FUNCOM | ANNUAL REPORT 2010

Contents

About Funcom

Funcom is a world leading independent developer and publisher of MMO (Massively Multiplayer Online) games.

Funcom was founded in 1993 and has since then developed and published over 25 game titles across several genres and gaming platforms. Most notable of these are the MMOs *Age of Conan* and *Anarchy Online*, as well as the adventure games The Longest Journey and Dreamfall.

There are currently around 300 talented individuals from over 25 different nationalities working at Funcom, spread out across offices in Canada, Norway, China, Switzerland, the US and Luxembourg. This makes Funcom one of the most multi-cultural game development studios in the world, and Funcom is after 18 years of operation one of the largest and most influential independent development studios in the business.

Funcom is also one of the most experienced developers and publishers of massively multiplayer online games in the world, having launched critically acclaimed titles such as *Age of Conan* and *Anarchy Online*. The latter has served over 200 million hours of entertainment or more than 8 million days of playtime thanks to almost two million gamers who have set foot on the virtual world of Rubi-ka. The former was released in May 2008 and has sold over 1.5 million copies, making it the best selling new MMO of the year. The game is estimated to have generated over 110 million USD to Funcom and its partners. An expansion pack, Rise of the Godslayer, was launched in 2010 and received favorable critical acclaim.

One of the key reasons for Funcom's achievement in the MMO segment is the development of a proprietary MMO engine called 'DreamWorld'. This engine gives the developers the flexibility and power needed to create some of the most advanced virtual worlds on the market.

The company is currently in the process of developing several new game titles such as the new modern-day MMO 'The Secret World'. The company is also making headway in the free-to-play and social games market, currently working on several exciting projects, the most prominent concept being a fashion concept related to the Fashion Week brand.

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

For more information, visit www.funcom.com.

Letter from the CEO

The key focus of Funcom in 2010 was threefold:

1) Further strengthening the cost position of the Company
2) Expanding the Company's investments in social games within the free-to-play games segment
3) Capitalize on the Company's unique position in the high-end MMO-market with the development of *The Secret World* and the ongoing improvements and enhancements of its existing high-end MMOs

In this letter I will address these three points in some more detail:

1) Cost position

The Company has over the last couple of years seen a significant transition from having a large majority of the development staff in Norway to a situation where more than two-thirds of its development staff is located in Montreal. Due to the attractive industry incentives in Quebec and a lower general cost level in Montreal, the Company expects development costs in Montreal per develompent employee to be around 40-50% lower than they historically have been in Norway. This very significant relocation of the development resources of the Company has been efficiently and successfully executed. And since a significant portion of the employees in Montreal have transferred from other offices in the Company, the competence and skills of the organization have been maintained.

Further, the Company's Beijing office, with 50 employees, continues to perform very well, at low cost and high quality. And the Company is, as expected, seeing a positive development in the Norwegian business environment in the gaming segment in terms of access to R&D support, funding from Filmfondet etc. which impacts the cost of development in Norway positively. The Company is committed to maintaining development in Norway and believes it will be able to do so cost efficiently in the future.

All these factors together will, in the opinion of the Company, provide the Company with a cost advantage compared to most MMO-developers in the Western World. This will most significantly impact the development costs for the MMOs following after *The Secret World*, as these cost initiatives have not had their full impact on the development costs of that game. The lower costs will also impact the new free-to-play projects currently being developed in Montreal.

2) Free-to-play games

The Company has for a couple of years made limited, focused investments into the free-to-play games arena, with products like *Pets vs Monsters* and *My-Kingdom*. These games are currently in their beta-stages of development. With the signing of the three-way partnership with IMG and 505 Games to develop a Facebook service and game related to the Fashion Week brand, the Company significantly expands this initiative. The social games market, part of the free-to-play games market, has seen very significant growth in the last years, combined with attractive business models. *MyKingdom* is competing in this social games market, and the Company believes that the Fashion Week product has a relatively high likelihood for success in the space as it combines a strong brand and access to partners in the Fashion industry, with Funcom's proven track record for high-end visuals and solid game design. Funcom will in the future focus on developing new social game concepts with similar characteristics.

3) Large scale MMOs

During 2010, the development of The Secret World progressed significantly, both with technology, game play and visuals. The Company has ramped up PR activities for the game lately. The Company has also signed a co-publishing agreement with Electronic Arts, the last decade's largest games publisher. This should increase the reach and efficiency of PR and marketing efforts, as well as give access to a broad global distribution in retail at launch of *The Secret World* and thereafter. With demos of the game at the Game Developers Conference in San Francisco in March, with the release of a new web-site with a large amount of game information and the release of a high production value marketing video, the Company has raised the awareness and position of *The Secret World* in the gamer community.

In the game's setting, visuals, role playing systems, storytelling and character progression, the game differentiates itself from its competitors, and the feedback from press and gamers seem favorable on these points. The Company's position that *The Secret World* will represent a strong product offering to the market is re-enforced by these developments in 2010 and 2011.

In the large scale MMO segment, Funcom will also continue to work on extending the life time and product value of *Age of Conan* and *Anarchy Online*. *Age of Conan* was recently upgraded with a new rendering engine and the Company continues to invest significant resources in upgrading and extending the game with an eye to maximize future value. Despite the decline in revenues in 3Q and 4Q for *Age of Conan*, and an associated impairment charge for the game at year-end of 2010, the game is cash flow positive and the Company maintains a significant development team on the game.

In late 2010, the Company entered into a USD 10 million loan agreement with its largest shareholder, Stelt Holding NV. This significantly strengthened the cash position of the Company. Stelt received 5 million warrants for Funcom shares at a strike price of NOK 10 per share.

Funcom is entering another exciting year in 2011. The Company expects momentum and expectations to continue to build for *The Secret World*, and the Fashion Week concept represents a significant move into the social games market. The goal of the Company is to remain a world leader in delivering high end gaming experiences in the segments it competes and its ambition is naturally to convert this into solid return on investments for its investors.

Best regards

Trond Arne Aas
Chief Executive Officer,
Funcom NV.

Age of Conan: Hyborian Adventures

Launching in May 2008, *Age of Conan* quickly became a success in retail, and the game has sold over 1.5 million copies world-wide. In North America and Europe, *Age of Conan* became the third best-selling PC Game of 2008, only beaten by *World of Warcraft* and *Spore*.

In the weeks after launch, *Age of Conan* simultaneously topped the charts in 17 countries, even on some all-format lists. This showed the significant interest in the market for the game, further highlighted by the fact that 15 million unique visitors came to the *Age of Conan* website during 2008. The sales success of the game illustrates Funcom's ability to market and deliver games with great appeal.

2010 was an eventful year for *Age of Conan*. In May, Funcom released the first expansion pack for the game, generating significant critical acclaim as well as positive trends in activity levels, sales and revenues. Leading up to the launch of the expansion, Funcom executed a comprehensive marketing and PR campaign to drive pre-orders and to renew interest for the product. The expansion was launched as a new combined retail SKU in multiple territories, once again giving *Age of Conan* significant retail presence two years after its initial launch.

The expansion currently has a MetaCritic score of 83, having received a 8.5 score from mainstream gaming site GameSpot, as well as 8.5 from online gaming site MMORPG.com. The game received several end-of-year awards, including awards for best graphics, best animation, and second place, behind World of Warcraft's massive Cataclysm, as 'Expansion of the Year'.

After several successful stages of beta testing, *Age of Conan* launched in Korea in May. The launch was supported by prominent marketing and PR campaigns. By Q3 monetization was enabled for the game.

Following the launch of the expansion, the *Age of Conan* team began work on post-expansion updates for both content and technology. As development continued on Funcom's proprietary DreamWorld engine for integration into *The Secret World*, the team was able to draw upon these innovations and bring the new technology into *Age of Conan* as well. The ability to utilize the continued innovations made to the company's proprietary technology has given *Age of Conan* a unique competitive advantage within the MMO market even years after its launch.

In 2010, Funcom has already launched a major overhaul to the game's rendering engine making the award-winning graphics of *Age of Conan* even better. In the months ahead, Funcom will focus on adding more content to improve retention, and with the release of the Conan movie later this year, Funcom is planning significant content and story tie-ins with the movie.

Funcom, Paradox, and Lionsgate will work closely together in order to maximize the full potential of the Conan brand throughout the year.

Following the positive revenue development after the launch of the Godslayer Expansion Pack and the launch in Korea, revenues of *Age of Conan* declined in Q3 and Q4. *The Age of Conan* game remains cash flow positive, but less so than expected by the Company, and the Company therefore had to make an impairment charge to the game at year-end of 2010. The Company maintains a significant development team on the game. The size of the investments into *Age of Conan* will be adjusted to ensure positive cash flow contribution from the game.

For more information, visit www.ageofconan.com.

Anarchy Online

Launched in 2001, *Anarchy Online* was the world's first science fiction massively multiplayer online game. In the game, players travel to the world of Rubi-ka over twenty thousand years into the future, where conflicts rage between the Rebel and Omni-Tek factions.

The game has pioneered the use of innovative business models throughout the years, such as digital download in 2002, the free-to-play hybrid model in 2004, and in-game advertisement in 2005.

The successful implementation of these business models in *Anarchy Online* also makes it possible for Funcom to bring similar models into the company's other online games.

In *Anarchy Online*, players can socialize with each other or battle each other, or they can head out into the wild to hunt the alien wildlife. Several booster packs and expansion packs to *Anarchy Online* have been launched during the years, including *Shadowlands*, *Alien Invasion* and *Lost Eden*. The development team is currently working on a new render engine.

Anarchy Online continued to perform relatively well in 2010, maintaining a relatively stable player-base. The game celebrated its nine year anniversary in June, and it is being actively updated with new content and other additions. The team continues to work on the new rendering engine for the game that will significantly improve the graphical quality, thus improving the game's longevity as well as becoming more attractive to new players.

Further strengthening the hybrid business model of *Anarchy Online*, Funcom built and launched an in-game store solution for the game. Developed in-house this new solution uses browser technology for instant access to a slew of different products and offers. Dynamic systems maintain a weekly and daily offer rotation. The store uses Funcom Points which is a virtual currency shared between Funcom products. The solution was well received by the community and has shown itself to be highly stable from an operational point of view. The store has generated additional revenue for the game.

Funcom continues to put focus and resources into *Anarchy Online* due to its long-term performance in the competitive MMO market.

For more information, visit www.anarchy-online.com.






The Secret World

The Secret World is a massively multiplayer online role-playing game set in the modern-day, real world. The game combines a deep, freeform role-playing system with a unique setting that is largely unexplored in the MMO genre.

Myths, legends and conspiracy theories are all coming true, and players will have to join one of three secret societies - the Illuminati, the Dragon and the Templars – and fight together or against other players for the power to control the world.

Using Funcom's proprietary *DreamWorld* engine, *The Secret World* is the company's third generation massively multiplayer online game and is being developed by former members of the *Age of Conan* team, the *Dreamfall* team and the *Anarchy Online* team. The development team reached several important milestones in 2010, making progress on the combat system, content creation, role-playing systems, technology and more. The team reached an important vertical slice milestone early in the year. The team is now fully staffed with more than 130 developers.

Funcom executed several public relations initiatives in 2010, starting with the first-time showing of actual in-game footage to the press at Game Developers Conference in San Francisco in March. This generated significant positive coverage in the press. Funcom also launched new guerilla-style marketing initiatives such as the Kingsmouth website which drew tens of thousands of gamers to the site and generated new interest for the game in early 2010.

Funcom was present with *The Secret World* at GamesCom in August 2010, showing segments from the first 60 minutes of gameplay. This generated substantial interest for the game in the press and among the gaming public.

Early this year Funcom signed a co-publishing agreement with EA Partners, a division of Electronic Arts, one of the world's leading games publishers. Funcom and Electronic Arts will work together on marketing and distribution to fulfill the potential of *The Secret World.*
In March 2011, Funcom presented live gameplay to the press for the first time at Game Developers Conference. The company also launched a new website (www.thesecretworld.com) for the game as well as the most elaborate video trailer to date. This resulted in positive feedback from both the press and the gaming public.

In 2011, Funcom will continue to build upon the momentum generated for *The Secret World* with significantly increased PR and marketing efforts. Funcom has also communicated that it will begin external testing of the game in the next couple of months.

For more information, visit www.thesecretworld.com.

Free-to-play Massively Multiplayer Online Games

Funcom has made significant progress with the company's free-to-play initiatives in 2010, including entering into beta with *Pets vs. Monsters* as well as progressing well with the development of My Kingdom, a social game for Facebook.

With its appeal to a wider demographic, the free-to-play games market is expected to continue its growth in 2011 and beyond. Developed by smaller teams who are able to iterate at a faster pace due to the size and scope of the projects, these games represent an exciting genre. Funcom's free-to-play games utilize Funcom's established, and proven, online infrastructure, and are playable on a wide range of systems and platforms.

In February 2011, Funcom announced that the company has joined forces with global publisher of interactive entertainment 505 Games, global fashion, entertainment and media company IMG, and Creative Director Pat McGrath to develop the first interactive online entertainment platform for fashion lovers. Initially being developed for Facebook, *Fashion Week Live* will allow users to collaborate across all facets of the fashion industry, from design, styling, modeling, makeup artistry, photography, show production and more.

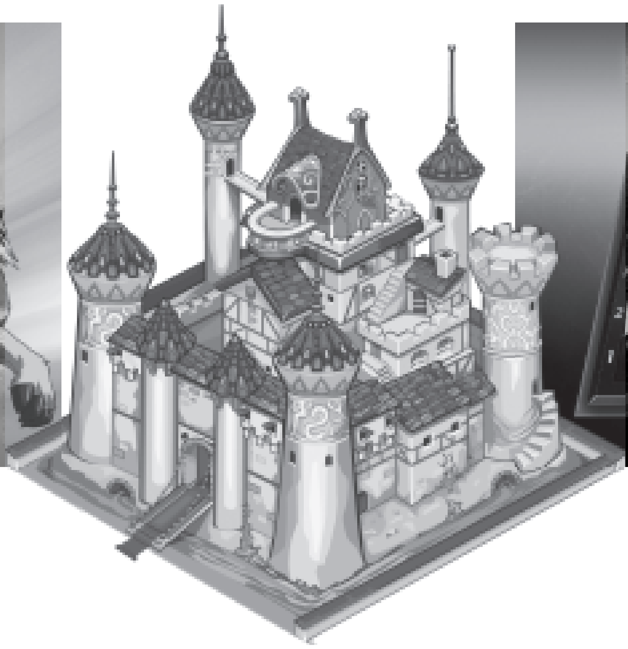
Fashion Week is a world-renowned brand and for Funcom this constitutes a significant increase in its commitment to the rapidly expanding Facebook and social gaming market. The company further considers the *Fashion Week* initiative to have a relatively high likelihood of success. *Fashion World Live* is expected to generate revenues for the company starting fall 2011.

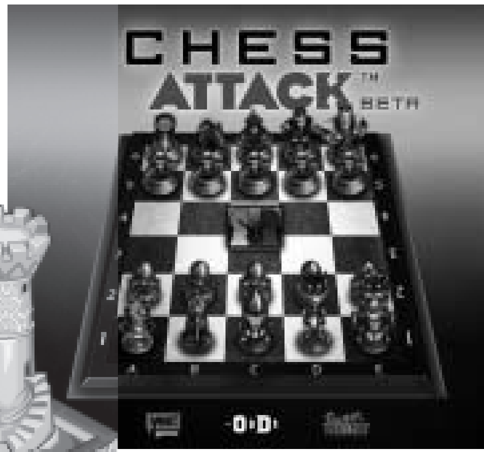
Funcom made good progress on *Pets vs. Monsters* in 2010, successfully launching the game into a beta phase that has resulted in valuable data for both the development and the marketing team. *Pets vs. Monsters* is a Java-based massively multi-player online game geared towards a younger demographic, where players get to journey through fantastical worlds, and collect treasures and battle monsters together or alone. Central to gameplay is the collection of pets that can be mounted and ridden through the player's adventures. The PvM team continues to make good progress in development, introducing new content as well as optimizing performance. The game is currently available in English, French and Norwegian. Funcom is currently focusing on executing focused beta tests and is marketing these beta tests in specific channels relevant to the younger demographic.

In 2010 Funcom also made significant advancements with the company's Facebook projects. *The MyKingdom game* demonstrates that Funcom is able to develop high-quality Facebook games with small teams within a relatively limited amount of time and budget.

Funcom is excited about the development of the social and free-to-play gaming market, and the Company is committed to expanding efforts into the development of these games.

For more information, visit www.petsvsmonsters.com and www.fashionworldlive.com.





Bloodline Champions

Funcom's largest free-to-play title is currently *Bloodline Champions*, which is being developed by the Swedish game developer Stunlock Studios in which Funcom owns a 42% share. The game is an arena-based multiplayer game that focuses on quick matches and player skill. Funcom is responsible for the marketing, distribution and server infrastructure for the game, and is working closely with Stunlock Studios in realizing the game's full potential, allowing the developers to draw upon the talent, knowledge and skill available within Funcom.

Bloodline Champions went through a successful beta phase in the latter half of 2010, drawing more than 200,000 gamers into the different phases of testing. The game received considerable positive response from both gamers and press before launch, as a result of a PR and marketing campaign that included global press tours, event presence, advertisement, exclusive reveals, and communication towards the existing Funcom community.

Having launched in January 2011 to positive reviews, the game continues to engage a sizable number of new players every day. Funcom continues to support the game post-launch and is working closely with Stunlock Studios on bringing in new players and engaging the current player base through updates that introduces new content and gameplay features. In 2011, several exciting updates are planned, with the most comprehensive update yet released in March. This update introduced a new character, new maps, a tournament system, an emote system, new buyable items and more.

As of March 2011 the game had over 400,000 registered accounts and the player base continues to grow. The game is being successfully monetized.

For more information, visit www.bloodlinechampions.com.


Caldwic Park

The Dreamworld Technology

The trademarked *DreamWorld Technology* game engine is the technological foundation on which *Age of Conan*, *The Secret World* and future MMO flagship games will be built. This proprietary MMO engine provides Funcom with a unique competitive advantage by enabling more flexible, faster and more predictable development and deployment of upcoming MMO games.

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

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

Key developments in 2010 were the development of an updated rendering engine, which was just recently deployed in *Age of Conan* - laying the foundation for a broader reach and higher visual quality for upcoming games, significant developments in content creation tools - enabling more efficient cross-location development and groundwork on further strengthening and optimizing the server and network layer of the game engine.

Report of the Management Board

This chapter of the annual report amongst other matters, contains certain statements that are made pursuant to Section 2a of the Dutch Governmental Decree setting further regulations concerning the contents of the report of the Board of Managing Directors (*Vaststellingsbesluit nadere voorschriften inhoud jaarverslag*) of 23 December 2004 (*Staatsblad 2004, 747*), as most recently amended on 10 December 2009 (*Staatsblad 2009, 545*).

FUNCOM'S BUSINESS ACTIVITIES

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

The key criteria for the overall performance of the company are; cost of development of new products, reach and sales of products and lifetime of products.

The financial objective of the company is to maximize the return on investment to the shareholders.

LEGAL STRUCTURE

For an overview of the legal structure of the Group – please refer to note 27.

REVIEW OF FUNCOM'S FINANCIAL POSITION AND FINANCIAL RESULTS FOR 2010.

Funcom's revenue for 2010 was USD 20,062 thousands compared to USD 23,876 thousands in 2009. The corresponding operating result for 2010 was USD -593 thousands compared to USD -10,798 thousands in 2009. Fully diluted basic earnings per share were USD 0.00 compared to USD -0.16 in 2009. Funcom's equity stood at USD 53,806 thousands at year-end 2010, compared to USD 53,370 thousands at year-end 2009. The group had cash at the end of 2010 of USD 22,693 thousands compared to USD 30,948 thousands at the end of 2009.

In 2010, the Company entered into a loan agreement with Stelt Holding N.V., currently its largest shareholder and also controlled by Supervisory Board Member Mr. Hans Peter Jebsen, involving issuance of 5,000,000 warrants. The exercise price of the warrants is NOK 10 per share. The warrants expire March 30, 2014. As a result of this agreement interest-bearing debt has increased significantly amounting to appr. USD 10 million at year-end 2010. The equity to assets ratio is above 70 %.

The solvency and liquidity of the company indicate that the company is financially strong and that it can continue with its strategy to further develop the games which are currently in progress including *The Secret World*. The Stelt loan has further strengthened the cash position of the company. The current liquidity together with the cash flow generated from sales is sufficient to ensure continuance of the strategy and as a consequence management is of the opinion that no financing requirements are necessary in the near future. This position is based on various assumptions; including cost structure, revenue projections, credit opportunities, timeline on the game developments amongst other factors.

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

FINANCIAL INSTRUMENTS

The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant positions in other currencies than US dollars, for example Canadian dollar. The Group does not invest in equity or debt securities. Please refer to note 25 and 28 for further information.

MAIN DEVELOPMENTS

The bulk of the revenues in 2010 as for 2009 originated with large-scale MMOs, in particular the *Age of Conan* game. The subscriber base of the game saw a slow decline during 1Q 2010 but increased after launch of the first expansion pack for the game – *Rise of the Godslayer*. At the end of 3Q 2010 revenues declined. This situation continued in 4Q 2010, partly due to the launch of a competitor. Due to the decline in revenues from the *Age of Conan* game, the Group made an impairment charge of USD 3,114 thousands in 4Q 2010.

The development of *The Secret World*, the Company's next large-scale MMO progressed well during 2010. The Company entered into a co-publishing agreement with Electronic Arts for the game, currently the largest games publisher in the world. The Company has revised several factors in its impairment test for the cash-generating unit The Secret World, leading to a higher recoverable amount and a reversal of parts of the impairment loss recognized in 4Q 2008. The reversal amounts to USD 4,244 thousands. Important factors in the reappraisal of *The Secret World* has been the positive feedback received by the Company from several global publishers on the sales potential and appeal of *The Secret World*, reinforcing the Company's belief in the sales potential of the product and leading to increased sales estimates. In addition, in the last year there has been a development towards hybrid business models in MMOs, where players and developers alike have embraced item sales opportunities. The company expects this trend to continue and therefore has adjusted its estimates for revenues per player somewhat upwards. Further, the Company's expected development costs for *The Secret World* have been adjusted down as the Company's first hand experiences of costs levels for development in Montreal has been implemented in future cost projections. For more details see note 11.

In the free-to-play segment, the Company entered a new, more significant phase of investments in this area as it joined a three-way partnership with IMG and 505 Games for the development and operations of a Facebook application and service related to the Fashion Week brand. The Company views a portfolio approach to be the right strategy for free-to-play games, but believes that the combination of its development competence, the strength of the Fashion Week brand and values and the strength of its partners, to have a relatively high chance of success in the Facebook market.
The Company is also continuing its investments in its portfolio of free-to-play MMOs and is exploring new brands and concepts for free-to-play MMOs.

MARKET DEVELOPMENT

The online gaming segment continued expanding during 2010. In the large-scale MMO segment, World of Warcraft maintained its dominant position, and its latest expansion pack set new records for PC sales. The free-to-play MMO segment saw a very significant change as the very significant growth of Facebook impacted game concepts and focus areas for companies across the world. Zynga kept and strengthened its position as the leader in this market with fast growth and high profitability. More people than ever play online games and 2010 saw significant development towards higher monetization figures for free-to-play MMOs on Facebook.

PRODUCT & TECHNOLOGY DEVELOPMENT

During the year, Funcom made significant development progress with *The Secret World* and the *DreamWorld Technology* game engine. *The Secret World* is currently in a playable state, as was recently demonstrated at the Game Developers Conference in San Francisco in March 2011. Most of the core mechanics has been implemented in the game. The focus of the Company going forward is to add to the content of the game and to iterate on the game play mechanics and balance of the game. In addition, the Company will continue to develop, stabilize and optimize the *DreamWorld Tehnology* game engine which runs the game. During 2010 the DreamWorld Technology was significantly upgraded in areas like graphics rendering, multi-location development support, content development tools and server technology.

During 2010 the Company developed Facebook technology to support its future games on Facebook. *MyKingdom*, its first internally developed game for Facebook is currently in a limited beta phase. Parts of the technology developed for this game will be reused for future social games, for instance for the Fashion Week project.

FUTURE OUTLOOK

The revenue and profit of Funcom depends on the performance of its existing and future games, in combination with the cost performance of the company. The Company believes the largest potential value drivers of the Company to be *The Secret World*, which launch time has yet not been set, and its new free-to-play MMOs, in particular the Fashion Week project. Predicting revenues from game concepts is inherently uncertain, but the Company believes that a continued focus on high quality, high production value game concepts in its different genres over time will lead to profitability and growth, even though estimates on individual games are uncertain.
Funcom does not expect to make significant investments in fixed assets during the next couple of years. Significant investments will mainly relate to software development, game design and graphics investments.

INTERNAL & EXTERNAL ENVIRONMENT

Funcom recognizes that its key assets are its employees and is committed to maintain a stimulating working environment that offers the opportunity for both personal- and professional development. This is also necessary to continue to attract and retain highly qualified employees within the gaming industry. As of December 31, 2010, the group employed appr. 280 employees (2009: 333 employees).

Sick leave in the group is considered low and amounts to 1.8%. No serious work-related incidents or accidents have occurred or have been reported during the year. The working environment is considered good, and the company does not carry out activities that significantly pollute the environment. The Group welcomes applications for employment from all sectors of the community and strives to promote equality of opportunity in employment for all.

SHAREHOLDERS AND CAPITAL

The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will ensure that information is communicated to the market equally and that the information provides an accurate view of the status of the company in material respects on an ongoing basis. The share capital of Funcom N.V. comprises of one class of ordinary shares. Each share confers the right to cast one vote. At the end of 2010, Funcom N.V. had a share capital of USD 2,742 thousands consisting of 53,287,991 shares with a nominal value of EUR 0.04 per share. There are no restrictions in relation to the transfer of shares in the capital of Funcom N.V.

There are 4,073,542 outstanding share options granted to employees and directors in the company at the end of 2010. In the Annual General Meeting held in May 2010, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board were authorized for a period of 12 months from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

GENERAL MEETING OF SHAREHOLDERS

It is a legal requirement that shares in Funcom N.V. that are to be admitted to listing on the Oslo Stock Exchange are registered with the VPS (*Verdipapirsentralen*).
In order to facilitate registration with the VPS, the shares that are listed on Oslo Stock Exchange are registered in the name of DnB NOR Bank ASA (Funcom's VPS Registrar). The VPS Registrar registers interest in the shares in the VPS (in Norwegian: *depotbevis*). Therefore, not the shares themselves, but the interests in the shares issued by the VPS Registrar are registered in the VPS and are listed on Oslo Stock E xchange. The VPS Registrar is registered as the legal owner of the shares in the shareholders' register that Funcom N.V. maintains pursuant to Dutch law. The VPS Registrar, or its designee, will hold the shares issued to investors as nominee on behalf of each investor. The VPS Registrar provides for the registration of each investor's depositary ownership in the shares in the VPS on the investor's individual VPS account.

The depositary ownership of the investors is registered in the VPS under the category of a "share" and the depositary ownership is listed and traded on Oslo Stock Exchange. Investors who purchase shares (although recorded as owners of the shares in the VPS) have no direct shareholder rights in Funcom N.V.. Each share registered with the VPS represents evidence of depositary ownership of one share. The shares registered with the VPS are freely transferable, with delivery and settlement through the VPS system.

The VPS Registrar or its designee shall only vote the shares it holds, or issue a proxy to vote on such shares, in accordance with each investor's instructions. Funcom N.V. will pay dividends directly to the VPS Registrar, that has undertaken, in turn, to distribute the dividends to the investors in accordance with contractual arrangements on that point. On average more than half of the issued share capital of Funcom N.V. is represented at a general meeting, generally represented through proxy.

CORPORATE GOVERNANCE

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

In terms of internal risk management and control systems, the company has made enhancements also during 2010. In 2010 Funcom proceeded with a risk analysis and discussed it with the Supervisory Board.

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

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

DIVIDENDS

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

APPLICATION OF PROFIT/LOSS

The Management Board does not propose payment of a dividend. Total equity after appropriation of the results for 2010 is USD 53,806 thousands.

EVENTS AFTER THE REPORTING PERIOD

After the reporting period there have been two subsequent events that are detailed in note 29 in the Notes to the Consolidated Financial Statements in this Annual Report.

MANAGEMENT STATEMENT

The Management Board of Funcom hereby confirms that these financial statements give a true and fair view of the situation as per reporting date and of the course of the business during the year. The significant risks that the Company faces are described in note 28.

Zurich, April 28, 2011

Trond Arne Aas

Pieter van Tol

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

CORPORATE GOVERNANCE IN FUNCOM N.V.:

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

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

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

OVERVIEW AND OUTLINE OF FUNCOM'S CORPORATE GOVERNANCE:

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

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

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

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

Owners	Board	Management
Shareholders		
General Meeting	Supervisory Board	Management Board
	Remuneration Committee	Chief Executive Officer
	Audit Committee	Executive Team
The General Meeting elects 4-7 Supervisory Directors on the proposal of the Supervisory Board. The numbers of Supervisory Directors shall be determined by the General Meeting.	Ultimate responsibility for the strategy of the Company. Advice and oversight of management.	Executive management.

The Audit Committee and the Remuneration Committee are elected by the Supervisory Board from its midst.

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

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

The Company has drawn up a separate policy for corporate governance, and the Board has decided to follow both the Norwegian Code of Practice for Corporate Governance dated 21 October 2010 and the Dutch Corporate Governance Code of December 2008.

The Company has drawn up its own Corporate Code of Ethics and Value Platform. Compliance with and the follow up of the Code of Ethics have been subject to internal processes. The Company has not yet established separate guidelines for corporate social responsibility as implemented in the code of practice in October 2010, but considers the ethical guidelines to cover most of the relevant topics.

Departures from the recommendation: The Company will consider to develop separate guidelines for corporate social responsibility in the course of 2011.

2. BUSINESS

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

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

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

Departures from the recommendation: None

3. EQUITY AND DIVIDENDS

Equity

At 31 December 2010, consolidated equity came to USD 53,806 thousands, accounting for 76 per cent of total assets. This is considered satisfactory. Funcom will maintain an equity ratio appropriate to its long-term growth targets.

Dividend policy

Further to the proposal of the Management Board, the Supervisory Board determines what portion of the profits shall be retained by way of reserve. The portion of the profit that remains thereafter shall be at the disposal of the General Meeting. In view of the Company's planned expansion of its business, the Company is not planning to pay dividends in the medium term future. This policy will be regularly evaluated as appropriate according to the development of the Company. The dividend policy is disclosed in the Report from the Management Board in the 2010 Annual Report.

Mandates granted to the board of Directors

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

Departures from the recommendation: None

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Class of shares

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

Transactions between related parties

Funcom's Supervisory Board is committed to treating all the Company's shareholders equally. In 2010, there were no transactions between the Company and its shareholders, Supervisory Board Members, Management Board Members, executives, or those close to them, which might be described as significant transactions, except the ones described in Note 26 in the Notes to the Consolidated Financial Statements. Management Board member Pieter van Tol has an ownership stake in Weidema van Tol, a company used by Funcom for legal counsel and tax advice. The Supervisory Board will pay particular attention to obtaining independent valuations for any material transactions between the Company and its close associates.

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

Pre-emption rights

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

Departures from the recommendation: None

5. FREELY NEGOTIABLE SHARES

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

Departures from the recommendation: None

6. GENERAL MEETINGS

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

Notification

The Norwegian Public Companies Act stipulates that at least 21 days' notice must be given to call a general meeting. Based on Dutch law the notification must be given at least 42 days before – not including the date of the meeting. In this respect Funcom follows Dutch law. Notification will be distributed at least 42 days in advance, and posted on the Company's website.

Participation

As there is only one material legal shareholder of Funcom N.V., being Funcom N.V.'s VPS Registrar, the company has not implemented the recommendations regarding proxies. Beneficiary shareholders (depotbevis holders) are required to exercise their voting rights and/or be granted the right to attend a general meeting in person through Funcom N.V.'s VPS Registrar (DnB Nor Bank ASA).

The representatives of neither the Board nor the auditor are generally present at AGM's. The auditor is always on standby to attend the AGM depending on shareholder attendance.

Agenda and execution

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

Departures from the recommendation:

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

- AGMs in Funcom are to be chaired by the Chairman of the Supervisory Board or the vice-chairman of the Board. This is a departure from the recommendation for independent chairing of meetings.
- The representatives of neither the Board nor the auditor are generally present at AGM's. The auditor is always on standby to attend the AGM depending on shareholder attendance.

7. NOMINATION COMMITTEE

Departures from the recommendation:

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

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

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

The members of the Supervisory Board are: Torleif Ahlsand (Chairman), Michel Cassius (Vice-chairman), Hans Peter Jebsen, Claus Højbjerg Andersen and Frank Sagnier.

The General Meeting elects the four to seven members of the Board. Decisions on the composition of the Board require a simple majority. Supervisory Board Members shall retire no later than at the AGM held after a period of two years following their appointment. Supervisory Board Members can immediately be re-elected. It is essential that the Board as a whole is capable of dealing with Board work and the Company's main business activities. According to the Company's Articles of Association, there shall be at least four members of the Supervisory Board. All Supervisory Board members are independent of the company's executive personnel and its main business connections. At least two members of the board are independent of the company's main shareholders. In 2011 the Company has on a three months contract hired Frank Sagnier through PS Ltd for services relating to the free-to-play segment.

The members of the Management Board are: Trond Arne Aas (Managing Director and CEO) and Pieter van Tol (Managing Director).

In general all board members attend the board meetings. Board members are encouraged to own shares in the Company.

Departures from the recommendation:

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

9. THE WORK OF THE BOARD OF DIRECTORS

Board responsibilities

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

Financial reporting

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

Notification of meetings and discussion of items

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

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

The Board draws up and establishes an annual plan, including themes for the Board meetings. Ordinarily, the Chairman of the Supervisory Board proposes the agenda for each Supervisory Board meeting. Besides the Supervisory Board Members, Supervisory Board meetings may be attended by the CEO if requested by the Supervisory Board. Other participants are summoned as needed.

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

Conflicts of interest

In a situation involving the Chairman of the Board personally, this matter will be chaired by some other member of the board.

Use of Board Committees

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

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

The Board's self-evaluation

In March 2011 the Chairman of the Board presented an evaluation of the Board's duties and working methods. The Board's working methods and interaction are discussed on an ongoing basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.

Departures from the recommendation: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Company's internal control and system for risk management has improved over the course of 2010. Funcom has corporate values and ethical guidelines. The Supervisory Board has been presented with an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

The Supervisory Board Report in the Annual report for 2010 provides an account of the main features of the Company's internal control and risk management systems.

Departures from the recommendation:

The Company's management has set up a system of internal controls which it considers to be effective and efficient for the size of the company. The system the company has set up is less detailed than probably imagined in the Norwegian Corporate Governance Code and consequently management is not in a position to declare that the internal risk and control systems are adequate and effective as required by this Corporate Governance Code. The Company considers the internal control relating to financial reporting to be at a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so.

11. REMUNERATION OF THE BOARD OF DIRECTORS

A General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Chairman of the Remuneration Committee. In 2010, the total remuneration to the Supervisory Board came to EUR 83,000. The Chairman of the Supervisory Board's remuneration was EUR 35,000 and the other Supervisory Board members' remuneration was EUR 12,000. The fees for 2010 are outstanding by the end of the year.

Departures from the recommendation:

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

12. REMUNERATION OF EXECUTIVE PERSONNEL

Guidelines

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

The option program and the allocation of options to the Management Board and Supervisory Board are decided upon by the AGM. The structure of the incentive system for the other members of corporate executive management is determined by the Supervisory Board and presented to the AGM for information purposes.

Departures from the recommendation: The allocation of options to executive personnel is not made specifically dependent on the realization of certain targets, that are determined in advance.

13. INFORMATION AND COMMUNICATIONS

The annual report and accounts - periodic reporting

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

Other market information

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

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

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

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

Departures from the recommendation: None

14. TAKE-OVERS

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

The board of directors will not seek to hinder or obstruct take-over bids for the company's activities or shares unless there are particular reasons for this. If an offer is made for the Company's shares, the board will arrange for a valuation from an independent expert, and the Company's board of directors will issue a statement making a recommendation as to whether shareholders should or should not accept the offer.

Departures from the recommendation: None

15. AUDITOR

The auditor's relationship with the Board

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

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

The auditor's relationship to management

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

Departures from the recommendation: None.

Statement of compliance with the Dutch Corporate Governance Code

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

- Provision II.2.4:

  Options for the Management Board are conditional on the continued employment of a member of the Management Board in Funcom. The options become unconditional before the lapse of the three year time period set out in the Dutch Corporate Governance Code. The allocation of options to members of the Management Board is not made specifically dependent on the realization of certain targets, that are determined in advance.

- Provision II.2.6:

  The exercise price for all options is the average volume weighted price on the Oslo Stock Exchange on the five trading days preceding and the five trading days following the date when the options are granted.

- Provision II.2.7:

  Some of the provisions of the relevant general terms – as they apply with respect to the different categories of option holders – were changed in 2010.

- Provision II.2.8:

  Mr. Trond Aas' severance pay slightly exceeds the fixed component of his annual salary. The severance pay is subject to certain conditions being met. In light of the conditions associated with the severance pay the Supervisory Board considers the deviation from the best practice provision acceptable and not deviating in any significant way from industry standards.

- Provision II.2.12 and 2.13:

  A remuneration report is not made public on the website of Funcom. The Supervisory Board is of the opinion that the information suggested to be included can be obtained in general terms from the annual report.

- Provision II.2.14:

  Funcom has in the past not published details of the contracts concluded with the members of the Management Board. Funcom is still in the process of evaluating the implications of compliance with this best practice provision and expects to complete this process in the course of the 2011 financial year.

- Provision III.2:

  In the current composition of the Supervisory Board, two of the members do not meet the requirements that would qualify them as independent. They are each associated with a company that holds more than 10 per cent of the shares in Funcom N.V. The composition of the Supervisory Board will be reviewed again in 2011.

- Provision III.3.6:

  Funcom N.V. has not developed a retirement schedule and made it generally available, as this could be viewed as a signal of major shifts in ownership relating to key shareholders in Funcom N.V.

Provision III.5:

Funcom N.V. has decided not to establish a Selection & Appointment Committee. The Supervisory Board has taken these tasks upon itself. The Company has established an Audit Committee and a Remuneration Committee.

Provision III.7:

Funcom N.V. has reserved the right to grant options to members of the Supervisory Board. Funcom N.V. views share options as an important tool for remuneration of the members of the Supervisory Board, e.g., to enable a board composition which reflects the global nature of its business. Reference is made to note 17 for further details.

Provision IV 3.1:

Meetings with analysts, presentations to (institutional) investors and press conferences are generally announced on the website of Funcom. The presentations are in principle placed on the website after the event in question has taken place, but there are no technical means for shareholders to participate in these presentations by means of telephone conference, webcast or otherwise.

Provision IV.3.10:

The minutes of a general meeting are generally posted on the website of Funcom and on the website of the Oslo Stock Exchange on the day of the general meeting.

Provision IV.3.13:

Funcom will review and most likely adopt such a policy in the course of the 2011 financial year.

Provision V.2.1:

The auditor is always on standby to attend the Annual General Meeting depending on shareholder attendance.

Provision V.2.3:

Funcom N.V. has conducted a thorough assessment of the functioning of the external auditor as set forth in this best practice provision during the 2010 financial year.

Provision V.3:

Funcom N.V. has not assigned a specific internal auditor. The audit committee will continue to review whether an internal auditor will be engaged going forward.

Responsibility Statement

In accordance with best practice II.1.5 of the Dutch corporate governance code of December 2008, the Managing Board confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the company's financial condition and the results of the company's operations and provide the required disclosures.

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

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

- The annual financial statements of 2010 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies who's financial information it consolidates; and

- The Report of the Management Board gives a true and fair view of the position as per December 31, 2010, the development during 2010 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

Corporate Governance Declaration

This declaration is in accordance with article 2a of the decree on additional requirements for annual reports as amended on January 1, 2010 ("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 2010. 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 on page 23 of the Annual Report 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 Supervisory Board report on page 27.
- 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 Norwegian Code of practice for corporate governance and statement of compliance with the Dutch Corporate Governance and the investor relations policy on pages 25;
- The statement regarding the composition and functioning of the Board of Management as included on page 26.
- The statement relating to the composition and functioning of the Supervisory Board and its Committees, as incorporated in the "Report of the Supervisory Board" on page 26.
- The provisions of the Norwegian Code of Practice for Corporate Governance largely follow requirements as indicated in the EU take over directive.

Zurich, April 28, 2011

Trond Arne Aas
Managing Director and CEO

Pieter van Tol
Managing Director

Report of the Supervisory Board of Directors

ANNUAL REPORT

We hereby present you with the Annual Report for 2010, including the annual financial statements as were drawn up by the Management Board. The annual financial statements have been examined by the external auditors Mazars Paardekooper Hoffman Accountants N.V. who intend to issue an unqualified audit opinion. We have discussed the Annual Report with the Management Board in the presence of the auditors.

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

RESULTS AND STRATEGIC POSITION

Funcom's revenue for 2010 was USD 20,062 thousands compared to USD 23,876 thousands in 2009. The corresponding operating result for 2010 was USD -593 thousands compared to USD -10,798 thousands in 2009. Fully diluted basic earnings per share were USD 0.00 compared to USD -0.16 in 2009. Funcom's equity stood at USD 53,806 thousands at year-end 2010, compared to USD 53,370 thousands at year-end 2009. The group had cash at the end of 2010 of USD 22,693 thousands compared to USD 30,948 thousands at the end of 2009.

In 2010, the Company entered into a loan agreement with Stelt Holding N.V., currently its largest shareholder and also controlled by Supervisory Board Member Mr. Hans Peter Jebsen, involving issuance of 5,000,000 warrants. As a result of this agreement interest-bearing debt has increased significantly amounting to appr. USD 10 million at year-end 2010. The equity to assets ratio is above 70 %.

In 2010 Funcom continued to invest in *Age of Conan*, continuously upgrading the game and adding new content. In May 2010, the first expansion pack for the game, *Rise of the Godslayer*, was launched. The bulk of the revenues in 2010 originated from *Age of Conan*.

The Secret World, Funcom's next large-scale MMO is progressing well. The game's team size was around 130 people at the year end of 2010. *The Secret World* will use the next version of the proprietary *Dream-World Technology* that was developed for *Age of Conan* as the core game engine, which will reduce the technical risk of the project significantly.

Funcom's free-to-play game-initiatives progressed well in 2010. The Company's efforts into this segment reached a new phase with the three-way partnership with IMG and 505 Games for a service and game related to the Fashion Week brand, first to be launched on Facebook. Funcom has taken a portfolio view on its free-to-play initiatives, assuming that portion of its free-to-play games will succeed, however, with the Fashion Week project, the Company believes the likelihood for success to be relatively high. Also, the investment into this project will be relatively higher than for Funcom's other Facebook initiatives. In addition to the Fashion Week project, the Company has 3 other free-to-play game concepts in beta stages.

The Supervisory Board is responsible for supervising the policy pursued by the Management Board and the general course of affairs of the Company and the business enterprises which it operates. The Supervisory Board assists the Management Board with advice relating to the general policy aspects connected with the activities of the Company. In this context the Supervisory Board is *inter alia* responsible for monitoring and advising the Management Board, supervising the Company's strategy, and monitoring the functioning of internal risk management and control systems. The Supervisory Board supervises the objectives for financial structure and adopts the Company's plans and budgets. The Supervisory Board approves items of major strategic and/or financial importance for the Company. All this in accordance with the Company's articles of association and applicable law. During the 2010 financial year the Supervisory Board has discussed both its own functioning, that of its individual members and that of the Remuneration Committee and the Audit Committee and finds that the performance of each the Supervisory Board, its individual members, the Remuneration Committee and the Audit Committee, respectively, meet the standards set for that purpose.

The Supervisory Board has furthermore discussed the overall composition of the Supervisory Board and competencies of its individual members.

The Supervisory Board has in addition discussed the composition and functioning of the Management Board and its individual members and continues to have full confidence in the Management Board's current composition and capabilities of the individual Managing Directors. In the course of the 2010 financial year the Supervisory Board has also discussed the Company's strategy and risks associated with the operation of its business. To that end the Management Board has presented the Supervisory Board with its assessment of the functioning of the Company's internal risk management and control systems. The Supervisory Board is of the opinion that the current risk management and control systems are adequate and that the Management Board has furthermore not suggested any amendments thereto. During the year the Supervisory Board has regularly had discussions with the Management Board regarding corporate strategy.

REQUIRED EXPERTISE AND BACKGROUND OF THE SUPERVISORY BOARD:

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

The Remuneration Committee has presented its annual remuneration report for 2010 to the rest of the Supervisory Board. The established remuneration policy has been followed during the year. There are no planned changes to the remuneration policy. The total remuneration of the Management Board consists of the following elements:

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

The Company's complete remuneration policy can be found on www.funcom.com.
The following professionals served on the Supervisory Board as at year-end, 2010:

Torleif Ahlsand, Chairman of the Supervisory Board

(born 1966, male, Norwegian, 3rd term, member since 2005) Mr. Ahlsand is a General Partner in Northzone that controls 5,449,175 shares in the Company, and is hence not viewed as independent. He holds a number of board positions in high growth technology companies. Mr. Ahlsand also controls 300,000 shares in Funcom directly and through his company Brownske Bevegelser AS and holds 100,000 share options in the company. Prior to Northzone, Mr. Ahlsand was VP Corporate Finance in Handelsbanken Securities and a corporate development executive in Orkla ASA. Mr. Ahlsand also has a professional technical background as a research scientist at CERN outside Geneva and as a telecommunications engineer in NERA Telecom. Mr. Ahlsand holds a M.Sc. degree in Electrical Engineering and Computer Science from NTNU (1991) and an MBA with Honors from IMD in Switzerland (1997).

Michel Cassius,

(born 1957, male, French, 2nd term, member since 2006) Mr. Cassius is CEO of Gekko.com, a private internet company based in London. Mr Cassius is also co-founder and Director of YoYo Games Ltd, a startup company which launched www.yoyogames.com in 2007, a user generated casual gaming site. In the past, Mr. Cassius has served as the European Managing Director of Fun Technologies and as Senior Director of Microsoft's Xbox business in EMEA where he managed the publishing and Xbox Live businesses and launched the Xbox 360. He previously spent seven years at Electronic Arts, where he led EA.com, Electronic Art's online gaming business in Europe and launched Ultima Online, one of the first MMO's in Europe. Mr. Cassius holds 66,000 shares and 50,000 share options in the Company.

Hans Peter Jebsen,

(born 1957, male, Norwegian, 3rd term, member since 2005) Mr. Jebsen has several years experience from the shipping industry in the US, South East Asia and Europe. He holds a number of board positions in shipping companies. Mr. Jebsen lives in Oslo, Norway and is not viewed as independent as he and companies controlled by him, hold 12,108,075 shares in the Company through Stelt Holding N.V. and Tom Dahl AS. Mr. Jebsen together with companies controlled by him, hold 5,050,000 share options in the Company. Please refer to note 26.

Frank Sagnier,
(born 1962, male, French, 1st term, member since 2008) Mr. Sagnier is a director and founder of PS Ltd, a London based consultancy specializing in gaming and new technologies. He previously served as CEO of Power Challenge Holding Ltd, an online sports game company. He spent 8 years as Vice-President for Electronic Arts Europe in different roles such as Marketing, Third Party Publishing and Online Publishing. Mr. Sagnier holds 143,000 shares and 50,000 share options in the Company.

Claus Højbjerg Andersen,
(born 1965, male Danish, 2nd term, member since 2005) Mr. Højbjerg Andersen is a General Partner in Nordic Venture Partners that holds 5,208,325 shares and 50,000 share options in the Company. Mr. Højbjerg Andersen has been with Nordic Venture Partners since the start in early 2000 and has over the years focused mostly on enterprise software and internet related investments. Prior to joining Nordic Venture Partners he had an international career in the financial industry in the areas of asset management, research and sale through working for Danske Capital (Copenhagen), Nordea (Luxembourg) and Enskilda Securities (London). Mr. Højbjerg Andersen holds a B.Comm. degree in Credit and Finance from Copenhagen Business School.

The Supervisory Board has a Remuneration Committee and an Audit Committee. The Remuneration Committee consists of Mr. Jebsen (chairman) and Mr. Ahlsand (member) and has conducted 3 meetings during 2010 with remuneration of the Management Board and the allocation of options as the main agenda points. The Audit Committee consists at year end 2010 of Mr. Højbjerg Andersen (chairman) and Mr. Cassius (member). The committee has conducted 2 meetings during 2010 with accounting policies, risk management and control as well as approval of financials as the main agenda points.

Zurich, April 28, 2011

The Supervisory Board of Directors in Funcom N.V.

Torleif Ahlsand, Chairman

Michel Cassius, Vice-Chairman

Hans Peter Jebsen

Frank Sagnier

Claus Højbjerg Andersen

Funcom N.V. Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2010	2009
Continuing operations			
Revenue	4,5,13,18	20,062	23,876
Personnel expenses	6,17	-8,989	-7,863
General and administrative expenses	7,22	-6,315	-8,916
Depreciation, amortization and impairment losses	11,12	-3,194	-14,923
Other operating expenses	8	-2,156	-2,972
Operating expenses		-20,655	-34,674
Operating result		-593	-10,798
Share of result from equity-accounted entities	21	81	
Finance income	9	5,277	2,948
Finance expenses	9	-4,690	-230
Result before income tax		75	-8,080
Income tax (expense) / income	10	-53	-406
Result from continuing operations		23	-8,486
Result for the period		**23**	**-8,486**
Other comprehensive income			
Exchange differences on translating foreign operations		-286	28
Exchange differences on intercompany loans part of net investment in a foreign entity		-317	2,672
Other		242	60
Other comprehensive income for the year, net of tax		-362	2,760
Total comprehensive income for the year		**-339**	**-5,726**

Funcom N.V.
Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2010	2009
Result for the period attributable to:			
Equity holders of Funcom N.V.		23	-8,486
Non-controlling interests			
		23	**-8,486**
Total comprehensive income attributable to:			
Equity holders of Funcom N.V.		-339	-5,726
Non-controlling interests			
		-339	**-5,726**
Earnings per share *	23		
From continuing operations			
Basic earnings per share (US dollars)		0.00	(0.16)
Diluted earnings per share (US dollars)		0.00	(0.16)

* Based on result for the period

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

Funcom N.V. Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	Note	2010	2009
ASSETS			
Non-current assets			
Deferred tax asset	10	329	300
Intangible assets	4,11	41,693	30,848
Equipment	12	1,509	886
Investments in equity-accounted entities	21	459	
Long term receivables	25	497	508
Total non-current assets		44,486	32,542
Current assets			
Trade receivables	13,25	1,225	1,239
Prepayments and other receivables	14	2,178	638
Cash and cash equivalents	15	22,693	30,948
Total current assets		26,095	32,826
Total assets		**70,582**	**65,368**

Funcom N.V.
Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	Note	2010	2009
EQUITY AND LIABILITIES			
Equity			
Share capital		2,742	2,719
Reserves		123,934	123,227
Retained earnings		-72,871	-72,576
Equity attributable to equity holders of Funcom		53,806	53,370
Total equity	16	53,806	53,370
Non-current liabilities			
Loans and borrowings	25,26	8,931	
Other financial liabilities	25,26	975	
Deferred tax liabilities	10	10	50
Total non-current liabilities		9,916	50
Current liabilities			
Trade payables	25	1,351	960
Deferred income	19	2,161	4,384
Income tax liability	10	53	179
Provisions	18	446	2,351
Other short term liabilities	20	2,849	4,075
Total current liabilities		6,860	11,948
Total liabilities		16,775	11,998
Total equity and liabilities		**70,582**	**65,368**

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

Consolidated Statement of Cash Flows

for the year ended December 31

In thousands of US dollars	Note	2010	2009
Cash flows from operating activities			
Profit (loss) before income tax		75	-8,080
Adjustments for:			
Depreciation, amortization and impairment losses	11,12	3,194	14,923
Share-based payments	16,17	584	743
Share of result from equity-accounted entities	21	-81	
Interest income/expense		-112	-506
Effect of exchange rate fluctuations		127	-350
Change in trade and other receivables		-824	2,617
Change in trade payables		274	587
Change in other current assets and liabilities		-4,205	-2,066
Cash generated from operations		-968	7,868
Interest received		174	715
Interest paid		-62	-209
Income tax and other taxes paid		-232	-525
Net cash from operating activities		-1,088	7,849
Cash flows from investing activities			
Purchase of equipment	12	-609	-142
Investment in intangible assets	11	-14,745	-16,889
Change in long term receivables			-59
Purchase of shares in equity-accounted entities	21	-317	
Net cash used in investing activities		-15,670	-17,090
Cash flows from financing activities			
Net proceeds from issue of share capital	16	191	
Proceeds from borrowings	25,26	10,000	
Payment of finance lease liabilities		-787	-2,187
Net cash from financing activities		9,404	-2,187
Net increase in cash and cash equivalents		-7,355	-11,427
Effect of exchange rate fluctuations		-900	2,979
Cash and cash equivalents at beginning of period	**15,25**	30,948	39,396
Cash and cash equivalents at end of period	**15,25**	22,693	30,948

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 December 31

In thousands of US dollars	Share Capital	Share premium	Equity-settled employee benefits reserve	Translation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
Equity as at January 1, 2009:	2,719	120,922	1,604	-131	-66,761	58,353		58,353
Profit or loss for the year					-8,486	-8,486		-8,486
Exchange differences on translating foreign operations				28		28		28
Exchange differences on intercompany loans part of net investment in a foreign entity					2,672	2,672		2,672
Other		60				60		60
Other comprehensive income for the year		60		28	2,672	2,760		2,760
Total comprehensive income for the year		60		28	-5,814	-5,726		-5,726
Share-based payments			743			743		743
Issued share capital								
Other								
Equity as at December 31, 2009	2,719	120,982	2,347	-103	-72,575	53,370		53,370
Equity as at January 1, 2010	2,719	120,982	2,347	-103	-72,575	53,370		53,370
Profit or loss for the year					23	23		23
Exchange differences on translating foreign operations				-286		-286		-286
Exchange differences on intercompany loans part of net investment in a foreign entity					-317	-317		-317
Other		242				242		242
Other comprehensive income for the year		242		-286	-317	-362		-362
Total comprehensive income for the year		242		-286	-294	-339		-339
Share-based payments			584			584		584
Issued share capital	23	168				191		191
Other								
Equity as at December 31, 2010	2,742	121,391	2,931	-389	-72,870	53,806		53,806

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

Funcom N.V.
Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Funcom N.V. (or the "Company") is a limited company registered in The Netherlands. The Company is incorporated in Katwijk, The Netherlands. The Group's head office is in Lavaterstrasse 45, 8002 Zurich, Switzerland. The Company is listed on the Oslo Stock Exchange under the ticker "FUNCOM".

The consolidated financial statements of the Company as at and for the year ended December 31, 2010, comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

The consolidated financial statements were authorized for issue by the Supervisory Board on April 28, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

Estimates and judgments

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

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

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 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. The Group adopted revised IAS 1 and the new IFRS 8 as of January 1, 2009.

Adoption of new and revised International Financial Reporting Standards and Interpretations

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

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 3 (as revised in 2008)	Business Combinations	January 2008	July 1, 2009
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements	January 2008	July 1, 2009
Revised IAS 24	Related Party Disclosures	November 2009	January 1, 2011[2]
IAS 39 amendment	Financial Instruments: Recognition and Measurement: Eligible Hedged items	July 2008	July 1, 2009
IFRS 2 amendment	Group Cash-settled Share-based Payment Transactions	June 2009	January 1, 2010
IFRS 1 amendment	First time adoption of IFRS	November 2008	January 1, 2010
IFRS 1 amendment	Additional Exemptions for First-time Adopters	July 2009	January 1, 2010
Improvements to IFRSs (Various Standards and Interpretations)	Improvements to IFRSs	April 2009	July 1, 2009[1]
IFRIC 12	Service Concession Arrangements	November 2006	March 29, 2009
IFRIC 15	Agreements for the Construction of Real Estate	July 2008	January 1, 2010
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 2008	July 1, 2009
IFRIC 17	Distributions of Non-Cash Assets to Owners	November 2008	November 1, 2009
IFRIC 18	Transfers of Assets from Customers	January 2009	November 1, 2009

[1] The implementation dates for the various improvements vary, the earliest mandatory date is July 1, 2009.
[2] The revised IAS 24 has been early adopted in 2010.

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 December 31, 2010. The directors anticipate that these Standards and Interpretations will be adopted in the Group's financial statements for the period beginning January 1, 2011 or later. Effective dates are as applicable for IFRSs as adopted by the European Union as these in some cases will deviate from the effective dates as issued by the IASB. The directors have not yet considered the potential impact of the adoption of these new and revised/amended Standards and Interpretations.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IAS 32 amendment	Classification of Rights Issues	October 2009	February 1, 2010
Amendment of IFRS 1	Limited Exemption from comparative IFRS 7 Disclosures for First-time Adopters	January 2010	July 1, 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	November 2009	July 1, 2010
Amendment to IFRIC 14	Prepayments of a Minimum Funding Requirement	November 2009	January 1, 2011
IFRS 9[1]	Financial Instruments	November 2009	January 1, 2013
Amendment to IFRS 7[2]	Disclosures related to de-recognition of financial assets	October 2010	July 1, 2011
Improvements to IFRSs (various Standards and Interpretations)[2]	Improvements to IFRSs	May 2010	January 1, 2011

[1] This Standard/Interpretation has at the time of the approval of these Financial Statements not been approved by the European Union.

[2] The implementation dates for the various improvements vary, the earliest mandatory date is July 1, 2010.

2.2 Basis of consolidation

Subsidiaries

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

The purchase method is applied when accounting for business combinations.

Inter-company transactions

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

2.3 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate at the reporting date. Non-monetary assets and liabilities in foreign currencies that are stated at historical cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated at the exchange rate at the date the values were determined. All foreign exchange gains and losses arising on translation are recognized in the 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 recognized in profit or loss as part of the gain or loss on disposal.

2.4 Income recognition

Revenue from operations

Revenues from online games are currently the Group's significant source of revenue.

Revenue is recognized when it is probable that the economic benefits of a transaction will flow to the entity, the revenue can be measured reliably and the associated costs are identified and can be measured reliably. Revenue is measured at the fair value of consideration received or receivable, net of value added tax, discounts, and returns.

Subscription income is generated when customers purchase upfront access time for the Group's products '*Age of Conan*' and '*Anarchy Online*'. Subscription income is mainly collected from credit cards and is recognized gross of credit card charges. Revenue from subscriptions is recognized over the subscription period which is from the date of subscription purchase until subscription end, normally 1 – 12 months. At the 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.

Revenues from the sale of goods and services are recognized in the Statement of Comprehensive Income when the significant risks and rewards of ownership have been transferred to the buyer. Sales of in-game items/microtransactions, points and digital download of games are considered sale of services. A provision for expected returns and price protection arrangements/discounts is charged against revenue to the extent Funcom has a legal or constructive obligation for such arrangements.

Per copy sales of new games are recognized immediately when delivery has taken place. Per copy sales of expansion packs for existing games are accrued over the period of the expected average subscription period for the game.

Per copy royalties on sales are recognized as the licensees report unit sales. Revenues 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.

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

Government grants

Subsidies from the authorities are not recognized until there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Subsidies that compensate the Group for the costs of an asset are recognized as a deduction from the asset that the subsidy is intended to cover, and are recognized in the Statement of Comprehensive Income over the useful life of the asset through a reduced amortization or depreciation charge. Grants that compensate the Group for expenses incurred are recognized in the Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognized.

Finance income

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

2.5 Expenses

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

Operating lease payments

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

Finance expenses

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

2.6 Income tax

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

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

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

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

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

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

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

2.7 Intangible assets

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

The Group does not have any intangible assets with indefinite useful lives. 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.

Goodwill

Goodwill arises on acquisition of subsidiaries and associates. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. 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.

Research and development

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

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

When all the above criteria are met, subsequent costs relating to development will be capitalized. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Development costs are amortized from the date that the assets are available for use, normally over 5 years. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use.

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

Technology

Technology acquired by the Group is stated 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 lives, normally 5 years.

Patents and licenses

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

Software

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

2.8 Equipment

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

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

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

Subsequent costs

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

Depreciation

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

Computers	3 years
Office equipment	5 years

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

Financial leases

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

2.9 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. This condition is met only when the sale is highly probable and the non-current asset (or disposal group) is available for sale immediately and in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification as held for sale. Non-current assets (and disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2.10 Financial instruments

The Group has chosen not to use any financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Due to the international structure of the Group, the Company has significant positions in other currencies than US dollars, for example Canadian dollar and the Norwegian kroner. The Group evaluates its currency risk on an ongoing basis, see note 25. The Group does not invest in equity or debt securities.

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

2.11 Investments in equity-accounted entities

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

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

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

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

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

2.12 Trade receivables and other receivables

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

2.13 Cash and cash equivalents

Cash includes cash in hand and at bank. Cash equivalents comprise call deposits with a term of less than 90 days from the date of acquisition.

2.14 Impairment

Financial assets

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized through profit or loss in the Statement of Comprehensive Income. For available-for-sale financial assets that are equity securities, the reversal is recognized in Other Comprehensive Income.

Non-financial assets

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

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

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

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

2.15 Equity

Share capital

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

Repurchase of share capital (treasury shares)

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

Dividends

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

2.16 Employee benefits

Defined contribution plan

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

Defined benefit plans

The Group does not have any defined benefit plans.

Profit-sharing and bonus plans

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

Share-based payment transactions

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

2.17 Loans and borrowings

Loans and borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortized cost using the effective interest method. Borrowing costs directly attributable to qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Generally, this relates to the development of games. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.18 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.

2.19 Trade and other payables

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

2.20 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.

2.21 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative period.

2.22 Segments

As of January 1, 2009 the Group determines and presents operating segments based on the information that internally is provided to the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

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

3. ACCOUNTING ESTIMATES, JUDGMENTS AND ESTIMATION UNCERTAINTY

Accounting estimates and judgments

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

Development costs and technology

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

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

Useful life of intangible fixed assets

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

Revenue recognition and provisions for sales returns

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

Impairment of trade receivables

When determining the recoverability of trade receivables management's judgment may be based on factors involving uncertainty such as interpretations of complex agreements. This is the case for the claim mentioned in note 13 and 25 of which 80 per cent has been recognized as a loss.

Deferred tax

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

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

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

Warrants

The Company has issued 5 million warrants to subscribe for shares in the company for NOK 10 per share. The warrants do not meet the definition of equity and are consequently classified as a financial liability at fair value in the Statement of Financial Position. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value. See note 25 for further details about the key assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis for these assumptions.

Management believes that the chosen valuation techniques and assumptions are appropriate in determining the fair value.

4. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. 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. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. The reportable operating segments of the group are defined as;

- large-scale MMOs - like *Age of Conan* and *The Secret World*
- free-to-play MMO games – which includes the games under the Company's free-to-play game initiative

The large-scale MMO segment and the free-to-play segment differ in several and important ways:
1) PR and Marketing. Large-scale MMOs are typically marketed for years before their launch. PR is conducted through media channels that appeal to the traditional gamers - online gaming sites, gaming magazines and gaming TV-channels. A large community/following for the game is usually created long before the launch of the game. The launch phase of the game is accompanied by large-scale, global marketing campaigns in traditional gamer media channels and sometime in general press.

Free to play MMOs typically follow a very different marketing process. The games typically progress through an extended launch period, where online beta-phases are gradually extended. The publisher may make adjustments to the game during these phases and only starts marketing once the game is proven to appeal to customers. PR is less important in the process, and rarely is a large community developed before the launch of the game. Also, traditional gamer segments might be uninterested in free-to-play MMOs as they might target very different segments, like children or non-gamers.

2) Distribution. Large-scale MMOs are distributed through retail and through digital sales. Retails sales during the launch phase still constitutes a major portion of the sales of game clients. This is different from free-to-play MMOs which are typically distributed digitally only with a free-to-play section of the game already from the launch of the game.

3) Technology. The technology used for large-scale MMOs is usually very complex and advanced with features like AI, spectacular graphics performance, detailed graphical representation of the world etc. These large games also typically have large installs on the users PCs - typically several GB of data. In contrast, most free-to-play MMOs use a simpler technology, with more focus on a broad potential install base than on high-end performance, features and visuals. Funcom used the DreamWorld Technology for its large-scale MMOs, and has used a Java based technology for its first free-to-play MMO.

4) End-users. Large-scale MMOs typically target the traditional gamer segment. Free-to-play MMOs can also address this market, but often focus on other segments, like children, young boys or girls, non-gamers etc.

5) Payment model. Large-scale MMOs typically charge a significant price for the initial game client; at launch, typically around 50 USD. Thereafter they typically use monthly subscriptions as payment methods for their players. Free-to-play MMOs are always free-to-play, i.e. no fee for the initial game client. These free-to-play gamers are then up-sold in-game to become customers. Free-to-play games typically use sales of virtual items and content, subscriptions and advertising as methods of monetizing the products.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Subscription income and revenues from sale of clients are the main sources of revenues for the large-scale MMO segment. 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. All impairment charges made in 2010 and 2009 relate to the large-scale MMO segment.

	Revenue from external customers Period ended December 31		Segment profit Period ended December 31	
In thousands of US dollars	2010	2009	2010	2009
Large-scale MMO's	19,773	23,787	9,240	12,952
Free-to-play MMO games	289		-324	
Unallocated		89		89
Total	**20,062**	**23,876**	**8,916**	**13,040**
General administrative expenses			-6,315	-8,916
Depreciation, amortization and impairment charges			-3,194	-14,923
Net financial items			668	2,718
Profit (loss) before tax (from continuing operations)			**75**	**-8,080**

Segment assets

In thousands of US dollars	2010	2009
Large-scale MMO's reportable assets	37,688	28,112
Free-to-play MMO games reportable assets	3,677	2,219
Total assets for reportable segments	41,365	30,331
Other non-current assets	3,122	2,211
Current assets	26,095	32,826
Consolidated total assets	**70,582**	**65,368**

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

In thousands of US dollars	Large-scale MMOs	Free-to-play MMOs
Investments in intangible assets 2010	37, 688	3,677
Investments in intangible assets 2009	28,112	2,219

Geographical information

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

In thousands of US dollars	2010		2009	
	Revenue	Non-current assets (**)	Revenue	Non-current assets (**)
The Netherlands *)				
Switzerland	11,980	38,706	15,171	28,153
Luxembourg	7,887		8,705	
Norway	196	3,208		3,351
Canada		1,248		
USA		40		133
Other				96
Total	**20,062**	**43,202**	**23,876**	**31,734**

*) 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. In 2010 royalties recognized in revenues from Funcom's partner for the Age of Conan game in Korea amounted to USD 2,346 thousands, exceeding 10 per cent of the total revenues for 2010. Co-publishers are not considered "customer" in this context since the Group does not sell products or services to the Co-publisher. Co-publishing agreements are typically risk and revenue sharing agreements where both parties contribute marketing, PR and infrastructure to reach the customer, which are buyers of the Group`s games. The Company controls the relationship to the customer through online contracts. Non-current assets are attributed to a country based on the geographical location of the assets.

5. REVENUE

In thousands of US dollars	2010	%	2009	%
Revenues online games	19,937	99.4 %	23,464	98.3 %
Revenues offline games	125	0.6 %	323	1.4 %
Other		0.0 %	89	0.4 %
Total revenue	**20,062**		**23,876**	
Rendering of services	17,520	87.3 %	23,876	100.0 %
Royalties	2,346	11.7 %		0,0 %
Other	196	1.0 %		0.0 %
Total revenue	**20,062**		**23,876**	

6. PERSONNEL EXPENSES

In thousands of US dollars	2010	2009
Salaries	5,957	5,340
Social security contributions	757	429
Contributions to defined contribution plans	196	268
Expenses for share option program	584	743
Other personnel expenses	1,496	1,083
Total personnel expenses	**8,989**	**7,863**

Average number of employees:	2010	2009
Europe	120	248
North America	112	59
Asia	50	42
Total	**282**	**349**

7. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2010	2009
Travel & marketing	2,009	3,323
Consultants	1,501	1,450
Rent of premises and other office costs	876	1,520
Royalties	1,022	1,462
Investor relations	148	173
IT, hardware and software	315	459
Other	444	528
Total general and administrative expenses	**6,315**	**8,916**

8. OTHER OPERATING EXPENSES

In thousands of US dollars	2010	2009
Commissions	535	431
Hosting and bandwidth costs for online services	1,580	2,513
Sales and distribution costs	42	28
Total other operating expenses	**2,156**	**2,972**

9. FINANCE INCOME AND EXPENSES

In thousands of US dollars	2010	2009
Interest income	174	715
Net foreign exchange gain	5,103	2,233
Change in fair value financial derivatives		
Finance income	**5,277**	**2,948**
Interest expense	-62	-209
Net foreign exchange loss	-4,626	-21
Other finance expenses	-1	
Change in fair value financial derivatives		
Finance expenses	**-4,690**	**-230**

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

10. INCOME TAX EXPENSE

In thousands of US dollars	2010	2009
Result before income tax	75	-8,080
Tax according to the average tax rate in Switzerland, Luxembourg, Canada, USA and Norway	-7	-1,743
Tax effect of non-deductible expenses	-98	-195
Withholding tax and capital asset tax		-251
Utilization of losses carried forward	27	146
Derecognition of deferred tax asset		
Deferred tax asset related to carry forward tax losses not recognised	26	1,638
Tax effect of change in tax rate		-1
Income tax (expense) / income	-53	-406

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

Current period	-125	-424
Adjustments for prior periods		
	-125	-424
Deferred tax expense		
Origination and reversal of temporary differences	71	18
	71	18
Income tax expense from continuing operations	-53	-406
Total income tax income (expense)	-53	-406

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

DEFFERED TAX LIABILITY/TAX ASSET

In thousands of US dollars	2010	2009
Deferred tax liability	-10	-50
Deferred tax asset, net	329	300
Deferred tax asset, net	**319**	**250**
Deferred tax effect of tax increasing temporary differences:		
Equipment and intangible assets	1,231	4,540
Provisions		
Tax allocation reserve		
Tax losses carried forward		
Total deferred tax effect of tax increasing temporary differences	**1,231**	**4,540**
Deferred tax effect of tax reducing temporary differences:		
Tax losses carried forward	9,617	8,256
Equipment and intangible assets	156	109
Provisions/receivables	7	7
Other temporary differences		
Total deferred tax effect of tax reducing temporary differences	**9,781**	**8,372**
Deferred tax asset (net) not recognized in the balance sheet:	8,231	3,582
Recognized deferred tax asset, net	**319**	**250**
Reconciliation of deferred tax asset, net:		
Opening balance	250	250
Change according to statement of income	71	18
Exchange differences etc.	-3	-18
Deferred tax asset, net, at year-end	**319**	**250**

Carry forward tax losses originating from Norway do not expire under current tax legislation. The Group has tax losses of USD 96,171 thousands as at December 31, 2010 (2009: USD 83,392 thousands) which expire as follows:

In thousands of US dollars Expire year	2010	2009
2010		
2011		
2012		
2013		
2014	203	187
2015	88,744	80,834
2016	2,696	2,371
2017	4,527	
Indefinite		
Total tax losses	**96,171**	**83,392**

The Group's tax losses and negative differences between the book value and the value for tax purposes of assets, which form the basis for the deferred tax assets, are primarily located in the Swiss subsidiaries. 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. These assumptions require significant judgment about the forecasts of future taxable income. As to how the legal structure has been set up and based on the tax regulations in Switzerland the Group does not expect taxable income in these companies in the foreseeable future. This has no implication on the Group's ability to continue as a going concern.

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.

11. INTANGIBLE ASSETS

In thousand of dollars	Development costs	Software	Total
Cost			
Balance at January 1, 2009	55,582	637	56,219
Acquisitions, internally developed	18,155		18,155
Other acqusitions		321	321
Disposals		-2	-2
Government grant	-350		-350
Translation difference		157	157
Balance at December 31, 2009	**73,386**	**1,113**	**74,498**
Balance at January 1, 2010	73,386	1,113	74,498
Acquisitions, internally developed	16,312		16,312
Other acqusitions		62	62
Disposals			
Government grant	-1,383		-1,383
Translation difference		2	2
Balance at December 31, 2010	**88,316**	**1,177**	**89,492**
Accumulated amortization and impairment losses			
Balance at January 1, 2009	28,804	292	29,096
Amortization for the year	4,952	204	5,156
Impairment losses	9,300		9,300
Disposals		-2	-2
Translation difference		101	101
Balance at December 31, 2009	**43,056**	**595**	**43,651**
Balance at January 1, 2010	43,056	595	43,651
Amortization for the year	5,025	165	5,190
Impairment losses	-1,130		-1,130
Disposals			
Translation difference		89	89
Balance at December 31, 2010	**46,950**	**850**	**47,800**
Carrying amount at Jan. 1, 2009	26,778	345	27,123
Carrying amount at Dec. 31, 2009	30,331	518	30,848
Carrying amount at Jan. 1, 2010	30,331	518	30,848
Carrying amount at Dec. 31, 2010	41,365	328	41,693

The received government grant mainly relates to multimedia tax credits accrued in Funcom Games Canada Inc but also government grant received from Verdikt (a program under the Norwegian Research Council) and support from The Norwegian Film Fund.

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

In thousands of US dollars	2010			2009		
Class	Under development	In use	Total	Under development	In use	Total
Goodwill						
Development costs	27,308	14,057	41,365	16,119	14,211	30,331
Technology						
Software		328	328		518	518
Patents and licenses						
TOTAL	27,308	14,385	41,693	16,119	14,729	30,848

Capitalization of amortization and depreciation

The Group capitalized amortization and depreciation on assets used in development of games as an integral part of the book value of the games. Amortization and depreciation included in capitalized development costs for 2010 were USD 1,626 thousands (2009: USD 1,151 thousands).

Calculation of recoverable amounts

When calculating the recoverable amount from cash generating units the Group uses a discounted 3 years pre-tax cash flow projection, based on the most recent budgets reflecting the latest information that influences the expected performance of the assets. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections using a negative growth rate for subsequent years.

The cash flows are discounted using a pre-tax rate of 14 per cent for Age of Conan (2009: 14 per cent) and 15 per cent for The Secret World (2009: 17 per cent). *The DreamWorld Technology* was allocated to The Secret World and Age of Conan based on a 85/15 ratio (2009: 50/50) respectively when performing the impairment tests, reflecting the use of the technology in generating cash flows from the games.

The revenue of the Company is driven by the revenues generated by the games the Company operates. Some key drivers of these revenues are the number of players in each game and the revenues generated from these players through game client sales, subscription revenues, sales of virtual goods and in-game advertising. Different revenue-generating mechanisms are used to varying degrees in different games.

Main cost components for the company include the cost of developing new games and updates to games, marketing costs and operational costs of live games like hosting and bandwidth, operations and customer service.

Predicting with high certainty the cash flows from games is difficult. Both the reach of the games and the revenues generated from the games depend to a high degree on the appeal and quality of the games - since they are entertainment products and need to resonate with consumer preferences in addition to being well executed. Had the discount rate for The Secret World been increased by 2 per cent (i.e. set to 17 % as was the level for 2009) the below mentioned reversal of part of the previously recognized impairment loss would have been reduced by USD 2,500 thousands (all else equal). Management determined budgeted numbers of players based on the actual customer base for the games in operation, market information obtained as well as 3rd party sales estimates, and its own expectations of customer development. This estimate represents manage-ment's best estimate, but is subject to a relatively high degree of uncertainty; especially for games not launched and for games to be launched in the free-to-play segment where Funcom has limited experience.

Research and development

In 2010 the Group expensed USD 534 thousands in research and development (2009: USD 297 thousands).

Inefficiency

The Group did not expense any costs related to inefficiencies in 2010 or 2009.

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

Large Scale MMO *Age of Conan: Hyborian Adventures*

The massively multiplayer online game Age of Conan: Hyborian Adventures takes place in a world based on author Robert E. Howard's classic fantasy hero Conan — a strong brand name on the basis of being one of the most read comic books in the Western World as well as the subject of several books and movies. Funcom acquired as from June 6, 2003 a 10 year exclusive right for the use of the Conan brand for MMO games on all current and future platforms. Later Funcom extended this right until 2023. Funcom launched the first expansion pack for the game - Rise of the Godslayer - in the first half of 2010.

Despite the launch success of Age of Conan in 2008, the game did not develop as well as expected. Age of Conan has therefore been impaired also in 2010 (USD 3,114 thousands) due to a negative development in revenues, also from launch of the game in Korea in 2010 and revised estimates for future cash flows resulting from this. The Group considers the main reasons for this development to be a lack of long-term affinity for the game combined with the market situation.

The carrying amount of Age of Conan is USD 6,847 thousands on December 31, 2010 (2009: USD 9,195 thousands). The accumulated impairment charge as at December 31, 2010 was USD 24,700 thousands (2009: USD 23,548 thousands). The initial cost at launch of the game will be fully amortized in 2.5 years. Subsequent improvements and/or additions are amortized separately over the expected useful lives, normally over 5 years, from the time these improvements and/or additions are completed and available for use. Age of Conan has been amortized since its launch on May 20, 2008.

Large Scale MMO *The Secret World*

Currently in production, *The Secret World* is a massively multiplayer online game. The game is built around an original intellectual property developed by Funcom, and features exciting online gameplay in our own modern-day world. Building on legends, conspiracies and urban myths of the real world, *The Secret World* features a universe of unprecedented depth. By utilizing a modern-day setting, Funcom strives to make the game appeal to several different gaming audiences – including non-MMO gamers.

The annual impairment test performed has for 2010 led to a reversal of parts of the impairment loss recognized in 2008. The reversal amounts to USD 4,244 thousands. The main reasons/events that led to the reversal were:

i) The company has significantly improved its *Dreamworld Technology* during the year leading to improvements of *The Secret World* in several ways, for instance improving the memory handling of the game client, improving rendering performance in general and in particular for DX10 rendering and improving the network performance of the game. It is expected that these improvements will positively impact retention numbers for *The Secret World* after launch of the game.

ii) In 2010, the high-end MMO-market developed significantly towards a hybrid subscription/micro-transaction business model. This has led to higher average revenue per subscriber than previously seen in the market. This has been illustrated in games like Lord of the Rings, Champions Online and in World of Warcraft. Funcom has experienced similar results for *Anarchy Online*. In addition, the game market continues its move in the direction of digital distribution, providing Funcom with a greater share of the expected revenues generated from the launch of new high-end MMO-games.

iii) During 2010, the Company experienced significant interest from global publishers regarding the publishing rights for *The Secret World*. In the opinion of the Company, the sales and revenue potential of the game has been confirmed and strengthened through these dialogues and negotiations. In early 2011, Funcom signed a co-publishing agreement with Electronic Arts, the leading games publisher of the last decade, with a uniquely strong and broad distribution power for boxed products in key markets in Europe and North America. The Company has taken these developments into consideration and has revised cash inflows over the life of the game upwards compared to the prior year.

iv) as risk has been reduced due to no. i-iii above, Funcom has also used a lower discount rate than for 2009.

Mainly due to the above mentioned reasons/events, the company has revised several factors in the impairment test leading to a higher recoverable amount for the cash generating unit The Secret World. As an example number of paying subscribers has been increased by appr. 25 % compared to the impairment test performed for 2009.
The carrying amount of *The Secret World* is USD 23,631 thousands on December 31, 2010 (2009: USD 13,772 thousands). The accumulated impairment charge as at December 31, 2010 for the cash generating unit The Secret World was USD 1,989 thousands. As described above this includes 85 % of the impairment losses allocated to the *Dreamworld Technology*. (2009: USD 4,620 thousands including 50 % of the *Dreamworld Technology* allocated to the cash generating unit).

The Secret World is not yet amortized.

DreamWorld Technology

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

The *DreamWorld Technology* is tailored and optimized for creating world class MMOs. The technology has a highly modular structure in which new and upgraded technology modules and components can be integrated into the technology base.

The flexible and modular architecture of the *DreamWorld Technology* uncouples technology from the game production process and shortens the lead time to prototype. Furthermore, the technology is optimized for online distribution through its mini client, intelligent in-game patching and multi version features. Use of the *DreamWorld Technology* will ensure synergies between the development projects of Funcom, as well as significantly reduce the technology risks and development costs of the new projects. Key technical features include:

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

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

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

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

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

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

- Powerful scripting and event creation system to deliver unique and engaging experiences.

The carrying amount of the *DreamWorld Technology* is USD 7,210 thousands on December 31, 2010 (2009: USD 5,017 thousands). The initial cost of the technology will be fully amortized in 3.5 years. Improvements and/or additions to the technology are amortized separately over the expected useful lives of these elements of the asset, normally five years. The *DreamWorld Technology* has been amortized since the launch of *Age of Conan* in May 2008. Part of the amortization has been capitalized as acquisition cost for *The Secret World* (USD 1,114 thousands).

Parts of the impairment losses made to Age of Conan and The Secret World – included in the amounts mentioned above for these games - are allocated to The DreamWorld Technology. As per December 2010 the accumulated amount of the impairment losses is USD 2,340 thousands (2009: USD 3,924 thousands).

Pets vs. Monsters

Pets vs. Monsters is a casual MMO game aimed at the 8 to 12 years old demographic. The game is set in a fantastic universe that spans across several dimensions such as a pirate world, a sci-fi world, and more. Players adventure through these worlds mounted on pets such as the bear, the wolf and the cat while battling enemies and collecting rewards. The game was officially revealed in December 2009, and it entered into its first phase of beta in the same month. Feedback has so far been very positive, and Funcom will be launching new beta phases in 2010.

The carrying amount of *Pets vs. Monsters* is USD 3,007 thousands on December 31, 2010 (2009: USD 2,222 thousands). *Pets vs. Monsters* will be amortized from 2011.

Other games

The carrying amount of other games in the category development costs amounts to USD 670 thousands on December 31, 2010 (2009: USD 125 thousands).

12. EQUIPMENT

In thousands of US dollars	Computers	Furniture	Computers leased	Total
Cost				
Balance at January 1, 2009	2,530	351	6,506	9,387
Acquisitions	142			142
Disposals	-356			-356
Discontinued operation				
Translation difference	536	60		596
Balance at December 31, 2009	**2,852**	**410**	**6,506**	**9,769**
Balance at January 1, 2010	2,852	410	6,506	9,769
Acquisitions	176	1,154		1,329
Disposals				
Discontinued operation				
Translation difference	463	10		474
Balance at December 31, 2010	**3,491**	**1,574**	**6,506**	**11,572**
Accumulated depreciation and impairment losses				
Balance at January 1, 2009	1,259	150	5,756	7,166
Disposals	-220			-220
Discontinued operation				
Impairment charges				
Depreciation for the year	789	79	750	1,618
Translation difference	281	40		321
Balance at December 31, 2009	**2,110**	**268**	**6,506**	**8,884**
Balance at January 1, 2010	2,110	268	6,506	8,884
Disposals				
Discontinued operation				
Impairment charges				
Depreciation for the year	571	181		752
Translation difference	492	-64		428
Balance at December 31, 2010	**3,172**	**384**	**6,506**	**10,064**
Carrying amount at Jan. 1, 2009	1,451	201	750	2,222
Carrying amount at Dec. 31, 2009	743	143		886
Carrying amount at Jan. 1, 2010	743	143		886
Carrying amount at Dec. 31, 2010	**319**	**1,190**		**1,509**
Method of depreciation	Straight line	Straight line	Straight line	
Estimated useful lives	3 years	5 years	3 years	

13. TRADE RECEIVABLES

In thousands of US dollars	2010	2009
Trade receivables	2,245	2,234
Allowances for impairment	1,020	995
Trade receivables, net	**1,225**	**1,239**

As of December 31, 2010 trade receivables consisted of, USD 645 thousands in USD and USD 580 thousands in EURO and a balance of USD 0 thousands relates to other currencies. The respective numbers for 2009 were USD 570 thousands in USD, USD 655 thousands in EURO and USD 14 thousands in other currencies.

The impairment allowance mainly relates to a claim that has been disputed by a business partner. Funcom has recognized a loss of more than 80 per cent of the claim. The claim is based on a contract involving the counterparty referred to in note 18 regarding provisions for sales returns.

14. PREPAYMENTS AND OTHER RECEIVABLES

At December 31, 2010 prepayments and other receivables mainly consist of accrued multimedia tax credits and other government grants, a receivable on an equity-accounted entity in addition to ordinary operational prepayments (2009: mainly ordinary operational prepayments).

15. CASH AND CASH EQUITY

In thousands of US dollars	2010	2009
Cash at the bank and in hand	22,693	30,948
Short-term bank deposits	0	0
Cash and cash equivalents in the statement of financial position	22,693	30,948
Restricted cash	372	490

Restricted cash relates to cash at a separate account for tax deducted from salaries.

16. EQUITY

Share-captial and share premium

Number of ordinary shares	2010	2009
Outstanding at January 1	52,832,125	52,832,125
Issued against payment in cash	455,866	-
Outstanding at December 31 - fully paid	53,287,991	52,832,125
Nominal value of the share-capital at December 31 (EUR)	2,131,520	2,113,285

At December 31, 2010, the authorized share capital comprised of 250 million ordinary shares (2009: 250 million). The nominal value of the shares is Euro 0.04.The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

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

Events in 2009 and 2010:

Shares:

In March 2010, the Company issued 48,900 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.49 per share (USD 0.61). Gross proceeds amounted to EUR 23,948 (USD 29,711)

On May 18, 2010 Funcom held its Annual General Meeting where, pursuant to Section 4.1 of Funcom N.V.'s articles of association, the Board of Supervisory Directors were authorized to issue new shares in Funcom N.V. up to a maximum of 10 % of the issued capital of Funcom N.V. as per the date of the Meeting and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 1 year from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.3 of the Funcom N.V.'s articles of association authorized to limit or exclude the pre-emptive rights of the shareholders of Funcom N.V. in relation to each or any issuance of shares, or granting of rights to acquire shares, in the capital of Funcom N.V. This designation of the Board of Supervisory Directors is also valid for 1 year from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.9 and 4.1 of Funcom N.V.'s articles of association, authorized to issue up to a maximum 3,000,000 (three million) rights to acquire shares in the capital of Funcom N.V. and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 1 year from the date of the Meeting.

Lastly, in this Annual General Meeting, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board were authorized for a period of 1 year from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

On May 26, 2010 the Company issued 306,966 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.29 per share (USD 0.37). Gross proceeds amounted to EUR 88,311 (USD 112,234).

In November 2010, the Company issued 100,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.35 per share (USD 0.49). Gross proceeds amounted to EUR 35,273 (USD 48,977).

Options:

On March 5, 2009, the Company issued 2,088,300 options as a part of the Group's options program. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On February 10, 2010, the Company issued 78,500 options as a part of the Group's options program to Mr. Miguel Caron – CEO of Funcom Games Canada INC. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On May 18, 2010, Funcom held its Annual General Meeting where, the Company issued 300,000 options to members of the Supervisory Board as a part of the Group's options program. One fourth of the options vest 5 months following the date of the grant and the remaining options vest 17 months following the date of the grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On May 18, 2010, the Company issued 21,500 options as a part of the Group's options program to Mr. Miguel Caron – CEO of Funcom Games Canada INC. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On August 1, 2010, the Company issued 1,428,000 options as a part of the Group's options program. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On December 29, 2010 Funcom held an Extraordinary General Meeting where, the Company issued 150,000 options to members of the Management Board as a part of the Group's options program. One fourth of the options vest 6 months following the date of the grant and the remaining options vest 18 months following the date of the grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On December 29, 2010, the Company entered into a loan agreement with Stelt Holding N.V., a shareholder of the Company and also controlled by Supervisory Board Member Mr. Hans Peter Jebsen, involving issuance of 5,000,000 warrants. The exercise price is NOK 10 per share. The warrants expire 30. March 2014.

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5 % or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders *) had disclosed that they directly or indirectly controlled more than 5 % of the Company's total share capital on January 1, 2011:

- Mr. Hans Peter Jebsen (22.72 %)
- Northzone IV K/S (10.33 %)
- NVP General Partner II ApS (9.88 %)

*) there is one additional registration but according to Funcom's records, the entity no longer hold 5 per cent or more of the shares in the Company.

Translation reserve

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

Dividends

The Group did not pay any dividends in 2010 or 2009. No dividends relating to year 2010 have been proposed.

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 2010 was USD 196 thousands (2009: USD 268 thousands).

Share based payments

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

Option program in Funcom N.V.

The following options have been authorized by the shareholders meeting.

Time of authorization	Number of options authorized	Expiry of authorization
May 10, 2005	1,250,000	May 10, 2008
November 30, 2006	1,000,000	November 30, 2008
December 19, 2008	3,000,000	December 19, 2010
May 18, 2010	3,000,000	May 18, 2011
Total number of options authorized	**8,250,000**	

The exercise price of the granted options is equal to the weighted market price of the shares 5 trade days prior to and 5 trade days following the date of grant. Options are conditional on the employee remaining an employee or director of the Company on the date of exercise. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The below table shows the vesting period for each grant: (for outstanding options see separate table below).

Granted	Numbers granted	Vested in 2008	Vested in 2009	Vested in 2010	Vested in 2011	Vested in 2012	Vested in 2013
March 1, 2007	845,200	281,734	281,733	281,733			
June 14, 2007	260,000	86,668	86,666	86,666			
February 27, 2008	433,500		144,500	144,500	144,500		
December 19, 2008	300,000		75,000	225,000			
December 19, 2008	550,000		183,333	183,333	183,333		
March 5, 2009	2,088,300			696,100	696,100	696,100	
February 2, 2010	78,500				26,167	26,167	26,167
May 18, 2010	321,500			75,000	232,167	7,167	7,167
August 1, 2010	1,428,000				476,000	476,000	476,000
December 29, 2010	150,000				50,000	50,000	50,000

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

List of outstanding options:	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
	2010	2010	2009	2009
Outstanding options on January 1	3,315,439	6.15	1,716,568	11.92
Options granted	1,978,000	3.90	2,088,300	3.78
Options exercised	455,866	3.25	0	
Options terminated	269,767	4.99	203,100	12.45
Options expired	494,264	15.24	318,229	17.15
Outstanding options on December 31	4,073,542	4.36	3,315,439	6.15
Vested (exercisable) options	689,733	3.80	601,561	13.63
Weighted Average Fair Value of Options Granted during the period	1,978,000	1.68	2,088,300	1.42

Out of the 4,073,542 outstanding options at December 31, 2010 (2009: 3,315,439), 689,733 options were exercisable (2009: 601,561). Options exercised in 2010 resulted in 455,866 new shares at NOK 3.25 on average (2009: 0 shares issued at NOK 0 each).

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

Expiry day	Exercise price	Shares 2010	Shares 2009
June 19, 2010	NOK 2.85	-	183,333
September 01, 2010	NOK 17.78 - 35.77	-	318,231
September 5, 2010	NOK 3.94	-	677,100
November 21, 2010	NOK 2.85	-	300,000
June 19, 2011	NOK 2.85	183,333	183,333
September 01, 2011	NOK 25.34	103,274	115,908
September 5, 2011	NOK 3.94	-	677,100
April 18, 2012	NOK 5.30	300,000	-
June 19, 2012	NOK 2.85	183,335	183,333
September 5, 2012	NOK 3.94	-	677,100
August 10, 2013	NOK 4.29	78,500	-
September 09, 2013	NOK 3.94	1,625,600	-
November 18, 2013	NOK 5.30	21,500	-
February 01, 2014	NOK 3.47	1,428,000	-
June 28, 2014	NOK 4.72	150,000	-
		4,073,542	3,315,438

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was NOK 1.68 per option (2009: NOK 1.42). The significant inputs into the model were a weighted average share price of NOK 3.48 – 5.30 (2009: NOK 3.94) at the grant date, the exercise prices shown above, volatility of 64 % - 79 % (2009: 75 %), dividend yield 0 % (2009: 0 %), an expected option life of 1.5 - 3.5 years, an expected annual turnover rate of 7 % and an annual risk free rate of 2.0 – 2.8 % (2009: 2.3 %). The volatility measured is based on the variation in daily share prices for Funcom over the last 3 years.

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

Name	Number of shares	Number of options	Comments
Supervisory board			
Torleif Ahlsand	300,000	100,000	Mr. Ahlsand - chairman of the Supervisory Board - holds 200,000 of the shares through his company Brownske Bevegelser AS. Mr. Ahlsand is a partner of Northzone Ventures, which holds 5,449,175 shares in the Company.
Michel Cassius	66,000	50,000	
Hans Peter Jebsen	12,108,075	5,050,000	Mr. Jebsen and affiliates control the shares and the options to subscribe for shares in the Company through Stelt Holding N.V. and Tom Dahl AS.
Claus Højbjerg Andersen	0	0	Mr. Højbjerg Andersen is a partner of Nordic Venture Partners, which holds 5,208,325 shares and 50,000 options to subscribe for shares in the Company.
Frank Sagnier	143,000	50,000	
Management Board			
Trond Arne Aas	1,457,825	433,334	Mr. Aas is the CEO of Funcom N.V. and member of the Managment Board of Funcom N.V. 754,500 of the shares are held by Arminius AS, a company controlled by Mr. Aas.
Pieter van Tol	17,166	83,334	

18. PROVISIONS

In thousands of US dollars	Sales return	Tax on capital increases	Onerous Contracts	Total
Balance at January 1, 2010	750	579	1,022	2,351
Provisions made during the year		14		14
Provisions used during the year			-748	-748
Provisions reversed during the year	-750	-222	-172	-1,144
Exchange rate differences		-27		-27
Balance at December 31, 2010		**344**	**102**	**446**

The Company is in dispute with the Dutch tax authorities in respect of outstanding capital duty liabilities. The potential cost of this disallowance to the Company is around USD 344 thousands (including interest) (2009: USD 579 thousands). The Company believes it has arguments to dispute the capital duty liabilities but has made provision for the possible claim in full.

In 2008 and 2009 the Group made provisions related to the service elements of non-cancellable lease contracts for servers that were not in use and for lease contracts relating to empty office space. The provisions were made based on contractual obligations. As at year end 2010 the provisions for onerous contracts only relate to empty office premises.

The provision for sales returns has been subject to a closer review, which led to a reversal of the full amount. During 2010, the Company has not received any claims from the counterparty and considers the likelihood of a payment to be made as remote. The provision was originally charged against revenue and the reversal was correspondingly credited to revenue. The provision related to an estimated and possible obligation for return of games sold and future price protection.

All provisions are expected to be fully used during the 2011 financial year.

19. DEFERRED INCOME

The amount consists of subscription prepayments from subscribers.

20. OTHER SHORT TERM LIABILITIES

The amount mainly consists of:

- vacation pay accrued in Funcom Oslo AS
- taxes and social security relating to salary payments
- accrual of other regular operating expenses.
- finance lease liability (2009 only)

21. INVESTMENTS IN EQUITY-ACCOUNTED ENTITIES

In May 2010, Funcom acquired 42 % of the shares in the Swedish company Stunlock Studios AB. This company is considered an associated company for Funcom.

In May 2010, Funcom, together with a Canadian partner incorporated the Canadian company MMORPG Technologies INC. This company is considered a joint venture for Funcom.

The Company's share of profit in its equity-accounted entities for the year was USD 81 thousands (2009: USD 0 thousands).

The Company has not received any dividends from any equity-accounted entities.

Summary of financial information for equity-accounted entities, not adjusted for the percentage ownership held by the Company:

In thousands of US dollars	Stunlock Studios AB	MMORPG Technologies INC	Total
Country	Sweden	Canada	
Ownership in %	42	50	
Reporting date	December 31	December 31	
Current assets	158	823	981
Non-current assets	266	24	290
Total assets	424	847	1,271
Current liabilities	37	614	652
Non-current liabilities			
Total liabilities	37	614	652
Income	1	1,671	1,673
Expenses	-9	-1,445	-1,455
Profit/loss	-8	226	218

22. LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2010	2009
Less than one year	2,563	1,926
Between one and five years	3,331	5,435
More than five years	1,170	0
Total	7,064	7,361

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

During the year ended December 31, 2010, USD 1,946 thousands was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2009: USD 1,786 thousands).

Non-cancellable finance lease payments are payable as follows:

In thousands of US dollars	2010	2009
Less than one year	0	1,059
Between one and five years		
Total	**0**	**1,059**
Less amount representing interest	0	-22
Present value of future minimum lease payments	0	1,037
Representing		
Amounts due in less than one year	0	1,037
Amounts due in between one and five years		

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

23. 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 23 thousands divided by the weighted average number of ordinary shares outstanding 53,124,025 (2009: 52,832,125).

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.

	2010	2009
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands)	23	-8,486
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	23	-8,486
Issued ordinary shares as of January 1	52,832	52,832
Effect of shares issued		
Effect of options exercised	292	
Weighted average number of shares at December 31	53,124	52,832
Basic earnings per share	0.00	(0.16)
Basic earnings per share - continuing operations	0.00	(0.16)
Weighted average number of shares at December 31, basic	53,124	52,832
Effect of share options on issue		
Weighted average number of shares at December 31, diluted	53,124	52,832
Diluted earnings per share	0.00	(0.16)
Diluted earnings per share - continuing operations	0.00	(0.16)

24. CONTINGENT LIABILITIES

As of December 31, 2010 the group has no contingent liabilities (2009: 0 USD).

25. FINANCIAL INSTRUMENTS

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

Exposure to credit risk

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

In thousands of US dollars	Carrying amount 2010	Carrying amount 2009
Loans and receivables*	3,421	1,889
Cash and Cash equivalents	22,693	30,948
	26,114	32,837

* Includes long term receivables of USD 497 thousands which relates to long term deposits on operational leases. (2009: USD 508 thousands), Multimedia Tax Credits of USD 855 thousands (2009: USD 160 thousands) and a receivable on an equity-accounted entity of USD 573 thousands (2009: USD 0).

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

In thousands of US dollars	Carrying amount 2010	Carrying amount 2009
North America		
Europe	1,225	1,239
Other regions		
	1,225	1,239

Receivables on credit card service providers amount to USD 858 thousands of the trade receivables carrying amount at December 31, 2010 (2009: USD 923 thousands).

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	891		913	
Past due 0-30 days	37		238	
Past due 31-120 days	17		40	
More than 120 days	1,300	1,020	1,043	995
	2,245	1,020	2,234	995

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

In thousands of US dollars	2010	2009
Balance at January 1	995	38
Impairment loss recognized	25	950
Translation difference		7
Balance at December 31	1,020	995

The impairment allowance made in 2009 relates to a claim that has been disputed by a business partner. Funcom has recognized a loss of more than 80 per cent of the claim. The claim is based on a contract involving the counterparty referred to in note 18 regarding provisions for sales returns.

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	Carrying amount	Contractual cash flows	6 months or less	6-12 months	Year 2	Year 3
As at December 31, 2010						
Trade and other payables	1,891	1,902	1,902			
Long term debt	8,931	12,400	400	400	800	10,800
	10,822	**14,302**	**2,302**	**400**	**800**	**10,800**
As at December 31, 2009						
Trade and other payables	2,216	2,241	2,241			
Long term debt						
	2,216	**2,241**	**2,241**			

The long term debt as at December 31, 2010 represents borrowings from Stelt Holding N.V. On 29 December 2010, Funcom entered into a loan agreement with Stelt Holding N.V, currently the Company's largest shareholder (see also note 26). The principal amount of the loan is USD 10 million with an annual fixed interest rate of 8 per cent. The principal is repayable in full 3 years from issue.

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, Canadian dollar 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 Canadian dollar and Norwegian kroner. The significant cash positions in Canadian dollar and Norwegian kroner are perceived by the management as a natural hedge against the operational expenses in these currencies.

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

In thousands of US dollars	USD	EURO	NOK	CAD	OTHER
As at December 31, 2010					
Trade and other receivables	664	580	693	1,428	56
Cash and cash equivalents	12,234	2,294	4,293	3,196	676
Trade and other payables	-559	-97	-389	-836	-11
Net balance sheet exposure	12,339	2,777	4,597	3,788	721
As at December 31, 2009					
Trade and other receivables	622	660	593		15
Cash and cash equivalents	5,386	2,222	14,925	8,253	162
Trade and other payables	-1,257	-58	-887	-14	
Net balance sheet exposure	4,752	2,824	14,631	8,239	177

The following exchange rates applied during the year:

Reporting rate	Average rate 2010	Average rate 2009	Spot rate at December 31 2010	Spot rate at December 31 2009
EUR 1	1,315	1,389	1,334	1,433
NOK 1	0,166	0,158	0,171	0,172
CAD 1	0,977	0,941	1,002	0,953

Sensitivity analysis

A 10 per cent weakening of the US dollars compared to EUR, NOK and CAD would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, e.g. interest rates, remain constant.

In thousands of US dollars	Equity	Profit or loss
December 31, 2010		
EUR	826	799
NOK	2,870	-443
CAD	-193	-194
December 31, 2009		
EUR	66	38
NOK	-1,291	1,094
CAD	76	76

A 10 per cent strengthening of the US dollars against the above currencies at December 31, would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date the Group's fixed rate financial instruments comprise the loan from Stelt Holding N.V. as detailed below. The interest rate is fixed over the loan term.

Sensitivity analysis for variable rate instruments

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

In thousands of US dollars	2010	2009
Short term financial leasing		1,037
Cash and cash equivalents	22,693	30,948
Net exposed to interest risk	22,693	29,911
100 bp increase in interest rate	204	269
100 bp decrease in interest rate	-204	-269

Classes of financial instruments

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

All non-derivative financial liabilities are measured at amortized cost. Derivative financial liabilities (warrants) amounting to USD 975 thousands are included in Other financial liabilities (non-current) and measured at fair value through profit or loss.

In 2009 all financial liabilities were non-derivative and classified 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. Non-current borrowings at variable interest rates are on market terms and the difference between fair value and amortized cost is not material. Borrowings at fixed rate (loan from Stelt Holding N.V.), see description below, were entered into on December 29, 2010 and initially measured at fair value less attributable transaction costs. As at the balance sheet date, the difference between amortized cost and fair value reflects the effect of these transaction costs.

In thousands of US dollars	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Loans and receivables	3,421	3,421	1,891	1,891
Cash and cash equivalents	22,693	22,693	30,948	30,948
Trade and other payables	-1,891	-1,891	-2,216	-2,216
Long term debt	-8,931	-9,025		
Other financial non-current liabilities (warrants)	-975	-975		

On December 29, 2010, Funcom entered into a loan agreement with Stelt Holding N.V., currently the Company's largest shareholder. The principal amount of the loan is USD 10 million with a fixed interest rate of 8 % per annum. The Company also issued 5 million warrants in connection with the debt issue, entitling Stelt Holding N.V. to acquire an equal number of ordinary shares in Funcom at an exercise price of 10 NOK each. The warrants are transferrable and expire 3 years and 3 months after the grant.

At initial recognition the principal amount borrowed from Stelt Holding N.V. was split into two components, the loan component and the warrants component, each recognized at fair value. Warrants are presented as financial liabilities at fair value through profit or loss as the criteria for classifying these instruments as equity are not satisfied as at December 31, 2010.

The loan component was measured at fair value utilizing the market interest rate for an unsecured loan with no warrants attached. The warrants were measured using the Black-Scholes option pricing model. The warrants are exercisable at 10 NOK per share and are treated as a derivative (financial liability) in the financial statements of Funcom and thus measured at fair value through profit or loss.

The fair value per warrant is estimated to NOK 1.15. The Black-Scholes valuation model has been utilized in determining this value, in total NOK 5.75 million (USD 975 thousands). The significant inputs into the model were a share price of NOK 4.72, an exercise price of NOK 10.00, annualized volatility of 63.7 %, dividend yield of 0 %, an expected warrant life of 3.25 years, and an annual risk free rate of 2.57 %. The amounts can be reconciled as follows:

	Derivates at fair value through profit or loss (warrants)
Opening balance January 1, 2010	0
Issues at December 29, 2010	975
Closing balance as at December 31, 2010	975

26. TRANSACTIONS WITH RELATED PARTIES

Identification of related parties
The Group has a related party relationship with its subsidiaries (see note 27), equity-accounted entities (see note 21), members of the Board and with its executive officers.

Transactions with subsidiaries and equity-accounted entities
There have been transactions between Group companies and between the Group and equity-accounted entities. These transactions have been carried out on arm's length basis.

Transactions with equity-accounted entities:

In thousands of US dollars	2010	2009
Purchase of services	970	
Revenue from services		
Receivables as at Dec, 31	780	
Liabilities as at Dec, 31		

Remuneration to the Supervisory Board
On December 19, 2008, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 35,000 for the Chairman and EUR 12,000 for members. The remuneration for the year 2010 amounted to USD 109 thousands.

Remuneration to the Management Board
See below for information of remuneration paid to the CEO of the Group, who is also a member of the Management Board. Also see below information of remuneration paid to Pieter van Tol, also a Management Board member.

Remuneration to the Management Group
Overview of remuneration to management:

In thousands of US dollars	2010	2009
Salaries and benefits in kind (short-term employee benefits)	1,327	1,677
Share-based payments	160	345
Pension plan contributions	12	26
Total remuneration	**1,499**	**2,048**

Shares owned by members of the Supervisory Board and the Management Board

Trond Aas (CEO) held directly and indirectly 1,457,825 shares as of December 31, 2010 (2009: 1,437,825). Chairman of the Supervisory Board, Torleif Ahlsand, controls 300,000 shares in Funcom including shares held by his company Brownske Bevegelser AS. Hans Peter Jebsen, a member of the Supervisory Board, and affiliates (Stelt Holding N.V. and Tom Dahl AS) control 12,108,075 shares in Funcom. Michel Cassius, a member of the Supervisory Board, and his closely related parties control 66,000 shares in Funcom. Frank Sagnier, a member of the Supervisory Board, controls 50,000 shares in Funcom. Pieter van Tol, a member of the Management Board controls 17,166 shares.

Loan from Stelt Holding N.V.

On December 29, 2010, Funcom entered into a loan agreement with Stelt Holding N.V, currently the Company's largest shareholder and controlled by Hans Peter Jebsen, member of the Supervisory Board. The principal amount of the loan is USD 10 million with a fixed interest rate of 8 % per annum. The Company also issued 5 million warrants in connection with the debt issue, entitling Stelt Holding N.V to acquire an equal number of ordinary shares in Funcom at an exercise price of 10 NOK each.

Loans to employees

At December 31, 2010, a loan of USD 25,000 (2009: USD 25,350) was outstanding to an employee. The loan bears no interest and a calculated interest is reported to the tax authority as a taxable benefit.

Transactions with other related parties

Management Board member Pieter van Tol has received in 2010 a total remuneration including pension of USD 53,403 (2009: USD 55,676). He was also awarded a total of 50,000 share options in 2010 (2009: 0) at an exercise price of NOK 4.72). In 2010 a total of 16,666 options were exercised at an average exercise price of NOK 2.85. The total allocated share options in Funcom N.V. comprised of 83,334 as at December 31, 2010 (2009: 50,000). A fee of USD 188,200 for legal advice in 2010 (2009: USD 110,226) has been paid to Weidema van Tol - a company in which Pieter van Tol has an interest. Pieter van Tol also has an interest in Temmes Management Services B.V. – which has been paid a fee of USD 5,765 in 2010 (2009: USD 5,955). As at year end 2010 the outstanding amount between the Group and Weidema van Tol amounted to USD 14,535 (2009: USD 9,023), and between the Company and Temmes Management Services B.V. the amount was 0 (2009: USD 0). The services rendered from both these companies were on market terms.

27. GROUP ENTITIES

Group entities

The Company is the ultimate parent company to 8 wholly owned subsidiaries.

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2010	2009
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH	Switzerland	100.00	100.00
Sweet Robot GmbH*	Switzerland	95.00	95.00
Funcom Games Canada Inc	Canada	100.00	100.00
Funcom S.a.r.l.	Luxembourg	100.00	100.00
Funcom Inc	United States	100.00	100.00
Funcom Oslo AS	Norway	100.00	100.00
Sweet Robot AS	Norway	100.00	100.00

* Funcom GmbH holds 1 share equal to the remaining 5 % of the outstanding shares.

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

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

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.

Revenue risks

Dependence on performance of individual games

Funcom's future income may be highly influenced by the performance of individual MMOs. If some of these MMOs attain low revenue numbers there may be a negative impact on future cash flows and the valuation of Funcom. Furthermore, the games in development are intended to be funding sources for the development of new titles, and lower cash inflows than expected could also have an indirect effect in terms of reduced revenues, earnings and cash flows from other games and the future funding requirements of the Company.

Dependence on the attractiveness of the licensed brands

The success of the new games is dependent on the attractiveness of the brands used for the games. The developments of these brands are often influenced by factors outside of Funcom's control and this may positively or negatively affect the performance of Funcom's games.

Dependence on consumer satisfaction

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

Rating risks

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

Reviews

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

Development risks

Delay of product releases

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

Unsuccessful projects under development

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

Difficulties in recruiting and loss of key employees

Funcom is dependent on the ability to recruit, motivate and retain highly skilled technical, managerial and marketing personnel. Funcom may experience difficulties in recruiting, motivating and retaining the necessary expertise and key employees, or may need to pay higher compensation, which could adversely affect operating results. Further, it should be taken into consideration that work permits can be difficult to obtain. Also there is a risk of losing vital information if key employees, for various reasons, leave Funcom.

External parties

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

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

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

Intellectual Property Rights of others

Funcom operates in a competitive industry. Technology is evolving at a fast pace and innovating companies develop solutions in relatively close technological proximity.

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

Technical risks

Technological risks

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

Hacking

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

Risks related to the Internet

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

Theft or loss of source code

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

Economic risks

Macroeconomic fluctuations

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

Variability of operating results etc.

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

Changes in the gaming industry in general

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

Contracts

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

International operations

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

Currency fluctuations

Because a considerable share of Funcom's business is conducted in currencies other than its functional currency, Funcom will be exposed to volatility associated with foreign currency exchange rates. Funcom invoices all non-EU customers in US dollar and Russian ruble, while EU customers are invoiced in Euro, British pound and Polish zloty. Normally, the Group's cash position in Norwegian kroner and Canadian dollar is significant compared to its total assets. The majority of the operational expenses is denominated in Norwegian kroner and Canadian dollar and is perceived by the management as a natural hedge against the large position in Norwegian kroner and Canadian dollar. See note 25 for further information.

Tax exposure

The Company is incorporated in the Netherlands with subsidiaries in Canada, Norway, Switzerland, Luxembourg and the USA. The Group also has a representative office in China. The overall tax charge will depend on where profits are accumulated and taxed since these countries have different tax systems and tax rates. The Funcom Group is today taxed under a number of different legal systems with different laws for tax residency, tax credits and tax exemption rules. Consequently, the Funcom Group is exposed to changes of tax policies and changes of tax legislations, proactively and/or retroactively. The Company is of the view that it reports profits and losses in accordance with tax rules applicable to the Funcom Group. The tax authorities in the jurisdictions where the Funcom Group operates are not bound by the judgment of the Company, and there can be no assurance that they will agree 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, including VAT, issues. Should the group fail to comply with the different regulations it might lead to real cash costs, including irrecoverable VAT, penalties, and interest.

Deferred tax asset

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

The management has discussed to which extent the Group will be able to utilize the deferred tax asset, and has adjusted the amount in the statement of financial position accordingly.

In evaluating the Group's ability to utilize the deferred tax assets, all available positive and negative evidence has been considered, including past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates Funcom management are using to run the underlying businesses. See note 10.

Tax credits

The Company expects to receive significant amounts in tax credit – the largest element being Multimedia Tax Credit (MTC) for its subsidiary in Canada. The Company's calculation of MTC to be received may deviate from what is actually obtained. The regulations for tax credits are complex and involves professional judgment in assessing the amount estimated to be received.

29. EVENTS AFTER THE REPORTING PERIOD

On January 10, 2011 the Company announced the co-publishing agreement entered into with Electronic Arts for *The Secret World*.

On January 17, 2011, the Company announced the three-way partnership with IMG and 505 Games to develop a Facebook service and game related to the Fashion Week brand.

The board of directors is not aware of other significant events other than as described above between December 31, 2010 and the date of authorization.

Funcom N.V.
Company Profit and Loss

For the year ending 31.12.2010

In thousands of US dollars	Note	2010	2009
Results from participating interest after tax	2	820	-8,729
Other income and expenses after tax		-797	243
Net result from ordinary activities after taxation		**23**	**-8,486**

Statement of Financial Position

after appropriation of result

In thousands of US dollars	Note	Dec. 31, 2010	Dec. 31, 2009
Investments in and receivables from group companies	1,2	63,910	54,058
Investments in equity-accounted entities	3	459	
Financial fixed assets		**64,369**	**54,058**
Prepayments and other receivables		1	3
Cash and cash equivalents		19	21
Total current assets		**20**	**23**
Total assets		**64,390**	**54,081**
Issued capital	5	2,843	3,029
Share premium	6	124,323	123,329
Legal reserves	7	41,365	30,228
Other reserves	8	-114,726	-103,216
Total equity		**53,806**	**53,370**
Loans and borrowings		8,931	
Other financial liabilities		975	
Total non-current liabilities		**9,906**	
Accrued expenses		211	107
Provisions	10	344	579
Other current liabilities	4	122	25
Total current liabilities		**678**	**710**
Total equity and liabilities		**64,390**	**54,081**

Notes to the Company Financial Statements

PRINCIPLES OF VALUATIONS FOR THE FINANCIAL STATEMENTS

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

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

1. INVESTMENT IN AND RECEIVABLES FROM GROUP COMPANIES

In thousands of US dollars	2010	2009
Receivables non-current	31,336	22,230
Shares	32,574	31,828
	63,910	54,058

2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2010:

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2010	2009
Funcom GmbH	Switzerland	100.00	100.00
Funcom Sales GmbH	Switzerland	100.00	100.00
Sweet Robot GmbH*	Switzerland	95.00	95.00
Funcom Games Canada Inc	Canada	100.00	100.00
Funcom S.a.r.l.	Luxembourg	100.00	100.00
Funcom Inc	United States	100.00	100.00
Funcom Oslo AS	Norway	100.00	100.00
Sweet Robot AS	Norway	100.00	100.00

* Funcom GmbH holds 1 share equal to the remaining 5 % of the outstanding shares.

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

In thousands of US dollars	2010	2009
Balance at 01.01	31,828	41,240
Exchange difference	-603	2,700
Result of the year	820	-8,729
Change in participation		-4,246
Other movements	529	863
Balance 31.12	**32,574**	**31,828**

3. INVESTMENTS IN EQUITY-ACCOUNTED ENTITIES

In thousands of US dollars	2010	2009
Balance at 01.01		
Change in participation	319	
Exchange difference	59	
Result of the year	81	
Other movements		
Balance 31.12	**459**	

The Company holdes 50 % of MMORPG Technologies INC, Canada and 42 % of Stunlock Studios AB, Sweden as of December 31, 2010.

4. OTHER CURRENT LIABILITIES

Other current liabilities in 2010 and 2009 relate to service providers.

5. ISSUED CAPITAL

In thousands of US dollars	2010	2009
Balance at 01.01	3,029	2,979
Exchange	-209	50
Addition share-capital	23	
Balance 31.12	**2,843**	**3,029**

The share-capital was translated into US dollars at the December 31, 2010 exchange rate of EUR/USD 1.334.

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

- January 1, 52,832,125
- December 31 53,287,991

At December 31, 2010, the authorized share capital comprised of 250 million ordinary shares (2009: 250 million). The nominal value of the shares is Euro 0.04.The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

Share-capital and share premium	Number of ordinary shares	
	2010	2009
Outstanding at January 1	52,832,125	52,832,125
Issued against payment in cash	455,866	-
Outstanding at December 31 - fully paid	**53,287,991**	**52,832,125**
Nominal value of the share-capital at December 31 (EUR)	2,131,520	2,113,285

Events in 2009 and 2010:

Shares:

In March 2010, the Company issued 48,900 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.49 per share (USD 0.61). Gross proceeds amounted to EUR 23,948 (USD 29,711)

On May 18, 2010 Funcom held its Annual General Meeting where, pursuant to Section 4.1 of Funcom N.V.'s articles of association, the Board of Supervisory Directors were authorized to issue new shares in Funcom N.V. up to a maximum of 10 % of the issued capital of Funcom N.V. as per the date of the Meeting and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 1 year from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.3 of the Funcom N.V.'s articles of association authorized to limit or exclude the pre-emptive rights of the shareholders of Funcom N.V. in relation to each or any issuance of shares, or granting of rights to acquire shares, in the capital of Funcom N.V. This designation of the Board of Supervisory Directors is also valid for 1 year from the date of the Meeting.

The Board of Supervisory Directors were also, pursuant to Section 4.9 and 4.1 of Funcom N.V.'s articles of association, authorized to issue up to a maximum 3,000,000 (three million) rights to acquire shares in the capital of Funcom N.V. and to determine the terms and conditions of each and any such issuance(s). This designation of the Board of Supervisory Directors is valid for 1 year from the date of the Meeting.

Lastly, in this Annual General Meeting, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board were authorized for a period of 1 year from the date of the Meeting to acquire a maximum 10 % of the issued and outstanding shares in the capital of Funcom N.V. under the condition that such shares are traded on the Oslo Stock Exchange and their price is below NOK 15.

On May 26, 2010 the Company issued 306,966 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.29 per share (USD 0.37). Gross proceeds amounted to EUR 88,311 (USD 112,234).

In November 2010, the Company issued 100,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.35 per share (USD 0.49). Gross proceeds amounted to EUR 35,273 (USD 48,977).

Options:

On March 5, 2009, the Company issued 2,088,300 options as a part of the Group's options program. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On February 10, 2010, the Company issued 78,500 options as a part of the Group's options program to Mr. Miguel Caron – CEO of Funcom Games Canada INC. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On May 18, 2010, Funcom held its Annual General Meeting where, the Company issued 300,000 options to members of the Supervisory Board as a part of the Group's options program. One fourth of the options vest 5 months following the date of the grant and the remaining options vest 17 months following the date of the grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On May 18, 2010, the Company issued 21,500 options as a part of the Group's options program to Mr. Miguel Caron – CEO of Funcom Games Canada INC. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On August 1, 2010, the Company issued 1,428,000 options as a part of the Group's options program. One third of the options vest each of the three years subsequent to the date of grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On December 29, 2010 Funcom held an Extraordinary General Meeting where, the Company issued 150,000 options to members of the Management Board as a part of the Group's options program. One fourth of the options vest 6 months following the date of the grant and the remaining options vest 18 months following the date of the grant. The exercise price is the volume weighted average trade price on Oslo stock exchange 5 trading days prior and 5 trading days following the grant.

On December 29, 2010, the Company entered into a loan agreement with Stelt Holding N.V., a shareholder of the Company and also controlled by Supervisory Board Member Mr. Hans Peter Jebsen, involving issuance of 5,000,000 warrants. The exercise price is NOK 10 per share. The warrants expire March 30, 2014.

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5 % or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders *) had disclosed that they directly or indirectly controlled more than 5 % of the Company's total share capital on January 1, 2011:

- Mr. Hans Peter Jebsen (22.72 %)
- Northzone IV K/S (10.33 %)
- NVP General Partner II ApS (9.88 %)

*) there is one additional registration but according to Funcom's records, the entity no longer hold 5 per cent or more of the shares in the Company.

6. SHARE PREMIUM

In thousands of US dollars	2010	2009
Balance at 01.01	123,329	121,895
Share based payments	584	743
Change in provision for capital duty	242	60
Addition share premium	168	
Other		631
Balance 31.12	**124,323**	**123,329**

7. LEGAL RESERVES

Legal reserves are non distributable to shareholders.

8. OTHER RESERVES

In thousands of US dollars	2010	2009
Balance at 01.01	-103,216	-93,168
Exchange effect on share-capital	207	-50
Exchange effect on subsidiaries	-603	2,700
Movement to legal reserves	-11,137	-3,581
This year's result	23	-8,486
Other movements	0	-631
Balance at 31.12	**-114,726**	**-103,216**

9. SHARE BASED PAYMENTS

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

10. PROVISIONS

Dutch capital duty	2010	2009
Balance at January 1	-579	-628
Interest calculation	-14	-28
Aging of claims	222	88
Exchange	28	-11
Balance at December 31	**-344**	**-579**

11. EMPLOYEES

The average number of employees in Funcom N.V. for 2010 was 1 (2009: 1).

12. REMUNERATION OF THE MEMBERS OF THE MANAGING BOARD

Total remuneration

The remuneration to the members of the Managing Board is determined by the remuneration committee within the framework of the remuneration policy as approved by the shareholders meeting.

The total remuneration (including pension expenditures and other commitments) of the members of the Managing Board amounted to USD 388 thousands (2009: USD 344 thousands). The remuneration of the individual members of the Managing Board was as follows:

The CEO of the Group, who is also a member of the Management Board, received in 2010 a total remuneration including pensions of USD 335 thousands (2009: USD 288 thousands). The cost for share-based payment amounted to USD 39 thousands.

Pieter van Tol received in 2010 a total remuneration including pensions of USD 53 thousands (2009: 56 thousands). The cost for share-based payment amounted to USD 3 thousands.

Outstanding and exercised stock incentives

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

Overview of stock options

	Year of issuance	Outstanding on Dec. 31, 2009	2010 Granted	2010 Exercised	2010 Forfeited/ Expired	Outstanding on Dec. 31, 2010	Exercise price	Expiry date
Trond Arne Aas								
Stock options	2007	9,167	-	-	9,167	-	NOK 17.78	01-09-10
	2007	50,000	-	-	50,000	-	NOK 35.77	01-09-10
	2008	166,666	-	20,000	146,666	-	NOK 2.85	19-06-10
	2008	166,666	-	-	-	166,666	NOK 2.85	19-06-11
	2008	166,666	-	-	-	166,666	NOK 2.85	19-06-12
	2010		33,333	-	-	33,333	NOK 4.72	28-06-14
	2010		33,333	-	-	33,333	NOK 4.72	28-06-14
	2010		33,333	-	-	33,333	NOK 4.72	28-06-14
Total		559,165	100,000	20,000	205,833	433,332		
Of which vested		166,666				166,666		
Pieter van Tol								
Stock options	2008	16,666	-	16,666	-	-	NOK 2.85	19-06-10
	2008	16,667	-	-	-	16,667	NOK 2.85	19-06-11
	2008	16,667	-	-	-	16,667	NOK 2.85	19-06-12
	2010	-	16,667	-	-	16,667	NOK 4.72	28-06-14
	2010	-	16,667	-	-	16,667	NOK 4.72	28-06-14
	2010	-	16,667	-	-	16,667	NOK 4.72	28-06-14
Total		50,000	50,000	16,666	-	83,334		
Of which vested		16,667				16,667		

Shares

At year end 2009 the members of the Managing Board including related parties held 1,438,325 shares (year end 2008: 1,438,325).

Loans

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

13. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

A General Meeting stipulates the Supervisory Board's remuneration each year. The proposal for remuneration will be made by the Chairman of the Remuneration Committee. In 2010, the total remuneration to the Supervisory Board came to EUR 83 thousands (USD 109 thousands. 2009: EUR 83 thousands – USD 118 thousands). The Chairman of the Supervisory Board's remuneration was EUR 35 thousands and the other Supervisory Board members' remuneration was EUR 12 thousands. The fees for 2010 are outstanding by the end of the year.

The remuneration of the individual members of the Supervisory Board for 2010 was as follows:

	Board fee in €	Share-based payment in NOK
Torleif Ahlsand (chairman)	35,000	137,058
Hans Peter Jebsen	12,000	68,529
Claus Højbjerg Andersen	12,000	67,035
Michel Cassius	12,000	90,781
Frank Sagnier	12,000	68,529
Total	**83,000**	**431,932**

Stock options

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

Overview of stock options

Member/ Year of issuance	Outstanding on Dec. 31, 2009	2010 Granted	Exercised	Transferred	Forfeited/ Expired	Outstanding on Dec. 31, 2010	Exercise price	Expiry date
Torleif Ahlsand								
Stock options								
2008	25,000	-	25,000		-	-	NOK 2.85	21-11-10
2008	75,000	-	75,000		-	-	NOK 2.85	21-11-10
2010	-	25,000	-		-	25,000	NOK 5.30	18-04-12
2010	-	75,000	-		-	75,000	NOK 5.30	18-04-12
Total	100,000	-	-		-	100,000		
Of which vested	25,000				25,000			
Michel Cassius								
Stock options								
2007	16,667	-			16,667	-	NOK 35.77	01-09-10
2008	12,500	-	12,500		-	-	NOK 2.85	21-11-10
2008	37,500	-	37,500			-	NOK 2.85	21-11-10
2010		12,500	-		-	12,500	NOK 5.30	18-04-12
2010		37,500	-		-	37,500	NOK 5.30	18-04-12
Total	66,667	50,000	50,000		16,667	50,000		
Of which vested						12,500		
Frank Sagnier								
Stock options								
2008	12,500	-	12,500		-	-	NOK 2.85	21-11-10
2008	37,500	-	37,500		-	-	NOK 2.85	21-11-10
2010		12,500	-		-	12,500	NOK 5.30	18-04-12
2010		37,500	-		-	37,500	NOK 5.30	18-04-12
Total	50,000	50,000	50,000		-	50,000		
Of which vested						12,500		
Claus Højbjerg Andersen								
Stock options								
2008	12,500	-	-		12,500	-	NOK 2.85	21-11-10
2008	37,500	-	-		37,500	-	NOK 2.85	21-11-10
2010		12,500	-	12,500	-	-	NOK 5.30	18-04-12
2010		37,500	-	37,500	-	-	NOK 5.30	18-04-12
Total	50,000	50,000	-	50,000	50,000	-		
Of which vested						-		
Hans Peter Jebsen *)								
Stock options								
2008	12,500	-	12,500		-	-	NOK 2.85	21-11-10
2008	37,500	-	37,500		-	-	NOK 2.85	21-11-10
2010		12,500	-		-	12,500	NOK 5.30	18-04-12
2010		37,500	-		-	37,500	NOK 5.30	18-04-12
Total	50,000	50,000	50,000		-	50,000		
Of which vested						12,500		

*) In addition Stelt Holding N.V. holds 5,000,000 warrants to subscribe for shares in the Company at an exercise price of NOK 10 (see note 5).

14. AUDIT FEES

The Group's auditors received a total fee of USD 55,894 (2009: USD 66,729). The fee is distributed within these services and is not including VAT;

▪ statutory audit services	55,894
▪ further assurance services	0
▪ tax advisory services	0
▪ other non-audit services	0

15. TRANSACTIONS WITH RELATED PARTIES

On December 29, 2010, Funcom entered into a loan agreement with Stelt Holding N.V, currently the Company's largest shareholder and controlled by Hans Peter Jebsen, member of the Supervisory Board. The principal amount of the loan is USD 10 million with a fixed interest rate of 8 % per annum. The Company also issued 5 million warrants in connection with the debt issue, entitling Stelt Holding N.V to acquire an equal number of ordinary shares in Funcom at an exercise price of 10 NOK each.

A fee of USD 188 200 for legal advice in 2010 (2009: USD 110,226) has been paid to Weidema van Tol - a company in which Pieter van Tol (management board member) has an interest. Pieter van Tol also has an interest in Temmes Management Services B.V. – which has been paid a fee of USD 5 765 in 2010 (2009: USD 5,955). As at year end 2010 the outstanding amount between the Comany and Weidema van Tol amounted to USD 14 535 (2009: USD 9,023), and between the Company and Temmes Management Services B.V. the amount was 0 (2009: USD 0). The services rendered from both these companies were on market terms.

Zürich, April 28, 2011

The Supervisory Board of Directors in Funcom N.V.

Torleif Ahlsand, Chairman

Michel Cassius, Vice-Chairman

Hans Peter Jebsen

Frank Sagnier

Claus Højbjerg Andersen

The Managing Directors of Funcom N.V.

Trond Arne Aas

Pieter van Tol

Other information

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

In accordance with Article 34.1 of the Company's statutes, the result for the year is at the disposal of the shareholders in general meeting.

PROPOSED APPROPRIATION OF THE RESULT FOR THE YEAR

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

EVENTS AFTER THE REPORTING DATE

On January 10, 2011 the Company announced the co-publishing agreement entered into with Electronic Arts for *The Secret World.*

On January 17, 2011, the Company announced the three-way partnership with IMG and 505 Games to develop a Facebook service and game related to the Fashion Week brand.

The board of directors is not aware of other significant events other than as described above between December 31, 2010 and the date of authorization.

MAZARS

INDEPENDENT AUDITOR'S REPORT

To: the shareholders of Funcom N.V.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2010 of Funcom N.V., Katwijk. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2010, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of Funcom N.V. as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 29 April 2011

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

w.s. drs. R.C.H.M. Horsmans RA RV

Investor relations Policy for Funcom N.V.

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

This IR policy was approved by the Funcom Supervisory Board on 21 March 2007. The policy has since been revisited and approved by the Supervisory Board. The most recent evaluation took place in March 2011.

EQUAL TREATMENT

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

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

SPOKESPEOPLE FOR THE COMPANY

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

PUBLICATION OF PRICE SENSITIVE INFORMATION

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

GUIDANCE

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

RELATIONSHIP WITH INVESTMENT ANALYSTS, EARNINGS FORECASTS AND MARKET EXPECTATIONS

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

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

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

SILENT PERIOD

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

Financial Calendar for Funcom 2011

Funcom N.V. will publish its financial statements on the following dates in 2011:

▪ February 28	- Q4 2010
▪ May 25	- Q1 2011
▪ August 26	- Q2 2011
▪ November 11	- Q3 2011

Annual general meeting: June 27, 2011

The dates are subject to change.

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