



FUNCOM.N.V.



ANNUAL REPORT 2014



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ABOUT FUNCOM



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

Funcom® was founded in 1993 and during the 22 years that have followed since then, the Company has developed and published over 25 game titles across several genres and gaming platforms. Most notable of these are the online games 'The Secret World®', 'Age of Conan' and 'Anarchy Online®', which despite their respective ages continue to be important, contribution-generating pillars in Funcom's live portfolio of games.

Funcom has also developed several single-player classics, such as the highly critically acclaimed 'The Longest Journey®' and 'Dreamfall®'. In 2014, Red Thread Games developed under license 'Dreamfall Chapters', a new, episode-based adventure game based on Funcom's 'The Longest Journey' intellectual property. In the early days, Funcom developed console games such as 'Pocahontas' and 'Casper', and also created numerous ports of existing games to various platforms.

As of the date of the annual report close to 100 talented individuals are working at Funcom, spread out across studios in Norway and North America.

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

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

The first game developed and published under Funcom's new strategy is 'LEGO® Minifigures Online'. Based on the hugely popular LEGO Minifigures brand, the game sends players off on great adventures through themed worlds all built in the beloved and instantly familiar LEGO style. Funcom launched the game on PC in October 2014 followed by a release on Mac, and will be coming out on iOS and Android devices in 2015.

Funcom has a highly skilled team of developers situated at its Durham, North Carolina studio, whose primary task is to support, expand and enhance the Company's live games. Launched in July 2012, 'The Secret World' is the Company's latest massively multiplayer online game, and the game sends players on exciting adventures through real-world locations such as New York, Egypt and New England.

'Age of Conan' launched in 2008 and sold more than 1.4 million copies before it went over to a free-to-play business model.



Since launch, more than four million players have signed up to experience 'Age of Conan'. 'Anarchy Online', the Company's first MMO, has been in operation for 14 years and is still going strong.

The Company regularly reviews the performance of each of its live games and adapts them to the needs and wants of their audience. For 'The Secret World' alone, Funcom launched two major content updates in 2014 that provided players with new areas to explore, more story to unravel and several new, exciting gameplay systems to master.

One of the key reasons for Funcom's achievements in the MMO segment is the development of the Company's proprietary technology platform 'DreamWorld Technology'. This platform and all its associated tools gives the developers the flexibility and power needed to create some of the most advanced virtual worlds on the market. After years of continuous development and upgrades, the 'DreamWorld Technology' has become one of the most powerful game engines available. The Company continues to expand and enhance its proprietary technology simultaneously with all its game production.

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

For more information, visit www.funcom.com.

LETTER FROM THE MANAGEMENT



2014 HAS BEEN A TRANSITIONAL YEAR FOR **FUNCOM**, THE CONTINUATION OF A TRANSFORMATION THAT STARTED A YEAR EARLIER.

In 2013, the Company started a difficult and necessary process to adapt its business to the very fast moving, demanding and competitive game market. Funcom's current Live Games (Anarchy Online, Age of Conan and The Secret World) all traditional MMOs, required hundreds of people, tens of millions of dollars and many years to produce. In contrast, Funcom is now focusing on developing and publishing high quality online games in the mid-core segment with a 3 to 6 million dollar investment with much smaller and more agile teams working on shorter cycles.

LEGO® Minifigures Online, the first game developed under this new strategy, was released on October 1, 2014, on budget and on time coinciding with the launch of a new series of LEGO® Minifigures toys that are distributed through retail channels. The engagement and feedback from customers has been good but monetizing a young audience is difficult. At the end of the third quarter, after few months of continuous measurement and improvement cycles, it became clear that it would take longer than planned for the Company to reach its internal targets of players and overall revenues.

Since then, the team has focused on improving the game experience and testing ways of monetizing our young audience. Looking at user behavior, we made in-depth changes to the game and we tested a promotional "Unlimited Membership" that was well received. The team at our Oslo Studio, where the game is produced, is fully focused on improving the game and preparing its release on Mac, iPad and several Android Tablets. Just a few weeks ago, the game entered its Closed Beta on iOS.

Beyond LEGO® Minifigures Online, our Live Games Anarchy Online™, Age of Conan and The Secret World™ have had some respectable results during the year. Despite their ageing having respectively launched in 2001, 2008 and 2012, the Live Games continue to generate most of the revenues of the Company. During the year, the "Live team", mainly based in Durham, North Carolina, has continued to create and release new content. They have also organized new events for players to engage frequently in immersive experiences with thousands of others at any time of the day. Whilst the revenues continued to naturally decline during the year, due to the ageing of the games, Q4, a traditionally strong season for games in general, has seen the most positive numbers for all Live Games, especially for The Secret World. The Live team continues to think ahead and is already preparing the next iterations of features and content that we believe will keep our current players engaged and may also reengage some lapsed users. There is still life in our Live Games. It's quite amazing to think that 14 years after its launch, Anarchy Online continues to draw thousands of players in a fictional world that was imagined and created in the 90's.

In 2014, we also launched the iOS version of The Longest Journey, a game that was originally released by the Company for PC in 1999. The game had a strong following and journalists and players alike welcomed the new version which received very good feedback from players and achieved a solid rating on the Apple App Store. We didn't expect the revenues to be large, however the team learned how to launch a game on the App Store and by doing so also extended the life of one of Funcom's oldest IPs.



Underlying all this work is our proprietary Dreamworld Technology™ that is at the heart of all our online games. During 2014, the team has continued to improve our core technology to make it run on most game platforms. It also makes LEGO® Minifigures Online a truly cross-platform playable game. A player can start a game on a PC, finish the level on a tablet or play with his/her friends and family on different platforms at the same time. This in itself is an achievement. There are huge differences between a high-end PC with the most powerful core processor, graphical cards, gigabytes of RAM and an iPad or Android Tablet. The stretch in technology is a challenge that the team has embraced and mastered, showing that it is possible for large and complex games to run on many different devices. Beyond the game technology, the Company's know-how and experience also spans to online services that allow all users to play from anywhere in the world, at any time, in the most secure environment. We sometimes forget that behind what meets the eye, there are services and technologies that need continuous attention and improvement to provide a seamless online gaming experience to thousands of people at the time.

All of the above could not be possible without an extremely talented, dedicated and resilient team. 2014 has certainly been a demanding year for all at Funcom. The team was reduced by nearly 30% during the year and the Company now operates with a hundred people in three offices - Oslo, Durham and Montreal. At the end of the year, having decided that we should focus on our own published games, we sold our work-for-hire team based in Funcom Games Canada's office in Montreal to a new company NVizzio. With the founders of NVizzio, we managed to make this transition as smooth as possible for the team of 13 people who had

been working in Funcom for years. These difficult decisions are necessary and driven by our focus on shaping the company for the future. It requires that each game delivers a positive net contribution and that we align our costs to current and future revenues. In this vein, we are looking at all ways of reducing our structural costs, simplifying the overall structure of the Funcom Group and focusing our development in our two main studios of Oslo and Durham. We also continue to look for all means of financing the mid to long-term strategy and needs of the Company.

In 2014, while making these deep organizational and structural changes, we released LEGO® Minifigures Online and we continued to invest in and support our three Live Games - Anarchy Online, Age of Conan and The Secret World. Despite the ups and downs of the last few years, there is in all of us at Funcom the creativity, the energy and the dedication to continue re-inventing Funcom to do what we are all about: make and support great online games for all of our audiences.

2014 was a transition year, the continuation of a transformation process that started the year before. This process is still in progress: the new Funcom is still in the making.

Rui Casais & Michel Cassius
Funcom's Management
Funcom N.V.



minifigures

ONLINE



LEGO® MINIFIGURES ONLINE IS AN ONLINE GAME FOR KIDS OF ALL AGES BASED ON THE HUGELY POPULAR MINIFIGURES BRAND OF COLLECTIBLE TOYS. HERE YOU GET TO ASSEMBLE YOUR VERY OWN TEAM OF GREAT MINIFIGURES AND BRING THEM OUT ON ADVENTURES THROUGH COLORFUL AND FANTASTICAL WORLDS.

Funcom released LEGO® Minifigures Online on PC in Q4 2014, and will be following up with a release on Mac as well as iOS and Android devices throughout 2015. The game features full cross-platform play, allowing anyone to play together in the same world regardless of which device they are playing on.

It was in June 2012 that Funcom announced it had signed a license agreement with the LEGO Group to develop an online game based on the Minifigures brand of collectible toys. Since then a team of veteran game developers have been working to create a unique online game full of action, adventure, humor and -- of course -- Minifigures. In addition to preparing the game for new platforms, the team continues to expand the game both in terms of content and gameplay functionality and, since launch in October 2014, have introduced several new features such as Dino World, the Lost Creations dungeon, the element system and much, much more.

Even though the game certainly is enjoyable to just about everyone, it is particularly suited for kids. Funcom and the LEGO Group have worked closely together to make sure the play experience in the game is both fun and safe, and multiple functionalities have been added to the game to make sure it is a secure and positive environment for everyone. This includes, among many other features, filtered and real-time moderated chat. The game is also fully COPPA compliant and KidsSafe certified.

The collectible Minifigures are immensely popular throughout the world, and it is these iconic characters that everyone get to play with in LEGO® Minifigures Online. Here players can collect and play with the Yeti, the Bumblebee Girl, the Alien Avenger or even the Chicken Suit Guy and many, many more. Every Minifigure has their own unique abilities and special attacks that makes collecting them and playing with them an exciting discovery each time.

Each year, millions of bags containing physical Minifigures are sold throughout the world. Funcom and the LEGO Group have teamed up to make sure the game features seamless integration with the physical toys: in each of the Minifigures bags bought in stores everywhere, is a unique code that unlocks that very same figure as well as other exciting rewards inside the game. Both Series 12 and Series 13, released in October 2014 and January 2015 respectively, have featured this integration and are now part of the LEGO Minifigures Online game. In addition to the physical product integration, Funcom and the LEGO Group are also cooperating closely on other marketing activities. This includes a significant presence on LEGO.com, undoubtedly one of the most popular websites for kids in the world.

In 2014 Funcom also announced it had signed development and marketing partnerships with both Amazon and Intel. The Amazon partnership will see LEGO® Minifigures Online on selected Amazon devices as they become available. The



partnership with Intel ensures that LEGO® Minifigures Online will be taken to the next level on devices powered by Intel processors, with both optimizations and new features. The game is fully supported on all Intel-based Windows tablets and will also be supported on select Intel-based Android devices in 2015. Intel and Funcom are also working closely together on important marketing promotional opportunities.

Funcom communicated in the Q3 2014 report that the initial numbers coming in from the first weeks of live data indicated that it would take longer than planned to achieve the internal targets for player and revenue in 2014 and 2015. As of the time of this annual report, Funcom have made several important optimizations to improve these numbers, and will continue to do so in order to reach internal targets.

LEGO® Minifigures Online is available for play in English, German, French and Spanish, and can be downloaded at www.playminifigures.com.

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

Visit www.LEGO.com.



THE SECRET WORLD™



IN 2014 **THE SECRET WORLD** RECEIVED ITS BIGGEST CONTENT UPDATE YET WITH THE ALL-NEW TOKYO ADVENTURE ZONE. THE GAME SAW FIVE MAJOR CONTENT UPDATES ALTOGETHER AND MANY SPECIAL EVENTS WERE INTRODUCED TO CONTINUOUSLY KEEP THE PLAYER COMMUNITY ENTERTAINED.

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

Issue #9: *The Black Signal* was released in June, and for the first time since launch a brand new Adventure Zone was added to *The Secret World*, with Kaidan in the city of Tokyo. This content update continued the main story and introduced many new characters, enemies, game systems, monsters and hours of new content to the game.

In December Issue #10: *Nightmares in the Dream Palace* went live. It expanded on the acclaimed story and further developed the new AEGIS system introduced with Tokyo.

Issue #10 exposed many hidden mysteries, and set up the story for its important and revealing climax in the upcoming Issue #11.

The *Secret World* also saw a new type of content update in 2014 called Sidestories. Three such updates were released: *Further Analysis*, *Love & Loathing* and *The Last Pagan*. These were mission packs which each offered hours of content and powerful in-game rewards, and the players could purchase these Sidestories in the Item Shop.

In addition to the major updates the development team created several unique in-game events which offered fresh content and activities. The players gradually unlocked a massive Raid event inside the hollow earth, Agartha, which finally opened up the entrance to Tokyo.





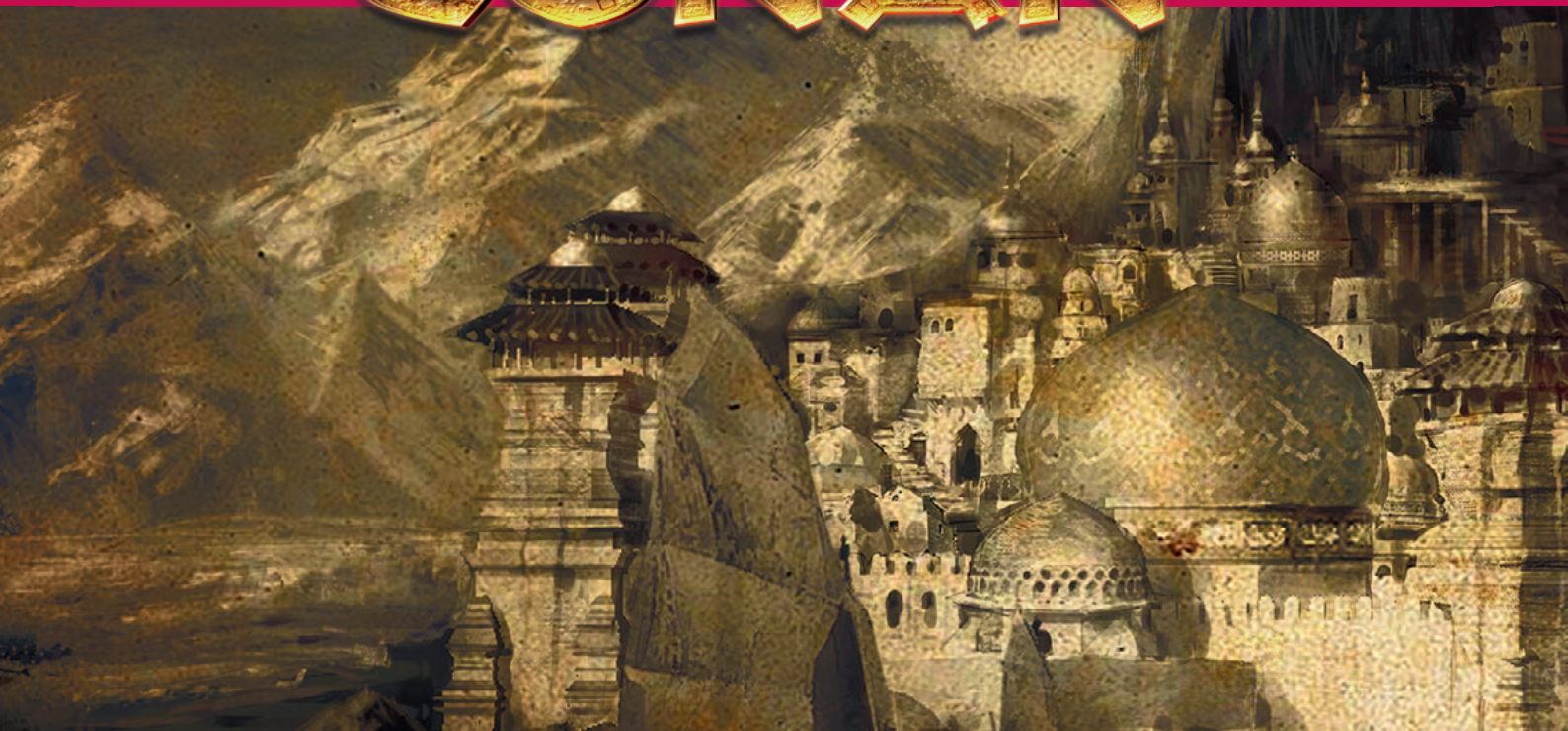
The game's second anniversary saw a two-week long celebration, where the players could enjoy many in-game bonuses and face off against a host of world boss encounters. Halloween and Christmas also saw the introduction of all new events, called *The Broadcast* and *The Christmas Conspiracy*. Here players chased down the Boogeyman himself and used Mozart's *The Magic Flute* to open the tomb of Saint Nicholas.

The in-game Item Shop received a host of new items for the players to buy during 2014. The were particularly popular, as they offered players new ways to get their hands on useful items. Several of the events were also combined with the introduction of bags, which gave exclusive social items, such as outfits or pets. These bags have been very well received by the community, as versions of them opened for gifting of the sought after rewards. Funcom is pleased with The Secret World's performance over the last year. The game continues to offer its players unique high quality content, an original MMO story and deep character development systems.

For more information, visit www.thesecondworld.com



AGE OF CONAN



AGE OF CONAN CELEBRATED ITS SIXTH ANNIVERSARY IN 2014. IT WAS RELEASED IN 2008 TO CRITICAL ACCLAIM AND WAS THE THIRD BEST SELLING PC GAME, AND THE NUMBER ONE BEST SELLING NEW MMO THAT YEAR IN NORTH AMERICA AND EUROPE. WELL OVER 4 MILLION PLAYERS HAVE SIGNED UP TO PLAY AGE OF CONAN SINCE LAUNCH.

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

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

2014 saw many content updates and improvements to the game. *The Twelve Portents* was a brand new type of event which let loose a different world boss every month. The players could band together and take on these massive monsters to earn great rewards.

Age of Conan also received its biggest update to player versus player combat since launch. The brutal *Festival of Bloodshed* introduced many new quests, special events (such as *Fields of Slaughter*, *Arenas of Death* and *The Chosen of Gullah*) and unique gear for the players to enjoy.

Challenging dungeons and raids have always been a central feature in Age of Conan. In 2014 the game got the fresh set of *Unchained Raids*. These raids offered a new





take on earlier content, with much harder encounters and new boss mechanics, and they rewarded players with all new armor sets with unique set bonuses for the first time in *Age of Conan*.

Fresh events were introduced both during the game's sixth anniversary celebration in May and for Halloween in October. The anniversary event was called *Shadows of the Past* and let players take on a savage threat coming from Tortage itself. During Halloween the *Thirst of the Serpent God* event offered a new storyline and a *Carnage with a nighttime* player versus player event.

Many of the new items introduced to the in-game Item Shop performed well in 2014. Players were given the option to purchase instant maximum level characters. *Treasure Chests* offered powerful rewards and the new *Hoard*s gave many sought after social items.

The brutal world of Hyboria will keep offering a haven for Conan fans hungry for adventure and savage action for years to come.

For more information, visit www.ageofconan.com.



Anarchy online



AFTER THIRTEEN YEARS AND HUNDREDS OF MILLIONS OF HOURS OF ENTERTAINMENT GIVEN TO ITS PLAYERS, **ANARCHY ONLINE KEEPS DOING WELL AND ITS DEVELOPERS ARE BUSY MAKING NEW CONTENT AND IMPROVED GAME SYSTEMS FOR ITS LOYAL COMMUNITY.**

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

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

The keys behind the game's longevity are both a strong and tightly knit community and incredibly deep game systems,

which allow the players to develop their characters to great extents. *Anarchy Online* shows that complexity isn't a vice.

In 2014 *Anarchy Online* received a new type of content in the new Inferno Missions called the *Xan Reliquary*. This new challenging content was introduced after a community vote, where the players were given the option to choose what the developers would be working on. The Inferno Missions got very positive feedback from the players and offered new and valuable rewards.

In June the game celebrated its thirteenth anniversary, with special in-game events, free gifts for the players and fresh items being made available through Membership deals.





The players were given a completely new way to pay for their optional Membership with the introduction of GRACE (*Grid Access Credit Extension*). This system allows players to trade GRACE certificates on the in-game market for in-game currency (a system several other MMOs use as well). GRACE has been well liked by the community, as it offers new options for players with a lot of in-game resources and for those who would like to acquire more resources quickly.

The Holiday celebrations in December offered events and introduced a host of new social items to the game. Some of these were made available in the in-game Item Shop through special bags. A version of these bags was also gift-abled, as it allowed players to share the new items with everyone on their team.

Anarchy Online will celebrate its 14th anniversary in June 2015, making it one of the longest-living online games still in operation.

For more information, visit www.anarchyonline.com.



THE DREAMWORLD TECHNOLOGY



The trademarked *Dreamworld Technology*® platform is the technological foundation on which *Age of Conan*, *The Secret World* and *LEGO® Minifigures Online* 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 online games. *Dreamworld* eases the development and deployment process for future online games. This enables the company to develop faster prototypes and early versions of new games using limited staff, to test new game concepts' feasibility before committing more resources to the projects. Having a proprietary technology base also enables the company to specialize and develop unique features for its games.

Key components of the *Dreamworld* technology platform include the flexible and powerful world-creation software, *Genesis*, the scripting system, the gameplay and combat systems, the effects and cinematics system, content

creation tools, and the powerful graphics module of the game. *Dreamworld* has for *The Secret World* been a key enabler in creating what is considered one of the most advanced MMOs in operation. Funcom continues its strong development focus on the *Dreamworld* technology platform on both the aforementioned areas as well as bringing the client module to more gaming platforms.

Key developments in 2014 were the upgrading of the core of the technology to fully support Mac OS, Android and iOS devices. The technology is now capable of deploying a game to a much broader range of entertainment devices and this support will keep on being enhanced during 2015.

MOBILE AND TABLET AND OTHER WORK-FOR-HIRE GAMES

IN 2014, FUNCOM GAMES CANADA CONTINUED TO PRODUCE AND SUPPORT GAMES FOR BOTH FUNCOM AND OTHER GAME PUBLISHING COMPANIES. IN Q4 2014, HAVING COMPLETED A STRATEGIC REVIEW OF THE BUSINESS, FUNCOM SOLD ITS MOBILE, TABLET AND WORK-FOR-HIRE DIVISION TO NVIZZIO, A NEW GAME COMPANY BASED IN MONTRÉAL.

In 2014, the Work-for-Hire team based in Funcom Games Canada's offices in Montréal, continued to work on multiple early stage games concepts for both Funcom and external companies such as The LEGO Group, Districtware, Paradox and Meridian 4. The team completed 25 pitches for different work-for-hire projects. It developed the mobile version of the Fashion Week Live Game that was developed in partnership with 505 Games and supported by the Montréal team until the end of 2014. It also maintained the Pets v/s Monster Game that has been discontinued since.

At the end of 2014, having completed a strategic review of the business, the Company decided to align its costs to its revenues and to focus on the development and the publishing of its own games - be that with its own IPs or with strong licensed IPs. On the December 31, 2014, the work-for-hire part of Funcom Games Canada was sold and the overall work-for-hire team transferred to NVizzio, a new company based in Montréal, assuring continuity of work for all its employees.

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 IN HOUD JAARVERSLAG*) OF DECEMBER 23, 2004 (*STAATSBLAD* 2004, 747), AS MOST RECENTLY AMENDED ON DECEMBER 10, 2009 (*STAATSBLAD* 2009, 545).

FUNCOM'S BUSINESS ACTIVITIES

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

The key criteria for the overall performance of the company are: cost of development of new products, cost of maintenance and support of live games, overall reach and sales of products, lifetime retention and revenues per customers, lifetime of the products.

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

LEGAL STRUCTURE

For an overview of the legal structure of the Group – please refer to note 26.

REVIEW OF FUNCOM'S FINANCIAL POSITION AND FINANCIAL RESULTS FOR 2014

Funcom's revenue for 2014 was USD 12,593 thousand compared to USD 21,409 thousand in 2013. The overall decrease of USD 8,816 thousand is due to the natural decline in revenues from its ageing Live Games *Anarchy Online*, *Age of Conan* and *The Secret World*, whilst revenues of LEGO Minifigures Online have not yet materialized. At the end of Q3 FY14, the Company announced that it will take longer than planned for the LEGO Minifigures Online game to reach its internal target in terms of users and revenues.

The operating costs (excluding impairment) decreased by approximately 21% in comparison to 2013 as a result

of the continued restructuring of the company and other cost savings measures. In spite of this, the corresponding operating result for 2014 was USD -8,117 thousand compared to USD -4,880 thousand in 2013. Despite the positive factors stated above, the decrease in the operating result is partly due to larger impairment losses of USD 5,760 thousand reported in 2014 compared to USD 4,200 thousand in 2013. The impairment losses in 2014 resulted from the revised revenue estimates going forward which were caused by declining revenues from *The Secret World* and by the anticipation that it will take longer than anticipated for LEGO Minifigures Online to reach its internal target for players and revenues. The lower contribution margin from *The Secret World* was caused primarily by a misalignment between declining revenues due to the ageing of the game and the costs of running it. Therefore the Company revised further its projections which caused the value in use of *The Secret World*, LEGO Minifigures Online and the underlying version of the *Dreamworld Technology* to be lower than their net book value and resulted in an impairment loss of USD 5,760 thousand recorded in Q3 2014. The performance of some of these games recovered in Q4 2014, however impairment losses booked were not reversed following a prudent approach and taking into account the uncertain nature of estimating future cash flows. The process of estimating future cash-flows is in accordance with the Company's internal quarterly review process. As such management will continue to monitor the value of Funcom's assets and inform the market of any material changes. As such management will continue to monitor the value of Funcom's assets and inform the market of any material changes.

As a result of the above, the Company reported a net loss for 2014 of USD -8,761 thousand compared to USD -4,538 thousand for 2013. Thus the earnings per share (basic and fully diluted) decreased from USD -0.07 at the end of 2013 to USD -0.11 at the end of 2014.

The Equity of the Company at year-end increased to USD -2,756 thousand compared to USD -5,561 thousand in 2013 mainly as a result of three drawdowns on a standby equity facility with YA Global Masters amounting to 7,345 thousand shares, increasing equity by USD 4,479 thousand. The equity position was further improved by the exercise of 15 million warrants by KGJ Investments S.A. at a price of USD 0.37 per

REPORT OF THE MANAGEMENT BOARD

share, increasing equity by USD 5,550 thousand, as well as smaller gains from the exercise of options by employees.

Offsetting these gains however were operating losses of USD 8,117 thousand largely driven by USD 5,760 thousand of impairment losses booked in Q3 2014, as well as net foreign exchange losses of USD 1,331 thousand.

The process of restructuring the company and taking cost saving measures is still underway and a deeper look at the company's structural costs is being undertaken, where all avenues for reducing costs without affecting the production capacity of the Company are being considered. As such, the Management Board expects the operating costs to further decrease during 2015.

In November 2013 the company negotiated loan financing (working capital loan) with KGJI, Funcom's largest shareholder and creditor, in the amount of USD 5,500 thousand. The first installment of USD 3,000 thousand was received in December 2013, the second of USD 1,250 thousand in Q1 2014 and the last installment of USD 1,250 thousand was received in Q3 2014. The balance of the working capital loan stands at USD 3,950 thousand.

KGJI has confirmed that it is willing to continue to support the Company by deferring the maturity of the USD 3,950 thousand Working Capital loan from January 31, 2016 to the earlier of June 30, 2016 and the 2016 AGM. KGJI also confirmed that they are deferring the maturity of the USD 6,200 thousand convertible bonds from December 22, 2015 to the earlier of June 30, 2016 and the 2016 AGM. The exact terms of the loans are to be agreed upon with the creditor. The management board is of the opinion that the current debt of the Company is too high and as such limits its capacity to raise capital. Therefore, the management is investigating possibilities to restructure the debt.

The cash position of the Company at year-end is USD 3,705 thousand compared to USD 2,582 thousand at the end of 2013. In addition to the cash generated from its live games the Company had at its disposal installments under the working capital loan (see Note 24 and 28) and the standby equity facility of up to USD 22,000 thousand as an immediate source of financing. Under this facility drawdowns can be made in tranches at the Company's discretion, on average every 20 to 30 days up to the maximum amount of USD 22,000 thousand. The first draw down was successfully completed in April 2014 and the company raised USD 1,625, thousand, the second completed in May raised USD 1,977 thousand and the third completed on December 16, 2014 raised USD 898 thousand (see note 27).

GOING CONCERN

Overall, despite a continued reduction in its operating costs, the financial performance of the Company declined in 2014 as a result of decreasing sales. The trend is expected to reverse in 2015 (and after) when the LEGO® Minifigures Online game starts generating more revenues and new games are released to the market. Events related to the working capital loan, standby equity facility and convertible loans provided cash relief with regards to maturity schedules and amounts (see note 27). The cash position of the Company is expected to improve in 2015 as a result of the operational focus on the net contribution and cash generated from all games as well as the strategic focus to finance the mid to long-term plans of the Company through drawdowns on the stand-by equity facility, potential equity issue, potential debt financing, including changes to the terms of the current loans, or other financing instruments.

Based on the above assessment the Company has concluded that the funding of its operations for a period of at least one year after the date of the annual report is realistic and achievable. Therefore management is of the opinion that the going concern assumption is justified and consequently the financial statements of the Company have been prepared on a going concern basis. Notwithstanding the above, the Management Board of the Company emphasizes that the above assessments indicate the existence of material uncertainty with regards to the performance of the live games and LEGO® Minifigures Online as well as amounts to be raised as new financing in 2015. Therefore, the actual performance of the Company may deviate significantly from the projections, which may cast significant doubt on the entity's ability to continue as a going concern. The Management Board will continue to evaluate the projections and the underlying assumptions regarding revenues and costs on a continuous basis and will inform the market of any future pervasive or material changes.

FINANCIAL INSTRUMENTS

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

MAIN DEVELOPMENTS: PRODUCT AND TECHNOLOGY UPDATE

CORPORATE RESTRUCTURING

Following on the restructuring process that started in early 2013, the Company continued to assess regularly its business during 2014.

As part of the 3rd Quarter Report, the company announced that following a strategic review of the business, the Management team initiated a restructuring process with the aim to better align the company's costs to its current and future revenues. The process is still in progress and Funcom's management will continue to review its business on a regular basis, focusing on the net contribution delivered by its live games and managing its investment in new games.

As part of this restructuring process, there was a reduction in force across the Group, a number of employees were made redundant and Funcom's Games Canada transferred its Work-for-hire division to a Canadian company named Nvizzio Creations Inc. The company as a whole is also consolidating all of its development personnel in the Oslo and North Carolina studios. In parallel, Funcom is also analyzing and simplifying its internal structure and processes in order to reduce the high structural costs not related to the development, production, publishing and support of games, Funcom SARL in Luxembourg, Funcom GMBH and Funcom Sales GMBH are in the process of being liquidated. Sweet Robot AS was liquidated and deregistered on December 5, 2014 and Sweet Robot GMBH was liquidated and deregistered on January 5, 2015.

At the end of Q3 2014, Funcom also announced that Ole Schreiner was stepping down from his role of CEO of Funcom and that he would continue to work for the Company in an Operational role. The management was then strengthened and organized around Rui Casais, CTO of the company for the last 11 years and Michel Cassius, member of the Supervisory Board of the Company for the last 8 years. Both were named Managing Directors of Funcom N.V. by the Supervisory Board and approved in their new roles by the December 2014 and January 2015 EGMs. The new management team has the objective to set the company on a clear long-term strategy, to make the business profitable and to reduce its overall complexity. The Company is currently looking for a permanent CEO and CFO who will be based in the Oslo office.

LIVE GAMES

In 2014, like in 2013, the bulk of Funcom's revenues originated from the large-scale MMOs:

Throughout 2014 *The Secret World* received 5 major content updates and the team created several events, which were well received by the players' community. As a result, the game remained the largest contributor to the revenues and bottom line of the Company's results.

The other two Live MMO's, *Age of Conan* and *Anarchy Online* were also updated regularly in 2014. The team created new content and launched special events for the players delivering a more stable player base and revenues compared to 2013.

GAMES IN DEVELOPMENT

The *LEGO® Minifigures Online* game entered its open beta as planned in June 2014 and was officially released on October 1, 2014. The release coincided with the release of a LEGO Minifigures physical toy line which featured 16 new Minifigures, several of which are main characters from the game. In Q4 of 2014 the game was updated with another set of Minifigures, coinciding again with the release of a new physical set of toys. Both sets of physical products contained cross-promotional codes that allows customer to unlock specific content within the game, creating a bridge between the physical and digital world of LEGO Minifigures.

The *LEGO® Minifigures Online* game has been released to market with a free-to-play business model, which is very different from the previously launched titles *Age of Conan* and *The Secret World*. As is typical for free-to-play games, *LEGO® Minifigures Online* is focused on membership benefits, as well as the sale of virtual items and content, and other typical free to play methods of monetizing the game. Therefore, the revenues are expected to build-up gradually throughout the life of the game. At the end of Q3, the Company announced that it will take longer than planned for the *LEGO Minifigures Online* game to reach its internal target of players and revenues.

Since its launch and in addition to adding new content to the game the team has been focused on improving the key performance indicators such as number of users, retention, conversion, and average revenue per user.

OTHER:

During 2014, Funcom Games Canada's work-for-hire division continued to support both the Fashion Week Live game as well as the Pets v/s Monster game. Subsequently, its role in supporting Fashion Week has been transferred to the co-publisher 505 Games, while Pets v/s Monster has now discontinued operations.

In addition to the Live Games, the company also launched

REPORT OF THE MANAGEMENT BOARD

"The Longest Journey" on iOS at the end of the year. Due to the age of the game (it was originally launched in 1999), revenues were small and did not have a significant impact on the total company revenue. However this process strengthened the team's skills in launching games on the Apple App Store and also helped to keep the IP of one of the oldest original Funcom games current.

TECHNOLOGY DEVELOPMENT

In 2014 Funcom continued to upgrade and optimize the *Dreamworld Technology™* game engine, which runs the games. Throughout the year the technology was made to work across several new platforms, allowing for the *LEGO® Minifigures Online* game to launch on PC and be in Beta stage on Mac, iOS as well as Android platforms. The *Dreamworld Technology* also allows for the *LEGO Minifigures Online* game to be played simultaneously across all platforms, a feat that very few companies are able to do and a trend that most multi-platform holders such as Microsoft are strongly supporting.

FUTURE OUTLOOK

The revenue and profit of Funcom depend on the performance of its existing live games and future games, in combination with the cost performance of the company. The Company believes the largest potential value drivers of the Company to be its live games - *Anarchy Online*, *Age of Conan* and *The Secret World* - as well as *LEGO® Minifigures Online*. In addition, the Company believes that the technology platform *Dreamworld Technology™* will continue to provide a competitive edge going forward as it will enable the Company to be cost effective in developing mid-core focused high-quality, cross-platform online games. Predicting revenues from game concepts is inherently uncertain, but the Company believes that a continued focus on smaller initial development budgets (from USD 3 to 6 Million), shorter development time, smaller and more agile development teams and games built around a known brand or other strong intellectual property will over time lead to profitability and growth, even though estimates on individual games are uncertain. *LEGO® Minifigures Online* is the first game that has been developed under this strategy. The long-term goal is to produce titles in parallel releasing more than one game a year. The industry has changed significantly over the past years and it is the Company's goal to align itself with the market, leverage its technology and know-how and adapt its portfolio of products to address the current needs as well as future changes.

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

MARKET DEVELOPMENT

2014 has seen a strengthening of many of the trends that have been developing in the videogame market over the past few years, with increased diversification of games genres and games platforms.

Over the past few years, the launch of new platforms has been contributing to a higher fragmentation of the market both in terms of technology and audiences. Thankfully, the latest generation of consoles from Sony (PS4) and Microsoft (Xbox One) continued to perform well in 2014, dispelling any fears that the high-end gaming market had succumbed to a free-to-play led mobile gaming. Both of these consoles are based on a PC centric architecture, and both have a strong focus on online games and open up for direct publishing on their platforms. Whilst self-publishing and distribution of downloadable content is developing fast on the new consoles, it is still a small proportion of the overall games revenues for these platforms. The Desktop -mainly PC- Games market is still an important part of the overall Games market thanks mainly to the online distribution through services like Steam. The rise of mobile gaming is also continuing as more companies, including Amazon and Google, are investing in new devices and new channels, reaching more customers around the world. Finally, 2014 has seen the release of new "light consoles", that linked to a TV screen provide a cheap accessible solution for casual gaming on TV. Overall, the mobile and console games revenues have strengthened the most in 2014, leading to even more opportunities to make good and solid game experiences across several platforms.

On the business model side, whilst in 2014 free-to-play (F2P) is still seen as the main business model of choice especially for mobile, the market has seen the adoption of other business models and the trend towards a more selective and eclectic approach that started in 2013 continued. There are still major successful F2P games launched, but there are now also more stories and examples of successful games that have adopted a classic premium model, usually with the addition of some extra downloadable content (DLC) to purchase later, increasing the potential revenue per user and extending the life of the product.

During the last year there was also an increased interest in Virtual Reality (VR) as a viable gaming platform, and several major companies have placed bets on various hardware to enable that form of entertainment. One of the most high-profile acquisitions in the sector last year was the purchase of Oculus Rift, the most well known VR headset manufacturer, by Facebook in spring of 2014. It is still too early to see clear commercial winners in this field, but it is more and more likely that VR will become an additional

platform for solid and entertaining gaming experiences in the years to come.

The continued investment the Company has made into the *Dreamworld Technology™* platform follows several of the above trends, allowing us to build, launch and operate online games faster and more cost-efficiently than ever before. The *Dreamworld Technology* has continued to evolve in the area of true cross-platform functionality allowing customers to play the same game on iOS, Android and PC based platforms. It is also becoming more modular to enable support of all new platforms in the future. The features of the *Dreamworld Technology* platform continue to be industry-leading in the area of building, launching and operating online games.

Whilst these product and technology trends are changing the games market, customer acquisition costs have continued to increase across most platforms, especially in the very competitive tablet and smartphone market. This trend is expected to continue for a while, and highlights the need for a smart and effective go-to-market strategy that leverages smart PR, community, marketing and promotional partnerships to launch a game cost-efficiently.

ØKOKRIM CHARGE

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

INTERNAL & EXTERNAL ENVIRONMENT

Funcom recognizes that its key assets are its employees and is committed to maintain a stimulating working environment that offers the opportunity for both personal and professional development. This is also necessary to continue to attract and retain highly qualified employees within the gaming industry. As of December 31, 2014, the group employed 118 employees compared to 140 at the end of 2013. This reduction in force is mainly due to the restructuring of the Company, natural churn with no replacement and the sale of the Work-for-hire division of Funcom Games Canada to NVizzio.

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

SHAREHOLDERS AND CAPITAL

The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will continue to ensure that information is communicated to the market equally and that the information provides an accurate view of the status of the company in all material respects on an ongoing basis. The share capital of Funcom N.V. comprises of one class of ordinary shares. Each share confers the right to cast one vote. At the end of 2014, Funcom N.V. had a share capital of USD 4,724 thousand (2013: USD 3,424 thousand) consisting of 90,444,823 shares with a nominal value of EUR 0.04 per share. There are no restrictions in relation to the transfer of shares in the capital of Funcom N.V. There are 8,030,154 outstanding share options granted to employees and directors in the company at the end of 2014 (2013: 6,724,417).

GENERAL MEETING OF SHAREHOLDERS

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

In order to facilitate registration with the VPS, the shares that are listed on Oslo Stock Exchange are registered in the name of DnB Bank ASA (Funcom's VPS Registrar). The VPS Registrar registers interest in the shares in the VPS (in Norwegian: *depotbevis*). Therefore, not the shares themselves, but the interests in the shares issued by the VPS Registrar are registered in the VPS and are listed on Oslo Stock Exchange. The VPS Registrar is registered as the legal owner of the shares in the shareholders' register that Funcom N.V. maintains pursuant to Dutch law. The VPS Registrar, or its designee, will hold the shares issued to investors as nominee on behalf of each investor. The VPS Registrar provides for the registration of each investor's depositary ownership in the shares in the VPS on the investor's individual VPS account.

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

REPORT OF THE MANAGEMENT BOARD

The shares registered with the VPS are freely transferable, with delivery and settlement through the VPS system. The VPS Registrar or its designee shall only vote the shares it holds, or issue a proxy to vote on such shares, in accordance with each investor's instructions. Funcom N.V. will pay dividends directly to the VPS Registrar, that has undertaken, in turn, to distribute the dividends to the investors in accordance with contractual arrangements on that point. On average less than 30% of the issued share capital of Funcom N.V. is represented at a general meeting, generally represented through proxy.

CORPORATE GOVERNANCE

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

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

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

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

The Management Board and Supervisory Board of Funcom currently consist of men. In the appointment of directors and auditors, job profiles are used in which there is no

gender distinction. Although the current composition of the Board is not diverse, the Management and Supervisory Board seek a more diverse composition. In any future replacement of Directors or Supervisory Board members both men and women are invited to apply. In the final stage of the future selection of candidates, the quality of any candidate will prevail.

DIVIDENDS

Funcom is investing its capital in the development of existing as well as future games and also values the flexibility to be able to pursue strategic opportunities if they should arise. The Company will therefore retain its surplus cash in the Company. Future payments of dividends are not foreseen and will only be possible if the equity and liquidity position allow payment.

APPLICATION OF PROFIT/LOSS

The Management Board does not propose payment of a dividend. Management proposes to appropriate the loss to retained earnings. Total equity after appropriation of the results for 2014 is USD - 2,756 thousand (2013: USD -5,561 thousand).

EVENTS AFTER THE REPORTING PERIOD

After the reporting period there have been subsequent events that are detailed in note 28 in the Notes to the Consolidated Financial Statements in this Annual Report.

MANAGEMENT STATEMENT

The Management Board of Funcom hereby confirms that these financial statements give a true and fair view of the situation as per reporting date and of the course of the business during the year. The significant risks that the Company faces are described in note 24 and 27.

Badhoevedorp, The Netherlands, April 30, 2015

Rui Casais

Michel Cassius



CORPORATE GOVERNANCE - STATEMENTS OF COMPLIANCE



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

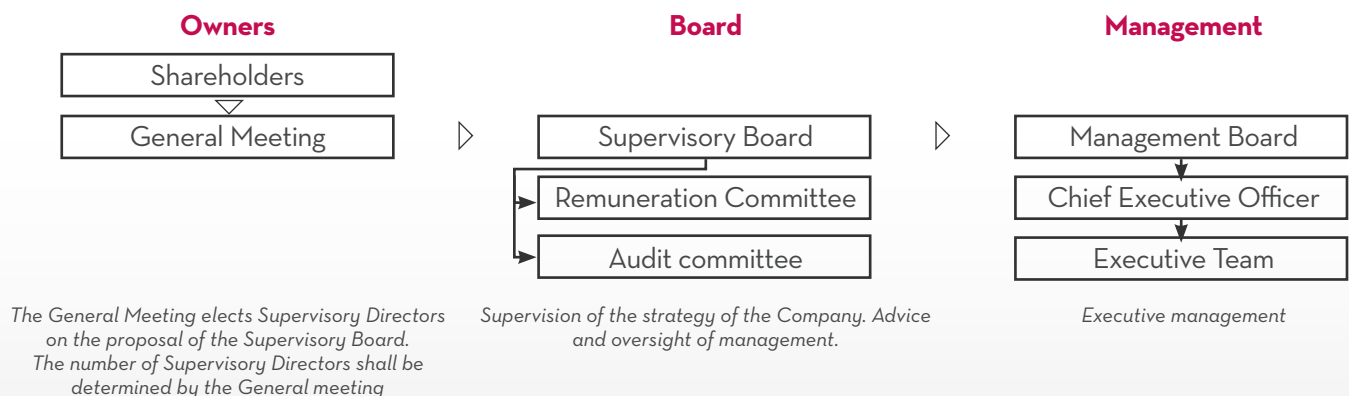
CORPORATE GOVERNANCE IN FUNCOM N.V.:

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

Funcom's key principles of corporate governance have been based upon the Dutch Corporate Governance Code (*De Nederlandse Corporate Governance Code*), that can be found on www.commissiecorporategovernance.nl and the Norwegian Code of Practice for Corporate Governance (*Eierstyring og Selskapsledelse*), that can be found on www.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.

OVERVIEW AND OUTLINE OF FUNCOM'S CORPORATE GOVERNANCE:



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

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

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

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

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

CORPORATE GOVERNANCE - STATEMENTS OF COMPLIANCE

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

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

The Company has drawn up a separate policy for corporate governance, and the Board has decided to follow both the Norwegian Code of Practice for Corporate Governance dated October 30, 2014 and the Dutch Corporate Governance Code of December 2008.

The Company has drawn up its own Corporate Code of Ethics and Value Platform. Compliance with and the follow up of the Code of Ethics have been subject to internal processes. The Company has not yet established separate guidelines for corporate social responsibility as implemented in the code of practice in October 2014, but considers the ethical guidelines to cover most of the relevant topics.

Departures from the recommendation: The Company will consider developing separate guidelines for corporate social responsibility throughout the course of 2015.

2. BUSINESS

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

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

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

Departures from the recommendation: None

3. EQUITY AND DIVIDENDS

EQUITY

The equity of the Company improved from USD -5,561 thousand at the end of 2013 to USD -2,756 thousand at the end of 2014. Despite the negative impact of the impairment on intangible assets for an amount of USD 5,760 thousand, the equity increased through the issuance of 15 million new shares for USD 5,550 thousand following the exercise of 15 million warrants by KGJI and the issuance of 7.3 million new shares following the drawdown of USD 4,479 thousand on the equity facility with YA Global Masters. Funcom also issued 1.6 million new shares through its stock

option program. The new convertible loan increased the equity by a further USD 1,056 thousand, representing the equity component of the financial instrument. It is considered that the revenue potential of the current and future games as well as the continuation of the cost saving measures that started in 4Q12 will improve the profitability of the Company and will lead to a further increase of the equity position. The company also continues to evaluate the current and potential sources of financing, such as the existing equity facility as well as other opportunities of raising capital via financial arrangements including equity which could also lead to an increase of equity.

DIVIDEND POLICY

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

MANDATES GRANTED TO THE BOARD OF DIRECTORS :

Mandates granted to the board of Directors concerning the issued capital or treasury shares are restricted to defined purposes and limited in time to the next AGM.

Departures from the recommendation: None

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

CLASS OF SHARES

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

TRANSACTIONS BETWEEN RELATED PARTIES

Funcom's Supervisory Board is committed to treating all the Company's shareholders equally. In 2014, there were no transactions between the Company and its shareholders, Supervisory Board Members, Management Board Members, executives, or those close to them, which might be described as significant transactions, except the ones described in Note 26 in the Notes to the Consolidated Financial Statements. Management Board member Pieter van Tol had an ownership stake in Weidema van Tol, a company used by Funcom for legal counsel and tax advice. In 2014 Funcom also incurred transactions with its largest

shareholder KGJL. The company is controlled by Kristian Gerhard Jebsen Group Ltd. which in turn is controlled by Mr. Hans Peter Jebsen. For details on the transactions, please, refer to Note 26. A company owned by the Chairman of the Supervisory Board provided consulting services to Funcom as described in the Note 26.

The Supervisory Board will pay particular attention to obtaining independent valuations for any material transactions between the Company and its close associates.

The Company has implemented guidelines to ensure that members of the Supervisory Board and the Management Board notify the (Vice-) Chairman of the Supervisory Board if they have any material direct or indirect interest in any transaction entered into by the Company. These guidelines can be found in the Supervisory Board Regulations Article 4.1, and the Articles of Association, Article 13.3. The Supervisory Board Regulations and Management Board regulations can be found at www.funcom.com.

PRE-EMPTION RIGHTS

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

Departures from the recommendation: None

5. FREELY NEGOTIABLE SHARES

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

Departures from the recommendation: None

6. GENERAL MEETINGS

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

NOTIFICATION

The Norwegian Public Companies Act stipulates that at least 2 weeks' notice must be given to call a general meeting. Based

on Dutch law the notification must be given at least 42 days before - not including the date of the meeting. In this respect Funcom follows Dutch law. Notification will be distributed at least 42 days in advance, and posted on the Company's website.

PARTICIPATION

As there is only one material legal shareholder of Funcom N.V., being Funcom N.V.'s VPS Registrar, the company has not implemented the recommendations regarding proxies. Beneficiary shareholders (depotbevis holders) are required to exercise their voting rights and/or be granted the right to attend a general meeting in person through Funcom N.V.'s VPS Registrar (DnB Bank ASA).

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

AGENDA AND EXECUTION

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

Departures from the recommendation:

According to the Articles of Association AGMs in Funcom are to be chaired by the Chairman of the Supervisory Board or the vice-chairman of the Supervisory Board. This is a departure from the recommendation for independent chairing of meetings and will be re-evaluated in the future.

7. NOMINATION COMMITTEE

Departures from the recommendation:

The Company does not have a Nomination Committee, as such a committee is not deemed to be relevant given the Company's current size. 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 BOARD OF DIRECTORS - COMPOSITION AND INDEPENDENCE

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

At the end of 2014, the members of the Supervisory Board are: Gerhard Florin (Chairman), Alain Tascan (Vice-

CORPORATE GOVERNANCE - STATEMENTS OF COMPLIANCE

Chairman), Ole Gladhaug and Magnus Groneng.

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

The members of the Management Board are: Michel Cassius and Rui Casais.

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

Departures from the recommendation:

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

9. THE WORK OF THE BOARD OF DIRECTORS

BOARD RESPONSIBILITIES

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

FINANCIAL REPORTING

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

NOTIFICATION OF MEETINGS AND DISCUSSION OF ITEMS

The Supervisory Board schedules regular meetings and

/ or conference calls each year as agreed in the annual financial calendar. Ordinarily, the Supervisory Board meets twice a year, normally in Badhoevedorp, The Netherlands and in addition holds 6 to 8 conference calls. Additional meetings / or conference calls may be convened on an ad hoc basis.

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

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

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

CONFLICTS OF INTEREST

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

USE OF BOARD COMMITTEES

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

- The Audit Committee has responsibilities related to financial reporting, the independent auditor, internal audits and risk management. In 2014 the Committee consisted of two Supervisory Board Members. The other Supervisory Board Members are entitled to attend if they so desire. Members: Magnus Groneng (Chairman) and Gerhard Florin. In 2014 the Audit Committee had one in-person meeting and one conference call both attended by the Company's Auditor.
- The Remuneration Committee has responsibilities related to developing proposals for the applicable remuneration policies. Members: Alain Tascan (Chairman) and Gerhard Florin (Member). In 2014 the Remuneration Committee had one in-person meeting and several calls including the CEO.

THE BOARD'S SELF-EVALUATION

In December 2014 the Chairman of the Supervisory Board presented an evaluation of the Supervisory Board's duties and working methods. The Supervisory Board's working methods and interaction are discussed on an ongoing basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.

Departures from the recommendation: None.

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Company maintained internal controls and a system for risk management during 2014. Funcom has corporate values and ethical guidelines. The Supervisory Board has been presented with an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

The Supervisory Board Report in the Annual report for 2014 provides an account of the main features of the Company's internal control and risk management systems.

Departures from the recommendation:

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

11. REMUNERATION OF THE BOARD OF DIRECTORS

The General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration is made by the Chairman of the Remuneration Committee. The annual remuneration of the Chairman was fixed at EUR 27,000 (USD 36,075) per annum. The annual remuneration of each other Supervisory Board member was fixed at EUR 18,000 (USD 19,872) (2013: EUR 12,000 for all board members (USD 15,898)) prorated in accordance with the months of service. In 2014, the total remuneration to the Supervisory Board was EUR 92,198 (USD 101,730) (2013: EUR 52,504 (USD 74,104)). EUR 68,893.15 (USD 92,049.44) (2013: EUR 40,504 (USD 55,758)) of the fees for 2014 are outstanding at year end.

Departures from the recommendation:

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

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

12. REMUNERATION OF EXECUTIVE PERSONNEL

GUIDELINES

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

The option program and the allocation of options to the Management Board and Supervisory Board are decided upon by the General meeting. The structure of the incentive system for the other members of corporate executive management is determined by the Supervisory Board and presented to the AGM for information purposes.

Departures from the recommendation:

The allocation of options to executive personnel is 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 normally presents provisional Annual Accounts in February. Complete accounts, the Report from the Supervisory Board and the Annual Report are made available to shareholders and other stakeholders before the end of April. Beyond this, the Company presents its

CORPORATE GOVERNANCE - STATEMENTS OF COMPLIANCE

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 chamber of commerce is: www.kvk.nl and the website of the AFM is: www.afm.nl. All shareholders are treated equally as a matter of course.

OTHER MARKET INFORMATION

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

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

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

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

Departures from the recommendation: None

14. TAKEOVERS

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

The Management Board will not seek to hinder or obstruct take-over bids for the Company's activities or shares. Any agreement with a bidder that acts to limit the company's ability to arrange other bids for the company's shares will only be entered into where it is self-evident that such an agreement is in the common interest of the company and its shareholders. If an offer is made for the Company's shares, the Management Board will arrange for a valuation from an independent expert, and the Company's Supervisory Board will issue a statement making a recommendation as to whether shareholders should or should not accept the offer.

Departures from the recommendation: None.

15. AUDITOR

THE AUDITOR'S RELATIONSHIP WITH THE BOARD

An outline of the work planned by the auditor is presented for the audit committee on an annual basis.

The Chairman of the Audit Committee conducts a separate discussion with the auditor and management prior to the Supervisory Board's discussion of the financial statements. The auditor is always present or participates in a conference call during the Supervisory Board's discussions of the annual accounts. In that connection, the Supervisory Board is briefed on the financial statements and items of special concern to the auditor, including any points of contention between the auditor and management. The Supervisory Board arranges annual meetings and / or conference calls with the auditor to discuss a report from the auditor that addresses the Company's accounting principles, risk areas and internal control routines. At least one meeting / conference call a year will be held between the auditor and the representatives from the Supervisory Board without the presence of the CEO or other executive managers.

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

THE AUDITOR'S RELATIONSHIP TO MANAGEMENT

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

Departures from the recommendation: None.

STATEMENT OF COMPLIANCE WITH THE DUTCH CORPORATE GOVERNANCE CODE

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

- **Provision II.2.4:** The options become exercisable before the lapse of the three year time period set out in the Dutch Corporate Governance Code. Funcom has an option program for the members of the Management Board where one third of the options vest each year during three years following the grant date. The options are in principle only vested if the member of the Management Board is still employed with Funcom on the date that the options vest. The allocation of options to members of the Management Board is not made specifically dependent on the realization of certain targets that are determined in advance. The allocation of options to the members of the Management Board – as part of their remuneration – is subject to the approval of the General Meeting of Shareholders.
- **Provision II.2.6:** The exercise price for all options is the average volume weighted price on the Oslo Stock Exchange on the five trading days preceding and the five trading days following the date when the options are granted.
- **Provision II.2.10:** The allocation of options to members of the Management Board is not made specifically dependent on the realization of certain targets that are determined in advance. The Supervisory Board in principle does not have the right to make adjustments to the value of the options granted to members of the Management Board.
- **Provision II.2.11:** The Supervisory Board in principle does not have the right to cancel the options, or other variable components of the remuneration of the members of the Management Board.
- **Provision II.2.12, 2.13 and 2.15:** A remuneration report is not made public on the website of Funcom. The Supervisory Board is of the opinion that the information suggested to be included can be obtained in general terms from the annual report.
- **Provision II.2.14:** Funcom has in the past not published details of the contracts concluded with the members of the Management Board. The Supervisory Board is of the opinion that most of the information contained in such contracts can be obtained in general terms from the annual report.
- **Provision III.2.1 and III.2.2f:** Two of the members of the Supervisory Board (Mr. Gladhaug and Mr. Groneng) are not considered independent since Mr. Gladhaug is employed by Kristian Gerhard Jebsen Group Ltd. (KGJG) who in turn controls Kristian Gerhard Jebsen Investments S.A. (KGJI) - Funcom's main shareholder who holds more than 10% of the shares of the Company and Mr. Groneng is employed by Jebsen Asset Management AS - also part

of the Jebsen Group. However the other two members of the Supervisory Board are considered independent within the meaning of the best practice provision III.2.2.

- **Provision III.3.6:** Funcom N.V. has not developed a retirement schedule and made it generally available, as this could be viewed as a signal of major shifts in ownership relating to key shareholders in Funcom N.V.
- **Provision III.5.14:** Funcom N.V. has decided not to establish a Selection & Appointment Committee. The Supervisory Board has taken these tasks upon itself. The Company has established an Audit Committee and a Remuneration Committee.
- **Provision III.6.4:** Funcom N.V. hold a convertible bond, convertible loan and working capital loan from its main shareholder KGJI. KGJI is controlled by KGJG who also employ two of the Supervisory Board members. The agreements were approved unanimously by the Supervisory Board and therefore it is considered that Provision III.6.4 has been properly observed. Further the calculation and assumptions used in these agreements were determined pursuant to third party recommendations for an arm's length transaction.
- **Provision III.7.1:** Funcom N.V. has reserved the right to grant options to members of the Supervisory Board. Funcom N.V. views share options as an important tool for remuneration of the members of the Supervisory Board, e.g., to enable a board composition, which reflects the global nature of its business. Reference is made to note 17 for further details.
- **Provision IV.3.10:** The voting results of the general meeting are communicated on the website of the Oslo Stock Exchange and on the website of Funcom on the day of the general meeting. The minutes of a general meeting are posted on the website of Funcom shortly thereafter. Votes at general meetings are in principle cast through proxy holders based on voting instructions from Funcom's VPS Registrar and the outcome of voting is limited to those clear voting instructions. As a result hereof shareholders are not provided a period for commenting on draft minutes.
- **Provision IV.3.13:** Funcom will continue to evaluate the need for a policy on bilateral contracts with the shareholders.
- **Provision V.2.1:** The auditor is always on standby to attend the Annual General Meeting depending on shareholder attendance.
- **Provision V.3:** Funcom N.V. has not assigned a specific internal auditor. The audit committee will continue to review whether an internal auditor will be engaged going forward.

RESPONSIBILITY STATEMENT



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

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

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

- The annual financial statements of 2014 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies whose financial information it consolidates; and
- The Report of the Management Board gives a true and fair view of the position as per December 31, 2014, the development during 2014 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

Badhoevedorp, April 30, 2015

Rui Casais
Managing Director

Michel Cassius
Managing Director

CORPORATE GOVERNANCE DECLARATION

This declaration is in accordance with article 2a of the decree on additional requirements for annual reports as amended on January 1, 2010 ("Vaststellingsbesluit nadere voorschriften inhoud jaarverslag" (hereinafter the 'Decree'). For the statements in this declaration as stipulated in articles 3, 3a and 3b of the Decree reference is made to the relevant pages in the Annual Report 2014. 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 Supervisory Board report.
- the statement about the functioning of the General Meeting of Shareholders and the most important powers thereof as well as the rights of shareholders and how these may be executed, as described in the chapter Statement of compliance to the Norwegian Code of practice for corporate

governance and statement of compliance with the Dutch Corporate Governance and the investor relations policy.

- the statement regarding the composition and functioning of the Board of Management.
- the statement relating to the composition and functioning of the Supervisory Board and its Committees, as incorporated in the "Report of the Supervisory Board".
- The provisions of the Norwegian Code of Practice for Corporate Governance largely follow requirements as indicated in the EU take over directive.

Badhoevedorp, April 30, 2015

Rui Casais
Managing Director

Michel Cassius
Managing Director

REPORT OF THE SUPERVISORY BOARD OF DIRECTORS

ANNUAL REPORT

We, the Board of Supervisory Directors of Funcom N.V., hereby present you with the Annual Report for 2014, including the annual financial statements that were drawn up by the Management Board. The annual financial statements have been examined by the external auditors BDO N.V. who intend to issue an unqualified audit opinion with an emphasis on matter paragraph in respect of going concern. 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 Directors from all liability in respect of their supervision of the Management Board. The appropriation of the result for the year as determined by the Supervisory Board, further to a proposal from the Management Board to that end, is presented in the section "Other Information" in this report.

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

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

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

ACTIVITIES

In 2014 the Supervisory Board of Directors held two in-person meetings and eleven conference calls. During the meetings / calls the Company's financial and operational targets, strategy and accompanying risks were discussed. The main focus during the year was on the following topics:

- corporate restructuring that started in the first half of 2013 and continued in 2014 with the objective to make the Company more efficient, profitable and flexible to respond to market trends

- strategy of the Company going forward within the new corporate structure and alignment with industry trends
- financing including loan restructuring and positive impact on the Company's liquidity and equity
- regular assessment of the Company's cash position and opportunities for external funding through equity or debt financing including the utilization of the existing stand-by equity facility
- regular evaluation of the live games performance and the cost structure of the Company and ways to improve net contribution and overall profitability
- updates on the progress of the projects under development (e.g. LEGO Minifigures Online, cross-platform functionality of the Dreamworld Technology, Work-for-Hire contracts).

The Supervisory Board is responsible for supervising the policy pursued by the Management Board and the general course of affairs of the Company and the business enterprises 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 2014 financial year the Supervisory Board has discussed its own functioning, that of its individual members and that of the Remuneration Committee and the Audit Committee. It was concluded that the performance of the Supervisory Board, its individual members, the Remuneration Committee and the Audit Committee, respectively, meet the standards set for that purpose as well as the objectives determined in the beginning of 2014. The Supervisory Board has furthermore discussed the overall composition of the Supervisory Board and competencies of its individual members. The Supervisory Board has in addition discussed the composition and functioning of the Management Board and its individual members. In October 2014, Ole Schreiner and Pieter van Tol, the two members of the Management Board, left the Board. They were replaced by Michel Cassius, previously member of the Supervisory Board, who joined the Management Board in an interim role and Rui Casais, CTO of Funcom. The Supervisory Board has full confidence in the new Management Board's current composition and capabilities of the individual Managing Directors.

In the course of the 2014 financial year the Supervisory Board has also discussed the risks associated with the operation of the business. To that end the Management Board has presented the Supervisory Board with its assessment of the functioning of the Company's internal risk management and control systems. The Supervisory Board is of the opinion that the current risk management and control systems are adequate and that the Management Board has furthermore not suggested any amendments thereto. During the year the Supervisory Board has regularly had discussions with the Management Board regarding corporate strategy.

REQUIRED EXPERTISE AND BACKGROUND OF THE SUPERVISORY BOARD:

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

The Remuneration Committee has presented its annual remuneration report for 2014 to the rest of the Supervisory Board. The established remuneration policy has been followed during the year. There are no planned changes to the remuneration policy. The total remuneration of the Management Board consists of the following elements:

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

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

The Supervisory Board is of the opinion that it is presently constituted in compliance with best practice provision III.2.1 of the Dutch Corporate Governance Code, with the understanding that – as indicated below – only two of its members cannot be considered as independent.

The following professionals served on the Supervisory Board as at year-end 2014:

GERHARD FLORIN, CHAIRMAN OF THE SUPERVISORY BOARD

(born 1959, male, German, 2nd term, member since June 27, 2011)

Dr. Florin presently works as an independent contractor. In that capacity he currently serves as Chairman of the Board

for King.com based in London. He is also a Board member for InnoGames based in Hamburg; and Kobojo based in Paris. From 2006 to 2010 Dr. Florin served as an Executive Vice President and General Manager of Publishing of Electronic Arts Inc., being responsible for their worldwide publishing business. From 1996 to 2006, Dr. Florin held various positions in Electronic Arts in Germany and UK. Prior to that he worked at BMG, the global music division of Bertelsmann AG, and served as a Consultant of McKinsey. Dr. Florin holds Master's and Ph.D. degrees in Economics from the University of Augsburg, Germany. Dr. Florin holds 400,000 share options in the company and 0 shares.

ALAIN TASCAN, VICE-CHAIRMAN OF THE SUPERVISORY BOARD

(born 1967, male, Canadian, 1st term, member since June 27, 2012)

Mr. Tascan presently works as an entrepreneur in the multimedia and gaming industry. Mr. Tascan was a co-founder of Ubisoft in Montreal and a founder of EA Montreal, which he managed for seven years. He also created Ubisoft's licensing group that partners with the major Hollywood studios. Previously, Mr. Tascan also held executive positions in the media industry in France at companies such as Radio France International and Telerama. Currently, Mr. Tascan works as an entrepreneur in the multimedia and gaming industry. Mr. Tascan holds a Master degree in Economics from the University of Nice-Sophia Antipolis and a post-graduate degree in cultural management from the Institut Supérieur de Management Culturel de Paris. Mr. Tascan holds 150,000 share options in the company and 0 shares.

MICHEL CASSIUS,

(born 1957, male, French, 4th term, member since November 30, 2006)

Mr. Cassius is co-founder and Director of YoYo Games Ltd, a startup company that launched www.yoyogames.com in 2007, a user generated casual gaming site. YoYo Games was acquired by Playtech at the beginning of 2015. In the past, Mr. Cassius has served as the European Managing Director of Fun Technologies and as Senior Director of Microsoft's Xbox business in EMEA where he managed the publishing and Xbox Live businesses and launched the Xbox 360. He previously spent seven years at Electronic Arts, where he led EA.com, Electronic Art's online gaming business in Europe and launched Ultima Online, one of the first MMOG's in Europe. Mr. Cassius holds 15,034 shares and 450,000 share options in the Company. On October 30, 2014, Mr. Cassius stepped down from its function of member of the Supervisory Board and Chairman of the Audit Committee, to take an interim Managing Director role in Funcom, strengthening the management of the Company and with the objective to review the business, align the costs to the current revenues, help define its strategy and help the Supervisory Board find a new CEO.

REPORT OF THE SUPERVISORY BOARD OF DIRECTORS

OLE GLADHAUG

(born 1954, male, Norwegian, 1st term, member since April 24, 2013)

Mr. Gladhaug has held senior executive positions within the shipping, oil services, banking and asset management industries. Prior to joining the Kristian Gerhard Jebsen Group (KGJG), Mr. Gladhaug served 7 years as CFO of Smedvig ASA (now part of Seadrill). Mr. Gladhaug joined KGJG in 2002 as CFO and member of the Group's executive team, and is now Executive Vice President in the Group and Chairman of its subsidiary Jebsen Asset Management. Mr. Gladhaug has served as a non-executive director on a number of boards within banking, insurance, asset management and other industries. He holds a business and administration degree from the Norwegian School of Economics and a political science degree from the University of Bergen. Mr. Gladhaug holds 150,000 share options and 0 shares in the Company. Gladhaug is not viewed as independent since he is employed by KGJG, a company controlled by Mr. H.P. Jebsen, the main shareholder of Funcom. N.V.

MAGNUS GRØNENG

(born 1981, male, Norwegian, 1st term, member since April 24, 2013)

Mr. Grøneng has background as management consultant in McKinsey & Company. Prior to joining Jebsen Asset Management (subsidiary of the Kristian Gerhard Jebsen Group), he served as Business Development Manager in Kebony ASA, a Norwegian growth company. Mr. Grøneng holds a MSc degree from the Norwegian University of Science and Technology and the University of Karlsruhe in Germany. Mr. Grøneng holds 400 shares in the Company and 150,000 share options. Mr. Grøneng is not viewed as independent since he is employed by a subsidiary of KGJG, a company controlled by Mr. H.P. Jebsen, the main shareholder of Funcom. N.V.

The Supervisory Board has a Remuneration Committee and an Audit Committee. The Remuneration Committee consists of Mr. Tascan (chairman) and Mr. Florin (member) and their work in 2013 focused on the remuneration of the Management Board and the allocation of options. The Audit Committee consists of Mr. Grøneng (chairman), in replacement of Mr. Cassius and Mr. Florin (member) in replacement of Mr. Grøneng. The work of the Audit Committee in 2014 focused on the accounting policies, risk management and control as well as supervision of the preparation of financials.

The Management Board and Supervisory Board of Funcom currently consist of men. In the appointment of directors and auditors, job profiles are used in which there is no gender distinction. Although the current composition of the Board is not diverse, Management and Supervisory

Board actively see a more diverse composition. In a future replacement of directors or supervisory board candidates, the quality of any candidate will prevail.

Badhoevedorp, The Netherlands, April 30, 2015

The Supervisory Board of Directors in Funcom N.V.

Gerhard Florin, Chairman

Alain Tascan, Vice-Chairman

Ole Gladhaug

Magnus Grøneng



CONSOLIDATED FINANCIAL STATEMENTS:

FUNCOM N.V.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31

IN THOUSANDS OF US DOLLARS	NOTE	2014	2013
Continuing operations			
Revenue	4,5	12 593	21 409
Personnel expenses	6,17	-7 253	-8 123
General and administrative expenses	7	-4 663	-6 398
Depreciation, amortization and impairment losses	11,12	-7 445	-9 912
Other operating expenses	8	-1 349	-1 857
Operating expenses		-20 710	-26 289
OPERATING RESULT		-8 117	-4 880
Share of result from equity-accounted entities	20	-72	-135
Finance income	9	1 396	3 184
Finance expenses	9	-1 977	-2 549
Result before income tax		-8 770	-4 380
Income tax (expense) / income	10	9	-158
Result from continuing operations		-8 761	-4 538
RESULT FOR THE PERIOD		-8 761	-4 538
Other comprehensive income			
Items that may be reclassified subsequently through profit or loss			
Exchange differences on translating foreign operations		6 738	2 214
Exchange differences on intercompany loans part of net investment in a foreign entity		-8 070	-4 984
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		-1 332	-2 770
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-10 093	-7 308

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

IN THOUSANDS OF US DOLLARS	NOTE	2014	2013
Result for the period attributable to:			
Equity holders of Funcom N.V.		-8 761	-4 538
		<u>-8 761</u>	<u>-4 538</u>
Total comprehensive income attributable to:			
Equity holders of Funcom N.V.		-10 093	-7 308
		<u>-10 093</u>	<u>-7 308</u>
Earnings per share *			
From continuing operations			
Basic earnings per share (US dollars)	22	(0,11)	(0,07)
Diluted earnings per share (US dollars)		(0,11)	(0,07)

* Based on result for the period

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

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

IN THOUSANDS OF US DOLLARS	NOTE	2014	2013
ASSETS			
Non-current assets			
Intangible assets	4.11	7 380	9 305
Equipment	12	253	544
Investments in equity-accounted entities	20	195	306
Long term receivables	24	20	19
Total non-current assets		<u>7 848</u>	<u>10 174</u>
Current assets			
Trade receivables	13,24	1 225	2 195
Prepayments and other receivables	14,24	1 160	4 590
Income tax receivable	10		31
Cash and cash equivalents	15	3 705	2 582
Total current assets		<u>6 090</u>	<u>9 398</u>
TOTAL ASSETS		<u>13 938</u>	<u>19 572</u>

CONSOLIDATED FINANCIAL STATEMENTS:

FUNCOM N.V.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

IN THOUSANDS OF US DOLLARS	NOTE	2014	2013
EQUITY AND LIABILITIES			
Equity			
Share capital	16	4 724	3 424
Reserves	16	157 199	146 933
Retained earnings (Accumulated deficit)	16	-164 679	-155 918
Total equity		-2 756	-5 561
Non-current liabilities			
Loans and borrowings	24,25	7 081	12 044
Deferred tax liabilities	10	20	67
Total non-current liabilities		7 101	12 111
Current liabilities			
Trade payables	24	440	483
Deferred income	18	1 756	3 873
Income tax liability	10	34	
Loans and borrowings	24	5 777	7 137
Other short term liabilities	19	1 586	1 529
Total current liabilities		9 593	13 022
Total liabilities		16 694	25 133
TOTAL EQUITY AND LIABILITIES		13 938	19 572

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

FUNCOM N.V.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

IN THOUSANDS OF US DOLLARS	NOTE	2014	2013
Cash flows from operating activities			
Profit (loss) before income tax		-8 770	-4 380
Adjustments for:			
Depreciation, amortization and impairment losses	11,12	7 445	9 912
(Gain) / loss on sale of equipment			
Share-based payments	6,16,17	1 228	491
Share of result from equity-accounted entities	20	72	135
Interest income/expense		698	1 805
Effect of exchange rate fluctuations		-97	-569
Change in provision	18	101	-29
Change in trade and other receivables		3 272	2 996
Change in trade payables		-20	51
Change in other current assets and liabilities		-3 018	-8 137
Cash generated from operations		911	2 276
Interest received		35	47
Interest paid		-620	-1 322
Income tax and other taxes paid		-45	-74
<i>Net cash from operating activities</i>		281	928
Cash flows from investing activities			
Purchase of equipment	12	263	-103
Investment in intangible assets	11	-5 423	-5 383
Loan from a joint-venture		764	416
<i>Net cash used in investing activities</i>		-4 397	-5 070
Cash flows from financing activities			
Net proceeds from issue of share capital	16	11 199	
Proceeds from borrowings	24	2 500	5 211
Repayment of borrowings	24	-7 167	-4 269
<i>Net cash from financing activities</i>		6 532	943
Net increase in cash and cash equivalents		2 417	-3 199
Effect of exchange rate fluctuations		-1 294	-2 266
Cash and cash equivalents at beginning of period	24	2 582	8 048
CASH AND CASH EQUIVALENTS AT END OF PERIOD	24	3 705	2 582

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

CONSOLIDATED FINANCIAL STATEMENTS:

FUNCOM N.V.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31

	SHARE CAPITAL	SHARE PREMIUM	EQUITY-SETTLED EMPLOYEE BENEFITS RESERVE	TRANSLATION RESERVE	WARRANTS AND CONVERSION RIGHTS RESERVE	RETAINED EARNINGS	ATTRIBUTABLE TO OWNERS OF THE PARENT
<i>In thousands of US dollars</i>							
EQUITY AS AT JANUARY 1, 2013	3 424	142 016	4 450	135	2 610	-151 380	1 255
Profit or loss for the year						-4 538	-4 538
Exchange differences on translating foreign operations				2 214			2 214
Exchange differences on intercompany loans part of net investment in a foreign entity				-4 984			-4 984
Other comprehensive income for the year				-2 770			-2 770
Total comprehensive income for the year				-2 770		-4 538	-7 308
Share-based payments			491				491
Issued share capital							
Reclassification of warrants and convertible bonds equity elements							
Other							
EQUITY AS AT DECEMBER 31, 2013	3 424	142 016	4 941	-2 635	2 610	-155 918	-5 561
Equity as at January 1, 2014:	3 424	142 016	4 941	-2 635	2 610	-155 918	-5 561
Profit or loss for the year						-8 761	-8 761
Exchange differences on translating foreign operations				6 738			6 738
Exchange differences on intercompany loans part of net investment in a foreign entity				-8 070			-8 069
Other comprehensive income for the year				-1 332			-1 331
Total comprehensive income for the year				-1 332		-8 761	-10 093
Share-based payments			1 228				1 228
Drawdowns on standby equity facility	388	4 091					4 479
Exercise of warrants	823	4 727					5 550
Exercise of employee options	88	497					585
Equity portion of new convertible loan			1 056				1 056
Reclassification of warrants and convertible bonds equity element		1 850			-1 850		
EQUITY AS AT DECEMBER 31, 2014	4 723	153 181	7 225	-3 967	760	-164 679	-2 756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Funcom N.V. (or the “Company”) is a limited liability company registered in The Netherlands. The Company is incorporated in Katwijk, The Netherlands. The Group's head office is in Keplerstraat 34, Badhoevedorp 1171 CD The Netherlands. The Company is listed on the Oslo Stock Exchange under the ticker “FUNCOM”.

The consolidated financial statements of the Company as at and for the year ended December 31, 2014, comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

The consolidated financial statements were authorized for issue by the Supervisory Board on April 29, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Going concern assessment

The Management Board upon preparing and finalizing the 2014 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of the annual report.

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

- total Equity of the Company increased from USD -5,561 thousand at the end of 2013 to USD -2,756 thousand at the end of 2014 mainly as a result of a drawdowns on the equity facility with YA Global Masters and the exercise of warrants as part of an agreement with KGJ Investments.
- KGJ Investments has confirmed that it is willing to continue to support the Company by deferring the maturity of the USD 3,950 thousand working capital loan from January 31, 2016 to the earlier of June 30 2016 or the 2016 AGM. KGJ also confirmed that it is willing to defer the maturity of the USD 6,200 thousand convertible bond from December 22, 2015 to the earlier of June 30, 2016 or the 2016 AGM
- the financial result of the Company in 2014 reports slightly declining revenues from existing games and decreased operating costs due to internal reorganization

Notwithstanding the above, the Management Board of the Company emphasizes that the actual performance of the Company is largely affected by its ability to generate sufficient cash inflows from both sales and new financing. Given the dependency on the positive outcome of these factors there is a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Overall, based on the outcome of this assessment, management is of the opinion that the going concern assumption is justified and consequently the financial statements of the Company have been prepared on a going concern basis. Notwithstanding their belief and confidence that Funcom will be able to continue as a going concern, the Management Board emphasizes that the actual cash flows for various reasons may ultimately deviate from the projections in which case the going concern of the Company may be at risk.

2.2 Basis of preparation

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

STATEMENT OF COMPLIANCE

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

CONSOLIDATED FINANCIAL STATEMENTS:

PRESENTATION AND FUNCTIONAL CURRENCY

The consolidated financial statements are presented in US dollars (USD), which is the Company's functional currency, rounded to thousands. It is expected that US dollars will remain as the main currency in the Group's economic environment, due to a majority of US dollars revenues. In 2013 the functional currency of one of the Company's subsidiaries changed from Canadian dollar to Norwegian krone. The subsidiary's main cash expenditures are related to game development (labor and overhead) and after the downsizing of the Canadian studio in 2013 the currency that mainly influences those expenditures became the Norwegian krone. The change in functional currency was accounted for prospectively using the exchange rate at the time of change.

BASIS OF MEASUREMENT

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

ESTIMATES AND JUDGMENTS

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the

revision and future periods if the revision affects both current and future periods.

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

ACCOUNTING POLICIES

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

The Group has applied the amendments to IFRS 10, IFRS 12 and IFRS 27 for the first time in the current year. The amendments made to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with investment management services;
- Commit to its investors that its business purpose is

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

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

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 10	Consolidated Financial Statements	May 2011	January 1, 2013
IFRS 11	Joint Arrangements	June 2011	July 1, 2012
IFRS 12	Disclosure of Interests in Other Entities	June 2011	January 1, 2013
Amendments to IFRS 10, IFRS 12 and IAS 27	Amendments for investment entities	December 2011	January 1, 2013
IAS 27 (as revised in 2011)	Separate Financial Statements	March 2012	January 1, 2013
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures	May 2012	January 1, 2013

Continue

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	May 2011	January 1, 2013
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	June 2011	July 1, 2012
Amendments to IAS 39	Novations of Derivatives and Continuation for Hedge Accounting	June 2011	January 1, 2013
IFRIC 21	Levies	December 2011	January 1, 2013

At the date of authorisation of these financial statements, the following Standards and Interpretations had been issued by the IASB but were not effective for the financial year ended December 31, 2014.

Management anticipates that these Standards will be adopted in the Group's financial statements for the period beginning January 1, 2015 or later. Effective dates are as applicable for IFRSs as adopted by the European Union as these in some cases may deviate from the effective dates as issued by the IASB. Management considers that the impact of the adoption of the majority of these new and revised/amended Standards and Interpretations will not have material effects on the financial reporting. The effects of IFRS 9 and IFRS 15 have not yet been assessed by management. Standards and Interpretations that are clearly not relevant for the Group's financial statements have not been included in the below schedule.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendments to IAS 19 ¹	<i>Defined Benefit Plans: Employee Contributions</i>	November 2013	July 1, 2014
Annual improvements ¹	<i>Annual improvements to IFRSs 2010-2012 cycle</i>	December 2013	July 1, 2014
Annual improvements ¹	<i>Annual improvements to IFRSs 2011-2013 cycle</i>	December 2013	July 1, 2014
Annual improvements ¹	<i>Annual improvements to IFRSs 2012-2014 cycle</i>	September 2014	January 1, 2016
IFRS 14 ¹	<i>Regulatory Deferral Accounts</i>	January 2014	January 1, 2016
IFRS 9	<i>Financial Instruments</i>	July 2014	January 1, 2018
IFRS 15 ¹	<i>Revenue from Contracts with Customers</i>	May 2014	January 1, 2017
Amendments to IFRS 10 and IAS 28 ¹	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	September 2014	January 1, 2016
Amendments to IAS 27 ¹	<i>Equity Method in Separate Financial Statements</i>	August 2014	January 1, 2016
Amendments to IAS 16 and IAS 41 ¹	<i>Bearer Plants</i>	June 2014	January 1, 2016
Amendments to IAS 16 and IAS 38 ¹	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	May 2014	January 1, 2016
Amendments to IFRS 11 ¹	<i>Accounting for Acquisitions of Interests in Joint Operations</i>	May 2014	January 1, 2016

2.3 Basis of consolidation

SUBSIDIARIES

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date the control effectively commences until the date control ceases.

The purchase method is applied when accounting for business combinations.

CONSOLIDATED FINANCIAL STATEMENTS:

INTER-COMPANY TRANSACTIONS

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

2.4 Foreign currency

FOREIGN CURRENCY TRANSACTIONS

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

FOREIGN OPERATIONS

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

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

2.5 Income recognition

REVENUE FROM OPERATIONS

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

Revenue is recognized when it is probable that the economic benefits of a transaction will flow to the entity,

the revenue can be measured reliably and the associated costs are identified and can be measured reliably. Revenue is measured at the fair value of consideration received or receivable, net of value added tax and discounts.

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

Per copy sales of new games, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated customer life. Revenues from sales of in-game items / micro-transactions and points are recognized at the time of sale. A provision for expected returns and price protection arrangements / discounts is charged against revenue to the extent Funcom has a legal or constructive obligation for such arrangements.

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

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

Revenue from work-for hire contracts is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the outcome of a transaction can be estimated reliably (e.g. the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; and the costs incurred for the transaction and the costs to

complete the transaction can be measured reliably). When the outcome of the transaction involving the rendering of services cannot be estimated reliably, the revenue is recognized only to the extent of the expenses recognized that are recoverable.

GOVERNMENT GRANTS

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

FINANCE INCOME

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

2.6 Expenses

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

OPERATING LEASE PAYMENTS

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

FINANCE EXPENSES

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

2.7 Income tax

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

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

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax/tax assets are calculated on all taxable temporary differences, with the exception of:

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

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

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

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

2.8 Intangible assets

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS:

GOODWILL

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

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

RESEARCH AND DEVELOPMENT

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

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

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

When all the above criteria are met, subsequent costs relating to development will be capitalized. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

Development costs are amortized from the date that the assets are available for use, normally over 5 years. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use.

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

TECHNOLOGY

Technology acquired by the Group is stated at cost less accumulated amortization and impairment losses. Amortization is recognized in the Statement of Comprehensive Income on

a straight-line basis over the estimated useful lives, normally 5 years.

PATENTS AND LICENSES

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

SOFTWARE

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

2.9 Equipment

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

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

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

SUBSEQUENT COSTS

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

DEPRECIATION

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

Computers	3 years
Office equipment	5 years

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

FINANCIAL LEASES

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

2.10 Non-current assets held for sale

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

2.11 Financial instruments

The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant positions in other currencies than US dollars, for example Canadian dollar and the Norwegian kroner. The Group evaluates its currency risk on an ongoing basis, see note 25. The Group does not invest in equity or debt securities.

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

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

2.12 Investments in equity-accounted entities

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

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

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

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

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

2.13 Trade receivables and other receivables

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

2.14 Cash and cash equivalents

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

2.15 Impairment

FINANCIAL ASSETS

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The

CONSOLIDATED FINANCIAL STATEMENTS:

carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited the Statement of Comprehensive Income.

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

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

NON-FINANCIAL ASSETS

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

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the profit and loss statement. Impairment losses recognized

in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

2.16 Equity

SHARE CAPITAL

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

REPURCHASE OF SHARE CAPITAL (TREASURY SHARES)

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

DIVIDENDS

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

2.17 Employee benefits

DEFINED CONTRIBUTION PLAN

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

DEFINED BENEFIT PLANS

The Group does not have any defined benefit plans.

PROFIT-SHARING AND BONUS PLANS

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

SHARE-BASED PAYMENT TRANSACTIONS

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

2.18 Loans and borrowings

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

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

Convertible bonds that may be converted into common

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

2.19 Provisions

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

2.20 Trade and other payables

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

2.21 Contingent liabilities and assets

Contingent liabilities are:

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

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

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

2.22 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

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

2.23 Segments

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

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

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

3. ACCOUNTING ESTIMATES, JUDGMENTS AND ESTIMATION UNCERTAINTY

ACCOUNTING ESTIMATES AND JUDGMENTS

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

DEVELOPMENT COSTS AND TECHNOLOGY

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

Intangible assets should be tested for impairment when there is an indicator that the asset may be impaired. The impairment tests include management's estimates and judgments about future cash flows and discount rates applied that could lead to a significant impact on the Group's future results. See note 11 for more information.

USEFUL LIFE OF INTANGIBLE FIXED ASSETS

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

REVENUE RECOGNITION AND PROVISIONS FOR SALES RETURNS

The Group recognizes, as explained in note 2.5, revenue from sale of goods and revenue from license and royalty agreements generally on delivery of the product. The amount is reduced by a provision for subsequent expected returns and price protection arrangements/discounts. The provision for sales returns is based on expected returns of the game at year-end for which the Company may be required to reimburse the distributor. The determination of the amount is based on estimates of the outflow of economic benefits required to settle the obligation and will in addition to uncertainties related to the level of returns also depend on timing of the returns. Actual rates of return and price protection may vary from the estimate.

CLASSIFICATION OF MMORPG TECHNOLOGIES INC. AS A JOINT VENTURE

The shares of MMORPG are owned on a 50/50 basis between Funcom and another party and all shareholder decisions require unanimous consent. The Board consists of 4 directors of which each venturer has nominated two individuals. Moreover, there are restrictions on the transfer of shares and the issue of new shares. There is no contractual agreement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangements. Accordingly, MMORPG is classified as a joint venture of the Group, see note 20 for details.

IMPAIRMENT OF TRADE RECEIVABLES

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

DEFERRED TAX

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

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

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

judgment and the final outcome may differ significantly from the estimate, consequently impacting income tax expense in future periods.

WARRANTS

As of year end the Company has 15,000,000 outstanding warrants classified as equity. The equity component is not subsequently re-measured. The Group used valuation techniques that included inputs that were not based on observable market data to estimate the fair value. See note 25 for further details about the key assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis for these assumptions.

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

4. SEGMENT INFORMATION

The Group reports segment information in accordance with IFRS 8 Operating Segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In 2013 the Company established a mobile and tablet team in the Montreal studio which engages in the development of games for these platforms as well as other games on a work-for-hire basis (e.g. Fashion Week Live - game for Facebook). The activities of the new team generate revenues and expenses for which discrete financial information is available and the operating results are regularly reviewed. Therefore these activities meet the criteria for a reportable operating segment. The reportable operating segments of the group are defined as;

- large-scale MMO games - like The Secret World and Age of Conan
- free-to-play MMO games - which includes the games under the Company's free-to-play game initiative
- mobile and tablet games and other WFH - which includes game development for mobile and tablet platforms and other work-for hire games.

The three segments differ in several and important ways:

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

where the large-scale MMO uses a mixed business model the approach to marketing and launch of the game will be more staged and continuous.

Free to play MMOs typically follow a very different marketing process. The games typically progress through an extended launch period, where online beta-phases are gradually extended. The publisher may make adjustments to the game during these phases and only starts marketing once the game is proven to appeal to customers. PR is less important in the process, and rarely is a large community developed before the launch of the game.

2) Distribution. Most game distribution will be online only, with a possibility of retail distribution in certain markets for the large-scale MMO's. There can be various ways of packaging and presenting the digital clients, with models ranging from pure client sales to premium packages containing a lot of the different elements and benefits available in a free-to-play games, to a pure free-to-play client download.

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

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

5) Payment model. Large-scale MMOs sometimes charge a significant price for the initial game client; at launch, typically around USD 50. Thereafter they typically use free or monthly memberships in addition to an in-game store as revenue models. Free-to-play MMOs are always free-to-play, i.e. no fee for the initial game client. These free-to-play gamers are then up-sold in-game to become customers. Free-to-play games typically use sales of virtual items and content, memberships and possibly advertising as revenue models.

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

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Company does not bear the investment, marketing and operating risks for such games and as a result the revenue potential is based on a cost plus preliminary determined mark-up basis.

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

Impairment charges of USD 5,760 thousand made in 2014 relate to the Large-scale MMOs segment. In 2013 impairment charges of USD 4,200 thousand related to the Large-scale MMOs segment.

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

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

	REVENUE FROM EXTERNAL CUSTOMERS JANUARY - DECEMBER		SEGMENT PROFIT (LOSS)* JANUARY - DECEMBER	
	2014	2013	2014	2013
Large-scale MMO's	11 724	18 540	4 093	9 970
Free-to-play MMO games	333	539	283	271
Mobile and tablet games and other WFH	536	2 330	-385	1 188
Total	12 593	21 409	3 991	11 429
General and administrative expenses			-4 663	-6 398
Depreciation, amortization and impairment charges			-7 445	-9 912
Share of results from equity-accounted entities			-72	-135
Net financial items			-581	635
PROFIT (LOSS) BEFORE TAX (FROM CONTINUING OPERATIONS)			-8 770	-4 380

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

	Large-scale MMO's	Free-to-play MMO's	Mobile, tablet and WFH
Segment assets as at December 31, 2013	9 123	-	
Segment assets as at December 31, 2014	7 257	-	

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

Geographical information

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

IN THOUSANDS OF US DOLLARS	2014		2013	
	REVENUE	NON-CURRENT ASSETS**)	REVENUE	NON-CURRENT ASSETS**)
The Netherlands*)	49			
Switzerland	7,572	7,341	11,893	9,213
Luxembourg	3,722		6,198	
Norway	380	26	619	80
Canada	852	204	2,687	407
USA	6	62		148
Other	12		13	
TOTAL	12,593	7,633	21,409	9,848

*) Country of domicile

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

Revenue is attributed to a country based on the location of the selling entity. In 2014 the royalties from a distributor recognized in revenue amounted to USD 2,224 thousand and represent 18% per cent of total revenue. In 2013 the royalties from a distributor recognized in revenue

amounted to USD 2,918 thousand and represented 14 per cent of total revenue.

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

5. REVENUE

IN THOUSANDS OF US DOLLARS	2014	%	2013	%
Revenues online games	11,423	90,7%	17,888	83,6%
Revenues offline games	231	1,8%	232	1,1%
Work for hire	536	4,3%	2,330	10,9%
Other	403	3,2%	959	4,5%
Total revenue	12,593		21,409	

IN THOUSANDS OF US DOLLARS	2014	%	2013	%
Rendering of services	9,448	75,0%	14,329	66,9%
Royalties	2,206	17,5%	3,791	17,7%
Work for hire	536	4,3%	2,330	10,9%
Other	403	3,2%	959	4,5%
Total revenue	12,593		21,409	

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6. PERSONNEL EXPENSES

IN THOUSANDS OF US DOLLARS	2014	2013
Salaries	5,848	6,228
Social security contributions	393	504
Contributions to defined contribution plans	62	71
Expenses for share option program	381	491
Other personnel expenses	569	829
Total personnel expenses	7,253	8,123

Average number of employees:	2014	2013
Europe	50	47
North America	77	100
Asia	1	21
Total average number of employees	128	168

7. GENERAL AND ADMINISTRATIVE EXPENSES

IN THOUSANDS OF US DOLLARS	2014	2013
Travel and marketing	943	1,196
Consultants	1,435	1,236
Rent of premises and other office costs	1,179	1,290
Royalties	183	858
Investor relations	211	187
IT, hardware and software	431	266
Other	281	1,364
Total operating expenses	4,663	6,398

8. OTHER OPERATING EXPENSES

IN THOUSANDS OF US DOLLARS	2014	2013
Commissions	381	531
Hosting and bandwidth costs for online services	968	1,326
Total operating expenses	1,349	1,857

9. FINANCE INCOME AND EXPENSES

IN THOUSANDS OF US DOLLARS	2014	2013
Interest income	35	47
Net foreign exchange gain	1,086	2,911
Other financial income	275	225
Finance income	1,396	3,184
Interest expense	-2,799	-1,928
Net foreign exchange loss	846	-472
Other financial expenses	-24	-149
Finance expenses	-1,977	-2,549

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

10. INCOME TAX EXPENSE

IN THOUSANDS OF US DOLLARS	2014	2013
Result before income tax	-8,770	-4,380
Tax according to the average tax rate in Switzerland Luxembourg, Canada, USA, Norway and China	866	357
Tax effect of non-deductible expenses	-233	-249
Tax effect of non-taxable income		691
Utilisation of losses carried forward	4	171
Deferred tax asset related to carry forward tax losses not recognised	-628	-1,128
Income tax (expense) / income	9	-158

IN THOUSANDS OF US DOLLARS	2014	2013
Current period	-42	4
Adjustments for prior periods	-42	4
Deferred tax expense		
Origination and reversal of temporary differences	51	-162
Income tax expense from continuing operations	9	-158
Total income tax income (expense)	9	-158

The Group has not recognized any income tax directly in equity. The income tax rate in Norway changed from 28% to 27% with effect from January 1, 2014. Deferred tax has been calculated using the tax rate enacted at the reporting date, i.e. 27% for both periods. Current tax for the Norwegian subsidiaries was calculated based on the applicable rate for 2013, i.e. 28%. Current tax for the Norwegian subsidiaries was calculated based on the rate applicable for 2014 i.e. 27%.

IN THOUSANDS OF US DOLLARS	2014	2013
Deferred tax liability/tax asset		
Deferred tax liability	-20	-67
Deferred tax asset		
Deferred tax asset, net	-20	-67
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	180	276
Provisions	62	-770
Tax losses carried forward	-101	427
Total deferred tax effect of tax increasing temporary differences	141	-67
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	21,462	25,685
Equipment and intangible assets	-429	260
Provisions/receivables		84
Total deferred tax effect of tax reducing temporary differences	21,033	26,029
Deferred tax asset (net) not recognized in the balance sheet:	21,194	26,029
Recognized deferred tax asset, net	-20	-67

Continue

CONSOLIDATED FINANCIAL STATEMENTS:

IN THOUSANDS OF US DOLLARS	2014	2013
Reconciliation of deferred tax asset, net:		
Opening balance	-67	178
Change according to statement of income	44	-162
Exchange differences etc.	3	-83
Deferred tax asset, net, at year-end	-20	-67

The Group has unrecognized tax losses of USD 212,884 thousand as of December 31, 2014 (2013: USD 214,278 thousand) which expire as follows:

In thousands of US dollars

EXPIRE YEAR	2014	2013
2014	230	215
2015	100,418	93,762
2016	3,051	2,849
2017	5,123	4,783
2018	15,521	14,495
2019	50,863	47,494
2020	10,492	10,492
2021	21,116	
2029		
2031		671
2032	508	918
Indefinite	5,562	38,599
Total tax losses	212,884	214,278

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

The Group's tax losses and negative differences between the book value and the value for tax purposes of assets, which form the basis for the deferred tax assets, are primarily located in the Swiss subsidiaries. The management has discussed to which extent the Group will be able to utilize the deferred tax asset. In evaluating the Group's ability to utilize the deferred tax assets, all available positive and negative evidence have been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable

income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies.

It is considered that the revenue potential of the current and future games as well as the cost saving measures undertaken since early 2013 will help revert the Company to profitability. However it is also acknowledged that predicting the performance of the Company's live games and games under development is inherently uncertain and often subject to unexpected shifts in consumers' tastes and interest in entertainment products. Thus the company's performance expectations, even though based on all currently available facts and information cannot be considered convincing evidence that sufficient future tax profit may be available. Since the criteria under IAS 12.35 have not been met the Company did not recognize deferred tax asset for the available tax losses carried forward.

11. INTANGIBLE ASSETS

IN THOUSANDS OF US DOLLARS	DEVELOPMENT COSTS	SOFTWARE	TOTAL
Cost			
Balance at January 1, 2013	119,854	1,378	121,232
Acquisitions, internally developed	6,347		6,347
Other acquisitions		99	99
Disposals			
Government grant	-350		-350
Translation difference		-118	-118
BALANCE AT DECEMBER 31, 2013	125,851	1,359	127,211
Balance at January 1, 2014	125,851	1,359	127,210
Acquisitions, internally developed	5,987		5,987
Other acquisitions		39	39
Disposals			
Government grant	-61		-61
Translation difference		-229	-229
BALANCE AT DECEMBER 31, 2014	131,777	1,169	132,946
Accumulated amortization and impairment losses			
Balance at January 1, 2013	106,329	1,174	107,503
Amortization for the year	6,199	105	6,304
Impairment losses (reversal of losses)	4,200		4,200
Disposals			
Translation difference		-103	-103
BALANCE AT DECEMBER 31, 2013	116,728	1,177	117,905
Accumulated amortization and impairment losses			
Balance at January 1, 2014	116,728	1,177	117,905
Amortization for the year	2,031	68	2,099
Impairment losses (reversal of losses)	5,760		5,760
Disposals		7	7
Translation difference		-205	-205
BALANCE AT DECEMBER 31, 2014	124,519	1,047	125,567
Carrying amount at Jan. 1, 2013	13,525	204	13,729
Carrying amount at Dec. 31, 2013	9,123	182	9,305
Carrying amount at Jan. 1, 2014	9,123	182	9,305
Carrying amount at Dec. 31, 2014	7,258	122	7,380

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

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

In thousands of US dollars

CLASS	2014			2013		
	UNDER DEVELOPMENT	IN USE	TOTAL	UNDER DEVELOPMENT	IN USE	TOTAL
Development costs		7,258	7,258	3,463	5,660	13 525
Software		122	122		182	182
TOTAL		7,380	7,380	3,463	5,842	9,305

CAPITALIZATION OF AMORTIZATION AND DEPRECIATION

The Group capitalized borrowing costs and amortization and depreciation on assets used in development of games as an integral part of the book value of the games. Borrowing costs included in capitalized development costs for 2014 were USD 89 thousand (2013: USD 88 thousand). Amortization and depreciation included in capitalized development costs for 2014 were USD 1,293 thousand (2013: USD 831 thousand).

CALCULATION OF RECOVERABLE AMOUNTS

When calculating the recoverable amount (value in use) from cash generating units the Group uses a discounted 3 years pre-tax cash flow projection, based on the most recent budgets reflecting the latest information that influences the expected performance of the assets. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections using a negative growth rate for subsequent years. For assets that are under development and not yet available for use, the cash flow projections include an estimate of further cash outflows that are expected to be incurred before the asset is ready for use.

The cash flows are discounted using a pre-tax rate of 13.9 per cent for *Age of Conan* (2013: 14 per cent), 13.9 per cent for *The Secret World* (2013: 14 per cent) and 13.9% per cent for *Lego® Minifigures* (2013: 15 per cent). The Dreamworld Technology was allocated to *The Secret World*, *Lego® Minifigures*, and investment in future games based on a (15/20/65) ratio (2013: *The Secret World*, *Lego® Minifigures* and *Age of Conan* based on a 10/85/5 ratio) respectively

when performing the year end impairment test, reflecting the use of the technology in generating cash flows from the games.

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

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

Predicting with high certainty the cash flows from games is difficult. Both the reach of the games and the revenues generated from the games depend to a high degree on the appeal and quality of the games - since they are entertainment products and need to resonate with consumer preferences in addition to being well executed. Management determined budgeted numbers of players based on the actual customer base for the games in operation, market information obtained as well as 3rd party sales estimates, and its own expectations of customer development. This estimate represents management's best estimate, but is subject to a relatively high degree of uncertainty; especially for games not launched and for games to be launched in the free-to-play segment where Funcom has limited experience.

SENSITIVITY ANALYSIS

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

In thousands of US dollars	Increase (decrease) of recoverable amount	
	1 percent increase	1 percent decrease
Cash generating unit		
<i>Age of Conan: Hyborian Adventures</i>	-17	18
<i>The Secret World</i>	-51	53
<i>Lego Minifigures</i>	-54	55

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

In thousands of US dollars	Increase (decrease) of recoverable amount	
	5 percent increase	5 percent decrease
Cash generating unit		
<i>Age of Conan: Hyborian Adventures</i>	64	-64
<i>The Secret World</i>	171	-171
<i>Lego Minifigures</i>	148	-148

This analysis assumes that all other variables remain constant.

RESEARCH AND DEVELOPMENT

In 2014 the Group expensed USD 407 thousand in research and development (2013: USD 322 thousand).

FURTHER INFORMATION ON INTANGIBLE ASSETS THAT ARE MATERIAL TO THE FINANCIAL STATEMENTS**LARGE SCALE MMO AGE OF CONAN: HYBORIAN ADVENTURES**

The massively multiplayer online game *Age of Conan: Hyborian Adventures* takes place in a world based on author Robert E. Howard's classic fantasy hero Conan – a strong brand name on the basis of being one of the most read comic books in the Western World as well as the subject of several books and movies. Funcom acquired as from June 6, 2003 a 10 year exclusive right for the use of the Conan brand for MMO games on all current and future platforms. Later Funcom extended this right until 2023. Since launch Funcom has introduced a new hybrid business model for the game and has released three major content expansions. Most of the game's income comes from its premium Members, but a steady flow of new products to the in-game Item Store contributes significantly to *Age of Conan*'s positive cash flow.

The performance of the game remained stable in 2014 and the impairment test performed at the end of the year demonstrated that the recoverable amount of the cash-generating unit *Age of Conan* exceeds its carrying amount by USD 944 thousand. Due to the high uncertainty in predicting cash flows from games (as explained above) management concluded that the excess of the recoverable amount over the carrying amount might be of a temporary nature rather than a result of an increased asset service potential. This view was supported by the fact that no external or internal favorable effects have taken place (or are expected to take place in the near future) regarding the gaming industry and market or the way the game is used that could indicate that the performance of the assets is or will be better than expected. Therefore, there is no satisfactory indication that the impairment loss recognized in prior periods have decreased and no reversal of impairment loss was recorded in 2014.

The carrying amount of *Age of Conan* is USD 344 thousand on December 31, 2014 (2013: USD 247 thousand). As at December 31, 2014 the accumulated impairment charge for the cash generating unit *Age of Conan*, is USD 24, 700 thousand (2013: USD 24,934 thousand which includes 3% of the impairment losses allocated to the *Dreamworld Technology*). The initial cost at launch of the game was amortized in 2013. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use. *Age of Conan* has been amortized since its launch on May 20, 2008.

CONSOLIDATED FINANCIAL STATEMENTS:

LARGE SCALE MMO THE SECRET WORLD

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

The game was launched on July 3, 2012. Despite of the positive press and gamers' response and feedback prior to launch the sales from the game were much lower than the initial estimates and the scenarios communicated in 2011. As a result, Funcom initiated cost cutting measures in August 2012 and switched to a new, buy-to-play business model for *The Secret World*, which led to a steady influx of new players.

In 2013 *The Secret World* got three big content updates (issues), several special in-game events and continuous supply of in-game shop items, which helped maintaining a healthy player base throughout the year. However, the increased competition led to decrease in sales from membership and micro transactions. Therefore the Company revised its future cash flow projections, which caused the value in use of the game and the underlying technology at year-end to be lower than their net book value. As a result Funcom recognized an impairment loss of USD 1,273 thousand related to the cash generating unit *The Secret World* (2013: USD 4,200 thousand) which includes USD 188 thousand allocated to the underlying version of the *Dreamworld Technology* (2013: USD 200 thousand allocated to the *Dreamworld Technology*).

The carrying amount of *The Secret World* is USD 1,974 thousand on December 31, 2014 (2013: USD 2,519 thousand).

As at December 31, 2014 the accumulated impairment charge for the cash generating unit *The Secret World*, is USD 36,276 thousand (2013: USD 44,306 thousand including 97 % of the *Dreamworld Technology* allocated to the cash generating unit).

The initial cost at launch of the game will be fully amortized in 2017. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use. *The Secret World* has been amortized since its launch on July 3, 2013.

LARGE SCALE MMO LEGO MINIFIGURES

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

Currently in development, the game sets players off on a grand adventure through themed worlds that are built -- brick by brick, piece by piece -- using LEGO® materials. Players will visit locations such as Medieval world, Space world, Pirate world and Mythology world, where they will battle enemies, collect bricks and develop their characters. Funcom and the LEGO Group work together to make the game available to consumers in their online channels. The game will be a prominent part of the LEGO® *Minifigures* online experience which already has millions of unique visitors every month. The Open Beta phase for LEGO® *Minifigures* Online will start in June 2014 while the full launch is scheduled for the autumn of 2014.

The carrying amount of *Lego Minifigures* is USD 2,489 thousand on December 31, 2014 (2013: USD 3,462 thousand). *Lego Minifigures* began amortizing in Q4 2014.

DREAMWORLD TECHNOLOGY

The *Dreamworld Technology* is Funcom's proprietary MMO development technology.

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

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

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

- Flexible game code. Enables reuse of large part of game code for new games, while at the same time providing new features fast and cost-effective.
- Dynamic sound system. World leading system for dynamically adapting audio to player actions and positions, including real-time occlusion, Doppler effects, sound rendering based on rendering, and more.
- Powerful game development software (tools). A suite of very powerful game tools enables designers to make tailored game content quickly and ensures quick iterations of game play development.
- State-of-the-art graphics engine. The MMO optimized graphics rendering and effects offer spectacular and unparalleled realistic world representation.
- Powerful scripting and event creation system to deliver unique and engaging experiences.
- Support of multiple platforms

The carrying amount of the Dreamworld Technology is USD 2,451 thousand on December 31, 2014 (2013: USD 2,894 thousand). The initial cost of the technology was fully amortized in 2013. Improvements and/or additions to the technology are amortized separately over the expected useful lives of these elements of the asset, normally five years. The *DreamWorld Technology* has been amortized since the launch of *Age of Conan* in May 2008. Part of the amortization has been capitalized as development cost for *The Secret World* and *Lego® Minifigures*. In 2014 USD 298 thousand had been capitalized (2013: USD 831 thousand).

Parts of the impairment losses made to *Age of Conan*, *The Secret World* and *Lego Minifigures*- included in the amounts mentioned above for these games - are allocated to *The Dreamworld Technology*. As of December 31, 2014 the accumulated amount of the impairment losses is USD 10,050 thousand (2013: USD 9,350 thousand).

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

CONSOLIDATED FINANCIAL STATEMENTS:

12. EQUIPMENT

IN THOUSANDS OF US DOLLARS	COMPUTERS	FURNITURE	TOTAL
Cost			
Balance at January 1, 2013	10,843	2,429	13,273
Acquisitions	20	87	107
Disposals			
Translation difference	-296	-169	-465
BALANCE AT DECEMBER 31, 2013	10,566	2,347	12,914
Balance at January 1, 2014	10,566	2,347	12,914
Acquisitions	17	12	29
Disposals	-7	-13	-20
Translation difference	-510	-217	-728
BALANCE AT DECEMBER 31, 2014	10,066	2,129	12,195
Accumulated amortization and impairment losses			
Balance at January 1, 2013	10,439	2,024	12,465
Disposals			
Impairment charges			
Depreciation for the year	226	107	333
Translation difference	-277	-148	-425
BALANCE AT DECEMBER 31, 2013	10,387	1,982	12,373
Balance at January 1, 2014	10,387	1,982	12,465
Disposals			
Impairment charges			
Depreciation for the year	147	112	260
Translation difference	-499	-189	-688
BALANCE AT DECEMBER 31, 2014	10,035	1,905	11,945
Carrying amount at Jan. 1, 2013	405	405	810
Carrying amount at Dec. 31, 2013	179	365	544
Carrying amount at Jan. 1, 2014	179	365	544
Carrying amount at Dec. 31, 2014	31	224	253
Method of depreciation	Straight line	Straight line	
Estimated useful lives	3 years	5 years	

13. TRADE RECEIVABLES

IN THOUSANDS OF US DOLLARS	2014	2013
Trade receivables	1,225	2 195
Allowances for doubtful debt	0	0
Trade receivables, net	1,225	2,195

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

14. PREPAYMENTS AND OTHER RECEIVABLES

IN THOUSANDS OF US DOLLARS	2014	2013
Accrued multi-media tax credits and other government grants	883	3112
Receivable from an equity-accounted entity	0	797
Other prepayments	277	681
Total prepayments and other receivables	1,160	4,590

Tax credits receivable represent approximately 90% of the actual amount claimed (USD 3,454 thousand). The Company estimates that there is a very high probability of collecting the full amount claimed based on tax credits collection history. The amount of multimedia tax credits recognized in revenue is USD 782 thousand after capitalizing USD 61 thousand in reduction of intangible assets development costs (2013: USD 779 thousand after capitalizing USD 216 thousand).

15. CASH AND CASH EQUIVALENTS

IN THOUSANDS OF US DOLLARS	2014	2013
Cash at bank and in hand	3,705	2 582
Cash and cash equivalents in the statement of financial position	3,705	2 582
Restricted cash included in Cash at bank and in hand	140	151

In 2014 USD 140 thousand restricted cash (2013: USD 151 thousand) relates to cash at a separate account for tax deducted from salaries.

16. EQUITY*SHARE-CAPITAL AND SHARE PREMIUM*

	2014	2013
Outstanding at January 1	66,496,918	66,496,918
Issued against payment in cash	23,947,905	-
Issued as a result of conversion of bonds (Note 25)	-	-
Outstanding at December 31 - fully paid	90,444,823	66,496,918
Nominal value of the share-capital at December 31 (EUR)	3,617,793	2,659,877

At December 31, 2014, the authorized share capital comprised of 250 million ordinary shares (2013: 250 million). The nominal value of the shares is Euro 0.04. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

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

CONSOLIDATED FINANCIAL STATEMENTS:

Events in 2014:

SHARES:

In January 2014, Funcom issued 316,028 shares in relation to exercise of options. Beginning of May 2014, Funcom issued 378,591 shares in relation to exercise of options. End of May 2014, Funcom issued 908,394 in relation to exercise of options.

In February 2014 KGJ Investments S.A., SICAV-SIF exercised 5,000,000 warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share. In March 2014 KGJ Investments S.A., SICAV-SIF exercised 5,000,000 warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share.

In May 2014 KGJ Investments S.A., SICAV-SIF exercised 5,000,000 warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share

On May 25, 2012 Funcom announced that the Company had entered into a standby equity agreement with YA Global Master. The agreement is an equity financing mechanism where Funcom at its discretion can draw down funds in tranches in exchange for issuing new shares to YA Global Master. During 2014 three drawdowns took place under this agreement and accordingly in April 2014 2,203,846 shares were issued, in July 2,545,454 shares were issued and in December 2,595,592 shares were issued.

OPTIONS:

On June 26, 2014 pursuant to the mandate granted by Funcom General Meeting of Shareholders on 27 June 2013, the Supervisory Board granted 2,530,000 options to employees of the Company to acquire shares in Funcom N.V.

On June 27, 2014 Funcom held its Annual General Meeting where the company authorized 33,000,000 options for issue. The Annual General Meeting also authorized some grants to members of the Supervisory Board, further to which on June 27, 2014 the company issued 100,000 options to members of the Supervisory Board.

On October 30, 2014 the company issued 250,000 options to a Managing Officer further to his appointment as part of the Group's options program.

OTHER:

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

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

TRANSLATION RESERVE

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

DIVIDENDS

The Group did not pay any dividends in 2014.

Events in 2013:

SHARES:

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

OPTIONS:

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

On April 24, 2013, Funcom held an Extraordinary Meeting of Shareholders where, the Company issued 100,000 options to members of the Supervisory Board. Half of the options granted to the members of the Supervisory Board vest annually in the two years following the grant.

The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 24, 2013, the Company issued 3,666,000 options as a part of the Group's options program. With regards to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3, for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 27, 2013, Funcom held its Annual General Meeting where, the Company issued 150,000 options to members of the Supervisory Board and 250,000 options to members of the Management Board.

Half of the options granted to the members of the Supervisory Board vest annually in the two years following the grant.

One-third of the options granted to members of the Management Board vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3, for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made.

The exercise price for all the granted options is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

OTHER:

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

In April 2013, as part of the restructuring of the convertible bonds loan the conversion price was revised to USD 0.37. Thus, the 62 bonds outstanding as of December 31, 2014 can be converted to 16,756,757 shares ordinary shares of Funcom N.V. (2012: 4,525,547 shares). In addition, the interest on the bonds is accrued starting April 25, 2013 until the earlier of conversion or maturity on December 22, 2015 and can be paid in cash or shares at the option of the bondholder. The conversion price with regards to the accrued interest is USD 0.37 (see Note 25 for further details).

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 2014 or 2013. No dividends relating to year 2014 have been proposed.

CONSOLIDATED FINANCIAL STATEMENTS:

17. EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PLANS

The Group has established defined contribution pension plans in some of its subsidiaries. The premium paid relating to these schemes in 2014 was USD 62 thousand (2013: USD 71 thousand).

SHARE BASED PAYMENTS

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

OPTION PROGRAM IN FUNCOM N.V.

The following options have been authorized by the shareholders meeting

Time of authorization	Number of options authorized	Expiry of authorization
May 10, 2005	1 250 000	May 10, 2008
November 30, 2006	1 000 000	November 30, 2008
December 19, 2008	3 000 000	December 19, 2010
May 18, 2010	3 000 000	May 18, 2011
June 27, 2011	8 000 000	AGM 2012
June 27, 2012	10 000 000	AGM 2013
June 27, 2013	15 000 000	AGM 2014
June 27, 2014	33 000 000	AGM 2015
Total number of options authorized	74 250 000	

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



CONSOLIDATED FINANCIAL STATEMENTS:

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

Grant date mm/dd/yyyy	Total grants	Vested in 2008	Vested in 2009	Vested in 2010	Vested in 2011	Vested in 2012	Vested in 2013	Vested in 2014	Vested in 2015	Vested in 2016	Vested in 2017
07-03-01	585 200	195 066	195 067	195 067							
07-06-14	260 000	86 666	86 667	86 667							
08-02-27	433 500		264 917	144 500	24 083						
08-12-19	850 000		333 333	333 333	183 333						
09-03-12	2 088 300			1 218 175	696 100	174 025					
10-02-10	78 500				47 972	26 167	4 361				
10-05-18	321 500				161 347	157 167	2 986				
10-08-01	1 428 000				634 667	476 000	317 333				
10-12-29	150 000				50 000	83 333	16 667				
11-06-27	450 000					241 667	141 667	66 667			
11-08-12	1 768 000					785 778	589 333	392 889			
12-01-12	200 000						81 944	66 667	51 389		
12-06-27	100 000						50 000	50 000			
12-08-24	200 000						88 889	66 667	44 444		
12-09-20	1 934 000						805 833	644 667	483 500		
13-04-24	100 000							50 000	50 000		
13-06-24	3 666 000							1 833 000	1 222 000	611 000	
13-06-27	400 000							200 000	158 333	41 667	
14-06-26	2 092 000								1 045 910	697 328	348 762
14-06-27	1 100 000								849 996	166 667	83 337
14-10-30	250 000								250 000	0	0
Sum	18 455 000	281 732	879 984	1 977 742	1 797 503	1 944 136	2 099 014	3 370 556	4 155 573	1 516 662	432 099

CONSOLIDATED FINANCIAL STATEMENTS:

LIST OF OUTSTANDING OPTIONS:	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (USD)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (USD)
	2014	2014	2013	2013
Outstanding options on January 1	6 724 417	0,46	4 671 847	0,74
Outstanding options on January 1 adjusted (1)	6 962 413	0,46		
Options granted	3 880 000	0,67	4 166 000	0,30
Options exercised	-1 603 012	0,34	0	N/A
Options terminated	-957 858	0,34	-1 963 430	0,74
Options expired	-251 389	0,45	-150 000	0,93
OUTSTANDING OPTIONS ON DEC 31	8 030 154		6 724 417	0,46

LIST OF OUTSTANDING OPTIONS:	2014	2014	2013	2013
Vested (exercisable) options	2 642 391	0,24	1 658 889	0,77
Weighted Average Fair Value of Options Granted during the period	3 880 000	0,51	4 166 000	0,13

(1) the opening balance of options outstanding has been adjusted to reflect revised figures.

Out of the 8,030,154 (2013: 6,724,417) outstanding options on December 31, 2014, 2,642,391 (2013: 1,658,889). options were vested/exercisable No options were exercised in 2013.

OPTIONS				
EXPIRY DAY	EXERCISE PRICE		2014	2013
December 27, 2016	USD	1.12	150,000	-
February 1, 2017	USD	0.57	0	284,083
July 29, 2017	USD	0.77	33,334	33,333
December 27, 2017	USD	2.65	50,000	50,000
february 12, 2018	USD	1.10	821,000	821,000
July 12, 2018	USD	2.41	50,000	50,000
october 24, 2018	USD	0.25	100,000	100,000
December 27, 2018	USD	0.30	150,000	150,000
February 24, 2019	USD	0.45	200,000	200,000
March 20, 2019	USD	0.36	587,460	1,337,000
June 26, 2019	USD	0.81	2,092,000	0
June 27, 2019	USD	0.80	1,100,000	0
Octoboe 10, 2019	USD	0.71	250,000	0
December 24, 2019	USD	0.31	2,196,360	3,449,000
December 27, 2019	USD	0.30	250,000	250,000
SUM			8, 030, 154	6, 724, 417

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was USD 0.51 per option (2013: USD 0.13). The significant inputs into the model were a weighted average share price of USD 0.70-0.75 (2013: 0.25 - 0.31) at the grant date, the exercise prices shown above, volatility of 93.17% - 106.50% (2013: 83.67% - 85.64%), dividend yield 0 % (2013: 0 %), an expected option life of 3.249 - 5.0 years (2013: 2.5 - 3.5 years), an expected annual turnover rate of 7 % (2013: 7 %) and an annual risk free rate of 1.46% - 1.74% (2013: 1.21% - 1.67%). The volatility measured is based on the variation in daily share prices for Funcom.

THE FOLLOWING MANAGERS/DIRECTORS POSSESS OPTIONS AND/OR OWN SHARES (DIRECTLY OR INDIRECTLY):

At the end of 2014

Name	Number of shares	Number of options	Comments
Supervisory board			
Gerhard Florin	-	400 000	Mr. Florin - Chairman of the Supervisory Board controls G. Florin Consulting GMBH, which holds 200,000 options to subscribe for shares in the Company.
Alain Tascan	-	150 000	
Ole Gladhaug		150 000	
Magnus Grøneng	400	150 000	
Management Board			
Michel Cassius	15 034	450 000	

At the end of 2013

Name	Number of shares	Number of options	Comments
Supervisory board			
Gerhard Florin		100 000	Mr. Florin - Chairman of the Supervisory Board controls G. Florin Consulting GMBH, which holds 100,000 options to subscribe for shares in the Company.
Alain Tascan		50 000	
Michel Cassius	50 000	50 000	
Ole Gladhaug		50 000	
Magnus Grøneng	400	50 000	
Management Board			
Ole Schreiner	25 017	545 000	CEO of Funcom N.V.
Pieter van Tol	33 334	133 333	

CONSOLIDATED FINANCIAL STATEMENTS:

18. DEFERRED INCOME

The amount consists mainly of subscription prepayments from subscribers.

19. OTHER SHORT TERM LIABILITIES

IN THOUSANDS OF US DOLLARS	2014	2013
Taxes and social security payable	263	357
Accrued expenses	1,323	1,172
TOTAL OTHER SHORT TERM LIABILITIES	1,586	1,529

20. INVESTMENTS IN EQUITY-ACCOUNTED ENTITIES

Funcom owns a 33% interest in the shares in the Swedish company Stunlock Studios AB. This percentage of ownership has decreased from 42% in 2013 due to the issue of 700 new shares by Stunlock Studios AB. This company is still considered an associated company for Funcom. The principal activity of Stunlock Studios AB is the development of online computer games.

Funcom owns a 50% share in the Canadian company MMORPG Technologies INC. Another party owns the remaining 50%. This company is considered a joint venture for Funcom. The principal activity of MMORPG is the development of online computer games. On December 30, 2014 a dividend of CAD 320 000 was declared with 100% of this amount due to Funcom. In satisfying this obligation the dividend amount of CAD 320 000 was transferred on December 30, 2014 to Funcom by way of a receivable balance. As the dividend was paid to Funcom only and not the other party, the investment balance for this entity was reduced to zero and the remainder of the dividend income was recognized as dividend income directly in the Statement of Comprehensive Income. This company is considered a joint venture for Funcom. The principal activity of MMORPG is the development of online computer games. MMORPG INC is in the process of being liquidated in 2015.

The Company's share of loss in its equity-accounted entities for the year was USD -72 thousand (2013: USD -135 thousand).

During 2014 Funcom recognized no impairment loss on its investment in MMORPG Technologies INC entity (2013: USD 100 thousand), as at year end the carrying value of the interests was zero.

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

	STUNLOCK STUDIOS AB	MMORPG TECHNOLOGIES INC	TOTAL
IN THOUSANDS OF US DOLLARS			
Country	Sweden	Canada	
Ownership in %	42	50	
Reporting date	December 31, 2013		
Current assets	350	1,678	2,028
Non-current assets	103		103
Total assets	453	1,678	2,131
Current liabilities	212	1,205	1,417
Non-current liabilities			
Total liabilities	212	1,205	1,417
Income	1,261	1,115	2,376
Expenses	-1,252	-1,321	-2,574
Profit/loss	9	-206	-198
Funcom's share:	4	-103	-100
less amortization of fair value adjustment	-35		-35
SHARE OF RESULT IN 2013:	-32	-103	-135
Country	Sweden	Canada	
Ownership in %	33	50	
Reporting date	December 31, 2014		
Current assets	845	35	880
Non-current assets	74		74
Total assets	919	35	954
Current liabilities	172	21	193
Non-current liabilities		17	17
Total liabilities	172	38	210
Income	1,870	67	1,937
Expenses	-1,366	-239	-1,605
Profit/loss	504	-172	332
Funcom's share:	166	-86	80
less amortization of fair value adjustment	-119	-33	-152
SHARE OF RESULT 2014:	47	-119	-72

21. LEASES

Non-cancellable operating lease rentals are payable as follows:

IN THOUSANDS OF US DOLLARS	2014	2013
Less than one year	466	537
Between one and five years	1,389	2,122
More than five years		487
Total	1,855	3,146

CONSOLIDATED FINANCIAL STATEMENTS:

The Group leases office premises in Canada, Norway, USA, China and China. These leases typically run for a maximum of 5 to 10 years with an option to renew when they expire. Lease payments are normally index regulated every year according to the consumption price index.

During the year ended December 31, 2014, USD 522 thousand was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2013: USD 559 thousand).

As of year-end the Company has no outstanding obligations under finance leases.

22. EARNINGS PER SHARE

The basic earnings per share are calculated as the ratio of the result for the period attributable to the equity holders of Funcom N.V. of USD -8,761 thousand (2013: USD -4,538 thousand) divided by the weighted average number of ordinary shares outstanding 82,183,500 (2013: 66,496,918).

When calculating the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted for all the dilution effects relating to share options and the conversion feature of the warrants and the convertible bonds. As the Company made losses in 2014, the dilutive effect of share options and the conversion feature of convertible bonds are anti-dilutive, i.e. would reduce losses per share. This effect is thus not included in the calculation of diluted earnings (losses) per share.

IN THOUSANDS OF US DOLLARS	2014	2013
Profit /(loss) for the period attributable to the equity holders of Funcom (USD thousands)	-8,761	-4,538
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	-8,761	-4,538
Issued ordinary shares as of January 1	90,445	66,497
Effect of new shares issued and options exercised		
Weighted average number of shares at December 31	82,184	66,497
BASIC EARNINGS PER SHARE	(0,11)	(0,07)
BASIC EARNINGS PER SHARE - CONTINUING OPERATIONS	(0,11)	(0,07)
Weighted average number of shares at December 31, basic	82,184	66,497
Effect of share options on issue		
Weighted average number of shares at December 31, diluted	82,184	66,497
DILUTED EARNINGS PER SHARE	(0,11)	(0,07)
DILUTED EARNINGS PER SHARE - CONTINUING OPERATIONS	(0,11)	(0,07)

23. CONTINGENT LIABILITIES

As of December 31, 2014 the group has a contingent liability related to the ØKOKRIM charge. In 1Q14 Funcom was charged by Økokrim (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) on suspicion of infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012 with regards to information given to the market (market manipulation) and insufficient maintenance of the required list of persons who are given access to inside information. The Company is cooperating fully with ØKOKRIM. As of the date of the annual report there is insufficient information to allow Funcom to determine reliably the likelihood of whether the charge could result in financial losses or to estimate the amounts of such potential losses. Therefore, no provisions resulting from the charge have been recorded in the financial statements.

24. FINANCIAL INSTRUMENTS

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

EXPOSURE TO CREDIT RISK

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

IN THOUSANDS OF US DOLLARS	CARRYING AMOUNT	
	2014	2013
Loans and receivables*	3,393	6,529
Cash and Cash equivalents	3,705	2,582
	7,098	9,112

* Includes trade receivables of USD 1,249 thousand (2013: USD 2,195 thousand), long-term receivables of USD 19 thousand (2013: USD 19 thousand) which relates to a long term deposit on operational leases, multimedia tax credits of USD 883 thousand (2013: USD 3,112 thousand), a receivable on an equity-accounted entity of USD nil thousand (2013: USD 797 thousand) and other accruals, deposits and advances for a total of USD 1,242 thousand (2013: 375 thousand). Tax credits receivable represent approximately 90% of the actual amount claimed (USD 3,454 thousand). The Company estimates that there is a very high probability of collecting the full amount claimed based on tax credits collection history. In addition, the tax credits are payable to the Company by the Ministry of Revenue of Quebec, Canada which as a government body has a stable credit rating. The amount of multimedia tax credits recognized in revenue is USD 782 thousand after capitalizing USD 61 thousand in reduction of intangible assets development costs (2013: USD 779 thousand after capitalizing USD 216 thousand). The trade receivables are primarily receivable from credit card service providers which for which no publicly available credit ratings are available. However, based on long-term relationship with these providers it is considered that there is a very low risk of non-collection.

Cash and cash equivalents are held with European and North American banks which have stable credit ratings according to Moody's and Standard & Poor's.

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

IN THOUSANDS OF US DOLLARS	CARRYING AMOUNT	
	2014	2013
North America	28	759
Europe	1,197	1,436
	1,225	2,195

Receivables on credit card service providers amount to USD 1,706 thousand of the trade receivables carrying amount at December 31, 2014 (2013: USD 1,191 thousand).

CONSOLIDATED FINANCIAL STATEMENTS:

IMPAIRMENT LOSSES

The aging of trade receivables at the reporting date was:

IN THOUSANDS OF US DOLLARS

	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
	2014	2014	2013	2013
Not past due	1,073		1,386	
Past due 0-30 days	12		22	
Past due 31-120 days	43		399	
More than 120 days	97		387	
BALANCE OUTSTANDING ON DEC 31	1,225		2,195	

The group recorded no impairment losses for receivables in 2014 (2013: Nil).

LIQUIDITY RISK

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

IN THOUSANDS OF US DOLLARS

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	Year 2	Year 3	Thereafter
As at December 31, 2014							
Trade payables and current loans and borrowings	-6, 216	-6, 216	-701	-5, 728			
Other short-term liabilities	-1, 587	-1, 587	-1, 587				
Non-current loans and borrowings	-7, 081				-3, 950	-3, 049	-82
Total	-14, 884	-7, 803	-2, 288	-5, 728	-3, 950	-3, 049	-82
As at December 31, 2013							
Trade payables and current loans and borrowings	7, 619	7, 619	518	7, 102			
Other short-term liabilities	1, 529	1, 529	1, 529				
Non-current loans and borrowings	12, 044	13, 359			13, 252		106
Total	21, 192	22, 507	2, 047	7, 102	13, 252		106

TRADE PAYABLES AND CURRENT LOANS AND BORROWINGS:

Trade Payables and Current Loans and Borrowings consist of Trade payables equal USD 440 thousand (2013: USD 483 thousand). Current loans and borrowings consist of a USD 5 478 thousand convertible bond from KGJI which was due to expire on December 22, 2015 at balance sheet date, USD 250 thousand (2013: USD 250 thousand) due to a business partner and USD 48 thousand of rental deposit (2013: USD 1,315 thousand).

OTHER SHORT-TERM LIABILITIES:

Other short-term liabilities consist of USD 234 thousand sales tax and social security payable (2013: USD 356 thousand) and operational accrued expenses of USD 1,323 thousand (2013: USD 1,173 thousand).

NON-CURRENT LOANS AND BORROWINGS:

Non-current loans and borrowings consist of USD 3,049 thousand interest bearing loan due to KGJI (2013: 3,984 thousand) (see paragraph above), USD 3,950 thousand working capital loan (2013: 3,000 thousand) and a rental

deposit of USD 82 thousand (2013: 106 thousand).

CONVERTIBLE BONDS - CARRYING AMOUNT USD 5,478 THOUSAND (2013: USD 4,902 THOUSAND)

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of December 31, 2014 sixty two bonds issued on December 22, 2011 are still outstanding. These bonds have a face value of USD 100 thousand (total USD 6,200 thousand), 5% coupon rate and are due on December 22, 2015. They are convertible into common shares of Funcom N.V. at a price of 0.37 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2014 the bonds have a carrying amount of USD 5,478 thousand and an actual balance due of USD 6,200 thousand.

WORKING CAPITAL LOAN - CARRYING AMOUNT USD 3,950 THOUSAND (2013: 3,000 THOUSAND)

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

CONVERTIBLE LOAN- CARRYING AMOUNT OF DEBT USD 3,049 THOUSAND (2013: NIL)

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

The management analyzed the debt repayment schedules and the impact on the Company's liquidity. The analysis

included the current cash position and the cash generation potential of the Company's live games and games expected to launch in 2014 as well as opportunities to raise capital from the remaining installments of the working capital loan. Funcom's management also acknowledges the possibility of raising capital by means of market transactions such as equity issuance or non-dilutive (debt) financing or a combination thereof as well as the possibility of obtaining additional proceeds from exercise of warrants or conversion of bonds. As a result, the management concluded that the solvency and liquidity of the Company indicate that Funcom is able to meet its current and long-term obligations. However, this position is based on various assumptions including cost structure, revenue projections, credit opportunities, timeline on the game developments amongst other factors. The management will continue to evaluate the assumptions on a continuous basis and will inform the market of any future pervasive and material changes.

CURRENCY RISK

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

CONSOLIDATED FINANCIAL STATEMENTS:

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

In thousands of US dollars	USD	EURO	NOK	CAD	OTHER	Total:
As at December 31, 2014						
Trade and other receivables	826	302	30	34	33	1,225
Cash and cash equivalents	1,408	1,433	582	121	160	3,705
Trade payables and current loans and borrowings	-5,986	-42	-66	-84	-37	-6,216
Net balance sheet exposure	-3,752	1,693	546	71	156	-1,286

As at December 31, 2013						
Trade and other receivables	1,016	722	1	4,761	29	6,529
Cash and cash equivalents	1,176	384	367	555	101	2,582
Trade payables and current loans and borrowings	-4,517	-13	-66	-2,989	-34	-7,619
Net balance sheet exposure	-2,325	1,093	303	2,327	96	1,493

The following exchange rates applied during the year:

REPORTING RATE	AVERAGE RATE		SPOT RATE AT DECEMBER 31	
	2014	2013	2014	2013
EUR	1.336	1.324	1.216	1.377
NOK	0.157	0.170	0.134	0.163
CAD	0.906	0.980	0.860	0.935

SENSITIVITY ANALYSIS

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

IN THOUSANDS OF US DOLLARS	EQUITY	PROFIT OR LOSS
December 31, 2014		
EUR		-169
NOK	-3,599	-55
CAD		-7
December 31, 2013		
EUR		-96
NOK		-26
CAD	-5,179	-204

A 10 percent strengthening of the US dollars against the above currencies at December 31, would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. The equity effect is attributable to inter-company loans that are net investments. The sensitivity is based on the assumption of a 10% strengthening of the US dollar against local currency on the reporting date.

(1) The prior year sensitivity balance has been restated

INTEREST RATE RISK

At the reporting date the Group's fixed rate financial instruments comprise a loan from KGJI issued in 2010, convertible bonds issued in 2011 as detailed below and a working capital loan received in 2013. The interest rate is fixed over the loan term.

SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

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

IN THOUSANDS OF US DOLLARS	2014	2013
Loans and borrowings		-1,572
Cash and cash equivalents	3,705	2,582
Net exposed to interest risk	3,705	1,010
100 bp increase in interest rate	37	9
100 bp decrease in interest rate	-37	-9

CLASSES OF FINANCIAL INSTRUMENTS

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

FAIR VALUES

For trade and other payables, bank overdrafts, trade receivables and other financial current assets and liabilities, the discount factor is not significant due to the short-term nature of the items. The carrying amount is therefore found to reflect their fair value. The fair value of the non-current borrowings at variable interest rates do not differ materially from the valuation at amortized cost

IN THOUSANDS OF US DOLLARS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	2014	2014	2013	2013
Loans and receivables	1,225	1,225	6,529	6,529
Cash and cash equivalents	3,705	3,705	2,582	2,582
Trade payables and current loans and borrowings	-6,216	-6,216	7,619	7,619
Other short term liabilities	-1,586	-1,586	1,529	1,529
Non-current loans and borrowings	-7,081	-7,081	12,044	12,044

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

CONVERTIBLE BONDS - CARRYING AMOUNT USD 5,478 THOUSAND (2013: USD 4,902 THOUSAND)

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of December 31, 2014 sixty two bonds issued on December 22, 2011 are still outstanding. These bonds have a face value of USD 100 thousand (total USD 6,200 thousand), 5% coupon rate and are due on December

22, 2015. They are convertible into common shares of Funcom N.V. at a price of 0.37 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2014 the bonds have a carrying amount of USD 5,478 thousand and an actual balance due of USD 6,200 thousand.

WORKING CAPITAL LOAN - CARRYING AMOUNT USD 3,950 THOUSAND (2013: 3,000 THOUSAND)

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

CONSOLIDATED FINANCIAL STATEMENTS:

CONVERTIBLE LOAN- CARRYING AMOUNT OF DEBT USD 3,049 THOUSAND (2013: NIL)

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

25. TRANSACTIONS WITH RELATED PARTIES

IDENTIFICATION OF RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see note 26), equity-accounted entities (see note 20), members of the Supervisory and Management Boards, its executive officers and shareholders.

TRANSACTIONS WITH SUBSIDIARIES AND EQUITY-ACCOUNTED ENTITIES

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

Transactions with equity-accounted entities:

IN THOUSANDS OF US DOLLARS	2014	2013
Purchase of services		582
Revenue from services		128
Receivables as at December 31	4	1, 075
Liabilities as at December 31	34	1, 411

REMUNERATION TO THE SUPERVISORY BOARD

On June 27, 2014, the General Meeting approved annual remuneration to the Chairman of the Supervisory Board of EUR 27,000 (USD 36,075) and EUR 18,000 (USD 24,050) for all other members of the supervisory board (2013: On June 27, 2013, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 12,000 (USD 15,898) per member for all members).

IN THOUSANDS OF US DOLLARS		TOTAL REMUNERATION IS COMPOSED OF:		
Supervisory Board member	Total remuneration USD	Board fee USD	Share based USD	
2014				
Gerhard Florin (chairman)	63	36		27
Alain Tascan (vice-chairman)	36	24		12
Michel Cassius (1)	53	20		34
Ole Gladhaug	37	24		13
Magnus Grøneng	37	24		13
Total	226	128		99
2013				
Gerhard Florin (chairman)	27	17		10
Alain Tascan (vice-chairman)	43	17		26
Michel Cassius	22	17		5
Ole Gladhaug	14	12		2
Magnus Grøneng	14	12		2
Total	120	74		45

IN THOUSANDS OF US DOLLARS

Supervisory Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Total number of shares held / controlled at year end
2014				
Gerhard Florin (chairman)	300 000		400 000	
Alain Tascan (vice-chairman)			150 000	
Michel Cassius (1)	100 000		450 000	15 034
Ole Gladhaug	350 000		150 000	
Magnus Grøneng	100 000		150 000	400
Total	850 000		1,300 000	15 434

2013				
Gerhard Florin (chairman) (2)	100 000		100 000	
Alain Tascan (vice-chairman)			50 000	
Michel Cassius	50 000		50 000	50 000
Ole Gladhaug	50 000		50 000	
Magnus Grøneng	50 000		50 000	400
Total	250 000		300 000	50 400

(1) Michel Cassius was a Supervisory Board Member until October 29, 2014

(2) Supervisory Board member Gerhard Florin also provided consulting services to the Company in 2013 and was paid USD 33 thousand.

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

IN THOUSANDS OF US DOLLARS	2014	2013
Salaries and benefits in kind (short-term employee benefits)	604	977
Share-based payments	188	211
Pension plan contributions	8	13
Total remuneration	800	1,201

CONSOLIDATED FINANCIAL STATEMENTS:



REMUNERATION TO THE MANAGEMENT BOARD

IN THOUSANDS OF US DOLLARS

Management Board Member	Total remuneration	Remuneration	Bonus	Severance	Pension cost	Share based
2014						
Michel Cassius	111	77	-	-		34
Ole Schreiner	276	233	-	-	3	40
Pieter van Tol	68	58	-	-		10
Total	455	368	-	-	3	84

2013						
Ole Schreiner - CEO	327	280	-	-	3	43
Pieter van Tol (2)	84	57	-	-	7	20
Total	411	337	-	-	10	63

IN THOUSANDS OF US DOLLARS

Management Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Total number of shares held / controlled at year end
2014				
Ole Schreiner - CEO	400 000	-45, 000	900 000	70, 017
Pieter van Tol (2)	100 000	-	233, 333	33 334
Michel Cassius (1)	350 000	-	450, 000	15 034
Total	850 000	-45, 000	1,583,333	118 385

2013				
Ole Schreiner - CEO	200 000	-	545 000	25 017
Pieter van Tol (2)	50 000	-	133 333	33 334
Total	250 000	-	678 333	58 351

(1) Michel Cassius was appointed to the Management Board on October 30, 2014. Ole Scheiner departed from the Management Board on October 30, 2014. Pieter van Tol departed from the Management Board on November 14, 2014.

(2) Management Board member Pieter van Tol had an interest in Weidema van Tol and Temmes Management Services B.V.: until March 2014.

An expense of USD 86 thousand for legal advice was recorded for Weidema van Tol in 2014. An expense of 73 thousand was recorded for Temmes Management Services B.V. for 2014. As at year end 2014 the outstanding amount payable to Weidema van Tol amounted to USD 17 thousand and to Temmes Management Services B.V. the outstanding amount payable was USD 13 thousand. The services rendered from both these companies were on market terms.

CONSOLIDATED FINANCIAL STATEMENTS:

TRANSACTIONS WITH SHAREHOLDERS

Mr. Hans Peter Jebsen, the largest shareholder of Funcom N.V. controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls KGJ Investments S.A., SICAV-SIF (KGJI). Mr. Hans Peter Jebsen also controls the company Tom Dahl AS. The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies KGJI, KGJ Capital (formerly Nexus Capital) and Tom Dahl were 27.29% as of December 31, 2014 (2013:18.25%). The following transactions took place in 2014 between Funcom Group and companies controlled by Mr. Jebsen:

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of December 31, 2014 sixty two bonds issued on December 22, 2011 are still outstanding. These bonds have a face value of USD 100 thousand (total USD 6,200 thousand), 5% coupon rate and are due on December 22, 2015. They are convertible into common shares of Funcom N.V. at a price of 0.37 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2014 the bonds have a carrying amount of USD 5,478 thousand and an actual balance of USD 6,200 thousand. KGJI is the majority holder of these convertible bonds with a principal amount held of USD 6,000 thousand.

In November 2013 the Company negotiated a working capital loan with KGJI, Funcom's largest shareholder and creditor with 8 percent annual interest rate and initial maturity in January 2015. The first installment of USD 3,000 thousand was

received in December 2013 and the second one of USD 1,250 thousand in 1Q14. The last installment of USD 1,250 thousand was drawn by the Company in September 2014. USD 1,550 thousand was restructured into the new convertible loan in August 2014. As of December 31, 2014 the working capital loan has a balance of USD 3,950 thousand.

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

On February 7, 2014 KGJ Investments S.A., SICAV-SIF exercised 5 million warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share. On March 3, 2014 KGJ Investments S.A., SICAV-SIF exercised 5 million warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share. On May 2, 2014 KGJ Investments S.A., SICAV-SIF exercised 5 million warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share.

26. GROUP ENTITIES

GROUP ENTITIES

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

Significant subsidiaries	Country of incorporation	Principal Activity	Ownership	interest in %
Funcom GmbH	Switzerland	The development and operation of games and technology	100	100
Funcom Sales GmbH	Switzerland	The operation of licenses Operations discontinued (in liquidation)	100	100
Sweet Robot GmbH*	Switzerland	Operations discontinued (in liquidation)	95	95
Funcom Games Canada Inc	Canada	The development of computer games	100	100
Funcom S.a.r.l.	Luxembourg	The facilitation of sales and customer relations	100	100
Funcom Inc	United States	The development of computer games	100	100
Funcom Oslo AS	Norway	The development of computer games	100	100
Funcom Games Beijing Ltd	China	The development of computer games	100	100

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

27. CAPITAL MANAGEMENT AND RISK FACTORS

CAPITAL MANAGEMENT

The Supervisory Board policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Supervisory Board monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Company also manages its capital to ensure that it will be able to continue as a going concern. This includes a regular review of cash flow forecasts and, if deemed appropriate, subsequent attraction of funds through execution of equity and/or debt transactions. In doing so, the Supervisory Board's strategy is to achieve a capital structure which takes into account the best interests of all stakeholders. Funcom's capital structure includes cash and cash equivalents, equity and (convertible) debt.

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

The Company is not subject to externally imposed capital requirements. There were no changes in the group's approach to capital management during the year.

RISK FACTORS

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

Revenue risks

DEPENDENCE ON PERFORMANCE OF INDIVIDUAL GAMES

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

CONSOLIDATED FINANCIAL STATEMENTS:

DEPENDENCE ON THE ATTRACTIVENESS OF THE LICENSED BRANDS

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

DEPENDENCE ON CONSUMER SATISFACTION

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

RATING RISKS

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

REVIEWS

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

Development risks

LAUNCH RISKS:

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

DELAY OF PRODUCT RELEASES

For the current development projects, Funcom has a strong focus on making plans, analyzing risks, estimating time needed in each project phase and measuring progress. There is, however, an inherent development timeline risk in

all software development, including in MMO game software development, and there is no assurance that development schedules will be held. If Funcom does not manage to release games at the planned dates, the development budgets of the games may increase. There is also a risk that competitors will gain a foothold in the market at the expense of Funcom or that the games will be less competitive when launched due to advances of competitors, making users less willing to spend additional time and money on new games from Funcom.

UNSUCCESSFUL PROJECTS UNDER DEVELOPMENT

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

DIFFICULTIES IN RECRUITING AND LOSS OF KEY EMPLOYEES

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

EXTERNAL PARTIES

Funcom's success depends also partly on the ability of the Company's partners to effectively fulfill their commitments. Funcom has partners in the areas of hosting and server administration, billing, publishing, sales and distribution, hardware as well as development of technology and games.

DIFFICULTIES IN ENFORCING THE COMPANY'S INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

Funcom's success depends on its proprietary game technology. Funcom relies on a combination of trade secret, copyright and trademark laws, non-disclosure agreements and contractual provisions to protect its proprietary rights. International copyright and trademark laws protect Funcom's technology. Existing trade secrets and copyright laws afford only limited protection, and unauthorized parties may attempt to copy aspects of Funcom's proprietary rights or to obtain and use information and technology that Funcom regards as proprietary. In addition, the laws of some foreign jurisdictions do not protect Funcom's proprietary rights in the same manner and to the same extent as the laws of the US,

Switzerland and Norway do. There can be no assurance that the steps taken by Funcom to protect its proprietary rights will be adequate.

INTELLECTUAL PROPERTY RIGHTS OF OTHERS

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

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

Technical risks

TECHNOLOGICAL RISKS

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

HACKING

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

RISKS RELATED TO THE INTERNET

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

THEFT OR LOSS OF SOURCE CODE

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

Economic risks

MACROECONOMIC FLUCTUATIONS

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

VARIABILITY OF OPERATING RESULTS ETC.

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

CHANGES IN THE GAMING INDUSTRY IN GENERAL

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

CONTRACTS

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

INTERNATIONAL OPERATIONS

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

CURRENCY FLUCTUATIONS

Because a considerable share of Funcom's business is conducted in currencies other than its functional currency, Funcom will be exposed to volatility associated with foreign currency exchange rates. Funcom invoices all non-EU customers in US dollar and Russian ruble, while EU customers are invoiced in Euro, British pound and Polish zloty. Normally, the Group's cash position in Norwegian kroner and Canadian dollar is significant compared to its total assets.

CONSOLIDATED FINANCIAL STATEMENTS:

The majority of the operational expenses is denominated in Norwegian kroner and Canadian dollar and is perceived by the management as a natural hedge against the large position in Norwegian kroner and Canadian dollar. See note 24 for further information.

TAX EXPOSURE

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

SALES TAX EXPOSURE

The Group generates sales transactions from potentially all over the world. Because of this, the Group is exposed to different sales tax, including VAT, issues. Starting January 1, 2015 a new EU VAT regulation becomes effective where electronic services will be taxed in the country where the customer is established rather than where the service provider is located. This change in regulation will create VAT exposure in different EU states and will also increase the overall amount of VAT to be remitted given the difference in VAT rates in each state. Should the group fail to comply with the different regulations it might lead to real cash costs, including irrecoverable VAT, penalties, and interest.

DEFERRED TAX ASSET

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

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

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

consistent with the plans and estimates Funcom management are using to run the underlying businesses. See note 10.

TAX CREDITS

The Company receives significant amounts in tax credit - the largest element being Multimedia Tax Credit (MTC) for its subsidiary in Canada. The Company's calculation of MTC to be received may deviate from what is actually obtained. The regulations for tax credits are complex and involve professional judgment in assessing the amount estimated to be received. Tax credits receivable included in the Consolidated Statement of Financial Position represent approximately 90% of the actual amount claimed.

Financial risk

Funcom has a history of operating losses mainly as a result of the significant investments made in the Company's games and proprietary game engine Dreamworld technology. As a result, the Company has also accumulated a material amount of debt with maturities in 2015 and 2016. The Company's strategy going forward is to focus on mid-core MMO games with smaller initial, development budgets and shorter production time. The long-term goal is to produce titles in parallel releasing more than one game a year. The strategy is expected to restore the profitability and the liquidity of the Company. However, until these goals are achieved the performance of the Company will be affected by its ability to raise external financing in the form of equity issuance or non-dilutive debt instruments. The timing and amount of such financing will depend on market conditions as well as the Company's overall performance, which could affect the investors' confidence and willingness to invest in the Company (refer to Going concern assessment in the Report of the Management Board)

Compliance risk

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

28. EVENTS AFTER THE REPORTING PERIOD

KGJI the major shareholder and creditor of the company has confirmed that it is willing to continue to support the Company by deferring the maturity of the USD 3,950 thousand working capital loan from January 31, 2016 to the earlier of June 30, 2016 or the 2016 AGM.

KGJI also confirmed that it is willing to defer the maturity of the USD 6,200 thousand convertible bond from December 22, 2015 to the earlier of June 30, 2016 or the 2016 AGM. The exact terms of the loans are to be agreed upon with the creditor.

In April 2015 the Company successfully completed a draw down on the standby equity facility with YA Global Master and as a result raised USD 419 thousands and issued 1,763,311 shares thus increasing equity by the same USD 419 thousands. The agreement with YA Global Master was concluded in May 2012 and represents an equity financing mechanism where Funcom at its discretion can draw down funds in tranches on average every 20 to 30 days in exchange for issuing new shares to YA Global Master.

FINANCIAL STATEMENTS OF PARENT COMPANY:



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

IN THOUSANDS OF US DOLLARS	NOTE	2014	2013
Results from participating interest after tax	2, 3	-9 120	-5 414
Other income and expenses after tax		358	876
NET RESULT FROM ORDINARY ACTIVITIES AFTER TAXATION		-8 762	-4 538

STATEMENT OF FINANCIAL POSITION
AFTER APPROPRIATION OF RESULT

IN THOUSANDS OF US DOLLARS	NOTE	2014	2013
Investments in and receivables from group companies	1,2	8 336	9 477
Investments in and receivable from equity-accounted entities	3	195	306
FINANCIAL FIXED ASSETS		8 531	9 783
Prepayments and other receivables		15	30
Cash and cash equivalents		1 999	854
TOTAL CURRENT ASSETS		2 014	884
TOTAL ASSETS		10 545	10 667
Issued capital	5	4 856	3 662
Share premium	6	160 408	146 959
Legal reserves	7	7 257	9 123
Other reserves	8	-175 276	-165,306
TOTAL EQUITY		-2 755	-5 561
Loans and borrowings		6 999	11 885
Other financial liabilities			
TOTAL NON-CURRENT LIABILITIES		6 999	11 885
Accrued expenses		594	296
Other current liabilities	4	5 709	4 047
TOTAL CURRENT LIABILITIES		6 303	4 343
TOTAL EQUITY AND LIABILITIES		10 545	10 667

FINANCIAL STATEMENTS OF PARENT COMPANY:

NOTES TO THE COMPANY FINANCIAL STATEMENTS

PRINCIPLES OF VALUATIONS FOR THE FINANCIAL STATEMENTS

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

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

1. INVESTMENT IN AND RECEIVABLE FROM GROUP COMPANIES

IN THOUSANDS OF US DOLLARS	2014	2013
Receivables non-current	65 878	57 556
Less: Provision	-57 542	-48 079
Shares	0	0
TOTAL INVESTMENT IN AND RECEIVABLE FROM GROUP COMPANIES	8 336	9 477

2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2014:

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2014	2013
Funcom GmbH	Switzerland	100	100
Funcom Sales GmbH	Switzerland	100	100
Sweet Robot GmbH*	Switzerland	95	95
Funcom Games Canada Inc	Canada	100	100
Funcom S.a.r.l.	Luxembourg	100	100
Funcom Inc	United States	100	100
Funcom Oslo AS	Norway	100	100
Funcom Games Beijing Ltd	China	100	100

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

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

IN THOUSANDS OF US DOLLARS	2014	2013
Balance at 01.01	9 477	15 682
Exchange difference	-1 331	-2 770
Result of the year	-9 120	-5 414
Loans provided	8 322	1 387
Other movements	988	592
BALANCE 31.12	8 336	9477

3. INVESTMENTS IN AND RECEIVABLES FROM EQUITY-ACCOUNTED ENTITIES

IN THOUSANDS OF US DOLLARS	2014	2013
Shares	195	306
TOTAL	195	306

IN THOUSANDS OF US DOLLARS	2014	2013
Balance at January 1	306	460
Change in participation	-52	
Exchange difference	-40	-19
Result of the year	156	-135
Other movements	-175	
BALANCE DECEMBER 31	195	306

The Company holds 50 % of MMORPG Technologies INC, Canada and 33% of Stunlock Studios AB, Sweden as of December 31, 2013.

4. OTHER CURRENT LIABILITIES

Other current liabilities in 2014 includes USD 5,478 thousand due to KGJI on a convertible bond due December 22, 2015 and USD 230 thousand of trade creditors (2013: USD 47 thousand payments to service providers and USD 4,000 thousand is the amount due to KGJI on the interest bearing loan with maturity on December 30, 2014).

5. ISSUED CAPITAL

IN THOUSANDS OF US DOLLARS	2014	2013
Balance at January 1	3 662	3 515
Exchange	-108	147
Addition share-capital	1 299	
BALANCE DECEMBER 31	4,853	3 662

The share-capital was translated into US dollars at the December 31, 2014 exchange rate of EUR/USD 1.3361 (2013: 1.3766). The issued capital for these standalone accounts is not equal to that of the group accounts, due to differences in the translation of foreign currency under the respective accounting frameworks, Dutch corporate law demands that share capital is converted into presentation currency on the last day of the reporting period, whereas the group balance is translated at the historical rate in line with IFRS requirements.

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

- January 1: 66,496,918
- December 31: 90,444,823

At December 31, 2014, the authorized share capital comprised of 250 million ordinary shares (2013: 250 million). The nominal value of the shares is Euro 0.04. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

FINANCIAL STATEMENTS OF PARENT COMPANY:

SHARE-CAPITAL AND SHARE PREMIUM

	NUMBER OF ORDINARY SHARES	
	2014	2013
Outstanding at January 1	66 496 918	66 496 918
Issued against payment in cash	23 947 905	
Issued as a result of conversion of bonds (Note 25)		
OUTSTANDING AT DECEMBER 31 - FULLY PAID	90 444 823	66 496 918
Nominal value of the share-capital at December 31 (EUR)	3 617 793	2 659 877

EVENTS IN 2014:

SHARES:

In January 2014, Funcom issued 316,028 shares in relation to exercise of options. Beginning of May 2014, Funcom issued 378,591 shares in relation to exercise of options. End of May 2014, Funcom issued 908,394 in relation to exercise of options.

In February 2014 KGJ Investments S.A., SICAV-SIF exercised 5,000,000 warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share. In March 2014 KGJ Investments S.A., SICAV-SIF exercised 5,000,000 warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share.

In May 2014 KGJ Investments S.A., SICAV-SIF exercised 5,000,000 warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share.

On May 25, 2012 Funcom announced that the Company had entered into a standby equity agreement with YA Global Master. The agreement is an equity financing mechanism where Funcom at its discretion can draw down funds in tranches in exchange for issuing new shares to YA Global Master. During 2014 three drawdowns took place under this agreement and accordingly in April 2014 2,203,846 shares were issued, in July 2,545,454 shares were issued and in December 2,595,592 shares were issued.

OPTIONS:

On June 26, 2014 pursuant to the mandate granted by Funcom General Meeting of Shareholders on 27 June 2013, the Supervisory Board granted 2,530,000 options to employees of the Company to acquire shares in Funcom N.V.

On June 27, 2014 Funcom held its Annual General Meeting where the company authorized 33,000,000 options for issue. Annual General Meeting also authorized and some grants to members of the Supervisory Board, further to which the company – on June 27, 2014 – issued 100,000 options to members of the Supervisory Board.

On October 30, 2014 the company issued 250,000 options to a Managing Officer further to his appointment as part of the Group's options program.

OTHER:

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

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

TRANSLATION RESERVE

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

DIVIDENDS

The Group did not pay any dividends in 2014.

EVENTS IN 2013:**SHARES:**

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

OPTIONS:

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

On April 24, 2013, Funcom held an Extraordinary Meeting of Shareholders where, the Company issued 100,000 options to members of the Supervisory Board. Half of the options granted to the members of the Supervisory Board vest annually in the two years following the grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 24, 2013, the Company issued 3,666,000 options as a part of the Group's options program. With regards to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3, for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On June 27, 2013, Funcom held its Annual General Meeting where, the Company issued 150,000 options to members of the Supervisory Board and 250,000 options to members of the Management Board.

Half of the options granted to the members of the Supervisory Board vest annually in the two years following the grant.

One-third of the options granted to members of the Management Board vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3, for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made.

The exercise price for all the granted options is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

OTHER:

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

In April 2013, as part of the restructuring of the convertible bonds loan the conversion price was revised to USD 0.37. Thus, the 62 bonds outstanding as of December 31, 2014 can be converted to 16,756,757 ordinary shares of Funcom N.V.. In addition, the interest on the bonds is accrued starting April 25, 2013 until the earlier of conversion or maturity on December 22, 2015 and can be paid in cash or shares at the option of the bondholder. The conversion price with regards to the accrued interest is USD 0.37 (see Note 25 for further details).

TRANSLATION RESERVE

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

DIVIDENDS

The Group did not pay any dividends in 2014 or 2013. No dividends relating to year 2014 have been proposed.

FINANCIAL STATEMENTS OF PARENT COMPANY:

6. SHARE PREMIUM

IN THOUSANDS OF US DOLLARS	2014	2013
Balance at January 1	146 959	146 468
Share based payments	1 228	491
Addition to Share premium	11 164	
Other	1 056	
BALANCE DECEMBER 31	160 408	146 959

7. LEGAL RESERVES

The legal reserves relate to capitalized development costs (USD 7,257 thousand; 2013: USD 9,123 thousand) and the translation reserve (USD -3,967 thousand; 2013: USD -2,635 thousand).

8. OTHER RESERVES

IN THOUSANDS OF US DOLLARS	2014	2013
Balance at January 1	-165 306	-162 388
Exchange effect on share-capital	-108	-147
Exchange effect on subsidiaries	-1 331	-2 770
Movement to legal reserves	-1 866	4 537
This year's result	-8 761	-4 538
This year's result	1 850	
Other movements	245	
BALANCE DECEMBER 31	-175,277	-165,306

9. SHARE BASED PAYMENTS

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

10. EMPLOYEES

The average number of employees in Funcom N.V. for 2014 was 1 (2013:1).

11. REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD

Total remuneration is composed of:

IN THOUSANDS OF USD DOLLARS						
Management Board member	Total remuneration	Remuneration	Bonus	Severance	Pension Pension cost	Share Share based
2014						
Michel Cassius (1)	111	77	-	-	3	34
Ole Schreiner (1)	276	233	-	-		40
Pieter van Tol (2)	68	58	-	-		10
Total	455	368	-	-	3	84
2013						
Ole Schreiner - CEO (1)	327	280	-	-	3	43
Pieter van Tol (2)	84	57	-	-	7	20
Total	411	337	-	-	10	63

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
2014				
Ole Schreiner - CEO (1)	400 000	-45 000	900 000	70 017
Pieter van Tol (2)	100 000	-	233 333	33 334
Michel Cassius (1)	350 000	-	450 000	15 034
Total	850 000	-45 000	1 583 333	118 385

2013				
Ole Schreiner - CEO	200 000	-	545 000	25 017
Pieter van Tol (2)	50 000	-	133 333	33 334
Total	250 000	-	678 333	58 351

(1) Michel Cassius was appointed to the Management Board on October 30, 2014. Ole Scheiner departed from the Management Board on October 30, 2014. Pieter van Tol departed from the Management Board on November 14, 2014.

(2) Management Board member Pieter van Tol had an interest in Weidema van Tol and Temmes Management Services B.V.: until March 2014. A fee of USD 46 thousands for legal advice in 2013 has been paid to Weidema van Tol - a company in which Pieter van Tol has interest. Pieter van Tol also had an interest in Temmes Management Services B.V. - which was paid a fee of USD 18 thousands in 2013. As at year end 2013 the outstanding amount between the Group and Weidema van Tol amounted to USD 3 thousands, and between the Company and Temmes Management Services B.V. the amount was nil. The services rendered from both these companies were on market terms.

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

	Year Issued	Outstand Dec 31, 2013	Granted	Extended	Exercised	Outstand Dec 31, 2014	Exercise Price USD	Expiry Date	Vesting Date
Michel Cassius	2011	25,000	-	-	-	25,000	0.25	27/06/2016	27/06/2013
	2011	25,000	-	-	-	25,000	0.25	27/06/2016	27/06/2013
	2013	25,000	-	-	-	25,000	0.30	27/06/2018	27/06/2014
	2013	25,000	-	-	-	25,000	0.30	27/12/2015	27/06/2015
	2014	-	100,000	-	-	100,000	0.66	27/06/2019	27/06/2015
	2014	-	250,000	-	-	250,000	0.62	30/10/2019	30/10/2015
	Total	100,000	-	-	Total	450,000	-	-	-
	Vested	75,000	-	-	Vested	75,000	-	-	-

LOANS

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

12. 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 Chairman of the Remuneration Committee. In 2014, the total remuneration to the Supervisory Board was EUR 92,198 (USD 101,730) (2013: EUR 52,504 (USD 74,104)). The annual remuneration of each Supervisory Board member was EUR 18,000 (USD 24,050) (2013: EUR 12,000 (USD 15,898)) prorated in accordance with the months of service. 68,893.15 (2013: EUR 40,504 (USD 55,758)) of the fees for 2014 are outstanding at year end.

FINANCIAL STATEMENTS OF PARENT COMPANY:

Total remuneration is composed of:

Supervisory Board member	Total Remuneration USD	Board fee USD	Share base USD
2014			
Gerhard Florin (chairman)	63	36	27
Alain Tascan (vice-chairman)	36	24	12
Michel Cassius (1)	53	20	34
Ole Gladhaug	37	24	13
Magnus Grøneng	37	24	13
Total	226	128	99

2013			
Gerhard Florin (chairman)	27	17	10
Alain Tascan (vice-chairman)	43	17	26
Michel Cassius	22	17	5
Ole Gladhaug	14	12	2
Magnus Grøneng	14	12	2
Total	120	74	45

Supervisory Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Total number of shares held / controlled at year end
2014				
Gerhard Florin (chairman)	300 000		400 000	
Alain Tascan (vice-chairman)	100 000		150 000	
Michel Cassius (1)	350 000		450 000	15 034
Ole Gladhaug	100 000		150 000	
Magnus Grøneng	350 000		150 000	400
Total	1 200 000	-	1 300 000	15 434

2013				
Gerhard Florin (chairman) (2)	100 000		100 000	
Alain Tascan (vice-chairman)			50 000	
Michel Cassius (1)	50 000		50 000	50 000
Ole Gladhaug	50 000		50 000	
Magnus Grøneng	50 000		50 000	400
Total	250 000	-	300 000	50 400

(1) Michel Cassius was a Supervisory Board Member until October 29, 2014

(2) Supervisory Board member Gerhard Florin also provided consulting services to the Company in 2013 and was paid USD 33 thousand

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

In 2014										
	Year issued	Outstand Dec 31, 2013	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31, 2014	Exercise price USD	Expiry date	Vesting
Gerhard Florin	2013	50,000	-	-	-	-	50,000	0.30	27/12/2015	27/06/2014
	2013	50,000	-	-	-	-	50,000	0.30	27/12/2015	27/06/2015
	2014	-	200,000	-	-	-	200,000	0.66	27/06/2019	27/06/2015
	2014	-	-	50,000	-	-	50,000	0.92	27/12/2016	27/06/2013
	2014	-	-	50,000	-	-	50,000	0.92	27/12/2016	27/06/2012
Total		100,000	-	-	-	-	400,000			
Vested		50,000	-	-	-	-	150,000			

In 2014										
	Year issued	Outstand Dec 31, 2013	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31, 2014	Exercise price USD	Expiry date	Vesting
Alain Tascan	2012	25,000	-	-	-	-	25,000	2.65	27/12/2017	27/06/2013
	2012	25,000	-	-	-	-	25,000	2.65	27/12/2017	27/06/2014
	2014	-	100,000	-	-	-	100,000	0.66	27/06/2019	27/06/2015
Total		50,000					150,000			
Vested		50,000					50,000			

In 2014										
	Year issued	Outstand Dec 31, 2013	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31, 2014	Exercise price USD	Expiry date	Vesting
Ole Gladhaug	2013	25,000	-	-	-	-	25,000	0.25	24/10/2018	24/04/2014
	2013	25,000	-	-	-	-	25,000	0.25	24/10/2018	24/04/2015
	2014	-	100,000	-	-	-	100,000	0.66	27/06/2019	27/06/2015
Total		50,000					150,000			
Vested		25,000					25,000			

In 2014										
	Year issued	Outstand Dec 31, 2013	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31, 2014	Exercise price USD	Expiry date	Vesting
Magnus Grøneng	2013	25,000	-	-	-	-	25,000	0.25	24/10/2018	24/04/2014
	2013	25,000	-	-	-	-	25,000	0.25	24/10/2018	24/04/2015
	2014	-	100,000	-	-	-	100,000	0.66	27/06/2019	27/06/2015
Total		50,000					150,000			
Vested		25,000					25,000			

FINANCIAL STATEMENTS OF PARENT COMPANY:

In 2014

	Year issued	Outstand Dec 31, 2013	Granted	Extended	Exercised	Forfeited /Expired	Outstand Dec 31, 2014	Exercise price USD	Expiry date	Vesting
Michel Cassius	2011	25,000	-	-	-	-25,000	-	0.25	27/12/2016	27/06/2012
	2011	25,000	-	-	-	-25,000	-	0.25	27/12/2016	27/06/2013
	2013	25,000	-	-	-	-	25,000	0.30	27/12/2018	27/06/2014
	2013	25,000	-	-	-	-	25,000	0.30	27/12/2018	27/06/2015
	2014	-	100,000	-	-	-	100,000	0.66	27/06/2019	27/06/2015
	2014	-	250,000	-	-	-	250,000	0.62	30/10/2019	30/10/2015
	2014	-	-	25,000	-	-	25,000	0.25	27/12/2015	27/06/2013
	2014	-	-	25,000	-	-	25,000	0.25	27/12/2015	27/06/2012
Total		100,000					450,000			
Vested		75,000					75,000			

13. AUDIT FEES

The Group's auditors received a total fee of USD 49,119 (2013: USD 55,942). The fee is distributed within these services and is not including VAT;

- Group Audit USD 49,119

The group also paid audit fees for assurance services to BDO in Oslo, Norway of USD 97,289 (2013: USD 104,061).

14. TRANSACTIONS WITH RELATED PARTIES

IDENTIFICATION OF RELATED PARTIES

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

TRANSACTIONS WITH SUBSIDIARIES AND EQUITY-ACCOUNTED ENTITIES:

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

TRANSACTIONS WITH EQUITY-ACCOUNTED ENTITIES:

IN THOUSANDS OF US DOLLARS	2014	2013
Purchase of services		582
Revenue from services		128
Receivables as at December 31	4	1,075
Liabilities as at December 31	34	1,411

TRANSACTIONS WITH SUPERVISORY AND MANAGEMENT BOARD MEMBERS:

No Supervisory Board member was paid fees for consulting services in 2014. Supervisory Board member Gerhard Florin also provided consulting services to the Company in 2013 USD 33 thousand.

TRANSACTIONS WITH SHAREHOLDERS:

Mr. Hans Peter Jebsen, the largest shareholder of Funcom N.V. controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls KGJ Investments S.A., SICAV-SIF (KGJI). Mr. Hans Peter Jebsen also controls the company Tom Dahl AS. The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies KGJI, KGJ Capital (formerly Nexus Capital) and Tom Dahl were 27.29% as of December 31, 2014 (2013:18.25%):

CONVERTIBLE BONDS - CARRYING AMOUNT USD 5,478 THOUSAND (2013: USD 4,902 THOUSAND)

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of December 31, 2014 sixty two bonds issued on December 22, 2011 are still outstanding. These bonds have a face value of USD 100 thousand (total USD 6,200 thousand), 5% coupon rate and are due on December 22, 2015. They are convertible into common shares of Funcom N.V. at a price of 0.37 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2014 the bonds have a carrying amount of USD 5,478 thousand and an actual balance of USD 6,200 thousand. . KGJI is the majority holder of these convertible bonds with a principal amount held of USD 6,000 thousand. KGJI is the majority holder of these convertible bonds with a principal amount held of USD 6,000 thousand.

WORKING CAPITAL LOAN - CARRYING AMOUNT USD 3,950 THOUSAND (2013: 3,000 THOUSAND)

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

CONVERTIBLE LOAN- CARRYING AMOUNT OF DEBT USD 3,049 THOUSAND (2013: NIL)

On August 26, 2014, Funcom entered into an interest bearing convertible loan agreement with KGJI. The Annual General Meeting of the Company's shareholders held on June 27, 2014 approved an offer from KGJI to restructure USD 2,450 thousand of the existing interest bearing loan and USD 1,550 thousand of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity

on 27 June 2017. The conversion price is 0.86 USD per share. The new convertible loan is due on June 27, 2017 which is an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan was executed successfully in August 2014. As of December 31, 2014 the loan has a carrying amount of USD 3,049 thousand and an actual balance due of USD 4,000 thousand.

On February 7, 2014 KGJ Investments S.A., SICAV-SIF exercised 5 million warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share. On March 3, 2014 KGJ Investments S.A., SICAV-SIF exercised 5 million warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share. On May 2, 2014 KGJ Investments S.A., SICAV-SIF exercised 5 million warrants giving rights to subscribe for 5,000,000 new shares in Funcom N.V. at a price of USD 0.37 per share.

Badhoevedorp, April 30, 2015**The Supervisory Board of Directors in Funcom N.V.****Gerhard Florin, Chairman****Alain Tascan, Vice-Chairman****Ole Gladhaug****Magnus Grøneng****The Managing Directors of Funcom N.V.****Rui Casais****Michel Cassius**

OTHER INFORMATION



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

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

PROPOSED APPROPRIATION OF THE RESULT FOR THE YEAR

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

EVENTS AFTER THE REPORTING DATE

KGJI the major shareholder and creditor of the company has confirmed that it is willing to continue to support the Company by deferring the maturity of the USD 3,950 thousand working capital loan from January 31, 2016 to the earlier of June 30, 2016 or the 2016 AGM.

KGJI also confirmed that it is willing to defer the maturity of the USD 6,200 thousand convertible bond from December 22, 2015 to the earlier of June 30, 2016 or the 2016 AGM.

The exact terms of the loans are to be agreed upon with the creditor.

In April 2015 the Company successfully completed a draw down on the standby equity facility with YA Global Master and as a result raised USD 419 thousands and issued 1,763,311 shares thus increasing equity by the same USD 419 thousands. The agreement with YA Global Master was concluded in May 2012 and represents an equity financing mechanism where Funcom at its discretion can draw down funds in tranches on average every 20 to 30 days in exchange for issuing new shares to YA Global Master.

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To: The shareholders and Supervisory Board of Funcom N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2014

OUR OPINION

We have audited the financial statements 2014 of Funcom N.V. (the Company), based in Badhoevedorp. The financial statements include the consolidated financial statements and the Company financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2014 and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
- the Company financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2014;
2. the following consolidated statements for 2014: statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The Company financial statements comprise:

1. the Company balance sheet as at 31 December 2014;
2. the Company profit and loss account for 2014; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to the going concern paragraph in note 2.1 to the consolidated financial statements where it is described that the company has negative equity at the end of 2013 as well as at the end of 2014 and is depending on the ability to generate sufficient cash inflows from both sales and new financing. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law,

including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

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

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

MATERIALITY

Misstatements can arise from errors or fraud and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken 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.

Based on our professional judgment we determined the materiality for the financial statements as a whole at USD 251,000. The materiality is based on 2% of revenue as recorded in the consolidated profit and loss account. We believe that basing our materiality on revenue best reflects what is important for the users of the consolidated financial statements, considering the nature of the entity's business and industry as well as the entity's current operations. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Audit Committee that misstatements in excess of USD 12,500, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

SCOPE OF THE GROUP AUDIT

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

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

We consider a component significant when:

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

To this extent we:

- performed audit procedures ourselves at parent company Funcom N.V. (the Netherlands)
- The audits of the group entities Funcom Oslo SA (Norway), Funcom Sales GmbH (Switzerland), Funcom GmbH (Switzerland) and Funcom Sarl (Luxembourg) were performed by local BDO auditors.
- performed review procedures or specific audit procedures at other group entities.

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

OUR KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the 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.

Assessment of the carrying value of intangibles

At 31 December 2014, the group held intangibles of USD 7.4m in the form of capitalized development costs of USD 7.3m and software of USD 0.1m. The amount of these balances together with the inherent judgements required to be made when performing an impairment review have resulted in us considering this a key audit matter.

We challenged the Board of Directors' assumptions used in the impairment model for goodwill and other intangibles, described in note 11 to the consolidated financial statements, including specifically the cash flow projections, discount rate, perpetuity growth rates and sensitivities used. We used our BDO valuation specialists to assist us in analyzing the impairment model. Furthermore, we tested the mathematical accuracy of the impairment model and assessed the adequacy of the related disclosures in the financial statements.

Revenue recognition, cut-off and work in progress

The following revenue streams are recognized in the consolidated financial statements of Funcom N.V.: sale of games, sale of in- game items sales, sale of Funcom points,

subscription, revenues from work for hire, royalties and tax credits, as disclosed in note 2.5 to the consolidated financial statements. Due to the fact that risk of fraud in revenue recognition is a presumed risk in our audit based on audit requirements, combined with the fact that revenue is the key business driver for this company, we consider revenue to be an important topic for our audit.

We reviewed the group's revenue recognition policy to ensure it was in accordance with IAS 18.

We performed testing on a sample of contracts, confirming that amounts recognized in revenue are consistent with the contract, invoices raised and cash received. For a sample of projects ongoing at year end, we checked amounts accrued in work in progress, and amounts included in deferred income, to payroll records and contract terms.

We tested the percentage of completion of these projects at reporting date and concluded whether the revenues recognized at year-end are fairly stated, in all material respects. This has been completed through a review of the work performed up to the reporting date and subsequent to the year-end and through discussion with project managers for individual projects.

We have reviewed the Board of Directors' calculation of any accrued royalties and corroborated amounts accrued with reference to post year end royalty statements, where available.

Going concern

As disclosed in Note 2.1 to the consolidated financial statements, the Group has negative equity at the end of 2013 as well as at the end of 2014 which causes doubt as to the Group's ability to continue as a going concern. We identified that the most significant assumption in assessing the Group's ability to continue as a going concern was the expected future profitability of the Group as a whole, as the key determinant of the forecasted capital position, as well as the expressed willingness of the company's major shareholder and creditor to continue to support the Company. The calculations supporting the assessment require the Board of Directors to make highly subjective judgements. The calculations are based on estimates of future performance, and are fundamental to assessing the suitability of the basis adopted for the preparation of the financial statements. We have therefore spent significant audit effort, including the time of senior members of our audit team, in assessing the appropriateness of this assumption.

Our audit of the going concern assessment has focused on:

- review of compliance with loan covenants and agreed ratios with lenders during the year and as at the year end and review of forecasted ratios based on the 2015 forecasts;
- review of (any modifications to) the group's new financing facilities, being the arrangements with YA Global Masters and KGJI;
- review of the willingness of the major shareholder to support

AUDITOR'S REPORT

the Company;

- review of the group's cash flow forecasts, including forecast covenant compliance, for a period of not less than 12 months from the date of signing the auditor's report; and
- review of the effects of the internal reorganization and intentions of the Board of Directors for the future strategy and focus of the business.

Management override of controls

Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively; which is why we consider this to be a key audit matter.

In accordance with ISA 240 "Auditors' responsibilities relating to fraud", we performed audit procedures in order to address the risk of management override of controls. The audit team and component auditors performed the following procedures in order to address this risk:

- review of manually posted journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- review of accounting estimates regarding the intangibles and deferred revenues for evidence of bias;
- review of the consistency of the application of management judgements and estimates;
- review of the consistency of the application of accounting policies;
- evaluation of transactions, if any, that are outside the normal course of business;
- assessment of user access reviews and user management controls.

RESPONSIBILITIES OF BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors 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, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no

realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

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

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the

underlying transactions and events in a manner that achieves fair presentation.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON THE MANAGEMENT BOARD REPORT AND THE OTHER INFORMATION

our obligation to report about the management board report and other information):

we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance Report on the management board report and the other information

- with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- we report that the management board report, to the extent we can assess, is consistent with the financial statements.

ENGAGEMENT

We were engaged by the Supervisory Board as auditor of Funcom N.V. on 18 November 2014 for the financial year 2014 and have operated as statutory auditor since that date.

Amstelveen, 1 May 2015.

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

J.A. de Rooij RA

INVESTOR RELATIONS POLICY FOR FUNCOM N.V.



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

This IR policy was approved by the Funcom Supervisory Board on March 21, 2007. The policy has since been revisited and approved by the Supervisory Board. The most recent evaluation took place in April 2014.

Equal treatment

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

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

Spokespeople for the Company

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

Publication of price sensitive information

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

Guidance

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

Relationship with investment analysts, earnings forecasts and market expectations

Funcom routinely monitors the research reports and forecasts published about the Company. If Funcom becomes aware of a significant positive or negative discrepancy between the

development of the Company's turnover or earnings and the level of expectations in the financial markets for the current financial year, as expressed by earnings forecasts, it will advise the market of the discrepancy by issuing a stock exchange announcement.

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

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

Silent Period

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

FINANCIAL CALENDAR FOR FUNCOM 2014



FUNCOM N.V. WILL PUBLISH ITS FINANCIAL STATEMENTS ON THE FOLLOWING DATES IN 2014/2015:

- **February 27** - **Q4 2014**
- **May 19** - **Q1 2015**
- **August 26** - **Q2 2015**
- **November 17** - **Q3 2015**

Annual general meeting: June 26, 2015.

The dates are subject to change.

CONTACT DETAILS



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