

The image features three dark silhouettes of characters from Final Fantasy XIII-2 against a light, gradient background. The central character is a woman with long, flowing hair. To her left is a man with spiky hair, and to her right is another man with spiky hair. The silhouettes are filled with a semi-transparent image of a city skyline, including recognizable skyscrapers like the Chrysler Building. The overall aesthetic is dark and atmospheric.

FUNCOM N.V. | ANNUAL REPORT 2011





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# About Funcom

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Funcom is a world leading independent developer and publisher of massively multiplayer online games (MMOGs).

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 online games *Age of Conan* and *Anarchy Online*, as well as the adventure games *The Longest Journey* and *Dreamfall*.

The company is currently working on completing its next massively multiplayer online role-playing game (MMORPG) *The Secret World*. Launching on June 19<sup>th</sup>, *The Secret World* is one of the most anticipated games of its genre currently in development and over 750.000 gamers have registered as beta testers.

There are currently over 400 talented individuals from over 30 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 19 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 close to 1.5 million copies, making it the best selling new MMO of its launch year. The game is estimated to have generated over 120 million USD to Funcom and its partners. An expansion pack, *Rise of the Godslayer*, was launched in 2010 and received favorable critical acclaim. In 2011 *Age of Conan* introduced a free-to-play business model. Over two million players have experienced the virtual Hyboria to date.

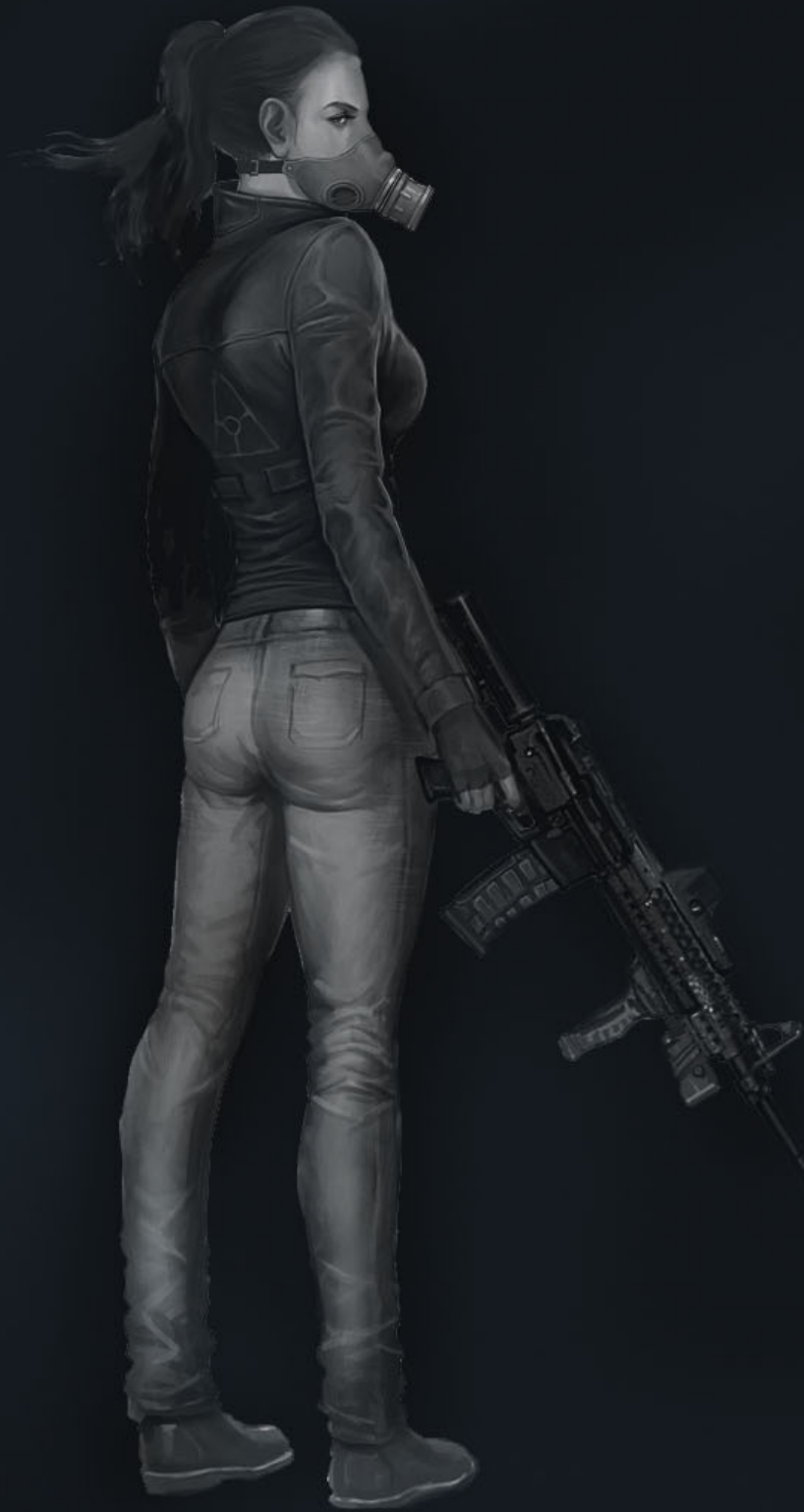
One of the key reasons for Funcom's achievements in the MMO segment is the development of a proprietary MMO engine called *Dreamworld*. This engine gives the developers the flexibility and power needed to create some of the most advanced virtual worlds on the market. After years of continuous development and upgrades, *Dreamworld* is one of the most powerful game engines available.

The company is also making headway in the free-to-play and social games market, currently working on several exciting projects such as *Fashion Week Live* and *Pets vs. Monsters*. In December 2010 the company also launched *Bloodline Champions* which became a very successful free-to-play game in its genre.

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

For more information, visit [www.funcom.com](http://www.funcom.com).





# Letter from the CEO

I sit down to write this letter during a very exciting period for Funcom. After a development period of several years, *The Secret World* is only months away from launch. And we are shortly to launch *Fashion Week Live*, Funcom's first significant game project in to the social games space.

*The Secret World* is Funcom's next major massively multiplayer online game (MMOG). For years a large development team has labored hard at creating a unique and compelling game experience in the MMOG genre, and feedback from press and gamers alike is that they are succeeding. On key elements of the game, such as game-play, character progression, setting, story and graphics, the game is getting a very positive response. It seems that the consensus opinion is that Funcom is succeeding at creating yet another strong competitor in the MMO segment. We at Funcom of course feel proud and humble at the positive feedback. And we are still very aware of all the hard work remaining until launch and following launch. Our ambition is of course that *The Secret World* should be an exciting and different game experience and that it should have that lasting appeal that make successful MMOGs such significant financial successes. We are well aware of both the launch risks of MMOGs as the game ramps up from having no players to hundreds of thousands of players in weeks, and the challenge in creating game experiences and game worlds that appeal for year after year, but we feel confident that we have made a strong game contender. In a few months we will know for sure how players across the world will respond to our game.

*Fashion Week Live*, our first significant game project in the social games space, is launching shortly. This is the latest in a portfolio of smaller free-to-play game concepts Funcom has developed in the last few years. Funcom's last free-to-play game launch was *Bloodline Champions*, which targets the more traditional gamer and has been both an excellent learning experience and a profitable game project. With *Fashion Week Live*, Funcom is taking on the social games space with a game that represents Funcom's characteristics of high-end production value in a new game segment and towards a new demographic. In a three-way partnership with IMG and 505-games, Funcom will try to entice the fashion interested audiences across the world to experience the fashion industry online and build a fashion career in *Fashion Week Live*.

The beta-testing phase of *Pets vs Monsters* continued during 2011 and at the end of the year, the Company launched a distribution partnership with a large online games portal with promising results. However, it has taken longer than originally expected to monetize *Pets vs. Monsters* and the revenue projections for the game were revised which lead to an impairment loss of USD 1,000 thousands.

*Age of Conan* and *Anarchy Online* remained cash flow positive through 2011. Both games are currently operating on a free-to-play model. The Company remains committed to maintain and invest in these games to maintain the loyalty of the devoted fans of these games while ensuring a profitable operation of the games.

*The Dreamworld Technology* that powers the high-end MMOGs of the Company saw significant development during 2011. Funcom is confident that this game engine has now reached a maturity that will enable faster, more cost efficient development of a new slate of smaller, more focused MMOs going forward. This focus will be a cornerstone of the Company post launch of *The Secret World*.

For the next few months the main focus of the Company will be on the launch of *The Secret World*. We are very satisfied with the feedback we have received so far in the press and among gamers and all our focus is now on creating the best MMO-game possible for the enjoyment of gamers across the world. Hopefully gamers will embrace the experience we have created and thus provide both a solid financial return for Funcom and a strong incitement to us to create more and even better MMO-games in the future.

With the best wishes of a great launch and a good time in *The Secret World*!

Trond Arne Aas  
Chief Executive Officer,  
Funcom NV.





AVAGELY

Keep out

Warning  
No Entry

# Age of Conan: Hyborian Adventures

Launched in May 2008, *Age of Conan* quickly became a success in retail, and the game has sold close to 1.5 million copies worldwide. 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.

2011 was an eventful year for *Age of Conan*. Following on from the success of the game's first expansion, *Rise of the Godslayer*, in 2010, which maintained an average 83 score on Meta-critic (and an 8.5 user score), Funcom further expanded the *Age of Conan* franchise in 2011 with both the new *Age of Conan: Unchained* version, and the launch of the second expansion content for the game, *The Savage Coast of Turan*.

The major development for the game in 2011 revolved around the launch of the new *Unchained Free to Play* version. Adopting a new hybrid business model, which merged the accessibility associated with the *Free to Play* market, with the traditional subscription model. The new version saw activity levels on the servers significantly increase, with a fourfold increase in players during Q3. Revenues saw a significant increase in Q3 due to the introduction of the new item store, and the launch of the *Savage Coast of Turan* expansion content.

The *Savage Coast of Turan* content was produced in close conjunction with Paradox Entertainment and Lionsgate Films, and was designed to tie to the release of the major motion picture reboot with *Conan the Barbarian*, which launched in cinemas in Q3.

The development team also released a series of free content expansions, including new dungeons and quests for existing players.

The addition of a secondary revenue stream through the item store has ensured that the project continues to experience a relatively stable level of gross revenues.

The Dreamworld technology platform was also updated twice in 2011, with significant platform improvements. These updates improved the performance of the Dreamworld game engine, and increased the efficiency of the networking and server solutions. The continued expansion of the technology platform aided the development team, and also provided important assurances on the stability of key platform additions in advance of the launch of *The Secret World*.

Q4 saw extremely competitive market conditions, both within the genre, and in the larger gaming space, which negatively impacted the revenue levels. This was offset to some degree by managed reductions in hosting and operating costs, and overall, the project remains comfortably cashflow positive. The size of the investments into *Age of Conan* will be adjusted to ensure that positive cash flow contribution from the game continues in 2012 while ensuring that the loyal fan-base of the game receives a continuous flow of updates and extensions of the game.

For more information, visit [www.ageofconan.com](http://www.ageofconan.com).







# Anarchy Online

Launched in 2001, *Anarchy Online* was one of the world's first science fiction themed massively multiplayer online games. Set in the world of Rubi-ka over twenty thousand years into the future, players actively participate in the conflict raging between the Rebel and Omni-Tek factions.

*Anarchy Online* and its content updates have won numerous awards, including "best massively multiplayer game" by PC Gamer (March 2002), "Expansion pack of the year" by Computer Gaming World (2002) for *The Notum Wars*, and nine Editor's Choice Awards for *Shadowlands*.

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. Currently, *Anarchy Online* enjoys a free-to-play hybrid business model with a browser based item shop. While subscriptions for *Anarchy Online* still continue to generate the bulk of the revenue for the project, increased focus on the item shop has brought in additional revenue in 2011, especially during holiday seasons and tie-ins with themed events in the game world.

*Anarchy Online* celebrated its 10<sup>th</sup> anniversary in June 2011, making it one of the longest running titles in the MMORPG genre. Funcom's commitment to *Anarchy Online* has provided for an extremely stable and loyal customer base which has translated to a far higher than average length of subscription.

*Anarchy Online's* longevity can be attributed to its close knit community, vast amount of in-game content, and game-specific mechanics that are substantially unique from the conventions of competitors. Players can upgrade, improve and customize their character in a vast variety of ways, and explore over 400 unique zones. The playable space in the game-world is over 400 square kilometers.

Due to these distinguishing attributes, Funcom believes the team's focus is well invested in the new rendering engine to greatly improve the graphical quality, a new player experience to draw more players into the game, and systems changes focused on balancing and unifying the several previous years worth of updates. In 2011 the team added a coder intern, and an artist intern (both have subsequently been hired as full-time employees), as well as a junior game designer, a new game director and new producer.

Funcom continues to put focus and resources into *Anarchy Online* due to its long-term performance in the competitive MMO market, and the wide variety of unique features which continue to distinguish the game from other offerings in the MMO space.

For more information, visit [www.anarchy-online.com](http://www.anarchy-online.com).





# The Secret World

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

Players will discover that all the conspiracies and urban legends of the world are all true as they adventure through locations such as New York, London, Egypt and Transylvania. Here they must fight nightmarish creatures known from real-world myths and legends.

In *The Secret World* players will also get to join one of three secret societies – the Illuminati, the Dragon or the Templar – and fight together or against each other 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 game is currently one of the most anticipated online games in development, and over 750,000 gamers have registered as beta testers to date. This number is higher than what the company saw for *Age of Conan* at the same time in development.

Currently the project is tracking well towards the release date of June 19<sup>th</sup> 2012, and the development team reached several important milestones throughout 2011. Results from beta testing are positive, with almost 9 out of 10 surveyed testers saying they will play the game at launch.

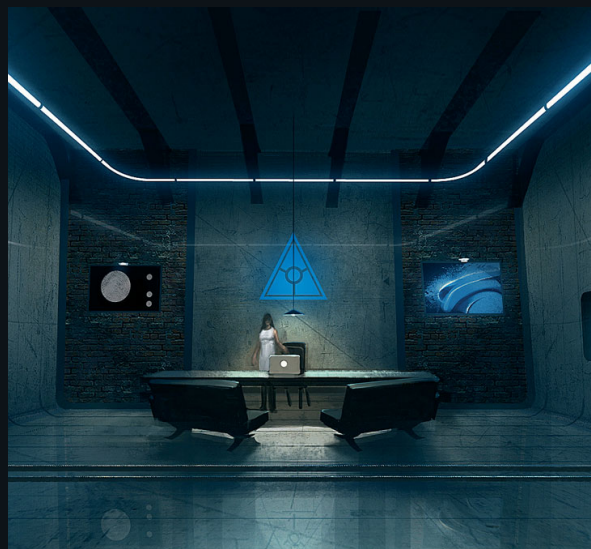
2011 saw a ramp-up in PR and marketing activities for *The Secret World*, starting with a significant showing of the game at the Game Developer Conference in San Francisco which resulted in positive attention for the game. Later the game was shown at several important events all over the world, such as the GamesCom expo in Cologne where the game received significant attention following the showing at the official EA press conference. After the press conference, *The Secret World* trended on the social networking platform *Twitter*, well above most other games, movies and celebrity personalities.

In October 2011, the international gaming press got to play the game themselves for the first time at *immersion events* hosted at Funcom's Montreal studio. Journalists had the opportunity to play the game for over six hours, sampling all aspects of the game from character development to combat, missions and dungeons. Reactions were very positive, and sites such as MMORPG.com said in their preview that the game will "... take the world by storm and set new standards of excellence in gameplay."

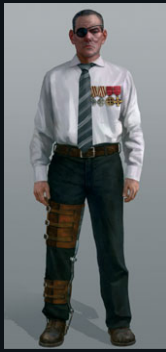
The hands-on also resulted in *The Secret World* dominating the holiday cover of PC Gamer US in 2011.

Funcom entered 2012 by kicking off the second press immersion event which resulted in similarly positive reactions as with the first event, and going forward Funcom will further ramp-up PR and marketing activities. In the coming months Funcom will be introducing a wide array of initiatives such as massive public beta events that will see hundreds of thousands of gamers enter *The Secret World* prior to launch.

For more information, visit [www.thesecondworld.com](http://www.thesecondworld.com)









# Free-to-play Massively Multiplayer Online Games

Funcom has made significant progress with the company's free-to-play initiatives in 2011.

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.

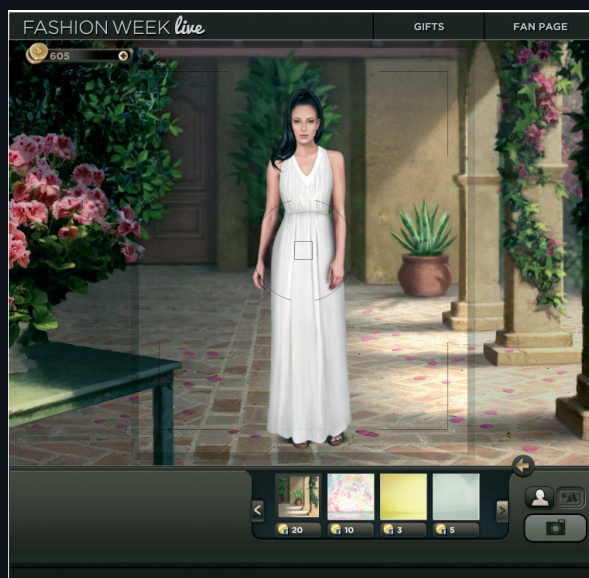
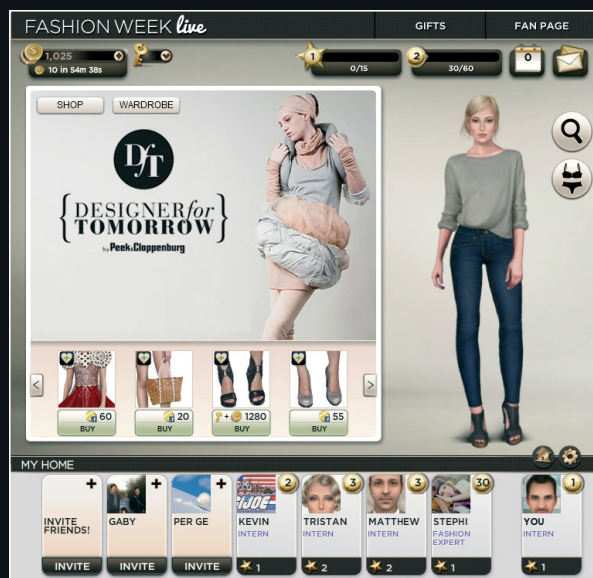
In February 2011, Funcom announced that the company has joined forces with global publisher of interactive entertainment 505 Games, global fashion, entertainment and media company IMG, and Creative Director Pat McGrath to develop the first interactive online entertainment platform for fashion lovers. Initially being developed for Facebook, *Fashion Week Live* will allow users to collaborate across many 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. *Fashion Week Live* is in a limited beta-testing phase since the beginning of 2012 and is expected to generate revenues for the company starting Q2 2012. *Fashion Week Live* demonstrates that Funcom is able to develop high-quality Facebook games with small teams within a relatively limited amount of time and budget.

Funcom made good progress on *Pets vs. Monsters* in 2011, successfully launching a number of beta phases and new features, substantially adding to the game's content and depth. *Pets vs. Monsters* performance and visual quality have been enhanced through improvements to the *FunWorld* technology. *Pets vs. Monsters* is a Java-based massively multiplayer online game







*Pets vs. Monsters*

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.

Funcom is excited about the development of the social and free-to-play gaming market, and the Company plans to further explore this market in the future.

For more information, visit [www.petsvsmonsters.com](http://www.petsvsmonsters.com) and [www.fashionworldlive.com](http://www.fashionworldlive.com).

#### **Bloodline Champions**

*Bloodline Champions* is a free to play title, which was 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



*Bloodline Champions*

for the marketing, distribution and server infrastructure for the game. 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.

*Bloodline Champions* launched in December 2010. Since launch over 1 million players have signed up for the game, with thousands more joining every day. The game achieved an overall Metacritic rating of 80, and has been a profitable free-to-play game for Funcom. In December 2011, the game expanded into the Russian market with the launch of the Russian language version. Funcom will continue to expand the reach of the game into other languages and markets with local partners in those territories.

For more information, visit [www.bloodlinechampions.com](http://www.bloodlinechampions.com).



*Bloodline Champions*



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# The Dreamworld Technology

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

A key part of Funcom's strategy has been to develop a proprietary MMOG engine. The *DreamWorld* engine eases the development and deployment process for future online games. This will enable the Company to develop faster 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, the effects and cinematics system, content creation 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 considered one of the most advanced MMOGs 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 2011 were the development of a state of the art DirectX 11 rendering engine, significant improvements to the production pipeline of the technology, reducing the development cost and speeding up iteration time for content producers and the introduction of single server architecture, to provide a new and groundbreaking way for players to have a common worldwide gameplay experience.





# 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 2011

Funcom's revenue for 2011 was USD 15,519 thousands compared to USD 20,062 thousands in 2010. The corresponding operating result for 2011 was USD -13,312 thousands compared to USD -593 thousands in 2010. Fully diluted basic earnings per share were USD -0.30 compared to USD 0.00 in 2010.

Funcom's equity stood at USD 42,918 thousands at year-end 2011, compared to USD 53,806 thousands at year-end 2010. The group had cash at the end of 2011 of USD 19,428 thousands compared to USD 22,693 thousands at the end of 2010.

In 2011, the Company completed a private placement of USD 15,000 thousands principal amount of senior unsecured convertible bonds due in 2014. The bonds are convertible into common shares of the Company and have an annual coupon of 10.00 percent payable semi-annually. The initial conversion price will be USD 1.37, and is subject to customary adjustment provisions. The bonds have been issued at 100 % of their principal amount and will, unless previously redeemed, converted or purchased and cancelled, mature on 22 December 2014. So far in 2012 bonds amounting to approximately USD 7,700 thousands have been converted.

As a result of the above mentioned bond issue, interest-bearing debt has increased significantly amounting to approximately USD 28,542 thousands in carrying value at year-end 2011. The equity to assets ratio was 55 % at year end 2011.

The solvency and liquidity of the company indicate that the company is financially solid and that it can continue with its strategy to further develop and launch the games which are currently in progress including *The Secret World*. This position is based on various assumptions; including cost structure, revenue projections, credit opportunities, timeline on the game developments amongst other factors. The Management Board evaluates the assumptions on a continuous basis. The Management Board also considers opportunities in raising additional capital via financing arrangements including equity issues should this be deemed in the best interest of the Company on a continuous basis.

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 on financial instruments and risk management.

## MAIN DEVELOPMENTS

The bulk of the revenues in 2011 as in 2010 originated from large-scale MMOs, in particular the Age of Conan game. During 1Q 2011 and 2Q 2011 revenues were in a slow decline. Revenues increased significantly during 3Q 2011 following a change in the business model and after launch of a tie-in pack with the movie Conan the Barbarian. During 4Q 2011 the revenues declined and were impacted by the launch of a competitor. So far in 2012 revenues are in a slow decline.

The development of *The Secret World*, the Company's next large-scale MMO progressed well during 2011 and the launch date for the game has been set to 19 June 2012. In 2011 the Company also communicated a target financial scenario for the game; with first year revenue generating USD 157,000 thousands in cash and the game profit margin amounting to 53 %. The Company has also communicated the basis and assumptions for the target financial scenario. *The Secret World* has received very positive feedback from the gaming press, also after several hands-on events. In addition, more than 750,000 players have so far signed up for the beta-program for the game, reinforcing the Company's belief in the sales potential of the product.

In the free-to-play segment, the Company entered a new, more significant phase of investments in this area in 2011, 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 game is set to launch during Q2 2012.

It has taken longer time than originally expected to monetize *Pets vs. Monsters*. The Company has also revised its revenue projections from the game, which lead to an impairment loss recognized in 4Q 2011 of USD 1,000 thousands. The Company has also recognized impairment losses on some of its other initiatives in the free-to-play segment, mainly relating to its first games aimed for Facebook, amounting to USD 1,121 thousands. The Company is 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 2011. In the large-scale MMOG segment, *World of Warcraft* maintained a dominant position, but the sales of *Star Wars: Knights of The Old Republic* were strong and *World of Warcraft* seems to have lost some of its dominant position. Also in 2011 the free-to-play MMOG segment saw a very significant change as the 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 high growth and profitability. More people than ever play online games and 2011 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. Recently several hands-on events for the world gaming press have been conducted and the game was recently demonstrated at the Game Developers Conference in San Francisco in March 2012. The focus of the Company going forward is to polish the various parts of the game play experience leading up to launch. In addition, the Company will continue to develop, stabilize and optimize the *DreamWorld Tehnology* game engine which runs the game. During 2011 the *DreamWorld Technology* was significantly upgraded in areas like graphics rendering, multi-location development support, content development tools and server technology.

## 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*, to be launched 19 June 2012, and its new free-to-play MMOs, in particular the Fashion Week project. In addition, the Company believes that the technology platform *Dreamworld Technology* provides a competitive edge going forward, as it will enable the Company to remain cost effective in development of new games and it opens up for a new type of MMO-games that are smaller and more focused than the previous MMOs from the Company, with a corresponding lower cost of development, but still remain true to Funcom's high-quality position. 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, 2011, the group employed approximately 377 employees (2010: 280 employees).

Sick leave in the group is considered low and amounts to 1.49 %. 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 equal opportunity of employment to all.

#### SHAREHOLDERS AND CAPITAL

The main principle of Funcom's shareholder policy is to maximize the return to shareholders over time. Funcom will 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 2011, Funcom N.V. had a share capital of USD 2,777 thousands (see Equity section in the Consolidated statement of financial position) consisting of 53,907,375 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 5,529,550 outstanding share options granted to employees and directors in the company at the end of 2011. In the Annual General Meeting held in June 2011, pursuant to Section 5.1 under c. of the Funcom N.V.'s articles of association, the Management Board was 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 Bank ASA (Funcom's VPS Registrar). The VPS Registrar registers interest in the shares in the VPS (in Norwegian: *depotbevis*). Therefore, not the shares themselves, but the interests in the shares issued by the VPS Registrar are registered in the VPS and are listed on Oslo Stock Exchange. The VPS Registrar is registered as the legal owner of the shares in the shareholders' register that Funcom N.V. maintains pursuant to Dutch law. The VPS Registrar, or its designee, will hold the shares issued to investors as nominee on behalf of each investor. The VPS Registrar provides for the registration of each investor's depositary ownership in the shares in the VPS on the investor's individual VPS account. The depositary ownership of the investors is registered in the VPS under the category of a "share" and the depositary ownership is listed and traded on Oslo Stock Exchange. Investors who purchase shares (although recorded as owners of the shares in the VPS) have no direct shareholder rights in Funcom N.V.. Each share registered with the VPS represents evidence of depositary ownership of one share. The shares registered with the VPS are freely transferable, with delivery and settlement through the VPS system.

The VPS Registrar or its designee shall only vote the shares it holds, or issue a proxy to vote on such shares, in accordance with each investor's instructions. Funcom N.V. will pay dividends directly to the VPS Registrar, that has undertaken, in turn, to distribute the dividends to the investors in accordance with contractual arrangements on that point. On average 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](http://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 2011. In 2011 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 2011 is USD 42,918 thousands.

#### **EVENTS AFTER THE REPORTING PERIOD**

After the reporting period there have been 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.

Badhoevedorp, The Netherlands, April 23, 2012

Trond Arne Aas

Pieter van Tol

Frank Sagnier



# 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 Nederlandse Corporate Governance Code*), that be found on

[www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl) and the Norwegian Code of Practice for Corporate Governance (*Eierstyring og Selskapsledelse*), that can be found on [www.ncgb.no](http://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:

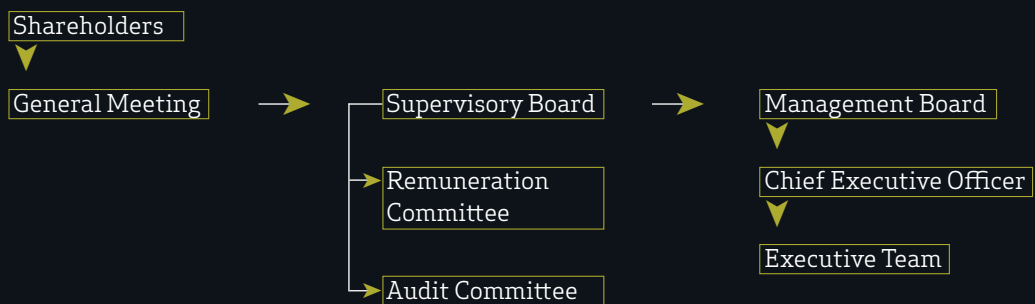
This form of corporate governance, which separates the powers of management from those of supervision, is considered to offer the most balanced framework governing the exercise of power.

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



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 2012.

## 2. BUSINESS

The business of Funcom N.V. is defined in the Company's Articles of Association which – inter alia – 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](http://www.funcom.com)

**Departures from the recommendation:** None

## 3. EQUITY AND DIVIDENDS

### Equity

At 31 December 2011, consolidated equity came to USD 42,918 thousands, accounting for 55 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.

### 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 2011, 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 (Vice-) Chairman of 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 and Management Board regulations can be found at [www.funcom.com](http://www.funcom.com)

#### **Pre-emption rights**

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

**Departures from the recommendation:** None

### **5. FREELY NEGOTIABLE SHARES**

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

**Departures from the recommendation:** None

### **6. GENERAL MEETINGS**

By virtue of the 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 2 weeks' 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 (depot-bevis 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 Bank ASA).

The representatives of neither the Supervisory 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 Supervisory Board. This is a departure from the recommendation for independent chairing of meetings.
- The representatives of neither the Supervisory 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 Supervisory Board shall carry out the duties of proposing the candidates for election to the Supervisory Board and to the corporate assembly (to the extent this exists) and the fees to be paid to members of these bodies. The Supervisory Board shall justify such recommendations.



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

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

The members of the Supervisory Board are: Gerhard Florin (Chairman), Torleif Ahlsand (Vice-Chairman), Michel Cassius and Claus Højbjerg Andersen.

The General Meeting elects the four to seven members of the Supervisory Board further to a proposal from the Supervisory Board. Decisions on the composition of the Supervisory 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 Supervisory Board as a whole is capable of dealing with Supervisory 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.

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

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

### Departures from the recommendation:

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

## 9. THE WORK OF THE BOARD OF DIRECTORS

### Board responsibilities

The Supervisory Board produces an annual plan for its work. The Supervisory Board has issued instructions for its own work through regulations. The Supervisory Board's main tasks include participating in developing and adopting the Company's strategy, performing the relevant control functions and serving as an advisory body for the executive management. The Supervisory Board approves the Company's plans and

budgets. Items of major strategic or financial importance for the Company are items approved by the Supervisory Board. The Supervisory Board is responsible for hiring the CEO and defining his or her work instructions as well as setting his or her wages. The Supervisory 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 Supervisory Board.

### Financial reporting

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

### Notification of meetings and discussion of items

The Supervisory Board schedules regular meetings each year at the same time as they agree on the next year's financial calendar. Ordinarily, the Supervisory Board meets 6-8 times a year, normally in Badhoevedorp, The Netherlands. 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 Supervisory Board meetings. The Supervisory Board members also regularly receive operations reports. The Company's business plan, strategy and risks are regularly reviewed and evaluated by the Supervisory Board. The Supervisory Board Members are free to consult the Company's senior executives as needed.

The Supervisory Board draws up and establishes an annual plan, including themes for the Supervisory 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 Supervisory Board personally, this matter will be chaired by some other member of the Supervisory 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.

- 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 policies. Members: Torleif Ahlsand (Chairman) and Gerhard Florin (Member).

### The Board's self-evaluation

In March 2012 the Chairman of the Supervisory Board presented an evaluation of the Supervisory Board's duties and working methods. The Supervisory Board's working methods and interaction are discussed on an ongoing basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.

**Departures from the recommendation:** None.

## 10. RISK MANAGEMENT AND INTERNAL CONTROL

The Company's internal control and system for risk management has improved over the course of 2011. 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 2011 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

The 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 2011, the total remuneration to the Supervisory Board came to EUR 88,500. The remuneration of the Chairman and Vice-Chairman of the Supervisory Board was EUR 35,000 each and the other Supervisory Board members' remuneration was EUR 12,000. The fees for 2011 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 Supervisory Board Members, e.g., to be able to have a board composition that reflects the global nature of its business.

## 12. REMUNERATION OF EXECUTIVE PERSONNEL

### Guidelines

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

The option program and the allocation of options to the Management Board and Supervisory Board are decided upon by the General meeting. 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 certain 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](http://www.kvk.nl) and the website of the AFM is: [www.afm.nl](http://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 [Management Board?] 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 [Management Board?] will arrange for a valuation from an independent expert, and the Company's [Supervisory Board?] will issue a statement making a recommendation as to whether shareholders should or should not accept the offer.

**Departures from the recommendation:** None.

### 15. AUDITOR

#### The auditor's relationship with the Board

An outline of the work planned by the auditor is presented for the audit committee on an annual basis. The Chairman of the Audit Committee conducts a separate meeting with the auditor and management prior to the Supervisory Board's discussion of the financial statements. The auditor is always present during the Supervisory Board's discussions of the annual accounts. In that connection, the Supervisory Board is briefed on the financial statements and items of special concern to the auditor, including any points of contention between the auditor and management. The Supervisory Board arranges annual meetings 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.



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# Statement of compliance with the Dutch Corporate Governance Code

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

■ **Provision II.2.4:**

The options become exercisable before the lapse of the three year time period set out in the Dutch Corporate Governance Code. Funcom has an option program for the members of the Management Board where one third of the options vest each year during three years following the grant date. The options are in principle only vested if the member of the Management Board is still employed with Funcom on the date that the options vest. 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. The allocation of options to the members of the Management Board – as part of their remuneration – is subject to the approval of the General Meeting of Shareholders.

■ **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 2011.

■ **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.2.10:**

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. The Supervisory Board in principle does not have the right to make adjustments to the value of the options granted to members of the Management Board.

■ **Provision II.2.11:**

The Supervisory Board in principle does not have the right to cancel the options, or other variable components of the remuneration of the members of the Management Board

■ **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.
- **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.5.14:**  
 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.7.1:**  
 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 2012 financial year.
- **Provision V.2.1:**  
 The auditor is always on standby to attend the Annual General Meeting depending on shareholder attendance.
- **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.

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# Responsibility Statement

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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 2011 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies whose financial information it consolidates; and
- The Report of the Management Board gives a true and fair view of the position as per December 31, 2011, the development during 2012 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

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# Corporate Governance Declaration

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This declaration is in accordance with article 2a of the decree on additional requirements for annual reports as amended on 1 January 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 2011. 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 22 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 33.
- 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 24.
- 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 33.
- The provisions of the Norwegian Code of Practice for Corporate Governance largely follow requirements as indicated in the EU take over directive.

Badhoevedorp, April 23, 2012

Trond Arne Aas  
Managing Director and CEO

Pieter van Tol  
Managing Director

Frank Sagnier  
Managing Director

# Report of the Supervisory Board of Directors

## ANNUAL REPORT

We hereby present you with the Annual Report for 2011, 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 2011 was USD 15,519 thousands compared to USD 20,062 thousands in 2010. The corresponding operating result for 2011 was USD -13,312 thousands compared to USD -593 thousands in 2010. Fully diluted basic earnings per share were USD -0.30 compared to USD 0.00 in 2010. Funcom's equity stood at USD 42,918 thousands at year-end 2011, compared to USD 53,806 thousands at year-end 2010. The group had cash at the end of 2011 of USD 19,428 thousands compared to USD 22,693 thousands at the end of 2010.

In 2011, the Company completed a private placement of USD 15,000 thousands principal amount of senior unsecured convertible bonds due 2014. The bonds are convertible into common shares of the Company and have an annual coupon of 10.00 percent payable semi-annually. The initial conversion price will be USD 1.37, and be subject to customary adjustment provisions. The bonds will be issued and redeemed at 100 % of their principal amount and will, unless previously redeemed, converted or purchased and cancelled, mature on 22 December 2014. So far in 2012 bonds amounting to USD 7,700 thousands have been converted.

As a result of the above mentioned bond issue, interest-bearing debt has increased significantly amounting to appr. USD 28,542 thousands in carrying value at year-end 2011. The equity to assets ratio was 55 % at year end 2011.

The bulk of the revenues in 2011 originated from *Age of Conan*. In 2011 Funcom continued to invest in *Age of Conan*, continuously upgrading the game and adding new content. The development of *The Secret World*, Funcom's next large-scale MMO is progressing well. The launch date for the game has been set to June 19, 2012. The game's team size was around 200 people at the year end of 2011. *The Secret World* will use the next version of the proprietary *DreamWorld Technology* that was developed for *Age of Conan* as the core game engine, which will reduce the technical risk of the project significantly.

The Company's efforts into the free-to-play 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, to be launched on Facebook. The investment into this project will be significantly higher than for Funcom's previous Facebook initiatives.

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 2011 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 2011 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 2011 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](http://www.funcom.com).

The Supervisory Board is of the opinion that it is presently constituted in compliance with best practice provision III.2.1 of the Dutch Corporate Governance Code, with the understanding that – as indicated below – only one of its members can not be considered as independent.

The following professionals served on the Supervisory Board as at year-end, 2011:

#### Gerhard Florin, Chairman of the Supervisory Board

(born 1959, male, German,  
1<sup>st</sup> term, member since 2011)

Dr. Florin presently works as an independent contractor. In that capacity he currently serves as board member for: King.com based in London; InnoGames based in Hamburg; and Kobojo based in Paris. From 2006 to 2010 Dr. Florin served as an Executive Vice President and General Manager of Publishing of Electronic Arts Inc., being responsible for their worldwide publishing business. From 1996 to 2006, Dr. Florin held various positions in Electronic Arts in Germany and UK. Prior to that he worked at BMG, the global music division of Bertelsmann AG, and served as a Consultant of McKinsey. Dr. Florin holds Master's and Ph.D. degrees in Economics from the University of Augsburg, Germany. Dr. Florin holds 100,000 share options in the company and 0 shares.

#### Torleif Ahlsand, Vice-Chairman of the Supervisory Board

(born 1966, male, Norwegian,  
4<sup>th</sup> 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. Prior to Northzone, Mr. Ahlsand was VP Corporate Finance in Handelsbanken Securities and a corporate development executive in Orkla ASA. Mr. Ahlsand also has a professional technical background as a research scientist at CERN outside Geneva and as a telecommunications engineer in NERA Telecom. Mr. Ahlsand holds a M.Sc. degree in Electrical Engineering and Computer Science from NTNU (1991) and an MBA with Honors from IMD in Switzerland (1997). Mr. Ahlsand holds 300,000 shares in Funcom directly and through his company Brownske Bevegelse AS and holds 200,000 share options in the company. In addition, Brownske Bevegelse AS holds one bond of USD 100,000, with a right to convert it into a total of 72,992 shares in Funcom N.V. at USD 1.37 per share.

**Michel Cassius,**

(born 1957, male, French,  
3<sup>rd</sup> term, member since 2006)

Mr. Cassius is 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 50,000 shares and 100,000 share options in the Company.

**Claus Højbjerg Andersen,**

(born 1965, male Danish,  
3<sup>rd</sup> 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. Ahlsand (chairman) and Mr. Florin (member) and has conducted 3 meetings during 2011 with remuneration of the Management Board and the allocation of options as the main agenda points. The Audit Committee consists at year end 2011 of Mr. Højbjerg Andersen (chairman) and Mr. Cassius (member). The committee has conducted 2 meetings during 2011 with accounting policies, risk management and control as well as approval of financials as the main agenda points.

Badhoevedorp, The Netherlands, April 23, 2012

The Supervisory Board of Directors in Funcom N.V.

Gerhard Florin, Chairman

Torleif Ahlsand, Vice-Chairman

Michel Cassius

Claus Højbjerg Andersen



# Funcom N.V.

## Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2011	2010
<b>Continuing operations</b>			
Revenue	4,5	15,519	20,062
Personnel expenses	6,17	-9,443	-8,989
General and administrative expenses	7,21	-8,801	-6,315
Depreciation, amortization and impairment losses	11,12	-7,829	-3,194
Other operating expenses	8	-2,758	-2,156
Operating expenses		<u>-28,831</u>	<u>-20,655</u>
Operating result		<u>-13,312</u>	<u>-593</u>
Share of result from equity-accounted entities	21	-17	81
Finance income	9	10,526	5,277
Finance expenses	9	-13,408	-4,690
Result before income tax		<u>-16,210</u>	<u>75</u>
Income tax (expense) / income	10	-85	-53
Result from continuing operations		<u>-16,295</u>	<u>23</u>
<b>Result for the period</b>		<b><u>-16,295</u></b>	<b><u>23</u></b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		765	-286
Exchange differences on intercompany loans part of net investment in a foreign entity		-245	-317
Other		13	242
Other comprehensive income for the year, net of tax		<u>533</u>	<u>-362</u>
<b>Total comprehensive income for the year</b>		<b><u>-15,762</u></b>	<b><u>-339</u></b>



# Funcom N.V.

## Consolidated Statement of Comprehensive Income

for the year ended December 31

In thousands of US dollars	Note	2011	2010
<b>Result for the period attributable to:</b>			
Equity holders of Funcom N.V.		-16,295	23
Non-controlling interests			
		<b>-16,295</b>	<b>23</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of Funcom N.V.		-15,762	-339
Non-controlling interests			
		<b>-15 762</b>	<b>-339</b>
<b>Earnings per share *</b>	23		
<u>From continuing operations</u>			
Basic earnings per share (US dollars)		(0.30)	0.00
Diluted earnings per share (US dollars)		(0.30)	0.00

\* 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	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Deferred tax asset	10	558	329
Intangible assets	4,11	49,879	41,693
Equipment	12	2,016	1,509
Investments in equity-accounted entities	21	473	459
Long term receivables	25	447	497
Total non-current assets		<u>53,373</u>	<u>44,486</u>
<b>Current assets</b>			
Trade receivables	13,25	1,353	1,225
Prepayments and other receivables	14	4,173	2,178
Cash and cash equivalents	15	19,428	22,693
Total current assets		<u>24,953</u>	<u>26,095</u>
Total assets		<u>78,327</u>	<u>70,582</u>

# Funcom N.V.

## Consolidated Statement of Financial Position

As at December 31

In thousands of US dollars	Note	2011	2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		2,777	2,742
Reserves		129,306	123,934
Retained earnings		-89,165	-72,871
Equity attributable to equity holders of Funcom		42,918	53,806
<b>Total equity</b>	16	42,918	53,806
<b>Non-current liabilities</b>			
Loans and borrowings	25,26	22,104	8,931
Other financial liabilities	25,26		975
Deferred tax liabilities	10	297	10
<b>Total non-current liabilities</b>		22,401	9,916
<b>Current liabilities</b>			
Trade payables	25	1,034	1,351
Deferred income	19	1,060	2,161
Income tax liability	10	78	53
Provisions	18	399	446
Loans and borrowings	25	6,719	291
Other short term liabilities	20	3,718	2,558
<b>Total current liabilities</b>		13,008	6,860
<b>Total liabilities</b>		35,409	16,775
<b>Total equity and liabilities</b>		78,327	70,582

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	2011	2010
<b>Cash flows from operating activities</b>			
Profit (loss) before income tax		-16,210	75
Adjustments for:			
Depreciation, amortization and impairment losses	11,12	7,829	3,194
Share-based payments	6,16,17	703	584
Share of result from equity-accounted entities	21	17	-81
Interest income/expense		688	-112
Effect of exchange rate fluctuations		359	127
Change in fair value warrants and interest not payable		1,269	
Change in trade and other receivables		-67	-824
Change in trade payables		-308	274
Change in other current assets and liabilities		25	-4,205
Cash generated from operations		-5,693	-968
Interest received		81	174
Interest paid		-769	-62
Income tax and other taxes paid		-5	-232
<i>Net cash from operating activities</i>		-6,386	-1,088
<b>Cash flows from investing activities</b>			
Purchase of equipment	12	-547	-609
Investment in intangible assets	11	-17,814	-14,745
Change in long term receivables			
Purchase of shares in equity-accounted entities	21		-317
Loan from a joint-venture		110	
<i>Net cash used in investing activities</i>		-18,251	-15,670
<b>Cash flows from financing activities</b>			
Net proceeds from issue of share capital	16	480	191
Proceeds from borrowings	25,26	21,162	10,000
Payment of finance lease liabilities			-787
<i>Net cash from financing activities</i>		21,643	9,404
<b>Net increase in cash and cash equivalents</b>		-2,995	-7,355
<b>Effect of exchange rate fluctuations</b>		-270	-900
<b>Cash and cash equivalents at beginning of period</b>	15,25	22,693	30,948
<b>Cash and cash equivalents at end of period</b>	15,25	19,428	22,693

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	Warrants and conversion rights reserve	Retained earnings	Attributable to owners of the parent
<b>Equity as at January 1, 2010:</b>	<b>2,719</b>	<b>120,982</b>	<b>2,347</b>	<b>-103</b>		<b>-72,575</b>	<b>53,370</b>
Profit or loss for the year						23	23
Exchange differences on translating foreign operations				-286			-286
Exchange differences on intercompany loans part of net investment in a foreign entity						-317	-317
Other		242				242	
Other comprehensive income f.t.year		242		-286		-317	-362
<b>Total comprehensive income f.t.year</b>		<b>242</b>		<b>-286</b>		<b>-294</b>	<b>-339</b>
Share-based payments			584				584
Issued share capital	23	168					191
Other							
<b>Equity as at December 31, 2010</b>	<b>2,742</b>	<b>121,391</b>	<b>2,931</b>	<b>-389</b>		<b>-72,870</b>	<b>53,806</b>
<b>Equity as at January 1, 2011:</b>	<b>2,742</b>	<b>121,391</b>	<b>2,931</b>	<b>-389</b>		<b>-72,870</b>	<b>53,806</b>
Profit or loss for the year						-16,295	-16,295
Exchange differences on translating foreign operations				765			765
Exchange differences on intercompany loans part of net investment in a foreign entity				-245			-245
Other		13					13
Other comprehensive income f.t.year		13		520			534
<b>Total comprehensive income f.t.year</b>		<b>13</b>		<b>520</b>		<b>-16,295</b>	<b>-15,762</b>
Share-based payments			703				703
Issued share capital	34	446					480
Reclassification of warrants and convertible bonds equity element					3,690		3,690
Other							
<b>Equity as at December 31, 2011</b>	<b>2,777</b>	<b>121,850</b>	<b>3,634</b>	<b>131</b>	<b>3,690</b>	<b>-89,165</b>	<b>42,918</b>

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 Keplerstraat 34, Badhoevedorp 1171 CD The Netherlands. The Company is listed on the Oslo Stock Exchange under the ticker "FUNCOM"

The consolidated financial statements of the Company as at and for the year ended December 31, 2011, 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 23, 2012.

### 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.

#### 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. IAS 24 (revised 2009) with a mandatory implementation date of 1 January 2011 was early adopted in 2010.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendments to IAS 32	Classification of Rights Issues	October 2009	February 1, 2010
Amendments to IFRIC 14	Prepayments of a Minimum funding Requirement	November 2009	January 1, 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	November 2009	July 1, 2010
*Improvements to IFRSs (Various Standards and Interpretations) issued in 2010	Improvements to IFRSs	May 2010	January 1, 2011 <sup>1</sup>

<sup>1</sup> The implementation dates for the various improvements vary, the earliest mandatory date is July 1, 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 31 December 2011.

The directors anticipate that these Standards and Interpretations will be adopted in the Group's financial statements for the period beginning 1 January 2012 or later. Effective dates are as applicable for IFRSs as adopted by the European Union as these in some cases may 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. Standards and Interpretations that are clearly not relevant for the Group's financial statements (e.g. amendments to IFRS 1 *First time adoption of IFRSs*) have not been included in the below schedule.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendment to IFRS 7	Disclosures - transfers of financial assets	October 2010	July 1, 2011
IFRS 9 <sup>2</sup>	Financial Instruments	November 2009	January 1, 2015
IFRS 10 <sup>2</sup>	Consolidated Financial Statements	May 2011	January 1, 2013
IFRS 11 <sup>2</sup>	Joint Arrangements	May 2011	January 1, 2013
IFRS 12 <sup>2</sup>	Disclosure of Interests in Other Entities	May 2011	January 1, 2013
IFRS 13 <sup>2</sup>	Fair Value Measurement	May 2011	January 1, 2013
Amendments to IAS 1 <sup>2</sup>	Presentation of Items of Other Comprehensive Income	June 2011	July 1, 2012
Amendments to IAS 12 <sup>2</sup>	Deferred Tax – Recovery of Underlying Assets	December 2010	January 1, 2012
IAS 19 (as revised in 2011) <sup>2</sup>	Employee Benefits	June 2011	January 1, 2013
IAS 27 (as revised in 2011) <sup>2</sup>	Separate Financial Statements	May 2011	January 1, 2013
IAS 28 (as revised in 2011) <sup>2</sup>	Investments in Associates and Joint Ventures	May 2011	January 1, 2013
Amendments to IFRS 7 <sup>2</sup>	Disclosures - Offsetting Financial Assets and Financial Liabilities	December 2011	January 1, 2013
Amendments to IAS 32 <sup>2</sup>	Offsetting Financial Assets and Financial Liabilities	December 2011	January 1, 2014

<sup>2</sup> The standard/revised standard/amendment has as at the date of issue of these financial statements not yet been adopted by the EU



## 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.

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



## 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.

#### 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 USD 1.67 per share. As at 31 December 2010, the warrants did not meet the definition of equity and were consequently classified as a financial liability at fair value in the Statement of Financial Position. The warrants were reclassified to equity on 27 June 2011, following changes in the agreement terms, and measured at their fair value as at that date. The equity component is not subsequently re-measured. The Group used valuation techniques that included inputs that were 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. Retail 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. The impairment charges made in 2011 relate to the free-to-play segment while in 2010 they were related to the large-scale MMO segment.

	Revenue from external customers		Segment profit	
	Period ended December 31		Period ended December 31	
In thousands of US dollars	2011	2010	2011	2010
Large-scale MMO's	13,813	19,773	2,242	9,240
Free-to-play MMO games	1,706	289	1,074	-324
Unallocated				
<b>Total</b>	<b>15,519</b>	<b>20,062</b>	<b>3,316</b>	<b>8,916</b>
General administrative expenses			-8,798	-6,315
Depreciation, amortization and impairment charges			-7,829	-3,194
Net financial items			-2,899	668
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-16,210</b>	<b>75</b>

### Segment assets

In thousands of US dollars	2011	2010
Large-scale MMO's reportable assets	46,664	37,688
Free-to-play MMO's reportable assets	2,963	3,677
Total assets for reportable segments	49,627	41,365
Other non-current assets	3,746	3,122
Current assets	24,953	26,095
<b>Consolidated total assets</b>	<b>78,327</b>	<b>70,582</b>

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 2011	14,649	2,732
Investments in intangible assets 2010	13,599	1,330

### 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	2011		2010	
	Revenue	Non-current assets (**)	Revenue	Non-current assets (**)
The Netherlands *)				
Switzerland	8,758	45,494	11,980	38,706
Luxembourg	6,725	922	7,887	
Norway	37	3,551	196	3,208
Canada		1,746		1,248
USA		161		40
Other		21		
<b>Total</b>	<b>15,519</b>	<b>51,895</b>	<b>20,062</b>	<b>43,202</b>

\*) 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. No customers exceeded 10 per cent of total revenues in 2011. 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.

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

## 5. REVENUE

In thousands of US dollars	2011	%	2010	%
Revenues online games	15,112	97.4 %	19,937	99.4 %
Revenues offline games	234	1.5 %	125	0.6 %
Other	173	1.1 %		0.0 %
<b>Total revenue</b>	<b>15,519</b>		<b>20,062</b>	
Rendering of services	14,707	94.8 %	17,520	87.3 %
Royalties	774	5.0 %	2,346	11.7 %
Other	37	0.2 %	196	1.0 %
<b>Total revenue</b>	<b>15,519</b>		<b>20,062</b>	

## 6. PERSONNEL EXPENSES

In thousands of US dollars	2011	2010
Salaries	5,935	5,957
Social security contributions	1,037	757
Contributions to defined contribution plans	81	196
Expenses for share option program	703	584
Other personnel expenses	1,687	1,496
<b>Total personnel expenses</b>	<b>9,443</b>	<b>8,989</b>

Average number of employees:	2011	2010
Europe	101	120
North America	168	112
Asia	43	50
<b>Total</b>	<b>311</b>	<b>282</b>

## 7. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2011	2010
Travel & marketing	3,118	2,009
Consultants	1,728	1,501
Rent of premises and other office costs	1,531	876
Royalties	770	1,022
Investor relations	170	148
IT, hardware and software	521	315
Other	963	444
<b>Total general and administrative expenses</b>	<b>8,801</b>	<b>6,315</b>





## 8. OTHER OPERATING EXPENSES

In thousands of US dollars	2011	2010
Commissions	555	535
Hosting and bandwidth costs for online services	2,193	1,580
Sales and distribution costs	10	42
<b>Total other operating expenses</b>	<b>2,758</b>	<b>2,156</b>

## 9. FINANCE INCOME AND EXPENSES

In thousands of US dollars	2011	2010
Interest income	87	174
Net foreign exchange gain	9,653	5,103
Other financial income	36	
Change in fair value financial derivatives	750	
Finance income	10,526	5,277
Interest expense	-1,193	-62
Net foreign exchange loss	-10,540	-4,626
Other finance expenses	-50	-1
Change in fair value financial derivatives	-1,625	
Finance expenses	-13,408	-4,690

The above financial items all relate to assets and liabilities carried at amortized cost except financial derivatives which are measured at fair value.

## 10. INCOME TAX EXPENSE

In thousands of US dollars	2011	2010
Result before income tax	-16,210	75
Tax according to the average tax rate in Switzerland, Luxembourg, Canada, USA, China and Norway	1,561	-7
Tax effect of non-deductible expenses	-471	-98
Tax effect of non-taxable income	147	
Withholding tax and capital asset tax	-8	
Utilization of losses carried forward		27
Derecognition of deferred tax asset		
Deferred tax asset related to carry forward tax losses not recognised	-1,314	26
Income tax (expense) / income	-85	-53

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

Current period	-38	-125
Adjustments for prior periods	-38	-125
Deferred tax expense		
Origination and reversal of temporary differences	-46	71
		71
Income tax expense from continuing operations	-85	-53
Total income tax income (expense)	-85	-53

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



## DEFERRED TAX LIABILITY/TAX ASSET

In thousands of US dollars	2011	2010
Deferred tax liability	-297	-10
Deferred tax asset	558	329
<b>Deferred tax asset, net</b>	<b>261</b>	<b>319</b>
<b>Deferred tax effect of tax increasing temporary differences:</b>		
Equipment and intangible assets	1,082	1,231
Provisions		
Tax allocation reserve		
Tax losses carried forward		
<b>Total deferred tax effect of tax increasing temporary differences</b>	<b>1,082</b>	<b>1,231</b>
<b>Deferred tax effect of tax reducing temporary differences:</b>		
Tax losses carried forward	9,827	9,617
Equipment and intangible assets	609	156
Provisions/receivables		7
Other temporary differences		
<b>Total deferred tax effect of tax reducing temporary differences</b>	<b>10,436</b>	<b>9,781</b>
Deferred tax asset (net) not recognized in the balance sheet:	9,093	8,231
<b>Recognized deferred tax asset, net</b>	<b>261</b>	<b>319</b>
<b>Reconciliation of deferred tax asset, net:</b>		
Opening balance	319	250
Change according to statement of income	-46	71
Exchange differences etc.	-12	-3
<b>Deferred tax asset, net, at year-end</b>	<b>261</b>	<b>319</b>

The Group has tax losses of USD 112,040 thousands as at December 31, 2011 (2010: USD 96,171 thousands) which expire as follows:

In thousands of US dollars	2011	2010
Expire year		
2011		
2012		
2013		
2014	204	203
2015	88,836	88,744
2016	2,699	2,696
2017	4,532	4,527
2018	13,382	
2029	93	
2031	1,626	
Indefinite	668	
<b>Total tax losses</b>	<b>112,040</b>	<b>96,171</b>

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 position will be reconsidered in 2012 after the launch of *The Secret World*. 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
<b>Cost</b>			
Balance at January 1, 2010	73,386	1,113	74,498
Acquisitions, internally developed	16,312		16,312
Other acquisitions		62	62
Disposals			
Government grant	-1,383		-1,383
Translation difference		2	2
<b>Balance at December 31, 2010</b>	<b>88,316</b>	<b>1,177</b>	<b>89,492</b>
Balance at January 1, 2011	88,316	1,177	89,492
Acquisitions, internally developed	19,346		19,346
Other acquisitions		49	49
Disposals			
Government grant	-1,964		-1,964
Translation difference		-11	-11
<b>Balance at December 31, 2011</b>	<b>105,697</b>	<b>1,215</b>	<b>106,912</b>
<b>Accumulated amortization and impairment losses</b>			
Balance at January 1, 2010	43,056	595	43,651
Amortization for the year	5,025	165	5,190
Impairment losses (reversal of losses)	-1,130		-1,130
Disposals			
Translation difference		89	89
<b>Balance at December 31, 2010</b>	<b>46,950</b>	<b>850</b>	<b>47,800</b>
Balance at January 1, 2011	46,950	850	47,800
Amortization for the year	6,999	133	7,132
Impairment losses (reversal of losses)	2,121		2,121
Disposals			
Translation difference		-20	-20
<b>Balance at December 31, 2011</b>	<b>56,070</b>	<b>963</b>	<b>57,033</b>
<b>Carrying amount at Jan. 1, 2010</b>	<b>30,331</b>	<b>518</b>	<b>30,848</b>
<b>Carrying amount at Dec. 31, 2010</b>	<b>41,365</b>	<b>328</b>	<b>41,694</b>
<b>Carrying amount at Jan. 1, 2011</b>	<b>41,365</b>	<b>328</b>	<b>41,694</b>
<b>Carrying amount at Dec. 31, 2011</b>	<b>49,627</b>	<b>252</b>	<b>49,879</b>

The received government grant mainly relates to multimedia tax credits accrued in Funcom Games Canada Inc and 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 Class	2011			2010		
	Under development	In use	Total	Under development	In use	Total
Goodwill						
Development costs	34,779	14,848	49,627	27,308	14,057	41,365
Technology						
Software		252	252		328	328
Patents and licenses						
<b>TOTAL</b>	<b>34,779</b>	<b>15,100</b>	<b>49,879</b>	<b>27,308</b>	<b>14,385</b>	<b>41,693</b>

#### **Capitalization of amortization and depreciation**

The Group capitalized borrowing costs and amortization and depreciation on assets used in development of games as an integral part of the book value of the games. Borrowing costs included in capitalized development costs for 2011 were USD 248 thousands (2010: USD 0). Amortization and depreciation included in capitalized development costs for 2011 were USD 2,024 thousands (2010: USD 1,626 thousands).

#### **Calculation of recoverable amounts**

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

The cash flows are discounted using a pre-tax rate of 12 per cent for *Age of Conan* (2010: 14 per cent), 13 per cent for *The Secret World* (2010: 15 per cent), 12 per cent for *Pets vs Monsters* (2010: 14 per cent) and 13 per cent for *Fashion Week Live* (2010: n/a). *The DreamWorld Technology* was allocated to *The Secret World* and *Age of Conan* based on a 90/10 ratio (2010: 85/15) 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. 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 management's best estimate, but is subject to a relatively high degree of uncertainty; especially for games not launched and for games to be launched in the free-to-play segment where Funcom has limited experience.

#### **Research and development**

In 2011 the Group expensed USD 131 thousands in research and development (2010: USD 534 thousands).

#### **Inefficiency**

The Group did not expense any costs related to inefficiencies in 2011 or 2010.



## 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 God-slayer* - 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* was impaired in 2010 (USD 3,114 thousands) due to a negative development in revenues. In 2011, a new hybrid business model was introduced and the expansion content *Savage Coast of Turan* was launched together with an in-game item store. As a result, the impairment test performed at the end of 2011 demonstrated that the recoverable amount of the cash-generating unit *Age of Conan* approximates its carrying amount and no further impairment loss or reversal of previously recognized impairment loss are required. Had the 2010 discount rate of 14 per cent (2011: 12 per cent) for *Age of Conan* been used (increase by 2 per cent) the net carrying value would have exceeded the recoverable amount by approximately USD 200 thousands (impairment charge).

The carrying amount of *Age of Conan* is USD 4,585 on December 31, 2011 (2010: USD 6,847 thousands). As at December 31, 2011 the accumulated impairment charge for the cash generating unit *Age of Conan*, which includes 10% of the impairment losses allocated to the *Dreamworld Technology*, is USD 24,934 (2010: USD 24,700). The initial cost at launch of the game will be fully amortized in 1.5 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 in 2010 led to a reversal of part of the impairment loss recognized in 2008. The reversal amounted to USD 4,244 thousands which was determined to be the carrying amount of the cash generating (net of amortization) had no impairment loss been recognized. Given that *IAS 37.117 Impairment of assets* prohibits reversal of impairment in excess of thus determined carrying amount, no further reversal of the remaining part of the impairment loss recognized in 2008 is allowed. Provided that the project is tracking well towards its release date of June 19, 2012 with positive feedback from the press and the testers the impairment test performed at the end of 2011 demonstrated that the recoverable amount of the cash-generating unit exceeds significantly its carrying amount and no recognition of an impairment loss is required.

The carrying amount of *The Secret World* is USD 33,108 thousands on December 31, 2011 (2010: USD 23,631 thousands). As at December 31, 2011 the accumulated impairment charge for the cash generating unit *The Secret World*, which includes 90 % of the impairment losses allocated to the *Dreamworld Technology*, is USD 2,106 thousands (2010: USD 1,989 thousands including 85 % of the *Dreamworld Technology* allocated to the cash generating unit).

Any reasonably possible change in key variables would not lead to an impairment charge for *The Secret World* in 2011.

*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 8,723 thousands on December 31, 2011 (2010: USD 7,210 thousands). The initial cost of the technology will be fully amortized in 2.5 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 development cost for *The Secret World*. In 2011 USD 1,696 thousands had been capitalized (2010: 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 2011 the accumulated amount of the impairment losses is USD 2,340 thousands (2010: USD 2,340 thousands).

### *Pets vs. Monsters*

*Pets vs. Monsters* is a free-to-play MMO game aimed at the 8 to 12 years old demographic. The game is set in a fantasy 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. In 2011 Funcom successfully launched a number of beta phases and new features, substantially adding to the game's content and depth.

Despite the improvements to the game made in 2011, the impairment test performed at year end led to an impairment charge of USD 1,000 thousands due to revised revenue projections. (2010: nil).

The carrying amount of *Pets vs. Monsters* is USD 1,540 thousands on December 31, 2011 (2010: USD 3,007 thousands) after the impairment and the amortization, which started in the first quarter of 2011. The initial cost of the game will be fully amortized by the end of 2013.

### *Fashion Week Live*

*Fashion Week Live* is an 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 Week Live* is in a beta-testing phase since the beginning of 2012 and is expected to generate revenues for the company starting Q2 2012.

The carrying amount of *Fashion Week Live* is USD 1,423 thousands on December 31, 2011 (2010: USD 0 thousands).

*Fashion Week Live* is not yet amortized.

### *Other games*

The impairment test performed in 2011 also led to a write-off of USD 1,121 thousands related to three games within the free-to-play segment as it was decided that one of them will not be completed and the two others were taken out of operation. As a result, the carrying amount of other games in the category development costs amounts to USD 0 thousands on December 31, 2011 (2010: USD 670 thousands).

## 12. EQUIPMENT

In thousands of US dollars	Computers	Furniture	Total
<b>Cost</b>			
Balance at January 1, 2010	9,358	410	9,769
Acquisitions	176	1,154	1,329
Disposals			
Discontinued operation			
Translation difference	463	10	474
<b>Balance at December 31, 2010</b>	<b>9,997</b>	<b>1,574</b>	<b>11,572</b>
Balance at January 1, 2011	9,997	1,574	11,572
Acquisitions	356	779	1,135
Disposals			
Discontinued operation			
Translation difference	-45	-29	-75
<b>Balance at December 31, 2011</b>	<b>10,308</b>	<b>2,324</b>	<b>12,632</b>
<b>Accumulated depreciation and impairment losses</b>			
Balance at January 1, 2010	8,616	268	8,884
Disposals			
Discontinued operation			
Impairment charges			
Depreciation for the year	571	181	752
Translation difference	492	-64	428
<b>Balance at December 31, 2010</b>	<b>9,678</b>	<b>384</b>	<b>10,064</b>
Balance at January 1, 2011	9,678	384	10,064
Disposals			
Discontinued operation			
Impairment charges			
Depreciation for the year	221	379	600
Translation difference	-39	-6	-45
<b>Balance at December 31, 2011</b>	<b>9,860</b>	<b>756</b>	<b>10,618</b>
<b>Carrying amount at Jan. 1, 2010</b>	<b>743</b>	<b>143</b>	<b>886</b>
<b>Carrying amount at Dec. 31, 2010</b>	<b>319</b>	<b>1,190</b>	<b>1,509</b>
<b>Carrying amount at Jan. 1, 2011</b>	<b>319</b>	<b>1,190</b>	<b>1,509</b>
<b>Carrying amount at Dec. 31, 2011</b>	<b>448</b>	<b>1,568</b>	<b>2,016</b>
<b>Method of depreciation</b>	<b>Straight line</b>	<b>Straight line</b>	
<b>Estimated useful lives</b>	<b>3 years</b>	<b>3 years</b>	



### 13. TRADE RECEIVABLES

In thousands of US dollars	2011	2010
Trade receivables	1,359	2,245
Allowances for impairment	6	1,020
<b>Trade receivables, net</b>	<b>1,353</b>	<b>1,225</b>

As of December 31, 2011 trade receivables consisted of USD 717 thousands in USD and USD 490 thousands in EURO and a balance of USD 146 thousands relates to other currencies. The respective numbers for 2010 were USD 645 thousands in USD and USD 580 thousands in EURO and a balance of USD 0 thousands relates to other currencies.

In 2010 the impairment allowance was mainly related 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 dispute was settled at the end of 2011 and in January 2012 the Company received USD 200 thousands more than the book value of the receivable (see note 25).

### 14. PREPAYMENTS AND OTHER RECEIVABLES

At December 31, 2011 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 (2010: mainly accrued multimedia tax credits and other government grants, a receivable on an equity-accounted entity and ordinary operational prepayments).

### 15. CASH AND CASH EQUIVALENTS

In thousands of US dollars	2011	2010
Cash at bank and in hand	19,428	22,693
Short-term bank deposits	0	0
Cash and cash equivalents in the statement of financial position	19,428	22,693
Restricted cash included in Cash at bank and in hand	14,756	372

USD 256 thousands of the restricted cash relates to cash at a separate account for tax deducted from salaries. The remaining USD 14 500 thousands of restricted cash are the proceeds from the issuance of 150 convertible bonds (see note 25). The proceeds were released for use in operations on January 12, 2012 when the loan agreement was approved by the shareholders at the Extraordinary General Meeting.

In addition, the Company is also required to maintain a deposit of USD 2.5 million with a Canadian bank for the use of one of the credit facilities with a fair market value of USD 6 million (see note 25).

### 16. EQUITY

#### Share-capital and share premium

Number of ordinary shares	2011	2010
Outstanding at January 1	53,287,991	52,832,125
Issued against payment in cash	619,384	455,866
Outstanding at December 31 - fully paid	53,907,375	53,287,991
Nominal value of the share-capital at December 31 (EUR)	2,156,295	2,131,520

At December 31, 2011, the authorized share capital comprised of 250 million ordinary shares (2010: 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 2011:

### Shares:

In March 2011, the Company issued 226,800 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.50 per share (USD 0.70). Gross proceeds amounted to EUR 113,039 (USD 157,613).

In July 2011, the Company issued 111,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.51 per share (USD 0.73). Gross proceeds amounted to EUR 56,154 (USD 80,777).

In October 2011, the Company issued 21,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.47 per share (USD 0.63). Gross proceeds amounted to EUR 9,835 (USD 13,208).

In November 2011, the Company issued 260,584 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.52 per share (USD 0.71). Gross proceeds amounted to EUR 135,133 (USD 185,245).

### Options:

On August 12, 2011, the Company issued 1,768,000 options as a part of the Group's options program. With regard to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. 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 June 27, 2011, Funcom held its Annual General Meeting where, the Company issued 250,000 options to members of the Supervisory Board and 200,000 options to a member of the Management Board as a part of the Group's options program. Half of the of the options granted to the members of the Supervisory Board vest annually in the two years following the grant. One third of the options granted to the member of Management Board 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.

### Other:

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of USD 1.37 per share.

Under the Dutch Act on Financial Supervision (Wet op het financieel toezicht), shareholdings of 5 % or more in a Dutch issuing institution must in principle 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, 2012:

- Mr. Hans Peter Jebsen
- Northzone IV K/S
- NVP General Partner II ApS

### 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 2011 or 2010. No dividends relating to year 2011 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 2011 was USD 81 thousands (2010: USD 196 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
June 27, 2011	8,000,000	AGM 2012
<b>Total number of options authorized</b>	<b>16,250,000</b>	

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 2009	Vested in 2010	Vested in 2011	Vested in 2012	Vested in 2013	Vested in 2014
February 27, 2008	433,500	264,917	144,500	24,083			
December 19, 2008	850,000	333,333	333,333	183,333			
March 12, 2009	2,088,300		1,218,175	696,100	174,025		
February 10, 2010	78,500			47,972	26,167	4,361	
May 18, 2010	321,500			161,347	157,167	2,986	
August 01, 2010	1,428,000			634,667	476,000	317,333	
December 29, 2010	150,000			50,000	50,000	50,000	
June 27, 2011	450,000				191,667	191,667	66,667
August 12, 2011	1,768,000				785,778	589,333	392,889

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 (NOK)	Number of options	Weighted average exercise price (NOK)
	2011	2011	2010	2010
Outstanding options on January 1	4,073,542	4.36	3,315,439	6.15
Options granted	2,218,000	6.75	1,978,000	3.90
Options with extended expiry period <sup>1)</sup>	765,191	n/a	n/a	n/a
Options exercised	-619,383	3.96	455,866	3.25
Options terminated	-425,400	9.96	269,767	4.99
Options expired	-482,400	12.07	494,264	15.24
Outstanding options on Dec 31	5,529,550	4.94	4,073,542	4.36

List of outstanding options:	Number of options	Fair value per option	Number of options	Fair value per option
	2011	2011	2010	2010
Vested (exercisable) options	2,206,553	3.67	689,733	3.80
Weighted Average Fair Value of Options Granted during the period	2,218,000	2.45	1,978,000	1.68

<sup>1)</sup> The expiry period was extended at the Annual General Meeting held in June 2011.

Out of the 5,529,550 outstanding options at December 31, 2011 (2010: 4,073,542), 2,206,553 options were exercisable (2010: 689,733). Options exercised in 2011 resulted in 619,383 new shares at NOK 3.96 on average (2010: 455,866 new shares at NOK 3.25 on average).

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

Expiry day	Exercise price	Shares 2011	Shares 2010
June 19, 2011	NOK 2.85	-	183,333
September 1, 2011	NOK 25.34	-	103,274
April 18, 2012	NOK 5.30	-	300,000
June 19, 2012	NOK 2.85	496,667	183,335
September 12, 2012	NOK 3.94	1,057,133	-
November 18, 2012	NOK 5.30	200,000	-
August 10, 2013	NOK 4.29	78,500	78,500
September 9, 2013	NOK 3.94	-	1,625,600
November 18, 2013	NOK 5.30	21,500	21,500
December 27, 2013	NOK 6.85	250,000	-
February 1, 2014	NOK 3.48	1,307,750	1,428,000
June 28, 2014	NOK 4.72	-	150,000
June 29, 2014	NOK 4.72	150,000	-
December 27, 2014	NOK 6.85	200,000	-
February 12, 2015	NOK 6.73	1,768,000	-
		<b>5,529,550</b>	<b>4,073,542</b>

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was NOK 2.45 per option (2010: NOK 1.68). The significant inputs into the model were a weighted average share price of NOK 6.73 – 6.85 (2009: NOK 3.48 – 5.30) at the grant date, the exercise prices shown above, volatility of 61 % - 64 % (2010: 64 % - 79 %), dividend yield 0 % (2010: 0 %), an expected option life of 2.9 – 3.4 years (2010: 1.5 - 3.5 years), an expected annual turnover rate of 7 % (2010: 7 %) and an annual risk free rate of 1.8 % – 2.6 % (2010: 2.0 % – 2.8 %). The volatility measured is based on the variation in daily share prices for Funcom.



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

Name	Number of shares	Number of options	Comments
<b>Supervisory board</b>			
Gerhard Florin		100,000	Mr. Florin - Chairman of the Supervisory Board controls G. Florin Consulting GMBH, which holds 100,000 options to subscribe for shares in the Company.
Torleif Ahlsand	300,000	200,000	Mr. Ahlsand - Vice-chairman of the Supervisory Board - holds 200,000 of the shares through his company Brownske Bevegelse AS. Brownske Bevegelse AS also holds one bond of USD 100,000, with a right to convert it into a total of 72,992 shares in Funcom N.V. at USD 1.37 per share. Mr. Ahlsand is a partner of Northzone Ventures, which holds 5,449,175 shares in the Company.
Michel Cassius	50,000	100,000	
Claus Højbjerg Andersen	-	-	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.
<b>Management Board</b>			
Frank Sagnier	168,000	200,000	
Trond Arne Aas	1,457,825	580,000	Mr. Aas is the CEO of Funcom N.V. and member of the Management Board of Funcom N.V. 754,500 of the shares are held by Arminius AS, a company controlled by Mr. Aas.
Pieter van Tol	33,833	66,667	



## 18. PROVISIONS

In thousands of US dollars	Tax on capital	Onerous Contracts	Total
Balance at January 1, 2011	344	102	446
Provisions made during the year			
Provisions used during the year		-33	-33
Provisions reversed during the year	-13		-13
Exchange rate differences			
<b>Balance at December 31, 2011</b>	<b>331</b>	<b>69</b>	<b>399</b>

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 331 thousands (including interest) (2010: USD 344 thousands). The Company believes it has arguments to dispute the capital duty liabilities but has made provision for the possible claim in full.

The provisions for onerous contracts relate to empty office premises.

All provisions are expected to be fully used during the 2012 financial year.

## 19. DEFERRED INCOME

The amount consists mainly of subscription prepayments from subscribers.

## 20. OTHER SHORT TERM LIABILITIES

The amount mainly consists of:

- vacation pay accrued
- taxes and social security relating to salary payments
- accrual of other regular operating expenses
- amount due to a partner until fulfillment of a contractual obligation

## 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 -17 thousands (2010: USD 81 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, 2010	December 31, 2010	
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
Funcom's share:	-3	113	109
less amortization of fair value adjustment	-28		-28
<b>Share of result 2010:</b>	<b>-31</b>	<b>113</b>	<b>81</b>

Reporting date	December 31, 2011	December 31, 2011	
Current assets	199	982	1,180
Non-current assets	327	155	481
Total assets	525	1,136	1,662
Current liabilities	142	672	815
Non-current liabilities		49	49
Total liabilities	142	721	864
Income	453	3,417	3,870
Expenses	-446	-3,289	-3,735
Profit/loss	7	128	135
Funcom's share:	3	64	67
less amortization of fair value adjustment	-84		-84
<b>Share of result 2011:</b>	<b>-81</b>	<b>64</b>	<b>-17</b>

## 22. LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of US dollars	2011	2010
Less than one year	1,653	2,563
Between one and five years	1,158	3,331
More than five years	1,044	1,170
<b>Total</b>	<b>3,855</b>	<b>7,064</b>

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, 2011, USD 1,531 thousands was recognized as an expense in the Statement of Comprehensive Income in respect of operating leases (2010: USD 1,946 thousands).

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

## 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 -16,295 thousands (2010: USD 23 thousands) divided by the weighted average number of ordinary shares outstanding 53,561,206 (2010: 53,124,025).

When calculating the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted for all the dilution effects relating to share options and the conversion feature of the warrants and the convertible bonds. As the Company made losses in 2011, the dilutive effect of share options and the conversion feature of convertible bonds are anti-dilutive, i.e. would reduce losses per share. This effect is thus not included in the calculation of diluted earnings (losses) per share.

	2011	2010
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands)	-16,295	23
Profit / (loss) for the period attributable to the equity holders of Funcom (USD thousands) - continuing operations	-16,295	23
Issued ordinary shares as of January 1	53,288	52,832
Effect of shares issued		
Effect of options exercised	273	292
Weighted average number of shares at December 31	53,561	53,124
<b>Basic earnings per share</b>	<b>(0.30)</b>	<b>0.00</b>
<b>Basic earnings per share - continuing operations</b>	<b>(0.30)</b>	<b>0.00</b>
Weighted average number of shares at December 31, basic	53,561	53,124
Effect of share options on issue		
Weighted average number of shares at December 31, diluted	53,561	53,124
<b>Diluted earnings per share</b>	<b>(0.30)</b>	<b>0.00</b>
<b>Diluted earnings per share - continuing operations</b>	<b>(0.30)</b>	<b>0.00</b>

## 24. CONTINGENT LIABILITIES

As of December 31, 2011 the group has no contingent liabilities (2010: 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 2011	Carrying amount 2010
Loans and receivables*	5,225	3,421
Cash and Cash equivalents	19,428	22,693
	24,653	26,114

\* Includes trade receivables of USD 1,353 thousands (2010: USD 1,225 thousands), long-term receivables of USD 447 (2010: USD 497 thousands) which relates to long term deposits on operational leases, Multimedia Tax Credits of USD 2,939 thousands (2010: USD 855 thousands) and a receivable on an equity-accounted entity of USD 456 thousands (2010: USD 573).

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

In thousands of US dollars	Carrying amount 2011	Carrying amount 2010
North America	123	
Europe	1,230	1,225
	1,353	1,225

Receivables on credit card service providers amount to USD 532 thousands of the trade receivables carrying amount at December 31, 2011 (2010: USD 858 thousands).

### Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	800		891	
Past due 0-30 days	156		37	
Past due 31-120 days	106		17	
More than 120 days	297	6	1,300	1,020
	1,359	6	2,245	1,020

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

In thousands of US dollars	2011	2010
Balance at January 1	1,020	995
Reversal of allowance	-200	25
Utilized during the year	-814	
Translation difference		
Balance at December 31	6	1,020



In 2010 the impairment allowance was mainly related 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 and the book value of the receivable at the end of 2010 was USD 250 thousand. The dispute was settled at the end of 2011 and in January 2012 the Company received USD 200 thousands more than the book value of the receivable. As a result, the Company reversed USD 200 thousands of the allowance with a corresponding credit to revenues. The remaining allowance and account receivable of USD 814 thousands were written off.

#### 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
<b>As at December 31, 2011</b>						
Trade and other payables	8,003	8,103	1,640	6,463		
Long term debt	22,104	31,268	1,150	1,169	12,375	16,575
	<b>30,106</b>	<b>39,371</b>	<b>2,790</b>	<b>7,632</b>	<b>12,375</b>	<b>16,575</b>
<b>As at December 31, 2010</b>						
Trade and other payables	1,891	1,902	1,902			
Long term debt	8,931	12,400	400	400	800	10,800
	<b>10,822</b>	<b>14,302</b>	<b>2,302</b>	<b>400</b>	<b>800</b>	<b>10,800</b>

Other payables consist of USD 250 thousands due to a business partner and USD 6,719 thousands of bank borrowings bearing interest of 4.10% - 6.5%. These borrowings include credit facilities with a carrying amount of USD 6.3 million and a demand facility with a carrying amount of USD 370 thousands secured by group assets (see following sentence) and secured by tax credits with a book value of USD 2,939 thousands at the end of December 31, 2011. Funcom is required to maintain a deposit of USD 2.5 million with the same bank for the use of one of the credit facilities with a fair market value of USD 6 million.

Long term debt consists of USD 9,326 thousands interest-bearing loan from Stelt Holding N.V. (2010: USD 8,003 thousand), USD 12,572 thousands convertible bonds (2010: nil) and USD 205 thousands non-interest bearing reimbursable government contribution (2010: nil).

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousands (total USD 15,000 thousands) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share.

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 (see Fair values below) 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
<b>As at December 31, 2011</b>					
Trade and other receivables	916	490	376	3,417	26
Cash and cash equivalents	14,973	475	668	3,218	94
Trade and other payables	-467	-170	-365	-6,962	-39
Net balance sheet exposure	15,422	795	679	-327	81
<b>As at December 31, 2010</b>					
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

The following exchange rates applied during the year:

Reporting rate	Average rate		Spot rate at December 31	
	2011	2010	2011	2010
EUR 1	1,395	1,315	1,295	1,334
NOK 1	0,170	0,166	0,167	0,171
CAD 1	1,008	0,977	0,980	1,002

#### 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. The analysis includes only outstanding foreign currency (non-US dollar) denominated monetary items and adjusts their translation at the period end for a 10 per cent change in foreign currency rates. This analysis assumes that all other variables, e.g. interest rates, remain constant. The basis of the analysis has been amended from the prior year and the comparative figures have been changed to reflect this fact. In prior years, the analysis attempted to simulate the effect on profit or loss of changing the exchange rates. In the current year the analysis has been amended to focus on the potential effect of the foreign currency denominated financial assets and liabilities as at the end of the financial year.

In thousands of US dollars	Equity	Profit or loss
<b>December 31, 2011</b>		
EUR	-86	-86
NOK	-93	-93
CAD	-621	-621
<b>December 31, 2010</b>		
EUR	-249	-249
NOK	-411	-411
CAD	339	339

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. issued in 2010 and convertible bonds issued in 2011 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	2011	2010
Loans and borrowings	-6,719	
Cash and cash equivalents	19,428	22,693
Net exposed to interest risk	12,709	22,693
100 bp increase in interest rate	115	204
100 bp decrease in interest rate	-115	-204

### 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 were in 2010 included in Other financial liabilities (non-current) and measured at fair value through profit or loss. As at December 31, 2011 there are no derivative financial liabilities.

### 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. entered into on December 29, 2010, and convertible bonds, issued on December 22, 2011), see description below, were initially measured at fair value less attributable transaction costs.

In thousands of US dollars	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Loans and receivables	5,225	5,225	3,421	3,421
Cash and cash equivalents	19,428	19,428	22,693	22,693
Trade and other payables	-8,003	-8,003	-1,891	-1,891
Long term debt	-22,104	-22,811	-8,931	-9,025
Other financial non-current liabilities (warrants)			-975	-975

On December 22, 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on December 22, 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. The interest is payable semi-annually starting 22 June 2012. It was determined that the convertible bonds represent a compound financial instrument in accordance with IAS 32. Funcom recognized a liability of USD 12,572 thousand in the Statement of Financial Position. This is the fair value of the liability, applying an interest rate of 16% (discount rate), which is the interest rate of a similar liability that does not have a conversion feature. An equity component of USD 1,840 thousand was also recognized in the Statement of Financial Position as a residual amount after deducting the fair value of the financial liability from the proceeds from the bonds as a whole. The liability will be subsequently measured at amortized cost.



Brownske Bevegelse AS, a company controlled by Torleif Ahlsand, Vice-Chairman of the Supervisory Board, holds one bond of USD 100 thousand with a right to convert it into a total of 72,992 shares in Funcom NV at USD 1.37 per share.

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. The warrants were presented as financial liabilities at fair value through profit or loss as the criteria for classifying these instruments as equity were not satisfied as at December 31, 2010. In order to determine the fair market value of the two components the Company applied an interest rate of 12% (discount rate), which is the interest rate of a similar liability but without the warrants.

After the initial recognition, the loan component is measured at amortized cost. The warrants were classified as financial liabilities (derivative) until June 27, 2011 and measured at fair value through profit or loss in the Company's financial statements. The change in fair value of this item amounting to USD 875 thousand (a loss of USD 1,625 thousand in the first quarter of 2011 and a gain of USD 750 thousand in the second quarter of 2011) is included in financial items in the income statement. The change in the fair value of the warrants is largely due to a change in the share price of Funcom, and a change of the US dollar against the Norwegian krone. This significant effect on the income statement for the first six months has no cash impact, currently or in the future, as the warrants - if exercised - will be settled in equity instruments (Funcom shares). Following the June 27, 2011 annual general meeting the exercise price of the warrants were changed with effect from the same date from 10 NOK to 1.67 USD each. As a consequence of this conversion of the exercise price to the Company's functional currency, the book value (fair value) of the warrants at June 27, 2011 (USD 1,850 thousand) were reclassified from long-term liabilities to equity. In addition, in 2011 the redemption price of the loan was increased to 104 per cent (or USD 10,4 millions). This change increases the interest expense by USD 40 thousands quarterly for the remaining term of the loan, starting the third quarter of 2011. The additional interest expense in 2011 was USD 80 thousands (2010: 0).

#### Derivates at fair value through profit or loss (warrants)

Opening balance January 1, 2011	975
Change in fair value	875
Reclassification to equity	-1,850
Closing balance as at December 31, 2011	0

## 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	2011	2010
Purchase of services	2,819	970
Revenue from services	180	
Receivables as at Dec, 31	650	780
Liabilities as at Dec, 31	19	

### Remuneration to the Supervisory Board

On June 27, 2011, the General Meeting approved an annual remuneration to the Supervisory Board amounting to EUR 35,000 for the Chairman and the Vice-Chairman and EUR 12,000 for other members. The remuneration for the year 2011 amounted to USD 123 thousands (2010: 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 Frank Sagnier and Pieter van Tol, also members of the Management Board.

### Remuneration to the Management Group

Overview of remuneration to management:

In thousands of US dollars	2011	2010
Salaries and benefits in kind (short-term employee benefits)	1,583	1,327
Share-based payments	170	160
Pension plan contributions	14	12
<b>Total remuneration</b>	<b>1,767</b>	<b>1,499</b>

The CEO of the Group received in 2011 a total remuneration including pension of USD 365,225 (2010: USD 335,200). He was also awarded a total of 0 share options in 2011 (2010: 100,000 share options at an exercise price of NOK 4.72). In 2011 a total of 0 options were exercised (2010: 20,000). The total allocated share options in Funcom N.V. comprised of 580,000 as at December 31, 2011 (2010: 433,334).

Management Board member Frank Sagnier received in 2011 a total remuneration including pension of USD 196 thousand (2010: 0). He was also awarded a total of 200,000 share options in 2011 at an exercise price of NOK 6.85 (2010: 50,000 share options at an exercise price of NOK 5.30). In 2011 a total of 25,000 options were exercised (2010: 50,000). The total allocated share options in Funcom N.V. comprised of 200,000 as at December 31, 2011 (2010: 50,000).

### 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, 2011 (2010: 1,457,825). Vice-chairman of the Supervisory Board, Torleif Ahlsand, controls 300,000 shares in Funcom including shares held by his company Brownske Bevegelse AS (2010: 300,000). Claus Højbjerg Andersen, a member of the Supervisory Board, is a General Partner in Nordic Venture Partners which controls 5,208,325 shares in Funcom (2010: 5,208,325). Michel Cassius, a member of the Supervisory Board, controls 50,000 shares in Funcom (2010: 66,000). Frank Sagnier, a member of the Management board controls 168,000 shares in Funcom (2010: 50,000) shares in Funcom. Pieter van Tol, a member of the Management Board controls 33,833 shares in Funcom (2010: 17,166).

### Loans to employees

At December 31, 2011, a loan of USD 50,000 (2010: USD 25,000) 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 received in 2011 a total remuneration including pension of USD 67,660 (2010: USD 53,403). He was also awarded a total of 0 share options in 2011 (2010: 50,000). In 2011 a total of 16,667 options were exercised at an average exercise price of NOK 2.85 (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 66,667 as at December 31, 2011 (2010: 83,334). A fee of USD 177,400 for legal advice in 2011 (2010: USD 188,200) 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 7,860 in 2011 (2010: USD 5,765). As at year end 2011 the outstanding amount between the Group and Weidema van Tol amounted to USD 27,318 (2010: USD 14,535), and between the Company and Temmes Management Services B.V. the amount was 0 (2010: USD 0). The services rendered from both these companies were on market terms.

Brownske Bevegelse AS, a company controlled by Torleif Ahlsand, Vice-Chairman of the Supervisory Board, holds one bond of USD 100 thousands with a right to convert it into a total of 72,992 shares in Funcom NV at USD 1.37 per share.

## 27. GROUP ENTITIES

### Group entities

The Company is the ultimate parent company to 9 wholly owned subsidiaries.

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2011	2010
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 Games Beijing Ltd	China	100.00	0

\* 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

#### Launch risks

Funcom is well aware of both the launch risks of MMOs as the games ramp up from having no players to hundreds of thousands of players in weeks, and the challenge in creating game experiences and game worlds that appeal for year after year.

#### 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 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 and operation worldwide. Hence, consumers have and 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 development of technology and games.

#### 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, China, Luxembourg and the USA. 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 receives 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 involve professional judgment in assessing the amount estimated to be received.

### **29. EVENTS AFTER THE REPORTING PERIOD**

On 12 January 2012 Funcom NV held an Extraordinary General Meeting where Trond Arne Aas, CEO and member of the Management Board was granted 150,000 stock options to acquire shares of the company and Pieter van Tol, member of the Management Board was granted 50,000 stock options to acquire shares of the company.

During the Extraordinary General Meeting the shareholders approved the loan agreement related to the issuance of 150 convertible bonds (see note 25). As a result, the proceeds from the placement of the bonds, which were restricted as of year-end 31 December 2011, were released for use in operations (see note 15).

As of the date of the annual report, bond-holders have exercised their right to convert bonds to shares of Funcom NV. As a result, Funcom NV issued 5,620,384 shares which led to an increase of approximately USD 7.7 million of the share capital and share premium and a decrease of the same amount of the long-term debt.

# Funcom N.V.

## Company Profit and Loss

For the year ended December 31

In thousands of US dollars	Note	2011	2010
Results from participating interest after tax	2,3	-14,971	820
Other income and expenses after tax		-1,324	-797
<b>Net result from ordinary activities after taxation</b>		<b>-16,295</b>	<b>23</b>

## Statement of Financial Position

after appropriation of result

In thousands of US dollars	Note	Dec. 31, 2011	Dec. 31, 2010
Investments in and receivables from group companies	1,2	50,642	63,910
Investments in and receivable from equity-accounted entities	3	544	459
<b>Financial fixed assets</b>		<b>51,186</b>	<b>64,369</b>
Prepayments and other receivables			1
Cash and cash equivalents		14,507	19
Total current assets		14,507	20
<b>Total assets</b>		<b>65,693</b>	<b>64,390</b>
Issued capital	5	2,792	2,843
Share premium	6	125,487	124,323
Legal reserves	7	50,633	41,365
Other reserves	8	-135,994	-114,726
<b>Total equity</b>		<b>42,918</b>	<b>53,806</b>
Loans and borrowings		21,903	8,931
Other financial liabilities			975
<b>Total non-current liabilities</b>		<b>21,903</b>	<b>9,906</b>
Accrued expenses		428	211
Provisions	10	331	344
Other current liabilities	4	113	122
Total current liabilities		872	678
<b>Total equity and liabilities</b>		<b>65,693</b>	<b>64,390</b>





# 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	2011	2010
Receivables non-current	31,436	31,336
Shares	19,206	32,574
	50,642	63,910

## 2. INVESTMENTS IN SUBSIDIARY COMPANIES

The Company holds the following investments in subsidiary companies at December 31, 2011:

Significant subsidiaries	Country of incorporation	Ownership interest in %	
		2011	2010
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 Games Beijing Ltd	China	100.00	0

\* 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	2011	2010
Balance at 01.01	32,574	31,828
Exchange difference	520	-603
Result of the year	-14,954	820
Change in participation	400	
Other movements	666	529
<b>Balance 31.12</b>	<b>19,206</b>	<b>32,574</b>

### 3. INVESTMENTS IN AND RECEIVABLES FROM EQUITY-ACCOUNTED ENTITIES

In thousands of US dollars	2011	2010
Receivables current	71	
Shares	473	459
	<b>544</b>	<b>459</b>
Balance at 01.01	459	
Change in participation		319
Exchange difference	31	59
Result of the year	-17	81
Other movements		
<b>Balance 31.12</b>	<b>473</b>	<b>459</b>

The Company holds 50 % of MMORPG Technologies INC, Canada and 42 % of Stunlock Studios AB, Sweden as of December 31, 2011.

### 4. OTHER CURRENT LIABILITIES

Other current liabilities in 2011 and 2010 relate to service providers.

### 5. ISSUED CAPITAL

In thousands of US dollars	2011	2010
Balance at 01.01	2,843	3,029
Exchange	-86	-209
Addition share-capital	34	23
<b>Balance 31.12</b>	<b>2,792</b>	<b>2,843</b>

The share-capital was translated into US dollars at the December 31, 2011 exchange rate of EUR/USD 1.2949.

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

▪ January 1,	53 287 991
▪ December 31	53 907 375

At December 31, 2011, the authorized share capital comprised of 250 million ordinary shares (2010: 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	
	2011	2010
Outstanding at January 1	53,287,991	52,832,125
Issued against payment in cash	619,384	455,866
<b>Outstanding at December 31 - fully paid</b>	<b>53,907,375</b>	<b>53,287,991</b>
Nominal value of the share-capital at December 31 (EUR)	2,156,295	2,131,520



## Events in 2011:

### Shares:

In March 2011, the Company issued 226,800 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.50 per share (USD 0.70). Gross proceeds amounted to EUR 113,039 (USD 157,613).

In July 2011, the Company issued 111,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.51 per share (USD 0.73). Gross proceeds amounted to EUR 56,154 (USD 80,777).

In October 2011, the Company issued 21,000 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.47 per share (USD 0.63). Gross proceeds amounted to EUR 9,835 (USD 13,208).

In November 2011, the Company issued 260,584 shares in relation to exercise of options. The issued shares were paid in cash at EUR 0.52 per share (USD 0.71). Gross proceeds amounted to EUR 135,133 (USD 185,245).

### Options:

On August 12, 2011, the Company issued 1,768,000 options as a part of the Group's options program. With regard to participants – not being Managing Directors or Supervisory Directors of Funcom N.V. – one-third of the total number of options granted to each participant vest one year (12 months) from the date when the grant of the options is made. The remaining two-thirds of the options vest on a pro-rata monthly basis – 1/24 of the 2/3 for each month that expires – over the course of the next two years (24 months) that commences immediately upon the expiry of the first year (12 months) following the date when the grant of the options is made. 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 June 27, 2011, Funcom held its Annual General Meeting where, the Company issued 250,000 options to members of the Supervisory Board and 200,000 options to a member of the Management Board as a part of the Group's options program. Half of the options granted to the members of the Supervisory Board vest annually in the two years following the grant. One third of the options granted to the member of the Management Board 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.

### Other:

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousand (total USD 15,000 thousand) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of USD 1.37 per share.

Under the Dutch Act on Financial Supervision (Wet op het financieel toezicht), shareholdings of 5 % or more in a Dutch issuing institution must in principle 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, 2012:

- Mr. Hans Peter Jebsen
- Northzone IV K/S
- NVP General Partner II ApS

### 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 2011 or 2010. No dividends relating to year 2011 have been proposed.

## 6. SHARE PREMIUM

In thousands of US dollars	2011	2010
Balance at 01.01	124,323	123,329
Share based payments	704	584
Change in provision for capital duty	13	242
Addition share premium	447	168
Other		
<b>Balance 31.12</b>	<b>125,487</b>	<b>124,323</b>

## 7. LEGAL RESERVES

Legal reserves are non distributable to shareholders.

## 8. OTHER RESERVES

In thousands of US dollars	2011	2010
Balance at 01.01	-114,726	-103,216
Exchange effect on share-capital	85	207
Exchange effect on subsidiaries	520	-603
Movement to legal reserves	-9,268	-11,137
Reclassification of warrants to equity	1,850	
Bonds conversion feature	1,840	
This year's result	-16,295	23
Other movements		
<b>Balance at 31.12</b>	<b>-135,994</b>	<b>-114,726</b>

## 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	2011	2010
Balance at January 1	-344	-579
Interest calculation		-14
Aging of claims	5	222
Exchange	8	28
<b>Balance at December 31</b>	<b>-331</b>	<b>-344</b>

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 331 thousands (including interest) (2010: USD 344 thousands). The Company believes it has arguments to dispute the capital duty liabilities but has made provision for the possible claim in full.

## 11. EMPLOYEES

The average number of employees in Funcom N.V. for 2011 was 1 (2010: 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 629 thousands (2010: USD 388 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 2011 a total remuneration including pensions of USD 365 thousands (2010: USD 335 thousands). The cost for share-based payment amounted to USD 30 thousands (2010: USD 39 thousands).

Pieter van Tol received in 2011 a total remuneration including pensions of USD 68 thousands (2010: 53 thousands). The cost for share-based payment amounted to USD 11 thousands (2010: USD 3 thousands).

Frank Sagnier received in 2011 a total remuneration including pension of USD 196 thousand (2010: 0). The cost for share-based payment amounted to USD 18 thousands (2010: USD: 0).

### 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

Member Year of issuance	Outstanding on Dec. 31, 2010	2011				Outstanding on Dec. 31, 2011	Exercise price	Expiry date
		Granted	Extended	Exercised	Forfeited/ Expired			
<b>Trond Arne Aas</b>								
Stock options								
2008		-	146,667	-	-	146,667	NOK 2.85	19-06-11
2008	166,667	-	-	-	-	166,667	NOK 2.86	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
<b>Total</b>	<b>433,333</b>	-	<b>146,667</b>	-	-	<b>580,000</b>		
Of which vested	166,666					513,333		
<b>Pieter van Tol</b>								
Stock options								
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
2011								
2011								
<b>Total</b>	<b>83,334</b>	-	-	<b>-16,667</b>	-	<b>66,667</b>		
Of which vested	16,667					33,333		
<b>Frank Sagnier</b>								
Stock options								
2010	12,500	-	12,500	-25,000	-	-	NOK 5.30	18-11-12
2010	37,500	-	-	-	-37,500	-	NOK 5.30	18-11-12
2011	-	66,667	-	-	-	66,667	NOK 6.85	27-12-14
2011	-	66,667	-	-	-	66,667	NOK 6.86	27-12-14
2011	-	66,667	-	-	-	66,666	NOK 6.87	27-12-14
<b>Total</b>	<b>50,000</b>	<b>200,000</b>	<b>12,500</b>	<b>-25,000</b>	<b>-37,500</b>	<b>200,000</b>		
Of which vested	16,667					-		



### Shares

At year end 2011 the members of the Managing Board including related parties held 1,659,658 shares (year end 2010: 1,474,992).

### 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 2011, the total remuneration to the Supervisory Board came to EUR 89 thousands (USD 123 thousands) (2010: EUR 83 thousands – USD 109 thousands). The remuneration of the Chairman of the Supervisory Board was EUR 35 thousands (2010: EUR 35 thousands), the remuneration of the Vice-Chairman of the Supervisory Board was EUR 18 thousands (EUR 35 thousands when annualized for 2011 and for 2010: EUR 0 thousands), and the remuneration of the other Supervisory Board members was EUR 36 thousands in total (EUR 12 thousands per member on an annual basis for 2011 and 2010. Remuneration of EUR 71 thousands for 2011 are outstanding at the end of the year.

The remuneration of the individual members of the Supervisory Board for 2011 was as follows:

	Board fee in €	Share-based payment in NOK
Gerhard Florin (chairman)	17,500	45,544
Torleif Ahlsand (vice-chairman)	35,000	184,121
Hans Peter Jebsen	6,000	23,258
Claus Højbjerg Andersen	12,000	46,517
Michel Cassius	12,000	92,060
Frank Sagnier	6,000	106,872
<b>Total</b>	<b>88,500</b>	<b>498,372</b>

## 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, 2010	2011			Outstanding on Dec. 31, 2011	Exercise price	Expiry date
		Granted	Extended	Forfeited/ Expired			
<b>Gerhard Florin</b>							
Stock options							
2010	-	-	-	-	-		
2010	-	-	-	-	-		
2011	-	50,000	-	-	50,000	NOK 6.85	27-12-13
2011	-	50,000	-	-	50,000	NOK 6.85	27-12-13
<b>Total</b>		<b>100,000</b>			<b>100,000</b>		
Of which vested			-		-		
<b>Torleif Ahlsand</b>							
Stock options							
2010	25,000	-	25,000	-	50,000	NOK 5.30	18-11-12
2010	75,000	-	-	-25,000	50,000	NOK 5.30	18-11-12
2011	-	50,000	-	-	50,000	NOK 6.85	27-12-13
2011	-	50,000	-	-	50,000	NOK 6.85	27-12-13
<b>Total</b>	<b>100,000</b>	<b>100,000</b>	<b>25,000</b>	<b>-25,000</b>	<b>200,000</b>		
Of which vested	25,000				50,000		
<b>Michel Cassius</b>							
Stock options							
2010	12,500	-	12,500	-	25,000	NOK 5.30	18-11-12
2010	37,500	-	-	-12,500	25,000	NOK 5.30	18-11-12
2011	-	25,000	-	-	25,000	NOK 6.85	27-12-13
2011	-	25,000	-	-	25,000	NOK 6.85	27-12-13
<b>Total</b>	<b>50,000</b>	<b>50,000</b>	<b>12,500</b>	<b>-12,500</b>	<b>100,000</b>		
Of which vested	12,500				25,000		

#### 14. AUDIT FEES

The Group's auditors received a total fee of USD 86,231 (2010: USD 55,894). The fee is distributed within these services and is not including VAT;

▪ statutory audit services	86,231
▪ further assurance services	0
▪ tax advisory services	0
▪ other non-audit services	0

#### 15. TRANSACTIONS WITH RELATED PARTIES

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of USD 100 thousands (total USD 15,000 thousands) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. Brownske Bevegelse AS, a company controlled by Torleif Ahlsand, Vice-Chairman of the Supervisory Board, holds one bond of USD 100 thousands with a right to convert it into a total of 72,992 shares in Funcom NV at USD 1.37 per share.

A fee of USD 144 277 for legal advice in 2011 (2010: USD 188 200) 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 0 in 2011 (2010: USD 5,765). As at year end 2011 the outstanding amount between the Company and Weidema van Tol amounted to USD 27 142 (2010: USD 14 535), and between the Company and Temmes Management Services B.V. the amount was 0 (2010: USD 0). The services rendered from both these companies were on market terms.

Badhoevedorp, April 23, 2012

#### **The Supervisory Board of Directors in Funcom N.V.**

Gerhard Florin, Chairman

Torleif Ahlsand, Vice-Chairman

Michel Cassius

Claus Højbjerg Andersen

#### **The Managing Directors of Funcom N.V.**

Trond Arne Aas

Pieter van Tol

Frank Sagnier



# Other information

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

Subject to the provisions of Article 33 of the Company's articles of association, any profit for the year is at the disposal of the shareholders in general meeting.

## PROPOSED APPROPRIATION OF THE RESULT FOR THE YEAR

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

## EVENTS AFTER THE REPORTING DATE

On 12 January 2012 Funcom NV held an Extraordinary General Meeting where Trond Arne Aas, CEO and member of the Management Board was granted 150,000 stock options to acquire shares of the company and Pieter van Tol, member of the Management Board was granted 50,000 stock options to acquire shares of the company.

During the Extraordinary General Meeting the shareholders approved the loan agreement related to the issuance of 150 convertible bonds. As a result, the proceeds from the placement of the bonds, which were restricted as of year-end 31 December 2011, were released for use in operations.

As of the date of the annual report, bond-holders have exercised their right to convert bonds to shares of Funcom NV. As a result, Funcom NV issued 5,620,384 shares which led to an increase of approximately USD 7.7 million of the share capital and share premium and a decrease of the same amount of the long-term debt.

# Financial Calendar for Funcom 2012

## Funcom N.V. will publish its financial statements on the following dates in 2012:

- February 28 - Q4 2011
- May 25 - Q1 2012
- August 28 - Q2 2012
- November 16 - Q3 2012

## Annual general meeting: June 27, 2012.

The dates are subject to change.

## **INDEPENDENT AUDITOR'S REPORT**

To: the shareholders of Funcom N.V.

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements 2011 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 2011, 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 2011, 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 2011, 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 2011 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, 24 April 2012

**MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.**

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 2012.

## **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](http://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.



# Contact Details

## Funcom N.V.

Keplerstraat 34,  
Badhoevedorp  
1171 CD The Netherlands

## Funcom GmbH

Lavaterstrasse 45  
8002 Zurich  
Switzerland

## Funcom Sales GmbH

Lavaterstrasse 45  
8002 Zurich  
Switzerland

## Funcom S.a.r.l.

102 Rue des Maraîchers  
2124 Luxembourg  
Luxembourg

## Funcom Games Canada Inc

1440 Ste-Catherine Street West  
Suite 900, Mtl  
H3G 1R8, QC  
Canada

## Funcom Oslo AS

Drammensveien 167  
0277 OSLO  
Norway

## Funcom Inc

Po Box 14390  
Durham, NC 27709  
USA

## Funcom Games Beijing Ltd

Hengchuan Town house  
168 Xi Ba He Road,  
Chaoyang District  
Beijing 100028  
P. R. China

## Sweet Robot AS

Drammensveien 167  
0277 OSLO  
Norway

## Sweet Robot GMBH

Lavaterstrasse 45  
8002 Zurich  
Switzerland

