Funcom N.V.

Annual Report

2017

Contents

About Funcom

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

Funcom N.V. (the Company) was founded in 1993 and since then, the Company has developed and published over 27 game titles across several genres and gaming platforms. In 2017 *Conan Exiles* very successfully launched into Early Access on 31 January, recouping its development costs after just a week. In 2018 Funcom will publish *Mutant Year Zero: Road to Eden* made by Swedish developer The Bearded Ladies. Previous notable games are the online MMOs *Secret World Legends® (relaunched in 2017), Age of Conan* and *Anarchy Online®,* which despite their respective ages continue to be important, contribution-generating pillars in Funcom's live portfolio of games.

Funcom has also developed several single-player classics, such as the highly critically acclaimed *The Longest Journey*® and *Dreamfall*®. In October 2015, Funcom released *The Park*®, its first single-player game in over ten years.

As of the date of the annual report around 120 talented individuals are working at its studios in Oslo and North Carolina.

The launch of Conan Exiles marked the successful execution of the first phase of the strategic turnaround put in place in 2015. Key objectives were securing short development time bringing all games fast to the market, working on multiple games and revenue generating activities in parallel and having different sized budgets based on a project's risk profile.

Based on an intellectual property investment and private placement completed in early 2018 it has been decided to grow the Company's publishing and co-development arm in order to create more revenue streams at a lower risk, leading to more predictable cash flows and financials and a more stable base from which to grow.

The updated strategy now consists of:

- Internal Game Development and Publishing: Having a minimum of two games in development internally at all times, which utilize the Company's IPs and competence in Online RPGs. These projects will have different budget sizes, ranging from small and experimental titles to larger productions. These games will then be brought to market directly by the Company and its PR & Marketing, Server Operations, Quality Assurance, Customer Service and other relevant teams. The games will be targeted towards platforms such as PC and Consoles and will have business models that fit the genre and market conditions at their release time, always including additional monetization in order to successfully monetize the investments for as long as possible.

- External Co-Development and Publishing: Building a network of trusted developers with whom the Company can partner up to co-develop and/or publish a game and bring it to market utilizing its internal resources that the external developers do not typically have themselves, such as Marketing, Sales, Community management, Online operations, Technology and porting to console expertise, Motion Capture, Localization, Quality Assurance and Customer Service. The goal is to grow this activity to have two such external products launched annually.

- Internal Technology Development: Leveraging the internal Technology's team know-how and competence gained during the creation of the *DreamWorld Technology®* to create a modern technological platform that all of the Company's projects, internal or external, can leverage to obtain a key competitive advantage in the market.

- Intellectual Properties: Continue developing the internal IP portfolio comprised of *The Longest Journey, Anarchy Online* and *The Secret World* and generate activity and revenues from the recently interactive IP rights acquired in February 2018, including *Conan the Barbarian*, *Mutant Year Zero*, *Solomon Kane* and other appealing IPs.

Additionally, the Company will keep developing and supporting the existing games as they are an important source of revenue and drive the internal intellectual properties.

The Company will be focused on the PC and Console digital markets, with Steam being the largest storefront for games on the PC digital market. Physical retail distribution of the Company's games will be done when relevant and executed in conjunction with a partner.

Geographically, the Company focuses primarily in North America and Europe, with other important markets handled on a case by case basis either directly or through partners.

The strategy is meant to reduce the Company's overall risk exposure, control costs through careful investment decisions and budgeting and increase the financial stability by having more revenue sources. The Company has executed a cost-saving scheme called "Structural cost", that saw the reduction of the Group's costs by liquidating companies that no longer added value to the Group.

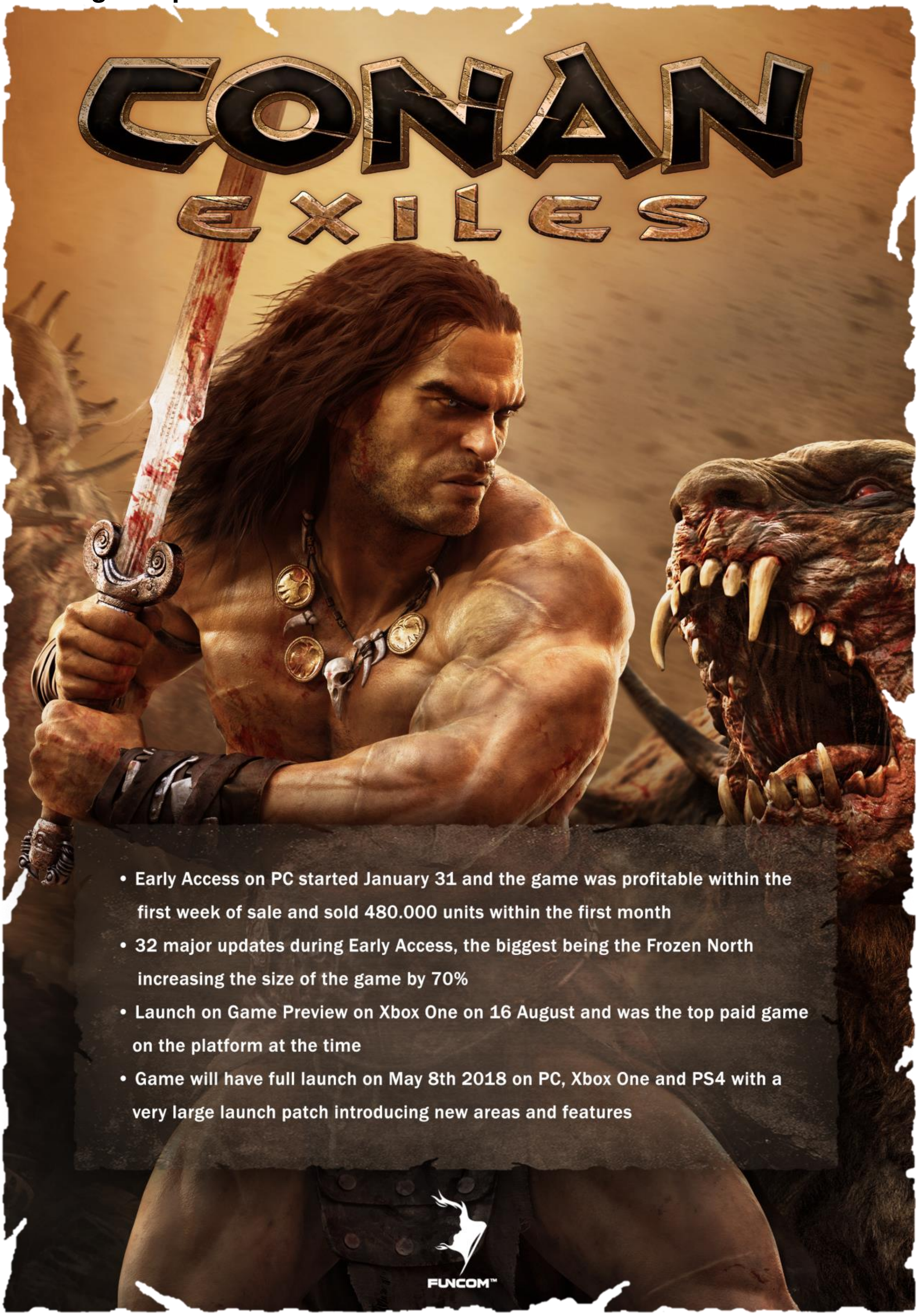
Funcom has two highly skilled team of developers situated in the Research Triangle Park, North Carolina, USA and Oslo, Norway. In 2017 the Oslo studio focused solely on the production of *Conan Exiles* and the North Carolina studio on the maintenance of the older MMOs and relaunch of *The Secret World* as *Secret World Legends.*

Age of Conan launched in 2008 and sold more than 1.4 million copies before it went over to a free-to-play business model. Since launch, more than four million players have signed up to experience *Age of Conan*. *Anarchy Online*, the Company's first MMO, has been in operation for 17 years and is still generating revenue. *The Secret World* is Funcom's largest MMO and is being relaunched as *Secret World Legends* with a new positioning and with a Free to Play (F2P) business model to attract new players and broaden the target audience.

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

For more information, visit www.funcom.com.

Active game portfolio




SECRET WORLD
LEGENDS
• The Secret World relaunched as Secret World Legends on the 26 June 2017
• Game now has a free-to-play business model with micro transactions, optional subscription and an in-game currency exchange for paid currency
• Relaunch increased the number of players and profitability of the game significantly in the launch period
• Continuously updated with new items for sale, events and content and got a major story update in April 2018
FUNCOM™


MUTANT
YEAR ZERO
ROAD TO EDEN
• First revealed on February 28th 2018 with wide press coverage
• Based on Heroic Signatures' IP Mutant Year Zero, known from pen-and-paper RPGs
• First gameplay was revealed at GDC 2018 with positive reactions
• Game to launch on PC, Xbox One and PS4 in 2018
FUNCOM™

OTHER GAMES

- ***Age of Conan***
  - *Age of Conan's* largest update in 2017 was the new *Saga of Zath* server. Here players could start fresh on a time-limited server which offers a special Saga Quest with all new rewards. There was also a special server-wide reward when the most dedicated players defeated the hardest raid boss in the game.

- ***Anarchy Online***
  - Despite being launched in 2001, *Anarchy Online* still has a fan base and continue to generate revenues. On 22 February 2017 *Anarchy Onlin*e was released on the Steam platform.

- ***The Park/ Hide & Shriek***
  - Smaller games set in the *Secret World Legends* universe. They were Funcom's first games made in the Unreal 4 engine and gave the company valuable experience for future projects.

- ***The Longest Journey®***
  - Dreamfall Chapters, developed by Red Thread Games on a license from Funcom, was released on Xbox One and PlayStation 4 in May 2017. The *Longest Journey* Bundle was created on Steam and contains all three games based in this universe.

THE DREAMWORLD TECHNOLOGY

The trademarked *Dreamworld Technology* platform is the technological foundation on which the company's games are built. This proprietary technology platform provides Funcom with a unique competitive advantage by enabling more flexible, faster and more predictable development and deployment of upcoming games.

A key part of Funcom's strategy has been to develop a proprietary technology platform for both online and offline games. *Dreamworld Technology* eases the development and deployment process of such products. This enables the Company to develop faster prototypes and early versions of new games using limited staff and to test new game concepts' feasibility before committing more resources to the projects. Having a proprietary technology base also enables the Company to specialize and develop unique features for its games.

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

Key developments in 2017 include developing secure dedicated server technology, compliant with requirements of the major console platform owners, as well as developing our internal cross platform crash and telemetry gathering systems.

Report of the Management Board

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

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

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

Legal structure
For an overview of the legal structure of the Company and its subsidiaries (together referred to as the 'Group') – please refer to note 26

Review of Funcom's financial position and financial results for 2017
2017 was the most profitable year in Funcom's history illustrating the successful execution of the first phase of the strategic turnaround initiated in 2015.

Funcom's revenue for 2017 was USD 23,162 thousand compared to USD 7,322 thousand in 2016. The significant increase of USD 15,840 thousand is due to the successful early access launch of *Conan Exiles* in January 2017, the Xbox Game Preview launch in August 2017, and the relaunch of *The Secret World* as *Secret World Legends* in June 2017.

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2017 was USD 9,937 thousand compared to USD 232 thousand in 2016. The EBITDA margin was 43% compared to 3% in 2016. The corresponding operating result for 2017 was USD 6,640 thousand compared to USD -1,580 thousand in 2016. The strong profitability is driven by the success of Conan Exiles and the turnaround strategy of reducing the development time and hence cost for the games.

Funcom performed four quarterly impairment tests in 2017. As no indicators to adjust down its game values were found, no impairment was recorded in 2017. The management will continue to monitor the value of Funcom's assets and inform the market of any material changes.

The Company reported a net profit for 2017 of USD 4,957 thousand compared to a net loss for 2016 of USD -1,695 thousand. Thus, the earnings per share (basic and fully diluted) increased from USD -0.01 at the end of 2016 to USD 0.02 at the end of 2017.

The Equity of the Company at year-end increased to USD 13,678 thousand compared to USD 3,773 thousand in 2016. The increase was mainly due to the significant profit generated in 2017. In addition, several transactions on the company's debt instruments increased the equity through 2017.

In January 2017, the remaining amount of USD 250 thousand on the Convertible Loan was fully converted into 2,413,127 new shares in the capital of Funcom N.V. at the price of USD 0.1036[1] per share. Since this transaction, no balance remains under the Convertible Loan, and the only remaining financial liability of the Company relates to the Convertible Bond. In early 2017, a total of 1,565,000 warrants were exercised giving rights to subscribe for the same amount of share at a price of USD 0.10[2] per share. In consequence, a total of 1,565,000 new shares in Funcom N.V. were issued. After these transactions, there is no outstanding warrant. In April 2017, KGJ Investment S.A. SICAV-SIF, the Company's main creditor and shareholder, converted an amount of USD 3,500 thousand and accrued interest on the Convertible Bond into 34,675,480 new shares in the capital of Funcom N.V. at a price of USD 0.1036[3] per share. Since this transaction, 3,399,194 bonds are outstanding under the same conditions with maturity date on 31 December 2018.

The cash position of the Company at year-end was USD 7,731 thousand compared to USD 3,710 thousand at the end of 2016. The increase was mainly due to the significant cash inflow from the successful early access launch of *Conan Exiles* in January 2017.

Going concern

Upon preparing and finalizing the 2017 financial statements, the Management Board assessed the Company's ability to fund its operations for a period of at least one year after the date of the annual report.

The successful launches of *Conan Exiles* in Early Access and of *Secret World Legends* during 2017 have significantly increased the cash balance of the Company. Besides, with the reduction of the debt as described here above, as of 31 December 2017, the only outstanding financial debt instrument of the Company is the Convertible Bond, with a carrying amount of USD 3,363 thousand and a year-end balance due of USD 3,399 thousand, and a maturity date on 31 December 2018.
Furthermore, Funcom completed on 1st February 2018 a private placement of 6,800,000[4] new shares, each with a par value of EUR 0.20[5], at a subscription price of NOK 13.00[6] per New Share, directed towards SwedBank Robur Ny Teknik and SwedBank Robur Microcap funds, both funds managed by Swedbank Robur Fonder AB. This private placement generated a significant new funding for the Company in the amount of NOK 88.4 million.

Overall, based on the outcome of this assessment, the Management Board is of the opinion that the Company's financial situation is strong, and that the going concern assumption is justified. Consequently, the financial statements of the Company have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.

Financial instruments

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

[1] Price per share before the Reverse Share Split that occurred on 1st February 2018.
[2] Price per share before the Reverse Share Split that occurred on 1st February 2018.
[3] Price per share before the Reverse Share Split that occurred on 1st February 2018.
[4] Number of shares after the Reverse Share split that occurred on 1st February 2018.
[5] Nominal share value after the Reverse Share Split that occurred on 1st February 2018.
[6] Price per share after the Reverse Share split that occurred on 1st February 2018.

Main Developments: product and technology update

Corporate restructuring

The process of restructuring the Company initiated in 2013 by simplifying the legal structure and taking related cost saving measures was finalized during 2017, with the liquidation of the entity Funcom Games Canada completed as the last step.

At the extraordinary meeting on 29 March 2017, Mr. Christian Olsthoorn was appointed as new member of the Board of Managing Directors in order to improve the overall level of experience of the Board of Managing Directors. Mr. Rui Casais, CEO of Funcom, acts as the Chairman of the Board of Managing Directors.

Executive management

The Executive Management of Funcom comprises 5 executives with good domain knowledge within their job functions and with senior management experience. The Executive Management of Funcom currently includes the following positions: Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Product Officer and Chief Marketing Officer.

Games in operation during 2017

The Secret World was successfully relaunched in June 2017 as *Secret World Legends*. For *Secret World Legends* several seasonal and weekend events were run by the team during the last three months of 2017 in order to maintain the activity levels and drive engagement. Since then, the revenue from this game is starting to stabilize. The team is working on initiatives that aim to improve player acquisition, conversion, monetization and launching new content. After Season 2 the transition of the team to development of the new North Carolina game will accelerate. The client size has been reduced and other actions have been taken to reduce acquisition cost of new players. The team is focusing on creating the new content and features for the Agent System and new story content that was released in Q1 2018.

Games in development during 2017

Conan Exiles was successfully launched in early access in January 2017 and Xbox Preview in August 2017, and full launch including PlayStation 4 launch is set to 8 May 2018. The certification process with both Xbox One and PS4 was completed during Q1 2018. The map has been expanded to 200% of original size with the addition of new areas and dungeons. A full revision and tweaking of existing content as part of the content rebalance pass to improve the exploration & survival aspects of the game as well as overall fun factor. Funcom made a significant investment into development of new features like combat 2.0, the purge, the journey system. The launch pricing for *Conan Exiles* will be $39.99 for PC, $49.99 for Consoles, and $79.99 for the Collector's Edition.

Future games for 2018 and beyond

In June 2017, Funcom entered into an agreement with Bearded Dragon International LTD regarding development support and publishing of a new game. The game, *'Mutant Year Zero: Road to Eden'*, is in the "tactical turn-based strategy" genre and is planned to be released in the second half of 2018 on the PC, PlayStation 4, and Xbox One platforms. Publishing activities are ongoing with Quality Assurance, PR/Marketing, and Project Management resources being integrated with the development team in Sweden.

Funcom entered into an agreement regarding the establishment of a joint venture with Cabinet Group LLC. As part of this transaction, the Company secured the rights to three new games, two using the Conan IP and one using one of the other IPs. This transaction enables Funcom to reduce by half the royalty cost on the related IPs. The Company expects to develop internally in 2018 the following two new games covered by these rights:

- In Funcom Oslo:
    - New game concept using the “Conan the Barbarian” IP
    - Pre-production pushed to after *Conan Exiles* full launch
- In Funcom North Carolina:
    - New major project has been greenlit and entered in pre-production phase in March 2018
    - Full production scheduled to start in late Q2 or Q3 2018 depending on staffing speed
    - The game will be a Cooperative online shooter game with a Premium business model using an IP from Heroic Signatures
    - The company does not expect to reveal any information about the new project in 2018

Under the same deal, the Company has thus also the rights for a third game to be utilized in future years.

Technology Development
In 2017 Funcom continued to take its *Dreamworld Technology* in the new direction, migrating it from being a complete game engine package towards being a production and runtime framework that integrates into 3rd party engines, such as Unreal Engine 4. This has allowed us to benefit from the wide feature list of 3rd party engines, while still retaining and improving upon our unique data handling system, build handling system, as well custom client feature set.

Reverse split
Upon resolution of the Company’s extraordinary general meeting on 30 January 2018, the Company effectuated a reverse share split in the ratio of 5:1, by increasing the nominal value of the shares from EUR 0.04 to EUR 0.20, so that 5 (five) shares before the reverse share split became 1 (one) share after the completion of the reverse share split.

IP investment
In order to diversify revenues and reduce royalty cost Funcom has acquired 50% of Heroic Signatures DA, holding the interactive rights of an IP portfolio including Conan the Barbarian, Solomon Kane, Mutant Chronicles, Mutant: Year Zero. The arrangement has the immediate cash flow benefits of halved royalties on Age of Conan and Conan Exiles. This was a cashless transaction, where Funcom after the reverse split issued 4,460,000 new shares on 1 February 2018, each with a par value of EUR 0.20, at a subscription price of NOK 13.00 per share. More information is provided in note 28.

Private placement
In order to fund publishing partnerships with 3rd party game developers, and secondarily to have more flexibility when investing in production of new games internally, Funcom executed a private placement directed towards Swedbank Robur Ny Teknik and Swedbank Robur Microcap funds, both funds managed by Swedbank Robur Fonder AB. The private placement was made at a 18% premium compared to the closing price of the Company's shares on the Oslo Stock Exchange as of 15 December 2017. The transaction was completed after the reverse split on 1 February 2018, issuing 6,800,000 new shares, each with a par value of EUR 0.20, at a subscription price of NOK 13.00 per new share. With NOK 88.4 million of new funding in 1Q18 the Company’s financial position is strong

Outlook
With NOK 88.4 million of new funding in 1Q18 the Company’s financial position is strong.

Key factors of the outlook are the full launch of Conan Exiles on PlayStation4, PC and Xbox on 8 May 2018 and the launch of the *'Mutant Year Zero: Road to Eden'* release on PC, PlayStation 4, and Xbox. Both have the potential to generate significant revenues. Following the successful relaunch of Secret World Legends, the revenue from this game is starting to stabilize. The team is working on initiatives that aim to improve player acquisition, conversion, monetization and launching new content. After Season 2 the transition of the team to development of the new North Carolina game will accelerate.

The other games are expected to slowly decline over time due to the ageing of the games, despite the potential of growth in periods. Funcom will receive IP royalties from Heroic Signatures from 1 February 2018. In line with the communicated strategy Funcom plans to invest in co-development and publishing of additional games during 2018.

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

Internal & external environment
Funcom recognizes that its key assets are its employees and is committed to maintain a stimulating working environment that offers the opportunity for both personal and professional development. This is also necessary to continue to attract and retain highly qualified employees within the gaming industry. As of December 31, 2017, the group employed 118 employees compared to 103 at the end of 2016.

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

Shareholders and capital
The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will continue to ensure that information is communicated to the market equally and that the information provides an accurate view of the status of the Company in all material respects on an ongoing basis. The share capital of Funcom N.V. comprises of one class of ordinary shares. Each share confers the right to cast one vote. At the end of 2017, Funcom N.V. had a share capital of USD 13,525 thousand (2016: USD 11,808 thousand) consisting of 289,652,610 shares with a nominal value of EUR 0.04 per share. Upon resolution of the Company's extraordinary general meeting on 30 January 2018, the Company effectuated a reverse share split in the ratio of 5:1, by increasing the nominal value of the shares from EUR 0.04 to EUR 0.20, so that 5 (five) shares before the reverse share split became 1 (one) share after the completion of the reverse share split. There are no restrictions in relation to the transfer of shares in the capital of Funcom N.V. There are 14,940,799 outstanding share options granted to employees and directors in the Company at the end of 2017 (2016: 10,343,472).

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

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

The depositary ownership of the investors is registered in the VPS under the category of a "share" and the depositary ownership is listed and traded on Oslo Stock Exchange. Investors who purchase shares (although recorded as owners of the shares in the VPS) have no direct shareholder rights in Funcom N.V. Each share registered with the VPS represents evidence of depositary ownership of one share. The shares registered with the VPS are freely transferable, with delivery and settlement through the VPS system. The VPS Registrar or its designee shall only vote the shares it holds, or issue a proxy to vote on such shares, in accordance with each investor's instructions. Funcom N.V. will pay dividends directly to the VPS Registrar that has undertaken, in turn, to distribute the dividends to the investors in accordance with contractual arrangements on that point. On average less than 30% of the issued share capital of Funcom N.V. is represented at a general meeting, generally represented through proxy.

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

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

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

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

The Management Board and Supervisory Board of Funcom currently consist of males. In the appointment of directors and auditors, job profiles are used in which there is no gender distinction. Although the current composition of the Board is not diverse, the Management and Supervisory Board seek a more diverse composition. In any future replacement of Directors or Supervisory Board members both men and women are invited to apply. In the final stage of the future selection of candidates, the quality of any candidate will prevail.

Dividends
Funcom is investing its capital in the development of existing and future games, developed inhouse or in cooperation with third parties where Funcom acts as publisher. Funcom also values the flexibility to be able to pursue strategic opportunities. The Company will therefore retain its surplus

cash in the Company for the time being. Based on the performance of new game launches and the company's financial position a revision to this dividend policy might be considered.

Application of profit/loss

The Management Board does not propose payment of a dividend. Management proposes to appropriate the profit to retained earnings. Total equity after appropriation of the results for 2017 is USD 13,678 thousand (2016: USD 3,773 thousand).

Events after the reporting period

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

Management statement

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

Badhoevedorp, the Netherlands, April 18, 2018

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Managing Director
sgd

Corporate governance

Funcom's corporate governance policy

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

Funcom's key principles of corporate governance have been based upon the Dutch Corporate Governance Code (*De Nederlandse Corporate Governance Code*), that can be found on www.commissiecorporategovernance.nl and the Norwegian Code of Practice for Corporate Governance (*Eierstyring og Selskapsledelse*), that can be found on www.nues.no. The Oslo Stock Exchange requires listed companies to publish an annual statement listing all corporate governance recommendations and presenting compliance with the recommendations or explaining why the Company has chosen an alternative approach to the specific recommendation.

For the Dutch Corporate Governance Code, Funcom will present the best practice clauses where it does not comply and explain the rationale for this.

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

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

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

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

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

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

Departures from the recommendation: None

3. Equity and dividends

Equity

The equity of the Company improved from USD 3,773 thousand at the end of 2016 to USD 13,678 at the end of 2017. The equity will be further increased by around USD 7 million by the 1 February private placement by Swedbank Robur.

Dividend policy

Further to the proposal of the Management Board, the Supervisory Board determines what portion of the profits shall be retained by way of reserve. The portion of the profit that remains thereafter shall be at the disposal of the General Meeting. This policy will be regularly evaluated as appropriate according to the development of the Company.

Mandates granted to the Supervisory Board

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

Departures from the recommendation: None

4. Equal treatment of shareholders and transactions with close associates

Class of shares

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

Transactions between related parties

Funcom's Supervisory Board is committed to treating all the Company's shareholders equally. In 2016, there were no transactions between the Company and its shareholders, Supervisory Board Members, Management Board Members, executives, or those close to them, which might be described as significant transactions, <u>except those described in Note 25</u> in the Notes to the Consolidated Financial Statements.

Pre-emption rights

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

Departures from the recommendation: None

5. Freely negotiable shares

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

Departures from the recommendation: None

6. General Meetings

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

Notification
The Norwegian Public Companies Act stipulates that at least 2 weeks' notice must be given to call a general meeting. Based on the law applicable to Dutch list companies, the notification must be given at least 42 days before – not including the date of the meeting. In this respect, the Netherlands being the home state of Funcom N.V., the Company follows the Dutch law. Notification will be distributed at least 42 days in advance and posted on the Company's website.

Participation
The shares listed on Oslo Stock Exchange are registered in the name of DnB Bank ASA (Funcom's VPS Registrar). The VPS Registrar or its designee shall only vote the shares it holds, or issue a proxy to vote on such shares, in accordance with each investor's instructions.

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

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

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

7. Nomination Committee

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

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

According to the Company's Articles of Association, there shall be at a minimum one member of the Supervisory Board. All Supervisory Board Members are independent of the company's executive personnel and its main business connections. At least two members of the board are independent of the Company's main shareholders.

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

9. The work of the Board of Directors
Board responsibilities
The Supervisory Board produces an annual plan for its work. The Supervisory Board has issued instructions for its own work through regulations. The Supervisory Board's main tasks include participating in developing and adopting the Company's strategy, performing the relevant control functions and serving as an advisory body for the executive management. The Supervisory Board approves the Company's plans and budgets. Items of major strategic or financial importance for the

Company are items approved by the Supervisory Board. The Supervisory Board is responsible for hiring the CEO and defining his or her work instructions as well as setting his or her wage.
Financial reporting
The Supervisory Board receives regular reports on the Company's economic and financial status.

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

Conflicts of interest
In a situation involving the Chairman of the Supervisory Board personally, this matter will be chaired by some other member of the Supervisory Board; furthermore he (or she) will refrain from deliberating on and adopting of the resolutions in relation to that matter.

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

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

Departures from the recommendation: None.

10. Risk Management and Internal Control
The Company maintains internal controls and a system for risk management. Funcom has corporate values and ethical guidelines.

Departures from the recommendation:
The Company's management has set up a system of internal controls, which it considers to be effective and efficient for the size of the Company. The system may be less detailed than expected in the Norwegian Corporate Governance Code. The Company considers the internal control relating to financial reporting to be at a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so.

11. Remuneration of the Board of Directors
The General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration is made by the Chairman of the Remuneration Committee.

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

12. Remuneration of executive personnel
Guidelines
The Supervisory Board sets the terms of employment of the members of the Management Board. Each year, the Supervisory Board undertakes a thorough review of salary and other remuneration

to the CEO as well as for other members of the Management Board. The Remuneration Policy is reviewed on an annual basis by the Remuneration Committee of the Supervisory Board.

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

13. Information and communications

The annual report and accounts - periodic reporting
The Company endeavours to present provisional Annual Accounts in February. Complete accounts, the Report from the Supervisory Board and the Annual Report are made available to shareholders and other stakeholders before the end of April. Beyond this, the Company currently presents its accounts on a quarterly basis. The Financial Calendar is published on the Company's website and on the Oslo Stock Exchange’s website. In addition, certain financial and Company information can be found at the Dutch Chamber of Commerce and at the AFM register. The website of the Dutch Chamber of Commerce is: www.kvk.nl and the website of the AFM is: www.afm.nl. All shareholders are treated equally as a matter of course.

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

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

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

The Board has stipulated special guidelines for the Company's contact with shareholders outside the general meeting in its Investor Relations.

Departures from the recommendation: None

14. Takeovers

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

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

Departures from the recommendation: None.

15. Auditor

The auditor's relationship with the Board

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

The Chairman of the Audit Committee conducts a separate discussion with the auditor and management prior to the Supervisory Board's discussion of the financial statements. The auditor is always present or participates in a conference call during the Supervisory Board's discussions of the annual accounts. In that connection, the Supervisory Board is briefed on the financial statements and items of special concern to the auditor, including any points of contention between the auditor and management. The Supervisory Board arranges annual meetings and / or conference calls with the auditor to discuss a report from the auditor that addresses the Company's accounting principles, risk areas and internal control routines.

The auditor's relationship to management

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

Departures from the recommendation: None.

16. Sexual Harassment

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

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

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

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

Departures from the Dutch Corporate Governance Code:

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

(i) Pursuant to Provision 1.3.1, the Management Board should appoint an internal auditor and such appointment should be approved by the Supervisory Board. The Company has not assigned a specific internal auditor. Given the size of the Company, it believes its current internal control procedures are adequate. As noted in Provision 1.3.6 of the Dutch Corporate Governance Code, the size of the Company is – indirectly – an acceptable reason for this departure. Considering that the Supervisory Board that its current internal control procedures are adequate, which opinion is partly based upon advice of the audit committee, the Supervisory Board takes the position that no outsourcing of the internal audit function is required. The Company will continue to review its internal control procedures.

(i) Pursuant to Provision 2.1.5, the Supervisory Board should draw up a diversity policy for the composition of the Management Board and the Supervisory Board. The Supervisory Board has not drawn up such policy and there is no female member in the Management Board, the Supervisory Board, or the executive committee. The Company encourages selection of people from diverse backgrounds.

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

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

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

(v) Pursuant to Provision 2.3.5, the Supervisory Board should receive from each of its committees a report of their deliberations and findings. No such reports are prepared, but the Supervisory Board report includes the composition of the committees, and the description of activities of the Supervisory Board. The Supervisory Board report will provide more details on activities of the committees.

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

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

(viii) Pursuant to Provision 3.1.2, the terms and conditions governing share options and conditions subject to which share options can be exercised should be taken into consideration when formulating the remuneration policy. The Company has an option program for the Management Board members where one third of the options vest each year for three years as of twelve months after the grant date. The Company is in the process of revising its option policy.

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

Responsibility Statement

In accordance with the updated best practice II.1.5 of the Dutch corporate governance code of December 2016, the Managing Board confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the Company's financial condition and the results of the Company's operations and provide the required disclosures.

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

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

- The annual financial statements of 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies whose financial information it consolidates; and
- The Report of the Management Board gives a true and fair view of the position as per December 31, 2017, the development during 2017 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

Badhoevedorp, April 18, 2018

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

Corporate Governance Declaration

This declaration is in accordance with article 2a of the decree on additional requirements for annual reports as amended on October 13, 2015 ("Vaststellingsbesluit nadere voorschriften inhoud jaarverslag" (hereinafter the 'Decree'). For the statements in this declaration as stipulated in articles 3, 3a and 3b of the Decree reference is made to the relevant pages in the Annual Report 2017. The following statements are deemed to be included and repeated herein:

- the statement relating to the compliance with the principles and best practices of the Dutch Corporate Governance Code (hereinafter the "Code"), including the motivated deviation of the compliance of the Code, to be found in the chapter 'Statement of compliance to the Dutch Corporate Governance Code and the Norwegian Code of Practice for Corporate Governance;
- the statement concerning the most important characteristics of the control and risk management systems in relation to the process of the financial accounting of the Company and the Group as included in the Annual Report in the "Report of the Supervisory Board".
- the statement about the functioning of the General Meeting of Shareholders and the most important powers thereof as well as the rights of shareholders and how these may be executed, as described in the chapter 'Statement of compliance to the Dutch Corporate Governance Code and the Norwegian Code of Practice for Corporate Governance".
- the statement regarding the composition and functioning of the Management Board, as incorporated in the "Report of the Supervisory Board".
- the statement relating to the composition and functioning of the Supervisory Board and its Committees, as incorporated in the "Report of the Supervisory Board"
- the statement about going concern as incorporated in the "Report of the Management Board"
- he provisions of the Norwegian Code of Practice for Corporate Governance largely follow requirements as indicated in the EU take over directive.

Badhoevedorp, April 18, 2018

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Member of the Management Board
sgd

Report of the Supervisory Board of Directors

Annual report

We, the members of the Supervisory board of Funcom N.V., hereby present you with the Annual Report for 2017, including the annual financial statements that were drawn up by the Management Board. The annual financial statements have been examined by the external auditors of BDO Audit & Assurance B.V. who intend to issue an unqualified audit opinion. We have reviewed and discussed the Annual Report with the Management Board and the auditors prior to its publishing.

We submit the financial statements to the Annual General Meeting of Shareholders, and propose that the shareholders adopt them and discharge the Managing Directors from all liability in respect of their managerial activities and the Supervisory Board from all liability in respect of their supervision of the Management Board. The appropriation of the result for the year as determined by the Supervisory Board, further to a proposal from the Management Board to that end, is presented in the section “Other Information” in this report.

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

The supervision of the Management Board by the Supervisory Board includes:

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

Activities

In 2017 the Supervisory Board of Directors held 7 (seven) in-person and conference call meetings. During the meetings / calls the Company's financial and operational status and objectives, strategy and accompanying risks were discussed. The main focus during the year has been on the following topics:

- regular evaluation of the Live Games performance *(Conan Exiles, Anarchy Online, Age of Conan, The Secret World / Secret World Legends*, *The Park, Hide and Shriek*), including the development progress leading to launches of Conan Exiles and Secret World Legends, development of cross-platform functionality of the *Dreamworld Technology*, *and* planning of new projects
- regular evaluation of the cost structure of the Company and ways to improve net contribution and overall profitability
- regular assessment of the Company's cash position and financing strategy,
- assessment of the new co-development and publishing strategy and the related private placement announced on 18 December 2017
- assessment of the IP acquisition and establishment of the related joint venture company Heroic Signatures DA announced 18 December 2017

- assessment of the reverse split announced 18 December 2017
- Regular assessment of overall long term value creation strategy of the Company, the strategic changes made during the year and alignment with industry trends

The Supervisory Board is responsible for supervising the policy pursued by the Management Board and the general course of affairs of the Company and the business enterprises that it operates. The Supervisory Board assists the Management Board with advice relating to the general policy aspects connected with the activities of the Company. In this context the Supervisory Board is *inter alia* responsible for monitoring and advising the Management Board, supervising the Company's strategy, and monitoring the functioning of internal risk management and control systems. The Supervisory Board supervises the objectives for financial structure and adopts the Company's plans and budgets. The Supervisory Board approves items of major strategic and/or financial importance for the Company. All this is in accordance with the Company's articles of association and applicable law.

During the 2017 financial year the Supervisory Board has discussed its own functioning, that of its individual members and that of the Remuneration Committee and the Audit Committee. The Supervisory Board has received a report from the Audit Committee and the Remuneration Committee on their deliberations and findings.

The Audit Committee consists of Magnus Grøneng (chairman) and Egil Kvannli, and has had three meetings in 2017, focusing on supervising the integrity of the financial process and the reporting systems, the internal audit and the financial risk management procedures, relevant policies and independence, quality and performance of the external auditor. The Remuneration Committee consists of Alain Tascan (chairman) and Fredrik Malmberg, and has had five meetings in 2017, focusing on remuneration of executives and directors, option grants and potential adjustments to the option and remuneration policy. See www.funcom.com for the regulations of the two committees which further describe the work they do. It was concluded that that the performance of the Supervisory Board, its individual members, the Remuneration Committee and the Audit Committee, respectively, meet the standards set for that purpose as well as the objectives determined in the beginning of 2017. The Supervisory Board has furthermore discussed the overall composition of the Supervisory Board and competencies of its individual members. The Supervisory Board has in addition discussed the composition and functioning of the Management Board and its individual members.

In the course of the 2017 financial year the Supervisory Board has also discussed the risks associated with the operation of the business. To that end the Management Board has presented the Supervisory Board with its assessment of the functioning of the Company's internal risk management and control systems. The Supervisory Board is of the opinion that the current risk management and control systems are adequate and the Management Board has furthermore not suggested any amendments thereto. The Audit Committee and The Supervisory Board have assessed whether a separate department for the internal audit function should be established, but concluded that this is not suitable for the Company given its current size, scope and risk profile. During the year the Supervisory Board has regularly had discussions with the Management Board regarding its corporate strategy.

During 2017, on two occasions a Supervisory Board meeting was held when Alain Tascan was not able to participate, in both cases he discussed the topics ahead of the meeting and was present by proxy. No other supervisory board member had absences in 2017. Fredrik Malmberg recused himself from all deliberations about the Cabinet transaction to avoid conflict of interest.

Mr Michel Cassius left the Supervisory Board on October 5th, 2016. On the same date, Ole Gladhaug, Egil Kvannli, Fredrik Malmberg and Magnus Grøneng joined the Supervisory Board. Mr Gladhaug and Mr Grøneng have been members of the Supervisory Board in earlier periods, from April 2013 until August 2015. Mr. Kvannli and Mr. Malmberg are currently in their first term. Ole

Gladhaug joined the board as Chairman. Both Mr Gladhaug and Mr Grøneng are representing the largest shareholder in Funcom, the Kristian Gerhard Jebsen Group, and are hence not considered independent board members.

Required expertise and background of the Supervisory Board:

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

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

The established remuneration policy has been followed during 2017. The total remuneration of the Management Board consists of the following elements:

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

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

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

The following professionals served on the Supervisory Board as at year-end 2017:

Ole Gladhaug, Chairman of the Supervisory Board
(born 1954, male, Norwegian, 3rd term, member from April 24, 2013 until August 12, 2015, and since October 5, 2016)
Mr. Gladhaug has held senior executive positions within the shipping, oil services, banking and asset management industries. Prior to joining the Kristian Gerhard Jebsen Group (KGJG), Mr. Gladhaug served 7 years as CFO of Smedvig ASA (now part of Seadrill). Mr. Gladhaug joined KGJG in 2002 as CFO and member of the Group's executive team, and is now Executive Vice President in the Group and Chairman of its subsidiary Jebsen Asset Management. Mr. Gladhaug has served as a non-executive director on a number of boards within banking, insurance, asset management and other industries. He holds a business and administration degree from the Norwegian School of Economics and a political science degree from the University of Bergen. Mr. Gladhaug holds 425,000 share options and 0 shares in the Company. Gladhaug is not viewed as independent since he is employed by KGJG, a company controlled by Mr. H.P. Jebsen, the main shareholder of Funcom. N.V.

Alain Tascan, Vice-Chairman of the Supervisory Board
(born 1967, male, Canadian, 3rd term, member since June 27, 2012)
Mr. Tascan is presently CEO of Umi Mobile, Inc., a mobile gaming company based in Canada. Mr. Tascan was a co-founder of Ubisoft in Montreal and a founder of EA Montreal, which he managed for seven years. He also created Ubisoft's licensing group that partners with the major Hollywood studios. Previously, Mr. Tascan also held executive positions in the media industry in France at companies such as Radio France International and Telerama. Currently, Mr. Tascan works as an

entrepreneur in the multimedia and gaming industry. Mr Tascan holds a Master degree in Economics from the University of Nice-Sophia Antipolis and a post-graduate degree in cultural management from the *Institut Superieur de Management Culturel* de Paris. Mr. Tascan holds 450,000 share options in the Company and 0 shares.

Magnus Grøneng,
(born 1981, male, Norwegian, 3rd term, member from April 24, 2013 until August 12, 2015, and since October 5, 2016)
Mr. Grøneng has background as management consultant in McKinsey & Company. Prior to joining Jebsen Asset Management (subsidiary of the Kristian Gerhard Jebsen Group, KGJG), he served as Business Development Manager in Kebony ASA. Mr. Grøneng holds an MSc degree from the Norwegian University of Science and Technology and the University of Karlsruhe in Germany. Mr Grøneng holds 440 shares in the Company and 250,000 share options. Mr. Grøneng is not viewed as independent since he is employed by a subsidiary of KGJG, a company controlled by Mr. H.P. Jebsen, the main shareholder of Funcom. N.V.

Fredrik Malmberg
(born 1962, male, Swedish and American citizen, 1st term, member since October 5, 2016)
Mr. Malmberg has a background as a successful entrepreneur in film and television, publishing, table top and video games industries. Mr. Malmberg pioneered trans-media thinking and migrated into the Film industry as an Executive Producer on Heavy Gear and Mutant Chronicles. Malmberg facilitated the financing and purchase of the Conan the Barbarian character and the Robert E. Howard library on behalf of Paradox Entertainment in 2002, and a second time when he purchased it for Cabinet Holdings, Inc. (US) in 2015, where he is President & CEO. He was furthermore co-founder and board member of Paradox Entertainment (1999-2013) and Target Games (1980-1999), both Swedish entities in the gaming industry. Mr. Malmberg holds 250,000 share options in the Company and 0 shares. See note 28 for ownership of Funcom shares through Cabinet Group after the IP transaction that closed 8 February 2018.

Egil Kvannli
(born 1972, male, Norwegian, 1st term, member since October 5, 2016)
Mr. Kvannli has a background as Chief Executive Officer and Chief Financial Officer. Mr. Kvannli holds a Bachelor-degree for Business and Administration, BI of the Norwegian School of Management of Stavanger, Norway and Bishops University, Quebec, Canada. From 2017 Mr. Kvannli works for Global Maritime Group as Chief Executive Officer. From 2011 Mr. Kvannli works for Quickflange AS, a Norwegian entity and from September 2015 he fulfils the role of Chief Executive Officer. Before August 2015 Mr. Kvannli fulfilled the role of Chief Financial Officer at Quickflange AS (2011-2015), Fabricom GDF Suez (2010-2011), Sevan Marine ASA (2005-2008), all Norwegian entities. Mr. Kvannli also acted as VP Finance for REC Site Services Pte Ltd. (2008-2010), a Singapore entity. Mr. Kvannli furthermore worked for MISWACO in Norway and in Houston, United States of America (1997-2005) the last two and a half last years as Financial Director for Scandinavia. Mr. Kvannli holds 250,000 share options in the Company and 0 shares.

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

Badhoevedorp, the Netherlands, April 18, 2018

The Supervisory Board of Directors in Funcom N.V.

Ole Gladhaug, Chairman
sgd

Alain Tascan
sgd

Magnus Grøneng
sgd

Fredrik Malmberg
sgd

Egil Kvannli
sgd

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

In thousands of US dollars	**Note**	**2017**	**2016**
Continuing operations			
Revenue	4,5	23 162	7 322
Personnel expenses	6,17	-5 271	-3 419
General and administrative expenses	7	-7 318	-3 234
Depreciation, amortization and impairment losses	11,12	-3 298	-1 811
Other operating expenses	8	-636	-438
Operating expenses		-16 523	-8 902
Operating result		6 639	-1 580
Share of result from equity-accounted entities	20		
Finance income	9	1 459	653
Finance expenses	9	-1 369	-1 834
Result before income tax		6 729	-2 761
Income tax (expense) / income	10	-1 773	1 066
Result from continuing operations		4 957	-1 695
Result for the period		**4 957**	**-1 695**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		135	-357
Exchange differences on intercompany loans part of net investment in a foreign entity			
Other comprehensive income for the year, net of tax		135	-357
Total comprehensive income for the year		**5 092**	**-2 052**

Funcom N.V.

Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	**Note**	**2017**	**2016**
Result for the period attributable to:			
Equity holders of Funcom N.V.		4 957	-2 625
		4 957	**-2 625**
Total comprehensive income attributable to:			
Equity holders of Funcom N.V.		5 092	-2 982
		5 092	**-2 982**

Earnings per share *

From continuing operations			
Basic earnings per share (US dollars)	22	0.02	(0.01)
Diluted earnings per share (US dollars)		0.02	(0.01)

* Based on result for the period

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

Funcom N.V.
Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	**Note**	**2017**	**2016**
ASSETS			
Non-current assets			
Intangible assets	4,11	10 249	6 617
Equipment	12	37	4
Investments in equity-accounted entities	20		
Long term receivables	24	567	19
Deferred tax assets	10		1 069
Total non-current assets		10 852	7 709
Current assets			
Trade receivables	13,24	1 559	628
Prepayments and other receivables	14,24	269	466
Cash and cash equivalents	15	7 731	3 709
Total current assets		9 559	4 803
Total assets		**20 411**	**12 512**

Funcom N.V.
Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Share capital	16	13 525	11 808
Reserves	16	168 359	165 128
Retained earnings (Accumulated deficit)	16	-168 206	-173 163
Total equity		13 678	3 773
Non-current liabilities			
Loans and borrowings	24,25	91	7 019
Deferred tax liabilities	10	671	1
Total non-current liabilities		762	7 020
Current liabilities			
Trade payables	24	775	251
Deferred income	18	478	605
Income tax liability	10		
Loans and borrowings	24,25	3 411	48
Other short term liabilities	19	1 307	815
Total current liabilities		5 971	1 719
Total liabilities		6 733	8 739
Total equity and liabilities		**20 411**	**12 512**

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

Funcom N.V.
Consolidated Statement of Cash Flows
for the year ended December 31

In thousands of US dollars	**Note**	**2017**	**2016**
Cash flows from operating activities			
Profit (loss) before income tax		6 729	-2 761
Adjustments for:			
Depreciation, amortization and impairment losses	11,12	3 298	1 811
Share-based payments	6,16,17	750	146
Interest income/expense		182	395
Change in trade and other receivables		-1 379	920
Change in trade payables		512	-11
Change in other current assets and liabilities		301	232
Cash generated from operations		10 394	732
Interest received		3	3
Interest paid			-481
Income tax and other taxes paid			-3
Net cash from operating activities		10 397	251
Cash flows from investing activities			
Purchase of equipment	12	-35	
Investment in intangible assets	11	-6 575	-4 304
Loan from a joint-venture			
Net cash used in investing activities		-6 610	-4 304
Cash flows from financing activities			
Net proceeds from issue of share capital	16	470	7 122
Proceeds from borrowings	24		
Repayment of borrowings	24		
Net cash from financing activities		470	7 122
Net increase in cash and cash equivalents		4 257	3 070
Cash and cash equivalents at beginning of period	24	3 709	616
Cash and cash equivalents at end of period before exchange effect	24	**7 966**	**3 686**
Effect of exchange rate fluctuations		-234	23
Cash and cash equivalents at end of period after exchange effect	24	**7 731**	**3 710**

Funcom N.V.
Consolidated Statement of Changes in Equity
for the year ended December 31

In thousands of US dollars	Share capital	Share premium	Equity-settled employee benefits reserve	Trans-lation reserve	Warrants and conversion rights reserve	Retained earnings	Attributable to owners of the parent
Equity as at January 1, 2016:	**4 802**	**154 275**	**8 040**	**-5 383**	**173**	**-171 468**	**-9 561**
Profit or loss for the year						-1 695	-1 695
Other comprehensive income				-357			-357
Total comprehensive income for the year				**-357**		**-1 695**	**-2 052**
Share-based payments expense			146				146
Drawdowns on standby equity facility							
Exercise of warrants					-87		-87
Granting of warrants							
Issue of new shares	7 006	7 971					14 977
Equity portion of new convertible loan		350					350
Reclassification of warrants and convertible bonds equity element							
Equity as at December 31, 2016	**11 808**	**162 596**	**8 186**	**-5 740**	**86**	**-173 163**	**3 773**
Equity as at January 1, 2017:	**11 808**	**162 596**	**8 186**	**-5 740**	**86**	**-173 163**	**3 773**
Profit or loss for the year						4 957	4 957
Other comprehensive income				135			135
Total comprehensive income for the year				**135**		**4 957**	**5 092**
Share-based payments expense			914				914
Drawdowns on standby equity facility							
Exercise of warrants	67	175			-86		157
Granting of warrants							
Issue of new shares	78	236	-164				150
Convertible loan to new shares	1 572	2 021					3 592
Other							
Reclassification of warrants and convertible bonds equity element							
Equity as at December 31, 2017	**13 525**	**165 028**	**8 936**	**-5 604**		**-168 206**	**13 678**

Funcom N.V.
Notes to the Consolidated Financial Statements

1. Corporate Information

Funcom N.V. (or the "Company") is a public limited company registered in the Netherlands (Chamber of Commerce number: 28073705). The Company is incorporated in Katwijk, The Netherlands. The Group's head office is in Prins Mauritslaan 37 - 39, Badhoevedorp, 1171 LP, The Netherlands. The Company is listed on the Oslo Stock Exchange under the ticker "FUNCOM".

The consolidated financial statements of the Company as at and for the year ended December 31, 2017, comprise the Company and its subsidiaries (together referred to as the "Group").

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

The consolidated financial statements were authorized for issue by the Supervisory Board on April 18, 2018.

2. Summary of significant accounting policies

2.1 Basis of preparation

Upon preparing and finalizing the 2017 financial statements, the Management Board assessed the Company's ability to fund its operations for a period of at least one year after the date of the annual report.

The successful launches of *Conan Exiles* in Early Access and of *Secret World Legends* during 2017 have significantly increased the cash balance of the Company. Besides, with the reduction of the debt as described here above, as of 31 December 2017, the only outstanding financial debt instrument of the Company is the Convertible Bond, with a carrying amount of USD 3,363 thousand and a year-end balance due of USD 3,399 thousand, and a maturity date on 31 December 2018.
Furthermore, Funcom completed on 1st February 2018 a private placement of 6,800,000 new shares, each with a par value of EUR 0.20, at a subscription price of NOK 13.00 per New Share, directed towards SwedBank Robur Ny Teknik and SwedBank Robur Microcap funds, both funds managed by Swedbank Robur Fonder AB. This private placement generated a significant new funding for the Company in the amount of NOK 88.4 million.

Overall, based on the outcome of this assessment, the Management Board is of the opinion that the Company's financial situation is strong, and that the going concern assumption is justified. Consequently, the financial statements of the Company have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.

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

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

Presentation and functional currency
The consolidated financial statements are presented in US dollars (USD), which is the Company's functional currency, rounded to thousands. It is expected that US dollars will remain as the main currency in the Group's economic environment, due to a majority of US dollars revenues.

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

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

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

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

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

Adoption of new and revised International Financial Reporting Standards and Interpretations

Standards and Interpretations affecting amounts reported in the current period

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

Standard/ Interpretation	**Title**	**Date of issue**	**Applicable to accounting periods commencing on**
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*	January 2016	1 January 2017
Amendments to IAS 7	*Disclosure Initiative*	January 2016	1 January 2017

Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations had been issued by the IASB but were not effective for the financial year ended 31 December 2017.

The Management Board anticipates that these Standards and Interpretations will be adopted in the Group's financial statements for the period beginning 1 January 2018 or later. The Management Board has made significant reviews of the impact of IFRS 9, 15 and 16, see separate sections below.

The Management Board has not yet considered the extent of the potential impact of the adoption of the other new and revised/amended Standards and Interpretations.

Standard/ Interpretation	**Title**	**Date of issue**	**Applicable to accounting periods commencing on**
IFRS 9	*Financial Instruments*	July 2014	1 January 2018
Amendments to IFRS 9[2]	*Prepayment features with Negative Compensation*	October 2017	1 January 2019
IFRS 15	*Revenue from Contracts with Customers*	May 2014	1 January 2018
Clarifications to IFRS 15	*Revenue from Contracts with Customers*	April 2016	1 January 2018
IFRS 16	*Leases*	January 2016	1 January 2019
IFRS 17[7]	*Insurance contracts*	May 2017	1 January 2021
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*	June 2016	1 January 2018
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	September 2016	1 January 2018
Annual improvements[2]	*Annual improvements to IFRSs 2014-2016 cycle*	December 2016	1 January 2018
Amendments to IAS 40	*Transfers of Investment Property*	December 2016	1 January 2018
IFRIC 22[1]	*Foreign Currency Transactions and Advance Consideration*	December 2016	1 January 2018
IFRIC 23[1]	*Uncertainty over Income Tax Treatments*	June 2017	1 January 2019
Amendments to IAS 28[1]	*Long-term interests in Associates and Joint Ventures*	October 2017	1 January 2019
Annual improvements[1]	*Annual improvements to IFRSs 2015-2017 cycle*	December 2017	1 January 2019
Amendments to IFRS 10 and IAS 28[1]	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	September 2014	Deferred indefinitely

Assessment of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase.

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

The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted. The European Union has endorsed IFRS 9 in November 2016.

Based on the analysis of Funcom's financial assets and liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, Funcom has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification of Financial Assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flows characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

Based on Funcom's assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables and other receivables. The Group's business model is to collect its receivables and collecting contractual cash flows. The Group has not identified characteristics of its receivables that would give rise to payments other than principal and interest.

Accordingly, the Group has concluded that its receivables that are classified as loans & receivables under IAS 39 meet the requirements to be classified at amortised cost under IFRS 9.

The Group has no financial instruments at 31 December 2017 that will need to be classified at FVOCI or FVTPL. The Group does not have derivative financial assets or liabilities at 31 December 2017.

Impairment of Financial Assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This may require considerable judgement about how changes in economic factors affect ECLs.

The new impairment model will apply to Funcom's financial assets at amortised cost, cash and cash equivalents and its trade receivables. All of Funcom's trade receivables and other receivables will be measured on a lifetime ECL basis.

Funcom has determined its expected credit losses by using a provision matrix, which is based on actual historical credit losses and is adjusted for forward-looking information. The Group has not incurred any credit losses during the last three years and has not identified facts or circumstances in its forward-looking assessment that would indicate a higher default rate for its receivables in the future.

Therefore, Funcom has concluded that the application of IFRS 9's impairment requirements at 1 January 2018 will not result in an increase in its impairment provision.

Classification of Financial Liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group has no financial instruments held for trading and has not designated any financial liabilities at FVTPL. This means that Funcom will continue to measure its financial liabilities, including the liability-portion of its convertible bonds, at amortised cost. The Group has also concluded that the recent clarification by the IASB in October 2017 regarding certain modifications of financial liabilities does not have an impact on the Funcom's financial liabilities on transition to IFRS 9.

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

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively. Funcom will take advantage of the exemption allowing it not to restate comparative information of prior period periods with respect to classification, measurement and impairment.

Assessment of IFRS 15 impact on revenue recognition

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Funcom's most important revenue sources are:

- Royalty from third party platforms
- Revenue from own channels: subscriptions, in-game items and virtual currency

The directors of the Company have concluded that per copy sales of new games, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized in the Statement of Comprehensive Income as revenue at the time of sale. Sales through third-party distribution platforms is also recognized as underlying sales occur. Revenues from subscriptions are recognized over the subscription period, revenues from sales of in-game items / micro-transactions are recognized at the time of sale. Revenue from virtual currency is recognized at the estimated time of spending rather than at the time of purchase. A provision for expected refunds is charged against revenue to the extent Funcom has an obligation for such arrangements.

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

The above approach is the same as the current identification of separate revenue components under IAS 18, and will therefore not entail any changes of procedure.

The only change of procedure from IFRS 15 is relating to Funcom's loyalty programs which combine subscription and points. For the cases where the impact is not clearly immaterial, transaction price will be allocated on each element and revenue recognized over the respective time lines. The impact of the change is expected to be limited and cause revenue recognition to be accelerated. Other combinations have been offered, for instance the Conan Exiles premium package, but the additional goods are delivered at the time of sale and recognized immediately, so any allocation of the transaction price is not required.

Transition
Changes in accounting policies resulting from the adoption of IFRS 15 will apply from 1. January 2018. Funcom will take advantage of the exemption allowing it not to restate comparative information of prior periods. As the changes in policies only apply to a small part of the revenue any difference between restated and historical information would have been small.

Assessment of impact from IFRS 16 Leases

Overview

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatment for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective. The standard is mandatorily effective for periods beginning on or after 1 January 2019 with early adoption permitted. The European Union has endorsed IFRS 16 in November 2017.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low-value assets.

The right-of-use asset is measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or finance lease.

Funcom's initial impact assessment

Funcom has completed an initial assessment of the potential impact on its consolidated financial statements, but has not yet completed its detailed assessment. Funcom's non-cancellable operating lease commitments under IAS 17 as at 31 December 2017 are disclosed in note 21.

So far, the most significant impact identified is that Funcom will recognize right-of-use assets and lease liabilities for its operating leases of office space in some or all of the following countries on transition to IFRS 16: The Netherlands, Norway, USA, Canada and China. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including Funcom's incremental borrowing rate at 1 January 2019 in these countries, the composition of Funcom's lease portfolio at that date, the latest assessment of whether it will exercise any lease renewal options (where applicable) and the extent to which Funcom chooses to use practical expedients and recognition exemptions.

Funcom plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that Funcom will apply IFRS 16 to all contracts entered into before 1 January 2019 that were identified as leases in accordance with IAS 17 and IFRIC 4. In this context, the group has started an initial assessment and identified several game hosting contracts, rentals of servers, racks and network equipment and bandwidth agreements that may contain lease components and/or service components. This analysis has not been completed yet. Funcom will further assess whether the relief from the requirement to separate non-lease components from lease components will be applied for its equipment, game hosting and office space contracts.

Funcom is not a lessor in any significant lease arrangements as at 31 December 2017, but has insignificant sublease arrangements of office space in Canada and the assessment of the potential impact of IFRS 16 on the classification of these subleases has not yet been completed.
Funcom intends to make use of the exemptions for leases of low-value assets and short-term leases, where possible. The group has preliminary assessed that assets that had a value of not more than USD 5.000 when they were new (translated into the functional currencies NOK, EUR and CAD of Funcom entities) will likely be considered low-value.

Transition to IFRS 16

Funcom plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 (if any) will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The group is assessing the potential impact of using several practical expedients on transition.

2.2 Basis of consolidation

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

The acquisition method is applied when accounting for business combinations.

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

2.3 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 reporting date. Intangible assets are stated at historical cost and translated at the exchange rate of the reporting date. Other non-monetary assets and liabilities in foreign currencies that are stated at

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

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

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

2.4 Income recognition

Revenue from operations
Revenues from online games are currently the Group's significant source of revenue. Revenue is recognized when it is probable that the economic benefits of a transaction will flow to the entity, the revenue can be measured reliably and the associated costs are identified and can be measured reliably. Revenue is measured at the fair value of consideration received or receivable, net of value added tax and discounts.

Per copy sales of new games, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized in the Statement of Comprehensive Income as revenue at the time of sale. Sales through third-party distribution platforms is also recognized as underlying sales occur. Revenues from subscriptions are recognized over the subscription period, normally 1-12 months, revenues from sales of in-game items / micro-transactions are recognized at the time of sale. Revenue from virtual currency is recognized at the estimated time of spending rather than at the time of purchase. A provision for expected refunds is charged against revenue to the extent Funcom has an obligation for such arrangements. At the reporting date, revenue not recognized in the Statement of Comprehensive Income is recognized as deferred revenue and presented in the statement of financial position as a liability.

Per copy royalties on sales are 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.

Government grants
Subsidies from the authorities are not recognized until there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Subsidies that compensate the Group for the costs of an asset are recognized as a deduction from the asset that the subsidy is intended to cover, and are recognized in the Statement of Comprehensive Income over the useful life of the asset through a reduced amortization or depreciation charge. Grants that compensate the Group for expenses incurred are recognized in the Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognized.
Rental income
With the liquidation of Funcom Games Canada Inc., Funcom NV took over the rental and sublease contracts of office space in Canada as of January 2017. Most of the space has been subleased, and

Funcom NV has been collecting monthly rentals. The receipts have been on time and are recognized as revenue. The subleases will terminate in November 2020 as Funcom NV's lease with the landlord terminates.

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

2.5 Expenses

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

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

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

2.6 Income tax

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

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

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

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

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

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

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

2.7 Intangible assets

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

The Group did not have any intangible assets with indefinite useful lives at 31.12 2017. Amortization methods, useful lives and any residual values are reassessed at each reporting date.

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

Research and development

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

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

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

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

Development costs are amortized from the date that the assets are available for use, normally over 2-5 years linearly or according to the diminishing balance method, depending on the type of the asset. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 2-5 years, from the time these improvements and/or additions are completed and available for use. Explanation is provided in note 11.

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

Trademarks and licenses

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

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

2.8 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 Statement of Comprehensive Income.

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

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

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

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

Computers	3 years
Office equipment	5 years

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

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

2.9 Financial instruments

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

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

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

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

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

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

2.10 Investments in equity-accounted entities

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

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

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

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. As described in note 28 Funcom has acquired 50% of the joint venture Heroic Signatures DA. As the transaction was closed in Q1 2018, the 2017 financials are not affected.

Based on IFRS 11, Funcom will recognize its interest in Heroic Signatures DA as investment and shall account for that investment using the equity method in accordance with IAS 28. Therefore, Funcom will recognize its initial investment in Heroic Signatures DA at cost. The carrying amount is increased or decreased to recognize its share of the profit or loss of Heroic Signatures DA after the date of acquisition.

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

2.11 Trade receivables and other receivables

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

2.12 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. Cash in bank is recorded at face value.

2.13 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Income.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized through profit or loss in the Statement of Comprehensive Income.

Non-financial assets

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

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the profit and loss statement. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

2.14 Equity

Share capital

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

Dividends

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

2.15 Employee benefits

Defined contribution plan

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

Defined benefit plans

The Group does not have any defined benefit plans.

Profit-sharing and bonus plans

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

Share-based payment transactions

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

2.16 Assets and Liabilities

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

2.17 Provisions

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

2.18 Trade and other payables

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

2.19 Contingent liabilities and assets

Contingent liabilities are:

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

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

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

2.20 Segments

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

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

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

3. Accounting estimates, judgments and estimation uncertainty

Accounting estimates and judgments

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

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

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

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

Revenue recognition and provisions for sales returns
The Group recognizes, as explained in note 2.4, revenue from sale of goods and revenue from license and royalty agreements generally on delivery of the product. The amount is reduced by a provision for subsequent expected returns and price arrangements/discounts. The provision for sales returns is based on expected returns of the game at year-end for which the Company may be required to reimburse the distributor. The determination of the amount is based on estimates of the outflow of economic benefits required to settle the obligation and will in addition to uncertainties related to the level of returns also depend on timing of the returns. Actual rates of return and price may vary from the estimate.

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

4. Segment information

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

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

The two segments differ mainly in the following ways:

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

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

No impairment charge of games was recorded in 2017 nor 2016.

Segment information

	Revenue from external customers January - December		Segment profit (loss) *) January - December	
	2017	2016	2017	2016
Online games	22 169	5 953	17 738	2 486
Offline games	443	943	432	553
Other activities	550	426	69	-37
Total	23 162	7 322	18 240	3 002
General and administrative expenses			-8 298	-2 771
Depreciation, amortization and impairment charges			-3 298	-1 811
Share of result from equity-accounted entities				
Net financial items			85	-1 181
Profit (loss) before tax (from continuing operations)			**6 729**	**-2 761**

*) Generally, segment profit (loss) is measured as revenue earned less personnel costs and other operating costs. General and administrative costs, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments.
*) Other activities refer to Funcom Games Canada subleasing activities. Segment profit (loss) is measured as revenue earned less original rental expenses.

	Online games	Offline games
Segment assets as at 31 December 2016	6 252	-
Segment assets as at 31 December 2017	8 952	-

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

The two largest customers are digital platforms that sell games to end users. The revenue of the two digital platforms total USD 15 780 thousand (2016: USD 1 551 thousand).

Geographical information

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

	2017		**2016**	
In thousands of US dollars	**Revenue**	**Non-current assets **)**	**Revenue**	**Non-current assets **)**
The Netherlands *)	509	1 126	32	
Norway	22 653	9 646	6 738	6 617
Canada			552	
USA		80		3
Other				
Total	**23 162**	**10 852**	**7 322**	**6 620**

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

Revenue is attributed to a country based on the location of the selling entity.

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

5. Revenue

Revenue *In thousands of US dollars*	**2017**	**%**	**2016**	**%**
Revenues online games	22 169	95.7 %	5 953	81.3 %
Revenues offline games	443	1.9 %	943	12.9 %
Other	550	2.4 %	426	5.8 %
Total revenue	**23 162**		**7 322**	

Revenue *In thousands of US dollars*	**2017**	**%**	**2016**	**%**
Rendering of services	22 612	97.6 %	6 896	94.2 %
Other	550	2.4 %	426	5.8 %
Total revenue	**23 162**		**7 322**	

Other is rental revenue and royalties from Funcom IP.

6. Personnel expenses

In thousands of US dollars	**2017**	**2016**
Salaries	3,541	2,748
Social Security Contributions	629	188
Contributions to defined contribution plans	31	45
Expenses for share option program	750	146
Other Personnel expenses	319	292
Total Personnel Expenses	**5,271**	**3,419**

Average Number of employees:	**2017**	**2016**
Europe	55	49
North America	52	52
Asia	1	1
Total	**108**	**101**

The increase in salaries from 2016 being larger than the increase in number of employees is primarily driven by capitalization of a lower share of development cost in 2017 after the *Conan Exiles* launches. The capitalization of personnel expenses was USD 2,880 thousand in 2016 and USD 3,745 thousand in 2017. The remuneration of the Supervisory Board and Management Board members of Funcom N.V. is subject to payroll tax in the Netherlands, but currently no employees reside in The Netherlands.

7. General and administrative expenses

In thousands of US dollars	2017	2016
Travel & marketing	1 098	444
Consultants	1 982	1 032
Rent of premises and other office costs	795	886
Royalties	2 299	151
Investor relations	192	200
IT, hardware and software	408	210
Other	544	310
Total general and administrative expenses	**7 318**	**3 233**

With reference to Section 2:382a of the Netherlands Civil Code, the following fees for the financial year have been charged by BDO (2016: BDO) to the company and its subsidiaries: USD 162 thousand (2016: USD 152 thousand). Fees charged by BDO Audit & Assurance B.V. for the Funcom N.V. group audit were USD 136 thousand (2016: USD 133 thousand). No fees have been paid to BDO for other assurance services, tax advisory services or other non-audit services. Audit and (non-)audit related fees for the respective years are charged to the income statement on an accrual basis. No R&D cost has been expensed in 2017.

8. Other operating expenses

In thousands of US dollars	2017	2016
Commissions	238	166
Hosting and bandwidth costs for online services	398	272
Total other operating expenses	**636**	**438**

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

9. Finance income and expenses

In thousands of US dollars	2017	2016
Interest income	3	3
Net foreign exchange gain	1 442	650
Other financial income	15	
Finance income	**1 459**	**653**
Interest expense	-185	-569
Net foreign exchange loss	-1 185	-877
Other finance expenses		-389
Finance expenses	**-1 369**	**-1 834**

The finance income and expenses relate to assets and liabilities subject to amortization.

10. Income tax expense

In thousands of US dollars	2017	2016
Result before income tax	6 729	-2 761
Tax according to the average tax rate in the Netherlands, Canada, USA, Norway and China	-1 627	1 140
Tax effect of non-deductible expenses	485	2
Tax effect of non-taxable income	-38	
Changes in deferred taxes recognized on the balance sheet	-1 805	1 069
Withholding tax, capital asset tax, and other non-income taxes	-4	
Utilization of losses carried forward	1 316	
Deferred tax asset related to carry forward tax losses not recognised	-128	-1 145
Tax effect of change in tax rate	29	
Income tax (expense) / income	**-1 773**	**1 066**

In thousands of US dollars	2017	2016
Current period tax income/(expense)	4	-3
Adjustments for prior periods		
	4	-3
Deferred tax expense		
Origination and reversal of temporary differences	-801	178
Recognition of previously unrecognized tax losses	140	891
Derecognition of recognized tax losses	-1,115	
Income tax income/(expense) from continuing operations	-1,773	1,066
Total income tax income/(expense)	**-1,773**	**1,066**

The Group has not recognized any income tax directly in equity. The income tax rate in Norway changed from 25% to 24% with effect from January 1, 2017, and from 24% to 23% with effect from January 1, 2018. Deferred tax has been calculated using the tax rate of 23% for 2017 and 24% for 2016. Current tax for the Norwegian subsidiaries was calculated based on the applicable rate for 2017, i.e. 24% and applicable rate for 2016, i.e. 25%. The applied 'weighted average tax rate' is 23.62% for 2017 (2016: 21.58%) and the average effective tax rate is 26,35% (2016: 38.61%). There were no effects of changes in IAS 12.

	2017	2016
Deferred tax liability	-670	-1
Deferred tax asset, net		1 069
Deferred tax asset (liability), net	**-670**	**1 068**
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	-932	-1
Provisions		
Tax losses carried forward		
Total deferred tax effect of tax increasing temporary differences	**-932**	**-1**
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	422	3 464
Equipment and intangible assets	11	120
Provisions/receivables	110	145
Total deferred tax effect of tax reducing temporary differences	**543**	**3 729**
Deferred tax asset (net) not recognised in the balance sheet:	281	2 659
Recognised deferred tax asset (liability), net	**-670**	**1 069**
Reconciliation of deferred tax asset, net:		
Opening balance	1 067	-25
Net tax liability in sold company		
Change according to statement of income	-1 794	1 069
Exchange differences, prior year adjustments etc.	56	24
Deferred tax asset (liability), net, at year-end	**-671**	**1 068**

The Group has unrecognized tax losses of USD 2,187 thousand as of December 31, 2017 (2016: USD 17,473 thousand) which expire as follows:

In thousands of US dollars

Expire year	2017	2016
2020		668
2021		1,193
2023		9,601
2024		381
2025	1,272	
2026	57	
2030	173	
2031	24	
2033		440
2035	24	59
2036	25	
Indefinite	612	5,132
Total tax losses	**2,187**	**17,473**

The tax losses carried forward related to Funcom N.V. are generated from holding and financing activities and may only be offset against future profits from similar activities under certain conditions as set by the Dutch law on the corporate income tax. Future trading profits may consequently not be utilised against such tax losses. Tax losses for Funcom N.V. can be offset against the profit from the previous year (carry back), or – if this is not possible –with future profits (carry forward), which is limited to 9 years.

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

The proposed tax assessments received by Funcom N.V. with respect to the financial years 2014 and 2015 report nil taxable amounts for those years, and no remaining carry forward losses as of the end of 2015 after corrections and settlement of the carry forward losses available as of the end of 2013 (USD 40,017 thousand). This reduces the unrecognized tax losses by USD 11,843 thousand compared to 2016, and is restated in the comparative figures of unrecognized tax losses. Funcom is assessing the possibility to challenge this proposal.

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

The Group’s tax losses and negative differences between the book value and the value for tax purposes of assets, which form the basis for the deferred tax assets, are primarily located in the Norwegian subsidiary. The management has discussed to which extent the Group will be able to utilize the deferred tax asset. In evaluating the Group’s ability to utilize the deferred tax assets, all available positive and negative evidence have been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies.

The new game *Conan Exiles* was successfully launched in early access in January 2017. The initial revenues generated and expected for 2017 were considered to be sufficient to recover the accumulated tax loss in Funcom Oslo AS. Since the criteria under IAS 12.35 was met, the Company recognized the accumulated tax loss of Funcom Oslo AS as deferred tax assets for the year ended December 31, 2016. Due to the change in the amortization methodology for *Conan Exiles,* only a part of the available carry forward losses for Funcom Oslo AS were utilized in 2017. In consequence, for the year ended December 31, 2017, a deferred tax liability amounting to USD 653 thousand is recognized on the balance sheet with respect to Funcom Oslo AS.

11. Intangible assets

In thousands of US dollars	Development costs	Software	Trademarks & licenses	Total
Cost				
Balance at January 1, 2016	135 086	1 016	173	**136 275**
Acquisitions, internally developed	4 082			**4 082**
Other acqusitions		329		**329**
Disposals	-20 767			**-20 767**
Translation difference				
Balance at December 31, 2016	**118 401**	**1 346**	**173**	**119 920**
Cost				
Balance at January 1, 2017	118 401	1 346	173	**119 920**
Acquisitions, internally developed	5 590			**5 590**
Other acqusitions	1 026			**1 026**
Disposals		-910		**-910**
Translation difference				
Balance at December 31, 2017	**125 017**	**436**	**173**	**125 626**
Accumulated amortization and impairment losses				
Balance at January 1, 2016	130 952	929		**131 881**
Amortization for the year	1 772	54		**1 826**
Amortization of disposals	-20 766			**-20 766**
Translation difference	364	-1		**363**
Balance at December 31, 2016	**112 322**	**982**		**113 304**
Accumulated amortization and impairment losses				
Balance at January 1, 2017	112 322	982		**113 304**
Amortization for the year	3 114	112	69	**3 295**
Amortization of disposals		-910		**-910**
Translation difference	-294	-19		**-313**
Balance at December 31, 2017	**115 142**	**166**	**69**	**115 376**
Carrying amount at Jan. 1, 2016	**4 134**	**88**	**173**	**4 395**
Carrying amount at Dec. 31, 2016	**6 079**	**364**	**173**	**6 616**
Carrying amount at Jan. 1, 2017	**6 079**	**364**	**173**	**6 616**
Carrying amount at Dec. 31, 2017	**9 875**	**270**	**104**	**10 249**

For 2017 ending balances, the table above includes only games that still have book values. For games whose costs have been completely amortized and impaired, the cost, amortization and impairment are removed from the table in 2017 under the rows 'Disposal' and 'Amortization of disposals'.

On December 17, 2015, the Company granted Conan Properties International LLC three million one hundred and thirty thousand (3,130,000) warrants to acquire an equal number of shares of the Company. The purchase price was USD 0.10, and the exercise period from June 17, 2016 to December 17, 2020, and it was executed in June 2016 and January and February 2017. In exchange, the Company was exempted advance payment and minimum guarantee for use of Conan licensed property to develop licensed products. Since a valuation of the license fee was relatively unreliable, a valuation of the warrants was used. As a result, an amount of USD 173 thousand has been added to the cost of intangible assets under the category of trademarks and licenses. The relevant amortization is captured in the Development cost. No impairments were made in 2017 or 2016.

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

	2017			2016		
Class	**Under development**	**In use**	**Total**	**Under development**	**In use**	**Total**
Development costs	1 026	8 849	**9 875**		6 080	**6 080**
Software		270	**270**		364	**364**
Trademarks and licenses		104	**104**		173	**173**
TOTAL	1 026	9 223	**10 249**		6 617	**6 617**

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

The cash flows are discounted using a pre-tax rate of 12.3 per cent (2016: 14.0 per cent). Part of the *Dreamworld Technology* amortization was allocated to other games.

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

Sensitivity analysis

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

In thousands of US dollars	Increase (decrease) of recoverable amount	
Cash generating unit	1 percent increase	1 percent decrease
Age of Conan	-11	12
The Secret World	-16	17
Conan Exiles	-100	102

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

In thousands of US dollars	Increase (decrease) of recoverable amount	
Cash generating unit	5 percent increase	5 percent decrease
Age of Conan	61	-61
The Secret World	88	-88
Conan Exiles	614	-614

This analysis assumes that all other variables remain constant.

Further information on intangible assets that are material to the financial statements

Carrying amounts split by games

In thousands of US dollars	**Carrying amount**		**Impairment charge**	
Game	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Age of Conan	550	569	24 700	24 700
Secret World Legends	1 694	1 428	36 276	36 276
Mutant Year Zero: Road to Eden	1 026			
Conan Exiles	4 294	2 487		
Dreamworld Technology	2 414	1 768	10 504	10 504
Total	**9 979**	**6 252**	**71 480**	**71 480**

Large Scale MMO Age of Conan
The initial cost at launch of the game was amortized in 2013. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use. *Age of Conan* has been amortized since its launch on May 20, 2008.

Large Scale MMO Secret World Legends
The initial cost at launch of the game was fully amortized in 2017. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use. *The Secret World* has been amortized since its launch on July 3, 2012.

Tactical Adventure Game: Mutant Year Zero: Road to Eden
The game is built around the Mutant: Year Zero intellectual property and is scheduled for launch in 2018.

Open-world Survival Game Conan Exiles
Funcom started capitalizing *Conan Exiles* in 2016. *Conan Exiles* has been amortized since its launch on January 31, 2017. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 2 years, from the time these improvements and/or additions are completed and available for use.

Dreamworld Technology
The initial cost of the technology was fully amortized in 2013. Improvements and/or additions to the technology are amortized separately over the expected useful lives of these elements of the asset, normally five years. The *DreamWorld Technology* has been amortized since the launch of *Age of Conan* in May 2008. Part of the amortization is being capitalized as development cost for *Conan Exiles*.

Parts of the impairment losses made to *Age of Conan*, *The Secret World* and LEGO® *Minifigures Online* – included in the amounts mentioned above for these games - are allocated to The *Dreamworld Technology*.

The Group has contractual commitments for development costs of USD 271 thousand (2016: nil).

12. Equipment

In thousands of US dollars	Computers	Furniture	Total:
Cost			
Balance at January 1, 2016	9 654	1 794	**11 448**
Acquisitions			
Disposals			
Translation difference	54	53	**108**
Balance at December 31, 2016	**9 708**	**1 847**	**11 555**
Balance at January 1, 2017	9 708	1 847	**11 555**
Acquisitions	35		**35**
Disposals	-9 708	-1 835	**-11 543**
Translation difference		-1	**-1**
Balance at December 31, 2017	**35**	**11**	**46**
Accumulated depreciation and impairment losses			
Balance at January 1, 2016	9 648	1 699	**11 347**
Disposals			
Impairment losses		28	**28**
Depreciation for the year	6	59	**65**
Translation difference	54	57	**111**
Balance at December 31, 2016	**9 708**	**1 843**	**11 551**
Balance at January 1, 2017	9 708	1 843	**11 551**
Disposals	-9 708	-1 835	**-11 543**
Impairment losses			
Depreciation for the year		2	**2**
Translation difference			
Balance at December 31, 2017		**10**	**10**
Carrying amount at Jan. 1, 2016	**6**	**95**	**100**
Carrying amount at Dec. 31, 2016		**4**	**4**
Carrying amount at Jan. 1, 2017		**4**	**4**
Carrying amount at Dec. 31, 2017	**35**	**1**	**37**
Method of depreciation	Straight line	Straight line	
Estimated useful lives	3 years	5 years	

The disposals in 2017 are done to align the note with the actual equipment in the Funcom books. No impairments were made in 2017.

13. Trade receivables

In thousands of US dollars	**2017**	**2016**
Trade receivables	1,559	628
Allowances for doubtful debt		
Trade receivables, net	**1,559**	**628**

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

14. Prepayments and other receivables

In thousands of US dollars	**2017**	**2016**
Accrued government grants (SkatteFunn R&D tax incentive)	0	223
Prepaid rent	163	0
Other prepayments	106	243
Total	**269**	**466**

15. Cash and cash equivalents

In thousands of US dollars	**2017**	**2016**
Cash at bank and in hand	7,731	3,709
Cash and cash equivalents in the statement of financial position	**7,731**	**3,709**
Restricted cash included in Cash at bank and in hand	167	124

16. Equity

Share Capital and Share Premium

	2017	**2016**
Outstanding at January 1	**249,281,922**	**92,208,134**
Issues against payment in cash	3,282,081	112,535,000
Issues from conversion of bond/loan	37,088,607	44,538,788
Outstanding at December 31 - Fully Paid	**289,652,610**	**249,281,922**
Nominal value of the share-capital at December 31 (EUR)	11,586,104	9,971,277

At December 31, 2017, the authorized share capital comprised of 750 million ordinary shares (2016: 750 million). The nominal value of the shares is Euro 0.04. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

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

Events in 2017

Shares:
In January 2017, USD 250 thousand of Funcom convertible loan was converted into 2,413,127 Funcom shares at the price of USD 0.1036 per share.

In January and February 2017, Funcom issued 1,565,000 shares after the exercise of the same number of warrants out of the 3,130,000 warrants that were initially granted to Conan Properties International LLC. The exercise of warrants was made at a price of USD 0.10 per share, and Funcom received cash proceeds of USD 157 thousand.

In March 2017, Funcom issued 689,112 shares in relation to exercise of options. In April 2017, Funcom issued 82,000 shares in relation to exercise of options. In May 2017, Funcom issued 16,000 shares in relation to exercise of options. In September 2017, Funcom issued 929,969 shares in relation to exercise of options.

In April 2017, USD 3,500 thousand of the convertible bond plus accrued interest was converted into 34,675,480 Funcom shares at a price of USD 0.1036 per share.

Options:
On March 30, 2017 the company issued 50,000 options to a Managing Officer as part of the Group's options program.

On July 7, 2017, after its Annual General Meeting, the company issued 5,544,000 options to its employees, 825,000 options to members of the Supervisory Board, and 487,500 options to members of the Management Board.

Warrants:
In January and February 2017, Funcom issued 1,565,000 shares after the exercise of the same number of warrants out of the 3,130,000 warrants that were initially granted to Conan Properties International LLC. With this, all warrants were exercised.

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

Dividends:
The Group did not pay any dividends in 2017.

Events in 2016

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

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

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

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

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

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

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

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

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

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

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

17. Employee benefits

Defined contribution plans
The Group has established defined contribution pension plans in some of its subsidiaries. The premium paid relating to these schemes in 2017 was USD 55 thousand (2016: USD 45 thousand).

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

Option program in Funcom N.V.
The following share issuances (for options and other purposes) have been authorized by the shareholders meeting:

Time of authorization	**Number of shares issuances authorized**	**Expiry of authorization**
May 10, 2005	**1 250 000**	May 10, 2008
November 30, 2006	**1 000 000**	November 30, 2008
December 19, 2008	**3 000 000**	December 19, 2010
May 18, 2010	**3 000 000**	May 18, 2011
June 27, 2011	**8,000,000**	GM 2012
June 27, 2012	**10,000,000**	GM 2013
June 27, 2013	**15,000,000**	GM 2014
June 27, 2014	**33,000,000**	GM 2015
June 26, 2015	**30,000,000**	GM 2016
February 25, 2016	**140,000,000**	GM 2017
June 30, 2016	**140,000,000**	GM 2017
June 27, 2017	**25,000,000**	GM 2018
Total number of options authorized	**409,250,000**	

The exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior to and 5 trade days following the date of grant. Options are conditional on the employee remaining an employee or director of the Company on the date of exercise. The Company has no legal or constructive obligation to repurchase or settle the options in cash.
The below table shows the vesting period for each grant: (for outstanding options see separate table below)

Grant date mm/dd/yyyy	Total grants	Vested in 2013	Vested in 2014	Vested in 2015	Vested in 2016	Vested in 2017	Vested in 2018	Vested in 2019	Vested in 2020
1/12/2012	200,000	81,944	66,667	51,389					
6/27/2012	100,000	50,000	50,000						
8/24/2012	200,000	88,889	66,667	44,444					
9/20/2012	1,934,000	805,833	644,667	483,500					
4/24/2013	100,000		50,000	50,000					
6/24/2013	3,666,000		1,833,000	1,222,000	611,000				
6/27/2013	400,000		200,000	158,333	41,667				
6/26/2014	2,092,000			1,045,910	697,328	348,762			
6/27/2014	1,100,000			849,996	166,667	83,337			
10/30/2014	250,000			250,000					
1/30/2015	300,000				191,663	100,003	8,334		
6/18/2015	250,000				250,000				
6/26/2015	500,000				500,000				
2/25/2016	400,000					244,443	133,333	22,224	
6/30/2016	5,280,000					2,789,829	1,660,058	830,113	
10/11/2016	500,000					500,000			
3/30/2017	50,000						29,166	16,667	4,167
7/7/2017	6,856,500						3,237,711	2,285,435	1,333,354
Sum	**24,178,500**	**1,026,667**	**2,911,000**	**4,155,573**	**2,458,325**	**4,066,374**	**5,068,602**	**3,154,439**	**1,337,521**

List of outstanding options:	**Number of options**	**Weighted average exercise price (USD)**	**Number of options**	**Weighted average exercise price (USD)**
	2017	**2017**	**2016**	**2016**
Outstanding options on January 1	10 343 472	0.23	8 458 073	0.57
Outstanding options on January 1 Adjusted *(1)*	10 343 469	0.23	7 136 019	0.42
Options granted	6 906 500	0.31	6 180 000	0.13
Options exercised	-1 717 081	0.18		
Options terminated	-378 987	0.22	-391 409	0.37
Options expired	-213 102	0.78	-2 581 138	0.48
Outstanding options on Dec 31	**14 940 799**	**0.27**	**10 343 472**	**0.23**

List of outstanding options:

	2017	**2017**	**2016**	**2016**
Vested (exercisable) options	**5 624 748**	**0.31**	**3 969 058**	**0.39**
Options Granted during the period	**6 906 500**	**0.31**	**6 180 000**	**0.13**

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

Out of the 14,940,799 (2016: 10,343,469) outstanding options on December 31, 2017, 5,624,748 (2016: 3,969,058) options were vested/exercisable. 1,717,081 options were exercised in 2017 (2016: No options were exercised).

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

			Options	
Expiry day	**Exercise price**		**2017**	**2016**
27.06.2017	USD	2,65		50 000
24.08.2017	USD	0,45		200 000
20.09.2017	USD	0,36		317 133
09.01.2018	USD	0,13	8 749	
28.02.2018	USD	0,13	1 749	
01.03.2018	USD	0,30	424 439	
31.03.2018	USD	0,13	10 498	
24.06.2018	USD	0,31	564 334	1 380 336
27.06.2018	USD	0,30	200 000	200 000
26.06.2019	USD	0,81	1 204 000	1 316 000
27.06.2019	USD	0,80	500 000	500 000
30.01.2020	USD	0,25	300 000	300 000
26.06.2020	USD	0,25	100 000	100 000
25.02.2021	USD	0,18	350 000	400 000
30.06.2021	USD	0,13	3 975 530	5 080 000
11.10.2021	USD	0,16	500 000	500 000
30.03.2022	USD	0,35	50 000	
07.07.2022	USD	0,31	6 751 500	
Sum			**14 940 799**	**10 343 469**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was USD 0.22 per option (2016: USD 0.09). The significant inputs into the model were a weighted average share price of USD 0.31-0.38 (2016: USD 0.12-0.18) at the grant date, the exercise prices shown above, volatility 108.06%-113.65% (2016: 101.2%-119.84%), dividend yield 0% (2016: 0%), expected option life of 3.25-5 years (2016: 3.249-5.0 years), expected annual turnover rate of 7% (2016: 7%) and an annual risk free rate of 0.78%-1.11% (2016: 0.48%-0.78%). The volatility measured is based on the variation in daily share prices for Funcom.

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

At the end of 2017

Name	**Number of shares**	**Number of options**	**Comments**
Supervisory board			
Ole Gladhaug		425 000	
Alain Tascan		450 000	
Egil Kvannli		250 000	
Fredrik Per Malmberg		250 000	
Magnus Groneng	440	250 000	
Management Board			
Rui Casais	150 000	1 446 664	CEO of Funcom NV; 396,664 options are from before 2015 as employee
Christian Olsthoorn		287 500	150,000 options are from before 2017 as employee

At the end of 2016

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

After the 5:1 reverse split that was executed on 1st February 2018 all of the options have been updated accordingly, by dividing the number of shares by 5 and multiplying the strike price by 5, to secure that the value of the options is not affected by the reverse split.

18. Deferred income

The amount consists mainly of subscription prepayments from subscribers.

19. Other short term liabilities

In thousands of US dollars	**2017**	**2016**
Taxes and social security payable	253	369
Accrued expenses	1 054	446
Total	**1 307**	**815**

20. Investments in equity-accounted entities

Funcom did not have any equity-accounted entities as of 31.12.2017. Heroic Signatures DA will be equity accounted in 2018.

21. Leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	**2017**	**2016**
Less than one year	1,310	850
Between one and five years	4,451	2,118
More than five years	31	162
Total	**5,789**	**3,129**

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

During the year ended December 31, 2017, USD 639 thousand was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2016: USD 453 thousand). The increase in 2017 was mainly due to the new Oslo office lease.

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

22. Earnings per share

The basic earnings per share are calculated as the ratio of the result for the period attributable to the equity holders of Funcom N.V. of USD 4,957 thousand (2016: USD -1,695 thousand) divided by the weighted average number of ordinary shares outstanding 279,217,441 (2016: 180,291,275).

When calculating the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted for all the dilution effects relating to share options and the conversion feature of the convertible bonds. As the Company made losses in 2016, the dilutive effect of share options and the conversion feature of convertible bonds are anti-dilutive, i.e. would reduce losses per share. This effect is thus not included in the calculation of diluted earnings (losses) per share in 2016.

In thousands of USD

	2017	2016
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands)	4,957	-1,695
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	4,957	-1,695
Issued ordinary shares as of January 1	249,282	92,208
Effect of new shares issued and options exercised	29,936	88,083
Weighted average number of shares at December 31	279,217	180,291
Basic earnings per share	**0.02**	**(0.01)**
Basic earnings per share - continuing operations	**0.02**	**(0.01)**
Weighted average number of shares at December 31, basic	279,217	180,291
Weighted average number of shares at December 31, diluted	328,574	180,291
Diluted earnings per share	**0.02**	**(0.01)**
Diluted earnings per share - continuing operations	**0.02**	**(0.01)**

The above table reflects the situation at 2017 year end.

In the below table retrospective adjustments of recent share movements have been applied.

In thousands of USD

	2017	2016
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands)	4,957	-1,695
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	4,957	-1,695
Retrospectively adjusted number of shares, basic	74,982	74,982
Basic earnings per share	**0.07**	**(0.02)**
Basic earnings per share - continuing operations	**0.07**	**(0.02)**
Retrospectively adjusted number of shares, basic	74,982	74,982
Retrospectively adjusted number of shares, diluted	77,208	77,208
Diluted earnings per share	**0.06**	**(0.02)**
Diluted earnings per share - continuing operations	**0.06**	**(0.02)**

The share movements that all occurred in Q1 2018 are as follows: the 5:1 reverse stock split, issue of 6,800,000 new shares to Swedbank Robur Fonder AB, issue of 4,460,000 new shares to Cabinet Group as consideration for joint venture interest, and conversion of USD 2,828,785 of the convertible bond plus accrued interest of USD 171,214.91 into 5,791,505 new Funcom shares. All mentioned share numbers are post reverse split. In line with IAS 33.64 the share number after the mentioned events are used, not the weighted average over the year.

23. Contingent liabilities

As of December 31, 2017 the group had no contingent liabilities.

24. Financial instruments

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

Changes in liabilities arising from financing activities

In thousands of US dollars	**1 January 2017**	**Cash Flow**	**Interests accruing in the period**	**Foreign exchange**	**Debt Converted into equity**	**Reclassification**	**31 December 2017**
Long term borrowings	7 019	-79	184		-3 592	-3 441	**91**
Short term borrowings	48					3 363	**3 411**
Lease Liabilities	236	-60		17			**193**
Total	**7 303**	**-139**	**184**	**17**	**-3 592**	**-78**	**3 695**

USD 91 thousand lease liabilities are included in "Long term borrowings" (reclassified from "Other Short term liabilities" in 2017) and USD 102 thousand lease liabilities is included in "Other Short term liabilities". USD 151 thousand of the interest from the bonds are included in "Other Short term liabilities". USD 3,363 thousand Loans classified as non-current at 31.12.2016 became current during 2017.

Exposure to credit risk

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

In thousands of US dollars

	Carrying amount **2017**	Carrying amount **2016**
Loans and receivables*	2 395	1 113
Cash and Cash equivalents	7 731	3 709
	10 126	**4 822**

* Includes trade receivables of USD 1,559 thousand (2016: USD 628 thousand), long-term receivables of USD 567 thousand (2016: USD 19 thousand), and other accruals, deposits and advances for a total of USD 269 thousand (2016: 466 thousand). All multimedia tax credits receivables have been received. The trade receivables are primarily receivable from credit card service providers for which no publicly available credit ratings are available. However, based on long-term relationship with these providers it is considered that there is a very low risk of non-collection.

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

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

In thousands of US dollars

	Carrying amount 2017	Carrying amount 2016
North America		
Europe	1 559	628
	1 559	628

Receivables on credit card service providers amount to USD 627 thousand of the trade receivables carrying amount at December 31, 2017 (2016: USD 431 thousand).

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars

	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	1 541		587	
Past due 0-30 days	2		8	
Past due 31-120 days	17		26	
More than 120 days			7	
	1 559		628	

The group recorded no impairment losses for receivables in 2017 (2016: nil).

Liquidity risk

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

n thousands of US dollars

As at December 31, 2017

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	Year 2	Year 3	Thereafter
Trade payables and current loans and borrowings	-4 289	-4 186	-787	-3 399			
Other short-term liabilities	-1 307	-1 307	-1 307				
Non-current loans and borrowings	-91	-91					
	-5 687	**-5 584**	**-2 094**	**-3 399**			

As at December 31, 2016

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

Trade Payables and Current Loans and Borrowings:

Trade Payables and Current Loans and Borrowings mainly consist of Trade payables equal to USD 775 thousand (2016: USD 251 thousand) and a convertible bond of USD 3,363 thousand (2016: nil).

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of December 31, 2017, 3,399,194 (2016: 6,899,194) bonds are outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of December 31, 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2017, the bonds had a carrying amount of USD 3,363 thousand (2016: USD 6,830 thousand). The convertible bonds have been adjusted according to the 5:1 reverse split in Q1 2018, and partially converted in Q1 2018, see note 28. As of December 31, 2016, the bonds were classified as non-current loans and borrowings.

Other short-term liabilities:
Other short-term liabilities mainly consist of USD 253 thousand sales tax and social security payable (2016: USD 351 thousand) and operational accrued expenses of USD 1,054 thousand (2016: USD 446 thousand).

Non-current loans and borrowings:
Non-current loans and borrowings consist of a rental deposit of USD 91 thousand (2016: 50 thousand).

The management analysed the debt repayment schedules and the impact on the Company's liquidity. The analysis included the current cash position and the cash generation potential of the Company's live games and games expected to launch in 2018. As a result, the management concluded that the solvency and liquidity of the Company indicate that Funcom is able to meet its current and long-term obligations. However, this position is based on various assumptions including cost structure, revenue projections, credit opportunities, timeline on the game developments amongst other factors. The management will continue to evaluate the assumptions on a continuous basis and will inform the market of any future pervasive and material changes.

Currency risk
The Group is exposed to foreign currency risk on sales, purchases and cash and cash equivalents denominated in other currency than United States dollars. Large variations in Euro or Norwegian kroner exchange rate compared to the US dollar could significantly influence the Group’s Statement of Comprehensive Income. Even if management were to implement an active hedging policy, a currency related risk, which may have an impact on the Statement of Comprehensive Income, would still exist. The majority of the operational expenses are currently denominated in US dollar and Norwegian kroner. The significant cash positions in Norwegian kroner, in combination with the private placement of NOK 88.4 million received in Q1 2018, are perceived by the management as a natural hedge against the operational expenses in these currencies.

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

In thousands of US dollars

As at December 31, 2017

	USD	EURO	NOK	CAD	OTHER	Total:
Trade and other receivables	1 236	232	56	7	28	1 559
Cash and cash equivalents	5 115	472	1 964	96	85	7 731
Trade payables and current loans and borrowings	-3 445	-409	-311	-20	-1	-4 186
Net balance sheet exposure	2 906	295	1 708	83	112	5 104

As at December 31, 2016

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

The following exchange rates were applied during the year:

	Reporting rate			
	Average rate		Spot rate at December 31	
	2017	2016	2017	2016
EUR	1,130	1,107	1,199	1,052
NOK	0,121	0,119	0,122	0,116
CAD	0,771	0,754	0,797	0,744
CNY	0,148	0,151	0,154	0,144

Sensitivity analysis

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

In thousands of US dollars

	Profit or Loss
December 31, 2017	
EUR	-30
NOK	-171
CAD	-8
Other	-11
December 31, 2016	
EUR	-29
NOK	-323
CAD	-4
Other	-8

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

Interest rate risk

At the reporting date the Group’s fixed rate financial instruments comprise convertible bonds issued in 2011. The interest rate is fixed over the loan term.

Sensitivity analysis for variable rate instruments

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

In thousands of US dollars

	2017	**2016**
Loans and borrowings		
Cash and cash equivalents	7 731	3 848
Net exposed to interest risk	7 731	3 848
100 bp increase in interest rate	77	38
100 bp decrease in interest rate	-77	-38

Classes of financial instruments

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

Fair values

For trade and other payables, bank overdrafts, trade receivables and other financial current assets and liabilities, the discount factor is not significant due to the short-term nature of the items. The carrying amount is therefore found to reflect their fair value.

In thousands of US dollars

	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	2017	**2017**	**2016**	**2016**
Trade and other Receivables	1 559	1 559	628	628
Cash and cash equivalents	7 731	7 731	3 848	3 848
Trade paybles and current loans and borrowings	-4 289	-4 289	-299	-299
Other short term liabilities	-1 307	-1 307	-814	-814
Non-current loans and borrowings			-7 019	-7 019

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

Convertible bonds - carrying amount USD 3,363 thousand (2016: USD 6,830 thousand)

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of December 31, 2017, 3,399,194 (2016: 6,899,194) bonds are outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of December 31, 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of December 31, 2017, the bonds have a carrying amount of USD 3,363 thousand (2016: USD 6,830 thousand). The convertible bonds have been adjusted according to the 5:1 reverse split in Q1 2018, and partially converted in Q1 2018, see note 28.

25. Transactions with related parties

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

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

Supervisory Board member	Total remuneratio	Total remuneration is composed of: Board fee TUSD	Share based TUSD
2017			
Ole Gladhaug (1)	65	32	33
Alain Tascan	36	21	15
Magnus Grøneng (2)	40	21	19
Fredrik Malmberg (3)	40	21	19
Egil Kvannli (3)	40	21	19
Total:	**221**	**116**	**105**
2016			
Ole Gladhaug (1)	12	7	5
Michel Cassius	56	23	33
Alain Tascan	32	20	12
Magnus Grøneng (2)	7	5	2
Fredrik Malmberg (3)	7	5	2
Egil Kvannli (3)	7	5	2
Total:	**121**	**65**	**56**

Supervisory Board member	Number of options granted during the year	Number of options exercised durng the year	Total number of options held / controlled at year end	Number of shares held / controlled at year end (incl. related
2017				
Ole Gladhaug	225 000		425 000	
Alain Tascan	150 000		450 000	
Magnus Grøneng	150 000		250 000	440
Fredrik Malmberg	150 000		250 000	
Egil Kvannli	150 000		250 000	
	825 000	**-**	**1 625 000**	**440**
2016				
Ole Gladhaug	200 000		200 000	
Alain Tascan	100 000		350 000	
Magnus Grøneng	100 000		100 000	440
Fredrik Malmberg	100 000		100 000	
Egil Kvannli	100 000		100 000	
	600 000	**-**	**850 000**	**440**

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

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

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

Remuneration to the Supervisory Board and Management Board):

In thousands of US dollars	**2017**	**2016**
Salaries and benefits in kind (short-term employee benefits)	442	331
Share-based payments	175	111
Pension plan contributions	3	5
Total remuneration	**620**	**447**

Remuneration to the Management Board:

In thousands of US dollars

Management Board member	Total remune-ration	Remune-ration	Bonus	Severance	Pension cost	Share based
2017						
Rui Casais	360	221	86		3	50
Christian Olsthoorn (1)	39	19				20
Total:	**399**	**240**	**86**	**-**	**3**	**70**
2016						
Rui Casais	325	211	55		5	54
Total:	**325**	**211**	**55**		**5**	**54**

Management Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Number of shares held / controlled at year end
2017				
Rui Casais	400,000	50,000	1,446,664	150,000
Christian Olsthoorn (1)	137,500	-	287,500	-
Total:	**537,500**	**50,000**	**1,734,164**	**150,000**
2016				
Rui Casais	400,000		1,096,664	100,000
Total:	**400,000**	**0**	**1,096,664**	**100,000**

(1) Christian Olsthoorn was appointed to the Management Board on March 29, 2017.

After the 5:1 reverse split that was executed in early 2018 all of the options have been updated accordingly, by dividing the number of shares by 5 and multiplying the strike price by 5, to secure that the value of the options is not affected by the reverse split.

Transactions with shareholders

Mr. Hans Peter Jebsen, the largest shareholder of Funcom N.V. controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls KGJ Investments S.A., SICAV-SIF (KGJI). The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies he controls were 28.28% as of December 31, 2017 (2016: 25.92%). The following transactions took place in 2017 between Funcom Group and companies controlled by Mr. Jebsen:

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of December 31, 2016, 6,899,194 bonds (total USD 6,899 thousand) issued on December 22, 2011 were still outstanding, with the face value of USD 1 each, 3.5% interest rate, and the maturity date of December 31, 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share.

In January 2017 KGJI received 2,413,127 new shares from conversion of USD 250 thousand loan that matured at the end of 2016. In April 2017 KGJI converted USD 3,500 thousand convertible bond plus accrued interest into 34,675,480 new shares.

The convertible bonds have been adjusted according to the 5:1 reverse split in Q1 2018, and partially converted in Q1 2018, see note 28.

Transactions with a Supervisory Board member

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

Tranicos LLC is a company controlled by Cabinet Group LLC. Cabinet Group LLC is controlled by Fredrik Malmberg, a member of the Supervisory Board of Funcom. Fredrik Malmberg did not hold any shares in Funcom, neither directly or indirectly, prior to the transaction.

The Company has entered an agreement to invest in a game made by the company Bearded Dragon International LTD. Fredrik Malmberg has also co-invested in the game through an entity called Game Ark LTD. Funcom invested USD 1 026 thousand in the game in 2017, all of which has been capitalized.

For 2017 Funcom paid USD 1 406 thousand in royalty fees for Age of Conan and Conan Exiles to Conan Properties which is controlled by Cabinet Group LLC. At year end USD 144 thousand was owed.

Transactions with a Management Board member

Christian Olsthoorn is a partner with Temmes Management Services, which has services contracts with Funcom. For 2017 services amounting to USD 128 thousand were charged (including USD 18 thousand gross for the managing director position remuneration), and an amount of USD 16 thousand was owed at the end of the year.

26. Group entities

Group entities

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

Significant subsidiaries	**Country of incorporation**	**Principal Activity**	**Ownership**	**interest in %**
Funcom Games Canada Inc.*	Canada	Closed down	100	100
Funcom Inc.	United States	The development of computer games	100	100
Funcom Oslo AS	Norway	The development and operation of games and technology	100	100
Funcom Games Beijing Ltd	China	Representation office	100	100
Nephilim LLC	United States	Owner of film rights	100	100

* Funcom Games Canada Inc. Was closed down in September 2017.

27. Capital Management and Risk Factors

Capital management

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

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

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

Risk factors

Management has discussed the various risks in Funcom and the implications of these risks. The risks described below do not constitute a full list of the risks the Company is exposed to. Additional risk factors may also impair the Company's operations. The order in which the risks are presented below is not intended to provide an indication of the likelihood of their occurrence nor of their severity or significance.

Revenue risks

Dependence on performance of individual games

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

Company will be materially dependent on the performance of its larger games, as well as the success of the overall strategy.

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

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

Dependence on the attractiveness of the licensed brands

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

Dependence on consumer satisfaction

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

Rating risks

Funcom is, as a developer of mature games, exposed to the risk that rating agencies in the various markets will set the allowed age level to play the Funcom games too high or too low and thereby potentially limiting the addressable market. Rating agencies, including the Entertainment Software Rating Board18, may also change their rating policies, or fine Funcom for rating breaches, although Funcom always strives to adhere to rating regulations. Funcom may also receive the attention of regulatory compliance organizations, such as the US Federal Trade Commission which enforces the Children's Online Privacy Protection Act, focusing on the gaming industry, both through public relations campaigns and through legal procedures. It is also a risk that disloyal employees or disloyal outside parties by mistake, or on purpose, introduce unknown and/or controversial material into the games of the Company that may constitute a risk for legal penalties or other actions from rating agencies.

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

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

Development risks

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

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

Delay of product releases
For the current development projects, the Group has a strong focus on making plans, analysing risks, estimating time needed in each project phase and measuring progress. There is, however, a large inherent development timeline risk in all software development, including in game software development, and there is no assurance that development schedules will be held. The timeline can also be jeopardized due to factors external to the Group, such as larger companies or games occupying the intended release period. If the Group does not manage to release games at the planned dates, the development budgets of the games may increase. There is also a risk that competitors will gain a foothold in the market at the expense of the Group or that the games will be less competitive when launched due to advances of competitors, making users less willing to spend additional time and money on new games from the Group.

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

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

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

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

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

Difficulties in recruiting and loss of key employees
Funcom is dependent on the ability to recruit, motivate and retain highly skilled technical, managerial and marketing personnel. Funcom may experience difficulties in recruiting, motivating and retaining the necessary expertise and key employees, or may need to pay higher compensation, which could adversely affect operating results. Further, it should be taken into consideration that work permits can be difficult to obtain. Also, there is a risk of losing vital information if key employees, for various reasons, leave Funcom. Funcom's current development studios are not located in large gaming hubs, which can reduce the speed at which recruiting can be executed.

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

Difficulties in enforcing the Company’s intellectual property and proprietary rights
Funcom’s success depends on its proprietary game technology. Funcom relies on a combination of trade secret, copyright and trademark laws, non-disclosure agreements and contractual provisions to protect its proprietary rights. International copyright and trademark laws protect Funcom’s technology. Existing trade secrets and copyright laws afford only limited protection, and unauthorized parties may attempt to copy aspects of Funcom’s proprietary rights or to obtain and use information and technology that Funcom regards as proprietary. In addition, the laws of some foreign jurisdictions do not protect Funcom’s proprietary rights in the same manner and to the same extent as the laws of the Netherlands, the United States and Norway do. There can be no assurance that the steps taken by Funcom to protect its proprietary rights will be adequate. Similar risks will also apply to the intellectual property rights Funcom gets access to through Heroic Signatures.

Intellectual Property Rights of others
Funcom operates in a competitive industry. Technology is evolving at a fast pace and innovating companies develop solutions in relatively close technological proximity. This poses the risk that the Company could inadvertently encroach upon the protected rights of others, including rights protected by patents. This is the nature of the industry in which Funcom operates. Funcom is aware of the fact that there may be patents potentially forming basis of infringement claims. United States patents and/or litigation in the United States are particularly worrisome because there are a large number of United States software patents in existence. There is also to a greater extent a culture for opportunistic patent litigation in the United States. Infringement on copyrights, design rights and trademark law could surface as well. There is always an inherent risk of substantial claims related to infringement of intellectual property rights. If any claims of infringement of intellectual properties are submitted towards contract parties from which Funcom licenses intellectual property, this could also have a negative impact on the rights and obligations of the Company under any such contract.

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

Technical risks

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

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

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

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

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

Risks related to the Internet
Funcom's online games are operated on the Internet, as are the digital stores responsible for most of Funcom's games sales. Funcom considers itself materially dependent on the Steam online distribution client for computer games, and for the services provided by Microsoft Xbox and Sony PlayStation. Funcom's revenues are therefore dependent on the continued and uninterrupted operation of the Internet. Any adverse incident, hereunder but not limited to bugs, viruses, worms, power outages, government restrictions, etc. affecting the Internet may affect Funcom's ability to gain revenues.

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

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

Economic risks

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

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

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

Contracts

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

Currency fluctuations

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

Tax exposure

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

Specifically, the Dutch tax authorities have challenged the net operating losses available as of 31 December 2013 after a tax assessment concerning the fiscal years 2014 and 2015, as further described in note 10.

Sales tax exposure

The Group generates sales transactions from potentially all over the world. Because of this, the Group is exposed to different sales tax issues, including VAT issues. On 1 January 2015, a new EU VAT regulation came into force where electronic services will be taxed in the country where the customer is established rather than where the service provider is located. This change in regulation created VAT exposure in different EU states and increased the overall amount of VAT to be remitted given the difference in VAT rates in each state. The Group obtains from its payment service providers relevant information to calculate and process VAT payments. Further, the changes in regimes for value added tax may lead to higher costs in complying with the regimes for value added tax on digital goods. Should the Group fail to comply with the different regulations it might lead to real cash costs, including irrecoverable VAT, penalties, and interest.

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

Deferred tax asset and operating losses
The Group's has over the time incurred tax losses, which are located in the Company. In the Financial Statements of 2016, a tax asset is recognized on the balance sheet. The Management has discussed to which extent the Group will be able to utilize the deferred tax asset, and has adjusted the amount in the statement of financial position accordingly. In evaluating the Group's ability to utilize the deferred tax assets, all available positive and negative evidence has been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and the forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Management is using to run the underlying businesses. The Group also has historical operating losses that have not been recognized on the balance sheet.

In the 2016 Financial Statement, the Group reported as of 31 December 2016 tax losses of USD 17,473 thousand, of which USD 11,843 thousand pertains to Funcom N.V. The tax position of Company is currently being assessed by the Dutch tax authorities with respect to the fiscal years 2014 and 2015. The Dutch tax authorities have challenged the net operating losses available as of 31 December 2013 and provided a proposal , which implies that there are no taxes due for the Company for the fiscal years 2014 and 2015, and that there will be no net operating losses that can be carried forward as of the end of 2015. The Company expects to determine whether it will challenge this proposal by the end of Q1 2018. Consequently, there is a substantial risk that the total carried forward losses position of the Company as reported in the Annual Report for 2016 will be reduced.

The tax losses carried forward related to Funcom N.V. are generated from holding and financing activities and may potentially only be offset against future profits from similar activities. Future trading profits may consequently not be utilized against such tax losses. Furthermore, there is a risk that tax losses carried forward will not be recognized by the tax authorities if the Company wishes to offset such carried forward losses and the tax authorities considers that the profits have not been obtained from similar activities as those related to the carry forward losses.

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

The tax credits that Funcom Oslo AS receives have been obtained through the SkatteFUNN R&D tax incentive scheme, a government program designed to stimulate research and development in Norwegian trade and industry. Under the SkatteFUNN scheme, qualifying companies receive support through either tax credits or payment of an amount corresponding to the tax credits (if the company is not in a taxable position). Funcom Oslo AS applied for, and got approved, support for an ongoing project called "DreamWorld support for third-party tools". The main objective of this project is to upgrade Funcom's proprietary DreamWorld Technology to allow the core areas of the platform to integrate seamlessly with any third party engine. The grant is based on hours spent on the project and 20% of the expenses are accrued as SkatteFUNN tax credits. Funcom Oslo AS received for 2016 NOK 1,925 thousand.

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

Financial risk
Funcom has a history of operating losses mainly as a result of the significant investments made in the Company's games. As a result, the Company has also a convertible debt (convertible bond) with maturity in 2018. The Company's strategy of producing smaller and experimental games in addition to larger and more revenue driven games is meant to increase the number of game releases to

provide multiple revenue streams and restore the profitability and the liquidity of the Company. The successful initial launch of *Conan Exiles* in Q1 2017 confirmed that this strategy is starting to succeed and the company hopes that it will continue to do so going forward. The Company's overall performance is largely dependent on the revenues from existing and future games and investors should refer to the Going concern assessment in the Report of the Management Board for a more thorough assessment.

Compliance risk
Funcom is a public company with shares traded on Oslo Stock exchange. Therefore, the Company has the obligation to comply with strict securities trading rules and regulations applicable in Norway and the Netherlands. Failure to comply could lead to penalties and other sanctions.

28. Events after the reporting period

On 18 December 2017 it was announced that Funcom had signed an IP acquisition through joint venture and a private placement directed towards Robur Fonder AB, approved a reverse stock split and decided to establish co-development and publishing partnership business.

The joint venture company holds interactive/video gaming Intellectual Property (IP) rights based on the works of Robert E. Howard and classic Swedish pen & paper and board game properties, including attractive IPs such as "Conan the Barbarian", "Solomon Kane", "Mutant Chronicles", "Mutant: Year Zero". The transaction was cashless where Funcom received a 50% ownership in the joint venture in exchange for issuing 22,300,000 new shares in the Company (the "Consideration Shares"), each at a subscription price of NOK 2.6, to Cabinet Group. The transaction was completed on 8 February 2018.

Funcom acquired through a new wholly owned Norwegian subsidiary 50% of the participation interest in "Heroic Signatures DA" ("Heroic Signatures") from Tranicos LLC, a US company controlled by Cabinet Group. Cabinet Interactive LLC, a company controlled by Cabinet Group LLC, will own the remaining 50% of the participation interest in Heroic Signatures. Heroic Signatures will not have employees and currently has no operations, assets or liabilities as it has been incorporated for this purpose. However, as of closing of the transaction, Heroic Signatures will license all interactive video game rights in Cabinet's IP portfolio through a contribution in kind from Cabinet Group. As part of this partnership, Cabinet Group provides the IP knowledge and protection and Funcom provides the gaming industry contacts and know how. As Heroic Signatures was incorporated in 2018, the company has not been subject to any financial reporting so far.

Based on IFRS 11, Funcom will recognize its interest in Heroic Signatures DA as investment and shall account for that investment using the equity method in accordance with IAS 28. Therefore, Funcom will recognize its initial investment in Heroic Signatures DA at cost. The carrying amount is increased or decreased to recognize its share of the profit or loss of Heroic Signatures DA after the date of acquisition. The value of Funcom's share of the assets in Heroic Signatures will be approximately USD 7 million, which will increase Funcom's equity. Heroic Signatures will be jointly managed by Funcom and Cabinet Group and will focus on establishing and executing a roadmap of games on the IPs, across all platforms and regions, where some of the games will be developed by Funcom and others will be developed by third party licensees.

Funcom will benefit from its share of the IP royalties including those for *Conan Exiles* and *Age of Conan*, effectively seeing a 50% reduction in IP royalty cost for those titles. In addition, this greatly expanded IP portfolio is a strong asset for the Company and for its co-development and publishing activities.

Finally, as part of this transaction, Funcom secures the right to develop three games based on these IPs to specified terms, two utilizing Conan the Barbarian and one utilizing a different IP which shall be determined later. Funcom also commits to develop two of these games in the next four years. Cabinet Group has agreed to a customary lock up restriction on the Consideration Shares for a period of six months after the consummation of the transaction.

In order to fund publishing partnerships with 3rd party game developers, and secondarily to have more flexibility when investing in production of new games internally, Funcom has also executed a private placement (the "Private Placement") directed towards Swedbank Robur Ny Teknik and Swedbank Robur Microcap funds, both funds managed by Swedbank Robur Fonder AB of 34,000,000 new shares (the "New Shares") at a subscription price of NOK 2.6 per share, corresponding to a premium of 18% compared to the closing price of the Company's shares on the Oslo Stock Exchange as of 15 December 2017. The total gross proceeds to Funcom in the private placement was NOK 88.4 million, increasing both the cash balance and the equity of the Company as of 1 February 2018.

Both the Consideration Shares and The New Shares were listed on the Oslo Stock Exchange 23 February 2018 following approval of the listing prospectus by the Netherlands Authority for the Financial Markets, the passporting of the listing prospectus to Norway, and the publication of the same.

The Company executed a 5:1 reverse stock split with ex date 1 February, exchanging five existing shares for one new share. The reverse stock split will not affect the total market value of the Company or the respective ownership of each shareholder in Funcom. The reverse split increased the par value per Share from EUR 0.04 to EUR 0.20 and all the above-mentioned amounts of Consideration Shares, New Shares and subscription prices have been amended in accordance with the reverse stock split (i.e. in a ratio of five to one).

Including the Consideration shares and New Shares the company would have 345 952 610 shares before the reverse share split. After the reverse share split the Company had 69 190 522 shares.

On 14 March 2018, it was announced that KGJ Investment S.A. SICAV-SIF would convert USD 2,828,785 of the convertible bond plus accrued interest of USD 171,214.91 into 5,791,505 new Funcom shares. After this transaction 570,409 bonds are outstanding.

Company Financial Statements Funcom N.V.

Statement of Financial Position

Before appropriation of result

In thousands of US dollars	**Note**	**31. Dec. 2017**	**31. Dec. 2016**
Intangible assets	1	1 026	-
Investments in and receivables from group companies	2	16 203	7 930
Financial fixed assets		**17 229**	**7 930**
Prepayments and other receivables		108	30
Cash and cash equivalents	3	446	2 894
Total current assets		**554**	**2 924**
Total assets		**17 783**	**10 854**
Issued capital	4	13 895	10 486
Share premium	5	173 964	170 021
Legal reserves	6	10 048	6 252
Other reserves	7	-183 713	-180 692
Result after taxation		-516	-2 294
Total equity		**13 678**	**3 773**
Loans and borrowings	8	-	6 830
Other non-current liabilities	8	141	-
Total non-current liabilities		**141**	**6 830**
Loans and borrowings		3 363	-
Accrued expenses		169	110
Other current liabilities	8	432	141
Total current liabilities		**3 964**	**251**
Total equity and liabilities		**17 783**	**10 854**

Statement of Comprehensive Income

For the year ended December 31

In thousands of US dollars	**Note**	**2017**	**2016**
Revenue	9	710	32
Personnel expenses	10	-261	-157
General and administrative expenses	11	-1,206	-1,213
		-1,467	-1,369
Operating result		-757	-1,338
Financial income	12	507	592
Financial expenses	13	-266	-1,548
Result before income tax		-516	-2,294
Income tax expense			
Result for the period		**-516**	**-2,294**
Results from participating interest after tax	2	5,473	599
Consolidated results after taxation		**4,957**	**-1,695**

Notes to the Company Financial Statements

Principles of valuations for the financial statements

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

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

1. Intangible Assets

In June 2017, Funcom NV entered into an agreement with Bearded Dragon International LTD regarding development support and publishing of a new game. The game, *'Mutant Year Zero: Road to Eden'*, is in the "tactical turn-based strategy" genre and is planned to be released in the second half of 2018 on the PC, PlayStation 4, and Xbox One platforms.

Following Funcom IP capitalization policy, qualified development expenses of USD 1,026 thousand has been capitalized as an intangible asset as at December 31, 2017.

2. Investments in and Receivables from Group Companies

The Company holds the following investments in subsidiary companies at December 31, 2017:

Significant subsidiaries	**Country of incorporation**	**Ownership interest in %**	
		2017	**2016**
Funcom Games Canada Inc*	Canada	Not applicable	100.00
Nephilim LLC**	United States	100.00	Not applicable
Funcom Inc.	United States	100.00	100.00
Funcom Oslo AS	Norway	100.00	100.00
Funcom Games Beijing Ltd	China	100.00	100.00

* Funcom Games Canada Inc was fully liquidated by the end of 2017.
** Nephilim LLC was incorporated in 2017.

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

	Investments		Receivable from group companies		Total	
In thousands of US dollars	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance at 01.01	**4 781**	**3 849**	**3 149**	**1 132**	**7 930**	**4 981**
Translation results	158	-357	-	-	158	-357
Results of participations	5 473	1 237	-	-	5 473	1 237
Investments	1	-	-	-	1	-
Movement IC loans	-	-	3 253	2 655	3 253	2 655
Other movements	-	52	-	-	-	52
Impairment IC loans	-	-	-612	-638	-612	-638
Balance at 31.12	**10 413**	**4 781**	**5 790**	**3 149**	**16 203**	**7 930**

In thousands of US dollars		
Results from participating interest after tax	**2017**	**2016**
Results of participations	5 473	1 237
Results of liquidation participations	612	-
Write off IC loan	-612	-638

3. Cash and cash equivalents

For both 2017 (USD 445 thousand) and 2016 (USD 2,894 thousand), cash and cash equivalents are bank balances without restriction for the use.

4. Issued capital

In thousands of US dollars

	2017	2016
Balance at 01.01	10 486	4 022
Addition share-capital	1 717	7 006
Translation result opening share capital	1 473	-144
Exchange difference on new share issue	220	-398
Balance 31.12	**13 895**	**10 486**

The share-capital was translated into US dollars at the December 31, 2017 exchange rate of EUR/USD 1.1993 (2016: 1.0516). The issued capital for these standalone accounts is not equal to that of the group accounts, due to differences in the translation of foreign currency under the respective accounting frameworks, Dutch corporate law demands that share capital is converted into presentation currency on the last day of the reporting period, whereas the group balance is translated at the historical rate in line with IFRS requirements.

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

- January 1: 249,281,922
- December 31: 289,652,610

At December 31, 2017, the authorized share capital comprised of 750 million ordinary shares (2016: 750 million). The nominal value of the shares is Euro 0.04. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

Share-capital and share premium

	Number of ordinary shares	
	2017	2016
Outstanding at January 1	249,281,922	92,208,134
Issued against payment in cash	3,282,081	112,535,000
Issued as a result of conversion of debts (Note 25)	37,088,607	44,538,788
Outstanding at December 31 - fully paid	**289,652,610**	**249,281,922**
Nominal value of the share-capital at December 31 (EUR)	11,586,104	9,971,277

A list of all equity related events in 2017 and 2016 is provided in note 16 to the Consolidated Financial Statements.

5. Share premium

In thousands of US dollars

	2017	2016
Balance at 01.01	170 021	161 554
Share based payments	750	146
Addition to share premium	2 432	8 234
Other	761	87
Balance 31.12	**173 964**	**170 021**

6. Legal reserves

Legal reserves are not distributable to shareholders. The legal reserves relate to capitalized development costs.

In thousands of US dollars

	2017	2016
Balance at 01.01	6 252	4 306
Game capitalization	6 616	4 082
Game amortization	-3 114	-1 772
Exchange effect on game values	294	-364
Balance at 31.12	10 048	6 252

7. Other reserves

In thousands of US dollars

	2017	2016
Balance at 01.01	-182,986	-179,271
Exchange effect on share-capital	1,692	1
Exchange effect on subsidiaries	-4,010	12
Movement to legal reserves	-3,796	-1,946
Result from participating interest after tax	5,473	599
Warrants	-86	-87
Balance at 31.12	-183,714	-180,692
Result after taxation	-516	-2,294

Funcom does not distribute any dividend for either 2017 or 2016. All results after taxation go to other reserves.

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

8. Liabilities

Current loans and borrowings in 2017 of USD 3,363 thousand are a convertible bond due December 31, 2018. Other current liabilities in 2017 of USD 432 thousand (2016: USD 141 thousand) do not include any loan, and are related to Funcom NV's regular business operations.

Non-current liabilities in 2017 of USD 141 thousand are related to the office space in Canada, out of which USD 50 thousand is rental deposit from the subtenants that will be used against the rent receipt towards the end of the lease term in November 2020, and USD 91 thousand is initial rental incentive from the landlord that will be totally amortized by the end of the lease term. Non-current liabilities in 2016 of USD 6,830 thousand were the convertible bond due December 31, 2018.

9. Revenue

In 2017, games using Funcom IP were sold through Apple, and Funcom NV received royalty income of USD 8 thousand (2016: USD 32 thousand). Royalty income is recognized immediately upon receipt. Please see consolidated notes for more on revenue recognition policy.

In 2017, Funcom NV also generated USD 201 thousand (2016: nil) for its management services to its subsidiaries. This amount represented the recharge of Supervisory Board remuneration to Funcom Oslo AS.

In 2017, Funcom NV had USD 502 thousand (2016: nil) rental revenue from its office space in Canada. Funcom NV will continue to have such monthly revenue of CAD 53k until the end of the lease term in November 2020.

10. Personnel expenses

Personnel expenses were related to remuneration to members of the Supervisory Board and the Management Board (2017: USD 135 thousand; 2016 USD 64 thousand) and their share option cost (2017: USD 126 thousand; 2016: USD 92 thousand). Please refer to Note 15 and 16 for more details.

There was no employee in Funcom N.V. for 2017 or 2016.

11. General and administrative expenses

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

In thousands of USD	2017	2016
Rental expenses	469	-
Audit fees	136	133
Legal services	185	517
Investor relations	192	239
Consulting fees	173	194
Intercompany transactions	-	67
Other	51	63
Total	1,206	1,213

12. Financial income

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

In thousands of USD	2017	2016
Intercompany interest income	363	144
Foreign exchange gain	128	448
Other	16	-
Total	507	592

13. Financial expenses

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

In thousands of USD	2017	2016
Loan interest	184	640
Foreign exchange loss	82	442
Intercompany write-off	-	211
Other	-	255
Total	266	1,548

14. Remuneration of the members of the Management Board

In thousands of US dollars

Management Board member	Total remune-ration	Remune-ration	Bonus	Severance	Pension cost	Share based
2017						
Rui Casais	360	221	86		3	50
Christian Olsthoorn (1)	39	19				20
Total:	**399**	**240**	**86**	**-**	**3**	**70**
2016						
Rui Casais	325	211	55		5	54
Total:	**325**	**211**	**55**		**5**	**54**

Management Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Number of shares held / controlled at year end
2017				
Rui Casais	400,000	50,000	1,446,664	150,000
Christian Olsthoorn (1)	137,500	-	287,500	-
Total:	**537,500**	**50,000**	**1,734,164**	**150,000**
2016				
Rui Casais	400,000		1,096,664	100,000
Total:	**400,000**	**0**	**1,096,664**	**100,000**

(1) Christian Olsthoorn was appointed to the Management Board on March 29, 2017.

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

	Year Issued	Outstanding Dec 31,2016	Granted	Expired	Exercised	Outstanding Dec 31 2017	Exercise Price USD	Expiry Date	Vesting Date
Rui Casais	2012	66,664				66,664	0.25	01/03/2018	Various
	2013	130,000				130,000	0.21	24/06/2018	Various
	2014	200,000				200,000	0.56	26/06/2019	Various
	2015	300,000				300,000	0.22	30/01/2020	Various
	2016	400,000			50,000	350,000	0.18	25/02/2021	Various
	2017		400,000			400,000	0.31	07/07/2022	Various
	Total	**1,096,664**			**Total**	**1,446,664**			
	Vested	**554,991**			**Vested**	**932,773**			

	Year Issued	Outstanding Dec 31,2016	Granted	Expired	Exercised	Outstanding Dec 31 2017	Exercise Price USD	Expiry Date	Vestin g Date
Christian Olsthoorn	2016	150,000				150,000	0.13	30/06/2021	Various
	2017		50,000			50,000	0.35	30/03/2022	Various
	2017		87,500			87,500	0.31	07/07/2022	Various
	Total	**150,000**			**Total**	**287,500**			
	Vested	**-**			**Vested**	**74,997**			

After the 5:1 reverse split that was executed in early 2018 all of the options have been updated accordingly, by dividing the number of shares by 5 and multiplying the strike price by 5, to secure that the value of the options is not affected by the reverse split.

<u>Loans</u>
The company does not provide any loans to members of the Management Board.

15. Remuneration of the members of the Supervisory Board

The General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Supervisory Board. In 2017, the total remuneration to the Supervisory Board was EUR 99,000 (USD 116,880) (2016: EUR 58,986 (USD 63,425)). The annual remuneration was EUR 27,000 (USD 31,876) (2016: EUR 27,000 (USD 28,244)) for the Chairman, and was EUR 18,000 (USD 21,251) (2016: EUR 18,000 (USD 18,929)) for each of other members, prorated in accordance with the months of service. EUR 99,000 (2016: EUR 58,986) of the fees for 2017 are outstanding at year end.

Supervisory Board member	Total remuneration	Board fee TUSD	Share based TUSD
2017			
Ole Gladhaug	65	32	33
Alain Tascan	36	21	15
Magnus Groneng	40	21	19
Fredrik Malmberg	40	21	19
Egil Kvannli	40	21	19
Total:	**221**	**116**	**105**
2016			
Ole Gladhaug (1)	12	7	5
Michel Cassius	56	23	33
Alain Tascan	32	20	12
Magnus Groneng (2)	7	5	2
Fredrik Malmberg (3)	7	5	2
Egil Kvannli (3)	7	5	2
Total:	**121**	**65**	**56**

Supervisory Board member	Number of options granted during the year	Number of options exercised during the year	Total number of options held / controlled at year end	Number of shares held / controlled at year end
2017				
Ole Gladhaug	225,000		425,000	
Alain Tascan	150,000		450,000	
Magnus Groneng	150,000		250,000	440
Fredrik Malmberg	150,000		250,000	
Egil Kvannli	150,000		250,000	
Total:	**825,000**	**0**	**1,625,000**	**440**
2016				
Ole Gladhaug	200,000		200,000	
Alain Tascan	100,000		350,000	
Magnus Groneng	100,000		100,000	440
Fredrik Malmberg	100,000		100,000	
Egil Kvannli	100,000		100,000	
Total:	**600,000**	**0**	**850,000**	**440**

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

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

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

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

	Year of issuance	Outstand Dec 31, 2016	In 2017 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2017	Exercise price USD	Expiry date	Vesting
Alain Tascan	2012	25,000	-	-	-	25,000	-	2.65	27/12/2017	27/06/2013
	2012	25,000	-	-	-	25,000	-	2.65	27/12/2017	27/06/2014
	2014	100,000	-	-	-	-	100,000	0.66	27/06/2019	27/06/2015
	2015	100,000	-	-	-	-	100,000	0.24	26/06/2020	26/06/2016
	2016	100,000	-				100,000	0.13	30/06/2021	30/06/2017
	2017		150,000				150,000	0.31	07/07/2022	07/07/2018
	Total	**350,000**					**450,000**			
	Vested	**250,000**					**350,000**			

	Year of issuance	Outstand Dec 31, 2016	In 2017 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2017	Exercise price USD	Expiry date	Vesting
Ole Gladhaug	2016	200,000	-	-	-	-	200,000	0.16	11/10/2021	11/10/2017
	2017		225,000				225,000	0.31	07/07/2022	07/07/2018
	Total	**200,000**					**425,000**			
	Vested	**0**					**200,000**			

	Year of issuance	Outstand Dec 31, 2016	In 2017 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2017	Exercise price USD	Expiry date	Vesting
Magnus Grøneng	2016	100,000	-	-	-	-	100,000	0.16	11/10/2021	11/10/2017
	2017		150,000				150,000	0.31	07/07/2022	07/07/2018
	Total	**100,000**					**250,000**			
	Vested	**0**					**100,000**			

	Year of issuance	Outstand Dec 31, 2016	In 2017 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2017	Exercise price USD	Expiry date	Vesting
Fredrik Malmberg	2016	100,000	-	-	-	-	100,000	0.16	11/10/2021	11/10/2017
	2017		150,000				150,000	0.31	07/07/2022	07/07/2018
	Total	**100,000**					**250,000**			
	Vested	**0**					**100,000**			

	Year of issuance	Outstand Dec 31, 2016	In 2017 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2017	Exercise price USD	Expiry date	Vesting
Egil Kvannli	2016	100,000	-	-	-	-	100,000	0.16	11/10/2021	11/10/2017
	2017		150,000				150,000	0.31	07/07/2022	07/07/2018
	Total	**100,000**					**250,000**			
	Vested	**0**					**100,000**			

After the 5:1 reverse split that was executed in early 2018 all of the options have been updated accordingly, by dividing the number of shares by 5 and multiplying the strike price by 5, to secure that the value of the options is not affected by the reverse split.

16. Transactions with Related parties

Please refer to Consolidated Financial Statements, Note 25.

Events after the reporting date

Please refer to Consolidated Financial Statements, Note 28.

Badhoevedorp, April 18, 2018

The Supervisory Board of Directors in Funcom N.V.

Ole Gladhaug, Chairman
sgd

Alain Tascan
sgd

Magnus Slåttekjær Grøneng
sgd

Fredrik Malmberg
sgd

Egil Kvannli
sgd

The Board of Managing Directors in Funcom N.V.

Rui Casais, Chairman
sgd

Christian Olsthoorn
sgd

Other information

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

Subject to the provisions of Article 33 of the Company's articles of association, any part of the profit for the year that is not retained by way of reserve is at the disposal of the shareholders in general meeting.

Proposed appropriation of the result for the year

The Supervisory Board proposes to allocate the result for the year to the other reserves.

Independent auditor's report

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

A. Report on the audit of the financial statements 2017

Our opinion

We have audited the financial statements 2017 of Funcom N.V., based in Badhoevedorp. The financial statements include the consolidated financial statements and the company financial statements.

WE HAVE AUDITED	OUR OPINION
The financial statements which comprise: 1. the consolidated and company statement of financial position as at 31 December 2017; 2. the following consolidated and company statements for 2017: the statements of comprehensive income, changes in equity and cash flows for the year then ended; and 3. the notes comprising a summary of the significant accounting policies and other explanatory information.	In our opinion the enclosed financial statements give a true and fair view of the financial position of Funcom N.V. at 31 December 2017 and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion

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

We are independent of Funcom N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

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

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at USD 340,000. The materiality has been calculated with reference to a benchmark of revenues (representing 1.5% of reporting revenues) which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of USD 17,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

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

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

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

To this extend we:

- performed the audit of 100% of the group revenue and 100% of the intangible assets using the materiality levels set out above;
- performed other audit procedures ourselves at group entities Funcom N.V., Funcom Inc. and Funcom Oslo AS;
- performed review procedures or specific audit procedures at other group entities.

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

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

Our key audit matters

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

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

VALUATION OF INTANGIBLE ASSETS	OUR AUDIT APPROACH
As at 31 December 2017 the book value of the intangibles amounted USD 10.2m relating to capitalized development costs of USD 9.9m and software of USD 0.3m (refer to note 11 of the Consolidated Financial Statements). Considering the significance of this account and the high degree of subjectivity involved in assessing the recoverable amount, we have identified the valuation of the intangible assets as a key audit matter.	We challenged the Board of Directors' assumptions used in the impairment model for capitalized development costs and other intangibles, described in note 11 of the consolidated financial statements, including cash flow projections, the discount rate, perpetuity growth rates and sensitivities used. We have determined whether the valuation methodology is aligned with IAS 38. We performed back-testing procedures to assess the appropriateness of the estimates of last year and we reviewed the expected future cash flows with projections, business plans and actuals realized in the period after balance sheet date, before completion of the audit. Furthermore, we tested the mathematical accuracy of the impairment model and assessed the adequacy of the related disclosures in the financial statements.

INITIAL RECOGNITION OF INTANGIBLE ASSETS	OUR AUDIT APPROACH
Over the year ended 31 December 2017, Funcom N.V. capitalized USD 5.6m of internally developed costs and 1.0m of Intellectual Property (refer to note 11 of the Consolidated Financial Statements). The Group has applied judgement in identifying whether incurred costs meet the criteria for capitalization under the requirements of IAS 36 and as a result, we have identified the initial recognition of intangibles as a key audit matter.	We reviewed the Group's capitalization policy to determine whether initial recognition is aligned with IAS 36. Our audit procedures included, amongst others, evaluating management's controls over capitalization of costs, evaluating the nature of development costs, assessing the reasonableness of the capitalization. We have checked the arithmetic accuracy of the capitalization schedule and considered the implications of identified errors and agreed a sample of capitalized costs to internal payroll records and external invoices.

RECOGNITION OF REVENUES	OUR AUDIT APPROACH
The following revenue streams are recognized in the consolidated financial statements of Funcom N.V.: - Sale of games and in-game items. - Sale of Funcom points. - Subscription for games. - Royalty income. - Rental income. The group's disclosures about revenue recognition are included in note 2.4 and 5 of the consolidated financial statements. Because a risk of fraud in revenue recognition is a presumed risk in our audit based on audit requirements, combined with the fact that revenue is the key business driver for this company, we consider revenue to be a key audit matter.	We reviewed the Group's revenue recognition policy to ensure revenue is recognised is in accordance with IAS 18. Given the complexity of this audit matter we increased the involvement of senior audit staff, with focus on procedures designed to assess whether revenues have been recognized in the correct accounting period and deferred revenues are accurate. We also verified the appropriateness of the disclosures including the segment analysis. Our audit procedures included, amongst others, evaluating controls relating to management's process for revenue recognition, including the timing of revenue recognition, the recognition on gross or net basis, calculation of deferred revenue and reconciliation of the recorded revenue in the operating system to the recognized revenue in the financial administration. We have checked the mathematical accuracy of the (deferred) revenue of each game and considered the implications of identified errors and changes in estimates. We performed testing on a sample of contracts, confirming that amounts recognized in revenue are consistent with the contract or external confirmations, invoices raised and cash received. We have reviewed the Group's explanatory note (2.2) on the impact of IFRS 15 adoption for the period beginning 1 January 2018 to determine this information is consistent to the Group's Revenue Recognition Policy and aligned with IFRS 15.

B. Report on other information included in the annual report

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

- the introductions to the company on page 3;
- the active game portfolio on page 5;
- the Dreamworld Technology on page 9;
- the Report of the Management Board on page 10;
- the Corporate Governance report on page 17;
- the responsibility statement on page 24;
- the corporate governance declaration on page 25;
- the Report of the Supervisory Board of Directors on page 26;
- the other information on page 99;
- the annexes on page 107.

Based on the procedures as mentioned below, we are of the opinion that the other information:

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

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

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

Management is responsible for the preparation of the management board report and the other information on page 98 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

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

No prohibited non-audit services

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

D. Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

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

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

exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

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

Amstelveen, 18 April 2018

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

sgd.
E.H.B. Schrijver RA

Annex I: Investor Relations Policy for Funcom N.V.

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

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

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

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

Spokespeople for the Company
The Management Board, the Chief Financial Officer and the Chief Operating Officer are the Company's spokespersons for contact with the financial markets.

Publication of price sensitive information
Funcom routinely and promptly publishes information in respect of material contracts and investment spending and any other material changes or events that might have an effect on the Company's share price once the decision in question has been taken at the appropriate level in the group and, where relevant, agreement has been reached with the appropriate third party. It is the Company's policy not to comment on rumours or speculation about such matters. The Netherlands is the home Member State of Funcom N.V., and Norway is the host state of Funcom N.V. In consequence, both the listing regulations from the Netherlands (https://www.afm.nl/en/professionals/) and from Norway (https://www.oslobors.no/ob_eng/Oslo-Boers/Regulations) are applicable to the listed securities of Funcom N.V.

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

Relationship with investment analysts, earnings forecasts and market expectations
Funcom routinely monitors the research reports and forecasts published about the Company. If Funcom becomes aware of a significant positive or negative discrepancy between the development of the Company's turnover or earnings and the level of expectations in the financial markets for the current financial year, as expressed by earnings forecasts, it will advise the market of the discrepancy by issuing a stock exchange announcement.

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

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

Silent Period

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

Closed periods

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

Annex II: Financial Calendar for Funcom 2018

Funcom N.V. will publish its financial statements on the following dates in 2018:

- January 30 - Extraordinary General Meeting
- February 27 - Q4 2017
- April 20 - 2017 Annual Report
- May 15 - Q1 2018
- June 1 - Ordinary General Meeting
- August 28 - Q2 2018
- November 5 - Q3 2018

The dates are subject to change.

Annex III: Contact details

Funcom N.V.
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1171LP The Netherlands

Funcom Oslo AS
Kirkegata 15
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10 Laboratory Drive, Bldg 2, Suite 105
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Funcom Games Beijing Ltd
No 1-22, F1 of Building 78, Str. Dongsihuanzhong, Chaoyang District
Beijing 100102
P. R. China