

**POSITION STATEMENT
OF
FUNCOM SE**

2 March 2020

Regarding the recommended cash offer by Tencent Cloud Europe B.V for all issued and outstanding ordinary shares of Funcom SE

This position statement is published in accordance with section 18 paragraph 2 and Annex G of the Dutch Takeover Decree on public offers Wft (*Besluit openbare biedingen Wft*)

The extraordinary general meeting of Funcom SE will be held at 11.00 hours, CET, on 6 March 2020 at Prins Mauritslaan 37 – 39, 1171 LP, Badhoevedorp, the Netherlands.

IMPORTANT INFORMATION

This position statement (the **Position Statement**) does not constitute or form part of an offer to sell, or a solicitation of an offer to purchase or subscribe for, any securities to any person in any jurisdiction.

This position statement is published by Funcom SE (**Funcom** or the **Company**) for the sole purpose of providing information to its shareholders on the recommended cash offer by Tencent, through its wholly owned subsidiary Tencent Cloud Europe B.V. (**Tencent** or the **Offeror**), to all holders of issued and outstanding ordinary shares with a nominal value of EUR 0,20 (twenty eurocents) (the **Shares**, and each a **Share**, the holders of such Shares the **Shareholders**), in the share capital of Funcom to purchase for cash their Shares on the terms and subject to the conditions and restrictions set forth in the offer document dated February 19, 2020 (the **Offer Document**) (the **Offer**), as required pursuant to section 18 paragraph 2 and Annex G of the Dutch Takeover Decree on public offers Wft (*Besluit openbare biedingen Wft*) (the **Takeover Decree**).

Capitalised terms in this Position Statement other than in the Fairness Opinion (attached hereto as Schedule 1) and the agenda to the EGM together with the explanatory notes (attached hereto as Schedule 2) shall, unless otherwise defined in this Position Statement, have the meaning attributed to them in the Offer Document. Any reference in this Position Statement to defined terms in plural form shall constitute a reference to such defined terms in singular form, and vice versa. All grammatical and other changes required by the use of a definition in singular form shall be deemed to have been made herein and the provisions hereof shall be applied as if such changes have been made.

Copies of this Position Statement are available on, and can be obtained free of charge from, the website of Funcom investor.funcom.com.

The Offer, if completed, will result in the acquisition of securities of a European Company (Societas Europaea) governed by Dutch law and is subject to Dutch and Norwegian disclosure requirements, which differ from those in the United States. Any financial information included or referred to herein has been prepared in accordance with non-U.S. accounting standards and, accordingly, may not be comparable to the financial information of U.S. companies or of companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

It may be difficult for U.S. holders of Shares to enforce their rights and any claims arising under the U.S. federal securities laws, since the Offeror and Funcom are located in a country other than the United States, and some or all of their officers and directors may be residents of a country other than the United States. U.S. holders of Shares may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, it may be difficult to compel a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgment.

Neither the U.S. Securities and Exchange Commission nor any U.S. state securities commission or other regulatory authority in the U.S. has approved or disapproved the Offer, passed upon the fairness or merits of the offer or provided an opinion as to the accuracy or completeness of this Position Statement or any other documents regarding the Offer. Any declaration to the contrary constitutes a criminal offence in the United States. The Oslo Stock Exchange in Norway has approved the Offer Document.

As set forth in the Offer Document, the Offeror and/or its Affiliates or their brokers (acting as agents) will in the period from the date of the Transaction Agreement and until six months after the Settlement of the Offer not directly or indirectly acquire Shares (in the open market or privately negotiated transactions or otherwise) at a consideration higher than the Offer Price (the "Higher Consideration"), without increasing the consideration offered in the Offer to be at least equal to such Higher Consideration subject to the terms and conditions of the Offer Document. These purchases will be executed in accordance with applicable law and the Offeror will, to the extent required by Norwegian law, publicly disclose purchases of Shares in accordance with the procedures of the Offer Document.

This document is not for release, publication or distribution, in whole or in part in or into Canada, New Zealand, Japan, Hong Kong, Australia and South Africa.

The information included in this Position Statement reflects the situation as of the date of this Position Statement, unless otherwise indicated. Under no circumstances may the issue or distribution of this Position Statement be interpreted as implying that the information contained herein is true and accurate on a later date than the date hereof, unless otherwise indicated. Funcom does not undertake any obligation to publicly release any revision to this information to reflect events or circumstances after the date of this document, except as may be required by applicable Dutch and Norwegian securities laws or by any appropriate regulatory authority. Funcom is exclusively responsible for the accuracy and completeness of the information contained in this Position Statement, provided that the only responsibility that is accepted for information concerning the Offeror and the Offer is the assurance that such information is properly reported and reproduced from the Offer Document.

This Position Statement includes forward-looking statements including statements regarding the Offer and the anticipated consequences and benefits of the Offer, the expected timing and completion of the Offer and language indicating trends. These forward-looking statements are based on currently available financial and economic data as well as Funcom's current views and assumptions with respect to future events and financial performance. Forward-looking statements are inherently uncertain, because these statements relate to events and depend on circumstances that all occur in the future. Generally, words such as "will", "expect", "intend", "may", "believe", "plan", "seek", "should", "aim", "estimate", "anticipate", "continue", "project", or similar expressions, identify forward-looking statements.

Although Funcom believes that the assumptions upon which its respective financial information and its respective forward-looking statements are based are reasonable, it can give no assurance that these assumptions or statements will prove to be correct. These forward-looking statements are subject to risks, uncertainties, assumptions and other important factors, many of which may be beyond Funcom's control (such as political, economic or legal changes in the markets and environments in which Funcom conducts its business), and could cause the actual results, performance or achievements of Funcom to be materially different from those expressed or implied in these forward-looking statements. Moreover, the Shareholders should not interpret statements regarding trends or activities as representations that these trends and activities will continue in the future. Factors that could cause actual results to differ from such statements include, but are not limited to, the occurrence of any event, change or other circumstances that could give rise to the termination of the Offer, the failure to receive on a timely basis or otherwise the required approvals by government or regulatory authorities, the risk that a Condition for Completion may not be satisfied, and the ability of Funcom to retain and hire key personnel and to maintain relationships with customers, suppliers and other business partners pending completion of the Offer.

This Position Statement is governed by and shall be construed in accordance with the laws of the Netherlands. The Court of First Instance (*rechtbank*) in Amsterdam, the Netherlands, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Position Statement, without prejudice to the rights of appeal (*hoger beroep*) and cassation (*cassatie*).

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1. INTRODUCTION

Dear Shareholder,

On 22 January 2020, Funcom, and Tencent announced that they reached conditional agreement (the **Transaction Agreement**) in connection with a recommended public cash offer by the Offeror for all Shares at a cash offer price of NOK 17.00 per Share.

Before reaching the conditional agreement, the management board of Funcom (the **Management Board**) and the supervisory board of Funcom (the **Supervisory Board**, and together with the Management Board, the **Boards**) made a thorough assessment of the Offer versus the standalone alternative and other strategic alternatives (including continuation of the listing), weighing up the interests of Funcom and its stakeholders, including the Shareholders. During this process, we received extensive advice from our financial and legal advisors. We find it important to share with you our considerations, views and recommendation with respect to the Offer in this Position Statement.

The Boards have duly considered the proposed Offer and have resolved to unanimously recommend the Offer for acceptance. There will be an extraordinary general meeting of shareholders held at 11:00 hours CET on 6 March 2020 at Prins Mauritslaan 37 – 39, 1171 LP, Badhoevedorp, the Netherlands (the **EGM**), where an explanation of the recommended public offer will be given.

Yours sincerely,

Egil Kvannli
Member of the Supervisory Board

Rui M. Monteiro Casais
Chairman of the Management Board

Susana Meza Graham
Member of the Supervisory Board

Christian Olsthoorn
Managing Director of Funcom SE

2. EXPLANATION OF THE OFFER

2.1 Background

The Boards regularly review all strategic alternatives available to Funcom, in each case taking into account Funcom's mid- to long term interests as well as the interests of Funcom's Shareholders, employees and other stakeholders, including customers, suppliers and others.

Each of the Boards carefully reviewed and discussed the terms and conditions set out in the Transaction Agreement and has given careful consideration to all aspects of the Offer, including the effects on Funcom's stakeholders, governance, employees, operations, financials and strategy. The Boards concluded that the Offer, and therefore Funcom's execution of the Transaction Agreement is in the best interest of Funcom, taking all its stakeholders into account, including its Shareholders. After the aforementioned careful and extensive deliberation by the Boards and in consultation with their financial and legal advisors, the Management Board resolved to enter into the Transaction Agreement with the Offeror and the Supervisory Board approved such resolution. Subsequently, the Transaction Agreement was signed on 20 January 2020 by Funcom and the Offeror representatives. The Supervisory Board members affiliated with the Offeror have not participated in the deliberations and decision-making of the Supervisory Board related to the Offer and the recommendation from the Supervisory Board and the Management Board.

On 22 January 2020 Funcom, and Tencent issued a joint press release announcing the signing of the Transaction Agreement.

2.2 Considerations in relation to the Offer

With the support of the Offeror, the Boards are of the opinion that Funcom will be able to fully capitalise on inherent capabilities and upside potential:

- i) Tencent's prior experience in working with Western companies, such as Epic, Fatshark, Riot, Sharkmob, Supercell and Ubisoft, proving its capabilities in spearheading cooperation with its partners that maximise mutual value and benefits for Shareholders;
- ii) Funcom also has valuable capabilities and insights into the Western core games market that Tencent plans to leverage within its international expansion plan; and
- iii) The Offer can further a) provide Funcom with the necessary resources to focus on key and high potential games and intellectual property rights such as Conan and Dune b) expand the possibilities for Funcom's key intellectual property rights in the mobile platforms through cooperation with the Offeror; and c) strengthen with Tencent's extensive operational leverage and insights, for example know-how in game-as-a-service operations.

Based on the above and the various interests involved, taking into account the Offer Price and other terms of the Offer, and with regards to the independent statement and fairness opinion provided by Pareto Securities AS, the Boards have found the Offer made by the Offeror to be in the best interests of the Company, its Shareholders, its employees and other stakeholders. Accordingly, the Boards fully and unanimously support the offer and recommend the Shareholders of the Company to accept the Offer. In their decision-making, the Boards have taken into account the interests of all stakeholders, including the minority Shareholders. The Boards have reached this conclusion after having given due and careful consideration to the strategic, financial and social aspects and consequences of Offer.

3. THE BOARDS' FINANCIAL ASSESSMENT OF THE OFFER

The Boards have considered a number of key financial aspects associated with the Offer as described below.

3.1 Premiums to market price

The Offer Price represents a premium of approximately 27.3% to the closing price of the Shares on 21 January 2020, and approximately a 26.9% and 28.8% premium over the volume weighted average price of Funcom shares for the 1-month and 3-month period ending on 21 January 2020, respectively. The Offer Price is further approximately 8% higher than the purchase price paid by Tencent to long-time majority shareholder KGJ Capital AS on 30 September 2019, following a structured trade sale process. According to the Fairness Opinion by Pareto Securities AS on 19 February 2020, the premium of 27.3% to the last closing share price prior to the announcement of the Offer is slightly below the median of historical offer premiums in Norwegian public takeovers in recent years (2013-2019), but still within an acceptable range for previous Norwegian public takeovers. The Offer will be financed with cash at hand.

3.2 Fairness opinion

The Boards have considered the independent statement and fairness opinion which they have received from Pareto Securities AS in their financial assessment of the Offer.

Pareto Securities AS delivered the aforementioned fairness opinion to the Boards dated 19 February 2020 that – as of such date and based upon and subject to the factors, qualifications and assumptions set forth therein – the NOK 17.00 per Share in cash to be offered to the Shareholders pursuant to the Offer Agreement is fair from a financial point of view (see Schedule 1). The fairness opinion of Pareto Securities AS is not a recommendation as to whether or not any Shareholder should tender such Shares in connection with the Offer or any other matter.

3.3 Other

In addition to the foregoing, the Boards have also considered the following in their financial assessment of the Offer:

- the Offeror's confirmation of its ability to fulfil its obligations under the Offer through a funding in cash, by the Offeror;
- that the form of consideration to be offered to the Shareholders in the Offer is cash, which will provide certainty of value and liquidity to Shareholders;
- that there is a possibility of third parties making an Alternative Proposal, provided that such offer must meet certain minimum thresholds (as set out in paragraph 4.4) are met, for such proposal to be considered superior; and
- that at the date of this Position Statement, there are no competing offers and no other parties have approached Funcom with an Alternative Proposal.

3.4 Assessment

Based on the above considerations, and on their experience and advice obtained from their financial advisors, the Boards have concluded that the Offer Price is fair to the Shareholders from a financial point of view.

4. THE BOARDS' NON-FINANCIAL ASSESSMENT OF THE OFFER

The Boards have considered a number of significant non-financial aspects associated with the Offer.

4.1 Non-Financial Aspects

These non-financial aspects involve the long-term interest of the Offeror in Funcom which were formalised in the Transaction Agreement and which are set out below.

Structure of the Group

Taking into account the corporate and business interests of Funcom and its stakeholders, the Offeror has informed the Company that following an acquisition, there are no planned changes to Funcom management, staffing or structure with the Company remaining an independent business.

Employees

- (a) The Offeror has no plans to make changes to the Company's workforce in connection with the Offer, and the Completion of the Offer will not have legal, economic or work-related consequences for the employees in the Company.
- (b) The Offeror has agreed to ensure that Funcom will cash settle share options if Funcom is delisted (if completed prior to 12 months after entering into the Transaction Agreement) as further described in the Offer Document section 5.4. The Offeror shall in addition (in replacement of the existing share option scheme) at the same time offer the option holders to participate in a new performance-based incentive plan on terms, taken as a whole, which will be no less favourable than those in the existing incentive scheme of Funcom.

4.2 Governance Post-Settlement

Following Completion of the Offer, dependent upon the number of Shares acquired by the Offeror, the Offeror has stated in the Offer Document that it intends to propose to the general meeting of the Company to apply to Oslo Stock Exchange for the delisting of the Shares in the Company as further described in section 8 of this Position Statement.

In the event that the Company is not delisted from Oslo Stock Exchange, the Offeror has not expressed its intentions in the Offer document with regards to any contemplated changes to the composition of the Supervisory or Management Board or the corporate governance principles of Funcom. Completion of the Offer will however not in itself result in any changes in the composition of Supervisory or Management Board or the corporate governance principles of Funcom, and any such changes are subject to the required relevant corporate approval.

4.3 Conditions of the offer

The Offeror seeks to acquire 100% of the Shares of Funcom. The Offer will be subject to customary closing conditions for takeovers, and is subject to the satisfaction of or, at the sole discretion of the Offeror, written waiver by the Offeror of the conditions for Completion of the Offer.

These conditions include, among others:

That the Offer shall at or prior to the expiration of the Offer period have been accepted by the Shareholders of Funcom representing more than 90% of the issued and outstanding share capital and voting rights of Funcom on a fully diluted basis, which shall for this purpose include shares that Funcom would be required to issue if all of the approximately 4.1 million options which are in the money were exercised.

No court or other governmental, regulatory authority of competent jurisdiction shall have taken any form of legal action (whether temporary, preliminary or permanent) or have enacted any change in Applicable Laws after the date of the Transaction Agreement (20 January 2020) to require additional regulatory approvals or consents that are necessary for the Offer

The Management Board and Supervisory Board shall not, without the Offeror's consent, having qualified, amended or withdrawn the Board Recommendation.

Funcom and its subsidiaries (taken as a whole) shall carry on its business in accordance with its ordinary course of business and shall have complied in all material respects with all its covenants, undertakings and obligations

under the Transaction Agreement.

Following the announcement of the Offer and until Completion of the Offer (Settlement), there shall not have occurred any Material Adverse Effect.

Further information on the applicable closing conditions are set forth in section 4.3 of the Offer Document.

4.4 Certain other considerations and arrangements

During the discussions leading up to the execution of the Transaction Agreement, Funcom considered certain matters and negotiated certain terms, conditions and other aspects of the Offer in order to be able to safeguard the interests of all of its Shareholders. Such considerations, terms, conditions and other aspects of the Offer include the following:

Acceptance level

The obligation of the Offeror to declare the Offer unconditional is subject to the fulfilment of the conditions for Completion of the Offer being satisfied or waived in whole or in part in accordance with the Transaction Agreement reference is also made to 4.3 of the Offer Document.

One of the Offer conditions is that the number of the Shares, directly or indirectly held by the Offeror for its own account, represent at least 90% of Funcom's issued and outstanding ordinary share capital and voting rights of Funcom on a fully diluted basis, and such acceptances and agreements being valid and not withdrawn or being subject to any third party consents in respect of pledges and other rights. For this purpose, "fully diluted" shall mean all issued Shares together with all Shares Funcom would be required to issue if all in the money (ITM) Options were exercised. The Company has, as of 20 January 2020, under incentive programs for employees, members of the Management Board and members of the Supervisory Board, issued a total of approximately 6,317,365 options, each share option giving the holder the right to acquire one share in the Company. Of these options, only approximately the 4,124,565 ITM Options are subject to a subscription price at or below the Offer Price, meaning that the remaining approximately 2,192,800 options are subject to a subscription price above the Offer Price.

Superior Offer

Funcom has agreed with the Offeror certain arrangements with respect to a Superior Offer and termination of the Transaction Agreement as described in Section 5.6 of the Offer Document. All these arrangements are customary for a Norwegian public offer and do not prohibit a *bona fide* third party to make a matching of competing offer. These arrangements are summarized as follows: Funcom is permitted to engage in discussions with, and to provide certain information to, a *bona fide* third party that makes an unsolicited approach to Funcom with the intention of making a Superior Offer and to investigate such approach and enter into discussions with, and provide information to, such third party, in order to determine whether such Superior Offer may qualify as an Alternative Proposal. Funcom shall keep the Offeror updated on the Alternative Proposal. The term "**Superior Proposal**" as used herein means a bona fide written offer for an Alternative Proposal at a price per Company Share higher than the Offer Price (or the price per Company Share pursuant to an amended Voluntary Offer, as the case may be) and which the Management Board and the Supervisory Board determine, in good faith, are more favourable to the Shareholders.

The Offeror has the right to revise its Offer within five Business Days following the date on which the Offeror has received a notice from Funcom stating that it has determined that such Alternative Proposal constitutes a Superior Proposal. If the Offeror matches the Superior Proposal, Funcom shall not be entitled to withdraw or modify their recommendation of the Offer or terminate of the Transaction Agreement.

If the Offeror does not match the Competing Offer, Funcom may withdraw or modify their recommendation of the Offer and Funcom may terminate the Transaction Agreement.

Termination fee

In the event that the Management Board and the Supervisory Board for any reason do not provide, withdraw or modify their recommendation of the Offer without the prior written consent of the Offeror and the Offer is

not completed, the Company shall on demand reimburse the Offeror all reasonable and documented fees, costs and expenses incurred, whether before or after the date of this Agreement, in relation to or in connection with the Offeror's launch of the Offer up to an amount of NOK five (5) million.

Regulatory clearances

The Boards do not expect regulatory clearances to materially impact the timetable for the Offer.

4.5 Assessment

Based on the above considerations, and on their experience and advice obtained from their advisors, the Boards have concluded that overall, the Offer and the arrangements included in the Transaction Agreement are in the best interests of Funcom's stakeholders.

5. FINANCIALS

The schedules to this Position Statement contain certain financial information in relation to Funcom SE, as required by the applicable offer rules and as specified in the table of contents of this Position Statement.

6. EMPLOYEES

As the Company does not have a works council or employee representative body, the Offer has been made known to the employees of the Company promptly after the announcement of the Offer. The employees of the Company have not made any separate statement regarding the Offer, but any separate statement made by the employees after the publication of this Position Statement and during the Acceptance Period for the Offer, will be disclosed separately.

Further reference is made to paragraph 4.1 under the heading "*Employees*".

7. OVERVIEW OF SHARES HELD, SHARE TRANSACTIONS AND INCENTIVE PLANS

7.1 Shares

Shares

At the date of this Position Statement, Shares are held by the members of the Boards as shown in the table below. The table also shows the views, if any, of such members of the Boards about the Offer, in their capacity as Shareholders:

<u>Name</u>	<u>Position</u>	<u>Own shares</u>	<u>Position</u>
Rui Casais	CEO & Chairman of the Management Board	Yes [47 000]	Not decided
Christian Olsthoorn	Managing Director of Funcom SE	No	N/A

The Supervisory Board comprises of the members set forth in the table below.

Name	Position	Own shares	Position
Eddie Tak Ho Chan	Chairman of the Supervisory Board	No	N/A
Peng Lu	Member of the Supervisory Board	No	N/A
Egil Kvannli	Member of the Supervisory Board	No	N/A
Susana Meza Graham	Member of the Supervisory Board	Yes [222 300]	Accept the Offer

Options

Some members of the Management Board and the Supervisory Board hold share options. The option holders have currently not received any offer for the share options, and therefore there is no view to express on this matter. The Offeror has agreed to ensure that Funcom will cash settle share options if Funcom is delisted (if completed prior to 12 months after entering into the Transaction Agreement) as further described in the Offer Document section 5.4. The Offeror shall in addition (in replacement of the existing share option scheme) at the same time offer the option holders to participate in a new performance-based incentive plan on terms, taken as a whole, which will be no less favourable than those in the existing incentive scheme of Funcom. According to the Offer Document, no special advantages will be given to members of the executive management or members of the Management Board or Supervisory Board or are held in prospect for any of the said persons, in connection with making the Offer.

No Shares or options, other than set out above, are held by any other member of the Boards, nor by any of their spouses, registered partners, minor children and any entities over which these members or other persons referred to have control within the meaning of Annex G, paragraph 3 of the Takeover Decree.

7.2 Share transactions

No transactions or agreements in respect of securities in Funcom have been effected or have been concluded in respect of securities in Funcom by any member of the Boards, nor by any of their spouses, registered partners, minor children and any entities over which these members or other persons referred to have control within the meaning of Annex G, paragraph 3 of the Takeover Decree, other than as described in paragraphs 7.1. in the year preceding the date of this Position Statement.

7.3 Incentive plans

The Offeror shall (in replacement of the existing share option scheme) upon delisting of the Company (if completed prior to 12 months after entering into the Transaction Agreement) offer the option holders to participate in a new performance-based incentive plan on terms, taken as a whole, which will be no less favourable than those in the existing incentive scheme of Funcom.

7.4 Compensation payments

None of the members of the Supervisory Board and Management Board is entitled to a change of control payment in connection with the completion of the Offer.

8. DE-LISTING AND POSSIBLE POST-RESTRUCTURING MEASURES

8.1 Introduction

It is the intention of the Offeror to ultimately acquire 100% of the Shares or full ownership of Funcom's business and the Offeror's willingness to pay the Offer Price is predicated on the acquisition of 100% of the Shares or the full ownership of Funcom.

Following Completion of the Offer, dependent upon the number of Shares acquired by the Offeror pursuant to the Offer, the Offeror intends to propose to the general meeting of the Company to apply to Oslo Børs for the delisting of the Shares in the Company. Under the Oslo Børs Continuing obligation section 15.1 (3) first paragraph, the Company may apply to Oslo Børs to have its Shares delisted if a general meeting has passed a resolution. Such proposal requires a resolution to this effect with the same majority as required for changes to the articles of association, i.e. approval of the general meeting of Shareholders of the Company with at least a majority of at least two-thirds of the votes cast in a general meeting, as set out in article 37 of the Company's articles of association. A general meeting of the Shareholders of the Company to approve the application to delist the Company may be held as soon as possible after Settlement.

Any application for delisting will be approved or rejected by Oslo Børs in accordance with the continuing obligations of stock exchange listed companies, taking into account among other things the interests of any minority Shareholders, and in particular the number of shareholders, and shares held by such shareholders, voting against the delisting at the shareholders meeting of Funcom. The board of directors of Oslo Børs may also decide on its own initiative to delist the Shares of the Company should the conditions for listing no longer be fulfilled, for instance following initiation of a compulsory acquisition.

Following Completion of the Offer, the Offeror envisages that the Company will remain an independent business and may continue as a direct or indirect subsidiary of the Offeror.

Subject to the Offer being declared unconditional, the Offeror may effect, or cause to effect, any other restructuring of the Company and the Group for the purpose of achieving an optimal operational, legal, financial and/or fiscal structure in accordance with the Applicable Laws in general, some of which may have the effect of diluting the interest of any remaining holders of Shares, including but not limited to:

1. a sale by the Company of all, substantially all or a substantial part of its assets and liabilities to the Offeror or an Affiliate of the Offeror, followed by a distribution of proceeds to the Shareholders;
2. an issue of Shares by the Company against a contribution of cash and/or assets to the Company, in which circumstances the pre-emptive rights (*voorkeursrechten*), if any, of Shareholders other than the Offeror may be excluded;
3. a sale and transfer of assets and liabilities by the Offeror or by a member of the Offeror's group to the Company or any member of the Group or a sale and transfer of assets and liabilities by the Company or any member of the Group to the Offeror or to any other member of the Offeror's group, potentially followed by a liquidation of the Company;
4. a statutory cross-border or domestic (bilateral or triangular) legal merger (*juridische (driehoeks-) fusie*) in accordance with sections 2:309 et seq DCC between the Company, the Group, the Offeror and/or one (1) or more other members of the Offeror's group;
5. a statutory legal demerger (*juridische splitsing*) of the Company in accordance with sections 2:334a et seq DCC;
6. a relocation of corporate domicile in accordance with article 8.2 of the Council Regulation (EC) NO 2157/2001 on the statute for a European Company (SE);
7. conversion of the Company into a limited company liability (*naamloze vennootschap*) in accordance with art. 37 of the Council Regulation (EC) NO 2157/2001 on the statute for a European Company (SE) and a subsequent conversion of the limited liability company (*naamloze vennootschap*) into a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) in accordance with article 2:18 DCC;
8. a subsequent public offer by the Offeror for any Shares not held by the Offeror;

9. distribution by the Company of any proceeds, cash and/or assets to the Shareholders;
10. make any changes to the dividend policy of the Company;
11. any other transactions, restructurings, share issues, procedures and/or proceedings in relation to the Company and/or one or more members of its Group required to affect the above-mentioned objective; or
12. any combination of the foregoing.

8.2 Squeeze-Out procedures

It is the intention of the Offeror to acquire ultimately 100% of the Shares or full ownership (legal and beneficial) of the Funcom's business. If, following the settlement of the Voluntary Offer after the Completion Announcement, the Offeror holds at least 95% of the issued and outstanding share capital of Funcom, the Offeror shall commence a compulsory acquisition procedure in accordance with article 2:92a or 2:201a of the DCC or the takeover buy-out procedure in accordance with article 2:359c of the DCC to buy out the Shareholders who have not tendered their Shares under the Offer.

9. RECOMMENDATION

The Boards fully and unanimously support the Offer and recommend that Funcom's Shareholders accept the Offer. In their decision making, the Boards have taken the strategic rationale, financial aspects, the interests of all stakeholders, including the minority Shareholders into due and careful consideration.

The Boards have concluded that the Offer is fair to Funcom's Shareholders from a financial point of view and in the best interest of Funcom, the sustainable success of its business and clients, employees, Shareholders and other stakeholders. The Boards have reached this conclusion having given due and careful consideration to the strategic, financial and social aspects and consequences of the Offer, supported by the fairness opinion provided by Pareto Securities AS

10. EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

In accordance with the Takeover Decree, Funcom shall convene an extraordinary general meeting to discuss the Offer with the Shareholders. The EGM shall be held at 11:00 hours CET on 6 March 2020 at Prins Mauritslaan 37 – 39, 1171 LP, Badhoevedorp, the Netherlands. The full agenda of the EGM (and the explanatory notes thereto) is included in Schedule 2.

SCHEDULE 1

FULL TEXT FAIRNESS OPINION PARETO SECURITIES AS

Oslo, 19 February 2020

To

Management Board and the Supervisory Board of Funcom SE (the "Boards")

Independent statement in accordance with section 6-16 of the Norwegian Securities Trading Act and fairness opinion for the position statement in accordance with annex G of the Dutch Decree on public offers.

1. Introduction

Pareto Securities ("Pareto") has been retained by the Management Board and the Supervisory Board of Funcom SE ("Funcom" or the "Company", and together with its subsidiaries the "Group") to give an independent expert opinion regarding the voluntary offer (the "Offer") made by Tencent Cloud Europe B.V. ("Tencent" or the "Offeror") as announced on 22 January 2020. The shareholders in Funcom are offered NOK 17.00 per share in cash (the "Offer Price") as set forth in the offer document (the "Offer Document") from Tencent on 19 February 2020.

Oslo Børs has in its capacity as take-over supervisory authority resolved that the statement on the voluntary offer pursuant to clause 6-16 of the Norwegian Securities Trading Act shall be made by an independent expert instead of the Board, cf. the Norwegian Securities Trading Act clause 6-16 (4). Pareto is independent from the Company, the Offeror and its close associates. Pareto will receive a fixed fee for i) this statement, ii) assistance in the evaluation of the feasibility of the financial conditions of the transaction and iii) preparation and issuance of a customary written opinion ("fairness opinion") in connection to the Offer irrespective of the outcome.

Pareto recommends the shareholders of Funcom to carefully study the information given in the Offer Document, as well as any other information being made available in relation to the Offer.

2. The Offer

The Offeror is offering to acquire all the outstanding shares in the Company on the terms and subject to the conditions and limitations set out in the Offer Document. Shareholders who accept the Offer will receive the Offer Price (NOK 17.00, and subject to such adjustments as set forth in the Offer Document).

If the Company should resolve to distribute dividend or to make any other distributions to the Company's shareholders, the Offeror may, in accordance with the procedures set out in Section 4.9 of the Offer Document, adjust the Offer Price to compensate for the effects of such dividend or other distribution.

No interest or other compensation other than the Offer Price will be paid by the Offeror to Shareholders tendering Shares in the Offer (or in the case the Offer is terminated, irrespective of the reason for such termination).

The Offer is expected to be accepted from and including 20 February 2020 to and including as expected 16 March 2020 at 16:30 hours CET. The Offeror may in its sole discretion extend the Acceptance Period (one or more times), but not beyond 15 April 2020 24:00 hours CET. Any extension of the Acceptance Period will be announced as described in section 4.12 ("Notices") no later than prior to expiry of the Acceptance Period. When referring to the Acceptance Period in this Offer Document this refers to the Acceptance Period as extended from time to time.

The Management Board and the Supervisory Board has issued a Board Recommendation confirming that each of the Management Board and the Supervisory Board fully support and unanimously

recommend the Offer to the Shareholders for acceptance. A copy of the Board Recommendation is included in Appendix A in Offer Document.

The Company shall pay an amount equal to the Offeror's reasonable and documented costs connected to the Offer process, limited to NOK 5 million to the Offeror if the Management Board and the Supervisory Board for any reason withdraw or modify the Board Recommendation without the prior written consent of the Offeror and the Offer is not completed. The Transaction Agreement also contains certain other restrictions on the Company as further described in section 5.1 of the Offer Document.

Completion of the Offer is subject to the satisfaction of or, at the sole discretion of the Offeror, written waiver by the Offeror of the following terms and conditions as described in section 4.3 of the Offer Document:

- i) **Minimum Acceptance.** The Offer shall at or prior to the expiration of the Acceptance Period have been validly accepted by Shareholders of the Company representing more than 90% of the issued and outstanding share capital and voting rights of the Company on a Fully Diluted basis, and such acceptances and agreements being valid and not withdrawn or being subject to any third party consents in respect of pledges or other rights. For this purpose, "Fully Diluted" shall mean all issued Shares together with all Shares the Company would be required to issue if all ITM Options were exercised.

Based on information from the Company, the Company has, as of 2 February 2020, under incentive programs for employees, members of the Management Board and members of the Supervisory Board, issued a total of approximately 6,283,965 options, each share option giving the holder the right to acquire one share in the Company. Of these options, only approximately the 4,124,565 ITM Options are subject to a subscription price at or below the Offer Price, meaning that the remaining approximately 2,159,400 options are subject to a subscription price above the Offer Price.

- ii) **Conduct of business.** The Company and its subsidiaries (taken as a whole) shall carry on its business in accordance with its ordinary course of business.
- iii) **Board Recommendation.** The Management Board and Supervisory Board shall not, without the Offeror's written consent, having qualified, amended or withdrawn the Board Recommendation.
- iv) **No governmental interference.** No court or other governmental, regulatory authority of competent jurisdiction shall have taken any form of legal action (whether temporary, preliminary or permanent) or have enacted any change in Applicable Laws after the date of the Transaction Agreement (20 January 2020) to require additional regulatory approvals or consents that are necessary for the Offer, and such legal action or the failure to obtain such approvals or consents would have the effect of the Offer not being able to be consummated or, in connection with the Offer, impose conditions upon the Offeror, the Company or any of its subsidiaries which would require the Offeror to incur any material expenditure, would prohibit or significantly impair the Offeror's ownership or operation of the Group, or is reasonably likely to have a Material Adverse Effect on the business, operations, property or financial condition of the Group (taken as a whole).
- v) **No Breach of Transaction Agreement.** The Company shall have complied in all material respects with all its covenants, undertakings and obligations under the Transaction Agreement entered

into between the Company and the Offeror, and the Offeror is not entitled to terminate the Transaction Agreement.

- vi) **No Material Adverse Effect.** Following the announcement of the Offer and until Completion of the Offer (Settlement), there shall not have occurred any change, event, development, effect, or condition which is or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, assets, liabilities, condition (financial or otherwise), results, or operation of the Group taken as a whole, excluding changes, events, developments, effect, or conditions related to or resulting from (A) changes that affect the economy or the credit, debt, financial or capital markets in general, (B) changes that affect the industry in which the Company participates in general, (C) changes in legal or regulatory conditions, Applicable Law, or accounting principles, (D) failure by the Company to meet revenue or earnings projections, (E) the announcement and pendency of the Offer, including any customers of the Group exercising its right to terminate any existing customer contract with the Group or otherwise reducing the volume of purchase from the Group as a result of the announcement nor pendency of the Offeror, or acts by the Offeror or its Affiliates, (F) any change which is known or should reasonably have been known to the Offeror, (G) any decline in the market price, or change in the trading volume of the Company's Shares, but only, in the case of clauses (A) through (D), to the extent such changes, events or effects do not affect the Group disproportionately relative to other similar businesses in the industry in which the Group operates ("Material Adverse Effect").

For further information on the Transaction Agreement see section 5.1 ("*Contact between the parties prior to the Offer*") in the Offer Document.

If the Offeror has not on or prior to 24:00 (CET) on 15 April 2020, confirmed that the conditions of the Offer have been met or waived, the Offer shall lapse and any tendered Shares shall be released by the Offeror.

For a complete description of all conditions to the Offer, please refer to the Offer Document.

3. Impact on the Company and its employees

According to the Offer Document, the Offeror has no plans to make changes to the Company's workforce in connection with the completion of the Offer, and the completion of the Offer will not have legal, economic or work-related consequences for the employees in the Company.

As the Company does not have a works council or employee representative body, the Offer has been made known to the employees of the Company promptly after the announcement of the Offer. The employees of the Company have not made any separate statement regarding the Offer, but any separate statement made by the employees during the Acceptance Period for the Offer will be disclosed separately.

We have been informed by the Management Board, Supervisory Board and CEO that they have taken the following positions with regards to their share holdings:

The Management Board comprises of the members set forth in the table below.

Name	Position	Own shares	Position
Rui Casais	CEO & Chairman of the Management Board	Yes	Not decided
Christian Olsthoorn	Managing Director of Funcom S.E.	No	N/A

The Supervisory Board comprises of the members set forth in the table below.

Name	Position		
Eddie Tak Ho Chan	Chairman of the Supervisory Board	No	N/A
Peng Lu	Member of the Supervisory Board	No	N/A
Egil Kvannli	Member of the Supervisory Board	No	N/A
Susana Meza Graham	Member of the Supervisory Board	Yes	Accept

Some board members hold share options. The option holders have currently not received any offer for the share options, and therefore there is no view to express on this matter. Tencent has agreed to ensure that Funcom will cash settle share options if Funcom is delisted as further described in the Offer Document section 5.4.

According to the Offer Document, no special advantages will be given to members of the executive management or members of the Management Board or Supervisory Board, or are held in prospect for any of the said persons, in connection with making the Offer.

However, in the event that the Company is delisted from Oslo Børs within 12 months after the date of the Transaction Agreement and the Offeror is the controlling Shareholder, the Offeror has undertaken to offer to the employees, the members of the Management Board and the members of the Supervisory Board of the Group to settle in cash of existing share options by paying the difference between the Offer Price and the applicable strike price to the respective option holder, as further described in the Offer Document section 5.4 ("*Impact on the Company's employees*") and 5.5 ("*Legal implications*"). The Offeror shall in addition (in replacement of the existing share option scheme) at the same time offer the employees to participate in a new performance-based employee incentive plan on terms, taken as a whole, which will be no less favorable than those in the existing incentive scheme of Funcom.

4. Considerations on the Offer Price

When considering the financial attractiveness of the Offer, we have reviewed and taken into account a set of relevant data points and information. Please see section 5. (*Basis of the statement*) below for further details.

The Offer Price represents a premium of approximately 27.3% to the closing price of the Shares on Oslo Børs on 21 January 2020, the last trading day prior to the Offeror's announcement of its intention to make of the Offer on 22 January 2020, and a premium of approximately 26.9% and 28.8% over the volume weighted average price of the Shares for the 1 (one) and 3 (three) month periods ending on 21 January 2020.

The premium of 27.3% to the last closing share price prior to the announcement of the offer is slightly below the median of historical offer premiums in Norwegian public takeovers in recent years (2013-2019), but still within an acceptable range based on previous Norwegian public takeovers.

Valuation considerations are complex for a gaming company like Funcom; business model, size, investment budgets, diversification of the games portfolio, end market and platform exposure, financial history, growth and margin potential as well as track record are qualitative factors that needs to be considered.

The offer price is considered by estimated financials over the period between 2020-2024 due to high variability in expected earnings over the next years. We have considered different scenarios, and illustrated a high case, medium case and low case due to the instable nature of the business, applying multiples that takes into account size and diversification compared to peers. Based on this analysis, the Offer values Funcom at a premium to EV/Sales, EV/EBIT and P/E.

We would like to highlight that our opinion is impacted by the consideration of the potential delayed launch of the communicated multiplayer Co-Op shooter game in 2020 as disclosed in the press release on 22 January. We have taken into account that if these proposed changes are approved by the Supervisory Board, it is likely that the Company will need additional financing to supplement the revenue generated from current operations.

Based upon and subject to the foregoing, we are of the opinion that the Offer, as of the date hereof, is fair from a financial point of view.

5. Basis of the statement

Pareto has prepared the Opinion on the basis of publicly available information and information from the Company, including discussions with the Company's management. In addition, we have used the Offer Document market data such as share price data for Funcom and peers, and transaction data.

We have in connection with rendering this opinion had discussions with Funcom's CFO and representatives of the Company's advisors. We have relied upon and assumed, without independent verification, the accuracy and completeness of all information made available to us.

Pareto has not undertaken any independent examination in order to verify the accuracy of the information received from Funcom or elsewhere, and we have not made any independent evaluation or assessment of the assets and liabilities of Funcom.

This statement is based upon the assumption that all of the financial and other information provided to us as a basis for this opinion in all material aspects are correct and accurate and that no information of material importance for the evaluation of Funcom future earnings capacity or for our overall assessment has been omitted or not presented to us.

This statement does not address the relative merits of the Offer as compared to any strategic alternatives that may be available to Funcom. This statement is not, and does not purport to be, an appraisal of the assets, shares, or business of the Company, nor have we made any physical inspection of, or other enquiries related to, the properties or assets of Funcom.

This statement is based on the Norwegian regulatory system and upon current market, economic, financial and other conditions as well as information available to us as of the date hereof. This statement does not include any assessment as to the price at which the Company's share may trade in the future.



Pareto Securities
Investment Banking Norway

SCHEDULE 2

SELECTED COMPARATIVE FINANCIAL INFORMATION FOR THE FINANCIAL YEARS 2018, 2017 AND 2016

Selected comparative financial information for the financial years 2018, 2017 and 2016

1. Basis for preparations

Selected consolidated financial information of Funcom has been included below, comprising summaries of the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of cash flows for the financial years 2018, 2017 and 2016. This selected consolidated financial information has been derived from Funcom SE's:

- a. consolidated financial statements for the financial year 2018 as audited by BDO, which issued an independent auditor's report thereon, without qualification, on 10 April 2019; and
- b. consolidated financial statements for the financial year 2017 as audited by BDO, which issued an independent auditor's report thereon, without qualification, on 18 April 2018; and
- c. consolidated financial statements for the financial year 2016 as audited by BDO, which issued an independent auditor's report thereon, without qualification, on 20 April 2017.

The consolidated financial statements from which the selected consolidated financial information has been derived were prepared in accordance with the International Financial Reporting Standards as adopted by the European UNION (IFRS as adopted by the EU) and with part 9 of book 2 of the Dutch Civil Code.

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.

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.

The Group implemented IFRS 16 Leases as of January 1, 2019, superseding IAS 17 Leases used in 2018. The Group adopted IFRS 16 using the modified retrospective approach. Under this approach, a lessee does not restate comparative information. The cumulative effect of adopting IFRS 16 was recognized as an adjustment to the opening balance of retained earnings as of 1 January 2019. With IFRS 16 all lease agreements are recognised in the balance sheet, and the right-to-use asset and lease liability are recognised in the financial statements.

The selected consolidated financial information set out below contains summaries only of the consolidated income statements, the consolidated statements of comprehensive income, the consolidated balance sheets, and the consolidated cash flow statements, excluding related note disclosures and a description of significant accounting policies. For a better understanding of Funcom SE's financial position, income and cash flows, the selected consolidated financial information should be read in conjunction with the unabbreviated audited consolidated financial statements for the financial years 2018, 2017 and 2016 including the related note disclosures and a description of significant accounting policies applied for each of these years.

2. Selected comparative financial information for the financial years 2018, 2017 and 2016

Funcom SE

Consolidated Statement of Comprehensive Income

for the year ended 31 December

In thousands of US dollars

2018 2017 2016

Continuing operations

Revenue	33 776	23 162	7 322
Personnel expenses	-4 899	-5 271	-3 419
General and administrative expenses	-10 268	-7 318	-3 234
Depreciation, amortization and impairment losses	-7 523	-3 298	-1 811
Other operating expenses	-919	-636	-438
Operating expenses	-23 609	-16 523	-8 902
Operating result	10 166	6 639	-1 580
Finance income	2 170	1 459	653
Finance expenses	-4 097	-1 369	-1 834
Result before income tax	8 240	6 729	-2 761
Income tax (expense) / income	-1 622	-1 773	1 066
Result from continuing operations	6 618	4 957	-1 695
Result for the period	6 618	4 957	-1 695

Other comprehensive income

Items that may be reclassified subsequently to profit or loss:

Exchange differences on translating foreign operations	-1 508	135	-357
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	-357
Total comprehensive income for the year	5 110	5 092	- 2 052

Funcom SE

Consolidated Statement of Comprehensive Income

for the year ended 31 December

In thousands of US dollars

2018 2017 2016

Result for the period attributable to:

Equity holders of Funcom SE	6 618	4 957	-1 695
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	6 618	4 957	-1 695
<i>Total comprehensive income attributable to:</i>			
Equity holders of Funcom SE	5 110	5 092	-2 052
	5 110	5 092	-2 052

Earnings per share *

From continuing operations

Basic earnings per share (US dollars)	0.09	0.02	-0.01
Diluted earnings per share (US dollars)	0.08	0.02	-0.01

* Based on result for the period. On 1 February 2018 a 5:1 reverse split was conducted reflected in the 2018 figures, but this change is not reflected in the 2017 and 2016 figures in the above table. In the 2018 report the 2017 earnings per share were restated as 0.09 USD (Basic) and 0.08 USD (diluted) reflecting the reverse split.

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

3. Audited Consolidated statement of financial position for 2018, 2017 and 2016

Funcom SE

Consolidated Statement of Financial Position

As at 31 December

In thousands of US dollars

ASSETS

Non-current assets

Intangible assets	24 711	10 249	6 617
Equipment	155	37	4
Long term receivables	489	567	19
Deferred tax assets	-	-	1 069
Total non-current assets	25 354	10 852	7 709

Current assets

Trade receivables	4 797	1 559	628
Prepayments and other receivables	1 269	269	466
Cash and cash equivalents	19 902	7 731	3 709

Total current assets	25 968	9 559	4 803
Total assets	51 322	20 411	12 512

Funcom SE

Consolidated Statement of Financial Position

As at 31 December

In thousands of US dollars

	2018	2017	2016
EQUITY AND LIABILITIES			
Equity			
Share capital	18 224	13 525	11 808
Reserves	188	168	
	539	359	165 128
Retained earnings (Accumulated deficit)	-161	-168	
	589	206	-173 163
Total equity	45 175	13 678	3 773
Non-current liabilities			
Long-term liabilities	92	-	-
Loans and borrowings	-	91	7 019
Deferred tax liabilities	2 086	671	1
Total non-current liabilities	2 178	762	7 020
Current liabilities			
Trade payables	1 200	775	251
Contract liabilities	222	478	605
Loans and borrowings	-	3 411	48
Other short-term liabilities	2 547	1 307	815
Total current liabilities	3 969	5 971	1 719
Total liabilities	6 147	6 733	8 739
Total equity and liabilities	51 322	20 411	12 512

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

4. Audited Consolidated statement of cash flows for 2018, 2017 and 2016

Funcom SE

Consolidated Statement of Cash Flows

As at 31 December

In thousands of US dollars

	2018	2017	2016
Cash flows from operating activities			
Profit (loss) before income tax	8 240	6 729	-2 761
Adjustments for:			
Depreciation, amortization and impairment losses	7 523	3 298	1 811
Share-based payments	2 903	750	146
Interest income/expense	-49	182	395
Effect of exchange rate fluctuations	1 322	-	-
Working capital adjustments:			
Change in trade and other receivables	-4 646	-1 379	920
Change in trade payables	498	512	-11
Change in other current assets and liabilities	1 428	301	232
<i>Cash generated from operations</i>	<u>17 219</u>	<u>10 394</u>	<u>732</u>
Interest received	49	3	3
Interest paid			-481
Income tax and other taxes paid	-71	-	-3
<i>Net cash used in investing activities</i>	<u>17 196</u>	<u>10 397</u>	<u>251</u>
Cash flows from investing activities			
Purchase of equipment	-164	-35	-
Investment in intangible assets	-16 422	-6 575	-4 304
<i>Net cash used in investing activities</i>	<u>-16 585</u>	<u>-6 610</u>	<u>-4 304</u>
Cash flows from financing activities			
Net proceeds from issue of share capital	12 734	470	7 122
<i>Net cash from financing activities</i>	<u>12 734</u>	<u>470</u>	<u>7 122</u>
Net increase in cash and cash equivalents	12 985	4 257	3 070
Cash and cash equivalents at beginning of period	7 731	3 709	616
Cash and cash equivalents at beginning of period before exchange effect	<u>20 716</u>	<u>7 966</u>	<u>3 686</u>
Effect of exchange rate fluctuations	-814	-234	23
Cash and cash equivalents at beginning of period after exchange effect	<u>19 902</u>	<u>7 731</u>	<u>3 710</u>
The accompanying notes are an integral part of the consolidated financial statement			

SCHEDULE 3

**INDEPENDENT AUDITOR'S REPORT IN RESPECT OF THE SELECTED
COMPARATIVE FINANCIAL INFORMATION FOR THE FINANCIAL YEARS 2018, 2017
AND 2016**

Schedule 3

Independent auditor's report

To: the Management Board of Funcom SE

Our opinion

The selected comparative consolidated financial information of Funcom SE as included in Schedule 2 (Selected comparative financial information for the financial years 2018, 2017 and 2016) of Funcom SE's position statement (the 'Selected Financial Information') is derived from the audited consolidated financial statements of Funcom SE for the years 2018, 2017 and 2016.

In our opinion the Selected Financial Information is consistent, in all material respects, with those audited financial statements of Funcom SE in accordance with the principles described in section 1 (Basis for preparations) of Schedule 2.

The Selected Financial Information comprises:

1. the comparative consolidated statement of financial position as at 31 December 2018, 31 December 2017 and 31 December 2016;
2. the comparative consolidated statement of comprehensive income and consolidated statement of cashflows for the financial years 2018, 2017 and 2016;
3. The basis for preparation included in section 1 of Schedule 2.

The Selected Financial Information

The Selected Financial Information do not contain all the disclosures required by the International Financing Reporting Standards as adopted by the European Union and by part 9 of book 2 of the Dutch Civil Code. Reading the Selected Financial Information, therefore, is not a substitute for reading the audited financial statements of Funcom SE including our auditor's report thereon. The Selected Financial Information and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The audited financial statements and our auditor's report thereon

We expressed unqualified audit opinions on those financial statements for the years 2018, 2017 and 2016 in our reports dated, 10 April 2019, 18 April 2018 and 20 April 2017 respectively.

The auditor's reports also includes, amongst others, Key Audit Matters which are those matters that, in our professional judgment, were of most significance in our audit of the financial statements.

Responsibilities of management and the Supervisory Board for the Selected Financial Information

Management is responsible for the preparation of the Selected Financial Information in accordance with the principles described in section 1 of Schedule 2 of the position statement.

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

Our responsibilities

Our responsibility is to provide an opinion if the Selected Financial Information are consistent, in all material respects, with the audited financial statements, based on our audit, in accordance with Dutch law, including Dutch Standard on Auditing 810 'Opdrachten om te rapporteren betreffende samengevatte financiële overzichten' (Engagements to report on summarized financial statements).

Restriction on use and distribution

The Selected Financial Information and our report thereon are intended solely for enclosure in the position statement of Funcom SE and cannot be used for other purposes.

Amstelveen, 28 February 2020

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

sgd.

Drs. J.F. van Erve RA

SCHEDULE 4

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2018, INCLUDING THE INDEPENDENT AUDITORS' REPORT THEREON

The following pages are the financial statements of Funcom SE, which comprise Funcom SE and its subsidiaries (together referred to as the “Group”) for the financial year 2018 which are derived from pages 27,28 and 34-111 of the Funcom SE annual report and accounts for 2018, including the independent auditors' reports thereon. The full Funcom SE annual report and accounts 2018 are available on Funcom's website at investors.funcom.com/financial-reports/.

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”
- the 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

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		<u>-23 609</u>	<u>-16 523</u>
Operating result		<u>10 166</u>	<u>6 639</u>
Finance income	9	2 170	1 459
Finance expenses	9	-4 097	-1 369
Result before income tax		<u>8 240</u>	<u>6 729</u>
Income tax (expense) / income	10	-1 622	-1 773
Result from continuing operations		<u>6 618</u>	<u>4 957</u>
Result for the period		<u>6 618</u>	<u>4 957</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
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		<u>-1 508</u>	<u>135</u>
Total comprehensive income for the year		<u>5 110</u>	<u>5 092</u>

Funcom N.V.

Consolidated Statement of Comprehensive Income

for the year ended 31 December

In thousands of US dollars

	Note	2018	2017
<i>Result for the period attributable to:</i>			
Equity holders of Funcom N.V.		6 618	4 957
		6 618	4 957
<i>Total comprehensive income attributable to:</i>			
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		<u>25 354</u>	<u>10 852</u>
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		<u>25 968</u>	<u>9 559</u>
Total assets		<u>51 322</u>	<u>20 411</u>

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		<u>45 175</u>	<u>13 678</u>
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		<u>2 178</u>	<u>762</u>
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		<u>3 969</u>	<u>5 971</u>
Total liabilities		<u>6 147</u>	<u>6 733</u>
Total equity and liabilities		<u>51 322</u>	<u>20 411</u>

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
<i>Cash generated from operations</i>		<u>17 219</u>	<u>10 394</u>
Interest received		49	3
Interest paid			
Income tax and other taxes paid		-71	-
<i>Net cash from operating activities</i>		<u>17 196</u>	<u>10 397</u>
Cash flows from investing activities			
Purchase of equipment	12	-164	-35
Investment in intangible assets	11	-16 422	-6 575
<i>Net cash used in investing activities</i>		<u>-16 585</u>	<u>-6 610</u>
Cash flows from financing activities			
Net proceeds from issue of share capital	16	12 374	470
<i>Net cash from financing activities</i>		<u>12 374</u>	<u>470</u>
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	<u>20 716</u>	<u>7 966</u>
Effect of exchange rate fluctuations		-814	-234
Cash and cash equivalents at end of period after exchange effect	23	<u>19 902</u>	<u>7 731</u>

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

	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
<i>In thousands of US dollars</i>							
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	<i>Financial Instruments</i>	July 2014	1 January 2018
IFRS 15	<i>Revenue from Contracts with Customers</i>	May 2014	1 January 2018
Clarifications to IFRS 15	<i>Revenue from Contracts with Customers</i>	April 2016	1 January 2018
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>	June 2016	1 January 2018
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	September 2016	1 January 2018
Annual improvements	<i>Annual improvements to IFRSs 2014-2016 cycle</i>	December 2016	1 January 2018
Amendments to IAS 40	<i>Transfers of Investment Property</i>	December 2016	1 January 2018
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>	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	<i>Prepayment features with Negative Compensation</i>	October 2017	1 January 2019
IFRS 16	<i>Leases</i>	January 2016	1 January 2019
IFRS 17 ¹	<i>Insurance contracts</i>	May 2017	1 January 2021
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>	June 2017	1 January 2019
Amendments to IAS 28	<i>Long-term interests in Associates and Joint Ventures</i>	October 2017	1 January 2019
Annual improvements	<i>Annual improvements to IFRSs 2015-2017 cycle</i>	December 2017	1 January 2019
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>	February 2018	1 January 2019
Amendments to Conceptual Framework ¹	<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>	March 2018	1 January 2020
Amendment to IFRS 3 ¹	<i>Business Combinations</i>	October 2018	1 January 2020
Amendments to IAS 1 and IAS 8 ¹	<i>Definition of Material</i>	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 IFRS 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 retained 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 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 prepared 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.

	2018		2017	
<i>In thousands of US dollars</i>	Revenue	Non-current assets **)	Revenue	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

<i>In thousands of US dollars</i>	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				
<i>In thousands of US dollars</i>	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				
<i>In thousands of US dollars</i>	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

<i>In thousands of US dollars</i>	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

<i>Average Number of employees:</i>	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

<i>In thousands of US dollars</i>	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

<i>In thousands of US dollars</i>	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

<i>In thousands of US dollars</i>	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:

<i>In thousands of US dollars</i>	2018	2017
Current period tax (expense)/income	-78	4
	-78	4
<u>Deferred tax expense</u>		
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 (exclusing gain on sale)	-	-
	-1 622	-1 773
<u>Income tax on gain on sale of discontinued operations</u>		
Total income tax (expense)/income	-1 622	-1 773

<i>In thousands of US dollars</i>	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

<i>In thousands of US dollars</i>	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

<i>In thousands of US dollars</i>	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 acquisitions	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 acquisitions	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			2017		
	Under development	In use	Total	Under development	In use	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

<i>In thousands of US dollars</i>	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

<i>In thousands of US dollars</i>	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

<i>Number of shares</i>	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:

<i>Time of authorization</i>	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 joined 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

<i>In thousands of US dollars</i>	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.

<i>In thousands of USD</i>	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

<i>In thousands of US dollars</i>	<i>1 January 2018</i>	<i>Cash Flow</i>	<i>Interests accruing in the peirod</i>	<i>Foreign exchange</i>	<i>Debt converted into euqity</i>	<i>Re- classification</i>	<i>31 December 2018</i>
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	<u>13,920</u>	<u>2,892</u>	<u>6,435</u>	<u>141</u>	<u>111</u>	<u>23,499</u>

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	<u>2,906</u>	<u>295</u>	<u>1,708</u>	<u>83</u>	<u>112</u>	<u>5,104</u>

The following exchange rates were applied during the year:

	Reporting rate		Spot rate at December 31	
	Average rate	Average rate	2018	2017
	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	Fair value	Carrying amount	Fair value
	2018	2018	2017	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 payables 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 during 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):

<i>In thousands of US dollars</i>	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

Management Board member	Total remuneration is composed of:					
	Total remuneration	Remuneration	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	
<i>In thousands of US dollars</i>	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:

<i>In thousands of US dollars</i>	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.

<i>In thousands of US dollars</i>	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.

<i>In thousands of US dollars</i>	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		

Loans

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		

In 2018									
	Year of issuance	Outstand Dec 31, 2017	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		

In 2018									
	Year of issuance	Outstand Dec 31, 2017	Granted	Extended	Exercised	Forfeited/ Expired	Outstand Dec 31, 2018	Exercise price USD	Expiry date
Fredrik Malmberg	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		

In 2018									
	Year of issuance	Outstand Dec 31, 2017	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		

In 2018									
	Year of issuance	Outstand Dec 31, 2017	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		

In 2018									
	Year of issuance	Outstand Dec 31, 2017	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
<p>The consolidated financial statements which comprise:</p> <ol style="list-style-type: none">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; and3. the notes comprising a summary of the significant accounting policies and other explanatory information.	<p>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.</p>
<p>The company financial statements which comprise:</p> <ol style="list-style-type: none">1. the company statement of financial position as at 31 December 2018;2. the company statement of comprehensive income for 2018; and3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	<p>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.</p>

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
<p>Over the year ended 31 December 2018, the company capitalized USD 15.2m of developed costs. Refer to note 11 - <i>Intangible assets</i>.</p> <p>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 - <i>Intangible Assets</i>.</p>	<p>We reviewed the company's capitalization policy to determine whether the recognition is aligned with IAS 38 - <i>Intangible Assets</i>.</p> <p>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.</p> <p>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.</p>
VALUATION OF INTANGIBLE ASSETS	OUR AUDIT APPROACH
<p>As at 31 December 2018 the carrying amount of Intangible assets amounts to USD 24.7m. Refer to note 11 - <i>Intangible assets</i>.</p> <p>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.</p>	<p>We challenged managements' assessment and assumptions used in the impairment model for Intangible assets, including cash flow projections, the discount rate and assumptions used.</p> <p>We have determined whether the valuation methods are aligned with IAS 36 - <i>Impairment of Assets</i>.</p> <p>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.</p> <p>Furthermore, we tested the arithmetic accuracy of the impairment model and assessed the adequacy of the related disclosures in the financial statements.</p>

REVENUE RECOGNITION	OUR AUDIT APPROACH
<p>The company has various revenue streams and implemented IFRS 15 - <i>Revenue from Contracts with Customers</i> in the reporting period.</p> <p>Refer to note 2.4 - <i>Revenue from Contracts with Customers</i> and 5 - <i>Revenue</i>.</p> <p>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 - <i>Revenue from Contracts with Customers</i> we considered revenue recognition to be a key audit matter.</p>	<p>We reviewed the company's revenue recognition policy to ensure revenue is recognized is in accordance with IFRS 15 - <i>Revenue from Contracts with Customers</i>.</p> <p>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.</p> <p>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.</p> <p>Furthermore, we assessed the adequacy of the related disclosures in the financial statements.</p>
SHARE-BASED PAYMENTS	OUR AUDIT APPROACH
<p>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.</p> <p>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 - <i>Personnel expenses</i> and note 17 - <i>Employee benefits</i>.</p>	<p>Our audit considered whether the judgments and accounting treatment applied by the company met the requirements of IFRS 2 - <i>Share-based Payments</i>.</p> <p>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.</p>

<p>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.</p>	<p>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.</p> <p>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.</p>
RECOGNITION OF JOINT ARRANGEMENT	OUR AUDIT APPROACH
<p>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.</p> <p>The joint arrangement has been accounted for as a Joint Operation. Refer to note 11 - <i>Intangible assets</i> and note 24 - <i>Transactions with related parties</i>.</p> <p>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.</p>	<p>Our audit considered whether the accounting treatment of the transaction, applied by the company met the requirements of IFRS 11 - <i>Joint Arrangements</i>.</p> <p>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.</p> <p>Furthermore, we assessed the adequacy of the related disclosures in the financial statements.</p>

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

SCHEDULE 5

FINANCIAL STATEMENTS 2019 FOR THE FINANCIAL YEAR 2019

Schedule 5:

Unaudited condensed consolidated financial information for the financial year 2019

Funcom SE

1. Highlights

- Tencent has launched a voluntary cash offer for all Funcom shares at NOK 17.00 per share, a 27.3% premium and NOK 1.25 more per share than Tencent paid for 29% of the shares in 2019. The offer period ends 16 March 2020 at 16:30 CET. An Offer Document describing the details is available on Funcom's website
- *Conan Exiles* continues the strong 'games as a service' performance with the longevity of the game highlighted by the number of users growing year on year, December '19 being the third best average number PC player month since the January 2017 launch and revenues in 4Q19 being higher than in 4Q18
- With 2019 EBITDA margin of 46% the company has just completed its three most profitable years to date
- *Moons of Madness* was released on PC, positively received, with the console version launching on 24 March 2020. A Nintendo Switch version of *The Park*, initially launched in 2015, was also launched in the quarter
- The game pipeline continues to be strong as we actively invest in 10 games with focus on the upcoming *DUNE* open world title, and the *Mutant Chronicles* online shooter launching after that. Further funding to support increased ambitions for the *DUNE* game will be secured

2. Financials

- 2019 revenue was USD 26 620 thousand, which is lower than 2018 revenue of USD 33 776 thousand as the publishing games have not been able to fully compensate for the expected reduction of *Conan Exiles* revenue after launch
- Strong 2019 EBITDA of USD 12 137 thousand and 45.6% margin, second best to date. 2018 had EBITDA of USD 17 690 thousand (52.4%). The EBITDA reduction is driven by lower revenue. The 2019 EBITDA was positively impacted by an amount of USD 1 044 thousand as a result of the implementation of IFRS 16
- 2019 EBIT was USD -148 thousand. 2018 EBIT was USD 10 166 thousand. In addition to lower revenues, amortization of publishing games was significantly higher in 2019
- The equity increased from USD 45 175 thousand in 2018 to USD 46 317 thousand
- The cash position was USD 13 131 thousand, the expected decline from USD 19 902 thousand in 2018 is caused by significant investments in game development and the USD strengthening versus the NOK, reducing the NOK cash balance in USD denomination
- Cash flow from operating activities for 2019 was USD 13 819 thousand versus USD 17 196 thousand in 2018 impacted by lower profitability of the publishing games

3. Risk factors

- For information regarding risk factors for the Company and its games, please refer to Note 26 in the 2018 Annual Report. The report can be downloaded from the company website at <https://investors.funcom.com/>. For evaluation of the risks related to Funcom games and activities, Funcom encourages investors to seek information about the industry in general and Funcom specifically from analyst reports, industry reports, game reviews etc.
- Several different financial scenarios should be evaluated when analysing the potential of any existing or future games. The financial performance of new games and the development of games' performance over time is uncertain

4. Outlook

- The long-term outlook of the Company is positive, with ongoing significant investments into both internal and published games
- Key factors of the outlook
 - The continued sales of *Conan Exiles*, its DLCs and a paid expansion in 2H 2020
 - Launch of *Moons of Madness* on Xbox One and PlayStation 4 on 24 March 2020
 - Launch of *Conan Chop Chop* in 2Q 2020 on PC, Xbox One, PlayStation 4 and Nintendo Switch
 - Launch of a *DUNE* Multiplayer Open World game, investment budget still under consideration and dependent on many parameters, but expected to be in the USD 30m to 50m range
 - Launch of Funcom North Carolina's multiplayer co-op shooter game, after the release of the *DUNE* Multiplayer Open World game
 - Development and release of additional publishing projects and performance of the growing portfolio of released games
- The Company expects to need to secure additional funding in order to execute all the aforementioned activities, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles
- Revenue and profitability should be expected to vary from quarter to quarter, depending on launch activity of new games and downloadable content, discounts 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

Badhoevedorp, The Netherlands, 28 February 2020

The Management Board of Funcom SE

- This report contains forward-looking statements. These statements are based on current estimates and projections of Funcom's management and currently available information. Many factors could cause the actual results, performance or achievements of Funcom to be materially different from those that may be expressed or implied by such statements. Such factors include risks discussed in Funcom's Annual Report 2018 Note 26
- For more information about Funcom, its games and its organization, please see www.funcom.com

*"Funcom", "Secret World Legends" and "Anarchy Online" " are registered trademarks of Funcom Oslo AS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS (unaudited)		
	For the year ended 31 December	
<i>In thousands of US dollars</i>	2019	2018
Revenue	26 620	33 776
Personnel expenses	-5 330	-4 899
General and administrative expense	-8 204	-10 268
Depreciation, amortization and impairment charges	-12 285	-7 523
Other operating expenses	-948	-919
Operating expenses	-26 768	-23 609
Operating result	-148	10 166
Finance income	1 725	2 170
Finance expenses	-1 869	-4 097
Profit (loss) before income taxes	-291	8 240
Income taxes	2	-1 622
Profit (loss) for the period	-289	6 618
Attributable to non-controlling interests	-12	–
Attributable to shareholders of Funcom SE	-277	6 618
Earnings per share basic (USD)	-\$0.00	\$0.09
Earnings per share fully diluted (USD)	-\$0.00	\$0.08

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)		
	For the year ended 31 December	
<i>In thousands of US dollars</i>	2019	2018
Profit (loss) for the period	-289	6 618
Other comprehensive income		
Foreign exchange translation difference	102	-1 508
Total comprehensive income for the period	-187	5 110
Attributable to non-controlling interests	-12	–
Attributable to shareholders of Funcom SE	-174	5 110

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)		
	31 December	
<i>In thousands of US dollars</i>	2019	2018
ASSETS		
<u>Non-current assets</u>		
Intangible assets and goodwill	33 251	24 711
Tangible fixed assets	137	155
Right-of-use assets	3 926	–
Non-current prepayments and receivables	978	489
Total non-current assets	38 291	25 354
<u>Current assets</u>		
Trade receivables	3 837	4 797
Prepayments and other receivables	1 828	1 269
Cash and cash equivalents	13 131	19 902
Total current assets	18 797	25 968
Total assets	57 088	51 322

EQUITY AND LIABILITIES		
<u>Equity</u>		
Share capital	18 287	18 224
Reserves	189 852	188 539
Retained earnings (Accumulated deficit)	-161 874	-161 589
Non-controlling interest	52	–
Total equity	46 317	45 175
<u>Non-current liabilities</u>		
Deferred tax liabilities	1 855	2 086
Non-current lease liabilities	3 300	–
Other non-current liabilities	–	92
Total non-current liabilities	5 156	2 178
<u>Current liabilities</u>		
Lease liabilities, Short-term	1 241	–
Contract liabilities	234	222
Trade payables	1 329	1 200
Other short-term liabilities	2 812	2 547
Total current liabilities	5 615	3 969
Total equity and liabilities	57 088	51 322

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)		
	For the year ended 31 December	
<i>In thousands of US dollars</i>	2019	2018
Profit (loss) before income tax	-291	8 240
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation, amortization and impairment	12 285	7 523
Share-based payments	920	2 903
Interest income/expense	-64	-49
Effect of exchange rate fluctuation	264	1 322
Working capital adjustments:		
Change in trade and other receivables	257	-4 646
Change in trade payables	140	498
Change in other current assets and liabilities	272	1 428
Cash generated from operations	13 782	17 219
Interest received	242	49
Income taxes paid	-205	-71
Net cash flow from operating activities (A)	13 819	17 196
Purchase of equipment	-50	-164
Investment in intangible assets	-19 753	-16 422
Acquisition of subsidiary, net of cash acquired	-74	—
Net cash flow from investing activities (B)	-19 877	-16 585
Net proceeds from issue of share capital	182	12 374
Principal paid on lease liabilities	-1 196	—
Interest paid on lease liabilities	-178	—
Proceeds from finance subleases	398	—
Net cash flow from financing activities (C)	-793	12 374
Net cash flow, before exchange rate fluctuations (A+B+C)	-6 851	12 985
Exchange (losses)/gains on cash and cash equivalents	80	-814
Changes in Cash and cash equivalents	-6 771	12 171
Net increase in cash and cash equivalents	-6 851	12 985
Cash and cash equivalents at beginning of period	19 902	7 731
Cash and cash equivalents at end of period before exchange effect	13 051	20 716
Cash and cash equivalents, beginning of period	19 902	7 731
Changes in Cash and cash equivalents	-6 771	12 171
Cash and cash equivalents, end of period	13 131	19 902

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)								
	Share capital	Share premium	Equity-settled employee benefits reserve	Trans- lation reserve	Retained earnings	Attributable to owners of the parent	Non- controlling interests	Total Equity
<i>In thousands of US dollars</i>								
Equity as at January 1, 2018:	13 525	165 028	8 936	-5 604	-168 206	13 678	-	13 678
Profit or loss for the period					6 618	6 618		6 618
Other comprehensive income the period				-1 508		-1 508		-1 508
Total comprehensive income for the period	-	-	-	-1 508	6 618	5 110	-	5 110
Share-based payments expense			2 903			2 903		2 903
Exercise of options	197	796				993		993
Issue of new shares	2 803	16 199				19 001		19 001
Convertible loan to new shares	1 699	1 917				3 616		3 616
Transaction costs related to increase in equity		-127				-127		-127
Equity as at December 31, 2018:	18 224	183 812	11 839	-7 112	-161 589	45 175	-	45 175
IFRS 16 adjustment to opening balance					-9	-9	-	-9
Equity as at January 1, 2019:	18 224	183 812	11 839	-7 112	-161 597	45 166	-	45 166
Profit or loss for the period					-277	-277	-12	-289
Other comprehensive income for the period				102		102		102
Total comprehensive income for the period	-	-	-	102	-277	-174	-12	-187
Share-based payments expense			920			920		920
Exercise of options	39	143				182		182
Issue of new shares	23	147				170		170
Acquisition of subsidiary with NCI						-	65	65
Equity as at December 31, 2019:	18 287	184 103	12 759	-7 010	-161 874	46 265	52	46 317

NOTES TO THE REPORT

1. Corporate information

Funcom SE is a limited company registered in The Netherlands, and the shares are publicly traded on the Oslo Stock Exchange under the ticker "FUNCOM". On 17 May 2019 the General Meeting approved the conversion of the legal form of Funcom N.V. to Funcom SE, a "societas europaea" company. The principal activity of the Company is to develop, publish and carry on business in computer and console games in the broadest sense. The unaudited condensed consolidated financial information for the Company year to date at 31 December 2019 were approved for issue by the Supervisory Board on 28 February 2020.

2. Basis for preparation and selected significant accounting policies

This unaudited condensed financial information has been prepared in accordance with IAS 34, which means that it does not include all information and disclosures required in annual financial statements but only selected significant information and therefore it should be read in conjunction with the 2018 Annual Report of the Group.

As required by Annex B paragraph 2.3 of the Dutch Takeover Decree on public offers Wft (Besluit openbare biedingen Wft) the condensed consolidated financial information is based on the most recent available financial information and consists of a period of 12 months.

The principles applied are consistent with those used in the 2018 Annual Report, which has been prepared in accordance with IFRS as adopted by the European Union, including the notes and the report of the Management Board. The 2018 Annual Report of the Group is available on www.funcom.com.

All amounts are in USD thousand 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.

Going concern

The Company expects to need to secure additional funding in order to execute all the planned activities for 2020 and 2021, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles.

Based on cash balance, revenues from a broadening portfolio, future pipeline, a strong shareholder base and access to additional capital the Company's financial situation is sound. Based on this the going concern assumption is justified and consequently the unaudited condensed consolidated financial information of the Company for the year to date have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.

Changes in significant accounting policies

The Group has adopted IFRS 16 Leases, as from 1 January 2019, see Note 2.8 Leases and Note 12 Implementation of IFRS 16 Leases.

2.1 Basis of consolidation

The Company's consolidated financial condensed information comprise of Funcom SE and companies in which Funcom SE has a controlling interest.

2.2 Change of Estimates

The Company amortizes investment in the development of technology and game assets on a systematic basis over their useful life. The MMO games *Age of Conan* and *Secret World Legends* and technology have had an amortization period of five years since launch of the games. After a thorough assessment the amortization period of *Age of Conan* and *Secret World Legends* was reduced to three years, better reflecting the current situation of the industry and the games. The change increased the amortization with USD 62 thousand in 2019, impact in future years is expected to be immaterial.

2.3 Intangible assets

Intangible assets are recognized in the balance sheet if it can be confirmed that there are probable future economic benefits that can be attributed to the assets that are owned by the Company, and the assets' cost price can be reliably estimated. Both internally and externally developed games that are published by Funcom are capitalized. Intangible assets are initially recognized at their cost price and subsequently measured using the cost method (i.e. historical cost less accumulated amortization and accumulated impairment losses). A review to assess whether there are indicators of impairment is undertaken at the end of each reporting period. The intellectual property rights acquired by Heroic Signatures DA are classified as having indefinite useful life, which means they are not amortized unless the annual impairment test implies there is a reason to do so.

Other games have an amortization period of two years or below. Externally developed publishing games have an amortization period of 18 months. The company applies the diminishing balance amortization method, also called accelerated amortization method, that reflects the pattern of consumption of the future economic benefits. Typically, a high share of the amortization is applied to the time period of the release, diminishing over time. If that pattern cannot be determined reliably, the company uses the straight-line method.

2.4 Equity

Transaction costs relating to equity transactions are recognized directly in equity after deducting tax.

2.5 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 to 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 with Funcom royalty cost and only Heroic Signatures DA third-party revenue is included in Funcom's consolidated revenue. The asset value of Heroic Signatures DA is shown under intangible assets on the balance sheet. Heroic Signatures DA was booked as a joint venture until 4Q18 when the booking was changed to a joint operation, so for quarters before that the asset value is shown as "investments accounted for using the equity method".

2.6 Non-controlling interest

A non-controlling interest (NCI), also known as minority interest, is the portion of equity ownership in a subsidiary not attributable to the parent company, who has a controlling interest (greater than 50% but less than 100%) and consolidates the subsidiary's financial results with its own. Non-controlling interest are measured by using the proportionate share of the recognized net assets.

2.7 Goodwill

Goodwill arises on acquisition of subsidiaries and associates. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition is recognized immediately in the statement of comprehensive income. Goodwill is measured at cost less any accumulated impairment losses. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

2.8 Leases

On 01.01.2019 the Group applied the new standard of accounting of leases, IFRS 16. The new standard replaced IAS 17 Leases, used in 2018.

Under IFRS 16 lease agreements are recognized in the balance sheet, and the right-to-use asset and lease liability are recognized in the financial information. The right-to-use asset will be depreciated in profit or loss over the lease term. Lease payments are recognized as a reduction of the lease liability. For each period the Group will recognize an interest expense on the lease liability. Under IAS 17, used in 2018, office rent was expensed as operating expenses directly in profit or loss.

There are two exceptions: Leases with the lease term of 12 months or less with no purchase option (applied to the whole class of assets), and leases where underlying asset has a low value when new (applied on one-by-one basis). These leases are expensed directly in profit or loss.

2.9 Contract liabilities

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. Revenues from season passes or bundles are accrued based on the underlying DLC releases included in the bundle, distributed based on the value that each DLC represents. Revenue from subscription services, where Funcom is paid by an external service provider to include a game in a subscription offering, is recognized over the period of the relevant offering. The part of the sale not recognized as revenue in the current period, will be recognized in the future upon fulfilment of a performance obligation, and is recognized on the balance sheet under contract liabilities.

2.10 Non-GAAP measures

Certain discussions and analyses set out in this announcement include measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS, for instance EBITDA and EBIT. We believe this information, along with comparable GAAP measurements, is useful to investors because it provides a basis for measuring our operating performance, ability to retire debt and invest in new business opportunities. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures.

EBITDA is an abbreviation for earnings before interest, taxes, depreciation, and amortization, and can be calculated based on the condensed consolidated statement of profit and loss by Revenue plus operating expenses minus “depreciation, amortization and impairment charges” (both expenses and “depreciation, amortization and impairment charges” are negative numbers).

EBIT is earnings before interest and taxes and is equal to operating result as specified in the condensed consolidated statement of profit and loss.

3. Intangible assets and goodwill

<i>In thousands of US dollars</i>	Development costs	Software	Trademarks & licenses	Goodwill	Total
Cost					
Balance at January 1, 2018	125 017	436	173	–	125 626
Acquisitions, internally developed	10 439	–	–	–	10 439
Other acquisitions	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
Acquisitions, internally developed	11 745	–	–	–	11 745
Business combinations ^[1]	–	–	–	333	333
Other acquisitions	8 516	150	–	–	8 666
Disposals	–	-140	–	–	-140
Translation difference	-162	-4	-85	–	-252
Balance at December 31, 2019	58 197	417	6 799	333	65 747
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
Amortization for the year	11 876	79	–	–	11 955
Disposals	–	-140	–	–	-140
Translation difference	–	-2	–	–	-2
Balance at December 31, 2019	32 331	165	–	–	32 496
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
Carrying amount at Jan. 1, 2019	17 643	183	6 884	–	24 711
Carrying amount at Dec. 31, 2019	25 866	252	6 799	333	33 251

^[1] For more info related to acquisitions through business combinations see Note 11.

The Group has contractual commitments for development costs of USD 460 thousand (2018: USD 974 thousand).

Calculation of recoverable amounts

When calculating the recoverable amount (value in use) from cash generating units the Group uses a discounted 3-year 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 11.92 per cent (2018: 13.30 per cent). Predicting the cash flow from games with high certainty is difficult. The estimates represent management's best estimate but is subject to a relatively high degree of uncertainty, especially for games not launched.

The delayed launch of Moons of Madness, Conan Chop Chop and the multiplayer co-op shooter game impacted the future cash flow projections for these games. No impairments were booked in 2019 with respect to the capitalized development costs for these games.

4. Net financial items

Net financial items mainly consist of interest earned, exchange rate differences, interest related to real estate lease liabilities and interest from finance lease receivables.

5. Taxes

A deferred tax liability of USD 1 855 thousand is recorded on the balance sheet, due to temporary tax differences driven by increasing investments into new games. A tax cost of USD -2 thousand has been calculated for 2019, mainly related to Funcom Oslo AS and Funcom Oslo Licensing AS.

6. Non-current prepayments and receivables

Non-current prepayments and receivables consist of security deposits for real estate and prepayments with remaining duration greater than 12 months.

7. Cash

	31 December	
<i>In thousands of US dollars</i>	2019	2018
Non-restricted cash at bank and in hand	12 851	19 693
Restricted cash	280	209
Cash and cash equivalents	13 131	19 902

8. Average number of shares

	January - December	
<i>In thousands of shares</i>	2019	2018
Average number of shares	77 213	73 487

9. Equity

In January 2019 Funcom completed the acquisition of 50.1% of the Portuguese video game development service provider Zona Paradoxal, Lda ("ZPX") with whom it has had a working relationship since 2017. Part of the consideration for the acquisition of the 50.1% ownership in ZPX was 102 363 new shares that Funcom issued to the shareholders of ZPX, each at the price of USD 1.665 per share. The transaction increased the equity attributable to shareholders of Funcom SE with USD 170 thousand and the equity attributable to non-controlling interests by USD 65 thousand. For more info see Note 11.

In May 2019, Funcom issued 175 133 new shares in relation to the exercise of company stock options.

10. Segment information

The reportable operating segments of the group are defined as:

- PC
- Console: PS4, Xbox and Nintendo Switch
- Other: IP revenue from third parties and game development services

Segment information	Revenue from external customers		Segment profit (loss) ^[1]	
	January - December		January - December	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
PC	16 726	16 783	9 037	11 212
Console	9 554	16 418	6 536	11 726
Other activities ^[2]	340	575	260	78
Total	26 620	33 776	15 833	23 015
General and administrative expenses			-3 696	-5 325
Depreciation, amortization and impairment charges			-12 285	-7 523
Net financial items			-144	-1 926
Profit (loss) before tax			-291	8 240

^[1] Segment profit (loss) is measured as revenue earned less personnel costs and other operating costs related to segments. General and administrative expenses are costs not directly allocated to games, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments.

^[2] Other activities referred to external royalties IP, external consulting services and other.

<i>In thousands of US dollars</i>	PC	Console	Under development	SUM
Segment assets as at 31 December 2018	7 906	3 484	6 254	17 643
Segment assets as at 31 December 2019	6 910	2 463	16 493	25 866

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

Disaggregation of revenue from contracts with customers

<i>In thousands of US dollars</i>	2019	%	2018	%
PC ^[1]	16 726	62.8 %	16 783	49.7 %
Console ^[2]	9 554	35.9 %	16 418	48.6 %
Other ^[3]	340	1.3 %	575	1.7 %
Total	26 620	100 %	33 776	100 %

^[1] PC revenue relates to revenue from contracts with customers related to services. It also includes direct sales through Funcom's own channels.

^[2] Console revenue relates to revenue from contracts with customers related to services through 3rd party stores.

^[3] Other activities referred to external royalties from IP, external consulting services and other, direct sales.

Timing of revenue

2019

<i>In thousands of US dollars</i>	PC	Console	Other	SUM
Segment revenue	16 726	9 554	340	26 620
Timing of revenue recognition:		–		
At a point in time	14 185	9 554	–	23 740
Over time	2 540	–	340	2 880
Total	16 726	9 554	340	26 620

2018

<i>In thousands of US dollars</i>	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	16 783	16 418	575	33 776

Geographical information

<i>In thousands of US dollars</i>	Revenue ^[1]		Non-current assets ^[2]	
	2019	2018	2019	2018
The Netherlands	18	514	334	68
Norway	26 572	33 262	35 290	25 221
USA	–	–	2 482	65
Portugal	29	–	185	–
Total	26 620	33 776	38 291	25 354

^[1] Revenue is attributed to a country based on the location of the selling entity.

^[2] Non-current assets are attributed to a country based on the geographical location of the assets.

11. Acquisition of subsidiary

On 17 January 2019, Funcom acquired 50.1% of the shares and voting interests in Zona Paradoxal, Lda ("ZPX"). The acquisition will increase the Groups own development capacity for upcoming games and reduce costs to the Group. The Group also expects to use the expertise and knowhow acquired in the development of new games.

Since the acquisition date, ZPX has contributed USD 29 thousand to external group revenues and USD -24 thousand to group profit. If the acquisition had occurred on 1 January 2019, group revenue and group profit for the period would have been the same. Acquisition costs of USD 10 thousand arose as a result of the transaction. These have been recognized as part of administrative expenses in the statement of comprehensive income.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Purchase consideration

<i>In thousands of US dollars</i>	2019
Cash consideration	228
Shares issued, at fair value	170
Total consideration transferred	398

Fair value recognised on acquisition

<i>In thousands of US dollars</i>	2019
Tangible fixed assets	2
Trade receivables	52
Prepayments and other receivables	27
Cash and cash equivalents	154
Trade payables	-6
Other short-term liabilities	-98
Total identifiable net assets acquired	130

Goodwill

<i>In thousands of US dollars</i>	2019
Consideration transferred	398
Non-controlling interest ^[1]	65
Fair value of identifiable net assets	-130
Goodwill	333

^[1] Non-controlling interest is measured at the proportionate share of net assets.

The main factors leading to the recognition of goodwill are:

- The presence of certain intangible assets, such as the assembled workforce of the acquired entity, which do not qualify for separate recognition.
- Cost savings which result in the Group being prepared to pay a premium.

The goodwill recognized will not be deductible for tax purposes.

12. Implementation of IFRS 16 Leases

The Group implemented IFRS 16 Leases as of January 1, 2019, superseding IAS 17 Leases used in 2018. The Group adopted IFRS 16 using the modified retrospective approach. Under this approach, a lessee does not restate comparative information. The cumulative effect of adopting IFRS 16 was recognized as an adjustment to the opening balance of retained earnings as of 1 January 2019. With IFRS 16 all lease agreements are recognised in the balance sheet, and the right-to-use asset and lease liability are recognised in the financial information.

The Group applied the short-term exemption, which means that all leases with a lease term that ends in 2019 are expensed as before and not capitalized upon transition. The Group also applied the general low value exemption in IFRS 16 for leases of office and other equipment. This means that no low value leases of such assets will be capitalized and that such lease payments are expensed in profit or loss.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates. The associated right-of-use assets were measured at the amount equal to the lease liabilities. The Group recognized finance lease receivables in relation to subleases. Under the principles of the new standard these subleases have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates. The effects from IFRS 16 resulted in a decrease in equity of USD 9 thousand.

IFRS 16 impact on the opening statement of financial position			
(Figures in TUSD)	(IAS 17) 31.12.2018	Effects from IFRS 16	01.01.2019
ASSETS			
<u>Non-current assets</u>			
Intangible assets	24 711		24 711
Tangible fixed assets	155		155
Right-of-use assets	-	2 681	2 681
Long term receivables	489	306	795
Total non-current assets	25 354	2 987	28 342
<u>Current assets</u>			
Trade receivables	4 797		4 797
Prepayments and other receivables	1 269	441	1 710
Cash and cash equivalents	19 902		19 902
Total current assets	25 968	441	26 409
Total assets	51 322	3 428	54 750

EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital	18 224		18 224
Reserves	188 539		188 539
Retained earnings	-161 589	-9	-161 597
Total equity	45 175	-9	45 166
<u>Non-current liabilities</u>			
Deferred tax liabilities	2 086		2 086
Long-term liabilities	92	-92	-
Lease liabilities, Long-term	-	2 490	2 490
Total non-current liabilities	2 178	2 397	4 575
<u>Current liabilities</u>			
Lease liabilities, Short-term	-	1 032	1 032
Contract liabilities	222		222
Trade payables	1 200		1 200
Other short-term liabilities	2 547	8	2 555
Total current liabilities	3 969	1 040	5 009
Total equity and liabilities	51 322	3 428	54 750

13. Subsequent events

On 22 January 2020 Tencent Holdings Limited announced that they (through an indirectly owned subsidiary, the Offeror) would launch a voluntary cash offer of NOK 17.00 per share to acquire all of the shares of Funcom not already owned by the Offeror. The Offer price represents a premium of 27.3% to the closing price of the shares on 21 January 2020. The Offer was recommended by Funcom's Supervisory Board and Management Board. The Supervisory Board members representing Tencent, Mr. Eddie Chan and Mr. Peng Lu, have not been part of any of the board discussions or decisions on the matter. Neither have they been part of processing the transaction from Tencent's side. The independent agency Pareto Securities AS has issued a fairness opinion concluding the offer was fair from a financial point of view. In connection with the Offer it was also announced that the Management Board would recommend to the Supervisory Board to increase the ambition level of the *DUNE* open world game and release it after approximately two years of production time. This would require a redirection of resources from other initiatives, which would delay the *Mutant Chronicles* online shooter game until after the release of the *DUNE* game, and that the company would secure the necessary funding to support this plan. On 28 February 2020 the Supervisory Board approved the recommendation.

The Offeror and Funcom have entered into a transaction agreement regarding an acquisition of Funcom by the Offeror. On 20 February 2020 an offer document approved by Oslo Stock Exchange was published. DNB Markets, a part of DNB Bank ASA, Registrars department, is the receiving agent. For questions regarding acceptance of the Offer, please contact: Receiving Agent: DNB Markets, Registrars department, tel. +47 23 26 81 01, and filled-in acceptance forms for the Offer are sent to e-mail: retail@dnb.no. The Offer period closes on 16. March 2020 at 16:30 CET.

SCHEDULE 6

**INDEPENDENT AUDITOR'S REVIEW REPORT IN RESPECT OF THE UNAUDITED
CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE FINANCIAL
YEAR 2019**

Schedule 6

Review report

To: the Management Board of Funcom SE

Introduction

We have reviewed the accompanying, as included in Schedule 5, condensed consolidated financial information of Funcom SE, Badhoevedorp as at 31 December 2019, which comprises the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity, and cash flows for the 12-month period ended 31 December 2019, and the notes. Management of Funcom SE is responsible for the preparation and presentation of this condensed consolidated financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial information as at 31 December 2019 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amstelveen, 28 February 2020

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

sgd.
Drs. J.F. van Erve RA

SCHEDULE 7

EXTRAORDINARY GENERAL MEETING AGENDA AND EXPLANATORY NOTES

CONVENING NOTICE

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF FUNCOM SE

Badhoevedorp, 23 January 2020.

To all shareholders of Funcom SE, Katwijk, the Netherlands and all others entitled to attend the general meeting.

The Board of Supervisory Directors (*Raad van Commissarissen*) herewith cordially invites you to attend an Extraordinary General Meeting of Shareholders of Funcom SE (the “Meeting”). The Meeting will be held on 6 March 2020 at Funcom SE’s registered address:

Prins Mauritslaan 37 - 39, 1171LP Badhoevedorp, the Netherlands. The Meeting will commence at 11.00 am CET.

For the purpose of the Meeting, with respect to shares in the capital of Funcom SE, the persons who will be considered as entitled to attend and/or speak at and/or exercise their voting rights at the Meeting, are those persons who on 7 February 2020 possess these rights and are registered in one of the following registers:

- (a) with regard to holders of registered shares in Funcom SE: the register of shareholders maintained at Funcom SE’s registered address; and
- (b) with regard to holders of depositary ownership in shares in Funcom SE: the Norwegian Central Securities Depository (the “VPS”).

All shareholders in Funcom SE registered with the VPS (being holders of depositary ownership in the relevant shares), should notify our VPS registrar, DNB Bank ASA, should they wish to attend the Meeting. A proxy addressed to DNB Bank ASA will be published with this convening notice at Funcom SE’s website (www.funcom.com) and on the website of the Oslo Stock Exchange (www.oslobors.no). This proxy can also be obtained from DNB Bank ASA.

All (proxies for) holders of registered shares in Funcom SE and (proxies for) holders of depositary ownership in shares in Funcom SE wishing to attend the Meeting, should be able to identify themselves at the Meeting by means of valid passport or driver’s license.

On the date first written above Funcom SE has 77,286,989 shares outstanding representing an equal number of voting rights.

The following issues will be brought to the attention of the Meeting:

1. Opening. (discussion)
2. Explanation of the recommended public cash offer by Tencent Cloud Europe B.V. (discussion)
3. Closing. (discussion)

The Board of Supervisory Directors

This convening notice (including the agenda for the Meeting), with the explanatory notes in relation thereto and the supporting information are (or will become) available on Funcom SE's website (www.funcom.com), at the website of Oslo Børs (www.oslobors.no) and at Funcom SE's registered address, Prins Mauritslaan 37 - 39, 1171 LP Badhoevedorp, the Netherlands.

**Explanatory notes to the agenda
for the
Extraordinary General Meeting of Shareholders of Funcom SE
of
6 March 2020
(the “Meeting”)**

1. Opening. (discussion)

The chairman will open the meeting at 11.00 CET local time.

2. Explanation of the recommended public cash offer by Tencent Cloud Europe B.V. (discussion)

On 20 January 2020, (i) Tencent Cloud Europe B.V., a private company with limited liability (*Besloten Vennootschap*) incorporated under the laws of the Netherlands whose registered office is at Amstelplein 54, 26.04, 26th floor, 1096BC Amsterdam, the Netherlands, and registered with the Dutch Trade Register of the Chamber of Commerce under number: 71482539 (“**Tencent**”), and (ii) the Company reached agreement in connection with a recommended public offer (the “**Offer**”) by Tencent for all (depository ownership in) shares in the capital of the Company (the “**Shares**” and each a “**Share**”) at an offer price of 17 NOK in cash for each Share (the “**Offer Price**”).

The complete details of the Offer, including all terms and conditions, will be contained in an offer document (the “**Offer Document**”) to be sent to Funcom's shareholders following review and approval by the Oslo Stock Exchange pursuant to Chapter 6 of the Norwegian Securities Trading Act. The offer period is expected to start on or about 5 February 2020 and last at least until 6 working days after the Meeting, subject to any extension by Tencent (the “**Offer Period**”). In accordance with article 18 of the Dutch Decree on public offers Wft (*Besluit openbare biedingen Wft*), the Offer Period should at least last for 6 working days after the Meeting.

In addition to the key terms such as the Offer Price, the Offer Period, the tender procedure and the settlement of the Offer by transfer of the Shares against payment of the Offer Price by Tencent, the Offer Document will contain an explanation of the conditions to declaring the Offer unconditional and other relevant information regarding the Offer and the parties involved in the Offer.

The Company will publish a position statement relating to the Offer (the “**Position Statement**”). The management board (*raad van bestuur*) of the Company (the “**Management Board**”) and the independent members of the supervisory board (*raad van commissarissen*) of the Company (the “**Supervisory Board**”) and together with the Management Board, the “**Boards**”) have extensively considered the Offer and the Offer Price.

During the Meeting, the Management Board will give a presentation on the Offer and the Offer will be discussed in accordance with article 18 of the Dutch Decree on public offers (*Besluit openbare biedingen Wft*). The Offer Document and the Position Statement will be made available on, and can be obtained free of charge from, the website of the Company (www.funcom.com) and at the offices of the Company (Prins Mauritslaan 37-39, 1171 LP Badhoevedorp, the Netherlands). Copies may be obtained free of charge by Shareholders and other persons entitled to take part in the Meeting.

3. Closing. (discussion)

Absent any miscellaneous matters to be raised, the Meeting will be closed.