



2013 FIRST QUARTER REPORT



HIGHLIGHTS

- Revenues in 1Q13 were 6,338 TUSD compared to 2,293 TUSD for 1Q12.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 1Q13 were positive with 1,766 TUSD compared to -4,512 TUSD for 1Q12.
- Earnings before Interest and Tax (EBIT) for 1Q13 were -673 TUSD compared to -5,830 TUSD for 1Q12.
- Cash position at end of 1Q13 amounts to 3,693 TUSD.
- The licensed LEGO® online game developed in Oslo based on the LEGO® Minifigure line is currently on schedule for release during the 1st half of 2014 and has reached all milestones in 1Q13.
- The two work for hire LEGO® games developed in Montreal have reached all milestones and are currently on schedule.
- The first major content upgrade to use the new business model in *The Secret World*, 'Issue 6 – The Last Train to Cairo', was released in 1Q13 with very good take-up rate amongst players.
- 'The Secret of the Dragon's Spine', a mini expansion for *Age of Conan* was launched in 1Q13.
- The cost adjustment process that started in 3Q12 led to a total reduction in staff of 72% by the end of 1Q13 compared to the headcount at the end of 1Q12.
- The restructuring process initiated in early January 2013 was successfully completed in mid May 2013.
- As per the above, the Company expects the positive effect from the restructuring to materialize in full in the second half of the year. However, significant cost savings were realized in 1Q13 and the operating costs decreased by 1,197 TUSD compared to the previous quarter, and by 2,232 TUSD compared to 1Q12.
- In April 2013, the Company held an EGM, followed by a bondholder meeting in order to finalize the restructuring of the 10 MUSD loan and the convertible bond loan. All of the proposed new loan terms were adopted.
- In 4Q12 the Company initiated a project to take the proprietary MMO technology platform *DreamWorld* into the growing and profitable web and tablet markets, allowing our future games such as the licensed LEGO® online game based on the LEGO® Minifigure line to target these fast growing and exciting new platforms. The project is going according to plan and reached all milestones in 1Q13.
- In 4Q12, the Company has started to work actively on securing more games to be developed as work for hire in Montreal. The first game secured in this business area, in addition to the two LEGO® work

for hire games, is *Fashion Week Live*. The Company previously developed *Fashion Week Live* in a three way partnership with 505 Games and IMG. In 1Q13 the game was sold to 505 Games. Funcom continues to develop the game further on a work for hire basis for 505 Games.

FINANCIALS

- Revenues, positively impacted by sales of *The Secret World* were 6,338 TUSD in 1Q13, compared to 2,293 TUSD in 1Q12.
- EBITDA, positively impacted by revenues from *The Secret World* and cost savings was 1,766 TUSD in 1Q13 compared to -4,512 TUSD for 1Q12.
- Operating profit (EBIT) was -673 TUSD for 1Q13 compared to -5,830 TUSD for 1Q12.
- Result for the period was -74 TUSD compared to -6,143 TUSD for 1Q12.
- Cash position at end 1Q13 amounts to 3,693 TUSD.

UPDATE ON THE RESTRUCTURING PROCESS

- As announced previously The Company initiated a restructuring process to better align the company to the current market, make the company more efficient, and enable it to quickly adapt to new business trends. The process was completed in mid May 2013.
- The Montreal studio's strategy is building high-quality games and technology for mobile and tablet platforms starting with two new mobile and tablet games based on the LEGO® brand. The two titles are being developed on a work for hire basis.
- The Studio in Oslo will continue to focus on the previously announced licensed LEGO® online game and the business area of building high quality, focused MMO's in the mid-core segment.
- The Company consolidated the live teams to its Operational hub in North Carolina. The Focus of the North Carolina office is to develop and run the existing games, and make the studio ready to operate more games and services both from Funcom's own production line and from others as well.
- The Company will in the future work to secure more games strengthening further the strategy for all business units.

LARGE-SCALE MMOs

- The first full quarter with the new buy-to-play business model for *The Secret World* resulted in higher sales and increased game activity than the previous quarter.
- The first major content upgrade to use the new business model for *The Secret World*, 'Issue 6 – *The Last Train to Cairo*', was released in March with very good take-up rate amongst players.
- Player numbers and revenues from *Age of Conan* and *Anarchy Online* were stable in 1Q13.
- The continuous focus of the development of these games are to add new features and content for the player base to extend player engagement time, and to take advantage of the benefits of a new, joint team working across all games.
- *Age of Conan* had its 5th Anniversary in May 2013 and there will be several in-game activities and other initiatives to mark the occasion.
- '*The Secret of the Dragon's Spine*', a mini expansion, was launched in January in *Age of Conan*. Further updates to that mini expansion will be released later this year.
- All games in the large-scale MMO segment are cash flow positive and will remain so in the foreseeable future.

MMOs IN DEVELOPMENT AND OTHER GAMES

- The licensed LEGO® online game is on schedule with several significant deliveries during 1Q13 including two new worlds, series 9 Minifigures, projectiles, and both destructable and buildable objects added to the game.
- *Pets vs Monsters* is cash-flow positive and investment levels are aligned with revenue. The Company will continue to operate the game and is in the process of looking at several options for the future of the game
- The Company continues its work in actively securing other opportunities fitting the company strategy of building high quality, focused MMO's in the mid-core segment.

WORK FOR HIRE

- *Fashion Week Live* was sold to 505 Games in 1Q13. The Company continues to develop the game further on a work for hire basis in the Montreal studio.
- The two LEGO® games developed in the Montreal studio reached all milestones and are on schedule according to delivery plan.
- The Company is in the process of securing more games to be developed in the Montreal studio.

MISCELLANEOUS

Transactions with related parties

There have been no significant transactions with related parties in 1Q13.

Risk factors

For information regarding risk factors for the Company and its games, please refer to note 28 in the 2012 annual report. For evaluations of the risks related to *The Secret World* and other Funcom games, Funcom encourages investors to seek information about the industry in general and Funcom in specific from analyst reports, industry reports, game reviews etc. Several different financial scenarios should be evaluated when analyzing the potential of any existing or future games. The financial performance of new games and refined business models is uncertain.

Outlook

- With the proprietary *Dreamworld* technology platform the company has some of the best tools and expertise available to build and launch games within our strategy in all our three studios.
- The medium and long term financial performance of the Company is influenced by a number of factors; the performance of *The Secret World* still being the most important.
- In 2Q13 the Company expects further reduction in operating costs and lower revenues - please, refer to the 2012 annual report for the principles related to revenue recognition.

Badhoevedorp, The Netherlands, 23 May 2013

The Management Board of Funcom N.V.

- This report is also available at <http://www.newsweb.no>. Investors are encouraged to seek information regarding the Company and the industry.
- For more information about Funcom, its games, its organization, please see www.funcom.com

FUNCOM N.V. - FIRST QUARTER FINANCIALS OF 2013
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	First Quarter		Accumulated		Full Year
	2013	2012	2013	2012	2012
<i>(Figures in TUSD)</i>					
Revenue	6,338	2,293	6,338	2,293	23,599
Operating expenses	-4,573	-6,805	-4,573	-6,805	-33,311
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	1,766	-4,512	1,766	-4,512	-9,712
Depreciation, amortization and impairment charges	-2,439	-1,318	-2,439	-1,318	-49,375
Total operating expenses	-7,011	-8,123	-7,011	-8,123	-82,686
Operating result ("EBIT") from continuing operations	-673	-5,830	-673	-5,830	-59,087
Share of result from equity-accounted entities	22	34	22	34	-33
Net financial items	586	-283	586	-283	-2,979
Profit (loss) before income taxes from continuing operations	-65	-6,079	-65	-6,079	-62,099
Income taxes	-9	-64	-9	-64	-116
Profit (loss) from continuing operations	-74	-6,143	-74	-6,143	-62,215
Profit from discontinued operation, net of tax	0	0	0	0	0
Profit (loss) for the period	-74	-6,143	-74	-6,143	-62,215
Attributable to shareholders of Funcom N.V.	-74	-6,143	-74	-6,143	-62,215
Earnings per share basic (USD)	0.00	-0.10	0.00	-0.10	-0.99
Earnings per share fully diluted (USD)	0.00	-0.10	0.00	-0.10	-0.99

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-74	-6,143	-74	-6,143	-62,215
Foreign exchange translation difference	-1,321	-90	-1,321	-90	4
Other					
Total comprehensive income for the period	-1,395	-6,234	-1,395	-6,234	-62,211

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Mar.		31 Dec.	
	2013	2012	2012	2012
<i>(Figures in TUSD)</i>				
ASSETS				
<u>Non-current assets</u>				
Deferred tax assets		232	553	232
Intangible assets		12,956	52,583	13,729
Tangible fixed assets		723	2,055	810
Financial investments		940	931	947
<u>Current assets</u>				
Trade receivables		2,340	643	2,723
Prepayments and other assets		6,787	4,947	6,793
Cash and cash equivalents		3,693	12,234	8,048
Total assets		27,672	73,947	33,282
EQUITY AND LIABILITIES				
<u>Equity</u>				
Share capital		3,424	3,141	3,424
Reserves		148,033	137,060	149,211
Retained earnings		-151,454	-94,708	-151,380
<u>Liabilities</u>				
Deferred tax liabilities		55	299	55
Long-term liabilities		4,870	14,671	4,728
Deferred revenue		6,581	1,018	7,968
Short-term loans and borrowings		12,950	7,064	12,870
Other short term liabilities		3,213	5,401	6,406
Total equity and liabilities		27,672	73,947	33,282

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	First Quarter		Period ended 31 Mar.		Full Year
	2013	2012	2013	2012	2012
<i>(Figures in TUSD)</i>					
Cash flow from operating activities					
Profit (loss) before income tax	-65	-6,079	-65	-6,079	-62,099
Adjustments for:					
Depreciation, amortization and impairment	2,439	1,318	2,439	1,318	49,375
Share-based payments	143	223	143	223	815
Share of result from equity-accounted entities	-22	34	-22	34	33
Effect of exchange rate fluctuations	-1,273	-282	-1,273	-282	555
Changes in working capital	-3,724	1,188	-3,724	1,188	8,521
Net cash from operating activities	-2,503	-3,598	-2,503	-3,598	-2,800
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,741	-4,313	-1,741	-4,313	-13,804
Investment in/loan to (from) equity-accounted entities	-89	-141	-89	-141	-850
Net cash from investing activities	-1,830	-4,454	-1,830	-4,454	-14,654
Cash flow from financing activities					
Net proceeds from issue of share capital		744		744	10,953
Proceeds / repayments from (of) borrowings and leases	-19		-19		-5,234
Net cash from financing activities	-19	744	-19	744	5,719
Change in cash and cash equivalents	-4,351	-7,308	-4,351	-7,308	-11,735
Cash and cash equivalents, beginning of period	8,048	19,428	8,048	19,428	19,428
Effect of exchange rate fluctuations	-3	114	-3	114	355
Cash and cash equivalents, end of period	3,693	12,234	3,693	12,234	8,048

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	31 Mar.		Full Year	
	2013	2012	2012	2012
<i>(Figures in TUSD)</i>				
Opening balance	1,255	42,918	42,918	42,918
Total comprehensive income for the period	-1,395	-6,234	-6,234	-62,211
Equity issues		9,531	9,531	20,813
Reclassification of warrants from liabilities to equity			-945	-1,080
Conversion rights reserve				
Share-based payments	143	223	223	815
Closing balance	3	45,494	45,494	1,255

NOTES TO THE INTERIM REPORT

1 Corporate information

Funcom N.V. is a limited company registered in The Netherlands, and the shares are publicly traded on the Oslo Stock exchange under the ticker "FUNCOM". The principal activity of the Company is to develop, market and carry on business in computer games in the broadest sense. The unaudited interim condensed consolidated financial statements for the Company for the three months ended 31 March 2013 were approved for issue by the Supervisory Board on 23 May 2013.

2 Basis for preparation and selected significant accounting policies

There were no pervasive or material changes in 1Q13 that could negatively impact the management's assumptions behind the forecasted financial performance of the Company. Therefore the unaudited interim condensed consolidated financial statements of the Company for the three months ended 31 March 2013 have been prepared on a going concern basis and in accordance with IAS 34. The latter means that these interim financial statements do not include all information and disclosures required in annual financial statements but only selected significant information. The principles applied are consistent with those used in the 2012 annual report.

The Group has as of 1 January 2013 adopted the mandatory revised standards, amendments to existing standards and interpretations as adopted by the EU, applicable for this quarter. Their adoption has not had any significant impact on the amounts reported in this interim report but may affect the accounting for future transactions or arrangements. Management has not yet evaluated the impact on the financial statements of standards issued but which have an adoption date on 1 January 2014 or later.

All amounts are in USD'000 unless stated otherwise. There may be some minor rounding differences or the total may deviate from the total of the individual amounts. This is due to the rounding to whole thousands of individual amounts.

2.1 Basis of consolidation

The Company's Interim consolidated financial statements comprise of Funcom N.V. and companies in which Funcom N.V. has a controlling interest. Investments in associated companies and jointly controlled entities are incorporated using the equity method.

2.2 Intangible assets

Intangible assets are recognized in the balance sheet if it can be proven that there are probable future economic benefits that can be attributed to the assets which are owned by the Company, and the assets' cost price can be reliably estimated. Intangible assets are initially recognized at their cost price and subsequently measured using the cost method (i.e. historical cost less accumulated amortization and accumulated impairment losses). A review to assess whether there are indicators of impairment is undertaken at the end of each reporting period. In addition, intangible assets not yet available for use are tested for impairment annually.

2.3 Equity

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

2.4 Deferred revenues

Revenues from subscriptions are recognized over the subscription period which is from the date of subscription purchase until subscription end, normally 1 – 12 months.

In-game items are items that can be purchased on-line from in-game stores or are awarded as incentive or compensation. Revenue from sales of in-game items is recognized at the time of sale.

Revenues from the sales of game software, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized on a straight-line basis over the estimated customer life. The company enters into multiple-element revenue arrangements where it provides combinations of game software and subscription or subscription and in-game items. The Company accounts for revenues from each item separately following the revenue recognition policies above. Up-front payments for subscriptions and other up-front revenues are recognized in the statement of financial position as a liability.

3 Operating revenues

The revenues mainly consist of sales of game software, subscriptions, in-game items and royalties.

4 Operating expenses

Personnel cost, marketing, office rent and games operating cost are main elements of the operating expenses.

5 Depreciation, amortization and impairment charges

The Company amortizes investment in the development of technology and game assets on a systematic basis over their useful life which normally does not exceed five years. The company applies the diminishing balance amortization method which reflects the pattern of consumption of the future economic benefits. If that pattern cannot be determined reliably the company uses the straight-line method.

6 Net financial items

Net financial items mainly consist of interest earned, exchange rate differences, interest accrued on loans.

7 Taxes

It is Funcom's assessment that the tax value of the tax losses carried forward can only be partially recognized under IAS 12. The recognized deferred tax asset is based on an assessment of the tax losses carried forward and the temporary differences arising between the accounting values and the tax bases of assets. The tax assets are primarily denominated in Swiss Francs.

8 Financial investments

Financial investments consist of long term receivables and investments in the associated company Stunlock Studios AB, Sweden and the jointly controlled entity MMORPG Technologies INC, Canada.

9 Liabilities

Long-term liabilities consist of 4,760TUSD convertible bonds and 110 TUSD non-interest bearing reimbursable government contribution.

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of 100 TUSD (total 15,000 TUSD) 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. The interest is payable semi-annually starting 22 June 2012. Funcom recognized a liability of 12,572 TUSD in the Statement of Financial Position and an equity component of 1,840 TUSD in the Statement of Financial Position. 88 bonds have been converted into 6,423,296 common shares by the end of 3Q12 which resulted in an increase of 336 TUSD of the share capital and 9,543 TUSD of the share premium reserve and a decrease of 1,080 TUSD of the conversion rights reserve, reflected in the consolidated statement of changes in equity. As of March 31, 2013 sixty two bonds are still outstanding. (See also note 13 below).

The interest-bearing loan from KGJ Investments S.A.(former Stelt Holding N.V.) with a carrying value of 9,974 TUSD and face value of 10,400 TUSD with maturity December 29, 2013 previously presented as long-term liability is reclassified to Short-term loans and borrowings (see also note 13 below).

The carrying value of the interest-bearing debt at the end of 1Q13 amounts to approximately 16,405 TUSD.

10 Cash flows

A significant part of Funcom's cash and cash equivalents are denominated in Norwegian kroner and Canadian dollar. The Company's NOK and CAD cash holdings are a natural hedge against the expectedly large proportion of future operating expenses arising in NOK and CAD.

11 Average numbers of shares

	First quarter		Three months		Full year
	2013	2012	2013	2012	2012
Average number of shares (1000)	66,497	56,889	66,497	56,889	63,044

12 Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In 1Q13 the Company established a mobile and tablet team in the Montreal studio which engages in the development of games for these platforms as well as other games on a work-for-hire basis (e.g. *Fashion Week Live* - game for Facebook). The activities of the new team generate revenues and expenses for which discrete financial information is available and the operating results are regularly reviewed. Therefore these activities meet the criteria for a reportable operating segment. The reportable operating segments of the group are defined as:

- large-scale MMOs - like The Secret World and Age of Conan
- free-to-play MMO games – which includes the games under the Company's free-to-play game initiative
- mobile and tablet games and other WFH - which includes game development for mobile and tablet platforms and other work-for hire games.

Segment information

	Revenue from external customers		Segment profit (loss) *)	
	January - March		January - March	
	31 Mar. 2013	31 Mar. 2012	31 Mar. 2013	31 Mar. 2012
Large-scale MMO's	5,610	1,990	3,085	-1,079
Free-to-play MMO games	369	303	168	-61
Mobile and tablet games and other WFH	360		136	
Total	6,338	2,293	3,389	-1,140
General and administrative expenses			-1,623	-3,373
Depreciation, amortization and impairment charges			-2,439	-1,318
Share of result from equity-accounted entities			22	34
Net financial items			586	-283
Profit (loss) before tax (from continuing operations)			-65	-6,079

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

	Large-scale MMO's	Free-to-play MMO's	Work for hire
Segment assets as at 31 Mar. 2012	49,284	3,062	n/a
Segment assets as at 31 Mar. 2013	12,736	-	-

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

13. Subsequent events

In February 2013 the Company reached an agreement with its major creditor KGJ Investments S.A. (KGJI S.A.) for the restructuring of the interest bearing loan with face value of 10,400 TUSD and maturity December 29, 2013 (see note 9). The repayment of the loan has been postponed until July 2015 with repayment in four installments. In addition, KGJI S.A. will be issued 10 million warrants to obtain shares in Funcom N.V. The exercise price of these and the existing 5 million warrants held by KGJI S.A. in relation to the same loan is fixed at 0.37 USD per share. The exercise period for all warrants is December 30, 2015. If exercised, the proceeds will be used to repay the outstanding loan. The interest rate and interest payment terms remain with no changes (8% annual interest, payable quarterly). The new terms were approved by the shareholders at the EGM held in April 2013.

In February 2013 the Company also reached an agreement with KGJI S.A. for the restructuring of the convertible bond loan (see note 9). The agreed new terms include maturity date December 22, 2015, conversion price of 0.37 USD per share and interest rate of 5% with no payment before maturity when all accrued interest will become due in either cash or shares of Funcom N.V. at the option of the bondholder. The new terms were approved by the bondholders at a bondholder meeting and by the shareholders at the EGM, both meetings held in April 2013.