FUNCOM ANNUAL REPORT 2008

Contents

About Funcom

Funcom is an independent developer and publisher of quality online games for a world-wide audience of gamers. Funcom is considered to be a key contender in the western MMO (Massively Multiplayer Online Games) market and the company has numerous exciting projects in development. Today Funcom is Europe's largest developer of virtual worlds, and the company has a positive outlook for the future.

Funcom was founded in 1993 and the company has released more than twenty games to date. Funcom has been an independent developer since 1999. Through the years it has gathered great experience in developing and operating both single-player titles and Massively Multiplayer Online games. This experience is invaluable when providing the live services for *Anarchy Online* and *Age of Conan*, and the know how gained from those two projects is further leveraged into the development of the flagship MMO title *The Secret World*, as well as the new free-to-play MMO games.

2008 was an eventful year for Funcom, and never before has the Company been able to reach as many fans and gamers with its products. The core focus was naturally *Age of Conan: Hyborian Adventures*, which had an enormous interest up to the launch in May 2008. The anticipation for the title was so high that the game pre-sold more than any original PC game launch in history, and in the launch period the title was number one on the charts in more than 17 countries. As a result Funcom shipped 1,2 million copies of the game to retailers. In North America, the most prominent online gaming market in the west, *Age of Conan* became the third best-selling PC Game of 2008, only beaten by *World of Warcraft* and *Spore*.

While the launch of *Age of Conan* went smoothly, customer retention was lower than anticipated, leading to a decline in the number of subscribers. However, as anticipated the many updates to the game throughout 2008 have resulted in an improved experience for Conan players and a significant improvement in subscriber retention. As *Age of Conan* continues to receive more and more favorable feedback from players and in important new markets, Funcom are looking forward to the many updates and initiatives planned for 2009.

Anarchy Online also performed well in 2008, and it will celebrate its eight-year anniversary in June 2009. The number of subscribers remained at a satisfactory level and Funcom remains dedicated to its on-going development and support. A new Game Director was appointed for *Anarchy Online*, and his team spearheaded the development of the new booster Pack *Anarchy Online - Legacy of The Xan*, was launched February 1st in 2009.

By the end of 2008 some 300 employees worked full-time in Funcom, located in offices in Switzerland, Norway, USA and China. While some operations were scaled back after the Conan launch, most noticeably on Customer Service and Quality Assurance, many other teams saw a growth in staff most notably in China. Throughout the year Funcom continued its focus on improving all areas of the organization, as well as improving the processes involved in the development of complex game worlds. With funds and means to professionalize the organization Funcom was not only able to scale up for the launch of *Age of Conan*, but also to start development of two free-to-play MMOs as well as continue the development on *The Secret World* and *Anarchy Online*.

While extensive work was done on improving all internal processes, the external gaming market continued to grow, and the market projections for the next few years are positive. The MMO market also continued to grow, and especially the free-to-play MMO market has increased significantly over the last year. As a result of this continued growth Funcom started full development on two free-to-play MMO projects, whilst entering the research phase for a third.

With a smaller team size, a shorter development cycle and skilled people on the new teams, Funcom aims to also emerge as a leading independent developer of free-to-play MMO games. The genre will complement Funcom flagship titles such as *Age of Conan* and *The Secret World*, while strengthening the overall product portfolio. The genre also provides a potential entry point for future generations of MMO gamers and allows Funcom to pursue new revenue opportunities.

In the growing online gaming market Funcom remains one of the few MMO companies with the funds, staff, know-how, technology and strategy for becoming a leader in the years to come.

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

Letter from the CEO

2008 was a major break point in the history of Funcom. We launched the *Age of Conan* MMO (Massively Multiplayer Online Game) after several years of development, to great expectations and fanfare. The launch was surprisingly free of technical issues, and was definitely one of the smoothest launches among major MMO launches in the Western world. In the weeks following the launch, press and gamer feedback was enthusiastic and positive. And the game topped the sales charts in 17 markets across the world simultaneously. Now that 2008 has passed, and the year's sales summaries are arriving, we see that *Age of Conan* was the third best selling PC game in the Western world in 2008.

The launch and sales success of *Age of Conan* is something we at Funcom are very proud of. We have proven that we can compete, launch and sell games globally, in competition with the largest players in the world, and perform very well. This bodes very well for future launches of Funcom games.

Despite the launch success of *Age of Conan*, the game did not, however, develop as we had expected. Customer retention in the game turned out to be lower than expected leading to a decrease in customer numbers. Our analysis, and customer surveys, pointed to a lack of long-term affinity for the game. Players almost unanimously enjoyed the game for quite some time, but after having played the game for months, quite a few gamers didn't find the game compelling enough to keep playing. Our analysis pointed to the role-playing rule set and system of the game as a main issue in this respect – the system was not accessible enough for the players and didn't provide the players with enough freedom to specialize and optimize their game characters for the different tasks in the game. It is the key to get this right in MMOs, to keep the long-term interest of the gamers. It seemed that the creative decisions for the RPG system of *Age of Conan* to make the game very accessible to casual players by keeping systems forgiving and simple, had gone too far, and the simpler system took away parts of the fun for many of our players. In addition a few of the higher-level in-game systems turned out to be less polished and had more issues than known at launch.

The Company of course started working on the issues identified during the summer of 2008. During the summer and fall a significant amount of changes and improvements were done to the game experience and our players responded very well to these changes.

At the time of writing, the customer retention in *Age of Conan* has improved significantly. The subscriber levels have stabilized in early 2009, and the feedback from players is very positive, both to the general game play experience of the game and towards the launched and planned updates of the game. We are very satisfied that the hard work of the *Age of Conan* team during the fall of 2008 is being met with such positive feedback from our gamer community.

Funcom continues to invest in the *Age of Conan* game and currently has around 120 people working on the game, excluding customer service. The next 6-9 months will show whether we again can enter a growth phase with the game. Key to achieving this will be our trial marketing efforts that will start shortly. With the expected future improvements in customer retention for *Age of Conan*, the subscriber base may be increased if the Company is able to get a very wide distribution of the trials of *Age of Conan* and get a good conversion from trials to paying customers.

In parallel to the continued focus on *Age of Conan*, Funcom has progressed significantly with the development of its other games. Funcom's next large scale MMO, *The Secret World*, is progressing well, and we look forward to starting PR and community activities for this game during 2009. At present Funcom has around 80 people working on the development of *The Secret World*. Funcom's two free-to-play initiatives are also developing nicely. These are smaller, more focused MMOs that will rely on a pure digital distribution model. Each of these two MMOs currently has a staffing of around 15 people. In addition, *Anarchy Online* is still maintaining an active and devoted player base, eagerly playing the game's fifth booster/expansion pack that was released in February 2009. The game will soon celebrate its 8th anniversary – a true testimony to the longevity of MMOs.

2008 also saw Funcom develop significantly in terms of organization, technology and processes. Funcom today has a pool of talented team members that is uniquely experienced in the MMO segment. And the Company keeps improving its development processes through the active participation of our team members. In 2008, Funcom introduced agile development processes in most teams, with higher development transparency, involvement and predictability as a result. Funcom also established a Tech department for the continued development of our DreamWorld MMO Engine. This engine will be powering our future large scale MMOs. The DreamWorld engine is already one of the most advanced MMO engines in the world, as demonstrated in the numerous outstanding features in *Age of Conan*, and continued investments in the game engine should enable the Company to maintain its competitive edge and advantage for future games.

Funcom has an exciting year ahead. As we start revealing information about our next major MMO, *The Secret World*, we anticipate significant enthusiasm among gamers and we look forward to establishing the community for this game and start exchanging information and receiving feedback from our future players. In addition, we are eager to see how our *Age of Conan* players will respond to the future game updates we are working on and we hope our planned PR, community, marketing and sales activities will attract many new players to the game. As we start Beta-testing our new free-to-play MMOs, we also take an important step into a new market for Funcom, and we eagerly await the response to these initiatives from testers and players. 2009 is definitely set to be an exciting year and we here at Funcom will definitely do our utmost to also make it a successful year.

Best regards

Trond Arne Aas
Chief Executive Officer,
Funcom NV.

AGE OF CONAN: HYBORIAN ADVENTURES

Launching in May last year, *Age of Conan* quickly became a smash hit in retail, shipping over 1,2 million copies around the world, and pre-selling more than any other original PC game in history. In North America, the most prominent online gaming market in the west, Age of Conan became the third best-selling PC Game of 2008, only beaten by *World of Warcraft* and *Spore*.

In the weeks after launch *Age of Conan* simultaneously topped the charts in 17 countries, even on some all-format lists. This showed the huge craving in the market for brutal barbarian MMO fun, further highlighted by the fact that 15 million unique visitors came to the *Age of Conan* website during 2008. This shows Funcom's ability to market and deliver games with great appeal, and the many insights gained from the project are already being implemented into all upcoming games.

After a disappointing autumn, where subscriber levels declined, the game's community is today very strong and positive, and the subscriber levels have stabilized.

A great deal of care and attention was taken to listen to customer feedback and the production team has successfully focused on the areas highlighted through that feedback. With a host of new content additions and improvements added since launch, the team continues to concentrate on improving the customer experience.

By continuing to focus on the core tenants of the games original vision – creating the most detailed and visceral persistent world yet released and bringing the harsh and brutal nature of the license to the fore with a the unique and engaging combat system – the design team is expanding upon the game's content and have already released several large, well received, content additions that have earned praise from customers and the press alike.

With a strong focus on the community elements of the online experience over the coming year the team also hopes to improve the customer retention. This will mainly be achieved through better engagement with the game community and improvements to the community tools and systems within the game to encourage and develop the community and social networking aspects of MMO game-play.

2009 will also see continued work on the improvements to the games RPG system to further build and diversify the character progression paths for players as well as focusing on expanding the Player versus Player (PVP) systems and features within the game.

The game has launched in exciting new markets such as Russia and Poland, and a Korean version is also in development. In addition, Funcom will start full digital distribution of the title, allowing MMO players who have not tried *Age of Conan* to get a free trial of the game.

With an upcoming expansion pack, numerous marketing initiatives, and a much better player experience, Funcom has positive outlooks for *Age of Conan*'s future, and the company will work to make the game a leading MMO title for many years to come.

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

THE SECRET WORLD

Dark Days Are Coming...

An ancient evil stirs. Deadly creatures from myth and legend are crawling out of the hidden places. The Earth is in mortal peril. *The secret world* is about to open up.

The fate of the world hangs in the balance. Regular people have been chosen to take up arms in the coming battle between the forces of light and the forces of darkness. Future warriors and champions of Gaia granted superhuman powers, their occult training is about to begin.

The *Secret World* is a contemporary MMO for Windows and Xbox 360 that mixes action, adventure and role-playing in a fresh and exciting multiplayer setting - the modern day real world.

Players team up to explore legendary locations, battle terrifying monsters, take on missions and solve mysteries, learn the truth behind ancient myths and forgotten history, develop and evolve their characters, socialize with players from around the world, and play through a deep and engaging storyline from the creators of *The Longest Journey, Dreamfall* and *Anarchy Online.*

The Secret World is Funcom's third generation MMO, and is built using the proprietary DreamWorld Engine and expertise gained through more than a decade of developing award winning massively multiplayer and single-player games. More than eighty developers in Oslo and Beijing are working on both game features and content, including the core role-playing system and combat, character creation, and a selection of locations and missions.

PR and community building on this Funcom created brand will commence during spring 2009 - using both traditional channels as well as viral marketing and Alternate Reality Gaming - revealing more aspects of *The Secret World* to an expectant audience of MMO and action-adventure gamers.


THE MAGICIAN'S KNOB

ANARCHY ONLINE

Closing in on celebrating eight years online, *Anarchy Online* has continued to cement its reputation as one of the most compelling and immersive MMO experiences available.

With a consistent and dedicated following *Anarchy Online* has continued to perform nicely in 2008. New content and production updates have continued to build on the strengths of the product for both subscribers and free players alike. With the free-to-play model continuing to add hundreds of new arrivals to the world of Rubi-Ka each and every day, the game's thriving community continues to be one of the most dynamic and engaging communities in the MMO segment. The games' unique and deep game-play mechanics have allowed the Company to keep building new elements that work towards retaining the subscriber base while strengthening it with the continued influx of free players, and their conversion into paying customers.

Funcom's successful partnership with Massive Incorporated continues to monetize the free-to-play customer base through in-game advertising. In addition the expansion of the 'paid points' system (the payment mechanism introduced in 2007 that allows users to purchase special credits that can be used through the Company's billing system or in the game itself, to purchase special individual social items) has allowed the Company to offer more options and items for players to purchase including exclusive limited availability seasonal items that provide incentives for ongoing participation in the system.

With the upcoming addition of new paid content boosters, special game updates that introduce new areas of the game world for a small additional fee, the team has been working on both free and paid content throughout 2008 that continues to supply the player base with hours and hours of new gameplay experiences and content. This will continue to be a focus through 2009.

This new content combined with the now developed and established revenue streams mentioned above means that *Anarchy Online* remains on a firm footing moving into the future, and continues to provide the Company with opportunities to gain important experience for future titles. Funcom's dedicated and talented team has continued to be developed and used to educate and build fresh new talent for the Company to ensure that *Anarchy Online* remains the most compelling science fiction MMO on the market.

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

FREE TO PLAY GAMES

Funcom moves into free-to-play gaming space with three free-to-play MMO projects.

Over the last few years casual and free-to-play gaming has grown immensely in size, and the genre has significantly expanded the market-size for online gaming. These games are generally made with smaller teams, focusing on a younger audience and the business models are based around free gameplay and the sale of virtual items or premium subscriptions. With its appeal to wider demographics, the casual and free-to-play online genre is set to continue its growth. In 2008 Funcom started full development on two free-to-play projects, while a third one is in a research phase.

All the new free-to-play games will utilize Funcom's established, and proven, online infrastructure, giving Funcom an advantage towards new entries to the market. All of the upcoming games are also played in internet browsers, meaning small install, easy entry, and access to both Mac and PC users.

With a smaller team size, a shorter development cycle and skilled people on the new teams, Funcom aims to also emerge as a leading independent developer of free-to-play MMO games. The genre will complement Funcom flagship titles such as *Age of Conan* and *The Secret World*, while strengthening the overall product portfolio. The genre also provides a potential entry point for future generations of MMO gamers, allowing Funcom to pursue new and exciting revenue opportunities.

THE DREAMWORLD TECHNOLOGY

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

A key part of the Funcom strategy has been to develop a proprietary MMO engine. The DreamWorld engine eases the development and deployment process for future online games. This will enable the Company to rapidly develop prototypes and early versions of new games with limited staff, to test new game concepts' feasibility before committing large resources to the projects. Having a proprietary technology base also enables the company to specialize and develop unique features for its games.

Key components of the DreamWorld Engine include the flexible and powerful world-creation software, Genesis, the scripting software, SCRY, the animation and combat systems, tools, and the powerful graphics module. The DreamWorld technology has for *Age of Conan* been a key enabler in creating what is generally considered the most advanced MMO in operation in the world at the moment. And Funcom continues its strong development focus on the DreamWorld Engine and currently has around 30 programmers working with the technology.

Report of the Management Board

FUNCOM'S BUSINESS ACTIVITIES

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

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

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

REVIEW OF FUNCOM'S FINANCIAL POSITION AND FINANCIAL RESULTS FOR 2008

Funcom's revenue for 2008 was TUSD 39.925 compared to TUSD 4.621 in 2007, when adjusted for the revenues related to Plutolife, the mobile subsidiary that was sold in 2008. The corresponding operating result for 2008 was TUSD -26.707 compared to TUSD - 6.728 in 2007. Fully diluted earnings per share were USD -0,64 compared to USD 0.04 in 2007. Funcom's equity stood at TUSD 58.353 at year-end 2008, compared to TUSD 92.147 at year-end 2007. The group had cash at the end of 2008 of TUSD 39.396 compared to TUSD 52.366 at the end of 2007.

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

MAIN DEVELOPMENTS

The much anticipated *Age of Conan* game was launched in May 2008 in Europe and the US, and the game got a very strong reception in the market place, where it topped the sales charts in all major markets and received strong reviews. *Age of Conan* was the third best-selling PC game in 2008 in the US market, after *World of Warcraft* and *Spore*, and the game achieved similar levels of success in other key markets. Shorter average subscription periods than anticipated led to a decline in the number of subscribers following the launch of *Age of Conan*. As a result of the considerable improvements done to the game during 2008, the subscriber levels have been relatively stable in 2009. *The Secret World*, Funcom's second full fledge MMO in development progressed well and has several playable playfields in place. Funcom has also three free-to-play MMOs in development in 2008. Two of these are in its production phase.

In 2008 Funcom N.V. sold its interest in Plutolife, thereby concluding its involvement in the mobile gaming and community sector.

MARKET DEVELOPMENT

In 2008, the Massively Multiplayer Online (MMO) gaming market continued to grow, driven amongst other by the game *World of Warcraft* (Blizzard / Vivendi) which now has over 11 million subscribers world wide. The success of this game has demonstrated the increasing size of the market, and particularly the competitiveness of MMO games compared to traditional single-player computer- & console games. *The World of Warcraft* expansion pack, *Wrath of the Lich King*, was launched during December 2008 and broke all historical records for PC games. The number of companies with the critical mass and the skills required to be able to compete within the MMO segment remains limited, and there are still few large-scale games being launched each year.

This is due to the extensive experience and long time required to develop a new MMO game. In 2008, *Warhammer Online* was launched by Mythic, a subsidiary of Electronic Arts. The game experienced difficulties after an initial sales success, and reported only 300.000 customers some three months after its launch, significantly lower than *Age of Conan* at the same time in the game's development.

PRODUCT & TECHNOLOGY DEVELOPMENT

During the year, Funcom made significant progress with its titles *Age of Conan* and *The Secret World* in addition to its free-to-play MMO initiatives. The launch of *Age of Conan* has given proof that Funcom has the competency and capacity to launch complex, large scale MMOs to a world market. In addition, Funcom has maintained a relatively stable player base on its existing MMO *Anarchy Online*.

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

FUTURE OUTLOOK

Funcom has during the past few years restructured the company and built a new platform for future growth and profitability. The Board expects, however, a reduction in revenues in 2009 compared to 2008 when the *Age of Conan* game was launched. The largest short term potential for the Company is the continued development and improvement of the *Age of Conan* game, which if positive will have its main financial impact from the second half of 2009 and onwards.

INTERNAL & EXTERNAL ENVIRONMENT

As of 31 December 2008, the group employed 302 employees excluding Customer Service personnel. Funcom recognizes that its key assets are its employees and is committed to maintain a stimulating working environment that offers the opportunity for both personal- and professional development. This is also necessary to continue to attract and retain highly qualified employees within the gaming industry.

Sick leave in the group is stable and amounts to less than 4%. No serious work-related incidents or accidents have occurred or have been reported during the year. The working environment is good, and the company does not carry out activities that significantly pollute the environment. The Group welcomes applications for employment from all sectors of the community and strives to promote equality of opportunity in employment for all.

SHAREHOLDERS AND CAPITAL

The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will ensure that information is communicated to the market equally and that the information provides an accurate view of the status of the company in material respects on an ongoing basis. The company has one class of shares and each share has one vote at General Meetings. At the end of 2008, Funcom had a share capital of TUSD 2.719 consisting of 52.832 125 shares with a nominal value of EUR 0.04 per share. In addition, there are outstanding option programs of 1 716 568 options for employees and bord members.

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 in the governance area. The Supervisory Board plays an independent role in relation to the Management Board. All shares have equal rights and shareholders have equal access to all material information published by Funcom via the Oslo Stock Exchange and the company's website www.funcom.com, including financial reports, presentations, share information and presentation of the Supervisory Board.

In terms of internal risk management and control systems, the company has made enhancements during 2008. In 2008 Funcom proceeded with a risk analysis and discussed it with the Supervisory Board.

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

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

DIVIDENDS

Funcom is investing its capital in the development of existing as well as future games and also values the flexibility to be able to pursue strategic opportunities if they should arise. The Company will therefore retain its surplus cash in the Company.

APPLICATION OF PROFIT/LOSS

The Management Board does not propose payment of a dividend. Total Equity after the results for 2008 is TUSD 58 353.

EVENTS AFTER BALANCE SHEET DATE

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

MANAGEMENT STATEMENT

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

Thalwil, 13 March 2009

Trond Arne Aas

Pieter van Tol

Report of the Supervisory Board of Directors

ANNUAL REPORT

We hereby present you with the Annual Report for 2008, including the annual financial statements as were drawn up by the Management Board. The annual financial statements have been examined by the external auditors Mazars Paardekooper Hoffman Accountants NV who have issued an unqualified audit opinion which is shown in this Annual Report. We have discussed the Annual Report with the Management Board in the presence of the auditors.

We submit the financial statements to the Annual General Meeting of Shareholders, and propose that the shareholders adopt them and discharge the Management Board from all liability in respect of its managerial activities and the Supervisory Board from all liability in respect of its supervision of the Managing Board. The profit appropriation as approved by the Supervisory Board is presented on page 83 of this report.

RESULTS AND STRATEGIC POSITION

Funcom's revenue for 2008 was TUSD 39.925 compared to TUSD 4.621 in 2007, when adjusted for the revenues related to Plutolife, the mobile subsidiary that was sold in 2008. The corresponding operating result for 2008 was TUSD -26.707 compared to TUSD - 6.728 in 2007. Fully diluted earnings per share were USD -0,64 compared to USD 0.04 in 2007. Funcom's equity stood at TUSD 58.353 at year-end 2008, compared to TUSD 92.147 at year-end 2007. The group had cash at the end of 2008 of TUSD 39.396 compared to TUSD 52.366 at the end of 2007.

In 2008, the Company launched its new title, *Age of Conan* in Europe and in the US without major technical launch issues. The game received generally strong review scores and the community build-up was extraordinarily strong. The game sold-in (to retail and digitally) over 1.2 million copies in the launch period and quickly sold through over 800.000 copies (i.e. customers that since launch have bought a game client and entered their game client key and payment details into Funcom's billing database). After the very strong launch period, the average subscription period for *Age of Conan* became shorter than expected and this led to a reduction in subscriber levels. The Company proactively addressed the issues with subscription longevity in *Age of Conan*, and anticipates that this key value driver will continue to improve significantly in 2009.

Funcom's free-to-play game-initiatives progressed well in 2008. Both of the two free-to-play MMO games under development are expected to be beta-released during Q409. The games will be progressively opened to more players over time. The timing for this will depend on feedback during the beta-phase. A third free-to-play MMO is in its early concept phase.

The Secret World, Funcom's next full-fledged MMO is progressing well. The game's team size has increased to around 80 people at year end 2008. The *Secret World* will use the next version of the proprietary DreamWorld technology that was developed for *Age of Conan* as the core game engine which will reduce the technical risk of the project significantly.

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

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 man agement of a listed company.
- Knowledge of, experience in and affinity with the gaming industry.
- Knowledge of and experience with working in a international environment.
- The ability, also in terms of available time, to monitor and stimulate the general course of affairs within the company in a prompt and effective manner and to provide the CEO and the Management Board with advice relating to the formulation and execution of the company policy.
- No conflicts of interests at the time of appointment.

The Remuneration Committee has presented its annual remuneration report for 2008 to the rest of the Supervisory Board. The established remuneration policy has been followed during the year. There are no planned changes to the remuneration policy. The total remuneration of the Management Board consists of the following elements:

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

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

The following professionals served on the Supervisory Board year-end, 2008:

Torleif Ahlsand, Chairman of the Supervisory Board
(born 1966, male, Norwegian, 2nd term, member since 2005) Mr. Ahlsand is a General Partner in Northzone Ventures that controls 5.449.175 shares in the Company, and is hence not viewed as independent. Torleif Ahlsand also controls 100,000 shares in Funcom shares through his company Brownske Bevegelser AS and holds 100.000 share options in the company. Prior to Northzone, Mr. Ahlsand was VP Corporate Finance in Handelsbanken Securities and a corporate development executive in Orkla ASA. Mr. Ahlsand also has a professional technical background as a research scientist at CERN outside Geneva and as a telecommunications engineer in NERA Telecom. Mr. Ahlsand holds a M.Sc. degree in Electrical Engineering and Computer Science from NTNU (1991) and an MBA with Honors from IMD in Switzerland (1997). Mr. Ahlsand lives in Oslo, Norway

Michel Cassius,
(born 1957, male, French, 1st term, member since 2006) Mr. Cassius is presently an independent consultant in the games industry. Prior to this he was the co-founder and Director of YoYo Games Ltd, a start up company who launched www.yoyogames.com in 2007, the largest user generated casual game site. Mr. Cassius has also served as the European managing Director of Fun Technologies and as the Senior Director of Platform and Marketing for Microsoft's Xbox business in EMEA. He spent seven years at Electronic Arts, where he led EA.com, Electronic Art's online gaming business in Europe where he launched Ultima Online, one of the first MMO's in Europe. Mr. Cassius holds 83.334 share options in the Company.

Hans Peter Jebsen,
(born 1957, male, Norwegian, 2nd term, member since 2005) Mr. Jebsen has several years experience from the shipping industry in the US, South East Asia and Europe. He holds a number of board positions in shipping companies. Mr. Jebsen lives in Oslo, Norway and is not viewed as independent as he and his affiliates hold 12.058.075 shares in the Company through Stelt Holding N.V. and Tom Dahl AS. Mr. Jebsen holds 50.000 share options in the company.

Frank Sagnier,
(born 1962, male, French, 1st term, member since 2008) Mr. Sagnier is presently an independent consultant in the games industry. He recently worked for Double Fusion as European Managing Director until September 2008 and remains involved as a Board Adviser. He spent the previous 8 years as Vice-President for Electronic Arts Europe in different roles such as Marketing, Third Party Publishing and Online Publishing. Mr. Sagnier holds 50.000 share options in the company.

Claus Højbjerg Andersen,
(born 1965, male, Danish, 2nd term, member since 2005) Mr. Højbjerg Andersen is a General Partner in Nordic Venture Partners that holds 5.208.325 shares. Mr. Højbjerg Andersen holds 50.000 share options in the Company. He has been with Nordic Venture Partners since the start in early 2000 and has over the years focused mostly on enterprise software and internet related investments. Prior to joining Nordic Ventures Partners he had an international career in the financial industry in the areas of asset management, research and sale through working for Danske Capital (Copenhagen), Nordea (Luxembourg) and Enskilda Securities (London). Mr. Højbjerg Andersen holds a B.Comm. degree in Credit and Finance from Copenhagen Business School. Mr. Højbjerg Andersen lives in Copenhagen, Denmark.

Thalwil, 13 March 2009
The Supervisory Board of Directors in Funcom N.V.

Torleif Ahlsand,
Chairman

Michel Cassius,
Vice-Chairman

Frank Sagnier

Claus Højbjerg Andersen

Hans Peter Jebsen

The Supervisory Board has appointed a Remunerations Committee and an Audit Committee. The Remuneration Committee consists of Mr. Jebsen (chairman) and Mr. Ahlsand (member) and has conducted 2 meetings during 2008 with remuneration of the Management Board and the allocation of the Options Programme as the main agenda points. The Audit Committee consists at year end 2008 of Mr. Højbjerg Andersen (chairman) and Mr. Cassius (member). The committee has conducted 5 meetings during 2008 with accounting policies, risk management and control as well as approval of financials as the main agenda points.

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

CORPORATE GOVERNANCE IN FUNCOM N.V.:

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

Funcom's key principles of corporate governance have been based upon the Dutch Corporate Governance Code and the Norwegian Code of Practice for Corporate Governance. The Oslo Stock Exchange requires listed companies to publish an annual statement listing all corporate governance recommendations and presenting compliance with the recommendations or explaining why the Company has chosen an alternative approach to the specific recommendation.

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

OVERVIEW AND OUTLINE OF FUNCOM'S CORPORATE GOVERNANCE:

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

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

The Supervisory Board oversees the efficient operation of the Company and reports to the shareholders. The Board appoints the Chairman and members of the Management Board and supervises executive management.

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

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

Owners	Board	Management
Shareholders		
General Meeting	Supervisory board	Chief Executive Officer
	Remuneration Committee	Executive Team
	Audit Committee	
	Management Board	
The General meeting elects 5-7 shareholders' representatives to the Supervisory Board.	Ultimate responsibility for the strategy and management of the Company. Advice regarding the oversight of management.	Executive management.

- The Audit Committee and the Remuneration Committee are selected by the Supervisory 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 a separate policy for corporate governance, and the Board has decided to follow both the Norwegian Code of Practice for Corporate Governance dated 4. December 2007 and the Dutch Corporate Governance Code.

The Company has drawn up its own Corporate Code of Ethics and Value Platform. Compliance with and the follow up of the Code of Ethics have been subject to internal processes.

Departures from the recommendation: None

2. BUSINESS

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

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

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

Departures from the recommendation: None

3. EQUITY AND DIVIDENDS

Equity

At 31 December 2008, consolidated equity came to TUSD 58,353, accounting for 79.07 per cent of total assets. This is considered satisfactory. Funcom will maintain an equity ratio appropriate to its long-term growth targets.

Dividend policy

The Annual General Meeting (AGM) stipulates the annual dividend, based on the Board's recommendation. In view of the Company's planned expansion of its business, the Company is not planning to pay dividends in the medium term future. This policy will be regularly evaluated as appropriate according to the development of the Company. The dividend policy is disclosed in the Report from the Management Board in the 2008 Annual Report.

The extraordinary General Meeting of Funcom granted in December 2008 a mandate for the Company to buy back up to 10% of the outstanding shares in the company.

Departures from the recommendation:
Mandates granted to the Supervisory Board to increase the Company's share capital have not been limited in time to the next AGM. Funcom will implement this from the AGM of 2009.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES OR RELATED PARTIES

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 2008, there were no transactions between the Company and its shareholders, Supervisory Board Members, Management Board Members, executives, or those close to them, which might be described as significant transactions, except the ones described in Note 25 in the Notes to the Consolidated Financial Statements. Pieter van Tol has an ownership stake in Weidema van Tol, a Company used by Funcom for legal counsel and tax advice. The Supervisory Board will pay particular attention to obtaining independent valuations for any material transactions between the Company and its close associates.

The Company has implemented guidelines to ensure that members of the Supervisory Board and the Management Board notify the Supervisory Board if they have any material direct or indirect interest in any transaction entered into by the company. These guidelines can be found in the Supervisory Board Regulations Article 4.1, and the Management Board Regulations, Article 4.2 and 4.3. The Supervisory Board Regulations can be found at www.funcom.com

Departures from the recommendation: None

5. FREELY NEGOTIABLE

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

Departures from the recommendation: None

6. GENERAL MEETINGS

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

Notification

An AGM is held before 30 June each year. The 2009 AGM is scheduled for May 21. Notification will be distributed three weeks in advance, and posted on the Company website. The Financial Calendar is published on the Company website and in the Group's Annual Report.

Participation

It is possible to register by post, telefax or e-mail. The Supervisory Board tries to pave the way for as many shareholders as possible to participate. Shareholders who are unable to attend are encouraged to assign their proxy, and it is possible to sign proxies for each individual item on the agenda. Representatives of the Board and the auditor will attend the AGM. Management is represented by minimum one member of the Management Board. In 2008, the AGM was held on May 21, and a total of 61,82 per cent of the aggregate share capital was represented. An EGM was also held on 19 December where a total of 55,91 per cent of the aggregate share capital was represented.

Agenda and execution

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

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

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

7. NOMINATING COMMITTEE

Departures from the recommendation:

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

8. CORPORATE ASSEMBLY AND THE BOARD OF DIRECTORS - COMPOSITION AND INDEPENDENCE

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

The members of the Supervisory Board are: Torleif Ahlsand (Chairman), Michel Cassius (Vice-chairman), Hans Peter Jebsen, Claus Højbjerg Andersen and Frank Sagnier. The CEO is not a member of the Supervisory Board. In 2008 Pieter van Tol stepped down from the Supervisory Board in the AGM held May 21. In the EGM held in December Frank Sagnier joined the Supervisory Board.

The General Meeting elects the five to seven members of the Board. Decisions on the composition of the Board require a simple majority. Supervisory Board Members are elected for two-year terms and can be re-elected. It is essential that the Board as a whole is capable of dealing with Board work and the Company's main business activities. According to the Company's Articles of Association, there shall be at least five members of the Supervisory Board. All Supervisory Board members are independent of the Management Board and close business relations of the Company.

The members of the Management Board are: Trond Arne Aas (President and CEO) and Pieter van Tol (Managing Director). In 2008 Jan Inge Torgersen stepped down from the management Board in the AGM held December 19. At the same time Pieter van Tol was elected to the Management Board.

Board members are recommended to own shares in the Company.

Departures from the recommendation:

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

In the current composition of the Supervisory Board, two of the members do not meet the requirements to be defined as independent according to the article as they have relationships with Companies that own more than 10% of the shares respectively. The composition of the Supervisory Board will be reviewed again in 2009.

In Funcom's Management Board, Pieter van Tol has a business relationship with the Company.

9. THE WORK OF THE BOARD OF DIRECTORS

Board responsibilities

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

Financial reporting

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

Notification of meetings and discussion of items

The Board schedules regular meetings each year at the same time as they agree on the next year's financial calendar. Ordinarily, the Board meets 6-8 times a year, normally in Zurich. Additional meetings may be convened on an ad hoc basis. 11 Board meetings were held in 2008.

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

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

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

Legal competence

The Board is bound by the rules regarding disqualification as they appear in §6-27 of the Public Limited Companies Act. In 2008, there were no cases where a member of the Supervisory Board had to disqualify him- or herself from discussions.

Use of Board Committees

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

- The Audit Committee has responsibilities related to financial reporting, the independent auditor, internal audits and risk management. The Committee consists of two shareholder-elected Supervisory Board Members. The other Supervisory Board Members are entitled to attend if they so desire.
  Members: Claus Højbjerg Andersen (Chairman) and Michel Cassius. Pieter van Tol was a member until May 2008.
- The Remuneration Committee has responsibilities related to developing proposals for the applicable remuneration policy and execution of the Management Board and the Supervisory Board. Members: Hans Peter Jebsen (Chairman) and Torleif Ahlsand (Member).

The Board's self-evaluation

In 2008 the Chairman of the Board presented an evaluation of the Board's duties and working methods. The Board's working methods and interaction are discussed on an ongoing basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.

Departures from the recommendation: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Company's internal control and system for risk management has improved over the course of 2008. Funcom has corporate values and ethical guidelines. The Supervisory Board has been presented with an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

The Supervisory Board Report in the Annual report for 2008 provides an account of the main features of the Company's internal control and risk management systems.

Departures from the recommendation:
The company management has set up a system of internal controls which it considers to be effective and efficient for the size of the company. The system the company has set up is less detailed than probably imagined in the Dutch Corporate Governance Code and consequently management is not in a position to declare that the internal risk and control systems are adequate and effective as required by this Corporate Governance Code

11. REMUNERATION OF THE BOARD OF DIRECTORS

A General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Chairman of the Remuneration Committee. In 2008, total remuneration to the Supervisory Board came to EUR 55,000 The Chairman of the Supervisory Board's remuneration was EUR 25.000 and the other Supervisory Board members' remuneration was EUR 8.000 except Frank Sagnier's remuneration which was EUR 2.000 for serving on the Supervisory Board in the fourth quarter of 2008 and Pieter van Tol's remuneration which was EUR 4.000 for serving on the Supervisory Board in the first and second quarter. The fees for 2008 are outstanding by the end of the year.

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

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

12. REMUNERATION OF THE EXECUTIVE MANAGEMENT

Guidelines

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

The option program and the allocation of options to the Management Board are decided upon by the AGM. The structure of the incentive system for the other members of corporate executive management is determined by the Supervisory Board and presented to the AGM for information purposes. The terms are proposed by the CEO, and subject to the approval of the Chairman of the Supervisory Board. In total, the Company has 135 executives, managers and board members who are covered by the options program.

Departures from the recommendation: None

13. INFORMATION AND COMMUNICATIONS

The annual report and accounts - periodic reporting

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

Other market information

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

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

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

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

Departures from the recommendation: None

14. TAKE-OVERS

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

Departures from the recommendation: None.

15. AUDITOR

The auditor's relationship with the Board

An outline of the work planned by the auditor shall be put before the Board once a year.
The Chairman of the Audit Committee conducts a separate meeting with the auditor and management prior to the Board's discussion of the financial statements. The auditor is always present during the Board's discussions of the annual accounts. In that connection, the Board is briefed on the financial statements and items of special concern to the auditor, including any points of contention between the auditor and management. The Board arranges annual meetings with the auditor to review a report from the auditor that addresses the Company's accounting principles, risk areas and internal control routines. As from 2008, at least one meeting a year will be held between the auditor and the representatives from the Supervisory Board without the presence of the CEO or other executive managers.

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

The auditor's relationship to management

The Supervisory Board has discussed guidelines for the business relationship between the auditor and the Company. At regular intervals, the Supervisory Board evaluates whether the auditor exercises a satisfactory level of control.

Departures from the recommendation: None.

Statement of compliance with the Dutch Corporate Governance Code

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

- **Article II. 2.1 and 2.2.**
  The Recommendations regarding the options. Options for the Management Board are conditional on continued employment in Funcom. The options become unconditional earlier than the three year time-limit set out in the Dutch Corporate Governance Code. Funcom has a three year options program where one third of the options are vested each year in three years after grant date. The options are only vested if the Management Board Member is still employed in the company at the vesting time. The options for the Supervisory Board are conditional on the members serving on the Board and also become unconditional earlier than the three year time-limit set out in the Dutch Corporate Governance Code

- **Article II. 2.6. The**
  Recommendations regarding the Ownership of and Transactions in Securities by Executive Board members and Supervisory Board members ('the Regulations') concern the ownership of and transactions in securities in companies listed in the Netherlands, other than Funcom. Funcom does not apply the Code as the Company believes that applying these provisions would create a cumbersome administrative burden. Funcom Board members, in carrying out their tasks, do not generally receive price-sensitive information about other Dutch listed companies. Furthermore, as all Board members have the responsibility to behave ethically and to comply with applicable law and regulations, they will in any case be restricted from trading in shares in companies about which they possess price-sensitive information.

- **Article III.2:**
  In the current composition of the Supervisory Board, two of the members do not meet the requirements to be defined as independent. They have relationships with Companies that own more than 10% of the shares respectively. The composition of the Supervisory Board will be reviewed again in 2009.

- **Article III.3:**
  The Company has decided not to establish a Selection & Appointment Committee. The Supervisory Board has taken these tasks upon itself. The Company has adopted to implement an Audit Committee and a Remuneration Committee. The Company has furthermore not developed a retirement schedule and made it generally available, as this could be viewed as signals of major shifts in ownership for key shareholders in the Company.

- **Article III.7:**
  The Company has reserved the right to grant share options to members of the Supervisory Board. The Company views share options as an important tool for remuneration of board members, e.g., to enable a board composition which reflects the global nature of its business. In 2008, the EGM approved the allocation of options to all members of the Supervisory Board.

- **Article III.8:**
  The Management Board currently has two members and both members have executive responsibilities in the Company.

- **Article V.3:**
  The Company has not assigned a specific internal auditor. The Management Board will review whether an internal auditor will be engaged going forward.

Funcom N.V.
Consolidated Income Statement

for the year ended December 31, 2008

In thousands of US dollars	Note	2008	2007*	2006*
Revenue	3,4	39,925	4,621	8,492
Cost of sales				-42
Personnel expenses	5,16	-14,491	-5,045	-3,478
General and administrative expenses	6,21	-13,676	-3,686	-2,927
Depreciation, amortization and impairment losses	10,11	-29,436	-1,233	-4,059
Other operating expenses	7	-9,030	-1,385	-796
Operating expenses		-66,632	-11,349	-11,303
Operating result		-26,707	-6,728	-2,811
Finance income	8	2,373	8,196	4,173
Finance expenses	8	-5,633	-469	-351
Result before income tax		-29,967	999	1,011
Income tax (expense) / income	9	-4,152	1,681	2,505
Profit from continuing operations		-34,119	2,680	3,516
Profit (loss) from discontinued operation net of tax		264	-516	-280
Profit for the period		-33,855	2,164	3,236
Attributable to:				
Equity holders of Funcom N.V.		-33,798	2,318	3,347
Minority interest		-57	-154	-111
Result for the period		-33,855	2,164	3,236
Basic earnings per share (US dollars)	22	-0.64	0.05	0.07
Diluted earnings per share (US dollars)	22	-0.64	0.04	0.07
Continuing operations				
Basic earnings per share (US dollars)	22	-0.65	0.05	0.07
Diluted earnings per share (US dollars)	22	-0.65	0.05	0.07

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

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

Funcom N.V.
Consolidated Balance Sheet

As at December 31, 2008

In thousands of US dollars	Note	2008	2007
ASSETS			
NON-CURRENT ASSETS			
Deferred tax asset	9	300	4,509
Intangible assets	10	27,123	35,697
Equipment	11	2,222	4,166
Long term receivable	24	372	469
Total non-current assets		30,018	44,841
CURRENT ASSETS			
Trade receivables	12,24	3,028	977
Prepayments and other receivables	13	1,404	2,067
Cash and cash equivalents	14	39,396	52,366
Total current assets		43,827	55,410
Total assets		73,845	100,251

Funcom N.V.
Consolidated Balance Sheet

As at December 31, 2008

In thousands of US dollars	Note	2008	2007
EQUITY AND LIABILITIES			
Share capital		2,719	2,715
Share premium		122,620	121,669
Translation reserves		-235	682
Retained earnings		-66,751	-32,981
Equity attributable to equity holders of Funcom		58,353	92,085
Minority interest			62
Total equity	15	58,353	92,147
NON-CURRENT LIABILITIES			
Loans and borrowings	24	1,037	1,618
Deferred tax liabilities	9	50	
Total non-current liablities		1,087	1,618
CURRENT LIABILITIES			
Trade payables	24	338	1,048
Deferred income	18	1,854	506
Income tax liability	9	272	68
Provisions	17	5,480	715
Other short term liabilities	19	6,460	4,149
Total current liabilities		14,404	6,486
Total liabilities		15,492	8,104
Total equity and liabilities		73,845	100,251

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, 2008

In thousands of US dollars	Note	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		-29,968	163
Adjustments for:			
Depreciation, amortization and impairment losses	10.11	29,436	1,635
Share-based payments	15,16	661	445
Finance income/expense		-1,601	-744
Effect of exchange rate fluctuations		3,717	-6,259
Result discontinued operations	20	-242	
Change in trade and other receivables		-1,341	-71
Change in trade payables		-469	591
Change in other current assets and liabilities		7,765	210
Cash generated from operations		7,957	-4,030
Interest received		1,945	1,518
Interest paid		-344	-77
Income and net asset taxes		-5	2
Net cash from operating activities		9,553	-2,587
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	11	-1,116	-1,174
Investment in intangible assets	10	-14,569	-16,253
Change in long term receivables			-442
Purchase of shares in subsidiary			-186
Disposal of discontinued operations	20	1,329	
Net cash used in investing activities		-14,356	-18,055
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of share capital	15	40	29,372
Proceeds from borrowings			156
Payment of finance lease liabilities		-3,680	-291
Net cash from financing activities		-3,640	29,237
Net increase in cash and cash equivalents		-8,443	8,596
Effect of exchange rate fluctuations		-4,527	6,347
Cash and cash equivalents at beginning of period	14,24	52,366	37,423
Cash and cash equivalents at end of period	14,24	39,396	52,366

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

Funcom N.V.
Consolidated Statement of Recognized Income and Expense

for the year ended December 31, 2008

In thousands of US dollars	Note	2008	2007
Foreign exchange translation difference		-925	668
Net income recognized directly in equity		-925	668
Result for the period		-33,856	2,164
Total recognized income and expense for the period	15	-34,781	2,832
Attributable to:			
Equity holders of Funcom N.V.		-34,724	2,947
Minority interest		-57	-115
Total recognized income and expense for the period		-34,781	2,832

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

Funcom N.V.
Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Funcom N.V. (or the "Company") is a limited company registered in The Netherlands. The Company is incorporated in Katwijk, The Netherlands. The Group's head office is in Zürcherstrasse 59, 8800 Thalwil, Switzerland. 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, 2008, comprise the Company and its subsidiaries (together referred to as the "Group").

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

The consolidated financial statements were authorized for issue by the Supervisory Board on March 13, 2009.

All amounts are in USD'000 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

Statement of compliance

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

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 the historical cost basis unless otherwise stated in these accounting policies.

Estimates and judgments

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

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

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

Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The Group adopted IFRS 7 as of January 1, 2007.

Adoption of new and revised standards

No new IFRSs issued are effective for the financial year ended 31 December 2008. Certain interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. The adoption of these interpretations has not led to changes in the Group's accounting policies. The Group has not adopted any standards or interpretations in advance of their effective dates.

Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRIC 11	Group and Treasury Share Transactions	November 2006	1 March 2007
IFRIC 12*	Service Concession Arrangements	November 2006	1 January 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum funding Requirements and their Interaction	July 2007	1 January 2008

At the date of authorization 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 2008:

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 8	Operating Segments	November 2006	1 January 2009
IAS 23 amendment	Borrowing Costs	March 2007	1 January 2009
IAS 1 amendment	Presentation of Financial Statements	September 2007	1 January 2009
IAS 1 amendment	Presentation of Financial Statements	September 2007	1 January 2009
IFRS 2 amendment	Share-based payment: Vesting Conditions and Cancellations	January 2008	1 January 2009
IAS 32 and IAS 1 amendment	Puttable Financial Instruments and Obligations Arising on Liquidation	February 2008	1 January 2009
IFRS 1 and IAS 27 amendment	Cost of an Investment in a Subsidiary: Jointly-controlled Entity or Associate	May 2008	1 January 2009
IFRS 1 revised*	First Time Adoption of IFRSs	November 2008	1 January 2009
IAS 39 amendment*	Financial Instruments: Recognition and Measurement: Eligible Hedged items	July 2008	1 July 2009
IAS 39 and IFRS 7 amendment	Reclassification of Financial Assets	October 2008	1 July 2008
IAS 39 amendment*	Reclassification of Financial Assets: Effective Date and Transition	November 2008	1 July 2008
IFRS 3 revised*	Business Combination	January 2008	1 July 2009
IAS 27 amendment*	Consolidated and Separate Financial Statements	January 2008	1 July 2009
Various	Improvements to IFRSs	May 2008	1 January 2009
IFRIC 13	Customer Loyalty Programmes	June 2007	1 July 2008
IFRIC 15*	Agreements for the Construction of Real Estate	July 2008	1 January 2009
IFRIC 16*	Hedges of a Net Investment in a Foreign Operation	July 2008	1 October 2008
IFRIC 17*	Distributions of Non-Cash Assets to Owners	November 2008	1 July 2009
IFRIC 18*	Transfers of Assets from Customers	January 2009	1 July 2009

*As at the date of the issue of the financial statements, these standards and interpretations listed above were not endorsed by the EU

The impact of all these standards and interpretations has not yet been systematically analyzed, but none of these standards and interpretations are expected to have a significant impact on the consolidated financial statements.

2.2 Basis of consolidation

Subsidiaries

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

The purchase method is applied when accounting for business combinations.

Inter-company transactions

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

2.3 Foreign currency

Foreign currency transactions

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

Foreign operations

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

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

2.4 Income recognition

Revenue from operations

Online subscription income, royalty income, and advertising income are currently the Group's significant sources of revenue.

Revenue is recognized when it is probable that the economic benefits of a transaction will flow to the entity, the revenue can be measured reliably and the 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, discounts, and returns.

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

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

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

Revenues from license and royalty agreements with a minimum non-refundable guaranteed advance is recognized at the delivery of the product. Per copy royalties on sales that exceed the guaranteed minimum amount 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.

Revenue from Mobile phone services is recognized upon usage of the service.

Government grants

Subsidies from the authorities are not recognized until there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Subsidies that compensate the Group for the costs of an asset are recognized as a deduction from the asset that the subsidy is meant to cover, and are recognized in the income statement over the life of the amortizable asset by way of a reduced amortization charge. Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are recognized.

Finance income

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

2.5 Expenses

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

Finance expenses

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

2.6 Income tax

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

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

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

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

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

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

Deferred tax assets and liabilities are recognized at their nominal value and classified as non-current assets and liabilities in the balance sheet.

2.7 Intangible assets

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

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

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

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

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

Research and development
Costs relating to research are recognized in the income statement when incurred.

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

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

When all the above criteria are met, the costs relating to development start to be capitalized. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.
Development costs are amortized from the date that they are available for use and according to the expected economic benefits, normally 5 years.

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

Technology
Technology is stated at cost less accumulated amortization and impairment losses. Amortization is recognized in the income statement on a straight-line basis over the estimated useful lives, normally 5 years.

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

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

2.8 Equipment

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

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

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

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

Depreciation
Depreciation is charged to the income statement using the straight-line method over estimated useful lives of the item of equipment. Estimated useful lives are as follows:

Computers	3 years
Office equipment	5 years

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

Financial leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Financial lease payments are recognized in the balance sheet as reduced liability and in the profit and loss as interest expense on the related liability. Capitalized tangible fixed assets relating to the lease are depreciated over the profit and loss account.

2.9 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter the assets or disposal group are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are included in the income statement. Gains are not recognized in excess of the cumulative impairment loss.

2.10 Financial instruments

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

All financial assets in the balance sheet are classified as loans and receivables (at amortized cost). All financial liabilities are classified as amortized cost liabilities.

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.

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 reorganisation, 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 income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited the income statement.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Non-financial assets

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

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

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

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

2.14 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.

Repurchase of share capital (treasury shares)

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

Dividends

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

2.15 Employee benefits

Defined contribution plan

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

Defined benefit plans

The Group does not have any defined benefit plans.

Profit-sharing and bonus plans

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

Share-based payment transactions

The share option program allows management and key personnel to acquire shares 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) of the group. 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 balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2.16 Loans and borrowings

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

2.17 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 balance sheet date and their level reflects the best estimate of the liability. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.18 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 Discontinued operations

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

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

2.21 Segments

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

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

3. SEGMENT INFORMATION

The Group is a consumer entertainment software company that develops a wide variety of entertainment software products for video game consoles, personal computers and other internet-connected hardware platforms. The Company has 3 new games in development and is operating two live Massively Multiplayer Online Game (MMOG), *Age of Conan* and *Anarchy Online*.

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of investments (other than investment directly related to games), loans and borrowings and related expenses and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire equipment and intangible assets other than goodwill.

Business segments

The Group comprised the following two business segments in 2008:

- PC and Console games: The Group develops, maintains and sells games for PCs and consoles.
- Mobile services: The Group developed and sold services for portable consumer electronic devices. The Mobile segment was disposed of in July 2008. Refer to note 20.

In thousands of US dollars	PC and Console games		Mobile services (discontinued)		Unallocated		Total	
Business segment	2008	2007	2008	2007	2008	2007	2008	2007
Revenue from external customers:	39,925	4,621	1,455	2,274			41,380	6,895
Total segment revenue	39,925	4,621	1,455	2,274			41,380	6,895
Operating result	-26,708	-6,726	-214	-737			-26,922	-7,463
Total assets	73,545	70,392		1,493	300	28,366	73,845	100,251
Total debt	15,442	6,784		1,321	50		15,492	8,105
Capital expenditure	21,908	20,668		298			21,908	20,966
Depreciation, amortization and impairment charges	29,436	1,453	217	182			29,653	1,635

There have been no significant inter-segment transactions.

Geographical segments

In general the Group sells its products online to customers all over the world through centralized entities. Presented below is a table that divides the Group's revenue based on the Group's main geographical areas. Allocating segments assets and capital expenditures based on geographical segments would be arbitrary and would not contribute to a better understanding of the Group's operations.

Management has therefore chosen not to disclose segment assets and capital expenditures in accordance with IAS 14.15.

REVENUE

In thousands of US dollars	2008	%	2007	%	2006	%
America	18,640	45,05%	2,003	29,05%	4,024	37,18%
Europa	20,465	49,46%	4,675	67,80%	6,491	59,98%
Rest of the world	2,276	5,50%	217	3,14%	307	2,84%
Total revenue	41,380		6,895		10,822	

4. REVENUE

In thousands of US dollars	2008	%	2007	%	2006	%
Revenues online games	39,580	95%	3,478	50%	4,157	38%
Revenues offline games	309	1%	1,143	17%	4,335	40%
Mobile revenue (discontinued)	1,455	4%	2,274	33%	2,330	22%
Other	36					
Total revenue	41,380		6,895		10,822	

5. PERSONNEL EXPENSES

In thousands of US dollars	2008	2007	2006
Wages and salaries	9,664	4,219	3,202
Bonus/profit sharing	1,005	252	228
Social security contributions	1,061	511	390
Contributions to defined contribution plans	320	43	40
Expenses for share option program	661	445	333
Recruitment expenses	481	381	175
Other personnel expenses	1,300	433	245
Discontinued operations		-1,239	-1135
Total personnel expenses	14,491	5,046	3,478

Average number of employees:	2008	2007	2006
Europe	234	191	164
North America	107	38	28
Asia	28	22	12
Total	369	251	204

6. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2008	2007	2006
Travel & marketing	6,494	1,986	1,600
Consultants	1,687	1,061	1,184
Rent of premises and other office costs	2,021	965	876
Royalties	2,849		
Investor relations	125	182	111
IT, hardware and software	322	175	128
Other	178		
Discontinued operations		-683	-971
Total general and administrative expenses	13,675	3,686	2,927

7. OTHER OPERATING EXPENSES

In thousands of US dollars	2008	2007	2006
Commissions	1,099	653	510
Hosting and bandwidth costs for online services	7,862	1,239	472
Sales and distribution costs	69	177	206
Externalsupportand services			118
Discontinued operations		-683	-510
Total other operating expenses	9,030	1,385	796

8. FINANCE INCOME AND EXPENSES

In thousands of US dollars	2008	2007	2006
Interest income	1,945	1,919	798
Net foreign exchange gain	427	6,297	3,377
Other financial income			
Discontinued operations		-20	-2
Finance income	2,373	8,196	4,173
Interest expense	-316	-77	-23
Net foreign exchange loss	-5,317	-453	-329
Other finance expenses		-61	-3
Discontinued operations		123	4
Finance expenses	-5,633	-469	-351

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

9. INCOME TAX EXPENSE

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

In thousands of US dollars	2008	2007	2006
Current period	-60	-13	-52
Adjustments for prior periods	-60	-13	-52
Deferred tax expense			
Origination and reversal of temporary differences	-3,373	2,246	532
Change in tax rate		-232	
Recognition of previously unrecognized tax losses			2,156
Derecognition of recognized tax losses	-719		
	-4,092	2,013	2,688
Income tax expense excluding tax on sale of discontinued operations	-4,152	2,001	2,636
Income tax expense from continuing operations	-4,152	2,001	2,636
Income tax from discontinued operation (exluding gain on sale)		-320	-131
	-4,152	1,681	2,505
Income tax on gain on sale of discontinued operations			
Total income tax expense	-4,152	1,681	2,505

In thousands of US dollars	2008	2007	2006
Result before income tax	-29,967	999	1,011
Tax according to the average tax rate in Switzerland, Luxembourg, USA and Norway	2,857	1,908	2,464
Tax effect of non-deductible expenses	18	5	41
Recognition of previously unrecognized tax losses			
Derecognition of deferred tax asset	-4,259		
Tax effect of change in tax rate		-232	
Change in unrecognized tax losses	-2,768		
Income tax (expense) / income	-4,152	1,681	2,505

The Group has not recognized any income tax directly in equity.

DEFERRED TAX LIABILITY/TAX ASSET

	2008	2007
Deferred tax liability	-50	-169
Deferred tax asset, net	300	4,678
Deferred tax asset, net	250	4,509
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	-877	-143
Provisions		
Tax allocation reserve		
Tax losses carried forward		-26
Total deferred tax effect of tax increasing temporary differences	-877	-169
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	8,142	1,019
Fixed assets		3,663
Provisions/receivables		-4
Other temporary differences		
Total deferred tax effect of tax reducing temporary differences	8,142	4,678
Deferred tax asset not recognized in the balance sheet:	7,015	-
Recognized deferred tax asset, net	250	4,509
Reconciliation of deferred tax asset, net:		
Opening balance	4,509	2,538
Net tax liability in sold company	-384	
Change according to statement of income	-4,092	2,001
Exchange differences etc.	217	-30
Deferred tax asset, net, at year-end	250	4,509

Carry forward tax losses originating from Norway do not expire under current tax legislation. The Group has tax losses of TUSD 85 409 as at December 31, 2008. (2007: TUSD 7 079) which expires as follows:

In thousands of US dollars Expire year	2008	2007
2008		
2009	4,230	3,807
2010	1,018	953
2011	392	367
2012		
2013		
2014	184	171
2015	79,585	
Indefinite		1,781
Total tax losses	85,409	7,079

The Group's tax losses and negative differences between the book value and the value for tax purposes of assets, which form the basis for the deferred tax assets, are primarily located in the Swiss and Norwegian subsidiaries. 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 balance sheet accordingly. In evaluating the Group's ability to utilize the deferred tax assets, all available positive and negative evidence have been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income. 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.

10. INTANGIBLE ASSETS

	Goodwill	Development cost	Technology	Patents and licences	Software	Total
Cost						
Balance at January 1, 2007	622	22,428	1,492	75	441	25,058
Acquisitions, internally developed		16,430	295		300	17,025
Disposals			-156		-109	-265
Government grant			-59			-59
Other acqusitions	72					72
Acquisitions of subsidiaries						
Translation difference			92		79	171
Balance at December 31, 2007	694	38,858	1,664	75	711	42,002
Balance at January 1, 2008	694	38,858	1,664	75	711	42,002
Acquisitions, internally developed		17,075				17,075
Disposals				-75		-75
Government grant						
Other acqusitions					118	118
Discontinued operations	-694		-1,664		-3	-2,361
Translation difference		-351			-189	-540
Balance at December 31, 2008		55,582			637	56,218
Accumulated amortization and impairment losses						
Balance at January 1, 2007		4,753	421		186	5,360
Amortization of the year		653	374		124	1,151
Impairment losses						
Disposals			-156		-109	-265
Translation difference			30		29	59
Balance at December 31, 2007		5,406	669		230	6,305
Balance at January 1, 2008		5,406	669		230	6,305
Amortization of the year		4,275			146	4,421
Impairment losses		19,000				19,000
Disposals						
Discontinued operations			-669		-1	-670
Translation difference		123			-83	40
Balance at December 31, 2008		28,804			292	29,096
Carrying amount at Jan. 1, 2007	622	17,675	1,071	75	255	19,698
Carrying amount at Dec. 31, 2007	694	33,452	995	75	481	35,697
Carrying amount at Jan. 1, 2008	694	33,452	995	75	481	35,697
Carrying amount at Dec. 31, 2008		26,778			345	27,123

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

	2008			2007		
Class	Under development	In use	Total	Under development	In use	Total
Goodwill					694	694
Development costs	11,120	15,658	26,778	32,740	712	33,452
Technology					995	995
Software	345		345		481	481
Patents and licenses				75		75
TOTAL	11,465	15,658	27,123	32,815	2,882	35,697

Capitalization of amortization and depreciation

The Group capitalized amortization and depreciation on software and computers used in development of games. If these games are capitalized, the amortization and depreciation is capitalized as an integral part of the value of the game. The amounts that are included in capitalized development costs were as at December 31, 2008 TUSD 501 (2007: TUSD 476)

Changes in estimate of useful life

In 2007 the Group capitalized an upgrade to one of the games already in operation. Upgrades are amortized over the remaining estimated useful life of the asset as a whole. New estimates performed by the management in 2007 show that useful life of the asset will be longer than previously estimated.

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

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

Calculation of recoverable amounts

The management estimates the recoverable amounts of each cash generating unit on every balance sheet date. When calculating the recoverable amount from cash generating units the Group uses a discounted 5 years cash flow projection, based on the latest information that influences the expected performance of the asset. The cash flows are discounted with 14 % for *Age of Conan* and 18 % for *The Secret World*. *The DreamWorld Technology* was allocated to each of the mentioned games on a 50/50 basis when performing the impairment test, reflecting the use of the technology in generating cash flows from the games. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 3-year period. Cash flows from the 4th year to the 5th year are calculated using management assumptions for the number of customers for the asset. The cash flows are highly driven by the number of paying customers and it is therefore the management's expected development of customers that is the most important factor when estimating the future cash flows and recoverable amounts. E.g. if the subscriber base was 30,000 higher in all periods for *Age of Conan*, the recoverable amount would equal the carrying amount of the asset.

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

Impairment test for cash-generating units containing goodwill

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

The impairment test is based on calculations of value in use. Cash flow projections based on actual operating results and the 5-year business plan has been used as input in the calculations. A pre-tax discount rate of 14-18 per cent is used in discounting the projected cash flows.

Research and development

In 2008 the Group expensed TUSD 830 in research and development. (2007: TUSD 135)

Inefficiency

The Group did not expense any costs related to inefficiencies in 2008 or 2007.

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

Age of Conan

The MMO game *Age of Conan* takes place in a world based on author Robert E. Howard's classic fantasy hero Conan – a strong brand name on the basis of being one of the most read comic books in the Western World as well as the subject of several books and movies. Funcom acquired as from June 6, 2003 a 10 year exclusive right for the use of the Conan brand for MMO games on all current and future platforms. Later Funcom extended this right until 2023.

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

The carrying amount of *Age of Conan* is TUSD 15 429 on December 31, 2008. (2007: TUSD 21 734)

Age of Conan has been amortized since its launch on May 20, 2008.

DreamWorld Technology

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

The *DreamWorld Technology* is tailored and optimized for creating world class MMOs. The technology has a highly modular structure in which new and upgraded technology modules and components can be integrated into the technology base.
The flexible and modular architecture of the *DreamWorld* Technology uncouples technology from the game production process and shortens the lead time to prototype. Furthermore, the technology is optimized for online distribution through its mini client, peer-to-peer distribution and multi version features. The use of *The DreamWorld Technology* will ensure synergies between the development projects of Funcom, as well as significantly reduce the technology risks and development costs of the new projects. Key technical features include:

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

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

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

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

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

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

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

The carrying amount of the DreamWorld Technology is TUSD 3 924 on December 31, 2008. (2007: TUSD 6 591)

The DreamWorld Technology has been amortized since the launch of *Age of Conan* in May 2008

The Secret World

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

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

By bringing the massively multiplayer online genre into a modern day setting, the game will potentially appeal to a huge audience of gamers. Utilizing Funcom's proprietary MMO technology, the DreamWorld engine, *The Secret World* is already in a playable state. The production ramped up after the release and initial live phase of the *Age of Conan* game, and Funcom has moved experienced developers from one project to another since then.

The carrying amount of *The Secret World* is TUSD 6 509 on December 31, 2008. (2007: TUSD 4 414)

The Secret World is not yet amortized.

Other Games

The carrying amount of other games in the category development costs amounts to TUSD 914 on December 31, 2008. (2007 TUSD 713)

11. EQUIPMENT

	Computers	Furniture	Computers leased	Total
Cost				
Balance at January 1, 2007	3,113	170		3,283
Acquisitions	1,022	130	2,789	3,941
Disposals	-2,174			-2,174
Translation difference	230	34		264
Balance at December 31, 2007	2,191	334	2,789	5,314
Balance at January 1, 2008	2,191	334	2,789	5,314
Acquisitions	1,005	111	3,717	4,833
Disposals				
Discontinued operation	-74			-74
Translation difference	-592	-94		-686
Balance at December 31, 2008	2,530	351	6,506	9,387
Accumulated depreciation and impairment losses	Straight line 3 years	Straight line 5 years	Straight line 3 years	
Balance at January 1, 2007	2,183	72		2,255
Disposals	-2,174			-2,174
Depreciation for the year	624	39	284	947
Translation difference	107	14		121
Balance at December 31, 2007	740	125	284	1,148
Balance at January 1, 2008	740	125	284	1,148
Disposals				
Discontinued operation	-64			-64
Impairment charges			1,900	1,900
Depreciation for the year	927	69	3,572	4,568
Translation difference	-345	-43		-388
Balance at December 31, 2008	1,259	150	5,756	7,164
Carrying amount at Jan. 1, 2007	930	98		1,028
Carrying amount at Dec. 31, 2007	1,451	210	2,505	4,166
Carrying amount at Jan. 1, 2008	1,451	210	2,505	4,166
Carrying amount at Dec. 31, 2008	1,271	201	750	2,222

Inactive leased servers have been tested for impairment and written down to what is considered their recoverable amount. This is based on the fair value less costs to sell as at the balance sheet date.

12. TRADE RECEIVABLES

In thousands of US dollars	2008	2007
Trade receivables	3 066	977
Allowances for bad debts	38	
Trade receivables, net	3028	977

As of December 31, 2008 trade receivables consisted of, TUSD 1 392 in USD, TUSD 1 582 in EURO, TUSD 0 in NOK, while a balance of TUSD 54 relates to other currencies. The respective numbers for 2007 were TUSD 512 in USD, TUSD 113 in EURO, TUSD 268 in NOK and TUSD 84 in other currencies.

13. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consist mainly of receivable related to the sale of the shares in Plutolife AS and ordinary operational prepayments.

14. CASH AND CASH EQUIVALENTS

In thousands of US dollars	2008	2007
Cash at the bank and in hand	39 396	3 336
Short-term bank deposits	0	49 030
Cash and cash equivalents in the balance sheet	39 396	52 366
Restricted cash	653	636

Restricted cash relates to cash at a separate account for tax deducted from salaries. Short term bank deposits had an average term to maturity of 45 days, and expired on February 15, 2008.

15. EQUITY

In thousands of US dollars	Share capital	Share premium reserve	Trans-lation reserve	Retained earnings	Total	Minority Interest	Total equity
Equity as at January 1, 2007:	2,443	91,920	185	-35,431	59,117	196	59,313
Exchange rate effects			629		629	39	668
Net income recognized directly in equity			629		629	39	668
Result for the period				2,318	2,318	-154	2,164
Total recognized income and expense			629	2,318	2,947	-115	2,832
Issued share capital	273	29,099			29,372		29,372
Share-based payments		593			593	2	595
Share of acquired minority equity						-41	-41
Equity part convertible loan from minority		56			56	20	76
Change in minority interest							
Equity as at December 31, 2007	2,716	121,668	814	-33,113	92,085	62	92,147
Equity as at January 1, 2008:	2,716	121,668	814	-33,113	92,085	62	92,147
Exchange rate effects			-916		-916	-9	-925
Net income recognized directly in equity			-916		-916	-9	-925
Result for the period				-33,798	-33,798	-57	-33,855
Total recognized income and expense			-916	-33,798	-34,714	-66	-34,780
Issued share capital	3	36			39		39
Share-based payments		855			855	15	870
Other		-33	-29	150	88	-12	76
Equity as at December 31, 2008	2,719	122,527	-131	-66,761	58,353		58,353

SHARE-CAPITAL AND SHARE PREMIUM

Number of ordinary shares	2008	2007
Outstanding at January 1	52,769,625	47,744,625
Issued against payment in cash	62,500	5,025,000
Outstanding at December 31 - fully paid	52,832,125	52,769,625
Nominal value of the share-capital at December 31 (EUR)	2,113,285	2,110,785

At December 31, 2008, the authorized share-capital comprised of 56,25 million ordinary shares (2007:56,25 million). The nominal value of the shares is Euro 0.04.The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

The share-capital is translated into US dollars using historic rates.

On May 21, 2007 the Company issued 275,000 shares from options (see note 16 for further information), The issued shares were paid in cash at EUR 0.43 per share (USD 0.63). Gross proceeds amounted to EUR 118 250 (USD 160 299) Total number of issued shares after this transaction was 48 019 625.

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

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

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

In September 2008 the Company issued 62 500 shares from options (see note 16 for further information), The issued shares were paid in cash at EUR 0.49 per share (USD 0.69). Gross proceeds amounted to EUR 30 625 (USD 40 114) Total number of issued shares after this transaction was 52 832 125.

On December 19, 2008 Funcom held an Extraordinary General Meeting where, pursuant to Section 4.1 of Funcom N.V.'s articles of association, the Board of Supervisory Directors were authorized to issue new shares in Funcom N.V. up to a maximum of 10 % of the issued capital of Funcom N.V. as per the date of the Meeting and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.9 and 4.1 of Funcom N.V.'s articles of association, authorized to issue up to a maximum 3 000 000 (three million) rights to acquire shares in the capital of Funcom N.V. and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.3 of the Funcom N.V.'s articles of association authorized to limit or exclude the preemptive rights of the shareholders of Funcom N.V. in relation to each or any issuance of shares, or granting of rights to acquire shares, in the capital of Funcom N.V. This designation of the Board of Supervisory Directors is also valid for 2 years from the date of the Meeting.

Lastly, in this extraordinary general meeting, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board were authorized for a period of 18 months from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5 % or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned more than 5 % of the Company's total share capital on January 1, 2009:

- Stelt Holding N.V. (22,62 %) (Mr: Jebsen who controls 49% of Stelt Holding also owns Tom Dahl AS (0,2 %) of the shares of the Company)
- Northzone IV K/S (10,32 %)
- Nordic Venture Partners (9,86 %)

All issued shares are fully paid.

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

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

On December 19, 2008 the Company issued additional 850 000 options as a part of the Group's options program. 25% of the options vest on May 21, 2009, and the remaining options vest on May 21, 2010. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant.

Translation reserve

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

Dividends

The Group did not pay any dividends in 2008 and 2007. No dividends relating to year 2008 have been proposed.

16. EMPLOYEE BENEFITS

Defined contribution plans

The Group has mandatory occupational plans in some of its subsidiaries. The premium paid relating to these schemes in 2008 was USD 319 518. (2007 – 2006: USD 248 821 – USD 99 566)

Share based payments

The Group has two option programs that entitle 1) management and key personnel and 2) members of the Supervisory Board to purchase shares in Funcom N.V., the parent company of the Group. The option programs are presented separately below.

Option program in Funcom N.V.

The following options have been authorized by the shareholders meeting

Time of authorization	Number of options authorized	Expiry of authorization
May 10, 2005	1 250 000	May 10, 2008
November 30, 2006	1 000 000	November 30, 2008
December 19, 2008	3 000 000	December 19, 2010
Total number of options authorized	5 250 000	

Share options are granted to management and to selected employees. For options programs granted in 2007 and 2008, the exercise price of the granted options is equal to the weighted market price of the shares 5 trade days' prior and 5 trade days after the date of grant. Options are conditional on that the employee remains an employee or director of the Company on the date of exercise. The 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)

Granted	Numbers granted	Vested in 2008	Vested in 2009	Vested in 2010	Vested in 2011
01, March 2007	845,200	281,734	281,733	281,733	
14, June 2007	260,000	86,668	86,666	86,666	
27, February 2008	433,500		144,500	144,500	144,500
19, December 2008	850,000		258,332	408,333	183,335

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

List of outstanding options: Funcom N.V.	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2008	2008	2007	2007
Outstanding options on January 1	1,358,200	2.76	850,000	0.61
Options granted	1,283,500	1.48	845,200	4.11
Options exercised	62,500	0.49	325,000	0.61
Options terminated	122,400	3.69	12,000	3.28
Options expired	740,232	1.49		
Outstanding options on December 31	1,716,568	1.87	1,358,200	2.76
Vested options			525,000	0.61
Weighted Average Fair Value of Options Granted during the period	1,283,500	0.55	845,200	1.67
Number of exercised options	62,500	0.49	325,000	0.61
Number of expired or terminated options	122,400	3.69	12,000	3.28
Number of options allocated	1,716,568	1.87	1,358,200	2.76
Number of unallocated options	1,283,432		554,800	

Out of the 1 716 568 outstanding options at December 31, 2008 (2007: 1 358 200) 0 were exercisable (2007: 525 000). Options exercised in 2008 resulted in 62 500 new shares (2007: 325 000) being issued at USD 0.49 (2007: USD 0.43) each. The related average share price at the time of exercise was USD 1.92.

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

Expiry date	Exercise price	Shares 2008	2007
15, June 2008	NOK 3.31		525,000
01, September 2009	NOK 17.78 - 35.77	367,429	277,733
01, September 2010	NOK 17.78 - 35.77	367,431	277,733
21, November 2010	NOK 2.85	300,000	
01, September 2011	NOK 25.34	131,708	277,733
19, June 2012	NOK 2.85	550,000	
		1,716,568	1,358,200

Out of the outstanding options with an exercise price in the range between NOK 17.78 and 35.77, 371 468 options have an exercise price of NOK 17.78, 263 392 NOK 25.34 and 100 000 NOK 35.77

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was NOK 10,45 per options (2007: NOK 8,0125). The significant inputs into the model were a weighted average share price of NOK 13.18 (2007: 22.49), at the grant date, the exercise price shown above, volatility of 71,91 % (2007: 58,40 %), dividend yield 0 % (2007: 0 %), an expected option life of 1- 3,5 years, and an annual risk free rate of 3,7 % (2007: 4,52 %). The volatility measured is based on statistical analysis of daily share prices for similar companies over the last 3 years.

The following managers/directors possess options or own shares

Name	Number of shares	Number of options	Comments
Supervisory board			
Torleif Ahlsand	100,000	100,000	Mr. Ahlsand is a partner of Northzone Ventures,which owns 5.449.175 shares in the Company. Mr. Ahlsand owns 100,000 shares through his company Brownske Bevegelser AS
Michel Cassius		83,334	Mr. Cassius is a member of the supervisory board.
Hans Peter Jebsen	12,058,075	50,000	Mr. Jebsen and affiliates control 12.058.075 shares in the Company through Stelt N.V. and Tom Dahl AS
Claus Højbjerg Andersen		50,000	Mr. Højbjerg Andersen is a partner of Nordic Venture Partners, which owns 5.208.325 shares in the Company
Frank Sagnier		50,000	Mr. Sagnier is a member of the supervisory board.
Management			
Trond Arne Aas	1,437,825	618,334	Mr. Aas is the CEO of Funcom N.V. and member of the managing board of Funcom N.V. 900,000 of the shares are owned by Arminius AS, a company controlled by Mr. Aas
Olav Sandnes		96,800	Mr. Sandnes is the CFO of the Funcom Group
Pieter van Tol	500	50,000	Mr. van Tol is a member of the managing board of Funcom N.V. The shares are owned by Temmes Financial Services Ltd. a Company controlled by Mr. Van Tol

Mr. Jan Inge Torgersen the former Group Controller and member of the Management Board of Funcom N.V. left his position in 2008. On February 11, 2008 Jan Inge Torgersen sold 6000 shares, and on August 20, 2008 he sold 14.000 shares. After these transactions Mr. Torgersen owns 0 shares and holds no options.

17. PROVISIONS

In thousands of US dollars	Sale returns	Tax on capital increases	Onerous contracts	Total
Balance at January 1, 2008		715		715
Provisions made during the year	2,508		2,344	4,852
Provisions used during the year				
Provisions reversed during the year		-38		-38
Exchange rate differences		-49		-49
Balance at December 31, 2008	2,508	628	2,344	5,480

The Company is in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities as of 31 December 2008. The potential cost of this disallowance to the Company is around TUSD 628 (including interest) (2007:TUSD 715). The Company believes it has arguments to dispute the capital duty liabilities and has filed formal appeals with the Dutch tax court in respect of some of the disputed capital duty liabilities. The Dutch lower tax court ruled in favor of the Dutch tax authorities in respect of 1 outstanding capital duty liability (TUSD 283). However, the Company filed an appeal against this decision with the Dutch tax court. The Company is awaiting response from the Dutch tax court and cannot estimate the outcome of the proceedings at this time.

In 2008 the Group has made provisions related to the service elements of non-cancellable lease contracts for servers that are not in use as at December 31, 2008.

18. DEFERRED INCOME

The amount consists of subscription prepayments from customers.

19. OTHER SHORT TERM LIABILITIES

The amount mainly consists of:

- vacation pay accrued in Funcom Oslo AS payable in June 2009
- finance lease liability payable in 2009
- taxes relating to salary payments
- accrual of other regular operating expenses.

20. DISCONTINUED OPERATION

In July 2008, the Group sold its entire Mobile segment; the segment was not a discontinued operation or classified as held for sale as at 31 December 2007 and the comparative income statement has been re-presented to show the discontinued operations separately from continuing operations.

Results of discontinued operation

In thousands of US dollars	2008	2007	2006
Revenue	1,455	2,274	2,330
Expenses	-1,669	-3,007	-2,739
Results from operating activities	-214	-733	-409
Financial items	-28	-103	-2
Income tax		320	131
Results from operating activities, net of income tax	-242	-516	-280
Gain on sale of discontinued operation	506		
Income tax on gain on sale of discontinued operation			
Profit (loss) for the period	264	-516	-280
Basic earnings (loss) per share (USD)	0.01	-0.01	-0.01
Diluted earnings (loss) per share (USD)		-0.01	-0.01
Cash flows from (used in) discontinued operations			
Net cash used in operating activities	-104	-144	-167
Net cash from investing activities		-100	-86
Net cash from financing activities	58	158	
Net cash from (used in) discontinued operation	-46	-86	-253

Effect in 2008 of disposal on the financial position of the Group	
Deferred tax assets	-384
Goodwill and other intangible assets	-1,520
Equipment	-15
Trade and other receivables	-597
Cash and cash equivalents	
Long term liabilities	140
Trade and other payables	701
Net assets and liabilities	-1,675
Consideration received, satisfied in cash	1,329
Cash disposed of	
Net cash inflow	1,329

21. LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2008	2007	2006
Less than one year	1 844	1 599	1 394
Between one and five years	6 270	5 570	4 812
More than five years			
Total	8 114	7 169	6 206

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

During the year ended December 31, 2008, TUSD 1 485 was recognized as an expense in the income statement in respect of operating leases (2007 - 2006: TUSD 1 202 - TUSD 845).

Non-cancellable finance lease payments are payable as follows:

In thousands of US dollars	2008	2007
Less than one year	7 254	1 264
Between one and five years	2 602	1 831
Total	9 856	3 095
Less amount representing interest	-541	230
Present value of future minimum lease payments	9 315	2 865
Representing	2008	2007
Amounts due in less than one year	6 997	1 222
Amounts due in between one and five years	2 318	1 643

The financial lease payments relates to server parks established for the purpose of hosting *Age of Conan*.

22. EARNINGS PER SHARE

The basic earnings per share are calculated as the ratio of the result for the period attributable to the equity holders of Funcom of TUSD -33 798 divided by the weighted average number of ordinary shares outstanding 52 785 378 (2007: 50 087 040).

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.

	2008	2007	2006
Profit / (loss) for the period attributable to the equity holders of Funcom (TUSD)	-33,798	2,318	3,347
Profit / (loss) for the period attributable to the equity holders of Funcom (TUSD) - continuing operations	-34,119	2,680	3,516
Issued ordinary shares as of January 1	52,770	47,745	41,914
Effect of shares issued		2,163	5,055
Effect of options excercised	16	179	
Weighted average number of shares at December 31	52,785	50,087	46,969
Earnings per share	-0.64	0.05	0.07
Earnings per share - continuing operations	-0.65	0.05	0.07
Weighted average number of shares at December 31, basic	52,785	50,087	46,969
Effect of share options on issue	29	1,913	1,337
Weighted average number of shares at December 31, diluted	52,814	52,000	48,306
Diluted earnings per share	-0.64	0.04	0.07
Diluted earnings per share - continuing operations	-0.65	0.05	0.07

23. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE OBLIGATIONS

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

24. FINANCIAL INSTRUMENTS

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

Exposure to credit risk

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

In thousands of US dollars	Carrying amount 2008	Carrying amount 2007
Loans and receivables*	4,804	3,513
Cash and Cash equivalents	39,396	52,366
	44,200	55,879

* Includes long term receivables of TUSD 372 which relates to long term deposits on operational leases. (2007: TUSD 469)

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

In thousands of US dollars	Carrying amount 2008	Carrying amount 2007
North America	100	546
Europe	2,922	410
Other regions	6	21
	3,028	977

Receivables on credit card service providers amounts for TUSD 2,840 of the trade receivables carrying amount at December 31, 2008. (2007: TUSD 105)

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	2,943		463	
Past due 0-30 days	10		139	
Past due 31-120 days	75		337	
More than one year	38	38	38	
	3,066	38	977	

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

In thousands of US dollars	2008	2007
Balance at 1 January		25
Impairment loss recognized	38	-25
Balance at 31 December	38	

Based on historic information the Group believes that no significant impairment allowance is necessary for trade receivables at December 31, 2008.

Liquidity risk

The group manages liquidity by maintaining adequate reserves, banking facilities and borrowing 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.

As at December 31, 2008 In thousands of US dollars	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	7,514	-7,597	-7,023	-575	
Long term debt	1,037	-1,110			-1,110
	8,551	-8,707	-7,023	-575	-1,110

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

The long term debt as at December 31, 2008 consists mainly of financial lease payments which are due more than 1 year from balance sheet date.

Currency risk

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

As at December 31, 2008 In thousands of US dollars	USD	EURO	NOK	OTHER
Trade and other receivables	2,504	1,811	463	25
Cash and cash equivalents	11,022	2,158	25,985	231
Trade and other payables	-3,407	-2,188	-2,810	-147
Net balance sheet exposure	10,119	1,781	23,639	109

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

The following exchange rates applied during the year:

Reporting rate	Average rate		Spot rate	
	2008	2007	2008	2007
EUR 1	1.454	1.3675	1.410	1.4729
NOK 1	0.179	0.1725	0.142	0.1845
CHF 1	0.926	0.8311	0.947	0.8875

Sensitivity analysis

A 10 percent weakening of the US dollars compared to NOK and EUR would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2007.

In thousands of US dollars	Equity	Profit or Loss
31 December, 2008		
EUR	258	247
NOK	1,830	1,139
CHF	1,914	-90
31 December, 2007		
EUR	31	14
NOK	4,775	4,257
CHF	-38	-43

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.

Interest rate risk

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

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rate at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

In thousands of US dollars	Profit or Loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31, December 2008				
Variable rate instruments	343	-343	343	-343
31, December 2007				
Variable rate instruments	444	-444	444	-444

Fair values

Fair values versus carrying amount

The fair values of financial assets and liabilities, compared with the carrying amounts shown in the balance sheet are estimated to be similar to their carrying value. 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. Non-current borrowings are on market terms and the difference between fair value and amortized cost is not material.

In thousands of US dollars	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Loans and receivables	4,927	4,927	3,513	3,513
Cash and cash equivalents	39,578	39,578	52,366	52,366
Trade and other payables	-8,551	-8,551	-7,230	-7,230
Bank overdrafts			-367	-367

25. TRANSACTIONS WITH RELATED PARTIES

Identification of related parties

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

Transactions with subsidiaries

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

Remuneration to the Supervisory Board

On November 30, 2006, the General Meeting approved remuneration to the Supervisory Board and there was no increase in the remuneration of the Supervisory board for 2007 or 2008. On December 19, 2008, the General Meeting approved remuneration to the Supervisory Board for the year 2009 amounting to EUR 35,000 for the Chairman and EUR 12.000 for members. The remuneration for the year 2008 amounted to USD 77 533 and, the payment was outstanding as at year end 2008.

Remuneration to the Management Board

The CEO of the Group, who is also a member of the Management Board, received in 2008 a total remuneration including pensions of USD 231 052 (2007 - 2006: USD 286 851 - USD 191 903). Jan Inge Torgersen who was a member of the Management Board and a manager in the Group received remuneration in 2008 of USD 154 405 (2007 - 2006: USD 206 185 – USD 192 146).

Remuneration to the Management Group

Overview of remuneration to management:

In thousands of US dollars	2008	2007	2006
Salaries and benefits in kind (short-term employee benefits)	1 608	2 224	1 428
Share-based payments	461	456	97
Pension plan contributions	37	43	28
Total remuneration	2 106	2 723	1 553

The CEO of the Group received in 2008 a total remuneration including pension of USD 231 052 (2007 - 2006: USD 286 851 - USD 191 903), he was also awarded a total of 500 000 share options in 2008 (2007: 177 500). The exercise price is NOK 2,85 (USD 0.4). In 2008 a total of 0 options were exercised at an average exercise price of NOK 0 (USD 0). The total allocated share options in Funcom N.V. comprised of 1,695,200 as at December 31, 2008.(2007: 1 695 200).

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

CEO Trond Aas had 1,437,825 shares directly and indirectly as of December 31, 2008.(2007: 1 587 825) Hans Peter Jebsen, a member of the Supervisory Board and his closely related parties indirectly control 107 550 Funcom shares. Hans Peter Jebsen also indirectly controls 49 % of Stelt Holding N.V., which owns 11 950 525 Funcom shares. Chairman of the Supervisory Board Torleif Ahlsand controls 100 000 shares in Funcom shares through his company Brownske Bevegelser AS. Pieter van Tol, a member of the Management Board controls 500 shares. No other members of the Board have shares in Funcom.

Loans to employees

At December 31, 2008, a loan of USD 27 167 (2007: USD 27 167) was outstanding to an employee. The loan bears no interest and a calculated interest is reported to the tax authority as a taxable benefit.

Transactions with other related parties

A fee of USD 69 175 has been paid to Temmes Management Services B.V. in 2008 (2007 - 2006: USD 35 929 – USD 37 074). Temmes Management Services B.V. is controlled by Management Board member P.G.C van Tol. P.G.C van Tol also has an interest in Weidema van Tol which has received a fee of USD 220 497 for legal advice in 2008 (2007 - 2006: USD 226 850 – USD 63 267). As at year end 2008 the outstanding amount between the Group and Weidema van Tol amounted to USD 2 403 (2007: USD 6 000), and between the Group and Temmes Management Services B.V. the amount was 15 605 (2007: USD 0). For the services rendered from both these companies the Group did not pay above market price.

The Group's auditors received a total fee of USD 159 498 (2007 - 2006: USD 220,493 – USD 215,110). The fee is distributed within these services and is not including VAT;

▪ statutory audit services	159 498
▪ further assurance services	0
▪ tax advisory services	0
▪ other non-audit services	0

26. GROUP ENTITIES

Group entities

The Company is the ultimate parent company to 6 wholly owned subsidiaries.

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2008	2007
Funcom Oslo AS	Norway	100.00	100.00
Funcom Inc	United States	100.00	100.00
Funcom S.a.r.l.	Luxembourg	100.00	100.00
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH*	Switzerland	100.00	100.00
Funcom Beijing GmbH**	Switzerland	95.00	95.00
Plutolife AS	Norway		74.87

* Funcom Sales GmbH was founded in 2007

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

27. RISK, ACCOUNTING ESTIMATES AND JUDGMENTS

27.1 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 10 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.

Currency risk

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

Deferred tax

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

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

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

27.2 CAPITAL MANAGEMENT

Capital management

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

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

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

27.3 RISKS

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

REVENUE RISKS

Dependence on performance of Age of Conan

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

Dependence on the attractiveness of the Conan brand

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

Dependence on consumer satisfaction

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

Rating risks

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

Reviews

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

DEVELOPMENT RISKS

Delay of product releases

For the current development projects, Funcom has a strong focus on making plans, analyzing risks, estimating time needed in each project phase and measuring progress. There is, however, an inherent development timeline risk in all software development, including in MMO game software development, and there is no assurance that development schedules will be held. If Funcom does not manage to release their games at the planned dates, the development budgets of the games may increase. There is also a risk that competitors will gain a foothold in the market at the expense of Funcom or that the games will be less competitive when launched due to advances of competitors, making users less willing to spend additional time and money on new games from Funcom.

Unsuccessful projects under development

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

Difficulties in recruiting and loss of key employees

Funcom is dependent on the ability to recruit, motivate and retain highly skilled technical, managerial and marketing personnel. Funcom may experience difficulties in recruiting, motivating and retaining the necessary expertise and key employees, or may need to pay higher compensation, which could adversely affect operating results. Further, it should be taken into consideration that workers from countries outside the EEA must have work permit to work in Norway, and that such permits can be difficult to obtain. The documentation and formalization of internal information, routines and processes have not always been of today's standard. Therefore, there is a risk of losing vital information if key employees, for various reasons, leave Funcom.

External parties

Funcom's success depends also partly on the ability of the Company's partners to effectively fulfill their commitments. Funcom has partners in the areas of hosting and server administration, billing, publishing, sales and distribution, hardware as well as other areas such as co-development of free-to-play MMOs.

Difficulties in enforcing the Company's intellectual property and proprietary rights

Funcom's success depends on its proprietary game technology. Funcom relies on a combination of trade secret, copyright and trademark laws, non-disclosure agreements and contractual provisions to protect its proprietary rights. International copyright and trademark laws protect Funcom's technology. Existing trade secrets and copyright laws afford only limited protection, and unauthorized parties may attempt to copy aspects of Funcom's proprietary rights or to obtain and use information and technology that Funcom regards as proprietary. In addition, the laws of some foreign jurisdictions do not protect Funcom's proprietary rights in the same manner and to the same extent as the laws of the US, Switzerland and Norway do. There can be no assurance that the steps taken by the Funcom to protect its proprietary rights will be adequate.

Intellectual Property Rights of others

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

TECHNICAL RISKS

Technological risks

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

Hacking

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

Risks related to the Internet

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

Theft or loss of source code

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

ECONOMIC RISKS

Macroeconomic fluctuations

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

Variability of operating results etc.

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

Changes in the gaming industry in general

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

Contracts

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

International operations

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

Currency fluctuations

Because a considerable share of Funcom's business is conducted in currencies other than its functional currency, Funcom will be exposed to volatility associated with foreign currency exchange rates. Funcom invoices all non-EU customers in USD, while EU customers are invoiced in EUR. The operational costs of Funcom are to a large extent in NOK. At present, the Groups cash position in Norwegian kroner is significant compared to its total assets denominated in US dollars. The majority of the operational expenses is denominated in Norwegian kroner and is perceived by the management as a natural hedge against the large position in Norwegian kroners. See note 25 for a further analysis on the impact of currency fluctuations. See note 24 for further information.

Tax exposure

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

VAT exposure

The Group generates sales transactions from potentially all over the world. Because of this, the Group is exposed to different VAT issues. Should the group fail to comply with the different regulations it might lead to real cash costs, including irrecoverable VAT, penalties, and interest.

Deferred tax asset

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

The Group's negative differences between the book value and the value for tax purposes of assets, which form the basis for the deferred tax assets, are primarily located in the Swiss and Norwegian subsidiaries.

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 balance sheet accordingly.

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

28. EVENTS AFTER THE BALANCE SHEET DATE

In January and February 2009 the Group launched localized versions of *Age of Conan* in Poland and in Russia with positive gamer and press reception.

On February 23, 2009 Olav Sandnes gave notice of resignation from his position as CFO for the Group. Mr. Sandnes is leaving the company in order to take up a new position in a different industry.

On March 5, 2009, 2 032 800 options to acquire shares were granted to key personnel in Funcom. One third of the options are vested each of the three years subsequent to the date of grant. The exercise of these options is subject to the Standard Terms under the Share Incentive Program of Funcom N.V.. The exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior and 5 trade days after the date of grant.

There have been no material events other than as described above between December 31, 2008 and the date of authorization that would require adjustments of the consolidated financial statements or disclosure.


WAY
TIMES
TAXI

Funcom N.V.
Company Profit and Loss

For the year ending 31. 12. 2008

In thousands of US dollars	2008	2007
Results from participating interest after tax	-34,218	2
Other income and expenses after tax	362	2,317
Net result from ordinary activities after taxation	-33,856	2,318

Company Balance Sheet

After appropriation of result

In thousands of US dollars	Note	12/31/08	12/31/07
Investment in and receivables from group companies	1.2	58,158	92,551
Financial fixed assets		58,158	92,551
Prepays and other receivables		740	192
Cash and cash equivalents		181	291
Total current assets		921	483
Total assets		59,079	93,034
Issued capital	5	2,979	3,109
Share premium	6	121,895	120,916
Legal reserves	7	26,647	99,936
Retained earnings	8	-93,168	-131,876
Total equity		58,353	92,085
Accrued expenses		76	131
Provisions	10	628	715
Other current liabilities	3	22	103
Total current liabilities		726	949
Total equity and liabilities		59,079	93,034

Notes to the Company Financial Statements

PRINCIPLES OF VALUATIONS FOR THE FINANCIAL STATEMENTS

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

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

1. INVESTMENT IN AND RECEIVABLES FROM GROUP COMPANIES

In thousands of US dollars	2008	2007
Receivables non-current	16,918	16,067
Shares	41,240	76,484
	58,158	92,551

2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2008:

Significant subsidiaries	Country of incorporation	Ownership interest in % 2008	2007
Funcom Oslo AS	Norway	100.00	100.00
Funcom Inc	United States	100.00	100.00
Funcom S.a.r.l.	Luxembourg	100.00	100.00
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH*	Switzerland	100.00	100.00
Funcom Beijing GmbH**	Switzerland	95.00	95.00
Plutolife AS	Norway		74.87

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

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

In thousands of US dollars	2008	2007
Balance at 01.01	76,484	9,120
Exchange difference	-916	629
Result of the year	-34,218	2
Change in participation		66,770
Other movements	-110	-36
Balance 31.12	41,240	76,484

3. OTHER CURRENT LIABILITIES

Other current liabilities in 2008 and 2007 relate to service providers.

4. ISSUED CAPITAL

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

- January 1, 52 769 625
- December 31 52 832 125

At December 31, 2008, the authorized share-capital comprised of 56,25 million ordinary shares (2007:56,25 million). The nominal value of the shares is Euro 0.04.The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

The share-capital is translated into US dollars at the December 31, 2008 exchange rate of EUR/USD 1.4097

Options

Total authorized options at December 31, 2008 amounted to 3 000 000 refer to EGM in December 2008 (2007: 2 250 000). On December 31, 2008, the number of outstanding options allocated to managers and key personnel amounted to 1 716 568 shares (2007: 1 695 200).

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

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

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

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

On December 19, 2008 the Company issued additional 850 000 options as a part of the Group's options program. 25% of the options vest on May 21, 2009, and the remaining options vest on May 21, 2010. The average exercise price is the volume weighted average trade price on Oslo stock exchange 5 days prior and 5 days after the grant

Share issuances

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

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

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

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

In September 2008 the Company issued 62 500 shares from options (see note 16 for further information), The issued shares were paid in cash at EUR 0.49 per share (USD 0.69). Gross proceeds amounted to EUR 30 625 (USD 40 114) Total number of issued shares after this transaction was 52 832 125.

On December 19, 2008 Funcom held an Extraordinary General Meeting where, pursuant to Section 4.1 of Funcom N.V.'s articles of association, the Board of Supervisory Directors were authorized to issue new shares in Funcom N.V. up to a maximum of 10 % of the issued capital of Funcom N.V. as per the date of the Meeting and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, designate (aanwijzen), pursuant to Section 4.9 and 4.1 of Funcom N.V.'s articles of association, authorized to issue up to a maximum 3 000 000 (three million) rights to acquire shares in the capital of Funcom N.V. and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 2 years from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.3 of the Funcom N.V.'s articles of association authorized to limit or exclude the pre-emptive rights of the shareholders of Funcom N.V. in relation to each or any issuance of shares, or granting of rights to acquire shares, in the capital of Funcom N.V. This designation of the Board of Supervisory Directors is also valid for 2 years from the date of the Meeting.

Lastly, in this extraordinary general meeting, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Board of Managing Directors were authorized for a period of 18 months from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5 % or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned more than 5 % of the Company's total share capital on January 1, 2009:

- Stelt Holding N.V. (22,62 %)
- Northzone IV K/S (10,32 %)
- Nordic Venture Partners (9,86 %)

5. SHARE-CAPITAL

In thousands of US dollars	2008	2007
Balance at 01.01	3,109	2,522
Exchange	-134	314
Addition share-capital	4	273
Balance 31.12	2,979	3,109

6. SHARE PREMIUM

In thousands of US dollars	2008	2007
Balance at 01.01	120,916	91,818
Share based payments	855	
Change in provision for capital duty	87	
Addition share premium	36	29,098
Balance 31.12	121,895	120,916

7. LEGAL RESERVES

Legal reserves are non distributable to shareholders.

8. RETAINED EARNINGS

In thousands of US dollars	2008	2007
Balance at 01.01	-131,876	-53,084
Exchange effect on share-capital	134	-314
Exchange effect on subsidiaries	-916	629
Employee options		593
Movement to legal reserves	73,289	-82,076
This year's result	-33,856	2,318
Other movements	57	58
Balance at 31.12	-93,168	-131,876

9. SHARE BASED PAYMENTS

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

10. PROVISIONS

Dutch capital duty	2008	2007
Balance at January 1	-715	-621
Interest calculation	-37	-22
Aging of claims	75	
Exchange	49	-72
Balance at December 31	-628	-715

The Company is in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities as of 31 December 2008. The potential cost of this disallowance to the Company is around TUSD 628 (including interest) (2007:TUSD 715). The Company believes it has arguments to dispute the capital duty liabilities and has filed formal appeals with the Dutch tax court in respect of some of the disputed capital duty liabilities. The Dutch lower tax court ruled in favor of the Dutch tax authorities in respect of 1 outstanding capital duty liability (TUSD 283). However, the Company filed an appeal against this decision with the Dutch tax court. The Company is awaiting response from the Dutch tax court and cannot estimate the outcome of the proceedings at this time.

11. EMPLOYEES

The average number of employees in Funcom N.V. for 2008 was 0 (2007: 0).

12. REMUNERATION OF THE MEMBERS OF THE MANAGING BOARD

Total remuneration

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

The total remuneration (including pension expenditures and other commitments) of the members of the Managing Board amounted to USD 385 407 (2007: USD 493,036). The remuneration of the individual members of the Managing Board was as follows:

The CEO of the Group, who is also a member of the Management Board, received in 2008 a total remuneration including pensions of USD 231 052 (2007 - 2006: USD 286 851 - USD 191 903). Jan Inge Torgersen who was a member of the Management Board and a manager in the Group received remuneration in 2008 of USD 154 405 (2007 - 2006: USD 206 185 – USD 192 146).

Outstanding and exercised stock incentives

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

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2007	In 2008 Granted	Exercised	Forfeited/ Expired	Outstanding on Dec. 31, 2008	Exercise price	Expiry date
Trond Arne Aas								
Stock options	2005	125,000			125,000		EUR 0.43	12/15/08
	2005	125,000			125,000		EUR 0.43	12/15/08
	2005	125,000			125,000		EUR 0.43	12/15/08
	2007	9,167			9,167		NOK 17.78	9/1/08
	2007	9,167				9,167	NOK 17.78	9/1/09
	2007	9,167				9,167	NOK 17.78	9/1/10
	2007	50,000			50,000		NOK 35.77	9/1/08
	2007	50,000				50,000	NOK 35.77	9/1/09
	2007	50,000				50,000	NOK 35.77	9/1/10
	2008		166,666			166,666	NOK 2.85	12/19/09
	2008		166,666			166,666	NOK 2.85	12/19/10
	2008		166,668			166,668	NOK 2.85	12/19/11
Total		552,500	500,000		434,167	618,334		
Of which vested		375,000						
Jan Inge Torgersen								
Stock options	2005						EUR 0.43	12/15/08
	2005						EUR 0.43	12/15/08
	2005						EUR 0.43	12/15/08
	2007	5,000			5,000		NOK 17.78	1/9/08
	2007	5,000			5,000		NOK 17.78	1/9/09
	2007	5,000			5,000		NOK 17.78	1/9/10
	2007	20,000			20,000		NOK 35.77	1/9/08
	2007	20,000			20,000		NOK 35.77	1/9/09
	2007	20,000			20,000		NOK 35.77	1/9/10
Total		75,000			75,000			
Of which vested								
Pieter van Tol								
Stock options	2008		16,666			16,666	NOK 2.85	12/19/09
	2008		16,667			16,667	NOK 2.85	12/19/10
	2008		16,667			16,667	NOK 2.85	12/19/11
Total			50,000			50,000		
Of which vested								

Shares

At year end 2008 the members of the Managing Board held 1 438 325 shares (year end 2007: 1 607 825)

Loans

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

13. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

There has been no increase in the remuneration of the Supervisory Board in 2008 and the total outstanding fee for 2008 at December 31, 2008 amounted to EUR 55,000 (USD 77 533) (2007: EUR 57,000 - USD 77 682). For 2009 the remuneration for the Supervisory Board will increase as approved by the Extraordinary General Meeting held on December 19, 2008.

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

in €	Annual fixed fee	Total
Torleif Ahlsand (chairman)	25,000	25,000
Hans Peter Jebsen	8,000	8,000
Claus Højbjerg Andersen	8,000	8,000
Michel Cassius	8,000	8,000
Frank Sagnier	2,000	2,000
Pieter van Tol	4,000	4,000
Total	55,000	55,000

Stock options

The following table outlines the conditions for the options granted to the Supervisory Board members:

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2007	In 2008 Granted	In 2008 Exercised	In 2008 Forfeited/ Expired	Outstanding on Dec. 31, 2008	Exercise price	Expiry date
Michel Cassius								
Stock options	2007	16,666			16,666	0	NOK 35.77	1/9/08
	2007	16,667				16,667	NOK 35.77	1/9/09
	2007	16,667				16,667	NOK 35.77	1/9/10
	2008		12,500			12,500	NOK 2.85	11/21/10
	2008		37,500			37,500	NOK 2.85	11/21/10
Total		50,000	50,000		16,666	83,334		
Of which vested								
Frank Sagnier								
Stock options	2008		12,500			12,500	NOK 2.85	11/21/10
	2008		37,500			37,500	NOK 2.85	11/21/10
Total			50,000			50,000		
Of which vested								
Claus Højbjerg Andersen								
Stock options	2008		12,500			12,500	NOK 2.85	11/21/10
	2008		37,500			37,500	NOK 2.85	11/21/10
Total			50,000			50,000		
Of which vested								
Hans Peter Jebsen								
Stock options	2008		12,500			12,500	NOK 2.85	11/21/10
	2008		37,500			37,500	NOK 2.85	11/21/10
Total			50,000			50,000		
Of which vested								
Torleif Ahlsand								
Stock options	2008		25,000			25,000	NOK 2.85	11/21/10
	2008		75,000			75,000	NOK 2.85	11/21/10
Total			100,000			100,000		
Of which vested								

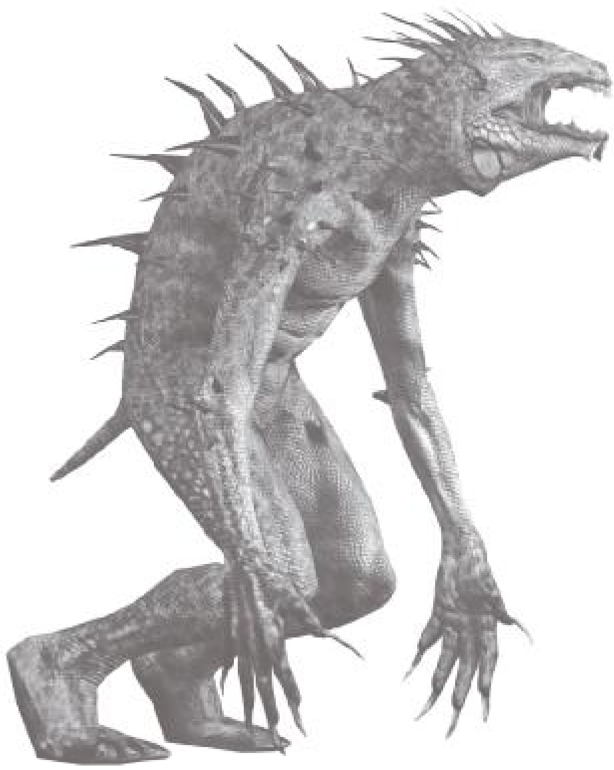
14. AUDIT FEES

The Group's auditors received a total fee of USD 129 423 (2007 - 2006: USD 220,493 – USD 215,110). The fee is distributed within these services and is not including VAT;

▪ statutory audit services	129 423
▪ further assurance services	0
▪ tax advisory services	0
▪ other non-audit services	0

15. TRANSACTIONS WITH RELATED PARTIES

A fee of USD 0 has been paid to Temmes Management Services B.V. in 2008 (2007 - 2006: USD 0 – USD 0). Temmes Management Services B.V. is controlled by Management Board member P.G.C van Tol. P.G.C van Tol also has an interest in Weidema van Tol which has received a fee of USD 133 620 for legal advice in 2008 (2007 - 2006: USD 141 652 – USD 46 505). As at year end 2008 the outstanding amount between the Company and Weidema van Tol amounted to USD 2 403 (2007: USD 6 000), and between the Company and Temmes Management Services B.V. the amount was 15 605 (2007: USD 0). For the services rendered from both these companies the Group did not pay above market price.



To: the shareholders of Funcom N.V.

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2008 of Funcom N.V., Katwijk. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2008, the company profit and loss account for the year then ended and the notes.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

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

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V
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Tel: +31 (0)20-2060500 - Fax: +31 (0)20-6448051

MAZARS

OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2008, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Amsterdam, 13 March 2009

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

was signed by drs R.C.H.M. Horsmans RA RV

Funcom N.V. Other information

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

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

PROPOSED APPROPRIATION OF THE RESULT FOR THE YEAR

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

EVENTS AFTER THE BALANCE SHEET DATE

In January and February 2009 the Group launched localized versions of *Age of Conan* in Poland and in Russia with positive gamer and press reception.

On February 23, 2009 Olav Sandnes gave notice of resignation from his position as CFO for the Group. Mr. Sandnes is leaving the company in order to take up a new position in a different industry.

On March 5, 2009, 2 032 800 options to acquire shares were granted to key personnel in Funcom.
One third of the options are vested each of the three years subsequent to the date of grant. The exercise of these options is subject to the Standard Terms under the Share Incentive Program of Funcom N.V.. The exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior and 5 trade days after the date of grant.

There have been no other material events than described above between December 31, 2008 and the date of authorization that would require adjustments of the consolidated financial statements or disclosure.

Responsibility Statement

In accordance with best practice II.1.4 of the Dutch corporate governance code of December 2003, taking into account the recommendation of the Corporate Governance Code Monitoring Committee on the application thereof, 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 2008 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated companies; and
- The Annual Report gives a true and fair view of the position as per December 31, 2008, the development during 2008 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Group faces.

Investor Relations Policy for Funcom N.V.

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

This IR policy was approved by the Funcom Supervisory Board on 21 March 2007. The policy has since been revisited and approved by Supervisory Board in February 2008 and in February 2009.

EQUAL TREATMENT

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

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

SPOKESPEOPLE FOR THE COMPANY

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

PUBLICATION OF PRICE SENSITIVE INFORMATION

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

GUIDANCE

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

RELATIONSHIP WITH INVESTMENT ANALYSTS, EARNINGS FORECASTS AND MARKET EXPECTATIONS

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

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

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

SILENT PERIOD

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

Financial Calendar for Funcom 2009

Funcom NV will publish its financial statements on the following dates in 2009:

- Monday 23 February - Q4 2008
- Friday 15 May - Q1 2009
- Wednesday 26 August - Q2 2009
- Thursday 12 November - Q3 2009

Annual general meeting: May 21, 2009

The dates are subject to change.

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