to fully compensate the expected reduction of *Conan Exiles'* revenue after full launch in 2018.

The Company had strong 2019 Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) of USD 12 137 thousand and 45.6% margin, which is the second best to date. 2018 had EBITDA of USD 17 690 thousand (52.4%) and the EBITDA reduction is driven by lower revenue. The 2019 EBITDA was positively impacted by an amount of USD 1 044 thousand as a result of the implementation of IFRS 16.

Funcom performed four quarterly impairment tests in 2019. As no indicators to adjust down its game values were found, no impairment of intangible assets was recorded in 2019. The management will continue to monitor the value of Funcom's assets and inform the market of any material changes. The Earnings before Interest and Tax (EBIT) was USD -148 thousand in 2019. The decline from USD 10 166 thousand in 2018 is due to lower revenues and amortization of publishing games being significantly higher in 2019.

In consequence, the Company reported a net loss for 2019 of USD 289 thousand compared to a net profit for 2018 of USD 6 618 thousand. Thus, the earnings per share (fully diluted) decreased from USD 0.08 at the end of 2018 to USD - 0 at the end of 2019. These figures take into account the 5:1 reverse split that the Company conducted on 1 February 2018. The Equity of the Company at year-end increased to USD 46 317 thousand compared to USD 45 175 thousand in 2018.

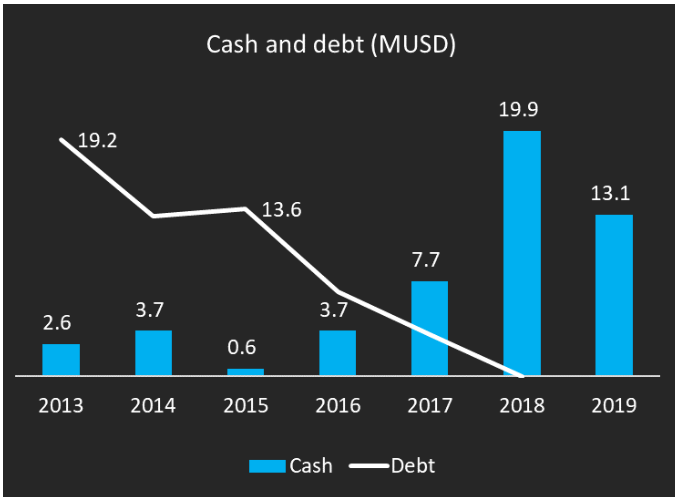
In 2019 Funcom completed the acquisition of 50.1% of the Portugal based game development studio "Zona Paradoxal, Lda" in exchange of the issuance of 102 363 new shares, each at a subscription price of USD 1.665. This transaction increased the equity with USD 65 thousand.

The Company also issued a total of 175 133 (2018: 38 135) new shares in relation to exercise of employee options during 2019.

The cash position was USD 13 131 thousand, the expected decline from USD 19 902 thousand in 2018 is caused by significant investments in the development of games.

Going concern
The Company expects to need to secure additional funding in order to execute all the planned activities for 2020 and 2021, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles.

Based on the cash balance below, revenues from a broadening portfolio, future pipeline, a strong shareholder base and access to additional capital the Company’s financial situation is sound. Based on this the going concern assumption is justified and consequently the audited consolidated financial statements of the Company for the year have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.



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 29 and 30 for further information on financial instruments and risk management.

Main Developments

Executive management
The Executive Management of Funcom comprises 4 executives with good domain knowledge within their job functions and with senior management experience. The Executive Management of Funcom currently includes the following positions: Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and Chief Marketing Officer. Until 31 October 2019, the executive management also had a Chief Product Officer.

Game launches in 2019
The Company continued to expand its publishing games portfolio with the launch of *Conan Unconquered* on 29 May 2019, developed by US based Petroglyph. Moons of Madness, developed by Norway based Rock Pocket Games, was released on PC on 22 October 2019, positively received, with the console version launched on 24 March 2020. A Nintendo Switch version of *The Park,* initially launched in 2015, was also launched in the fourth quarter

Funcom's revenue for 2019 was USD 26 620 thousand compared to USD 33 776 thousand in 2018. The key platforms on which the games are sold are Steam, PlayStation 4 (Sony) and Xbox One (Microsoft).

Pipeline - Games for launch after 2019
Development and releases of additional publishing projects helps grow the portfolio of released games. In total, the Company currently has ongoing development work on 10 existing or new game projects. Conan Chop Chop will be released in Q2 2020, and two unannounced publishing games are being developed. With respect to new internally developed games, the Company is focusing on the *DUNE* open world game with the Mutant Chronicles online shooter releasing after that.

During 2019, in total USD 20 261 thousand of game development was capitalized on all the games (2018: USD 15 209 thousand).

IP investment
In order to diversify revenues and reduce royalty cost Funcom acquired 50% of Heroic Signatures DA, holding the interactive licenses of an IP portfolio including Conan the Barbarian, Solomon Kane, Mutant Chronicles and *Mutant Year Zero*. The arrangement had the immediate cash flow benefits of halved royalties on *Age of Conan* and *Conan Exiles*. This was a cashless transaction where Funcom after the reverse split issued 4 460 000 new shares on 1 February 2018, each with a par value of EUR 0.20, at a subscription price of NOK 13.00 per share.

DUNE IP licensing
On 26 February 2019 it was announced that the Company has entered into an exclusive gaming partnership with Legendary Entertainment for the creation of a minimum of 3 games based on the *DUNE* Intellectual Property over the next six years, on PC and Console. *DUNE* is one of the world's best-known science fiction universes.

ZPX acquisition
On 8 January 2019 it was announced that Funcom had acquired 50.1% of the Lisbon, Portugal, based company, Zona Paradoxal, Lda ("ZPX") with whom it has had a working relationship since 2017.

ZPX is a game development company, which has provided services to Funcom on *Conan Exiles*, *Mutant Year Zero: Road to Eden* and other projects and will continue to act independently with Funcom as its main customer.

Strategically this acquisition secures control of an important development partner, allowing for continued development cost savings when compared to Funcom's main studios and for access to the growing talent pool of Portugal and Spain. ZPX's quality and client focused attitude and history of providing varied services and executing projects in different time zones is also a good match for Funcom's projects in development, allowing them to support both internal and published projects with ease. ZPX currently has around 30 employees and are searching for great talent to increase the team. Part of the consideration for the acquisition of the 50.1% ownership in ZPX was 102 363 new shares that Funcom issued to the founders and shareholders of ZPX.

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.

In 2019 the games industry has been showing signs of shifts in business models and trends, with the Epic Game Store growing in popularity, several game subscriptions services changing the dynamics around game sales and in-game monetization models such as loot boxes being under pressure from legislators.

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 31 December 2019, the group employed 185 employees compared to 143 at the end of 2018.

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 SE comprises of one class of ordinary shares. Each share confers the right to cast one vote. At the end of 2019, Funcom SE had a share capital of USD 18 287 thousand (2018: USD 18 224 thousand) consisting of 77 286 989 shares with a nominal value of EUR 0.20 per share. There are no restrictions in relation to the transfer of shares in the capital of Funcom SE. There are 6 307 365 outstanding share options granted to employees and directors in the Company at the end of 2019 (2018: 4 108 398). As a natural consequence of the Tencent voluntary offer, many of these were executed in March 2020, further details in Note 31.

General Meeting of Shareholders
It is a legal requirement that shares in Funcom SE 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 SE 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 SE 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 SE 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. Typically, less than 50% of the issued share capital of Funcom SE is represented at a general meeting, generally represented through proxy.

Corporate governance
On 27 May 2019 the conversion of Funcom from a N.V. (Naamloze Vennootschap) to a SE (Societas Europaea) was formalized. The main purpose of the conversion was to structurally reflect the diversified operational presence (in particular in terms of offices and employees) of the Funcom group in different European countries, and to potentially take advantage of the flexibility such a conversion offers, including but not limited to moving the converted Company to another European state.

The Management Board believes that Funcom SE 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 website www.funcom.com, including financial reports, presentations, share information and presentation of the Supervisory Board.

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

The Company has also set up an internal control structure that includes plans and budgets, segregation of duties as well as authorization schemes. This has been discussed with the Supervisory Board. During the year the Company did not receive or discover indications that the controls were not effective considering the size of the Company. During the year it performed certain monitoring procedures such as high-level reviews and comparisons to plans and budgets and this has confirmed the Company's view. Funcom's management will maintain focus on the internal control structure and processes and perform evaluations on regular intervals. Management believes that the internal control structures in place are adequate for Funcom's purposes. There are no defense mechanisms against take-over bids in the Company's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the Company.

The Management Board consists of two males and the Supervisory Board consists of one female and four males. In the appointment of directors and auditors, job profiles are used in which there is no gender distinction. 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 and future games, developed inhouse or in cooperation with third parties where Funcom acts as publisher. Funcom also values the flexibility to be able to pursue strategic opportunities. The Company will therefore retain its surplus cash in the Company for the time being. Based on the performance of new game launches and the company's financial position a revision to this dividend policy might be considered.

Appropriation 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 2019 is USD 46 317 thousand (2018: USD 45 175 thousand).

Outlook
The long-term outlook of the Company is positive, with ongoing significant investments into both internal and published games

Key factors of the outlook

- The continued sales of *Conan Exiles*, its DLCs and a paid expansion in 2H 2020
- Launch of *Moons of Madness* on Xbox One and PlayStation 4 on 24 March 2020
- Launch of *Conan Chop Chop* in Q2 2020 on PC, Xbox One, PlayStation 4 and Nintendo Switch
- Launch of a *DUNE* Multiplayer Open World game, investment budget still under consideration and dependent on many parameters, but expected to be in the USD 30m to 50m range
- Launch of Mutant Chronicles online shooter, developed by Funcom North Carolina, after the release of the *DUNE* Multiplayer Open World game
- Development and release of additional publishing projects and performance of the growing portfolio of released games

Revenue and profitability should be expected to vary from quarter to quarter, depending on launch activity of new games and downloadable content, discounts and other events. The Company's strategy of releasing both internally and externally developed games, allowing multiple releases each year, is designed to increase diversification and reduce risk. As described below, we do not expect the Covid-19 virus will have significant effect on our outlook.

Events after the reporting period

Tencent acquisition

On 22 January 2020 Tencent Holdings Limited announced that they (through an indirectly owned subsidiary, the Offeror) would launch a voluntary cash offer of NOK 17.00 per share to acquire all of the shares of Funcom not already owned by the Offeror. The Offer price represented a premium of 27.3% to the closing price of the shares on 21 January 2020 and was NOK 1.25 higher per share than Tencent paid for 29% of the shares in 2019. The Offer was recommended by Funcom's Supervisory Board and Management Board. The Supervisory Board members representing Tencent, Mr. Eddie Chan and Mr. Peng Lu, did not take part in any of the board discussions or decisions on the matter. The independent agency Pareto Securities AS issued a fairness opinion concluding the offer was fair from a financial point of view.

The Offeror and Funcom entered into a transaction agreement regarding the acquisition and DNB Markets, a part of DNB Bank ASA, acted as the receiving agent. On 20 February 2020 an offer document approved by Oslo Stock Exchange was published, and on 2 March 2020 a position statement on the transaction according to Dutch regulation was published. The documents contain details regarding conditions of the offer and post-closing intentions of the Offeror, for instance that the Offeror has informed the Company that following an acquisition, there are no planned changes to Funcom management, staffing or structure, with the Company remaining an independent business. After the Offeror completed the acquisition of more than 95% of the shares in the Company, a share squeeze-out procedure and delisting process is expected in line with the outlined intentions in the documents. The Offeror shall replace the option program with a no less favorable incentive plan. The transaction is not expected to have direct impact on the financials of the Company, other than transaction cost typical to this kind of transaction.

Update on pipeline and funding

In conjunction with Tencent's offer the Company announced that the Management Board would recommend to the Supervisory Board to increase the ambition level of the *DUNE* open world game and release it after approximately two years of production time, and that this would require a redirection of resources from other initiatives, which would delay the Mutant Chronicles online shooter game until after the release of the *DUNE* game, and that the company would secure the necessary funding to support this plan. On 28 February 2020 the Supervisory Board approved the recommendation.

Effect of COVID-19 virus

All countries where Funcom has subsidiaries have been affected by the COVID-19 virus. All employees who are able to work from home have done that in line with advice from local authorities. Although the nature of work Funcom employees executes is suitable for working from home, we expect a limited impact on overall productivity for the relevant time periods. Temporary effect on ongoing sales, if any, is expected to be net positive due to people across the world spending more time at home due to the virus, supported by initial trends in affected regions.

Also see Note 31 events after the reporting period 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 30.

Badhoevedorp, the Netherlands, 23 April 2020

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Managing Director
Sgd

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 2018 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 45 175 thousand at the end of 2018 to USD 46 265 thousand at the end of 2019.

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 General Meeting (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 2019, 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 28 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, 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 SE, 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 SE 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 SE 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 refrain 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.

16. Sexual Harassment

There is zero tolerance for sexual harassment in Funcom. All temporary and permanent employees as well as freelancers or contractors who are exposed to, or made aware of sexual harassment, are encouraged to inform a trusted manager, employee or trustee in the company.

Sexual harassment means acts, omissions or expressions that are intended to act offensive, intimidating, hostile, degrading or humiliating.

Sexual harassment means unwanted sexual attention and can be verbal, non-verbal as well as physical. It can also occur online, on social media, via e-mail or text messages and / or image messages.

Funcom is required to do its best to prevent harassment from occurring in the workplace and shall follow up on any reported incidents and examine the claims thoroughly.

Departures from the Dutch Corporate Governance Code:

Funcom's adopted code and practices are in compliance with the Dutch Corporate Governance Code. Details of how Funcom complies with the Code can be found in other parts of the annual report and Funcom site. Funcom has not complied completely with the Code in the following areas:

(i) Pursuant to Provision 1.3.1, the Management Board should appoint an internal auditor and such appointment should be approved by the Supervisory Board. The Company has not assigned a specific internal auditor. Given the size of the Company, it believes its current internal control procedures are adequate. As noted in Provision 1.3.6 of the

Dutch Corporate Governance Code, the size of the Company is – indirectly – an acceptable reason for this departure. Considering that the Supervisory Board that its current internal control procedures are adequate, which opinion is partly based upon advice of the Audit Committee, the Supervisory Board takes the position that no outsourcing of the internal audit function is required. The Company will continue to review its internal control procedures.

(ii) Pursuant to Provision 2.1.5, the Supervisory Board should draw up a diversity policy for the composition of the Management Board and the Supervisory Board. The Supervisory Board has not drawn up such policy and there is no female member in the Management Board. There is one female member of the Supervisory Board, and none in the executive committee. The Company encourages selection of people from diverse backgrounds.

(iii) Pursuant to Provision 2.2.2, members of the Supervisory Board should be appointed for periods of four years and may be reappointed once for another four-year period. The Supervisory Board members of Funcom are generally elected with terms expiring at the end of the first ordinary General Meeting which is held after two full calendar years have elapsed since the date of appointment. No member has surpassed eight years in the Supervisory Board.

(iv) Pursuant to Provision 2.2.4, the Supervisory Board should draw up a retirement schedule in order to avoid, as much as possible, Supervisory Board members retiring simultaneously. The Company has not developed a retirement schedule and made it generally available, but the Supervisory Board monitors the situation and makes sure there is continuity and ongoing improvement in the management of the Company. The Company aims to develop a more structured guideline.

(v) Pursuant to Provision 2.2.5, the Company should establish a selection and appointment committee. The Company has decided not to establish a selection and appointment committee. The Supervisory Board has taken over these tasks.

(vi) Pursuant to Provision 2.3.10, the Supervisory Board should be supported by a company secretary. The Company has not assigned a specific secretary, but all related tasks are performed.

(vii) Pursuant to Provision 2.5.4, the report of the Management Board should include an account on company culture. The Management Board touches upon this issue, such as in 'Internal & external environment' part of the report but aims to provide more detailed information.

(viii) Pursuant to Provision 3.1.2, the terms and conditions governing share options and conditions subject to which share options can be exercised should be taken into consideration when formulating the remuneration policy. The Company has an option program for the Management Board members where options vest immediately.

(ix) Pursuant to Provision 3.3.2, members of the Supervisory Board should not be awarded remuneration in the form of shares and/ or rights to shares. The Company has reserved the right to grant options to the Supervisory Board members. It views share options as an important tool for remuneration of the Supervisory Board members.

Responsibility Statement

In accordance with the updated 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 Management Board states that, to the best of its knowledge:

- The annual financial statements of 2019 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 31 December 2019, the development during 2019 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

Badhoevedorp, 23 April 2020

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Member of the Management Board
sgd

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 2017. 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 statement about going concern as incorporated in the "Report of the Management Board"
- the provisions of the Norwegian Code of Practice for Corporate Governance largely follow requirements as indicated in the EU take over directive

Badhoevedorp, 23 April 2020

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Member of the Management Board
sgd

Report of the Supervisory Board of Directors

Annual report
The members of the Supervisory board of Funcom SE hereby present you with the Annual Report for 2019, 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 has issued 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 long-term value creation 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; and
- monitoring the financial situation of the Company and decide on any related actions.

Activities
In 2019 the Supervisory Board of Directors held four 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 (*Conan Exiles, Mutant Year Zero*, *Anarchy Online*, *Age of Conan*, *Secret World Legends*, *The Park, Hide and Shriek*), the launch of *Conan Unconquered*, *Moons of Madness,* and the games in development to be launched in 2020 and later;
- 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 ;
- assessment of the publishing of externally developed games;
- assessment of the joint operation Heroic Signatures DA;
- assessment of the acquisition of Portugal based company Zona Paradoxal Lda, ZPX, closed in January 2019;
- assessment of the partnership with Legendary studios giving Funcom an exclusive right to publish games based on the *DUNE* IP; and
- regular assessment of overall long-term value creation strategy of the Company, the strategic changes made during the year 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 2019 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. The Supervisory Board has received a report from the Audit Committee and the Remuneration Committee on their deliberations and findings.

The Audit Committee consists of Egil Kvannli (chairman) and Peng Lu, after Andreas Arntzen left the Supervisory Board on 9 October 2019. The Audit Committee has had 5 meetings in 2019, focusing on supervising the integrity of the financial process and the reporting systems, the internal audit and the financial risk management procedures, relevant policies and independence and quality and performance of the external auditor. The Remuneration Committee consists of Eddie Chan (chairman) and Susana Meza Graham, after the previous chairman Fredrik Malmberg left the Supervisory Board on 16 December 2019. The Remuneration Committee had 4 meetings in 2019, focusing on remuneration of executives and directors, option grants, and adjustments to the option program and potential adjustments to the remuneration policy. See www.funcom.com for the regulations of the two committees which further describe the work they do. 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 2019. 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 2019 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 the Management Board has furthermore not suggested any amendments thereto. The Audit Committee and The Supervisory Board have assessed whether a separate department for the internal audit function should be established but concluded that this is not suitable for the Company given its current size, scope and risk profile. During the year the Supervisory Board has regularly had discussions with the Management Board regarding its corporate strategy.

No supervisory board members had absences in 2019. Fredrik Malmberg recused himself from all deliberations about the Cabinet transaction to avoid conflict of interest.

Ole Gladhaug, Egil Kvannli and Fredrik Malmberg joined the Supervisory Board on 5 October 2016. Andreas Arntzen joined the board at 10 July 2018, Susana Meza Graham joined the board on 14 September 2018. Ole Gladhaug joined the board as Chairman. Both Mr. Gladhaug and Mr. Arntzen resigned from the board on 9 October 2019. Eddie Tak Ho Chan and Peng Lu joined the Supervisory Board on 16 December 2019. Fredrik Malmberg resigned from the board on 16 December 2019. Mr. Chan and Mr. Lu are currently in their first term and both are representing the largest shareholder in Funcom, Tencent Holdings Ltd, 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 1 November 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 2019. 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 of the Dutch Corporate Governance Code, with the understanding that – as indicated below –two of its members cannot be considered as independent.

The following professionals served on the Supervisory Board as at year-end 2019:

Eddie Tak Ho Chan, Chairman of the Supervisory Board
(born in 1978, male, US citizen, 1st-term, member since 16 December 2019)
Mr. Eddie Tak Ho Chan serves as VP of International Partnerships & Strategy, Tencent. Previous roles: Activision Blizzard – SVP, head of studio operations, VP, head of finance for US Sales Team, VP, Strategy; McKinsey – Engagement Manager. Mr. Eddie Tak Ho Chan holds an MBA from Columbia University and a Bachelor of Finance / Information Systems from NYU Stern School of Business. As per 31 December 2019 Mr. Chan held 0 share options in the Company and 0 shares.

Peng Lu
(born in 1965, male, Australian citizen, 1st-term, member since 16 December 2019)
Mr. Peng Lu serves as Vice President, Tencent Games. Previous roles: general manager of Tencent Games biz dev/partnership, general manager of Tencent Games mobile game publishing department. Mr. Peng Lu holds a Bachelor of Science degree from the Fudan University, and a Master of Technology Management from the University of New South Wales in Australia. As per 31 December 2019 Mr. Lu held 0 share options in the Company and 0 shares.

Egil Kvannli
(born 1972, male, Norwegian, 2nd term, member since October 5, 2016)
Mr. Kvannli has a background as Chief Executive Officer and Chief Financial Officer. Mr. Kvannli now works for Wellit AS as Chief Financial Officer. From 2017 Mr. Kvannli worked for Global Maritime Group as Chief Executive Officer, being responsible for a full turnaround of the Company. From 2011 to 2015 Mr. Kvannli worked for Quickflange AS a Norwegian entity both as CFO and in for the last two years as General Manager. From 2008 to 2010 Kvannli acted as VP Finance for REC Site Services Pte Ltd., a Singapore entity.

From 2005 to 2008 he was the CFO for Sevan Marine ASA. Mr. Kvannli furthermore worked for MISWACO in Norway and in Houston, 1997-2005, the last two and a half last years as Financial Director for Scandinavia. 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. As per 31 December 2019 Mr. Kvannli held 126 000 share options in the Company and 0 shares.

Susana Meza Graham

(born in 1976, female, Swedish citizen, 1st-term, member since 14 September 2018)

Mrs. Meza Graham is the Co-founder and Chairwoman of the Board for Aldeon, an investment company in games & tech. Previous Board experience includes the trade association for Swedish game developers and she currently holds board and advisory positions in a number of tech & games start-ups. She has an extensive background in the Games Industry, and she has been involved in building one of the larger, listed game companies in Sweden. She has held a variety of positions at Paradox Interactive, including COO, where she led the company as part of the management team and helped set the strategic direction, vision and goals of Paradox, and is currently acting as a Senior Advisor for the company. Her main expertise lies in the business of games (publishing), marketing & PR, communication & leadership as well as organizational growth. She also has extensive experience of living and working abroad. Mrs. Meza Graham holds a bachelor's degree from the Stockholm University focused on International management and marketing. As per 31 December 2019 Mrs. Graham held 76 000 share options in the Company and 222 300 shares.

The Supervisory Board of Funcom currently consist of one woman and three men. In the appointment of directors and auditors, professionals' backgrounds are evaluated and there is no gender distinction. Management and Supervisory Board would welcome a more diverse composition in terms of gender in the future. In a future replacement of directors or supervisory board candidates, the quality of any candidate will prevail.

Badhoevedorp, the Netherlands, 23 April 2020

The Supervisory Board of Directors in Funcom SE

Eddie Tak Ho Chan, Chairman
sgd

Peng Lu
sgd

Egil Kvannli
sgd

Susana Meza Graham
sgd

Funcom SE
Consolidated Statement of Comprehensive Income
for the year ended 31 December

In thousands of US dollars	**Note**	**2019**	**2018**
Continuing operations			
Revenue	6,7	26 620	33 776
Personnel expenses	8,27	-5 330	-4 899
General and administrative expenses	9	-8 204	-10 268
Depreciation, amortization and impairment losses	11	-12 285	-7 523
Other operating expenses	10	-948	-919
Operating expenses		-26 768	-23 609
Operating result		-148	10 166
Finance income	12	1 725	2 170
Finance expenses	12	-1 869	-4 097
Result before income tax		-291	8 240
Income tax (expense) / income	14	-2	-1 622
Result from continuing operations		-289	6 618
Result for the period		**-289**	**6 618**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		102	-1 508
Other comprehensive income for the year, net of tax		102	-1 508
Total comprehensive income for the year		**-187**	**5 110**

Funcom SE
Consolidated Statement of Comprehensive Income
for the year ended 31 December

In thousands of US dollars	**Note**	**2019**	**2018**
Result for the period attributable to:			
Equity holders of Funcom SE		-277	6 618
Non-controlling interests		-12	-
		-289	**6 618**
Total comprehensive income attributable to:			
Equity holders of Funcom SE		-174	5 110
Non-controlling interests		-12	-
		-187	**5 110**
Earnings per share *			
From continuing operations			
Basic earnings per share (US dollars)	13	-0.00	0.09
Diluted earnings per share (US dollars)	13	-0.00	0.08

* Based on result for the period

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

Funcom SE
Consolidated Statement of Financial Position
As at 31 December

In thousands of US dollars	**Note**	**2019**	**2018**
ASSETS			
Non-current assets			
Intangible assets and goodwill	15	33 251	24 711
Right-of-use assets	26	3 926	-
Equipment	16	137	155
Other non-current financial assets		978	489
Total non-current assets		38 291	25 354
Current assets			
Trade receivables	17,29	3 837	4 797
Prepayments and other receivables	18,29	1 828	1 269
Cash and cash equivalents	19,29	13 131	19 902
Total current assets		18 797	25 968
Total assets		**57 088**	**51 322**

Funcom SE
Consolidated Statement of Financial Position
as at 31 December

In thousands of US dollars	**Note**	**2019**	**2018**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	18 287	18 224
Reserves	20	189 852	188 539
Retained earnings (Accumulated deficit)	20	-161 874	-161 589
Equity attributable to owners of the Company		46 265	45 175
Non-controlling interest	20,25	52	-
Total equity	20	46 317	45 175
Non-current liabilities			
Deferred tax liabilities	14	1 855	2 086
Lease liabilities	26,29	3 300	-
Other non-current liabilities	29	-	92
Total non-current liabilities		5 156	2 178
Current liabilities			
Trade payables	29	1 329	1 200
Contract liabilities	21	234	222
Lease liabilities	26,29	1 241	-
Other short-term liabilities	22,29	2 812	2 547
Total current liabilities		5 615	3 969
Total liabilities		10 771	6 147
Total equity and liabilities		**57 088**	**51 322**

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

Funcom SE
Consolidated Statement of Cash Flows
for the year ended 31 December

In thousands of US dollars	Note	2019	2018
Cash flows from operating activities			
Profit (loss) before income tax		-291	8 240
Adjustments for:			
Depreciation, amortization and impairment losses	11	12 285	7 523
Share-based payments	8,20,27	920	2 903
Interest income/expense	12	-64	-49
Effect of exchange rate fluctuations		264	1 322
Working capital adjustments:			
Change in trade and other receivables		257	-4 646
Change in trade payables		140	498
Change in other current assets and liabilities		272	1 428
Cash generated from operations		13 782	17 219
Interest received	12	242	49
Income tax and other taxes paid	14	-205	-71
Net cash from operating activities (A)		**13 819**	**17 196**
Cash flows from investing activities			
Purchase of equipment	16	-50	-164
Acquisition of subsidiary, net of cash acquired	25	-74	-
Payment of development costs	15	-19 753	-16 422
Net cash used in investing activities (B)		**-19 877**	**-16 585**
Cash flows from financing activities			
Principal paid on lease liabilities	26	-1 196	-
Interest paid on lease liabilities	26	-178	-
Proceeds from finance subleases	26	398	-
Net proceeds from issue of share capital	20	182	12 374
Net cash from financing activities (C)		**-793**	**12 374**
Net increase in cash and cash equivalents (A+B+C)	19	-6 851	12 985
Cash and cash equivalents at beginning of period	19	19 902	7 731
Effect of exchange rate fluctuations		80	-814
Cash and cash equivalents at end of period after exchange effect	19	**13 131**	**19 902**

Funcom SE
Consolidated Statement of Changes in Equity
for the year ended 31 December

In thousands of US dollars	Share capital	Share premium	Equity-settled employee benefits reserve	Trans-lation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total Equity
Equity as at January 1, 2018:	**13 525**	**165 028**	**8 936**	**-5 604**	**-168 206**	**13 678**	**-**	**13 678**
Profit or loss for the period					6 618	6 618		6 618
Other comprehensive income the period				-1 508		-1 508		-1 508
Total comprehensive income for the period	**-**	**-**	**-**	**-1 508**	**6 618**	**5 110**	**-**	**5 110**
Share-based payments expense			2 903			2 903		2 903
Exercise of options	197	796				993		993
Issue of new shares	2 803	16 199				19 001		19 001
Convertible loan to new shares	1 699	1 917				3 616		3 616
Transaction costs related to increase in equity		-127				-127		-127
Total contributions and distributions	**4 699**	**18 785**	**2 903**	**-**	**-**	**26 386**	**-**	**26 386**
Equity as at December 31, 2018:	**18 224**	**183 812**	**11 839**	**-7 112**	**-161 589**	**45 175**	**-**	**45 175**
Adjustment on initial application of IFRS 16, net of tax					-9	-9	**-**	**-9**
Equity as at January 1, 2019:	**18 224**	**183 812**	**11 839**	**-7 112**	**-161 597**	**45 166**	**-**	**45 166**
Profit or loss for the period					-277	-277	-12	**-289**
Other comprehensive income for the period				102		102		**102**
Total comprehensive income for the period	**-**	**-**	**-**	**102**	**-277**	**-174**	**-12**	**-187**
Share-based payments expense			920			920		**920**
Exercise of options	39	143				182		**182**
Issue of new shares	23	147				170		**170**
Total contributions and distributions	**62**	**290**	**920**			**1 273**		**1 273**
Acquisition of subsidiary with NCI						-	65	**65**
Total changes in ownership interests	**-**	**-**	**-**	**-**	**-**	**-**	**65**	**65**
Equity as at December 31, 2019:	**18 287**	**184 103**	**12 759**	**-7 010**	**-161 874**	**46 265**	**52**	**46 317**

Summary of Notes to the Consolidated Financial Statements

Funcom SE
Notes to the Consolidated Financial Statements

1. Corporate Information

Funcom SE (or the "Company") is a public limited 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 Prins Mauritslaan 37 – 39, Badhoevedorp, 1171 LP, The Netherlands. The Company is listed on the Oslo Stock Exchange under the ticker "FUNCOM". On 17 May 2019, the General Meeting approved the conversion of the legal form of Funcom N.V. to Funcom SE, a "societas europaea" company.

The consolidated financial statements of the Company as at and for the year ended 31 December 2019, 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 23 April 2020.

2. Basis of preparation

The Company expects to need to secure additional funding in order to execute all the planned activities for 2020 and 2021, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles.

Going concern
Based on cash balance, revenues from a broadening portfolio, future pipeline, a strong shareholder base and access to additional capital the Company's financial situation is sound. Based on this Management Board has concluded that the going concern assumption is justified and consequently the unaudited condensed consolidated financial information of the Company for the year to date have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections. Notwithstanding the above, the actual performance of the Company may deviate from the projections. Relevant risks are outlined in Note 30.

Rounding
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 a historical cost basis unless otherwise stated in these accounting policies.

Estimates and judgements
The preparation of financial statements in conformity with IFRS requires management to make judgements, 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 judgements 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.

Judgements made by management in the application of IFRS with significant effect on the financial statement and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

Accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

Adoption of new and revised International Financial Reporting Standards and Interpretations

Standards and Interpretations affecting amounts reported in the current period

Only IFRS 16 did have an impact on the current period. The other standards did not have an impact upon the financial statements of the group. For more information see note 5.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 16	Leases	January 2016	1 January 2019
Amendments to IFRS 9	Prepayment features with Negative Compensation	October 2017	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	June 2017	1 January 2019
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures	October 2017	1 January 2019
Annual improvements	Annual improvements to IFRSs 2015-2017 cycle	December 2017	1 January 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	February 2018	1 January 2019

Standards and Interpretations in issue but not yet adopted

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these is are as follows:

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 17	Insurance contracts	May 2017	1 January 2021
Amendments to references to Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	March 2018	1 January 2020
Amendment to IFRS 3	Business Combinations	October 2018	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of Material	October 2018	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	September 2019	1 January 2020

These new accounting standards and amendments will not have a significant impact on the Group's consolidated financial statements.

3. Significant accounting policies

3.1 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.

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

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

3.3 Revenue from contracts with customers
For each contract with a customer, the group identifies the performance obligations, determine the transaction price, allocate the transaction price to performance obligations, determine whether revenue should be recognized over time or at a point in time, and, finally, recognize revenue when or as performance obligations are satisfied.

Performance obligations and timing of revenue recognition
The majority of the group's revenue is derived from selling digital games to third party PC and console platforms. Revenue is recognized at a point in time when the digital game is available to the customer. There is limited judgement needed in identifying the point control passes.

Third party platforms
Funcom recognizes revenue from third party platforms at a point in time when the relevant sale has occurred, the respective performance obligations in the contract are satisfied and the payment remains probable. In general, the performance obligation is satisfied when the platform obtains control with the relevant game and can monetize it through its platform. Any further responsibility, for instance from refunds, typically rests on the third-party platform, which is classified as a principal and not an agent. Funcom determines the transaction price to be the amount of consideration which it expects to be entitled in exchange for transferring the promised services to the customer, net of deducted taxes, fees and refund charges. No element of financing is deemed present as the sales are made with a credit term of 15-90 days, which is consistent with market practice. Revenue recognition of boxed video games sold through physical retail through a distribution channel is recognized according to the same principles. The revenue recognition principles for third party platforms are the same for PC and console.

Revenues from Funcom's own channels
Funcom sells subscriptions, virtual currencies and virtual in-game items for digital PC games directly to the customer from Funcom's own online store. The payments are received through credit card providers with limited delay.

Subscriptions
Subscriptions constitutes a distinct performance obligation and are recognized on a straight-line basis over the subscription period as the service is provided. Any unsatisfied or partially unsatisfied performance obligations at year-end will be presented in the balance as a contract liability.

Virtual currency
A virtual currency constitutes a distinct performance obligation. Revenue is recognized over time, spread out over the estimated duration of currency consumption. Any unsatisfied or partially unsatisfied performance obligations at year end will be presented in the balance as a contract liability.

Virtual in-game items
Virtual In-game items, such as virtual backpacks, constitutes a distinct performance obligation and are recognized at a point in time when the virtual item is made available to the customer.

Bundles
During 2019 Funcom sold bundles with both subscription and virtual currency. These bundles include separate performance obligations that are also sold separately. The transaction price is allocated to the performance obligations based on its relative standalone selling price and recognized over time.

Season passes
During 2019 Funcom sold bundles in the form of season passes. These bundles include separate performance obligations that are also sold separately and delivered at different points in time. The transaction price is allocated to each performance obligations based on its relative standalone selling price. As of 31 December 2019, all the performance obligations related to the season passes have been fulfilled.

Pre-orders
In cases where sales are made through pre-orders, the revenue is allocated to the release day, and presented in the balance as a contract liability.

One-off deals
The Group has entered into agreements with game subscriptions services providers for one-off deals regarding the right-to-use license for some of our games. The performance obligations and extent of these deals varies from contract to contract and can include providing the customer with game-related materials, game-keys and license rights. The transaction price as agreed in the agreements are allocated to the identified performance obligations (which is generally one performance obligation) to their standalone selling price. The Group will recognize the revenue at the point in time when the performance obligations are fulfilled, the customer have accepted the product, and the Group has received the cash or have a present right to payment.

External consulting services
External revenue from game related consulting services are based on time, and the performance obligations are recognized over the period in which the services are rendered. The performance obligations are generally satisfied, and the control transferred to the customer over time given that the customer simultaneously receives and consumes the benefits provided by the Group.

IP Licensing royalties
The Group enters into licensing agreements for IP rights to the Group's intellectual property licenses. Consideration tied to the licensing arrangement may include minimum guarantees, milestone payments and sales-based royalties. The Group is not required to undertake any activities that significantly affect the intellectual property to which the customer has a right to use. Revenues from milestones and minimum guarantees are recognized at the point in time when the performance obligations are fulfilled, and the Group have an unconditional right to payment. The performance

obligations include providing the customer with the right-to-use license to the Group's intellectual property. Sales-based royalties are a percentage of the customer's sales and are recognized at the point in time when the related sales occur by the customer.

Determining the transaction price
Most of the group's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices.

Some contracts provide customers with a limited right of return. These relate predominantly, but not exclusively, to online sales direct to consumers. Historical experience enables the group to estimate reliably the value of goods that will be returned and restrict the amount of revenue that is recognized such that it is highly probable that there will not be a reversal of previously recognized revenue when goods are returned.

Allocating amounts to performance obligations
For most contracts, there is a fixed price for each product sold. Therefore, there is no judgement involved in allocating the transaction price to each product in such contracts. Where a customer orders more than one product line, the Group is able to determine the split of the total contract price between each product line by reference to each product's standalone selling prices (all product lines are capable of being, and are, sold separately).

Most extended warranties are sold on the Group's behalf by retailers when the end customer buys one of the Group's products from the retailer. There is therefore also no judgement required for determining the amounts received for extended warranties in retail sales – it is the priced charged to the purchaser of the warranty. (From the group's perspective, the contract with the end customer for the warranty is separate from the contract with the retailer for the original sale of the goods). The price of extended warranties charged in retail sales provides a basis for determining the relative standalone selling price of the goods and warranty in non-retail sales.

Significant financing component
The Group applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

3.4 Contract liabilities
A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has already received the cash (or an amount of consideration is due) from the customer.

3.5 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.

3.6 Government grants
Subsidies from the authorities are not recognized until there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

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 as reduced expenses in the Statement of Comprehensive Income in the same periods in which the expenses are recognized. There are no unfulfilled conditions or other contingencies attaching to these grants. The group did not benefit directly from any other forms of government assistance.

3.7 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.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.8 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. 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 labor 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. The amortization period is between 18 months and 5 years, linearly or according to the reducing balance method, depending on the type of the asset. The MMO games *Age of Conan* and *Secret World Legends* and technology have an amortization period of up to 3 years, whereas other games have an amortization period of two years or below. Externally developed publishing games have an amortization period of 18 months. The company applies the diminishing balance amortization method, also called accelerated amortization method, that reflects the pattern of consumption of the future economic benefits. Typically, a high share of the amortization is applied to the time period of the release, diminishing over time. If that pattern cannot be determined reliably, the company uses the straight-line method. Subsequent improvements and/or additions are amortized separately over the expected useful lives from the time these improvements and/or additions are completed and available for use. Explanation is provided in Note 15.

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.

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 2 - 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.

Intellectual property
IP, Brands and IP licenses that are acquired by the Group are measured at cost. If there is no foreseeable limit to the period over which the asset will generate cash flows, it will be classified as indefinite useful life. At the end of each financial year the asset's useful life will be reviewed and tested for indicators of impairment.

3.9 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
Furniture	5 years

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

3.10 Joint operation

While a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The accounting treatment of a joint operation is different than that of a joint venture.

A joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

When a joint operation does not constitute a business, the acquirer identifies and recognizes the individual identifiable assets acquired and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Other costs related the transaction can be capitalized.

On 8 February 2018, Funcom completed a transaction to acquire 50% interest of Heroic Signatures DA. Heroic Signatures DA (Delt Ansvar) is a general partnership registered in Norway. Funcom's interest in Heroic Signatures DA is accounted as a joint operation. Heroic Signatures DA revenue originating from Funcom royalty fees are eliminated. This implies the asset value is shown under intangible assets on the balance sheet and that Heroic Signatures DA third-party revenue is included in Funcom's consolidated revenue.

3.11 Impairment of 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. 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 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.

3.12 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.

3.13 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. Based on instruction from the Supervisory Board on the number of people that should be granted options and the required combination of duration of employment and seniority level, the Management Board allocates options per employee. The number of options granted to the

Supervisory and Management Board members are decided by the General Meeting. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted. The grant date fair value of options granted is recognized as an employee expense with a corresponding increase in equity. 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.

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities. Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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.

3.14 Assets and Liabilities

All assets and liabilities classified as current are expected to be recovered and settled no more than twelve months after reporting period. All assets and liabilities classified as non-current are expected to be recovered and settled in more than twelve months after the reporting period.

3.15 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.

3.16 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, except for 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.

3.17 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.

3.18 Financial Instruments

Funcom adopted IFRS 9 1 January 2018.

Classification of Financial Assets
IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Group's business model is to collect its receivables and collecting contractual cash flows. The group classifies its financial assets as at amortized cost only if both of the following criteria are met: i) the asset is held within a business model whose objective is to collect the contractual cash flows, and ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

The Group has concluded that its receivables meet the requirements to be classified at amortized cost as they meet the business model test and are solely payments of interest and principal. The Group did not have derivative financial assets or liabilities at 31 December 2019.

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. Cash in bank is recorded at face value.

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

Impairment of Financial Assets
In line with IFRS 9 Funcom applies the forward-looking 'expected credit loss' (ECL) model. to financial assets at amortized cost, cash and cash equivalents and trade receivables. This model may require considerable judgement about how changes in economic factors affect ECLs. All of Funcom's trade receivables and other receivables are measured on a lifetime ECL basis. Funcom determines its expected credit losses by using a provision matrix, which is based on actual historical credit losses and is adjusted for any relevant forward-looking information, for instance about the general economy and Group creditors. The short maturity of the trade receivables, typically weeks or up to a couple of months, reduces the importance of forward-looking information.

Classification of Financial Liabilities
The Group has no financial instruments held for trading and hence does not designate any financial liabilities at FVTPL. This means that Funcom measures its financial liabilities, including the liability-portion of its convertible bonds, at amortized cost. 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.

Offsetting
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 realize the asset and settle the liability simultaneously.

Hedge accounting
The Group does not apply hedge accounting and has no intention to do so in the near future.

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.

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

Note 29 contains further detailed information on financial instruments.

3.19 Cash flow statement
The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows, such as fair value changes, have been eliminated for the purpose of preparing this statement. Interest paid and received, as part of normal operating activities, are included under operating activities.

Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement.

The purchase consideration paid for the acquired group company has been recognized as cash used in investing activities where it was settled in cash. Any cash at banks and in hand in the acquired group company have been deducted from the purchase consideration.

Transactions not resulting in inflow or outflow of cash, including finance leases, are not recognized in the cash flow statement. Payments of finance lease instalments and the interest paid qualify as repayments of borrowings under cash used in financing activities.

Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

3.20 Business combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

3.21 Non-controlling interest

A non-controlling interest (NCI), also known as minority interest, is the portion of equity ownership in a subsidiary not attributable to the parent company, who has a controlling interest (greater than 50%, but less than 100%) and consolidates the subsidiary's financial results with its own. Non-controlling interest are measured by using the proportionate share of the recognized net assets at the acquisition date. All of the Group's non-controlling interest are related to the ZPX-acquisition. Note 25 contains further detailed information on the acquisition.

3.22 Goodwill

Goodwill arises on acquisition of subsidiaries and associates, and is the excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

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

3.23 Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed in Note 3.24.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents finance lease receivables in 'Prepayments and other receivables' in the statement of financial position. Right-of-use assets and lease liabilities are presented as separate lines in the statement of financial position.

Incremental borrowing rate
The incremental borrowing rate (IBR) is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay'. See note 4 - Accounting estimates for details how the Incremental borrowing rate is determined.

Short-term leases and leases of low-value assets
The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor
At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

3.24 Leases (policy 2018)

For contracts entered into before 1 January 2019, the Group used IAS 17 and IFRIC 4, and determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease. In 2018, the Group had one sub-lease that was classified as operating lease. The revenues from the sub-lease was recognized directly in the profit or loss. Under IAS 17, the Group did not have any finance leases as a lessor.

4. Accounting estimates, judgments and estimation uncertainty

Accounting estimates and judgments

In the application of the Group's accounting policies, which are described in Note 3, 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, primarily of games but also some related to 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. Key criteria are Funcom's ability to complete the project, existence of a market and expected profitability, typically this is documented in a business case which is authorized by the board if the size of the investment is significant.

Intangible assets should be tested for impairment when there is an indicator that the asset may be impaired. Both released games and games in development are impairment tested. 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. Please refer to Note 15 for more information.

Useful life of intangible fixed assets
The useful life of the Company's games is estimated to define the amortization period. The Useful life is estimated before launch based on expectations for the game and comparison with a peer group of similar games, after launch the performance of the game is considered. To estimate the lifetime for intellectual property the monetization plans are considered, together with an assessment of whether there are any limits to the period over which the IP is expected to generate net cash inflows. The estimated useful life is subject to uncertainty and judgment and the actual outcome may differ significantly from the initial estimate.

Revenue recognition
The Group recognizes, as explained in Note 3.3, revenue from sale of goods and revenue from license and royalty agreements generally on delivery of the product. The amount is reduced by expected returns and price arrangements/discounts. The determination of the amount is based on estimates of the outflow of economic benefits required to settle the obligation and on timing of the returns. Actual rates of return and price may vary from the estimate.

Principal Agent Considerations
The Group evaluate sales of our products and content via third party digital storefronts to determine whether revenues should be reported gross or net of fees retained by the storefront. Key indicators that we evaluate in determining gross versus net treatment include, but are not limited to, the following:

- the party responsible for delivery/fulfilment of the product or service to the consumer;
- the party responsible for consumer billing, fee collection, and refunds;
- the storefront and terms of sale that govern the consumer's purchase of the product or service; and
- the party that sets the pricing with the consumer and has credit risk.

Based on evaluation of the above indicators we report revenues on a net basis. (i.e., net of fees retained by the storefront.)

Share option scheme
The Group determines the value of new options granted and the incremental cost of any changes to the option terms based on Black-Scholes option pricing theory. Judgment is applied in determining the required input parameters such as estimated volatility of the underlying share and lifetime of the options. Historical data such as volatility, option lifetime and employee turn-over are considered.

Leases - Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds

necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Leases - Estimating the lease term
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Group has not included the renewal period as part of the lease term in any of our leases as these are not reasonably certain to be exercised. The Group is growing at a fast phase and do not have a history of renewing leased properties.

5. Implementation of IFRS 16 - Leases

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group's financial statements.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

5.1 Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.23.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

5.2 As a lessee

As a lessee, the Group leases many assets including property, office equipment and IT equipment. The Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet. At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

5.3 Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group tested its right-of-use assets for impairment on the date of transition and concluded that there was no indication that the right-of-use assets was impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets (e.g. IT and office equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

5.4 As a lessor

The Group sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the finance lease receivable recognized from the head leases are presented as Other receivables and measured at fair value at that date. The Group assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset and concluded that they are finance leases under IFRS 16.

The Group is required to make adjustments on transition to IFRS 16 for leases in which it acts as an intermediate lessor for sub-leases.

5.5 Impact on transition

When measuring lease liabilities for leases, the Group discounted lease payments using its incremental borrowing rate (IBR) at 1 January 2019. The weighted average incremental borrowing rate (IBR) applied to lease liabilities at the date of initial application was 4.58%.

In thousands of US dollars	**2019**
Operating lease commitments at 31 December 2018	4 029
Discounted using the IBR at 1 January 2019	-507
Finance lease liabilities as at 31 December 2018	–
Extension options reasonably certain to be exercised	–
Lease liabilities recognized at 1 January 2019	**3 522**

Expenses related to short-term and low value leases are not included in the lease commitments. For more info related to short-term and low value leases see Note 26.

The initial application of IFRS 16 did not impact earnings per share.

On transition to IFRS 16, the Group recognized right-of-use assets, finance lease receivables, and lease liabilities, recognizing the difference in retained earnings. The effects from IFRS 16 resulted in a decrease in equity of net USD 9 thousand. The impact on transition is summarized below.

IFRS 16 impact on the opening statement of financial position			
(Figures in TUSD)	**(IAS 17) 31.12.2018**	**Effects from IFRS 16**	**01.01.2019**
ASSETS			
Non-current assets			
Intangible assets	24 711		24 711
Tangible fixed assets	155		155
Right-of-use assets	-	2 681	2 681
Long term receivables	489	306	795
Total non-current assets	**25 354**	**2 987**	**28 342**
Current assets			
Trade receivables	4 797		4 797
Prepayments and other receivables	1 269	441	1 710
Cash and cash equivalents	19 902		19 902
Total current assets	**25 968**	**441**	**26 409**
Total assets	**51 322**	**3 428**	**54 750**

EQUITY AND LIABILITIES			
Equity			
Share capital	18 224		18 224
Reserves	188 539		188 539
Retained earnings	-161 589	-9	-161 597
Total equity	**45 175**	**-9**	**45 166**
Non-current liabilities			
Deferred tax liabilities	2 086		2 086
Long-term liabilities	92	-92	-
Lease liabilities, Long-term	-	2 490	2 490
Total non-current liabilities	**2 178**	**2 397**	**4 575**
Current liabilities			
Lease liabilities, Short-term	-	1 032	1 032
Contract liabilities	222		222
Trade payables	1 200		1 200
Other short-term liabilities	2 547	8	2 555
Total current liabilities	**3 969**	**1 040**	**5 009**
Total equity and liabilities	**51 322**	**3 428**	**54 750**

6. 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:

- PC
- Console: PS4, Xbox and Nintendo Switch
- Other: IP revenue and game development services from third parties

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. 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.

Segment information	**Revenue from external customers**		**Segment profit (loss) [1]**	
	January - December		**January - December**	
In thousands of US dollars	**2019**	**2018**	**2019**	**2018**
PC	16 726	16 783	9 037	11 212
Console	9 554	16 418	6 536	11 726
Other activities [2]	340	575	260	78
Total	26 620	33 776	15 833	23 015
General and administrative expenses			-3 696	-5 325
Depreciation, amortization and impairment charges			-12 285	-7 523
Net financial items			-144	-1 926
Profit (loss) before tax			**-291**	**8 240**

[1] Segment profit (loss) is measured as revenue earned less personnel costs and other operating costs related to segments. General and administrative expenses are costs not directly allocated to games, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments.
[2] Other activities referred to external royalties IP, external consulting services and other.

In thousands of US dollars	**PC**	**Console**	**Under development**	**SUM**
Segment assets as at 31 December 2018	7 906	3 484	6 254	17 643
Segment assets as at 31 December 2019	6 910	2 463	16 493	25 866

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

The Group's three largest customers, namely Microsoft, Sony and Valve, are digital platforms that sell games to end users. The revenue of these three customers total USD 18 911 thousand (2018: USD 23 949 thousand), representing 71.0% of the Group's total revenue (2018: 70.9%).

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

In thousands of US dollars	Revenue[1] 2019	2018	Non-current assets[2] 2019	2018
The Netherlands	18	514	334	68
Norway	26 572	33 262	35 290	25 221
USA	–	–	2 482	65
Portugal	29	–	185	–
Total	**26 620**	**33 776**	**38 291**	**25 354**

[1] Revenue is attributed to a country based on the location of the selling entity.
[2] Non-current assets are attributed to a country based on the geographical location of the assets.

7. Revenue

Disaggregation of revenue from contracts with customers

In thousands of US dollars	2019	%	2018	%
PC[1]	16 726	62.8 %	16 783	49.7 %
Console[2]	9 554	35.9 %	16 418	48.6 %
Other[3]	340	1.3 %	575	1.7 %
Total	**26 620**	**100 %**	**33 776**	**100 %**

[1] PC revenue relates to revenue from contracts with customers related to services. It also includes direct sales through Funcom's own channels.
[2] Console revenue relates to revenue from contracts with customers related to services through 3rd party stores.
[3] Other activities referred to external royalties from IP, external consulting services and other, direct sales.

Timing of revenue

2019

In thousands of US dollars	PC	Console	Other	SUM
Segment revenue	16 726	9 554	340	26 620
Timing of revenue recognition:		–		
At a point in time	14 541	9 554	–	24 095
Over time	2 185	–	340	2 525
Total	**16 726**	**9 554**	**340**	**26 620**

2018

In thousands of US dollars	PC	Console	Other	SUM
Segment revenue	16 783	16 418	575	33 776
Timing of revenue recognition:				
At a point in time	13 111	16 418	–	29 528
Over time	3 672	–	575	4 247
Total	**16 783**	**16 418**	**575**	**33 776**

USD 50 thousand (2018: USD 1 thousand) out of the PC revenue at a point in time, and all the PC revenues over time, come from the sale of games from Funcom's own channels and are directly sold to consumers. The revenues related to Console and the remaining of the PC revenue at a point in time relates to sales sold through third party platforms. Other revenue relates to external royalties from IP and external consulting services. In 2018, using IAS 17, it also included rental revenue from subleases.

8. Personnel expenses

In thousands of US dollars	2019	2018
Salaries	10 928	8 678
Social Security Contributions	1 459	1 224
Contributions to defined contribution plans	279	181
Expenses for share option program	913	2 879
Other Personnel expenses	1 423	911
Government grants (Skattefunn)	-511	-387
Capitalization of personnel expenses	-9 161	-8 587
Total Personnel Expenses	**5 330**	**4 899**

Average Number of employees:	2019	2018
Europe	102	62
North America	73	62
Asia	1	1
Total	**176**	**125**

The remuneration of the Supervisory Board and Management Board members of Funcom SE is subject to payroll tax in the Netherlands, though currently no members reside in The Netherlands.

9. General and administrative expenses

In thousands of US dollars	2019	2018
Marketing	1 475	3 001
Professional services[1]	666	683
Rent of premises and other office costs[2]	372	1 672
Royalties	4 724	3 914
Investor relations	180	215
IT, hardware and software	1 092	592
External game development[3]	9 774	6 263
Government grants (Skattefunn)	–	-118
Other	316	504
Capitalization of G&A	-10 393	-6 457
Total G&A expenses	**8 204**	**10 268**

[1] Professional services includes auditor's remunerations, accounting services, legal services and other professional services.

[2] Rent of office spaces are not recognized directly in the profit & loss under IFRS 16. In 2018, using IAS 17, office lease was recognized directly in the profit & loss. For more info see Note 3.23, 3.24 and Note 26.

[3] External game development includes funding to developers for publishing game and outsourced services for games development.

Auditor's remunerations

	BDO Audit & Assurance B.V.		Other BDO member firms and affiliates		**Total**	
In thousands of US dollars	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Audit of Funcom Group	192	192	29	33	220	225
Other audit services	–	–	12	–	12	–
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	–	–	–	–	–
Total	**192**	**192**	**41**	**33**	**232**	**225**

Fees for audit services include the audit of the financial statements of the Company and its subsidiaries. Fees for other audit services include review of government grants, intercompany debt conversion and other audits. Fees for audit services are included in general and administrative expenses in the consolidated financial statements. These fees are recognized when the service is provided.

10. Other operating expenses

In thousands of US dollars	**2019**	**2018**
Commissions	108	152
Hosting costs for online games	840	766
Total other operating expenses	**948**	**919**

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.

11. Depreciation and amortization

In thousands of US dollars	**2019**	**2018**
Amortization of intangible assets	11 955	7 488
Depreciation of equipment	68	35
Depreciation of right-of-use assets[1]	867	–
Impairment of right-of-use assets	53	–
Capitalization of development cost	-658	–
Total	**12 285**	**7 523**

[1] Right-of-use assets consists of office leases. In 2018, using IAS 17, office lease was recognized directly in the profit & loss as general and administrative expense. For more info see note 3.23, 3.24 and Note 26.

12. Finance income and expenses

In thousands of US dollars	2019	2018
Interest income	244	44
Net foreign exchange gain	1 426	2 121
Other financial income	55	6
Finance income	**1 725**	**2 170**

In thousands of US dollars	2019	2018
Interest expense	-179	-84
Net foreign exchange loss	-1 690	-4 013
Finance expenses	**-1 869**	**-4 097**

Exchange gains and losses are mainly arising from payables and bank accounts denominated in other currency than USD.

13. 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 SE of USD -277 thousand (2018: USD 6 618 thousand) divided by the weighted average number of ordinary shares outstanding 77 212 766 (2018: 73 487 371).

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.

In thousands of US dollars	2019	2018
Profit / (loss) for the period attributable to the equity holders of Funcom	-277	6 618
Profit for the period attributable to the equity holders of Funcom - continuing operations	-277	6 618
Issued ordinary shares as of January 1	**77 009**	**57 931**
Effect of new shares issued and options exercised	**203**	**15 557**
Weighted average number of shares at December 31	**77 213**	**73 487**
Basic earnings per share	**-$0.00**	**$0.09**
Basic earnings per share - continuing operations	**-$0.00**	**$0.09**
Weighted average number of shares at December 31, diluted	**82 580**	**79 088**
Diluted earnings per share	**-$0.00**	**$0.08**
Diluted earnings per share - continuing operations	**-$0.00**	**$0.08**

14. Income tax expense

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

In thousands of US dollars	**2019**	**2018**
Current period tax (expense)/income	-4	-78
	-4	-78
Deferred tax expense		
Origination and reversal of temporary differences	2 065	-2 999
Recognition of previously unrecognized tax losses	-2 000	782
Withholding tax	-58	0
Derecognition of recognized tax losses	0	672
	7	-1 545
Income tax (expense)/income excluding tax on sale of discontinued operations	2	-1 622
Income tax (expense)/income from continuing operations	**2**	**-1 622**
Income tax from discontinued operation (exluding gain on sale)	**0**	**0**
	2	**-1 622**
Income tax on gain on sale of discontinued operations	**0**	**0**
Total income tax (expense)/income	**2**	**-1 622**

In thousands of US dollars	**2019**	**2018**
Result before income tax	-291	8 240
Tax according to the average tax rate in USA, China, Netherlands and Norway	63	-1 841
Tax effect of non-deductible expenses	-17	0
Tax effect of non-taxable income	-171	-129
Changes in deferred taxes recognized on the balance sheet	-7	-1 420
Withholding tax, capital asset tax, and other non-income taxes	4	-293
Utilisation of losses carried forward	350	1 955
Deferred tax asset related to carry forward tax losses not recognised	-221	14
Tax effect of change in tax rate	0	91
Income tax (expense) / income	**2**	**-1 622**

The Group has not recognized any income tax directly in equity. The income tax rate in Norway changed from 23% to 22% with effect from 1 January 2019. Deferred tax has been calculated using the tax rate of 22% for 2019 and for 2018. Current tax for the Norwegian subsidiaries was calculated based on the applicable rate for 2019, i.e. 22% and applicable rate for 2018, i.e. 23%. The applied 'weighted average tax rate' is 20.53% for 2019 (2018: 23.68%) and the average effective tax rate is -0.54% (2018: 19.69%). There were no effects of changes in IAS 12. In Norway, unused losses may be carried forward without limit, while disallowed interest deductions can be carried forward for 10 years.

The Group has unutilized tax losses of USD 13 626 thousand as of 31 December 2019 (2018: USD 5 367 thousand) which expire as follows:

Deferred tax liability/tax asset	**2019**	**2018**
Deferred tax liability	-1 862	-2 086
Deferred tax asset, net	7	
Deferred tax asset (liability), net	**-1 855**	**-2 086**
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	-5 022	-2 921
Provisions	-2	
Total deferred tax effect of tax increasing temporary differences	**-5 024**	**-2 921**
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	2 850	833
Equipment and intangible assets	6	8
Withholding tax	258	
Provisions/receivables	58	49
Total deferred tax effect of tax reducing temporary differences	**3 172**	**890**
Deferred tax asset (net) not recognised in the balance sheet:	3	54
Recognised deferred tax asset (liability), net	**-1 855**	**-2 086**
Reconciliation of deferred tax asset, net:		
Opening balance	-2 086	-671
Change according to statement of income	9	-1 452
Exchange differences, prior year adjustments etc.	222	37
Deferred tax asset (liability), net, at year-end	**-1 855**	**-2 086**

In thousands of US Dollars

Expiry year	**2019**	**2018**
2025	196	593
2026	82	82
2027	-	-
2028	1 494	1 494
2029	-	-
2030	-	196
2031	-	24
2032	-	-
2033	617	857
2034	-	-
2035	-	-
2036	-	-
2037	-	-
2038	-	-
Indefinite	11 237	2 122
Total tax losses	**13 626**	**5 367**

The tax losses carried forward related to Funcom SE are generated from holding and financing activities and may only be offset against future profits from similar activities under certain conditions as set by the Dutch law on the corporate income tax. Future trading profits may consequently not be utilized against such tax losses. Tax losses for Funcom SE can be offset against the profit from the previous year (carry back), or – if this is not possible –with future profits (carry forward), which is limited to 6 years (up to and including 2018, the carry forward period was 9 years). The standard corporate income tax rate in the Netherlands stands in 2019 at 25% (2018: 25%). There are two taxable income brackets. A lower rate of 19% (2018: 20%) applies to the first income bracket, which consists of taxable income up to EUR 200 000. The standard rate applies to the excess of the taxable income. The lower rate will further decrease from 19% in 2019 to 16.5% in 2020.

The final tax assessment received by Funcom SE with respect to the financial year 2017 report carry forward losses amounting to USD 1 917 thousand as of the end of 2017. Funcom SE expects a taxable profit amounting to USD 1 243 thousand with respect to the financial year 2018, against which the carry forward losses from prior years may apply.

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 in particular located in the Norwegian operating companies. 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.

Since the criteria under IAS 12.35 have been met, the Company did recognize on its statement of financial position a deferred tax asset pertaining to Funcom Oslo AS and its subsidiaries amounting to USD 2 730 thousand, which is offset against deferred tax liabilities. For the year ended 31 December 2019, a net deferred tax liability amounting to USD 1 860 thousand is recognized on the statement of financial position with respect to Funcom Oslo AS and its subsidiaries (2018: USD 2 075 thousand).

15. Intangible assets and goodwill

In thousands of US dollars	Development costs	Software	Trademarks & licenses	Trademarks & licenses	Goodwill	Total
Cost						
Balance at January 1, 2018	125 017	436	173	–	–	**125 626**
Acquisitions, internally developed	10 439	–	–	–	–	**10 439**
Other acquisitions	4 770	–	–	7 714	–	**12 484**
Disposals	-102 127	–	-173	–	–	**-102 300**
Translation difference	–	-25	–	-830	–	**-854**
Balance at December 31, 2018	**38 098**	**411**	**–**	**6 884**	**–**	**45 394**
Acquisitions, internally developed	11 745	–	–	–	–	**11 745**
Acquisitions, business combinations[1]	–	–	–	–	333	**333**
Other acquisitions	8 516	150	–	–	–	**8 666**
Disposals	–	-140	–	–	–	**-140**
Translation difference	-162	-4	–	-85	–	**-252**
Balance at December 31, 2019	**58 197**	**417**	**–**	**6 799**	**333**	**65 747**
Accumulated amortization and impairment losses						
Balance at January 1, 2018	115 142	166	69	–	–	**115 376**
Amortization for the year	7 307	77	104	–	–	**7 488**
Disposals	-102 127	–	-173	–	–	**-102 300**
Translation difference	133	-14	–	–	–	**119**
Balance at December 31, 2018	**20 455**	**228**	**–**	**–**	**–**	**20 683**
Amortization for the year	11 876	79	–	–	–	**11 955**
Disposals	–	-140	–	–	–	**-140**
Translation difference	–	-2	–	–	–	**-2**
Balance at December 31, 2019	**32 331**	**165**	**–**	**–**	**–**	**32 496**
Carrying amount at Jan. 1, 2018	**9 875**	**270**	**104**	**–**	**–**	**10 249**
Carrying amount at Dec. 31, 2018	**17 643**	**183**	**–**	**6 884**	**–**	**24 711**
Carrying amount at Jan. 1, 2019	**17 643**	**183**	**–**	**6 884**	**–**	**24 711**
Carrying amount at Dec. 31, 2019	**25 866**	**252**	**–**	**6 799**	**333**	**33 251**
Estimated useful lives	1.5-5 years	3-5 years	2-5 years	Indefinite	Indefinite	
Method of amortization	Straight line and diminishing balance method	Straight line	Straight line	n/a	n/a	

[1] For more info related to acquisitions through business combinations see Note 25.

No impairments were booked in 2019 or 2018 on Intangible assets and goodwill.
The following values of intangible assets are under development and in use.

In thousands of US dollars	2019			2018		
Class	**Under Development**	**In Use**	**Total**	**Under Development**	**In Use**	**Total**
Development costs	16 493	9 374	25 866	6 254	11 389	17 643
Software	–	252	252	–	183	183
Trademarks and licenses	–	6 799	6 799	–	6 884	6 884
Goodwill	–	333	333	–	–	–
Total	**16 493**	**16 758**	**33 251**	**6 254**	**18 457**	**24 711**

In 2019, Funcom had development costs that was not capitalized of USD 1 917 thousand.

Calculation of recoverable amounts
When calculating the recoverable amount (value in use) from cash generating units the Group uses a discounted pre-tax cash flow projection reflecting the latest information that influences the expected performance of the assets. The cash flows are discounted using a pre-tax rate of 11.9 per cent (2018: 13.3 per cent). For games in use a 3-year cash flow is used, for games under development cash flow until up to 3 years post launch is used. For trademark and licenses with indefinite lifetime and goodwill a corresponding perpetual cash flow calculation is applied. The applied perpetual growth rate is 2%. Predicting with high certainty the cash flows from games is difficult. The estimates represent management's best estimate but is subject to a relatively high degree of uncertainty, especially for games not launched.

Recoverable amount less Carrying Amount for under development is USD 17 030 thousand and 14 989 thousand for in use.

Sensitivity Analysis: Development
1% change of the discount rate would have the following effect on the discounted cash flow of the cash generating units

In thousands of US dollar	**Increase (decrease) of discounted cash flow**	
Cash generating unit	**1 % increase WACC**	**1 % decrease WACC**
Under Development	-1 294	1 349
In Use	-253	259
Total	**-1 547**	**1 608**

5% change in the estimated cash flow expected to be realized by the cash generating units would have the following effect

In thousands of US dollar	**Increase (decrease) of discounted cash flow**	
Cash generating unit	**5 % increase cash flow**	**5 % decrease cash flow**
Under Development	1 380	-1 380
In Use	1 126	-1 126
Total	**2 506**	**-2 506**

Based on the sensitivity analysis performed it is concluded that any reasonable change in the key assumptions would not require an impairment. This analysis assumes that all other variables remain constant. As the analysis is done on the sum of several games, individual games can reach the break-even point faster. On individual game level, examples of assumptions that are particularly sensitive and could potentially make the discounted future cash flow lower than Carrying Amount includes the level of subscription deal revenue for *Moons of Madness* and *Conan Unconquered* and timing of release for the Mutant Chronicles online shooter.

Dreamworld Technology
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 the relevant elements of the asset, normally five years. The *DreamWorld Technology* has been amortized since the launch of *Age of Conan* in May 2008. At the end of 2019, the cumulative impairment for *DreamWorld* was USD 10 504 thousand (2018: USD 10 504 thousand).

IP licenses held through Heroic Signatures DA
In February 2018 Funcom acquired 50% of Heroic Signatures DA in exchange for issuing 4 460 000 new shares, each at a subscription price of NOK 13 per share. The transaction increased the equity

with USD 7 493 thousand. The value of the new shares was used as valuation for the underlying assets. An additional USD 221 thousand in cost related to the transaction was added as acquisitions cost. The asset value is measured at cost and shown as intangible assets on the balance sheet.

Heroic Signature's IP licenses are granted indefinitely through licensing agreements with Cabinet Interactive LLC. Funcom Group's ownership in Heroic Signature DA is also indefinite. The indefinite lifetime of the IP licenses is supported by significant revenue generation over the last 10 years. There are also significant plans to monetize the IP licenses in the next years. Since there is no foreseeable limit to the period over which the IP is expected to generate net cash inflows, the IP licenses should be regarded as having an indefinite useful life.

Sensitivity Analysis Goodwill and IP with indefinite life
Based on the sensitivity analysis performed it is concluded that any reasonable change in the key assumptions would not require an impairment.

Amortization of Age of Conan and Secret World Legends
The Company amortizes investment in the development of technology and game assets on a systematic basis over their useful life. The MMO games *Age of Conan* and *Secret World Legends* and technology have had an amortization period of five years since launch of the games. After a thorough assessment the amortization period of *Age of Conan* and *Secret World Legends* was reduced to three years, better reflecting the current situation of the industry and the games. The change increased the amortization with USD 62 thousand in 2019, impact in future years is expected to be immaterial

Contractual commitments
The Group has contractual commitments for development costs and minimum guarantees for IP license payments of USD 2 960 thousand (2018: USD 974 thousand).

Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. All goodwill relates to the acquisition of ZPX. For more info related to the ZPX-acquisition see Note 25.

In thousands of US dollars	**2019**	**2018**
Goodwill, as at January 1	–	–
Arising on acquisition of ZPX	333	–
Goodwill, as at December 31	**333**	**–**

16. Equipment

In thousands of US dollars	Computers	Furniture	Total
Cost			
Balance at January 1, 2018	35	11	**46**
Acquisitions	93	71	**164**
Translation difference	–	–	**–**
Balance at December 31, 2018	**128**	**82**	**210**
Acquisitions	38	12	**50**
Acquisitions, business combinations[1]	14	–	**14**
Translation difference	-9	-5	**-15**
Balance at December 31, 2019	**171**	**88**	**259**
Accumulated depreciation			
Balance at January 1, 2018	–	10	**10**
Depreciation for the year	28	7	**35**
Translation difference	6	4	**9**
Balance at December 31, 2018	**34**	**20**	**55**
Depreciation for the year	52	16	**68**
Acquisitions, business combinations[1]	12	–	**12**
Translation difference	-8	-4	**-13**
Balance at December 31, 2019	**90**	**32**	**122**
Carrying amount at Jan. 1, 2018	**35**	**1**	**37**
Carrying amount at Dec. 31, 2018	**94**	**61**	**155**
Carrying amount at Jan. 1, 2019	**94**	**61**	**155**
Carrying amount at Dec. 31, 2019	**81**	**57**	**137**
Method of depreciation	Straight line	Straight line	
Estimated useful lives	3 years	5 years	

[1] For more info related to acquisitions through business combinations see Note 25.

17. Trade Receivables

In thousands of US dollars	2019	2018
Trade receivables	3 837	4 797
Allowances for doubtful debt	–	–
Total	**3 837**	**4 797**

Please refer to Note 29 Financial Instruments for further details.

18. Prepayments and other receivables

In thousands of US dollars	2019	2018
Settlement account for VAT	108	163
Government grants (Skattefunn)	511	472
Prepaid rent[1]	2	149
Finance Lease Receivable	442	–
Other prepayments	296	484
Other receivables	469	–
Total	**1 828**	**1 269**

[1] In 2018, using IAS 17, prepaid office lease was classified as Prepayments and other receivables. In 2019, using IFRS 16, all office lease payments are booked as a reduction of lease liabilities. For more info see Note 3.23, 3.24 and Note 26.

19. Cash and cash equivalents

In thousands of US dollars	2019	2018
Non-restricted cash at bank and in hand	12 851	19 693
Restricted cash	280	209
Total cash and cash equivalents	**13 131**	**19 902**

20. Equity

Share Capital

Number of shares	2019	2018
Outstanding as at 1 January	77 009 493	57 930 522
Issues against payment in cash	175 133	7 638 135
Issues from conversion of bond/loan	–	6 980 836
Issues from Cabinet Transaction	–	4 460 000
Issues from ZPX Transaction	102 363	–
Outstanding as at 31 December	**77 286 989**	**77 009 493**
Nominal value of the share-capital at December 31 (EUR)	15 457 398	15 401 899

As of 31 December 2019, the authorized share capital comprised of 150 million ordinary shares (2018: 150 million). The nominal value of the shares is Euro 0.20. 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 2019

Shares

In January 2019 Funcom completed the acquisition of 50.1% of the Portuguese video game development service provider Zona Paradoxal, Lda ("ZPX") with whom it has had a working relationship since 2017. Part of the consideration for the acquisition of the 50.1% ownership in ZPX was 102 363 new shares that Funcom issued to the shareholders of ZPX, each at the price of USD 1.665 per share. The transaction increased the equity attributable to shareholders of Funcom SE with USD 170 thousand and the equity attributable to non-controlling interests by USD 65 thousand. For more info regarding the acquisition see Note 25.

In May 2019, Funcom issued 175 133 new shares in relation to exercise of employee options.

Options
In June 2019 Funcom issued 338 000 options to members of the Management Board, 208 000 options to members of the Supervisory Board, and 1 969 000 options to other employees as part of the Group's options program.

Equity-settled employee benefits reserve
The Equity-settled employee benefits reserve comprises of share-based payments related to the Groups employee option program. See Note 3.10 for further description of the Group's Equity-settled employee benefits.

Translation reserve
The translation reserve comprises of all foreign exchange differences arising from the translation of the financial statements of foreign operations, excluding amounts attributable to non-controlling interests.

Non-controlling interests in Funcom SE group companies
The non-controlling interests (NCI) relate to minority stakes held by third parties in Zona Paradoxal, Lda ("ZPX"). The total non-controlling interest as at 31 December 2019 amounted to USD 53 thousand (2018: nil).

Dividends
The Group did not pay any dividends in 2019.

Events in 2018

Shares
In February 2018 Funcom executed a private placement of 6 800 000 new shares at a subscription price of NOK 13 per share. The total gross proceeds to Funcom in the private placement was NOK 88.4 million. The transaction increased the equity of the Company with USD 11 508 thousand after USD 127 thousand in transaction fees.

In February 2018 Funcom completed the acquisition of 50% of "Heroic Signatures DA" in exchange for issuing 4 460 000 new shares, each at a subscription price of NOK 13 per share. The transaction increased the equity with USD 7 493 thousand.

In March 2018, USD 3 000 thousand of Funcom convertible bond (including accrued interest) was converted into 5 791 505 Funcom shares at the price of USD 0.518 per share.

In June 2018, Funcom issued 597 141 new shares in relation to exercise of employee options.
In August 2018, Funcom issued 161 641 new shares in relation to exercise of employee options.

In October 2018, USD 616 thousand of Funcom convertible bond (including accrued interest) was converted into 1 189 331 Funcom shares at the price of USD 0.518 per share.

In November 2018, Funcom issued 79 353 new shares in relation to exercise of employee options.

Options
In June 2018 Funcom issued 138 000 options to members of the Management Board, and 208 000 options to members of the Supervisory Board as part of the Group's options program.

In June 2018, after its Annual General Meeting, the company issued 1 590 500 options to its employees as part of the Group's options program.

In September 2018 Funcom issued 38 000 options to a new member of the Supervisory Board as part of the Group's options program.

Equity-settled employee benefits reserve
The Equity-settled employee benefits reserve comprises of share-based payments related to the Groups employee option program. See note 3.11 for further description of the Group's Equity-settled employee benefits.

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 2018

21. Contract liabilities

Contract liabilities is cash received in advance of performance and not recognized as revenue during the period. The amount consists of unused Funcom points, subscription prepayments from subscribers and pre-orders for games that will be releases in 2020. This represents the unsatisfied performance obligations resulting from fixed price contracts. Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 31 December 2019 will be recognized as revenue during the next reporting period.

All contract liabilities outstanding as at 31 December 2018 was recognized as revenue during 2019.

22. Other short-term liabilities

In thousands of US dollars	**2019**	**2018**
Taxes and social security payable	577	416
Payable to Heroic Signatures DA	270	214
Accrued expenses	1 965	1 917
Total	**2 812**	**2 547**

23. Contingent liabilities

As at 31 December 2019 the Group had no contingent liabilities.

24. Group entities

Group entities
The Funcom Group consist of 8 companies. Funcom SE, the parent company of the Group, five wholly owned subsidiaries, one majority-owned subsidiary and one joint operation, being Heroic Signatures DA.

		Ownership interest	
Name	**Country of incorporation**	**2019**	**2018**
Funcom SE	The Netherlands	100 %	100 %
Funcom Inc.	United States	100 %	100 %
Nephilim LLC	United States	100 %	100 %
Funcom Oslo AS	Norway	100 %	100 %
Funcom Oslo Licensing AS	Norway	100 %	100 %
Heroic Signtures DA	Norway	50 %	50 %
Funcom Games Beijing Ltd	China	100 %	100 %
Zona Paradoxal Lda	Portugal	50.1 %	0 %

The proportion of ownership interests held by Funcom equals the proportion of the voting rights.

Joint operation
Funcom Oslo Licensing AS has a 50% interest in a joint operation called Heroic Signatures DA which was set up as a partnership together with Cabinet Interactive. Heroic Signatures DA is the owner of several IP licenses, and receives royalty revenues from these IP licenses from customers around the world.

Heroic Signatures DA's country of incorporations is Norway, but it does not have permanent establishment in that country.

25. Acquisition of subsidiary

On 17 January 2019, Funcom acquired 50.1% of the shares and voting interests in Zona Paradoxal, Lda ("ZPX"). The acquisition will increase the Groups own development capacity for upcoming games and reduce costs to the Group. The Group also expects to use the expertise and knowhow acquired in the development of new games. The Group has an option to acquire the remaining shares of ZPX. The strike price is based on an EBITDA multiple with a minimum threshold with respect to the transaction price of the acquired 50.1% of the shares.

Since the acquisition date, ZPX has contributed USD 29 thousand to external group revenues and USD -24 thousand to group profit. If the acquisition had occurred on 1 January 2019, group revenue and group profit for the period would have been the same. Acquisition costs of USD 10 thousand arose as a result of the transaction. These have been recognized as part of administrative expenses in the statement of comprehensive income.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Purchase consideration

In thousands of US dollars	**2019**
Cash consideration	228
Shares issued, at fair value	170
Total consideration transferred	**398**

Fair value recognized on acquisition

In thousands of US dollars	**2019**
Tangible fixed assets	2
Trade receivables	52
Prepayments and other receivables	27
Cash and cash equivalents	154
Trade payables	-6
Other short-term liabilities	-98
Total identifiable net assets acquired	**130**

Due to the nature of the assets and liabilities acquired, the management considered the fair value to be materially equal to the carrying amount at acquisition date.

Goodwill

In thousands of US dollars	**2019**
Consideration transferred	398
Non-controlling interest[1]	65
Fair value of identifiable net assets	-130
Goodwill	**333**

[1] Non-controlling interest is measured at the proportionate share of net assets.

The main factors leading to the recognition of goodwill are

- The presence of certain intangible assets, such as the assembled workforce of the acquired entity, which do not qualify for separate recognition; and
- cost savings which result in the Group being prepared to pay a premium.

The goodwill recognized will not be deductible for tax purposes.

26. Leases

26.1 Group as a lessee (IFRS 16)

The Group leases office facilities. The leases typically run for a period of 3 to 10 years, with an option to renew the lease after that date. Lease payments are normally index regulated every year according to the consumption price index. For certain leases, the Group is restricted from entering into any sub-lease arrangements, without the lessor's written consent. Previously, these leases were classified as operating leases under IAS 17.
One of the leased properties has been sub-let by the Group. The lease and sub-lease expire in 2020.

The Group leases Office and IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

In thousands of US dollars	**Office leases**	**Total**
Balance at 1 January	**2 681**	**2 681**
Depreciation of right-of-use assets	-867	-867
Impairment of right-of-use assets	-53	-53
Additions to right-of-use assets	2 186	2 186
Foreign exchange movements	-22	-22
Balance at 31 December	**3 926**	**3 926**

Lease liabilities

In thousands of US dollars	**Office leases**	**Total**
Balance at 1 January	**3 521**	**3 521**
Non cash flows:		
Interest expense	178	178
Additions to lease liabilities	2 186	2 186
Variable lease payment adjustment	23	23
Foreign exchange movements	7	7
Financing cash flows:		
Principal paid on lease liabilities	-1 196	-1 196
Interest paid on lease liabilities	-178	-178
Balance at 31 December	**4 542**	**4 542**

Amounts recognized in profit or loss - Leases under IFRS 16

In thousands of US dollars	2019	2018
2019 - Leases under IFRS 16		
Interest expense on lease liabilities	-178	–
Depreciation of right-of-use assets	-867	–
Impairment of right-of-use assets	-53	–
Interest income from sub-lease	28	–
Expenses relating to short-term leases[1]	17	–
Expenses relating to low-value assets[2]	69	–
2018 - Operating leases under IAS 17		
Lease expense	–	-1 373
Sub-lease income presented in 'Revenue'	–	514
Total	**-983**	**-860**

[1] Short-term leases mainly consist of leased servers used for hosting. These leases typically have a non-cancellable period of one to three months.
[2] Excluding short-term leases of low-value assets.

As of 31 December 2019, the aggregate undiscounted commitments for short-term leases is USD 1 thousand.

Amounts recognized in statement of cash flows

In thousands of US dollars	2019
2019 - Leases under IFRS 16	
Principal paid on lease liabilities	-1 196
Interest paid on lease liabilities	-178
Proceeds from finance sub-leases	398
Interest income received from sub-leases[1]	28
Total	**-947**

[1] Presented as Interest received under operating activities.

Lease liabilities

In thousands of US dollars	2019
2019 - Leases under IFRS 16	
Less than one year	1 421
One to two years	1 182
Two to three years	918
Three to four years	368
Four to five years	349
More than five years	854
Total undiscounted lease liabilities	**5 092**
Nonincurred finance expense	551
Net lease liabilities	**4 542**

Extension options
Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

26.2 The Group as a lessor

The Group has sub-leased one building. Since the sub-lease is for the major part of the economic life of the asset, it has been classified as a finance lease. The finance lease receivables have been presented as part of current prepayments and other receivables.

During 2019, the Group recognized interest income on finance lease receivables of USD 28 thousand (2018: nil). In 2018, Under IAS 17, the Group did not have any finance leases as a lessor. In 2019, under IFRS 16, the Group have no operating leases as a lessor.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

In thousands of US dollars	**2019**
2019 - Leases under IFRS 16	
Less than one year	-449
One to two years	–
More than two years	–
Total undiscounted lease receivable	**-449**
Unearned finance income	-7
Net investment in the lease	**-442**

27. 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 2019 was USD 279 thousand (2018: USD 181 thousand).

Share based payments
The Company has established a share incentive program to stimulate continued growth and further development of the group's business as it is of the opinion that the option to subscribe for shares in the Company is an effective incentive for the Funcom group's employees and board members. 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, which means the option only has value if the share price increases from the time it is granted. Options are conditional on the employee remaining an employee or director of the Company. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

On 1 June 2018 the annual general meeting approved changes to the option program. The key changes were extension of option lifetime from 5 to 10 years and elimination of the vesting period. The elimination of the vesting period means all cost associated with options issued is booked immediately, rather than spread out over the previous 3-year vesting period. In addition, cost from options issued in previous years, but initially periodized to the following years is added to this year's expenses.

Option program in Funcom SE
The Company executed a 5:1 reverse stock split with ex date 1 February 2018, exchanging five existing shares for one new share. As a result, the options authorized before that date have been adjusted to reflect the reverse stock split, i.e. five options authorized were revised to one option authorized. 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	250 000	May 10, 2008
November 30, 2006	200 000	November 30, 2008
December 19, 2008	600 000	December 19, 2010
May 18, 2010	600 000	May 18, 2011
June 27, 2011	1 600 000	GM 2012
June 27, 2012	2 000 000	GM 2013
June 27, 2013	3 000 000	GM 2014
June 27, 2014	6 600 000	GM 2015
June 26, 2015	6 000 000	GM 2016
February 25, 2016	28 000 000	GM 2017
June 30, 2016	28 000 000	GM 2017
June 27, 2017	5 000 000	GM 2018
June 1, 2018	7 500 000	GM 2019
May 27, 2019	7 700 000	GM 2020
Total number of options authorized	97 050 000	

List of outstanding options:	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2019	2019	2018	2018
Outstanding options on January 1	4 108 398	1.89	2 988 160	1.35
Options granted	2 515 000	1.71	1 974 500	2.41
Options exercised	-183 533	1.14	-838 135	1.18
Options terminated			-16 127	1.14
Options expired	-132 500	2.43	-	-
Outstanding options on Dec 31	**6 307 365**	**1.83**	**4 108 398**	**1.89**

The following table shows the share options outstanding at the end of the year with the expiry date and exercise prices.

			Options	
Expiry day	**Exercise price**		**2019**	**2018**
2.06.2019	USD	2.14	-	12 200
10.07.2019	USD	0.76	-	19 000
31.08.2019	USD	2.17	-	5 500
28.09.2019	USD	2.17	-	5 500
30.09.2019	USD	2.17	-	5 500
25.10.2019	USD	0.62	-	4 200
25.10.2019	USD	1.45	-	9 000
25.10.2019	USD	2.17	-	5 500
12.11.2019	USD	2.17	-	5 500
12.12.2019	USD	2.17	-	11 000
4.01.2020	USD	2.17	18 000	-
1.02.2020	USD	2.30	22 400	-
7.02.2020	USD	2.17	5 500	-
25.02.2020	USD	2.17	18 000	-
6.03.2020	USD	2.17	5 500	-
20.03.2020	USD	2.17	11 000	-
22.05.2020	USD	2.17	11 000	-
30.06.2020	USD	1.77	-	32 233
15.08.2020	USD	1.98	15 200	-
16.08.2020	USD	1.94	36 000	-
11.10.2020	USD	1.82	23 500	-
1.11.2020	USD	1.66	396 083	-
24.08.2022	USD	1.58	40 000	40 000
20.09.2022	USD	1.27	36 051	43 134
24.06.2023	USD	1.06	78 066	93 066
27.06.2023	USD	1.05	40 000	40 000
26.06.2024	USD	2.82	202 400	226 800
27.06.2024	USD	2.80	80 000	100 000
30.01.2025	USD	1.09	60 000	60 000
26.06.2025	USD	1.18	-	20 000
25.02.2026	USD	0.87	70 000	70 000
30.06.2026	USD	0.62	328 465	427 765
11.10.2026	USD	0.76	80 000	80 000
30.03.2027	USD	1.63	10 000	10 000
7.07.2027	USD	1.45	750 700	857 500
1.06.2028	USD	2.48	308 000	346 000
29.06.2028	USD	2.17	1 337 500	1 541 000
14.09.2028	USD	2.13	38 000	38 000
13.06.2029	USD	1.71	2 286 000	-
Sum			**6 307 365**	**4 108 398**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was USD 0.36 option (2018: USD 0.77). The significant inputs into the model were a weighted average share price of USD 1.63 (2018: USD 2.22 – 2.56) at the grant date, the exercise prices shown above, volatility 52.45% (2018: 60.00%), dividend yield 0% (2018: 0%), expected option life of 1.24 years (2018: 1.4-3 years), expected annual turnover rate of 7% (2018: 7%) and an annual risk free rate of 1.14% (2018: 0.83%-1.28%). The volatility measured is based on the variation in daily share prices for Funcom.

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

At the end of 2019

Name	Number of shares	Number of options	Comments
Supervisory Board			
Ole Gladhaug (4)		197 000	
Egil Kvannli		126 000	
Fredrik Per Malmberg (2)	-	126 000	
Andreas Arntzen (4)		76 000	
Susana Meza Graham	222 300	76 000	
Eddie Tak Ho Chan (3)		-	
Peng Lu (3)		-	
Management Board			
Rui Casais	47 000	689 332	CEO of Funcom SE
Christian Olsthoorn		133 500	

At the end of 2018

Name	Number of shares	Number of options	Comments
Supervisory Board			
Ole Gladhaug		141 000	
Egil Kvannli		88 000	
Fredrik Per Malmberg	4 500 000	88 000	
Andreas Arntzen (1)		38 000	
Susana Meza Graham (1)	155 000	38 000	
Management Board			
Rui Casais	40 000	389 332	CEO of Funcom N.V.
Christian Olsthoorn		95 500	

(1) Andreas Arntzen and Susana Meza Graham joinged the Supervisory Board in 2018.
(2) Fredrik Malmberg resigned from the Supervisory Board on 16 December 2019.
(3) Eddie Tak Ho Chan and Peng Lu joined the Supervisory Board on 16 December 2019.
(4) Ole Gladhaug and Andreas Arntzen resigned from the Supervisory Board on 9 October 2019.

28. Transactions with related parties

Identification of related parties
The Group has a related party relationship with its subsidiaries (see Note 24), members of the Supervisory and Management Boards, its executive officers and shareholders.

Remuneration to the Supervisory Board
On 27 May 2019, the General Meeting approved annual remuneration to the Chairman of the Supervisory Board of EUR 31 000 (2018: EUR 31 000) and EUR 21 000 (2018: EUR 21 000) for all other members of the supervisory board. The Company has established a share incentive program to stimulate continued growth and further development of the group's business as it is of the opinion that the option to subscribe for shares in the Company is an effective incentive for the Funcom group's employees and board members.

		Total remuneration is composed of:	
Supervisory Board member	**Total remuneration**	**Board fee TUSD**	**Share based TUSD**
2019			
Ole Gladhaug (6)	47	27	20
Fredrik Malmberg (2)	38	24	13
Egil Kvannli	37	24	13
Andreas Arntzen (6)	31	18	13
Susana Meza Graham	37	24	13
Eddie Tak Ho Chan (3)			
Peng Lu (3)			
Total:	**190**	**116**	**74**
2018			
Ole Gladhaug	142	37	105
Alain Tascan (4)	98	21	77
Magnus Grøneng (5)	38	13	25
Fredrik Malmberg (2)	95	25	70
Egil Kvannli	95	25	70
Andreas Arntzen (1)	57	12	45
Susana Meza Graham (1)	38	7	31
Total:	**562**	**139**	**423**

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)**
2019				
Ole Gladhaug	56 000	-	197 000	-
Fredrik Malmberg (2)	38 000	-	n/a	n/a
Egil Kvannli	38 000	-	126 000	-
Andreas Arntzen	38 000	-	76 000	-
Susana Meza Graham	38 000	-	76 000	222 300
Eddie Tak Ho Chan (3)				
Peng Lu (3)				
	208 000	**-**	**475 000**	**222 300**
2018				
Ole Gladhaug	56 000	-	141 000	-
Alain Tascan (4)	38 000	n/a	n/a	n/a
Magnus Grøneng (5)	-	n/a	19 000	n/a
Fredrik Malmberg	38 000	-	88 000	n/a
Egil Kvannli	38 000	-	88 000	-
Andreas Arntzen (1)	38 000	-	38 000	-
Susana Meza Graham (1)	38 000	-	38 000	155 000
	246 000	**-**	**412 000**	**155 000**

(1) Andreas Arntzen and Susana Meza Graham joined the Supervisory Board in 2018.

(2) Fredrik Malmberg resigned from the Supervisory Board on 16 December 2019.

(3) Eddie Tak Ho Chan and Peng Lu joined the Supervisory Board on 16 December 2019.

(4) Alan Tascan resigned from the Supervisory Board on 31 October 2018.

(5) Magnus Grøneng resigned from the Supervisory Board on 10 July 2018.

(6) Ole Gladhaug and Andreas Arntzen resigned from the Supervisory Board on 9 October 2019

Remuneration to the Supervisory Board and Management Board:

In thousands of US dollars	2019	2018
Salaries and benefits in kind (short-term employee benefits)	469	513
Share-based payments	193	761
Pension plan contributions	6	6
Total remuneration	668	1 280

Remuneration to the Management Board:

In thousands of US dollars

	Total remuneration is composed of:						
Management Board member	**Total remune-ration**	**Remune-ration**	**Bonus**	**Bonus % of total remuneration**	**Severance**	**Pension cost**	**Share based**
2019							
Rui Casais	444	241	91	21 %	-	5	106
Christian Olsthoorn	37	24	-	-	-	-	13
Total:	**480**	**265**	**91**	**19 %**	**-**	**5**	**119**
2018							
Rui Casais	622	260	89	14 %	-	6	267
Christian Olsthoorn	96	25	-	-	-	-	71
Total:	**717**	**285**	**89**	**12 %**	**-**	**6**	**338**

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**
2019				
Rui Casais	300 000	-	689 332	40 000
Christian Olsthoorn	38 000	-	133 500	-
Total:	**338 000**	**-**	**822 832**	**40 000**
2018				
Rui Casais	100 000	-	389 332	40 000
Christian Olsthoorn	38 000	-	95 500	-
Total:	**138 000**	**-**	**484 832**	**40 000**

Transactions with shareholders
Mr. Hans Peter Jebsen was the largest shareholder of Funcom SE until 30.09.2019 and 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 SE of Mr. Jebsen through the companies he controls were 0% as of 31 December 2019 (2018: 29.06%).

Transactions with a Supervisory Board member
In December 2017, the Company announced that it had entered into an agreement regarding the establishment of a joint operation with Cabinet Group LLC and the issuance of 22 300 000 new shares in Funcom, each with a par value of EUR 0.04, at a subscription price of NOK 2.6 per share (pre reverse split in Q1 2018), to Tranicos LLC. The transaction was completed in February and the joint operation took the form of Heroic Signatures DA. Tranicos LLC held 6.45% of the total outstanding shares immediately after the transaction.

Tranicos LLC is a company controlled by Cabinet Group LLC. Cabinet Group LLC is controlled by Mr. Fredrik Malmberg, a former member of the Supervisory Board of Funcom. Fredrik Malmberg did not hold any shares in Funcom, neither directly nor indirectly, prior to the transaction.

The Company has entered an agreement to invest in a game made by the company Bearded Dragon International LTD. Fredrik Malmberg has also co-invested in the game through an entity called Game Ark LTD. In 2019, Funcom invested USD 1 345 thousand (2018: USD 2 654 thousand) in the game, all of which has been capitalized for both years.

The Group has no contractual commitments for development costs to Bearded Dragon. During 2019 the Company incurred publishing development expenses of USD 465 thousand (2018: USD 917 thousand) on the game developed by Bearded Dragon. During 2019 USD 2 428 thousand was paid as royalty (2018: USD 0 thousand). At the end of 2019, the Company had a royalty payable of USD 653 thousand (2018: USD 407 thousand) to Bearded Dragon.

For 2019 Funcom paid USD 0 thousand (2018: USD 68 thousand) in royalty fees for *Age of Conan* and *Conan Exiles* to Conan Properties which is controlled by Cabinet Group LLC. At year end USD 0 thousand (2018: USD 0 thousand) was owed. In February 2018 the license agreement for *Age of Conan* and *Conan Exiles* was transferred from Conan Properties to Heroic Signatures DA.

During 2019 Heroic Signatures DA paid USD 141 thousand (2018: USD 0 thousand) in royalty fees to Conan Properties which is controlled by Cabinet Group LLC. The royalties relate to a revenue share from a licensing agreement with NETent Product Services Ltd. regarding use of the Conan Barbarian IP. Conan Properties have cost in sourcing and following up this agreement, including royalties paid to a third-party agent.

During 2019 Heroic Signatures DA paid USD 1 078 thousand to each of its partners, Cabinet Group LLC and Funcom Licensing AS, as repayment of previous paid in capital.

On 22 January 2020 Tencent Holdings Limited announced that they (through an indirectly owned subsidiary, the Offeror) will launch a voluntary cash offer of NOK 17.00 per share to acquire all of the shares of Funcom not already owned by the Offeror. The Offer price represents a premium of 27.3% to the closing price of the shares on 21 January 2020. The Offer was recommended by the Supervisory Board and the Management Board. The Supervisory Board members representing Tencent, Mr. Eddie Chan and Mr. Peng Lu, have not been part of any of the board discussions or decisions on the matter, neither have they been part of processing the transaction from Tencent side.

Transactions with a Management Board member
Christian Olsthoorn is a partner with Temmes Management Services, which has service contracts with Funcom. For 2019 services amounting to USD 84 thousand (2018: USD 99 thousand) were

charged (including USD 24 thousand (2018: USD 25 thousand) gross for the managing director position remuneration), and USD 24 thousand (2018: USD 20 thousand) was owed at the end of the year.

29. Financial instruments

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess the credit risk of new customers before entering contracts.

The impairment model in IFRS 9 is based on the premise of providing for expected losses. The contractual terms of the financial assets on the Group balance sheet give rise to cash flows on specified dates that are solely payments of principal and interest, measured at amortized cost. Funcom's trade receivables are to a large extent due to credit card companies with short maturities and no significant financing components have been identified.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. Funcom's cash and cash equivalents are considered to have low credit risk as DNB Bank ASA is a well-known institution with high credit ratings, e.g. AA- and Aa2 long term rating from S&P and Moody's with stable outlook.

The company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

Trade receivables and lease receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Loss allowance are considered for full lifetime. Under IFRS 9 all other financial instruments expected credit losses are measured at an amount equal to the 12-month expected credit losses. The non-current receivable related to security deposits for office leases, has been by applying the low credit risk exemption for financial instruments with a credit rating of "investment grade".

Funcom has determined its expected credit losses by using a provision matrix where receivables have been grouped by type. The credit loss estimates are based on actual historical credit losses and adjusted for the credit worthiness of creditors and any available relevant forward-looking information, for instance about the general economy and Group creditors. Knowledge of payment problems of any of our key creditors would impact our assessment of expected credit losses. The trade receivables are primarily receivable from large corporations with a high credit worthiness such as Microsoft, Sony, Valve and credit card service providers. The short maturity of the trade receivables reduces the importance of forward-looking information, which has not indicated any specific scenarios that would require a significant increase of the default rate. The Group has not incurred any credit losses during the last three years, there are no credit-impaired financial assets and no significant increase in credit loss risk since initial recognition has been identified in any financial instrument. Based on this the Group has concluded a nil IFRS 9 default rate is appropriate, for each class of financial instruments.

Class of financial asset	Default rate (IFRS 9)
Non-current	0%
Trade receivables	0%
Cash	0%

Maximum credit exposure
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	**2019**	**2018**
Trade receivables[1]	3 837	4 797
Security deposits for office leases[2]	478	489
Other short-term receivables[3]	550	1 269
Cash and cash equivalents[4]	13 131	19 902
Total	**17 996**	**26 456**

[1] 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.

[2] Security deposits for office leases are presented in the statement of financial position as Other non-current financial assets. The difference between the Security deposits for office lease amount and the Other non-current financial consist of a non-current prepayment which is not included in this table. The deposits are held by European banks which have stable credit ratings according to Moody's and Standard & Poor's. The majority is held with DNB Bank ASA, with a stable Aa2 credit rating according to Moody's.

[3] Other short-term receivables only include finance lease receivable and VAT receivables.

[4] 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 majority of the Group’s cash is held with DNB Bank ASA, with a stable Aa2 credit rating according to Moody's.

Receivables on credit card service providers amount to USD 189 thousand of the trade receivables carrying amount on 31 December 2019 (2018: USD 257 thousand).

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

In thousands of US dollars	**2019**	**2018**
Asia	119	330
North America	3 189	3 358
Europe	529	1 109
Total	**3 837**	**4 797**

Impairment losses
The aging of trade receivables at the reporting date was:

In thousands of US dollars	Gross 2019	Gross 2018	Impairment 2019	Impairment 2018
Not past due	3 725	4 787	–	–
Past due 0-30 days	30	2	–	–
Past due 31-120 days	18	8	–	–
More than 120 days	65	–	–	–
Total	**3 837**	**4 797**	**–**	**–**

The Group recorded no impairment losses for receivables in 2019 (2018: nil). The management expects to receive 100% of the receivables and have not recorded an impairment loss for the receivables. The cash was collected in the beginning of 2020.

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. The Group has no derivative financial liabilities that give rise to contractual cash outflows.

As at December 31, 2019

In thousands of US dollars	Carrying amount	Contractual cash flows	6 months or less	7-12 months	Year 2	Year 3	Thereafter
Lease liabilities[1]	4 542	5 092	761	660	1 182	918	1 571
Trade payables	1 329	1 329	1 329	–	–	–	–
Other payables	2 812	2 812	2 812	–	–	–	–
Total	**8 682**	**9 232**	**4 901**	**660**	**1 182**	**918**	**1 571**

As at December 31, 2018

In thousands of US dollars	Carrying amount	Contractual cash flows	6 months or less	7-12 months	Year 2	Year 3	Thereafter
Other non-current liabilities	92	-49	–	–	-49	–	–
Trade payables	1 200	1 200	1 200	–	–	–	–
Other short-term liabilities	2 547	2 547	2 547	–	–	–	–
Total	**3 839**	**3 698**	**3 747**	**–**	**-49**	**–**	**–**

[1] Lease liabilities: the contractual cash flows include non-incurred finance expense.

The Company expects to need to secure additional funding in order to execute all the planned activities for 2020 and 2021, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles.

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. Most of the operational expenses are currently denominated in US dollar and Norwegian kroner. The significant cash position in Norwegian kroner is 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:

As at December 31, 2019

In thousands of US dollars	USD	EURO	NOK	CAD	Other	Total
Trade receivables	3 392	317	41	66	22	3 837
Finance Lease Receivables[1]	–	–	–	442	–	442
Cash and cash equivalentes	7 324	735	4 872	23	177	13 131
Long-term lease liabilities	-2 245	-109	-946	–	–	-3 300
Short-term lease liabilities	-206	-85	-538	-412	–	-1 241
Trade payables	-537	-181	-222	–	-389	-1 329
Other short-term liabilities	-812	-917	-1 083	–	–	-2 812
Net balance sheet exposure	**6 915**	**-239**	**2 124**	**118**	**-190**	**8 728**

As at December 31, 2018

In thousands of US dollars	USD	EURO	NOK	CAD	Other	Total
Trade and other receivables	3 925	837	4	13	18	4 797
Cash and cash equivalentes	10 499	2 330	6 775	128	170	19 902
Trade payables	-504	-275	-344	–	-77	-1 200
Net balance sheet exposure	**13 920**	**2 892**	**6 435**	**141**	**111**	**23 499**

[1] Finance Lease Receivables are reported under Current prepayments and other receivables in the statement of financial position.

The following exchange rates were applied during the year:

	Average rate		Spot rate at December 31	
	2019	**2018**	**31.12.2019**	**31.12.2018**
EUR	1.1192	1.180	1.1234	1.145
NOK	0.1136	0.123	0.1139	0.115
CAD	0.7538	0.772	0.7696	0.706
CNY	0.1447	0.151	0.1437	0.145
USD	1.0000	1.000	1.0000	1.000

Sensitivity analysis: Currency

A 10 percent weakening of the US dollars compared to EUR, NOK and CAD other currencies 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, 2019	
EUR	24
NOK	-212
CAD	-12
Other	19
December 31, 2018	
EUR	-289
NOK	-644
CAD	-14
Other	-11

A 10 percent strengthening of the US dollars against the above currencies at 31 December, 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 has no interest-bearing financial instrument. The convertible bond has been completely converted into Funcom shares in 2018.

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	**2019**	**2018**
Loans and borrowings	–	–
Cash and cash equivalents	13 131	19 902
Net exposed to interest risk	**13 133**	**19 904**
100 bp increase in intrest rate	131	199
100 bp decrease in intrest rate	-131	-199

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

Fair values
The carrying amounts of Trade payables, Trade and other receivables, Cash and cash equivalents and Non-current financial assets (Security deposits for office leases and a non-current prepayment) are a reasonable approximation of fair value.

30. 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 and equity.

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. The order in which the risks are presented

below is not intended to provide an indication of the likelihood of their occurrence nor of their severity or significance.

Revenue risks

Dependence on performance of individual games
Funcom's financial performance, including future income, is highly influenced by the performance of current games, and new games to be released in the future. Under the Funcom strategy, Funcom will develop both smaller and larger games, publish third party developed games as well as conduct both in-going and outgoing licensing. Funcom expects that the financial performance of the Company will be materially dependent on the performance of its larger games, as well as the success of the overall strategy.

Funcom's financial performance is also dependent on a number of other factors related to its games, such as development costs, license costs and successful development of new content for the current Live Games including full launch of *Conan Exiles* on PC, Xbox and PlayStation. If some of Funcom's games attain low revenue numbers (i.e. only produces sufficient revenue to cover Funcom's investment in the game) there may be a negative impact on future cash flows and the valuation of Funcom. In particular, the Live Games have historically been the main revenue contributor for Funcom. Furthermore, the games in development are intended to be funding sources for the development of future new games, and lower cash inflows than expected could also have an indirect effect in terms of reduced revenues, earnings and cash flows from new games and the future funding requirements of the Company.

It is in the nature of computer games, including Funcom's Live Games, that they produce declining revenues over time due to the ageing of the games. There is, thus, a risk that Funcom's Live Games will not produce sufficient revenue in the future if the Company is not able to retain the players of its current Live Games, for example due to ageing or Funcom not being able to produce updates or new content for its current Live Games. There can be no assurance that Funcom is able to develop new games that produce sufficient revenue.

Dependence on the attractiveness of the licensed brands
Funcom will have a strong portfolio of brands going forward which should be attractive for other companies (i.e. licensee(s)) to produce game titles with. However, the willingness to become a licensee, and the success of the new games based on these brands are dependent on the attractiveness of the brands. The developments of these brands are often influenced by factors outside of Funcom's control, such as the creative processes of the licensor (if the brand is licensed), development of new content or products under the brand and general market perception. There is a risk that such factors may affect the performance of Funcom's games negatively.

Dependence on consumer satisfaction
The commercial success of Funcom's games, and games produced through license(s) from Funcom, 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 products produced by Funcom or any licensees, 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 specific 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, including the Entertainment Software Rating Board18, 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

regulatory compliance organizations, such as the US Federal Trade Commission which enforces the Children's Online Privacy Protection Act, focusing on the gaming industry, both through public relations campaigns and through legal procedures. It is also a risk that disloyal employees or disloyal outside parties by mistake, or on purpose, introduce unknown and/or controversial material into the games of the Company that may constitute a risk for legal penalties or other actions from rating agencies.

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

Pricing risk
Above factors such as quality, popularity and performance of the games can strongly influence the price Funcom is able to effectively charge for its games. Whereas external factors such as prices of similar games, structure and terms of distribution platforms and general supply and demand for video games can also affect this, there is not a market price dependency as in commodity markets.

Development risks
Launch risks for online games and risk of non-retention of players after launch
The number of players of newly launched games may increase rapidly over a short amount of time, which may imply risks of technical failure within the games if the game servers cannot support such increase in number of players. The Company cannot exclude the possibility that future launches will encounter such problems. This may lead to a negative consumer perception of the game.

Even though the launch of a game may be successful initially, there can be no assurance that Funcom succeeds in creating additional attractive content for the game and thereby retaining the players.

Delay of product releases
For the current development projects, the Group has a strong focus on making plans, analyzing risks, estimating time needed in each project phase and measuring progress. There is, however, a large inherent development timeline risk in all software development, including in game software development, and there is no assurance that development schedules will be held. The timeline can also be jeopardized due to factors external to the Group, such as larger companies or games occupying the intended release period. If the Group 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 the Group 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 the Group.

Unsuccessful projects under development
There is currently a large number of games in development and operation worldwide and consumers have many different options to choose from. Through the history of video games, the market has never accommodated many top-selling products at any one time, although that number is growing. With its already released game, *Conan Exiles,* the Company has moved into the segment of "Open World, Online, Multiplayer Survival Games" and there is a risk that one or more of Funcom's games within this segment could be unsuccessful. Within this games segment, Funcom's competitors include developers such as Daybreak Game Company, Bluehole, Bohemia Interactive, Facepunch Studios Ltd. and Studio Wildcard. For games developed within other segments, there are a number of competitors which increases the risk that future games will be unsuccessful. In the other segments where Funcom competes, examples of competitors include Activision Blizzard, Electronic Arts, Ubisoft, Bethesda Softworks and Take-Two Interactive in addition to many other smaller, but still extremely relevant, game publishers.

Competition and changes in markets and trends
The market for Funcom's games is exposed to competitors and is trend oriented. The competitors may develop more popular games and achieve higher attention from the customers in the computer games market. Failure of Funcom to maintain competitive games and service offerings may render the products of Funcom obsolete or limit the ability for Funcom to generate revenue from their products, and thus have a material adverse effect on Funcom.

Further, Funcom's games are exposed to changes and variations in market trends for PC and console games, including if consumer demand for games is directed towards other genres of games than those offered by Funcom from time to time.

Further, Funcom may develop games that do not become profitable if Funcom's games fail to meet the market trends at the time of release of a specific game.

If consumer demand becomes more directed towards other genres of games than those offered by Funcom from time to time or if Funcom fails to meet market trends at the time of release of a specific game, this must be expected to have an adverse effect on the earnings and financial position of Funcom.

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. Funcom's current development studios are not located in large gaming hubs, which can reduce the speed at which recruiting can be executed.

External parties and counterparty risk
Funcom's success depends also partly on the ability of the Company's partners to effectively fulfil their commitments, including the distribution services offered by Steam, Microsoft and Sony, the continued licensing from Conan Properties International and the continued right to use the Unreal 4 graphics engine. Funcom also has partners in the areas of hosting and server administration, billing, publishing, sales and distribution, hardware as well as development of technology and other game related development. In addition, Funcom has game development partners that it works with in relation to publishing and distribution. In general, the Group is subject to counterparty risk. If the contractual counterparties of the Group are unwilling or unable to fulfil their contractual obligations, this may have an adverse effect on the earnings and financial position of the Group.

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 Netherlands, the United States and Norway do. There can be no assurance that the steps taken by Funcom to protect its proprietary rights will be adequate. Similar risks will also apply to the intellectual property rights Funcom gets access to through Heroic Signatures.

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. United States patents and/or litigation in the United States are particularly worrisome because there are a large number of United States software patents in existence. There is also to a greater extent a culture for opportunistic patent litigation in the United States. 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. If any claims of infringement of intellectual properties are submitted towards contract parties from which Funcom licenses intellectual property, this could also have a negative impact on the rights and obligations of the Company under any such contract.

Loss of reputation
Any negative publicity related to the Company or its partners could adversely affect its reputation and the value of the Group's intellectual property. The Company is exposed, among others, to the risk that litigation, consultants, employee or officer's misconduct, operational failures, disclosure of confidential information, negative publicity, whether or not founded could damage the Company's reputation. Any erosion of the Company's reputation may have a material adverse effect on its business, revenues and results of operations or financial conditions.

Technical risks

Game engine technologies
The Company is dependent on the Dreamworld Technology and the Unreal Engine technology to generate revenue, as these technologies form the basis of the games developed and published by Funcom, including its Live Games. The Dreamworld Technology provides Funcom with a unique competitive advantage by enabling more flexible, faster and more predictable development and deployment of upcoming games. Funcom is continuously striving to further develop and improve the Dreamworld Technology, including by making the Dreamworld Technology compatible with third party software such as the Unreal Engine 4 technology.

The Unreal Engine technology is licensed from Epic Games and developments made to that technology by the licensor might require additional development from the Company and could potentially impact revenues or time to market of a project. If the Company is not able to utilize the Dreamworld Technology, or third parties' technology like the Unreal Engine in the future or is not able to develop the Dreamworld Technology further, including making the Dreamworld Technology compatible with appropriate third-party software, in order to meet the standards of future video games, the Company will incur additional development costs and may experience lack of revenue.

Technological risks
Any game is heavily dependent on the underlying hardware configuration of the device running the game, managed by Funcom itself or through third party service providers like G-Portal. Funcom's games support a variety of hardware platforms capable of running the games and each platform can have multiple configurations of its hardware. The number of combinations of platforms and configurations is such that it is unfeasible to guarantee optimal game performance on them all and thus there is a risk that specific configurations do not perform as well as specified and have an adverse effect on Funcom's ability to gain revenues.

Additionally, online games depend on a large number of complicated hardware and software components that need to work successfully together. Any errors, bugs or viruses in any software may harm the operation of the online game and thus have an adverse effect on Funcom's ability to gain revenues. Similarly, any errors, power failures, shortcuts etc. in any hardware component may harm the operation of the online game and thus have an adverse effect on Funcom's ability to gain revenues. Although Funcom endeavors to reduce the technological risks before a game launch and during the operations of a game, these risks will always be present to some degree at launch.

Hacking and cheating
Funcom's online games may be subject to hacking and cheating activities. Any such activity may affect Funcom's ability to operate their online games at the level the games' players expect, which will in turn affect Funcom's ability to gain revenues.

Risks related to the Internet
Funcom's online games are operated on the Internet, as are the digital stores responsible for most of Funcom's games sales. Funcom considers itself materially dependent on the Steam online distribution client for computer games, and for the services provided by Microsoft Xbox and Sony PlayStation. 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, power outages, government restrictions, 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.

Piracy
Funcom's games are subject to digital piracy, where consumers obtain an illegal copy of the game instead of purchasing it from an accredited store. Funcom's online games with strong server-based gameplay are less affected by this issue, but any single player or limited multiplayer games will potentially be affected.

Economic risks

Macroeconomic fluctuations
Funcom is exposed to the economic cycle as 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 may cause the Group's results to negatively affect the financial position of the Group. Funcom's operating results may vary from month to month, as demand for Funcom's games will fluctuate in accordance with customer demands for Funcom's products. Funcom has a comparatively small number of Live Games and releases few games each year, which implies that the operating results of Funcom are more dependent on the performance of the current Live Games than larger gaming companies. The customer demand of Funcom's products generally declines slowly, but steadily after launch of a game, but may fluctuate due to updates of the games, marketing campaigns, in-game events, reviews, media attention (including social media attention), and other circumstances. The customer demand of Funcom's products may also fluctuate due to popularity of a competing game and increase in popularity of the general genres of Funcom's games. Even though the Company believes that updates, marketing campaigns and in-game events will contribute positively to the popularity of its games, no assurance can be made that such activities will imply an increased demand for Funcom's products. Funcom's operating result may thus 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, and this variation in operating results may cause the financial position of the Group to vary, implying, inter alia, that the Company may experience higher liquidity requirements than expected.

Significant variations in operating results may have a material adverse effect on the Group's business, operations, financial position, results of operation, cash flow and/ or prospects.

Contracts
Several of the agreements entered into by Funcom are governed by the laws of jurisdiction in which Funcom does not have a presence. In addition, dispute resolution is set to venues in different places in Europe and the United States. This may increase the legal risk and increase the costs in connection with the enforcement of any specific agreement.

Currency fluctuations
Because a considerable share of the Group's business is conducted in currencies other than its functional currency, Funcom will be exposed to volatility associated with foreign currency exchange rates and may experience currency exchange losses upon such volatility and/ or difficulties to cover its liabilities in case of an adverse development of the exchange rate between the revenue currencies and operational expenses of Funcom. Funcom's key revenue currencies are US dollar, Euro and British pound. The majority of the operational expenses is denominated in Norwegian kroner, US dollar, Euro and British pound. In particular, a lower USD to NOK exchange rate will reduce the ability to cover operational costs in NOK with USD revenue. The Company does not currently use any financial instruments to hedge its exposure to currency exchange rate risks arising from operational, financing and investment activities.

Tax exposure
The Company is incorporated in the Netherlands with subsidiaries in Norway, China and the United States, and as of 2019 in Portugal as well. The overall tax charge depends on where profits are accumulated and taxed since these countries have different tax systems and tax rates. The Group is today taxed under a number of different legal systems with different laws for tax residency, tax credits and tax exemption. Consequently, the 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 Group. The tax authorities in the jurisdictions where the 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 issues, including VAT issues. On 1 January 2015, a new EU VAT regulation came into force 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 increased the overall amount of VAT to be remitted given the difference in VAT rates in each state. The Group obtains from its payment service providers relevant information to calculate and process VAT payments. Further, the changes in regimes for value added tax may lead to higher costs in complying with the regimes for value added tax on digital goods. Should the Group fail to comply with the different regulations it might lead to real cash costs, including irrecoverable VAT, penalties, and interest.

Further, there can be no assurance that an increase in overall charge of value added tax may be recovered in higher sales prices for Funcom's products and may therefore entail an adverse effect on the earnings of the Group.

Deferred tax asset and operating losses
The tax losses carried forward related to Funcom SE are generated from holding and financing activities and may potentially only be offset against future profits from similar activities. Future trading profits may consequently not be utilized against such tax losses. Furthermore, there is a risk that tax losses carried forward will not be recognized by the tax authorities if the Company wishes to

offset such carried forward losses and the tax authorities considers that the profits have not been obtained from similar activities as those related to the carry forward losses.

Tax credits
Funcom Oslo AS has received tax credits for its technology research efforts in Norway (SkatteFUNN) and continues to explore additional incentives in different countries to help fund the game and technology development.

The tax credits that Funcom Oslo AS receives have been obtained through the SkatteFUNN R&D tax incentive scheme, a government program designed to stimulate research and development in Norwegian trade and industry. Under the SkatteFUNN scheme, qualifying companies receive support through either tax credits or payment of an amount corresponding to the tax credits (if the company is not in a taxable position).

There can be no assurance that Funcom Oslo AS, or other Group companies, will be eligible for SkatteFUNN tax credits, or tax credits available under other schemes, in the future.

Financial risk
Pre 2017 Funcom has a history of operating losses mainly as a result of the significant investments made in the Company's games not generating sufficient income. The recent strategic changes increasing the frequency of games releases through more internal games, adding externally developed games, releasing games on more platforms and adding revenue from intellectual property is intended to increase robustness, improve ongoing cash flow and reduce the reliance on individual game releases. The Company's overall performance is still 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.

The Company expects to need to secure additional funding in order to execute all the planned activities for 2020 and 2021, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles. There is a risk that the company is not able to secure funding for these plans, which could force reduced ambitions and cost cutting.

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.

Further risk description
Further risk includes control risks related to the joint operation Heroic Signatures DA, risk related to the share, see chapter 2 risk factors of the prospectus released 22 February 2018 for further information.

31. Events after the reporting period

Option execution
On 2 March 2020, as a natural consequence of the recommended voluntary cash offer for all shares in Funcom at NOK 17 per share made by Tencent Cloud Europe B.V. (Tencent) that started on 20 February 2020, and in accordance with the General Terms of the applicable stock option plan, a total of 4 059 165 stock options were exercised at an average exercise price of NOK 13.11 per share. Out of these options 1 585 720 were exercised by primary insiders. The remaining number of outstanding stock options is 2 219 300, out of which 2 153 900 stock options are not "in the money".

Tencent acquisition
On 22 January 2020 Tencent Holdings Limited announced that they (through an indirectly owned subsidiary, the Offeror) would launch a voluntary cash offer of NOK 17.00 per share to acquire all of the shares of Funcom not already owned by the Offeror. The Offer price represented a premium of 27.3% to the closing price of the shares on 21 January 2020 and was NOK 1.25 higher per share than Tencent paid for 29% of the shares in 2019. The Offer was recommended by Funcom's Supervisory Board and Management Board. The Supervisory Board members representing Tencent, Mr. Eddie Chan and Mr. Peng Lu, did not take part in any of the board discussions or decisions on the matter. The Offeror shall replace the option program with a no less favorable incentive plan. The independent agency Pareto Securities AS issued a fairness opinion concluding the offer was fair from a financial point of view.

The Offeror and Funcom entered into a transaction agreement regarding the acquisition and DNB Markets, a part of DNB Bank ASA, acted as the receiving agent. On 20 February 2020 an offer document approved by Oslo Stock Exchange was published, and on 2 March 2020 a position statement on the transaction according to Dutch regulation was published. The documents contain details regarding conditions of the offer and post-closing intentions of the Offeror, for instance that the Offeror has informed the Company that following an acquisition, there are no planned changes to Funcom management, staffing or structure, with the Company remaining an independent business. After the Offeror completed the acquisition of more than 95% of the shares in the Company, a share squeeze-out procedure and delisting process is expected in line with the outlined intentions in the documents. The transaction is not expected to have direct impact on the financials of the Company, other than transaction cost typical to this kind of transaction.

Effect of COVID-19 virus
All countries where Funcom has subsidiaries have been affected by the COVID-19 virus. All employees who are able to work from home have done that in line with advice from local authorities. Although the nature of work Funcom employees executes is suitable for working from home, we expect a limited impact on overall productivity for the relevant time periods. Temporary effect on ongoing sales, if any, is expected to be net positive due to people across the world spending more time at home due to the virus, supported by initial trends in affected regions.

Company Financial Statement Funcom SE

Statement of Financial Position

Before appropriation of result

In thousands of US dollars	**Note**	**31. Dec. 2019**	**31. Dec. 2018**
Investments in and receivables from group companies	1	45 803	44 758
Long-term receivables		1	67
Total non-current assets		**45 803**	**44 825**
Prepayments and other receivables	17	534	23
Cash and cash equivalents	2	592	766
Total current assets		**1 125**	**790**
Total assets		**46 929**	**45 615**
Issued capital	3	17 365	17 635
Share premium	4	196 862	195 651
Legal reserves	5	25 866	17 643
Other reserves	6	-194 134	-186 703
Result after taxation		306	948
Total equity		**46 265**	**45 175**
Payable to group companies	7	146	146
Other non-current liabilities	7	–	92
Total non-current liabilities		**146**	**239**
Accrued expenses		105	163
Lease liabilities	16	412	–
Other current liabilities	8	–	38
Total current liabilities		**517**	**201**
Total equity and liabilities		**46 929**	**45 615**

Statement of Comprehensive Income
for the year ended 31 December

In thousands of US dollars	**Note**	**2019**	**2018**
Revenue	8	397	1 475
Personnel expenses	9	-230	-657
G&A	10	-630	-1 026
Operating expenses		-861	-1 683
Operating result		-463	-207
Financial income	11	1 045	1 601
Financial expenses	12	-275	-446
Result before income tax		**306**	**948**
Income tax expenses		–	–
Result for the period		**306**	**948**
Results from participating interest after tax	2	-583	5 670
Consolidated results after taxation		**-277**	**6 618**

Notes to the Company Financial Statements

Principles of valuations for the financial statements

The company financial statements for Funcom SE have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code. The valuation of assets and liabilities and the calculation of the net result conform with the accounting principles applied in the consolidated annual accounts, except for investments in subsidiaries and equity-accounted entities which are valued at net asset value rather than at cost or fair value. This means that Funcom SE'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

The Company holds the following investments in subsidiary companies at 31 December 2019:

Significant subsidiaries	Country of incorporation	2019	2018
Funcom Inc.	United States	100 %	100 %
Nephilim LLC	United States	100 %	100 %
Funcom Oslo AS	Norway	100 %	100 %
Funcom Games Beijing Ltd	China	100 %	100 %
Zona Paradoxal, Lda	Portugal	50.1 %	0 %

The movement in investments in and receivables from group companies can be summarized as follows:

	Investments		Receivable from group companies		SUM	
In thousands of US dollars	2019	2018	2019	2018	2019	2018
Balance at 01.01	19 072	10 422	25 686	5 781	44 758	16 203
Translation results	102	-1 508	–	–	102	-1 508
Results of participations	-583	5 670	–	–	-583	5 670
Investments	1 229	4 487	–	–	1 229	4 487
Movement IC loans	–	–	296	19 759	296	19 759
Other movements	–	–	–	146	–	146
Intercompany debt conversion	24 710	–	-24 710	–	–	–
Balance at 31.12	**44 529**	**19 072**	**1 273**	**25 686**	**45 803**	**44 758**

	Payable to group companies	
In thousands of US dollars	2019	2018
Balance at 01.01	-146	–
Movement IC loans	–	–
Other movements	–	-146
Balance at 31.12	**-146**	**-146**

2. Cash and cash equivalents

In thousands of US dollars	2019	2018
Non-restricted cash at bank and in hand	592	766
Restricted cash	–	–
Total cash and cash equivalents	**592**	**766**

3. Issued capital

In thousands of US dollars	2019	2018
Balance at 01.01	17 635	13 896
Addition share-capital	62	4 699
Translation result opening share capital	-333	-629
Exchange difference on new share issue	-	-330
Balance at 31.12	**17 365**	**17 635**
EUR/USD at 31.12	1.1234	1.1450

The share-capital was translated into US dollars at the 31 December 2019 exchange rate of EUR/USD 1.1234 (2018: 1.1450). 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.

On 31 December 2019, the authorized share capital comprised of 150 million ordinary shares (2018: 150 million). The nominal value of the shares is Euro 0.20. 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.

Number of ordinary shares	2019	2018
Outstanding 01.01	77 009 493	57 930 522
Issued against payment in cash	175 133	7 638 135
Issued as a result of conversion of debt	–	6 980 836
Issued from Cabinet transaction	–	4 460 000
Issued from ZPX Transaction	102 363	–
Outstanding 31.12	**77 286 989**	**77 009 493**
Nominal value of the share-capital at December 31 (EUR)	15 457 398	15 401 899

A list of all equity related events in 2019 and 2018 is provided in Note 20 to the Consolidated Financial Statements.

4. Share premium

In thousands of US dollars	2019	2018
Balance at 01.01	195 651	173 964
Share based payments	920	2 903
Addition to share premium	290	18 785
Balance at 31.12	**196 862**	**195 651**

5. Legal reserves

In thousands of US dollars	2019	2018
Balance at 01.01	17 643	10 048
Game capitalization	20 261	15 209
Game amortization	-11 876	-7 480
Exchange effect on game values	-162	-133
Balance at 31.12	**25 866**	**17 643**

A legal reserve has been recognized within equity with regards to the recognized development costs for the remaining carrying value as at balance sheet date, in accordance with Section 365 of Part 9 of Book 2 of the Dutch Civil Code.

6. Other reserves

In thousands of US dollars	2019	2018
Balance at 01.01	-185 755	-184 229
Exchange effect on share-capital	333	959
Exchange effect on subsidiaries	102	-1 508
Movement to legal reserves	-8 223	-7 595
Result from participating interest after tax	-583	5 670
Other	-9	–
Balance at 31.12	**-194 134**	**-186 703**
Result after taxation	306	948

Funcom does not distribute any dividend for either 2019 or 2018. All results after taxation go to other reserves. The Supervisory Board proposes to allocate the result for the year to uncovered losses.

7. Liabilities

Other current liabilities in 2019 of USD 0 thousand (2018: USD 38 thousand) do not include any interest-bearing loans and are related to Funcom SE’s regular business operations.

Payables to group companies in 2019 of USD 146 thousand (2018: USD 146 thousand) are liabilities to Funcom Games Beijing. Please see Note 1 Investments in and Receivables from Group Companies for more details.

Other non-current liabilities in 2019 of USD 0 thousand (2018: USD 92 thousand) are related to the office space in Canada. In 2019, using IFRS 16, this is part of the lease liability.

8. Revenue

In 2019, Funcom SE generated USD 379 thousand (2018: USD 962 thousand) for its management services to its subsidiary company Funcom Oslo AS.

In 2018, using IAS 17, Funcom SE had USD 514 thousand rental revenue from its office space in Canada. In 2019, using IFRS 16, these are classified as finance lease. For more info see Note 16.

9. Personnel expenses

Personnel expenses were related to remuneration to members of the Supervisory Board and the Management Board (2019: USD 140 thousand; 2018 USD 162 thousand) and their share option cost (2019: USD 90 thousand; 2018: USD 494 thousand). Please refer to Note 13 and 14 for more details.

There was no employee in Funcom SE for 2019 or 2018.

10. General and administrative expenses

In thousands of US dollars	**2019**	**2018**
Rent of premises and other office costs[1]	25	504
Audit fees	192	192
Legal services	124	4
Investor relations	180	215
Consulting fees	92	123
Other	17	-12
Total other operating expenses	**630**	**1 026**

[1] In 2019, using IFRS 16, only low-cost leasing is recognized in the profit & loss. In 2018, using IAS 17, all office lease was recognized in the profit & loss. For more info see Note 16 and Group Note 3.23.

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

11. Financial income

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

In thousands of US dollars	**2019**	**2018**
Intercompany interest income	838	504
Foreign exchange gain	85	192
Interest income from finance lease	28	–
Other financial income	93	4
Finance income	**1 045**	**700**

12. Financial expenses

Financial expenses consist mainly of foreign exchange loss and interest related to lease liabilities.

In thousands of US dollars	**2019**	**2018**
Interest expense	–	-84
Foreign exchange loss	-246	-362
Interest expense related to lease liability	-29	–
Finance expenses	**-275**	**-446**

13. Remuneration of the members of the Management Board

The following table shows the details of the stock incentives of the individual members of the Management Board. See consolidated statements Note 28 for a summary. Historical numbers of options and shares have been adjusted to reflect the 5:1 reverse stock split in February 2018.

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Rui Casais	2012	13 332				13 332	1.25	20.09.2022
	2013	26 000				26 000	1.05	24.06.2023
	2014	40 000				40 000	2.8	26.06.2024
	2015	60 000				60 000	1.1	30.01.2025
	2016	70 000				70 000	0.9	25.02.2026
	2017	80 000				80 000	1.55	07.07.2027
	2018	100 000				100 000	2.68	01.06.2028
	2019		300 000			300 000	1.71	06.13.2029
	Total	389 332			Total	689 332		
	Vested	389 332			Vested	689 332		
	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Christian Olsthoorn	2016	30 000				30 000	0.65	30.06.2026
	2017	10 000				10 000	1.75	30.03.2027
	2017	17 500				17 500	1.55	07.07.2027
	2018	38 000				38 000	2.68	01.06.2028
	2019		38 000			38 000	1.71	06.13.2029
	Total	95 500			Total	133 500		
	Vested	95 500			Vested	133 500		

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

14. 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 2019, the total remuneration to the Supervisory Board was EUR 108 000 (USD 121 899) (2018: EUR 117 904 (USD 139 102)). The annual remuneration was EUR 24 000 (USD 26 962 (2018: EUR 31 000 (USD 36 574)) for the Chairman and was EUR 21 000 (USD 23 591) (2018: EUR 21 000 (USD 24 776)) for each of other members, prorated in accordance with the months of service. EUR 73 980 (2018: EUR 89 339) of the fees for 2019 are outstanding at year end.

The following tables show the details of the stock incentives of the individual members of the Supervisory Board. Consolidated statements Note 28 includes a summary.

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Ole Gladhaug	2016	40 000				30 000	0.80	11.10.2026
	2017	45 000				38 000	1.55	07.07.2027
	2018	56 000				38 000	2.68	01.06.2028
	2019		56 000			56 000	1.71	06.13.2029
	Total	141 000			Total	197 000		
	Vested	141 000			Vested	197 000		

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Fredrik Malmberg	2016	20 000				20 000	0.80	11.10.2026
	2017	30 000				30 000	1.55	07.07.2027
	2018	38 000				38 000	2.68	01.06.2028
	2019		38 000			38 000	1.71	06.13.2029
	Total	88 000			Total	126 000		
	Vested	88 000			Vested	126 000		

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Egil Kvannli	2016	20 000				20 000	0.80	11.10.2026
	2017	30 000				30 000	1.55	07.07.2027
	2018	38 000				38 000	2.68	01.06.2028
	2019		38 000			38 000	1.71	06.13.2029
	Total	88 000			Total	126 000		
	Vested	88 000			Vested	126 000		

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Andreas Arntzen	2018	38 000				38 000	2.68	01.06.2028
	2019		38 000			38 000	1.71	06.13.2029
	Total	38 000			Total	76 000		
	Vested	38 000			Vested	76 000		

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Susana Meza Graham	2018	38 000				38 000	2.68	01.06.2028
	2019		38 000			38 000	1.71	06.13.2029
	Total	38 000			Total	76 000		
	Vested	38 000			Vested	76 000		

Historical numbers of shares and exercise price in the above tables have been adjusted to reflect the reverse stock split.

15. Transactions with Related parties

Please refer to Consolidated Financial Statements, Note 28.

16. Leases

The Company leases office facilities. The leases typically run for a period of 1 to 10 years, with an option to renew the lease after that date. Lease payments are normally index regulated every year according to the consumption price index. For certain leases, the Company is restricted from entering into any sub-lease arrangements, without the lessor’s written consent. Previously, these leases were classified as operating leases under IAS 17. One of the leased properties has been sub-let by the Company. The lease and sub-lease expire in 2020.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. These are expensed in the profit and loss.

Lease liabilities

In thousands of US dollars	**Office leases**	**Total**
Balance at 1 January	840	840
Interest expense	29	29
Effect of modification to lease terms	23	23
Foreign exchange movements	29	29
Lease payments	-508	-508
Balance at 31 December	**412**	**412**

Amounts recognized in profit or loss - Leases under IFRS 16

In thousands of US dollars	**2019**	**2018**
2019 - Leases under IFRS 16		
Interest expense on lease liabilities	-29	–
Interest income from sub-lease	28	–
Expenses relating to short-term leases[1]	-25	–
2018 - Operating leases under IAS 17		
Lease expense	–	-504
Sub-lease income presented in 'Revenue'	–	514
Total	**-26**	**10**

[1] Short-term leases are office lease with a non-cancellable period of one to three months.

The Company does not have leases of low-value assets.

Amounts recognized in statement of cash flows

In thousands of US dollars	**2019**
2019 - Leases under IFRS 16	
Principal paid on lease liabilities	-479
Interest paid on lease liabilities	-29
Proceeds from finance sub-leases	398
Interest income received from sub-leases[1]	28
Total	**-82**

[1] Presented as 'Interest received' under operating activities.

Lease liabilities

In thousands of US dollars	**2019**
2019 - Leases under IFRS 16	
Less than one year	419
Total undiscounted lease liabilities	**419**
Nonincurred finance expense	7
Net lease liabilities	**412**

The Group as a lessor

During 2019, the Company recognized interest income on finance lease receivables of USD 28 thousand (2018: nil). In 2018, Under IAS 17, the Company did not have any finance leases as a lessor. In 2019, under IFRS 16, the Company has no operating leases as a lessor.

The finance lease receivables have been presented as part of current prepayments and other receivables.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

In thousands of US dollars	**2019**
2019 - Leases under IFRS 16	
Less than one year	-449
Total undiscounted lease receivable	**-449**
Unearned finance income	-7
Net investment in the lease[1]	**-442**

[1] Net investment in the lease is presented as ‘Prepayments and other receivables’ in the Statement of Financial Positions.

17. Events after the reporting date

Please refer to Consolidated Financial Statements, Note 31.

Badhoevedorp, 23 April 2020

The Supervisory Board of Directors in Funcom SE.

Eddie Chan, Chairman
sgd

Peng Lu
sgd

Egil Kvannli
sgd

Susana Meza Graham
sgd

The Board of Managing Directors in Funcom SE

Rui Casais, Chairman
sgd

Christian Olsthoorn
sgd

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 SE

A. Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements 2019 of Funcom SE based in Katwijk, the Netherlands. The financial statements comprise the consolidated financial statements and the company financial statements.

WE HAVE AUDITED	OUR OPINION
The consolidated financial statements comprise: 1. the consolidated statement of financial position as at 31 December 2019; 2. the following statements for 2019: the consolidated statement of 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 accompanying consolidated financial statements give a true and fair view of the financial position of Funcom SE as at 31 December 2019 and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
The company financial statements comprise: 1. the company balance sheet as at 31 December 2019; 2. the company statement of comprehensive income for 2019; and 3. the notes comprising a summary of the accounting policies and other explanatory information.	In our opinion, the accompanying company financial statements give a true and fair view of the financial position of Funcom SE as at 31 December 2019 and of its result for 2019 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 SE in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at USD 399,000. The materiality is based on 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 group. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of USD 19,950, 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 SE is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Funcom SE.

Our group audit mainly focused on significant group entities. We consider an entity significant when;

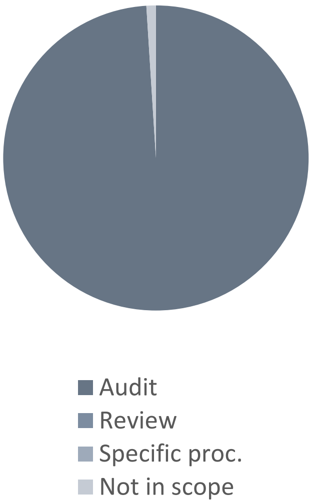
- it is of individual financial significance to the group; or
- the component, due to its specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the group financial statements.

We have:

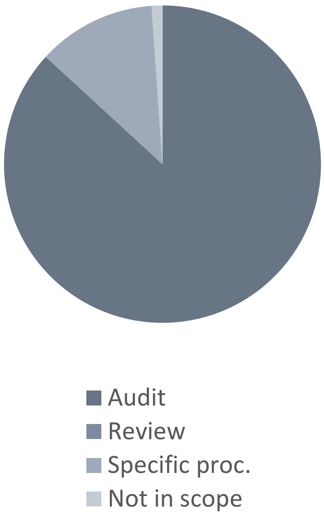
- performed audit procedures ourselves at group entities Funcom Oslo AS, Funcom Inc and Funcom SE;
- performed specific audit procedures at other group entities.

For clarification purposes we hereby show our scope:

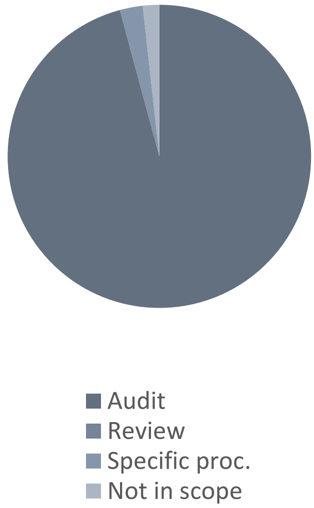
Group Audit - divided into revenue



Group Audit - divided into assets



Group Audit - divided into total expenses



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 on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. In making this determination we took the following into account:

- the risks that we believed were significant to our audit and therefore required special audit consideration;
- areas of higher assessed risk of material misstatement that influenced our audit focus;
- significant audit judgements relating to areas in Funcom consolidated and parent company financial statements including accounting estimates that we identified as having high estimation uncertainty;
- the effect on our audit of significant events or transactions that occurred during the period; and
- those assessed risks of material misstatement that had the greatest effect on the allocation of resources in the audit and directing the efforts of the audit team.

We have communicated the key audit matters to the Supervisory Board and the Audit Committee. 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.

In 2018, our auditor's report included two key audit matters that have not been reported as key audit matters in our 2019 report. These relate to: (1) Share-based payments and (2) Recognition of joint arrangements. In current year, the key audit matter 'Revenue recognition' is specifically focused on the revenue recognition arising from the one-off deals.

The table below describes the key audit matters, a summary of our procedures carried out and our key observations.

RECOGNITION OF DEVELOPMENT COSTS	OUR AUDIT APPROACH
Over the year ended 31 December 2019, the company capitalized USD 20.3 million of developed costs. Refer to note 15 - Intangible assets and goodwill. We have considered the recognition of development costs to be a key audit matter due to the significant judgement involved in determining if the recognition criteria are met in accordance with IAS 38 – Intangible Assets.	We reviewed the company's capitalization policy to determine whether the recognition is aligned with IAS 38 – Intangible Assets. Our audit procedures included, amongst others, evaluating the design and implementation of controls over capitalization of costs, evaluating the nature of development costs and assessing the reasonableness of the capitalization. Furthermore, we have checked the arithmetic accuracy of the capitalization schedule, agreed a sample of capitalized costs to internal payroll records and external invoices, assessed the criteria for classification into the development phase and assessed the adequacy of the related disclosures in the financial statements. **Key observations:** We consider the recognised development costs, as disclosed in note 15 - Intangible assets and goodwill to be reasonable and in accordance with the requirements of IAS 38.
VALUATION OF INTANGIBLE ASSETS	**OUR AUDIT APPROACH**
As at 31 December 2019 the net carrying amount of intangible assets and goodwill amounts to USD 33.2 million. Refer to note 15 - Intangible assets and goodwill. The carrying amount of these assets are reviewed at each reporting date to determine whether there is any indication of impairment. Intangible assets should be tested for impairment when there is an indicator that the asset may be impaired under IAS 36.	Our audit procedures included obtaining an understanding of management's annual impairment test. The audit procedures mainly comprised of substantive audit procedures. The procedures notably consisted in: • We challenged managements' assessment and assumptions used in the impairment models, including cash flow projections, the discount rate and other assumptions used.

Irrespective of whether there is any indication of impairment, an impairment test should be performed for the trademark and license with an indefinite useful life amounted to USD 6.6 million, the development costs not yet available for use amounted to USD 16.5 million and the goodwill balance acquired in a business combination amounted to USD 0.3 million (note 15 - Intangible assets and goodwill). An impairment arises when the carrying amount for a CGU is higher than the recoverable value. The estimated recoverable value is dependent on expected future cash flows from the underlying CGUs. The impairment assessment prepared by management includes a variety of internal and external factors, representing significant estimates that require the use of valuation models and a significant level of management judgement. Management judgement, notably covering: • Future cash flow forecasts; • Expected launch dates; and • Discount rate applied to the estimated cash flows. The company's disclosures concerning the annual impairment test are included in note 15 - Intangible assets and goodwill to the consolidated financial statements. We have considered the impairment tests to be a key audit matter due to the significance of the balance and the degree of judgement involved in assessing indications for impairment and determining the recoverable amount.	• We have determined whether the valuation methods are aligned with IAS 36 – Impairment of Assets. • 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 and business plans. We assessed the sensitivity of changes to the respective assumptions on the outcome of the impairment calculations. • As part of our audit procedures we have paid specific attention to CGUs that are more sensitive to changes in assumptions and determined that the disclosure in note 15 adequately reflects such sensitivity. • Furthermore, we tested the arithmetic accuracy of the impairment model and assessed the adequacy of the related disclosures in the financial statements. **Key observations:** We consider management's assumptions and data used to calculate the recoverable amount to be within a reasonable range. We agree with management's conclusion that no further impairment is required in 2019. We consider the disclosures concerning the impairment test in note 15 - Intangible assets and goodwill to be reasonable and in accordance with the requirements of IAS 36.
REVENUE RECOGNITION	**OUR AUDIT APPROACH**
During 2019 the group entered into multiple one-off deals consisting of license agreements as disclosed in note 3.3 Revenue from contracts with customers. IFRS 15 has an impact on the recognition of these license agreements signed with third party customers. The standard offers a new	We reviewed the company's revenue recognition policy to ensure revenue is recognised in accordance with IFRS 15 - Revenue from Contracts with Customers. Our audit procedures included, amongst others, evaluating the design and implementation of controls relating to

type of grid analysis for licenses, particularly by making a distinction between the right to access (recognition of revenue over time) and the right to use (recognition of revenue at the time the licensed content is transferred to the customer). The methods for the application of accounting standards pertaining to these agreements can be complex and require judgements and estimates to be made. Given the risk of fraud in revenue recognition is a presumed risk in our audit based on audit requirements and the complexity and judgement involved in the revenue recognition from these contracts, we considered revenue recognition of one-off deals to be a key audit matter.	management's process for revenue recognition, including determining the performance obligations and its transaction price, the timing of satisfying performance obligations, the recognition on gross or net basis, the calculation of deferred revenue and reconciliation of the recorded revenue in the operating system to the recognised revenue in the financial statements. As part of our work associated with the one-off deals consisting of the license agreements, our work specifically consisted in: • analysing the methods used by the Group for the recognition of revenue; • identifying the various agreements; • identifying and analysing the various performance obligations within these agreements, whether implicit or explicit; • analysing the management rules applied by the Group in the allocation of the transaction price used, and assessing whether these defined rules were correctly and consistently applied; • assessing the compliance of the main judgements and estimates used associated with the determination of classification of the contract as right to use or right to access license; • examining the accounting treatment applied and the reconciliation between the recognised revenues and the supporting agreements; • examining the reconciliation between the revenues recognised with subsequent cash collection. Furthermore, we assessed the adequacy of the related disclosures in the financial statements. **Key observations:** We consider management judgement in the accounting treatment of the one-off deals under IFRS 15 to be reasonable.

B. Report on other information included in the annual report

In addition to the financial statements and our auditor’s report thereon, the annual report contains other information that consists of:

- the report of the Management Board;
- the report of the Supervisory Board of directors;
- the other information as required by Part 9 of Book 2 of the Dutch Civil Code;
- the remuneration report as required by Section 2:135b of the Dutch Civil Code; and
- the letter from the CEO, about Funcom, active game portfolio, the Dreamworld Technology, Corporate Governance, responsibility statement and the Corporate Governance declaration.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by 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 SE on 18 November 2014, as of the audit for financial year 2014 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

D. Description of responsibilities regarding 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 fraud or error.

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 engagement 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, 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 error, 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- 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 entity'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 a company to cease 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 determine 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. In this respect we also submit a report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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 the key audit matters: those matters that were of most significance in the audit of the financial statements. 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 communicating the matter is in the public interest.

Amstelveen, 23 April 2020

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

sgd.
drs. J.F. van Erve RA

Annex I: Remuneration Committee report for 2019

Remuneration Committee Directors

- Eddie Chan (Chairman), took over chairmanship from Fredrik Malmberg, who resigned from the Supervisory Board and the Remuneration Committee 16 December 2019
- Susana Meza Graham

Remuneration Committee responsibilities

- To investigate any matter within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Committee
- To obtain outside professional advice if needed
- To draft a proposal to the Supervisory Board for the Remuneration policy regarding the Management Board to be pursued
- To draft a proposal for the remuneration of the individual members of the Management Board for adoption by the Supervisory Board; such proposal shall in any event deal with
- The remuneration structure
- The amount of the fixed remuneration, the stock options to be granted and/or variable remuneration components, pension rights, redundancy pay, and other forms of compensation to be awarded as well as the performance criteria and their application
- To prepare the Remuneration report

Remuneration Committee work conducted in 2019

- Ongoing review of and proposal on existing remunerations.
- Consideration on remuneration of new Supervisory Board directors appointed in 2019
- Preparation of stock option grants to employees and board members, granted June 2019
- Evaluation of the changes to the option terms that was made in 2018
- Discussions about CEO performance bonus

Remuneration Committee meetings in 2019

The Remuneration Committee had ongoing discussion in 2019 when the need to assess the remuneration arose. Such discussions focused on updates to the remunerations policy. Four meetings were held, both as individual meetings and in conjunction with the Supervisory Board meetings.

Remuneration Committee assessments

- In the course of the 2019 financial year the Remuneration Committee has carried out ongoing reviews on remunerations associated with the performance of the top management as well as the financial results of the business. The Committee presented its proposals to the Supervisory Board.
- The Remuneration Committee is of the opinion that the current remuneration policy is fair according to the labor market, and it serves the purposes to encourage and reward long term performance of the company.

Remuneration Policy of the management board

Introduction

The Supervisory Board determines the remuneration policy for the Management Board of Funcom SE, based on the recommendations of the Remuneration Committee. The remuneration policy shall be presented for approval by the General Meeting of Shareholders.

Within the approved remuneration policy, the Supervisory Board determines the remuneration of the individual members of the Management Board, again based on the recommendations of the Remuneration Committee.

Remuneration principles
The remuneration policy should make it possible to attract and recruit the right people for the Management Board, who possess both the necessary leadership qualities and the required background and experience in relevant areas of the Company's business. The policy should encourage and motivate the Management Board to focus on a strong market position of the Company, financial results and shareholder value creation as well as providing the members of the Management Board with incentives to achieve long-term growth objectives.

The total remuneration packages should aim to be competitive and in line with current international market practice for Management Board members of comparable companies, taking into account both size and business complexity.

The Supervisory Board will regularly assess the remuneration package to assure itself that the package meets the defined remuneration principles in terms of both structure and level.

Remuneration package of the Management Board The total remuneration of the Management Board consists of the following elements: a) A fixed element: annual salary and vacation allowance. b) A variable element: options and bonus. c) Pension and other benefits

For further details, see the full remuneration policy at the company webpages.

Actual Remuneration 2019

The total remuneration of the Board of Management in 2019 (and 2018) is outlined in the following table. Rui Casais was awarded full bonus during 2019 as recognition for strong results in 2018 and beyond.

	Total remuneration is composed of:						
Management Board member	**Total remune-ration**	**Remune-ration**	**Bonus**	**Bonus % of total remuneration**	**Severance**	**Pension cost**	**Share based**
2019							
Rui Casais	444	241	91	21 %	-	5	106
Christian Olsthoorn	37	24	-	-	-	-	13
Total:	**480**	**265**	**91**	**19 %**	**-**	**5**	**119**
2018							
Rui Casais	622	260	89	14 %	-	6	267
Christian Olsthoorn	96	25	-	-	-	-	71
Total:	**717**	**285**	**89**	**12 %**	**-**	**6**	**338**

Overview of options granted to Management Board during 2019 and holding of options:

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
2019				
Rui Casais	300 000	-	689 332	40 000
Christian Olsthoorn	38 000	-	133 500	-
Total:	**338 000**	**-**	**822 832**	**40 000**
2018				
Rui Casais	100 000	-	389 332	40 000
Christian Olsthoorn	38 000	-	95 500	-
Total:	**138 000**	**-**	**484 832**	**40 000**

The following table shows the details of the stock options. Historical numbers of options and shares have been adjusted to reflect the 5:1 reverse stock split in February 2018.

In thousands of US dollars

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Rui Casais	2012	13 332				13 332	1.25	20.09.2022
	2013	26 000				26 000	1.05	24.06.2023
	2014	40 000				40 000	2.8	26.06.2024
	2015	60 000				60 000	1.10	30.01.2025
	2016	70 000				70 000	0.90	25.02.2026
	2017	80 000				80 000	1.55	07.07.2027
	2018	100 000				100 000	2.68	01.06.2028
	2019		300 000			300 000	1.71	06.13.2029
	Total	389 332			Total	689 332		
	Vested	389 332			Vested	689 332		

	Year Issued	Outstanding Dec 31 2018	Granted	Expired	Exercised	Outstanding Dec 31 2019	Exercise Price USD	Expiry Date
Christian Olsthoorn	2016	30 000				30 000	0.65	30.06.2026
	2017	10 000				10 000	1.75	30.03.2027
	2017	17 500				17 500	1.55	07.07.2027
	2018	38 000				38 000	2.68	01.06.2028
	2019		38 000			38 000	1.71	06.13.2029
	Total	95 500			Total	133 500		
	Vested	95 500			Vested	133 500		

Remuneration development

The development over the last 5 years of the annual total remuneration for the Management Board directors in relation to company performance is included below.

In thousands of US dollars		2015	2016	2017	2018	2019
Revenue		10 238	7 322	23 162	33 776	**26 620**
	%		*-28 %*	*216 %*	*46 %*	***-21 %***
EBITDA		392	231	9 937	17 690	**12 137**
	%		*-41 %*	*4202 %*	*78 %*	***-31 %***
Total Remuneration CEO [1]		448	325	360	622	**444**
	%		*-27 %*	*11 %*	*73 %*	***-29 %***
Total Remuneration Managing Director [2]				39	96	**37**
	%				*146 %*	***-61 %***
Average salary and bonus per FTE		63	54	59	64	55
	%		*-15 %*	*10 %*	*9 %*	*-14 %*
Average pensions and options per FTE		6	1	6	18	6
	%		*-87 %*	*635 %*	*229 %*	*-69 %*
Internal pay ratio						
CEO		6.5	6.0	5.6	7.5	7.3

Note: Historical remuneration paid in NOK is significantly overstated in USD compared to the current values due to the significant increase in USD vs NOK in the last years and early 2020 in particular. Due to a change in the option program in 2018, cost from options granted previous years were periodized to 2018 in addition to the full cost of the 2018 grants, increasing the reported remuneration that year.

1 Rui Casais was appointed CEO of Funcom SE 13 May 2015 and took over for Michel Cassius, who resigned from his position of Managing Director on 26 June 2015 and returned to the Supervisory Board.

2 Christian Olsthoorn was appointed to the Management Board on March 29, 2017, after a period with the Management Board consisting of only the CEO

Annex II: Investor Relations Policy for Funcom SE

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 Chief Operating Officer are the Company's spokespersons for contact with the financial markets.

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

Guidance
Funcom does not provide guidance on quantitative targets for the Company's future turnover, earnings, return on equity or cash flow.

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 SE is or has been followed by third party analyst firms and might engage with such firms to for commissioned research on the Company. Any opinions, estimates or forecasts regarding the performance of Funcom SE's made by these analyst firms are theirs alone and do not represent opinions, forecasts or predictions of Funcom SE or its management. Funcom SE does not imply its endorsement of or concurrence with such information, conclusions or recommendations. The research provided by Redeye AB is commissioned research.

Silent Period
For a period of 30 days 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 30 calendar days directly preceding the publication of a financial report, or announcement of a(n) (interim) dividend.

Annex III: Financial Calendar for Funcom 2020

Funcom SE will publish its financial statements on the following dates in 2020:

- 28 February - Q4 2019
- 23 April - 2019 Annual Report
- 12 June - Annual General Meeting
- 20 August - Q2 2020

The dates are subject to change.

Annex IV: Contact Details

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