FUNCOM

2018

ANNUAL REPORT

Contents

Letter from the CEO

2018 is our best year to date. A year marked by the full release of Conan Exiles, by the acquisition of 50% of the IP licenses for Conan and other properties for games, by the investment from Swedbank Robur to fuel our publishing strategy and by the launch of our first published game under this strategy – Mutant Year Zero: Road to Eden.

It has been a hectic year, with more activities and projects than ever before. We are happy to see the support of partners, investors and shareholders for our strategy of becoming a key player in niches and game genres that are too small for the big publisher but too difficult to reach for small independent studios. We truly believe we are well positioned to achieve this, and our multiple ongoing projects on several fronts are a natural risk mitigation mechanism that still keeps the very strong upside these various niches represent.

This is only the beginning of our journey, and we believe 2019 will be a year where exciting projects and opportunities will present themselves, the fruits of which we will see in 2020 and beyond.

We can see a glimpse of that future already, with five new confirmed games in the pipeline and a few new games being considered. Several small internal activities are planned to boost revenue on existing games through DLCs, additional platforms/stores and partnerships. We also see it in our second acquisition in one year, the Lisbon-based studio ZPX. A great way to secure production capacity while keeping costs under control.

We are happy to see that 2018 ended with the successful release of Mutant Year Zero: Road to Eden. A great game that was well received, contributed significantly to the 4Q18 financials and, most importantly, to our reputation as a publisher that works hard to give a game its best chance at succeeding.

Finally, we are very excited to announce an exclusive gaming partnership with Legendary Entertainment to develop a line of video games based on the works of Frank Herbert's DUNE. DUNE is one of the world's best-known science fiction universes and a personal favourite of mine. To work on DUNE games is a dream come true for many of us in Funcom. We will talk more about what we will do in this fantastic universe in the future.

Funcom is stronger than ever. With an incredibly exciting pipeline of games, and by continuing to successfully execute on our strategy, it is my conviction that we will lift the company to new heights.

Rui Casais, Chief Executive Officer

About Funcom

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

Funcom N.V. (the Company) was founded in 1993 and listed on the Oslo Stock Exchange in 2005. The Company has developed and published around 30 game titles across several genres and gaming platforms. The Company holds a broad portfolio of released games and owned content, illustrated below.

Conan® Exiles launched into Early Access on PC in 2017, recouping its development costs after just a week. This was followed by the full release of Conan Exiles in May 2018 on PC, Xbox One and PlayStation 4 to great success, with the game selling over 1.4 million units between Early Access launch and a month after Full release. In 2018 Funcom also published *Mutant Year Zero®: Road to Eden* made by Swedish developer The Bearded Ladies, solidifying its reputation as a publisher of externally developed games. Previous notable and still active games include the online MMOs *Secret World Legends® (relaunched in 2017), Age of Conan®* and *Anarchy Online®.* Around 170 talented individuals are employed at the Company's studios in Oslo, North Carolina and Portugal at the time of release of the annual report.

The launch of *Conan Exiles* in 2017 marked the successful execution of the strategic turnaround initiated in 2015. Key objectives were securing short development time bringing all games fast to the market, working on multiple games and revenue generating activities in parallel and doubling the addressable markets by launching games on console in addition to PC.

In 2017 further strategic initiatives were made by adding publishing of externally developed games and acquiring intellectual property rights. This created more revenue streams at a lower risk, leading to more predictable cash flows and financials and a more stable base from which to grow. In early 2018 the Company secured control over its main Intellectual Property, Conan the Barbarian, through the creation of Heroic Signatures, a joint operation together with Cabinet Entertainment containing the rights for interactive entertainment products utilizing Conan and a number of other IPs. In 2019 a six-year exclusive partnership to make games based on the DUNE IP, one of the world's best-known science fiction universes, was announced.

The current strategy is summarized below.

	ADDITIONS / YEAR	INVESTMENT SIZE	MARGIN	STRATEGIC VALUE
INTELLECTUAL PROPERTY LICENSES	+1 - 4	VERY LOW	VERY HIGH	• IP control • Value creation by IP development • Additional revenue sources
NEW PUBLISHING GAMES	+2 - 3	LOW-MID	MEDIUM	• Frequent releases • Low fixed employee cost impact • Finding long term partners
NEW INTERNALLY DEVELOPED GAMES	+1	MID-LARGE	HIGH	• Large upside • Build and leverage competitive advantages
GAMES IN OPERATION & BACK CATALOGUE	+3	VERY LOW	HIGH	• Baseline cash contribution • IP Value maintenance • Strengthen community

PLATFORMS
For Publishing: PC, Xbox One, PlayStation 4, Switch
For IP licenses: All

DEVELOPMENT TIME
1 to 2 years of Full production

BIZ MODEL
Premium with additional monetization

GLOBAL DISTRIBUTION
NA and Europe: direct
Other regions: with partners

The four main revenue streams are as follows

- **Games in operation & back catalogue**: the portfolio of games in operation includes *Conan Exiles*, *Mutant Year Zero*, *Secret World Legends, Age of Conan, Anarchy Online. These games* are actively developed, new content is added, and events are held to support engagement. The back catalogue includes smaller games that are monetized without any ongoing development work or cost. With frequent new releases we aim to increase the portfolio of operational games with 3 or more games annually, further increasing the stable base cash flow.

- **New internally developed games**: with a minimum of two games in development internally at all times, the aim is to release one internal game per year, although the release schedule might not match the calendar years. The Company's IPs and competence in Online games and RPGs are leveraged for this purpose.

- **New publishing games**: the Company is building a network of trusted developers to partner up to co-develop and/or publish games and bring them to market utilizing its internal resources that the external developers do not typically have themselves, such as Marketing, Sales, Community management, Online operations, Motion Capture, Localization, Quality Assurance and Customer Service and Technology and porting to console expertise. The goal is to have two to three such externally developed products launched annually.

- **Intellectual property licenses**: Generation of activity, games and revenue from IP. This includes the interactive IP licenses held through Heroic Signatures DA acquired in February 2018, including *Conan the Barbarian*, *Mutant Year Zero*, *Solomon Kane* and other appealing IPs, as well as our own IP portfolio comprising *The Longest Journey, Anarchy Online* and *The Secret World*.

The Company carefully considers what niches to compete in and seeks niches that are too small for the largest industry players to focus on and too difficult for small indie companies to compete in. The company's main niche, open-world multiplayer games requires a highly technically skilled organization to deliver on challenging multi-player elements which represents a significant entry barrier. Funcom has developed these skills over several years working on MMO games. Combining game development plans and niches the Company aims to get a quick recoup of its investments while maintaining a good chance of breakthrough success for each game.

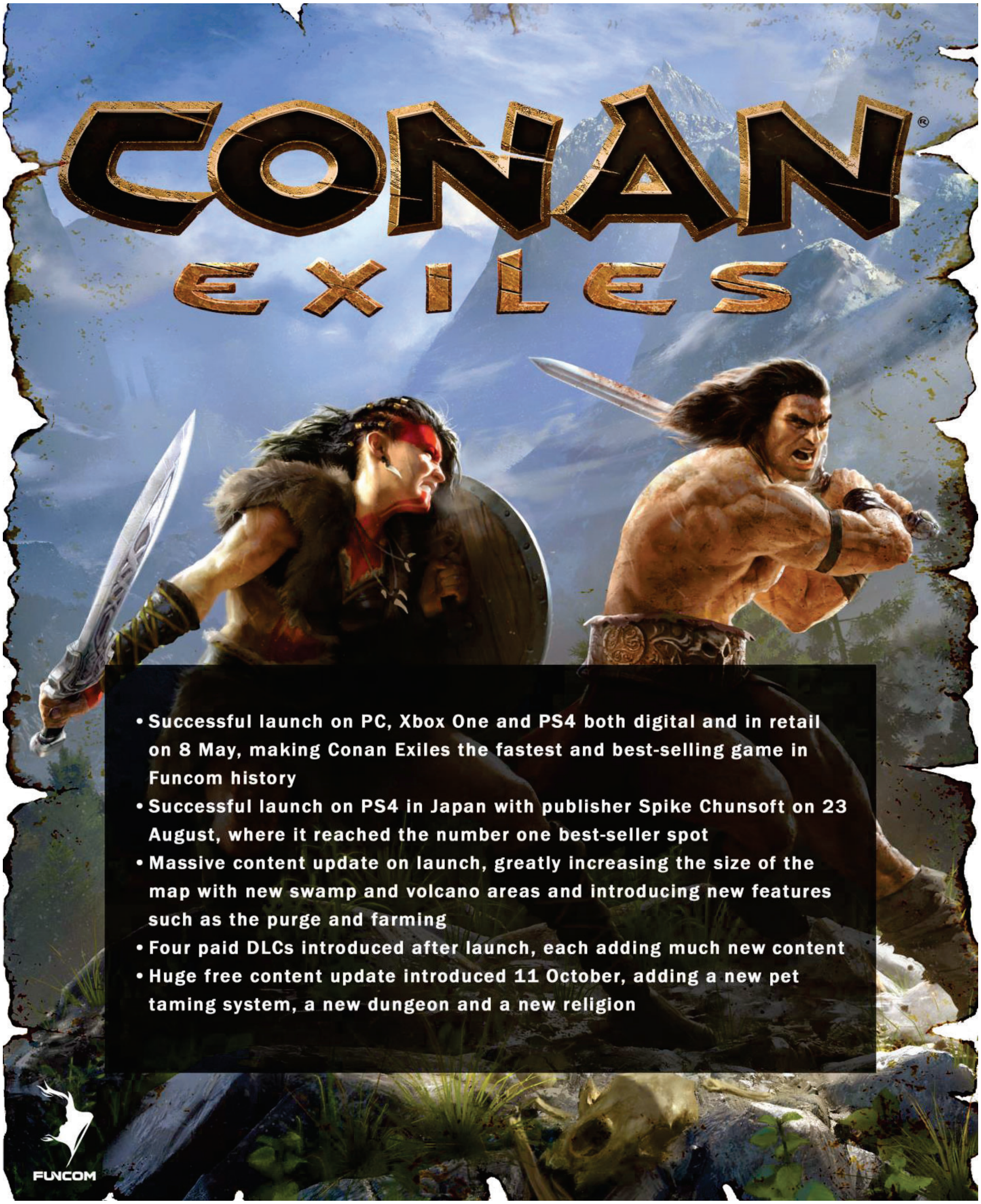
The Company will focus on the PC and Console digital markets. Physical retail distribution of the Company's games will be done when relevant and executed in conjunction with distribution partners. Geographically, the Company secures global distribution, handling digital distribution in North America and Europe directly, and selectively working with partners for other important markets.

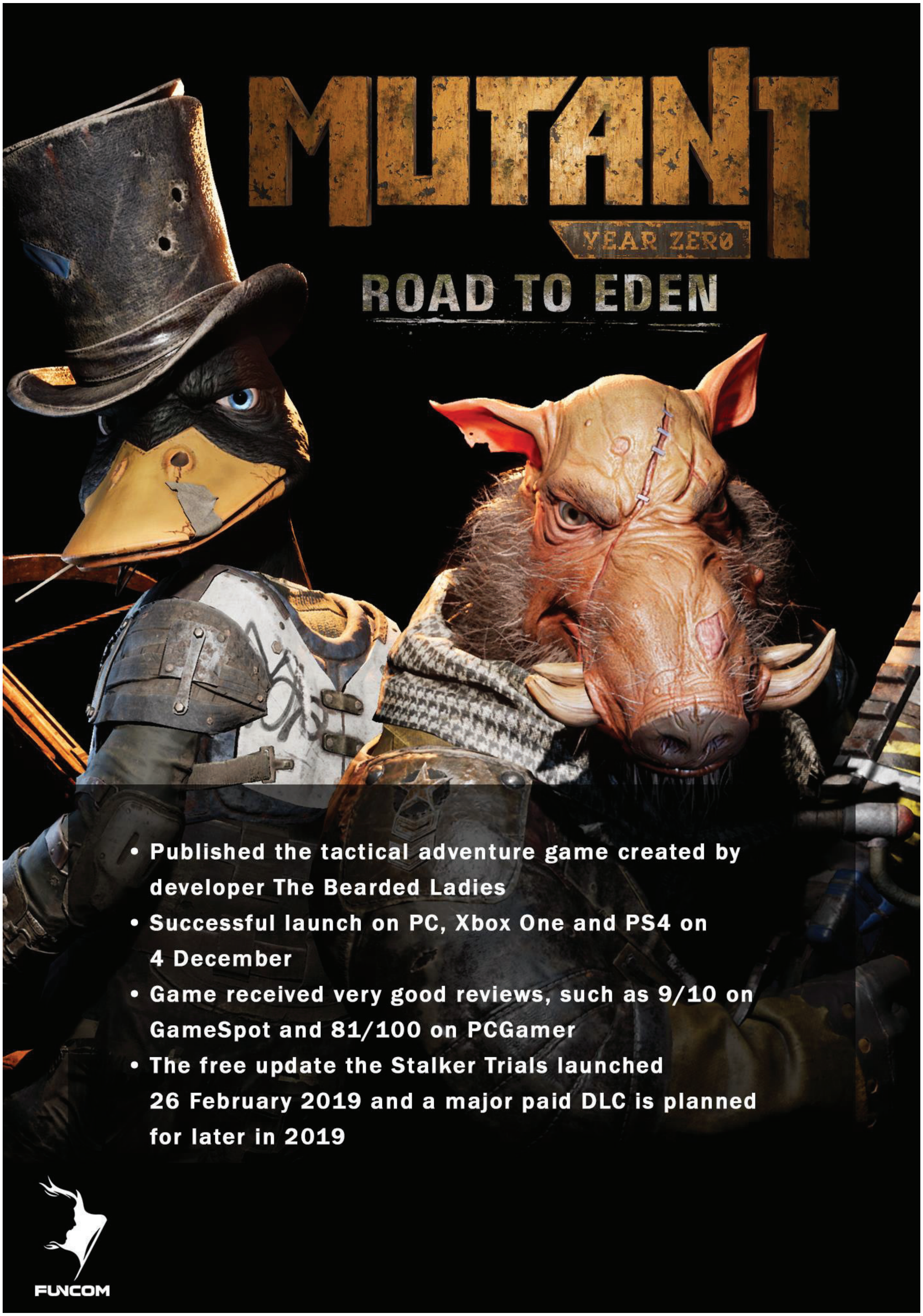
Funcom will continue to leverage the internal Technology's team know-how and competence gained during the creation of the *DreamWorld Technology®* to maintain a modern technological platform that all of the Company's projects, internal or external, can leverage to obtain a key competitive advantage in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

The Company's strategy is designed to reduce the Company's overall risk exposure, control costs through careful investment decisions and budgeting, increase the financial stability by having more revenue sources and increase the odds of a break-out success by having more game releases.

For more information, visit www.funcom.com.

Active game portfolio




MUTANT
YEAR ZERO
ROAD TO EDEN
• Published the tactical adventure game created by developer The Bearded Ladies
• Successful launch on PC, Xbox One and PS4 on 4 December
• Game received very good reviews, such as 9/10 on GameSpot and 81/100 on PCGamer
• The free update the Stalker Trials launched 26 February 2019 and a major paid DLC is planned for later in 2019
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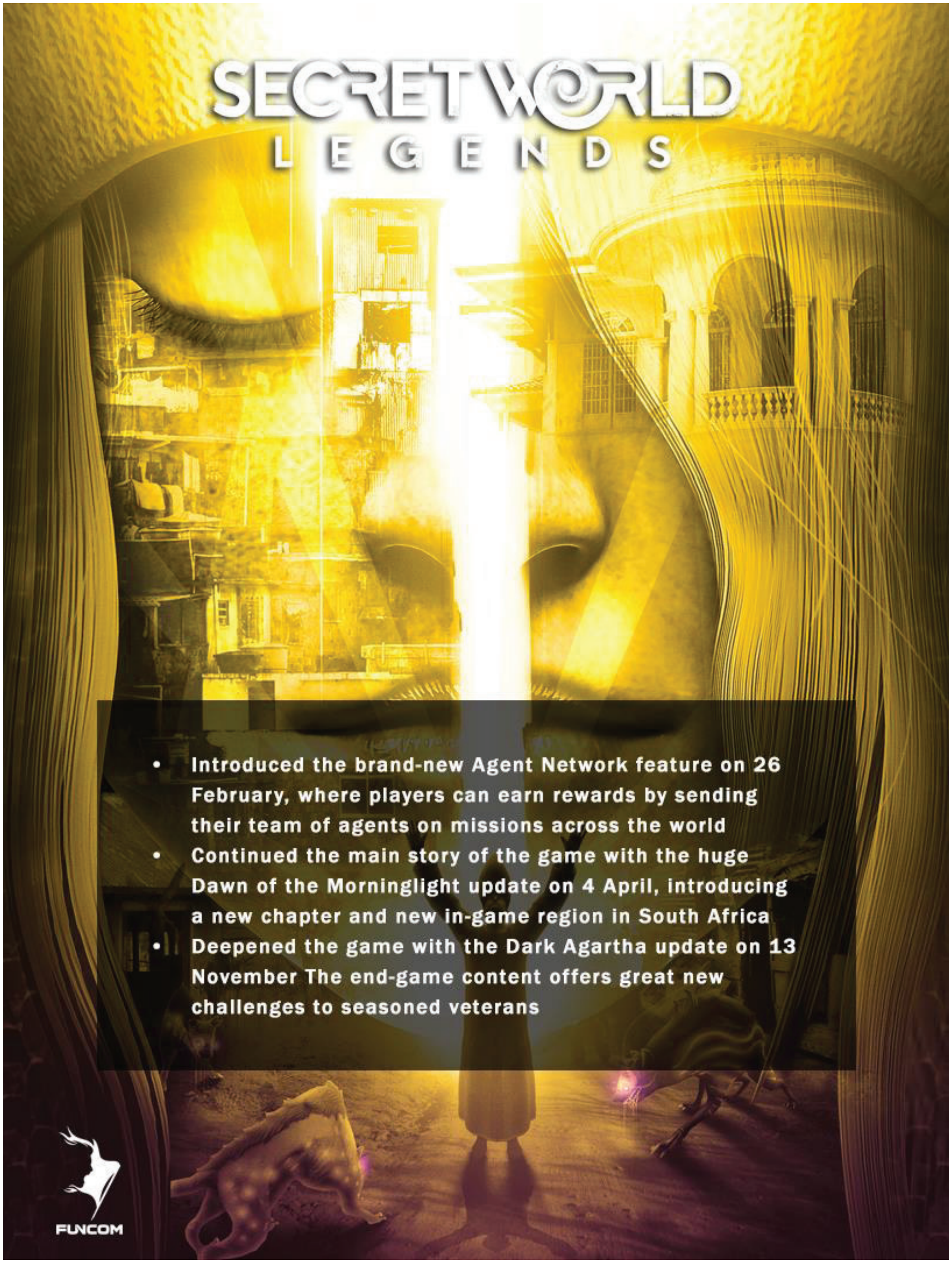

SECRET WORLD
LEGENDS
• Introduced the brand-new Agent Network feature on 26 February, where players can earn rewards by sending their team of agents on missions across the world
• Continued the main story of the game with the huge Dawn of the Morninglight update on 4 April, introducing a new chapter and new in-game region in South Africa
• Deepened the game with the Dark Agartha update on 13 November The end-game content offers great new challenges to seasoned veterans
FUNCOM


CONAN®
UNCONQUERED
• First revealed on 8 December on Kinda Funny Games Showcase, with press release and wide press coverage following on 10 December
• Made by veteran strategy game developers Petroglyph, including some of the creators of classic games like Dune 2, Command & Conquer and Star Wars: Empire at War
• Game to launch on PC 30 May 2019
• First gameplay was revealed at GDC 2019
FUNCOM

Other games

Age of Conan®
Age of Conan launched in 2008 and sold more than 1.4 million copies before it went over to a free-to-play business model. Age of Conan's largest update in 2018 was the new Saga of Blood server. Players competed for new rewards by stacking up kills in player-versus-player combat. New leaderboards were also created.

Anarchy Online®
The sci-fi MMO launched in 2001 and Anarchy Online still has a fan base and continues to generate revenues. A new progression server for members is planned for 2019.

The Park®/ Hide & Shriek®
Smaller games set in the Secret World Legends universe. They were Funcom's first games made in the Unreal 4 engine and gave the company valuable experience for future projects. Released in 2015 and 2016.

The Longest Journey®
The Longest Journey, Dreamfall: The Longest Journey (released 1999 and 2006) and Dreamfall Chapters developed by Red Thread Games on a license from Funcom (released 2014-17), all take place in this universe and continue to generate revenue.

The Dreamworld Technology

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

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

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

Key developments on the core technology front in 2018 include

- Cross platform secure dedicated server technology.
- Cross platform crash reporting and metrics gathering system development.
- Building the foundation for a live service set of functionalities for upcoming projects, allowing decoupling of our games from specific platforms and storefronts.
- Extensive work on optimizing parts of Unreal Engine 4 for Funcom's large scale multiplayer games.

Report of the Management Board

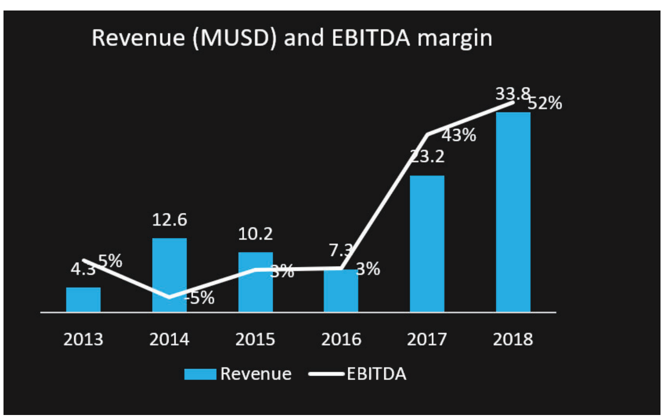
This chapter of the annual report amongst other matters, contains certain statements that are made pursuant to Section 2a of the Dutch Governmental Decree setting further regulations concerning the contents of the report of the Board of Managing Directors (*Vaststellingsbesluit nadere voorschriften inhoud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

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

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

Legal structure
For an overview of the legal structure of the Company and its subsidiaries (together referred to as the 'Group') – please refer to Note 25

Review of Funcom's financial position and financial results for 2018
2018 was the most profitable year in Funcom's history, which is the second year in a row with the highest profitability to date. The below graph illustrates the successful execution of the strategic turnaround initiated in 2015 and expanded in 2017.



Funcom's revenues for 2018 increased by 46% to USD 33 776 thousand compared to last year (2017: USD 23 162 thousand). The significant increase by more than USD 10 million is mainly driven by Conan Exiles and the successful launch of its first published game, *Mutant Year Zero: Road to Eden*.

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2018 increased by 78% to USD 17 690 thousand (2017: USD 9 937 thousand), which is the highest EBITDA for Funcom to date.

Funcom performed four quarterly impairment tests in 2018. As no indicators to adjust down its game values were found, no impairment was recorded in 2018. The management will continue to monitor the value of Funcom's assets and inform the market of any material changes. The Earnings before Interest and Tax (EBIT) increased by 53% to USD 10 166 thousand in 2018 (2017: USD 6 639 thousand), which corresponds to the highest EBIT for Funcom to date.

The Company reported a net profit for 2018 of USD 6 618 thousand compared to a net profit for 2017 of USD 4 957 thousand. Thus, the earnings per share (fully diluted) increased from USD 0.06 at the end of 2017 to USD 0.08 at the end of 2018. These figures take into account the 5:1 reverse split that the Company conducted on 1 February 2018; the 2017 figures have been adjusted accordingly for comparison purposes.

The Equity of the Company at year-end increased very significantly to USD 45 175 thousand compared to USD 13 678 thousand in 2017. Besides the profit generated in 2018, the increase of the Equity was mainly due to the Swedbank Robur private placement, the IP license acquisition through Heroic Signatures DA and debt conversions.

In February 2018 Funcom executed a private placement of 6 800 000 new shares at a subscription price of NOK 13 per share. The total gross proceeds to Funcom in the private placement was NOK 88.4 million. This transaction increased the equity of the Company with USD 11 508 thousand after USD 127 thousand in transaction fees. At the same time, Funcom completed the acquisition of 50% of "Heroic Signatures DA" in exchange of the issuance of 4 460 000 new shares, each at a subscription price of NOK 13. This transaction increased the equity with USD 7 493 thousand.

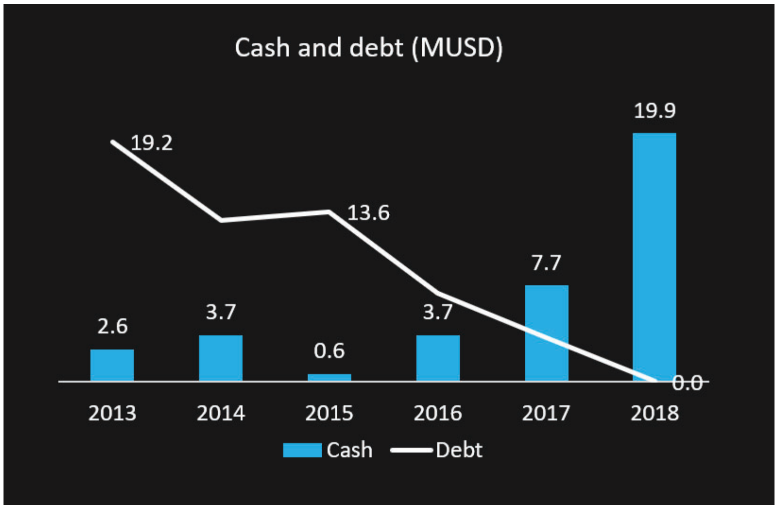
During 2018, a total of USD 3 616 thousand under the remaining convertible bond (including accrued interest) was converted into 6 602 458 Funcom shares at the price of USD 0.518 per share. After these conversions, there are no bonds outstanding, and for the first time since 2009 Funcom has no interest-bearing debt.

Finally, during 2018, the Company issued a total of 838 135 new shares in relation to exercise of employee options.

The cash position of the Company at year-end was USD 19 902 thousand compared to USD 7 731 thousand at the end of 2017. The significant increase was due to the cash inflow from the execution of a private placement in February 2018 as well as the full release of Conan Exiles.

Going concern

Upon preparing and finalizing the 2018 financial statements, the Management Board assessed the Company's ability to fund its operations for a period of at least one year after the date of the annual report. As illustrated below the cash balance has improved significantly in recent years at the same time as the debt has been reduced, and the Company is currently debt free.



Based on the above cash balance, no debt, recent successful launches, future pipeline and access to external funding in the financial markets the going concern assumption is justified and consequently the audited consolidated financial statements of the Company for the year have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from any projections.

Financial instruments
The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant positions in other currencies than US dollars, for example Norwegian Krone. The Group does not invest in equity or debt securities. Please refer to Note 23 and 26 for further information on financial instruments and risk management.

Main Developments

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

Game launches in 2018
The successful full launch of Conan Exiles on 8 May 2018 and strong post launch performance has been a driver of the high profits. At the time of full launch 1 million copies had already been sold, and two weeks later at the 1Q18 presentation 1.4 million copies had been sold (PC refunds not excluded). The successful Mutant Year Zero launch also contributed and solidified Funcom's position as a reputable publisher of third party developed games. Funcom's revenue for 2018 was USD 33 776 thousand compared to USD 23 162 thousand in 2017. The key platforms on which the games are sold are Steam, PlayStation 4 (Sony) and Xbox One (Microsoft).

Pipeline - games for launch after 2018
Funcom has a strong pipeline of future game releases, illustrated below.

The key launches after 2018, currently in the pipeline

- Conan Unconquered – 30 May 2019 release
- Mutant Year Zero digital and retail version for Switch and DLC – summer '19 release
- Moons of Madness – Halloween '19 release
- Funcom North Carolina's multiplayer Co-op shooter – 2020 release
- Funcom Oslo's Conan single player – 2020 release
- Funcom Oslo's DUNE IP Open world multiplayer

Conan Unconquered is developed by US based Petroglyph, Mutant Year Zero is developed by Sweden based Bearded Ladies and Moons of Madness is developed by Norway based Rock Pocket. In addition, the Company has ongoing development work on eight other existing games or prototypes for future games.

During 2018, in total USD 15 209 thousand of game development was capitalized on all the games.

IP investment

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

DUNE IP licensing

On 26 February 2019 it was announced that the Company has entered into an exclusive gaming partnership with Legendary Entertainment for the creation of a minimum of 3 games based on the DUNE Intellectual Property over the next six years, on PC and Console. DUNE is one of the world's best-known science fiction universes.

ZPX acquisition

On 8 January 2019 it was announced that Funcom had acquired 50.1% of the Lisbon, Portugal, based company, Zona Paradoxal, Lda ("ZPX") with whom it has had a working relationship since 2017.

ZPX is a game development company, which has provided services to Funcom on *Conan Exiles*, *Mutant Year Zero: Road to Eden* and other projects and will continue to act independently with Funcom as its main customer.

Strategically this acquisition secures control of an important development partner, allowing for continued development cost savings when compared to Funcom's main studios and for access to the growing talent pool of Portugal and Spain. ZPX's quality and client focused attitude and history of providing varied services and executing projects in different time zones is also a good match for Funcom's growing list of projects in development, allowing them to support both internal and published projects with ease. ZPX currently employs 15 individuals and are searching for great talent to gradually double the team.

Due to the limited size of the company the acquisition will not have significant impact on Funcom's financials and is classified as an immaterial business combination in terms of reporting requirements. Part of the consideration for the acquisition of the 50.1% ownership in ZPX is 102 363 new shares that Funcom will issue to the founders and shareholders of ZPX.

Outlook

The financial performance outlook of the Company is positive, with ongoing significant investments into both internal and published games, most of which for projects launching in 2020 and beyond.

Key factors of the outlook

- The continued sales of *Conan Exiles* and *Mutant Year Zero: Road to Eden* including upcoming DLCs and additional stores and platforms support.
- Launch of *Conan Unconquered* on 30 May 2019 on PC
- Launch of Moons of Madness in the Halloween season of 2019 on PC, Xbox One and PlayStation 4
- Launch of Funcom North Carolina's Shooter game and Funcom Oslo's Conan single player game in 2020
- Development and launch of a minimum of 3 games based on the DUNE IP

Revenue and profitability should be expected to vary from quarter to quarter, depending on launch activity, sales and other events. The Company's strategy of releasing both internally and externally developed games, allowing multiple releases each year, is designed to increase diversification and reduce risk. Revenue from the online games are expected to slowly decline over time due to their ageing. However, Funcom will continue to launch events and content releases to spur periods of growth. In line with the communicated strategy Funcom is investing in the above mentioned and additional co-development and publishing games going forward

Market development

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

Internal & external environment

Funcom recognizes that its key assets are its employees and is committed to maintain a stimulating working environment that offers the opportunity for both personal and professional development. This is also necessary to continue to attract and retain highly qualified employees within the gaming industry. As of 31 December 2018, the group employed 143 employees compared to 118 at the end of 2017.

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

Shareholders and capital

The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will continue to ensure that information is communicated to the market equally and that the information provides an accurate view of the status of the Company in all material respects on an ongoing basis. The share capital of Funcom N.V. comprises of one class of ordinary shares. Each share confers the right to cast one vote. At the end of 2018, Funcom N.V. had a share capital of USD 18 224 thousand (2017: USD 13 525 thousand) consisting of 77 009 493 shares with a nominal value of EUR 0.20 per share. On 30 January 2018, the Company effectuated a reverse share split in the ratio of 5:1, by increasing the nominal value of the shares from EUR 0.04 to EUR 0.20, so that 5 (five) shares before the reverse share split became 1 (one) share after the completion of the reverse share split. There are no restrictions in relation to the transfer of shares in the capital of Funcom N.V. There are 4 108 398 outstanding share options granted to employees and directors in the Company at the end of 2018 (2017: 2 988 160).

General Meeting of Shareholders

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

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

The depositary ownership of the investors is registered in the VPS under the category of a "share" and the depositary ownership is listed and traded on Oslo Stock Exchange. Investors who purchase shares (although recorded as owners of the shares in the VPS) have no direct shareholder rights in Funcom N.V. Each share registered with the VPS represents evidence of depositary ownership of one share. The shares registered with the VPS are freely transferable, with delivery and settlement through the VPS system. The VPS Registrar or its designee shall only vote the shares it holds, or issue a proxy to vote on such shares, in accordance with each investor's instructions. Funcom N.V. will pay dividends directly to the VPS Registrar that has undertaken, in turn, to distribute the dividends to the investors in accordance with contractual arrangements on that point. Typically, less than 50% of the issued share capital of Funcom N.V. is represented at a general meeting, generally represented through proxy.

Corporate governance

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

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

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

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

The Management Board consists of two males and the Supervisory Board consists of one female and four males. In the appointment of directors and auditors, job profiles are used in which there is no gender distinction. The Management and Supervisory Board seek a more diverse composition. In any future replacement of Directors or Supervisory Board members both men and women are invited to apply. In the final stage of the future selection of candidates, the quality of any candidate will prevail.

Dividends
Funcom is investing its capital in the development of existing and future games, developed inhouse or in cooperation with third parties where Funcom acts as publisher. Funcom also values the flexibility to be able to pursue strategic opportunities. The Company will therefore retain its surplus cash in the Company for the time being. Based on the performance of new game launches and the company's financial position a revision to this dividend policy might be considered.

Application of profit/loss
The Management Board does not propose payment of a dividend. Management proposes to appropriate the profit to retained earnings. Total equity after appropriation of the results for 2018 is USD 45 175 thousand (2017: USD 13 678 thousand).

Events after the reporting period
Any significant events after the reporting period are detailed in Note 27 in the Notes to the Consolidated Financial Statements in this Annual Report.

Management statement
The Management Board of Funcom hereby confirms that these financial statements give a true and fair view of the situation as per reporting date and of the course of the business during the year. The significant risks that the Company faces are described in Note 23 and 26.

Badhoevedorp, the Netherlands, 10 April 2019

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Managing Director
sgd

Corporate governance

Funcom's corporate governance policy

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

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

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

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

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

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

1. Implementation and reporting on corporate governance

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

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

2. Business

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

Departures from the recommendation: None

3. Equity and dividends

Equity
The equity of the Company improved from USD 13 678 thousand at the end of 2017 to USD 45 175 thousand at the end of 2018, driven by profits, a private placement by Swedbank Robur and debt conversion.

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

Mandates granted to the Supervisory Board
Mandates granted to the board of Directors concerning the issued capital are restricted to defined purposes and limited in time to the next General Meeting (GM).

Departures from the recommendation: None

4. Equal treatment of shareholders and transactions with close associates

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

Transactions between related parties
Funcom's Supervisory Board is committed to treating all the Company's shareholders equally. In 2018, 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 those described in Note 24 in the Notes to the Consolidated Financial Statements.

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

Departures from the recommendation: None

5. Freely negotiable shares

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

Departures from the recommendation: None

6. General Meetings

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

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

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

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

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

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

7. Nomination Committee

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

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

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

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

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

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

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

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

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

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

Departures from the recommendation: None.

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

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

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

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

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

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

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

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

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

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

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

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

Departures from the recommendation: None

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

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

Departures from the recommendation: None.

15. Auditor

The auditor's relationship with the Board

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

The auditor's relationship to management

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

Departures from the recommendation: None.

16. Sexual Harassment

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

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

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

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

Departures from the Dutch Corporate Governance Code:

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

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

(i) Pursuant to Provision 2.1.5, the Supervisory Board should draw up a diversity policy for the composition of the Management Board and the Supervisory Board. The Supervisory Board has not drawn up such policy and there is no female member in the Management

Board. There is one female member of the Supervisory Board, and none in the executive committee. The Company encourages selection of people from diverse backgrounds.

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

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

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

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

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

(vii) Pursuant to Provision 3.1.2, the terms and conditions governing share options and conditions subject to which share options can be exercised should be taken into consideration when formulating the remuneration policy. The Company has an option program for the Management Board members where options vest immediately.

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

Responsibility Statement

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

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

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

- The annual financial statements of 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies whose financial information it consolidates; and
- The Report of the Management Board gives a true and fair view of the position as per 31 December 2018, the development during 2018 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

Badhoevedorp, 10 April 2019

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Member of the Management Board
sgd

Corporate Governance Declaration

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

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

Badhoevedorp, 10 April 2019

Rui Casais, CEO, Chairman of the Management Board
sgd

Christian Olsthoorn, Member of the Management Board
sgd

Report of the Supervisory Board of Directors

Annual report
The members of the Supervisory board of Funcom N.V. hereby present you with the Annual Report for 2018, including the annual financial statements that were drawn up by the Management Board. The annual financial statements have been examined by the external auditors of BDO Audit & Assurance B.V. who intend to issue an unqualified audit opinion. We have reviewed and discussed the Annual Report with the Management Board and the auditors prior to its publishing.

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

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

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

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

Activities
In 2018 the Supervisory Board of Directors held 6 (six) in-person and conference call meetings. During the meetings / calls the Company’s financial and operational status and objectives, strategy and accompanying risks were discussed. The main focus during the year has been on the following topics:
- regular evaluation of the Live Games performance *(Conan Exiles, Anarchy Online, Age of Conan, Secret World Legends*, *The Park, Hide and Shriek*) and the development progress that lead to full launch of *Conan Exiles* and launch of *Mutant Year Zero*, and the games in development to be launched in 2019 and later
- regular evaluation of the cost structure of the Company and ways to improve net contribution and overall profitability
- regular assessment of the Company’s cash position and financing strategy
- assessment of the publishing of externally developed games
- assessment of the joint operation Heroic Signatures DA
- assessment of the reverse split and private placement executed in February 2018
- assessment of the acquisition of Portugal based company Zona Paradoxal Lda, ZPX, closed in January 2019
- assessment of the partnership with Legendary studios giving Funcom an exclusive right to publish games based on the DUNE IP
- regular assessment of overall long-term value creation strategy of the Company, the strategic changes made during the year and alignment with industry trends

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

During the 2018 financial year the Supervisory Board has discussed its own functioning, that of its individual members and that of the Remuneration Committee and the Audit Committee. The Supervisory Board has received a report from the Audit Committee and the Remuneration Committee on their deliberations and findings.

The Audit Committee consists of Andreas Arntzen (chairman) and Egil Kvannli, after Magnus Grøneng left the Supervisory Board on 10 July 2018. The Audit Committee has had 3 meetings in 2018, focusing on supervising the integrity of the financial process and the reporting systems, the internal audit and the financial risk management procedures, relevant policies and independence and quality and performance of the external auditor. The Remuneration Committee consists of Fredrik Malmberg (chairman) and Susana Meza Graham, after the previous chairman Alain Tascain left the Supervisory Board on 31 October 2018. The Remuneration Committee has had four meetings in 2018, focusing on remuneration of executives and directors, option grants, and adjustments to the option program and potential adjustments to the remuneration policy. See www.funcom.com for the regulations of the two committees which further describe the work they do. It was concluded that that the performance of the Supervisory Board, its individual members, the Remuneration Committee and the Audit Committee, respectively, meet the standards set for that purpose as well as the objectives determined in the beginning of 2018. The Supervisory Board has furthermore discussed the overall composition of the Supervisory Board and competencies of its individual members. The Supervisory Board has in addition discussed the composition and functioning of the Management Board and its individual members.

In the course of the 2018 financial year the Supervisory Board has also discussed the risks associated with the operation of the business. To that end the Management Board has presented the Supervisory Board with its assessment of the functioning of the Company's internal risk management and control systems. The Supervisory Board is of the opinion that the current risk management and control systems are adequate, and the Management Board has furthermore not suggested any amendments thereto. The Audit Committee and The Supervisory Board have assessed whether a separate department for the internal audit function should be established but concluded that this is not suitable for the Company given its current size, scope and risk profile. During the year the Supervisory Board has regularly had discussions with the Management Board regarding its corporate strategy.

No supervisory board members had absences in 2018. Fredrik Malmberg recused himself from all deliberations about the Cabinet transaction to avoid conflict of interest.

Ole Gladhaug, Egil Kvannli and Fredrik Malmberg joined the Supervisory Board on 5 October 2016. Mr Gladhaug has been a member of the Supervisory Board in an earlier period, from April 2013 until August 2015. Andreas Arntzen joined the board at 10 July 2018, Susana Meza Graham joined the board on 14 September 2018. Mr. Kvannli, Mr. Malmberg, Mr Arntzen and Mrs Graham are currently in their first term. Ole Gladhaug joined the board as Chairman. Both Mr Gladhaug and Mr Arntzen are representing the largest shareholder in Funcom, the Kristian Gerhard Jebsen Group, and are hence not considered independent board members.

Required expertise and background of the Supervisory Board:

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

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

The established remuneration policy has been followed during 2018. The total remuneration of the Management Board consists of the following elements:

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

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

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

The following professionals served on the Supervisory Board as at year-end 2018:

Ole Gladhaug, Chairman of the Supervisory Board
(born 1954, male, Norwegian, 3rd term, member from April 24, 2013 until August 12, 2015, and since October 5, 2016)
Mr. Gladhaug has held senior executive positions within the shipping, oil services, banking and asset management industries. Prior to joining the Kristian Gerhard Jebsen Group (KGJG), Mr. Gladhaug served 7 years as CFO of Smedvig ASA (now part of Seadrill). Mr. Gladhaug joined KGJG in 2002 as CFO and member of the Group's executive team and is now Executive Vice President in the Group and Chairman of its subsidiary Jebsen Asset Management. Mr. Gladhaug has served as a non-executive director on a number of boards within banking, insurance, asset management and other industries. He holds a business and administration degree from the Norwegian School of Economics and a political science degree from the University of Bergen. Mr. Gladhaug holds 141 000 share options and 0 shares in the Company. Gladhaug is not viewed as independent since he is employed by KGJG, a company controlled by Mr. H.P. Jebsen, the main shareholder of Funcom. N.V.

Fredrik Malmberg
(born 1962, male, Swedish and American citizen, 1st term, member since October 5, 2016)
Mr. Malmberg has a background as a successful entrepreneur in film and television, publishing, table top and video games industries. Mr. Malmberg pioneered trans-media thinking and migrated into the Film industry as an Executive Producer on Heavy Gear and Mutant Chronicles. Malmberg facilitated the financing and purchase of the Conan the Barbarian character and the Robert E. Howard library on behalf of Paradox Entertainment in 2002, and a second time when he purchased it for Cabinet Holdings, Inc. (US) in 2015, where he is President & CEO. Cabinet owns 50% of the joint operation company Heroic Signatures DA where Funcom Group controls the remaining 50% of the shares. He was furthermore co-founder and board member of Paradox Entertainment (1999-

2013) and Target Games (1980-1999), both Swedish entities in the gaming industry. Mr. Malmberg holds 88 000 share options in the Company and 4 500 000 shares.

Egil Kvannli
(born 1972, male, Norwegian, 1st term, member since October 5, 2016)
Mr. Kvannli has a background as Chief Executive Officer and Chief Financial Officer. Mr. Kvannli holds a Bachelor-degree for Business and Administration, BI of the Norwegian School of Management of Stavanger, Norway and Bishops University, Quebec, Canada. From 2017 Mr. Kvannli works for Global Maritime Group as Chief Executive Officer. From 2011 Mr. Kvannli works for Quickflange AS, a Norwegian entity and from September 2015 he fulfils the role of Chief Executive Officer. Before August 2015 Mr. Kvannli fulfilled the role of Chief Financial Officer at Quickflange AS (2011-2015), Fabricom GDF Suez (2010-2011), Sevan Marine ASA (2005-2008), all Norwegian entities. Mr. Kvannli also acted as VP Finance for REC Site Services Pte Ltd. (2008-2010), a Singapore entity. Mr. Kvannli furthermore worked for MISWACO in Norway and in Houston, United States of America (1997-2005) the last two and a half last years as Financial Director for Scandinavia. Mr. Kvannli holds 88 000 share options in the Company and 0 shares.

Andreas Arntzen
(born in 1972, male, Norwegian citizen, 1st-term, member since 10 July 2018)
Mr. Arntzen is currently Investment Director for Jebsen Asset Management AS (a subsidiary of the Kristian Gerhard Jebsen Group). He has a background as strategy consultant and Partner in Arkwright for 15 years, where he also was a member of the board of Arkwright Corporate Finance. He has served clients in private equity, oil and gas, manufacturing and technology sectors in Norway and Europe – from small ventures to large, listed corporates. Prior to joining Jebsen Asset Management, he was a Director with PwC Deals, where he primarily supported Private Equity funds in transaction processes. Mr. Arntzen holds a MSc (Sivilingeniør) degree from the Norwegian University of Science and Technology (NTNU) and has executive education in corporate finance from BI Norwegian Business School. Mr. Arntzen holds 38 000 share options in the Company and 0 shares.

Susana Meza Graham
(born in 1976, female, Swedish citizen, 1st-term, member since 14 September 2018)
Mrs Meza Graham has an extensive background in the Games Industry, and she has been involved in building one of the larger, listed game companies in Sweden. She has held a variety of positions at Paradox Interactive, including COO, where she led the company as part of the management team and helped set the strategic direction, vision and goals of Paradox. Her main expertise lies in the business of games (publishing), marketing & PR, communication & leadership as well as organizational growth. She also has extensive experience of living and working abroad. Previous Board experience includes the trade association for Swedish game developers and a current Advisory Board position for Able Gamers. She currently supports the games industry as a senior consultant, including acting as a Senior Advisor at Paradox Interactive. She is also an independent investor and speaker. Mrs. Meza Graham holds a Bachelor's degree from the Stockholm University focused on International management and marketing. Mrs. Graham holds 38 000 share options in the Company and 222 300 shares (155 000 at end of 2018).

The Management Board and Supervisory Board of Funcom currently consist of one woman and six men. In the appointment of directors and auditors, professionals' backgrounds are evaluated and there is no gender distinction. Management and Supervisory Board would welcome a more diverse composition in terms of gender in the future. In a future replacement of directors or supervisory board candidates, the quality of any candidate will prevail.

Badhoevedorp, the Netherlands, 10 April 2019

The Supervisory Board of Directors in Funcom N.V.

Ole Gladhaug, Chairman
sgd

Fredrik Malmberg
sgd

Egil Kvannli
sgd

Andreas Arntzen
sgd

Susana Meza Graham
sgd

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

In thousands of US dollars	**Note**	**2018**	**2017**
Continuing operations			
Revenue	4,5	33 776	23 162
Personnel expenses	6,17	-4 899	-5 271
General and administrative expenses	7	-10 268	-7 318
Depreciation, amortization and impairment losses	11,12	-7 523	-3 298
Other operating expenses	8	-919	-636
Operating expenses		-23 609	-16 523
Operating result		10 166	6 639
Finance income	9	2 170	1 459
Finance expenses	9	-4 097	-1 369
Result before income tax		8 240	6 729
Income tax (expense) / income	10	-1 622	-1 773
Result from continuing operations		6 618	4 957
Result for the period		**6 618**	**4 957**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		-1 508	135
Exchange differences on intercompany loans part of net investment in a foreign entity			
Other comprehensive income for the year, net of tax		-1 508	135
Total comprehensive income for the year		**5 110**	**5 092**

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

In thousands of US dollars	**Note**	**2018**	**2017**
Result for the period attributable to:			
Equity holders of Funcom N.V.		6 618	4 957
		6 618	**4 957**
Total comprehensive income attributable to:			
Equity holders of Funcom N.V.		5 110	5 092
		5 110	**5 092**

Earnings per share *

From continuing operations

Basic earnings per share (US dollars)	21	0.09	0.09
Diluted earnings per share (US dollars)	21	0.08	0.08

* Based on result for the period

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

Funcom N.V.
Consolidated Statement of Financial Position

As at 31 December

In thousands of US dollars	**Note**	**2018**	**2017**
ASSETS			
Non-current assets			
Intangible assets	4,11	24 711	10 249
Equipment	12	155	37
Long term receivables	23	489	567
Total non-current assets		25 354	10 852
Current assets			
Trade receivables	13,23	4 797	1 559
Prepayments and other receivables	14,23	1 269	269
Cash and cash equivalents	15	19 902	7 731
Total current assets		25 968	9 559
Total assets		**51 322**	**20 411**

Funcom N.V.
Consolidated Statement of Financial Position

As at 31 December

In thousands of US dollars	**Note**	**2018**	**2017**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	18 224	13 525
Reserves	16	188 539	168 359
Retained earnings (Accumulated deficit)	16	-161 589	-168 206
Total equity		45 175	13 678
Non-current liabilities			
Long-term liabilities	23,24	92	-
Loans and borrowings	23,24	-	91
Deferred tax liabilities	10	2 086	671
Total non-current liabilities		2 178	762
Current liabilities			
Trade payables	23	1 200	775
Contract liabilities	18	222	478
Loans and borrowings	23,24	-	3 411
Other short-term liabilities	19	2 547	1 307
Total current liabilities		3 969	5 971
Total liabilities		6 147	6 733
Total equity and liabilities		**51 322**	**20 411**

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

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

In thousands of US dollars	**Note**	**2018**	**2017**
Cash flows from operating activities			
Profit (loss) before income tax		8 240	6 729
Adjustments for:			
Depreciation, amortization and impairment losses	11,12	7 523	3 298
Share-based payments	6,16,17	2 903	750
Interest income/expense		-49	182
Effect of exchange rate fluctuations		1 322	-
Working capital adjustments:			
Change in trade and other receivables		-4 646	-1 379
Change in trade payables		498	512
Change in other current assets and liabilities		1 428	301
Cash generated from operations		17 219	10 394
Interest received		49	3
Interest paid			
Income tax and other taxes paid		-71	-
Net cash from operating activities		17 196	10 397
Cash flows from investing activities			
Purchase of equipment	12	-164	-35
Investment in intangible assets	11	-16 422	-6 575
Net cash used in investing activities		-16 585	-6 610
Cash flows from financing activities			
Net proceeds from issue of share capital	16	12 374	470
Net cash from financing activities		12 374	470
Net increase in cash and cash equivalents		12 985	4 257
Cash and cash equivalents at beginning of period	23	7 731	3 709
Cash and cash equivalents at end of period before exchange effect	23	**20 716**	**7 966**
Effect of exchange rate fluctuations		-814	-234
Cash and cash equivalents at end of period after exchange effect	23	**19 902**	**7 731**

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

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

In thousands of US dollars	Share capital	Share premium	Equity-settled employee benefits reserve	Trans-lation reserve	Warrants and conversion rights reserve	Retained earnings	Attributable to owners of the parent
Equity as at January 1, 2017:	**11 808**	**162 596**	**8 186**	**-5 740**	**86**	**-173 163**	**3 773**
Profit or loss for the year						4 957	4 957
Other comprehensive income				135			135
Total comprehensive income for the year				**135**		**4 957**	**5 092**
Share-based payments expense			914				914
Exercise of warrants	67	175			-86		157
Issue of new shares	78	236	-164				150
Convertible loan to new shares	1 572	2 021					3 592
Other							-
Equity as at December 31, 2017:	**13 525**	**165 028**	**8 936**	**-5 604**	**-**	**-168 206**	**13 678**
Equity as at January 1, 2018:	**13 525**	**165 028**	**8 936**	**-5 604**	**-**	**-168 206**	**13 678**
Profit or loss for the year						6 618	6 618
Other comprehensive income				-1 508			-1 508
Total comprehensive income for the year				**-1 508**		**6 618**	**5 110**
Share-based payments expense			2 903				2 903
Exercise of options	197	796					993
Issue of new shares	2 803	16 199					19 001
Convertible loan to new shares	1 699	1 917					3 616
Transaction costs related to increase in equity		-127					-127
Equity as at December 31, 2018:	**18 224**	**183 812**	**11 839**	**-7 112**	**-**	**-161 589**	**45 175**

Funcom N.V.
Notes to the Consolidated Financial Statements

1. Corporate Information

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2018, comprise the Company and its subsidiaries (together referred to as the "Group").

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

The consolidated financial statements were authorized for issue by the Supervisory Board on 10 April 2019.

2. Summary of significant accounting policies

2.1 Basis of preparation

Upon preparing and finalizing the 2018 financial statements, the Management Board assessed the Company's ability to fund its operations for a period of at least one year after the date of the annual report.

Based on a strong cash balance, recent successful launches, future pipeline and access to external funding in the financial markets, the Company's financial situation is solid. Based on this the going concern assumption is justified and consequently the audited condensed consolidated financial statements of the Company for the year have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate from the projections. Relevant risks are outlined in Note 26.

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

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

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

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

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

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

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

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

Adoption of new and revised International Financial Reporting Standards and Interpretations

Standards and Interpretations affecting amounts reported in the current period

The following new and revised IFRSs and IFRIC interpretations have been adopted in the current period and have affected the amounts reported, presentation and disclosures in these financial statements.

Standard/ Interpretation	**Title**	**Date of issue**	**Applicable to accounting periods commencing on**
IFRS 9	*Financial Instruments*	July 2014	1 January 2018
IFRS 15	*Revenue from Contracts with Customers*	May 2014	1 January 2018
Clarifications to IFRS 15	*Revenue from Contracts with Customers*	April 2016	1 January 2018
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*	June 2016	1 January 2018
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	September 2016	1 January 2018
Annual improvements	*Annual improvements to IFRSs 2014-2016 cycle*	December 2016	1 January 2018
Amendments to IAS 40	*Transfers of Investment Property*	December 2016	1 January 2018
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*	December 2016	1 January 2018

Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations had been issued by the IASB but were not effective for the financial year ended 31 December 2018.

The Management Board anticipates that these Standards and Interpretations will be adopted in the Group's financial statements for the period beginning 1 January 2019 or later. The Management Board has made significant reviews of the impact of IFRS 16, see separate section below.

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

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendments to IFRS 9	*Prepayment features with Negative Compensation*	October 2017	1 January 2019
IFRS 16	*Leases*	January 2016	1 January 2019
IFRS 17[1]	*Insurance contracts*	May 2017	1 January 2021
IFRIC 23	*Uncertainty over Income Tax Treatments*	June 2017	1 January 2019
Amendments to IAS 28	*Long-term interests in Associates and Joint Ventures*	October 2017	1 January 2019
Annual improvements	*Annual improvements to IFRSs 2015-2017 cycle*	December 2017	1 January 2019
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*	February 2018	1 January 2019
Amendments to Conceptual Framework[1]	*Amendments to References to the Conceptual Framework in IFRS Standards*	March 2018	1 January 2020
Amendment to IFRS 3[1]	*Business Combinations*	October 2018	1 January 2020
Amendments to IAS 1 and IAS 8[1]	*Definition of Material*	October 2018	1 January 2020

Assessment of impact from IFRS 16 Leases

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

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

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

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

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

Funcom has completed a detailed assessment of the impact on its consolidated financial statements. Funcom's non-cancellable operating lease commitments under IAS 17 as at 31 December 2018 are disclosed in Note 20.

Funcom will apply the practical expedient to grandfather the definition of a lease on transition. This means that Funcom will apply IFRS 16 to all contracts entered into before 1 January 2019 that were identified as leases in accordance with IAS 17 and IFRIC 4 and will not apply IFRS 16 to contracts that were not previously identified as containing a lease. This practical expedient will be applied to all contracts.

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

In the same context, the group has decided not to apply IFRS 16 to its office equipment rents and hosting costs since they were not previously identified as containing a lease under IAS 17 and IFRIC 4. The group will assess new contracts after 1 January 2019 and decide whether they will be classified as leases under IRS 16, considering lease and service components of individual contracts and low value assets of not more than USD 5 000.

Funcom is not a lessor in any significant lease arrangements as at 31 December 2018 but has sublease arrangements of office space in Canada. Under IFRS 16, Funcom will treat the head lease and subleases separately, and classify the subleases as a finance lease.

Transition to IFRS 16
Funcom will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

On 1 January 2019, USD 2 723 thousand will be booked as right-of-use assets, USD 760 thousand will be booked as finance lease, USD 3 540 thousand will be booked as lease liability, and USD 8 thousand will be debited to returned earnings, due to the transition to IFRS 16. The leases included in these amounts have terms from 23 months to 50 months.

	INC	Canada - Head lease	Oslo	Subtotal	–Canada Sublease	Grand total
Right-of-use assets	692	832	2 016	3 540	(818)	2 723
Finance lessor	-	-	-	-	760	760
Lease liability	(692)	(832)	(2 016)	(3 540)	-	(3 540)
Retained earnings					8	8

Before the transition to IFRS 16, USD 73 thousand assets and USD 122 thousand liability existed in the consolidated balance sheet that related to leases, such as prepaid rent and rental incentive liability. Most are included in the calculation of the transition and thus removed from the balance sheet. Only USD 3 thousand prepaid rent stays in the balance sheet since it is related to a short-term lease that will not be renewed.

2.2 Basis of consolidation

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

The acquisition method is applied when accounting for business combinations.

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

2.3 Foreign currency

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

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

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

2.4 Revenue from contracts with customers (policy 2018)

Funcom implemented IFRS 15 Revenue from contracts with customers as of January 1, 2018, superseding IAS 18 used in 2017. The new standard is implemented using the cumulative catch-up transition method. Under the cumulative catch-up transition method, the 2017 comparative information has not been restated. As the effect of the minor adjustment to Funcom's revenue policy due to the IFRS 15 implementation is insignificant, it is not illustrated how the 2018 numbers would have been based on the old accounting principles and no adjustment to opening retained earnings as at 1 January 2018 has been made. If IAS 18 was still applied in 2018, the revenue would be the same as recognized in 2018 based on IFRS 15.

IFRS 15 requires us to, for each contract with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to performance obligations to the extent the contract covers more than one performance obligation, determine whether revenue should be recognized over time or at a point in time, and, finally, recognize revenue when or as performance obligations are satisfied.

Performance obligations and revenue recognition policies

Funcom's most important revenue source is royalty from third party PC and console platforms. Funcom also has revenue from own channels through subscriptions, in-game items and virtual currency and royalty revenue from licensees of intellectual property. No element of financing is deemed present as the sales are made with a credit term of 30-120 days, which is consistent with market practice.

Funcom recognizes revenue from royalty from third party platforms at a point in time when the relevant sale has occurred, the respective performance obligations in the contract are satisfied and the payment remains probable. In general, the performance obligation is satisfied when or as the platform obtains control with the relevant game and can monetize it through its platform. Any further responsibility, for instance from refunds, typically rests on the third-party platform, which is classified as a principal and not an agent. Funcom determines the transaction price to be the amount of consideration which it expects to be entitled in exchange for transferring the promised services to the customer, net of deducted taxes, fees and refund charges. Revenue recognition of packaged goods (boxes) sold through physical retail through a distribution channel is recognized according to the same principles. The revenue recognition principles for third party platforms are the same for PC and console.

For revenues from Funcom's own channels, subscriptions are recognized over the subscription period(Input model), and revenues from sales of in-game virtual items / micro-transactions are recognized at a point in time. Revenue from sale of virtual currency is recognized over the estimated time of spending rather than at a point in time. The performance obligations are satisfied when the gamer's subscription period is completed, when the virtual item is consumed and when the virtual currency is spent. Funcom determines the transaction price to be the amount of consideration which it expects to be entitled in exchange for transferring the promised services to the customer, net of value added tax and discounts. The transaction price is allocated to each performance obligation in the contract on a relative stand-alone selling price basis. If the stand-alone selling price for the combined performance obligations in the contract exceeds the transaction price, a discount will be allocated proportionately to all performance obligations in the contract. Revenue is recognised when the respective performance obligations in the contract are satisfied and payment remains probable. A provision for expected refunds is charged against revenue to the extent Funcom has an obligation for such arrangements and price arrangements/discounts. The provision for sales returns is based on expected returns of the game at year-end. Funcom's own channel only includes PC revenue.

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

2.5 Revenue recognition (policy 2017)

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

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

Per copy royalties on sales are recognized as the licensees report unit sales. If publishers cancel software license agreements during the product's development stage, non-refundable advances or minimum guaranteed royalty fees are recognized as revenue.

Rental income
With the liquidation of Funcom Games Canada Inc., Funcom NV took over the rental and sublease contracts of office space in Canada as of January 2017. Most of the space has been subleased, and Funcom NV has been collecting monthly rentals. The receipts have been on time and are recognized as revenue. The subleases will terminate in November 2020 as Funcom NV's lease with the landlord terminates.

2.6 Expenses

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

Operating lease payments
Leases where substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments are recognized in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognized in the Statement of Comprehensive Income as an integral part of the total lease expense. As of January 2019, the Company will adopt IFRS 16 and treat leases differently. Please refer to Note 2.1 for reference.

Government grants
Subsidies from the authorities are not recognized until there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for the costs of an asset are recognized as a deduction from the asset that the subsidy is intended to cover and are recognized in the Statement of Comprehensive Income over the useful life of the asset through a reduced amortization or depreciation charge. Grants that

compensate the Group for expenses incurred are recognized as reduced expenses in the Statement of Comprehensive Income in the same periods in which the expenses are recognized. There are no unfulfilled conditions or other contingencies attaching to these grants. The group did not benefit directly from any other forms of government assistance.

2.7 Income tax

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

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

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

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

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

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

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

2.8 Intangible assets

Intangible assets are recognized in the Statement of Financial Position if it is probable that the future economic benefits that are attributable to an intangible asset will flow to the Group, and the asset’s cost can be reliably estimated. Amortization methods, useful lives and any residual values are reassessed at each reporting date.

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

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

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

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

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

Development costs are amortized from the date that the assets are available for use. The amortization period is between 18 months and 5 years, linearly or according to the reducing balance method, depending on the type of the asset. Subsequent improvements and/or additions are amortized separately over the expected useful lives from the time these improvements and/or additions are completed and available for use. Explanation is provided in Note 11.

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

Trademarks and licenses
Trademarks and licenses that are acquired by the Group are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in the Statement of Comprehensive Income on a straight- line basis over the estimated useful life, normally 2 - 5 years. Amortization starts when the acquired assets are available for use.

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

Intellectual property
IP, Brands and IP licenses that are acquired by the Group are measured at cost. If there is no foreseeable limit to the period over which the asset will generate cash flows it will be classified as indefinite useful life. At the end of each financial year the asset's useful life will be reviewed and tested for indicators of impairment.

2.9 Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. When assets are sold, the gross carrying amount and accumulated depreciation and impairment losses are derecognized, and any gain or loss on the sale is recognized in the Statement of Comprehensive Income. The cost of equipment includes the purchase price, any duties/taxes and directly attributable costs required to get the asset ready for use. Where parts of an item of equipment have different useful lives, they are accounted for as separate items of equipment.

Subsequent costs
The cost of replacing a part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Group and

the cost can be measured reliably. All other costs are recognized in the Statement of Comprehensive Income as incurred.

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

Computers	3 years
Furniture	5 years

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

2.10 Joint operation
While a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The accounting treatment of a joint operation is different than that of a joint venture.

A joint operator recognises in relation to its interest in a joint operation:
- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

When a joint operation does not constitute a business, the acquirer identifies and recognises the individual identifiable assets acquired and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Other costs related the transaction can be capitalized.

On 8 February 2018, Funcom completed a transaction to acquire 50% interest of Heroic Signatures DA. Heroic Signatures DA (Delt Ansvar) is a general partnership registered in Norway. Funcom's interest in Heroic Signatures DA is accounted as a joint operation. Heroic Signatures DA revenue originating from Funcom royalty fees are eliminated. This implies the asset value is shown under intangible assets on the balance sheet and that Heroic Signatures DA third-party revenue is included in Funcom's consolidated revenue.

2.11 Trade receivables and other receivables (policy 2017)
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 (policy 2017)
Cash includes cash in hand and at bank. Cash equivalents comprise call deposits with a term of less than 90 days from the date of acquisition. Cash in bank is recorded at face value.

2.13 Impairment of 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. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

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

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

2.14 Equity

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

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

2.15 Employee benefits

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

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

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

Share-based payment transactions
The share option program allows management and key personnel to acquire shares in the Company. The plan is an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted. The grant date fair value of options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period). The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions as set forth in the share option program. Measurement inputs include share price on measurement date,

exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. At each reporting date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

2.16 Assets and Liabilities

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

2.17 Provisions

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

2.18 Trade and other payables (policy 2017)

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

2.19 Contingent liabilities and assets

Contingent liabilities are:

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

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

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

2.20 Segments

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

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

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

2.21 Financial Instruments (policy 2018)

Funcom has adopted IFRS 9 as of 1 January 2018. Funcom's date of transition is 1 January 2018 and Funcom has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Based on the analysis of Funcom's financial assets and liabilities as at 31 December 2017, the result of Funcom's assessment on the impact of IFRS 9 to the Group's consolidated financial statements was that no adjustment was required as at the adoption date. Funcom approach to IFRS 9 is as follows:

Classification of Financial Assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Group's business model is to collect its receivables and collecting contractual cash flows. The group classifies its financial assets as at amortised cost only if both of the following criteria are met: i) the asset is held within a business model whose objective is to collect the contractual cash flows, and ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

The Group has concluded that its receivables that are classified as loans & receivables meet the requirements to be classified at amortised cost as they meet the business model test and are solely payments of interest and principal. The Group has no financial instruments at 31 December 2018 that will need to be classified at FVOCI or FVTPL. The Group did not have derivative financial assets or liabilities at 31 December 2018.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This may require considerable judgement about how changes in economic factors affect ECLs. The new impairment model is applied to Funcom's financial assets at amortised cost, cash and cash equivalents and its trade receivables. All of Funcom's trade receivables and other receivables are measured on a lifetime ECL basis. Funcom has determined its expected credit losses by using a provision matrix, which is based on actual historical credit losses and is adjusted for any relevant forward-looking information, for instance about the general economy and Group creditors. The short maturity of the trade receivables, typically weeks or up to a couple of months, reduces the importance of forward-looking information.

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

Classification of Financial Liabilities

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

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

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

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

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

Note 23 contains further detailed information on financial instruments.

2.22 Financial instruments (policy 2017)

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

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

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

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

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

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

2.23 Presentation of cash flow statement

The cash flow statement is prepare using the indirect method. Changes in balance sheet items that have not resulted in cash flows, such as fair value changes, have been eliminated for the purpose of preparing this statement. Interest paid and received, as part of normal operating activities, are included under operating activities.

3. Accounting estimates, judgments and estimation uncertainty

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

Development costs and technology
The Group has significant capitalized values of development costs, primarily of games but also some related to 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. Key criteria are Funcom's ability to complete the project, existence of a market and expected profitability, typically this is documented in a business case which is authorized by the board if the size of the investment is significant.

Intangible assets should be tested for impairment when there is an indicator that the asset may be impaired. Both released games and games in development are impairment tested. 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. Please refer to Note 11 for more information.

Useful life of intangible fixed assets
The useful life of the Company's games is estimated to define the amortization period. The Useful life is estimated before launch based on expectations for the game and comparison with a peer group of similar games, after launch the performance of the game is considered. To estimate the life time for intellectual property the monetization plans are considered, together with an assessment of whether there are any limits to the period over which the IP is expected to generate net cash inflows. The estimated useful life is subject to uncertainty and judgment and the actual outcome may differ significantly from the initial estimate.

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

Principal Agent Considerations
The Group evaluate sales of our products and content via third party digital storefronts to determine whether revenues should be reported gross or net of fees retained by the storefront. Key indicators that we evaluate in determining gross versus net treatment include, but are not limited to, the following:

- the party responsible for delivery/fulfilment of the product or service to the consumer;
- the party responsible for consumer billing, fee collection, and refunds;
- the storefront and terms of sale that govern the consumer's purchase of the product or service; and
- the party that sets the pricing with the consumer and has credit risk.

Based on evaluation of the above indicators we report revenues on a net basis. (i.e., net of fees retained by the storefront.)

Share option scheme
The Group determines the value of new options granted and the incremental cost of any changes to the option terms based on Black-Scholes option pricing theory. Judgment is applied in determining the required input parameters such as estimated volatility of the underlying share and life time of the options. Historical data such as volatility, option life-time and employee turn-over are considered.

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

4. Segment information

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

- PC
- Console: PS4 and Xbox
- Other: Predominantly office rental revenue, IP revenue and Heroic Signatures DA IP license revenue from third-parties

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit is measured as revenue earned less personnel costs and other operating costs. General and administrative cost, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments.

Segment information

	Revenue from external customers January - December		Segment profit (loss) *) January - December	
	2018	**2017**	**2018**	**2017**
PC	16 783	19 815	11 212	15 923
Console	16 418	2 797	11 726	2 248
Other activities	575	550	78	69
Total	33 776	23 162	23 015	18 240
General and administrative expenses			-5 325	-8 302
Depreciation, amortization and impairment charges			-7 523	-3 298
Net financial items			-1 926	89
Profit (loss) before tax (from continuing operations)			**8 240**	**6 729**

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

	PC	Console	Under development	SUM
Segment assets as at 31 December 2017	5 598	3 354	1 026	9 978
Segment assets as at 31 December 2018	7 906	3 484	6 254	17 643

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

The Group's three largest customers, namely Microsoft, Sony and Valve, are digital platforms that sell games to end users. The revenue of these three customers total USD 23 949 thousand (2017: USD 15 390 thousand), representing 70.9% of the Group's total revenue (2017: 66.4%).

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

In thousands of US dollars	2018 Revenue	2018 Non-current assets **)	2017 Revenue	2017 Non-current assets **)
The Netherlands *)	514	68	509	1 126
Norway	33 262	25 221	22 653	9 646
USA	-	65	-	80
Total	**33 776**	**25 354**	**23 162**	**10 852**

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

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

5. Revenue

Disaggregation of revenue from contracts with customers

In thousands of US dollars	2018	%	2017	%
PC *)	16 783	49.7 %	19 815	85.5 %
Console **)	16 418	48.6 %	2 797	12.1 %
Other ***)	575	1.7 %	550	2.4 %
Total revenue	**33 776**	100.0 %	**23 162**	100.0 %

*) PC revenue relates to revenue from contracts with customers related to services. It also includes direct sales through Funcom's own channels.
**) Console revenue relates to revenue from contracts with customers related to services through 3rd party stores.
***) Other is rental revenue from sublease and royalties from IP, direct sales.

Timing of revenue

2018

In thousands of US dollars	PC	Console	Other	Sum
Segment revenue	16 783	16 418	575	33 776
Timing of revenue recognition:				
At a point in time	13 111	16 418	-	29 528
Over time	3 672	-	575	4 247
Total revenue	**16 783**	**16 418**	**575**	**33 776**

2017

In thousands of US dollars	PC	Console	Other	Sum
Segment revenue	19 815	2 797	550	23 162
Timing of revenue recognition:				
At a point in time	14 177	2 797	-	16 974
Over time	5 638	-	550	6 188
Total revenue	**19 815**	**2 797**	**550**	**23 162**

USD 1 thousand (2017: USD 992 thousand) out of the PC revenue at a point in time, and all the PC revenues over time, come from the sale of games from Funcom's own channels and are directly sold to consumers. The revenues related to Console and the remaining of the PC revenue at a point in time relates to sales sold through third party platforms. Other revenue relates to rental revenue from sublease and royalties from IP.

6. Personnel expenses

In thousands of US dollars	2018	2017
Salaries	8 678	7 286
Social Security Contributions	1 224	629
Contributions to defined contribution plans	181	31
Expenses for share option program	2 879	750
Other Personnel expenses	911	319
Government grants (Skattefunn)	-387	-
Capitalization of salary costs	-8 587	-3 745
Total Personnel Expenses	**4 899**	**5 271**

Average Number of employees:	2018	2017
Europe	62	55
North America	62	52
Asia	1	1
Total	**125**	**108**

The remuneration of the Supervisory Board and Management Board members of Funcom N.V. is subject to payroll tax in the Netherlands, though currently no members reside in The Netherlands.

7. General and administrative expenses

In thousands of US dollars	2018	2017
Travel & marketing	3 001	1 098
Consultants	4 774	1 982
Rent of premises and other office costs	1 672	795
Royalties	3 914	2 299
Investor relations	215	192
IT, hardware and software	592	408
Other	2 677	544
Government grants (Skattefunn)	-118	-
Capitalization of G&A	-6 457	
Total general and administrative expenses	**10 268**	**7 318**

With reference to Section 2:382a of the Netherlands Civil Code, the following fees for the financial year have been charged by BDO to the company and its subsidiaries: USD 225 thousand (2017: USD 162 thousand). Fees charged by BDO Audit & Assurance B.V. for the Funcom N.V. group audit were USD 192 thousand (2017: USD 136 thousand). No fees have been paid to BDO for other assurance services, tax advisory services or other non-audit services. Audit and non-audit related fees for the respective years are charged to the income statement on an accrual basis.

8. Other operating expenses

In thousands of US dollars	2018	2017
Commissions	152	238
Hosting and bandwidth costs for online services	766	398
Total other operating expenses	**919**	**636**

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

9. Finance income and expenses

In thousands of US dollars	**2018**	**2017**
Interest income	44	3
Net foreign exchange gain	2 121	1 442
Other financial income	6	15
Finance income	**2 170**	**1 459**
Interest expense	-84	-185
Net foreign exchange loss	-4 013	-1 185
Finance expenses	**-4 097**	**-1 369**

Exchange gains and losses are mainly arising from payables and bank accounts denominated in other currency than USD.

10. Income tax expense

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

In thousands of US dollars	**2018**	**2017**
Current period tax (expense)/income	-78	4
	-78	4
Deferred tax expense		
Origination and reversal of temporary differences	-2 999	-801
Change in tax rate	-	-
Recognition of previously unrecognized tax losses	782	140
Derecognition of recognized tax losses	672	-1 115
	-1 545	-1 776
Income tax (expense)/income excluding tax on sale of discontinued operations	-1 622	-1 773
Income tax (expense)/income from continuing operations	**-1 622**	**-1 773**
Income tax from discontinued operation (exluding gain on sale)	-	-
	-1 622	**-1 773**
Income tax on gain on sale of discontinued operations		
Total income tax (expense)/income	**-1 622**	**-1 773**

In thousands of US dollars	**2018**	**2017**
Result before income tax	8 240	6 729
Tax according to the average tax rate in USA, China, Netherlands and Norway	-1 841	-1 627
Tax effect of non-deductible expenses	-	485
Tax effect of non-taxable income	-129	-38
Changes in deferred taxes recognized on the balance sheet	-1 420	-1 805
Withholding tax, capital asset tax, and other non-income taxes	-293	-4
Utilisation of losses carried forward	1 955	1 316
Deferred tax asset related to carry forward tax losses not recognised	14	-128
Tax effect of change in tax rate	91	29
Income tax (expense) / income	**-1 622**	**-1 773**

The Group has not recognized any income tax directly in equity. The income tax rate in Norway changed from 24% to 23% with effect from 1 January 2018, and from 23% to 22% with effect from 1 January 2019. Deferred tax has been calculated using the tax rate of 22% for 2018 and 23% for 2017. Current tax for the Norwegian subsidiaries was calculated based on the applicable rate for 2018, i.e. 23% and applicable rate for 2017, i.e. 24%. The applied 'weighted average tax rate' is 23.68% for 2018 (2017: 23.62%) and the average effective tax rate is 19.69% (2017: 26.35%). There were no effects of changes in IAS 12.

Deferred tax liability/tax asset		
In thousands of US dollars	**2018**	**2017**
Deferred tax liability	-2 086	-671
Deferred tax asset, net	-	-
Deferred tax asset (liability), net	**-2 086**	**-671**
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	-2 921	-932
Provisions	-	-
Tax losses carried forward	-	-
Total deferred tax effect of tax increasing temporary differences	**-2 921**	**-932**
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	833	422
Equipment and intangible assets	8	11
Provisions/receivables	49	110
Total deferred tax effect of tax reducing temporary differences	**890**	**543**
Deferred tax asset (net) not recognised in the balance sheet:	54	281
Recognised deferred tax asset (liability), net	**-2 086**	**-671**
Reconciliation of deferred tax asset, net:		
Opening balance	-671	1 067
Net tax liability in sold company	-	-
Change according to statement of income	-1 452	-1 794
Exchange differences, prior year adjustments etc.	37	56
Deferred tax asset (liability), net, at year-end	**-2 086**	**-671**

The Group has unutilised tax losses of USD 3 821 thousand as of 31 December 2018 (2017: USD 2 187 thousand) which expire as follows:

In thousands of US Dollars

Expiry year	**2018**	**2017**
2025	196	1 272
2026	82	57
2027	-	-
2028	1 510	-
2029	-	-
2030	166	173
2031	24	24
2032	-	-
2033	-	-
2034	-	-
2035	-	24
2036	25	25
2037	-	-
2038	-	-
Indefinite	1 818	612
Total tax losses	**3 821**	**2 187**

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

The final tax assessment received by Funcom N.V. with respect to the financial year 2016 report carry forward losses amounting to USD 1 835 thousand as of the end of 2016. Funcom N.V. expects further carry forward losses amounting to USD 81 thousand with respect to the financial year 2017.

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

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

Despite the profitability of the Group reported since the financial year 2017, it is also acknowledged that there are certain limitations on the use of tax losses carried forward in the Netherlands as described here above. Thus the Group's profitability arising mainly from trading operations cannot be considered convincing evidence that eligible future tax profit may be available in the Netherlands. Since the criteria under IAS 12.35 have not been met, the Company did not recognize deferred tax asset for the available tax losses carried forward.

For the year ended 31 December 2018, a deferred tax liability amounting to USD 2 075 thousand is recognized on the balance sheet with respect to Funcom Oslo AS (2017: USD 653 thousand).

11. Intangible assets

In thousands of US dollars	Development costs	Software	Trademarks & licenses	Trademarks & licenses	Total
Cost					
Balance at January 1, 2017	118 401	1 346	173		**119 920**
Acquisitions, internally developed	5 590				**5 590**
Other acqusitions	1 026				**1 026**
Disposals		-910			**-910**
Translation difference					
Balance at December 31, 2017	**125 017**	**436**	**173**	**-**	**125 626**
Cost					
Balance at January 1, 2018	125 017	436	173		**125 626**
Acquisitions, internally developed	10 439				**10 439**
Other acqusitions	4 770			7 714	**12 484**
Disposals	-102 127		-173		**-102 300**
Translation difference		-25		-830	**-854**
Balance at December 31, 2018	**38 098**	**411**	**-**	**6 884**	**45 394**
Accumulated amortization and impairment losses					
Balance at January 1, 2017	112 322	982			**113 304**
Amortization for the year	3 114	112	69		**3 295**
Disposals		-910			**-910**
Translation difference	-294	-19			**-313**
Balance at December 31, 2017	**115 142**	**166**	**69**	**-**	**115 376**
Accumulated amortization and impairment losses					
Balance at January 1, 2018	115 142	166	69		**115 376**
Amortization for the year	7 307	77	104		**7 488**
Disposals	-102 127		-173		**-102 300**
Translation difference	133	-14			**119**
Balance at December 31, 2018	**20 455**	**228**	**-**	**-**	**20 683**
Carrying amount at Jan. 1, 2017	**6 079**	**364**	**173**	**-**	**6 616**
Carrying amount at Dec. 31, 2017	**9 875**	**270**	**104**	**-**	**10 249**
Carrying amount at Jan. 1, 2018	**9 875**	**270**	**104**	**-**	**10 249**
Carrying amount at Dec. 31, 2018	**17 643**	**183**	**-**	**6 884**	**24 711**
Estimated useful lives	1.5-5 years	3-5 years	2-5 years	Indefinite	
Method of amortization	Straight line and diminishing balance method	Straight line	Straight line		

For 2018 ending balances, the table above includes only games that still have book values. For games whose costs have been completely amortized and impaired, the cost, amortization and impairment are removed from the table in 2018 under the rows 'Disposals'.

In 2015, an amount of USD 173 thousand was added to the cost of intangible assets under the category of 'Trademarks & licenses'. Since this is now fully amortized and no longer relevant it has been removed from the table in 2018 under the rows 'Disposals'.

No impairments were booked in 2017 or 2018.

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

In thousands of US dollars

Class	2018 Under development	2018 In use	2018 Total	2017 Under development	2017 In use	2017 Total
Development costs	6 254	11 389	**17 643**	1 026	8 849	**9 875**
Software	-	183	**183**	-	270	**270**
Trademarks and licenses	-	6 884	**6 884**	-	104	**104**
TOTAL	6 254	18 457	**24 711**	1 026	9 223	**10 249**

Calculation of recoverable amounts

When calculating the recoverable amount (value in use) from cash generating units the Group uses a discounted 3 years pre-tax cash flow projection reflecting the latest information that influences the expected performance of the assets. The cash flows are discounted using a pre-tax rate of 13.3 per cent (2017: 12.3 per cent). Predicting with high certainty the cash flows from games is difficult. The estimates represent management's best estimate but is subject to a relatively high degree of uncertainty, especially for games not launched.

Dreamworld Technology

The initial cost of the technology was fully amortized in 2013. Improvements and/or additions to the technology are amortized separately over the expected useful lives of the relevant elements of the asset, normally five years. The *DreamWorld Technology* has been amortized since the launch of *Age of Conan* in May 2008. In 2018 USD 53 thousand of the *DreamWorld* amortization was capitalized as development cost for *Conan Exiles*. In 2Q 2018 the Company adjusted the policy so no part of *DreamWorld* amortizations will be capitalized as development cost for games, and the amortization period on the full balance is set to 5 years with straight line amortization. This policy adjustment results in a USD 140 thousand increase in amortization in 2018.

At the end of 2018, the cumulative impairment for *DreamWorld* was USD 10 504 thousand (2017: USD 10 504 thousand).

IP licenses held through Heroic Signatures DA

In February 2018 Funcom acquired 50% of Heroic Signatures DA in exchange for issuing 4 460 000 new shares, each at a subscription price of NOK 13 per share. The transaction increased the equity with USD 7 493 thousand. The value of the new shares was used as valuation for the underlying assets. An additional USD 221 thousand in cost related to the transaction was added as acquisitions cost. The asset value is measured at cost and shown as intangible assets on the balance sheet.

Heroic Signature's IP licenses are granted indefinitely through licensing agreements with Cabinet Interactive LLC. Funcom Group's ownership in Heroic Signature DA is also indefinite. The indefinite life time of the IP licenses is supported by significant revenue generation over the last 10 years. There are also significant plans to monetize the IP licenses in the next years. Since there is no foreseeable limit to the period over which the IP is expected to generate net cash inflows, the IP licenses should be regarded as having an indefinite useful life.

The Group has contractual commitments for development costs of USD 974 thousand (2017: USD 271 thousand).

12. Equipment

In thousands of US dollars	Computers	Furniture	Total:
Cost			
Balance at January 1, 2017	9 708	1 847	**11 555**
Acquisitions	35		**35**
Disposals	-9 708	-1 835	**-11 543**
Translation difference		-1	**-1**
Balance at December 31, 2017	**35**	**11**	**46**
Balance at January 1, 2018	35	11	**46**
Acquisitions	93	71	**164**
Disposals			
Translation difference			
Balance at December 31, 2018	**128**	**82**	**210**
Accumulated depreciation and impairment losses			
Balance at January 1, 2017	9 708	1 843	**11 551**
Disposals	-9 708	-1 835	**-11 543**
Impairment charges			
Depreciation for the year	-	2	**2**
Translation difference			
Balance at December 31, 2017		**10**	**10**
Balance at January 1, 2018		10	**10**
Disposals			
Depreciation for the year	28	7	**35**
Translation difference	6	4	**9**
Balance at December 31, 2018	**34**	**20**	**55**
Carrying amount at Jan. 1, 2017		**4**	**4**
Carrying amount at Dec. 31, 2017	**35**	**1**	**37**
Carrying amount at Jan. 1, 2018	**35**	**1**	**37**
Carrying amount at Dec. 31, 2018	**94**	**61**	**155**
Method of depreciation	Straight line	Straight line	
Estimated useful lives	3 years	5 years	

13. Trade receivables

In thousands of US dollars	2018	2017
Trade receivables	4 797	1 559
Allowances for doubtful debt	-	-
Total Trade receivables	**4 797**	**1 559**

Please refer to Note 23 for further details.

14. Prepayments and other receivables

In thousands of US dollars	2018	2017
Settlement account for VAT	163	-
Government grants (Skattefunn)	472	-
Prepaid rent	149	163
Other prepayments	484	106
Total	**1 269**	**269**

15. Cash and cash equivalents

In thousands of US dollars	2018	2017
Cash at bank and in hand	19 902	7 731
Cash and cash equivalents in the statement of financial position	**19 902**	**7 731**
Restricted cash included in Cash at bank and in hand	209	167

16. Equity

Share Capital

Number of shares	2018	2017
Outstanding 01.01	57 930 522	49 856 384
Issues against payment in cash	7 638 135	656 416
Issues from conversion of bond/loan	6 980 836	7 417 721
Issues from Cabinet Transaction	4 460 000	-
Outstanding 31.12	**77 009 493**	**57 930 522**
Nominal value of the share-capital at December 31 (EUR)	15 401 899	11 586 104

As of 31 December 2018, the authorized share capital comprised of 150 million ordinary shares (2017: 150 million). The nominal value of the shares is Euro 0.20. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

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

Events in 2018

Shares:
In February 2018 Funcom executed a private placement of 6 800 000 new shares at a subscription price of NOK 13 per share. The total gross proceeds to Funcom in the private placement was NOK 88.4 million. The transaction increased the equity of the Company with USD 11 508 thousand after USD 127 thousand in transaction fees.

In February 2018 Funcom completed the acquisition of 50% of "Heroic Signatures DA" in exchange for issuing 4 460 000 new shares, each at a subscription price of NOK 13 per share. The transaction increased the equity with USD 7 493 thousand.

In March 2018, USD 3 000 thousand of Funcom convertible bond (including accrued interest) was converted into 5 791 505 Funcom shares at the price of USD 0.518 per share.

In June 2018, Funcom issued 597 141 new shares in relation to exercise of employee options.
In August 2018, Funcom issued 161 641 new shares in relation to exercise of employee options.

In October 2018, USD 616 thousand of Funcom convertible bond (including accrued interest) was converted into 1 189 331 Funcom shares at the price of USD 0.518 per share.

In November 2018, Funcom issued 79 353 new shares in relation to exercise of employee options.

Options:
In June 2018 Funcom issued 138 000 options to members of the Management Board, and 208 000 options to members of the Supervisory Board as part of the Group's options program.

In June 2018, after its Annual General Meeting, the company issued 1 590 500 options to its employees as part of the Group's options program.

In September 2018 Funcom issued 38 000 options to a new member of the Supervisory Board as part of the Group's options program.

Equity-settled employee benefits reserve:
The Equity-settled employee benefits reserve comprises of share-based payments related to the Groups employee option program. See note 2.15 for further description of the Group's Equity-settled employee benefits.

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

Dividends:
The Group did not pay any dividends in 2018

Events in 2017
The number of shares, options and warrants as well as the share price have been adjusted in this section to reflect the reverse stock split in 2018, thus facilitating the comparison with the above 2018 information.

Shares:
In January 2017, USD 250 thousand of Funcom convertible loan was converted into 482 625 Funcom shares at the price of USD 0.518 per share.

In January and February 2017, Funcom issued 313 000 shares after the exercise of the same number of warrants out of the 626 000 warrants that were initially granted to Conan Properties International LLC. The exercise of warrants was made at a price of USD 0.50 per share, and Funcom received cash proceeds of USD 157 thousand.

In March 2017, Funcom issued 137 822 shares in relation to exercise of options. In April 2017, Funcom issued 16 400 shares in relation to exercise of options. In May 2017, Funcom issued 3 200 shares in relation to exercise of options. In September 2017, Funcom issued 184 394 shares in relation to exercise of options.

In April 2017, USD 3 500 thousand of the convertible bond plus accrued interest was converted into 6 935 096 Funcom shares at a price of USD 0.518 per share.

Options:
On March 30, 2017 the company issued 10 000 options to a Managing Officer as part of the Group's options program.

On July 7, 2017, after its Annual General Meeting, the company issued 1 108 800 options to its employees, 165 000 options to members of the Supervisory Board, and 97 500 options to members of the Management Board.

Warrants:
In January and February 2017, Funcom issued 313 000 shares after the exercise of the same number of warrants out of the 626 000 warrants that were initially granted to Conan Properties International LLC. With this, all warrants were exercised.

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

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

17. Employee benefits

Defined contribution plans
The Group has established defined contribution pension plans in some of its subsidiaries. The premium paid relating to these schemes in 2018 was USD 181 thousand (2017: USD 55 thousand).

Share based payments
The Group has option programs that entitle employees, members of the Management Board and members of the Supervisory Board to purchase shares in Funcom N.V., the parent company of the Group. The exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior to and 5 trade days following the date of grant, which means the option only has value if the share price increases from the time it is granted. Options are conditional on the employee remaining an employee or director of the Company on the date of exercise. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

On 1 June 2018 the annual general meeting approved changes to the option program. The key changes were extension of option life time from 5 to 10 years and elimination of the vesting period. The elimination of the vesting period means all cost associated with options issued is booked immediately, rather than spread out over the previous 3-year vesting period. In addition, cost from options issued in previous years, but initially periodized to the following years is added to this year's expenses.

Option program in Funcom N.V.

The Company executed a 5:1 reverse stock split with ex date 1 February, 2018, exchanging five existing shares for one new share. As a result, the options authorized before that date have been adjusted to reflect the reverse stock split, i.e. five options authorized were revised to one option authorized. The following share issuances (for options and other purposes) have been authorized by the shareholders meeting:

Time of authorization	**Number of shares issuances authorized**	**Expiry of authorization**
May 10, 2005	**250 000**	May 10, 2008
November 30, 2006	**200 000**	November 30, 2008
December 19, 2008	**600 000**	December 19, 2010
May 18, 2010	**600 000**	May 18, 2011
June 27, 2011	**1 600 000**	GM 2012
June 27, 2012	**2 000 000**	GM 2013
June 27, 2013	**3 000 000**	GM 2014
June 27, 2014	**6 600 000**	GM 2015
June 26, 2015	**6 000 000**	GM 2016
February 25, 2016	**28 000 000**	GM 2017
June 30, 2016	**28 000 000**	GM 2017
June 27, 2017	**5 000 000**	GM 2018
June 1, 2018	**7 500 000**	GM 2019
Total number of options authorized	**89 350 000**	

In the following table, 2017 numbers have been adjusted to reflect the 5:1 reverse stock split.

List of outstanding options:	**Number of options**	**Weighted average exercise price (USD)**	**Number of options**	**Weighted average exercise price (USD)**
	2018	**2018**	**2017**	**2017**
Outstanding options on January 1	2 988 160	1.35	2 068 694	1.15
Options granted	1 974 500	2.41	1 381 300	1.55
Options exercised	-838 135	1.18	-343 416	0.90
Options terminated	-16 127	1.14	-75 797	1.10
Options expired	-	-	-42 620	3.90
Outstanding options on Dec 31	**4 108 398**	**1.89**	**2 988 160**	**1.35**

The following table shows the share options outstanding at the end of the year with the expiry date and exercise prices. Exercise price and 2017 columns have been adjusted to reflect the reverse stock split. The option term changes are also reflected in 2018 Column, such as expiry date being extended for five years.

			Options	
Expiry day	Exercise price		2018	2017
09.01.2018	USD	0.66	-	1 750
28.02.2018	USD	0.66	-	350
01.03.2018	USD	1.51	-	84 888
31.03.2018	USD	0.66	-	2 100
24.06.2018	USD	1.55	-	112 867
27.06.2018	USD	1.50	-	40 000
02.06.2019	USD	2.54	12 200	-
26.06.2019	USD	4.05	-	240 800
27.06.2019	USD	4.00	-	100 000
10.07.2019	USD	0.82	19 000	-
31.08.2019	USD	2.35	5 500	-
28.09.2019	USD	2.35	5 500	-
30.09.2019	USD	2.35	5 500	-
25.10.2019	USD	1.60	18 700	-
12.11.2019	USD	2.35	5 500	-
12.12.2019	USD	2.35	11 000	-
30.01.2020	USD	1.25	-	60 000
26.06.2020	USD	1.25	-	20 000
30.06.2020	USD	1.94	32 233	-
25.02.2021	USD	0.90	-	70 000
30.06.2021	USD	0.65	-	795 106
11.10.2021	USD	0.80	-	100 000
30.03.2022	USD	1.75	-	10 000
07.07.2022	USD	1.56	-	1 350 300
24.08.2022	USD	1.71	40 000	-
20.09.2022	USD	1.37	43 134	-
24.06.2023	USD	1.15	93 066	-
27.06.2023	USD	1.14	40 000	-
26.06.2024	USD	3.05	226 800	-
27.06.2024	USD	3.03	100 000	-
30.01.2025	USD	1.18	60 000	-
26.06.2025	USD	1.27	20 000	-
25.02.2026	USD	0.94	70 000	-
30.06.2026	USD	0.67	427 765	-
11.10.2026	USD	0.82	80 000	-
30.03.2027	USD	1.76	10 000	-
07.07.2027	USD	1.57	857 500	-
01.06.2028	USD	2.68	346 000	-
29.06.2028	USD	2.35	1 541 000	-
14.09.2028	USD	2.30	38 000	-
Sum			**4 108 398**	**2 988 160**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was USD 0.77 per option (2017: USD 1.12). The significant inputs into the model were a weighted average share price of USD 2.22 – 2.56 (2017: USD 1.55-1.92) at the grant date, the exercise prices shown above, volatility 60.00% (2017: 108.06%-113.65%), dividend yield 0% (2017: 0%), expected option life of 1.4-3 years (2017: 3.245-5 years), expected annual turnover rate of 7% (2017: 7%) and an annual risk free rate of 0.83%-1.28% (2017: 0.78%-1.11%). The volatility measured is based on the variation in daily share prices for Funcom. The acceleration of unamortized cost due to changed terms (removal of vesting criteria) amounted to USD 521 thousand. The increased fair value of the old options due to changed terms was USD 150 thousand.

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

At the end of 2018

Name	Number of shares	Number of options	Comments
Supervisory Board			
Ole Gladhaug		141 000	
Egil Kvannli		88 000	
Fredrik Per Malmberg	4 500 000	88 000	
Andreas Arntzen (2)		38 000	
Susana Meza Graham (2)	155 000	38 000	
Management Board			
Rui Casais	40 000	389 332	CEO of Funcom NV
Christian Olsthoorn		95 500	

At the end of 2017 (3)

Name	Number of shares	Number of options	Comments
Supervisory Board			
Ole Gladhaug		85 000	
Alain Tascan (1)		90 000	
Egil Kvannli		50 000	
Fredrik Per Malmberg		50 000	
Magnus Groneng (1)	88	50 000	
Management Board			
Rui Casais	30 000	289 333	CEO of Funcom NV; 79,333 options are from before 2015 as employee
Christian Olsthoorn		57 500	30,000 options are from before 2017 as employee

(1) Alain Tascan and Magnus Groneng resigned from the Supervisory Board in 2018.
(2) Andreas Arntzen and Susana Meza Graham joinged the Supervisory Board in 2018.
(3) 2017 amounts have been adjusted to reflect the reverse stock split.

18. Contract liabilities

The amount consists mainly of subscription prepayments from subscribers. This represents the unsatisfied performance obligations resulting from fixed-price long-term contracts. Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognized as revenue during the next reporting period.

In 2018 an adjustment of USD 64 thousand has been made to deferred income because of changed business model and subscription options connected with the relaunch of The Secret World to Secret World Legends.

19. Other short-term liabilities

In thousands of US dollars	**2018**	**2017**
Taxes and social security payable	416	253
Payable to Heroic Signatures DA	214	-
Accrued expenses	1 917	1 054
Total	**2 547**	**1 307**

20. Leases

With the liquidation of Funcom Games Canada Inc during 2017, Funcom NV took over the rental and sublease contracts of office space in Canada. Most of the space has been subleased, and Funcom NV has been collecting monthly rentals. The receipts have been on time and are recognized as revenue. The subleases will terminate in November 2020 as Funcom NV's lease with the landlord terminates. The rental income will be treated differently as of 1 January 2019 with the adoption of IFRS 16. Please refer to Note 2.1 for reference.

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	**2018**	**2017**
Less than one year	1 341	1 310
Between one and five years	2 688	4 451
More than five years	-	31
Total	**4 029**	**5 792**

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

During the year ended 31 December 2018, USD 223 thousand was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2017: USD 639 thousand). The amount was net of the rental expenses and sublease rental revenues. The Group subleases office premises in Canada. During the year ended 31 December 2018, the sublease rental revenues amounted to USD 512 thousand (2017: USD 502 thousand).

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

21. Earnings per share

The basic earnings per share are calculated as the ratio of the result for the period attributable to the equity holders of Funcom N.V. of USD 6 618 thousand (2017: USD 4 957 thousand) divided by the weighted average number of ordinary shares outstanding 73 487 371 (2017: 55 843 488).

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

In thousands of USD	**2018**	**2017**
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands)	6 618	4 957
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	6 618	4 957

Issued ordinary shares as of January 1	57 931	49 856
Effect of new shares issued and options exercised	15 557	5 987
Weighted average number of shares at December 31	73 487	55 843
Basic earnings per share	**0.09**	**0.09**
Basic earnings per share - continuing operations	**0.09**	**0.09**
Weighted average number of shares at December 31, basic	73 487	55 843
Weighted average number of shares at December 31, diluted	79 088	65 714
Diluted earnings per share	**0.08**	**0.08**
Diluted earnings per share - continuing operations	**0.08**	**0.08**

These figures take into account the 5:1 reverse split that the Company conducted on 1 February 2018; the 2017 figures have been adjusted accordingly for comparison purposes.

22. Contingent liabilities

As of 31 December, 2018 the Group had no contingent liabilities.

23. Financial instruments

Funcom has adopted IFRS 9 as of 1 January 2018. Funcom's date of transition is 1 January 2018 and Funcom has taken advantage of the transitional relief allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Based on the analysis of Funcom's financial assets and liabilities as at 31 December 2017, the result of Funcom's assessment on the impact of IFRS 9 to the Group's consolidated financial statements did not require any adjustment. No differences have been identified on classification and measurement of financial assets or liabilities and no increases of the bad debt provision on transition to IFRS 9 were made, as the lifetime expected credit losses under IFRS 9 is zero. Information for 2018 is thus classified and measured in accordance with IFRS 9, while information for 2017 is classified and measured in accordance with IAS 39. See note 2.21 for further description of the Group's IFRS 9 policy and implementation.

Credit risk
The impairment model in IFRS 9 is based on the premise of providing for expected losses. The contractual terms of the financial assets on the Group balance sheet give rise to cash flows on specified dates that are solely payments of principal and interest, measured at amortized cost.

Funcom's trade receivables are to a large extent due to credit card companies with short maturities and no significant financing components have been identified.

Funcom's cash and cash equivalents are considered to have low credit risk.

The company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Loss allowance are considered for full lifetime. Under IFRS 9 all other financial instruments expected credit losses are measured at an amount equal to the 12-month expected credit losses. This would apply to Funcom's long-term receivable related to a lease deposit. However, given the immaterial amount of this receivable, Funcom has not distinguished between 12-months expected credit losses and hence will not assess significant increases in credit risk at each reporting date, but recognize full lifetime expected credit losses for this deposit as well.

Funcom has determined its expected credit losses by using a provision matrix where receivables have been grouped by aging. The credit loss estimates are based on actual historical credit losses and adjusted for the credit worthiness of creditors and any available relevant forward-looking information, for instance about the general economy and Group creditors. Knowledge of payment problems of any of our key creditors would impact our assessment of expected credit losses. The trade receivables are primarily receivable from large corporations with a high credit worthiness such as Microsoft, Sony, Valve and credit card service providers. The short maturity of the trade receivables reduces the importance of forward-looking information, which has not indicated any specific scenarios that would require a significant increase of the default rate. The Group has not incurred any credit losses during the last three years, there are no credit-impaired financial assets and no significant increase in credit loss risk since initial recognition has been identified in any financial instrument. Based on this the Group has concluded a nil IFRS 9 default rate is appropriate, for each class of financial instruments.

Class of financial asset	**Default rate (IFRS 9 / IAS 39)**
Non-current	0%
Trade receivables	0%
Cash	0%

There are substantial disclosure requirements in relation to IFRS 9. Many of these are not relevant for the Group in 2018, for instance as there were no changes from the opening balance to the closing balance of the loss allowance (IFRS 9 5.5.35 H, I). There have been no credit losses from modifications of contractual cash flows on financial assets that have not resulted in derecognition (IFRS 9 5.5.35 J). Impairment requirements in IFRS 9 are applied to all financial instruments within the scope of IFRS 9.

Maximum credit exposure

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 **2018**	Carrying amount **2017**
Loans and receivables*	6 554	2 395
Cash and Cash equivalents	19 902	7 731
	26 456	**10 126**

* Includes trade receivables of USD 4 797 thousand (2017: USD 1 559 thousand), long-term receivables of USD 489 thousand (2017: USD 567 thousand), and other accruals, deposits and advances for a total of USD 1 269 thousand (2017: 269 thousand). The trade receivables are primarily receivable from credit card service providers for which no publicly available credit ratings are available. However, based on long-term relationship with these providers it is considered that there is a very low risk of non-collection.

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

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

In thousands of US dollars

	Carrying amount 2018	**Carrying amount 2017**
Asia	330	0
North America	3 358	868
Europe	1 109	691
	4 797	1 559

Receivables on credit card service providers amount to USD 257 thousand of the trade receivables carrying amount on 31 December 2018 (2017: USD 627 thousand).

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars

	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	4 787	-	1 541	-
Past due 0-30 days	2	-	2	-
Past due 31-120 days	8	-	17	-
More than 120 days	-	-	-	-
	4 797	-	1 559	-

The group recorded no impairment losses for receivables in 2018 (2017: nil).
The balance of past due of more than 30 days has reduced since 2017. History from the last years indicate this balance is due to holiday related delays and does not represent an increased credit risk.

Changes in liabilities arising from financing activities

In thousands of US dollars	*1 January 2018*	*Cash Flow*	*Interests accruing in the peirod*	*Foreign exchange*	*Debt converted into euqity*	*Re-classification*	*31 December 2018*
Long term borrowings	91	-	-	2		-1	92
Short term borrowings	3 411	-	81	-1	-3 444	-47	-
Total	**3 502**	**-**	**81**	**1**	**-3 444**	**-48**	**92**

The convertible bond plus accrued interest was completely converted into Funcom shares. The outstanding amounts as of 31 December 2018 are related to office rental.

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

In thousands of US dollars

As at December 31, 2018

	Carrying amount	Contractual cash flows	6 months or less	7-12 months	Year 2	Year 3	Thereafter
Trade payables and current loans and borrowings	-1 200	-1 200	-1 200				
Other short-term liabilities	-2 547	-2 547	-2 547				
Long-term liabilities	-92	-49			-49		
	-3 839	**-3 796**	**-3 747**	**-**	**-49**	**-**	**-**

As at December 31, 2017

	Carrying amount	Contractual cash flows	6 months or less	7-12 months	Year 2	Year 3	Thereafter
Trade payables and current loans and borrowings	-4 289	-4 186	-787	-3 399			
Other short-term liabilities	-1 307	-1 307	-1 307				
Non-current loans and borrowings	-91	-91					
	-5 687	**-5 584**	**-2 094**	**-3 399**	**-**	**-**	**-**

Trade Payables and Current Loans and Borrowings:
Trade Payables and Current Loans and Borrowings mainly consist of Trade payables equal to USD 1 200 thousand (2017: USD 775 thousand) and a convertible bond of nil USD thousand (2017: 3 363).

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15 000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of 31 December 2017, 3 399 194 (2016: 6 899 194) bonds were outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of 31 December 2018. They were convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The interest was payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. During 2018, the bond plus accrued interest has been completely converted into Funcom shares.

Other short-term liabilities:
Other short-term liabilities mainly consist of USD 416 thousand sales tax and social security payable (2017: USD 253 thousand) and operational accrued expenses of USD 1 917 thousand (2017: USD 1 054 thousand).

Non-current loans and borrowings:
Non-current loans and borrowings consist of a rental deposit of USD 49 thousand (2017: 50 thousand).

Currency risk

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

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

In thousands of US dollars

As at December 31, 2018	**USD**	**EURO**	**NOK**	**CAD**	**OTHER**	**Total:**
Trade and other receivables	3,925	837	4	13	18	4,797
Cash and cash equivalents	10,499	2,330	6,775	128	170	19,902
Trade payables and current loans and borrowings	-504	-275	-344		-77	-1,200
Net balance sheet exposure	13,920	2,892	6,435	141	111	23,499

As at December 31, 2017	**USD**	**EURO**	**NOK**	**CAD**	**OTHER**	**Total:**
Trade and other receivables	1,236	232	56	7	28	1,559
Cash and cash equivalents	5,115	472	1,964	96	85	7,731
Trade payables and current loans and borrowings	-3,445	-409	-311	-20	-1	-4,186
Net balance sheet exposure	2,906	295	1,708	83	112	5,104

The following exchange rates were applied during the year:

	Reporting rate			
	Average rate		**Spot rate at December 31**	
	2018	**2017**	**2018**	**2017**
EUR	1.180	1.130	1.145	1.199
NOK	0.123	0.121	0.115	0.122
CAD	0.772	0.771	0.706	0.797
CNY	0.151	0.148	0.145	0.154

Sensitivity analysis

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

In thousands of US dollars

	Profit or Loss
December 31, 2018	
EUR	-289
NOK	-644
CAD	-14
Other	-11
December 31, 2017	
EUR	-30
NOK	-171
CAD	-8
Other	-11

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

Interest rate risk

At the reporting date, the Group has no interest-bearing financial instrument. The convertible bond has been completely converted into Funcom shares in 2018.

Sensitivity analysis for variable rate instruments

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

In thousands of US dollars

	2018	2017
Loans and borrowings		
Cash and cash equivalents	19 902	7 731
Net exposed to interest risk	19 902	7 731
100 bp increase in interest rate	199	77
100 bp decrease in interest rate	-199	-77

Classes of financial instruments

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

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

In thousands of US dollars

	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Trade and other Receivables	4,797	4,797	1,559	1,559
Cash and cash equivalents	19,902	19,902	7,731	7,731
Trade paybles and current loans and borrowings	-1,200	-1,200	-4,289	-4,289
Other short term liabilities	-2,547	-2,547	-1,307	-1,307

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

Convertible bonds - carrying amount nil USD (2017: USD 3 363 thousand)
On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15 000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of 31 December 2017, 3 399 194 (2016: 6 899 194) bonds are outstanding with the face value of USD 1 each, 3.5% interest rate, and the maturity date of 31 December 2018. They are convertible into common shares of Funcom N.V. at a price of 0.1036 USD per share. The bond plus accrued interest has been completely converted into Funcom shares in 2018.

24. Transactions with related parties

Identification of related parties

The Group has a related party relationship with its subsidiaries (see Note 25), members of the Supervisory and Management Boards, its executive officers and shareholders.

Remuneration to the Supervisory Board

On June 1, 2018, the General Meeting approved annual remuneration to the Chairman of the Supervisory Board of EUR 31 000 (2017: EUR 27 000) and EUR 21 000 (2017: EUR 18 000) for all other members of the supervisory board.

Supervisory Board member	Total remuneration	Total remuneration is composed of: Board fee TUSD	Share based TUSD
2018			
Ole Gladhaug	142	37	105
Alain Tascan (1)	98	21	77
Magnus Grøneng (2)	38	13	25
Fredrik Malmberg	95	25	70
Egil Kvannli	95	25	70
Andreas Arntzen (3)	57	12	45
Susana Meza Graham (4)	38	7	31
Total:	**562**	**139**	**423**
2017			
Ole Gladhaug	65	32	33
Alain Tascan	36	21	15
Magnus Grøneng	40	21	19
Fredrik Malmberg	40	21	19
Egil Kvannli	40	21	19
Total:	**221**	**116**	**105**

Supervisory Board member	Number of options granted during the year	Number of options exercised durng the year	Total number of options held / controlled at year end	Number of shares held / controlled at year end (incl. related parties)
2018				
Ole Gladhaug	56,000	-	141,000	-
Alain Tascan (1)	38,000	n/a	n/a	n/a
Magnus Grøneng (2)	-	n/a	n/a	n/a
Fredrik Malmberg	38,000	-	88,000	4,500,000
Egil Kvannli	38,000	-	88,000	-
Andreas Arntzen (3)	38,000	-	38,000	-
Susana Meza Graham (4)	38,000	-	38,000	155,000
	246,000	**-**	**393,000**	**4,655,000**
2017				
Ole Gladhaug	45,000	-	85,000	-
Alain Tascan	30,000	-	90,000	-
Magnus Grøneng	30,000	-	50,000	88
Fredrik Malmberg	30,000	-	50,000	-
Egil Kvannli	30,000	-	50,000	-
	165,000	**-**	**325,000**	**88**

(1) Alan Tascan resigned from the Supervisory Board on 31 October 2018.

(2) Magnus Grøneng resigned from the Supervisory Board on 10 July 2018.

(3) Andreas Arntzen joined the Supervisory Board on 10 July 2018.

(4) Susana Meza Graham joined the Supervisory Board on 14 September 2018.

2017 numbers of shares and options in the above table have been adjusted to reflect the reverse stock split.

Remuneration to the Supervisory Board and Management Board):

In thousands of US dollars	**2018**	**2017**
Salaries and benefits in kind (short-term employee benefits)	513	442
Share-based payments	761	175
Pension plan contributions	6	3
Total remuneration	**1 280**	**620**

Remuneration to the Management Board:

In thousands of US dollars

		Total remuneration is composed of:				
Management Board member	**Total remune-ration**	**Remune-ration**	**Bonus**	**Severance**	**Pension cost**	**Share based**
2018						
Rui Casais	622	260	89	-	6	267
Christian Olsthoorn	96	25	-	-	-	71
Total:	**717**	**285**	**89**	**-**	**6**	**338**
2017						
Rui Casais	360	221	86	-	3	50
Christian Olsthoorn (1)	39	19	-	-	-	20
Total:	**399**	**240**	**86**	**-**	**3**	**70**

Management Board member	**Number of options granted during the year**	**Number of options exercised during the year**	**Total number of options held / controlled at year end**	**Number of shares held / controlled at year end**
2018				
Rui Casais	100 000	-	389 332	40 000
Christian Olsthoorn	38 000	-	95 500	-
Total:	**138 000**	**-**	**484 832**	**40 000**
2017				
Rui Casais	80 000	10 000	289 333	30 000
Christian Olsthoorn	27 500	-	57 500	-
Total:	**107 500**	**10 000**	**346 833**	**30 000**

2017 numbers of shares and options in the above table have been adjusted to reflect the reverse stock split.

Transactions with shareholders

Mr. Hans Peter Jebsen, the largest shareholder of Funcom N.V. controls the company Kristian Gerhard Jebsen Group Ltd. that in turn controls KGJ Investments S.A., SICAV-SIF (KGJI). The actual, indirect holdings in Funcom N.V. of Mr. Jebsen through the companies he controls were 29.06% as of 31 December 2018 (2017: 28.28%).

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15 000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. As of 31 December 2017, 3 399 194 bonds (total USD 3 399 thousand) issued on 22 December 2011 were still outstanding, with the face value of USD 1 each, 3.5% interest rate, and the maturity date of 31 December 2018. They are convertible into common shares of Funcom N.V. at a price of USD 0.1036 per share. With the 5:1 reverse stock split in February 2018, five previous bonds could be converted into one share at a price of USD 0.518 per share.

In March 2018, KGJI converted USD 3 000 thousand of Funcom convertible bond (including accrued interest) into 5 791 505 Funcom shares at the price of USD 0.518 per share.

In September 2018, KGJI sold 880 000 shares of Funcom in a private transaction.

In October 2018, USD 616 thousand of the remaining Funcom convertible bond (including accrued interest) was converted into 1 189 331 Funcom shares at the price of USD 0.518 per share. After this conversion, no bond was outstanding. KGJI received 1 088 443 Funcom shares from converting its holding of the bond plus accrued interest.

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

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

The Company has entered an agreement to invest in a game made by the company Bearded Dragon International LTD. Fredrik Malmberg has also co-invested in the game through an entity called Game Ark LTD. In 2018, Funcom invested USD 2 654 thousand (2017: USD 1 026 thousand) in the game, all of which has been capitalized for both years.

The Group has contractual commitments for development costs of USD 721 thousand to Bearded Dragon. During 2018 the Company incurred publishing development expenses of USD 917 thousand (2017: USD 902 thousand) on the game developed by Bearded Dragon. At the end of 2018, the Company had a royalty payable of USD 407 thousand (2017: nil) to Bearded Dragon.

For 2018 Funcom paid USD 68 thousand (2017: USD 1 406 thousand) in royalty fees for Age of Conan and Conan Exiles to Conan Properties which is controlled by Cabinet Group LLC. At year end USD 0 thousand (2017: USD 144 thousand) was owed. In February 2018 the license agreement for Age of Conan and Conan Exiles was transferred from Conan Properties to Heroic Signatures DA.

Transactions with a Management Board member
Christian Olsthoorn is a partner with Temmes Management Services, which has services contracts with Funcom. For 2018 services amounting to USD 99 thousand (2017: USD 128 thousand) were charged (including USD 24 thousand (2017: USD 18 thousand) gross for the managing director position remuneration), and an amount of USD 20 thousand (2017: USD 16 thousand) was owed at the end of the year.

25. Group entities

Group entities
The Company is the ultimate parent company to 5 wholly owned subsidiaries and one joint operation, being Heroic Signatures DA.

Name	Country of incorporation	Principal Activity	Ownership	Interest in %
Funcom Oslo Licensing AS	Norway	Holding company for Heroic Signatures AS	100	100
Funcom Inc.	United States	Development of computer games	100	100
Funcom Oslo AS	Norway	The development and operation of games and technology	100	100
Funcom Games Beijing Ltd	China	Representation office	100	100
Nephilim LLC	United States	Owner of film rights	100	100
Heroic Signatures DA	Norway	Owner of IP licenses	50	50

26. Capital Management and Risk Factors

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

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

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

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

Revenue risks

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

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

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

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

Dependence on the attractiveness of the licensed brands

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

Dependence on consumer satisfaction

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

Rating risks

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

Reviews

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

Pricing risk

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

Development risks

Launch risks for online games and risk of non-retention of players after launch

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

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

Delay of product releases

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

Unsuccessful projects under development

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

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

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

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

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

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

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

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

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

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

Technical risks

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

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

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

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

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

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

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

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

Economic risks

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

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

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

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

Tax exposure
The Company is incorporated in the Netherlands with subsidiaries in Norway, China and the United States, and as of 2019 in Portugal as well. The overall tax charge depends on where profits are accumulated and taxed since these countries have different tax systems and tax rates. The Group is today taxed under a number of different legal systems with different laws for tax residency, tax credits and tax exemption. Consequently, the Group is exposed to changes of tax policies and changes of tax legislations, proactively and/or retroactively. The Company is of the view that it reports profits and losses in accordance with tax rules applicable to the Group. The tax authorities in the jurisdictions where the Group operates are not bound by the judgment of the Company, and there can be no assurance that they will agree to it. If one or more of the relevant tax authorities challenges the Company's view, this may result in an increased overall tax charge.

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

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

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

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

The tax credits that Funcom Oslo AS receives have been obtained through the SkatteFUNN R&D tax incentive scheme, a government program designed to stimulate research and development in Norwegian trade and industry. Under the SkatteFUNN scheme, qualifying companies receive support through either tax credits or payment of an amount corresponding to the tax credits (if the company is not in a taxable position).

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

Financial risk
Pre 2017 Funcom has a history of operating losses mainly as a result of the significant investments made in the Company's games not generating sufficient income. The recent strategic changes increasing the frequency of games releases through more internal games, adding externally developed games, releasing games on more platforms and adding revenue from intellectual property is intended to increase robustness, improve ongoing cash flow and reduce the reliance on individual game releases. The Company's overall performance is still largely dependent on the revenues from existing and future games and investors should refer to the Going concern assessment in the Report of the Management Board for a more thorough assessment.

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

Further risk description
Further risk include control risks related to the joint operation Heroic Signatures DA, risk related to the share, see chapter 2 risk factors of the prospectus released 22 February 2018 for further information.

27. Events after the reporting period

On 8 January 2019 it was announced that Funcom had acquired 50.1% of the Lisbon, Portugal, based company, Zona Paradoxal, Lda (“ZPX”) with whom it has had a working relationship since 2017.

ZPX is a game development company, which has provided services to Funcom on *Conan Exiles*, *Mutant Year Zero: Road to Eden* and other projects and will continue to act independently with Funcom as its main customer.

Strategically this acquisition secures control of an important development partner, allowing for continued development cost savings when compared to Funcom’s main studios and for access to the growing talent pool of Portugal and Spain. ZPX’s quality and client focused attitude and history of providing varied services and executing projects in different time zones is also a good match for Funcom’s growing list of projects in development, allowing them to support both internal and published projects with ease. ZPX currently employs 15 individuals and are searching for great talent to gradually double the team. Due to the limited size of the company the acquisition will not have significant impact on Funcom’s financials and is classified as an immaterial business combination in terms of reporting requirements. Part of the consideration for the acquisition of the 50.1% ownership in ZPX is 102 363 new shares that Funcom will issue to the founders and shareholders of ZPX.

On 26 February 2019 it was announced that the Company has entered into an exclusive gaming partnership with Legendary Entertainment for the creation of a minimum of 3 games based on the DUNE Intellectual Property over the next six years, on PC and Console. DUNE is one of the world’s best-known science fiction universes.

Company Financial Statements Funcom N.V.

Statement of Financial Position

Before appropriation of result

In thousands of US dollars	Note	31. Dec. 2018	31. Dec. 2017
Intangible assets	1	-	1 026
Investments in and receivables from group companies	2	44 758	16 203
Long term receivables		67	-
Total non-current assets		**44 825**	**17 229**
Prepayments and other receivables		23	108
Cash and cash equivalents	3	766	446
Total current assets		**790**	**554**
Total assets		**45 615**	**17 783**
Issued capital	4	17 635	13 895
Share premium	5	195 651	173 964
Legal reserves	6	17 643	10 048
Other reserves	7	-186 703	-183 713
Result after taxation		948	-516
Total equity		**45 175**	**13 678**
Payable to group companies	8	146	-
Other non-current liabilities	8	92	141
Total non-current liabilities		**239**	**141**
Loans and borrowings		-	3 363
Accrued expenses		163	169
Other current liabilities	8	38	432
Total current liabilities		**201**	**3 964**
Total equity and liabilities		**45 615**	**17 783**

Statement of Comprehensive Income

For the year ended December 31

In thousands of US dollars	**Note**	**2018**	**2017**
Revenue	9	1 475	710
Personnel expenses	10	-657	-261
G&A	11	-1 026	-1 206
Operating expenses		-1 683	-1 467
Operating result		-207	-757
Financial income	12	1 601	507
Financial expenses	13	-446	-266
Result before income tax		948	-516
Income tax expenses		-	-
Result for the period		**948**	**-516**
Results from participating interest after tax	2	5 670	5 473
Consolidated results after taxation		**6 618**	**4 957**

Notes to the Company Financial Statements

Principles of valuations for the financial statements

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

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

1. Intangible Assets

In June 2017, Funcom NV entered into an agreement with Bearded Dragon International LTD regarding development support and publishing of a new game. The game, *'Mutant Year Zero: Road to Eden'*, is in the "tactical turn-based strategy" genre and was released on 4 December 2018 on the PC, PlayStation 4, and Xbox One platforms. In 2018 Funcom NV transferred its intangible assets related to *'Mutant Year Zero'* to its subsidiary Funcom Oslo AS.

2. Investments in and Receivables from Group Companies

The Company holds the following investments in subsidiary companies at 31 December, 2018:

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2018	2017
Funcom Inc.	United States	100.00	100.00
Nephilim LLC	United States	100.00	100.00
Funcom Oslo AS	Norway	100.00	100.00
Funcom Games Beijing Ltd	China	100.00	100.00

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

	Investments		Receivable from group companies		Total	
In thousands of US dollars	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Balance at 01.01	**10 413**	**4 781**	**5 790**	**3 149**	**16 203**	**7 930**
Translation results	-1 508	158	-	-	-1 508	158
Results of participations	5 670	5 473	-	-	5 670	5 473
Investments	4 487	1	-	-	4 487	1
Movement IC loans	-	-	19 759	3 253	19 759	3 253
Other movements	-	-	146	-	146	-
Impairment IC loans	-	-	-	-612	-	-612
Balance at 31.12	**19 063**	**10 413**	**25 695**	**5 790**	**44 758**	**16 203**

In 2017 Receivable from Group companies of USD 5 790 thousand included payables to Funcom Beijing (USD 146 thousand). In 2018 this payable is now classified as liabilities. Please see Note 8. Liabilities.

3. Cash and cash equivalents

For both 2018 (USD 766 thousand) and 2017 (USD 446 thousand), cash and cash equivalents are bank balances without restriction for the use.

4. Issued capital

In thousands of US dollars

	2018	2017
Balance at 01.01	13 896	10 486
Addition share-capital	4 699	1 717
Translation result opening share capital	-629	1 473
Exchange difference on new share issue	-330	220
Balance at 31.12	**17 635**	**13 896**

The share-capital was translated into US dollars at the 31 December 2018 exchange rate of EUR/USD 1.1450 (2017: 1.1993). The issued capital for these standalone accounts is not equal to that of the group accounts, due to differences in the translation of foreign currency under the respective accounting frameworks, Dutch corporate law demands that share capital is converted into presentation currency on the last day of the reporting period, whereas the group balance is translated at the historical rate in line with IFRS requirements.

The number of outstanding ordinary shares with a nominal value of Euro 0.20 was on

- 1 January: 57 930 522
- 31 December: 77 009 493

On 31 December 2018, the authorized share capital comprised of 150 million ordinary shares (2017: 150 million). The nominal value of the shares is Euro 0.20. 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.

	Number of ordinary shares	
	2018	2017
Outstanding at January 1	57 930 522	49 856 384
Issued against payment in cash	7 638 135	656 416
Issued as a result of conversion of debts (Note 25)	6 980 836	7 417 721
Issued as a result of the Cabinet transaction	4 460 000	
Outstanding at December 31 - fully paid	**77 009 493**	**57 930 522**
Nominal value of the share-capital at December 31 (EUR)	15 401 899	11 586 104

A list of all equity related events in 2018 and 2017 is provided in Note 16 to the Consolidated Financial Statements.

5. Share premium

In thousands of US dollars

	2018	2017
Balance at 01.01	173 964	170 021
Share based payments	2 903	750
Addition to share premium	18 785	2 432
Other	-	761
Balance at 31.12	**195 651**	**173 964**

6. Legal reserves

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

In thousands of US dollars

	2018	2017
Balance at 01.01	10 048	6 252
Game capitalization	15 209	6 616
Game amortization	-7 480	-3 114
Exchange effect on game values	-133	294
Balance at 31.12	17 643	10 048

7. Other reserves

In thousands of US dollars

	2018	2017
Balance at 01.01	-184 229	-182 986
Exchange effect on share-capital	959	1 692
Exchange effect on subsidiaries	-1 508	-4 010
Movement to legal reserves	-7 595	-3 796
Result from participating interest after tax	5 670	5 473
Warrants	-	-86
Balance at 31.12	-186 703	-183 713
Result after taxation	948	-516

Funcom does not distribute any dividend for either 2018 or 2017. All results after taxation go to other reserves.

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

8. Liabilities

Loans and borrowings in 2017 of USD 3 363 thousand are convertible bonds due 31 December 2018, and they were completely converted into Funcom shares in 2018. Other current liabilities in 2018 of USD 38 thousand (2017: USD 432 thousand) do not include any loan, and are related to Funcom NV's regular business operations.

Payables to group companies in 2018 of USD 146 thousand are liabilities to Funcom Games Beijing. Please see Note Investments in and Receivables from Group Companies for more details.

Non-current liabilities in 2018 of USD 92 thousand are related to the office space in Canada, out of which USD 49 thousand is rental deposit from the subtenants that will be used against the rent receipt towards the end of the lease term in November 2020, and USD 43 thousand is initial rental incentive from the landlord that will be totally amortized by the end of the lease term.

9. Revenue

In 2018, Funcom NV generated USD 962 thousand (2017: USD 201 thousand) for its management services to its subsidiary company Funcom Oslo AS.

In 2018, Funcom NV had USD 514 thousand (2017: USD 502 thousand) rental revenue from its office space in Canada.

In 2017, games using Funcom IP were sold through Apple, and Funcom NV received royalty income of USD 8 thousand. Royalty income was recognized immediately upon receipt. In 2018 Funcom NV has mainly income from subsidiary companies.

10. Personnel expenses

Personnel expenses were related to remuneration to members of the Supervisory Board and the Management Board (2018: USD 162 thousand; 2017 USD 135 thousand) and their share option cost (2018: USD 494 thousand; 2017: USD 126 thousand). Please refer to Note 15 and 16 for more details.
There was no employee in Funcom N.V. for 2018 or 2017.

11. General and administrative expenses

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

In thousands of US dollars	**2018**	**2017**
Rental expenses	504	469
Audit fees	192	136
Legal services	4	185
Investor relations	215	192
Consulting fees	123	173
Other	-12	51
Total other operating expenses	**1 026**	**1 206**

12. Financial income

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

In thousands of US dollars	**2018**	**2017**
Intercompany interest income	1 558	363
Foreign exchange gain	37	128
Other financial income	6	16
Finance income	**1 601**	**507**

13. Financial expenses

Financial expenses consist mainly of convertible bonds interest and foreign exchange loss.

In thousands of US dollars	**2018**	**2017**
Interest expense	-84	-184
Foreign exchange loss	-362	-82
Finance expenses	**-446**	**-266**

14. Remuneration of the members of the Management Board

In thousands of US dollars

The following table shows the details of the stock incentives of the individual members of the Management Board. See consolidated statements Note 24 for a summary. Historical numbers of options and shares have been adjusted to reflect the 5:1 reverse stock split in February 2018.

	Year Issued	**Outstanding Dec 31 2017**	**Granted**	**Expired**	**Exercised**	**Outstanding Dec 31 2018**	**Exercise Price USD**	**Expiry Date**
Rui Casais	2012	13 332				13 332	1.25	20/09/2022
	2013	26 000				26 000	1.05	24/06/2023
	2014	40 000				40 000	2.8	26/06/2024
	2015	60 000				60 000	1.10	30/01/2025
	2016	70 000				70 000	0.90	25/02/2026
	2017	80 000				80 000	1.55	07/07/2027
	2018		100 000			100 000	2.68	01/06/2028
	Total	**289 332**			**Total**	**389 332**		
	Vested	**186 554**			**Vested**	**389 332**		

	Year Issued	Outstanding Dec 31 2017	Granted	Expired	Exercised	Outstanding Dec 31 2018	Exercise Price USD	Expiry Date
Christian Olsthoorn	2016	30 000				30 000	0.65	30/06/2026
	2017	10 000				10 000	1.75	30/03/2027
	2017	17 500				17 500	1.55	07/07/2027
	2018		38 000			38 000	2.68	01/06/2028
	Total	**57 500**			**Total**	**95 500**		
	Vested	**14 999**			**Vested**	**95 500**		

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

15. Remuneration of the members of the Supervisory Board

The General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Supervisory Board. In 2018, the total remuneration to the Supervisory Board was EUR 117 904 (USD 139 102) (2017: EUR 99 000 (USD 116 880)). The annual remuneration was EUR 31 000 (USD 36 574) (2017: EUR 27 000 (USD 31 876)) for the Chairman and was EUR 21 000 (USD 24 776) (2017: EUR 18 000 (USD 21 251)) for each of other members, prorated in accordance with the months of service. EUR 89 339 (2017: EUR 99 000) of the fees for 2018 are outstanding at year end.

The following tables show the details of the stock incentives of the individual members of the Supervisory Board. Consolidated statements Note 24 includes a summary.

			In 2018						
	Year of issuance	Outstand **Dec 31, 2017**	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Alain Tascan	2014	20 000	-	-	-	-	20 000	3.30	27.06.2024
	2015	20 000	-	-	-	-	20 000	1.20	26.06.2025
	2016	20 000	-	-	-	-	20 000	0.65	30.06.2026
	2017	30 000	-	-	-	-	30 000	1.55	07.07.2027
	2018	-	38 000	-	-	-	38 000	2.68	01.06.2028
	Total	**90 000**					**128 000**		
	Vested	**70 000**					**128 000**		

			In 2018						
	Year of issuance	Outstand **Dec 31, 2017**	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Ole Gladhaug	2016	40 000	-	-	-	-	40 000	0.80	11.10.2026
	2017	45 000	-	-	-	-	45 000	1.55	07.07.2027
	2018	-	56 000	-	-	-	56 000	2.68	01.06.2028
	Total	**85 000**					**141 000**		
	Vested	**40 000**					**141 000**		

	Year of issuance	Outstand Dec 31, 2017	In 2018 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Magnus Grøneng	2016	20 000	-	-	1 000	-	19 000	0.80	11.10.2026
	2017	30 000	-	-	30 000	-	-	1.55	07.07.2027
	2018	-	-	-	-	-	-	-	-
	Total	**50 000**					**19 000**		
	Vested	**20 000**					**19 000**		

	Year of issuance	Outstand Dec 31, 2017	In 2018 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Fredrik Malmberg	2016	20 000	-	-	-	-	20000	0.80	11.10.2026
	2017	30 000	-	-	-	-	30 000	1.55	07.07.2027
	2018	-	38 000	-	-	-	38 000	2.68	01.06.2028
	Total	**50 000**					**88 000**		
	Vested	**20 000**					**88 000**		

	Year of issuance	Outstand Dec 31, 2017	In 2018 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Egil Kvannli	2016	20 000	-	-	-	-	20 000	0.80	11.10.2026
	2017	30 000	-	-	-	-	30 000	1.55	07.07.2027
	2018	-	38 000	-	-	-	38 000	2.68	01.06.2028
	Total	**50 000**					**88 000**		
	Vested	**20 000**					**88 000**		

	Year of issuance	Outstand Dec 31, 2017	In 2018 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Andreas Arntzen	2018	-	38 000	-	-	-	38 000	2.68	01.06.2028
	Total	**-**					**38 000**		
	Vested	**-**					**38 000**		

	Year of issuance	Outstand Dec 31, 2017	In 2018 Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Susana Meza Graham	2018		38 000	-	-	-	38 000	2.68	01.06.2028
	Total	**-**					**38 000**		
	Vested	**-**					**38 000**		

2017 numbers of shares and exercise price in the above tables have been adjusted to reflect the reverse stock split.

16. Transactions with Related parties

Please refer to Consolidated Financial Statements, Note 24.

17. Events after the reporting date

Please refer to Consolidated Financial Statements, Note 27.

Badhoevedorp, 10 April 2019

The Supervisory Board of Directors in Funcom N.V.

Ole Gladhaug, Chairman
sgd

Fredrik Malmberg
sgd

Egil Kvannli
sgd

Andreas Arntzen
sgd

Susana Meza Graham
sgd

The Board of Managing Directors in Funcom N.V.

Rui Casais, Chairman
sgd

Christian Olsthoorn
sgd

Other information

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

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

Proposed appropriation of the result for the year

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

Independent auditor’s report

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

A. Report on the audit of the financial statements 2018

Our opinion

We have audited the financial statements 2018 of Funcom N.V., based in Badhoevedorp, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

WE HAVE AUDITED	OUR OPINION
The consolidated financial statements which comprise: 1. the consolidated statement of financial position as at 31 December 2018; 2. the following consolidated statements for 2018: statements of comprehensive income, changes in equity and cash flows for the year then ended; and 3. the notes comprising a summary of the significant accounting policies and other explanatory information.	In our opinion the enclosed consolidated financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
The company financial statements which comprise: 1. the company statement of financial position as at 31 December 2018; 2. the company statement of comprehensive income for 2018; and 3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	In our opinion the enclosed company financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

Materiality
Based on our professional judgment we determined the materiality for the financial statements as a whole at USD 450,000. The materiality has been calculated with reference to a benchmark of revenues (representing 1.5% of reported revenues) which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of USD 23,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

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

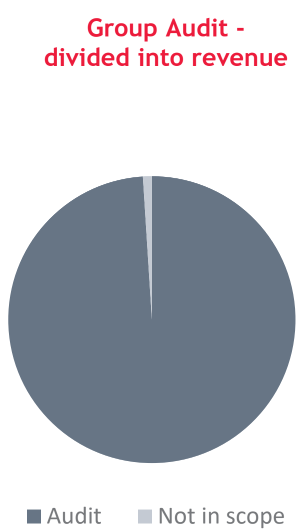
Our group audit mainly focused on significant group entities. We consider a component significant when:

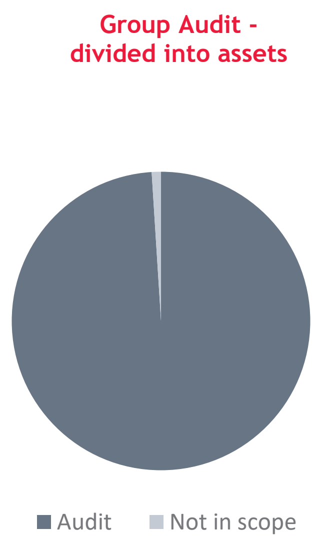
- it is of individual financial significance to the group; or
- the component, due to its specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the group financial statements.

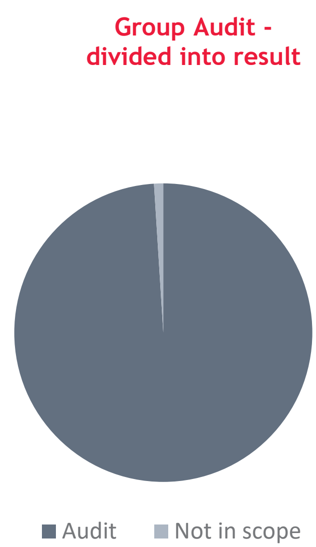
To this extend we:

- performed audit procedures at group entities Funcom N.V., Funcom Oslo AS, Funcom Inc., and Heroic Signatures DA;
- performed specific audit procedures at other group entities.

For clarification purposes we hereby show our scope:







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

Our key audit matters

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

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

RECOGNITION OF DEVELOPMENT COSTS	OUR AUDIT APPROACH
Over the year ended 31 December 2018, the company capitalized USD 15.2m of developed costs. Refer to note 11 - *Intangible assets*. We have considered the recognition of development costs to be a key audit matter due to the significant judgment involved in determining if the recognition criteria are met in accordance with IAS 38 - *Intangible Assets*.	We reviewed the company's capitalization policy to determine whether the recognition is aligned with IAS 38 – *Intangible Assets*. Our audit procedures included, amongst others, evaluating management's controls over capitalization of costs, evaluating the nature of development costs and assessing the reasonableness of the capitalization. Furthermore, we have checked the arithmetic accuracy of the capitalization schedule, agreed a sample of capitalized costs to internal payroll records and external invoices and assessed the adequacy of the related disclosures in the financial statements.

VALUATION OF INTANGIBLE ASSETS	OUR AUDIT APPROACH
As at 31 December 2018 the carrying amount of Intangible assets amounts to USD 24.7m. Refer to note 11 - *Intangible assets*. We have considered the impairment tests to be a key audit matter due to the degree of judgment involved in assessing indications for impairment and determining the recoverable amount.	We challenged managements' assessment and assumptions used in the impairment model for Intangible assets, including cash flow projections, the discount rate and assumptions used. We have determined whether the valuation methods are aligned with IAS 36 – *Impairment of Assets*. We performed back-testing procedures to assess the appropriateness of the estimates of last year and we reviewed the expected future cash flows with projections, business plans and actuals realized in the period after reporting date, before completion of the audit. Furthermore, we tested the arithmetic accuracy of the impairment model and assessed the adequacy of the related disclosures in the financial statements.

REVENUE RECOGNITION	OUR AUDIT APPROACH
The company has various revenue streams and implemented IFRS 15 – *Revenue from Contracts with Customers* in the reporting period. Refer to note 2.4 - *Revenue from Contracts with Customers* and 5 – *Revenue*. Because a risk of fraud in revenue recognition is a presumed risk in our audit based on audit requirements, combined with the fact that revenue is the key business driver for this company and the implementation of IFRS 15 - *Revenue from Contracts with Customers* we considered revenue recognition to be a key audit matter.	We reviewed the company's revenue recognition policy to ensure revenue is recognized is in accordance with IFRS 15 - *Revenue from Contracts with Customers*. Our audit procedures included, amongst others, evaluating controls relating to management's process for revenue recognition, including determining the performance obligations and its transaction price, the timing of satisfying performance obligations, the recognition on gross or net basis, the calculation of deferred revenue and reconciliation of the recorded revenue in the operating system to the recognized revenue in the financial administration. We have checked the arithmetic accuracy of the (deferred) revenue of each game, we performed testing on a sample of contracts and reports, confirming that amounts recognized in revenue are consistent with the contract or external confirmations, invoices raised and cash received. Furthermore, we assessed the adequacy of the related disclosures in the financial statements.
SHARE-BASED PAYMENTS	**OUR AUDIT APPROACH**
The company provides benefits to employees and others in the form of share-based payments. During the reporting period the company implemented a new share option scheme, which replaced previous schemes and issued new share options under the new scheme. These share-based payment transactions are classified as equity-settled payment transactions and the company incurred a share-based payment expense of USD 2.9m in the period. Refer to note 6 – *Personnel expenses* and note 17 – *Employee benefits*.	Our audit considered whether the judgments and accounting treatment applied by the company met the requirements of IFRS 2 – *Share-based Payments*. Our audit procedures included, amongst others, gaining understanding of the terms and conditions of the new share option scheme and reviewing management's assessment in respect of the accounting treatment.

The accounting method for the new share option scheme including its impact on the previous schemes was a key audit matter due to the complexity and the judgmental aspects in the determination of the fair value of the share options.	We have assessed, together with our valuation experts, management's expert option valuation reports. In doing so, we assessed and challenged the appropriateness of the methodologies, inputs and assumptions used for the option valuations. Furthermore, we reperformed fair value calculations, reconciled the management's expert report to the share-based payments transactions recognized in the period and assessed the adequacy of the related disclosures in the financial statements.
RECOGNITION OF JOINT ARRANGEMENT	**OUR AUDIT APPROACH**
The company acquired, on 8 February 2018, through a new wholly owned Norwegian subsidiary 50% of the participation interest in Heroic Signatures DA from Tranicos LLC, a US company controlled by Cabinet Group. The joint arrangement has been accounted for as a Joint Operation. Refer to note 11 – *Intangible assets* and note 24 – *Transactions with related parties*. The accounting treatment of the transaction was considered to be a key audit matter due to the significance of the transaction, its impact on the financial statements, the degree of judgment involved in respect of the accounting treatment and the significance of interactions between ourselves and management to concur with the accounting treatment.	Our audit considered whether the accounting treatment of the transaction, applied by the company met the requirements of IFRS 11 – *Joint Arrangements*. Our audit procedures included, amongst others, gaining an understanding of the transaction by reviewing the relevant agreements and reviewing management's position paper in respect of the accounting treatment. Furthermore, we assessed the adequacy of the related disclosures in the financial statements.

B. Report on other information included in the annual report

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

- the Report of the Management Board;
- the Report of the Supervisory Board of Directors;
- the Other information on page 102;
- and the Letter from the CEO, About Funcom, Active Game portfolio, The Dreamworld Technology, Corporate Governance, Responsibility Statement and Corporate Governance Declaration.

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

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

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

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

Management is responsible for the preparation of the management board report and the other information on page 102 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

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

No prohibited non-audit services

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

D. Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

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

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

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Amstelveen, 10 April 2019

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

sgd.
drs. J.F. van Erve RA

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

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

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

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

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

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

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

Guidance
Funcom does not provide guidance on quantitative targets for the Company's future turnover, earnings, return on equity or cash flow.

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

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

Funcom N.V. is or has been followed by third party analyst firms and might engage with such firms to for commissioned research on the Company. Any opinions, estimates or forecasts regarding the performance of Funcom N.V.'s made by these analyst firms are theirs alone and do not represent opinions, forecasts or predictions of Funcom N.V. or its management. Funcom N.V. does not imply its endorsement of or concurrence with such information, conclusions or recommendations. The research provided by Redeye AB is commissioned research.

Silent Period

For a period of 30 days prior to the publication of each interim quarterly report, Funcom will minimize its contact with investment analysts, investors and journalists. This policy has been adopted to minimize the risk of any unequal treatment of different parties in the market.

Closed periods

As a principle rule, the execution of transactions on securities of the Company is not allowed for employees during a period of 30 calendar days directly preceding the publication of a financial report, or announcement of a(n) (interim) dividend.

Annex II: Financial Calendar for Funcom 2019

Funcom N.V. will publish its financial statements on the following dates in 2019:

- 26 February - Q4 2018
- 11 April - 2018 Annual Report
- 23 May - Q1 2019
- 27 May - Ordinary General Meeting
- 26 August - Q2 2019
- 12 November - Q3 2019

The dates are subject to change.

Annex III: Contact details

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