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FUNCOM
ANNUAL REPORT 2006

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Funcom is an independent developer and publisher of quality online games for a world-wide audience of gamers. Funcom has grown to become a key global player in the highly attractive Massively Multiplayer Online Games (MMO) market, and the company is now 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. As a long time independent game developer, Funcom has gained unique and lasting experience from creating fun and entertaining game universes.

2006 proved to be strong year for Funcom, and the standing of the company and its brands increased significantly throughout the year. With the widely heralded and award-winning release of 'Dreamfall - The Longest Journey' in April, the continued production of 'Age of Conan' and the release of the expansion pack 'Anarchy Online – Lost Eden' in December, Funcom entered 2007 in a stronger position than at any time before in the company's history. Funcom games won or became nominated for more than thirty awards from world-leading media outlets like Gamespy, Gamespot, IGN, Gametrailers, MTV and Yahoo during 2006.

The year also brought continued growth in staff, and the Funcom organization surpassed 230 people based in offices in Norway, USA, China and Switzerland. The growth at the US and Chinese offices were considerable, leading to better cost management on key expense areas like Quality Assurance, Customer Service and Art Production.

At the same time Funcom continued its focus on improving all areas of the organization including the processes involved in the development of complex game worlds. On the technology side Funcom continued its focus on establishing the world-class proprietary DreamWorld MMO technology.

In 2006 the online gaming market saw continued growth. Especially the MMO market grew significantly, and at the time of writing the biggest MMO game on the market has more than 8 million subscribers. The MMO business model has thus been further established and proven throughout 2006. When entering 2007, Funcom is one of a select few MMO companies with the funds, staff, know-how, technology and standing to become a market leader in the years to come.

Letter from the CEO

2006 was an important year for Funcom and the company experienced significant growth in several areas. The organization grew from 170 to 231 employees, and revenues grew from TUSD 5.291 to TUSD 10.822 due to the launch of two new products, 'Dreamfall: The Longest Journey' and 'Anarchy Online – Lost Eden' and the inclusion of revenues from Plutolife, Funcom's mobile subsidiary. We also entered the production stage of the development on a new massively multiplayer online game (MMO) with the working title 'The World Online'. Together with 'Age of Conan' and 'Anarchy Online', Funcom currently has three MMOs in operation and development, laying the foundation for long-term success in the segment.

A significant part of the value of Funcom relates to its upcoming massively multiplayer online game, 'Age of Conan'. The press and market attention – and, most importantly, gamer anticipation – for this game continued to grow throughout 2006, and the game now has one of the largest and most active communities of any unreleased MMO.

Worldwide, 'Age of Conan' has received significant press attention and praise based on demonstrations and previews shown throughout 2006. The game won numerous awards at the 2006 Electronics Entertainment Expo (E3) in Los Angeles, including 'Best MMO of Show' from the world's leading online gaming sites, GameSpot, GameSpy, and IGN. 'Age of Conan' is also on the lists of 'Most Anticipated Games of 2007' from numerous gaming publications and online sites, and has received broad and positive international press coverage throughout 2006.

Through close partnerships with Microsoft, NVIDIA, and Eidos, 'Age of Conan' has been demonstrated and presented to industry, media, and fans at numerous events hosted by these partners, contributing to further press coverage and industry expectation buildup. 'Age of Conan' is a Microsoft Vista and DirectX 10 showcase game, and as such has been shown – to great acclaim – at numerous Vista Launch events in co-operation with Microsoft.

During 2006, Funcom decided to reschedule the launch date of 'Age of Conan' to 2007. The launch date for the game has now been set to October 30, 2007. The decision to extend the development time of the 'Age of Conan' game was found to be necessary to maximize the expected value of the project. The increased development time enables further polishing and enhancements to the game, to meet and exceed market expectations. 'Age of Conan' is currently in a closed Beta-stage of development.

The 'Anarchy Online' MMO game performed well above expectations throughout 2006. More than five years after the launch of the title, the subscriber level remained stable, and 'Anarchy Online' still has a large and dedicated following among MMO players. In December of 2006, the 'Anarchy Online - Lost Eden' expansion pack was released successfully and without any technical issues.

'Dreamfall: The Longest Journey' – probably the last offline PC game from Funcom – was released on PC and Xbox across the world in 2006, to great press reviews and gamer acclaim. The game won numerous 'Best of 2006' awards from leading online sites, and has become an instant classic in the adventure game segment. Revenues from the PC version were above expectations, but below expectations for the Xbox version, as the Xbox market in 2006 was significantly weaker than anticipated.

The market for online gaming in general, and massively multiplayer online games in particular, experienced yet another year of positive development in 2006. Driven by the entertainment phenomena 'World of Warcraft', millions of new customers were introduced to the exciting and social entertainment of online gaming. 'World of Warcraft' reported a customer base of more than eight million subscribers in early 2007, and, at the same time, the number of high-quality MMOs being launched remains low. Funcom believes that the MMO market in the next few years will see a lack of great MMO games, increasing the likelihood of success of high-quality MMOs being launched in this period.

Funcom looks forward to 2007 with great expectations of success. The momentum for 'Age of Conan' is building, and the game has a good chance of becoming one of the relatively few major MMOs on the market. We look forward to doing our utmost to make 'Age of Conan' meet its full potential, and conquer a significant part of this expanding market

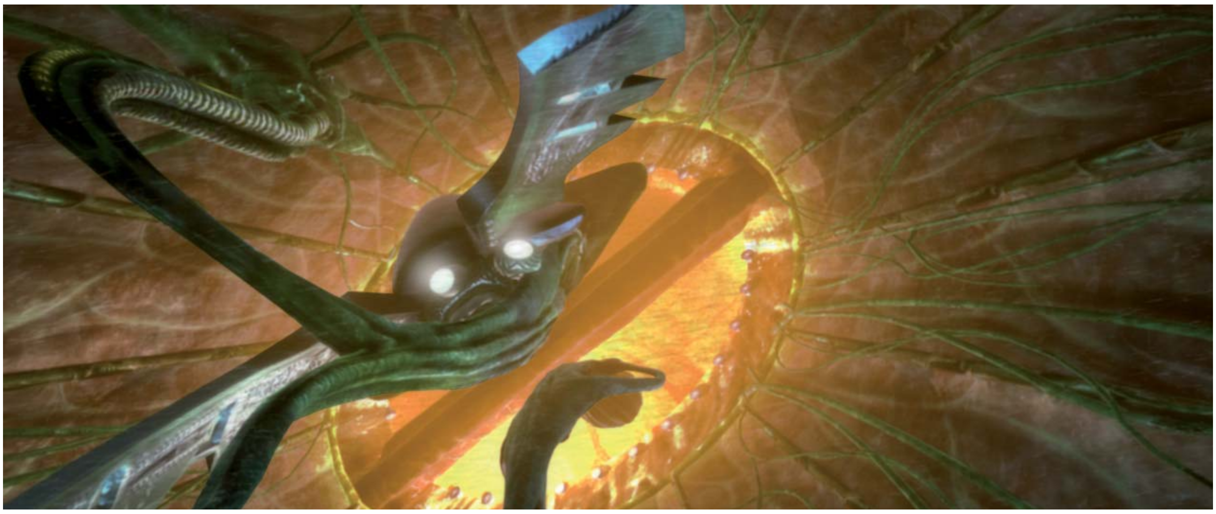
Best regards

Trond Arne Aas
Chief Executive Officer,
Funcom NV.

Anarchy Online' celebrated its five year anniversary as a live MMO in 2006. The game keeps on attracting hundreds of thousands of players every year, and the world's first science fiction MMO is still considered to be one of the deepest, most engaging virtual worlds around.

'Anarchy Online' continued its successful run as a world-class MMO in 2006, and the fight for the planet Rubi-Ka, where the game takes place, was escalated to new heights with the launch of 'Anarchy Online – Lost Eden', the fourth expansion pack for the game. The expansion brought extensive new content for the players to enjoy, and especially the new Player versus Player content appealed to the fan base. 'Lost Eden' offered the most stable and well-performing 'Anarchy Online' launch to date, proving how Funcom gains more and more experience in running and launching complex virtual worlds.

Throughout 2006 Funcom continued to expand and experiment with MMO business models. The free, ad-supported 'Anarchy Online' offer continued, while a third iteration of the dynamic in-game advertisements, which Funcom pioneered together with Massive Inc., was implemented. The new technology meant that players could interact with the advertisements, and the first campaign was launched in cooperation with Toyota. The revenue from in-game

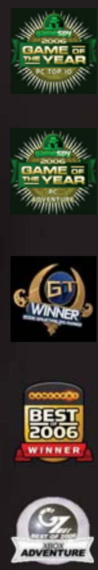


advertisement saw a steady growth, and included campaigns from world-leading brands like McDonalds, Ford Motor Co., Dell and Discovery Channel.

With 'Lost Eden', Funcom also explored new digital distribution methods. The expansion was sold as a digital-only download, marking the first time Funcom focused solely on digital delivery of an expansion pack. The uptake among the paying user-base was higher than previous expansions, which all have relied on traditional retail channels. The escalatingconsumer acceptance of digital purchasing further strengthens the MMO business model, and increases the flexibility and lifecycle of Funcoms gaming properties.

With a dedicated and skilled development team, and a dedicated player base. 'Anarchy Online' is set to perform well going forward. Funcom will continue to explore new business models and provide new content for the game on an ongoing basis.

DREAMFALL
THE LONGEST JOURNEY



When 'Dreamfall: The Longest Journey' was released in the spring of 2006, the game became an instant adventure game classic. A deep and profound gaming experience, mixed with outstanding production values, further cemented Funcom's standing as a world class games developer.

With the production and release of 'Dreamfall' Funcom further strengthened the association of quality, depth and unique production values to the Funcom brand. 'Dreamfall' has won several "Best of 2006" awards, including best adventure game of the year, at world leading media outlets like Gamespot, Gamespy, Gametrailers, MTV and IGN.

The game was a continuation of the saga that began with 'The Longest Journey' in 1999. In 'Dreamfall', players were taken on an epic journey of exploration and adventure as they experienced and participated in a thrilling and emotional storyline. A fully interactive world brought unparalleled modern adventure gameplay opportunities, and the beautiful music and stunning graphics impressed fans worldwide. The title went on to become a satisfactory seller on the PC platform. The Xbox version had lower than expected sales, mainly because the Xbox 360 eclipsed the original platform much faster than

anticipated. 'Dreamfall' launched in the shadow of the 360 and retail gave the original Xbox less space than expected.

Seeing how the original 'The Longest Journey' keeps on performing well, seven years after release, Funcom will work to secure long-term revenues for 'Dreamfall' as well. There will be a focus on digital distribution, and a 'Game of the Year' edition of the game is being worked on for release to retail in key territories. As word of mouth continues to grow, Funcom undoubtedly owns one of the world's strongest an most critically acclaimed adventure brands, and with an increasing consumer acceptance for digital distribution and online business models, Funcom sees multiple opportunities for the game and the brand in the future, including an episodic online release of 'Dreamfall: Chapters', and the possibility of a massively multiplayer adaptation.

'Age of Conan: Hyborian Adventure' is arguably one of the most anticipated online games in development, and the most anticipated game Funcom has ever developed. The lure of a savage, barbaric and mature virtual world seems to strike a universal chord, and with it comes the promise of action and fun as never before seen in an MMO. Late in 2006 Funcom announced that the game will also be published for Microsoft's highly successful XBOX 360 platform.

The expectations for 'Age of Conan' in the gaming market has continued to grow substantially during 2006. Groundbreaking visuals, innovative features and a license which lends itself great to a virtual world has turned the game into one of the most anticipated PC games in development. As a result the game won numerous awards at E3 2006, the worlds' largest gaming convention, including «Best of Show» awards in its genre from Gamespy, Gamespot, IGN and Yahoo. Entering 2007, Funcom has successfully grown a substantial community around the game, while the global Xbox and PC media continues to cover the game extensively and favorably.

The combination of cutting edge technology and inspiring and innovative gameplay has also strengthened Funcoms partnerships with some of the major players of the gaming industry. Funcom has worked closely with Microsoft to position the game as a Showcase game for Windows Vista, and the game has been used by Microsoft as a key demo of the future of gaming at both the Consumer Electronics Show in Las Vegas in January 2007, as well as at all of the Vista launch events. Together with nVidia, the world's leading manufacturer of graphics cards, Funcom has established an excellent partnership, which has led to 'Age of Conan's leading position in DirectX

10 graphics, as well as being used as a main game to showcase nVidias range of high-end products.

The decision to create a proprietary MMO technology has had a very positive effect on building expectations for the game, as evident by its status as a Showcase Game for Windows Vista and DX10. As Funcom moves towards the final release date of 30 October 2007 for the PC version it is clear that 'Age of Conan' is well positioned for launch success. It also means that all upcoming MMO games from Funcom will take advantage of a solid and proven technology foundation.

The game plays out in the world of Hyboria, a fantastical and twisted mirror of Earth anno 10.000 B.C. Created by the famed American author Robert E. Howard it is one of the world's most popular and beloved fantasy universes, and the license continues to thrive and expand through publication of novels, comics, games, collectibles and movies. The player of the game will be thrown into a world where an evolving human civilization and primeval races are in constant strife and turmoil. Set in a universe of dark magic, amazing creatures and all kinds of myths and legends Funcom believes Conan to be and excellent MMO property.

THE WORLD ONLINE

Currently in an early stage of production, 'The World Online' 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 World Online' 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 World Online' is already in an early 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 in order to reach full team size in 2008.

With 'The World Online', Funcom will also be targeting the massive 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 and development processes from 'Age of Conan', 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.

Report of the Management Board

FUNCOM'S BUSINESS ACTIVITIES (AS STATED IN THE ARTICLES OF ASSOCIATION)

The objective of the company shall be 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.

REVIEW OF FUNCOM'S FINANCIAL POSITION AND FINANCIAL RESULTS FOR 2006.

Funcom's revenue for 2006 was TUSD 10.822 compared to TUSD 5.291 in 2005. The operating result for 2006 was TUSD -3.220 compared to TUSD -1.321 in 2005. Fully diluted earnings per share were USD 0,07 compared to USD -0.05 in 2005. Funcom's equity stood at TUSD 59.313 at year end 2006, compared to TUSD 33.657 at year-end 2005. The group had cash at the end of 2006 of TUSD 37.423 compared to TUSD 26.380 at the end of 2005. The group's balance sheet has been strengthened in 2006, with proceeds from the green-shoe option of the IPO and an additional equity offering, totaling TNOK 154.000 in gross proceeds, equivalent to approx. TUSD 22.849

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 through the recent equity offerings 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 2007 research & development will increase compared to 2006, as the company plans to increase its development resources and number of employees. The number of employees at the end of the year was 231, and is currently 250, which will continue to increase in 2007.

MAIN DEVELOPMENTS

During 2006 Funcom continued its progress in the development of 'Age of Conan', and also successfully released the 'Anarchy Online' expansion pack, 'Lost Eden'. 'Dreamfall - The Longest Journey' was launched and won a series of 'Game of the Year' awards from the world's leading gaming sites, including 'XBox Game of the Year' by popular vote at Gamespot.com. Plutolife, Funcom's mobile subsidiary continued its impressive growth in usage, but this was however not satisfactory matched by revenue growth partly due to repositioning in the US towards being a direct distributor in the market. 'Age of Conan' received several important press awards and has emerged as one of the two most highly anticipated MMO games for 2007. On the basis of the promising outlook for ´Age of Conan´ and an attractive financial market, Funcom was listed on the Oslo Stock Exchange in December 2005, and raised additional equity in January 2006. The capital raised should enable the company to complete its current development projects as well as enabling it to pursue new strategic opportunities.

MARKET DEVELOPMENT

In 2006, the Massively Multiplayer Online (MMO) gaming market continued to grow, driven amongst others by the game 'World of Warcraft' (Blizzard / Vivendi) which now has over 8 million subscribers. 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 pack, 'Burning Crusade', was launched during January 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 targets a launch in May 2007.

The sensitivity of the results of the company to external factors and variables are limited. The industry is fast growing

PRODUCT & TECHNOLOGY DEVELOPMENT

During the year, Funcom made significant progress with its upcoming title 'Age of Conan'. In addition, Funcom has maintained a stable player base on its existing MMO 'Anarchy Online', with the launch of the 'Lost Eden' expansion pack.

Funcom's key technology platform, the 'Dreamworld Technology', which is the basis for 'Age of Conan' 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 quarters until the launch of the 'Age of Conan' game. The largest short term potential for the Company is expected from 'Age of Conan', which, due to the planned launch 30 October, will have its main financial impact from late 2007 and onwards.

INTERNAL & EXTERNAL ENVIRONMENT

As of 31 December 2006, the group employed 231 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 low, less than 3,5%. 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 pollute the external 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 2006, Funcom had a share capital of USD 2.521.298 consisting of 47.744.625 shares with a nominal value of EUR 0.04 per share. In addition, there is an option program of 2,250,000 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 2006 and 2007. The Management Board is of the opinion that the internal risk management and control systems are adequate and has no indications that the system of internal controls was not effective during 2006. A number of actions have been implemented to enhance these systems further in 2006 including the formalization of internal procedures, IT policies, insider trading policies and reporting structures. In addition, the Company has expanded its capacity and competencies in this area.

DIVIDENDS

Funcom has in 2006 raised capital through an equity offering and is investing this capital in development of its MMO portfolio 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 Board proposes that the net profit for 2006 of Funcom N.V. amounting to TUSD 3,347 should be used to increase Other Equity. Total Equity after the results for 2006 is TUSD 59.311. The Management Board does not propose payment of a dividend.

EVENTS AFTER BALANCE SHEET DATE

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

Dübendorf, 23 March 2007

Trond Arne Aas

Jan Inge Torgersen

Report of the Supervisory Board of Directors

ANNUAL REPORT

We hereby present you with the Annual Report for 2006, including the annual financial statements as were drawn up by the Management Board. The annual financial statements have been examined by the external auditors Mazars Paardekooper Hoffman Accountants 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 2006 was TUSD 10.822 compared to TUSD 5.291 in 2005. The operating result for 2006 was TUSD - 3.220 compared to TUSD - 1.321 in 2005. Fully diluted earnings per share were USD 0,07 compared to USD -0.05 in 2005. Funcom's equity stood at TUSD 59.313 at year end 2006, compared to TUSD 33.657 at year-end 2005. The group had cash at the end of 2006 of TUSD 37.423 compared to TUSD 26.380 at the end of 2005. The group's balance sheet has been strengthened in 2006, with proceeds from the green-shoe option of the IPO and an additional equity offering, totaling TNOK 154.000 in gross proceeds, equivalent to approx. TUSD 22.849.

In 2006, the company has progressed significantly in the production of its new title, 'Age of Conan', and the gaming market has responded very positively to what they have seen from the game. In addition Funcom has launched 'Lost Eden', the expansion Pack to the 'Anarchy Online' MMO, and Dreamfall: The longest Journey. The Supervisory Board is pleased with the progress made during the year, with Funcom proving that high game quality and strong launch 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.

SUPERVISION

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

The following persons served on the Supervisory Board year-end, 2006:

Torleif Ahlsand, Chairman of the Board (born 1966)

Mr. Ahlsand is a General Partner in Northzone Ventures and hence not viewed as independent. 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)

Mr. Cassius is the European managing Director of Fun Technologies, an AIM and TSX listed casual online gaming company. Prior to joining Fun Technologies, Mr. Cassius served as 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.

Hans Peter Jebsen (born 1957)
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 owns shares through Stelt Holding.

Pieter van Tol (born 1964)
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.

Claus Højbjerg Andersen (born 1965)
Mr. Højbjerg Andersen is a partner of Nordic Venture Partners and hence not viewed as independent.. 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 Remunerations Committee and an Audit Committee. The Remuneration Committee consists of Mr. Jebsen (chairman) and Mr. Ahlsand (member) and has conducted 2 meetings during 2006 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 2006 with accounting policies as the main agenda points.

Dübendorf, 23 March 2007
The Supervisory Board
of Directors in Funcom NV.

Torleif Ahlsand, Chairman

Michel Cassius

Pieter van Tol, Vice-Chairman

Hans Peter Jebsen

Claus Højbjerg Andersen

Funcom N.V. Consolidated Profit and Loss Statement

for the year ended December 31, 2006

In thousands of US dollars	Note	2006	2005
Revenue	3	10 822	5 291
Cost of sales		-42	0
Personnel expenses	4,15	-4 438	-2 933
General and administrative expenses	5, 21	-4 164	-2 061
Depreciation, amortization and impairment losses	9,10	-4 182	-813
Other operating expenses	6	-1 216	-805
Operating expenses		-14 042	-6 612
Operating result		-3 220	-1 321
Share of profit of associate	20	0	28
Finance income	7	4 175	30
Finance expenses	7	-355	-219
Result before income tax		**600**	**-1 482**
Income tax (expense) / income	8	2 636	6
Result for the period		**3 236**	**-1 476**
Attributable to:			
Equity holders of Funcom N.V.		3 347	-1 558
Minority interest		-111	82
Result for the period		**3 236**	**-1 476**
Basic earnings per share (US dollars)	22	0,07	-0,05
Diluted earnings per share (US dollars)	22	0,07	-0,05

Funcom N.V.
Consolidated Balance Sheet

As at December 31, 2006

In thousands of US dollars	Note	2006	2005
ASSETS			
NON CURRENT ASSETS			
Deferred tax asset	8	2 538	24
Intangible assets	9	19 698	12 211
Equipment	10	1 028	538
Total non current assets		23 264	12 773
CURRENT ASSETS			
Trade receivables	11	1 239	644
Prepayments and other receivables	12	1 612	513
Cash and cash equivalents	13	37 423	26 380
Total current assets		40 274	27 537
Total assets		**63 538**	**40 310**

Funcom N.V.
Consolidated Balance Sheet

As at December 31, 2006

In thousands of US dollars	Note	2006	2005
EQUITY AND LIABILITIES			
Share capital		2 522	1 978
Share premium		91 920	70 138
Translation reserves		185	-283
Other reserves		-35 510	-38 461
Equity attributable to equity holders of Funcom	14	59 117	33 372
Minority interest		196	285
Total equity		**59 313**	**33 657**
CURRENT LIABILITIES			
Trade payables		395	318
Deferred income	17	624	1 766
Accrued expenses	18	2 442	1 429
Income tax liability	8	70	45
Provisions	16	694	556
Other current liabilities	19	0	2 539
Total current liabilities		4 225	6 653
Total liabilities		4 225	6 653
Total equity and liabilities		**63 538**	**40 310**

Funcom N.V.
Consolidated Statement of Cash Flows

for the year ended December 31, 2006

In thousands of US dollars	Note	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		599	-1 482
Adjustments for:			
Depreciation, amortization and impairment losses		4 182	813
Share-based payments	15	111	82
Share of profit of associate		0	-28
Finance income/expense		-467	-103
Effect of exchange rate fluctuations on cash held		-3 317	275
Change in trade receivables		-595	178
Change in trade payables		77	40
Change in other current assets and liabilities		-1 086	179
Cash generated from operations		-496	-46
Interest received		789	26
Interest paid		-7	0
Income taxes received		0	5
Net cash from operating activities		286	-15
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash acquired	20	-367	-802
Purchase of equipment	10	-813	-446
Purchase of intangible assets	9	-11 167	-6 746
Net cash used in investing activities		-12 347	-7 994
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of share capital	14	19 787	28 096
Proceeds from borrowings			3 648
Net cash from financing activities		19 787	31 744
Net increase in cash and cash equivalents		7 726	23 735
Effect of exchange rate fluctuations on cash held		3 317	-275
Cash and cash equivalents at beginning of period	24	26 380	2 920
Cash and cash equivalents at end of period	24	37 423	26 380

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

for the year ended December 31, 2006

In thousands of US dollars	Note	2006	2005*
Foreign exchange translation difference		349	-292
Net income recognized directly in equity		349	-292
Result for the period		3 234	-1 476
Total recognized income and expense for the period	14	3 583	-1 768
Attributable to:			
Equity holders of Funcom N.V.		3 694	-1 842
Minority interest		-111	74
Total recognized income and expense for the period		**3 583**	**-1 768**

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

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, 2006, comprise the Company and its subsidiaries (the Group).

The consolidated financial statements were authorized for issue by the Supervisory Board on March 23, 2007.

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 near 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.

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

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, 2005, except for the fact that the Group as of January 1, 2006 adopted IFRIC 4 Determining whether an Arrangement contains a Lease. The Group analyzed its arrangements under IFRIC 4 to identify any arrangements that do not take the legal form of a lease, but in substance contain a lease. However, the analysis did not identify any arrangements that have to be accounted for under IAS 17. Other new and revised standards and interpretations, including IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, that were effective for financial periods starting on or after January 1, 2006 were not applicable to the Group, or did not have a significant impact on the consolidated financial statements.

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

Adoption of new standards in 2007 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, 2007, 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.

Associates

Associates are entities where the Group is able to exercise significant influence, but not control, over the financial and operating policies. Investments in associates (normally investments of between 20% and 50% of an entity's equity) are accounted for by applying the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, from the date significant influence commences until the date it ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

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.

Exchange rates

The year end exchange rates were as follows: EUR/USD 1.3202 (2005:1.1797) USD/NOK 0.1606 (2005: 0.1477): and the arithmetical average for the year for information purposes was USD/NOK 0.1561 (2005: 0.1549) EUR/USD 1.2431 (2005:1.2353)

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.

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 demonstrated;
- the product or process will be sold or used in the company's operations;
- the asset will generate future economic benefits; and
- sufficient technical, financial and other resources for completing the project are present.

When all the above criteria are met, 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.

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 11 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.

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 plans according to the mandatory arrangements applicable in the entities country of incorporation. Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement when they are due.

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

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

Share-based payment transactions
The share option program allows management and key personnel to acquire shares 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 share -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. Provisions are reviewed on each balance sheet date and their level reflects the best estimate of the liability. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.17 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 2 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	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from external customers:	8 492	4 432	2 330	859	0	0	10 822	5 291
Inter-segment revenue	0	0	0	0	0	0	0	0
Total segment revenue	8 492	4 432	2 330	859	0	0	10 822	5 291
Operating result	-2 571	-1 478	-649	157	0	0	-3 220	-1 321
Total assets	39 143	38 308	2 431	2 002	21 963	0	63 538	40 310
Total debt	3 628	6 209	598	444	0	0	4 226	6 653
Capital expenditure	12 098	7 160	352	1 681	0	0	12 451	8 841
Depreciation and amortization	3 914	750	268	63	0	0	4 182	813
Impairment losses	0	0	56	0	0	0	56	0

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	2006	%	2005	%
North America	4 024	37%	2 133	40%
Europe	6 491	60%	2 994	57%
Rest of the world	307	3%	164	3%
Total revenue	10 822		5 291	

4. PERSONNEL EXPENSES

In thousands of US dollars	2006	2005
Wages	3,202	
Social security contributions	390	0
Other social costs	245	355
Contributions to defined contribution plans	40	0
Expenses for share option program	333	82
Bonus/profit sharing	228	5
Total personnel expenses	4,438	2,933
Average number of employees:	2006	2005
Europe	164	115
North America	28	13
Asia	12	2
Total	204	130

5. GENERAL AND ADMINISTRATIVE EXPENSES

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

6. OTHER OPERATING EXPENSES

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

7. FINANCE INCOME AND EXPENSES

In thousands of US ollars	2006	2005
Interest income	798	27
Net foreign exchange gain	3 377	0
Other financial income		3
Finance income	4 175	30
Interest expense	-23	-29
Net foreign exchange loss	-329	-190
Other finance expenses	-3	0
Finance expenses	-355	-219

8. INCOME TAX EXPENSE

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

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

	2006	2006(%)	2005	2005(%)
Result before income tax	600		-1 483	
Income tax expense	-2 636		6	
Result for the period	3 236		-1 477	
Tax according to the average tax rate in Switzerland, Luxembourg, USA and Norway	93	15,43%	-206	-13,90%
Tax effect on changes in temporary differences	-532	-88,66%	-62	-4,20%
Tax effect of non-deductable expenses	-41	-6,80%	-5	-0,30%
Tax effect of tax loss carryforwards	-2 156	-359,30%	279	18,80%
Income tax expense	-2 636	-439%	-6	-0,42%

In thousands of US dollars	2006	2005
Deferred tax liability	-206	
Deferred tax receivable	2 744	24
Deferred tax asset, net	2 538	24
Deferred tax receivable in the balance sheet:		
Fiscal loss carryforward	2 170	13
Fixed assets	374	11
Provisions/receivables	-6	0
Other temporary differences		
Total	2 538	24
Reconciliation of deferred tax asset, net:		
Opening balance	24	0
Change in opening balance	-180	0
Change according to statement of income	2 688	24
Exchange differences etc.	6	0
Deferred tax asset, net, at year-end	2 538	24
Total	2 538	24

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

The Group has not recognized deferred tax assets in respect of temporary differences and tax losses as follows:

In thousands of US dollar	2006	2005
Equipment	0	-741
Trade receivables	0	-4
Intangible assets	0	-1 604
Temporary differences:	0	-2 349
Tax losses	0	0
Total	0	-2 349

The carried forward tax losses originating from Norway do not expire under current tax legislation. The Group has tax losses of TUSD 30,812 as at December 31, 2006. (2005: TUSD 31,019) which expires as follows:

In thousands of US dollars		
Expire year	2006	2005
2006	0	173
2007	13 570	15 318
2008	9 898	9 159
2009	4 377	4 050
2010	881	815
2011	0	0
2012	339	314
2013	0	0
Indefinite	1 747	1 190
Total tax losses	30 812	31 019

The Group's tax losses arose primarily in 2003 and earlier, and also in 2005. The tax losses were partially utilized in 2003, 2004 and 2006. In 2006, tax losses of TUSD 3,173 were utilized. TUSD 13,570 will expire in 2007 if it is not used.

The management has discussed the probability that it will be able to utilize parts of the historic unused tax losses, and has concluded that the conditions for utilization of the tax losses are present. This position is based on the rationale that as the Group gets closer to the launch of 'Age of Conan' the risk relating to the development of the game is reduced. Due to the envisaged profits from 'Age of Conan', it is Funcom's management opinion that sufficient taxable profit will be available against which parts of the unused tax losses or unused tax credits can be utilized by the Group.

9. 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, 2005	0	4 818	0	75	155	5 048
Acquisitions, internally developed	0	6 628	0	0	119	6 747
Acquisitions through business combinations	622	0	1 026	0	0	1 648
Exchange differences	0	0	-23	0	--23	-46
Balance at December 31, 2005	622	11 446	1 003	75	251	13 397
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
Disposals	0	0	0	0	0	0
Acquisitions through business combinations	0	0	0	0	0	0
Exchange differences	0	0	-4	0	27	23
Balance at December 31, 2006	622	22 428	1 492	75	441	25 058
Accumulated amortization and impairment losses						
Balance at January 1, 2005	0	510	0	0	27	537
Amortization of the year	0	541	55	0	59	655
Exchange differences	0	0	0	0	-6	-6
Balance at December 31, 2005	0	1 051	55	0	80	1 186
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 losses*	0	0	56	0	0	56
Exchange differences	0	0	3	0	10	13
Balance at December 31, 2006	0		421	0	186	5 360
Carrying amount at Jan. 1, 2005	0	4 308	0	75	128	4 511
Carrying amount at Dec. 31, 2005	622	10 395	948	75	172	12 211
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

*Impairment losses relate to certain games for mobile phones in Plutolife AS.

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 2006 TUSD 291 (2005: TUSD 175)

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 live of the asset as a whole. New estimates performed by the management in 2006 show that useful live of the asset will be 6 months longer than previously estimated.

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. The carrying amount as of December 31, 2006 was TUSD 622 (December 31, 2005: 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 2,032 (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.

10. EQUIPMENT

In thousands of US dollars	Computers	Furniture	Total
Cost			
Balance at January 1, 2005	2 452	69	2 521
Acquisitions through business combinations	174	0	174
Other acquisitions	234	38	272
Disposals	-95	0	-95
Exchange differences	-74	-8	-82
Balance at December 31, 2005	2 691	99	2 790
Balance at January 1, 2006	2 691	99	2 790
Other acquisitions	743	70	813
Disposals	-394	-8	-402
Exchange differences	73	9	82
Balance at December 31, 2006	3 113	170	3 283
Accumulated depreciation and impairment losses	Straight line 3 years	Straight line 5 years	
Balance at January 1, 2005	2 000	58	2 058
Disposals	-95		-95
Depreciation for the year	321	6	327
Exchange differences	-32	-6	-38
Balance at December 31, 2005	2 194	58	2 252
Balance at January 1, 2006	2 194	58	2 252
Depreciation for the year	351	17	368
Disposals	-394	-7	-401
Exchange differences	32	6	37
Balance at December 31, 2006	2 183	72	2 255
Carrying amount at Jan. 1, 2005	452	11	463
Carrying amount at Dec. 31, 2005	498	41	539
Carrying amount at Jan. 1, 2006	498	41	539
Carrying amount at Dec. 31, 2006	930	98	1 028

Fully depreciated non current assets

Some fixtures and fittings with a total cost price of approx. TUSD 1,956 have been fully depreciated as at December 31, 2005, but are still in use. The fully depreciated equipment relates to computer-equipment in Funcom GmbH, Switzerland.

11. TRADE RECEIVABLES

In thousands of US dollars	2006	2005
Trade receivables	1,239	648
Allowances for bad debts	0	4
Trade receivable, net	1,239	**644**

In 2005 the Group has made provisions for bad debt for TUSD 4 relating to receivables in the mobile segments. In the Group's mobile division, Plutolife, the trade receivables are pledged as security for the bank overdraft facility.

Trade receivables are mainly in USD. As of December 31, 2006 trade receivables consisted of, TUSD 849 in USD, TUSD 177 in EURO, TUSD 145 in NOK, while a balance of TUSD 68 relates to other currencies. The respective numbers for 2005 were TUSD 331 in USD, TUSD 60 in EURO, TUSD 131 in NOK and TUSD 122 in other currencies.

12. PREPAYMENTS AND OTHER RECEIVABLES

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

13. CASH AND CASH EQUIVALENTS

In thousands of US dollars	2006	2005
Cash at the bank and in hand	2,069	**26,380**
Short-term bank deposits	35,354	**0**
Cash and cash equivalents in the balance sheet	37,423	**6,380**
Restricted cash	756	**307**

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 30 days, and expired on January 4, 2007. The Groups mobile division Plutolife AS is granted a TNOK 2,500 (TUSD 402) overdraft on their bank account.

14. EQUITY

In thousands of US dollars	Share capital	Share premium reserves	Translation reserves	Other reserves	Total	Minority Interest	Total equity
Equity as at January 1, 2005	1 403	**84**	132	**-37 332**	7 087	**0**	7 087
Exchange rate effects	-197	0	-283	197	-283	-8	-291
Net income recognized directly in equity	0	**0**	-283	**0**	-283	**-8**	-291
Result for the period	0	0	0	-1 558	-1 558	82	-1 476
Total recognized income and expense	0	**0**	-283	**-1 558**	-1 841	**74**	-1 767
Issued share capital	772	27 254	0	0	28 026	0	28 026
Share-based payments	0	0	0	54	54	0	54
Share of acquired minority equity	0	0	0	0	0	248	248
Change in minority interest	0	0	0	47	47	-37	10
Equity as at December 31, 2005	1 978	**138**	-151	**-38 592**	33 373	**285**	33 657
Equity as at January 1, 2006	1 978	**70 138**	-151	**-38 592**	33 373		33 657
Exchange rate effects	265	0	336	-265	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		3 683		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	2 522	**91 920**	185	**-35 510**	59 117	**196**	59 313

Share-capital and share premium		
Number of ordinary shares	2006	2005
Outstanding at January 1	41 913 625	25 705 300
Issued against payment in cash	5 831 000	16 208 32
Outstanding at December 31 - fully paid	47 744 625	41 913 625
Nominal value of the share-capital at December 31 (EUR)	1 909 785	1 676 545

On December 13, 2005 the Company was listed on the Oslo Stock Exchange. At December 31, 2006, the authorized share capital comprised of 56.25 million ordinary shares (2005: 56.25 million).

The nominal value per share is Euro 0.04. The holders of ordinary shares are entitled to receive dividends as declared from the time to time and are entitled to one vote per share at the Company shareholders' meetings.

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 TNOK 22,965 (TUSD 3,392). 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 TNOK 131,150 (TUSD 19,371). Total number of issued shares after this transaction is 47,744,625.

In 2006, transactions costs of TUSD 891 in connection with capital increases were charged directly against the share premium (2005:T USD 2,664).

All issued shares are fully paid.

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

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 2006 and 2005. Dividends relating to year 2006 were also not proposed to be paid after the balance sheet date.

Other reserves are detailed in the notes to the company accounts.

15. 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 2006 was USD 80,421. (2005: USD 0). A similar arrangement is implemented in Funcom GmbH and the premium paid in 2006 was 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.
At June 9, 2005, the Company established a share option program that entitles management and key personnel to purchase shares in the Company. A total of 1,250,000 options were authorized and 850,000 of the options were allocated in June 2005.

The fair value of the allocated options is recognized over the 18-months long vesting period, from June 2005 until December 2006. In 2006, TUSD 102 was recognized as an expense in the income statement with a corresponding credit to equity (2005: TUSD 48). The fair value of the share options allocated is TUSD 124.

The exercise price for the options is EUR 0.43 (USD 0.57) which was the market price of the shares as of the grant date. The exercise period is from December 15, 2006, until June 15, 2007, and if converted into shares, the shares may only be sold after an approval from the Board until December 15, 2007. On January 23, 2007, the Management Board approved to extend the latest exercise date on options allocated in 2005, from June 15, 2007, to June 15, 2008. (See note 28, Events after the balance sheet date).

The fair value of the options at the grant date was EUR 0.1192 (USD 0.1406)

The fair value of the options is estimated using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is equal to similar listed companies' historical volatility, assuming that the historical volatility is indicative of future trends. Volatility is set to 40.22% and risk free rate to 2.71%. For estimating volatility we have used the historical or implied volatility of similar listed entities, for which share price or option price information is available. Risk free rate is set equal to the rate on a 3-year government bond.

List of outstanding options: Funcom N.V.	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2006	2006	2005	2005
Outstanding options on January 1	1 250 000		0	
Options Authorized	1 000 000		1 250 000	
Options allocated	850 000	0,57	850 000	0,57
Options exercised	0		0	
Options expired	0		0	
Options not allocated	1 400 000		400 000	
Outstanding options on December 31	2 250 000		1 250 000	
Exercisable on December 31	850 000	0,57	0	

On November 30, 2006, the general meeting authorized an additional options program of 1,000,000 options to subscribe for shares in Funcom N.V. Total number of options after this date is 2,250,000

The exercisable options at December 31, 2006 have an exercise price of USD 0.57. No options were exercised in 2006. On 1 March, 2007 a total of 585,200 share options were allocated. See note 28, Events after the balance sheet date, for further information.

Option program in Plutolife AS
On October 1, 2005, December 1, 2005, and December 16, 2005, Plutolife AS issued options to key management and key personnel. A total of 272,141 options (equals 4.9% of total issued shares in Plutolife AS) were granted. The options can be exercised in 3 stages, after 12, 24 and 36 months from grant date. The option holders lose the options if the employment with the Company ceases. The exercise price ranges from NOK 5.72 to NOK 7 (USD 0.74 –USD 1.03).The market price at the issue were NOK 7 (USD 1.03) which was determined based on highest price of the 3 last share purchases made by the Group.

The fair value of the granted options is recognized over the vesting period. In 2006, TUSD 28 was recognized as an expense in the Group's income statement with a corresponding credit to equity (2005: TUSD 5). The fair value of the share options granted during the period is TUSD 68 (2005: TUSD 68). The fair value of the options at the time when the options were granted ranges from NOK 0.93 to NOK 2.3 (USD 0.14 – USD 0.34)

The exercise price for one of the option programs is lower than the share market price on the grant date. The calculated employer's tax amounts to a total of TUSD 21 over the vesting period, and TUSD 10 in 2006. (2005: TUSD 2).

The fair value of the options is estimated using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Volatility is set to 32% and risk free rate to 2.71%. Volatility is set to 40.22% and risk free rate to 2.71%. For estimating volatility we have used the historical or implied volatility of similar listed entities, for which share price or option price information is available. Risk free rate is set equal to the rate on a 3-year government bond.

List of outstanding options: Plutolife AS	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2006	2006	2005	2006
Outstanding options on January 1	272 141	0,98	0	
Options authorized	0		272 141	
Options allocated	272 141	0,98	272 141	0,98
Options exercised	0		0	
Options expired	0		0	
Options not allocated	0		0	
Outstanding options on December 31	272 141	0,98	272 141	0,98
Exercisable on December 31	53 763	**1,06**	0	**0**

The following managers/directors possess options or own shares

Name	Number of shares	Number of options	Comments
Supervisory board			
Torleif Ahlsand	0	0	Mr. Ahlsand is a partner of Northzone Ventures, which owns 9.449.175 shares in the Company
Michel Cassius	0	0	Mr. Cassius is a member of the supervisory board.
Hans Peter Jebsen	12 011 075	0	Mr. Jebsen and affiliates control 12.011.075 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	1 583 325	375 000	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	0	Mr. Sandnes is the CFO of the Funcom Group
Jan Inge Torgersen	0	37 500	Mr. Torgersen is the Group's Financial Controller and a member of Funcom N.V. Management Board.

* On November 30, 2006, the general meeting approved an allocation of 27,500 options to Trond Arne Aas and 15,000 options to Jan Inge Torgersen. These options were formally allocated on March 1, 2007. On the same date Olav Sandnes were allocated 100,200 options. See note 28, Events after balance sheet date, for further information.

16. PROVISIONS

In thousands of US dollars	Sale returns	Tax on capital increases	Total
Balance at January 1, 2006	14	542	556
Provisions made during the year	59	16	75
Exchange rate differences	0	63	63
Balance at December 31, 2006	73	621	694

There are threatening assessments of Dutch capital tax on various capital increases since year 2000 and until and including year 2005.
The Group has recognized a provision for the potential claim including calculated interest. The amount is TUSD 621 (2005: TUSD 542) The Dutch Capital duty has been abolished from January 1, 2006. In addition, the Group has made a provision for possible sales returns of TUSD 73 (2005: TUSD 14).

17. DEFERRED INCOME

The amount consists of prepayments on a license agreement and subscription prepayments from customers.

18. ACCRUED EXPENSES

The amount mainly consists of vacation money accrued in Funcom Oslo AS and is payable in June 2007, taxes relating to salary payments and accrual of other regular operating expenses.

19. OTHER CURRENT LIABILITIES

Short term debt relates to the commission fees paid in connection with the IPO in December 2005, in addition to the outstanding amount from Funcom N.V.'s last share purchase in Plutolife AS. The amount bears no interest and the debts were paid in January 2006.

20. ACQUISITION OF 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, using the equity method.

Funcom N.V. has entered into agreements that can result in a 13 % increase in its shareholding in Plutolife AS. See note 23 in this report.

21. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2006	2005
Less than one year	1,394	931
Between one and five years	4,812	623
Total	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, 2006, TUSD 845 was recognized as an expense in the income statement in respect of operating leases (2005: TUSD 578).

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 3,347 divided by the weighted average number of ordinary shares outstanding 46,968,537 (2005: 28,972,476).

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	2006	2005
Profit / (loss) for the period attributable to the equity holders of Funcom (TUSD) (basic and diluted)	3, 346	-1, 558
Issued ordinary shares as of January 1	41, 914	25, 705
Effect of shares issued	5, 055	3, 267
Effect of options excersised	0	0
Weighted average number of shares at December 31	46, 969	28, 972
Earnings per share	0,07	-0,05
Weighted average number of shares at December 31, basic	46, 969	28, 972
Effect of share options on issue	1, 337	6,25
Weighted average number of shares at December 31, diluted	48, 306	29 ,597
Diluted earnings per share	0,07	-0,05

The calculation of weighted average number of shares take into consideration a 1:25 share split in connection with the listing of the shares at Oslo Stock Exchange in December 2005., the greenshoe issue in January 2006 and the secondary offering in March 2006.

23. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE OBLIGATIONS

The Company entered into an agreement in 2004, which, if the Company cannot fulfil, may result in a liability of TUSD 10. 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 692,212 numbers of shares which is approximately 13% 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 considerably lower than the last transaction price of NOK 7. (USD 1.1)

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.

It is estimated that a general change of 1% in the exchange rate between Norwegian kroner and US dollars would have changed the Group's operational result by approximately TUSD 63 (2005: TUSD 71). The majority of the Group's operational expenses and cash at bank are denominated in Norwegian kroner and are therefore perceived by the management as a natural hedge.

The Group is to some extent exposed to an interest rate risk as the Group has considerable amounts of cash at bank.

The Group does not consider itself exposed to significant credit risk as a large share of the revenues is paid by credit cards, and the majority of Plutolife AS bank overdraft is connected to secured trade receivables. See note 11.

The Group does not use any derivative financial instruments to hedge any risks arising in its operations.

The carrying amounts of the Group's financial assets and liabilities approximate their fair values.

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 arms 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 TUSD 73, the payment was outstanding as at year end 2006. The Supervisory Board did not receive any remuneration for the years 2005, 2004 and 2003.

Remuneration to the Management Board

The CEO of the Group, who is also a member of the Management Board, received in 2006 a total remuneration of TUSD 191 (2005 TUSD 177). Jan Inge Torgersen who is also a member of the Management Board and a manager in the Group received a remuneration in 2006 of TUSD 173 (2005: TUSD 90).

Remuneration to the Management Group

Overview of remuneration to management:

In thousands of US dollars	2006	2005
Salaries and benefits in kind (short-term employee benefits)	1,428	1,069
Share-based payments	97	111
Pension	28	0
Total remuneration	1,553	1,180

The CEO of the Group received in 2006 a total remuneration of TUSD 191 (2005 TUSD 177), he was also awarded a total of 375,000 share options in 2005. The exercise price is EUR 0.43 (USD 0.51). The total allocated share options in Funcom N.V. comprised of 850,000 as at December 31, 2005. In 2006 no options were allocated or exercised, but additional 1,000,000 share options were authorized. See further details in note 15 and 28.

Shares owned by members of the Supervisory Board and the CEO.

CEO Trond Aas had 1,583.325 shares directly and indirectly as of December 31, 2006. Hans Peter Jebsen, a member of the Supervisory Board and his closely related parties indirectly control 60,550 Funcom shares. Hans Peter Jebsen also indirectly controls 48% of Stelt Holding N.V., which owns 11,950,525 Funcom shares.

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, 2006, a loan of TUSD 24 (2005: TUSD 22) 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 TUSD 37 has been paid to Temmes Management Services B.V. in 2006 (2005: TUSD 33). 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 TUSD 63 for legal advice in 2006. (2005: TUSD 66). The Group's auditors received a total fee of TUSD 215 (2005:TUSD 40)

26. GROUP ENTITIES

Group entities

The Company is the ultimate parent company to 4 wholly owned and 1 partially owned subsidiary.

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2006	2005
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
Plutolife AS *	Norway	67.45	67.45

* The company was an associate until the Group in September 2005 increased its ownership and voting rights to over 50%. See also note 20. Plutolife AS has a 100% owned subsidiary, Plutolife Publishing AS.

27. ACCOUNTING ESTIMATES AND JUDGMENTS

Management has discussed the development, selections and disclosure of the Group's critical accounting policies and estimates and the application of these policies

Key sources of uncertainties

Note 8 contains some information on why the Group has chosen to capitalize deferred tax assets, and in note 9 we have listed capitalized development and technology. In note 24, the Group's currency risk is discussed.

Deferred tax asset

The management has discussed the probability that it will be able to utilize part of the historic unused tax losses, and has concluded that the conditions for utilization of the tax losses are present. This position is based on that the Group gets closer to the launch of 'Age of Conan' and the risk relating to the development of the game is reduced. Due to the envisaged profits from 'Age of Conan', it is Funcom's management opinion that sufficient taxable profit will be available against which parts of the unused tax losses or unused tax credits can be utilized by the Group. If later analysis should indicate that future taxable profits are not strong enough it would have a significant impact on the Groups results.

Capitalized development costs and technology

The Group has significant capitalized values of development costs and technology. According to IAS 36 all capitalized items should be impairment tested 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 Groups' 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 Dollar 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 are denominated in Norwegian kroner and are perceived by the management as a natural hedge.

28. EVENTS AFTER THE BALANCE SHEET DATE

On January 23, 2007, the Management Board approved to extend the latest exercise date on options allocated in 2005, from June 15, 2007 to June 15, 2008.

On March 1, 2007 a total of 585,200 share options was allocated at NOK 17,78 (USD 2,9). The vesting period is over 3 years, exercise months are March 2008, March 2009 and March 2010 with 33.3% of the options exercisable in each period. Total number of options in the capital of Funcom N.V. is 2,250,000 and after this options program there is a total of 1,435,200 options allocated, and 814,800 unallocated options.

The CEO of the Group and managing director of Funcom N.V. Trond Arne Aas, was allocated 27,500 options. The managing director of Funcom N.V. and a Manager in the Group, Jan Inge Torgersen, were allocated 15,000 options. The CFO of the Group Olav Sandnes was allocated 100,200 options.

On March 1, 2007, the Norwegian Film Fund awarded the Group a grant which will partially finance the research and an initial development of 'Dreamfall' Chapters. The grant enables the Group to establish a core technology team which will research online-only delivery methods of episodic content, as well as lay the foundation for a later pre-production phase of 'Dreamfall' Chapters.

There have been no other material events than described above between December 31, 2006, 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 31.12.2006

In thousands of US dollars	2006	2005
Results from participating interest after tax	2 569	-1 154
Other income and expenses after tax	778	-404
Net result from ordinary activities after taxation	3 347	-1 558

Company Balance Sheet

after appropriation of result

In thousands of US dollars	Note	31/12/06	31/12/05
Investment in and receivables from group companies	1,2	59 812	15 203
Financial fixed assets		59 812	**15 203**
Prepays and other receivables		5	5
Cash and cash equivalents		7	21 314
Total current assets		12	**21 319**
Total assets		59 824	**36 522**
Issued capital	5	2 522	1 978
Share premium	6	91 818	70 138
Legal reserves	7	17 860	10 244
Retained earnings	8	-53 084	-48 987
Total equity		59 116	**33 373**
Accrued expenses		20	120
Provisions	10	621	542
Other current liabilities	3	67	2 487
Total current liabilities		708	**3 149**
Total equity and liabilities		59 824	**36 522**

Principles of valuations for the financial statements

The company financial statements for Funcom N.V. have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code. The valuation of assets and liabilities and the calculation of the net result conform with the accounting principles applied in the consolidated annual accounts, except for participations which are valued at net asset value. This means that Funcom N.V.'s shareholders' equity and net result are the same as in the consolidated accounts, which means that the company uses the possibility as indicated in article 2:362 sub 8 of the Netherlands Civil Code.

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

In thousands of US dollars	2006	2005
Receivables non-current	50 692	9 090
Shares	9 120	6 113
Balance 31.12	59 812	**15 203**

The Company holds the following investments in subsidiary companies at December 31, 2006:

Name:	Registered seat	Percentage
Funcom Oslo AS	Oslo, Norway	100.00%
Funcom Inc	Durham, USA	100.00%
Funcom GmbH	Küsnacht, Switzerland	100.00%
Funcom S.a.r.l.	Luxembourg, Luxembourg	100.00%
Plutolife AS	Oslo, Norway	67.45%*

Ownership in percent also reflects the number of votes in the subsidiaries general meetings.
*Plutolife AS has a 100% owned subsidiary, Plutolife Publishing AS.

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

Balance at 01.01	6 113	6 002
Exchange difference	336	-65
Result of the year	2 569	-1 154
New participation	0	1 433
Other movements	102	100
Minority interest	0	-203
Balance 31.12	9 120	6 113

Other movements in 2005 and 2006 consist of the option programs and the Groups share of payment for new shares to employees in Plutolife

3. OTHER CURRENT LIABILITIES

Other current liabilities in 2005 relates to commissions paid in connection with the IPO in December 2005 and the purchase of shares in Plutolife AS in December 2005, these liabilities were paid in full in January 2006.

4. ISSUED CAPITAL

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

- January 1, 41,913,625
- December 31 47,744,625

Total authorized options at December 31, 2006 amounted to 2,250,000 (2005: 1,250,000). On December 31, 2006, the number of outstanding options allocated to managers and key personnel amounted to 850,000 shares (2005: 850,000).

The exercise period is from December 15, 2006 until June 15, 2007 and if converted into shares, the shares may only be sold after an approval from the Board until December 15, 2007. On January 23, 2007 the Management Board approved to extend the latest exercise date on options allocated in 2005, from June 15, 2007 to June 15, 2008. The option holders lose the option if the employment with the Company ceases.

On March 1, 2007 additional 585,200 options were allocated, see note 11, Events after the balance sheet date, for further information.

At December 31, 2006, the authorized share-capital comprised of 56.25 million ordinary shares (2005:56,25 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.

On January 16, 2006 the Company issued 1,531,000. The issued shares were paid in cash at NOK 15 per share (USD 2.22). Gross proceeds amounted to TNOK 22,965 (TUSD 3,392). 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 TNOK 131,150 (TUSD 19,371). Total number of issued shares after this transaction is 47,744,625.

In 2006, transactions costs of TUSD 891in connection with capital increases were charged directly against the share premium (2005: TUSD 2,665)

The share-capital is translated into US dollars at the December 31, 2006 exchange rate of EUR/USD 1.3202

5. SHARE-CAPITAL

In thousands of US dollars	2006	2005
Balance at 01.01	1 978	1 403
Exchange	265	-197
Addition share-capital	279	772
Balance 31.12	2 522	**1 978**

6. SHARE PREMIUM

In thousands of US dollars	2006	2005
Balance at 01.01	70 138	42 884
Addition share premium	21 680	27 254
Balance 31.12	91 818	**70 138**

7. LEGAL RESERVES

The legal reserves are maintained in respect of translation differences amounting to TUSD 185 (2005: TUSD -151) and capitalized development expenses amounting to TUSD 17,675 (2005: TUSD 10,395.). Legal reserves are non distributable to shareholders.

8. RETAINED EARNINGS

In thousands of US dollars	2006	2005
Balance at 01.01	-38 743	-37 200
Exchange effect on share-capital	-265	197
Exchange effect on subsidiaries	336	-283
Other movements	0	46
Employee options	102	55
This years result	3 346	-1 558
Legal reserves	17 860	10 244
Balance 31.12	-35 224	**-38 743**

9. SHARE BASED PAYMENTS

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

10. PROVISIONS-Dutch capital duty

In thousands of USD	2006	2005
Balance at January 1	-542	-420
Interest calculation	-16	-10
Additions	0	-167
Exchange	-63	55
Balance at December 31	-621	**-542**

11. EMPLOYEES

The average number of employees in Funcom N.V. for 2006 was 0 (2005: 0).

12. REMUNERATION OF DIRECTORS

On November 30, 2006, the General meeting approved remuneration to the Supervisory Board for the year 2006 amounting to TUSD 73. The Supervisory Board did not receive any remuneration for the years 2005, 2004 and 2003.

A total fee to Temmes Management Services B.V. has been TUSD 6 in 2006 (2005: TUSD15) 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 TUSD 47 for legal advice in 2006. (2005: TUSD 39)

13. LOSSES CARRIED FORWARD

As at December 2006, the tax losses for the Group have accumulated to TUSD 30,812 (2005: TUSD 31,019). TUSD 13,570 will expire in 2007 if it is not used.

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 only present the recommendations where it does not comply and explain the rationale for this.

OVERVIEW OF FUNCOM'S CORPORATE GOVERNANCE

Owners	Board	Management
Shareholders		
General meeting	Supervisory board	Chief Executive Officer
	Remuneration Commitee	Executive Team
	Audit commitee	
	Management Board	
The general meeting elects 5-7 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 Recommendation for Corporate Governance 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 a thorough internal process.
Departures from the recommendation: None

2. BUSINESS

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

The Company'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 2006, consolidated equity came to MUSD 59,3, accounting for 93.4 per cent 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.
Departures from the recommendation: None

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

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

Transactions between related parties
Funcom's Board is committed to treating all the Company's shareholders equally. In 2006, 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 one described in Note 25 in the Notes to the Consolidated Financial Statements where Pieter van Tol has an ownership stake in Weidema van Tol, a Company used by Funcom for legal council. The Supervisory Board will pay particular attention to obtaining independent valuations for any material transactions between the Company and its close associates.
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 Annual General Meeting, 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 Annual General Meeting (AGM) is held before 30 June each year. The 2007 AGM is scheduled for 14 June. Notification will be distributed two weeks in advance. 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 urged 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 very least. In 2006, the AGM was held on 30 May, 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. 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 does not 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 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 again 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. At the extraordinary AGM, Michel Cassius was elected new member of the Board. Tore Mengshoel left the Board.

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.

Departures from the recommendation:
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 2007. 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 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.

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. 10 Board meetings and one Board seminar were held in 2006.

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 receive monthly 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.

Expertise

In 2006, the new member of the Supervisory Board, Michel Cassius was given insight into the Company's business activities through special focus sessions.

Legal competence

The Board is bound by the rules regarding disqualification as they appear in §6-27 of the Public Limited Companies Act. In 2006, 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.

- 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 2006 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. DIRECTORS' FEES

The Annual General Meeting stipulates the Board's remuneration each year. The proposal for remuneration will be made by the Chairman of the Remuneration Committee. In 2006, total remuneration to the Supervisory Board came to EUR 56 833. The Chairman of the Supervisory Board's remuneration was EUR 25 000 and the other Supervisory

Board members received EUR 8 000, with the exception of Michel Cassius who received a pro rata compensation of EUR 6.000. Tore Mengshoel received a pro rata compensation of EUR 8.000 for the period he was a member of the Supervisory Board .

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 has been fully disclosed to the full Board.

11. REMUNERATION TO LEADING EMPLOYEES

Guidelines
The CEO's terms of employment are set by the Supervisory Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO.

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.

12. 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, 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: 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 in 2007.
Departures from the recommendation: None

13. 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.

14. 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 Board 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 dis-

cussions 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. 2.6.
  The Regulations 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. We do not apply the Code. We believe 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, four of the members do not meet the requirements to be defined as independent according to the article. Three 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, Pieter van Tol and Claus Højbjerg Andersen.
- 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.
- Article III.8:
  The Management Board currently has two members and both members have executive responsibilities in the Company. The Chairman of the Management Board is also the Chief Executive Officer of 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 players in the market.

Financial Calendar for Funcom 2007

Funcom NV will publish its financial statements on the following dates in 2007:

▪ Thursday 15 February	- Q4 2006
▪ Wednesday 16 May	- Q1 2007
▪ Thursday 26 July	- Q2 2007
▪ Thursday 1 November	- Q3 2007

The dates are subject to change.

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 the 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 23, 2007, the Management Board approved to extend the latest exercise date on options allocated in 2005, from June 15, 2007 to June 15, 2008.

On 1 March, 2007, a total of 585,200 share options were allocated at NOK 17,78 (USD 2,90). The vesting period is over 3 years, exercise months are March 2008, March 2009 and March 2010 with 33.3% of the options exercisable in each period. Total number of options in the capital of Funcom N.V. is 2,250,000 and after this options program there is a total of 1,435,200 options allocated, and 814,800 unallocated options. The CEO of the Group and managing director of Funcom N.V. Trond Arne Aas, was allocated 27,500 options, the managing director of Funcom N.V. and a Manager in the Group, Jan Inge Torgersen, was allocated 15,000 options and the CFO of the Group Olav Sandnes was allocated 100,200 options.

March 1, 2007, The Norwegian Film Fund awarded the Group a grant of NOK 1,500,000 (TUSD 241) which will partially finance the research and an initial development of 'Dreamfall' Chapters. The grant enables the Group to establish a core technology team which will research online-only delivery methods of episodic content, as well as lay the foundation for a later pre-production phase of 'Dreamfall' Chapters.

There have been no other material events than described above between December 31, 2006 and the date of 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 2006 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 2006, the consolidated profit and loss account, consolidated statement of recognized income and expense 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 2006, 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.

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V
MAZARS TOWER, DELFLANDLAAN 1 - P.O. BOX 7266 - 1007 JG AMSTERDAM - amsterdam.audit@mazars.nl
TEL: +31 (0)20-2060500 - FAX: +31 (0)20-6448051

MAZARS

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.

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 2006, 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 2006, 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, 23 March 2007

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.
Corporate Assurance Services

Drs. J.D.G. Noach RA

Contact Details

Funcom N.V.
Neugutstrasse 66
8600 Dübendorf
Switzerland

Funcom GmbH
Neugutstrasse 66
8600 Dübendorf
Switzerland

Funcom Oslo AS
Drammensveien 167
0277 OSLO
Norway

Plutolife AS
Drammensveien 167
0277 OSLO
Norway

Funcom Inc
Po Box 14390
Durham, NC 27709
USA

Funcom Rep Office
1805 Kuntai International Apartment
B12 Chao Wai Street
Beijing 100020
P.R. China

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