FUNCOM
ANNUAL REPORT 2007

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Funcom is an independent developer and publisher of quality online games for a world-wide audience of gamers. Funcom is considered to be a key contender in the global MMO market, and the company has numerous exciting projects in development. Today Funcom is Europe's largest developer of virtual worlds.

About Funcom

Funcom was founded in 1993 and the company has released more than twenty games to date. Funcom has been an independent developer since 1999, and has through the years gathered great experience in developing both single-player titles and Massively Multiplayer Online games.

In 2007 Funcom continued its progressive growth, and the year started excellently with a large presence at CES, the world's largest electronic consumer show. At CES Funcom was the first gaming company to publicly showcase DX10 technology. This Windows Vista-only graphics evolution results in an unprecedented graphical beauty in PC games, and the landmark achievement was only possible due to Funcom's proprietary MMO engine and employees possessing outstanding technical skills. Being the first to showcase DX10 capability with Age of Conan meant a massive media focus, and ensured strong support from Microsoft at the Windows Vista launch events.

Previously released games continued to receive acclaim in 2007. Dreamfall: The Longest Journey, which was released for PC and Xbox in 2006, received new awards and nominations. The most prominent was Gamespot's Reader Choice Award as "Best Xbox Game of The Year", a significant achievement, and proof of Funcom's ability to also deliver great console games. In 2007 Dreamfall was moreover made available for digital download through services like Valve's Steam and IGN's Direct 2 Drive. At the same time the title was re-released in a new retail box in US and Europe, carrying the "Game of the year" moniker on the front of box.

Anarchy Online also continued its positive performance through the year, and Funcom remains dedicated to its on-going development and support. The game will celebrate its seven year anniversary in June 2008, and it seems likely that the title will continue to perform well for several years to come. With a new Game Director, several solid new staff members and continued delivery of content updates Funcom saw that the amount of paying customers in 2007 remained satisfactory. In Asia the leading business model for online games is now mainly sales of virtual items, and to test this concept Funcom introduced a limited virtual item sales model in Anarchy Online. Initial reactions were more positive than expected, and the initiative has given Funcom more knowledge on how to optimize the business models in future online games.

Development of Age of Conan made great strides forward in 2007, and despite having to postpone the release to May 2008 the interest surrounding the title keeps on growing. Numerous awards were given to the game as a result of public showings at gaming conventions. This included the official "Best Online Game of Show" at the European GC convention, and "Best Online Game of E3" from IGN. Early in 2008 it also became clear that the changes in the combat mechanics were well received from core gaming press and beta testers. The new improvements and the added development time meant that Age of Conan has been given a higher chance of realizing its great potential. As an example, PC Gamer US listed it as one of their most anticipated overall PC games for 2008. The added development time also meant a more extensive beta testing process. In 2007 more than 10.000 players were invited to the Age of Conan beta.

2007 also brought a continued growth in staff, and the Funcom organization surpassed 300 people located in offices in Switzerland, Norway, USA and China. There was growth in all locations, and

Funcom continued its focus on improving all areas of the organization, as well as improving the processes involved in the development of complex game worlds. With funds and means to professionalize the organization Funcom was not only able to scale up for the launch of Age of Conan, but also to start development of two casual MMOs as well as continue the development on The Secret World and Anarchy Online.

While extensive work was done on improving all internal processes, the external gaming market continued to grow, and the market projections for the next few years are positive. The MMO market also continued to grow significantly, and at the time of writing the biggest MMO game on the market has over 10 million subscribers. The Casual MMO market has also increased significantly over the last year in the Western World. In this growing market Funcom remains one of the few MMO companies with the funds, staff, know-how, technology and strategy for becoming a world leader in the years to come.

More information about Funcom can be found on www.funcom.com

Letter from the CEO

We were expecting to launch Age of Conan in 2007 and worked very hard to make that happen. Unfortunately we did not achieve that goal and we were quite disappointed by that. The development of the game has taken longer than estimated and we have had to make changes that have cost us even more development time.

Even though most massively multiplayer online games (MMOs) take more time and cost more money than initially expected, we obviously need to improve our ability to estimate for future projects. We have spent a significant amount of time analyzing and evaluating why our time estimates for Age of Conan have been wrong, and I think it's appropriate to talk about that topic here.

Firstly, with Age of Conan we have in some ways been victims of our own ambitions. We always knew that we had to create a truly spectacular game to succeed in the market, and we have consistently pushed the envelope in terms of technology and gameplay. While there have been risks associated with this, we are still confident that it was the correct strategy for the game and the license – and in many ways, we feel we have succeeded. We have created a game that sets a new standard for the MMO genre in terms of visual quality and gameplay mechanics. Our graphics rendering engine enables us to create a vivid real-world look to the game world, our artificial intelligence routines support new and innovative gameplay mechanics, our hands-on combat system feels distinctly different from Age of Conan's competitors, and our environmental navigation and animation systems ensures a realistic look and feel. As a direct result of our ambitions, Age of Conan is consistently listed among the most anticipated MMOs in development, in direct competition with some of the biggest and best publishers and developers in the world – including EA and Sony – in a genre that continues to attract attention and investment from media players across the world.

Secondly, in response to feedback from our internal QA and external testers, we have had to extend development time in order to adjust several core features of the game. In August of last year, we decided that we had to make combat and character development – key elements of the role-playing game experience – more accessible to players, leading to significant changes. In our opinion, the changes have made Age of Conan a better and more approachable title, at the expense of development time and cost.

Lastly, I believe Funcom – as well as most other MMO developers – has underestimated the sheer complexity of what we are trying to accomplish. We are not just building a game: we are building a virtual world, with all that this entails in terms of content production and technology. With Age of Conan, this task has been complicated by the need to develop new technology in parallel with the game itself, and the complexity of this endeavor has resulted in poor time estimates.

Looking ahead, how will this affect future MMO development at Funcom? We believe the biggest difference is that future MMO projects will be based on a functioning and proven engine – the Dreamworld Engine – and will require less new technology development. Naturally, this significantly reduces the technical risks involved. We also have extensive data on time estimates and massively improved tools for tracking, estimating and evaluating development time and risks. In addition, Funcom now has a wealth of expert talent and experienced managers which puts us in a significantly better position than we were only a couple of years ago. We are also competing in a market where fewer and fewer developers feel up to the task of embarking on large-scale MMO development – a situation that further emphasizes and strengthens Funcom's unique skill sets and experience.

Last but not least, the market appears more and more eager for online entertainment in the form of MMOs. From the youngest customer segments to millions of adults, people spend more and more time online and are more and more eager to explore and experience virtual worlds and massively multiplayer online games.Funcom's position as one of very few experienced large-scale MMO developers and publishers is stronger than ever. The competence gained through the development of both Age of Conan and our proprietary technology should enable us to compete and succeed in the exciting years ahead.

And, of course, we are all looking forward to launching Age of Conan. The signs are positive: The fan base is large and vocal, the press is enthusiastic, and we have made the best game we could make. We believe players across the world will enjoy the experience!

Best regards

Trond Arne Aas
Chief Executive Officer,
Funcom NV.


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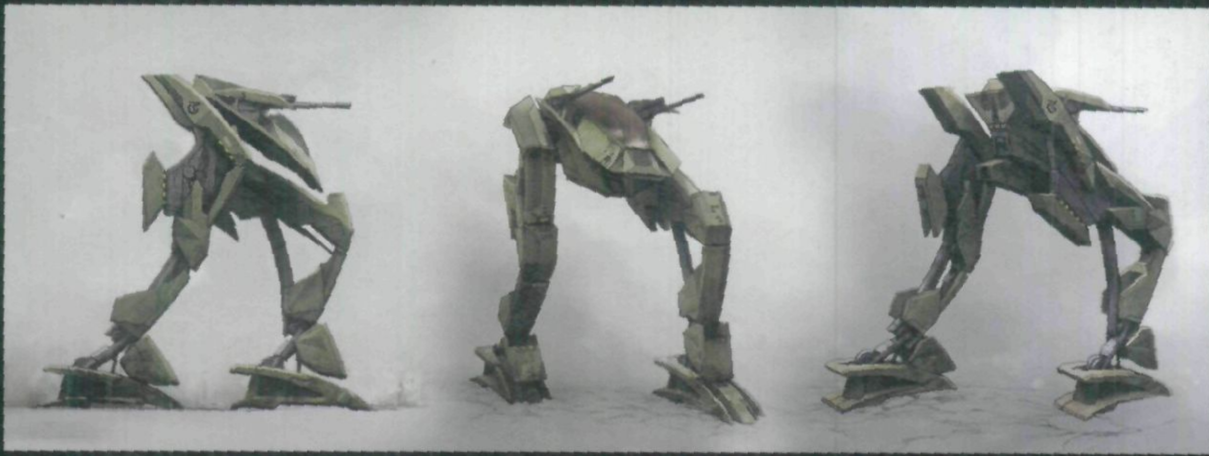
Anarchy online

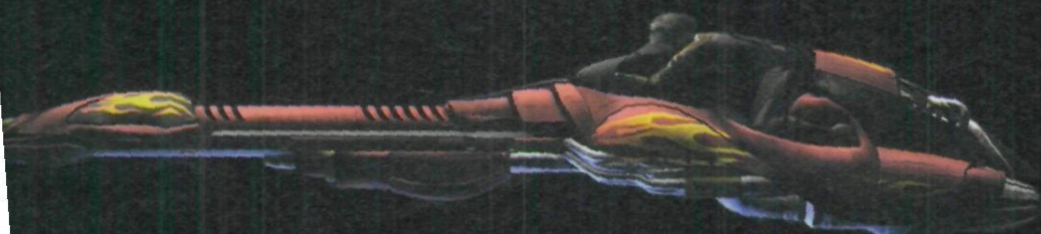
Now into its seventh year, Anarchy Online has continued to expand, develop and incorporate new and innovative business models to maintain its reputation as one of the most compelling and immersive MMO experiences available.

Anarchy Online continued its success through 2007 with new content and production updates for subscribers and free players alike. With hundreds of new arrivals to the world of Rubi-Ka each and every day through the 'free to play' model, the game has continued to thrive and build upon the elements that have ensured that it remains a popular and loyally supported MMO in today's competitive market.

New gameplay elements have been delivered to players more frequently and efficiently than ever before as a result of the production team's new content driven strategy. The proven and experienced tool base and support infrastructure have furthermore enabled the Anarchy Online team to ensure that players get new and exciting gameplay options available in order for them to continue to enjoy the game world like never before.

Funcom's belief in finding new and innovative ways to adapt MMO business models has continued through 2007 with several key initiatives. Q2 saw the launch of virtual concerts within the Anarchy Online game world delivered in cooperation with our partner Massive Incorporated. Major label artists now have an additional avenue to reach their primary demographics through virtual worlds and Funcom aims to stay at the forefront of providing such venues.



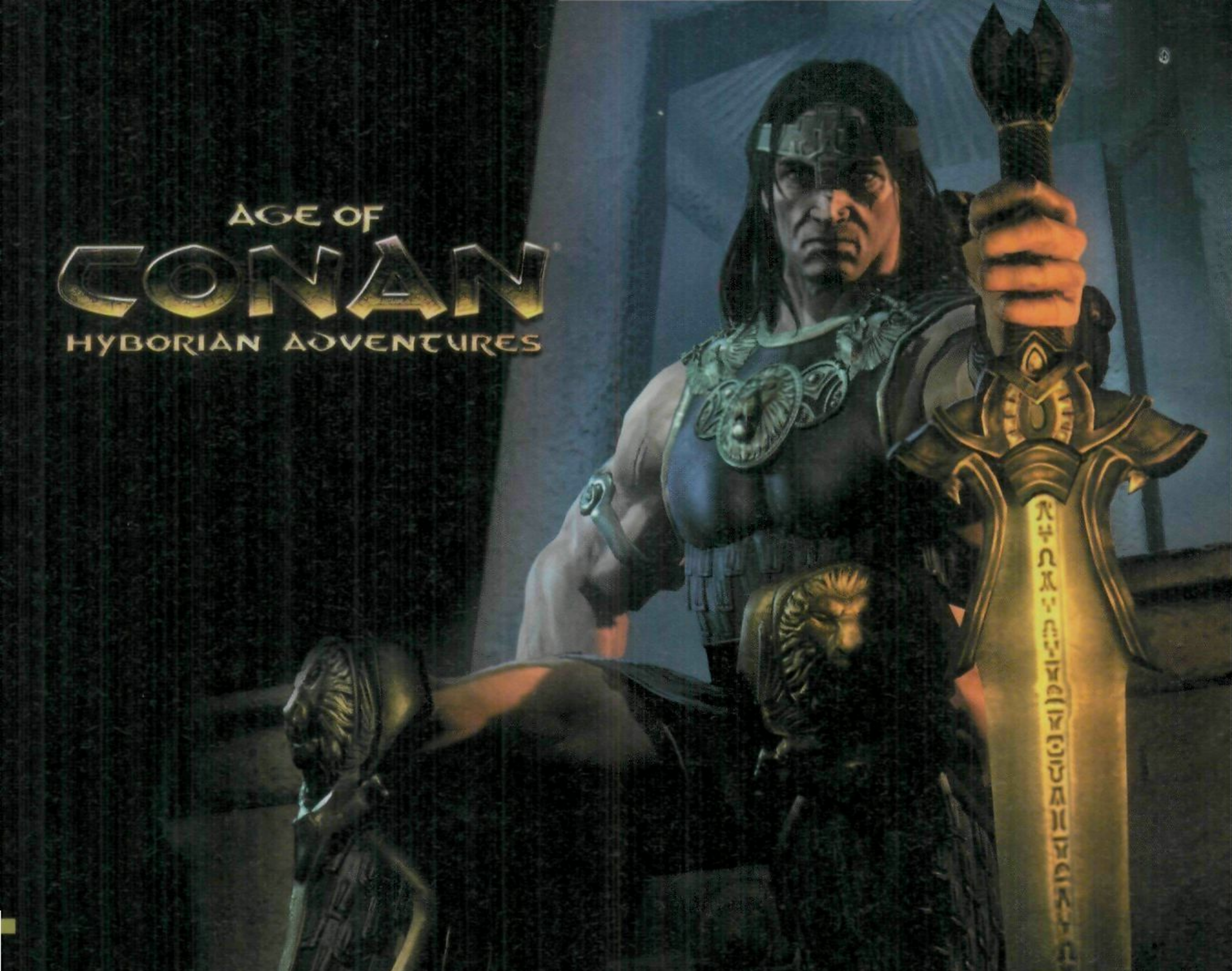


Such events provide a way to tap into the strong existing social aspects of Anarchy Online. These initiatives provide important means for Funcom to maintain the profile of the title and the company through co-advertising and promotional activity to a wider market, getting the title mentioned in mainstream media like the New York Times and the Wall Street Journal. It has also served as a key 'proof of concept' for future similar initiatives and allowed us to develop key technological advantages for the future in what we are confident will be an important segment of the MMO space.

In addition Q3 saw the launch of new payment options for players of Anarchy Online through a new 'paid points' system. This payment mechanism allows users to purchase special credits that can be used through the Company's billing system or in the game itself, to purchase virtual items.

With the addition of these new and exciting revenue streams Anarchy Online remains on a firm footing moving into the future, and provides the Company with key learnings for future titles. With a dedicated and talented development team in place, the game is well positioned to maintain its place as the deepest and most engaging science fiction MMO on the market.

More information about Anarchy Online can be found on www.anarchy-online.com

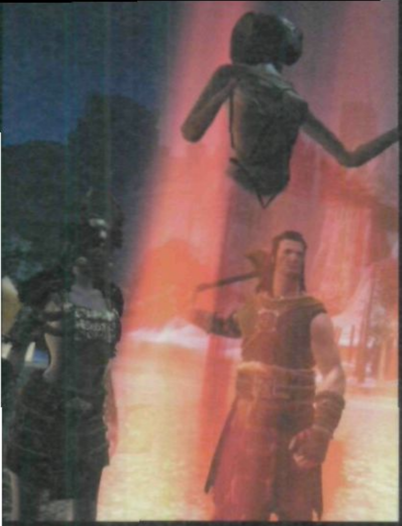


During 2007 Age of Conan: Hyborian Adventures has cemented its position in the marketplace as one of the most highly anticipated massive online games in development. The feedback Funcom has gathered from both press and gamers shows that the primary selling points are reaching home: they want a mature role-playing experience that also challenges the genre's set standards, such as introducing real-time action combat. Funcom also responded to feedback by changing the combat and character development system to reduce the learning curve. The PC version is set to launch on May 20th 2008, while another version of the game set to launch on a later date will be developed for Microsoft's popular Xbox 360 gaming console.

Not only did Age of Conan: Hyborian Adventures win the official and very prestigious "Best Online Game" award at the Games Convention 2007 in Germany – one of the largest and most important gaming conventions in the world – it has also finally proven itself in a trial by fire where journalists from all over the world have been given the opportunity to play the game for great lengths of time in order to form their opinions.

The response has been very positive and Age of Conan: Hyborian Adventures has received around twenty covers on gaming magazines around the world, with more to come. It also won the "Best Online Game" award from VdOSM, an association of the biggest games media in Germany. The mix of cutting edge graphics and a groundbreaking combat system never before seen in a massive online game has inspired journalists: "a new age for massive online games," wrote the editor of PC Jeux, one of the major gaming magazines in France, after having played it comprehensively in early 2007.

The community surrounding Age of Conan: Hyborian Adventures also increased substantially. Funcom launched the sign-up process for the beta



test and newsletters, receiving over 500,000 appli-cations from gamers all over the world. The interest for the game is reaching new heights, continuing to gain momentum leading up to launch thanks to ex-tensive media coverage in both the US and Europe.

Built on proprietary Funcom technology, the game is one of the first of its kind that features DirectX 10 powered graphics developed together with engi-neers at the nVidia Corporation. Age of Conan: Hyborian Adventures is also a Windows Vista show-case title and is a central product in Microsoft's Games for Windows line-up.

Age of Conan: Hyborian Adventures is set in the rich world of Hyboria, basing itself on the successful Conan license that covers books, comics, movies and games. Being a massive online game it gives people from all over the world the chance to log in and ex-perience life in Hyboria together with thousands of other gamers simultaneously, urging them to coop-erate as they battle untold dangers in their quest for adventure.

For more information about Age of Conan please visit www.ageofconan.com

THE SECRET WORLD

Currently in an early stage of production, The Secret World is a massively multiplayer online game for the PC and Xbox 360, based on a Funcom developed and controlled brand, and set in the contemporary real world setting.

Borrowing elements from popular legend, factual history, modern conspiracies and ancient mythology, the core development team has created a rich and exciting game world, and a deep and intriguing storyline encompassing thousands of years of human history. Combined with action-packed gameplay and outstanding visuals and audio, The Secret World is well positioned to be a major MMO brand in the future.

By bringing the massively multiplayer online genre into a modern day setting, the game will potentially appeal to a huge audience of gamers. Utilizing Funcom's proprietary MMO technology, the Dreamworld engine, The Secret World is already in a playable state. The production will ramp up after the launch of Age of Conan, and Funcom anticipates to gradually transfer developers from one project to the other.

With The Secret World, Funcom will also be targeting the large Asian market. Funcom's Beijing office will play an essential role in the production of assets and art for the game, and local designers will be consulted to ensure that the game fulfills the needs of different cultures. By utilizing technology from Age of Conan and development processes, Funcom plans to utilize all the synergies offered by a common development platform, relating to both the time and cost of developing a world-class MMO.

THE DREAM WORLD TECHNOLOGY

The trademarked Dream World engine is the technological foundation on which Age of Conan, The Secret World and future Funcom MMO games will be built. This proprietary MMO engine gives Funcom a unique competitive advantage, and allows faster and more secure deployment of upcoming MMO games.

As more and more companies are entering the attractive MMO genre it becomes vital to stand out from the crowd in order to succeed. A part of the Funcom strategy has therefore been to develop and trademark a proprietary MMO engine. The Dream World engine eases the development and deployment process on future online games, while making sure Funcom controls the entire production pipeline internally.

Not only does the Dream World engine allow Funcom to faster deploy new worlds, as shown by how fast a playable version of The Secret World was up and running, it also means that Funcom has a potential secondary revenue source through external technology licensing. The strength and current quality of the engine is best seen by the fact that Age of Conan was a showcase game for DX10 and the Windows Vista launch, as well as being a premier showcase game for Nvidia.

The advantages of having proprietary technology catering for all aspects of MMO development are evident. As there are no technologies or engines bought off the shelf which can fulfill all MMO needs, Funcom is uniquely positioned compared to new competitors entering market.

CASUAL GAME PROJECT

Funcom moves into casual gaming space with new online MM

The casual gaming segment of the market is one of the fastest growing areas of online gaming and Funcom has now begun research and development of two casual MMO projects.

Utilizing new technologies the company has begun the process of applying the Company's established and proven online infrastructure to this new and emerging market. By aiming to provide accessible and fun game play content within an MMO environment with lower entry barriers Funcom plans to integrate existing expertise and skill sets with the opportunities that these new platforms provide to open up exciting new markets with very promising return on investment.

With a smaller team size and a shorter development cycle the Company intends to become a leading independent developer of casual MMO offerings. Providing both a potential entry point for future generations of MMO gamers as well as allowing for new and exciting revenue opportunities unique to this high growth section of the online gaming market, this development aims to ensure that Funcom remains at the forefront of innovative online design.

Report of the Management Board

FUNCOM'S BUSINESS ACTIVITIES

The operational objective of the company, as stated in article 2 of the Articles of Association shall be to develop, market and carry on business in computer games, hereunder massively multiplayer online games, online role playing games and related games on electronic devices of different kinds. The financial objective of the company is to maximize the return on investment to the shareholders.

The strategy designed to achieve these objectives includes to take and grant licenses and other industrial property interests, assume commitments in the name of any enterprises with which it may be associated within a group of companies, to take financial interests in such enterprises and to take any other action, such as but not limited to the granting of securities or the undertaking of obligations on behalf of third parties, which in the broadest sense of the term, may be related or contribute to the aforesaid objectives.

The key parameters to be applied to the strategy are; number of players per game, churn of players in each game as well as the lifetime of the games.

REVIEW OF FUNCOM'S FINANCIAL POSITION AND FINANCIAL RESULTS FOR 2007.

Funcom's revenue for 2007 was TUSD 6.895 compared to TUSD 10.822 in 2006. The operating result for 2007 was TUSD -7.462 compared to TUSD - 3.220 in 2006. Fully diluted earnings per share were USD 0,04 compared to USD 0.07 in 2006. Funcom's equity stood at TUSD 92.147 at year end 2007, compared to TUSD 59.313 at year-end 2006. The group had cash at the end of 2007 of TUSD 52.366 compared to TUSD 37.423 at the end of 2006. The group's balance sheet has been strengthened in 2007, with proceeds from a private placement with net proceeds of MUSD 29,4.

Funcom's accounts have been prepared on a going concern basis, and the Funcom group follows IFRS reporting. Going forward, Funcom will continue to invest heavily into its existing games and new games, and the company should be sufficiently financed to complete the projects that are in production. The company's research and development consists primarily of software development, game design and graphics investments, and for 2008 research & development will increase compared to 2007, as the company plans to increase its development resources and number of employees.

MAIN DEVELOPMENTS

During 2007 Funcom continued its progress in the development of Age of Conan. The game received several important press awards and has emerged as one of the two most highly anticipated MMO games for 2008. The Secret World, Funcom's second full fledge MMO in development progressed and has now playable playfields in place. Funcom also initiated the development of a casual MMO in 2007.

Plutolife, Funcom's mobile subsidiary continued its growth in usage, but this was however not satisfactory matched by revenue growth partly due to market penetration initiatives in the US.

MARKET DEVELOPMENT

In 2007, the Massively Multiplayer Online (MMO) gaming market continued to grow, driven amongst other by the game World of Warcraft (Blizzard / Vivendi) which now has over 10 million subscribers world wide. The success of this game has demonstrated the increasing size of the market, and particularly the competitiveness of MMO games compared to traditional single-player computer- & console games. The World of Warcraft expansion

2007 and reported a ship-in of over 4 million copies and a sell-through of more than 2.3 million copies in the first 24 hours, breaking all historical records for PC games. The number of companies with the critical mass and the skills required to be able to compete within the MMO segment remains limited, and there are still few large scale games being launched each year.

This is due to the extensive experience and long time required to develop a new MMO game. In early 2007, Sony Online Entertainment and Sigil launched their Vanguard MMO and received mixed reviews. Lord of the Rings Online from Turbine launched in April 2007 and received praise for the stability of the game. In the autumn of 2007, the Gods & Heroes MMO from game developer Perpetual was put on an indefinite hold.

PRODUCT & TECHNOLOGY DEVELOPMENT

During the year, Funcom made significant progress with its upcoming titles Age of Conan and The Secret World. In addition, Funcom has maintained a stable player base on its existing MMO Anarchy Online. Funcom has also initiated development in the casual MMO area with titles yet to be announced.

Funcom's key technology platform, the Dreamworld Technology, which is the basis for Age of Conan, The secret World and future MMOs, has during the past year been significantly upgraded, and is considered a strong competitive asset for the company.

FUTURE OUTLOOK

Funcom has during the past few years restructured the company and built a new platform for future growth and profitability. The Board expects, however, a reduction in revenues in the next quarter

from Age of Conan, which, due to the planned launch 20 May 2008, will have its main financial impact from the second half of 2008 and onwards.

INTERNAL & EXTERNAL ENVIRONMENT

As of 31 December 2007, the group employed 302 employees. 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.

Sick leave in the group is less than 3,8%. No serious work-related incidents or accidents have occurred or have been reported during the year. The working environment is good, and the company does not carry out activities that significantly pollute the environment. The Group welcomes applications for employment from all sectors of the community and strives to promote equality of opportunity in employment for all.

SHAREHOLDERS AND CAPITAL

The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will ensure that information is communicated to the market equally and that the information provides an accurate view of the status of the company in material respects on an ongoing basis. The company has one class of shares and each share has one vote at General Meetings. At the end of 2007, Funcom had a share capital of TUSD 2.715 consisting of 52.769.625 shares with a nominal value of EUR 0.04 per share. In addition, there are outstanding option programs of 1.358.200 options to subscribe to shares for employees in the company.

CORPORATE GOVERNANCE

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

In terms of internal risk management and control systems, the company has made enhancements during 2007 and 2008. In 2007 Funcom proceeded with a risk analysis and discussed it with the Supervisory Board. The Company also set up an internal control structure that includes plans and budgets, separation of duties as well as authorization schemes. This was discussed with the Supervisory Board. During the year the Company did not receive or discover any indications that the controls were not effective. 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. As the company is continuing to grow and mature, Funcom's management will focus on improving its internal control structure and processes even further. Management believes that the internal control structures in place are adequate for Funcom's purposes.

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

DIVIDENDS

Funcom has in 2007 raised capital through a private placement, and is investing this capital in the launch of Age of Conan and to be able to pursue strategic opportunities if they should arise. The Company will therefore retain its surplus cash in the Company.

APPLICATION OF PROFIT/LOSS

The Management Board proposes that the net profit for 2007 of Funcom N.V. amounting to TUSD 2,318 should be used to increase Other Equity. Total Equity after the results for 2007 is TUSD 92.085. The Management Board does not propose payment of a dividend.

EVENTS AFTER BALANCE SHEET DATE

After the balance sheet date there have been 3 subsequent events that are detailed in Note 28 in the Notes to the Consolidated Financial Statements in this Annual Report.

Dübendorf, 13 March 2008

Trond Arne Aas

Jan Inge Torgersen

Report of the Supervisory Board of Directors

ANNUAL REPORT

We hereby present you with the Annual Report for 2007, including the annual financial statements as were drawn up by the Management Board. The annual financial statements have been examined by the external auditors Mazars Paardekooper Hoffman NV who have issued an unqualified audit opinion which is shown in this Annual Report. We have discussed the Annual Report with the Management Board in the presence of the auditors. On the basis of these discussions we state that the Annual Report provides the necessary basis for the release and discharge of the Supervisory Board in respect of its accountability and supervisory function.

RESULTS AND STRATEGIC POSITION

Funcom's revenue for 2007 was TUSD 6.895 compared to TUSD 10.822 in 2006. The operating result for 2007 was TUSD -7.462 compared to TUSD - 3.220 in 2006. Fully diluted earnings per share were USD 0,04 compared to USD 0.07 in 2006. Funcom's equity stood at TUSD 92.147 at year end 2007, compared to TUSD 59.313 at year-end 2006. The group had cash at the end of 2007 of TUSD 52.366 compared to TUSD 37.423 at the end of 2006. The group's balance sheet has been strengthened in 2007, with proceeds from a private placement with net proceeds of TUSD 29,372.

In 2007, the Company delayed the launch of its new title, Age of Conan, but it is entering 2008 with the game being listed on top or among the top online PC titles scheduled for release in 2008 in several publications. Whilst the Supervisory Board was disappointed with the delay of Age of Conan, it has also registered the progress made during the year, with Funcom proving that high game quality and strong management are inherent capabilities of the Company. The Board believes the company has established a healthy platform for future growth despite of the inherent risk associated with such development projects.

The Supervisory Board is responsible for monitoring and advising the Management Board, adopt the Company's strategy and perform the requisite control functions. The Supervisory Board sets the objectives for financial structure and adopts the Company's plans and budgets. Items of major strategic or financial importance for the Company are handled by the Supervisory Board. The Supervisory Board has discussed both its own functioning and that of its individual members and finds that the current structure and processes in place are satisfactory. It has also discussed the composition and functioning of the Management Board and has full confidence in its current composition. The Supervisory Board has furthermore been presented with a risk overview for the Company and believes that the risk level in Funcom is acceptable. During the year it has regularly had discussions with the Management Board regarding corporate strategy.

SUPERVISORY BOARD COMPOSITION AND REQUIRED EXPERTISE

- 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 2007 to the rest of the Supervisory Board. The established remuneration policy has been followed during the year. In 2008 an updated remuneration policy will be presented to the AGM to reflect the Supervisory Board's option of allocating performance bonus to key employees. 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 following professionals served on the Supervisory Board year-end, 2007:

Torleif Ahlsand, Chairman of the Supervisory Board (born 1966, male, Norwegian, 2nd term, member since 2005) Mr. Ahlsand is a General Partner in Northzone Ventures that controls 9.449.175 shares in the Company and is hence not viewed as independent. Torleif Ahlsand also controls 31,500 shares in Funcom shares through his company Brownske Bevegelser AS. Prior to Northzone, Mr. Ahlsand was VP Corporate Finance in Handelsbanken Securities and a corporate development executive in Orkla ASA. Mr. Ahlsand also has a professional technical background as a research scientist at CERN outside Geneva and as a telecommunications engineer in NERA ASA. Mr. Ahlsand holds a M.Sc. degree in Electrical Engineering and Computer Science from NTNU (1991) and an MBA with Honors from IMD in Switzerland (1997). Mr. Ahlsand lives in Oslo, Norway

Michel Cassius,
(born 1957, male, French, 1st term, member since 2006) Mr. Cassius is the co-founder and Director of YoYo Games Ltd, a start up company who launched www.yoyogames.com in 2007, the largest user generated casual game site. Prior to joining YoYo games, Mr. Cassius served as the European managing Director of Fun Technologies and the Senior Director of Platform and Marketing for Microsoft's Xbox business in EMEA. He also spent seven years at Electronic Arts, where he led EA.com, Electronic Art's online gaming business in Europe where he launched Ultima Online, one of the first MMOG's in Europe. Mr. Cassis holds 50.000 share options in the Company. Mr. Cassius lives in London, UK.

Hans Peter Jebsen,
(born 1957, male, Norwegian, 2nd term, member since 2005) Mr. Jebsen has several years experience from the shipping industry in the US, South East Asia and Europe. He holds a number of board positions in shipping companies. Mr. Jebsen lives in Oslo, Norway and is not viewed as independent as he and his affiliates hold 12.058.075 shares in the Company through Stelt N.V. and Tom Dahl AS.

Pieter van Tol,
(born 1964, male, Dutch, 2nd term, member since 2005) Mr. van Tol is the owner and a managing director of Temmes Management Services B.V., a financial consultancy firm. Temmes Management Services B.V. sells services related to legal and tax matters to Funcom and other clients, and he is therefore not regarded as independent. He is a board member of several companies in Switzerland, the Netherlands and Luxembourg. Mr. van Tol lives in Küsnacht, Switzerland, and holds 500 shares in the Company. Mr. van Tol is also a Director in Funcom GmbH, Funcom Sales GmbH, Funcom Beijing GmbH.

Claus Højbjerg Andersen,
(born 1965, male Danish, 2nd term, member since 2005) Mr. Højbjerg Andersen is a General Partner of Nordic Venture Partners that holds 5.208.325 shares in the Company. He has been with Nordic Venture Partners since the start in early 2000 and has over the years focused mostly on enterprise software and internet related investments. Prior to joining Nordic Ventures Partners he had an international career in the financial industry in the areas of asset management, research and sale through working for Danske Capital (Copenhagen), Nordea (Luxembourg) and Enskilda Securities (London). Mr. Højbjerg Andersen holds a B.Comm. degree in Credit and Finance from Copenhagen Business School. Mr. Højbjerg Andersen lives in Copenhagen, Denmark.

The Supervisory Board has appointed a Remuneration Committee and an Audit Committee. The Remuneration Committee consists of Mr. Jebsen (chairman) and Mr. Ahlsand (member) and has conducted 2 meetings during 2007 with remuneration of the Management Board and the allocation of the Options Programme as the main agenda points. The Audit Committee consists of Mr. van Tol (chairman) and Mr. Højbjerg Andersen (member), and has conducted 5 meetings during 2007 with accounting policies, risk management and control as well as approval of financials as the main agenda points.

Dübendorf, 13 March 2008
The Supervisory Board
of Directors in Funcom N.V.

Torleif Ahlsand, Chairman

Michel Cassius

Pieter van Tol, Vice-Chairman

Hans Peter Jebsen

Claus Højbjerg Andersen

Funcom N.V. Consolidated Income Statement

for the year ended December 31, 2007

In thousands of US dollars	Note	2007	2006	2005*
Revenue	3,4	6 895	10 822	5 291
Cost of sales		0	-42	0
Personnel expenses	5,16	-5 903	-4 438	-2 933
General and administrative expenses	6,21	-4 806	-4 164	-2 061
Depreciation, amortization and impairment losses	10,11	-1 635	-4 182	-813
Other operating expenses	7	-2 013	-1 216	-805
Operating expenses		-14 357	-14 042	-6 612
Operating result		-7 462	-3 220	-1 321
Share of profit of associate	20	0	0	28
Finance income	8	8 216	4 175	30
Finance expenses	8	-591	-355	-219
Result before income tax		**163**	**600**	**-1 482**
Income tax (expense) / income	9	2 001	2 636	6
Result for the period		**2 164**	**3 236**	**-1 476**
Attributable to:				
Equity holders of Funcom N.V.		2 318	3 347	-1 558
Minority interest		-154	-111	82
Result for the period		**2 164**	**3 236**	**-1 476**
Basic earnings per share (US dollars)	22	0,05	0,07	-0,05
Diluted earnings per share (US dollars)	22	0,04	0,07	-0,05

* Certain comparatives were reclassified to conform to the current period's presentation.

Funcom N.V.
Consolidated Balance Sheet

As at December 31, 2007

In thousands of US dollars	Note	2007	2006
ASSETS			
NON-CURRENT ASSETS			
Deferred tax asset	9	4 509	2 538
Intangible assets	10	35 697	19 698
Equipment	11	4 166	1 028
Long term receivables	24	469	0
Total non current assets		**44 841**	**23 264**
CURRENT ASSETS			
Trade receivables	12,24	977	1 239
Prepayments and other receivables	13	2 067	1 612
Cash and cash equivalents	14	52 366	37 423
Total current assets		**55 410**	**40 274**
Total assets		**100 251**	**63 538**

Funcom N.V. Consolidated Balance Sheet

As at December 31, 2007

In thousands of US dollars	Note	2007	2006
EQUITY AND LIABILITIES			
Share capital		2 715	2 522
Share premium		121 669	91 920
Translation reserves		682	185
Retained earnings		-32 981	-35 510
Equity attributable to equity holders of Funcom		92 085	59 117
Minority interest		62	196
Total equity	**15**	**92 147**	**59 313**
Non-current liabilities			
Long term debt	24	1 618	0
Total non-current liablities		1 618	0
CURRENT LIABILITIES			
Trade payables		1 048	395
Deferred income	18,24	506	624
Income tax liability	9	68	70
Provisions	17	715	694
Other short term liabilities	19	4 149	2 442
Total current liabilities		6 486	4 225
Total liabilities		8 104	4 225
Total equity and liabilities		**100 251**	**63 538**

Funcom N.V.
Consolidated Statement of Cash Flows

for the year ended December 31, 2007

In thousands of US dollars	Note	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		163	599
Adjustments for:			
Depreciation, amortization and impairment losses		1 635	4 182
Share-based payments	15,16	445	111
Finance income/expense		-744	-467
Effect of exchange rate fluctuations		-6 259	-3 317
Change in trade receivables		-71	-595
Change in trade payables		591	77
Change in other current assets and liabilities		210	-1 086
Cash generated from operations		-4 030	-496
Interest received		1 518	789
Interest paid		-77	-7
Income taxes		2	0
Net cash from operating activities		**-2 587**	**286**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash acquired	20	0	-367
Purchase of equipment	11	-1 174	-813
Investment in intangible assets	10	-16 253	-11 167
Change in long term receivables		-442	0
Purchase of shares in subsidiary		-186	0
Net cash used in investing activities		**-18 055**	**-12 347**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of share capital	15	29 372	19 787
Proceeds from borrowings		156	0
Payment of finance lease liabilities		-291	0
Net cash from financing activities		**29 237**	**19 787**
Net increase in cash and cash equivalents		**8 595**	**7 726**
Effect of exchange rate fluctuations		**6 348**	**3 317**
Cash and cash equivalents at beginning of period	14,24	**37 423**	**26 380**
Cash and cash equivalents at end of period	14,24	**52 366**	**37 423**

Funcom N.V. Consolidated Statement of recognized income and expense

for the year ended December 31, 2007

In thousands of US dollars	Note	2007	2006
Foreign exchange translation difference		668	349
Net income recognized directly in equity		668	349
Result for the period		2 164	3236
Total recognized income and expense for the period	15	2 832	3 585
Attributable to:			
Equity holders of Funcom N.V.		2 947	3 683
Minority interest		-115	-98
Total recognized income and expense for the period		**2 832**	**3 585**

Funcom N.V.
Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Funcom N.V. ("Group" or the "Company") is a limited company registered in The Netherlands. The Company is incorporated in Katwijk, The Netherlands. The Group's head office is in Neugutstrasse 66, 8600 Dübendorf, Switzerland. The Company is listed on the Oslo Stock exchange under the ticker "FUNCOM"

The objectives of the company as stated in the Articles of Association, 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 objects.

The consolidated financial statements of the Company for the year ended December 31, 2007, comprise the Company and its subsidiaries (the Group).

The consolidated financial statements were authorized for issue by the Supervisory Board on March 13, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union and its interpretations adopted by International Accounting Standards Board (IASB).

The Group prepared its first consolidated financial statements under IFRS for the year ended December 31, 2005.

Presentation and functional currency

The consolidated financial statements are presented in US dollars (USD), rounded to thousands. In the future US dollars will remain as the main currency in the Groups economic environment, due to an expected majority of US dollars revenues and an increasing cost level in US dollars.

Basis of measurement

The consolidated financial statements are presented on a 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 the 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 the management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

Accounting policies

The accounting policies have been applied consistently by group entities. The accounting policies are the same as those applied in the consolidated financial statements for the year ended December 31, 2006, except for the fact that the Group as of January 1, 2007 adopted IFRS 7.

Adoption of new standards in 2008 or later

The IASB and the IFRIC have issued a number of new and amended standards and interpretations that are effective for financial periods beginning on or after January 1, 2008, or later. The impact of all these standards and interpretations has not yet been systematically analyzed, but none of these standards and interpretations are expected to have a significant impact on the consolidated financial statements.

2.2 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control normally exists when the Group owns, either directly or indirectly, more than 50% of the shares in another entity. Subsidiaries are included in the consolidated financial statements from the date the control effectively commences until the date control ceases.

The purchase method is applied when accounting for business combinations.

Inter-company transactions

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

2.3 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate at the balance sheet 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 income statement.

Foreign operations

Year-end financial statements of consolidated entities are prepared in their respective functional currencies and translated into USD (the Group's reporting 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 balance sheet 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 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 directly in equity. On disposal of a foreign operation, exchange differences recognized in equity are recognized in the income statement as part of the gain or loss on disposal.

2.4 Revenue recognition

Revenue from operations

Online subscription income, royalty income, income from mobile phone services and advertising income are currently the Group's significant sources 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 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, discounts, and returns.

Subscription income is generated when customers purchase upfront access time for our product '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 balance date revenue not recognized in the income statement is recognized as deferred revenue and presented in the balance sheet as a liability.

Revenue from contracts involving work performed by the Group with contingent deliverables is recognized in the income statement when the outcome of a transaction can be estimated reliably. The outcome of a transaction can normally not be estimated reliably until the contracts are fulfilled. Until recognition in the income statement of such revenue can take place, revenue is recognized as deferred revenue and presented in the balance sheet as a liability.

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is normally when delivery has taken place.

Revenues from license and royalty agreements with a minimum non-refundable guaranteed advance is recognized at the delivery of the product. Per copy royalties on sales that exceed the guaranteed minimum amount is recognized as the licensees report unit sales. 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 Mobile phone services is recognized upon usage of the service.

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 meant to cover, and are recognized in the income statement over the life of the amortizable asset by way of a reduced amortization charge. Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement 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 income statement as they accrue, using the effective interest method.

Capital management

The Supervisory Board policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Supervisory Board monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests.

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

There were no changes in the group's approach to capital management during the year.

Neither Funcom N.V. nor any of its subsidiaries are subject to externally imposed capital requirements.

2.5 Expenses

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 income statement on a straight line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

Finance expenses

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

2.6 Income tax

The tax expense consists of current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in 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 balance sheet 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 they will probably 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 balance sheet 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 balance sheet.

2.7 Intangible assets

Intangible assets are recognized in the balance sheet 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, other than goodwill. Amortization methods, useful lives and any residual values are reassessed at the reporting date.

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

Goodwill

Goodwill arises on acquisition of subsidiaries and associates. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the income statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. 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 in the income statement when incurred. Expenses relating to development, such as labor cost, material costs and directly attributable overheads are recognized in the income statement 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
- 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, the costs relating to development start to be capitalized. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.
Development costs are amortized from the date that they are available for use and according to the expected economic benefits, normally between 2 – 5 years.

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 that is acquired and further improved by the Group is stated at cost less accumulated amortization and impairment losses. Amortization is recognized in the income statement on a straight-line basis over the estimated useful lives ranging from 2 to 5 years.

Patents and licenses

Patents and licenses that are acquired by the Group are stated at cost less accumulated amortization and impairment losses. Amortization is recognized in the income statement on a straight-line basis over the estimated useful lives ranging from 2 to 5 years and starts when the acquired assets are available for use. Capitalized patents and licenses that are not yet available for use are tested for impairment every year.

Software

Costs to purchase new computer software programs are recognized in the balance sheet as an intangible asset provided the software does not form an integral part of the related hardware. Software is stated at cost less accumulated amortization and impairment losses. Software is amortized using the straight-line method over 3- 5 years.

2.8 Equipment

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

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 property, plant and 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 income statement as incurred.

Depreciation

Depreciation is charged to the income statement using the straight-line method over estimated useful lives 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 in terms of 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. Financial lease payments are recognized in the balance sheet as reduced liability and in the profit and loss as interest expense on the related liability. Capitalized tangible fixed assets relating to the lease are depreciated over the profit and loss account.

2.9 Impairment of intangible assets and equipment

The carrying amounts of the Group's assets, other than intangible assets and equipment, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognized in the income statement.

Calculation of recoverable amount

The recoverable amount of intangible assets and equipment is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment losses

An impairment loss in respect of goodwill is not reversed. In respect of other intangible assets and equipment, impairment losses recognized in prior periods are assessed at each reporting date for any indications that an impairment 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

2.10 Financial instruments

The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant position in other currencies than the USD as for example Norwegian kroner. The Group evaluates its currency risk on an ongoing basis. See note 24.
The Group also does not invest in equity or debt securities.

2.11 Trade receivables and other receivables

Trade receivables are stated at their amortized cost using the effective interest method, less impairment losses. The interest element is disregarded if it is insignificant.

Should there be objective evidence of a decline in value of a receivable, the difference between the carrying amount and the present value of future cash flows, discounted by the receivable amount's original effective interest rate, is recognized as a loss.

Receivables with a short duration are not discounted. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

2.12 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.

2.13 Equity

Costs of equity transactions

Transaction costs relating to an equity transaction are recognized directly in equity after deducting tax expenses. Only transaction costs directly linked to the equity transaction are recognized directly in equity.

Dividends

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

2.14 Employee benefits

Defined contribution plan

The Group has defined contribution pension plan 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 income statement when they are due.

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 of the Company. The fair value of the options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. 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. The amount recognized as an expense is adjusted to reflect the actual number of shares options that vest except where forfeiture is only due to share price not achieving the threshold for vesting.

2.15 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.

2.16 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.

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.

2.17 Trade and other payables
Trade and other payables are stated at nominal value

2.18 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. Immediately before classification as held for sale the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter the assets or disposal group are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are included in the income statement. Gains are not recognized in excess of the cumulative impairment loss.

2.19 Segments
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segments), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other 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.

2.20 Contingent liabilities and assets

Contingent liabilities are:

- possible obligations resulting from past events whose existence depends on future events,
- obligations that are not recognized because it is not probable that they will lead to an outflow of resources, or
- 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.

3. SEGMENT INFORMATION

The Group is a consumer entertainment software company that develops a wide variety of entertainment software products for video game consoles, personal computers and other internet-connected hardware platforms. The Company has 3 new games in development and is operating one live Massively Multiplayer Online Game (MMOG), 'Anarchy Online'. In addition the Group develops and sells services for mobile phones.

Segment information is presented in respect of the Group's business segment. The business segments, is determined with information from the Group's management and the internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments loans and borrowings and related expenses and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following two business segments:

- Mobile: develops and sells services for portable consumer electronic devices.
- PC and Console: develops, maintains and sells games for PCs and consoles.

The Mobile segment is organized in separate entities (Plutolife AS with subsidiary).

In thousands of US dollars	PC and Console		Mobile		Unallocated		Total	
Business segment:	2007	2006	2007	2006	2007	2006	2007	2006
Revenue from external customers	4 621	8 492	2 274	2 330			6 895	10 822
Total segment revenue	4 621	8 492	2 274	2 330			6 895	10 822
Operating result	-6 726	-2 571	-737	-649			-7 463	-3 220
Total assets	70 392	39 143	1 493	2 431	28 366	21 963	100 251	63 538
Total debt	6 784	3 628	1 321	598			8 105	4 226
Capital expenditure	20 668	12 098	298	352			20 966	12 451
Depreciation and amortization	1 453	3 914	182	268			1 635	4 182
Impairment losses	0	0	0	56			0	56

Unallocated assets consist of surplus cash and deferred tax assets.
There have been no significant inter-segment transactions.

Geographical segments
In general the Group sells its products online to customers all over the world through centralized entities. Presented below is a table that divides the Group's revenue on the Group's main geographical areas. It is difficult to identify segments assets and capital expenditures relating to geographical segments in a consistent and reliable way that will contribute to a better understanding of the Group's operations. The management has therefore chosen not to disclose segment assets and capital expenditures in accordance with IAS 14.15.

REVENUE

In thousands of US dollars	2007	%	2006	%	2005	%
North America	2 003	29%	4 024	37%	2 133	40%
Europe	4 675	68%	6 491	60%	2 994	57%
Rest of the world	217	3%	307	3%	164	3%
Total revenue	6 895		10 822		5 291	

4. REVENUE

In thousands of US dollars	2007	%	2006	%	2005	%
Online revenue	3 478	50%	4 157	38%	4 129	78%
Offline revenue	1 143	17%	4 335	40%	303	6%
Mobile revenue	2 274	33%	2 330	22%	859	16%
Total revenue	6 895		10 822		5 291	

5. PERSONNEL EXPENSES

In thousands of US dollars	2007	2006	2005
Wages	4 219	3202	2 491
Social security contributions	511	390	0
Other social costs	433	245	355
Contributions to defined contribution plans	43	40	0
Expenses for share option program	445	333	82
Bonus/profit sharing	252	228	5
Total personnel expenses	**5 903**	**4 438**	**2 933**
Average number of employees			
Europe	191	164	115
North America	38	28	13
Asia	22	12	2
Total	**251**	**204**	**130**

6. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2007	2006	2005
Travel & marketing	1 986	1 600	763
Consultants	1 061	1 184	434
Other office costs	626	438	237
Recruitment costs	381	175	83
Rent of premises	339	438	358
Investor relations	182	111	0
Hardware & software	175	128	78
Bandwidth Internet	56	90	108
Total general and administrative expenses	**4 806**	**4 164**	**2 061**

7. OTHER OPERATING EXPENSES

In thousands of US dollars	2007	2006	2005
Commissions	653	510	169
Hosting costs for online services	1 183	382	291
Sales and distribution costs	177	206	173
External support and services	0	118	172
Total other operating expenses	**2 013**	**1 216**	**805**

8. FINANCE INCOME AND EXPENSES

In thousands of US dollars	2007	2006	2005
Interest income	1 919	798	27
Net foreign exchange gain	6 297	3 377	0
Other financial income	0	0	3
Finance income	**8 216**	**4 175**	**30**
Interest expense	-77	-23	-29
Net foreign exchange loss	-453	-329	-190
Other finance expenses	-61	-3	0
Finance expenses	**-591**	**-355**	**-219**

9. INCOME TAX EXPENSE

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

In thousands of US dollars	2007	2006	2005
Current period	-13	-52	-18
Adjustments for prior periods	-13	-52	-18
Deferred tax expense	-950	0	0
Origination and reversal of temporary differences	3 196	532	11
Change in tax rate	-232	0	0
Utilization of previously unrecognized tax losses	0	2 156	13
	2 014	2 688	24
Total income tax expense	2 001	2 636	6

	2007	2006	2005
Result before income tax	163	600	-1 483
Income tax	2 001	2 636	6
Result for the period	2 164	3 236	-1 477
Tax according to the average tax rate in Switzerland, Luxembourg, USA and Norway	-18	-93	-206
Tax effect on changes in temporary differences	3 196	532	-62
Tax effect of non-deductable expenses	5	41	-5
Tax effect of tax loss carryforwards	-950	2 156	279
Tax effect of change in tax rate	-232	0	0
Income tax (expense) / income	2 001	**2 636**	**6**

The Group did not recognize any income tax directly in equity.

Deferred tax liability/tax receivable

In thousands of US dollars	2007	2006
Deferred tax liability	-169	-206
Deferred tax receivable	4 678	2 744
Deferred tax liability, net	4 509	**2 538**
Deferred tax liability in the balance sheet:		
Fixed assets	-143	0
Fiscal loss carryforward	-26	0
Total	-169	0
Fiscal loss carryforward	1 019	2 170
Fixed assets	3 663	374
Provisions/Receivables	-4	-6
Total	4 678	**2 538**
Reconciliation of deferred tax liability, net:		
Opening balance	2 538	24
Change in opening balance, IAS 39	0	-180
Change according to statement of income	2 001	2 688
Exchange differences etc.	-30	6
Deferred tax liability, net, at year-end	4 509	**2 538**
Total	4 509	**2 538**

The carried forward tax losses originating from Norway do not expire under current tax legislation. The Group has tax losses of TUSD 7,079 as at December 31, 2007. (2006: TUSD 30,812) which expires as follows:

In thousands of US dollars		
Expire year	2007	2006
2007	0	13 570
2008	0	9 898
2009	3 807	4 377
2010	953	881
2011	367	0
2012	0	339
2013	0	0
2014	171	0
Indefinite	1 781	1 747
Total tax losses	7 079	30 812

The Group's tax losses arose primarily in 2003 and earlier, and also in 2005. The tax losses were partially utilized in 2003, 2004, 2006 and 2007. In 2007, tax losses of USD 25,910,873 were utilized.

The Group's tax losses are primarily located in Funcom GmbH, Switzerland and in Plutolife AS, Norway.
The management has discussed the probability that it will be able to utilize parts of the historic unused tax losses individually for these companies, and has concluded that the conditions for utilization of the tax losses are present.

Funcom management bases its position on the strong interest for Age of Conan. Age of Conan has so far received around 20 covers in gaming magazines and numerous cover mentions, in addition to board press coverage in Europe and North America. Age of Conan also scores high on ratings lists on MMO-sites and is the most anticipated game on several MMO-dedicated sites. Funcom also have other strong 3rd party indications that the game will be well received in the market, such as more than 500,000 beta/newsletter signups and information from Eidos, the worldwide distributor of Age of Conan.

Since late 2006 Plutolife AS has invested in the US market, and during 2007 Plutolife entered into contracts with many of the largest US mobile operators. From the second half of 2007 the revenue from the US initiatives started to grow. The management expects that this growth combined with strict cost control will result in taxable profits in the time to come. Based on this it is the management's position that sufficient future profits will be available to utilize the carry forward tax losses.

Restructuring
On December 31, 2007 the Group effectuated an internal transfer of the sales and marketing rights of Age of Conan from Funcom GmbH to Funcom Sales GmbH for legal reasons. The transfer also made it possible for Funcom GmbH to rejuvenate on the historic carried forward tax losses, which is the main reason for the significant decrease of carried forward tax losses since year end 2006.

10 INTANGIBLE ASSETS

In thousands of US dollar	Good-will	Develop-ment costs	Tech-nology	Patents and licences	Soft-ware	Total
Cost						
Balance at January 1, 2006	622	11 446	1 003	75	251	13 397
Acquisitions, internally developed	0	10 982	493	0	163	11 638
Translation difference	0	0	-4	0	27	23
Balance at December 31, 2006	622	22 428	1 492	75	441	25 058
Balance at January 1, 2007	622	22 428	1 492	75	441	25 058
Acquisitions, internally developed	0	16 430	295	0	300	17 025
Disposals	0	0	-156	0	-109	-265
Government grants	0	0	-59	0	0	-59
Other acquisitions	72	0	0	0	0	72
Translation difference	0	0	92	0	79	171
Balance at December 31, 2007	694	38 858	1 664	75	711	42 002
Accumulated amortization and impairment losses.						
Balance at January 1, 2006	0	1 051	55	0	80	1 186
Amortization of the year	0	3 702	307	0	96	4 105
Impairment loss	0	0	56	0	0	56
Translation difference	0	0	3	0	10	13
Balance at December 31, 2006	0	4 753	421	0	186	5 360
Balance at January 1, 2007	0	4 753	421	0	186	5 360
Amortization of the year	0	653	374	0	124	1 151
Disposals	0	0	-156	0	-109	-265
Translation difference	0	0	30	0	29	59
Balance at December 31, 2007	0	5 406	669	0	230	6 305
Carrying amount at Jan. 1, 2006	622	10 395	948	75	172	12 211
Carrying amount at Dec. 31, 2006	622	17 675	1 071	75	255	19 698
Carrying amount at Jan. 1, 2007	622	17 675	1 071	75	255	19 698
Carrying amount at Dec. 31, 2007	694	33 452	995	75	481	35 697

impairment losses relate to certain discontinued games for mobile phones in Plutolife AS. The games were discontinued due to a change in focus in the subsidiary Plutolife AS and falling revenues on these games.

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

In thousand of US dollars	2007			2006		
Class	Under development	In use	Total	Under development	In use	Total
Goodwill	0	694	694	0	622	622
Development costs	32 740	712	33 452	16 310	1 365	17 675
Technology	0	995	995	0	1 071	1 071
Software	0	481	481	0	255	255
Patents and licenses	75	0	75	75	0	75
TOTAL	32 815	2 882	35 697	16 385	3 313	19 698

CAPITALIZATION OF AMORTIZATIONS AND DEPRECIATIONS

The Group capitalized amortizations and depreciations on software and computers used in development of games. If these games are capitalized, the amortization and depreciation is capitalized as an integral part of the value of the game. The amounts that are included in capitalized development costs were in 2007 TUSD 476 (2006: TUSD 291)

Changes in estimate of useful life

The Group has capitalized upgrades to one of the games already in operations. The upgrades are amortized over the remaining estimated useful life of the asset as a whole. New estimates performed by the management in 2007 show that useful life of the asset will be 18 months longer than previously estimated.

The effect on the income statement and period of the change, are as follows: In thousands of US dollars

Q4. 2007	Q1. 2008	Q2. 2008	Q3. 2008	Q4. 2008
150	37,5	37,5	37,5	37,5

Calculation of recoverable amounts

The management estimates the recoverable amounts of each cash generating unit on every balance sheet date. When calculating the recoverable amount from cash generating units the Group uses a discounted 5 years cash flow projection, based on the latest information that influences the expected performance of the asset. The cash flows are discounted with a 10 percent annual interest rate. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 2-year period. Cash flows from the 3rd year to the 5th year are calculated using management assumption on number of customers for the asset. The cash flows are highly driven by number of paying customers and it is therefore the management's expected development of customers that is the most important factor when estimating the future cash flows and recoverable amounts.

Management determined budgeted customer numbers based on received market information as well as 3rd party sales budgets, and its own expectations of customer development. The number of customers is in line with expectations, and development of the marked as predicted in industry reports.

Impairment test for cash-generating unit containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The Group only has goodwill which arose upon acquisition of Plutolife and purchase of additional Plutolife shares in May 2007. The carrying amount as of December 31, 2007 was TUSD 694 (December 31, 2006: TUSD 622) and is allocated to the Mobile segment (consisting only of Plutolife).

The impairment test is based on calculations of value in use. Cash flow projections based on actual operating results and the 5-year business plan has been used as input in the calculations. A pre-tax discount rate of 10 per cent has been used in discounting the projected cash flows.

The estimated recoverable amount significantly exceeds the carrying amount of the unit of TUSD 929 (including goodwill). Management considers that it is not reasonably possible for the assumed price to earnings ratio to change so significantly so as to eliminate this excess.

Research and development
In 2007 the Group expensed TUSD 135 in research and development. (2006: TUSD 0)

Inefficiency
The Group did not expense any costs related to inefficiencies in 2007 or 2006.

FURTHER INFORMATION ON INTANGIBLE ASSETS THAT ARE MATERIAL TO THE FINANCIAL STATEMENTS

Age of Conan
The MMO game Age of Conan 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 6 June 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.

The game features single-player and limited multiplayer game play in early levels and develops into a full blown MMO as the player progresses to higher levels. It represents the next generation of MMO games and will include a high level of graphic detail, realistic artificial intelligence in non playing characters (NPCs), new combat controls, and field battles including both real players and commanded troops of NPCs.

The carrying amount of Age of Conan is TUSD 21,734 on December 31, 2007. (2006: TUSD 11,661)

Age of Conan is not yet amortized

Dream World Technology
The Dream World Technology is Funcom's proprietary MMO development technology.

The Dream World 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 Dream World 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, peer-to-peer distribution and multi version features. The use of The Dream World Technology will ensure synergies between the development projects of Funcom, as well as significantly reduce the technology risks and development costs of the new projects. Key technical features include:

- Content on demand. Enables Funcom to tailor the gaming experience to individual players. The load driven game experience based on Automatic Content Generation (ACG) and instantiations add to the scalability of the technology. Funcom is world leading in this field, and the dynamic content systems will be further developed in Age of Conan. Content on demand enables unique game play features.

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

- Flexible game code. Enables reuse of large part of game code for new games, while at the same time providing new features fast and cost-effective.

- Dynamic sound system. World leading system for dynamically adapting audio to player actions and positions, including real-time occlusion, Doppler effects, sound rendering based on rendering, and more.

Powerful game development software (tools). A suite of very powerful game tools enables designers to make tailored game content quickly and ensures quick iterations of game play development.

State-of-the-art graphics engine. The MMO optimized graphics rendering and effects offer spectacular and unparalleled realistic world representation. One standout feature of the engine is the sophisticated infinite layer animation system, blending many levels of animation on top of each other.

Artificial Intelligence. Funcom's artificial intelligence system is industry leading, and enables a new level of realism in the behavior of non playing game characters.

The carrying amount of the Dream World Technology is TUSD 6,591 on December 31, 2007. (2006: TUSD 4,086)

Dream World Technology is not yet amortized.

The Secret World

Currently in an early stage of production, The Secret World is a massively multiplayer online game for the PC and Xbox 360, based on a Funcom developed and owned brand, and set in the contemporary real world.

Borrowing elements from popular legend, factual history, modern conspiracies and ancient mythology, the core development team has created a rich and exciting game world, and a deep and intriguing storyline encompassing thousands of years of human history. Combined with action-packed gameplay and outstanding visuals and audio, The Secret World is well positioned to be a major MMO brand in the future.

By bringing the massively multiplayer online genre into a modern day setting, the game will potentially appeal to a huge audience of gamers. Utilizing Funcom's proprietary MMO technology, the DreamWorld engine, The Secret World is already in an playable state. The production will ramp up as Age of Conan approaches release, and Funcom anticipates to gradually transfer developers from one project to another.

The carrying amount of The Secret World is TUSD 4,414 on December 31, 2007. (2006: TUSD 1,563)

The Secret World is not yet amortized.

The carrying amount of other games in the category development costs amounts to TUSD 713 on December 31, 2007. (2006 TUSD 1,365)

Government grants

The government grant relates to a tax incentive program "Skattefunn" in Plutolife AS. Skattefunn is government arrangement for companies which creates values of new ideas. The goal is to create new knowledge, information or experience which can lead to new or better products or services. Plutolife AS benefitted from this arrangement in 2007 and received a total of TUSD 118 (2006: TUSD 0). TUSD 59 is recognized against investment and TUSD 59 is recognized in the profit and loss statement. See note 2.4 for further description of accounting polices relating to government grants.

11. EQUIPMENT

In thousands of US dollars	Computers	Furniture	Computers leased	Total
Cost				
Balance at January 1, 2006	2 691	99	0	2 790
Acquisitions	743	70	0	813
Disposals	-394	-8	0	-402
Translation difference	73	9	0	82
Balance at December 31, 2006	3 113	170	0	3 283
Balance at January 1, 2007	3 113	170	0	3 283
Acquisitions	1 022	130	2 789	3 941
Disposals	-2 174	0	0	-2 174
Translation difference	230	34	0	264
Balance at December 31, 2007	2 191	334	2 789	5 314

Accumulated depreciation and impairment losses	Straight line 3 years	Straight line 5 years	Straight line 3 years	
Balance at January 1, 2006	2 194	58	0	2 252
Disposals	-394	-8	0	-402
Depreciation for the year	351	17	0	368
Translation difference	32	5	0	37
Balance at December 31, 2006	2 183	72	0	2 255
			0	
Balance at January 1, 2007	2 183	72	0	2 255
Disposals	-2 174	0	0	-2 174
Depreciation for the year	624	39	284	947
Translation difference	107	14	0	121
Balance at December 31, 2007	740	125	284	1 148
Carrying amount at Jan. 1, 2006	497	41	0	538
Carrying amount at Dec. 31, 2006	930	98	0	1 028
Carrying amount at Jan. 1, 2007	930	98	0	1 028
Carrying amount at Dec. 31, 2007	1 451	210	2 505	4 166

12. TRADE RECEIVABLES

In thousands of US dollars	2007	2006
Trade receivables	977	1 239
Allowances for bad debts	0	0
Trade receivable, net	977	1 239

The Group has not made provisions for bad debt for 2007 or 2006. In the Group's mobile division, Plutolife, the trade receivables are pledged as security for the bank overdraft facility. The values of the pledged receivables as of December 31, 2007 are TUSD 496 (2006: TUSD 617). The pledge involves the balance of the bank overdraft facility at any time. The balance incurs interest and provisions according to the banks standard conditions, which is payable on a quarterly basis.

Trade receivables are mainly in USD. As of December 31, 2007 trade receivables consisted of, TUSD 512 in USD, TUSD 113 in EURO, TUSD 268 in NOK, while a balance of TUSD 84 relates to other currencies. The respective numbers for 2006 were TUSD 849 in USD, TUSD 177 in EURO, TUSD 145 in NOK and TUSD 68 in other currencies.

13. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consist mainly of a prepayment on a license contract and ordinary operational prepayments.

14. CASH AND CASH EQUIVALENTS

In thousands of US dollars	2007	2006
Cash at the bank and in hand	3 336	2 069
Short-term bank deposits	49 030	35 354
Cash and cash equivalents in the balance sheet	52 366	37 423
Restricted cash	636	756

Restricted cash relates to cash at a separate account for tax deducted from salaries and cash deposit related to rental agreements. Short term bank deposits have an average term to maturity of 45 days, and expired on February 15, 2008. The Groups mobile division Plutolife AS is granted a TNOK 2,500 (TUSD 461) overdraft on their bank account. Average obtained interest rate in 2007 were 4.28% (2006: 2.06%)

In thousands of US dollars	Share capital	Share premium reserves	Trans-lation reserves	Retained earnings	Total	Minority Interest	Total equity
Equity as at January 1, 2006:	1 978	70 138	-151	-38 592	33 373	285	33 657
Exchange rate effects	186	0	336	-186	336	13	349
Net income recognized directly in equity	0	0	336	0	336	13	349
Result for the period	0	0	0	3 347	3 347	-111	3 236
Total recognized income and expense	0	0	336	3 347	3 683	-98	3 585
Issued share capital	279	21 680	0	0	21 959	0	21 959
Share-based payments	0	102	0	0	102	9	111
Equity as at December 31, 2006	2 443	91 920	185	-35 431	59 117	196	59 313
Equity as at January 1, 2007:	2 443	91 920	185	-35 431	59 117	196	59 313
Exchange rate effects	0	0	629	0	629	39	668
Net income recognized directly in equity	0	0	629	0	629	39	668
Result for the period	0	0	0	2 318	2 318	-154	2 164
Total recognized income and expense	0	0	629	2 318	2 947	-115	2 832
Issued share capital	273	29 099	0	0	29 372	0	29 372
Share-based payments	0	593	0	0	593	2	595
Share of acquired minority equity	0	0	0	0	0	-41	-41
Equity part convertible loan from minority	0	56	0	0	56	20	76
Equity as at December 31, 2007	2 716	121 668	814	-33 113	92 085	62	92 147

or the financial year 2006 the Group used end exchange rate when converting issued capital to USD. The cor-
ect method is to use historic rates. The issued capital in 2006 has been adjusted accordingly.

Share-capital and share premium

Number of ordinary shares	2007	2006
Outstanding at January 1	47 744 625	41 913 625
Issued against payment in cash	5 025 000	5 831 000
Outstanding at December 31 - fully paid	52 769 625	47 744 625
Nominal value of the share-capital at December 31 (EUR)	2 110 785	1 909 785

At December 31, 2007, the authorized share-capital comprised of 56.25 million ordinary shares (2006:56,25 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.

On May 21, 2007 the Company issued 275,000 shares from options (see note 16 for further information), The issued shares were paid in cash at EUR 0.43 per share (USD 0.63). Gross proceeds amounted to EUR 118,250 (USD160,299) Total number of issued shares after this transaction was 48,019,625.

On July 16, 2007 the Company issued 4,700,000 shares in a private placement .The issued shares were paid in cash at NOK 38.50 per share (USD 6.48). Gross proceeds amounted to NOK 180,950,000 (USD 30,490,075) Total number of issued shares after this transaction was 52,719,625.

On November 12, 2007 the Company issued 50,000 shares from options ((see note 16 for further information). The issued shares were paid in cash at EUR 0.43 per share (USD 0.63). Gross proceeds amounted to EUR 21,500 (USD 31,568) Total number of issued shares after this transaction was 52,769,625.

In 2007, transaction costs of USD 1,322,371 in connections with capital increases were charged directly against share premium (2006: USD 891,119).

All issued shares are fully paid.

The Group does not hold any of the Company's own shares.

On February 26, 2008 the company issued additional 443,500 options as a part of the Group's options program. The options vest with 33.33% each 1 year, 2 years and 3 years from grant. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

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 2007 and 2006. Dividends relating to year 2007 were also not proposed to be paid after the balance sheet date.

16. EMPLOYEE BENEFITS

Defined contribution plans

From July 1, 2006, Funcom Oslo AS (Norway) implemented a mandatory occupational pension scheme. The premium paid for this purpose in 2007 was USD 215,417. (2006 : USD 80,421, 2005: USD 0). A similar arrangement is implemented in Funcom GmbH and Funcom Sales GmbH the premium paid in 2007 was USD 33,404 (2006 : USD 19,145, 2005: USD 0).

Share based payments

The Group has two option programs that entitle management and key personnel to purchase shares in Funcom N.V., the parent company of the Group. In addition, the Group has one program that entitles management and key personnel in Plutolife AS to purchase shares in Plutolife AS, a subsidiary of the parent company. The option programs are presented separately below.

Option program in Funcom N.V.

In June 2005 1,250,000 options where authorized by the shareholders meeting, and additional 1,000,000 where authorized on November 30, 2006. These options has been allocated according to the below table.

Share options are granted to management and to selected employees. For options programs granted in 2007 and onwards, the exercise price of the granted options is equal to the weighted market price of the shares 5 trade days' prior and 5 trade days after the date of grant. Options are conditional on that the employee remains an employee or director of the Company on the date of exercise. The options are normally exercisable with 33.33% 1 year from granting, 33.33% 2 years from granting and 33.33% 3 years from granting. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

List of outstanding options: Funcom N.V.	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2007	2007	2006	2006
Outstanding options on January 1	850 000	0,61	850 000	0,61
Options granted	845 200	4,11	0	
Options exercised	325 000	0,61	0	
Options terminated	12 000	3,28	0	
Options expired	0		0	
Outstanding options on December 31	1 358 200	2,76	850 000	0,61
Vested options	525 000	0,61	850 000	0,61
Weighted Average Fair Value of Options Granted during the period	845 200	1,67	0	
Number of exercised options	325 000	0,61	0	
Number of expired or terminated options	12 000	3,28	0	
Number of options allocated	1 358 200	2,76	850 000	0,61
Number of unallocated options	554 800		1 400 000	

Out of the 1,358,200 outstanding options at December 31, 2007 (2006: 850,000) 525,000 were exercisable (2006: 850,000). Options exercised in 2007 resulted in 325,000 new shares (2006: 0) being issued at EUR 0.43 (USD 0.63) each. The related average share price at the time of exercise was NOK 32.35 (USD 5.96)

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

SHARES			
Expiry date	Exercise price	2007	2006
15, June 2008	NOK 3.31	525 000	850 000
01, September 2008	NOK 17.78 - 35.77	277 733	0
01, September 2009	NOK 17.78 - 35.77	277 733	0
01, September 2010	NOK 17.78 - 35.77	277 733	0
		1 358 200	850 000

Out of the outstanding options with an exercise price in the range between NOK 17.78 and 35.77, 585,200 options have an exercise price of NOK 17.78.

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was NOK 8,0125 per options (2006: NOK 0). The significant inputs into the model were a weighted average share price of NOK 22.49 (2006: 0), at the grant date, the exercise price shown above, volatility of 58,40% (2006: 0), dividend yield 0% (2006: 0%), an expected option life of 1 - 3,5 years, and an annual risk free rate of 4,52% (2006:0%). The volatility measured is based on statistical analysis of daily share prices for similar companies over the last 3 years.

Option program in Plutolife AS

Share options are granted to management and to selected employees. For options granted the exercise price of the granted options is equal to the last transaction price of the shares. Options are conditional on that the employee remains an employee or director of the Company on the date of exercise. The options are normally exercisable with 33.33% 1 year from granting, 33.33% 2 years from granting and 33.33% 3 years from granting. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

List of outstanding options: Plutolife AS	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2007	2007	2006	2006
Outstanding options on January 1	272 141	1,20	272 141	1,20
Options granted	560 000	0,52	0	0
Options exercised	0	0	0	0
Options terminated	272 141	1,06	0	0
Options expired	0	0	0	0
Outstanding options on December 31	560 000	0,57	272 141	1,20
Vested options	0	0	53 763	1,29
Weighted Average Fair Value of Options Granted during the period	560 000	0,52		
Number of options allocated	560 000	0,52	272 141	1,20
Number of unallocated options	0		0	

Out of the 560,000 outstanding options at December 31, 2007 (2006: 272,141) 0 were exercisable (2006: 53,763).

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

SHARES			
Expiry date	Exerice price	2007	2006
31, December 2008	NOK 5.72 - 7.00	0	272 141
31, December 2011	NOK 2.84	186 667	0
31, December 2012	NOK 2.84	186 667	0
		186 667	272 141

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was NOK 1,13 per options (2006:NOK 0). The significant inputs into the model were a weighted average share price of NOK 2,84 (2006:0), at the grant date, the exercise price shown above, volatility of 70% (2006:0), dividend yield 0% (2006:0%), an expected option life of 1-3 years, and an annual risk free rate of 4,59-5,30% (2006:0%). The volatility measured is based on volatilities in similar companies and managements judgment.

The following managers/directors possess options or own shares:

Name	Number of shares	Number of options	Comments
Supervisory board			
Torleif Ahlsand	31 500	0	Mr. Ahlsand is a partner of Northzone Ventures, which owns 9.449.175 shares in the Company. Mr. Ahlsand owns 31.500 shares through his company Brownske bevegelser.
Michel Cassius*	0	50 000	Mr. Cassius is a member of the supervisory board.
Hans Peter Jebsen	12 058 075	0	Mr. Jebsen and affiliates control 12.058.075 shares in the Company through Stelt N.V. and Tom Dahl AS
Pieter van Tol	500	0	The shares are owned by Temmes Financial Services Ltd. a Company controlled by Mr. Van Tol
Claus Højbjerg Andersen	0	0	Mr. Højbjerg Andersen is a partner of Nordic Venture Partners, which owns 5.208.325 shares in the Company Management*
Trond Arne Aas	1 587 825	552 500	Mr. Aas is the CEO of Funcom N.V. and member of the Management Board of Funcom N.V. 900,000 of the shares are owned by Arminius AS, a company controlled by Mr. Aas
Olav Sandnes*	0	100 200	Mr. Sandnes is the CFO of the Funcom Group
Jan Inge Torgersen**	20 000	75 000	Mr. Torgersen is the Group's Financial Controller and a member of Funcom N.V. Management Board.

* On February 26, 2008 Mr. Cassius and Mr. Sandnes were awarded options as described in after balance sheet events.

** On February 11, 2008 Mr. Torgersen sold 6000 shares, after this transaction Mr. Torgersen owns 14,000 shares and 75,000 options.

17. PROVISIONS

In thousands of US dollars	Sale returns	Tax on capital increases	Total
Balance at January 1, 2007	73	621	694
Provisions made during the year		21	21
Provisions used during the year	-62		-62
Provisions reversed during the year			
Unwind of discount	-14		-14
Exchange rate differences	3	73	76
Balance at December 31, 2007		715	715

The Company is in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities as of 31 December 2007. The potential tax cost of this disallowance to the Company is around USD 715,000 (including interest) (2006:TUSD 621) The Company believes it has arguments to dispute the capital duty liabilities and has filed formal appeals with the Dutch tax court in respect of some of the disputed capital duty liabilities.. The Dutch lower tax court ruled in favor of the Dutch tax authorizes in respect of 1 outstanding capital duty liability (TUSD 283). However, the Company filed an appeal against this decision with the Dutch tax court. The Company is awaiting response from the Dutch tax court and cannot estimate the outcome of the proceedings at this time.

18. DEFERRED INCOME

The amount consists of subscription prepayments from customers.

19. OTHER CURRENT LIABILITIES

The amount mainly consists of:
- vacation money accrued in Funcom Oslo AS and is payable in June 2008
- financial lease payable in 2008
- taxes relating to salary payments
- accrual of other regular operating expenses.

20. ACQUISITION OF SHARES IN A SUBSIDIARY

In September 2005, the Group increased its shareholding in Plutolife AS from 42.46% to 62.45% and in December 2005 to 67.45% for a total of USD 1,432,602. We refer to the annual report 2005 note 15 for further information. Until September 2005, Plutolife AS was consolidated as an associate.

In April 2007, the Group increased its shareholding in Plutolife AS from 67.45% to 74.87% for a total of TUSD 186. The increase primarily due to the agreement Funcom N.V. entered into in April 2004. This agreement may further increase Funcom N.V's shareholding from 74.87% to 76.69%.

21. LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2007	2006	2005
Less than one year	1 599	1 394	931
Between one and five years	5 570	4 812	623
More than five years	0	0	0
Total	7 169	6 206	1 554

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

During the year ended December 31, 2007, TUSD 1,202 was recognized as an expense in the income statement in respect of operating leases (2006 - 2005: TUSD 845 - TUSD 578).

Non-cancellable financial lease payments are payable as follows:

In thousands of US dollars	2007	2006	2005
Less than one year	1 222	0	0
Between one and five years	1 643	0	0
More than five years	0	0	0
Total	2 865	0	0

The financial lease payments relates to server parks established for the purpose of hosting Age of Conan. During the year ended December 31, 2007, TUSD 322 was recognized as an expense in the income statement in respect of operating leases (2006 - 2005: TUSD 0 - TUSD 0).

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 of TUSD 2,318 divided by the weighted average number of ordinary shares outstanding 50,087,040 (2006: 46,968,537).

When calculating the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted for all the dilution effects relating to share options.

In thousands of US dollars	2007	2006	2005
Profit / (loss) for the period attributable to the equity holders of Funcom (TUSD) (basic and diluted)	2 318	3 347	-1 558
Issued ordinary shares as of January 1	47 745	41 914	25 705
Effect of shares issued	2 163	5 055	3 267
Effect of options excersised	179	0	0
Weighted average number of shares at December 31	50 087	46 969	28 972
Earnings per share	0,05	0,07	-0,05
Weighted average number of shares at December 31, basic	50 087	46 969	28 972
Effect of share options on issue	1 913	1 337	625
Weighted average number of shares at December 31, diluted	52 000	48 306	29 597
Diluted earnings per share	0,04	0,07	-0,05

23. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE OBLIGATIONS

The Company entered into an agreement in 2004, which, if the Company cannot fulfill, may result in a liability of USD 100,000. As the probability for this liability to materialize is remote, the Company has not recognized a provision in the balance sheet.

In addition, the Group has entered into a share purchase agreement with some of the shareholders of Plutolife AS. The agreement may commit Funcom N.V. to purchase the remaining of the shareholders shares at market price given fulfillment of certain conditions. The agreement involves 100,849 numbers of shares which is approximately 1,82% of the total issued shares in Plutolife AS. Taken into consideration last year's performance of Plutolife, Funcom N.V. considers the market price to be close to the last transaction price of NOK 2.84. (USD 0.52)

24. FINANCIAL INSTRUMENTS

The Group is exposed to foreign currency risk on sales, purchases and cash and cash equivalents denominated in other currency than United States dollars. The currencies giving rise to risk in respect of the Group's presentation currency are primarily Euro, Swiss franc and Norwegian Kroner. Management has determined that USD is the appropriate presentation currency. The Group invoices all non-EU customers in USD, while EU customers are invoiced in Euro.

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	Carrying amount
	2007	2006
Loans and receivables*	3 513	2 851
Cash and Cash equivalents	52 366	37 423
Total	55 879	40 274

* Includes long term receivables of TUSD 469 which relates to long term deposits on operational leases. (2006: TUSD 0)

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

In thousands of US dollars	Carrying amount	Carrying amount
	2007	2006
North America	546	841
Europe	410	375
Other regions	21	23
Total	977	1 239

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was.

In thousands of US dollars	Carrying amount	Carrying amount
	2007	2006
Online customers	105	75
Offline customers	375	548
Mobile & Other customers	497	616
Total	977	1 239

The most significant customer, an American offline customer, accounts for TSUD 298 of the trade receivables carrying amount at 31, December 2007. (2006: TUSD 277)

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars	Gross	Impairment	Gross	Impairment
	2007	2007	2006	2006
Not past due	463	0	657	0
Past due 0-30 days	139	0	190	0
Past due 31-120 days	337	0	375	0
More than one year	38	0	42	25
	977	0	1 264	25

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

In thousands of US dollars		
	2007	2006
Balance at 1 January	25	
Impairment loss recognized	-25	25
Balance at 31 December		25

Based on historic information the Group believes that no impairment allowance is necessary for trade receivables at December 31, 2007.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

As at December 31, 2007					
In thousands of US dollar	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	5 607	-5 816	-5 711	-105	0
Bank overdraft	367	-367	-367	0	0
Long term debt	1 623	-1 832	0	0	-1 832
	7 597	-8 015	-6 078	-105	-1 832

As at December 31, 2006					
In thousands of US dollar	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	3 601	-3 601	-3 601	0	0
Bank overdraft	234	-234	-234	0	0
	3 835	-3 835	-3 835	0	0

The long term debt as at December 31, 2007 consists of financial lease payments which is due more than 1 year from balance sheet date, in addition to a convertible loan TUSD 87 (2006: TUSD 0) from the minority shareholders of Plutolife AS (2006: TUSD 0). The current value is reduced with the equity part of the loan. The total value including the equity part amounts to TUSD 163 including incurred interest at year end 2007 (2006: TUSD 0). The total value including incurred interest is upon choice convertible to shares in Plutolife AS at NOK 2.84 per share (USD 0.52). The conversion period is between July 1, 2009 and July 15, 2009. Max amount to be converted is TUSD 184.

Currency risk

The Group's exposure to foreign currency risk was as follows based on carrying amounts which is considered to be representative for the Group:

As at December 31, 2007				
In thousands of US dollars	USD	EURO	NOK	OTHER
Trade and other receivables	2 020	113	1 099	282
Cash and cash equivalents	1 178	331	50 515	343
Trade and other payables	-2 461	-1 175	-3 452	-143
Net balance sheet exposure	737	-731	48 162	482

As at December 31, 2006				
In thousands of US dollars	USD	EURO	NOK	OTHER
Trade and other receivables	2 197	177	397	86
Cash and cash equivalents	1 174	1 849	34 194	205
Trade and other payables	-36	-874	-2 606	-85
Net balance sheet exposure	3 335	1 152	31 986	205

The following significant exchange rates applied during the year:

REPORTING RATE	Average rate		Spot rate	
In thousands of US dollar	2007	2006	2007	2006
EUR 1	1,3675	1,2431	1,4729	1,3202
NOK 1	0,1725	0,1561	0,1845	0,1606
CHF 1	0,8311	0,7977	0,8875	0,8199

Sensitivity analysis

A 10 percent weakening of the US dollars compared to NOK and EUR would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

In thousands of US dollars	Equity	Profit or Loss
December 31. 2007		
EUR	31	14
NOK	4 775	4 257
CHF	-38	-43
December 31. 2006		
EUR	425	401
NOK	3 343	2 844
CHF	-10	-12

A 10 percent strengthening of the US dollars against the above currencies at 31, December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk
At the balance sheet date the Group had no fixed rate financial instruments.

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. The analysis is performed on the same basis for 2006.

	100bp increase	100bp decrease	100bp increase	100bp decrease
In thousands of US dollar	Profit or loss		Equity	
December 31, 2007				
Variable rate instrument	444	-444	444	-444
December 31, 2006				
Variable rate instrument	386	-386	386	-386

Fair values

Fair values versus carrying amount

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying amount	Fair value	Carrying amount	Fair value
In thousands of US dollar	2007	2007	2006	2006
Loans and receivables	3 513	3 513	2 849	2 849
Cash and cash equivalents	52 366	52 366	37 423	37 423
Trade and other payables	-7 230	-7 230	-3 368	-3 368
Bank overdrafts	-367	-367	-234	-234

25. TRANSACTIONS WITH RELATED PARTIES

Identification of related parties

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

Transactions with subsidiaries

There has been intercompany transactions between Group companies, these transactions have been carried out at arm's length conditions.

Remuneration to the Supervisory Board

On November 30, 2006, the General meeting approved a remuneration to the Supervisory Board for the year 2006 amounting to USD 72,513, the payment was outstanding as at year end 2006. There has been no increase in the remuneration of the Supervisory board in 2007 and the total outstanding fee for 2007 at December 31, 2007 amounted to USD 77,275. The Supervisory Board did not receive any remuneration for the year 2005.

Remuneration to the Management Board

The CEO of the Group, who is also a member of the Management Board, received in 2007 a total remuneration including pensions of USD 286,851 (2006 - 2005: USD 191,903 - USD 177,240). Jan Inge Torgersen who is also a member of the Management Board and a manager in the Group received a remuneration in 2007 of USD 206,185 (2006 - 2005: USD 192,146 – USD 89,649).

Remuneration to the Management Group

Overview of remuneration to management:

In thousands of US dollars	2007	2006	2005
Salaries and benefits in kind (short-term employee benefits)	2 224	1 428	1 069
Share-based payments	456	97	111
Defined pension plan	43	28	0
Total remuneration	2 723	1 553	1 180

The CEO of the Group received in 2007 a total remuneration including pension of USD 286,851 (2006 - 2005: USD 191,903 - USD 177,240), he was also awarded a total of 177,500 share options in 2007 (2006: 375,000). The exercise price is NOK 17.78 (USD 3,28) for 27,500 options and NOK 35,77 (USD 6,60) for 160,000. In 2007 a total of 325,000 options were exercised at an average exercise price of NOK 32,35 (USD 5,96) The total allocated share options in Funcom N.V. comprised of 1,695,200 as at December 31, 2007.(2006: 850,000) In 2006 no options were allocated or exercised, but additional 1,000,000 share options were authorized.

Shares owned by members of the Supervisory Board and the CEO.
CEO Trond Aas had 1,587,825 shares directly and indirectly as of December 31, 2007.(2006: 1,583,325) Hans Peter Jebsen, a member of the Supervisory Board and his closely related parties indirectly control 107,550 Funcom shares. Hans Peter Jebsen also indirectly controls 48% of Stelt Holding N.V., which owns 11,950,525 Funcom shares. Chairman of the Supervisory Board Torleif Ahlsand controls 31,500 shares in Funcom shares through his company Brownske Bevegelser AS. Pieter van Tol, a member of the Supervisory Board controls 500 shares. No other members of the Board have shares in Funcom.

Loans to employees
At December 31, 2007, a loan of USD 27,167 (2005: USD 23,643) was outstanding to an employee. The loan bears no interest and a calculated interest is reported to the tax authority as a taxable benefit.

Transactions with other related parties
A fee of USD 35,929 has been paid to Temmes Management Services B.V. in 2007 (2006 - 2005: USD 37,074 – USD 33,025). Temmes Management Services B.V. is controlled by Supervisory Board member P.G.C van Tol. P.G.C van Tol also has an interest in Weidema van Tol which has received a fee of USD 226,850 for legal advice in 2007 (2006 - 2005: USD 63,267 – USD 65,835). The Group's auditors received a total fee of USD 220,493 (2006 - 2005: USD 215,110 – USD 39,093). As at year end 2007 the outstanding amount between the Group and Weidema van Tol amounted to TUSD 6 (2006: TUSD 17), the Group had no outstanding amount with Temmes Management Services B.V. for years ending 2007 and 2006. For the services renders from both these companies the Group did not pay above market price.

As disclosed to the Oslo Stock Exchange in July 2007, Trond Arne Aas and his company Arminius AS collectively established a limited recourse credit facility agreement with Carnegie Bank AS. Supervisory Board member Hans Peter Jebsen granted security for this credit facility.

26. GROUP ENTITIES

Group entities
The Company is the ultimate parent company to 6 wholly owned and 1 partially owned subsidiary.

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2007	2006
Funcom Oslo AS	Norway	100.00	100.00
Funcom Inc	United States	100.00	100.00
Funcom S.a.r.l.	Luxembourg	100.00	100.00
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH*	Switzerland	100.00	N/A
Funcom Beijing GmbH**	Switzerland	100.00	N/A
Plutolife AS***	Norway	74.87	67.45

* Funcom Sales GmbH was founded in 2007
** Funcom Beijing GmbH was founded by Funcom GmbH and Funcom N.V. in 2007. Funcom GmbH holds 1 share equal to 5% of the outstanding shares in Funcom Beijing GmbH.
*** Plutolife AS has a 100% owned subsidiary, Plutolife Publishing AS.

27. RISK, ACCOUNTING ESTIMATES AND JUDGMENTS

Management has discussed the various risks in Funcom in addition to development, selections and disclosure of the Group's critical accounting policies and estimates and the application of these policies.

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.

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.

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 USD, while EU customers are invoiced in EUR. The operational costs of Funcom are to a large extent in NOK. At present, the Groups cash position in Norwegian kroner is significant compared to its total assets denominated in US dollars. The majority of the operational expenses is denominated in Norwegian kroner and is perceived by the management as a natural hedge against the large position in Norwegian kroners. See note 25 for a further analysis on the impact of currency fluctuations.
See note 24 for further information.

Share price volatility

The Funcom share price could experience substantial fluctuations caused by a number of factors. Many of these will be outside Funcom's control and may be independent of its operational and financial development. Factors which may affect the share price include the following (the list is not exhaustive):

- Reactions to quarterly and annual financial reports published by Funcom
- Changes in analysts' estimates
- Changes in the gaming industry in general
- Changes in market and financial prospects
- Rumors and speculation in the market

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.

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 other areas.

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.

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.

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 their 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 worldwide. Hence, consumers 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.

Dependence on success of Age of Conan

Funcom's future income is highly dependent on the success of the Age of Conan MMO. In itself, Age of Conan is expected to contribute with significant revenues and earnings, and if Age of Conan attains low subscriber numbers there will be a negative impact on future cash flows and the valuation of Funcom. Furthermore, the game is intended to be one of the funding sources for the development of other titles, and lower cash inflows than expected could also have an indirect effect in terms of reduced revenues, earnings and cash flows from other games and the future funding requirements of the Company.

Dependence on the attractiveness of the Conan brand

The success of the Age of Conan game is dependent on the attractiveness of the Conan brand. The Conan brand is owned by CPI and the overall brand development is therefore not in the control of Funcom, although Funcom contributes to brand development through its Age of Conan game.

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. There are already very high expectations to Funcom's Age of Conan MMO, and should Funcom fail to meet the expectations this may have a negative effect in the review scores of the game and thereby potentially on the sales potential of the game.

Technological risks

The successful operation of an MMO depends on a large number of complicated hardware and software components that need to worki 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.

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 workers from countries outside the EEA must have work permit to work in Norway, and that such permits can be difficult to obtain. The documentation and formalization of internal information, routines and processes have not always been of today's standard. Therefore, there is a risk of losing vital information if key employees, for various reasons, leave Funcom.

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.

Tax exposure

The Company is incorporated in the Netherlands with subsidiaries in Norway, Switzerland, 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 with it. If one or more of the relevant tax authorities challenges the Company's view, this may result in an increased overall tax charge.

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 the Funcom to protect its proprietary rights will be adequate.

Intellectual Property Rights of others

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

Shareholders must rely upon their own examination of this Report and all other communications from Funcom and should study this carefully and should also study the gaming industry in general and the MMO gaming segment in particular. Shareholders should not construe the contents of this Report as legal, accounting or tax advice, or as information necessarily applicable to each potential investor's particular situation. Each potential investor should consult its own advisers for independent advice so that a balanced judgment can be made of a potential investment decision and all that is discussed and described in this report and in the communication from the Company. The Company urges investors to track the industry and gaming media to gain a thorough and independent understanding of the gaming industry, Funcom and its potential.

Deferred tax asset

The Group's tax losses are primarily located in Funcom GmbH, Switzerland and in Plutolife AS, Norway.
The management has discussed the probability that it will be able to utilize parts of the historic unused tax losses individually for these companies, and has concluded that the conditions for utilization of the tax losses are present.

Funcom management bases its position on the strong interest for Age of Conan. Age of Conan has so far received around 20 covers in gaming magazines and numerous cover mentions, in addition to board press coverage in Europe and North America. Age of Conan also scores high on ratings lists on MMO-sites and is the most anticipated game on several MMO-dedicated sites. Funcom also have other strong 3rd party indications that the game will be well received in the market, such as more than 500,000 beta/newsletter signups and information from Eidos, the worldwide distributor of Age of Conan.

Since late 2006 Plutolife AS has invested in the US market, and during 2007 Plutolife entered into contracts with many of the largest US mobile operators. From the second half of 2007 the revenue from the US initiatives is starting to grow. The management expects that this growth combined with strict cost control will result in taxable profits in the time to come. Based on this it is the management's position that sufficient future profits will be available to utilize the carried forward tax losses.

The Group has significant capitalized values of development costs and technology. According to IAS 36 all capitalized items should be tested for impairment at each balance sheet date. The impairment tests include management's estimates and judgments which involves uncertainties that could lead to a significant impact on the Group's future results.

Currency risk

The Group is exposed to foreign currency risk on sales, purchases and cash and cash equivalents denominated in other currency than United States dollars. Large variations in Euro or Norwegian kroner exchange rate compared to US dollars could significantly influence the Group's income statement. Even if management would implement an active hedging policy, a currency related risk, which may have an impact on the income statement, would still exist. At present, the Groups cash position in Norwegian kroner is significant compared to its total assets denominated in US dollars. The majority of the operational expenses is denominated in Norwegian kroner and is perceived by the management as a natural hedge against the large position in Norwegian kroners. See note 25 for a further analysis on the impact of currency fluctuations.

28. EVENTS AFTER THE BALANCE SHEET DATE

On January 21, 2008 Funcom management decided to delay the launch of Age of Conan until May 20, 2008. The decision was made to give more time to stress test the game systems and sort out bugs prior the launch.

On February 26, 2008 a total of 433,500 options were granted to key employees as a part of Funcom's option program. The exercise prices were equal to the average share price 5 days prior and 5 days after the option grant. The exercise price is NOK 25.34.

On February 11, 2008 Mr. Jan Inge Torgersen sold 6000 shares, after this transaction Mr. Torgersen owns 14,000 shares and 75,000 options.

There have been no other material events than described above between December 31, 2007 and the date of authorization that would require adjustments of the consolidated financial statements or disclosure.

Funcom N.V.
Company Profit and Loss

For the year ending 31.12.2007

In thousands of US dollars	2007	2006
Results from participating interest after tax	2	2 569
Other income and expenses after tax	2 316	778
Net result from ordinary activities after taxation	2 318	3 347

Company Balance Sheet

after appropriation of result

In thousands of US dollars	Note	31/12/07	31/12/06
Investment in and receivables from group companies	1,2	92 551	59 812
Financial fixed assets		92 551	**59 812**
Prepays and other receivables		192	5
Cash and cash equivalents		291	7
Total current assets		483	**12**
Total assets		93 034	**59 824**
Issued capital	5	3 109	2 522
Share premium	6	120 916	91 818
Legal reserves	7	99 936	17 860
Retained earnings	8	-131 876	-53 084
Total equity		92 085	**59 116**
Accrued expenses		131	20
Provisions	10	715	621
Other current liabilities	3	103	67
Total current liabilities		949	**708**
Total equity and liabilities		93 034	59 824

Notes to the Company financial statements

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

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

1. INVESTMENT IN AND RECEIVABLES FROM GROUP COMPANIES

In thousands of US dollars	2007	2006
Receivables non-current	16 067	50 692
Shares	76 484	9 120
Balance 31.12	92 551	59 812

2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2007:

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2007	2006
Funcom Oslo AS	Norway	100.00	100.00
Funcom Inc	United States	100.00	100.00
Funcom S.a.r.l.	Luxembourg	100.00	100.00
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH*	Switzerland	100.00	N/A
Funcom Beijing GmbH**	Switzerland	100.00	N/A
Plutolife AS ***	Norway	74.87	67.45

* Funcom Sales GmbH was founded in 2007

** Funcom Beijing GmbH was founded by Funcom GmbH and Funcom N.V. in 2007. Funcom GmbH holds 1 share equal to 5% of the outstanding shares in Funcom Beijing GmbH.

*** Plutolife AS has a 100% owned subsidiary, Plutolife Publishing AS.

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

In thousands of US dollars	2007	2006
Balance at 01.01	9 120	6 113
Exchange difference	629	336
Result of the year	2	2 569
New participation	66 770	0
Other movements	-57	102
Minority interest	21	0
Balance 31.12	76 484	9 120

On December 31, 2007 the Group effectuated an internal transfer of the sales and marketing rights of Age of Conan from Funcom GmbH to Funcom Sales GmbH for legal reasons. The transfer also made it possible for Funcom GmbH to rejuvenate on the historic carried forward tax losses, which is the main reason for the significant decrease of carried forward tax losses since year end 2006.

3. OTHER CURRENT LIABILITIES

Other current liabilities in 2006 and 2007 relate to outstanding service providers.

4. ISSUED CAPITAL

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

- January 1, 47,744,625
- December 31 52,769,625

At December 31, 2007, the authorized share-capital comprised of 56.25 million ordinary shares (2006:56,25 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 at the December 31, 2007 exchange rate of EUR/USD 1.4729

The share-capital is translated into US dollars at the December 31, 2007 exchange rate of EUR/USD 1.4729.

Options

Total authorized options at December 31, 2007 amounted to 2,250,000 (2006: 2,250,000). On December 31, 2007, the number of outstanding options allocated to managers and key personnel amounted to 1.695.200 shares (2006: 850,000).

For options outstanding as at December 31, 2006, the exercise period is from December 15, 2006 until June 15, 2008 and if converted into shares, the shares may only be sold after an approval from the Board until December 15, 2008. The option holders lose the option if the employment with the Company ceases.

For the options granted in 2007 (845,200), the exercise period is from March 1, 2008 to June 1, 2010 with 1/3 of the options each year. The option holders lose the option if the employment with the Company ceases.

On March 1, 2007 585,200 options were allocated, and on June 14, 2007 260,000 options were allocated.

Share issuances

On January 16, 2006 the Company issued 1,531,000 shares. The issued shares were paid in cash at NOK 15 per share (USD 2.22). Gross proceeds amounted to NOK 22,965,000 (USD 3,392,000). Total number of issued shares after this transaction was 43,444,625.

On March 1, 2006 the Company completed a private placement of additional 4,300,000 shares. The shares were paid in cash at NOK 30.50 (USD 4.5) per share and gross proceeds amounted to NOK 131,150,000 (USD 19,371,000). Total number of issued shares after this transaction is 47,744,625.

On May 21, 2007 the Company issued 275,000 shares from options. The issued shares were paid in cash at EUR 0.43 per share (USD 0.63). Gross proceeds amounted to EUR 118,250 (USD160,299). Total number of issued shares after this transaction was 48,019,625.

On July 16, 2007 the Company issued 4,700,000 shares in a private placement .The issued shares were paid in cash at NOK 38.50 per share (USD 6.48). Gross proceeds amounted to NOK 180,950,000 (USD 30,490,075). Total number of issued shares after this transaction was 52,719,625.

On November 12, 2007 the Company issued 50,000 shares from options. The issued shares were paid in cash at EUR 0.43 per share (USD 0,63). Gross proceeds amounted to EUR 21,500 (USD 31,568). Total number of issued shares after this transaction was 52,769,625.

In 2007, transaction costs of USD 1,322,371 in connections with capital increases were charged directly against share premium (2006: USD 891,119)

5. SHARE-CAPITAL

In thousands of US dollars	2007	2006
Balance at 01.01	2 522	1 978
Exchange	314	265
Addition share-capital	273	279
Balance 31.12	3 109	**2 522**

6. SHARE PREMIUM

In thousands of US dollars	2007	2006
Balance at 01.01	91 818	70 138
Addition share premium	29 098	21 680
Balance 31.12	120 916	**91 818**

7. LEGAL RESERVES

The legal reserves are maintained in respect of translation differences amounting.to TUSD 629 (2006: TUSD 185) and capitalized development expenses and sales and marketing rights, amounting to TUSD 99,936 (2006: TUSD 17,675.). Legal reserves are non distributable to shareholders.

8. RETAINED EARNINGS

In thousands of US dollars	2007	2006
Balance at 01.01	-53 084	-38 743
Exchange effect on share-capital	-314	-265
Exchange effect on subsidiaries	629	336
Other movements	58	0
Employee options	593	102
Movement to legal reserves	-82 076	-17 860
This years result	2 318	3 346
Balance 31.12	-131 876	-53 084

9. SHARE BASED PAYMENTS

The options allocated in 2005 and 2007 are expensed as share based payment in the subsidiary where the option holders are employed.

10. PROVISIONS

Dutch capital duty	2007	2006
Balance at January 1	-621	-542
Interest calculation	-22	-16
Additions	0	0
Exchange	-72	-63
Balance at December 31	-715	**-621**

The Company is in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities as of 31 December 2007. The potential tax cost of this disallowance to the Company is around TUSD 715 (including interest) (2006:TUSD 621) The Company believes it has arguments to dispute the capital duty liabilities and has filed formal appeals with the Dutch tax court in respect of some of the disputed capital duty liabilities.. The Dutch lower tax court ruled in favor of the Dutch tax authorizes in respect of 1 outstanding capital duty liability (TUSD 283). However, the Company filed an appeal against this decision with the Dutch tax court. The Company is awaiting response from the Dutch tax court and cannot estimate the outcome of the proceedings at this time.

11. EMPLOYEES

The average number of employees in Funcom N.V. for 2007 was 0 (2006: 0).

12. REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD

Total remuneration

The remuneration to the members of the Management Board is determined by the remuneration committee within the framework of the remuneration policy for 2007 and subsequent years as approved by the shareholders meeting on July 16, 2007. More details about the remuneration policy are included in the remuneration report.

The total remuneration (including pension expenditures and other commitments) of the members of the Management Board amounted to TUSD 493 (2006: TUSD 384). The remuneration of the individual members of the Management Board was as follows:

Trond Arne Aas: Salary TUSD 211 (2006: TUSD 191), Bonus TUSD 74 (2006: USD 0), Pension premium TUSD 2 (2006: TUSD 1). Jan Inge Torgersen: Salary TUSD 153 (2006:T USD 157), Bonus TUSD 29, (2006: TUSD 16) Pension premium TUSD 24 (2006: TUSD 19)

Outstanding and exercised stock incentives

The following table shows the stock incentives of the individual members of the members of the Management Board

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2006	In 2007 Granted	Exercised	Forfeited/ Expired	Outstanding on Dec. 31, 2007	Exercise price	Expiry date
Trond Arne Aas								
Stock options	2005	125 000	0	0	0	125 000	EUR 0.43	15-12-08
	2005	125 000	0	0	0	125 000	EUR 0.43	15-12-08
	2005	125 000	0	0	0	125 000	EUR 0.43	15-12-08
	2007	0	9 167	0	0	9 167	NOK 17.78	01-09-08
	2007	0	9 167	0	0	9 167	NOK 17.78	01-09-09
	2007	0	9 167	0	0	9 167	NOK 17.78	01-09-10
	2007	0	50 000	0	0	50 000	NOK 35.77	01-09-08
	2007	0	50 000	0	0	50 000	NOK 35.77	01-09-09
	2007	0	50 000	0	0	50 000	NOK 35.77	01-09-10
Total		375 000	177 500	0	0	552 500		
Of which vested		375 000	0	0	0	375 000		

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2006	In 2007 Granted	Exercised	Forfeited/ Expired	Outstanding on Dec. 31, 2007	Exercise price	Expiry date
Jan Inge Torgersen								
Stock options	2005	12 500	0	12 500	0	0	EUR 0.43	15-12-08
	2005	12 500	0	12 500	0	0	EUR 0.43	15-12-08
	2005	12 500	0	12 500	0	0	EUR 0.43	15-12-08
	2007	0	5 000	0	0	5 000	NOK 17.78	01-09-08
	2007	0	5 000	0	0	5 000	NOK 17.78	01-09-09
	2007	0	5 000	0	0	5 000	NOK 17.78	01-09-10
	2007	0	20 000	0	0	20 000	NOK 35.77	01-09-08
	2007	0	20 000	0	0	20 000	NOK 35.77	01-09-09
	2007	0	20 000	0	0	20 000	NOK 35.77	01-09-10
Total		37 500	75 000	37 500	0	75 000		
Of which vested		37 500	0	0	0	0		

Shares

At year end 2007 the members of the Management Board held 1,607,825 shares (year end 2006: 1,583,325)

Loans

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

13. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

There has been no increase in the remuneration of the Supervisory Board in 2007 and the total outstanding fee for 2007 at December 31, 2007 amounted to EUR 57,000 (USD 77,682) (2006: EUR 57,000 - USD 72,513)

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

In €	Annual fixed fee	Total
Torleif Ahlsand (chairman)	25 000	25 000
Pieter van Tol (vice chairman)	8 000	8 000
Hans Peter Jebsen	8 000	8 000
Michel Cassius	8 000	8 000
Claus Højbjerg Andersen	8 000	8 000
Total	57 000	57 000

In 2006 Tore Mengshoel resigned from the Supervisory Board and received a proportional fee of EUR 6000 for his service in 2006. Michel Cassius joined the Supervisory Board and received a prorate fee of EUR 2000 for his service in 2006.

Stock options

Michel Cassius is the only member of the Supervisory Board that is granted stock options. The following table outlines the conditions:

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2006	In 2007 Granted	Exercised	Forfeited/ Expired	Outstanding on Dec. 31, 2007	Exercise price	Expiry date
Michel Cassius								
Stock options	2007		16 667	0	0	**16 667**	NOK 35.77	01-09-08
	2007		16 667	0	0	**16 667**	NOK 35.77	01-09-09
	2007		16 667	0	0	**16 667**	NOK 35.77	01-09-10
Total			50 000	0	0	50 000		
Of which vested			0	0	0	0		

14. TRANSACTIONS WITH RELATED PARTIES

A fee of USD 35,929 has been paid to Temmes Management Services B.V. in 2007 (2006 - 2005: USD 37,074 – USD 33,025). Temmes Management Services B.V. is controlled by Supervisory Board member P.G.C van Tol. P.G.C van Tol also has an interest in Weidema van Tol which has received a fee of USD 226,850 for legal advice in 2007 (2006 - 2005: USD 63,267 – USD 65,835). The Group's auditors received a total fee of USD 220,493 (2006 - 2005: USD 215,110 – USD 39,093). As at year end 2007 the outstanding amount between the Group and Weidema van Tol amounted to TUSD 6 (2006: TUSD 17), the Group had no outstanding amount with Temmes Management Services B.V. for years ending 2007 and 2006. For the services rendered from both these companies the Group did not pay above market price.

Funcom N.V.
Other information

Statutory arrangement in respect of the appropriation of the result for the year

In accordance with Article 24.1 of the Company's statutes, the result for the year is at the disposal of th shareholders in general meeting.

PROPOSED APPROPRIATION OF THE RESULT FOR THE YEAR

The Supervisory directors propose to allocate the profit for the year to uncovered losses.

EVENTS AFTER THE BALANCE SHEET DATE

On January 21, 2008 Funcom management decided to delay the launch of Age of Conan until May 20, 2008 The decision was made to give more time to stress test the game systems and sort out bugs prior the launch.

On February 26, 2008 a total of 433,500 options were granted to key employees as a part of Funcom's optio program. The exercise prices were equal to the average share price 5 days prior and 5 days after the optio grant,

On February 11, 2008 Mr. Jan Inge Torgersen sold 6000 shares, after this transaction Mr. Torgersen own 14,000 shares and 75,000 options.

There have been no other material events than described above between December 31, 2007 and the date o authorization that would require adjustments of the consolidated financial statements or disclosure.

MAZARS

AUDITOR'S REPORT

To: the general meeting of shareholders of Funcom N.V.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2007 of Funcom N.V., Katwijk. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2007, the company profit and loss account for the year then ended and the notes.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V., STATUTAIR GEVESTIGD TE ROTTERDAM (KVK ROTTERDAM NR. 24402415).
016186/002SR/RH

OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2007, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 13 March 2008

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

drs. J.D.G. Noach RA

Funcom N.V. 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, 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, 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 and the Norwegian Code of Practice for Corporate Governance. 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 recommendations where it does not

Funcom has been governed by a Management Board and a Supervisory Board since 2005.

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 shareholders. The Board appoints the Chairman and members of the Management Board and supervises executive management.

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 compensation policy have been presented to the Remuneration Committee of the Supervisory Board.
The Management Board is the company's decision-making body.

Owners	Board	Management
Shareholders		
General meeting	Supervisory board	Chief Executive Officer
	Remuneration Commitee	Executive Team
	Audit commitee	
	Management Board	
The general meeting elects shareolders representatives to the Supervisory Board. regarding the oversight of management	Ultimate responsibility for the strategy and management of the Company. Advice	Executive management

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 4. December 2007 and the Dutch Corporate Governance Code.

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.
Departures from the recommendation: None

2. BUSINESS

The business of Funcom N.V. is defined in the Company's Articles of Association which state that Funcom shall develope, 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 in this Report, This report also includes reference to the business activities clause from the articles of association.

The Company's Articles of Association can be found on the Company's website at www.funcom.com
Departures from the recommendation: None

3. EQUITY AND DIVIDENDS

Equity
At 31 December 2007, consolidated equity came to TUSD 92.147, accounting for 91,92% of total assets. This is considered satisfactory. Funcom will maintain an equity ratio appropriate to its long-term growth targets.

Dividend policy
The Annual General Meeting (AGM) stipulates the annual dividend, based on the Board's recommendation. 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 in the 2007 Annual Report.

Funcom has not granted any mandates for the Company to buy its own shares. Mandates granted to the Management Board and Supervisory Board to increase the Company's share capital are restricted to share option programs.
Departures from the recommendation:
Mandates granted to the Management Board and Supervisory Board to increase the Company's share capital are restricted to share option programs, but have not been limited in time to the next AGM. Funcom will implement this from the AGM of 2008.

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 2007, there were no transactions between the Company and 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 25 in the Notes to the Consolidated Financial Statements. Pieter van Tol has an ownership stake in Weidema van Tol, a Company used by Funcom for legal council and tax advice. As disclosed to the Oslo Stock Exchange in July 2007, Trond Arne Aas and his company Armenius AS collectively established

a limited recourse credit facility agreement with Carnegie Bank AS in July 2007. Supervisory Board member Hans Peter Jebsen has granted security for this limited recourse credit facility.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 Supervisory Board if they have any material direct or indirect interest in any transaction entered into by the company. These guidelines can be found in the Supervisory Board Regulations Article 4.1, and the Management Board Regulations, Article 4.2 and 4.3. The Supervisory Board Regulations can be found at www.funcom.com

Departures from the recommendation: None

5. FREELY NEGOTIABLE

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 Norway, Europe and the USA.

Departures from the recommendation: None

6. GENERAL MEETINGS

By virtue of the AGM, the shareholders are guaranteed participation in the Group's supreme governing body. The AGM adopts the Articles of Association. Shareholders representing at least 10 per cent of the shares can call for an extraordinary general meeting.

Notification

An AGM is held before 30 June each year. The 2008 AGM is scheduled for 21 May. Notification will be distributed at latest two weeks in advance, and posted on the Company website. The Financial Calendar is published on the Company website and in the Group's Annual Report.

Participation

It is possible to register by post, telefax or e-mail. The Supervisory Board tries to pave the way for as many shareholders as possible to participate. Shareholders who are unable to attend are encouraged to assign their proxy, and it is possible to sign proxies for each individual item on the agenda. Representatives of the Board and the auditor will attend the AGM. Management is represented by the Chief Executive Officer or the Chief Financial Officer, at the least. In 2007, the AGM was held on 14 June, and a total of 66,3 per cent of the aggregate share capital was represented.

Agenda and execution

The agenda is set by the Supervisory Board, and the main items are specified in §23 of the Articles of Association.

Departures from the recommendation:

Due to the size of the Company there are two departures. These will be re-evaluated in the future according to the development of the Company.

- AGMs in Funcom are to be chaired by the Chairman of the Board or the vice-chairman of the Board. This is a departure from the recommendation for independent chairing of meetings. If it is requested in advance by at least 10% of the shareholders attending a general meeting, arrangements will be made to ensure an independent chairman for the meeting.
- Shareholders representing at least 10%, and not 5% as outlined in the Norwegian Recommendation, are required to call for an Extraordinary General Meeting.

7. NOMINATING COMMITTEE

Departures from the recommendation:

The Company doesn't have a Nominating Committee, as such a committee is not deemed to be required given the Company's current size. The Company will, however, re-evaluate this policy according to its development in the future. The Supervisory Board shall carry out the duties of proposing the candidates for election to the Supervisory Board and to the corporate assembly (to the extent this exists) and the fees to be paid to members of these bodies. The Board shall justify such recommendations.

8. CORPORATE ASSEMBLY AND THE BOARD OF DIRECTORS

Composition and independence

Due to the fact that Funcom is a Dutch company, the Company has a two-tier board structure, comprised of a non-executive Supervisory Board (also referred to in this document as the "Board") that advises and supervises the Management Board, which is responsible for the daily management of the Company. (The Management Board is referred to as "members of the executive management" of the Company).

The CEO is not a member of the Supervisory Board. There have been no changes in the composition of the Supervisory Board during 2007.

The AGM elects the five to seven members of the Board. Decisions on the composition of the Board require a simple majority. Supervisory Board Members are elected for two-year terms and can be re-elected. It is essential that the Board as a whole is capable of dealing with Board work and the Company's main business activities. According to the Company's Articles of Association, there shall be at least five members of the Supervisory Board. The members of the Supervisory Board are: Torleif Ahlsand (Chairman), Pieter van Tol (Vice-chairman), Hans Peter Jebsen, Claus Højbjerg Andersen and Michel Cassius.

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

In the current composition of the Supervisory Board, four of the members do not meet the requirements to be defined as independent according to the article. Three have relationship with the Company owning more than 10% of the shares respectively and one has a business relationship with the Company. The composition of the Supervisory Board will be reviewed again in 2008. The Board Members not considered to be independent are Torleif Ahlsand (Chairman), Hans Peter Jebsen, Pieter van Tol (Vice-Chairman) and Claus Højbjerg Andersen.

9. THE WORK OF THE BOARD OF DIRECTORS

Board responsibilities

The Board has issued instructions for its own work as well as for the Management Board through separate regulations approved by the AGM. 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 Board adopts the Company's plans and budgets. Items of major strategic or financial importance for the Company are items processed by the Board. The Board is responsible for hiring the CEO and defining his or her work instructions as well as setting his or her wages. The 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 Board.

Financial reporting

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

Notification of meetings and discussion of items

The Board schedules regular meetings each year at the same time as they agree on the next year's financial calendar. Ordinarily, the Board meets 6 times a year, normally in Zurich. Additional meetings may be convened on an ad hoc basis. 13 Board meetings were held in 2007.
All Supervisory Board members receive regular information about the Company's operational and financial progress in advance of the scheduled 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 Board. The Supervisory Board Members are free to consult the Company's senior executives as needed.

The Board draws up and establishes an annual plan, including themes for the Board meetings. Ordinarily, the CEO proposes the agenda for each Board meeting. The final agenda is decided in consultation between the CEO and the Chairman of the Board. Besides the Supervisory Board Members, Board meetings are attended by: the CEO, the CFO, and the managing Director of Funcom GMBH. Other participants are summoned as needed.

The Board takes 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.

Legal competence

The Board is bound by the rules regarding disqualification as they appear in §6-27 of the Public Limited Companies Act. In 2007, there were no cases where a member of the Supervisory Board had to disqualify him- or herself from discussions.

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 of Directors.

- The Audit Committee has responsibilities related to financial reporting, the independent auditor, internal audits and risk management. The Committee consists of two shareholder-elected Supervisory Board Members. The other Supervisory Board Members are entitled to attend if they so desire.
  Members: Pieter van Tol (Chairman) and Claus Højbjerg Andersen (Member).
- The Remuneration Committee has responsibilities related to developing proposals for the applicable remuneration policy and execution of the Management Board and the Supervisory Board.
  Members: Hans Peter Jebsen (Chairman) and Torleif Ahlsand (Member).

The Board's self-evaluation
In 2007 the Chairman of the Board presented an evaluation of the Board's duties and working methods. The Board's working methods and interaction are discussed on an ongoing basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.
Departures from the recommendation: None.

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Company's internal control and system for risk management has improved over the course of 2007. Funcom has issued 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 2007 provides an account of the main features of the Company's internal control and risk management systems.
Departures from the recommendation: None.

11.REMUNERATIONOF THE BOARD OF DIRECTORS

The AGM stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Chairman of the Remuneration Committee. In 2007, total remuneration to the Supervisory Board came to EUR 57,000

The Chairman of the Supervisory Board's remuneration was EUR 25,000 and the other Supervisory Board members received EUR 8.000. The fees for 2007 are outstanding by the end of the year.

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

As described above, one member of the Supervisory Board, Pieter van Tol has an indirect business relationship with Funcom. The nature of this business relationship concerns legal and tax advice and has been fully disclosed to the full Supervisory Board.

12. REMUNERATION OF THE EXECUTIVE MANAGEMENT

Guidelines
The terms of employment of the members of the Management Boards' are set by the Supervisory Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO as well as for the 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 are decided upon by the AGM. 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. The terms are proposed by the CEO, and subject to the approval of the Chairman of the Supervisory Board. In total, the Company has 20 executives and managers who are covered by the options program.
Departures from the recommendation: None

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 sent to shareholders and other stakeholders in May. Beyond this, the Company presents its accounts on a quarterly basis. The Financial Calendar is published on the Company's website and at the Oslo Stock Exchange's website. In addition financial and Company information can be found at the Dutch Chamber of Commerce in the Netherlands. The website of the chamber of commerce is: www.kvk.nl.
All shareholders are treated equally as a matter of course.

Other market information

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

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

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

The Board has stipulated special guidelines for the Company's contact with shareholders outside the general meeting in its Investor Relations policy which can be found on the Company's website.
Departures from the recommendation: None.

14. TAKE-OVERS

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.
Departures from the recommendation: None.

15. AUDITOR

The auditor's relationship with the Board

An outline of the work planned by the auditor shall be put before the Board once a year. The Chairman of the Audit Committee conducts a separate meeting with the auditor and management prior to the Board's discussion of the financial statements. The auditor is always present during the Board's discussions of the annual accounts. In that connection, the 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 Board arranges annual meetings with the auditor to review a report from the auditor that addresses the Company's accounting principles, risk areas and internal control routines. As from 2007, at least one meeting a year will be held between the auditor and the Board without the presence of the CEO or other executive managers.

The auditor has submitted to the Board a written statement on fulfillment of the Statutory Audit Independence and Objectivity requirement,
cf. 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. At regular intervals, the Supervisory Board evaluates whether the auditor exercises a satisfactory level of control.
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 exceptions of:

- Article II. 2.1 and 2.2.
  The Recommendations regarding the options. Options for the Management Board are conditional on continued employment in Funcom. The options become unconditional earlier than the three year time-limit set out in the Dutch Corporate Governance Code. Funcom has a three year options program where one third of the options are vested each year in three years after grant date. The options are only vested if the Management Board Member is still employed in the company at the vesting time.
- Article II. 2.6.
  The Recommendations regarding the Ownership of and Transactions in Securities by Executive Board members and Supervisory Board members ('the Regulations') concern the ownership of and transactions in securities in companies listed in the Netherlands, other than Funcom. Funcom does not apply the Code as the Company believes that applying these provisions would create a cumbersome administrative burden. Funcom Board members, in carrying out their tasks, do not generally receive price-sensitive information about other Dutch listed companies. Furthermore, as all Board members have the responsibility to behave ethically and to comply with applicable law and regulations, they will in any case be restricted from trading in shares in companies about which they possess price-sensitive information.
- Article III.2:
  In the current composition of the Supervisory Board, three of the members do not meet the requirements to be defined as independent according to the article. Two have relationships with companies owning more than 10% of the shares, respectively, and one has a business relationship with the Company. The composition of the Supervisory Board will be reviewed going forward. The board members not considered to be independent are Torleif Ahlsand, Hans Peter Jebsen and Pieter van Tol.
- Article III.3:
  The Company has decided not to establish a Selection & Appointment Committee. The Supervisory Board has taken these tasks upon itself. The Company has adopted to implement an Audit Committee and a Remuneration Committee. The Company has furthermore not developed a retirement schedule and made it generally available, as this could be viewed as signals of major shifts in ownership for key shareholders in the Company.
- Article III.7:
  The Company has reserved the right to grant share options to members of the Supervisory Board. The Company views share options as an important tool for remuneration of board members, e.g., to enable a board composition which reflects the global nature of its business. In 2007, the AGM approved the allocation of options to Mr. Michel Cassius who is a member of the Supervisory Board.
- Article III.8:
  The Management Board currently has two members and both members have executive responsibilities in the Company.
- Article V.3:
  The Company has not assigned a specific internal auditor. The Management Board will review whether an internal auditor will be engaged going forward.

Investor Relations Policy For Funcom N.V.

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

This IR policy was approved by the Funcom Supervisory Board on 21 March 2007.

EQUAL TREATMENT

Funcom uses the Oslo Børs 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 rumours 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 minimise its contact with investment analysts, investors and journalists. This policy has been adopted to minimise the risk of any unequal treatment of different parties in the market.

Financial Calendar for Funcom 2008

Funcom N.V. will publish its financial statements on the following dates in 2008:

- Wednesday 6 February - Q4 2007
- Tuesday 13 May - Q1 2008
- Tuesday 26 August - Q2 2008
- Wednesday 12 November - Q3 2008

The dates are subject to change.

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Printed at Bryne Offset AS


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